

ANNUAL REPORT

2000

KOREA DEPOSIT INSURANCE CORPORATION

Chairman's Statement

In year 2000, the drive towards the corporate and financial sector reforms in Korea were continued relentlessly, despite adverse economic conditions prevailing over the domestic and global economies such as the sudden downturn of economies around the world including those of the United States and Japan, as well as the harsh effects from increased crude oil costs and lower semiconductor prices.

In December 2000, an additional 40 trillion won was made available by the National Assembly to complete the second phase of financial industry restructuring. The funds will be used to help enhance the financial positions of distressed institutions and improve their corporate governance. Also, the Public Fund Management Special Act was enacted to ensure fair and transparent management of the public funds while the Depositor Protection Act was amended to strengthen the accountability and investigative functions in relation to a failure of an insured financial institution.

Throughout the year, the Korea Deposit Insurance Corporation strongly supported the financial industry restructuring. In that spirit of progress and depositor protection, KDIC provided support to six financial sectors (banks, securities companies, insurance companies, merchant banks, mutual savings & finance companies and credit unions) in various ways including the restoration of the institutions' capital structures and honoring depositor claims. For expeditious normalization of the distressed financial institutions that received KDIC support, their compliance to management normalization memorandum of understandings were monitored on a quarterly basis. If irregularities were found, the relevant institution was notified to take corrective actions. In addition, through the Corporation's proactive public funds recovery programs, resolution costs were minimized while the priority of holding accountable the individuals responsible for leading financial institutions into insolvencies was intensified. Also, much effort has been exerted in the areas of eliminating traces of moral hazard and establishing firm market discipline, including the preparations for the smooth transition into the weighted premium assessment system.

In all, this report summarizes the Corporation's activities for the year 2000, including the procurement of the Deposit Insurance Fund, details of its allocation and recoveries made by the Corporation in relation to the resolution of the failed financial institutions as well as other noteworthy results.

In keeping with the spirit of both the Depositor Protection Act and the newly enacted Public Fund Management Special Act, KDIC will strive to heighten the objectiveness and transparency in the administration and management of public funds. We will focus on streamlining the public fund recovery process and help prevent failures. Above all, we will continue to dutifully undertake the protection of depositors and preservation of the stability of the financial system.

As we value your encouragement and suggestions, we welcome your continued interest and support..

Lee, Sang-Yong

KDIC Chairman and President

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I. Introduction to KDIC

1. Origin and History

The Korea Deposit Insurance Corporation ("KDIC" or "the Corporation") was established by the Korean government as a non-capital-base special corporation in order to protect depositors and maintain stability of the nation's financial system by guaranteeing deposit payments in the case an insured financial institution is unable to make payments on customer deposits as a result of bankruptcy or insolvency.

Brief History

- 1995. 12. 29	Enactment of the Depositor Protection Act.
- 1996. 03. 25	Commissioning of the <i>KDIC Establishment Committee</i> and its secretariat office.
- 1996. 05. 28	Promulgation of the Enforcement Decree of the Depositor Protection Act.
- 1996. 06. 01	Establishment of the KDIC pursuant to the Depositor Protection Act.
- 1997. 01. 01	Commencement of the KDIC's business operation of deposit protection.
- 1998. 04. 01	Consolidation of the six deposit insurance funds of the respective financial sectors, including banks, into the Deposit Insurance Fund.
- 2000. 01. 21	Amendment of the Depositor Protection Act.
- 2000. 02. 14	Amendment of the Enforcement Decree of the Depositor Protection Act following the amendment of the Enforcement Decree of the Act on Efficient Disposal of Non-Performing Assets of Financial Institutions and Establishment of Korea Asset Management Corporation ("KAMCO").
- 2000. 10. 23	Amendment of the Depositor Protection Act following the enactment of the Financial Holding Company Act.
- 2000. 12. 30	Amendment of the Depositor Protection Act.

2. The Policy Committee

The Policy Committee ("the Committee") is the highest decision-making body of the KDIC. As such, the Committee deliberates and renders decisions on important matters including the following:

- Establishment of basic guidelines for the Corporation's operations
- Review of the Deposit Insurance Fund ("DIF" or "Fund") operation plan
- Amendments to the Articles of Incorporation
- Enactment, amendment and nullification of rules and regulations related to the Corporation's business objectives
- Matters related to the budget and settlement of accounts
- Issuance of the Deposit Insurance Fund Bonds ("DIF Bonds")
- Reduction or postponement of deposit insurance premium payments
- Actual & provisional payment of insurance claims
- Approval of the payment on estimated insurance claim amounts
- Provision of fund support for a *Resolution Financial Institution* (See Article 36-3 of the Depositor Protection Act.)
- Provision of fund supports for insured financial institutions
- Transaction between Deposit Insurance Fund accounts
- Payment for agency fees
- Selection of operation methods for reserve funds

The president of the KDIC acts as the Chairman of the Committee. The Committee is comprised of nine individuals in all, including the Chairman. Other members are: the Vice Minister of the Ministry of Finance and Economy ("MOFE"), the Vice Minister of the Ministry of Planning and Budget, the Vice Chairman of the Financial Supervisory Commission, the Deputy Governor of the Bank of Korea, a person commissioned by Minister of the MOFE and three other persons recommended by Minister of the Ministry of Planning and Budget, the Chairman of the Financial Supervisory Commission, and the Governor of the Bank of Korea, respectively and commissioned by the Minister of the MOFE. The seven representatives of the respective financial sector associations were excluded from the membership of the Policy Committee pursuant to January 1, 2001 amendment of the Depositor Protection Act.

Table I – 1. Activities of Policy Committee

Items of Resolution	Renders Decisions Regarding	Items of Review	Designated Issues
<ul style="list-style-type: none"> ◆ Amendments to the Articles of Incorporation ◆ Budget and settlement of accounts ◆ Issuance of Deposit Insurance Fund Bonds ◆ Reduction/ deferment of insurance premium ◆ Payment of insurance claims ◆ Payment approval of tentatively calculated insurance claims ◆ Provision of financial support to Resolution Financial Institutions ◆ Determining and carrying out funding support for insured financial institutions ◆ Operational guidelines of the committee ◆ Requesting necessary actions regarding asset/contract transfers 	<ul style="list-style-type: none"> ◆ Designation of insolvent financial institution ◆ Designation of at-risk-of-insolvency financial institution ◆ Transaction between Deposit Insurance Fund accounts ◆ Publication of meeting minutes ◆ Necessary actions in respect of Deposit Insurance Fund Bonds ◆ Payment of service fees for third party operation ◆ Advance temporary payment 	<ul style="list-style-type: none"> ◆ Operational plan of the Deposit Insurance Fund ◆ Adoption and revision of operational guidelines 	<ul style="list-style-type: none"> ◆ Allocation and management of reserve funds <ul style="list-style-type: none"> ➢ Purchase of securities ➢ Designation of insured institution for deposits

3. The Board of Directors

The Board of Directors, as the highest executive body of the KDIC, is comprised of one President, one Senior Executive Director, four Executive Directors and one Auditor. The Auditor may express opinions at the Board meetings, but cannot participate in the Board's voting process.

The Board renders decisions on various matters including those in the following:

- Matters that require deliberation and decision-making by the Policy Committee
- Enactment, amendment and nullification of rules and regulations related to the operation of the Corporation
- Matters related to the Corporation's organization and system
- Matters related to the signing, changing and canceling of important contracts
- Matters related to important court proceedings and arbitrations
- Other matters that the President of the KDIC deems appropriate

4. Organization and Business Operation

The KDIC was established on June 1, 1996 as a non-capital-base special corporation to provide an effective deposit insurance system for the public by way of protecting depositors and maintaining the stability of the financial system.

The KDIC manages the Deposit Insurance Fund procured through deposit insurance premiums received from insured financial institutions and issuance of the DIF Bonds. The funds are generally used for payment of insurance claims or as support for resolution of insolvent financial institutions. The Corporation carries out the resolution of insolvent financial institutions through M&As, workouts, and through normalization of insolvency-threatened financial institutions. The Corporation may also establish and operate temporary financial institutions to minimize the effects of adverse impact from an event such as successive failure of financial institutions resulting from outright liquidation of failed financial institutions. In order to carry out its tasks, the Corporation may request insured financial institutions to submit information to examine their management practices as well as to investigate the status of insolvent or insolvency-threatened financial institutions. The Corporation also undertakes tasks commissioned by the government in the spirit of depositor protection and other duties stipulated in various laws and regulations including the Depositor Protection Act.

As of December 31, 2000, the KDIC had seven officers (President, Senior Executive Vice President, Auditor and four standing Executive Directors), two hundred sixty two regular employees and one hundred eighty eight contract-based employees.

Diagram I – 1. Organizational Chart
As of December 31, 2000

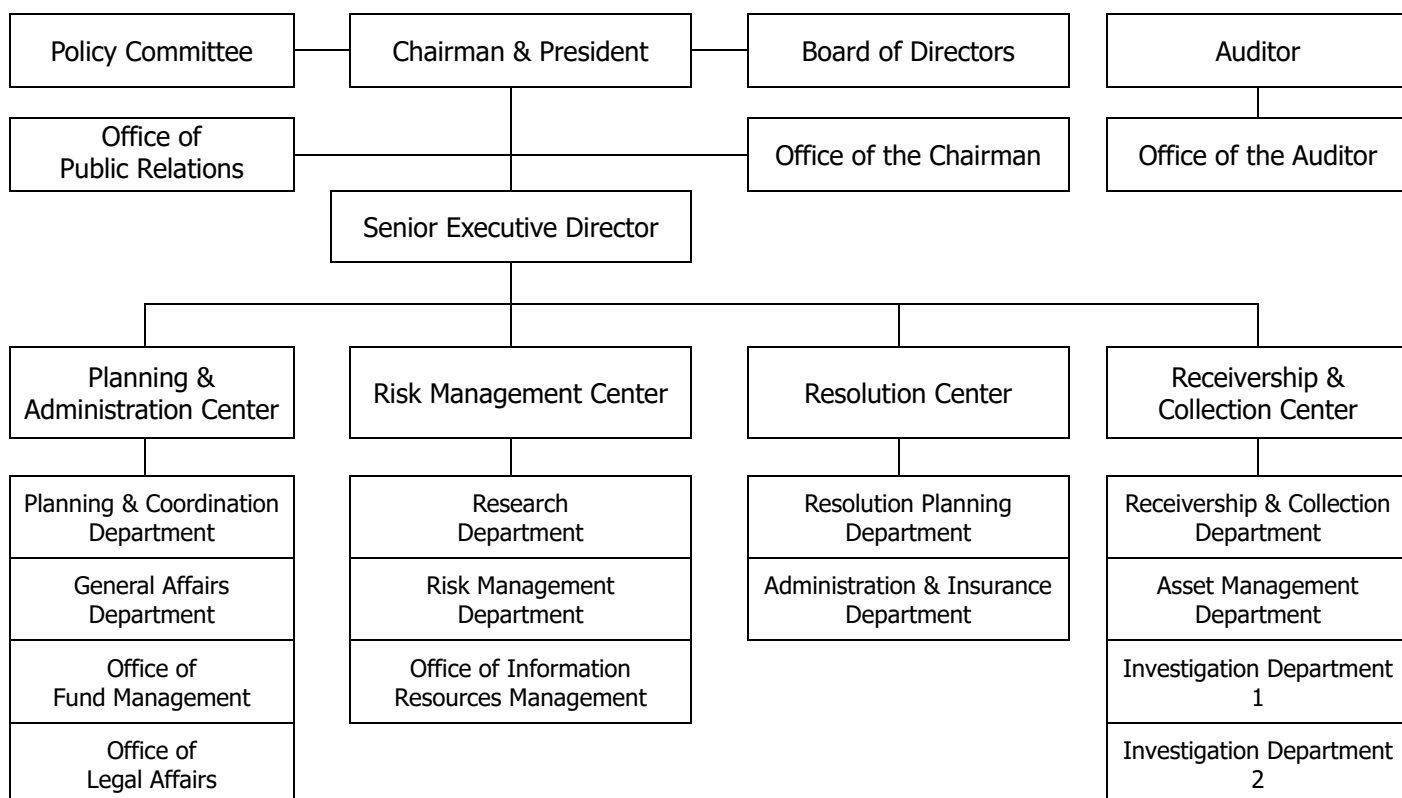


Table I – 2. Status of Designated Number of Staff for Each Employment Class
As of December 31, 2000

Type	Executive Directors	Employees								Total
		Regular							Special ¹⁾	
		Class 1	Class 2	Class 3	Class 4	Class 5	General Affairs Staff	Sub Total		
No.	7	10	16	38	87	87	24	262	188	457

1) Special employees include experts such as attorneys, special economists, management specialists, bankruptcy (receivership) support personnel, and examiners.

II. Year 2000 Operations

1. Procurement of the Deposit Insurance Fund

A. Contributions from Insured Financial Institutions

Article 24 of the Depositor Protection Act and Article 14 of the DPA Enforcement Decree require that newly insured financial institutions contribute a ratio of its paid-in capital or investment-in-capital to receive deposit insurance coverage. In 2000, KDIC received contributions from fourteen newly insured financial institutions for a total of 32,906 million won.

Table II – 1. Contribution Remittance Methods and Ratios

Contributor	Calculation Method
Government	➤ Cash contribution or gratuitous transfer of government owned properties
Insured Financial Institutions	➤ When the insured financial institution has to obtain approval/license for establishment/operation, within one month from the first business day. ➤ If insurance claim payment drawn out of a particular account of the Deposit Insurance Fund exceeds the reserved amount of that account, within one month from the designated insurance claim payment date within the respective legal limit. ➤ Contribution Ratio: A fixed percentage of initial capital or capital injection - Banks, Securities Companies, Insurance Companies, Credit Unions: 1/100(Legal limit: 1/100) - Merchant Banks, and Mutual Savings & Finance Companies: 5/100 (Legal limit: 10/100)

Table II – 2. Status of Contribution Remittance by Insured Financial Institutions

(Unit : million won)

	Banks	Securities Companies	Insurance Companies		Merchant Banks	MSFCs	Credit Unions	Total
			Life	Non-Life				
Remitted Amount¹⁾	10,000	-	-	-	24,000	7,998	2,871	44,869
1998	-	-	-	-	-	200	9	209
1999	300	1,050	-	30	-	715	3	2,098
2000	60	32,814	-	32	-	-	-	32,906
Total	10,360	33,864	-	62	24,000	8,913	2,883	80,082

1) Includes the amount transferred from the Credit Management Fund as it was consolidated with the Deposit Insurance Fund in April of 1998. The 10 billion won is the government's contribution for the banks.

B. Deposit Insurance Premiums

Insured financial institutions are required to pay a given ratio of their deposit balance (the arithmetical average of deposit liability reserve fund and premiums received in the case of an insurance company) to the Corporation pursuant to Article 30 of the Depositor Protection Act and Article 16 of the DPA Enforcement Decree. At present, banks are required to pay the premiums within one month from the end of each quarter. Other insured financial institutions are required to pay the premiums within three months from the end of each business year. In 2000, six financial sectors under the KDIC's protection paid a total of 540.3 billion won in premiums. The premium rates were raised by 100% across the board pursuant to the August 5, 2000 amendment to the DPA Enforcement Decree.

Table II – 3. Status of Premium Revenue

(Unit : 100 million won)

	Banks	Securities Companies	Insurance Companies		Merchant Banks	MSFCs ²⁾	Credit Unions	Total
			Life	Non-Life				
Remitted Amount ¹⁾	-	-	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
2000	2,630	156	1,402	379	233	323	281	5,404
Total	6,218	207	4,213	1,150	1,549	3,107	845	17,289

1) Includes the amount transferred from the Credit Management Fund as it was consolidated with the Deposit Insurance Fund in April of 1998.

2) Mutual Savings & Finance Companies

C. Issuance of Deposit Insurance Fund Bonds

Under Article 26-2 of the Depositor Protection Act, the KDIC is authorized to issue the Deposit Insurance Fund Bonds ("DIF Bonds") and procure public funds for its use. As such, the DIF Bonds issued through forty-two different occasions during the 1998-1999 period yielded a total of 43.5 trillion won. Also, as the National Assembly approved the procurement of 40 trillion won of public funds with government guarantee on December 2, 2000 in addition to the 43.5 trillion won it approved in the previous periods, the KDIC accordingly issued additional DIF Bonds through six occasions and yielded in the procurement of 8,940.7 billion won of public funds before the end of the year.

The majority of the DIF Bonds issued during 1998 and 1999 had maturity of 5 to 7 years with either fixed or floating interest rates linked to the yield of the National Housing Bonds. However, all DIF Bonds issued in 2000 had maturity of five years with fixed interest rates.

Table II – 4. Volume of Issued Deposit Insurance Fund Bonds per Each Account

(Unit : 100 million won)

Issue Year	Banks	Securities Companies	Insurance Companies		Merchant Banks	MSFCs	Credit Unions	Total
			Life	Non-Life				
1998	120,650	141	11,534	-	58,272	15,085	4,468	210,150
1999	158,591	3	41,422	678	-	15,977	8,179	224,850
2000	60,307	-	-	10,000	12,600	6,500	-	89,407
Total	339,548	144	52,956	10,678	70,872	37,562	12,647	524,407

Table II – 5. Volume of Issued Deposit Insurance Fund Bonds per Each Condition

(Unit : 100 million won)

Based on Maturity						Based on Interest Rate ("IR")					
1998		1999		2000		1998		1999		2000	
Maturity	Amount	Maturity	Amount	Maturity	Amount	IR	Amount	IR	Amount	IR	Amount
3Yr 3Mo	3,295	3 Yr ¹⁾	58,560								
5Yr	81,121										
5Yr 3Mo	11,923	5 Yr	65,666	5Yr	89,407	Fixed Interest	92,015	Fixed Interest	49,501	Fixed Interest	89,407
5Yr 6Mo	16,250										
6Yr	16,250	7 Yr	1,133								
6Yr 6Mo	16,250										
7Yr	16,250	7 Yr ²⁾	99,491			Variable Interest ³⁾	118,135	Variable Interest ³⁾	175,349		
7Yr ²⁾	48,811										
Total	210,150	Total	224,850	Total	89,407	Total	210,150	Total	224,850	Total	89,407

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 for Type I NHB (National Housing Bond) yield rates during one month immediately prior to interest payment period was applied.

D. Borrowings

Pursuant to Article 26 of the Depositor Protection Act and Article 15 of the DPA Enforcement Decree, the KDIC is authorized to borrow funds, when necessary, for payment of insurance claims or workouts of insolvent financial institutions from various entities including the government, the Bank of Korea, insured financial institutions or those institutions stipulated by Presidential Decree.

The Corporation borrowed funds from nine financial institutions during the latter half of 2000 and utilized approximately 9 trillion won for capital injection into Korea Investment Trust, Daehan Investment Trust, and Seoul Guarantee Insurance, as well as for the put-back option exercised by the Korea First Bank, apart from the supportive funds it provided to Hanareum Banking Corporation for the Hanareum Banking Corporation's subrogation deposit

payoff payments in respect of the closed merchant banks whose assets and liabilities the Hanareum Banking Corporation had acquired. The Corporation also used funds borrowed from the IBRD and ADB for purchase of equity stakes in Seoul Guarantee Insurance and Cho Heung Bank.

Borrowings from the government (Special Account for Financial Loans) were used for interest payment on the DIF Bonds and loans from the IBRD and ADB.

Table II – 6. Borrowings by Deposit Insurance Fund

(Unit : 100 million won)

	Borrowed Amounts and Sources				Repaid Amount 1)	Outstanding Balance
	Financial Institutions	IBRD and ADB	Government	Total		
Received Amount	76,011	-	-	76,011	-	76,011
1998	3,295	2,416	10,582	16,293	9,337	82,967
1999	13,870	12,016	26,254	52,140	33,870	101,237
2000	90,028	13	39,533	129,574	9,802	221,009
Total	183,204	14,445	76,369	274,018	53,009	-

1) Repayment on borrowings from financial institutions.

2. Resolution of Insolvent Financial Institutions

A. Banks

The KDIC utilizes three primary methods for the normalization and resolution of insolvent banks in the interest of maintaining stability of the nation's financial market: 1) by directly providing financial support via capital injection to seek normalization, or 2) by providing contributions to an acquiring entity in respect of the insolvent accounts in M&A transactions, or 3) by purchasing assets from insolvent institutions to prevent further deterioration.

Capital injection made by the KDIC in year 2000 include 2,764.4 billion won in Hanvit Bank, 610.8 billion won in Seoul Bank, 273 billion won in Peace Bank, 259 billion won in Kyungnam Bank, 170.4 billion won in Kwangju Bank, and 53.1 billion won in Cheju Bank through Memorandums of Understanding ("MOUs") in respect of their reorganization plan in return for self-effort normalization with agreed upon cooperation of their respective labor unions. The Corporation also monitored compliance status of the respective MOUs through quarterly on-site inspections. The Corporation also invested a sum of 93.9 billion won as contributions for *post de facto* settlement of accounts stipulated under the agreements with the five-acquirer banks.

At the end of 1999, the KDIC sold its equity stake in Korea First Bank to Newbridge Capital ("Newbridge"). Pursuant to the sales agreement, the Corporation purchased 91.1 billion won in bonds with stock warrants ("BW") on January 31, 2000, which entitled it to acquire up to 5% of common stock issued by the bank. The Corporation also provided financial support worth 249.9 billion won* for *post de facto* settlement of accounts on August 21, 2000 pursuant to the sales agreement. In addition, 3,372.7 billion won was disbursed for the acquisition of non-performing loans, loan loss provisioning provided to the bank in the form of a contribution, and asset acquisitions through fifteen occasions between February 17 and December 15, 2000. This was a part of the put-back option the bank exercised last year.

Table II – 7. Financial Assistance Provided to Banks
As of December 31, 2000

(Unit : 100 million won)

Names of Banks	Equity Participation			Contribution			Asset Purchase		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
KFB	7,500	42,086	-	-	4,459 ¹⁾	3,600	-	31,197	33,536 ²⁾
Hanvit	32,642	-	27,644	-	-	-	-	-	-
Seoul	7,500	33,201	6,108	-	-	-	-	-	-
CHB	-	27,179	-	-	-	-	-	-	-
Peace	-	2,200	2,730	-	-	-	-	-	-
Kyungnam	-	-	2,590	-	-	-	-	-	-
Kwangju	-	-	1,704	-	-	-	-	-	-
Cheju	-	-	531	-	-	-	-	-	-
Kookmin	2,000	-	-	10,651	7,534	120	-	179	-
H&CB	2,965	-	-	6,812	11,008	175	-	538	-
Shinhan	2,925	-	-	15,376	9,226	589	-	591	-
Hana	-	4,728	-	7,739	3,400	22	-	54	-
KorAm	2,600	-	-	17,212	7,111	33	-	226	-
KDB	-	-	-	-	-	-	-	-	13,000
IBK	-	-	-	-	-	-	-	-	6,000
Total	58,132	109,394	41,307	57,790	42,738	4,539	-	32,785	52,536

1) Incorporates 407.9 billion won of asset purchase settlement amount related to post-sale settlement of Korea First Bank.

2) Includes 243.3 billion won in supplemental assistance provided by the Resolution and Finance Corporation from self-procured funds.

B. Securities Companies

At yearend 2000, resolution proceedings were commenced for six securities companies that were either suspended from conducting operations or put under court receivership. Of the six, deposit claim payments were made to Koryo Securities, Dongseo Securities through the Securities Investor Protection Fund. Deposit payoff in respect of Jangeun Securities, Dongbang Peregrine Securities, Hannam Investment & Securities, and Korea Industrial Securities has been undertaken by Kookmin Bank, a KDIC designated fiduciary agency.

* 576.3 billion won for settlement of investment, Δ 407.9 billion won for settlement of the portion of asset acquisition, and 81.5 billion won for acquisition of assets.

In June 2000, the KDIC injected 3 trillion won and 1.9 trillion won into Korea Investment Trust and Daehan Investment Trust, respectively. MOUs have been entered with the two insolvent financial institutions as the two began the process of normalizing their operations.

Table II – 8. Financial Assistance Provided to Securities Companies
As of December 31, 2000

(Unit :100 million won)

Name	Equity Participation			Insurance Claim Payment ¹⁾		
	1998	1999	2000	1998	1999	2000
Jangeun Securities	-	-	-	40	-	-
Dongbang Peregrine Securities	-	-	-	100	-	-
Hannam Investment & Securities	-	-	-	-	1	-
Korea Industrial Securities	-	-	-	-	3	-
Korea Investment Trust Company	-	-	30,000	-	-	-
Daehan Investment Trust Securities	-	-	19,000	-	-	-
Total	-	-	49,000	140	4	-

1) Based on the needed amount.

C. Insurance Companies

In 2000, the KDIC injected additional funds into Seoul Guarantee Insurance, which undertook vicarious payments on corporate bonds issued by the insolvent Daewoo Group. The Corporation provided additional fund support in relation to the sale and P&A of six insolvent life insurance companies. The KDIC also entered into MOUs with Korea Life Insurance and Seoul Guarantee Insurance to reorganize their structures and monitored their compliance with the MOUs on a quarterly basis.

In preparation for the case that vicarious payments for Daewoo corporate bonds, which are to be made by Seoul Guarantee Insurance (into which the KDIC has invested 1.25 trillion won) could not be made normally because such obligation is unavoidable as result of Daewoo Group Workout procedures, where such situation could cause investment trust companies that hold the same corporate bonds to suffer losses and destabilize the financial marketplace, the KDIC injected 3.4 trillion won in respect of the total outstanding Daewoo corporate bonds to be paid by Seoul Guarantee Insurance (6 trillion won) to avoid such a havoc. Furthermore, the Corporation plans to provide further financial support to Seoul Guarantee Insurance in case it falls in need of additional funding as a result of any changes to the Daewoo Group Workout procedures, court receivership of Samsung Motors, or the closure of other workout organization, by assessing the need for additional public funds.

In addition, the KDIC provided 58.7 billion won to Korea Life Insurance concerning the P&A of Doowon Life Insurance (one of the six insolvent life insurance companies: Kookmin, Taepyongyang, Doowon, Dong-a, Handuk, Chosun, for which the Corporation injected a total of 2.815 trillion won in 1999). For the sale of the other five life insurance companies, KDIC provided 448.1 billion won to settle the accounts, excluding trading rights. The Corporation also acquired 344.7 billion won worth of assets (real estate plus non-performing loans) through the Resolution and Finance Corporation, a wholly owned subsidiary of the KDIC, which were portions of the insurance companies' assets the acquiring institution chose not to takeover as part of the purchase.

As for the Korea Life Insurance, the KDIC invested 2.05 trillion won in accordance with the support request made by the Financial Supervisory Commission following the designation of Korea Life Insurance as an insolvent financial institution by the Commission in 1999. However, financial indicators of the insurance company have failed to reach the original targets due to further deterioration of domestic and international investment environments and its poor financial structure. Nevertheless, the insurance company's prospects for business normalization have improved, as its premium revenues as well as its sales competitiveness increased. The insurance company realized a net-profit from conservative cost provisions and conservative death benefit provisions. With such a turnaround, the insurance company may be saved by making up for the insufficient portion of its net worth and move closer to its disposition.

Table II – 9. Financial Assistance Provided to Insurance Companies
As of December 31, 2000

(Unit : 100 million won)

Names	Equity Participation			Contribution			Asset Purchase		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Korea Life	-	20,500	-	-	2,368	587	-	-	-
Doowon	-	300	-	-	-	-	-	-	-
SK	-	-	-	-	-	506	-	-	279
Kookmin	-	2,862	-	-	-	-	-	-	168
Handuck	-	2,327	1,023	-	-	-	-	-	-
Hyundai	-	-	-	-	-	111	-	-	-
Chosun	-	993	173	-	-	-	-	-	-
Kumho	-	-	-	-	-	700	-	-	-
Dong-ah	-	10,214	708	-	-	-	-	-	2,711
Dongyang	-	-	-	-	-	414	-	-	-
Taepyongyang	-	1,751	846	-	-	-	-	-	289
Samsung	-	-	-	4,329	22	-	-	-	-
Kyobo	-	-	-	2,399	12	-	-	-	-
Heungkook	-	-	-	2,723	69	-	-	-	-
Jeil	-	-	-	2,084	3	-	-	-	-
Seoul Guarantee	-	12,500	34,000	-	-	-	-	-	-
Total	-	51,447	36,750	11,535	2,474	2,318	-	-	3,447

D. Merchant Banks

In the period following the end of 1997, twenty-three out of the thirty merchant banks have been ordered to suspend their operations for various reasons, but mainly due to insufficient liquidity. As for the sixteen (including Kyungnam Merchant Bank) of the twenty-three merchant banks, their depositor contracts have been transferred to Hanareum Banking Corporation via P&A as subrogation deposit payoff and bankruptcy proceedings are under way. For Daehan and Nara whose business licenses have been revoked, the KDIC has made insurance claim payments through the Hanareum Banking Corporation, a *Resolution Financial Institution* (See Article 36-3 of the Depositor Protection Act) subsidiary of the Corporation, without a separate P&A. Three merchant banks, including Hanwoi Merchant Bank have merged. By yearend 2000, Regent Merchant Bank was put under a business suspension mandate.

As for Hans, Korea, Joongang, Youngnam Merchant banks, whose operations were suspended in the second half of 2000, assets and liabilities were transferred to Hanaro Merchant Bank, a KDIC subsidiary that was solely established and capitalized by the KDIC in accordance with the government's restructuring plan for merchant banks dated October 20, 2000.

In respect of such resolution processes concerning insolvent merchant banks, the KDIC provided a total of 14,268 billion won to Hanareum Banking Corporation as of yearend of 2000 to enable Hanareum Banking Corporation to make subrogation deposit payoffs. More specifically, the credit of 11,854.9 billion won provided to the Hanareum Banking Corporation by the Credit Management Fund for Hanareum Banking Corporation's subrogation payment of deposits in respect of fourteen merchant banks whose businesses were suspended in March 1998, have been transferred to the KDIC pursuant to April 1, 1998 amendment to the Depositor Protection Act. The KDIC also provided 1,773.2 billion won to the Hanareum Banking Corporation for subrogation payment of deposits in respect of Saehan, Hangil, Daehan and Nara merchant banks, which were involved in insured risk events (See Article 2, Subparagraph 7 of the Depositor Protection Act.) for the definition of *insured risk event*.) in the period following May 1998. The KDIC also paid 398.7 billion won of the unpaid commercial notes issued by the Hanareum Banking Corporation to Hana Bank so that the money may be provided to Korea, Joongang and Kumho merchant banks as per the "Countermeasure Concerning the State of Merchant Banks" (dated June 20, 2000) implemented by the government.

Currently, the KDIC is holding 1,291.7 billion won in loan assets, which were previously issued by the Credit Management Fund to improve the liquidity of merchant banks. The Corporation also invested 12.1 billion won and 30 billion won in Chungsol Merchant Banking and Hanareum Banking Corporation, respectively, in addition to 1,288.9 billion won in capital injection provided to Hanaro Merchant Bank which took over the assets and liabilities from four failing merchant banks through P&A. Hanaro Merchant Bank is planned to be incorporated as an affiliate of a financial holding company and then converted into an investment bank following expansion of its scope of securities-related business.

Table II – 10. Financial Assistance Provided to Merchant Banks*As of December 31, 2000*

(Unit : 100 million won)

Names	Equity Participation			Loan ¹⁾		
	Prior to 1999	1999	2000	Prior to 1999	1999	2000
Chungsol	121	-	-	1,275	-	-
Saehan	-	-	-	4,238	-	-
Hangil	-	-	-	1,139	-	-
Daegu	-	-	-	502	-	-
Asia	-	-	-	300	-	-
Kumho	-	-	-	375	-	-
Dongyang	-	-	-	1,200	-	-
Woolsan	-	-	-	200	-	-
Hyundai	-	-	-	505	-	-
Hanwoi	-	-	-	531	-	-
Samyang	-	-	-	250	-	-
Jeil	-	-	-	1,118	-	-
Youngnam	-	-	1,717	370	-	-
Korea	-	-	0.5	914	-	-
Hans	-	-	0.5	-	-	-
Joongang	-	-	0.5	-	-	-
Hanaro	-	-	12,889	-	-	-
HBC ²⁾	300	-	-	126,821	-	13,447
Total	421	-	14,608	139,738	-	13,447

1) The loans provided to the 14 merchant banks prior to 1998 were acquired from the Credit Management Fund.

2) The loans provided to the Hanareum Banking Corporation were for the deposit payoff of in regard to 18 failed merchant banks and for its reimbursement obligations regarding unpaid bank issued notes.

E. Mutual Savings & Finance Companies

In 2000, a total of 34 mutual savings & finance companies ("MSFCs") were involved in insured risk events. Contracts of eight (Shinheung, Korea, Woophoong, Shinhan, Dong-ah, Booheung, Yeosoo, Anheung) of the 34 MSFCs were transferred to a third party through P&A. On the other hand, six, including Hanshin, are currently under bankruptcy proceedings following completion of deposit insurance claim payments. For the rest of the MSFCs with the exception of Heungsung Mutual Savings & Finance Company, a continuous search for a third party acquirer is under way. In case such acquisition turns in vain, the KDIC plans to make deposit payoff payments through the Hanareum Mutual Savings & Finance Company.

For nineteen MSFCs, including Heungsung, the KDIC has paid provisional insurance claim payments within the limit of 20 million per depositor in the interest of maintaining stability of the financial market and to protect basic livelihood of the relevant depositors.

The KDIC also provided 17.9 billion won to the acquiring MSFCs of failed counterparts and provided 650 billion won to Hanareum Mutual Savings & Finance Company to facilitate timely insurance claim payments.

Table II – 11. Financial Assistance Provided to Mutual Savings & Finance Companies*As of December 31, 2000*

(Unit : 100 million won)

Names ¹⁾	Equity Participation			Contribution			Loan		
	Prior to 1999	1999	2000	Prior to 1999	1999	2000	Prior to 1999	1999	2000
New Choongbuk ²⁾	100	-	-	-	-	-	161	-	-
Kisan	-	-	-	-	-	-	541	-	-
Donghwa	-	-	-	-	-	-	639	-	-
Ilshin	-	-	-	-	-	-	155	-	-
Dong-ah	-	-	-	-	-	-	104	-	-
Kyungbuk	-	-	-	-	-	-	170	-	-
Saenuri	-	-	-	-	-	2	392	21	-
Daewon	-	-	-	-	-	-	563	-	-
Choongil	-	-	-	-	-	-	89	-	-
Daechun	-	-	-	-	-	-	-	102	-
Haedong	-	-	-	-	-	-	-	263	-
Saemyang	-	-	-	-	-	-	-	45	-
Pusan 2	-	-	-	-	-	-	-	271	-
Union	-	-	-	-	-	-	-	518	-
Arim	-	-	-	-	-	-	-	615	-
Boomin	-	-	-	-	-	28	-	-	-
Hanmaeum	-	-	-	-	-	69	-	-	-
Hanwoori	-	-	-	-	-	7	-	-	-
New Korea	-	-	-	-	-	30	-	-	-
Hanaro	-	-	-	-	-	17	-	-	-
Gold	-	-	-	-	-	26	-	-	-
HMSF ³⁾	1	-	-	-	-	-	14,647	14,330	6,500
Total	101	-	-	-	-	179	17,461	16,165	6,500

1) Kisan, Donghwa, Kyungbuk, Ilshin, Dong-ah are under Bankruptcy Proceedings (Bankruptcy Debentures).

2) New Choongbuk was acquired by Hanaro MSFC by way of contract transfer on June 30, 2000.

3) Used as the resources for Insurance Claim Payments and Provisional Payments.

F. Credit Unions

By 2000 yearend, a total of 176 credit unions were involved in insured risk events (thirty-nine debtor credit unions related to the loan assets transferred to the Deposit Insurance Fund from the Safety Fund is not included in the computation of the 176 credit unions) for reasons of payment suspension on loans and other liabilities such as deposits and bankruptcy proceeding. The KDIC decided to make deposit insurance claim payments in respect of 157 of the 176 credit unions, judging that other method such as merger with another financial institution would be more costly.

In 2000, the Corporation provided a total of 388.7 billion won to 41 credit unions based on preliminary surveys conducted to reach a required claim amount. Provision of insurance funds regarding other insured risk implicated credit unions is planned according to the progress of relevant resolution procedures. As for the cases involving guarantee liabilities, including those instances where an officer of the credit union is suspected of making illegal loans, or those requiring further investigation, the KDIC deferred insurance claim payments until reasons were clarified.

Table II - 12. Financial Assistance Provided to Credit Unions*As of December 31, 2000*

(Unit : 100 million won)

Names	Insurance Claim Payments			Loans		
	1998	1999	2000	Prior to 1999	1999	2000
157 Credit Unions	4,408	8,304	3,887	-	-	-
39 Credit Unions ¹⁾	-	-	-	367	-	-
Total	4,408	8,304	3,887	367	-	-

1) Safety Fund acquisition portion.

3. Efficient Public Fund Recovery

A. Improvement of Bankruptcy Estate Dividend Ratios

(1) Improvement of Bankruptcy Trustee Appointments

With the amendment to Article 15 of the Financial Industry Restructuring Act and the insertion of Article 35-8 into the Depositor Protection Act on January 21, 2000, the KDIC laid the groundwork for having its officers or employees appointed as bankruptcy trustees of insolvent financial institutions.

As part of initial measures, the Corporation organized a pool of specialists who have expertise in financial and supervisory activities, and through further training, their knowledge of bankruptcy regulations and debenture recovery operations were advanced. Then they were screened through a qualification examination, and successful employees were recommended to civil courts as bankruptcy trustee managers of the bankrupt institutions.

Table II – 13.. Appointment Status of Bankruptcy Estate Managers*As of December 31, 2000*

	Total Number of Bankruptcy Estates	Managers			
		Attorneys	KDIC Employees	Others	Conjointly ¹⁾
No. of Estates	229	179	28	2	20

Note:

1) Conjoint Receivers: 20 Attorneys, 14 KDIC Employees, 6 Others.

Due to the courts' continued appointment of lawyers as bankruptcy trustees, despite the amendment to the Acts, only forty-two out of two hundred twenty-nine bankruptcy estates employ KDIC staff members as trustees. KDIC's efforts to improve bankruptcy estate governance was met with difficulties, and subsequently the Public Fund Management Special Act was enacted through the National Assembly on December 20, 2000 to improve the situation. Pursuant to

the Act, officers or employees of the KDIC, or the KDIC itself can be more robustly appointed as trustees for both existing and future bankruptcy estates of financial institutions.

(2) System of Auditor

The KDIC makes recovery on funds it provided, in respect of insolvent financial institutions, as contribution and deposit payoffs through dividends received pursuant to the Bankruptcy Law. The Corporation could exercise creditor rights as the largest creditor of bankruptcy estates, but had no authority or systematic measure that it could employ to actively seek recovery efforts. To overcome this barrier, the KDIC persuaded the courts and bankruptcy estate trustees, and was successful in convincing them to adopt the first ever auditor system for bankruptcy estates under the Bankruptcy Law. Consequently, the KDIC can be more deeply involved in the management of bankrupt institutions, albeit still an indirect involvement. As such, one hundred eighty-six out of the two hundred twenty-nine bankruptcy estates employed KDIC staff as auditors as of the end of year 2000.

Table II – 14. Appointment Status of KDIC’s Employees as the Auditors of Bankruptcy Estates
As of December 31, 2000

	Banks	Merchant Banks	Insurance Companies	Securities Companies	MSFCs	Credit Unions	Total
Number of Bankruptcy Estates	5	18	5	6	42	153	229
Audit Committee Memberships held by KDIC Employees	5	16	4	0	30	131	186

Duties of an auditor of a bankruptcy estate are divided mainly into two facets: 1) giving consent to the asset disposition pursuant to Article 187 of the Bankruptcy Law, and 2) auditing appropriateness of bankruptcy estate procedures through investigation of estate’s status as well as information on its assets. The KDIC appointed auditors assisted bankruptcy estates to follow proper ways in doing business by way of providing consent or constructive opinions on a total of 11,423 cases in 2000 alone. KDIC staff auditors also requested readjustment of debt restructuring conditions regarding eleven corporations under such program based on in-depth analysis of the institutions. The action resulted in additional recovery on loans of 4.1 billion won. In addition, KDIC developed detailed criteria for each business that require consent in order to secure objectivity and transparency in decision-making processes. The efficiency of operation has been enhanced as well by providing methods of evaluation and improvement in respect of the auditors’ duties. As for their duty of monitoring the status of the bankruptcy estates, a total of 165 cases of improper asset management practices were pointed out for remedial action in thirty estates. In particular, by reporting the findings to the courts, the effectiveness of investigation has been publicly recognized while contributing to a cooperative relationship between the KDIC and the courts. The computerization of the asset management system among related estates, developed by the KDIC, has made it possible to monitor information real time. Coincidentally, distribution of computerized system manuals and training material has facilitated more effective use of the system.

(3) Promotion of Expedited Completion of Bankruptcy Proceedings

Generally, a bankruptcy estate is more likely to have moral hazard than healthy financial institutions, and as such circumstance bring heightened fear of early termination of employment upon dissolution of the estate, foot-dragging or inhibition is common. In this regard, the KDIC has developed a plan for expeditious completion of bankruptcy proceedings under the Public Funds Management Special Act of December 20, 2000. As and when the Act facilitates wider appointment of the Corporation or its staff as bankruptcy trustees, various bankruptcy estates will be consolidated to improve effectiveness, reduce cost, and prevent moral hazard. Incorporating such measures as simultaneous operations of direct recovery and public asset sales, and assignment of residual asset management to outside agents, a basic plan for more practical and early completion of bankruptcy proceedings has been established.

(4) Maximization of Dividends on Provable Bankruptcy Claims

By yearend 2000, the KDIC recovered 5,801.6 billion won (18.8%) of the total 30,868.8 billion won worth of public fund support previously provided to financial institutions that became bankrupt.

In the interest of maximizing dividends, the KDIC developed a detailed criteria for methods of disposition and management concerning the assets held by the bankruptcy estates, such as movable assets, real estate, securities and even golf-memberships. The Corporation also reviewed an annual plan for recovery and trustee dividend-distribution for each bankruptcy estate to assess performance and to continuously exert collection efforts for distribution of dividends during trustee/liquidators meetings.

Table II – 15. Status of Recovery Against Bankruptcy Estates per Each Sector
As of December 31, 2000

(Unit : 100 million won)

	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSFCs	Credit Unions	Total
Cumulative Dividend Credit	97,008	144	14,596	143,242	37,086	16,612	308,688
Recovered Dividend Amount	10,996	53	1,030	39,772	2,441	3,724	58,016

Note: Includes the funds recovered from the resolution financial institutions (Hanareum Banking Corporation and Hanareum Mutual Savings & Finance Company).

Additionally, the KDIC provided direct support for the recovery from bankruptcy estates. In the process of a comprehensive review for the fundamental causes of the insolvency among the financial institutions that were shut down in June 1999 (as well as their foreign currency denominated asset management practices), the Corporation discovered a Hong Kong based asset managed by Samyang Merchant Bank that was being neglected and could be lost. As such, the Corporation determined that the matter could not be simply avoided by allowing the relevant bankruptcy estate to single-handedly resolve the situation. Consequently, a special task force was set up within the Corporation to directly undertake recovery procedures. In that respect, the Corporation recovered US\$8.6 million (18.3%) of US\$47 million outstanding in cash, stocks and CBs, to increase the total amount recovered for 2000 to US\$10.5 million. Currently, the KDIC retains a local attorney for effective monetization of residual assets such as invested equities and real estates that are located in China.

B. Maximization of Recovery by Resolution Financial Institutions

(1) Guidance and Supervision of Resolution Financial Institutions

The KDIC undertook a multi-faceted guidance and supervision programs in respect of Hanareum Banking Corporation and Hanareum Mutual Savings & Finance Company, which are *Resolution Financial Institution* subsidiaries of the Corporation established in accordance with Article 36-3 of the Depositor Protection Act. Such supervisory measures included assessment of the recovery rate improvement activities, collateral enhancement and systematic management of loan-giving institutions, and payment of incentives. To that end, the Hanareum Banking Corporation realized a recovery rate of 57.5% with respect to won-denominated assets and 65.3% for foreign currency-denominated assets against the acquisition value, and the Hanareum Mutual Savings & Finance Company achieved 98.5% recovery against its asset acquisition value.

Table II – 16. Asset Disposition Performance of the Hanareum Banking Corporation and the Hanareum Mutual Savings & Finance Company

(Units: 100 million won / \$ 1 million)

Type		Contract Transfer (A)	Balance as of December 2000 (B)	2000 Recovery (A-B)	Recovery Rate
Hanareum Banking Corporation	₩	54,077	23,008	31,069	57.5 %
	\$	3,525	1,224	2,301	65.3 %
HMSF		13,106	3,158	12,904 ¹⁾	98.46 %

1) Includes the recovery amounts that exceed the original acquisition price.

Both Hanareum Banking Corporation and Hanareum Mutual Savings & Finance Company contributed to the protection of depositors by paying out 18,179.3 billion won in total to insured depositors in respect of eighteen merchant banks and sixty-six mutual savings & finance companies.

The Hanareum Banking Corporation helped prevent a series of bankruptcies through financial support in more than 2,300 enterprises by injecting 12.7 trillion won for purchasing distressed assets such as loans and guarantees through P&As. As the total asset pool under the management of the Hanareum Banking Corporation rescinded, the Hanareum Banking Corporation consolidated or eliminated redundant activities to reduce its operating expenses such as rent and labor costs. The Hanareum Mutual Savings & Finance Company spurred into action for recovery of NPLs, classified as doubtful or worse, by enforcing administrative actions such as temporary seizures, commissioning collection agencies and running successful campaigns for recovery of claims.

**Table II – 17. Status of Insured Deposit Payoff Payment by
Resolution Financial Institutions**

(Unit : 100 million won)

	Insured Deposits (A)	Amount Provided by KDIC	Actual Payment (B)¹⁾	Unpaid Deposit Payoff Liabilities (A-B)	Payment Ratio
HBC	205,977	140,268	142,132	63,845	69.0%
HMSF ²⁾	48,816	35,477	39,661 ³⁾	9,155	81.2%
Total	254,793	175,745	181,793	73,000	71.3%

1) Includes the financial resources procured by Hanareum Mutual Savings & Finance Company and Hanareum Banking Corporation.

2) Hanareum Mutual Savings & Finance Company.

3) Encompasses 47 cases of insurance claim payments and 19 cases of provisional payments.

(2) Resolution in Respect of the Maturation of Hanareum Banking Corporation's Statutory Business Life

Originally established pursuant to the Merchant Banks Act on January 3, 1998 and subsequently designated as a *Resolution Financial Institution* on September 16, 1998 pursuant to the Depositor Protection Act, Hanareum Banking Corporation terminated its legal existence on December 31, 2000 and entered voluntary liquidation proceedings. As such, it began transferring its residual assets and liabilities to Hanareum Mutual Savings & Finance Company. Consequently, the organization and staff level of the Hanareum Banking Corporation have been reduced to a minimum necessary for the management of the residual assets and liabilities.

C. Acquisition and Disposition of Assets

(1) Acquisition of Assets

The KDIC established the Asset Management Department on January 12, 2000 to manage and dispose assets it took over from insolvent financial institutions in the process of financial restructuring.

By yearend 2000, the KDIC had acquired a total of 8,633.5 billion won in assets. Of that amount, 6,625.9 billion won worth of assets were acquired by the Resolution and Finance Corporation ("RFC") through borrowings from the KDIC. The RFC is a wholly owned *Resolution Financial Institution* subsidiary of the KDIC, established on December 27, 1999 to undertake resolution measures on behalf of the KDIC. The remaining amount was acquired by the KDIC directly.

More specifically, the KDIC directly acquired 16.5 billion won in BWs (bonds with subscription warrants) from the Korea First Bank ("KFB"), 91.1 billion won worth of equities from KFB subsidiary corporations in Vietnam and New York, and 1.9 trillion won in equities from the Korea Development Bank and the Industrial Bank of Korea in respect of Daehan Investment Trust and Korea Investment Trust stocks. The assets which the Resolution and Finance Corporation acquired with fund support from the KDIC include 6,122.4 billion won in assets acquired from KFB as a result of the refusal by Newbridge Capital (the party that purchased the controlling stake of KFB), or through Newbridge Capital's exercising of its put-back rights given under the terms of the sales agreement. In addition, the

Resolution and Finance Corporation took over 158.8 billion won in assets originally acquired by the KDIC in 1999 during P&As of the liquidated banks with the five-acquirer banks as well as 344.7 billion won in assets from four insolvent life insurance companies.

Table II – 18. Status of Asset Acquisition
As of December 31, 2000

(Unit : 100 million won)

	KDIC			Resolution and Finance Corporation		
	1998	1999	2000	1998	1999	2000
KFB ¹⁾	-	165	911	-	31,031	30,193
5 Acquirer Banks ²⁾	-	1,588	-	-	-	1,588
4 Life Insurance Companies	-	-	-	-	-	3,447
Korea Development Bank, Industrial Bank of Korea ³⁾	-	-	19,000	-	-	-
Total	-	1,753	19,911	-	31,031	35,228

1) Purchase of BW (bonds with subscription warrant) as well as KFB's New York and Vietnam subsidiaries' equities.

2) After KDIC took over the five-acquirer banks in November 1999, KDIC transferred them to the Resolution and Finance Corporation in February 2000.

3) Purchase of Daehan and Korea (investment trust companies) stocks via equity participation.

(2) Disposition of Acquired Assets

In spite of its short history, the KDIC has recorded a 60% recovery rate (2,192.5 billion won)* against total assets of 3,677 billion won taken over during the initial acquisition phase, which ended in August 2000.

The Corporation used a variety of recovery methods besides the traditional recovery at full asset maturity, including M&A, joint venture NPL disposition, the issuance of overseas exchangeable bonds and asset-backed securities in both domestic and international markets.

In respect of the sale of Ileun Securities (former subsidiary of KFB, which Newbridge Capital refused to acquire when it purchased KFB, and thus acquired and held by the Resolution and Finance Corporation) to the Regent Group led by the State of Wisconsin Investment Board ("SWIB") of the U.S., the Corporation recovered 98 % of its original cost through a strike price of 16,150 won per share. The per share sale price was 2.3 times its then market price. The favorable terms reflected the premium attached to gaining management control as the sales stake represented a "majority shareholder portion."

In the case of joint disposition of NPLs, KDIC posted the highest bid in the Korean NPL market to date with subscription for 53% of the outstanding principal balance. By pushing ahead with asset securitization backed by the assets of Hanareum Mutual Savings & Finance Company, the Resolution and Finance Corporation also succeeded in issuing asset-backed securities ("ABS"), which yielded 301 billion won.

* From the viewpoint of the Resolution and Finance Corporation as the subrogate holder of the disposed assets, it recovered a total of 2,630.7 billion won, posting a recovery rate of 68% against 3,844.4 billion won worth of assets it originally acquired during the initial round of acquisitions.

With respect to the KDIC held Korea Electric Power Corporation ("KEPCO") shares, the Corporation secured US\$1 billion by successfully issuing exchangeable bonds in the international capital markets with 28% premium or 34,560 won per share against the market price of 27,000 won per share. To avoid a collapse in KEPCO shares in the domestic market, KDIC tapped the international capital markets where the exchangeable bonds were well received. The size of the offering was unprecedented in Asia, and it's success clearly reflected that in spite of the bearish sentiment around the KOSPI, foreign investors' level of confidence concerning Korea's financial restructuring efforts were relatively high.

In addition, the Corporation, through the Resolution and Finance Corporation, endeavored to utilize the NPL disposition expertise of the Korea Asset Management Corporation ("KAMCO") to the fullest of extent by assigning a signification pool of the RFC held NPLs to KAMCO. At the same time, the RFC and KAMCO signed an MOU for disposition of debentures under workout to aid KAMCO with the establishment of a corporate restructuring vehicle ("CRV").

Table II – 19. Recovered Amount Per Recovery Period
As of December 31, 2000

(Unit : 100 million won, %)

Acquisition Period	Acquisition Amount	Recovered Amount	Recovery Ratio	Notes
Term 1 (2000.1~8)	36,770 (38,444)	21,927 (26,307)	59.63 (68.43)	-
Term 2 (2000.9~12)	29,489 (30,091)	-	-	Liquidation in Progress

Note: Figures inside the parentheses are those compiled by the Resolution and Finance Corporation.

4. Identification of Insolvency Causes and Establishment of Failure Culpability

A. Investigation into Illegalities and Irregularities

By yearend 2000, the KDIC conducted investigations into 238 insolvent financial institutions into which public funds were injected. As a result, 2,432 major shareholders, officers and employees of failed institutions were isolated for being responsible for causing or contributing to the insolvency.

Table II - 20. Status of Failure Cause Investigation
As of December 31, 2000

	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSFCs	Credit Unions	Total
Number of Investigated Institutions	5	2	5	22	51	153	238
Number of Investigated Persons	40	16	37	188	407	1,744	2,432

B. Securing Assets for Damage Redemption

The KDIC, in cooperation with the Ministry of Government Administration and Home Affairs, listed hidden assets for seizure and confiscation from culpable parties, including 25,972 lots of land.

The KDIC, through bankruptcy trustees, temporarily seized 1,812 assets valued at 670 billion won and provisional disposition in 322 other cases.

Table II - 21. Status of KDIC's Creditor Right Reservation Measures
As of December 31, 2000

(Unit : 100 million won)

	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSFCs	Credit Unions	Total
No. of Provisional Seizures	24	10	55	120	307	1,296	1,812
Amount of Provisional Seizures	82	32	417	1,069	2,870	2,230	6,700
No. of Provisional Disposals	20	-	14	82	86	120	322

C. Damage Claim Proceedings

The KDIC developed an objective and fair criteria for the compensation of damages in consultation with legal experts. Using the criteria, the Corporation conducted assessments to identify culpable parties and determined restitution amounts. As a result, court proceedings were initiated against 1,287 persons from 157 institutions for compensation worth 503.5 billion won in total.

Table II - 22. Status of On-Going Lawsuits
As of December 31, 2000

(Unit : persons, 100 million won)

	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSFCs	Credit Unions	Total
No. of Institutions	4	2	2	19	37	93	157
No. of Defendants	35	8	10	118	283	833	1,287
Claimed Amount	243	21	31	2,034	1,495	1,211	5,035

D. Investigation into Hidden Assets

The KDIC engaged in various activities in respect of protecting the nation's financial system. In that spirit, the Corporation performed investigation that resulted in identification and seizure of properties hidden by major shareholders, officers and employees of insolvent financial institutions. Such effort supported expeditious recovery of public funds and accountability including examination of financial institutions, preventing financial institution failures through recovery of public funds, as well as investigating culpable parties. In turn, the Corporation has identified 115

real properties hidden by six major shareholders of six merchant banks and 36 properties hidden by 15 officers or employees of eleven insolvent institutions.

5. Risk Management of Insured Financial Institutions

A. Collection and Sharing of Information Related to the Management of Insured Financial Institutions

The KDIC has exerted efforts to strengthen its ability to collect both financial and non-financial information on insured financial institutions for more efficient risk management as well as to broaden the scope of information sharing with the Financial Supervisory Commission. With establishment of the "*Information-Sharing Council*," it is now possible for the KDIC to obtain access to previously undisclosed information through the financial supervision information system. The Corporation also requested the Financial Supervisory Commission to provide information, such as the Financial Supervisory Commission's plan for on-site inspection of insolvent financial institutions, report on the inspection results and other related data and recommendations.

The KDIC also made efforts to gather relevant information from wider sources in the financial market and insured institutions. As a result, the Corporation now has access to the credit information network, which provides real-time information (produced and maintained by the credit information council of the Korea Federation of Banks) on matters such as corporate loans or financial transactions. In addition, the Corporation established an Internet-based data input system to receive information on financial matters such as the status of deposits from insured financial institutions. Other matters also carried out by the KDIC for its analysis of financial soundness of insured institutions include collection of financial or non-financial information, corporate information or trend in the financial market through diversified channels and media including the information network of credit rating agencies.

B. Development and Analysis of Risk Assessment Models

The KDIC has developed risk assessment models for each financial sector, recognizing the importance of detecting any sign of insolvency or managerial problems of insured institutions beforehand and leading them to sounder management as an effort to minimize the requirement for public fund procurement. In the case of banks, the Corporation has completed development of risk assessment model, FICALS, and carried out analysis and assessment of individual bank risks on a quarterly basis using the model. The Corporation also solicited outside experts for their evaluation and supplementation in order to enhance accuracy and predictability of the models.

The KDIC independently developed a risk assessment model in the first half of 2000 for mutual savings & finance companies. Based on that model, the KDIC is able to assess managerial performance and level of risks of mutual savings & finance companies. The Corporation also plans to use the model as a basic criteria for sorting out those at risk of failure. As for life insurance companies, outside expert organizations specializing in development of risk assessment models were solicited in consideration of the specificity of the insurance business. However, the risk assessment model for the credit unions is being developed internally.

Furthermore, the KDIC is engaged in analysis of the trend for each of the financial sectors on a semi-annual or quarterly basis using the managerial information and the respective risk assessment models as well as for the institution into which the Corporation injected public funds.

C. Investigation and Joint Examinations

The KDIC is authorized to conduct investigations into the operation and status of the properties of insured financial institutions that are deemed to be at risk of insolvency in the interest of preventing further and request the Financial Supervisory Service for joint inspections of other financial institutions. However, the Corporation exercised extreme caution in selecting institutions that would be subjected to such an investigation or joint inspection in consideration of the persisting unease of the financial market. Accordingly, the Corporation conducted minimum number of inspections to avoid overwhelming burden to the insured financial institutions, which are already under pressure to undertake substantial financial restructuring measures. Nonetheless, the Corporation created a list of necessary investigations and inspections to be carried out in respect of each financial sector and developed criteria for designating insured financial institutions as "at risk of insolvency," in realizing that the KDIC investigation and joint inspection with the Financial Supervisory Service may be necessary for prevention of future insolvency among the insured financial institutions.

D. Post Public Fund Injection Management

The KDIC heightened the post public fund injection management efforts of the financial institutions into which the KDIC provided public funds assistance in an effort to induce more prompt normalization of their operations. The Corporation monitored their adherence to the managerial normalization plan on a quarterly basis and requested that the Financial Supervisory Commission take necessary measures pursuant to the managerial normalization MOUs for any non-compliance in respect of attaining targets under the MOUs.

The KDIC also inspected the state of operation for the mutual savings & finance companies that received financial support from the Corporation in the form of loans or capital contributions in connection with P&A of insolvent MSFC. For those found to be in a poor operation state, the KDIC demanded immediate remedial actions and informed the supervisory authorities of illegalities and irregularities.

With respect to six banks including Hanvit Bank, into which second phase of public funds have been injected at the end of 2000, the KDIC entered into respective managerial normalization MOUs. The MOUs prescribe annual and quarterly targets in connection with the six major financial indexes concerning financial soundness, profitability, productivity and asset soundness pursuant to regulations under the Public Fund Management Special Act.

6. Implementation of the Partial Deposit Protection System

A. Preparations for Implementation of the Partial Deposit Protection System

The deposit protection system of Korea adopted the concept of the partial protection at the time of its inception in 1996. However, the government amended the DPA Enforcement Decree to provide blanket protection until the end of year 2000 in order to alleviate anxiety in the financial market resulting from the financial crisis. Accordingly, the KDIC made preparations for re-implementation of the partial protection system as originally planned for 2001 and onward in order to prevent moral hazards and establish proper order in the market.

In an effort to minimize side effects that may rise with the implementation of the partial protection system, the KDIC monitored the flow of deposits between insured financial institutions. Beginning in the third quarter of 2000, the Corporation closely monitored the flow of deposits in banks, merchant banks, mutual savings & finance companies and credit unions every five days to detect any sign of abnormalities in the flow of deposits, while undertaking analysis of the economic trickle-down effects that each different level of protection may bring to determine the appropriate level of deposit protection.

As the plan for implementation of the partial protection system beginning 2001 was finalized in October 2000, the KDIC made efforts to increase public awareness using various mass-media including press releases, Internet-based ads, pamphlets, homepage and telephone-hotlines in the interest of minimizing adverse effects that may be associated with the implementation of the system.

The KDIC also developed countermeasures against a possible situation in which the deposits move in an unexpected way following commencement of the partial protection system where stability might be threatened.

B. Implementation of the Partial Deposit Protection System

The government and the KDIC decided to make an upward adjustment on the limit of the partial protection of deposits from 20 million won to 50 million won per person in consideration of the possibility that further destabilization of the financial market may be caused by drastic deposit migration, while keeping with the target commencement of 2001. However, in the interest of maintaining stability of commercial transactions, non-interest bearing settlement account deposits were to continuously receive full protection until the end of year 2003.

With the upward re-adjustment of deposit protection limit to 50 million won, most of the deposits in mutual savings & finance companies and credit unions came under KDIC protection. Coincidentally, most factors of unease in respect of banks were resolved with the second phase injection of public funds. Thus, there were no sudden deposit withdrawals, nor adverse effects in the financial market with the implementation of the partial deposit protection system.

7. Overhaul of Laws and Regulations Related to Deposit Insurance

A. Amendments to the Depositor Protection Act

(1) January 21, 2000 Amendment

The January 21, 2000 amendment to the Depositor Protection Act was intended to improve or supplement the existing fund recovery system regarding public funds the KDIC injected in respect of financial industry restructuring such as subrogation deposit payments for insolvent financial institutions and to correct imperfections found during the course of operating the deposit insurance system.

Looking at the contents of the amendment, first, it allows the KDIC to file claims against those who are determined to have caused or contributed to the insolvency of relevant financial institution into which the KDIC has injected financial support, either by mandating the institution to take such actions or by directly taking such actions on behalf of the institution. Second, it allows the Corporation to request data concerning properties of parties who are found to have caused or contributed to the insolvency of relevant financial institutions from relevant central government agencies, thereby facilitating smooth accountability investigations. Third, it allows the bankruptcy trustees, appointed among the KDIC staff in accordance with the Financial Industry Restructuring Act, to request data concerning properties of parties who are found to have caused or contributed to the insolvency of relevant financial institutions from relevant central government agencies, thereby enhancing the effectiveness of bankruptcy trustee roles undertaken by KDIC staff. Lastly, it allows the KDIC to not only inject funds in the form of equity participation, but also acquire securities issued by the insolvent financial institutions, thereby enabling a more efficient resolution.

(2) October 23, 2000 Amendment

The purpose of the October 23, 2000 amendment to the Depositor Protection Act was to revise parts of the Act that pertain to financial holding companies in connection with the enactment of the Financial Holding Company Act. Through this amendment, the financial holding companies that have KDIC insured financial institutions as their affiliates have been included in the list of institutions (See Article 21, Paragraphs (1) through (4) of the Depositor Protection Act) that should comply with the KDIC's request for information pursuant to Article 2, Paragraph (3) of the Addenda to the Financial Holding Company Act. The amendment also allows the Corporation to provide financial supports, in the forms of capital injection, contribution or acquirement of securities, to the insolvent or insolvency-threatened financial institutions or to their parent financial holding companies subject to the conditions for such support set forth by the Policy Committee of the KDIC.

(3) December 30, 2000 Amendment

The purpose of the December 30, 2000 amendment to the Act was to improve and supplement the existing deposit insurance system and revise certain clauses to reflect the newly enacted Public Fund Management Special Act. Also, the amendment was designed to strengthen the public fund recovery functions of the KDIC.

More specifically, it allows the KDIC to request insured financial institutions and their parent holding company for data

concerning the status of operation and properties and to perform relevant investigations in respect of insolvent or insolvency-threatened financial institution designations. It also allows the Corporation to request the Financial Supervisory Commission to take a necessary measure when an occurrence of insured risk event is suspected as a result of such investigation. Secondly, it clarifies that the default debtors of the insolvent financial institutions are to be included in the scope of parties considered to have caused or contributed to the insolvency, thus subject to the KDIC investigation in respect of their asset states, operations or KDIC claims. Thirdly, for certain insured financial institutions designated by the Presidential Decree, it allows the KDIC to require such institutions to purchase liability insurance in respect of protection for possible damages resulting from the default on liabilities or illegalities committed by the officers and employees or purchase such liability insurance policy on their behalf if they refuse to do so.

B. Amendments to the Enforcement Decree of the Depositor Protection Act

(1) June 7, 2000 Amendment

The June 7, 2000 amendment to the DPA Enforcement Decree was intended to improve and supplement the existing system and stipulate the matters commissioned to the KDIC including the scope of the officers and employees eligible to be appointed to act as an agent for and on behalf of the President of the KDIC in line with the January 21, 2000 amendment to the Depositor Protection Act.

Looking at major contents of the amendment, firstly, concerning the scope of the officers and employees eligible for appointment as an agent acting on behalf of the President of the KDIC in a court proceeding, it stipulates that a staff who has worked for the KDIC for more than two years shall be eligible for such agent duty. Secondly, it defines the scope of public institutions from which the KDIC may receive data or information concerning properties of parties who are found to have caused or contributed to the insolvency of relevant financial institutions to be government-invested institutions and corporations established under the special laws. Thirdly, it provides a new ground on which the KDIC may borrow funds from KAMCO. Fourthly, it requires the Financial Supervisory Commission to recommend a KDIC staff to the court as liquidator or bankruptcy trustees of a credit union, if the credit union is put under dissolution or bankruptcy and it is found that the claim rights held by either KDIC or a *Resolution Financial Institution* against such credit union accounts for more than 50% of the total outstanding claim obligation of the credit union by amount as of the date of dissolution or suspension of operation.

(2) August 5, 2000 Amendment

The August 5, 2000 amendment to the DPA Enforcement Decree was for upward re-adjustment of deposit insurance premiums paid by insured financial institutions to the KDIC. The purpose of twofold increase was to achieve more stable operation of the deposit insurance system, as well as to readjust the basis of premium calculation in respect of insurance companies in a rational way to keep their premium rates in balance with the rates paid by other insured financial institutions.

(3) October 31, 2000 Amendment

The purpose of the October 31, 2000 amendment to the DPA Enforcement Decree was to increase the limit for deposit protection provided by the KDIC to 50 million won from 20 million won, and commence the partial protection system as planned, effective as of January 1, 2001. The amendment also stipulates that non-interest-bearing deposits in settlement accounts will be fully covered until the end of year 2003.

C. Enactment of Public Fund Management Special Act

The Public Fund Management Special Act was enacted on December 20, 2000 to prescribe the matters necessary for more efficient use of public funds with heightened objectivity, fairness and transparency in the procurement, operation and management of the funds, as well as to minimize public burden.

Looking at its major contents, firstly, it stipulates the inclusion of all funds provided for financial restructuring under the scope of “public funds,” including the General Public Fund Management Fund, state-owned properties, investment by the Bank of Korea and public loans, in addition to the Deposit Insurance Fund and the Non-Performing Loans Management Fund (managed by KAMCO). Secondly, it stipulates for the establishment of the Public Fund Management Committee in the Ministry of Finance and Economy for deliberation and coordination of the matters concerning operation of public funds, being comprised of three members from the government including the Minister of the MOFE and five civilian experts recommended by the three branches of the government, co-chaired by a civilian member and the Minister of the MOFE. Thirdly, by stipulating for employment of best practice principles such as the Least Cost Principle, Cost and Loss Sharing, and Self-induced Normalization Priority with respect to provision of financial support, the Act strives to achieve more efficient provision of public funds. Fourthly, it stipulates that the Minister of the MOFE, who is also the Committee Co-chairman shall produce report on the use, reuse after recovery, and other operational information in respect of the public funds overseen by the Committee, and submit it to the National Assembly on a quarterly basis. Also, by mandating the Board of Audit and Inspection to submit its auditing report on public funds to the National Assembly, the Act strengthens the National Assembly’s function of *post de facto* control. Fifthly, it stipulates that with respect to provision of public funds, the government and the relevant public fund recipient financial institution shall enter into managerial normalization MOUs that prescribe self-rescue plan and targets for major financial indexes. Such event as well as the contents of the MOUs are to be publicly announced while the adherence to the MOU stipulated targets shall be monitored on a quarterly basis, thereby allowing the government to impose punitive measure to any non-adherence in the interest of strengthening the binding power of such agreements. Sixthly, in case a financial institution, into which public funds have been injected, intend to provide a new loan to an insolvent corporation stipulated in the Presidential Decree, the Act requires consent, as to the making of such loan, be obtained from persons in charge of restructuring of the corporation as well as a contract containing the matters stipulated by the Presidential Decree. Also, if the institution does not adhere to the terms and conditions of the contract, the Act stipulates that no further financial support shall be made. The purpose of the stipulations is to induce and promote self-rescue efforts on the part of the insolvent corporation. Seventhly, it stipulates for establishment of Asset Sale Review Subcommittee under the Public Fund Management Committee. The subcommittee would be responsible for reviewing the propriety of asset sales including stocks for recovery of public funds. The Act also requires the Public Fund Management Committee to transparently disclose the public funds

operation performance through a white paper that shall be published by the end of August, every year. Lastly, it stipulates for a special provision that requires the court to appoint the KDIC, the corporate entity, or its officers or employees, as the bankruptcy trustees or liquidators and maintain such appointment for at least five years from the promulgation date of the Act, in respect of bankruptcy or liquidation of any insured financial institutions that received public fund support, such as deposit payoff funds from the KDIC if efficient recovery of such public funds is deemed necessary.

8. Establishment of Mid and Long-term Development Strategies

A. Consultation on Strategies to Strengthen Deposit Insurance Functions

There has been stronger demand for the KDIC to play a central role as a market regulator by coping with the rapidly changing financial environment, and assuming a central role in restructuring and maintaining the stability of the financial system. In that respect, the KDIC has received consulting services from a consortium made up of Deloitte Touche Tohmatsu, Korea Development Institute ("KDI") and Korea Institute of Finance ("KIF"), in pursuit of attaining efficient performance of core functions and establishment of mid/long-term development strategies.

The consultation focused on six areas (strategy, fund management, resolution, recovery, risk management, information management and training/education) concerning establishment of the Corporation's vision and objectives, mid/long-term development strategies, methods of efficient promotion of core businesses and methods of operation of organization and human resources. A long-term development strategy for the period ending in year 2006 was also included in the consultation scope.

So far, an interim report on the establishment of mid and long-term development strategies, the on-going status of core businesses, and introduction to examples of insurance systems in more advanced countries has been produced and submitted by the consortium. And a final report on mid and long-term plan for operation for each area as well as a plan for the re-establishment of the framework for major businesses and the process of core businesses is scheduled for completion by April 2001.

The KDIC will comprehensively endeavor to launch an advanced deposit insurance system by overhauling its entire organization and operating processes based on the results of the consulting.

B. Development of Information Infrastructure

(1) Mid and Long-term Information System Plan

The KDIC will establish a three-phase mid and long-term master plan for computerization in respect of promoting a more systematic and efficient information-based operation based on analysis functions and data usage of the Corporation. Included in the plan will be determination of businesses that are subject to information-based operation

and methods for the transformation.

During Phase I (August 2000 through December 2001), the Corporation will concentrate on establishing a computerization infrastructure that includes purchase of equipment and device, along with computer-based development of the major unit business system. During Phase II (year 2002), the corporate-wide integrated information system will be established through continued development of the unit business system. During Phase III (year 2003), the Corporation will try to stabilize the developed business system, while seeking sophistication of the information-based system including provision of high-end managerial information and spread of knowledge-based management.

The KDIC also plans to establish mid and long-term security system for protection of its proprietary information resources. As part of the plan, the Corporation is currently building a user identification system to prevent the information from being damaged by an unauthorized user and a coding system to secure the safety of communication data.

(2) Establishment of the Electronic Approval System and Improvement of the Computer System

In line with the rapid changes in the financial environment, the KDIC established an electronic approval system for prompt decision-making and higher operation efficiency, thereby laying the groundwork for knowledge-based management, as well as improving the productivity by reducing the time required for the overall approval process. By promoting the use of the electronic bulletin board and e-mails to the fullest extent, computerization of information production, distribution and utilization has been achieved, thereby establishing the foundation for a knowledge-based management. The KDIC also plans to further develop the electronic approval system to the Internet-based EDMS (electronic data management system).

The Corporation purchased seven units of servers to cope with the rapidly increasing demand for computerization and allocated them based on pools of similar operations. For more streamlined and simultaneous use of data and more efficient control of the storage equipment, one of the latest data management technology known as SAN (storage area network) has been adopted.

C. Research and Development for Sounder Deposit Insurance System

The KDIC also carried out comparison and analysis of the deposit insurance systems of major countries and reviewed its role in the nation's financial industry restructuring process while publishing a variety of research papers that discuss potential ways to further develop the system.

Concerning the performance and results of the deposit insurance system accomplished in relation to the financial industry restructuring process, the KDIC published two comprehensive research papers titled "The Theory and Practice of Deposit Insurance" and "The Methods of Financial Restructuring and Case Studies." The former describes the theoretical background of deposit insurance, its demerits and measures for supplementation, and desirable methods of operation of the system, showing the state of operation of the system in major countries. As such, the

paper is well received by industry experts as a useful basic material for related researches and as a helpful guide for ordinary people to enhance their understanding of the system. The latter discusses types and causes of financial crises, case studies of how other nations have overcome their financial crisis, and possible ways to prevent the recurrence of such financial crisis in Korea and elsewhere.

Other research papers published by the KDIC include those concerning the methods of efficient recovery of public funds injected during the financial restructuring process and adoption of the partial deposit protection system, the need for reorganization of the financial industry, methods of utilizing financial holding companies, methods of utilizing AMCs for disposition of NPLs, other nations' examples of privatization of state-owned banks and methods of asset disposition by deposit insurance agencies of advanced countries. With the adoption of the partial deposit protection system scheduled to begin in 2001, the KDIC also surveyed the state of operation of similar systems in advanced countries including Japan, and held a series of policy seminars to discuss expert opinions and explain the need for conversion into such a system. In addition, it held an international symposium titled "Financial Crisis and the Role and Task of Deposit Insurance System," in which participants laid their views on method for developing the Korean deposit insurance system. The Corporation also solicited in-depth opinions on pending matters of the Corporation from an advisory committee comprised of eight industry experts.

In addition, various KDIC survey & research materials are made public in the forms of a book or quarterly journals.

D. Cooperation with Foreign Deposit Insurance Agencies

Among other things, the KDIC made particular efforts for exchange of human resources and information and development of cooperative relations with foreign deposit insurance agencies and international economic and financial organizations in 2000. Looking at its relations with the FDIC of the U.S., the KDIC invited Martha C. Duncan, an expert in resolution of financial institution, for a six-month consultation assignment to solicit advice on general businesses of the Corporation. Conversely, the Corporation dispatched its employees to the FDIC for training programs. Also, as part of its cooperative efforts with its counterpart in Japan, the Corporation exchanged data on the system of partial deposit protection and market regulation with the Deposit Insurance Corporation of Japan ("DICJ"). It also dispatched its staff researchers to the Financial Stability Forum Working Group, a research forum sponsored by the Canada Deposit Insurance Corporation ("CDIC") to introduce the state of financial supervision and financial safety network in Korea. In 2000, representatives of central banks and deposit insurance agencies in Asia have visited the KDIC for discussions of cooperative measures.

III. Fiscal Year 2000 Account Settlement Results

1. Criteria for Account Settlement

A. Accounting for Assets and Liabilities

- (1) (Evaluation of Investment on Equities) Valuation profit and loss for marketable stocks and debentures were entered based on the market price method (final value on the date of account settlement), and non-marketable stocks and debentures were entered based on the cost method.
- (2) (Evaluation of Loans etc.) For loans, contributions or claim right assigned debentures, the estimated unrecoverable amount was established as loan-loss reserves in estimation of expected rate of recovery as of the date of settlement of account based on past loan loss rates. Contributions without assigned claim rights were entered as expenses.
- (3) (Evaluation of Monetary Foreign Currency-Denominated Assets and Liabilities) They were evaluated based on the benchmark exchange rate as of the date of making the balance sheet.

B. Accounting for Profits and Expenses

- (1) (Entering of Profit and Expense) Profit and expense were entered on the basis of the total amount without setoffs.
- (2) (Periods covering Profit and Expense) Expense and profit were entered as follows on the accrual basis:
 - (a) (Deferment of Expense) In case an expense belonging to the current term was prepaid, it was marked as "prepaid expense" and deducted from the current expense.
 - (b) (Entering of Expense) The expense belonging to the current term, which has not been paid yet as of the date of account settlement was marked as "unpaid expense" and added to expense, and the expense whose amount has not been fixed as of the date of account settlement was not entered.
 - (c) (Deferment of Profit) The profit belonging to the next term or thereafter, but has been earned was marked "advanced profit (earnings)" and deducted from the income.
 - (d) (Entering of Profit) The profit belonging to the current term which has not been realized as income in cash as of the date of the account settlement was marked as "uncollected income" and has been added to the profit. Revenue from loans provided to insured financial institutions that are under operation suspension was excluded from the calculation.

2. Settlement Status

A. Deposit Insurance Fund Accounting

(1) Financial Status

(a) Assets

Total asset of the Fund at the end of the term stood at 32,323.8 billion won, a 7,990.3 billion won increase from 24,333.5 billion won of the preceding year. It was a result of an increase of 6,684.5 billion won in fixed assets made up of 1,815.8 billion won increase in purchased assets and 6,232.1 billion won increase in equity participation as well as 1,305.8 billion won increase in current assets (resulted from increases of 133.9 billion won in securities, 195.3 billion won in uncollected premiums, 28.8 billion won in prepaid corporate tax, 6,383.7 billion won in short-term loans and 359.4 billion won in uncollected revenue), despite an increase of 5,719.4 million won in loan loss reserves, a contra account, as well as 73.4 billion won decrease in deposits and 4.7 billion won decrease in prepaid insurance claim payments.

Looking at the asset composition on hand, deposits stood at 471.7 billion won, securities at 2,911.5 billion won, short-term loans at 11,291.5 billion won (includes loan loss reserves of 9,789.9 billion won), uncollected premiums at 448.7 billion won, pre-paid corporate tax at 42.9 billion won. Thus, liquid assets stood at 5,445.4 billion won (16.8% of the total amount of assets). Equity investment stood at 19,250.6 billion won, long-term loans at 8,518.3 billion won (included loan loss reserves of 5.762 billion). Thus, fixed assets stood at 26,878.4 billion won (83.2% of the total amount of assets).

(b) Liabilities

Total liability of the Fund at the end of the term stood at 81,565.8 billion won, a 25,157.3 billion won increase from 56,408.5 billion won of the previous term. The increase was due to increases of 8,024 billion won in borrowings from financial institutions, 8,940.7 billion won in issuance of DIF Bonds for financial industry restructuring, 3,953.3 billion won in financial borrowings for payment of interest on bonds, and 1,262 billion won in issuance of exchangeable bonds.

Looking at the liability composition on hand, liquid liabilities stood at 19,577.2 billion won (24% of the total amount of liabilities), borrowings from financial institutions at 13,019.5 billion won, accounts payable at 2,970.3 billion won, accrued expense at 653.3 billion won, and advance receipt of payment at 409.3 billion won. Fixed liabilities stood at 61,988.6 billion won (76% of the total amount of liabilities). Broken down, the DIF Bonds stood at 50,976.6 billion won, financial borrowings at 6,820.3 billion won, borrowings from financial institutions at 1,203 billion won and exchangeable bonds at 1,262 billion won.

Table III – 1. Aggregate Balance Sheet (Deposit Insurance Fund Account)*As of December 31, 2000*

(Unit : won)

ASSETS	Amount	LIABILITIES and RESERVES	Amount
Current Assets	5,444,293,209,752	Current Liabilities	19,577,149,745,141
1. Operating Assets	2,195,207,382,229	1. Contributed Liabilities	15,541,645,629,660
Deposits	178,666,139,954	Short-term Loans	14,077,645,629,660
Securities	2,016,541,242,275	Acquired	
2. Sinking Fund Assets	1,191,339,785,044	Outstanding DIF Bond Liabilities	1,464,000,000,000
Deposits	293,014,390,359	2. Other Current Liabilities	4,035,504,115,481
Securities	894,952,655,880	Fixed Liabilities	61,988,608,332,280
Other	3,372,738,805	1. Contributed Liabilities	61,716,831,993,507
3. Contributed Assets	1,501,564,400,000	Outstanding DIF Bond Liabilities	50,976,647,000,000
Short-term Loans Issued	11,291,509,000,000	Loans Acquired at Premium	1,011,116,266,053
Allowance for Credit Losses	△9,789,944,600,000	Loans Acquired at Discount	△56,162,584,923
4. Other Current Assets	556,181,642,479	Long-term Loans	8,023,263,852,377
Fixed Assets	26,878,376,651,960	Exchangeable Bond	1,261,967,460,000
1. Contributed Assets	24,498,007,211,296	Suretyship Obligations	500,000,000,000
Equity Participation	19,250,592,320,395	2. Inherent Business Budget	271,776,338,773
Long-term Loans Issued	8,518,317,255,206	Total Liabilities	81,565,758,077,421
Allowance for Credit Losses	△5,761,978,664,305	DIF Reserves	△49,243,088,215,709
Purchased Assets	1,991,076,300,000	1. DIF	860,074,303,318
Allowance Loan	500,000,000,000	2. DIF Surplus	△50,103,162,519,027
Guarantee Credit Losses		(Current Period DIF Surplus)	(△17,831,871,016,040)
2. Claim Right Assigned Assets	2,379,188,370,383		
Claim Rights	11,690,410,529,277		
Allowance for Credit Losses	△9,311,222,158,894		
3. Other Fixed Assets	1,181,070,281		
Total Assets	32,322,669,861,712	Sum of Liabilities and Reserves	32,322,669,861,712

(2) State of Profit and Loss

The current term net loss of the Fund came to 17,830.8 billion won as total income was 5,826.9 billion won while total expense accumulated to 23,657.7 billion won for the period. This was mostly due to valuation loss in invested securities (4,914.7 billion won, 20.8% of the total expense), transferred-in loan-loss reserves (6,934.2 billion won, 29.3% of the total expense), and interest expense from the DIF Bonds (4,337.8 billion won, 18.3% of total expense).

Looking at the breakdown of revenues, those from insurance premiums and contribution stood at 1,035.2 billion won, loan interest at 593.3 billion won, and reversal of loan loss reserves at 3,419.2 billion won.

Looking at the details of expenses, valuation loss in invested securities stood at 4,914.7 billion won, transferred-in loan loss reserves at 6,934.2 billion won, interest for the DIF Bonds at 4,337.8 billion won, contribution expense at 3,928.7 billion won, asset disposition loss at 2,065.5 billion won, and transferred-in inherent business reserves at 271.8 billion won.

B. KDIC Accounting

(1) Financial State

(a) Assets

Total asset of the KDIC at the end of the current term stood at 8,112 million won, an increase of 3,206 million won from 4,906 million won of the preceding term. Major items of increase were short-term liquid assets (1,744 million won), invested assets (544 million won) and tangible assets (918 million won).

Looking at the state of assets on hand, the total amount of liquid assets stood at 2,732 million won (33.7% of the total assets). Broken down, they consist of 2,551 million won in cash and deposits, and 127 million won in unearned revenue. The total amount of fixed assets stood at 5,380 million won (66.3% of the total assets). In detail, they consist of 3,008 million won in security deposits, 19 million won in invested securities, 645 million won in group severance insurance deposits, 656 million won in buildings, 25 million won in vehicles and delivery equipment and 102.6 million won in other tangible assets.

(b) Liabilities

Total liabilities of the KDIC at the end of the current term stood at 7,669 million won, an increase of 3,116 million won from 4,553 million won of the preceding term. The increase was due to an increase of 147.6 million won in liability reserve consisting of 1,069 million won in formal capitalization of reserve and for severance allowances.

Major items of liabilities were 4,734 million won (61.7%) in transferred-in capital, 224.7 million won (29.3%) in for severance allowance reserves, and 576 million won (7.5%) in collected tax withholdings.

Table III – 2. Aggregate Profit & Loss Statement (Deposit Insurance Fund Account)

2000. 1. 1 ~ 2000. 12. 31

(Unit : won)

EXPENSES	Amount	EARNINGS	Amount
Fund Operation Expenses	11,130,186,879,932	Fund Earnings	1,035,203,439,394
1. Contribution for KDIC Operation Expenses	30,206,272,148	Fund Operation Earnings	799,431,252,051
2. Reserve Fund Utilization Expenses	401,180,247	1. Reserve Fund Utilization Earnings	171,895,062,239
3. Contribution Related Expenses	11,099,579,427,573	Deposit Interest Earnings	26,442,087,829
Contribution Expenses	3,928,748,706,669	Securities Interest Earnings	145,277,506,702
Loan Interest Expenses	760,352,410,945	Securities Liquidation Earnings	175,467,708
Interest on Outstanding DIF Bonds	4,337,837,588,355	2. Contribution Utilization Earnings	627,536,189,812
Asset Liquidation Losses	2,065,540,761,891	Dividends	18,698,210,958
Other	7,099,959,677	Loan Interest Earnings	593,304,682,810
Expenses Outside of DIF	12,528,600,882,675	Asset Liquidation Earnings	9,050,119,161
1. Transferred-in Allowance for Credit Losses	6,934,209,115,518	Other	6,483,176,883
2. Transferred-in Inherent Business Budget	271,776,338,773	Earnings Outside of DIF	3,992,282,055,122
3. Acquired Securities Appraisal Losses	4,914,745,669,560	1. Reimbursed Allowance for Credit Losses	3,419,203,815,250
4. Uncollected Earnings Outflow	265,785,904,024	2. Unpaid Cost Reimbursements	431,103,905,806
5. Other	142,083,854,800	3. Other	141,974,334,066
Total Expenses	23,658,787,762,607		
Current Period DIF Surplus	△17,831,871,016,040	Total Earnings	5,826,916,746,567

Table III – 3. Balance Sheet (KDIC Account)
As of December 31, 2000

(Unit : won)

ASSETS	Amount	LIABILITIES and FUND RESERVES	Amount
Current Assets	2,732,608,673	Current Liabilities	5,428,815,933
1. Current Assets	2,732,608,673	1. Transferred-in Asset Budget	4,734,167,918
Cash and Deposits	2,551,525,541	2. Tax Obligation Withholdings	576,574,891
Provisional Payments	20,000,000	3. Unpaid Obligations	6,192,320
Uncollected Credits	31,792,347	4. Unpaid Expenses	111,880,804
Prepaid Expenses	2,134,966	Fixed Liabilities	2,240,723,313
Uncollected Earnings	127,155,819	1. Severance Grant Appropriations (Public Pension Transfers)	1,601,344,008
Fixed Assets	5,379,718,275	2. Group Severance Grant Appropriations	△78,674,300
1. Asset Investments	3,673,793,357	3. Inherent Business Budget	645,550,357
Security Deposits	3,008,698,000	Total Liabilities	7,669,539,246
Securities Investments	19,545,000	DIF Reserves	442,787,702
Group Severance Plan Deposits	645,550,357	1. DIF	-
2. Tangible Assets	1,705,924,918	2. Earnings Surplus (Current Period Surplus)	442,787,702
Buildings	1,376,026,606		(90,025,153)
Automobiles	161,159,970		
Other Tangible Assets (Aggregate Depreciation)	2,852,390,300		
	△2,683,651,958		
Total Assets	8,112,326,948	Sum of Liabilities and Reserves	8,112,326,948

(2) State of Profit and Loss

Total revenue of the KDIC stood at 30,326 million won, consisting of 30,205 million won in revenue transferred from the Fund and 121 million won in the Fund operation revenues.

Total expense accumulated to 30,236 million won as it was spent on general operating expense for the Corporation. Major items of the general operating expense are 14,575 million won (48.2%) in labor cost, 12,722 million won (41.9%) in regular expense, 1,113 million won (3.6%) in depreciation expense, and 1,522 million won (5.0%) in transferred-in severance allowance reserves.

The surplus fund for the term of the KDIC accounting came to 90 million won after deducting 30,236 million won in total expense from the 30,326 million won in total revenue.

Table III – 4. Profit & Loss Statement (KDIC Account)

2000. 1. 1 ~ 2000. 12. 31

(Unit : won)

EXPENSES	Amount	EARNINGS	Amount
General KDIC Maintenance Expenses	30,236,029,681	Fund Earnings	30,204,866,788
1. Personnel Expenses	14,574,841,765	Fund Operation Earnings	121,188,046
2. General Expenses	12,722,285,199	1. Deposit Interest Earnings	119,881,726
3. Depreciation Expenses	1,113,772,143	2. Investment Securities Interest Earnings	1,236,320
4. Transferred-in Severance Grant Appropriations	1,522,669,708	3. Other Earnings	70,000
5. Transferred-in Group Severance Grant Appropriations	42,697,345	Earnings Outside of DIF	-
5. Transferred-in Inherent Business Budget	72,503,248		
6. DIF Accounting Outflow	187,260,273		
Total Losses	30,236,029,681		
Current Period DIF Surplus	90,025,153	Total Earnings	30,326,054,834

3. Procurement and Utilization of the Deposit Insurance Fund

(Unit : 100 million won)

	Type	1996	1997	1998	1999	2000	Aggregate Total
P R O C U R E M E N T	Transferred into DIF			8,286			8,286
	(Insurance Premiums)			(5,060)			(5,060)
	(Contributions)			(349)			(349)
	(Other Operational Earnings)			(2,877)			(2,877)
	Government Contributions	100					100
	Financial Institution Contributions			2	21	329	352
	Insurance Premium Revenues		321	2,343	4,161	5,404	12,229
	DIF Bond Issue Proceeds			210,150	224,850	89,407	524,407
	Exchangeable Bond Issue Proceeds					11,200	11,200
	Loans Issued at Premium			575	13,995		14,570
	Loans Issued at Discount			△3		△734	△737
	Loans from the Government			10,582	26,254	39,533	76,369
	Loans from financial institutions ¹⁾			81,722	25,886	90,041	197,649
	Deposits and Interests	3	5	1,122	13,392	4,302	18,824
	Loan Reimbursements, Bankruptcy Dividends, and Asset Sale Proceeds			10,085	28,909	40,229	79,223
	Capital Injections Recoveries				14,181	9,637	23,818
	Other			14	101	△142	△27
Total		103	326	324,878	351,750	289,206	966,263
U T I L I Z A T I O N	Contributions			69,324	41,134	11,115	121,573
	Capital Injections			58,654	160,842	141,665	361,161
	Asset Acquisitions				1,753	18,323	20,076
	Loans ²⁾			157,566	46,275	56,096	259,937
	Loan Repayments			9,337	33,870	9,802	53,009
	Insurance Claim Payments			4,446	8,306	3,991	16,743
	DIF Bond Interest Payments			10,838	28,140	41,949	80,927
	Loan Interest Expenses			293	12,341	4,824	17,458
	KDIC Operation Expenses	50	35	62	132	311	590
	Prepaid Corporate Taxes	1		137	142	429	709
	Other			4,794	△4,642	88	240
Total		51	35	315,451	328,293	288,593	932,423
Available for Future Use		52	291	9,427	23,457	613	33,840

1) Includes loans from the IBRD and ADB.

2) Includes the insurance claim payments made by way of loans to resolution financial institutions.

IV. General State of the Deposit Insurance System

1. Introduction and Development

The purpose of the deposit insurance system is to maintain the stability of the financial system by minimizing external effects caused by insolvency or bankruptcy of financial institutions. It also prevents bank runs by providing limited insurance payments to depositors, in cases where financial institutions become insolvent or bankrupt, and thus are unable to make such payments.

Prior to the establishment of the KDIC, a formal and explicit deposit insurance mechanism for banking institutions did not exist in Korea. Instead, the government had acted as an implicit protector of depositors. In terms of non-banking financial institutions, trust funds had deposit insurance mechanisms in place. Specifically, life and non-life insurance companies utilized the Insurance Guarantee Fund, while the Securities Investor Protection Fund served that role for securities companies. Mutual savings & finance companies, merchant banks and investment brokerage houses employed the Credit Management Fund. The Korean Federation of Community Credit Cooperatives ("KFCC") and credit unions obtained deposit protection from respective 'safety' funds. 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 ("NFCU") managed these funds respectively.

As the financial industry became more dynamic and liberalized in the midst of globalization and as the accessibility to overseas markets heightened, precursors for heightened competition, the possibility of failure among banks became more prevalent. Such anxiety led the Korean National Assembly to pass the Depositor Protection Act into law on December 29, 1995 and accordingly established 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 underwent a revision on December 31, 1997 to develop a sounder deposit insurance system of and also to develop a more comprehensive and streamlined operation mechanism. Consequentially, all industry-specific deposit insurance funds were consolidated into the Korea Deposit Insurance Corporation by April 1, 1999. The KDIC duly assumed the deposit insurance responsibilities of the six major financial industries (banks, securities houses, insurance companies, merchant banking corporations, mutual savings & finance companies, and credit unions).

In all, the Depositor Protection Act has been revised six times since enactment (precluding revision resulting from amendments of other legislation) and has enabled growth of the Deposit Insurance Fund, simplification of the *Resolution Financial Institution* establishment procedures, the facilitation of investigation into individuals, and the smooth recovery of public funds invested during the financial industry restructuring process. Also, the Public Fund Management Special Act, enacted at the end of 2000, laid the groundwork for a more objective and transparent operation of public funds and recovery of dividends from bankruptcy estates.

2. Financial Institutions and Deposits Subject to KDIC Protection

A. Insured Financial Institutions

The term '*Insured financial institutions*' refers to financial institutions which have subscribed to deposit insurance coverage from the Corporation, and which remits deposit insurance premiums to the Corporation. Banks, securities companies, insurance companies, merchant banks, mutual savings & finance companies, and credit unions are included in the category. The nation's relevant laws require that all financial institutions be covered by deposit insurance. As such, 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 financial institutions.

In terms of banks, general banks such as nationwide commercial banks and regional banks that are approved under the Banking Act, domestic branches of foreign bank, specialized banks such as the Korea Development Bank (excluding the Export-Import Bank of Korea [KEXIM]), 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 under the protection scope of the KDIC.

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

Other merchant banking corporations and mutual savings & finance companies can obtain protection from the KDIC after being approved under the pertinent laws and acknowledged as KDIC insurable financial institutions.

Table IV – 1. Number of Insured Financial Institutions
As of December 31, 2000

Type	Banks	Securities Companies	Insurance Companies		Merchant Banks	MSFCs	Credit Unions	Total
			Life	Non-Life				
Domestic	21 ¹⁾	42	15	12	6	147	1,317	1,560
Foreign	43	20	8	4	-	-	-	75
Other ²⁾	44	-	-	-	-	-	-	44
Total	108	62	23	16	6	147	1,317	1,679

Notes:

1) Includes credit union business portions of the National Federation of Agricultural and Fisheries Cooperatives.

2) Includes regional fisheries cooperatives that conduct credit union businesses.

B. Insured Deposits

KDIC guarantees deposits in cases where an insured financial institution cannot make payments on deposits as a result of an insured risk, in accordance with the guidelines of Article 2 of the Depositor Protection Act and Article 3 of the DPA Enforcement Decree. During the financial crisis, certain financial products from that period were covered in its entirety until the end of 2000. Also, the scope of deposits covered was expanded temporarily to include the government, regional authorities, the Bank of Korea, the Financial Supervisory Service, the Korea Deposit Insurance Corporation, and insured financial institutions until the end of 2000.

Table IV – 2. Status of Insured Depository Products

Type of companies	Insured Financial Products		Excluded Financial Products	Notes
	Covered at all times	Covered until end of 2000 ¹⁾		
Commonality	Individual / Corporate Deposits	Government/Regional Authorities/The Bank of Korea/Financial Supervisory Commission	Loans (including Call Loans)	
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 Companies	Client Deposits, Securities Savings	Subscriber Deposits, Collateral for Loaned Current Securities	Tax Liability Withholdings, 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			

1) Temporarily covered products will be excluded from the deposit protection scope as of January 1, 2001.

(1) Banks

Funds fully covered are those contributed by banks in the process of assuming liabilities resulting from deposits, savings and insurance premium installments of unspecified amounts as well as contributions based on trusts whose principals are protected according to the Trust Business Act, Article 10, Paragraph 2. However, deposits in foreign currency, CDs, development trusts, bank issued bonds and RPs issued before July 25, 1998 were protected until the end of 2000.

Tax-exempted household trusts, laborer-friendly trusts, household monetary trusts and corporate monetary trusts accounts whose funds had been deposited prior to May 1, 1996, as well as target oriented reserve trusts and performance dividend trust accounts opened after May 1, 1996 are exempted from the scope of KDIC insured financial products.

(2) Securities Firms and Stock Brokerage House

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 issued before July 25, 1998, funds partially held by securities houses and those falling under the Securities and Exchange Act, as well as collateral funds for loaned securities were insured until the end of 2000. On the contrary, funds set aside for taxes incurred with respect to BWs, investment securities, bonds and other customer deposits are not in the coverage scope.

(3) Insurance Companies

Insurance premiums paid by individual policyholders and severance pays benefit from full coverage, pursuant to the Labor Standard Act. However, in cases of institutional insurance contracts (where the policyholder and premium payer is an institution) and the premium was received by a surety company before August 1, 1998 were protected until the end of 2000, whereas re-insurance contracts are precluded from coverage.

(4) Merchant Banks

Proceeds received by merchant banks through sales of trade acceptances and fixed income products are protected, as well as note that were guaranteed by merchant banks before September 31, 1998. However, bills, with the exception of beneficiary certificates, merchant bank bonds, RPs and secured bills issued before September 30, 1998, are not covered.

(5) Mutual Savings & Finance Companies

Funds and secondary bills supplied by loan brokers, annuities, deposits and savings are protected.

(6) Credit Unions

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

C. Deposit Insurance Protection Limits

When the KDIC was first established in 1996, the insurance coverage was 20 million won per individual depositor. However, due to the heightened instability of the financial market resulting from the financial crisis of 1997, the

coverage has been extended to blanket coverage following the amendment to the Enforcement Decree in December 1997. Since then, the market has become stabilized due to the restructuring process. At the same time, the possibility of moral hazards became more apparent. Therefore, the Enforcement Decree was amended in July 1998 to limit coverage. Subsequently, protection per individual depositor under the system of partial protection was readjusted upward to 50 million won through the amendment of the Enforcement Decree in October 2000.

(1) In Case an Insured Risk Event Occurs before January 1, 2001

If an insured risk event in relation to banks, merchant banks, mutual savings & finance companies or credit unions occurs before January 1, 2001, both the principal amount and interests will be covered for the accounts opened before August 1, 1998. On the other hand, for deposits and new accounts that were opened on or after August 1, 1998, up to 20 million won will be covered if the principal exceeds that amount. If the sum of the principal and 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 companies, the principal and interest of deposits before August 1, 1998 will be covered in full, 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 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).

In the case of insurance companies, the contract maturation amount (maturity amount or compensation benefit amount) and other related obligations for the policies that were purchased before August 1, 1998, will be covered in full. If a policy was purchased on or after August 1, 1998 and the sum of premiums paid out 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 total premiums paid out 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 an insured risk event occurs before a payment freeze or bankruptcy of the insurance firm, the policy will be fully covered.

(2) In Case an Insured Risk Event on or after January 1, 2001

When an insured risk event occurs concerning a bank, securities firm, merchant bank, or credit union on or after January 1, 2001, both principal and the designated interest will be covered up to 50 million won. In the case of insurance firms, 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 50 million won.

Table IV – 3. Deposit Insurance Claim Payment Limitations

	Until December 31, 2000			On or after January 1, 2001
	Purchased on or before July 31, 1998	Purchased on or after August 1, 1998		
		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 Companies; Merchant Banks; MSFCs; Credit Unions	Principal & Original Interest- Fully Covered.	Sum of Principal & Designated Interest ¹⁾ Covered up to 20 million won	Only the Principal Covered	Sum of Principal & Designated Interest Covered up to 50 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 won	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 50 million won
		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		

- 1) **Designated Interest** refers to the 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.

3. Collection of Deposit Insurance Premiums

The KDIC receives premiums from six bank and non-bank insured financial institutions (banks, securities companies, insurance companies, merchant banks, mutual savings & finance companies, and credit unions) in accordance with Article 30 of the Depositor Protection Act, and Article 16 of the DPA Enforcement Decree.

A. Submittal of Data for Calculation of Insurance Premiums

Each insured financial institution must submit data for calculation of insurance premiums to the KDIC within two months from the end of every business year. For banks however, the submission of date is required by the 20th of the month immediately following the end of every quarter. The data for premium calculation include the insurance premium calculation table, the balance sheet (quarterly average balance in the case of banks), and the year-end data showing the balance amount of policy payment reserve and total amount of premiums received at year end for insurance companies. Each insured financial institution must comply with request for additional information pertaining to calculation of premiums, made by the President of the KDIC.

B. Calculation of Premiums

The insurance premium is calculated by multiplying the premium rate by the balance amount of the deposits subject to the insurance protection on a business year basis, (on a quarterly basis in the case of banks). Deposits subject to the insurance protection are those listed in each Subparagraph of Paragraph 2, under Article 2 of the Depositor Protection Act. The scope may be confined as to the definition provided in the DPA Enforcement Decree. The premium rates are stipulated for each financial sector pursuant to Article 16 of the DPA Enforcement Decree. The minimum insurance premium amount to be paid by an insurer is 100,000 won per year. In case the period applicable to calculation of insurance premium is less than a year, it shall be calculated on a pro-rata basis for the number of pertinent days.

$$\text{Insurance Premium} = \text{Balance Amount of Deposits Subject to Insurance} \times \text{Premium Rate}$$

(In the case of banks, result shall be divided by four, as their premiums are due quarterly.)

Table IV – 4. Deposit Insurance Premium per Each Financial Sector

	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSFCs	Credit Unions
Applied Premium Rate	10/10,000	20/10,000	30/10,000 ¹⁾	30/10,000	30/10,000	30/10,000 ²⁾
Upper Limit (Legal Limit)	50/10,000	50/10,000	50/10,000	50/10,000	50/10,000	50/10,000

- 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.

C. Remittance of Insurance Premiums

All insured financial institutions must pay the insurance premium in cash, cashier's check or account transfer (including current reserve transfer) to the account of a financial institution designated by the President of the KDIC. For banks, however, the KDIC may request payment be made by way of promissory note clearance. The units lower than 1,000 won are rounded off.

D. Insurance Premium Due Dates and Delinquency Penalties

An insured financial institution must pay the deposit insurance premium to the KDIC within three months from the end of each business year (within one month from the end of each quarter for banks). An insured institution that fails make timely insurance premium payment must pay a late charge (as calculated below) on top of the due premium.

$$\text{Delay Charge} = \text{Insurance Premium Not Paid by the Due Date} \times \text{Rate of Interest in Arrears} \times \text{Number of Days of Delay} / 365$$

The rate of interest in arrears shall be calculated based on the average rate of interest in arrears for loans of ordinary funds by each insured financial institution under Article 2, Paragraph 1 (a) of the Depositor Protection Act, as of the payment due date. The number of delinquency days shall be from the day following the due date until the date of actual payment.

4. Actual and Provisional Insurance Claim Payments

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 its operational/business license is revoked by the authorities. 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 by the Minister of the MOFE. The Corporation may suspend payment of the insurance money for up to six months from the date of payment announcement to a depositor who is found to have caused or contributed to the insolvency or insolvency-threatened situation of the relevant financial institution or a depositor who is found to be in a special relationship with such an insolvency related person.

In respect of insurance claim payment, matters such as the date of payment commencement, period and other necessary issues shall be publicly announced. The insurance money will be calculated by deducting the total amount of liabilities that a depositor owes to the relevant financial institution from the total amount of claims including deposits that he/she holds in that institution as of the date of insurance money payment announcement. The maximum amount of the insurance money to be paid will be determined by the Presidential Decree in consideration of the Korean per-capita GDP and the total amount of insured deposits. The maximum amount of the insurance money to be paid for an insured risk event occurring on or after January 1, 2001 will be 50 million won. The non-interest bearing deposits in settlement oriented accounts will be protected in full until December 31, 2003. In case a depositor with such claim maintains deposits or other asset held by the relevant institution as collateral or liability guarantees toward a third party, the KDIC may suspend payment of the insurance money within the limit of the amount equal to such collateralized claims or guarantees.

In the case of a Category I insured risk, the KDIC may make provisional payments within the limit of the appropriate claim amount determined by the Policy Committee (or one of its sub-committees) in order to minimize harm to the depositors. In case the amount of provisional payment so made exceeds the actual insurance claim payment due, the pertinent depositor shall return the difference to the KDIC. Conversely, if the amount of provisional payment made is short of the insurance claim payment due, the KDIC shall pay the difference to the pertinent depositor.

When the KDIC makes such provisional payment, it shall be granted the creditor right of the provisional payment received depositor within the scope of the amount paid against the pertinent financial institution.

5. Resolution of Insolvent Financial Institutions

The KDIC or the Financial Supervisory Commission may declare a financial institution to be insolvent if its financial structure is unsound, such as:

1. When an on-site inspection of the institution reveals that it has liabilities exceeding its assets or when it is clear that normal operation of the institution is judged to be would be difficult due to its liabilities exceeding its assets from a major financial incident involving a huge amount or issuance of bad debentures.
2. When the institution's remittances on deposits or liabilities, or payments on loans from other financial institutions have been effectively stopped.
3. When the 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 (excluding funds loaned in normal financial transactions).

When an insured financial institution becomes insolvent, the KDIC may make insurance claim payments to applicable depositors and take resolution measures regarding the failed institution. By supporting M&A of the failed institution, the KDIC may also help protect depositors and minimize the cost of resolution. Specifically, in the interest of maintaining the stability of the financial system, the Corporation may arrange M&A transactions with healthy insured financial institutions, or arrange a third party acquisition of the insolvent or insolvency-threatened institution or the parent financial holding company pursuant to the Financial Holding Company Act, in which the pertinent insolvent or insolvency-threatened institution or the parent financial holding company pursuant to the Financial Holding Company Act is the contracting party. In this case, the party that intends to take over or merge with the insolvent or insolvency-threatened institution or the parent financial holding company may apply for financial support from the KDIC. Also, the KDIC may request the Financial Supervisory Commission to order the pertinent financial institution to take necessary actions for P&A or for application for bankruptcy, if such measures are unavoidable for the protection of depositors under the criteria prescribed by the Presidential Decree.

Subject to the Policy Committee's decision, the KDIC may provide financial support to an insured financial institution or a financial holding company that has an insured financial institution as an affiliate under the Financial Holding Company Act, if such support is required 1) for smooth merger of the institution or there is a request for applicable financial support, 2) for improvement of financial structure of an insolvent financial institution in the interest of protecting depositors and maintaining stability and order of the credit business industry, and 3) as per request from the Financial Supervisory Service in accordance with the Financial Industry Restructuring Act.

When providing such financial support, the KDIC shall do its best to select a method that minimizes resolution expenses and maximizes the efficiency of the support. The Corporation is responsible for documenting evidentiary data supporting its exercise of such least cost principle. In applying such least cost principle, the KDIC shall consider possible economic loss on the national level the liquidation or bankruptcy of the pertinent financial institution might cause. The Corporation must also consider whether the chosen method of financial support is the most economical method as such optimal method would be one that minimizes the difference between the support to be provided and

the estimated recovery from the support.

6. Right to Investigate and Examine Insured Financial Institutions

The KDIC may request submission of operations and asset-related data from an insured financial institutions and financial holding companies that has the pertinent financial institution as an affiliate ("an insured financial institution ") under the Financial Holding Company Act within the scope deemed necessary to determine the status of an insolvent or insolvency-threatened financial institution, calculation and receipt of insurance premiums, calculation and payment of insurance money, and resolution of insolvent financial institution. If an insured institution is found to be on the brink of insolvency based on a preliminary review of such data, the KDIC may perform a detailed investigation including a review of the institution's operation and assets.

If necessary, the KDIC may also request the Chairman of the Financial Supervisory Service to perform an official investigation of the pertinent financial institution based on a specific scope of investigation and inform the Corporation of the results. The KDIC may also request the financial watchdog to have its employees conjointly participate in such investigation. Also, if so required for protection of depositors, the Corporation may request the Financial Supervisory Service to provide data concerning an insured institution etc, within a specified scope. It may also request the Financial Supervisory Commission to take a proper step concerning the pertinent institution if it has found factors that may lead to an insured risk event as a result of the inspection or investigation.

To secure normalization of operation, the KDIC shall enter into a MOU contract with a financial institution into which public funds are being injected, in the interest of seeking efficient operation of public funds and minimization of taxpayer's burden through enhancement of objectivity and transparency in formation, operation and management of the public funds. The Corporation shall also report the results of its survey of the state of MOU adherence by the institution to the Public Fund Management Committee.

The KDIC may request the pertinent financial institution to submit reports on the state of its operation or assets of or other data, or appear in-person for related inquiries or submit statement of an officer or employee as methods for monitoring the state of the MOU adherence. If illegalities or irregularities of an officer or employee of the institution is found, the Corporation may require the head of the pertinent organization to take appropriate remedial or punitive action or request dismissal, suspension of assignment of the culpable staff.

7. Insolvency Cause Investigations

The KDIC established a basis for attaining the right to investigate and file a claim against loss through the amendment to the Depositor Protection Act in early 2000. Consequently, the Corporation can now claim reparation of damages judged to have been caused by an officer(s) or employee(s) of an insolvent or insolvency-threatened financial institution, or party with authority to order business tasks under the Commercial Code, or a third party judged to be responsible for the insured risk event, either by mandating the pertinent institution to file such claim or by making such claim itself in subrogation of the institution. The KDIC is also authorized to look into the state of

operation of assets of the pertinent financial institution if required for accountability-related investigation.

It may also request the head of a related central government agency, local autonomous government body or public institution to submit pertinent data or information if required for effective investigation into the cause of the insolvency.

The KDIC, as a matter of principle, strives to not cause harm to any innocent party as it investigates the cause of insolvency of a financial institution by establishing objectives and transparent criteria and procedures. The Corporation maintains an organic cooperative relation with other related institutions to secure prompt seizure and confiscation of properties from those found to have caused or contributed to the insolvency.

8. Investigation into Assets and Operations of the Default Debtors of the Insolvent Financial Institutions

The KDIC's investigation into hidden properties of debtors that have constituted a part of the cause of insolvency of financial institutions is for the sound establishment of order in the marketplace and for a smooth recovery of supported public funds.

With the amendment to the Depositor Protection Act at the end of 2000, the legal basis was established for investigation of the state of operation and assets/properties of the default debtors (including the debtor business enterprises). Thus, the KDIC can now push ahead with recovery of losses from hidden properties of those with determinable liabilities (including guarantee liabilities) that are judged to have caused or contributed to insolvency of pertinent financial institutions.

APPENDIX

I.	Statistics
II.	Executive Board Members
III.	Decisions Rendered by the Policy Committee in 2000
IV.	Year 2000 Financial Statements of the Deposit Insurance Fund
V.	Acts Related to the Deposit Insurance System

I. Statistics

A. Number of Insured Financial Institutions

Financial Sector	End of 1999	End of 2000
Banks ¹⁾	112	108
Securities Companies	54	62
Insurance Companies	48	39
(Life Insurance)	(29)	(23)
(Non-life Insurance)	(19)	(16)
Merchant Banks	10	6
Mutual Savings and Finance Companies	186	147
Credit Unions	1,423	1,317
Total	1,833	1,679

1) Includes 44 regional fisheries cooperatives that conduct credit union businesses.

B. Insured Deposits per Financial Sector

(Unit : 100 million won)

Sector	End of 1999	End of 2000
Banks	436,576	506,275
Securities Companies	13,194	7,374
Insurance Companies	116,131	130,070
Merchant Banks	16,738	6,556
MSFCs	22,635	18,803
Credit Unions	18,477	19,208
Total	623,751	688,286

Note: The figures are the balance as at the close of the last business day in each year.

C. Premium Revenues

(Unit : 100 million won)

Financial Sector	Prior to 1999 ¹⁾	1999	2000	Total
Banks	1,613	1,975	2,630	6,218
Securities Companies	-	51	155	206
Insurance Companies	2,322	1,260	1,781	5,363
(Life Insurance)	(1,800)	(1,011)	(1,402)	(4,213)
(Non-life Insurance)	(522)	(249)	(379)	(1,150)
Merchant Banks	980	336	233	1,549
Mutual Savings and Finance Companies	2,407	377	323	3,107
Credit Unions	402	162	281	845
Total	7,724	4,161	5,403	17,288

1) The insurance premium revenue for 1998 is inclusive of the applicable funds transferred from the Insurance Supervisory Board, Korea Non-Deposit Insurance Corporation, National Federation of Credit Unions on April 1, 1998 as result of the consolidation of the funds into the Deposit Insurance Fund in the beginning of 1998 with the exception of the Securities Investor Protection Fund which was dismantled subsequent to the consolidation.

D. Status of Deposit Insurance Fund Bond Issuance

(As of December 31, 2000 / Unit : 100 million won)

Financial Sector	1998	1999 ¹⁾	2000 ²⁾	Total
Banks	120,650	158,591	60,307	339,548
Securities Companies	141	3	-	144
Insurance Companies	11,534	42,100	10,000	63,634
(Life Insurance)	11,534	41,422	-	52,956
(Non-life Insurance)	-	678	10,000	10,678
Merchant Banks	58,272	-	12,600	70,872
Mutual Savings and Finance Companies	15,085	15,977	6,500	37,562
Credit Unions	4,468	8,179	-	12,647
Total	210,150	224,850	89,407	524,407

Note: All of the 43.5 trillion won in Deposit Insurance Fund Bonds, for which the National Assembly's payment guarantees were obtained between 1998 and 1999 has been fully issued. The National Assembly's payment guarantee for an additional 40 trillion won has been obtained in 2000.

E. Status of the Public Fund Provision

(As of December 31, 2000 / Unit : 100 million won)

Sector	Equity Participation	Contribution	Deposit Payoff	Asset Acquisition	Loan	Total
Banks	208,834 (16)	105,067 (6)	-	82,888 (8)	-	396,789 (18)
Securities Companies	49,000 (2)	-	144 (4)	-	-	49,144 (6)
Insurance Companies	88,197 (8)	16,327 (9)	-	3,447 (4)	-	107,971 (16)
(Life Insurance)	41,697 (7)	16,327 (9)	-	3,447 (4)	-	61,471 (15)
(Non-life Insurance)	46,500 (1)	-	-	-	-	46,500 (1)
Merchant Banks	15,029 (7)	-	140,268 (18)	-	12,917 (14)	168,214 (29)
Mutual Savings and Finance Companies	101 (2)	179 (7)	35,477 (57)	-	4,649 (15)	40,406 (73)
Credit Unions	-	-	16,599 (157)	-	367 (39)	16,966 (181)
Total	361,161 (35)	121,573 (22)	192,488 (236)	86,335 (12)	17,933 (68)	779,490 (323)

Note: Figures in the parentheses represent the number of financial institutions (Institutions that received multiple public fund injections (i.e. the five-acquirer banks received both capital injection and contribution) are counted as one institution.)

F. Recovery Performance per Each Type of the Public Fund Provisions

(As of December 31, 2000 / Unit : 100 million won)

Sector	Equity Participation	Bankruptcy Estate Dividends, etc. ¹⁾	Asset Sale ²⁾	Reimbursement of Loans ³⁾	Total
Banks	23,551	11,000	21,551	-	56,102
Securities Companies	-	53	-	-	53
Insurance Companies	268	1,030	534	-	1,832
Merchant Banks	-	39,275	-	10,441	49,716
MSFCs	-	2,286	-	174	2,460
Credit Unions	-	3,722	-	356	4,078
Total	23,819	57,366	22,085	10,971	114,241

1) Included recoveries made by the resolution financial institutions (Hanareum Banking Corporation and Hanareum Mutual Savings & Finance Company).

2) Included recoveries made through the sale of assets initially acquired by the Resolution and Finance Corporation.

3) The loan reimbursements from the resolution financial institutions to the KDIC are included in Asset Sale and Bankruptcy Estate Dividends.

G. Detailed Status of the Public Fund Injection *Aggregate Amount Basis*

(As of December 31, 2000 / Unit : 100 million won)

Injection Type		Recipient Institution	Amount
Equity Participation		Seoul Bank	46,809
		Korea First Bank (KFB)	49,586
		Hanvit Bank	60,286
		The five acquirer banks	11,923
		Hana Bank (Merger: Hana Bank and Boram Bank)	3,295
		CHB	27,179
		Peace Bank	4,930
		Kyungnam Bank	2,590
		Kwangju Bank	1,704
		Cheju Bank	531
		Hanareum Banking Corporation	300
		Chungsol Merchant Bank	121
		Hanaro Merchant Bank	12,889
		Hans Merchant Bank	0.5
		Korea Merchant Bank	0.5
		Joongang Merchant Bank	0.5
		Youngnam Merchant Bank	1,717
		New Choongbuk MSFC	100
		Hanareum Mutual Savings & Finance Company	1
		Seoul Guarantee Insurance Company	46,500
		Korea Life Insurance Company	20,500
		Kookmin, Taepyongyang, Doowon, Dong-ah, Handuck, Chosun Life Insurance Companies	21,197
		KITC	30,000
		Daehan Investment Trust Securities Co., Ltd.	19,000
		Resolution and Finance Corporation	1
		Sub Total	361,161
	Contribution		The five acquirer banks including Kookmin
		The four acquirer insurance companies including Samsung	11,641
		Korea First Bank	8,059
		Korea, Hyundai, Kumho, Dongyang and SK Life insurance companies	4,686
		Boomin, Hanwoori, Hanmaeum, Saenuri, New Korea, Hanaro and Gold MSFCs.	179
		Sub Total	121,573
Insurance Claim Payments	Direct	157 Credit Unions	16,599
		4 Securities Companies	144
	Through RFIs	HBC (in resolving 18 merchant banks)	140,268
		HMSF (in resolving 57 MSFCs.)	35,477
		Sub Total	192,488
Asset Purchases	Direct	KFB (BW)	911
		KFB (Shares of KFB's Vietnam and New York subsidiaries)	165
		Korea Development Bank (KDB)	13,000
		Industrial Bank of Korea (IBK)	6,000
	Through RFIs	The five acquirer banks including Kookmin	1,588
		KFB	61,224
Dong-ah, Kookmin, Taepyongyang, SK life insurance companies		3,447	
	Sub Total	86,335	
Loan		To 14 merchant banks	12,917
		To 15 MSFCs.	4,649
		To 39 credit unions	367
		Sub Total	17,933

Aggregate Total	779,490
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II. Executive Board Members. *As of December 31, 2000*

TITLE	NAME
Chairman & President	LEE, Sang-Yong
Senior Executive Director	LEE, Hyung-Tack
Auditor	YOON, Jong-Hwa
Executive Director	PANG, Dong-Joon
Executive Director	KIM, Cheun-Soo
Executive Director	PARK, Seung-Hee
Executive Director	CHOI, Soo-Hwan

III. Decisions Rendered by the Policy Committee in 2000

Committee Type	No. of Sessions	No. of Issues	Issues
Policy Committee	13	38	<ul style="list-style-type: none"> ➤ 1999 Accounting Settlement (The 4th Fiscal Year). ➤ Fund support to KFB based on varying asset prudence levels. ➤ Resolution on issuance of KEPCO Exchangeable Bond. ➤ Deposit Insurance Fund Bond issuance plan for FY 2000 and 2001 as well as obtaining the governments guarantee. ➤ Deposit Insurance Fund Management Plan for 2001.
Bank Subcommittee	14	18	<ul style="list-style-type: none"> ➤ Consulting service procurement for financial and organizational restructuring of Seoul Bank ➤ Support for Post-Closing Settlement Fund regarding the sale of KFB ➤ Resolution regarding capital injection (equity participation) to Hanvit, Seoul, Peace, Kwangju, Cheju, Kyungnam banks
Securities Subcommittee	2	2	<ul style="list-style-type: none"> ➤ Capital injection to the Korea Investment Trust Company and Daehan Investment Securities Trust Company
Life Insurance Subcommittee	8	3	<ul style="list-style-type: none"> ➤ Entering into sales contracts, capital injection, contribution, asset purchase and account settlement for Chosun, Kookmin, Taepyongyang, Handuck life insurance companies
Non-Life Insurance Subcommittee	3	9	<ul style="list-style-type: none"> ➤ Capital injection to Seoul Guarantee Insurance Company.
Merchant Bank Subcommittee	14	16	<ul style="list-style-type: none"> ➤ Resolution regarding deposit payoff payments in regard to Nara Merchant Bank. ➤ Determine Korea Merchant Bank to be at risk of insolvency and provide financial support. ➤ Capital injection and securities purchase in regard to Youngnam Merchant Bank. ➤ Financial support in respective of merchant bank establishments.
MSFC Subcommittee	16	20	<ul style="list-style-type: none"> ➤ Support for provisional insurance payments in regard to MSFCs that suffered Category 1 Deposit Insurance Triggering Event. ➤ Resolution regarding the amount and the terms of financial support to transferees of contracts from failed MSFCs. ➤ Resolution regarding payments on deposit insurance claims.
Credit Union Subcommittee	15	17	<ul style="list-style-type: none"> ➤ Resolution regarding payments on deposit insurance claims.
TOTAL	85	123	-

IV. Year 2000 Financial Statements of the Deposit Insurance Fund.

Balance Sheet

As of December 31, 2000

Bank Account

(Unit : won)

ASSETS	Amount	LIABILITIES and FUND RESERVES	Amount
Current Assets	1,845,572,315,037	Current Liabilities	7,025,023,524,572
1. Operating Assets	860,054,377,540	1. Contributed Liabilities	3,875,902,640,000
Deposits	81,309,759,382	Short-term Loans	2,411,902,640,000
Securities	778,744,618,158	Acquired	
		Outstanding DIF Bond	1,464,000,000,000
2. Sinking Fund Assets	810,508,216,018	Liabilities	
Deposits	203,020,891,638	2. Other Current Liabilities	3,149,120,884,572
Securities	606,952,655,880		
Other Assets	534,668,500	Fixed Liabilities	36,866,326,609,687
3. Contributed Assets	-	1. Contributed Liabilities	36,813,745,538,827
Short-term Loans Issued	-	Outstanding DIF Bond	31,163,875,149,614
Allowance for Credit	-	Liabilities	
Losses	-	Loans Acquired at	231,658,740,000
4. Other Current Assets	175,009,721,479	Premium	
		Loans Acquired at	-
		Discount	
		Long-term Loans	4,156,244,189,213
Fixed Assets	11,663,189,418,484	Exchangeable Bond	1,261,967,460,000
1. Contributed Assets	10,472,920,988,275	Suretyship Obligations	-
Capital Injections	6,361,592,320,395	2. Inherent Business	52,581,070,860
Long-term Loans Issued	5,403,906,010,509	Budget	
Allowance for Credit	△3,283,653,642,629	Total Liabilities	43,891,350,134,259
Losses			
Purchased Assets	1,991,076,300,000	DIF Reserves	△30,382,588,400,738
Allowance Loan	-	1. DIF	28,474,513,051
Guarantee Credit Losses	-		
2. Claim Right Assigned	1,190,268,430,209	2. DIF Surplus	△30,411,062,913,789
Assets		(Current Period DIF	△13,109,158,507,186
Claim Rights	8,601,386,581,856	Surplus)	
Allowance for Credit	△7,411,118,151,647		
Losses			
3. Other Fixed Assets	-		
Total Assets	13,508,761,733,521	Sum of Liabilities and Reserves	13,508,761,733,521

Profit & Loss Statement
2000. 1. 1 ~ 2000. 12. 31

Bank Account

(Unit : won)

EXPENSES	Amount	EARNINGS	Amount
Fund Operation Expenses	6,281,021,695,164	Fund Earnings	387,378,020,266
1. Contribution for KDIC Operation Expenses	11,646,296,334	Fund Operation Earnings	406,362,949,076
2. Reserve Fund Utilization Expenses	136,526,998	1. Reserve Fund Utilization Earnings	61,407,782,712
3. Contribution Related Expenses	6,269,238,871,832	Deposit Interest Earnings	15,392,346,251
Contribution Expenses	3,737,780,556,786	Securities Interest Earnings	45,997,984,073
Loan Interest Expenses	85,416,653,375	Securities Liquidation Earnings	17,452,388
Interest on Outstanding DIF Bonds	2,437,628,809,858	2. Contribution Utilization Earnings	344,955,166,364
Asset Liquidation Losses	2,652,765,891	Dividends	18,698,210,958
Other Expenses	5,760,085,922	Loan Interest Earnings	310,845,441,279
Expenses Outside of DIF	8,157,941,143,606	Asset Liquidation Earnings	9,050,119,161
1. Transferred-in Allowance for Credit Losses	3,235,862,472,661	Other Earnings	6,361,394,966
2. Transferred-in Inherent Business Budget	52,581,070,860	Earnings Outside of DIF	536,063,362,242
3. Acquired Securities Appraisal Losses	4,672,895,669,560	1. Reimbursed Allowance for Credit Losses	273,970,425,024
4. Uncollected Earnings Outflow	54,575,998,153	2. Unpaid Cost Reimbursements	120,135,864,717
5. Other Expenses	142,025,932,372	3. Other Earnings	141,957,072,501
Total Expenses	14,438,962,838,770		
Current Period DIF Surplus	△13,109,158,507,186	Total Earnings	1,329,804,331,584

Balance Sheet
As of December 31, 2000

Securities Companies Account

(Unit : won)

ASSETS	Amount	LIABILITIES and FUND RESERVES	Amount
Current Assets	76,177,401,134	Current Liabilities	5,116,432,641,196
1. Operating Assets	52,530,033,647	1. Contributed Liabilities	5,005,900,000,000
Deposits	3,826,141,647	Short-term Loans	5,005,900,000,000
Securities	48,703,892,000	Acquired	-
		Outstanding DIF Bond	-
2. Sinking Fund Assets	3,081,588,271	Liabilities	-
Deposits	3,072,781,820	2. Other Current Liabilities	110,532,641,196
Securities	-		
Other Assets	8,806,451	Fixed Liabilities	18,017,687,667
3. Contributed Assets	-	1. Contributed Liabilities	16,958,225,471
Short-term Loans Issued	-	Outstanding DIF Bond	14,439,000,000
Allowance for Credit	-	Liabilities	-
Losses	-	Loans Acquired at	-
4. Other Current Assets	20,565,779,216	Premium	-
		Loans Acquired at	-
		Discount	-
		Long-term Loans	2,519,225,471
		Exchangeable Bond	-
Fixed Assets	4,905,101,623,361	Suretyship Obligations	-
1. Contributed Assets	4,900,000,000,000	2. Inherent Business	1,059,462,196
Capital Injections	4,900,000,000,000	Budget	-
Long-term Loans Issued	-	Total Liabilities	5,134,450,328,863
Allowance for Credit	-	DIF Reserves	△153,171,304,368
Losses	-	1. DIF	323,053,974
Purchased Assets	-	2. DIF Surplus	△153,494,358,342
Allowance Loan	-	(Current Period DIF	△155,583,331,597
Guarantee Credit Losses	-	Surplus)	
2. Claim Right Assigned	5,101,623,361		
Assets			
Claim Rights	9,180,145,079		
Allowance for Credit	△4,078,521,718		
Losses			
3. Other Fixed Assets	-		
Total Assets	4,981,279,024,495	Sum of Liabilities and Reserves	4,981,279,024,495

Profit & Loss Statement
2000. 1. 1 ~ 2000. 12. 31

Securities Companies Account

(Unit : won)

EXPENSES	Amount	EARNINGS	Amount
Fund Operation Expenses	221,904,164,111	Fund Earnings	67,146,651,962
1. Contribution for KDIC Operation Expenses	1,735,040,157	Fund Operation Earnings	2,435,295,145
2. Reserve Fund Utilization Expenses	663,511	1. Reserve Fund Utilization Earnings	2,435,295,145
3. Contribution Related Expenses	220,168,460,443	Deposit Interest Earnings	357,339,664
Contribution Expenses	-	Securities Interest Earnings	2,077,955,481
Loan Interest Expenses	218,792,999,556	Securities Liquidation Earnings	-
Interest on Outstanding DIF Bonds	1,375,456,350	2. Contribution Utilization Earnings	-
Asset Liquidation Losses	-	Dividends	-
Other Expenses	4,537	Loan Interest Earnings	-
Expenses Outside of DIF	4,964,742,926	Asset Liquidation Earnings	-
1. Transferred-in Allowance for Credit Losses	38,898,710	Other Earnings	-
2. Transferred-in Inherent Business Budget	1,059,462,196	Earnings Outside of DIF	1,703,628,333
3. Acquired Securities Appraisal Losses	-	1. Reimbursed Allowance for Credit Losses	1,604,004,046
4. Uncollected Earnings Outflow	3,860,898,872	2. Unpaid Cost Reimbursements,	99,624,287
5. Other Expenses	5,483,148	3. Other Earnings	-
Total Expenses	226,868,907,037		
Current Period DIF Surplus	△155,583,331,597	Total Earnings	71,285,575,440

Balance Sheet
As of December 31, 2000

Life Insurance Companies Account

(Unit : won)

ASSETS	Amount	LIABILITIES and FUND RESERVES	Amount
Current Assets	773,964,020,926	Current Liabilities	80,152,448,702
1. Operating Assets	557,887,403,095	1. Contributed Liabilities	52,648,002,500
Deposits	1,395,140,999	Short-term Loans Acquired	52,648,002,500
Securities	556,492,262,096	Outstanding DIF Bond Liabilities	-
2. Sinking Fund Assets	20,710,232,858	2. Other Current Liabilities	27,504,446,202
Deposits	20,531,523,363		
Securities	-	Fixed Liabilities	6,629,010,811,353
Other Assets	178,709,495	1. Contributed Liabilities	6,600,855,888,993
3. Contributed Assets	-	Outstanding DIF Bond Liabilities	5,956,937,749,000
Short-term Loans Issued	-	Loans Acquired at Premium	-
Allowance for Credit Losses	-	Loans Acquired at Discount	-
4. Other Current Assets	195,366,384,973	Long-term Loans	643,918,139,993
		Exchangeable Bond	-
Fixed Assets	2,232,947,195,233	Suretyship Obligations	-
1. Contributed Assets	2,110,377,897,822	2. Inherent Business Budget	28,154,922,360
Capital Injections	2,050,000,000,000		
Long-term Loans Issued	291,373,575,710	Total Liabilities	6,709,163,260,055
Allowance for Credit Losses	△230,995,677,888	DIF Reserves	△3,702,252,043,896
Purchased Assets	-	1. DIF	48,943,204,742
Allowance Loan Guarantee Credit Losses	-	2. DIF Surplus	△3,751,195,248,638
2. Claim Right Assigned Assets	122,569,297,411	(Current Period DIF Surplus)	△2,911,596,068,553
Claim Rights	1,358,670,162,649		
Allowance for Credit Losses	△1,236,100,865,238		
3. Other Fixed Assets	-		
Total Assets	3,006,911,216,159	Sum of Liabilities and Reserves	3,006,911,216,159

Profit & Loss Statement
2000. 1. 1 ~ 2000. 12. 31

Life Insurance Companies Account

(Unit : won)

EXPENSES	Amount	EARNINGS	Amount
Fund Operation Expenses	2,801,471,460,485	Fund Earnings	312,360,699,161
1. Contribution for KDIC Operation Expenses	6,445,830,509	Fund Operation Earnings	58,047,384,592
2. Reserve Fund Utilization Expenses	177,771,310	1. Reserve Fund Utilization Earnings	38,697,374,164
3. Contribution Related Expenses	2,794,847,858,666	Deposit Interest Earnings	1,901,547,862
Contribution Expenses	173,083,979,283	Securities Interest Earnings	36,789,156,753
Loan Interest Expenses	563,211,849	Securities Liquidation Earnings	6,669,549
Interest on Outstanding DIF Bonds	558,302,100,214	2. Contribution Utilization Earnings	19,350,010,428
Asset Liquidation Losses	2,062,887,996,000	Dividends	-
Other Expenses	10,571,320	Loan Interest Earnings	19,350,010,428
Expenses Outside of DIF	508,714,876,496	Asset Liquidation Earnings	-
1. Transferred-in Allowance for Credit Losses	350,221,300,901	Other Earnings	-
2. Transferred-in Inherent Business Budget	28,154,922,360	Earnings Outside of DIF	28,182,184,675
3. Acquired Securities Appraisal Losses	30,000,000,000	1. Reimbursed Allowance for Credit Losses	-
4. Uncollected Earnings Outflow	100,318,830,992	2. Unpaid Cost Reimbursements	28,182,184,130
5. Other Expenses	19,822,243	3. Other Earnings	545
Total Expenses	3,310,186,336,981		
Current Period DIF Surplus	△ 2,911,596,068,553	Total Earnings	398,590,268,428

Balance Sheet
As of December 31, 2000

Non-Life Insurance Companies Account

(Unit : won)

ASSETS	Amount	LIABILITIES and FUND RESERVES	Amount
Current Assets	201,913,912,190	Current Liabilities	1,788,479,575,797
1. Operating Assets	148,290,537,669	1. Contributed Liabilities	1,700,000,000,000
Deposits	672,998,326	Short-term Loans	1,700,000,000,000
Securities	147,617,539,343	Acquired	-
2. Sinking Fund Assets	-	Outstanding DIF Bond Liabilities	-
Deposits	-	2. Other Current Liabilities	88,479,575,797
Securities	-	Fixed Liabilities	3,148,361,530,579
Other Assets	-	1. Contributed Liabilities	3,142,357,382,625
3. Contributed Assets	-	Outstanding DIF Bond Liabilities	1,841,214,581,137
Short-term Loans Issued	-	Loans Acquired at Premium	-
Allowance for Credit Losses	-	Loans Acquired at Discount	△56,000,914,923
4. Other Current Assets	53,623,374,521	Long-term Loans	1,357,143,716,411
Fixed Assets	4,650,000,000,000	Exchangeable Bond	-
1. Contributed Assets	4,650,000,000,000	Suretyship Obligations	-
Capital Injections	4,650,000,000,000	2. Inherent Business Budget	6,004,147,954
Long-term Loans Issued	-	Total Liabilities	4,936,841,106,376
Allowance for Credit Losses	-	DIF Reserves	△84,927,194,186
Purchased Assets	-	1. DIF	9,762,902,145
Allowance Loan Guarantee Credit Losses	-	2. DIF Surplus	△94,690,096,331
2. Claim Right Assigned Assets	-	(Current Period DIF Surplus)	△140,759,222,806
Claim Rights	295,769,230		
Allowance for Credit Losses	△295,769,230		
3. Other Fixed Assets	-		
Total Assets	4,851,913,912,190	Sum of Liabilities and Reserves	4,851,913,912,190

Profit & Loss Statement
2000. 1. 1 ~ 2000. 12. 31

Non-Life Insurance Account

(Unit : won)

EXPENSES	Amount	EARNINGS	Amount
Fund Operation Expenses	244,462,326,664	Fund Earnings	84,314,700,451
1. Contribution for KDIC Operation Expenses	1,578,996,588	Fund Operation Earnings	9,709,990,152
2. Reserve Fund Utilization Expenses	3,261,504	1. Reserve Fund Utilization Earnings	9,709,990,152
3. Contribution Related Expenses	242,880,068,572	Deposit Interest Earnings	344,964,507
Contribution Expenses	-	Securities Interest Earnings	9,365,025,645
Loan Interest Expenses	181,195,629,980	Securities Liquidation Earnings	-
Interest on Outstanding DIF Bonds	61,678,440,605	2. Contribution Utilization Earnings	-
Asset Liquidation Losses	-	Dividends	-
Other Expenses	5,997,987	Loan Interest Earnings	-
Expenses Outside of DIF	28,157,167,427	Asset Liquidation Earnings	-
1. Transferred-in Allowance for Credit Losses	-	Other Earnings	-
2. Transferred-in Inherent Business Budget	6,004,147,954	Earnings Outside of DIF	37,835,580,682
3. Acquired Securities Appraisal Losses	-	1. Reimbursed Allowance for Credit Losses	-
4. Uncollected Earnings Outflow	22,148,187,194	2. Unpaid Cost Reimbursements	37,835,580,435
5. Other Expenses	4,832,279	3. Other Earnings	247
Total Expenses	272,619,494,091		
Current Period DIF Surplus	△140,759,222,806	Total Earnings	131,860,271,285

Balance Sheet
As of December 31, 2000

Merchant Banks Account

(Unit : won)

ASSETS	Amount	LIABILITIES and FUND RESERVES	Amount
Current Assets	1,473,448,649,823	Current Liabilities	5,507,441,285,964
1. Operating Assets	309,757,941,037	1. Contributed Liabilities	4,900,551,760,000
Deposits	87,906,450,484	Short-term Loans	4,900,551,760,000
Securities	221,851,490,553	Acquired	-
2. Sinking Fund Assets	291,461,026,796	Outstanding DIF Bond Liabilities	-
Deposits	877,852,850	2. Other Current Liabilities	606,889,525,964
Securities	288,000,000,000	Fixed Liabilities	9,765,872,422,790
Other Assets	2,583,173,946	1. Contributed Liabilities	9,597,445,151,224
3. Contributed Assets	837,737,400,000	Outstanding DIF Bond Liabilities	7,107,100,269,249
Short-term Loans Issued	7,972,374,000,000	Loans Acquired at Premium	779,457,526,053
Allowance for Credit Losses	△7,134,636,600,000	Loans Acquired at Discount	-
4. Other Current Assets	34,492,281,990	Long-term Loans	1,210,887,355,922
Fixed Assets	2,457,304,098,941	Exchangeable Bond	-
1. Contributed Assets	2,078,001,357,467	Suretyship Obligations	500,000,000,000
Capital Injections	1,288,900,000,000	2. Inherent Business Budget	168,427,271,566
Long-term Loans Issued	2,374,583,013,116	Total Liabilities	15,273,313,708,754
Allowance for Credit Losses	△2,085,481,655,649	DIF Reserves	△11,342,560,959,990
Purchased Assets	-	1. DIF	673,726,867,095
Allowance Loan Guarantee Credit Losses	500,000,000,000	2. DIF Surplus	△12,016,287,827,085
2. Claim Right Assigned Assets	378,121,671,193	(Current Period DIF Surplus)	△576,216,943,750
Claim Rights	429,398,201,144		
Allowance for Credit Losses	△51,276,529,951		
3. Other Fixed Assets	1,181,070,281		
Total Assets	3,930,752,748,764	Sum of Liabilities and Reserves	3,930,752,748,764

Profit & Loss Statement
2000. 1. 1 ~ 2000. 12. 31

Merchant Banks Account

(Unit : won)

EXPENSES	Amount	EARNINGS	Amount
Fund Operation Expenses	1,091,851,503,781	Fund Earnings	53,709,360,860
1. Contribution for KDIC Operation Expenses	3,143,359,129	Fund Operation Earnings	302,424,896,599
2. Reserve Fund Utilization Expenses	36,881,140	1. Reserve Fund Utilization Earnings	40,040,818,637
3. Contribution Related Expenses	1,088,671,263,512	Deposit Interest Earnings	4,517,257,700
Contribution Expenses	-	Securities Interest Earnings	35,399,548,618
Loan Interest Expenses	274,379,283,034	Securities Liquidation Earnings	124,012,319
Interest on Outstanding DIF Bonds	813,626,718,401	2. Contribution Utilization Earnings	262,384,077,962
Asset Liquidation Losses	-	Dividends	-
Other Expenses	665,262,077	Loan Interest Earnings	262,384,077,962
Expenses Outside of DIF	3,173,545,687,255	Asset Liquidation Earnings	-
1. Transferred-in Allowance for Credit Losses	2,764,667,725,587	Other Earnings	-
2. Transferred-in Inherent Business Budget	168,427,271,566	Earnings Outside of DIF	3,333,045,989,827
3. Acquired Securities Appraisal Losses	201,850,000,000	1. Reimbursed Allowance for Credit Losses	3,141,281,344,351
4. Uncollected Earnings Outflow	38,590,716,688	2. Unpaid Cost Reimbursements	191,764,645,476
5. Other Expenses	9,973,414	3. Other Earnings	-
Total Expenses	4,265,397,191,036		
Current Period DIF Surplus	△576,216,943,750	Total Earnings	3,689,180,247,286

Balance Sheet
As of December 31, 2000

Mutual Savings & Finance Companies Account

(Unit : won)

ASSETS	Amount	LIABILITIES and FUND RESERVES	Amount
Current Assets	873,770,144,932	Current Liabilities	41,291,720,821
1. Operating Assets	166,743,726,874	1. Contributed Liabilities	2,898,216,493
Deposits	1,560,087,284	Short-term Loans	2,898,216,493
Securities	165,183,639,590	Acquired Outstanding DIF Bond Liabilities	-
2. Sinking Fund Assets	1,072,236,179	2. Other Current Liabilities	38,393,504,328
Deposits	1,072,236,179		
Securities	-	Fixed Liabilities	4,019,001,939,974
Other Assets	-	1. Contributed Liabilities	4,011,996,296,995
3. Contributed Assets	663,827,000,000	Outstanding DIF Bond Liabilities	3,544,254,251,000
Short-term Loans Issued	3,319,135,000,000	Loans Acquired at Premium	-
Allowance for Credit Losses	△2,655,308,000,000	Loans Acquired at Discount	△130,112,306
4. Other Current Assets	42,127,181,879	Long-term Loans	467,872,158,301
Fixed Assets	285,952,238,955	Exchangeable Bond	-
1. Contributed Assets	285,952,238,955	Suretyship Obligations	-
Capital Injections	100,000,000	2. Inherent Business Budget	7,005,642,979
Long-term Loans Issued	447,377,545,016		
Allowance for Credit Losses	△161,525,306,061	Total Liabilities	4,060,293,660,795
Purchased Assets	-	DIF Reserves	△2,900,571,276,908
Allowance Loan Guarantee Credit Losses	-	1. DIF	90,843,834,784
2. Claim Right Assigned Assets	-	2. DIF Surplus	△2,991,415,111,692
Claim Rights	2,560,144,399	(Current Period DIF Surplus)	△833,798,523,806
Allowance for Credit Losses	△2,560,144,399		
3. Other Fixed Assets	-		
Total Assets	1,159,722,383,887	Sum of Liabilities and Reserves	1,159,722,383,887

Profit & Loss Statement
2000. 1. 1 ~ 2000. 12. 31

Mutual Savings & Finance Companies Account

(Unit : won)

EXPENSES	Amount	EARNINGS	Amount
Fund Operation Expenses	345,829,989,783	Fund Earnings	70,005,509,611
1. Contribution for KDIC Operation Expenses	3,352,353,679	Fund Operation Earnings	9,752,494,306
2. Reserve Fund Utilization Expenses	35,445,033	1. Reserve Fund Utilization Earnings	9,235,855,956
3. Contribution Related Expenses	342,442,191,071	Deposit Interest Earnings	493,226,163
Contribution Expenses	17,884,170,600	Securities Interest Earnings	8,741,217,054
Loan Interest Expenses	2,751,482	Securities Liquidation Earnings	1,412,739
Interest on Outstanding DIF Bonds	324,131,693,462	2. Contribution Utilization Earnings	516,638,350
Asset Liquidation Losses	-	Dividends	-
Other Expenses	423,575,527	Loan Interest Earnings	394,856,433
Expenses Outside of DIF	606,485,001,150	Asset Liquidation Earnings	-
1. Transferred-in Allowance for Credit Losses	570,642,611,594	Other Earnings	121,781,917
2. Transferred-in Inherent Business Budget	7,005,642,979	Earnings Outside of DIF	38,758,463,210
3. Acquired Securities Appraisal Losses	10,000,000,000	1. Reimbursed Allowance for Credit Losses	-
4. Uncollected Earnings Outflow	18,826,168,983	2. Unpaid Cost Reimbursements	38,758,462,710
5. Other Expenses	10,577,594	3. Other Earnings	500
Total Expenses	952,314,990,933		
Current Period DIF Surplus	△833,798,523,806	Total Earnings	118,516,467,127

Balance Sheet
As of December 31, 2000

Credit Unions Account

(Unit : won)

ASSETS	Amount	LIABILITIES and FUND RESERVES	Amount
Current Assets	199,446,765,710	Current Liabilities	18,328,548,089
1. Operating Assets	99,943,362,367	1. Contributed Liabilities	3,745,010,667
Deposits	1,995,561,832	Short-term Loans	3,745,010,667
Securities	97,947,800,535	Acquired	-
2. Sinking Fund Assets	64,506,484,922	Outstanding DIF Bond Liabilities	-
Deposits	64,439,104,509	2. Other Current Liabilities	14,583,537,422
Securities	-	Fixed Liabilities	1,542,017,330,230
Other Assets	67,380,413	1. Contributed Liabilities	1,533,473,509,372
3. Contributed Assets	-	Outstanding DIF Bond Liabilities	1,348,826,000,000
Short-term Loans Issued	-	Loans Acquired at Premium	-
Allowance for Credit Losses	-	Loans Acquired at Discount	△31,557,694
4. Other Current Assets	34,996,918,421	Long-term Loans	184,679,067,066
Fixed Assets	683,882,076,986	Exchangeable Bond	-
1. Contributed Assets	754,728,777	Suretyship Obligations	-
Capital Injections	-	2. Inherent Business Budget	8,543,820,858
Long-term Loans Issued	1,077,110,855	Total Liabilities	1,560,345,878,319
Allowance for Credit Losses	△322,382,078	DIF Reserves	△677,017,035,623
Purchased Assets	-	1. DIF	7,999,927,527
Allowance Loan Guarantee Credit Losses	-	2. DIF Surplus	△685,016,963,150
2. Claim Right Assigned Assets	683,127,348,209	(Current Period DIF Surplus)	△104,758,418,342
Claim Rights	1,288,919,524,920		
Allowance for Credit Losses	△605,792,176,711		
3. Other Fixed Assets	-		
Total Assets	883,328,842,696	Sum of Liabilities and Reserves	883,328,842,696

Profit & Loss Statement
2000. 1. 1 ~ 2000. 12. 31

Credit Unions Account

(Unit : won)

EXPENSES	Amount	EARNINGS	Amount
Fund Operation Expenses	143,645,739,944	Fund Earnings	60,288,497,083
1. Contribution for KDIC Operation Expenses	2,304,395,752	Fund Operation Earnings	10,698,242,181
2. Reserve Fund Utilization Expenses	10,630,751	1. Reserve Fund Utilization Earnings	10,367,945,473
3. Contribution Related Expenses	141,330,713,441	Deposit Interest Earnings	3,435,405,682
Contribution Expenses	-	Securities Interest Earnings	6,906,619,078
Loan Interest Expenses	1,881,669	Securities Liquidation Earnings	25,920,713
Interest on Outstanding DIF Bonds	141,094,369,465	2. Contribution Utilization Earnings	330,296,708
Asset Liquidation Losses	-	Dividends	-
Other Expenses	234,462,307	Loan Interest Earnings	330,296,708
Expenses Outside of DIF	48,792,263,815	Asset Liquidation Earnings	-
1. Transferred-in Allowance for Credit Losses	12,776,106,065	Other Earnings	-
2. Transferred-in Inherent Business Budget	8,543,820,858	Earnings Outside of DIF	16,692,846,153
3. Acquired Securities Appraisal Losses	-	1. Reimbursed Allowance for Credit Losses	2,348,041,829
4. Uncollected Earnings Outflow	27,465,103,142	2. Unpaid Cost Reimbursements	14,327,544,051
5. Other Expenses	7,233,750	3. Other Earnings	17,260,273
Total Expenses	192,438,003,759		
Current Period DIF Surplus	△104,758,418,342	Total Earnings	87,679,585,417

V. Acts Related to the Depositor Protection System.

DEPOSITOR PROTECTION ACT

Enacted by Act No. 5042, Dec. 29, 1995

Amended by:

- **Act No. 5257, Jan. 13, 1997**
(Financial Industry Restructuring Act)
- **Act No. 5403, Aug. 30, 1997**
(Housing and Commercial Bank Act Abolition Act)
- **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. 6018, Sep. 07, 1999**
(Agricultural Cooperatives Act)
- **Act No. 6173, Jan. 21, 2000**
- **Act No. 6274, Oct. 23, 2000**
(Financial Holding Company Act)
- **Act No. 6323, Dec. 30, 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 Subparagraphs:

- (a) Financial institutions which have received authorization pursuant to Article 8 - Paragraph (1) of the 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 under the Fisheries Cooperatives Act, and its member fisheries cooperatives which engage in the business falling under Article 65, Subparagraph (1) 4 (d) of the Fisheries Cooperatives Act;
- (g) Deleted; <by Act No. 6018, Sep. 7, 1999>
- (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 - Paragraph

- (1) of the 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 pursuant to Article 2, Subparagraphs (8) 2 through 4 of the Securities and Exchange Act (excluding certain securities companies designated by the Presidential Decree among the securities companies which engage only in the trading of securities outside the Korea Stock Exchange); <Amended by Act No. 6323, Dec. 30, 2000>
 - (k) Insurance companies which have obtained a permission pursuant to Article 5 - Paragraph (1) of the Insurance Business Act (excluding insurance companies which mainly engage 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 which have obtained a permission pursuant to Article 7 - Paragraph (1) of the Credit Union Act; <Amended by Act No. 6323, Dec. 30, 2000>
2. The term “**deposits**” means those falling under any of the following Subparagraphs, provided that the scope may be restricted by the Presidential Decree:
- (a) Money which insured financial institutions as provided in Subparagraph 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 other money installments, and money which they have raised through money trusts whose principals are compensated under Article 10 Paragraph (2) of the Trust Business Act;
 - (b) Money which any customer has deposited in insured financial institutions as provided in Subparagraph 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 Subparagraph 1 (k) (hereinafter referred to as “**insurance companies**”) have received according to any insurance contract;
 - (d) Money which insured financial institutions as provided in Subparagraph 1 (l) (hereinafter referred to as “**merchant banks**”) and the banks and securities companies that merged into a merchant bank, in accordance with the Financial Industry Restructuring Act, have raised pursuant to Article 7 - Paragraph (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; <Amended by Act No. 6323, Dec. 30, 2000>
 - (e) Money which insured financial institutions as provided in Subparagraph 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 Subparagraph 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 are found to exceed their assets as a result of due diligence, or insured financial

institutions as and when they becomes clear that it would be difficult to manage the institutions normally because their liabilities are in excess of their assets due to occurrence of large scale of financial losses or non-performing assets, which are so determined by the Financial Supervisory Commission or the Policy Committee mentioned in [Article 8];

- (b) Insured financial institutions which have suspended payment of deposits and other claims, or of redemption on 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 would be difficult for the institutions to pay deposits and other claims or redeem borrowed money without financial assistance or separate external borrowing (excluding borrowing incurred in respect of ordinary financial transactions);

business authorization and permission, decision of dissolution or declaration of bankruptcy (hereinafter referred to as "**category II insured risk**").

5-2. The term "**failing or insolvency-threatened financial institutions**" means insured financial institutions whose financial structures are so unsound that the Policy Committee mentioned in [Article 8] deems insolvency is imminent ;

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

- (a) Loan or deposit of funds;
- (b) Purchase of assets;
- (c) Guarantee or acceptance of obligations; and
- (d) Equity Participation or contribution;

7. The term "**insured risk**" means the following Subparagraphs:

- (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

CHAPTER II. DEPOSIT INSURANCE CORPORATION

SECTION 1. General Provisions

Article 3 (Establishment)

The Korea Deposit Insurance Corporation (herein after referred to as "**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 non-specified –capital base.
- (2) The KDIC shall be operated in accordance with this Act, the mandates issued under this Act, and its 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 Paragraph (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. Methods 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)

An entity which 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 Deposit Insurance Fund.

Article 9 (Composition of the Committee)

- (1) The Committee shall be composed of members of the following Subparagraphs: <Amended by Act No. 5492, Dec. 31, 1997; Act No. 5556, Sep. 16, 1998>
 1. President of the KDIC;
 2. Vice Minister of the Ministry of Finance and Economy;
 3. Vice Minister of the Ministry of Planning and Budget <Inserted by Act No. 6173, Jan. 21, 2000>
 4. Vice Chairman of the Financial Supervisory Commission (hereinafter referred to as "**FSC**");
 5. Vice Governor of the Bank of Korea;
 6. ~ 12. Deleted; <by Act No. 6323, Dec. 30, 2000>
 13. One member commissioned by the Minister of the Ministry of Finance and Economy, three

members recommended by the Minister of the Ministry of Planning and Budget, Chairman of the Financial Supervisory Commission, and Governor of the Bank of Korea, respectively, and commissioned by the Minister of the Ministry of Finance and Economy. <Amended by Act No. 6323, Dec. 30, 2000>

- (2) The qualifications for the members of Subparagraph (1) 13 shall be prescribed by the Presidential Decree. <Amended by Act No. 5492, Dec. 31, 1997; Act No. 6173, Jan. 21, 2000>
- (3) The term of office of the members of Subparagraph (1) 13 shall be three years, and they may be re-appointed. <Amended by: Act No. 5492, Dec. 31, 1997; Act No. 6173, 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, Subparagraphs (1) 2 through 5] shall act for the Chairman in accordance with the order prescribed thereunder. <Amended by Act No. 5492, Dec. 31, 1997; Act No. 6173, 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) ~ (9) Deleted; <by Act No. 6323, Dec. 30, 2000>
- (10) The Policy Committee shall produce meeting minutes and also publicize them in accordance with its decisions. <Inserted by Act No. 6323, Dec. 30, 2000>
- (11) If it deems necessary, the Policy Committee can allow an expert or someone it accepts as a representative of the insured financial institutions to attend its meetings and solicit opinions. <Amended by Act No. 6323, Dec. 30, 2000>
- (12) Matters necessary for the operation of the Committee shall be prescribed by the Presidential Decree. <Amended by; Act No. 5492, Dec. 31, 1997; Act No. 6323, Dec. 30, 2000>

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 is 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, pursuant to 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)

- (1) The president of the KDIC may appoint officers and employees of the KDIC to represent the KDIC in legal hearings or other official proceedings.
- (2) The scope of the officers and employees of the KDIC who are appointed pursuant to Paragraph (1) shall be prescribed by the Presidential Decree. [Inserted by Act No. 6173, 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 of the KDIC, and a person who falls under the subparagraph 2 shall not be an employee of the KDIC: <Amended by Act No. 6323, Dec. 30, 2000>

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 National Public Service Act.

Article 17 (Prohibition on Concurrent Holding of Posts)

- (1) Except for his duties as an officer of the KDIC, an officer of the KDIC shall not be engaged in 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 profit-making business without obtaining the permission of the president the KDIC.
- (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 at the KDIC.

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;
 - 1-2. Vicarious exercise of damage claim rights pursuant to [Article 21-2]; <Inserted by Act No. 6323, Dec. 30, 2000>
 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]; <Amended by Act No. 6323, Dec. 30, 2000>
 5. Duties incidental to the duties of Subparagraphs 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 (Request to Insured Financial Institutions for Submission of Materials)

- (1) The KDIC may request that an insured financial institution and the parent financial holding company of the insured financial institution pursuant to the Financial Holding Company Act to submit materials related to its business and financial status to the extent necessary for the execution of duties such as the determination of the insured financial as a failed financial institution pursuant to [Article 2 - Paragraph (5)] or as a failing or insolvency threatened financial institution pursuant to [Article 2 - Paragraph (5-2)], the establishment and receipt of insurance premiums pursuant to [Article 30], the 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; Act No. 6274, Oct. 23, 2000; Act No.

6323, Dec. 30, 2000>

- (2) On the basis of the materials submitted pursuant to Paragraph (1), the KDIC may investigate the business and financial status of an insured financial institution and the parent financial holding company of the insured financial institution pursuant to the Financial Holding Company Act, which is deemed by the Committee to be threatened with insolvency. <Amended by Act No. 5492, Dec. 31, 1997; Act No. 6274, Oct. 23, 2000; Act No. 6323, Dec. 30, 2000>
- (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 the parent financial holding company of the insured financial institution pursuant to the Financial Holding Company Act and deliver the results of the examination, or direct member of the Financial Supervisory Service participate jointly in the examination of the insured financial institution and the parent financial holding company of the insured financial institution pursuant to the Financial Holding Company Act by setting the specific scope as deemed necessary to protect depositors and maintain the stability of the financial system. When met with such request, the Financial Supervisory Service Governor shall comply unless any special cause exists. <Amended by Act No. 5492, Dec. 31, 1997; Act No. 6274, Oct. 23, 2000>
- (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 and the parent financial holding company of the insured financial institution pursuant to the Financial Holding Company Act by setting the specific scope. When met with such request, the Financial Supervisory Service Governor shall comply unless any special cause exists. < Inserted by Act No. 5556, Sep. 16, 1998; Amended by Act No. 6274, Oct. 23, 2000>
- (5) When the KDIC determines that there is a possibility for occurrence of an insured risk based on the investigation pursuant to Paragraph (2), it shall inform the FSC of such findings and may ask

the FSC to take appropriate actions. In this case, the FSC, when asked, shall comply with the request unless any special cause exists. <Inserted by Act No. 6323, Dec. 30, 2000>

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

(1) KDIC shall have the right to request compensation for damages from former and current 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 for this Article), persons responsible for insolvency or creating a risky circumstance pursuant to each Subparagraph of the Commercial Code 401 - Paragraph 2-1, default debtors of the insolvent financial institutions (if the debtor is a corporate entity: the former and current employees/officers of such corporation; persons falling under each Subparagraph of the Commercial Code 401 - Paragraph 2-1; and major shareholders as determined by the Presidential Decree) and from relevant third party entities (hereinafter referred to as **"insolvency related entities"**). <Amended by Act 6323, Dec. 30, 2000>

1. Institutions that the 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 - Paragraph (1)].
2. Institutions that are applicable under [Article 36-3 - Paragraph (1)], that have been mandated by the KDIC to transfer their operations or client contracts to the KDIC or the KDIC has decided to make deposit and bond payments, or such payments have already been made.
3. Institutions to which the KDIC has decided to provide financial support or has already provided such assistance according to [Article 38].
4. Deleted; <by Act 6323, Dec. 30, 2000>

(2) The KDIC shall mandate applicable institutions to provide relevant reasons, request methods, and the duration of request in writing, pursuant to

Paragraph (1).

- (3) In the case that an applicable institution does not comply with the mandates of the KDIC under Paragraph (1), the KDIC can immediately assume and carry out damage payment request from the entities and individuals that caused or contributed to the insolvency.
- (4) In the case that the insolvent institution performs on the damage payment request in the form of litigation pursuant to Paragraph (1), the KDIC can participate in the litigation in an effort to aid the institution. In such cases, Civil Litigation Code Articles 65 through 71 shall be applied.
- (5) In the case that the KDIC files the damage request litigation in subrogation of an insolvent institution pursuant to Paragraph (3), or at the request of the institution pursuant to Paragraph (4), the institution must bear the cost of the KDIC's participation.
- (6) In the case that an insolvent institution becomes bankrupt, the costs that were not assumed by the institution pursuant to Paragraph (5) shall be perceived as an obligatory right of the bankruptcy foundation.
- (7) In the case that the KDIC files for damage payment request, or performs such action in subrogation, or deems necessary in litigation participation pursuant to Paragraphs (1) through (4), the KDIC may perform investigations on the operations and asset status of the relevant insolvent institution and default debtors of such institution. <Amended by Act No. 6323, Dec. 30, 2000>
- (8) Paragraphs (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. <Inserted by Act No. 6173, Jan. 21, 2000>
- (9) The person performing the investigation pursuant to Paragraph (7) shall carry the appropriate proof of the investigation authority and display it to the relevant persons. <Inserted by Act No. 6323, Dec. 30, 2000>
- (10) The items necessary for the investigation pursuant to Paragraph (7) shall be those prescribed by the Presidential Decree. <Inserted by Act No. 6323, Dec. 30, 2000>

Article 21 –3 (Request for Production of Documents)

- (1) In the case that the KDIC files for damage payment request, or performs such action in subrogation, or deems necessary in litigation participation pursuant to Article 21-2 - Paragraphs (1) through (4), the 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) A public institution that receives a request from the KDIC, pursuant to Paragraph (1), must comply with the request unless it is met with compelling circumstances. [Article inserted by Act No. 6173, 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 "**DIF**") shall be established by the KDIC for the receipt of insurance premiums pursuant to [Article 30], payment of insurance money pursuant

- to [Articles 31 and 32], purchase of deposits and other claims pursuant to [Article 35-2], capital contributions pursuant to [Article 36-3 - Paragraph (4)], and financial assistance pursuant to [Article 36-5 - Paragraph (3) and Article 38],. <Amended by Act No. 5492, Dec. 31, 1997; Act No. 5556, Sep. 16, 1998; Act No. 6323, Dec. 30, 2000>
- (2) The following Subparagraphs shall be the sources of revenue for the DIF: <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 - Paragraph (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 - Paragraph (3), or Article 38; and <Amended by Act No. 6323, Dec. 30, 2000>
 6. Operating profits of the DIF and other revenues.
 - (3) The expenditures of the DIF 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 - Paragraph (4)], funds and related incidental expense supported for the resolution of failed financial institutions under [Article 36-5 - Paragraph (3), or Article 38], redemption of borrowed money and interest thereon, and funds transferred to the KDIC operation account for the operation of the KDIC under [Article 24-3 - Paragraph (1)]. <Amended by Act No. 5492, Dec. 31, 1997; Act No. 5556, Sep. 16, 1998; Act No. 6323, Dec. 30, 2000>
 - (4) The contributions under Subparagraph (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 the method of payment shall be prescribed by 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 - Paragraph (4) of the National Property Act to the KDIC gratuitously, notwithstanding the provisions of Article 44 of the same Act.
- (2) The transfer under Paragraph (1) shall be subject to the prior consent of the National Assembly after the deliberation of the Cabinet Council and the approval of the president of the Republic of Korea: Provided, that if such transfer 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. [Article inserted by Act No. 5421, Dec. 31, 1997]

Article 24-3 (Separate Accounting)

- (1) The DIF shall separate its accounting from that of the funds necessary for the operation of the KDIC. <Inserted by Act No. 5556, Sep. 16, 1998>
- (2) The DIF 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 Paragraph (2), transactions such as loans and transactions between accounts under Paragraph (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>

[Article 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, Subparagraphs (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 DIF and redeemed by the DIF, 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 Paragraph (1). <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 "**DIF Bonds**") from the DIF 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, Subparagraph (1) 3 of the Securities and Exchange Act. [Article 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 Paragraph (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 Paragraph (1) on such terms and conditions as the KDIC may determine. <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 Paragraph (2). <Inserted by Act No. 6173, 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 - Paragraph (2)]. <Amended by Act No. 5556, Sep. 16, 1998>
- (2) Notwithstanding Paragraph (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

Subparagraphs 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 Paragraph (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 Paragraphs (1) and (3), shall be prescribed by the Presidential Decree.
 - (5) The KDIC has the priority over the general creditors of an insured financial institution with insurance event in respect of the premium payments, subordinate only to the national and local tax obligations of the institution. <Inserted by Act No. 6323, Dec. 30, 2000>

Article 30-2 (Obligation of Insured Financial Institutions to Maintain Confidentiality)

Any insured financial institution and its former and current officers/employees shall not use the contents of the differentiated insurance premiums, prescribed in [Article 30-1] in any type of advertisement, or in any way publicize or disclose to the general public, other than to the pertinent officers/employees of the institution: Provided however, the disclosure or such contents prescribed by the Presidential Decree as deemed necessary to protect the depositors may be an exception. [Article inserted by Act No. 6173, Jan. 21, 2000]

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, the KDIC must make public notification as to the initiation date of insurance claim payment, its duration, payment method, and other pertinent information pursuant to Paragraphs (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 Paragraph (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. <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 Paragraph (1). <Inserted by Act No. 5556, Sep. 16, 1998>
- (6) When making insurance claim payments pursuant to Paragraph (1), if the recipient depositors is a insolvency related person under [Article 21-2 - Paragraph (1)] or is a person specially related to such insolvency related person according to the Presidential Decree, the KDIC may defer the payment of the insurance money in respect of such person's deposits and other relevant claims for up to a period of six months from the initiation date of insurance claim payment (hereinafter referred to as "**public announcement date for insurance**

money payment") pursuant to Article - Paragraph (3), in accordance with the Presidential Decree. <Inserted by Act No. 6323, Dec. 30, 2000>

- (7) If the right of a depositor to make insurance claim pursuant to Paragraph (1) is not exercised within five years from the payment initiation date, the statute of limitation of that right is deemed to be expunged. <Inserted by Act No. 6173, Jan. 21, 2000>

Article 32 (Calculation of Insurance Money)

- (1) The insurance money paid to each depositor by the KDIC shall be the amount obtained by deducting the total amount of debts (excluding guarantee obligations) owed by each depositor to his corresponding insured financial institution from the total amount of deposits and other claims of such depositor as of the public announcement date for insurance money payment pursuant to [Article 31 - Paragraph (3)]: 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 Paragraph (1) shall be determined by the Presidential Decree in consideration of the per capita GDP and the aggregate amount of protected deposits, etc. <Amended by Act No. 6323, Dec. 30, 2000>
- (3) Where there is an amount received in advance (hereinafter referred to as "**provisionally-paid money**") by each depositor pursuant to [Article 31 - Paragraph (2)], the insurance money shall be the amount obtained by deducting the provisionally-paid money from the amount mentioned in Paragraphs (1) and (2).
- (4) Where the amount of the provisionally-paid money to a depositor exceeds the insurance money mentioned Paragraphs (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 Paragraph (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 - Paragraph (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 Paragraph (1), pay an amount obtained by estimating the value of deposits and other claims (hereinafter referred to as "**estimate payment**") pursuant to Paragraph (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> [Article inserted by Act No. 5492, Dec. 31, 1997]

Article 35-3 (Estimate Payment Rate)

The KDIC shall, when it purchases deposits and other claims pursuant to [Article 35-2 - Paragraph (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. [Article inserted by Act No. 5492, Dec. 31, 1997]

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

The KDIC shall, when it intends to pay the Estimate Payment pursuant to [Article 35-2 - Paragraph (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 [Article 35-3], the period and method, etc. of purchasing deposits and other claims. <Amended by Act No. 5556, Sep. 16, 1998> [Article 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. [Article 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. [Article inserted by Act No. 5556, Sep. 16, 1998]

Article 35-7 (Administrator Affairs)

In the case that an officer or an employee of the KDIC is appointed as an administrator pursuant to Article 14-6 - Paragraph 1 of Financial Industry Restructuring Act and/or Article 86-2 - Paragraph 5 of Credit Union Act, [Article 21 - Paragraph (3)] of the Depositor Protection Act will be applied with respect to the role of such administrator. [Article inserted by Act No. 6173, Jan. 21, 2000]

Article 35-8 (Liquidator or Bankruptcy Administrator Affairs)

- (1) Deleted; <by Act No. 6323, Dec. 30, 2000>
- (2) Deleted; <by Act No. 6323, Dec. 30, 2000>
- (3) If a general meeting of stockholders does not

take place as per Article 533 - Paragraph 1 and Article 540 - Paragraph 1 of the Commercial Code after an officer or an employee of the KDIC has been appointed as the liquidator pursuant to Article 20 - Paragraph 1 of the Public Fund Management Special Act, any approval from the Financial Supervisory Commission will be deemed as the approval of a general meeting of the stockholders. <Amended by Act No. 6323, Dec. 30, 2000>

- (4) In the case that an officer or an employee of the KDIC has been appointed as the liquidator or bankruptcy trustee pursuant to Article 20 - Paragraph (1) of the Public Fund Management Special Act, the appointee's role will be governed by [Article 21 - Paragraph (3)]. <Amended by Act No. 6323, Dec. 30, 2000>
- (5) The officer or the employee who is appointed as the liquidator or the bankruptcy trustee pursuant to Article 20 - Paragraph (1), of the Public Fund Management Special Act cannot request any compensation with respect to the specified role. However, expenses that are incurred in the process of performing that role may be requested. <Amended by Act No. 6323, Dec. 30, 2000> [Article inserted by Act No. 6173, Jan. 21, 2000]

Article 35-9 (Liability Insurance)

- (1) The KDIC may require an insured financial institution (applicable under the guidelines specified by the Presidential Decree) to purchase an insurance policy (hereinafter referred to as "**liability insurance**") to protect against any financial loss the institution may suffer as a result of any default or illegal action committed by the officers/employees of the institution.
- (2) If the pertinent institution of Paragraph (1) does not comply with such request, the KDIC may enter into such liability insurance policy in subrogation of the institution.
- (3) If the pertinent institution does not comply with the premium payment requirement of the liability insurance in Paragraph (2), the KDIC may deduct the premium amount from the deposit insurance premium paid to the KDIC pursuant to [Article 30

- Paragraph (1)] and the deducted amount shall be construed as the delinquent or outstanding portion of the deposit insurance premium owed to the KDIC.

- (4) The request to purchase the liability insurance policy and the procedure and methods for subrogate purchase of the policy by the KDIC shall be governed by the Presidential Decree. [Article inserted by Act. No. 6323, Dec. 30, 2000]

Article 36 (Arrangement for Mergers)

The KDIC may arrange mergers, assignment of business, or acquisitions of failed financial institutions by the third party (hereinafter referred to as "**mergers of failed financial institutions**") in which the failed financial institutions or the parent financial holding company of the insured financial institution pursuant to the Financial Holding Company Act is a party as deemed necessary for the protection of the depositors and maintenance of stability the financial system. <Amended by Act No. 5492, Dec. 31, 1997; Act No. 6323, Dec. 30, 2000>

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 Paragraph (1), shall notify the KDIC of the result without delay. [Article 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; Act No. 6173, 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: < 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 DIF. <Amended by Act No. 5556, Sep. 16, 1998>
- (5) Resolution Financial 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. [Article 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 - Paragraphs (2) through (4), Articles 14 and 15] shall apply *mutatis mutandis* to the Financial Resolution Institution. [Article inserted by Act No. 5492, Dec. 31, 1997]

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

- (1) Resolution Financial 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 Paragraph (1) shall be limited to insurance money and an Estimate Payment, and the payment shall be deducted from insurance money mentioned in [Article 32]. <Amended by Act No. 5556, Sep. 16, 1998>
- (3) The KDIC may provide funds within the scope necessary for the operation of Resolution Financial Institutions in accordance with a decision by the Committee.
- (4) The KDIC shall direct and supervise the business affairs of Resolution Financial Institutions as prescribed by the Presidential Decree. [Article 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 the KDIC to perform an examination of the Financial Resolution Institution. <Inserted by

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 Paragraph (1) and public announcement in Paragraph (2) shall be prescribed by the Presidential Decree. [Article 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> [Article 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 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 - Paragraphs (1) and (2), 295, 297 through 299, 299-2, 300, 317, 382 through 385, 389 - Paragraph (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. [Article 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> [Wholly amended by Act No. 5492, Dec. 31, 1997]

Article 38 (Financial Support for the Insured Financial Institutions)

- (1) The KDIC, based on a decision by the Committee, may provide financial assistance to an insured financial institution or to the parent financial holding company of the insured financial institution pursuant to the Financial Holding Company Act in accordance with a in accordance with the following Subparagraphs.
 1. When there is an application for financial assistance pursuant to [Article37] or when it is deemed necessary to ensure that a merger involving a failed financial institution is undertaken smoothly.
 2. When it is deem necessary to enhance the financial structure of the insolvent financial institution in the interest of protecting the depositors and maintaining stability of the credit system.

- (2) The criteria, methods, and conditions and other necessary matters for financial assistance pursuant to Paragraph (1) shall be determined by the Committee. [Wholly amended by Act No. 6323, Dec. 30, 2000]

Article 38-2 Deleted: <by Act No. 6323, Dec. 30, 2000>

Article 38-3 (Special Debenture Transfer)

- (1) In the case that the KDIC and Resolution Financial Institutions (hereinafter referred to as “**agencies**”) acquire obligations with specific obligees in the process of acquiring assets pursuant to the Subparagraph 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 the KDIC acquired in the process of insurance claim payment pursuant to [Article 31 - Paragraph (1)], or fund contribution pursuant to [Article 38-Paragraph (2)].
 2. Assets the KDIC acquired from a Financial Resolution Institution.
 3. Assets a Financial Resolution Institution acquired in relation to business operations pursuant to [Article 36-5 - Paragraph (1)].
- (2) In the case that the agencies make appropriate announcement pursuant to Paragraph (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. [Article inserted by Act No. 6173, Jan. 21, 2000]

Business)

Article 9 - Paragraph 1 of the Financial Industry Restructuring Act shall apply *mutatis mutandis* to the business of an insured financial institution which has taken over all of the business of a failed financial institution pursuant to [Article 37]. <Amended by Act No. 5257, Jan. 13, 1997; Act No. 5492, Dec. 31, 1997>

Article 39 (Special Case of Continuation of

CHAPTER V. PENAL PROVISIONS

Article 40 (Penal Provisions)

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

1. A person who divulges secrets is thereby in violation of [Article 17 - Paragraph (3)].
2. A person who either divulges, publicly announces, and/or uses differences in weighted insurance premiums in his/her advertisement is thereby in violation of [Article 30 - Paragraph (2)]. <Amended by Act No. 6173, Jan. 21, 2000>

Article 41 (Penal Provisions)

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

1. A person who either fails to meet a request for the submission of materials or submits false materials pursuant to [Article 21 - Paragraph (1)] or latter part of [Article 21-2 - Paragraph (8)].
2. A person who refuses, obstructs, or avoids an investigation pursuant to [Article 21 - Paragraph (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 Paragraph (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 - Paragraph (2)] with respect to the business affairs of such insured financial institution, a fine corresponding to each Paragraph 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)

- (1) A person who violates the following Paragraphs shall be punished by a negligence fine not exceeding two million won. <Amended by Act No. 5556, Sep. 16, 1998; Jan. 21, 2000>
 1. A person in violation of [Articles 7, Article 29 - Paragraph (2) and Article 33 - Paragraph (1)].
 2. A person who refuses, obstructs, or avoids an investigation pursuant to [Article 21 - Paragraph (2)],
- (2) The Minister of the Ministry of Finance and Economy shall impose and collect the negligence fines mentioned in Paragraph (1) in such manner as prescribed by the Presidential Decree. <Amended by Act No. 5556, Sep. 16, 1998>
- (3) A person who objects to the disposition of a negligence fine pursuant to Paragraph (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>
- (4) When a person on whom a negligence fine is imposed pursuant to Paragraph (2) files an objection pursuant to Paragraph (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>
- (5) When no objection is filed and no negligence fine is paid within the period mentioned in Paragraph (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 Paragraph (2), it shall make a registration of incorporation of the KDIC.
- (4) When the incorporation committee completes the registration of incorporation pursuant to Paragraph (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 Subparagraph 1, 5 and 5-2 of [Article 2], and [Articles 26 - Paragraph (2), 26-2, and 37 through 38-2], and the amendments to [Articles 5, Article 6 - Paragraphs (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 Paragraph (1): The authorities of the Financial Supervisory Commission with respect to insured financial institutions under Subparagraphs 1 (a) and (i) of [Article 2] shall be exercised by the Monetary Board. The FSC's authorities with respect to insured financial institutions under Subparagraphs 1 (b) through (h) and (k) through (m) of [Article 2] shall be exercised by the Minister of the Ministry of Finance and Economy. The FSC's authorities with respect to insured financial institutions under

Subparagraph 1 (j) of [Article 2] shall be exercised by the Securities and Exchange Commission. The KDIC's authorities and business prerogative with respect to insured financial institutions under Subparagraphs 1 (a) through (I) of [Article 2] shall be exercised by the KDIC. The KDIC's authorities and business prerogative with respect to insured financial institutions under Subparagraph 1 (j) of [Article 2] (a fund management company under Article 69-2 - Paragraph 1 of the Securities and Exchange Act with respect to the business of bond issue under [Article 26-2]) shall be exercised by the Securities and Exchange Commission. The KDIC's authorities and business prerogative with respect to insured financial institutions under Subparagraph 1 (k) of [Article 2] shall be exercised by the Insurance Supervisory Board., And The KDIC's authorities and business prerogative with respect to insured financial institutions under Subparagraphs 1 (I) and (m) of [Article 2] shall be exercised by the Credit Management Fund. The Policy Committee's authorities and business prerogative with respect to insured financial institutions under Subparagraphs 1 (a) through (i) of [Article 2] shall be exercised by the Policy Committee of the Korea Deposit Insurance Corporation., The Policy Committee's authorities and business prerogative with respect to insured financial institutions under Subparagraph 1 (j) of [Article 2] shall be exercised by the Securities and Exchange Commission., The Policy Committee's authorities and business prerogative with respect to insured financial institutions under Subparagraph 1 (k) of [Article 2] shall be exercised by the Management Committee of the Insurance Guarantee Fund., And the Policy Committee's authorities and business prerogative with respect to insured financial institutions under Subparagraph 1 (I) and (m) of [Article 2] shall be exercised by the Management Committee of the Credit Management Fund. The definition of the "*deposit insurance fund*", in respect of insured financial institutions under Subparagraphs 1 (a) through (i) of [Article 2] shall be the Deposit Insurance Fund; in respect of insured financial institutions under Subparagraph 1 (j) of [Article 2] shall be the Securities Investor Protection Fund; in respect of insured financial institutions under Subparagraphs 1 (k) of [Article 2]

shall be the Insurance Guarantee Fund; and in respect of insured financial institutions under Subparagraphs 1 (I) and (m) of [Article 2] shall be the Credit Management Fund.

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 Policy Committee Policy Committee Members and Officers of the Korea Deposit Insurance Corporation)

Members commissioned under [Article 9 - Subparagraph (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 Paragraph (1) shall be deemed to have been issued at the relevant account of the Deposit Insurance Fund under [Article 24-3 - Paragraph (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 - Paragraph (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 Subparagraph 2 (d) of [Article 2] shall enter into force on October 1, 1998.

Article 2 (Application to Insurance Premiums)

The amendment to [Article 30 - Paragraph (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 - Subparagraphs (1) 1 through 6] shall apply until August 31, 2003 with regard to the amendment to [Article 30 - Paragraph (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 - Paragraph (1)] shall apply to insurance money to be publicly announced to be paid pursuant to [Article 31 - Paragraph (3)] first after the enforcement of this Act.
- (2) The amendment to [Article 32-2 - Paragraph (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 Subparagraph2 (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 - Paragraph (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 Resolution Financial 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.

ADDENDA <Act No. 6018, Sep. 7, 1999>

Article 1(Enforcement Date)

This Act shall enter into force beginning on July 1, 2000 <Proviso Omitted>

Article 2 through 21 Omitted.

ADDENDA <Act No. 5702, Jan. 21, 2000>

Article 1(Enforcement Date)

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

Article 2 (Duration Period of the Regulation)

- (1) The amended provision of [Article 30-2] shall be taken into effect on the date on which five years lapse from the enforcement date of this Act.
- (2) The amended provisions of [Article 30-2], unless their valid term under the provisions of Paragraph (1) is extended after going through a request for a review under the provisions of [Article 8 - Paragraph (8)], or the Framework Act on Administrative Regulations or they are revised by the date on which Five years lapse from the date of enforcement of this Act, shall

lose their effect.

- (3) The amended provisions of [Article 30-2] shall apply to any person who has violated the amended provisions of Article 30-2 during a period for which such amended provisions have been effective in accordance with the provisions of Paragraph (1) even after such amended provisions lose their effect in accordance with the provisions of Paragraph (2).

ADDENDA <Act No. 6274, Oct. 23, 2000>

Article 1 (Enforcement Date)

This Act shall enter into force beginning one month after its promulgation.

Article 2 (Amendment of Other Acts)

(1) ~ (2) Omitted

- (3) The following amendments are made to the Depositor Protection Act.

1. The phrase "insured financial institutions" under [Article 21 - Paragraphs (1) through (4)] shall be amended to "insured financial institution or the parent financial holding company of the insured financial institution pursuant to the Financial Holding Company Act"
2. The phrase "failing financial institution" under [Article 38-2 - Paragraphs (1) and (2)] shall be amended to "failing financial institution or the parent financial holding company of the insured financial institution pursuant to the Financial Holding Company Act"

Article 3 through 6 Omitted.

ADDENDUM <Act No. 6323, Dec. 30, 2000>

- (1) (Enforcement Date): This Act shall enter into force on the date of its promulgation.
- (2) (Interim Measures on Overdue Premiums): In respect of applying [Article 30 - Paragraph (5)], the premiums overdue as at the promulgation date of this Act shall be governed by the previously relevant regulations.

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**
- **Presidential Decree No. 16709, Feb. 14, 2000**
(Enforcement Decree of the Act on Efficient Disposal of Non-Performing Assets of Financial Institutions and Establishment of Korea Asset Management Corporation)
- **Presidential Decree No. 16827, Jun. 7, 2000**
- **Presidential Decree No. 16936, Aug. 5, 2000**
- **Presidential Decree No. 16993, Oct. 31, 2000**

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 Subparagraph 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 Subparagraph 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 Subparagraph 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 Subparagraph 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 Subparagraph 2 (a) of [Article 2] of the Act:
 1. Deposits denominated in foreign currencies under the Foreign Exchange Management Act; <Amended by Presidential Decree No.16936, Aug. 5, 2000>
 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 Paragraph 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 Paragraph 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 Paragraph 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 Paragraph 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. <by Presidential Decree No15911, 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 - Paragraph (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 - Paragraph (2)], register the changed matters at the location of its main office within two weeks thereafter.

Article 7 (Registration of Appointment of Representatives)

- (1) In case the president of the KDIC appoints a representative in accordance with [Article 15-2 - Paragraph (2)] of the Act, 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. <Amended by Presidential Decree No. 16827, Jun. 7, 2000>
 1. Name, resident registration number and address of the representative; <Amended by Presidential Decree No. 16827, Jun. 7, 2000>
 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
- (2) The employee of the KDIC who can be appointed by the president of the KDIC as a

representative in accordance with [Article 15-2 (2)] of the Act shall be a person who has more than two years of court trial related work experience. <Inserted by Presidential Decree No. 16827, Jun. 7, 2000>

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 the 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 - Paragraph (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 Efficient Disposal of Non-performing Assets of Financial Institutions and 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 - Paragraph (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 Paragraph 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 Paragraph 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 - Paragraph (1)] of the Act (hereinafter referred to as **"the DIF"**) falls short of the amount to be paid as insurance money to holders of deposits and other claims prescribed in the Paragraph 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 - Paragraph (4)] of the Act.

- (3) Notwithstanding Paragraph (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 Paragraphs (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 - Paragraph (1)] of the Act.
- (2) The KDIC shall, when it intends to borrow funds pursuant to Paragraph (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) The institutions from which the KDIC may borrow funds in accordance with [Article 26 - Paragraph (1)] of the Act are the following:

<Amended by Presidential Decree No. 15911, Dec. 10, 1998; Presidential Decree No. 16827, Jun. 7, 2000>

1. The Korea Federation of Mutual Savings and Finance Companies;
2. Securities finance companies;
3. The Export and Import Bank of Korea established under the Export and Import Bank of Korea Act;
4. The National Credit Union Federation under the Credit Union Act; and
5. Resolution Financial Institutions mentioned in [Article 36-3] of the Act.
6. The Korea Asset Management Corporation pursuant to the Act on Efficient Disposal of Non-Performing Assets of Financial Institutions and Establishment of Korea Asset Management Corporation

Article 16 (Time for Payment of Insurance Premium)

- (1) In accordance with [Article 30 - Paragraph (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 Paragraph (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 phrase **"an amount as determined by the Presidential Decree"** in the first sentence of [Article 30 - Paragraph (1)] of the Act refers to the sum of each of the below classification amounts and arithmetic mean of the **"insurance premiums"** under [Article 2 - Subparagraph 2 (c)] (the insurance

premiums earned during the fiscal period in which the premium for the deposit insurance is due). [Inserted by Presidential Decree No. 15911, Dec. 10, 1998] <Amended by Presidential Decree No. 16936, Aug. 5, 2000>

1. Contracts under which the cause of the payment of insurance money, etc. (meaning the amount or dividend agreed to be paid to a policyholder when a cause to pay insurance money occurs under an insurance contract or when a policyholder asks to cancel an insurance contract; hereinafter in this paragraph the same shall apply) has not yet occurred as of the closing date each fiscal year: the accumulation of insurance premiums and prepaid insurance premiums to be paid at the cancellation or termination of the contract period of insurance, calculated to the specifications for calculating insurance premiums and underwriting reserves pursuant to [Article 7 - Subparagraph (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 - Paragraph (2)] of the Act (hereinafter referred to as "**suspense payment**") in accordance with [Article 31 - Paragraph (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 - Paragraph (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 - Paragraph (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 Paragraph (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 - Paragraph (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 - Paragraph (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 - Paragraph (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 - Paragraph (2)] of the Act shall be fifty million won. <Amended by Presidential Decree No. 16993, Oct. 31, 2000>

Article 19 (Public Announcement of Occurrence of Insured Risk)

The [Article 17 - Paragraph (2)] shall apply *mutatis mutandis* to the estimate payment rate pursuant to [Article 35-5] of the Act. <Amended by Presidential Decree No. 16827, Jun. 7, 2000>

Article 19-2 (Appointment of Receiver and Recommendation of Bankruptcy Administrator)

- (1) The **"largest creditor"** under [Article 35-8 - Paragraphs (1) and (2)] shall be a person, who is found to have more than 50 per cent of the total credit (includes the credit owed to the KDIC or to a resolution financial institution as result of deposit payoff, credit purchase, or funding support provided to the credit union) owed by the liquidated or bankrupted credit union as at the date of its operation suspension mandate or the liquidation date.

- (2) The **"financial expert selected by the Presidential Decree"** under [Article 35-8 - Subparagraph (2) 1] shall be one of the below listed persons. However, the member of the credit union who appoints the bankruptcy administrator the credit union, creditor or debtor of the credit union with vested interest, and the officer of the credit union with disqualifying characteristics shall be excluded.
 1. A person with more than five years of experience in a financial institution (the "financial institution" under Article 2 - Paragraph (1) of the Financial Industry Restructuring Act; same for below Subparagraphs).
 2. A person who worked at a financial supervisory agency such as the FSC or Financial Supervisory Service for more than five years.
 3. A person who worked at a financial group designated by the FSC for more than five years.
 4. A person who had been previously appointed as an administrator, liquidator, or bankruptcy administrator.
 5. A person who is deemed by the FSC to have ample financial experience and knowledge. <Inserted by Presidential Decree No. 16827, Jun. 7, 2000>

Article 20 (Criteria of Request for Contract Transfers)

- (1) When the liabilities of a failed financial institution mentioned in Paragraph 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**")

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 - Paragraph (1)] of the Act.

Article 21 (Supervision over Financial Resolution Institutions)

The KDIC may direct and supervise the business of Resolution Financial Institutions or take necessary measures against them pursuant to [Article 36-5 - Paragraph (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 - Paragraph (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 - Paragraph (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 - Paragraph (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 - Paragraph (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 Paragraph (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 - Subparagraph (4) 1] (limited to insurance premiums received under guarantee insurance contracts) and 2, [Article 18 - Paragraph (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 - Paragraphs (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 - Paragraph (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 Paragraph 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 - Paragraph (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 - Paragraph (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 - Subparagraph 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 claims¹**" to be smaller than "**deposit²**" for insurance companies.**

(2) Paragraph (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 - Paragraph (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 Paragraph 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 Paragraph (1) and [Article 18 - Paragraph (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 - Paragraph (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 - Paragraph (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 - Paragraph (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 - Paragraph (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 - Paragraph (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 - Paragraph (1)] and insurance premiums for 1998 to be paid by credit unions to the former Credit Union Stabilization Fund pursuant to Article 83-22 of the same Credit Union Act shall be deducted.

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

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

ADDENDA <Presidential Decree No. 16709, Feb. 14, 2000>

Article 1 (Enforcement Date)

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

Article 2 (Amendment of Other Acts)

- (1) ~ (15) Omitted
- (16) The Enforcement Decree of the Act shall be amended as the following. (Details Omitted)

ADDENDUM <Presidential Decree No. 16827, Jun. 7, 2000>

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

ADDENDUM <Presidential Decree No. 16936, Aug. 5, 2000>

- (1) (Enforcement Date): This Decree shall enter into force on the date of its promulgation.
- (2) (Interim Measures on Premium Calculation): In respect of calculating the "insurance premiums" under Article 16 - Paragraph (1) of the Decree, the premium due before the effective date of this Decree shall be calculated in accordance with the pre-amendment Article 16 - Paragraph (3) and the pre-amendment Table 1, and the premium due after the effective date of this Decree shall be calculated in accordance with the amended Article 16 - Paragraph (3) and Table 1.

ADDENDA <Presidential Decree No. 16993, Oct. 31, 2000>

Article 1 (Enforcement Date)

This Decree shall enter into force beginning on January 1, 2001.

Article 2 (Special Cases for Payment Limit of Insurance Claim Payments)

- (1) If an insured risk event occurs pursuant to [Article 2 - Paragraph (7)] of the Act occurs in respect to an insured financial institution between the effective date of this Decree and December 31, 2003, for the deposit accounts that did not pay interest (hereinafter referred to as "settlement deposit accounts"), the entirety of the insurance claim amount pursuant to [Article 32 - Paragraph (1)] of the Act shall be paid, notwithstanding the amended [Article 18 - Paragraph (6)] of the Act.

The scope of settlement deposit account shall be set and announced by the Minister of the Ministry of Finance and Economy based on the approval of the Committee.

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

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

Insured Financial Institutions	Formula
1. Banks	Quarterly Insurance Premium: Quarterly average balance of deposits, etc. $\times 10/10000 \times 1/4$
2. Securities Companies	Annual Insurance Premium: Annual average balance of deposits, etc. $\times 20/10000$
C. 3. Insurance Companies	Annual Insurance Premium: Amount as stated in Article 16 - Paragraph (3) $\times 30/10000$
4. Merchant Banks	Annual Insurance Premium: Annual average balance of deposits, etc. $\times 30/10000$
5. Mutual Savings & Finance Companies	Annual Insurance Premium: Annual average balance of deposits, etc. $\times 30/10000$
6. Credit Unions	ANNUAL INSURANCE PREMIUM: ANNUAL AVERAGE BALANCE OF DEPOSITS, ETC. $\times 30/10000$ (those dealing only with capital contributions, annual average balance of deposits, etc. $\times 3/10000$)

Note:

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

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

Table 2

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

Insured Financial Institutions	Formula
1. Securities Companies	Annual Insurance Premium: Annual average balance of deposits, etc. x 10/10000
2. Insurance Companies	Annual Insurance Premium: Total amount of deposits, etc. x 15/10000
3. Merchant Banks	Annual Insurance Premium: Annual average balance of deposits, etc. x 12/10000
4. Mutual Savings & Finance Companies	Annual Insurance Premium: Annual average balance of deposits, etc. x 15/10000
5. Credit Unions	Annual Insurance Premium: Annual average balance of deposits, etc. x 6/10000

Public Fund Management Special Act

Enacted by Act No. 6281, Dec. 20, 2000

CHAPTER I. GENERAL PROVISIONS

Article 1 (Purpose)

The purpose of this Act is to ensure efficient management of public fund and to minimize taxpayers' burden by enhancing objectivity, fairness and transparency in the procurement, operation and management of public fund.

Article 2 (Definitions)

For the purpose of this Act, the definitions of terms shall be as follows.

- (1) The term **"public fund"** means the fund used to support restructuring of financial institutions that fall under any fund or property of the following Subparagraphs:
 - (a) DIF Fund, under the Depositor Protection Act;
 - (b) Bad Loan Resolution Fund, under the Act on Efficient Disposal of Non-Performing Asset of Financial Institutions and Establishment of Korea Asset Management Corporation;
 - (c) Public Fund Management Fund, under the Public Fund Management Fund Act;
 - (d) Public property, under the National Property In-Kind Investment Act
 - (e) Capital investment by Bank of Korea to financial institutions under the Bank of Korea Act;
 - (f) Public borrowings, under the Public Borrowings and Management Act;
- (2) The term **"financial institution"** means each of the following Subparagraphs:
 - (a) Financial institutions, under the Financial Industry Restructuring Act ;
 - (b) Insured financial institutions, under the Depositor Protection Act;

- (c) Financial institutions, under the Act on Efficient Disposal of Non-Performing Asset of Financial Institutions and Establishment of Korea Asset Management Corporation;

CHAPTER II. ESTABLISHMENT OF PUBLIC FUND MANAGEMENT COMMITTEE

Article 3 (Establishment and Function of Public Fund Management Committee)

- (1) The Public Fund Management Committee (hereinafter referred to as **"the Committee"**) shall be established under the supervision of Ministry of Finance and Economy (hereinafter referred to as **"MOFE"**) for the purpose of undertaking comprehensive review and regulation of public fund operation.
- (2) The Committee shall review and adjust the items under the following Subparagraphs:
 1. Matters regarding supervision and planning of public fund management such as use, or reuse after recovery of public fund;
 2. Matters regarding selection criteria for beneficiary financial institutions;
 3. Matters regarding public fund provision principle such as self-rehabilitation efforts and loss sharing of financial institutions;
 4. Regular monitoring of public fund injection status;
 5. *Ex post facto* management principle and mechanism on financial institutions;
 6. Regular monitoring on ex-post management status of financial institutions;
 7. Regarding recovery of public fund, such as disposition of stocks held by the followings:
 - (a) Government;
 - (b) Korea Deposit Insurance Corporation under the Depositor Protection Act (hereinafter referred to as **"KDIC"**);
 - (c) Korea Asset Management Corporation under the Efficient Resolution of Financial Institution Bad Asset and Korea Asset Management Corporation Establishment Act (hereinafter referred to as **"KAMCO"**);

8. Regarding enactment or revision of laws and regulations related to public fund;
9. Other matters defined by the Presidential Decree, regarding expenditure and ex-post management of public fund and enhancement of efficiency;

Article 4 (Composition of the Committee)

- (1) The Committee shall be consisted of the following members:
 1. The Minister of the MOFE;
 2. The Minister of the Ministry of Planning and Budget (hereinafter referred to as **"MPB"**);
 3. The chairman of the Financial Supervisory Commission (hereinafter referred to as **"FSC"**);
 4. Two experts, with substantial economic knowledge and experience, commissioned by the President;
 5. Two experts, with substantial economic knowledge and experience, recommended by the Chairman of National Assembly and commissioned by the President;
 6. One legal expert, with substantial legal knowledge and experience, recommended by the Chief Justice of Supreme Court and commissioned by the President;
- (2) The presidents of KDIC and KAMCO shall attend the meetings of the Committee and may speak before the Committee in respect of their relevant responsibilities.

Article 5 (Chairman)

- (1) The chairmanship of the Committee shall be jointly held by the following persons:
 1. Minister of the MOFE;
 2. One member, mutually elected by the members defined in Article 4 (1) 4 through 6;
- (2) Each respective co-chairman shall represent the Committee and also supervise its business including convocation of meetings.
- (3) In the case that both co-chairmen can not perform their duties due to inevitable reasons,

the member designated in advance by the Committee shall assume the acting chairman position.

Article 6 (Tenure of Committee Membership)

- (2) The membership tenure of the Committee members defined in Article 4 (1) 4 through 6 (hereinafter referred to as **"private sector members"**) shall be 2 years, and may be re-appointed only one time.
- (3) In the case a vacancy in the private sector member position occurs, a new member shall be appointed, and his tenure shall start from the appointment date.

Article 7 (Disqualification of Committee Members)

The persons under the following Paragraphs can not become private sector members.

1. A person who is not a national of the Republic of Korea.
2. A person disqualified for government official posts under Article 33 of the National Public Service Act.
3. A person who had been fined under this Act and other financial related Acts (including foreign financial related Acts) within the past five years.
4. A person who had been dismissed or discharged under this Act and other financial related Acts (including foreign financial related Acts) within the past five years.

Article 8 (Status Guarantee of Committee Members)

- (1) The members of the Committee shall not be dismissed or discharged against his/her own will, except in the following two cases.
 1. When the member falls under Article 7 (1).
 2. When the member can not perform his/her duties due to physical and/or mental problem.
- (2) When the member is dismissed due to any of the reasons under Paragraph (1), the actions

taken by the member prior to such dismissal shall not be nullified.

Article 9 (Quorum)

The meetings of the Committee shall render decisions with approval of more than majority of the attending members.

Article 10 (Establishment of Secretariat Office)

- (1) In order to provide assistance to the Committee, a Secretariat Office shall be set up at the MOFE.
- (2) Matters regarding the organization and operation of the Secretariat Office shall be defined by the Presidential Decree.

Article 11 (Data Request)

The Committee shall take the following measures, when deemed necessary, in order to perform its duties under Article 3.

1. Request the FSC, KDIC, KAMCO and other related organizations to report to the Committee or forward data and documents.
2. Request stakeholders, relevant persons or related government officials to appear before the Committee and present opinions.
3. On-site examination of related organizations

Article 12 (Operation)

Other necessary matters regarding operation of the Committee shall be set forth by the Presidential Decree.

CHAPTER III. MANAGEMENT OF PUBLIC FUNDS

Article 13 (Least Cost Principle)

- (1) The government, KDIC and KAMCO shall adopt a method that minimizes the injection cost of public fund and maximizes its efficiency.
- (2) When the FSC requests the government or KDIC (hereinafter referred to as **"the government"**) for capital injection into an insolvent financial institution or purchase of marketable securities under Article 12 of the Financial Industry Restructuring Act, it shall submit the data to prove compliance with the least cost principle as stated in Paragraph (1), and asset/liabilities due diligence data to the government as prescribed in the Presidential Decree.
- (3) The government, KDIC and KAMCO shall file and keep data to prove that public fund was injected based on the least cost principle prescribed in Paragraph (1).
- (4) Details such as principle and procedure of least cost method under Paragraphs (1) through (3) shall be prescribed by the Presidential Decree.

Article 14 (Equitable Loss Sharing Principle)

- (1) The government shall provide public fund, based on the assumption that parties responsible for the failure of the relevant financial institutions shall share the loss in equal and fair manner.
- (2) The government shall provide public fund under two or more installments. However, exceptions may be made, when required by the Presidential Decree, for certain payments such as deposit payoffs.
- (3) The government shall provide public fund based on the assumption of self-effort restructuring endeavors of the beneficiary financial institution.
- (4) If applicable, the government shall hold the parties responsible for management and supervision of the failed financial institution, accountable and immediately undertake

appropriate actions such as damage claim lawsuits in accordance with the related laws and regulations.

- (5) Details regarding the criteria and procedure under Paragraph (1) through (4) shall be prescribed by the Presidential Decree.

Article 15 (Reporting to the National Assembly)

- (1) The Minister of the MOFE, who is also the Chairman of the Committee, shall produce report on the use, reuse after recovery and other operational information in respect of the public fund, and submit it to the National Assembly more than once in every quarter.
- (2) The Chairman shall appear before the National Assembly, when requested in relation to the report under Paragraph (1), and provide responses to its questions.

Article 16 (Auditing by the Board of Audit and Inspection)

The Board of Audit and Inspection shall conduct audits regarding public fund, under the provisions of the Board of Audit and Inspection Act, and submit the audit report to the National Assembly.

Article 17 (Management Normalization MOU)

- (1) When the government, would like to inject public fund, it shall enter into a MOU with the public fund recipient institution in respect of its business normalization, as prescribed in the Presidential Decree.
- (2) The MOU shall include the items under the following Subparagraphs:
 1. Financial soundness target, as set forth in the Presidential Decree, such as net equity ratio;
 2. Profitability target, as set forth in the Presidential Decree, such as ROA;
 3. Asset quality target, as set forth in the Presidential Decree, such as bad loan ratio;
 4. Detailed implementation plan including human resource, organization and wage

- restructuring and financing plan, in order to achieve the targets set forth in Subparagraphs 1 through 3;
 - 5. Consent from the labor union on matters requiring such consent, which are set forth in the implementation plan in Subparagraph 4;
 - 6. Additional implementation plan such as total labor cost freeze, which shall be undertaken by the relevant financial institution when the targets prescribed in Subparagraphs 1 through 3 are not achieved;
 - 7. Other matters prescribed by the Presidential Decree.
- (3) The government shall disclose the MOU in Paragraph (1) in electronic and other formats. However, exceptions may be made when required by the Presidential Decree, due to major impact on the management of the relevant financial institution.
 - (4) The government shall review the implementation status under the MOU on a quarterly basis and report the review results to the Committee.
 - (5) The government may request the public fund recipient financial institution to report on the status of its property/asset, submit data, and relevant person to appear before it to provide testimony on related issues, in order to monitor the MOU implementation status.
 - (6) The government may request the chief executive of the public fund recipient financial institution to take corrective action against the officers/employees such as their dismissal or suspension from post, or disciplinary action when such officers/employees fall under any of the following Subparagraphs:
 - 1. Non-compliance to this Act, or regulations, orders, and instructions in respect of this Act;
 - 2. When the MOU, prescribed in Paragraph (1) is not implemented;
 - 3. When report or data submitted per request by the KDIC pursuant to this Act or the MOU is found to be falsely made or the submittal is made negligently;

- 4. When the officer/employee refuse, interfere or avoid activities conducted by the KDIC pursuant to this Act or the MOU;
- 5. When the officer/employee has negligently implemented the corrective action or disciplinary action mandated by the KDIC.

Article 18 (Entering into MOU with Insolvent Corporation)

- (1) When a financial institution that received public fund, pursuant to Article 17 (1), intends to provide fresh capital to an insolvent corporation (designated as such by the Presidential Decree), it shall obtain written consent from the parties related to the restructuring of such corporation and enter into an MOU with the corporation, which incorporates other conditions required by the Presidential Decree.
- (2) The details regarding the MOU under Paragraph (1) shall be prescribed by the Presidential Decree.
- (3) After signing MOU pursuant to Paragraph (1), the relevant financial institution shall not extend additional loans to the insolvent corporation, when the MOU is not, or is not likely to be implemented.

Article 19 (Disposition of Assets)

- (1) The government, KDIC, and KAMCO shall endeavor to minimize the taxpayers' burden by disposing of assets, such as shares of the financial institutions at appropriate price.
- (2) In order to review the appropriateness of asset disposal by the government, KDIC, and KAMCO, the Disposal Review Subcommittee (hereinafter referred to as "**Subcommittee**") shall be established.
- (3) The Subcommittee shall report the results of the review, pursuant to Paragraph (2), to the Committee.
- (4) The Subcommittee may solicit private sector expert's opinion regarding disposal of assets such as stocks.
- (5) Other necessary matters such as composition

and operation of the Subcommittee shall be prescribed by the Presidential Decree.

Article 20 (Special Provision for Bankruptcy Procedure)

- (1) When a financial institution that received public funds (including insured financial institutions whose contract transfer is confirmed pursuant to the Financial Industry Restructuring Act) such as deposit payoff funds pursuant to the Depositor Protection Act, is dissolved or bankrupt, and efficient recovery of the injected public funds is necessary, the court shall appoint the KDIC or its officer/employee as the liquidator or bankruptcy trustee, notwithstanding Article 531 of the Commercial Code, Article 147 of the Bankruptcy Act and the relevant regulations under the Liquidator or Bankruptcy Trustee Appointment Act.
- (2) When the KDIC is appointed as the bankruptcy trustee or liquidator pursuant to Paragraph (1), the provisions of Article 539 (2) of the Commercial Code, Article 157, Article 187, Article 188 of the Bankruptcy Act shall not be applied.

Article 21 (Publication of White Paper)

The Committee shall publish a white paper on the status of public fund management by the end of August every year, as prescribed by the Presidential Decree.

CHAPTER IV. SUPPLEMENTARY PROVISION

Article 22 (Collection of Public Opinion)

- (1) The Committee may convene a public hearing or seminar, when deemed necessary, regarding public fund.
- (2) The expenses for such public opinion gathering as prescribed in Paragraph (1) may be disbursed within the extent of the Committee's budget.

Article 23 (Payment of Expenses)

The private sector members may be reimbursed for their expenses such as allowance, travel expense and other expenses within the extent of the Committee's budget.

Article 24 (Private Sector Member Deemed as Government Official in Respect of Punitive Provisions)

Private sector member shall be deemed as a government official, when a punishment is to be imposed, under the Criminal Code and other laws.

ADDENDA

Article 1 (Enforcement Date)

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

Article 2 (Application Period of Special Provisions on Bankruptcy Procedure)

The special provision to bankruptcy procedure in Article 20 shall remain valid for 5 years from the effective date of this Act. However, regarding bankruptcy trustee or liquidator appointed by court under Article 20, the provision shall remain effective until the expiry of the bankruptcy or liquidation proceedings of the relevant bankruptcy or liquidation foundation.

Article 3 (Interim Measures for Special Provision to Bankruptcy Procedure)

When it is necessary to achieve efficient public fund recovery, the court shall additionally appoint the KDIC or its officer/employee as liquidator or bankruptcy trustee within 3 months from the effective date of this Act for the insured financial institution whose liquidation or bankruptcy proceedings has already been in progress as on the effective date of this Act.