

SECTION 11

OVERSEAS INVESTMENT INSURANCE

**CHAPTER I OVERSEAS INVESTMENT INSURANCE
 THE JAPANESE MODEL**

**CHAPTER II OVERSEAS INVESTMENT INSURANCE
 THE KOREAN MODEL**

CHAPTER I

OVERSEAS INVESTMENT INSURANCE - THE JAPANESE MODEL

I. Summary

Overseas Investment Insurance is insurance covering Japanese companies which have made overseas investments, and covers losses in regard to their rights as shareholders or creditors. Such losses are caused by political risk and include the inability to continue business activities due to expropriation, war, or civil war or to remit dividends etc. or make repayments because foreign exchange transactions have been restricted by, the government of a host country, and losses caused by commercial risk, including bankruptcy of the companies in which the investments are made.

This insurance covers losses caused by the political risk and commercial risk involved in overseas investments so that Japanese companies need not be concerned when making, such investments. Moreover, such insurance contributes largely to international economic cooperation.

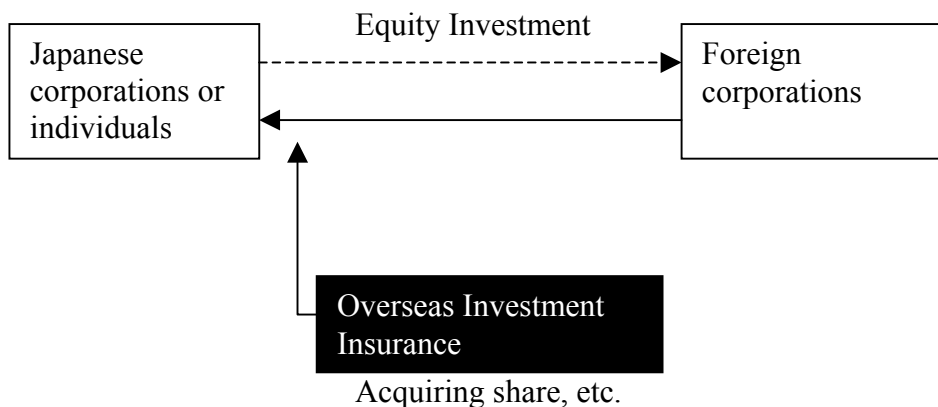
Name	Type of Investment	Insurance Policy	Coverage
Investment type 1 (share, etc.)	Obtaining shares in foreign corporations (including the securitization of debt and securities investments)	Overseas Investment (Share, etc.) Insurance Policy	Political risk 95% Commercial risk 40%
Investment type 2 (Claims, etc.)	Long-term loans to foreign corporations (substantially managed by the Japanese investor) as funds for business activities	Overseas Investment (Claims, etc.) Insurance Policy	Political risk 95% Commercial risk 40%
	Assumption of surety obligations regarding the above	Overseas Investment (Surety Obligations) Insurance Policy	Political risk 95% Commercial risk 40%
Investment type 3 (Real estate, etc.)	Acquiring real estate, plant and equipment, etc., for overseas business activities	Overseas Investment (Real estate, etc.) Insurance Policy	95%

2. Subject & Insurance Coverage

Overseas Investment Insurance is classified as follows by the type of investment:

- **Overseas Investment Insurance on Equity Investments**

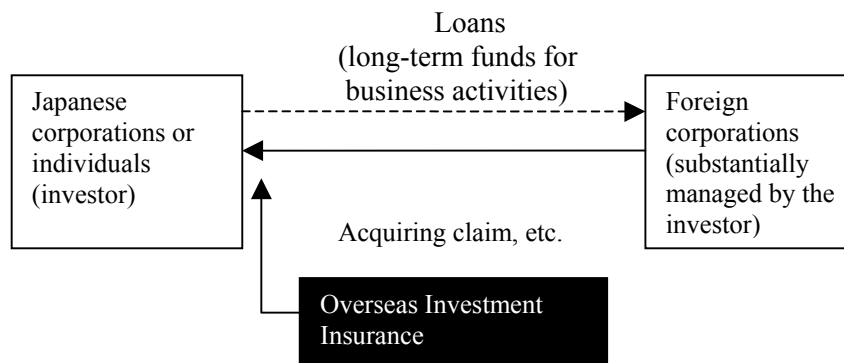
This insurance covers risks assumed by corporations when establishing overseas subsidiaries, establishing overseas joint-venture companies with foreign partners, or making investments in existing foreign companies. (Investment type 1 share, etc.)



Overseas Investment Insurance for Loans

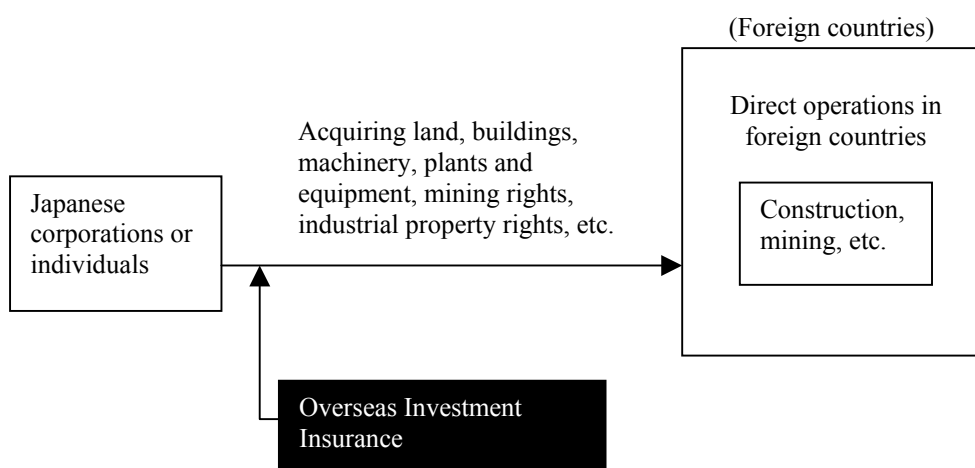
This insurance covers risks related to long-term loans of funds required for business activities by foreign corporations (which are substantially managed by the Japanese investor).

(Investment type 2 - Claims, etc.)



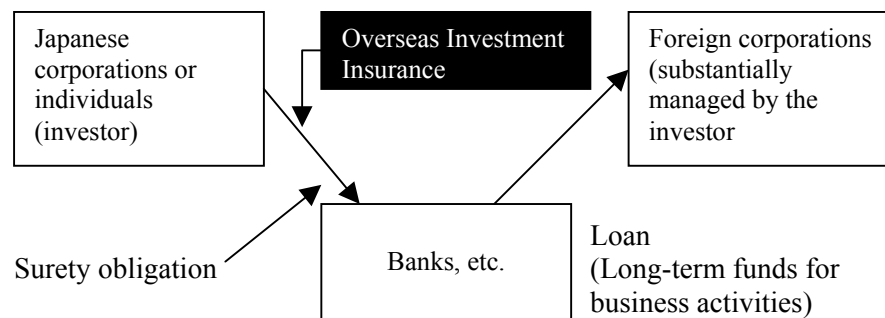
Overseas Investment Insurance for Real Estate Rights, etc.

This insurance covers risks assumed by Japanese corporations which engage directly in business in a foreign country in connection with real estate rights, mining rights, and other rights to plant and equipment transported directly to a foreign country in order to conduct such business. (Investment type .3 - Real estate, etc.)



▪ Overseas Investment Insurance for Surety Obligations

This insurance covers risks assumed by Japanese corporations in connection with surety obligations for long-term loans to foreign corporations (which are substantially managed by the Japanese investor). (Surety obligations for claims, etc.)



The definition of "substantially managed" by a Japanese corporation is as follows: The phrase "corporation whose management is substantially controlled by a Japanese company or by a Japanese national through the ownership of shares or other methods" in Article 2, paragraph 16 of the Trade and Investment Insurance Law, refers to any of the following cases:

- (1) A Japanese corporation or a Japanese national who has made an overseas investment holds more than 50 percent of the shares or other interests with voting rights in such foreign corporation.
- (2) More than 50 percent of the executives in a foreign corporation (limited to executives who hold voting rights at a meeting of the board of directors; the same shall apply hereinafter) are executives or employees of a Japanese corporation or are Japanese nationals.
- (3) A Japanese corporation or a Japanese national holds no less than 25 percent but no more than 50 percent of the shares or other interests with voting rights in such foreign corporation and comes under any of the following:
 - a) The Japanese corporation or Japanese national involved is the largest shareholder in such foreign corporation
 - b) More than 25 percent of the executives in such foreign corporation are executives or employees of a Japanese corporation or are Japanese nationals.

- (4) If the Minister of International Trade and Industry considers that a Japanese corporation or a Japanese national substantially controls the management of such foreign corporation

3. Underwriting Requirements for Insurance

The requirements for underwriting insurance for overseas investments stated in 2. above are as follows:

- (1) Such investments must contribute to the sound development of overseas transactions by Japanese corporations.
- (2) Any such investment must be a new transaction.
(including transactions following the expiry of the insurance period for Overseas Investment Insurance)
- (3) The political and economic conditions in the host country involved pose no particular problems.
- (4) Protective measures in regard to foreign capital in the host country involved have been fully established.
- (5) Such investments have been permitted by the host country involved.
- (6) If surety obligations are assumed, whether or not it can be confirmed by a guarantee contract or other similar documents that a guarantee has been appended to or included in the original obligations, and if the guarantor performs such surety obligations, the acquisition of indemnity rights has been clearly stipulated in the guarantee contract or other similar documents.

4. Risks to be Covered

The risks to be covered by Overseas Investment Insurance are: political risk; (expropriation; war; failure to make remittances) and commercial risk (bankruptcy).

(1) **Political Risk**

▪ **Expropriation risk** (Investment type 1 - 3)

- 1) The expropriation, by a foreign government, etc. of the principal, etc., of an investment (rights relating to the principal of equity, etc. or claims, etc. or right to claim dividends from stock, etc. or right to claim interest from claims, etc.) or rights, etc. related to real estate.
- 2) Inability to continue business due to damages incurred by the party in which the insured investment was made (invested company) caused by the interference of a foreign government, etc. in the rights related to real estate, plants and equipment, raw materials and other goods, mining or industrial property rights, or other rights or interests, which caused the inability to conduct the business involved.
- 3) The performance of surety obligation, due to the non-performance by the principal obligors of their obligations as a result of losses to the said obligor's properties for the above reasons (Surety obligations for claims, etc.)

▪ **War Risk** (Investment type 1-3)

- (1) If any of the following occur in relation to the insured company; (a) Inability to continue business activities, (b) bankruptcy, etc., (c) suspension, etc. of transactions with banks, and (d) suspension of business for over six months caused by war, revolution, civil war, riot or other forms of civil disturbance
- (2) The performance of surety obligations due to the non-performance by the principal obligors of their obligations due to any of the above reasons (a)-(d) as the result of losses to the said obligor's property, caused by war, etc.
(surety obligation for claims etc.)
- (3) Insured's inability to exercise their rights, etc. related to real estate, involved in the business activities due to the interference with such rights caused by war, etc.

▪ **Remittance Risk** (Investment type 1-3)

Inability for over two months to remit to Japan any transfer proceeds, dividends from share, repayment of loan principal and interest, sales proceeds from real estate, and any amount obtained from the main obligor by executing surety obligations because of the restrictions on foreign exchange transactions in a foreign country.

(2) **Commercial Risk**

Bankruptcy due to depressed business conditions of the invested company or other similar reason.

The term "bankruptcy" in this article must satisfy all three following conditions:

- 1) The liabilities of the invested company are in excess of their net worth.
- 2) Dissolution of the invested company.
- 3) Involvement by the judicial authorities in the host country.

5. Insurance Period

The following are insurance periods according to the risks to be covered:

- (1) For political risk, it should in principle, be from 3 to 15 years.
- (2) For commercial risk, it should in principle, be from 3 to 10 years.

In exceptional cases, if a considerable period of time is required before the party to the insured investment will start an operation, such as the construction of factories, the following period designated by the Minister of International Trade and Industry can be added to the above periods:

- (1) For political risk, the actual period required to start overall operations.
- (2) For commercial risk, a period not exceeding the period until the start of operations.

6. Insured Amount

The insured amount which refers to the upper limit of insurance claims to be paid when losses occur, is determined to be no more than the amount obtained by multiplying the "total amount for acquisition" for each risk covered by the designated coverage rate.

The coverage rates are as follows:

(1) Political risk in Investment types 1, 2, and 3	95%
(2) Political risk in surety obligations for Investment type 2	95%
(3) Commercial risk in Investment types 1 and 2 and surety obligations for Investment type 2	40%

7. Insurance Claims Payable

The insurance claims to be paid should be calculated by multiplying the loss amount by the coverage rate and should not exceed the insured amount. (Actual loss coverage system)

The following formulae are used for the calculation of insurance claims:

(1) For political risk

▪ Expropriation and war risk

$$1) \left(\begin{array}{l} \text{Amount appraised} \\ \text{immediately before the} \\ \text{insured risks occur or} \\ \text{the total amount for} \\ \text{acquisition, whichever} \\ \text{is smaller} \end{array} \right) - \left(\begin{array}{l} \text{Appraised amount} \\ \text{immediately after} \\ \text{the insured risks} \\ \text{occur} \end{array} \right) - \left(\begin{array}{l} \text{Amount} \\ \text{recovered,} \\ \text{etc.} \end{array} \right) = \left(\begin{array}{l} \text{Amount} \\ \text{of loss} \end{array} \right)$$

$$2) \quad \text{Amount of loss} \times \text{Coverage rate} = A$$

3) The insurance claims should be the amount in A above or the insured amount, whichever is smaller.

▪ **Remittance risks**

1)

$$\left(\begin{array}{l} \text{Amount which cannot} \\ \text{be remitted or the} \\ \text{amount for acquisition,} \\ \text{whichever is smaller} \end{array} \right) - \left(\begin{array}{l} \text{Amount saved due} \\ \text{to insured risks} \end{array} \right) - \left(\begin{array}{l} \text{Amount} \\ \text{recovered, etc} \end{array} \right) = \left(\begin{array}{l} \text{Amount} \\ \text{of loss} \end{array} \right)$$

2) Amount of loss X Coverage rate = B

3) The insurance claims should be the amount in B above or the insured amount, whichever is smaller.

(2) For commercial risk

1)

$$\left(\begin{array}{l} \text{Amount of} \\ \text{Acquisition} \end{array} \right) - \left(\begin{array}{l} \text{Amount} \\ \text{recovered etc.} \end{array} \right) = \left(\begin{array}{l} \text{Amount of} \\ \text{loss} \end{array} \right)$$

2) Amount of loss X Coverage rate = C

3) The insurance claims should be the amount in C above or the insured amount, whichever is smaller.

8. Basic Premium

(1) Premium rate

1) Political risk

On a case-by-case basis with an annual rate of ¥0.55 per each ¥100 of the insured amount as the basic rate

2) Commercial risk

On a case-by-case basis with an annual rate of ¥1.00 per each ¥100 of the

insured amount as the basic rate

The premium rate will vary according to the profitability of parties in which an investment was made, and the country risk involving any host country.

(2) Review of premium rate

The premium rate for commercial risk is reviewed in the fourth, seventh, and tenth fiscal year from the beginning of the obligation period of the insurance.

9. Duties Regarding Collections on Investments and Payment of Funds Collected

(1) Duties Regarding Collections on Investments

Even after requesting payment of the insurance claims payable, the insured shall make every effort to collect on the loans, etc. any compensation for losses, or on any other monetary claims of a similar nature.

(2) Payment of Funds Collected

Should any funds be collected after requesting payment of insurance claims payable, the insured shall notify the Minister of International Trade and Industry of the receipt of such funds within one month from the date immediately following the date when the collection was made (if the date when the collection was made falls on or before the date the payment of the insurance claims payable was received, the date when the payment of the relevant insurance claims payable was made) and pay the amount designated by the revenue collector to the National Treasury on or before the date designated by such collector.

10. Procedure for Overseas Investment Insurance

To conclude an insurance contract, the following procedures should be taken:

(1) Preliminary Application

To conclude an insurance contract, submit a preliminary application on or before the day prior to the remittance day (if two or more remittances are to be made, the first remittance day).

A preliminary application will be accepted by the Overseas Investment Insurance Office, Export, Import and Investment insurance Department (EID/MITI) and Regional Bureaus of MITI.

(2) Formal Application

After the preliminary application has been submitted, submit a formal application to the Overseas Investment Insurance Office, no less than one month after the remittance day.

(3) Insurance Contract

The formal application will be evaluated by MITI before concluding an insurance contract.

(4) Issuance of Insurance Policy, etc.

On behalf of MITI, Japan Trade and Investment Insurance Organization will issue (1) The overseas investment insurance policy, (2) Approval of changes in (1) (including any increase or decrease in the insured amount, and other approvals for changes), and (3) Notice for payment of the overseas investment insurance premium.

Documents to be Attached to the Formal Application

Documents to be attached to the formal application will vary according to the type of investment, methods for remittance, type of business, and the legal system in the host countries in which investment activities occur. In general, copies of the following documents are required:

- (1) Investment and loan contracts, etc.

For example, joint venture contracts, loan agreements, guarantee contracts, business collaboration contracts, etc.

In the case of a capital increase, the minutes of the general meeting of shareholders when the capital increase was approved should be attached. In the case of an investment in wholly owned subsidiaries of Japanese companies and direct business activities related to Investment type 3, the minutes of the board of directors meeting of the insured (investors) should be attached.

- (2) Investment permission, etc. issued by the government of the host country
- (3) Report to the Bank of Japan
- (4) Any documents which provide evidence that investments and loans have been made

[Cash remittance]

Remittance statements related to investments which were issued by authorised foreign exchange banks and remittance applications with an indication of the foreign currency used, amount paid in yen, conversion rate, date of remittance, remittee, remitter, purpose of remittance, bank's certification stamp, and investment report number assigned by the Bank of Japan.

[Investment in kind]

Export approval, shipping documents, supply contract, receipt of payment for exported cargo, asset ledgers, etc.

[Capital increase without compensation]

Documents which provide evidence of the capital increase and the foreign exchange rate on that day

[Surety obligation]

Documents of the main obligor (borrowing company) which provide evidence that the loans were made and the foreign exchange rate on the day the proceeds of the loans were received (opening price of customer spot T.T. selling rate announced by foreign exchange banks)

If the remittance was made in installments or was made by several banks, attach "List of total remittance amount"

- (5) Articles of incorporation of the other party to the overseas investment
- (6) Repayment schedule list (for loans)

- (7) Notice of evaluation results on preliminary applications for overseas investment insurance
- (8) Other documents required for each transaction

Documents to be Attached to the Preliminary Application

- **Political Risk**

Business projections, financial statements, etc. (balance sheets, profit and loss statements, statements of appropriations, and income and expenditure statements)

- **Commercial Risk**

A copy of the following documents related to the insured (investors), partners, the other party to the overseas investment.

- I Documents related to the insured (investors)

- 1) Balance sheet (for the three years prior to the preliminary application)
- 2) Profit and loss statement
- 3) Surplus appropriations statements or deficit disposition statements
- 4) Income and expenditure statements

- II Documents indicating the partner's ability to perform activities

- III Documents related to the other party to the overseas investment

- (A) New Companies

- 1) Feasibility study statement
- 2) Business projections
- 3) Projection of funds
- 4) Estimated balance sheet (for fiscal terms to be covered by the insurance)
- 5) Estimated profit and loss statement
- 6) Estimated surplus appropriations statement or deficit disposition statement
- 7) Estimated income and expenditure statements
- 8) Loan and investment contracts, etc. (including guarantee contracts)

(B) Existing companies

In addition to the documents in (A) above, the following documents for the three years prior to the preliminary application (for companies in which investments were made with less than three years business experience, for the period of their operation should be attached)

- 1) Balance sheet
- 2) Profit and loss statement
- 3) Surplus appropriations statement or deficit disposition statement
- 4) Income and expenditure statements

CHAPTER II

OVERSEAS INVESTMENT INSURANCE

THE KOREAN MODEL

OVERSEAS INVESTMENT INSURANCE

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- V. RECENT DEVELOPMENTS OF ECAs' OVERSEAS INVESTMENT INSURANCE PROGRAM
- VI. CASE STUDY

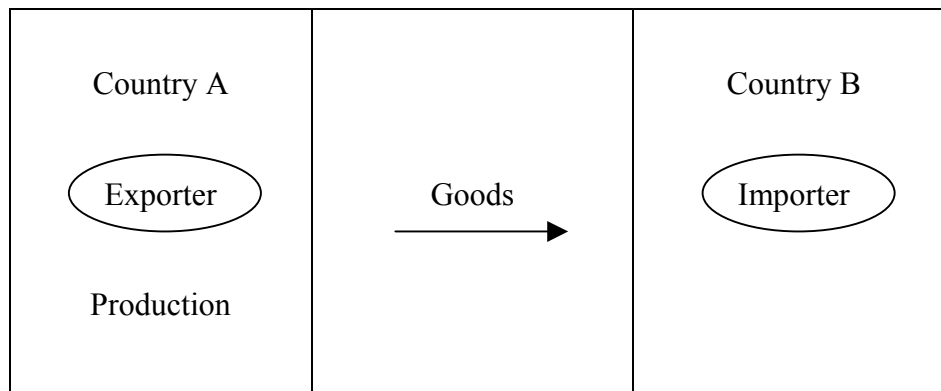
OVERSEAS INVESTMENT INSURANCE

1. INTRODUCTION

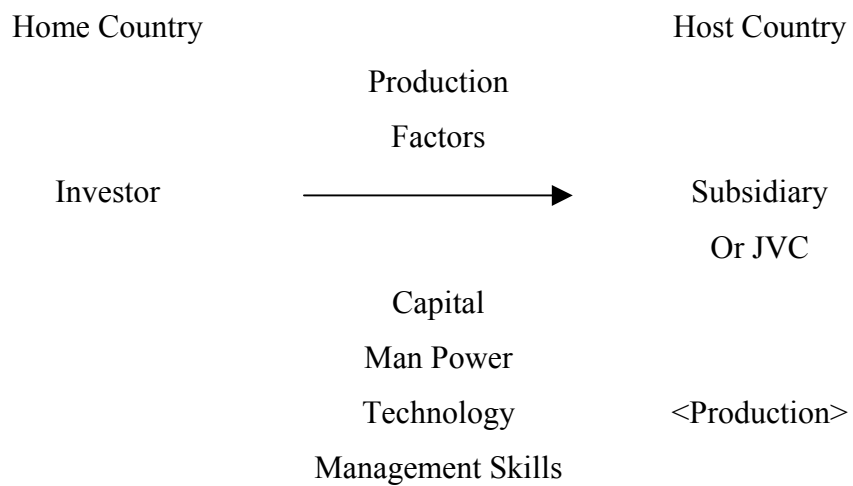
1. Concept of Overseas Investment

(Export vs Overseas Investment)

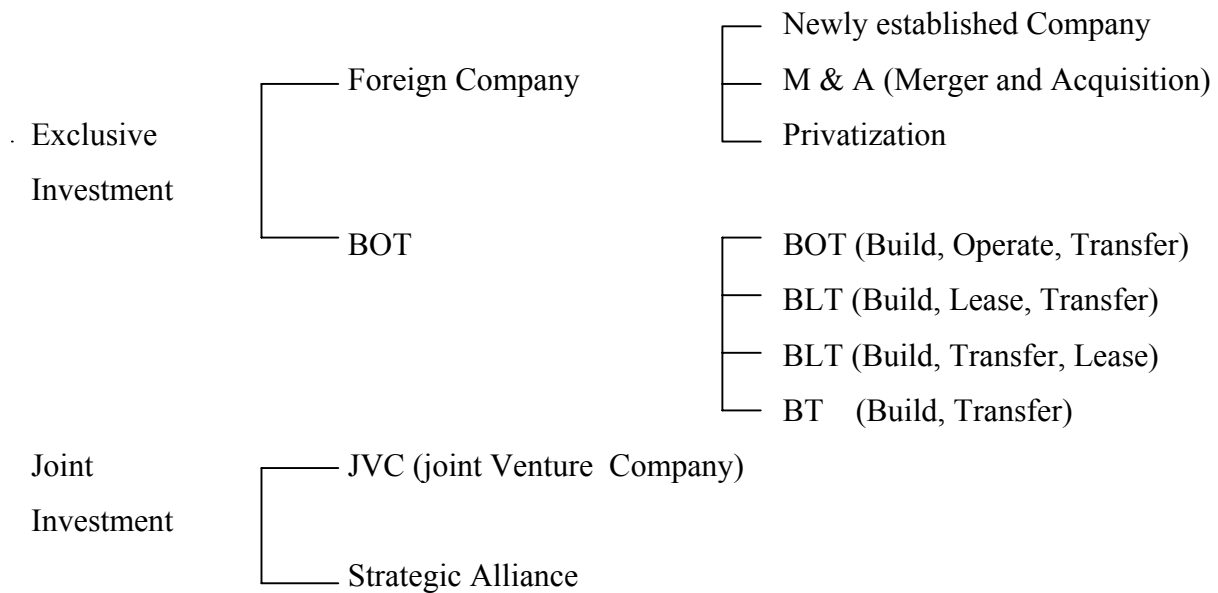
- Export



- Overseas Investment



2. Types of Overseas Investment



3. Environment Surrounding Overseas Investment

- Expansion of Overseas Investment Opportunities
- Accelerated Integration of World Economy
- Enlargement of Regionalism
- Intensified Protection of Technology
- Reorganisation of International Economic Structure
- Extensive Privatization in the Transitional Economies

<Trend of Integration of World Economy>

1960	1970	1980	1990	2000
9%	13%	19%	24%	31%

(Trade & Sales by Overseas Investment/GDP)

4. Motives of Overseas Investment

- Market-Oriented Investment
 - to maintain already established markets in response to tariff and/or non-tariff barriers

- to develop and enter new markets with great potential purchasing power
- Production Efficiency-Oriented Investment
 - to secure long-term and stable supply of natural resources
 - to strengthen competitiveness by taking advantage of cheap and good-quality production factors (man power, etc.)
- Technology-Oriented Investment
 - to acquire advanced manufacturing technology, marketing skills and management know-how
- Economic Cooperation-Oriented Investment
 - Development Aid, Direct loan into host country

Globalization of Company

		Domestic Production and Management
Phase 1:	Export	Marketing through Local Agent or Representative Office
Phase 2:	Internationalization & Localization	Active Overseas Investment Local Production, Marketing and Diversification
Phase 3:	Globalization	Global Optimization of Production, Resources & R&D

5. Economic Effects of Overseas Investment

(from the view point of Home Country)

- Effect on Balance of Payment

	Financial Effects	Trade Effects
Feature	<ul style="list-style-type: none"> • Flow of Funds 	<ul style="list-style-type: none"> • Export and Import of Goods
Affirmative Factors	<ul style="list-style-type: none"> • Inflow of Dividend, Interests, Royalty and Commissions, etc. • Recovery of Invested Principal and Loan • Investment in kind and Local Finance, etc. (substitution of out-flow of funds) 	<ul style="list-style-type: none"> • Induced Export of Capital Goods and Intermediary Goods • Decreased Import of Raw Materials and Intermediary Goods • Increased Export due to growing Income of Host Country
Negative Factors	<ul style="list-style-type: none"> • Investment in cash • Repayment of Debt 	<ul style="list-style-type: none"> • Substitution of Export • Reimport of Finished Products

Employment

- | | | |
|--|---|-----------|
| <ul style="list-style-type: none"> • Declined Domestic Investment • Reimport • Substitution of Export | } | ⇒Decrease |
| <ul style="list-style-type: none"> • Inducement of Export | } | ⇐Increase |

Industrial Structure

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> • Domestic Fading Industry • Labour-Intensive Industry • Technology-Oriented Investment | } | ⇒Promotion of Adjustment of Industrial Structure |
| <ul style="list-style-type: none"> • Comparative-Advantage Industry | } | ⇒Overseas Transfer of Technology, Weakening of International Competitiveness |

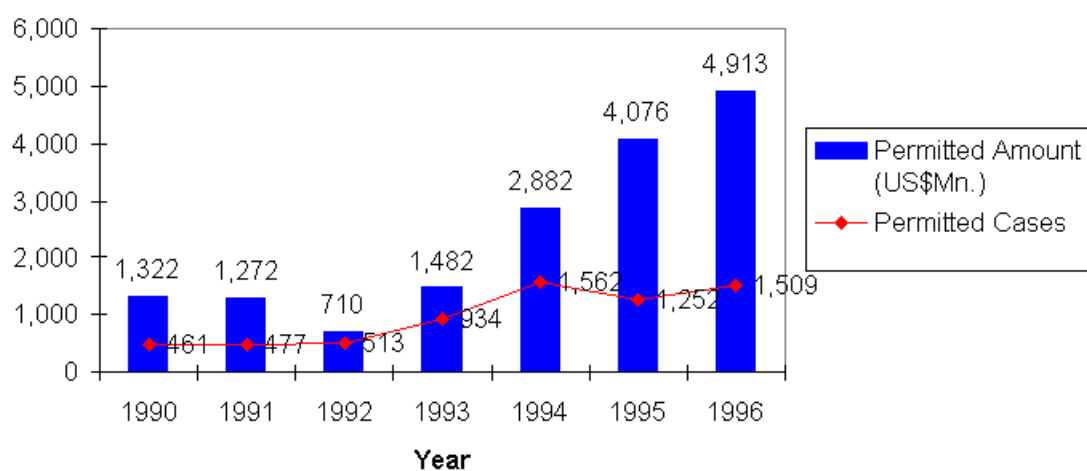
II OVERSEAS INVESTMENT OF KOREA

1. Overview

	Major Industry	Feature
1968-1974	<ul style="list-style-type: none"> • Forestry • Fishery 	<ul style="list-style-type: none"> • In 1968, first Overseas Investment made by Korea Nambang Development Co. for the forestry development project in Indonesia
1975-1980	<ul style="list-style-type: none"> • Natural Resources • Construction 	<ul style="list-style-type: none"> • Oil, Gas, Coal, Iron Ore, etc during period of oil shock • Construction Boom in Mid-East Countries
1981-1985	<ul style="list-style-type: none"> • Labour-Intensive Industries • Trade 	<ul style="list-style-type: none"> • Textile, Footwear, Leather, etc. • To the Developing Countries • Made by Medium & Small Companies • To North America & Europe to meet import restrictive measures • Made by large Companies

	Major Industry	Feature
1986-	<ul style="list-style-type: none"> • Capital and Technology Intensive Industries 	<ul style="list-style-type: none"> • Communication, Electronics, Semiconductor, Automobiles • R & D • Outstanding Investments as of the end of 1996 <p>:US\$13,8 Billion (6,653 Cases, 2.8% of GDP)</p>

2. Recent Overseas Investment Trend



3. Outstanding Balance of Overseas Investment (As of the end of 1996)

(1) By Industry

	Manufacturing	Trade	Construction	Fishery	Transport & Storage	Minig	Forestry	Others	Total
Project	4,459	982	208	143	88	65	21	687	6,653
Amount (US\$ million)	7,723	2,819	528	90	91	900	84	1,521	13,756

(2) By Region

	South-East Asia	North America	Europe	Latin America	Oceania	Africa	Middle East	Total
Project	4,806	920	384	268	179	57	39	6,653
Amount (US\$ Million)	6,055	4,327	2,104	556	312	274	128	13,756

(3) By Project Size

	Less than 1,000 thou	1,000-2,000	2,000-5,000	5,000- 10,000	Over 10,000	Total
Project	5,107	643	483	200	220	6,653
Amount (US\$ Million)	1,361	944	1,565	1,465	8,421	13,756

III. Financial Assistance Program for Overseas Investment of Korea

1. The Export-Import Bank of Korea

- The largest supplier of Overseas Investment Credit with preferential rate
- Non Eligible Projects
 - Projects in countries which received E rating(5/5) from the Bank
(Exception: Investment in free-trade zone, and countries which concluded an agreement on the promotion and protection of investments with Korea)
 - Real estate-related projects such as real estate rent, management of entertainment and leisure facilities, etc.
 - Projects related to banking, insurance, housekeeping, entertainment
 - Projects that are operated by an individual, not an entrepreneur

Major Terms and Conditions of Overseas Investment Credit

- Eligible Borrower : Korean investor
- Credit Coverage :Up to 90% of investment amount
- Maturity :Up to 10 years (including a 3-year grace period)
- Interest Rate(per annum)

Floating rate	Fixed rate	Remark
<ul style="list-style-type: none"> • Payment guarantee by domestic or foreign financial institutions :Libor + 0.5% • Secured Mortgage :Libor + 0.75% • Credit 	Swap rate +0.5% ~ 1.25%	Investor's Option

:Libor +1.0 ~1.25%		
* LIBOR - London Inter Bank Offer Rate		

2. Economic Development Cooperation Fund (EDCF)

- Operation
Ministry of Finance and Economy : Management of EDCF
KOREA EXIM BANK : Projects Appraisal, Execution of Loan Agreement and
Administrative Work related to extending loans
- Eligible Project
 - Business not suitable for borrowing from the Korea EXIM Bank or other commercial financial institutions with general terms and conditions
 - Investment business of the economic cooperation for developing countries
 - Agriculture, Forestry, Fisheries, and Development of Mineral Resources
- Eligible Borrower : Small / Medium size companies
- Major Terms and Conditions of EDCF
 - Interest Rate :5~6% p.a.
 - Maturity :15 years (including a 5 year grace period)

3. Commercial Banks and State-run Companies

	Major Terms and Conditions of Loan
Foreign Exchange Banks	-Up to 70% of Investment Amount (Up to 80% in case of small / medium size companies) -Interest Rate : Libor + 1.0% p.a. -Repayment Period : Maximum 10 years
Korea Mining Promotion	-Up to 80% of Investment Amount -Interest Rate : 5% p.a. -Repayment Period : Maximum 15 years

Corporation	-Important Development Projects of mining resources except for petroleum
Korea Petroleum Development Corporation	-Up to 70% of Investment Amount -Interest Rate : less than 6% p.a. -Repayment Period : Maximum 18 years -Petroleum Development Project

List of Countries which concluded an Agreement on the Promotion and Protection of Investments with Korea (As of June, 1996)

Contracting parties (38 Countries)

U.S.A., Germany, Switzerland, Netherlands, Belgium, Luxemburg, U.K., France, Sri Lanka, Senegal, Hungary, Tunisia, Denmark, Bangladesh, Malaysia, Thailand, Poland, Pakistan, Mongolia, Austria, Russia, Italy, China, Uzbekistan, Vietnam, Lithuania, Paraguay, Indonesia, Romania, Turkey, Czech, Peru, Finland, Greece, Spain, India, Laos, Tajikistan

Signatory parties (9 Countries)

Philippines, Argentina, South Africa, Portugal, Sweden, Brazil, Egypt, Kazakhstan, Bolivia

List of Countries which concluded an Agreement on Avoidance of Double Taxation with Korea : As of June, 1996

Contracting parties (45 Countries)

Japan, Thailand, Germany, U.K., Denmark, Belgium, U.S.A., Canada, France, Singapore, Netherlands, Switzerland, Finland, Sweden, Malaysia, New Zealand, Australia, Norway, Bangladesh, Turkey, Sri Lanka, India, Philippines, Luxemburg, Pakistan, Austria, Indonesia, Tunisia, Hungary, Ireland, Brazil, Poland, Italy, Mongolia, Egypt, Vietnam, China, Romania, Spain, Mexico, Fiji, Czech, Bulgaria, Russia, South Africa

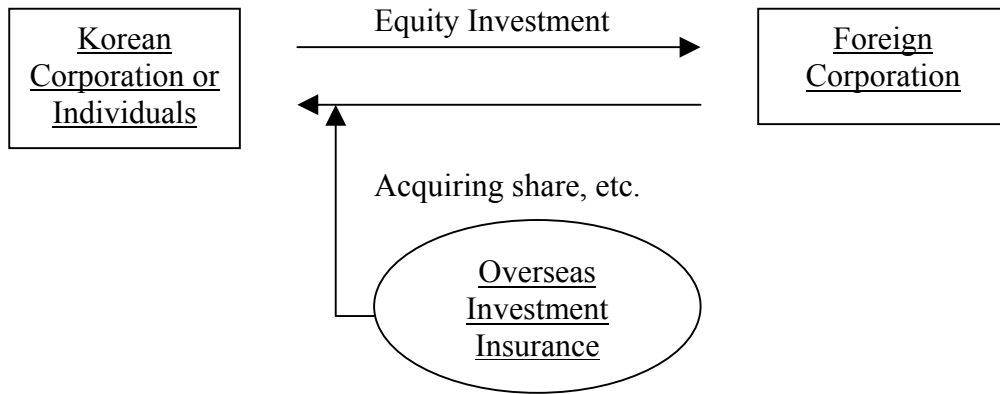
Signatory parties (2 Countries)

Greece, Portugal

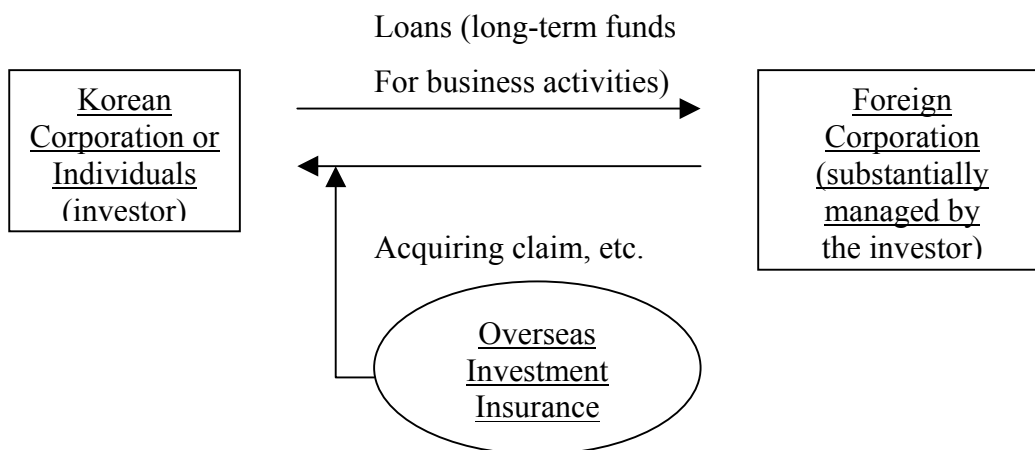
IV. Overseas Investment Insurance Scheme of KEIC

1. Eligible Investments

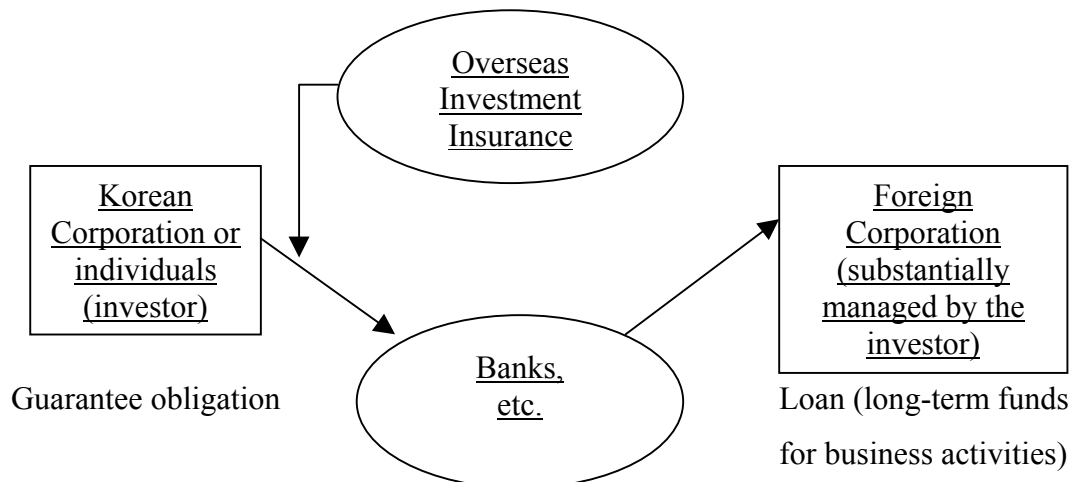
- **Equity**



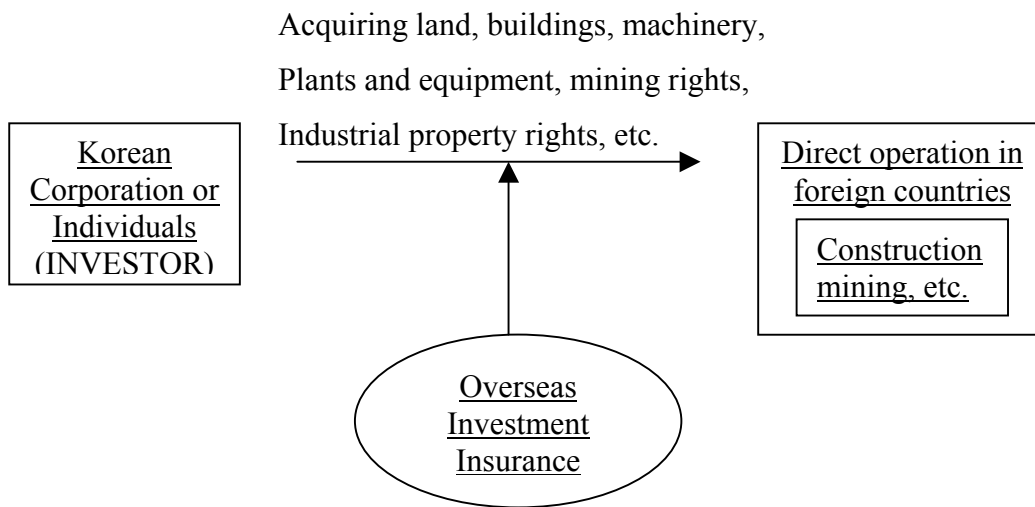
- **Loan**



- **Loan Guarantees**



- **Rights**



2. Underwriting Requirements

- Contribution to the Sound Development of Overseas transaction
- A New Investment
- No Adverse Political and Economic Situation in the Host Country
- Foreign Investment Protection Treaty with the Host Country

3. Risk Covered (Political Risks only)

- Expropriation Risk

1)

Expropriation by a host government of

- right of the principal of equity or claims
- right to claim dividends from stock
- right to claim interest from loan
- right related to real estate

2)

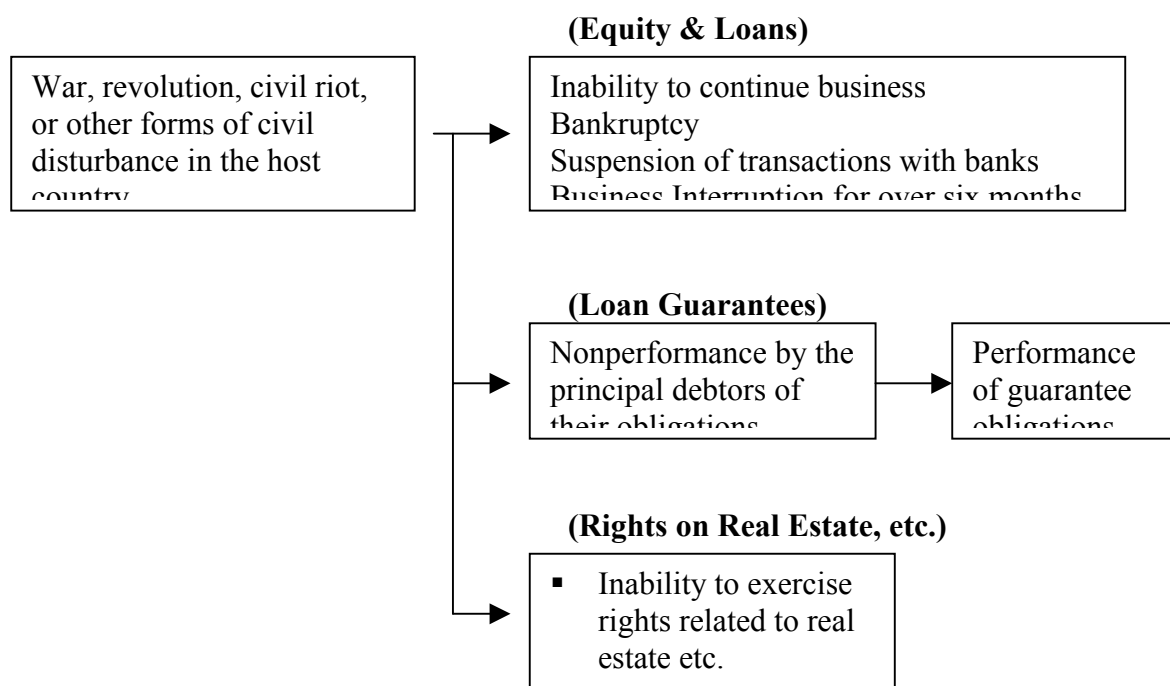
Interference of a host government in

- the rights related to real estate, plants and equipment, raw materials, mining or industrial property rights, etc.

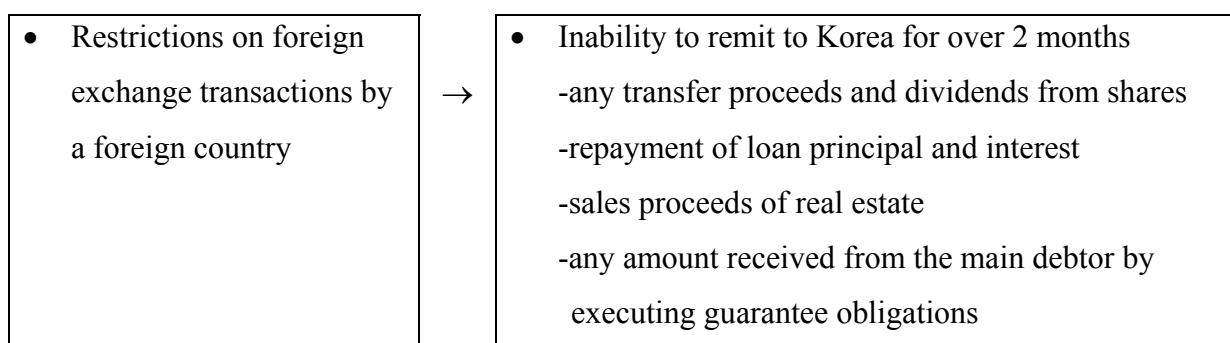
⇒

- inability to continue business
- - bankruptcy
- -suspension of transactions with banks
- business interruption for over 6 months

- **War Risks**



- **Transfer Risks**



3. Insurance Period

- Minimum 1 year to Maximum 15 years

4. Percentage of Cover & Claims Paid

- Percentage of Cover

- Insurable Value : Korean Won equivalent to the Invested Amount

- Insured Amount : Up to 90% of Insurable Value (Up to 95% in Case of Small / Medium size Company)

- Claims Paid

$$\begin{array}{|c|} \hline \text{Amount of} \\ \hline \text{Claims Paid} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Amount of} \\ \hline \text{Loss} \\ \hline \end{array} \times \begin{array}{c} 90\% \\ \text{(or 95\%)} \end{array} < \begin{array}{|c|} \hline \text{Insured} \\ \hline \text{Amount} \\ \hline \end{array}$$

5. Premium Rate

- Basic Rate

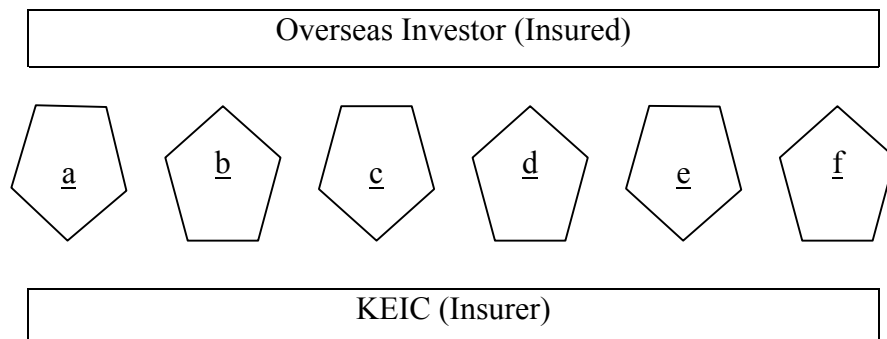
Country Grade	A	B	C	D	E	F	G	H
Premium Rate (1Year Basis)	0.18	0.36	0.47	0.58	0.68	0.79	1.08	1.44

- Discount Rate

	Discount Rate
*Discount Rate for Payment Guarantee	25%
Discount Rate for Small or Medium-Size Enterprises	15%

*Payment Guarantee by institutions in the host country is not eligible for the discount rate.

6. Underwriting Procedure



a. Preliminary Application

- Before the investment is made

- Documents to be attached
- Business plan or estimated financial statement
- Outline of investment partner in case of Joint-Venture

b. Acceptance Notice for Preliminary Application

- Main Check Points
- Political risk of the host country
- Prospects of the investment

c. Main Application

- Within one month after the investment is made
- Documents to be attached
 - Investment Agreement, Loan Agreement, or Guarantee Agreement
 - Certificate of Remittance
 - Approval of the Host Country (if any)
 - Approval of Korean Government (if necessary)
 - Business Plan, etc.

d. Approval of the Main Application

- Main Check Points
 - Business Environment of the Host country
 - Host Country's Ability to repay the external debts
 - Contents of the Investment Agreement or Investment Plan
 - Types and Purposes of the Investment
 - Credibility and Financial Standing of the guarantor (if any)

e. Payment of Premium

	Premium Period	Payment of Premium
1 st Business Year	Approval Date~Dec.31 of the following year	Within 10working days from the approval date
Business Years thereafter	Jan, 1~Dec.31	Within 10 working days from last day of the previous year

f. Issuance of Insurance Policy

After the insured has paid the premium for the 1st business year

7. Overseas Investment Insurance (Loan) vs Medium & Long Term Export Insurance (Buyer Credit) in Project Financing

	Overseas Investment Insurance (Loan)	Medium & Long Term Export Insurance (Buyer Credit)
The Insured	Overseas Investor or Financial Institution	Financial Institution
Eligible Object	Loan to Overseas Project Company	Export Credit
Risks Covered	Political risk	Political risk, Commercial risk
Coverage Ratio	Up to 90%	Up to 95%
Merit	OECD Guideline not applied	Commercial risk covered
Demerit	Commercial risk not covered	OECD Guideline applied

V. Recent Developments of ECA's Overseas Investment Insurance Program

1. Major ECA's Overseas Investment Insurance Scheme

	KEIC	EID/MITI (Japan)	OPIC (USA)	ECGD (UK)	MIGA (Multi-national)
Eligible Investor	Entities with legal capacity in Korea	Any person or corporation existing in Japan	U.S. citizens, corporations and foreign corporations at least 95% owned by U.S. citizens	Persons and companies carrying on business in the UK	Natural persons and juridical persons in a member country

			or commercial entities		
Eligible Investments	Equity, loans, loan guarantees, rights or real estate Portfolio investment ineligible	Equity, loans, loan guarantees, rights or real estate Portfolio investment ineligible	Equity, loans, loan guarantees Portfolio investment ineligible	Equity, loans, loan guarantees Portfolio investment ineligible	Equity, loans, loan guarantees Portfolio investment eligible
Eligible Foreign Enterprises	No restrictions	No restrictions	Developing countries and some post-communist countries	No restrictions	Category Two (developing country) members of MIGA. Members are signatories of the MIGA Convention
Risks Covered	Expropriation, War, Transfer blockage, Breach of contract by host government	Expropriation, War, Transfer block, Breach of contract by host government, Bankruptcy after 2 years operations	Expropriation, War, Transfer blockage, Breach of contract by host government	Expropriation, War, Transfer blockage, Breach of contract by host government	Expropriation, War, Transfer blockage, Breach of host government commitments
Coverage Ratio	90%	95% (Political) 40% (Commercial)	90%	90%	90%

Duration	Up to 15 years	Minimum 3 years to maximum 15 years	Minimum 3 years to maximum 20 years	Minimum 3 years to maximum 15 years	Minimum 3 years to maximum 15 years
Maximum Amount of Cover	No Limited	US\$500M per project	US\$100M per project	No Limit	US\$50M per project
Waiting Period	2 months	2 months	Expropriation : 12 months War : None Inconvertibility : 1~2 months	Expropriation : 12 months War : 12 months Inconvertibility : 6 months	Expropriation : 12 months War : none Inconvertibility : 3 months

VII. Case Study

1. Equity Investment in Vietnam

- Description of Project
 - Investor : Samyang Tongsang Co.Ltd
 - Host Country : The Socialist Republic of Vietnam
 - Foreign Enterprise
 - Name : Samyang Vietnam Company Ltd
 - Ownership : 100% owned by investor
 - Main Line of Business
 - Manufacturing and selling leather-footware
 - Legal Capital : US\$ 9.2 Million
 - Operation Duration : 30 years
 - Purpose of the Investment
 - To raise price competitiveness of its products by hiring relatively low-wage workers

-Korea's export promotion through the supply of the equipment and raw materials from Korea

- Details of Insurance Application
 - Insured : Samyang Tongsang Co Ltd
 - Type of Insurance : Overseas Investment Insurance (Equity)
 - Insured Investment : The amount of US\$9.2 million for paying up the capital of Samyang Vietnam Co Ltd
 - Risks Covered : Expropriation, War and Transfer blockage
 - Coverage Ratio : 90%
 - Insurance Period : 1997.1.31 ~ 2011.12.31 (15 years)

Analysis of Risks

	Negative Factors	Affirmative Factors
Political situation	<ul style="list-style-type: none"> • Widening gap in the income level among regions and classes • Wide-spread decay and illegality • Possibility of territorial dispute with China 	<ul style="list-style-type: none"> • High support to the present government • Friendly relationship with neighbours and western countries • Full diplomatic normalization with U.S.A.
Economic situation	<ul style="list-style-type: none"> • Excessive external debt (US\$20.4 billion outstanding as of the end of 1995, 85.1% of GDP) • Continued Current Account Deficit • Relatively high inflation 	<ul style="list-style-type: none"> • Steady economic growth since 1986 (annually 6-8%) • Ample natural resources • National characteristics • Upward trend of foreign exchange reserves
Foreign Investment Environment	<ul style="list-style-type: none"> • Fragile banking system • Limited availability of foreign exchange 	<ul style="list-style-type: none"> • Vietnamese government's aggressive efforts to induce foreign investment • Active foreign investment

2. Loan Guarantee to Subsidiary in Papua New Guinea

- Description of Project
- Investor : Daewoo Corporation, Korea Heavy Industries & Construction Co., Ltd
- Host Country : Papua New Guinea
- Foreign Enterprise
 - -Name : Hanjung Power Pty Ltd (HPPL)
 - -Ownership : 50:50 owned by the investors
 - -Main Line of Business
 - Construction of 24 MW Diesel Power Plant in PNG's capital city, Port Moresby
 - Selling electric power to PNG Electricity Commission (ELCOM) for 15 years in accordance with the Power Purchase Agreement with ELCOM,
 - Legal Capital : US\$15.75 Million
 - Operation Duration : 15 years BOT
- Purpose of the Investment
 - to get more experience in independent power project
 - Export promotion through the supply of the equipment and raw materials from Korea
- Details of Insurance Application
 - Insured : Daewoo Corporation, Korea Heavy Industries & Construction Co., Ltd
 - Type of Insurance : Overseas Investment Insurance (Loan Guarantees)
 - Insured Investment : Loan Guarantees to financing banks by the Investors (US\$15 Million respectively)
 - Risks Covered : Expropriation, War, Transfer blockage, Breach of contract by the host government or government agency
 - Coverage Ratio : 90%
 - Insurance Period : 1997.11.1 - 2012.12.31 (15 years)

- **Analysis of Risks**

	Negative Factors	Affirmative Factors
Political situation	<ul style="list-style-type: none"> • Disharmony of coalition cabinet • Frequent tribal disputes 	<ul style="list-style-type: none"> • Close relationship with Australia • Member of International organisations such as APEC, ASEAN, etc.
Economic situation	<ul style="list-style-type: none"> • Weak industrial base • High inflation • Heavy external debt 	<ul style="list-style-type: none"> • Surplus on current account • Increasing foreign exchange reserves • Implementation of Adjustment of Industrial Structure
Foreign Investment Environment	<ul style="list-style-type: none"> • Weak Infrastructure • Shortage of skilled labour 	<ul style="list-style-type: none"> • Various incentives to foreign investors • Considerable mineral resources
Possibility of contract breach	-	<ul style="list-style-type: none"> • Strategic importance to power generation • 100% state-owned enterprise