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# LAW OF THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA ON FOREIGN-INVESTED BANKS

Adopted by Decision No. 42 of the Standing Committee of the Supreme People's Assembly on November 24, 1993, amended by Decree No. 484 of the Presidium of the Supreme People's Assembly on February 26, 1999, amended by Decree No. 3400 of the Presidium of the Supreme People's Assembly on November 7, 2002 and amended by Decree No. 2051 of the Presidium of the Supreme People's Assembly on December 21, 2011

## Chapter 1 Fundamentals

### Article 1 (Objective)

This Law is enacted for the purpose of promoting and expanding cooperation with foreign countries in the area of finance.

### Article 2 (Classification, location)

A foreign investor may establish and operate a bank within the territory of the DPRK.

Foreign-invested banks shall include joint-venture banks, wholly foreign-owned banks and branches of foreign banks.

Wholly foreign-owned banks and branches of foreign banks shall be established in the special economic zones.

### Article 3 (Ownership, independent management)

Foreign-invested banks shall have the ownership of their banking property and be independent in their management.

### Article 4 (Protection of rights and interests)

The State shall protect the legitimate rights and interests of foreign-invested banks established in the territory of the DPRK.

### Article 5 (Governing law and regulations)

Foreign-invested banks shall be operated pursuant to the relevant laws and regulations.

### Article 6 (Supervisory and control organ)

Foreign-invested banks shall be placed under the supervision and control of the central financial guidance organ and the Central Bank.

### Article 7 (Scope of regulation)

This Law stipulates the principles and procedures for the establishment, operation and dissolution of foreign-invested banks.

## Chapter 2 Establishment and Dissolution of Foreign-invested Banks

### Article 8 (Application for the establishment of a foreign-invested bank)

An investor who wishes to establish a foreign-invested bank shall file an application with the Central Bank, specifying the name of the bank, name and CV of its president, registered capital, paid-up capital, working capital, investment ratio and categories of business.

### Article 9 (Application for the establishment of a joint-venture bank)

The application for the establishment of a joint venture bank shall be filed by the party concerned.

The application shall be accompanied by such documents as the articles of association, a feasibility study report, a copy of the contract of joint venture, a copy of the document of approval for foreign exchange transactions and a copy of the business license.

### Article 10 (Application for the establishment of a wholly foreign-owned bank)

The application for the establishment of a wholly foreign-owned bank shall be submitted by the foreign investor concerned.

The application shall be accompanied by such documents as the articles of association, a feasibility study report, a written agreement of the supervisory institution of banks in the home country, the investor's balance sheet, a copy of the business license and a copy of the document of approval for foreign exchange transactions.

### Article 11 (Application for the establishment of a branch of a foreign bank)

The application for the establishment of the branch of a foreign bank shall be filed by the head office of the bank concerned.

The application shall be accompanied by such documents as the articles of association, annual reports, balance sheet, profit and loss account and a copy of the business license of the head office, written guarantee by the head office against the tax and debts of the branch, a feasibility study report of the branch, a written agreement of the supervisory institution of banks in the home country and a copy of the document of approval for foreign exchange transactions.

### Article 12 (Examination of application)

The Central Bank shall decide whether to approve or reject an application for the establishment of a foreign-invested bank within 50 days of receipt thereof.

In case of approval, a business license shall be issued, and in case of rejection a notice shall be sent with the reasons thereof stated.

### Article 13 (Registration of address and tax)

A foreign-invested bank shall, within 30 days of obtaining the license, register its address with the people's committee of the province (or municipality directly under central authority) or the management organ of the special economic zones.

Registration for tax purposes shall be made with the financial institution concerned within 20 days of receipt of the business license.

### Article 14 (Cause for dissolution, cancellation of registration)

A foreign-invested bank shall be dissolved in case where continued operation is impossible due to such reasons as the expiry of the term approved, merger of banks, insolvency, default of the contractual obligations and natural disasters. In this case, an application for dissolution shall be submitted to the Central Bank 30 days in advance and, upon completion of liquidation under the supervision of the liquidation committee, cancel its registration with the registration institution of banks.

#### Article 15 (Extension of term of operation)

Where a foreign-invested bank wishes to continue its banking business beyond its term, an application shall be submitted to the Central Bank for the approval of the extension of the term 6 months before the expiry of the original term.

#### Article 16 (Alteration of registered items)

Where a foreign-invested bank wishes to revise its articles of association, merge or divide the bank, make changes in the registered capital, working capital and place of business, increase or decrease the categories of business or replace the president or a vice-president of the bank, application to that effect shall be filed with the Central Bank for approval 30 days in advance, and the particulars of the change shall be registered.

#### Article 17 (Transfer of invested capital)

An investor in a foreign-invested bank may, subject to the approval of the Central Bank, transfer to a third party part or whole of the capital invested. In this case the transferring investor shall seek the consent of the other party.

### Chapter 3 Capital and Reserve Funds of Foreign-invested Banks

#### Article 18 (Threshold of registered capital)

A joint venture bank and a wholly foreign-owned bank shall respectively hold the prescribed amount of registered capital in the designated currency, and the primary paid-up capital shall be at least 50% of the registered capital.

A branch of the foreign bank shall hold the prescribed amount of working capital in the designated currency.

#### Article 19 (Primary paid-up capital, working capital)

A foreign-invested bank shall, within 30 days of obtaining business license, deposit the primary paid-up capital and working capital in a bank designated by the Central Bank and have it verified by an audit office.

#### Article 20 (Threshold of registered capital)

A foreign-invested bank shall retain its own capital, which shall be more than 5% of the suretyship obligations or the amount of its liabilities.

#### Article 21 (Reserve funds of joint-venture banks and wholly foreign-owned banks)

A joint-venture bank and a wholly foreign-owned bank shall set aside as a reserve fund 5% of its annual profits each year until it amounts to 25% of the registered capital.

The reserve fund shall be used for the increasing of the capital or compensating for the operational loss.

#### Article 22 (Types and ratio of allowances)

A foreign-invested bank may lay aside allowances for bonus, welfare, R&D and the like.

The type, size and the ratio of allowances shall be determined by the foreign-invested bank at its discretion.

## Chapter 4 Transactions and Settlement of Accounts

### Article 23 (Business categories)

A foreign-invested bank may conduct the following transactions:

1. Accepting foreign currency deposits from foreign-invested enterprises, foreign enterprises and foreigners;
2. Granting loans in foreign currencies, conducting overdraft transactions and discounting foreign currency bills;
3. Foreign exchange transactions;
4. Foreign currency investment;
5. Guarantee on foreign currency liabilities and implementation of contractual obligations;
6. Remittance of foreign currency;
7. Clearing of the importer's and exporter's bills of exchange;
8. Offshore banking;
9. Transactions of securities in foreign currencies;
10. Trust banking;
11. Credit survey and consultation; and
12. Others.

### Article 24 (Limit of bank loan)

A foreign-invested bank shall not grant a loan of more than 25% of its capital exclusively to one business.

### Article 25 (Bank reserves)

A foreign-invested bank shall open an account with the local branch of the Central Bank for the depositing of bank reserves.

### Article 26 (Fiscal year)

The fiscal year of a foreign-invested bank shall begin on January 1 and end on December 31 each year.

Annual settlement of accounts shall be completed by not later than February the following year.

### Article 27 (Submission of financial documents)

A foreign-invested bank shall conduct its financial management in accordance with the laws and regulations on financial management of foreign-invested enterprises.

Documents of quarterly and yearly financial settlement shall be submitted to the financial institution concerned respectively within 15 days of the month following the end of the quarter and not later than February of the following year.

### Article 28 (Preferential treatment)

A foreign-invested bank shall be accorded the following preferential treatment:

1. In case the term of operation is longer than 10 years, the enterprise income tax shall be exempted for the first profit-producing year and may be reduced by up to 50% for the following 2 years;
2. No business tax shall be payable for the interest accruing from loans granted on favourable terms to the banks and enterprises of the DPRK; and
3. The income derived from the banking business and the residual fund after the liquidation of the bank shall be remitted out of the territory of the DPRK without any restrictions.

## Chapter 5 Sanction, Settlement of Disputes

### Article 29 (Fines)

A foreign-invested bank shall be fined in cases where it:

1. Changed the address or name of the bank without approval;
2. Failed to set aside the reserve fund of prescribed amount;
3. Caused hindrance to or interfered with the inspection of the management; or
4. Failed to submit regular report within the prescribed time limit, or misrepresented it.

### Article 30 (Suspension of business)

Where a foreign-invested bank engaged in transactions other than those approved, or decreased the registered capital and working capital without approval, its operation shall be suspended.

### Article 31 (Withdrawal of business approval)

Where an applicant for the establishment of a bank fails to commence banking business within 10 months of obtaining the license, the approval granted may be withdrawn.

### Article 32 (Settlement of disputes)

Any dispute concerning banking business shall be settled through consultation.

In case of failure in consultation, the dispute shall be settled through mediation, arbitration or legal procedures.