KDIC, the cornerstone of financial stability, protects your valuable deposits.

KOREA DEPOSIT
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INSURANCE CORPORATION

# 2009 ANNUAL REPORT

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KDIC

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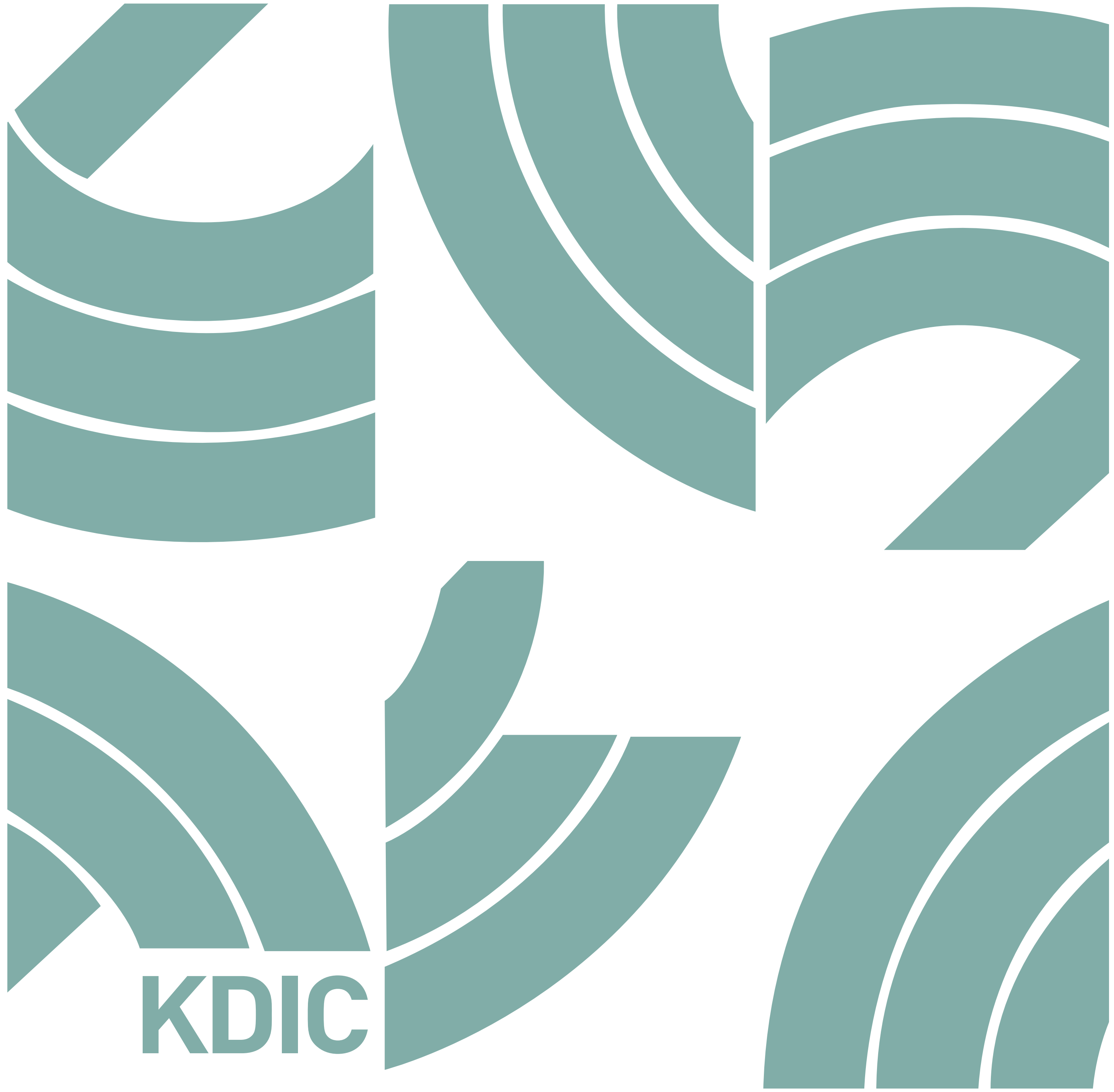


This is a slightly altered design of the KDIC's corporate image which features a green cirle that symbolizes deposits and three lines derived from the trigrams in the Korean national flag (each meaning depositor protection, financial stability and public confidence).

The KDIC will remain committed to achieving its vision of becoming "KDIC, the cornerstone of financial stability, protects your valuable deposits."



# CEO Message

Over the last year, the Korean economy posted the third highest growth rate among 30 members of the Organization for Economic Cooperation and Development(OECD) despite the economic downturn and financial uncertainties caused by the global financial crisis. This was largely due to the efforts made by the Korean people as well as the government's active policy responses, which led the International Monetary Fund(IMF) to recognize Korea for its outstanding work in crisis recovery.

For its part, the KDIC focused on fulfilling its mandate as a pillar of the financial safety net to help the economy recover from the crisis.

First of all, the KDIC strengthened monitoring of insured financial institutions facing troubled balance sheet to prevent them from failing, and expanded its role as a risk advisor by sharing analysis results with the financial market and financial firms to encourage them to reduce risks. Furthermore, by improving the mechanism for information sharing with related agencies like the Financial Services Commission, the KDIC enhanced its risk response ability.

As a measure to provide stronger protection for workers' right to social welfare services, retirement pensions products were included in the deposit insurance coverage. Also, the inconvenience depositors had to suffer due to suspension of financial transactions was reduced to the minimum by shortening the time spent on resolving insolvent financial institutions.

In addition, while the market remained under pressure from the global financial crisis, the KDIC maximized the recovery of public funds through equity sales, etc. In particular, in the case of Woori Financial Holding Group, the Corporation successfully sold a minority share, laying the groundwork for Woori's privatization.

On the institutional side, important progresses were made in advancing the deposit insurance system including the implementation of the Target Fund System and the creation of a framework for the Risk-based Premium System. Moreover, adjustments made to the premium rates for each financial sector helped to reduce the burden on financial companies while improving the fund's soundness with stricter application of the Beneficiary Pays Principle.

Even though the shocks from the global financial crisis have been somewhat mitigated, we still face causes for concern like the debt crisis in the Euro zone and household debts. In regard to this, the KDIC plans to more rigorously monitor risk factors and encourage financial companies to reduce risks.

Going forward, the Corporation will remain committed to maintaining financial stability and protecting depositors in order to realize its vision, "KDIC, the cornerstone of financial stability, protects your valuable deposits."

I hope that the this annual report will help to improve the public's understanding of and confidence in the deposit insurance system and the role of the KDIC. I would like to ask for your continued interest and insightful advice.

Seung Woo LEE
Chairman & President

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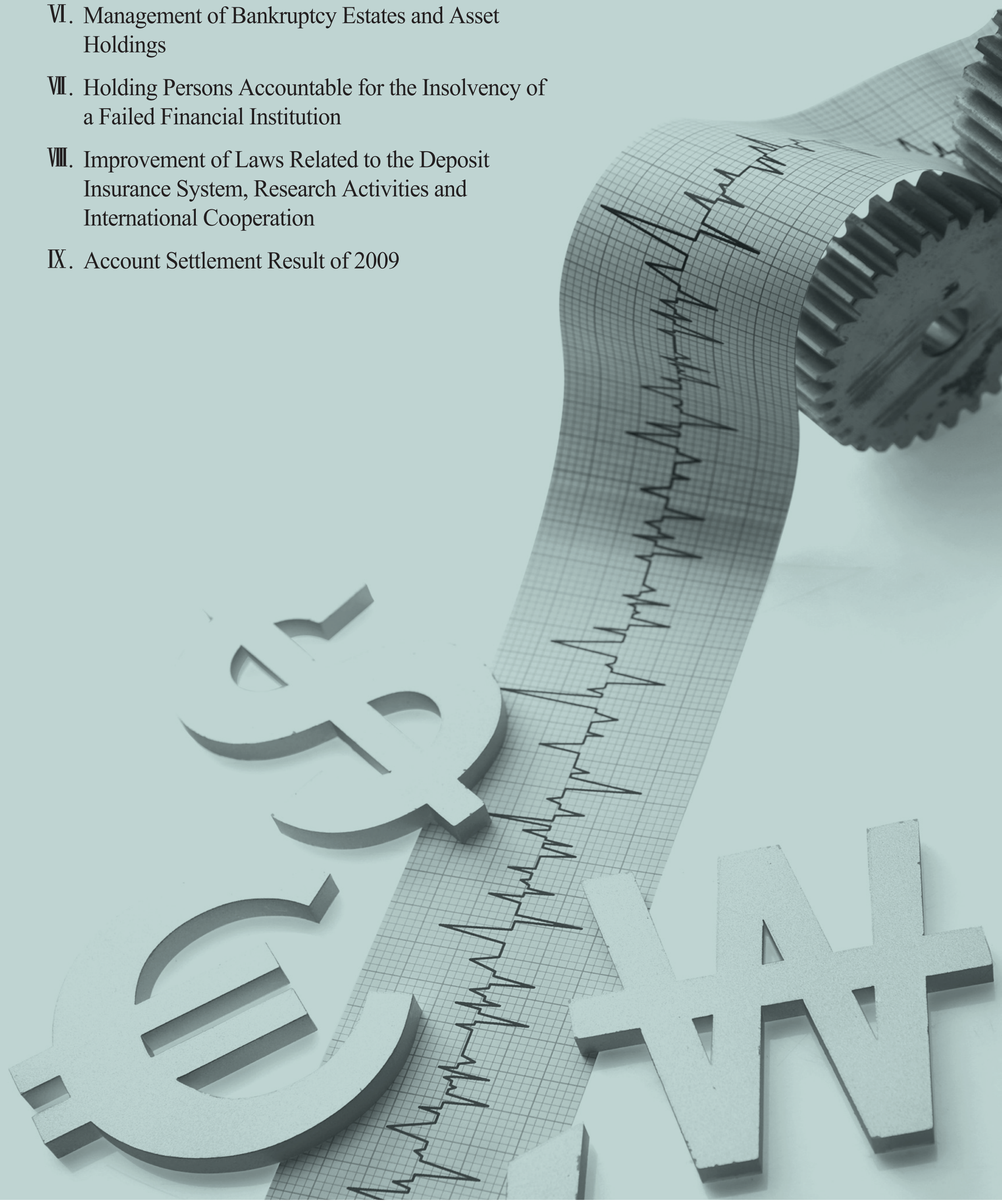


# I Introduction

Although the Korean economy started 2009 in a depressed position, it gradually stabilized on the back of the government's active effort to stimulate the economy, recording a 0.2% growth year on year.

The Korean economy entered 2009 in the depth of the global financial crisis triggered by the sub-prime mortgage meltdown in the U.S. The fourth quarter of 2008 ended with a 3.4% drop in growth rate compared to the same period from a year ago, indicating that the global crisis started to impact Korea's real economy. In order to overcome the recession, the government increased expenditure by 17.2% from a year earlier, and executed 65% of the total expenditure in the first half of 2009. The government also pushed forward measures to boost domestic demand, for example, by increasing investment in SOC and allowing tax breaks for car buyers. The Bank of Korea lowered the policy interest rate by 3.25%p on six occasions from October 2008 to February 2009. Such decisive actions by policymakers and stabilization in financial markets helped the Korean economy make a faster turnaround than expected as domestic demand recovered, and exports and production picked up in the latter half of 2009.

Despite a rocky start, Korean financial markets ended 2009 on a much brighter note compared to the end of 2008 as concerns over financial instability eased and expectations grew for economic recovery. Market interest rates sharply fell during the first half due to interest rate cuts by the Bank of Korea, and then gradually rose in the second half to reach 4.41% (3 year treasury bonds), up 100bp from the end of the previous year. The KOSPI closed the year at 1,682.8 recording a 49.7% increase from the end of the previous year, buoyed by expectations for economic recovery, rebounds in global markets and increased net purchases by foreign investors, after hitting a trough (1,018.8) on March 2. The won-dollar exchange rate extended a sharp rise until early March but started falling as financial markets stabilized and the current account continued to run surpluses to finally reach KRW 1,164.5 at the end of the year, an 8.2% appreciation against the dollar from a year ago. Foreign exchange reserves also increased by USD 68.8 billion to reach USD 270 billion at the end of the year thanks to current account surpluses and the inflow of foreign capital.

In 2009, the enforcement of the Financial Investment Services and Capital Market Act ("The Capital Market Consolidation Act") created a strong institutional framework to enhance the competitiveness of the Korean financial industry. The Capital Market Consolidation Act is a legislation that incorporates six capital market-related Acts (e.g. the Securities and Exchange Act) into one. It was enacted on August 3, 2007 and took effect on February 4, 2009. The Act is meaningful in that it significantly improves the legal system governing the financial sector by introducing a comprehensive definition of financial investment instruments and rearranging the institutional framework for the financial industry along its functions, thus strengthening investor protection.

As for changes in each financial sector during 2009, while Macquarie Bank newly established a Seoul branch, Lehman Brothers Bankhaus and Merrill Lynch International Bank closed their Seoul branches in the banking sector. In the insurance business, SH&C Life Insurance changed its name to Cardif Life Insurance through a joint venture between BNP Paribas Assurance and Shinhan Financial Group, and Heungkuk Ssangyong Fire & Marine Insurance and Kyobo AXA General Insurance had their names changed to Heungkuk Fire & Marine Insurance and AXA General Insurance, respectively. And First Fire & Marine Insurance and Hanwha Non-Life Insurance were merged into Hanwha Non-Life Insurance, and DAS Legal Expense Insurance, an insurance company specialized in legal expense insurance, started operation. In the case of financial investment companies, the enforcement of the Capital Market Consolidation Act paved the way for asset management companies and futures companies to be covered by deposit insurance once they got licenses for investment trading and brokerage activities. The Seoul branch of Lehman Brothers International Securities Company was closed and ABN AMRO Asia Ltd. changed its name to RBS Asia Ltd. as ABN AMRO was taken over by RBS Group. Hanmag Futures and Bueun Futures got new licenses for financial investment business under the names of Hanmag Securities and BS Securities, respectively. In the mutual savings bank (MSB) industry, Yes MSB, a bridge bank, was established for the resolution of Jeonbuk MSB, whose business was suspended at the end of 2008, and subsequently, the business license was revoked. As a result, the total number of insured financial institutions increased by 54 to 320 (54 banks, 115 financial investment companies, 43 insurance companies, 2 merchant banks and 106 MSBs) from a year ago.

The total amount of insured deposits was KRW 1,020 trillion as of the end of 2009, up 11.7% compared to the end of previous year. In a sector-by-sector breakdown, banks accounted for KRW 633 trillion (up 11.1%), financial investment companies KRW 19 trillion (up 22.4%), insurance companies KRW 293 trillion (up 9.6%), merchant banks KRW 2 trillion (up 116.5%) and mutual savings banks KRW 73 trillion (up 22.0%). The insurance premiums that the KDIC received from these five sectors during 2009 amounted to KRW 1.24 trillion, up 8.5%, or KRW 97.4 billion, from a year earlier.

Since a law to introduce the Target Fund system was legislated in 2007 in an effort to ensure the viability of the Deposit Insurance Fund (DIF) and reduce the financial burden on insured companies, the KDIC has developed a detailed plan on how to manage the Target Fund and how to improve the insurance premium pricing structure. In addition, by legalizing the institutional framework necessary for the implementation of the Risk-based Premium System, the KDIC laid the groundwork to further advance the deposit insurance system. The differential premium system had been pursued as a way to help financial companies to achieve sound management and to promote a fairer distribution of insurance premiums. Furthermore, the KDIC's efforts to provide deposit insurance coverage for retirement pension fund products finally bore fruits. This will raise the effectiveness of the retirement pension system, introduced in 2005, and protect property rights of subscribers to the pension fund.

The KDIC has continued to make efforts to prevent insolvency of insured financial institutions by closely monitoring the risks they might face. First, as was suggested by a consulting firm's review in 2008, the KDIC enhanced the predictability of its risk monitoring model to make it more adept at dealing with changes in the financial environment. To address problems in information sharing, the KDIC revised and signed a “Memorandum of Understanding (MOU) on Financial Information Sharing” with the Ministry of Strategy and Finance (MOSF), the Financial Services Commission (FSC), the Bank of Korea (BOK) and the Financial Supervisory Service (FSS) in a bid to strengthen cooperation among related agencies.

Also, the KDIC participated in joint examinations of 15 insured financial institutions together with the FSS in 2009 in accordance with the “MOU on Joint Examinations of Financial Institutions.” As for the MSB industry whose financial position is generally weaker than institutions in other financial sectors, the KDIC jointly with the FSS dispatched management administrators to MSBs subject to Prompt Corrective Action (PCA) starting from the second half of 2008. Internally, the “Insurance Contingency Action Council” was incorporated into the “Ongoing Surveillance Council,” which is responsible for overseeing, coordinating and assessing risk monitoring activities, in order to boost the capacity to deal with insolvencies of financial institutions.

The KDIC concentrated its efforts on minimizing inconvenience of depositors caused by suspension of financial transactions and preventing additional failures of financial institutions by shortening the time required for the resolution process. The KDIC sold the Yehanwul MSB, a bridge bank established for the resolution of three suspended MSBs (Kyungbook, Bundang and Hyundai), to a consortium led by Hyundai Swiss MSB. In the meantime, in an attempt to remove accumulated losses in the MSB account of the DIF which has a negative balance, the Depositor Protection Act (DPA) was amended in a way to reduce or exempt interest for MSB account’s inter-account borrowings (as of the end of 2008) from other financial sector accounts of the DIF for 10 years, and the insurance premium rate for MSB account was raised from 0.3% to 0.35% so that they can share responsibility and help themselves.

By the end of 2009, the KDIC had injected public funds of KRW 112.5 trillion in total into 517 insolvent financial institutions and collected a total sum of KRW 45.9 trillion (KRW 2.6

trillion in 2009) through sales of stake in financial institutions etc. Main recovery events in 2009 include recovering KRW 187.6 billion from Seoul Guarantee Insurance Corporation for its callable preferred stocks in July, KRW 168.5 billion from Shinhan Financial Group for its callable preferred stocks in August, and KRW 866 billion from Woori Finance Holdings Company through a block sale of minority interest in November.

In terms of managing operations of bankruptcy estates and their properties, as a result of KDIC's continuous efforts to facilitate efficient management and early closure of bankruptcy estates, 229 out of 469 bankruptcy estates were legally closed as of the end of December 2009. As for the disposition of real estates and unlisted shares held by bankruptcy estates, a synergy effect was achieved by selling properties held by different estates after pooling together and classifying them by asset type while avoiding sales by individual bankruptcy estate. In the case of real estate, KRW 4.2 billion was recovered through 10 joint auctions. For unlisted stocks, the KDIC retrieved a total of KRW 25.4 billion by selling its entire stake in Kosteel co., Ltd. and for listed shares, the recovered amount was KRW 12.9 billion through transactions such as the KRW 11.4 billion sale of 1.6 million Sungwon Corporation shares during trading. The KDIC also collected approximately KRW 3.1 billion by selling its entire overseas stocks.

In the area of the insolvency accountability investigation, the KDIC is committed to maximizing fund recovery by holding those responsible for the failure of public fund-injected institutions accountable. By the end of 2009, a total of 498 insolvent financial institutions and 832 default debtor companies had been investigated, and 1,443 and 187 compensation claims had been filed against persons accountable for the failures of financial institutions and default debtor companies, respectively. Also, the KDIC conducted property investigations of individuals related to insolvency and took legal actions for debt collection such as provisional seizure and disposition.

In the field of research, the KDIC conducted case studies and trend analysis of deposit insurance and financial supervision systems in major countries around the world with a view to advancing its own system. Furthermore, by examining what policy measures and system improvements are being taken in major countries in response to the global crisis, the KDIC provided implications for how to make the domestic financial system more stable. The KDIC published its research findings in the *Journal of Overseas Deposit Insurance* on a regular basis and shared them with related agencies as a reference material.

In 2009, the KDIC continued to engage in active exchanges with diverse international organizations, particularly the International Association of Deposit Insurers (IADI), which raised its status in international community. The KDIC not only participated in the decision making process of the IADI as a member of the executive committee, but also played a key role in publishing research and guidance papers as a member of the Research and Guidance Committee and the Training and Conference Committee. Furthermore, the KDIC strengthened international cooperation by signing MOUs with the Deposit Insurance Agency of the Russian Federation in March and the Savings Deposit Insurance Fund of Turkey in December.

The year 2009 was a year in which the KDIC's efforts toward becoming an advanced deposit insurance corporation produced tangible results. The KDIC established a new vision for itself as "KDIC, the cornerstone of financial stability, protects your valuable deposits" and developed a mid/long-term management plan including a detailed execution plan to realize that vision. Also, organizational reshuffle was carried out to enhance depositor protection function and foster a performance-oriented culture in support of that vision.

Finally, the KDIC earned 2nd place among nine financial funds for fund performance, in particular in the area of asset management, of the DIF Bond Redemption Fund operated by the KDIC.

# Ⅱ Organization and Operations

## 1. Organization Management

### 1-1. Deposit Insurance Committee

The Deposit Insurance Committee is composed of seven individuals including the President of the KDIC, who serves as committee chairman. Other ex-officio members are: the Vice Minister of the Financial Services Commission (FSC), the Vice Minister of the Ministry of Strategy and Finance (MOSF), the Deputy Governor of the Bank of Korea (BOK). The three remaining committee members are appointees commissioned by the FSC. Of that number, one committee member is commissioned directly by the FSC with the remainder being recommended by the Minister of MOSF and the Governor of BOK.

**The committee deliberates and renders decisions on important matters including the followings:**

- Establishment of basic guidelines for the Corporation's operations;
- Review of fund operation plans;
- Amendments to the Articles of Incorporation;
- Enactment, amendment and nullification of rules and regulations related to the Corporation's fund management;
- Issuance of Deposit Insurance Fund Bonds (DIF Bonds) and DIF Bond Redemption Fund Bonds;
- Actual and advance payment of insurance claims;
- Financial support for the resolution financial institutions and insured financial institutions;
- Transactions between funds; and
- Operation of surplus funds.



【Table Ⅱ－1】 **Deposit Insurance Committee Members**

(As of December 31, 2009)

| TITLE | NAME |
|---|---|
| President of KDIC (Chairman) | Seung-Woo LEE |
| Vice Chairman of FSC | Hyeok-Se KWON |
| Vice Minister of MOSF | Kyung-Wook HUH |
| Senior Deputy Governor of BOK | Ju-Yeol LEE |
| Commissioned Member | Hyung-Moon KANG |
| Commissioned Member | In-Ho LEE |
| Commissioned Member | Chang-Hyun YOON |

【Table Ⅱ－2】 **Items Deliberated by Deposit Insurance Committee in 2009**

| DATE | ITEMS |
|---|---|
| Jan.7 | ▶ Advance payments of insurance claims to depositors of Jeonbuk MSB |
| Jan.21 | ▶ Request for participation in 2009 joint examination<br>▶ Report of examination results of and measures for implementation of MOU in the third quarter of 2008<br>▶ Report of transactions between DIF and DIF Bond Redemption Fund accounts in 2008<br>▶ Report of changes in DIF Bond Redemption Fund operation plan in 2008 |
| Feb.11 | ▶ Report of settlement results of the DIF in 2008 fiscal year etc. |
| Feb.25 | ▶ Decision on insurance claim payment to depositors of Jeonbuk MSB<br>▶ Draft guideline for the 2009 DIF Bond Redemption Fund management<br>▶ Draft guideline for the 2009 DIF management<br>▶ Report of joint examination results of Korea Life Insurance |
| Mar.11 | ▶ Plan for partial revision to insurance claim payment regulations<br>▶ 2009 disposal plan for KDIC asset holdings (draft)<br>▶ Plan for selling Hyundai Logiem stocks and selecting a sales advisor<br>▶ Review of conditions for the privatization of Woori Finance Holding Company |
| Mar.25 | ▶ Financial assistance to and inter-account transactions of Yehanwul MSB for the transfer of Jeonbuk MSB contracts (draft)<br>▶ Report of 2008 settlement results of operation expenses |
| Mar.30 | ▶ Additional plan to normalize management of Woori Finance Holding Company, 3 subsidiary banks and the credit business unit of the National Federation of Fisheries Cooperatives |
| Apr.28 | ▶ Plan to change 2009 KDIC draft budget<br>▶ Plan to sell loans held by the Resolution & Finance Corporation (RFC)<br>▶ Plan to provide fund for indemnification related to CBO subordinated bonds of the former Hyundai Investment & Securities Company |
| Jun.10 | ▶ Additional plan for the normalization of Seoul Guarantee Insurance<br>▶ Joint examination result of (Gangwon) Domin Bank and (Busan) Busan Mutual Savings Bank |

| DATE | ITEMS |
|---|---|
| Jun.24 | ▶ Change of the target size for each DIF account<br>▶ Exemption of interest for DIF MSB account's borrowings from other DIF accounts<br>▶ Partial amendments of rules and regulations for the transactions between accounts<br>▶ 2010 (8th year) DIF Bond Redemption Fund operation plan<br>▶ Plans for issuance of DIF Bond Redemption Fund bonds and request for government guarantee on the bonds for 2010<br>▶ Disposition of RFC-held stocks in Hyundai Logiem Co., Ltd.<br>▶ Disposal of loan credits of Resolution & Finance Corporation (RFC)<br>▶ Report of joint examination results of Lotte Insurance Company |
| Jul.22 | ▶ Disposition of stocks in Cheju Bank<br>▶ Report of joint examination results of Eutteum (Jeju), Hanil (Jeonbuk), Hanaro ( ChoongBuk), and Seoul (Seoul) MSBs |
| Aug.20 | ▶ Advance payments of insurance claims to depositors of Eutteum Mutual Savings Bank and transactions between accounts |
| Aug.26 | ▶ 2009 first half settlement of DIF and DIF Bond Redemption Fund |
| Sep.23 | ▶ Decision on insurance claim payment to depositors of Eutteum MSB (Jeju)<br>▶ Report of joint examination results of Honam Solomon MSB (Jeonbuk) |
| Sep.25 | ▶ Report of examination results of and measures for MOU implementation in the fourth quarter of 2008 |
| Nov.11 | ▶ Financial assistance to and inter-account transactions in relation to the transfer of Eutteum contracts<br>▶ Report of examination results of and measures for MOU implementation in the first quarter of 2009 |
| Dec.23 | ▶ Report of examination results of and measures for MOU implementation in the second quarter of 2009<br>▶ Changes inf plans for 2009 DIF operation and borrowings of DIF credit union account<br>▶ DIF operation plan for 2010<br>▶ KDIC budget for 2010<br>▶ Report of joint examination result of Mirae Asset Securities Co., Ltd. |

## 1-2. The Board of Directors

The board of directors is composed of one President, one Vice President, four Executive Directors and seven Non-Executive Directors. The auditor may express opinions at board meetings, but cannot participate in the Board's voting process.

The President of the KDIC is appointed by the President of the Republic of Korea on recommendation of the Chairman of the Financial Services Commission (FSC) and the Executive Director Recommendation Committee. The Executive Directors are appointed by the Chairman of the FSC on recommendation of the President of the KDIC and the Executive Director Recommendation Committee and the Non-Executive Directors are appointed by the Chairman of the FSC on recommendation of the Executive Director Recommendation Committee and deliberation and decision of the Public Agencies Operating Committee. The Auditor is appointed by the President of the Republic of Korea on recommendation of Executive Director Recommendation Committee, deliberation and decision of the Public Agencies Operating Committee and recommendation of the Minister of Strategy and Finance. The President is appointed for a period of three years and Executive Directors and the Auditor are appointed for two years, renewable on a year-to year basis after the expiration of their first term of office.

【 Table Ⅱ－3 】 **Executive Board Members**

(As of December 31, 2009)

| TITLE | NAME |
|---|---|
| Chairman and President | Seung-Woo LEE |
| Executive Vice President | Sung-Hwan BAE |
| Executive Director | Dong-Jin SHIN |
| Executive Director | In-Jae CHO |
| Executive Director | Won KIM |
| Executive Director | Jong-Tae KIM |
| Non-Executive Director | Jun-Ho HAHM |
| Non-Executive Director | Dae-Seok KANG |
| Non-Executive Director | Deok-Ro LEE |
| Non-Executive Director | Jae-Kook LEE |
| Non-Executive Director | Kyu-Young CHUNG |
| Non-Executive Director | Jung-Sang CHOI |
| Non-Executive Director | Young-Sik LEE |
| Auditor | Oh-Yeon KIM |

## 1-3. Organization

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 based upon the Depositor Protection Act (DPA). As of December 31, 2009, it is composed of 10 departments, 5 offices and 1 division; Department of Risk Surveillance Support, Department of Risk Surveillance I, Department of Risk Surveillance II, Department of Insurance System and Research, Department of Fund Management, Department of Resolution I, Department of Resolution II, Department of Receivership & Collection, Office of Information Technology, Department of Planning & Coordination, Office of Management Innovation, Department of Human Resources and Administration, Office of Public Relations, Office of the Chairman, Office of the Auditor and Insolvency Investigation Division.

**【Table Ⅱ－4】Designated Number of Staff**

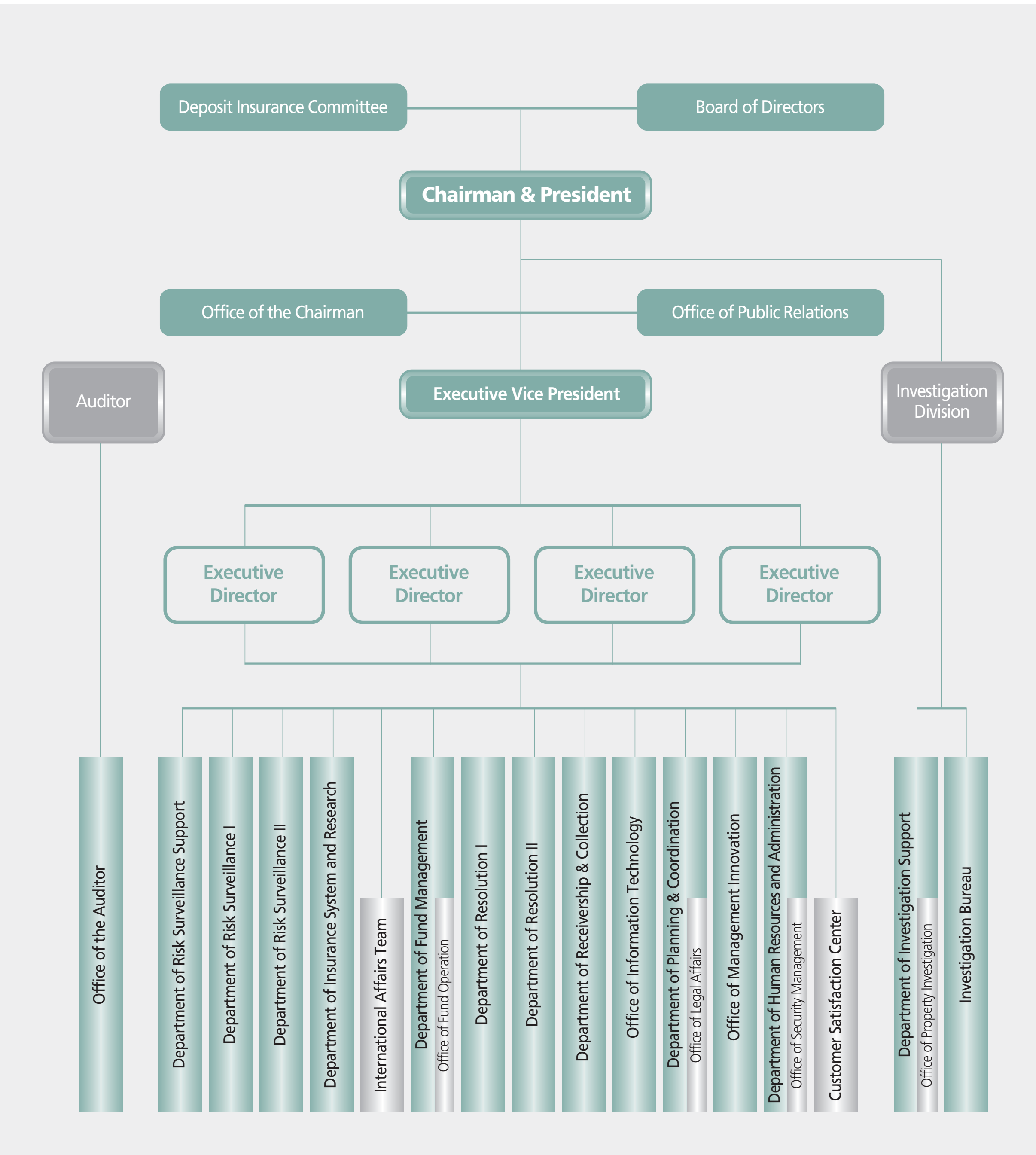
(As of December 31, 2009)

| Type | Executive Directors | Employees | | Total |
|---|---|---|---|---|
| | | Regular | Special[2] | |
| NO. | 14[1] | 406 | 164 | 570 |

1) According to the Public Agencies Operational Act, 7 Non-Executive Directors are included.
2) Special employees include experts such as attorneys, doctoral researchers, conservators, bankruptcy estate support personnel, examiners, etc.

**【Figure Ⅱ－1】Organizational Chart**

(As of December 31, 2009)




※ Customer Satisfaction Center and International Affairs Team are team units.



# 2. Major Initiatives

## 2-1. Major Accomplishments

In March 2005, with the aim of presenting the course of development for the deposit insurance system and establishing its future image, the KDIC formulated a mid-to long-term vision and created a synergy effect by reorganizing the company into four major functional units: Risk Surveillance, Insurance and Resolution, Investigation and Recovery, and Management and Support. However, sudden changes in economic and business environment due to the global financial crisis that erupted in the latter part of 2008 forced the KDIC to rethink its ability to proactively respond to internal and external changes.

In line with that recognition, the KDIC established a new vision for itself as "KDIC, the cornerstone of financial stability, protects your valuable deposits" to better reflect its founding ideals and emphasize its differentiating features. Along with that, the KDIC prepared a mid-to long-term management plan for the three year period from 2010 to 2012 that includes strategic goals, strategic tasks and detailed action plans to realize that vision.

### A. Risk Surveillance

In 2009, the KDIC made continued and expanded efforts to strengthen risk surveillance of insured financial institutions. The KDIC commissioned external experts to conduct a study to update the 2008 risk monitoring model and enhance its predictability for future changes in financial conditions. As suggested by study findings, improvements were made to the model so that it can detect risks at an earlier stage. Also, since the global financial crisis forced a renewed focus on coordinating responses to systemic risks among related agencies, the KDIC revised and signed the "Memorandum of Understanding (MOU) on Financial Information Sharing" with the Ministry of Strategy and Finance (MOSF), Financial Services Commission (FSC), Bank of Korea (BOK) and Financial Supervisory Service (FSS) on September 15, 2009 to address problems in information sharing. The revised MOU is designed to clarify when and what information should be shared, put in place a feedback system and reinforce the coordinating function of the Council. It is expected that the inclusion of government ministries - the MOFE and the FSC - as parties to the MOU will further strengthen cooperation among related agencies and their capacity to deal with risks.

By the end of 2009, the KDIC entered into MOUs with a total of six financial institutions including Woori Finance Holdings Co. to maximize recovery of public funds. The KDIC examined how the MOU had been implemented from the fourth quarter of 2008 to the second quarter of 2009, and made 20 inspection findings. As a result, the KDIC imposed 51 measures including 15 corporate warnings, 3 orders to improve, 2 orders to correct malpractices, 11 executive director warnings and 20 staff warnings. In addition, the KDIC built a system for consultation with management and staff of MOU-concluded financial institutions for the purpose of building a consensus with regard to main operation issues and tried to improve the MOU implementation system in a bid to help non- executive directors to better monitor risks at MOU-concluded financial institutions and to encourage those companies to raise corporate value from a longer-term perspective.

In accordance with an MOU entered with the FSS, the KDIC conducted joint examinations of 15 insured financial institutions in 2009, together with the FSS. In particular, with regard to the MSB industry whose financial position is relatively weaker than institutions in other financial sectors, the KDIC jointly with the FSS dispatched management administrators to MSBs subject to Prompt Corrective Action starting from the second half of 2008. Furthermore, the KDIC used the management administrators to collect and utilize information about these insured financial institutions in a timely manner. Also, the KDIC made continuous efforts to raise its capacity for examination, including holding “Workshops on the Joint Examinations with Related Agencies” by inviting external experts and staff of related agencies to step up cooperation with related agencies, enhance expertise of joint examination personnel and develop differentiated joint examination techniques.

In 2009, the KDIC expanded the scope of materials to be checked for compliance with the insurance relations indication system (to indicate insurability, coverage limit and payment method) to include web-sites and newspaper advertisements of insured financial institutions and stepped up on-site inspection of their branches to ensure they are properly indicating required information defined under the system. To provide consumers with an easy and timely access to information, the KDIC distributed copies of the "Easy Guide to the Depositor Insurance System,” an information booklet on deposit insurance system and the "Deposit Insurance System Posters." In addition, the Corporation provided “Working Level Guide for the Insurance Relations Indication System” booklets so as to promote the awareness of the deposit insurance system for officials and employees of insured financial institutions.





Besides, the KDIC prepared "KDIC Daily Briefings," whose main contents are how major indexes of financial markets and financial industries, domestic and foreign, have changed overnight and provided them to related persons and institutions outside the Corporation such as the FSC. In March 2009, the incorporation of the “Insurance Contingency Action Council” into the “Ongoing Surveillance Council” enabled the KDIC to boost its capacity to deal with possible insolvencies of insured financial institutions and establish a flexible and rapid response system to financial crises. These are examples of the KDIC's commitment to constantly monitor risks of insured financial institutions and prevent insolvency in advance.

## B. Insurance and Resolution

The KDIC endeavored to analyze the current resolution processes and upgrade them based on the KDIC’s research findings and overseas best practices including that of the Federal Deposit Insurance Corporation (FDIC). As part of these efforts, the KDIC adopted innovative resolution processes in order to make advance preparations after detecting early signs of insolvency and to speed up the resolution process after suspension of the operations of insured institutions.

In 2009, the KDIC focused on minimizing inconvenience to depositors resulting from the suspension of financial transactions and safeguarded the assets of insolvent institutions against further deterioration by shortening resolution time. In case of Jeonbuk and Eutteum MSBs whose operations were suspended in December 2008 and August 2009, respectively, the KDIC made prompt preparation for resolution during the 2 months that the management order was in place. In doing so, it shortened the resolution period from 4~10 months to approximately 3 months.

Yehanwul MSB, the temporary bridge bank to which the sound assets and liabilities of Kyungbook, Bundang and Hyundai MSBs were transferred, was eventually sold to a consortium led by Hyundai Swiss MSB in September 2009. By adopting the bridge bank scheme rather than liquidating failed institutions, the KDIC saved KRW 94.7 billion in resolution cost.

In the mean time, to resolve the accumulated losses of the Deposit Insurance Fund’s MSB account, the KDIC presented plans to improve soundness of the account, including, for example, granting interest discount between accounts, to the Financial Services Commission, on advice of an external research team which was commissioned for this purpose and the task force team which was established in house. In February and June 2009, the Depositor Protection Act

(DPA) and the Enforcement Decree of the DPA were amended, respectively, paving the way to allow for interest discount between accounts (as of the end of 2008) for the next ten years. And the insurance premium rate for MSBs was raised from 0.3% to 0.35% so they can share responsibility and help themselves.

### C. Recovery and Investigation

The KDIC has recovered public funds injected into financial institutions for financial restructuring since 1997 by receiving dividends and selling equities. During 2009, in spite of the bad condition in financial market caused by the global financial crisis, the KDIC managed to recover KRW 1.3 trillion by selling shares in financial institutions, receiving dividends and reimbursing redeemable preferred stocks.

To take a detailed look at the recovery made in 2009, the KDIC collected KRW 866 billion by selling a 7% minority interest in Woori Finance Holdings Company through a block sale on November 24, 2009 in an expression of its commitment to the privatization of Woori. The KDIC also recovered KRW 187.6 billion and KRW 168.5 billion by redeeming callable preferred stocks of Seoul Guarantee Insurance Corporation and Shinhan Financial Group, respectively.

【Table Ⅱ–5】 Major Recovery Events in 2009

| | |
|---|---|
| Woori Financial Group | • Collected KRW 866 billion through a block sale of a 7% minority stake on November 2009. |
| Seoul Guarantee Insurance | • Collected KRW 187.6 billion, 75% of the net profit in FY2008 (KRW 250.1 billion), by redeeming redeemable preferred stocks in July 2009. |
| Shinhan Financial Group | • Recovered KRW 168.5 billion in August 2009 by redeeming redeemable preferred stocks.<br>• Collected KRW 13.1 billion in March 2009 by selling new stock purchase warrants. |
| KR&C-held (former Resolution Finance Corporation) stocks | • Hyundai Logiem Company (non-listed): Collected KRW 18.5 billion by selling 2.51 million shares in June 2009.<br>• Collected KRW 20.7 billion by selling 8 listed companies including SK Networks and Dongyang Major Corp. |

With the aim of maximizing bankruptcy dividends, the KDIC adopted early closure of bankruptcy estates and in doing so increased the efficiency of their operations. As of the end of 2009, the bankruptcy proceedings of 229 estates out of a total of 469 were completed and accordingly recovered approximately KRW 18.3 trillion from bankruptcy dividends.

The KDIC is striving to maximize the recovery of public funds and create an environment in which responsible corporate governance becomes firmly entrenched by way of correcting unreasonable past business practices through investigating employees of fund-injected financial institutions who contributed to the insolvent state of their respective institutions. By the end of 2009, the Corporation had conducted investigations into a total of 498 insolvent financial institutions and 832 default debtor companies, and filed damage-clam proceedings against those liable for the insolvencies. In addition, it investigated the assets of responsible parties and took legal measures such as provisional seizure and provisional disposition to recover funds.





### D. Management and Support

In a break from seniority-based promotions and in an effort to establish a performance-based personnel management culture, the KDIC implemented an internal placement policy designed to satisfy both the employer and the employees, targeting all employees at the level of team head.

Increasing the difference in pay among workers receiving different performance ratings and improving the comprehensive performance evaluation system were also parts of the company's effort to establish a performance-based culture. Furthermore, the KDIC strengthened depositor protection and minimized its asset management role related to the recovery of public funds through an organizational reshuffle aimed at making itself an advanced deposit insurer.

## 2-2. Improvement of the Deposit Insurance System

### A. Risk-based Premium System

The KDIC had consistently promoted the implementation of a risk-based premium system as a way to help financial companies to achieve sound management and to charge fair premium rates. Thanks to these efforts, the ministerial meeting for regulatory reform held in May 2006 approved the introduction of the Risk-based Premium System. To come up with a viable implementation plan, the KDIC collected opinions from various circles by commissioning an external study from September 2006 to March 2007 and holding a Deposit Insurance Policy Symposium in May 2007 based on study results. After that, the KDIC prepared a draft revised bill for the implementation of the Risk-based Premium System after hearing opinions of interested parties such as insured financial institutions.

Later, the draft revised bill was passed by the National Assembly and publicly announced in February 2009. The revised DPA changes the framework articles for the implementation of the differential premium system into mandatory ones and mandates the implementation of such a system within five years. Also, new provisions were added to allow insured institutions to file an appeal against the changed premium rate and to require them to keep confidentiality in order to prevent any confusion that may arise when differential premium rates are disclosed.

In the meantime, to ensure a smooth transition, a grace period was put in place when the Enforcement Decree of the DPA was revised in June 2009. The differential premium system will be applied to all financial institutions starting in 2014. The size of difference in premium rates will be limited to 10% of the standard premium rate and the decision will be made by the Deposit Insurance Committee. However, in cases where the KDIC deems necessary to protect depositors, an exception can be made and insured institutions may disclose matters related to the differential premium rate to the public.

With a fixed timetable now in place, the KDIC plans to make all necessary preparations including developing a differential premium assessment model in consultation with members of the financial industry and related authorities, to ensure a smooth introduction of the system.

## B. Target Fund System and Deposit Insurance Premium Rate

The new Deposit Insurance Fund (DIF) came into effect in 2003. Since then, the KDIC recognized that there was a strong need for the adoption of a target fund system which would ensure the viability of the DIF and relieve the burden of premium payment on insured financial institutions.

The ministerial meeting for regulatory reform, held in May 2006, approved the introduction of the Target Fund and the Risk-based Premium System as a means to reform the premium system and in doing so improve the overall deposit insurance system. Hence, the KDIC collected opinions from various circles by holding a Deposit Insurance Policy Symposium in March 2007. The symposium was based on the results of the research preformed by professional entities commissioned for this purpose between September 2006 and March 2007.

In October 2007, a private-public task force team was formed to look into the implementation of the Target Fund System and the reform of the premium rate scheme. In December 2007, the National Assembly amended the Depositor Protection Act (DPA) through congressional legislation to approve the implementation of the Target Fund System effective from 2009.

An amendment of the DPA in February 2009 allowed the separation between accounts for life insurance and non-life insurance companies and a delay in setting up the target size for accounts that cover a small number of insured institutions. Also, by amending the Enforcement Decree of the DPA in June 2009, it was decided that the Deposit Insurance Committee may decide to discount, exempt, or refund insurance premiums through a vote if and when the fund reaches its target size.

## C. Depositor Protection of Retirement Pension Products

The introduction of the pension system in December 2005 allowed insured financial institutions (banks, financial investment companies and insurance companies) to develop and sell retirement pension products. However, since the products are not guaranteed, product subscribers may suffer unexpected losses in case of failure of an institution.

To address this issue, the KDIC promoted the protection of depositors subscribed to retirement pension products to protect their property rights and increase the effectiveness of the system. Based on the results of a commissioned research conducted by the Korea Institute of Finance in November 2006, opinions collected in a public hearing on protection of retirement pension products in May 2007 and discussions of a task force aimed at improving the deposit insurance system held in February 2009 to hear opinions from financial industries, the KDIC held close consultations with policymakers and developed “Measures to Protect Subscribers to Retirement Pension Product.” Such efforts led to the amendment of the Enforcement Decree of the DPA in June 2009, containing articles that bring retirement pension products under the coverage of deposit insurance.

Protection is limited to defined contribution retirement pension products and accumulated amounts in individual retirement accounts only if these products are operated as financial products subject to coverage (deposits, principal guaranteed insurance products, etc). The coverage limit is KRW 50 million per person per institution and the coverage limit is not applied for the balance of individual financial product but the balance of all insured financial product held by one financial institution.

## 2-3. Improving the Soundness of the DIF

In order to resolve losses of the Deposit Insurance Fund (DIF) Mutual Savings Bank (MSB) account, the KDIC endeavored in many ways. As the KDIC formed a task force relating to the normalization of the DIF MSB account under the Insurance Contingency Action Council, it sought to resolve accumulated losses of the MSB account and prevent future failures. In May 2007, the KDIC commissioned an external research for reviving the DIF MSB account to Korea Development Institute (KDI).

Based on research results, the KDIC set up basic principles for resolving losses of the DIF MSB account and get involved with private-public task force for renovating the deposit insurance scheme.

In April 2008, after the KDIC formed its official stance on resolution of accumulated losses of the MSB account, it proposed to the Financial Services Commission measures for the normalization of the MSB account. The Corporation strived to amend the DPA through collaboration with related parties in the financial industry and opinion collection from them.

Thanks to such efforts, the DPA and the Enforcement Decree of the DPA were amended in February and June 2009, respectively, paving the way to allow for interest discount between accounts (as of the end of 2008) for the next ten years. And the insurance premium rate for savings banks was raised from 0.3% to 0.35% so they can share responsibility and help themselves.

As a result, the MSB account is expected to save KRW 70 billion in interest expenses and receive KRW 30 billion more in insurance premiums annually, which will help to slow the rise in accumulated losses and speed up deficit reduction.

The KDIC is committed to protecting depositors and stabilizing financial markets through such efforts as close consultation with the government and other related agencies to eliminate accumulated losses in the MSB account.



## 2-4. External Evaluation

### A. Business Performance Analysis of Government Agencies

Pursuant to the Public Corporation Operation Act, the KDIC submitted business performance reports, closing statements, financial statements and annexed documents of 2008 to the Minister of Strategy and Finance (MOSF) and the Chairman of the Financial Services Commission, in March 2009. In April 2009, an implementation report on the KDIC President's Management Plan for 2008 was also submitted. Based on these reports, the groups organized by the MOSF evaluated the performance of the KDIC and the KDIC President. The 2008 business performance evaluation results, announced in June 2009, rated the KDIC "B" and gave a "Fair" grade to its head.

### B. Fund Management

According to the National Finance Act, the Ministry of Strategy and Finance is required to analyze and evaluate the management conditions of funds governed by the Acts as well as consider whether to uphold the funds every three years. The evaluation is conducted into the fields of business management and asset management.

In this regard, the KDIC prepared a report on the management of the Deposit Insurance Fund (DIF) Bond Redemption Fund for 2008 and submitted it to the Fund Management Evaluation Commission in February 2009. Based on the report, the Commission disclosed the results of its evaluation in May 2009 after carrying out due diligence and an opinion poll.

In the 2008 evaluation result of Corporations' DIF Bond Redemption Fund, the KDIC earned 2nd place in the area of asset management among 9 finance funds.

# 3. KDIC Vision and Mid-to-Long Term Management Plan

## 3-1. Establishment and Promotion of KDIC Vision and Mid-to-Long term Management Plan

### A. Objective

In March 2005, with the aim to present the right direction for the Deposit Insurance System's (DIS's) development and to clarify its future image, the KDIC formulated its mid- to long-term vision of "Becoming the World's Leading and Reliable Expert Institution on Ongoing Risk Surveillance and Prompt Resolution of Financial Institutions."

However, in the course of the global financial crisis that erupted in the second half of 2008 and in the ensuing recovery efforts, reform of the financial safety net began to be discussed around the world. This put weight behind the argument that deposit insurers should be given a bigger role in ensuring financial stability. To respond actively to such changes in external environment, the KDIC revised its vision and management philosophy in a way that better reflects its founding ideals after collecting opinions from its employees.

### B. Vision

**(1) Vision**

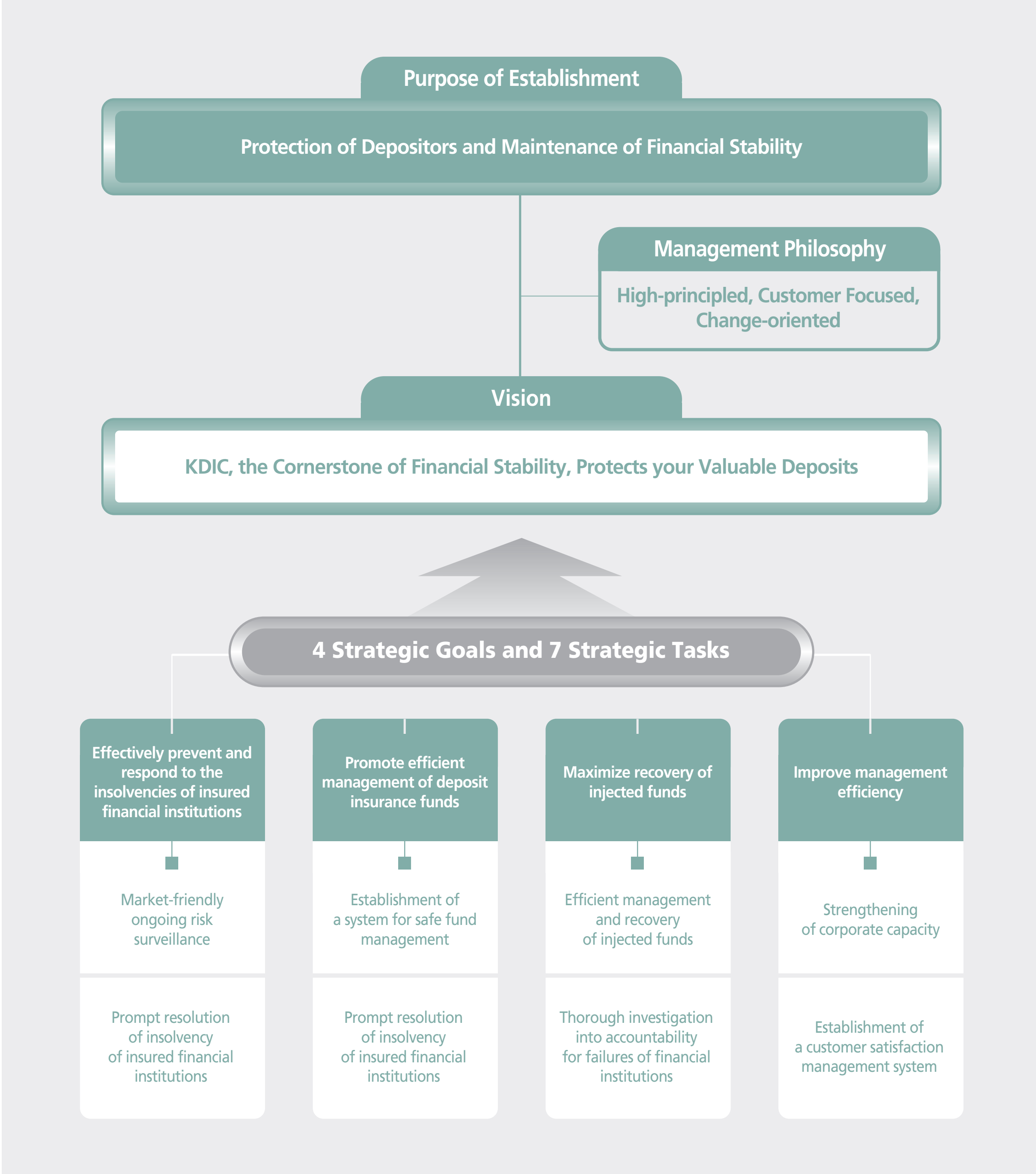
KDIC, the Cornerstone of Financial Stability,
Protects Your Valuable Deposits

**(2) Definition of Keywords**

| Keyword | Classification | Meaning |
|---|---|---|
| KDIC | Founding Principle | The KDIC belongs to the Korean people; All its activities should be in their interest. This is a clear statement that ultimately the reason for its existence is to serve the Korean people. |
| Cornerstone | Role | A deposit insurer that plays an active role in ensuring financial stability based on a system that is consistent with global standards and top-quality expertise |
| Financial Stability | Aim | Creation of an environment where all the participants in the financial market including depositors can safely engage in financial transactions. |
| Protects | Scope of Business | The KDIC has the mandate and responsibility to faithfully provide public insurance services of deposit insurance. The KDIC will exercise its authority in conformity with legal and ethical standards. |
| Your Valuable Deposits | Target of Operations | Financial products of insured financial institutions protected under the Depositor Protection Act ("deposit, etc." in Article 2. 2 of the Depositor Protection Act) |



**(3) A Chart of the Vision and Management Goals**




### C. Strategic Goal, Strategic Tasks and Detailed Action Plan

To realize the new vision and continue to produce results, the KDIC selected 4 mid- to long- term strategic goals and 7 strategic tasks that will remain a priority in its operations. In addition, the Corporation developed detailed action plans to deal with changes in the managerial environment in a flexible manner. The action plans will be implemented in three stages from 2010 to 2012.

【Table Ⅱ-6】Strategic Goals, Strategic Tasks and Detailed Action Plans

| Strategic Goals | Strategic Tasks | Detailed Action Plan for 2010 |
|---|---|---|
| Ⅰ. Effective Response to Insolvency of Insured Financial Institutions | Market-friendly Ongoing Risk Surveillance | • Enhancing ongoing risk surveillance of MSBs |
| | | • Promoting joint examination of insured financial institutions and information sharing |
| | | • Stable operation of the risk surveillance model |
| | | • Provision of risk information tailored to the needs of market participants |
| | Timely Resolution of Failure of Insured Financial Institutions | • Prompt and efficient resolution of insolvent savings banks |
| | | • Developing a plan to improve the resolution process for insolvent savings banks and consultation with financial supervisory authorities |
| | | • Complementing and specifying the manual on how to resolve insolvent financial institutions |
| Ⅱ. Enhancing the Efficiency of DIF Management | Building a System for Stable Fund Management | • Promoting more sound fund management (e.g. reducing losses in the MSB account) |
| | | • Developing and implementing a contingency financing plan for any insolvency of large financial institutions |
| | | • Stricter collection and management of insurance premiums |
| | | • Achieving higher profitability through diversified operation of the DIF |
| | | • Building a stronger foundation to advance fund operation system |
| | | • Making preparations for the implementation of the differential insurance premium system |
| Ⅲ. Maximization of Public Fund Collection | Efficient Management and Collection of Injected Fund | • Efficient sale of stocks and assets in possession of the KDIC |
| | | • Early closure of bankruptcy estates through efficient management of the bankruptcy procedure |
| | | • Thorough management and improvement of MOUs concluded with financial institutions to which the KDIC provided funds |
| | Strict Actions against Persons Implicated in Insolvency | • Fairer and more efficient investigation of accountability for insolvency |
| | | • Continuous investigations into domestic properties of parties implicated in insolvency |
| | | • Continuous investigations into overseas properties of parties implicated in insolvency |
| | | • Arrangement of a plan to expand the scope of countries where investigation of overseas assets can be carried out. |
| | | • Reinforcement of investigation-related capability |
| Ⅳ. Enhancing Management Efficiency | Reinforcing Organizational Capacity | • Operation of the organization around core businesses |
| | | • 12% cut in KDIC's expense budget |
| | | • Personnel management and training system designed to raise the efficiency of and capacity for effective HR management |
| | | • Reasonable operation and improvement of the performance management system |
| | | • Building a seamless cooperation system through IT support |
| | | • Minimization of legal risks by enhancing the expertise of legal staff |
| | | • Enhancing capacity for international cooperation and making more contributions to international cooperation |
| | Building a Customer Satisfaction Management System | • Stronger feedback of customer satisfaction survey results |
| | | • More frequent training for related organizations and citizens to increase their understanding of the depositor protection system |
| | | • Stronger protection for financial consumers e.g. provision of information on the deposit insurance system |
| | | • Stronger protection for financial consumers in relation to bankruptcy estates |



# 3-2. Customer Satisfaction Management

## A. Uncollected Insurance Payment Notification Campaign

In order to protect the rights and interests of depositors, the KDIC launched an Uncollected Insurance Payment Notification Campaign and employed various methods to notify depositors of unclaimed deposits before the five year extinctive prescription period to claim the insurance money expires.

Since 2005, the KDIC has put a lot of effort into publicizing the campaign in various ways such as setting up an Uncollected Insurance Payment Notification System on its website, delivering individual notices, advertising in newspapers and establishing a call center to deal with customer enquiries. In 2008, the KDIC focused on expanding the campaign to reach more people more frequently.

As a result of these efforts, KRW 19.7 billion in previously unclaimed insurance payments was paid out to approximately 57,000 depositors between April 2006 and December 2009.

【Table Ⅱ-7】Uncollected Insurance Payments Delivered to Depositors

(unit : KRW 100 million)

| Apr.~Dec. 2006 | | 2007 | | 2008 | | 2009 | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| # of depositors | Amount | # of depositors | Amount | # of depositors | Amount | # of depositors | Amount | # of depositors | Amount |
| 16,389 | 71 | 31,794 | 87 | 6,119 | 28 | 2,519 | 11 | 56,821 | 197 |

## B. Issuance of Certificate of Employment History and Verification of Liabilities at the Bankruptcy Estates

The KDIC launched a system that issues certificates of employment history and verification of liabilities to provide former employees of bankrupt financial institutions across the country with easy access to their certificates. Without this service, former employees of bankrupted financial institutions often had to travel far distances to visit the financial institutions they used to work for to obtain the necessary certificates to enable them to apply for a new job.

The launch of the new service reduces the inconvenience caused to former employees of bankrupt financial institutions. All they need to do is to log onto the KDIC's website and identify themselves with their accredited online certificates issued by authorized organizations. It takes about three business days for the certificates to be issued and mailed to applicants.

【Table Ⅱ–8】 **Issuance of Certificate of Employment History and Verification of Liabilities**

(As of December 31, 2009)

| Type | Certificate of Employment History[1] | Verification of Employment History[2] | Verification of Liabilities[3] | Total |
|---|---|---|---|---|
| # of issuance | 75 | 296 | 339 | 710 |

1) Certificate of Employment History: Certificate of Employment History for employees of legally closed bankruptcy estates (effective since December 27, 2005)
2) Verification of Employment History: Certificate of Employment History for employees of de facto closed or closure in progress bankruptcy estates (effective since April 30, 2007)
3) Verification of Liabilities: Verification of Liabilities for loan credits held by bankruptcy estates and the KR&C(former RFC) (effective since February 28, 2006)

## C. Uncollected Dividend Notification Campaign

Bankruptcy estates for which the KDIC is chosen as trustee pay out dividends to bankruptcy creditors from money raised by selling assets. However, for some creditors whose address is unknown, there is no way to notify them of the payment. To protect the property rights of bankruptcy creditors, the KDIC launched the Uncollected Dividend Notification Campaign in August 2005.

Until the end of 2009, the KDIC identified addresses of 520,000 bankruptcy creditors with the help of the Ministry of Public Administration and Security, and had the bankruptcy estates send dividend payment notifications to these newly identified addresses. In particular, in 2009, the number of people whose addresses were added or changed increased by five fold compared to a year earlier as a result of an aggressive updating of the addresses of creditors. During the year, addresses of a total of 195,927 creditors were corrected; 95,901 creditors of 88 bankruptcy estates in the first half and 100,026 creditors of 78 bankruptcy estates in the second half. Also, the KDIC built the "Unpaid Dividend Notification System" on its website where a creditor can check if there is unpaid dividend for him or her after an authentication process. In 2009, 4,090 creditors accessed the site to identify unclaimed dividends.

As a result of consistent promotion, the campaign succeeded in paying out dividends worth KRW 181.4 billion (312,190 cases), which had been overdue for 6 months or more, to bankruptcy creditors from August 2005 to December 2009. In 2009 alone, KRW 19.5 billion (91,061 cases) of long-overdue dividends (6 months or longer) were made.

【Table Ⅱ–9】 **Uncollected Dividends Payments Delivered to Bankruptcy Creditors**

(Unit : KRW 100 million)

| Type | | Banks | Securities companies | Insurance companies | Merchant Banks | Mutual Savings Banks | Credit Unions | Total |
|---|---|---|---|---|---|---|---|---|
| 2009 | Amount | 1 | 0.04 | 0.2 | 5 | 189 | 0.2 | 195 |
| | (# of cases) | (1) | (255) | (1,160) | (723) | (88,650) | (272) | (91,061) |
| Aug.2005 ~Dec.2009 | Amount | 97 | 4 | 1 | 329 | 1,381 | 2 | 1,814 |
| | (# of cases) | (118) | (1,753) | (2,421) | (12,582) | (294,338) | (978) | (312,190) |

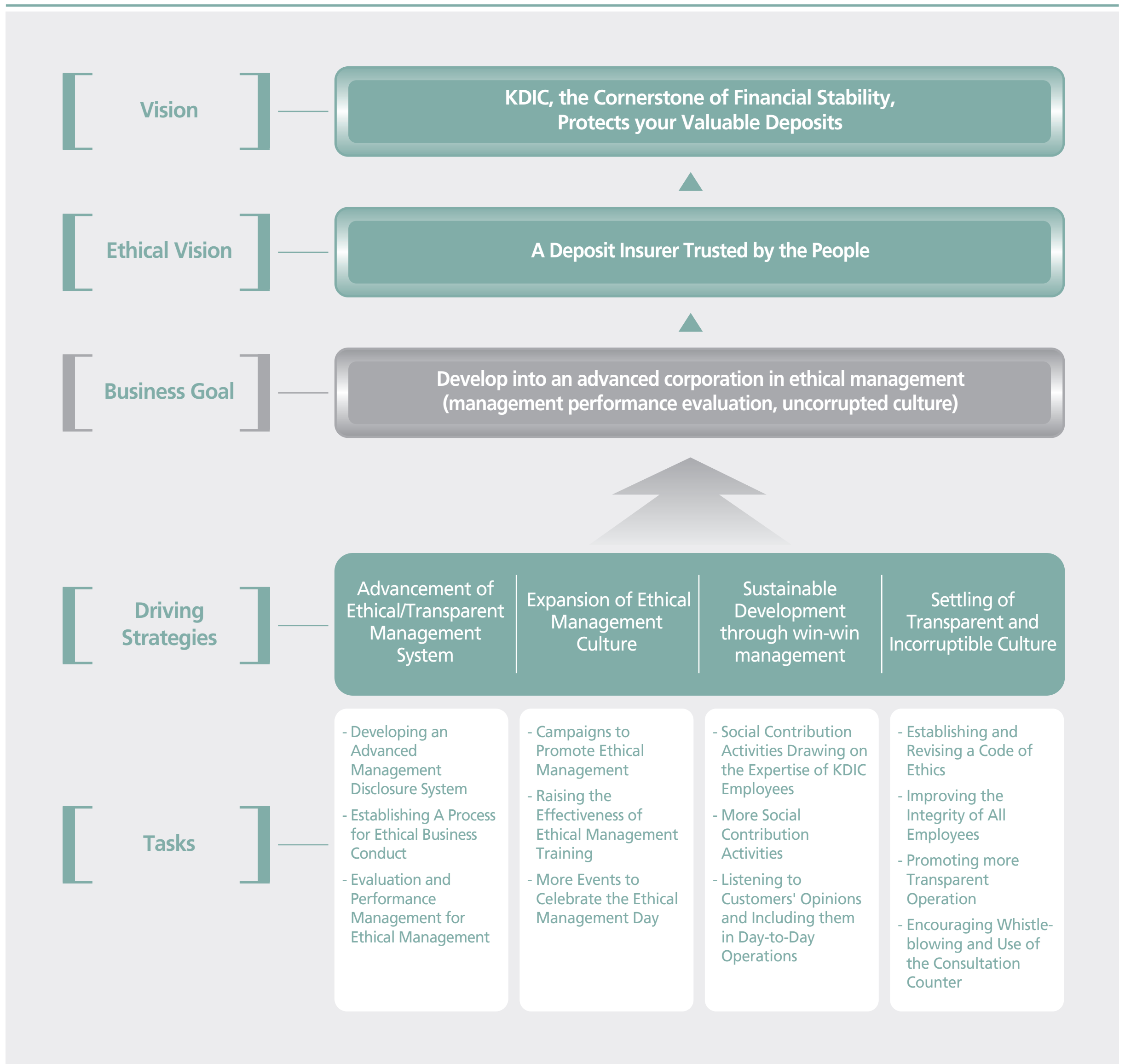


# 3-3. Ethical Management and Social Charity Activities

## A. Ethical Management

To fulfill its social duty as a reliable public agency, the KDIC is promoting ethical management at every level of the company. As part of the effort, the KDIC established a mid-to long-term plan in 2009 to infuse ethical management practices into all aspects of its business, and proposed 4 tasks under 4 major strategies to ensure the systemic implementation of the plan.

【Figure Ⅱ–2】 **Mid-to long-term Ethical Management Promotion Plan**



During 2009, the KDIC upgraded ethical management system and worked towards improving employees' awareness of their responsibilities, fulfilling their social responsibilities as a public agency and acting in a manner befitting a public service company. More specifically, the KDIC strived to raise employees' awareness of their responsibilities in this regard by continuously improving its programs for self-evaluation and employee training. In addition, the KDIC expressed its commitment to ethical management by taking part in publicly verifiable programs; it reported on its progress in fulfilling the requirements of the UNGC (United Nations Global Compact, a United Nations initiative to encourage businesses worldwide to meet their social responsibilities); and it also participated in the KoBEX survey conducted by the Ministry of Knowledge and Economy.



## B. Social Charity Activities

In return for the faith the public has put in the Corporation, all employees of the KDIC are encouraged to participate in ongoing social volunteering activities. The KDIC carried out diverse social volunteering and other charitable acts for low-income families, which not only helped it to affect more people in a more effective way, but also re-confirmed sharing as an integral part of the organization's culture.

In 2009, the KDIC collected KRW 141 million in aid for the "KDIC's Share the Love" program through donations from employees (1 account equals KRW 5,000) and a matching grant from the Corporation. The membership of the KDIC's Share the Love volunteer group, which is co-chaired by the President of the KDIC and the Labor Union Chairman, has increased to 156. The Corporation also converted mileage from corporate credit cards to cash worth KRW 24 million for the KDIC Scholarship for the Young project.

Among major volunteering activities in 2009 were improving relations and expanding cooperation with residents of a rural village with which the KDIC has had good ties since November 2005 under the One Company, One Village Sisterhood Program. During the agricultural off-season, the KDIC invited the residents to introduce the company to them. And, during the farming season, KDIC employees visited the village to help with apple thinning.

Sixteen teams voluntarily organized by KDIC departments carried out the "Matching One Family with One Department Campaign" to aid families and social charity institutions in need by donating their time and money in voluntary works. On every third Tuesday of the month, the KDIC provides free lunch to senior citizens living alone and others in need in cooperation with charity organizations as regular social contribution efforts, not as a one-off event.

In August, the 5th Award Ceremony of KDIC Scholarships was held during which 10 students from low-income families facing difficulties in continuing their studies were given KRW 1 million each in scholarship money. In addition, KDIC staff members volunteered as assistant teachers for classes every third week or Science Day events at Seoul Jungjin School, a school for the disabled, with which the KDIC has a sisterhood relationship.

The KDIC signed agreements with social enterprises, a new business model that is gaining popularity as a way to reduce poverty and create jobs for the vulnerable group, to buy their products as an expression of support for their causes. In December, in conjunction with social charity institutes, the KDIC provided support to the homeless so that they can get back on their feet.

The KDIC engaged in other diverse social contribution activities in order to extend a loving hand to those in need, including the Refurbish Your House with Love Campaign to supply poor families with convenient housing, blood donations to help the injured and the diseased, clean-up of the Chung-gye Stream, which has now become a famous recreation and tourism spot, to preserve its ecological environment, and New Year's and year-end charity events to help the poor in the local community.

【Table Ⅱ-10】 **Major Social Charity Activities**

| Classification | Types | Recipients/ Relative organizations | Details | Activities: No. of times | Activities: No. of people | Donation Amount (Unit, KRW 1,000) |
|---|---|---|---|---|---|---|
| Action Campaigns | Matching One Family with One Department Campaign | ChildFund, etc. | • Supported and helped a family or an organization that each department had voluntarily chosen to provide assistance | 138 | 368 | 20,275 |
| | Supporting Special Schools | Seoul Jungjin School | • Participated as assistants in Saturday classes and spring events of allied school | 9 | 86 | 304 |
| | Building Cooperative Ties with Farming and Fishing Villages | Ungok-ri, Yesan-gun, etc. | • Helped out allied villages, etc. • Promoted exchanging activities between cities and farming villages | 2 | 12 | 4,753 |
| | Free Meal Service | Free Food, etc. | • Performed voluntary work for alienated neighbors in local areas and supported them with free meals | 14 | 87 | 7,400 |
| | Repairng Houses of Love | Habitat | • Performed activity of improving residential environment for needy neighbors | 3 | 25 | 6,000 |
| | Cleaning up Cheong-gye Stream | Cheong-gye Stream Management Team | • Performed beautifying activity to preserve the ecosystem in Cheong-gye Stream | 10 | 88 | 489 |
| | Blood Donation of Love | Korea National Red Cross | • Helped neighbors suffering from the lack of blood | 1 | 36 | - |
| | Coin Collection | World Vision | • Saved coins to support low income households and children, both at home and abroad | 2 | 81 | 1,152 |
| | Individual/Group Activities | - | • Participated in voluntary work, individually or in groups | 77 | 99 | - |
| Donation Campaigns | KDIC Scholarship | Low-income teenagers | • Supported students from low-income backgrounds to keep them educated | 1 | 6 | 10,000 |
| | Consolatory Visit to the Military | Ministry of Patriots & Veterans Affairs | • Acknowledgment services for soldiers | 1 | | 3,500 |
| | Helping Unfortunate Neighbors | Jung-gu Office | • Supported improving the life quality of low-income households | 1 | 3 | 500 |
| | | H20 | • Supported children sponsored by the National Assembly | 1 | | 2,991 |
| | | Sharing & Joy | • Supported food sharing activities for the low-income class | 1 | | 5,000 |
| | | Seoul Association of the deaf | • Provided scholarships to children of the deaf and the hearing-impaired | 1 | | 1,000 |
| | | Sungmo Welfare Center for the Elderly | • Provided winter equipments to elderly dementia center | 1 | | 1,620 |
| | | Han Love Center | • Donated products purchased from preliminary social enterprises to centers for severly disabled | 1 | | 3,000 |
| | | Korean National Tuberculosis Association | • Participated in fund raising campaigns to defeat tuberculosis | 1 | | 450 |
| | | International Corn Foundation | • Participated in campaigns to help poor children across the world | 1 | | 5,000 |
| | | Kyunghee Regional Children Center | • Supported energy efficiency improvement projects for vulnerable children from low-income families | 1 | | 1,000 |
| | | Korean Senior Citizens Association | • Supported senior citizen centers to improve welfare of the elderly | 1 | | 1,000 |
| | | Hanbit Social Welfare Center | • Participated in the rice-sharing campaign to improve life quality of the low-income class | 1 | | 2,000 |
| | | Community Chest of Korea | • Participated in the 2010 Hope Sharing Campaign | 2 | | 20,000 |
| | | Gyeonggi Province Self-Sufficiency Center | • Supported low-income individuals to help them gain financial independence | 1 | | 5,000 |
| Total | | | | 272 | 891 | 102,434 |



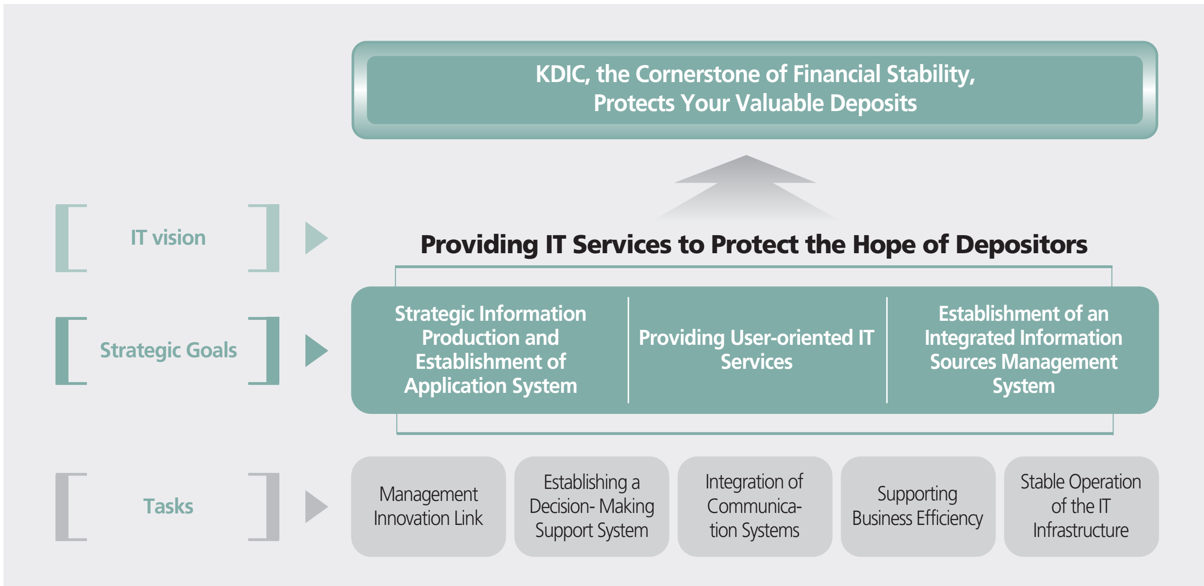
# 3-4. IT Advancement for Vision Achievement

## A. Promotion of Strategies for Systematic IT Advancement

The KDIC established Information Technology Mid- to Long-Term Plans in 2007 to flexibly respond to changes in the IT industry and systematically support the achievement of its vision. Since 2008 and onwards, the company has been implementing action tasks that will be completed over a three-year period.

According to the plan, the year 2009 fell in the stage two of the plan, which aims for a wide uptake of information technology. This involved boosting the quality of IT service and raising the efficiency of the company's business processes by installing new systems and improving existing ones.

【Figure Ⅱ-3】 **IT Advancement Mid- to Long-term Plan and Driving System**




【Table Ⅱ-11】 **New Implementation Tasks for IT Advancement in 2009**

| Objectives | Detailed Action Agendas |
|---|---|
| Ⅰ Support to Improve Business Efficiency | Building an integrated risk surveillance model |
| | Improving the functions of the fund management system (scheduled to be completed in the early half of 2010) |
| Ⅱ Integration of Communication System | Renewal of the website |
| | Improving the functions of the VOC system |
| | IT service operation management system (scheduled to be completed in the early half of 2010) |
| | IT asset management system (scheduled to be completed in the early half of 2010) |
| | Project management system (scheduled to be completed in the early half of 2010) |
| | Building webmail and webhard systems |
| Ⅲ Stable Operation of IT Infrastructure | Optimization of the hardware platform |
| | Advancing the security system |

IT services also became safer and more secure with the introduction of an advanced and integrated server, a system to prevent break-ins, and a harmful site blocking system. In addition, the KDIC successfully completed the installment of new business systems, which was kicked off in 2008, including the advanced risk surveillance model system and the performance management system.

### B. Building an Advanced, User-centric IT Management System

The KDIC started building an integrated IT management system in order to boost the efficiency and quality of its IT service. The integrated IT management system will be composed of an IT service operation management system, a project management system and an IT asset management system. When completed, the system will help to advance the KDIC's IT management system together with the now-in-place information technology architecture (EA) and IT investment performance assessment system.

First, the IT service operation management system is designed to provide user-centric IT services by aligning the company's IT business processes with ISO/IEC 20000 standards and automating them. The need for such a system arose as continuous adoption of IT led to an increase in information resources.

Secondly, the project management system will enable comprehensive management of IT projects, from kick-off to completion, by establishing an international-standards-compatible project management system and applying the Themis methodology, KDIC's own incremental and repetitive development methodology. This system is expected to lay the foundation for the systematic implementation and successful completion of the IT project.

Lastly, the IT asset management system will be used to manage the life-cycle of IT assets (e.g. servers, software and business systems), from introduction to deployment, to maintenance and to disposition, in a more efficient manner. This will enhance the reusability of IT assets and prevent redundant investments.

## 3-5. Dynamic Human Resources and Organizational Culture

### A. Carry-out of Various Programs for Building a Sound Organizational Culture

The KDIC endeavored to improve the quality of communication between its employees and in doing so establish a sound organizational culture. To assist employees who newly joined the KDIC in 2009 to settle in with ease, the Corporation offered a 6-month mentoring program for them after they were allocated to their respective departments. Also, the KDIC has been hosting Tang Day (translated to 'soup day'), during which employees get the opportunities to join in conversations with executive officers over lunch. Another day that has become institutional is Hof Day (translates to 'beer day') when employees share time with the departmental leaders over a few beers. During 2009, the KDIC management and staff from different departments partook in a combined total of 21 Tang Day and 70 Hof Day events. In the meantime, during the training program provided to staff who are about to become managers over 2 nights and 3 days, program participants were given time to spend with representatives from senior management level.

To build cooperative ties between staff, various events were organized. To improve employee's focus on the importance of health and allow them some time to relax and get to know each other better, the KDIC allowed each department an afternoon off in spring and fall to have some sort of sporting event. Annual conferences aimed at certain groups of employees were also held; in July for department heads, in August for team leaders and in December for staff in grade four or five.

To make the work environment more enjoyable, the KDIC operated an experience-based training program throughout the year in which a total of 15 employees from four teams participated. In January, the KDIC welcomed sons and daughters of employees and held events such as the KDIC Children's Day. Since 2005, the company has helped staff to look after their health and exercise self-restraint by giving ergonomics training and weight loss programs.

### B. Reorganization for Enhancing the Role of Deposit Insurer and Raising Operation Efficiency

With an organizational reshuffle in January, the KDIC tried to enhance its role as a deposit insurer by reorganizing the risk surveillance department and the resolution department. On the other hand, organization and manpower dedicated to asset management related to the recovery of public fund were streamlined through reorganization of the collection department and the investigation department.

After cutting 12% of staff in 2008, the KDIC made additional attempts at raising management efficiency in 2009: it closed the only remaining local branch, Yeongnam, and shut down the RFC, a subsidiary company, by converting it to a paper company with no organization and staff called the KR&C.

### C. A Fairer Strategic Performance Management System (Balanced Score Card)

The KDIC introduced the strategic performance management system (BSC) in 2005 as part of effort to create a performance-oriented organizational culture. The basic unit for BSC assessment was department in 2006, and team in 2007. In 2009, the computerization system for BSC and detailed guidelines for performance management were put in place, which enabled more systematic and fairer enforcement of the BSC system. Furthermore, a pilot measure for individual BSC assessment is expected to lay the foundation for performance management on an individual level.

# III Management of the Deposit Insurance

**As of January 1, 2003, the Public Fund Redemption Plan (Redemption Plan), prepared by the government in 2002, separated the assets and liabilities of the existing Deposit Insurance Fund (DIF) that had been used in the restructuring process, and established the Deposit Insurance Fund Bond Redemption Fund (Redemption Fund). The Redemption Fund was established to facilitate the completion of the financial restructuring efforts, recovery and repayment of public funds. The new DIF, which started from a clean slate with insurance premiums from 2003, has been used for the day-to-day operations of the Fund relating to insolvencies from 2003 onwards.**

## 1. Deposit Insurance Fund Bond Redemption Fund

### 1-1. Procurement and Redemption of the Deposit Insurance Fund

#### A. Special Assessment Payments

Pursuant to paragraph 3 of Article 30 of the Depositor Protection Act (DPA) and paragraph 2 of Article 16 of the DPA Enforcement Decree, for the period from 2003 to 2027, insured financial institutions are required to pay a given ratio of their deposit balances (deposit balances for insurance companies, for example, would be the arithmetic average of the deposit liability reserve fund and the premiums received) to the KDIC, as Special Assessment Payments (SPAs). At present, banks are required to pay SAPs within one month following the end of each quarter. Other insured financial institutions are required to pay their premiums within three months following the end of each business year. In 2009, the KDIC received SAPs in the amount of KRW 866 billion from six insured financial sectors and credit union sector.



**【Table Ⅲ-1】 Special Contributions by Financial Sector**

| Sector | Banks | Financial Investment Companies | Insurance Companies | Merchant Banks | MSBs | Credit Unions |
|---|---|---|---|---|---|---|
| Special Contribution Rate | 1/1,000 | 1/1,000 | 1/1,000 | 1/1,000 | 1/1,000 | 5/10,000[1] |
| Legal Upper Limit | 3/1,000 | 3/1,000 | 3/1,000 | 3/1,000 | 3/1,000 | 3/1,000 |

1) Special contribution rate applied to credit unions was changed from 1/10,000 to 5/10,000 effective from 2007.

**【Table Ⅲ-2】 Special Contribution Revenue**

(Unit : KRW 100 million)

| Year | Banks | Financial Investment Companies | Insurance Companies | | Merchant Banks | MSBs | Credit Unions[1] | Total |
|---|---|---|---|---|---|---|---|---|
| | | | Life | Non-Life | | | | |
| 2003 | 4,775 | 156 | 889 | 185 | 20 | 222 | - | 6,247 |
| 2004 | 4,956 | 168 | 978 | 198 | 6 | 264 | - | 6,570 |
| 2005 | 4,871 | 145 | 1,069 | 219 | 5 | 319 | - | 6,628 |
| 2006 | 4,987 | 151 | 1,160 | 242 | 6 | 370 | 216 | 7,133 |
| 2007 | 5,027 | 156 | 1,265 | 278 | 7 | 430 | 116 | 7,280 |
| 2008 | 4,976 | 185 | 1,364 | 319 | 8 | 491 | 129 | 7,472 |
| 2009 | 5,965 | 169 | 1,430 | 352 | 10 | 593 | 137 | 8,656 |
| Total | 35,557 | 1,130 | 8,155 | 1,792 | 62 | 2,689 | 598 | 49,986 |

1) Credit unions make payments from 2006 to 2017.

#### B. Contributions from the Public Fund Redemption Fund

In accordance with the redemption plan, the KDIC has received a total of KRW 52.31 trillion as contributions from the Redemption Fund during the four year period from 2003 to 2006 and completely repaid the principal of the Deposit Insurance Fund Bonds (DIF Bonds). As a result, the KDIC has no longer been receiving from the government since 2007.

#### C. Issuance and Redemption of Deposit Insurance Fund Bonds

As provided for in Article 26-2 and 26-3 of the DPA, the KDIC can issue DIF Bonds. During 1998-2002, the KDIC issued DIF Bonds amounting to a total of KRW 87.16 trillion.

With the establishment of the Redemption Fund in 2003, the outstanding balance of DIF Bonds of KRW 80.97 trillion as of the end of 2002 was placed under the Redemption Fund. The DIF Bonds that matured since 2003 were repaid with contributions from the Redemption Fund, capital raised through the issuance of DIF Bond Redemption Fund bonds ("Redemption Fund bonds") and existing funds in the Redemption Fund, etc. Hence, all DIF Bonds were paid up as of the end of 2008.

【Table Ⅲ-3】Issuance and Redemption of DIF Bonds by Year

(Unit : KRW 100 million)

| Issue Year | Issued Amount | Repaid Amount | Balance |
|---|---|---|---|
| 1998 | 210,150 | - | 210,150 |
| 1999 | 224,850 | - | 435,000 |
| 2000 | 89,407 | - | 524,407 |
| 2001 | 310,593 | 14,640 | 820,360 |
| 2002 | 36,600 | 47,215 | 809,745 |
| 2003 | - | 97,371 | 712,374 |
| 2004 | - | 166,228 | 546,146 |
| 2005 | - | 180,904 | 365,242 |
| 2006 | - | 190,636 | 174,606 |
| 2007 | - | 60,673 | 113,933 |
| 2008 | - | 113,933 | - |
| Total | 871,600 | 871,600 | - |

### D. Issuance and Redemption of Deposit Insurance Fund Bond Redemption Fund Bonds

In terms of Article 26-2 and 26-3 of the DPA, the KDIC is authorized to issue Redemption Fund Bonds to repay the principal of DIF Bonds. In 2008, the Corporation issued Redemption Fund Bonds in the amount of KRW 5.86 trillion through public offering at a fixed rate, with a three-year maturity (KRW 2.97 trillion) and five-year maturity (KRW 2.89 trillion). Meanwhile, as the KDIC repaid KRW 6.5 trillion that matured in 2009, the balance as of 2009 stood at KRW 27.32 trillion.

【Table Ⅲ-4】Issuance and Redemption of DIF Bond Redemption Fund Bonds

(Unit : KRW 100 million)

| Issue Year | Issued Amount | Repaid Amount | Balance |
|---|---|---|---|
| 2004 | 65,000 | - | 65,000 |
| 2005 | 74,400 | - | 139,400 |
| 2006 | 28,705 | 3,155 | 164,950 |
| 2007 | 27,200 | 450 | 191,700 |
| 2008 | 88,000 | 100 | 279,600 |
| 2009 | 58,600 | 65,000 | 273,200 |
| Total | 341,905 | 68,705 | 273,200 |

### E. Borrowings

Pursuant to article 26 of the DPA, the KDIC is authorized, when necessary, for payment of insurance claims or resolution of insolvent financial institutions, to borrow funds from various entities including the government, the Bank of Korea, insured financial institutions and institutions stipulated by Presidential Decree. The Corporation borrowed necessary funds from the IBRD, the ADB and financial institutions up to 2002.

The previous borrowings of the KDIC were placed under the Redemption Fund which was established in 2003. As the KDIC was exempted from repaying all previous fiscal borrowings, in accordance with the Public Fund Redemption Fund Act, it has not borrowed any monies since January 1, 2003. In 2008, the Corporation repaid KRW 116.8 billion of the principal amount of loans from the IBRD, leaving the outstanding balance of its borrowings as the end of 2009 at KRW 467.2 billion.

【Table Ⅲ-5】Borrowings of DIF Bond Redemption Fund

(Unit : KRW 100 million)

| Year | Lender Institution | | | | Repaid Amount | Outstanding Balance |
|---|---|---|---|---|---|---|
| | Financial Institutions | IBRD and ADB[1] | Government | Total | | |
| Amount Received | 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 |
| 2001 | - | 8 | 49,672 | 49,680 | 110,196 | 160,493 |
| 2002 | - | - | 59,553 | 59,553 | 3 | 220,043 |
| 2003 | - | - | - | - | 195,993 | 24,050 |
| 2004 | - | - | - | - | 11,168 | 12,882 |
| 2005 | - | - | - | - | 3,538 | 9,344 |
| 2006 | - | - | - | - | 1,168 | 8,176 |
| 2007 | - | - | - | - | 1,168 | 7,008 |
| 2008 | - | - | - | - | 1,168 | 5,840 |
| 2009 | - | - | - | - | 1,168 | 4,672 |
| Total | 183,204 | 14,453 | 185,594 | 383,251 | 378,579 | 4,672 |

1) International Bank for Reconstruction and Development(IBRD) and Asian Development Bank(ADB)

## 1-2. Assistance

### A. Overview

The KDIC provides public funds from the Redemption Fund, in the form of insurance claim payments and equity participation etc., to enable the resolution of insolvent financial institutions. In accordance with the DPA, the Redemption Fund is responsible for costs arising from the resolution of financial institutions that have become, or were designated as, insolvent financial institutions before the end of 2002.

The Redemption Fund provided a total of KRW 107.3 trillion in public funds during 2009, of which KRW 3.8 billion (3.5%) was for equity participation and KRW 103.5 billion (96.5%) for insurance claims and purchase of assets.

**【Table Ⅲ－6】 Financial Assistance by DIF in 2009**

(Unit : KRW 100 million)

| Financial Sector | Contribution | Insurance Claim Payment[1] | Asset Purchase | Total |
|---|---|---|---|---|
| Banks | 1 | - | - | 1 |
| Financial Investment Companies | 16 | - | 1,161 | 1,177 |
| Insurance Companies | 20 | - | - | 20 |
| Merchant Banks | - | △126 | - | △126 |
| MSBs | - | 0.4 | - | - |
| Credit Unions | - | 0.4 | - | - |
| Total | 38 | △126 | 1,161 | 1,073 |

1) Refund of advanced payment, etc.

The total amount of public funds provided by the Redemption Fund for the restructuring of financial institutions came to KRW 112.5 trillion as of year-end 2009. This amount includes KRW 48.92 trillion (43.5%) in equity participation for management normalization, KRW 18.6 trillion (16.5%) in contribution for P&As (purchase and assumptions), KRW 30.31 trillion (27.0%) for payments of insurance claims and KRW 14.66 trillion (13.0%) for the purchase of other assets and loans.

**【Table Ⅲ－7】 Accumulated Financial Assistance by DIF Bond Redemption Fund[1]**

(As of December 31, 2009, Unit: KRW 100 million)

| Financial Sectors | Equity Participation | Contribution | Insurance Claim Payment | Asset Purchase | Loan | Total |
|---|---|---|---|---|---|---|
| Banks | 222,039 | 139,093 | - | 100,064 | - | 461,196 |
| Financial Investment Companies | 80,769 | 4,060 | 113 | 21,239 | - | 106,181 |
| Insurance Companies | 159,198 | 31,191 | - | 3,495 | - | 193,884 |
| Merchant Banks | 27,052 | 7,431 | 182,718 | - | 12,917 | 230,118 |
| MSBs | 101 | 4,157 | 72,892 | - | 8,532 | 85,683 |
| Credit Unions | - | - | 47,402 | - | 367 | 47,769 |
| Total | 489,158 | 185,932 | 303,125 | 124,799 | 21,817 | 1,124,831 |

1) Including KRW 1.6 trillion in financial assistance provided by former Korea Non-bank Deposit Insurance Corporation



## B. Assistance by Financial Sector

### (1) Banks

In 1999, a formal agreement was entered into with New Bridge Capital for the sale of Korea First Bank. The agreement stated that the KDIC would provide financial support in the form of contributions to the bank for the losses incurred as a result of lawsuits concerning business operations prior to the acquisition of the bank by New Bridge Capital. In 2009, the KDIC contributed KRW 80 million to the bank for this purpose.

**【Table Ⅲ－8】 Financial Assistance Provided to Banks**

(As of December 31, 2009 Unit: KRW 100 million)

| Name of Institution | Equity Participation | | | | | Contribution | | | | | Asset Purchase | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Prior to 2005 | 2006 | 2007 | 2008 | 2009 | Prior to 2005 | 2006 | 2007 | 2008 | 2009 | Prior to 2005 | 2006 | 2007 | 2008 | 2009 |
| Korea First | 50,248 | | - | - | - | 11,383[1] | 4 | 42 | 2 | 0.8 | 79,476 | - | - | - | |
| Woori | 60,286 | - | - | - | - | 18,772 | - | - | - | - | - | - | - | - | |
| Seoul | 46,809 | - | - | - | - | 2,216 | - | - | - | - | - | - | - | - | |
| Chohung | 27,179 | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| Peace | 4,930 | - | - | - | - | 3,386 | - | - | - | - | - | - | - | - | |
| Kyungnam | 2,590 | - | - | - | - | 938 | - | - | - | - | - | - | - | - | |
| Kwanju | 1,704 | - | - | - | - | 2,714 | - | - | - | - | - | - | - | - | |
| Jeju | 531 | - | - | - | - | 1,651 | - | - | - | - | - | - | - | - | |
| Kookmin | 2,000 | - | - | - | - | 18,319 | - | - | - | - | 179 | - | - | - | |
| H&CB | 2,965 | - | - | - | - | 18,075 | - | - | - | - | 538 | - | - | - | |
| Shinhan | 2,925 | - | - | - | - | 25,204 | - | - | - | - | 591 | - | - | - | |
| Hana | 4,728 | - | - | - | - | 11,161 | - | - | - | - | 54 | - | - | - | |
| KorAm | 2,600 | - | - | - | - | 24,356 | - | - | - | - | 226 | - | - | - | |
| KDB | - | - | - | - | - | - | - | - | - | - | 13,000 | - | - | - | |
| IBK | - | - | - | - | - | - | - | - | - | - | 6,000 | - | - | - | |
| AC | 962 | - | - | - | - | 870 | - | - | - | - | - | - | - | - | |
| FC | 11,581 | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| Chungbuk | - | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| KR&C | 1 | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| Total | 222,039 | - | - | - | - | 139,045 | 4 | 42 | 2 | 0.8 | 100,064 | - | - | - | |

1) Includes KRW 407.9 billion in asset purchase according to post-sale settlement

### (2) Financial Investment Companies

In 2009, the KDIC provided additional contribution worth KRW 1.54 billion and KRW 20 million to Korea Investment & Securities and Daehan Investment & Securities, respectively, following the sale of the two companies in 2005. In accordance with the indemnification clause in the Agreement on Sale and Purchase of Shares, this measure was aimed at covering lawsuit-related losses incurred by the companies.

Upon the disposition of its stake in Prudential Investment & Securities (formerly Hyundai Securities), the KDIC, in accordance with the Agreement of Sales and Purchase of Shares, provided KRW 80 million as contributions to the company for indemnification and purchased KRW 116.1 billion of subordinated CBOs pursuant to cover shortfalls in the Redemption Fund for an SPC established by Hyundai Investment & Securities.



### 【Table Ⅲ-9】 Financial Assistance Provided to Financial Investment Companies

(As of December 31, 2009, Unit: KRW 100 million)

| Name of Institution | Equity Participation | | Contribution | | Asset Purchase | | Insurance Claim Payment[1] | |
|---|---|---|---|---|---|---|---|---|
| | 2009 and Earlier | 2009 | 2009 and Earlier | 2009 | 2009 and Earlier | 2009 | 2009 and Earlier | 2009 |
| Jangeun Securities | - | - | - | - | - | - | 40 | - |
| Dongbang Peregrine Securities | - | - | - | - | - | - | 100 | - |
| Hannam Investment & Securities | - | - | - | - | - | - | 1 | - |
| Korea Industrial Securities | - | - | - | - | - | - | 3 | - |
| Korea Investment & Securities | 38,649 | - | 768 | 15,4 | 4,830 | - | - | - |
| Daehan Investment & Securities | 23,003 | - | 629 | 0.2 | 6,539 | - | - | - |
| Prudential Securities | 19,116 | - | 2,645 | 0.8 | 8,709 | 1,161 | - | - |
| Total | 80,769 | - | 4,043 | 16.4 | 20,078 | 1,161 | 144 | - |

1) Based on the amount of required payments

### (3) Insurance Companies

■ In 2009, the KDIC provided KRW 2 billion to insurance companies as contributions. In April 2009, the KDIC contributed KRW 1.8 billion to Mirae Asset Life (formerly SK Life Insurance Company) to indemnify for legal costs it spent to defend a case for invalidation of dismissal raised during the indemnification period in relation to Mirae's acquisition of Kookmin and Handuk Life Insurance Companies. As the court ruled in favor of Mirae Asset Life in 2008, the KDIC had to contribute KRW 0.23 billion to KB Life Insurance as KB requested the KDIC to cover its payment of unclaimed insurance policies upon customer requests from May 31, 2006 to March 31, 2009. KB Life already returned money from unclaimed insurance policies, not paid to customers until May 31, 2006, to the KDIC on June 26, 2006 in accordance with Article 4 of the Contribution Agreement from the reserve for outstanding claims transferred from Hanil Life Insurance.





### 【Table Ⅲ-10】 Financial Assistance Provided to Insurance Companies

(As of December 31, 2009 Unit: KRW 100 million)

| Name of Institution | | Equity Participation | | | | | Equity Participation | | | | | Equity Participation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Prior to 2005 | 2006 | 2007 | 2008 | 2009 | Prior to 2005 | 2006 | 2007 | 2008 | 2009 | Prior to 2005 | 2006 | 2007 | 2008 | 2009 |
| Seoul Guarantee | | 102,500 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Korea Life | | 35,500 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Korea Life (Acquisition of Hyundai life) | | - | - | - | - | - | 7,716 | - | - | - | - | 48 | - | - | - | - |
| Korea Life (Acquisition of Samshin life) | | - | - | - | - | - | 1,518 | - | - | - | - | - | - | - | - | - |
| Daehan Cement (Acquisition of Daehan Fire) | | 0.5 | - | - | - | - | 509 | - | - | - | - | - | - | - | - | - |
| KunWha Parmaceutical (Acquisition of Green Fire) | | 0.5 | - | - | - | - | 739 | - | - | - | - | - | - | - | - | - |
| Kumho Life (Acquisition of Dong-ah life) | | 10,922 | - | - | - | - | 754 | - | - | - | - | 2,711 | - | - | - | - |
| SK Life (Acquisition of Handuck life) | | 2,862 | - | - | - | - | 298 | - | - | - | - | 168 | - | - | - | - |
| Tongyang Life (Acquisition of Taepyongyang life) | | 2,597 | - | - | - | - | 451 | - | - | - | - | 289 | - | - | - | - |
| SK Life (Acquisition of Handuck life) | | 3,350 | - | - | - | - | 387 | - | - | - | 18 | 279 | - | - | - | - |
| Hyundai Life (Acquisition of Chosun life) | | 1,166 | - | - | - | - | 111 | - | - | - | - | - | - | - | - | - |
| Korea Life (Acquisition of Doowon life) | | 300 | - | - | - | - | 2,967 | - | - | - | - | - | - | - | - | - |
| Samsung Life (Acquisition of Gookje life) | | - | - | - | - | - | 4,351 | - | - | - | - | - | - | - | - | - |
| Kyobo Life (Acquisition of BYC life) | | - | - | - | - | - | 2,411 | - | - | - | - | - | - | - | - | - |
| Heungkook Life (Acquisition of Taeyang Life) | | - | - | - | - | - | 2,792 | - | - | - | - | - | - | - | - | - |
| Jeil Life (Acquisition of Koryo Life) | | - | - | - | - | - | 2,087 | - | - | - | - | - | - | - | - | - |
| Acquisition of Regent Fire | Oriental Fire | - | - | - | - | - | 225 | 16 | - | - | - | - | - | - | - | - |
| | Samsung Fire | - | - | - | - | - | 1,526 | 5 | - | - | - | - | - | - | - | - |
| | Hyundai Marine & Fire | - | - | - | - | - | 437 | 9 | - | - | - | - | - | - | - | - |
| | LG Fire | - | - | - | - | - | 193 | 4 | - | - | - | - | - | - | - | - |
| | Dongbu Fire | - | - | - | - | - | 5 | 5 | - | - | - | - | - | - | - | - |
| Green Cross Life (Acquisition of Daishin Life) | | - | - | - | - | - | 1,393 | - | - | - | - | - | - | - | - | - |
| KB Life (Acquisition of Hanil Life) | | - | - | - | - | - | 262 | - | - | - | 2 | - | - | - | - | - |
| Total | | 159,198 | - | - | - | - | 31,132 | 39 | - | - | 20 | 3,495 | - | - | - | - |

### (4) Merchant Banks

During 2009, the KDIC did not provide any funds to merchant banks in the form of equity participation or contributions. However, Dongsuh Horizon Securities, a depositor of Hankook Merchant Bank, filed a lawsuit against the KDIC for the payment of insurance claims. The KDIC lost part of the case, and had to pay KRW 50 million in deposit insurance.

**【 Table Ⅲ-11 】 Financial Assistance Provided to Merchant Banks**

(As of December 31, 2009, KRW 100 million)

| Name of Institution | Equity Participation | | Contribution | | Deposit Payoff | | Loan | |
|---|---|---|---|---|---|---|---|---|
| | 2008 and Earlier | 2009 | 2008 and Earlier | 2009 | 2008 and Earlier | 2009 | 2008 and Earlier | 2009 |
| Kyungnam | - | - | - | - | 5,652 | - | - | - |
| Kyungil | - | - | - | - | 2,990 | - | - | - |
| Koryo | - | - | - | - | 4,706 | - | - | - |
| Kumho | - | - | - | - | - | - | 375 | - |
| Nara | - | - | - | - | 27,779 | - | - | - |
| Daegu | - | - | - | - | 6,725 | - | 502 | - |
| Daehan | - | - | - | - | 25,903 | - | - | - |
| Tongyang | - | - | - | - | - | - | 1,200 | - |
| Samsam | - | - | - | - | 8,145 | - | - | - |
| Samyang | - | - | - | - | 3,194 | - | 250 | - |
| Saehan | - | - | - | - | 7,889 | - | 4,238 | - |
| Shinsegae | - | - | - | - | 7,520 | - | - | - |
| Shinhan | - | - | - | - | 22,242 | - | - | - |
| Ssayngyong | - | - | - | - | 6,662 | - | - | - |
| Youngnam | 1,717 | - | - | - | 1 | - | 370 | - |
| Ulsan | - | - | - | - | - | - | 200 | - |
| Jeil | - | - | - | - | 16,529 | - | 1,118 | - |
| Joongang | 0.5 | - | - | - | - | - | - | - |
| Chungsol | 121 | - | - | - | 1,477 | - | 1,275 | - |
| Hanaro | 24,912 | - | 7,431 | - | - | - | - | - |
| Korea | 0.5 | - | - | - | 127 | △126.5 | 914 | - |
| Hangil | - | - | - | - | 6,547 | - | 1,139 | - |
| Hansol | - | - | - | - | 9,220 | - | - | - |
| Hans | 0.5 | - | - | - | - | - | 300 | - |
| Hanareum | 300 | - | - | - | - | - | - | - |
| Hanwoi | - | - | - | - | - | - | 531 | - |
| Hanwha | - | - | - | - | 14,343 | - | - | - |
| Hangdo | - | - | - | - | 5,194 | - | - | - |
| Hyundai | - | - | - | - | - | - | 505 | - |
| Total | 27,052 | - | 7,431 | - | 182,845 | △126.5 | 12,917 | - |

### (5) Mutual Savings Banks

During 2009, the KDIC did not provide any funds to MSBs in the form of equity participation, contributions or loans.

**【 Table Ⅲ-12 】 Financial Assistance Provided to MSBs**

(As of December 31, 2009, Unit: KRW 100 million)

| Name of Institution | Equity Participation | | Contribution | | Loan | |
|---|---|---|---|---|---|---|
| | 2008 and Earlier | 2009 | 2008 and Earlier | 2009 | 2008 and Earlier | 2009 |
| New Choongbuk | 100 | - | - | - | 161 | - |
| Kisan | - | - | - | - | 541 | - |
| Dongwha | - | - | - | - | 639 | - |
| Ilshin | - | - | - | - | 155 | - |
| Dong-ah | - | - | - | - | 104 | - |
| Kyungbuk | - | - | - | - | 170 | - |
| Saenuri | - | - | 13 | - | 413 | - |
| Daewon | - | - | - | - | 563 | - |
| Choongil | - | - | - | - | 89 | - |
| Daejeon | - | - | - | - | 102 | - |
| Haedong | - | - | - | - | 263 | - |
| Choongnam | - | - | - | - | 45 | - |
| Pusan2 | - | - | - | - | 271 | - |
| Union | - | - | 39 | - | 518 | - |
| Arim | - | - | - | - | 615 | - |
| Korea Investment(Dongwon) | - | - | 63 | - | 783 | - |
| MS (Choil) | - | - | 29 | - | 738 | - |
| Domin | - | - | 28 | - | 709 | - |
| Kyunggi | - | - | 254 | - | 1,654 | - |
| Boomin | - | - | 243 | - | - | - |
| Hanmaum | - | - | 521 | - | - | - |
| Kyungbuk | - | - | 81 | - | - | - |
| Shilla (Telson) | - | - | 775 | - | - | - |
| Hanaro | - | - | 422 | - | - | - |
| Solomon | - | - | 663 | - | - | - |
| J-1 | - | - | 325 | - | - | - |
| Sangup | - | - | 701 | - | - | - |
| KR&C | 1[1] | - | - | - | - | - |
| Total | 101 | - | 4,157 | - | 8,532 | |

1) Equity participation in Hanareum Mutual Credit Cooperatives that merged into the Resolution & Finance Corporation as of December 2001

Meanwhile, the KDIC paid a total of KRW 40 million to MSBs in 2009 as additional insurance payments were made because the reasons for referral of payments had been removed, and some previously paid insurance claims were recouped due to the extinctive prescription on paid insurance claims.

【Table Ⅲ-13】 Insurance Claim Payments to MSBs

(Unit: KRW 100 million)

| Year | No. of Institutions[1] | Payment Amount |
|---|---|---|
| 1998 | 17 | 14,705 |
| 1999 | 19 | 14,272 |
| 2000 | 11 | 6,500 |
| 2001 | 5 | 29,537 |
| 2002 | 10 | 7,719 |
| 2003 | 7 | 5 |
| 2004 | 8 | 26 |
| 2005 | 7 | 1 |
| 2006 | 8 | 3 |
| 2007 | 2 | 128 |
| 2008 | - | △4 |
| 2009 | 1 | 0.4 |
| Total | - | 72,892 |

1) The total number of institutions provided with insurance claim payments from the DIF Bond Repayment Fund is 70.

### (6) Credit Unions

The KDIC has not dealt with any new insolvent credit unions since 2004 as, pursuant to Article 2 and addenda to the Depositor Protection Act, these unions were excluded from deposit insurance cover. However, additional insurance payments were made to unions if the reasons for referral of payments have been removed. Due to the expired extinctive prescription on paid insurance claims, in 2009 the KDIC recouped KRW 40 million in insurance claims previously paid but not claimed.



【Table Ⅲ-14】 Insurance Claim Payments to Credit Unions

(Unit: KRW 100 million)

| Year | No. of institutions[1] | Payment Amount |
|---|---|---|
| 1998 | 39 | 4,306 |
| 1999 | 95 | 8,302 |
| 2000 | 122 | 3,991 |
| 2001 | 127 | 3,892 |
| 2002 | 235 | 16,060 |
| 2003 | 248 | 10,951 |
| 2004 | 173 | 61 |
| 2005 | 195 | 16 |
| 2006 | 196 | △1 |
| 2007 | 77 | 3 |
| 2008 | 19 | 178 |
| 2009 | 1 | 0.4 |
| Total | - | 47,402 |

1) The total number of institutions provided with insurance claim payments from the DIF Bond Repayment Fund is 327.

## 1-3. Recovery

### A. Overview

Depending on the nature of the support extended, the KDIC uses a number of methods to recover public funds. First, it recovers funds injected in the form of equity participation through disposition of its equity stakes. For financial institutions that have closed because their liabilities exceeded their assets, it recovers funds provided as contributions on deposit payoffs by proving a claim against and receiving

【Table Ⅲ-15】 DIF Bond Redemption Fund Recoveries in 2009

(Unit: KRW 100 million)

| Financial Sector | Equity Participation | Contribution | Bankruptcy Dividend[1] | Asset Sale[2] | Recovery of Loan | Total |
|---|---|---|---|---|---|---|
| Banks | 10,405 | 16 | 379 | 2,620 | - | 13,420 |
| Financial Investment Companies | - | 257 | 9 | 4,319 | - | 4,585 |
| Insurance Companies | 1,876 | 17 | 20 | 320 | - | 2,234 |
| Merchant Banks | 251 | - | 4,157 | - | 10 | 4,418 |
| MSBs | - | 4 | 1,002 | - | 73 | 1,079 |
| Credit Unions | - | - | 266 | - | - | 266 |
| Total | 12,532 | 295 | 5,833 | 7,259 | 84 | 26,002 |

1) Includes bankruptcy dividend resources reimbursed by resolution financial institutions
2) Includes asset sale proceeds reimbursed by resolution financial institutions

dividends from the bankruptcy estates of the institution concerned. Third, in the case where the Corporation has taken over assets of and extended loans to financial institutions, it recovers the funds through the disposal of the assets or collection of the loans using a variety of methods. The accumulated amount of public funds recovered as of the end of 2009 recorded KRW 45.88 trillion including KRW 2.60 trillion recovered in 2009 alone.

【Table Ⅲ-16】 **Accumulated DIF Bond Redemption Fund Recoveries**[1)]

(As of December 31, 2009, Unit: KRW 100 million)

| Financial Sector | Equity Participation | Contribution | Dividend[2)] | Asset Sale[3)] | Recovery of Loan | Total |
|---|---|---|---|---|---|---|
| Banks | 144,507 | 687 | 17,964 | 55,178 | - | 218,335 |
| Financial Investment Companies | 12,121 | 3,207 | 74 | 12,539 | - | 27,943 |
| Insurance companies | 25,924 | 884 | 4,114 | 2,197 | - | 33,119 |
| Merchant Banks | 998 | 59 | 79,347 | - | 10,462 | 90,867 |
| MSBs | - | 334 | 48,164 | - | 6,122 | 54,620 |
| Credit Unions | - | 4 | 33,565 | - | 355 | 33,924 |
| Total | 183,549 | 5,176 | 183,227 | 69,914 | 16,939 | 458,806 |

1) Includes KRW 1.3 trillion recovered from funds injected by former Korea Non-bank Deposit Insurance Corporation
2) Includes bankruptcy dividend resources reimbursed by the resolution financial institutions
3) Includes asset sale proceeds reimbursed by the resolution financial institutions

## B. Disposition of Equity Stake

### (1) Banks

In 2009, the KDIC recovered KRW 1. 65 trillion in total by selling shares in Woori Financial Group and redeeming callable preferred shares in Shinhan Financial Group. As for Woori, a block sale in November of 7% shares brought the KDIC KRW 866 billion. Even though stock market collapses in the wake of the global financial crisis had presented difficulties for the company in disposing of its equity stake, the situation started improving in the second half of 2009. Considering market developments such as a rebound in Woori's share price, the KDIC went ahead with the share sale and successfully sold a 7% stake. For Shinhan, its recovery efforts included KRW 13.1 billion from a sale of new stock purchase warrants in March, KRW 168.5 billion by redeeming callable preferred stocks in August and KRW 17.9 billion received in dividends.

### (2) Insurance Companies

Following the decision by Deposit Insurance Committee on June 11, 2008, the KDIC confirmed the timetable for the repayment of Seoul Guarantee Insurance Company (SGIC)'s callable preferred shares. Complying with the schedule, the KDIC recovered KRW 187.6 billion for 2009 in July.

### (3) Miscellaneous

＊ The Resolution & Finance Corporation (RFC) was established in December 27, 1999 as a resolution financial corporation per Depositor Protection Act for effective resolution of insolvent financial institutions. Pursuant to the 2nd Public Corporation Advancement Plan (announced on August 26, 2008), the RFC was closed, and converted into and operated as the new Korea Resolution & Collection Corporation (KR&C).

The KDIC collected KRW 18.5 billion by selling 2.51 million unlisted shares of Hyundai Logiem owned by the KR&C (formerly the RFC) on June 25, 2009 to a consortium between Hyundai U&I and Hyundai Securities in an open competitive bid. Also, another KRW 20.7 billion was recovered from June to December of 2009 by selling equity in eight listed companies during the trading hours. All in all, the KDIC collected KRW 44.5 billion in 2009 by selling stocks owned by the KR&C (formerly the RFC) by way of diverse methods such as open bid and sale in the stock market.

## C. Bankruptcy Dividends

During 2009, the KDIC received bankruptcy dividends worth KRW 40.8 billion from the estates of banks, insurance companies and financial investment companies, and KRW 542.5 billion from the bankruptcy estates of merchant banks, mutual savings banks and credit unions. Including KRW 583.3 billion received from bankruptcy estates in 2009, it has recovered KRW 18.32 trillion.

【Table Ⅲ-17】 **Bankruptcy Dividends Recoveries by Financial Sector**[1)]

(As of December 31, 2009, Unit: KRW 100 million)

| Financial Sector | No. of Bankruptcy Estate | Recovered Amount | |
|---|---|---|---|
| | | 2009 | 1999 ~ 2009 Cumulative |
| Banks | 5 | 379 | 17,964 |
| Insurance Companies | 10 | 20 | 4,114 |
| Financial Investment Companies | 4 | 9 | 74 |
| Merchant Banks | 22 | 4,157 | 79,347 |
| MSBs | 75 | 1,002 | 48,163 |
| Credit Unions | 325 | 266 | 33,565 |
| Total | 441 | 5,833 | 183,227 |

1) The amount of bankruptcy dividends recovered by the KDIC from bankruptcy estates (Claims payment directly through the Corporation) and KR&C (claims payment through former Hanareum Merchant Bank/Hanareum Mutual Savings Bank)

## D. Disposition of Assets

The KR&C uses a variety of recovery methods in addition to the traditional recovery at full asset maturity. The methods include sale through M&A, disposition of non-performing loans (NPLs) through joint venture special purpose companies (J.V. SPCs), issuance of asset backed securities (ABSs), offshore issuance of exchangeable bonds and recovery of foreign currency-denominated bonds through Standard Asset Management & Disposition Agreements* (SAMDAs). By the end of 2008, the KR&C repaid a total of KRW 6.9 trillion to the KDIC.

## E. Recovery of Loans

The Corporation extended KRW 2.18 trillion in loans to merchant banks, MSBs and credit unions. Of that amount, KRW 8.4 billion was recovered in 2009 including loans recovered from Saenuri Savings Bank. Besides, KRW 1.69 trillion was collected directly rather than through bankruptcy dividends.

Also, the KDIC collected a total of KRW 29.5 billion including KRW 1.6 billion from Citibank Korea and SC First Bank, KRW 25.7 billion from Korea Investment and Securities, Daetoo Securities and Hyundai Investment and Securities, and KRW 1.7 billion from Dong-a Life Insurance as settlement of contributions as well as a damage award of KRW 400 million from persons implicated in insolvency of savings banks. The total amount collected up to the end of 2009 is KRW 517.6 billion.

※ SAMDA is an NPL resolution method adopted by the U.S. Resolution Trust Corporation to entrust the management and the sale of insolvent assets to private professional resolution companies. SAMDA gives such companies the right of bond management, principal call and disposition.



【Table Ⅲ-18】 **Recoveries from Asset Sales by the KR&C[1]**

(As of December 31, 2009, Unit: KRW 100 million)

| Asset Sold | Sales Method | Sales Amount | Purchaser |
|---|---|---|---|
| Stocks (Ileun Securities) | M&A | 1,195[2] | Regent Group |
| Stocks (Kia Motors) | OTC Sale | 1,158 | Fiduciary OGF(L), Ltd. |
| Stocks (KT&G) | Buybacks | 1,681 | KT&G |
| Stocks (ShinDongBang) | M&A | 3 | CJ Consortium |
| Loan and Stocks (Shinho Petrochemical) | M&A | 153 | Aram Financial |
| Stocks (Shinho Papers) | M&A | 20 | Shinho Papers Consortium |
| Stocks (Hynix) | After-hours block trade | 890 | Foreign/Domestic Investor |
| Stocks (Daewoo Engineering & Construction) | M&A | 1,668 | Kumho Asiana Consortium |
| Stocks (Kepco) | Exchangeable Bonds | 63[3] | Foreign Investors |
| Stocks (Doosan Infracore) | After-hours block trade | 1,459 | - |
| Stocks (Donghae Pulp) | Drip Sale | 16 | Domestic/Foreign Investors |
| Stocks (S&T Dynamics) | Drip Sale | 34 | Domestic/Foreign Investors |
| Stocks (SK Networks) | Drip Sale | 145 | Domestic/Foreign Investors |
| Loans | J.V.SPC | 2,044 | Lone Star |
| | International Auction(RFC2001-1) | 2,690 | Lone Star/Merrill Lynch |
| | International Auction (Jinro Bonds) | 104 | Morgan Stanley |
| | Sale to KAMCO | 7,014 | KAMCO |
| | ABS Issuance | 572 | Domestic Investors |
| | Domestic Investors | 6 | Now IB Capital |
| Real Estates | Public Sale Consignment | 3,830 | Domestic Investors |
| Foreign Currency Debentures | SAMDA | 429 | Foreign Investors |
| Loans/Securities | Principal/Interest Call, Market Sale | 43,856 | - |
| Total | | 69,030 | - |

1) Counts only assets of banks, insurance companies, and financial investment companies
2) Includes KRW 10.2 billion of dividends
3) Based on exchangeable bond stock exchange of KEPCO (Korea Electric Power Corporation)

# 2. Deposit Insurance Fund

## 2-1. Procurement and Management of Deposit Insurance Fund

### A. Insurance Premiums

Pursuant to Article 30 of the Depositor Protection Act (DPA) and Article 16 of the DPA Enforcement Decree, insured financial institutions are required to pay a given ratio of their deposit balances to the KDIC. Deposit balances for insurance companies, for example, would be the arithmetic average of the deposit liability reserve fund and the premiums received. At present, banks are required to pay deposit insurance premiums within one month following the end of each quarter. Other insured financial institutions are required to pay their premiums within three months following the end of each financial year. The deposit insurance premiums up to 2002 were placed in the Redemption Fund while deposit insurance premiums collected since 2003 has been placed in the new Deposit Insurance Fund (DIF). The total amount of premiums received from insured financial institutions and paid into the DIF in 2009 came to KRW 1.25 trillion.

【Table Ⅲ-19】Insurance Premium Revenue

(Unit: KRW 100 million)

| Year | Banks | Financial Investment Companies | Insurance Companies | | Merchant Banks | MSBs | Credit Unions | Total |
|---|---|---|---|---|---|---|---|---|
| | | | Life | Non-Life | | | | |
| Amount Remitted[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 |
| 2001 | 4,139 | 218 | 1,938 | 478 | 139 | 529 | 407 | 7,848 |
| 2002[2] | 4,361 | 262 | 2,295 | 485 | 130 | 604 | 641 | 8,778 |
| 2003 | 4,775 | 312 | 2,580 | 535 | 73 | 667 | 603 | 9,545 |
| 2004 | 4,960 | 336 | 2,832 | 571 | 17 | 793 | 4 | 9,513 |
| 2005 | 4,869 | 300 | 3,109 | 628 | 15 | 974 | - | 9,895 |
| 2006 | 4,987 | 303 | 3,362 | 697 | 19 | 1,116 | - | 10,484 |
| 2007 | 5,027 | 256 | 3,654 | 801 | 22 | 1,306 | - | 11,066 |
| 2008 | 4,808 | 305 | 3,934 | 918 | 24 | 1,483 | - | 11,472 |
| 2009 | 5,291 | 276 | 4,097 | 1,016 | 29 | 1,737 | - | 12,446 |
| Total | 49,435 | 2,775 | 32,014 | 7,279 | 2,017 | 12,316 | 2,500 | 108,336 |

1) Includes the amount transferred from the Korea Non-bank Deposit Insurance Corporation when it was consolidated with the Deposit Insurance Fund in April of 1998.
2) Insurance premiums received up to 2002 were transferred to DIF Bond Repayment Fund.



【Table Ⅲ-20】Deposit Insurance Premiums by Financial Sector

| | Banks | Financial Investment Companies | Insurance Companies | Merchant Banks | MSBs |
|---|---|---|---|---|---|
| Premium Rate[1] | 8/10,000 | 15/10,000[2] | 15/10,000[3] | 15/10,000 | 35/10,000 |
| Legal Upper Limit | 50/10,000 | 50/10,000 | 50/10,000 | 50/10,000 | 50/10,000 |

1) Premium rates were changed in Jun. 2009 in accordance with amended Enforcement Decree of Depositor Protection Act.
2) Decrease the premium rate by 30% for financial investment companies which deposit its customers' deposits in securities and finance companies
3) Increase or decrease the premium rate within the range of 5% of standard rate considering each company's business years, creditability and financial soundness

### B. Contributions from Insured Financial Institutions

Article 24 of the Depositor Protection Act and Article 14 of the DPA Enforcement Decree require that a newly insured financial institution contribute a proportion of its paid-in-capital or equity participation to receive deposit insurance coverage within one month of starting business operation. Due to the Redemption Plan and setup of the Redemption Fund, contributions made up to 2002 were incorporated into the Redemption Fund whereas contributions received since 2003 have been incorporated into the current Deposit Insurance Fund. The Corporation received contributions worth KRW 6.6 billion during 2009.

【Table Ⅲ-21】Contribution Remittances by Financial Sector

(Unit: KRW 100 million)

| Year | Banks | Financial Investment Companies | Insurance Companies | | Merchant Banks | MSBs | Credit Unions | Total |
|---|---|---|---|---|---|---|---|---|
| | | | Life | Non-Life | | | | |
| Amount Remitted[1] | - | - | - | - | 24,000 | 7,998 | 2,871 | 34,869 |
| 1998 | - | - | - | - | - | 200 | 9 | 209 |
| 1999 | 300 | 1,050 | - | 30 | - | 715 | 3 | 2,098 |
| 2000 | 60 | 32,814 | - | 32 | - | - | - | 32,906 |
| 2001 | 126 | 759 | 30 | 260 | 1,500 | - | - | 2,675 |
| 2002[2] | 125 | 500 | - | 330 | - | 390 | - | 1,345 |
| 2003 | 30 | - | 650 | 200 | - | - | - | 880 |
| 2004 | 340 | 200 | 600 | 200 | - | - | - | 1,340 |
| 2005 | 220 | 200 | - | - | - | 1,250 | - | 1,670 |
| 2006 | 380 | 800 | - | 200 | - | 1,340 | - | 2,720 |
| 2007 | - | - | - | - | - | - | - | - |
| 2008 | 160 | 11,005 | - | - | - | 556 | - | 11,721 |
| 2009 | 766 | 4,312 | 419 | 342 | 17 | 777 | - | 6,633 |
| Total | 2,507 | 51,640 | 1,699 | 1,594 | 25,517 | 13,226 | 2,883 | 99,066 |

1) Includes the amount transferred from the Korea Non-bank Deposit Insurance Corporation when it was consolidated with the DIF in April of 1998
2) Insurance premiums received up to 2002 were transferred to DIF Bond Redemption Fund.

### C. Borrowings

Pursuant to Article 26 of the Deposit Protection Act (DPA) and Article 15 of the DPA Enforcement Decree, the DIF is authorized to, when necessary, for payment of insurance claims or resolutions of insolvent financial institutions, borrow funds from various entities including the government, the Bank of Korea, insured financial institutions and financial institutions stipulated by Presidential Decree. In accordance with this, the KDIC borrowed a total of KRW 104.6 billion in 2003, KRW 61.8 billion in 2004 to make insurance claim payments to depositors of credit unions and KRW 231.4 billion during 2007 to resolve mutual savings banks. Of borrowings in the credit union account, KRW 42.5 billion, KRW 38.5 billion, KRW 6 billion and KRW 5 billion were repaid in 2004, 2005, 2006 and 2008, respectively. The balance of the Credit Union account was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010, which left the account with no borrowings. In the case of the Mutual Savings Bank account, the full outstanding loan amount of KRW 231.4 billion has been repaid, leaving the balance zero.

## 2-2. Assistance

### A. Overview

The DIF has been responsible for the costs arising from the resolution of financial institutions that have become, or were designated as, insolvent financial institutions from 2003. The DIF provided a total of KRW 581 billion for the restructuring of MSBs during 2009, and recovered KRW 0.8 billion from the total amount spent on resolution of credit unions.

The DIF has, as of the end of 2009, spent a total of KRW 3.7 trillion on insurance claim payments, etc. including KRW 3.53 trillion to depositors of 16 MSBs including Gimcheon MSB and KRW 217.5 billion to 14 credit unions including Wolpyeong Credit Union.

【Table Ⅲ-22】 **Financial Assistance by DIF in 2009**

(Unit: KRW 100 million)

| Financial Sector | Equity Participation | Contribution | Insurance Claim Payment | Asset Purchase | Loan | Total |
|---|---|---|---|---|---|---|
| MSBs | 141 | 3,314 | 1,774 | - | 581 | 5,810 |
| Credit Unions | - | - | △8 | - | - | △8 |
| Total | 141 | 3,314 | 1,766 | - | 581 | 5,802 |



【Table Ⅲ-23】 **Accumulated Financial Assistance by DIF**

(As of December 31, 2009, Unit : KRW 100 million)

| Financial Sector | Equity Participation | Contribution | Insurance Claim Payment | Loan | Total |
|---|---|---|---|---|---|
| MSBs | 866 | 19,095 | 11,412 | 3,963 | 35,336 |
| Credit Unions | - | - | 2,175 | - | 2,175 |
| Total | 866 | 19,095 | 13,587 | 3,963 | 37,511 |

### B. Assistance by Financial Sector

**(1) Mutual Savings Banks (MSBs)**

Jeonbuk MSB and Eutteum MSB were determined to be insolvent in 2008 and in 2009, respectively. To resolve these MSBs, the Corporation established Yes MSB, a bridge bank, in 2009 to which sound assets and deposits of Jeonbuk and Eutteum MSBs were transferred. As for insolvent assets, they were transferred to the KR&C (formerly the RFC). The KDIC contributed KRW 82.4 billion, to compensate for net asset deficiencies generated due to the transfer of Jeonbuk's assets and liabilities, and KRW 249 billion to compensate for net asset deficiencies generated due to the transfer of Eutteum's assets and liabilities to the bridge bank. The Corporation also assisted with KRW 14 billion in the form of equity participation. For the P&A of unsound assets of Jeonbuk and Eutteum into the KR&C, the KDIC loaned the acquisition cost, amounting to KRW 15.2 billion and KRW 42.9 billion for the acquisition of Jeonbuk and Eutteum, respectively.

The KDIC paid KRW 144.5 billion in insurance claims payments to depositors of Eutteum MSB which was suspended in 2009. On the other hand, relating to MSBs that became insolvent after 2003, the Corporation made additional insurance claims payment as court rulings on insurance money claims were handed down and the reasons forpayment referral were removed. There were also cases when previously-made insurance claim payments were recouped as extinctive prescription on insurance claims had expired. As a result, the net insurance claims payments made by the Corporation during 2009 amounted to KRW 177.4 billion.

**(2) Credit Unions**

The KDIC has not dealt with any new insolvent credit unions since 2004 as, pursuant to Article 2 and addenda to the DPA, these unions were excluded from deposit insurance cover. However, there have been cases where additional insurance payments were made to unions because the reasons for referral of payments had been removed. There were also cases when previously-made insurance claim payments were recouped as extinctive prescription on insurance claims had become expired. As a result, the net insurance claims payments made by the Corporation during 2009 amounted to KRW 0.8 billion.

【Table Ⅲ-24】 Insurance Claim Payments to MSBs

(Unit: KRW 100 million)

| Year | No. of Institutions[1] | Payment Amount |
|---|---|---|
| 2003 | 1 | 764 |
| 2004 | 3 | 1,770 |
| 2005 | 7 | 4,527 |
| 2006 | 7 | 326 |
| 2007 | 6 | 1,345 |
| 2008 | 11 | 906 |
| 2009 | 9 | 1,774 |
| Total | - | 11,412 |

1) The number of institutions provided with insurance claim payment from the DIF is 13.

【Table Ⅲ-25】 Insurance Claim Payments to Credit Unions

(Unit: KRW 100 million)

| Year | No. of Institutions[1] | Payment Amount |
|---|---|---|
| 2003 | 8 | 1,543 |
| 2004 | 12 | 645 |
| 2005 | 8 | 12 |
| 2006 | 12 | 0 |
| 2007 | 5 | △3 |
| 2008 | 7 | △13 |
| 2009 | 6 | △8 |
| Total | - | 2,176 |

1) The number of institutions provided with insurance claim payment from the DIF is 14.

## 2-3. Recovery

### A. Overview

The KDIC uses the same method as in the case with the Redemption Fund to recover the public funds extended by the DIF. Such methods include recovering funds by selling equity stakes in financial institutions that it invested in, collecting bankruptcy dividends through participation in bankruptcy procedures of insolvent financial institutions, and recovering loans it made to financial institutions. Through these methods, the total amount of public funds recovered from 2003 to 2009 recorded KRW 739 billion including KRW 159.3 billion recovered in 2009 alone.



【Table Ⅲ-26】 DIF Recoveries in 2009

(Unit: KRW 100 million)

| Financial Sector | Equity Participation | Contribution | Bankruptcy Dividend | Recovery of Loan | Total |
|---|---|---|---|---|---|
| MSBs | 592 | 2 | 474 | 471 | 1,539 |
| Credit Unions | - | - | 54 | - | 54 |
| Total | 592 | 2 | 528 | 471 | 1,593 |

【Table Ⅲ-27】 Accumulated DIF Recoveries

(As of December 31, 2009, Unit: KRW 100 million)

| Financial Sector | Equity Participation | Contribution | Bankruptcy Dividend | Recovery of Loan | Total |
|---|---|---|---|---|---|
| MSBs | 2,515 | 145 | 1,571 | 1,941 | 6,172 |
| Credit Unions | - | - | 1,218 | - | 1,218 |
| Total | 2,515 | 145 | 2,789 | 1,941 | 7,390 |

### B. Sale of Shares Owned by KDIC

The KDIC sold 100% shares of Yehanwul MSB, which was a bridge bank established in 2007, to the consortium led by Hyundai Swiss MSB in September 2009. The amount collected through the share sale of Yehanwul MSB was KRW 59.2 billion.

### C. Bankruptcy Dividends

During 2009, the KDIC received bankruptcy dividends worth KRW 52.8 billion through disposition of its equity stakes in bankruptcy estates that had received public funds from the DIF. By financial sector, it recovered KRW 47.4 billion from the bankruptcy estates of MSBs and KRW 5.4 billion from the bankruptcy estates of credit unions, which amounts to KRW 278.9 billion in total.

【Table Ⅲ-28】 Bankruptcy Dividends Recoveries by Financial Sector

(As of December 31, 2009, Unit: KRW 100 million)

| Financial Sector | No. of Bankruptcy Estate | Recovered Amount | |
|---|---|---|---|
| | | Jan.~Dec. 2009 | Cumulative Total Since 2004 |
| MSBs | 14 | 474 | 1,571 |
| Credit Unions | 14 | 54 | 1,218 |
| Total | 28 | 528 | 2,789 |

### D. Recovery of Loans

Since 2003, the KDIC has offered loans amounting to KRW 396.3 billion to the KR&C (former RFC) and Busan Solomon MSB for restructuring of 12 MSBs including Kyungbuk MSB. In 2009, the Corporation recovered KRW 47.1 billion of loan principal from 6 MSBs and the total amount of loans recovered from 2003 to 2009 recorded KRW 194.1 billion.

# IV Risk Surveillance of Insured Financial Institutions and Management of MOUs

## 1. Building a Foundation for an Ongoing Risk Surveillance System

### 1-1. Establishment of a Solid Foundation for Risk Surveillance of Insured Financial Institutions

#### A. Improvement of Risk Surveillance Models

In order to protect depositors and contribute to the stability of the financial system, the KDIC believes the key lies in staving off insolvency of insured financial institutions in advance. For that reason, the KDIC developed risk surveillance models and made use of them to assess risk levels so that signs of insolvency can be detected beforehand.

For banks and insurance companies, a risk evaluation model (RE), a risk forecast model (RF) and a risk index model (RI) have been used. RE assesses the risk profile of an insured financial institution based on financial and other information. RF estimates the probability of insolvency as of a certain future date while RI assesses risk levels and trends. For financial investment companies, RE and RF were developed and are being used. For savings banks, a growth monitoring system (GMS) was developed along with the three models mentioned earlier.

As the accuracy of the risk surveillance models can change with the passage of time and changes in financial environment, the KDIC has made continuous efforts to improve the predictability of the models. As part of such efforts, the KDIC received guidance from a consulting service about how to improve the functions of the risk surveillance models in 2008.

Building on the result of the consulting work, the KDIC commissioned a project to further refine the risk surveillance models in 2009. The project resulted in an improvement of statistical methods used in the risk surveillance of each financial sector. As a way to consider recent developments in the financial market, the KDIC also revised variables and critical values for the models. In addition, new functions for analysis such as extraction of critical values were added to enable more diversified analysis and a risk index model for financial investment companies was prepared. For the benefit of users, a web-based inquiry system was also created so users can view results generated by models online.

Such efforts are expected to greatly improve the risk surveillance models for each financial sector and make the models easier to access and use for risk surveillance personnel, thus making risk surveillance more efficient.

#### B. Efforts to Revitalize Information Sharing

For more efficient conduct of business and to free insured institutions from the burden of paperwork, the KDIC established the Financial Information Sharing Council, together with the Financial Supervisory Service (FSS) and the Bank of Korea (BOK), on March 7, 2001, and signed an MOU on the Sharing of Financial Information on January 20, 2005. However, as the recent financial crisis brought the need for coordinated response to systemic risk through closer cooperation among related authorities into a new spotlight, a revised version of the MOU aimed at addressing flaws in the information sharing system was entered into on September 15, 2009.

The revised MOU specifies what information should be shared and when, puts in place a feedback system and strengthens the authority of the Council as a mediator of opinions, thus improving the information sharing system. It is expected that the inclusion of government ministries - the Ministry of Strategy and Finance (MOSF) and the Financial Services Commission (FSC) - as parties to the MOU will further strengthen cooperation among related agencies and their capacity to deal with risks.

Under the revised MOU, the scope of information to be shared with the BOK and the FSS was expanded. In case of the BOK, the number of information sharing during 2009 increased to 34 from 9 a year earlier as 25 more external reports and foreign exchange reports were shared. In addition, the availability of business reports by the FSS increased to 96.3%, which is up 1.3%p from a year ago, as business reports of the FSS related to the financial investment sector were added to the list of information to be shared with the enforcement of the Capital Market Consolidation Act.

## 1-2. Promotion of Risk Surveillance Function

### A. Strengthening of the Risk Surveillance Function

The KDIC has made efforts to strengthen the risk surveillance of insured financial institutions to enable early detection of risks and prevent those risks from leading to the failure of the institutions. As part of these efforts, the KDIC is closely monitoring financial institutions by assigning employees to each financial institution to conduct surveillance on an on-going basis. The results of the on-going surveillance are reflected in analysis reports like the KIDC On-site Financial Information, executive interviews and industry meetings so they can be shared with those in the financial community and related agencies. In particular, during 2009, KDIC staff visited executives of select companies chosen by the Corporation's risk surveillance model and shared KDIC's analysis of major risk factors to encourage voluntary risk reduction by the companies themselves.

The KDIC has the Ongoing Surveillance Council in place, which is responsible for overseeing, coordinating and assessing risk monitoring activities. In March 2009, the Council was incorporated with the Insurance Contingency Action Council with a view to promoting close cooperation among related departments and rapid decision making. Also, it enabled the KDIC to flexibly and readily respond to financial crises through dynamic risk management in every step of the way from risk detection to resolution of failed institutions.

In order to adequately monitor risk of insured financial institutions, the KDIC has designated staff to different financial sectors or insured institutions to conduct risk surveillance on an on-going basis. From information gathered from this activity, risk indicators that can be applied to each sector or institution were developed. Regular monitoring meetings were held to upgrade the qualitative level of on-site financial information while attempting to identify financial market risk factors and contagion routes of risk.

Since the global financial crisis left the MSB sector in a particularly weak position, there came about a need to pay special attention to their risk levels. The KDIC remains committed to monitoring risks at MSBs by conducting in-depth analysis of major indicators such as asset soundness and changes in deposit levels on a regular or continuous basis. Also, beginning in the second half of 2008, the KDIC started dispatching management administrators to savings banks subject to prompt corrective actions (management improvement order) jointly with the Financial Supervisory Service and, in 2009, made active use of the system to keep a close grasp on the management normalization process and to collect and utilize information in a timely manner.

【Table Ⅳ-1】 **Status of Indicator Selection by Sector**

| Classification | Stock Market | Bond Market | Foreign Exchange Market, International Financial Market | Physical market | Banking Business | Insurance Business | Securities Business |
|---|---|---|---|---|---|---|---|
| Indicator | 2 | 2 | 5 | 4 | 6 | 4 | 5 |

### B. Continuous Operation of Countermeasures against the Global Financial Crisis

In order to properly deal with a series of financial crises triggered by the US subprime mortgage default, the KDIC continued to operate the Global Financial Crisis Monitoring Team, composed of team leaders in charge of risk surveillance, resolution and recovery, for the second year. This team prepared KDIC Daily Briefs aimed at tracking changes in major indices of financial markets and industries as well as developments at key financial institutions and shared them with nearly 400 policymakers and authorities.

As a result of such risk surveillance efforts, the KDIC produced 690 ongoing surveillance reports in 2009 alone, 267 of which were distributed to other financial authorities such as the Financial Services Commission as well as the academia, the press and people related to the Corporation. These efforts clearly show the Corporation's commitment to ease concerns of investors about uncertainties in the domestic financial market at an early date.

### C. Market-friendly Risk Surveillance

The KDIC performs the role of a Risk Advisor for financial market participants on how to manage risk by publishing customer-oriented risk analysis reports.

In 2009, the reports were provided not only to the government, academia and non-executive directors of the KDIC but also to executives and risk-related department heads of financial institutions. The information they contained was also diversified to include microscopic analysis of major market issues and overseas case studies. In addition, to make its risk surveillance efforts known to more people, the KDIC combined all reports produced by risk-related departments under the「KDIC On-site Financial Information」brand using a uniform format and layout. One particular report entitled *An Analysis of Financial Status of Financial Holding Companies after an Increase in Corporate*

*Bond Issuance* (Feb. 9, 2009) emphasized stronger management of the double leverage ratio as an indicator of risk levels. Upon receiving the report, financial authorities announced that they would introduce the double leverage ratio as a quantifiable measure and continuously monitor it to issue guidance to financial holding companies in an announcement on September 30 regarding the managerial soundness of financial holding companies and future policy directions for them.

The KDIC established the Cheonggye Finance Forum, a meeting of financial investment experts to exchange view on and discuss financial market issues, in 2008 and the Forum was expanded to include experts from the banking and life-insurance sectors in 2009. Market information such as industry trends and information on industry-related problems was collected by hosting seminars and conferences on financial markets, meetings of financial market participants and interviews with management. In particular, topics such as how to operate an effective risk management system for domestic banks, the current state and future challenges of the Korean insurance industry and major provisions and expected benefits of the Capital Market Consolidation Act were presented and discussed at regular meetings of the Forum to promote information sharing and networking among participants. The general view was that the Forum served a meaningful purpose as it let authorities know what challenges officials on the frontline faced in adapting to changing regulations and policies, which in turn led to significant discussions about market-friendly policy reforms.

【Table Ⅳ-2】**Members of Cheonggye Finance Forum**

| | Banks | Life Insurance Companies | Financial Investment Companies |
|---|---|---|---|
| Composition of Members | 13 representatives of domestic banks<br>3 representatives of foreign banks<br>2 representatives of research institutions<br>1 representative of law firm<br>1 representative of accounting firm<br>1 representative of credit bureau | 4 representatives of domestic life insurance companies<br>1 representative of foreign life insurance company<br>1 representative from insurance & actuary consulting company<br>2 representatives of research institutions<br>1 representative of relevant association | 7 representatives of domestic securities companies<br>1 representative of asset management company<br>4 representatives of foreign IBs<br>2 representatives of research institutions<br>4 representatives of law firms |
| Indicator | 21 | 9 | 18 |

For MSBs in 2009, it held discussion sessions at 2 branches of the Korea Federation of Savings Banks, paid visits to 13 MSBs and had management interviews at 4 MSBs in order to identify industry trends and concerns as well as to collect related market information. It also offered customized consulting



services to 3 MSBs (a total of 64 MSBs since 2003) to assist them with improving their competitiveness and management skills.

A pilot survey at the end of the year in which recipients of the risk analysis reports were asked to rate the usefulness of the information and provide opinions on how to improve the reports revealed that the overall satisfaction was relatively high. The KDIC plans to continue to provide the reports in 2010 reflecting survey findings, changes in the financial environment and market demands. Furthermore, in order to create an environment where market discipline can be effectively enforced, the KDIC worked hard to provide useful information concerning the risk management of insured financial institutions to the market in a timely manner. In 2009, the KDIC issued press releases and analysis reports through publication and online posting of Financial Stability Studies, Financial Risk Reviews, and management indices of insured financial institutions and of statistical information on deposit trends.

## D. Promotion of Insurance Indication System

■ The Depositor Protection Act, Article 29, states that insured financial institutions should indicate in their financial products information regarding the deposit insurance (e.g. protection under the DPA) in order to protect depositors against loss or damage, and the KDIC should investigate whether insured financial institutions are appropriately disclosing relevant information. With this system in place, the Corporation ensures that financial institutions provide financial consumers with accurate information on the deposit insurance system in order to prevent them from suffering financial losses.

During 2009, the KDIC conducted on-site investigations on 406 branches of insured financial institutions nationwide, which represents a 3.6% increase compared to the previous year, to check their compliance with this requirement. In order to more strongly enforce the Insurance Indication System, the Corporation expanded the scope of its investigation to include websites and newspaper ads of insured institutions.

The Corporation is making efforts to provide effective and timely information on the deposit insurance system while it conducts on-site investigations on the Insurance Indication System. In accordance with recent revision of the law, retirement pension products were placed under the deposit insurance coverage. To keep financial consumers updated on a timely basis, the Corporation re-issued an information booklet on the deposit insurance system in a pamphlet format and distributed it to 17,000 branches of insured financial institutions in July 2009. In December 2009, the Corporation produced a poster on the deposit insurance system and distributed it to branches of insured financial institutions to raise depositors' awareness of the system. For employees of insured financial institutions, the Guidebook on the Indication of Insurance was printed and distributed in November 2009.

In addition, the Corporation provided information on the Insurance Indication System to 47 asset management companies, 3 futures companies and 1 non-life insurance company that were newly established in 2009 so as to promote the awareness of the deposit insurance system even for new insured financial institutions and to maintain smooth operations of deposit insurance systems.



## 1-3. Promotion of Joint Examination

As failure prevention and loss minimization have become more important, the KDIC has been focusing its efforts on conducting effective investigations and joint examinations of insured institutions, especially those that have been identified as being in financial trouble. In this year, criteria to select financial institutions subject to joint examinations were more systematized through newly developed and improved risk monitoring models. Based on the result of the criteria and through analysis on the changes of major indices of financial institutions, the list of financial institutions subject to joint examination was determined. The KDIC, then, participated in Financial Supervisory Service's joint examination, and urged management of the financial institutions to improve the management of risk factors if any.

To enable more efficient joint examinations and reduce the burden of insured financial institutions that are subject to examinations, the Corporation signed a Memorandum of Understanding (MOU) on joint examination of financial institutions with the FSS in September 2003, legislated the Regulations on Joint Examination in October of the same year, and enacted Rules on Joint Examination in April 2004. In 2006, the Corporation completely reorganized the Regulations and Enforcement Decrees to create conditions for more effective joint examinations.

The financial environment is rapidly changing. Lately, there has been a trend for financial institutions to expand their size and the range of the financial services they offer, and risk factors have therefore become more diverse. As a consequence, preventing the financial deterioration of institutions in advance has become an important challenge. In line with this, the MOU for joint examinations with the FSS was amended in July 2007 to clearly define the KDIC's exercisable right to conduct joint examinations on demand. In May 2008, the Enforcement Decree for the Regulations related to Joint Examination of Insured Financial Institutions was revised to allow the KDIC to request joint examination of financial institutions, even those not included in the FSS's plan, on the basis of its ongoing risk surveillance results.



Based on the Depositor Protection Act and the MOU on Joint Examination, the KDIC participated in joint examinations of 15 insured financial institutions with the FSS. (Since 2001, the KDIC has participated in joint examinations of 62 insured financial institutions.) In the meantime, as the KDIC's conduct of joint examination on demand can cause an operational burden for financial institutions that are subject to the examination, the KDIC restricted the number of employees involved in and the length of time they spend on conducting joint examinations to an absolute minimum to reduce the burden.



To enhance cooperation with relevant agencies including the Bank of Korea and the FSS, the KDIC held 'Workshop for Joint Examination with Relevant Agencies' in January 2009. The Corporation also held workshop on joint examination inviting outside experts and examiners of relevant institutions in December 2009 to promote professionalism of KDIC examiners and to develop differentiated joint examination methods, thus increasing examination capabilities.

## 1-4. Enhancement of Risk Surveillance Capability

With the rearrangement of the organizational structure in March 2008, the Corporation assigned 75 people (12.7% of total staff) to risk surveillance departments. A large number of the 75 employees hold master's degrees, Ph.D degrees, or other qualifications (Chartered Financial Analyst, Certified Public Accountant, Actuary or Financial Risk Manager). As a result, the Corporation could strengthen the professional capacity of the risk surveillance departments. In another organizational reshuffle in January 2009, the KDIC further strengthened the capacity for risk surveillance by expanding the number of teams under the Department of Risk Management Ⅱ, in charge of monitoring MSBs, from three to four, which brought the number employees dedicated to risk surveillance to 93 (13.7% of total staff).

To aid its staff in acquiring practical knowledge of risk surveillance so that they can produce higher-quality reports, the KDIC operates in-house training programs covering risk surveillance for managers and risk surveillance personnel, assigns dedicated personnel to monitor risks, hosts workshops on joint examination with related agencies, lets departments have voluntary study sessions and conducts training tailored for individual users to familiarize them with changes to existing models like the FIAS. In particular, as to analysis reports produced by risk-related departments, contests are held once every half a year to award excellent reports and share them throughout the Corporation through the online bulletin board. Such competition motivates workers to hone their skills for analysis.

Also, the KDIC improved the efficiency of risk analysis and investigation methods by publishing various guidebooks including the Manual on MSB Operations that teaches how to interpret related laws and regulations and how to conduct joint examinations, and the Bank Business Report and the Bank Accounting Handbook to help staff to understand the banking business and characteristics of bank accounting. Thanks to such efforts, the Corporation's expertise in risk surveillance is now widely recognized. One example is a provision in the Special Act on the Management of Public Funds, revised in July 2009, which requires the inclusion of a person with more than 15 years of career at the KDIC among candidates recommended by the Chairman of the Korea Federation of Banks to the Public Fund Oversight Committee.



# 2. MOU Management of Public Fund-injected Financial Institutions

## 2-1. Conclusion and Examination of MOUs

The KDIC has strengthened its efforts in the post public fund injection management of financial institutions (including financial holding companies), with the aim of speeding up normalization of their operations. Since 1999, the Corporation has entered into memorandums of understanding (MOUs) with 14 support recipients and monitored their compliance in order to recover the public funds injected as early as possible. In April 2002, 8 MOUs that were signed with financial institutions, including with Jeju Bank, were terminated as the Corporation's stakes in these institutions were sold. As of the end of 2009, 6 institutions are still subject to MOUs with the KDIC.

During the period from the fourth quarter of 2008 to the second quarter of 2009, the KDIC identified 20 problems concerning fulfillment of the MOUs and took appropriate measures to resolve them by issuing 15 warnings, 3 orders to improve, 2 orders to correct malpractices, 11 measures related to the executive directors and 20 requests to impose penalties on the staff of financial institutions.

With regard to financial performance, Woori Financial Holding Company and Woori Bank did not meet 3 MOU targets in the fourth quarter of 2008 such as not reaching the required ROA ratio due to investment losses in CDO/CDS. In response, the KDIC took strict actions against the directors and workers who were responsible for the failure such as demand for suspension from work, while asking for the submission of action plans to achieve rapid business normalization and to improve the internal control system. The credit business unit of the Suhyup, or the National Federation of Fisheries Cooperatives, failed to meet two MOU targets as bad debt expenses kept rising due to the deterioration of PF loans. With the decrease in profits from insurance sales and securities investment in the wake of the global financial crisis, Seoul Guarantee Insurance Company did not meet 2 MOU targets in both the third and fourth quarters of 2008 in areas such as return on operating assets.

Measures were also taken against financial institutions for poor MOU implementation in the non-finance area. The Corporation imposed penalties on Woori bank and relevant staff as the bank incurred a massive loss from investment in structured securities denominated in foreign currency. In addition, the Corporation took measures to prevent the bank from making a similar mistake by requesting the improvement of its risk management process. As to additional payments of overtime allowance, which ran afoul of the spirit of the MOU, the KDIC requested the Bank to take actions against the workers concerned and to establish and implement a plan for labor cost reduction. During the MOU monitoring of Gwangju Bank in the third quarter of 2008, the Corporation detected that the bank's measures did not fully meet the requirements of the MOU and asked the bank to resolve the problem. Regarding Gyungnam Bank's insufficient management and control of risks associated with FX transactions, the Corporation asked the bank to hold related employees accountable and put in place a strong plan to control operational risk. Suhyup was asked to make corrections to its improper accounting of income tax expenses of the credit business unit. All these institutions were also asked to faithfully meet the requests from the Board of Audit and Inspection to address their weak employee benefit systems.

In accordance with the result of the MOU monitoring in the first quarter of 2009, the KDIC made a request to Woori Bank to impose penalties on employees responsible for the improper handling of PF loans extended by its trust business unit and take strong measures to deal with the aftermath (i.e. how to handle the agreement of purchase). Also, Woori Bank was asked to do the same with regard to the invalidity of its asset evaluation criteria. In addition, Seoul Guarantee Insurance Company was asked to revise its criteria for payment of special bonuses in a reasonable way. In the second quarter of 2009, the KDIC continued to take appropriate actions against financial institutions failing to meet requirements of the MOU. When the Expanded Credit Screening Committee at Suhyup's credit business unit was found to have improperly screened loan applications, the Corporation asked Suhyup to take measures against responsible managers and submit a plan for effective screening, decision-making and risk control.



**【Table Ⅳ-3】 MOU Conclusions, Amendments and Additions**

(As of December 31, 2009)

| Financial Institution | Conclusion | Re-conclusion | Amendment | Addition | Termination | Notes |
|---|---|---|---|---|---|---|
| Woori Financial Group | Jul. 2, 2001 | - | Sep. 22, 2004<br>Dec. 26, 2007 | Jan. 22, 2003<br>Mar. 23, 2005<br>Mar. 28, 2007<br>Mar. 30, 2009 | | Launched on Mar. 27, 2001 |
| Woori Bank | Jan. 22, 1999[1)] | Dec. 30, 2000 | Sep. 22, 2004<br>Dec. 26, 2007 | Jan. 22, 2003<br>Mar. 23, 2005<br>Mar. 28, 2007<br>Mar. 30, 2009 | | Former Hanvit Bank |
| Kwangju Bank | Dec. 30, 2000 | - | Sep. 22, 2004<br>Dec. 26, 2007 | Jan. 22, 2003<br>Mar. 23, 2005<br>Mar. 28, 2007<br>Mar. 30, 2009 | | |
| Kyungnam Bank | Dec. 30, 2000 | - | Sep. 22, 2004<br>Dec. 26, 2007 | Jan. 22, 2003<br>Mar. 23, 2005<br>Mar. 28, 2007<br>Mar. 30, 2009 | | |
| Jeju Bank | Dec. 30, 2000 | - | - | - | Apr. 29, 2002 | Sold shares to Shinhan Financial Group |
| Seoul Bank | Dec. 30, 2000 | - | Jun. 29, 2001 | - | Dec. 1, 2002 | Sold shares to Hana Bank[2)] |
| Chohung Bank | Nov. 12, 1999[1)] | Jan. 31, 2002 | - | - | Aug.19, 2003 | Sold shares to Shinhan Financial Group |
| Credit Business Part of National Federation of Fisheries Cooperatives | Apr. 25, 2001 | - | Jan. 22, 2003<br>Jul. 9, 2003<br>Dec. 21, 2005 | Mar. 23, 2005<br>Mar. 28, 2007<br>Mar. 30, 2009 | | |
| Daehan Investment & Securities | Sep. 25, 2000[1)] | Feb. 20, 2002 | - | - | May 31, 2005 | Sold shares to Hana Bank |
| Korea Management & Securities | Sep. 25, 2000[1)] | Feb. 20, 2002 | - | - | Mar. 31, 2005 | Sold shares to Korea Investment Holdings Co., Ltd. (former Dongwon Financial Group) |
| Seoul Guarantee Insurance Corporation | Apr. 12, 2000[1)] | Jun. 9, 2001 | Jul. 10, 2002<br>Jun. 21, 2006 | Jun. 22, 2005<br>Jul. 18, 2007<br>Jun. 10, 2010 | | |
| Korea Life Insurance | Apr. 12, 2000[1)] | Sep. 5, 2001 | - | - | Dec. 12, 2002 | Sold to Hanwha Consortium |
| Woori Credit Card | Jun.7, 2000[3)] | Dec. 30, 2000 | Mar. 25, 2002 | Jun. 4, 2003 | Mar. 31, 2004 | Merged with Woori Financial Group |
| Woori Merchant Bank | Dec. 9, 2000 | - | Jun. 29, 2001 | - | Aug. 1, 2003 | Merged with Woori Financial Group |

1) MOU was signed between the corresponding insured financial institution, the KDIC and the Financial Supervisory Commission (current Financial Services Commission).
2) The KDIC had been the largest shareholder of the merged bank (Seoul and Hana) holding 30.9% of its shares but terminated the MOU on December 1, 2002 in accordance with the decision of the Public Fund Oversight Committee to give autonomous management rights to the bank. The KDIC sold off its equity stakes on April 20, 2004.
3) MOU was signed with former Peace Bank.

# 2-2. Improvement in MOU Management Efficiency

The Corporation operated a management discussion system with executive directors of financial institutions subject to signed MOUs in order to reach a consensus about major issues related to MOU management. In addition, it is improving the MOU management system to provide more assistance to non-executive directors of financial institutions the KDIC signed MOUs with in conducting management monitoring activities and to promote corporate value in the long run.

### A. Operation of Management Discussion System

During 2009, there were 57 discussion sessions between the KDIC and financial institutions subject to signed MOUs; 14 CEO meetings, 10 management meetings and 33 working-level meetings. As a way to support self-reliant management systems and autonomous management, the Corporation continued to provide aid to management through monitoring by non-executive members, and adopted an MOU management improvement system.

### B. Support of Non-Executive Director Activities in Monitoring Financial Institutions subject to signed MOUs

The Corporation provided non-executive directors with timely and specific information on current issues and poor management areas of financial institutions and ongoing surveillance reports. The Corporation actively supports activities of non-executive directors to put autonomous management, with emphasis on the board of directors, in place. In addition, to help them take appropriate measures, the Corporation also provided non-executive directors with 45 reports including an analysis report on how changes in financial markets will impact each financial institution.

### C. Efforts to Improve MOU Management

In relation to Woori's loss from investment in CDO/CDS during 2008, there arose a need to review the KDIC's MOU management system and revise the contents of the MOU, considering the enhanced role of the KDIC as a majority shareholder and the changes in circumstances since the signing of the MOU. Currently, the KDIC is in the process of modifying standards for executive pay, financial indicators and any unreasonable clauses in the MOU in an effort to promote a management culture focused on long-term growth at companies subject to MOUs. The improvement measures will be put in place after gathering opinions from concerned financial institutions and external experts. The KDIC also plans to more strongly monitor MOU implementation to the extent it does not hurt the institution's right to independent operation. Planned measures include annual examinations designed to increase the long-term corporate value of public fund-injected financial institutions. Stricter enforcement of the MOU will entail a rigorous effort to identify problems in management in advance by continuously monitoring the progress in achieving MOU targets and, in cases of failing to meet the targets, hold those responsible accountable for the failure.

# V Resolution and Management Supervision of Insolvent Financial Institutions

## 1. Resolution of Insolvent Financial Institutions

### 1-1. Implementation of Diverse Resolution Methods

In 2005, it was decided that when the Financial Services Commission rendered its financial decision that it would be difficult to normalize the management of MSBs, the KDIC would suggest a resolution method based on the least cost principle for resolving such institutions and in doing so, minimize the loss to the DIF. Accordingly, since 2006, taking into consideration the market situation, the local environment and the status of the insolvent institution, the KDIC has tried to find the best resolution method among the following: sale of shares after a purchase and assumption (P&A) transaction through a bridge bank; a direct P&A with a third party; the launching of bankruptcy proceedings; and establishment of a bridge bank. Through these efforts, the KDIC paved the way for strengthening its role as a respectable prompt resolution institution using flexible resolution strategies.

### 1-2. Resolution Status of Insolvent Financial Institutions.

#### A. Resolution of Jeonbuk and Eutteum MSBs through the Establishment of a Bridge Bank (Yes MSB)

The FSC ordered the suspension of business of Jeonbuk (GunSan) and Euttem (Jeju) Mutual Savings Banks in December 2008 and August 2009, respectively. This measure was taken as the liabilities of the MSBs exceeded their assets and their BIS capital adequacy ratios fell below the required level.

The KDIC determined that the use of bridge bank scheme is appropriate in accordance with the least cost principle in the Depositor Protection Act. Accordingly, the KDIC transferred assets and liabilities of Jeonbuk and Eutteum MSBs to Yes MSB so as to minimize the inconvenience to depositors by shortening the period for the suspension of business. Yes MSB, a bridge bank established in March 2009, started its operations with the transfer of assets and liabilities from Jeonbuk and Eutteum in April and November 2009, respectively. The Corporation is planning to put the Yes MSB up for sale in the market in 2010.

#### B. Sale of Bridge Bank (Yehanwul MSB) Shares

To promptly recover injected public funds, the KDIC sought to sell the shares of Yehanwul MSB in February 2009. Based on the evaluation results of the financial acquisition proposals, Hyundai Swiss Consortium was selected as the preferred bidder on May 14, 2009. On June 12, 2009, after discussions with the preferred bidder, the KDIC agreed to sell the entire stake in Yehanwul MSB to the buyer.

The government's approval procedures, necessary for the implementation of the sales agreement, were completed when the acquirer finished the approval and notification procedures of the FSC on the stock transfer on September 23, 2009. Accordingly, the KDIC transferred all of its equities in Yehanwul MSB to the acquirer after receiving KRW 59.2 billion and the sale procedure was concluded.

【Table Ⅴ-1】 Resolutions of Insolvent Financial Institutions During 2009[1)]

(Unit : KRW 100 million)

| Classification | JeonBuk (Gunsan) | Eutteum (Jeju) | Jeonil (Jeonju) |
|---|---|---|---|
| Business Suspension Date (Resolution Completion Date[2)]) | Dec. 26, 2008 (Apr. 1, 2009) | Aug. 11, 2009 (Nov. 18, 2009) | Dec. 31, 2009 (in the process) |
| No. of Employees | 27 | 51 | 118 |
| No. of Business Branches | 1 | 3 | 6 |
| Total Assets | 1,115 | 3,220 | 12,497 |
| Total Deposits | 1,738 | 5,664 | 13,215 |
| Equity Capital | △746 | △2,827 | △1,583 |

1) As of the day before the business suspension date
2) The date of P&A

## 2. Management Supervision of Insolvent Financial Institutions

During 2009, the KDIC completed management supervision of Jeonbuk MSB. It is also in the process of conducting management supervision of Eutteum and Jeonil MSBs. In the year 2009, the KDIC continued to focus on minimizing the inconvenience to depositors of insolvent financial institutions. In line with this effort, the supervisor took the initiative to distribute brochures containing information on the progress made during each stage, provided information on upcoming schedules, held briefing sessions at headquarters and branches of Eutteum and Jeonil for customers and provided related information via the KDIC website and press releases.

# VI Management of Bankruptcy Estates and Asset Holdings

## 1. Management of Bankruptcy Estates

### 1-1. Improvement of Public Fund Recovery System

#### A. Establishment of KDIC Bankruptcy Trustee System

The Public Fund Oversight Special Act, which came into effect in December 2000 and the amended Depositor Protection Act (DPA) of December 26, 2006, stipulate that officers or employees of the KDIC or the KDIC itself can be appointed as trustees of estates of bankrupt financial institutions on behalf of which the KDIC paid out insurance money, or to which it provided public funds, when this is necessary for the effective recovery of public funds.

Since March 2001, when the Constitutional Court of Korea ruled that the appointment of Corporation's officers and employees as bankruptcy trustees is constitutional, KDIC trustees have been appointed to the position, either solely or jointly with attorneys. As of December 2009, KDIC trustees are managing 239 bankruptcy estates out of a total of 240 bankruptcy estates as sole or joint trustee of the estate. Therefore, the Corporation's efforts to aggressively pursue a system where its officers and employees can be appointed as trustees for speedier and more efficient bankruptcy proceedings have indeed proven successful. This was also evident when KDIC trustees were appointed as sole trustees in one estate that was declared bankrupt during 2009.

【Table Ⅵ-1】 **Appointed Bankruptcy Trustees**

(As of December 31, 2009)

| Classification | Total No. of Bankruptcy Estates | Trustees | | |
|---|---|---|---|---|
| | | KDIC | Attorneys | Joint Appointment[2] |
| No. of Bankruptcy Estates | 240[1] | 224 | 1 | 5 |

1) Excludes legally closed estates (total 229), and bankruptcy estates of Korea · Dongsuh Securities Co. to which the KDIC did not provide financial assistance

2) Bankruptcy trusteeships jointly held by the KDIC (or employees) and attorneys



#### B. Efficient Management of Bankruptcy Estates

By adopting the Regional Supervisor System, the KDIC combined bankruptcy estates spread all over the country into six major regional districts. This enabled close cooperation on bankruptcy related tasks and further improved the efficiency of bankruptcy estates management. In addition, the KDIC has a single trustee taking responsibility for more than one bankruptcy estate and only one office to manage multiple estates. It designated eight base estates, and a bankruptcy estate in a particular area is then integrated into the base estate of that area. Such efforts enabled efficient management of bankruptcy estates, employees and asset holdings. It also prevented cash seepage and significantly reduced the costs related to rent, building maintenance, office supplies and other expenses.

Also, to prevent embezzlement which can be brought about when a trustee manages the same bankruptcy estate for a long time, and promote efficiency in estate management by providing new work environment, the KDIC regularly rotates the bankruptcy trustees to different trustees or to the headquarters.

Furthermore, the KDIC established an organic network between the KDIC and its bankruptcy estates by holding workshops for bankruptcy trustees, informal gatherings for regional bankruptcy trustees and informal learning groups (called 'Communities of Practice'). All these factors contributed to laying a foundation to foster a professional trustee capable of effectively managing bankruptcy estates.

#### C. Introduction of Performance-based Criteria for Bankruptcy Estates

The introduction of the KDIC trustee system increased the importance of managing bankruptcy estates based on their recovery results, and trustees and the support staff based on their performance. To facilitate debt collection by the support staff and to encourage voluntary efforts to recovery debts, the Corporation provides special bonuses as incentives to those support staff making considerable contributions by disposing of real estate, recovering non-performing loans, etc.

The KDIC analyzed the public fund recovery rate, asset disposition rate and cost efficiency during the assessment of the support staff's performance and introduced a fair and transparent performance competition system among bankruptcy estates. Accordingly, it provides differential performance-based bonuses based on the assessment results and replaces trustees of estates which perform poorly.

### D. Management of Debt Rescheduling Deliberation Council

Since January 2007, the KDIC has operated the Debt Rescheduling Deliberation Council to improve the objectivity and transparency of the approval process related to debt rescheduling requests made by debtors of bankruptcy estates. Since debt rescheduling involves defining complex creditor and debtor relationships and analyzing the financial status of default debtor corporations, the Debt Rescheduling Deliberation Council is composed of various experts including attorneys and certified public accountants. During the debt rescheduling deliberation, the opinions and suggestions of the Council members are reflected so as to ensure reasonable and improved terms and conditions for debt repayment. This, after all, contributes to maximizing the recovery of injected public funds.

### E. Implementation of Civil Affairs Helpdesk

In June 2007, the KDIC established a helpdesk for individual debtors of bankrupted financial institutions to actively respond to petition appeals made to bankruptcy estates.

Upon this system, KDIC personnel re-deliberate on those petitions rejected by the bankruptcy estates. If the KDIC determines that the petition can be accepted, the Corporation notifies the petitioner how to settle the manner. If re-deliberation confirms the rejection, the relative KDIC personnel make a phone call to the petitioner to explain the reasons for rejection of the petition. The Corporation installed a designated line for the exclusive purpose of dealing with civil petitions. The responsible employees either deal with the petitions telephonically or meet with the petitioner in person.

【 Table Ⅵ－2 】 Civil Petitions

(Jan. 1, 2009 ~ Dec. 31, 2009)

| Classification | Denial of Indebtedness | Loan Management | Preservation | Debt Rescheduling | Others | Total |
|---|---|---|---|---|---|---|
| No. of Petitions | 1 | 1 | 2 | 5 | 3 | 12 |
| Percentage(%) | 8 | 8 | 17 | 42 | 25 | 100 |

【 Table Ⅵ－3 】 Results of Civil Petitions

(Jun. 1, 2009 ~ Dec. 31, 2009)

| Classification | Acceptance | Suggest Alternatives[1] | Denial | Total |
|---|---|---|---|---|
| No. of Petitions | 1 | 9 | 2 | 12 |
| Percentage(%) | 8 | 75 | 17 | 100 |

1) Suggests the petitioner to discuss with bankruptcy estates, to apply for Credit Recovery Assistance, to elucidate through a lawsuit, and to discuss with the KR&C

### F. Establishment and Operation of a System to Manage Bankruptcy Claims and Payment of Dividends

To promote more efficient bankruptcy claims management and payment of dividends, the KDIC completed establishing a 'System to Manage Bankruptcy Claims and Payment of Dividends' in November 2008. By utilizing this system, the KDIC successfully shortened the time that it takes to calculate dividends from three weeks to three business days, which represent a 80% reduction in time consumed. As the system started being used in earnest in 2009 in the area of dividend payment, the time spent was cut dramatically and work efficiency was improved.

## 1-2. Enhancement of Asset Marketability and Dividends on Bankruptcy Claims

### A. Maximization of Recovery from Individual Assets

In an effort to maximize the disposition value of special loan assets (loans extended to companies under court receivership, court mediation and workout program), the KDIC, during debt rescheduling of debtor corporations in 2009, recovered approximately KRW 1.9 billion more than the amount originally requested. This was done by investigating properties of debtors, performing in-depth corporate analysis and by promoting the adequacy of debt rescheduling by the Debt Rescheduling Deliberation Council.

For the special loans assets where the bankruptcy estates had mostly given up on recovery before the KDIC's appointment as the trustee of the bankruptcy estate, the KDIC persuaded debtors and joint obligators to remit payments by clearly explaining possible measures that could be taken against them for failing to pay and by encouraging voluntary redemption of loans. In addition, the Corporation requested the help of government agencies, such as the Ministry of Land, Transport and Marine Affairs, etc., to better conduct investigations to locate hidden assets of debtors and joint obligators as well as to seize the properties identified.

### B. Support for Bankruptcy Estates to Efficiently Dispose of Asset Holdings

By disposing of real estate and unlisted stock after combining them according to types of assets instated of individually disposing of them, the KDIC benefited from the synergy effect.

During 2009, the KDIC endeavored to increase the efficiency, transparency and fairness of sales of real estate held by the bankruptcy estates. Accordingly, the KDIC pursued joint sales of such properties and tried to attract public interest by providing information on real estate held by bankruptcy estates via its website. As a result, the KDIC recovered KRW 4.2 billion from 10 joint sales of 18 properties.

The KDIC also made a strong push to sell listed shares. As a result, it disposed of listed shares in six companies (realizing KRW 12.9 billion), including 1.6 million Sungwon Construction shares which were sold during trading hours and brought in KRW 11.4 billion, and recovered about KRW 3.1 billion by selling all overseas shares (in HFIC of the Netherlands and in Mobile-8 of Indonesia) owned by bankruptcy estates.

As for non-listed shares, bankruptcy estates found it difficult to sell these because there are no open market transactions or market prices set for such shares. The KDIC encouraged the bankruptcy estates to conjointly appoint a sales advisor to take charge of the sales of non-listed shares through open bidding. As a result, it held four open bids in 2009 and successfully disposed of KRW 25.4 billion worth of its entire shares in Kosteel (1.6 million shares, second largest shareholder).

The KDIC also actively pursued the disposal of assets other than real estate and stocks such as golf and condominium memberships, trademarks, transfer collaterals etc. As a result, it sold 14 golf and condominium memberships (realizing KRW 0.4 billion) and two transfer collateral and trademark (realizing KRW 2.5 billion).

## 1-3. Early Closure of Bankruptcy Proceedings

Due to difficulties experienced in converting bankruptcy estates' asset holdings into cash, some of these estates may find themselves in a position where the cost to maintain the bankruptcy estate exceeds the amount of potentially recoverable funds. To maximize the dividends for bankruptcy creditors and promptly recover public funds, the Corporation developed an early closure system. It first designated target bankruptcy estates, and with the court's approval, standardized the related procedure from assessment/sale of asset holdings and finial distribution of dividends to closure, in accordance with the Debtor Rehabilitation and Bankruptcy Act.

The KDIC classifies bankruptcy estates into four categories; early-stage bankruptcy estates, estates in need of intensive asset management, litigated estates and estates ready to be closed. When an estate's assets are converted into cash and the litigation is concluded, the estate is named as an estate to be closed, and finally closed after the selling of remaining assets and a final distribution of dividends.

Due to the above efforts to ensure the early closure of bankruptcy estates, as of the end of December 2009, out of a total of 469, 229 estates were declared closed by the court, and the Corporation plans to proceed with early closure of the remaining estates by selling remaining assets.

In addition, for the sake of record-keeping and post-bankruptcy management of closed companies, the KDIC put together a Report on Bankruptcy Management and Accompanying Documents, which provides information on how bankruptcy proceedings were conducted for each sector and for each institution and contains important documents, to be used as a reference for related agencies as well as the KDIC itself.

【Table Ⅵ-4】 **Results and Progress of Early Closure of Bankruptcy Estates**

(As of December 31, 2009)

| Classification | | Banks | Insurance Companies | Securities Companies | Merchant Banks | MSBs | Credit Unions[1)] | Total |
|---|---|---|---|---|---|---|---|---|
| Total No. of Bankruptcy Estates (A) | | 5 | 10 | 4 | 22 | 89 | 339 | 469 |
| Closed Estates (B) | No. of Closed Estates(B) | - | 3 | 1 | - | 3 | 222 | 229 |
| | Closure Rate (B/A) | 0.0% | 30.0% | 25.5% | 0.0% | 3.4% | 65.5% | 48.8% |
| Remaining Estates | A-B | 5 | 7 | 3 | 22 | 86 | 117 | 240 |

Note) Including 14 credit unions that belong to the DIF Credit Union account (transferred to the National Credit Union Federation of Korea on Jan. 1, 2010.)

# 2. Management of Asset Holdings

## 2-1. Promoting Effective Management of Asset Holdings by Bankruptcy Estates

The Corporation has operated the Fund Asset Status Tracking System, also known as 'FASTs', since 2008. This system manages the funds held by the Corporation as well as assets held by bankruptcy estates and the KR&C. The system is expected to promote the efficiency of asset management by facilitating easy review of assets held by bankruptcy estates, easy production of reports such as asset evaluation and monthly reports, and ongoing and systemic management of bankruptcy estates.

## 2-2. Asset Acquisitions

By year-end 2009, the KDIC had acquired a total of KRW 22.3 trillion (acquisition cost) in assets. Of that amount, KRW 10.3 trillion worth of assets had been acquired by the KR&C, KRW 10.6 trillion by Hanareum Merchant Bank (HMB) and KRW 1.3 trillion by Hanareum Mutual Savings and the Finance Corporation (HMSF).

In December 1999, the RFC (current KR&C) was established to acquire the assets that had remained after the disposal of Korea First Bank (KFB), KFB's put back options and other assets that had not been assumed by any acquirer in the process of financial restructuring of failed banks. At the end of December 2009, through borrowings from the DIF Bond Redemption Fund of the KDIC, the RFC had acquired assets worth KRW 10.32 trillion (acquisition cost) in total. This included KRW 7.85 trillion in assets from KFB, KRW 158.8 billion from five acquirer banks (Kookmin, H&CB, Shinhan, Hana and Koram), KRW 355 billion from five failed life insurance companies (Kookmin, Dong-A, Taepyongyang, Handuk and Daehan), KRW 333.7 billion from 11 MSBs (Hanmaum, Hanjung, Arim, Good Friend, Daewoon, Hongik, Kyungbook, Hyundai, Bundang, Jeonbuk and Eutteum), KRW 320.3 billion from 432 bankruptcy estates and KRW 1.3 trillion from the sale of financial investment companies (Korea, Daehan and Hyundai).



【Table Ⅵ-5】 Asset Acquisition by Resolution Financial Institutions in 2009

(Jan. 1, 2009 ~ Dec. 31, 2009, Unit: KRW 100 million)

| Classification | | Amount of Claims | Purchase Price | Notes |
|---|---|---|---|---|
| KR&C | Bankruptcy Estates | 1,279 | 34 | Additional acquirement |
| | MSBs | 1,446 | 499 | Jeonbuk, Eutteum |

【Table Ⅵ-6】 Accumulated Asset Acquisition of Resolution Financial Institutions

(As of December 31, 2009, Unit: KRW 100 million)

| Classification | | Amount of Claims | Purchase Price | Notes |
|---|---|---|---|---|
| KR&C | Banks | 98,640 | 80,137 | 6 banks (including KFB) |
| | Insurance Companies | 4,032 | 3,550 | 5 insurance companies |
| | Financial Investment Companies | 22,551 | 12,983 | 3 financial investment companies (KRW 18.8bn of Evergreen-backed payment in substitutes securities) |
| | Bankruptcy Estates | 55,982 | 3,203 | 421 bankruptcy estates (5 banks. 9 insurance companies, 2 financial investment companies, 20 merchant Banks, 72 mutual savings and finance corporations, and 313 credit unions) |
| | MSBs | 11,888 | 3,337 | 11 MSBs |
| | Subtotal | 193,093 | 103,210 | |
| Hanareum Merchant Bank | Merchant Banks | 110,225 | 106,262 | 16 merchant banks |
| Hanareum MSB | MSBs | 34,831 | 13,467 | 41 MSBs |
| | Total | 338,149 | 222,939 | - |

## 2-3. Disposal of Assets Acquired in the Course of Resolution

To maximize the recovery of public funds through the disposal of assets previously acquired in the course of resolution, the KDIC actively engaged itself to raise the value of assets and to promptly recover the public funds by utilizing various recovery methods, including M&A, issuance of asset-backed securities (ABS) and disposition based on the Standard Asset Management Disposition Agreement (SAMDA)* method.

* SAMDA is an NPL resolution method to entrust the management and sale of insolvent assets to private resolution companies. SAMDA gives such companies the right of bond management, principal call and disposition.

The Corporation received KRW 54.7 billion by redeeming Resolution Financial # 1 ABS subordinated debt which was originally issued in 2001, and received KRW 23.2 billion worth of advance dividends paid from surplus funds related to the 2nd Korea Investment & Securities Co., Ltd. ABS. Finally, it recovered KRW 126.7 billion from subordinated debts through early closure of Evergreen ABS.

The Corporation also recovered KRW 21.2 billion from Daewoo Education Foundation and Seoul Guarantee Insurance Co., Ltd. according to the normal reimbursement plan, KRW 23.0 billion from DongKuk Transportation Co., through an M&A (acquired by Kyung Nam Wool Textile Co., Ltd. Consortium), and recovered KRW 10.4 billion from loss sharing payments in connection with Daewoo Motor Company.

The corporation recovered additional funds by receiving KRW 15.7 billion as dividends from contributions made to the fund for the resolution of NPLs, KRW 4.7 billion won from exercising the appraisal right in Dongkuk Transportation Co., Ltd., KRW 14.8 billion from selling shares in SK Networks, KRW 3.4 billion from selling shares in S&T Heavy Industry Co., Ltd., KRW 1.6 billion from selling shares in Donghae Pulp Co., Ltd. and KRW 18.6 billion in dividends from security holdings like Korea Securities Finance Corporation(KSFC) shares.

Also, the KR&C commissioned an external professional entity to sell real estate by public auction, recovering KRW 643.6 billion up to the end of 2009. It actively pursued the sale of non-listed shares by appointing a professional sales advisor.

With regard to securities held by the KR&C such as locked-up stocks, corporate bonds, and convertible bonds, the KDIC is looking into a variety of recovery methods to see which would fit the characteristics of each asset.



**【Table Ⅵ-7】 Asset Dispositions by Resolution Financial Institutions**

(As of December 31, 2009, Unit: KRW 100 million)

| Disposition Project | Date | Sale Amount | Purchaser | Advisor |
|---|---|---|---|---|
| Sales proceeds from Korea First Bank New York Branch(M&A)[1] | Feb. 25, 2000 | 99 | NARA BANK | - |
| Transfer loans to KAMCO | Mar. 20, 2000 | 360 | KAMCO | - |
| Bulk sale of Kia Motors shares | Sep. 15, 2000 | 1,158 | Fiduciary OGF(L) Ltd | Daiwa Securities |
| Transfer loans to KAMCO | Sep. 27, 2000 | 1,204 | KAMCO | - |
| Stocks of Ileun securities (M&A) | Nov. 15, 2000. | 1,195 | Regent Group | KDB, KPMG |
| Sales proceeds from Korea First Bank Vietnam Branch (M&A)[1] | Nov. 24, 2000 | 59 | Chohung Bank | Samil Accounting |
| Issue ABS denominated in KRW | Dec. 11, 2000 | 2,000 | Domestic Investors | Samsung Securities, LG Securities |
| Bulk sale of loans(JV-SPC) | Dec. 19, 2000 | 2,044 | Lone Star | Samjong Houlihan Lokey |
| Transfer loans to KAMCO | Dec. 28, 2000 | 839 | KAMCO | - |
| Issue ABS denominated in KRW | Feb. 05, 2001 | 550 | Domestic Investors | Samsung Securities, LG Securities |
| Bulk sale of loans (RFC2001-1) | May 07, 2001 | 1,505 | Loan Star | Samil Accounting |
| Bulk sale of loans (RFC2001-1) | Jun. 21, 2001 | 1,185 | Merrill Lynch | Samil Accounting |
| Issue ABS denominated in foreign currency | Sep. 14, 2001 | 3,573 | Domestic/Foreign Investors | CSFB, SG, Daewoo Securities, Hyundai Securities |
| Bulk sale of loans (Hanareum 2001-2) | Feb. 27, 2002 | 1,932 | five companies including GE Capitals,etc. | Samjong KPMG |
| Transfer loans to KAMCO | Jun. 14, 2002 | 7,137 | KAMCO | Samil Accounting |
| Bulk sale of KT&G Shares | Sep. 12, 2002 | 1,681 | KT&G | - |
| Transfer loans to KAMCO | Nov. 21, 2002 | 608 | KAMCO | Samjong KPMG |
| Bulk sale of loans (KDIC JR Loan Sale 2003 Program) | Dec. 9, 2003 | 442 | Morgan Stanley | Samjong KPMG, Bae, Kim & Lee |
| Sale of ShinDongBang securities | Mar. 25, 2004 | 75 | CJ Consortium | Samil Acconting |
| Issue ABS denominated in KRW | Mar. 29, 2004 | 2,000 | Domestic Investors | Daewoo Securities/KDB Consortium |
| Sale of Shinho Petrochemical securities | Sep. 13, 2004 | 153 | Aram Financial | Samil Accounting |
| Sale of debt equity swap securities of Shinho Paper | Dec. 20, 2004 | 20 | Cooperative Enterprise Consortium of Shinho Paper | KDB Partners |
| Sale of debt equity swap securities of Ssangyong Motor | Dec. 27, 2004 | 680 | Shanghai Motor | Samil Accounting |
| Sale of debt equity swap securities of Samyang Food | Oct. 18, 2005 | 90 | Former company owner | - |
| Sale of debt equity swap securities of Hynix | Oct. 31, 2005 | 916 | Domestic/Foreign Investors | Seven Corporations including Merrill Lynch |
| Sale of debt equity swap securities of Daewoo Engineering & Construction | Dec. 15, 2006 | 1,668 | Kumho Asiana Consortium | Citi Global & Samsung Securities |
| Acquisition and Sale of debt equity swap securities of Doosan Infracore | Oct. 11, 2007 | 1,459 | OVC Sale | Daewoo Securities, Goldman Sachs |
| SK Networks | Jun. 4, 2009 | 148 | Drip Sale | Samsung Securities |
| Disposal of S&T Dynamics | Aug. 4, 2009 | 34 | Drip Sale | Samsung Securities |
| Disposal of Donghae Pulp | Nov. 3, 2009 | 16 | Drip Sale | Samsung Securities |
| Exercise of appraisal rights of DongKook Transport | Dec. 11, 2009 | 47 | DongKook Transport | Samil Accounting, Woori Investment & Securities |

1) Assets disposed directly by the KDIC

# VII Holding Persons Accountable for the Insolvency of a Failed Financial Institution

## 1. Improvement of the System to Hold Persons Accountable for the Insolvency of a Failed Financial Institution

Pursuant to Article 21-2 of Depositor Protection Act (DPA), the KDIC has conducted investigations into insolvent financial institutions and required the financial institutions to file damage claims and hold parties* who caused a loss to financial institutions by taking illegal actions and not abiding by regulations legally liable.

Formerly, the KDIC had an Investigation Department and Special Investigation Mission of Default Debtor Companies to professionally carry out the task of determining whether the management or employees of insolvent financial institutions or default debtor companies are accountable for the financial institution's insolvency.

However, as more and more illegal acts are perpetrated in collaboration between insolvent financial institutions and default debtors, it became important to conduct organically linked investigations that look into both types of organizations. For this reason, the Insolvency Investigation Division, a combination of the former Investigation Department and the former Special Investigation Mission of Default Debtor Companies, was established in March 2008. The combination of these two departments into one slimmed down the organization and promoted the efficiency of the investigation.

In order to provide consistent deliberations according to one set of standards, the KDIC unified internal standards for reviewing insolvent financial institutions and default debtor companies in July 2009.

* Former or incumbent management or employees of insolvent financial institutions, orderer of executions(pursuant to the Commercial Law), debtors of insolvent financial institutions and other third parties.



## 2. Investigations into Insolvent Financial Institutions

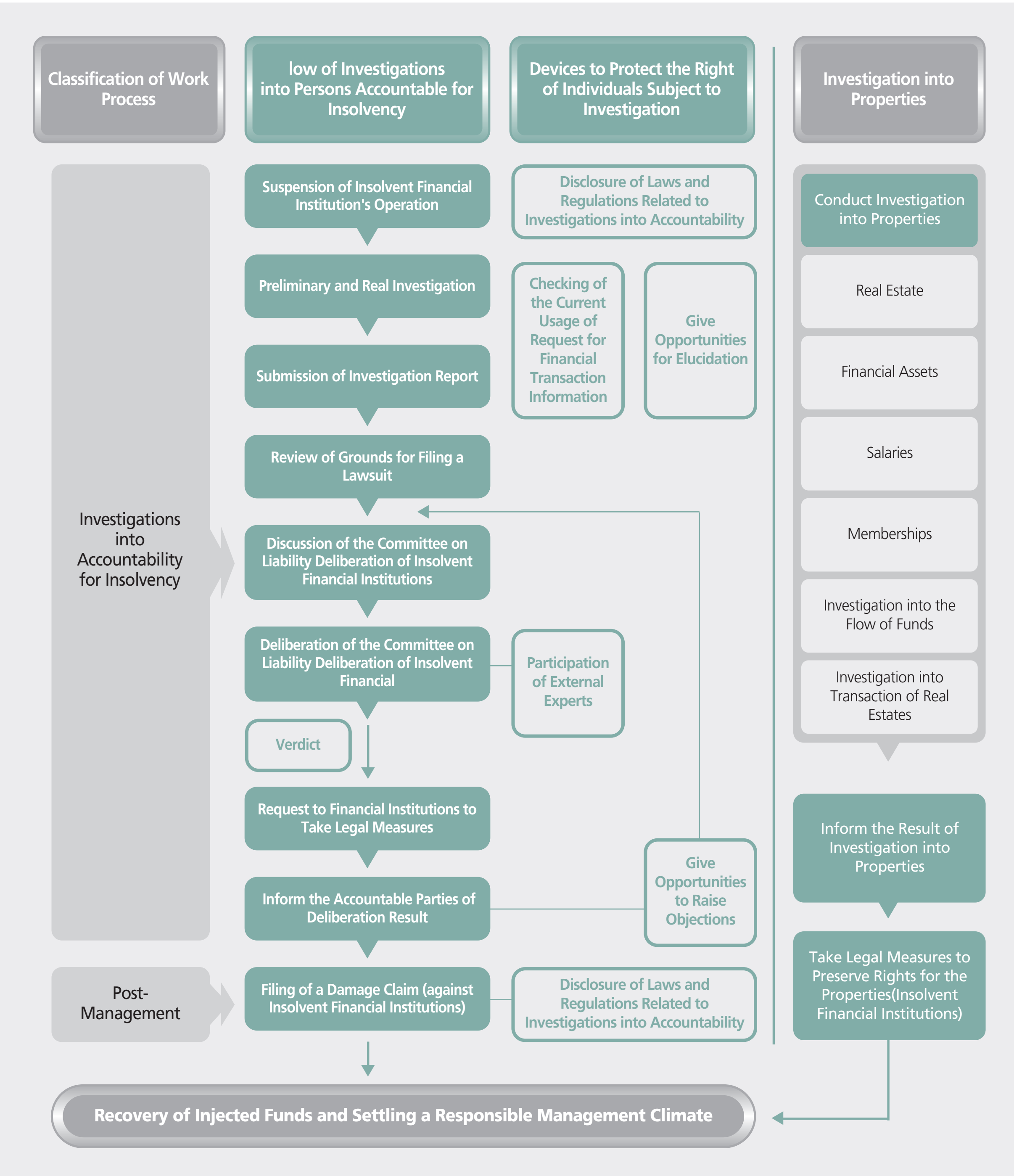
### 2-1. Investigations into Insolvent Financial Institutions to Determine their Accountability for the Insolvencies

The KDIC performs investigations into insolvent financial institutions to determine the accountability of management, employees and major shareholders (major shareholders who instruct another person to act in a way contrary to the relevant regulations as provided for by the Commercial Act Article 401-2) for the insolvencies. Accordingly, the KDIC performed investigations into a total of 498 financial institutions including 15 banks, 6 financial investment companies, 18 insurance companies, 22 merchant banks, 98 mutual savings banks and 339 credit unions as of the end of 2009.

The illegal actions revealed are deliberated in a fair and objective manner by the 'Financial Insolvency Accountability Deliberation Committee' which is composed of outside experts from legal, academic and financial circles. In the meantime, in order to protect the rights and interest of persons who are to be investigated, the KDIC provides them with sufficient opportunity to elucidate the case and to raise objections, which helps prevent innocent people from being wrongly accused.

As a result of insolvency accountability deliberations, the KDIC confirmed that 5,937 persons from 498 companies are liable for KRW 17.49 trillion in damages, and requested the insolvent financial institutions to initiate damage claim proceedings against them.

【 Figure Ⅶ－1 】 Flow of Investigations into Accountability for Insolvency & System for Protection of Liable Party's Right




【 Table Ⅶ－1 】 Investigations into Accountability for Insolvency

(As of December 31, 2009, Unit: KRW 100 million)

| Classification | Banks | Financial Investment Companies | Insurance Companies | Merchant Banks | MSBs | Credit Unions | Total |
|---|---|---|---|---|---|---|---|
| Institutions Investigated | 15 | 6 | 18 | 22 | 98 | 339 | 498 |
| Persons Accountable for Insolvencies | 191 | 65 | 244 | 159 | 949 | 4,329 | 5,937 |
| Amount of Loss Incurred | 14,080 | 33,266 | 30,482 | 55,977 | 31,313 | 9,828 | 174,946 |



## 2-2. Damage Claim Proceedings against Parties Implicated in Insolvency

As of end of 2009, insolvent financial institutions filed 1,443 damage claim proceedings for KRW 1.91 trillion.

【 Table Ⅶ－2 】 Filed Lawsuits

(As of December 31, 2009, Unit: KRW 100 million)

| Classification | Banks | Financial Investment Companies | Insurance Companies | Merchant Banks | MSBs | Credit Unions | Total |
|---|---|---|---|---|---|---|---|
| No. of Institutions Accused | 15 | 6 | 18 | 22 | 96 | 325 | 482 |
| No. of Persons Accused | 191 | 83 | 275 | 181 | 1,205 | 7,624 | 9,559 |
| No. of Claims | 93 | 31 | 83 | 35 | 340 | 861 | 1,443 |
| Amount | 1,004 | 342 | 2,433 | 3,042 | 6,118 | 6,173 | 19,112 |

The KDIC has continued to conduct ex post management of legal measures taken by creditor financial institutions following the filing of damage claims and demands from the KDIC to take measures to preserve creditor rights. As part of these efforts, in order to assist litigation related tasks in both an efficient and effective manner, the KDIC has operated a Litigation Support Team composed of legal experts, including lawyers, to enable logical and systematic pleading and submission of evidence, since the latter half of 2003. In March 2009, the Corporation developed the litigation management improvement plans with a view to building a system to regularly review its litigation support activities. Also, as part of the litigation management improvement plans, the KDIC has adopted and operated a system of appointing one legal counsel per region to deal with all cases within that region, and thus enhanced the success rate achieved on damage claims.

## 2-3. Legal Measures against Insolvent Financial Institution and Results of Recovery

In the event that the KDIC wins the damage claims suits filed against the parties implicated in insolvency, the KDIC conducts thorough investigation into the properties of those parties in order to maximize the recovery of assets. In 2009, after the respective investigations, the KDIC took measures such as the provisional seizure of KRW 1.18 trillion in 3,295 cases and the provisional disposal of properties in 260 cases. As a consequence, a total of KRW 269.7 billion had been recovered through various measures such as compulsory execution by the end of December 2009.

【Table Ⅶ-3】 Legal Measures against Insolvent Financial Institutions and Results of Recovery

(As of December 31, 2009, Unit: KRW 100 million)

| Classification | Banks | Financial Investment Companies | Insurance Companies | Merchant Banks | MSBs | Credit Unions | Total |
|---|---|---|---|---|---|---|---|
| No. of Provisional Seizure | 37 | 8 | 90 | 128 | 1,078 | 1,954 | 3,295 |
| Amount of Provisional Seizure | 76 | 48 | 402 | 1,005 | 5,234 | 3,253 | 10,018 |
| No. of Provisional Disposition | 10 | 1 | 2 | 42 | 93 | 112 | 260 |
| Recovered Amount | 102 | 54 | 204 | 612 | 918 | 807 | 2,697 |

# 3. Investigations into Default Debtor Corporations

## 3-1. Investigations into Default Debtor Corporations

By the end of 2006, the KDIC's former Special Investigation Mission for Default Debtor Corporations had completed its investigations into 717 insolvent default debtor corporations that failed to pay their debts to insolvent public fund-injected financial institutions. Since 2007, the KDIC has expanded its investigations to include investigations into default debtor corporations that failed to pay their debts to 13 mutual savings banks that have received injections from deposit insurance funds. The KDIC buckled down by starting off with conducting preliminary investigative research into these default debtor companies during the first half of 2007.

In March 2008, during corporate reorganization, the former Special Investigation Mission for Default Debtor Corporations and the Investigation Department, which used to take exclusive responsibility for investigation of insolvent financial institutions, were combined to form the 'Insolvency Investigation Division.'

After deliberating on the investigation results, the Financial Insolvency Accountability Deliberation Committee confirmed insolvency accountability amounting to KRW 14.55 trillion by 830 persons as of the end of 2009, and requested the insolvent financial institutions to initiate damage claim proceedings against these parties.



【Table Ⅶ-4】 Investigations into Default Debtor Corporations

(As of December 31, 2009, Unit: KRW 100 million)

| No. of Corporations Subject to On-site Investigations | Liable Parties | |
|---|---|---|
| | No. of Implicated Liable Parties | Amount of Loss Incurred |
| 832 | 830 | 145,523 |

## 3-2. Damage Claim Proceedings against Parties Implicated in Insolvency

Per the KDIC's request, insolvent financial institutions filed 187 damage claim proceedings worth KRW 980 billion.

The KDIC has continued to conduct ex post management of legal measures taken by creditor financial institutions following the filing of damage claims and demands from the KDIC for taking measures to preserve creditor rights. It inspects the status of lawsuits filed by insolvent financial institutions on a regular basis, and provides consulting services on the lawsuits and preservations of creditors' claims by having meetings with staff of insolvent financial institutions who are in charge of the lawsuits, if needed.

Where creditor institutions did not heed the request of the KDIC to institute claims against parties implicated in the insolvency, the KDIC assumes the right to file a claim on their behalf. Where claims have already been filed by failed institutions, the KDIC gives consideration to the size of the claim amount and the progress of claims instituted and then decides on the kind of support to be provided. The KDIC's support improves claims management and facilitates effective defense of the case.

【Table Ⅶ-5】 Lawsuits against Default Debtor Corporations

(As of December 31, 2009, Unit: KRW 100 million)

| No. of Corporations | No. of Defendants | No. of Claims | Amount Claimed |
|---|---|---|---|
| 148 | 1,180 | 187 | 9,800 |

## 3-3. Legal Measures against Parties Implicated in Insolvency and Results of Recovery

The KDIC conducts thorough investigation into the properties of parties implicated in the insolvency in order to maximize the recovery of assets in case the KDIC wins the damage claim suits filed against such parties. In 2009, after conducting investigations, the KDIC took measures such as the provisional seizure of KRW 672.1 billion worth of assets in 975 cases and the provisional disposal of properties in 233 cases. As a consequence, a total of KRW 116.2 billion was recovered by the end of the year.

【 Table Ⅶ－6 】 **Legal Measures against Parties Accountable for Insolvency and Results of Recovery**

(As of December 31, 2009, Unit: KRW 100 million)

| Provisional Seizure | | Provisional Disposition | Recovered Amount |
|---|---|---|---|
| No. of Cases | Amount Claimed | No. of Cases | |
| 975 | 6,721 | 233 | 1,162 |

# 4. Investigations into Assets of Parties Implicated in Insolvency

## 4-1. Investigation into Assets Located Domestically

Through the amendment of the Depositor Protection Act (DPA) on December 1, 2000 and on December 30, 2000, the legal basis for investigations into the assets owned by parties implicated in insolvency was established. As for the implicated parties of insolvent financial institutions into which public funds were injected, the KDIC carried out investigations by utilizing information gathered in the database complied by government agencies regarding real estate and other property holdings. Through these efforts, the KDIC has managed to expand the scope of the institutions from which data can be obtained.

With the 'Right to Request Financial Transaction Information from the Head of Financial Institutions' newly added during the revision of the DPA in March 2006, the KDIC is now allowed to receive information on financial properties held by insolvency-implicated parties from financial institutions and take legal measures against them, thereby promoting the effectiveness of investigations into accountability for insolvency. The revised DPA strengthens the investigative authority of the KDIC by giving it the authority to request data on the works and properties of those implicated in insolvencies and summon them as well as request such data from the government and financial institutions. In the meantime, the 'Right to Request Financial Transaction Information from the Head of Financial Institutions' which was set to expire on March 23, 2009 was extended until March 23, 2011.

As of December 2009, the Corporation performed investigations into properties held by 918,160 insolvency-implicated persons. The KDIC also conducted in-depth investigations into those who were ultimately responsible in terms of the final judgment, those guilty of embezzlement, misappropriation of assets, and those whose extinctive prescription for remaining claims were near completion. In total, the Corporation conducted special investigations into properties held by 2,639 insolvency-implicated persons including real estate and into their deceptive acts up to the end of December 2009. Based on the results of these investigations, the KDIC requested the pertinent financial institutions to take legal measures such as preservation of creditor's claims or seizure of the assets that were discovered. As of December 2009, several legal measures were taken including 63,479 cases of provisional seizure worth KRW 10.79 trillion and 1,779 cases of provisional disposition from which a total of KRW 670.8 billion was recovered.

【 Table Ⅶ－7 】 **General and Special Investigations into Implicated Parties' Properties**

(As of December 31, 2009, Unit: KRW 100 million)

| Classification | No. of Persons Investigated | Provisional Seizure | | No. of Provisional Disposition | Recovered Amount |
|---|---|---|---|---|---|
| | | No. of Cases | Amount | | |
| Implicated Parties | 918,160 | 63,479 | 107,936 | 1,779 | 6,708 |

※ The numbers above includes the investigations into Default Debtors' Assets performed by the KR&C (former RFC).

By exercising its right to request financial transaction information from the head of financial institutions, a right which was established in March 2006, the KDIC conducted investigations into 82,845 persons implicated in insolvencies. Based on these investigations, the KDIC took legal recovery measures such as KRW 155.6 billion of provisional seizure and thus recovered KRW 37.2 billion.

【Table Ⅶ－8】 **Investigations Performed via Search of Financial Transaction Information**

(As of December 31, 2009, Unit: KRW 100 million)

| No. of Persons Investigated | | Legal Measures (e.g. Provisional Seizure) | Recovered Amount |
|---|---|---|---|
| | | Amount | Amount |
| Implicated Parties | 82,845 | 1,556 | 372 |

## 4-2. Investigation into Assets Located Overseas

In order to facilitate investigations into overseas located assets of insolvency-implicated persons, the KDIC prepared "Plans to Strengthen Investigations into Overseas-located Assets." In 2007, the KDIC chose the U.S. as a country where investigations should be carried out and launched an outsourced investigation by commissioning professional firms which specialize in investigations into hidden overseas assets.

As of the end of December 2009, investigations were conducted into the hidden overseas assets of approximately 900 culpable persons. As a result, USD 3.05 million were recovered and, for those who were found to have concealed properties, the KDIC has either already filed local court proceedings against them or is in the process of doing so.

During 2009, the Corporation expanded the scope of its investigation and included countries like Canada, Japan and Australia in the list of countries where investigations should be conducted, thus increasing the likelihood for the recovery of hidden overseas assets.

## 4-3. Recoveries through Operation of 'Concealed Property Report Center'

To raise the effectiveness of investigations of insolvency-implicated parties and facilitate the recovery of public funds, the KDIC opened the Concealed Property Report Center in May 2002. Up until the end of December 2009, the Center had received 137 reports, recovered KRW 27.2 billion in 21 cases and paid KRW 1.25 billion in rewards.

Recognizing that the public's interest and participation is the key to more effective investigation, the Corporation started promotion campaigns for the Center at home and abroad. When a financial institution defaults, the Corporation launches a public campaign to encourage people to come out with information about hidden assets of insolvency-implicated persons. The Center is also linked to the Overseas Tax Evasion Report Center on the National Tax Service website in an effort to enhance cooperation with related agencies.

In particular, to encourage the reporting of hidden overseas assets, the KDIC runs banner ads on the websites of overseas Koreans' Foundations in the U.S. (New York and LA) and Canada (Toronto), holds seminars for local press and appoints local Koreans as PR ambassadors. Also, to provide greater access to the Center, the Corporation launched and has operated a toll free number in the U.S. and Canada for persons reporting hidden overseas assets.

In 2009, the KDIC published the Manual for Concealed Property Report Center after systematically analyzing and categorizing the types of cases reported to the Center and how those cases were handled, in an effort to develop more efficient investigation techniques and improve the process.

# 5. Enhancing Cooperation with Related Agencies

Including secondees from related agencies, there are a total of 95 persons working at the Insolvency Investigation Division, a division composed of 1 bureau and 1 department. With help of secondees from related agencies sharing skills and information, efficiency in investigation was promoted.

In the meantime, the Corporation, by establishing a close relationship with the prosecutor's office, requests for further investigations when the internal investigation results show that the culpable parties were engaged in any kind of fraud, embezzlement and misappropriation of assets. With the information given by the KDIC, the prosecutor's office conducts further investigations, and informs the KDIC of hidden assets of such parties, against which the KDIC take legal measures to exercise its preservation rights.

Through that process, in 2009, the KDIC was able to recover DIF funds early including voluntary repayment of KRW 10.4 billion from a person implicated in insolvency without going through a trial. Such close cooperation with the prosecutor's office allowed the KDIC to contribute to holding companies accountable for their civil and criminal responsibilities for insolvency and ensuring transparent accounting practices by cracking down on window dressing and poor auditing.

# VIII Improvement of Laws Related to the Deposit Insurance System, Research Activities and International Cooperation

## 1. Improvement of Laws Related to the Deposit Insurance System

### 1-1. Amendment of the Depositor Protection Act (February 3, 2009)

**A. Objective**

The DPA was revised in a way that lays the basis for the enforcement of the Risk-based Premium System, waivers the setting of targets when the number of insured financial institutions in a particular financial sector is so small that it is inappropriate to set a target size for that particular account of the DIF, reduces or exempts payment of interests arising from borrowing between accounts or defers the payment when necessary for the quick recovery of a certain account, and keeps in place the right to request financial transaction information from the head of financial institutions.

**B. Major Contents**

**(1) Laying a Basis for the Enforcement of the Risk-based Premium System**

The Risk-based Premium System is to come into effect within five years after the legal effective date and the premium rates can vary from institution to institution as specified by the Presidential Decree. Also, an insured financial institution or its management and staff can raise objections regarding the risk-based premium rates to be imposed. At the same time, the Corporation established a confidentiality provision, barring insured financial institutions from disclosing or leaking the imposed rates to the public.

**(2) Providing a Basis for Waiving the Setting of Fund Targets**

When it is determined that the number of insured financial institutions in a particular financial sector is too few to make it possible to set a target size, the requirement can be waived.

**(3) Preparing the Basis to Reduce or Exempt Interest Payments Arising from Borrowing Between Accounts**

To promote quick recovery of any account that suffers big losses, a new amendment was put in place that the payment of interests arising from borrowing between accounts may be reduced or exempted for a period of up to 10 years, if necessary. And if a certain account experiences a temporary liquidity shortage, the payment of interests may be deferred.

**(4) Extension of Legal Deadline of the Right to Request Financial Transaction Information from the Head of Financial Institution**

The right to request financial transaction information from the head of financial institutions, which was to expire on March 23, 2009, was extended for another two years until March 23, 2011. To prevent the right from being abused, a new provision was added to allow legal measures against persons who use the right for purposes other than intended. Also, it was specified that only those implicated in insolvency of financial institutions and persons related to them will be subject to this request for information, not any third parties.

### 1-2. Amendment of the Enforcement Decree of the Depositor Protection Act (June 9, 2009)

**A. Objective**

The Enforcement Decree of the Depositor Protection Act was revised in a way that determines the range of differential premium rates and the procedures for raising objections to pave the way for the implementation of the Risk-based Premium System, complements the Target Fund System by putting in place a measure to reduce or exempt interest payments when the target of an account of the DIF is met, specifies how the revised Depositor Protection Act (revised on February 3, 2009) should be enforced, includes retirement pension products in the deposit insurance coverage, reforms the premium rate system and addresses some flaws or weaknesses identified in the current system.

## B. Major Contents

### (1) Laying a Basis for the Enforcement of the Risk-based Premium System

The Corporation shall apply the premium rate determined by the Deposit Insurance Committee for each insured financial institution within the extent of 10/100 based on the premium rate computed by the formula under attached Table 1 in Article 16 of the Presidential Decree of the Depositor Protection Act. This rate will apply to premiums for which the obligation for payment will arise for the first time after 2014. When the Corporation receives an objection from an insured financial institution, it shall notify the latter of the result of the disposition within 90 days from the date when it receives the objection. If it is deemed necessary to disclose the details of the differential premium rate for the protection of depositors, an insured financial institution may disclose the differential premium rate to the public.

### (2) Complementation of the Target Fund System

Where the amount of accumulated fund in an account of the Deposit Insurance Fund exceeds the lower limit of the targeted amount, the Corporation shall apply a reduced premium rate to the account. On the other hand, if the amount of accumulated fund exceeds the upper limit of the targeted amount, the Corporation shall refund, some or all of, the surplus or exempt them from paying insurance premiums. For accounts where the number of insured financial institutions are so small that it is inappropriate to set the target amount (e.g. Merchant Bank account), the Corporation may postpone the establishment of the target through a resolution of the Deposit Insurance Committee.

### (3) Reduction or Exemption of Interests for Borrowing between Accounts

The Corporation may, with respect to the Mutual Savings Bank account of the Deposit Insurance Fund, reduce or exempt interest payments for 10 years through a resolution of the Deposit Insurance Committee within the extent of the balance of loans as of December 31, 2008. Also, the Corporation may grant deferment of interest payments for a specific account that has a temporary liquidity shortage.



### (4) Inclusion of Retirement Pension Deposits in the Deposit Protection Coverage

Balances of Defined Contribution Pensions and Individual Retirement Accounts, as defined by the Employee Retirement Benefit Security Act, were included in the coverage of the deposit insurance.

### (5) Development of Standards for Deposits at Overseas Branches, etc.

Money raised by an overseas branch of an insured financial institution, which is acknowledged by the Corporation to be protected under the deposit insurance system of the nation where the branch is located, shall not be included in the scope of deposits, etc.

### (6) Reorganization of Insurance Premium Rate by Account

The premium rates for the banks, financial investment companies, life insurance companies, non-life insurance companies and merchant banks were cut whereas the rate for MSBs was increased.

∗ Banks: 0.1% ⇨ 0.08%, Financial Investment Companies: 0.2% ⇨ 0.15%, Life insurance companies, non-life insurance companies and merchant banks: 0.3% ⇨ 0.15%, Mutual savings banks: 0.3% ⇨ 0.35%

### (7) Adjustment of Contributions for Several Financial Investment Companies

Any person who has obtained authorization for the investment trade business and the investment brokerage business for the collective investment securities only under the Financial Investment Services and Capital Markets Act shall pay a contribution in the amount obtained by multiplying the minimum equity capital amount provided for in Attached Table 1 of the Act's Enforcement Decree by 1/100.

### (8) Removal of the Requirement to Subscribe to the Compensation Liability Insurance

The provision that requires insured financial institutions to subscribe to the compensation liability insurance within six months after they were asked to do so by the Corporation was deleted.

**(9) Development of Standards for Imposing Fines for Negligence**

The standards (general and specific) for the imposition of fines for negligence under the Depositor Protection Act were developed.

## 1-3. Court's Ruling on Constitutional Complaints against the DPA and the Constitutionality of the Act

### A. Constitutional Complaints against Special Assessment (Sentenced on April 30, 2009, Decisions 2006HeonMa603 and 2007HeonBa44)

Constitutional appeals were filed (on May 18, 2006 and May 16, 2007) on grounds that Article 6 of addendum to the Depositor Protection Act (Act No. 6807), which imposes special assessment fees on credit unions as contributions to the DIF Bond Redemption Fund even though they had been excluded from the deposit insurance coverage in 2004, infringes upon their property rights and rights to equality. In this case, the Constitutional Court ruled that the Article does not violate the property rights of credit unions considering the following: 1) the law requires financial institutions to repay only part of public funds injected during the Asian financial crisis; 2) financial institutions are allowed to repay the money in installments over a long period; and 3) in particular, credit unions are required to pay lower rates, given a long grace period and the requirement is a temporarily measure which will remain in place for 12 years. The Court also held that their rights to equality were not infringed by the Article as there is no discrimination between credit unions and other insured institutions because, just like credit unions pay insurance premiums to the deposit insurance fund of the Credit Union Federation of Korea on top of special assessments, other insured institutions are required to make insurance premium and special assessment payments to the DIF and the DIF Bond Redemption Fund, respectively.

### B. Constitutionality of Penalties Imposed on Insolvency-implicated Persons who Refuse Investigation (Sentenced on September 24, 2009, Decisions 2007HeonGa15)

The justice department in charge of criminal trial requested the Constitutional Court (on June 27, 2007) to decide whether it is in violation of the principle of proportionality indicated in the constitution to criminally punish a person who failed to meet his/her debt obligations to an insolvent financial institution for refusing to be investigated by the KDIC as a responsible party for the default. With regard to this, the Constitutional Court ruled that the KDIC's right to investigation and related penal provisions do not violate the principle of proportionality considering the following: 1) the provisions are justified because they were put in place to obtain effective evidence necessary to recover public funds; 2) the use of the measure is confined to cases where it is needed to file a damage claim etc.; 3) the scope of investigation is limited to those are likely to have been implicated or to be implicated in insolvency; and 4) investigation is launched only when there are no other means than criminal prosecution to hold them accountable. The Court also held that the measure is constitutional and does not violate the principle of proportionality since the benefits - recovery of public funds, promotion of responsible management and improving the soundness of the national economy - may outweigh personal costs such as violation of insolvency-related persons' right to personal liberty or properties.

## 2. Deposit Insurance Systems Research Activities

The KDIC conducted various research activities deemed necessary for the stable operation and advancement of the Deposit Insurance System (DIS) in rapidly changing economic environment and financial market in the wake of the financial crisis.

In 2009, the research was focused on the deposit insurance systems of major countries such as the United States and the United Kingdom to see their policy responses to the financial crisis and system improvement measures to prevent a repeat of the crisis. The results of the research were used as a basis to formulate policies to stabilize financial markets.

The KDIC conducted research aiming at the advancement of domestic financial regulation by studying financial regulatory reforms abroad, which resulted in significant policy implications. In addition, the Corporation researched various ways to improve the existing deposit insurance system by assisting outsourced researchers on research into the role of the DIS in financial stabilization, how to reduce the pro-cyclical behavior of the DIS, measures to improve prompt corrective actions and so on.

The KDIC's regular publications such as the data on research and analysis of the deposit insurance system and financial system stability -the Overseas Deposit Insurance Trend, the Financial Stability Studies and the Financial Risk Review- served as invaluable reference materials for many relevant institutions, the academia and policy makers.

【 Table Ⅷ−1 】 **Major Research Activities of the KDIC in 2009**

| Subject | Title |
|---|---|
| Measures Taken by Major Countries in Response to Financial Crisis | Global Financial Crisis and Policy Measures Taken by Major Countries |
| | U.S. Financial Stabilization Plan and Implications |
| | U.S. Stress Test Methodologies and Results |
| | Major Contents of the U.S. Public-Private Investment Program to Deal with Troubled Assets |
| | Major Contents of the 2nd Bailout Plan in the UK |
| | Major Contents of Japan's Act on Strengthening Financial Functions |
| | The Status of Crisis Recovery Efforts in the three Benelux Countries |
| | Major Contents and Implications of Preemptive Recapitalization Measures in Advanced Economies |
| | Trend in Deposit Insurance Abroad |
| Reform of Financial Supervisory System in Major countries | Major Contents of the U.S. Financial Regulation Reform Bill |
| | Major Contents of the U.S. Insurance Regulation Reform Bill |
| | The U.S. Bill to Establish a National Financial Consumer Protection Agency |
| | Major Contents of the UK Turner Review |
| | Measures to Reform Financial Supervision at the EU Level |
| Deposit Insurance System of Major Countries | FDIC's Right to Financial Supervision and Deposit Insurance |
| | Preemptive Funding Provided by the FDIC at Times of Systemic Risks |
| | FDIC's Plan to Change the Premium Rates System |
| | An Analysis of Cases in which the UK's Special Resolution Regime was Applied |
| | IADI Core Principles for Effective Deposit Insurance Systems |

## 3. Cooperation and Exchange with International Organizations

In the year 2009, the KDIC mainly focused on reinforcing its business capacity and strengthening its role in the international community through exchanges with diverse international organizations including the International Association of Deposit Insurers (IADI).

As a means of cooperative exchange, at the IADI Asia Regional Committee Annual Meeting and International Conference held in May 2009, the KDIC delivered a presentation titled ‘Asset Recovery through Sales of Equities.’ Also, the KDIC assisted other countries in their research into funding, resolution of insolvent institutions, and policies and systems related to insurance claim payments by answering their questionnaires.

The KDIC also attended the Executive Committee Meeting of the IADI to express opinions on key issues and to participate in the decision-making process. In December, the Corporation conducted a project under the title of Handling of a Systemic Risk, laying the groundwork to play a leading role in the IADI's research activities.

The KDIC also serves as a member of the Research and Guidance Committee (RGC) and the Training and Conference Committee (TCC), both key standing committees of the IADI. In fulfilling these roles, the KDIC played a pivotal role in publishing research and guidance papers on deposit insurance.

As a means of continuously assisting the government in its efforts to establish Korea as a financial hub, the KDIC paid a visit to the newly-established Depositor Protection Agency in Thailand, upon its request, and shared information on the Korean system and experiences in financing the deposit insurance system.

Meanwhile, the Corporation strengthened cooperation with deposit insurers of other countries as it signed MOUs with the Deposit Insurance Agency of the Russian Federation and the Savings Deposit Insurance Fund of Turkey on information sharing and mutual cooperation in March and December, respectively.

In December, the Corporation introduced the Depositor Protection Act, the Target Fund System and the Risk-based Premium System, and presented case studies of bank resolutions to visitors from the Deposit Insurance Board of the Bank of Tanzania, soon to be separated from the central bank, which helped the Board to polish related laws and regulations and fine-tune its system.

# IX Account Settlement Result of 2009

## 1. Overview of Account Settlement

The KDIC has classified its funds into three accounting units: the Deposit Insurance Fund (DIF), the Deposit Insurance Fund (DIF) Bond Redemption Fund and the KDIC Internal Account. The DIF and the DIF Bond Redemption Fund are each classified into 7 different financial sector accounting units: banks, financial investment companies, life insurance companies, non-life insurance companies, merchant banks, mutual savings banks and credit unions.

In order to increase the credibility and transparency of its accounting, the KDIC has used the services of an external auditor from the 2002 fiscal year. For the account settlement of 2009, the audit was conducted by Daejoo Accounting Corporation, and the auditor's opinion, following an audit, was 'Unqualified.'



## 2. Criteria for Account Settlement

### 2-1. DIF and KDIC accounting

#### 2-1-1. Accounting of Assets and Liabilities

**A. Classification and Valuation of Securities**

The financial statements of the DIF, DIF Bond Redemption Fund and the KDIC Internal Account are laid in accordance with Generally Accepted Accounting Principles, accounting rules for public corporations and quasi-government institutions as well as the KDIC's internal accounting standards.

**(1) Acquisition Costs of Securities and their Classification**

The acquisition costs of securities are estimated by adding together the market price and associated costs incurred in acquiring the securities. The KDIC classifies its marketable securities as Trading, Available-For-Sale (AFS), Held-To-Maturity (HTM) and Equity-Method-Securities, according to the ownership purpose of each of the securities. Equity-Method-Securities refer to equity securities that can exercise material influence over the issuing company.

**(2) Valuation of Securities**

The value of Trading and AFS securities is estimated by the fair value method. In the case of marketable securities, the market price, determined as the closing price as of the balance sheet date, is the fair value. However, in cases where securities are not marketable, and at the same time, the value cannot be estimated fairly, their acquisition cost is deemed to be the fair value. Unrealized gains/losses on Trading securities are included in net income, and unrealized gains/losses on AFS securities in accumulated other comprehensive income. The accumulated gains/losses on AFS securities are recorded as net income at the time the AFS securities are sold or impairment losses are recognized. Evaluation gains/losses of these AFS securities are added or deducted from the loss to the AFS account. The accounting treatment of a reversal of impairment loss that occurs subsequent to the recording of an impairment loss on price-reduced securities is as follows: When the reversal of impairment loss is objectively related to an event occurring after the recognition of the impairment loss, the amount of the reversal shall be recognized as a reversal of impairment loss and included in periodic income within the amount of previously recognized impairment loss.

**(3) Valuation of Equity Method Securities**

The value of the equity method securities as per the balance sheet, which can have material effect over the invested company, is determined by using the equity method. Initially, equity method securities are valuated at their acquisition cost, and then changes in their value after the acquisition are directly added to or deducted from the acquisition cost. If the changes originated from net profits/losses of the company in which the investments are held, the pertinent gains/losses are reflected in net income/loss by recording them as gain/loss on valuation using the equity method. If the amount of deferred retained earnings increased or decreased due to material misstatement or changes in the accounting procedures of the company in which the investments are held, the increase/decrease is added to or deducted from the current net income/loss or deferred retained earnings. The decision to choose which account of the two to use should be based on its impact on the issuing company's balance sheet. If the decrease or increase was due to a fluctuation in the equity accounts, excluding net income and deferred retained earnings, the pertinent change is added to or deducted from accumulative other comprehensive income under the gain on valuation of equity-method investment or loss on valuation of equity-method investment account.

### B. Valuation of Loans, etc.

A bad debt allowance is reserved by estimating the expected loss from loans or indemnity receivables. As for the KDIC's indemnity receivables to bankruptcy estates, the corresponding bad debt allowance is calculated by estimating the expected loss of the receivables based on the valuation of assets held by bankruptcy estates.

### C. Reserve for Outstanding Claims

A reserve for outstanding claims is estimated and set aside by the KDIC to cover any liability due to the failures of insured financial institutions or the loss of a court case.

### D. Transferred-out Capital Budget and Operating Expenses of the KDIC

The DIF covers the costs incurred in acquiring assets for the KDIC's use and the KDIC's operating expenses. The money used for capital expenditure in the accounting of KDIC is appropriated as transferred-out capital budget and, if the asset decreases in value due to depreciation etc., the corresponding amount is deducted from transferred-out capital budget and added to operating expenses. In addition, money spent on running the KDIC such as salaries is treated as operating expenses.

## 2-1-2. Accounting for Revenues and Expenses

### A. Revenue Recognition Criteria

Revenues and expenses are reflected based on the gross amount without any individual setoff being applied. Insurance premium revenue is recognized as it accrues over time. Interest income arising from deposits, etc. is also treated in this way but interest income arising from uncollectable loans is recognized on a cash basis, as it is less likely to be realized.

### B. Accrual of Revenues and Expenses

**Revenues and expenses were accounted for on an accrual basis as follows:**

(1) (Deferral of Expense) If expenses referring to the following term were prepaid, it was reflected as prepaid expenses and deducted from the current expenses.

(2) (Recording of Expense) An expense belonging to the current term but remaining unpaid as of the date of account settlement was recorded as an unpaid expense and added to expenses. An expense of which the amount had not been fixed as of the date of account settlement was not recorded.

(3) (Recording of Revenue) Revenue belonging to the current term that had not been received in cash as of the date of account settlement was recorded as accrued revenue and added to profit.

# 2-2. DIF Bond Redemption Fund

## 2-2-1. Application of National Accounting Standards

For the DIF Bond Redemption Fund, financial statements were prepared in accordance with the Rules regarding National Accounting Standards, which came into force on January 1, 2009, and the financial management statement for the 2009 fiscal year was not presented in a comparative format with the previous term in accordance with Article 2 of the addendum of the said Rules.

## 2-2-2. Accounting for Assets and Liabilities

### A. Classification and Valuation of Securities

**(1) Acquisition Cost and Classification of Securities**

The acquisition cost of securities is calculated by adding ancillary costs to the purchase cost and applying the identified cost method. Securities are classified in accordance with the asset classification standards into short-term investment securities and long-term investment securities. Short-term investment securities include debt securities, equity securities and other short-term investment securities with a maturity of less than one year or to be sold within one year. Long-term investment securities include debt securities, equity securities and other long-term investment securities with a maturity of one year or longer or to be sold after a year.

**(2) Valuation of Securities**

Debt securities are valued at their amortized acquisition cost, and equity securities, other long-term investment securities and other short-term investment securities are valued at their acquisition cost. However, long-term investment securities and short-term investment securities for investment purposes will be valued at fair value if fair value can be reliably estimated on the balance sheet date, and the difference between the book value and fair value is recorded as adjustment in the statement of changes in net assets. In the meantime, in case the recoverable amount of securities drops below the book value and if the drop is sustained for such a long time that it is not likely to recover, the corresponding difference will be recognized as impairment loss and reflected in the net cost for financial management. When the recoverable amount of price-reduced securities recovers above the previously not-reduced book value after the next term, the amount of the reversal shall be recognized as a reversal of impairment loss and included in the net cost for financial management within the amount of the book value.

### B. Valuation of Loans, etc.

A bad debt allowance is reserved by estimating the expected loss from loans, accounts receivable or indemnity receivables. As for the KDIC's indemnity receivables to bankruptcy estates, the corresponding bad debt allowance is calculated by estimating the expected loss of the receivables based on the valuation of assets held by bankruptcy estates.

### C. Valuation of Foreign Currency Denominated Assets and Liabilities

For foreign currency denominated assets and liabilities, the exchange rate as of the balance sheet date is applied. The gains/losses that arise from foreign currency exchange fluctuations are reported in the net cost for financial management.

### D. Accounting for Derivatives Transactions

After valuing the rights and obligations associated with derivatives contracts at their fair market value, the determined values are appropriated as assets or liabilities depending on the case. The evaluation gains/losses are reflected in the net cost for financial management at the time they occur. However, as for the valuation of derivatives acquired to mitigate the liquidity risk, the evaluation gains or losses are reported as gain/loss on valuation of derivatives instruments for cash flow hedge in the adjustment account of the statement of changes in net assets.

### E. Long-term Liabilities Provisions

If it is highly likely that an outflow of resources will occur to cover the Fund's obligations that exist as a result of past events or transactions as of the balance sheet date, and if the amount can be reliably estimated even though the time and amount of expenditure are not certain, the expected loss is appropriated to long-term liabilities provisions.

### F. Discount or Premium on Debentures Issued

The DIF Bond Redemption Fund records the difference between the issuing price and the face value of DIF Bond Redemption Fund bonds as discount or premium on debentures, depreciates/appreciates it by applying the effective interest method throughout the period from issuance to final repayment, and the depreciated (appreciated) amount is added to/deducted from interest expenses.

### G. Transferred-out Capital Budget and Operating Expenses of the KDIC

The DIF Redemption Fund covers the costs incurred in acquiring assets for the KDIC's use and the Corporation's operating expenses. The money used for capital expenditure in the accounting of the KDIC is appropriated to assets as other miscellaneous non-current assets and, if the asset decreases in value due to depreciation etc., the corresponding amount is deducted from other miscellaneous non-current assets and added to management and administrative support costs. In addition, of all the money spent on operating the KDIC such as salaries, the proportion allocated to the Financial Policy Program is reported as total program costs and the rest as management and administrative support costs.

## 2-2-3. Accounting for Revenues and Expenses

### A. Revenue Recognition Criteria

All the revenues and expenses are recorded in the period during which the transaction or event occur in accordance with the accrual accounting principle. Exchange revenues will be recognized when the revenue producing activity is completed and the amount can be reasonably estimated, while non-exchange revenues will be recognized when the claim right for the relevant revenue takes place and the amount can be reasonably estimated. The interest income from unrecoverable claims is recognized on a cash basis as the realizability is judged to be low.

### B. Expense Recognition Criteria

Expenses are recognized when assets are consumed or used for the provision of goods or services and the amount can be reasonably estimated, or when obligations for expenditure exist under the law or regulations and the amount can be reasonably estimated. When the future economic benefit of an asset which was recognized as an asset in the past has decreased or disappeared, or when a liability has clearly incurred or increased without an expenditure of resources, it will also be recognized as an expense.



# 3 Account Settlement Status

## 3-1. Deposit Insurance Fund

### A. Financial Status

As of December 31, 2009, the total assets of the Fund increased by KRW 971 billion, or 19.0%, to KRW 6.0781 trillion won from a year ago. Operating assets (KRW 4.8766 trillion) such as deposits increased by KRW 927.6 billion year on year and contributed assets (KRW 156.4 billion) such as loans increased by KRW 12.6 billion as the Corporation provided funding to the KR&C (formerly the RFC) for the resolution of Jeonbuk and Eutteum MSBs. Indemnity receivables (KRW 2.9743 trillion) increased by KRW 400 billion year over year due to insurance claims payments and contributions to insolvent mutual savings banks. However, the net indemnity receivables, after deducting an allowance for bad debts, increased by only KRW 128.1 billion. The total assets per financial sector were KRW 4.0516 trillion for banks, KRW 256.1 billion for financial investment companies, KRW 2.8757 trillion for life insurance companies, KRW 619.1 billion for non-life insurance companies, KRW 19.2 billion for merchant banks, KRW 748.7 billion for MSBs and KRW 10 billion for credit unions.

The total liabilities increased by KRW 510.6 billion (210.1%) to KRW 753.6 billion on the year before. It is largely attributable to a KRW 518.8 billion increase in reserves for outstanding claims in preparation for any possible failures of insured financial institutions, etc. The total liabilities per financial sector were KRW 3.1892 trillion (including borrowings between accounts) for savings banks, KRW 66.4 billion for credit unions and the amounts of total liabilities of other financial sectors were insignificant.

The total equity increased by KRW 460.4 billion (9.5%) to KRW 5.3245 trillion from the previous year. The increase can be attributed to an increase in retained earnings resulting from the realization of net profits worth KRW 498.5 billion in 2009. The total equity per sector was KRW 4.0515 trillion for banks, KRW 256.1 billion for financial investment companies, KRW 2.8757 trillion for life insurance companies, KRW 618.9 billion for non-life insurance companies, KRW 19.2 billion for merchant banks, KRW -2.4405 trillion for MSBs and KRW -56.4 billion for credit unions.

### B. Profit and Loss

The net operating income of 2009 was KRW 498.5 billion, which represents a year-on-year decrease of KRW 429 billion (46.3%). This is mainly due to the decrease in operating income in the amount of KRW 31.1 billion resulting from a reduction in insurance premiums, and to a jump in non-operating loss of KRW 397.9 billion caused by setting aside significantly more provisions for outstanding claims in case of failures of insured financial institutions. The net income per sector was KRW 651.8 billion for banks, KRW 30.2 billion for financial investment companies, KRW 377.3 billion for life insurance companies, KRW 91.6 billion for non-life insurance companies, KRW 1.2 billion for merchant banks, KRW -652.5 billion for MSBs and KRW -1.1 billion for credit unions.

Operating revenues and expenses were KRW 1.3693 trillion and KRW 63.4 billion, respectively, realizing KRW 1.3059 trillion of operating income. Operating revenues are composed of KRW 1.1271 trillion (82.3%) in insurance premiums received and KRW 233.2 billion (17.0%) in interest income earned from fund management. Operating expenses are composed of KRW 58.8 billion (92.7%) in expenses to run the Corporation and KRW 4.6 billion (7.3%) in expenses spent on fund management.

In the meantime, non-operating revenues and non-operating expenses came to KRW 230.2 billion and KRW 1.0376 trillion, respectively, realizing a net non-operating loss of KRW 807.4 billion. Non-operating losses are composed of KRW 518.8 billion in net inflow to the reserves for outstanding claims account and KRW 333.8 billion in net inflow to the provisions for bad debt account.

## 3-2. DIF Bond Redemption Fund

### A. Financial Status

The total assets of the DIF Bond Redemption Fund at the end of 2009 stood at KRW 15.4973 trillion, a KRW 4.1632 trillion (36.7%) increase from the previous year. The increase in total assets was due to the fact that current assets (e.g. short-term financial instruments) and investment assets (e.g. securities) increased by KRW 1.1347 trillion and KRW 3.0684 trillion, respectively. In particular, investment assets saw an increase of KRW 3.0684 trillion compared to the end of the previous year due to increased stock prices even though the Corporation disposed of a 7% stake in Woori Financial Holding Group in November 2009.



The total liabilities of the DIF Bond Redemption Fund at the end of 2009 stood at KRW 27.9162 trillion, down by KRW 789.4 billion (2.8%) from the previous year. The Fund reduced liabilities by paying back some of its debts like the DIF Bond Redemption Fund bonds with money raised through the disposition of Woori shares and so on.

The total equity of the DIF Bond Redemption Fund at the end of 2009 stood at KRW -12.4189 trillion, a KRW 4.9526 trillion increase from the same period a year ago. This is mainly attributable to the increase in accumulated other comprehensive income including gains on valuation of investment securities of KRW 4.1302 trillion caused by price surge of stocks owned by the Corporation like Woori shares.

### B. Profit and Loss Status

Financial management recorded a KRW -822.4 billion in 2009. A concept corresponding to net income in corporate accounting, negative financial management figures mean that earnings were bigger than the costs incurred.

The net program costs incurred in operating the Financial Policy Support Program, an essential business of the DIF Bond Redemption Fund, were KRW 71.3 billion. The figure was arrived at by deducting program gains of KRW 1.7973 trillion from total program costs of KRW 1.8686 trillion.

The net costs for financial management came to KRW 43.2 billion, calculated by adding KRW 12.8 billion in management and administrative support costs and non-allocated costs of KRW 46.8 billion to net program costs of KRW 71.3 billion, and then deducting KRW 87.7 billion in non-allocated revenues from the resulting figure. Management and administrative support costs here mean management expenses (e.g. salaries and general expenses) not allocated as program costs. Non-allocated costs/revenues are those not related to the operation of the Program.

In the meantime, the financial management figure of KRW - 822.4 billion was calculated by deducting non-exchange revenue of KRW 865.6 billion from net financial management cost of KRW 43.2 billion. Here, non-exchange revenue means inflows of resources the Corporation receives without an obligation to offer goods or services in return such as the special assessment fees.

# 3-3. KDIC Accounting

## A. Financial Status

The total assets of the KDIC stood at KRW 16.4 billion, as of the end of 2009, an increase of KRW one billion (6.3%) from a year ago. Assets can be divided into current assets such as cash and deposits amounting to KRW 1.8 billion (11.1%) and non-current assets amounting to KRW 14.6 billion (88.9%). Non current assets can be further divided into KRW 11.5 billion in investment assets including guarantees and KRW 3.1 billion in tangible assets.

The total liabilities for the term stood at KRW 16.4 billion, an increase of KRW 0.9 billion (6.1%) from the previous term. This was attributed to a KRW 0.9 billion increase in non-current liabilities (KRW 14.8 billion) including the transferred-in capital budget caused by an increase in capital budget requirements. The liabilities can be sub-divided into current liabilities of KRW 1.6 billion (9.7%) including deposits received and unpaid expenses, and KRW 14.8 billion (90.3%) in non-current liabilities including transferred-in capital budget.

The total equity of the KDIC at the end of 2009 stood at KRW 70 million, which represents a KRW 30 million increase from the previous year due to current term surplus of KRW 30 million.

## B. Profit and Loss Status

The total revenues and expenses of the KDIC during 2009 stood at KRW 74.45 billion and KRW 74.42 billion, respectively, resulting in KRW 30 million of current term surplus.

The total revenues comprise KRW 73.3 billion (98.4%) in revenue earned from financial institutions and KRW 1 billion (1.3%) generated by operating funds, for example, interest earned.

The total operating expenses comprise KRW 41.6 billion (56.0%) in salaries, KRW 30.3 billion (40.7%) in general expenses and KRW 2.2 billion (3.0%) in contributions to the provision for severance benefits.



### 【Table IX-1】 Condensed Balance Sheet

Current Period : As of December 31, 2009
Previous Period : As of December 31, 2008

■ DIF Account (Unit : KRW 100 million)

| ASSETS | Amount | | LIABILITIES and EQUITIES | Amount | |
|---|---|---|---|---|---|
| | Current Period | Previous Period | | Current Period | Previous Period |
| Current Assets | 37,400 | 31,165 | Current Liabilities | 7,536 | 2,430 |
| 1. Operating Assets | 30,034 | 22,942 | 1. Contributed Liabilities | 664 | 744 |
| Deposits | 10,841 | 10,846 | Short-term Borrowings | 664 | 744 |
| Short-term Operating Bonds | 19,193 | 12,096 | 2. Other Current Liabilities | 6,872 | 1,686 |
| 2. Contributed Assets | 1,362 | 1,235 | Reserve for Outstanding Claim | 6,871 | 1,683 |
| Short-term Loans | 2,235 | 2,014 | Others | 1 | 3 |
| (Allowance for Doubtful | (-)873 | (-)779 | Non Current Liabilities | - | - |
| Accounts) | | | 1. Contributed Liabilities | - | - |
| 3.Other Current Assets | 6,004 | 6,988 | 2. Other Non Current Liabilities | - | - |
| Uncollected Premiums | 5,367 | 6,542 | Total Liabilities | 7,536 | 2,430 |
| Advanced Insurance Payment | - | - | | | |
| Provisional Payment | - | - | | | |
| (Allowance for Doubtful | - | - | | | |
| Accounts) | | | | | |
| Others | 637 | 446 | | | |
| Non current Asset | 23,381 | 19,906 | DIF Surplus | 53,119 | 48,134 |
| 1. Operating Assets | 18,732 | 16,548 | (Net Income) | | |
| Long-term Operating Bonds | 18,732 | 16,548 | Current Period: 4,985 | | |
| 2. Contributed Assets | 202 | 204 | Previous Period: 9,275 | | |
| Long-term Securities | 82 | 84 | Other Cumulative | 126 | 507 |
| Long-term Loans | 120 | 120 | Comprehensive Gains/Losses | | |
| 3. Indemnity Receivables | 4,373 | 3,092 | 1. Gains/Losses on Valuation | 126 | 507 |
| Indemnity Receivables for | 10,796 | 9,558 | of Securities Sold | | |
| Insurance Payment | | | 2. Equity Adjustment under | - | - |
| (Allowance for Doubtful | (-)7,419 | (-)6,704 | Equity Method | | |
| Accounts) | | | Total Equity | 53,245 | 48,641 |
| Indemnity Receivables for | 18,947 | 15,633 | | | |
| Contributions | | | | | |
| (Allowance for Doubtful | (-)17,951 | (-)15,395 | | | |
| Accounts) | | | | | |
| Other Indemnity Receivables | - | 553 | | | |
| (Allowance for Doubtful | - | (-)553 | | | |
| Accounts) | | | | | |
| 4. Other Non Current Assets | 74 | 62 | | | |
| Transferred Capital Budget | 74 | 62 | | | |
| Total Assets | 60,781 | 51,071 | Total Liabilities and Equities | 60,781 | 51,071 |

## 【 Table Ⅸ-2 】 Condensed Income Statement

Current Period : For the year ended Dec. 31, 2009
Previous Period : For the year ended Dec. 31, 2008

■ DIF Account (Unit : KRW 100 million)

| EXPENSES | Amount Current Period | Amount Previous Period | REVENUES | Amount Current Period | Amount Previous Period |
|---|---|---|---|---|---|
| Operating Expenses (B) | 634 | 733 | Operating Revenues (A) | 13,693 | 14,103 |
| 1. Operation Expenses | 588 | 592 | 1. Revenue on Fund | 11,337 | 12,028 |
| 2. Fund Administrative Expenses | 46 | 141 | Insurance Premiums | 11,271 | 11,911 |
| Contributions Expenses | - | - | Contributions | 66 | 117 |
| Interest on Loans | 35 | 120 | 2. Revenue on Fund Operation | 2,332 | 2,073 |
| Direct Expense to Fund | 11 | 21 | Interest on Deposits | 575 | 506 |
| | | | Interest on Securities | 1,672 | 1,439 |
| | | | Interest on Loans | 83 | 127 |
| | | | Gains on Sale of Securities | 2 | 1 |
| | | | 3. Gains on Other Operation | 24 | 2 |
| Operating Income (C=A-B) | 13,059 | 13,370 | Non-Operating Revenues (D) | 2,302 | 2,262 |
| Non-Operating Expenses (E) | 10,376 | 6,357 | 1. Reversal of Reserve for Outstanding Claims | 1,683 | 967 |
| 1. Contribution to Allowance for Doubtful Accounts | 3,366 | 3,516 | 2. Gains on Valuation of Derivatives | - | - |
| 2. Contribution to Reserve for Outstanding Claims | 6,871 | 2,650 | 3. Reversal of Allowance for Doubtful Accounts | 28 | 48 |
| 3. Equity Method Evaluation Losses | 111 | 191 | 4. Equity Income on Investments | 589 | 1,237 |
| 4.Other Non-Operating Expenses | 28 | - | 5. Other Non-Operating Revenues | 2 | 10 |
| Net Income (C+D-E) | 4,985 | 9,275 | | | |

## 【 Table Ⅸ-3 】 Condensed Statement of Financial Position

Current Period : As of December 31, 2009
Previous Period : As of December 31, 2008

■ DIF Bond Redemption Fund Account (Unit : KRW 100 million)

| ASSETS | Amount Current Period | Amount Previous Period | LIABILITIES and NET ASSETS | Amount Current Period | Amount Previous Period |
|---|---|---|---|---|---|
| Current Assets | 17,450 | 6,103 | Current Liabilities | 77,639 | 68,004 |
| 1. Cash and Cash Equivalents | 952 | 1,305 | 1. Current Portion of Long-term Borrowings | 75,497 | 66,259 |
| 2. Short-term Financial | 13,267 | 3,349 | | | |
| Products | 3,093 | 1,199 | 2. Other Current Liabilities | 2,142 | 1,745 |
| 3. Short-term Securities | 11,093 | 11,062 | | | |
| 4. Accounts Receivables | (-)11,028 | (-)11,027 | Long-Term Borrowing Liabilities | 201,160 | 218,444 |
| (Allowance for Bad Debts) | 73 | 70 | | | |
| 5. Short-term Loans | - | 145 | 1. Public Bond | 197,657 | 213,414 |
| 6. Other Current Assets | | | 2. Long-term Borrowings | 3,503 | 5,030 |
| | | | Provision for Long-term Liabilities | 201 | 608 |
| Investment Assets | 134,737 | 104,053 | | | |
| 1. Long-term Loan | 167,098 | 175,858 | 1. Provision for Other Long-term Liabilities | 201 | 608 |
| (Allowance for Bad Debts) | (-)135,557 | (-)142,920 | | | |
| 2. Long-term Securities | 103,196 | 71,044 | | | |
| 3. Other Investment Assets | - | 71 | Other Non Current Liabilities | 162 | - |
| | | | 1. Other Non Current Liabilities | 162 | - |
| Other Non Current Assets | 2,786 | 3,185 | Total Liabilities | 279,162 | 287,056 |
| 1. Long-term Notes Receivables | 134 | 137 | | | |
| (Allowance for Bad Debts) | (-)129 | (-)131 | | | |
| 2. Other Non Current Assets | 2,781 | 3,179 | Net Assets | | |
| | | | 1. Net Asset | 523,064 | 523,064 |
| | | | 2. Reserves and Surplus | (-)678,142 | (-)686,366 |
| | | | 3. Adjustment to Net Asset | 30,889 | (-)10,413 |
| | | | Total Net Assets | (-)124,189 | (-)173,715 |
| Total Assets | 154,973 | 113,341 | Total Liabilities and Net Assets | 154,973 | 113,341 |

※ For the DIF Bond Redemption Fund, financial statements were prepared in accordance with the Rules regarding National Accounting Standards, which came into force on Jan.1, 2009, and the financial statement for the 2009 fiscal year was not presented in a comparative format with the previous term in accordance with Article 2 of the addendum of the said Rules.

## 【Table Ⅸ－4】Condensed Statement of Operations

Current Period : For the year ended Dec. 31, 2009

■ DIF Bond Redemption Fund Account (Unit : KRW 100 million)

| Classification | Total Cost | Profit | Net Cost |
|---|---|---|---|
| I. Program Net Cost | 18,686 | 17,973 | 713 |
| 1. Supports for Financial Policy | 18,686 | 17,973 | 713 |
| Insurance | 38 | | |
| Salaries | 21 | | |
| General Expenses | 79 | | |
| Loss on Disposal of Long-term Investment Securities | 2,490 | | |
| Allowance for Bad Debts | 652 | | |
| Interest Expenses on Public Bonds | 14,728 | | |
| Interest Expenses on Domestic Borrowings | 273 | | |
| Loss on Investment Securities | 405 | | |
| Other Interest Revenues | | 25 | |
| Gains on Disposal of Long-term Investment Securities | | 6,566 | |
| Reversal of Provision | | 407 | |
| Reversal of Impairment Loss on Investment Securities | | 1,428 | |
| Miscellaneous Revenue | | 312 | |
| Reversal of Allowance for Doubtful Accounts | | 9,046 | |
| Dividend Income | | 181 | |
| Interest Income from Loans to Non-government Entities | | 8 | |
| II. Management and Administrative Expenses | | | 128 |
| 1. Salaries | | | 86 |
| 2. General Expenses | | | 42 |
| III. Non-allocated Costs | | | 468 |
| 1. Service Fees | | | 1 |
| 2. Losses on Valuation | | | 346 |
| 3. Other Expenses | | | 121 |
| IV. Non-allocated Revenue | | | 877 |
| 1. Interest Revenues | | | 372 |
| 2. Evaluation Gains | | | 346 |
| 3. Other Revenues | | | 159 |
| V. Net Cost for Financial Operation (I+II+III-IV) | | | 432 |
| VI. Non-exchange Revenue | | | 8,656 |
| 1. Revenue from Special Assessment Payments | | | 8,656 |
| VII. Financial Operation Results | | | (-)8,224 |

※ For the DIF Bond Redemption Fund, financial statements were prepared in accordance with the Rules regarding National Accounting Standards, which came into force on Jan.1, 2009, and the financial statement for the 2009 fiscal year was not presented in a comparative format with the previous term in accordance with Article 2 of the addendum of the said Rules.



## 【Table Ⅸ－5】Condensed Balance Sheet

Current Period : As of December 31, 2009
Previous Period : As of December 31, 2008

■ KDIC Internal Accountt (Unit : KRW million)

| ASSETS | Amount | | LIABILITIES and NET ASSETS | Amount | |
|---|---|---|---|---|---|
| | Current Period | Previous Period | | Current Period | Previous Period |
| Current Assets | 1,828 | 1,713 | Current Liabilities | 1,585 | 1,608 |
| 1. Cash and Deposits | 1,464 | 1,608 | 1. Accounts Payable | 2 | - |
| 2. Accounts Receivable | 134 | - | 2. Accrued Expenses | 456 | 460 |
| 3. Advanced Payments | 182 | 72 | 3. Deposits | 1,127 | 1,148 |
| 4. Accrued Income | 5 | 25 | | | |
| 5. Prepaid Expense | 43 | 8 | Non Current Liabilities | 14,777 | 13,819 |
| | | | 1. Contribution to Capital Budget | 14,777 | 13,819 |
| Non Current Assets | 14,607 | 13,753 | 2. Provision for Severance Benefits | 7,567 | 19,589 |
| 1. Investment Assets | 11,456 | 11,383 | | | |
| Security Deposits | 9,852 | 9,795 | (Contribution to National Pension Plan) | (-)3 | (-)5 |
| Long-term Securities | - | - | | | |
| Other Investments | 1,604 | 1,588 | (Deposits for Severance Benefits) | (-)7,564 | (-)19,584 |
| 2. Tangible Assets | 3,151 | 2,370 | Total Liabilities | 16,363 | 15,427 |
| Buildings | 552 | 552 | 1. Retained Earnings | | |
| Vehicles | - | - | (Net Surplus or deficit) | | |
| Other Tangible Assets | 15,404 | 13,508 | Current Period : 34 | 73 | 39 |
| (Accumulated Depreciation) | (-)12,805 | (-)11,690 | Previous Period : (-)475 | | |
| | | | Total Capital | 73 | 39 |
| Total Assets | 16,435 | 15,466 | Total Liabilities and Equities | 16,435 | 15,466 |

## 【 Table Ⅸ－6 】 Condensed Income Statement

Current Period : For the year ended Dec. 31, 2009
Previous Period : For the year ended Dec. 31, 2008

■ DIF Account

(Unit : KRW 100 million)

| EXPENSES | Amount | | REVENUES | Amount | |
|---|---|---|---|---|---|
| | Current Period | Previous Period | | Current Period | Previous Period |
| 1. Salaries | 41,641 | 41,264 | 1. Contribution Revenue to Fund | 73,301 | 74,217 |
| 2. General Expenses | 30,319 | 30,133 | 2. Interest on Deposits | 961 | 1,343 |
| 3. Transferred-in Provision | 2,224 | 3,856 | 3. Interest on Securities | - | - |
| 4. Other Administrative Expenses | 239 | 1,049 | 4. Other Revenues | 195 | 267 |
| 5. Corporate Tax Expenses | - | - | | | |
| Total Expenses | 74,423 | 76,302 | | | |
| Net Surplus | 34 | (-)475 | Total Revenues | 74,457 | 75,827 |



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# Appendix

1. Deposit Insurance Committee Activities
2. Summary of Events in 2009
3. Statistics

# 1. Deposit Insurance Committee Activities

| CLASSIFICATION | | MAJOR ACTIVITIES |
|---|---|---|
| Items for Resolution | Resolution | ▶ Amendments to the Articles of Incorporation<br>▶ Budget and settlement of accounts<br>▶ Issuance of Deposit Insurance Fund (DIF) Bonds and DIF Bond Redemption Fund Bonds<br>▶ Reduction/deferment of insurance premiums<br>▶ Payment of insurance claims<br>▶ Approval of tentatively calculated insurance claim payments<br>▶ Financial support for resolution financial institutions<br>▶ Financial support for insured financial institutions<br>▶ Operational guidelines of the Deposit Insurance Committee<br>▶ Request to the Governor of the Financial Supervisory Service (FSS) regarding the sharing of examination results on insured financial institutions and KDIC' s participation in joint examination<br>▶ Request for necessary actions to the Financial Services Commission (FSC) regarding P&A orders, bankruptcy filing, etc. |
| | Decision | ▶ Determination of insolvent financial institutions<br>▶ Determination of insolvency- threatened financial institutions<br>▶ Transactions between DIF accounts<br>▶ Method of minute disclosure<br>▶ Necessary actions in respect of DIF Bonds and DIF Bond Redemption Fund Bonds<br>▶ Payment of service fees for third party operations<br>▶ Advance payment of insurance claims<br>▶ Approval of exception of financial assistance based on the least cost principle |
| | Deliberation | ▶ DIF operation plan<br>▶ Adoption and revision of rules and regulations related to KDIC operation |
| | Designation | ▶ Operation of surplus funds of the DIF and the DIF Bond Redemption Fund<br>▶ Purchase of securities<br>▶ Deposit in designated insured financial institutions |
| Items for Report | | ▶ Report of quarterly inspection results on MOU |

# 2. Summary of Events in 2009

| DATE | MAJOR EVENTS |
|---|---|
| Mar. 3~5 | Sold new stock purchase warrants of Shinhan Financial Group (Collected KRW 13.1 billion) |
| Mar.11 | Public notice of sale of Yehanwul Mutual Savings Bank |
| Mar.18 | Establishment of Yes Savings Bank was approved by the Financial Services Commission |
| Mar.19 | Yes Savings Bank was established |
| Mar.25 | Invested KRW 4 billion in the form of equity participation in Yes Mutual Savings Bank in relation to the P&A of Jeonbuk Mutual Savings Bank |
| Mar.31 | Received KRW 13.6 billion in callable preferred stock dividends of Shinhan Financial Group |
| Apr.1 | Financial Services Commission decided to transfer contracts of Jeonbuk Mutual Savings Bank to Yes Savings Bank and KR&C |
| Apr.1 | Provided KRW 79.9 billion of contributions to Yes Savings Bank in relation to the P&A of Jeonbuk Mutual Savings Bank |
| May 14 | Selected a preferred bidder for the sale of Yehanwul Mutual Savings Bank |
| Jun.12 | Collected KRW 16.1 billion by selling shares held by KR&C in companies such as SK Networks, Dongyang Major, STX Pan Ocean, IDream, and Donghae Pulp |
| Jun.12 | Concluded a contract for the transfer of Yehanwul Mutual Saving Bank shares |
| Jun.25 | Collected KRW 18.5 billion by selling Hyundai Logiem shares |
| Jun.26 | Collected KRW 25.1 billion by settling a case with regard to Hynix |
| Jul.6 | Collected KRW 128.8 billion in principal and interest from Hyundai Investment and Securities CBO subordinated bonds repayments |
| Jul.20 | Collected KRW 187.6 billion by redeeming callable preferred stock of Seoul Guarantee Insurance |
| Aug.7 | Jeonju District Court declared Jeonbuk Mutual Savings Bank bankrupt |
| Aug.11 | Financial Services Commission suspended operation of Eutteum Mutual Savings Bank |
| Aug.19 | Collected KRW 168.5 billion and KRW 4.3 billion in repayments and dividends of callable preferred stocks of Shinhan Financial Group, respectively |
| Nov.10 | Resolution and Finance Corporation (RFC) was converted into KR&C which is a paper company. |
| Nov.11 | Invested KRW 10 billion in the form of equity participation in Yes Mutual Savings Bank in relation to the P&A of Eutteum Mutual Savings Bank |
| Nov.18 | Financial Services Commission decided to transfer contracts of Eutteum Mutual Savings Bank to Yes Savings Bank and KR&C |
| Nov.18 | Provided contributions to Yes Savings Bank (KRW 249 billion) in relation to the P&A of Eutteum Mutual Savings Bank |
| Nov.24 | Collected KRW 866 billion by selling a 7% stake in Woori Finance Holdings Company |
| Dec.1 | Collected KRW 164.0 billion by liquidating Hyuntu SPC |
| Dec.31 | Financial Services Commission suspended operation of Jeonil Mutual Savings Bank |

# 3. Statistics

## A. Number of Insured Financial Institutions[1]

| Financial Sector | End of 2003 | End of 2004 | End of 2005 | End of 2006 | End of 2007 | End of 2008 | End of 2009 |
|---|---|---|---|---|---|---|---|
| Banks | 58 | 55 | 56 | 53 | 53 | 55 | 54 |
| (Domestic) | (18) | (18) | (18) | (17) | (17) | (17) | (17) |
| (Foreign) | (40) | (37) | (38) | (36) | (36) | (38) | (37) |
| (Others)[2] | - | - | - | - | - | - | - |
| Financial Investment Companies[3] | 58 | 56 | 53 | 53 | 53 | 60 | 115 |
| Insurance Companies | 43 | 43 | 42 | 43 | 44 | 43 | 43 |
| (Life) | (23) | (23) | (22) | (22) | (22) | (22) | (22) |
| (Non-Life) | (20) | (20) | (20) | (21) | (22) | (21) | (21) |
| Merchant Banks | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| MSBs | 114 | 113 | 111 | 110 | 109 | 106 | 106 |
| Credit Unions[4] | 1,086 | - | - | - | - | - | - |
| Total | 1,361 | 269 | 264 | 261 | 261 | 266 | 320 |

1) The number of insured financial institutions is as of business operation date and business license revocation date.
2) Regional fisheries cooperatives that conduct credit business were excluded from deposit protection as of January 1, 2003.
3) As the Capital Market Consolidation Act came into force as of Feb. 2009, 'financial investment companies' include not only securities companies but also investment dealers and brokerage firms. (Prior to Feb. 2009, it only included securities companies)
4) Credit Unions were excluded from deposit protection scheme as of January 1, 2004

## B. Insured Deposits by Financial Sector[1]

(Unit : KRW billion , %)

| Financial Sector | End of 2008 (A) | End of 2009 (B) | Difference (B-A) (rate of increase) |
|---|---|---|---|
| Banks | 569,726 | 632,776 | 63,050 (11.1) |
| Financial Investment Companies | 15,354 | 18,786 | 3,432 (22.4) |
| Insurance Companies | 267,820 | 293,571 | 25,751 (9.6) |
| Life | (227,901) | (248,105) | 20,204 (8.9) |
| Non-Life | (39,919) | (45,466) | 5,547 (13.9) |
| Merchant Banks | 950 | 2,057 | 1,107 (116.5) |
| MSBs | 59,794 | 72,929 | 13,135 (22.0) |
| Total | 913,644 | 1,020,119 | 106,475 (11.7) |

1) Insured deposits exclude the deposits of the government, local authorities and other insured institutions.



## C. DIF Bond Redemption Fund Revenues

(As of December 31, 2009, Unit : KRW 100 million)

| Financial Sector | Insurance Premium Revenue prior to the Creation of DIF Bond Redemption Fund[2] | | | | | | Special Contributions Made by Insured FIs to the DIF Bond Redemption Fund | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Prior to 1998[1] | 1999 | 2000 | 2001 | 2002 | Total | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total |
| Banks | 1,613 | 1,975 | 2,630 | 4,139 | 4,361 | 14,718 | 4,775 | 4,956 | 4,871 | 4,987 | 5,027 | 4,976 | 5,965 | 35,557 |
| Financial Investment Companies | - | 51 | 156 | 218 | 262 | 687 | 156 | 168 | 145 | 151 | 156 | 185 | 169 | 1,130 |
| Insurance Companies | 2,322 | 1,260 | 1,781 | 2,416 | 2,780 | 10,559 | 1,074 | 1,176 | 1,288 | 1,402 | 1,543 | 1,683 | 1,782 | 9,947 |
| (Life) | (1,800) | (1,011) | (1,402) | (1,938) | (2,295) | (8,446) | (889) | (978) | (1,069) | (1,160) | (1,265) | (1,364) | (1,430) | (8,155) |
| (Non-Life) | (522) | (249) | (379) | (478) | (485) | (2,113) | (185) | (198) | (219) | (242) | (278) | (319) | (352) | (1,792) |
| Merchant Banks | 980 | 336 | 233 | 139 | 130 | 1,818 | 20 | 6 | 5 | 6 | 7 | 8 | 10 | 62 |
| MSBs | 2,407 | 377 | 323 | 529 | 604 | 4,240 | 222 | 264 | 319 | 370 | 430 | 491 | 593 | 2,689 |
| Credit Unions | 402 | 162 | 281 | 407 | 641 | 1,893 | - | - | - | 216 | 116 | 129 | 137 | 598 |
| Total | 7,724 | 4,161 | 5,404 | 7,848 | 8,778 | 33,915 | 6,247 | 6,570 | 6,628 | 7,133 | 7,280 | 7,472 | 8,656 | 49,986 |

1) The insurance premium revenue for 1998 is inclusive of the applicable funds transferred from the Insurance Supervisory Board, Korea Non-bank Deposit Insurance Corporation, National Federation of Credit Unions on April 1, 1998 as a result of the consolidation of the funds into the DIF at the beginning of 1998 with the exception of the Securities Investor Protection Fund which was dismantled subsequent to the consolidation.
2) DIF premium revenue until 2002 transferred to DIF Bond Redemption Fund according to the amendment of related laws.

## D. DIF Premium Revenues

(As of December 31, 2008, Unit : KRW 100 million)

| Financial Sector | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total |
|---|---|---|---|---|---|---|---|---|
| Banks | 4,775 | 4,960 | 4,869 | 4,987 | 5,027 | 4,808 | 5,291 | 34,717 |
| Financial Investment Companies | 312 | 336 | 300 | 303 | 256 | 305 | 276 | 2,088 |
| Insurance Companies | 3,115 | 3,403 | 3,737 | 4,059 | 4,455 | 4,852 | 5,113 | 28,734 |
| (Life) | (2,580) | (2,832) | (3,109) | (3,362) | (3,654) | (3,934) | (4,097) | (23,568) |
| (Non-Life) | (535) | (571) | (628) | (697) | (801) | (918) | (1,016) | (5,166) |
| Merchant Banks | 73 | 17 | 15 | 19 | 22 | 24 | 29 | 199 |
| MSBs | 667 | 793 | 974 | 1,116 | 1,306 | 1,483 | 1,737 | 8,076 |
| Credit Unions | 603 | 4 | - | - | - | - | - | 607 |
| Total | 9,545 | 9,513 | 9,895 | 10,484 | 11,066 | 11,472 | 12,446 | 74,421 |

## E. Status of DIF Bond Issuance

(As of December 31, 2009, Unit: KRW 100 million won)

| Financial Sector | 1998 | 1999 | 2000 | 2001 | 2002 | Total |
|---|---|---|---|---|---|---|
| Banks | 120,650 | 158,591 | 60,307 | 77,617 | 36,600 | 453,765 |
| Securities Companies | 160 | 3 | - | 32,185 | - | 32,348 |
| Insurance Companies | 11,534 | 42,100 | 10,000 | 92,089 | - | 155,723 |
| (Life) | (11,534) | (41,422) | - | (24,120) | - | (77,076) |
| (Non-Life) | - | (678) | (10,000) | (67,969) | - | (78,647) |
| Merchant Banks | 65,120 | - | 12,600 | 73,342 | - | 151,062 |
| MSBs | 9,917 | 15,977 | 6,500 | 33,332 | - | 65,726 |
| Credit Unions | 2,769 | 8,179 | - | 2,028 | - | 12,976 |
| Total | 210,150 | 224,850 | 89,407 | 310,593 | 36,600 | 871,600[1] |

1) Cumulative amounts of whole issuance that include conversion issuance.

## F. Status of the DIF Bond Redemption Fund Provision

(As of December 31, 2009, Unit : 100 million)

| Financial Sector | Equity Participation | Contributions | Deposit Payoff | Asset Purchases | Loans | Total[1] |
|---|---|---|---|---|---|---|
| Banks | 222,039 | 139,093 | - | 100,064 | - | 461,196 |
| Financial Investment Companies | 80,769 | 4,060 | 113 | 21,239 | - | 106,181 |
| Insurance Companies | 159,198 | 31,191 | - | 3,495 | - | 193,884 |
| (Life) | (56,697) | (27,518) | - | (3,495) | - | (87,709) |
| (Non-Life) | (102,501) | (3,673) | - | - | - | (106,174) |
| Merchant Banks | 27,052 | 7,431 | 182,718 | - | 12,917 | 230,118 |
| MSBs | 101 | 4,157 | 72,892 | - | 8,532 | 85,683 |
| Credit Unions | - | - | 47,402 | - | 367 | 47,769 |
| Total | 489,158 | 185,932 | 303,125 | 124,799 | 21,817 | 1,124,831 |

1) Includes KRW 1.607 trillion of public fund injected prior to the consolidation of different sector funds under the KDIC.



## G. Detailed Status of the Public Fund Injection (Aggregate Amount Basis)

(As of December 31, 2009, Unit : KRW 100 million)

| Injection Type | Recipient Institution | Amount |
|---|---|---|
| Equity Participation | Seoul Bank | 46,809 |
| | Korea First Bank | 50,248 |
| | Hanvit Bank | 60,286 |
| | Five acquiring banks including Kookmin Bank | 11,923 |
| | Hana Bank (Merger of Hana bank and Boram bank) | 3,295 |
| | Chohung Bank | 27,179 |
| | Peace Bank | 4,930 |
| | Kyungnam Bank | 2,590 |
| | Kwangju Bank | 1,704 |
| | Jeju Bank | 531 |
| | National Federation of Fisheries Cooperatives | 11,581 |
| | National Agricultural Cooperative Federation | 962 |
| | Hanareum Banking Corporation | 300 |
| | Cheongsol Merchant Bank | 121 |
| | Hanaro Merchant Bank | 24,912 |
| | Hans Merchant Bank, Korea Merchant Bank, Joongang Merchant Bank | 1.5 |
| | Youngnam Merchant Bank | 1,717 |
| | New Choongbuk Mutual Savings and Finance Company (MSFC) | 100 |
| | Hanareum MSFC | 1 |
| | Seoul Guarantee Insurance Company | 102,500 |
| | Korea Life Insurance Company | 35,500 |
| | Kookmin, Taepyongyang, Doowon, Dong-A, Handuck, Chosun Life Insurance | 21,197 |
| | Korea Investment Trust Management & Securities | 38,649 |
| | Daehan Investment Trust Securities | 23,003 |
| | KR&C | 1 |
| | Daehan, Kookje Fire Insurance | 1 |
| | Hyundai Investment & Securities | 19,116 |
| | Sub Total | 489,158 |
| Contribution | Kookmin, Housing & Commercial, Shinhan, Hana, Hanmi Bank (Five acquiring banks) | 97,113 |
| | Hanvit, Kyong Nam, Gwangju, Peace, Seoul, Jeju Bank | 29,677 |
| | National Agricultural Cooperative Federation | 870 |
| | Samsung, Heungkuk, Kyobo, Allianz Life (Four acquiring Insurance Companies) | 11,641 |
| | Korea First Bank (KFB) | 11,432 |
| | Korea, Hyundai, Kumho, Tongyang, SK Life | 14,220 |
| | Financial companies including Boomin MSFC | 4,157 |
| | Daehan Fire | 509 |
| | Woori (Former Hanaro Merchant Bank) Investment Bank | 7,431 |
| | Kookje Fire | 739 |
| | Oriental, Samsung, Hyundai, LG, Dongbu Fire | 2,425 |
| | Green Cross (Daishin) Life | 1,393 |
| | KB(Hanil)Life | 265 |
| | Korea Investment Trust Management & Securities | 784 |
| | Daehan Investment Trust Securities | 630 |
| | Hyundai Investment & Securities (Present Prudential Investment & Securities) | 2,646 |
| | Sub Total | 185,932 |

<table>
<tr><th colspan="3">Injection Type / Recipient Institution</th><th>Amount</th></tr>
<tr><td rowspan="3">Insurance Claim Payments</td><td>Direct</td><td>Credit Unions<br>Financial Investment Companies (4 companies)<br>MSFCs<br>Youngnam, Hansol, Korea Merchant Bank</td><td>47,402<br>113<br>12,336<br>1</td></tr>
<tr><td>Through RFIs</td><td>Hanareum Banking Corporation (in resolving 18 merchant banks)<br>Hanareum MSFC (in resolving 59 MSFCs)</td><td>182,717<br>60,557</td></tr>
<tr><td colspan="2">Sub Total</td><td>303,125</td></tr>
<tr><td rowspan="3">Asset Purchases</td><td>Direct</td><td>Korea First Bank (BW)<br>Korea First Bank (Shares of KFB's Vietnam and New York subsidiaries)<br>Korea Development Bank<br>Industrial Bank of Korea<br>Hyundai Investment & Securities (Shares of Hyundai Autonet, etc.)</td><td>249<br>165<br>13,000<br>6,000<br>8,570</td></tr>
<tr><td>Through KR&C</td><td>Five acquiring banks including Kookmin Bank (KB)<br>Korea First Bank<br>Dong-A, Kookmin, Taepyongyang, SK Life<br>Korea Investment & Securities<br>Daehan Investment &Securities<br>Hyundai Investment & Securities</td><td>1,588<br>79,063<br>3,495<br>4,830<br>6,539<br>1,300</td></tr>
<tr><td colspan="2">Sub Total</td><td>124,799</td></tr>
<tr><td rowspan="2" colspan="2">Contribution</td><td>14 Merchant Banks<br>19 MSFCs<br>39 Credit Unions</td><td>12,917<br>8,532<br>367</td></tr>
<tr><td>Sub Total</td><td>21,817</td></tr>
<tr><td colspan="3">Aggregate Total</td><td>1,124,831</td></tr>
</table>

## H. Status of Financial Assistance by DIF

(As of December 31, 2009, Unit : KRW 100 million)

| Sector | Equity Participation | Contributions | Deposit Payoff | Asset Purchases | Loans | Total |
|---|---|---|---|---|---|---|
| Banks | - | - | - | - | - | - |
| Financial Investment Companies | - | - | - | - | - | - |
| Insurance Companies | - | - | - | - | - | - |
| (Life) | - | - | - | - | - | - |
| (Non-Life) | - | - | - | - | - | - |
| Merchant Banks | - | - | - | - | - | - |
| MSBs | 866 | 19,095 | 11,412 | - | 3,963 | 35,336 |
| Credit Unions | - | - | 2,176 | - | - | 2,176 |
| Total | 866 | 19,095 | 13,588 | - | 3,963 | 37,512 |

## I. Injected Public Funds Recoveries by Year

(As of December 31, 2009, Unit : KRW 100 million)

| Year | Amount |
|---|---|
| Prior to 2000 | 114,428 |
| 2001 | 41,776 |
| 2002 | 31,424 |
| 2003 | 55,138 |
| 2004 | 55,157[1] |
| 2005 | 35,317 |
| 2006 | 32,414 |
| 2007 | 43,397 |
| 2008 | 23,755 |
| 2009 | 26,002 |
| Total[1] | 458,806 |

1) Including KRW 235.1 billion (2004), KRW 45.8 billion (2006) and KRW 9.3 billion (2007) in liability charges paid by majority shareholders of insolvent financial institutions such as Hyundai Investment & Securities.

## J. Recovery Performance by Type of DIF Bond Redemption Fund Provisions

(As of December 31, 2009, Unit: KRW 100 million)

| Sector | Recovery of Equity Participation | Settlement of Contributions, etc. | Dividends from Bankruptcy Estates[1] | Repayment of Loans | Asset Sales[2] | Total |
|---|---|---|---|---|---|---|
| Banks | 144,507 | 687 | 17,964 | - | 55,178 | 218,335 |
| Financial Investment Companies | 12,121 | 3,207 | 74 | - | 12,539 | 27,943 |
| Insurance Companies | 25,924 | 884 | 4,114 | - | 2,197 | 33,119 |
| Merchant Banks | 998 | 59 | 79,347 | 10,462 | - | 90,867 |
| MSBs | - | 334 | 48,164 | 6,122 | - | 54,620 |
| Credit Unions | - | 4 | 33,565 | 355 | - | 33,924 |
| Total | 183,549 | 5,176 | 183,227 | 16,939 | 69,914 | 458,806 |

1) Including recovery of dividends from resolution financial institution
2) Including recovery of asset sales from resolution financial institution

### K. Financial Restructuring Progress

(As of June 30, 2009, Unit: %)

| Financial Sector | No. of Companies, Year-end 1997 (A) | 2003 | | | | | Newly Opened | Current Total |
|---|---|---|---|---|---|---|---|---|
| | | Revocations of operating licenses | Mergers | Liquidation, Bankruptcies, and/or Suspensions of Operations | Total (B) | Change (B/A) (%) | | |
| Banks | 33 | 5 | 11 | - | 16 | 48.5 | 1 | 18 |
| Non-Banks | 2,069 | 169 | 196 | 564 | 929 | 44.9 | 147 | 1,287 |
| • Merchant Banks | 30 | 22 | 7 | - | 29 | 96.7 | 1 | 2 |
| • Financial Investment Companies | 36 | 5 | 8 | 3 | 16 | 44.4 | 27 | 47 |
| • Insurance Companies | 50 | 10 | 6 | 6 | 22 | 44.0 | 25 | 53 |
| • ITCs | 31 | 6 | 8 | - | 14 | 45.2 | 50 | 67 |
| • MSBs | 231 | 113 | 28 | 1 | 142 | 61.5 | 17 | 106 |
| • Credit Unions | 1,666 | 2 | 137 | 553 | 692 | 41.5 | 14 | 988 |
| • Lease Companies | 25 | 11 | 2 | 1 | 14 | 56.0 | 13 | 24 |
| Total | 2,102 | 174 | 207 | 564 | 945 | 45.0 | 148 | 1,305 |

Source: Public Fund Management White Book published in August 2009

### L. Public Fund Support Provision Status

(Between November 1997 and December 2009, Unit : KRW trillion)

| Financial Sector | | Equity Participation | Contributions | Deposit Payoffs | Asset Purchases | Non-performing Loan Purchases | Total |
|---|---|---|---|---|---|---|---|
| Banks | | 34.0 | 13.9 | - | 14.4 | 24.6 | 86.9 |
| Non-Banks | Merchant Banks | 2.7 | 0.7 | 18.3 | - | 1.0 | 22.8 |
| | Securities Companies and ITCs | 10.9 | 0.4 | 0.01 | 2.1 | 8.5 | 21.9 |
| | Insurance Companies | 15.9 | 3.1 | - | 0.3 | 1.8 | 21.2 |
| | Credit Unions | - | - | 4.7 | 0.3 | - | 5.0 |
| | Mutual Savings Bank | - | 0.4 | 7.3 | 0.6 | 0.2 | 8.5 |
| | Sub-total | 29.5 | 4.7 | 30.3 | 3.3 | 11.5 | 79.4 |
| Foreign Institutions | | - | - | - | - | 2.4 | 2.4 |
| Total | | 63.5 | 18.6 | 30.3 | 17.8 | 38.5 | 168.6 |

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