2011 ANNUAL REPORT

KOREA DEPOSIT INSURANCE CORPORATION

Hahoetal - Korean Traditional Mask

KOREA DEPOSIT INSURANCE CORPORATION

Looking back, the year 2011 was a turbulent year for the Korean economy both at home and abroad. Outside the country, concerns continued to rise about the fiscal crisis in Europe and the slowdown in the global economy. At home, there were various threats to national economic growth and financial stability including rising household debts and the restructuring of the weak mutual savings banking sector.

Against this backdrop, the Korea Deposit Insurance Corporation (KDIC) strived to carry out its mission to protect depositors and maintain the stability of the financial system as an important financial safety net player.

Above all, the KDIC made strong efforts to handle the failures of 16 mutual savings banks that occurred during 2011 in an orderly fashion to minimize depositor inconvenience and calm financial market fears.

In addition to successfully carrying out its responsibilities for the conservatorship of failed mutual savings banks, the KDIC shortened the period for provisional deposit payments and expanded the payment limit.

Also, the creation of the Special Account for the Restructuring of the Mutual Savings Banking Sector within the Deposit Insurance Fund enabled the KDIC to ensure stable funding and financial assistance for the restructuring efforts. Moreover, the resolution mechanism (i.e. P&A) for failed mutual savings banks became more efficient and speedier.

Another challenge for the KDIC was to maximize fund recovery through efficient management and sales of assets which the KDIC acquired in the resolution process. With regard to the recovery of public funds spent on the handling of the 1997 Asian financial crisis, every effort was made to make sure that the money could be recovered as scheduled. In addition, by holding parties responsible for a bank failure accountable for their actions, the KDIC tried to encourage member institutions to adopt sound management practices.

In the meantime, the KDIC was given a broader authority to conduct solitary examinations of mutual savings banks and joint examinations of large, group-affiliated mutual savings banks with the Financial Supervisory Service under the Korean government's financial supervision reform plan. This has created an enabling environment for the KDIC to detect risk signs earlier at troubled member institutions and take preemptive action.

During 2011, the KDIC also enhanced public awareness campaigns to educate the public about deposit insurance using a variety of media including TV, newspapers and radio. And education programs targeting vulnerable groups without access to financial information were expanded, too.

This Annual Report is a compilation of the activities that the KDIC performed during 2011 for depositor protection and maintenance of financial stability. This year, improvements were made to its contents and format to provide a better understanding of the KDIC's activities and the deposit insurance system for all members of the society.

Going forward, the KDIC will remain committed to enhancing its expertise and maintaining a high level of integrity so that it can effectively protect depositors from financial risks, big or small, and maintain the stability of the financial system. I look forward to your continued interest and support for the KDIC.

Joo Hyun KIM

Chairman & President

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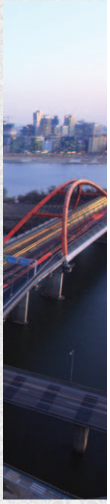

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Night View of Han River, Seoul

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Major Initiatives

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Major Initiatives

In 2011, the KDIC focused its efforts to minimize depositors' inconvenience and stabilize the financial market as a large number of mutual savings banks were forced to stop operations.

The KDIC created a special account for mutual savings bank (MSB) restructuring in the Deposit Insurance Fund to prepare financial resources that would be used to resolve insolvent financial institutions. It also oversaw management of insolvent financial institutions suspended from operations, paid insurance claims, arranged contract transfers, etc.

In particular, the KDIC made efforts to reduce depositors' inconvenience by shortening the provisional deposit payment period as much as possible and expanding the coverage limit for provisional deposit payment. It sold insolvent financial institutions to third parties at an early date in a fair and transparent manner using bridge bank arrangements to increase the efficiency in financial failure resolution. Furthermore, it set up a new department called the Department of Special Asset Management & Recovery to quickly recover Special Purpose Company (SPC) assets owned by insolvent mutual savings banks and therefore minimize losses to depositors and to the Deposit Insurance Fund. And swift action was taken against those responsible for the insolvency of mutual savings bank.

At the same time, the KDIC laid the foundation for system improvements to better monitor and mitigate insolvency risk, sold its stakes in financial institutions to recover public funds as scheduled, and engaged in more activities to protect people with poor access to financial information, helping to protect depositors and maintain stability of the financial system.

Minimization of Inconvenience to Depositors of Suspended Mutual Savings Banks

The KDIC successfully served as conservator of 16 mutual savings banks after their operations were suspended simultaneously in 2011. As soon as the Financial Services Commission (FSC) issued a business suspension order on insolvent mutual savings banks, the KDIC put a large number of personnel (17 managers and 402 supervisors) into resolution efforts and strived to prevent the spread of confusion in the financial market, calm nervousness among depositors and prevent further failures.

Table Ⅰ-1 Suspended Mutual Savings Banks in 2011

Date of Operation Suspension	Jan. 14, 2011	Feb. 17, 2011	Feb. 19, 2011	Feb. 23, 2011	Aug. 5, 2011	Sep. 18, 2011
Name of Mutual Savings Bank	Samhwa	Busan, Daejeon	Busan 2, Jeonju, Jungang Busan, Bohae	Domin	Kyongeun	Daeyeong, Prime, Ace, Tomato, Jeil, Jeil 2, Parangsae

Furthermore, the KDIC dispatched staff members to all branches of suspended insolvent mutual savings banks and held frequent presentations about deposit insurance rules while operating a Mutual Savings Bank Customer Response Team to help depositors understand the amount of coverage available for their deposit accounts.

Meanwhile, to minimize inconvenience to depositors resulting from suspended deposit transactions at insolvent mutual savings banks, the KDIC drastically shortened the period for provisional deposit payments, doubled the provisional payment limit to KRW 20 million, and allowed commercial banks to make provisional payments to mutual savings bank depositors. Previously, depositors could file claims for provisional payments only at National Agricultural Cooperatives Foundation (NACF).

Table Ⅰ-2 Shortened Time Period for Provisional Deposit Payment

2003	2008	Feb. 2011	Aug. 2011
26days	13days	8days	4days

Table Ⅰ-3 Increased Coverage Limit for Provisional Deposit Payment

Jan. 2009	Jan. 2011	Feb. 2011
KRW 10million	KRW 15million	KRW 20million

Also, to help depositors in an urgent need to get their deposits back to cover living expenses, the KDIC made arrangements so that they can get deposit-secured loans from banks close to their mutual savings banks at the same interest rate as their deposits. Now depositors can continue to make financial transactions for up to KRW 45 million (KDIC coverage limit is KRW 50 million.) including provisional deposit payment even while their banks are undergoing a restructuring.

And the KDIC tried to minimize inconvenience to depositors whose deposits exceeded KRW 50 million, whose protection became the focus of a social controversy surrounding the resolution of failed mutual savings bank in 2011, by making advance payments of bankruptcy dividends along with deposit payoffs.

Rapid and Efficient Resolution of Suspended Mutual Savings Banks

By quickly resolving a large number of failed mutual savings banks in 2011, the KDIC helped to protect depositors and stabilize the financial system.

In particular, aside from business normalization efforts made by failed mutual savings banks themselves, the KDIC started making preparations for third-party sales as soon as the banks were suspended from operations in case the normalization efforts failed. This way, the KDIC was able to minimize depositor inconvenience and reduce resolution costs.

As a result, the KDIC completed contract transfers of nine mutual savings banks - eight suspended during the first half of 2011 and Kyongeun Mutual Savings Bank suspended on August 5 - either to a third party or to a bridge mutual savings bank, and is now working to sell failed mutual savings banks suspended on September 18, 2011.

Table Ⅰ-4 Resolution of (16) Mutual Savings Banks Suspended in 2011

(As of December 31, 2011)

Suspended MSBs	Samhwa	Jeil[1]	Tomato[1]	Prime, Parangsae[1]	Busan 2, Jungang Busan, Domin	Daeyeong[2]	Daejeon	Jeonju, Bohae	Busan, Kyongeun	Ace, Jeil 2[1]
Acquiring institutions	Woori Finance	Being sold	Being sold	Being sold	Daishin Securities	Hyundai Securities	Yenarae (bridge)	Yes (bridge)	Yesol (bridge)	Being sold

Note: 1) KB Financial Group (Jeil), Shinhan Financial Group (Tomato), BS Financial Group (Prime · Parangsae), and Hana Financial Group (Ace, Jeil 2) were selected as preferred bidders.
2) In case of Daeyeong MSB, its management was normalized through an independent M&A.

In addition, to recover the maximum amount of public funds possible from resolution efforts, the KDIC tried various sales strategies including independent or package sale of suspended mutual savings banks and made efforts to cut resolution costs and bring failed mutual savings banks to normal operations as early as possible.

Timely Procurement of Financial Resources for MSB Restructuring and Provision of Financial Assistance

To support the smooth restructuring of mutual failed savings banks, the KDIC raised and provided KRW 12.6 trillion in financial assistance to repay depositors of insolvent mutual savings banks including Samhwa Mutual Savings Bank. To do that, a special account for MSB restructuring was created in April 2011.

* The account was created to ensure the soundness of the mutual savings bank account in the Deposit Insurance Fund (DIF), and its financial resources came from deposit insurance premiums, borrowings, bond issuance, etc. It has been used as the funding source for mutual savings bank failure resolution since January 2011.

Figure Ⅰ-1 Special Account for MSB Restructuring

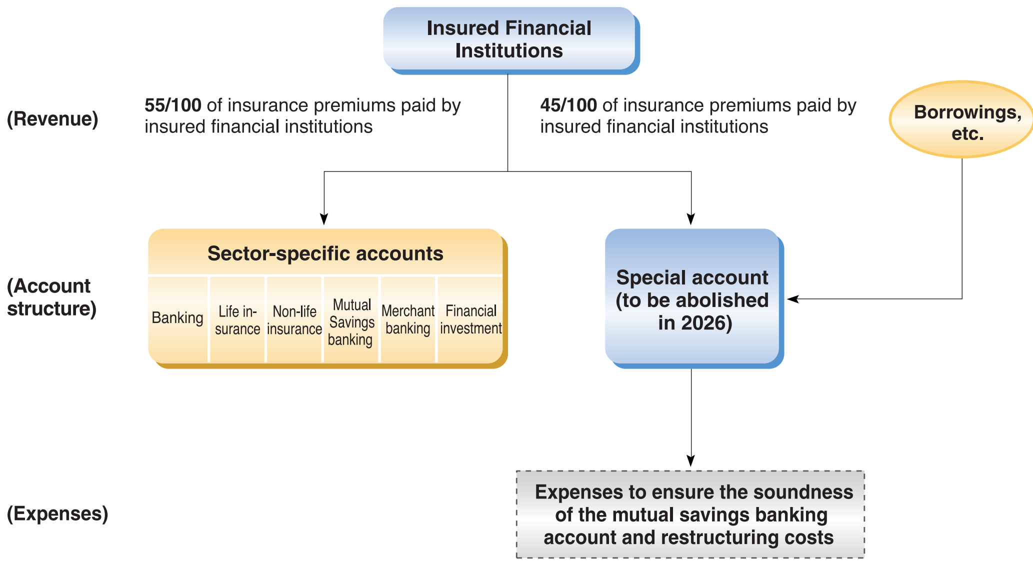


Table Ⅰ-5 Preparation and Use of the Special Account

(As of December 31, 2011, Unit: KRW 1 trillion)

Amount Provided in Financial Assistance			Amount Raised	
8 mutual savings banks including Samhwa	Provisional payment, deposit payoffs, advance payment of bankruptcy dividends, contributions, etc.	7.7	Transfer from another account	1.8
			Borrowings from local banks	10.4
8 mutual savings banks including Kyongeun	Provisional payment, deposit payoffs, etc.	4.9	Deposit insurance premium, etc.	0.4
Total		12.6	Total	12.6

In particular, the KDIC prepared fund on time as required by contracting with local banks on the borrowings limit of KRW 15 trillion (5.3 trillion for the first half and 9.7 trillion for the second half) in addition to transfer between accounts for the special account. By issuing "Deposit Insurance Fund (DIF)

Bonds for Special Account for MSB Restructuring" from December 2011 without government guarantee, the KDIC repaid borrowings from local banks earlier than schedule. As a result, it saved interest cost and helped to stabilize debt maturity structure.

In the meantime, the KDIC made efforts to collect fund provided through DIF (including special account) and it has collected KRW 385 billion during 2011 as bankruptcy dividends and others.

Maximization of Special Assets Recovery from Failed Mutual Savings Banks

The main reason for the massive number of mutual savings bank failures in 2011 was that, amid skyrocketing real-estate Project Financing (PF) loans, the real estate market went in recession as the economy slowed down and many PF loans started defaulting.

In particular, when Busan Mutual Savings Bank was suspended from operations during the first half of 2011, the KDIC found that the mutual savings bank illegally invested nearly KRW 4.1 trillion into some 120 SPCs including construction, shipbuilding, overseas development companies, etc.

In response, the KDIC quickly reorganized itself to set up the Department of Special Asset Management & Recovery that would be in charge of managing and collecting PF loans and SPC assets owned by the failed mutual saving bank and closely cooperated with the Prosecutors' Office to secure documents and data related to the SPCs at an early stage. In this process, to keep SPC shareholders and executives from arbitrarily selling their stakes and hiding away profits, the KDIC took swift action to preserve creditor rights by filing a provisional injunction against SPC shareholders to stop them from disposing their shares and also filing a provisional injunction against SPC executives on execution of duty. These are done as part of efforts to maximize fund recovery in the course of the bank's restructuring, minimize DIF loss and protect depositor claims against the bank.

Apart from these actions to preserve claims, the KDIC is working on a sales procedure by establishing differentiated sale strategies based on characteristics of each SPC, project completion level, etc.

Strengthened Risk Management of Insured Financial Institutions

The KDIC signed a memorandum of understanding with the Financial Supervisory Service (FSS) and the Bank of Korea (BOK) on information sharing and has shared financial information about insured financial institutions. The KDIC and the BOK share 48 regular reports, four of which (e.g. news flash regarding household debts) were newly added in 2011. And 29 reports published by the FSS were also added to the list of shared information this year. In total, the KDIC is provided with 1,279 reports.

In addition, by using its own risk surveillance models, the KDIC monitors any change in the financial status and potential risk of insured financial institutions. And as part of risk management activities to prevent a bank failure, it conducts on-site inspections. In particular, joint examinations with the FSS are the key field examinations and the number of joint examinations was greatly expanded in 2011, mainly targeting mutual savings bank.

Table Ⅰ-6 Joint Examinations with the FSS

2008	2009	2010	2011
9 companies	15 companies	24 companies	31 companies

Besides, it dispatched supervisors together with the FSS to mutual savings banks with a sign of insolvency against which prompt corrective action restrictions are likely to be imposed to monitor them more closely at hand. To help improve mutual savings bank management, the KDIC provided customized consulting services, which encouraged the mutual savings banking sector to increase its own competitiveness.

In the meantime, to solve problems including lack of supervision and corruption of financial authorities which were revealed during examinations of suspended large/affiliated mutual savings banks in 2011, the Financial Supervision Innovation Task Force was jointly set up by public and private sectors, led by the Prime Minister's Office, to prepare a Financial Supervision Innovation Plan (announced on September 2, 2011).

Under the plan, the KDIC and the FSS are required to conduct joint examinations of large/affiliated mutual savings banks (on an annual basis) and the scope of an independent examination by the KDIC was expanded from mutual savings banks with a BIS ratio of less than 5% to those with a BIS ratio of less than 7% or those in deficit for three years in a row.

To implement an effective risk-based premium system which is scheduled to be introduced in 2014, the KDIC came up with a plan to improve its differential risk assessment model and a system operations plan based on research results of the Korea Institute of Finance and opinions of external experts and the academia. At the same time, it set up a Joint Task Force for the Preparation of Risk-based Premium System which includes representatives of relevant financial institutes as well as KDIC staff and collected opinions from stake holders by hosting a public hearing on December 22, 2011.

Investigations against Those Responsible for Financial Institution Failure

The KDIC conducted thorough investigations of illegal and wrongful acts by those involved in an insolvency such as shareholders of insolvent financial institutions, and executives of companies which failed to fulfill their financial obligations to insolvent financial institutions, while making efforts to secure their illegally-acquired or hidden assets.

To do that, the KDIC has reinforced cooperation with the Prosecutors' Office. For example, to investigate causes of mutual savings bank insolvency and hold majority shareholders and executives criminally responsible for insolvency of 16 mutual savings bank including Busan Mutual Savings Bank which was suspended in 2011, the KDIC dispatched specialized investigators to the Mutual Savings Bank Corruption Investigation Team, a team under the Central Investigation Division of the Supreme Prosecutors' Office as a joint force among relevant agencies including the FSS, the National Police Agency and the National Tax Office.

Thanks to close cooperation with the prosecution, the KDIC will strictly hold those responsible for a financial institution failure accountable by filing a lawsuit for damage as soon as the investigation and review results come in.

In addition, to maximize benefits from damage claim suits in the future, the KDIC has made efforts to secure assets by preserving claims at an early stage and investigating assets owned by those involved in insolvencies as soon as a decision is made to make provisional deposit payments to depositors of failed mutual savings bank. The KDIC also investigates their properties at home and abroad to find hidden assets while running a report center to facilitate investigation and redemption of hidden assets.

Table Ⅰ-7 Property Investigation of Suspended Mutual Savings Banks and Preservation of Creditor Claims in 2011

(As of December 31, 2011)

Category	Properties found		Preservation of creditor rights		
			(Provisional) Seizure		Injunction
	Financial Assets	Real Estate	Financial Assets	Real Estate	
Majority shareholders and executives of mutual savings bank	KRW 8 billion	439 lots of land	KRW 8.5 billion	KRW 35.7 billion	6 cases
Shareholders of default companies, etc.	KRW 48 billion	2,966 lots of land	KRW 18.7 billion	KRW 88 billion	-
Total	KRW 56 billion	3,405 lots of land	KRW 27.2 billion	KRW 123.7 billion	6 cases

Robust Depositor Protection

To minimize damages to those with poor access to financial information such as the elderly and depositors with more than KRW 50 million at mutual savings banks, the KDIC stepped up awareness campaigns about the deposit insurance system by giving financial/economic education using various media such as local TV networks, newspapers, movie theaters, subway ads, and bus station ads in major cities.

The KDIC also provided merchants at traditional market with information about deposit insurance including the coverage limit and gave presentations about the deposit insurance system to the staff of insured financial institutions and the public.

Table Ⅰ-8 Financial and Economic Education in 2011

(As of December 31, 2011)

Category	Traditional Markets, etc.	Elementary Schools	Elderly	Executives and Staffers at Financial Institutions	Total
Number of times	247 times	174 schools	9 times	23 times	453 times
Number of Participants	29,630	21,725	7,320	1,520	60,195

In the meantime, to prevent damages to financial consumers, the KDIC checked 472 branches of insured financial institutions in 2011 for various items such as availability of deposit insurance coverage for specific financial products and the indication of the coverage limit of deposit insurance claims.

Repayment of Public Fund Assistance

Under the Public Fund Redemption Plan prepared by the government in 2002, the KDIC has established and run the Deposit Insurance Fund (DIF) Bond Redemption Fund that has succeeded all the assets and liabilities related to the financial restructuring that occurred after the Asian financial crisis.

The KDIC has repaid KRW 58.4 (70.9%) trillion from government contributions (KRW 45.7 trillion) and recovered funds (KRW 12.7 trillion) by the end of 2011 out of KRW 82.4 trillion in total to be repaid under the Public Fund Redemption Plan. And it plans to repay the remaining KRW 24 trillion from recovered funds and special contributions by 2027 as planned.

In the meantime, the KDIC continues to recover public funds spent on restructuring failed financial institutions since the Asian financial crisis by receiving dividends and selling equity stakes. During 2011, it recovered KRW 1 trillion 267.9 billion by selling its stakes in financial institutions, receiving dividends, and reimbursing redeemable preferred stocks.

The KDIC recovered KRW 148.6 billion in a block sale of all its remaining stake (0.61%) in Shinhan Financial Group in July 2011 and recovered KRW 800 million by selling its 0.64 percent stake in Jeju Bank on the stock market. It also recovered the full amount of KRW 341.4 billion in redeemable preferred stocks of Seoul Guarantee Insurance in July 2011.

Table Ⅰ-9 Major Recovery Events in 2011

Shinhan Financial Group	• Collected KRW 148.6 billion in a block sale (0.61%) of common shares in July
Jeju Bank	• Collected KRW 800 million by selling common shares during trading hours from January to December
Seoul Guarantee Insurance	• Recovered the remaining balance (KRW 341.4 billion) of redeemable preferred stocks in July
KR&C-held (former Resolution Finance Corporation) stocks	• Collected KRW 32.4 billion in an open bid through Korea Securities Finance Corporation in February • Collected KRW 4.1 billion in an open bid through Korea Finance Security in March • Collected KRW 10 million by selling shares of SG Corporation from July to December
Bankruptcy Estates	• Collected KRW 358.5 billion in bankruptcy dividends from January to December

For the successful recovery of public funds as seen in these cases, the KDIC has continued to sell its stakes in public fund-injected financial institutions. For the sale of its stake in Woori Financial Group, the KDIC has closely worked with the Public Fund Oversight Committee regarding sale strategies and it plans to sell its stakes in other institutions at the most favorable time possible in a block sale or on the stock market based on the characteristics of each stake, financial market conditions and share price changes.

Under MOUs signed with public fund-injected financial institutions, the KDIC has made continuous efforts to monitor their progress in carrying out the requirements in the MOUs to increase the sales value of those financial institutions.

Table Ⅰ-10 Major Changes in KDIC-owned Stakes in Financial Institutions

(As of December 31, 2011, Unit: KRW 100 million, %)

Category		Financial Assistance	Recoveries[1]	Value of Remaining Stakes[2]	KDIC Stakes
MOU Conclusion	Woori Financial Group	127,663	55,040	43,302	56.97
	National Federation of Fisheries Cooperatives	11,581	-	9,300	Preferred stock
	Seoul Guarantee Insurance	102,500	20,773	1,361	93.85
Korea Life Insurance		35,500	13,115	15,907	24.75
Jeju Bank		2,182	294	211	18.48
Total		279,426	89,222	70,081	-

Note : 1) It includes money recovered from sale of stakes, collection of dividends, redemption of preferred stocks, etc.
2) The valuation is based on closing prices as of December 31, 2011 for listed stocks and the KDIC balance sheet figures as of December 31, 2011 for unlisted stocks.

15th anniversary celebration of the KDIC

A Buddhist pagoda made of stone

Ⅱ Organization Operations

II Organization Operations

1 Organization Setup

1-1. Deposit Insurance Committee and Board of Directors

A. Deposit Insurance Committee

The Deposit Insurance Committee is composed of seven individuals including the Chairman & President of the KDIC, who serves as Committee Chairman. Other ex-officio members are: the Vice Chairman 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 member is commissioned directly by the FSC with the remainder being recommended by the Minister of the MOSF and the Governor of the BOK.

The committee deliberates and renders decisions on important matters including the following: revision of the Articles of Incorporation; establishment, revision and settlement of KDIC's budget, establishment of basic guidelines for the Corporation's operations, development of management plans for the Deposit Insurance Fund and the Deposit Insurance Fund Bond Redemption Fund, issuance of Deposit Insurance Fund Bonds and Deposit Insurance Fund Bond Redemption Fund Bonds, transactions between fund accounts, approval of plans for the management of surplus funds, setting of Deposit Insurance Fund reserve targets, decisions to make (provisional) deposit payments; financial assistance for the resolution financial institutions and insured financial institutions; and request to the Governor of the Financial Supervisory Service (FSS) for a joint examination of an insured financial institution or a financial holding company.

Table II-1 Deposit Insurance Committee Members

(As of late December 2011)

	Title	Name
Ex-officio members	Chairman & President of KDIC	Seung-Woo Lee
	Vice Chairman of FSC	Kyung-Ho Choo
	Vice Minister of Ministry of Strategy and Finance	Je-Yun Shin
	Deputy Governor of BOK	Ju-Yeol Lee
Commissioned members	Designated by the Financial Services Commission	Chang-Hyun Yun
	Recommended by the Governor of the Bank of Korea	Se-Il Ahn
	Recommended by the Minister of Strategy and Finance	Seong-Bae Kim

Table II-2 Deposit Insurance Committee Activities

Category		Major Activities
Items for Resolution	Resolution	• Amendments to the Articles of Incorporation
		• Budget and settlement of accounts
		• Issuance of Deposit Insurance Fund (DIF) Bonds and DIF Bond Redemption Fund Bonds
		• Reduction/deferment of part/all of contributions, insurance premiums and arrears charges
		• Payment of insurance claims
		• Advance payment of bankruptcy dividends
		• Financial support for resolution financial institutions
		• Financial support for insured financial institutions
		• Operational guidelines for the Deposit Insurance Committee
		• Request to the Governor of the FSS regarding the sharing of examination results on insured financial institutions and KDIC's participation in joint examinations
		• Request to the Financial Services Commission (FSC) for necessary measures such as a P&A order or a bankruptcy filing
	Decision	• Determination of insolvency
		• Determination of insolvency-threatened status
		• Transactions between DIF accounts
		• Method of deposit insurance committee minutes disclosure
		• Necessary steps related to DIF Bonds and DIF Bond Redemption Fund Bonds
		• Service fees payment for third party services
		• Payment of provisional deposit payoffs
		• Exception to the least-cost test
	Deliberation	• DIF operations plan
		• Adoption and revision of rules and regulations related to KDIC operations
	Designation	• Management of surplus funds - Purchase of securities - Deposits at designated insured financial institutions
Items for Report		• Report of quarterly inspection results regarding business normalization MOUs

Table Ⅱ-3 Deposit Insurance Committee Agenda in 2011

Date	Major Events
January 24	• Plan to make provisional deposit payments to (Seoul) Samhwa Mutual Savings Bank depositors and transactions between accounts
January 31	• Reporting on the progress in MOU implementation and action plan for the third quarter of 2010
	• Plan to request participation in joint examinations for year 2011
	• Reporting on between-account transactions of the DIF Bond Redemption Fund for year 2010
	• Reporting on the joint examination results of (Incheon) Ace, (Kwangju) Daehan, (Seoul) Daehan, (Seoul) Shinan, (Cheongju) Cheongju, and (Kwangju) Dongyang Mutual Savings Banks
	• Reporting on the joint examination results of Korea Life Insurance
February 9	• Draft guidelines for the asset management of the DIF Bond Redemption Fund in 2011
	• Draft guidelines for the asset management of the DIF in 2011
February 25	• Plan to make provisional deposit payments to depositors of Busan, Daejeon, Busan 2, Jungang Busan, Jeonju, Bohae, and Domin Mutual Savings Bank
	• Plan to make between-account transactions and borrowings from insured financial institutions for the provisional deposit payments to Busan, Daejeon, Busan 2, Jungang Busan, Jeonju, Bohae, and Domin Mutual Savings Bank depositors
	• Plan for the settlement of the DIF, DIF Bond Redemption Fund, and KDIC accounts for fiscal year 2010
	• Reporting on operational expenses settlement for year 2010
March 9	• Plan to provide financial assistance for a contract transfer of some assets and liabilities of Samwha Mutual Savings Bank
	• Plan to make deposit payments to depositors of Samhwa Mutual Savings Bank
	• Plan to purchase claims such as deposit liabilities in excess of the deposit insurance coverage limit and to make advance payments of bankruptcy dividends to Samhwa Mutual Savings Bank depositors
	• Reporting on the joint examination results of Kumho Investment Bank
March 30	• Plan to transfer the assets and liabilities of the mutual savings banking account to the special account for MSB restructuring
	• Plan to determine the ratio of insurance premium revenue of the mutual savings bank account to be diverted to the special account for MSB restructuring
	• Planned changes to the management plan of the DIF for year 2011
	• Partial revision to the between-account transaction rules
	• Plan to adjust the reserve targets for DIF accounts
	• Addition to the business normalization plan for Woori Financial Group, Woori Bank, Kwangju Bank and Kyongnam Bank and the credit business unit of the National Federation of Fisheries Cooperatives
	• Agreement to the partial revision to business normalization MOUs
April 13	• Plan to make deposit payments to depositors of Busan, Daejeon, Busan 2, Jungang Busan, Jeonju, Bohae, and Domin mutual savings bank
	• Reporting on the progress in MOU implementation and action plan for the fourth quarter of 2010
April 27	• Reporting on the joint examination results of (Busan) Busan, (Busan) Busan 2, (Seoul) Jungang Busan, (Daejeon) Daejeon and (Jeonbuk) Jeonju mutual savings bank
May 11	• Plan to exempt or reduce payment of interest on the special account's borrowings from the other accounts of the DIF
	• Plan to borrow funds for the special account for MSB restructuring to prepare financial resources to resolve Busan, Daejeon, Busan 2, Jungang Busan, Jeonju, Bohae, Domin, and Samhwa mutual savings bank
	• Plan to create an additional supplementary budget for year 2011
	• Reporting on the joint examination results of Jeonbuk Bank
June 8	• Plan to exempt, reduce or defer payment of interest on the special account's borrowings from the other accounts of the DIF
	• Revision to some of the rules for the management of business normalization MOUs

Date	Major Events
June 29	• Addition to the business normalization plan management normalization for Seoul Guarantee Insurance
	• DIF Bond Redemption Fund Management Plan for 2012
	• Plan for the issuance of DIF Bond Redemption Fund Bonds in 2012 and application for government guarantees for the bonds
	• Reporting on the joint examination results of (Ulsan) Kyongeun and (Seoul) Shinmin Mutual Savings Bank
July 13	• Decision to waiver deposit insurance premium payment for accounts (financial investment, life insurance and non-life insurance) that have exceeded reserve targets
	• Reporting on the progress in MOU implementation and action plan for the first quarter of 2011
August 8	• Plan to make provisional deposit payments to Kyoungeun Mutual Savings Bank depositors
	• Plan to borrow funds for the special account for MSB restructuring to prepare financial resources to resolve Kyoungeun Mutual Savings Bank
August 17	• Plan to borrow funds for the special account for MSB restructuring from the outside
	• Planned revision to the DIF management plan for 2011
	• Financial assistance for the contract transfer of part of assets and liabilities of Busan 2, Jungang Busan and Domin Mutual Savings Bank
	• Plan to purchase claims such as deposit liabilities in excess of the deposit insurance coverage limit and to make advance payments of bankruptcy dividends to Busan 2, Jungang Busan, and Domin Mutual Savings Bank depositors
August 31	• Financial assistance for the contract transfer of part of assets and liabilities of Daejeon, Jeonju, and Bohae Mutual Savings Bank
	• Plan to purchase claims such as deposit liabilities in excess of the deposit insurance coverage limit and to make advance payments of bankruptcy dividends to Daejeon, Jeonju and Bohae Mutual Savings Bank depositors
	• Financial assistance for the contract transfer of part of assets and liabilities of Busan 2, Jungang Busan and Domin Mutual Savings Bank
	• Reporting on the results of semi-annual account settlement for the DIF and the DIF Bond Redemption Fund for year 2011
September 19	• Plan to make provisional deposit payments to depositors of 7 savings banks including Prime Mutual Savings Bank
	• Decision to repay depositors of Kyongeun Mutual Savings Bank
September 30	• Reporting on the progress in MOU implementation during the second quarter of 2011
	• Reporting on the joint examination results of Hanwha Non-life Insurance
October 12	• Financial assistance for the contract transfer of part of assets and liabilities of Kyongeun Mutual Savings Bank
	• Plan to purchase claims such as deposit liabilities in excess of the deposit insurance coverage limit and to make advance payments of bankruptcy dividends to Kyongeun Mutual Savings Bank depositors
October 26	• Reporting on the joint examination results of Mutual Savings Bank during the second half of 2011
November 11	• Decision to repay depositors of Prime, Daeyeong, Jeil, Jeil2, Tomato, Ace, and Parangse Mutual Savings Bank
	• Plan for the issuance of non-guarantee Deposit Insurance Fund bonds
November 17	• Financial assistance for the contract transfer of part of assets and liabilities of Busan Mutual Savings Bank
	• Plan to purchase claims such as deposit liabilities in excess of the deposit insurance coverage limit and to make advance payments of bankruptcy dividends to Busan Mutual Savings Bank depositors
	• Partial revision to the loan agreement between the DIF Bond Redemption Fund and the KR&C
December 23	• KDIC budget for year 2012
	• Financial assistance for the contract transfer of part of assets and liabilities of Tomato, Prime, and Parangsae Mutual Savings Bank
	• Plan to purchase claims such as deposit liabilities in excess of the deposit insurance coverage limit and to make advance payments of bankruptcy dividends to Tomato, Prime, and Parangsae Mutual Savings Bank depositors
	• DIF management plan for year 2012
	• Reporting on the progress in MOU implementation during the third quarter of 2011
	• Reporting on the joint examination results of Mirae Asset Life

B. Board of Directors

The board of directors is composed of one Chariman & 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 Chariman & 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, and the Executive Directors are appointed by the Chariman & President of the KDIC. The Non-Executive Directors are appointed by the Chairman of the FSC on recommendation of the Executive Director Recommendation 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 Chariman & President of the KDIC is appointed for a period of three years and Executive Directors and the Auditor are appointed for a two-year term, renewable on a year-to-year basis after the expiration of their first term of office.

The board of directors deliberates and make resolutions on the following matters: amendments to the Articles of Incorporation; KDIC budget; establishment and revision of operational plans; settlement of accounts; setting and change of management goals; establishment, revision and abolition of internal policies; remuneration of executives; acquisition and disposal of assets; matters related to KDIC management such as organization and human resources; items that are required to be put to a vote of the board in other laws, Articles of Incorporation or internal rules; and any other matter deemed necessary by the board of directors or the Chairman & President.

Table Ⅱ-4 Executive Board Members

(As of December 31, 2011)

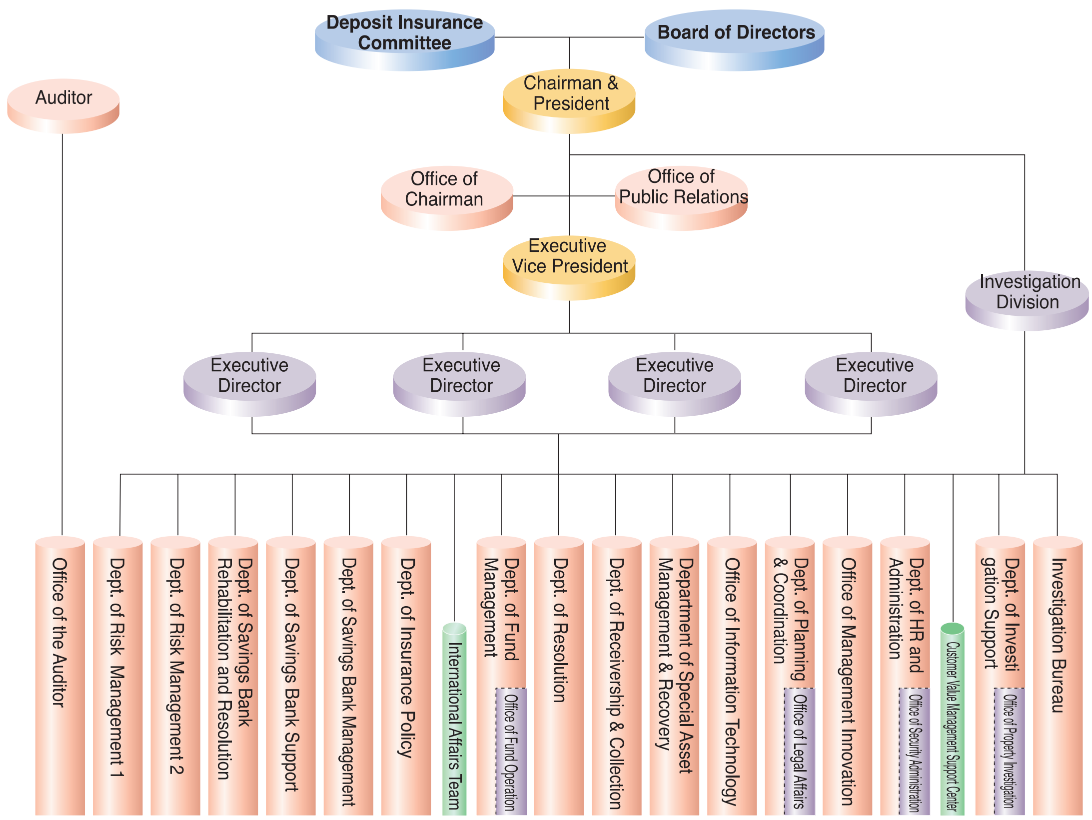
Title	Name
Chairman and President	Seung-Woo Lee
Executive Vice President	Won-Tae Yi
Executive Director	Jong-Tae Kim
Executive Director	Sang-Keun Jin
Executive Director	Hyo-Soon Choi
Executive Director	Hyeon-Chul Joe
Non-Executive Director	Chan-Woo Cheong
Non-Executive Director	Seok-Jin Kim
Non-Executive Director	Jeong-Gil Han
Non-Executive Director	Su-Hwa Lee
Non-Executive Director	Gi-Seok Lee
Non-Executive Director	Chang-Seok Oh
Non-Executive Director	Kyo-Sik Kim
Auditor	Sang-Mok Lee

1-2. Organization

The KDIC was established on June 1, 1996 as a non-capital special corporation to effectively operate the deposit insurance system under the Depositor Protection Act. As of December 31, 2011, it consists of 12 departments, 5 offices and 1 division: Department of Planning and Coordination, Department of Human Resources and Administration, Department of Risk Management I, Department of Risk Management II, Department of Savings Bank Management, Department of Savings Bank Support, Department of Savings Bank Rehabilitation and Resolution, Department of Deposit Insurance Policy, Department of Fund Management, Department of Resolution, Department of Receivership and Collection, Department of Special Asset Management and Recovery, Office of Information Technology, Office of Management Innovation, Office of Public Relations, Office of the Chairman, Office of the Auditor, and Insolvency Investigation Division.

Table II-5 Organization Chart

(As of December 31, 2011)



* Customer Value Management Support Center and International Affairs Team are team units.

Table II-6 Number of Staff

(As of December 31, 2011, Unit: Person)

Title	Executive Directors	Employees		
		Regular	Special[2)]	Total
Number	14[1)]	443	141	584

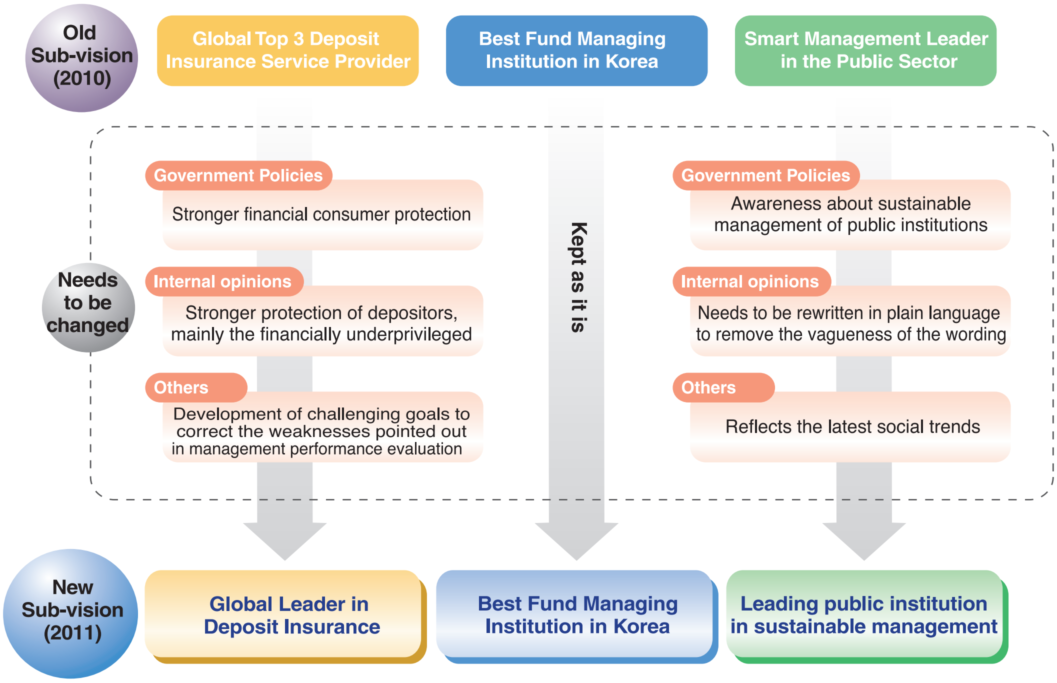
Note : 1) Including 7 Non-Executive Directors appointed under the Public Agencies Operational Act
2) Special employees include experts such as attorneys, doctoral researchers, conservators, bankruptcy estate trustees and examiners.

2 Organization Management

2-1. Vision and Mid-to-Long Term Management Plan

A. Background of the New Sub-visions

To actively respond to a massive number of insolvent financial institutions in 2011 and changing the management environment such as increasing social responsibility as a public institution and therefore effectively achieve KDIC mission and vision, the KDIC gathered opinions from executives and staff members and established new sub vision in October 2011.



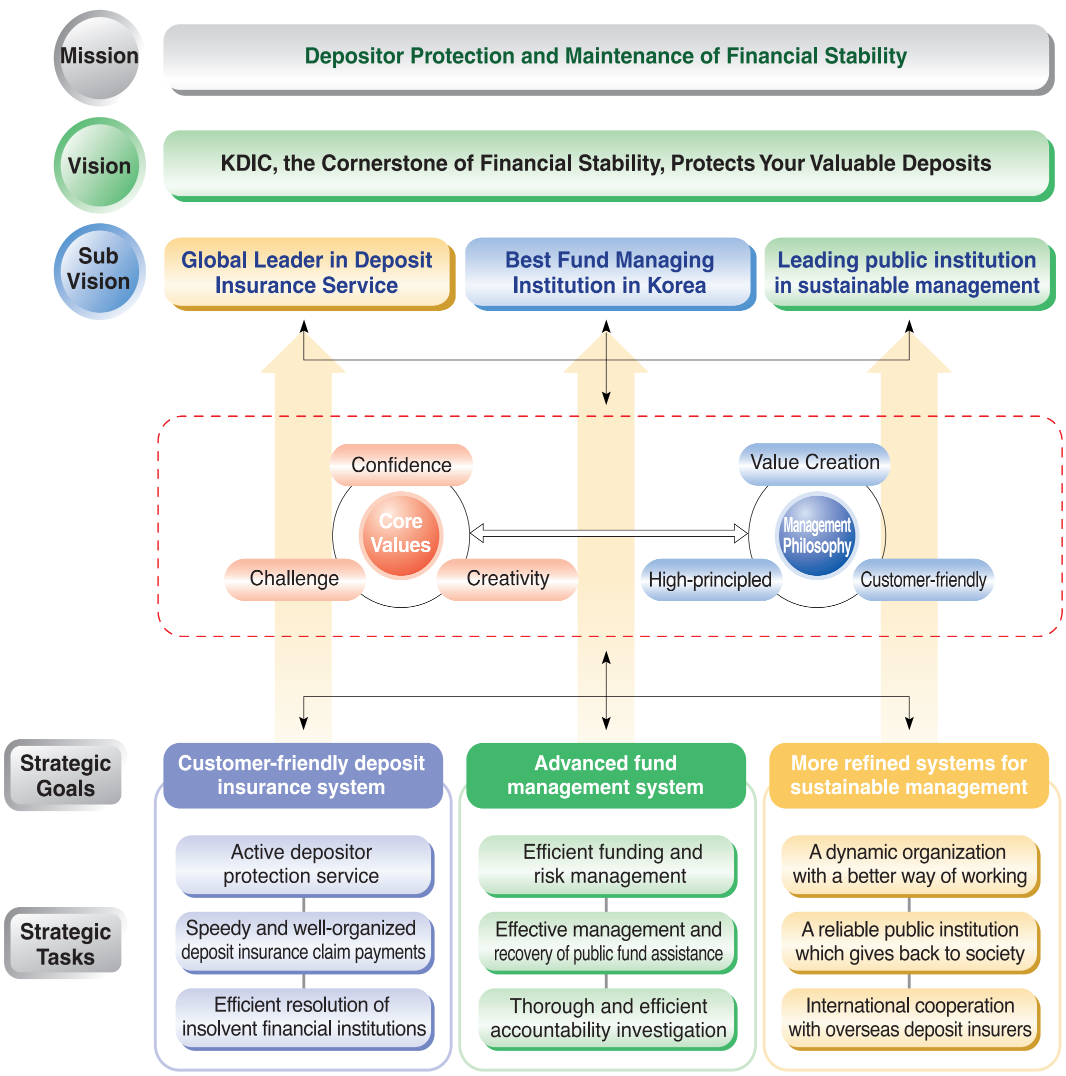
B. Vision

(1) Vision and Sub-vision

(2) Definition of Key Words

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

(3) Chart of Visions and Management Goals



C. Strategic Goal, Strategic Tasks and Detailed Action Plans

To realize the new vision and generate tangible results, the KDIC selected three mid-to-long term strategic goals: customer-friendly deposit insurance; advanced fund management system; and more refined systems for sustainable management. It also developed 9 strategic tasks to achieve the strategic goals and established annual action plans for the next five years (from 2012 to 2016).

Table Ⅱ-7 Strategic Goals, Strategic Tasks and Detailed Action Plan

<table>
<tr><th>Strategic Goals</th><th>Strategic Tasks</th><th>Detailed Action Plan for 2012</th></tr>
<tr><td rowspan="4">Customer-friendly deposit insurance system</td><td rowspan="2">Active depositor protection service</td><td>• Improve the deposit insurance system
- Make efforts to improve the deposit insurance system including the adoption of a risk-based premium system</td></tr>
<tr><td>• Protect financial consumers by providing information about deposit insurance</td></tr>
<tr><td>Speedy and well-organized deposit insurance claim payments</td><td>• Make deposit payments in a fast and organized manner
- Address depositor inconvenience resulting from frozen access to their funds</td></tr>
<tr><td>Efficient resolution of insolvent financial institutions</td><td>• More efficient resolution of insolvent financial institutions
- Speedy and efficient resolution of insolvent financial institutions and system improvement</td></tr>
<tr><td rowspan="13">Advanced fund management system</td><td rowspan="5">Efficient funding and risk management</td><td>• Efficient DIF management</td></tr>
<tr><td>• Balance between profit seeking and funding stability</td></tr>
<tr><td>• Increased expertise in risk monitoring</td></tr>
<tr><td>• Early identification of risk factors facing mutual savings bank and quick response</td></tr>
<tr><td>• Analyze risk and provide better internal/external services</td></tr>
<tr><td rowspan="5">Effective management and recovery of public fund assistance</td><td>• Efforts to implement the public fund repayment plan through efficient Redemption Fund management</td></tr>
<tr><td>• Efficient management of bankruptcy estates</td></tr>
<tr><td>• Efficient sale of KDIC-owned stakes and assets</td></tr>
<tr><td>• Increased efficiency in MOU management</td></tr>
<tr><td>• Efficient management of special assets and maximum recovery</td></tr>
<tr><td rowspan="3">Thorough and efficient accountability investigation</td><td>• Thorough asset investigation of insolvency-implicated persons</td></tr>
<tr><td>• Stronger efforts to punish those responsible for insolvency and nurture sound management practices</td></tr>
<tr><td>• Post-monitoring of people who were involved in illegal activities and wrongdoing</td></tr>
<tr><td rowspan="8">More refined systems for sustainable management</td><td rowspan="4">A dynamic organization with a better way of working</td><td>• Focus on core business activities and budget savings</td></tr>
<tr><td>• HR and remuneration systems for efficient human resources management and capacity building</td></tr>
<tr><td>• Improve the effectiveness of the performance-based evaluation system</td></tr>
<tr><td>• Smooth cooperation supported by IT services and infrastructure</td></tr>
<tr><td rowspan="2">A reliable public institution which gives back to society</td><td>• Financial education for the vulnerable group with poor access to financial information</td></tr>
<tr><td>• Increased customer satisfaction with an improved CS management system</td></tr>
<tr><td rowspan="2">International cooperation with overseas deposit insurers</td><td>• Comply with global standards in deposit insurance</td></tr>
<tr><td>• Share best practices and achievement in deposit insurance implementation with overseas deposit insurers</td></tr>
</table>

2-2. Dynamic Organizational Culture for HR Management and Business Operation

A. 「Hi-KDIC」 Program to Build a Dynamic Organizational Culture

To foster a dynamic organizational culture, the KDIC implements the Hi-KDIC Program throughout the year. The name is derived from "kind service to the public (Hi)" and "strengthen the KDIC's reputation and competency (High)."

Against this backdrop, it chose three tasks for the 「Hi-KDIC」 Program: communication facilitation; consensus building; and participation by all. If these lead to a dynamic organizational culture, it will provide a boost to the organization's efforts to carry out the strategic tasks and achieve the KDIC mission and vision.

Table Ⅱ-8 Hi-KDIC Program

Task	Program Name	Description	Year 2011 Results
Communication Facilitation (multi-directional communication)	Movie day	• A team with excellent performance is selected as "Team of the Month" and all team members are given an opportunity to watch a movie on KDIC's dime.	22 times
	Smart Board	• Smart Board consists of representatives from every level of the corporate structure and it serves as an "interactive communication channel."	On a needed basis
	Voice of KDIC	• Smart Board voices employees' opinions at management strategy meetings.	8 times
	Window of suggestion	• Discussion Space is an open place where employees can freely express their opinions on various subjects.	95 times
	Mentoring	• Senior members with many years of service at the KDIC provide mentoring to new staff members for a certain period.	New employees: 45 persons Student interns: 41 persons Youth interns: 22 persons
	Tang Day and Hof Day	• On Tang Day (bi-monthly) and Hof Day (quarterly), employees and executive officers are given opportunities to meet in a casual setting.	56 times
Consensus Building (Happy Workplace)	Book Relay	• Participants choose a book that left a deep impression on them and give it to each other with a short memo as a present to encourage them to read more books.	24 times
	Happy Night	• To boost the morale of employees and encourage a friendly atmosphere, executives visit teams working overtime and cheer them up.	7 times
	KDIC-Highway Training	• To facilitate communication, staff members from different departments and different job levels are gathered to enjoy some cultural activities together.	4 teams (19 persons)
	Follow-up Training	• Training is given to employees who have spent more than 5 years at KDIC so that they can have a better sense of belonging to the company and improve leadership skills.	1 time (23 persons)
	Family Day	• Every Wednesday is designated as Family Day to encourage employees to get off work on time and have more family time and develop personal competence.	Every Wednesday
Participation by All (Sharing of core values)	Policy Briefing Session	• Executives and heads of departments explain and share key policies of the KDIC to staff members.	20 times
	KDIC-Daum	• Workshop programs for training are provided to teach core values and the right attitudes to implement them.	8 times
	Sky Meeting	• To increase communication between the Chairman & President and employees, meetings are held on the roof garden.	12 times
	K-Oasis	• Knowledge portal system for knowledge management	Year-round
	FAGO TV	• VOD service is available to share management strategies such as KDIC mission, strategy meeting results and promotion/PR materials.	Year-round

B. Organizational restructuring to improve deposit insurance functions and management efficiency

The KDIC set up a dedicated team to better support business normalization of Mutual Savings Bank in January, and made functional adjustments to ensure efficient management of special assets in July as a large number of mutual savings banks were suspended from operations.

In addition, it has made continuous efforts to increase management efficiency. For example, it tried to increase flexibility in HR management and productivity by integrating business processes and making adjustments between teams.

C. Performance evaluation system to establish a performance-based organizational culture

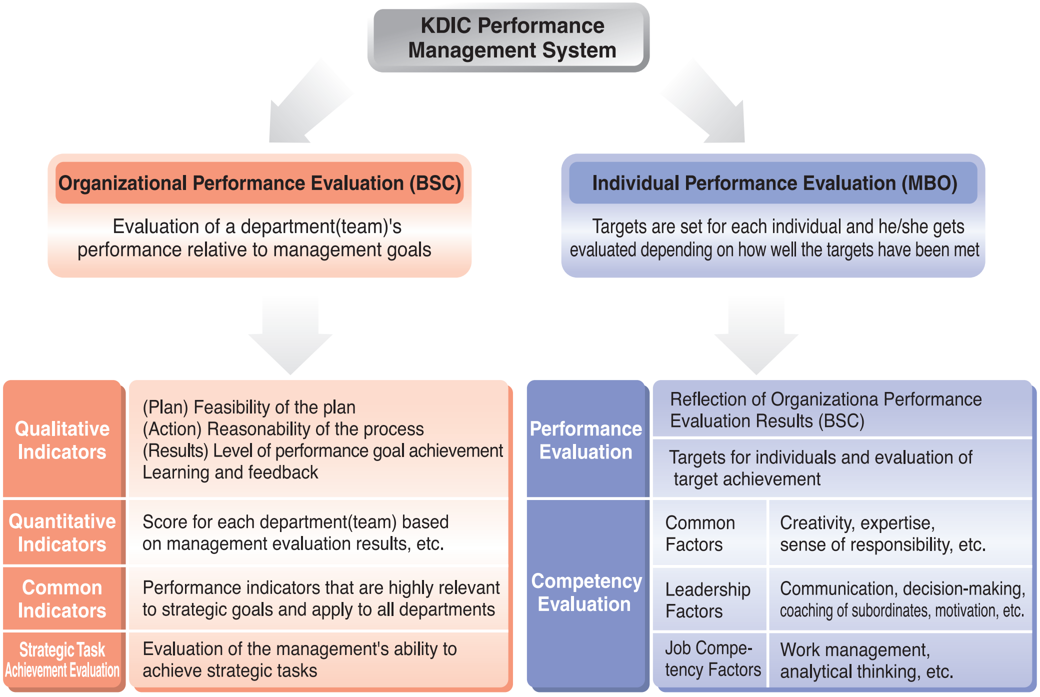
To build a performance-oriented organizational culture, the KDIC introduced a strategic performance management system called BSC (Balanced Score Card) in late 2005 and applied BSC to every department in 2006 and then to all teams in 2007 and developed related IT systems in 2009. By making improvements to evaluation indicators and methods on a continuous basis, it has developed a more refined performance evaluation system. In particular, it selected some indicators that are highly relevant to company strategies as common indicators in 2011 and conducted evaluations twice a year. The KDIC commissioned external experts to conduct the first stage evaluation based on qualitative indicators to ensure fairness and transparency. And it also set up a performance management committee mainly comprising external experts to increase the effectiveness of performance management.

In line with the performance-based annual salary system introduced under an agreement between labor and management, the KDIC built and implemented an individual performance evaluation system in 2011 where each staff member consults with his/her evaluator and sets targets that will help to maximize the organization's performance and gets evaluated depending on how well the targets have been achieved.

Chosen as a company with good management-labor relations in 2011

Awarded with a government decoration in 2011 for labor-management cooperation

Figure Ⅱ-1 KDIC Performance Management System



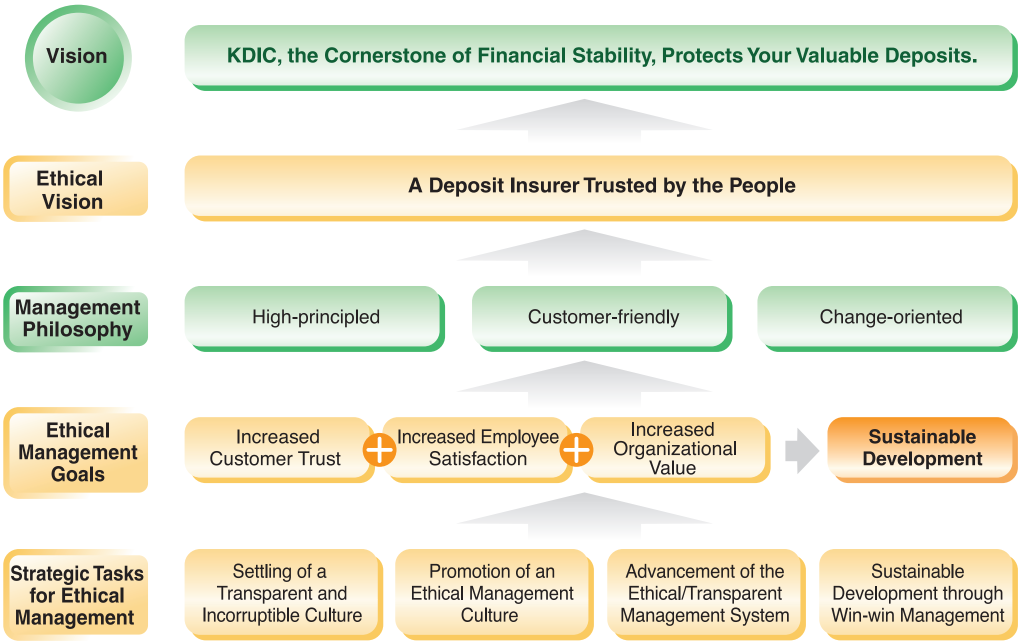
2-3. Ethical Management and Social Charity Activities

A. Ethical Management

To operate an organization with high ethical standards and fulfill its social duty as a reliable public institution, the KDIC has applied ethical management at every level of the company. As part of the effort, the KDIC established a mid-to-long term plan in 2010 and set 4 strategic tasks for ethical management. In addition, to ensure structured implementation of the strategic tasks, the KDIC has developed and implemented 13 tasks and a detailed action plan.

During 2011, the KDIC conducted a self-check of ethical management every month and continued to provide online training about ethical management to raise employees' awareness of it. Along with this, it reported progress in satisfying the requirements of the UNGC (United Nations Global Compact, joined in August 2007), an initiative under the UN to encourage businesses and organizations to support and fulfill their social responsibilities, and participated in the (KoBEX SM) survey conducted by the Ministry of Knowledge and Economy. The KDIC has enhanced public confidence in its ethical management by adopting more targeted evaluation indicators about ethical management. In particular, it changed the old Ethical Management Day to the Day of Ethical Management and Integrity on June 1, 2011, showing its commitment to an ethical way of doing business.

Figure Ⅱ-2 Mid-to-Long Term Ethical Management Promotion Plan



B. Social Contribution Activities

(1) Social Contribution Programs Based on Business Characteristics

In return for the faith the public has put in the KDIC and to carry out its duty as a public institution, all employees of the KDIC are encouraged to participate in social volunteering activities. Particularly in 2011, the KDIC expanded its activities, for example, by developing the "SMART Daily Financial Education" Program for vulnerable people with poor access to financial information as part of social contribution activities based on business characteristics, in addition to the volunteering activities for neighbors in need that have been done to meet its social responsibilities.

For traditional market merchants who do not have sufficient financial information, the KDIC provided 247 education sessions about daily finance (863 participants, and 29,630 target audiences) and signed an agreement with the Agency for Traditional Market Administration for the promotion and development of traditional markets.

(2) Stronger Commitment to Social Contribution

To actively respond to changes in the business environment that require corporate social responsibility, support the government's call for fair society, protect depositors and play its role for financial stability, the KDIC established the Basic plan for SMART Social Contribution in June 2011 that sets basic directions for social contribution activities including a vision and goals. The KDIC separately created the SMART Social Contribution Committee where key matters related to social contribution are discussed.

In 2011, to help employees understand the Corporation's social contribution efforts and build a consensus about the need for sharing, the KDIC had a book-reading session about social contribution targeting all employees and posted social contribution news on the internal bulletin board (KDIC Love Nanumi). The KDIC also prepared measures for the management to increase social contribution. In the meantime, it hosted a photo exhibition which gave an opportunity for employees to look back and reflect on earlier activities. Along with this, to set the direction for social contribution activities that can be shared by the public, it conducted a survey on employees about the level of awareness of corporate social responsibility and the company's social contribution charter. And it received consulting services from an external expert agency to get the KDIC's current social contribution activities evaluated and look for new ones.

(3) Various Social Contribution Activities to Fulfill Social Responsibility

In 2011, the KDIC set up the "Share the Love" Fund worth KRW 218.5 million from employee donations (1 account equals KRW 5,000), matching grants from the company, and conversion of mileage from corporate credit cards to cash. And it spent KRW 188.58 million on social contribution activities and scholarships. Among major volunteering activities was the "Matching One Family with One Department Campaign" where KDIC staff visited an underprivileged family or a social welfare institution which their department chose and donated money and time on a regular basis. On every third Tuesday of the month, KDIC staff members visit the Nest of Sharing, a social welfare organization in Seoul, to provide school meals and free lunch to senior citizens living alone. In addition, KDIC staffers volunteer as assistant teachers at Seoul Jungjin School, a public school in Seoul for the disabled that has a sisterhood relationship with the KDIC, and engage in other charity activities including the House of Love campaign to repair houses for low-income families in cooperation with Habitat for Humanity Seoul. And the KDIC also continued voluntary activities such as helping disabled children at Seongga Temple, the biggest Buddhist facility in Seoul for disabled people, every first Thursday of the month.

And to promote shopping at traditional markets, the KDIC established a sisterhood relationship with Tongin Market, a market near the KDIC, in August 2011. By purchasing goods from the market and donating them to the Nest of Sharing and Seongga Temple, the KDIC contributed to both traditional markets and charity institutions.

Also, it provided scholarships to 10 students, KRW 1 million each, from low-income families facing difficulties in continuing their studies, in addition to the four recipient students who are already benefiting from the program. KDIC employees visited a village in Ungok-ri that has cooperative ties with the KDIC to help the village people during peak seasons and held a farm experience event. To give help to neighbors in need, it contributed to flood relief efforts in the Mt. Umyeon area, sponsored the 2012 Hope Sharing Campaign, the Sharing of Briquette with Love Campaign, and the Warm Winter Campaign for the disabled and their family members cared for at Seongga Temple, and made year-end donations for the needy.

Table Ⅱ-9 Major Social Charity Activities in 2011

(As of December 31, 2011, Unit: case, person, KRW 1,000)

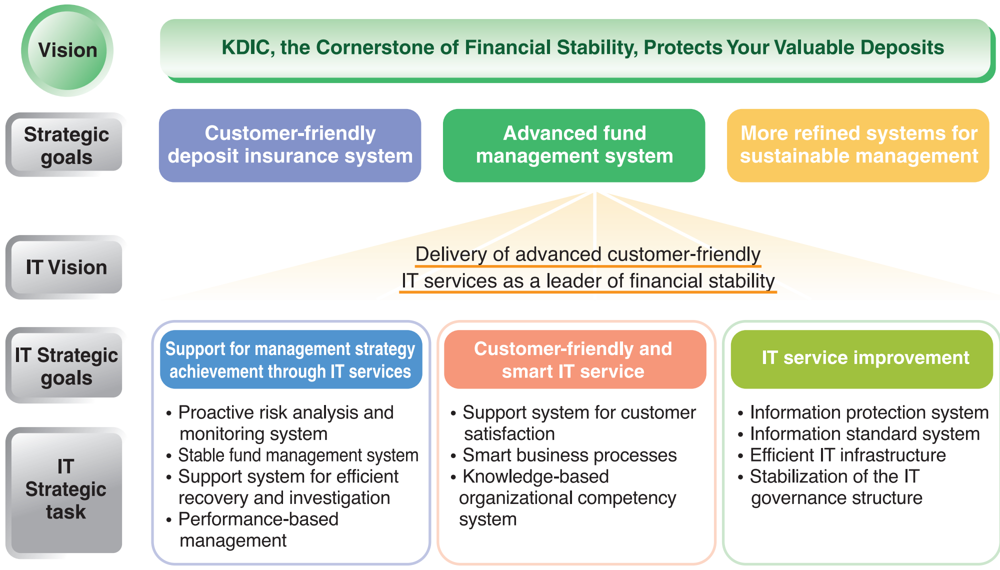
Type	Recipients / Relative Organizations	Article	Activities		Donation
			No. of Times	Participants	
Matching One Family with One Department Campaign	Child Fund, etc.		210	649	56,213
Supporting Special Schools	Seoul Jungjin School		8	55	460
Building Cooperative Ties with Farming and Fishing Villages	Ungok-ri, Eungbong-myeon, Yesan-gun, Chungnam		2	130	10,990
Free Meal Service	Nest of Sharing		17	135	10,204
Houses of Love	Habitat		4	35	10,000
Cleaning up Cheong-gye Stream	from Cheong-gye Plaza to Samilgyo		9	72	807
Blood Donation of Love			7	8	-
Coin Collection	World Vision		2	113	1,319
Volunteering at Seongga Temple	Disabled children		12	70	5,596
Individual/Group Activities			75	81	-
KDIC Teenager Scholarship	10 low-income teenagers		1		10,000
Economic Education etc.			206	219	
Campaign for Traditional Market Merchants, etc.			247	863	
Donation for the Needy, etc.			23		73,309
Others	Reward for social contribution activities				3,500
	Compensation for expenses spent for social contribution activities				6,180
Total			823	2,430	188,578

2-4. Customer-friendly IT Services

A. IT System Advancement Project

After analyzing the external and internal environment and gathering opinions from each department, the KDIC prepared the Information Technology Mid-to-Long Term Plan for the period from 2011 to 2013 that will help to realize its vision and strategic goals. And to achieve the IT vision of "delivery of advanced, customer-friendly IT service," the KDIC is working on IT projects in an organized way.

Figure II-3 Mid-to-long Term Strategy for IT Advancement (2011~2013)



Under the Mid-to-long Term Plan that has action tasks for each phase of the plan, 2011 was the first-phase year and the following was achieved in 2011:

First, to achieve the IT strategic goal of "Support for management strategy achievement through IT services," the KDIC launched a project to build an integrated management system for joint examinations where relevant data and results can be systematically managed and examination findings can be shared. And the KDIC pursued projects that immediately responded to changes in the business environment. For example, it improved the functions of the "deposit trend tracking system" to increase the efficiency of risk surveillance and finished improving the functions of fund-related system earlier than scheduled to meet the time for the creation of the special account for MSB restructuring.

Second, to achieve the IT strategic goal of "customer-friendly and smart IT service," it introduced various channels to manage customer complaints and feedback and launched a system for customer complaint and feedback management called the Customer Voice System that can analyze customer profiles and provide comprehensive services. To increase access to information and customer convenience with the use of smart phones, the KDIC built a mobile webpage and upgraded its Internet website. Other projects include: functional improvement of the integrated resolution information system that enables depositors to calculate the amount of advance bankruptcy dividend payment and receive payments online; improvement of the company library system's meta search function; and the functional improvement of the mass e-mail transmission system.

Third, to achieve the IT strategic goal of "service quality improvement with IT competency," the KDIC started building an integrated log management system that can help to speed up disaster recovery and analysis of the cause of the failure. And in the event of a cyber attack, the integrated log can now be analyzed in real time. The KDIC also successfully enhanced its information protection ability by adopting security USBs to prevent the leakage of critical information to the outside and by installing personal information checking software on every PC to prevent the leakage of personal information stored in PCs.

Table Ⅱ-10 Detailed Action Plan for the First Phase (Year 2011)

Strategic Goals	Detailed Action Plan for 1 Phase (Year 2011)	
Ⅰ. Support for management strategy achievement through IT services	• Build an integrated management system for joint examinations	(2011. 9~2012. 2)
	• Improve the functions of the deposit trend tracking system	(2011. 9~2011.12)
	• Improve the functions of fund-related systems	(2011. 4~2011. 6)
Ⅱ. Customer-friendly and smart IT service	• Build a system for customer complaint and feedback management	(2011.11~2012. 3)
	• Construct a mobile homepage and upgrade the KDIC website	(2011. 5~2011. 9)
	• Improve the functions of the integrated resolution information system	(2011. 2~2011. 8)
	• Improve meta search functions of the company library system	(2011.11~2011.12)
	• Improve the functions of the mass e-mail transmission system	(2011. 3~2011. 4)
Ⅲ. Service quality improvement with IT competency	• Reinforce information protection management competency	(2011. 4~2011. 6)
	• Build an integrated log management system	(2011. 9~2012. 1)
	• Expand the disaster recovery center	(2011. 5)
	• Successfully pass the surveillance audit after ISO/IEC20000 certification	(2011. 7)

B. International certification for IT service operation

The KDIC obtained the ISO/IEC20000 certification, an international certificate for IT system management, both from the itSMF (IT Service Management Forum) and the UKAS (United Kingdom Accreditation Service) in December 2010 for its IT service to internal and external customers, which is a first among Korean public institutions that manage pension and public funds. After that, the KDIC was evaluated for its IT service operation and management system by the British Lloyd Register Quality Assurance (LRQA) in July 2011.

In the evaluation, the KDIC was highly recognized for implementing a stable IT service process management system in a relatively short time of 6 months compared to the usual two-to-three-year period. The KDIC will continue to make efforts to provide high quality IT service that satisfies international standards.

예금보험공사
KOREA DEPOSIT INSURANCE CORPORATION

Curved, tiled roofs of traditional Korean houses

III
Financial Consumer Protection

Ⅲ

Financial Consumer Protection

1 Prevention of Damages to Financial Consumers

1-1. Promotion of the Deposit Insurance System

A. Key Promotional Activities

The KDIC has staged promotional activities through various media channels to raise public awareness about the deposit insurance system. In particular, it selected a large group of people with poor access to financial information including the elderly as promotion targets in 2011 and made TV advertising to broadcast public campaigns about the deposit insurance system in six local TV networks in key cities, taking an organized approach to public awareness promotion. In addition, it strengthened promotions by making full use of advertising media to which financial consumers have good daily access, such as newspapers, radio, KTX (Korea Train Express), buses, subway, and outdoor electronic ad display boards.

To relieve uneasiness of depositors about massive suspension of insolvent mutual savings banks, the KDIC chose Protection of Deposits as the key promotional theme in 2011, delivering the "Your Deposits Are Safely Protected" message to the public, and intensively promoted the fact that the deposit coverage limit is KRW 50 million.

It also ran advertisements about deposit insurance protection in the media, for example, newspapers targeted for the elderly and market merchants, in addition to national newspapers and economic newspapers. Along with this, it made and distributed shopping bags with information related to deposit insurance in traditional markets to raise awareness of the system.

According to a public opinion survey, those in their 20s (particularly university students) were relatively less aware of the system than others, and so the KDIC focused its promotion on them. For example, it held the First KDIC University Student Advertisement Contest, ran public campaign videos before movies in multiplex theaters across the nation, and placed ads in weekly magazines whose subscription rate among university students was high.

Table Ⅲ-1 Deposit Insurance System Promotion Messages and Images

Type	Year 2009	Year 2010	Year 2011
Promotion Message	It's KDIC!	Deposit Protection is to protect your happiness.	Your Deposits Are Safely Protected
Promotion Image			

In the meantime, the KDIC participated in the World Financial Fair Busan 2011 in November for direct communication with financial consumers, and conducted promotional activities to raise awareness of the KDIC and the deposit insurance system. At the fair, the KDIC provided organized guidance and one-to-one consulting service to people with poor access to financial information about deposit insurance. By doing so, it tried to ease depositors' concerns in Busan, Ulsan, and the wider Kyeongnam area about business suspension of mutual savings banks.

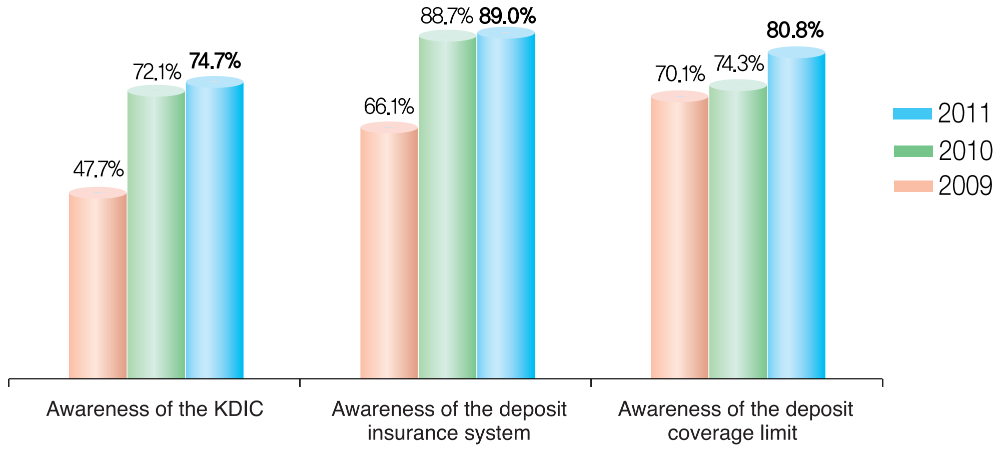
In addition, to increase economic knowledge of elementary school students, the KDIC has distributed information booklets since 2008, which aims to enhance understanding of the deposit insurance system. In 2011, it upgraded the design with a focus on the deposit coverage limit and distributed 33,000 booklets to elementary school students in the areas near suspended mutual savings banks.

Figure Ⅲ-1 Information Booklet

B. Greater Awareness of the Deposit Insurance System

At the end of every year, the KDIC commissions an external survey agency to gauge the level of public awareness of the KDIC and the deposit protection system among those aged 19 or older, and uses the results as reference data for policy decisions and public relations strategy development. Public awareness has increased every year thanks to organized promotional activities, social contribution activities, and increased media reports related to the KDIC. According to the survey results in 2011, awareness of the KDIC was 74.7%, up by 2.6%p from the previous year and awareness of the deposit insurance system was 89.0%, up by 0.3%p from the previous year. Awareness of the deposit coverage limit was 80.8%, up by 6.5%p from the previous year.

Table Ⅲ-2 Awareness Survey Results



1-2. Review of and Guidance for Compliance with KDIC Signage Display Requirements

Under the Depositor Protection Act, insured financial institutions should indicate whether a certain financial product is eligible for deposit protection and, if it is, for how much as required by the KDIC. The KDIC is allowed to inspect them to verify their compliance with these requirements. The indication system requires insured financial institutions to provide accurate information about deposit protection to financial consumers so that they can make informed decisions on their own in choosing financial products, which in turn will protect them from financial losses resulting from a lack of financial information.

The KDIC checks member institutions' compliance with the indication system in a market-friendly manner that does not impose an administrative burden on them and enhances the KDIC's image. In particular, to increase inspection efficiency and reduce the work burden for inspectors, the KDIC made separate checklists for headquarters and branches of insured financial institutions and changed inspection methods in 2011, for example, by adopting a precheck system through self-inspection. As a result, each inspector was able to check as many as 120 branches in 2011, which was a 16.4 percent increase from a year ago.

And the KDIC particularly focused on the mutual savings banking sector where a massive number of failures were reported.

Table Ⅲ-3 Number of Branches Investigated On-site Per Person Regarding the Display of KDIC Signage

Category	Year 2010	Year 2011	Increase
Number of branches investigated per inspector	103	120	16.4% ↑

In addition, to prevent damages to financial consumers and provide accurate information about the deposit insurance system, the KDIC made 70,000 pieces of information packages (named An Easy-to-Understand Guide to the Deposit Insurance System) based on actual cases so that vulnerable groups with poor access to financial information can easily understand deposit protection, and with the help of the Federation of Mutual Savings Banks, distributed them to all branches of mutual savings banks across the nation. For better understanding of the system, the KDIC also posted a simulation calculator of insured deposit amount on its website in November 2011 so that depositors can enter data such as the type of his/her financial institution, product type and the transaction amount to find out how much of their deposits are protected.

Figure Ⅲ-2 Simulation Calculator of Insured Deposit Amount

1-3. Financial and Economic Education

A. Education for Vulnerable People with Poor Access to Financial Information

After the global financial crisis in 2008, the KDIC started to provide financial and economic education to those with poor access to financial information and also educated elementary school students and the elderly. Among others, it conducted the SMART Daily Financial Education campaigns targeting vulnerable people who lack access to financial information in 2011, making such education campaigns the main focus of its social contribution activities.

To give proper financial and economic education for elementary school students, the KDIC received applications from elementary schools nationwide and then KDIC employees visited the selected schools in person or invited students to the KDIC. During 2011, the KDIC provided education to 21,725 elementary school students in 174 schools about finance and economy.

With the support of the Korea Association of Senior Welfare Centers and the Korean Senior Citizens Association, the KDIC provided education to the elderly in 2011: at a senior citizen university (50 attendants) and 8 senior welfare centers (7,270 attendants).

In addition, to provide education to traditional market merchants, KDIC employees visited traditional markets, distributed leaflets, explained the deposit insurance system and gave presentations at merchant university classes. In 2011, the KDIC held 247 education sessions for 29,630 traditional market merchants with the participation of 863 employees from the KDIC.

B. Education for Executives and Staffers of Insured Financial Institution

To prevent damages to depositors resulting from ignorance of the deposit insurance coverage, the KDIC provided guidance to financial institution employees who contact customers on a daily basis at branches and enhance their understanding of the importance of deposit insurance, the KDIC signage display requirements, etc. In 2011, 23 relevant education sessions were provided to 1,520 employees of insured financial institutions.

C. Education in Cooperation with Relevant Institutions

To expand education opportunities, the KDIC provided sponsorship to nearly 100 teenagers living on their own at 11 shelters* in Seoul and the Gyeonggi province, together with the Financial Quotient Council, so that they can go see a musical for financial education in December 2011. The musical's main contents was financial advice for young people starting their first job.

* They refer to non-profit institutions that provide shelter to teenagers from broken homes or runaway teenagers. These facilities are registered at local governments including borough offices.

The KDIC attended the National Convention of Senior Citizens Korea hosted by the Korea Association of Senior Welfare Centers in November 2011 and provided financial and economic education to representatives of senior welfare centers across the nation. And it also attended the Economic Education Promotion Expo hosted by the Korea Association of Economic Education in December 2011 and operated a deposit insurance information booth, in cooperation with relevant institutions.

D. Establishment of the Theoretical Basis for Financial and Economic Education

The KDIC signed a contract with the Korean Association of Public Finance in December 2011 to study the effect of daily financial education and the direction for future development, which will lay the theoretical foundation for its financial and economic education. The Study on the Long-term Vision to

Increase Financial Literacy of Consumers, a booklet published by the Korea Development Institute, now includes what's discussed in KDIC's financial and economic education.

Furthermore, the KDIC took part in writing standard textbooks for financial and economic education of primary and secondary school students developed by the Financial Quotient Council under the Financial Services Commission to add contents about the deposit insurance system. The textbooks will be used as authorized ones at schools from 2012 after being approved by the Seoul Metropolitan Office of Education. With all these efforts, the KDIC played its part as one of the pillars of financial and economic education, together with the Bank of Korea and the Financial Supervisory Service.

Table Ⅲ-4 Financial and Economic Education in 2011

(As of December 31, 2011)

Target Audience	Number of Times	Number of Participants	Contents
Elementary School Students	174	21,725	General information about economy and finance, Information booklet distribution
Elderly People	9	7,320	Guidance about the deposit insurance system
Traditional Market Merchants	247	29,630	Guidance about the deposit insurance system, and daily finance (including the danger of voice phishing)
Financial Institution Employees, etc.	23	1,520	Guidance about the deposit insurance system
Total	453	60,195	-

2 Protection of Financial Consumers of Insolvent Financial Institutions

2-1. Provisional Deposit Payment and Coverage Limit Increase

To minimize inconvenience to depositors of failed mutual savings banks which were suspended from operations in 2011, the KDIC remarkably improved its provisional deposit payment system.

Before, it took 13 days to make provisional payments after the Financial Services Commission ordered business suspension of insolvent mutual savings banks but the time was shortened to 8 days in 2011 and then to 4 days during the second half of the year, significantly reducing economic inconvenience to depositors of suspended mutual savings banks. To do that, the KDIC developed a computer program to manage provisional deposit payment data. In the past, the FSS alone was allowed to dispatch a supervisor to an insolvency-threatened mutual savings banks. However, changes were made to also allow the KDIC to dispatch a supervisor to such mutual savings banks to make preparations for provisional deposit payment.

In addition, to help depositors suffering from a lack of access to their funds in the midst of a series of mutual savings bank failures, the KDIC raised the provisional payment limit from KRW 10 million to KRW 15 million in January 2011, and again to KRW 20 million in February 2011.

By taking these actions, the KDIC tried to minimize economic inconvenience to depositors and relieve their uneasiness, thus preventing a bank run.

2-2. Faster Deposit payoffs with a Better Resolution Mechanism

Samhwa Mutual Saving Bank was ordered to stop operation in January 2011. The bank was given a certain period of time to normalize operations. However, the KDIC was making preparations for a contract transfer to a third party or a KDIC-owned bridge bank during that period in case it failed to achieve a business turnaround on its own. At the same time, the KDIC made a suggestion to financial authorities that the grace period should be shortened from two months to thirty days if an order for majority shareholders to improve business management were to be issued.

In the case of Samhwa, it took only two months from business suspension to the completion of the bank's sale, which is much shorter than the previous average of 16 months. As a result, deposit transactions were quickly resumed, depositor inconvenience was reduced, and resolution costs were cut. In the long term, the KDIC will continue to improve its resolution mechanism until it achieves its goal of "resolving failed mutual savings banks with no suspension of financial transactions*."

* It refers to a resolution mechanism where a business suspension order is issued on a financial institution after all resolution procedures (e.g. sale to a third party) are completed. As deposits are paid on the following business day of business suspension, resolution costs can be minimized and financial transactions can continue without disruption.

Meanwhile, to reduce payment delay and inconvenience at financial institutions that receive applications for, and make payments of (provisional) deposit payoffs, the KDIC changed its online application system in 2011 and, as a result, the rate of service use was notably increased from 21% in 2010 to 53% in 2011. Additional measures such as increasing the number of call agents, providing remote support, creating a how-to video, and simplifying system screens helped to further reduce depositor inconvenience, which encouraged as many as 400,000 depositors to file requests for provisional payments and deposit payoffs over the Internet.

Table Ⅲ-5 Number of Requests for Provisional Deposit Payment and Deposit Payoffs

(Unit: person, %)

Category	Internet	Teller Window	Total
2010	8,061 (21)	30,186 (79)	38,247 (100)
2011	407,168 (53)	366,990 (47)	774,158 (100)

Note: ( ) means the proportion of each method in relation to the total number of requests for provisional deposit payments and deposit payoffs.

2-3. Early and Maximum Payment of Dividends

For holders of deposits in excess of the coverage limit (which is prescribed in Article 35-2 of the Depositor Protection Act), the KDIC makes advance payments of bankruptcy dividends. Under the system, the KDIC purchases claims from depositors, such as deposit liabilities in excess of the coverage limit and makes an estimate of the expected dividends from the bankruptcy estate, and pays the money to depositors in exchange for their claims.

By making such payments as early as possible, the KDIC aims to minimize depositor inconvenience from a prolonged bankruptcy procedure. In particular, the KDIC built a system in August 2011 where a claim for advance bankruptcy dividend payment can be filed online.

When an insured financial institution goes bankrupt, the KDIC is usually appointed as receiver. Then, the KDIC liquidates remaining assets and pays dividends to creditors in proportion to their claims.

In some cases, if a creditor's address is unknown, it is impossible to notify him/her of the dividend payment. In other cases, the dividends are simply not collected. To protect the property rights of bankruptcy creditors whose dividends have not been collected, the KDIC launched the Uncollected Dividend Notification Campaign in August 2005.

Until the end of 2010, the KDIC identified addresses of 970,000 bankruptcy creditors with the help of the Ministry of Public Administration and Security, and got the bankruptcy estates to send dividend payment notifications to those newly identified addresses. During 2011, addresses of a total of 181,980 creditors were corrected; 116,527 creditors of 51 bankruptcy estates in the first half and 65,453 creditors of 33 bankruptcy estates in the second half. Also, the KDIC built an Uncollected Dividend Notification System on its website where a creditor can check if there are unpaid dividends for him or her after an authentication process.

As a result of consistent promotional activities, in 2011 alone, KRW 33.9 billion (20,555 cases) of long-overdue dividends were paid. The campaign succeeded in paying out dividends worth KRW 225.6 billion (401,389 cases) to bankruptcy creditors from August 2005 to December 2011.

Table Ⅲ-6 Uncollected Dividends Payments Delivered to Bankruptcy Creditors

(As of December 31, 2011, Unit: KRW 100 million, cases)

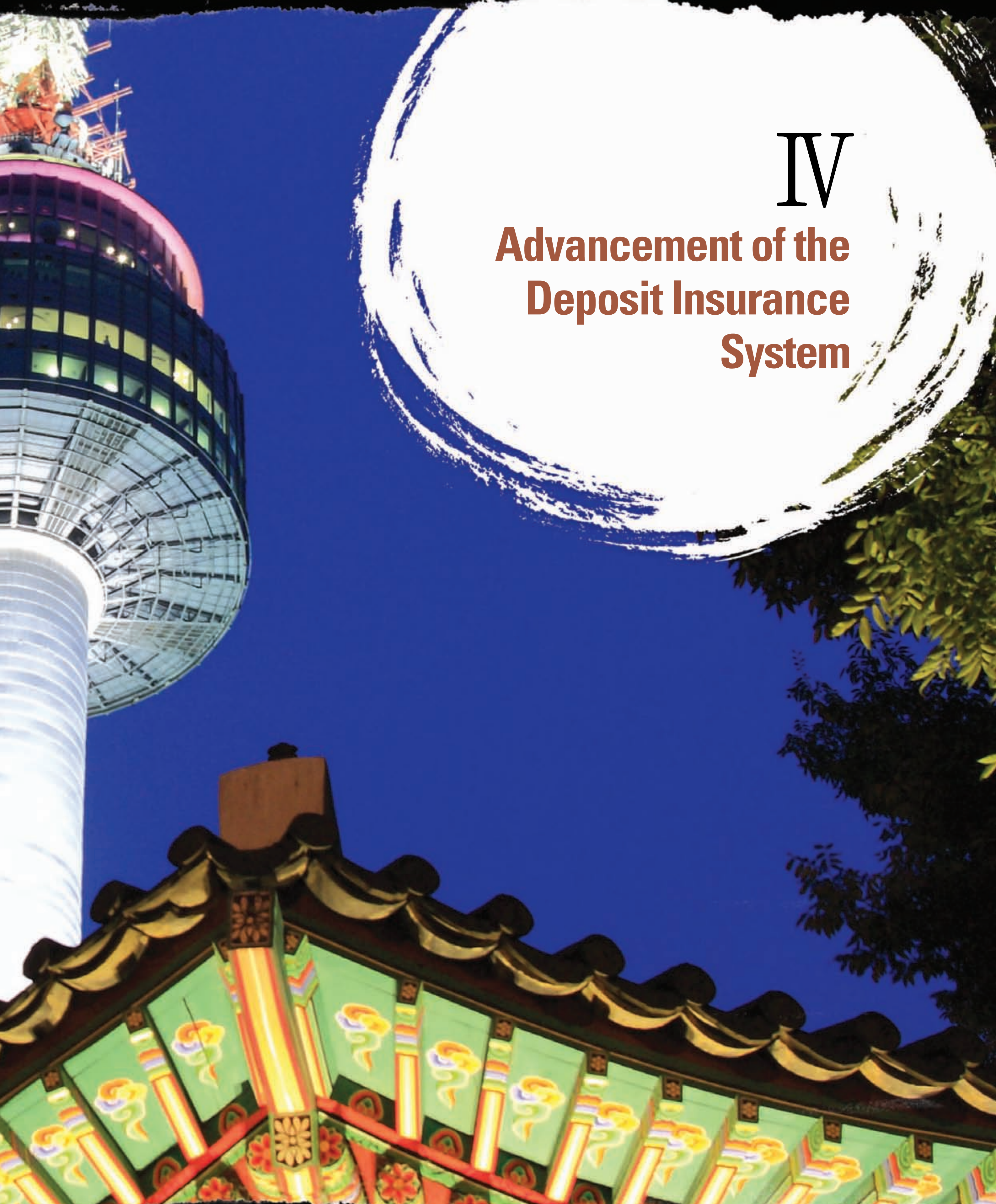
Category		Banks	Financial Investment Companies	Insurance Companies	Merchant Banks	Mutual Savings Banks	Credit Unions	Total
2011	Amount (# of cases)	4 (510)	- (1)	0.001 (178)	303 (3,826)	32 (15,988)	0.002 (52)	339 (20,555)
Aug. 2005 ~ Dec. 2011	Amount (# of cases)	105 (222)	4 (22,208)	1 (4,412)	641 (16,889)	1,503 (356,155)	2 (1,503)	2,256 (401,389)

KDIC staff members explaining what deposit insurance is at traditional markets

The first Cre-sumer meeting in 2011

N Seoul Tower

Ⅳ
Advancement of the Deposit Insurance System



IV

Advancement of the Deposit Insurance System

1 Improvement of the Deposit Insurance System

1-1. Creation of the Special Account for MSB Restructuring

The Deposit Insurance Fund (DIF) has an account for each financial sector and these accounts are settled separately. However, if one sector has too many failures to be dealt with its current fund reserves or if an insolvency cannot be resolved in a timely manner, it could trigger a spread of risk throughout the entire financial system. To address this, a revision to the Depositor Protection Act (DPA) was proposed in November 2010. Under the revision, a "joint account" is newly created in the DIF into which each sector is required to place some of its insurance premium so that any sector with a large number of failures may use the money for restructuring, etc.

The proposed revision was modified to change the account's name and its purpose in March when the State Affairs Committee in the National Assembly reviewed the revision, and then it went into effect in April 1, 2011. The revised name of the account is the Special Account for MSB Restructuring and its purpose is confined to ensuring the soundness of the Mutual Savings Bank Account in the DIF. And the financial sources for the Special Account comprise of government contributions, 45 percent of annual insurance premium paid by insured financial institutions, DIF bonds, borrowings from the other accounts of the DIF, borrowings from insured financial institutions, etc. And part or all of the assets and liabilities of a mutual savings bank that fails after January 1, 2011 may be transferred to the Special Account as well.

Table Ⅳ-1 Major Provisions in the Depositor Protection Act related to the Special Account for MSB Restructuring

Item	Description
Name and purpose of the Special Account (Article 24-4-1)	• The name of the account shall be "Special Account for MSB Restructuring and its purpose shall be to ensure the soundness of the Mutual Savings Bank Account.
Scope (Article 4 of the supplementary provision)	• Resolution of mutual savings banks that fail after January 1, 2011
Financial sources for the Special Account (Article 24-4-2)	• Contributions from the government, deposit insurance premium, DIF bonds, between-account borrowings, external borrowings, claims collected, profits from fund management, etc.
The amount of deposit insurance premium revenue to be placed into the Special Account (Article 24-4-2-5)	• An amount equivalent to 45/100 of annual insurance premium paid by insured financial institutions (However, the ratio of insurance premium revenue to be contributed by mutual savings banks shall be determined by the Deposit Insurance Committee in consideration of the amount of financial assistance provided to failed mutual savings banks from the Special Account.)
Transfer of assets and liabilities (Article 24-4-3)	• Part or all of assets and liabilities of a failed mutual savings bank may be transferred to the Special Account as determined by the Deposit Insurance Committee
Exemption or reduction of interest payment on between- account borrowings (Article 24-4-5)	• The Special Account may be exempted from interest payment or its payment may be deferred after a decision by the Deposit Insurance Committee in consideration of fairness in burden sharing.
Effective Period (Article 2 of the supplementary provision)	• Effective until December 31, 2026

1-2. Increase in Insurance Premium for Mutual Savings Banks

Continued failures of mutual savings banks led to an accumulated deficit of KRW 2.1 trillion in the Mutual Savings Bank Account of the DIF as of late 2010. The Special Account for MSB Restructuring aims to promote a sharing of financial burden among financial sectors including banking and it took effect on April 1, 2011. Against this backdrop, since the mutual savings banking sector needs to bear a greater share of responsibilities in accordance with the beneficiary-pays principle, it became necessary to charge more deposit insurance premiums to mutual savings banks.

Accordingly, with the revision to the Enforcement Decree of the Depositor Protection Act, the deposit insurance premium rate for mutual savings banks was raised 0.05%p from 0.35% to 0.40% on July 1, 2011.

1-3. Preparation for the Adoption of the Risk-based Premium System

The KDIC had continuously made efforts toward adopting a risk-based (or differential) premium system as a way to help financial companies achieve sound management and to ensure fairness in charging premiums. Thanks to these efforts, the ministerial meeting for regulatory reform held in May 2006 approved the introduction of the risk-based premium system.

Then, the KDIC collected opinions from various circles such as academia, financial institutions and the media by commissioning an external study from September 2006 to March 2007 and holding a policy symposium about the improvement of the deposit insurance system with the introduction of the target fund system and a risk-based premium system, together with the Korea Money & Finance Association in May 2007 based on the study results.

The KDIC prepared a revised bill for the Depositor Protection Act (DPA) and complemented it in consideration of what was discussed at the symposium and stakeholder opinions collected from insured financial institutions, industry associations, etc. Later, the revised bill was passed in the National Assembly and publicly announced in February 2009. The revised DPA requires the mandatory adoption of the risk-based premium system and mandated its implementation within five years (2014 according to the Enforcement Decree of the Act). Also, new provisions were added to allow insured institutions to file an appeal against risk-based premium rate decisions and to require them and their employees to keep rates information confidential in order to prevent any confusion that may arise from the disclosure of such information.

To make sure that the risk-based premium system can be executed successfully, the KDIC statistically verified the system, and has improved the integrity of differential assessment models based on financial market changes since the financial crisis in 2008. In particular, it incorporated assessment metrics for liquidity risk that had been the focus of attention since the financial crisis and for Systematically Important Financial Institution (SIFI) risk into the assessment model, and also prepared an assessment model for merchant banks and international financial companies.

After consulting with the Financial Services Commission and getting opinions from external experts and the academia, the KDIC prepared a plan in June 2011 to improve its differential assessment models and execute the system. To gather opinions from relevant industries and discuss relevant issues, the KDIC set up and operated the Joint Task Force for the Preparation of a Risk-based Premium System in July 2011 with the participation of KDIC employees and members of the Korea Institute of Finance. To receive feedback from experts in various areas, it held a public hearing in December about the plan. Thanks to these efforts, the KDIC was able to minimize potential problems at an early stage of system implementation and stabilize it.

To address problems revealed during insolvency investigations into large and affiliated mutual savings banks such as lax supervision, corruption, and cozy relations with financial authorities, the government set up the Financial Supervision Innovation Task Force, led by the Prime Minister's Office, and announced the Financial Supervision Innovation Plan in September 2011.

Under the Innovation Plan, the KDIC is required to attend joint (annual) examinations of large and affiliated mutual savings banks together with the FSS to conduct preventive surveillance. It was given the right to request the FSC and the FSS to take corrective actions to increase the effectiveness of joint examinations. In addition, the scope of mutual savings banks subject to independent examinations of the KDIC was expanded. As of December 31, 2011, the revised bills for the Act on the Establishment of Financial Services Commission and the Depositor Protection Act which contain these changes have been proposed to and are now being discussed by the State Affairs Committee.

2 Research on Deposit Insurance Schemes

2-1. Research on Deposit Insurance Schemes and Financial Safety Net

By researching overseas cases and theories about deposit insurance schemes and supporting such research, the KDIC lays the theoretic foundation for best practices in system operation and development and therefore contributes to the protection of depositors and the stability of the financial system.

In particular, with many mutual savings bank failures and continuing changes in financial markets, home and abroad, including the fiscal crisis in Europe, the KDIC has researched various cases and their implications. Topics covered include: recent trends; changes in relevant laws; changes in deposit insurance system operations after financial regulatory reform in other countries; and the protection of financial consumers in the increasingly volatile financial market. It has also researched the structure of financial safety nets (central bank, supervisory organization, deposit insurance organization, etc.) and structural changes in other countries since the financial crisis in 2008 and built a database.

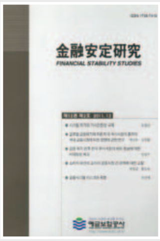
Table IV-2 Major Research in 2011

Subject	Title
Global financial regulatory reform and deposit insurance system change	• Financial safety net reform and its implications (foreign cases)
	• Key changes in US FDIC deposit insurance policy
	• Resolution of non-insured financial institutions after financial reform
	• Impact of the adoption of countercyclical capital buffer on financial and deposit insurance systems
Financial consumer protection in regard to deposit protection	• Efforts of FDIC to require financial institutions to train their employees about the deposit insurance system
	• Efforts of FDIC to increase awareness of the deposit insurance system
	• Use of FDIC online information by financial consumers and its implications
Research on financial safety nets	• Research on financial safety net systems in North American and Latin American countries - US, Canada, Mexico and Brazil
	• Research on financial safety net systems in European countries - Britain, France, Germany, Italy, Spain, Netherlands, and Switzerland
	• Research on financial safety net systems in Asia and Oceania countries - Japan, China, Hong Kong, Singapore, and Australia

2-2. Sharing of Research Results

The KDIC has supported specialized and creative research on themes such as the deposit insurance system and financial system stabilization, published research results in Financial Stability Studies (an academic journal) and a collection of thesis submitted to a contest for research support, and provided the results to policy authorities, relevant agencies, academia, and the media. With such publications and information sharing activities, the KDIC helps to promote deposit insurance-related issues for policy considerations and ensure the efficient operation of the deposit insurance system.

Table Ⅳ-3 Major Publications in 2011

Title	Key Thesis Published
Financial Stability Studies (Vol. 12 Issues 1 and 2) 	• Analysis of the impact of the global financial crisis on the efficiency of local commercial banks and mutual savings banks • Causes of systemic crises in emerging markets and assessment measures • Increased Basel Ⅲ capital regulations and their implications for financial stability in the domestic market • Research on how to improve the resolution mechanism for large and hybrid financial companies • Systemic crises and macro-soundness regulation
A Collection of Thesis Submitted to a Contest for Research Support 	• Research on the technique for forecasting drastic changes in the inflow/outflow of MSB deposits • Direction for the improvement of Korea's deposit insurance system based on the Core Principles of the IADI (International Association of Deposit Insurers) • Ideas about improving the deposit insurance premium assessment base • Research on ways to enhance financial stability by reinforcing insured financial institutions' ability to collect non-performing loans

3 International Exchange & Cooperation

3-1. Expansion and Strengthening of Global Network

The KDIC actively participates in the IADI (International Association of Deposit Insurers) and tries to strengthen its global leadership by signing MOUs with deposit insurance organizations in other countries.

Since the global financial crisis in 2008, as the role of deposit insurers has been highlighted in the international community as one of main pillars of financial safety, the status of IADI, an international body of deposit insurance organizations, has been enhanced, too. In particular, the IADI created the Core Principles for Effective Deposit Insurance Systems Methodology*, a global standard in deposit insurance, and had them included in the compendium of key global standards designated by the Financial Stability Board (FSB) in February 2011, which heightened the IADI's profile as global standard-setting organization.

* It includes recommendations to governments for the establishment of an effective deposit insurance system, consisting of 18 principles and methodology of each principle such as the purpose of deposit insurance system, responsibilities and authorities, governance, relations with other financial safety net participants, membership, coverage limit, funding, public awareness, legal protection for the deposit insurer and its staff, failure resolution, deposit payoffs, and collection of asset.

The KDIC participated in the decision-making process of the IADI's annual project planning and mid-to-long strategy development as its executive council member and founding member, and exercised its voting right in regard to key agenda items. Recognized for its experience in overcoming financial crises, the KDIC has been conducting research as Chair of the Sub-committee on Handling of Systemic Crises under the Research and Guidance Committee since 2010. Among other things, it conducted a survey of about 50 deposit insurance organizations in 2011 and based on the results, presented a research paper at the IADI Executive Council Meeting which includes research on country responses to the recent global financial crisis and their implications. The paper will be officially posted on the IADI website.

In addition, building on its experience in successfully dealing with two financial crises as a deposit insurer, the KDIC hosted the International Workshop on Experience-sharing in Integrated Deposit Insurance System in April for countries that have adopted or are considering the adoption of an integrated deposit insurance system. About 30 presenters and panel members including department heads from deposit insurers in Malaysia, Indonesia, and the US attended the workshop and discussed integrated deposit insurance systems and current operational challenges in a total of five sessions.

Picture Ⅳ-1 International Workshop on Experience-sharing in Integrated Deposit Insurance System

During the workshop, the KDIC felt the need to do more research on integrated deposit insurance schemes at the IADI level, so it submitted a proposal for the creation of the Subcommittee on Integrated Deposit Insurance System under the Research and Guidance Committee of the IADI. As a result, during the Annual General Meeting of the IADI in October 2011, a Subcommittee meeting was held with the KDIC as Chair. As of late 2011, agencies related to deposit insurance functions from 15 countries including the US, UK, Malaysia, and Indonesia have joined as member.

In the meantime, the KDIC has been actively interacting with other deposit insurance organizations. It renewed a memorandum of understanding (MOU) on information-sharing and staff exchange with a Central Deposit Insurance Corporation, Taiwan which expired in March 2011, and newly signed an MOU with the Mongolian Ministry of Finance and the Central Bank of Mongolia (June 2011) and signed another with the Deposit and Credit Guarantee Corporation, Nepal (November 2011). As of late 2011, the KDIC has an MOU with 12 organizations from 10 countries, building networks for international cooperation with countries interested in enhancing their financial safety nets.

In addition, the KDIC had a two-to-three week staff exchange program with deposit insurers that enter into an MOU with it. For example, the KDIC hosted a staff member dispatched from the Deposit Insurance Corporation of Japan (DICJ) in May, and sent its staffer to a Savings Deposit Insurance Fund, Turkey (SDIF) in September to learn in-depth about the Turkish organization and its operation system.

Furthermore, the KDIC upgraded its English website in 2011 and sent English newsletters to other deposit insurance organizations and international organizations every quarter to provide up-to-date information about its key activities.

3-2. Sharing of Korea's DIS Experience with Other Countries (Global-KDIC KSP)

As deposit insurance has become more important worldwide since the global financial crisis in 2008, the demand from other countries including developing countries has increased to learn about the KDIC's experience in deposit insurance system operation.

So, the KDIC organized the 'Global-KDIC KSP(Knowledge Sharing Program)' team in December 2010 and has actively promoted Global-KDIC KSP to give capacity-building training and policy advice to other countries which have worked on the introduction of a deposit protection law or the establishment of a deposit insurance organization.

During 2011, the KDIC hosted international workshops in April (International Workshop on Experience-sharing in Integrated Deposit Insurance System) and November (International Workshop on Experience-sharing in Deposit Insurance System) to share its in-depth knowledge and experience in deposit insurance system implementation. In particular, about 30 people from finance ministries and central banks in countries preparing for the adoption of a deposit insurance system such as Bhutan, Mongolia, Nepal and Tanzania participated in the workshop in November. There were presentations about the Korean deposit insurance system and discussions about future cooperation. The workshop also served as an opportunity for the KDIC to sign an MOU with the Deposit and Credit Guarantee Corporation, Nepal on exchange of information and staff.

Picture Ⅳ-2 International Workshop on Experience-sharing in Deposit Insurance System in 2011

In addition, the KDIC linked the KSP* with a Global-KDIC KSP project. The introduction of a deposit insurance system in Mongolia was supported as part of the Korean government's KSP project in 2010 and it was connected to the Global-KDIC KSP project. In 2011, Mongolian financial authorities prepared a bill for deposit insurance that is modeled after the Korean deposit insurance system and submitted it to its Parliament. Furthermore, the KDIC signed an MOU with the Mongolian Ministry of Finance and the Central Bank of Mongolia on exchange of information and staff, and shared its experience in deposit insurance system implementation with a financial analysis unit of the Central Bank of Mongolia (February 2011) and the Parliamentary Research Team including Mongolian lawmakers (March 2011 and December 2011).

* It is a Korean style of an aid model for providing policy advice to developing countries based on Korea's economic development experience and it has been pursued at the government level to enhance the nation's international profile since 2010. (led by the Korean Ministry of Strategy and Finance)

In June 2011, the KDIC won the Tanzania KSP project from the Korea Development Institute that was commissioned by the Ministry of Strategy and Finance. The KDIC provided policy advice to support the Tanzania government in its effort to establish a deposit insurance organization. In August 2011, the KDIC organized a research team and interviewed senior policy-makers in Tanzania to identify their demand for a deposit insurance organization. And in September 2011, it conducted a pilot study to study the specific conditions in Tanzania including the general economic environment, the expected effect from the establishment of an independent deposit insurer, and potential barriers. Based on the study results, the KDIC invited working-level policy-makers from Tanzania for interim reporting and gave training to share specific working-level experience. The KDIC also helped the creation of a Working Group for the Advancement of Deposit Insurance System in Tanzania whose members include by key policy makers of Tanzania, and suggested a road map and policy alternatives.

Picture IV-3 Pilot Study for 2011 Tanzania KSP

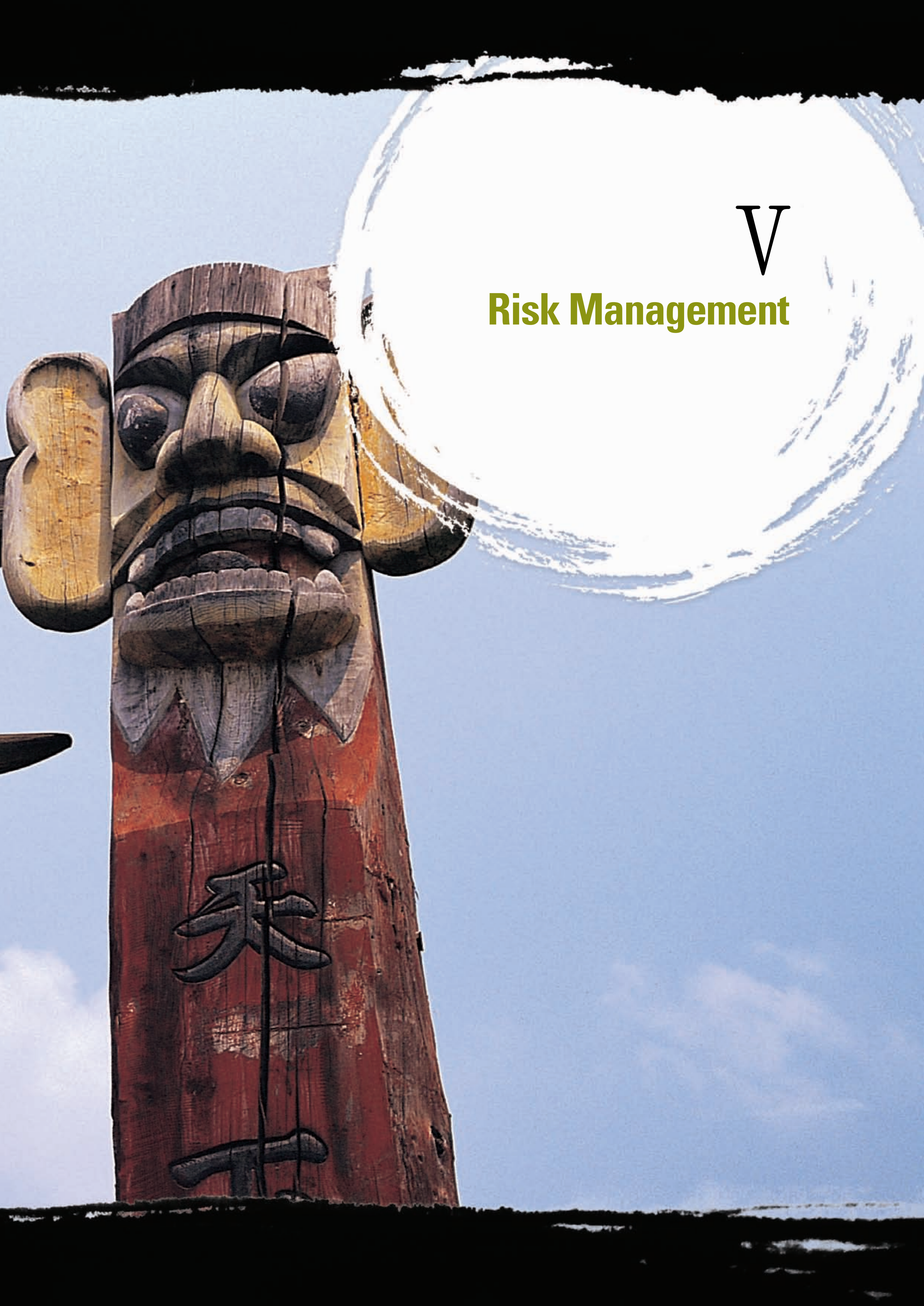
Since February 2011, the KDIC has participated in the Asian Development Bank (ADB) project for the adoption of a deposit insurance system in China and Mongolia. For that, KDIC staff appointed as consultant visited People's Bank of China and the Central Bank of Mongolia twice each for policy consultation. Invited by the Vietnam National Assembly and its Deposit Insurance of Vietnam, three KDIC members visited Vietnam in October 2011 to explain the Korean depositor insurance system and gave consultation regarding the proposed bill for a deposit insurance law in Vietnam during a seminar.

Table IV-4 Sharing Korea's Deposit Insurance System Operation Experience with Other Countries in 2011

Country	Audience	Month	Description
Vietnam	Deposit Insurance of Vietnam, National Assembly	Oct.	• Participation in the seminar about sharing of Korean experience in deposit insurance system
Mongolia	Government, Parliament, and the Central Bank	Feb.	• Visit by members of a financial analysis unit of the Central Bank of Mongolia • Participation in the final reporting session for the provision of policy consultation for the adoption of a deposit insurance system in Mongolia
		Mar.	• Visit by the Parliamentary Research Team including Mongolian lawmakers • Participation in the ADB project to provide policy consultation for adoption of a deposit insurance system in Mongolia
		Jun.	• Conclusion of an MOU with the Mongolian Ministry of Finance and the Central Bank • Participation in the ADB project to provide policy consultation for adoption of a deposit insurance system in Mongolia
		Nov.	• Participation in the International Workshop on Experience-sharing in Deposit Insurance System in 2011
		Dec.	• Visit by the Parliamentary Research Team including Mongolian lawmakers
Indonesia	Deposit Insurer	Apr.	• Participation in the International Workshop on Experience-sharing in Integrated Deposit Insurance System
Malaysia	Deposit Insurer	Apr.	• Participation in the International Workshop on Experience-sharing in Integrated Deposit Insurance System
Nepal	Deposit Insurer	Sep.	• On-site research and meeting with the President of Deposit and Credit Guarantee Corporation, Nepal
		Nov.	• Participation in the International Workshop on Experience-sharing in Deposit Insurance System • Conclusion of an MOU with the Deposit and Credit Guarantee Corporation, Nepal
Bhutan	Central Bank	Sep.	• On-site research and meeting with the Governor of the Bhutan Central Bank
		Nov.	• Participation in the International Workshop on Experience-sharing in Deposit Insurance System
Tanzania	Government, Central Bank	Jun.	• Policy advising to support the establishment of an independent deposit insurance organization in Tanzania
		Aug.	• On-site demand survey and meeting with the Governor of the Bank of Tanzania
		Sep. Oct.	• Pilot Study
		Nov.	• Interim reporting and working-level training • Participation in the International Workshop on Experience-sharing in Deposit Insurance System

Visit by Mongolian lawmakers to the KDIC

Jangseung (a Korean totem pole made of wood that is believed to protect villagers from evil spirits)



V
Risk Management

V

Risk Management

1 Inspections and Joint Examination

1-1. Strengthening the Foundation and Capacity for Risk Surveillance

A. Efforts to Establish a Legal Basis for Insolvency Risk Management

It is important for the KDIC to identify risks of insured financial institutions in advance to prevent their insolvency and minimize losses to the Deposit Insurance Fund (DIF).

Therefore, the KDIC worked with the government to add provisions regarding insolvency risk management to the work scope of KDIC as defined in the Depositor Protection Act in order to facilitate ongoing risk surveillance of insured financial institutions. The bill (proposed by the government) for the revision of a relevant law was proposed in November of 2010 and is pending in the National Policy Committee, a standing committee under the National Assembly, as of late December, 2011. Passage of this bill by the National Assembly is expected to empower the KDIC to better monitor insolvency risks, which in turn will help to enhance the soundness of the DIF.

B. Improvement of Risk Surveillance Models

In order to detect and assess risks of insured financial institutions affecting the DIF in advance, the KDIC checks the health of their financial bottom line systematically using risk surveillance models. Based on the results, individual institutions are then graded in accordance with the risk classification criteria tailored to each financial sector.

In addition, to effectively respond to changes in the financial environment, the KDIC continues to improve and fine-tune the risk surveillance models. For example, as the format of business reports regarding the banking, financial investment and non-life industries was changed, corresponding changes were made to the type of data that are updated on an ongoing basis and the changes were incorporated in the models. With the introduction of the Korean International Financial Reporting Standards (K-IFRS), existing indicators were reviewed and risk surveillance models were revised accordingly to improve their integrity.

C. Strengthening Risk Surveillance Capabilities

The KDIC is making multi-faceted efforts to enhance risk surveillance-related capabilities and improve the quality of analysis reports. In 2011, a survey was conducted on all employees to measure the effectiveness of an in-house course on risk surveillance. Also, another survey was held on KDIC staff members in charge of risk surveillance of insured financial institutions to identify their training needs. As a result, relevant topics were identified and included in the course, and the contents of the program were adjusted to address both theory and practical applications.

Furthermore, the KDIC held another Joint Examination Workshop in 2011 in order to facilitate smooth execution of joint examinations and exchange of know-how. In-house training programs were provided on an needed basis to educate staff members about the changes in the Financial Information Analysis System (FIAS) and risk surveillance models.

In addition, the KDIC selects an analysis report every six months among those produced by risk surveillance-related departments and posts it on the internal portal site. Two reports in the first half of 2011 and three in the latter half were selected for their excellency and then published on the internal portal site.

1-2. Strengthening of Ongoing Risk Surveillance Activities

The KDIC formed and has operated the Ongoing Surveillance Council since 2006 to oversee and coordinate risk monitoring activities as well as to deliberate on major issues regarding risk surveillance and to ensure effective responses to financial institution failures.

A total of 23 agenda items were reviewed in 2011 including the level of business risks in each financial sector and emergency measures in preparation for an insolvency.

In addition, the KDIC assigned dedicated personnel to each financial institution or financial sector to monitor their risk profile. Staff members are also assigned to conduct analysis of specific risk factors on a continuous basis as part of effort to increase expertise in financial risk assessment. Information compiled and produced through these processes is then utilized as materials for regular analysis meetings to identify risk factors and their contagion channels in a timely manner. Highly relevant issues was chosen and presented in summary in risk analysis reports (called KDIC Financial Field Information) which are distributed to financial authorities such as the Financial Services Commission, the academia, the press, and insured financial institutions. Consequently, these efforts helped to ease the disturbance in the financial market triggered by the recent global financial crisis at an earlier date.

In particular, the risk surveillance system was overhauled in 2011 to enable an early detection of signs of insolvency in the MSB sector. First of all, the KDIC stepped up its efforts to gather field information through executive and working-level interviews and led preventive risk reduction efforts by identifying potential insolvencies through analysis of business status and risk factors. Also, the KDIC constantly monitored media coverage on large illegal loans in order to prevent an unnecessary bank run on mutual savings banks that are operating normally.

1-3. Expansion of Inspections and Joint Examinations

For exchange of financial information and cooperation, the KDIC signed a memorandum of understanding (MOU) on the sharing of financial information with the Bank of Korea and the Financial Supervisory Service in January of 2004. However, in the process of containing the 2008/09 global financial crisis, a need emerged for a better way of minimizing systemic risks through early identification of and response to risk factors and enhancing cooperation amongst relevant organizations. As a result, in September of 2009, the KDIC signed a revised MOU with the Ministry of Strategy and Finance (MOSF), the Financial Services Commission (FSC), the Bank of Korea (BOK), and the Financial Supervisory Service (FSS) on September 15, 2009 to expand the scope of information-sharing required for the smooth execution of each organization's mandates.

Under this MOU, the KDIC provided 22 reports containing financial information on insured financial institutions to the BOK for the first time and 29 to the FSS as well, an increase of four compared to 2010. The scope of financial information provided to the KDIC was expanded, too, with the BOK providing 48 regular reports, a number which increased by four, including a prompt report on household debts, and the FSS providing 1,279 reports, an increase of 29.

The KDIC also signed an MOU on joint examinations of insured financial institutions with the FSS in September of 2003. The purpose was to establish a cooperative system amongst relevant organizations regarding examinations of insured financial institutions and to increase efficiency by minimizing the administrative burden on insured financial institutions. In order to respond more efficiently to the rise in risk factors as a result of financial market developments, this MOU was later revised in July, 2007. The objective was to allow the KDIC to request a joint examination of a weak financial institution with the FSS when it sees fit. Under this revised MOU, the KDIC has conducted joint examinations with the FSS of 85 insured financial institutions between 2003 and 2010.

In particular, in 2011, the KDIC selected insured financial institutions which were rated low in its risk analysis or those requiring a check on risk management practices in a particular field of business as the target for joint examinations. The KDIC and the FSS then examined those institutions together and urged their management to address risk factors. With the MSB sector facing a increased risk of insolvency in 2011, the number of mutual savings banks that were subject to joint examinations became larger than originally planned and the number of joint examinations performed increased from 24 in 2010 to 31 in 2011.

Table Ⅴ-1 Performance of Joint Examinations with the FSS

(Unit : # of cases)

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
# of examinations performed	0	6	8	11	12	9	15	24	31	116

Workshop for joint examinations hosted by the KDIC in 2011

1-4. Market-friendly Risk Surveillance

The KDIC publishes Financial Risk Review (quarterly) to analyze risk factors of insured financial institutions and to promote market-friendly risk surveillance. Financial Risk Review includes risk analysis information produced by the KDIC and articles on risk management techniques contributed by experts in the academia and the industry. The magazine is provided to financial authorities such as the Financial Services Commission as well as the National Assembly, the academia and insured financial institutions.

Table Ⅴ-2 Main Contents of Financial Risk Review in 2011

Issue	Main Contents
2011 Spring	• Background of the rise in the Yen after the earthquake in Japan and future prospects • Impact of call money restrictions on the funding ability of securities firms and its implications
2011 Summer	• RBC rate changes due to the growth of long-term non-life insurance and its implications • Policy direction to improve the structure of house mortgage loans
2011 Autumn	• Impact of expanding fixed-rate loans on the IRS market • Financial impact of the adoption of K-IFRS on the financial industry
2011 Winter	• Study on the solvency margin system of insurance companies and their sensitivity to solvency margin ratios • Current status and future challenges regarding Korean asset management firms' risk management

Furthermore, the KDIC gathered feedback and comments from readers of KDIC Financial Field Information in November of 2011 and implemented changes to provide more customized information catered to the needs of clients.

The KDIC generated risk assessment and analysis information through continued risk monitoring of insured financial institutions and provided feedback to them. It also asked some financial institutions which were found lacking in risk management efforts in a joint examination with the FSS to take corrective measures. These activities were taken as part of the KDIC's effort to provide market-friendly consulting services aimed at encouraging insured financial institutions to take voluntary risk reduction measures.

In particular, the KDIC provided customized business consulting services to mutual savings banks, focusing on the analysis of each mutual savings bank's risk factors and providing suggestions regarding how to enhance their competitiveness. In 2011, the KDIC provided business consulting to five mutual savings banks. Its effort to improve expertise by working with outside experts and capacity building of staff members led to greater satisfaction with the consulting services compared to 2010.

In addition, the KDIC enhanced information service provided to mutual savings bank depositors in 2011. Firstly, to provide easy access to information regarding mutual savings banks, statistical data was categorized based on region and asset size and then posted on the KDIC website. The KDIC website now also offers a Guideline on the Financial Soundness of Mutual Savings Banks so that people without professional knowledge can make more informed decisions.

The KDIC will keep reinforcing market-friendly risk surveillance efforts including the provision of consulting and information services, along with inspections and examinations.

Risk surveillance class

2 Management of Public Fund-injected Financial Institutions

2-1. Conclusions of and Examinations of MOU Implementation

Since 1999, the KDIC has entered into memoranda of understanding (MOUs) with 14 public fund recipients and monitored their compliance with business normalization requirements in the MOUs in order to increase their corporate value and recover the public funds injected into them as early as possible. In April 2002, eight MOUs that were signed with financial institutions, including one with Jeju Bank, were terminated as the KDIC sold its stakes in these institutions. As of the end of 2011, six institutions (Woori Financial Group, Woori Bank, Gwangju Bank, Kyongnam Bank, the Credit Business of the National Federation of Fisheries Cooperatives, and Seoul Guarantee Insurance Corporation) have MOUs with the KDIC.

The KDIC examined how the MOU signatory financial institutions implemented the MOUs from the fourth quarter of 2010 to the third quarter of 2011 and imposed a total of six measures including three corporate warnings, two improvement orders, and one executive director warning.

With regard to financial performance, Woori Financial Group failed to meet two (ROA and net sub-standard & below loan ratio) of the financial targets in the MOU during the fourth quarter of 2010 for such reasons as corporate restructuring and increasing real-estate PF loan defaults. In response, the KDIC issued a corporate warning to Woori Financial Group and asked it to prepare and implement asset quality enhancement measures. Woori Bank also failed to meet those targets because of increasing credit cost due to massive corporate restructuring and the worsening quality of loans extended to high-risk industries. So, a corporate warning was given to the bank, which was also asked to prepare measures to improve its earnings and net substandard & below loan ratio.

In terms of non-financial performance, after a review of MOU implementation during the fourth quarter of 2010, the KDIC found out that Woori Bank agreed with the labor union to increase wages by 2%, even though it failed to meet financial targets specified in the MOU. In response, the KDIC issued a corporate warning and a warning to executive directors and asked the bank to develop a plan to adjust salary increases and benefits package improvement so that they can be linked to financial target achievement. Kyongnam Bank, even though the KDIC took actions against the bank under the MOU as it failed to address excessive benefits package in 2008, expanded the eligibility for employees' children scholarship who go to universities. In response, the KDIC issued a corporate warning to the bank and asked for a sincere execution of its obligations under the MOU. The Credit Business of the National Federation of Fisheries Cooperatives applied unreasonable standards to determine the severance package for voluntary retirees, resulting in excessive payouts. The KDIC, in turn, imposed an improvement order on the institution. The KDIC also issued another improvement order to Kyongnam

Bank in the first quarter of 2011 regarding excessive amounts of credit offered to certain borrowers and insufficient loan management.

The KDIC will continue to closely monitor the progress in MOU implementation. In case of failure to meet MOU targets, the KDIC will analyze the causes and strictly hold responsible parties accountable for their actions. By monitoring MOU implementation in such a stern manner, the KDIC tries to enhance the corporate value of public fund-injected financial institutions.

Table Ⅴ-3 Conclusion of, Amendments to and Additions to MOUs on Business Normalization

(As of December 31, 2011)

Financial Institution	Conclusion (Renewal)	MOU Targets		Termination
		Addition	Modification	
Woori Financial Group	2001.7.2	2003.1.22 2005.3.23 2007.3.28 2009.3.30 2011.3.30	2004.9.22 2007.12.26 2010.3.23	
Woori Bank (former Hanvit Bank)	1999.1.22[Note)] (2000.12.30)			
Gwangju Bank	2000.12.30			
Kyongnam Bank	2000.12.30			
Credit Business Part of National Federation of Fisheries Cooperatives	2001.4.25	2005.3.23 2007.3.28 2009.3.30 2011.3.30	2003.2.12 2003.7.9 2005.12.21 2007.12.26 2010.3.23	
Seoul Guarantee Insurance Corporation	2000.4.12[Note)] (2001.6.9)	2005.6.22 2007.7.18 2009.6.10 2011.6.18	2002.7.10 2006.6.21 2007.12.26	
Jeju Bank	2000.12.30			Apr. 29, 2002 (Sold shares to Shinhan Financial Group)
Seoul Bank	2000.12.30		2001.6.29	Dec. 1, 2002 (Sold shares to Hana Bank)
Chohung Bank	1999.11.12[Note)] (2002.1.31)			Aug. 19, 2003 (Sold shares to Shinhan Financial Group)
Daehan Investment & Securities	2000.9.25[Note)] (2002.2.20)			May 31, 2005 (Sold shares Investment & Securities to Hana Bank)
Korea Investment & Securities	2000.9.25[Note)] (2002.2.20)			Mar. 31, 2005 (Sold shares to former Dongwon Financial Group)
Korea Life Insurance	2000.4.12[Note)] (2001.9.5)			Dec. 12, 2002 (Sold to Hanwha Consortium)
Woori Credit Card (former Peace Bank)	2000.6.7[Note)] (2000.12.30)	2003.6.4	2002.3.25	Mar. 31, 2004 (Merged with Woori Bank)
Woori Merchant Bank	2000.12.9		2001.6.29	Aug. 1, 2003 (Merged with Woori Bank)

Note: MOUs were signed between the corresponding insured financial institution, the KDIC and the Financial Supervisory Commission (currently the Financial Services Commission).

2-2. Improvement in MOU Management Efficiency

A. Expansion of Self-Regulation by MOU Signatory Financial Institutions and System Improvements

There was a growing need to improve the MOU management system to address changes in the financial environment, prompting the KDIC to gather opinions from financial institutions and external experts. Under the improved system, annual targets are assigned to each financial institution based on past performances and quarterly targets are set voluntarily in order to encourage the business autonomy of MOU signatory financial institutions. Furthermore, efforts were made to make the targets more achievable by calculating target levels based on each indicator's characteristic as well as offering incentives for financial target achievement.

Before, increasing benefits package was prohibited for an MOU signatory which failed to meet financial targets under the MOU. However, it was changed in May, 2011 and now the prohibition only applies to the year in which the company fails to meet annual targets.

B. Management Consultation with Executives of MOU-signed Financial Institutions

During 2011, there were 105 discussion sessions between the KDIC and financial institutions subject to MOUs; 14 CEO meetings, 37 management meetings, and 54 working-level meetings. In June of 2011, the KDIC held a MOU working-level workshop to discuss key issues facing financial institutions and gathered opinions for MOU management improvement.

The KDIC continues to try to consult with the executives of financial institutions subject to MOUs and share opinions with them about market conditions and key managerial issues.

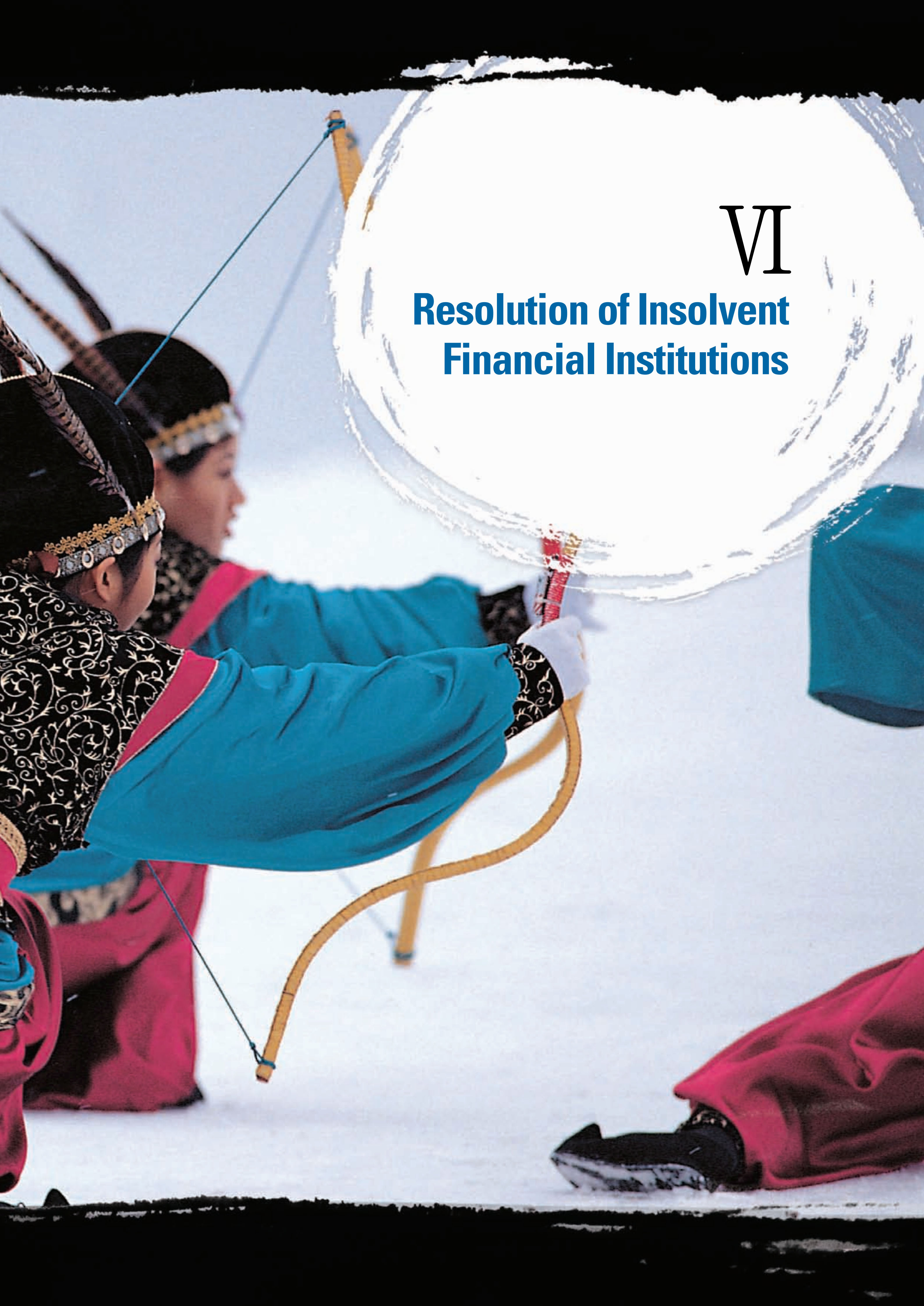
C. Support for Outside Director Activities in Monitoring Financial Institutions Subject to MOUs

The KDIC is re-doubling its efforts to persuade MOU-signed financial institutions to adopt responsible management practices with the board of directors as the governing body. To do so, it has expanded the scope of and raised the quality of information provided to outsider directors. The KDIC also provided MOU monitoring result reports together with letters asking for cooperation in the name of the KDIC Chairman & President since the first quarter of 2010. The reports include monitoring results as well as areas for improvement.

In particular, the KDIC helped outside directors of MOU signatory financial institutions so that they could effectively carry out their responsibilities for the monitoring of management performance. For example, in 2011, the KDIC provided a total of 85 detailed reports in a timely manner to outside directors of MOU signatory financial institutions. These reports included information on current issues, deficiencies in MOU fulfillment, etc.

The inaugural meeting of the Forum for Research and Cooperation between the KDIC and the Academia

Korean traditional archery



VI
Resolution of Insolvent Financial Institutions

VI

Resolution of Insolvent Financial Institutions

1 Conservatorship of Insolvent Financial Institutions

1-1. Insolvent Financial Institutions under KDIC Conservatorship

In 2011, the Financial Services Commission (FSC) declared 16 mutual savings banks insolvent and ordered suspension of business. To deal with the aftermath as quickly as possible and ease depositor concerns as well as prevent additional insolvencies, the KDIC dispatched 17 conservators* and 402 supervisors to the insolvent mutual savings banks to ensure effective implementation of conservatorship programs.

* In the case of Busan Mutual Savings Bank, the conservator was replaced during the management supervision period. (Oct. 5, 2011)

As of the end of 2011, the KDIC was the conservator of 14 failed mutual savings banks, except for Samhwa Mutual Savings Bank which was acquired by Woori Financial Group through a contract transfer* and Daeyoung Mutual Savings Bank whose management was taken over by Hyundai Securities and returned to normal operations.

* A resolution method in which, after suspension of operations, a prospective buyer which wants to acquire part or all of the failed institution's assets and liabilities is selected through a open bid. After the contracts are transferred, the KDIC proceeds with bankruptcy procedures for the remaining bad debts.

Table VI-1 Conservatorship of Insolvent Financial Institutions in 2011

(Unit: hundred million won, #)

Name of Suspended Mutual Savings Banks	Amount of Assets[1]	Number of Branches	Date of Suspension	Date of Contract Transfer	Resolution Method (Acquiring financial institution)	Bankruptcy Declaration Date (Self-normalization)
Samhwa	13,903	1	2011. 1.14	2011.3.16	Contract transfer to a third party (Woori Financial Group)	2011. 6.24
Busan	24,658	3	2011. 2.17	2011.11.23	Bridge bank[2] contract transfer (Yesol Mutual Savings Bank)	-
Daejeon	14,061	12	2011. 2.17	2011. 9. 5	Bridge bank[2] contract transfer (Yenarae Mutual Savings Bank)	-
Busan2	24,618	3	2011. 2.19	2011. 8.26	Contract transfer to a third party (Daishin Securities)	-
Busan Central	7,527	-	2011. 2.19	2011. 8.26	Contract transfer to a third party (Daishin Securities)	-
Jeonju	4,931	4	2011. 2.19	2011. 9. 5	Bridgebank[2] contract transfer (Yes Mutual Savings Bank)	-
Bohae	5,529	1	2011. 2.19	2011. 9. 5	Bridge bank[2] contract transfer (Yes Mutual Savings Bank)	-
Domin	3,437	6	2011. 2.23	2011. 8.26	Contract transfer to a third party (Daishin Securities)	-
Kyongeun	3,422	3	2011. 8. 5	2011.10.19	Bridge bank[2] contract transfer (Yesol Mutual Savings Bank)	-
Prime	12,566	1	2011. 9.18	-	Sales being pursued	-
Parangsae	4,182	-	2011. 9.18	-	Sales being pursued	-
Tomato	38,835	6	2011. 9.18	-	Sales being pursued	-
Jeil	33,137	5	2011. 9.18	-	Sales being pursued	-
Jeil2	10,610	3	2011. 9.18	-	Sales being pursued	-
Ace	9,918	1	2011. 9.18	-	Sales being pursued	-
Daeyoung	6,188	2	2011. 9.18	-	Self-normalization[3] (Management control taken over by Hyundai Securities)	(2011.11.21)
Total (16)	217,522	51	-	-	-	-

Note : 1) Samhwa: late June of 2010,
Busan, Daejeon, Busan2, Busan Central, Jeonju, Bohae, Domin: late December 2010,
Kyongeun: late March of 2011,
Prime, Daeyoung, Jeil, Jeil2, Ace, Tomato, Parangsae: late June of 2011,
based on Financial Supervisory Service examination results
2) Bridge financial institution arrangements
3) With Hyundai Securities taking over the management control (M&A) of Daeyoung, prompt corrective action restrictions were lifted and financial transactions were resumed.

1-2. Management Supervision of Insolvent Financial Institutions

In 2011, an intensive restructuring of the mutual savings banking (MSB) sector was conducted during a short period of time, which required a paradigm shift in conservatorship management. A different system for conservatorship management was needed to deal with an usually high number of failures in the MSB sector and minimize depositor inconvenience. In response, the KDIC put company-wide efforts to successfully adapt to changes in the needs for conservatorship-related matters.

First of all, the KDIC created the Department for Savings Bank Rehabilitation and Resolution in January, 2011. The department is responsible for effectively supporting the implementation of the government's policies for an extensive restructuring of the MSB sector. The department's roles include conservatorship of involvement MSBs, selection of resolution methods and provision of financial assistance. In addition, the KDIC developed contingency plans (in March and September of 2011) regarding how to deploy and operate a large number of conservators which differ depending on the asset size of the failed financial institution, the type of scenarios, and the stage in failure resolution. Also, simulations have been performed in advance to ensure the effectiveness of the contingency plans.

As a result, the KDIC was able to dispatch 193 of its staff and 226 newly hired temporary inspectors to 16 suspended mutual savings banks in a timely manner. In particular, temporary inspectors played a critical role in helping the KDIC to successfully execute conservatorship programs. They are mostly retired financial experts who have a long career in the KDIC or commercial banks and have ample experience in deposit taking and lending activities of banks.

Table VI-2 Number of Staff Dispatched to Each Mutual Savings Bank Suspended in 2011

(As of late Dec, 2011, Unit : # of staff)

Name of Suspended Mutual Savings Banks	Number of Staff Already Stationed at the Mutual Savings Bank	Newly Hired Temporary Inspectors	Total
Samhwa	16	-	16
Busan	20	24	44
Daejeon	42	30	72
Busan2	14	27	41
Busan Central	5	6	11
Jeonju	15	16	31
Bohae	11	10	21
Domin	9	25	34
Kyongeun	6	7	13
Prime	7	13	20
Parangsae	8	2	10
Tomato	10	22	32
Jeil	8	20	28
Jeil2	7	10	17
Ace	9	7	16
Daeyoung	6	7	13
Total (16)	193	226	419

Meanwhile, the MSB sector restructuring was being conducted with a keen interest from the public as stories about illegal loans made by unethical executives and moral hazard of majority shareholders of the failed mutual savings banks made newspaper headlines and claimed a number of victims nation-wide. In particular, complaints related to the deposit protection system surged exponentially from mutual savings bank depositors as well as those of the 16 failed mutual savings bank.

In response, the KDIC has re-organized and expanded its Customer Satisfaction Center and renamed it as the Comprehensive Response Team for MSB Depositors headed by the director in charge of mutual savings bank-related matters. This was an effort to handle depositors' complaints more efficiently and prevent the spread of nervousness. Furthermore, in addition to conservators and supervisors dispatched to failed mutual savings banks, additional staff members* were deployed to explain the depositor protection system in presentations** held for depositors (at least ten sessions a day for two weeks after suspension) visiting branches of failed MSBs.

* 79 people. The position is for responding to customer inquiries and complaints that tend to surge immediately after a business suspension and provide guidance to depositors.

** In the past, the KDIC did not assign staff for explanatory sessions particularly. Conservators were in charge of providing explanatory sessions that used to be held two to three times a day after suspension.

In addition, in order to minimize depositor inconvenience, the KDIC shortened the waiting period for provisional deposit payments considerably, allowing depositors to collect their provisional deposit payments within four business days after the date of business suspension. The number of agent banks handling provisional deposit payment was expanded to include large commercial banks located nearby the insolvent mutual savings banks, in addition to existing National Agricultural Cooperatives Federation (or Nonghyup). Furthermore, to minimize inconvenience of depositors who require additional emergency funds for living expenses, the KDIC helps them to get a loan from another bank located nearby the insolvent mutual savings bank using their deposits as collateral.

In particular, the KDIC put together a plan to improve the treatment (e.g. interest rate on deposit-secured loans) of depositors of failed mutual savings banks in advance of the MSB sector restructuring in the second half of 2011. The purpose of the plan was to make the terms for deposit-secured loans more favorable and accessible. The KDIC negotiated lending terms with lending banks beforehand, so that the interest rate on deposit-secured loans can be similar to the contracted deposit rate. Also, the KDIC made sure that the banks located nearby the suspended mutual savings banks would assign a counter exclusively for this type of lending so depositors can apply for deposit-secured loans without having to go through individual consultation.

Table VI-3 Improvement in Arranging Loans Secured on Deposits

Category	Before (8 mutual savings banks in the first half of 2011)	After (8 mutual savings banks in the latter half of 2011)
Interest rate	Decided by lending banks (uniform rate for all depositors)	Similar to the depositor's contracted deposit rate (Minimum and maximum rates are determined separately.)
Lending bank	Changes depending on which mutual savings bank was suspended (usually two branches)	NH (50), Woori Bank (32), Kookmin Bank (29), Shinhan Bank (29), Hana Bank (29), Kyongnam Bank (2)
Starting Date	Changes depending on which mutual savings bank was suspended	Starts simultaneously with provisional deposit payments (starting within four business days after the date of suspension)

Table VI-4 Number of Deposit-secured Loans Arranged by the KDIC

(As of late December of 2011, Unit: # of cases, KRW 1 million)

Name of Suspended Mutual Savings Banks	# of Loans	Amount of Loans	Banks Providing Deposit-secured Loans
Samhwa	31	607	Jeonbuk · NH
Busan	510	9,512	Busan · NH · Hana
Daejeon	79	1,421	Hana · NH
Busan2	139	2,416	Busan · NH · IBK
Jeonju	26	435	JB · NH · Yenarae
Bohae	181	3,803	NH · Kwangju · Hana · IBK
Domin	4	57	NH
Kyongeun	23	475	NH, Kyongnam
Prime	144	2,616	NH · KB · Shinhan · Hana · Woori
Daeyoung	38	761	NH · KB · Woori · Shinhan
Jeil	328	6,457	NH · KB · Shinhan · Hana · Woori
Jeil2	114	2,287	NH · KB · Woori · Shinhan
Tomato	614	11,614	NH · KB · Shinhan · Hana · Woori
Ace	208	3,684	NH · KB · Shinhan · Hana · Woori
Parangsae	47	746	NH · KB · Woori
Total (15 institutions[1)])	2,486	46,891	-

Note : 1) Deposit-secured loans were arranged for Busan Central Mutual Savings Bank depositors.

Despite the KDIC's strenuous efforts to minimize inconvenience of depositors of the failed mutual savings banks as stated above, in May 2011, some depositors with deposits in excess of the coverage limit (KRW 50 million) at Busan Mutual Savings Bank (especially members of the Busan Mutual Savings Bank Depositors' Committee) started illegal occupation at the bank, putting a stop to the resolution process including a due diligence of assets. With the delay in the resolution process, there were increasing concerns that damage to depositors with less than KRW 50 million won might be aggravated to a point where physical confrontation between these two depositor groups was feared. The KDIC continued to try communicate with and persuade the Busan Mutual Savings Bank Emergency Committee* for approximately five months, and eventually the illegal occupation was ended peacefully in September of 2011.

* A total of seven visits (two by the KDIC Chairman & President, four by the executive director in charge, one by the department head) to occupying depositors

As shown above, all KDIC employees as well as conservators of failed mutual savings banks, armed with a heavy sense of responsibility to protect depositors and contribute to the stability and development of the financial system, continued to carry out conservatorship responsibilities in a systemic way. Furthermore, the KDIC is making every effort to ensure transparency in its activities in accordance with relevant laws and regulations in order to earn the public's trust.

2 Sales and Contract Transfers Regarding Insolvent Financial Institutions

2-1. Status of Sales and Contract Transfers Regarding Insolvent Financial Institutions

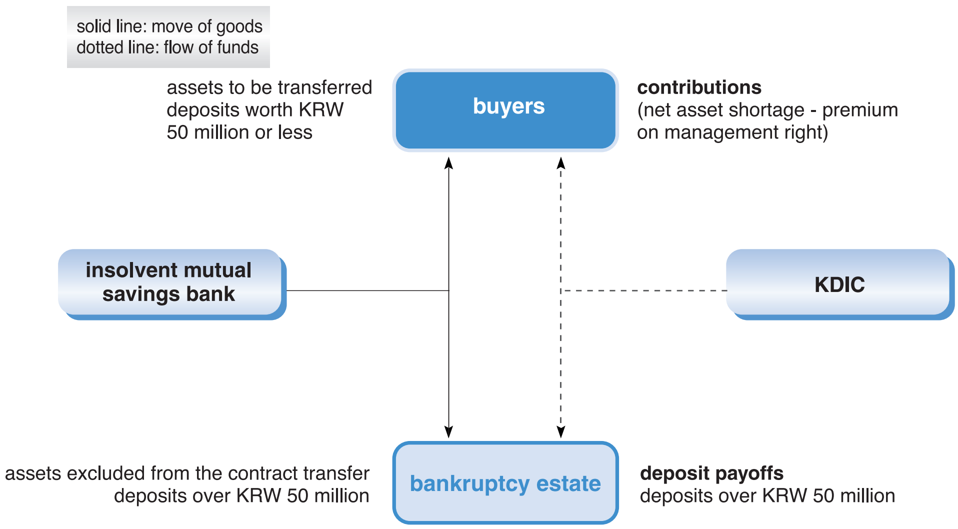
A. Resolution of Insolvent Financial Institutions Through a Contract Transfer to a Third-party

Samhwa Mutual Savings Bank whose business was suspended in January, 2011 failed to comply with the Financial Services Commission's business improvement order. The order included a request for rights issue so that the bank's BIS ratio could return to over 5% within one month. The KDIC limited bidding participation to qualified large financial institutions with sufficient financial strength and management capability to prevent a reoccurrence of the insolvency. After careful consideration of 1) the range of assets and liabilities (deposits, etc.) in which bidders expressed interest in and 2) the amount of financial assistance needed to cover the net asset deficit, Woori Financial Group was selected as the winning bidder. The process was performed based on the least cost principle which must be met in providing financial assistance under the Depositor Protection Act, and the KDIC proceeded with the sales procedure. Afterward, the KDIC transferred part of the assets and liabilities of Samhwa Mutual Savings Bank to Woori Financial Group Mutual Savings Bank which was newly established by Woori Financial Group in March of 2011.

In mid-February of 2011, liquidity shortages caused by continued bank runs triggered the business suspension of Busan Central, Busan 2, and Domin Mutual Savings Banks. Afterward, these mutual savings banks were found to have sub-standard BIS capital adequacy ratios. The FSC responded by issuing a business improvement order that required the banks to normalize operations within 45 days through rights issue, etc., with no result. So the KDIC asked for bid submission from parties with enough room to absorb the losses, sound financial status, sufficient financial strength and management capabilities for early normalization and prevention of another failure. However, there was no restriction this time on the type of industry in which the aspiring buyer operates to widen the pool of potential bidders. In addition, three failed mutual savings banks were grouped into a package in order to increase the sales attractiveness of the banks by creating synergies. The KDIC selected Daishin Securities as the winning bidder based on the least cost principle and proceeded with the sale. Afterward, the KDIC transferred part of the assets and liabilities of the three failed mutual savings banks to Daishin Mutual Savings Bank which was newly established by Daishin Securities in October of 2011.

Meanwhile, in the sale of Prime and Parangsae Mutual Savings Banks which were suspended from operations in September, 2011, BS Financial Group was selected as the prereferred bidder. The selected preferred bidders for Tomato Mutual Savings Bank and Jeil 2 & Ace Mutual Savings Banks are Shinhan Financial Group and Hana Financial Group, respectively. As of late 2011, sales procedures including detailed negotiations for contract transfer terms are still under way.

Figure VI-1 Diagram for Resolution in a Contract Transfer to a Third Party



B. Resolution of Insolvent Financial Institutions in Bridge Financial Institution Arrangements

The KDIC conducted bidding for Daejeon, Jeonju, Bohae, and Busan Mutual Savings Banks which were suspended from operations in February, 2011 and grouped them into a single package. However the sales attempt failed. Consequently, the KDIC tried to sell those banks individually but this failed as well. Part of the assets and liabilities of Daejeon Mutual Savings Bank were transferred to Yenarae Mutual Savings Bank, a (KDIC-owned) bridge bank which was already in operation, and those of Jeonju and Bohae Mutual Savings Banks to another existing bridge bank, Yes Mutual Savings Bank (also KDIC-owned), in contract transfer transactions in September, 2011.

Later, part of Kyongeun Mutual Savings Bank's assets and liabilities were also transferred to Yesol

Mutual Savings Bank, a newly-established bridge bank, in October 2011. As for Busan Mutual Savings Bank, since there was no one who wanted to take over the bank due to fears about additional losses to depositors with deposits worth KRW 50 million or less, its assets and liabilities were partly transferred to Yesol Mutual Savings Bank in a contract transfer, too.

Watching how the M&A market changes and how the restructuring in the MSB sector goes, the KDIC will develop a plan to sell Yenarae, Yes, and Yesol Mutual Savings Banks to other healthy and capable financial institutions through fair and transparent processes so that they can grow into sound financial institutions for the ordinary people.

Figure VI-2 Diagram for Resolution in Bridge Financial Institution Arrangements

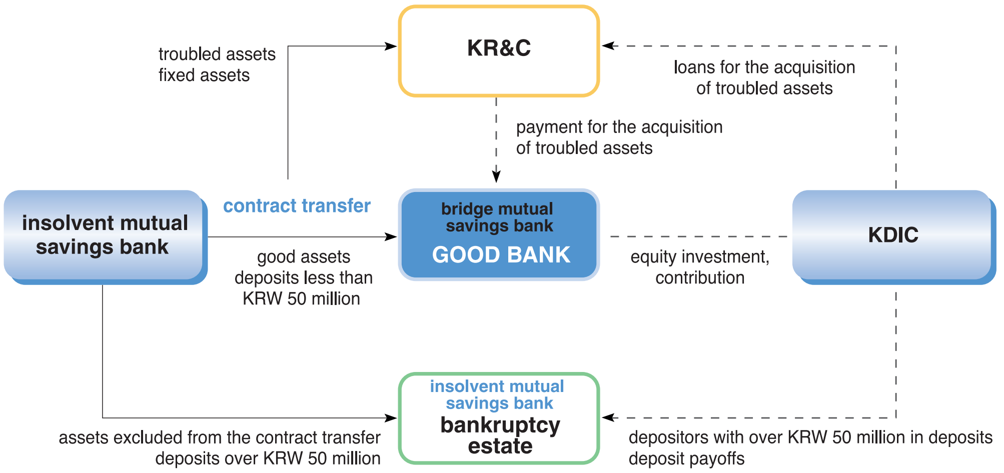


Table VI-5 Resolution Methods for Insolvent Financial Institutions in 2011

(As of late December 2011)

Method	Name of Suspended Mutual Savings Banks	Acquiring Financial Institution	Date of Contract Transfer
Contract Transfer to a Third party	Samhwa Mutual Savings Bank	Woori Financial Group	2011. 3.16
	Busan Central · Busan2 · Domin Mutual Savings Banks	Daishin Securities	2011. 8.26
	Prime · Parangsae Mutual Savings Banks	sales being pursued	-
	Tomato Mutual Savings Bank	sales being pursued	-
	Jeil Mutual Savings Bank	sales being pursued	-
	Jeil2 · Ace Mutual Savings Banks	sales being pursued	-
Contract Transfer to a Bridge Financial Institution	Jeonju · Bohae Mutual Savings Banks	Yes Mutual Savings Bank	2011. 9. 5
	Daejeon Mutual Savings Bank	Yenarae Mutual Savings bank	2011. 9. 5
	Busan Mutual Savings Bank	Yesol Mutual Savings Bank	2011.11.23
	Kyongeun Mutual Savings Bank	Yesol Mutual Savings Bank	2011.10.19

2-2. Advancement in Resolution Methods Applied to Insolvent Financial Institutions

Before February of 2005, decisions regarding how to resolve failed mutual savings banks were made by the Financial Supervisory Committee (the predecessor of the Financial Services Commission) while the KDIC played the role of injecting funds and handling failure resolution on the request from the FSC and the FSS. One problem with this approach was that since the party providing funds (the KDIC) and the party responsible for contract transfer decisions (the FSS) were not identical, resolution of insolvent mutual savings banks was often delayed by two or three months, which aggravated depositors' inconvenience. Worse yet, the asset value of failed mutual savings banks tended to drop during this period. In addition, if the attempt for contract transfer fell apart, bankruptcy and liquidation became inevitable. This fact attests to the inflexibility of resolution methods applied to insolvent mutual savings banks compared to the resolution of other types of financial institutions.

To rectify the situation, the Financial Supervisory Committee (the predecessor of the Financial Services Commission) improved the resolution mechanism in February, 2005 by delegating the handling of failed mutual savings banks to the KDIC if their plans for business improvement were rejected. As a result, the KDIC was now able to choose a resolution method which best fit each insolvent mutual savings bank's circumstances based on the least cost principle specified in the Depositor Protection Act. Meanwhile, the KDIC had made efforts to minimize depositor inconvenience and resolution costs by resuming business of suspended mutual savings banks as quickly as possible through contract transfer transactions or bridge bank arrangements since 2005. However, if the FSC issued a business improvement order, the KDIC could not start the preparation for a contract transfer during the grace period. Therefore, the resolution process used to be time consuming and costly.

Recognizing the problem, the KDIC made a strong suggestion to the FSC to shorten the grace period for normalization of operation in cases where a business improvement order was issued to a failed financial institution's majority shareholders. As a result, the period was considerably cut from two months to 30 to 45 days. In addition, the KDIC was newly allowed to start making preparations for a contract transfer (to a third-party or a KDIC-owned bridge financial institution) during the grace period, in preparation for the possibility of a failed mutual savings bank failing to achieve business turnaround on its own. Consequently, the resolution period for failed mutual savings banks was significantly reduced from 16 months to four months on average.

Table VI-6 Comparison of Resolution Periods for Insolvent Mutual Savings Banks

Year	Insolvent Mutual Savings Banks	Method	Duration
2004- 2010	10 mutual savings banks including Hanmaum[1]	Contract transfer to a bridge bank/third party	489 days
2011	Busan2 Mutual Savings Bank Busan Central Mutual Savings Bank Domin Mutual Savings Bank	Contract transfer to a third party (sales in packaged deals)	119 days
	Samhwa Mutual Savings Bank	Contract transfer to a third party (individual sale)	61 days

Note : 1) Among mutual savings banks which were suspended from operation after 2004, those for which contract transfers have been completed or those whose shares owned by bridge financial institutions have been sold off

2-3. Efforts for Rapid and Efficient Resolution of Insolvent Financial Institutions

A. Establishment of Resolution Plans for Insolvent Financial Institutions in Advance

The KDIC prepared a resolution plan in advance to cope with simultaneous failure of many mutual savings banks caused by a prolonged downturn in the real estate market. Furthermore, a variety of resolution methods were reviewed in advance in consideration of the characteristics of their assets as well as efficiency in resolution. As a result of these efforts, suspended mutual savings banks' business was resumed earlier than before and depositor loss was minimized despite an unusually high number of failures in a short period in 2011.

For the resolution of seven mutual savings banks that failed in the first half of 2011, the KDIC had established a resolution plan in advance before the FSC issued business improvement orders (on Apr. 29, 2011). The plan covered qualifications for third party participation in competitive bidding, structure of the bidding process, description of the packaging method, and methods for the disposal of SPC assets owned by affiliate mutual savings banks. The KDIC also developed a similar plan in the latter half of 2011 which includes measures to deal with mutual savings bank failures in case an attempt to arrange a third party sale fails and measures regarding how to resolve affiliate mutual savings banks.

As shown above, the KDIC strived to minimize losses to the DIF and depositors through speedy and efficient resolution of insolvent mutual savings banks, one example of which is its cooperation with relevant organizations including the FSC to require member institutions to establish a resolution plan in advance of failure.

B. Introduction of a Packaged Deal for Sales of Insolvent Financial Institutions

The KDIC introduced a packaged deal as a new sales method to boost the attractiveness of insolvent mutual savings banks for prospective buyers in 2011. It lumped together several mutual savings banks in a package based on their main operating areas (e.g. the metropolitan area or other regions). In another case, multiple affiliate companies which owned similar types of assets were packaged together in an effort to stimulate competition in the bidding and maximize the premium on the sale by creating synergy effects among the assets offered.

Table VI-7 Contract Transfer in Packaged Deals in 2011

(As of late December 2011)

Target of Packaged Deals	Result	Advantage of Packaged Sales
Busan Central · Domin · Busan 2 Mutual Savings Banks	Sold to Daishin Securities, contract transfer completed	- Packages were put together in a way that will increase the attractiveness of the banks offered and extract the highest possible premium on management rights, thereby minimizing losses to the DIF. - By grouping banks that have synergies in areas of business and asset composition in a package, asset management became easier and more efficient through centralized loan management, etc.
Prime · Parangsae Mutual Savings Banks	Contract transfer process for the package in progress	
Jeil2 · Ace Mutual Savings Banks	Contract transfer process for the package in progress	

3 Management of Special Assets Owned by Insolvent Financial Institutions

3-1. Status of Special Assets Owned by Insolvent Financial Institutions

A. Overview

After massive suspensions of insolvent mutual savings banks on February 17, 2011, the Central Investigation Department in the Supreme Public Prosecutors' Office launched an investigation into the banks' wrongdoing including illegal lending*. The investigation found that affiliates of Busan Mutual Savings Bank had made illegal investments into local and overseas construction, shipbuilding, and other businesses mostly through special purpose companies (SPCs)**. SPCs controlled by affiliates of Busan Mutual Savings Bank lent about KRW 4.1 trillion in illegal loans to about 80 businesses (122 SPCs) according to the statement released by the Public Prosecutor's Office. However, additional investigation by the KDIC revealed that the total figures reached about KRW 4.7 trillion in illegal loans to 86 businesses (148 SPCs).

* In violation of the provision prohibiting extension of credit to majority shareholders ('Mutual Savings Bank Act'), etc.

** Temporary paper companies established by financial institutions for special purposes

Table VI-8 Outstanding Loans Made by Busan Mutual Savings Bank Affiliates to SPCs per Business Purpose

(As of late Dec. of 2011, Unit: # of cases, KRW 100 million)

Category	SPC per Business Purpose	Outstanding Loans
Construction Industry (109)	Apartment · residential and commercial complex & officetel, etc (82), golf courses (10), crematorium (4), factory · shipbuilding yard (4), shopping mall (9), etc	36,593
Overseas Construction (12)	Cambodia (9), Bali, Indonesia (1), windmills in Germany (2)	5,296
Investment in Ship Building (9)	Shipbuilding company (9)	3,567
Financial Industry (8)	Lease (capital)(2), acquisition of shares of Seoul Credit Rating & Information (3), stock investment (3)	226
Others (10)	Chemicals storage tank terminal (2), sand business (2), solar energy development (1), driving school (1), sales of shopping and factory sites (4), etc	831
Total (148)		46,513

Meanwhile, there were calls for consistent and focused management of special assets considering the importance of the issue. Factors considered included the gigantic size, complexity, and diversity of special assets (ranging from SPC loans, PF loans, old paintings & calligraphic works, ships, high-value vehicles, etc.) as well as the need for workplace management and diverse sales strategies. At the same time, there was an increasing call from the public for minimizing depositor losses by managing the assets more effectively and recovering as much money as possible.

B. Formation of an Organization Dedicated to Special Assets

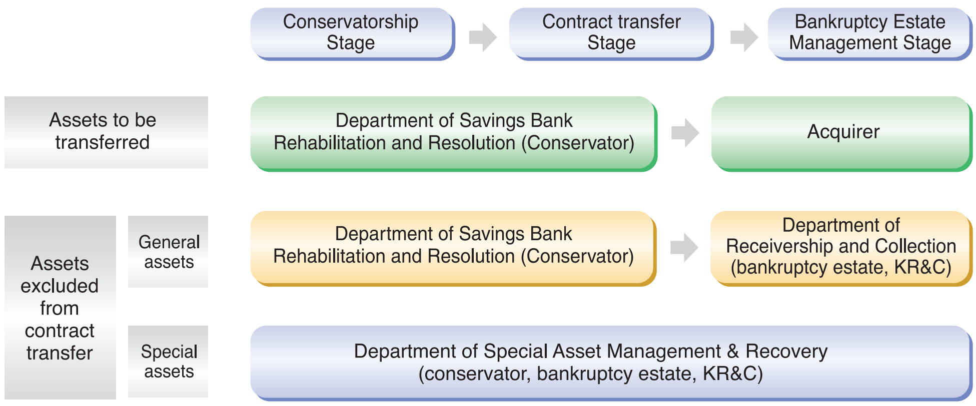
In mutual savings bank failure resolution, the parties responsible for decision-making and execution are usually not the same in each stage of the process, from conservatorship, to bankruptcy estate management and to problem assets management. However, in the case of special assets, the KDIC believes that it is more efficient to have a single party managing the whole process to ensure consistency from conservatorship to final recovery, given the many different types of special assets as well as the complexity and diversity in asset ownership structure.

To deal with the problem, the KDIC created a task force team (named the Special Assets TFT) on July 1, 2011 for emergency responses and filled the team with people from relevant organizations including the FSC and the MOSF. The Department of Special Assets Management and Recovery (a department dedicated to special assets) was launched on August 2, 2011 after relevant regulations were revised and funding was adjusted.

Creation of Organizations Dedicated to the Management of Special Assets

- 2011.2.17 : Busan and Daejeon Mutual Savings Banks were placed under suspension.
- 2011.2.19 : Busan 2, Busan Central, Jeonju and Bohae Mutual Savings Banks were placed under suspension.
- 2011.2.23 : Domin Mutual Savings Bank was placed under suspension.
- 2011.3.15 : The Central Investigation Department in the Supreme Public Prosecutors' Office launched an investigation into Busan Mutual Savings Bank's wrongdoing.
- 2011.4.29 : A business improvement order was issued to seven suspended mutual savings banks. (Executives were suspended from office and conservators were appointed.)
- 2011.5. 9 : Busan Mutual Savings Bank Emergency Committee started occupying Busan Saving Bank HQ.
- 2011.7. 1 : Special Assets Task Force Team was established.
- 2011.8.26 : The Department of Special Assets Management and Recovery was established

Figure VI-3 Asset Management System for Each Stage of Failure Resolution



3-2. Establishment of a Management System for Special Assets Owned by Insolvent Financial Institutions

A. Efforts for Special Assets Management

Given the urgency to identify the current status of special assets, the KDIC asked for cooperation from relevant organizations. One was the Public Prosecutors' Office investigating wrongdoing by failed mutual savings banks and another was the Busan Mutual Savings Bank Depositors' Committee who occupied Busan Mutual Savings Bank. With their cooperation, the KDIC was able to secure a massive amount of documents and conducted an intensive investigation into who owned which asset and how far each project had progressed (e.g. site purchase, permit and license acquisition, status of land sales).

Furthermore, frequent on-site investigations were conducted at workplaces scattered all around the nation to look into details that the documents did not reveal. To do that, the KDIC dispatched staff members to major workplaces requiring special management such as large-scale ones or ones with concerns of cash seepage. Busan Mutual Savings Bank's affiliates established SPCs whose executives and shareholders used assumed names, which gave rise to complex legal issues with many stakeholders involved. The KDIC performed an intensive legal review of various issues with both in-house and external legal experts.

In addition, to take over management control from nominal executives and shareholders of SPCs, the KDIC filed for an injunction against SPC shareholders seeking to stop them from selling shares or exercising voting rights. It also filed for an injunction against SPC executives to suspend them from office and prevent the appointment of acting directors. On top of that, the KDIC also established the standards on the management and disposal of special assets and formed the Sales Consulting Committee to ensure transparency and fairness in the disposal of special assets.

Overview of the Sales Consulting Committee

- **Members** : Six in total including scholars, financial experts, accounting experts, legal experts, director of the Special Asset Management and Recovery Department
- **Term** : One year, consecutive terms allowed
- **Role** : Review of matters related to special assets sales and consulting
- **Meeting frequency** : once a month (ad-hoc meetings if required)

B. Plan for the Disposal of Special Assets

The typical procedure for the disposal of special assets is as follows: estimation of proper prices considering the characteristics of the business concerned and marketability of the collateral; development of a recovery plan catered to the characteristics of the concerned business and assets; selection of a sales advisor; and sales through open bidding.

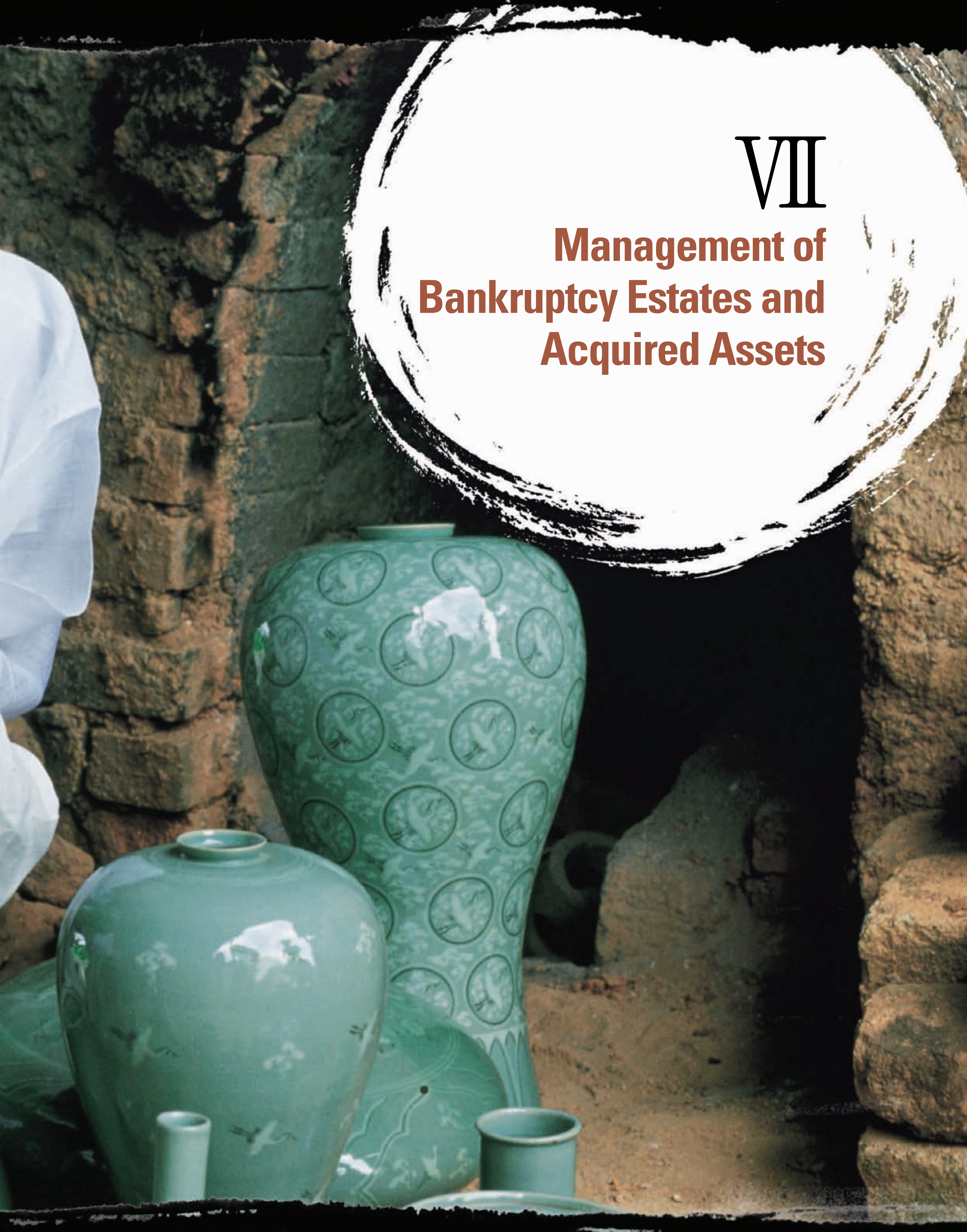
The KDIC makes arrangements for a business profitability evaluation by outside experts and seeks consultation from outside professionals (e.g. legal experts) to set the direction for sales based on fair evaluations of special assets. Based on the results, the KDIC is currently preparing a special asset sales plan customized to the characteristics of each business or asset.

Furthermore, the KDIC plans to conduct a comprehensive review of excellent cases from the past, reasons for failed sales, level of progress in each project and potential barriers, and actively seek out interested investors. Also, during the sales phase, the KDIC will adjust the timing in consideration of market conditions and decide on the sales strategy based on multiple factors such as priority of sales and the packagibility of assets. The KDIC will push for the sales of businesses for which the right conditions have been created (e.g. identification of a qualified investor).

Table VI-9 Example of Procedures for the Disposition of Special Assets

Phase 1 (Preservation measures)	Phase 2 (Strategy development)	Phase 3 (Sales procedure)	Phase 4 (Ex-post management)
Status of business is examined and measures are taken for claim preservation	Plans for asset recovery and sales are developed	Sales procedures are performed	Ex-post management after sales are performed

Koryo celadon



VII
Management of Bankruptcy Estates and Acquired Assets

VII

Management of Bankruptcy Estates and Acquired Assets

1 Management of Bankruptcy Estates

1-1. Management Status of Bankruptcy Estates

A. KDIC's Role as Bankruptcy Trustee

Article 20 of the Special Act on the Management of Public Funds, enacted on December 20, 2000, specifies "Where any insured financial institution that received public funds including deposit payoffs is dissolved or becomes bankrupt, a court of competent jurisdiction shall appoint the Korea Deposit Insurance Corporation or its executive or employee as liquidator or bankruptcy trustee, if it is necessary to efficiently recover such public funds, notwithstanding other Acts related to the appointment of liquidators or bankruptcy trustees. Article 539 (2) of the Commercial Act and Articles 364, 492 and 493 of the Debtor Rehabilitation and Bankruptcy Act shall not apply to the liquidator or bankruptcy trustee appointed in accordance with the above paragraph." Also, Article 3 of the Enforcement Decree of this Act specifies "Where an efficient recovery of public funds is required, a court of competent jurisdiction shall, within three months after the enforcement date of this Act, appoint additionally the Korea Deposit Insurance Corporation or its executive or employee as liquidator or bankruptcy trustee of an insured financial institution whose liquidation or bankruptcy procedures are in progress at the time this Act enters into force." The Depositor Protection Act was revised in December, 2002 to incorporate the above in Article 35 (8).

Under these laws, KDIC bankruptcy trustees were appointed to 68 bankruptcy estates, either as a solitary trustee or in groups of two or more, out of a total of 69 bankruptcy estates nation-wide until late 2011. In close consultation with the court, they pursued an efficient and swift implementation of bankruptcy procedures to recover the highest possible amount of public funds.

Table VII-1 Appointment of Bankruptcy Trustees

(As of late Dec. of 2011, Unit: # of cases)

Category	Total No. of Bankruptcy Estates	Trustees		
		KDIC	Attorneys	Joint Appointment[2)]
# of Bankruptcy Estate	69	64	1	4

Note : 1) Excluding legally terminated bankruptcy estates (389), Korea and Dongseo Securities bankruptcy estates to which public funds were not provided, 14 credit union bankruptcy estates which were transferred to the National Credit Union Federation of Korea

2) Bankruptcy estates where KDIC (or its staffers) were jointly appointed as trsutee with attorneys, etc.

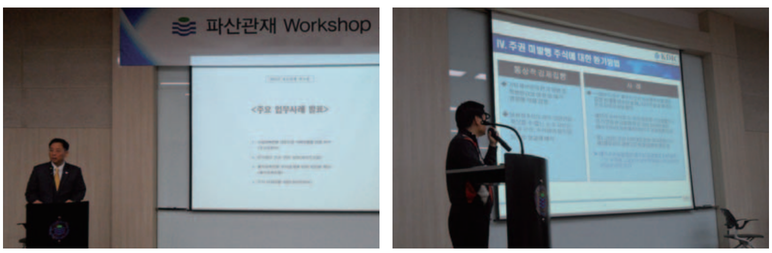
B. Efficient Management of Bankruptcy Estates

By adopting the Regional Supervisor System in July of 2007, the KDIC divided bankruptcy estates scattered all over the country into eight regional groups to enable a more efficient management. Under this system, a single regional office takes responsibility for multiple bankruptcy estates located in its region. By doing that, the efficiency in the management of bankruptcy estates, employees, and asset holdings increased: cash seepage was prevented; and the costs for rent, building maintenance, office supplies and others were significantly reduced.

In addition, the KDIC implemented staff rotation programs on a regular basis for employees stationed at bankruptcy estates including trustees in order to prevent financial incidents and improve work efficiency. Another example of the KDIC's effort to increase the efficiency in bankruptcy estate management includes the workshops for bankruptcy trustees in which they were encouraged to share experiences and know-how and meetings with bankruptcy trustees to discuss their work progress and work-related complaints.

Meanwhile, there was a growing need for more efficient management of bankruptcy trustees and support staff in order to boost their recovery performance.

The KDIC adopted an incentive system where special bonuses are offered to support staff at bankruptcy estates who made considerable contributions to the liquidation of real estate, recovery of non-performing loans, etc. In addition, the KDIC assessed the level of public fund recovery, disposal of assets, and cost efficiency to evaluate the performance of each bankruptcy estate and trustee. Based on the results, the KDIC provided performance-based bonuses as an incentive whose amount changed depending on the assessment results and replaced several trustees whose bankruptcy estates showed poor performance.



Workshop for bankruptcy trustees

C. Facilitation of Debt Rescheduling

In order to promote the debt restructuring of bankruptcy estates, the KDIC established and has been implementing a plan to facilitate the debt rescheduling of debtors of bankruptcy estates since 2011. Activities conducted under the plan included: informing the debtors of the availability of debt rescheduling programs; approval of a debt rescheduling for general debtor companies that were expected to be liquidated or go bankrupt; and relaxation of the debt rescheduling criteria for salaried workers with small debts who have no personal properties to give them an opportunity for economic rehabilitation. In particular, the KDIC revised its debt rescheduling criteria applied to individual debtors of bankruptcy estates to ease the criteria for guarantors.

These efforts were aimed at maximizing the recovery of bankruptcy claims by ensuring smooth loan recovery and reducing debt management costs as well as protecting public interest by supporting debtors' credit recovery.

1-2. Maximization of Asset Marketability and Dividends Collection

By packaging real estates and unlisted stocks into packages depending on the types of assets rather than selling them individually, the KDIC increased these assets' value.

For the sale of real estates owned by bankruptcy estates, the KDIC created and made improvements to the Information on Real Estate Sales Held by Bankruptcy Estates menu on its website for easier access by prospective buyers to public sale information. As a result, in 2011 the KDIC recovered KRW 22.8 billion from 11 joint sales of 40 properties around the nation.

As for non-listed shares, individual bankruptcy estates found it difficult to sell them because there are no open market transactions nor market prices set for such shares. The KDIC encouraged the bankruptcy estates to jointly appoint a sales advisor in cooperations with the KR&C* to take charge of the sales of non-listed shares through open bidding (four sales conducted during 2011). As a result, the KDIC successfully disposed of shares worth KRW 100 million in five sales.

* The KR&C is a resolution financial institution established by converting the former Resolution & Finance Corporation (RFC) into a paper company in November of 2009. The RFC had taken over Hanareum Merchant Bank and Hanareum Mutual Savings Bank and its functions were later transferred to the KR&C. The role of the KR&C is to acquire troubled assets(e.g. doubtful loans, estimated loss, non-business purpose · real · estate) from insolvent financial institutions quickly to improve efficiency of the contract transfer process as well as purchasing remaining assets from bankruptcy estates to facilitate an early closure of bankruptcy estates.

The KDIC also actively pursued the disposal of bankruptcy estate assets other than real estates or stocks (such as golf and condominium memberships) through various channels including membership exchanges. As a result, it sold 15 assets in 2011, recovering KRW 5.2 billion.

Table VII-2 Sales of Assets Held by Bankruptcy Estates

(As of late Dec. of 2011, Unit: # of cases, KRW 100 million)

Category		2009	2010	2011
Real Estate	# of joint sales conducted	10	10	11
	# of assets sold (amount)	20 (44)	58 (561)	42 (231)
Unlisted Stock	# of joint sales conducted	4	4	4
	# of assets sold (amount)	2 (255)	5 (420)	4 (1)
Golf and condo Membership, etc.	# of assets sold (amount)	38 (10)	47 (4)	9 (52)

The KDIC has established and operated the Fund Asset Status Tracking System, also known as the FASTs, for efficient management of assets owned by bankruptcy estates since 2008. The system greatly contributed to the enhancement of efficiency of asset management by facilitating systemic and ongoing identification of asset status per type and per asset targeted for sales.

In addition, the KDIC has also established and operated the Credit and Dividend Information System (CDIS) since 2008 to enhance bankruptcy estates' efficiency in recovering claims and managing dividend- related works. In 2011, the system was used for setting an annual dividend payment target for each estate and checking their compliance to ensure proper and speedy handling of dividend-related works.

As shown above, the KDIC is making strenuous and continued efforts to maximize dividend payments and recover public funds at an earlier date through efficient management of bankruptcy estates.

1-3. Timely Closure of Bankruptcy Proceedings

The KDIC classifies bankruptcy estates into four categories for phased management; early-stage bankruptcy estates; estates in need of intensive asset management; estates in litigation; and estates ready to be closed, In particular, when an estate's assets have mostly been converted into cash and lawsuits are concluded, the estate is named as an estate to be closed, and finally closed after evaluation and selling of remaining assets and a final distribution of dividends after an approval (coordination) from a competent court. In the meantime, inefficient bankruptcy estates where the cost to maintain the bankruptcy estate exceeds the amount of potentially recoverable funds are disposed of quickly to maximize dividends payments to bankruptcy creditors.

As of the end of December of 2011, out of a total of 458 bankruptcy estates, 389 were declared closed by the court and the KDIC plans to proceed with early closure of the remaining estates (69 estates) by selling remaining assets.

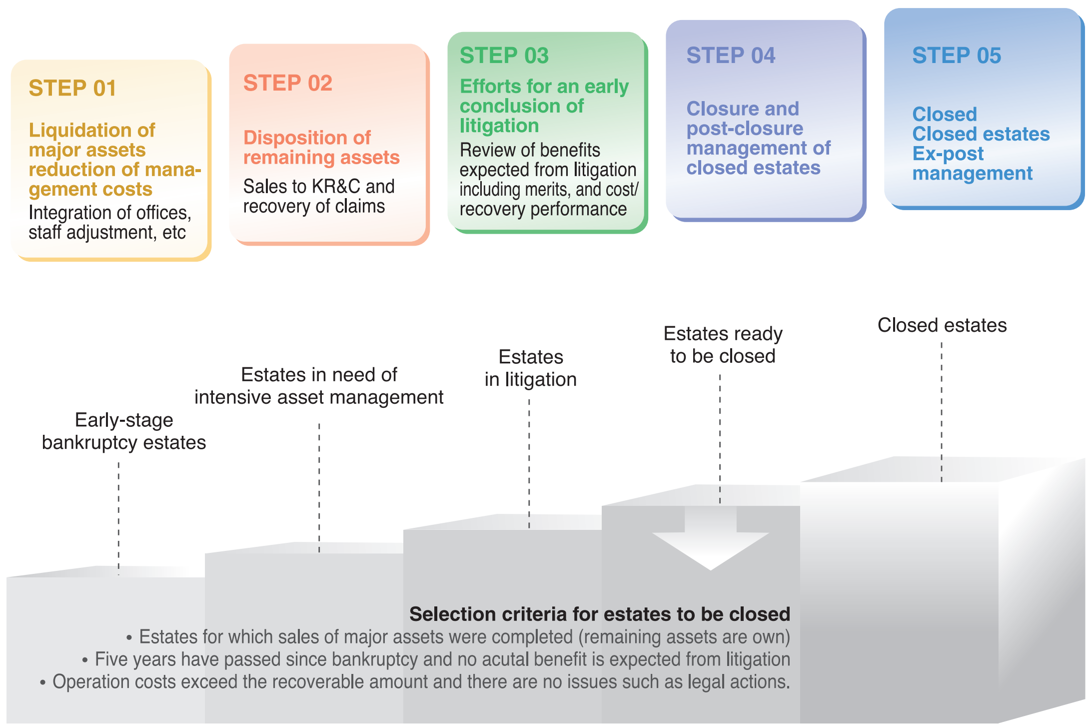
In addition, for the sake of record-keeping and post-bankruptcy management of closed insolvent financial institutions, the KDIC put together a Report on Bankruptcy Management and Accompanying Documents for each bankruptcy estate, which provides information on how bankruptcy proceedings were conducted for each financial sector and for each institution. This report will be used as a reference material by related agencies including the court as well as the KDIC itself.

Table VII-3 Closed and In-progress Bankruptcy Estates

(As of late December of 2011, Unit: number, %)

Category		Banks	Insurance Companies	Financial Investment Companies	Merchant Banks	Mutual Savings Bank	Credit Unions	Total
Total No. of Bankruptcy Estates(A)		5	10	4	22	92	325	458
Closed Estates	No. of Closed Estates(B)	1	9	2	2	57	318	389
	Closure Rate (B/Ax100)	20	90	50	9	62	98	85
Remaining Estates (A-B)		4	1	2	20	35	7	69

Figure VII-1 Plan for Each Stage of Bankruptcy Estate Management



2 Management of Assets Acquired from Insolvent Financial Institutions

2-1. Status of Assets Acquired from Insolvent Financial Institutions

By year-end 2011, the KDIC had acquired a total of KRW 53 trillion 501.9 billion (acquisition cost) in assets. Of that amount, KRW 63.5 billion (acquisition cost) worth of assets were acquired through the RFC in 2011.

In December 1999, the RFC (currently KR&C) was established to acquire Korea First Bank's (KFB's) assets that were not taken over by its acquirer, New Bridge Capital, 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. By the end of December 2011, with borrowings from the DIF Bond Redemption Fund of the KDIC, the RFC had acquired assets worth KRW 53 trillion 501.9 billion (acquisition cost) in total. This included KRW 7.84 trillion 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 1 trillion 307.2 billion from the sale of financial investment companies (Korea, Daehan and Hyundai), KRW 507.9 billion from 20 MSBs (Hanmaum, Hanjung, Arim, Good Friend, Daewon, Hongik, Kyongbook, Hyundai, Bundang, Jeonbuk, Eutteum and Jeonil, Busan, Busan2, Busan Centarl, Daejeon, Jeonju, Bohae, Domin, and Kyongeun), KRW 328.6 billion from 460 bankruptcy estates and KRW 42 trillion 989.5 billion from the merger with Hanareum Merchant Bank and Hanareum Mutual Savings Bank.

Table VII-4 Assets Acquired by Resolution Financial Institutions in 2011

(As of late December of 2011, Unit: KRW 100 million)

Category		Amount of Claims	Purchase Price	Remark
KR&C	Bankruptcy Estates	2,944	44	Gamsan credit union and 33 bankruptcy estates
	Mutual Savings Banks	10,134	591	Busan · Busan2 · Busan Central · Daejeon · Jeonju · Bohae · Domin · Kyongeun mutual savings banks

Table VII-5 Assets Acquired by the KR&C (Accumulated)

(As of late December of 2011, Unit: KRW 100 million)

Category		Amount of Claims	Purchase Price	Remark
KR&C	Banks	98,640	80,137	6 banks (including KFB)
	Insurance Companies	4,032	3,550	5 life insurance companies
	Financial Investment Companies	25,324	13,072	3 merchant banks
	Bankruptcy Estates	61,038	3,286	460 bankruptcy estate (5 banks, 10 insurance companies, 4 financial investment companies, 22 merchant banks, 80[1] mutual savings banks, 339[2] credit unions)
	Mutual Savings Banks	24,327	5,079	20 mutual savings banks
	Subtotal	213,361	105,124	-
Hanareum Merchant Bank[3]	Merchant Banks	367,503	363,540[4]	16 merchant banks
Hanareum Mutual Savings Bank[3]	Savings and Loan Institutions	87,719	66,355[4]	41 mutual savings banks
Total		668,583	535,019	-

Note : 1) 12 bankruptcy estates of mutual savings banks that were not taken over were not included.
2) 14 bankruptcy estates transferred to the National Credit Union Federation of Korea on Jan. 1 of 2010 were included
3) Organizations in charge of making deposit payments on behalf of the failed banks (based on the classification criteria for public fund assistance)
4) Claims acquired in exchange for deposit payoffs

2-2. Efficient Management of Assets Acquired from Insolvent Financial Institutions

The KR&C is in charge of acquiring troubled assets of insolvent financial institutions quickly to improve efficiency of the contract transfer process, as well as purchasing remaining assets from bankruptcy estates to facilitate their early closure.

As of end-2011, the balance of assets held by the KR&C stood at KRW 18 trillion 891.7 billion, of which KRW 12 trillion won 332.9 billion was directly managed by the KR&C while the remaining KRW 6 trillion 558.8 billion was trusted to outside experts for efficient management.

In addition, the KDIC made active use of a variety of recovery methods in addition to the traditional recovery-at-maturity method in order to raise the value of acquired assets held by the KR&C and to increase recovery. The methods included M&As and sales through issuance of asset-backed securities (ABS). With regard to the diversity in KR&C's asset types which included locked-up stocks, corporate bonds, and convertible bonds, the KDIC is looking into other recovery methods to see which would best fit the characteristics of each asset category.

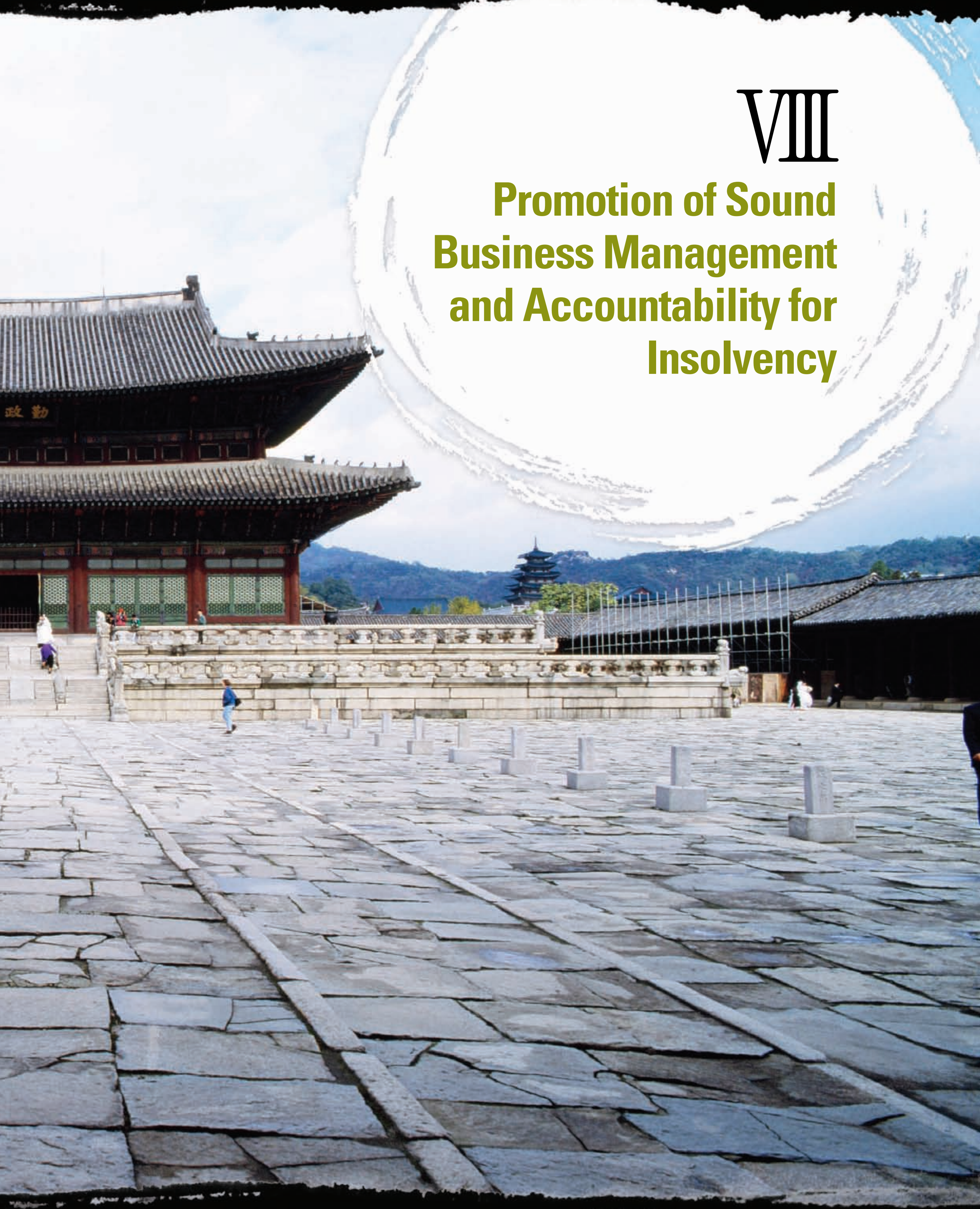
Table VII-6 Assets Owned by the KR&C (Balance)

(As of late December of 2011, Unit: KRW 100 million)

Category	Directly Managed	Commissioned Externally	Total
Loans	551	64,516	65,067
Securities	16,791	-	16,791
Real Estate	730	1,072	1,802
Right of Indemnity	105,257	-	105,257
Total	123,329	65,588	188,917

Geunjeongjeon of Gyeongbok Palace, where the king held court during the Joseon Dynasty

VIII
Promotion of Sound Business Management and Accountability for Insolvency



VIII

Promotion of Sound Business Management and Accountability for Insolvency

1 Promotion of Sound Business Management among Insured Financial Institutions

1-1. Education Targeting Mutual Savings Bank Employees

The importance of preemptive measures to prevent financial institution failures was re-emphasized as wrongful conducts and moral hazard of employees were pointed out as the main cause of a large number of mutual savings bank failures in 2011.

In response, the KDIC provided a training course entitled Prevention of Financial Incidents through Case Studies to mutual savings bank employees in order to ensure that mutual savings banks engaged in sound management. At the training, employees of mutual savings banks were taught about governing laws and regulations that are relevant to their day-to-day operations and other useful information including insolvency types and related court rulings.

In particular, in April of 2011 the KDIC provided training to compliance officers and staff members in charge of compliance-related works at mutual savings banks who audit employees' activities and have the authority to investigate their property status. Conducted in various regions, these courses covered auditors' obligations and responsibilities as well as examples of unlawful and improper actions. In addition, a Workshop for MSB Auditors was held in October, 2011 as part of the KDIC's effort to prevent mutual savings bank failures and enhance their internal systems.

1-2. Expansion of Education for Sound Business Management

The KDIC, in close cooperation with financial industry associations, is expanding education programs to encourage member institutions to engage in sound business management. To do that, the KDIC provided a class titled Protection of Financial Consumers through Financial Infrastructure Enhancement and Promotion of Sound Business Management in April of 2011, for trainees at the Korea Financial Investment Association. In December of 2011, the KDIC participated in a compliance officers' workshop held by the Korea Federation of Mutual Savings Banks for compliance officers and staffers in charge of audit-related works and gave presentations on accountability in insolvency cases.

Working-level workshop for the Accountability Review Committee for Insolvent Financial Institutions

2 Investigations into Insolvent Financial Institutions

2-1. Improvement of Efficiency in Investigation into Insolvent Financial Institutions' wrongful and improper Actions

Pursuant to Article 21-2 of the DPA, the KDIC conducts investigations into insolvent financial institutions for any unlawful or improper activities. The KDIC then requires the financial institutions to file damage claims and hold parties* who caused losses to the financial institutions by taking illegal actions and not complying with regulations legally liable.

* Former or incumbent managers or employees of insolvent financial institutions, people who gave orders for the execution of illegal activities (as prescribed in the Commerce Act), debtors of insolvent financial institutions and other third parties

As more and more illegal acts are perpetrated in collaboration between insolvent financial institutions and default debtor companies, it became important to conduct organically linked investigations that can look into both parties. For this reason, the Insolvency Investigation Division, a combination of the former Investigation Department (in charge of investigations into insolvent financial institutions) and the former Special Investigation Mission of Default Debtor Companies (in charge of investigations into default debtor companies), was established in March 2008. The combination of these two departments into one streamlined the organizational structure and enhanced investigation efficiency. Structured as a single bureau - single department, the Insolvency Investigation Division is currently composed of 82 members in total including dispatched officers from relevant organizations such as the Public Prosecutors' Office. The division is not only utilizing the expertise and know-how of dispatched officers but is also actively seeking out data from relevant organizations.

Meanwhile, regarding illegal activities revealed in investigation, the KDIC refers them to the Accountability Review Committee for Insolvent Financial Institutions for fair and objective review. The Committee is made up of external experts from the legal circles, the academia, the financial industry, etc. The KDIC modified review procedures to allow the investigated persons or their representatives to attend a working-level Committee meeting so that they can elucidate their case. This is part of the KDIC's effort to protect the rights of the investigated persons to prevent false accusations and abuse of investigative authority. Furthermore, the KDIC developed a Guideline on Decision-making Regarding Exception from Liability to set clear standards for exemption from liability and ensure consistency and efficiency of decisions. Ensuring fairness among people being held accountable and easing the burden of litigation was another aspect of the KDIC's effort to protect the rights of investigation subjects. By the end of 2011, deliberations on accountability for financial institution failures resulted in a confirmation of accountability for 5,829 people in 491 insolvency cases for causing damages worth KRW 18 trillion 793.5 billion. The KDIC requested the insolvent financial institutions and their bankruptcy estates to file for damages against these people.

Figure Ⅷ-1 Procedures to Hold People Accountable for Their Wrongful and Improper Actions and the System to Protect the Rights of the Investigated

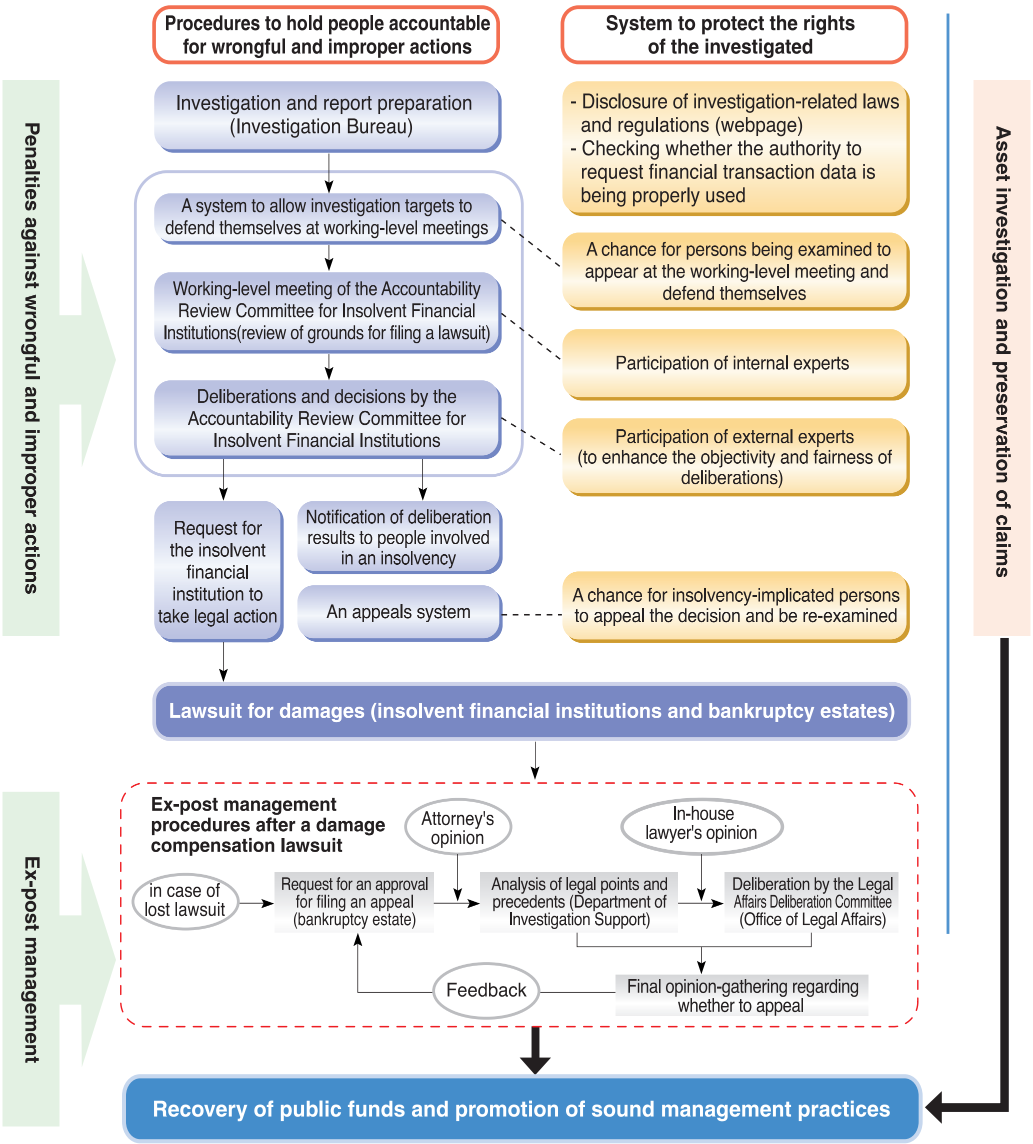


Table Ⅷ-1 Investigations into Wrongful and Improper Activities Regarding Insolvent Financial Institutions

(As of late December of 2011, Unit: # of cases, persons, KRW 100 million)

Category	Banks	Financial Investment Companies	Insurance Companies	Merchant Banks	Mutual Savings Banks	Credit Unions[1]	Total
# of Insolvent Financial Institutions	15	6	18	22	105	325	491
# of People Involved in Insolvency	191	65	244	160	1,023	4,146	5,829
Amount of Loss Caused	14,080	33,266	30,482	55,977	44,951	9,179	187,935

Note : 1) 14 credit unions' bankruptcy estates transferred to the National Credit Union Federation of Korea on Jan.1 of 2010 were not included.

2-2. Enhanced Support for Damage Claim Proceedings against Parties Implicated in Insolvency

Insolvent financial institutions and their bankruptcy estates have filed 1,421 damage claims for KRW 1 trillion 919.8 billion against people involved in insolvency following the KDIC's request for damage claim.

Table VIII-2 Lawsuits Filed Regarding Insolvent Financial Institutions

(As of late December of 2011, Unit: # of cases, persons, KRW 100 million)

Category	Banks	Financial Investment Companies	Insurance Companies	Merchant Banks	Mutual Savings Banks	Credit Unions[1]	Total
# of Insolvent Financial Institutions	15	6	18	22	103	325	489
Number of Defendants	191	83	276	181	1,309	7,256	9,296
Number of Claims	93	31	84	35	350	828	1,421
Claimed Amount	1,004	342	2,435	3,047	6,481	5,889	19,198

Note : 1) 14 credit unions' bankruptcy estates transferred to the National Credit Union Federation of Korea on Jan.1 of 2010 were not included.

The KDIC provides support and conducts ex-post management of legal actions taken by insolvent financial institutions and their bankruptcy estates following the KDIC's demand for damage claims and preservation of creditor rights. As part of this effort, the KDIC established the Litigation Support Team mainly composed of legal experts, including lawyers, to enable a clear and logical presentation of defense and submission of evidence. The KDIC developed a litigation management improvement plan with a view to building a system to regularly review its litigation support activities. Also, as part of the litigation management improvement plan, the KDIC created and has operated a system in which one legal counsel is appointed for each region to deal with all cases within that region, and thus enhanced the success rate in damage claims.

Meanwhile, the KDIC appointed persons-in-charge for each region (e.g. locally practicing lawyers) to provide early support for damage claims in relation to 16 mutual savings banks suspended in 2011 and developed legal strategy memos to prove the absence of merit in new insolvency cases caused by excessive PF lending, etc. Also, to prevent further wrongdoing by majority shareholders of mutual savings banks, the KDIC is analyzing precedents and developing implications to identify what types of fraud and wrongdoing were commonly observed among majority shareholders of mutual savings banks into which public funds were injected during past financial crises.

2-3. Legal Actions against People Implicated in Insolvency and Maximization of Recovery

The KDIC conducts thorough investigations into real estate holdings of people involved in insolvency in order to maximize recovery of assets in case it wins a damage claim suit against them. The information sources for these investigations include: real estate holdings data managed by public organizations; and financial transaction information. As of the end of 2011, the KDIC took measures including 2,563 (provisional) seizures and provisional disposal of 224 properties. As a consequence, a total of KRW 282.3 billion has been recovered through various measures such as compulsory execution.

Table Ⅷ-3 Legal Actions against Insolvent Financial Institutions and Assets Recovered

(As of late December of 2011, Unit: # of cases, KRW 100 million)

Category	Banks	Financial Investment companies	Insurance Companies	Merchant Banks	Mutual Savings Banks	Credit Unions	Total
No. of Provisional Seizure	37	7	55	123	877	1,464	2,563
Amount of Provisional Seizure	76	47	241	1,010	4,000	2,272	7,646
No. of Provisional Disposition	10	1	1	41	90	81	224
Amount Recovered	102	54	217	660	1,023	767	2,823

Note : 1) 14 credit unions' bankruptcy estates transferred to the National Credit Union Federation of Korea on Jan.1 of 2010 were not included.

Working-level workshop for the Accountability Review Committee for Insolvent Financial Institutions

3 Investigations into Default Debtor Corporations

3-1. Investigations into Unlawful and Improper Activities of Default Debtor Corporations

By the end of 2006, the KDIC's former Special Investigation Mission for Default Debtor Corporations completed its investigations into insolvent default debtor corporations that failed to pay their debts to insolvent public fund-injected financial institutions. Since 2007, the KDIC has been investigating wrongful and improper activities of default debtor corporations of mutual savings banks that have received financial assistance from Deposit Insurance Fund. After a preliminary investigation in the first half of 2007, the KDIC started real investigations into these default debtor companies in the second half of the year.

* Afterwards, in March 2008, during an organizational restructuring, the former Special Investigation Mission for Default Debtor Corporations and the Investigation Department, which used to take exclusive responsibility for investigating insolvent financial institutions, were combined to form the Insolvency Investigation Division.

After reviewing the Insolvency Investigation Division's investigation results regarding wrongful and improper activities of default debtor corporations, the Accountability Review Committee for Insolvent Financial Institutions confirmed that 865 persons were responsible for having caused KRW 14 trillion 891.7 billion of damage and notified the insolvent financial institutions and their bankruptcy estates so that they could start damage claim proceedings against those people.

Table Ⅷ-4 Investigations into Default Debtor Corporations

(As of late December of 2011, Unit # of cases, persons, KRW 100 million)

No. of Corporations Subject to On-site Investigations	Liable Parties	
	No. of Implicated Parties	Amount of Loss Incurred
966	865	148,917

3-2. Enhanced Support for Damage Claim Proceedings against Parties Implicated in Insolvency of a Debtor Corporation

Per the KDIC's request, insolvent financial institutions and their bankruptcy estates filed 187 damage claim suits worth KRW 980 billion against people implicated in insolvency.

Table Ⅷ-5 Lawsuits Filed Regarding Default Debtor Corporations

(As of late December of 2011, Unit: # of cases, persons, KRW 100 million)

Companies	Defendants	# of Claims	Claimed Amount
148	1,176	187	9,800

The KDIC has continued to conduct ex-post management of legal actions taken by creditor financial institutions after being requested by the KDIC to file damage claims and take measures to preserve creditor claims. The KDIC checks the progress in lawsuits filed by insolvent financial institutions and their bankruptcy estates on a regular basis. Furthermore, the KDIC provides consulting services for lawsuit management and preservations of creditor claims by holding meetings with employees of insolvent financial institutions and their bankruptcy estates who are in charge of the lawsuits, if needed.

In the event a creditor institution does not heed the request of the KDIC to file damage claims against parties implicated in insolvency, the KDIC files a lawsuit on their behalf as a subrogee. Where claims have already been filed by the failed institution, the KDIC gives consideration to the size of the claimed amount and the progress of claims instituted and then decides on the kind of support to be provided. The KDIC's support helps to make the claims management process go smoother and enables effective defense.

3-3. Legal Actions Against Parties Implicated in Insolvency of a Debtor Corporations and Maximization of Recovery

The KDIC continues to conduct thorough investigations into the real estate holdings of insolvency-implicated people in order to maximize asset recovery in case the KDIC wins the damage claim suit filed against such parties. As of late 2011, the KDIC took measures including 975 (provisional) seizures and the provisional disposal of 233 properties. As a consequence, a total of KRW 117.4 billion had been recovered by the end of 2011.

Table VIII-6 Legal Actions Against Default Debtor Corporations and Assets Recovered

(As of late December of 2011, Unit: # of cases, KRW 100 million)

(Provisional) Seizure		# of Provisional Disposition	Recovered Amount
# of Cases	Amount		
975	6,721	233	1,174

4 Investigations into Properties Owned by Persons Implicated in Insolvency

4-1. Strengthened Investigations into Assets Located Domestically

In accordance with the DPA, the KDIC carried out thorough investigations into persons implicated in the insolvency of a public fund-injected financial institution. During the investigations, the KDIC utilized information stored in databases complied by government agencies regarding real estate and other property holdings. The KDIC was allowed to gather data from a wider range of institutions with the revision of relevant laws.

By exercising its authority to request financial transaction information from the heads of financial institutions - an authority which was established in March 2006 with the revision of the DPA - the KDIC received financial transaction information regarding insolvency-implicated persons and took legal action based on the information. The KDIC was also given larger investigative powers; it was specified in law that the KDIC can demand data submission, personal appearance, and verbal statements to conduct investigations. Meanwhile, the authority to request financial transaction data from the heads of financial institutions which was scheduled to expire on March 23, 2011 was extended by three years until March 23, 2014 to ensure the effectiveness of accountability investigations.

As of December 31, 2011, the KDIC performed investigations into properties held by 925,785 insolvency-implicated persons to see whether there were any remaining properties under their names. Based on the results of these investigations, the KDIC requested pertinent financial institutions and their bankruptcy estates to take legal measures such as preservation of creditor claims and seizure of the assets discovered. As of December 31, 2011, several legal measures were taken including 104,275 (provisional) seizures and 1,918 cases of provisional disposition from which a total of KRW 768.9 billion had been recovered.

Table Ⅷ-7 Investigations into Implicated Parties' Properties and Legal Actions

(As of late December of 2011, Unit: # of cases, KRW 100 million)

Category	# of People Subject to Investigation	(Provisional) Seizure		# of Provisional Disposition	Recovered Amount
		# of Cases	Amount		
Implicated Parties	925,785	104,275	125,836	1,918	7,689

Meanwhile, in response to the public outrage against widespread fraud and corruption at mutual savings banks that failed in 2011, the KDIC made every effort to secure the properties of insolvency-implicated persons. In particular, one result of such effort was the discovery of concealed properties worth KRW 259 billion. The findings were made in cooperation with the Public Prosecutors' Office and legal action was taken accordingly.

4-2. Expanded Investigations into Assets Located Overseas

To fully investigate overseas assets owned by insolvency-implicated persons, the KDIC prepared a Plan to Strengthen Investigations into Offshore Assets in September, 2006. In 2007, the KDIC chose the U.S. as a country where investigations should be carried out and launched an out-sourced investigation by hiring professional firms which specialize in investigations into hidden overseas assets.

As of the end of December 2011, investigations were conducted to discover hidden overseas assets of approximately 2,199 culpable persons at high risk of fleeing or concealing assets overseas. As a result, USD 4.79 million were recovered and, for those who were found to have concealed properties, the KDIC has either filed a lawsuit in local court or is in the process of doing so.

Starting from 2011, the KDIC expanded the scope of its overseas property investigation which was previously focused on the US, Canada, Japan and Australia to include Hong Kong, New Zealand, and the Philippines, thus making it more effective and increasing the likelihood for the recovery of hidden overseas assets.

Table Ⅷ-8 Recovery of Properties Hidden Overseas Per Year

(Unit: USD 1,000)

Year	2003~2007	2008	2009	2010	2011	Total
Amount	3,044	-	2	345	1,401	4,792

4-3. Increasing Recoveries through the Operation of the Concealed Property Report Center

To raise the effectiveness of investigations into parties implicated in insolvency and facilitate the recovery of public funds through various measures including acquisition of internal information, the KDIC opened the Concealed Property Report Center in May 2002. Up until the end of December 2011, the Center had received 165 reports, recovered KRW 28.8 billion in 27 cases and paid KRW 1.45 billion in rewards.

Recognizing that the public's interest and participation is the key to more effective enforcement of accountability, the KDIC carries out promotion campaigns for the Center at home and abroad. When a financial institution fails, the KDIC launches a public awareness 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 order to enhance cooperation with related agencies.

To encourage the reporting of hidden overseas assets, the KDIC aggressively promoted the Concealed Property Report Center to the Koreans' Foundations in the U.S. (New York and LA) and

Canada (Toronto), Japan, Australia (Sydney), New Zealand (Auckland), and the Philippines and appointed local Koreans in each Foundation as PR ambassadors for higher awareness. Also, the KDIC launched and has operated a toll free number in the U.S. and Canada to establish a system for local Koreans to report hidden overseas assets continuously.

The centerpiece of the campaigns is print ads in major daily newspapers (Chosun Ilbo, Maeil Business Newspaper) that appear on a daily basis and ads posted in the subway. These days, the ads focus on encouraging people to call with any information relating to hidden assets owned by people involved in the failures of 16 mutual savings banks that occurred in 2011.

Table Ⅷ-9 Number of Cases Reported, Number of Recoveries and Recovered Amount per Year

(As of late December of 2011, Unit KRW 1 million)

Category	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
# of Reported Cases	21	12	17	10	22	21	15	19	12	16	165
# of Recoveries	-	1	1	2	3	8	4	2	4	2	27
Recovered Amount	-	3,156	374	231	11,791	6,184	2,637	2,830	605	1,033	28,841

예금보험공사
KOREA DEPOSIT INSURANCE CORPORATION

Abacus

IX
Fund Management

IX

Fund Management

As of January 1, 2003, under the Public Fund Redemption Plan (Redemption Plan), prepared by the government in 2002, the assets and liabilities of the existing Deposit Insurance Fund (DIF) that had been used in the restructuring process were separated from the Fund and put into a new fund called 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 is funded by insurance premiums paid by KDIC-insured financial institutions, has been used for the day-to-day operations of the KDIC relating to insolvencies that have occurred since 2003.

1 Deposit Insurance Fund Bond Redemption Fund

1-1. Stable Procurement

A. Special Assessment Payments

Pursuant to Article 30-3 of the DPA and Article 16-4 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 balance for insurance companies, for example, would be the arithmetic mean of liability reserves and premiums revenue) to the KDIC, as Special Assessment Payments (SPAs). At present, banks are required to pay SPAs within one month following the end of each quarter. Other insured financial institutions are required to make payments within three months following the end of each business year. In 2011, the KDIC received KRW 1 trillion 108.7 billion in SPAs.

Table IX-1 Special Assessment Rates

Sector	Banks	Financial Investment Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions
Special Assessment Rate	1/1,000	1/1,000	1/1,000	1/1,000	1/1,000	5/10,000[1)]
Legal Maximum Limit	3/1,000	3/1,000	3/1,000	3/1,000	3/1,000	3/1,000

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

Table IX-2 Special Assessment Payments from Each Financial Sector

(Unit: KRW)

Year	Banks	Financial Investment Companies	Insurance Companies		Merchant banks	MSBs	Credit Unions[1)]	Total
			Life	Non-life				
2003	477,476,429,913	15,583,224,891	88,888,017,031	18,472,746,000	2,051,155,000	22,249,552,000	-	624,721,124,835
2004	495,600,167,905	16,808,361,665	97,815,297,519	19,780,120,619	562,468,000	26,428,683,000	-	656,995,098,708
2005	487,166,510,833	14,540,165,582	106,857,085,000	21,851,803,423	496,537,000	31,858,110,000	-	662,770,211,838
2006	498,681,846,988	15,144,470,993	116,019,390,370	24,194,140,937	636,385,000	36,957,658,017	21,636,276,543	713,270,168,848
2007	502,689,354,851	15,640,959,000	126,530,624,919	27,765,668,399	722,757,000	43,004,233,839	11,608,513,513	727,962,111,521
2008	497,628,429,865	18,450,538,082	136,365,120,000	31,887,977,512	794,110,000	49,122,536,517	12,910,122,846	747,158,834,822
2009	596,495,263,169	16,924,950,377	143,006,160,079	35,158,267,859	1,013,841,000	59,293,898,815	13,675,874,192	865,568,255,491
2010	681,137,103,049	21,309,273,266	153,430,348,000	40,861,760,000	1,899,113,000	71,512,241,512	16,962,417,699	987,112,256,526
2011	778,873,175,496	22,707,528,407	165,012,412,538	48,650,634,000	1,169,424,000	71,802,311,638	20,479,299,838	1,108,694,785,917
Total	5,015,748,282,069	157,109,472,263	1,133,924,455,456	268,623,118,749	9,345,790,000	412,229,225,338	97,272,504,631	7,094,252,848,506

Note : 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 had received a total of KRW 52 trillion 306.4 billion as contributions from the Redemption Fund during the four-year period from 2003 to 2006 and partially repaid the principal and interest of the Deposit Insurance Fund Bonds (DIF Bonds) issued before December 31, 2002. And since 2007, the KDIC has received no more contribution from the Public Fund Redemption Fund.

C. Deposit Insurance Fund Bonds Issued Before Dec. 31, 2002 and Their Redemption

As provided for in Article 26-2 of the DPA, the KDIC may issue DIF Bonds. From 1998 to 2002, the KDIC issued DIF Bonds amounting to a total of KRW 87 trillion 159.9 billion.

With the establishment of the Redemption Fund in 2003, the outstanding balance of DIF Bonds of KRW 80 trillion 974.4 billion as of the end of 2002 was transferred to the Redemption Fund. The DIF Bonds that matured after 2003 were repaid with contributions from the Public Fund Redemption Fund, money raised by issuing DIF Bond Redemption Fund Bonds (Redemption Fund Bonds), special assessments, recovered funds, etc. in accordance with the Redemption Plan. All DIF Bonds issued before December 31, 2002 were paid off as of the end of 2008.

Table IX-3 Issuance and Redemption of DIF Bonds Issued before Dec. 31, 2002 by Year

(Unit: KRW)

Year	Issued Amount	Redeemed Amount	Balance
1998	21,015,044,000,000	-	21,015,044,000,000
1999	22,484,903,000,000	-	43,499,947,000,000
2000	8,940,700,000,000	-	52,440,647,000,000
2001	31,059,300,000,000	1,464,000,000,000	82,035,947,000,000
2002	3,660,000,000,000	4,721,500,000,000	80,974,447,000,000
2003	-	9,737,144,000,000	71,237,303,000,000
2004	-	16,622,737,500,000	54,614,565,500,000
2005	-	18,090,401,500,000	36,524,164,000,000
2006	-	19,063,614,000,000	17,460,550,000,000
2007	-	6,067,243,500,000	11,393,306,500,000
2008	-	11,393,306,500,000	-
Total	87,159,947,000,000[1)]	87,159,947,000,000	-

Note : 1) Total amount issued (accumulated) including conversion issue

D. Issuance of Redemption Fund Bonds and Their Repayment

Under Article 26-3 of the DPA, the KDIC is authorized to issue Redemption Fund Bonds to repay the principal and interest of DIF Bonds issued before December 31, 2002. In 2011, the KDIC issued Redemption Fund Bonds in the amount of KRW 780 billion through public offering at a fixed rate, with a five-year maturity. With the KDIC repaying KRW 3.73 trillion that matured in 2011, the outstanding balance as of 2011's end is KRW 23.74 trillion.

Table IX-4 Issuance and Redemption of Redemption Fund Bonds

(Unit: KRW)

Year	Issued Amount	Redeemed Amount	Balance
2004	6,500,000,000,000	-	6,500,000,000,000
2005	7,440,000,000,000	-	13,940,000,000,000
2006	2,870,500,000,000	315,500,000,000	16,495,000,000,000
2007	2,720,000,000,000	45,000,000,000	19,170,000,000,000
2008	8,800,000,000,000	10,000,000,000	27,960,000,000,000
2009	5,860,000,000,000	6,500,000,000,000	27,320,000,000,000
2010	6,810,000,000,000	7,440,000,000,000	26,690,000,000,000
2011	780,000,000,000	3,730,000,000,000	23,740,000,000,000
Total	41,780,500,000,000	18,040,500,000,000	23,740,000,000,000

E. Borrowings

Pursuant to article 26 of the DPA, the KDIC is authorized, when necessary for depositor reimbursement or resolution of insolvent financial institutions, to borrow funds from various entities including the government, the Bank of Korea, insured financial institutions and other institutions specified in Article 15-3 of the Enforcement Decree of the DPA. The KDIC borrowed necessary funds from the Special Account for Government Investment and Financing, the International Bank of Reconstruction and Development (IBRD), the Asian Development Bank (ADB), and KDIC-insured 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 borrowings from the Special Account for Government Investment and Financing as of January 1, 2003, in accordance with the Redemption Plan, it has not borrowed any money since 2003 under the Redemption Fund's lines of credit. In 2011, the KDIC repaid KRW 116.8 billion (USD 100 million) for the principal of loans from the IBRD, leaving the outstanding balance as of the end of 2011 at KRW 233.6 billion.

Table Ⅸ-5 Borrowings and Loan Repayments of the Redemption Fund

(Unit: KRW 100 million)

Year	Borrowed Amount				Repaid Amount	Balance
	Insured Financial Institutions	Loans[1]	Special Account for Government Investment and Financing	Sub 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
2010	-	-	-	-	1,168	3,504
2011	-	-	-	-	1,168	2,336
Total	183,204	14,453	185,594	383,251	380,915	2,336

Note : 1) Loans from the International Bank for Reconstruction and Development (IBRD) and Asian Development Bank (ADB), etc.

1-2. Financial Assistance

A. Overview

The KDIC provides financial assistance from the Redemption Fund, in the form of deposit payoffs, equity investment, loans, etc. to resolve insolvent financial institutions. The Redemption Fund provided a total of KRW 460 million in financial assistance during 2011, all of which was in the form of contribution.

Table Ⅸ-6 Financial Assistance and Deposit Payment from the Redemption Fund (2011)

(Unit: KRW)

Financial Sector	Equity Investment	Contribution	Asset Acquisition	Loans	Deposit Payoffs	Total
Banks	-	-	-	-	-	-
Financial Investment Companies	-	8,736,445	-	-	-	8,736,445
Insurance Companies	-	46,167,917	-	-	-	46,167,917
Merchant Banks	-	-	-	-	-	-
MSBs	-	410,000,000	-	-	-	410,000,000
Credit Unions	-	-	-	-	-	-
Total	-	464,904,362	-	-	-	464,904,362

The total amount of public funds provided by the Redemption Fund for the restructuring of insured financial institutions came to KRW 110 trillion 884.9 billion as of year-end 2011. This amount includes KRW 50.794 trillion (45.8%) in equity investment for business normalization, KRW 18.602 trillion (16.8%) in contributions for contract transfer, KRW 30.312 trillion (27.3%) for repayment of deposits for depositors of failed financial institutions, and KRW 11.177 trillion (10.1%) for the purchase of other assets.

Table Ⅸ-7 Financial Assistance and Deposit Payment from the Redemption Fund (Accumulated)

(As of late December 2011, Unit: KRW)

Financial Sector	Equity Investment	Contribution	Asset Acquisition[1]	Loans	Deposit Payoffs[1]	Total
Banks	22,203,879,614,160	13,909,304,352,211	8,106,444,073,801	-	-	44,219,628,040,172
Financial Investment Companies	9,976,873,000,000	414,332,026,466	2,123,943,660,527	-	11,270,816,793	12,526,419,503,786
Insurance Companies	15,919,758,000,000	3,119,162,832,669	349,481,101,882	-	-	19,388,401,934,551
Merchant Banks	2,693,050,000,000	743,110,579,116	-	-	18,271,810,047,468	21,707,970,626,584
MSBs	100,000,000	416,147,029,007	-	596,860,000,000	7,289,213,136,680	8,302,320,165,687
Credit Unions	-	-	-	-	4,740,151,481,096	4,740,151,481,096
Total	50,793,660,614,160	18,602,056,819,469	10,579,868,836,210	596,860,000,000	30,312,445,482,037	110,884,891,751,876

Note : 1) Financial assistance through the RFC is included

B. Financial Assistance for Each Financial Sector

(1) Banks

During 2011, the KDIC did not provide any funds to banks in the form of equity investment, contributions, or loans from the Redemption Fund.

(2) Financial Investment Companies

Korea Investment Holdings and Hana Daetoo Securities requested indemnification of litigation costs under the indemnification clauses in the stock sales contract signed by the KDIC for the sale of Korea Investment & Securities. The KDIC paid KRW 9 million in additional contribution from the Redemption Fund in 2011.

(3) Insurance Companies

KB Life Insurance, based on the contribution agreement it signed with the KDIC when it took over the previous Hanil Life Insurance, requested the KDIC to reimburse the company for the payment of dormant insurance claims upon request from customers during April 1, 2009 and May 31, 2011. The KDIC paid KRW 46 million in additional contribution from the Redemption Fund in 2011.

(4) Mutual Savings Banks

In compliance with the Seoul High Court's compulsory arbitration ruling on Saenuri Mutual Savings Bank's claim for equity contribution, the KDIC paid KRW 400 million in additional contribution from the Redemption Fund in 2011.

Table IX-8 Financial Assistance Provided to Mutual Savings Banks

(As of late December 2011, Unit: KRW 100 million)

Name	Equity Investment		Contribution		Loans	
	Before 2010	2011	Before 2010	2011	Before 2010	2011
Kyunggi (former Commit)	-	-	254	-	1,654	-
Kyungbuk (former Hanuri)	-	-	81	4	-	-
Daecheon (current Daejeon)	-	-	-	-	102	-
Domin (Keumkang)			28		709	
Dongwon (Korea Investment)			63		783	
Bumin (Busan)			243		-	
Busan2			-		271	
Sangup (former Hyundai)			701		-	
Saenuri			13		21	
Solomon (former Gold)	-	-	663	-	-	-
New Choongbuk	-	-	-	-	161	-
Arim	-	-	-	-	615	-
Union	-	-	39	-	518	-
Jone	-	-	325	-	-	-
Choil	-	-	29	-	738	-
Choongnam(former New Onyang)	-	-	-	-	45	-
Choongil	-	-	-	-	89	-
Telson (former New Hankook)	-	-	775	-	-	-
Hanaro	-	-	422	-	-	-
Hanmaum	-	-	521	-	-	-
Haedong (Kyunggi)	-	-	-	-	263	-
KR&C	1[1)]	-	-	-	-	-
Total	1	-	4,157	4	5,969	-

Note : 1) Equity participation in Hanareum Mutual Savings Bank that merged into the Resolution & Finance Corporation at the end of December 2001

Table Ⅸ-9 Deposit Payoffs to Mutual Savings Bank Depositors per Year

(Unit: # of cases, KRW 100 million)

Year	# of Failed MSBs	Amount of Deposit Payoffs
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	-
2010	-	-
2011	-	-
Total	95	72,892

1-3. Maximization of Public Fund Recovery

A. Overview

Depending on the nature of the support extended, the KDIC uses a number of methods to recover public funds. First, liquidation of equity stakes received in exchange for financial assistance. Seconly, for failed financial institutions whose liabilities exceed assets and for whom the KDIC made deposit payoffs or contributions, the KDIC participates in the bankruptcy process as a creditor and receives dividends. Thirdly, if the KDIC has taken over assets of or extended loans to an insured financial institution, it recovers the money through asset disposal or collection of loans using various methods.

The accumulated amount of public funds recovered as of the end of 2011 recorded KRW 48 trillion 782.6 billion including KRW 1 trillion 267.9 billion recovered in 2011 alone.

Table Ⅸ-10 Redemption Fund Recovery (2011)

(As of late December 2011, Unit: KRW)

Financial Sector	Recovery of Equity Investment	Settlement of Contributions, etc.	Sales of Assets[1)]	Recovery of Loans	Bankruptcy Dividends[1)]	Total
Banks	266,784,635,478	225,614,844	75,810,710,917	-	-	342,820,961,239
Financial Investment Companies	-	55,853,119	87,986,096,842	-	-	88,041,949,961
Insurance Companies	390,813,380,000	9,212,820	-	-	3,244,397,449	394,066,990,269
Merchant Banks	3,325,129,381	-	-	-	265,486,944,463	268,812,073,844
MSBs	-	120,920,055	-	-	171,071,888,811	171,192,808,866
Credit Unions	-	-	-	-	2,969,859,697	2,969,859,697
Total	660,923,144,859	411,600,838	163,796,807,759	-	442,773,090,420	1,267,904,643,876

Note : 1) Including recovery through the RFC

Table IX-11 Redemption Fund Recovery (Accumulated)

(As of late December 2011, Unit: KRW)

Financial Sector	Recovery of Equity Investment	Settlement of Contributions, etc.	Sales of Assets[1)]	Recovery of Loans	Bankruptcy Dividends[1)]	Total
Banks	16,079,684,461,188	69,770,625,266	5,845,460,085,697	-	1,818,139,532,616	23,813,054,704,767
Financial Investment Companies	1,212,144,785,109	323,045,036,658	1,790,559,205,026	-	7,466,100,396	3,333,215,127,189
Insurance Companies	3,415,788,823,995	88,397,817,441	232,518,101,882	-	429,821,419,955	4,166,526,163,273
Merchant Banks	138,256,473,509	5,931,643,350	-	-	8,215,922,494,919	8,360,110,611,778
MSBs	-	34,127,082,050	-	596,860,000,000	5,070,828,773,158	5,701,815,855,208
Credit Unions	-	401,687,311	-	-	3,407,460,406,405	3,407,862,093,716
Total	20,845,874,543,801	521,673,892,076	7,868,537,392,605	596,860,000,000	18,949,638,727,449	48,782,584,555,931

Note : 1) Including recovery through the RFC

B. Sale of Equity Stakes

(1) Banks

In 2011, the KDIC recovered KRW 270.1 billion in total through a block sale of Shinhan Financial Group shares and sales during trading hours of Jeju Bank shares. In the case of Shinhan Financial Group, remaining common stocks accounting for a 0.61% stake (2,910,000 shares) were sold through a block sale in July of 2011, resulting in a recovery of KRW 148.6 billion, and an additional KRW 5.9 billion was recovered through ex-post profit sharing and dividend collection. In particular, the KDIC successfully sold all its shares in Shinhan Financial Group acquired during the privatization of Chohung Bank through a block sale held in 2011. This led to a recovery of KRW 4 trillion 700 billion, which is higher than the amount spent on the resolution of Chohung (approximately KRW 2 trillion 700 billion) by KRW 2 trillion, achieving a recovery ratio of 173%. As for Woori Financial Bank, KRW 114.8 billion was recovered through dividend collection while KRW 800 million was recovered from the sale of Jeju Bank's common shares accounting for a 0.64% stake through sales during trading hours.

* Based on the sum of money provided from the banking account and the merchant banking account of the DIF for Woori Financial Group

Regarding Woori Financial Group sale, the KDIC resumed the sales procedure on May 17, 2011 in accordance with the Plan for Resumption of the Sale of Woori Financial Group, following a decision by the Public Funds Oversight Committee. However, as the proposed revision to the Enforcement Decree of the Financial Holding Companies Act (to cut the ownership requirement for a financial holding company to acquire another financial holding company from 100% to 50%) to improve the conditions for sale was withdrawn, the bids that passed the preliminary examination failed to qualify for the competitive bidding process, which put a stop to the sales procedures.

(2) Insurance Companies

In 2011, the KDIC recovered in full the outstanding balance of KRW 341.4 billion regarding Seoul Guarantee Insurance's convertible preferred stocks. In addition, KRW 49.4 billion was recovered through dividend collection from Korea Life Insurance.

(3) Miscellaneous

The KDIC recovered KRW 32.4 billion by selling its 3.53% stake in Korea Securities Finance Corporation through an open bid held in February, 2011. In March of 2011, 14.67% of Korea Finance Securities' shares were sold through competitive bidding, which resulted in a recovery of KRW 4.1 billion. Meanwhile 0.16% of SG Corporation shares were sold between July and December, which brought the KDIC KRW 100 million. On top of that, an additional KRW 1.3 billion was recovered through dividend collection from Hynix Semiconductor.

As seen in these efforts, the KDIC utilized a variety of methods to sell shares held by the KR&C (former RFC) including sales during trading hours, public sale, and exercise of stock options. These efforts resulted in a successful recovery of KRW 44.1 billion in total.

C. Recovery by the KR&C

The KR&C also uses a variety of recovery methods in addition to the traditional method of recovery-at-maturity. The methods include sales through M&A transactions, disposal of non-performing loans (NPLs) through joint venture special purpose companies (J.V. SPCs), and issuance of asset backed securities (ABSs). By the end of 2011, the KR&C had recovered a total of KRW 39 trillion 233.5 billion.

During 2011, the KR&C recovered KRW 329.7 billion through share sales entrusted to the KDIC, litigation at home and abroad, collection of loans, real estate sales in auctions and collection of bankruptcy dividends, etc.

Table IX-12 Recovery from Selling KR&C-owned Assets

(As of late December 2011, Unit: KRW 100 million)

Year	Asset Type[1]	Assets Subject to Sale	Amount Recovered	Recovery Method
Amount recovered in 2011	Loans	Loans in KRW	767	Direct collection and litigation
		Foreign currency bonds	77	
		Sub-total	844	
	Marketable securities	Listed and non-listed stocks	958[2]	Open bidding, sale during trading hours and dividend collection
	Real estates	Business buildings, etc.	-	
	Right of indemnity	Claims as subrogee for insured depositors, etc	1,495	Bankruptcy dividends
	Total		3,297	
Accumulated	Loans	Loans in KRW	100,930	International bidding, NPL sale, ABS issuance, etc.
		Foreign currency bonds	30,660	
		Sub-total	131,590	
	Marketable securities	Listed and non-listed stocks	49,616	Joint sale, block sale, etc.
	Real estates	Business buildings, etc.	6,220	Auction and negotiated contract
	Right of indemnity	Claims as subrogee for insured depositors, etc	204,909	Bankruptcy dividends
	Total		392,335	

Note : 1) Among assets owned by Hanareum Merchant Bank and Hanareum Mutual Savings Bank which are classified as subrogee for insured depositors under the classification criteria for deciding the types of public fund assistance, only the amount recovered from the sale of loans, marketable securities, and real estates (not the amount recovered from the exercise of subrogee rights) was included.

2) The recovered amount (KRW 44.1 billion) from the sale of KR&C-owned marketable securities in 2011 is included. The charge of the sale was entrusted to the KDIC.

D. Bankruptcy Dividends

During 2011, the KDIC received bankruptcy dividends worth KRW 442.8 billion in total (KRW 3.2 billion from bankruptcy estates of banks and insurance companies, KRW 439.6 billion from bankruptcy estates of merchant banks, MSBs and credit unions). By the end of 2011, the cumulative total of money recovered through bankruptcy dividend collection reached 18 trillion 949.6 billion.

Table IX-13 Bankruptcy Dividends Recovery per Financial Sector[1)]

(As of late December 2011, Unit: KRW 100 million)

Financial Sector	Number of Bankruptcy Estates	Amount Recovered	
		2010	Cumulative Total between 1999 and 2011
Banks	5	-	18,181
Insurance Companies	10	32	4,298
Financial Investment Companies	4	-	75
Merchant Banks	22	2,655	82,159
MSBs	92	1,711	50,708
Credit Unions	325	30	34,075
Total	458	4,428	189,496

Note : 1) The amount of bankruptcy dividends collected by the KDIC from bankruptcy estates(in cases where the KDIC reimbursed depositors directly) and the KR&C (in cases where the KDIC repaid depositors through the former Hanareum Merchant Bank or Hanareum Mutual Savings Bank)

E. Recovery of Loans

By the end of 2010, the KDIC had provided a total of KRW 596.9 billion in loans, all of which was recovered. By the end of 2011, it recovered a total of KRW 521.7 billion by settlement of contributions, etc. During 2011, it recovered a total of KRW 400 million by recovering 200 million from SC First Bank, KRW 10 million from Korea Investment and Securities and Daetoo Securities and Hyundai Investment and Securities, and KRW 100 million in damage claims against the parties implicated in mutual savings bank failures.

Meeting to discuss the results of the Special Account for MSB Restructuring and future challenges

2 Deposit Insurance Fund

2-1. Diversification of Funding Sources

A. Insurance Premiums

Pursuant to Article 30 of the DPA and Article 16 of the DPA Enforcement Decree, insured financial institutions are required to pay a given ratio of their deposit balance to the KDIC. Deposit balance for insurance companies, for example, would be the arithmetic mean of liability reserves and premiums revenue. 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 premiums within three months following the end of each financial year. The deposit insurance premiums up to 2002 were placed in the Redemption Fund established according to the Redemption Plan while deposit insurance premiums collected since 2003 has been placed in the Deposit Insurance Fund (DIF).

The KDIC set up the Special Account for the Restructuring of the MSB Sector (Special Account) to enhance the financial health of the MSB account in the DIF in accordance with Article 24-4 of the DPA amended in March of 2011. The Account is funded by 45% of the yearly insurance premiums paid by KDIC-insured financial institutions, issuance of DIF bonds, external borrowings, recovered funds, etc. Meanwhile, with the amended DPA Enforcement Decree in effect, the insurance premium rate for the MSB sector was raised to 40 bp from the previous 35 bp starting from July of 2011. The total amount of premiums received from insured financial institutions and paid into the DIF in 2011 came to KRW 1 trillion 223.1 billion. The insurance premiums are the main source of funding for the seven accounts of the DIF.

Table Ⅸ-14 Insurance Premium Rates per Financial Sector

Category	Banks	Financial Investment Companies	Insurance Companies	Merchant Banks	MSBs
Insurance Premium Rate	8/10,000	15/10,000[1)]	15/10,000[2)]	15/10,000	40/10,000[3)]
Legal Maximum Limit	50/10,000	50/10,000	50/10,000	50/10,000	50/10,000

Note : 1) The premium rate assessed on customer depositors at securities firms made by investment firms was cut by 30% starting from 2007.
2) The premium rates can be adjusted by plus or minus five percent of the standard rates considering each insurer's number of years in business, credit ratings and financial soundness
3) Premium rates were changed in July, 2011 in accordance with the amended Enforcement Decree of the Depositor Protection Act. (previously 35/10,000)

Table IX-15 Insurance Premium Revenue per Financial Sector

(Unit: KRW 100 million)

Year	Banks	Financial Investment Companies	Insurance Companies		Merchant Banks	MSBs	Special Account[2]	Total[3]
			Life	Non-life				
2003[1]	4,775	312	2,580	535	73	667	-	8,942
2004	4,960	336	2,832	571	17	793	-	9,509
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
2010	5,451	284	2,609	698	34	2,524	-	11,600
2011	4,795	283	2,362	700	18	2,331	1,742	12,231
Total	44,963	2,655	28,539	6,564	251	12,931	1,742	97,645

Note : 1) Insurance premiums received up to 2002 were transferred to the DIF Bond Repayment Fund.
2) Established in April of 2011
3) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was excluded.

B. Contributions from Insured Financial Institutions

Article 24 of the DPA and Article 14 of the DPA Enforcement Decree require a newly insured financial institution to contribute a specific proportion of its paid-in-capital or equity capital within one month of starting business operation in order to receive deposit insurance coverage. With the creation of the Redemption Fund, contributions made up to 2002 were transferred to the Redemption Fund whereas contributions received since 2003 have been incorporated into the Deposit Insurance Fund. The Corporation received KRW 1.23 billion in contribution during 2011.

Table IX-16 Contributions from Insured Financial Institutions

(Unit: KRW 1 million)

Year	Banks	Financial Investment Companies	Insurance Companies		Merchant Banks	MSBs	Special Account[2]	Total[3]
			Life	Non-life				
2003[1]	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	-	-	-	-	-	-	-	0
2008	160	11,005	-	-	-	556	-	11,721
2009	766	4,312	419	342	17	777	-	6,633
2010	80	584	900	30	-	-	-	1,594
2011	30	-	-	-	-	1,200	-	1,230
Total	2,006	17,101	2,569	972	17	5,123	-	27,788

Note : 1) Insurance premiums received up to 2002 were transferred to the DIF Bond Redemption Fund.
2) The Special Account has received no contribution yet.
3) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was excluded.

C. Issuance and Redemption of DIF Bonds for the Funding of the Special Account

Pursuant of Articles 24-4 and 26-2 of the DPA, the KDIC issued KRW 1 trillion 200 billion worth of DIF bonds to finance the Special Account without government guarantees using its own credit facility in December, 2011.

Table Ⅸ-17 Issuance and Redemption of DIF Bonds

(Unit: KRW 100 million)

Year	Issued Amount	Redeemed Amount	Balance
2011	12,000	-	12,000
Total	12,000	-	12,000

D. Borrowings

Pursuant to Article 26 of the DPA and Article 15 of the DPA Enforcement Decree, the DIF is authorized to, when necessary for deposit payoffs or resolution of insolvent financial institutions, borrow funds from various entities including the government, the Bank of Korea, insured financial institutions and other financial institutions specified in the Enforcement Decree. In accordance with this, the KDIC borrowed a total of KRW 166.4 billion from 2003 to 2004 to reimburse depositors of failed credit unions and KRW 231.4 billion during 2007 to resolve failed mutual savings banks.

Of the borrowings in the credit union account, a total of KRW 92 billion had been repaid from 2004 to 2008. The balance of the credit union account's debt was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010, which left the account with no borrowings.

As for the Special Account set up for the restructuring of the MSB sector, a total of 10 trillion 419.9 billion was borrowed from insured financial institutions including banks, among which 1.2 trillion won was repaid in December, 2011 through issuance of DIF Bonds. As of 2011's end, the outstanding loan amounted to KRW 9 trillion 219.9 billion.

Table Ⅸ-18 Borrowings and Loan Repayments of the DIF

(Unit: KRW 100 million)

Year	Borrowed Amount[1]				Recovered Amount	Balance
	Insured Financial Institutions	BOK, etc.	Government	Subtotal		
2007	2,314	-	-	2,314	-	2,314
2008	-	-	-	-	2,314	-
2009	-	-	-	-	-	-
2010	-	-	-	-	-	-
2011	104,199	-	-	104,199	12,000	92,199
Total	106,514	-	-	106,513	14,314	92,199

Note : 1) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was excluded. And there was no outside borrowing before 2006 except in the credit union account.

2-2. Timely Provision of Financial Assistance

A. Overview

Since 2003, the KDIC has provided financial assistance from the DIF for deposit payoffs and resolution of insolvent financial institutions in the form of equity investment, contribution, and loans. Until 2010, a total of KRW 4 trillion 527.8 billion was provided to 16 insolvent MSBs including Gimcheon MSB that was declared insolvent in 2010 from the DIF's MSB account.

During 2011, a total of KRW 12 trillion 592 billion was provided to 16 insolvent mutual savings banks from the Special Account of the DIF.

Table IX-19 Financial Assistance and Deposit Payment from the DIF (2011)

(Unit: KRW 100 million)

Account	Equity Investment	Contribution	Deposit Payoffs	Loans	Advance Payment of Bankruptcy Dividends	Total
Banks	-	-	-	-	-	-
Insurance Companies	-	-	-	-	-	-
Financial Investment Companies	-	-	-	-	-	-
Merchant Banks	-	-	-	-	-	-
MSBs[1]	-	-	-	-	-	-
Special Account	972	58,513	65,450	567	418	125,920
Total	972	58,513	65,450	567	418	125,920

Note : 1) The MSB account received no additional assistance in 2011.

Table IX-20 Financial Assistance and Deposit Payment from the DIF (Accumulated)

(As of late December 2011, Unit: KRW 100 million)

Account	Equity Investment	Contribution	Deposit Payoffs	Loans	Advance Payment of Bankruptcy Dividends	Total[1]
Banks	-	-	-	-	-	-
Insurance Companies	-	-	-	-	-	-
Financial Investment Companies	-	-	-	-	-	-
Merchant Banks	-	-	-	-	-	-
MSBs	1,211	24,542	14,412	4,891	219	45,275
Special Account	972	58,513	65,450	567	418	125,920
Total	2,183	83,055	79,862	5,458	637	171,195

Note : 1) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was excluded.

B. Financial Assistance for Each Financial Sector

(1) Mutual Savings Banks (Special Account)

For the 16 mutual savings banks that failed in 2011, the KDIC made deposit payoffs (including provisional deposit payments) and provided financial assistance. The assistance took the form of equity investment to make up for net asset shortages or equity contributions to enable contract transfers, as well as loans to the KR&C so it can take over problem assets. Following is a summary of financial assistance and deposit payoffs for mutual savings banks that were suspended in 2011.

Table IX-21 Financial Assistance and Insurance Claim Payment Regarding Insolvent Mutual Savings Banks Suspended in 2011

(As of late December 2011, Unit: KRW 100 million)

MSBs	Date of Business Suspension	Deposit Payoffs (including provisional deposit payments)	Contribution, Equity Investment, etc.	Total
Samhwa	Jan. 14	2,474	3,463	5,937
Busan	Feb. 17	5,770	23,721	29,491
Daejeon	Feb. 17	1,415	8,160	9,575
Busan2	Feb. 19	4,453	14,028	18,481
Busan Central	Feb. 19	586	1,968	2,554
Jeonju	Feb. 19	350	1,802	2,152
Bohae	Feb. 19	2,063	6,212	8,275
Domin	Feb. 23	559	264	823
Kyongeun	Aug. 5	382	852	1,234
Prime	Sep. 18	4,629	-	4,629
Daeyoung	Sep. 18	1,426	-	1,426
Jeil	Sep. 18	10,795	-	10,795
Jeil2	Sep. 18	3,421	-	3,421
Tomato	Sep. 18	18,916	-	18,916
Ace	Sep. 18	6,564	-	6,564
Parangsae	Sep. 18	1,647	-	1,647
Total		65,450	60,470	125,920

2-3. Recovery Maximization

A. Overview

The KDIC uses the same methods as in the case of the Redemption Fund to recover the public funds provided in financial assistance. Such methods include: sale of equity stakes in insured financial institutions, collection of bankruptcy dividends through participation in bankruptcy procedures, and recovery of loans it made to insured financial institutions. Using these methods, the KDIC recovered KRW 1 trillion 393.8 billion in total from 2003 to 2011 including KRW 385 billion recovered in 2011 alone in the MSB account and the Special Account.

Table IX-22 DIF Recovery (2011 and Accumulated)

(As of late December 2011, Unit: KRW 100 million)

Category		Equity Investment	Contribution	Bankruptcy Dividends, etc.	Loans	Advance Payment of Bankruptcy Dividends	Total[1]
2011	MSB Account	-	217	1,412	597	38[3]	2,264
	Special Account	-	-	1,426[2]	160	-	1,586
	Total	-	217	2,838	757	38	3,850
2003 to 2011 Accumulated		2,530	785	6,489	4,096	38	13,938

Note : 1) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was excluded.
2) The money (KRW 146.2 billion) spent in provisional payments to depositors of Daeyoung Mutual Savings Bank which was suspended in 2011 was recovered when the bank returned to normal operation(Its management control was taken over by Hyundai Securities.).
3) The money (KRW 3.8 billion) spent to make advance dividends payments to Ettum Mutual Savings Bank's crediotrs was recovered from collecting bankruptcy dividends from its bankruptcy estate.

B. Recovery of Loans and Bankruptcy Dividends

During 2011, the KDIC collected KRW 283.8 billion in bankruptcy dividends through the sale of remaining assets owned by bankruptcy estates that had received public fund assistance from the DIF. Since 2003, a cumulative total of KRW 648.9 billion has been recovered.

From 2003 to 2010, the KDIC offered KRW 489.1 billion of loans to the KR&C to facilitate the restructuring of 12 mutual savings banks including Kyungbuk Mutual Savings Bank, among which KRW 333.9 billion was recovered. In 2011, the KDIC recovered another KRW 75.7 billion, bringing the total cumulative recovery to 409.6 billion.

Table IX-23 Recovery of Bankruptcy Dividends and Loans

(As of late December 2011, Unit: KRW 100 million)

Financial Sector	Bankruptcy Dividends, etc[1]		Loans[1]	
	2011	2003-2011 Accumulated	2011	2003-2011 Accumulated
MSBs (including the Special Account)	2,838	6,489	757	4,096

Note : 1) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was excluded.

C. Enhancing the Financial Health of the DIF

The new Deposit Insurance Fund (DIF) came into effect in 2003. The ministerial meeting for a regulatory reform, held in May 2006, approved the adoption of the Target Fund System and the overhaul of insurance premium rates as a means to reform the deposit insurance system. After that, the KDIC held a Deposit Insurance Policy Symposium in March 2007 to gather opinions from various circles.

The Symposium was organized based on the results of a research preformed by outside experts between September 2006 and March 2007.

In October 2007, a private-public joint task force team was formed to make improvements to the deposit insurance system including the adoption of the Target Fund System and adjustment of the premium rates. In December 2007, the National Assembly amended the DPA as proposed by lawmakers and approved the implementation of the Target Fund System starting from 2009.

An amendment of the DPA in February 2009 allowed the separation between accounts for life and non-life insurance companies and a delay in setting up reserve targets for accounts that cover only a small number of institutions. Also, by amending the Enforcement Decree of the DPA in June 2009, it was decided that the Deposit Insurance Committee may decide to reduce, exempt, or refund premium payments through a vote if fund reserves reach the target amount.

In particular, the amendment to the DPA in March, 2011 allowed the establishment of the Special Account for the Restructuring of the MSB Sector as the seventh account of the DIF. Through this, the KDIC tried to enhance the DIF's capability to handle insolvencies as well as effectively carry out the resolution and restructuring of failed mutual savings banks. The Special Account will be maintained until the end of 2026 to finance the resolution of MSB failures that occur after 2011. The account is funded by a portion of insurance premiums paid by other financial sector institutions as well as recovered funds. Amendment to the DPA Enforcement Decree raised insurance premium rates for mutual savings banks from 0.35% of the insurable deposits to 0.40% starting from July of 2011. The purpose is to encourage mutual savings banks to resolve their own problems while enforcing the beneficiary-pays principle. With the introduction of the Special Account, the target reserves were cut by 55% for all financial sectors. The Deposit Insurance Committee reviewed the level of reserves in each account relative to the adjusted target reserves and decided to exempt financial investment firms, life insurers and non-life insurers from premium payments as they exceeded their maximum targets.

Meanwhile, the KDIC issued DIF Bonds without government guarantee using its own credit facility starting from December, 2011 in an effort to repay the borrowings from banks, etc. This contributed to reducing the financing costs for the Special Account and stabilizing the maturity structure of debt.

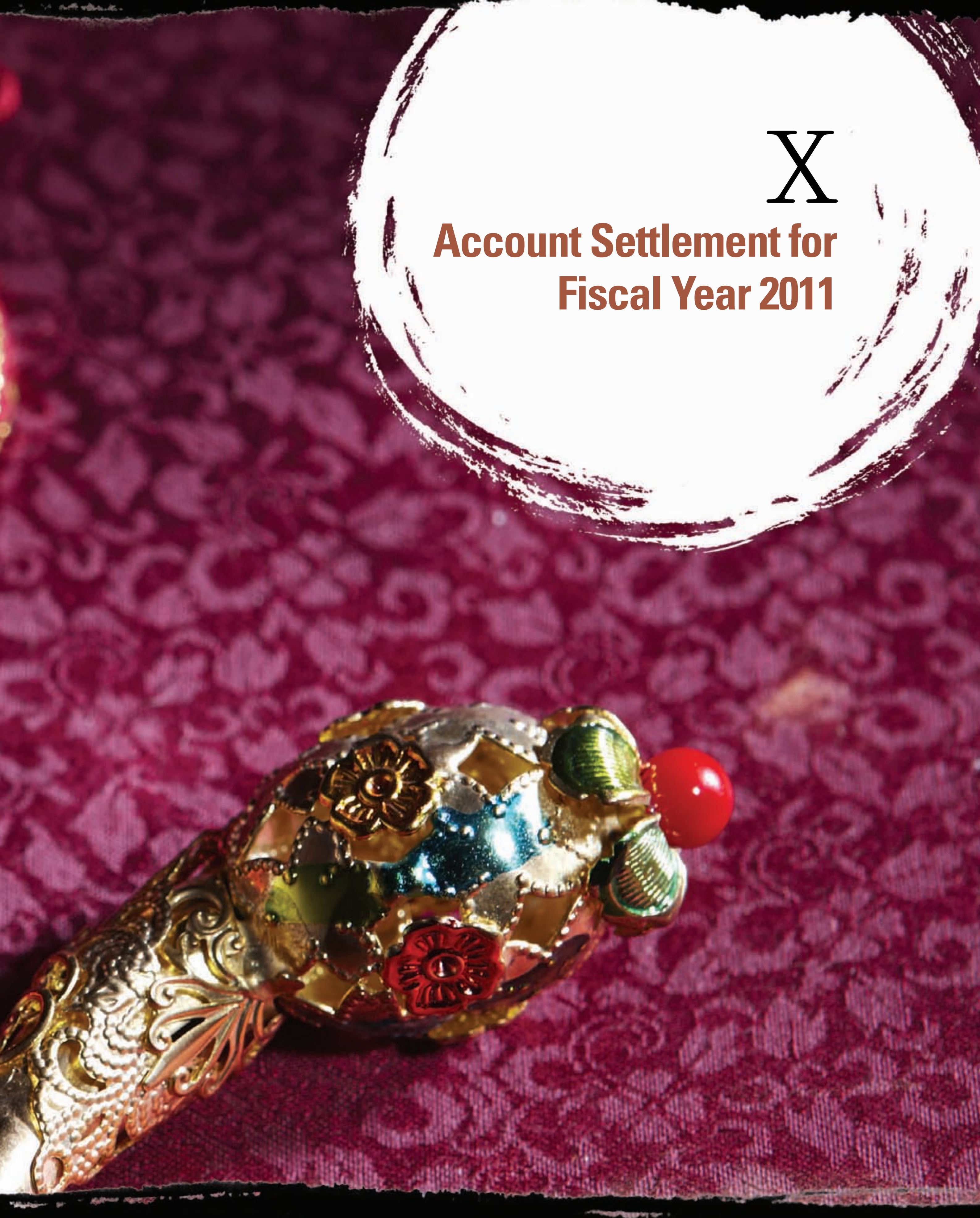
The KDIC improved its decision-making system for the handling of surplus funds in the DIF. For example, it diversified the types of assets in which the surplus funds can be invested by adding bank bonds in September, 2010 and set up the Fund Management Performance Evaluation Committee in October, 2010 to evaluate management performance every six months.

To strike a balance between stability and profit-seeking in surplus fund management, the KDIC made efforts to adopt a more advanced management system. In February of 2011, the KDIC succeeded in raising financial resources for MSB restructuring in a timely manner through large-scale bond sales and took profits during the process. In addition, the KDIC worked out a plan to revitalize the Investment Advisory Council in October, 2011, which contributed to advancing the governance structure in fund management. The KDIC also enhanced its risk management system by establishing a plan for enhanced operational risk management in October, 2011 and an emergency risk management plan regarding surplus funds in November of 2011.

Going forward, the KDIC will work closely with the government and other relevant organizations to reduce the deficit in the MSB account. The KDIC is committed to protecting depositors and maintaining financial stability by ensuring the financial health of the DIF.

Norigae, an accessory worn by women with traditional Korean dress

X
Account Settlement for Fiscal Year 2011



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Account Settlement for Fiscal Year 2011

1 Overview of Account Settlement

The KDIC has classified its funds into three accounting units: the Deposit Insurance Fund (DIF), the KDIC Internal Account, and the Deposit Insurance Fund Bond Redemption Fund (Redemption Fund) pursuant to Article 24-3 (separate accounting) of the Depositor Protection Act (DPA). However, the DIF and the KDIC Internal Account will have consolidated financial statements with the exception of internal transactions between separate accounting entities and unrealized gains (losses) in accordance with the Act on the Management of Public Agencies and the Accounting Rules for Public Corporations and Quasi-government Institutions.

The DIF is again divided into seven accounts based on the DPA: banks, financial investment companies, life insurance companies, non-life insurance companies, merchant banks, mutual savings banks, and the Special Account for MSB Restructuring. The DIF Bond Redemption Fund is divided into seven accounts as well: banks, financial investment companies, life insurance companies, non-life insurance companies, merchant banks, mutual savings banks and credit unions.

In order to enhance the credibility and transparency of its accounting, the KDIC has used the services of accounting firms to conduct an outside audit from 2002 fiscal year. For the account settlement of 2011, the audit was conducted by Nexia Samduk and the auditor's opinion was "Unqualified".

2 Criteria for Account Settlement

The financial statements of the DIF and KDIC Internal Account are prepared based on the Accounting Rules for Public Corporations and Quasi-government Institutions and the financial statements of the DIF Bond Redemption Fund are prepared based on the Rules on Government Accounting Standards. Following are some of the major accounting standards.

2-1. DIF and KDIC Accounting

2-1-1. Accounting for Assets and Liabilities

A. Classification and Valuation of Securities

(1) Acquisition Cost 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 securities as Trading, Available-For-Sale (AFS), Held-To-Maturity (HTS) and Equity Method Securities, according to the ownership purpose of each of the securities. Equity Method Securities refer to equity securities purchase in order to exercise material influence over the invested 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 used as the fair value. However, in cases where AFS securities are not marketable, and, at the same time, the value cannot be assessed fairly, their acquisition cost is deemed to be the fair value. Unrealized gains/losses on Trading securities are booked in net income and unrealized gains/loss on AFS securities are treated as accumulated other comprehensive income. The accumulated other comprehensive income on AFS securities are recorded as net income at the time the AFS securities are sold or impairment losses are recognized. When the recoverable amount after the write-off of the securities is less than the acquisition cost and there is clear evidence that the impairment is genuine, the impairment loss is booked in net income. The accounting treatment of a reversal of impairment loss that occurs subsequent to the recording of an impairment loss 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 equity securities that can have a material impact on the invested company is determined by using the equity method. Initially, equity securities are valuated at their acquisition cost and then the changes in their value after the acquisition are directly added to or deducted from the acquisition cost. If the changes originate from net income/loss of the invested company, the pertinent gains/losses are reflected in net income/loss by recording them as gains/losses on valuation of investment stock using the equity method. If the changes originate from an increase or decrease in unappropriated retained earnings carried over from prior year due to material misstatement or accounting procedure changes of the invested company, the increase/decrease is added to or deducted from the net income/loss or unappropriated retained earnings carried over from prior year. The decision to choose which account of the two to use should be based on its impact on the invested company's balance sheet. If the decrease or increase was due to a fluctuation in the equity capital, excluding net income or unappropriated retained earnings carried over from prior year, the pertinent change is added to or deducted from accumulated other comprehensive income under gain (or loss) on valuation of investment stock using the equity method.

B. Valuation of Loans, etc.

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

C. Reserves for Outstanding Claims

Other provisional liabilities (reserves for outstanding claims) are estimated and set aside by the KDIC to cover any liability arising from an insured financial institution's failure or the loss of a lawsuit.

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

The DIF covers the costs incurred in acquiring assets and the KDIC's operating expenses. The money used for the KDIC's capital expenditures is appropriated as other non-current assets (transferred-out capital budget) and, if the asset decreases in value due to depreciation etc. the corresponding amount is deducted from other non-current assets (transferred-out capital budget) and added to operating expenses. In addition, the money spent for the operation of the KDIC such as salaries is treated as operating expense.

2-1-2. Accounting for Revenues and Expenses

A. Revenue Recognition Criteria

Revenues and expenses are booked in gross amount without any direct set-off between revenue and expense accounts. Deposit insurance premium revenue is recognized as it accrues over time. Interest income arising from deposits, etc. is also treated the same way but interest income from uncollectable loans is recognized on a cash basis as the income is unlikely to be realized.

B. Accrual of Revenues and Expenses

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

(1) (Deferral of Expense) If an expense referring to the following fiscal year is prepaid, it is booked as prepaid expense and deducted from current expenditures.
(2) (Expense Booking) An expense belonging to the current fiscal year but remaining unpaid as of the date of account settlement is recorded as unpaid expense and added to expenses. An expense of which the amount had not been fixed as of the date of account settlement is not recorded.
(3) (Revenue Booking) Revenue belonging to the current fiscal year that has not been received in cash as of the date of account settlement is recorded as accrued revenue and added to income.

2-2. DIF Bond Redemption Fund

2-2-1. Application of National Accounting Standards

The financial statements of DIF Bond Redemption Fund are prepared based on the Rules on National Accounting Standards, which came into effect on January 1, 2009.

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 acquisition cost and applying the identified cost method. Securities are classified in accordance with asset classification standards into short-term and long-term investment securities. Short-term investment securities include debt securities, equity securities and other short-term 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 one year.

(2) Valuation of Securities

Debt securities are valued at their amortized acquisition cost and equity securities, other long-term, and short-term investment securities are valued at their acquisition cost. However, long-term and short-term investment securities purchased for investment purposes are valued at fair value if the fair value can be reliably estimated on the balance sheet date and the difference between book value and fair value is recorded as adjustment in the statement of changes in net assets. In the meantime, if the recoverable amount of securities declines below their book value and the decline is sustained for such a prolonged period that restoration is not likely, the corresponding difference will be recognized as impairment loss and reflected in the net cost for financial management. If the recoverable amount of securities recovers above the book value prior to the recognition of impairment loss, the amount of reversal shall be recognized as a reversal of impairment loss and included in the net cost for financial management, but not exceeding the book value.

B. Valuation of Loans etc.

A bad debt allowance is reserved by estimating expected losses from loans, account receivables or indemnity receivables. As for the indemnity receivables from bankruptcy estates, the corresponding bad debt allowance is calculated by estimating the losses from 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 base exchange rate as of the balance sheet date is applied. The gains/losses arising from the foreign exchange conversion are booked 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. And the evaluation gains/losses are reflected in the net cost for financial management. However, as for the valuation of derivatives acquired to mitigate the risk in cash flow fluctuations, the evaluation gains/losses are recorded as gains/losses on valuation of derivatives instruments in the reconciliation account of the statement of changes in net assets.

E. Long-term Provisions

If an outflow of resources is highly likely as a result of past events or transactions as of the balance sheet date, though the timing and amount is not clear yet, and if the amount can be reliably estimated, the expected loss is appropriated to long-term provisions.

F. Discount or Premium on Debentures Issued

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

G. Transferred-out Capital Budget and Operating Expenses

The DIF Bond Redemption Fund covers the costs associated with assets used by the KDIC and other operating expenses. The money spent for capital expenditures 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 operating expenses. In addition, the money spent for the operation of the KDIC such as salaries which are allocated to the financial policy support program are booked as total program costs and the rest as management and operation expenses.

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 occurs based on the accrual accounting principle. Exchange revenues are recognized when the revenue generating activity is completed and the amount can be reasonably estimated. Non-exchange revenues are recognized when the claim for the relevant revenue accrues and the amount can be reasonably estimated. Interest income from unrecoverable claims is recognized on a cash basis as the income is unlikely to be realized.

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 in laws or regulations and the amount can be reasonably estimated. When the economic benefit of an asset that was recognized as an asset in the past decreases or disappears, or when a liability clearly incurs or increases without an expenditure of resources, it is recognized as an expense.

3 Account Settlement Results

3-1. KDIC (Combined with the DIF)

The KDIC prepares a consolidated financial statement for the DIF and the KDIC Internal Account under the Act on the Management of Public Institutions and the Accounting Rulings for Public Corporations and Quasi-government Institutions. However, since the two are separate accounting entities according to the DPA, internal transactions and unrealized gains (losses) between them are not included in the consolidated statement.

The financial status and P&L status by accounting unit are as follows:

A. Deposit Insurance Fund

(1) Financial Status

As of the end of 2011, the total asset of the DIF increased by KRW 5.377 trillion or 79.4% to KRW 12.152 trillion compared to a year ago. The increase is mainly attributable to deposit payoffs to failed mutual savings bank depositors (KRW 4.917 trillion) and the net increase in indemnity receivables (KRW 877.5 billion).

Indemnity receivables increased by a total of KRW 7.211 trillion to KRW 10.707 trillion due to deposit payoffs and equity contributions related to mutual savings bank failures. The net asset increase, after deducting allowances for bad debt of KRW 6.333 trillion, is at KRW 877.5 billion. Investment assets decreased by KRW 549 billion to KRW 1.377 trillion because DIF sold the bonds under management to finance the large-scale restructuring of failed financial institutions.

The total liabilities increased by KRW 16.359 trillion to KRW 16.361 trillion as of the end of 2011. This is attributable to borrowings from financial institutions (KRW 9.219 trillion), bond issues (KRW 1.201 trillion), and other provisions (KRW 5.790 trillion) for the purpose of providing financial support to the sixteen mutual savings banks that failed in 2011.

The total equity dropped by KRW 10. 982 trillion or 162.1% to KRW -4.208 trillion. This is caused by the reduction in retained earnings because of the net loss of KRW 10.964 trillion in 2011.

(2) Profit and Loss

The net loss in 2011 decreased by KRW 12.347 trillion to KRW -10.964 trillion.

The operating profit recorded at KRW 1.166 trillion including the operating income of KRW 1.426 trillion. The operating income is mainly composed of insurance premium revenue (KRW 1.138 trillion), interest income earned from asset management (KRW 196.3 billion). The operating expense (KRW 259.8 billion) includes interest expenses (KRW 181.7 billion) and recurring operating expenses (KRW

74.6 billion).

Meanwhile, non-operating loss stood at KRW -12.131 trillion, which is mainly attributable to the net reversal of provisions (KRW 6.326 trillion) related to deposit payoffs and indemnity receivables for equity contribution, and to the net reversal of other provisions (KRW 5.790 trillion). This reflects expected losses from the failures of seven mutual savings banks (Tomato, Prime, Parangsae, Jeil 1, Jeil 2, Ace and Busan). They became insolvent in 2011 but the contract transfers or deposit payoffs have not been completed as of December 31, 2011.

B. KDIC Accounting

(1) Financial Status

The total asset stood at KRW 21.1 billion as of the end of 2011, up by KRW 5.1 billion or 31.9% from a year earlier. The current asset increased by KRW 4 billion year-over-year to KRW 5.9 billion. This is due to the increase in short-term investment of KRW 3.6 billion which resulted from investing provisions for severance benefits in term deposits. The non-current asset recorded at KRW 15.2 billion, up by KRW 1.1 billion from the previous year due to the additional purchase of condominium membership and additional lease of company houses for relocated employees, etc.

The total liabilities increased by KRW 5.1 billion or 32.1% to KRW 21 billion as of the end of 2011. The current liabilities, at KRW 2 billion, grew by KRW 800 million due to an increase in accrued expenses and withholding income tax. The non-current liabilities, at KRW 18.9 billion, went up by KRW 4.3 billion due to an increase in retirement pension liabilities, etc.

The total equity stood at KRW 100 million at the end of 2011, down by KRW 3 million compared to a year ago.

(2) Profit and Loss

The net loss in 2011 recorded at KRW 3 million, a difference between the total revenue of KRW 85.728 billion and the total expense of KRW 85.731 billion.

The total revenue, at KRW 85.728 billion, is broken down into interest income from deposits of KRW 500 million (0.6%) and other operating income of KRW 85.2 billion (99.4%) including income transferred from funds.

The total expense, at KRW 85.731 billion, includes salaries (KRW 50 billion (58%)) and general expenses (KRW 35.7 billion (42%)).

3-2. DIF Bond Redemption Fund

A. Financial Status

The total asset of the Redemption Fund recorded at KRW 10.571 trillion, down by KRW 6.015 trillion or 36.3% from the previous year. The asset decrease is attributable to the decrease in investment assets of KRW 4.042 trillion. This is because of the valuation loss in equity securities (KRW 2.908 trillion) primarily resulting from the declining stock price of Woori Financial Holdings and the decrease in expected net recovery from long-term loans to the KR&C. The current asset decreased by KRW 1.935 trillion year-on-year to KRW 1.677 trillion because of deposit withdrawals of KRW 1.658 trillion and liquidation of short-term investment securities worth KRW 269.8 billion to repay debts including the DIF bonds.

The total liabilities recorded at KRW 24.114 trillion as of the end of 2011, down by KRW 3.091 trillion or 11.4% from the previous year. The proceeds from the disposal of equity holdings (KRW 490 billion) in companies like Shinhan Financial Holdings and the recovery of loans to the KR&C (KRW 552.8 billion) and income from assets under management (KRW 1.928 trillion) were used to repay part of the debts including the DIF bonds.

The total asset stood at KRW -13.542 trillion as of the end of 2011, down by KRW 2.924 trillion or 27.5% from the previous year. Though the net income of KRW 79.5 billion was realized in 2011, the net asset declined by KRW 3.003 trillion due to the loss on the valuation of investment securities resulting from sliding stock prices of equity securities.

B. Profit and Loss

The DIF Bond Redemption Fund's financial operation generated a result of KRW - 79.5 billion, down by KRW 719.5 billion or 90.1% to from the previous year. "Financial operation result" is a term that is opposite to net income in corporate accounting. The negative result means that profit exceeded costs. The decrease in net income is primarily attributable to an increase in net program costs of KRW 554.2 billion due to the reduction in gains on the disposal of equity investments (KRW 733 billion).

The net program costs incurred for the operation of the financial policy support program, an essential business of the DIF Bond Redemption Fund, was at KRW 1.069 trillion. The figure was arrived at by deducting program income of KRW 942.1 billion from the total program costs of KRW 2.011 trillion.

The net cost of financial operation came to KRW 1.029 trillion, calculated by adding KRW 10.6 billion of administrative and managerial costs and KRW 4.9 billion of non-allocated costs to the net program costs of KRW 1.069 trillion and then deducting KRW 55.6 billion of non-allocated revenue. The administrative and managerial costs here refer to management expenses including salaries and general expenses that are not allocated to program costs. Non-allocated costs and revenue are those that are not related to the program's operation.

On the other hand, the financial operation result of KRW - 79.5 billion was calculated by deducting non-exchange revenue of KRW 1.029 trillion from net financial operation costs of KRW 1.108 trillion. Non-exchange revenue means the inflow of resources without an obligation to offer goods or services in return such as special assessment payments.

Table Ⅹ-1 Condensed Statement of Financial Position

Current period : As of December 31, 2011
Previous period : As of December 31, 2010

(DIF and KDIC Accounts Combined) (Unit : KRW 100 million)

ASSETS	Amount	
	Current Period	Previous Period
Current Assets	94,722	44,198
1. Quick Assets	94,722	44,198
Cash and Cash Equivalents	2,149	2,086
Short-term Financial Instruments	17,162	14,939
Current Available-for-sale Securities	19,944	19,990
Short-term Loans	1,786	1,827
(Allowance for Doubtful Accounts)	(-)805	(-)886
Accrued Income	5,348	6,269
(Allowance for Doubtful Accounts)	(-)36	(-)34
Advanced Payments	49,174	7
Prepaid Expenses	-	-
Non Current Assets	26,933	23,638
1. Investment Assets	13,794	19,283
Available-for-sale Securities	12,667	18,900
Investment Stock Using Equity Method	1,067	246
Long-term Loans	40	120
Other Investment Assets	6	6
Membership	14	11
2. Tangible Assets	27	29
Buildings	6	5
(Accumulated depreciation)	(-)5	(-)5
Other Tangible Assets	170	151
(Accumulated depreciation)	(-)144	(-)122
3. Other Non Current Assets	13,112	4,326
Indemnity Receivables	107,077	34,963
(Allowance for Doubtful Accounts)	(-)94,070	(-)30,731
Deposit	105	94
Other Non Current Assets	-	-
Total Assets	121,655	67,836

LIABILITIES AND EQUITY	Amount	
	Current Period	Previous Period
Current Liabilities	151,621	27
1. Short-term Borrowings	92,199	-
2. Account Payables	-	-
3. Deposits	26	22
4. Advances from Customers	6	-
5. Accrued Expenses	1,488	5
6. Other Provisions	57,902	-
Non Current Liabilities	12,120	74
1. Bonds	12,000	-
2. Bonds Premium/Discount	11	-
3. Provisions for Severance Benefits	127	1004.
4. (Contribution to National Pension Plan)	-	-
5. (Deposits for Severance Insurance)	(-)92	(-)100
6. Other Non Current Liabilities	74	74
Total Liabilities	163,741	101
Retained Earnings	(-)42,124	67,518
Current Period: (-)109,642		
Previous Period: 13,835		
Accumulated Other Comprehensive Gains/Losses	38	217
1. Valuation Gain on Available-for-sale securities	337	652
2. Valuation Loss on Available-for-sale securities	(-)299	(-)435
3. Equity Adjustment under Equity Method	-	-
Total Equity	(-)42,086	67,735
Total Liabilities and Equity	121,655	67,836

Table Ⅹ-2 Condensed Income Statement

Current period : For the year ended December 31, 2011
Previous period : For the year ended December 31, 2010

(DIF and KDIC Accounts Combined)

(Unit : KRW 100 million)

EXPENSES	Amount	
	Current Period	Previous Period
Operating Expenses (B)	2,730	750
1. Direct Operating Expenses	1,852	-
Ordinary Expenses	-	-
Interest Expenses on Borrowings	1,817	-
Interest Expenses on Bonds	28	-
KDIC Direct Expenses	7	-
2. Salaries	500	429
3. General Expenses	378	321
Operating Income/Loss(C=A-B)	11,672	13,380
Other Expenses (E)	182,043	7,103
1. Other Allowances for Doubtful Accounts	64,800	6,922
2. Other Transferred-in Provisions	117,084	-
3. Equity Method Loss	159	181
4. Other Expenses	-	-
Net Income (C+D-E)	(-)109,641	13,835

REVENUES	Amount	
	Current Period	Previous Period
Operating Income (A)	14,402	14,130
1. Financing Income	1,968	2,161
Interest Income on Deposits	688	521
Interest Income on Securities	1,171	1,557
Interest Income on Loans	69	63
Gains on Disposal of Securities	40	20
2. Other Operating Income	12,434	11,969
Insurance Premiums	11,381	11,808
Contributions	12	16
Contributions to Fund	129	134
Other Operating Income	912	11
Other Income (D)	60,730	7,558
1. Reversal of Allowances for Doubtful Accounts	1,540	687
2. Reversal of other provisions	59,182	6,871
3. Equity Method Gains	8	-
4. Other Income	-	-

Table Ⅹ-3 Condensed Statement of Financial Position

Current period : As of December 31, 2011
Previous period : As of December 31, 2010

(DIF)

(Unit : KRW 100 million)

ASSETS	Amount	
	Current Period	Previous Period
Current Assets	94,664	44,179
1.Quick Assets	94,664	44,179
Cash and Cash Equivalents	2,129	2,074
Short-term Financial Instruments	17,126	14,939
Current Available-for-sale Securities	19,944	19,990
Short-term Loans	1,786	1,827
(Allowance for Doubtful Accounts)	(-)805	(-)886
Accrued Income	5,348	6,269
(Allowance for Doubtful Accounts)	(-)36	(-)34
Advanced Payments	49,172	-
Non Current Assets	26,861	23,570
1. Investment Assets	13,774	19,266
Available-for-sale Securities	12,667	18,900
Investment Stock Using Equity Method	1,067	246
Long-term Loans	40	120
2. Other Non Current Assets	13,087	4,304
Indemnity Receivables	107,077	34,963
(Allowance for Doubtful Accounts)	(-)94,070	(-)30,731
Other Non Current Assets	80	72
Total Assets	121,525	67,749

LIABILITIES AND EQUITY	Amount	
	Current Period	Previous Period
Current Liabilities	151,600	15
1. Short-term borrowings	92,199	-
2. Account Payables	-	-
3. Deposits	15	15
4. Advances from Customers	6	-
5. Accrued Expenses	1,478	-
6. Other Provisions	57,902	-
Non Current Liabilities	12,011	-
1. Bonds	12,000	-
2. Bond Premium/Discount	11	-
Total Liabilities	163,611	15
Retained Earnings	(-)42,124	67,517
Current Period: (-)109,641		
Previous Period: 13,834		
Accumulated Other Comprehensive Gains/Losses	38	217
1. Valuation Gain on Available-for-sale securities	337	652
2. Valuation Loss on Available-for-sale securities	(-)299	(-)435
3. Equity Adjustment under Equity Method	-	-
Total Equity	(-)42,086	67,734
Total Liabilities and Equity	121,525	67,749

Table Ⅹ-4 Condensed Income Statement

Current period : For the year ended December 31, 2011
Previous period : For the year ended December 31, 2010

(DIF)

(Unit : KRW 100 million)

EXPENSES	Amount		REVENUE	Amount	
	Current Period	Previous Period		Current Period	Previous Period
Operating Expenses (B)	2,598	613	Operating Income (A)	14,267	13,990
1. Direct Operating Expenses	2,598	613	1. Financing Income	1,963	2,156
Ordinary Expenses	746	613	Interest Income on Deposits	683	516
Interest Expenses on Borrowings	1,817	-	Interest Income on Securities	1,171	1,557
Interest Expenses on Bonds	28	-	Interest Income on Loans	69	63
DIF Direct Expenses	7	-	Gain on Disposal of Securities	40	20
			2. Other Operating Income	12,304	11,834
			Insurance Premiums	11,381	11,808
			Contributions	12	16
Operating Income/Losses (C=A-B)	11,669	13,377	Other Operating Income	911	10
Other Expenses (E)	182,043	7,103	Other Income (D)	60,733	7,560
1. Other Allowances for Doubtful Accounts	64,800	6,922	1. Reversal of Allowances for Doubtful Accounts	1,540	687
2. Other Transferred-in Provisions	117,084	-	2. Reversal of other provisions	59,182	6,871
3. Equity Methold Loss	159	181	3. Equity Method Gains	8	-
4. Other Expenses	-	-			
Net Income (C+D-E)	(-)109,641	13,834	4. Other Income	3	2

Table Ⅹ-5 Condensed Statement of Financial Position

Current period : As of December 31, 2011
Previous period : As of December 31, 2010

(KDIC) (Unit : KRW 1 million)

ASSETS	Amount		LIABILITIES AND EQUITY	Amount	
	Current Period	Previous Period		Current Period	Previous Period
Current Assets	5,913	1,912	Current Liabilities	2,012	1,189
1. Quick Assets	5,913	1,912	1. Deposits	1,087	751
Cash and Cash Equivalents	2,013	1,189	2. Accrued Expenses	925	438
Short-term Financial Instruments	3,621	-			
Accrued Income	6	8			
Advanced Payments	216	670			
Account Receivables	9	-			
Prepaid Expenses	48	45			
Non Current Assets	15,159	14,077	Non Current Liabilities	18,933	14,670
1. Investment Assets	1,976	1,714	1. Provisions for Severance Benefits	12,703	10,041
Other Investment Assets	555	611	2. (Contribution to National Pension Plan)	(-)2	(-)3
Membership	1,421	1,103	3. (Deposits for Severance Insurance)	(-)9,143	(-)10,038
2. Tangible Assets	2,734	2,922	4. Other Non Current Liabilities	15,375	14,670
Buildings	591	460			
(Accumulated depreciation)	(-)488	(-)442	Total Liabilities	20,945	15,859
Other Tangible Assets	16,988	15,146	1. Retained Earnings	127	130
(Accumulated depreciation)	(-)14,357	(-)12,242	Current Period: (-)3		
3. Other Non Current Assets	10,449	9,441	Previous Period: 57		
Deposits	10,449	9,441	Total Equity	127	130
Total Assets	21,072	15,989	Total Liabilities and Equity	21,072	15,989

Table Ⅹ-6 Condensed Income Statement

Current period : For the year ended December 31, 2011
Previous period : For the year ended December 31, 2010

(KDIC) (Unit : KRW 1 million)

EXPENSES	Amount		REVENUE	Amount	
	Current Period	Previous Period		Current Period	Previous Period
Operating Expenses(B)	85,731	72,837	Operating Income (A)	85,728	72,894
1. Direct Operating Expenses	-	-	1. Financing Income	524	427
Other Operating Expenses	-	-	Interest Income on Deposits	524	427
2. Salaries	50,023	42,855	2. Other Operating Income	85,204	72,467
3. General Expenses	35,708	29,982	Contribution to the Fund	85,024	72,388
Operating Income/Loss(C=A-B)	(-)3	57	Other Operating Income	180	79
Other Expenses (E)	-	-	Other Income (D)	-	-
Net Income (C+D-E)	(-)3	57			

Table X-7 Condensed Statement of Financial Position

Current period : As of December 31, 2011
Previous period : As of December 31, 2010

(DIF Bond Redemption Fund)

(Unit : KRW 100 million)

ASSETS	Amount		LIABILITIES AND NET ASSET	Amount	
	Current Period	Previous Period		Current Period	Previous Period
Current Assets	16,772	36,126	Current Liabilities	59,501	40,470
1. Cash and Cash Equivalents	4,789	6,384	1. Current Portion of Long-term Liabilities	57,982	38,435
2. Short-term Financial Instruments	10,457	25,449	2. Other Current Liabilities	1,519	2,035
3. Short-term Investment Securities	1,398	4,096			
4. Account Receivables	13,776	11,151	Long-term Borrowing Liabilities	181,450	231,263
(Allowance for Doubtful Accounts)	(-)13,721	(-)11,027	1. Public Bonds	180,296	228,985
5. Short-term Loans	73	73	2. Long-term Borrowings	1,154	2,278
6. Other Current Assets	-	-			
			Provisions for Long-term Liabilities	131	126
Investment Assets	87,838	128,263	1. Provisions for Other Long-term Liabilities	131	126
1. Long-term Loans	153,710	157,567			
(Allowance for Doubtful Accounts)	(-)136,026	(-)132,154	Other Non Current Liabilities	61	198
2. Long-term Investment Securities	70,154	102,850	1. Other Non Current Liabilities	61	198
3. Other Investment Securities	-	-			
			Total Liabilities	241,143	272,057
Other Non Current Assets	1,107	1,486			
1. Long-term Notes Receivables	103	112	Net Asset		
(Allowance for Doubtful Accounts)	(-)101	(-)109	1. Net Asset	523,064	523,064
2. Other Non Current Assets	1,105	1,483	2. Reserves and Surplus	(-)669,357	(-)670,151
			3. Net Asset Adjustments	10,867	40,905
			Total Net Asset	(-)135,426	(-)106,182
Total Assets	105,717	165,875	Total Liabilities and Net Asset	105,717	165,875

Table Ⅹ-8 Condensed Financial Operating Statement

Current period : For the year ended December 31, 2011
Previous period : For the year ended December 31, 2010

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

ASSETS	Amount			Amount		
	Total Cost	Profit	Net Cost	Total Cost	Profit	Net Cost
Ⅰ.Program Net Cost	20,114	9,421	10,693	17,284	14,827	2,457
1. Financial Policy Support	20,114	9,421	10,693	17,284	14,827	2,457
Insurance Expenses	10			120	-	
Salaries	-			14	-	
General Expenses	-			7	-	
Payment Fees	68			101	-	
Loss on Disposal of Long-term Investment Securities	-			2,148	-	
Allowance for Doubtful Accounts	7,444			551	-	
Interest Expenses on Public Bonds	12,431			14,117	-	
Interest Expenses on Borrowings	161			226	-	
Impairment Loss on Investment Securities	-			-	-	
Other Interest Income				-	6	
Gains on Disposal of Long-term Investment Securities		1,532		-	8,871	
Gains on Disposal of Other Investment Securities		16		-	21	
Reversal of Provisions		-		-	83	
Reversal of Impairment Loss on Investment Securities		779		-	427	
Miscellaneous Revenue		4		-	84	
Reversal of Allowances for Doubtful Accounts		81		-	4,455	
Dividend Income		1,666		-	872	
Interest Income from Loans to Non-Government Organizations		5,343		-	8	
Ⅱ.Management and Administrative Expenses			106			112
1. Salaries			-			73
2. General Expenses			106			39
Ⅲ.Non-Allocated Costs			49			78
1. Payment Fees			1			1
2. Allowances for Doubtful Accounts			-			-
3 Valuation Loss			29			65
4. Other Expenses			19			12
Ⅳ.Non-Allocated Revenues			556			766
1. Interest Income			411			637
2. Valuation Gains			29			65
3. Other Income			116			64
Ⅴ.Net Cost for Financial Operation(Ⅰ+Ⅱ+Ⅲ-Ⅳ)			10,292			1,881
Ⅵ.Non-Exchange Revenues			11,087			9,871
1. Revenues from Contributions			11,087			9,871
Ⅶ.Financial Operation Result(Ⅴ-Ⅵ)			(-)795			(-)7,990

Attending the 16th Anniversary of Women's Week


Volunteer activities at the Gal-wol Social Welfare Center

Children's Experience Day at the KDIC for 2011

Corns drying in the sun

Appendix

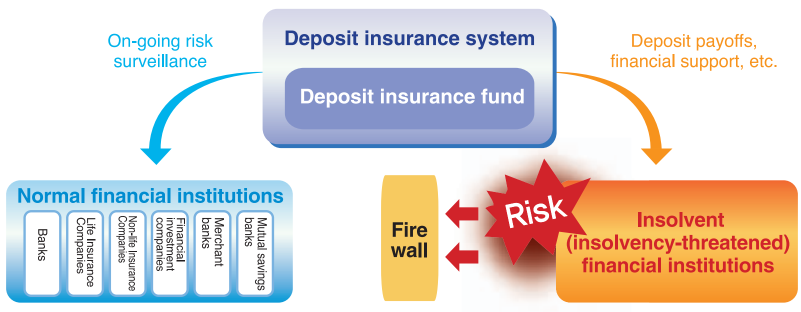
Appendix

1. Overview of the Deposit Insurance System

A. Significance of the Deposit Insurance System

The deposit insurance system protects depositors and stabilizes the financial system by ensuring the safety of deposits when an insured financial institution fails. For that purpose, it maintains the Deposit Insurance Fund ex ante with deposit insurance premiums paid by insured financial institutions in normal times.

< Structure of the Deposit Insurance System >



B. Insured Financial Institutions

Insured financial institutions refer to those that are required to join the deposit insurance system under the Depositor Protection Act (DPA), which include banks, investment traders/brokers, insurance companies, merchant banks, and mutual savings banks. In Korea, membership is compulsory.

"Banks" include banks licensed under the Banking Act such as commercial banks and regional banks in addition to local branches of international banks and special-purpose banks except the Export Import Bank of Korea. They also include the National Agricultural Cooperatives Federation under the Agricultural Cooperatives Act and the National Federation of Fisheries Cooperatives under the Fisheries Cooperatives Act.

"Investment traders and brokers" refer to any investment traders and brokers including local offices of international investment firms. In the case of "insurance companies," all insurance companies except re-insurance firms are included.

In addition, "merchant banks" and "mutual savings banks" licensed under relevant laws are also KDIC-insured.

C. Insured Financial Products

Insured financial products are deposits that will be guaranteed by the KDIC on behalf of financial institutions if they cannot pay deposits to depositors for reasons such as bankruptcy, and the coverage scope is defined in Article 2 of the DPA and Article 3 of the Enforcement Ordinance of the DPA. Some financial products that were temporarily given protection until late 2000 in order to contain the 1997 Asian financial crisis and deposits made by the central government and local governments were excluded from coverage on January 1, 2001.

< Insured and Non-insured Financial Products >

(As of late December, 2011)

Financial Sector	Insured Financial Products	Non-insured Financial Products
Banking	• Demand deposits such as ordinary deposits, corporate deposits, temporary deposits, checking deposits • Savings deposits such as term deposits, time and savings deposits, housing subscription deposits, issued and notes • Installment deposits such as installment savings deposits, installment savings for housing, and mutual installment deposits) • Foreign currency deposits • Monetary trusts with principal guarantees • Deposits in defined contribution retirement pension products or individual retirement accounts that are KDIC-insured	• Certificates of Deposits (CD), Repurchase agreements (RP) • Financial investment products (e.g. beneficiary certificates, mutual funds, Money Market Funds (MMF)) • Real fiduciary accounts such as specific monetary trusts • Bank-issued bonds • Housing subscription deposit
Investment Trading and Brokering	• Remaining cash balance in customer's account, not having been used to purchase securities, etc. • Remaining cash from deposits for stock margin loans-proprietary, deposits for opening a margin account and deposits for margin loans • Monetary trusts with principal guarantees • Deposits in defined contribution retirement pension products or individual retirement accounts that are KDIC-insured	• Financial investment products (e.g. beneficiary certificates, mutual funds, MMF) • Subscription deposits, taxes withheld, deposits for futures and options trading, deposits for stock margin loans-KSFC • Repurchase agreements (RP), bonds issued by securities companies • Cash Management Accounts (CMA), wrap accounts, Equity Linked Securities (ELS), Equity Linked Warrants (ELW), etc.
Insurance	• Individual policies • Deposits in defined contribution retirement pension products or individual retirement accounts that are KDIC-insured • Monetary trusts with principal guarantees	• Policies of which the holders and premium payers are corporate entities • Guarantee insurance or reinsurance policies • Main contract of a variable insurance contract, etc.
Merchant Banking	• Notes issued, CMA	• Financial investment products (e.g. beneficiary certificates, mutual funds, MMF), Repurchase agreements (RP), Certificates of Deposits (CD), Commercial Papers (CP), bonds issued by merchant banks, etc.
Mutual Savings Banking	• Ordinary deposits, savings deposits, term deposits, term installment savings, mutual installment deposits, notes issued, etc. • Cashier's checks issued by the Korea Federation of Mutual Savings Banks, etc.	• Bonds issued by mutual savings banks, etc.

D. Deposit Insurance Coverage

When the KDIC was first founded in 1996, the coverage was up to KRW 20 million per depositor. However, as unrest worsened in the financial market and systemic risk started to increase across the economic system in the wake of the Asian financial crisis in 1997, insurance coverage was expanded to cover both principal and interest in full with the revision of the Enforcement Decree of the DPA in December 1997. Then, with financial restructuring, nervousness in the financial market was eased somewhat while moral hazard ran rampant among depositors and financial companies as a result of the adoption of blanket coverage. So, the Enforcement Decree was revised again in July 1998 and limited coverage was re-introduced. Under the revision, if principal (or premiums paid for insurance policies) was less than KRW 20 million, principal and designated interest* was guaranteed up to KRW 20 million. On the other hand, only principal was protected if principal (or premiums paid for insurance policies) exceeded KRW 20 million.

* The lesser amount between the agreed interest and the interest determined by the KDIC (interest determined by the KDIC's Deposit Insurance Committee based on the average interest rate of one-year term deposits)

As the financial market became more stable, the Enforcement Decree of the DPA was revised in October 2000 to adjust the coverage limit to KRW 50 million.

So, since January 1, 2001, the KDIC has insured up to KRW 50 million per depositor including principal and designated interest in case of a financial institution failure. For insurance companies, up to KRW 50 million for both surrender value (or accident claim or payout at maturity) and other payments are covered.

< Deposit Insurance Coverage >

Financial Sector	Until December 31, 2000			Since January 1, 2001
	Until July 31, 1998	Until December 31, 2000		
		Principal amounting to KRW 20 million or less (Or premiums paid amounting to KRW 20 mil or less)	Principal exceeding KRW 20 million (Or premiums paid in excess of KRW 20 mil)	
Banking, Financial Investment, Merchant Banking, MSB	Principal and contractual interest	Up to KRW 20 million including principal and designated interest	Principal only	Up to KRW 50 million including principal and designated interest
Insurance	All surrender value (or insurance payout at maturity or accident benefits) and other payments	Lesser of the sum of surrender value (or insurance payment at maturity) and other payments, or the sum of premiums paid and designated interest. The maximum coverage is KRW 20 million.	Lesser of the sum of surrender value (or insurance payment at maturity) and other payments, or premiums paid	The sum of surrender value (or insurance payout at maturity) and other payments. The maximum coverage is KRW 50 million.
		Accident benefits that were due to be paid before the insurance company failed are fully protected.		

2. External Evaluation

A. Management Evaluation of Public Corporations

The KDIC submitted managerial performance reports (statement of accounts, financial statements, and accompanying documents) together with a report on the progress in implementing the Chairman & President's plan for management innovation in March 2011 to the Minister of Strategy and Finance and the Chairman of the Financial Services Commission under Article 47 of the Act on the Management of Public Agencies. Based on the report, a team organized by the Minister of Strategy and Finance evaluated the performance of the KDIC and the KDIC Chairman & President.

The evaluation team gave the KDIC a "B" for its performance in 2010, which was announced in June 2011. It is the same grade with the one it received a year ago. For its Chairman & President, the team judged his performance to be "excellent," a grade higher than the previous year's.

B. Fund Management Evaluation

Under the National Finance Act, the Ministry of Strategy and Finance is allowed to examine and evaluate the performance of funds governed by the Act as well as determine whether to maintain a fund every three years. The fund management evaluation is broken into two categories: business management and asset management.

The KDIC prepared a fund management performance report for the DIF Bond Redemption Fund in 2010 and submitted it to the Fund Management Evaluation Committee in February 2011. The Committee made available the evaluation results in May 2011 after conducting a due diligence and opinion gathering.

According to the evaluation results, the DIF Bond Redemption Fund ranked 9th among 37 funds (in terms of asset management). Particularly, in non-quantitative assessment, it ranked highest with the exception of two funds that invest 95% of assets in the National Pension Service's investment pool .

3. Summary of Major Events in 2011

Date	Major Events
Jan. 14	Samhwa Mutual Savings Bank was suspended from operations.
Feb. 17	Busan and Daejeon Savings Mutual Banks were suspended from operations.
Feb. 19	Busan 2, Jungang Busan, Jeonju, and Bohae Mutual Savings Banks were suspended from operations.
Feb. 23	Domin Mutual Savings Bank was suspended from operations.
Feb. 28	Recovered KRW 32.4 billion by selling Korea Securities Finance in open bidding
Mar. 2	Recovered KRW 4.1 billion by selling Korea Finance Security in open bidding
Mar. 16	A contract transfer of Samhwa Mutual Savings Bank
Mar. 24	Recover KRW 3.7 billion through a profit-sharing of Shinhan Financial Group
Apr. 7	Recovered KRW 2.2 billion in dividends from Shinhan Financial Group
Apr. 12	Recovered KRW 114.8 billion in dividends from Woori Financial Group
Apr. 29	Recovered KRW 1.3 billion in dividends from Hynix Semiconductor
Jun. 29	Recovered KRW 49.4 billion in dividends from Korea Life Insurance
Jul. 8	Recovered KRW 148.6 billion by selling a 0.61% equity stake in Sihnhan Financial Group (block sale)
Jul. 22	Recovering KRW 341.4 billion by redeeming preferred shares of Seoul Guarantee Insurance Company
Aug. 5	Kyongeun Mutual Savings Bank was suspended from operations.
Aug. 26	Transferred contracts of Busan 2, Jungang Busan, and Domin Mutual Savings Banks
Sep. 5	Transferred contracts of Daejeon, Jeonju, and Bohae Mutual Savings Banks
Sep. 18	Prime, Parangse, Tomato, Jeil, Jeil 2, Ace, and Daeyoung Mutual Savings Bank were suspended from operations.
Oct. 19	A contract transfer of Kyongeun Mutual Savings Bank
Nov. 14	Contract signing on the joint sale of a 0.74% stake in Hynix Semiconductor
Nov. 23	A contract transfer of Busan Mutual Savings Bank
Jan. 3 ~ Dec. 29	Recovered KRW 800 million by selling common shares of Jeju Bank on the stock market
Jul. 29 ~ Dec. 29	Recovered KRW 100 million by selling common shares of SG Corporation on the stock market

4. Statistics

A. Insured Financial Institutions[1)]

(As of late December 2011, Unit: #)

Financial Sector	2005	2006	2007	2008	2009	2010	2011
Banks	56	53	53	55	54	54	55
(Domestic)	(18)	(17)	(17)	(17)	(17)	(17)	(17)
(Foreign)	(38)	(36)	(36)	(38)	(37)	(37)	(38)
Financial Investment Companies[2)]	53	53	53	60	115	118	117
Insurance Companies	42	43	44	43	43	44	44
(Life)	(22)	(22)	(22)	(22)	(22)	(23)	(23)
(Non-life)	(20)	(21)	(22)	(21)	(21)	(21)	(21)
Merchant Banks	2	2	2	2	2	1	1
MSBs[3)]	111	110	109	106	106	105	107
Total	264	261	261	266	320	322	324

Note: 1) The number of insured financial institutions is tallied based on the business opening date and the date of license revocation or business dissolution / bankruptcy.
2) Financial investment traders and brokers under the Financial Investment Services and Capital Markets Act that came into force in February, 2009 (Prior to February, 2009, it only included securities companies).
3) The Korea Federation of Mutual Savings Banks (which joined the DI system in December 2007) was excluded.

B. Insurable Deposits by Financial Sector[1)]

(As of late December 2011, Unit: KRW 1 billion)

Financial Sector	2010(B)	2011(A)	Change (A-B)
Banks	738,224	850,117	111,893
Financial Investment Companies	22,207	20,476	△1,731
Insurance Companies	322,521	357,921	35,400
(Life)	(268,954)	(289,364)	(20,410)
(Non-life)	(53,567)	(68,557)	(14,990)
Merchant Banks	1,225	1,047	△178
MSBs	76,602	51,499	△25,103
Total	1,160,779	1,281,060	120,281

Note: 1) Insurable deposits refer to (balance) amounts in depository products sold by financial institutions and protected under Article 2 of the DPA and exclude deposits made by the government, local governments and KDIC-insured institutions as determined under Article 3 of the Enforcement Decree of the DPA.

C. DIF Bond Redemption Fund Revenues

(As of late December 2011, Unit: KRW 100 million, KRW)

Financial Sector	Insurance Premium Revenue Prior to Creation of DIF Bond Redemption Fund (KRW 100 million)[2]						Special Assessments Paid by Insured FIs to the DIF Bond Redemption Fund (KRW)				
	Before 1998[1]	1999	2000	2001	2002	Total	2007	2008	2009	2010	2011
Banks	1,613	1,975	2,630	4,139	4,361	14,718	502,689,354,851	497,628,429,865	596,495,263,169	681,137,103,049	778,873,175,496
Financial Investment Companies	-	51	156	218	262	687	15,640,959,000	18,450,538,082	16,924,950,377	21,309,273,266	22,707,528,407
Insurance Companies	2,322	1,260	1,781	2,416	2,780	10,559	154,296,293,318	168,253,097,512	178,164,427,938	194,292,108,000	213,663,046,538
(Life)	(1,800)	(1,011)	(1,402)	(1,938)	(2,295)	(8,446)	126,530,624,919	136,365,120,000	143,006,160,079	153,430,348,000	165,012,412,538
(Non-life)	(522)	(249)	(379)	(478)	(485)	(2,113)	27,765,668,399	31,887,977,512	35,158,267,859	40,861,760,000	48,650,634,000
Merchant Banks	980	336	233	139	130	1,818	722,757,000	794,110,000	1,013,841,000	1,899,113,000	1,169,424,000
MSBs	2,407	377	323	529	604	4,240	43,004,233,839	49,122,536,517	59,293,898,815	71,512,241,512	71,802,311,638
Credit Unions	402	162	281	407	641	1,893	11,608,513,513	12,910,122,846	13,675,874,192	16,962,417,699	20,479,299,838
Total	7,724	4,161	5,404	7,848	8,778	33,915	727,962,111,521	747,158,834,822	865,568,255,491	987,112,256,526	1,108,694,785,917

Note: 1) The insurance premium revenue for 1998 is inclusive of the applicable funds transferred from the Insurance Supervisory Board, Credit Management Fund, 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) It was transferred to the DIF Bond Redemption Fund under the revision of related laws in 2002.

D. DIF Premium Revenues

(As of late December 2011, Unit: KRW 100 million)

Financial Sector	2003[1]	2004	2005	2006	2007	2008	2009	2010	2011	Total
Banks	4,775	4,960	4,869	4,987	5,027	4,808	5,291	5,451	4,795	44,963
Financial Investment Companies	312	336	300	303	256	305	276	284	283	2,655
Insurance Companies	3,115	3,403	3,737	4,059	4,455	4,852	5,113	3,307	3,062	35,103
(Life)	(2,580)	(2,832)	(3,109)	(3,362)	(3,654)	(3,934)	(4,097)	(2,609)	(2,362)	(28,539)
(Non-life)	(535)	(571)	(628)	(697)	(801)	(918)	(1,016)	(698)	(700)	(6,564)
Merchant Banks	73	17	15	19	22	24	29	34	18	251
MSBs	667	793	974	1,116	1,306	1,483	1,737	2,524	2,331	12,931
Special Account[2]	-	-	-	-	-	-	-	-	1,742	1,742
Total[3]	8,942	9,509	9,895	10,484	11,066	11,472	12,446	11,600	12,231	97,645

Note: 1) Insurance premiums paid by 2002 were transferred to the Redemption Fund under the revision of relevant laws.
2) It was created in April 2011 (to be maintained until late 2026).
3) Credit union account of the Deposit Insurance Fund transferred to the National Credit Union Federation of Korea as of January 1, 2010 is excluded.

E. Status of DIF Bond Issuance

(As of late December 2011, Unit: KRW 100 million)

Financial Sector	1998	1999	2000	2001	2002	Total
Banks	120,650	158,591	60,307	77,617	36,600	453,765
Financial Investment 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	73,344	-	151,064
MSBs	9,917	15,977	6,500	33,331	-	65,725
Credit Unions	2,769	8,178	-	2,027	-	12,974
Total	210,150	224,849	89,407	310,593	36,600	871,599[1]

Note: 1) Cumulative issue amount that includes conversion issuance

F. Status of DIF Bond Redemption Fund Provisions

(As of late December 2011, Unit: KRW)

Financial Sector	Equity Investment	Contribution	Deposit Payoffs[1]	Asset Purchase[1]	Loans	Total
Banks	22,203,879,614,160	13,909,304,352,211	-	8,106,444,073,801	-	44,219,628,040,172
Financial Investment Companies	9,976,873,000,000	414,332,026,466	11,270,816,793	2,123,943,660,527	-	12,526,419,503,786
Insurance Companies	15,919,758,000,000	3,119,162,832,669	-	349,481,101,882	-	19,388,401,934,551
(Life)	5,669,658,000,000	2,751,841,832,669	-	349,481,101,882	-	8,770,980,934,551
(Non-life)	10,250,100,000,000	367,321,000,000	-	-	-	10,617,421,000,000
Merchant Banks	2,693,050,000,000	743,110,579,116	18,271,810,047,468	-	-	21,707,970,626,584
MSBs	100,000,000	416,147,029,007	7,289,213,136,680	-	596,860,000,000	8,302,320,165,687
Credit Unions	-	-	4,740,151,481,096	-	-	4,740,151,481,096
Total	50,793,660,614,160	18,602,056,819,469	30,312,445,482,037	10,579,868,836,210	596,860,000,000	110,884,891,751,876

Note: 1) It includes financial assistance provided through resolution financial institutions.

G. Details of Financial Assistance from the Redemption Fund

(As of late December 2011, Unit: KRW)

Injection Type & Recipient Institutions		Amount Provided
Equity Investment	Seoul Bank	4,680,900,000,000
	Korea First Bank	5,024,779,614,160
	Hanvit Bank	6,028,600,000,000
	Five acquiring banks including Kookmin Bank	1,192,300,000,000
	Hana Bank (Merger of Hana Bank and Boram Bank)	329,500,000,000
	Chohung Bank	2,717,900,000,000
	Peace Bank	493,000,000,000
	Kyungnam Bank	259,000,000,000
	Gwangju Bank	170,400,000,000
	Jeju Bank	53,100,000,000
	National Federation of Fisheries Cooperatives	1,158,100,000,000
	National Agricultural Cooperative Federation	96,200,000,000
	Hanareum Banking Corporation	30,000,000,000
	Hanaro Merchant Bank	2,491,200,000,000
	Hans Merchant Bank, Korea Merchant Bank, Joongang Merchant Bank	150,000,000
	Youngnam Merchant Bank	171,700,000,000
	Hanareum MSB	100,000,000
	Seoul Guarantee Insurance Corporation	10,250,000,000,000
	Korea Life Insurance	3,550,000,000,000
	Kookmin, Taepyongyang, Doowon, Dong-A, Handuck, Chosun Life Insurance	2,119,658,000,000
	Korea Investment Trust Management & Securities	5,164,942,000,000
	Daehan Investment Trust Securities	2,900,332,000,000
	KR&C	100,000,000
	Daehan, Kookje Fire Insurance	100,000,000
	Hyundai Investment & Securities	1,911,599,000,000
	Sub Total	50,793,660,614,160
Contribution	Kookmin, Housing & Commercial, Shinhan, Hana, Koram Bank (five acquiring banks)	9,711,345,100,982
	Hanvit, Kyungnam, Gwangju, Peace, Seoul, Jeju Bank	2,967,700,000,000
	National Agricultural Cooperative Federation	87,000,000,000
	Samsung, Heungkuk, Kyobo, Allianz Life (four acquiring insurance companies)	1,164,097,000,000
	Korea First Bank (KFB)	1,143,259,251,229
	Korea, Hyundai, Kumho, Tongyang, SK Life	1,421,970,019,950
	Financial companies including Boomin MSB	416,147,029,007
	Daehan Fire	50,943,000,000
	Woori (Former Hanaro Merchant Bank) Merchant Bank	743,110,579,116
	Kookje Fire	73,927,000,000
	Tongyang, Samsung, Hyundai, LG, Dongbu Fire	242,451,000,000
	Green Cross (Daishin) Life	139,254,000,000
	KB (Hanil) Life	26,520,812,719
	Korea Investment Trust Management & Securities	78,361,926,245
	Daehan Investment Trust Securities	63,011,325,997
	Hyundai Investment & Securities	272,958,774,224
	Sub Total	18,602,056,819,469

Injection Type & Recipient Institutions			Amount Provided
Deposit Payoffs	Deposit Payoffs	Credit Unions	4,740,151,481,096
		Financial Investment Companies (4 companies)	11,270,816,793
		MSBs	1,233,544,136,680
		Youngnam, Hansol, Korea Merchant Bank	146,321,444
	Payment through Resolution Financial Institutions	Hanareum Banking Corporation (in resolving 18 merchant banks)	18,271,663,726,024
		Hanareum MSB (in resolving 59 MSBs)	6,055,669,000,000
		Sub Total	30,312,445,482,037
Asset Purchase	Direct Purchase	Korea First Bank (BW)	24,896,685,840
		Korea First Bank (Shares of KFB's Vietnam and New York subsidiaries)	16,477,525,891
		Hyundai Investment & Securities (Shares of Hyundai Autonet, etc.)	856,969,163,340
	Indirect Purchase by Lending Money to the RFC	Five acquiring banks including Kookmin Bank (KB)	158,800,000,000
		Korea First Bank	7,906,269,862,070
		Dong-A, Kookmin, Taepyongyang, Daehan, SK Life	349,481,101,882
		Korea Investment Trust Management & Securities	483,046,830,489
		Daehan Investment Trust Securities	653,949,292,558
		Hyundai Investment & Securities	129,978,374,140
		Sub Total	10,579,868,836,210
Loans		MSB (13 MSBs)	596,860,000,000
		Sub Total	596,860,000,000
Aggregate Total			110,884,891,751,876

H. Status of Financial Assistance by the DIF

(As of late December 2011, Unit: KRW 100 million)

Financial Sector	Equity Investment	Contribution	Deposit Payoffs	Loans	Provisional Deposit Payment	Total[1]
Banks	-	-	-	-	-	-
Financial Investment Companies	-	-	-	-	-	-
Insurance Companies	-	-	-	-	-	-
(Life)	-	-	-	-	-	-
(Non-life)	-	-	-	-	-	-
Merchant Banks	-	-	-	-	-	-
MSBs	1,211	24,542	14,412	4,891	219	45,275
Special Account	972	58,513	65,450	567	418	125,920
Total	2,183	83,055	79,862	5,458	637	171,195

Note : 1) Credit union account of the Deposit Insurance Fund transferred to the National Credit Union Federation of Korea as of January 1, 2010 is excluded.

I. Recovery of Injected Public Funds by Year

(As of late December 2011, Unit: KRW 100 million)

Year	Amount
Prior to 2000	103,457
2001	41,179
2002	26,634
2003	56,034
2004	56,672
2005	36,117
2006	34,001
2007	43,660
2008	23,980
2009	24,118
2010	29,295
2011	12,679
Total[1)]	487,826

Note: 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 by the Type of Financial Assistance from the DIF Bond Redemption Fund

(As of late December 2011, Unit: KRW)

Financial Sector	Recovery of Equity Investment	Settlement of Contributions, etc.	Dividends from Bankruptcy Estates[1)]	Asset Sales[1)]	Collection of Loans	Total
Banks	16,079,684,461,188	69,770,625,266	1,818,139,532,616	5,845,460,085,697	-	23,813,054,704,767
Financial Investment Companies	1,212,144,785,109	323,045,036,658	7,466,100,396	1,790,559,205,026	-	3,333,215,127,189
Insurance Companies	3,415,788,823,995	88,397,817,441	429,821,419,955	232,518,101,882	-	4,166,526,163,273
(Life)	1,338,329,304,000	84,766,958,037	365,015,911,182	232,518,101,882	-	2,020,630,275,101
(Non-life)	2,077,459,519,995	3,630,859,404	64,805,508,773	-	-	2,145,895,888,172
Merchant Banks	138,256,473,509	5,931,643,350	8,215,922,494,919	-	-	8,360,110,611,778
MSBs	-	34,127,082,050	5,070,828,773,158	-	596,860,000,000	5,701,815,855,208
Credit Unions	-	401,687,311	3,407,460,406,405	-	-	3,407,862,093,716
Total	20,845,874,543,801	521,673,892,076	18,949,638,727,449	7,868,537,392,605	596,860,000,000	48,782,584,555,931

Note : 1) Including recovery of dividends through resolution financial institutions

K. Financial Restructuring Progress

(As of late June 2011, Unit: #, %)

Financial Sector	# of Companies, Year-end 1997(A)	Restructuring Status					Newly Opened	Current Total
		Revocation of License	Merger	Liquidation, Bankruptcy, and/or Business Transfer, etc.	Total (B)	Proportion (B/A)		
Banks	33	5	11	-	16	48.5	1	18
Non-Banks	2,062	165	223	580	968	46.9	182	1,276
Merchant Banks	30	22	8	-	30	100.0	1	1
Securities Companies	36	6	8	2	16	44.4	30	50
Insurance Companies	50	10	7	6	23	46.0	25	52
Asset Management Companies	24	6	8	-	14	58.3	71	81
MSBs	231	116	28	1	145	62.8	19	105
Credit Unions	1,666	2	151	571	724	43.5	18	960
Lease Companies	25	3	13	-	16	64.0	18	27
Total	2,095	170	234	580	984	46.9	183	1,294

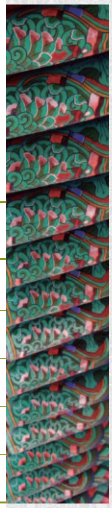
Source: Public Fund Management White Book published in August 2011

L. Amount of Public Funds per Assistance Type

(from November 1997 to late December 2011, Unit: KRW 1 trillion)

Financial Sector		Equity Investment	Contribution	Deposit Payoffs	Asset Purchase	Non-performing Loan Purchase	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
	Financial Investment Companies	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
	MSBs	-	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 Financial Institutions		-	-	-	-	2.4	2.4
Total		63.5	18.6	30.3	17.8	38.5	168.6[1]

Note : 1) Unit is KRW 1 trillion and numbers are rounded up.
Source: Financial Services Commission



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