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KDIC

KOREA DEPOSIT INSURANCE CORPORATION

2016 ANNUAL REPORT

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CEO Message

In 2016, the global economy grew at a slower pace as manufacturing in the U.S. struggled, oil prices remained weak and trade contracted around the world. Meanwhile, uncertainties arising from the prospect of the UK's exit from the European Union, potential interest rate hikes by the US Federal Reserve and other factors reached higher levels than those seen in recent years. The Korean economy, too, continued slow growth with its key industries, such as shipbuilding and shipping, deep in trouble and issues related to corporate restructuring hampering efforts for economic recovery.

Under the difficult circumstances, the Korea Deposit Insurance Corporation (KDIC) managed to successfully recover public funds injected into failed financial institutions by devising various new methods for asset sales and continuously worked to improve the deposit insurance system to better prepare for future crises.

Most importantly, the KDIC succeeded in selling its stake in Woori Bank and recouped an additional KRW 2.4 trillion of public funds. Returning the bank to private ownership has been one of the top priorities for policy makers as well as market participants. The sale was made possible through an ingenious arrangement whereby a group of investors formed a consortium and each bought a significant stake in Woori Bank. To make that happen, the KDIC continued to engage in close communication with market participants throughout the process. Building on such achievements, the KDIC reduced the size of debt from past resolutions by KRW 17.2 trillion over the last years.

The Korea Deposit Insurance Corporation continuously works to achieve its mission of protecting depositors and maintaining the stability of Korea's financial system.

Furthermore, in order to reinforce financial consumer protection, the KDIC decided to provide coverage to deposits and installment savings included in individual savings accounts (ISAs) and developed a new deposit insurance logo that is easier for depositors to identify. The new logo is currently being used in some financial sectors only but will soon be adopted by all other players in the financial industry. In addition, the risk grading model has been improved taking into account changes in the financial market environment so the risk-based premium system can smoothly move into full implementation.

In the meantime, the KDIC successfully hosted an international conference commemorating its 20th anniversary and the 15th Annual General Meeting of the International Association of Deposit Insurers (IADI), which helped to raise the international profile of the country as well as that of the KDIC. To enhance cooperation with deposit insurers in other countries, the KDIC provided policy consultation on deposit insurance matters and technical assistance for IT system design and implementation to its counterparts in emerging economies.

The KDIC also won commendations from both the President and the Prime Minister in recognition of its active engagement in corporate social responsibility, in particular for its effort to educate certain population groups with poor access to information, such as the elderly, about deposit insurance and to help marginalized groups and rural communities as part of a social contribution program.

The year 2016 marked the KDIC's 20th anniversary. In celebration of this milestone, the KDIC announced a new corporate identity (CI), which signifies the importance of depositor protection and financial stability, and reaffirmed its commitment to "becoming a deposit insurance service organization with the best ability to ensure financial stability and preemptively respond to failure risks." Going forward, all of us at the KDIC will do our best to prove ourselves worthy of the trust that the public has entrusted to us.

This Annual Report provides a summary of the KDIC's major achievements during 2016. I hope that it will help broaden the public's understanding of the KDIC's role and achievements.

곽 범 국

GWAK Bumgook

Chairman & President

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Major Initiatives

In 2016, the Korea Deposit Insurance Corporation (KDIC) sought to further upgrade its deposit insurance scheme through the amendment of the Depositor Protection Act (DPA) and its Enforcement Decree. Based on the amendment, it extended the term of the present limit for deposit insurance premium rates (0.5%), by five years, to August 31, 2021. The KDIC also amended the Enforcement Decree of the DPA, rendering deposit protection to deposits and installment savings included in individual savings accounts (ISAs).

It excluded inter-dealer brokers and small online investment intermediaries with no insured deposits from the scope of financial institutions eligible for deposit protection. In addition, it excluded insured financial institutions from the insurance coverage notification requirements for unprotected depositors, such as central and local governments and other insured financial institutions.

The KDIC also sought to improve the risk-based premium system introduced in 2014 to increase its effectiveness. This partly entailed updating the risk grading model by incorporating changes in the financial supervision indices and the financial market. The KDIC made a major effort to improve insured financial institutions' understanding of the risk-based premium system by such means as making presentations for them.

In accordance with the new sales arrangement for the privatization of Woori Bank approved by the Public Fund Oversight Committee in July 2015, the KDIC was allowed to seek a group of investors who would each buy 4 to 10 percent of the bank's shares and form a consortium of shareholders. By this arrangement, it recovered KRW 2,361.6 billion by selling a 29.7% stake in Woori Bank to seven companies including Tongyang Life Insurance in December 2016.

With respect to about 5,600 illegal or wrongful acts committed by 319 employees of financial institutions that fell into insolvency during or after 2011, the KDIC completed deliberations on accountability at the end of 2016. It also built an information system on its public auctions and, thereby, recovered bankruptcy dividends amounting to KRW 2,833.4 billion from all of the bankruptcy estates in 2016.

For greater depositor convenience, it established a consolidated application system for recovery of amounts uncollected by depositors. To proactively provide information on such scheme, it sent individual notices to depositors' corrected addresses and ran advertisements in newspapers in a bid to better safeguard their interests.

The year 2016 marked the 20th anniversary of the KDIC. In celebration, the KDIC unveiled a new CI symbolizing depositor protection and financial stability. It successfully hosted an international conference about the roles and responsibilities of deposit insurers in responding to risks and preempting failures.

Stronger Risk Monitoring of Insured Financial Institutions

Using models developed in-house, the KDIC monitors changes in insured financial institutions' financial conditions and the risks they face on an ongoing basis. Based on evaluation findings utilizing the models, it subjects unsound insured financial institutions to intensive monitoring, and it includes them in the scope of independent and joint examinations to maximize the chances of preventing failures.

The KDIC also set and implemented 'three basic directions for independent and joint examinations' to effectively preempt financial complications plaguing individual insured financial institutions that arise from changes in the internal and external financial environment. These three are i) independent and joint examinations focused on prevention of failures, ii) increased efficiency and effectiveness of independent and joint examinations; and iii) reduced compliance burden on financial institutions and protection of their interests. The KDIC rendered on-site examinations of insured financial institutions more effectively based on these principles.

To prevent failures of insured financial institutions through ongoing risk monitoring, the KDIC implemented joint examinations of ten institutions with the Financial Supervisory Service (FSS) in 2016. It requested the FSS to order corrective action where necessary while issuing recommendations to the insured financial institutions about how to improve business management. In addition, it conducted independent examinations of four mutual savings banks meeting the prescribed requirements under the Enforcement Decree of the DPA.

To prevent financial incidents, the KDIC also dispatched administrators jointly with the FSS to mutual savings banks likely to be placed under prompt corrective action (PCA) restrictions, in a bid to reinforce on-site monitoring of their operations and induce recapitalization.

In an effort to strengthen mutual savings banks' risk management capabilities, the KDIC opened 'SHARE-3.0,' a comprehensive information portal on such mutual savings banks, on its webpage, granting visitors including their employees and media outlets access to risk analysis reports and each mutual savings bank's financial data. It also shared information on the best practices of risk management by hosting workshops for the management of mutual savings banks, and offered educational support to small- and medium-sized mutual savings banks to increase their viability.

Efficient Resolution of Failed Financial Institutions and Improvement of Applicable Systems

In the latter half of 2012, the KDIC introduced a resolution system that does not interrupt the normal flow of financial transactions: suspending mutual savings banks declared insolvent at the close of business hours on a Friday, then completing a P&A to a bridge bank over the weekend so that business can resume on the following Monday. This helped to minimize hardship arising from interruption of financial services for depositors.

From the second half of 2012 to the first half of 2013, the KDIC sought to resolve insolvent mutual savings banks without interruption of financial services.

Table Ⅰ - 1

Joint Examinations with the FSS and the KDIC's Independent Examinations

	2012	2013	2014	2015	2016
Joint Examinations	9	18	9	9	10
Independent Examinations	8	11	17	8	4

However, as it experienced difficulties in finding buyers, it was compelled to resolve them through bridge bank P&A, which increased the burden in managing and selling the bridge banks.

In response, the KDIC worked hard to find prospective buyers and succeeded in finding market investors. Thanks to such efforts, the new resolution method has been used successfully since the latter half of 2013, and the KDIC was able to minimize not only depositors' inconveniences, but also its burden concerning the sale and management of bridge savings banks.

In 2016, the KDIC refined its contingency plan to ensure a timely and coordinated response to a potential financial crisis. It stepped up its crisis management capabilities by making various efforts to brace for a financial crisis including conducting joint crisis simulation exercises participated by related agencies in May and August 2016.

It is also overhauling the resolution scheme for large financial companies to minimize disturbances in the financial system owing to financial distress of systematically important financial institutions (SIFIs) as well as the taxpayers' burden stemming from the 'too big to fail' problem.

Efficient Sale of Special Assets

Utilizing professional service providers specializing in different types of assets, the KDIC formulated sales strategies and examined appropriate timing of sale in consideration of the characteristics of each PF (project financing) project to maximize recovery of funds. In collaboration with government offices, it acquired or extended authorizations and permits to keep the value of PF projects intact.

As regards high-priced artworks, the KDIC staged an aggressive marketing initiative. It hosted exhibitions and put the artworks up for auction abroad, which resulted in greater interest among potential investors. For increased consistency and efficiency, it grouped similar assets together and designated dedicated managers for each type.

In addition, the KDIC convened the Sales Consulting Committee comprising external experts at least once a month. Its deliberation and report on sales methods improved the fairness and transparency of special asset recovery.

Efficient Management of Bankruptcy Estates

For more efficient management of bankruptcy estates, the KDIC closed and consolidated bankruptcy estate offices scattered throughout the country and developed new criteria for staffing, which helped curtail operating costs of bankruptcy estates and systemize their operations. To prevent financial fraud and reinforce discipline, the KDIC beefed up internal control of bankruptcy estates by conducting training of bankruptcy trustees, examining the operational status of bankruptcy estates, and formulating a code of ethics.

By means of periodic re-valuation of assets performed by bankruptcy estates, the KDIC ascertained the value of assets in its possession as well as assets put up for sale. This system helped to develop sales methods that are tailored to each type of assets, which contributed to ensuring efficient asset sale. As a result, it recovered KRW 2,833.4 billion in bankruptcy dividends in 2016.

For closure of less efficient bankruptcy estates, the KDIC examines how cost-effective the estates are in their effort to dispose of assets. As of the end of 2016, it closed 451 out of 490 bankruptcy estates.

For the purpose of building recovery capacity and enhancing business efficiency, the KDIC opened the county's first 'Bankruptcy and Resolution Academy' to produce professionals in practical bankruptcy affairs.

In 2016, 78 employees of the KDIC and bankruptcy estates completed training, and 65 of them acquired licenses as 'specialists in the administration of financial firm bankruptcies' (national registration no. 2016-001836).

Holding Persons Responsible for Financial Institution Failures to Account

In the event of a failure, the KDIC immediately establishes an investigative unit comprised of experts to thoroughly investigate executive officers and employees of the failed bank and determine exactly who are responsible for the failure.

As of the end of 2016, it completed accountability deliberations concerning approximately 5,600 illegal or wrongful acts by 319 employees at 31 financial institutions suspended from operations since 2011. In the past, the KDIC carried out such deliberations and investigations while bankruptcy estates instituted lawsuits to claim damages. In an effort to redress resultant inconsistency and inefficiency, it introduced an institutional improvement.

In order to uncover assets hidden by persons responsible for mutual savings banks failures including large stockholders, the KDIC conducts investigations of their properties immediately upon business suspension. It also shares litigation know-how and information on major legal issues through a workshop for legal representatives.

In addition, the KDIC holds regional meetings of auditors and loan officers of mutual savings banks to provide training designed specifically for different levels of positions and thus create an atmosphere more conducive to sound business management. To increase the efficiency of litigation management, it publishes and distributes booklets analyzing court precedents where damages were claimed against bankers who committed illegal or wrongful acts.

Increased Stability of the Deposit Insurance Fund

To support the smooth restructuring of failed mutual savings banks, the KDIC created the Special Account for Mutual Savings Bank Restructuring (Special Account)* in April 2011. Through the end of 2016, it raised and provided, in a timely manner, KRW 27,171.1 billion to handle failures of 31 mutual savings banks by paying out insured deposits, etc.

* The account was created to ensure the soundness of the mutual savings bank account of the Deposit Insurance Fund (DIF). It was funded by deposit insurance premiums, borrowings, bond issuance, and other means, and it has been used to fund the resolution of a series of mutual savings bank failures that began in January 2011.

In July 2012, November 2013 and October 2014, the KDIC used a KRW-250-billion credit facility from the Public Capital Management Fund without interest for repayment over a 5-year period after a 10-year grace period. It also reduced borrowing costs by issuing 'Deposit Insurance Fund Bonds for the Special Account for Mutual Savings Bank Restructuring' to finance the repayment of debts from external entities, building its own electronic bidding system for bonds called E-BAS, and borrowing money at rates lower than market ones under line of credit agreements it has with insured financial institutions. Furthermore, the KDIC made vigorous efforts to collect funds provided in financial assistance from the DIF (including the Special Account). It recovered KRW 2,789.3 billion during 2016 by various means including bankruptcy dividend collection.

Under the Target Fund System, the KDIC waived insurance premiums for investment companies with reserves in their account exceeding the highest reserve target at the end of 2015. Meanwhile, life insurance companies, the DIF reserves of which reached the lowest target amount, received a discount of 5% on premiums charged for the period from January 1, 2016 to December 31.

Figure Ⅰ- 1

Special Account for Mutual Savings Bank Restructuring

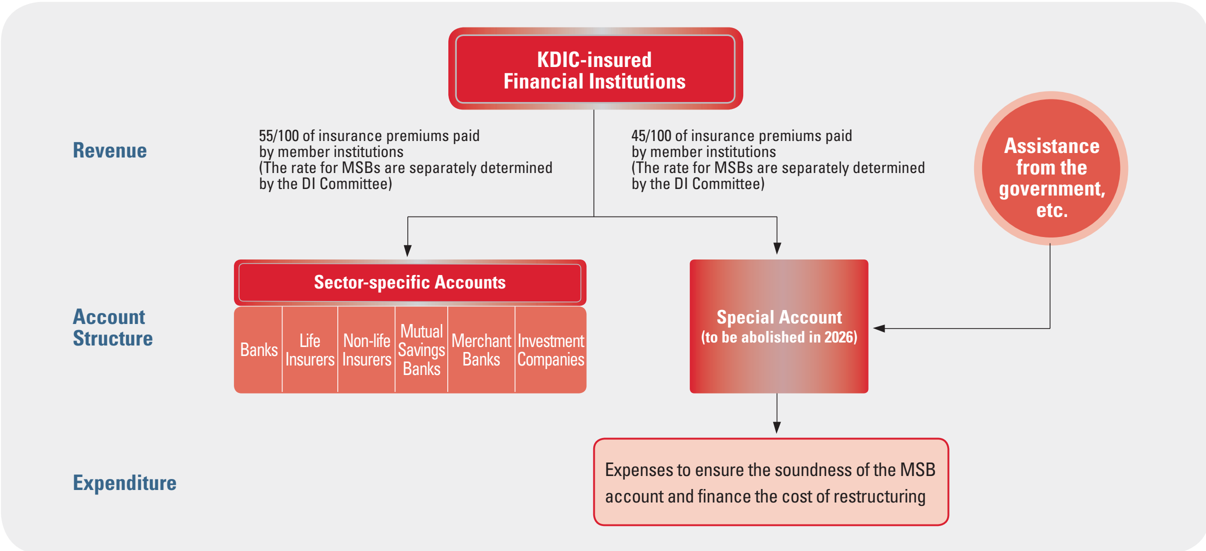


Table Ⅰ- 2

Funding of and Expenditures from the Special Account

(As of Dec. 31, 2016, Unit: KRW 1 trillion)

Amount Provided in Financial Assistance			Amount Raised	
31 MSBs including Samhwa	Capital contributions, equity investments, deposit payoffs, etc.	27.2	Borrowing from the other DIF accounts	1.9
			Outside funding (e.g. issuance of bonds)	18.1
			Deposit insurance premiums, etc.	7.2
Total		27.2	Total	27.2

Smooth Repayment of Public Funds

Under the 'Public Fund Redemption Plan' formulated by the government in 2002, the KDIC established the Deposit Insurance Fund Bond Redemption Fund (Redemption Fund). The Redemption Fund contains all the assets and liabilities from the financial restructuring that occurred after the Asian financial crisis in the late 1990s.

By the end of 2016, the KDIC had repaid KRW 69.9 trillion with government contributions (KRW 45.7 trillion) and recovered funds (KRW 24.2 trillion) out of KRW 82.4 trillion to be repaid under the Public Fund Redemption Plan. It plans to repay the remaining KRW 12.6 trillion with recovered funds and special contributions paid by insured institutions by 2027 as scheduled.

In the meantime, the KDIC continues to recover public funds spent on restructuring failed financial institutions in the wake of the 1997 Asian financial crisis by selling equity stakes and receiving dividends. To sell off its stake in Woori Bank, it devised a new sales arrangement in July 2015, which was approved under the Public Fund Oversight Committee's privatization plan for the bank. Under the new arrangement, the KDIC was allowed to seek a group of investors who would each buy 4 to 10 percent of Woori's shares and form a consortium of shareholders. It, thus, recovered KRW 2,361.6 billion in 2016 by selling a 29.7% stake in Woori Bank to seven companies including Tongyang Life Insurance while collecting KRW 365.2 billion* through stock dividends.

* KRW 86.3 billion from Woori Bank, KRW 255.1 billion from Seoul Guarantee Insurance, and KRW 23.8 billion from Hanwha Life Insurance

The KDIC recovered another KRW 55.3 billion by disposing of the assets of bankruptcy estates into which public funds were injected and by selling the assets held by the Korea Resolution and Collection (KR&C).

Proactive Depositor Protection Services

The KDIC built a consolidated application system allowing creditors to claim any uncollected amounts including their insured funds at failed financial institutions, bankruptcy dividends, and the difference between actual and advance dividend payments. It sent notices to the corrected addresses of the corresponding depositors and ran advertisements in newspapers to give increased publicity to the system and better protect depositors' interests.

At the same time, the KDIC upgraded its depositor protection services by introducing the notification and confirmation scheme regarding deposit insurance coverage and developing a deposit insurance logo. This scheme mandates financial institutions to 'notify' to customers, in advance, whether a financial product is covered by deposit insurance during its sale and, if so, for how much and to receive 'confirmation' by signature from them that they understood such explanation.

Table Ⅰ - 3

KDIC Stakes in Financial Institutions

(As of Dec. 31, 2016, Unit: KRW 1 billion, %)

Category		Financial Assistance	Recoveries[1)]	Value of Remaining Stakes[2)]	KDIC Stakes
KDIC	Woori Financial Group[3)]	12,767.4	10,515.8 (10,649.6)	2,014.2 (1,841.8)	23.37% (21.37%)
	National Federation of Fisheries Cooperatives	1,158.1	-	1,158.1	Preferred Securities
	Seoul Guarantee Insurance	10,250.0	3,201.8	2,259.6	93.85%
	Hanwha Life Insurance	3,550.0	2,137.4	864.9	15.25%
Total		27,725.5	15,855.0	6,296.8	-

Note : 1) Based on the amounts recovered from the sale of stakes, collection of dividends, redemption of preferred shares of stock, etc.

2) For Woori Bank and Hanwha Life Insurance, the valuation is based on the closing prices as of December 31. 2016. The figure for Seoul Guarantee Insurance is based on the results of recomputation of the Redemption Fund in 2013 while the acquisition price is KRW 136.1 billion. The valuation for the National Federation of Fisheries Cooperatives is based on the KDIC's balance sheet as of December 31, 2016

3) The figures in round brackets represent values that reflect the proceeds from the sale of a 2% stake (KRW 133.8 billion), planned for January 31, 2017, to a member of the investors' group (IMM PE) that will collectively own a controlling stake in Woori Bank

Introduced with the amendment of the Depositor Protection Act in December 2015, the scheme was implemented in June 2016 to protect bona-fide victims of improper selling practices.

The deposit insurance logo with the KDIC's new corporate identity indicates to customers whether a financial product is subject to deposit insurance protection. It is particularly expected to help bolster protection of people with poor access to financial information including the elderly. The logo is currently being used only by mutual savings banks but will soon be adopted by all other financial players.

Meanwhile, all employees of the KDIC render volunteer services to repay public trust and fulfill social responsibilities as a public institution. In July 2016, the Ministry of Agriculture, Food and Rural Affairs conferred a Prime Minister's citation on the KDIC in recognition of its efforts to build cooperative ties with a rural village (Apple Village in Ungok-ri, Yesan-gun, Chungcheongnam-do). In October 2016, the Ministry of Health and Welfare awarded a Prime Minister's citation to the KDIC for its steadfast social contribution activities benefiting the underprivileged and local communities including soup kitchen and house repair services.

Furthermore, the KDIC in cooperation with the Ministry of Education and Korea Foundation for the Advancement of Science and Creativity, the Korea Association of Senior Welfare Centers, and the Agency for Traditional Market Administration, provided financial literacy education for people with poor access to financial information including students, seniors and merchants. This number added up to 65,704 people in total, a 17.8% increase from the year before. In 2016, the KDIC signed a memorandum of understanding (MOU) with the Agency for Traditional Market Administration, and was awarded a Presidential citation by the Prime Minister in October 2016 in recognition of providing tailored financial literacy education for market merchants.

The KDIC engaged in diverse publicity initiatives to raise public awareness of the depositor protection system through television broadcasting, media reports, and Seoul Metro advertisements. It actively executed customized publicity efforts for people with poor access to financial information, as well as online publicity initiatives using social networking sites such as Facebook. This greatly increased the level of public awareness* of the depositor protection system and the KDIC compared to the previous year.

* Level of awareness of the depositor protection system: 91.2% in 2015 → 92.2% in 2016, Level of awareness of the KDIC: 88.0% in 2015 → 89.3% in 2016

In commemoration of its 20th anniversary, the KDIC launched a new corporate identity symbolizing depositor protection and financial stability and opened a website marking the anniversary. It heavily publicized its endeavors and achievements for depositor protection.

Under the theme of 'KDIC building trust in financial services,' it also produced a commercial film and song, which will be extensively used starting in 2017 in terrestrial television broadcasting, newspapers, public transportation, and shopping malls.

Table Ⅰ-4

Financial Literacy Education in 2016

(As of Dec. 31, 2016, Unit: No. of Persons)

Category	Elementary school students	Middle and high school students	Traditional market merchants	The elderly	Multicultural families	Others	Total
No. of Persons	19,689	28,585	4,630	10,358	833	1,609	65,704

Improvement of Global Cooperation with Foreign Deposit Insurers

As of 2016, the KDIC had entered into MOUs on mutual cooperation with 18 institutions in 17 countries. It has, thereby, steadily expanded information and personnel exchange with foreign deposit insurers regarding current issues.

The global financial crisis in 2008 prompted emerging economies to take greater interest in deposit insurance and caused deposit insurers to bolster their global network. To support the establishment or improvement of deposit insurance systems in emerging economies, the KDIC has proactively pursued the 'Global-KDIC Knowledge Sharing Program (KSP)' since December 2010.

It had worked with 15 emerging economies by the end of 2016, and it took part in the Knowledge Sharing Program undertaken by the Korean government, assisting Mongolia and Tanzania in introducing and improving their deposit insurance systems through its advisory and capacity-building programs.

The KDIC has expanded the scope of its Global-KDIC KSP from simply providing policy advice for introduction and improvement of deposit insurance schemes to rendering technical assistance for the design and operation of IT systems. As a part of KSP consulting program in 2016, it helped implementation and improvement of deposit insurance system in Cambodia.

Moreover, the KDIC continued to build upon its global leadership position and raise its international profile by holding the 15th IADI Annual General Meeting and Annual Conference in Seoul, to discuss the directions in which deposit insurers can strengthen and further develop their roles in order to preemptively respond to future financial crises.

The KDIC will solidify global cooperation with foreign deposit insurers and boost its international status through conclusion of MOUs, expansion of personnel and information exchange, and sharing of knowledge on operation of deposit insurance systems.

Organization Operations

1. Organization Setup
2. Organization Management

1. Organization Setup

Deposit Insurance Committee and Board of Directors

Deposit Insurance Committee

The Deposit Insurance Committee has seven members. Ex-officio members are the Chairman and President of the KDIC (who serves as the chairperson of the Committee), the Vice Chairman of the Financial Services Commission (FSC), the Vice Minister of the Ministry of Strategy and Finance (MOSF), and the Senior Deputy Governor of the Bank of Korea (BOK). The other three members include one person appointed by the FSC and two persons respectively recommended by the Minister of the MOSF and the Governor of the BOK and appointed by the FSC.

The Committee deliberates and decides on important matters including revision of the KDIC's Articles of Incorporation; development, modification, and settlement of the KDIC's budget; formulation of guidelines for the KDIC's operations; development of management plans for the Deposit Insurance Fund (DIF) and the Deposit Insurance Fund Bond Redemption Fund (Redemption Fund); issuance of DIF Bonds and Redemption Fund Bonds; transactions between DIF accounts; approval of plans for the management of surplus funds; setting of DIF reserve targets; decisions on payment of deposit insurance claims and interim deposit payoffs; provision of financial assistance to resolution financial institutions and insured financial institutions; and requests to the Governor of the FSS to allow the KDIC's participation in joint examinations of insured financial institutions and financial holding companies.

Table Ⅱ - 1

Deposit Insurance Committee Members

(As of Dec. 31, 2016)

Title		Name
Ex-officio Members	Chairman and President of Korea Deposit Insurance Corporation	Bumgook Gwak
	Vice Chairman of Financial Services Commission	Eun Bo Jeong
	Vice Minister of Ministry of Strategy and Finance	Sang Mok Choi
	Senior Deputy Governor of Bank of Korea	Byung Wha Jang
Commissioned Members	Designated by the Financial Services Commission	Young Chul Chang
	Recommended by the Minister of Ministry of Strategy and Finance	Chul Hwan Lee
	Recommended by the Governor of the Bank of Korea	Jae Hyun Choi

Table Ⅱ - 2

Major Responsibilities of the Deposit Insurance Committee

Category		Responsibilities
Items for Resolution	Resolution	• Amendment of the Articles of Incorporation • Budget compilation/modification and settlement of accounts • Issuance of Deposit Insurance Fund (DIF) Bonds and DIF Bond Redemption Fund Bonds • Reduction/deferment on the payment of part of or all contributions, deposit insurance premiums and arrears charges • Decision on payment of deposit claims • Approval of advance payment of bankruptcy dividends • Provision of financial support to financial resolution institutions • Provision of financial support to insured financial institutions • Operational guidelines for the Deposit Insurance Committee • Request to the Governor of the FSS to share examination findings on insured financial institutions and financial holding companies and allow KDIC's participation in joint examinations • Request to the FSC for necessary measures such as a P&A order or a bankruptcy filing regarding insolvent financial institutions
	Decision	• Designation of insolvent financial institutions • Designation of insolvency-threatened financial institutions • Transactions between DIF accounts • Method of the Deposit Insurance Committee's minutes disclosure • Necessary measures for DIF Bonds and DIF Bond Redemption Fund Bonds • Service fee payment for third-party services • Payment of interim deposit payoffs • Exception to the least-cost principle
	Deliberation	• DIF operation plan • Formulation and revision of rules and regulations on KDIC operations
	Designation	• Management of surplus funds - Purchase of designated 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 2016

Date	Agenda
Feb. 24	• Request for participation in the joint examination for the first quarter of 2016 • Issuance of guidelines on asset management of the DIF Bond Redemption Fund and guidelines on asset management of the DIF in 2016 • Settlement of the DIF, KDIC, and DIF Bond Redemption Fund accounts for 2015 • Reporting on KDIC operating expense settlement and reporting on the transactions between accounts of the DIF and the DIF Bond Redemption Fund for 2015 • Reporting on the joint examination findings of ○○ Non-Life Insurance • Reporting on the joint examination findings of ○○ Mutual Savings Bank and △△ Mutual Savings Bank • Reporting on modification of the KDIC budget for 2016
Mar. 23	• Decision on the risk-based premiums of insured financial companies closing accounts at the end of September or October 2015 • Amendment of the business normalization plan for Woori Bank, credit business unit of the National Federation of Fisheries Cooperatives, and Seoul Guarantee Insurance
Apr. 27	• Request for participation in the joint examination for the second quarter of 2016 • Revision of the regulations on management of business normalization MOUs • Reporting on the progress in implementation of business normalization MOUs during the fourth quarter of 2015 (yearly) and related measures
May. 20	• Decision on the risk-based premiums of insured financial companies closing accounts at the end of December 2015 • DIF Bond Redemption Fund management plan for 2017 • Issuance of DIF Bond Redemption Fund Bonds in 2017 and application for government guarantees for the bonds • Revision of the regulations on management of surplus funds and revision of the guidelines on asset management of the DIF in 2016 • Reporting on the joint examination findings of ○○ Mutual Savings Bank

Date	Agenda
Jun. 22	• Request for participation in the joint examination for the third quarter of 2016 • Decision on reduction of deposit insurance premium payment for DIF accounts that have exceeded reserve targets • Revision of the regulations on KDIC signage display requirements • Reporting on the progress in implementation of business normalization MOUs during the first quarter of 2016
Aug. 31	• Decision on the risk-based premiums of insured financial companies closing accounts at the end of March 2016 • Decision on whether to provide insurance coverage to court deposits and etc. • Reporting on the joint examination findings of ○○ Securities • Reporting on the examination findings of ○○ Mutual Savings Bank and △△ Mutual Savings Bank • Reporting on the joint examination findings of ○○ Mutual Savings Bank
Sep. 22	• Request for participation in the joint examination for the fourth quarter of 2016 • Reporting on the joint examination findings of ○○ Bank • Reporting on the progress in implementation of business normalization MOUs during the second quarter of 2016 • Reporting on the results of semi-annual account settlement for the DIF and DIF Bond Redemption Fund for fiscal year 2016
Oct. 19	• Revision of the regulations on operation of the risk-based premium system • Reporting on the joint examination findings of ○○ Mutual Savings Bank
Nov. 23	• Conclusion of a business normalization MOU with newly-established Suhyup Bank • Reporting on the joint examination findings of ○○ Mutual Savings Bank
Dec. 21	• DIF management plan for 2017 • Issuance of DIF Bond Redemption Fund Bonds in 2017 • Revision of the regulations on payment of insurance premiums, Special Assessment Payments, etc. • New decision on the risk-based premiums of ○○ Mutual Savings Bank as of the end of June 2014 and June 2015 • Reporting on the joint examination findings of ○○ and △△ Mutual Savings Bank • Reporting on the progress in implementation of business normalization MOUs during the third quarter of 2016
Dec. 23	• KDIC budget for 2017

Board of Directors

The Board of Directors is comprised of the KDIC Chairman and President, one Executive Vice President, four Executive Directors, and seven Non-executive Directors. The Auditor may express opinions at Board meetings but cannot participate in voting.

The Chairman and President of the KDIC is appointed by the President of the Republic of Korea on recommendation of the Executives Recommendation Committee and the Chairman of the FSC, and the Executive Directors are appointed by the Chairman and President of the KDIC. The Non-executive Directors are appointed by the Chairman of the FSC on recommendation of the Executives Recommendation Committee. The Auditor is appointed by the President of the Republic of Korea on recommendation of the Executives Recommendation Committee, deliberation and decision of the Public Agencies Operating Committee, and recommendation of the Minister of the MOSF. The Chairman and President of the KDIC is appointed for a period of three years and the Executive Directors and the Auditor are appointed for a 2-year term each, renewable on a year-to-year basis after the expiration of their first term of office.

The Board of Directors deliberates and makes resolutions on the following matters: amendment of the Articles of Incorporation; budgeting and operational planning; settlement of accounts; setting and changing management goals; development, revision and abolition of internal rules; remuneration of executives; acquisition and disposal of assets; matters related to the KDIC's operations such as organization structures and human resources management; items that are required to be put to a vote of the Board of Directors by law, the Articles of Incorporation or internal rules; and any other matters deemed necessary by the Board of Directors or its chairperson.

Table Ⅱ - 4

Executive Board Members

(As of Dec. 31, 2016)

Title	Name
Chairman and President	Bumgook Gwak
Executive Vice President	Kwang Nam Kim
Executive Director	Seong Yeol Lim
Executive Director	Joon Ki Kim
Executive Director	Jong Bok Moon
Executive Director	Chan Hyung Jeong
Non-executive Director	Sool Young Lee
Non-executive Director	Jae Youn Lee
Non-executive Director	Cheol Kyu Park
Non-executive Director	Seok In Kang
Non-executive Director	Young Baek Kim
Non-executive Director	Myeong Seon Kim
Non-executive Director	Ki Sang Cho
Auditor	Chang Keun Yoon

Organization

The KDIC was established on June 1, 1996 as a non-capital special corporation to effectively manage and operate the deposit insurance system under the Depositor Protection Act. As of the end of 2016, it had fourteen departments, five offices, five intra-departmental offices, and two bureaus.

To tackle the increasing uncertainties in the financial market stemming from rising interest rates in the US, potential malaise of European banks, and growing household debt and to preempt the resultant insolvency risks of insured financial institutions, the KDIC formulated an organizational reshuffle plan for better risk management of insured financial companies in December 2016. The plan is to be implemented in January 2017 (thirteen departments, one center, six offices, six intra-departmental offices, two bureaus, and one foreign office).

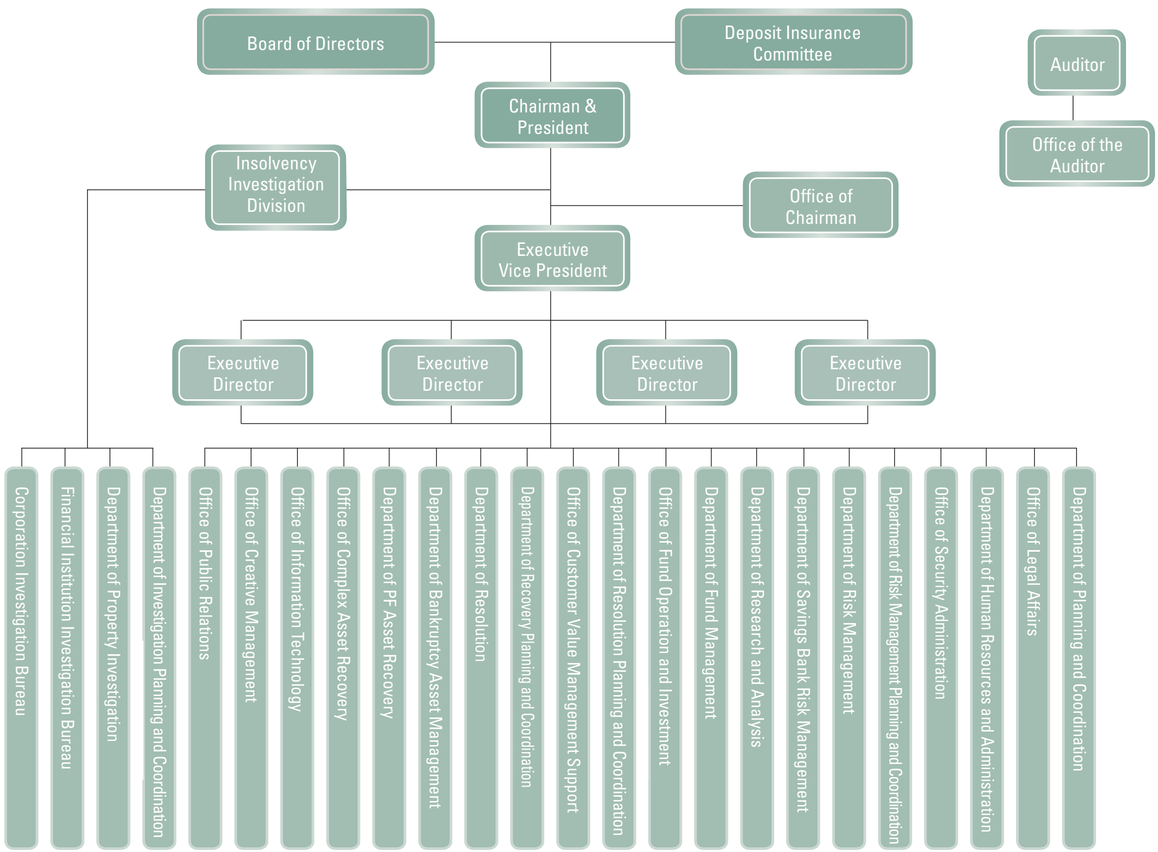
The Office of Risk Management for Insurance Companies was set up for more effective ongoing risk monitoring for insurance companies expected to face more uncertainties in the business environment due to the introduction of IFRS17*. The Department of Research and Analysis was expanded and renamed as the Deposit Insurance Research Center to bolster empirical research and analysis of deposit insurance schemes and current financial issues and thus to help improve those schemes and insured financial institutions' risk monitoring. The International Cooperation Team was expanded and renamed as the Office of International Cooperation to ensure further cooperation with international organizations and foreign insurers including the Financial Stability Board (FSB) and the International Association of Deposit Insurers (IADI).

* International Financial Reporting Standard entering into force in 2021 which changes the basis for recognition of insurance liabilities from 'cost' to 'mark-to-market'

Figure Ⅱ - 1

Organizational Chart

(As of Dec. 31, 2016)



(To be Implemented at the Start of Year 2017)

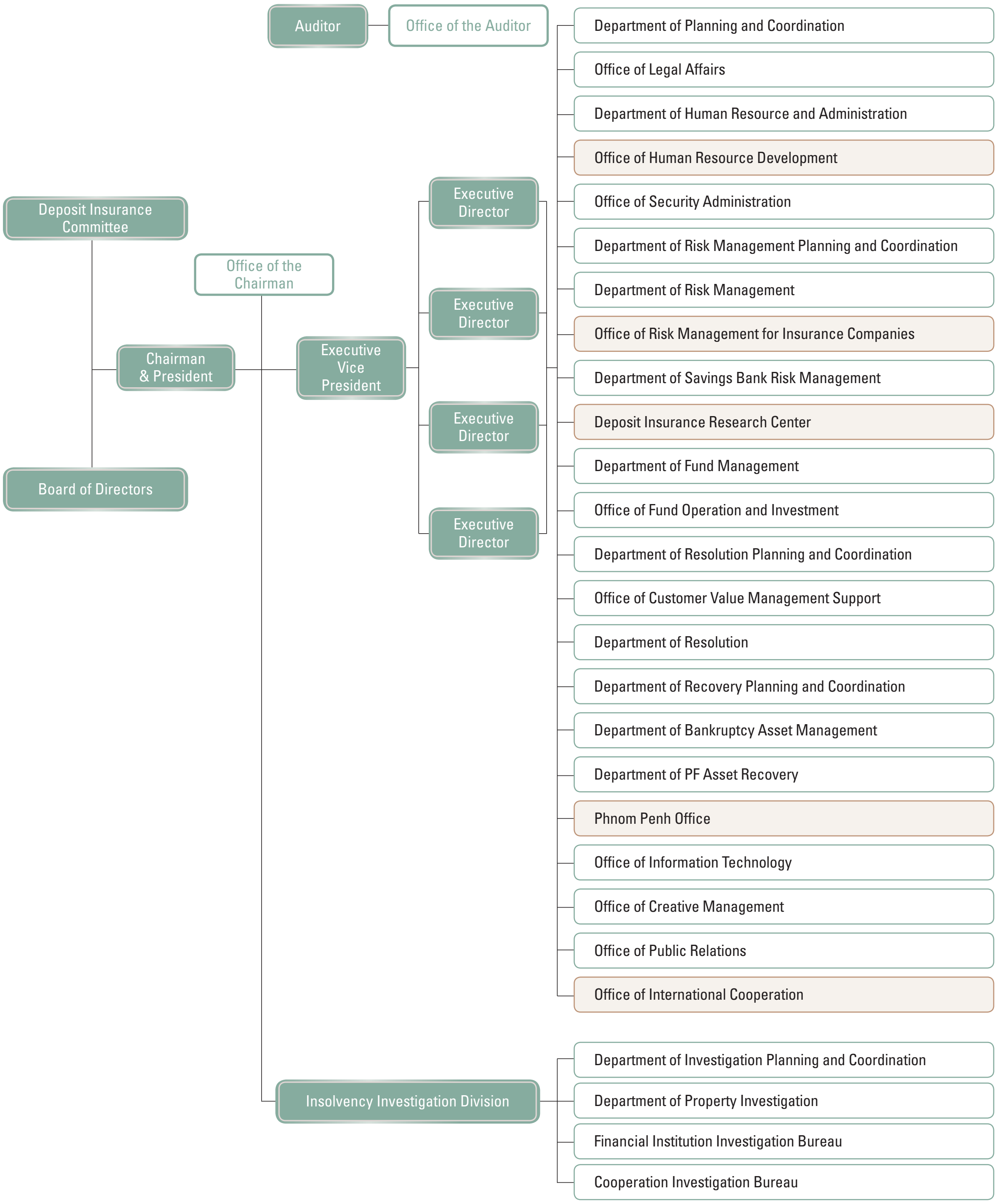


Table Ⅱ - 5

Number of Staff

(As of Dec. 31, 2016, Unit: No. of Persons)

Category	Senior Management	Staff			Total
		Regular	Special[2]	Sub-total	
No. of People	14[1]	583	84	667	681

Note: 1) Including seven Non-executive Directors appointed under the Public Agencies Operational Act
2) Professional staff, special service providers, etc.

2. Organization Management

Vision and Mid- to Long-Term Management Plan

The KDIC established its corporate vision in March 2005 and has duly refined it as necessary to grapple with changes in the business environment and to proactively reflect the Chairman and President's management philosophy and internal and external needs. Ahead of its 20th anniversary in June 2016, the KDIC formulated a new vision and strategic goals in September 2015.

Vision Structure

A. KDIC Vision and Its Meaning

"A deposit insurance service organization that has the best ability to ensure financial stability and preemptively respond to failure risks" - Building on its 20-year experience in operating the deposit insurance system and restructuring failed financial institutions, the KDIC aims to develop the capacity to deal with ever-increasingly complex market risks in a proactive and preemptive manner and thereby provide best quality services for financial stability and deposit insurance.

B. Vision and Strategy Map

Figure Ⅱ - 2

KDIC Vision and Strategy Map

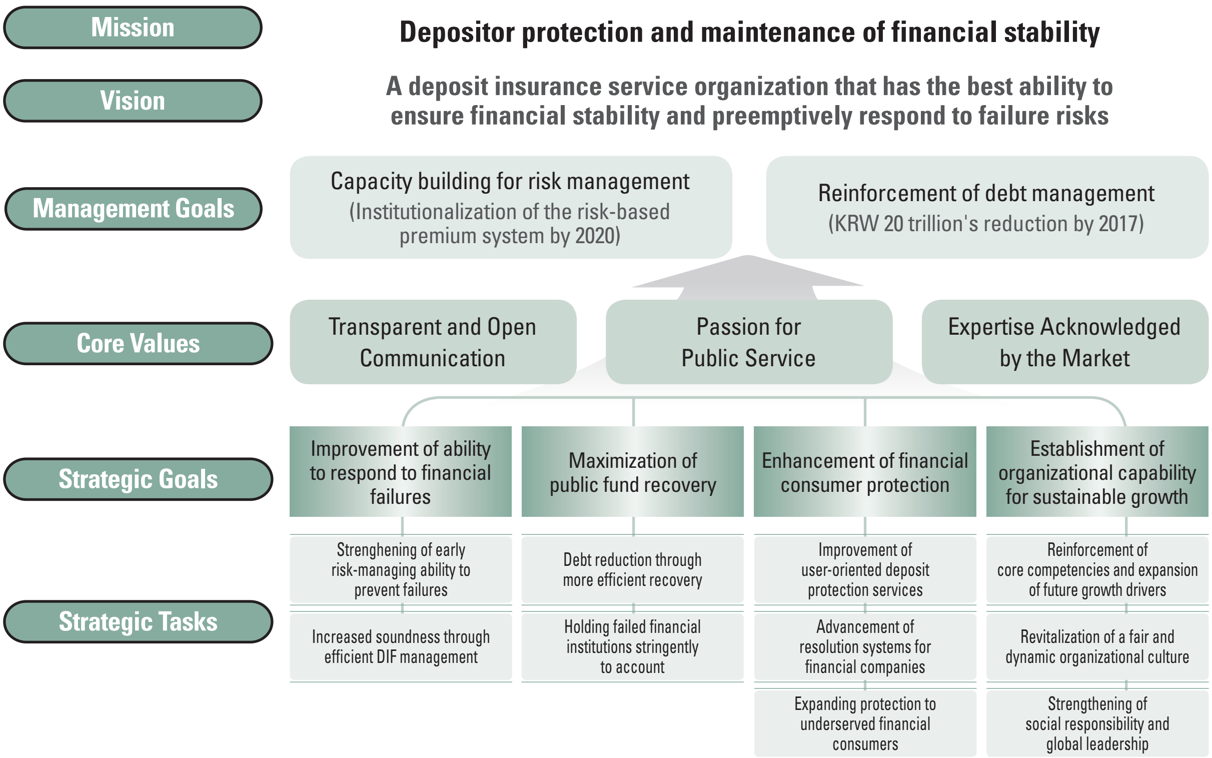


Table Ⅱ - 6

Strategic Goals, Strategic Tasks, and Detailed Action Plans

Strategic Goals	Strategic Tasks	Detailed Action Plans
Improvement of Ability to Respond to Financial Failures	Capacity building for preemptive insurance incident risk management	• Improvement of ongoing monitoring system for such purposes as early detection of the risks of insurance events
		• Effective operation of the risk-based premium system
		• Efficient performance of independent and joint examinations based on choice and focus
	Increased soundness through efficient DIF management	• Stable management of the DIF
		• Efficient management of the Redemption Fund for the repayment of public funds
		• Striking a balance between profitability and stability
Maximization of Public Fund Recovery	Debt reduction through more efficient recovery	• Efficient sale of KDIC's assets including equities
		• Improvement of the MOU management system for increased enterprise value
		• Efficient management of bankruptcy estates and improved recovery
		• Efficient management of special assets and maximization of recovery
	Holding failed financial institutions stringently to account	• Rigorous investigation and closer post-failure monitoring
		• Efficient investigation into assets held by persons implicated in insolvencies at home and abroad
Enhancement of Financial Consumer Protection	Improvement of user-oriented deposit protection services	• Provision of user-oriented deposit insurance information
		• Fast and convenient deposit insurance claims payment
	Advancement of resolution systems for financial companies	• Prompt and efficient resolution of insolvent financial institutions
		• Development of a more advanced resolution system for large financial companies
	Expanding protection to underserved financial consumers	• Enhanced integrity in the administration of deposit insurance
		• Rendering support for reasonable choice by financial consumers
Establishment of Organizational Capability for Sustainable Growth	Reinforcement of core competencies and expansion of future growth drivers	• Efficient organization and budget management focused on core business activities
		• Development of a system to enhance business structure
		• Efficient management and development of human resources
		• Exploration of future tasks and strategic response
	Revitalization of a fair and dynamic organizational culture	• Improved effectiveness of the compensation and performance evaluation systems
		• Improved work process though evaluation of core businesses
		• Creation of driving force for innovation through communication
		• Making the KDIC more capable through sharing and collaboration
	Strengthening of social responsibility and global leadership	• Institutionalization of ethical management for greater public trust
		• Increasing customer satisfaction by an improved customer satisfaction (CS) management system
		• Exercise of global leadership by expanding the KDIC's role in the international community

Strategic Goals, Strategic Tasks, and Detailed Action Plans

To realize the new vision and generate tangible results, the KDIC set four mid- to long-term strategic goals: 'improvement of ability to respond to financial institution failures,' 'maximization of public fund recovery,' 'enhancement of financial consumer protection,' and 'establishment of organizational capability for sustainable growth.' It then realigned 10 strategic tasks to achieve these strategic goals and devised new detailed annual action plans for the next five years (from 2017 to 2021).

Dynamic Organizational Culture for Human Resources Management and Business Operations

Undertaking the Young KDIC Program for Internalization of Core Values

In September 2015, the KDIC overhauled its vision, strategic framework, and core values*. In February 2016, it changed its organizational culture program from 'Hi-KDIC' to 'Young KDIC' to promote dynamism in its organizational operation and help its new core values take root across the organization.

* (Previously) Transparency, accountability, public interest, professionalism, and cooperation → (New) communication, enthusiasm, and professionalism

By abolishing and consolidating similar programs, the KDIC increased efficiency of management. It developed new programs such as 'Eureka' and 'Any Talk' to step up communication within the organization. This greatly facilitated the pursuit of its strategic goals.

Table Ⅱ - 7

「Young KDIC」 Program

Category	Program Name	Description
Communication	Book Relay	• Creation of an environment encouraging employees to share insightful books on management that deeply impressed them
	ICU	• Cultural activities and gatherings among department members
	Talk2U	• Meetings with the CEO for lunch and tea party
	Buy4U	• Delivery of snacks by executive officers or luncheon among members of an organization
	O2O	• Online and offline contact between the CEO and employees for better communication
Enthusiasm	Ye:Ullim	• Channel to disseminate strategic tasks and the CEO's management philosophy and to collect opinions on major issues
	Any Talk	• Enhancement of creativity by allowing employees to freely present/share opinions on a wide array of themes
	Eureka	• Development of ideas for business improvement by utilizing a pool of experienced employees
General	Campaign to Implement Core Values	• Employees' determination of the direction of performing duties and taking actions to uphold core values

Performance Evaluation to Promote a Performance-Based Organizational Culture

To build a performance-based organizational culture, the KDIC introduced a strategic performance management system called the Balanced Score Card (BSC) in late 2005. It applied the BSC to every department in 2006 and then to all teams in 2007. It then developed an IT system for performance management in 2009, and it has refined performance indicators and evaluation methods on a continuous basis. In 2016, it incorporated changes in its performance management scheme in its IT system, and this improved system operation efficiency and user convenience and enabled proactive response to changes in its evaluation system arising from expansion of the performance-based annual salary system.

The KDIC has consistently invited employee opinions and expert advice on performance evaluation indicators and methods for improvement of its performance evaluation system. In 2016, it (i) increased fairness in the attribution of blame and credit for the results of external evaluation (annual performance evaluations by the government) , (ii) established an extra scoring system regarding long-term performance and challenging indicators, (iii) strengthened qualitative indicators, including those for customer satisfaction and human resources development, and indicators for future strategic tasks, and (iv) improved the feedback system of assessment results.

For effective operation of the performance-based annual salary system, the KDIC adopted an individual performance evaluation system known as Management by Objectives (MBO) in 2010 under an agreement between labor and management. In 2012, the KDIC built an online system for MBO. Since 2011, it has operated the Joint Labor-Management Committee on Improving the Performance Evaluation System to make ongoing improvements to MBO based on an organization-wide collection of opinions. In 2016, the KDIC enhanced fairness and acceptability of the evaluation system by various means of improvement including expansion of the scope of assessment results disclosure, establishment of an appeals review board, implementation of multidimensional evaluation, and adoption of a scheme limiting assessment by inappropriate evaluators.

Expansion of the Performance-Based Annual Salary System

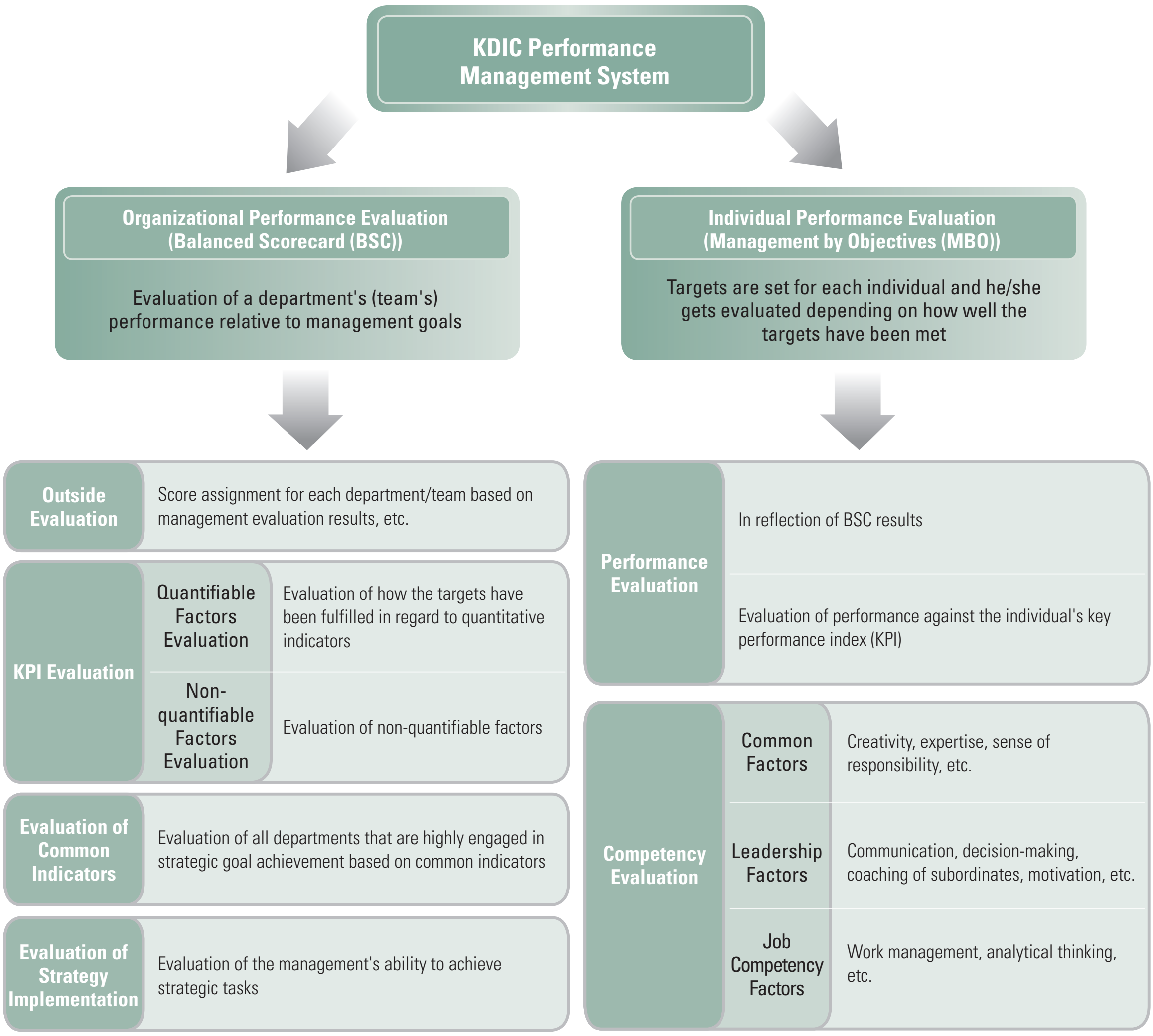
The Korean government designated reform of the public and financial sectors as one of its core tasks and consistently pressed ahead with its reform drive. It demanded that public institutions in the financial sector should set best practices for financial institutions by aggressively taking the initiative. Against this backdrop, the KDIC reorganized and expanded its performance-based annual salary system with a sense of responsibility as a 'leader' in spreading performance-oriented corporate culture.

The KDIC laid the groundwork for early introduction of an effective system after thorough preparation. In December 2015, it set up the 'Task Force for business capacity-building' dedicated to establishing methods to improve the salary system in a timely manner. It also launched the 'performance-oriented management promotion team' as an organization-wide body to institute a performance-driven culture, and it simultaneously strived to devise objective and reasonable improvement plans for its overall human resources management including remuneration, evaluation, training, and assignment of duties by utilizing external consulting services.

Despite these preemptive efforts, the KDIC found it difficult to expand the performance-based annual salary system owing to complications arising from execution of a series of steps for normalization of public institutions, such as adoption of the wage peak system, as well as to a sense of pressure as a leading public institution that it should lead the way in introducing various systems.

Figure Ⅱ - 3

KDIC Performance Management System



Based on active communication with its employees, the KDIC worked to forge a consensus on the need to expand the performance-based annual salary system through various channels including presentations, meetings, and workshops. It also provided newsletters and explanatory materials offering information on the progress in its endeavors to institute performance-oriented practices. In addition, it established a real-time Q&A scheme to alleviate employees' concerns about introduction of the system. The chairman & President of the KDIC himself gave a presentation in a workshop and led a discussion of all employees to persuade them of the need for the system.

Thanks to employees' proactive participation and the management's genuine appeal, the KDIC became the first financial public institution in Korea to expand the performance-based annual salary system by a labor-management agreement (April 29, 2016). It was recognized as an exemplary practice in the 'workshop for the heads of public institutions for 2016' hosted by the President of the Republic of Korea (June 14, 2016). As a leader of reform of the public/financial sector, the KDIC will further increase its competitiveness and organizational output to uphold its commitment to social responsibility as a public institution.

Ethical Management and Corporate Social Responsibility

Ethical Management

The KDIC adopted 'Transparent and Open Communication,' 'Passion for Public Service,' and 'Expertise Acknowledged by the Market' as its core values, particularly to fulfill its corporate social responsibility. The KDIC aspires to high ethical standards by applying ethical management at every level of its corporate hierarchy. For that purpose, it formulated mid- to long-term and annual ethical management plans that properly reflect changes in the ethical management environment and government policy. It then developed and executed detailed action plans to help ensure that ethical management firmly takes root as an integral part of its corporate culture.

In 2016, the KDIC held 'Integrity Day' each month and regularly posted Integrity Talks and Integrity/Ethical Management Letters on its intranet to forge a consensus on ethical management among its employees and teach them how to handle ethical conflicts such as solicitation of special favors. To create an atmosphere more conducive to ethical management inside the organization, it conducted story-telling cyber education for all its employees, invited ideas for promotion of integrity, and hosted regular meetings and workshops for leaders of ethical management and integrity. In addition, it requested bankruptcy estates of failed savings banks, which are in direct contact with customers, to develop and implement anti-corruption/integrity tasks. It also hosted integrity workshops for bankruptcy estate trustees to promote application of its ethical management practices at the point of contact with customers. It reported progress in satisfying the requirements of the UNGC (United Nations Global Compact), an initiative under the UN to encourage businesses and organizations to fulfill their social responsibilities, and participated in the KoBEX SM (Korean Business Ethics Index Sustainability Management) survey conducted by the Ministry of Trade, Industry and Energy. In doing so, the KDIC has greatly enhanced public confidence in its commitment to ethical management.

These endeavors reaped excellent results when the Anti-Corruption and Civil Rights Commission gave the KDIC grade 2 in its integrity assessment in 2016, placing it in fifth place out of the thirteen fund-managing quasi-governmental agencies. It was also awarded an 'AAA' rating, the highest possible rating, in the KoBEX SM survey conducted by the Ministry of Trade, Industry and Energy, for the fifth consecutive year since 2012.

Corporate Social Responsibility

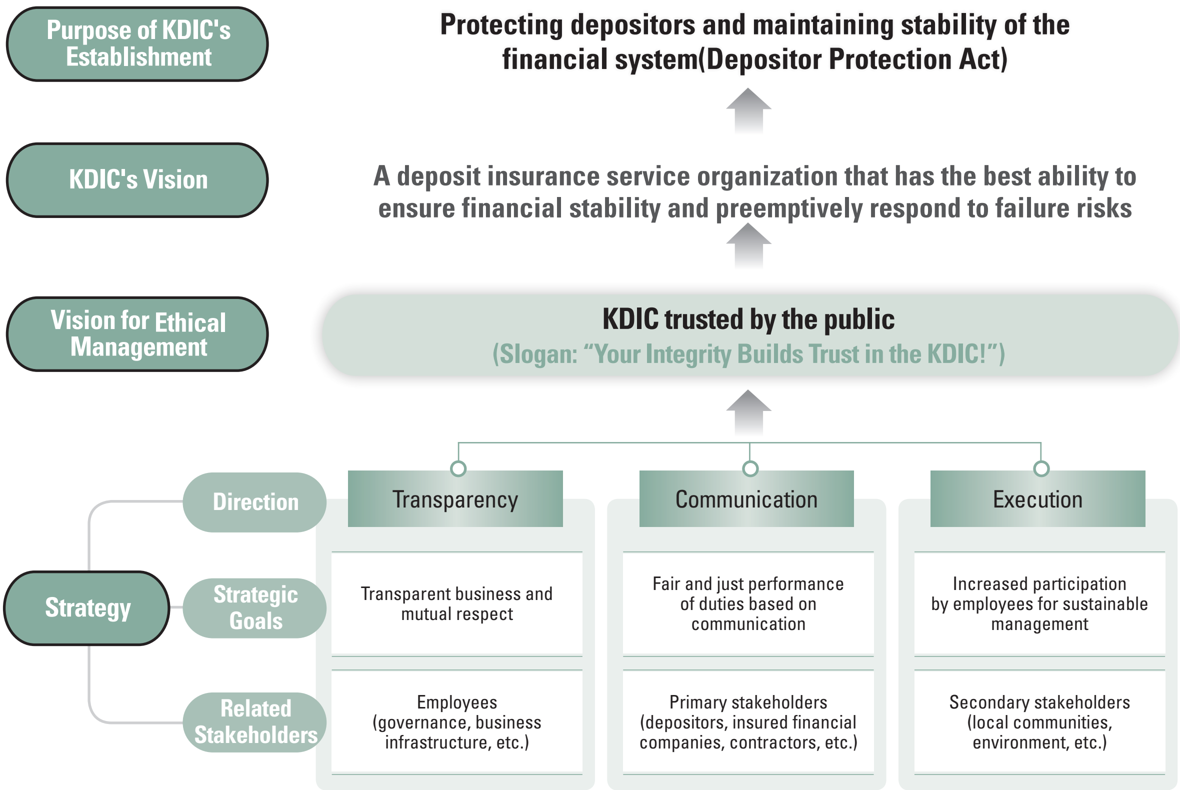
A. Social Contribution Activities for the Underprivileged and Local Communities and Gaining of Social Recognition

The KDIC has implemented extensive outreach programs involving all its employees to repay the trust that the public has invested in it and fulfill its responsibility as a public institution. To promote its social contribution activities, it executed diverse programs and offered rewards for employees and their departments for their faithful service. In 2016, such efforts were duly recognized by a Prime Minister's citation for promotion of urban-rural exchange and a Prime Minister's citation under the Korea Sharing Awards.

Since it formed a sisterhood relationship with the apple village in Ungok-ri, Yesan-gun, Chungcheongnam-do in November 2005 to boost the rural economy, the KDIC has lent a helping hand to the village for apple harvesting, run a farmers' market, and offered agricultural management and legal consulting services each year. In July 2016, the Ministry of Agriculture, Food and Rural Affairs conferred a Prime Minister's citation on the KDIC in recognition of its efforts to galvanize urban-rural exchange. It also engaged in regular social contribution activities benefiting the underprivileged and local communities including the

Figure Ⅱ - 4

Strategy Map for Ethical Management



running of soup kitchens, house repair in cooperation with Habitat, and rendering of microcredit services. In October 2016, the Ministry of Health and Welfare awarded a Prime Minister's citation to the KDIC for such endeavors under the Korea Sharing Awards.

The KDIC will continue to pursue social contribution for people in need and fulfill its social responsibilities as a public institution by planning and implementing various programs that can benefit the underprivileged the most.

B. Conclusion of MOUs with Neighboring Public Institutions to Jointly Pursue Social Contribution

In March 2016, the KDIC entered into an MOU on joint social contribution with its neighboring public institutions - the Korea Broadcast Advertising Corp.; the Korea Trade Insurance Corporation; and the National Information Society Agency - to undertake social contribution more effectively.

Under the MOU, the KDIC jointly participated in various activities including making 'upcycling hearing' bracelets, repairing houses, one-day camping for children from low-income families, making candles, and distributing heating briquettes. The KDIC and the other parties to the MOU will organize a council for social contribution to further solidify their cooperation framework.

C. Haengbok Yegam (Expecting Happiness) Activities

In 2016, the KDIC raised KRW 229.05 million for the "Haengbok Yegam" Fund by collecting employee donations and contributing the sale proceeds of orchids celebrating the inaugural ceremonies of executive officers. It spent KRW 193.66 million on social contribution initiatives including Communion with Neighbors, Communion with Local Communities, Communion with Rural Villages, and Communion with the Environment.

Table Ⅱ - 8

Social Contribution Activities in 2016

(As of Dec. 31, 2016, Unit: No. of Times, No. of Persons)

Category	Program Names	Activities	No. of Times	No. of Participants	Frequency
Neighbors	Assistance for the needy	Support for individuals and facilities in need	25	-	Occasionally
	KDIC scholarship	Granting of scholarships to high school students from low-income families nationwide	1	20	Yearly
	Assistance for people of national merit	Support for people of national merit (delivery of heating briquettes, provision of rice-cake soup, etc.)	2	31	Occasionally
	Service at Namsanwon	Arrangement of environment including cleanup of the foster care facilities	12	93	Monthly
	Assistance regarding bankruptcy estates	Discovery and support of underserved people concerning bankruptcy estates	5	-	Yearly
	Provision of microcredit	Provision of business start-up funds to the underprivileged	1	-	Yearly
Local Communities	Soup kitchen services	Support for a soup kitchen (Nest of Sharing) and food distribution services	14	85	Monthly
	Matching 1 shelter (family) with 1 department	Support for each department's activities to help 1 shelter (family)	77	267	Year-round
	Repair of houses	Improvement of residential environment for low-income families (in cooperation with Habitat)	2	32	Year-round
	Invigoration of traditional markets	Promotion of Tongin Market (purchase of brass coins usable for purchases in the market, meals, etc.)	106	1,213	Weekly
	Visit KDIC program	Invitation of middle school students for financial literacy and career exploration education	2	11	Occasionally
Rural Villages	Building cooperative ties with rural villages	Helping farmers at a sister village	1	77	Yearly
	Haengbok Yegam farmers' market	Operation of a farmers' market to support farmers	3	-	Year-round
Environment	Tree planting	Reduction of carbon emissions by planting trees	1	22	Yearly
	Up-Cycling Campaign	Helping hearing-impaired persons by recycling of discarded earphones	4	109	Quarterly
Total			256	1,960	

The Communion with Neighbors initiative involves rendering scholarships to high school students from low-income families all across the nation in collaboration with the Community Chest of Korea; regularly rendering needed services at the Namsanwon foster care center; providing microcredit and consulting services to the financially underserved for their establishment of business start-ups (a new program in 2016); and extending a helping hand to the needy by, for example, making cash and goods donations to social welfare organizations.

The Communion with Local Communities initiative involves KDIC employees visiting the Nest of Sharing, a social welfare organization in Seoul, to offer financial support and distribute foodstuffs; the Matching One Institution with One Department campaign whereby KDIC employees visit a social welfare institution chosen by their department and donate money and time on a regular basis; the House of Love campaign in which KDIC staff repair houses for low-income families in cooperation with the Seoul branch of Habitat for Humanity Korea; and revitalization of traditional markets through the "day to visit traditional markets" and "shopping at traditional markets in celebration of holidays."

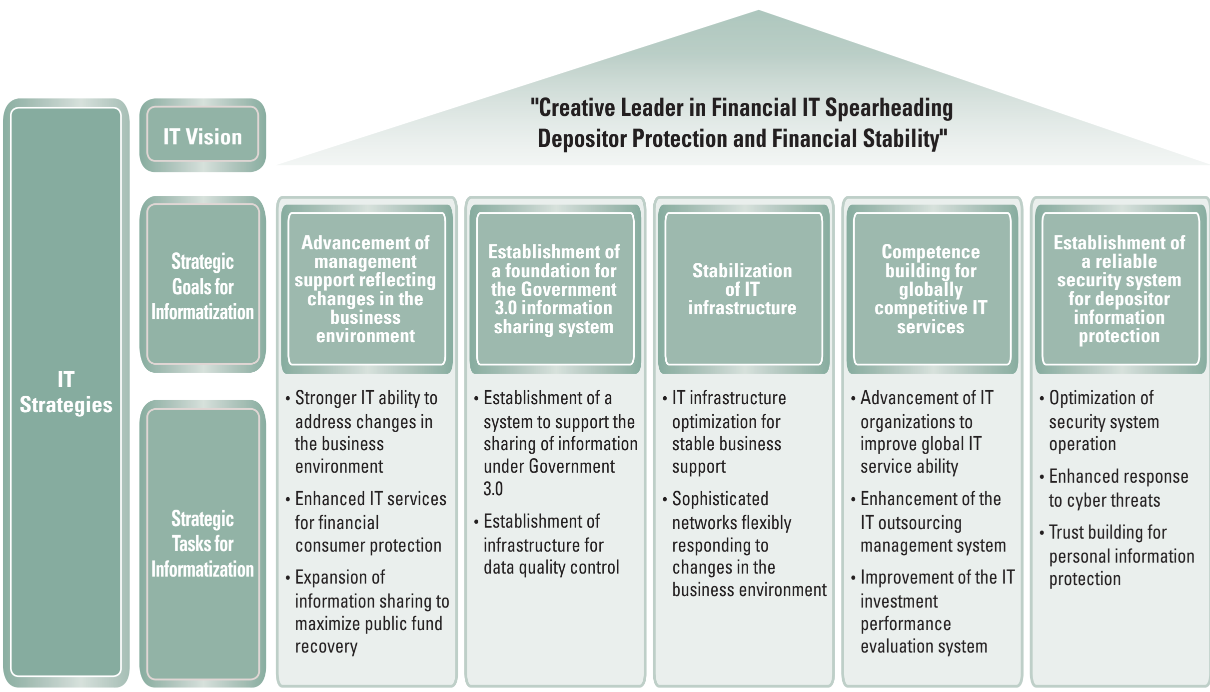
As part of the Communion with Rural Villages initiative, the KDIC built cooperative ties with the apple village in Ungok-ri, Yesan-gun, Chungcheongnam-do to provide a helping hand to the residents and operated a farmers' market to support farmers. It also participated in a tree-planting event to counter carbon emissions and waged an upcycling campaign through recycling of discarded earphones under the Communion with the Environment initiative.

Progress in the Implementation of Mid- to Long-Term Information Technology Plan

To facilitate execution of its business strategies, the KDIC, based on an extensive analysis of its internal and external environment, has adopted the Mid- to Long-Term Strategy for IT Advancement to work on IT projects in a more organized manner.

Figure Ⅱ - 5

Mid- to Long-Term Strategy for IT Advancement (2014-2016)



In 2016, the KDIC successfully completed tasks for the third phase of the fourth Mid- to Long-Term Information Technology Plan (2014-2016).

First, the KDIC, in a bid to efficiently determine whether insured financial institutions are complying with the explanation and confirmation requirements regarding deposit insurance coverage, built a system confirming their satisfaction of such requirements in accordance with the amendment of the Depositor Protection Act in June 2016. This ultimately improved protection of financial consumers. For more effective operation of the risk-based premium system, the KDIC provided comprehensive analysis data on differential risk assessment of insured financial companies online and upgraded its risk-premium calculation system by implementing a function to simulate such assessment findings.

Second, the KDIC made multi-pronged efforts to fully implement the Government 3.0 drive. It built ‘SHARE-3.0,’ a comprehensive information portal on mutual savings banks where data on their current status and financial conditions are readily available in order to meet individual users’ specific needs. It also eliminated the ActiveX control to allow access to its external business system on various browsers. The KDIC also built a consolidated online application system enabling depositors to claim any uncollected amounts, including insured funds at failed financial institutions and the difference between actual and advance dividend payments, based on their display on a single screen. For improved depositor access to information, the KDIC increased the scope of information on dormant claims accessible by heirs to deceased claimants, from deposit insurance claims to the difference between actual and advance dividend payments and bankruptcy dividends. At the same time, the KDIC took part in a program for the Korean government's export of the e-government system and thus undertook consulting services to build a ‘risk management and deposit insurance claim payment system' for the Deposit Insurance Corporation of Mongolia in cooperation with the Ministry of the Interior and an IT service provider. This paved the way for public institutions’ export of information systems. The KDIC will continue to help domestic IT businesses make inroads into foreign markets to uphold the core values of the Government 3.0 initiative, which are sharing and cooperation.

Third, the KDIC implemented an organization-wide physical network separation system to respond more robustly to cyber-attacks on the financial sector and public institutions and prevent any leak of important data. To prevent divulgence of personal information, it reinforced comprehensive training against cyber-threats and introduced a monitoring system for the detection of any abnormalities in personal information processing. The KDIC, in particular, became the first public institution in the country to obtain the integrated Personal Information Management System (PIMS) certification. It was recognized as an ‘excellent institution’ for three consecutive years in the Ministry of the Interior’s assessment of personal information protection by public institutions.

The KDIC laid out the fifth Mid- to Long-Term Information Technology Plan (2017-2019) to effectively attain its new vision and strategic goals and cope with changes in information and communications technology (ICT) in a timely fashion. Under its IT vision of ‘capacity-building for preemptive response based on the enhanced value of IT services,’ it plans to implement key IT tasks through a number of phases starting in 2017.

Table Ⅱ - 9

Action Plan for IT Advancement (2016)

Strategic Goals	Detailed Action Plans	
Ⅰ. Advancement of management support reflecting changes in the business environment	• Implementation of the deposit insurance coverage explanation and confirmation system	~ Oct.
	• Upgrade of the risk-based premium calculation system	~ Oct.
	• Elimination of the ActiveX control on its public business system	~ Dec.
	• Establishment of the record management system	~ Dec.
	• Upgrade of the performance management system	~ Dec.
	• Improvement of the Internet live broadcasting system	~ Dec.
Ⅱ. Establishment of a foundation for the Government 3.0 information sharing system	• Establishment of SHARE-3.0, a comprehensive information portal on mutual savings banks	~ Dec.
	• Implementation of a comprehensive inquiry system concerning uncollected amounts	~ Oct.
	• Pursuit of information system export	~ Dec.
Ⅲ. Stabilization of IT infrastructure	• Pursuit of network separation	~ Jul.
Ⅳ. Capacity building for globally competitive IT services	• Improvement of the IT investment performance evaluation system - Improvement of performance management in information system operation	~ Aug.
Ⅴ. Establishment of a reliable security system	• Establishment of the personal information monitoring system	~ Dec.
	• Improvement of capabilities to respond to cyber-threats	Year-round
	• Renewal of the Information Security Management System (ISMS) certification	~ Oct.
	• Acquisition of the integrated Personal Information Management System (PIMS) certification	~ Jul.

III

Stronger Financial Consumer Protection

1. Prevention of Damage to Financial Consumers

Increased Awareness of the Deposit Insurance System

Key Promotional Activities

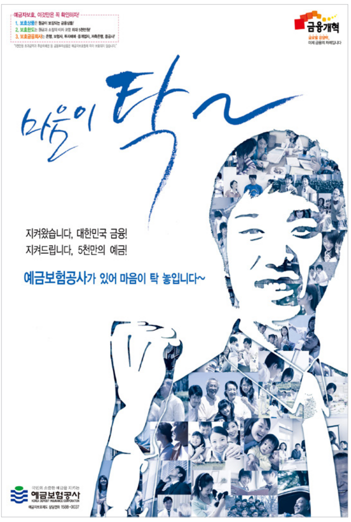
The KDIC formulated its strategy for promotion after conducting public surveys and analyzing the effects of promotional media produced during the previous year. In 2016, it successfully hosted programs commemorating its 20th anniversary. It launched well-organized publicity campaigns for itself and its depositor protection system that addressed its vision, agenda, primary tasks, and major accomplishments.

It continued to utilize 'action-prompting' phrases developed in 2014 (e.g. 'Please Check Now' and 'Three Things You Must Know'), which were indeed effective toward encouraging people to check essential information on the depositor protection system, including the types of protected products and institutions and the coverage limit.

It mainly used terrestrial television and newspapers in consideration of their high reliability. It selected those television channels that have the greatest advertising impact and programs that are most effective for publicity, taking into account viewing rates and major groups of viewers. It also made heavy use of advertisements on public transportation including the KTX (Korea Train Express), buses, and subways, and outdoor electronic ad displays. It opened a webpage commemorating its 20th anniversary that widely publicized its efforts and achievements for depositor protection.

Figure Ⅲ-1

Image Ads to Raise Public Awareness of Deposit Insurance

TYPE	2014	2015	2016
Image Ads			

The KDIC staged public awareness campaigns targeting the least financially knowledgeable groups based on survey findings, especially those in their twenties and sixties, students, and housewives. It appointed more college students as SNS (social networking service) reporters for accelerated communication with young new media users, and it used screen door advertisements at major subway stations frequented by college students. The KDIC even took part in investment technique exhibitions where more than 70% of the participants were people in their fifties or older to offer information on deposit insurance with a particular focus on financial products ineligible for insurance coverage including subordinated bonds. In addition, it produced promotional materials aligned with its financial literacy education for multicultural families and North Korean defectors. Taking advantage of its network with related organizations including multicultural centers, it staged a publicity campaign designed to increase overall awareness of the KDIC and its depositor protection system among the financially underserved.

In 2016, marking its 20th anniversary, the KDIC unveiled a new CI symbolizing depositor protection and financial stability. It also produced a commemorative emblem and slogan representative of its endeavors to ensure that depositors are protected in the event of a financial crisis as well as its future value. With a view to publicizing such efforts and their outcomes, the KDIC published a memoir of its former CEOs and opened a webpage celebrating its 20th anniversary. It successfully hosted a ceremony marking its 20th anniversary, boosting the morale of its employees and elevating its stature at home and abroad.

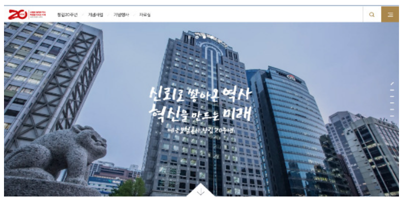
Awareness of the Deposit Insurance System

At the end of every year, the KDIC commissions an independent polling agency to gauge the level of public awareness of the KDIC and the deposit insurance system among those aged 19 or older. The KDIC has effectively managed to raise public awareness through promotional activities, social contribution activities, and economic education programs. The increasing frequency of citations of the KDIC in the media at large has helped to promote public awareness of the KDIC as well.

According to a survey conducted in 2016, 89.3% of the public is aware of the KDIC, and awareness of the deposit insurance system rose 1.0%p to 92.2%. Awareness of the deposit coverage limit was 94.4%, up 0.5%p from the previous year.

Figure Ⅲ-2

Celebrating the KDIC's 20th Anniversary

New CI	Commemorative Emblem	Webpage Celebrating 20th Anniversary
KDIC 예금보험공사	20 KDIC 신뢰로 쌓아온 역사 혁신을 만드는 미래 예금보험공사 20주년	

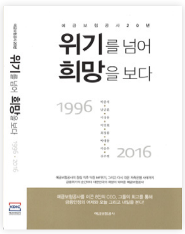
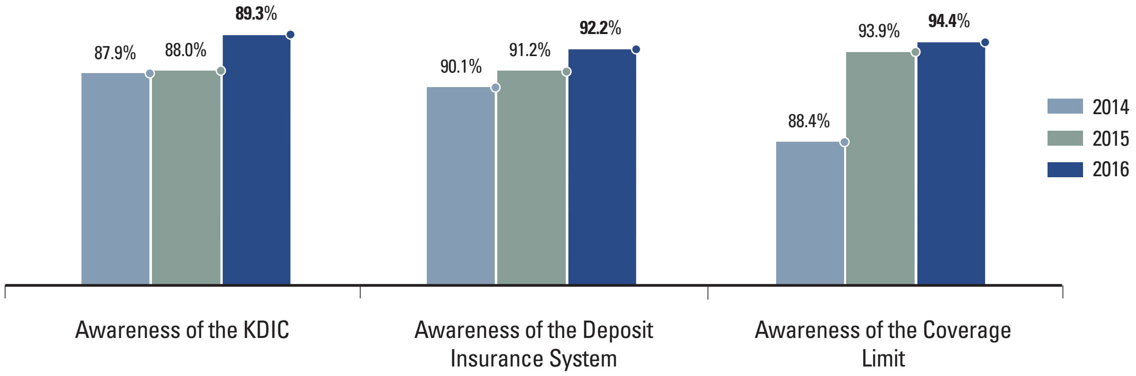
Memoir Of Its Former CEOs	20th Anniversary Photo Exhibition	20th Anniversary Ceremony
		

Figure Ⅲ-3

Survey Results Regarding Awareness of Deposit Insurance by Year



Enhanced Guidance for the Provision of Information on the Deposit Insurance System

Introduction of the Deposit Insurance Coverage Explanation & Confirmation Scheme

In response to the amendment of the Depositor Protection Act (DPA) in December 2015, the KDIC introduced the notification and confirmation scheme regarding deposit insurance coverage. This scheme mandates that insured financial institutions 'notify' to customers, in advance, whether a financial product is covered by deposit insurance and for how much when entering into a financial transaction agreement and receive 'confirmation' by signature or seal from them that they understand such explanation. In addition to the signage display requirements, this scheme bolsters depositor protection by ensuring that all depositors are duly informed of the coverage of the depositor protection system. From the perspective of financial institutions, this system is expected to prevent the filing of complaints and lawsuits in response to unexpected damage arising from improper selling practices.

The scheme was implemented in full swing in June 2016 following amendment of the DPA. To help the scheme take root smoothly, the KDIC carried out presentations for financial institutions, distributed press releases, contributed articles, and set up a demonstration for the Chairman of the Financial Services Commission to experience it at a commercial bank. In September 2016, the KDIC conducted sweeping on-site inspections of 161 financial institutions in six financial sectors (300 branches) to find out whether they were implementing the scheme. It found that a substantial number of those branches were executing the scheme properly and discovered only minor inadequacies at the other branches. The latter were inspected again in December and were confirmed of their implementation of the scheme.

Development and Distribution of Deposit Protection Logo

The recent launch of new complex financial products made it difficult for depositors to check information on depositor protection at a glance. The situation has been further complicated by the emergence of Internet primary banks, which attests to the expansion of online or mobile financial transactions. In response, the KDIC adopted a 'deposit protection logo' which is easily noticeable and readily understandable.

Figure Ⅲ-4

Deposit Protection Logo and How It Is Used

KDIC
보호금융상품
1인당 최고 5천만원

Insured financial institutions use the deposit protection logo on passbooks, prospectuses, promotional materials, and Internet/mobile screens of protected financial products to allow consumers to readily determine whether they are covered by insurance.

In 2016, the KDIC introduced the logo in phases. Based on a survey of its employees, it formulated a design using its CI. Then, it collected opinions of financial institutions and began distributing the logo in both physical (e.g. passbook stickers) and electronic (e.g. electronic image files) formats. It is currently being used by mutual savings banks on a pilot basis and will later be adopted by entities in other financial sectors.

Inspection and Guidance for Compliance with KDIC Signage Display Requirements

Under the DPA, insured financial institutions must indicate whether a certain financial product is covered by deposit insurance and, if so, for how much in passbooks, advertisements, and promotional materials as determined by the KDIC. The KDIC is authorized to verify their compliance with such signage display requirements. Insured financial institutions must provide accurate information about the deposit insurance system so that financial consumers can make informed decisions when choosing financial products. The KDIC ascertains compliance with the requirements by such means as on-site, written, or online examinations. In 2016, it built a separate IT system for that purpose and conducted online examinations of 1,375 bank branches. The IT system enables the KDIC to monitor compliance by directly receiving necessary data from branches of financial institutions. The KDIC no longer needs to visit their head offices in person, and the system affords much greater reliability and efficiency in its examinations.

Meanwhile, the KDIC kept guide materials on the depositor protection system, including leaflets, posters and ATM stickers, available at insured financial institutions in order to publicize and provide accurate information on the system. It translated the guides into 10 foreign languages (English, Chinese, Japanese, Filipino, Thai, Vietnamese, French, Arabic, Russian, and Spanish) to prevent foreigners who may lack access to financial information from sustaining damage.

Table Ⅲ-1

Inspection of Compliance with KDIC Signage Display Requirements

(Unit: No. of inspections and branches)

Description	2011	2012	2013	2014	2015	2016
On-site inspections	472	639	617	683	649	817
On-line inspections	-	-	-	1,683	598	1,375
Total	472	639	617	2,366	1,247	2,192

Financial Literacy Education

Revitalized Education for the Financially Underserved Population

Prompted by the global financial crisis in 2008 and the rising needs for financial literacy education, the KDIC provides education for future financial consumers (elementary, middle, and high school students) and financially underserved people (the elderly, market merchants, multicultural families, etc.).

Based on an MOU with the Small Enterprise and Market Service, the KDIC conducted financial literacy education for merchants and reached out to traditional markets to provide better education for them. These efforts were duly recognized when the KDIC received a President's citation in the 2016 Korea Leading Market Expo.

The KDIC expanded the scope of its financial literacy education from merchants to elementary school students and the elderly in 2010; multicultural families in 2013; middle and high school students in 2014; and military servicepersons to be discharged from military service, North Korean defectors, and persons of national merit in 2015. In 2016, it added foreign students in Korea and older workers, and held 816 financial literacy education sessions for 65,704 financially underserved persons including elementary, middle and high school students, market merchants, and the elderly.

Capacity Building for Financial Literacy Education Instructors

Financial literacy education instructors are either 'in-house instructors,' 'professional instructors,' or 'local instructors.' Most financial literacy education for elementary school students is conducted by 150 in-house instructors who are employees of the KDIC. They underwent in-house instructor training in 2016 to improve the quality of their lectures.

Five professional instructors at the KDIC Financial Literacy Education Center who completed necessary courses at the Korea Productivity Center rendered financial literacy education specifically for middle and high school students, market merchants, and multicultural families.

The KDIC employed five more local instructors in 2016, up from 11 in 2015. All have at least ten years of work experience at financial institutions or related institutions and were assigned to major sites in local areas. They undergo on-the-job training, are regularly observed during class for teaching effectiveness, and are evaluated for their development as instructors.

To maximize the impact of user-oriented education, the KDIC adopted new textbooks designed specifically for the targeted demographics in the first and second half of 2016. It developed textbooks for foreign students in Korea as well as older workers, and it produced textbooks translated into Cambodian to better serve the wide-ranging educational needs of users including multicultural families.

2. Protection of Financial Consumers of Insolvent Financial Institutions

Minimization of Financial Transaction Suspension Period

The KDIC adopted the 'resolution without interruption in financial services' method in the latter half of 2012, which allowed it to resolve failed mutual savings banks (MSBs) without suspending their operations. It successfully arranged P&A transactions with third party investors or bridge mutual savings banks owned by the KDIC without any disruption to financial services, which minimized customer inconveniences and financial market turmoil.

From the latter half of 2012 to the first half of 2013, the KDIC institutionalized a system to 'resolve insolvent mutual savings banks without disruption to financial transactions' by using bridge banks. Their operations were suspended at the close of business hours on a Friday. Then a P&A with a bridge bank was completed over the weekend so that business could resume on the following Monday.

From the latter half of 2013, the KDIC resolved insolvent mutual savings banks by proactively searching for potential buyers and implementing 'third-party P&A during normal operations,' which does not require the use of a bridge bank. Thus, the KDIC has adopted a robust new resolution method that reduces not only depositors' inconveniences, but also its burden concerning the sale and management of bridge mutual savings banks, and greatly accelerated the restructuring of insolvent mutual savings banks.

Alleviation of Inconveniences to Financial Consumers During Conservatorship

The ongoing restructuring of failed mutual savings banks that began in the second half of 2012 has enabled 'resolution without interruption in financial services.' This approach shortened the duration of conservatorship and thus sharply reduced depositors' hardship.

In the past, a depositor with a deposit of not more than KRW 50 million was only able to use his or her deposit in the form of a provisional payment or deposit-secured loan for about three months following business suspension of a mutual savings bank. Under the new resolution method, depositors can continue to make financial transactions without interruption. A person with a deposit of more than KRW 50 million can

Table Ⅲ-2

Resolution of MSB Failures Since the Latter Half of 2013

Bank Name	Resolution Method	Date of Business Suspension	Date of Business Resumption	Business Suspension Period
Smile	3rd-Party P&A	2013.11. 1	2013.11. 4	0 business days
Hanul	3rd-Party P&A	2013.12.27	2013.12.30	0 business days
Haesol	3rd-Party P&A	2014. 5. 2	2014. 5. 7	0 business days
Golden Bridge	3rd-Party P&A	2015. 1.16	2015. 1.19	0 business days

benefit from more efficient fund management as payment of deposit insurance claims and advance payment of bankruptcy dividends were brought forward by approximately five months.

The shortened conservatorship period benefits not only depositors but also the KDIC because it reduces human resources needs and costs, including labor costs.

Improved Insurance Claims Payment at Mutual Savings Banks

As regards 67 mutual savings banks using the Korea Federation of Savings Banks' IT system, the KDIC can promptly receive financial information necessary to determine and pay deposit insurance claims in the event of a failure according to an MOU on IT services signed with the organization in 2008. However, 12 mutual savings banks using their own IT systems do not have a software program to calculate the amount of deposit claims. Their sudden business suspension for such reasons as a bank run could, therefore, cause a delay in payment of deposit claims. Thus, the KDIC sought to develop a standardized IT program for timely deposit payouts targeting these mutual savings banks to brace for their failure.

In December 2015, the KDIC concluded an MOU on IT services with the 12 mutual savings banks utilizing their own IT systems to develop a deposit reimbursement program. This translated into a cooperative framework for the development and maintenance of a deposit reimbursement program. In consideration of the conditions of IT system development at individual mutual savings banks, the KDIC completed program development and verification for two savings banks in February 2016 and then shared its experience to minimize trial and error. In November 2016, it finalized program development and verification for the remaining ten banks, marking the completion of a standardized deposit insurance payment system for the entire mutual savings bank sector.

Establishment of the standardized system further strengthens depositor protection as it enables deposit insurance payments within seven days even in the event of a bank run in the mutual savings bank sector. This situation also promotes consistency with international standards since the International Association of Deposit Insurers (IADI) recommends establishment of a system allowing swift deposit payouts within seven days from business suspension of a failed bank.

Table Ⅲ-3

Approaches to Alleviate Inconveniences of Borrowers

Date	Description
Jun. 2015	• Identified the IT environment of individual savings banks and distributed program development guidelines
Dec. 2015	• Concluded MOUs on IT services with 12 mutual savings banks using their own IT systems
Feb. 2016	• Completed program development and verification for two mutual savings banks
Mar. 2016	• Hosted presentations for such purposes as sharing program development experience
Nov. 2016	• Completed program development and verification for ten mutual savings banks

Efforts for Payment of Uncollected Claims to Depositors

When an insured financial institution goes bankrupt, the KDIC is usually appointed as receiver of the bankruptcy estate according to applicable laws including the DPA. Then, the KDIC liquidates the remaining assets and pays dividends to the creditors, including depositors of over KRW 50 million, in proportion to their claims.

Bankruptcy creditors, including holders of deposits in excess of KRW 50 million, suffered financially because of the considerable amount of time required until payment of bankruptcy dividends owing to the prolonged duration of the bankruptcy proceedings. To minimize the damage to them, the KDIC makes partial advance payments of bankruptcy dividends. Pursuant to Article 35-2 of the DPA, the KDIC purchases unprotected claims in excess of KRW 50 million from depositors upon their request, makes an estimate of the expected dividends from the bankruptcy estate's assets, and makes payment to depositors on a pro-rata basis based on the estimated recovery amount.

If, after the final sale of assets, the amount of bankruptcy dividends payable exceeds the amount paid in advance, the KDIC distributes the excess to the creditors. By the end of 2016, it paid KRW 70.8 billion to over 72,000 depositors at 28 failed mutual savings banks to settle the differences.

By ensuring early payment of bankruptcy dividends through such advance payments and settlement, the KDIC minimizes financial inconveniences to holders of deposits in excess of the coverage limit. It also promotes depositors' convenience by allowing them to apply for payment of uncollected claims through the KDIC's website. For greater depositor convenience, the KDIC built a consolidated application system in 2016, allowing depositors to claim any uncollected amounts including their insured funds at failed financial institutions, bankruptcy dividends, and the differences between actual and advance dividend payments. The KDIC, in cooperation with the Financial Supervisory Service, expanded the scope of information on dormant claims accessible by heirs to deceased claimants, from deposit insurance claims to the difference between actual and advance dividend payments and bankruptcy dividends.

The KDIC is striving to pay any amounts uncollected by depositors. Dubbed the 'Unclaimed Amount Notification Services' campaign, its efforts to find beneficiaries and pay them their due uncollected amounts are being publicized through newspaper advertisements and press releases. With the help of the Ministry of the Interior, it receives the most recent known addresses of persons eligible for uncollected amounts in order to send individual notices to them.

IV

Advancement of the Deposit Insurance System

1. Improvement of the Deposit Insurance System

Revamping of Laws Applicable to the Deposit Insurance System

The amended Depositor Protection Act (DPA) was promulgated and entered into force on March 29, 2016. The proposed amendment was introduced on October 15, 2015 and passed by the National Assembly's Legislation and Judiciary Subcommittee in November 2015 and then by the National Policy Committee on February 18, 2016. Major changes to the DPA include extension of the term of the limits on deposit insurance premium rates by five years until August 31, 2021.

Prior to the amendment, the premium rate limits set forth in subparagraph 1 through 6 of Article 30(1) of the DPA (Act No. 5492 enforced on April 1, 1998) were supposed to be applied, unless they were reset by August 31, 2016. Thus, premiums received from banks, financial investment traders/brokers, and mutual savings banks were expected to decline as their premium rate limits were lower than the rates in effect now.

In March 2011, the Special Account for Mutual Savings Bank Restructuring was introduced to finance restructuring of mutual savings banks. The Special Account is funded by 45% (such ratio as determined by the Deposit Insurance Committee in the case of mutual savings banks) of the yearly insurance premiums paid by KDIC-insured institutions until 2026. Under these circumstances, a drop in premiums received from banks, financial investment traders/brokers, and mutual savings banks would have inevitably caused a funding shortfall for the Special Account.

The DPA was amended to ensure adequate funding for the Special Account. It was designed to prevent a fall in the Deposit Insurance Fund's premium income and uphold public trust in the deposit insurance system.

The amended Enforcement Decree of the DPA was passed by the Cabinet Council on March 8, 2016. As a result, deposits and installment savings in an Individual Savings Account (ISA) are now protected and deposit insurance protection is rendered for up to KRW 50 million in deposits and installment savings in an ISA as well as in other accounts at the same financial institution.

The revised Enforcement Decree of the DPA aimed at providing for matters necessary to enforce the Act amended in December 2015 and addressing some institutional shortcomings was passed by the Cabinet Council on June 14, 2016.

Table Ⅳ- 1

Comparison of the Limits of Premium Rates

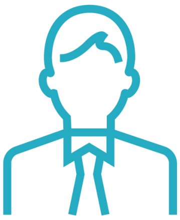
Description		Banks	Investment Firms	Insurers	Merchant Banks	Savings Banks
Current	Current limit	0.5				
	Applicable rates (Attached Table 1 of the Enforcement Decree)	0.08	0.15	0.15	0.15	0.40
Previous	Act No. 5492 (98.4.1~)	0.05	0.10	1.00	0.15	0.15

The amendment to the Enforcement Decree included standards to impose premiums concerning guaranteed minimum benefits of variable insurance policies and excluded inter-dealer brokers and small online investment intermediaries with no insured deposits from deposit protection. It also excluded insured financial institutions from the notification and confirmation requirements regarding deposit insurance coverage for unprotected depositors, such as central and local governments and other insured financial institutions. Besides, electronic means including electronic signature and mail and automated phone-answering systems were recognized as permissible means of rendering such notification and confirmation.

Table Ⅳ-2

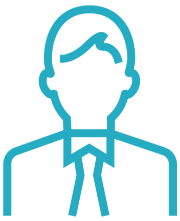
Example of Deposit Protection Limit for Trust ISA Holders

1. Before amendment



	Seller of products incorporated into an ISA		
	Bank B	Bank C	Securities Company D
Financial institution that opened the ISA (trust business)	ISA deposit: KRW 40 million	ISA installment savings: KRW 30 million	Equity fund: KRW 30 million
	Existing deposit: KRW 30 million	Existing deposit: KRW 40 million	
Deposit protection limit	KRW 30 million	KRW 40 million	

2. After amendment



	Seller of products incorporated into an ISA		
	Bank B	Bank C	Securities Company D
Financial institution that opened the ISA (trust business)	ISA deposit: KRW 40 million	ISA installment savings: KRW 30 million	Equity fund: KRW 30 million
	Existing deposit: KRW 30 million	Existing deposit: KRW 40 million	
Deposit protection limit	KRW 50 million	KRW 50 million	

2. Research on Deposit Insurance Schemes

Research on Deposit Insurance Schemes

The KDIC helps protect depositors and maintain the stability of the financial system by studying the deposit insurance system as well as financial and economic issues and thereby provides a theoretical basis for upgrading the deposit insurance system.

In the aftermath of the recent global financial crisis, major countries around the world have striven to reform the resolution regimes for financial institutions through stabilization of their financial systems and minimization of social costs. In particular, members of the Financial Stability Board (FSB) formulated the"Key Attributes of Effective Resolution Regimes for Financial Institutions' to ensure more timely and effective resolution of insolvent financial institutions while minimizing disturbances in the financial system.

Deposit insurers around the world have moved aggressively to improve their deposit insurance schemes to afford depositors even better protection. The US Federal Deposit Insurance Corporation (FDIC), for its part, decided in March 2016 to impose assessment surcharges on large banks to enhance the soundness of its deposit insurance fund.

The KDIC analyzed the institutional improvements at international organizations and in major countries to ascertain the global issues regarding resolution regimes and monitor the progress in enhancement of deposit insurance schemes. It conducted forward-looking research into the latest financial and economic issues to find out their implications for the Korean deposit insurance system. It also performed in-depth research on ways to introduce related systems in Korea.

In celebration of its 20th anniversary, the KDIC hosted an international conference in July 2016 about 'Lessons from the Recent Global Financial Crisis: Preemptive Action to Mitigate Potential Crisis Risks' to revisit the lessons of the past financial crisis and establish a new vision for an effective deposit insurance system.

Table Ⅳ-3

Major Research Reports in 2016

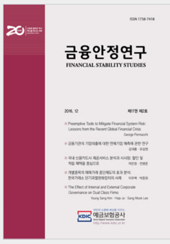
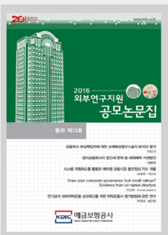
Subject	Title
Research on global resolution systems, deposit insurance regimes, and financial/economic issues	• Status of the Global Financial Safety Net and its implications • Analysis of policy effects of negative interest rates and their implications • Realization of Brexit and future prospects • FDIC's imposition of assessment surcharges on large banks and its implications • US financial authorities' refusal to approve the living wills of five banks including JP Morgan • Major details of the FSB's Second Peer Review • Resolution of insolvent life insurance companies in Japan and its implications • Status of the mutual finance deposit insurance scheme in Korea and its implications • Deposit insurance regime in the US and major functions of the FDIC

Sharing of Research Results

For efficient operation and improvement of its deposit insurance system, the KDIC has supported specialized and innovative research on subjects related to deposit insurance and financial stability, published research findings in Financial Stability Studies (an academic journal accredited by the National Research Foundation of Korea), compiled a collection of theses submitted to a contest for research funding, and distributed the findings to appropriate authorities, academia, and the media.

Table Ⅳ- 4

Major Publications in 2016

Title	Key Theses Published
Financial Stability Studies (Vol. 17; Issues 1 & 2) 	• The effectiveness of liquidity provision during debt crises: evidence from Korean firm-level data • Default determinants in the micro credit business and efficiency analysis • Foreign bank relationship and firm's earnings management • Impact of corporate financial structure and taxation on corporate investment • Bayesian analysis of optimal foreign currency portfolio selection • Preemptive Tools to Mitigate Financial System Risk : Lessons from the Recent Global Financial Crisis • A study about arrear prediction model on company loans of financial institutes • Analyzing the pattern of credit card companies' optional services based on consumers' credit card usage in the Korean credit card industry • A study on the effect of individual trading halts: case of 'the measures to ease temporary overheat' in KRX
A Collection of Theses Submitted to a Contest for Research Funding 	• Analysis and assessment of damage suits against persons responsible for failures of financial institutions • Ways to provide tax benefits, including income tax exemptions, to financial institutions subject to resolution • Development of instability indices of a meta-type financial market using systemic risk measures • Does poor corporate governance hurt credit ratings? Evidence from co-opted directors • Study on fiduciary manager evaluation methods to improve fiduciary management performance of pension funds

3. International Exchange and Cooperation

Stronger Global Leadership at International Organizations Including the IADI

Stronger Internal and External Activities for a More Advanced Deposit Insurance System

The 2008 global financial crisis has created renewed international interest in deposit insurers as bulwarks of financial stability. The International Association of Deposit Insurers (IADI), an international consultative body of deposit insurance organizations, has a much higher profile as a result and is now recognized as a global standard-setting body. The IADI formulated the 'Core Principles for Effective Deposit Insurance Systems and Methodology', a set of global standards in deposit insurance, and had them included in the '12 Key Standards for Sound Financial Systems' designated by the Financial Stability Board (FSB) in February 2011.

Countries around the globe use the 'Core Principles for Effective Deposit Insurance Systems' as the criteria to determine the integrity of their deposit insurance systems and address any flaws and improvement opportunities in deposit insurance operations. The principles are also utilized as a part of the Financial Sector Assessment Program (FSAP) executed by the International Monetary Fund and World Bank.

Following its revision of the 'Core Principles for Effective Deposit Insurance Systems' in November 2014, the IADI published the Handbook for the Assessment of Compliance with the Core Principles for Effective Deposit Insurance Systems ("Handbook") in March 2016 to provide detailed evaluation guidelines. The KDIC published a Korean version in December 2016 for use as a guide in preparing for external evaluations.

As a founding member of the IADI and a member of the IADI Executive Council, the KDIC plays a leading role in major projects initiated by the IADI. The KDIC resolved numerous failed financial institutions in the banking, insurance, securities, and mutual savings banking sectors. In the process, it accumulated substantial know-how regarding resolution of insolvent financial institutions and successfully implemented the deposit insurance system. In recognition of such experience and capability, the IADI had the KDIC serve as Chair of the Subcommittee on Purchase of Assets and Assumption of Liabilities. On the Subcommittee, it is leading the research on resolution cases and drafting of the research paper.

In 2016, the KDIC was invited to a conference hosted by the IADI as a presenter and keynote speaker, and it presented its best practices concerning the deposit insurance system. In May, it gave a presentation about Korea's experience in deposit insurance system assessment at the 48th IADI Executive Council meeting and international conference held by the French Deposit Insurance and Resolution Fund. In June, the KDIC attended the 14th Annual General Meeting of the IADI Asia-Pacific Regional Committee and International Conference hosted by the Philippine Deposit Insurance Corporation and made a presentation on the 'Need for, and cases of, public awareness program focusing on financial literacy education.' In August, it gave a presentation on 'Ways to increase asset recovery' at the IADI Asia-Pacific Regional Committee's international seminar held by the Deposit Insurance Corporation of Mongolia.

15th IADI Annual General Meeting and Annual Conference

On October 23 - 28, 2016, the KDIC hosted the 15th IADI Annual General Meeting and Annual Conference in Seoul, Korea. About 200 representatives from 84 member organizations in 67 countries, including the heads of deposit insurers and major personnel of international organizations, took part in the event.

The conference was about 'Gearing up for the Next Crisis,' and the attendees assessed the possibility of another financial crisis and actively discussed the tasks for deposit insurers. They were impressed with the conference and came away from it with much greater understanding of the importance of close collaboration among the entities comprising the global financial safety net and proactive response by deposit insurers in the course of tiding over the global financial crisis in 2008. They put forward diverse opinions on such issues as encouraging financial institutions to voluntarily pursue sound management, causing deposit insurers to build a crisis response mechanism, and establishing an emergency funding system to prepare for a possible financial crisis.

Speakers at the conference underscored the need for deposit insurers to detect potential failures as early as possible and to improve preemptive risk management. They also proposed establishment of a system for ongoing risk monitoring, adoption of risk-based premiums, and use of stress tests. As specific means to set up a preemptive crisis response mechanism, they discussed precautionary financial assistance, crafting of recovery and resolution plans for timely intervention in systematically important financial institutions, and execution of crisis simulation exercises.

Expansion of Exchange with Foreign Deposit Insurers

Conclusion of MOUs for Promotion of Information and Personnel Exchange

The KDIC has signed memoranda of understanding (MOUs) with foreign deposit insurers and central banks to promote information exchange for the development of deposit insurance schemes and to expedite consultation concerning current issues. The MOUs encompass a wide array of cooperation tasks including regular meetings between the two signatories, provision of policy advice and information, and personnel exchange. The MOUs facilitated the efforts to overcome the global financial crisis. The KDIC plans to promote exchange, cooperation, and information sharing with foreign deposit insurers.

In 2016, the KDIC renewed its MOUs with four foreign deposit insurers. The MOU which it signed with the Deposit Insurance of Vietnam in 2006 was renewed in 2010, 2013, and again in May 2016. The MOU concluded with the Indonesia Deposit Insurance Corporation in 2010 was renewed in 2013 and then in November 2016. The MOUs which it entered into with the Deposit Insurance Corporation of Japan in May 2013 and with the Malaysia Deposit Insurance Corporation in December 2013 were respectively renewed in May and December 2016.

In 2016, the KDIC signed MOUs with two foreign deposit insurers: the Deposit Protection Agency of Thailand in April and the Kazakhstan Deposit Insurance Fund in October. The KDIC and its MOU counterparts have maintained close relations through active exchange. Steady expansion of their exchange will further strengthen mutual cooperation.

Expansion of Personnel Exchange and Information Sharing with Foreign Deposit Insurers

The KDIC shared its experience in deposit insurance system operation at seminars held by foreign deposit insurers. In February, it participated in the DICJ Round Table hosted by the Deposit Insurance Corporation of Japan and emphasized the need for preemptive response by deposit insurers to ward off a financial crisis. In November, it attended an international seminar on payment of deposit insurance claims hosted by the Central Deposit Insurance Corporation of Taiwan and gave a presentation on its payout procedures and actual cases.

In July, Martin Gruenberg, the Chairman of the US Federal Deposit Insurance Corporation (FDIC), visited the KDIC in return for the visit to the FDIC by Bumgook Gwak, the Chairman and President of the KDIC in January. During the latest visit, the two leaders decided to expand the scope of mutual cooperation to overall deposit insurance affairs and determine the particulars in an MOU.

After their meeting, Chairman Gruenberg delivered a lecture for over 200 attendees including KDIC employees. He underlined the role of the FDIC during the global financial crisis in 2008 as well as the importance of preemptive response by deposit insurers to prevent a financial crisis. He urged the FDIC and KDIC to continue their cooperation in order to forge a new role model for deposit insurers.

According to its MOU with the Deposit Insurance Corporation of Japan, the KDIC, on November 28 - December 2, 2016, received two officers dispatched from its Japanese counterpart to share its experience in dealing with parties at fault in bank failures.

Sharing of Korea's Deposit Insurance System Experience

Deposit insurance has assumed greater importance worldwide since the global financial crisis in 2008 as it is needed to prevent recurrence of such crisis. Other nations, including emerging economies in particular, are increasingly asking the KDIC to share its experience in deposit insurance system operation.

In response, the KDIC organized the Global-KDIC KSP (Knowledge Sharing Program) Team in December 2010 and has actively promoted the Global-KDIC KSP to provide capacity-building training and policy consultation to other countries that intend to introduce or advance their deposit insurance system.

In 2016, the KDIC hosted customized international workshops and training sessions to share its knowledge and experience in deposit insurance with aspiring participants.

In January, the KDIC visited the Deposit Insurance of Vietnam, which was developing an IT system with funding from the World Bank, and it provided advisory services towards that end.

In March, the KDIC delivered a consulting report on ‘formulation of deposit insurance claims payout procedures and implementation of an IT system’ to help the Deposit Insurance Corporation of Mongolia establish a deposit insurance payment system. In the report, the KDIC provided analysis of the status of the financial industry and informatization in Mongolia and the KDIC’s payout cases. Then, it suggested policy and technical considerations for the Deposit Insurance Corporation of Mongolia. In addition, the KDIC gave a presentation on its target fund system for the life insurance sector as well as its experience in resolution of failed insurance companies to employees of the Malaysia Deposit Insurance Corporation.

In April, the KDIC reported the status of its risk management regarding financial institutions to staff of the Depositor Protection Fund of Laos with a presentation outlining in detail its deposit reimbursement procedures.

In August, the KDIC gave an overview on how it operates its deposit insurance system to employees of the National Bank of Cambodia who are preparing for the establishment of a deposit insurance system. The topics discussed at the meeting also included resolution of insolvent financial institutions and past resolution cases in Korea.

Table Ⅳ-5

Sharing of Experience in Deposit Insurance System Management with Foreign Deposit Insurers in 2016

Country	Institution	Month	Description
Vietnam	Deposit Insurance of Vietnam	Jan.	• Advisory services for IT system development of the Deposit Insurance of Vietnam
Mongolia	Deposit Insurance Corporation of Mongolia	Mar.	• Consulting to support deposit insurance benefit payment and IT system implementation
Malaysia	Malaysia Deposit Insurance Corporation	Mar.	• Visit to the KDIC by working-level staff concerning the target fund system and resolution of insurance companies
Laos	Depositor Protection Fund, Central Bank	Apr.	• Visit to the KDIC by working-level staff regarding risk management of financial institutions and deposit insurance benefit payment
Cambodia	National Bank of Cambodia	Aug.	• Visit to the KDIC by officers and employees of the central bank including the deputy governor

V

Risk Management

1. Independent and Joint Examinations
2. Successful Implementation of the Risk-Based Premium System
3. Management of Financial Institutions into Which Public Funds Were Injected

1. Independent and Joint Examinations

Enhancement of Risk Surveillance

Reinforcement of the Basis for Risk Surveillance

The KDIC monitors and forecasts the volatilities in insured financial institutions through risk surveillance model analysis to detect and assess any risks that may affect the Deposit Insurance Fund (DIF). After analysis, each institution is graded in accordance with the risk classification criteria used for each type of financial institutions for the purpose of ongoing monitoring.

In 2009, the KDIC signed an MOU on sharing of financial information with the Financial Supervisory Service (FSS) and the Bank of Korea, and the MOU was modified in 2012. The information acquired under the MOU is the primary source of data for its risk monitoring models. In cooperation with the agencies concerned, it has continually improved the timeliness and accuracy of such information.

In 2016, it developed a stress test model by which it can swiftly detect and manage insured financial institutions at great risk of becoming insolvent under exceptional but possible stress conditions. The KDIC also built a risk profiling system that enables early detection of, and timely response to, risk vulnerabilities of insured financial institutions by managing their key financial information in an organized manner. Based on a solid foundation for risk analysis, the KDIC regularly monitors risks of financial institution failures stemming from changes in macroeconomic variables and preemptively reduces the possibility of having to funnel the DIF into efforts to resolve a systemic financial crisis.

Strengthening of Risk Surveillance Capabilities

The KDIC is improving its risk surveillance capabilities and the quality of analysis reports in a number of respects. It invited experts from appropriate domestic institutions and credit rating agencies to provide training in an effort to enhance its employees' ability to analyze the macroeconomic environment and assess risks, as part of its general capacity-building programs.

For the purpose of analyzing risk factors facing each financial sector and insolvency risks of individual insured financial institutions, the KDIC recruited outside professionals who had worked for those institutions and have necessary expertise. Furthermore, the KDIC exchanged personnel with private credit information agencies to share risk analysis capabilities and expertise.

In 2014, the KDIC's risk management capability regarding mutual savings banks was evaluated. In 2015, the scope of such evaluation was expanded to all insured financial sectors. And in 2016, eight persons with ample experience and knowledge in different fields were appointed as external evaluators to ensure more objective assessment. The KDIC will enhance its capacity for risk management on the basis of their objective findings and inputs for institutional improvements.

On-Site Verification Including Independent and Joint Examinations

On-Site Risk Verification

For the purpose of reducing risks of insured financial institutions detected by its risk surveillance model analysis, the KDIC continues to check their risks on-site by means of joint examinations with the FSS under Article 21(3) of the DPA, independent examinations under Article 21(2) of the said Act, and interviews with the managements of insured financial institutions when necessary.

In 2016, the KDIC set 'three basic directions for independent and joint examinations' to effectively preempt financial complications plaguing individual insured financial institutions that arise from changes in the internal and external financial environment. These three are i) independent and joint examinations focused on prevention of failures, ii) increased efficiency and effectiveness of independent and joint examinations; and iii) reduction of the compliance burden on financial institutions and protection of their interests. It rendered on-site examinations on insured financial institutions more effectively based on these principles. The KDIC implemented joint examinations of ten insured institutions, including insurance and securities companies and mutual savings banks, with the FSS in 2016. It requested the FSS to order corrective action where necessary while issuing recommendations to the insured financial institutions on improvements in business management. In collaboration with the FSS and the Bank of Korea, the KDIC also hosted workshops to promote mutual understanding and cooperation regarding joint examinations.

Pursuant to the standards stipulated in the Enforcement Decree of the DPA, the KDIC performed eight timely independent examinations of mutual savings banks. In selecting the targets of its independent examinations, the KDIC engaged in close prior consultation with the FSS in order to prevent any overlaps between their examinations and thereby ease the burden of the employees of examined entities. Among the mutual savings banks meeting the criteria for the declaration of 'at risk of insolvency' under the Enforcement Decree of the DPA, the KDIC selected targets for independent examinations excluding those subject to joint examinations, resolution procedures such as market sale, and examinations by the FSS. Through ongoing consultation with the FSS, it developed a well-coordinated plan for independent examinations and carried it out successfully.

Independent and Joint Examinations Focused on Preventing Damage to the DIF

The KDIC placed the focus of its independent and joint examinations on risk factors which might cause losses to the DIF, rather than on compliance issues. It requested corrective measures only in the most serious cases such as violations of law. As regards risk factors, it issued recommendations for management references or voluntary improvement so that players in the corresponding financial sectors may establish a corporate culture of autonomous management improvement. The KDIC served as a risk monitoring agency, whereas the FSS served as the regulator.

Concerning mutual savings banks in particular, the KDIC pursued various institutional improvements to substantively reduce their risk factors based on independent and joint examination findings. It checked risks of delinquency of personal unsecured loans in its examination process and suggested to the financial authorities a need for, and methods of, more stringent asset quality control, and these were incorporated into the revised supervisory regulations. The KDIC also confirmed the risks associated with obtaining loans from multiple lenders on the same day and proposed the necessity and alternatives to prevent such activities to the FSS and the Korea Federation of Savings Banks. Thus, the KDIC induced all mutual savings banks to join 'real-time lending information sharing services,' while inducing the FSS to tighten its management of loan solicitors.

More Active Ongoing Risk Surveillance

For the qualitative improvement of its ongoing risk surveillance, the KDIC analyzed individual insured financial institutions. Among other matters, it focused on the fluctuations in their capital adequacy arising from changes in the business environment such as interest rate and stock price movements. It strengthened ongoing risk monitoring by analyzing risks stemming from changes in the financial system and outstanding issues in each financial sector.

It took preemptive measures to grapple with institutional changes in each financial sector including imposition of the more rigorous Basel III capital requirements for the banking sector, introduction of IFRS9 (slated for 2018), adoption of IFRS17 for the insurance sector (scheduled for 2021), and reconfiguration of the NCR system for the financial investment sector. It sought to eliminate the risks of insolvency by means of ongoing monitoring of insured financial institutions which are not financially sound. The KDIC, in fact, dispatched administrators jointly with the FSS to high-risk mutual savings banks that might trigger losses to the DIF. The KDIC prevented their failures by monitoring their implementation of MOUs on business normalization and inducing large stockholders to increase their capital at crucial moments.

In addition, it beefed up its risk analysis ability and regularly hosted programs for risk analysis capacity building to make its ongoing surveillance more efficient in such ways as revitalization of the efforts to share information on risks among different financial sectors. It analyzed and shared information on the management status and risks of individual insured financial institutions, promoting their understanding of other financial sectors and utilizing such information in risk analysis.

When volatility and uncertainty in the financial market spiked in 2016 in response to North Korea's nuclear tests and missile launches, Brexit, and the outcome of the US presidential election, meetings to review the situation surrounding insured financial institutions were held in accordance with the KDIC's contingency plan. It also put a preemptive response unit into operation to monitor risk factors of insured financial institutions and the movements of the policy-making authorities and to ultimately preempt uncertainties in the financial market in a timely manner.

For the purpose of overseeing and coordinating risk management activities and ensuring effective responses to failure risks, the KDIC established the Ongoing Surveillance Council in 2006. This solidified its role as a major agency in the event of a crisis by promoting extensive opinion exchange and information sharing among the related departments concerning important risk issues in the financial market and individual insured financial institutions.

Market-friendly Risk Surveillance

Stepped-Up Exchange with Market Experts

Since 2004, the KDIC has published the quarterly Financial Risk Review for market participants. The magazine offers analysis of risk factors facing insured financial institutions in line with changes in financial markets and encourages greater market discipline.

The Financial Risk Review mainly analyzes changes and issues in the financial market environment as well as their implications. It is distributed to major government agencies, appropriate institutions, college libraries, and the like. A regular survey of its readers is conducted to explore improvement opportunities. This resulted in solicitation of more articles from outside sources and more extensive communication among financial market experts.

In 2016, the KDIC hosted the Cheonggye Financial Forum[1] 14 times for executives and employees of insured financial institutions and other related personnel. The Forum features lectures and discussions on risk factors and major issues in different financial sectors. Experts from insured financial institutions or outside professionals were invited as speakers at the Ongoing Surveillance Forum[2] and Risk Study Forum[3] meetings, which were each held five times. During the forums, the attendees developed practical financial knowledge including risk management techniques.

Note : 1) Featured discussion by personnel and experts on the development of a specific financial sector (meetings held by sector)
2) Sought to build up the KDIC's risk management capability by inviting experts from insured financial institutions banking, financial investment, and insurance)
3) Aimed to strengthen the KDIC's risk management capability by soliciting advice from outside professionals (mutual savings banks)

Since 2011, the KDIC has sought to collect opinions of financial experts in academia and have more constant communication with college students. As part of the efforts, it operates the KDIC Exchange Program with the Finance Academy (KEPA), which consists of field training of college students, special lectures by KDIC staff members at universities, and lectures by academic experts.

In 2016, the KDIC offered field training to more colleges. The program provided students, as financial consumers, with information on the KDIC's roles and responsibilities and was an opportunity for them to gain hands-on experience, thereby realizing the values of communication and sharing under the Government 3.0 initiative, the South Korean government's policy to provide transparency and open access to public records. The KDIC intends to consistently pursue and refine the program to publicize its deposit insurance system and ensure efficient communication with academia.

Table Ⅴ- 1

Main Contents of Financial Risk Review in 2016

Issue	Main Contents
Spring 2016	• Analysis of the impact of Chinese risks on the Korean economy and finance • Response of the banking sector to Basel II's Pillar 2 • Risks in the banking sector in 2016 and possible countermeasures
Summer 2016	• Transmission channels of major countries' negative interest policy and the Korean financial industry's response • Risks and possible countermeasures concerning securities companies' expansion of debt guarantees • Role of financial stability regimes and deposit insurers
Autumn 2016	• Effects of restructuring of vulnerable industries on the banking sector • Risks and prospects for the mutual savings bank sector • Need for preemptive response by deposit insurers and discussion of international trends
Winter 2016	• Changes in internal and external conditions and the path to be taken by the Korean economy • Household debt and the housing market: risk factors and possible countermeasures • Experience of Japanese life insurance companies in overcoming crises and its implications

Strengthened Exchange with Insured Financial Institutions

The KDIC generated risk assessment and analysis information through continued risk monitoring of insured financial institutions and provided feedback to them. It asked some financial institutions which were found in a joint examination with the FSS to have certain risk factors to take corrective action. These activities were undertaken 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 notifying each insured financial institution of its premium rate determined through risk analysis, the KDIC provided the management of such institution with information on any improvements from the previous year and the results of a comprehensive analysis based on comparison with and analysis of the entire financial sector concerned. This was intended to enhance fairness in deposit insurance premium payment among insured financial institutions and to encourage their sound management.

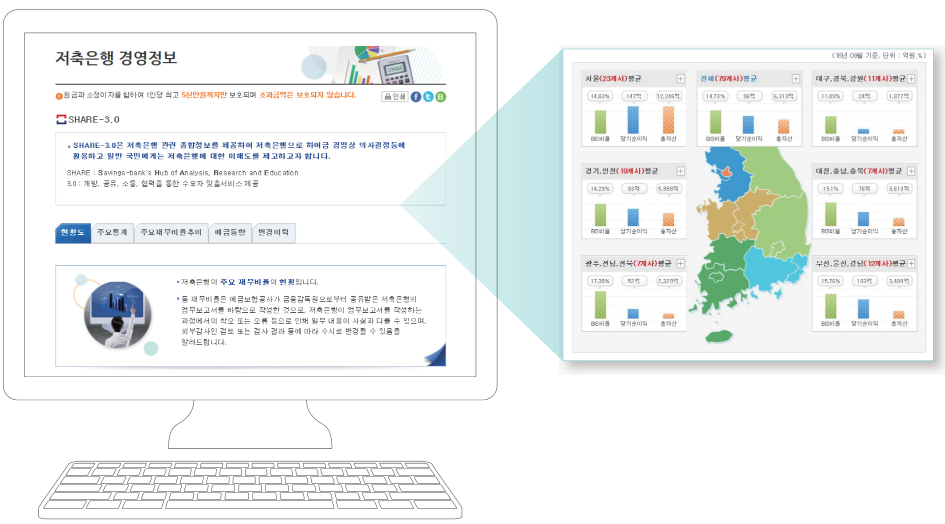
In an effort to promote communication with mutual savings banks, the KDIC opened SHARE-3.0, a comprehensive information portal on such banks, on its webpage. The portal presents graphical data on their average financial ratios and timely analysis reports so that such information can easily be used for their risk management. The KDIC also shared data from its workshops and forums, particularly for the employees of mutual savings banks who could not attend them. The portal has attracted many visitors, and its data is often quoted in media reports. Further management information regarding each mutual savings bank will be provided to help financial consumers make more informed financial decisions.

The KDIC held a workshop for employees of mutual savings banks to explore how to promote sound development of the sector in line with changes in the financial environment. The workshop featured presentations and discussions by external experts on business practices of mutual savings banks and financial policy changes. To improve risk management capabilities of the employees of mutual savings banks, the KDIC provided 40 training sessions in 2016 under an MOU with the Korea Federation of Savings Banks.

The KDIC will continue to improve its market-friendly risk surveillance efforts by providing high-quality consultation and information.

Figure V - 1

Screen of SHARE-3.0, an Information Portal on Mutual Savings Banks



2. Successful Implementation of the Risk-Based Premium System

Significance and Overview of the Risk-Based Premium System

The risk-based (or differential) premium system applies different premium rates to insured financial institutions in consideration of their managerial and financial conditions in order to reduce moral hazard and induce sound management. As a result of the KDIC's effort to introduce the system, Article 30(1) of the DPA was amended in February 2009. The amended law mandates that the system be applied to all insured financial institutions, beginning from 2014.

Risk-based assessment entails (i) model-based assessment, (ii) assessment based on a specifically assigned rate; and (iii) non-grade assessment, according to the expected effects of assessment, amount of premium payment, and the feasibility of assessment. The model for risk assessment comprises basic evaluation (80 points) and supplementary evaluation (20 points). Basic evaluation consists of assessment of the firm's ability to cope with a crisis (capital adequacy and liquidity), ensure financial soundness (asset soundness), and recover from losses (profitability). Supplementary evaluation involves the firm's ability to manage financial risks and non-financial risks as indicated by, for example, the number or severity of sanctions imposed by financial authorities.

To minimize the impact of the risk-based premium system on insured financial institutions, the KDIC designated 2014 to 2016 as a so-called soft landing period and 2017 and afterwards as a full-swing operation period in which the gap in differential premiums by grade increases. It is now gradually increasing the premium rate differential in phases.

Table V - 2

Types of Risk-based Assessment

Category	Target	Assessment Method	Applicable Rates
Model-based Assessment	Insured financial institutions that are not subject to either of the other types of risk-based assessment	Assignment of a grade from 1 to 3 depending on the firm's score on a 100-point scale	The premium rate assigned to the relevant grade
Assessment Based on a Specifically assigned Rate	Companies paying a small amount of premiums, etc.	No risk assessment needed	Rates predetermined in the regulations
Non-grade Assessment	Failed financial institutions, companies subject to a business improvement order including prompt corrective action restrictions, etc.		Rates predetermined in the regulations which are higher to compensate for risk

Table Ⅴ-3

Applicable Rates by Grade (Compared to Standard Premium Rates* for Each Financial Sector)

Grade	Soft Landing		Full Operation		
	2014~2015	2016	2017~2018	2019~2020	2021~
Grade 1 (Discount)	-5%	-5%	-5%	-7%	-10%
Grade 2 (Standard)	0%	0%	0%	0%	0%
Grade 3 (Premium)	+1%	+2.5%	+5%	+7%	+10%

* Banks (0.08%), Insurers and Financial Investment Companies (0.15%), Mutual Savings Banks (0.40%)

Risk-based Assessment of Insured Financial Institutions

In 2016, the KDIC implemented risk-based assessment of 303 insured financial institutions for the first time. No single objection was raised against the risk-based assessment results, which testifies to the fact that risk-based premiums were calculated fairly and accurately. Such outcome was possible due to the KDIC's ceaseless efforts to raise awareness of the system and guarantee the accuracy of the risk-based assessment results, including holding presentations on the system for the staff of insured financial institutions. The KDIC also steadfastly improved the relevant IT system called Risk-Based Premium System (RBPS) towards that end.

Overhaul of the Risk-Based Premium System for Preemptive Risk Management

The risk-based premium system had given rise to biased grade distribution in certain sectors, and this compromised the effectiveness of its model. The KDIC reconfigured the system in October 2016 out of concern that such situation would undermine setting of premiums commensurate with failure risks and hamper the stability of premium revenue flows in the future. Since its implementation in 2014, the KDIC has fine-tuned the system to incorporate financial supervision indices and changes in the financial market, enhancing its ability to properly determine insolvency risks and grades.

It has since February 2016 been working on an improvement plan, including modification of evaluation indices and grading standards based on a significance test of the existing differential assessment model, through research on improvement of the risk-

Table Ⅴ-4

Presentations Held for Each Financial Sector

Financial Sector	Bank	Life Insurance	Non-life Insurance	Financial Investment	Mutual Savings Bank	Total
No.	4	1	1	1	5	12

based premium system conducted by the Korea Development Institute. Starting in August 2016, the KDIC collected opinions from a wide range of sources including the policy-making authorities, associations of each financial sector, and individual insured financial institutions.

Major improvements are summarized as follows: (i) evaluation indices were modified to better reflect changes in financial supervision and management indicators, such as the introduction of the Basel Ⅲ international regulatory framework for banks, as well as recent changes in the financial environment in order to differentiate insolvency risks more effectively; (ii) an approach for differentiating evaluation grades (1 to 3) more concretely was adopted to set thresholds and index scores according to consistent principles; (iii) the allocation of points for supplementary financial indicators was increased from 10 to 15 to ensure timely evaluation and effective differentiation of failure risks; and (iv) the percentage of insured financial institutions with grade 1 or 3 was respectively capped at 50% so as to minimize the volatility in premium payment by each financial sector through the business cycle. The new features will enter into effect starting with risk-based assessment for fiscal year 2017 (to be implemented in 2018) to allow the insured financial institutions adequate time to adjust to the new system.

The greater integrity and more rigorous grade differentiation of the new risk-based premium model will enable risk-based assessment suitable for the level of risks. This will induce sound management by insured financial institutions and promote equitability of premium payment among them.

In December 2016, the KDIC formally recognized employees of ten insured financial institutions that achieved outstanding improvements in their risk-based assessment grades and made significant contributions to the development of the risk-based premium system, thereby increasing awareness of the system throughout the entire industry.

The KDIC implemented a survey on overall awareness of the risk-based premium system, and the findings are being used to improve the system. Working-level officers of insured financial institutions were surveyed to gauge the level of acceptance of the system and evaluate the adequacy and effects of its operation. According to the survey, insured financial institutions scored higher than in the previous year in all respects, which implies that the system was taking root seamlessly. The fact that the management took greater interest and exhibited stronger determination to achieve higher grades demonstrates that insured financial institutions were indeed induced to pursue sound management.

3. Management of Financial Institutions into Which Public Funds Were Injected

MOU Conclusion and Examination of MOU Implementation

Since 1999, the KDIC has entered into 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 public funds injected into them as early as possible. Beginning in April 2002, 12 MOUs signed with financial institutions, including one with Jeju Bank, were terminated when these institutions were sold to, or merged with healthy financial institutions

Table Ⅴ - 5

Conclusion of, Addition to, and Revision of the MOUs on Business Normalization

(As of Dec. 31, 2016)

<table>
<tr><th rowspan="2">Name of the Financial Institution</th><th rowspan="2">MOU Conclusion (Renewal)</th><th colspan="2">Business Performance Targets in the MOU</th><th rowspan="2">MOU Termination</th></tr>
<tr><th>Addition</th><th>Adjustment</th></tr>
<tr><td>Suhyup Bank (former credit business unit of the National Federation of Fisheries Cooperatives)</td><td>2001. 4. 25
(2016. 12. 1.[1])</td><td>2005. 3. 23
2007. 3. 28
2009. 3. 30
2011. 3. 30
2012. 3. 29
2013. 4. 24
2014. 3. 25
2015. 3. 25
2016. 3. 25</td><td>2003. 2. 12
2003. 7. 9
2005. 12. 21
2007. 12. 26
2010. 3. 23</td><td>-</td></tr>
<tr><td>Seoul Guarantee Insurance Corporation</td><td>2000. 4. 12[2]
(2001. 6. 9)</td><td>2005. 6. 22
2007. 7. 18
2009. 6. 10
2011. 6. 8
2012. 6. 12
2013. 6. 26
2014. 3. 25
2015. 3. 25
2016. 3. 25</td><td>2002. 7. 10
2006. 6. 21
2007. 12. 26</td><td>-</td></tr>
<tr><td>Woori Bank (former Hanvit Bank)</td><td>1999. 1. 22[3]
(2000.12. 30)</td><td>2003. 1. 22
2005. 3. 23
2007. 3. 28
2009. 3. 30
2011. 3. 30
2012. 3. 29
2013. 4. 24
2014. 3. 25
2015. 3. 25
2016. 3. 25</td><td>2004. 9. 22
2007. 12. 26
2010. 3. 23</td><td>2016. 12. 16.[3]
(Sold to Oligopolistic Shareholders)</td></tr>
<tr><td>Jeju Bank</td><td>2000. 12. 30</td><td>-</td><td>-</td><td>2002. 4. 29
(Sold to Shinhan Financial Group)</td></tr>
<tr><td>Seoul Bank</td><td>2000. 12. 30</td><td>-</td><td>2001. 6. 29</td><td>2002. 12. 1
(Sold to Hana Bank)</td></tr>
<tr><td>Chohung Bank</td><td>1999. 11. 12[2]
(2002. 1. 31)</td><td>-</td><td>-</td><td>2003. 8. 19
(Sold to Shinhan Financial Group)</td></tr>
<tr><td>Daetoo Investment & Securities</td><td>2000. 9. 25[2]
(2002. 2. 20)</td><td>-</td><td>-</td><td>2005. 5. 31
(Sold to Hana Bank)</td></tr>
<tr><td>Korea Investment & Securities</td><td>2000. 9. 25[2]
(2002. 2. 20)</td><td>-</td><td>-</td><td>2005. 3. 31
(Sold to former Dongwon Financial Group)</td></tr>
<tr><td>Korea Life Insurance</td><td>2000. 4. 12[2]
(2001. 9. 5)</td><td>-</td><td>-</td><td>2002. 12. 12
(Sold to Hanwha Consortium)</td></tr>
<tr><td>Woori Credit Card (former Peace Bank)</td><td>2000. 6. 7[2]
(2000. 12. 30)</td><td>-</td><td>2002. 3. 25</td><td>2004. 3. 31
(Merged with Woori Bank)</td></tr>
<tr><td>Woori Merchant Bank</td><td>2000.12. 9</td><td>-</td><td>2001. 6. 29</td><td>2003. 8. 1
(Merged with Woori Bank)</td></tr>
<tr><td>Woori Finance Holdings Co.</td><td>2001. 7. 2</td><td>-</td><td rowspan="3">2004. 9. 22
2007.12. 26
2010. 3. 23</td><td>2014. 11. 3
(Merged with Woori Bank)</td></tr>
<tr><td>Kwangju Bank</td><td>2000. 12. 30</td><td>-</td><td>2014. 10. 10
(Merged with JB Financial Group Co.)</td></tr>
<tr><td>Kyongnam Bank</td><td>2000. 12. 30</td><td>-</td><td>2014. 10. 10
(Merged with BS Financial Group Inc.)</td></tr>
</table>

Note : 1) On December 1, 2016, an MOU was concluded with Suhyup Bank, which was spun off from the credit business unit of the National Federation of Fisheries Cooperatives according to its organizational restructuring.

2) MOUs were signed between the corresponding insured financial institution, the KDIC and the Financial Supervisory Commission (the predecessor to the Financial Services Commission)

3) The MOU between the KDIC and Woori Bank was terminated by resolution of the Public Fund Oversight Committee on August 22, 2016 under Article 9(2) of the MOU Management Rules when sale of the bank to an oligopoly of shareholders was clinched.

(Kwangju and Kyongnam Bank on October 10, 2014, Woori Financial Group on November 3, 2014, and Woori Bank on December 16, 2016). On December 1, 2016, the KDIC entered into an MOU with Suhyup Bank, spun off from the credit business unit of the National Federation of Fisheries Cooperatives, as a result of business restructuring. As of the end of 2016, the MOUs with Suhyup Bank and Seoul Guarantee Insurance were still in effect.

After a review of performance under the MOUs during the period from the fourth quarter of 2015 to the third quarter of 2016, the KDIC found that Woori Bank had partly failed to attain the targeted financial ratios for 2015.

Under Article 21(2) of the MOU Management Rules, the KDIC exempted Woori Bank from measures against its failure to meet some of its financial targets for 2015, given that the bank had recorded satisfactory financial ratios across the board with only a few minor exceptions. The KDIC will continue to closely monitor the progress in MOU implementation, and it will seek to raise the corporate value of public fund recipients in a way that enhances their system.

Improvement in MOU Management Efficiency

In examining performance of the MOUs, the KDIC considered major risk factors facing individual financial institutions, in addition to goal attainment under the MOUs. When it notified its findings, the KDIC cited issues affecting the corresponding institution that required immediate attention. When necessary, it required them to formulate and submit plans regarding how they would deal with the issues. Thus, the KDIC contributed to raising the corporate value of MOU signatories and addressed the limitations of follow-up MOU management.

Following 2015, the KDIC held two consolidated working-level workshops in 2016 for personnel in charge of carrying out MOU-related affairs. It thereby sought to share information and improve understanding between itself and the corresponding financial institutions for more effective MOU management.

VI

Resolution of Insolvent Financial Institutions

1. Conservatorship of Insolvent Financial Institutions

Insolvent Financial Institutions in KDIC Conservatorship

Many insolvent mutual savings banks (MSBs) were placed into restructuring simultaneously in 2011. The restructuring of some of them continued into 2013 through 2015. Immediately after Golden Bridge Savings Bank was designated as insolvent on August 27, 2014, the KDIC was appointed as a conservator. According to the business suspension and P&A (Purchase and Assumption) order by the FSC on January 16, 2015, the KDIC swiftly resolved the bank through a 'P&A transaction with a third party in the course of normal operations.' In accordance with issuance of a business improvement order on September 16, 2015, ○○ Savings Bank was put under conservatorship, which was brought to an end in April 2016 as it was normalized after a paid-in capital increase by its controlling shareholder.

Table Ⅵ-1

Receivership of Insolvent Financial Institutions Since 2013

Bank Name	Date of Biz Suspension	Current Status (Acquirer)	Date of P&A	Date of Bankruptcy Declaration
Seoul Savings Bank	2013. 2.15	Bridge bank P&A (Yeju Savings Bank)	2013. 2.15	2013. 9.26
Youngnam Savings Bank	2013. 2.15	Bridge bank P&A (Yesol Savings Bank)	2013. 2.15	2013. 9.26
Shilla Savings Bank	2013. 4.12	Bridge bank P&A (Yeshin Savings Bank)	2013. 4.12	2013.10.29
Green Non-Life Insurance	2013. 5. 3	3rd-party P&A (MG Non-Life Insurance)	2013. 5. 3	2013.11. 1
Smile Savings Bank	2013.11. 1	Bridge bank P&A (OSB Savings Bank)	2013.11. 1	2014. 4.29
Hanul Savings Bank	2013.12.27	Bridge bank P&A (Pepper Savings Bank)	2013.12.27	2014.7. 1
Haesol Savings Bank	2014. 5. 2	3rd-party P&A (Welcome Savings Bank)	2014. 5. 2	2014.10.21
Hanmag Investment Securities	2014. 1.15	P&A of assets deposited by investors (IM Investment & Securities)	2014.12.26	2015. 2.16
Golden Bridge Savings Bank	2015. 1.16	3rd-party P&A (Choeun Savings Bank)	2015. 1.16	2015. 6.15
○○ Savings Bank	-	Business Normalized	-	-

Systematic Conservatorship of Insolvent Financial Institutions

The KDIC's dispatch of staff and provision of business support ensures orderliness in the conservatorship of insolvent financial institutions. The KDIC produced and distributed a manual to help its employees stationed at insolvent financial institutions as administrators to do their job more effectively and efficiently. It also held quarterly meetings of administrators and their assistants to expedite performance of their duties and to better communicate with people in the field. For major issues facing each insolvent financial institution, it lessened the burden on the staff by rendering multi-faceted support to them through business consultation and legal review.

After a business improvement order was issued against ○○ Mutual Savings Bank in 2015, the KDIC sent one administrator and one assistant administrator to the suspended mutual savings bank according to its staffing standards until its conservatorship was ended in April 2016. The KDIC also sent one assistant administrator to △△ Mutual Savings Bank, a subsidiary of the former, and both of their business administration and asset management indeed improved.

2. Depositor Friendly Resolution of Insolvent Financial Institutions

Resolution of Insolvent Financial Institutions and Improvement of the Resolution System

Beginning in the latter half of 2012, the KDIC introduced a resolution system that does not disrupt the normal flow of financial transactions. It closed mutual savings banks declared insolvent at the close of business hours on a Friday and then completed a P&A to a bridge bank over the weekend so that business could resume on the following Monday. This helped to minimize inconvenience arising from interruption of financial services.

In the second half of 2012 and the first half of 2013, the KDIC used bridge bank P&A transactions to swiftly resolve insolvent mutual savings banks based on 'resolution without interruption in financial services.' Managing and selling the bridge banks, however, was a substantial burden. To rectify the situation, the KDIC employed a robust new resolution system named 'P&A with a third party during normal operations,' beginning with Smile Savings Bank in the latter half of 2013. The system reduces both inconvenience to depositors and the KDIC's burden concerning management and sale of bridge mutual savings banks, and greatly accelerates the restructuring of insolvent mutual savings banks.

The KDIC pursued the same arrangement for Haesol Savings Bank, declared insolvent in October 2013. For Haesol Savings Bank, a P&A transaction with Welcome Savings Bank was completed in May 2014. For resolution of Golden Bridge Savings Bank, which fell into insolvency in August 2014, a P&A transaction with Choeun Savings Bank during normal operations was completed in January 2015, which maintained the momentum for resolving insolvent financial institutions without disruption to financial transactions. In 2016, no mutual savings bank was declared insolvent, and the KDIC reviewed its resolution process to better prepare for the possibility of any mutual savings bank falling into insolvency.

Table Ⅵ-2
Resolution of MSB Failures that Occurred in 2014 through 2016 (P&A with a third party in the course of normal operations)

Name of MSB	Date of Declaration of Insolvency	Date of P&A (Date of Business Suspension)	Acquiring Institution
Haesol Savings Bank	2013.10.10	2014. 5. 2	Welcome Savings Bank
Golden Bridge Savings Bank	2014. 8.27	2015. 1.16	Choeun Savings Bank

In addition to the above-mentioned changes, the KDIC played a pivotal role in international joint researches initiated by the IADI including the establishment of a Subcommittee on P&A.

The IADI requested that the KDIC, which has extensive experience in resolution through P&A, chair the Subcommittee. Thus, the KDIC has been leading the Subcommittee as Chair in cooperation with other deposit insurers in the IADI.

3. Privatization of Woori Bank

According to the sales arrangement* for Woori Bank approved by the Public Fund Oversight Committee, whereby a group of investors would buy shares in the bank and form a consortium of shareholders, the KDIC embarked on its sale process, starting with a public announcement in August 2016. It managed to sell off a 29.7% stake (KRW 2.3616 trillion) in the bank to seven investors** including IMM PE. Thus, the KDIC successfully completed the privatization of Woori Bank, putting a finishing touch on its sixteen-year effort towards that end. This was a long-standing objective of the KDIC and one of the major outstanding financial issues in Korea.

* About 30% of the total shares in the bank for sale; each investor was allowed to purchase 4 to 8%; and each successful bidder was granted an opportunity to recommend one outside director.
** IMM PE, Hanwha Life Insurance, Tongyang Life Insurance, Korea Investment & Securities, Kiwoom Securities, Mirae Asset Global Investments, and Eugene Asset Management

After a smooth execution of the follow-up disposition procedures, the MOU on business normalization between the KDIC and Woori Bank was terminated with approval by the Public Fund Oversight Committee. It was also agreed that persons recommended by the oligopolistic shareholder group would be appointed as outside directors of Woori Bank. This set the stage for autonomous management by Woori Bank with decision-making centered on those shareholders.

The KDIC plans to sell off its remaining stake (21.4%) as soon as practically possible, considering the expected increase in the value of Woori Bank as a result of its privatization.

Table Ⅵ- 3
Progress in Sale of Woori Bank Stock to Oligopolistic Shareholders

Date	Description
2016. 8.22.	• Decision by the Public Fund Oversight Committee in favor of the arrangement for Woori Bank to sell its stock to shareholders forming an oligopoly
2016. 8.24.	• Public announcement of sale
2016. 9.23.	• Receipt of letters of intent
2016.11.11.	• Receipt of bid proposals
2016.11.13.	• Selection of successful bidders
2016.12. 1.	• Conclusion of the Stock Purchase Agreement
2016.12.16.	• Decision by the Public Fund Oversight Committee in favor of terminating the MOU on business normalization of Woori Bank
2016.12.30.	• Appointment of external directors recommended by the oligopolistic shareholders

4. Management of Special Assets of Insolvent Financial Institutions

Status of Special Assets

Overview

Since 2011, financial authorities have suspended many mutual savings banks from operation including those affiliated with Busan Bank owing to deteriorating business conditions resulting from the prolonged slowdown in the real estate market, among other things. Many of the assets of these insolvent mutual savings banks were classified as special assets. As of the end of 2016, the KDIC was managing a total of KRW 12,109.8 billion in special assets, based on the amount of loans.

Special assets are those acquired through illegal means by, for example, establishing an SPC (special purpose company) under a borrowed name by persons closely related to a bank such as stockholders, granting of loans by the bank to such SPCs, and implementing a large-scale construction project such as apartment construction in Korea or abroad. Thus, there are numerous legal disputes among the interested parties concerning such assets, which can be extremely varied, Table Ⅵ-4

Status of Special Assets

(As of Dec. 31, 2016, Unit: No., KRW 1 billion)

Type	Number of Project Sites	Loan Balance	Effective Collateral Value
Real Estate Including PF Real Estate	756	10,677.5	1,572.6
Ship Investments	4	345.0	-
Equity Holdings	23	296.3	1.6
Foreign Assets	21	753.2	275.9
Others Including Artworks	7	37.8	10.4
Total	811	12,109.8	1,860.5

ranging from artworks to luxury foreign vehicles. They must be managed very closely and appropriately in consideration of their nature to maintain their value.

The KDIC established the Department of Special Asset Management and Recovery in the second half of 2011 for precisely that purpose. The department is to be reorganized into one department (Department of Project Financed (PF) Asset Recovery) and one office (Complex Asset Recovery Task Force) in 2017.

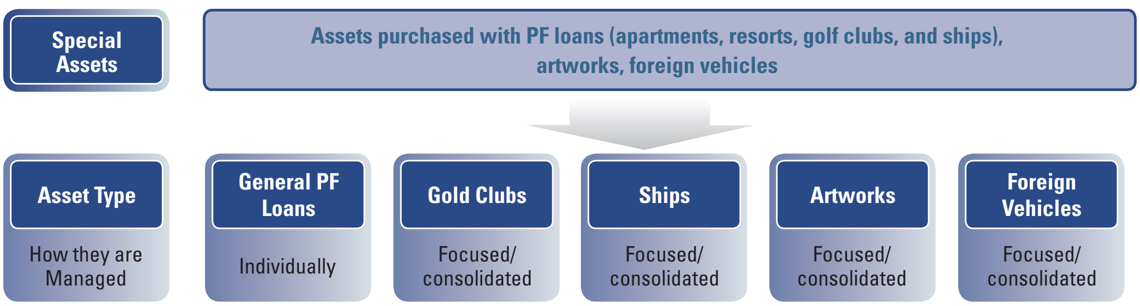
Management of Special Assets

Beginning from the time a mutual savings bank is suspended from business, the department in charge of managing special assets identifies the current status of special assets by ascertaining the loan underwriting process pertinent to the special assets, analyzing related rights, and inspecting construction sites in the case of a PF loan. At the same time, it analyzes factors reducing the value of such assets and determines what needs to be done to efficiently manage them.

In addition, the KDIC preferentially handles recovery of special assets whose value is expected to drop sharply such as project sites regarding which authorizations, permits, or licenses are to expire soon. It consults with outside experts and formulates sales strategies appropriate for each type of asset for maximum recovery.

Figure Ⅵ-1

Management of Special Assets by Type



Ensuring Maximum Recovery of Special Assets

Recovery Management System

The KDIC employs a consistent management system for special assets held by mutual savings banks, from business suspension to the completion of bankruptcy proceedings.

To secure financial resources through recovery of special assets, it takes measures needed to preserve creditor claims including provisional seizure of the property concerned. Then, it devises recovery strategies, including those for sale, suitable for each type of asset based on advice from outside experts. It follows the general procedure for their sale including public announcement and bidding. Finally, it carries out follow-up management including collection of payment for assets sold. The four-phase process is summarized as follows:

Based on investigation findings, similar assets are grouped together, and dedicated managers are assigned to each asset for more efficient recovery.

The KDIC set up the Asset Recovery Advisory Committee comprised of external experts from academia and the financial, legal, and accounting communities to enhance fairness and transparency in the sale of special assets. The Committee serves as an advisory body, deliberating on and receiving reports on important issues related to the sale of special assets.

Since 2014, the KDIC hosted nine investor seminars in Seoul and seven major provincial cities including Busan to offer necessary information to prospective investors. In the process, it listened closely to the potential investors and provided them with the information that they had indicated in surveys as being most important.

Figure Ⅵ-2

Four-Phase Special Asset Recovery Process

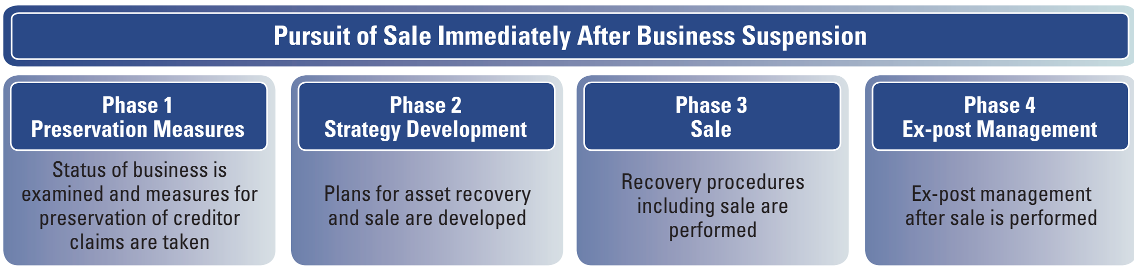


Table Ⅵ-3

Types and Sale Procedures of Special Assets

Categorization of Special Assets	PF Loans	Overseas Assets	Ships	Other Assets (Artworks, etc.)
Sale Procedures	**Selection of Advisor, etc.** • Accounting firms, law firms, etc.	**Due Diligence** • Identification of claim categories • Value appraisal, etc.	**Market making** • Hosting of investment seminars • Preparation of bid packages • Discovery of prospective buyers	**Sale** • Public announcement of sale • Follow-up management

The KDIC maintains cooperative ties with the agencies concerned for effective management and recovery of special assets. In close cooperation with the Public Prosecutors' Office, which is in charge of investigating irregularities involving major shareholders and other related parties of insolvent mutual savings banks, it swiftly takes over seized assets to preserve its claim as creditor. It also submits regular reports on special asset management to the court of competent jurisdiction. For efficient recovery of special assets located in foreign countries including Cambodia, the KDIC utilizes expert groups including local law firms and maintains close relations with Korean embassies abroad to resolve local legal and administrative issues.

Recovery Process

The procedure for the disposal of special assets is as follows: estimation of proper prices considering the characteristics of the asset (usually a construction project) concerned and marketability of the collateral; development of a recovery plan appropriate for the asset; selection of a sales advisor; and sale with open bidding.

For the sale of special assets at fair value, the KDIC selects an accounting firm to conduct a feasibility study for a development project. Based on legal consultation by outside professionals including attorneys, priority of claims and any legal issues associated with the asset is analyzed. Then, a recovery plan is formulated to dispose of the asset in the most effective and expeditious manner possible, followed by the sales process.

In the case of special development projects like those funded by project finance, the KDIC conducts a feasibility study which includes a calculation of the liquidation value and going concern value. It then determines whether to continue or stop the project. A project whose liquidation value exceeds going concern value is directly sold or put up for a public or court auction. There are also other ways to recover assets, such as debt restructuring negotiations with parties affiliated with the project.

For artworks, it held an exhibition tour at major sites prior to their auction to build interest.

The entire sale process is evaluated on a quarterly basis. In case of underperformance, a report is written to identify the causes and necessary measures are taken. Except for cases which take a long time to resolve due to complicated issues such as legal disputes, the KDIC seeks early recovery of loans based on consultation with creditors or interested parties, or debt restructuring negotiations.

Recovery Performance

The KDIC strived to maximize recovery by using its special asset recovery management system. Since 2011, its annual recovery has registered steady growth. By the end of 2016, it had collected KRW 3.7 trillion in total.

Figure Ⅵ-4

Types of Outside Experts Retained by the KDIC for Asset Sale

Asset Type	Development Project, Stock, etc.	Ships	Artworks	Foreign Cars
Advisor, etc.	Accounting firms, securities companies	Ship brokerage companies	Specialized auction companies	Registration agents/ specialized auction companies

Table Ⅵ- 5

Recovery of Special Assets by Type

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Type	Recovery Performance					
	2011~2012	2013	2014	2015	2016	Total
Real Estate	173.7	352.9	952.2	1,051.6	482.9	3,013.3
Ships	22.3	66.1	87.0	120.0	15.2	310.6
Stock	83.8	64.1	21.4	18.3	0.1	187.7
Foreign Assets	75.2	15.4	35.7	8.1	7.5	141.9
Others Including Artworks	5.3	4.9	8.6	16.1	11.6	46.5
Total	360.3	503.4	1,104.9	1,214.1	517.3	3,700.0

VII

Management of Bankruptcy Estates and Acquired Assets

1. Management of Bankruptcy Estates

Management Status of Bankruptcy Estates

KDIC's Role as Bankruptcy Trustee

A bankruptcy trustee is a "person appointed by court to manage the assets of a bankruptcy estate and handle its affairs in accordance with bankruptcy procedures" (「Legal Glossary」, Ministry of Government Legislation). Upon declaration of bankruptcy, a court appoints a bankruptcy trustee who shall determine the date of the first meeting of creditors and the like (Article 312(1) of the Debtor Rehabilitation and Bankruptcy Act).

Under the Debtor Rehabilitation and Bankruptcy Act, a bankruptcy trustee takes over, manages and disposes of the assets held by a bankruptcy estate, assesses their value, and distributes the proceeds of asset sales to creditors with court approval. A bankruptcy trustee must fulfill his duties by exercising due care and shall be liable to render compensation for losses incurred by stakeholders as a result of his neglect of due care (Article 361 of the same Act).

The Special Act on the Management of Public Funds, designed to efficiently raise and manage public funds, provides for a special case concerning bankruptcy procedures: If an insured financial institution that received public funds is dissolved or becomes bankrupt, in turn necessitating an efficient recovery of the funds, the KDIC or its employee shall be appointed as a liquidator or bankruptcy trustee notwithstanding applicable laws (Article 20(1) of the same Act; December 22, 2015).

Accordingly, KDIC bankruptcy trustees were appointed to 39 bankruptcy estates of insured financial institutions nationwide as of the end of 2016. In close consultation with a court, they pursued efficient and swift implementation of bankruptcy procedures to maximize the recovery of public funds.

Efficient Management of Bankruptcy Estates

The KDIC established its Regional Supervisor System in July 2007, according to which it groups the bankruptcy estates scattered all over the country into eight regional groups for more efficient management. A single bankruptcy trustee takes responsibility for multiple bankruptcy estates located in the region under his/her charge. This consolidation of bankruptcy estates has indeed increased the efficiency in management of employees and holding assets; prevented cash seepage; and significantly reduced the costs of rent, building maintenance, office supplies, and the like.

Table Ⅶ- 1

Appointment of Trustees

(As of Dec. 31, 2016, Unit: No. of estates)

Category	Total No. of Bankruptcy Estates[1]	Trustees		
		KDIC Employee	Attorney	Joint[2]
No. of Bankruptcy Estates	39	39	-	-

Note : 1) Excluding legally terminated bankruptcy estates (451), and estates of 14 failed credit unions which were transferred to the National Credit Union Federation of Korea

2) Bankruptcy estates to which KDIC (or its employee) was jointly appointed as trustee with an attorney, etc.

The KDIC has several schemes in place to prevent financial incidents and to improve work efficiency. For instance, it regularly rotates employees stationed at bankruptcy estates including trustees. It hosts annual workshops for bankruptcy trustees in which they are encouraged to share their experience and know-how and provides them with estate management guidelines and business instructions. In July and December of 2016, the KDIC held workshops for bankruptcy estate staff for capacity building in Busan and Jeolla-do.

In particular, in anticipation of the implementation of the Improper Solicitation and Graft Act (on September 28, 2016), the KDIC provided training to all bankruptcy trustees and their assistants (around 470 people in total) on how to comply with the new law and do their job more scrupulously.

In order to boost recovery of funds by bankruptcy estates, the KDIC began offering special bonuses as incentives to the staff at bankruptcy estates who achieve considerable progress in the liquidation of real estate, recovery of non-performing loans, etc.

Improvement of Debt Rescheduling

Since 2001, the KDIC has employed a debt rescheduling system for debtors of bankruptcy estates not expected to normally repay their loans, given their financial conditions and debt service capacity. It has consistently improved the debt rescheduling scheme.

In 2016, the KDIC introduced the Fast-track system for swift and simple debt rescheduling for the underprivileged. Considering recent economic conditions including the persistently low interest rates, it reduced the applicable interest rates by modifying the algorithm used to calculate them. For greater procedural convenience on the part of debtors, it also offered video counseling services to debtors residing in remote locations..

To encourage more debt rescheduling, the KDIC increased the maximum principal exemption rate for a primary debtor from 50% to 60% (from 70% to 80% in case of the underprivileged). It also adopted an additional exemption scheme for joint and several

Figure Ⅶ- 1

Institutional Improvement for Debt Rescheduling Services

Improvement	Debtors	Before		After
Establishment of the fast-track system	• Underprivileged class	• Submission of a minimum of seven documents • Duration of deliberation (up to one month)	⇒	• Submission of a minimum of two documents • Shortened duration of deliberation (up to 2 weeks)
Modification of the method to calculate prescribed interest rates	• All debtors	• Average interest rates applicable to unsecured loans for persons of low credit standing at commercial banks (grades 7 to 10)	⇒	• Average interest rates applicable to unsecured loans for persons of medium credit standing and below at commercial banks (grades 3 to 10)
Increase in maximum exemption rate	• All debtors • Joint & several guarantors	• Primary debtor: 50% exemption • Joint & several guarantor: No further exemption	⇒	• Primary debtor: Additional exemption of 10% • Joint & several guarantor: Introduction of an additional 30% exemption scheme
Video counseling and application by agents	• Debtors living in remote locations	• Debtors required to visit the corresponding bankruptcy estate in person	⇒	• Debtors allowed to visit the nearest bankruptcy estate from their residence for debt rescheduling

guarantors, taking into account the financial authorities' institutional changes including abrogation of the joint and several guarantor system.

From July to December, it waged the Debt Rescheduling Win-Win Campaign to help improvements in the debt rescheduling system take root promptly and to step up its publicity efforts targeting debtors.

The KDIC rescheduled debt for 21,077 debtors in 2016 through a series of improvements to the debt rescheduling system, providing them with an opportunity to become financially independent. It recovered KRW 113.8 billion in long-overdue bankruptcy claims of which collection had remained quite uncertain.

Maximization of Asset Marketability and Dividend Collection

The KDIC sought to sell off assets owned by bankruptcy estates in a number of ways and in an efficient and prompt manner. Depending on the type of asset, it utilized the Korea Asset Management Corporation's OnBid electronic bidding system, public sale by trust companies or court, or other auctions. It is doing its best to facilitate sales by such means as extending payment deadlines.

In addition, the KDIC built a public sale framework to provide potential buyers with easier access to information on joint public sale of assets held by bankruptcy estates. It overhauled the public auction information page available on its website and renamed it KDIC Public Auction Information, an IT system for customized public auction information. The system has user-oriented menus offering information on various assets for sale, their public sale, and other events. Customized services, such as mailing, items of interest, and comparison of assets for sale, are also available. The system is accessible by major portals including Naver and in a mobile environment.

The KDIC publicized joint public sales by aligning the KDIC Public Auction Information with the webpages of agencies involved with auctions and public sales and by distributing public sale leaflets at joint public sales sites around the country and finance expos of media outlets. It strived to find potential investors by introducing its public sale system and best assets for sale at various events for financial consumers, including investment seminars and finance expos.

Taking advantage of its accumulated experience, the KDIC established the Recovery Support System for efficient management of assets owned by bankruptcy estates. The system is expected to greatly improve asset management by facilitating systematic and ongoing identification of asset status per type and per asset targeted for sale and generating useful statistical data.

Table Ⅶ- 2

Sales of Assets Owned by Bankruptcy Estates

(As of Dec. 31, 2016, Unit: No. of sales, KRW 1 billion)

Category	2014		2015		2016	
	No.	Amount	No.	Amount	No.	Amount
Real Estate	304	521.9	238	309.7	175	186.7
Golf and Condominium Membership, etc.	90	10.4	132	11.8	38	7.7
Non-listed Stocks	22	23.5	19	2.3	8	0.1

* Number and volume of sales by means of public sale of assets and negotiated contracts

Table Ⅶ- 3

Bankruptcy Estates that are Closed or Still Open

(As of Dec. 31, 2016, Unit: No. of estates, %)

Category		Banks	Insurers	Investment Firms	Merchant Banks	Savings Banks	Credit Unions	Total
Total No. of Estates(A)		5	11	6	22	121	325	490
Closed	No. of Closed Estates (B)	5	10	4	22	85	325	451
	Closure Rate (B/A×100)	100	91	67	100	70	100	92
Remaining Estates (A-B)		0	1	2	0	36	0	39

In 2008, the KDIC established the Credit and Dividend Information System (CDIS) to improve bankruptcy estates' efficiency in recovering claims and managing dividend collection and payment.

The KDIC incessantly strives to maximize dividends collection and accelerate public fund recovery by efficient management of bankruptcy estates.

Timely Closure of Bankruptcy Estates

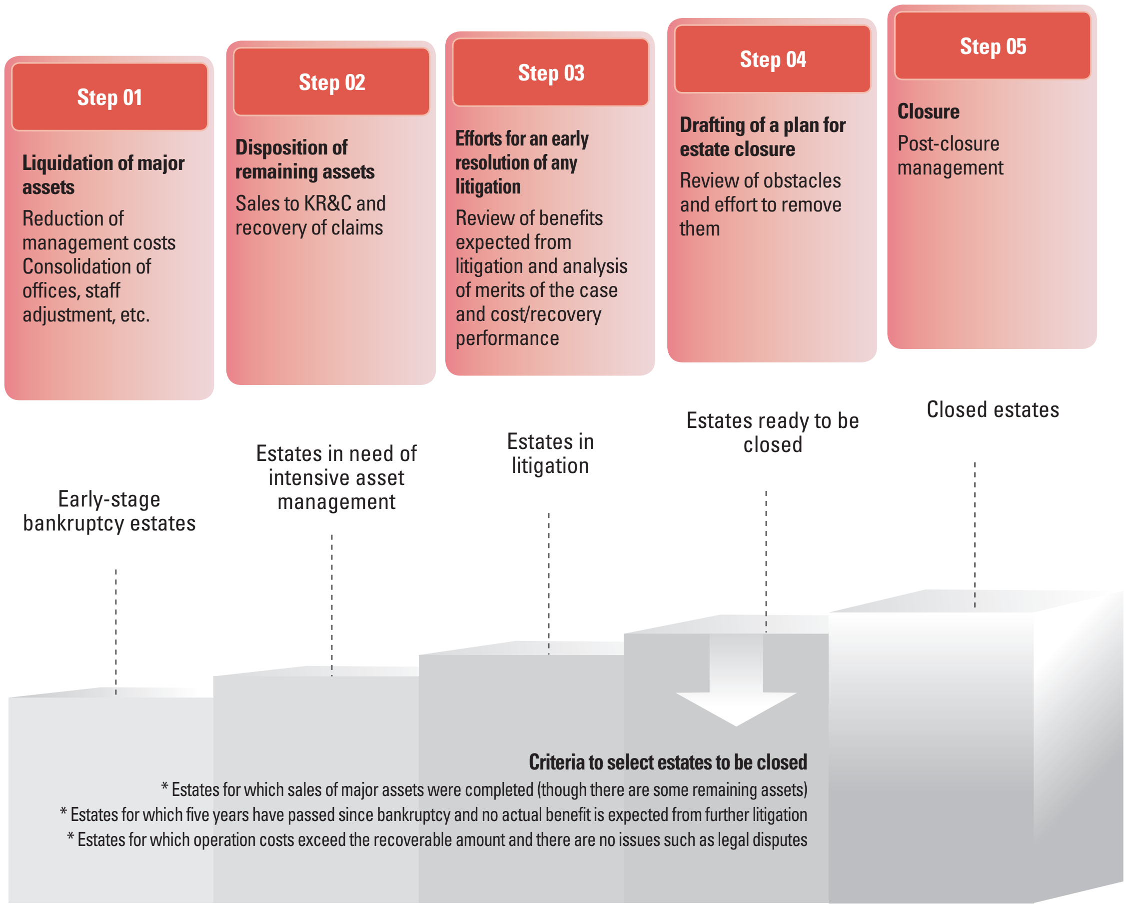
With respect to bankruptcy estates whose bankruptcy proceedings have been so drawn out that they can not be managed efficiently any more, the KDIC pursues legal closure of inefficient bankruptcy estates after evaluation and sale of remaining assets and final distribution of dividends, based on consultation with a competent court. Such early termination of inefficient bankruptcy estates maximizes dividend payments to bankruptcy creditors.

As of the end of December 2016, 451 out of a total of 490 bankruptcy estates were declared closed by the court and the KDIC plans to pursue legal closure of inefficient bankruptcy estates among the remaining 39 estates.

Even after closure of bankruptcy estates, the KDIC commissions each regional supervisor to carry out follow-up management including the provision of public information services and resolution of legal issues.

Figure Ⅶ- 2

Bankruptcy Estate Management from Establishment to Termination



2. Management of Assets Acquired from Insolvent Financial Institutions

Assets Acquired from Insolvent Financial Institutions

By year-end 2016, the KDIC had acquired a total of KRW 49,060.7 billion in assets (based on acquisition costs) through a resolution financial institution (Korea Resolution & Collection, KR&C). Of that amount, KRW 2.5 billion worth of assets (based on acquisition costs) were acquired in 2016.

In December 1999, the Resolution & Finance Corporation (RFC, currently the KR&C) was established to acquire assets of Korea First Bank (KFB) which the acquirer (New Bridge Capital) refused to take over and KFB's put-back options, along with assets that had not been assumed by any acquirer in the process of restructuring of other failed financial institutions. By the end of 2016, with borrowings from the DIF Bond Redemption Fund of the KDIC, the RFC

Table Ⅶ- 4

Assets Acquired by the Resolution Financial Institution in 2016

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Acquired Parties	Amount of Claims	Amount Purchased	Note
Three Bankruptcy Estates Including That of Plus Mutual Savings Bank	397.3	2.5	-

had acquired assets worth KRW 49,060.7 billion (based on acquisition costs). This included KRW 7,838.6 billion from KFB, KRW 158.8 billion from five acquiring banks (Kookmin, H&CB, Shinhan, Hana, and Koram), KRW 355.0 billion from five failed life insurance companies (Kookmin, Dong-A, Taepyongyang, Handuk, and Korea), KRW 1,307.2 billion from the sale of three financial investment companies (Korea, Daehan, and Hyundai), KRW 375.4 billion from 467 bankruptcy estates, KRW 514.8 billion from 37 mutual savings banks*, and KRW 38,510.9 billion from the absorption of Hanareum Merchant Bank and Hanareum Mutual Savings Bank.

* Hanmaum, Hanjung, Arim, Good Friend, Daewon, Hongik, Kyongbook, Hyundai, Bundang, Jeonbuk, Eutteum, Jeonil, Busan, Busan 2, Busan Central, Daejeon, Jeonju, Bohae, Domin, Kyongeun, Ace, Jeil, Jeil 2, Jinheung, Tomato, Tomato 2, Parangsae, Prime, Hanju, Gyeonggi, Shilla, Seoul, Youngnam, Smile, Hanul, Haesol, and Golden Bridge

Table Ⅶ- 5

Assets Acquired by the Resolution Financial Institution (Accumulated)

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Category		Amount of Claims	Amount Purchased	Note
KR&C	Banks	9,869.5	7,997.4	6 banks (including Korea First Bank)
	Insurance Company	403.2	355.0	5 life insurers
	Investment Companies	2,532.4	1,307.2	3 investment companies
	Bankruptcy Estates	9,658.8	375.4	467 estates (5 banks, 10 insurers, 4 investment firms, 22 merchant banks, 87 savings banks, 339 credit unions[1])
	Mutual Savings Banks	2,642.9	514.8	37 mutual savings banks
	Subtotal	25,106.8	10,549.8	-
Hanareum Merchant Bank[2]	Merchant Bank	33,058.8	32,662.5[3]	16 merchant banks
Hanareum Savings Bank[2]	Savings and Loan Institution	7,984.8	5,848.4[3]	41 mutual savings banks
Total		66,150.4	49,060.7	-

Note : 1) Including 14 bankruptcy estates transferred to the responsibility of the National Credit Union Federation of Korea on Jan. 1 of 2010
2) Resolution financial institutions eligible for the KDIC's deposit protection (based on the classification criteria for public fund assistance)
3) Claims acquired in return for deposit payoffs (excluding write-offs)

Efficient Management of Assets Acquired from Insolvent Financial Institutions

The KR&C quickly acquires troubled assets of insolvent financial institutions to expedite the P&A process, and purchases remaining assets from bankruptcy estates to speed up their closure.

As of the end of 2016, the balance of assets held by the KR&C stood at KRW 8,838.5 billion, KRW 231.3 billion of which was directly managed by the KR&C while the remaining KRW 8,607.2 billion was entrusted to outside agencies for efficient management.

In addition, the KDIC devises and implements recovery methods suitable for each type of asset to increase the value of assets held by the KR&C and ensure timely recovery. It recovers loans by means of using services from specialized external agencies for loan collection and modification. It pursues recovery through regular joint public auctions for securities and real estate, and through collection of bankruptcy dividends for indemnity claims.

Figure Ⅶ- 3

Duties of the KR&C

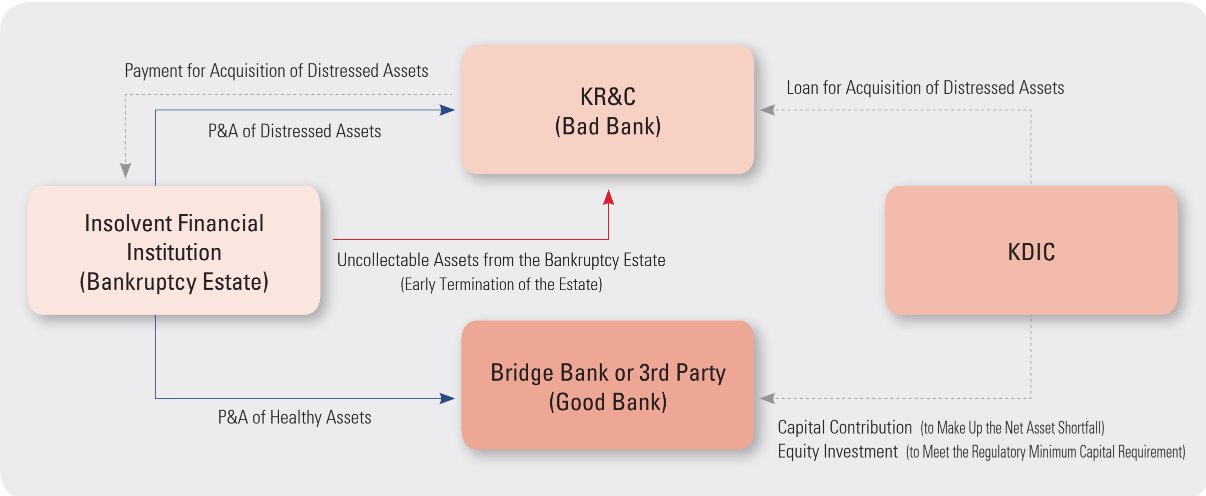


Table Ⅶ- 6

Assets Owned by the KR&C (Balance)

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Asset Type	Directly Managed	Commissioned to Outside Experts for Management	Total
Loans	45.7	8,560.2	8,605.9
Securities	26.5	-	26.5
Indemnity Receivables	86.1	-	86.1
Real Estate, etc.	73.0	47.0	120.0
Total	231.3	8,607.2	8,838.5

* Compensation for damages claims and etc. are excluded

VIII

Promotion of Sound Business Management and Accountability for Insolvency

1. Investigations against Insolvent Financial Institutions

Improvement of Efficiency in Investigations into Illegal and Wrongful Acts at Insolvent Financial Institutions

According to Article 21-2 of the Depositor Protection Act (DPA), the KDIC conducts investigations against insolvent financial institutions for any illegal or wrongful acts. The KDIC then requires the financial institutions to claim damage against the parties* who caused losses to the financial institutions by illegal or wrongful acts and hold them liable.

* Current or former officers or employees of insolvent financial institutions, persons who can give business instructions to others as prescribed in the Commerce Act, debtors who have not performed obligations to insolvent financial institutions, and other third parties

The KDIC found it imperative to systematically investigate unlawful activities by insolvent financial institutions and default debtor companies in close collusion with those institutions. It organized the Insolvency Investigation Division in March 2008 by merging the Investigation Department in charge of investigations against insolvent financial institutions and the Special Investigation Mission for Default Debtor Corporations responsible for investigations against default debtor companies. Structured as two bureaus and two departments, the Insolvency Investigation Division had 70 members as of end-2016 including seconded officers from related organizations such as the Public Prosecutors' Office. For increased efficiency of investigations, the Division not only utilizes the expertise and know-how of the seconded officers but actively seeks data from appropriate organizations.

The KDIC refers illegal activities revealed in investigations 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 services industry, academia, financial industry, etc. Legal and financial experts were appointed as members of the Committee to cope with the increasing diversity and complexity of

Table Ⅷ- 1

Investigations into Illegal and Wrongful Activities Regarding Insolvent Financial Institutions (Accumulated)

(As of Dec. 31, 2016, Unit: No. of cases, No. of persons)

Category	Redemption Fund		DI Fund		Total	
	No. of Institutions (A)	No of Employees Responsible for the Failures (B)	No. of Institutions (C)	No of Employees Responsible for the Failures (D)	No. of Institutions (A+C)	No of Employees Responsible for the Failures (B+D)
Banks	15	191	-	-	15	191
Investment Companies	6	65	-	-	6	65
Insurance Companies	18	244	1	6	19	250
Merchant Banks	22	160	-	-	22	160
MSBs	86	789	46	516	132	1,305
Credit Union[1)]	325	4,146	-	-	325	4,146
Total	472	5,595	47	522	519	6,117

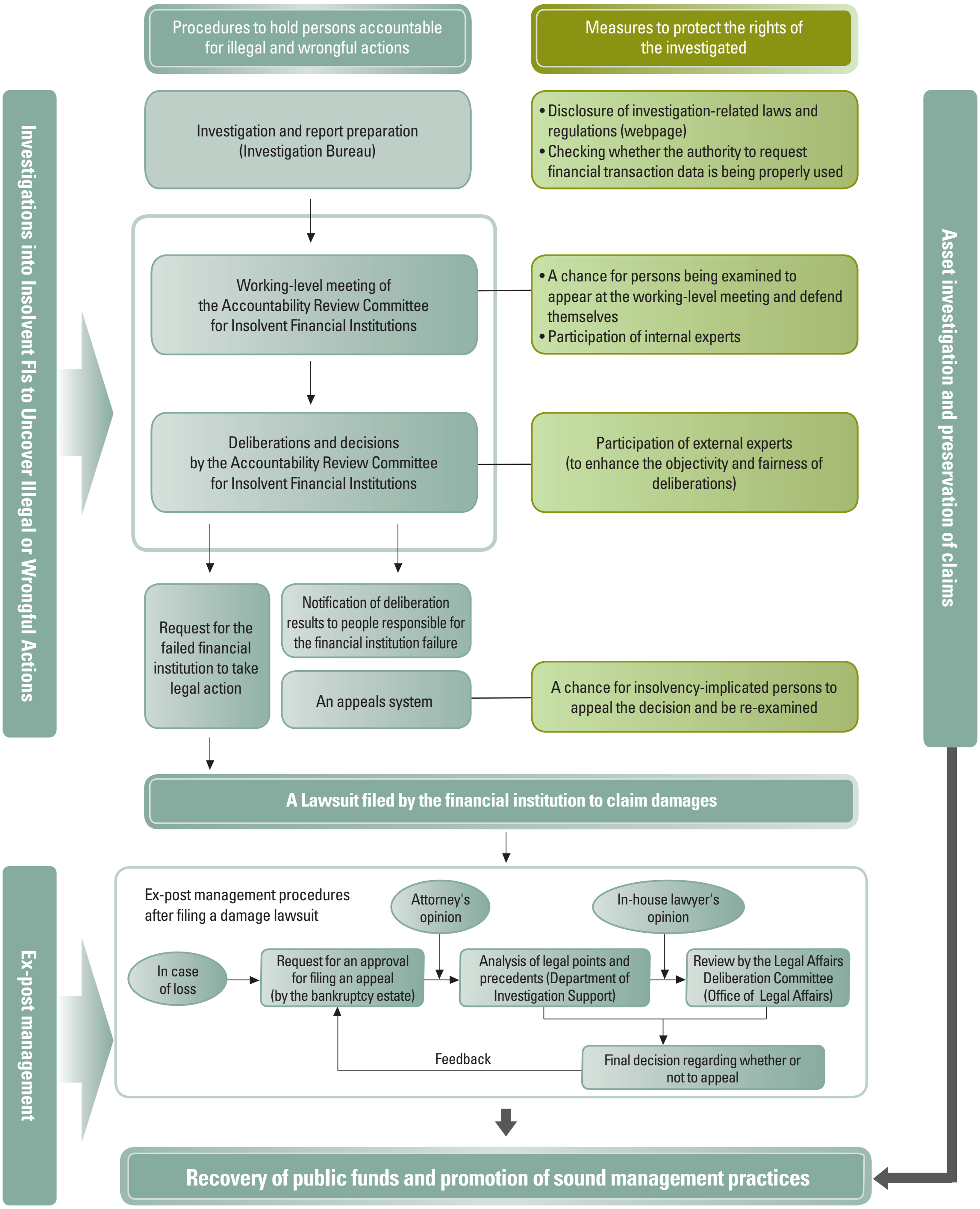
Note : 1) 14 credit unions which were transferred to the National Credit Union Federation on Jan. 1, 2010 were not included.

accountability issues involved in large-scale failures of mutual savings banks and suspension of insurance companies that happened in the past five years. As a result, the KDIC is improving its expertise in the review of illegal and wrongful acts.

By the end of 2016, deliberations on accountability for financial institution failures resulted in a confirmation of accountability for 6,117 persons in 519 insolvency cases. The KDIC requested the insolvent financial institutions and their bankruptcy estates to file for damages against these people.

Figure Ⅷ- 1

Procedures to Hold Persons Accountable for Their Illegal and Wrongful Acts and the System to Protect the Rights of the Investigated



Damage Claim Proceedings against Insolvency-Implicated Persons

Following the KDIC's request for seeking damage, insolvent financial institutions and their bankruptcy estates filed damage claims against persons involved in insolvencies. By the end of 2016, damage claims for KRW 1,811.8 billion were instituted against 9,013 persons implicated in insolvencies of financial institutions into which funds of the Deposit Insurance Fund (DIF) Bond Redemption Fund had been injected. Most of the lawsuits have come to a close. The KDIC is now striving to collect monetary sanctions from insolvency-implicated persons, which was finalized by a court ruling, by various means including foreclosure on their property.

The KDIC also requests that insolvent financial institutions and their bankruptcy estates file litigation claiming damages against persons involved in insolvencies of financial institutions that received financial support from the Deposit Insurance Fund. By the end of 2016, damage claims for KRW 456.8 billion were filed against 695 persons implicated in failures of 47 insolvent financial institutions.

The KDIC provides support and conducts follow-up 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 claims. The KDIC established the Accountability Litigation Support Team comprised of accountability investigation and deliberation

Table Ⅷ- 2

Lawsuits Filed in Relation to Insolvent Financial Institutions that Received Financial Assistance from the Redemption Fund

(As of Dec. 31, 2016, Unit: No. of cases, No, of persons, KRW 1 billion)

Category	Banks	Investment Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions1)	Total
No. of Failed Financial Institutions	15	6	18	22	85	311	457[3]
No. of Defendants	191	83	276	181	1,026	7,256	9,013
Amount Claimed	100.4	34.2	243.5	304.8	543.3	585.6	1,811.8
Amount Awarded	47.6	21.8	1,34.6	54.8	405.6	320.8	985.2
Amount Collected[2]	10.2	5.4	21.8	66.0	92.3	76.9	272.6

Note: 1) 14 credit unions which were transferred to the National Credit Union Federation of Korea on Jan. 1, 2010 were excluded
2) The amount of damages actually collected through the court's enforcement procedures, etc.
3) Excluding 15 companies that did not institute legal action after investigation completion for such reasons as voluntary repayment and liability exemption.

Table Ⅷ- 3

Lawsuits Filed in Relation to Insolvent Financial Institutions that Received Financial Assistance from the Deposit Insurance Fund

(As of Dec. 31, 2016, Unit: No. of cases, No, of persons, KRW 1 billion)

No. of Failed Financial Institutions	No. of Defendants	Amount Finalized[1]	Amount Awarded	Amount Collected[2]
47	695	289.9	191.0	74.9

Note : 1) Claimed amount: KRW 456.8 billion; pending litigation KRW 166.9 billion
2) The amount of damages actually collected through the court's enforcement procedures, etc.

professionals and legal experts to enable clear and logical presentation of defense and submission of extensive evidence in legal proceedings. The KDIC continues to manage outstanding claims for damages on an ongoing basis to allow additional lawsuits to be filed immediately if more assets of persons implicated in insolvencies are found.

In addition, it held a workshop for legal representatives of bankruptcy estates in the course of damage suits to promote sharing of necessary know-how and maximize the possibility of winning lawsuits. It also published a collection of litigation cases that addressed legal issues of major court decisions and distributed it to all of the bankruptcy estates in order to improve their litigation efforts.

Stepped-Up Protection of Rights of Persons Subject to Accountability Investigations

The KDIC seeks to protect the rights of persons subject to accountability investigations and to prevent any undue damage to them. It safeguards their rights throughout the investigation process from commencement of investigations to final determination of accountability.

Upon commencement of investigations on-site, the KDIC informs the investigated parties of how the investigations will proceed and how they can give an explanation of their situation and raise objection at any stage of the proceedings. The KDIC allows them to attend deliberations in person to defend themselves and grants them the right to request new deliberations.

The KDIC remains committed to make institutional improvements so that it can protect the rights of the investigated by preventing any infringement on their rights and any undue damage while still stringently holding them accountable for any wrongful acts.

2. Investigations against Default Debtor Corporations

Investigations into Illegal and Wrongful Acts of Default Debtor Corporations

By the end of 2006, the KDIC's former Special Investigation Mission for Default Debtor Corporations completed its investigations against insolvent default debtor corporations that failed to pay their debts to public fund-injected insolvent financial institutions. In 2007, it began to investigate illegal and wrongful acts of default debtor corporations of mutual savings banks which had received financial assistance from the Deposit Insurance Fund.

In 2008, the Special Investigation Mission for Default Debtor Corporations was reorganized into the Insolvency Investigation Division following a merger with the Investigation Department in charge of investigations against insolvent financial institutions.

Table Ⅷ- 4

Investigations against Default Debtor Corporations

(As of Dec. 31, 2016, Unit: No. of cases, No. of persons)

No. of Corporations Investigated On-site	No. of Insolvency-Implicated Persons
322	845

In 2013, Investigation Bureau II was set up to lead investigations against default debtor companies. This reinforced investigations into unlawful or wrongful actions by default debtor companies and increased the effectiveness of claim recovery by securing assets held by persons involved in insolvencies.

After reviewing the Insolvency Investigation Division's investigation results regarding illegal and wrongful acts of default debtor corporations, the Accountability Review Committee for Insolvent Financial Institutions confirmed as of the end of 2016 that 845 persons were responsible for financial institution failures and gave notice to the insolvent financial institutions and their bankruptcy estates so that they could start damage claim proceedings against those persons.

Support for Damage Claim Proceedings Against Insolvency-Implicated Persons of Default Debtor Corporations

Based on steadfast assistance and follow-up management of insolvent financial institutions and their bankruptcy estates, the KDIC seeks to ensure that the same legal measures as applicable to persons responsible for their failures are taken against default debtor companies' personnel at fault. In compliance with the KDIC's request, insolvent financial institutions and their bankruptcy estates filed 208 suits claiming KRW 998.6 billion of damages in total against persons implicated in insolvencies as of the end of 2016.

Table Ⅷ- 5

Lawsuits Filed in Relation to Default Debtor Corporations (Accumulated)

(As of Dec. 31, 2016, Unit: No. of cases, No. of persons, KRW 1 billion)

No. of Companies	No. of Defendants	Amount Claimed	Amount Awarded	Amount Recovered[1)]
322	1,230	998.6	464.1	119.4

Note : 1) The amount of damages actually collected through the court's enforcement procedures, etc.

3. Investigations into Properties Owned by Insolvency-Implicated Persons

Stricter Investigations into Assets Located in Korea

The KDIC endeavors to maximize its fund recovery and create a climate of sound management at insured financial institutions. Towards that end, it holds insolvency-implicated persons stringently to account by systematically tracking and reclaiming the assets held by responsible personnel at failed financial institutions (including their bankruptcy estates) or concealed by them with the help of a third party.

In 2016, the KDIC stepped up cooperation with related organizations including central administrative agencies and the National Court Administration to expand the targets of property investigation against persons involved in insolvencies to include real estate owned by or registered to them and court deposits. For timely recovery of uncovered assets, the KDIC more closely monitored the execution of claims preservation measures.

As an outcome of such endeavors, the KDIC recovered a total of KRW 394.2 billion from persons involved in insolvencies of financial institutions into which the DIF was injected. In 2016 alone, it collected KRW 122.4 billion, its best ever performance.

Expanded Investigations into Assets Located Overseas

The KDIC embarked on investigation of overseas assets owned by insolvency-implicated persons in 2002. It began a full-swing investigation into offshore assets in September 2006 in the US, Canada, Japan, Australia, China, New Zealand, and the Philippines.

Figure Ⅷ- 2

Flow Chart of Domestic Asset Investigation

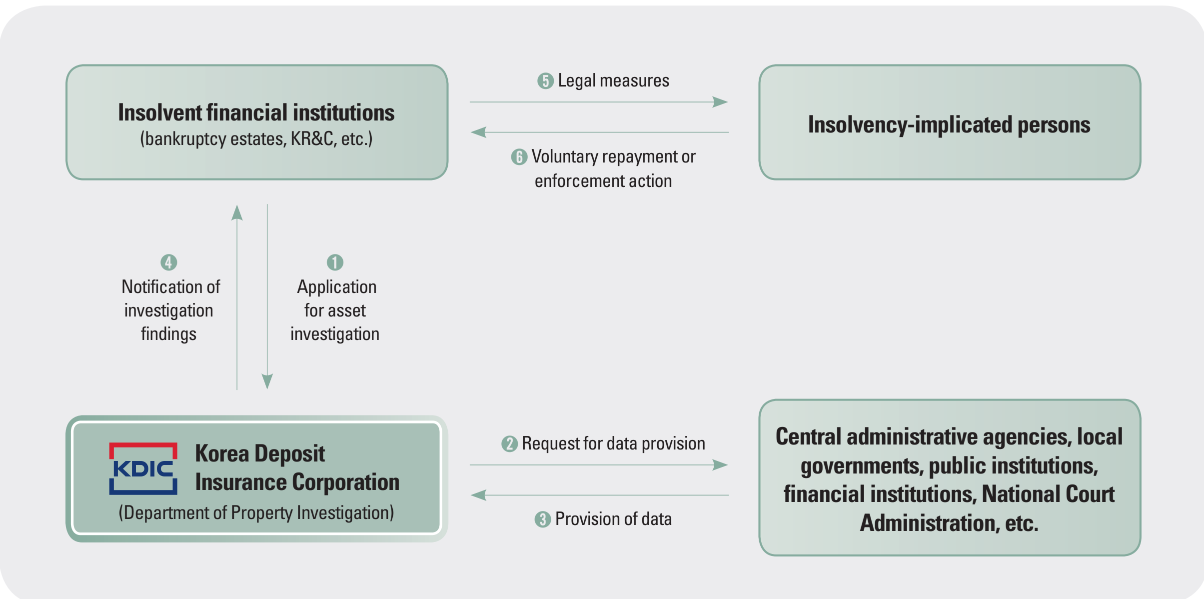


Table Ⅷ- 6

DIF's Recovery of Assets Hidden in Korea

(As of Dec. 31, 2016, Unit: No. of sales, KRW 1 billion)

Year	2003~2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Amount	6.5	10.6	17.4	15.4	17.7	89.5	42.3	72.4	122.4	394.2

Due to business suspension of numerous mutual savings banks, a rapidly increasing number of persons became implicated in insolvencies starting in 2011. In addition, insolvency-implicated persons became more sophisticated in their ability to conceal their assets. Since 2014, the KDIC expanded investigations to trace and identify hidden assets in 37 countries. Using information acquired from researching asset recovery methods suitable for each of these countries, the KDIC conducted investigations in the US on its own. In addition, it strived to diversify investigative channels by visiting Korean-American associations in five major geographic regions of the world to promote awareness of the Concealed Property Report Center. Thanks to these efforts, in 2016, the KDIC succeeded in recovering USD 15 million (equivalent to KRW 18 billion) of assets hidden overseas by insolvency-implicated persons through its own investigations and confidential leads reported to the Concealed Property Report Center. Meanwhile, a committee was created to review litigation in overseas jurisdictions and the number of candidates for acting as the KDIC's legal representative in overseas litigation was increased from 26 law firms in 14 countries to 28 law firms in 16 countries to enable quicker legal action.

As a result of these efforts, the KDIC recovered assets concealed abroad in the amount of USD 6.25 million (equivalent to KRW 7.2 billion) in 2016, up 24% from the previous year.

Recoveries through the Concealed Property Report Center

The KDIC opened the Concealed Property Report Center in May 2002 to encourage reporting on concealed assets that cannot otherwise be found by regular and special property investigations and to maximize recovery of those assets.

Upon receipt of a report on concealed assets, a preliminary investigation including a cash-flow examination is carried out. Then, a report is delivered to the creditor financial institution, which in turn takes measures for claims preservation such as filing for provisional seizure and recovers its claims by means of a lawsuit for rectification of a fraudulent conveyance and the like.

Table Ⅷ- 7

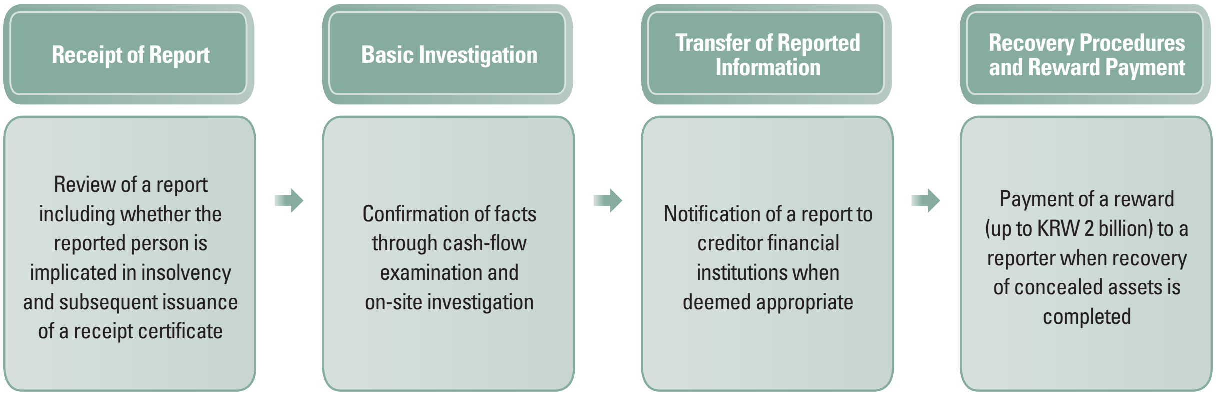
Recovery of Assets Hidden Overseas by Year

(As of Dec. 31, 2016, Unit: USD 1,000)

Year	2003~2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Amount	3,044	2	349	1,400	415	11,653	2,252	5,027	6,250	30,392

Figure Ⅷ- 3

Work Flow at the Concealed Property Report Center



Based on an analysis of how people became aware of the concealed asset report scheme, the KDIC waged multifaceted publicity initiatives including subway and SNS advertisement and leaflet distribution. The KDIC also revamped the website of the Concealed Property Report Center to offer such services as one-stop report, reward inquiry, and mobile report.

By the end of December 2016, the KDIC received 348 reports, recovered KRW 43.0 billion in 65 cases, and paid out KRW 2.3 billion in rewards. As shown above, the Concealed Property Report Center fully performs its role as a hidden vanguard for recovery of concealed assets.

Table Ⅷ- 8

Number of Cases Reported, Number of Recoveries, and the Recovered Amount by Year

(As of Dec. 31, 2016, Unit: No. of cases, KRW 1 million)

Category	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
No. of Cases Reported	21	12	17	10	22	21	15	19	12	17	23	53	33	36	37	348
No. of Recoveries	-	1	1	2	3	8	4	2	4	2	5	9	7	8	9	65
Recovered Amount	-	3,156	374	231	11,791	6,184	2,637	2,830	605	1,058	825	2,553	732	3,230	6,745	42,951

4. Promotion of Sound Business Management Among Insured Financial Institutions

Preemptive measures to prevent financial institution failures have assumed renewed importance in the wake of the recent spate of business suspensions of mutual savings banks since 2011. Wrongful acts and moral hazard on the part of large shareholders and employees have been cited as the main causes of their insolvencies.

To prevent failures of mutual savings banks and ensure their sound management, the KDIC gives training designed for specific groups of their employees.

Insolvency Prevention Training for Employees of Mutual Savings Banks

The KDIC provided on-site training on prevention of insolvencies to employees of mutual savings banks. They were taught about the laws and regulations that apply to their day-to-day operations and other useful information including items of inspection, recent insolvency cases, and relevant court rulings.

In 2016, the KDIC improved the training textbook by including actual insolvency cases explained in a readily understandable manner and producing videos that made the training more interesting and accessible. It also designated an instructor for each mutual savings bank to provide information to trainees in a more customized way.

To ease the burden on employees of mutual savings banks arising from frequent on-site training sessions and to render the training more efficient, the KDIC conducted joint training aligned with educational support services of the Department of Savings Bank Risk Management. It also provided mutual savings banks with textbooks and lecture transcripts, including videos, as an increasing number of them wished to independently carry out training due to stabilization of their business operations.

Regional Meetings of Auditors and Executive Loan Officers

To direct attention to the risks associated with the lending business, which is vulnerable to improprieties including illegal or improper granting of loans, the KDIC, starting in 2013, visited mutual savings banks in major regions on a quarterly basis to explain cases of unjustified lending and the legal consequences confronted by insolvency-implicated executives; address inquiries and difficulties faced by executive loans officers; and find ways to overcome challenges together with the banks.

Table Ⅷ- 9

Insolvency Prevention Training Since 2011

(As of Dec. 31, 2016, Unit: No. of banks)

Description	2011	2012	2013	2014	2015	2016
Number of Target Mutual Savings Banks	35	43	60	67	78	79

Table Ⅷ- 10

Regional Meetings for the Past Four Years

Description	2013	2014	2015	2016
Number of Meetings Held	3	4	4	3

In 2016, it expanded regional meetings of executive loan officers at mutual savings banks to include auditors. In the past, it conducted workshops for auditors of mutual savings banks, but replaced the workshops with direct on-site meetings to minimize their inconveniences.

In order to help insured financial institutions establish a corporate culture conducive to safe and sound management, the KDIC strongly upholds the rule of law while minimizing the burden on their employees. The KDIC will consistently promote a sound business culture by maintaining a healthy, win-win relationship between itself and insured financial institutions.

IX

Fund Management

1. Deposit Insurance Fund Bond Redemption Fund
2. Deposit Insurance Fund

1. Deposit Insurance Fund Bond Redemption Fund

As of January 1, 2003, under the Public Fund Redemption Plan (Redemption Plan) devised by the government in 2002, the assets and liabilities of the Deposit Insurance Fund (DIF) related to the restructuring process that was undertaken after the 1997 Asian financial crisis 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 financial restructuring efforts as well as recovery and repayment of public funds. The new DIF, which is funded by insurance premiums paid by KDIC-insured financial institutions, has been used to fund the resolution of financial institution failures that occurred in 2003 and afterwards.

Stable Financing

Special Contributions

Pursuant to Article 30-3 of the Depositor Protection Act and Article 16-4 of its Enforcement Decree, insured financial institutions, for the period from 2003 to 2027, are required to pay a given percentage of their deposit balances (the arithmetic mean of liability reserves and premium revenues in the case of insurance companies) to the KDIC as Special Contributions. Banks must pay Special Contributions within one month following the end of each quarter and other insured financial institutions within three months following the end of each fiscal year. In 2016, the KDIC received KRW 1,539.4 billion in Special Contributions.

Contributions from the Public Fund Redemption Fund

In accordance with the Redemption Plan, the KDIC had received a total of KRW 52.3064 trillion in contributions from the Public Fund Redemption Fund

Table Ⅸ- 1

Rates of Special Contributions by Financial Sector

Sector	Banks	Investment Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions
Rates	1/1,000	1/1,000	1/1,000	1/1,000	1/1,000	5/10,000[1]

Note : 1) The rate for credit unions was changed from 1/1,000 to 5/10,000, effective from 2007

Table Ⅸ- 2

Special Contributions from Each Financial Sector

(Unit: KRW 1 billion)

Year	Banks	Investment Companies	Life Insurance Company	Non-life Insurance Company	Merchant Banks	MSBs	Credit Unions[1]	Total
2003	477.5	15.6	88.9	18.5	2.1	22.2	-	624.7
2004	495.6	16.8	97.8	19.8	0.6	26.4	-	657.0
2005	487.2	14.5	106.9	21.9	0.5	31.9	-	662.8
2006	498.7	15.1	116.0	24.2	0.6	37.0	21.6	713.3
2007	502.7	15.6	126.5	27.8	0.7	43.0	11.6	728.0
2008	497.6	18.5	136.4	31.9	0.8	49.1	12.9	747.2
2009	596.5	16.9	143.0	35.2	1.0	59.3	13.7	865.6
2010	681.1	21.3	153.4	40.9	1.9	71.5	17.0	987.1
2011	778.9	22.7	165.0	48.7	1.2	71.8	20.5	1,108.7
2012	851.8	22.6	176.0	59.2	1.0	52.1	22.8	1,185.5
2013	897.3	20.2	229.7	70.7	0.9	39.4	24.8	1,283.0
2014	959.0	20.0	238.6	79.0	0.7	32.3	26.3	1,356.0
2015	978.6	17.9	261.7	89.6	0.7	30.8	27.5	1,406.8
2016	1,066.4	24.0	283.5	100.1	0.8	34.8	29.9	1,539.4
Total	9,768.9	261.9	2,323.3	667.2	13.4	601.6	228.5	13,864.9

Note : 1) Credit unions make payments from 2006 to 2017

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 on or before December 31, 2002, as provided in Article 4 of the Act on the Fund for Repayment of Public Funds. The KDIC has not received any additional contributions from the Public Fund Redemption Fund since 2007.

Deposit Insurance Fund Bonds Issued On or Before December 31, 2002 and Their Redemption

As stipulated in Article 26-2 of the Depositor Protection Act, the KDIC may issue DIF Bonds. The KDIC issued a total of KRW 87.1599 trillion in DIF Bonds from 1998 to 2002.

With the establishment of the Redemption Fund in 2003, the outstanding balance of DIF Bonds amounting to KRW 80,974.4 billion as of the end of 2002 was transferred to the Redemption Fund. All DIF Bonds issued on or before December 31, 2002 that matured afterwards were all repaid with contributions from the Public Fund Redemption Fund, money raised by issuing DIF Bond Redemption Fund Bonds (Redemption Fund Bonds), Special Contributions from the industry, and other recovered funds in accordance with the Redemption Plan as of the end of 2008.

Table Ⅸ-3

Issuance and Redemption of DIF Bonds Issued before Dec. 31, 2002

(Unit: KRW 1 billion)

Year	Issued Amount	Redeemed Amount	Balance
1998	21,015.0	-	21,015.0
1999	22,484.9	-	43,499.9
2000	8,940.7	-	52,440.6
2001	31,059.3	1,464.0	82,035.9
2002	3,660.0	4,721.5	80,974.4
2003	-	9,737.1	71,237.3
2004	-	16,622.7	54,614.6
2005	-	18,090.4	36,524.2
2006	-	19,063.6	17,460.6
2007	-	6,067.2	11,393.3
2008	-	11,393.3	-
Total	87,159.9[1)]	87,159.9	-

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

Issuance and Repayment of Redemption Fund Bonds

Under Article 26-3 of the Depositor Protection Act, the KDIC is authorized to issue Redemption Fund Bonds to repay the principal and interest of DIF Bonds issued on or before December 31, 2002. In 2016, the KDIC issued Redemption Fund Bonds in the amount of KRW 1,970.0 billion through public offering at a fixed rate and a three-year maturity. The KDIC repaid KRW 4,130.0 billion that matured in 2016, which brought the outstanding balance of Redemption Fund Bonds as of the end of 2016 to KRW 12,550.0 billion.

Table Ⅸ-4

Issuance and Redemption of Redemption Fund Bonds

(Unit: KRW 1 billion)

Year	Issued Amount	Redeemed Amount	Balance
2004	6,500.0	-	6,500.0
2005	7,440.0	-	13,940.0
2006	2,870.5	315.5	16,495.0
2007	2,720.0	45.0	19,170.0
2008	8,800.0	10.0	27,960.0
2009	5,860.0	6,500.0	27,320.0
2010	6,810.0	7,440.0	26,690.0
2011	780.0	3,730.0	23,740.0
2012	4,770.0	5,690.0	22,820.0
2013	7,270.0	7,570.0	22,520.0
2014	1,010.0	5,010.0	18,520.0
2015	880.0	4,690.0	14,710.0
2016	1,970.0	4,130.0	12,550.0
Total	57,680.5	45,130.5	12,550.0

Borrowings

Pursuant to Article 26 of the Depositor Protection Act and Article 15 of its Enforcement Decree, the KDIC is authorized, when necessary for payment of deposit insurance claims or resolution of insolvent financial institutions, to borrow funds from various entities including the government, the Bank of Korea, insured financial institutions, and other institutions specified in Article 15(3) of the Enforcement Decree. Up to 2002, the KDIC borrowed funds from the Special Account for Government Investment and Financing, the International Bank for Reconstruction and Development (IBRD), the Asian Development Bank (ADB), and KDIC-insured financial institutions.

The balance of the previous borrowings of the KDIC was transferred to 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 2013, the KDIC repaid KRW 116.8 billion (USD 100 million) for the principal of loans from the IBRD. As of the end of 2016, there was no outstanding balance.

Table Ⅸ-5

Borrowings and Loan Repayment of the Redemption Fund

(Unit: KRW 1 billion)

Year	Borrowed Amount				Repaid Amount	Balance
	Member Institutions	Loans[1)]	Special Account for Government Investment and Financing	Subtotal		
Amount Received	7,601.1	-	-	7,601.1	-	7,601.1
1998	329.5	241.6	1,058.2	1,629.3	933.7	8,296.7
1999	1,387.0	1,201.6	2,625.4	5,214.0	3,387.0	10,123.7
2000	9,002.8	1.3	3,953.3	12,957.4	980.2	22,100.9
2001	-	0.8	4,967.2	4,968.0	11,019.6	16,049.3
2002	-	-	5,955.3	5,955.3	0.3	22,004.3
2003	-	-	-	-	19,599.3	2,405.0
2004	-	-	-	-	1,116.8	1,288.2
2005	-	-	-	-	353.8	934.4
2006	-	-	-	-	116.8	817.6
2007	-	-	-	-	116.8	700.8
2008	-	-	-	-	116.8	584.0
2009	-	-	-	-	116.8	467.2
2010	-	-	-	-	116.8	350.4
2011	-	-	-	-	116.8	233.6
2012	-	-	-	-	116.8	116.8
2013	-	-	-	-	116.8	-
Total	18,320.4	1,445.3	18,559.4	38,325.1	38,325.1	-

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

Financial Assistance

Overview

The KDIC provided financial assistance from the Redemption Fund in the form of deposit payoffs as well as equity investment, contributions, loans, etc. to resolve insolvent financial institutions. The Redemption Fund provided a total of KRW 1.09 billion in financial assistance during 2016, all of which was in the form of capital contributions.

The total amount of public funds provided from the Redemption Fund for the restructuring of insured financial institutions came to KRW 110,895.6 billion as of the end of 2016. This amount includes KRW 30,312.4 billion (27.3%) in payment of deposits for depositors of insolvent financial institutions, KRW 50,793.7 billion (45.8%) in equity investment for business normalization, KRW 18,612.8 billion (16.8%) in capital contributions for P&As, and KRW 11,176.7 billion (10.1%) for the purchase of assets, etc.

Table Ⅸ- 6

Financial Assistance and Deposit Insurance Payments from the Redemption Fund (2016)

(Unit: KRW 1 million)

Sector	Equity Investment	Capital Contributions	Asset Purchase	Loans	Deposit Insurance Payments	Total
Banks	-	1,086	-	-	-	1,086
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	4.0	-	-	-	4.0
Merchant Banks	-	-	-	-	-	-
MSBs	-	-	-	-	-	-
Credit Unions	-	-	-	-	-	-
Total	-	1,090	-	-	-	1,090

Table Ⅸ- 7

Financial Assistance and Deposit Insurance Payments from the Redemption Fund (Accumulated)

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Sector	Equity Investment	Capital Contributions	Asset Purchase[1]	Loans	Deposit Insurance Payments	Total
Banks	22,203.9	13,920.0	8,106.4	-	-	44,230.3
Investment Companies	9,976.9	414.3	2,123.9	-	11.3	12,526.4
Insurance Companies	15,919.8	3,119.2	349.5	-	-	19,388.5
Merchant Banks	2,693.1	743.1	-	-	18,271.8	21,708.0
MSBs	0.1	416.1	-	596.9	7,289.2	8,302.3
Credit Unions	-	-	-	-	4,740.2	4,740.2
Total	50,793.7	18,612.8	10,579.9	596.9	30,312.4	110,895.6

Note : 1) Including financial assistance through the resolution financial institution

Assistance for Each Sector of the Financial Industry

A. Banks

In 2016, the KDIC paid KRW 1.086 billion to BNK Financial Group in the form of capital contributions according to the (proposed) payment of damages to the purchaser of Kyongnam Bank and Kwangju Bank approved by the Public Fund Oversight Committee.

B. Insurance Companies

KB Life Insurance, based on the contribution agreement that it signed with the KDIC when it took over Hanil Life Insurance, requested the KDIC to settle dormant claims paid upon customer requests from June 1, 2015 to May 31, 2016. Thus, the KDIC paid KRW 4 million in additional contributions from the Redemption Fund in 2016.

C. Investment Companies

In 2016, the KDIC did not provide any funds to investment companies in the form of deposit insurance claim payments, equity investment, contributions, or loans from the Redemption Fund.

D. Mutual Savings Banks

IIn 2016, the KDIC did not provide any funds to mutual savings banks in the form of deposit insurance claim payments, equity investment, contributions, or loans from the Redemption Fund.

Table Ⅸ- 8

Deposit Insurance Payments for Mutual Savings Bank Depositors by Year

(Unit: No. of banks, KRW 1 billion)

Year	No. of Failed MSBs	Amount of DI Payments
1998	17	1,470.5
1999	19	1,427.2
2000	11	650.0
2001	5	2,953.7
2002	10	771.9
2003	7	0.5
2004	8	2.6
2005	7	0.1
2006	8	0.3
2007	2	12.8
2008	-	(-)0.4
2009	1	-
2010	-	-
2011	-	-
2012	-	-
2013	-	-
2014	-	-
2015	-	-
2016	-	-
Total	95	7,289.2

Table Ⅸ-9

Financial Assistance to Mutual Savings Banks

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Name	Equity Investment		Capital Contributions		Loans	
	Before 2015	2016	Before 2015	2016	Before 2015	2016
Gyeonggi (former Commit)	-	-	25.4	-	165.4	-
Kyungbuk (former Hanuri)	-	-	8.5	-	-	-
Daecheon (current Daejeon)	-	-	-	-	10.2	-
Domin (Keumkang)	-	-	2.8	-	70.9	-
Dongwon (Korea Investment)	-	-	6.3	-	78.3	-
Bumin (Busan)	-	-	24.3	-	-	-
Busan 2	-	-	-	-	27.1	-
Sangup (former Hyundai)	-	-	70.1	-	-	-
Saenuri	-	-	1.3	-	2.1	-
Solomon (former Gold)	-	-	66.3	-	-	-
New Choongbuk	-	-	-	-	16.1	-
Arim	-	-	-	-	61.5	-
Union	-	-	3.9	-	51.8	-
J-one	-	-	32.5	-	-	-
Choil	-	-	2.9	-	73.8	-
Choongnam (former New Onyang)	-	-	-	-	4.5	-
Choongil	-	-	-	-	8.9	-
Telson (former New Hankook)	-	-	77.5	-	-	-
Hanaro	-	-	42.2	-	-	-
Hanmaum	-	-	52.1	-	-	-
Haedong (Kyunggi)	-	-	-	-	26.3	-
KR&C	0.1[1)]	-	-	-	-	-
Total	0.1	-	416.1	-	596.9	-

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

Maximization of Public Fund Recovery

Overview

Depending on the nature of the support extended, the KDIC uses a number of methods to recover public funds. Firstly, equity stakes received in exchange for financial assistance are liquidated. Secondly, for insolvent financial institutions whose liabilities exceed assets and for whom the KDIC made deposit payoffs or capital contributions, the KDIC directly participates in their bankruptcy process as a creditor and receives dividends from the proceeds of asset sales. 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 loan collection by various methods. The accumulated amount of public funds recovered as of the end of 2016 totaled KRW 57,676.2 billion including KRW 2,648.3 billion recovered in 2016 alone.

Table Ⅸ- 10

Redemption Fund Recovery (2016)

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Sector	Recovery of Equity Investment	Settlement of Capital Contributions, etc.	Asset Sales[1]	Recovery of Loans	Collection of Bankruptcy Dividends[1]	Total
Banks	2,234.2	-	-	-	-	2,234.2
Investment Companies	-	-	0.6	-	-	0.6
Insurance Companies	278.9	-	-	-	-	278.9
Merchant Banks	79.9	-	-	-	50.6	130.5
MSBs	-	-	-	-	-	-
Credit Unions	-	-	-	-	4.0	4.0
Total	2,593.0	-	0.6	-	54.6	2,648.3

Note: 1) Including recoveries through the resolution financial institution

Table Ⅸ- 11

Redemption Fund Recovery (Accumulated)

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Sector	Recovery of Equity Investment	Settlement of Capital Contributions, etc.	Asset Sales[1]	Recovery of Loans	Collection of Bankruptcy Dividends[1]	Total
Banks	20,978.6	70.1	6,631.2	-	1,847.2	29,527.1
Investment Companies	1,212.1	337.3	1,801.3	-	7.8	3,358.6
Insurance Companies	5,366.1	88.8	245.3	-	431.0	6,131.2
Merchant Banks	249.4	5.9	-	-	9,170.2	9,425.5
MSBs	-	34.3	-	596.9	5,179.3	5,810.5
Credit Unions	-	0.4	-	-	3,422.9	3,423.3
Total	27,806.3	536.8	8,677.8	596.9	20,058.4	57,676.2

Note: 1) Including recoveries through the resolution financial institution

Sale of Equity Stakes, etc.

A. Banks

In 2016, the KDIC recovered KRW 2,150.9 billion (equivalent to its stake in the banking account) by selling off its shares to a group of shareholders in Woori Bank and KRW 83.3 billion (equivalent to its stake in the banking account) in dividends from the bank.

B. Insurance Companies

In 2016, the KDIC recovered KRW 23.8 billion and KRW 255.1 billion through dividends from Hanwha Life Insurance and Seoul Guarantee Insurance, respectively.

C. Investment Companies

The KDIC recovered KRW 0.6 billion by selling the assets that it purchased in the course of restructuring Hyundai Investment & Securities.

D. Merchant Banks

In 2016, the KDIC recovered KRW 76.9 billion (equivalent to its stake in the merchant bank account) by selling off its shares to a group of shareholders in Woori Bank and KRW 3.0 billion (equivalent to its stake in the merchant bank account) in dividends from the bank.

Bankruptcy Dividends

In 2016, the KDIC (and KR&C) received KRW 50.6 billion in bankruptcy dividends from bankruptcy estates of merchant banks and KRW 4.0 billion from bankruptcy estates of credit unions through sale of their assets. By the end of 2016, the cumulative total of funds recovered through bankruptcy dividends reached KRW 20,058.4 billion.

Recovery of Loans, etc.

By the end of 2016, the KDIC had provided KRW 596.9 billion in loans, all of which were recovered. By the end of 2016, it recovered KRW 536.8 billion by settlement of capital contributions, etc. In 2016, it recovered KRW 3 million from Hanwha Life Insurance in connection with its P&A.

Table Ⅸ- 12

Bankruptcy Dividends Collection by Financial Sector[1)]

(As of Dec. 31, 2016, Unit: No. of estates, KRW 1 billion)

Sector	No. of Estates[2)]	Recovered Amount	
		2016	1999~2016
Banks	5	-	1,847.2
Investment Companies	4	-	7.8
Insurance Companies	10	-	431.0
Merchant Banks	22	50.6	9,170.2
MSBs	75	-	5,179.3
Credit Unions	325	4.0	3,422.9
Total	441	54.6	20,058.4

Note : 1) The amount of bankruptcy dividends collected by the KDIC from estates of failed financial institutions (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 Savings Bank)
2) Based on bankruptcy estates tied to the Redemption Fund; the number of bankruptcy estates in Table -3 represents the combined number of estates tied to the Redemption Fund and the Deposit Insurance Fund

Recovery by the KR&C

The KR&C also employs a variety of means of recovery in addition to the traditional method of recovery-at-maturity. These 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 2016, on a cumulative basis, the KR&C recovered a total of KRW 41,168.4 billion and repaid KRW 20,712.7 billion to the KDIC.

* Amount of loans from the KDIC for the purpose of resolving insolvent financial institutions: KRW 33,829.7 billion

In 2016, the KR&C recovered a total of KRW 112.3 billion including KRW 46.3 billion by collecting loans receivable, KRW 7.8 billion by selling securities, and KRW 56.9 billion by collecting bankruptcy dividends based on the rights of indemnity. It repaid KRW 50.6 billion to the KDIC (including recoveries before 2016 in part).

Table Ⅸ- 13

Recovery from Sale of KR&C-Owned Assets

(As of the end of December 2016, Unit: KRW 1 billion)

Category	Assets Subject to Sale		Amount Recovered	Recovery Method
Amount recovered in 2016	Loans	Loans in KRW	46.3	Direct collection and litigation
		Loans in foreign currencies	-	
		Subtotal	46.3	
	Marketable securities	Listed and unlisted stock	7.8	Auction, sale on the stock market, and dividend collection
	Reak estate	Business buildings, etc.	1.3	Auction, etc.
	Right of indemnity	Claims as subrogee for insured depositors, etc.	56.9	Bankruptcy dividend collection
	Total		112.3	-
Accumulated amount	Loans	Loans in KRW	10,377.8	International bidding, NPL sale, ABS issuance, etc.
		Loans in foreign currencies	3,072.6	
		Subtotal	13,450.4	
	Marketable securities	Listed and unlisted stock	6,195.5	Auction, block sale, etc.
	Real estate	Business buildings, etc.	623.3	Auction
	Right of indemnity	Claims as subrogee for insured depositors, etc.	20,899.2	Bankruptcy dividend collection
	Total		41,168.4	-

2. Deposit Insurance Fund

Stable Financing

Deposit Insurance Premiums

Pursuant to Article 30 of the Depositor Protection Act and Article 16 of its Enforcement Decree, insured financial institutions are required to pay the KDIC a given percentage of their deposit balances (in the case of insurance companies, the arithmetic mean of liability reserves and premium revenues) as insurance premiums. At present, banks must pay premiums within one month following the end of each quarter and other insured financial institutions within six months following the end of each fiscal year.

Table Ⅸ- 14

Insurance Premium Rates for Different Financial Sectors

Category	Banks	Investment Companies	Insurance Company	Merchant Banks	MSBs
DI Premium Rates	8/10,000	15/10,000[1]	15/10,000	15/10,000	40/10,000[2]

Note : 1) The premium rate assessed on customer depositors at securities firms deposited by investment firms was cut by 30% starting from 2007
2) The rate was changed in July, 2011 in accordance with the amended Enforcement Decree of the Depositor Protection Act (previously 35/10,000)

Table Ⅸ- 15

Deposit Insurance Premium Revenue by Financial Sector

(As of the end of December 2016, Unit: KRW 1 billion)

Year	Banks	Investment Companies	Life Insurance Companies	Non-life Insurance Companies	Merchant Banks	MSBs	Special Account[2]	Total[4]
2003[1]	477.5	31.2	258.0	53.5	7.3	66.7	-	894.2
2004	496.0	33.6	283.2	57.1	1.7	79.3	-	950.9
2005	486.9	30.0	310.9	62.8	1.5	97.4	-	989.5
2006	498.7	30.3	336.2	69.7	1.9	111.6	-	1,048.4
2007	502.7	25.6	365.4	80.1	2.2	130.6	-	1,106.6
2008	480.8	30.5	393.4	91.8	2.4	148.3	-	1,147.2
2009	529.1	27.6	409.7	101.6	2.9	173.7	-	1,244.6
2010	545.1	28.4	260.9	69.8	3.4	252.4	-	1,160.0
2011	479.5	28.3	236.2	70.0	1.8	233.2	174.2	1,223.1
2012[5]	374.8	0.2	-1.4[3]	10.0	0.8	134.5	581.6	1,100.4
2013[5]	394.8	-	22.1	48.8	0.8	25.3	667.2	115.9
2014[5]	419.7	-	81.1	44.5	0.6	25.6	615.8	1,187.2
2015[5]	436.9	-	128.0	71.0	0.4	6.4	712.0	1,354.7
2016[5]	467.5	-	185.7	80.6	0.7	29.6	682.3	1,446.3
Total	6,589.9	265.8	3,269.3	911.1	28.3	1,514.6	3,433.2	16,012.3

Note : 1) Insurance premiums received up to 2002 were transferred to the DIF Bond Redemption Fund
2) The Special Account for Mutual Savings Bank Restructuring was established in April 2011 (to be maintained until the end of 2026)
3) There was a refund of some of the premiums paid before 2012
4) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was not included
5) According to implementation of the target fund system, insurance premiums were exempted or reduced in 2012 (exemption for financial investment and life insurance companies and 15% reduction for non-life insurance companies); in 2013 (exemption for financial investment companies, 45% reduction for life insurance companies, and 7% reduction for non-life insurance companies); in 2014 (exemption for financial investment companies, 38% reduction for life insurance companies, and 1% reduction for non-life insurance companies); in 2015 (exemption for financial investment companies, and 17% reduction for non-life insurance companies); and in 2016 (exemption for financial investment companies, and 5% reduction for life insurance companies)

Deposit insurance premiums collected up to 2002 were transferred to the Redemption Fund established under the Redemption Plan while deposit insurance premiums collected since 2003 have been placed in the Deposit Insurance Fund (DIF).

The KDIC set up the Special Account for Mutual Savings Bank Restructuring (Special Account) to improve the financial health of the mutual savings bank account in the DIF in accordance with Article 24-4 of the Depositor Protection Act, amended in March 2011. The Special Account is funded by 45% of the yearly insurance premiums paid by KDIC-insured financial institutions (such ratio as determined by the Deposit Insurance Committee in the case of mutual savings banks), issuance of DIF Bonds, external borrowings, recovered funds, etc.

The total amount of premiums received from insured financial institutions including those that went to the Special Account in 2016 remained at KRW 1,446.3 billion.

Contributions from Insured Financial Institutions

Article 24 of the Depositor Protection Act and Article 14 of its Enforcement Decree requires that a newly insured financial institution which obtained authorization for its operations or incorporation should contribute a specific proportion of its paid-in capital or equity capital to the KDIC within one month of starting business in order to receive deposit insurance coverage.

With the creation of the Redemption Fund, contributions received up to 2002 were transferred to the Redemption Fund, whereas contributions received since 2003 have been incorporated into the Deposit Insurance Fund.

Table IX- 16

Contributions from KDIC-insured Financial Institutions

(Unit: KRW 1 billion)

Year	Banks	Investment Companies	Life Insurance Companies	Non-life Insurance Companies	Merchant Banks	MSBs	Special Account	Total[2]
2003[1]	0.03	-	0.65	0.20	-	-	-	0.88
2004	0.34	0.20	0.60	0.20	-	-	-	1.34
2005	0.22	0.20	-	-	-	1.25	-	1.67
2006	0.38	0.80	-	0.20	-	1.34	-	2.72
2007	-	-	-	-	-	-	-	-
2008	0.16	11.01	-	-	-	0.56	-	11.72
2009	0.77	4.31	0.42	0.34	0.02	0.78	-	6.63
2010	0.08	0.58	0.90	0.03	-	-	-	1.59
2011	0.03	-	-	-	-	1.20	-	1.23
2012	0.58	0.13	5.00	0.80	-	2.40	-	8.91
2013	0.08	2.17	0.32	0.31	0.00	4.98	-	7.86
2014	-	0.06	-	-	-	9.06	-	9.12
2015	-	-	-	-	-	-	-	-
2016	0.88	0.53	-	0.60	-	-	-	2.01
Total	3.54	19.99	7.89	2.68	0.02	21.56	-	55.68

Note : 1) Contributions received up to 2002 were transferred to the DIF Bond Redemption Fund
2) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was not included

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

Pursuant to Articles 24-4 and 26-2 of the Depositor Protection Act, the KDIC, for the first time, issued DIF Bonds to finance the Special Account without government guarantees based on its own credit standing in December 2011. From 2011 to 2013, it issued such bonds to finance the restructuring of insolvent mutual savings banks. Since 2014, it has issued bonds for the purpose of redeeming (or rolling over) the maturing bonds. It is consistently reducing the amount of outstanding bonds by repaying them with funds recovered and insurance premiums received. In 2016, it redeemed KRW 4.22 trillion in bonds while rolling over KRW 2.63 trillion. As of the end of 2016, the outstanding bonds to finance the Special Account amounted to KRW 16.3 trillion.

Borrowings

According to Article 26 of the Depositor Protection Act and Article 15 of its Enforcement Decree, the Deposit Insurance Fund (DIF) is authorized to, when necessary

Table Ⅸ- 17

Issuance and Redemption of Bonds for the Funding of the Special Account in the DIF

(Unit: KRW 1 billion)

Year	Amount Issued	Redeemed Amount	Balance
2011	1,200	-	1,200
2012	20,040	-	21,240
2013	2,090	-	23,330
2014	-	1,200	22,130
2015	5,640	9,880	17,890
2016	2,630	4,220	16,300
Total	31,600	15,300	16,300

Table Ⅸ- 18

Borrowings and Loan Repayments of the DIF

(Unit: KRW 1 billion)

Account Name	Year	Borrowed Amount[1]				Repaid Amount	Balance
		Member Institution	BOK etc.	Government	Subtotal		
MSBs	2007	231.4	-	-	231.4	-	231.4
	2008	-	-	-	-	231.4	-
	Subtotal	231.4	-	-	231.4	231.4	-
Special Account	2011	10,419.9	-	-	10,419.9	1,200.0	9,219.9
	2012	14,193.2	-	100.0	14,293.2	22,262.5	1,250.6
	2013	1,936.5	-	100.0	2,036.5	3,087.1	200.0
	2014	96.0	-	50.0	146.0	96.0	250.0
	2015	6,733.9	-	-	6,733.9	6,733.9	250.0
	2016	2,298.8	-	-	2,298.8	2,298.8	250.0
	Subtotal	35,678.3	-	250.0	35,928.3	35,678.3	250.0
Total		35,909.7	-	250.0	36,159.7	35,909.7	250.0

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 not included 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 set forth in Article 15(3) of the Enforcement Decree. Accordingly, the KDIC borrowed a total of KRW 166.4 billion in 2003 and 2004 to reimburse depositors of failed credit unions and KRW 231.4 billion in 2007 to resolve failed mutual savings banks. In 2011 and afterwards, it borrowed KRW 33,379.5 billion.

Of the borrowings in the credit union account, a total of KRW 92 billion had been repaid from 2004 to 2008 through independent recoveries including bankruptcy dividends. The debt balance of the credit union account was transferred to the National Credit Union Federation of Korea on January 1, 2010, which left the account with no borrowings. Borrowings in the mutual savings bank account totaling KRW 231.4 billion were entirely repaid in 2008.

As for the Special Account set up in 2011 for the mass resolution of insolvent mutual savings banks, a total of 35,678.3 billion was borrowed from insured financial institutions including banks by the end of 2015. To increase funding for the Special Account, the KDIC applied for government loans from the Public Capital Management Fund at no interest (with a 10-year grace period and installment payments over a five-year period) starting in 2012. It received KRW 250 billion’s government borrowings in total.

By the end of 2016, KRW 35.6783 trillion was repaid out of KRW 35,928.3 trillion in borrowings in the Special Account through issuance of DIF Bonds, etc. As of the end of 2016, the outstanding borrowings amounted to KRW 250 billion, and all of them represent long-term borrowings from the government.

Timely Provision of Financial Assistance

Overview

Since 2003, the KDIC has provided financial assistance from the DIF for deposit payoffs in the event of an insolvency and resolution of insolvent financial institutions in the form of equity investment, capital contributions, and loans.

Until 2010, a total of KRW 4,527.6 billion was provided, from the DIF's mutual savings bank account, to 16 insolvent mutual savings banks, including Kimchun Mutual Savings and Finance. From 2011, a total of KRW 27,171.1 billion was provided to 31 insolvent mutual savings banks from the Special Account.

In 2013, KRW 22.6 billion was provided to one non-life insurance company from the non-life insurance account.

Table Ⅸ- 19

Financial Assistance and Deposit Insurance Payments from the DIF (2016)

(Unit: KRW 1 billion)

Account Name	Equity Investment	Capital Contributions	Deposit Insurance Payment[2]	Loans	Advance Dividend Payments	Total
MSBs	-	-	-	-	-	-
Special Account	-	-	0.7[1]	-	-	0.7
Total	-	-	0.7	-	-	0.7

Note : 1) Deposit insurance payments in relation to failures of mutual savings banks that occurred before 2016

Table Ⅸ- 20

Financial Assistance and Deposit Insurance Payments from the DIF (Accumulated)

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Account Name	Equity Investment	Capital Contributions	Deposit Insurance Payment	Loans	Advance Dividend Payments	Total[1)]
Banks	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	22.6	-	-	-	22.6
Merchant Banks	-	-	-	-	-	-
MSBs	121.1	2,454.2	1,441.3	489.1	21.9	4,527.6
Special Account	365.5	22,987.3	3,627.2	113.6	77.5	27,171.1
Total	486.6	25,464.1	5,068.5	602.7	99.4	31,721.3

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 not included.

Assistance for Each Financial Sector

A. Banks

In 2016, the KDIC did not provide any funds to banks in the form of deposit insurance claim payments, equity investment, contributions, or loans from the DIF.

B. Insurance Companies

In 2016, the KDIC did not provide any funds to insurance companies in the form of deposit insurance claim payments, equity investment, contributions, or loans from the DIF.

C. Investment Companies

In 2016, the KDIC did not provide any funds to investment companies in the form of deposit insurance claim payments, equity investment, contributions, or loans from the DIF.

D. Mutual Savings Banks (Special Account)

For the 31 insolvent mutual savings banks which were suspended from operations in 2011 and afterwards, the KDIC made deposit payoffs, including interim deposit payments, from funds in the Special Account. The assistance took the form of capital contributions to make up for net asset shortages to facilitate P&As of failed mutual savings banks. Troubled assets were transferred to the KR&C in P&A transactions and the KR&C purchased the assets with loans from the KDIC.

No mutual savings bank was suspended in 2016, but the KDIC paid out KRW 700 million in outstanding deposit insurance claims to depositors of suspended mutual savings banks. The table below is a summary of the financial assistance and deposit payoffs since 2011 for insolvent mutual savings banks.

Maximization of Fund Recovery

Overview

The DIF 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

Table Ⅸ-21

Financial Assistance and Deposit Insurance Payments from the Special Account

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Bank Name	Date of Business Suspension	Payment of Deposit Insurance	Capital Contributions, Loans, etc.	Total
16 failed MSBs including Samhwa	2011	3,279.4	12,703.4	15,982.8
8 failed MSBs including Solomon	2012	345.0	8,670.6	9,015.6
5 failed MSBs including Seoul	2013	2.8	1,818.5	1,821.3
Haesol	2014	-	299.4	299.4
Golden Bridge	2015	-	52.0	52.0
Total		3,627.2	23,543.9	27,171.1

bankruptcy procedures, and recovery of loans it made to insured financial institutions.

The KDIC recovered KRW 11,870.3 billion from 2003 to 2016 including KRW 10.9 billion in the non-life insurance account, KRW 39.8 billion in the mutual savings bank account, and KRW 2,789.3 billion in the Special Account recovered in 2016 alone.

Collection of Bankruptcy Dividends and Recovery of Loans

In 2016, the KDIC collected KRW 2,829.4 billion in bankruptcy dividends through the sale of remaining assets owned by bankruptcy estates of insolvent mutual savings banks that had received public fund assistance from the DIF. From 2003 to 2016, a cumulative total of KRW 10,543.6 billion was recovered.

Table Ⅸ-22

DIF Recovery (2015 and Accumulated)

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Category		Equity Investment	Capital Contributions	Money Paid in Deposit Insurance Payments	Loans[1)]	Money Paid in Advance Dividends	Total [2)]
2016	Non-life Insurance Companies	-	10.9	-	-	-	10.9
	MSBs	-	12.3	17.2	10.3	-	39.8
	Special Account	-	2,567.7	221.2	0.4	0.1	2,789.4
	Total	-	2,590.9	238.4	10.7	0.1	2,840.1
2003 t	2016 Accumulated	594.8	8,584.9	2,013.9	577.2	99.4	118,703

Note : 1) Recovery of loan principal and interest through the KR&C
2) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was not included

Table Ⅸ-23

Collection of Bankruptcy Dividends and Loans

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Financial Sector	Collection of dividends from Estates		Collection of Loans	
	2016	2003~2016 Accumulated	2016	2003~2016 Accumulated
Non-life Insurance Companies	10.9	10.9	-	-
MSBs (Including the Special Account)	2,818.4	10,532.7	10.7	577.2

From 2003 to 2016, the KDIC offered KRW 602.7 billion in loans to the KR&C to facilitate the resolution of failed mutual savings banks, from which KRW 577.2 billion was recovered.

Recovery by the KR&C

The KR&C recovered a cumulative total of KRW 654.4 billion by the end of 2016 by various means including recovery of loans, disposal of non-performing loans, and public auctions. Of the amount, it redeemed KRW 577.2 billion to the KDIC.*

* Amount of loans from the KDIC for the purpose of resolving insolvent mutual savings banks from 2003 to 2016: KRW 602.7 billion

In 2016, the KR&C recovered KRW 33.8 billion including KRW 29.3 billion by collecting loans receivable and KRW 4.5 billion by selling real estate.

Table Ⅸ-24

Recovery from Sale of KR&C-Owned Assets

(As of the end of Dec. 31, 2016, Unit: KRW 1 billion)

Year	Asset Type	Assets Subject to Sale	Amount Recovered	Recovery Method
Amount recovered in 2016	Loans	Loans in KRW	29.3	Direct collection, debt rescheduling, etc.
		Loans in foreign currencies	-	
		Subtotal	29.3	-
	Marketable securities	Listed and unlisted stock	-	-
	Real estate and etc.	Land, etc.	4.5	Auction, etc.
	Total		33.8	-
Accumulated Amount	Loans	Loans in KRW	586.2	NPL sale, direct collection, debt rescheduling, etc
		Loans in foreign currencies	-	
		Subtotal	586.2	
	Marketable securities	Listed and unlisted stock	0.2	Auction, etc.
	Real estate and etc.	Land, etc.	68.0	Auction, etc.
	Total		654.4	-

Of the amount, it repaid KRW 10.7 billion to the KDIC.

Enhancement of the Financial Healthiness of the DIF

The new DIF was launched in 2003. The ministerial meeting for 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 improve the deposit insurance system. Thus, the KDIC commissioned research to outside research organizations and held a deposit insurance policy symposium to gather opinions from various fields. In October 2007, a private-public joint task force team was formed to identify possible improvements to the deposit insurance system including the introduction of the Target Fund System and adjustment of the premium rates. In December 2007, the National Assembly amended the Depositor Protection Act as proposed by lawmakers and thus approved the implementation of the Target Fund System starting in 2009.

Amendment of the Depositor Protection Act in February 2009 allowed the separation between accounts for life and non-life insurance companies as well as a delay in setting up reserve targets for the merchant bank account that covers only a small number of institutions. Also, amendment of the Enforcement Decree of the Depositor Protection Act in June 2009 authorized the Deposit Insurance Committee to reduce, exempt, or refund premium payments by its resolution if fund reserves reach the targeted amount.

Revision of the Depositor Protection Act in March 2011 allowed the establishment of the Special Account for Mutual Savings Bank Restructuring as the 7th account of the DIF. Based on this effort, the KDIC sought to enhance the DIF's capability to handle insolvencies and effectively carry out the resolution and restructuring of failed mutual savings banks. The Special Account is financed by a portion of insurance premiums paid by players in each area of the financial industry and recovered funds and is used to fund the resolution of mutual savings banks that became insolvent in 2011 and afterwards.

After 2012, the KDIC published a white paper on management of the Special Account pursuant to Article 24-4 of the Depositor Protection Act. It also reported the results of settlement of accounts for the Special Account for 2011 as well as its management plan for 2012 to the corresponding standing committee in the National Assembly for the purpose of increasing transparency. On three occasions in July 2012, November 2013, and October 2014, the KDIC received a combined total of KRW 250 billion in no interest loans from the government (Public Capital Management Fund, to be exact) to expand financing for, and diversify the funding sources of, the Special Account. Such endeavor helped make DIF management more healthy and reliable.

In order to repay borrowings from banks and other sources that it obtained through the Special Account, the KDIC started to issue DIF Bonds to finance the Special Account in December 2011, based on its own credit standing. However, growing demand for bond issuance resulted in an increase in commissions paid to use outside systems. In August 2012, the KDIC implemented its own electronic bidding system for bond issuance, thereby reducing the costs of funding and making financing more stable.

In 2016, conditions complicating management of the DIF persisted. With the Korean economy remaining weak, the UK deciding to withdraw from the EU, the US Federal Reserve System raising interest rates, and US President Donald Trump expected to employ expansionary fiscal policy, volatility in the financial market naturally increased. This situation underscored the importance of risk management concerning the DIF managed by the KDIC.

To preempt extreme volatility from interest rates, the KDIC exercised more flexible asset allocation and bond duration management on the basis of economic trends and market rate prospects. It sought to ensure stable yields on the DIF by eliciting assistance from market experts and more quickly updating information on the rapidly changing market conditions.

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Account Settlement for Fiscal Year 2016

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 DIF Bond Redemption Fund (Redemption Fund) pursuant to Article 24-3 (Separate Audit of Accounts) of the Depositor Protection Act.

However, the DIF and the KDIC Internal Account issue 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 Institutions and the Accounting Rules for Public Corporations and Quasi-Government Institutions.

The DIF is again divided into seven accounts based on the Depositor Protection Act: banks, financial investment traders/brokers, life insurance companies, non-life insurance companies, merchant banks, mutual savings banks, and the Special Account for Mutual Savings Bank Restructuring (Special Account). The Redemption Fund is divided into seven accounts as well: banks, financial investment traders/brokers, life insurance companies, non-life insurance companies, merchant banks, mutual savings banks, and credit unions.

The KDIC has retained the services of accounting firms to conduct independent audits since fiscal year 2002 to enhance the credibility and transparency of its financial statements. For the account settlement of 2016, the audit was conducted by Yeil Accounting Corp., and the auditor's opinion was “unqualified.”

2. Criteria for Account Settlement

The financial statements of the DIF and the KDIC Internal Account are prepared based on the Accounting Rules for Public Corporations and Quasi-Government Institutions and the financial statements of the Redemption Fund are prepared based on the Rules on Government Accounting Standards. Some of the major accounting standards are as follows:

Deposit Insurance Fund and KDIC Internal Account

Accounting for Assets and Liabilities

• Classification and Valuation of Securities

A. Acquisition Cost and Classification of Securities

The acquisition costs of securities are estimated by adding together the purchase prices and incidental costs incurred in acquiring the securities. The KDIC classifies securities as available-for-sale (AFS) financial assets, held-to-maturity (HTM) financial assets, and investments in associates, according to their nature and ownership purpose. In 2016, only the DIF held securities, all of which were categorized as AFS financial assets.

B. Valuation of Securities

The value of AFS financial assets is estimated by the fair value method. Unrealized gains/losses on AFS financial assets arising from fair value assessment are treated as accumulated other comprehensive income/losses, which are subsequently recorded as net income/losses at the time the AFS financial assets are sold or impairment losses are recognized. If it is impossible to reliably measure the fair value of non-marketable equity securities among AFS financial assets, they are evaluated at their acquisition cost.

As for HTM financial assets, the difference between their acquisition cost and maturity face value is depreciated, based on application of the effective interest method throughout the period until their redemption. Such depreciated amount is added to or deducted from acquisition cost and interest income. Investments in associates are valued by the equity method. Any change in an invested company's net asset value is directly added to or deducted from the acquisition cost in proportion to the KDIC shareholding ratio, and such amount is reflected as an increase/decrease in an asset, or credited or charged to current-term operations. In the event of an impairment of AFS or HTM financial assets, the difference between their acquisition cost (or depreciated acquisition cost) and fair value (or projected future cash flow discounted by the initial effective interest rate) is recognized as an impairment loss.

● Valuation of Loans, etc.

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

● 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 insurance event or loss in a lawsuit.

● Transferred-out Capital Budget and General Expenses of the KDIC

The DIF covers the costs incurred in the KDIC's acquisition of assets as well as its general expenses. The money used for capital expenditures of the KDIC Internal Account 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 general expenses. The costs of the operation of the KDIC such as labor costs are treated as recurring general expenses.

Accounting for Revenues and Expenses

● Revenue Recognition Criteria

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

● Accrual of Revenues and Expenses

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

(1) Deferral of Expenses: If an expense belonging to the following fiscal year is prepaid, it is booked as a 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 an unpaid expense and added to expenses. An expense whose amount had not been fixed as of the date of account settlement is not recorded.

(3) Revenue Booking: Any revenue belonging to the current fiscal year that has not been received in cash as of the date of account settlement since its due date has not arrived under a certain contract or agreement is recorded as accrued revenue and added to income.

DIF Bond Redemption Fund

Application of Government Accounting Standards

The financial statements of the Redemption Fund are prepared according to the Rules on Government Accounting Standards that came into force on January 1, 2009.

Accounting for Assets and Liabilities

● Classification and Valuation of Securities

A. Acquisition Cost and Classification of Securities

The acquisition costs of securities are calculated by adding ancillary costs to the purchase prices 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 no more 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 more than one year or to be sold after one year.

B. Valuation of Securities

Debt securities are valued at their amortized acquisition cost, while equity securities and other long- and short-term investment securities are valued at their acquisition cost. However, long- 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 an 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 is recognized as an impairment loss and reflected in the net cost for financial management. If the recoverable amount of impaired securities recovers above the initial book value , the amount of the 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.

● Valuation of Loans, etc.

A bad debt allowance is reserved by estimating expected losses from loans, account receivables, and indemnity receivables. The bad debt allowance for the indemnity receivables from bankruptcy estates is calculated by estimating losses from the receivables based on the valuation of assets held by bankruptcy estates.

● Provisions for Long-Term Liabilities

If an outflow of resources is highly likely to occur to perform obligations of the DIF as of the balance sheet date as a result of a past event or transaction, even though the timing and amount are not yet clear, and if the amount can be reliably estimated, the expected loss is appropriated to provisions for long-term liabilities.

Discount or Premium on Debentures Issued

The Redemption Fund records the difference between the issue price and the face value of the Redemption Fund Bonds as a 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.

Transferred-out Capital Budget and General Expenses of the KDIC

The Redemption Fund covers the costs associated with assets used by the KDIC and other general expenses. The money spent for capital expenditures of the KDIC Internal Account is appropriated to assets as other non-current assets, and if the asset decreases in value due to depreciation, etc., the corresponding amount is deducted from other non-current assets and added to administrative and general expenses.

The costs of the operation of the KDIC such as labor costs which are allocated to the financial policy support program are booked as total program costs and the rest as administrative and general expenses.

Accounting for Revenues and Expenses

Revenue Recognition Criteria

All 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.

Expense Recognition Criteria

Expenses are recognized when assets are reduced for the provision of goods or services and the amount can be reasonably estimated, or when obligations for expenditures exist under applicable 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 is clearly incurred or increases without an expenditure of resources, it is recognized as an expense.

3. Account Settlement Results

Integration of the Deposit Insurance Fund and KDIC Internal Account

The KDIC prepares consolidated financial statements for the DIF and the KDIC Internal Account under the Act on the Management of Public Institutions and the Accounting Rules for Public Corporations and Quasi-Government Institutions. Accordingly, though the two are separate accounting entities according to the Depositor Protection Act, internal transactions and unrealized gains (losses) between them are not included in the consolidated statements.

The financial status and profit/loss status by accounting unit are as follows:

Deposit Insurance Fund

A. Financial Status

The total assets of the DIF stood at KRW 15,220.9 billion as of the end of 2016, up 5.5% (KRW 797.5 billion) from the end of 2015. The rise is primarily attributable to an increase in surplus funds (KRW 2,238.3 billion) arising from a reduction in expenditures including interest expenses compared to income such as insurance premiums received.

Total liabilities decreased by KRW 1,619.0 billion or 8.8% in 2016 to KRW 16,812.8 billion. This is mainly ascribed to redemption of DIF Bonds to finance the Special Account totaling KRW 1,590.0 billion through collection of bankruptcy dividends, etc.

* Bankruptcy dividends (KRW 2.8 trillion), deposit insurance premiums (KRW 1.4 trillion), etc.

Total equity increased by KRW 2,416.5 billion or 60.3% to KRW (-)1,591.9 billion in 2016 as a result of a reduction in deficits stemming mainly from the net income of KRW 2,439.0 billion.

B. Profits and Losses

In 2016, net income stood at KRW 2,439.0 billion, up KRW 240.6 billion or 10.9% from 2015.

The operating profits calculated by deducting operating costs from operating revenues amounted to KRW 1,211.4 billion. The operating revenues (KRW 1,797.9 billion) are mainly comprised of insurance premium revenues (KRW 1,616.0 billion) and interest income earned from asset management (KRW 173.0 billion). The operating costs (KRW 586.5 billion) include interest expenses for borrowings (KRW 484.9 billion) and KDIC operating expenses (KRW 100.6 billion).

Non-operating profits were KRW 1,227.6 billion, mainly attributable to the reversal of allowances for doubtful accounts (KRW 1,224.0 billion) because of an increase in expected recovery of indemnity receivables.

KDIC Internal Account

A. Financial Status

Total assets stood at KRW 21.1 billion as of the end of 2016, up KRW 1.0 billion or 5.0% compared to the end of the previous year. This is mainly due to an increase in tangible assets of KRW 1.1 billion resulting from acquisition of other tangible assets including servers.

Total liabilities increased by KRW 0.1 billion or 0.4% to about KRW 27.0 billion as of the end of 2016.

Total equity stood at approximately KRW (-)5.9 billion at the end of 2016, up KRW 0.9 billion (13.2%) compared to a year ago. The KDIC has negative total equity because balance sheet liabilities soared irrespective of actual cash flows since management evaluation incentives in the amount of KRW 4.4 billion granted according to provision of services in 2016 were reflected in advance following application of international accounting standards from FY 2013 and KRW 1.5 billion in net defined benefit liabilities according to actuarial assumptions were recorded.

B. Profits and Losses

The net income, the variance between total revenues and total costs, in 2016 remained at KRW 1.3 billion.

Total revenues, at KRW 101.3 billion, consist of operating revenues of KRW 100.6 billion including revenues transferred from the DIF (KRW 100.5 billion) and other revenues (KRW 0.7 billion).

The total costs, at KRW 102.5 billion, include labor costs of KRW 61.0 billion (59.5%) and general expenses of KRW 41.5 billion (40.5%).

Redemption Fund

Financial Status

As of the end of 2016, the total assets of the Redemption Fund stood at KRW 7,015.4 billion, up KRW 459.8 billion or 7.0% from the end of the previous year. This is mostly due to an increase in surplus funds (KRW 1,628.0 billion) stemming from inflow of a part of sale proceeds regarding Woori Bank.

As of the end of 2016, total liabilities decreased by KRW 2,158.1 billion or 14.5% year-on-year to KRW 12,712.3 billion. This was mainly due to net redemption of KRW 2,160.0 billion in Redemption Fund Bonds by use of operating assets, etc.*

* Stock dividends (KRW 400.0 billion), beginning operating assets (KRW 600.0 billion), and special contributions (KRW 1,500.0 billion)

As of the end of 2016, total equity stood at KRW (-)5,696.9 billion, up KRW 2,617.9 billion or 31.5% from the end of 2015. This is primarily owing to KRW 2,111.0 billion in net income.

Profits and Losses

In 2016, the Redemption Fund's financial operation* generated a result of KRW (-)2,111.0 billion, recording a year-on-year increase of KRW 6.2 billion or 0.3%. The reduction in net income in 2016 is largely ascribed to a KRW 547 billion decline in other recovered funds including interim dividends from investee companies, despite KRW 562.1 billion in profits from partial sale of the KDIC's stake in Woori Bank.

* Financial operation result is the opposite of net income in corporate accounting. The negative result means that revenues exceeded costs.

The net program costs incurred for the operation of the financial policy support program, an essential business of the Redemption Fund, remained at KRW (-)576.5 billion. This figure was arrived at by deducting program income of KRW 1,698.3 billion from the total program costs of KRW 1,121.8 billion.

The net cost for financial management came to KRW (-)571.6 billion, which was calculated by adding KRW 3.1 billion in administrative and operating expenses and KRW 14.9 billion in non-allocated costs to, and deducting KRW 13.1 billion in non-allocated revenues from, the net program costs of KRW (-)576.5 billion. The administrative and operating expenses above refer to management expenses including labor costs and general expenses that are not allocated to program costs. Non-allocated costs and revenues are those that are not related to the program operation.

The financial operation result of KRW (-)2,111.0 billion was calculated by deducting non-exchange revenues of KRW 1,539.4 billion from the net cost for financial management of KRW (-)571.6 billion. Non-exchange revenues above are Special Contributions received that arise without any direct consideration in return.

Table Ⅹ-1

Condensed Statement of Financial Position

Current period : As of December 31, 2016
Previous period : As of December 31, 2015

(DIF and KDIC Internal Account Combined) (Unit : KRW 1 billion)

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
Current Assets	10,228.4	61,49.1	Current Liabilities	7,563.7	4,521.1
1.Cash and Cash Equivalents	1,160.2	313.7	1. Accounts and Other Payables	128.1	154.0
2. Current Financial Assets	7,987.9	4,939.0	Short-term Payables	-	2
Available-for-sale Securities	2,807.6	1,805.8	Short-term Accrued Expenses	128.1	153.8
Short-term Loans	92.4	101.2	2. Current Financial Liabilities	7,290.7	4,220.0
(Allowance for Doubtful Accounts)	(-)26.0	(-)48.3	Bonds	7,290.0	4,220.0
Short-term Financial Instruments	5,113.9	3,080.3	Discounts on Bonds Payable	0.7	-
3. Trade and Other Receivables	1,080.2	895.8	3. Current Non-financial Liabilities	143.0	145.3
Short-term Accrued Income	1,081.1	897.0	Short-term Deposits	143.0	145.3
(allowance for Doubtful Accounts)	(-)0.9	(-)1.2	4. Current Provisions	1.9	1.8
4. Current Non-financial Assets	0.1	0.6	Provisions for Employee Benefits	1.9	1.8
Short-term Advance Payments	-	0.2	Other Current Provisions	-	-
Short-term Prepaid Expenses	0.1	0.4	Non-current Liabilities	9,263.8	13,926.7
Non-current Assets	5,001.3	8,283.5	1. Non-current Financial Liabilities	9,255.0	13,916.3
1. Non-Current Financial Assets	1,904.2	3,561.4	Long-term Borrowings	250.0	250.0
Available-for-sale Securities	1,494.3	1,769.3	(Present Value Discount)	(-)67.0	(-)73.1
Long-term Loans	0.6	0.7	Government Subsidy	63.3	70.1
Long-term Financial Instruments	409.3	1,791.4	Bonds	9,010.0	13,670.0
2. Long-term Trade and other Receivables	10.7	10.1	(Discounts (Premiums) on Bonds Payable)	(-)1.3	(-)0.7
Long-term Deposits Provided	12.1	11.7	2. Non-current Non-financial Liabilities	7.4	7.4
(Present Value Discount)	(-)1.4	(-)1.6	Other Non-current Non-financial Liabilities	7.4	7.4
3. Tangible Assets	6.4	5.2	3. Employee Benefit Liabilities	1.4	2.8
Lands	0.1	0.1	Net Defined Benefit Liabilities and etc.	1.4	2.8
Buildings	1.5	1.5	4. Non-current Provisions	-	0.2
Structures	0.9	0.9	Total Liabilities	16,827.5	18,447.8
Other Tangible Assets	27.2	23.0			
(Accumulated Depreciation)	(-)23.3	(-)20.3			
4. Intangible Assets Other than Goodwill	0.6	0.6	Deficit	(-)1,593.5	(-)4,033.4
Other Intangible Assets	0.6	0.6	Current Period: (+) 24,377		
5. Non-current Non-financial Assets	3,079.4	4,706.2	Precious Period: (+) 21,983		
Long-term Advanced Payment	1.3	1.4	Elements of Other Equity	(-)4.3	18.2
Long-term Indemnity Receivables	18,546.3	22,007.6	Accumulated Other Comprehensive Income (Loss)	(-)4.3	18.2
(Allowance for Doubtful Accounts)	(-)15,468.2	(-)1,7302.8	Total Equity	(-)1,597.8	(-)4,015.2
Total Assets	15,229.7	14,432.6	Total Liabilities and Equity	15,229.7	14,432.6

Table Ⅹ-2

Condensed Income Statement

Current period : For the year ended December 31, 2016
Previous period : For the year ended December 31, 2015

(DIF and KDIC Internal Account Combined) (Unit : KRW 1 billion)

Categories	Current Period	Previous Period
Income from Operations (A=B–C)	1,209.7	940.1
Operating Revenues (B)	1,801.3	1,666.2
Premium Revenues	1,616.0	1,457.0
Interest Revenues	173.0	195.0
Transfer Income	8.9	6.9
Other Income	3.4	7.3
Operating Expenses (C)	591.6	726.1
Interest Expenses	484.9	624.7
Personnel Expenses	61.0	59.3
General Expenses	42.0	39.9
Others	3.7	2.2
Other Gains and Losses (D)	1,228.0	1,258.2
Ner Reversal of (Transfer to) Other Provisions	0.1	16.6
Net Reversal of (Transfer to) Allowance for Doubtful Accounts	1,224.1	1,239.2
Others	3.8	2.4
Financial Gains and Losses (E)	-	-
Gains on Disposal of Financial Assets	-	-
Net Profit of Loss for Current Period (F=A+D+E)	2,437.7	2,198.3
Other Comprehensive Income (G)	(-)20.3	(-)8.3
Total Comprehensive Income (H=F+G)	2,417.4	2,190.0

Table Ⅹ-3

Condensed Statement of Financial Position

Current period : As of December 31, 2016
Previous period : As of December 31, 2015

(DIF) (Unit : KRW 1 billion)

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
Current Assets	10,226.8	6,147.1	Current Liabilities	7,557.9	4,515.3
1. Cash and Cash Equivalents	1,158.7	312.4	1. Accounts and Other Payables	125.1	150.9
2. Current Financial Assets	7,987.9	4,939.0	Short-term Accrued Expenses	125.1	150.9
Available-for-sale Securities	2,807.6	1,805.8	2. Current Financial Liabilities	7,290.7	4,220.0
Short-term Loans	92.4	101.2	Bonds	7,290.0	4,220.0
(Allowance for Doubtful Accounts)	(-)26.0	(-)48.3	Discounts on Bonds Payable	0.7	-
Short-term Financial Instruments	5,113.9	3,080.3	3. Current Non-financial Liabilities	142.1	144.4
3. Trade and Other Receivables	1,080.2	895.7	Short-term Deposits	142.1	144.4
Short-term Accrued Income	1,081.1	896.9	Non-current Liabilities	9,254.9	13,916.5
(Allowance for Doubtful Accounts)	(-)0.9	(-)1.2	1. Non-current Financial Liabilities	9,254.9	13,916.3
Non-current Assets	4,994.1	8,276.3	Long-term Borrowings	250.0	250.0
1. Non-current Financial Assets	1,903.6	3,560.6	(Present Value Discount)	(-)67.0	(-)73.1
Non-Current Available-for-Sale Financial Assets	1,494.3	1,769.2	Government Subsidy	63.2	70.1
Long-term Financial Instruments	409.3	1,791.4	Bonds	9,010.0	13,670.0
2. Non-current Non-financial Assets	3,090.5	4,715.7	(Discounts (Premiums) on Bonds Payable)	(-)1.3	(-)0.7
Long-term Indemnity Receivables	18,546.3	22,007.6	2. Non-current Provisions	-	0.2
(Allowance for Doubtful Accounts)	(-)15,468.1	(-)17,302.8	Long-term Litigation Provisions	-	0.2
Other Non-current Non-financial Assets	12.3	10.9	Total Liabilities	16,812.8	18431.8
			Deficit	(-)1,587.6	(-)4,026.6
			Current Period: (+) 24,390		
			Previous Period: (+) 21,984		
			Elements of Other Equity	(-)4.3	18.2
			Accumulated Other Comprehensive Income (Loss)	(-)4.3	18.2
			Total Equity	(-)1,591.9	(-)4,008.4
Total Assets	15,220.9	14,423.4	Total Liabilities and Equity	15,220.9	14,423.4

Table Ⅹ-4

Condensed Income Statement

Current period : For the year ended December 31, 2016
Previous period : For the year ended December 31, 2015

(DIF) (Unit : KRW 1 billion)

Categories	Current Period	Previous Period
Income from Operations (A=B.C)	1,211.4	940.4
Operating Revenues (B)	1,797.9	1,658.9
Premium Revenues	1,616.0	1,457.0
Interest Revenues	173.0	195.0
Transfer Income	8.9	6.9
Operating Expenses (C)	586.5	718.5
Interest Expenses	484.9	624.7
Operating Expenses and etc.	101.6	93.8
Other Gains and Losses (D)	1,227.6	1,258.0
Net Reversal of (Transfer to) Other Provisions	0.2	16.7
Net Reversal of (Transfer to) Allowance for Doubtful Accounts	1,224.0	1,239.2
Others	3.4	2.1
Financial Gains and Losses (E)	-	-
Net Profit of Loss for Current Period (F=A+D+E)	2,439.0	2,198.4
Other Comprehensive Income (G)	(-)22.5	(-)6.9
Total Comprehensive Income (H=F+G)	2,416.5	2,191.5

Table Ⅹ-5

Condensed Statement of Financial Position

Current period : As of December 31, 2016
Previous period : As of December 31, 2015

(KDIC Internal Account Combined) (Unit : KRW 1 billion)

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
Current Assets	1.5	2.0	Current Liabilities	5.8	5.8
1. Cash and Cash Equivalents	1.4	1.4	1. Accounts and Other Payables	3.0	3.1
2. Current Non-financial Assets	0.1	0.6	Short-term Payables	-	0.2
Short-term Prepaid Expenses and etc.	0.1	0.6	Short-term Accrued Expenses	3.0	2.9
Non-current Assets	19.6	18.1	2. Current Non-financial Liabilities	0.9	0.9
1. Non-current Financial Assets	0.6	0.7	Short-term Deposits	0.9	0.9
Long-term Loans	0.6	0.7	3. Current Provisions	1.9	1.8
2. Long-term Trade and Other Receivables	10.7	10.1	Management Assessment Incentive Liabilities	1.9	1.8
Long-term Deposits Provided	12.1	11.6	Non-current Liabilities	21.2	21.1
(Present Value Discount)	(-)1.4	(-)1.5	1. Non-current Non-financial Liabilities	19.7	18.3
3. Tangible Assets	6.4	5.3	Other Non-current Non-financial Liabilities	19.7	18.3
Lands	0.1	0.1	2. Employee Benefit Liabilities	1.5	2.8
Buildings	1.5	1.5	Net Defined Benefit Liabilities and etc.	1.5	2.8
Structures	0.9	0.9	Total Liabilities	27.0	26.9
Other Tangible Assets	27.2	23.0			
(Accumulated depreciation)	(-)23.3	(-)20.2			
4. Intangible Assets Other than Goodwill	0.6	0.6	Deficit	(-)5.9	(-)6.8
Other Intangible Assets	0.6	0.6	Current Period: (-) 13		
5. Non-current Non-financial Assets	1.3	1.4	Previous Period: (-) 1		
Long-term Advanced Payment	1.3	1.4	Total Equity	(-)5.9	(-)6.8
Total Assets	21.1	20.1	Total Liabilities and Equity	21.1	20.1

Table Ⅹ-6

Condensed Income Statement

Current period : For the year ended December 31, 2016
Previous period : For the year ended December 31, 2015

(KDIC Internal Account Combined) (Unit : KRW 1 billion)

Categories	Current Period	Previous Period
Income from Operations (A=B.C)	(-)1.9	(-)0.5
Operating Revenues (B)	100.6	97.8
Interest Revenues	0.1	0.1
Revenues of Funds Transfer	100.5	97.7
Operating Expenses (C)	102.5	98.3
Personnel Expenses	61.0	59.3
General Expenses	41.5	39.0
Other Gains and Losses (D)	0.6	0.4
Net Reversal of Other Provisions	(-)0.1	-
Government Grants Received	0.1	0.1
Others	0.6	0.3
Net Profit of Loss for Current Period (F=A+D+E)	(-)1.3	(-)0.1
Other Comprehensive Income (G)	2.2	(-)1.5
Total Comprehensive Income (H=F+G)	0.9	(-)1.6

Table Ⅹ-7

Condensed Statement of Financial Position

Current period : As of December 31, 2016
Previous period : As of December 31, 2015

(DIF Bond Redemption Fund)　　　　　　　　　　　　　　　　　　　　(Unit : KRW 1 billion)

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
Current Assets	2,534.3	1,232.5	Current Liabilities	4,555.1	4,287.6
1. Cash and Cash Equivalents	1,226.6	825.9	1. Current Portion of Long-term Liabilities	4,393.1	4,131.3
2. Short-term Financial Instruments	1,297.3	-	2. Other Current Liabilities	162.0	156.3
3. Short-term Investment Securities	-	70.0			
4. Outstanding Bonds	1,106.5	1,104.1			
(Allowance for Doubtful Accounts)	(-)1,102.8	(-)1,102.8	Long-term Borrowing Liabilities	8,157.2	10,582.8
5. Short-term Loans	11.3	14,292.7	1. Public Bonds	8,157.2	10,582.8
(Allowance for Doubtful Accounts)	(-)4.6	(-)13,957.4			
			Total Liabilities	12,712.3	14,870.4
Investment Assets	4,473.7	5,315.7			
1. Long-term Loans	14,292.9	22.6			
(Allowance for Doubtful Accounts)	(-)13,992.5	(-)9.2			
2. Long-term Investment Securities	4,173.3	5,302.3			
			Net Asset		
Other Non-current Assets	7.4	7.4	1. Net Asset	52,306.4	52,306.4
1. Long-term Notes Receivables	0.1	0.1	2. Reserves and Surplus	(-)58,826.8	(-)60,937.8
(Allowance for Doubtful Accounts)	(-)0.1	(-)0.1	3. Net Asset Adjustment	823.5	316.6
2. Long-term Indemnity Receivables, etc.	8.5	8.5			
(Allowance for Doubtful Accounts)	(-)1.1	(-)1.1	Total Net Asset	(-)5,696.9	(-)8,314.8
Total Assets	7,015.4	6,555.6	Total Liabilities and Net Asset	7,015.4	6,555.6

Table Ⅹ-8

Condensed Financial Operating Statement

Current period : For the year ended December 31, 2016
Previous period : For the year ended December 31, 2015

(DIF Bond Redemption Fund) (Unit : KRW 1 billion)

Categories	Current Period			Previous Period		
	Total Cost	Profit	Net Cost	Total Cost	Profit	Net Cost
Ⅰ. Program Net Cost	1,121.8	1,698.3	(-)576.5	594.9	1,268.4	(-)673.5
1. Financial Policy Support	1,121.8	1,698.3	(-)576.5	594.9	1,268.4	(-)673.5
Loss on Disposal of Long-term Investment Securities	687.5			-		
Payment Fees	4.9			0.9		
Allowance for Doubtful Accounts	38.1			43.7		
Interest Expense on Public Bonds and etc.	391.3			550.3		
Gains on Disposal of Long-term Investment Securities		1,249.6			241.2	
Gains on Disposal of Other Investment Securities		0.6			.3	
Interest Income from Loans to Non-Government Organizations		60.3			183.4	
Reversal of Impairment Loss on Investment Securities		15.0			49.7	
Reversal of Allowances for Doubtful Accounts		7.6			5.0	
Dividend Income		365.2			774.7	
Miscellaneous Revenue		-			14.1	
Ⅱ. Management and Administrative Expenses			3.1			6.5
1. Commissions Paid			3.1			6.5
Ⅲ. Non-Allocated Costs			14.9			-
1. Valuation Loses			14.9			6.5
Ⅳ. Non-Allocated Revenues			13.1			43.4
1. Interest Income			9.1			28.8
2. Valuation Gains			-			14.6
3. Other Income			4.0			-
Ⅴ. Net Cost for Financial Operation (Ⅰ + Ⅱ + Ⅲ − Ⅳ)			(-)571.6			(-)710.4
Ⅵ. Non-Exchange Revenues			1,539.4			1,406.8
1. Revenues from Contributions			1,539.4			1,406.8
Ⅶ. Financial Operation Result (Ⅴ − Ⅵ)			(-)2,111.0			(-)2,117.2

Appendix

1. Overview of the Deposit Insurance System

Significance of the Deposit Insurance System

The deposit insurance system protects depositors and stabilizes financial markets by reimbursing depositors or providing financial assistance in a timely manner 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 during normal times.

Insured Financial Institutions

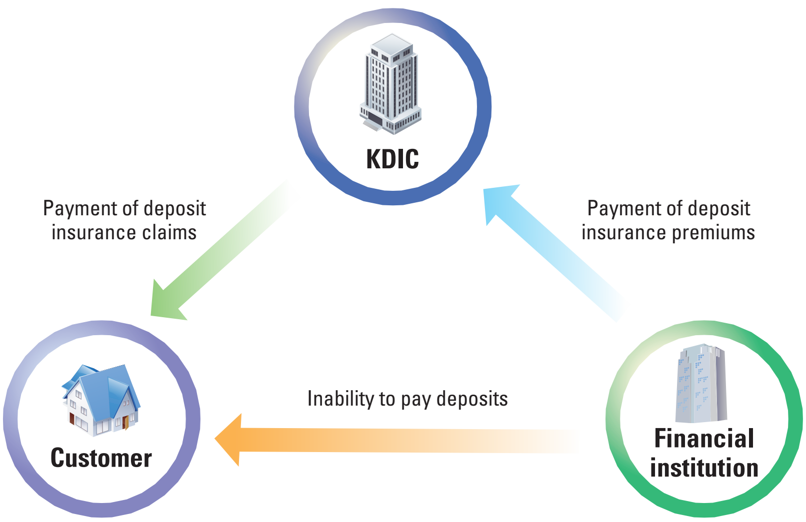
Insured financial institutions are those that are required to join the deposit insurance system under the Depositor Protection Act. They include banks, financial investment traders/brokers, insurance companies, merchant banks, and mutual savings banks. In Korea, deposit insurance membership is compulsory for individual companies in the corresponding areas of the financial industry. “Banks” include banks licensed under the Banking Act such as commercial banks and regional banks, in addition to domestic branches of international banks and special-purpose banks except the Export-Import Bank of Korea. They also include the National Federation of Agricultural Cooperatives under the Agricultural Cooperatives Act and the National Federation of Fisheries Cooperatives under the Fisheries Cooperatives Act.

“Investment traders/brokers” are any investment traders and brokers including domestic offices of international investment firms authorized to engage in the securities investment trading and brokerage business. All "insurance companies" except reinsurance firms are included from the scope of insured financial institutions.

“Merchant banks” and “mutual savings banks” licensed under relevant laws are also insured by the KDIC.

Figure Appendix - 1

Structure of Deposit Insurance



Insured Financial Products

Insured financial products are deposits that are guaranteed by the KDIC in case they cannot repay depositors for reasons such as bankruptcy.

The scope of KDIC coverage is defined in Article 2 of the Depositor Protection Act and Article 3 of its Enforcement Decree.

Table Appendix - 1

Insured and Uninsured Financial Products

(As of Dec. 31, 2016)

Financial Sector	Insured Financial Products	Uninsured Financial Products
Banks	• Demand deposits (e.g. ordinary deposits, corporate deposits, temporary deposits, checking deposits) • Savings deposits (term deposits, time and savings deposits, housing subscription deposits, and issued notes) • Installment deposits (e.g. installment savings deposits, installment savings for housing, and mutual installment deposits • Foreign currency deposits • Money trusts with principal guarantees • Financial products subject to deposit protection which are incorporated into individual savings accounts (ISAs) • Deposits in defined contribution retirement pension accounts or individual retirement accounts that are invested in KDIC-insured products	• Certificates of Deposits (CD), Repurchase agreements (RP) • Financial investment products (e.g. beneficiary certificates, mutual funds, money market funds (MMF)) • Real fiduciary accounts (e.g. money market trust) • Bank-issued bonds • Some types of housing subscription deposits
Investment Traders and Brokers	• Money that remains in cash in customer accounts which has not been used to purchase securities, etc. • Cash balance from deposits for stock margin loans (proprietary), deposits for opening a margin account and deposits for margin loans • Deposits in defined contribution retirement pension accounts or individual retirement accounts that are invested in KDIC-insured products • Financial products subject to deposit protection which are incorporated into individual savings accounts (ISAs) • Money trusts with principal guarantees • Cash deposits with securities finance companies made under Article 330(1) of the Financial Investment Services and Capital Markets Act	• 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. • Deposits for gold transactions in kind, etc.
Insurance Companies	• IIndividual policies • Retirement insurance • Special policy conditions for variable insurance contracts • Guaranteed minimums for variable insurance contracts such as guaranteed minimum death benefits, guaranteed minimum accumulation benefits, guaranteed minimum withdrawal benefits, and guaranteed lifetime withdrawal benefits • Deposits in defined contribution retirement pension accounts or individual retirement accounts that are invested in KDIC-insured products • Financial products subject to deposit protection which are incorporated into individual savings accounts (ISAs) • 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 (excluding guaranteed minimums such as guaranteed minimum death benefits, guaranteed minimum accumulation benefits, guaranteed minimum withdrawal benefits, and guaranteed lifetime withdrawal benefits), etc.
Merchant Banks	• 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, et
Mutual Savings Banks	• Ordinary deposits, savings deposits, term deposits, term installment savings, mutual installment deposits, notes issued, etc. • Cashier's checks issued by the Korea Federation of Savings Banks, etc.	• Bonds issued by savings banks (subordinated bonds), etc.

* Deposits of the central and local governments (including national and public schools), the Bank of Korea, FSS, KDIC and insured financial institutions are excluded from the scope of protection

Coverage Limit

When the KDIC was launched in 1996, the coverage was up to KRW 20 million per depositor. However, as financial markets became unstable and systemic risk started to manifest itself across the economic system in the wake of the Asian financial crisis in 1997, deposit insurance coverage was temporarily expanded to cover both principal and interest in full with the revision of the Enforcement Decree of the Depositor Protection Act in December 1997. Financial restructuring served to ease the turmoil in the financial market somewhat, but moral hazard ran rampant among depositors and financial institutions as a result of the adoption of blanket coverage. In response, the Enforcement Decree was revised again in July 1998 and limited coverage was re-introduced. Under the revision, if principal (or insurance premiums paid in the case of policyholders) was no more than KRW 20 million, principal and designated interest* were guaranteed up to KRW 20 million. If principal (or insurance premiums paid in the case of policyholders) exceeded KRW 20 million, only principal was protected.

* The lesser amount between the interest rate publicly announced by the KDIC (average of the base rates applicable to one-year term deposits (monthly interest payment) of 11 nationwide commercial banks) and the contractual interest rate (interest rate after maturity if the deposit has already reached maturity)

The Enforcement Decree of the Depositor Protection Act was revised in October 2000 to raise the coverage limit to KRW 50 million in an effort to ensure sustainable stability in the financial market.

Since January 1, 2001, the KDIC has insured up to KRW 50 million per depositor including principal and designated interest in the event of the failure of a bank, financial investment trader/broker, merchant bank or a mutual savings bank. For insurance companies, up to KRW 50 million for both surrender value (or insurance payout at maturity) and other payments are covered.

Starting in June 2009, the KDIC protected reserves for DC (defined contribution) pension and IRP (individual retirement pension) plans invested in financial products eligible for deposit protection (bank deposits, interest rate sensitive or guaranteed interest insurance products, etc.) in accordance with the Guarantee of Workers' Retirement Benefits Act.

If a depositor had other insured deposits at an insured financial institution in addition to such protected reserves, however, a combined deposit protection limit of KRW 50 million applied. This raised the need to adjust the protection limit in a way that better safeguards the rights of subscribers to retirement

Table Appendix - 2

Coverage Limit

Period	Coverage Limit
Jan. 1, 1997 ~ Nov. 18, 1997	• KRW 20 million per person
Nov. 19, 1997 ~ Jul. 31, 1998	• Blanket guarantee for principal and interest
Aug. 1, 1998 ~ Dec. 31, 2000	• Subscribed before Aug. 1, 1998: Blanket guarantee • Subscribed on or after Aug. 1, 1998: • Principal exceeding KRW 20 million: Principal only • Principal of up to KRW 20 million: Up to KRW 20 million including principal and designated interest
Jan. 1, 2001 ~ Feb. 25, 2015	• KRW 50 million per person (Blanket guarantee for bank demand deposits made by December 31, 2003)
Feb. 26, 2015 ~ Present	• KRW 50 million per person (Reserves for DC and IRP plans* managed as financial instruments eligible for deposit protection: KRW 50 million separately) * Including retirement insurance and retirement lump-sum payment trust

pension plans. The Enforcement Decree of the Depositor Protection Act revised in February 2015 applies a separate protection limit of KRW 50 million respectively to each depositor's protected ordinary financial products and reserves for retirement pension plans.

2. Independent Evaluation

Management Evaluation of Public Institutions

In March 2016, the KDIC submitted its managerial performance report for 2015 to the Minister of Strategy and Finance under Article 47 of the Act on the Management of Public Institutions. Based on the report, a team organized by the Minister of Strategy and Finance evaluated the performance of the KDIC.

In its announcement in June 2016, the evaluation team gave the KDIC an "A" grade for 2015's performance of the KDIC and its Chairman & President.

Fund Management Evaluation

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

The KDIC prepared a fund management performance report (asset management) for the DIF Bond Redemption Fund in 2015 and submitted it to the Fund Management Evaluation Committee in February 2016. The Committee made available the evaluation results in May 2016 after conducting due diligence and opinion gathering.

According to the fund management evaluation (asset management) results for 2015, the Redemption Fund gained the rating of “excellent.” This attests to the fact that the KDIC has the strongest fund management ability among finance-oriented funds.

Anti-Corruption Policy Evaluation and Integrity Assessment for Public Institutions

The KDIC subjected itself to integrity assessment and anti-corruption policy evaluation by the Anti-Corruption and Civil Rights Commission in compliance with the Act on the Prevention of Corruption and the Establishment and Management of the Anti-Corruption and Civil Rights Commission. The assessment and evaluation were intended to measure the integrity of public institutions and encourage them to address all known risks of corruption.

The KDIC was rated grade 2 (good) in the anti-corruption policy evaluation in 2016. It has achieved grade 2 or higher every year since 2010.

In a public institution integrity survey for 2016 targeting its own employees and customers, the KDIC obtained grade 2 (14th out of 42 type-III public institutions) with a score of 8.45 (overall integrity level). It has earned grade 2 for seven consecutive years since 2010.

3. Summary of Major Events in 2016

Date	Major Events
Jan. 12	• Opened the KDIC Public Auction Information system
Mar. 17	• Entered into an MOU on joint social contribution with the Korea Trade Insurance Corporation, the Korea Broadcast Advertising Corp., and the National Information Society Agency
Mar. 30	• Recovered KRW 23.8 billion in regular dividends from Hanwha Life Insurance
Mar. 30	• Recovered KRW 11.26 billion in loans from Daewon Savings Bank
Apr. 5	• Concluded an MOU with the Thai Deposit Protection Agency
Apr. 15	• Recovered KRW 86.3 billion in regular dividends from Woori Bank
Apr. 29	• Recovered KRW 255.1 billion in regular dividends from Seoul Guarantee Insurance
Jun. 1	• Held a ceremony and published a new CI to mark its 20th anniversary
Jun. 23	• Implemented the explanation and confirmation scheme concerning deposit insurance coverage
Jul. 7	• Hosted an international conference commemorating its 20th anniversary
Jul. 7	• Received a prime minister's citation for promotion of urban-rural exchange from the Ministry of Agriculture, Food and Rural Affairs
Sep. 6	• Opened the SHARE-3.0 system, an information portal on mutual savings banks
Sep 29	• Conducted on-site examination of compliance with the explanation and confirmation scheme regarding deposit insurance coverage
Oct. 19	• Overhauled the risk-based premium system
Oct. 21	• Received a president's citation for contribution to revitalizing traditional markets from the Small and Medium Business Administration
Oct. 23~28	• Held the 15th IADI Annual General Meeting and Annual Conference
Oct. 27	• Received a prime minister's citation under the Korea Sharing Awards hosted by the Ministry of Health & Welfare and KBS
Dec. 1	• Concluded the Stock Purchase Agreement with investors forming an oligopoly of shareholders in Woori Bank
Dec. 16	• Terminated the MOU on business normalization of Woori Bank
Dec. 31	• Recovered KRW 2,227.8 billion* by selling off a 27.7% stake in Woori Bank to investors forming an oligopoly of shareholders * Excluding 2% scheduled to be closed at the end of January 2017 by certain oligopolistic shareholder (IMM PE) (KRW 2,361.6 billion to be recovered by means of sale of a 29.7% stake upon closing of the sale at the end of January 2017)

4. Statistics

Insured Financial Institutions[1)]

(As of Dec.31, 2016, Unit: No. of financial institutions)

Financial Sector	2012	2013	2014	2015	2016
Banks	56	57	56	58	60
Domestic	(17)	(17)	(17)	(16)	(17)
Foreign	(39)	(40)	(39)	(42)	(43)
Investment Companies[2)]	116	117	116	114	104
Insurance Companies	46	48	48	48	47
Life	(24)	(25)	(25)	(25)	(25)
Non-life	(22)	(23)	(23)	(23)	(22)
Merchant Banks	1	1	1	1	1
MSBs[3)]	102	92	81	80	80
Total	321	315	302	301	292

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/brokers authorized to engage in financial investment trading/brokerage regarding securities according to Article 12 of the Financial Investment Services and Capital Markets Act
3) Including the Korea Federation of Savings Banks

Insurable Deposits by Financial Sector[1)]

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Financial Sector	2015 (A)	2016 (B)	Change(B-A)
Banks	1,064,799.0	1,140,810.8	76,011.8
Investment Companies	25,564.8	26,745.4	1,180.6
Insurance Companies	624,264.2	687,099.4	62,835.2
Life	(486,710.2)	(531,825.3)	(45,115.1)
Non-life	(137,554.0)	(155,274.1)	(17,720.1)
Merchant Banks	890.6	1,172.5	281.9
MSBs	36,818.0	44,409.8	7,591.8
Total	1,752,336.6	1,900,237.9	147,901.3

Note : 1) The term "insurable deposits" refers to (balance) amounts in depository products sold by financial institutions and protected by the KDIC under Article 2 of the DPA. It does not include deposits made by the central government, local governments or KDIC-insured institutions as determined under Article 3 of the Enforcement Decree of the DPA.

DIF Bond Redemption Fund Revenues

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Financial Sector	Insurance Premium revenue Prior to Creation of DIF Bond Redemption Fund[2]			Special Assessments Paid by Insured FIs to the DIF Bond Redemption Fund						
	Before 1998[1]	1999 ~2002	Total	2003 ~2011	2012	2013	2014	2015	2016	Total
Banks	161.3	1,310.5	1,471.8	5,015.7	851.8	897.3	959.0	978.6	1,066.4	9,768.9
Investment Companies	-	68.7	68.7	157.1	22.6	20.2	20.0	17.9	24.0	261.9
Insurance Companies	232.2	823.7	1,055.9	1,402.6	235.2	300.4	317.6	351.3	383.6	2,990.5
Life	180.0	664.6	844.6	1,133.9	176.0	229.7	238.6	261.7	283.5	2,323.3
Non-Life	52.2	159.1	211.3	268.7	59.2	70.7	79.0	89.6	100.1	667.2
Merchant Banks	98.0	83.8	181.8	9.4	1.0	0.9	0.7	0.7	0.8	13.4
MSBs	240.7	183.3	424.0	412.2	52.1	39.4	32.3	30.8	34.8	601.6
Credit Unions	40.2	149.1	189.3	97.3	22.8	24.8	26.3	27.5	29.9	228.5
Total	772.4	2,619.1	3,391.5	7,094.2	1,185.5	1,283.0	1,356.0	1,406.8	1,923.1	13,864.9

Note : 1) The insurance premium revenue for 1998 is inclusive of the applicable funds transferred from the Insurance Supervisory Board, Credit Management Fund, and 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 after the revision of related laws in 2002.

DIF Premium Revenues

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Financial Sector	2003~2011[1]	2012[5]	2013[5]	2014[5]	2015[5]	2016[5]	Total
Banks	4,496.3	374.8	394.8	419.7	436.9	467.5	6,589.9
Investment Companies	265.5	0.2	-	-	-	-	265.8
Insurance Companies	3,510.3	8.6	70.9	125.6	199.0	266.2	4,180.5
Life	2,853.9	-1.4[3]	22.1	81.1	128.0	185.7	3,269.3
Non-Life	656.4	10.0	48.8	44.5	71.0	80.6	911.1
Merchant Banks	25.1	0.8	0.8	0.6	0.4	0.7	28.3
MSBs	1,293.1	134.5	25.3	25.6	6.4	29.6	1,514.6
Special Account[2]	174.2	581.6	667.2	615.8	712.0	682.3	3,433.2
Total[4]	9,764.5	1,100.4	1,159.0	1,187.2	1,354.7	1,446.3	16,012.3

Note : 1) Insurance premiums paid until 2002 were transferred to the Redemption Fund after the revision of relevant laws.
2) Establishment of the Special Account for Mutual Savings Bank Restructuring in April 2011 (to be maintained until the end of 2026)
3) Refund of deposit insurance premiums paid before 2012
4) The credit union account of the DIF which was transferred to the National Credit Union Federation of Korea as of January 1, 2010 is excluded.
5) Insurance premium reductions under the target fund system: exemption for financial investment companies and life insurance companies and 15% reduction for non-life insurance companies in 2012; exemption for financial investment companies, 45% reduction for life insurance companies, and 7% reduction for non-life insurance companies in 2013; exemption for financial investment companies, 38% reduction for life insurance companies, and 1% reduction for non-life insurance companies in 2014; exemption for financial investment companies and 17% reduction for life insurance companies in 2015; exemption for financial investment companies and 5% reduction for life insurance companies in 2016.

DIF Bonds Issued

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Financial Sector	1998	1999	2000	2001	2002	Total
Banks	12,065.0	15,859.1	6,030.7	7,761.7	3,660.0	45,376.5
Investment Companies	16.0	0.3	-	3,218.5	-	3,234.8
Insurance Companies	1,153.4	4,210.0	1,000.0	9,208.9	-	15,572.3
Life	1,153.4	4,142.2	-	2,412.0	-	7,707.6
Non-Life	-	67.8	1,000.0	6,796.9	-	7,864.7
Merchant Banks	6,512.0	-	1,260.0	7,334.4	-	15,106.4
MSBs	991.7	1,597.7	650.0	3,333.1	-	6,572.5
Credit Unions	276.9	817.8	-	202.7	-	1,297.4
Total	21,015.0	22,484.9	8,940.7	31,059.3	3,660.0	87,159.9[1]

Note : 1) Cumulative issue amount that includes conversion issuance

Financial Assistance from the DIF Bond Redemption Fund

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Financial Sector	Equity Investment	Contributions	Deposit Payoffs[1]	Asset Purchase[1]	Loans	Total
Banks	22,203.9	13,920.0	-	8,106.4	-	44,230.3
Investment Companies	9,976.9	414.3	11.3	2,123.9	-	12,526.4
Insurance Companies	15,919.8	3,119.2	-	349.5	-	19,388.5
Life	5,669.7	2,751.9	-	349.5	-	8,771.1
Non-Life	10,250.1	367.3	-	-	-	10,617.4
Merchant Banks	2,693.1	743.1	18,271.8	-	-	21,708.0
MSBs	0.1	416.1	7,289.2	-	596.9	8,302.3
Credit Unions	-	-	4,740.2	-	-	4,740.2
Total	50,793.7	18,612.8	30,312.4	10,579.9	596.9	110,895.6

Note : 1) Including financial assistance provided through resolution financial institutions

Details of Financial Assistance from the DIF Bond Redemption Fund

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Injection Type & Recipient Institutions		Amount Provided
Equity Investment	Seoul Bank	4,680.9
	Korea First Bank	5,024.8
	Hanvit Bank	6,028.6
	Five acquiring banks including Kookmin Bank	1,192.3
	Hana Bank (Merger of Hana Bank and Boram Bank)	329.5
	Chohung Bank	2,717.9
	Peace Bank	493.0
	Kyungnam Bank	259.0
	Kwangju Bank	170.4
	Jeju Bank	53.1
	National Federation of Fisheries Cooperatives	1,158.1
	National Agricultural Cooperative Federation	96.2
	Hanareum Banking Corporation	30.0
	Hanaro Merchant Bank	2,491.2
	Hans, Korea, Joongang Merchant Bank	0.2
	Youngnam Merchant Bank	171.7
	Hanareum MSB	0.1
	Seoul Guarantee Insurance Corporation	10,250.0
	Korea Life Insurance	3,550.0
	Kookmin, Taepyongyang, Doowon, Dong-A, Handuck, Chosun Life Insurance	2,119.7
	Korea Investment Trust Management & Securities	5,164.9
	Daehan Investment Trust Securities	2,900.3
	KR&C	0.1
	Daehan, Kookje Fire Insurance 0.1	0.1
	Hyundai Investment & Securities	1,911.6
	Sub-total	**50,793.7**
Contribution	Kookmin, Housing & Commercial, Shinhan, Hana, Koram Bank (five acquiring banks)	9,711.3
	Hanvit, Kyungnam, Gwangju, Peace, Seoul, Jeju Bank	2,968.8
	National Agricultural Cooperative Federation	87.0
	Samsung, Heungkuk, Kyobo, Allianz Life four acquiring insurance companies)	1,164.1
	Korea First Bank (KFB)	1,152.8
	Korea, Hyundai, Kumho, Tongyang, SK Life	1,422.0
	Financial companies including Boomin MSB	416.1
	Daehan Fire	50.9
	Woori (Former Hanaro Merchant Bank) Merchant Bank	743.1
	Kookje Fire	73.9
	Tongyang, Samsung, Hyundai, LG, Dongbu Fire	242.5
	Green Cross (Daishin) Life	139.3
	KB (Hanil) Life	26.5
	Korea Investment Trust Management & Securities	78.4
	Daehan Investment Trust Securities	63.0
	Hyundai Investment & Securities	273.0
	Sub-total	**18,612.8**

<table>
<tr><th colspan="3">Injection Type & Recipient Institutions</th><th>Amount Provided</th></tr>
<tr><td rowspan="7">Deposit Payoffs</td><td rowspan="4">Deposit Payoffs</td><td>Credit Unions</td><td>4,740.2</td></tr>
<tr><td>Financial Investment Companies (4 companies)</td><td>11.3</td></tr>
<tr><td>MSBs</td><td>1,233.5</td></tr>
<tr><td>Youngnam, Hansol, Korea Merchant Bank</td><td>0.1</td></tr>
<tr><td rowspan="2">Payment through Resolution Financial Institutions</td><td>Hanareum Banking Corporation(in resolving 18 merchant banks)</td><td>18,271.7</td></tr>
<tr><td>Hanareum MSB (in resolving 59 MSBs)</td><td>6,055.7</td></tr>
<tr><td></td><td>Sub-total</td><td>30,312.4</td></tr>
<tr><td rowspan="10">Asset Purchase</td><td rowspan="3">Direct Purchase</td><td>Korea First Bank (BW)</td><td>24.9</td></tr>
<tr><td>Korea First Bank (Shares of KFB's Vietnam and New York subsidiaries)</td><td>16.5</td></tr>
<tr><td>Hyundai Investment & Securities(Shares of Hyundai Autonet, etc.)</td><td>857.0</td></tr>
<tr><td rowspan="6">Indirect Purchase by Lending Money to the RFC</td><td>Five acquiring banks including Kookmin Bank (KB)</td><td>158.8</td></tr>
<tr><td>Korea First Bank</td><td>7,906.3</td></tr>
<tr><td>Dong-A, Kookmin, Taepyongyang, Daehan, SK Life</td><td>349.5</td></tr>
<tr><td>Korea Investment Trust Management & Securities</td><td>483.0</td></tr>
<tr><td>Daehan Investment Trust Securities</td><td>653.9</td></tr>
<tr><td>Hyundai Investment & Securities</td><td>130.0</td></tr>
<tr><td></td><td>Sub-total</td><td>10,579.9</td></tr>
<tr><td colspan="2" rowspan="2">Loans</td><td>MSB (13 MSBs)</td><td>596.9</td></tr>
<tr><td>Sub-total</td><td>596.9</td></tr>
<tr><td colspan="3">Aggregate Total</td><td>110,895.6</td></tr>
</table>

Financial Assistance from the DIF

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Financial Sector	Equity Investment	Contributions	Deposit Payoffs	Loans	Provisional Deposit Payment	Total[1]
Banks	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	22.6	-	-	-	22.6
Life	-	-	-	-	-	-
Non-Life	-	22.6	-	-	-	22.6
Merchant Banks	-	-	-	-	-	-
MSBs	121.1	2,454.2	1,441.3	489.1	21.9	4,527.6
Special Account	365.5	22,987.3	3,627.2	113.6	77.5	27,171.1
Total	486.6	25,464.1	5,068.5	602.7	99.4	31,721.3

Note : 1) The credit union account of the DIF which was transferred to the National Credit Union Federation of Korea as of January 1, 2010 is excluded.

Recovery of Injected Funds by Year (DIF Bond Redemption Fund)

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Year	Amount
2000 and before	10,345.7
2001	4,117.9
2002	2,663.4
2003	5,603.4
2004	5,667.2
2005	3,611.7
2006	3,400.1
2007	4,366.0
2008	2,398.0
2009	2,411.8
2010	2,929.5
2011	1,267.9
2012	1,376.9
2013	799.2
2014	2,444.9
2015	1,624.3
2016	2,648.3
Total[1]	**57,676.2**

Note : 1) Including KRW 235.1 billion (2004), KRW 45.8 billion (2006), KRW 9.3 billion (2007) and KRW 20 billion (2012) in liability charges paid by majority shareholders of insolvent financial institutions such as Hyundai Investment & Securities

Fund Recoveries by Type (DIF Bond Redemption Fund)

(As of Dec. 31, 2016, Unit: KRW 1 billion)

Financial Sector		Recovery of Equity Investment	Settlement of Contributions, etc.	Dividends from Bankruptcy Estates[1]	Asset Sales[1]	Collection of Loans	Total
Banks		20,978.6	70.1	1,847.2	6,631.2	-	29,527.1
Investment Companies		1,212.1	337.3	7.8	1,801.3	-	3,358.6
Insurance Companies		5,366.1	88.8	431.0	245.3	-	6,131.2
	Life	2,164.2	84.8	366.2	245.3	-	2,860.5
	Non-life	3,202.0	4.0	64.8	-	-	3,270.7
Merchant Banks		249.4	5.9	9,170.2	-	-	9,425.5
MSBs		-	34.3	5,179.3	-	596.9	5,810.5
Credit Unions		-	0.4	3,422.9	-	-	3,423.3
Total		27,806.3	536.8	20,058.4	8,677.8	596.9	57,676.2

Note: 1) Including financial assistance provided through resolution financial institutions.

Progress in Financial Restructuring

(As of Jun. 30, 2016, Unit: No. of financial institutions, %)

Financial Sector	No. of Institutions, 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	12	-	17	51.5	1	17
Non- Banks	2,062	201	276	603	1,080	52.4	270	1,252
• Merchant Banks	30	22	8	-	30	100.0	1	1
• Investment Companies	36	6	11	6	23	63.9	32	45
• Insurance Companies	50	11	7	7	25	50.0	32	57
• Asset Management Companies	24	7	11	1	19	79.2	133	138
• MSBs	231	144	38	1	183	79.2	31	79
• Credit Unions	1,666	3	188	584	779	46.8	19	906
• Lease Companies	25	8	13	-	21	84.0	22	26
Total	2,095	206	288	603	1,097	52.4	271	1,269

Source: Public Fund Management White Book published in August 2016

Amount of Financial Assistance Provided from Public Funds by the Type of Assistance

(from Nov. 1997 to Dec. 31, 2016, Unit: KRW 1 trillion)

Financial Sector		Equity Investment	Contributions	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
	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, ect.		-	-	-	-	2.4	2.4
Total		63.5	18.6	30.3	17.8	38.5	168.7

Source: Financial Services Commission

5. Acronyms

ABS	Asset-backed Securities
APRC	Asia-Pacific Regional Committee
BOK	Bank of Korea
DIF	Deposit Insurance Fund
DPA	Depositor Protection Act
FDIC	Federal Deposit Insurance Corporation
FSC	Financial Services Commission
FSS	Financial Supervisory Service
IADI	International Association of Deposit Insurers
IBRD	International Bank for Reconstruction and Development
KDIC	Korea Deposit Insurance Corporation
KR&C	Korea Recovery and Collection Corporation
KRW	Korean Won
KSP	Knowledge Sharing Program
MOSF	Ministry of Strategy and Finance
MOU	Memorandum of Understanding
MSB	Mutual Savings Banks
NPL	Non-Performing Loans
P&A	Purchase and Assumption
PF	Project Financing
SPC	Special Purpose Company

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