KDIC

KOREA DEPOSIT
INSURANCE CORPORATION
Annual Report 2007

KOREA DEPOSIT INSURANCE CORPORATION
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2007 Annual Report

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Chairman's Address

Looking back over the past year, the economic circumstances were unfavorable due to the U.S. sub-prime mortgage crisis and a drastic increase in the prices of raw materials. In the midst of rapid increase in the oil price, the effect of the global credit crunch caused by the sub-prime mortgage crisis and the weak dollar hit the domestic financial market so hard that the market became highly volatile.

Under these circumstances, the KDIC put in extreme effort to stabilize the financial market and to protect depositors by laying the foundation of risk surveillance and prompt resolution, and the recovery of public funds by launching investigations into parties implicated in insolvecies.

The KDIC introduced a target fund system to reduce the insurance premium burden imposed on the insured financial institutions and to improve the viability of the Deposit Insurance Fund. Also, to establish a market friendly deposit insurance system, it endeavored its efforts to gain public support for the adoption of a risk-based premium system and modification of the insurance premium rate system.

In reaction to the trend of financial institutions to expand their size and the range of the services it offers, the KDIC strengthened risk surveillance of financial holding companies and improved the efficiency of joint examination by amending the Memorandum of Understanding (MOU) for joint examinations with the Financial Supervisory Service (FSS). It also provided mutual savings banks (MSBs) with customized management consulting services.

Along with this, the KDIC successfully reduced the resolution cost and effectively protected depositors by resolving failed MSBs in an expeditious and effective manner, by utilizing the bridge bank scheme. It also succeeded in prompt recovery of public funds by disposing of the convertible preferred stock of Shinhan Financial Group.

Furthermore, the KDIC was proved successful in improving the efficiency in operating bankruptcy estates and promoting the early closure of the estates. The KDIC strictly investigated the concealed overseas properties of those parties implicated in the failures of financial institutions which received public fund injections. As a result, the corporation achieved a remarkable recovery rate.

For its continuing commitment to our mission, during 2007, the KDIC received the Prime Minister Award from the Innovation Contest hosted by the Ministry of Budget and Planning and Korea's Grand Prix Award in the Management Innovation Contest of the Korea Management Association Consultants, and it was also selected as an exemplary public corporation with integrity.

Based on its experience and sense of duty, the KDIC aims to establish a highly-developed deposit insurance system which will enable the Corporation to detect any signs of risks in advance. As a pillar of financial safety net, the KDIC will continue to be committed to the protection of depositors and the maintenance of stability in the financial markets.

This year's annual report gives an outline of the KDIC's financial status, and a description and statistical information related to its operations in 2007. It covers, among other, fund management, resolution of insolvent financial institutions, and ongoing risk surveillance of insured financial institutions. It is our hope that this annual report will help promote public understanding of and depositors' confidence in our operations, in particular, and the Korean deposit insurance system in general.

We look forward to your continued interest and support.

Dae Dong Park

Dae-Dong Park
Chairman and President

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I. Overview

In 2007, Korea's economy was confronted by unfavorable domestic and overseas financial conditions including a drastic increase in oil prices and the strong won. Nevertheless, Korea's GDP growth rate reached 4.9%, largely supported by robust growth in domestic demand and an increase in export.

As for the real economy, the construction industry which recorded a negative growth rate last year made a turnaround in 2007 and recorded a positive growth rate. The service industry succeeded in making clear improvements thanks to improved performance in the finance and insurance, logistics, and communication service sectors. However, the manufacturing industry only managed to record a 6.4% growth rate, which is 2.0 percentage point lower than that of 2006. On the expense side, amid solid expenditure increases in exports and facility investment, private consumption recorded a 4.4% growth rate, a bit higher than that of last year, with an increased demand for both durable and non-durable goods. The current account surplus reached US$59.5 billion due to active exports, increased earnings from the service industry, and a decline in the transfer account deficit. Meanwhile, the customer price index remained relatively stable and recorded only a marginal increase of 2.5 percentage point over last year.

The financial markets remained stable until September but major financial indexes, including stock prices, then became volatile due to the spillover effect from the U.S. sub-prime mortgage crisis.

The market interest rate rose significantly by 1.0 percentage point due to the continuous transfer of bank deposits into high return accounts such as cash management accounts (CMAs) and mutual fund stock investment products of securities companies. In an effort to overcome the shortages in funds, banks also increased their issuing of bank bonds and certificates of deposits (CDs). Despite the weak dollar, the Won-Dollar exchange rate increased by 6.3 won over the year, closing at 936.1 won to the dollar due to increased foreign net sales and the partial liquidation of Yen Carry Trade.

The stock market maintained a strong bullish trend, which can be attributed to the improvement in performance of domestic companies, a sharp increase in sales of accumulated funds, and the effect of the strong global securities market, renewing the highest stock price of 2064.85 points on October 31, 2007. However, after November, the stock market started to fluctuate due to rising anxiety over the U.S. sub-prime mortgage woes. In late December 2007, the Korea Composite Stock Price Index (KOSPI) rose to 1897.13 points, up 32.25% from the previous year. The Korean Securities Dealers Automated Quotations Index (KOSDAQ) recorded 704.23, up 16.18% from the previous year.

Compared to 2006, restructuring of the financial industry stagnated without active establishment, mergers, or sales of financial institutions. Due to a delay in the sales process of the Korea Exchange Bank, no restructuring occurred in the banking sector. Meanwhile, in the insurance sector, Genworth Mortgage Insurance was established, and Kyobo Automobile Insurance was sold to AXA of France. Shin Dong-A Fire Insurance changed its business name to Hanwha Non-life Insurance. In the securities sector, Hana Securities Co. sold its retail operation segment to Daehan Investment & Securities Co., and changed its business name. As for the mutual savings bank (MSB) industry, Good Friend MSB, Daewoon MSB, and Hongik MSB went bankrupt, and their assets and liabilities were transferred to Yeahreum MSB, a newly launched bridge bank, through a P&A agreement. Yehanwul MSB was established to have Kyungbook MSB transferred through a P&A agreement. Thus, the total number of insured financial institutions remained the same as the previous year, totaling 261 (53 banks, 44 insurance companies, 2 merchant banks, 53 securities companies, and 109 mutual savings banks).

The total amount of insured deposits in the financial sectors amounted to 801 trillion won at the end of 2007, an increase of 3.0% over last year. Insured deposits totaled 485 trillion won in the banking sector and 0.7 trillion won in the merchant bank sector, each representing a year-on-year decrease of 1.3% and 3.8%. Insured deposits in the securities, insurance, and MSB sectors rose by 9.1%, 10.0%, and 12.2% to 15 trillion won, 250 trillion won, and 49 trillion won, respectively. As a result, the aggregate amount of premiums received by the Korea Deposit Insurance Corporation (KDIC, the Corporation) from the five sectors recorded 1.11 trillion won in 2007, an increase of 58.2 billion won (5.5%) over last year.

In 2007, significant progress was made in the KDIC's efforts to improve the deposit insurance system; a target fund system was adopted to ensure the viability of the Deposit Insurance Fund (DIF) and relieve the burden of insurance premiums imposed on insured financial institutions. In order to reinforce the function of ex ante risk surveillance, public support for adopting a risk-based premium system was also obtained. The research results of the external professional entities, which were commissioned to study the adoption of a target fund system and a risk-based premium system, were made available for comment at the policy symposium held in May 2007. After collecting opinions from various circles at the symposium, the Deposit Protection Act (DPA) was amended and a target fund system was finally introduced in December.

The KDIC also strived to preemptively cope with the changes in the financial environment, including the emergence of large financial groups, by establishing an Ongoing Surveillance Council and facilitating ongoing risk surveillance teams for each financial sector. In 2007, joint examination became more effective, facilitated by the KDIC's newly achieved right to participate in joint examination with the Financial Supervisory Service (FSS) and by the launch of the Joint Examination Council. The KDIC's right to participate in joint examination on demand, in particular, will contribute to the enhancement of the function of precise risk surveillance over insured financial institutions. For the six financial institutions in which the KDIC injected public funds, including Woori Bank, it ensured management autonomy and introduced an MOU Management Target Ceiling System which allows financial institutions to relieve their operational burden by setting management targets at a minimal level.

The KDIC has managed to actively promote the introduction of a resolution system according to which insolvent financial institutions are resolved through a variety of methods such as the establishment of a bridge bank or sale of the institution to a third party. Furthermore, financial transactions are not suspended during the resolution process, thereby minimizing the inconvenience caused to depositors by prolonged business suspension. After the operations of three insolvent MSBs, Good Friend, Hongik, and Daewoon, were suspended and their sound assets were transferred to Yeahreum MSB, Yeahreum MSB was successfully sold to Standard Chartered NEA Ltd. in January 2008. Yehanwul MSB, a bridge bank founded to aid the resolution of Kyungbook MSB, is currently in the process of being resolved.

Meanwhile, a total of 112.3 trillion won in public funds was paid to 517 insolvent financial institutions by the end of 2007. Of the public funds injected, 40.9 of trillion won was recovered, including 4.3 trillion won recovered through the sale of investment certificates. In February 2007, 1.12 trillion won and in August 2007, 168.5 billion were recovered through the sale of redeemable convertible preferential stocks in Shinhan Financial Group and in June, 916.8 billion won was recovered through the sale of 5% of the shares in Woori Financial Group. In October, another 145.9 billion won was recovered by selling the 2.28% share of Doosan Infracore held by the Resolution and Finance Corporation (RFC) to domestic and overseas institutional investors.

For early closure of bankruptcy proceedings, and efficient management of bankruptcy estates and their asset holdings, the KDIC introduced the Bankruptcy Estates Management Council, the Debt Rescheduling Deliberation Council, and a performance competing system for bankruptcy estates. As of late 2007, there were a total of 465 bankruptcy estates. Of that number, 434 estates were resolved earlier than scheduled including eight in 2007 alone, and 17.4 trillion won was recovered through bankruptcy dividends. Furthermore, by late 2007, a total number of 6,986 uncollected dividend payments, amounting to 20.1 billion won, were paid out to creditors of bankruptcy estates through a campaign aimed at protecting their property rights.

Regarding the insolvency accountability investigation function, the KDIC's investigative rights were strengthened by allowing for the collective search of financial transaction information. In addition, the Roadmap on Investigation and Recovery of Concealed Overseas Property was launched and utilized for the investigation of concealed overseas property. As a result, by the end of 2007, the Corporation conducted investigations into a total of 495 insolvent financial institutions and 13,098 default debtor companies.

The KDIC also strived to preemptively cope with the changes in the financial environment, including the emergence of large financial groups, by organizing a task force for Deposit Insurance System Policy Research. The aim of the task force is to conduct further studies and to suggest agendas for action in the areas of financial consumer protection, ongoing risk surveillance and insolvency resolution of large financial holding companies, and improvement of DIF soundness.
The KDIC signed Memorandums of Understanding (MOUs) with both the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC), and enhanced cooperation and exchange with international organizations including the International Organization of Securities Commissions (IOSCO). After signing an MOU with the Deposit Insurance of Vietnam (DIV) in 2006, the KDIC rendered training assistance to them. In November 2007, the KDIC was re-elected as a member of the Executive Council of the International Association of Deposit Insurers (IADI).

Meanwhile, in June 2007, the chairman of the Corporation firmly rooted performance-based responsible management by signing a management contract containing management targets with the Minister of Finance and Economy. In April 2007, the KDIC carried out various social contribution activities including launching the KDIC's Share the Love Team. In its pursuit of enterprise-wide management innovation, the KDIC achieved high honors competing against other public corporations, by winning the *Prime Minister Award* from the Innovation Contest.

II. Organization and Operations

1. Organization

1-1. The Deposit Insurance Committee

The Deposit Insurance Committee* is comprised of nine individuals in all, including the President of the KDIC, who serves as committee chairman. Other ex officio members are: the Vice Minister of Finance and Economy, the Vice Minister of Planning and Budget, the Vice Chairman of the Financial Supervisory Commission (FSC), and the Deputy Governor of the Bank of Korea (BOK). The four remaining committee members are appointees commissioned by the Minister of Finance and Economy. Of that number, one committee member is commissioned directly by the Minister of Finance and Economy with the remainder being recommended by the Minister of Planning and Budget, the Chairman of the FSC, and the Governor of the BOK - each of them is allowed to recommend one committee member apiece. The recommended members are then commissioned by the Minister of Finance and Economy.

* After the revision of the Depositor Protection Act on February 29, 2008, the Deposit Insurance Committee is now comprised of seven individuals in all, including the President of the KDIC, the Vice Chairman of the Financial Supervisory Commission (FSC), the Vice Minister of Strategy and Finance, and the Deputy Governor of the Bank of Korea(BOK). The three remaining committee members are appointees commissioned by the FSC. Of that number, one committee member is commissioned directly by the FSC, with the remainder recommended by the Minister of Strategy and Finance and the Governor of the BOK - each of them is allowed to recommend one committee member apiece. The recommended members are then commissioned by the FSC.

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

- Establishment of basic guidelines for the Corporation's operations
- Review of operation plan for the Deposit Insurance Fund (DIF)
- Amendments to the Articles of Incorporation
- Enactment, amendment, and nullification of rules and regulations related to the Corporation's business objectives
- Matters related to the budget and to the settlement of accounts
- Issuance of Deposit Insurance Fund Bonds (DIF Bonds) and DIF Bond Redemption Fund Bonds
- Reduction or postponement of deposit insurance premium payments
- Actual and provisional payment of insurance claims
- Approval of payment on estimated insurance claims
- Financial support for institutions that are involved in resolution
- Financial support for insured financial institutions
- Transactions between funds
- Payment of fees arising from outsourcing, operation of surplus funds, etc.

<Table II-1> Deposit Insurance Committee Members

(As of December 31, 2007)

TITLE	NAME
President of KDIC (Chairman)*	Jang-Bong CHOI
Vice Minister of MOFE	Seok-Dong KIM
Vice Minister of MOPB	Jang-Shik BAN
Vice Governor of FSC	Seung-Woo LEE
Deputy Governor of BOK	Seung-Il LEE
Commissioned Member	In-Ho LEE
Commissioned Member	Do-Sung CHUNG
Commissioned Member	Noh-Joong HUH
Commissioned Member	Hyung-Moon KANG

* Mr. Dae-Dong Park was newly appointed as the President of KDIC on January 6, 2008.

<Table II-2> Items Deliberated by Deposit Insurance Committee in 2007

DATE	ITEMS
Jan. 10	• Issuance of 2007 DIF Bond Redemption Fund bonds • Report of 2007 DIF Bond Redemption Fund operation plan • Transactions between DIF Bond Redemption Fund accounts in the second half of 2006 • Report of changes in 2006 DIF Bond Redemption Fund operation plan
Jan. 18	• Request for participation in 2007 joint examination
Jan. 31	• Provisional payment of insurance claims to depositors of Daewoon Mutual Savings Bank
Feb.14	• Request for participation in 2007 joint examination (2nd Request) • Report of results of joint examination in the fourth quarter of 2006 • Transactions between DIF accounts in the second half of 2006 • Report of 2006 settlement results of operation expenses
Feb. 28	• Partial amendment of regulation on reserve fund operation • 2007 DIF Bond Redemption Fund management guidelines • 2007 DIF management guidelines • Financial assistance to and inter-account transactions of Yeahreum Mutual Savings Bank (for the Good Friend Mutual Savings Bank's P&A) • Settlement of accounts in FY 2006
Mar. 14	• Decision on insurance claim payment to depositors of Daewoon Mutual Savings Bank

DATE	ITEMS
Mar. 28	• Provisional payment of insurance claims to depositors of Hongik Mutual Savings Bank and transactions between the bank's accounts • Addition of terms to MOU with Woori Financial Group, its three subsidiary banks, and National Federation of Fisheries Cooperative's Credit Business Dept. • Report of examination results of and measures for MOU implementation in the fourth quarter of 2006
Apr. 11	• Overall amendment of the regulation on deposit insurance premium and special contributions • Report of joint examination results in the first quarter of 2007
May. 9	• Decision on insurance claim payment to depositors of Hongik Mutual Savings Bank • Financial assistance and inter-account transactions of Yeahreum Mutual Savings Bank (for the Daewoon Mutual Savings Bank's P&A)
Jun. 5	• Provisional payment of insurance claims to depositors of Kyungbook Mutual Savings Bank and transactions between the bank's accounts
Jun. 20	• The sixth DIF Bond Redemption Fund operation plan for 2008 • Plans for issuance of DIF Bond Redemption Fund bonds and request for state guarantee on the bonds for 2008 • Partial amendment of the Articles of Incorporation • Report of joint examination results in the first quarter of 2007 (2nd report)
Jul. 10	• Financial assistance to Yeahreum Mutual Savings Bank (for the Hongik Mutual Savings Bank's P&A) • Financing of DIF Bond Redemption Fund (for the Hongik and Kyungbook Mutual Savings Bank's P&A)
Jul. 18	• Decision on insurance claim payment to depositors of Kyungbook Mutual Savings Bank • Partial amendment of Regulation on Deposit Insurance Committee • Addition of terms to the management normalization plan of Seoul Guarantee Insurance Company • Examination results of and measures for MOU implementation in the first quarter of 2007 • Major changes of MOU on Joint Examination of the Financial Institutions between the KDIC and the FSS
Aug. 22	• Partial amendment of the regulation on MOU management • Partial amendment of the regulation on Deposit Insurance Committee • Report of joint examination results in the second quarter of 2007
Sep. 19	• Overall amendment of the regulation on insolvency accountability investigation • Report of half-yearly accounts settlement in FY 2007
Oct. 10	• Request for participation in 2007 joint examination (3rd Request) • Partial amendment of the regulation on insurance claim payment • Examination results of and measures for MOU implementation in the second quarter of 2007
Dec. 12	• Financial assistance to Yehanwul Mutual Savings Bank, etc. (for the Kyungbook Mutual Savings Bank's P&A) • Roll-over of Credit Unions' borrowings from banks • Report of results of joint examination of insurance companies in the third quarter of 2007 • Report of hiring process of executive directors
Dec. 26	• KDIC budget for 2008 • Partial amendment of the regulation on MOU management • Amendment of FY 2008 MOU with Woori Financial Group, its subsidiary banks, National Federation of Fisheries Cooperative's Credit Business Dept. and Seoul Guarantee Insurance Company • The 13th DIF operation plan for 2008 • Financing of DIF Bond Redemption Fund

1-2. The Board of Directors

The Board of Directors is comprised of one President, one Vice President, four inside Executive Directors, and seven outside Executive Directors. The Auditor may express opinions at Board meetings, but cannot participate in the Board's voting process.

The President of the KDIC is appointed by the President of the Republic of Korea on the recommendation of the Minister of Finance and Economy and the Executive Director Recommendation Committee. The inside Executive Directors are appointed by the Minister of Finance and Economy on the recommendation of the President of the KDIC and the Executive Director Recommendation Committee, and the outside Executive Directors are appointed by the Minister of Finance and Economy on the recommendation of the Executive Director Recommendation Committee and deliberation and decision of the Public Agencies Operating Committee. The Auditor is appointed by the President of the Republic of Korea on the recommendation of the Executive Director Recommendation Committee, deliberation and decision of the Public Agencies Operating Committee, and recommendation of the Secretary of the Minister of Planning and Budget. The President is appointed for a period of three years, Executive Directors and the Auditor are appointed for two years, renewable on a year-to-year basis after the expiration of their first term of office.

* After the amendment of the Government Organization Act on February 29, 2008, the President of the KDIC is appointed by the President of the Republic of Korea on the recommendation of the Executive Director Recommendation Committee and the Chairman of the Financial Services Commission (FSC). Inside Executive Directors are appointed by the FSC on the recommendation of the Executive Director Recommendation Committee and the President of the KDIC. Outside Executive Directors are appointed by the FSC on the recommendation of the Executive Recommendation Committee and deliberation and decision of the Public Agencies Operating Committee. The Auditor is appointed by the President of the Republic of Korea on the recommendation of the Executive Director Recommendation Committee, deliberation and decision of the Public Agencies Operating Committee, and recommendation of the Minister of Strategy and Finance.

The Board renders decisions on various matters including the following:

- Amendment of the Articles of Incorporation
- Compilation, revision, and settlement of the Corporation's budget
- Setting and changing business goals
- Enactment and amendment of rules and regulations related to the operation of the Corporation
- Compensation of officials
- Acquisition and disposal of core assets
- Other matters that the President of the KDIC and the Board of Directors deem necessary

<Table II-3> Executive Board Members

(As of December 31, 2007)

TITLE	NAME
Chairman and President	Jang-Bong CHOI
Vice President	Ju-Hyung LEE
Inside Executive Director	Kyun-Heum SHIM
Inside Executive Director	Byeong-Gab CHOI
Inside Executive Director	Sung-Hwan BAE
Inside Executive Director	Jae-Ho LEE
Outside Executive Director	Chan-Pyo KOOK
Outside Executive Director	Baek-Man LEE
Outside Executive Director	Yong-Chul LEE
Outside Executive Director	Byung-Hwa JIN
Outside Executive Director	Joon-Myung CHOI
Outside Executive Director	Heung-Shik CHOI
Auditor	Yang-Han LEE

* Mr. Dae-Dong Park was newly appointed as the chairman on Jan. 6, 2008, and Mr. Eun-Soon Choi was appointed as a part time Executive Director on Jan. 7, 2008.

1-3. Organization

The KDIC was established on June 1, 1996, as a non-capital base special corporation to provide an effective deposit insurance system for the public based upon the Depositor Protection Act (DPA). It is currently composed of ten departments, six offices, one regional office, and one mission (two bureaus and one department); the Planning and Coordination Department, the Human Resources Development Department, the Fund Management and Planning Department, the Office of Deposit Insurance Policy, the Office of Information Systems Management, the Research Department, the Risk Surveillance Department I and II, the Prompt Resolution Department, the Asset Management Department, the Receivership and Collection Department, the Investigation Department, the Office of Public Relations, the Office of the Chairman, the Office of Strategic Innovation, the Office of the Auditor, Young Nam Branch, and the Special Investigation Mission of Default Debtor Companies.

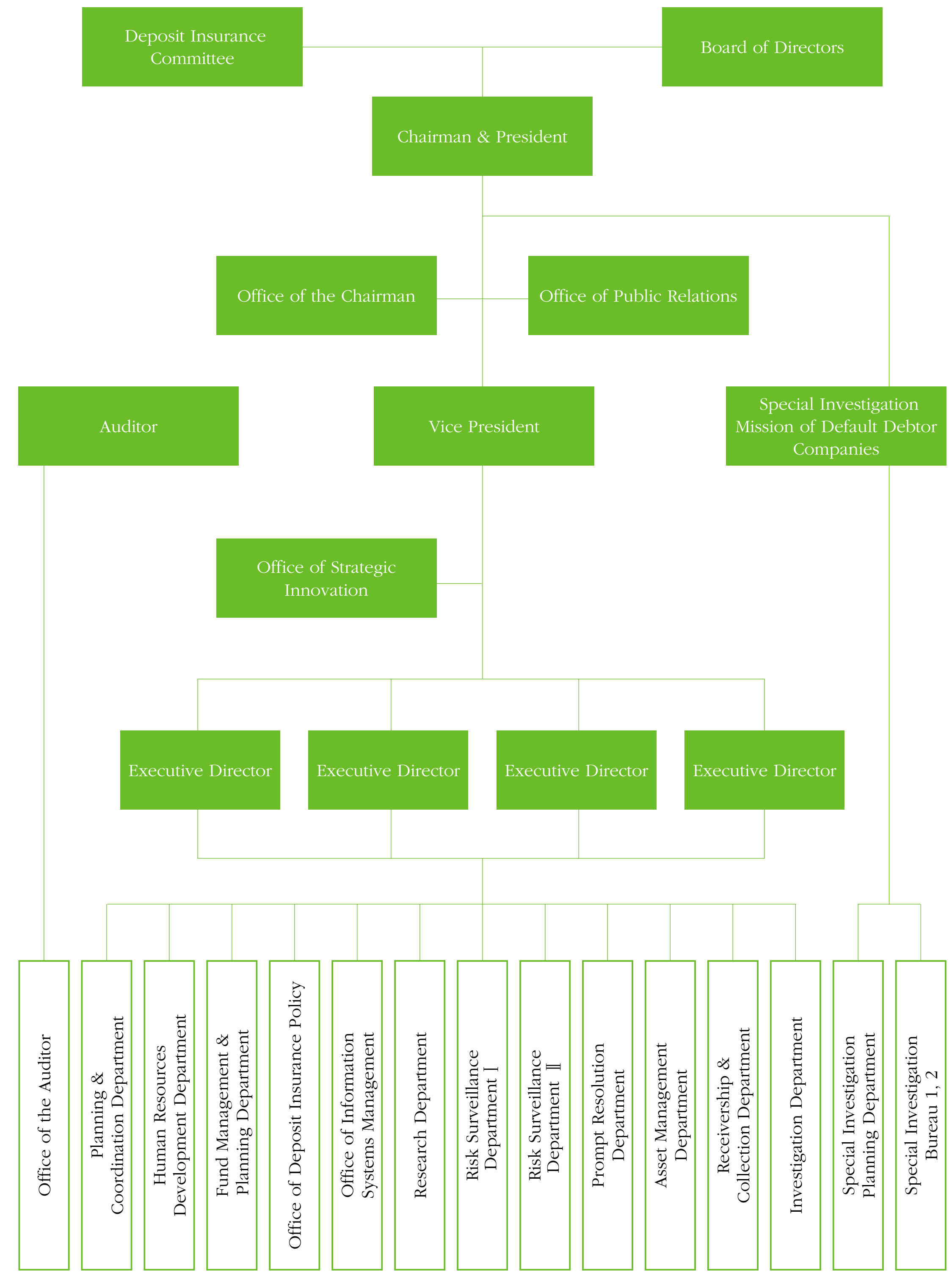
<Table II-4> Designated Number of Staff

(As of December 31, 2007)

Type	Executive Directors	Employees		
		Regular	Special[2]	Total
No.	14[1]	408	206	614

1) Due to the enactment of Public Agencies Operational Act, the designated number of Outside Executive Directors is increased by 7.
2) Special employees include experts such as attorneys, doctoral researchers, conservators, bankruptcy estate support personnel, examiners, etc.

<Figure II-1> Organizational Chart



* Young-nam branch is excluded.

2. Major Initiatives

2-1. Major Achievements

In March 2005, with the aim of presenting the course of development for the deposit insurance system and establishing its future image, the KDIC formulated its mid- to long-term vision and created a synergy effect by classifying itself into four primary functions- Risk Surveillance, Insurance & Resolution, Investigation & Recovery, and Management & Support. In April 2007, to improve the link between the KDIC's operation and vision, the KDIC made a partial revision to its mid- to long-term vision as: Becoming the World's Leading Expert Institution on Ongoing Risk Surveillance, Prompt Resolution, and Recovery, based on the opinions collected from employees.

In March 2007, in view of internal and external environmental changes, the Corporation revised and improved its three-year mid-to long-term management plan, a phased action plan established for vision accomplishment, to make it better reflect reality. The KDIC also raised employees' awareness of the vision and mid-to long-term management plan by distributing information booklets to all employees.

A. Risk Surveillance

The KDIC enhanced risk surveillance of financial groups, such as financial holding companies, to preemptively cope with changes in the financial environment including the emergence of large financial groups. It also operated ongoing risk surveillance teams by financial sector to accelerate decision-making, and operated the Ongoing Surveillance Council for sharing of ongoing surveillance information by sector. Furthermore, in addition to the Relationship Manager System, it introduced the Risk Manager System by subject, a system where certain risks that commonly occur in the financial industry are analyzed, thereby improving the quality of risk surveillance.

With regard to joint examination conducted with the Financial Supervisory Service (FSS) to reduce management risk through the identification of the risk associated with a financial institution, the KDIC's effectiveness was improved by achieving the right to participate in joint examination on demand, after signing a Memorandum of Understanding (MOU) on Joint Examination in July 2007 and establishing the Joint Examination Council. In order to strengthen the competitiveness of mutual savings banks (MSBs), a Business Advisory Council consisting of experts was set up to offer tailored business consulting services to MSBs.

The MOUs with six financial institutions, including Woori Financial Group, were reviewed for each quarter, and appropriate measures were taken to address any shortcomings in their implementation. The MOU Management Target Ceiling System, which sets the MOU management target at the minimal level needed to maintain the soundness of the financial structures of these institutions, was introduced and relieved their operational burden.

B. Insurance & Resolution

For prompt resolution of insolvent financial institutions, the KDIC improved cooperative relationships with the financial supervisory authorities, including participation in the Business Evaluation Committee*. It is also actively promoting the introduction of a resolution system in which business transactions are not suspended to minimize the inconvenience caused to depositors by the prolonged suspension of the business activities of insolvent financial institutions.

* In case a Management Improvement Request (MI request) is imposed on an insolvent MSB, the Business Evaluation Committee decides whether to approve the Management Improvement Plan (MI plan) submitted by the insolvent financial institution, or not.

When a savings bank became insolvent, the KDIC usually used liquidation and the bankruptcy method through payment of insurance claims to resolve the failed bank. The KDIC, however, was able to reduce resolution costs as well as enhance the stability of the regional economy and the protection of depositors by introducing new resolution methods using a bridge bank or a third party sale.

The KDIC dispatched an integrated business management team and proceeded with resolution through a bridge bank after the serial suspension of the operations of Good Friend MSB in September 2006, Daewoon MSB in January, Hongik MSB in March, and Kyungbook MSB in May 2007. Yeahreum MSB, the bridge bank that had taken over the sound assets of Good Friend, Hongik, and Daewoon MSBs, was put up for sale, and Standard Chartered NEA Ltd. was selected as the preferred bidder in late 2007. The final sales contract was signed in January 2008. The sale procedure of Yehanwul MSB, the bridge bank which was established for the resolution of Kyungbook MSB, is underway. The KDIC also promoted provisional payments of insurance claims and provided full support to institutions wishing to make secured loans so as to prepare for the capital demand of depositors.

Meanwhile, fund insufficiency in the MSB account of the DIF was mitigated by borrowing between accounts and from external financial companies. The KDIC commissioned an external professional entity (Korea Development Institute) to come up with a workable solution for this problem, and is continuously consulting with relevant institutions to set out with concrete plans based on their research results.

C. Recovery & Investigation

By the end of 2007, a total of 112.3 trillion won in public funds was provided to 517 insolvent financial institutions as part of restructuring efforts, and 40.9 trillion won of the injected funds was recovered through the sale of investment certificates. By the end of the year, the Corporation, without difficulty, paid off 72.3 trillion won of the 84.5 trillion won principal debt, subject to redemption according to the Public Fund Redemption Plan established in late 2002.

The shares in financial institutions acquired by the KDIC through public fund injection for financial restructuring since 1997 are being sold through transparent procedures which include review by the Public Fund Oversight Committee. In February 2007, the KDIC recovered 1.12 trillion won through the sale of the redeemable convertible preferred stocks of Shinhan Financial Group, which it obtained by selling Chohung Bank through after-hours block trade. It also recovered 168.5 billion won in August by reimbursing redeemable preferred stocks. For Woori Financial Group, it recovered 916.8 billion won by selling 5% of the shares through after-hours block trade in June 2007. The KDIC also recovered 145.9 billion won by disposing of 2.28% of the shares of Doosan Infracore held by the Resolution and Finance Corporation (RFC), a subsidiary of the KDIC, to domestic and overseas institutional investors through pre-market-hours block trade.

In the meantime, continuous efforts were made to expeditiously complete bankruptcy proceedings and to improve the efficiency of management of bankruptcy estates in order to maximize bankruptcy dividends. As of late 2007, 434 estates out of a total of 465 have completed bankruptcy proceedings, including eight estates that have completed their proceedings within the year 2007, helping the Corporation recover 17.40 trillion won through the collection of bankruptcy dividends.

The KDIC is striving to maximize the recovery of public funds and create an environment in which responsible corporate governance becomes firmly entrenched by way of correcting unreasonable past business practices through investigating employees of public fund-injected financial institutions who are responsible for the insolvent state of their respective institutions. By the end of 2007, the Corporation conducted investigation into a total of 495 insolvent financial institutions and 13,098 default debtor companies, and filed damage-claim proceedings against those held liable for the insolvencies. It investigated the hidden assets of about 890,000 responsible parties, and took legal measures for the provisional attachment and preliminary injunction of these assets.

D. Management & Support

To establish a competence and performance based personnel management culture, the KDIC developed a phased Human Resource Management System (e-HR) which is a user-friendly electronic system developed to support the creation of competent individuals. The e-HR system includes a Career Development Program (CDP) and allows for integrating employee information about human resources, employee training, career development, wages, and welfare.

The President of the KDIC signed a management contract, based on the Public Agencies Operation Act, with the Minister of Finance and Economy on June 25, 2007. This contract, which contains management targets, laid the foundation for a responsible management system and transparert operations.

2-2. Improvement of the Deposit Insurance System

A. Risk-based Premium System

The KDIC has consistently promoted the implementation of a risk-based premium system by introducing a Risk Forecast Model to enhance the sound management of financial institutions and to ensure the fair imposition of premiums. Thanks to these efforts, the ministerial meeting for regulatory reform held on May 9, 2006 approved the introduction of the target fund system.

To come up with a viable implementation plan that is suitable to the current financial environment, the KDIC collected opinions from various circles by holding a Deposit Insurance Policy Symposium in March 2007. At the symposium, the results of research, performed by professionals commissioned for this purpose between September 2006 and March 2007, were discussed. The legislation for the risk-based premium system, which is expected to be completed during 2008, will be based on the opinions of interested parties, including the KDIC, which attended the meetings of the private-public task force which was formed for this purpose in October 2007.

In the meantime, detailed action plans to implement the target fund system, which was adopted after the revision of the DPA in December 2007, are being prepared to facilitate the implementation of this system without any difficulty.

B. Target Fund System & Deposit Insurance Premium Rate

The new DIF came into effect in 2003. Since then, the KDIC recognized that there was a strong need for the adoption of a target fund system which would ensure the viability of the DIF and would relieve the burden of premium payment on insured financial institutions. To obtain public support for the establishment of a target fund system, the KDIC held policy symposiums and commissioned an external professional institute to perform research into the matter.

The ministerial meeting for regulatory reform, held in May 2006, approved the introduction of the target fund and the risk-based premium system as a means to reform the premium system and in doing so, improved the overall deposit insurance system. Hence, the KDIC collected opinions from various circles by holding a Deposit Insurance Policy Symposium in March 2007. The Symposium was based on the results of the research performed by professional institutes commissioned for this purpose between September 2006 and March 2007.

In October 2007, the Ministry of Finance and Economy (MOFE) formed a private-public task force to look into the implementation of the target fund system and the reform of the premium rate scheme. In December 2007, the national assembly amended the DPA through congressional legislation to approve the implementation of the target fund system with effect from 2009.

To arrange detailed action plans for the implementation of the target fund system and improvement of the premium rate scheme according to the revised DPA, the private-public task force is in the process of collecting opinions from the insured financial institutions and various experts.

C. Depositor Protection of Retirement Pension Products

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

To address this issue, the KDIC has promoted the protection of depositors who subscribed to retirement pension products to protect their property rights and increase the effectiveness of the system. Based on the results of research on depositor protection conducted by commissioned external professional entities in November 2006, the KDIC held a public hearing in 2007 to collect opinions from the various stakeholders. It is currently consulting with related agencies, including the government, on this matter.

2-3. External Evaluation

A. Business Performance Analysis of Government Agencies

Pursuant to the Government Agencies Management Act (current Public Agencies Operation Act), the KDIC submitted business performance reports, financial statements and annexed documents of the year to the head of the competent agencies in March 2007. Based on these reports, the Minister of Planning and Budget (MPB) (current Minister of Strategy and Finance) organized a Business Performance Evaluation Committee to evaluate the performance of government agencies.

The 2006 business performance evaluation results, announced in June 2007, placed the KDIC fifth among 15 public agencies.

B. Fund Management Evaluation

According to the National Finance Act (former Fund Management Act), the MPB is required to analyze and evaluate the management conditions of funds governed by the Act as well as consider whether to uphold the funds every three years. The evaluation is conducted into the fields of business management and asset management.

In this regard, the KDIC prepared a report on the management of the DIF Bond Redemption Fund for 2006 and submitted it to the Fund Management Evaluation Committee in February 2007. Based on the report, the Committee disclosed the results of its evaluation in May 2007 after carrying out due diligence and an opinion poll.

In the 2006 evaluation result of the Corporation's DIF Bond Redemption Fund, the KDIC took first place in the area of asset management among fourteen Type 4 funds whose average balance of surplus funds is 100 billion won or less, moving up 1 place from the previous year. It ranked fifth in the domain of business management among a total of ten funds classified as pension finance funds.

C. Innovation Evaluation

The KDIC has consistently achieved innovative works by establishing an innovative infrastructure and nurturing the innovative spirit of employees. To publicize its achievements in this regard, the KDIC competed in two innovation assessment competitions hosted by the government in 2007 and achieved high honors for its innovative achievements.

According to the Innovation Level Assessment done by the MPB, the KDIC's innovation level was at level 5, up one place from the previous year. This puts the Corporation in the sixteenth place out of 104 public institutions in terms of innovation. This reflects a drive towards enterprise-wide innovation activities, and the transparent and consistent achievement of innovative objectives.

The KDIC also took part in the Innovation Contest, hosted by the MPB, which was aimed at sharing and publicizing the innovative accomplishments of public corporations. The KDIC entered the Improvement in Ways of Working category with an entry titled Early Closure System of Bankruptcy Procedure. The system includes the function of internal control to the existing bankruptcy system, appoints financial experts as trustees of bankruptcy estates and introduces the innovative concept of de facto closure. By utilizing this system, the average period of time taken for the completion of bankruptcy proceedings was reduced from approximately ten years to three years and four months. The KDIC's entry competed with 102 public corporations and walked away with the honors by winning the *Prime Minister Award*.

3. KDIC Vision and Mid- to Long-term Management Plan

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

A. Background

In March 2005, based on the opinions of its employees and with the aim to present the right direction for the deposit insurance system's (DIS's) development and to clarify its future image, the KDIC formulated its mid- to long-term vision of Becoming the World's Leading and Reliable Expert Institution on Ongoing Risk Surveillance, Prompt Resolution, and Recovery of Financial Institutions. At the same time, it established the Three-Year Mid- to Long-term Management Plan to achieve this vision.

The plan and detailed action agenda were revised and improved in April 2006 to reflect changes in the internal and external business environment, while at the same time increasing the adaptability of the plan. In April 2007, Organizational Culture was included as one of the four drivers, reflecting the importance of the formation of an organizational culture as a means to enhance its competitiveness. To improve the link between the KDIC's operation and vision, the KDIC made a partial revision to its mid- to long-term vision, based on the opinions of its employees. In December 2007, it expanded and complemented the concept of Value-based Management to newly define the concept from the perspective of external customers in contrast to the former definition that focused on the perspective of internal customers.

B. Vision

(1) Vision

Becoming the World's Leading and Reliable Expert Institution on Risk Surveillance, Prompt Resolution, and Recovery of Financial Institutions

(2) Definitions of Keywords

Keyword	Classification	Meaning
World's Leading	Aim	To demonstrate an excellent capacity to prevent and cope with financial crises, and to create a flawless legal and institutional environment for an internationally-accepted deposit insurance system.
Expert Institution	Form of Business	A state institution, aimed at protecting public interests and that possesses excellent problem-solving ability through a highly competent labor force and state-of-the-art information technology.

And Recovery	Classification	Meaning
Ongoing Risk Surveillance	Business Area	Insolvency prevention activity through analysis/assessment as well as reduction of various insolvency-causing risk-factors using risk surveillance techniques such as written surveys and the risk assessment model.
Prompt Resolution And Recovery	Business Area	Timely and appropriate resolution taking into consideration the market conditions and the characteristics of the institution subject to resolution, so as to minimize its value loss. All ex post facto management activities after the occurrence of insolvency such as disposition of assets acquired during the resolution process, management of bankruptcy estates and insolvency accountability investigation.
Reliable	Founding Principles	The founding principles of the KDIC that include creation of an environment where Financial transactions are safe for the public through depositor protection and promotion of a stable financial system.
Financial Institutions	Target of Operations	Individual financial institutions such as banks, securities companies, insurance companies and savings banks subject to the deposit insurance system.

(3) Structure of Vision

C. Mid- to Long- Term Strategy, Tasks, and Detailed Action Agenda by Department

The KDIC selected four mid- to long- term strategies per function, and thirteen tasks reflecting the changes in the managerial environment and target positioning as a means to achieve the vision in an effective manner. Considering the possibility of achieving each task and the need for consistent and long-term promotion, it created 131 detailed action agendas and their corresponding specified implementation plans in each stage of the agenda.

<Table II-5> Mid- to Long- Term Strategy, Tasks, and Detailed Action Agenda by Department

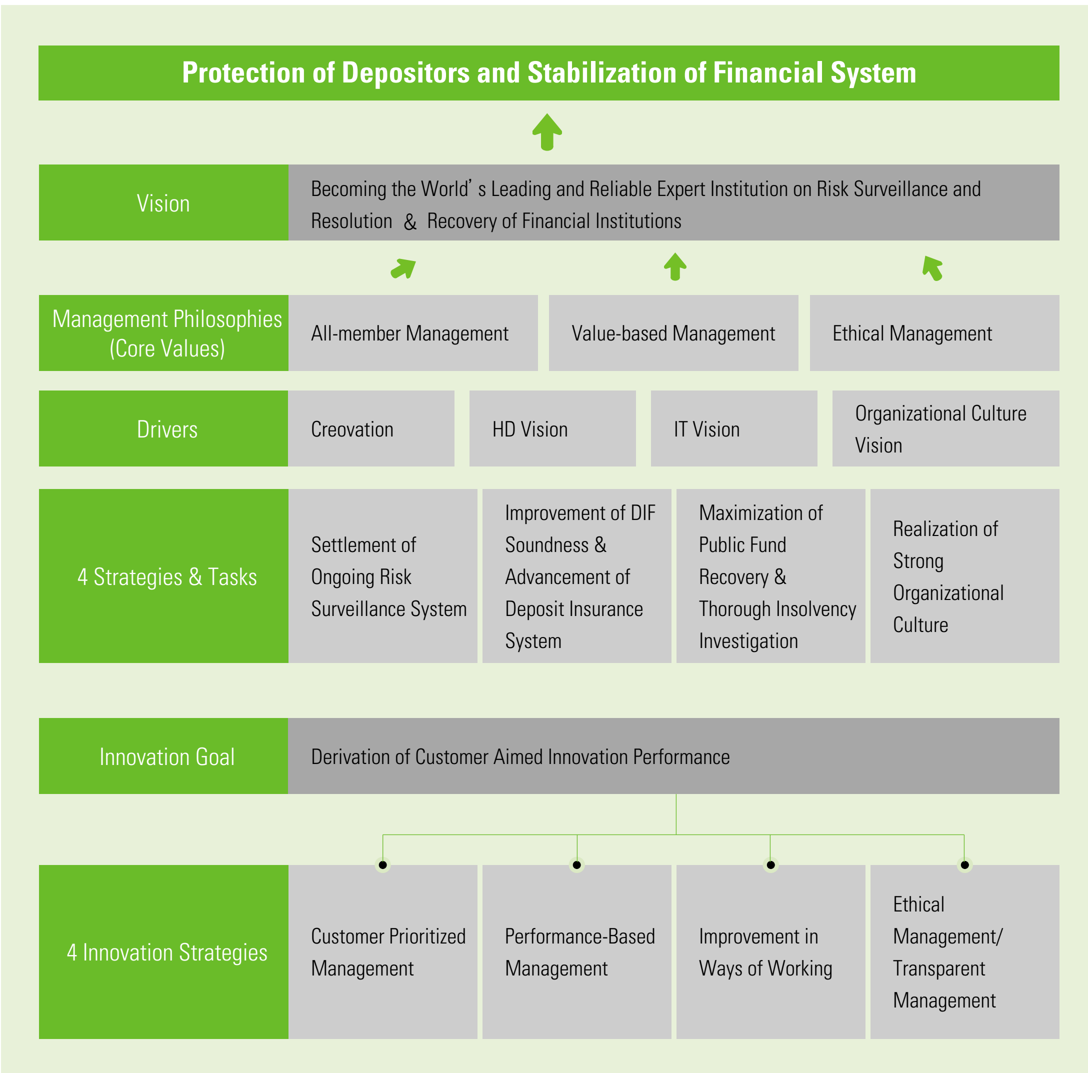
Mid- to Long-term Strategy	Target Task	Responsible Department
I. Settlement of ongoing risk surveillance system	1) Market-friendly ongoing risk surveillance 2) Improvement in system for revitalization of risk surveillance 3) Settlement of ongoing risk surveillance system that corresponds to changes in the financial environment	Risk Surveillance
II. Improvement of the soundness of the DIF & improvement of services offered to depositors	1) Promotion of an innovative Deposit Insurance Fund (DIF) 2) Introduction of resolution system in which financial transactions are not suspended 3) Improvement of the soundness of the DIF 4) Improvement of services offered to depositors	Fund/ Insurance/ Resolution/
III. Maximization of public fund recovery & thorough insolvency investigation	1) Prompt recovery of public funds provided for insolvency resolution 2) Efficient management of bankruptcy estates 3) Creation of sound business climate	Recovery/ Receivership&Collection/ Investigation/ Special Investigation
IV. Creating a strong organizational culture	1) Encouraging innovation in the workplace 2) Performance-based organization and human resource management 3) Ensuring employee satisfaction by promoting the creation of a 'happy workplace'	All

3-2. Promotion of Enterprise-wide Management Innovation

At the Innovation Announcement ceremony held in 2004, the KDIC publicly declared its innovation vision as : Establishing a Market-friendly and Advanced Deposit Insurance System. In 2007, based on the innovation capacity it has accumulated, it set its innovation goal as the Derivation of Customer-Oriented Innovation Performance, changing the concept of depositors from mere beneficiaries of the deposit insurance system to precious customers. In order to accomplish these goals, the KDIC set four innovation themes based on a SWOT analysis*: Customer Prioritized Management, Performance-Based Management, Improvement of Ways of Working, and Ethical/Transparent Management. Also, 33 innovation tasks were derived by assessing each innovation theme through the SMARTA** method conducted by Innovation Supporters, a self regulated group, and by obligating each department to perform one innovation task. The 33 innovation tasks derived were first prioritized and then enforced by setting up a performance index for each task.

* A method used to establish the marketing strategy based on the definition derived through an analysis of the Corporation's surrounding environment for each of four factors: Strengths (S), Weaknesses (W), Opportunities (O), and Threats (T).
** Acronym of Specific (S), Measurable (M), Achievable (A), Result-oriented (R), Time-bound (T), and Authority-bound (A). This is a method to estimate each distinct value specified above (S,M,A,R,T,A), and is utilized for the identification of problematic areas to focus on.

<Figure II-2> Innovational Goals and Four Innovation Strategies



3-3. Customer Satisfaction Management

A. Uncollected Insurance Payment Notification Campaign

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

The KDIC has put a lot of effort into publicizing the campaign in various ways such as setting up an Uncollected Insurance Payment Notification System on its website, delivering individual notices, advertising in newspapers, and establishing a call center to deal with customer enquiries. Also, in September 2006, it increased the number of branches in charge of insurance payment across the country, making it more convenient for depositors to collect the payments.

As a result of these efforts, the amount of insurance payments paid out to 48,000 claimants totaled 15.8 billion won during the period between April and December of 2007.

<Table II-6> Uncollected Insurance Payments Delivered to Depositors

(Unit : 100 million won)

April~December 2006		2007		Total	
# of depositors	amount	# of depositors	amount	# of depositors	amount
16,389	71	31,794	87	48,183	158

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

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

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

<Table II-7> Issuance of Certificate of Employment History and Verification of Liabilities

(As of December 31, 2007)

Classification	Certificate of Employment History[1]	Verification of Employment History[2]	Verification of Liabilities[3]	Total
# of issuance	33	48	198	279

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

C. Uncollected Dividend Notification Campaign

As of June 30, 2005, the KDIC determined that there were uncollected dividends amounting to 19.9 billion won (16,400 cases) in bankruptcy estates. To protect the property rights of bankruptcy creditors, the KDIC launched the Uncollected Dividend Notification Campaign in August 2005.

Since the launch of the Uncollected Dividend Notification System on KDIC's website, 28,000 people accessed the site and 372 people identified unclaimed dividends in their names. After obtaining the actual addresses of 320,000 bankruptcy creditors, the KDIC had bankruptcy estates wire the dividends to creditors and notify them of the transfer using the addresses obtained earlier. As a result of consistent promotion, the campaign succeeded in paying out dividends worth 20.1 billion won (6,986 cases) to bankruptcy creditors from August 2005 to December 2007.

<Table II-8> Uncollected Dividends Payments Delivered to Bankruptcy Creditors in 2007

(Unit : 100 million won)

Sector	Banks	Securities companies	Insurance companies	Merchant Banks	Mutual Savings Banks	Credit Unions	Total
# of cases	64	313	169	1,649	3,320	1,471	6,986
amount	6	0.2	10	148	36	0.8	201

D. Protection of Insurance Claimer's Right with Completed Extinctive Prescriptions

The KDIC, with effect from June 2007, notified bankruptcy estates to include in their list of claims, those claims of deposit creditors whose extinctive prescriptions are completed because they failed to claim their deposits from the Corporation in time. In order to minimize the loss suffered by deposit creditors because of their failure to exercise their proper rights, this practice will be followed consistently.

E. Promotion of Insurance Relations Indication System

The DPA Article 29 states that insured financial institutions should indicate in their financial products whether insurance relations have been created (e.g. protection under the DPA) in order to protect depositors against loss or damage, and the KDIC should investigate whether the insured financial institutions appropriately indicated their insurance relations.

During 2007, the KDIC, in accordance with the provisions of the DPA, conducted on-site investigations on the system implementation of 351 branches of insured financial institutions nationwide. The investigation was conducted into the proper indication of depositor protection notices on passbooks, securities certificates, etc., propriety of the contents of the register for protected financial products, adequate display of a depositor protection brochure, propriety of the insured institutions' self-developed promotional materials for their products, and the sales report of their new products. Based on the report of product sales submitted by the insured financial institutions, the KDIC analyzes new product developments on a quarterly basis to use the outcome as input to strengthen the depositor protection service.

3-4. Ethical Management and Social Contribution Activities

A. Ethical Management

So as to fulfill its social obligations and to be a reliable public corporation, the KDIC has introduced and practiced a new core value, Ethical Management, along with the existing core values- All-Member Management and Value Management. In November 2006, the KDIC established a Three-Year Plan of Ethical Management, and for its systematic implementation, thirteen tasks and their corresponding detailed action agendas in three different fields were defined and consistently pursued. The year 2007, in particular, is considered to be its growth year for ethical management and the plan was promoted extensively. The focus was on the revitalization of an operating body of ethical management, ongoing education in ethical management, participation in an ethical performance management network, and ethical performance assessment and rewards.

The Corporation joined the UN Global Compact, an international agreement, so as to earnestly practice systematic ethical management that adheres to international standards. Through cooperation with the other UN Global Compact member corporations in Korea as well as non-governmental corporations, the KDIC practiced Ethical Management based on the ten core principles relating to human rights, labor, the environment, and anti-corruption proposed by the UN Global Compact, and this enabled the Corporation to elevate its sense of corporate responsibility and practice.

Various effective attempts at practicing ethical management raised awareness of ethics with employees. It also aided the Corporation in being selected as a Corporation with High Integrity by scoring 9.15 points on the integrity index during the integrity assessment performed by the Korea Independent Commission against Corruption. This score is up 0.3 points from the previous year, and can be attributed to the KDIC not being involved in briberies.

<Figure II-3> Fields of Ethical Management and Detailed Action Agendas

Core Fields	13 Tasks		Detailed Performance
Strategy	1. Ethical Standards		· Revision of guidelines for ethical principles, Settlement of organizational culture, etc.
	2. Ethical Management Leadership		· Proclamation of ethical management, Participation in networks, etc.
	3. Ethical Strategy		· Selecting strategic theme for ethical management and establishing promotion plans, etc.
Organization / System	1. Implementor Group		· Operation of organization that exclusively assumes full responsibility for ethical management and ethical management committee, etc.
	2. Supervisor Group		· Enforcing Code of Conduct, daily supervision, on-site workplace monitoring
	3. Performance Management		· Education on ethical management, assessment and rewards of ethical management performance
Action Program	Customers	1. Customer Satisfaction	· Establishment of a system to improve customer satisfaction, ensuring various channels to collect customers' opinions, etc. · Raising the reliability of services offered to customers and privacy protection for customer information
		2. Transparency in Contract	· Exclusion of unfair transaction and enhancement of transparency in bidding transaction
	Employees	3.Cooperation between Labor and Management	· Establishment of Labor-Management Collaboration Committee
		4.Management of Human Resources	· Ensuring workplace diversity and fair assessment of performance
	Society	5. Social Contribution	· Expansion of social contribution activities and teams
		6. Information Disclosure	· Establishment of a system for information disclosure
		7. Environment-friendly Management	· Expansion of external communication · Purchase of environment-friendly products · Elimination of environment-threatening factors

B. Social Contribution Activities

In return for the faith the public has in the Corporation, all employees of the KDIC have participated in ongoing social volunteering activities. In April 2007, keeping pace with the social movement towards practical involvement, the KDIC launched the Share the Love Team composed of volunteers from within the organization, which renders practical help where needed. This adds another dimension, and is a step forward, from merely providing financial assistance.

In addition, the KDIC carried out various social contribution activities including promoting the Matching One Family with One Department Campaign to aid senior citizens who live alone and parentless or single-parented families from the Share the Love Fund, which was established from contributions made by employees, participating in a Blood Donation Campaign, encouraging staff to make contributions to needy neighbors, and assisting underprivileged youths with scholarships.

<Table II-9> Major Social Contribution Activities

Types	Dates	Activities
Free Meal Service	2007.1 ~ 2007.7	Participated in the free meal service during the lunch time hosted by SarangChae (once a month, total 56 employees).
Building Cooperative Ties with Farming and Fishing Villages	throughout the year	Promoted practical mutual exchanging activities (direct farm products dealings, farm visiting activities). - Apple picking volunteering activities (2007. 5.26) : 23 employees and family members - Apple picking volunteering activities (2007.10.27) : 79 employees and family members
Selection of KDIC Scholarship Recipients	2007.11.22	Helped 12 high school students residing within the same regional district (Jung Gu) by granting scholarships with the cash converted from points accumulated by using corporate credit cards (granted total 8.4 million won).
Blood Donation Campaign	2007.6.25 2007.11.12	Promoted Blood Donation with Love Campaign (60 employees donated blood).
Matching One Family with One Department Campaign	throughout the year	Reorganized the whole departments into 19 teams to match each team with a needy family or a social welfare facility, and developed spontaneous interchange activities.
Helping Victims of a Massive Oil Spill at TaeAn	2007.12.21	Removed crude oil in the polluted zone in Gu Reum Po, TaeAn, Chung Nam district (total 50 employees, contribution of 25 million won).
Executive Directors' Donation Activities	2007.5.30 2007.12.27	Accumulated 10% of Executive Directors' monthly salary to aid infants with cancers and to provide wheelchairs to disabled children.
Miscellaneous	-	Aiding Children Living with Grandparents Campaign (2007.5.20), Assisted needy families (2007.12), Held Bazaar of love (2007.10), and Participated in Delivering Coals with Love Activity (2007.10)

3-5 IT Advancement for Vision Achievement

A. Promotion of Strategies for Systematic IT Advancement

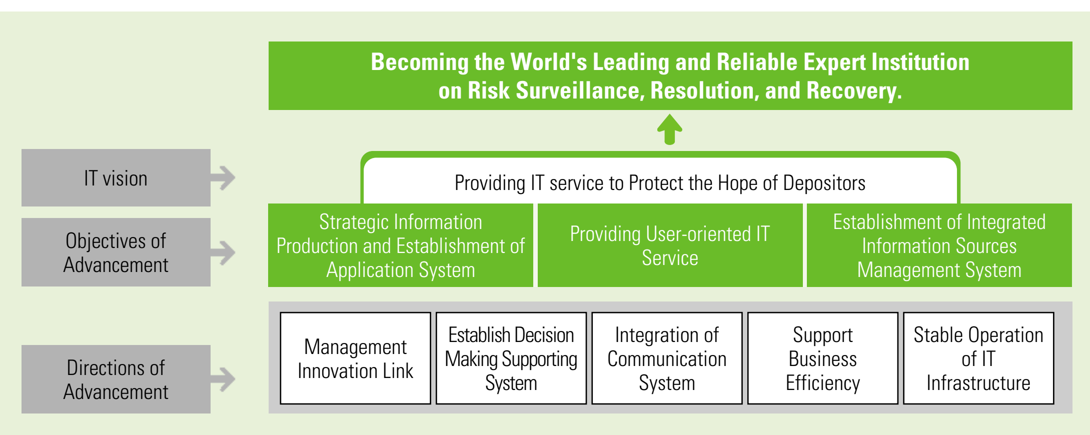
The KDIC established the Enterprise Architecture Planning (EAP) in 2004 to systematically support the achievement of its vision and flexibly respond to changes in information technology (IT). In 2005, it proclaimed its IT vision and promoted action agendas over three stages.

According to the plan, the year 2007 falls in the Stage Three action agenda which aims for IT Service Advancement. During the year, the Corporation's core task areas were newly equipped with improved information support systems such as the Integrated Resolution and Recovery Information System, Bankruptcy Credit and Dividend Management System, and the Digital Budget Accounting System.

In addition, the KDIC successfully achieved its Stage One IT vision by remodeling the computer room with the aim of ensuring the protection of the information of clients and improving the stability and security of the computing systems. Stability achieved by replacing and re-arranging equipment and the installation of a web-firewall ensures that confidential information is protected.

Besides, enactment of the Act regarding the Effective Introduction and Operation of Information Systems (effective since July 1, 2006) required the KDIC to introduce Information Technology Architecture. Hence, the KDIC set a Stage Two IT vision plan (2008~2010) to systematically support the achievement of its vision over the next three years and to actively respond to changes in IT. It also created a new IT vision, launched the Information Technology Architecture, selected 33 tasks for Information Advancement, and lastly prepared a roadmap to systematically promote these plans.

<Figure II-4> New IT Advancement Vision and Driving Strategies



B. Expansion in IT through Integration with Relevant Institutions

The Corporation made a change in its system of making transactions through the Financial Management System and the Fund Operation System so that it adheres to the National Accounting Standards of the National Financial Law. It also promoted the development of a system that automatically links settlement date and budget execution documents of the corporate accounting system with the Digital Budget Accounting System of the government. The Corporation has been trying to complete the development of an Integrated Resolution and Recovery Information System by July 2008. This system will digitize all the resolution processes, ranging from resolution preparation to post management of insolvent financial institutions and will enable the depositors of insolvent financial institutions to receive their provisional claim payments and insurance claim payments via the Internet.

3-6 Dynamic HR and Organizational Culture

A. Operation of Committee by Functions

The KDIC created a synergy effect, including developing methods to respond to external and internal environmental changes. It maintained an organic cooperation system through information sharing by operating committees according to the KDIC's four core functions.

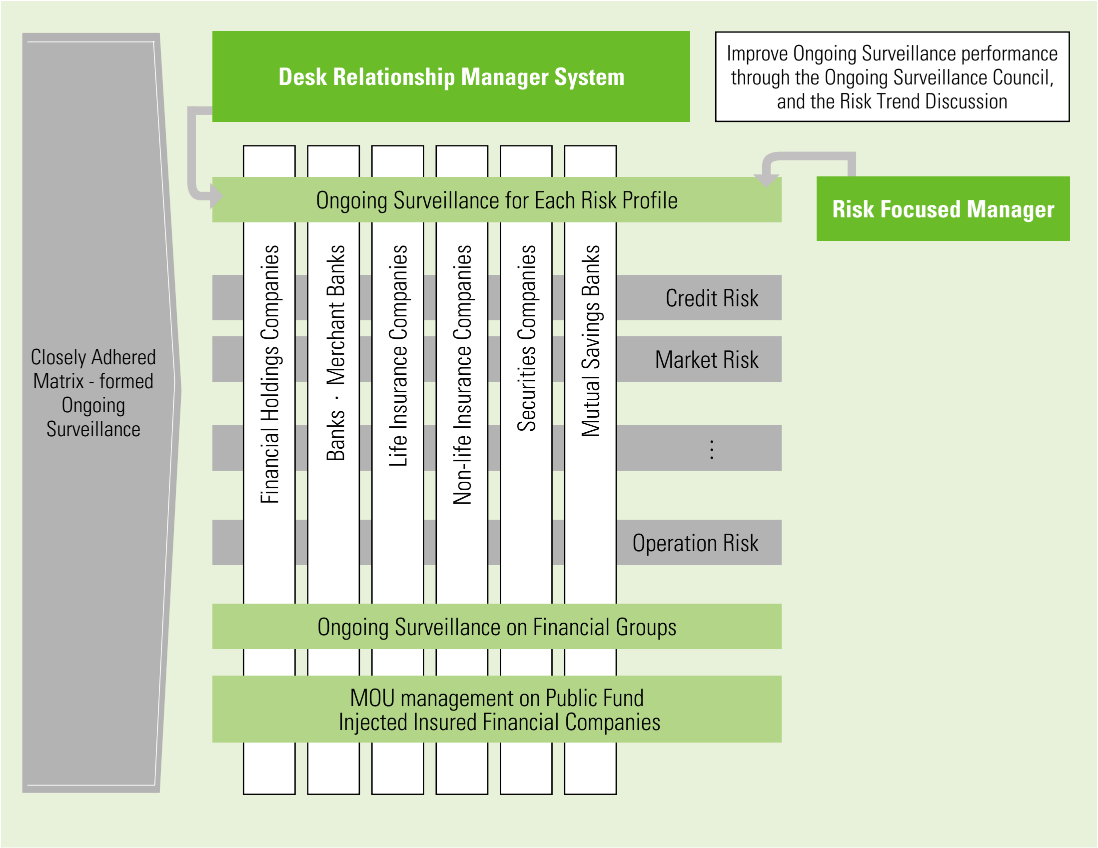
<Table II–10> Status of Committee Operation by functions

Function	Name (Date of stablishment)	Purpose	Major Achievement	No. of Meetings Held
Risk Surveillance	Ongoing Surveillance Committee (2006.2.27)	Comprehensive adjustment of the operations of ongoing surveillance teams, find needs, collect, and provide information regarding ongoing surveillance	• Analyze and respond to risks such as effect of America's Sub-prime mortgage insolvency and recession in the real estates • Provide policy-makers and outside directors with on-site financial information	44 times
Insurance and Resolution	Council for Insurance Contingency (2006.5.23)	Approval on integrated conservatorship, including management of insolvent (or potentially insolvent) financial institutions, establishment of a resolution system, financial assistance, and workforce assistance	• Respond to insured events including coming up with resolution schemes to apply to mutual savings banks with suspension in financial transactions in first half of 2007 and analyze the insolvency causes • Deliberate on corresponding schemes to improve soundness of mutual savings bank account	10 times
Recovery and Investigation	Bankruptcy Estate Management Council (2006.8.23)	Adjustment, deliberation and improvement of operations related to bankruptcy estates	• Devise systematic management schemes on lawsuits filed regarding bankruptcy estates • Discuss plans to improve operation of funds owned by bankruptcy estates	7 times
Management and Support	Organization HR Management Council (2006.10.4)	Diagnosis of current organizational and HR system and deliberation of innovation devices	• Deliberate on governance according to Public Agencies Operation Act • Discuss reorganization of corporation in 2008, and the designated number of employees	4 times

B. Establishment of a Matrix-formed Ongoing Surveillance System

In response to the changes in the financial environment, the KDIC established a Matrix-formed Risk Surveillance System by operating a Relationship Manager System and a Risk Manager System. Through the Ongoing Surveillance Committee, the KDIC revitalized information sharing among departments and promoted mutual cooperation.

<Figure II-5> Matrix-formed Risk Surveillance System



C. Wide-Spread of Strategic Balanced Score Card (BSC) System

By running the strategic Balanced Score Card (BSC) system, which was introduced to improve internal assessments that depend solely on qualitative indices, the KDIC strengthened its performance-based organizational culture.

Based on the results of the trial implementation of BSCs in the first half of 2006, the KDIC assessed the BSC achievement of 23 departments for the first time in February 2007. A workshop was held to change the unit of BSC assessments from a departmental-based to a team-based system. After continuous sharing of strategic goals and exchange of opinions among departments and teams, the KDIC came up with a measure to expand its BSC assessment to a team-based system in 2007. This system was put to the test in the first half of 2007, and team-based BSC assessments are now being performed in earnest.

<Table II-11> Major BSC Plans by Stage

Stage	Plans
Introduction Stage (2004~2005)	• Establishment and proclamation of its visions, 4 major drivers, and management ideology • Specifying its vision by devising the mid- to long- term management plan that also covers the KDIC's Integrated Improvement Roadmap • Introduction of BSC Based Performance Management System to carry the strategies into practice
Settlement Stage (2006~2007)	• Introduction of Assessment System for each department • Introduction of Assessment System for each team • Improvement of efficiency after the introduction of the Assessment Systems • Strengthen the linkage of work fields (HR, organization, budget, training, and etc.)
Application Stage (2008~2010)	• Refinement of Performance Management System • Refinement of Assessment System for each team/department • Review of introduction of Assessment System for individual • Strengthening the promptitude, accuracy, and efficiency of the Assessment Systems • Expanding the linkage of assessment results • Spreading strategy-focused and performance-oriented culture through the Assessment Systems • Settlement of the Performance Management Systems that reflect Corporation's distinctive features

III. Management of the Deposit Insurance Fund

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

1. Deposit Insurance Fund Bond Redemption Fund

1-1. Procurement and Repayment of the Deposit Insurance Fund

A. Special Contributions

Pursuant to paragraph 3 of Article 30 of the Depositor Protection Act (DPA) and paragraph 2 of Article 16 of the DPA Enforcement Decree, for the period from 2003 to 2027, insured financial institutions are required to pay a given ratio of their deposit balances (deposit balances for insurance companies, for example, would be the arithmetic average of the deposit liability reserve fund and the premiums received) to the KDIC, as special Contributions. At present, banks are required to pay special contributions within one month following the end of each quarter. Other insured financial institutions are required to pay their premiums within three months following the end of each business year. In 2007, the KDIC received special contributions in the amount of 728 billion won from six insured financial sectors.

<Table III -1> Special Contributions by Financial Sector

Sector	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions
Applied Special Contribution Rate	1/1,000	1/1,000	1/1,000	1/1,000	1/1,000	5/10,000[1)]
Legal Upper Limit	3/1,000	3/1,000	3/1,000	3/1,000	3/1,000	3/1,000

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

<Table III -2> Special Contribution Revenue

Year	Banks	Securities Companies	Insurance Companies		Merchant Banks	MSBs	Credit Unions[1)]	Total
			Life	Non-Life				
2003	4,775	156	889	185	20	222	-	6,247
2004	4,956	168	978	198	6	264	-	6,570
2005	4,871	145	1,069	219	5	319	-	6,628
2006	4,987	151	1,160	242	6	370	216	7,133
2007	5,027	156	1,265	278	7	430	116	7,280
Total	24,616	776	5,361	1,122	44	1,605	332	33,858

1) Credit unions will make payments from 2006 to 2017.

B. Contributions from the Public Fund Redemption Fund

In accordance with the Redemption Plan, the KDIC has received a total of 52.31 trillion won as contributions from the DIF Bond Redemption Fund during the four year period from 2003 to 2006 and completely repaid the principal of Deposit Insurance Fund Bonds (DIF Bonds). Therefore, the KDIC is no longer receiving contributions from the government from 2007.

C. Issuance and Redemption of Deposit Insurance Fund Bonds

As provided in Article 26-2 and 26-3 of the DPA, the KDIC can issue DIF Bonds. During 1998-2002, the KDIC issued DIF Bonds amounting to a total of 87.16 trillion won. According to the Redemption Plan, the DIF Bond issuance amount was placed under the DIF Bond Redemption Fund in 2003. The DIF Bonds that matured since 2003 were repaid with contributions from the Public Fund Redemption Fund, capital raised through the issuance of Deposit Insurance Fund Bond Redemption Fund Bonds (DIF Bond Redemption Fund Bonds), and existing funds in the Repayment Fund, etc. In 2007, the principal of DIF Bonds, which came to a total of 6.67 trillion won, was repaid with the capital raised through the issuance of DIF Bond Redemption Fund Bonds (2.72 trillion won) and existing funds in the DIF Bond Redemption Fund (3.35 trillion won). The balance of DIF Bonds as of the end of 2007 recorded 11.39 trillion won.

<Table III -3> Issuance and Redemption of DIF Bonds by Year

(Unit : 100 million won)

Issue Year	Issued Amount	Repaid Amount	Balance
1998	210,150	-	210,150
1999	224,850	-	435,000
2000	89,407	-	524,407
2001	310,593	14,640	820,360
2002	36,600	47,215	809,745
2003	-	97,371	712,374
2004	-	166,228	546,146
2005	-	180,904	365,242
2006	-	190,636	174,606
2007	-	60,673	113,933
Total	871,600	757,667	113,933

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

Under Article 26-2 and 26-3 of the DPA, the KDIC is authorized to issue DIF Bond Redemption Fund Bonds (DIF Bond Redemption Fund Bonds) to repay the principal of DIF Bonds. In 2007, the Corporation issued DIF Bond Redemption Fund Bonds in the amount of 2.72 trillion won through public bidding at a fixed rate with a five-year maturity. Meanwhile, 45 billion won was repaid in 2007, leaving the balance of DIF Bond Redemption Fund Bonds at 19.17 trillion won as of late 2007.

<Table III -4> Issuance and Redemption of DIF Bond Redemption Fund Bonds by Year

(Unit : 100 million won)

Issue Year	Issued Amount	Repaid Amount	Balance
2004	65,000	-	65,000
2005	74,400	-	139,400
2006	28,705	3,155	164,950
2007	27,200	450	191,700
Total	195,305	3,605	191,700

E. Borrowings

The KDIC is authorized, when necessary, for payment of insurance claims or resolution of insolvent financial institutions, to borrow funds from various entities including the government, the Bank of Korea, insured financial institutions, and institutions stipulated by Presidential Decree. The Corporation borrowed necessary funds from the special accounts for treasury loans, the International Bank for Reconstruction and Development (IBRD), the Asian Development Bank, and financial institutions up to 2002.

The previous borrowings of the KDIC were placed under the DIF Bond Redemption Fund which was established in 2003. As the KDIC was exempted from repaying all previous fiscal borrowings, in accordance with the Public Fund Redemption Fund Act, it made no borrowings since January 1, 2003. In 2007, the Corporation repaid 116.8 billion won (US$100 million) of the principal amount of loans from the IBRD, leaving the outstanding balance of its borrowings as of the end of 2007 at 700.8 billion won.

<Table III -5> Borrowings of DIF Bond Redemption Fund

(Unit: 100 million won)

Year	Lender Institution				Repaid Amount	Outstanding Balance
	Financial Institutions	IBRD and ADB[1]	Government	Total		
Amount Received	76,011	-	-	76,011	-	76,011
1998	3,295	2,416	10,582	16,293	9,337	82,967
1999	13,870	12,016	26,254	52,140	33,870	101,237
2000	90,028	13	39,533	129,574	9,802	221,009
2001	-	8	49,672	49,680	110,196	160,493
2002	-	-	59,553	59,553	3	220,043
2003	-	-	-	-	195,993	24,050
2004	-	-	-	-	11,168	12,882
2005	-	-	-	-	3,538	9,344
2006	-	-	-	-	1,168	8,176
2007	-	-	-	-	1,168	7,008
Total	183,204	14,453	185,594	383,251	376,243	7,008

1) International Bank for Reconstruction and Development and Asian Development Bank

1-2. Assistance

A. Overview

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

The DIF Bond Redemption Fund provided a total of 132 billion won in public funds during 2007, of which 53.2 billion won (40.3%) was for contribution and 78.8 billion won (59.7%) for purchase of assets.

<Table III -6> Financial Assistance by DIF in 2007

(Unit : 100 million won)

Financial Sector	Contribution	Insurance Claim Payment	Asset Purchase	Total
Banks	42	-	-	42
Securities Companies	97	-	530	627
Insurance Companies	-	-	-	-
Merchant Banks	-	127	-	127
MSBs	393	128	-	521
Credit Unions	-	3	-	3
Total	532	258	530	1,320

The total amount of public funds provided by the DIF Bond Redemption Fund for the restructuring of financial institutions comes to 112.2 trillion won as of year-end 2007. The amount includes 48.9 trillion won (43.6%) in equity participation for management normalization, 18.5 trillion won (16.5%) in contributions for P&As (purchase & assumptions), 30.3 trillion won (27.0%) for payments of insurance claims, and 14.5 trillion won (12.9%) for purchase of other assets, etc.

<Table III -7> Accumulated Financial Assistance by DIF Bond Redemption Fund

(As of December 31, 2007, Unit : 100 million won)

Financial Sector	Equity Participation	Contribution	Insurance Claim Payment	Asset Purchase	Loan	Total
Banks	222,039	139,090	-	100,064	-	461,194
Securities Companies	80,769	3,465	144	19,575	-	103,953
Insurance Companies	159,198	31,171	-	3,495	-	193,863
Merchant Banks	27,052	7,431	182,845	-	12,917	230,245
MSBs	101	4,155	72,897	-	8,532	85,685
Credit Unions	-	-	47,579	-	367	47,946
Total	489,158	185,312	303,465	123,134	21,817	1,122,885

B. Assistance by Financial Sector

(1) Banks

In 1999, a formal agreement was entered into with New Bridge Capital for the sale of Korea First Bank. The agreement states that the KDIC would provide financial support in the form of contributions to the bank for the losses incurred as a result of lawsuits concerning business operations prior to the acquisition of the bank by New Bridge Capital. In 2007, the KDIC contributed 4.2 billion won to the bank for this purpose.

<Table III -8> Financial Assistance Provided to Banks

(As of December 31, 2007, Unit : 100 million won)

Name of Institution	Equity Participation				Contribution				Asset Purchase			
	Prior to 2004	2005	2006	2007	Prior to 2004	2005	2006	2007	Prior to 2004	2005	2006	2007
Korea First	50,248	-	-	-	10,254[1]	1,129	4	42	79,476	-	-	-
Woori	60,286	-	-	-	18,772	-	-	-	-	-	-	-
Seoul	46,809	-	-	-	2,216	-	-	-	-	-	-	-
Chohung	27,179	-	-	-	-	-	-	-	-	-	-	-
Peace	4,930	-	-	-	3,386	-	-	-	-	-	-	-
Kyungnam	2,590	-	-	-	938	-	-	-	-	-	-	-
Kwangju	1,704	-	-	-	2,714	-	-	-	-	-	-	-
Jeju	531	-	-	-	1,651	-	-	-	-	-	-	-
Koookmin	2,000	-	-	-	18,319	-	-	-	179	-	-	-
H&CB	2,965	-	-	-	18,075	-	-	-	538	-	-	-
Shinhan	2,925	-	-	-	25,204	-	-	-	591	-	-	-
Hana	4,728	-	-	-	11,161	-	-	-	54	-	-	-
KorAm	2,600	-	-	-	24,356	-	-	-	226	-	-	-
KDB	-	-	-	-	-	-	-	-	13,000	-	-	-
IBK	-	-	-	-	-	-	-	-	6,000	-	-	-
AC	962	-	-	-	870	-	-	-	-	-	-	-
FC	11,581	-	-	-	-	-	-	-	-	-	-	-
RFC	1	-	-	-	-	-	-	-	-	-	-	-
Total	222,039	-	-	-	137,916	1,129	4	42	100,064	-	-	-

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

(2) Securities Companies

In 2007, the KDIC provided additional contributions worth 1.4 billion won and 0.1 billion won to Korea Investment & Securities and Daehan Investment & Securities, respectively, following the sale of the two companies in 2005. In accordance with the indemnification clause in the Agreement on Sales and Purchase of Shares, this measure was aimed at covering lawsuit related losses incurred by the companies.

Upon the disposition of its stake (80%) in Prudential Investment & Securities (former Hyundai Investment & Securities), the Corporation, in accordance with the Agreement on Sales and Purchase of Shares, provided 8.2 billion won as contributions to the company for indemnification and purchased 53 billion won of subordinated CBOs pursuant to the agreement with the company in 2007.

<Table III -9> Financial Assistance Provided to Securities Companies

(As of December 31, 2007, Unit : 100 million won)

Name of Institution	Equity Participation		Contribution[1]		Asset Purchase		Insurance Claim Payment[2]	
	2006 and Earlier	2007	2006 and Earlier	2007	2006 and Earlier	2007	2006 and Earlier	2007
Jangeun Securities	-	-	-	-	-	-	40	-
Dongbang Peregrine Securities	-	-	-	-	-	-	100	-
Hannam Investment & Securities	-	-	-	-	-	-	1	-
Korea Industrial Securities	-	-	-	-	-	-	3	-
Korea Investment & Securities	38,649	-	754	14	4,830	-	-	-
Daehan Investment & Securities	23,003	-	628	1	6,539	-	-	-
Prudential Securities	19,116	-	1,985	82	7,675	530	-	-
Total	80,769	-	3,367	97	19,044	530	144	-

1) Includes contributions for losses occurred after the sale
(Korea Investment & Securities Co. : 2.54 billion won, Daehan Investment & Securities : 12.8 billion won)
2) Based on the amount of required payments

(3) Insurance Companies

The KDIC did not provide any funds to insurance companies in the form of equity participation or contributions during 2007. It may, however, offer financial assistance to Mirae Asset Life (former SK Life) depending on the court rulings in the lawsuits regarding the sale of Kookmin Life filed during the indemnification period.

<Table III -10> Financial Assistance Provided to Insurance Companies

(As of December 31, 2007, Unit: 100 million won)

Name of Institution	Equity Participation				Contribution				Asset Purchase			
	Prior to 2004	2005	2006	2007	Prior to 2004	2005	2006	2007	Prior to 2004	2005	2006	2007
Seoul Guarantee	102,500	-	-	-	-	-	-	-	-	-	-	-
Korea Life	35,500	-	-	-	-	-	-	-	-	-	-	-
Korea Life (Acquisition of Hyundai life)	-	-	-	-	7,716	-	-	-	48	-	-	-
Korea Life (Acquisition of Samshin life)	-	-	-	-	1,518	-	-	-	-	-	-	-
Daehan Cement (Acquisition of Daehan Fire)	0.5	-	-	-	509	-	-	-	-	-	-	-
KunWha Parmaceutical (Acquisition of Green Fire)	0.5	-	-	-	739	-	-	-	-	-	-	-
Kumho Life (Acquisition of Dong-ah life)	10,922	-	-	-	754	-	-	-	2,711	-	-	-
SK Life (Acquisition of Kookmin life)	2,862	-	-	-	298	-	-	-	168	-	-	-
Tongyang Life (Acquisition of Taepyongyang life)	2,597	-	-	-	451	-	-	-	289	-	-	-
SK Life (Acquisition of Handuck life)	3,350	-	-	-	387	-	-	-	279	-	-	-
Hyundai Life (Acquisition of Chosun life)	1,166	-	-	-	111	-	-	-	-	-	-	-
Koea Life (Acquisition of Doowon life)	300	-	-	-	2,967	-	-	-	-	-	-	-
Samsung Life (Acquisition of Lookje life)	-	-	-	-	4,351	-	-	-	-	-	-	-
Kyobo Life (Acquisition of BYC life)	-	-	-	-	2,411	-	-	-	-	-	-	-
Heungkook Life (Acquisition of Taeyang Life)	-	-	-	-	2,792	-	-	-	-	-	-	-
Jeil Life (Acquisition of Koryo Life)	-	-	-	-	2,087	-	-	-	-	-	-	-
Acquisition of Regent Fire: Oriental Fire	-	-	-	-	225	16	-	-	-	-	-	-
Acquisition of Regent Fire: Samsung Fire	-	-	-	-	1,526	5	-	-	-	-	-	-
Acquisition of Regent Fire: Hyundai Marine & Fire	-	-	-	-	437	9	-	-	-	-	-	-
Acquisition of Regent Fire: LG Fire	-	-	-	-	193	4	-	-	-	-	-	-
Acquisition of Regent Fire: Dongbu Fire	-	-	-	-	5	5	-	-	-	-	-	-
Green Cross Life (Acquisition of Daishin Life)	-	-	-	-	1,393	-	-	-	-	-	-	-
KB Life (Acquisition of Hanil Life)	-	-	-	-	262	-	-	-	-	-	-	-
Total	159,198	-	-	-	31,132	39	-	-	3,495	-	-	-

(4) Merchant Banks

During 2007, the KDIC did not provide any funds to merchant bank in the form of equity participation or contributions. However, Dongsuh Horizon Securities, a depositor of Hankook Merchant Bank, filed a lawsuit against the KDIC to receive the insurance claims. The Corporation partially lost the case in the High Court's judgment (2nd ruling) and paid 12.7 billion won in provisional payments. The case has now been referred to the Supreme Court and is currently pending for trial.

<Table III -11> Financial Assistance Provided to Merchant Banks

(As of December 31, 2007, Unit: 100 million won)

Name of Institution	Equity Participation		Contribution		Deposit Payoff		Loan	
	2006 and Earlier	2007	2006 and Earlier	2007	2006 and Earlier	2007	2006 and Earlier	2007
Kyungnam	-	-	-	-	5,652	-	-	-
Kyungil	-	-	-	-	2,990	-	-	-
Koryo	-	-	-	-	4,706	-	-	-
Kumho	-	-	-	-	-	-	375	-
Nara	-	-	-	-	27,779	-	-	-
Daegu	-	-	-	-	6,725	-	502	-
Daehan	-	-	-	-	25,903	-	-	-
Tongyang	-	-	-	-	-	-	1,200	-
Samsam	-	-	-	-	8,145	-	-	-
Samyang	-	-	-	-	3,194	-	250	-
Saehan	-	-	-	-	7,889	-	4,238	-
Shinsegae	-	-	-	-	7,520	-	-	-
Shinhan	-	-	-	-	22,242	-	-	-
Ssangyong	-	-	-	-	6,662	-	-	-
Youngnam	1,717	-	-	-	1	-	370	-
Ulsan	-	-	-	-	-	-	200	-
Jeil	-	-	-	-	16,529	-	1,118	-
Joongang	0.5	-	-	-	-	-	-	-
Chungsol	121	-	-	-	1,477	-	1,275	-
Hanaro	24,912	-	7,431	-	-	-	-	-
Korea	0.5	-	-	-	-	127	914	-
Hangil	-	-	-	-	6,547	-	1,139	-
Hansol	-	-	-	-	9,220	-	-	-
Hans	0.5	-	-	-	-	-	300	-
Hanareum	300	-	-	-	-	-	-	-
Hanwoi	-	-	-	-	-	-	531	-
Hanwha	-	-	-	-	14,343	-	-	-
Hangdo	-	-	-	-	5,194	-	-	-
Hyundai	-	-	-	-	-	-	505	-
Total	27,052	-	7,431	-	182,718	127	12,917	-

(5) Mutual Savings Banks (MSBs)

In order to refund MSBs for the losses incurred during the acquisition process, financial assistance was provided to 14 MSBs, including Boomin Mutual Savings and Finance Co. that had acquired insolvent banks through P&As before 2002. A total of 39.3 billion won was contributed to these MSBs in 2007.

The KDIC has made insurance payments to MSBs which became insolvent from 1998 to 2002 out from the DIF Bond Redemption Fund. However, additional insurance payments were made to MSBs designated as insolvent after 2002 if they had won lawsuits demanding payment or if the reasons for deferral of payments have been removed.

<Table III -12> Financial Assistance Provided to MSBs

(As of December 31, 2007, Unit : 100 million won)

Name of Institution	Equity Participation		Contribution		Loan	
	2006 and Earlier	2007	2006 and Earlier	2007	2006 and Earlier	2007
New Choongbuk	100	-	-	-	161	-
Kisan	-	-	-	-	541	-
Dongwha	-	-	-	-	639	-
Ilshin	-	-	-	-	155	-
Dong-ah	-	-	-	-	104	-
Kyungbuk	-	-	-	-	170	-
Saenuri	-	-	13	1	413	-
Daewon	-	-	-	-	563	-
Choongil	-	-	-	-	89	-
Daejeon	-	-	-	-	102	-
Haedong	-	-	-	-	263	-
Choongnam	-	-	-	-	45	-
Pusan2	-	-	-	-	271	-
Union	-	-	39	-	518	-
Arim	-	-	-	-	615	-
Korea Investment (Dongwon)	-	-	51	11	783	-
MS (Choil)	-	-	24	4	738	-
Domin	-	-	23	4	709	-
Kyunggi	-	-	234	20	1,654	-
Boomin	-	-	232	9	-	-
Hanmaum	-	-	522	-	-	-
Kyungbuk	-	-	80	3	-	-
Shilla (Telson)	-	-	693	82	-	-
Hanaro	-	-	377	45	-	-
Solomon	-	-	593	71	-	-
J-1	-	-	279	46	-	-
Sangup	-	-	602	98	-	-
RFC	1[1]	-	-	-	-	-
Total	101	-	3,762	394	8,532	-

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

<Table III -13> Insurance Claim Payments to MSBs

(Unit : 100 million won)

Year	No. of Institutions[1]	Payment Amount
1998	17	14,705
1999	19	14,272
2000	11	6,500
2001	5	29,537
2002	10	7,719
2003	7	5
2004	8	26
2005	7	1
2006	8	3
2007	2	128
Total	-	72,896

1) The total number of institutions provided with insurance claim payments from the DIF Bond Repayment Fund is 75.

(6) Credit Unions

The KDIC has not dealt with any new insolvent credit unions since 2004 as, pursuant to Article 2 and addenda to the DPA, these unions were excluded from deposit insurance cover. However, additional insurance payments were made to unions if they had won lawsuits demanding payment or if the reasons for deferral of payments have been removed.

Consequently, the KDIC paid 300 million won of insurance payments to credit unions in 2007.

<Table III -14> Insurance Claim Payments to Credit Unions

(Unit : 100 million won)

Year	No. of Institutions[1]	Payment Amount
1998	39	4,306
1999	95	8,302
2000	122	3,991
2001	127	3,892
2002	235	16,060
2003	248	10,950
2004	173	61
2005	195	16
2006	196	-1
2007	77	3
Total	-	47,579

1) The total number of institutions provided with insurance claim payments from the DIF Bond Repayment Fund is 325.

1-3. Recovery

A. Overview

Depending on the nature of the support extended, the KDIC uses a number of methods to recover public funds. First, it recovers funds injected in the form of equity participation through disposition of its equity stakes. For financial institutions that have closed because their liabilities exceeded their assets, it recovers funds provided as contributions or deposit payoffs by proving a claim and receiving dividends from the bankruptcy estate of the institution concerned. Third, in the case where the Corporation has taken over assets of and extended loans to financial institutions, it recovers the funds through the disposal of the assets or collection of the loans using a variety of methods. The accumulated amount of public funds recovered as of the end of 2007 recorded 40.91 trillion won including 4.34 trillion won recovered in 2007 alone.

<Table III -15> DIF Bond Redemption Fund Recoveries in 2007

(Unit : 100 million won)

Financial Sector	Equity Participation	Contribution	Bankruptcy Dividend[1]	Recovery of Loan	Asset Sale[2]	Total
Banks	25,919	227	-	-	5,689	31,835
Securities Companies	-	100	-	-	728	828
Insurance Companies	3,522	83	88	-	-	3,693
Merchant Banks	375	10	4,749	3	-	5,137
MSBs	-	1	1,493	-	-	1,494
Credit Unions	-	-	410	-	-	410
Total	29,816	421	6,740	3	6,417	43,397

1) Includes bankruptcy dividend resources reimbursed by the Resolution Financial Institutions
2) Includes asset sale proceeds reimbursed by the Resolution Financial Institutions

<Table III -16> Accumulated DIF Bond Redemption Fund Recoveries

(As of December 31, 2007, Unit : 100 million won)

Financial Sector	Equity Participation	Contribution	Bankruptcy Dividend[1]	Recovery of Loan	Asset Sale[2]	Total
Banks	130,700	647	16,853	-	49,358	197,558
Securities Companies	11,279	2,933	65	-	7,701	21,978
Insurance Companies	17,484	866	3,773	-	1,877	24,000
Merchant Banks	704	59	73,039	10,448	-	84,250
MSBs	-	315	45,636	2,150	-	48,101
Credit Unions	-	4	32,804	355	-	33,163
Total	160,167	4,824	172,170	12,953	58,936	409,050

1) Includes bankruptcy dividend resources reimbursed by Resolution Financial Institutions
2) Includes asset sale proceeds reimbursed by Resolution Financial Institutions

B. Disposition of Equity Stake

The equity participations, which the KDIC has recovered until now, can be categorized into those from banks (disposal of Korea First Bank, recovery of preferred stocks of banks that acquired the five failed banks, sale of shares of four banks including Jeju Bank, Woori Financial Group, Shinhan Financial Group, and Chohung Bank, and sale of Seoul Bank and shares of Hana Financial Group), securities companies (sale of shares of Hyundai Investment & Securities, Korea Investment & Securities, and Daehan Investment & Securities), insurance companies (sale of shares of Daehan Life Insurance), and from others (recovery of National Agricultural Cooperative Federation (NACF) preferred stocks).

(1) Banks

For the Woori Financial Group, the KDIC recovered 916.8 billion won by selling 5% of its shares through after-hours block trade in June 2007. Another 2.15 trillion won was recovered through after-hours block trade of 42 million shares out of 45 million common stocks converted from Shinhan Financial Group's redeemable convertible stocks. These shares were acquired by disposing of Chohung Bank. Also, 337 billion won was recovered when 19 million redeemable preferred stocks were repaid in 2006 and 2007.

(2) Securities Companies

Of the 100% shares of Hyundai Investment and Securities Co. the KDIC acquired by providing financial assistance, 80% was sold to the Prudential Financial Group in February 2004. For the remaining 20% of shares, the disposal process is underway based on the agreement signed by the shareholders of Hyundai Investment & Securities Co. as Prudential Investment & Securities exercised its call option on February 28, 2007. For these shares, the KDIC had the put option while Prudential Investment & Securities retained the call option. Three years after the disposal of the KDIC's 80% shares of Hyundai Investment and Securities Co. to the Prudential Financial Group was made, each party could exercise the options for three years.

(3) Insurance Companies

Following deliberations by the Sales Examining Subcommittee on January 6, 2006 and the Public Fund Oversight Committee on January 16, 2006, the Seoul Guarantee Insurance Company (SGIC) underwent a capital reduction with and without consideration. The ratio of the capital reduction was 9.18:1, and was applied equally to both common stock and preferred stock and amounted to 9.21 trillion won. This amount includes 550 billion won repaid by shareholders as well as 8.66 trillion won to make up for the losses carried forward in common stocks and preferred stocks. On March 30, 2006, the company repaid public funds worth 545.6 billion won to the KDIC with gains from the capital reduction with consideration. Through the capital inflow of 229 billion won created by the gains from stock retirement after deficit preservation, the KDIC, in addition, received 5.9 million common stocks and 39.9 million preferred stocks on January 30, 2007. As the SGIC paid cash dividends after realizing a

549 billion won net profit in FY 2006, the KDIC collected another 352.2 billion won worth of dividends on July 19, 2007.

(4) Miscellaneous

By disposing of 3.83 million shares in Doosan Infracore at 38,050 won without any discount through after-hours block trade, the KDIC recovered a total of 145.9 billion won. These shares were acquired by the RFC during the KDIC's sale of Korea First Bank to New Bridge Capital in 1999.

C. Bankruptcy Dividends

During 2007, the KDIC received bankruptcy dividends worth 674.1 billion won through disposition of its equity stakes in bankruptcy estates that had received public funds, thus recovering a total of 17.22 trillion won by the end of 2007. With the addition of 8.8 billion won recovered from bankruptcy estates of five banks including Donghwa Bank and ten insurance companies including Hyundai Life Insurance during 2007, the total amount of public funds recovered up to the end of 2007 amounted to 2.06 trillion won.

By late 2007, the Corporation recovered a total of 15.15 trillion won through collecting 474.9 billion won (merchant banks), 149.3 billion won (MSBs), and 41 billion won (credit unions) from the bankruptcy estates of 4 securities companies, 22 merchant banks, 75 MSBs, and 325 credit unions during 2007.

<Table III -17> Bankruptcy Dividends Recoveries by Financial Sector[1)]

(As of December 31, 2007, Unit : 100 million won)

Financial Sector	No. of Bankruptcy Estate	Recovered Amount	
		2007	1999-2007 Cumulative
Banks	5	-	16,853
Insurance Companies	10	88	3,773
Securities Companies	4	-	65
Merchant Banks	22	4,749	73,039
MSBs	75	1,493	45,636
Credit Unions	325	410	32,804
Total	441	6,740	172,170

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

D. Disposition of Assets

The Resolution and Finance Corporation* (RFC) uses a variety of recovery methods in addition to the traditional recovery at full asset maturity. The methods include sale through M&A, disposition of non-performing loans (NPLs) through joint venture special purpose companies (J.V.SPCs), issuance of asset backed securities (ABSs), offshore issuance of exchangeable bonds, and recovery of foreign currency-denominated bonds through Standard Asset Management & Disposition Agreements (SAMDAs**). By the end of 2007, the RFC repaid a total of 5.66 trillion won to the KDIC.

* For the effective resolution of insolvent financial institutions, the RFC was established on December 27, 1999, in accordance with the DPA and merged and acquired Hanareum Merchant Bank and MSB.

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

<Table III -18> Recoveries from Asset Sales by the Resolution Financial Corporation[1)]

(As of December 31, 2007, Unit : 100 million won)

Assets Sold	Sales Method	Sales Amount	Purchaser
Stocks (Ileun Securities)	M&A	1,195[2)]	Regent Group
Stocks (Kia Motors)	OTC Sale	1,158	Fiduciary OGF(L), Ltd.
Stocks (KT&G)	Buybacks	1,681	KT&G
Stocks (ShinDongBang)	M&A	3	CJ Consortium
Loans and Stocks (Shinho Petrochemical)	M&A	153	Aram Financial
Stocks (Shinho Papers)	M&A	20	Aram Consortium
Stocks (Hynix)	After-hours block trade	890	Foreign/Domestic Investors
Stocks (Daewoo Engineering & Construction)	M&A	1,668	Kumho Asiana Consortium
Stocks (KEPCO)	Exchangeable Bonds	63[3)]	Foreign Investors
Stocks(Doosan Infracore)	After-hours block trade	1,459	-
Loans	J.V.SPC	2,044	Lone Star
	International Auction (RFC2001-1)	2,690	Lone Star/Merrill Lynch
	International Auction (Jinro Bonds)	104	Morgan Stanley
	Sale to KAMCO	7,014	KAMCO
	ABS Issuance	572	Domestic Investors
Real Estates	Public Sale Consignment	3,485	Domestic Investors
Foreign Currency Debentures	SAMDA	429	Foreign Investors
Loans/Securities	Principal/Interest Call, Market Sale	31,970	-
Total		56,598	-

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

E. Recovery of Loans

The Corporation extended 2.18 trillion won in loans to merchant banks, MSBs and credit unions, and the total amount of recoveries up to the end of 2007 stood at 1.48 trillion won including 300 million won recovered from the guarantors of Hangil Merchant Bank in 2007. Of the total amount recovered, 1.29 trillion won was collected directly rather than through bankruptcy dividends.

During 2007, the KDIC also collected a total of 42 billion won through the settlement of contributions including 22.7 billion won from Korea First Bank, 10 billion won from Korea Investment & Securities Co., Daehan Investment & Securities Co., and Hyundai Investment & Securities Co., and 30 million won from Daehan Life Insurance. It also recovered 100 million won by winning a suit against savings bank employees who were responsible for the insolvencies.

2. Deposit Insurance Fund (DIF)

2-1. Procurement and Management of Deposit Insurance Fund (DIF)

A. Insurance Premiums

Pursuant to Article 30 of the Depositor Protection Act (DPA) and Article 16 of the DPA Enforcement Decree, insured financial institutions are required to pay a given ratio of their deposit balances to the KDIC. Deposit balances for insurance companies, for example, would be the arithmetic average of the deposit liability reserve fund and the premiums received. At present, banks are required to pay deposit insurance premiums within one month following the end of each quarter. Other insured financial institutions are required to pay their premiums within three months following the end of each business year. The deposit insurance premiums up to 2002 were placed in the DIF Bond Redemption Fund while deposit insurance premiums collected since 2003 have been placed in the new DIF. The total amount of premiums received from insured financial institutions and paid into the DIF in 2007 came to 1.11 trillion won.

<Table III-19> Insurance Premium Revenue

(Unit: 100 million won)

Year	Banks	Securities Companies	Insurance Companies		Merchant Banks	MSBs	Credit Unions	Total
			Life	Non-Life				
Amount Remitted[1]	-	-	1,414	379	848	2,017	402	5,060
1997	321	-	-	-	-	-	-	321
1998	1,292	-	386	143	132	390	-	2,343
1999	1,975	51	1,011	249	336	377	162	4,161
2000	2,630	156	1,402	379	233	323	281	5,404
2001	4,139	218	1,938	478	139	529	407	7,848
2002[2]	4,361	262	2,295	485	130	604	641	8,778
2003	4,775	312	2,580	535	73	667	603	9,545
2004	4,960	336	2,832	571	17	793	4	9,513
2005	4,869	300	3,109	628	15	974	-	9,895
2006	4,987	303	3,362	697	19	1,116	-	10,484
2007	5,027	256	3,654	801	22	1,306	-	11,066
Total	39,336	2,194	23,983	5,345	1,964	9,096	2,500	84,418

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

<Table III-20> Deposit Insurance Premiums by Financial Sector

	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs
Applied Premium Rate	10/10,000	20/10,000[1]	30/10,000[2]	30/10,000	30/10,000
Legal Upper Limit	50/10,000	50/10,000	50/10,000	50/10,000	50/10,000

1) Decrease the premium rate by 30% for the securities companies which deposits its customers' deposits in securities and finance companies
2) Increase or decrease the premium rate within the range of 5% of standard rate considering each company's business years, creditability, and financial soundness

B. Contributions from Insured Financial Institutions

Article 24 of the DPA and Article 14 of the DPA Enforcement Decree require that a newly established insured financial institution contribute a proportion of its paid-in-capital or equity participation to receive deposit insurance coverage within one month of starting business operation. Due to the Redemption Plan and setup of the DIF Bond Redemption Fund, contributions made up to 2002 were incorporated into the DIF Bond Redemption Fund whereas contributions received since 2003 are incorporated into the current Deposit Insurance Fund. As there were no newly established insured financial institutions, the Corporation did not receive any contribution during 2007.

<Table III-21> Contribution Remittances by Financial Sector

(Unit : million won)

Year	Banks	Securities Companies	Insurance Companies		Merchant Banks	MSBs	Credit Unions	Total
			Life	Non-Life				
Amount Remitted[1]	-	-	-	-	24,000	7,998	2,871	34,869
1998	-	-	-	-	-	200	9	209
1999	300	1,050	-	30	-	715	3	2,098
2000	60	32,814	-	32	-	-	-	32,906
2001	126	759	30	260	1,500	-	-	2,675
2002[2]	125	500	-	330	-	390	-	1,345
2003	30	-	650	200	-	-	-	880
2004	340	200	600	200	-	-	-	1,340
2005	220	200	-	-	-	1,250	-	1,670
2006	380	800	-	200	-	1,340	-	2,720
2007	-	-	-	-	-	-	-	-
Total	1,581	36,323	1,280	1,252	25,500	11,893	2,883	80,712

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

C. Borrowings

Pursuant to Article 26 of the DPA and Article 15 of the DPA Enforcement Decree, the DIF is authorized to, when necessary, for payment of insurance claims or resolutions of insolvent financial institutions, borrow funds from various entities including the government, the Bank of Korea, insured financial institutions, and financial institutions stipulated by Presidential Decree. In accordance with this, the KDIC borrowed a total of 104.6 billion won in 2003, 61.8 billion won in 2004 to make insurance claim payments to depositors of credit unions, and 231.4 billion won during 2007 to resolve mutual savings banks. Of this amount, 42.5 billion won, 38.5 billion won, and 6 billion won were repaid in 2004, 2005, and 2006, respectively, leaving the balance of the Credit Union account at 79.4 billion won and the MSB account at 231.4 billion won.

2-2. Assistance

A. Overview

The DIF has been responsible for the costs arising from the resolution of financial institutions that have become, or were designated as, insolvent financial institutions from 2003. The DIF provided a total of 1.15 trillion won for the restructuring of MSBs during 2007 and recovered 300 million won from the total amount spent on resolution of credit unions.

The DIF has, as of the end of 2007, spent a total of 2.7 trillion won on insurance claim payments, etc. including 2.5 trillion won to depositors of 11 MSBs including Gimcheon MSB and 219.6 billion won to 14 credit unions including Wolpyeong Credit Union.

<Table III-22> Financial Assistance by DIF in 2007

(Unit : 100 million won)

Financial Sector	Equity Participation	Contribution	Insurance Claim Payment	Asset Purchase	Loan	Total
MSBs	380	6,602	1,345	-	1,827	10,154
Credit Unions	-	-	-3	-	-	-3
Total	380	6,602	1,342	-	1,827	10,151

<Table III-23> Accumulated Financial Assistance by DIF

(As of December 31, 2007, Unit : 100 million won)

Financial Sector	Equity Participation	Contribution	Insurance Claim Payment	Loan	Total
MSBs	548	12,737	8,732	2,912	24,929
Credit Unions	-	-	2,196	-	2,196
Total	548	12,737	10,928	2,912	27,125

B. Assistance by Financial Sector

(1) Mutual Savings Banks (MSBs)

During 2006, Yeahreum MSB, a bridge bank, was established to resolve three insolvent financial institutions. Insurance contingencies arose in Good Friend MSB in 2006, in Daewoon MSB and Hongik MSB in 2007. The Corporation contributed 211.8 billion won, 65.4 billion won, and 333.7 billion won, respectively, to compensate for the net asset deficiencies generated due to the partial transfer of the failed banks' assets and liabilities to the bridge bank. The Corporation also assisted with 28 billion won in the form of equity participation. For the P&A of the unsound assets of Good Friend, Daewoon, and Hongik MSB into the RFC, the KDIC loaned the acquisition cost, amounting to 102.6 billion won, 32.3 billion won, and 31.9 billion won, respectively, to the RFC.

The KDIC also founded another bridge bank, Yehanwul MSB, to take over the sound assets and liabilities of Kyungbook MSB in which an insurance contingency arose in 2007. In this instance, the KDIC contributed 49.3 billion won, the total net asset deficit, and also provided 10 billion won through equity participation. For the P&A of the unsound assets of Kyungbook MSB into the RFC, the KDIC loaned the acquisition cost, amounting to a total of 15.9 billion won, to the RFC.

During 2007, the KDIC made insurance claim payments of 29 billion won to the depositors of Daewoon MSB which was ordered to suspend the business operation on January 19, 2007. An amount of 65.9 billion won was paid to the depositors of Hongik MSB, the operation of which was suspended on March 16, 2007. The operation of Kyungbook MSB was suspended on May 25, 2007, and its depositors received 17.6 billion won in insurance claim payments. Meanwhile, along with Good Friend MSB, which was closed down in 2006, Daewoon MSB and Hongik MSB were transferred to Yeahreum MSB through P&A agreements. On the other hand, the KDIC recovered the provisional payments made to Kyungbook MSB as the bank was sold to Yehanwul MSB via a P&A. As a result, the net insurance claim payments made by the Corporation during 2007 amounted to 134.5 billion won.

<Table III-24> Insurance Claim Payments to MSBs

(Unit: 100 million won)

Year	No. of Institutions[1]	Payment Amount
2003	1	764
2004	3	1,770
2005	7	4,527
2006	7	326
2007	6	1,345
Total	-	8,732

1) The number of institutions provided with insurance claim payment from the DIF is 9.

(2) Credit Unions

Credit unions have been excluded from insurance coverage of the KDIC since 2002 pursuant to the additional clause to Article 2 of the DPA, and no new insured risk events have occurred in relation to credit unions. However, there have been cases where the KDIC had to pay insurance claims when the reasons for payment deferral were removed or when credit unions won the lawsuits on request for payments. In the meantime, there were cases when previously-made insurance claim payments were recouped by setting off the amount of claimed payments against the surety obligation. In this regard, an amount of 300 million won was recouped during 2007.

<Table III-25> Insurance Claim Payments to Credit Unions

(Unit: 100 million won)

Year	No. of Institutions[1]	Payment Amount
2003	8	1,543
2004	12	645
2005	8	12
2006	12	0
2007	5	-3
Total	-	2,196

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

2-3. Recovery

A. Overview

The KDIC uses the same method as in the case with the DIF Bond Redemption Fund to recover the public funds extended by the DIF. Such methods include recovering funds by selling equity stakes in financial institutions that it invested in, collecting bankruptcy dividends through participation in bankruptcy procedures of insolvent financial institutions, and recovering loans it made to financial institutions. Through these methods, the total amount of public funds recovered from 2003 to 2007 recorded 339.5 billion won including 81.4 billion won recovered in 2007 alone.

<Table III-26> DIF Recoveries in 2007

(Unit: 100 million won)

Financial Sector	Equity Participation	Contribution	Bankruptcy Dividend	Recovery of Loan	Total
MSBs	-	2	165	574	741
Credit Unions	-	-	73	-	73
Total	-	2	238	574	814

<Table III-27> Accumulated DIF Recoveries

(As of December 31, 2007, Unit: 100 million won)

Financial Sector	Equity Participation	Contribution	Bankruptcy Dividend	Recovery of Loan	Total
MSBs	423	10	1,139	719	2,291
Credit Unions	-	-	1,104	-	1,104
Total	423	10	2,243	719	3,395

B. Bankruptcy Dividends

During 2007, the KDIC received bankruptcy dividends worth 23.8 billion won through disposition of its equity stakes in bankruptcy estates that had received public funds from the DIF. By financial sector, it recovered 16.5 billion won from the bankruptcy estates of MSBs and 7.3 billion won from the bankruptcy estates of credit unions, which amounts to 224.3 billion won in total.

<Table III-28> Bankruptcy Dividends Recoveries by Financial Sector

(As of December 31, 2007, Unit : 100 million won)

Financial Sector	No. of Bankruptcy Estate	Recovered Amount	
		2007. 1~12	Cumulative Total since 2004
MSBs	10	165	1,139
Credit Unions	14	73	1,104
Total	24	238	2,243

C. Recovery of Loans

In 2007, the Corporation recovered 56.8 billion won of loans from the Resolution and Finance Corporation and 600 million won from interest, for its subordinated loan to Busan Solomon Savings Bank. It also collected 200 million won through settlement of contributions to the bank.

IV. Risk Surveillance of Insured Financial Institutions and Management of MOU

1. Ongoing Risk Surveillance System

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

A. Improvement of Risk Assessment Model

In order to protect depositors and contribute to the stability of the financial system through sound management of the Deposit Insurance Fund (DIF), it is important to prevent insolvency in advance. For that reason, the KDIC has been making continuous efforts to improve the predictive accuracy and the functions of the risk assessment model so that signs of insolvency can be detected in advance.

For banks, a risk evaluation model (RE) and a risk forecast model (RF) have been used for early detection of insolvency signs. Continuous efforts are made to improve the risk assessment models and in 2007, to increase the accuracy and the significance of the models, adjustments were made to the assessment criteria for profitability and the weighting of the assessment areas.

For insurance companies, a risk evaluation model (RE) and a risk forecast model (RF) were developed in 2002, and the models were constantly improved. Since 2007, the KDIC has worked to integrate the individual models into one that takes the changes in the financial environment into account.

For securities companies, a risk assessment system, developed in 2004, is being used for ongoing risk surveillance such as for early detection of insolvency through the management of a risk evaluation model (RE), a risk forecast model (RF), and an outlier removal system. During 2007, another risk assessment model was developed and continuous efforts were made to improve the model through the adjustment of assessment criteria and of the weighting of each assessment area.

A multi-model risk assessment system and the Growth Monitoring System (GMS) were developed and are being applied in the risk surveillance of mutual savings banks (MSBs) including management consulting, management analysis, and selection of MSBs subject to be monitored. In 2007, a Credit Analysis Database System was added to the systems in order to improve the quality of risk surveillance.

In 2005, the KDIC developed the Financial Sector Risk Index Model according to each financial sector. This model is used in analyzing the relative level of and trends in risk exposure by finance sector, through the identification of financial market risks and preparation of measures for timely response to such risks. In 2007, the KDIC commenced with development of an additional model, the Risk Index Model, for the securities companies.

In the meantime, as there was a passage of time, a need developed to improve the functions of the Risk Surveillance Model to adapt to the rapidly changing financial environment. In order to identify the shortcomings and to improve the predictive accuracy of the Risk Surveillance Model, the KDIC arranged schemes to achieve functional enhancement and improved operating efficiency. As the starting point of this scheme, the KDIC contracted an external consulting firm to improve the functions of the Risk Surveillance Model. When the commissioned project is completed, the KDIC is planning to finalize the development and improvement of the risk model within twelve months.

B. Functional Enhancement of Risk Information System and Expansion of Information Sharing

The KDIC established the Financial Information Analysis System (FIAS) to collect and analyze diverse risk-related information on insured financial institutions. Using the FIAS established in 2003, the KDIC has systematically obtained and managed diverse financial information such as business reports, deposit trend reports, and foreign exchange reports of insured institutions. In 2006, by promoting a project on Functional Expansion of the Management Information System, the KDIC increased its efforts in collecting risk information and expanded the system by diversifying the search & analysis functions. In 2007, with the results obtained from the user-survey conducted, the KDIC identified features to be added to the newly established system. As a consequence, various useful features were added including a time-series search which enables users to find reports easily and an option which allows printing of all documents with just one click.

In line with its aim to improve the efficiency of deposit insurance affairs and lessen the burden on insured financial institutions, the Financial Information Sharing Council was established in March 2001 with the participation of the KDIC, the Financial Supervisory Service (FSS), and the Bank of Korea (BOK). In 2004, to strengthen its cooperation with the FSS and the BOK, the KDIC signed Memorandums of Understanding (MOUs) on sharing financial information with the two institutions. In 2006, it was decided to hold a grassroots-level meeting for sharing of financial information on a regular basis. In the same year new business reports and foreign exchange reports of insured financial institutions also became subject to information sharing. In 2007, while the KDIC promoted the sharing of these documents, it also hosted a Financial Information Sharing Council with IT personnel in attendance at the meetings. This council was launched to promote the practical usage of the information and to improve the information systems. These efforts contributed to improvement of the systems to deal with matters such as the adoption of XBRL* to the business reporting system of the FSS.

* XBRL: Jargon used for expanded financial reporting

1-2. Promotion of Effective Joint Examination

As failure prevention and loss minimization became more important, the KDIC has been focusing its efforts on conducting effective investigations and joint examinations of insured institutions, especially those that have been identified as being in financial trouble.

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

The financial environment is rapidly changing. Lately, there is a trend for financial institutions to expand their size and the range of the financial services they offer, and risk factors have therefore become more diversified. As a consequence, preventing the financial deterioration of institutions in advance has become an important challenge. In line with this, the MOU for the joint examinations with the FSS was amended in July 2007 to clearly define the KDIC's exercisable right to conduct joint examinations on demand. Through the amendment, the criteria considered in selecting the target financial institutions that are to be subjected to joint examination became more precise and detailed. In addition, for those institutions not listed in the pre-arranged targets, the KDIC can now request to take part in joint examinations as and when required.

In terms of the amended MOU, the KDIC can request to conduct joint examination with the FSS on financial institutions with increased risk profile and deteriorating financial soundness resulting from an inability to adapt to the rapidly changing financial environment. Based on these institutional arrangements, the KDIC participated in joint examinations of six financial institutions in 2004, eight in 2005, eleven in 2006, and twelve institutions in 2007 and requested that its findings be reflected in the examination reports of the FSS.

However, the KDIC's conduct of joint examination on demand can cause an operational burden for financial institutions that are subjected to the examination. To reduce this burden, the KDIC restricted the number of employees involved in and the length of time they spend on conducting joint examinations to an absolute minimum. To provide quality training programs and workshops for staff members working in risk management and to develop distinctive joint examination schemes, the KDIC invited external experts to give lectures to employees, and thereby improved their performance during joint examinations.

1-3. Promotion of Ongoing Surveillance Function

The KDIC has made efforts to enhance the ongoing surveillance of insured financial institutions to enable early detection of risks and prevent those risks from leading to the failure of the institutions.

As part of these efforts, the KDIC is closely monitoring financial institutions showing possible signs of insolvency through management analysis on a quarterly basis and application of the risk assessment model. To conduct differentiated surveillance according to the level of risk posed by insured institutions, the Corporation put employees in charge of each financial institution to conduct ongoing surveillance of that institution through the Relationship Manager System.

Furthermore, the KDIC succeeded in early identification of and analyzing potential risk factors through timely analysis of issues related to risks posed by insured financial institutions. When necessary, it collected opinions from or provided analysis information to the market to encourage autonomous risk surveillance of the institutions.

To this end, events gathering together people from banks, insurance companies, and securities companies were hosted to expand the scope of mutual understanding and to exchange information on industry trends. An ongoing surveillance forum was also held to study the following:

- Market risk associated with holding companies
- The Risk Assessment and Dynamic Analysis Rating System (RADARS) and the direction of recent banking supervision
- Management of foreign currency-denominated assets for life insurance companies
- The introduction of the Risk Assessment and Application System (RAAS) for life insurance companies
- Risk assessment and management of life insurance companies
- The structure of Equity Linked Securities (ELS) products and hedge strategies, financial restricting, and the supervisory system of the MSB industry

In the meantime, to revitalize the function of ongoing risk surveillance of insured financial institutions, the KDIC has formed and operated the Ongoing Risk Surveillance Council. In 2007, the KDIC held 44 meetings to discuss important matters, to publish ongoing surveillance information per financial sector, and to distribute published information to information users.

1-4. Market-friendly Risk Surveillance

In monitoring the risk of financial institutions on an ongoing basis, it is important to minimize the burden on insured financial institutions and to facilitate market discipline. For this purpose, the KDIC has continuously worked on building a solid foundation for market-friendly ongoing risk surveillance. For an example, in 2007, it offered customized consulting services to seven MSBs (a total of 56 MSBs since 2003) to assist them with improving their competitiveness and management skills.

During 2007, the KDIC assessed the status and difficulties experienced by each financial industry. For the MSB sector, the KDIC held meetings with two regional branches (Daejeon and Chungnam district, and Chungbook district), and conducted interviews with the management of eleven MSBs. It also participated in twenty seminars and conferences of financial holding companies, and held six meetings with the insurance sector and two meetings with the banking sector.

Furthermore, the KDIC is working hard to promote awareness with financial institutions to carefully consider the risks that they need to manage. In 2007, the KDIC issued press releases and provided useful information concerning the risk management of insured financial institutions to the market through publication and online posting of Financial Stability Studies, Financial Risk Reviews, management indices of insured financial institutions, and of statistical information on deposit trends.

1-5. Enhancement of Risk Surveillance Capability

To ensure a stronger risk surveillance capability, the KDIC requires its staff members in charge of risk surveillance to attend training programs on risk analysis and investigation held by related foreign institutions such as the FDIC, the FRB, S&P, and Moody's.
To aid its staff in acquiring practical knowledge of risk surveillance, the KDIC operates in-house training programs involving risk surveillance, management analysis, and real case studies. It has also hosted ongoing surveillance forums on risk surveillance of financial groups, surveillance techniques, credit rating methods, and on current financial issues by inviting financial experts, such as analysts and professionals from credit rating agencies on a regular basis.

Furthermore, so as to enhance the risk surveillance capability and strengthen management competency, the KDIC operated Ongoing Risk Surveillance Classes. On several occasions during 2007, the KDIC provided its staff working in the risk surveillance area with opportunities to learn about the improvements made in the working manuals for supervising financial institutions by sectors, analysis of case studies, and the joint examination technique.

The Corporation also introduced the Risk Focused Manager (RFM) System to nurture professionals to manage each financial risk factor. Each of the RFMs was given the task of constantly analyzing a specific issue related to common risk factors in the financial sector. Through this system, the KDIC performed matrix-formed risk surveillance in conjunction with the Relationship Manager System.

2. MOU Management of Public Fund-injected Financial Institutions

2-1. Conclusion and Examination of MOUs

The KDIC has strengthened its efforts in the post public fund injection management of financial institutions (including financial holding companies), with the aim of speeding up normalization of their operations. Since 1999, the Corporation has entered into MOUs with fourteen support recipients and monitored their adherence in order to recover the public funds injected as early as possible. In April 2002, eight MOUs that were signed with financial institutions, including with Jeju Bank, were terminated as the Corporation's stakes in these institutions were sold off. As of the end of 2007, six institutions are still subject to active MOUs with the KDIC.

During the period from the fourth quarter of 2006 to the third quarter of 2007, the KDIC identified three problems concerning fulfillment of the MOUs and took appropriate measures to resolve them by issuing one warning, one order to improve and one notification to the erring parties.

Thanks to the increase in non-interest revenue such as service charges and disposal gains from securities, the Woori Financial Group and four companies in the banking sector were able to achieve the financial ratio goals set by the MOUs. Seoul Guarantee Insurance Company (SGIC) also met the targets with stable receipt of insurance premiums and improvement in their net operating revenue due to a decrease in the number of insurance claims filed.

On the other hand, measures were taken against financial institutions for poor MOU implementation in the non-finance area. The management of Woori Bank received notification for violating the MOU when Woori Bank reported that it had saved funds by not increasing the salaries of employees, while in fact, they had paid their employees with special bonuses. The SGIC received a warning for inadequately adopting the Special Bonus System by intentionally misapplying the system as a means to increase its employees salaries. It further required the SGIC to come up with measures to improve its unreasonable salary system.

<Table IV-1> MOU Conclusions/Amendments/Additions

(As of December 31, 2007)

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

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

2-2. Setting Objective and Reasonable MOU Controlled Goals for Financial Institutions

During the first half of 2007, the KDIC imposed phased target plans for the years 2007~2008 for management normalization of financial institutions subject to signed MOUs. The levels of targets were derived based on various factors including the past performance of the institution, and the past performance of other competitors in the industry. The levels were then further adjusted to make the goals more feasible by taking into consideration the earning structure and the distinctive features of the pertinent institutions. To promote the objectivity and equitability of the controlled targets, the KDIC referred to opinions given by external experts and accounting firms when it evaluated the viability of the management plans submitted by the financial institutions in question. It also ensured the presence of these financial institutions at the KDIC's review for the adequacy of the target levels.

2-3. Improvement in Efficiency of MOU Management

There have been calls from various circles for the flexible operation of the MOU management system for financial institutions subject to signed MOUs. In line with this, the KDIC prepared a paper on the Improvement of the MOU Management System to improve the corporate value of financial institutions subject to signed MOUs. This was done through an in-depth review of the diverse aspects of the existing MOU management system. The KDIC also amended the internal standards for MOU management and modified the management normalization plans. Through these efforts, the efficiency of MOU management was improved.

A. Improvement of MOU Management System

The financial institutions, which had signed an MOU agreement with the KDIC in the latter half of 2006, requested the Corporation to improve MOU management by allowing an expansion of their autonomous management decision making authority to better adapt to the rapidly changing financial environment. In dealing with this matter, the KDIC had to find a way to balance the request for increased autonomy with the calls from the National Assembly and the Board of Audit and Inspection of Korea to prevent moral hazard in fund injected financial institutions.

The KDIC commissioned an external research expert to collect objective and professional opinions that would allow for flexible MOU management within the set legal framework. These suggestions were then included in a plan for improvement of MOU management. Suggestions that were not possible in practice because of legal limitations or possible government interference were excluded from the suggested plan. The final plan was confirmed by the Deposit Insurance Committee in May 2007 and by the Public Fund Oversight Committee in October 2007.

<Table IV-2> Improvement Plans for MOU Management

Classification	Improvement Plans
Management of Financial Targets Specified in the MOU	• Promote dualized management by classifying MOU targets into Controlled Targets and Self-controlled targets - The Controlled targets are obligatory; the level of Self-controlled Targets are set above the Controlled Targets, and are linked with directors' bonuses
Introduction of Hurdle Rate to MOU Controlled Targets	• Set MOU Controlled Targets to the minimal level* needed to soundly maintain financial Status and to improve corporate value * equivalent to the first level of management evaluation performed by the Financial Supervisory Service -Hurdle Rate Applied Indexes • BIS Capital Adequacy Ratio, ROA and Weight of loans classified under 'substandard' or below of total loans * Excludes Rate of Sales Management Cost, and Index of Adjusted Operating Income per Person
Implementation of Management Discussion System	• Promote effective and smooth communication between the KDIC and the management of financial institutions which the KDIC signed MOUs with by holding regular meetings (once a year or as needed)
Enhancement of KDIC's Monitoring Activities	• Promote communication through meetings with external directors • Appoint a KDIC employee as an unpaid external director • Frequently disclose financial analysis of the MOU-contracted institutions to external directors to improve their expertise, professionality, and their accountability
Relief of the Examination Burdens of the MOU-contracted Institutions	• Relive the burden imposed on the MOU-contracted financial institutions by conjointly performing examination with Woori Financial Group • Reduce the frequency of examinations by performing semi-annual on-site examinations, and quarterly off-site examinations • Perform written examinations in a condensed form, focusing on the major requirements
Standardization of Non-financial Targets	• Improve competitiveness by suggesting standardized non-financial targets for core business areas

1) The number of institutions provided with insurance claim payment from the DIF is 9.

<Table IV-3> Amendments of Internal Regulation for MOU Managements

Internal Regulation related to MOUs	Specific Enforcement of Internal Regulation related to MOUs
• Identify MOU financial ratios as Controlled Targets, and distinguish them from Self-controlled Targets • Identify 'normalization plans' comprehensively for the adopting of a ceiling to the Controlled Targets • Amend criteria for making changes to normalization plans by including the case which Deposit Insurance Committee thinks is necessary to improve the corporate values of financial institutions • Clarify financial institutions Self-controlled Targets that are linked with bonuses of directors of MOU-contracted financial institutions	• Clarify grounds for enforcing the ceiling system according to which the ceiling for Controlled Targets is set as the criteria used by the FSS for the financial institutions management evaluation • Relieve the burden of MOU-contracted financial institutions by performing quarterly examinations on submitted documents

B. Modification of Management Normalization Plans

The KDIC amended the regulations and Enforcement Bylaws for MOU management and modified the management normalization plans for 2008.

The improvement plans mainly reflect the adoption of a ceiling system for MOU controlled targets and the standardization of non-financial targets. In order to encourage the financial institutions subject to signed MOUs to maintain financial soundness and to promote their corporate value, the KDIC requires them to meet targets set at a minimal level. Minimally set targets are expected to mitigate the pressure on financial institutions by giving them some flexibility to meet financial ratio targets and to allow for autonomous management decision making. The target ceiling is usually set at the first level of the management evaluation performed by the FSS or at an equivalent level. However, when it is determined that the financial institutions will face difficulties in meeting the new targets due to the market circumstances, or the new targets fail to reflect the financial distinctiveness of a financial institution, the new targets are replaced by the previous targets.

<Table IV-4> Ceiling System Applied Ratios among Controlled Targets & Target Ceiling Level

Financial Institutions	Ceiling System Applied Ratios	Target Ceiling Level	Remarks
Financial Holding Companies and Banks	BIS Capital Adequacy Ratio	above 10.0%	Apply existing target to holdings companies
	Return on Total Assets	Above 0.85%	Apply existing target
	Loan Weight of Ratio Classified 'Substandard' and Below	Below 1.0%	Apply existing target to National Federation of Fisheries Cooperatives
Seoul Guarantee Insurance Co.	Solvency Margin Ratio	Above 220%	Apply existing target
	Earned-incurred Loss Ratio	Below 60.0%	-
	Return on Operating Assets	Above i[1] × 130%	Apply existing target
	Ratio of Risk Weighted Assets	Below 60.0%	Apply existing target

1) Public bond's (with a 3-year maturity) average interest for last 12 months

Through fair and open discussion with the financial institutions subject to the signed MOUs, the non-financial targets are standardized by categorizing assessment areas into three categories- Management and Management Strategy, Risk Management, and Management of Human Resource and General Expenses. The levels of non-financial targets are set at the minimum levels required to enhance the corporate value of the respective financial institutions.

C. Amendments of Internal Standards for MOU Management and MOU Fulfillment Plans

In terms of the newly amended Enforcement Bylaws, only warnings or suspensions of the management team, or requests for their resignation needs to first be discussed with and agreed upon with the FSS before any action is taken. In addition, MOU fulfillment plans submitted by the directors of financial institutions subject to MOUs were improved by clarifying ambiguous and inadequate expressions.

V. Resolution and Management Supervision of Insolvent Financial Institutions

1. Resolution of Insolvent Financial Institutions

1-1. Implementation of Diverse Methods for Resolution

Since 2005, when the Financial Supervisory Commission renders its final decision that it would be difficult to normalize the management of troubled MSBs, the KDIC proposes the least cost resolution method to minimize the loss to the DIF when resolving such institutions. Taking into consideration the market, the local environment, and the status of the insolvent institution, the KDIC has tried to find the best resolution method among the following: sale of shares after a purchase and assumption (P&A) transaction through a bridge bank, a direct P&A with a third party, the launching of bankruptcy proceedings. Through this effort, the KDIC paved the way for strengthening its role as a respectable prompt resolution institution using flexible resolution strategies.

1-2. Resolution Status of Insolvent Financial Institutions

A. Resolution of MSBs through the Second Bridge Bank Established by the KDIC

The FSC ordered the suspension of business of Good Friend MSB (Bundang region), Daewoon MSB (Jeonnam region), and Hongik MSB (Jeonnam region) in July 2006, January 2007, and March 2007, respectively. This step was taken as the liabilities of the MSBs exceeded their assets, and their BIS capital adequacy ratios fell short of the required level.

Yeahreum MSB, the second bridge bank established by the KDIC after Yegaram MSB, was established in December 2006 to take over the sound assets and liabilities of Good Friend MSB. The bridge bank began operating in March 2007. Subsequently, the assets and liabilities of Daewoon and Hongik MSBs were transferred into the bridge bank to conform to the Least Cost Principle specified in the Depositor Protection Act (DPA). This step reduced the inconvenience caused to depositors by shortening the period of operational suspension of the two failed MSBs.

B. Sale of Bridge Bank (Yeahreum MSB) Shares

To promptly recover injected public funds, the KDIC sought to sell the shares of Yeahreum MSB in September 2007. Based on the evaluation results of the final acquisition proposals, Standard Chartered NEA Ltd. was selected as the preferred bidder on December 27, 2007. On January 11, 2008, after discussions with the preferred bidder, the KDIC agreed to sell the entire stake in Yeahreum MSB to the buyer. The buyer, Standard Chartered NEA Ltd., is a 100% subsidiary of Standard Chartered Bank based in the U.K. which had acquired the current SC Korea First Bank in 2005.

The government approval procedures, necessary for the implementation of the sales agreement, were completed when the FSC approved on the stock transfer of Yeahreum MSB to the acquirer on February 25, 2008. The KDIC also gained approval from the Ministry of Finance and Economy (MOFE) on the completion of Yeahreum's role as a resolution financial institution. Accordingly, the KDIC transferred all of its equities in Yeahreum to the acquirer, and the sale procedure was finalized.

C. Resolution of Kyungbook MSB through Establishment of Yehanwul MSB, the Third Bridge Bank Established by the KDIC

On May 25, 2007, the FSC ordered Kyungbook MSB to suspend its business, sighting that its liabilities exceeded its assets and that its BIS capital adequacy ratio fell short of the required level. After comparing two different resolution methods, deposit payoff and P&A, the KDIC decided, based on the least cost principle, to resolve the bank through a P&A method. The KDIC also determined to proceed with the resolution through the establishment of a bridge bank as it could reduce the inconvenience caused to depositors and prevent the depreciation of the bank's corporate value by shortening the duration of business suspension. At the same time, the resolution through a bridge bank could secure enough time to sort out the complicated issue of who holds the rights to loans, etc.

It was determined that the transfer of Kyungbook MSB into Yeahreum MSB, the second bridge bank which was set up for the resolution of previously failed MSBs, would not be feasible as it would prevent the KDIC from early disposal of the bridge bank due to the reduced flexibility in the sales procedure. Therefore, it was decided to establish a third bridge bank. On November 8, 2007, Yehanwul MSB was established to take over the sound assets and liabilities of Kyungbook MSB. The bridge bank began operating on December 24, 2007 and is still in operation.

<Table V-1> Resolutions of Insolvent Financial Institutions During 2007[1)]

(Unit : 100 million won)

Classification	Good Friend (Gyeonggi district)	Daewoon (Jeonnam district)	Hongik (Jeonnam district)	Kyungbook (Kyungbook district)
Business Suspension Date (Resolution Completion Date[2)])	2006.9.8 (2007.3.16)	2007.1.19 (2007.5.25)	2007.3.16 (2007.7.20)	2007.5.25 (2007.12.21)
No. of Employees	45	56	60	56
No. of Business Branches	1	3	2	3
Total Assets	3,863	1,673	3,594	1,186
Total Deposits	5,539	2,277	5,822	1,703
Equity Capital	△1,889	△693	△2,432	△606

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

2. Management Supervision of Insolvent Financial Institutions

During 2007, the KDIC completed management supervision of failed MSBs including Good Friend, Daewoon, and Hongik and started on management supervision of Kyungbook MSB. In the year 2007, the KDIC focused on minimizing the inconvenience to depositors of insolvent financial institutions by trying to ease their concerns regarding their deposits in the failed banks. In line with this effort, the supervisor took the initiative to distribute brochures containing information on the progress made during management supervision, provided information on upcoming schedules, held briefing sessions for customers, and provided related information via the KDIC website and press releases.

VI. Management of Bankruptcy Estates and Asset Holdings

1. Management of Bankruptcy Estates

1-1. Improvement of Public Fund Recovery System

A. Establishment of KDIC Bankruptcy Trustee System

The Public Fund Oversight Special Act, which came into effect on December 20, 2000 and the amended Depositor Protection Act (DPA) of December 26, 2002 stipulate that officers or employees of the KDIC or the KDIC itself can be appointed as trustees of bankruptcy estates when this is necessary for the effective recovery of public funds.

Since March 15, 2001, when the Constitutional Court of Korea ruled that the appointment of the Corporation's officers and employees as bankruptcy trustees is constitutional, KDIC trustees have been appointed to the position, either solely or jointly with the attorneys, for 343 of 344 bankruptcy estates as of December 2007. Therefore, the Corporation's efforts to aggressively pursue a system where its officers and employees can be appointed as trustees for speedier and more efficient bankruptcy proceedings have indeed proven successful. This was evident when KDIC trustees were solely or jointly appointed as trustees in all three estates that were declared bankrupt during 2007. In the meantime, for the seven bankruptcy estates in the Seoul area where KDIC employees were previously conjointly appointed as trustees with attorneys, during 2007, the KDIC employees have become the sole trustees of those estates. This was achieved through discussions with courts of the relative districts, and enabled the KDIC to establish a unified bankruptcy estates management system.

<Table VI-1> Appointed Bankrtupcy Trustees

(As of December 31, 2007)

Classification	Total No. of Bankruptcy Estates	Trustees		
		KDIC	Attorneys	Joint Appointment[2]
No. of Bankrtupcy Estates	344[1]	336	1	7

1) Excludes legally closed estates(total 121), and Bankruptcy Estates of Korea · Dongsuh Securities Co. where the KDIC did not provide financial assistance
2) Bankruptcy trusteeships jointly held by the KDIC (or employees) and attorneys

B. Efficient Management of Bankruptcy Estates

To promote efficient management of bankruptcy estates, the KDIC has a single trustee taking responsibility for more than one bankruptcy estate and only one office to manage multiple estates. It designated eight base estates nation-wide, and bankruptcy estate in the relevant area is then integrated into the base estate designated for that area. Such efforts enabled efficient management of bankruptcy estates employees and asset holdings. It also prevented cash seepage and significantly reduced the costs related to rent, building maintenance, office supplies, and others.

The KDIC recognized that financial accidents are more likely to occur when one trustee takes charge of a particular bankruptcy estate for a prolonged period of time. Thus, to prevent this from occurring and to improve the work efficiency of trustees, the KDIC introduced a rotational placement system by region in terms of which a trustee is transferred to another region after serving in one region for a certain period of time.

Furthermore, the KDIC appointed fulltime bankruptcy estate trustees working in Seoul, Kyungin and Kangwon area, and Choongcheong and Honam area as regional supervisors. This enabled the KDIC to establish an organic network between the regional bankruptcy estates and headquarters, and also prepared a basis for close cooperation on bankruptcy related tasks.

C. Introduction of Performance-based Criteria for Bankruptcy Estates

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

The KDIC analyzed the public fund recovery rate, asset disposition rate, and cost efficiency during the assessment of the support staff's performance and introduced a fair and transparent performance competition system among bankruptcy estates. Accordingly, it provides differential performance-based bonuses based on the assessment results and replaces trustees and estates performing pooly. In order to ensure fairness, the KDIC has reflected the opinions from regional supervisors in evaluating the trustees of bankruptcy estates.

D. Management of Bankruptcy Estate Management Council

To improve operational efficiency and maximize recovery of injected public funds, the

Bankruptcy Estate Management Council was established in September 2006. The Bankruptcy Estate Management Council is chaired by the Executive Director in charge of liquidation affairs and has the heads of the divisions responsible for bankruptcy estates as members.

The Bankruptcy Estate Management Council meets once a month to discuss the basic direction and coordination of operations related to bankruptcy estates such as the introduction of regional supervisors, improvement in management of the trustee workforce, and other matters requiring attention.

E. Management of Debt Rescheduling Deliberation Council

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

F. Implementation of Civil Affairs Helpdesk

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

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

<Table VI-2> Civil Petitions

(June 2007 ~ December 2007)

Classification	Denial of Indebtedness	Loan Management	Preservation	Legal Enforcement	Debt Rescheduling	Total
No. of Petitions	1	7	7	2	22	39
Weight(%)	3	18	18	5	56	100

<Table VI-3> Results of Civil Petitions

(June 2007 ~ December 2007)

Classification	Acceptance	Suggest Alternatives[1]	Denial	Total
No. of Petitions	15	17	7	39
Weight(%)	38	44	18	100

1) Suggests the petitioner to discuss with bankruptcy estates, to apply for Credit Recovery Assistance, to elucidate through a lawsuit, and to discuss with Resolution and Finance Corporation

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

A. Maximization of Recovery from Individual Assets

In an effort to maximize the disposition value of special loan assets (loans extended to companies under court receivership, court mediation, and workout programs), the KDIC, during debt rescheduling of debtor corporations in 2007, recovered about 11.1 billion won more than the amount originally requested by the corporations. This was done by investigating properties of debtors, performing in-depth corporate analysis, and by promoting the adequacy of debt rescheduling by the the Debt Rescheduling Deliberation Council.

While bankruptcy estates had given up on recovery of most of the special loan assets, the KDIC persuaded debtors and joint obligators to remit payments by clearly explaining possible measures that could be taken against them for failing to pay and by encouraging voluntary redemption of loans. In addition, the Corporation requested the help of government agencies, such as the Ministry of Government Administration and Home Affairs, the Ministry of Construction and Transportation, the National Tax Service, etc., to better conduct investigations to locate hidden assets of debtors and joint obligators as well as to seize the properties identified.

B. Disposal of Other Asset Holdings

During 2007, the KDIC endeavored to increase the efficiency, transparency, and fairness of sales of real estate held by the bankruptcy estates. Accordingly, the KDIC pursued joint sale of such properties and tried to attract public interest by providing information on real estate held by bankruptcy estates via its website (www.kdic.or.kr). As a result, the KDIC recovered 20.0 billion won from eleven joint sales of fifty-six properties.

As for non-listed shares, bankruptcy estates found it difficult to sell these because there are no open market transactions or market prices set for such shares. The Corporation encouraged the bankruptcy estates to conjointly appoint a sales advisor to take active charge of the sales of non-listed shares through public bidding.

1-3. Early Closure of Bankruptcy Proceedings

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

It is difficult to proceed with the legal closure of an estate which is subject to litigation in the form of bankruptcy claims, fulfillment of obligation and damage claims. The KDIC therefore performs a de facto closure of bankruptcy proceedings, in which it pays out interim dividends through disposition of all assets excluding those assets subject to legal proceedings. The KDIC also combines the bankruptcy estates in de facto closure. The bankruptcy trustee of the combined estates is put in charge of unsettled affairs such as document safekeeping and taking legal proceedings to minimize the maintenance cost of the estate. After then, if there exists any dividend proceed resulting from litigation, the KDIC trustees conduct a final distribution of dividends to complete bankruptcy proceedings.

Due to the above efforts, among a total of 465 bankruptcy estates, 121 estates were declared closed by the court and 313 estates are ready to be closed once ongoing litigation is concluded. The Corporation plans to proceed with early closure of the remaining 31 estates.

These efforts contributed to the early recovery of 2.22 trillion won and to a saving in operational costs of bankruptcy estates by cutting down on office and personnel expenditure, thus maximizing public fund recovery.

<Table VI-4> Results and Progress of Early Closure of Bankruptcy Estates

(As of December 31, 2007)

Classification		Banks	Insurance Companies	Securities Companies	Merchant Banks	MSBs	Credit Unions	Total
Total No. of Bankruptcy Estates (A)		5	10	4	22	85	339	465
Closed Estates(B)	Completion of Legal Formality (B)	-	1	1	-	-	119	121
	De Facto Completion[1] (C)	5	8	2	20	73	205	313
	Subtotal	5	9	3	20	73	324	434
Remaining Estates	A-B	5	9	3	22	85	220	344
	A-B-C	-	1	1	2	12	15	31

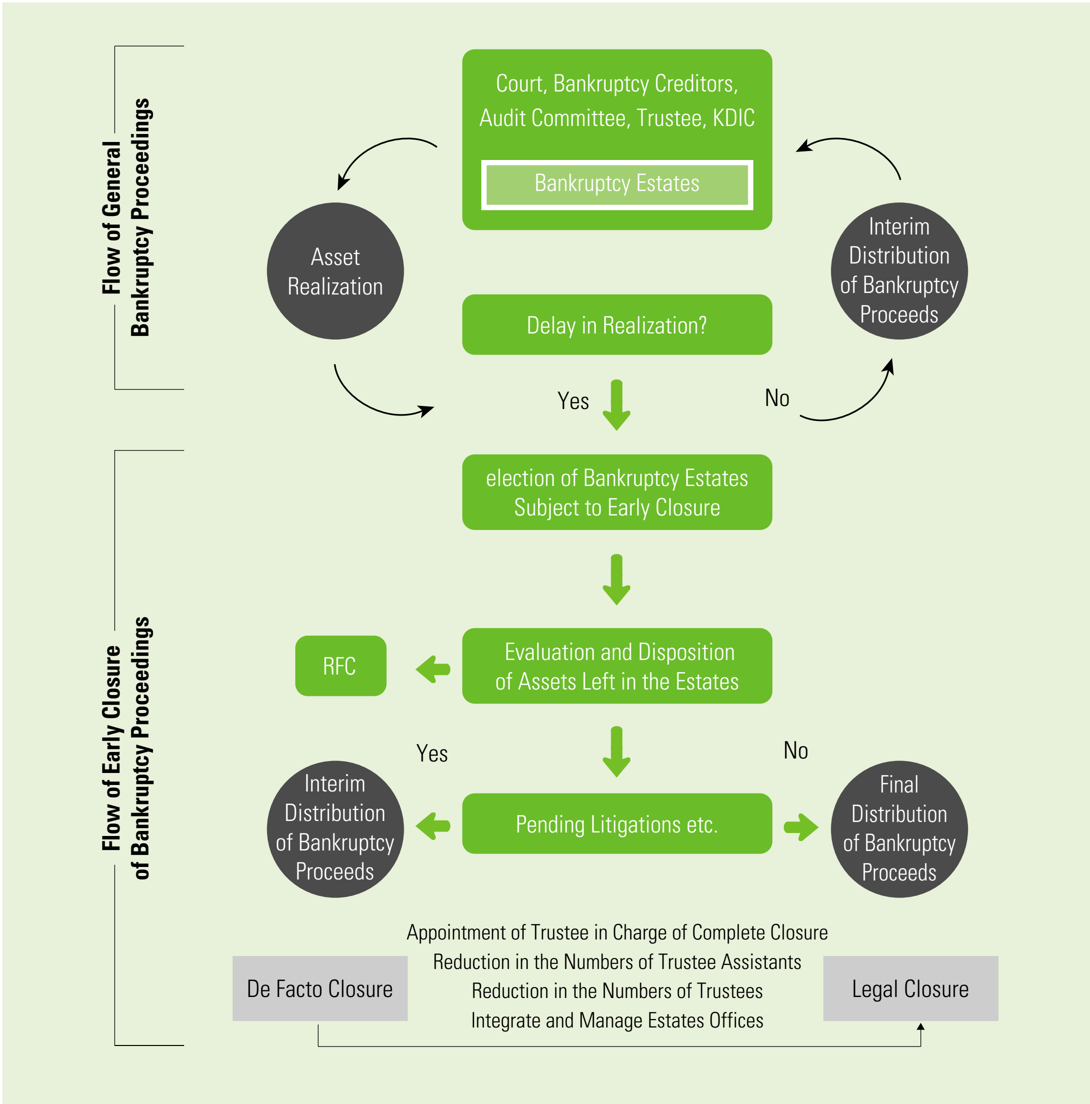
1) Bankruptcy estates that are ready to be closed when the pending litigation, claims for damages, and bankruptcy claims are cleared.

<Table VI-5> Recoveies through Early Closure of Bankruptcy Estates

(As of December 31, 2007)

Classification	No. of Bankruptcy Estates	Dividends Received through Early Closure of Bankruptcy Estates							Total
		2001(No. of estates)	2002(No. of estates)	2003(No. of estates)	2004(No. of estates)	2005(No. of estates)	2006(No. of estates)	2007(No. of estates)	
Banks	5	-	-	10,661 (1)	56,474 (4)	17,626 (-)	-	-	84,761
Insurance Companies	9	-	8,899 (2)	31,691 (3)	9,334 (1)	12,967 (2)	13,413 (1)	5,997 (-)	82,301
Securities Companies	3	-	-	520 (2)	-	27 (1)	-	-	547
Merchant Banks	20	-	-	23,414 (1)	524,303 (13)	260,025 (4)	189,630 (2)	266,973 (-)	1,264,345
Mutual Savings Banks	73	-	51,909 (19)	98,308 (26)	49,258 (10)	50,666 (8)	41,403 (9)	121,160 (1)	412,704
Credit Unions	324	7,297 (16)	25,318 (52)	51,670 (63)	72,586 (68)	91,692 (63)	84,871 (55)	38,949 (7)	372,383
Total	434	7,297 (16)	86,126 (73)	216,264 (96)	711,955 (96)	433,003 (78)	329,317 (67)	433,079 (8)	2,217,041

<Figure VI-1> Flow Chart of Early Closure of Bankruptcy Proceedings



2. Management of Asset Holdings

2-1. Acquisition of Assets

By year-end 2007, the KDIC had acquired a total of 22.2 trillion won (acquisition cost) in assets. Of that amount, 10 trillion won worth of assets had been acquired by the Resolution and Finance Corporation (RFC), 10.6 trillion won by Hanareum Merchant Bank (HMB), 1.3 trillion won by Hanareum Mutual Savings and Finance Corporation (HMSF), and 0.25 trillion won by MSBs.

In December 1999, the RFC was established to acquire the assets that remained after the disposal of Korea First Bank (KFB) and other assets that were not assumed by any acquirers in the process of financial restructuring of failed banks. At the end of December 2007, through borrowings from the DIF Bond Redemption Fund of the KDIC, the RFC had acquired assets worth a total of 10.18 trillion won. This included 7.86 trillion won in assets from KFB, 158.8 billion won from five acquirer banks (Kookmin, H&CB, Shinhan, Hana, and Koram), 355 billion won from five failed life insurance companies (Kookmin, Dong-A, Taepyongyang, Handuk, and Daehan), 249.5 billion won from seven failed MSBs (Hanmaum, Hanjung, Arim, Good Friend, Daewoon, Hongik, and Kyungbook), 296.6 billion won from 421 bankruptcy estates, and 1.27 trillion won from the sale of securities companies (Korea, Daehan, and Hyundai).

<Table VI-6> Accumulated Asset Acquisition of Resolution Financial Institutions

(As of December 31, 2007, Unit: 100 million won)

Classification		Amt. of Claims	Purchase Price	Notes
RFC	Banks	98,640	80,137	6 banks (including KFB)
	Insurance Companies	4,032	3,550	5 insurance companies
	Securities Companies	22,263	12,695	3 securities companies
	MSBs	8,579	2,495	7 MSBs
	Bankruptcy Estates	50,562	2,966	421 bankruptcy estates (5 banks. 9 insurance companies, 2 securities companies, 20 merchant Banks, 72 mutual savings and finance corporations, 313 credit unions)
	Subtotal	184,076	101,843	-
Hanareum Merchant Bank	Merchant Banks	110,225	106,262	16 merchant banks
Hanareum MSB	MSBs	34,831	13,467	41 MSBs
Total		329,132	221,572	-

<Table VI-7> Asset Acquisition by Resolution Financial Institutions in 2007

(Unit: 100 million won)

Classification		Amt. of Claims	Purchase Price	Notes
RFC	Bankruptcy Estates	2,032	429	Additionally acquired assets left in bankrtupcy estates
	MSBs	6,510	1,640	GoodFriend, Daewoon, Hongik, and Kyungbook

2-2. Disposal of Acquired Assets

To facilitate the early and maximized recovery of public funds through the disposal of acquired assets, the KDIC uses various recovery methods including M&A, issuance of asset-backed securities (ABS), disposition based on the Standard Asset Management Disposition Agreement (SAMDA) method, and so forth.

In 2007, based on a decision made by the Public Fund Oversight Committee, the KDIC recovered 145.9 billion won from the after-hours block sale of the shares of Doosan Infracore held by the RFC, 17 billion won from the disposal of shares of S&T Daewoo, Bionia, and SsangYong Cement Co., and 48.6 billion won from dividends received from twenty-six companies including Korea Electric Power Co.

The Corporation recovered 20.8 billion won of the Sungwon Investment Co. claims acquired by Korea Investment & Securities. It also recovered 18.6 billion won as loans made to Jeil MSB by KFB had matured, 10.7 billion won through the completion of SK Networks' workout, and 43.4 billion won from eleven companies including Seoul Guarantee Insurance Company (SGIC).

Also, the RFC commissioned an external professional entity to sell real estate owned by the RFC by public auction, recovering 611 billion won up to the end of 2007. It actively pursued the sale of non-listed shares by appointing a professional sales advisor.

With regard to securities held by the RFC such as locked-up stocks, corporate bonds, and convertible bonds, the KDIC is looking into variety of recovery methods to suit the characteristics of each asset.

<Table VI-8> Asset Disposal by Resolution Financial Institutions

(Unit: 100 million won)

Disposition Project	Date	Sale Amount	Purchaser	Advisor
Sales proceeds from Korea First Bank New York Branch (M&A)[1]	Feb.25, 2000	99	Nara Bank	-
Transfer loans to KAMCO	Mar.20, 2000	360	KAMCO	-
Bulk sale of Kia Motors shares	Sep.15, 2000	1,158	Fiduciary OGF(L) Ltd	Daiwa Securities
Transfer loans to KAMCO	Sep.27, 2000	1,204	KAMCO	-
Stocks of Ileun securities (M&A)	Nov.15, 2000	1,195	Regent Group	KDB,KPMG
Sales proceeds from Korea First Bank Vietnam Branch (M&A)[1]	Nov.24, 2000	59	Chohung Bank	Samil Accounting
Issue ABS denominated in Korean won	Dec.11, 2000	2,000	Domestic Investors	Samsung Securities, LG Securities
Bulk sale of loans (JV-SPC)	Dec.19, 2000	2,044	Lone Star	Samjong Houlihan Lokey
Transfer loans to KAMCO	Dec.28, 2000	839	KAMCO	-
Issue ABS denominated in Korean Won	Feb.05, 2001	550	Domestic Investors	Samsung Securities, LG Securities
Bulk sale of loans (RFC2001-1)	May 07, 2001	1,505	Loan Star	Samil Accounting
Bulk sale of loans (RFC2001-1)	Jun.21, 2001	1,185	Merrill Lynch	Samil Accounting
Issue ABS denominated in foreign currency	Sep.14, 2001	3,573	Domestic/Foreign Investors	CSFB, SG, Daewoo Securities, Hyundai Securities
Bulk sale of loans (Hanareum 2001-2)	Feb.27, 2002	1,932	5 companies including GE Capitals,etc.	Samjong KPMG
Transfer loans to KAMCO	Jun.14, 2002	7,137	KAMCO	Samil Accounting
Bulk sale of KT&G Loans	Sep.12, 2002	1,681	KT&G	-
Transfer loans to KAMCO	Nov.21, 2002	608	KAMCO	Samjong KPMG
Bulk sale of loans (KDIC JR Loan Sale 2003 Program)	Dec.09, 2003	442	Morgan Stanley	Samjong KPMG , Bae, Kim & Lee
Sale of ShinDongBang securities	Mar.25, 2004	75	CJ Consortium	Samil Acconting
Issue ABS denominated in Korean won	Mar.29, 2004	2,000	Domestic Investors	Daewoo Securities/KDB Consortium
Sale of Shinho Petrochemical securities	Sep.13, 2004	153	Aram Financial	Samil Accounting
Sale of debt equity swap securities of Shinho Paper	Dec.20, 2004	20	Cooperative Enterprise Consortium of Shinho Paper	KDB Partners
Sale of debt equity swap securities of Ssangyong Motor	Dec.27, 2004	680	Shanghai Motor	Samil Accounting
Sale of debt equity swap securities of Samyang Food	Oct.18, 2005	90	Former company owner	-
Sale of debt equity swap securities of Hynix	Oct.31, 2005	916	Domestic/Foreign Investors	7 Corporations including Merrill Lynch
Sale of debt equity swap securities of Daewoo Engineering & Construction	Dec.15, 2006	1,668	Kumho Asiana Consortium	Citi Globall & Samsung Securities
Acquisition and Sale of debt equity swap securities of Doosan Infracore	Oct.11, 2007	1,459	-	Daewoo Securities, Goldman Sachs

1) Assets disposed directly by the KDIC

VII. Insolvency Investigations

1. Investigations into Insolvent Financial Institutions

1-1 Investigations into Insolvencies and the Deliberations

Pursuant to Article 21-2 of Deposior Protection Act (DPA), the KDIC conducted investigations into insolvent financial institutions and required the financial institutions to file damage claims against the parties* implicated in their insolvenceis.

* former or current management or employees of insolvent financial institutions, orderer of executions (according to the Commercial Law), debtors of insolvent financial institutions, and other third parties

As a result of the KDIC's investigations into 495 insolvent financial institutions as of December 2007, 5,881 culpable parties were identified and determined to be responsible for a loss of 16.9 trillion won. A total of 1,368 cases were filed against 9,288 parties for damages amounting to 1.74 trillion won. The KDIC also secured assets for damage redemption and executed 3,829 provisional seizures worth 892.5 billion won and 429 provisional disposals to recover the damages from the parties responsible for insolvency. By the end of December 2007, the KDIC managed to recover 191.2 billion won after finalization of cases against the parties responsible for insolvency.

<Table VII-1> Investigations into Accountability for Insolvency

(As of December 31, 2007)

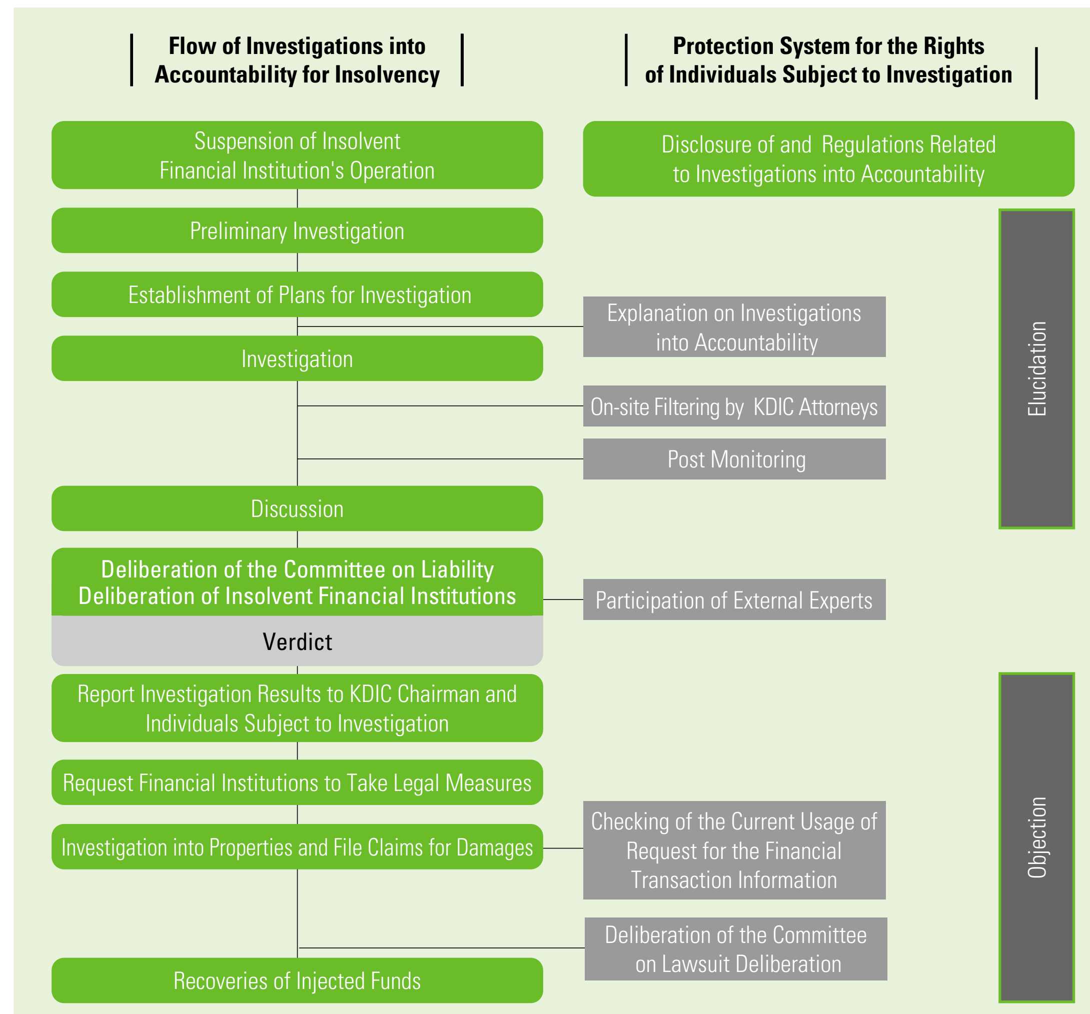
Classification	No. of Institutions Investigated	No. of Persons Implicated for Insolvencies	Amount of Loss Incurred	Lawsuits Filed		Provisional Seizure		No. of Provisional Disposition
				No. of Persons Accused	Amount (100 mil.won)	No. of Cases	Amount (100 mil.won)	
Banks	15	191	14,080	195	1,005	37	54	14
Securities Companies	6	63	32,701	81	272	19	59	2
Insurance Companies	18	236	30,444	265	2,055	109	1,504	7
Merchant Banks	22	159	55,977	159	2,758	127	746	29
MSBs	95	908	25,979	1,182	5,274	974	3,285	153
Credit Unions	339	4,324	9,806	7,406	6,036	2,563	3,304	224
Total	495	5,881	168,987	9,288[1)]	17,400	3,829	8,952	429

1) Persons implicated in insolvencies, their joint obligators, and heirs

At the beginning of the foreign exchange crisis, there was a public outcry for the punishment of persons accountable for the insolvencies of financial institutions. However, as the financial market has stabilized over the last few years, there has been a growing need for the protection of the rights of culpable parties and ensuring the appropriateness of the investigation process.

As a means to protect the rights of persons who are to be investigated, the KDIC introduced a Prior Explanation System to provide parties subject to investigation with sufficient information about the case. It also introduced Ongoing Elucidation and Objection System during 2007 to ensure that parties that are investigated have sufficient opportunities to raise objections. As a result of these efforts, the KDIC achieved higher score in the Integrity Survey which was conducted in 2007. The evaluated results were based on information supplied by the individuals who had been investigated for their accountability for insolvency during the year.

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



1-2. Damage Claim Proceedings

The KDIC has conducted assessments to identify culpable parties and to determine restitution amounts and has notified the relevant bankruptcy estates of the results. As a consequence, court proceedings have been initiated against 9,288 persons from 480 corporations, for compensation worth 1.74 trillion won.

<Table VII-2> Filed Lawsuits

(As of Dec. 2007)

Classification	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions	Total
No. of Institutions Accused	15	8	18	22	94	323	480
No. of Persons Accused	195	81	265	159	1,182	7,406	9,288
Amount	1,005	272	2,055	2,758	5,274	6,036	17,400

1-3. Investigations into Default Debtors' Assets

A. Investigation into Domestically-Located Assets

By the amendment of the DPA on December 1, 2000 and on December 30, 2000, the legal basis for the investigation into the assets of default debtors was arranged. In case of the default debtors of insolvent financial institutions into which public funds were injected, the KDIC carried out investigations of the real estate and other such property-related information databases compiled by governmental agericies. Through these efforts, the KDIC has managed to expand the scope of the institutions from which data can be requested.

By newly enabling the Collective Search of Financial Transaction Information through the revision of the DPA in March 2006, the KDIC receives information on financial properties of default debtors from financial institutions and takes legal measures, thereby promoting the effectiveness of investigations into accountability for insolvency. The revised DPA strengthened the investigative authority of the KDIC by giving it the authority to request data on the duties and properties of those implicated in insolvencies as well as the authority to summon them and to request the data from the goverment and financial institutions.

As of December 2007, the Corporation performed investigations into properties held by 899,187 default debtors of 495 failed financial institutions. The KDIC also conducted in-depth investigations of those who are ultimately responsible in terms of the final judgement, those guilty of embezzlement, misappropriation of assets, and those whose extinctive prescription for remaining claims is near completion. As a result, the Corporation has conducted special property investigations into the properties of 1,888 persons implicated in insolvencies up to the end of December 2007. Based on the results of these investigations, the KDIC requested the pertinent financial institutions to take legal measures such as preservation of creditor's claims or seizure of the assets that were discovered. As of December 2007, several legal measures were taken including 115,020 cases of provisional seizure worth 9.23 trillion won and 2,533 cases of provisional disposition, and a total of 510.4 billion won was thus recovered.

<Table VII-3> General and Special Investigations into Implicated Parties' Properties

(As of December 31, 2007 unit: 100 million won)

Classification	No. of Persons Investigated	Provisional Seizure		No. of Provisional Disposition	Recovered Amount
		No. of Cases	Amount		
Culpable Parties	9,281	10,489	9,221	429	1,982
Debtors	889,906	104,531	83,049	2,104	3,122
Total	899,187	115,020	92,270	2,533	5,104

* The numbers above include the investigations performed by the RFC.

By exercising its right of Collective Search of Financial Transaction Information, a right which was established in March 2006, the KDIC conducted investigations into 41,480 persons implicated in the insolvencies of approximately 4,600 financial institutions by the end of December 2007. Based on these investigations, the KDIC discovered 90.4 billion won worth of financial assets belonging to the implicated persons and took legal recovery measures such as provisional seizure, etc. and thus recovered 19.6 billion won.

<Table VII-4> Investigations Performed via Collective Search of Financial Transaction Information

(As of December 31, 2007 unit: 100 million won)

No. of Persons Investigated		Legal measures			Recovered Amount	
		Classification	No. of Financial Accounts	Amount	No. of Financial Accounts	Amount
Culpable Persons	4,429	Provisional Seizure	2,812	132	1,976	70
		Seizure · Collection	3,833	89		
		Sub-total	6,645	221		
Debtors	37,051	Provisional Seizure	9,369	273	2,533	126
		Seizure · Collection	17,785	410		
		Sub-total	27,154	683		
Total	41,480	Total	33,799	904	4,509	196

B. Investigation into Overseas-Located Assets

As a means to intensify the investigations into properties concealed overseas, the KDIC launched outsourced investigation by commissioning proferssional firms which are based overseas and specialize in investigations into hidden assets. As of December 2007, investigations were conducted into the hidden overseas assets of 175 culpable persons. The KDIC discovered concealed properties of twenty-seven persons and recovered US$3.1 million from four of them. In the remaining twenty-three cases, the KDIC has either already filed lawsuits against the culpable parties or is in the process of doing so.

To establish a systematic and efficient system for investigations into assets located overseas, the KDIC established a roadmap for investigations and recovery of them. Through this roadmap, the written document addressing the KDIC's executive rights to conduct investigations has also become effective overseas, whereas it was only effective for domestically located properties beforehand. The basis and directions for the recovery process was also firmly set through the roadmap. The roadmap mitigates the fundamental problems arising from the lack of information on the local legal and investigation system.

The KDIC opened the Concealed Property Report Center in May 23, 2002, and received a total of 103 reports (including 88 reports in Korea and 15 reports in foreign countries) involving 212.5 billion won as of the end of December 2007. After conducting preliminary investigations into the reported cases, the Corporation made requests to creditor institutions for preservation of creditors' claims against 47 persons involving 82.5 billion won. As a result, it recovered 21.7 billion won (15 cases) and paid out 860 million won as rewards to those who provided key information.

In addition, the KDIC actively promoted reporting of concealed properties by running various advertisements. In order to improve accessibility to and timely response of the report center, the Corporation launched a special hot-line. It also conducted interviews with major U.S. media and held meetings with Korean-American organizations to encourage reporting of concealed overseas properties.

2. Investigations into Default Debtor Corporations

2-1. Investigations into Default Debtor Corporations

By the end of 2006, the KDIC's Special Investigation Mission for Default Debtor Corporations completed its investigations into 13,098 insolvent public fund-injected companies that failed to pay their debts. Since 2007, the KDIC has extended their investigations to include investigations into default debtor corporations that failed to pay their debts to financial institutions that have received injections from deposit insurance funds.

After conducting preliminary research during the first half of 2007, the Corporation investigated 1,358 corporations during the latter half of 2007. These 1,358 corporations failed to pay their debts to eleven mutual savings banks provided with deposit insurance funds.

2-2. Ex Post Facto Management Including Deliberation and Damage Claims

When the results of the on-site investigations indicate that certain parties have committed illegal acts, their accountability for the insolvency is reviewed and deliberated on in a fair and objective manner by the Accountability Deliberation Working Group for Default Debtor Corporations, a committee consisting of outside experts from the academia and legal and financial circles. If the committee judges the parties to be liable, the KDIC requests the creditor institutions to file damage claims against the parties involved.

As a result of deliberations, as of the end of December 2007, the KDIC concluded that a total of 807 people from 162 companies were accountable for insolvency-related damages worth 14.36 trillion won and requested the corresponding creditor financial institutions to file damage claims against these individuals. During 2007, the Corporation held a total of nine Accountability Deliberation Committee meetings and decided that 43 people from 13 companies were responsible for damages worth 151.3 billion won.

The KDIC has continued to conduct ex post facto management of legal measures taken by creditor financial institutions following the filing of damage claims and demands from the KDIC for taking measures to preserve creditor rights. It also regularly monitors the progress in these cases and holds meetings of creditor financial institutions to provide them with advice and guidance on legal proceedings and measures to preserve their rights.

2-3. Dealings with Directly-Filed Damage Claims

In lieu of creditor institutions who did not respond to KDIC's requests to file claims against parties implicated in the insolvency, the KDIC directly files damage claims. Giving consideration to the size of the claim amount and the progress of claims instituted by creditor institutions, the KDIC decides which cases to take over. In these instances, as the KDIC directly files the damage claims, it can strengthen claims management through direct participation in the case and by complementing the factual and jurisprudence to effectively defend the case.

If the subrogated cases are successful, the KDIC can recover the claimed amount directly to the DIF Repayment Fund for some of the institutions, and for the others in which the KDIC hold a stake, the Corporation can enjoy indirect recovery thanks to the increase in the value of stocks.

2-4 Legal Measures against Parties Implicated in Insolvency and Results of Recovery

The KDIC conducts thorough investigation into the properties of parties implicated in the insolvency based on the data provided by the Ministry of Construction and Transportation, the Ministry of Government Administration and Home Affairs, and the National Tax Service in order to maximize the recovery of assets in case the KDIC wins the damage claim suits filed against the parties implicated in the insolvency. In 2007, after similar investigations, the KDIC took measures such as the provisional seizure of 863.9 billion won (1,260 cases) and the provisional disposal of properties (261 cases). As a consequence, a total of 196.8 billion won had been recovered by the end of December 2007. This amount includes 70 billion won recovered through damage claim suits and 126.7 billion won recovered by encouraging voluntary repayment by default debtors.

<Table VII -5> Legal Measures Taken against Persons Implicated in Insolvency

(As of December 31, 2007)

No. of Corporations Subject to On-site Investigations	Liable Parties		Legal Proceeding			Provisional Seizure		Provisional Disposition (No. of Cases)
	No. of Corporations	No. of Implicated Parties	No. of Corporations	Defendants	Amount (billion won)	No. of Cases	Amount (billion won)	
717	162	807	145	687	960.4	1,260	863.9	261

2-5. Enhancement of Cooperation with Relevant Institutions

The Special Investigation Mission for Default Debtor Corporations currently comprises two bureaus and one department with a staff of 78 including the employees dispatched from the Prosecution, the Police, and the National Tax Service. The KDIC has continued to maintain close relations with these institutions which seconded personnel to the mission and has assisted it by providing necessary documents and information on investigations, supervision, and taxation.

If illegal acts such as fraud, embezzlement, or misappropriation come to light during investigations into default debtor corporations, the KDIC maintains its close bilateral cooperation with the Prosecution and requests them to investigate illegal acts perpetrated by individuals implicated in the insolvencies. The KDIC receives the information on the hidden assets of such persons and takes measures to preserve the rights of creditors regarding such assets. By imposing civil and criminal liability on the persons responsible for the insolvencies based on organic relationships maintained with related institutions, the KDIC not only contributed to promoting responsible corporate management, but also improved the transparency of corporate accounting through prevention of window dressing settlements and unreliable auditing.

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

1. Improvement of Laws Related to the Deposit Insurance System

1-1. Amendment of the Depositor Protection Act (December 21, 2007)

A. Objective

The amendment of the Depositor Protection Act (DPA) is aimed at protecting holders of cashier's checks issued by the Korea Federation of Savings Banks (KFSB) by including these checks in the Deposit Insurance Fund (DIF) coverage. By introducing a target fund system to the DIF, it is also aimed at relieving the long-term burden of insurance premiums imposed on insured financial institutions.

B. Major Contents

(1) Inclusion of the KFSB in the coverage
In order to protect holders of cashier's checks issued by the KFSB, the KDIC included the KFSB as an insured institution and also included cashier's checks issued by KFSB as an insurance covered deposit product.

(2) Introducing Target Fund System
To maintain an adequate level of accumulated funds in the DIF, a target reserve amount per financial sector was defined. Taking the stability of the financial system into consideration, target sizes can be reset as needed, and once the accumulated amount in a sector's fund reaches its targeted level, financial institutions belonging to that particular sector are exempted from making further insurance premium payments either partly or fully.

1-2. Amendment of the Enforcement Decree of the DPA (February 28, 2007)

A. Objective

The amendment of the Enforcement Decree of the DPA allowed the KDIC to take more stringent action against those parties implicated in insolvencies by expanding the range of institutions from which the KDIC can request information regarding the duties and properties of the implicated parties. As a means to reform financial regulations, the KDIC laid foundation to provide an insurance premium discount on customer deposits at securities companies which pose a comparably smaller risk to the DIF than other companies. It also lowered the special contribution rate applicable to credit unions to relieve their financial difficulties.

B. Major Contents

(1) Widening of the Range of Institutions the KDIC Can Request information to Regarding Duties and Properties of Those Implicated in Insolvencies
The amendment allowed the KDIC to take more stringent action against those persons implicated in insolvencies by including regional public corporations in charge of housing and estate developments and financial institutions specified in the Act on Real Name Financial Transactions and Guarantee of Secrecy to the range of institutions from which the KDIC can request information regarding the duties and properties of those implicated in insolvencies.

(2) Legal Framwork to Provide an Insurance Premium Discount on Customer Deposits at Securities Companies
Securities companies used to pay annual insurance premiums of an amount equivalent to 20 basis points (bps) 10,000 of their annual average deposit balances. As for customers' deposits, the KDIC can now apply a discounted rate, to a maximum of 30%, on the rate decreed by the Deposit Insurance Committee.

(3) Reducing the Special Contribution Rate Applied to Credit Unions
Credit unions used to pay special contributions of an amount equivalent to 10 bps of their annual average account deposit balances. However, to relieve the financial burden this places on them, the KDIC lowered the special contribution rate applicable to credit unions to 50 bps of their annual average deposit balances.

(4) Amending the Standards for Financial Assistance Provided to Insured Financial Institutions
In providing insured institutions with financial assistance, the KDIC can perform due diligence on assets and liabilities as and when needed. So as to promote effective implementation of the mutually agreed upon covenants for management normalization, the Corporation may discontinue the financial assistance if pertinent financial institutions fail to implement the covenants without any just reasons.

(5) Amending the Procedure of Insurance Premium Payments, etc.

After deliberation by the Deposit Insurance Committee, the KDIC confirmed and publicly announced an amendment to the procedure of payment of contributions, insurance premiums, and special contributions. This amendment is aimed at bringing objectivity to the payment procedure and to encourage insured financial institutions to follow the procedure.

2. Research Activities on the Deposit Insurance System

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

In 2007, the Deposit Insurance Policy Research Task Force (Task Force) was launched. This Task Force is responsible for establishing the roadmap that will pave the way for the KDIC to become an advanced deposit insurer that will cover the changes in financial trends as financial institutions tend to expand their size and services. The Task Force conducted research on various topics including the protection of financial customers, the risk surveillance method in large and complex financial groups, the resolution of such complex groups, and the promotion of DIF soundness.

The Task Force conducted research needed to realize an integrated deposit insurance system by studying the protection policies available to depositors, investors, and insurance contract stakeholders in other countries. In addition, it researched various ways to improve the existing deposit insurance system by assisting outsourced researchers on research into improving investor protection policy and preventing a contagion risk among financial institutions.

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

<Table VIII-1> Major Research Activities of the KDIC in 2007

Subject	Title
Universal Banking and Economies of Scale and Scope in the Financial Sector and Deposit Insurance System	Research on Insolvency Resolution Regime for Large and Complex Financial Institutions
	Improvement of Financial Consumers Protection Policy
	Ongoing Risk Surveillance for Large, Complex Financial Institutions
	Improving Fund Soundness to Correspond to Financial Environments
	Research on Legal Regulation to Prevent Contagion Risk among Financial Group Subsidiaries
	Investor Protection Issues Arising from Promulgating the Capital Market Integration Act and Improvement of Deposit Insurance System

Subject	Title
Research of Integrated Deposit Insurance System	Financial Consumer Protection Policy in EU - the Current System and Implications
	Discussion on Amendments of Deposit Insurance Guidelines of the EU and its Implications
	The Bank-run of Northern Rock in the United Kingdom
	Major Amendments of FSCS Fund Accumulation Policy and its Implications
	Recent Major Amendments Made to Acts and Regulations regarding the U.S. Contemporary Deposit Insurance
	Insurance Contractors Protection System in the U.S.- Current System and Improvements
	Research on Globalization of Insurance and Insurance Product Contractor Protection Policy
	Financial Consumer Protection Policy in China - Introduction and Implications
	Amendments of Deposit Insurance Act in Taiwan and Implications
	Modification of Deposit Insurance System in India and Implications
Miscellaneous	Deposit Insurance Premium Calculation Formula Considering the Timing Fluctuations of Bankruptcy Declaration
	Reflection on DIF Design Features and Management
	Calculation of Estimated Special Contribution to the DIF Bond Redemption Fund and Correspondences from the Policy Implications

3. Cooperation and Exchange with International Organizations

In the year 2007, the KDIC mainly focused on reinforcing its business capacity and on strengthening its role in the international community through exchanges with diverse international financial institutions including the International Association of Deposit Insurers (IADI).

As a means of cooperative exchange, at the IADI Asia Regional Committee held in March 2007, the KDIC held presentations on the DPA and a bank resolution case and took charge of the conference's general adress. At the interregional conference hosted by the IADI, Europe, Eurasia, and Mid East & North Africa Regional Committees in June, the KDIC held presentations on its recovery activities and achievements.

The KDIC also attended the Annual General Meeting of the IADI to express opinions on key issues and to participate in the decision-making process. In July, it participated in the IADI Executive Training Program hosted by the Federal Deposit Insurance Corporation (FDIC) for deposit insurers from across the globe and presented KDIC's resolution procedure for failed financial institutions by introducing a real-life case study.

The KDIC also fills the vice chairman position of the Research and Guidance Committee (RGC), a key standing committee of the IADI, and is a member of the Information Management and Database (IMBD), a subcommittee of the RGC. In fulfilling these roles, the KDIC played a pivotal role in publishing research and guidance papers on deposit insurance. Due in part to efforts such as these, the KDIC was reappointed as a member of Executive Council of the IADI at its sixth Annual General Meeting held in November 2007.

Meanwhile, in October 2007, the Corporation signed a Memorandum of Understanding (MOU) with the Securities Investor Protection Corporation (SIPC) on protection of investors, information sharing, and mutual exchange. In November 2007, the KDIC and the FDIC signed another MOU, agreeing to the secondment of a KDIC employee to the FDIC for the purpose of closely collaborating and performing research on deposit insurance.

As a means of continuously assisting the government in its efforts to establish Korea as a financial hub, employees of the Deposit Insurance of Vietnam (DIV) visited the KDIC in November 2007. During December, a group of KDIC employees returned the favor by visiting the DIV to share its know-how on deposit insurance organization, information technology, and risk management.

IX. Account Settlement Results of 2007

1. Overview of Account Settlement

The KDIC has classified its funds into 3 accounting units: the Deposit Insurance Fund (DIF), the DIF Bond Redemption Fund, and the KDIC Internal Account. The DIF and the DIF Bond Redemption Fund are each classified into 7 different financial sectoral accounting units: banks, securities companies, life insurance companies, non-life insurance companies, merchant banks, mutual savings banks (MSBs), and credit unions.

In order to increase the credibility and transparency of its accounting, the KDIC has used the services of an external auditor from the 2002 fiscal year. For the account settlement of 2007, the audit was conducted by Ernst & Young (Han Young LLC), and the auditor's opinion, following an audit, was Unqualified.

2. Criteria for Account Settlement

The financial statements of the DIF, DIF Bond Redemption Fund, and the KDIC Internal Account are laid out in accordance with Generally Accepted Accounting Principles as well as the KDIC's internal accounting standards.

2-1. Accounting of Assets and Liabilities

A. Classification and Evaluation of Securities

(1) Acquisition Costs of Securities and their Classification

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

(2) Evaluation of AFS Securities

For AFS securities, the fair market value is considered to be equal to the balance sheet value. However, in case where securities are not marketable, and at the same time, the value cannot be estimated fairly, their acquisition cost is deemed to be the fair market value. Lastly, for the AFS securities without acquisition costs, the value is replaced by the value of the future cash flow discounted by the credit rate as obtained from a reliable and independent credit rating agency. Unrealized gains/losses on the AFS securities are recorded as evaluation gains/losses, and further adjustments are made to the capital. Furthermore, if a decline in the fair market value is not expected to be recovered, the difference between the book value and the fair market value of the AFS securities is written off as a term loss. Evaluation gains/losses of these AFS securities are added or deducted from the loss to the AFS account.

The accounting treatment of a reversal of impairment loss that occurs subsequent to the recording of an impairment loss on price-reduced AFS securities is as follows: When the reversal of impairment loss is objectively related to an event occurring after the recognition of the impairment loss, the amount of the reversal shall be recognized as a gain incurred on the AFS securities.

(3) Evaluation of Equity Method Applied Securities

The value of the equity method applied securities as per the balance sheet is determined by using the equity method. If the difference between the book value and the fair market value originated from net gains/losses of the company in which the investments are held, the pertinent gains/loss is added to or deducted from the equity method evaluation gains/losses. If the amount in deferred retained earnings was increased or decreased due to material misstatement or changes in the accounting procedures of the company in which the investments are held, the increase/decrease is added to or deducted from the current net income/loss or deferred retained earnings. If the decrease or increase was due to a fluctuation in the equity accounts, excluding net income and deferred retained earnings, the pertinent change is added to or deducted from other cumulative comprehensive gains/losses under capital change account.

B. Evaluation of Loans, etc.

The bad debt allowance is reserved by estimating the expected loss from loans or indemnity receivables. As for the KDIC's indemnity receivables to bankruptcy estates, the corresponding bad debt allowance is calculated by estimating the expected loss.

C. Evaluation of Foreign Currency-Denominated Assets and Liabilities

For non-monetary foreign currency-denominated assets and liabilities, the exchange rate as of the asset acquisition date or the liability assumption date is applied. For monetary foreign currency-denominated assets and liabilities, the exchange rate as of the balance sheet date is applied. The gains/losses that arise from foreign currency exchange fluctuations are written off as current gains/losses.

D. Reserve for Outstanding Claims

A reserve for outstanding claims is estimated and set aside to cover any liability which the Courts rule is to be covered by the DIF or the DIF Bond Redemption Fund.

E. Bonds Premium/Discount

The DIF Bond Redemption Fund allocates the difference between the issuing price and the face value of bonds as a fund for bond issuance at premium/discount. Using the effective interest method, the discount or premium is amortized over the remainder of the term to maturity. The amortized discount/premium is added to or deducted from the interest expense.

F. Evaluation of Derivatives

After evaluating the rights and obligations associated with derivatives contracts at the fair market value, the determined values are appropriated as assets or liabilities depending on the case. The evaluation gains/losses are recognized as current gains/losses at the time they occur. However, as for the evaluation of derivatives acquired to mitigate the liquidity risk, the effective amount for hedging such risks is appropriated to other cumulative comprehensive gains/losses (derivatives evaluation gains/losses).

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

The DIF and the DIF Bond Redemption Fund cover the asset acquisition costs and the operating expenses of the KDIC.

2-2. Accounting for Revenues and Expenses

A. Total Entering of Revenue and Expense

Revenues and expenses were reflected based on the gross amounts without any setoff being applied.

B. Revenue Recognition Criteria

Insurance premium revenue is recognized as it accrues over time. Interest income arising from deposits, etc. is also treated in this way but interest income arising from unrecoverable claims is recognized on a cash basis.

C. Periods Covering Revenues and Expenses

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

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

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

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

3. Account Settlement Status

3-1. Deposit Insurance Fund Accounting

A. Financial Status

As of December 31, 2007, the total assets of the Fund increased to 4.18 trillion won, which represents a 614.8 billion won (17.2%) won increase on the previous year. Operating assets such as deposits (3.74 trillion won) increased by 406.1 billion won compared to that of last year. Contributed assets such as loans (174.9 billion won) increased by 116.2 billion won owing to the loans made to the Resolution and Finance Corporation (RFC) for the resolution of Hongik and Kyungbook MSBs. Indemnity receivables (2.18 trillion won), which are achieved when the KDIC pays insurance claims and contributions to insolvent MSBs, increased by 812 billion won. However, the net indemnity receivables, after deducting an allowance for bad debts, increased by only 82.7 billion won.

The total liabilities stood at 311.6 billion won, which represents a 6.6 billion won (2.1%) decrease on the year before. Despite an increase in the liability (231.4 billion won) of the MSB account due to continued bankruptcies in the MSB industry, a drastic decrease in the reserve for outstanding claims (188.9 billion won) and payables (49.6 billion won) attributed to a decrease in total liabilities.

The total equity was 3.87 trillion won, an increase of 621.4 billion won (19.1%) over last year. The increase can be attributed to an increase in retained earnings resulting from realizing net profits worth 634.5 billion won.

B. Status of Profit and Loss

The net operating income of 2007 came to 634.5 billion won, representing a 274.4 billion won (30.2%) decrease on the previous year. This is due to the increase in non operating loss (336.3 billion won) as a result of the transferred-in allowances for bad debts being greater than the increase in operating income (61.9 billion won).

Operating revenues and expenses were 1.30 trillion won and 67.9 billion won, respectively, realizing a 1.23 trillion won net operating income. Operating revenues are composed of 1.15 trillion won (89%) in insurance premiums received and 147.5 billion won (11%) in interest income. Operating expenses are composed of 57.8 billion won (85%) in expenses to run the Corporation and 10.1 billion won (15%) in expenses spent on fund management.

In the meantime, non-operating revenues and non-operating expenses came to 786.4 billion won and 1.38 trillion won, respectively, realizing a net non-operating loss of 597.8 billion won.

3-2. DIF Bond Redemption Fund Accounting

A. Financial Status

The total assets of the DIF Bond Redemption Fund at the end of the current term stood at 21.63 trillion won, a 4.51 trillion won (17.3%) decrease from the previous year. The decrease in total assets was mainly caused by a decrease in contributed assets (19.25 trillion won) such as loans and AFS securities by 4.28 trillion won compared to that of last year. The valuation of possessed AFS securities (14.4 trillion won) among its contributed assets (19.25 trillion won) decreased by 2.75 trillion won due to the KDIC's disposition of Shinhan Financial Group and Woori Financial Group common stocks and devaluation of Woori Finance Group's shares.

The total liabilities of the DIF Bond Redemption Fund at the end of the current term stood at 31.55 trillion won, a 3.42 trillion won (9.8%) decrease from the previous year. While the liability assumed by the DIF decreased by 6.67 trillion won, the liability assumed by the DIF Bond Redemption Fund increased by 2.64 trillion won due to the conversion of DIF bonds at maturity.

The total equities of the DIF Bond Redemption Fund at the end of 2007 stood at negative 9.91 trillion won, a 1.09 trillion won (12.4%) decrease from the previous year.

Despite the realization of a net profit of 1.95 trillion won, the decrease in AFS evaluation gains (other cumulative comprehensive gains/losses) was at a huge 3.37 trillion won due to the disposal and devaluation of shares owned and this attributed to the decrease in total equities.

B. Status of Profit and Loss

The net operating income of the Fund came to 1.95 trillion won, representing a 1.63 trillion won (516.0%) increase compared to that of last year. This increase is mainly attributable to a rise in the net profit arising from the disposal of contributed assets such as shares held in Shinhan Financial Group and Woori Financial Group.

Operating revenues and operating expenses were 1.72 trillion won and 1.97 trillion won, respectively, realizing a net operating loss of 253 billion won. Operating revenues are mainly composed of 728 billion won of special contribution revenue (42%) and 781 billon won of dividend revenue (45%). Operating expenses included 961 billion won from interest on outstanding DIF bonds and 815 billion won from interest on outstanding DIF Bond Redemption Fund Bonds.

Meanwhile, non-operating revenues and non-operating expenses came to 2.69 trillion won and 495 billion won, respectively. Therefore, the Redemption Fund recorded a net income of 2.20 trillion won for the term. Profits earned from the disposal of contributed assets such as KDIC's shares held in Shinhan Financial Group and Woori Financial Group mainly contributed to the increase in net income.

3-3. Accounting for KDIC Internal Account

A. Financial Status

The total assets of the KDIC internal account at the end of 2007 stood at 14.4 billion won, an increase of 242(1.7%) million won on the total of 14.13 billion won of the preceding term. This is attributable to the increase of 437 million won in current assets such as cash and deposits and the increase of 260 million won in investment assets such as security deposits being greater than the decrease of 455 million won in tangible assets, including lease hold estates.

Assets can be divided into current assets such as cash and deposits amounting to 2.04 billion won (14.2%) and non current assets amounting to 12.33 billion won (85.8%). Non current assets can be further divided into 9.11 billion won in security deposits, 10.38 billion won in investment assets, and 1.95 billion won in tangible assets.

The total liabilities for the term stood at 13.86 billion won, a decrease of 504 million won (3.5%) from the 14.37 billion won in the previous term. This is because the 571 million won decrease in non-current liabilities, such as the transferred-in capital budget, was greater than the 67 million won increase in current liabilities including unpaid expenses.

The liabilities can be sub-divided into current liabilities of 1.49 billion, including deposits of 966 million won, unpaid expenses of 523 million won and 12.37 billion won (89.2%) of non current liabilities including transferred-in capital. In the meantime, retained earnings for the term was 746 million won, and therefore the cumulative retained earnings was 514 million won after deducting 232 million won of deferred deficit carried forward from the previous term.

B. Status of Profit and Loss

The total revenues and expenses of the KDIC internal fund in 2007 stood at 76.43 billion won and 75.68 billion won, respectively, realizing 746 million won of retained earnings in the term.

The total revenues consists of 75.10 billion won (98.2%) in revenue earned from financial institutions, such as insurance premiums and 1.33 billion won (1.8%) earned from operating funds, for example, interest earned. The total operating expenses were 41.54 billion won (54.9%) in wages, 30.05 billion won (39.7%) in general expenses, and 4.10 billion won (5.4%) in contribution to provision for severance benefits.es.

<Table IX-1> Condensed Balance Sheet

Current Period : As of December 31, 2007
Previous Period : As of December 31, 2006

(DIF Account) (Unit : 100 million won)

ASSETS	Amount		LIABILITIES and EQUITIES	Amount	
	Current Period	Previous Period		Current Period	Previous Period
Current Assets	32,481	22,926	Current Assets	3,116	3,182
1. Operating Assets	24,659	16,012	1. Contributed Liabilities	3,108	794
Deposits	7,086	4,801	Short-term Borrowings	3,108	794
Short-term Operating Bonds	17,573	11,211	2. Other Current Liabilities	8	2,388
2. Contributed Assets	1,268	467	Reserve for Outstanding Claims	-	1,889
Short-term Loans	2,170	866	Others	8	499
(Allowance for Doubtful Accounts)	(-)902	(-)399	Non Current Liabilities	-	-
3.Other Current Assets	6,554	6,447	1. Contributed Liabilities	-	-
Uncollected Premiums	6,100	5,638	2. Other Non Current Liabilities	-	-
Advanced Insurance Payment	162	-			
Provisional Payment	-	600			
(Allowance for Doubtful Accounts)	-	-			
Others	292	209	Total Liabilities	3,116	3,182
Non current Asset	9,341	12,748	DIF Surplus	38,859	32,514
1. Operating Assets	6,081	10,669	(Net Income)		
Long-term Operating Bonds	6,081	10,669	Current Period: 6,345		
2. Contributed Assets	480	120	Previous Period: 9,089		
Long-term Securities	360	-	Other Cumulative Comprehensive	(-)153	(-)22
Long-term Loans	120	120	Gains/Losse		
3. Indemnity Receivables	2,732	1,906	1. Gains/Losses on Valuation of	(-)153	(-)22
Indemnity Receivables for Insurance Payment	8,608	6,977	Securities Sold		
(Allowance for Doubtful Accounts)	(-)6,258	(-)5,262	2. Equity Adjustment Under Equity	-	-
Contributions Indemnity Receivables	12,630	6,121	Method		
(Allowance for Doubtful Accounts)	(-)12,248	(-)5,930			
Other Indemnity Receivables	549	568			
(Allowance for Doubtful Accounts)	(-)549	(-)568			
4. Other Non Current Assets	48	53			
Transferred Capital Budget	48	53	Total Equity	38,706	32,492
Total Assets	41,822	35,674	Total Liabilities and Equities	41,822	35,674

<Table IX-2> Condensed Income Statement

Current Period : For the year ended Dec. 31, 2007
Previous Period : For the year ended Dec. 31, 2006

(DIF Account) (Unit : 100 million won)

EXPENSES	Amount		REVENUES	Amount	
	Current Period	Previous Period		Current Period	Previous Period
Operating Expenses (B)	679	560	Operating Revenues (A)	13,003	12,265
1. KDIC Operation Expenses	578	501	1. Revenue on Fund	11,528	11,246
2. Fund Administrative Expenses	101	59	Insurance Premiums	11,528	11,219
Contributions Expenses	-	-	Contributions	-	27
Interest on Loans	99	41	2. Revenue on Fund Operation	1,475	1,013
Direct Expense to Fund	2	18	Interest on Deposits	330	170
			Interest on Securities	1,064	796
			Interest on Loans	80	43
			Gains on Sale of Securities	1	4
			3. Gains on Other Operation	-	6
Operating Income (C=A-B)	12,324	11,705			
Non-Operating Expenses (E)	13,842	3,562	Non-Operating Revenue (D)	7,864	946
1. Contribution to Allowance for Doubtful	7,923	1,673	1. Reversal of Reserve for Outstanding	7,789	652
Accounts			Claims		
2. Contribution to Reserve for	5,900	1,889	2. Gains on Valuation of Derivatives	-	-
Outstanding Claims			3. Reversal of Allowance for Doubtful	75	67
3. Equity Method Evaluation Losses	19	-	Accounts		
4. Other Non-Operating Expenses	-	-	4. Equity Income on Investments	-	227
Net Income (C+D-E)	6,345	9,089	5. Other Non-Operating Revenues	-	-

<Table IX-3> Condensed Balance Sheet

Current Period : As of December 31, 2007

Previous Period: As of December 31, 2006

(DIF Bond Redemption Fund Account) (Unit : 100 million won)

ASSETS	Amount		LIABILITIES and EQUITIES	Amount	
	Current Period	Previous Period		Current Period	Previous Period
Current Assets	20,280	64,038	Current Liabilities	118,410	59,309
1. Operating Assets	19,247	22,637	1. Contributed Liabilities	114,971	56,952
Deposits	8,013	2,690	Short-term Borrowings	938	930
Short-term Operating Bonds	11,234	19,947	Outstanding DIF Bonds	113,933	55,572
2. Short-term Securities	834	-	Outstanding DIF Bond Redemption Fund Bonds	100	450
3. Short-term Loans	-	191,452	2. Other Current Liabilities	3,439	2,357
(Allowance for Doubtful Accounts)	-	(-)150,093	Advanced Special Contributions Received	-	-
4. Other Current Assets	190	42	Accounts Payable	1,760	2,049
Special Contributions Receivables	2	-	Reserve for Outstanding Claims	1,409	55
Accrued Revenues	11,089	11,080	Others	270	253
(Allowance for Doubtful Accounts)	(-)11,028	(-)11,038			
Advanced Payments	127	-			
Non Current Assets	196,064	197,441	Non Current Liabilities	197,066	290,391
1. Contributed Assets	191,621	193,868	1. Contributed Liabilities	195,735	288,876
Long-term Investment Securities	143,169	171,489	Long-term Borrowings	4,691	5,578
Long-term Loans	186,511	7,334	Outstanding DIF Bonds	-	119,033
(Allowance for Doubtful Accounts)	(-)144,673	(-)2,316	Outstanding DIF Bond Rebemption Fund Bonds	191,600	164,500
Purchased Assets	6,614	17,361	Premium on Bonds	198	270
2.Indemnity Receivables	4,357	3,487	(Discount on Bonds)	(-)754	(-)505
Indemnity Receivables	140,826	142,068	2. Other Non Current Liabilities	1,331	1,515
(Allowance for Doubtful Accounts)	(-)136,469	(-)138,580	Total Liabilities	315,476	349,700
3.Other Non Current Assets	86	86	Contributions Received from Government	523,064	523,064
Long-term Insurance Premium	141	180	DIF Surplus (Deficit)	(-)686,101	(-)705,555
Receivables			(Net Income)		
(Allowance for Doubtful Accounts)	(-)131	(-)170	Current Period : 19,454		
Transferred Capital	76	76	Previous Period : 3,158		
			Other Cumulative Comprehensive	63,905	94,270
			Gains/Losses		
			Total Capitals	(-)99,132	(-)88,221
Total Assets	216,344	261,479	Total Liabilities and Equities	216,344	261,479

<Table IX-4> Condensed Income Statement

Current Period : For the year ended Dec. 31, 2007

Previous Period : For the year ended Dec. 31, 2006

(DIF Bond Redempyion Fund Account) (Unit : 100

EXPENSES	Amount		REVENUES	Amount	
	Current Period	Previous Period		Current Period	Previous Period
Operating Expenses (B)	19,739	25,202	Operating Revenues (A)	17,214	11,998
1. KDIC Operating Expenses	188	224	1.Revenue on Fund	7,374	7,591
2. Fund Administrative Expenses	19,551	24,978	Special Contributions	7,281	7,133
Contribution Expenses	1,278	2,554	Contributions	93	458
Interest on Loans	417	513	2.Revenue on Fund Operation	9,306	4,304
Interest on Outstanding DIF Bonds	9,610	14,098	Interest on Deposits	615	387
Interest on Outstanding DIF Bonds	8,153	7,763	Interest on Securities	869	739
Redemption Fund Bonds			Interest on Loans	9	12
Others	93	50	Dividends Income	7,813	3,166
			3. Other Operating Revenues	534	103
Operating Loss (C=A-B)	(-)2,525	(-)13,203			
Non-Operating Expenses (E)	4,951	13,802	Non-Operating Revenues (D)	26,930	30,163
1. Contribution to Allowance for Doubtful	1,646	56	1. Reversal of Allowance for Doubtful	11,059	10,851
Accounts			Accounts		
2. Losses on Sale of Contributed Assets	1,116	12,514	2. Equity Income on Investments	10	7
3. Impairment Losses on Securities	417	-	3. Disposal of Contributed Assets	14,562	7,005
4. Losses on Foreign Currency Transaction	7	546	4. Recovery of Impairment Losses on	937	11,632
5 Losses on Foreign Currency Translation	52	-	Securities		
6. Transferred-in Reserve for Outstanding	1,660	55	5. Profit on Foreign Currency Transaction	-	52
Claims			6. Gains on Foreign Currency Translation	-	584
7. Losses on Derivatives Transaction	-	45	7. Reversal of Reserve for Outstanding Claims	305	-
8. Losses on Valuation of Derivatives	-	584	8. Gains on Derivatives Transaction	5	-
9. Others	53	2	9. Gains on Valuation of Derivatives	52	-
Net Income (C+D-E)	19,454	3,158	10. Others	-	32

million won)

<Table IX-5> Condensed Balance Sheet

Current Period : As of December 31, 2007
Previous Period: As of December 31, 2006

(KDIC Account) (Unit : 100 million won)

ASSETS	Amount		LIABILITIES and EQUITIES	Amount	
	Current Period	Previous Period		Current Period	Previous Period
Current Assets	2,043	1,606	Current Liabilities	1,491	1,424
1. Cash and Deposits	1,983	1,588	1. Accounts Payable	2	-
2. Accounts Receivable	2	-	2. Accrued Expenses	523	402
3. Advanced Payments	36	-	3. Deposits	966	1,022
4. Accrued Income	17	12			
5. Prepaid Expense	5	6			
Non Current Assets	12,333	12,528	Non Current Liabilities	12,371	12,942
1. Investment Assets	10,384	10,124	1. Contribution to Capital Budget	12,369	12,942
Security Deposits	9,114	8,910	2. Provision for Severance Benefits	20,676	18,931
Long-term Securities	-	4	(Contribution to National Pension Plan)	(-)7	(-)7
Other Investments	1,270	1,210	(Deposits for Severance Benefits)	(-)20,667	(-)18,924
2. Tangible Assets	1,949	2,404	Total Liabilities	13,862	14,366
Buildings	552	2,024	1. Retained Earnings	514	(-)232
Vehicles	16	16	(Net Surplus or deficit)		
Other Tangible Assets	12,038	11,892	Current Period : 746		
(Accumulated Depreciation)	(-)10,657	(-)11,528	Previous Period : (-)178		
			Total Capital	514	(-)232
Total Assets	14,376	14,134	Total Liabilities and Equities	14,376	14,134

<Table IX-6> Condensed Income Statement

Current Period : For the year ended Dec. 31, 2007
Previous Period : For the year ended Dec. 31, 2006

(KDIC Income Account) (Unit : 100 million won)

EXPENSES	Amount		REVENUES	Amount	
	Current Period	Previous Period		Current Period	Previous Period
KDIC Administrative Expenses	75,679	72,194	Revenues on Fund	75,096	71,095
1. Salaries	41,540	41,684	1. Contribution Revenue to Fund Revenue	75,096	71,095
2. General Expenses	30,047	26,367	on Fund Operation	1,329	921
3. Transferred-in Provision for Severance	4,092	4,143	1. Interest on Deposits	1,191	804
Benefits			2. Interest on Securities	-	-
4. Other Administrative Expenses	-	-	3. Others	138	117
Total Expenses	75,679	72,194			
Net Surplus	746	(-)178	Total Revenues	76,425	72,016

Appendix

1. Deposit Insurance Committee Activities

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

2. Summary of Events in 2007

DATE	MAJOR EVENTS
Jan. 19	The FSC ordered the business suspension of Daewoon Mutual Savings Bank (MSB).
Feb. 27	Carried out after-hours block sale of KDIC stake (5.1%) in Shinhan Financial Group at 57,500 won per share (marketprice) and recovered 1.12 trillion won for the sale.
Mar. 7	Invested 11.1 billion won into Yeahreum MSB for the P&A of Good friend MSB.
Mar. 16	The FSC decided P&A transfer of Good friend MSB into Yeahreum MSB and the Resolution and Finance Corporation (RFC).
Mar. 16	Contributed 197. 2 billion won to Yeahreum MSB for the P&A of Good friend MSB.
Mar. 16	The FSC ordered the business suspension of Hongik MSB.
Mar. 19	Yeahreum MSB began operation.
May 16	Invested 6.3 billion won into Yeahreum MSB for the P&A of Daewoon MSB.
May 21	Recovered 19 million won from the additional contributions (19 million won) made to Korea Life.
May 25	The FSC decided P&A transfer of Daewoon MSB into Yeahreum MSB and the RFC.
May 25	Contributed 58.8 billion won to Yeahreum MSB for the P&A of Daewoon MSB.
May 25	The FSC ordered the business suspension of Kyungbook MSB.
Jun. 25	Carried out after-hours block sale of KDIC stake (5.0%) in Woori Financial Group at 22,750 won per share (1.09% discount from the market price) and received 916.8 billion won for the sale.
Jul. 18	Invested 10.6 billion won into Yeahreum MSB for the P&A of Hongik MSB.
Jul. 19	Received 352.2 billion won as dividends from Seoul Guarantee Insurance Corporation.
Jul. 20	The FSC decided P&A transfer of Hongik MSB into Yeahreum MSB and the RFC.
Jul. 20	Contributed 329.4 billion won to Yeahreum MSB for the P&A of Hongik MSB.
Jul. 23	Received interests (660 million won) on subordinated loans (12 billion won) from Busan Solomon MSB.
Jul. 26	Suwon District Court declared Good friend MSB bankrupt.
Aug. 3	Gwangju District Court declared Daewoon MSB bankrupt.
Aug. 20	Recovered redeemable preferred stocks (9.32 million shares) of Shinhan Financial Group and received 168.5 billion won.
Oct. 11	Carried out after-hours block sale of RFC stake (2.28%) in Doosan Infracore at 38,050 won per share (market price) and received 145.9 billion won for the sale.
Nov. 8	Incorporation of Yehanwul MSB, the third bridge bank established by the KDIC, was registered.
Nov. 20	Recovered 11 million won from the additional contributions (11 million won) made to Korea Life.
Nov. 20	Gwangju District Court declared Hongik MSB bankrupt.
Dec. 14	Contributed 10 billion won to Yehanwul MSB for the P&A of Kyungbook MSB.
Dec. 21	The FSC decided P&A transfer of Kyungbook MSB into Yehanwul MSB and the RFC.
Dec. 21	Contributed 49.3 billion won to Yehanwul MSB for the P&A of Kyungbook MSB.
Dec. 24	Yehanwul MSB began operation.
Dec. 27	Selected Standard Chartered NEA Ltd. as Yeahreum MSB's preferred bidder.

3. Statistics

A. Number of Insured Financial Institutions (FIs)[1]

Financial Sector	End of 2002	End of 2003	End of 2004	End of 2005	End of 2006	End of 2007
Banks	100	58	55	56	53	53
(Domestic)	(18)	(18)	(18)	(18)	(17)	(17)
(Foreign)	(40)	(40)	(37)	(38)	(36)	(36)
(Others)[2]	(42)	-	-	-	-	-
Securities Companies	60	58	56	53	53	53
Insurance Companies	43	43	43	42	43	44
(Life)	(23)	(23)	(23)	(22)	(22)	(22)
(Non-Life)	(20)	(20)	(20)	(20)	(21)	(22)
Merchant Banks	3	2	2	2	2	2
MSBs	116	114	113	111	110	109
Credit Unions[3]	1,233	1,086	-	-	-	-
Total	1,555	1,361	269	264	261	261

1) The number of insured financial institutions is as of business operation date and business license revocation date.
2) Regional fisheries cooperatives that conduct credit business were excluded from deposit protection as of January 1, 2003.
3) Credit Unions were excluded from deposit protection scheme as of January 1, 2004.

B. Insured Deposits by Financial Sector[1]

(Unit : 100 million won, %)

Financial Sector	End of 2006 (A)	End of 2007 (B)	Difference (B-A) (rate of increase)
Banks[2]	491,812	485,416	△6,396(△1.3)
Securities Companies[3]	13,774	15,027	1,253(9.1)
Insurance Companies[3]	227,848	250,649	22,801(10.0)
Life	(196,471)	(214,633)	(18,162)(9.2)
Non-Life	(31,377)	(36,016)	(4,639)(14.8)
Merchant Banks	730	702	△28(△3.8)
MSBs	44,004	49,367	5,363(12.2)
Total	778,168	801,161	22,993(3.0)

1) Insured deposits exclude the deposits of the government, local authorities and other insured institutions and are prepared based on the balance.
2) In the case of banks, data is a combination of domestic banks and branches of seven major foreign banks.
3) Prepared date is the end of December of each year. However, prepared date of securities companies and insurance companies is the end of March of next year.
- Insured deposits in securities companies = outstanding average ending balance of insured products as indicated in the Balance Sheet at the year end x Insured deposit ratio* according to last year's deposit insurance premium calculation index
  * insured deposit ratio = insured deposit amount(avg. balance) according to the last year's deposit insurance premium calculation index / total amount deposited in the insured products(avg. balance) according to the last year's deposit insurance premium calculation index
- Insured deposits in insurance companies = legal reserve amount (in case of cancellation) as indicated in the Balance Sheet at the year end x last year's legal reserve ratio of insured products*
  * legal reserve ratio of insured products = legal reserve amount (in case of cancellation) according to the last year's deposit insurance premium calculation index / total reserve amount of insured products

C. DIF Bond Redemption Fund Revenues

(As of December 31, 2007, Unit : 100 million won)

Financial Sector	Insurance Premium Revenues prior to the Creation of DIF Bond RepaymentRedemption Fund2[2]						Special Contributions Made by Insured FIs to the DIF Bond Redemption Fund					
	Prior to 1998[1]	1999	2000	2001	2002	Total	2003	2004	2005	2006	2007	Total
Banks	1,613	1,975	2,630	4,139	4,361	14,718	4,775	4,956	4,871	4,987	5,027	24,616
Securities Companies	-	51	156	218	262	687	156	168	145	151	156	776
Insurance Companies	2,322	1,260	1,781	2,416	2,780	10,559	1,074	1,176	1,288	1,402	1,543	6,483
(Life)	(1,800)	(1,011)	(1,402)	(1,938)	(2,295)	(8,446)	(889)	(978)	(1,069)	(1,160)	(1,265)	(5,361)
(Non-Life)	(522)	(249)	(379)	(478)	(485)	(2,113)	(185)	(198)	(219)	(242)	(278)	(1,122)
Merchant Banks	980	336	233	139	130	1,818	20	6	5	6	7	44
MSBs	2,407	377	323	529	604	4,240	222	264	319	370	430	1,605
Credit Unions	402	162	281	407	641	1,893	-	-	-	216	116	332
Total	7,724	4,161	5,404	7,848	8,778	33,915[3]	6,247	6,570	6,628	7,133	7,280	33,858

1) The insurance premium revenue for 1998 is inclusive of the applicable funds transferred from the Insurance Supervisory Board, Korea Non-bank Supervisory Authority Corporation, National Federation of Credit Unions on April 1, 1998 as a result of the consolidation of the funds into the DIF at the beginning of 1998 with the exception of the Securities Investor Protection Fund which was dismantled subsequent to the consolidation.
2) DIF premium revenue until 2002 transferred to DIF Bond Redemption Fund according to the amendment of related law.
3) Includes bankruptcy dividends received with respect to indemnity receivables in respect of unpaid insurance premiums by bankrupty estates.

D. DIF Premium Revenue

(As of December 31, 2007, Unit : 100 million won)

Financial Sector	2003	2004	2005	2006	2007	Total
Banks	4,775	4,960	4,869	4,987	5,027	24,618
Securities Companies	312	336	300	303	256	1,507
Insurance Companies	3,115	3,403	3,737	4,059	4,455	18,769
(Life)	(2,580)	(2,832)	(3,109)	(3,362)	(3,654)	(15,537)
(Non-Life)	(535)	(571)	(628)	(697)	(801)	(3,232)
Merchant Banks	73	17	15	19	22	146
MSBs	667	793	974	1,116	1,306	4,856
Credit Unions	603	4	-	-	-	607
Total	9,545	9,513	9,895	10,484	11,066	50,503

E. Status of DIF Bond Issuance

(As of December 31, 2007, Unit: 100 million won)

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

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

F. Status of the DIF Bond Redemption Fund Provision

(As of December 31, 2007, Unit: 100 million won)

Financial Sector	Equity Participation	Contributions	Deposit Payoff	Asset Purchases	Loans	Total[1)
Banks	222,039	139,090	-	100,064	-	461,194
Securities Companies	80,769	3,465	144	19,575	-	103,953
Insurance Companies	159,198	31,171	-	3,495	-	193,863
(Life)	(56,697)	(27,498)	-	(3,495)	-	(87,689)
(Non-Life)	(102,501)	(3,673)	-	-	-	(106,174)
Merchant Banks	27,052	7,431	182,845	-	12,917	230,245
MSBs	101	4,155	72,897	-	8,532	85,685
Credit Unions	-	-	47,579	-	367	47,946
Total	489,158	185,312	303,465	123,134	21,817	1,112,885

1) Includes 1,606.9 billion won of public fund injected prior to the consolidation of different sector funds under the KDIC.

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

(As of December 31, 2007, Unit : 100 million won)

Injection Type / Recipient Institution		Amount
Equity Participation	Seoul Bank	46,809
	Korea First Bank (KFB)	50,248
	Hanvit Bank	60,286
	Five Acquiring banks including Kookmin Bank (KB)	11,923
	Hana Bank (Merger of Hana Bank and Boram Bank)	3,295
	Chohung Bank	27,179
	Peace Bank	4,930
	Kyungnam Bank	2,590
	Kwangju Bank	1,704
	Jeju Bank	531
	National Federation of Fisheries Cooperatives	11,581
	National Agricultural Cooperative Federation	962
	Hanareum Banking Corporation	300
	Cheongsol Merchant Bank	121
	Hanaro Merchant Bank	24,912
	Hans Merchant Bank, Korea Merchant Bank, Joongang Merchant Bank	1.5
	Youngnam Merchant Bank	1,717
	New Choongbuk Mutual Savings and Finance Company (MSFC)	100
	Hanareum MSFC	1
	Seoul Guarantee Insurance Company	102,500
	Korea Life Insurance Company	35,500
	Kookmin, Taepyongyang, Doowon, Dong-A, Handuck, Chosun Life	21,197
	Korea Investment Trust Management & Securities	38,649
	Daehan Investment Trust Securities	23,003
	Resolution and Finance Corporation	1
	Daehan, Kookje Fire	1
	Hyundai Investment & Securities	19,116
	Sub Total	489,158
Contribution	Five Acquiring banks including Kookmin Bank (KB)	97,113
	Six Banks including Hanvit Bank	29,677
	National Agricultural Cooperative Federation	870
	Four acquiring Insurance Companies including Samsung Life	11,641
	Korea First Bank (KFB)	11,430
	Korea, Hyundai, Kumho, Tongyang, SK Life	14,202
	Financial companies including Boomin MSFC	4,155
	Daehan Fire	509
	Woori (Former Hanaro Merchant Bank) Investment Bank	7,431
	Kookje Fire	739
	Oriental, Samsung, Hyundai, LG, Dongbu Fire	2,425
	Green Cross (Daishin) Life	1,393
	KB (Hanil)Life	262
	Korea Investment Trust Management & Securities	767

Injection Type / Recipient Institution			Amount
Contribution	Daehan Investment Trust Securities		630
	Hyundai Investment & Securities (Present Prudential Investment & Securities)		2,068
	Sub Total		185,312
Insurance Claim Payments	Direct	Credit Unions	47,579
		Securities Companies (4 companies)	144
		MSFCs	12,341
		Youngnam, Hansol, Korea Merchant Bank	128
	Through RFIs	Hanareum Banking Corporation (in resolving 18 merchant banks)	182,717
		Hanareum MSFC (in resolving 59 MSFCs)	60,557
	Sub Total		303,465
Asset Purchases	Direct	Korea First Bank (BW)	249
		Korea First Bank (Shares of KFB's Vietnam and New York subsidiaries)	165
		Korea Development Bank (KDB)	13,000
		Industrial Bank of Korea (IBK)	6,000
		Hyundai Investment & Securities (Shares of Hyundai Autonet, etc)	6,905
	Through RFIs	Five acquiring banks including Kookmin Bank (KB)	1,588
		Korea First Bank	79,063
		Dong-A, Kookmin, Taepyongyang, SK Life	3,495
		Korea Investment & Securities	4,830
		Daehan Investment & Securities	6,539
		Hyundai Investment & Securities	1,300
	Sub Total		123,134
Contribution	14 Merchant Banks		12,917
	19 MSFCs		8,532
	39 Credit Unions		367
	Sub Total		21,817
Aggregate Total			1,122,885

H. Status of Financial Assistance by DIF

(As of December 31, 2007, Unit : 100 million won)

Sector	Equity Participation	Contributions	Deposit Payoff	Asset Purchases	Loans	Total
Banks	-	-	-	-	-	-
Securities Companies	-	-	-	-	-	-
Insurance Companies	-	-	-	-	-	-
Life	-	-	-	-	-	-
Non-Life	-	-	-	-	-	-
Merchant Banks	-	-	-	-	-	-
MSBs	548	12,737	8,732	-	2,912	24,929
Credit Unions	-	-	2,196	-	-	2,196
Total	548	12,737	10,928	-	2,912	27,125

I. Injected Public Funds Recoveries by Year

(As of December 31, 2007, Unit : 100 million won)

Year	Amount
Prior to 2000	114,427
2001	41,776
2002	31,424
2003	55,138
2004	55,157
2005	35,317
2006	32,414
2007	43,397
Total[1]	409,050

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

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

(As of December 31, 2007, Unit: 100 million won)

Sector	Recovery of Equity Participation	Settlement of Contributions, etc.	Bankruptcy Estate Dividends[1]	Repayment of Loans	Asset Sales[2]	Total
Banks	130,700	647	16,853	-	49,358	197,558
Securities Companies	11,279	2,933	65	-	7,701	21,977
Insurance Companies	17,484	866	3,773	-	1,877	24,000
Merchant Banks	704	59	73,039	10,448	-	84,250
MSBs	-	315	45,636	2,150	-	48,101
Credit Unions	-	4	32,805	355	-	33,164
Total	160,166	4,824	172,170	12,953	58,936	409,050

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

K. Financial Restructuring Progress

(As of December 31, 2007, unit: %)

Financial Sector	No. of Companies, Year-end 1997 (A)	Restructuring Status					Newly Opened	Current Total
		Revocations of operating licenses	Mergers	Liquidation, Bankruptcies, and/or Suspensions of Operations	Total (B)	Change (B/A) (%)		
Banks	33	5	11[1]	-	16	48.5	1	18[2]
Merchant Banks	30	22[3]	7[4]	-	29	96.7	1	2
Securities Companies	36	5	7[5]	3	15	41.7	19	40
Insurance Companies	50	10	6[6]	6	22[7]	44.0	22	50
ITCs	32	7	7	-	14	43.8	33[8]	51
MSBs	231	111[9]	28	1	139	60.6	17	108
Credit Unions	1,666	2	131	542	675	40.5	16	1,007
Lease Companies	25	11	2[10]	1	14	56.0	13	24
Total	2,103	173	199	553	925	44.0	122	1,300

1) Hana[(Hana+Boram)+Seoul], Chohung(Chohung+Choongbuk+Kangwon), Agricultural Cooperative(Agricultural Cooperative+Livestock Cooperative),Woori[Hanvit(Commercial Bank of Korea+Hanil)+Peace], Newly opened Kookmin[Kookmin(Kookmin+Korea Long Term Credit Bank)+H&CB], Shinhan [(Shinhan+Chohung (Chohung+ChungBook+Kangwon)]
2) There are 15 in consideration of the three banks (Woori, Kyongnam, Kwangju) incorporated into Woori Financial Group and two Banks (Shinhan, Cheju) incorporated into Shinhan Financial Group.
3) 16 (P&A + License Revocation to Hanareum Mutual Savings & Finance Corporation), two (License revocation), four (P&A)
4) Kangwon Bank (Hyundai Merchant Bank+Kangwon Bank), Korea Exchange Bank (HanWoi Merchant Bank + Korea Exchange Bank), LG Securities Co. (LG Merchant Bank + LG Securities Co.), TongYang Securities Co. (Hyundai Ulsan Merchant Bank + TongYang Merchant Bank) TongYang Hyundai Merchant Bank (Regent Merchant Bank + TongYang Hyundai Merchant Bank), Tongyang Securities Co. (Tongyang Securities Co. + Tongyang Hyundai Merchant Bank), Woori Bank (Woori bank + Woori Merchant Bank)
5) Samsung Securities Co. (Samsung Securities Co. + Samsung Investment Trust & Securities), Bridge Securities Co. (Regent Securities Co. + Ileun Securities Co.), Goodmorning Shinhan Securities Co. (Goodmorning Securities Co. + Shinhan Securities Co.), Dongbu Securities Co. (Dongbu Securities Co. + Getmore Securities Co.), Woori Investment Securities Co. (LG Investment Securities + Woori Investment Securities Co.), Korea Investment & Securities (Dongwon Securities Co. + Korea Investment Securities), Tongyang Investment Bank (Tongyang Investment Bank+Tonguang Orion Investment Securities Co.)
6) Seoul Guarantee (Daehan+Korea), Hyundai Life (Hyundai+Chosun), Kumho life (Kumho+Dong-ah), Tongyang Life (Tongyang+Taepyongyang), SK Life (SK+Kookmin+Handuck)
7) Excludes Daehan Fire (sold on Dec. 2001), Kookje Fire (sold on Feb. 2002), Korea Life (sold on Dec. 2002).
8) Includes 13 asset management companies and newly established ING asset management co. (Nov. 2006), and excludes multi-function institutions.
9) Includes 32 financial institutions which were transferred through P&A agreements.
10) Hanvit Lease (Hanil Lease+KCB Lease), Hankook Capital (Hankook Capital+Kyungnam Lease)
Source: Public Fund Oversight Committee

L. Public Fund Support Provision Status

(Between November 1997 and December 2007, Unit : trillion won)

Financial Sector		Equity Participation	Contributions	Deposit Payoffs	Asset Purchases	Non-performing Loan Purchases	Total
	Banks	34.0	13.9	-	14.4	24.6	86.9
Non-Banking	Merchant Banks	2.7	0.7	18.3	-	1.2	22.9
	Securities Cos. and ITCs	10.9	0.3	0.01	2.0	8.5	21.7
	Insurance Cos.	15.9	3.1	-	0.3	1.8	21.2
	Credit Unions	-	-	4.8	0.1	-	4.9
	MSBs	-	0.4	7.3	0.6	0.2	8.5
	Subtotal	29.5	4.6	30.3	3.0	11.7	79.1
Foreign Institutions		-	-	-	-	2.4	2.4
Total		63.5	18.5	30.3	17.4	38.6	168.4

Source: Public Fund Oversight Committee

4. Outline of the Deposit Insurance System in Korea

A. Insured Financial Institutions, Insured Deposits, and Protection Limit

(1) Insured Financial Institutions

The term Insured Financial Institutions (FIs) refers to financial institutions that have subscribed to deposit insurance coverage from the Corporation pursuant to the DPA. Banks, securities companies, insurance companies, merchant banks and mutual savings banks (MSBs) are included in the category. The applicable laws require all deposit-taking financial institutions operating in Korea to partake in the deposit insurance scheme. Therefore, deposit insurance is mandatory for all banking and financial institutions wishing to do business in Korea.

Commercial and regional banks that are approved under the Banking Act, domestic branches of foreign banks, specialized banks such as the Korea Development Bank (excluding the Export-Import Bank of Korea), the National Agricultural Cooperative Federation established pursuant to the Agricultural Cooperatives Act, and the National Federation of Fisheries Cooperatives established pursuant to the Fisheries Cooperatives Act are the banks under the scope of protection of the KDIC.

All domestic securities companies and domestic branches of foreign securities companies, as well as all insurance companies with the exception of reinsurance companies are within the scope of protection of the KDIC.

Other merchant banks and MSBs can obtain protection from the KDIC after being approved under the pertinent laws and acknowledged as KDIC-insurable financial institutions.

(2) Insured Deposits

The term Insured Deposits refers to deposits that the KDIC guarantees to pay if an insured financial institution cannot make payment on them as the result of an insured risk event, in accordance with the guidelines of Article 2 of the DPA and Article 3 of the DPA Enforcement Decree. Certain financial products and local provincial government deposits received temporary blanket coverage until the end of the financial crisis, and the blanket coverage was subsequently removed.

(A) Banks

Financial instruments covered by KDIC are deposits, savings and time deposits, as well as deposits of principal-covered trusts in accordance with Paragraph 3 of Article 10 of the Trust Business Act. Foreign currency denominated deposits, CDs, development trusts, bank-issued bonds, RPs, performance based trusts, indirect investment products, and insurance related financial products are excluded from the scope of coverage.

(B) Securities Companies

Deposits received by securities companies from investors for the purpose of purchasing securities as well as deposits of principal-covered trusts in accordance with Paragraph 3 of Article 10 of the Trust Business Act are fully protected. However, securities, tax liability withholdings, RPs, collateral for loaned securities, bonds issued by securities companies, and subscriber deposits do not fall within the coverage scope of protection.

(C) Insurance Companies

While insurance premiums paid by individual policyholders and severance benefits pursuant to the Employee Retirement Benefit Security Act as well as deposits from money trusts whose principals are protected in accordance with Paragraph 3 of Article 10 of the Trust Business Act are protected by the DPA, variable benefit contracts and reinsurance policies are excluded. Corporate insurance policies surety policies (where the policyholder and premium payer is an institution) have also been dropped from the scope of coverage.

(D) Merchant Banks

Deposits received by merchant banks through issuance of notes and financial instruments collected from unspecified persons to invest in securities and to pay the proceeds are protected. However, bills including beneficiary certificates, bonds issued by merchant bank, RPs and CPs are not covered.

(E) Mutual Savings Bank

Deposits, savings and time deposits, as well as issued notes are covered.

<Table 1> Status of Insured Deposits

(As of December 31, 2007)

Classification	Insured Deposits	Non-Insured Deposits
Banks	• Demand Deposits such as Ordinary Deposits, Temporary Deposits, Checking Deposits, etc. • Time and Savings Deposits such as Time Deposits, Savings Deposits, Corporate Free Savings Deposits, Apartment-application Deposits, etc. • Accumulative Deposits such as Installment Deposits, Apartment-application Installment Deposits, Mutual Installment Deposits, etc. • Principal-Covered Trusts and Secondary Bills such as Pension Trusts, Retirement Trusts, etc.	• Foreign Currency Deposits, CDs, RPs, Bonds Issued by Bank • Performance Based Trusts such as Specified Money in Trusts and Development Trusts • Retirement Pensions • Indirect Investment Products (Beneficiary Certificates and Mutual Fund, etc.) • Insurance Related Financial Products (National Agricultural Cooperative Federation, National Federation of Fisheries Cooperatives)
Securities Companies	• Cash Balance of Securities, Consignor Deposit, Deposits for Savings Accounts, Deposits for Beneficiaries • Cash Balance of Collateral for Stock Loans on Margin Account, Deposits for Opening a Margin Account, Guarantee Deposits in Fiduciary Loans, etc.	• Securities, Subscriber Deposits, Tax Liability Withholdings, Collateral for Loaned Securities, RPs, Bonds Issued by Stock Companies • Cash Management Accounts (CMAs) • Indirect Investment Products (Beneficiary Certificates and Mutual Funds, etc)
Insurance Companies	• Individual Policies, Severance Benefits Policies	• Corporate Insurance Policies Surety Policies, Retirement Pensions, Reinsurance Policies, Variable Benefit Contracts.
Merchant Banks	• Notes Payable, Issued Notes, CMAs	• Beneficiary Certificates, RPs, Bonds issued by Merchant Banks, CPs
MSBs and KFSB *	• Ordinary Deposits, Savings Deposits, Time Deposits, Installment Deposits, Credit Installments, Cover Bills, etc.	-

*KFSB: Korea Federation of Savings Banks

(3) Deposit Insurance Protection Limits

When the KDIC was first established in 1996, the insurance coverage limit was 20 million won per individual depositor in one insured financial institution. Due to the market instability resulting from the financial crisis of 1997, however, blanket coverage was introduced through an amendment to the Enforcement Decree of DPA in December of 1997. Afterwards, the market gradually stabilized due to the successful restructuring process, while at the same time the possibility of moral hazard increased. The Enforcement Decree was amended in July 1998, to decrease the protection limit so that for deposits (or paid-in premiums) with principal not exceeding 20 million won, the principal and designated interest* - would be guaranteed up to 20 million won, and for those with more than 20 million won in principal, only the principal would be covered.

* designated interest : the lesser of the contracted interest and the KDIC determined interest (interest set by the Deposit Insurance Committee considering the average interest rate on 1-year term deposits in banks).

As the financial market stabilized, a partial protection system was reinstated and the coverage limit was raised to 50 million won through an amendment of the Enforcement Decree in October 2000, in order to alleviate public anxiety.
Consequently, beginning from January 1, 2001, deposits are protected up to 50 million won, covering the principal and designated interest.

B. Deposit Insurance Premiums and Special Contributions

(1) Collection of Deposit Insurance Premiums and Special Contributions

The KDIC receives premiums from insured financial institutions, in accordance with Article 30 of the DPA and Article 16 of the DPA Enforcement Decree. It also receives special contributions from insured FIs in accordance with Article 30-3 of the DPA and Article 16-2 of the DPA Enforcement Decree.

(A) Coverage of Insured Deposits
Insured deposits are deposits that fall under any of the items of Paragraph 2 of Article 2 of the DPA

(B) Calculation Unit of Premiums and Special Contributions
Deposit insurance premiums and special contributions are calculated for each fiscal year. However, in the case of banks, it is calculated on a quarterly basis.

(C) Calculation of Premiums and Special Contributions
Insurance Premium (Special Contributions) = (Insured Deposits) X (Rate of Premium or Special Contributions)

Note: In the case of banks, however, the result is divided by four, as the premiums of banks are calculated quarterly.

<Table 2> Premium Rate and Special Contribution Rate

Sector	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions
Applied Premium Rate	10/10,000	20/10,000	30/10,000	30/10,000	30/10,000	-
Applied Special Contribution Rate[1]	1/1,000	1/1,000	1/1,000	1/1,000	1/1,000	1/1,000

1) 5 financial sectors and credit unions should pay the special contribution from 2003 to 2027, and from 2006 to 2017, respectively.

(D) Due Date of Insurance Premiums and Special Contributions
An insured FI must pay its deposit insurance premium and special contributions to the KDIC

within three months from the end of each fiscal year (within one month from the end of each quarter, for banks).

(E) Insurance Premium and Special Contributions Methods
All insured FIs must pay their insurance premiums and special contributions in cash, checks or account transfers (including reserve transfers) to the account of a financial institution designated by the President of the KDIC. For banks, however, the KDIC may request that payment be made by way of a clearing house. Units lower than 1,000 won are rounded off.

(F) Data Submission for Calculation of Insurance Premiums and Special Contributions
Each insured FI must submit data for calculation of insurance premiums and special contributions to the KDIC within two months from the end of every fiscal year. For banks, however, data submission is required by the 20th of the month immediately following the end of every quarter.

The data for premium and special contributions calculation include the insurance premium calculation table, the balance sheet (quarterly average balance in the case of banks), and for insurance companies, the year-end data showing insurance revenue and total amount of premiums received by the end of fiscal year. Each insured FI must comply with requests for additional information pertaining to calculation of premiums, made by the President of the KDIC.

(G) Delinquency Charge
The formula for calculating a deposit insurance premium delinquency charge is the following:

Delinquency Charge = (Insurance Premium or Special Contribution Not Paid by the Due Date) × (Rate of Interest in Arrears) × (Number of Days of Delay/365)

The rate of interest in arrears shall be calculated based on the average rate of interest in arrears for loans of general purpose by each insured FI as of the payment due date. The number of days of delinquency shall be calculated beginning with the day following the due date and continued until the date of actual payment.

(2) Collection of Contributions

Pursuant to Article 24 of the DPA and Article 14 of the DPA Enforcement Decree, newly formed insured FIs are required to pay contributions into the DIF.

(A) Contribution Payers
All insured FIs that have obtained operating licenses from the FSC are subject to the contribution payment requirement.

(B) Basis for Contribution Calculation

Based on the paid-in-capital or total share subscriptions of the institution, the applicable rates by financial sector are as follows:

<Table 3> Basis for Contribution

(as ratios of either paid-in-capital or total equity)

Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs
1/100	1/100	1/100	5/100	5/100

C. Insurance Claim Payments

(1) Insurance Claim Payments

The KDIC makes insurance claim payments under two categories of conditions. The first is when the FSC mandates deposit or obligation payment suspension because of insolvency of an insured FI. The other is a situation where an insured FI self-declares dissolution or bankruptcy, or has its operational/business license revoked by the authorities. The appropriate claim payments for such failures are made by each depositor's request (see Article 31 of the DPA).

With respect to the first scenario, the KDIC Deposit Insurance Committee must determine and announce the claim payment schedule within two months after receiving failure notification. This period can be extended for up to one additional month upon the approval by the FSC (see Article 31, Paragraph 1 and Article 34 of the DPA). The Corporation may suspend insurance claim payments for up to six months from the date of payment announcement to any depositor who is found to have caused or contributed to the insolvency or insolvency-threatening situation of the financial institution concerned or to any depositor who is found to be in a special relationship with such an insolvency-related person (see Article 31, Paragraph 6 of the DPA).

(2) Public Announcement and Calculation of Insurance Claim Payments

In making insurance claim payments, matters such as the date of payment commencement, the payment period and other necessary details shall be publicly announced in daily newspapers. The insurance money will be calculated by deducting the total amount of liabilities that a depositor owes to the relevant financial institution from the total amount of claims including deposits that he/she holds in that institution as of the date of the insurance money payment announcement (see Articles 31 and 32 of the DPA).

(3) Limit on Insurance Claim Payments

The maximum amount of insurance money to be paid will be determined by the DPA Enforcement Decree, in consideration of the nation's per-capita GDP and the total amount of insured deposits. The maximum amount of insurance money to be paid for an insured risk event occurring on or after January 1, 2001 will be 50 million won. In a case where a depositor with a claim has designated his or her deposits or other assets held by the relevant institution as collateral or guaranty obligations on behalf of a third party, the KDIC may suspend payment of the insurance money within the limit of the amount equal to such collateralized claims or guarantees (see Article 32, Paragraph 2 of the DPA and Article 18, Addendum Article 2 of the Act's Enforcement Decree).

(4) Suspension and Provisional Payments of Insurance Claims

In the case of a Category 1 insured risk event in MSBs, payment of deposits are generally suspended for 5 to 6 months because of P&As and related activities. In order to alleviate the inconvenience that depositors must undergo for a prolonged period of time, provisional payments within the insurance limits may be made as determined by the Deposit Insurance Committee.

Also, provisional payments are made to small depositors with 5 million won or less in deposits. This system was first introduced to minimize the burden on the mostly working-class retail depositors, when a large number of insolvent credit unions were suspended from operations on November 4, 2002. If the amount of provisional payment made falls short of the insurance claim payment due, the KDIC shall pay the difference to the pertinent depositor and vice versa (see Article 31 of the DPA). When the KDIC makes such provisional payment, it shall be granted the creditor rights of the depositor that received the provisional payment for the amount paid (see Article 35 of the DPA).

D. Risk Management of Insured FIs

(1) Data Submission and Investigations

The KDIC may request an insured FI and the financial holding company which has such insured FI as its subsidiary, etc. to submit the data related to the business and the financial status of such insured FI and financial holding company to the extent necessary for carrying out its duties such as the determination of the insured FI as an insolvent institution, or as a failing or insolvency-threatened financial institution. If an insured institution is found to be on the brink of insolvency based on a preliminary review of such data, the KDIC may perform a more detailed investigation, including a review of the institution's operations and assets (see Paragraphs 1 and 2 of Article 21 of the DPA).

(2) Request for and Confirmation of Data Supplied by the FSS

In cases necessary for the protection of depositors, KDIC may submit a request to the Governor of the FSS asking for the provision of data related to the insured FIs within a determined scope. When the KDIC finds it necessary to confirm the data supplied by the FSS to assess the risk of insured risk events for insured institutions, the KDIC may ask the Governor of FSS to confirm the data, allowing a one-month period to examine the institution. If the data fails to be confirmed, the Corporation may conduct investigations on the operations and asset status of the insured institutions to confirm the data. If, as a result of such inspection or investigation, factors are found that may lead to occurrence of an insured risk event, it may also request that the Financial Supervisory Commission take proper steps regarding the institution (see Paragraph 2 and 6 of Article 21 of the DPA).

(3) Request for Investigation and Joint Examinations

If necessary, the KDIC may also request the Governor of the FSS to perform an official examination into specific areas of the pertinent financial institution's operations and to inform the Corporation of the results. The KDIC may also make request the FSS to have KDIC employees conjointly participate in such examination through the decision of the Deposit Insurance Committee. Also, the Governor of the FSS is obligated to respond to these requests (see Paragraph 3 of Article 21 of the DPA).

E. Resolution of Insolvent FIs

(1) Insolvent (Potentially Insolvent) FIs

The KDIC or the FSC may declare a financial institution to be insolvent or insolvency-threatened if its financial structure is unsound, such as:

① When an on-site examination of the institution reveals that it has liabilities exceeding its assets, or when it is clear that normal operation of the institution would be difficult due to its liabilities exceeding its assets following a major financial incident involving a very large amount of non performing loans (NPLs);

② When the institution's remittances on deposits or liabilities, or payments on loans from other financial institutions, have been effectively stopped; or

③ When the institution may face difficulties in making payments on deposits or liabilities, or in making payments on loans from other financial institutions, without receiving financial support or additional borrowings from outside institutions (excluding borrowings in normal financial transactions).

(2) Financial Support

When an insured FI becomes insolvent, the KDIC may make insurance claim payments to eligible depositors and take resolution measures in respect of the failed institution. By supporting resolution of the failed institution through Merger & Acquisition (M&A) or requesting Purchase and Assumption (P&A) and liquidation and reimbursement of deposits, the KDIC may also help protect depositors and minimize the resolution costs. Specifically, in the interest of maintaining the stability of the financial system, the KDIC may arrange an M&A by a healthy insured financial institution, or arrange a third party acquisition of the insolvent or insolvency-threatened institution (or the parent financial holding company pursuant to the Financial Holding Company Act), in which the pertinent insolvent or insolvency threatened institution (or parent financial holding company) is the contracting party. In this case, the party that intends to take over or merge with the insolvent or insolvency threatened (or parent financial holding company) may apply for financial support from the KDIC. The KDIC may also request that the FSC order the pertinent financial institution to take necessary actions for P&A or for bankruptcy filing, if such measures are unavoidable for the protection of depositors in terms of the criteria prescribed by the DPA Enforcement Decree.

(3) Provisions Necessary for Financial Support

Subject to the Deposit Insurance Committee's decision, the KDIC may provide financial support to an insured FI or to a financial holding company having an insured FI as an affiliate under the Financial Holding Company Act, if such support:

① is considered necessary for smooth merger of the insolvent FI with another, or has been requested by the parties involved in such merger;

② is required for the improvement of the financial structure of the insolvent FI in the interest of protecting depositors and maintaining stability and order of the credit business industry; or

③ is requested by the FSC in accordance with the Act on the Structural Improvement of the Financial Industry.

(4) Application of Least Cost Principle

When providing such financial support, the KDIC shall do its best to select a method that minimizes resolution expenses and maximizes support efficiency. The Corporation is responsible for maintaining documentary evidence of its exercise of this least cost principle. In applying the least cost principle, the KDIC shall consider any possible economic loss at the national level which liquidation or bankruptcy of the pertinent financial institution might cause. The Corporation must also consider whether the chosen method of financial support is the most economical method, i.e., whether it minimizes the difference between the support to be provided and the estimated recovery from the support.

F. Insolvency-related Investigations and Accountability Claims

(1) Investigation of Insolvent FI

Pursuant to Article 21-2 of the DPA, the KDIC investigates insolvency accountability and files damage claim lawsuits against those (usually officers/employees and major shareholders of an insolvent FI) suspected of having engaged in illegal or irregular actions to cause loss to the financial institution.

In order to properly handle public fund recovery and accountability discovery with respect to insolvency-related persons, the KDIC established a department specialized in debt management in 1999 and initiated relevant investigations in June of that year in respect of both civil and commercial claims.

More recently, the DPA was amended in January 2000 so that the KDIC could investigate financial institutions that are under liquidation proceedings or bankrupt.

The fundamental purpose of the KDIC's investigation is to help in firmly establishing responsible and prudent governance systems within the Korean financial sector, so as to prevent the recurrence of a financial crisis.

(2) Investigation of Default Debtors

Pursuant to Article 21-3 of the DPA, the KDIC may utilize default debtor-related information retained by public institutions, and may perform investigations in respect of default debtors of public fund recipient financial institutions in accordance with Article 21-2, Paragraphs 1 and 7 of the DPA and Articles 404 and 406 of the Civil Act.

Subsequent to attaining the names of its default debtors from a public fund recipient financial institution, the KDIC may investigate the assets and properties of such default debtors, and cause the financial institution to file injunctions to freeze such assets in order to preserve its creditor rights.

Also, the revision of the DPA in March 2006 enabled "collective search of financial transaction information" through which the KDIC receives information on financial properties of default debtors from financial institutions and takes measures to preserve creditors' claim rights, etc.

(3) Investigation of Default Debtor Corporations

Pursuant to Article 21-2 of the DPA, the KDIC can request that an insolvent financial institution file damage claims against its default debtor corporations or third parties culpable in its insolvency. If the insolvent financial institution does not cooperate with such request, the KDIC may file the damage retribution claims in subrogation of institution. Furthermore, pursuant to the relevant Articles of the Enforcement Decree of the DPA, the KDIC may investigate the operations and assets of related parties culpable in its insolvency such as default debtor corporations in relation to such damage claim proceedings. On this basis, the Corporation has been exerting particular efforts to discover and determine appropriate claimable assets of default debtor corporations

As mentioned earlier, the ultimate purpose of the KDIC's investigative efforts in respect of default debtor corporations of insolvent financial institutions, and its determination of culpability for such insolvencies is to create an environment in which responsible corporate governance becomes firmly entrenched and the burden on the public reduced through actual recovery of public funds.

(4) Operation of the Concealed Property Report Center of Insolvency-related Parties

In order to strengthen investigations into those accountable for insolvent financial institutions that receive public fund injections and to realize effective recovery of public funds, the KDIC established the Concealed Property Report Center and opened a toll-free hot-line for reporting of information pertaining to the hidden assets of those responsible for the insolvencies by citizens at home and abroad.

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