

# 2008 Annual Report



# Chairman's Address

*As a pillar of the financial safety net, the KDIC aims to contribute to the development of the national economy by protecting depositors and maintaining financial stability.*



Last year, domestic and international financial markets were unstable due to the global financial crisis brought about by problems in the U.S. sub-prime mortgage market. In addition, the real economy also became stagnant.

In a preemptive response to the financial crisis, the KDIC established and executed a contingency plan and set up and operated a task force in preparation for a possible global financial crisis. Several measures were taken to deal with the crisis, among other, including foreign currency deposits in the deposit insurance cover provided by the KDIC.

Last year the KDIC finally saw its efforts in improving the deposit insurance system come to fruition. Most importantly, the legal basis for the introduction of a differential premium

system within the next 5 years was laid. By providing a financial benefit to low-risk financial institutions in the form of lowered premiums, it is believed that this system will encourage sound management of financial institutions. Also, the rules governing the levying of deposit insurance premiums were revised in order to facilitate the smooth transition to a target fund system.

Furthermore, in an effort to prevent financial institutions from becoming insolvent as a result of the unstable



global financial markets, the KDIC strengthened its monitoring of the risks posed by those institutions showing signs of possible insolvency. In addition, it expanded the scope of financial information sharing with other financial safety net players.

The KDIC managed to resolve insolvent mutual savings banks in a fast and efficient manner by utilizing bridge bank schemes. In doing so, it minimized the inconvenience caused to depositors by reducing the period that the operations of the affected mutual savings banks were suspended.

The KDIC also recouped public funds in various methods including through the sale of the redeemable preferred shares of Seoul Guarantee Insurance Company.

Furthermore, the KDIC continued to conduct early closure of bankruptcy estates and promote the operating efficiency of bankruptcy estates. The KDIC also put a lot of effort into maximizing the recovery of public funds by tracking down and attaching the hidden assets of those parties implicated in the insolvency of financial institutions.

As the global economic recession is expected to prevail in the coming year, the KDIC will continue to focus its efforts on creating a stable financial system.

The KDIC will place priority on preventing the spread of anxiety about the financial instability. This will be done by strengthening its risk monitoring of insured financial institutions and by timeously resolving financial institutions which do become insolvent. In addition, the KDIC will take various measures to prepare for the smooth transition to the differential premium system and will work towards the advancement of the deposit insurance system.

This annual report details the KDIC's activities during 2008 and provides information about its current status, fund management, the resolution of insolvent financial institutions and ongoing risk surveillance of insured financial institutions as well as statistics. I hope that this report will enhance the understanding of the activities of the KDIC and the deposit insurance system along with promoting the confidence of depositors. I look forward to your continued interest in and support of the KDIC.

**Seung Woo LEE**  
**Chairman & President**

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## I The Year in Review

In 2008, the Korean economy grew by only 2.5% year-on-year as it grappled with dramatic currency depreciation, drops in exports, and a depressed local consumer market as a result of the global financial crisis.

The construction industry showed negative growth due to a depressed real estate market and other sectors including service, finance & insurance, logistics, wholesale and retail managed to expand by only a small margin, for example the manufacturing sector grew by 3.3%, which was 3.2% lower than the growth percentage of 2007.

With regards to the consumer sector, facility investments and construction investments showed negative growth. Household consumption also deteriorated, recording a 0.5% growth rate over last year because of an overall depression in the domestic market.

The current account recorded a 6.41 billion won deficit, and even though deficits from the service industry and transfer account shrunk and the income account surplus increased, the goods trade account surplus decreased drastically. In addition, the consumer price index rose by 4.7% over the year due to the skyrocketing oil price.

Korea proved not to be immune against the global financial crisis and the major economic indicators such as the interest rate, stock prices, and the exchange rate, demonstrated volatility. The stock price index bottomed out, while the won-dollar exchange rate rose sharply.

In addition, terms for loans in both local and foreign currency became unfavorable. The interest rate had increased reflecting anxiety over the global financial market turmoil and credit crunch until the Bank of Korea lowered its policy interest rate in October last year. At the end of 2008, the interest rate stood at 3.41 % (based on 3-year government bonds), dropping by more than 2% over the year.

The won-dollar exchange rate showed a steady rise from the beginning of 2008, due to a current account deficit and foreign investors selling off more stock than they bought. The rate increased by 323.4 won over the year, closing at 1295.5 won to the dollar. From September onwards, the depreciation of the won continued as the global credit crunch worsened, and foreign investors actively collected their loans which in turn accelerated de-leveraging.

A bearish global stock market, caused by the sub-prime mortgage crisis, and net sales by foreign investors left the Korean stock market vulnerable. The market however started bouncing back after the turmoil in the global financial market eased off, thanks to the lowered U.S. policy interest rate.

Due to the soaring oil prices, the financial turmoil and weak consumer confidence after May, Korea's Composite Stock Price Index (KOSPI) fell to 1,125 points by the end of December 2008, down 40.7 % from the previous year. The Korean Securities Dealers Automated Quotations Index (KOSDAQ) recorded 332 points, down 52.8% from the previous year.

During 2008, the financial industry went through a lot of change with new companies being established, and M&As and sales taking place. In particular, in the financial investment corporations' market, a lot of activity took place in anticipation of the Capital Market Consolidation Act which will become effective in 2009.

In the case of banks, three branch offices of foreign-based banks including Merrill Lynch started operating in Korea, the Seoul branch office of American Express Bank shut down its operations and the business operations of the Seoul branch office of Lehman Brothers Bank House was legally suspended.

In the case of insurance companies, a Korean branch office of Royal & Sun Alliance Insurance plc, RSA shut down its operations. The Lotte group acquired Daehan on-life insurance company

under the new business name of Lotte non-life insurance company. Four other insurance companies changed their business names following corporate sales, etc.

In the case of security companies, KTB investment securities and seven other security companies started operating ahead of the introduction of The Capital Market Consolidation Act. Also, Kookmin Bank acquired Woori Securities under the new business name of KB Investment Securities and five other securities companies acquired new controlling shareholders through M&As. Hana-Daetoo Securities merged with Hana IB Securities and the operations of Lehman Brothers Securities were partially suspended until April 2009 following its head office requesting protection under the bankruptcy laws.

In the case of Mutual Savings Banks (MSBs), Boondang, Hyundai and Jeonbook MSBs' operations were suspended.

The total number of insured financial institutions as at the end of 2008 was 266 (55 Banks, 60 Securities, 43 Insurance companies, 2 General Finance Companies, 106 Mutual Savings Banks), that is six more than the previous year. The total amount of insured deposits in all the financial sectors was 914 trillion won, up 13.9% from the previous year. To elaborate on the amount of insured deposits per financial sector, the insured amount for banks was 570 trillion won (up 17.2%), 15 trillion won (up 2.2%) for securities companies, 268 trillion won (up 6.9%) for insurance Companies, 1 trillion won (up 35.3%) for Merchant Banks, and 60 trillion won (up 21.1%) for Mutual Savings Banks. The total insurance premiums received from the five financial sectors as of 2008 was 1.14 trillion won, up 40.6 billion won (3.7%) from the previous year.

In order to ensure the viability of the deposit insurance fund and relieve the burden of insurance premiums imposed on insured financial institutions, the target Fund System was legalized in 2007. In preparation for its launch in 2009, the KDIC arranged implementation plans and plans to improve on the current insurance premium system. Furthermore, the KDIC legalized the differential insurance premium system in pursuit of promoting sound management practices and fair standards for imposing insurance premiums.

To improve the effectiveness of the retirement pension fund system introduced in 2005 and protect property rights of its depositors, the KDIC is planning to include retirement pension fund products in the cover of the deposit insurance system.

The KDIC also strived to preemptively cope with the changes in the financial environment, including the global financial crisis spilling over from the U.S. Hence, the status of the Ongoing Surveillance Council which was established in 2006 was raised to that of a contingency action task force. Staff working in the risk surveillance departments formed the Global Credit Crisis Monitoring Team to check on the domestic and global financial markets.

To eliminate concerns over the domestic financial market promptly, the KDIC provided daily reports based on an analysis of financial market trends to academia, press and government agencies such as the Financial Services Commission. In addition, the KDIC more actively shared information with the Financial Supervisory Service and since the second half of 2008 the KDIC, jointly with the Financial Supervisory Service, dispatched on-site controllers to insolvency threatened Mutual Savings Banks (MSBs) to monitor, among other, the efforts of MSBs to normalize their business operations.

We regularly exchanged opinions with six other financial institutions including Woori Bank currently bound by a Memorandum of Understanding (MOU) and hosted conferences to receive feedback on MOUs which were all aimed to improve the efficiency in managing MOUs.

The KDIC proposed a scheme to eliminate the accumulated losses in the MSB deposit insurance premium account and facilitated the implementation of an interest discount between the different accounts through consultations with the authorities concerned and industry experts.

In addition, the KDIC managed to shorten the resolution process of insolvent financial institutions in order to minimize panic by the depositors and to insulate them against further delinquency.

The KDIC proposed the sale of Yehanwool MSB, a bridge bank which was established to restructure three suspended MSBs - Kyoungbook, Boondang and Hyundai.

By the end of 2008, the KDIC had injected public funds of 112.4 trillion Won into 517 insolvent financial institutions and recovered a total sum of 43.3 trillion won (2.4 trillion won only in 2008) by selling its shares etc. To elaborate on the main recovery events, the KDIC recovered 39.8 billion won through Seoul Guarantee Insurance Corporation's repayment of its callable preferred stocks, 16.8 billion won through Shinhan Financial Holdings' repayment of its callable preferred

stocks, and 25.8 trillion won by selling its 16% holding share of Daehan Life Insurance stock to the Hanwha Group.

In terms of managing operations of bankruptcy estates and their properties, the KDIC assigned in-house staff as trustees in bankruptcy estates, adopted a regional manager system and dedicated a public liaison officer to deal with complaints from the public, all of which facilitated the efficient management of bankruptcy estates.

Through carrying out early closure of bankrupt institutions, 121 out of 468 bankruptcy estates were legally terminated during the year and another 317 bankruptcy estates is in the process of being closed. With all these measures, the KDIC recovered 2.6 trillion won of bankruptcy dividends ahead of a schedule.

In order to protect the property rights of bankruptcy creditors, the KDIC introduced a campaign to enable creditors to claim their unpaid dividends and paid out 26.6 billion won in 14,428 cases in this regard.

In the area of the insolvency accountability investigation function, the KDIC consolidated existing organizations into The Insolvency Investigation Division that was designed to examine insolvent financial institutions and default debtor companies. The KDIC also succeeded in extending the Inquiry of Financial Transaction Information for 2 more years.

Furthermore, in order to increase the efficiency in the recovery of concealed overseas properties, the KDIC established the Overseas Property Investigation and Recovery System. Accordingly the Corporation had filed 1,429 legal claims for damages against insolvent financial institutions and instituted 187 legal claims against default debtor companies up to end 2008.

To cope with changes in the financial environment and the ongoing global financial crisis, the KDIC adjusted its existing target objectives and action plans. The KDIC sub-divided the current financial crisis into 3 stages and set up Contingency Action Plans for each of the areas of ongoing risk surveillance, fund procurement, and insolvency resolution.

Away from home, the KDIC strived to position itself as a global player and strengthen its capabilities by enhancing cooperation and exchange with international organizations including



the International Association of Deposit Insurers (IADI). In May 2008, the KDIC renewed the MOU with the Central Deposit Insurance Corporation (CDIC), and rendered training assistance to the Deposit Insurance of Vietnam (DIV), Philippine Deposit Insurance Corporation (PDIC) and the Deposit Insurance Corporation of Japan (DICJ) in the areas of the Depositor Protection Act (DPA), providing management consulting service to MSBs, and the Target Fund System. In October 2008, the Chairman of the KDIC paid a visit to Sheila C. Bair, the Chairman of the Federal Deposit Insurance Corporation (FDIC) and discussed collaboration between the two organizations and exchanged opinions about the financial crisis.

On the home front, the KDIC declared its foundation day of June 1st to be Ethics Management Day and encouraged employees to comply with the ethics code through making an ethical pledge. The KDIC set up the KDIC's Share the Love Fund from contributions by employees and a matching grant and engaged in social charity services by encouraging KDIC's Share the Love Volunteer Program.

Finally, the KDIC earned 1st place among sixteen small-sized funds for the second year in a row for the fund performance, in particular in the area of asset management, of the DIF bond repayment fund operated by the KDIC.

## III

## Organization and Operations

### 1. Organization management

#### 1-1. Deposit Insurance Committee

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

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

- Establishment of basic guidelines for the Corporation's operations
- Review of operation plans 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, 2008)

TITLE	NAME
President of KDIC (Chairman)	Dae-Dong PARK
Vice Chairman of FSC	Chang-Yong RHEE
Vice Minister of MOSF	Dong-Su KIM
Deputy Governor of BOK	Seung-Il LEE
Commissioned Member	Noh-Choong HUH
Commissioned Member	Hyung-Moon KANG
Commissioned Member	In-Ho LEE

<Table II -2> Items Deliberated by Deposit Insurance Committee in 2008

DATE	ITEMS
Jan. 23	<ul style="list-style-type: none"> <li>• Report of examination results of and measures for implementation of MOU in the third quarter of 2007</li> <li>• Request for participation in 2008 joint examination</li> <li>• Issuance of 2008 DIF Bond Redemption Fund bonds</li> <li>• Report of results of joint examination in the fourth quarter of 2007</li> <li>• Report of 2008 DIF Bond Redemption Fund operation plan</li> <li>• Report of changes in 2007 DIF Bond Redemption Fund operation plan</li> <li>• Report of transaction between DIF Bond Redemption Fund accounts in 2007</li> </ul>
Feb. 27	<ul style="list-style-type: none"> <li>• 2008 DIF Bond Redemption Fund management guidelines</li> <li>• 2008 DIF management guidelines</li> <li>• Settlement of accounts in FY 2007</li> <li>• Report of 2007 settlement results of operation expenses</li> </ul>
Mar. 5	<ul style="list-style-type: none"> <li>• Advance payment of insurance claims to depositors of Bundang MSB</li> </ul>
Mar. 26	<ul style="list-style-type: none"> <li>• Partial amendment of the Articles of Incorporation</li> <li>• Overall amendment of the bylaw</li> </ul>
Apr. 2	<ul style="list-style-type: none"> <li>• Advance payment of insurance claims to depositors of Hyundai MSB</li> </ul>
Apr. 18	<ul style="list-style-type: none"> <li>• Report of examination results of and measures for MOU implementation in the fourth quarter of 2007</li> <li>• Decision on insurance claim payment to depositors of Bundang MSB</li> <li>• Report of results of joint examination in the first quarter of 2008</li> </ul>
May 14	<ul style="list-style-type: none"> <li>• Financial assistance to and inter-account transactions of Yeohanwul MSB for Bundang MSB's P&amp;A</li> </ul>
May 21	<ul style="list-style-type: none"> <li>• Decision on insurance claim payment to depositors of Hyundai MSB</li> <li>• Sale and management regulation on DIF Bond Redemption Fund asset holdings</li> </ul>
Jun. 11	<ul style="list-style-type: none"> <li>• Redemption plan for redeemable preferred stock of Seoul Guarantee Insurance Company</li> </ul>
Jun. 25	<ul style="list-style-type: none"> <li>• Financial assistance to and inter-account transactions of Yeohanwul MSB for Hyundai MSB's P&amp;A</li> <li>• The seventh DIF Bond Redemption Fund operation plan for 2009</li> <li>• Plans for issuance of DIF Bond Redemption Fund bonds and request for state guarantee on the bonds for 2009</li> <li>• Report of examination results of MOU implementation in the first quarter of 2008</li> </ul>
Jul. 9	<ul style="list-style-type: none"> <li>• Reset of transacting limit between DIF accounts and changes in DIF operation plan for 2008</li> </ul>
Jul. 10	<ul style="list-style-type: none"> <li>• Reset of transacting limit between DIF accounts and changes in DIF operation plan for 2008</li> </ul>
Aug. 27	<ul style="list-style-type: none"> <li>• Report of joint examination results of Heungkuk Ssangyong Fire &amp; Marine Insurance Co., Ltd.</li> <li>• Report of joint examination results of Woori Investment &amp; Securities Co., Ltd.</li> <li>• Report of joint examination results of MSBs in the second quarter of 2008</li> </ul>
Sep. 10	<ul style="list-style-type: none"> <li>• Partial amendment of 2008 DIF Bond Redemption Fund management guidelines</li> <li>• Partial amendment of 2008 DIF management guidelines</li> </ul>
Sep. 24	<ul style="list-style-type: none"> <li>• Overall amendment of the regulations on insolvency accountability investigations</li> <li>• Plan for disposition of Hynix Semiconductor Inc. stocks owned by the RFC</li> <li>• Results of international arbitration case for Korea Life Insurance Co., Ltd. and follow-up measures</li> </ul>
Oct. 8	<ul style="list-style-type: none"> <li>• Report of examination results of MOU implementation in the second quarter of 2008</li> </ul>
Nov. 11	<ul style="list-style-type: none"> <li>• Selection of financial advisor for disposition of Hynix Semiconductor Inc. owned by the RFC</li> </ul>
Nov. 19	<ul style="list-style-type: none"> <li>• Report of joint examination results of MSBs in the third quarter of 2008</li> </ul>
Dec. 10	<ul style="list-style-type: none"> <li>• Extension of deadline to repay the loans of the DIF Credit Union account</li> <li>• Countermeasures related to PF loans of MSBs'</li> </ul>
Dec. 23	<ul style="list-style-type: none"> <li>• Setting up the target amount of funds to be reserved for each account</li> <li>• KDIC budget for 2009</li> <li>• DIF operation plan for 2009</li> <li>• Issuance of 2009 DIF Bond Redemption Fund bonds</li> <li>• Report of 2009 DIF Bond Redemption Fund operation plan</li> <li>• Report of resolution plan for the RFC asset holdings</li> <li>• Report of joint examination results of MSBs</li> <li>• Progress made in disposition of KDIC's stake in Woori Financial Group and future plans</li> </ul>

DATE	ITEMS
Jul. 9	<ul style="list-style-type: none"> <li>Reset of transacting limit between DIF accounts and changes in DIF operation plan for 2008</li> </ul>
Jul. 10	<ul style="list-style-type: none"> <li>Reset of transacting limit between DIF accounts and changes in DIF operation plan for 2008</li> </ul>
Aug. 27	<ul style="list-style-type: none"> <li>Report of joint examination results of Heungkuk Ssangyong Fire &amp; Marine Insurance Co., Ltd.</li> <li>Report of joint examination results of Woori Investment &amp; Securities Co., Ltd.</li> <li>Report of joint examination results of MSBs in the second quarter of 2008</li> </ul>
Sep. 10	<ul style="list-style-type: none"> <li>Partial amendment of 2008 DIF Bond Redemption Fund management guidelines</li> <li>Partial amendment of 2008 DIF management guidelines</li> </ul>
Sep. 24	<ul style="list-style-type: none"> <li>Overall amendment of the regulations on insolvency accountability investigations</li> <li>Plan for disposition of Hynix Semiconductor Inc. stocks owned by the RFC</li> <li>Results of international arbitration case for Korea Life Insurance Co., Ltd. and follow-up measures</li> </ul>
Oct. 8	<ul style="list-style-type: none"> <li>Report of examination results of MOU implementation in the second quarter of 2008</li> </ul>
Nov. 11	<ul style="list-style-type: none"> <li>Selection of financial advisor for disposition of Hynix Semiconductor Inc. owned by the RFC</li> </ul>
Nov. 19	<ul style="list-style-type: none"> <li>Report of joint examination results of MSBs in the third quarter of 2008</li> </ul>
Dec. 10	<ul style="list-style-type: none"> <li>Extension of deadline to repay the loans of the DIF Credit Union account</li> <li>Countermeasures related to PF loans of MSBs</li> </ul>
Dec. 23	<ul style="list-style-type: none"> <li>Setting up the target amount of funds to be reserved for each account</li> <li>KDIC budget for 2009</li> <li>DIF operation plan for 2009</li> <li>Issuance of 2009 DIF Bond Redemption Fund bonds</li> <li>Report of 2009 DIF Bond Redemption Fund operation plan</li> <li>Report of resolution plan for the RFC asset holdings</li> <li>Report of joint examination results of MSBs</li> <li>Progress made in disposition of KDIC's stake in Woori Financial Group and future plans</li> </ul>

## 1-2. The Board of Directors

The Board of Directors is comprised of one President, one Vice President, four internal Executive Directors, and seven external 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 the Financial Services Commission (FSC) and the Executive Director Recommendation Committee. The internal Executive Directors are appointed by the Minister of the FSC on recommendation of the President of the KDIC and the Executive Director Recommendation Committee, and the external Executive Directors are appointed by the Minister of the FSC on recommendation of the Executive Director Recommendation Committee and deliberation and decision of the Public Agencies Operating Committee. The Auditor is appointed



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

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, 2008)

TITLE	NAME
Chairman and President	Dae-Dong PARK
Executive Vice President	Ju-Hyung LEE
Senior Managing Director	Sung-Hwan BAE
Senior Managing Director	Jae-Ho LEE
Senior Managing Director	Dong-Jin SHIN
Senior Managing Director	In-Jae CHO
Non-standing Senior Managing Director	Chan-Pyo GOOK
Non-standing Senior Managing Director	Baek-Man LEE
Non-standing Senior Managing Director	Yong-Chul LEE
Non-standing Senior Managing Director	Joon-Myeong CHOI
Non-standing Senior Managing Director	Heung-Shik CHOI
Non-standing Senior Managing Director	Eun-Soon CHOI
Non-standing Senior Managing Director	Jun-Ho HAHM
Auditor	Oh-Yeon KIM

### 1-3. Organization

The KDIC was established on June 1, 1996, as a non-capital base special corporation to provide an effective deposit insurance system for the public based upon the Depositor Protection Act (DPA). As of December 31, 2008, it is composed of nine departments, six offices, a division and a regional office; Department of Risk Surveillance Support, Department of Risk Surveillance I and II, Department of Insurance System and Research, Department of Fund Management, Department of Prompt Resolution, Department of Receivership and Collection, Department of Planning and Coordination, Department of Human Resources and Administration, Office of Information Strategy, Office of Recovery Management, Office of Management Innovation, Office of Public Relations, Office of the Chairman, Office of the Auditor, Young Nam Branch Office, and the Insolvency Investigation Division.

<Table II -4> Designated Number of Staff

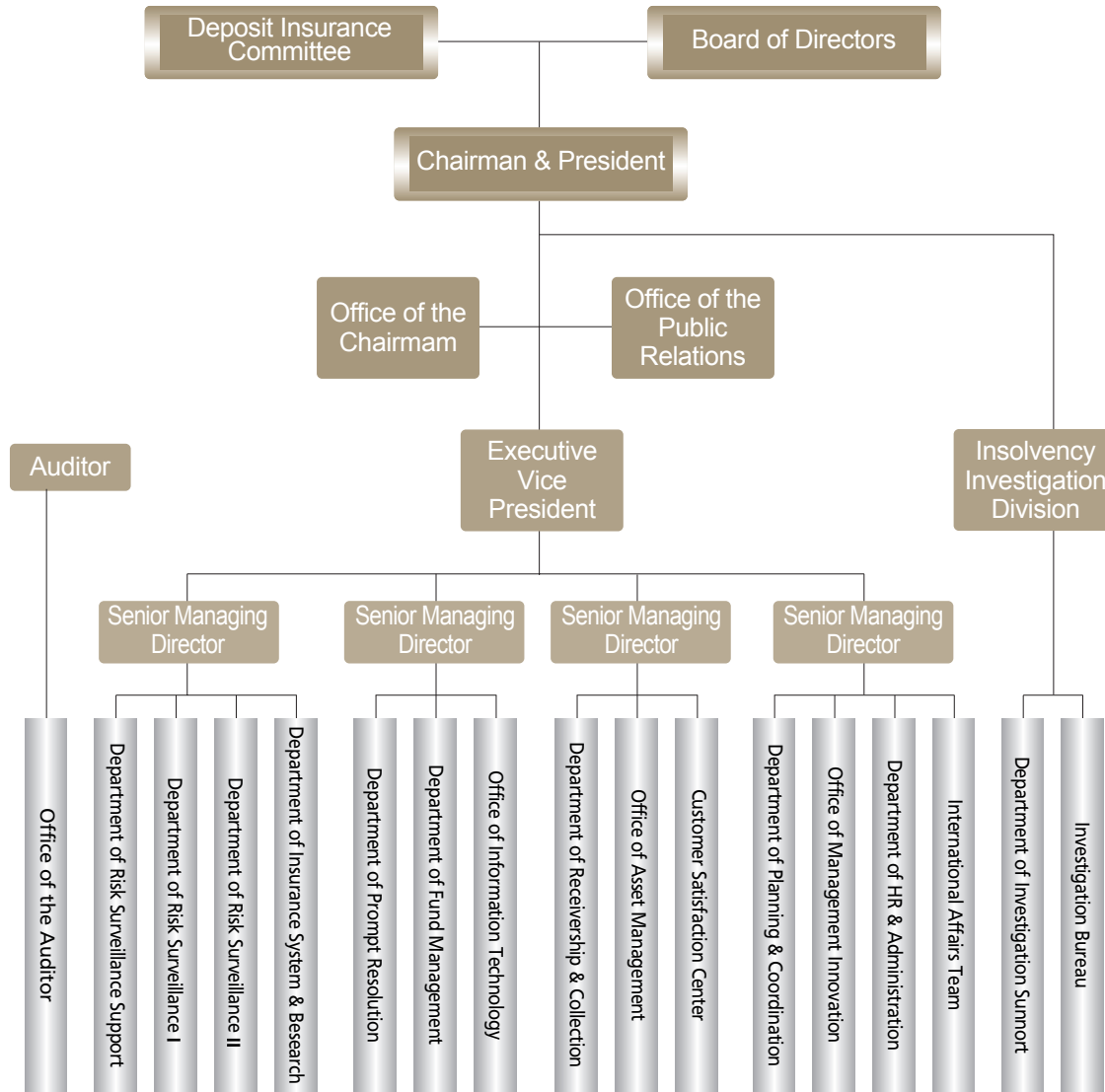
(As of December 31, 2008)

Type	Executive Directors	Employees		
		Regular	Special <sup>2)</sup>	Total
No.	14 <sup>1)</sup>	418	196	614

1) In accordance with the Public Agencies Operational Act, seven non-standing senior managing directors are included.  
2) Special employees include experts such as attorneys, doctoral researchers, conservators, bankruptcy estate trustee, examiners, etc.

<Figure II-1> Organizational Chart

(As of December 31, 2008)



\* Young-nam branch is excluded.

\* Customer Satisfaction Center and International Affairs Team operate as teams, not departments.

## 2. Major Initiatives

### 2-1. Major Accomplishments

In March 2005, with the aim of presenting the course of development for the deposit insurance system and establishing its future image, the KDIC formulated its mid- to long-term vision and created a synergy effect by classifying itself into four primary functions including 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: Becoming the World's Leading Expert Institution on Ongoing Risk Surveillance and Prompt Resolution, 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 employee's recognition of the vision and mid-to long-term management plan by distributing information booklets to all employees.

In 2008 in particular, to cope with extraordinary financial environments including the global financial crisis, the KDIC modified its existing business objectives and action plans and established a contingency system in the form of a Contingency Plan for Financial Crisis.

#### A. Risk Surveillance

At the beginning of 2008, through corporate reorganization, the KDIC newly established a Department of Risk Surveillance Support and Financial Market Analysis Team for identifying comprehensive risk factors in the overall financial market and industry.

To build the expertise of staff in the risk surveillance departments, the KDIC allocated re-assigned several professionals such as master's degree holders, doctoral degree holders, insurance actuaries, and other qualified people such as CFAs, CPAs, and FRMs to this department.

In September 2009, to strengthen the cooperation with authorities including the Financial Services Commission (FSC) and to promptly react to the global financial crisis, the KDIC included upgraded the existing 'On-going Surveillance Forum'.

By forming the Global Credit Crisis Monitoring taskforce from staff in risk surveillance departments, the KDIC also conveyed its financial market reports to authorities including FSC, academia, the press etc., in order to ease their concerns over the volatile financial markets.

In order to relieve the workload of insured financial institutions and strengthen their core competency, the KDIC held discussion sessions with their boards of directors, in which industry briefings and difficulties experienced in operations were shared.

The KDIC also provided customized management consulting services to Mutual Savings Banks with the aim of achieving a market-friendly risk surveillance system.

In pursuance of the innovation plans for the improvement of risk monitoring models, drawn up in 2007, the KDIC requested external consultants at the beginning of 2008 to advise us on this matter so as to establish a stable platform for ongoing risk surveillance schemes.

By the end of 2008, based on the results of the consultation, the KDIC gave external researchers the assignment to improve the existing risk monitoring model. The improved model is expected to increase the efficiency of risk surveillance since it will facilitate more accurate appraisal of risks.

Following on the KDICs continuous appeals to government authorities, the rate of sharing information with the Financial Supervisory Service recorded 94.5%, 4.9% up over the last year.

Since the second half of 2008, to be timely and efficient, the KDIC has dispatched supervisory officers, jointly with Financial Supervisory Service, to insolvency threatened Mutual Savings Banks.

As of end 2008, the KDIC have Memorandums of Understanding (MOUs) signed with six financial institutions including Woori Financial Group. From the 4<sup>th</sup> quarter of 2007 to the 3<sup>rd</sup> quarter of 2008, the Corporation made eight inspection findings in reviewing the MOUs.



Accordingly, the KDIC imposed 22 measures on institutions including five corporate warnings, two notices to improve, two notices to correct, and four officer warnings.

In order to explore mutual areas of interest and current issues affecting financial institutions subject to signed MOUs, the KDIC organized conferences with management level staff of financial institutions. To guarantee independent functioning of these institutions the KDIC also supported their outside executive directors to monitor businesses and enhance the efficiency of MOU management.

## B. Insurance and Resolution

The KDIC endeavored to analyze the current resolution processes and upgrade them based on the KDIC's research findings and overseas best practices including that of the Federal Deposit Insurance Corporation (FDIC).

In addition the KDIC adopted innovative resolution processes in order to do advance preparation after detecting early signs of insolvency and to speed up the resolution process after suspension of the operations of insured institutions.

By shortening the resolution period of an insolvent institution the KDIC focused on minimizing inconvenience to depositors resulting from the suspension of financial transactions and safeguarded the assets of the insolvent institution against further deterioration.

In case of Boondang Mutual Savings Bank(MSB) which was suspended in February 2008, the KDIC made prompt preparation for resolution during the 2 months that the management order was in place and in doing so shortened the resolution period from 4 ~10 months to approximately 3 months.

Yeahreum MSB, the temporary bridge bank to which the sound assets and the liabilities of Good Friend Hongik and Daewoon MSBs was transferred, was eventually sold to Standard Chartered NEA Ltd in January 2008.

By adopting the bridge bank scheme, rather than the liquidating failed institutions, the KDIC saved 152.5 billion won in resolution costs. In case of Yehanoool MSB, the bridge bank

established in November 2007 for resolution of Kyoungbook, Boondang and Hyundai MSBs which were suspended in 2007 and early 2008, the KDIC put up a posting to sell the bridge bank to the market.

In the mean time, to resolve the accumulated losses of the Deposit Insurance Fund's MSB account, the KDIC presented plans for normalization of the account, including for example granting interest discount between accounts, on advice of an external research team which was commissioned for this purpose and the task force team which was established in house. In July 2008, an amended draft of the Depositor Protection Act containing the articles governing the interest discount between accounts was submitted to the national assembly.

Going forward the KDIC is required to work with the Financial Services Committee in coming up with fundamental measures to resolve the deficit in the MSB account.

### C. Recovery & Investigation

The KDIC has recovered public funds injected into financial institutions for financial restructuring through dividend receipts and by selling equities.

During 2008, in spite of the global financial crisis, the KDIC managed to recover more than 1 trillion won by selling shares in financial institutions, receiving dividends, and reimbursing redeemable preferred stocks.

Subject to the international arbitration decision in this regard on July 31, 2008, the call option rights in the Hanwha Group became exercisable and the KDIC forthwith sold 16% out of the 49% shares of Daehan Life Insurance to Hanwha Group and thus recovered 258.4 billion won.

In order to recover public funds injected into Seoul Guarantee Insurance Corporation (SGIC), the Deposit Insurance Committee of the KDIC decided on a redeemable preferred stock repayment plan in June 2009 and accordingly in July 2008 recovered 398.0 billion won.

<Table II -5> Major Recovery Events in 2008

Jeju Bank	<ul style="list-style-type: none"> <li>Recovered 1.7bn won through disposition of 220 thousand stocks in the market from Dec. 2007 to Feb. 2008</li> </ul>
Prudential Investment and Securities Co. Ltd.	<ul style="list-style-type: none"> <li>Sold remaining 20% of shares (2 million stocks) to Prudential Financial Inc. based on the agreement between the shareholders of Hyundai Investment &amp; Securities Co., Ltd., and recovered 8.43bn won in Jan. 2008</li> </ul>
Woori Financial Group	<ul style="list-style-type: none"> <li>Recovered FY2007 dividends amounting to 147bn won in Apr. 2008</li> </ul>
Seoul Guarantee Insurance	<ul style="list-style-type: none"> <li>Recovered 398bn won by redeeming redeemable preferred stock, which represented 75% of net income (530.6bn won) for the fiscal year 2007</li> </ul>
Shinhan Financial Group	<ul style="list-style-type: none"> <li>Recovered 168.5bn won by redeeming redeemable preferred stock in Aug. 2008</li> <li>Recovered 27.3bn won by receiving dividends from common stocks and redeemable preferred stock dividends in Apr. and Aug. 2008</li> </ul>
Korea Life Insurance	<ul style="list-style-type: none"> <li>Transferred 16% of stocks with call options (113.6mn stocks) to Hanwha Group and recovered 258.4bn won</li> </ul>
The RFC holding securities	<ul style="list-style-type: none"> <li>Recovered 5bn won by disposing of 338 thousand(1.63%) stocks of Donghae Pulp Co., Ltd. in accordance with the tender offer provided by Moorim Paper, the preferred bidder for Donghae Pulp Co., Ltd.'s disposition</li> </ul>

With the aim of maximizing bankruptcy dividends, the KDIC adopted early closure of bankruptcy estates and in doing so increased the efficiency of their operations.

As of 2008, the bankruptcy proceedings of 121 estates out of a total of 468 were completed. The other 317 are scheduled for closure on conclusion of the pending lawsuits. So far, the DIF Redemption Fund recovered 17.7 trillion won from bankruptcy dividends.

The KDIC is striving to maximize the recovery of public funds and create an environment in which responsible corporate governance becomes firmly entrenched by way of correcting unreasonable past business practices through investigating employees of fund-injected financial institutions who contributed to the insolvent state of their respective institutions. By the end of 2008, the Corporation had conducted investigation into a total of 497 insolvent financial institutions and 13,794 default debtor companies, and filed damage-claim proceedings against those held liable for the insolvencies. It investigated the hidden assets of about 920,000 responsible parties, and took legal measures for the provisional attachment and preliminary injunction of these assets.

#### D. Management & Support

To establish an ability and performance based personnel management culture, the KDIC developed a phased Human Resource Management System (e-HR) which is a user-focused

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.

Through organizational restructuring in 2008, the KDIC assigned departments to inside executive directors based on job relatedness, integrated similar departments and simplified the organization, which aided to bolster management efficiency and flexibility.

## 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 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 was 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, and was finally submitted to the National Assembly in July 2008.

\* An amendment of the law mandating the implementation of a differential premium system within 5 years was passed in a general meeting of the National Assembly and became effective in February 2009.

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

The new Deposit Insurance Fund came into effect in 2003. Since then the KDIC recognized that there was a strong need for the adoption of a target fund system which would ensure the viability of the DIF and relieve the burden of premium payment on insured financial institutions. To obtain public support for the establishment of a Target Fund System, the KDIC held policy symposiums and commissioned an external professional entity 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, improve the overall deposit insurance system. Hence, the KDIC collected opinions from various circles by holding a Deposit Insurance Policy Symposium in March 2007. The symposium was based on the results of the research performed by professional entities commissioned for this purpose between September 2006 and March 2007.

In October 2007, a private-public task force team was formed to look into the implementation of the Target Fund System and the reform of the premium rate scheme. In December 2007, the National Assembly amended the Deposit Protection Act (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 team collected opinions from the insured financial institutions and various experts.

In July 2008, the public-private task submitted the draft revision of the Depositor Protection Act to the National Assembly for approval. The revised Enforcement Decree of the Deposit Protection Act (DPA) aimed at improving the insurance premium system will be submitted next.

## C. Depositor Protection of Retirement Pension Products

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



unexpected losses in case of failure of an institution.

To address this issue, the KDIC promoted the protection of depositors subscribed to retirement pension products to protect their property rights and increase the effectiveness of the system. Based on the results of 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 and also strives to legalize the protection of retirement pension product depositors.

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

In order to resolve losses of DIF MSB account, the KDIC endeavored in many ways.

As the KDIC formed a task force team relating to normalizing DIF MSB account under Insurance Contingency Action Council, it sought to resolve accumulated losses of the MSB account and prevent future contingencies. In May 2007, the KDIC assigned external research for reviving the DIF MSB account to Korea Development Institute (KDI).

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

In April 2008, after the KDIC arranged its official opinions on resolution of accumulated losses from MSB account, it proposed to Financial Services Committee (FSC) normalization of MSB account including interest discount between accounts. The Corporation strived to amend DPA through collaborating with related parties in financial sectors and collecting opinions from them.

In July 2008, according to these efforts, amendment of Depositor Protection Act was submitted to National Assembly including interest discount between accounts.

From now on, the KDIC endeavors to legislate amended DPA and establish measures needed to resolve losses of MSB account by working closely with related authorities.

The KDIC endeavored in many ways in order to eliminate the loss in the Deposit Insurance Fund MSB Account.

An internal task force team, linked to the Insurance Contingency Action Council, was assigned to work on normalizing the DIF MSB account and prevent future contingencies. In addition, the KDIC, requested the Korea Development Institute (KDI) to conduct research on this topic. Based on the research results, the KDIC arranged its official opinions on the matter and set up an action plan, including suggestions for granting interest discount between DIF accounts, which was presented to the Financial Services Committee (FSC). In July 2008, as a result of these efforts, the proposed amendment of the Depositor Protection Act, including the regulations with regard to the interest discount between accounts, was submitted to the National Assembly.

After the amendments have been legislated, the KDIC will establish the necessary measures to resolve the losses of the MSB account by working closely with related authorities.

## 2-4. External Evaluation

### A. Business Performance Analysis of Government Agencies

Pursuant to the Government Agencies Management Act (current Public Corporation 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 2008. Based on these reports, the Minister of Planning and Budget (MPB) (current Minister of Strategy and Finance) organized a Business Performance Evaluation Commission to evaluate the performance of government agencies.

The 2007 business performance evaluation results, announced in June 2008, 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 Repayment Fund for 2007 and submitted it to the Fund Management Evaluation Commission in February 2008. Based on the report, the Commission disclosed the results of its evaluation in May 2008 after carrying out due diligence and an opinion poll.

In the 2007 evaluation result of the Corporation's Deposit Insurance Fund Bond Repayment Fund, the KDIC took first place in the area of asset management among sixteen funds for the second year in a row.

II

Organization  
and Operations

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

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

##### A. Objective

In March 2005, based on the opinion 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 and Prompt Resolution of Financial Institutions. At the same time it established the Three-Year Mid- to Long-term Management Plan to achieve this vision, and modified the mid- to long-term vision to improve link the between the KDIC's operations and vision.

The plan and detailed action agenda were revised and improved to reflect changes in the internal and external business environment due to the global financial crisis, while at the same time increasing the adaptability of the plan.

##### B. Vision

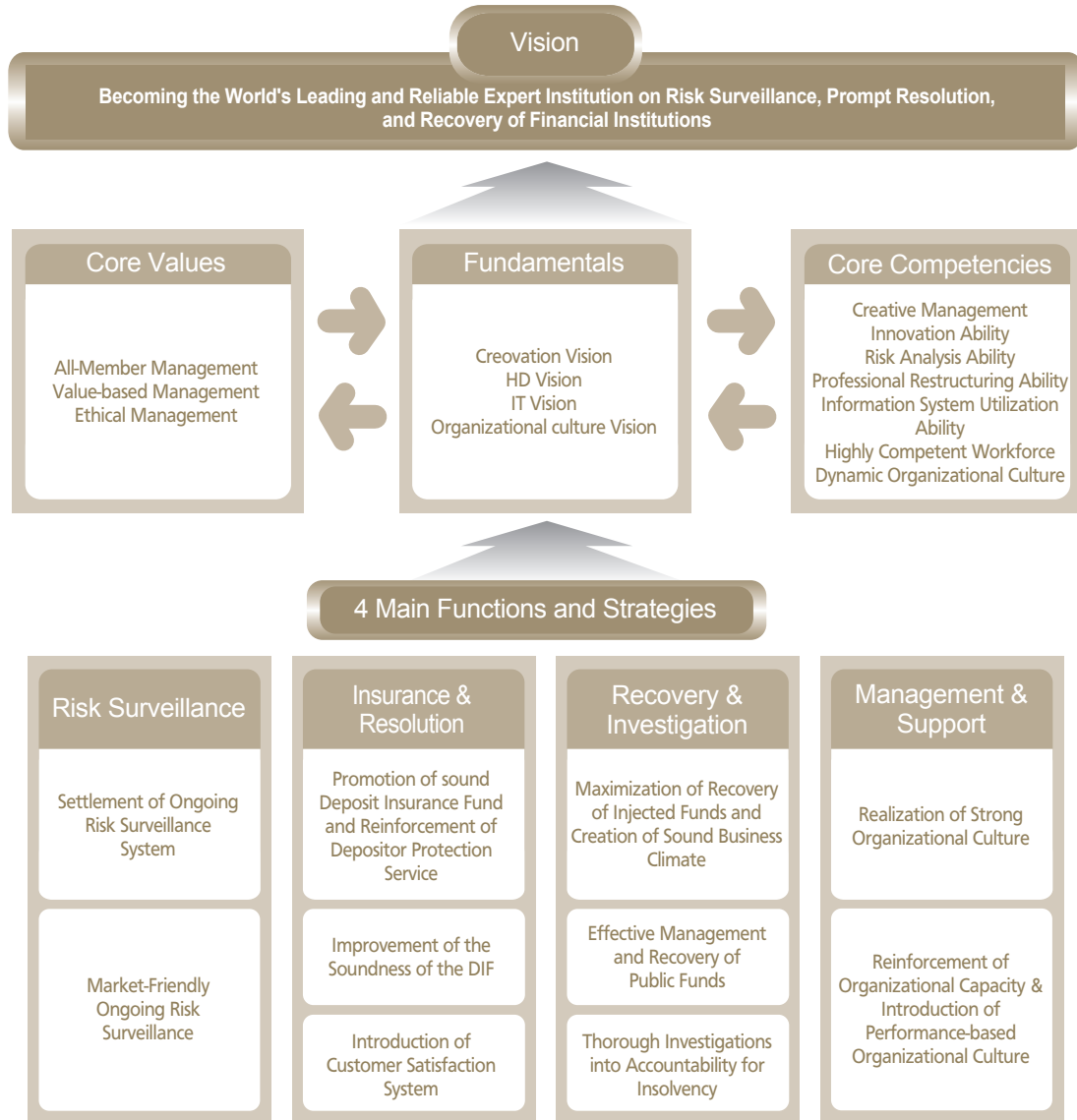
###### (1) Vision

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
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
Expert Institution	Scope of business	A state institution, aimed at protecting public interests that possesses excellent problem-solving ability through a highly competent labor force and state-of-the-art information technology
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
Financial Institutions	Target of Operations	Individual financial institutions such as banks, securities companies, insurance companies, merchant banks and savings banks subject to the deposit insurance system

### (3) Structure of Vision



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

The KDIC selected four mid- to long- term strategies per function, and six 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 21 detailed action agendas and their corresponding specified implementation plans in each stage of the agenda.

<Table II-6> Mid- to Long- Term Strategy, Tasks, and Detailed Action Agenda

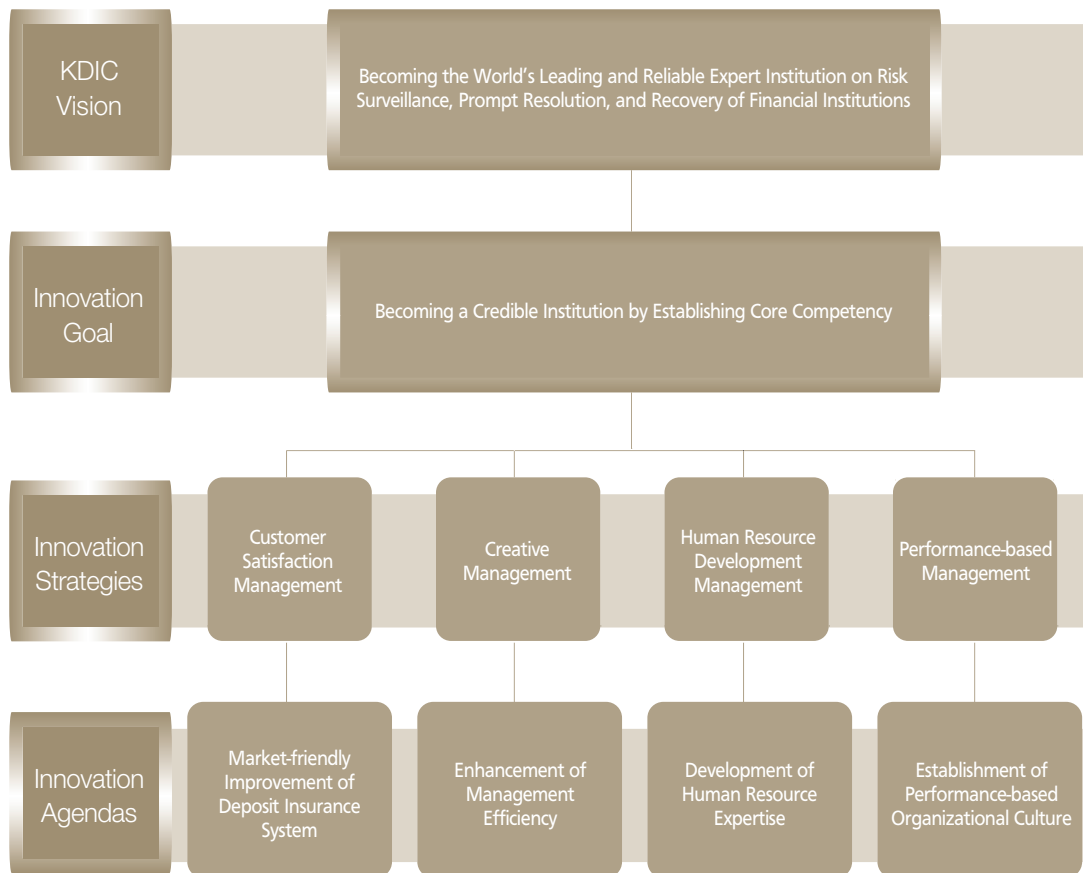
Strategic Goals	Strategic Tasks	Detailed Action Plan
I .Settlement of Ongoing Risk Surveillance System	Market-friendly Ongoing Risk Surveillance	• Consistent improvement of ongoing risk surveillance system
		• Promoting the sharing of financial information with relevant organizations
		• Analysis of risk factors of insured financial institutions and provision of information
		• Expansion and improvement of process of business consulting services provided to MSBs
II .Promotion of sound Deposit Insurance Fund and Reinforcement of Depositor Protection Service	Improvement of the Soundness of the DIF	• Smooth operation and management of advanced deposit insurance system including a target fund system
		• Solution to mitigate cumulative losses of MSB accounts
		• Development of an Asset Management System
	Introduction of Customer Satisfaction System	• Solution to mitigate depositors' inconvenience arising from resolution of insolvent financial institutions
		• Diversification of VOC channel to improve customer satisfaction * VOC : Voice of Customer
		• Expansion of training programs on Deposit Insurance System for the general public
III .Maximization of Public Fund recovery & Creation of Sound Business Climate	Efficient Management and Recovery of Public Funds	• Nullification of Article 35-9 of the DPA which requires financial institutions to mandatorily subscribe to liability insurance
		• Efficient management of bankruptcy procedure
		• Disposition of KDIC's stake in capital-injected financial institutions
	Thorough Investigations into Accountability for Insolvency	• Management of MOUs signed with capital-injected financial institutions to promote corporate value
		• Improvement of standards of performance by analyzing cases related to insolvency accountability investigation
		• Improving the success rate of legal cases by supporting the lawsuits related to investigations into accountability for insolvency
IV .Creating a Strong Organizational Culture	Reinforcement of Organizational Capacity & Introduction of Performance-based Organizational Culture	• Investigation into properties of parties liable for insolvency and promotion of recoveries of properties found
		• Consistent promotion of budget reduction and reasonable adjustment of organization and human resources
		• Operation of HR & Training system for efficient HR management and improved capacities
		• Improvement and reasonable operation of Corporate Performance Management system
		• Establishment of cooperative system through IT support

### 3-2. Promotion of Enterprise-wide Management Innovation

To link the innovation goal with the corporate vision, the KDIC focused its vision on Ensuring Social Credibility and Reinforcing Core Competency. To achieve this goal, the KDIC established four innovative management strategies namely Customer-oriented Management, Creative Management, Competent Employee Management, and Performance-based Management. Each of these strategies were further broken down into innovation agendas containing 31 final action tasks as decided upon by in-house ‘Innovative Supporters’ teams using the SMARTA\* system. These tasks were included as performance goals on individual departments’ Balance Score Cards (BSCs).

\* Specific, Measurable, Achievable, Result-oriented, Time-bound, Authority-bound

<Figure II-2> Innovation Goal & 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 takes effect.

The KDIC has put a lot of effort into publicizing the campaign in various ways such as setting up an Uncollected Insurance Payment Notification System on its website, delivering individual notices, advertising in newspapers, and establishing a call center to deal with customer enquiries.

In 2008 the KDIC focused on expanding the campaign to reach more people more frequently.

As a result of these efforts, 18.6 billion won in previously unclaimed insurance payments was paid out to 54,000 claimants during the period between April 2006 and December 2008.

<Table II -7> Uncollected Insurance Payments Delivered to Depositors

(unit : 100 million won)

Apr. - Dec. 2006		2007		2008		Total	
No. of Depositors	Amount	No. of Depositors	Amount	No. of Depositors	Amount	No. of Depositors	Amount
16,389	71	31,794	87	6,128	28	54,311	186

#### 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 institution 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-8> Issuance of Certificate of Employment History and Verification of Liabilities

(As of December 31, 2008)

Classification	Certificate of Employment History <sup>1)</sup>	Verification of Employment History <sup>2)</sup>	Verification of Liabilities <sup>3)</sup>	Total
No. of issuance	47	135	269	451

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 bankruptcy estates in the process of being closed (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 26.6 billion won (14,428 cases) to bankruptcy creditors from August 2005 to December 2008.

<Table II-9> Uncollected Dividends Payments Delivered to Bankruptcy Creditors

(Unit: 100 million won)

Financial Sector	Banks	Securities Companies	Insurance Companies	Merchant Banks	Mutual Savings Banks	Credit Unions	Total
No. of cases	87	379	175	1,791	10,386	1,610	14,428
Amount	8	0.3	10	186	60	1	266

## 4. Ethical Management and Social Charity Activities

### A. Ethical Management

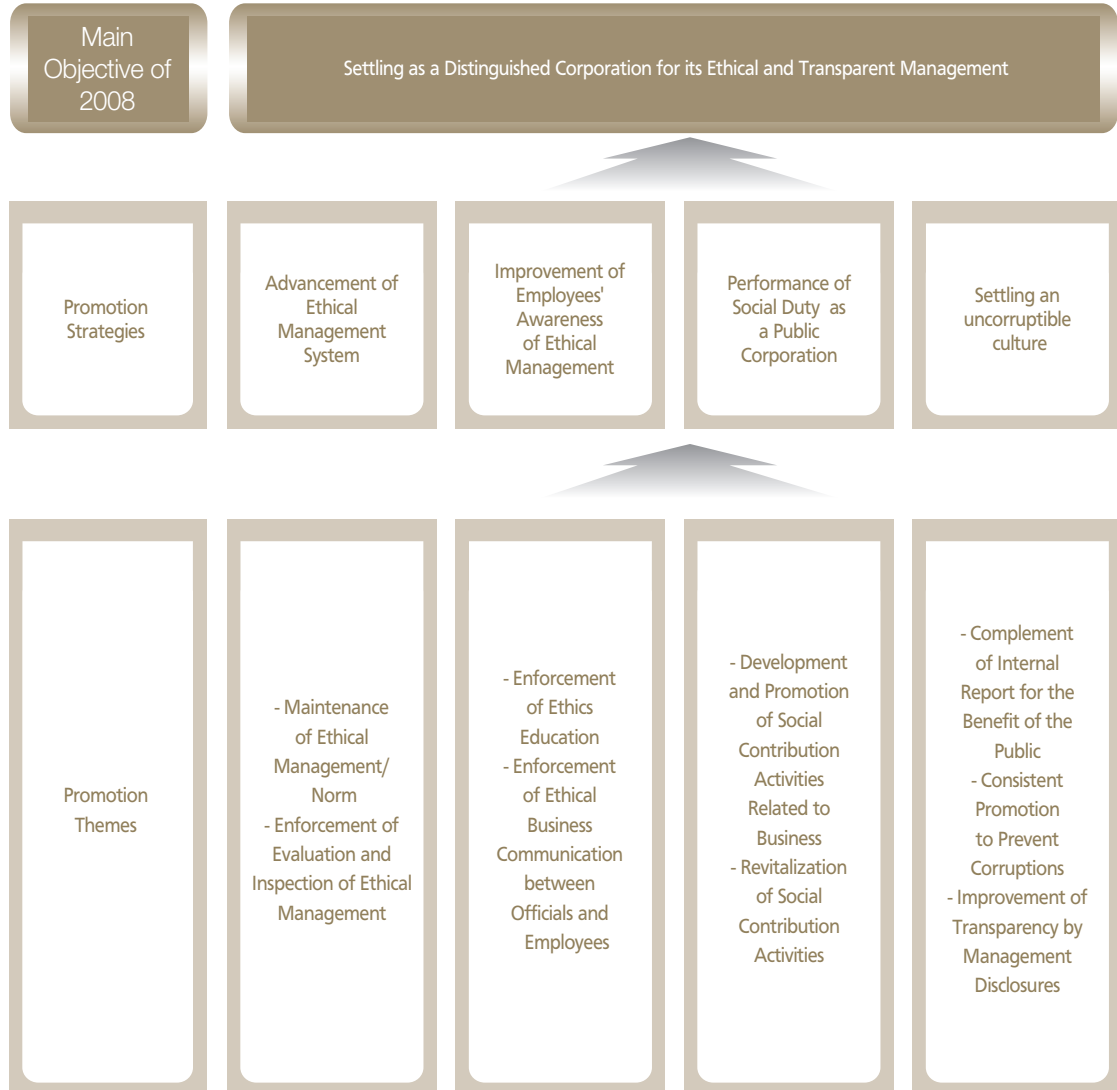
To fulfill its social duty as a reliable public agency, the KDIC included Ethical Management together with All-Member Management and Value Management as its three major management philosophies.

In 2006, the KDIC established a Three Year Plan for Ethical Management and for its effective implementation it proposed 13 tasks under 3 major agendas and included detailed action plans for the achievement thereof. During 2008, the KDIC upgraded this system and worked towards improving employees' awareness of their responsibilities in this regard. In addition, the KDIC placed focus on fulfilling their social responsibilities as a public agency and acting in a manner befitting a public service company.

To encourage enterprise wide ethical management, the KDIC declared its establishment day (June 1<sup>st</sup>) as The Day of Ethical Management and required of employees to take an oath to act ethically at all times.

The CEO has taken on the role of Chief Executive of Ethical Management and the Corporation introduced an Ethics Practice Leadership Program to encourage the practical application of ethical management in the workplace.

<Figure. II -3> Ethical Management Strategies



## B. Social Charity Activities

In return for the faith the public has put in the Corporation, all employees of the KDIC are encouraged to participate in ongoing social volunteering activities.

The KDIC carried out diverse social volunteering and other charitable acts, which not only delivered a positive message to the community, but also re-confirmed sharing as integral part of the Organization's culture.

In 2008, the KDIC collected 132 million won in aid of the "KDIC's Share the Love" program through donations from employees (1 account equals 5,000 won) and a matching grant from the Corporation. The membership of the KDIC's Share the Love volunteer group, which is co-chaired by the President of the KDIC and the Labor Union Chairman, has increased to 151. The Corporation also converted mileage from corporate credit cards to cash worth 22 million won for the KDIC Scholarship for the Young project.

The KDIC carried out the "Matching One Family with One Department Campaign" to aid 5 senior citizens living alone, 6 parentless or single-parented families and 11 social charity institutions by volunteering services and making donations.

To facilitate regular lessons and events at institutions for the handicapped, KDIC staff members acting as substitute teachers, participated in Saturday lessons every third week, and also attended a science festival in April, and an exhibition of the students' works in November. To improve and renovate the facilities provided to the handicapped students, the KDIC sponsored the purchase of learning equipment for the students in December. These efforts allowed staff members to emotionally bond with handicapped students and provided much needed financial support to the school.

To make the current scholarship project accessible to more students, the KDIC changed the requirement that the student must be from Seoul and included Kyung-gi province in the qualifying area. In addition the amount of each scholarship was raised to 1 million won. At the 4<sup>th</sup> Award Ceremony of KDIC Scholarships, the KDIC awarded scholarships to ten needy students.

In spring and autumn, KDIC staff assisted farmers through the Matching One Company with One

Village Campaign by contributing to the monthly living expenses of needy families and aiding in the setting up of direct trade for major crops.

After the farm volunteering activities were televised by a major broadcasting corporation, KDIC staff received recognition for their efforts and acknowledgment for their contribution to a win-win situation by being awarded by the Nationwide Farm Love Center as the company exhibiting the most love in the Matching One Company with One Village campaign.

The KDIC also signed an agreement with the Social Solidarity Bank in September and launched a free legal advisory service for low-income families. By providing free legal consultation on diverse legal issues including business start-up procedures, lease agreements, and individual rehabilitation procedures, the KDIC staff carried out their corporate responsibility and utilized their expertise for ethical activities.

As for another social charity service, the KDIC re-launched the Free Meal Service which was put on hold in August 2007 and regularly participated in the service hosted by a free meal institute every third Tuesday. To supply poor families with convenient housing, the KDIC participated in the Refurbish Your House with Love Campaign jointly with Habitat, the host organization.

To preserve the ecological environment of the Chung-gye Stream which has become a major tour attraction, the KDIC participated in clean-up efforts in the area. The Corporation's employees also reached out to the needy people in their local community by visiting families, delivering meals to them, sometimes financially assisting them in buying daily necessities and the like.

<Table II -10> Major Social Charity Activities

Classification	Activity Titles	Recipients/ Relevant Organizations	Details	Activities		Donation Amount (Unit: 1,000 won)
				No. of Times	No. of People Involved	
Action Campaigns	Matching one Family with One Department Campaign	Child Fund, etc.	• Supported family or institution that each department had chosen to provide assistance to	145	434	34,893
	Supporting Special Schools	Seoul Jungjin School	• Served as teacher's assistants for Saturday classes and spring/fall events of schools that the KDIC formed a relationship with • Donated for the improvement of the education environment	11	108	6,940
	Building Cooperative Ties with Farming and Fishing Villages	Ungok-ri, Yesan-gun, etc.	• Developed exchange activities in cities and farming/fishing villages by participating in activities to help rural areas suffering from a shortage of manpower	3	110	7,620
	Free Meal Service	Free Food, etc.	• Provided volunteer services and financial assistance to needy neighbors to assist them in buying food	10	85	5,000
	Repairing Houses with Love	Habitat	• Participated in activities to improve residential environment for needy neighbors	2	12	3,000
	Cleaning up CheonggyeCheon(creek)	CheonggyeCheon management team	• Participated in activities to clean the CheonggyeCheon to preserve the ecosystem	4	33	-
	Blood Donation with Love	Korea National Red Cross	• Helped neighbors suffering from the lack of blood	1	24	-
	Individual/Group Activities	-	• Participated in voluntary activities individually or in a group	110	213	-
Donation Campaigns	KDIC Scholarship	Low-income teenagers	• Supported student from low-income family with education costs	1	-	10,000
	Encouraging Olympic Players	Taereung Training Center	• Raised morale of olympic athletes	1	-	1,000
	Consolatory Visit to the Military	Ministry of Patriots & Veterans Affairs	• Recognized and appreciated hard work of officials of the national army	1	-	3,500
	Helping Less Fortunate Neighbors	Korea Association of the Deaf	• Supported people with hearing impairments and their family	1	-	3,000
		Sahagu Community Welfare Center	• Improved living conditions and social welfare for low-income families in local area	1	-	5,000
		International Corn Foundation	• Participated in a campaign to help children suffering from poverty around the world	1	-	5,000
		Community Chest of Korea	• Supported program to protect the elders with dementia • Participated in 'Hope 2009 Sharing Campaign'	2	-	20,000
		Barkaewon	• Supported the mentally handicapped in preparing for winter	1	-	5,000
		Suseo Myeonghwa Welfare Center	• Supported broken families including the elderly living alone by providing them with Kimchi for the winter season	1	-	5,000
	Total			296	1,019	114,953

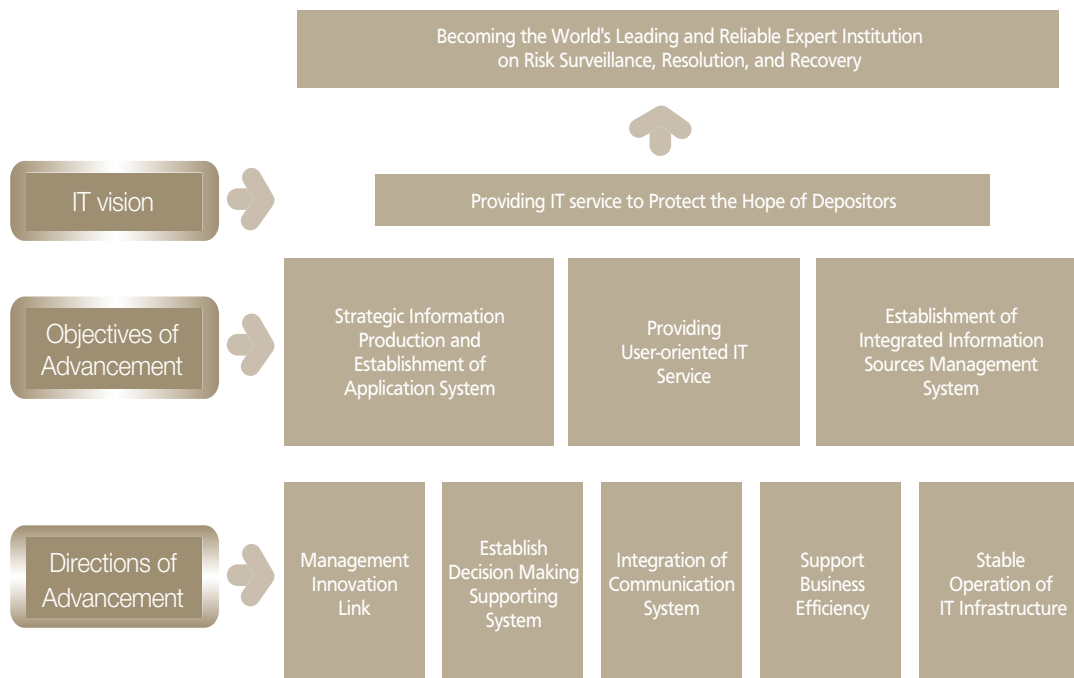
## 5. IT Advancement for Vision Achievement

### A. Promotion of Strategies for Systematic IT Advancement

The KDIC established Information Technology Mid- to Long-Term Plans in 2007 to flexibly respond to changes in the IT industry and systematically support the achievement of its vision. From 2008 onwards, the Corporation will be implementing the action agendas over a period of three years.

According to the plan, the year 2008 fell in the stage one action agenda which aims for IT Integration. Next year, the KDIC will launch improved operation systems such as the Performance Management System and Audit Information System. It also improved the stability and security of the IT service by improving the data back-up system and newly establishing an Information Security System.

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





&lt;Table II-11&gt; IT Operations in 2008

Objectives	Detailed Action Agendas
I . Link with Management Innovation	1) Establishment of performance management system
II . Support to Improve Business Efficiency	1) Establishment of audit information system
	2) Establishment of cyber training system
	3) Establishment of integrated risk surveillance model system
	4) Improvement of functions of financial management system
III . Integration of communication system	1) Establishment of integrated knowledge management system
	2) Establishment of Webmail & Webhard system
IV . Stable operation of IT infrastructure	1) Introduction of VTL to improve data backup system
	2) Improvement of integrated server monitoring system
	3) Maintenance of ongoing operation of disaster recovery center and disaster recovery system
	4) Establishment of information security system
	5) Improvement of network system
	6) Replacement of outdated computer system

## II

Organization  
and Operations

## B. Advancement of Information Management

The enactment of the Effective Introduction and Operation of Information Systems Act required the KDIC to introduce Enterprise Architecture (EA). In pursuance of the Act, the KDIC established a team to implement and manage EA in the Corporation to ensure that the necessary requirements are met.

The KDIC increased its investment in IT by setting up a consolidated IT investment performance evaluation system to judge the appropriateness of its investments and value its investment outcomes. This was a smart investment and enabled the KDIC to determine whether it is achieving its investment targets.

<Table. II -12> Major Improvements on Appraisal System for IT Investment Performance

Classification	Before Improvement	After Improvement
Prior Evaluation of Validity of Investment	<ul style="list-style-type: none"> <li>Qualitative evaluation (Self-evaluation by IT department)</li> </ul>	<ul style="list-style-type: none"> <li>Quantitative Evaluation (Evaluation by an independent evaluation committee)</li> </ul>
Post Evaluation of Performance	<ul style="list-style-type: none"> <li>Check the frequency of utilization of the IT system</li> <li>Evaluation of systems developed in recent three years</li> </ul>	<ul style="list-style-type: none"> <li>Application of evaluation index driven from various aspects and evaluation of performance whether it met the goals</li> <li>Biannual evaluation of all systems in operation</li> </ul>

### 3-6. Dynamic Human Resources and Organizational Culture

#### A. Carry-out of various programs for building a sound organizational culture

The KDIC endeavored to improve the quality of communication between its employees and in doing so establish a sound organizational culture.

To assist employees who newly joined the KDIC in December 2007 to settle in with ease, the Corporation launched a 6-month Mentoring Program for them in February 2008, after they were allocated to their respective departments.

Since 2003, the KDIC has been hosting Tang Day (translates to 'soup day'), during which employees get the opportunity to join in conversation with Executive Officers over lunch. Another day that has become an institution is Hof Day (translates to 'beer day') when employees share time with the departmental leaders over a few beers. During 2008 KDIC management and staff from different departments partook in a combined total of 19 Tang events and 72 Hof events. This has helped to improve staff morale.

A training program for staff who are about to become managers was held 3 times during 2008 and attracted a total of 45 participants. Participants are taught management skills and get the opportunity to spend time with representatives from senior management level on one of the evenings of the evenings of the course that stretches over 2 nights and 3 days.

To build cooperative ties between staff, various events were organized. To improve employee's

focus on the importance of good health and allow them some time to relax and get to know each other better, the KDIC allowed each department an afternoon off in spring to take part in some kind of group activity like bowling, cycling etc. Conferences aimed at certain groups of employees were also held during June.

To make the work environment more enjoyable, the KDIC operated an experience-based training program throughout the year. In May and July, the KDIC welcomed sons and daughters of employees and held events such as Making Memories with Dad and a KDIC Children's Day. The Corporation also helps staff to look after their health by giving ergonomics training and encouraging staff to join the Quit Smoking program.

## B. 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-13> Status of Committee Operation by functions

Function	Name	Purpose	Major Achievement
Risk Surveillance	Ongoing Surveillance Committee	Comprehensive adjustment of the operations of ongoing surveillance teams, find needs, collect, and provide information regarding ongoing surveillance	<ul style="list-style-type: none"> <li>Analyze and respond to risk factors such as effect of U.S. Sub-prime mortgage crisis and recession in the real estate market</li> <li>Provide policy-makers and outside directors with on-site financial information</li> </ul>
Insurance and Resolution	Council for Insurance Contingency	Approval on integrated conservatorship, including management of insolvent (or insolvency threatened) financial institutions, establishment of a resolution system, financial assistance, and workforce assistance	<ul style="list-style-type: none"> <li>Respond to insured events including coming up with resolution schemes to apply to mutual savings banks with suspended financial transactions and analyze the factors that caused the insolvencies of financial institutions</li> <li>Deliberate on corresponding schemes to improve soundness of mutual savings bank account</li> </ul>
Recovery and Investigation	Bankruptcy Estate Management Council	Adjustment, deliberation and improvement of operations related to bankruptcy estates	<ul style="list-style-type: none"> <li>Systematic management of lawsuits filed regarding bankruptcy estates</li> </ul>
Management and Support	Organization HR Management Council	Diagnosis of current organizational and HR system and deliberation of innovation devices	<ul style="list-style-type: none"> <li>Respond to public corporation advancement movement, and discuss reorganization of the corporation and the designated number of employees</li> </ul>

### C. Reorganization for Enhancing Operation Efficiency and Organizational Flexibility

During the staff re-shuffling in March 2008, the KDIC restructured departments managed by Executive directors according to their functions. By integrating departments with similar functions, the Corporation managed to slim down from 25 departments to 22 and from 63 teams to 56 teams.

### D. Stabilization of Strategic Balanced Score Card (BSC) System

Since 2005, by operating the Strategic Balanced Score Card (BSC) System, the KDIC strengthened its performance-based organizational culture.

Based on the results of the trial implementation of BSCs in 2006, the KDIC changed the unit of BSC assessments from a department-based to a team-based system. Through the establishment of a computerized BSC system, the KDIC managed to increase the efficiency of assessments.

## 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 Repayment Fund (Repayment Fund). The Repayment Fund was established to facilitate the completion of the financial restructuring efforts, recovery, and repayment of public funds. The new DIF, which started from a clean slate with insurance premiums from 2003, has been used for the day-to-day operations of the Fund relating to insolvencies from 2003 onwards.

### 1. Deposit Insurance Fund Bond Repayment Fund

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

##### A. Special Assessment Payments

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

following the end of each business year. In 2008, the KDIC received SAPs in the amount of 747 billion won from six insured financial sectors.

<Table III-1> Special Assessment by Financial Sector

Financial 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 <sup>1)</sup>
Legal Upper Limit	3/1,000	3/1,000	3/1,000	3/1,000	3/1,000	3/1,000

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

<Table III-2> Special Assessment Revenue

(Unit: 100 million won)

Year	Banks	Securities Companies	Insurance Companies		Merchant Banks	MSBs	Credit Unions <sup>1)</sup>	Total
			Life	Non-Life				
2003	4,775	156	889	185	20	222	-	6,247
2004	4,956	168	978	198	6	264	-	6,570
2005	4,871	145	1,069	219	5	319	-	6,628
2006	4,987	151	1,160	242	6	370	216	7,133
2007	5,027	156	1,265	278	7	430	116	7,280
2008	4,976	185	1,364	319	8	491	129	7,472
<b>Total</b>	<b>29,592</b>	<b>961</b>	<b>6,725</b>	<b>1,441</b>	<b>52</b>	<b>2,096</b>	<b>461</b>	<b>41,330</b>

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 Repayment Fund during the four year period from 2003 to 2006 and completely repaid the principal of the Deposit Insurance Fund Bonds (DIF Bonds). As a result, the KDIC is has no longer been receiving contributions from the government since 2007.

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

As provided for in Article 26-2 and 26-3 of the DPA, the KDIC can issue DIF Bonds. During 1998-2002, the KDIC issued DIF Bonds amounting to a total of 87,16 trillion won.

According to the Redemption Plan, the DIF Bond issuance amount was placed under the Repayment Fund in 2003. The DIF Bonds that matured since 2003 were repaid with contributions from the Redemption Fund, capital raised through the issuance of Deposit Insurance Fund Bond Repayment Fund Bonds (Repayment Fund Bonds), and existing funds in the Repayment Fund, etc. In 2008, the principal of the DIF Bonds, which came to a total of 11.39 trillion won, was repaid with capital raised through the issuance of Repayment Fund Bonds (8.80 trillion won) and existing funds in the Repayment Fund (2.59 trillion won). Hence, all DIF Bonds were paid up as of the end of 2008.

<Table III-3> Issuance and Redemption of Deposit Insurance Fund 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
2008	-	113,933	-
<b>Total</b>	<b>871,600</b>	<b>871,600</b>	<b>-</b>

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

In terms of Article 26-2 and 26-3 of the DPA, the KDIC is authorized to issue Deposit Insurance Fund Bond Repayment Fund Bonds (Repayment Fund Bonds) to repay the principal of DIF Bonds. In 2008, the Corporation issued Repayment Fund Bonds in the amount of 8.8 trillion won through public offering at a fixed rate, with a three-year maturity (1.23 trillion won) and five-year maturity (7.57 trillion won). Meanwhile, 10 billion won was repaid in 2008, leaving the balance of Repayment Fund Bonds at 27.96 trillion won as of late 2008.

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

(Unit: 100 million won)

Issue Year	Issued Amount	Repaied Amount	Balance
2004	65,000	-	65,000
2005	74,400	-	139,400
2006	28,705	3,155	164,950
2007	27,200	450	191,700
2008	88,000	100	279,600
<b>Total</b>	<b>283,305</b>	<b>3,705</b>	<b>279,600</b>

## 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 IBRD, the ADB, and financial institutions up to 2002.

The previous borrowings of the KDIC were placed under the Repayment Fund which was established in 2003. As the KDIC was exempted from repaying all previous fiscal borrowings, in accordance with the Public Fund Redemption Fund Act, it has not borrowed any monies since January 1, 2003. In 2008, the Corporation repaid 116.8 billion won of the principal amount of loans from the IBRD, leaving the outstanding balance of its borrowings as of the end of 2008 at 584.0 billion won.



&lt;Table III-5&gt; Borrowings of Repayment Fund

(Unit: 100 million won)

Year	Lender Institution				Repaid Amount	Outstanding Balance
	Financial Institutions	IBRD and ADB <sup>1)</sup>	Government	Total		
Amount Received	76,011	-	-	76,011	-	76,011
1998	3,295	2,416	10,582	16,293	9,337	82,967
1999	13,870	12,016	26,254	52,140	33,870	101,237
2000	90,028	13	39,533	129,574	9,802	221,009
2001	-	8	49,672	49,680	110,196	160,493
2002	-	-	59,553	59,553	3	220,043
2003	-	-	-	-	195,993	24,050
2004	-	-	-	-	11,168	12,882
2005	-	-	-	-	3,538	9,344
2006	-	-	-	-	1,168	8,176
2007	-	-	-	-	1,168	7,008
2008	-	-	-	-	1,168	5,840
<b>Total</b>	<b>183,204</b>	<b>14,453</b>	<b>185,594</b>	<b>383,251</b>	<b>377,411</b>	<b>5,840</b>

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

## 1-2. Assistance

### A. Overview

The KDIC provides public funds from the Repayment 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 Repayment 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 Repayment Fund provided a total of 87.3 billion won in public funds during 2008, of which 58.3 billion won (66.8%) was for equity participation and 29.0 billion won (33.2%) for insurance claim payments and purchase of assets.

<Table III-6> Financial Assistance by Deposit Insurance Fund in 2008

(Unit: 100 million won)

Financial Sector	Contribution	Insurance Claim Payment <sup>1)</sup>	Asset Purchase	Total
Banks	2	-	-	2
Securities Companies	578	△32	504	1,050
Insurance Companies	-	-	-	-
Merchant Banks	-	-	-	-
MSBs	3	△4	-	△2
Credit Unions	-	△178	-	△178
<b>Total</b>	<b>583</b>	<b>△214</b>	<b>504</b>	<b>873</b>

1) Recovered uncollected insurance payments as extinctive prescription of the right to claim had been completed

The total amount of public funds provided by the Repayment Fund for the restructuring of financial institutions comes to 112.3 trillion won as of year-end 2008. This amount includes 48.9 trillion won (43.5%) 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 (13.0%) for the purchase of other assets, etc.

<Table III-7> Accumulated Financial Assistance by Repayment Fund

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

Financial Sectors	Equity Participation	Contribution	Insurance Claim Payment	Asset Purchase	Loan	Total
Banks	222,039	139,092	-	100,064	-	461,195
Securities Companies	80,769	4,043	113	20,079	-	105,003
Insurance Companies	159,198	31,171	-	3,495	-	193,863
Merchant Banks	27,052	7,431	182,845	-	12,917	230,245
MSBs	101	4,157	72,892	-	8,532	85,683
Credit Unions	-	-	47,402	-	367	47,769
<b>Total</b>	<b>489,158</b>	<b>185,894</b>	<b>303,251</b>	<b>123,638</b>	<b>21,817</b>	<b>1,123,758</b>

## B. Assistance by Financial Sector

## (1) Banks

In 1999, a formal agreement was entered into with New Bridge Capital for the sale of Korea First Bank. The agreement stated that the KDIC would provide financial support in the form of contributions to the bank for the losses incurred as a result of lawsuits concerning business operations prior to the acquisition of the bank by New Bridge Capital. In 2008, the KDIC contributed 0.2 billion won to the bank for this purpose.

&lt;Table III-8&gt; Financial Assistance Provided to Banks

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

Name of Institution	Equity Participation					Contribution					Asset Purchase				
	2004 and Earlier	2005	2006	2007	2008	2004 and Earlier	2005	2006	2007	2008	2004 and Earlier	2005	2006	2007	2008
Korea First	50,248	-	-	-	-	10,254 <sup>1)</sup>	1,129	4	42	2	79,476	-	-	-	-
Woori	60,286	-	-	-	-	18,772	-	-	-	-	-	-	-	-	-
Seoul	46,809	-	-	-	-	2,216	-	-	-	-	-	-	-	-	-
Chohung	27,179	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Peace	4,930	-	-	-	-	3,386	-	-	-	-	-	-	-	-	-
Kyungnam	2,590	-	-	-	-	938	-	-	-	-	-	-	-	-	-
Kwanju	1,704	-	-	-	-	2,714	-	-	-	-	-	-	-	-	-
Jeju	531	-	-	-	-	1,651	-	-	-	-	-	-	-	-	-
Kookmin	2,000	-	-	-	-	18,319	-	-	-	-	179	-	-	-	-
H&CB	2,965	-	-	-	-	18,075	-	-	-	-	538	-	-	-	-
Shinhan	2,925	-	-	-	-	25,204	-	-	-	-	591	-	-	-	-
Hana	4,728	-	-	-	-	11,161	-	-	-	-	54	-	-	-	-
KorAm	2,600	-	-	-	-	24,356	-	-	-	-	226	-	-	-	-
KDB	-	-	-	-	-	-	-	-	-	-	13,000	-	-	-	-
IBK	-	-	-	-	-	-	-	-	-	-	6,000	-	-	-	-
AC	962	-	-	-	-	870	-	-	-	-	-	-	-	-	-
FC	11,581	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chungbuk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RFC	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>222,039</b>	-	-	-	-	<b>137,916</b>	<b>1,129</b>	<b>4</b>	<b>42</b>	<b>2</b>	<b>100,064</b>	-	-	-	-

1) Includes 407.9 billion won in assets purchased in accordance with post-sale settlement

## (2) Securities Companies

In 2008, the KDIC provided additional contributions worth 0.1 billion won and 20 million 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 (now Hyundai Securities), the Corporation, in accordance with the Agreement of Sales and Purchase of Shares, provided 57.7 billion won as contributions to the company for indemnification and purchased 50.4 billion won of subordinated CBOs pursuant to the agreement with the company in 2008.

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

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

Name of Institution	Equity Participation		Contribution		Asset Purchase		Insurance Claim Payment <sup>1)</sup>	
	2007 and Earlier	2008	2007 and Earlier	2008	2007 and Earlier	2008	2007 and Earlier	2008
Jangeun Securities	-	-	-	-	-	-	40	-
Dongbang Peregrine Securities	-	-	-	-	-	-	100	-
Hannam Investment & Securities	-	-	-	-	-	-	1	-
Korea Industrial Securities	-	-	-	-	-	-	3	-
Korea Investment & Securities	38,649	-	767	1	4,830	-	-	-
Daehan Investment & Securities	23,003	-	629	0.2	6,539	-	-	-
Prudential Securities	19,116	-	2,068	577	8,205	504	-	-
<b>Total</b>	<b>80,769</b>	<b>-</b>	<b>3,464</b>	<b>579</b>	<b>19,574</b>	<b>504</b>	<b>144</b>	<b>-</b>

1) 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 2008. However, as part of the sales transaction of Kookmin Life and Handuk Life to Mirae Asset Life (formerly SK Life), the KDIC agreed to indemnify Mirae Asset Life in case of litigation against them during the indemnification period. In 2008, the court ruled in favor of Mirae Asset Life and the KDIC was therefore released from its obligations in this

regard. The Corporation is however still liable for legal costs incurred to defend the case and this will be paid during 2009.

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

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

Name of Institutions	Equity Participation					Contribution					Asset purchase				
	2004 and Earlier	2005	2006	2007	2008	2004 and Earlier	2005	2006	2007	2008	2004 and Earlier	2005	2006	2007	2008
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 Pharmaceutical (Acquisition of Green Fire)	0.5	-	-	-	-	739	-	-	-	-	-	-	-	-	-
Kumho Life (Acquisition of Dong-ah life)	10,922	-	-	-	-	754	-	-	-	-	2,711	-	-	-	-
SK Life (Acquisition of Handuck life)	2,862	-	-	-	-	298	-	-	-	-	168	-	-	-	-
Tongyang Life (Acquisition of Taepyongyang life)	2,597	-	-	-	-	451	-	-	-	-	289	-	-	-	-
SK Life (Acquisition of Handuck life)	3,350	-	-	-	-	387	-	-	-	-	279	-	-	-	-
Hyundai Life (Acquisition of Chosun life)	1,166	-	-	-	-	111	-	-	-	-	-	-	-	-	-
Korea 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	-	-	-	-	-	-	-	-
	Samsung Fire	-	-	-	-	1,526	5	-	-	-	-	-	-	-	-
	Hyundai Marine & Fire	-	-	-	-	437	9	-	-	-	-	-	-	-	-
	LG Fire	-	-	-	-	193	4	-	-	-	-	-	-	-	-
	Dongbu Fire	-	-	-	-	5	5	-	-	-	-	-	-	-	-
Green Cross Life (Acquisition of Daishin Life)	-	-	-	-	-	1,393	-	-	-	-	-	-	-	-	-
KB Life (Acquisition of Hanil Life)	-	-	-	-	-	262	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>159,198</b>	-	-	-	-	<b>31,132</b>	<b>39</b>	-	-	-	<b>3,495</b>	-	-	-	-

#### (4) Merchant Banks

During 2008, the KDIC did not provide any funds to merchant banks in the form of equity participation or contributions. However, Dongsuh Horizon Securities, a depositor of Hankook Merchant Bank, filed a lawsuit against the KDIC for the payment of insurance claims. The Supreme Court finally dismissed the plaintiff's appeal and reversed and remanded the award against the Corporation for a review in the High Court.

\* The High Court ruled in favor of the plaintiff and in the 2nd ruling, awarded 12.7 billion won in provisional payments, an award smaller than the original claim.

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

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

Name of Institution	Equity Participation		Contribution		Deposit Payoff		Loan	
	2007 and Earlier	2008	2007 and Earlier	2008	2007 and Earlier	2008	2007 and Earlier	2008
Kyungnam	-	-	-	-	5,652	-	-	-
Kyungil	-	-	-	-	2,990	-	-	-
Koryo	-	-	-	-	4,706	-	-	-
Kumho	-	-	-	-	-	-	375	-
Nara	-	-	-	-	27,779	-	-	-
Daegu	-	-	-	-	6,725	-	502	-
Daehan	-	-	-	-	25,903	-	-	-
Tongyang	-	-	-	-	-	-	1,200	-
Samsam	-	-	-	-	8,145	-	-	-
Samyang	-	-	-	-	3,194	-	250	-
Saehan	-	-	-	-	7,889	-	4,238	-
Shinsegae	-	-	-	-	7,520	-	-	-
Shinhan	-	-	-	-	22,242	-	-	-
Ssayngyong	-	-	-	-	6,662	-	-	-
Youngnam	1,717	-	-	-	1	-	370	-
Ulsan	-	-	-	-	-	-	200	-
Jeil	-	-	-	-	16,529	-	1,118	-
Joongang	0.5	-	-	-	-	-	-	-
Chungsol	121	-	-	-	1,477	-	1,275	-
Hanaro	24,912	-	7,431	-	-	-	-	-
Korea	0.5	-	-	-	127	-	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	-
<b>Total</b>	<b>27,052</b>	<b>-</b>	<b>7,431</b>	<b>-</b>	<b>182,845</b>	<b>-</b>	<b>12,917</b>	<b>-</b>

## (5) Mutual Savings Banks

In order to refund them for the losses incurred during the acquisition process, financial assistance was provided to 4 mutual savings banks (MSBs), including Korea Investment MSB that had acquired insolvent banks through P&As before 2002. A total of 0.3 billion won was contributed to these MSBs in 2008.

<Table III-12> Financial Assistance Provided to Mutual Savings Banks

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

Name of Institution	Equity Participation		Contribution		Loan	
	2007 and Earlier	2008	2007 and Earlier	2008	2007 and Earlier	2008
New Choongbuk	100	-	-		161	-
Kisan	-	-	-		541	-
Dongwha	-	-	-		639	-
Ilshin	-	-	-		155	-
Dong-ah	-	-	-		104	-
Kyungbuk	-	-	-		170	-
Saenuri	-	-	14		413	-
Daewon	-	-	-		563	-
Choongil	-	-	-		89	-
Daejeon	-	-	-		102	-
Haedong	-	-	-		263	-
Choongnam	-	-	-		45	-
Pusan2	-	-	-		271	-
Union	-	-	39		518	-
Arim	-	-	-		615	-
Korea Investment (Dongwon)	-	-	62	2	783	-
MS (Choi)	-	-	28	0.2	738	-
Domin	-	-	27	0.2	709	-
Kyunggi	-	-	254	1	1,654	-
Boomin	-	-	241		-	-
Hanmaum	-	-	522		-	-
Kyungbuk	-	-	83		-	-
Shilla (Telson)	-	-	775		-	-
Hanaro	-	-	422		-	-
Solomon	-	-	664		-	-
J-1	-	-	325		-	-
Sangup	-	-	700		-	-
RFC	1 <sup>1)</sup>	-	-		-	-
<b>Total</b>	<b>101</b>		<b>4,156</b>	<b>3</b>	<b>8,532</b>	

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



Regarding MSBs that became insolvent until 2002, as the prescription of insurance claim payment became extinct, the Corporation recouped 0.4 billion won of unpaid insurance money in 2008.

<Table III-13> Insurance Money Paid to Mutual Savings Banks

(Unit: 100 million won)

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

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

## (6) Credit Unions

The KDIC have not dealt with any new insolvent credit unions since 2004 as, pursuant to Article 2 and addenda to the Deposit Protection Act, 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 referral of payments have been removed.

Due to the extinctive prescription on paid insurance claims, in 2008 the Corporation recouped 17.8 billion won in insurance claims previously paid but not claimed.

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

(Unit: 100 million won)

Year	No. of institutions <sup>1)</sup>	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
2008	19	△178
<b>Total</b>	<b>-</b>	<b>47,402</b>

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 on deposit payoffs by proving a claim against 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 2008 recorded 43.28 trillion won including 2.37 trillion won recovered in 2007 alone.

&lt;Table III-15&gt; Repayment Fund Recoveries in 2008

(Unit: 100 million won)

Financial Sector	Equity Participation	Contribution	Bankruptcy Dividend <sup>1)</sup>	Asset Sale <sup>2)</sup>	Recovery of Loan	Total
Banks	3,402	23	732	3,200	-	7,357
Securities Companies	843	18	-	520	-	1,381
Insurance Companies	6,564	-	321	-	-	6,885
Merchant Banks	43	-	2,151	-	4	2,198
MSBs	-	15	1,517	-	3,908	5,440
Credit Unions	-	-	494	-	-	494
<b>Total</b>	<b>10,851</b>	<b>56</b>	<b>5,215</b>	<b>3,720</b>	<b>3,912</b>	<b>23,755</b>

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

&lt;Table III-16&gt; Accumulated Repayment Fund Recoveries

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

Financial Sector	Equity Participation	Contribution	Bankruptcy Dividend <sup>1)</sup>	Asset Sale <sup>2)</sup>	Recovery of Loan	Total
Banks	134,102	671	17,585	52,558	-	204,915
Securities Companies	12,121	2,950	65	8,221	-	23,358
Insurance companies	24,047	866	4,094	1,877	-	30,885
Merchant Banks	747	59	75,190	-	10,452	86,448
MSBs	-	330	47,153	-	6,058	53,541
Credit Unions	-	4	33,299	-	355	33,658
<b>Total</b>	<b>171,018</b>	<b>4,881</b>	<b>177,386</b>	<b>62,656</b>	<b>16,865</b>	<b>432,805</b>

1) Includes bankruptcy dividend resources reimbursed by the resolution financial institutions  
2) Includes asset sale proceeds reimbursed by the 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 shares 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 and Securities Co., Korea Life Insurance 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**

The KDIC recovered 340.2 billion won by receiving dividends on Woori Financial Group shares (170.1 billion won), selling Cheju Bank shares during a regular session (1.6 billion won), and putting back Shinhan Financial Group's callable preferred shares (168.5 billion won).

### **(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. The remaining 20% of Prudential Financial Group shares (Hyundai Investment and Securities Co. before), was disposed of based on the agreement signed by the shareholders of Hyundai Investment Securities Co. leading to the KDIC recovering 84.3 billion won.

### **(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 shares and preferred shares. 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. As the SGIC paid cash dividends after realizing a 549.0 million won net profit in FY 2006, the KDIC collected another 352.2 million won worth of dividends on July 19, 2007. Following the decision by Deposit Insurance Committee on June 11, 2008, the KDIC confirmed the SGIC repayment time schedule of the callable preferred shares. Complying with the schedule, the KDIC recovered 398.0 billion won for 2008 on July 18, 2008.

The Corporation recovered 823.6 billion in December 2002 and December 2003 by selling 51% of the shares out of 100% acquired through public fund injection of Daehan Life to Hanwha

Consortium. Following the international arbitration ruling on Daehan Life on July 31, 2008, Hanwha Group became entitled to a call option right. Hence, by accepting Hanwha Group exercising their call option, the Corporation transferred 16% of Daehan Life shares out of 49% to Hanwha Group and recovered 258.4 billion won.

#### (4) Miscellaneous

The Resolution & Finance Corporation (RFC) acquired bonds from Shinhan Merchant Bank and converted them to equity participation in 338,000 shares of Donghae Pulp. On sales of Donghae Pulp, the KDIC made an Over-The-Counter tender offer to Moorim Paper, the preferred bidder, and recovered 5.0 billion won on May 16, 2008.

### C. Bankruptcy Dividends

During 2008, the KDIC received bankruptcy dividends worth 521.5 billion won through disposition of its equity stakes in bankruptcy estates that had received public funds, thus recovering a total of 17.74 trillion won by the end of 2008.

To elaborate on this figure, the Corporation received 105.3 billion won from bank and insurance estates, and 416.2 billion won from merchant bank, mutual savings bank and credit union estates in 2008.

<Table III-17> Bankruptcy Dividends Recovered by Financial Sector<sup>1)</sup>

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

Financial Sector	No. of Bankruptcy Estate	Recovered Amount	
		2008	1999~2008 Cumulative
Banks	5	732	17,585
Insurance Companies	10	321	4,094
Securities Companies	4	-	65
Merchant Banks	22	2,151	75,190
MSBs	75	1,517	47,153
Credit Unions	325	494	33,299
<b>Total</b>	<b>441</b>	<b>5,215</b>	<b>177,386</b>

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 (SAMDA\*\*). By the end of 2008, the RFC repaid a total of 6.32 trillion won to the KDIC.

\* For the effective resolution of insolvent financial institutions, the RFC was established on December 27, 1999, in accordance with a DPA and merged and acquired Hanahreum Merchant Bank and Mutual Savings Bank.

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

<Table III-18> Recoveries from Asset Sales by the Resolution Finance Corporation<sup>1)</sup>

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

Asset Sold	Sales Method	Sales Amount	Purchaser
Stocks (Ileun Securities)	M&A	1,195 <sup>2)</sup>	Regent Group
Stocks (Kia Motors)	OTC Sale	1,158	Fiduciary OGF(L), Ltd.
Stocks (KT&G)	Buybacks	1,681	KT&G
Stocks (ShinDongBang)	M&A	3	CJ Consortium
Loan and Stocks (Shinho Petrochemical)	M&A	153	Aram Financial
Stocks (Shinho Papers)	M&A	20	Aram Consortium
Stocks (Hynix)	After-hours block trade	890	Foreign/Domestic Investor
Stocks (Daewoo Engineering & Construction)	M&A	1,668	Kumho Asiana Consortium
Stocks (Kepco)	Exchangeable Bonds	63 <sup>3)</sup>	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	3,812	Domestic Investors
Bonds in Foreign Currencies	SAMDA	429	Foreign Investors
Loans/Securities	Principal/Interest Call, Market Sale	42,831	-
<b>Total</b>		<b>67,786</b>	-

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 2008 stood at 1.89 trillion won including 165.4 billion won recovered from Kyunggi Savings & Loans. Of the total amount recovered, 1.69 trillion won was collected directly rather than through bankruptcy dividends.

During 2008, the KDIC also collected a total of 4.1 billion won through the settlement of contributions including 2.2 billion won from SC Cheil Bank, 1.8 billion won from Korea Investment & Securities Co., Daehan Investment & Securities Co., and Hyundai Investment and Securities Co., and 20 million won from Daehan Life Insurance. It also recovered 1.6 billion won by winning a suit against savings bank employees who were liable for the insolvencies.

### III

Management  
of the Deposit  
Insurance  
Fund

## 2. Deposit Insurance Fund

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

#### A. Insurance Premiums

Pursuant to Article 30 of the Depositor Protection Act (DPA) and Article 16 of the DPA Enforcement Decree, insured financial institutions are required to pay a given ratio of their deposit balances to the KDIC. Deposit balances for insurance companies, for example, would be the arithmetic average of the deposit liability reserve fund and the premiums received. At present, banks are required to pay deposit insurance premiums within one month following the end of each quarter. Other insured financial institutions are required to pay their premiums within three months following the end of each financial year. The deposit insurance premiums up to 2002 were placed in the Repayment Fund while deposit insurance premiums collected since 2003 has been placed in the new Deposit Insurance Fund (DIF). The total amount of premiums received from insured financial institutions and paid into the DIF in 2008 came to 1,15 trillion won.



&lt;Table III-19&gt; Insurance Premium Revenue

(Unit: 100 million won)

Year	Banks	Securities Companies	Insurance Companies		Merchant Banks	MSBs	Credit Unions	Total
			Life	Non-Life				
Amount Remitted <sup>1)</sup>	-	-	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 <sup>2)</sup>	4,361	262	2,295	485	130	604	641	8,778
2003	4,775	312	2,580	535	73	667	603	9,545
2004	4,960	336	2,832	571	17	793	4	9,513
2005	4,869	300	3,109	628	15	974	-	9,895
2006	4,987	303	3,362	697	19	1,116	-	10,484
2007	5,027	256	3,654	801	22	1,306	-	11,066
2008	4,808	305	3,934	918	24	1,483	-	11,472
<b>Total</b>	<b>44,144</b>	<b>2,499</b>	<b>27,917</b>	<b>6,263</b>	<b>1,988</b>	<b>10,579</b>	<b>2,500</b>	<b>95,890</b>

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.

&lt;Table III-20&gt; Deposit Insurance Premiums by Financial Sector

	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs
Applied Premium Rate	10/10,000	20/10,000 <sup>1)</sup>	30/10,000 <sup>2)</sup>	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% on the amount that securities companies deposited into other securities and financial 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 Depositor Protection Act and Article 14 of the DPA Enforcement Decree require that a newly insured financial institution contribute a proportion of its paid-in-capital or equity participation to receive deposit insurance coverage within one month of starting business operation. Due to the Redemption Plan and setup of the Repayment Fund, contributions made

up to 2002 were incorporated into the Repayment Fund whereas contributions received since 2003 have been incorporated into the current Deposit Insurance Fund. The Corporation received contributions worth 11.8 billion won during 2008.

<Table III-21> Contribution Remittances by Financial Sector

(Unit : 100 million won)

Year	Banks	Securities Companies	Insurance Companies		Merchant Banks	MSBs	Credit Unions	Total
			Life	Non-Life				
Amount Remitted <sup>1)</sup>	-	-	-	-	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 <sup>2)</sup>	125	500	-	330	-	390	-	1,345
2003	30	-	650	200	-	-	-	880
2004	340	200	600	200	-	-	-	1,340
2005	220	200	-	-	-	1,250	-	1,670
2006	380	800	-	200	-	1,340	-	2,720
2007	-	-	-	-	-	-	-	-
2008	2	110	-	-	-	6	-	118
<b>Total</b>	<b>1,583</b>	<b>36,433</b>	<b>1,280</b>	<b>1,252</b>	<b>25,500</b>	<b>11,899</b>	<b>2,883</b>	<b>80,830</b>

1) Includes the amount transferred from the Korea Non-bank Deposit Insurance Corporation when it was consolidated with the DIF in April 1998

2) Insurance premiums received up to 2002 were transferred to the DIF Bond Redemption Fund.

## C. Borrowings

Pursuant to Article 26 of the Deposit Protection Act 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, 6 billion won and 5 billion won were repaid in 2004, 2005, 2006, and 2008 respectively, leaving the balance of the Credit Union account at 74.4 billion won. In the

case of the Mutual Savings Bank account, the full outstanding loan amount of 231.4 billion has been repaid, leaving the balance zero.

## 2-2. Assistance

### A. Overview

The DIF has been responsible for the costs arising from the resolution of financial institutions that have become, or were designated as, insolvent financial institutions from 2003. The DIF provided a total of 459.7 billion won for the restructuring of mutual savings banks (MSBs) during 2008, and recovered 1.3 billion won from the total amount spent on resolution of credit unions.

The DIF has, as of the end of 2008, spent a total of 3.2 trillion won on insurance claim payments, etc. including 3.0 trillion won to depositors of 13 MSBs including Gimcheon Mutual Savings Bank and 218.3 billion won to 14 credit unions including Wolpyeong Credit Union.

<Table III-22> Financial Assistance by Deposit Insurance Fund in 2008

(Unit: 100 million won)

Financial Sector	Equity Participation	Contribution	Insurance Claim Payment	Asset Purchase	Loan	Total
MSBs	177	3,044	906	-	470	4,597
Credit Unions	-	-	△13	-	-	△13
<b>Total</b>	<b>177</b>	<b>3,044</b>	<b>893</b>	<b>-</b>	<b>470</b>	<b>4,584</b>

<Table III-23> Financial Assistance by Deposit Insurance Fund

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

Financial Sector	Equity Participation	Contribution	Insurance Claim Payment	Loan	Total
MSBs	725	15,781	9,638	3,382	29,526
Credit Unions	-	-	2,183	-	2,183
<b>Total</b>	<b>725</b>	<b>15,781</b>	<b>11,821</b>	<b>3,382</b>	<b>31,709</b>

## B. Assistance by Financial Sector

### (1) Mutual Savings Banks (MSBs)

During 2006, Yeahreum mutual savings bank, a bridge bank, was established to resolve three insolvent MSBs. Insurance contingencies arose in Kyungbook MSB in 2007, in Boondang MSB and Hyundai MSB in 2008. The Corporation contributed 304.4 billion won, 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 17.7 billion won in the form of equity participation. For the P&A of the unsound assets of Boondang, Hyundai, etc. into the RFC, the KDIC loaned the acquisition cost, amounting to 47.0 billion won to the RFC.

During 2008, the KDIC made insurance claims payments of 72.9 billion won to the depositors of Boondang MSB which was ordered to suspend the business operation on January 19, 2007. An amount of 16.7 billion won was paid to the depositors of Hyundai MSB, the operation of which was suspended on March 24, 2008.

On the other hand, relating to MSBs that became insolvent after 2003, the Corporation made additional insurance claims payments as court rulings on insurance money claims were handed down and the reasons for payment referral were removed. By trading off insurance money against surety obligations, the Corporation recouped previously paid insurance premiums. As a result, the net insurance claims payments made by the Corporation during 2008 amounted to 90.6 billion won.

<Table III-24> Insurance Claim Payments to Mutual Savings Banks

(Unit: 100 million won)

Year	No. of Institutions <sup>1)</sup>	Payment Amount
2003	1	764
2004	3	1,770
2005	7	4,527
2006	7	326
2007	6	1,345
2008	11	906
<b>Total</b>	-	<b>9,638</b>

1) The number of institutions provided with insurance claim payment from the DIF is 11.

## (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 referral 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 1.3 billion won was recouped during 2008.

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

(Unit: 100 million won)

Year	No. of Institutions <sup>1)</sup>	Payment Amount
2003	8	1,543
2004	12	645
2005	8	12
2006	12	-
2007	5	△3
2008	7	△13
<b>Total</b>	-	<b>2,183</b>

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 Repayment 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 2008 recorded 579.7 billion won including 24.0 billion won recovered in 2008 alone.

<Table III-26> Deposit Insurance Fund Recoveries in 2008

(Unit: 100 million won)

Financial Sector	Equity Participation	Contribution	Bankruptcy Dividend	Recovery of Loan	Total
MSBs	1,500	41	50	751	2,342
Credit Unions	-	-	60	-	60
<b>Total</b>	<b>1,500</b>	<b>41</b>	<b>110</b>	<b>751</b>	<b>2,402</b>

<Table III-27> Accumulated Deposit Insurance Fund Recoveries

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

Financial Sector	Equity Participation	Contribution	Bankruptcy Dividend	Recovery of Loan	Total
MSBs	1,923	143	1,097	1,470	4,633
Credit Unions	-	-	1,164	-	1,164
<b>Total</b>	<b>1,923</b>	<b>143</b>	<b>2,261</b>	<b>1,470</b>	<b>5,797</b>

## B. Sales of Shares Owned by KDIC

The KDIC sold 100% of its shares in Yeahreum MSB, a bridge bank established in 2006, and recovered 150.0 billion won in the process. The MSB was sold to Standard Chartered NEA Ltd, a subsidiary of the London-based Standard Chartered Bank, which also acquired SC Cheil Bank in 2005.

## C. Bankruptcy Dividends

During 2008, the KDIC received bankruptcy dividends worth 11.0 billion won through disposition of its equity stakes in bankruptcy estates that had received public funds from the DIF. By financial sector, it recovered 5.0 billion won from the bankruptcy estates of MSBs and 6.0 billion won from the bankruptcy estates of credit unions, which amounts to 226.1 billion won in total.

&lt;Table III-28&gt; Bankruptcy Dividends Recoveries by Financial Sector

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

Financial Sector	No. of Bankruptcy Estate	Recovered Amount	
		Jan.~Dec. 2008	Cumulative Total since 2004
MSBs	13	50	1,097
Credit Unions	14	60	1,164
<b>Total</b>	<b>27</b>	<b>110</b>	<b>2,261</b>

#### D. Recovery of Loans

Since 2003, the KDIC has offered loans to the Resolution and Finance Corporation and Busan Solomon MSB for restructuring 9 MSBs including Kyoungbook MSB.

In 2008, the Corporation recovered 75.1 billion won of loan principal from 8 MSBs and the total amount of loans recovered from 2003 to 2008 recorded 147.0 billion won.

## IV

# Risk Surveillance of Insured Financial Institutions and Management of MOUs

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

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

#### A. Improvement of Risk 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 developed a risk assessment model and made use of it to conduct risk surveillance so that signs of insolvency can be detected in advance.

Currently, the KDIC is running a risk assessment model in the areas of banks, insurance companies, securities companies and savings banks. For banks and insurance companies, a risk evaluation model (RE), a risk forecast model (RF) and a risk index model (RI) have been used. A risk evaluation model assesses the risk profile of an insured financial institution based on financial and other information. A risk forecast model predicts the possibility of insolvency as of a certain future date while a risk index model assesses risk levels and trends.

For securities companies, a risk evaluation model (RE) and a risk forecast model (RF) were developed and are being used. For savings banks, a growth monitoring system (GMS) was developed along with the three models mentioned earlier. These models are being used



conducting risk surveillance of savings banks which include management consulting, management analysis or the detection of problem savings banks or signs of insolvency.

As the accuracy of risk assessment models can change with the passage of time and the change of financial environment, the KDIC has made continuous efforts to improve the accuracy of the risk assessment models. Based on the “Plan to improve the functioning of and promote the efficiency of operation of risk assessment models” which was prepared in 2007, the KDIC received guidance from a consulting service about how to improve the functions of the risk assessment models in the first half of 2008. Reflecting on the advice of the consultants, the KDIC improved statistical methods used in the risk assessment models for each financial sector. As a way to consider recent developments in the financial market, the KDIC also revised variables and critical values for the risk assessment model. In addition, a plan to develop a risk index model for securities companies was prepared and a stress test and an analytical method to detect problems were designed so as to enable risk surveillance of securities companies using various indicators. For the benefit of users, a web-based inquiry system was also created.

Based on the advice of the consultants, the KDIC asked expert organizations to devise ways to improve the risk assessment system from the end of year 2008. When this 9 month project is completed in mid 2009, it is expected that more accurate forecasting on insured financial institutions will be possible and the efficiency of the risk assessment task will have been greatly enhanced.

## B. Functional Enhancement of the 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, the KDIC has systematically obtained and managed diverse financial information such as business reports, deposit trend reports and foreign exchange reports, etc. of insured institutions.

In 2007, 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 2008, the system was modified to increase its user-friendliness by displaying detailed components of rows and columns of the FIAS. As deposits in foreign currency became insured products, the deposit trend reports began including information on deposits in foreign currency in order to

increase the timeliness of data.

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 (the Council) was established in March 2001 with the participation of the KDIC, the Financial Supervisory Service (FSS), and the Bank of Korea (BOK). In January 2004, to strengthen its cooperation with the FSS and the BOK, the KDIC signed a Memorandum of Understanding (MOU) on sharing financial information with the two institutions. To achieve active information sharing through expansion of the extent and scope of the information shared, the Council held four meetings in 2008, which brings the total number of meetings held thus far to twenty-five.

The US sub-prime mortgage crisis in September 2008 brought about a global financial crisis that made it even more prudent for financial safety net players to share financial information among themselves. As such, the KDIC reiterated the importance of the expansion of information sharing among financial safety net players to the Presidential Council on National Competitiveness and the Financial Services Commission.

Additionally, the KDIC has expanded the scope of information sharing by continual discussions with the FSS and the BOK. In particular, in the case of reports of the FSS, the KDIC arranged for the inclusion of Basel II related bank reports and newly created reports on risk based supervision of securities companies. Accordingly, the information sharing rate has increased to 94.5% which is 4.9% increase on the rate of the previous year.

## 1-2. Promotion of Risk Surveillance Function

### A. Strengthening the Risk Surveillance Function

The KDIC has made efforts to strengthen the risk surveillance of insured financial institutions to enable early detection of risks and prevent those risks from leading to the failure of the institutions. As part of these efforts, the KDIC is closely monitoring financial institutions 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. In the case of the Mutual Savings Banks, the Corporation has been analyzing major risk factors such as the asset quality or change of loan and deposits of mutual savings banks on a regular basis and when otherwise necessary.

Furthermore, in order to improve the quality of risk surveillance, the Corporation invited experts from different financial sectors in 2008 and hosted an “Ongoing Surveillance Forum.” The topics of the study were as follows:

- the Calculation of the Net Capital Ratio
- the Control of Risk
- the Management of Credit Risk at Non-Life Insurance Companies
- the Operations of long-term insurance products
- the Structure and Status of Real Estate Project Financing Loans
- 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, final restricting, and the supervisory system of the MSB industry

To this end, events were hosted for representatives from banks, insurance companies and securities companies to expand the scope of mutual understanding and to exchange information on industry trends.

Due to the global financial crisis, it became more important to focus on the risk assessment of MSBs whose financial positions are generally weaker than institutions in other financial sectors. From the second half of 2008, the KDIC jointly with the FSS dispatched management administrators to insolvency-threatened MSBs and could closely monitor business normalization processes. It was also able to collect and use related information on time.

Finally, information produced for risk surveillance was discussed in depth at the Financial Information Sharing Council which was established for handling, coordinating and reviewing risk surveillance task. A measure was prepared based on this information and if necessary, the information was provided to relevant users such as financial authorities.

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## B. Dealing with the Global Financial Crisis

The KDIC has strengthened cooperation with other financial safety net players since the outbreak of the global financial crisis, e.g. the president of the KDIC is a non-standing member of the Financial Services Commission, a Senior Managing Director of the KDIC also participates in a task force team established in September 2008 and the Secretary General of the FSC acts as team leader of the same team.

In order to deal with the crisis promptly, as of September 16, 2008, the Corporation has upgraded the Council and made each department present daily updates to the Chairman. If a sign of uncertainty appears, the Council, through in-depth discussions, will play a role in coming up with proper measures to deal with the uncertainty. In addition, as a way to prepare for a possible contagion effect from the global crisis, the “Global Financial Crisis Monitoring Team” was established with team members from risk surveillance departments and resolution & recovery departments. This team started monitoring domestic financial markets and financial industry trends by tracking major economic indicators and market situations. In particular, the staff concerned continuously monitored the trends in major economic indicators so as to seek ways to identify any possible contagion effect of the global financial crisis in advance. They also made efforts to analyze trends in risks and potential effects thereof on insured financial institutions.

Based on the information obtained through the systems set up to deal with the global financial crisis, the corporation divided the crisis into 3 levels and prepared a ‘Contingency Plan for Global Financial Crisis’ in order to establish appropriate and systematic countermeasures in the areas of risk surveillance, funding and resolution for each level. In the case of an emergency, the Corporation arranged for employees to get access to financial information such as FIAS through the VPN (Virtual Private Network\*). In addition, the information sharing between financial safety net players was strengthened.

\* A secure Internet connection that allows access to head office computers from remote locations

A designated task team, led by a Risk Manager, was specially set up for each financial sector to identify the risk indicators which may affect different financial sectors or individual financial institutions. Regular monitoring meetings were held to upgrade the qualitative level of on-sight

financial information while attempting to identify financial market risk factors and contagion routes of risk,

As a result of such risk surveillance efforts, the Corporation has produced more than 600 on-going financial surveillance reports and 184 of them were distributed other financial authorities such as the FSC along with the academia, the press and people related to the Corporation. These efforts clearly show the Corporation's commitment to efforts to ease concerns about an unstable domestic financial market being caused by the global financial crisis.

<Table IV -1> Indicator Selection by Sector

Classification	Stock Market	Bond Market	Foreign Exchange Market, International Financial Market	Physical Market	Banking Business	Insurance Business	Securities Business
Indicator	2	3	8	4	6	4	5

### C. 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 MSBs in 2008, it held discussion sessions at 2 branches of a particular MSB and management interviews at 7 MSBs in order to identify industry trends and concerns as well as to collect related market information. It also offered customized consulting services to five MSBs (a total of 61 MSBs since 2003) to assist them with improving their competitiveness and management skills.

Additionally, the Corporation established the "Cheonggye Finance Forum" (meetings of securities experts) to exchange information on capital markets and makes available a venue for their discussions. The regular meetings strengthened information sharing and friendship between participants. Market information such as industry trends and information on industry-related problems was collected by hosting seminar and conference on financial markets, meetings of financial market participants and interviews with management of insurance companies.

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Furthermore, the KDIC is working hard to promote awareness with financial institutions of the importance to carefully consider the risks that they need to manage. In 2008, 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.

#### D. Promotion of Insurance Relations Indication System

The Deposit Protection Act, 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. With this system in place, the Corporation ensures that financial institutions provide financial consumers with accurate information on the deposit insurance system in order to prevent them from suffering financial losses.

During 2008, the KDIC, in accordance with the provisions of the DPA, conducted on-site investigations on the systems implementation of 392 branches of insured financial institutions nationwide which represents a 12% increase compared to the previous year. In order to promote the efficiency of the Insurance Indication System, the Corporation established a system to conduct surveys which collect opinions about the system from insured financial institutions.

The Corporation is making efforts to provide effective and timely information on the deposit insurance system while it conducts on-site investigations on the insurance relations indication system. The Corporation re-issued an information booklet on the deposit insurance system, first published in November 2004, in pamphlet format and distributed it to 18,000 branches of insured financial institutions in September 2008. In November 2008, the Corporation produced an additional information pamphlet on deposits in foreign currency and distributed it to keep financial consumers updated on a timely basis.

In addition, in July 2008, the Corporation provided information on the insurance relations indication system to 8 newly established securities companies so as to promote the awareness of

the deposit insurance system even for new insured financial institutions and to maintain smooth operations of deposit insurance systems.

### 1-3. Promotion of Joint Examination

As failure prevention and loss minimization 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 a Memorandum of Understanding (MOU) on joint examination of financial institutions with the FSS in September 2003, legislated the Regulations on Joint Examination in October of the same year, and enacted Rules on Joint Examination in April 2004. In 2006, the Corporation completely reorganized the Regulations and Enforcement Bylaws to create conditions for more effective joint examinations.

The financial environment is rapidly changing. Lately, there has been a trend for financial institutions to expand their size and the range of the financial services they offer, and risk factors have therefore become more diversified. As a consequence, preventing the financial deterioration of institutions in advance has become an important challenge. In line with this, the MOU for joint examinations with the FSS was amended in July 2007 to clearly define the KDIC's exercisable right to conduct joint examinations on demand. 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, with the amendment of the presidential decree in May 2008, 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 of financial institutions with increased risk profiles 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, twelve institutions in 2007, and nine in 2008 and requested that our findings be reflected in the examination reports of the FSS. Initially the number of

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financial institutions for joint examination was twelve but three of them became excluded due to reasons such as the suspension of business. 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.

#### 1-4. Enhancement of Risk Surveillance Capability

With the reorganization of the organizational structure in March 2008, the Corporation assigned 75 people (12.7% of total staff) to risk surveillance departments. Out of the 75 employees, 41 hold master's degrees, PhD degrees, or other qualifications (Chartered Financial Analyst, Certified Public Accountant, Actuary or Financial Risk Manager). As a result, the Corporation could strengthen the professional capacity of the risk surveillance departments.

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. In addition, as a way to train specialists in financial risk factors, the Corporation adopted the Risk Focused Manager System and required of each member of the risk surveillance staff to focus on a certain risk factor and analyze the associated risk on a continual basis. To aid its staff in acquiring practical knowledge of risk surveillance, the KDIC operates in-house training programs covering risk surveillance, management analysis, and real case studies. It has also hosted ongoing surveillance forums on risk surveillance of financial groups, surveillance techniques, and study groups (Community of Practice). In the case of MSBs, the Corporation produced and distributed a Manual on MSB Operations related to the deposit insurance system by categorizing MSB operations in accordance with each topic in order to improve efficiency of risk analysis and investigation methods.

In the international arena, a member of the executive management of the Corporation held the position of Vice Chair at the Research and Guidance Committee of the International Association of Deposit Insurers (IADI), while a member of the Corporation's staff acted on the IADI's Subcommittee for Information Management and Databases. The Corporation has strengthened its ties with other deposit insurers by seconding its staff to the secretariat of the IADI in 2006 and another member of staff to the Federal Deposit Insurance Corporation in 2008. Domestically, the



Corporation holds a regular meeting (Cheonggye Finance Forum) with securities industry experts, hosts an 'On-going Surveillance Forum' which invites financial market participants to discuss methods of risk surveillance and credit ratings, and has discussion sessions with members of insured financial institution and meetings with MSB industry participants. This reflects the Corporation's commitment to strengthening its capability of risk surveillance and improving the deposit insurance system through networking with financial market experts.

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

### 2-1. Conclusion and Examination of MOUs

The KDIC has strengthened its efforts in the post public fund injection management of financial institutions (including financial holding companies), with the aim of speeding up normalization of their operations. Since 1999, the Corporation has entered into memorandums of understanding (MOUs) with 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. As of end of 2008, six institutions are still subject to MOUs with the KDIC.

During the period from the fourth quarter of 2007 to the third quarter of 2008, the KDIC identified three problems concerning fulfillment of the MOUs and took appropriate measures to resolve them by issuing 5 warnings, 2 orders to improve, 2 orders to correct malpractices, 1 on-site measure, 4 measures related to the executive directors, and 4 requests to impose penalties on the staff of financial institutions.

With regard to financial performance, Woori Bank did not meet 3 MOU targets in the third quarter such as not reaching the required ROA ratio due to an investment loss in structured securities denominated in foreign currency and an increase in the allowance for bad debts. With the increase in profits from securities investment and the appraisal loss of securities available for sale, Seoul Guarantee Insurance Company did not meet 2 MOU targets in the second quarter in areas such as the profit rate on operating assets. Accordingly, the Corporation took measures against the institutions and the relevant executive directors while asking for the submission of action plans to achieve rapid business normalization and to satisfy financial targets.

Measures were also taken against financial institutions for poor MOU implementation in the non-finance area. The Corporation imposed penalties on Woori bank and relevant staff as the bank incurred a massive loss from investment in structured securities denominated in foreign currency. In addition, the Corporation took measures to prevent the bank from making a similar mistake by requesting the monitoring of its internal process of investment and management of structured securities denominated in foreign currency. During the MOU monitoring of Gwangju bank in the

third quarter, the Corporation detected that the bank was involved in inappropriate securities investment so stern measures were taken against the related management and staff and a request for the improvement of the relevant regulations was made.

<Table IV-2> MOU Conclusions/Amendments/Additions

(As of December 31, 2008)

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

1) MOU was signed between the corresponding insured financial institution, the KDIC and the Financial Supervisory Commission (current Financial Services Commission).

2) The KDIC had been the largest shareholder of the merged bank (Seoul and Hana) holding 30.9% of its shares but terminated the MOU on December 1, 2002 in accordance with the decision of the Public Fund Oversight Committee to give autonomous management rights to the bank. The KDIC sold off its equity stakes on April 20, 2004.

3) MOU was signed with Peace Bank

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## 2-2. Improvement in MOU management efficiency

The Corporation operated a management discussion system with executive directors of financial institutions subject to signed MOUs in order to reach consensus about major issues related to MOU management. As a way to support self-reliant management systems and autonomous management, the Corporation continued to provide aid to management through monitoring by external directors, and adopted an MOU management improvement system.

### A. Improvement of MOU Management System

There were 12 discussion sessions between top management of financial institutions subject to signed MOUs and the management of the Corporation in 2008. During these sessions, parties exchanged opinions on market situations and major issues relating to the management of institutions in order to reach consensus on how to increase the corporate value of institutions. This also became a forum for discussing difficulties in the operation of MOUs.

### B. Support of External Director Activities in monitoring Financial Institutions subject to signed MOUs

The Corporation provided external directors with timely and specific information on current issues and poor management areas of financial institutions, and ongoing surveillance reports. The Corporation actively supports activities of external directors to put autonomous management, with emphasis on the board of directors, in place. In addition, regarding the rapid changes in the financial environment, the Corporation also provided the external directors with analytical reports on financial markets to help them take appropriate measures.

### C. Adoption of MOU Management Improvement System

The KDIC worked on an MOU management improvement system during 2007 and modified related regulations by setting ceilings on the MOU targets and started with quarterly off-sight monitoring to alleviate the burden on financial institutions. The Corporation also modified the management normalization plans for 2008. Accordingly, the Corporation monitored financial institutions subject to MOUs using modified targets. For the Woori Financial Group (Woori bank, Gwangju bank and Gyeongnam bank), the Corporation checked MOUs in February, May, August

and November. In particular in May and August, on-sight examination was replaced with off-sight monitoring. With strict monitoring of MOU targets, the Corporation ensured that autonomous management was in place.

## V

## Resolution and Management Supervision of Insolvent Financial Institutions

### 1. Resolution of Insolvent Financial Institutions

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

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

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

##### A. Resolution of Bundang MSB and Hyundai MSB through the Establishment of a Bridge Bank (Yeahanul MSB)

The FSC ordered the suspension of business of Bundang Mutual Savings Bank (Bundang region),

and Hyundai Mutual Savings Bank (Jeonnam region) in February and March 2008, 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.

The KDIC determined that the use of bridge bank scheme is appropriate in accordance with the least cost principle in the Depositor Protection Act. Accordingly, the KDIC transferred assets and liabilities of Bundang and Hyundai MSBs into Yeahanul MSB which was already established so as to minimize the inconvenience to depositors by shortening the period for the suspension of business. Yeahanul MSB is a bridge bank which was established in November 2007 in order to resolve Kyungbuk MSB. It started its operations in December 2007 with the transfer of assets and liabilities from Kyungbuk MSB. Yeahanul MSB is in the middle of sale after putting a notice for sale in August 2008.

#### 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 England 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 acquirer finished the approval and notification procedures of the FSC on the stock transfer on February 25, 2008. The KDIC also gained approval from the Ministry of Finance and Economy (MOFE) for 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 concluded.

<Table v-1> Resolutions of Insolvent Financial Institutions During 2008

(Unit : 100 million won)

Classification	Bundang (Gyeonggi district)	Hyundai (Jeonbuk district)	Jeonbuk
Business Suspension Date (Resolution Completion Date <sup>2)</sup> )	2008.2.21 (2008.5.23)	2008.3.24 (2008.7.11)	2008.12.26 (in the process)
No. of Employees	45	56	60
No. of Business Branches	1	3	2
Total Assets	3,863	1,673	3,594
Total Deposits	5,539	2,277	5,822
Equity Capital	△1,889	△693	△2,432

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



## 2. Management Supervision of Insolvent Financial Institutions

During 2008, the KDIC completed management supervision of MSBs including Bundang, and Hyundai. It is also in the process of conducting management supervision of Jeonbuk MSB. In the year 2008, the KDIC focused on minimizing the inconvenience to depositors of insolvent financial institutions by trying to ease their concerns. In line with this effort, the supervisor took the initiative to distribute brochures containing information on the progress made during each stage, provided information on upcoming schedules, held briefing sessions 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 estates of bankrupt financial institutions on behalf of which the KDIC paid out insurance money, or to which it provided public funds, when this is necessary for the effective recovery of public funds.

Since March 2001, when the Constitutional Court of Korea ruled that the appointment of the Corporation's officers and employees as bankruptcy trustees is constitutional, KDIC trustees have been appointed to the position, either solely or jointly with attorneys. As of December 2008, KDIC trustees are managing 346 estates out of a total of 347 bankruptcy estates as sole or joint trustee of the estate. Therefore, the Corporation's efforts to aggressively pursue a system where its officers and employees can be appointed as trustees for speedier and more efficient bankruptcy proceedings have indeed proven successful. This was also evident when KDIC trustees were appointed as sole trustees in all three estates that were declared bankrupt during 2008. In the meantime, for the one bankruptcy estate in the Jeon-Ju area where a KDIC employee was previously conjointly appointed as a trustee with an attorney, the KDIC employee

has become the sole trustee of the estate in 2008. This was achieved through discussions with courts of the relative district, and enabled the KDIC to establish a unified bankruptcy estates management system.

<Table VI-1> Appointed Bankruptcy Trustees

Classification	Total No. of Bankruptcy Estates	Trustees		
		KDIC	Attorneys	Joint Appointment <sup>2)</sup>
No. of Bankruptcy Estates	347 <sup>1)</sup>	339	1	7

1) Excludes 121 legally closed estates, 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

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

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 in terms of which a trustee is transferred to another region or to headquarters after serving in one region for a certain period of time.

Furthermore, the KDIC established an organic network between the KDIC and its bankruptcy estates by holding workshops for bankruptcy trustees, informal gatherings for regional bankruptcy trustees, and informal learning groups (called 'Communities of Practice'). The work efficiency of bankruptcy trustees was further improved thanks to the issue of a 'Manual for

Bankruptcy Estate Tasks.’ All these factors contributed to laying a foundation to foster a professional trustee capable of effectively managing bankruptcy estates.

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

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

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

### D. Management of 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 and continued its operations in this year. The Bankruptcy Estate Management Council is chaired by the Senior Managing Director in charge of liquidation affairs and has the heads of the departments responsible for bankruptcy estates as members. Since 2008, the Council, which used to be chaired by the Senior Managing Director, is now chaired by the Executive Vice President. Accordingly, the matters discussed at Council level are now more likely to be followed through on.

In 2008, the Bankruptcy Estate Management Council prepared ‘Standards to Appoint Attorney for Bankruptcy Estates’, ‘Management of Bankruptcy Estates Workforce’, and ‘Improvement of Fund Operations held by Bankruptcy Estates’ to discuss the basic direction of operations related to bankruptcy estates. The of bankruptcy estates operations such as the introduction of regional supervisors, improvement in management of the trustee workforce, and other matters requiring attention were also discussed.

## 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 how to settle the matter. If re-deliberation confirms the rejection, the relative KDIC personnel make a phone call to the petitioner to explain the reasons for rejection of the petition. The Corporation installed a designated line for the exclusive purpose of dealing with civil petitions. The responsible employees either deal with the petitions telephonically or meet with the petitioner in person.

<Table VI-2> Civil Petitions

(Jan. 1, 2008 ~ Dec. 31, 2008)

Classification	Denial of Indebtedness	Loan Management	Preservation	Debt Rescheduling	Others	Total
No. of Petitions	4	8	4	10	3	29
Weight(%)	14	28	14	34	10	100

## VI

Management of  
Bankruptcy  
Estates and  
Asset Holdings

&lt;Table VI-3&gt; Results of Civil Petitions

(Jan. 1, 2008 ~ Dec. 31, 2008)

Classification	Acceptance	Suggest Alternatives <sup>1)</sup>	Denial	Total
No. of Petitions	9	11	9	29
Weight(%)	31	38	31	100

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

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

To promote the efficiency of management bankruptcy claims and the payment of dividends, the KDIC started establishing a 'System to Manage Bankruptcy Claims and Payment of Dividends' in May 2007, and finally completed it in November 2008. By utilizing this system, the KDIC successfully shortened the time that it takes to approve dividends. Also, to promote the rights and interests of bankruptcy creditors, the 'Uncollected Dividend Notification System' was linked to the KDIC website. This enables individual creditors to directly enquire on the KDIC website about the amount of bankruptcy credits per individual and the process of dividend payment.

## 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 2008, recovered approximately 1.9 billion won more than the amount originally requested. This was done by investigating properties of debtors, performing in-depth corporate analysis, and by promoting the adequacy of debt rescheduling by the Debt Rescheduling Deliberation Council.

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

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

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

During 2008, the KDIC endeavored to increase the efficiency, transparency, and fairness of sales of real estate held by the bankruptcy estates. Accordingly, the KDIC pursued joint sales of such properties and tried to attract public interest by providing information on real estate held by bankruptcy estates via its website ([www.kdic.or.kr](http://www.kdic.or.kr)). As a result, the KDIC recovered 16.6 billion won from nine joint sales of twenty 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 KDIC encouraged the bankruptcy estates to conjointly appoint a sales advisor to take active charge of the sales of non-listed shares through public bidding. As a result, it successfully disposed of 1.1 billion worth of shares in four companies.

The KDIC also actively pursued the disposal of assets other than real estate and non-listed shares such as golf and condominium memberships, and listed shares. As a result, it disposed of listed shares in six companies (realizing 5.2 billion won), and six golf and condominium memberships (realizing 0.4 billion won).

### 1-3. Early Closure of Bankruptcy Proceedings

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

For the bankruptcy estates which are subject to litigation in the form of bankruptcy claims, fulfillment of obligation, and damage claims, the KDIC performs a 'de facto closure' of bankruptcy proceedings. For these estates, it pays out interim dividends through disposition of all assets excluding those assets subject to legal proceedings. Starting from the later half of 2008, to induce the early closure of bankruptcy estates, the KDIC categorized the bankruptcy estates according to the progress made in each estate's bankruptcy proceedings as 'estates involved in intensive management of assets,' 'estates involved in intensive management of litigations', and 'estates getting prepared for closure.' The KDIC also combines the bankruptcy estates in de facto closure so that the bankruptcy trustee of the combined estates takes exclusive charge of unsettled affairs such as document safekeeping and taking legal action to minimize the maintenance cost of the estate. After legal proceedings have been concluded, and any assets remain, the KDIC trustees will do a final distribution of dividends to complete bankruptcy proceedings.

Due to the above efforts to ensure the early closure of bankruptcy estates, among a total of 468 bankruptcy estates, 121 estates were declared closed by the court, 317 estates are ready to be closed once ongoing litigation is concluded, and the Corporation plans to proceed with early closure of the remaining 30 estates.

These efforts contributed to the early recovery of 2.64 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, 2008)

Classification		Banks	Insurance Companies	Securities Companies	Merchant Banks	MSBs	Credit Unions	Total
Total No. of Bankruptcy Estates (A)		5	10	4	22	88	339	468
Closed Estates (B)	Completion of Legal Formality (B)	-	1	1	-	-	119	121
	De Facto Completion <sup>1)</sup> (C)	5	9	2	20	75	206	317
	Subtotal	5	10	3	20	75	325	438
Remaining Estates	A-B	5	9	3	22	88	220	347
	A-B-C	-	-	1	2	13	14	30

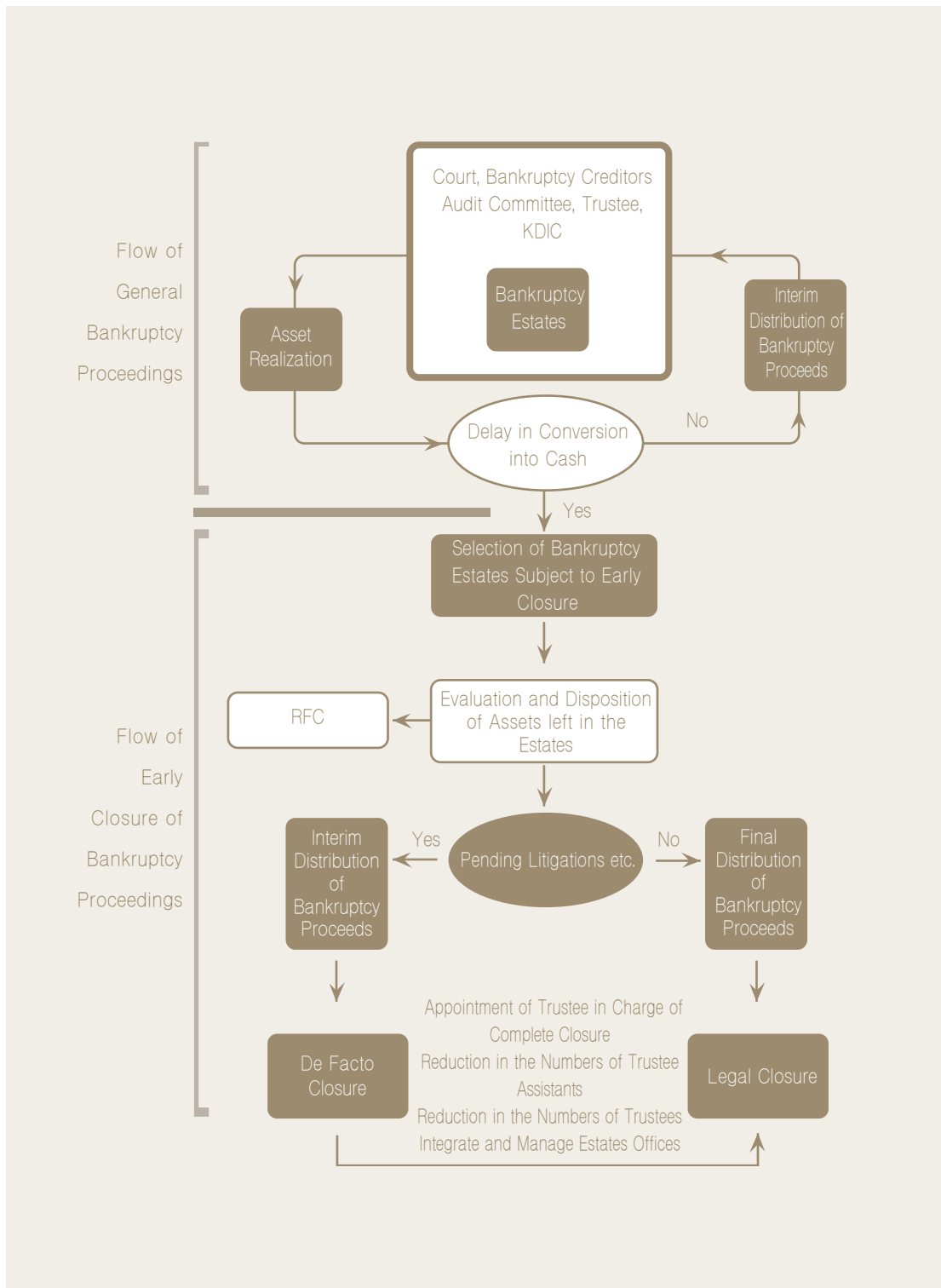
1) Bankruptcy estates that are ready to be closed when the pending litigation, claims for damages, and bankruptcy claims are cleared.

<Table VI-5> Recoveries through Early Closure of Bankruptcy Proceedings

(As of December 31, 2008, unit: million won)

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)	2008 (No. of estates)	
Banks	5	-	-	10,661 (1)	56,474 (4)	17,626 (-)	-	-	75,985 (-)	160,745
Insurance Companies	10	-	8,899 (2)	31,691 (3)	9,334 (1)	12,967 (2)	13,413 (1)	5,997 (-)	32,073 (1)	114,375
Securities Companies	3	-	-	519 (2)	-	27 (1)	-	-	14 (-)	560
Merchant Banks	20	-	-	23,414 (1)	524,303 (13)	260,025 (4)	189,630 (2)	266,973 (-)	101,539 (-)	1,365,883
Mutual Savings Banks	75	-	51,909 (19)	98,308 (26)	49,258 (10)	50,666 (8)	41,403 (9)	121,160 (1)	165,487 (2)	578,191
Credit Unions	325	7,297 (16)	25,318 (52)	51,670 (63)	72,587 (68)	91,692 (63)	84,871 (55)	38,949 (7)	49,437 (1)	421,820
<b>Total</b>	<b>438</b>	<b>7,297 (16)</b>	<b>86,126 (73)</b>	<b>216,263 (96)</b>	<b>711,956 (96)</b>	<b>433,003 (78)</b>	<b>329,316 (67)</b>	<b>433,079 (8)</b>	<b>424,535 (4)</b>	<b>2,641,574</b>

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



## 2. Management of Asset Holdings

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

The Corporation has operated the Fund Asset Status Tracking System, also known as 'FASTs', since its establishment in 2006. This system manages the funds held by the Corporation and assets held by bankruptcy estates and Resolution & Finance Corporation. The system is expected to promote the efficiency of asset management by facilitating easy inquiry of assets held by bankruptcy estates, easy production of reports such as asset evaluation and monthly reports, and ongoing & systemic management of bankruptcy estates.

### 2-2. Acquisition of Assets

By year-end 2008, 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 the Finance Corporation (HMSF), and 0.3 trillion won by MSBs.

In December 1999, the RFC was established to acquire the assets that had remained after the disposal of Korea First Bank (KFB), KFB's put back options and other assets that had not been assumed by any acquirers in the process of the financial restructuring of failed banks. At the end of December 2008, through borrowings from the DIF Bond Redemption Fund of the KDIC, the RFC had acquired assets worth 10.26 trillion won in total. This included 7.85 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), 283.8 billion won from nine failed MSBs (Hanmaum, Hanjung, Arim, Good Friend, Daewoon, Hongik, Kyungbook, Hyundai, and Bundang), 316.9 billion won from 421 bankruptcy estates, and 1.29 trillion won from the sale of securities companies (Korea, Daehan, and Hyundai).

<Table VI-6> Asset Acquisition by Resolution Financial Institutions in 2008

(Jan. 2008 ~ Dec. 2008, unit: million won)

Classification		Amount of Claims	Purchase Price	Notes
RFC	Bankruptcy Estates	4,141	203	Additional acquirement
	MSBs	1,863	343	Hyundai, Bundang

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

(As of December 31, 2008, unit: million won)

Classification		Amount 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	22,451	12,883	3 securities companies (18.8bn won of securities in exchange for payment in substitute of Evergreen ABS)
	Bankruptcy Estates	54,703	3,169	421 bankruptcy estates (5 banks, 9 insurance companies, 2 securities companies, 20 merchant banks, 72 mutual savings and finance corporations, 313 credit unions)
	MSBs	10,442	2,838	9 MSBs
	Subtotal	190,268	102,577	-
Hanareum Merchant Bank	Merchant Banks	110,225	106,262	16 merchant banks
Hanareum MSFC	MSBs	34,831	13,467	41 MSBs
<b>Total</b>		<b>335,324</b>	<b>222,306</b>	-

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

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

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

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

The corporation recovered additional funds by receiving dividends of 145.1 billion won from contributions made to fund the resolution of NPLs, 11.7 billion won from the partial redemption of Daewoo Engineering & Construction Co., Ltd.'s escrow fund, 11.2 billion won from Daewoo Motor Company's 2<sup>nd</sup> liquidation dividend payout, 5 billion won from exercising the appraisal right in Donghae Pulp Co., Ltd., 0.7 billion won by disposing of Locell, 0.4 billion won by disposing of shares in 'Soopro' which is an unlisted company, and 27.2 billion won received in dividends paid out to the shareholders of Korea Electric Power Corporation.

Also, the RFC commissioned an external professional entity to sell real estate by public auction, recovering 641.8 billion won up to the end of 2008. 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

(As of December 31, 2008, unit: million won)

Disposition Project	Date	Sale Amount	Purchaser	Advisor
Shares in Korea First Bank New York Branch1 (M&A)	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	-
Shares of Ileun securities (M&A)	Nov. 15, 2000	1,195	Regent Group	KDB,KPMG
Sales proceeds from Korea First Bank Vietnam Branch (M&A) <sup>1)</sup>	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	five companies including GE Capitals, etc.	Samjong KPMG
Transfer loans to KAMCO	Jun. 14, 2002	7,137	KAMCO	Samil Accounting
Bulk sale of KT&G 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. 9, 2003	442	Morgan Stanley	Samjong KPMG, Bae, Kim & Lee
Sale of ShinDongBang securities	Mar. 25, 2004	75	CJ Consortium	Samil Accounting
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	Seven Corporations including Merrill Lynch
Sale of debt equity swap securities of Daewoo Engineering & Construction	Dec. 15, 2006	1,668	Kumho Asiana Consortium	Citi Global & Samsung Securities
Acquisition and Sale of debt equity swap securities of Doosan Infracore	Oct. 11, 2007	1,459		Daewoo Securities, Goldman Sachs

1) Assets disposed directly by the KDIC

## VII

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

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

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

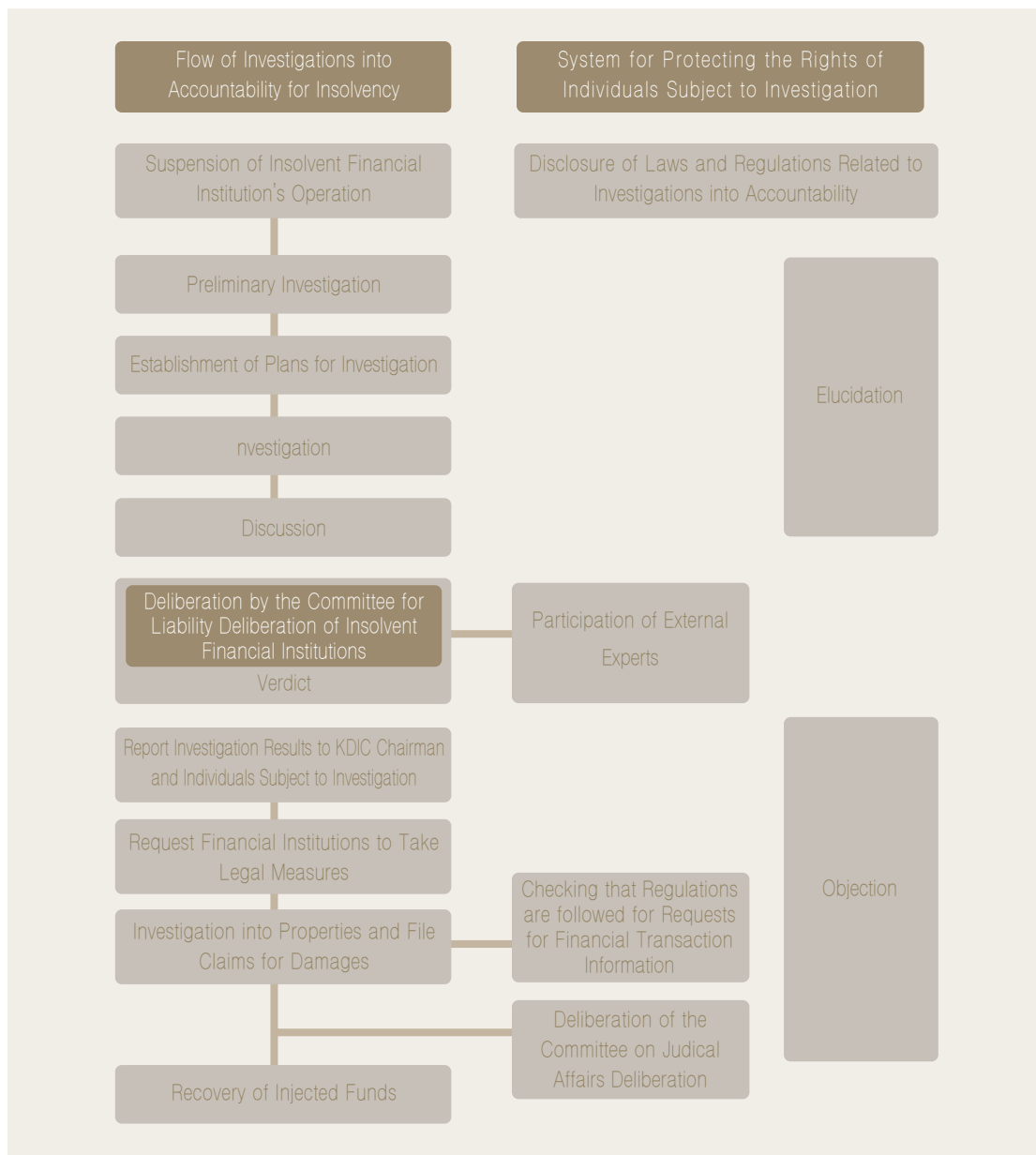
\* Former or current management or employees of insolvent financial institutions, orderer of executions (pursuant to the Commercial Law), debtors of insolvent financial institutions, and other third parties.

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

However, recently the possibility of illegal actions being perpetrated by collaboration between the insolvent financial institutions and default debtors has increased and the need for organically linked investigations have therefore gained importance. For this reason, the Insolvency Investigation Division, a combination of the former Investigation Department and former Special Investigation Mission of Default Debtor Companies, was established in March 2008. The combination of these two departments into one slimmed down the organization and promoted the efficiency of the organically linked investigation into insolvency.

In order to lay a foundation to deliberate on matters according to one unified standard, the KDIC combined the former ‘Insolvent Financial Institution Accountability Deliberation Committee’ and former ‘Default Debtor Companies Accountability Deliberation Committee.’ Instead of operating two separate committees, the KDIC now operates one committee: ‘The Financial Insolvency Accountability Deliberation Committee.’

<Figure VII-1> Flow of Investigations into Accountability for Insolvency & System for Protecting Rights of Liable Parties





## 2. Investigations into Insolvent Financial Institutions

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

The KDIC performs investigations into insolvent financial institutions to determine the accountability of management, employees and major shareholders (major shareholders who instruct another person to act in a way contrary to the relevant regulations as provided for by the Commercial Act Article 401-2) for the insolvencies. Accordingly, the KDIC performed investigations into a total of 497 financial institutions including fifteen banks, six securities companies, eighteen insurance companies, twenty-two merchant banks, ninety-seven mutual savings banks, and three hundred and thirty-nine credit unions as of the year-end of 2008.

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

As a result of insolvency accountability deliberation, the KDIC confirmed that 5,919 persons from 497 companies are liable for 17.22 trillion won in damages, and requested the insolvent financial institutions to initiate damage claim proceedings against them.

<Table VII-1> Investigations into Insolvent Financial Institutions

(As of December 31, 2008)

Classification	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions	Total
Institutions Investigated	15	6	18	22	97	339	497
Persons Implicated for Insolvencies	191	65	236	159	939	4,329	5,919
Amount of Loss Incurred (100 mil. won )	14,080	33,266	30,444	55,977	28,651	9,828	172,246

## VII

Holding Persons  
Accountable  
for the  
Insolvency  
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## 2-2. Damage Claim Proceedings against Parties Implicated in Insolvency

As of end 2008, insolvent financial institutions filed 1,429 damage claim proceedings for 1.89 trillion won.

<Table VII-2> Filed Lawsuits that are Related to Insolvent Financial Institutions

(As of December 31, 2008)

Classification	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions	Total
No. of Institutions Accused	15	6	18	22	94	325	480
No. of Persons accused	191	83	268	181	1,170	7,592	9,485
No. of Claims	93	31	82	35	334	854	1,429
Amount (100 mil. won )	1,004	330	2,423	3,043	5,954	6,132	18,886

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 to take measures to preserve creditor rights. As part of these efforts, in order to assist litigation related tasks in both an efficient and effective manner, the KDIC has operated a 'Litigation Support Team' composed of legal experts, including lawyers, to enable logical and systematic pleading and submission of evidence, since the latter half of 2003. Starting from 2005, as part of the litigation management improvement plans, the KDIC has adopted and operated a system of appointing legal council per region to deal with all cases within that region, and thus enhanced the success rate achieved on damage claims.

## 2-3. Legal Measures Taken against Parties Implicated in Insolvency and Results of Recovery

In the event that the KDIC wins the damage claims suits filed against the parties implicated in an insolvency, the KDIC conducts thorough investigation into the the properties of those parties in order to maximize the recovery of assets. In 2008, after the respective investigations, the KDIC took measures such as the provisional seizure of 1.20 trillion won in 3,810 cases and the

provisional disposal of properties in 298 cases. As a consequence, a total of 215 billion won had been recovered through various measures such as compulsory execution by the end of December 2008.

<Table VII-3> Legal Measures Taken Regarding Insolvent Financial Institutions  
and Recovered Amount

(As of December 31, 2008)

Classification	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions	Total
No. of Provisional Seizures	37	12	98	148	1,069	2,446	<b>3,810</b>
Amount of Provisional Seizures (100 mil. won )	76	59	1,125	1,136	5,862	3,787	<b>12,045</b>
No. of Provisional Dispositions	10	1	2	45	96	144	<b>298</b>
Recovered Amount (100 mil. won )	102	54	161	194	863	776	<b>2,150</b>

## VII

Holding Persons  
Accountable  
for the  
Insolvency  
of a Failed  
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### 3. Investigations into Default Debtor Corporations

#### 3-1. Investigations into Default Debtor Corporations

By the end of 2006, the KDIC's former Special Investigation Mission for Default Debtor Corporations had completed its investigations into 13,098 insolvent default debtor corporations that failed to pay their debts to insolvent public fund-injected financial institutions. Since 2007, the KDIC has expanded its investigations to include investigations into default debtor corporations that failed to pay their debts to financial institutions that have received injections from deposit insurance funds. The KDIC buckled down by starting off with conducting preliminary investigative research into 1,550 default debtor companies during the first half of 2007. These 1,550 default debtor companies failed to pay their debts to thirteen MSBs which received deposit insurance funds.

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

After deliberating on the investigation results, the Financial Insolvency Accountability Deliberation Committee confirmed insolvency accountability amounting to 14.39 trillion won, by 165 companies and 814 persons as of the end of 2008, and requested the insolvent financial institutions to initiate damage claim proceedings against these parties.

<Table VII-4> Investigations into Default Debtor Companies

(As of December 31, 2008)

No. of Corporations Subject to On-site Investigations	Liable Parties		
	No. of Corporations	No. of Liable Parties	Amount of Loss Incurred (100 mil. won)
776	165	814	143,880

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

Per the KDIC's request, Insolvent financial institutions filed 187 damage claim proceedings worth 980 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 inspects the status of lawsuits filed by insolvent financial institutions on a regular basis, and provides consulting services on the lawsuits and preservations of creditors' claims by having meetings with staff of insolvent financial institutions who are in charge of the lawsuits, if needed.

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

<Table VII-5> Filed Lawsuits that are Related to Default Debtor Companies

(As of December 31, 2008)

No. of Corporations	No. of Defendants	No. of Claims	Amount Claimed (100 mil. won)
148	1,180	187	9,800

## 2-3. Legal Measures against Parties Implicated in Insolvency and Results of Recovery

The KDIC conducts thorough investigation into the properties of parties implicated in the insolvency in order to maximize the recovery of assets in case the KDIC wins the damage claim suits filed against the parties implicated in the insolvency. As of 2008, after conducting investigations, the KDIC took measures such as the provisional seizure of 809.5 billion won in

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1,104 cases and the provisional disposal of properties in 244 cases. As a consequence, a total of 231.5 billion won (including 126.7 billion won recovered by encouraging voluntary repayment) had been recovered by the end of December 2008.

<Table VII-6> Legal Measures Taken against Persons Implicated in Insolvency  
and Recovery Amount

(As of December 31, 2008)

Provisional Seizure		Provisional Disposition	Recovered Amount (100 mil. won)
No. of Cases	Amount Claimed (100 mil. won)	No. of Cases	
1,104	8,095	244	2,315

## 4. Investigations into Assets of Parties implicated in Insolvency

### 4-1. Investigation into Assets Located Domestically

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

By newly enabling the ‘Right to request Financial Transaction Information from the Head of Financial Institutions’ through the revision of the DPA in March 2006, the KDIC receives information on financial properties held by insolvency implicated parties from financial institutions and takes legal measures against them, 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 government and financial institutions.

As of December 2008, the Corporation performed investigations into properties held by 917,247 insolvency implicated persons from 497 failed financial institutions. The KDIC also conducted in-depth investigations into those who are ultimately responsible in terms of the final judgment, those guilty of embezzlement, misappropriation of assets, and those whose extinctive prescription for remaining claims are near completion. As a result, the Corporation has conducted special investigations into properties held by 2,348 insolvency implicated persons including real estate and into their deceptive acts up to the end of December 2008. 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 2008, several legal measures were taken including 71,633 cases of provisional seizure worth 9.63 trillion won and 1,954 cases of provisional disposition and a total of 564.7 billion won was thus recovered.

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<Table VII-7> General & Special Investigations into Implicated Parties' Properties

(As of December 31, 2008)

Classification	No. of Persons Investigated	Provisional Seizure		No. of Provisional Disposition	Recovered Amount (100 mil. won)
		No. of Cases	Amount (100 mil. won)		
Implicated Parties	917,247	71,633	96,347	1,954	5,647

\* The numbers above include the investigations into default debtors' assets performed by the RFC.

By exercising its right to request financial transaction information from the head of financial institutions, a right which was established in March 2006, the KDIC conducted investigations into 52,942 persons implicated in the insolvencies of approximately 4,600 financial institutions by the end of December 2008. Based on these investigations, the KDIC discovered 108.8 billion won worth of financial assets belonging to the implicated persons and took legal recovery measures such as provisional seizure, etc. and thus recovered 23.8 billion won.

<Table VII-8> Investigations Performed via Inquiry of Financial Transaction Information

(As of December 31, 2008)

No. of Persons Investigated		Legal Measures (Such as Provisional Seizure)	Recovered Amount
		Amount (100 mil. won)	Amount (100 mil. won)
Implicated Parties	52,942	1,088	238

## 4-2. Investigation into Assets Located Overseas

In order to facilitate investigations into overseas located assets of insolvency implicated persons, the KDIC prepared 'Plans to Strengthen Investigations into Overseas-located Assets' and organized a task force team to recover the concealed overseas properties of parties implicated in insolvency.

Since 2007, KDIC launched outsourced investigation by commissioning professional firms which specialize in investigations into hidden overseas assets. As of December 2008, investigations were conducted into the hidden overseas assets of approximately 900 culpable persons.



Through these investigations, the Corporation discovered concealed properties of three implicated persons and properties of bankruptcy estates reverted to State of California. By seizing the properties, it recovered 3.05 million US dollars. For those who were found to have concealed properties, the KDIC has either already filed local court proceedings against them or is in the process of doing so.

In August 2007, the KDIC launched the 'Investigation and Recovery System for Hidden Overseas Assets' for systematic and efficient investigation into assets located overseas. By adopting this system, the KDIC's executive rights to conduct investigations have also become effective overseas, and the basis and directions for the recovery process were firmly set. By performing investigations and research, the KDIC attempted to fundamentally mitigate the obstacles in recovering concealed overseas properties such as problems arising from the legal and systemic differences between countries and difficulties in accessing the information.

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

To promote the effectiveness in holding parties who are liable for the insolvency of financial institutions in which public funds were injected accountable and facilitate the recovery of injected public funds, the KDIC opened the Concealed Property Report Center in May 2002. In order to improve accessibility to and timely response of the report center, the Corporation launched and has operated a toll free number for persons reporting the hidden overseas assets. In July 2008, the Corporation prepared improvement plans for the Concealed Property Report Center and adopted a real-time notification service and automatic notification function. The person reporting a concealed property now has a one stop service providing up to date reports on the progress of their case, from the time that they report the property until the payment of their reward for providing the information.

Moreover, in October 2008, the Corporation prepared an 'Analysis of Results of its Activities Related to Public Relations Concerning the Concealed Property Report Center and Plans to Strengthen such Publicizing Activities'. This report details the properties reported to the Center and the Corporation's efforts in publicizing the Center to the public. Based on this, the Corporation produced a poster of and an information booklet about the Center. By distributing them to bankruptcy estates located in each region, Korean-American communities located in the

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United States, the Consulate General of the Republic of Korea in Los Angeles, and at the same time publicizing them by various means to press centers including the radio stations and Korean American organizations, the Corporation actively promoted the reporting of concealed properties located overseas.

## VIII

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

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

#### 1-1. Amendment of the Depositor Protection Act (September 26, 2008 and February 3, 2009)

##### A. Objective

Unless the KDIC reformulates the clause regarding the upper ceiling of the deposit insurance premium rate by August 31, 2008, the insurance premium upper ceiling rate will automatically become the rate decided upon in September 1998. However, considering that adopting the previous rate now when financial policy and the market environment have significantly changed might thwart the Corporation's efforts to protect depositors and to maintain the stability of financial systems, a need to extend the legal deadline of the clause developed.

In the meantime, as a means to complement the Target Fund System which is to be adopted with effect from 2009, lay a basis for adopting the Risk-based Premium System, and promote quick recovery of accounts with deficits, the KDIC prepared a basis to defer or exempt interest arising from borrowings between accounts. Also, taking into account the possibility that financial institutions might become insolvent in future due to the financial crisis and an increase in size of personal financial assets which resulted from the increased variety of financial products available, a need developed to manage the funds in a sound manner and recover the injected funds

efficiently. As such, the KDIC promoted the extension of the legal deadline, which would have expired in March 2009, of the Right to Request Financial Transaction Information from the Head of Financial Institutions.

## B. Major Contents

### (1) Deferring the Legal Effective Date to Adopt the Insurance Premium Upper Ceiling Rate

The effective date for the adoption of the upper ceiling of the insurance premium rate (0.5%) was deferred another 3 years from August 31, 2008 to August 31, 2011.

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

The Corporation changed the applicable provisions related to the enforcement of a Risk-based Premium System to compulsory provisions, and ruled that the Risk-based Premium System is to come into effect within five years. Also, a new provision was established so that an insured financial institution can raise objections regarding the risk-based premium rates to be imposed. At the same time, to prevent market disorder when the different premium rates imposed on each insured financial institution are publicly disclosed, the Corporation established a confidentiality provision.

### (3) Complementing the Enforcement of the Already Adopted Target Fund System

In accordance with a new amendment the insurance companies account was separated into non-life insurance company and life insurance company accounts. Also, when it is determined that the number of insured financial institutions is too few to make it possible to apply the target fund approach, the requirement can be waived by Presidential decree.

### (4) Preparing the Basis to Reduce or Exempt Interest Arising when Borrowing Between Accounts

In order to promote quick recovery of a Mutual Savings Banks account that shows a continuous

deficit due to fund loss, a new amendment was added that the payment of interests arising from borrowing between accounts may be deferred or exempted. The time and conditions to having interest deferred or exempted is clearly specified.

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

The right to request financial transaction information from the head of financial institutions, which was to expire on March 23, 2009, was extended another two years until March 23, 2011. To prevent the right from being abused, a new provision was inserted to allow legal measures against persons who use the right for purposes other than intended.

### 2-1. Amendment of the Enforcement Decree of the Depositor Protection Act (November 26, 2008)

#### A. Objective

Thus far, the foreign currency deposits in banks were excluded from coverage. However, as other financial products such as won-denominated deposits in banks and foreign currency denominated products sold at other financial institutions were included in the coverage, foreign currency denominated deposits in banks have now been included in the protection to promote fairness.

#### B. Major Contents

From November 2008, foreign currency denominated deposits are protected up to an amount of 50 million won.

## 2. Deposit Insurance System Research Activities

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 2008, the research was focused on the deposit insurance systems of major countries such as the United States and The United Kingdom which had been reformed to cope with the global crisis, on financial systems, and rescue plans to overcome the financial crisis. The results of the research were used as a basis to formulate relevant deposit insurance policy that is appropriate in an ever-changing domestic and global financial environment.

The KDIC conducted research aiming at the establishment of an integrated deposit insurance system by studying relevant examples, and the protection policies available to depositors, investors, and insurance contract stakeholders in other countries. In addition, the Corporation researched various ways to improve the existing deposit insurance system by assisting outsourced researchers on research into systemic risk and protection of investors in the capital market, resolution of insolvent financial institutions and so on.

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

&lt;Table VIII-1&gt; Major Research Activities of the KDIC in 2008

Subject	Title
Global Financial Crisis and Countermeasures Taken by Major Countries	Global financial crisis and policy responses of major countries
	The blueprint of U.S. Department of Treasury's modification of financial regulation system
	EESA(Emergency Economic Stabilization Act of 2008) in U.S.
	FRB's TALF program
	FDIC's TLGP
	FDIC's plan for recovering fund reserve ratio
	Rescue program for Fannie Mae and Freddie Mac from U.S. Department of Treasury and FRB
	Restructuring plan of financial system in U.K.
	EU's recent expansion of deposit protection limit and implication
	Legal basis of capital expansion for normally operated financial institutions in U.S. and U.K.
	Resolution of insolvent Iceland banks operated in U.K.
	Reviewing the plan to introduce Covered Bonds to Korea
	Trend of deposit insurance in abroad
Systems of Major Countries to Protect Depositors, Investors, and Policyholder	Systems to protect depositors, investors and policyholder in U.S., U.K., Japan, and Taiwan
	Analysis of relationships between the increase of bank's corporate loans and deposit insurance
	Operation of integrated deposit insurance system in major countries

### 3. Cooperation and Exchange with International Organizations

In the year 2008, 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 Annual Meeting and International Conference held in March 2008, the KDIC made presentations about the Korean case of ‘Supervision and Management of Small banks from the viewpoint of Asian Deposit Insurers’, and the ‘Depositor Protection Act.’ At the IADI Europe and Eurasia Regional Committee meeting held in May, the KDIC delivered a presentation titled “Funding of Deposit Insurance Systems” to introduce the Korean case of adopting the Target Fund System.

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 and September, it participated in the IADI Executive Training Program hosted by the Federal Deposit Insurance Corporation (FDIC) and Central Deposit Insurance Corporation (CDIC) for executives of deposit insurers across the globe and presented KDIC’s resolution procedure for failed financial institutions through the establishment of bridge banks 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 Training and Conference Committee (TCC) and the Information Management and Database (IMBD). In fulfilling these roles, the KDIC played a pivotal role in publishing research and guidance papers on deposit insurance.

Meanwhile, in May 2008, the Corporation renewed the Memorandum of Understanding (MOU) with the CDIC on information sharing and mutual cooperation. It also strengthened relationships with deposit insurers of other countries such as the Philippines, Spain, and Russian Federation by promoting exchanges.

As a means of continuously assisting the government in its efforts to establish Korea as a financial hub, the KDIC introduced the Depositor Protection Act and shared know-how on the legislation



with the employees of the Deposit Insurance of Vietnam (DIV) who visited the KDIC in April 2008. In August, we presented the process followed in the adoption of the Target Fund System and Risk Based Premium System, and introduced case studies of bank resolutions to visitors from the Deposit Insurance Corporation of Japan (DICJ). We also shared KDIC's advanced systems such as the management consulting system we provide to mutual savings banks with visitors from the Philippines Deposit Insurance Corporation (PDIC).

## IX

# Account Settlement Results of 2008

### 1. Overview of Account Settlement

The KDIC has classified its funds into three accounting units: the Deposit Insurance Fund (DIF), the Deposit Insurance Fund (DIF) Bond Redemption Fund, and the KDIC Internal Account. The DIF and the DIF Bond Redemption Fund are each classified into Seven different financial sector 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 2008, the audit was conducted by Daejoo Accounting Corporation, 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, accounting rules for public corporations and quasi-government institutions as well as the KDIC's internal accounting standards.

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

#### A. Classification and Valuation 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 securities.

##### (2) Valuation of AFS Securities

For AFS securities, the fair value is taken as the balance sheet value. However, in cases where securities are not marketable, and at the same time, the value cannot be estimated fairly, their acquisition cost is deemed to be the fair value. Lastly, for debt securities without a market value, the value is replaced by the value of the future cash flow discounted by the rate as obtained from a reliable and independent credit rating agency. Unrealized gains/losses on the AFS securities are recorded as gains/losses on valuation of AFS securities, and are included in accumulated other comprehensive income. Furthermore, if a decline in the fair market value is not expected to be recovered, the difference between the book value and the fair 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 on the AFS securities.

### (3) Valuation of Equity Method Securities

The value of the equity method securities as per the balance sheet is determined by using the equity method. Yet, this excludes securities acquired in the process of financially supporting insolvent financial institutions. Initially, equity method securities are valued at their acquisition cost, and then changes in their values after the acquisition are directly added to or deducted from the acquisition cost. If the changes originated from net gains/losses of the company in which the investments are held, the pertinent gains/losses are reflected in net income/loss by recording them as gain/loss on valuation using the equity method. If the amount 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 accumulative other comprehensive income under the capital change account.

### B. Valuation of Loans, etc.

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

### C. Valuation 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 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 records the difference between the issuing price and the face value of bonds as a bond premium/discount, whichever is applicable. 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. Valuation of Derivatives

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

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

The DIF and the DIF Bond Redemption Fund cover the costs to acquire operating assets and the operating expenses of the KDIC.

## 2-2. Accounting for Revenues and Expenses

### A. Accounting for Revenues and Expenses

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. Accrual of Revenues and Expenses

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

- (1) (Deferral of Expense) If expenses referring to the following term were prepaid, it was reflected as prepaid expenses and deducted from the current expenses.
- (2) (Recording of Expense) An expense belonging to the current term but remaining unpaid as of the date of account settlement was recorded as an unpaid expense and added to expenses. An expense of which the amount had not been fixed as of 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, 2008, the total assets of the Fund increased to 5.11 trillion won, which represents a 924.9 billion won (22.1%) increase on the previous year. Operating assets (3.95 trillion won) such as deposits increased by 874.9 billion won compared to that of last year. Contributed assets (143.9 billion won) such as loans decreased by 30.9 billion won as the Corporation collected the loans made to the Finance and Resolution Corporation, and disposed of its stake in Yeahreum Mutual Savings Bank, which was founded with the KDIC's contribution. Indemnity receivables (2.57 trillion won), which are achieved when the KDIC pays insurance claims and contributions to insolvent MSBs, increased by 395.7 billion won. However, the net indemnity receivables, after deducting an allowance for bad debts, increased by only 36 billion won. The total assets per financial sector were 3.42 trillion won for banks, 227 billion won for securities companies, 2.51 trillion won for life-insurance companies, 530 billion won for non-life insurance companies, 18 billion won for merchant banks, 769.2 billion won for MSBs and 19.5 billion won for credit unions.

The total liabilities stood at 243 billion won, which represents a 68.6 billion won (22.0%) decrease on the year before. Even though the amount to be reserved for the payments in case of bankruptcies increased by 168.3 billion won, the short-term borrowings decreased by 236.4 billion won as the KDIC paid back external borrowings from the MSB account. This attributed to the decrease in total liabilities. The total liabilities of the MSB account was 2.56 billion won (including the borrowings between accounts), and that of the credit union account was 74.8 billion. The amounts of total liabilities of other financial sectors were insignificant.

The total equity was 4.86 trillion won, an increase of 993.5 billion won (25.7%) over last year. The increase can be attributed to an increase in retained earnings resulting from realizing net profits worth 927.5 billion won. The total equity per sector was 3.42 trillion won for banks, 2.27 billion won for the securities companies, 2.51 trillion won for the life insurance companies, 530 billion won for the non-life insurance companies, 18 billion won for merchant banks, -1.79 trillion won for MSBs, and -55.3 trillion won for credit unions.

## B. Profit and Loss

The net operating income of 2008 came to 927.5 billion won, representing a 293.0 billion won (46.2%) increase on the previous year. This is mainly due to the increase in operating income (1.34 trillion won) in an amount of 104.6 billion won, and partly due to the decrease in non-operating loss (409.5 billion won) in an amount of 188.3 billion won as a result of the decrease in the provision for bad debts. The net income per sector was 617.3 billion won for banks, 46.2 billion won for securities companies, 507.8 billion won for the life insurance companies, 118.5 billion won for the non-life insurance companies, 2.8 billion won for the merchant banks, -364.8 billion won for the MSBs, and -0.3 billion won for the credit unions.

Operating revenues and expenses were 1.41 trillion won and 73.3 billion won, respectively, realizing a 1.34 trillion won operating income. Operating revenues are composed of 1.19 trillion won (84%) in insurance premiums received and 207.3 billion won (15%) in interest income earned from fund management. Operating expenses are composed of 59.2 billion won (81%) in expenses to run the Corporation and 14.1 billion won (19%) in expenses spent on fund management.

In the meantime, non-operating revenues and non-operating expenses came to 226.2 billion won and 635.7 billion won, respectively, realizing a net non-operating loss of 409.5 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 11.33 trillion won, a 10.30 trillion won (47.6%) decrease from the previous year. The decrease in total assets was mainly caused by a decrease in contributed assets (10.41 trillion won) such as AFS securities by 8.84 trillion won compared to that of last year. Included in contributed assets, the valuation of AFS securities owned by the Corporation (6.44 trillion won) decreased by 7.95 trillion won due to the devaluation of Woori Finance Holdings Co., Ltd.'s shares and the KDIC's disposition of shares in Prudential Investment & Securities Co., Ltd.



The total liabilities of the DIF Bond Redemption Fund at the end of 2008 stood at 28.71 trillion won, a 2.84 trillion won (9.0%) decrease from the previous year. During 2008, the liability assumed by the DIF (11.39 trillion won) as of last year-end was totally redeemed, and the liability assumed by the DIF Bond Redemption Fund increased by 8.73 trillion won due to the conversion of DIF bonds at maturity.

The total equity of the DIF Bond Redemption Fund at the end of 2008 stood at negative 17.37 trillion won, a 7.46 trillion won decrease from the previous year.

This decrease is mainly attributable to the decrease in accumulated other comprehensive income including gains on valuation of AFS Securities of 7.43 trillion won caused by devaluation of stocks owned by the Corporation.

#### B. Status of Profit and Loss

The net operating loss of the Fund came to 26.4 billion won. Due to the decrease in dividend revenues and disposal gain on contributed assets, it recorded a loss, making a negative turnaround from last year's 1.95 trillion won positive net income.

Operating revenues and operating expenses were 1.12 trillion won and 1.85 trillion won, respectively, realizing a net operating loss of 723.4 billion won. Operating revenues are mainly composed of 747 billion won in special contributions (66%) and 174.4 billion won in dividend revenue (16%). Operating expenses included 1.22 trillion won from interest on outstanding DIF bonds (66%) and 498 billion won from interest on outstanding DIF Bond Redemption Fund bonds (27%).

Meanwhile, non-operating revenues and non-operating expenses came to 1.34 trillion won and 639.8 billion won, respectively. Therefore, the Redemption Fund recorded a non-operating income of 697 billion won for the term.

### 3-3. Accounting for KDIC Internal Account

#### A. Financial Status

The total assets of the KDIC internal account at the end of 2008 stood at 15.5 billion won, an increase of 1.1 billion won (7.6%) on the preceding term. Assets can be divided into current assets such as cash and deposits amounting to 1.7 billion won (11.1%) and non current assets amounting to 13.8 billion won (88.9%). Non current assets can be further divided into 11.4 billion won in investment assets including deposits and 2.4 billion won in tangible assets.

The total liabilities for the term stood at 15.4 billion won, an increase of 1.6 billion won (11.3%) from the previous term. This was attributed to a 1.4 billion won increase in non-current liabilities (13.8 billion won) including the transferred-in capital budget caused by an increase in capital budget requirements. The liabilities can be sub-divided into current liabilities of 1.6 billion (10.4%) including deposits received and unpaid expenses, and 13.8 billion won (89.6%) in non-current liabilities including transferred-in capital budget.

The total equity of the KDIC internal account at the end of 2008 stood at 40 million won, which is a 470 million won decrease from last year.

#### B. Status of Profit and Loss

The total revenue and expenses of the KDIC internal account during 2008 stood at 75.8 billion won and 76.3 billion won, respectively, recording a 500 million won deficit.

The total revenue consists of 74.2 billion won (98%) in revenue earned from financial institutions and 1.6 billion won (2%) generated by operating funds, for example, interest earned. The total operating expenses were 41.3 billion won (54%) in salaries, 30.1 billion won (39%) in general expenses, and 3.9 billion won (5%) in contributions to the provision for severance benefits.

<Table IX-1> Condensed Balance Sheet

Current Period : As of December 31, 2008

Previous Period : As of December 31, 2007

(DIF Account)

(Unit : 100 million won)

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current Period	Previous Period		Current Period	Previous Period
<b>Current Assets</b>	<b>31,165</b>	<b>32,481</b>	<b>Current Liabilities</b>	<b>2,430</b>	<b>3,116</b>
1. Operating Assets	22,942	24,659	1. Contributed Liabilities	744	3,108
Deposits	10,846	7,086	Short-term Borrowings	744	3,108
Short-term Operating Bonds	12,096	17,573	2. Other Current Liabilities	1,686	8
2. Contributed Assets	1,235	1,268	Reserve for Outstanding Claims	1,683	-
Short-term Loans	2,014	2,170	Others	3	8
(Allowance for Doubtful Accounts)	(-)779	(-)902	<b>Non Current Liabilities</b>	-	-
3. Other Current Assets	6,542	6,100	1. Contributed Liabilities	-	-
Uncollected Premiums	-	162	2. Other Non Current Liabilities	-	-
Advanced Insurance Payments	-	-	Total Liabilities	2,430	3,116
Provisional Payments	-	-			
(Allowance for Doubtful Accounts)					
Others	446	292			
<b>Non current Assets</b>	<b>19,906</b>	<b>9,341</b>	<b>DIF Surplus</b>	<b>48,134</b>	<b>38,859</b>
1. Operating Assets	16,548	6,081	(Net Income)		
Long-term Operating Bonds	16,548	6,081	Current Period: 9,275		
2. Contributed Assets	204	480	Previous Period: 6,345		
Long-term Securities	84	360	<b>Other Cumulative Comprehensive Gains/Losses</b>	<b>507</b>	<b>(-)153</b>
Long-term Loans	120	120	1. Gains/Losses on Valuation of Securities Sold	507	(-)153
3. Indemnity Receivables	3,092	2,732	2. Equity Adjustment under Equity Method	-	-
Indemnity Receivables for Insurance Payment	9,558	8,608	<b>Total Equity</b>	<b>48,641</b>	<b>38,706</b>
(Allowance for Doubtful Accounts)	(-)6,704	(-)6,258			
Contributions Indemnity Receivables	15,633	12,630			
(Allowance for Doubtful Accounts)	(-)15,395	(-)12,248			
Other Indemnity Receivables	553	549			
(Allowance for Doubtful Accounts)	(-)553	(-)549			
4. Other Non Current Assets	62	48			
Transferred Capital Budget	62	48			
<b>Total Assets</b>	<b>51,071</b>	<b>41,822</b>	<b>Total Liabilities and Equity</b>	<b>51,071</b>	<b>41,822</b>

<Table IX-2> Condensed Income Statement

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

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

(DIF Account)

(Unit : 100 million won)

EXPENSES	Amount		REVENUES	Amount	
	Current Period	Previous Period		Current Period	Previous Period
<b>Operating Expenses (B)</b>	<b>733</b>	<b>679</b>	<b>Operating Revenues (A)</b>	<b>14,103</b>	<b>13,003</b>
1. KDIC Operation Expenses	592	578	1. Revenue on Fund	12,028	11,528
2. Fund Administrative Expenses	141	101	Insurance Premiums	11,911	11,528
Contributions Expenses	-	-	Contributions	117	-
Interest on Loans	120	99	2. Revenue on Fund Operation	2,073	1,475
Direct Expense to Fund	21	2	Interest on Deposits	506	330
			Interest on Securities	1,439	1,064
			Interest on Loans	127	80
			Gains on Sale of Securities	1	1
<b>Operating Income (C=A-B)</b>	<b>13,370</b>	<b>12,324</b>	3. Gains on Other Operations	2	-
<b>Non-Operating Expenses (E)</b>	<b>6,357</b>	<b>13,842</b>	<b>Non-Operating Revenues (D)</b>	<b>2,262</b>	<b>7,864</b>
1. Provision for Doubtful Accounts	3,516	7,923	1.Reversal of Reserve for Outstanding Claims	967	7,789
2. Provision for Outstanding Claims	2,650	5,900	2.Gains on Valuation of Derivatives	-	-
3. Equity Method Evaluation Losses	191	19	3.Reversal of Allowance for Doubtful Accounts	48	75
4.Other Non-Operating Expenses	-	-	4.Equity Income on Investments	1,237	-
<b>Net Income (C+D-E)</b>	<b>9,275</b>	<b>6,345</b>	5.Other Non-Operating Revenues	10	-

<Table IX-3> Condensed Balance Sheet

Current Period : As of December 31, 2008

Previous Period : As of December 31, 2007

(DIF Bond Redemption Fund Account)

(Unit : 100 million won)

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current Period	Previous Period		Current Period	Previous Period
<b>Current Assets</b>	<b>6,102</b>	<b>20,280</b>	<b>Current Liabilities</b>	68,612	118,410
1. Operating Assets	5,852	19,247	1. Contributed Liabilities	66,259	114,971
Deposits	4,653	8,013	Short-term Borrowings	1,258	938
Short-term Operating Bonds	1,199	11,234	Outstanding DIF Bonds	-	113,933
2. Short-term securities	-	843	Outstanding DIF Bond Redemption Fund Bonds	65,001	100
3. Short-term Loans	70	-	2. Other Current Liabilities	2,353	3,439
4. Other Current Assets	180	190	Advanced Special Contributions received	-	-
Accrued Revenues	11,062	11,089	Accounts Payable	1,745	1,760
(Allowance for Doubtful Accounts)	(-)11,027	(-)11,027	Reserve for Outstanding Claims	608	1,409
Special Contributions Receivables	-	1	Others	-	270
Advanced Payments	127	127	<b>Non Current Liabilities</b>	<b>218,444</b>	<b>197,066</b>
Derivatives Assets	18	-	1. Contributed Liabilities	218,444	195,735
<b>Non Current Assets</b>	<b>107,239</b>	<b>196,064</b>	Long-term Borrowings	5,030	4,691
1. Contributed Assets	103,982	191,621	Outstanding DIF Bonds	-	-
Long-term Investment Securities	64,469	143,169	Outstanding DIF Bond Redemption Fund Bonds	214,600	191,600
Long-term Loans	175,858	186,511	Premium on Bonds	153	198
(Allowance for Doubtful Accounts)	(-)142,920	(-)144,673	(Discount on Bonds)	(-)1,339	(-)754
Purchased Assets	6,575	6,614	2. Other Non Current Liabilities	-	1,331
2. Indemnity Receivables	3,104	4,357	<b>Total Liabilities</b>	<b>287,056</b>	<b>315,476</b>
Indemnity Receivables	138,357	140,826	Contributions Received from Government	523,064	523,064
(Allowance for Doubtful Accounts)	(-)135,253	(-)136,469	DIF Surplus (Deficit)	(-)686,366	(-)686,101
3. Other Non Current Assets	153	86	Net Income		
Long-term Insurance Premium Receivables	137	141	Current Period : (-)264		
(Allowance for Doubtful Accounts)	(-)131	(-)131	Previous Period : 19,454)	(-)10,413	63,905
Transferred Capital	76	76	Other Cumulative Comprehensive Gains/Losses	(-)173,715	
Derivatives Assets	71	-	<b>Total Equity</b>		(-)99,132
<b>Total Assets</b>	<b>113,341</b>	<b>216,344</b>	<b>Total Liabilities and Equity</b>	<b>113,341</b>	<b>216,344</b>

<Table IX-4> Condensed Income Statement

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

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

(DIF Bond Redemption Fund Account)

(Unit : 100 million won)

EXPENSES	Amount		REVENUES	Amount	
	Current Period	Previous Period		Current Period	Previous Period
<b>Operating Expenses (B)</b>	<b>18,477</b>	<b>19,739</b>	<b>Operating Revenues (A)</b>	<b>11,243</b>	<b>17,214</b>
1. KDIC Operating Expenses	168	188	1. Revenues on Fund	7,470	7,374
2. Fund Administrative Expenses	18,309	19,551	Special Contribution	7,470	7,281
Contribution Expenses	583	1,278	Contributions	-	93
Interest on Loans	403	417	2. Revenues on Fund Operation	3,709	9,306
Interest on Outstanding DIF Bonds	4,980	9,610	Interest on Deposits	882	615
Interest on Outstanding DIF Bonds Redemption Fund Bonds	12,241	8,153	Interest on Securities	1,073	869
Others	102	93	Interest on Loans	10	9
			Dividends Income	1,744	7,813
<b>Operating Loss (C=A-B)</b>	<b>(-)7,234</b>	<b>(-)2,525</b>	3. Other Operating Revenues	64	534
<b>Non-Operating Expenses (E)</b>	<b>6,398</b>	<b>4,951</b>	<b>Non-Operating Revenues (D)</b>	<b>13,368</b>	<b>26,930</b>
1. Provision for Doubtful Accounts	2,013	1,646	1. Reversal of Allowance for Doubtful Accounts	4,979	11,059
2. Losses on Sale of Contributed Assets	2,187	1,116	2. Equity Gain on Investments	8	10
3. Impairment Losses on Securities	253	417	3. Gain on Disposal of Contributed Assets	679	14,562
4. Losses on Foreign Currency Transaction	54	7	4. Recovery of Impairment Losses on Securities	4,958	937
5. Losses on Foreign Currency Translation	1,596	52	5. Gains on Foreign Currency Transaction	-	-
6. Provision for Outstanding Claims	283	1,660	6. Gains on Foreign Currency Translation	-	-
7. Losses on Derivatives Transactions	-	-	7. Reversal of Reserve for Outstanding Claims	1,085	305
8. Losses on Valuation of Derivatives	-	-	8. Gains on Derivatives Transactions	53	5
9. Others	12	53	9. Gains on Valuation of Derivatives	1,596	52
<b>Net Income (C+D-E)</b>	<b>(-)264</b>	<b>19,454</b>	10. Others	10	-

<Table IX-5> Condensed Balance Sheet

Current Period : As of December 31, 2008

Previous Period : As of December 31, 2007

(KDIC Internal Account)

(Unit : million won)

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current Period	Previous Period		Current Period	Previous Period
<b>Current Assets</b>	<b>1,713</b>	<b>2,043</b>	<b>Current Liabilities</b>	<b>1,608</b>	<b>1,491</b>
1. Cash and Deposits	1,608	1,983	1. Accounts Payable	-	2
2. Accounts Receivable	-	2	2. Accrued Expenses	460	523
3. Advanced Payments	72	36	3. Deposits	1,148	966
4. Accrued Income	25	17			
5. Prepaid Expense	8	5			
<b>Non Current Assets</b>	<b>13,753</b>	<b>12,333</b>	<b>Non Current Liabilities</b>	<b>13,819</b>	<b>12,371</b>
1. Investment Assets	11,383	10,384	1. Contribution to Capital Budget	13,819	12,369
Security Deposits	9,795	9,114	2. Provision for Severance Benefits	19,589	20,676
Long-term Securities	-	-	(Contribution to National Pension Plan)	(-)5	(-)7
Other Investments	1,588	1,270	(Deposits for Severance Benefits)	(-)19,584	(-)20,667
2. Tangible Assets	2,370	1,949	<b>Total Liabilities</b>	<b>15,427</b>	<b>13,862</b>
Buildings	552	552	1. Retained Earnings	39	514
Vehicles	-	16	(Net Surplus or deficit		
Other Tangible Assets	13,508	12,038	Current Period : 746		
(Accumulated Depreciation)	(-)11,690	(-)10,657	Previous Period : (-)178		
<b>Total Assets</b>	<b>15,466</b>	<b>14,376</b>	<b>Total Capital</b>	<b>39</b>	<b>514</b>
			<b>Total Liabilities and Equity</b>	<b>15,466</b>	<b>14,376</b>

<Table IX-6> Condensed Income Statement

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

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

(KDIC Internal Account)

(Unit : million won)

EXPENSES	Amount		REVENUES	Amount	
	Current Period	Previous Period		Current Period	Previous Period
<b>KDIC Administrative Expenses</b>	<b>76,302</b>	<b>75,679</b>	<b>Revenues on Fund</b>	<b>74,217</b>	<b>75,096</b>
1. Salaries	41,264	41,540	1. Contribution Revenue to Fund	74,217	75,096
2. General Expenses	30,133	30,047	<b>Revenue on Fund Operation</b>	<b>1,610</b>	<b>1,329</b>
3. Provisions	3,856	4,092	1. Interest on Deposits	1,343	1,191
4. Other Administrative Expenses	1,049	-	2. Interest on Securities	-	-
5. Loss on Prior Period Error Correction	-	-	3. Others	267	138
<b>Total Expenses</b>	<b>76,302</b>	<b>75,679</b>	4. Gain on Prior Period Error Correction	-	-
<b>Net Surplus</b>	<b>(-)475</b>	<b>746</b>	<b>Total Revenues</b>	<b>75,827</b>	<b>76,425</b>





# Appendix

1. Deposit Insurance Committee Activities
2. Summary of Events in 2008
3. Statistics
4. Outline of the Deposit Insurance System in Korea



## 1. Deposit Insurance Committee Activities

CLASSIFICATION		MAJOR ACTIVITIES
Items for Resolution	Resolution	<ul style="list-style-type: none"> <li>• Amendments to the Articles of Incorporation</li> <li>• Budget and settlement of accounts</li> <li>• Issuance of Deposit Insurance Fund (DIF) Bonds and DIF Bond Redemption Fund Bonds</li> <li>• Reduction/deferment of insurance premiums</li> <li>• Payment of insurance claims</li> <li>• Approval of tentatively calculated insurance claim payments</li> <li>• Financial support for resolution financial institutions</li> <li>• Financial support for insured financial institutions</li> <li>• Operational guidelines of the Committee</li> <li>• Request to Governor of Financial Supervisory Service (FSS) regarding the sharing of examination results on insured financial institutions and KDIC's participation in joint examination</li> <li>• Request to the Financial Services Commission (FSC) for actions required regarding P&amp;A orders, bankruptcy filing, and etc.</li> </ul>
Items for Resolution	Decision	<ul style="list-style-type: none"> <li>• Determination of insolvent financial institutions</li> <li>• Determination of insolvency-threatened financial institutions</li> <li>• Transactions between DIF accounts</li> <li>• Publication method of meeting minutes</li> <li>• Necessary actions in respect of DIF Bonds and DIF Bond Redemption Fund Bonds</li> <li>• Payment of service fees for third party operations</li> <li>• Provisional payment of insurance claims</li> <li>• Approval of exception of financial assistance based on the least cost method</li> </ul>
Items for Resolution	Deliberation	<ul style="list-style-type: none"> <li>• DIF operation plan</li> <li>• Adoption and revision of rules and regulations related to KDIC operations</li> </ul>
Items for Resolution	Designation	<ul style="list-style-type: none"> <li>• Operation of reserve funds of the DIF and the DIF Bond Redemption Fund</li> <li>• Purchase of securities</li> <li>• Deposit in designated insured financial institutions</li> </ul>
Items for Report		<ul style="list-style-type: none"> <li>• Results of quarterly inspection of MOUs</li> </ul>

1.

Deposit  
Insurance  
Committee  
Activities

## 2. Summary of Events in 2008

DATE	MAJOR EVENTS
Jan. 11	Signed a contract to dispose of the KDIC' s shares in Yeahreum MSB
Jan. 25	Recovered 84.3 billion won by disposing of KDIC' s entire remaining stake (20%, 2 million shares) in Prudential Investment & Securities to Prudential Financial Inc. in accordance with Shareholder's Agreement of Hyundai Investment & Securities
Feb. 21	The FSC ordered the business suspension of Bundang MSB.
Feb. 26	Disposed of part of KDIC' s stocks in Jeju bank in the market
Feb. 27	Daegu District Court declared Kyungbuk MSB bankrupt.
Mar. 24	The FSC ordered the business suspension of Hyundai MSB.
May 16	Recovered 5 billion won by disposing of RFC' s stake (1.63%) in Donghae Pulp Co.,Ltd.' s to Moorim Paper, the preferred bidder, during the tender offer period
May 16	Invested 15.1 billion won into Yeahanwul MSB for the P&A of Bundang MSB
May 23	The FSC decided P&A transfer of Bundang MSB into Yeahanwul MSB and the RFC.
May 23	Contributed 221.4 billion won to Yeahanwul MSB for the P&A of Bundang MSB
May 30	Recovered additionally contributed amount (9 million won) to Korea Life Insurance
Jul. 4	Invested 2.5 billion won to Yeahanwul MSB for the P&A of Hyundai MSB
Jul. 11	The FSC decided the P&A transfer of Hyundai MSB into Yeahanwul MSB and the RFC.
Jul. 11	Contributed 29.1 billion won to Yeahanwul MSB for the P&A of Hyundai MSB
Jul. 18	Redeemed part of redeemable preferred stock (398 billion won) of Seoul Guarantee Insurance Company
Aug. 4	Public notice of sale of Yeahanwul MSB
Aug. 19	Redeemed redeemable preferred stock (168.5 billion won) of Shinhan Financial Group
Aug. 20	Suwon District Court declared Bundang MSB bankrupt.
Sep. 10	Selection of preliminary buyers to be included in the Short List for the sale of Yeahanwul MSB
Sep. 29	Disposed of shares (16%, 258.4 billion won) in Korea Life Insurance as the HanHwa exercised its call option
Nov. 6	Selected preferred bidder for the sale of Yeahanwul MSB
Nov. 7	Jeonju District Court declared Hyundai MSB bankrupt.
Nov. 28	Recovered additionally contributed amount (12 million won) to Korea Life Insurance
Dec. 10	Changed preferred bidder for the sale of Yeahanwul MSB
Dec. 26	The FSC ordered the business suspension of Jeonbuk MSB.

### 3. Statistics

#### A. Number of Insured Financial Institutions (FIs)<sup>1)</sup>

Financial Sector	End of 2002	End of 2003	End of 2004	End of 2005	End of 2006	End of 2007	End of 2008
Banks	100	58	55	56	53	53	55
(Domestic)	(18)	(18)	(18)	(18)	(17)	(17)	(17)
(Foreign)	(40)	(40)	(37)	(38)	(36)	(36)	(38)
(Others) <sup>2)</sup>	(42)	-	-	-	-	-	-
Securities Companies	60	58	56	53	53	53	60
Insurance Companies	43	43	43	42	43	44	43
(Life)	(23)	(23)	(23)	(22)	(22)	(22)	(22)
(Non-Life)	(20)	(20)	(20)	(20)	(21)	(22)	(21)
Merchant Banks	3	2	2	2	2	2	2
MSBs	116	114	113	111	110	109	106
Credit Unions <sup>3)</sup>	1,233	1,086	-	-	-	-	-
<b>Total</b>	<b>1,555</b>	<b>1,361</b>	<b>269</b>	<b>264</b>	<b>261</b>	<b>261</b>	<b>266</b>

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<sup>1)</sup>

Financial Sector	End of 2007 (A)	End of 2008 (B)	Difference (B-A) (rate of increase)
Banks	486,068	569,726	83,658 (17.2)
Securities Companies <sup>2)</sup>	15,027	15,354	327 (2.2)
Insurance Companies <sup>3)</sup>	250,649	267,820	17,171 (6.9)
(Life)	(214,633)	(227,901)	(13,268) (6.2)
(Non-Life)	(36,016)	(39,919)	(3,903) (10.8)
Merchant Banks	702	950	248 (35.3)
MSBs	49,367	59,794	10,427 (21.1)
<b>Total</b>	<b>801,813</b>	<b>913,644</b>	<b>111,831 (13.9)</b>

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

2) Date of reporting is the end of December of each year. However, date of reporting for securities companies and insurance companies is the end of March of the next year.

• Insured deposits in securities companies = outstanding average closing balance of insured products as indicated in the Balance Sheet at year end insured deposit ratio\* according to the previous year's deposit insurance premium calculation index

• Insured deposit ratio = insured deposit amount (avg. balance) according to the previous year's deposit insurance premium calculation index / total amount deposited in the insured products (avg. balance) according to the previous 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 year end previous year's legal reserve ratio of insured products\*

• legal reserve ratio of insured products = legal reserve amount (in case of cancellation) according to the previous year's deposit insurance premium calculation index / total reserve amount of insured products

2.

Summary  
of Events  
in 2008

3.

Statistics

## C. DIF Bond Redemption Fund Revenues

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

Financial Sector	Insurance Premium Revenue prior to the Creation of DIF Bond Redemption Fund <sup>2)</sup>						Special Contributions Made by Insured FIs to the DIF Bond Redemption Fund						
	Prior to 1998 <sup>1)</sup>	1999	2000	2001	2002	Total	2003	2004	2005	2006	2007	2008	Total
Banks	1,613	1,975	2,630	4,139	4,361	14,718	4,775	4,956	4,871	4,987	5,027	4,976	29,592
Securities Companies	-	51	156	218	262	687	156	168	145	151	156	185	961
Insurance Companies	2,322	1,260	1,781	2,416	2,780	10,559	1,074	1,176	1,288	1,402	1,543	1,683	8,166
(Life)	(1,800)	(1,011)	(1,402)	(1,938)	(2,295)	(8,446)	(889)	(978)	(1,069)	(1,160)	(1,265)	(1,364)	(6,725)
(Non-Life)	(522)	(249)	(379)	(478)	(485)	(2,113)	(185)	(198)	(219)	(242)	(278)	(319)	(1,441)
Merchant Banks	980	336	233	139	130	1,818	20	6	5	6	7	8	52
MSBs	2,407	377	323	529	604	4,240	222	264	319	370	430	491	2,096
Credit Unions	402	162	281	407	641	1,893	-	-	-	216	116	129	461
<b>Total</b>	<b>7,724</b>	<b>4,161</b>	<b>5,404</b>	<b>7,848</b>	<b>8,778</b>	<b>33,915<sup>3)</sup></b>	<b>6,247</b>	<b>6,570</b>	<b>6,628</b>	<b>7,133</b>	<b>7,280</b>	<b>7,472</b>	<b>41,330</b>

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

2) DIF premium revenue until 2002 transferred to DIF Bond Redemption Fund according to the amendment of related laws.

3) Includes bankruptcy dividends received with respect to indemnity receivables in respect of unpaid insurance premiums by bankruptcy estates.

## D. DIF Premium Revenue

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

Financial Sector	2003	2004	2005	2006	2007	2008	Total
Banks	4,775	4,960	4,869	4,987	5,027	4,808	29,426
Securities Companies	312	336	300	303	256	305	1,812
Insurance Companies	3,115	3,403	3,737	4,059	4,455	4,852	23,621
(Life)	(2,580)	(2,832)	(3,109)	(3,362)	(3,654)	(3,934)	(19,471)
(Non-Life)	(535)	(571)	(628)	(697)	(801)	(918)	(4,150)
Merchant Banks	73	17	15	19	22	24	170
MSBs	667	793	974	1,116	1,306	1,483	6,339
Credit Unions	603	4	-	-	-	-	607
<b>Total</b>	<b>9,545</b>	<b>9,513</b>	<b>9,895</b>	<b>10,484</b>	<b>11,066</b>	<b>11,472</b>	<b>61,975</b>

## E. Status of DIF Bond Issuance

(As of December 31, 2008, 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
<b>Total</b>	<b>210,150</b>	<b>224,850</b>	<b>89,407</b>	<b>310,593</b>	<b>36,600</b>	<b>871,600<sup>1)</sup></b>

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

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

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

Financial Sector	Equity Participation	Contributions	Deposit Payoff	Asset Purchases	Loans	Total <sup>1)</sup>
Banks	222,039	139,092	-	100,064	-	461,195
Securities Companies	80,769	4,043	113	20,079	-	105,003
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	4,157	72,892	-	8,532	85,683
Credit Unions	-	-	47,402	-	367	47,769
<b>Total</b>	<b>489,158</b>	<b>185,894</b>	<b>303,251</b>	<b>123,638</b>	<b>21,817</b>	<b>1,123,758</b>

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

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Statistics



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

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

Injection Type	Recipient Institution	Amount
Equity Participation	Seoul Bank	46,809
	Korea First Bank	50,248
	Hanvit Bank	60,286
	Five acquiring banks including Kookmin Bank	11,923
	Hana Bank (Merger of Hana 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, Korea, 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, Taepyeongyang, Doowon, Dong-A, Handuck, Chosun Life Insurance Company	21,197
	KoreaInvestment Trust Management & Securities	38,649
	Daehan Investment Trust Securities	23,003
	Resolution and Finance Corporation	1
	Daehan, Kookje Fire Insurance Company	1
	Hyundai Investment & Securities	19,116
	<b>Sub Total</b>	<b>489,158</b>
Contribution	Kookmin, Housing & Commercial, Shinhan, Hana, Hanmi Bank (Five acquiring banks)	97,113
	Hanvit, Kyong Nam, Gwangju, Peace, Seoul, Jeju Bank	29,677
	National Agricultural Cooperative Federation	870
	Samsung, Heungkuk, Kyobo, Allianz Life (Four acquiring Insurance Companies)	11,641
	Korea First Bank (KFB)	11,432
	Korea, Hyundai, Kumho, Tongyang, SK Life Insurance Company	14,202
	Financial companies including Boomin MSFC	4,157
	Daehan Fire Insurance Company	509
	Woori (Former Hanaro Merchant Bank) Merchant Bank	7,431
	Kookje Fire Insurance Company	739
	Oriental, Samsung, Hyundai, LG, Dongbu Fire Insurance Company	2,425
	Green Cross (Daishin) Life Insurance Company	1,393
	KB(Hanil)Life Insurance Company	262
	KoreaInvestment Trust Management & Securities	768
	Daehan Investment Trust Securities	630
	Hyundai Investment & Securities (Current Prudential Investment & Securities)	2,645
	<b>Sub Total</b>	<b>185,894</b>



Injection Type		Recipient Institution	Amount
Insurance Claim Payments	Direct	Credit Unions	47,402
		Securities Companies (4 companies)	113
		MSFCs	12,335
		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
		<b>Sub Total</b>	<b>303,251</b>
Asset Purchases	Direct	Korea First Bank (BW)	249
		Korea First Bank (Shares of KFB's Vietnam and New York subsidiaries)	165
		Korea Development Bank	13,000
		Industrial Bank of Korea	6,000
		Hyundai Investment & Securities (Shares of Hyundai Autonet, etc.)	7,409
	Through RFIs	Five acquiring banks including Kookmin Bank (KB)	1,588
		Korea First Bank	79,063
		Dong-A, Kookmin, Taepyongyang, SK Life Insurance Company	3,495
	Through RFIs	Korea Investment & Securities	4,830
		Daehan Investment & Securities	6,539
		Hyundai Investment & Securities	1,300
		<b>Sub Total</b>	<b>123,638</b>
Contribution		14 Merchant Banks	12,917
		19 MSFCs	8,532
		39 Credit Unions	367
		<b>Sub Total</b>	<b>21,817</b>
<b>Aggregate Total</b>			<b>1,123,758</b>

## H. Status of Financial Assistance by DIF

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

Financial Sector	Equity Participation	Contributions	Deposit Payoff	Asset Purchases	Loans	Total
Banks	-	-	-	-	-	-
Securities Companies	-	-	-	-	-	-
Insurance Companies	-	-	-	-	-	-
Life	-	-	-	-	-	-
Non-Life	-	-	-	-	-	-
Merchant Banks	-	-	-	-	-	-
MSBs	725	15,781	9,638	-	3,382	29,526
Credit Unions	-	-	2,183	-	-	2,183
<b>Total</b>	<b>725</b>	<b>15,781</b>	<b>11,821</b>	<b>-</b>	<b>3,382</b>	<b>31,709</b>

## I. Injected Public Funds Recoveries by Year

(As of December 31, 2008, 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
2008	23,755
<b>Total <sup>1)</sup></b>	<b>432,805</b>

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 Provision

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

Financial Sector	Recovery of Equity Participation	Settlement of Contributions, etc.	Bankruptcy Estate Dividends <sup>1)</sup>	Repayment of Loans	Asset Sales <sup>2)</sup>	Total
Banks	134,102	671	17,585	-	52,558	<b>204,915</b>
Securities Companies	12,121	2,950	65	-	8,221	<b>23,358</b>
Insurance Companies	24,047	866	4,094	-	1,877	<b>30,885</b>
Merchant Banks	747	59	75,190	10,452	-	<b>86,448</b>
MSBs	-	330	47,153	6,058	-	<b>53,541</b>
Credit Unions	-	4	33,299	355	-	<b>33,658</b>
<b>Total</b>	<b>171,018</b>	<b>4,881</b>	<b>177,386</b>	<b>16,865</b>	<b>62,656</b>	<b>432,805</b>

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, 2008, unit: %)

Financial Sector	No. of Companies, Year-end 1997 (A)	Restructuring Status					Newly Opened	Current Total
Financial Sector	No. of Companies, Year-end 1997 (A)	Revocations of operating licenses	Mergers	Liquidation, Bankruptcies, and/or Suspensions of Operations	Total (B)	Change (B/A) (%)	Newly Opened	Current Total
Banks	33	5	11 <sup>1)</sup>	-	16	48.5	1	18 <sup>2)</sup>
Merchant Banks	30	22 <sup>3)</sup>	7 <sup>4)</sup>	-	29	96.7	1	2
Securities Companies	36	5	8 <sup>5)</sup>	3	16	44.5	27	47
Insurance Companies	50	10	6 <sup>6)</sup>	6	22 <sup>7)</sup>	44.0	24	52
ITCs	31	7	8	-	15	48.4	47 <sup>8)</sup>	63
MSBs	231	112 <sup>9)</sup>	28	1	141	61.0	16	106
Credit Unions	1,666	2	135	552	689	41.4	17	994
Lease Companies	25	11	2 <sup>10)</sup>	1	14	56.0	13	24
<b>Total</b>	<b>2,102</b>	<b>174</b>	<b>205</b>	<b>563</b>	<b>942</b>	<b>44.8</b>	<b>146</b>	<b>1,306</b>

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. + Illeun 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 Securities Co.), Korea Investment & Securities (Dongwon Securities Co. + Korea Investment Trust Securities), Tongyang Investment Bank (Tongyang Investment Bank+Tonguang Orion Investment Securities Co.), Hana Daetoo Securities Co. (Hana Daetoo Securities Co. + Hana Investment Bank)

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) Samsung Investment Trust Management Co. (Samsung Life Investment Trust Management Co. + Samsung Investment Trust Management Co.), Mirae Asset MAPS Global Investments Co. (Sejong Investment Trust management Co. + SK Investment Trust Management Co.), Landmark Investment Management Co. (Landmark Investment Co. + KEB Commerz Investment Trust Management Co.), Woori Asset Management Co. (LG Investment Trust Management Co. + Woori Investment Trust Management Co. ) Korea Investment Trust management Co. (Korea Investment Trust Management Co. + Dongwon Investment Trust management Co.), Mirae Asset Global Investments Co. (Mirae Asset Global Investments Co. + Mirae Asset Investment Trust Management Co.) Shinhan BNP Paribas Asset Management Co. (Shinhan BNP Pariba Asset Management Co. + SH Asset Management Co.)

9) Includes 33 financial institutions which were transferred through P&A agreements

10) Hanvit Lease (Hanil Lease+KCB Lease), Hankook Capital (Hankook Capital+Kyungnam Lease)

Source: Financial Services Commission

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## L. Public Fund Support Provision Status

(As of December 31, 2008, unit: %)

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	-	1.1	22.8
	Securities Cos. and ITCs	10.9	0.4	0.01	2.0	8.5	21.8
	Insurance Cos	15.9	3.1	-	0.3	1.8	21.2
	Credit Unions	-	-	4.7	0.2	-	4.9
	MSBs	-	0.4	7.3	0.6	0.2	8.5
	Subtotal	29.5	4.7	30.3	3.1	11.5	79.2
	Merchant Banks	2.7	0.7	18.3	-	1.1	22.8
Foreign Institutions		-	-	-	-	2.4	2.4
<b>Total</b>		<b>63.5</b>	<b>18.6</b>	<b>30.3</b>	<b>17.6</b>	<b>38.5</b>	<b>168.5</b>

Source: Financial Services Commission

## 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 refers to financial institutions that have subscribed to deposit insurance coverage from the Corporation pursuant to the Depositor Protection Act. Banks, securities companies, insurance companies, merchant banks and mutual savings banks (MSBs) are included in the category. The applicable laws require all 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 [KEXIM]), 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 mutual savings banks 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

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Outline of the  
Deposit  
Insurance  
System in  
Korea

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 Depositor Protection Act and Article 3 of the DPA Enforcement Decree. Certain financial products and local provincial government deposits received temporary blanket coverage until the end of 2000, in light of the financial crisis, and were subsequently removed from the scope of coverage as of January 1, 2001.

(A) Banks

Financial instruments covered by KDIC are deposits foreign currency denominated deposits, savings and installment deposits, as well as deposits from money trusts whose principals are protected in accordance with Paragraph 3 of Article 10 of the Trust Business Act. CDs, development trusts, bank-issued bonds, RPs and retirement pensions 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 from money trusts whose principals are protected in accordance with Paragraph 3 of Article 10 of the Trust Business Act are fully protected. However, funds set aside for taxes incurred with respect to securities including beneficiary certificates, bonds issued by securities companies and customer deposits do not fall within the coverage scope. RPs and collateral funds for loaned securities were also removed from the 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, retirement pensions, variable benefit contracts and reinsurance contracts are excluded. Institutional insurance contracts (where the policyholder and premium payer is an institution) and premiums received by surety companies 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 Banks

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

&lt;Table 1&gt; Status of Insured Deposits

Classification	Insured Deposits	Non - Insured Deposits
Banks	<ul style="list-style-type: none"> <li>• Demand Deposits such as Ordinary Deposits, Temporary Deposits, Checking Deposits, etc.</li> <li>• Time and Savings Deposits such as Time Deposits, Savings Deposits, Corporate Free Savings Deposits, Apartment - application Deposits, etc.</li> <li>• Accumulative Deposits such as Installment Deposits, Apartment - application Installment Deposits, Mutual Installment Deposits, etc.</li> <li>• Principal - Coverted Trusts and Secondary Bills such as Pension Trusts, Retirement Trusts, etc.</li> <li>• Foreign Currency Deposits,</li> </ul>	<ul style="list-style-type: none"> <li>• CDs, RPs, Bonds Issued by Bank</li> <li>• Performance Based Trusts such as Specified Money in Trusts and Development Trusts</li> <li>• Retirement Pensions</li> <li>• Indirect Investment Products(Beneficiary Certificates and Mutual Fund, etc.)</li> <li>• Insurance Related Financial Products(National Agriculture Cooperative Federation, National Federation of Fisheries Cooperatives)</li> </ul>
Securities Companies	<ul style="list-style-type: none"> <li>• Cash Balance of Securities, Consignor Deposit, Deposits for Savings Accounts, Deposits for Beneficiaries</li> <li>• Cash Balance of Collateral for Stock Loans on Margin Account, Deposits for Opening a Margin Account, Guarantee Deposits in Fiduciary Loans, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Securities, Subscriber Deposits, Tax Liability Withholdings, Collateral for Soaned Securities, RPs, Bonds Issued by Stock Companies</li> <li>• Cash Management Accounts(CMAs)</li> <li>• Indirect Investment Products (Beneficiary Certificates and Mutual Funds, etc)</li> </ul>
Insurance Companies	<ul style="list-style-type: none"> <li>• Individual Policies, Severance Benefits Policies</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Insurance Policies Surety Policies, Retirement Pensions, Reinsurance Policies, Variable Benefit Contracts.</li> </ul>
Merchant Banks	<ul style="list-style-type: none"> <li>• Notes Payable, Issued Notes, CMAs</li> </ul>	<ul style="list-style-type: none"> <li>• Beneficiary Certificates, RPs, Bonds issued by Merchant Banks, CPs</li> </ul>
MSPs and KFSB*	<ul style="list-style-type: none"> <li>• Ordinary Deposits, Savings Deposits, Time Deposits, Installment Deposits, Credit Installments, Cover Vills, etc.</li> </ul>	

\* 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. 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 Depositor Protection Act in December of 1997. Afterwards, the market gradually stabilized due to the restructuring process, while at the same time the possibility of moral hazard increased. The Enforcement Decree was amended in July 1998, therefore, 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 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. Collection of Deposit Insurance Premiums, Special Assessment and Contributions

### (1) Collection of Deposit Insurance Premiums and Special Assessment

The KDIC receives premiums from insured financial institutions, in accordance with Article 30 of the Depositor Protection Act and Article 16 of the DPA Enforcement Decree. It also receives special assessment payments in accordance with Article 30-3 of the Depositor Protection Act 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 Depositor Protection Act.

## (B) Calculation Unit of Premiums and Special Assessment

Deposit insurance premiums and special assessment payments 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 Assessment

Insurance Premium (Special Assessment) = Insured Deposits X Premium Rate (Special Assessment Rate)

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

The minimum insurance premium amount to be paid by an insurer is 100,000 won per year. In a case where the period subject to insurance premium calculation is less than one year, the premium amount shall be calculated on a pro-rata basis.

<Table 2> Premium Rate and Special Assessment 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	1/1,000	1/1,000	1/1,000	1/1,000	1/1,000	5/10,000

## (D) Due Date of Insurance Premiums and Special Assessment

An insured financial institution must pay its deposit insurance premium and special assessment payment 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 Assessment Payment Methods

All insured financial institutions must pay their insurance premiums and special assessment payment 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 Assessment

Each insured financial institution must submit data for calculation of insurance premiums and special assessment payment 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 assessment payment 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 revenues and total amount of premiums received by the end of fiscal year. Each insured financial institution must comply with requests for additional information pertaining to calculation of premiums, made by the President of the KDIC.

#### (G) Delinquent Charge

The formula for calculating a deposit insurance premium delinquency charge is the following:

Delinquency Charge = Insurance Premium (or Special Assessment) Not Paid by the Due Date  
X Rate of Interest in Arrears x 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 financial institution as of the payment due date. The number of days of delinquency shall be calculated beginning with the day

following the due date and continuing until the date of actual payment.

## (2) Collection of Contributions

Pursuant to Article 24 of the Depositor Protection Act and Article 14 of the DPA's Enforcement Decree, newly formed insured financial institutions are required to pay once-off contributions into the Deposit Insurance Fund.

### (A) Contribution Payers

All insured financial institutions that have obtained operating licenses from the Financial Services Commission 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

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 Financial Services Commission mandates deposit or obligation payment suspension because of insolvency. The other is a situation where an insured financial institution self-declares dissolution or bankruptcy, or has its operational/business license revoked by the authorities. The appropriate claim payments for such failures are made per each depositor's

request (see Article 31 of the Depositor Protection Act).

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 Financial Services Commission (see Article 31, Paragraph 1 and Article 34 of the Depositor Protection Act). The Corporation may suspend insurance claim payment 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 Depositor Protection Act).

#### (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, etc. 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 Depositor Protection Act).

#### (3) Limit on Insurance Claim Payments

The maximum amount of insurance money to be paid will be determined by Presidential 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 Depositor Protection Act and Article 18, Addendum Articles 2 of the Act's Enforcement Decree).

#### (4) Suspension and Provisional Payment of Insurance Claim Payments

In the case of a Category 1 insured risk event, in Mutual Savings Banks (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 Depositor Protection Act). 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 Depositor Protection Act).

### D. Risk Management of Insured Financial Institutions

#### (1) Data Submission and Investigations

The KDIC may request an insured financial institution and the financial holding company which has such insured financial institution as its subsidiary, etc. to submit the data related to the business and the financial status of such insured financial institution and financial holding company to the extent necessary for carrying out its duties such as the determination of the insured financial institution 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 Depositor Protection Act).

## (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 Financial Supervisory Service asking for the provision of data related to the insured financial institutions within a determined scope. When the KDIC finds it necessary to confirm the data supplied by the Financial Supervisory Service (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 Services Commission (FSS) take proper steps regarding the institution (see Paragraph 2 and 6 of Article 21 of the Depositor Protection Act).

## (3) Request for Investigation and Joint Investigations

If necessary, the KDIC may also request the Governor of the FSS to perform an official investigation 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 investigation 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 Depositor Protection Act).

## E. Resolution of Insolvent Financial Institutions

### (1) Insolvent (Potentially Insolvent) Financial Institutions

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

- ① When an on-site inspection 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 or 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 financial institution 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 bankruptcy filing, 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 Financial Services Commission 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 Presidential Decree.

## (3) Provisions Necessary for Financial Support

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

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- ① is considered necessary for smooth merger of the insolvent financial institution 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 financial institution in the interest of protecting depositors and maintaining stability and order of the credit business industry; or
- ③ is requested by the Financial Service Commission 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 Financial Institution

Pursuant to Article 21-2 of the Depositor Protection Act, the KDIC investigates insolvency accountability and files damage claim lawsuits against those (usually officers/employees and major shareholders of an insolvent financial institution) 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. As the auditor of seventeen merchant bank bankruptcy estates, the Corporation has conducted additional similar investigations.

More recently, the Depositor Protection Act 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 Depositor Protection Act, 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 Depositor Protection Act 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 "bulk 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 Depositor Protection Act, the KDIC can request that an insolvent financial institution file damage claims against its default debtor corporations or

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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 Depositor Protection Act, 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.