KOREA DEPOSIT INSURANCE CORPORATION

2013 ANNUAL REPORT

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

CEO Message

Last year, while the global economy, especially developed countries, continued on a moderate growth path, emerging economies had a slower growth and exhibited vulnerability to external environmental changes. The Korean economy, faced with an increase in external uncertainties, not least from the Fed(Federal Reserve)'s tapering of quantitative easing, also had problems such as a real estate market downturn and increasing household debt, which hampered the recovery of domestic consumption.

Against this backdrop, the Korea Deposit Insurance Corporation (KDIC) did its utmost to achieve the vision of becoming "the world's leading deposit insurer, opening a new future for financial stability" taking advantage of rich repertoires of experience and expertise it has built over the years.

First of all, the KDIC has further developed its resolution framework by adopting a new method which allows for a swift resolution of failed financial institutions without causing any disruption of financial services in an effort to minimize the potential hardship faced by depositors. In particular, in some cases, failed mutual savings banks were taken over by market investors in KDIC-arranged P&A (purchase of assets and assumption of liabilities) transactions while still in operation, which eliminated the need for using a bridge bank.

Moreover, the KDIC enhanced efforts for the recovery of distressed assets by developing more systematic sales and marketing strategies. The once-stalled process of privatizing Woori Financial Group has been given new momentum as a result of the decision to spin off some subsidiaries and sell them in parcels to better respond to market demands.

By holding to account the directors and officers of failed financial institutions for their actions, the KDIC continued to promote a culture of sound financial management. To prevent fraud and abuse, it also provided seminars and information sessions to employees of financial institutions about how to detect and react to fraudulent activities.

Furthermore, the KDIC has reorganized its system for examining and supervising member institutions to promptly identify and address risk factors in a preemptive manner while making sure that all preparations are in place to ensure the successful implementation of the risk-based premium system scheduled for 2014.

In addition, to meet its commitment to public interest as a government entity, the KDIC made enhanced efforts to raise awareness of deposit insurance among financially illiterate groups and foreigners who work in Korea or who have married into Korean families, and opened financial education centers for the public.

Meanwhile, the KDIC has gained considerable status in the eyes of the international community with its appointment to the Executive Council of the International Association of Deposit Insurers (IADI) last year and the successful hosting of the IADI's Asia-Pacific Regional Committee Annual Meeting. It is actively engaged in bilateral cooperation as well, as seen in its work with Mongolian authorities to help draft a new deposit insurance legislation and establish an independent deposit insurance organization in Mongolia.

Going forward, the KDIC will remain committed to its role as an important part of the financial safety-net by maintaining the public's confidence in the financial system and seeking to advance the deposit insurance system.

I hope that this Annual Report will help enhance the public's understanding of the deposit insurance system and the KDIC's activities and increase their confidence in the financial system. I look forward to your continued interest and support.

Joo Hyun KIM

Chairman & President

Contents

Major Initiatives

Eight failed mutual savings banks and one failed non-life insurance company were suspended in 2012. Five other mutual savings banks were suspended in 2013. Through all the turmoil, the Korea Deposit Insurance Corporation (KDIC) has strived to minimize the resulting inconveniences to depositors and to stabilize the financial market.

To minimize depositors' inconveniences to the utmost possible extent, the KDIC introduced a resolution system for uninterrupted execution of financial transactions immediately upon suspension of operations of financial institutions. It streamlined the management of non-performing loans held by failed mutual savings banks, including SPC (Special Purpose Company) assets and PF (Project Financing) loans, in the course of their resolution.

The KDIC stringently held accountable executives and major stockholders who triggered failures of financial institutions, helping establish a climate of sound management in the financial industry. It also stepped up efforts to detect emerging risks early and to minimize losses by conducting thorough independent and/or joint examinations of mutual savings banks.

The KDIC also improved depositor protection for people with poor access to financial information. In response to the sweeping changes that have occurred at home and abroad in the aftermath of the global financial crisis, the KDIC overhauled its vision and core values.

Stronger Risk Monitoring of Insured Financial Institutions

By using in-house models, the KDIC monitors all changes in the financial positions of insured financial institutions and potential risks on an ongoing basis. It has spurred on-site monitoring as part of its overall risk control effort to prevent the occurrence of an insurance event at a distressed member institution.

In close cooperation with the Financial Supervisory Service (FSS), it conducted joint examinations of eighteen insured financial institutions including ten large or financial group-affiliated mutual savings banks that might cause significant losses if they fall into distress. It requested the FSS to take corrective action where necessary while informing the corresponding insured financial institutions of its recommendations for management improvement. The KDIC also carried out independent examinations of eleven mutual savings banks which meet pre-determined criteria (e.g. BIS capital adequacy ratio of less than 7%, deficits for three consecutive years). The findings of independent examinations were notified to the FSS and the mutual savings banks in order to induce an improvement in their management.

Table Ⅰ - 1

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

	2009	2010	2011	2012	2013
Joint Examinations	15 Institutions	24 Institutions	31 Institutions	9 Institutions	18 Institutions
Independent Examinations	-	-	-	8 Institutions	11 Institutions

To promote mutual cooperation, the KDIC serves as a member of the *Macro-Economic and Financial Meeting*, a coordinating council of five government agencies responsible for the development of financial policies including the Ministry of Strategy and Finance (MOSF), the Financial Services Commission (FSC), the Financial Supervisory Service (FSS), and the Bank of Korea (BOK). The KDIC shares financial information on insured financial institutions under the MOU on financial information-sharing signed with the BOK and the FSS. In 2013, they began to share all reports without undergoing any additional procedures based on working-level consultation on information sharing, unless prohibited by law.

The KDIC dispatches supervisors jointly with the FSS to mutual savings banks showing signs of financial distress, against which timely corrective action might be issued. This effort has reinforced on-site monitoring of mutual savings banks. It also held workshops for the CEOs and risk management officers of mutual savings banks, presenting risk management methods suitable for their circumstances. By providing educational support services to small- and medium-sized mutual savings banks, it proactively encouraged players in the industry to sharpen their competitive edge.

Efficient Resolution of Failed Financial Institutions and Improvement of Applicable Systems

The KDIC successfully arranged purchase and assumption (P&A) transactions for five failed mutual savings banks which were suspended in 2013 (Seoul, Youngnam, Shilla, Smile, and Hanul) with a third party or a bridge mutual savings bank.

Table Ⅰ-2

Mutual Savings Banks Suspended in 2013

Date of suspension	Feb. 15, 2013	Apr. 12, 2013	Nov. 1, 2013	Dec. 27, 2013
Name	Seoul, Youngnam	Shilla	Smile	Hanul

Beginning in the latter half of 2012, the KDIC suspended mutual savings banks declared insolvent at the close of business hours on a Friday. Then, a P&A to a bridge bank was completed over the weekend so that business could resume on the following Monday. This minimized inconveniences arising from interruption of financial services.

In the first half of 2013, the KDIC applied “resolution without interruption in financial transactions” to Seoul Mutual Savings Bank, Youngnam Savings Bank, and Shilla Savings Bank, completing their P&A to bridge banks. However, as the number of failed mutual savings banks resolved under the KDICs bridge bank authority reached seven, the KDIC faced a substantial burden in managing and marketing bridge banks.

Amid a lack of market demand for P&A of mutual savings banks, the KDIC worked hard to find prospective buyers and succeeded in finding market investors for two failing savings banks - Smile and Hanul Savings Banks - who were willing to take over those banks while in operation in the second half of 2013. Through these experiences, the KDIC has stabilized a resolution system that minimizes not only depositors' inconveniences, but also its burden concerning the sale and management of bridge savings banks.

Table Ⅰ-3

Five Mutual Savings Banks Suspended in 2013

Name	Seoul	Youngnam	Shilla	Smile	Hanul
Acquirer	⬇ Yeju (Bridge Bank)	⬇ Yesol (Bridge Bank)	⬇ Yeshin (Bridge Bank)	⬇ OSB Savings Bank	⬇ Pepper Savings Bank

A division within the KDIC was charged with the responsibility of fully supporting and efficiently managing bridge and financial group-affiliated mutual savings banks to improve their financial structure and sales value. Some of the bridge mutual savings banks actually managed to realize profits or to reduce losses. Efforts to improve the operating efficiency of financial group-affiliated mutual savings banks were also made through the assessment of management capacity and appointment of new professional managers.

The prolonged weakness in the industry and lack of prospective buyers has rendered the arrangement of sales for bridge mutual savings banks a significant challenge. Nevertheless, the KDIC sought to increase their sales value by enhancing their management efficiency while aggressively seeking buyers. In the first half of 2013, Yehanbyoul Savings Bank was sold to Shinhan Financial Group. In the latter half of 2013, Yesol Savings Bank and Yehansoul Savings Bank were sold to the Industrial Bank of Korea and KB Financial Group, respectively.

The KDIC pursued the public sale of Green Non-Life Insurance based on open bidding after the management improvement plan submitted by the company was rejected by the FSC in July 2012. The KDIC selected the preferred bidder in the latter half of 2012 and then concluded its resolution process in May 2013 based on the FSC's decision in favor of its P&A.

Efficient Sale of Special Assets

The sale process of special assets including PF loans and SPC assets held by failed mutual savings banks was often prolonged due to failures in biddings. In an effort to rectify this problem, the KDIC partially amended the Standards for Management, Sale, etc. of Special Assets to enable application of the State Property Act in parallel with the State Contract Act.

Using the service of professional agencies specialized in different types of assets, the KDIC tried to identify the best sales opportunities and to develop and implement appropriate sale strategies. Different recovery approaches were adopted, depending on the characteristics of each PF project. In collaboration with the government and public agencies concerned, the KDIC obtained or extended development permits and business licenses in an effort to maintain the value of PF projects. Similar assets were grouped together and dedicated managers were assigned to each asset group to ensure their consistent and efficient management.

The KDIC also staged an aggressive marketing initiative. It held a media day to promote the sale of foreign cars and high-priced artworks, hosted exhibitions of artworks prior to their auction, and put them up for auction abroad. It indeed managed to build greater interest among potential investors and made a multi-pronged effort for maximum recovery.

The KDIC set up the Sales Consulting Committee comprised of external members to ensure fairness and transparency in the sale of special assets. The Committee meets at least once a month to deliberate on sales methods and other relevant issues. Concerning the business feasibility assessment of PF projects, the KDIC shifted from hiring a single organization to do the assessment to using a pool of multiple organizations that can provide evaluation services.

The KDIC set up a professional advisory system for areas that require special expertise. The hiring of professional examiners enhanced the professional quality of the sales process. An advisory group and a professional manager pool were created for the sale of golf courses, and a sales advisory group of local experts was set up for overseas assets.

Efficient Management of Bankruptcy Estates

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

By means of regular valuation of assets performed by bankruptcy estates, the KDIC ascertained the value of assets in its possession as well as assets put up for sale. This system helped to develop sales methods that are tailored to each type of assets, which contributed to maximizing the recovery of public funds by ensuring efficient asset sale.

The KDIC sets an annual target for bankruptcy dividend payment for each bankruptcy estate and constantly monitors whether the targets are being met. It strives to maximize bankruptcy dividends by encouraging dividend payment at the earliest possible date. Its efforts in this regard were extremely effective in 2013: recoveries in the form of bankruptcy dividends, etc. totaled KRW 1,492.6 billion.

From time to time, the KDIC examines bankruptcy estates' realization efficiency against costs. It is pressing hard for the quickest possible recovery of bankruptcy claims by aggressively pursuing the closure of bankruptcy estates with poor efficiency. As of the end of 2013, it closed 434 out of 484 bankruptcy estates.

Holding Persons Responsible for Financial Institution Failures to Account

In the event of a failure or P&A of a mutual savings bank, the KDIC typically establishes an investigative unit comprised of experts to thoroughly investigate employees of the bank including executive officers and determine exactly who are responsible for the failure. In May 2013, it completed an accountability investigation concerning eight mutual savings banks that had been suspended in 2012. In August 2013, it concluded investigations into three more mutual savings banks and one non-life insurance company suspended in the first half of 2013. Such investigations are now underway at Smile Savings Bank and Hanul Savings Bank, both of which were suspended in the second half of 2013.

Upon completion of an accountability investigation, the KDIC sets up an initial support team for litigation to claim damages and a supervision and inspection team. The KDIC fully assists bankruptcy estates in filing damage claims against persons deemed responsible for financial institution failures. The KDIC expanded its Accountability Review Committee for

Insolvent Financial Institutions to flexibly respond to the increasing number and the growing size of financial institution failures. Workshops for the members of the Committee helped to improve the professionalism of the KDIC. Simultaneously, the KDIC strengthened protection of the rights and interests of persons subject to accountability investigations by offering them sufficient and timely opportunities to present evidentiary materials and make statements at working-level meetings of the Committee.

In March 2013, the KDIC set up Investigation Bureau II in charge of failed corporate debtors in order to strengthen investigations into obligors that caused failures of suspended mutual savings banks. By conducting investigations into those debtors and subsequently discovering their assets, the KDIC seeks to improve the efficacy of the recovery of its funds.

In order to swiftly find concealed assets of persons responsible for Mutual Savings Bank failures including large stockholders, the KDIC initiates investigations of their properties immediately upon business suspension.

The KDIC hosts a workshop for auditors of mutual savings banks and trains their officers and employees to create a climate of sound management. The KDIC also publishes and distributes a detailed booklet on court precedents where damages were claimed against persons who committed illegal or wrongful acts.

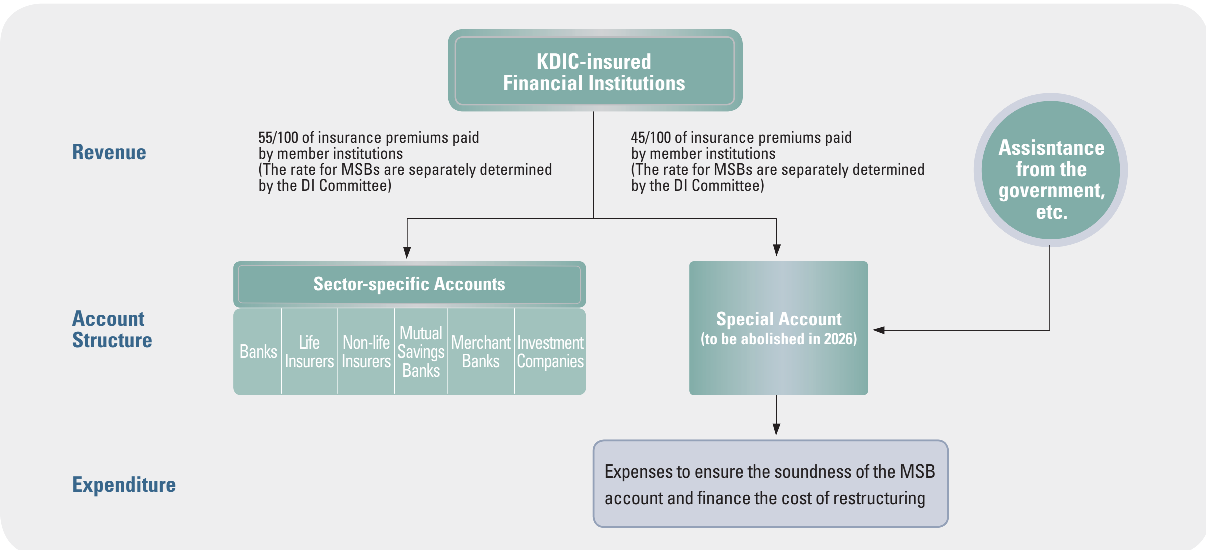
Increased Stability of the Deposit Insurance Fund

To support the smooth restructuring of failed mutual savings banks, the KDIC created a special account for mutual savings bank restructuring* in April 2011. Through the end of 2013, it raised and provided KRW 26,808.8 billion in a timely fashion for the restructuring of 29 insolvent mutual savings banks, making deposit insurance payments, etc. In 2013, the KDIC disbursed KRW 1,913.7 billion from the special account for the restructuring of five mutual savings banks. It also supported the restructuring of one non-life insurance company with KRW 22.6 billion from the non-life insurance account.

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

Figure I - 1

Special Account for Mutual Savings Bank Restructuring



In July 2012 and November 2013, the KDIC took a KRW-200-billion credit facility from the Public Capital Management Fund without interest for repayment over a five-year period after a ten-year grace period. It also reduced borrowing costs by issuing *Deposit Insurance Fund (DIF) Bonds for the Special Account for MSB Restructuring* to finance the repayment of debts from external entities, building its own electronic bidding system for bonds called E-BAS, and lowering interest rates when it negotiated extending a line of credit agreement (maximum KRW 15 trillion).

Table I - 4

Funding of and Expenditures from the Special Account

(As of Dec. 31, 2013, Unit: KRW 1 trillion)

Amount Provided in Financial Assistance			Amount Raised	
29 MSBs including Samhwa	Equity investment, capital contributions, deposit payoffs, etc.	26.8	Borrowings from the other accounts	1.8
			Outside funding (e.g. issuance of bonds)	23.5
			Deposit insurance premiums, etc.	1.5
Total		26.8	Total	26.8

In the meantime, the KDIC made efforts to collect funds provided through financial assistance from the DIF (including the special account). It recovered KRW 1,141.6 billion during 2013 by various means including bankruptcy dividend collection.

To prepare for implementation of the risk-based premium system slated for 2014, the KDIC consistently gathered and considered opinions from the industry. In March and May 2013, it devised the Regulations on the Operation of the *Risk-Based Premium System* and the accompanying enforcement rules, which lay out in detail how the risk-based (or differential) assessment system will work and what indices will be used to evaluate risk levels in each sector of the financial industry. Such endeavor paved the way for smooth operation and stabilization of the risk-based premium system.

Under the *Target Fund System*, the KDIC waived insurance premiums for investment companies because the reserves in their accounts exceeded the highest reserve targets at the end of 2012. Meanwhile, life and non-life insurance companies received a discount of 45% and 7%, respectively, on premiums for the period from January 1, 2013 to December 31, 2013 because their DIF reserves reached the lowest target amount.

Smooth Repayment of Public Funds

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

By the end of 2013, the KDIC had repaid KRW 59.9 trillion with government contributions (KRW 45.7 trillion) and recovered funds (KRW 14.2 trillion) out of KRW 82.4 trillion to be repaid under the Public Fund Redemption Plan. It plans to repay the remaining KRW 22.5 trillion with recovered funds and special contributions paid by member institutions by 2027 as scheduled. According to findings from the FSC's regular public fund re-computation in 2013, the KDIC is expected to repay the remaining debt without much difficulty.

In the meantime, the KDIC continues to recover public funds spent on restructuring failed financial institutions since the Asian financial crisis by selling equity stakes and receiving dividends. In 2013 alone, it recovered KRW 799.2 billion by selling its stakes in financial institutions, receiving dividends, and having redeemable preferred shares of stock redeemed.

The KDIC recovered KRW 126.2 billion in a block sale of its 0.63% stake in SK Hynix (held by the KR&C, a KDIC subsidiary) in April 2013 and KRW 16 billion by selling its 100% stake in Pohang Terminal in an open bidding auction in June 2013. It recovered KRW 277.4 billion in a block sale of its 1.36% stake in KEPCO in November 2013 as well. It collected another KRW 2.4 billion by selling a 2.04% stake in Jeju Bank on the stock market. In addition, it recovered KRW 300 million through public sale of five issues of unlisted shares held by the KR&C.

Table Ⅰ-5

Major Recoveries of Public Funds in 2013

SK Hynix	• April 2013, Recovered KRW 126.2 billion in a block sale of its stake
Pohang Terminal	• June 2013, Recovered KRW 16 billion by selling its stake in an open bidding auction
KEPCO	• November 2013, Recovered KRW 277.4 billion in a block sale of its stake
Jeju Bank	• Jan. ~ Dec. 2013, Recovered KRW 2.4 billion by selling its stake on the stock market
Other stakes	• Recovered KRW 300 million through public sale of five issues of unlisted shares held by the KR&C
Others	• Recovered KRW 294.4 billion by receiving stake dividends • Recovered KRW 16.4 billion by receiving bankruptcy dividends

In connection with sale of Woori Financial Group, the KDIC pursued the sale of Kyongnam Bank and Kwangju Bank according to its privatization plan approved by the *Public Fund Oversight Committee* on June 26, 2013. In late 2013, BS Financial Group and JB Financial Group were respectively selected as a preferred bidder for Kyongnam Bank and Kwangju Bank.

The KDIC will complete the sale of Kyongnam Bank and Kwangju Bank by concluding a stock sale/purchase agreement with the final acquirers and receiving sale proceeds from them. It intends to push for the sale of its equity shares in Woori Bank-affiliated entities by determining a sale method based on deliberation by the *Public Fund Oversight Committee*. The KDIC also plans to sell its stakes in other financial institutions in block sales or on the stock market as appropriate, considering the characteristics of each stake, financial market conditions, and share price volatility.

Table Ⅰ - 6

KDIC Stakes in Financial Institutions

(As of Dec. 31, 2013, Unit: KRW 100 million, %)

Category	Financial Assistance	Recoveries[1]	Value of Remaining Stakes[2]	KDIC Stakes
Woori Financial Group	127,663	57,592	61,073	56.97
National Federation of Fisheries Cooperatives	11,581	-	10,149	Preferred Securities
Seoul Guarantee Insurance	102,500	23,893	1,361	93.85
Hanwha Life Insurance	35,500	13,932	16,316	24.75
Jeju Bank	2,182	320	195	16.38
Total	279,426	95,737	89,094	-

Note : 1) Based on the amounts recovered from the sale of stakes, collection of dividends, redemption of preferred shares of stock, etc.
2) The valuation is based on the closing prices as of December 31, 2013 for listed stocks, and the figures on the KDIC's balance sheet as of December 31, 2013 for unlisted stocks.

Proactive Depositor Protection Services

In collaboration with relevant agencies including the Ministry of Security and Public Administration and the Jung-gu District Office, the KDIC notified deceased depositors' uncollected deposit insurance benefits to their bereaved families for more customer-oriented services.

To lessen the workload on insured financial institutions and enhance its own image, the KDIC made some changes to the way it inspects financial institutions to assess their level of compliance with KDIC requirements for public notification of deposit insurance coverage to provide more market-friendly services. For example, it conducted a survey asking branch officials how the KDIC inspections could be improved, and introduced on-line inspections on a pilot basis, which helped to increase the efficiency of inspectors to the extent that a single inspector could inspect 206 branches a year. In addition, the KDIC translated guides to the deposit insurance system in six foreign languages (English, Chinese, Japanese, Filipino, Thai, and Vietnamese) to offer accurate information on the system to foreign nationals who may lack access to financial information. Such guides were distributed to and kept available at insured financial institutions.

In the meantime, the KDIC has implemented company-wide outreach programs to repay public trust and fulfill its responsibility as a public institution. In 2013, it consistently executed diverse social contribution programs in partnership with employee clubs and related organizations. It established a solid source of financing for such activities by waging a campaign encouraging its employees to have at least one more account in its "Sharing Love" Fund. At the same time, it continued to provide financial literacy education to elementary school students, traditional market merchants studying at merchant universities, and members of senior welfare centers in cooperation with the Ministry of Education, the Agency for Traditional Market Administration, and the Korea Association of Senior Welfare Centers. It also developed customized textbooks for each of these target groups and participated in various events including the Korea Leading Market Expo hosted by the Agency for Traditional Market Administration.

Table Ⅰ - 7

Financial Literacy Education in 2013

(As of Dec. 31, 2013, Unit: number of persons)

Category	Elementary school students	Traditional market merchants	The elderly	Others	Total
No. of Persons	19,819	54,709	14,881	10,822	100,231

To give more publicity to the depositor protection system, the KDIC staged a promotional campaign targeted specifically at the most financially underserved members of society including the elderly. By producing public campaign videos and newspaper/magazine advertisements and fully utilizing forms of media which financial consumers commonly see every day such as TV and advertisements on public transportation including subways and buses, it endeavored to project a more positive image and forge a greater understanding of the deposit insurance system.

Improvement of Global Cooperation with Foreign Deposit Insurers

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

This effort bore fruit in 2013 when a depositor protection law was enacted and a deposit insurance corporation was set up in Mongolia. Jointly with advanced deposit insurers in several countries including Japan and Taiwan. the KDIC also implemented a program to strengthen the ability of the Tanzanian Deposit Insurance Board, which enhanced the quality of the KSP. In addition, the KDIC supplemented the specialist system that it had operated to deliver lectures to the KSP participant nations. It newly appointed specialists who have expertise in five key areas of deposit insurance for three-year tenures to address the rising demand for knowledge-sharing from emerging nations. Concerning the areas in which KSP participants showed keen interest in 2012, the KDIC produced additional modules in a bid to more directly meet their respective needs.

The KDIC entered into memorandums of understanding (MOUs) on mutual cooperation with sixteen institutions in thirteen countries, including Japan and Malaysia, which signed such MOUs in 2013. It has, thereby, continuously expanded information and personnel exchange with foreign deposit insurers regarding outstanding issues.

The KDIC received the 2012 Deposit Insurance Organization of the Year Award from the International Association of Deposit Insurers (IADI), based on a voting by all member countries. In 2013, the KDIC hosted the IADI Asia-Pacific Regional Committee 11th Annual Meeting, an event commensurate with its elevated stature. The meeting was a resounding success: over 150 representatives, high-ranking officials, and appropriate personnel from deposit insurers in 25 countries participated, including the chairman of the FSC and the president of the IADI.

In the 2013 IADI Annual General Meeting, the KDIC assumed a second term as a member of the IADI Executive Council. In such capacity, the KDIC will continue to actively take part in the IADI's activities, including discussions of the key agenda as well as research and capacity building activities, to boost its international status.

Organization Operations

1. Organization Setup
2. Organization Management

1. Organization Setup

Deposit Insurance Committee and Board of Directors

Deposit Insurance Committee

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

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

Table Ⅱ - 1

Deposit Insurance Committee Members

(As of Dec. 31, 2013)

Title		Name
Ex-officio Members	Chairman and President of the KDIC	Joo Hyun Kim
	Vice Chairman of the FSC	Chan-woo Jeong
	Deputy Minister of the MOSF	Kyoungho Choo
	Senior Deputy Governor of the BOK	Won Shik Park
Commissioned Members	Designated by the FSC	Hong Kwon Lee
	Recommended by the MOSF	Chul Whan Lee
	Recommended by the Governor of the BOK	Heekyoung Kim

Table Ⅱ - 2

Major Responsibilities of the Deposit Insurance Committee

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

Table Ⅱ - 3

Deposit Insurance Committee Agenda in 2013

Date	Agenda
Jan. 11	• Issuance of DIF Bond Redemption Fund Bonds for 2013 • Designation of Youngnam Savings Bank as an insolvent financial institution • Examination results of ○○ and △△ Mutual Savings Banks • Modification of the KDIC budget for 2013
Jan. 17	• Request for joint examination of ○○ Bank • Reporting on the progress in implementation of business normalization MOUs during the third quarter of 2012
Feb. 13	• Financial support for partial P&A of Seoul Mutual Savings Bank, Shilla Savings Bank, and Youngnam Savings Bank • Deposit insurance payments and advance payments of bankruptcy dividends to depositors of Seoul Mutual Savings Bank, Shilla Savings Bank, and Youngnam Savings Bank • Financial support for P&A of Green Non-Life Insurance • Settlement of the DIF, DIF Bond Redemption Fund, and KDIC accounts for fiscal year 2012
Feb. 27	• Guidelines for the asset management of the DIF Bond Redemption Fund in 2013 • Guidelines for the asset management of the DIF for 2013 • Reporting on transactions between accounts of the DIF Bond Redemption Fund and the DIF for 2012 • Reporting on operating expense settlement for 2012 • Reporting on changes to and execution of the DIF management plan for 2012 • Reporting on the joint examination results of ○○ and △△ Mutual Savings Banks • Reporting on the examination results of ○○ Mutual Savings Bank
Mar. 27	• Request for participation in the joint examination for the second quarter of 2013 • Formulation of regulations on operation of the risk-based premium system
Apr. 24	• Reporting on the progress in implementation of business normalization MOUs during the fourth quarter of 2012 and related measures • Addition to the business normalization plan for Woori Financial Group, Woori Bank, Kwangju Bank, and Kyongnam Bank, and the credit business unit of the National Federation of Fisheries Cooperatives
May 8	• Standards and decision to reduce deposit insurance premium payment for accounts that have exceeded reserve targets
May 22	• Reporting on the joint examination results of ○○ Bank
Jun. 12	• DIF Bond Redemption Fund management plan for 2014 • Issuance of DIF Bond Redemption Fund Bonds in 2014 and application for government guarantees for the bonds
Jun. 26	• Request for joint examinations of five financial institutions including ○○ Non-Life Insurance • Addition to the business normalization plan for Seoul Guarantee Insurance • Reporting on the joint examination results of ○○-affiliated Mutual Savings Bank

Date	Agenda
Jul. 24	• Reporting on the examination results of ○○ and △△ Mutual Savings Bank • Reporting on the joint examination results of ○○ and △△ Mutual Savings Banks
Aug. 21	• Revision of the rules on purchase of claims such as deposits and advance payments of bankruptcy dividends • Reporting on the examination results of ○○ Mutual Savings Bank
Sep. 25	• Request for joint examinations of four financial institutions including ○○ Life Insurance • Reporting on the progress in business normalization MOUs implementation during the first quarter of 2013 and related measures • Reporting on the results of semi-annual account settlement for the DIF and the DIF Bond Redemption Fund for fiscal year 2013
Oct. 10	• Designating Haesol and Hanul Savings Bank as an insolvent financial institution • Reporting on the joint examination results of ○○, △△ and □□ Mutual Savings Banks
Oct. 23	• Financial support for partial P&A of Smile Savings Bank • Deposit insurance payments and advance payments of bankruptcy dividends to depositors of Smile Savings Bank • Reporting on the joint examination results of ○○ and △△ Mutual Savings Banks
Nov. 13	• Revision of the rules on payment of insurance premiums and special contributions • Reporting on the examination results of ○○ and △△ Mutual Savings Bank
Nov. 27	• Reporting on the progress in business normalization MOUs implementation during the second quarter of 2013 • Reporting on the examination results of ○○ Mutual Savings Bank
Dec. 19	• DIF Operation plan for year 2014 • Reporting on the joint examination results of ○○ Non-Life Insurance • Reporting on the examination results of ○○ and △△ Mutual Savings Bank
Dec. 24	• Financial support for partial P&A of Hanul Savings Bank • Deposit insurance payments to depositors of Hanul Savings Bank • KDIC budget for year 2014

Board of Directors

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

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

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

Table Ⅱ - 4

Executive Board Members

(As of Dec. 31, 2013)

Title	Name
Chairman and President	Joo Hyun Kim
Executive Vice President	Hyeon Chul Joe
Executive Director	Hyosoon Choi
Executive Director	Oang Ho Jung
Executive Director	Wookho Chung
Executive Director	Seung Wou Shin
Non-executive Director	Jeong Gil Han
Non-executive Director	Soo Hwa Lee
Non-executive Director	Ki-Seok Lee
Non-executive Director	Chang Seok Oh
Non-executive Director	Kyo Sik Kim
Non-executive Director	Sang-il Lee
Non-executive Director	Hong Sik Choe
Auditor	Sang Mok Lee

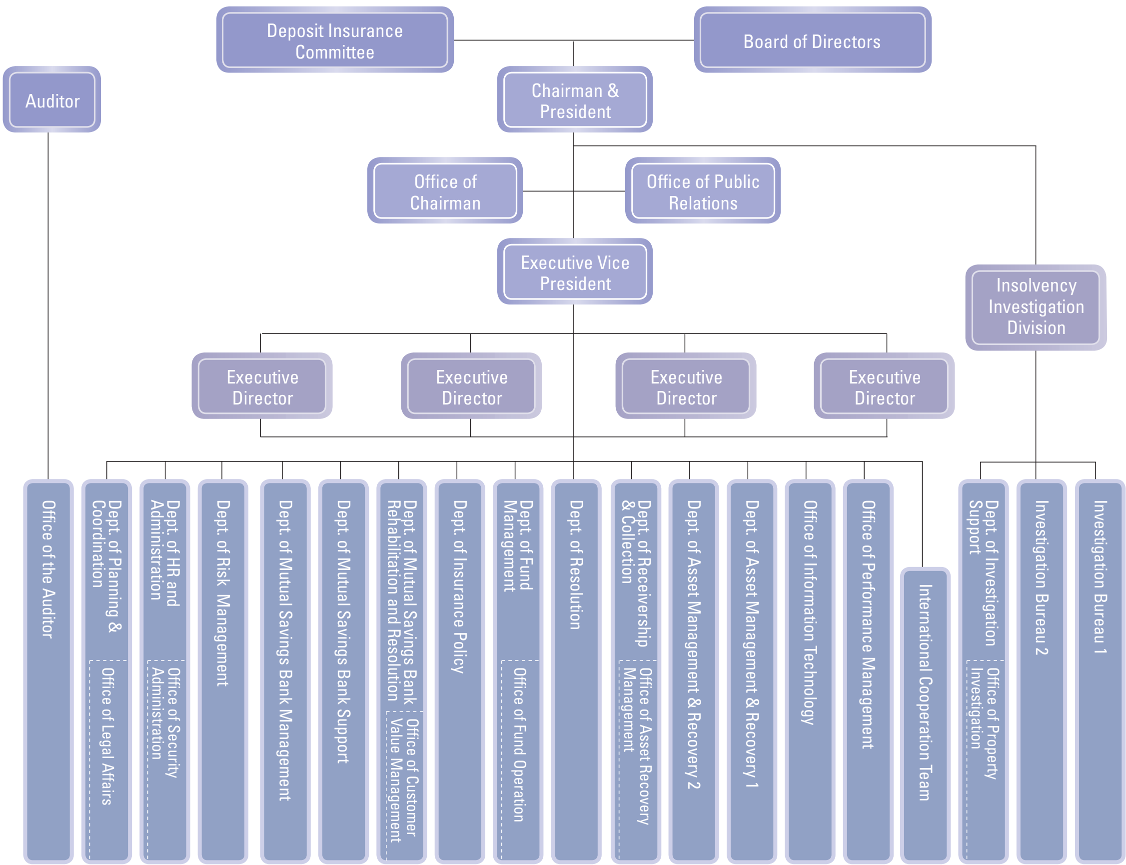
Organization

The KDIC was established on June 1, 1996 as a non-capital special corporation to effectively manage and operate the deposit insurance system under the Depositor Protection Act. As of December 31, 2013, it had twelve departments, five offices, and one division: Department of Planning and Coordination, Department of Human Resources and Administration, Department of Risk Management, Department of Mutual Savings Bank Management, Department of Mutual Savings Bank Support, Department of Mutual Savings Bank Rehabilitation and Resolution, Department of Deposit Insurance Policy, Department of Fund Management, Department of Resolution, Department of Receivership and Collection, Department of Asset Management and Recovery I, Department of Asset Management and Recovery II, Office of Information Technology, Office of Performance Management, Office of Public Relations, Office of the Chairman, Office of the Auditor, and Insolvency Investigation Division.

Table Ⅱ - 5

Organizational Chart

(As of Dec. 31, 2013)



* International Cooperation Team is team unit.

Table Ⅱ - 6

Number of Staff

(As of Dec. 31, 2013, Unit: Number of Persons)

Category	Executive Board Members	Staff		
		Regular	Special[2]	Total
No. of People	14[1]	524	111	649

Note: 1) Including 7 Non-executive Directors appointed under the Public Agencies Operational Act
2) Special employees include experts such as attorneys, doctoral researchers, administrators, receivers and examiners.

2. Organization Management

Vision and Mid- to Long-Term Management Plan

Vision Structure

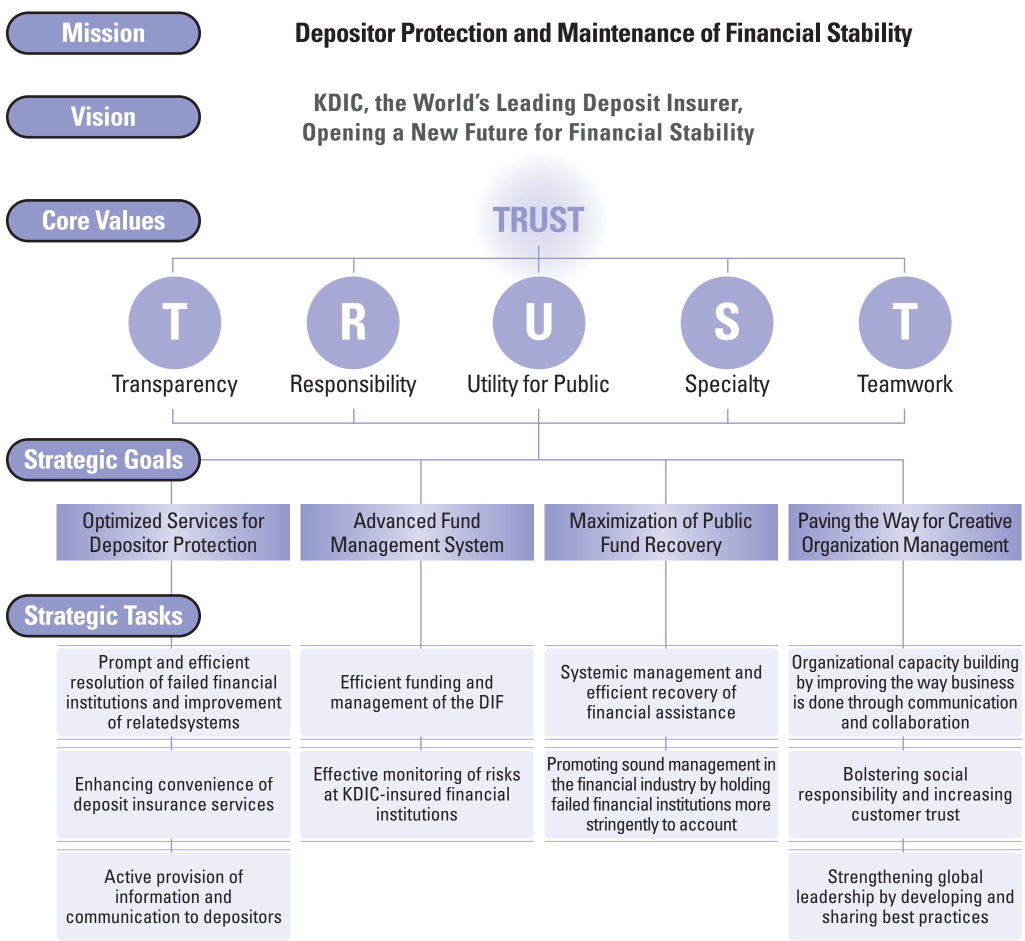
KDIC Vision and Its Meaning

World's Leading Deposit Insurer, Opening a New Future for Financial Stability

The recent global financial crisis sparked widespread discussion on the need to define a new financial paradigm. Building on its seventeen years of experience in effective management of the deposit insurance system, the KDIC is determined to become one of the leading and most highly trusted global players in deposit insurance by contributing significantly to financial system stability through consistent stabilization and system advancement. The vision statement expresses our commitment to that goal.

Figure Ⅱ - 1

Vision and Strategy Map



Overhaul of Strategic Goals and Tasks

To reflect the change in both the internal and external business environment, including the inauguration of the new administration in February 2013, and to better execute strategy, the KDIC revamped its strategy in September 2013 after considering opinions of its employees and outside consultants.

As a result, the KDIC can now more effectively support government policy, while clarifying the strategy for ongoing development of the KDIC.

Modification of Strategic Goals

Old	Optimized Services for Depositor Protection	Advanced Fund Management System	Maximization of Public Fund Recovery	Adoption of More Sustainable Management Practices
New	Optimized Services for Depositor Protection	Advanced Fund Management System	Maximization of Public Fund Recovery	**Paving the way for Creative Organization Management**

Modification of Strategic Tasks

■ Reflection of the new administration's policies such as provision of user-oriented customized services, promotion of partnership, and imposition of tougher social responsibility requirements on public organizations

Previous Strategic Tasks	New Strategic Tasks
• Payment of deposit claims for the convenience of depositors • Enhancement of core capabilities by establishing a culture that encourages better performance • Upholding business ethics and promoting social contribution	• Enhancing convenience of deposit insurance services • Organizational capacity building by improving the way business is done through communication and collaboration • Bolstering social responsibility and increasing customer trust

■ Stronger linkage between strategic goals and strategic tasks and clearer direction for strategic tasks

Previous Strategic Tasks	New Strategic Tasks
• Promotion of sound management in the financial industry by conducting more effective investigations into failed financial institutions • Development and sharing of global best practices	• Promoting sound management in the financial industry by holding failed financial institutions more stringently to account • Strengthening global leadership by developing and sharing best practices

■ Addition of tasks to brace for the future in consideration of improvement of the resolution system

Previous Strategic Task	New Strategic Task
• Prompt and efficient resolution of failed financial institutions	• Prompt and efficient resolution of failed financial institutions and improvement of related systems

Strategic Goals, Strategic Tasks, and Detailed Action Plans

To realize the new vision and generate tangible results, the KDIC selected four mid- to long-term strategic goals: offering optimized services for depositor protection; establishment of an advanced fund management system; maximization of public fund recovery; and paving the way for creative organization management. It then devised ten strategic tasks to achieve these strategic goals and established detailed annual action plans for the next five years (from 2014 to 2018).

Table Ⅱ - 7

Strategic Goals, Strategic Tasks, and Detailed Action Plans

Strategic Goals	Strategic Tasks	Detailed Action Plans
Optimized Services for Depositor Protection	Prompt and efficient resolution of failed financial institutions	• Prompt and efficient resolution of insolvent financial institutions
		• Improvement of the resolution scheme for non-mutual savings banks
	Enhancing convenience of deposit insurance services	• Fast and convenient services for payment of deposit claims
		• Increased convenience for deposit insurance information users by use of IT
	Active provision of information and communication to depositors	• Stronger financial consumer protection through inspection of compliance with the KDIC signage display requirements
		• Customized PR campaigns to raise awareness of deposit insurance
Advanced Fund Management System	Efficient funding and management of the DIF	• Stable management of the DIF
		• Implementation and operation of the risk-based premium system
		• Efficient management of the Redemption Fund for the repayment of public funds
		• Striking a balance between profitability and stability
	Effective monitoring of risks at KDIC-insured financial institutions	• Increased capacity for risk surveillance and analysis
		• Early identification of risk factors and timely response
		• Efficient performance of investigations/joint examinations
Maximization of Public Fund Recovery	Systemic management and efficient recovery of financial assistance	• Efficient sale of KDIC's shares and assets
		• Increased efficiency in MOU management
		• Efficient management of bankruptcy estates
		• Efficient management of special assets and maximization of recovery
	Promotion of sound management in the financial industry by holding failed financial institutions more stringently to account	• Efficient investigation of assets owned by persons implicated in insolvencies at home and abroad
		• Rigorous investigations and tighter post-failure monitoring
Paving the way for Creative Organization Management	Organizational capacity building by improving the way business is done through communication and collaboration	• More disciplined organization and budget management focused on core business activities
		• Improved effectiveness of the HR, compensation, and performance evaluation systems
		• Establishment and promotion of internal/external cooperation systems
		• Increased business efficiency through implementation/support of IT systems
	Bolstering social responsibility and increasing customer trust	• Increased customer satisfaction with an improved CS management system
		• Ethical management to keep the public's trust
		• Proactive information disclosure and sharing
		• More active social contribution including expanded financial literacy education
	Strengthening global leadership by developing and sharing best practices	• Sharing of best practices and experience in deposit insurance operation with foreign deposit insurers
		• Stronger leadership in the IADI and cooperation with foreign deposit insurers

Dynamic Organizational Culture for HR Management and Business Operations

Hi-KDIC Program to Build a Dynamic Organizational Culture

The KDIC implements the *Hi-KDIC* Program throughout the year to promote a dynamic organizational culture. The name alludes to “kind service for the public (Hi)” and “strengthening of KDIC’s stature and competency (High).”

The Hi-KDIC Program entails communication facilitation; consensus building; and participation by all. If successful, it will boost the KDIC’s efforts to carry out the strategic tasks, thereby achieving its mission and vision.

Table Ⅱ - 8

Hi-KDIC Program

Task	Program Name	Description	Results in 2013
Communication Facilitation (Multi-directional communication)	Movie Day	• One high-performing team is selected as “Team of the Month” and all team members go watch a movie together, courtesy of the KDIC.	12 times
	Smart Board	• Smart Board consists of ten representatives from each level of the company hierarchy and serves as an “interactive communication channel.”	On an as-needed basis
	Cross Meeting (Joint Meeting)	• Meetings between departments (teams) are held to promote mutual understanding, with business relevance taken into account.	19 teams
	Happy Night	• To boost the employee morale and promote amicable workplace relations, executives visit teams working overtime to give them encouragement.	16 times
	Mentoring	• Senior members with many years of service at the KDIC and extensive business knowledge mentor new staff members for a certain period.	140 persons
	Lunch call	• The CEO has lunch with any employees who wish to participate.	5 times
	Tea & Talk	• The CEO regularly visits selected teams to lend employees encouragement.	9 times
Consensus Building (Happy workplace)	Social Contribution Activities	• To fulfill social responsibility as a public institution, various activities are undertaken. For example, one department is matched with one person or an organization in need of help. And staff members serve at the soup kitchen or food banks on a regular basis.	16 programs (2,576 persons)
	Job Posting System	• Competent in-house human resources are preferentially selected and deployed in appropriate positions to increase efficiency in HR management.	7 persons including subject-area experts and secondees to the U.S. FDIC
	KDIC-Highway Training	• To facilitate communication, staff members from different departments and different job levels team up and enjoy cultural activities together.	3 teams (15 persons)
	Follow-up Training	• Training is given to employees who have spent more than five years at the KDIC so that they can have a better sense of belonging to the company and improve leadership skills.	1 time (22 persons)
	Family Day	• Every Wednesday is designated as Family Day to encourage employees to get off work on time so that they can have more family time.	Every Wednesday
Participation by All (Sharing of core values)	Policy Briefing Session	• Executives and heads of departments explain key policies of the KDIC to staff members.	22 times
	KDIC-Daum	• Training workshops are provided to communicate the KDIC's core values and the proper attitudes to uphold them.	1 times
	K-Oasis	• The KDIC operates a knowledge portal system for knowledge management.	Year-round
	FAGO TV	• VOD service is made available to share management strategies and relevant materials such as the KDIC mission, strategy meeting results, and PR messages/press releases.	Year-round

Organizational Restructuring to Improve Deposit Insurance Functions and Management Efficiency

In the course of resolving failed mutual savings banks since 2011, the KDIC witnessed a drastic increase in its workload involving asset recoveries and investigations into distressed corporate debtors. In order to cope with this situation, it set up a department dedicated to asset management and Investigation Bureau II in March 2013 to strengthen its functions in line with changes in the external business environment.

It also strived to increase management efficiency in various ways including, for example, increasing flexibility in HR management and productivity in business operations by streamlining business processes between departments and making use of temporary, yet specialized task forces.

Performance Evaluation for a Performance-Based Organizational Culture

To build a performance-based organizational culture, the KDIC introduced a strategic performance management system called Balanced Score Card (BSC) in late 2005. It applied the BSC to every department in 2006 and then to all teams in 2007. It then developed an IT system for performance management in 2009, and it has refined evaluation indicators and methods on a continuous basis. By inviting employee opinions and expert advice on those indicators and methods, it has consistently pressed for improvement of its performance evaluation system. In 2013, it installed a task force team to develop a more performance-focused personnel management and compensation system. It improved related schemes to enhance receptivity of evaluation results among employees. As part of this endeavor, it set up dual pools of external evaluators and reinforced relative evaluation for better assessment. At the same time, it sought to fully entrench the risk-based performance management scheme introduced in 2012 by such means as furtherance of core risk indicators and execution of war games.

In line with the performance-based annual salary system introduced under an agreement between labor and management, the KDIC adopted an individual performance evaluation system known as Management by Objectives (MBO) where each staff member consults with his or her supervisor, sets targets that will help to maximize the organization’s performance, and undergoes reasonable and fair evaluation regularly. In 2012, the KDIC built an online system for MBO to enable a more effective management of individual performance. In 2013, it focused on ensuring a more complete adoption of the system while refining it by subdividing evaluation cycles and adjusting assessment groups for trustees of bankruptcy estates.

Ethical Management and Corporate Social Responsibility

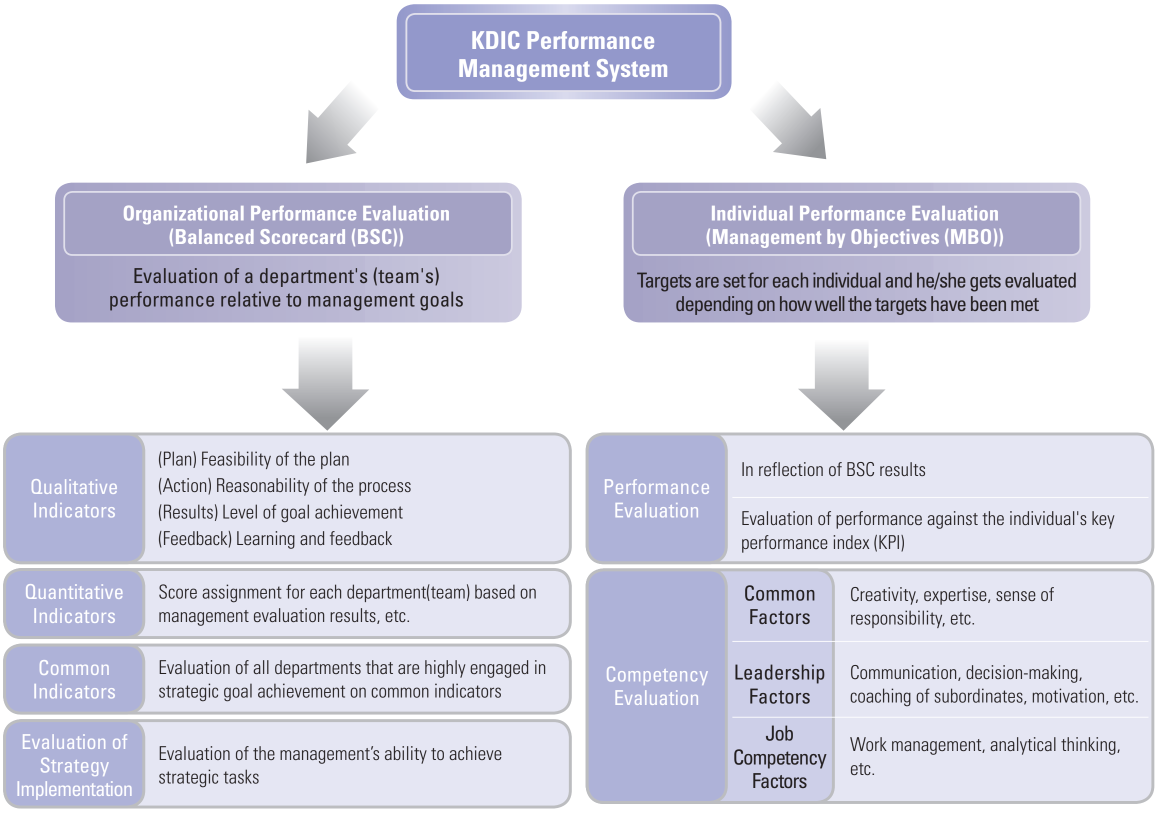
Ethical Management

The KDIC adopted TRUST (Transparency, Responsibility, Utility for public, Speciality, and Teamwork) as a short reminder of its core values, particularly corporate social responsibility. The KDIC aspires to high ethical standards by applying ethical management at every level of the hierarchy. For that purpose, it formulated a Mid- to Long-term Ethical Management Plan and set four strategic tasks. To accomplish those tasks, it developed and executed detailed action plans to help ensure that ethical management firmly takes root as an integral part of the corporate culture.

In 2013, the KDIC forged a stronger consensus on ethical management among its employees by hosting a 'Consensus-building Concert' at a dinner party. To create an atmosphere more conducive to ethical management both internally and externally, it

Figure Ⅱ - 2

KDIC Performance Management System



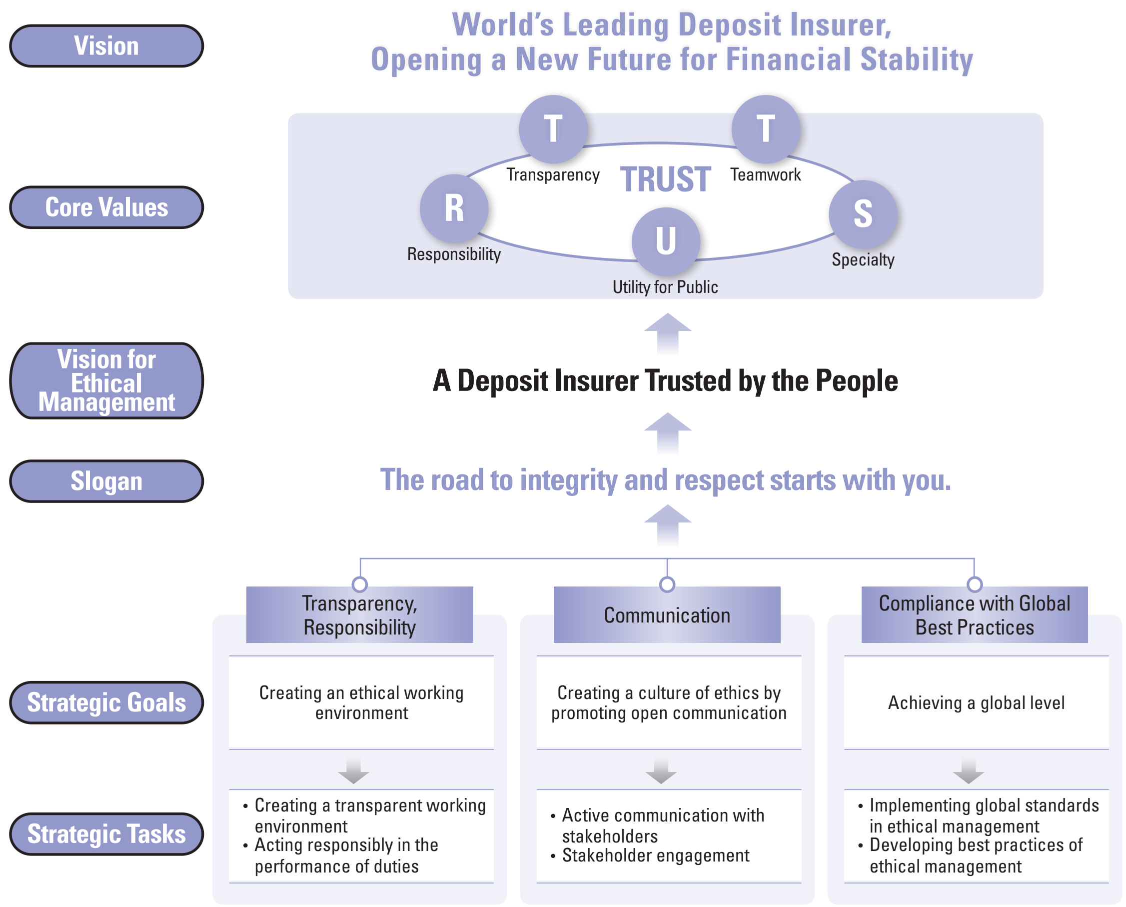
conducted story-telling cyber education, hosted workshops for leaders of ethical management and integrity, and issued an employee declaration for ethical management and integrity. It also held a workshop for officers and employees of mutual savings banks to create a sound business climate. It reported progress in satisfying the requirements of the UNGC (United Nations Global Compact), an initiative under the UN to encourage businesses and organizations to fulfill their social responsibilities, and participated in the KoBEX SM survey conducted by the Ministry of Trade, Industry and Energy. In doing so, the KDIC has greatly enhanced public confidence in its ethical management.

These endeavors reaped excellent results when the Anti-Corruption and Civil Rights Commission cited the KDIC as an exemplary case of an ethically managed public institution in 2013 and carried the case in the 2013 Ethical Management Casebook in November 2013. In December 2013, it was awarded an 'AAA' rating, the highest possible rating in the KoBEX SM survey.

In December 2013, it revised its mid- to long-term ethical management plan to address changes in its internal and external business environment amid clamor for transparent and responsible management of public institutions and emphasis on communication through Government 3.0. It sought to come up with an ethical management slogan through an employee contest and formulated new strategic goals and tasks that are consistent with the four aspects of ethical management (transparency, responsibility, communication, and compliance with global best practices) determined based on employee opinions.

Figure Ⅱ-3

New Mid- to Long-Term Ethical Management Promotion Strategy



Corporate Social Responsibility

Consistent Execution of Social Contribution Programs

The KDIC has implemented extensive outreach programs involving all its employees to repay the trust that the public has invested in it and fulfill its responsibility as a public institution. Towards this end, it explored and executed diverse programs suitable for an institution of its nature including a contest and workshop on social contribution ideas. In a bid to promote its social contribution programs, it expanded rewards for employees and their departments for their faithful service.

In 2013, it established a solid source of financing for such activities by waging a campaign encouraging its employees to have at least one more account in its "Sharing Love" Fund. To induce its employees' voluntary participation in social contribution programs, it also implemented the “voluntary stay-the-course program for social contribution activities.” Such endeavors conducted in collaboration with appropriate employee clubs established a basis for voluntary participation by all employees in social contribution initiatives. In the meantime, the KDIC opened a financial literacy education center for the financially underserved, building a system for both qualitative and quantitative improvement in its education.

Social Contribution Activities in Collaboration with Related Organizations

In May 2012, the KDIC concluded a volunteer agreement for Cheonggyecheon Stream with nine organizations including the Seoul Metropolitan Facilities Management Corporation and the National Information Society Agency to improve the local environment and encourage volunteerism in society at large. This paved the way for a set of programs for environment protection. The KDIC helped clean up Cheonggyecheon Stream in March 2013 with the other ten signatories to the agreement.

In October 2012, the KDIC signed an agreement on shared growth and social contribution with Samsung Fire & Marine Insurance, Hana Bank, Citibank, and the Small Business Association in the Da-dong and Mugyo-dong area. The agreement is intended to expedite mutual growth and development of all the companies and the local community and to help promote the culture of social contribution. The signatories conducted joint social contribution activities and supported local festivals in 2013. With an increase in signatories in the future, the KDIC intends to develop exemplary cases of social responsibility involving organizations and local communities in the same area.

Table Ⅱ - 9

Joint Social Contribution Programs with Relation Organizations

Date of Enrollment	Activity Description	Leading Organization
Mar. 31, 2013	Beautification of the Cheonggye Stream	Samsung Fire & Marine Insurance
May 4, 2013	Helping to repair the restructures at a silkworm farm that is for children's nature experience	Citi Bank
Jun. 13, 2013	Blood donation drive event	KDIC
Aug. 7, 2013	Volunteering at food banks	Hana Bank
Sept. 14, 2013	Participating in the Festival for Sharing and Donating Rice (100 20-kg sacks of rice)	Da-dong/ Mugyo-dong Small Businesses' Association

To promote shared growth in alignment with the Small Business Association in the Da-dong and Mugyo-dong area, the KDIC raised funds from its employees and provided scholarships to students in financial distress whose parents work at local community stores.

Increased Support for Traditional Markets for Their Revitalization

To support traditional markets, the KDIC established a sisterhood relationship with Tongin Market in Tongin-dong, Jongno-gu, Seoul, in August 2011. In 2012, the KDIC designated every Thursday as a day to visit traditional markets (Lunchbox Day) and provided shuttle bus service for those having lunch at traditional markets. It has continuously tried to revitalize traditional markets and has even staged a campaign for traditional markets during its lectures at merchant universities.

In 2013, the KDIC forged sisterhood relations with traditional markets in the two locations of bankruptcy estates (Daegu and Jeonju) to give a nationwide boost to traditional markets. It plans to enter into sisterhood relationships with traditional markets in five more regions (Seoul metropolitan area, Chungcheong-do, Busan, Gwangju, and Jeju-do). As part of the ongoing effort to help traditional markets, the KDIC will provide, on a monthly basis, Onnuri gift certificates that visitors to the sisterhood markets can use for grocery shopping.

Table Ⅱ - 10

Sisterhood Agreements and Days to Visit Traditional Markets*

Category	2012	2013
No. of Sister Markets	1	3
No. of People Who Visited Traditional Markets	485	900*
Amount Purchased	6,794,000	38,569,000

* This number only includes market visitors who work at the KDIC main building and increases to 1,006 if people who are stationed at failed banks or their estates as trustees, etc. are included.

Social Contribution Activities to Fulfill Social Responsibility

In 2013, the KDIC set up the "Sharing Love" Fund worth of KRW 191.44 million with employee donations (one account equals KRW 5,000), matching grants from the company, and conversion of mileage from corporate credit cards to cash. It spent KRW 189.44 million on social contribution activities through "Communion with Neighbors", "Communion with Local Communities", "Communion with Rural Villages", and "Communion with the Environment".

For "Communion with Neighbors", the KDIC expanded its scholarship program, in addition to financial literacy education on the deposit insurance system, which represents the KDIC's major social contribution activity. In the past, it provided scholarships of KRW 1 million to each of ten high school students from low-income families in the Seoul metropolitan area. Starting in 2013, it rendered scholarships to ten additional middle and high school students selected by the Small Business Association in the Da-dong and Mugyo-dong area. It also established sisterhood relationships with persons with disabilities by offering volunteer service at Seoul Jungjin School, a public school for children and adults with learning disabilities, as well as Seunggawon, a Buddhist facility in Seoul for the disabled. It made cash and goods donations to social welfare organizations. Its initiative for neighbors comprises family-oriented social contribution activities (in cooperation with hobby clubs) and individual/group service activities.

For "Communion with Local Communities", KDIC employees visited the Nest of Sharing, a social welfare organization in Seoul, to offer financial support and distribute foodstuff; under the Matching One Family with One Department campaign, KDIC employees visited an underprivileged family or a social welfare institution which their department chose and donated money and time on a regular basis; under the House of Love campaign, KDIC staff repaired houses for low-income families in cooperation with the Seoul branch of Habitat for Humanity Korea; the KDIC supported the revitalization of traditional markets through the "day to visit traditional markets" and the "guide to deposit insurance system" campaigns; and it performed social contribution activities in partnership with related organizations (joint social contribution programs under an agreement with the Small Business Association in the Da-dong and Mugyo-dong areas); and volunteer activities at the National Cemetery (tombstone cleaning, weeding, flower replacement, and the like). The KDIC built cooperative ties with a village in Ungok-ri, Eungbong-myeon, Yesan-gun, Chungcheongnam-do to provide a helping hand to the residents as part of the "Communion with Rural Villages" initiative, and it helped clean up Cheonggyecheon Stream, a major rest area in downtown Seoul, as part of the "Communion with the Environment" initiative.

Table Ⅱ - 11

Social Contribution Activities in 2013

(As of Dec. 31, 2013, Unit: No. of Sessions, No. of People, KRW 1,000)

Category		Program Names	Participants	Donation, etc.	Frequency
Neighbors	Donation of cash and goods	Helping the less fortunate, collection of coins in a piggy bank	-	50,500	Yearly
	Scholarship	10 High school students from low-income families in the Seoul area	20	20,000	Yearly
	Help for people with disabilities	Volunteering at the Seoul Jungjin School and Sengga Temple	112	849	First Thursday of every month
	Family-friendly activities	Club activities, etc.	7	2,497	From time to time
	Personal volunteer activities	-	33	-	From time to time
Local Community	Volunteering at food banks	At the Nest of Sharing in Eunpyeong-Gu	110	11,000	Third Tuesday of every month
	Matching one family with one department	Assistance to 24 families and women's shelters	929	34,463	Monthly
	the House of love	Improvement of living conditions for low-income families (in connection with Habitat)	36	6,671	Quarterly
	Support for Traditional Market Merchants	Day to Visit a Traditional Market campaign	1,006	38,569	Every Thursday
	Signatories to the Da-dong and Mugyo-dong agreement	Blood donation, provision of free meals, support for local festivals, etc.	29	-	All year round
	National Cemetery	Weeding, flower replacement, etc.	45	-	All year round
Rural Communities	Building cooperative ties with rural villages	Helping farmers at sister villages at peak season (apple orchards)	79	23,009	Half-yearly
Environment	Cleaning-up the Cheonggye Stream	From Cheonggye Plaza to Samil Bridge	181	1,882	Fourth Friday of every month
Total		-	2,587	189,440	-

* Based on the account settlement results of the KDIC's Sharing Love Fund

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

The KDIC analyzed its internal and external environment and formulated the third Mid- to Long-Term Information Technology Plan for the period from 2011 to 2013 to facilitate the execution of its business strategies and improve customer support. The KDIC intends to achieve the IT vision of “Delivery of Advanced, Customer-friendly IT Service as a Leader of Financial Stability” and is working on IT projects in an organized way towards that end.

The Mid- to Long-Term Information Technology Plan has specific goals for each stage of the three-year period. The following actions were undertaken in 2013, in the third phase of the plan.

To achieve the goal of providing "support for business strategy achievement through IT services", the KDIC set up an extremely robust fund management system, based on establishment of the IFRS settlement support system and advancement of its accounting system.

In order to accomplish the goal of "customer-friendly and smart IT services", the KDIC improved its legal information system by adding a legislation history function that enables its employees to efficiently track the status of amendment of applicable laws. It also made its webpage much more user-friendly by providing menus for different types of customers. In accordance with the “Government 3.0” policy, it created an information disclosure menu on its webpage to provide easy access to information that it makes public.

To achieve the goal of "improvement of IT services", the KDIC incorporated an IT investment performance management function into its EAMS system, which enables prior feasibility tests for investment in a business system as well as efficient follow-up management of investment performance. It passed the conformity assessment of the renewal of the ISO 20000 certification that it obtained in 2010. It also improved its webmail system to bolster security against cyber attacks, adopted a stronger user account password management policy, and allowed use of various Internet browsers. It built a server account management system to beef up the account management and security of its servers.

In addition, the KDIC established an information protection management system by obtaining the G-ISMS (Information Security Management System for e-Government) certification of the Ministry of Security and Public Administration.

Figure Ⅱ - 4

Mid- to Long-Term Strategy for IT Advancement (2011~2013)

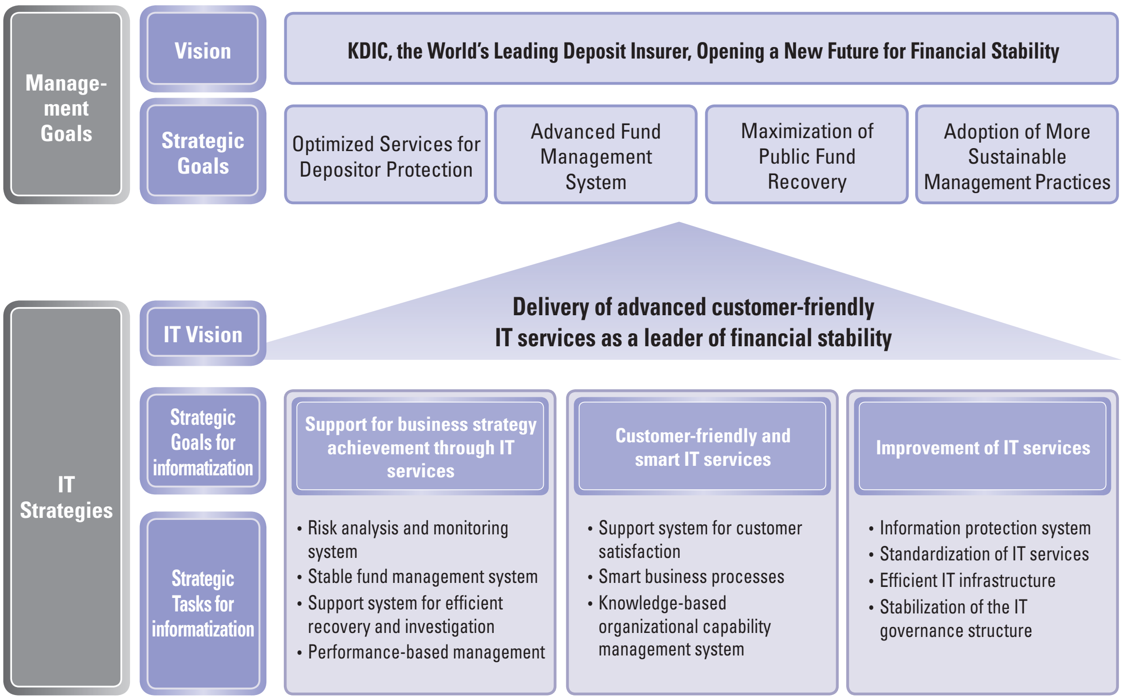


Table Ⅱ - 12

Detailed Action Plans for the Third Phase (2013)

Strategic Goals	Detailed Action Plans for the Third Phase (2013)	
Ⅰ. Support for business strategy achievement through IT services	• Apply the international accounting report standards and refine the accounting system	(2012.12~2013.07)
Ⅱ. Customer-friendly and smart IT services	• Improve KMS functions	(2013.11~2014.03)
	• Improve the functions of the legal information system	(2013.02~2013.06)
	• Overhaul the KDIC webpage	(2013.07~2013.12)
Ⅲ. Improvement of IT services	• Improve the functions of the webmail system	(2013.01~2013.04)
	• Build a server account management system	(2013.02~2013.05)
	• Pass the follow-up conformity assessment of the ISO 20000 certification	(2013.04, 2013.11)
	• Build a function to monitor IT investment results	(2013.10~2013.11)

Stronger Financial Consumer Protection

1. Prevention of Damage to Financial Consumers
2. Protection of Financial Consumers of Insolvent Financial Institutions

1. Prevention of Damage to Financial Consumers

Increased Awareness of the Deposit Insurance System

Key Promotional Activities

The KDIC staged an extensive promotional campaign to publicize its roles and values and improve the public's understanding of the deposit insurance system. It conducted surveys to explore ways to improve its publicity efforts and launched a promotional campaign aimed directly at the financially underserved including housewives and people in their fifties or older.

It produced promotional contents targeted at specific groups or addressing particular issues of interest and designed diverse contents as appropriate for different forms of media. It used ordinary people including housewives, students, and the elderly as models for advertisements, and it produced various promotional videos on matters of keen public interest. It collected people’s opinions on advertisement subjects for the first time to strike a responsive chord. By producing online/SNS videos for people with and without hearing impairment, it provided information to various audiences through new media.

The KDIC conducted publicity campaigns over major public and cable television networks. It also fully utilized advertising media that financial consumers commonly see every day, such as newspapers, magazines, display boards on public transportation including the KTX (Korea Train Express), buses, and subways, LED electronic display banners, and outdoor electronic ad displays. The campaigns specifically addressed the protection limit and ineligibility of subordinated bonds under the deposit insurance system and projected a positive image of the KDIC.

The KDIC also sought to utilize appropriate no-cost forms of media. It introduced a short notice on the deposit insurance system in neighborhood meeting circulars issued by local governments. It aggressively used bank account books distributed by financial institutions and promotional videos shown at branches of financial institutions, and it tried to improve the effectiveness of its promotional activities by considering viewer ratings and transient populations in its choices of media.

In the face of the rising use of the Internet and mobile devices, the KDIC made a "smart" publicity endeavor by using new media including social network services (SNS). It conducted SNS events all year round to attract public interest, and it expanded the blogger reporter corps into an SNS reporter corps. Production and dissemination of contents pertaining to the KDIC helped to publicize the institution and the deposit insurance system in real-time.

The KDIC participated in the “Seoul Money Show” and the “World Financial Fair Busan” to communicate directly with financial consumers. It conducted surveys at its booth and provided one-to-one consulting for people who are financially underserved to educate them about the deposit insurance system. It was intended to ease people’s concerns about the spate of suspensions of mutual savings banks.

Table Ⅲ - 1

Image Ads to Raise Public Awareness of Deposit Insurance

TYPE	2011	2012	2013
Image Ads			

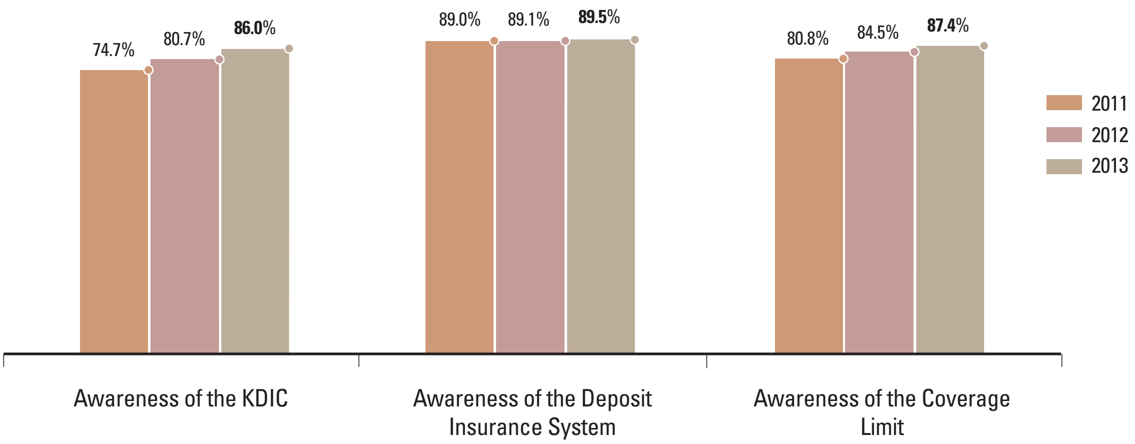
Awareness of the deposit insurance system

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

According to a survey in 2013, 86.0% of the public is aware of the KDIC, an increase of 5.3%p from the previous year, and awareness of the deposit insurance system rose 0.4%p to 89.5%. Awareness of the deposit coverage limit was 87.4%, up 2.9%p from the previous year.

Table Ⅲ - 2

Survey Results Regarding Awareness of Deposit Insurance by Year



Review of and Guidance for Compliance with KDIC Signage Display Requirements

Under the Depositor Protection Act, insured financial institutions should indicate whether a certain financial product is covered by deposit protection and, if so, for how much. The KDIC is authorized to verify their compliance with its signage display requirements. Insured financial institutions must provide accurate information about the deposit insurance system so that financial consumers can make informed decisions when choosing financial products.

Table Ⅲ - 3

Number of Branches Inspected On-site Per Inspector Regarding the Display of KDIC Signage

Category	2012	2013	Difference
No.of branches inspected per inspector	160	206	29% ↑

The KDIC examines insured financial institutions' compliance with the indication requirements in a non-imposing way in order not to burden them with needless administrative work and to enhance the KDIC's image. In 2013, it conducted a survey on its inspection of compliance with the requirements, and the survey findings were fully reflected in streamlining the system. In particular, it introduced an on-line examination, including submission of photographs by insured financial institutions, on a pilot basis, and this reduced the workload on inspected financial institutions. In 2013, each inspector examined compliance with the KDIC signage display requirements for as many as 206 branches of insured financial institutions.

The KDIC translated guides to the deposit insurance system into English, Chinese, Japanese, Filipino, Thai, and Vietnamese to offer accurate information on the system to foreign nationals with poor access to financial information and, thereby, to prevent any avoidable damage to them. The guides were distributed to and kept available at insured financial institutions.

Financial Literacy Education

Education for the Financially Underserved Population

Prompted by the global financial crisis in 2008 and the rising needs for financial literacy education, the KDIC began in 2010 to provide such education for the elderly and elementary school students. In June 2011, the KDIC formulated the SMART Financial Literacy Education Plan, which included on-site education and consulting on the deposit insurance system and a public awareness campaign.

Each year, the KDIC sent official notices on financial literacy education to elementary schools around the country with the support from the Ministry of Education, Science and Technology and received applications from them. Then, KDIC employees visited those schools to carry out financial literacy education on money management and the deposit insurance system. In 2013, the KDIC held 294 education sessions for 19,819 elementary school students nationwide.

In November 2011, the KDIC concluded an agreement with the Agency for Traditional Market Administration under which it began to participate in 2012 in the regular curricula of merchant universities, which provide business education for merchants in traditional markets. It provided financial literacy education for 54,709 merchants. It also supplied traditional markets with needed educational devices, including 30 sets of laptop computers and beam projectors, to improve their educational environment. Furthermore, it participated in various exhibitions hosted by the Agency for Traditional Market Administration, including the Korea Leading Market Expo and the Merchant University Workshop, where it introduced the deposit insurance system and publicized its financial literacy education programs.

The KDIC occasionally educated the elderly about the deposit insurance system, mainly at senior welfare centers and senior community centers. In September 2012, it reached an agreement with the Korea Association of Senior Welfare Centers, which helped to render financial literacy education for the elderly much more organized. The KDIC offered regular courses for 14,881 members of 220 senior welfare centers around the nation in 2013. It also provided some senior welfare centers with necessary educational devices, including 94 laptop computers and 58 beam projectors. By taking part in diverse events hosted by the Korea Association of Senior Welfare Centers, including the National Event for Senior Welfare Centers and the Nationwide Senior Volunteer Festival, it introduced the deposit insurance system and publicized its financial literacy education programs.

In 2013, the KDIC held 603 financial literacy education sessions for 100,231 financially underserved persons such as elementary school students, traditional market merchants, elderly persons, and self-supporting youths. Such effort was recognized by the Education Minister Award, the grand prize in the second Korea Educational Donation Awards in 2013.

Opening of the KDIC Financial Literacy Education Center

Financial literacy education needed to be overhauled to better satisfy the needs of many different target groups. In October 2013, the KDIC opened the Financial Literacy Education Center to provide a venue for R&D of educational contents and training of instructors, breaking out of its focus from direct, on-site education.

With opening of the center, the KDIC established a comprehensive system necessary for financial literacy education. It intends to pursue both quantitative and qualitative improvement in such education by developing textbooks, conducting research, and expanding education targets through the center.

Textbook Development

The KDIC is facing an increasingly diverse population for financial literacy education. The two available textbooks (for elementary school students and merchant universities) were inadequate for education designed specifically for targeted demographics, so the KDIC pushed for the development of five new textbooks targeting lower- and higher-grade elementary school students, merchant universities, the elderly, and other ordinary people. One of the textbooks is for general trainees and thus can be used for a universal purpose, and the other textbooks are designed for several major targets of education. This valuable collection of textbooks has improved the quality of the KDIC's education, in addition to allowing it to reach out to a wider spectrum of the population.

Table Ⅲ-4

Financial Literacy Education in 2013

(As of Dec. 31, 2013, Unit: No. of people)

Category	Elementary School Students	Traditional Market Merchant	Elderly	Other Ordinary People	Total
No. of People	19,819	54,709	14,881	10,822	100,231

2. Protection of Financial Consumers of Insolvent Financial Institutions

Alleviation of Inconveniences to Financial Consumers During Conservatorship

The restructuring of failed mutual savings banks that started in 2011 caused serious inconveniences to borrowers as well as depositors. The KDIC received complaints about confusion regarding loan repayment and financial strains resulting from suspension of due date extensions. Under these circumstances, the KDIC expanded the scope of protection to include borrowers as well as depositors.

Table Ⅲ-5

Approaches to Alleviate Inconveniences of Borrowers

Project	Description	Expected Effects
Organization of the KDIC-related loan review committee	Organization of a loan review committee for overlapping debtors of KDIC-related mutual savings banks	Creation of a single channel to deal with bank loans
Provision of guidelines on loan extension	Clarification of due date extension targets and conditions regarding loans coming due	Improvement in debtors' repayment ability
Guide to low-interest loans including the Haetsal(sunshine) Loan	Guide to low-interest loans through text messages, etc.	Reduction in interest payments
Enhanced guidance for debtors	Posting of an official announcement regarding loan repayment on the KDIC webpage upon commencement of conservatorship	Prevention of damage to debtors by averting defaults

The KDIC oversees the consultations by the *Loan Review Committee* among the parties concerned on the overlapping borrowers of member financial institutions or multiple loans secured with the same collateral. In 2013, the *Loan Review Committee* was convened twice, increasing the efficiency of the loan handling process and dramatically reducing debtors' inconveniences. The KDIC provided loan extension guidelines whereby extension periods and other terms of loans are adjusted in a timely manner in consideration of each debtor's circumstances. It continued to send letters providing information on low-interest loans and to post guidance for borrowers on its webpage.

Fast Deposit Insurance Payment and Improved Services

The KDIC made prompt payments of insurance benefits to alleviate inconveniences of depositors caused by extensive restructuring of mutual savings banks in 2011 and 2012. As a result, about 99.4% of eligible beneficiaries received insurance benefits. It regularly sent notices to the remaining 0.6% of depositors with unclaimed benefits to their most recent addresses known by the Ministry of Public Administration and Security so that they might receive dormant insurance benefits.

In 2013, the KDIC received information on families of deceased depositors with no contact information from appropriate agencies including the Ministry of Public Administration and Security and the Jung-gu district office. Then, it advised the bereaved families of the dormant insurance benefits to ensure that they could claim the benefits by such means as inheritance.

Providing customized services to the heirs of deceased depositors by finding and advising them was one of the KDIC's efforts to protect the heirs' property rights and, thereby, rectify blind spots of deposit insurance services. As part of such effort, it sought to provide services, in cooperation with the FSS, whereby a person making an "inquiry of an heir into financial transactions" at the FSC can also obtain access to the KDIC's information on dormant insurance benefits.

To improve its online deposit insurance payment services, the KDIC completed upgrading of the payment function of its *Integrated Resolution Information System* in January 2013. It fully considered depositors' grievances and depositor protection service users' opinions in its redesign, and the effort raised the online insurance benefit payment ratio from 34.7% to 46%.

In addition, the KDIC intends to provide deposit insurance payment services in a timely and organized manner both offline and online with no interruption or failure. In 2013, it formulated an action plan towards this end, by which it established a system in which insurance benefits are payable on the day immediately following business suspension, without any disruption to financial transactions. When the KDIC suspended five mutual savings banks in 2013, it offered the world's fastest insurance benefit payment services to minimize depositors' economic inconveniences.

Minimization of Financial Transaction Suspension Period

The KDIC adopted the "resolution without interruption in financial services" in the latter half of 2012. It applied the method to the sale of five failed mutual savings banks that were suspended after December 2012 (Seoul, Youngnam, Shilla, Smile, and Hanul), immediately after they were declared insolvent. It successfully arranged their P&A transactions with a third party or a bridge mutual savings bank held by the KDIC without any disruption to financial services, which minimized customer inconveniences and financial market turmoil.

Table Ⅲ - 6

Resolution of MSB Failures that Occurred in 2013

Bank Name	Resolution Method	Date of Business Suspension	Date of Business Resumption	Business Suspension Period	Note
Seoul	Bridge bank P&A	2013. 2.15	2013. 2.18	2 days (next biz day)	
Youngnam	Bridge bank P&A	2013. 2.15	2013. 2.18	2 days (next biz day)	
Shilla	Bridge bank P&A	2013. 4.12	2013. 4.15	2 days (next biz day)	Resolution without business suspension
Smile*	3rd-party P&A	2013.11. 1	2013.11. 4	2 days (next biz day)	
Hanul	3rd-party P&A	2013.12.27	2013.12.30	2 days (next biz day)	

* The first P&A transaction with a third-party during normal operations

The "resolution without interruption in financial services" indeed reduced depositors' inconveniences and financial chaos to a minimum. In the first half of 2013, the KDIC suspended the operations of Seoul Mutual Savings Bank, Youngnam Savings Bank, and Shilla Savings Bank at the close of business hours on a Friday. Then, a P&A by a bridge bank was completed over the weekend so that business could resume on the following Monday. The KDIC stabilized the system institutionally.

In the second half of 2013, the KDIC conducted the resolution of failed Smile and Hanul Savings Banks through "third-party P&A in the course of business," which does not require the use of a bridge bank. Thus, the KDIC has established a robust new resolution system that reduces not only depositors' inconveniences, but also its burden concerning sale and management of bridge mutual savings banks, and greatly accelerates the restructuring of insolvent mutual savings banks.

Effort for Bankruptcy Dividends Payment

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

For holders of deposits in excess of the coverage limit as prescribed in Article 35-2 of the Depositor Protection Act, the KDIC makes partial advance payments of bankruptcy dividends. The KDIC purchases claims, such as deposit liabilities in excess of the coverage limit, from depositors upon their request, makes an estimate of the expected dividends from the bankruptcy estate, and makes payment to depositors in advance on a pro-rata basis in exchange for their claims. This is intended to minimize depositors' economic inconveniences caused by a prolonged bankruptcy procedure.

As its deposit claim recoveries minus the costs exceeded such advance payments, the KDIC paid about KRW 22.3 billion to over 18,000 depositors at seven mutual savings banks in December 2013 to settle the difference.

By ensuring early payment of bankruptcy dividends through such advance payments and settlement, the KDIC minimized financial inconveniences caused to holders of deposits in excess of the coverage limit. It also promoted depositors' convenience by building an IT system that allows them to apply for such advance payments and settlement online.

Some creditors have not been notified of their due dividend payments because their contact information is unknown. Other creditors have simply not collected their dividends. To protect the property rights of bankruptcy creditors whose dividends have not been collected, the KDIC launched the Unclaimed Dividend Notification Campaign in August 2005.

The KDIC learned the addresses of bankruptcy creditors with uncollected dividends by means of newspaper advertisements or with the help of the Ministry of Public Administration and Security, and requested the bankruptcy estates to send dividend payment notifications to the updated addresses. The KDIC renders Unclaimed Dividend Notification Services on its website where creditors can check online to see if there are any unpaid dividends for them.

IV

Advancement of the Deposit Insurance System

1. Improvement of the Deposit Insurance System

Revamping of Laws Applicable to the Deposit Insurance System

The Enforcement Decree of the Insurance Business Act promulgated on January 24, 2011 (by Presidential Decree No. 22637) entered into force on April 1, 2013. Accordingly, the book closing day for insurance companies was changed in 2013 from March 31 to December 31, which consequently shortened the fiscal year 2013 of those companies to only nine months. Insurance companies must pay the KDIC both deposit insurance premiums and special contributions, which are paid into the DIF Bond Redemption Fund, within three months from the close of each fiscal year. Insurance premium income, which serves as a basis for deposit insurance premium assessment for insurance companies, refers to premiums received in the fiscal year immediately preceding the fiscal year in which their due dates fall. Shortening of the fiscal year 2013 of insurance companies to nine months caused concerns about understatement of their insurance premium income.

To redress this problem, the KDIC ensured, through amendment of the Enforcement Decree of the Depositor Protection Act in December 2013, that if the preceding fiscal year of insurance companies is less than one year, their insurance premium income during the previous fiscal year would be annualized in calculating the amount of premiums received. Deposit insurance premiums payable by insured financial institutions were required to be calculated on a daily pro-rata basis. This prevented problems that may otherwise occur in calculating deposit insurance premiums and special contributions to the DIF Bond Redemption Fund following a change in the book closing day of insurance carriers.

Preparation for the Implementation of the Risk-Based Premium System

The risk-based premium system applies different premium rates to insured financial institutions in consideration of their managerial and financial condition. For introduction of the system, the KDIC amended the Depositor Protection Act in February 2009. The system became applicable to all insured financial institutions in 2014.

For seamless implementation of the system, the KDIC reviewed the opinions of outside experts including those of the financial authorities, insured financial institutions, financial associations, research institutes, and academia. In March and May 2013, the KDIC respectively formulated the Regulations on Operation of the Risk-Based Premium System and their detailed enforcement rules, and informed each insured financial institution of them. It built and incrementally improved the Risk-Based Premium System (RBPS) to electronically obtain and verify data, determine risk ratings and calculate premium rates, and process complaints.

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

Table Ⅳ-1

Types of Differential Risk Assessment

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

In order to ensure that the risk-based premium system launched in 2014 successfully takes root, the KDIC made presentations on the system for each sector of the financial industry in 2013. It successfully implemented the system on a pilot basis with the participation of working-level officers from each insured financial institution. It designated a soft landing period and pursued a gradual increase in the level of premium rate differentiation to minimize the impact of the system's introduction on insured financial institutions.

Table Ⅳ-2

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

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

To promote the fairness of premium rate decisions, the KDIC organized the Differential Assessment Committee comprising external experts. The KDIC plans to ensure the integrity of the process through a process determined by law and regulation, including deliberation by the Committee and adoption of a resolution by the Deposit Insurance Committee. Each insured financial institution will be notified of the results of premium rate decisions.

The International Monetary Fund (IMF) and the International Association of Deposit Insurers (IADI) recommend adoption of the risk-based premium system. A substantial number of industrialized countries, including five of the G7 members, already have such a system in place. Under the circumstances, successful implementation of the system will help the Korean deposit insurance system fully meet international standards and contribute to raising the nation's international credit standing.

2. Research on Deposit Insurance System

Research on Deposit Insurance System and Financial Safety Net

The KDIC is preparing to apply the best practices in deposit insurance system operation by researching advanced deposit insurance schemes and supporting independent study and thesis programs.

Table Ⅳ-3

Major Research Reports in 2013

Subject	Title
Resolution framework reforms in major countries	• Cross-border resolution strategies regarding G-SIFI (FDIC, BOE) • Major details of the FSB's proposed recovery and resolution plan for G-SIFIs • Major details of the UK recovery and resolution plan • Details of recovery and resolution plans for financial institutions in major countries • Major details of the proposed amendment to the Japanese Deposit Insurance Act for systematic resolution of financial institutions • Major details of the FSB's peer review report • Major details of the EU's proposed plan for the establishment of the SRM (Single Resolution Mechanism) • Major details of the FSB's Guidelines on Developing Effective Resolution Strategies
Overseas deposit insurance systems and current issues in finance and economics	• Improvement of the UK deposit payout process • Major details of the IADI deposit protection limit guidance • Characteristics of community banks in the US • Insured party protection systems in OECD member countries • Major details of the UK FLS (Funding for Lending Scheme) • Progress in and prospects for the negotiations over the fiscal cliff in the US • Diagnosis of and prospects for the recently weakening yen

In the aftermath of a global financial crisis, leading industrialized countries including the US and the Financial Stability Board pressed ahead with reform of the resolution system to prevent any disruption to the financial system and resolve large, complex financial organizations systematically and effectively without resorting to financial rescue packages.

Based on studies into global resolution system reforms, the KDIC ascertained the trends in major countries including the US, the UK, the EU, and Japan. It conducted in-depth research into their impact on the Korean deposit insurance system and the ways to introduce related schemes.

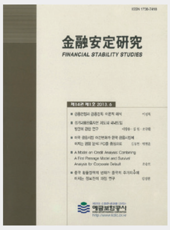
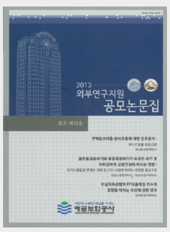
It also examined international discussions and recent trends in relation to resolution system reforms. For advancement of the Korean resolution system, it hosted a policy symposium in December 2013 jointly with the Korea Money and Finance Association and the Korea Institute of Finance on international discussions and responses concerning the resolution framework for financial institutions.

Sharing of Research Results

The KDIC has supported specialized and creative research on subjects such as the deposit insurance system and financial system stabilization, published research findings in *Financial Stability Studies* (an academic journal accredited by the National Research Foundation of Korea) and compiled a collection of theses submitted for a contest for research funding, and distributed the findings to appropriate authorities, academia, and the media. By such publications and information sharing, the KDIC strives to ensure the efficient operation and improvement of the deposit insurance system.

Table Ⅳ-4

Major Publications in 2013

Title	Key Theses Published
Financial Stability Studies (Vol. 14; issues 1 and 2)  	• Financial stability and supervision: theoretical interpretation • Study on the ways to introduce the counter-cyclical buffer system in Korea • Analysis of the impact of changes in the US financial market on the Korean financial market (with a focus on FCI) • A model on credit analysis: combining a first passage model and survival analysis for corporate default • Study on the process of information spillover regarding how changes in Chinese foreign exchange policy affect its stock price indexes • Study on the brokerage function of monetary policy based on the asymmetric response of interest rates • Study on introduction of international accounting standards and fair value of deposit insurance premium rates • Study on the impact of stockholders' equity in banks on the monetary policy transmission mechanism • Study on asymmetric hedging by export-import companies and financial market stability • How do a company's financing policy and ownership structure affect its enterprise value under different growth opportunities?
A Collection of Theses Submitted to a Contest for Research Funding  	• Analysis of preference for different types of interest rates for mortgage loans (focused on stated preferences) • Impact of global and European financial crisis on financial stability of Eurozone economies and emerging markets (focused on the effect of sovereign credit rating changes on government bond and CDS markets) • Study on factors affecting PF loan recovery of failed mutual savings banks

3. International Exchange and Cooperation

Stronger Global Leadership at International Organizations Including the IADI

Stronger Internal and External Activities for More Advanced Deposit Insurance System

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

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

In October 2012, the KDIC received *the 2012 Deposit Insurance Organization of the Year Award* from the International Association of Deposit Insurers (IADI), based on a vote by all member countries. At home, it built a foundation commensurate with its elevated standing. It simultaneously endeavored to fully perform its external roles. Firstly, it took part in important decision-making of the IADI Executive Council. It proactively exercised leadership to refine the deposit insurance system and further international cooperation among deposit insurers. In the 12th IADI Annual Meeting held on November 7, 2013, the KDIC assumed a second term as a member of the IADI Executive Council. With the KDIC continuously serving on the Council since the launch of the IADI, it reconfirmed its stature as a global leader in deposit insurance.

In February 2013, the IADI embarked on revision of the *Core Principles for Effective Deposit Insurance Systems* at the request of the FSB. The KDIC served on the Steering Committee mainly comprising deposit insurers of leading countries. Revised principles are expected to be confirmed in 2014.

Since introduction of the integrated deposit insurance system in 1998, the KDIC resolved numerous failed financial institutions in the banking, insurance, securities, and mutual savings banking sectors in the process of tackling two financial crises. It, in the process, accumulated substantial know-how on resolution of insolvent financial institutions and successfully implemented the deposit insurance system. In recognition of such experience and ability, the KDIC was made the Chair of the IADI Subcommittee on Integrated Protection Schemes. As part of its activities on the Subcommittee, it conducted a survey of deposit insurers all around the world in 2013. It is currently working on a research report based on the survey findings, and the report should be completed in 2014.

In the meantime, the KDIC proactively responded to the Financial Sector Assessment Program (FSAP) for Korea implemented by the IMF in 2013 in an effort to prove the excellence of its deposit insurance system.

Hosting the IADI Asia-Pacific Regional Committee 11th Annual Meeting and International Conference

The IADI Asia-Pacific Regional Committee is composed of 17 member organizations and 6 associates and partners. As the Vice Chair of the APRC, the KDIC hosted the IADI Asia-Pacific Regional Committee (APRC) 11th Annual Meeting and International Conference focused on the "Key Elements of Deposit Insurance and Challenges in Practice" for two days from May 14th to 15th.

Nearly 70 of 150 participants of this event were from deposit insurance organizations in 25 jurisdictions including Mr. Jerzy Pruski who is the President of the IADI, Mr. Jean Pierre Sabourin who was the founding President of the IADI and is now the CEO of the Malaysia Deposit Insurance Corporation, Mr. Hiroyuki Obata who is the Chair of the IADI APRC and is the Deputy Governor of the Deposit Insurance Corporation of Japan.

Domestically, Mr. Je-yoon Shin, Chairman of the FSC, and Mr. Joo Hyun Kim, President of the KDIC, attended the opening ceremony and welcomed the participants with congratulatory speeches.

In particular, a separate session was created where officials from non-IADI member countries preparing for the establishment of a deposit insurance scheme or improvement of an existing one could talk about their challenges and benefit from other countries' experiences. This was the first time that representatives from Mongolia, Lao PDR, Nepal and Myanmar attended the IADI APRC conference and is expected to aid the IADI in its effort to bring in new members. In connection with the Global-KDIC KSP (Knowledge Sharing Program)*, the KDIC has continued to work with these countries to help them to achieve their goals and enhance the Korean government's engagement with the global community.

* This is a project aimed at sharing the KDIC's operational know-how and offer tailored consultation to emerging nations which are considering the adoption of a deposit insurance scheme or improvement of an existing one. As of 2013, a couple of projects are underway to provide policy consultation to the Mongolian government to adopt deposit insurance and to the Tanzanian government to create an independent deposit insurance organization.

Expansion of Exchange with Foreign Deposit Insurers

Conclusion of MOUs for Promotion of Information and Personnel Exchange

The KDIC has signed memorandums of understanding (MOUs) with foreign deposit insurers and central banks to promote mutual exchange for development of deposit insurance schemes and to expedite information and personnel exchange concerning outstanding issues. An MOU enables the KDIC to avoid one-time exchange and cooperation events and to instead develop sustained multi-pronged cooperation programs with its partners. The signing of MOUs is at the heart of its exchange projects.

In 2013, it concluded new MOUs with the deposit insurers of Japan and Malaysia and renewed MOUs with the deposit insurers of the US, Vietnam, and Indonesia.

On May 6, 2013, the KDIC entered into an MOU with the Deposit Insurance Corporation of Japan (DICJ). Concluded after exchange of a letter of intent on promotion of mutual relations in 2001, the MOU was designed to further their strong cooperative ties. From the standpoint of the DICJ, the MOU is very meaningful since it is the first MOU that the DICJ has signed with a foreign deposit insurer. In its signing ceremony, the KDIC proposed to its Japanese counterpart that the two parties jointly pursue the Global-KDIC KSP (Knowledge Sharing Program) targeting emerging economies. On December 6, 2013, the KDIC concluded an MOU with the Malaysia Deposit Insurance Corporation to boost mutual cooperation and set the stage for research into matters of common interest.

On May 13, 2013, the KDIC renewed its MOU on personnel exchange with the US Federal Deposit Insurance Corporation for an extraordinarily long period of five years. This demonstrates their strong bond of trust. On May 28, 2013, the KDIC also renewed its MOU with the Deposit Insurance of Vietnam that it initially signed in 2006, and on November 29, 2013, it renewed its MOU with the Indonesia Deposit Insurance Corporation originally concluded in 2010. These MOUs enable the KDIC to pursue timely cooperation with its international partners in the event of a deposit insurance incident and afford it a network to share crisis management plans and strategies.

At the request of the Ukrainian Deposit Guarantee Fund, which made an MOU with the KDIC in November 2012, the KDIC hosted a workshop in Ukraine in August 2013 to transfer its experience in operation of the deposit insurance system. It dispatched personnel to the Ukrainian Deposit Guarantee Fund on a short-term basis. It also sent personnel to the DICJ according to their MOU to study improvement of the Japanese deposit insurance system in the wake of the global financial crisis and share its own experience in deposit insurance.

Stepped-Up Sharing of Korea's Deposit Insurance System Experience (Global-KDIC KSP)

Deposit insurance has assumed greater importance worldwide since the global financial crisis in 2008. Other nations including developing countries are increasingly asking the KDIC to share its experience in deposit insurance system operation.

In response, the KDIC organized the *Global-KDIC KSP (Knowledge Sharing Program) Team* in December 2010 and has actively promoted the Global-KDIC KSP to provide capacity-building training and policy consultation to other countries which are preparing to enact deposit protection laws or to establish deposit insurance organizations.

In 2013, the KDIC hosted customized international workshops and training sessions to share its extensive knowledge and experience in deposit insurance with aspiring participants. In January, it shared its ample experience with visiting high-ranking officials of the Nepalese Deposit Insurance and Credit Guarantee Corporation and Ministry of Finance. In May, it dispatched several staff members to Vietnam to speak at risk monitoring and resolution training sessions for the officers and employees of the Deposit Insurance of Vietnam and the State Bank of Vietnam at the request of the Deposit Insurance of Vietnam. In June, the KDIC conducted a workshop for personnel of the Indonesia Deposit Insurance Corporation (IDIC), Ministry of Finance, and Financial Services Authority upon request from the IDIC, in connection with operation of the deposit insurance system in the insurance sector and preparation for implementation of the risk-based premium system. In August, it dispatched personnel to Ukraine in compliance with a request from the Ukrainian Deposit Guarantee Fund to share its comprehensive experience. In October, it hosted a workshop in Korea to share its experience in resolution through establishment of bridge mutual savings banks with officers and employees of the Thai Deposit Protection Agency as requested by the Agency.

Table Ⅳ-5

Exchange with Foreign Deposit Insurers in 2013

Country	Audience	Month	Description
Nepal	Deposit Insurer and Finance Ministry	Jan.	• Training for the visiting high-ranking officials of the Nepalese Deposit Insurance and Credit Guarantee Corporation and Ministry of Finance
Vietnam	Central Bank and Deposit Insurer	May	• Local workshop for officers and employees of the Deposit Insurance of Vietnam and the State Bank of Vietnam
Mongolia	Finance Ministry and Central Bank	Feb.	• 2012 KSP final report for Mongolia • Interview with the Vice Minister of Finance and high-ranking policy-makers
	Deposit Insurer	Dec.	• Participation in the 2013 APRC Outreach Workshop
Indonesia	Deposit Insurer, Finance Ministry, Financial Services Authority	Jun.	• Workshop for working-level personnel of the Indonesia Deposit Insurance Corporation, Ministry of Finance, and Financial Services Authority upon request from the IDIC, in connection with operation of the deposit insurance system in the insurance sector and preparation for implementation of the risk-based premium system
Tanzania	Government, Central Bank	Jan.	• 2012 KSP final report for Tanzania • Interview with the Minister of Finance and the Deputy Governor of the Bank of Tanzania
	Central Bank	Oct.	• 2013 KSP capacity-building training for Tanzania
Ukraine	Deposit Insurer	Aug.	• KSP workshop and short-term personnel exchange
Thailand	Deposit Insurer	Oct.	• KSP workshop regarding resolutions through establishment of bridge mutual savings banks

The KDIC linked the Korean government's *KSP* for Mongolia with its Global-KDIC KSP project, implementing related programs in 2010 and 2012. Since then, it has offered several training programs to Mongolia to share its experience in deposit insurance system implementation. The KDIC's unsparing support led to Mongolia's enactment of a deposit insurance law in January 2013 and launch of its deposit insurer in August 2013. In recognition of such contribution, the Chairman and President of the KDIC became the only representative of a foreign deposit insurer who attended a ceremony marking establishment of the Deposit Insurance Corporation of Mongolia upon invitation.

Following 2011 and 2012, the KDIC again won the Tanzania KSP project from the Korea Development Institute that was commissioned by the Ministry of Strategy and Finance. The KDIC provided policy consultation to support the Tanzanian government's effort to establish a deposit insurance organization. In 2013, the KDIC hosted a workshop on its overall experience in deposit insurance to strengthen the competencies of working-level personnel of the Tanzanian Ministry of Finance, the Bank of Tanzania, and the Deposit Insurance Board. For the workshop, the KDIC invited staff of the Deposit Insurance Corporation of Japan and the Central Deposit Insurance Corporation of Taiwan as lecturers for the first time, and they shared their experience as advanced deposit insurers.

V

Risk Management

1. Inspections and Joint Examinations

Enhancement of Risk Surveillance

Improvement of Risk Surveillance Models

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

The KDIC continues to improve and refine its risk surveillance models to effectively respond to changes in the financial environment. Due to the rise in risks stemming from low-interest and household loans, the KDIC recently reviewed the existing indicators and altered the risk surveillance models to improve their integrity. Based on advice from professionals, it refined a stress test model developed in 2012 to beef up its risk surveillance capacity in a crisis situation. The model forecasts fluctuations of each insured financial institution's financial indicators in response to internal and external risk factors.

In 2013, a series of players in the cyclical industries including shipbuilding, construction, and marine transport fell into insolvency. In response, the KDIC developed a stress test model for banks' exposure to corporate lending to analyze the impact of corporate borrowers' distress on banks' asset quality and capital adequacy. Also, to deal with changes in the business environments and financial positions of individual financial investment companies, the KDIC re-verified the significance of the variables of its risk surveillance model, developed new indicators, and modified evaluation weights to better monitor the risks of the financial investment sector.

Strengthening of Risk Surveillance Capabilities

The KDIC is improving risk surveillance capabilities and the quality of analysis reports in a number of respects. In 2013, it provided a course on ongoing risk surveillance on four occasions so that its employees could hear expert lectures on such topics as the outstanding issues and the changes in the business environments of each sector of the financial market. Following introduction of the training system in August 2006, a total of 25 classes were offered by the end of 2013. Useful and timely information pertinent to major issues in the financial market was identified and included in the course, and the contents of the program were adjusted to address both theory and practical applications. After hosting the course, the KDIC surveyed trainees on their satisfaction with it and duly took their opinions into consideration in the planning for the following classes.

Table Ⅴ- 1

Risk Surveillance Classes Held in 2013

Time	Topic
Jun. 2013	• Changes in the business environment of banks and their risk management
Sep. 2013	• Financial prudential regulation and risk management concerning insurance companies
Oct. 2013	• Major issues in the financial investment industry and their impact on risk management
Dec. 2013	• Effects and implications of the Basel Ⅲ framework on banks and their holding companies

The KDIC held a joint workshop in order to facilitate smooth execution of joint examinations and exchange of necessary know-how. In-house training programs were provided on an as-needed basis to educate staff members about the improvements in the *Financial Information Analysis System* (FIAS) and risk surveillance models concerning insured financial institutions.

In addition, the KDIC designated Wednesday as the *"Day of Focused Non-financial Information Collection"* to expedite gathering of non-financial information. It also improved the FIAS to enable efficient entry and utilization of the collected information.

It continuously sought to upgrade its competencies. For exchange of know-how on ongoing risk monitoring and on-site examinations with advanced foreign insurers, it invited Lanu T. Duffy, an employee of the Federal Deposit Insurance Corporation (FDIC) who conducted on-site examinations for over twenty years, to give lectures and conduct consultation. This training was an opportunity for KDIC employees to learn about the FDIC's constant risk monitoring techniques and IT systems, on-site examination methodologies, and cooperation with the agencies concerned. After the training, the KDIC produced a list of the FDIC's practices that can be benchmarked and applied them to its ongoing risk surveillance and on-site examinations.

For the purpose of establishing a process that accurately assesses examination capacity and increases professionalism, the KDIC developed examination ability assessment indicators (professionalism, quality of reports, and satisfaction with examinations). As regards the first two indicators (professionalism and quality of reports), assessment was carried out by former and current examination experts and accounting professionals. Concerning the remaining indicator (satisfaction with examinations), satisfaction surveys targeting officers and employees of mutual savings banks subject to examinations were implemented to gauge their reaction to examination processes and results. The assessment score was 90.22, which implies a very high level of satisfaction.

Experts from academia, the financial industry, and the financial supervisory authorities who attended the December 2013 workshop to explore the direction of mutual savings banks examination noted that the KDIC had excellent examination ability.

The KDIC also revamped the Problem Loan Search System (PLSS) for filtering problem loans prior to commencement of on-site examinations. By using the *Examination/Inspection MOU Management System* (EIMS), it systematically managed planning, implementation, and follow-up monitoring of the independent and joint examination process.

Formulation of Examination Improvement Plan

In July 2013, the KDIC set up the Examination Improvement Plan for Mutual Savings Banks and the Detailed Action Plans for Examination Improvement to differentiate its examination process from that of the FSS and minimize the difficulties for examined mutual savings banks.

The Plan set the primary direction of KDIC examinations: strengthened monitoring of systems for identifying, evaluating and controlling risk, including risk management and internal control, which strongly affects the Deposit Insurance Fund's incurrence of losses. Accordingly, the KDIC reviewed mutual savings banks' risk management practices and presented an improvement plan tailored to address each savings bank's risk factors and characteristics.

It allowed mutual savings banks to better prepare themselves for examinations by granting them ten days' prior notice of examination commencement instead of only five as granted previously. In addition, the KDIC beefed up advance analysis to make the best possible use of its on-site examination personnel in the limited time available.

Legal Basis of Insurance Event Risk Management

One of the most important tasks of the KDIC, as an entity in charge of managing the Deposit Insurance Fund (DIF), is to detect insolvency risks of insured financial institutions at an early stage in order to prevent any insurance event that causes losses to the DIF.

The Depositor Protection Act explicitly sets forth the purpose of the KDIC and risk management concerning insurance events. However, Article 18 of the Act provides for the scope of duties of the KDIC but does not contain provisions on such risk management. Therefore, the KDIC worked with the government to add provisions regarding insurance event risk management by the KDIC in order to bolster the integrity of the legal system and facilitate ongoing risk surveillance of insured financial institutions. The government proposed a bill for the revision of the Depositor Protection Act that was submitted before the National Assembly in October 2012, and it was pending in the National Policy Committee, a standing committee, as of the end of December 2013. Passage of this bill by the National Assembly is expected to empower the KDIC to better monitor insurance event risks of insured financial institutions, which in turn will greatly help reinforce the soundness of the DIF.

Independent and Joint Examinations

Independent Examinations of Mutual Savings Banks

The KDIC selected examination targets and commenced examinations according to the criteria under the revised Enforcement Decree of the Depositor Protection Act. Since any overlap between the FSS inspections and the KDIC independent examinations can overwork the employees of mutual savings banks, the KDIC made sure its examinations were closely coordinated with those of the FSS.

Out of the mutual savings banks meeting the criteria for the declaration of a financial institution at risk of insolvency under the Enforcement Decree of the Depositor Protection Act, the KDIC selected examinees excluding those subject to joint examinations, resolution procedures such as market sale, and examinations by the FSS. Through ongoing consultation with the FSS, it implemented a well-coordinated examination plan.

In 2013, the KDIC collected written data from eleven mutual savings banks designated for examinations to begin on-site examinations only after an off-site analysis. It recommended a capital increase for mutual savings banks whose financial positions were found to be weak, and it requested the financial supervisory authorities to take appropriate actions to counter the risks of their financial distress. It also pressed for effective managerial improvement of mutual savings banks by putting forward improvement plans in consideration of their respective risk factors and characteristics.

More Effective Joint Examinations Through Institutional Improvements

The joint examinations were not intended to merely be repeats of the FSS examinations. The KDIC formulated an improvement plan by organizing a task force for improvement of the ongoing monitoring system in September 2013. To render joint examinations more effective, the plan included analysis of variable factors by type of risk, implementation of a stress test, and benchmarking of the FDIC's advanced risk management techniques. In a bid to prevent an event similar to the liquidity crisis at Tongyang Securities in September 2013, the KDIC mapped out a plan for better joint examinations including more rigorous post-monitoring and engaged in discussions with the FSC. According to the plan, if the FSS fails to comply with a KDIC request for corrective measures concerning joint examination findings, the KDIC may make another request to the FSS to implement corrective actions or may independently take direct measures against the corresponding financial institutions and confirm their compliance. In the event the FSS conclusively executes corrective actions as requested by the KDIC, the FSS is required to give notice thereof to the KDIC.

In line with consistent pursuit of joint examinations in 2013, the KDIC intensified its on-site examination efforts. It conducted joint examinations of eighteen financial institutions including banks, insurance companies, securities companies, and mutual savings banks. It also hosted a workshop on joint examinations to promote mutual understanding and cooperation with joint examiners such as the FSS and the Bank of Korea.

Table Ⅴ - 2

Joint Examinations of Financial Institutions with the FSS

(Unit: No. of examinations)

Year	Before 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
No.	1	0	6	8	11	12	9	15	24	31	9	18	144

Promotion of Ongoing Risk Surveillance Activities

The KDIC established the *Ongoing Surveillance Council* in 2006 to oversee and coordinate risk monitoring activities, to deliberate on major issues regarding risk surveillance and to ensure effective responses to insurance events of financial institutions. In 2012, the KDIC formulated a plan to make the Council more efficient. According to the plan, the Council addressed a greater number and a wider range of agenda submitted by each KDIC department. The KDIC encouraged employees to submit outstanding agenda by granting them incentives for doing so. The Council reviewed eleven agenda items in 2013 including the level of business risks in each financial sector and measures to grapple with changes in the economic and financial environment. Better business coordination including cooperation among related departments improved the KDIC's ability to execute business affairs, and the KDIC awarded prizes to the proposers of three outstanding agenda.

Through the task force for improvement of the ongoing monitoring system organized in September 2013 for more stringent surveillance, the KDIC prepared business risk reports that mainly analyze risk factors and the overall risk profile. It also produced risk analysis reports addressing risk factors of each financial sector in advance and utilized them to determine the appropriate levels of ongoing surveillance and to select the targets of joint examinations. In addition, it distributed the reports to the financial policy-making authorities. The KDIC conducted various stress tests for each area of the financial industry to assess the possible impact that specific risk factors, such as growing uncertainties in the financial market and financial distress of companies, may have on individual financial sectors and institutions.

In January 2004, the KDIC signed an MOU with the Bank of Korea and the FSS to share financial information and cooperate more closely. The global financial crisis in 2008 underscored a need to minimize systemic risks and bolster cooperation among related organizations by recognizing and addressing risk factors in the financial market as early as possible. In September 2009, the KDIC newly concluded an MOU on financial information sharing with the MOSF, the FSC, the Bank of Korea, and the FSS, which increased the scope of information sharing necessary to facilitate each organization's performance of given functions. In February 2012, said MOU was partially modified to clarify the nature of the information to be shared and to facilitate greater information sharing.

In 2011, the KDIC provided the Bank of Korea with nineteen financial information packages on insured financial institutions for the first time. In 2013, it provided 22 information packages and also provided the FSS with 29 financial information packages. In 2013, the KDIC received 48 business reports from the Bank of Korea and 1,284 business reports from the FSS and fully utilized them in ongoing surveillance. As part of the effort to expand sharing of such periodic reports based on mutual cooperation and pursue the "Government 3.0" policy, the KDIC established a plan to step up financial information sharing among related agencies. The plan allows all reports to be shared on demand with the exception of financial institutions' business reports of which sharing is prohibited by law. As a result, financial information to be shared in 2014 is expected to increase further.

The KDIC participates in the *Macro-Economic and Financial Meeting*, which is a standing consultative body of their deputy heads set up in 2012. The participants intend to periodically review macroeconomic soundness, share financial information, and coordinate joint examinations to ensure mutual cooperation among financial policymakers; to share information on overall risk factors regarding finance and foreign exchange; and to proactively explore ways to promote collaboration.

Market-friendly Risk Surveillance

The KDIC publishes the quarterly *Financial Risk Review* to analyze risk factors of insured financial institutions and to promote market-friendly risk surveillance. *Financial Risk Review* includes risk analysis information produced by the KDIC and articles on risk management techniques contributed by experts in academia and the financial markets. The magazine is sent to financial authorities such as the FSC as well as the National Assembly, academia, and insured financial institutions. The KDIC surveyed the outside parties to which the magazine is distributed, and in April 2013, laid out a plan to improve the magazine. It sought to refine related systems to provide higher quality contents.

Table V - 3

Main Contents of Financial Risk Review in 2013

Issue	Main Contents
Spring 2013	• Risk factors in the banking business due to changes in the business environment and countermeasures • Analysis of the status of premium reserve management structure of life insurance companies and its impact on interest profits and losses
Summer 2013	• Assessment of the impact of revision of the Financial Investment Services and Capital Markets Act on financial investment business and markets • Diagnosis of risks in the marine transport industry and their effects on banks
Autumn 2013	• International trends in prudential regulation of insurance companies and their implications • Resolution systems for insolvent insurance companies in major foreign countries (the US, the UK and Japan)
Winter 2013	• Impact of tapering of US quantitative easing on the Korean financial market • Operational status of policyholder protection systems in OECD members

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

The KDIC held a workshop for the CEOs and risk management officers of mutual savings banks. In the workshop, exemplary cases of risk management in the savings banking industry and other financial sectors were shared and risk management methodologies suitable for each industry were presented. The difficult business conditions of small- and medium-sized mutual savings banks precluded the possibility of conducting employee training programs for themselves to increase their competitiveness, so the KDIC rendered them educational support instead.

In 2013, the KDIC hosted the *Cheonggye Financial Forum* thirteen times for executives and employees of insured financial institutions and personnel of the policy-making authorities. The Forum features lectures and discussions on risk factors and major issues in different financial sectors, in addition to sharing of information on outstanding issues in the financial markets. Experts from insured financial institutions were invited as lecturers for ongoing surveillance forums, which were held thirteen times in 2013. During the forums, the attendees shared practical financial knowledge including risk management techniques.

The KDIC will continue to improve its market-friendly risk surveillance efforts including the provision of consulting and information services, along with examinations and inspections.

Response to Bank Runs on Mutual Savings Banks

In January 2012, the KDIC formulated a plan to counter bank runs as anxiety among depositors increased along with the restructuring of mutual savings banks in 2011.

To detect signs of a bank run, it constantly monitored deposit withdrawals at mutual savings banks under financial distress as well as press reports on such banks. The KDIC posted its own staff at mutual savings banks considered at risk of bank runs to help prevent any from occurring. It also posted staff at mutual savings banks where bank runs had already occurred to take care of depositors. The staff members explained the deposit insurance system to prevent depositors from suffering interest losses triggered by unnecessary contract terminations and mutual savings banks from becoming insolvent due to illiquidity.

The KDIC moved aggressively to deal with the possibility of a bank run sparked by a shock in the financial environment. In accordance with the shift to ongoing restructuring without business suspension in the savings banking sector, the KDIC in 2013 formulated separate guidelines to respond to the complaints of subordinated bond investors who are not eligible for deposit insurance coverage.

2. Management of Financial Institutions Receiving Public Funds

MOU Conclusion and Examination of MOU Implementation

Since 1999, the KDIC has entered into MOUs with fourteen public fund recipients and monitored their compliance with the business normalization requirements in the MOUs in order to increase their corporate value and recover the public funds injected into them as early as possible. Beginning from April 2002, eight MOUs that were signed with financial institutions, including one with Jeju Bank, were terminated in accordance with their sales or mergers. As of the end of 2013, six institutions (Woori Financial Group, Woori Bank, Kwangju Bank, Kyongnam Bank, Credit Business of the National Federation of Fisheries Cooperatives, and Seoul Guarantee Insurance) had effective MOUs with the KDIC.

The KDIC reviewed the performance of the MOUs by the corresponding financial institutions during the period from the fourth quarter of 2012 to the third quarter of 2013. It found that Woori Financial Group, Kwangju Bank, Kyongnam Bank, and the Credit Business of the National Federation of Fisheries Cooperatives had partly failed to attain the targeted financial ratios for 2012. Regarding Seoul Guarantee Insurance, unsatisfactory performance was noted in connection with a major insurance incident. Following a management status audit of Woori Financial Group and its eleven subsidiaries, the Board of Audit and Inspection demanded, based on its findings, that the KDIC should take measures against Woori Financial Group, Woori Bank, and Kwangju Bank.

With regard to the failure of Woori Financial Group, Kwangju Bank, Kyongnam Bank, and the Credit Business of the National Federation of Fisheries Cooperatives to meet some of the financial targets for 2012, the KDIC exempted them from measures against such failure pursuant to its MOU Management Rules, given that these MOU signatories had recorded satisfactory financial ratios across the board.

For Woori Financial Group, however, the KDIC demanded that the organization create profit centers by increasing the synergies among subsidiaries and formulate a group-wide plan to curtail selling, general, and administrative expenses. It also required Kwangju

Table Ⅴ - 3

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

(As of Dec. 31, 2013)

<table>
<tr><th rowspan="2">Name of the Financial Institution</th><th rowspan="2">MOU Conclusion (Renewal)</th><th colspan="2">Business Performance Targets in the MOU</th><th rowspan="2">MOU Termination</th></tr>
<tr><th>Addition</th><th>Adjustment</th></tr>
<tr><td>Woori Financial Group</td><td>2001. 7. 2</td><td rowspan="4">2003. 1.22
2005. 3.23
2007. 3.28
2009. 3.30
2011. 3.30
2012. 3.29
2013. 4.24</td><td rowspan="4">2004. 9.22
2007.12.26
2010. 3.23</td><td>-</td></tr>
<tr><td>Woori Bank
(former Hanvit Bank)</td><td>1999. 1.22[1)]
(2000.12.30)</td><td>-</td></tr>
<tr><td>Kwangju Bank</td><td>2000.12.30</td><td>-</td></tr>
<tr><td>Kyongnam Bank</td><td>2000.12.30</td><td>-</td></tr>
<tr><td>Credit business part of the National Federation of Fisheries Cooperatives</td><td>2001. 4.25</td><td>2005. 3.23
2007. 3.28
2009. 3.30
2011. 3.30
2012. 3.29
2013. 4.24</td><td>2003. 2.12
2003. 7. 9
2005.12.21
2007.12.26
2010. 3.23</td><td>-</td></tr>
<tr><td>Seoul Guarantee Insurance Corporation</td><td>2000. 4.12[1)]
(2001. 6. 9)</td><td>2005. 6.22
2007. 7.18
2009. 6.10
2011. 6. 1
2012. 6.12
2013. 6.26</td><td>2002. 7.10
2006. 6.21
2007.12.26</td><td>-</td></tr>
<tr><td>Jeju Bank</td><td>2000.12.30</td><td>-</td><td>-</td><td>Apr. 29, 2002
(Sold to Shinhan Financial Group)</td></tr>
<tr><td>Seoul Bank</td><td>2000.12.30</td><td>-</td><td>2001. 6.29</td><td>Dec. 1, 2002
(Sold to Hana Bank)</td></tr>
<tr><td>Chohung Bank</td><td>1999.11.12[1)]
(2002. 1.31)</td><td>-</td><td>-</td><td>Aug. 19, 2003
(Sold to Shinhan Financial Group)</td></tr>
<tr><td>Daehan Investment & Securities</td><td>2000. 9.25[1)]
(2002. 2.20)</td><td>-</td><td>-</td><td>May 31, 2005
(Sold to Hana Bank)</td></tr>
<tr><td>Korea Investment & Securities</td><td>2000. 9.25[1)]
(2002. 2.20)</td><td>-</td><td>-</td><td>Mar. 31, 2005
(Sold to the former Dongwon Financial Group)</td></tr>
<tr><td>Korea Life Insurance</td><td>2000. 4.12[1)]
(2001. 9. 5)</td><td>-</td><td>-</td><td>Dec. 12, 2002
(Sold to Hanwha Consortium)</td></tr>
<tr><td>Woori Credit Card
(former Peace Bank)</td><td>2000. 6. 7[1)]
(2000.12.30)</td><td>2003. 6. 4</td><td>2002. 3.25</td><td>Mar. 31, 2004
(Merged with Woori Bank)</td></tr>
<tr><td>Woori Merchant Bank</td><td>2000.12. 9</td><td>-</td><td>2001. 6.29</td><td>Aug. 1, 2003
(Merged with Woori Bank)</td></tr>
</table>

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

Bank and Kyongnam Bank to establish measures to improve productivity and profitability, including methods for more efficient personnel management and cost reduction. The KDIC demanded the Credit Business of the National Federation of Fisheries Cooperatives to adopt tougher risk management and monitoring toward real estate PF loans and mortgage loans.

In connection with a major insurance event at Seoul Guarantee Insurance, the KDIC took measures against the institution and personnel concerned according to its MOU Management Rules when it notified the findings from a review of MOU implementation during the first quarter of 2013. It also required Seoul Guarantee Insurance to improve systems pertinent to insurance contract review and premium rate calculation.

Based on an audit of business management by Woori Financial Group and its eleven subsidiaries, the Board of Audit and Inspection demanded on May 2, 2013 that a measure be implemented against Woori Financial Group, Woori Bank, and Kwangju Bank. Thus, the KDIC executed actions against the institutions and individuals concerned according to its MOU Management Rules at the time of notification of its examination findings concerning MOU implementation during the first quarter of 2013. It also required them to take certain corrective measures as necessary.

The KDIC will continue to closely monitor the progress in MOU implementation. It will also try to enhance the corporate value of public fund recipients by calling for their system enhancement when necessary.

Improvement in MOU Management Efficiency

Setting of Reasonable Targets for MOUs

The KDIC applied a better method of goal setting for MOUs according to a plan to improve its MOU management system in 2010 and 2011. In 2011, the KDIC imposed financial and non-financial goals for 2013 upon the financial institutions that had effective MOUs with the KDIC. In particular, it enhanced the efficiency of financial goal setting for MOUs by ensuring that a reduction in net interest margin of the overall banking industry arising from low growth and interest rates would be considered as an adjustment factor.

Management Consultation with Executives of Financial Institutions with Effective MOUs

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

In November 2013, the KDIC held a consolidated working-level workshop for personnel carrying out MOU-related affairs. It sought to share information and improve understanding between itself and the financial institutions to raise the quality and efficiency of MOU management.

Support for Outside Directors in Monitoring Financial Institutions Subject to MOUs

The KDIC has redoubled its efforts to persuade financial institutions with effective MOUs to adopt responsible management practices, with focus on the boards of directors. This has partly involved expanding the scope of and raising the quality of information provided to their outside directors.

In particular, the KDIC helped outside directors of the MOU signatory financial institutions monitor management performance. For example, in 2013, the KDIC provided 16 detailed reports in a timely manner to outside directors of the MOU signatory financial institutions to facilitate their management monitoring. These reports included specific analytical information on deficiencies in MOU fulfillment, current issues, and the like.

VI

Resolution of Insolvent Financial Institutions

1. Receivership of Insolvent Financial Institutions
2. Resolution of Insolvent Financial Institutions and Management of Bridge Mutual Savings Banks
3. Management of the Special Assets of Insolvent Financial Institutions

1. Receivership of Insolvent Financial Institutions

Insolvent Financial Institutions Under KDIC Receivership

Many insolvent mutual savings banks were substantially restructured simultaneously in 2011. The restructuring of some of them continued into 2012 and 2013. In the first half of the year, three mutual savings banks were suspended from business operations, and another two were suspended in the second half. The KDIC was appointed as their receiver. All mutual savings banks suspended in 2013 were acquired in P&A transactions, and the KDIC is now serving as receiver in regard of the assets excluded from the P&A process.

All of the eight mutual savings banks suspended in 2012 were declared bankrupt by a court in 2013, which led to establishment of their bankruptcy estates. Out of the five mutual savings banks suspended in 2013, Seoul Mutual Savings Bank, Youngnam Savings Bank, and Shilla Savings Bank were declared bankrupt by a court in 2013 and their bankruptcy estates were subsequently set up. The bankruptcy estates for the two remaining mutual savings banks, i.e. Smile and Hanul, will be established in 2014.

The KDIC proceeded with resolution of the failed Green Non-Life Insurance without interruption of financial transactions. Following the FSC's decision in favor of its P&A and business suspension in May 2013, the KDIC served as receiver concerning assets excluded from the P&A arrangement. In November 2013, its bankruptcy estate was established.

Table Ⅵ - 1

Receivership of Insolvent Financial Institutions Since 2012

Bank Name	Date of Biz Suspension	Current Status (Acquirer)	Date of P&A	Date of Bankruptcy Declaration
Solomon	2012. 5. 6	3rd-party P&A (Woori FG Savings Bank)	2012. 9. 5	2013. 4.30
Korea	2012. 5. 6	3rd-party P&A (Hana Savings Bank)	2012. 9. 5	2013. 4.30
Mirae	2012. 5. 6	3rd-party P&A (Chinae Savings Bank)	2012.10. 5	2013. 4.30
Hanju	2012. 5. 6	Bridge bank P&A (Yenarae Savings Bank)	2012. 9. 5	2013. 2.28
Tomato 2	2012.10.19	Bridge bank P&A (Yesol Savings Bank)	2012.10.19	2013. 4.30
Jinheung	2012.11.16	Bridge bank P&A (Yehanbyoul Savings Bank)	2012.11.16	2013. 5.20
Gyeonggi	2012.12.28	Bridge bank P&A (Yehansol Savings Bank)	2012.12.28	2013. 7. 1
W	2012.12.28	Bridge bank P&A (Yesung Savings Bank)	2012.12.28	2013. 7. 1
Seoul	2013. 2.15	Bridge bank P&A (Yeju Savings Bank)	2013. 2.15	2013. 9.26
Youngnam	2013. 2.15	Bridge bank P&A (Yesol Savings Bank)	2013. 2.15	2013. 9.26
Shilla	2013. 4.12	Bridge bank P&A (Yeshin Savings Bank)	2013. 4.12	2013.10.29
Smile*	2013.11. 1	Bridge bank P&A (OSB Savings Bank)	2013.11. 1	-
Hanul	2013.12.27	Bridge bank P&A (Pepper Savings Bank)	2013.12.27	-

* The first P&A by a third party during normal operations

Systematic Receivership of Insolvent Financial Institutions

Through supporting staff and operations related to receivership, the KDIC ensures well-organized receivership management for insolvent mutual savings banks.

The KDIC produced and distributed a reference book to help its dispatched employees handle receivership affairs more effectively. It also held quarterly meetings of receivers and their assistants to expedite performance of their duties and to better communicate with people in the field. For major outstanding issues of each mutual savings bank, it lessened the burden on the staff by rendering multi-faceted support to them through business consultation and legal review.

The KDIC dispatched 5 receivers and 64 supervisors to five mutual savings banks suspended in 2013, according to its staffing standards based on the amount of assets and the number of branches of suspended mutual savings banks. Among them were 41 temporary examiners who played a pivotal role in swiftly stabilizing the KDIC's receivership programs. Most of them were retired financial experts who had long careers at the KDIC or commercial banks and had substantial experience in the banking business including deposit taking and lending.

Table Ⅵ - 2

Number of Staff Dispatched at Each MSB Suspended in 2013

(As of Dec. 31, 2013, Unit : No. of persons)

Name of MSB	No. of KDIC employees	No. of Examiners Hired on a Contract Basis	Total
Seoul	5	14	19
Youngnam	3	7	10
Shilla	4	14	18
Smile	9	6	15
Hanul	7	-	7
Total (5 Savings Banks)	28	41	69

2. Resolution of Insolvent Financial Institutions and Management of Bridge Mutual Savings Banks

Prompt Resolution of Insolvent Mutual Savings Banks

First Half of 2013

In the second half of 2012, the KDIC introduced a new resolution method which does not cause any interruption of financial services. Under this system, failed mutual savings banks were suspended at the close of business hours on a Friday. Then, a P&A by a bridge bank was completed over the weekend so that business could resume in the morning of the following Monday. Since 2005, the KDIC had swiftly resumed operations of insolvent mutual savings banks through a bridge bank, reducing depositors' inconveniences to a minimum. However, the financial transactions of depositors had to be discontinued while their business remained suspended until completion of a P&A by a bridge bank. The new resolution method was introduced to redress such inconveniences. This approach sped up the resolution process: from a decision to declare a financial institution insolvent to the completion of a P&A transaction, the resolution process could be finished within two or three months, more than one month faster than in the past.

Tomato 2 Savings Bank, Jinheung Savings Bank, Gyeonggi Savings Bank, and W Mutual Savings Bank were suspended in the latter half of 2012. Under the said resolution arrangement, they were suspended at the end of business hours on a Friday and a P&A by a bridge bank was carried out over the weekend. In the first half of 2013, insolvent Seoul Mutual Savings Bank, Youngnam Savings Bank, and Shilla Savings Bank were resolved through a P&A transaction with a bridge bank without any disruption to financial services. This system required thorough preparation including due diligence and the least-cost test while a business improvement order was still in force. This minimized depositor inconveniences and financial market turmoil and enhanced public trust in the deposit insurance system.

Table Ⅵ - 3

Resolution of MSB Failures that Occurred in the 1st-half of 2013 (Resolution without Interruption to Financial Services)

Name of MSB	Date of P&A (=Date of Biz Suspension)	Acquiring Bank	Resolution Method
Seoul	2013. 2.15	Yeju Savings Bank	Bridge bank P&A
Youngnam	2013. 2.15	Yesol Savings Bank	Bridge bank P&A
Shilla	2013. 4.12	Yeshin Savings Bank	Bridge bank P&A

Second Half of 2012

In the latter half of 2012, the KDIC introduced ‘resolution without interruption to financial transactions’ to dispel concerns over a bank run by enabling swift resolution of insolvent mutual savings banks. It has since applied the arrangement to resolution of the seven mutual savings banks declared insolvent by the first half of 2013 (Tomato 2 Savings Bank, Jinheung Savings Bank, Gyeonggi Savings Bank, and W Mutual Savings Bank in the second half of 2012 and Seoul Mutual Savings Bank, Youngnam Savings Bank, and Shilla Savings Bank in the first half of 2013) for a P&A by a bridge bank. This increased the number of bridge banks and the amount of assets subject to direct management by the KDIC. This exacerbated its burden of management and sale of those bridge banks, so it began to pursue a ‘P&A by a third party in the course of business operations’ in the second half of 2013.

The KDIC pushed for a ‘P&A arrangement with a third party in the course of business operations’, beginning with the resolution of Smile Savings Bank, declared insolvent in May 2013. The KDIC commenced the resolution process after the grace period granted to the controlling stockholder of Smile Savings Bank to attempt to recapitalize the bank had expired. Since 2011, there had been a lack of investor appetite to buy a mutual savings bank due to constant, large-scale restructuring of this financial sector. However, the KDIC's prior market survey and potential buyer search led to completion of its P&A in November 2013, with OSB Savings Bank as the successful bidder.

The KDIC pursued the same arrangement for Hanul Savings Bank and Haesol Savings Bank, declared insolvent in October 2013. For Hanul Savings Bank, a P&A transaction with Pepper Savings Bank was completed in December 2013. With respect to Haesol Savings Bank, Welcome Creditline Corp. was chosen as the successful bidder, and the resolution process is currently underway including conclusion of a P&A contract.

In the second half of 2013, the KDIC resolved Smile Savings Bank and Hanul Savings Bank through the 'P&A arrangement with a third party in the course of business operations', not 'resolution without interruption to financial transactions' using a bridge bank. Thus, it established a resolution system that helps eliminate inconveniences on the part of depositors and the burden of management and sale of bridge banks and conclude restructuring of failed mutual savings banks much more quickly.

Table Ⅵ - 4

Resolution of MSB Failures that Occurred in the 2nd-half of 2013 (P&A arrangement with a third party in the course of business operations)

Name of MSB	Date of P&A (=Date of Biz Suspension)	Acquiring Bank	Resolution Method
Smile*	2013.11. 1	OBS Savings Bank	3rd-party P&A
Hanul	2013.12.27	Pepper Savings Bank	3rd-party P&A

* The first P&A by a third party during normal operations

Efficient Management of Mutual Savings Banks Under KDIC Receivership

Bridge Mutual Savings Banks

As of 2013, there were eight bridge mutual savings banks: Yes Savings Bank, Yenarae Savings Bank, Yesol Savings Bank, Yehanbyoul Savings Bank, Yehansoul Mutual Savings Bank, Yesung Savings Bank, Yeju Savings Bank, and Yeshin Savings Bank. It is difficult to formulate a mid-to-long term management strategy or business model for them because they are only temporary organizations intended to implement early sale of failed mutual savings banks. Most of their employees are from different insolvent mutual savings banks, which makes it hard to manage them with a comprehensive approach. Yes Savings Bank, Yenarae Savings Bank, and Yesol Savings Bank are regional banks and cannot pursue aggressive marketing strategies since they must comply with the mandatory credit ratio limit within their respective regions of operations. Due to cash contributions to make up for net asset shortfalls to enable a P&A, the bridge mutual savings banks often have excess cash and cash equivalents, which lead to a reverse margin. This structure renders it difficult for them to generate profits within a short period of time.

To improve the financial structure and enterprise value of bridge mutual savings banks, aunit was created within the KDIC to work exclusively on improving the efficiency of bridge bank management and to support bridge bank operations. Immediately after establishment of bridge mutual savings banks, a 'business normalization MOU' reflecting their business environment, financial position, and business plan is concluded. Performance of the MOU is monitored regularly. Their business performance, including monthly operation results, is examined at monthly working-level business review meetings. In April 2013, the management of bridge banks was comprised of outside experts only to ensure professionalism and more responsible management. Performance assessment and performance-based annual salaries were instituted to maximize motivation of the managers and improve their performance. Designated KDIC staff constantly monitored the banks for major business issues.

In a bid to improve the soundness of new loans, bridge mutual savings banks have recruited credit review and sales professionals and employed an optimal assessment system. They sought to make their operations more efficient and effective, which in some cases entailed consolidating branches to cut costs. These efforts have yielded tangible outcomes. For example, Yes Savings Bank and Yenarae Savings Bank registered a surplus from the latter half of 2013.

The mutual savings banking sector has been in the doldrums for an extended period of time, and there is a lack of investor demand for such banks. It is the same with bridge mutual savings banks managed by the KDIC. The KDIC, therefore, sought to increase the possibility of their sale by means of advance market surveys, search for potential buyers, presentations on sale, and aggressive marketing, in addition to efforts to rationalize their management and ultimately increase their enterprise value. As a result, Yehanbyoul Savings Bank, Yesol Savings Bank, and Yehansoul Savings Bank were respectively sold to Shinhan Financial Group, Industrial Bank of Korea, and KB Financial Group in January, July, and September 2013. The sale process of Yes Savings Bank is underway, with conclusion of a stock transfer/acquisition contract with Samho Industry in November 2013.

Table Ⅵ-5

Sale of Bridge Banks in 2013

Bridge Bank	Establishment	Date of sale	Acquirer
Yehanbyoul	2012.11. 6	2013. 1.31	Shinhan Financial Group
Yesol	2011.10.11	2013. 7.15	Industrial Bank of Korea
Yehansoul	2012.12. 4	2013. 9. 2	KB Financial Group

Financial Group-affiliated Mutual Savings Banks

There are three mutual savings banks affiliated with parent mutual savings banks that were declared insolvent and suspended as of 2013: Hanul Savings Bank and Haesol Savings Bank affiliated with Solomon Savings Bank; and Youngnam Savings Bank affiliated with Korea Savings Bank. To minimize deterioration in their enterprise value and prevent financial incidents while their resolution including sale is underway, the KDIC proactively pursued their efficient management and support by assigning dedicated staff.

These banks were assessed for business performance by accounting firms; business goals were established in consideration of the respective situation of each bank including the business environment and financial conditions; and implementation of action plans for accomplishment of given targets was periodically examined. In April 2013, professional managers with extensive financial expertise and experience were additionally installed to prevent majority stockholders from exercising undue influence, maintain enterprise value, and facilitate the sale. For independent operation of the IT systems originally dependent on the insolvent parent mutual savings banks, the affiliated banks began to use the IT system of the Korea Federation of Savings Banks (IFIS).

The KDIC promptly pursued the restructuring of Youngnam Savings Bank and Hanul Savings Bank, whose liabilities exceeded their assets. In the first half of 2013, Youngnam Savings Bank was subject to a P&A by Yesol Savings Bank, a KDIC-managed bridge bank, while Hanul Savings Bank was acquired by Pepper Savings Bank in a third-party P&A transaction. Concerning Haesol Savings Bank, which was declared bankrupt along with Hanul Savings Bank in October 2013, the KDIC selected Welcome Creditline Corp. as the successful bidder and entered into a P&A agreement with it. Its resolution is now underway without causing any interruption of financial services.

Institutionalization of Resolution Without Disrupting Financial Services

Introduction of Resolution Without Disrupting Financial Services (2nd half of 2012)

In the past, 'resolution after business suspension' commenced immediately after a mutual savings bank was declared insolvent and a business improvement order was issued. This was intended to prevent illegal activities by a majority stockholder and the management as well as a bank run, which were likely to occur if the resolution of a mutual savings bank proceeded while its operations continued. However, the business suspension interrupted financial transactions and subsequently caused inconveniences and losses to depositors and borrowers, and the regional financial industry shrank as a result. Suspension of new business and difficulties associated with follow-up credit management reduced the asset value of the mutual savings bank, which in turn increased losses to the KDIC Fund. To minimize these problems, the KDIC shortened the average resolution period from ten months to three or four months by multi-pronged efforts including pursuit of resolution immediately upon business suspension. However, a suspended mutual savings bank had to remain out of operation for at least three months. The KDIC, therefore, introduced a resolution method that enabled uninterrupted financial transactions, as in the case of the FDIC in the U.S.

It was feared that adoption of the method and public disclosure of a resolution process would touch off a bank run and irregularities by the majority shareholders and management. The KDIC took several steps to minimize these side effects. It established a mechanism to respond to a bank run, and it began to closely monitor changes in deposits. In the event of a bank run, it deployed its staff at branches of the affected mutual savings bank to assure and give presentations for depositors. It also provided more information on the deposit insurance system to the financially underserved population in an effort to minimize damage sustained by depositors. To address the turmoil in the financial markets, the KDIC induced mutual savings banks to secure a certain level of liquidity and prevented potential market disturbances and bank runs by ensuring prompt resolution through a P&A by a bridge mutual savings bank.

In the course of resolution of mutual savings banks kept in operation, the KDIC, upon imposition of a timely corrective measure, suspended the duties of their existing executives and appointed KDIC and FSS employees as conservators to prevent any unlawful activities by their majority stockholders and management. The executives of Tomato 2 Savings Bank, Jinheung Savings Bank, and Gyeonggi Savings Bank were replaced by external experts, and administrative staffers including supervisors were deployed at an early time to prevent any irregularities. The officers of W Mutual Savings Bank were suspended when it was designated as an insolvent financial institution, and KDIC and FSS employees were appointed as its conservators.

The KDIC actively encouraged the supervisory authorities to adopt such method. It argued that the system would prevent a bank run and illegal activities by stockholders, executives, and employees when resolution of a mutual savings bank is pursued with its operations ongoing. The KDIC underscored that if depositors are convinced that resolution without disruption to financial transactions may be executed without any inconveniences on their part, insolvent mutual savings banks may be resolved without any major disturbance in the financial market in the future. The KDIC's endeavors for such institutional improvement led to introduction of the method in the latter half of 2012.

Tomato 2 Savings Bank, Jinheung Savings Bank, Gyeonggi Savings Bank, and W Mutual Savings Bank were resolved under the scheme whereby their operations were suspended at the close of business on a Friday and resumed on the following Monday after a P&A by a bridge mutual savings bank over the weekend. The period of business suspension was, thus, dramatically reduced to two days, which is comparable to the FDIC model benchmarked by the KDIC.

In the past, business resumption of an insolvent mutual savings bank took four months. The new resolution method enabled business resumption on the very next business day, which prevented most of the inconveniences and losses to financial consumers including depositors stemming from suspension of financial transactions for an extended period of time. This permitted resolution of insolvent mutual savings banks without any turmoil in the financial market, and the continuation of operations greatly helped prevent a decrease in enterprise value and keep regional consumer finance from going into a slump.

Institutionalization of Resolution Without Disrupting Financial Services in 2013

In the first half of 2013, Seoul Mutual Savings Bank, Youngnam Savings Bank, and Shilla Savings Bank were resolved through 'resolution without interruption of financial transactions' adopted in the latter half of 2012. They were sold in bridge P&A transactions. To make that possible, thorough preparation was made such as due diligence review and least-cost verification while a business improvement order was still in force. Despite the disparity in the financial environments of Korea and the US, the KDIC became the first among the 112 deposit insurers around the globe excluding the US to employ and fully institute bridge bank P&A. This minimized depositor inconveniences and financial market turmoil, enhanced public confidence in the deposit insurance system, and improved depositor protection and financial market stability to the world's highest level.

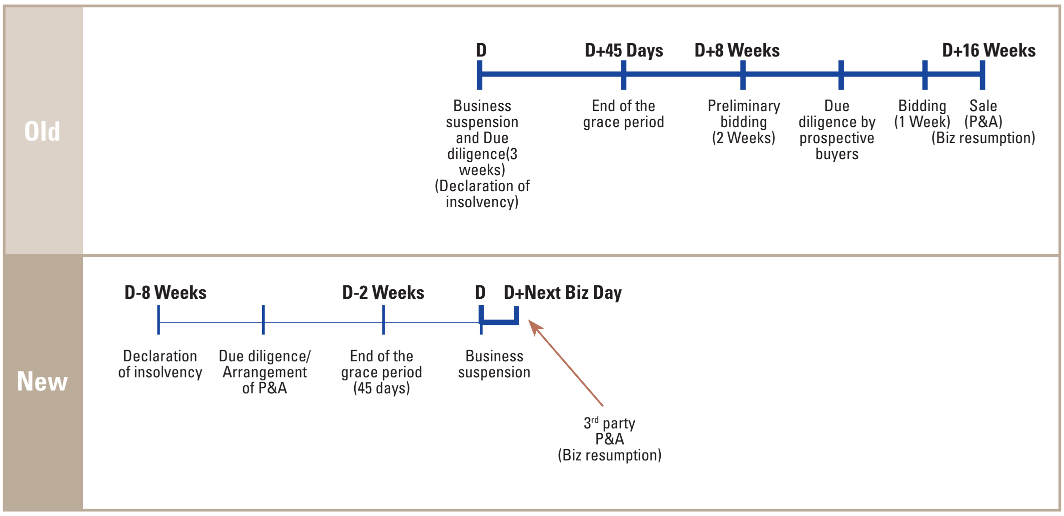
Since introduction of the new resolution mechanism, the KDIC resolved all of the seven mutual savings banks declared insolvent by January 2013 by means of P&A transactions with bridge mutual savings banks without disruption to financial transactions. This was designed to resolve them as soon as possible to address concerns about a possible bank run. This increased the number of bridge banks and the amount of assets subject to management by the KDIC, which posed an extra burden to the KDIC regarding management and sale of the bridge banks that it owns. It moved to reduce the burden by pushing for 'P&A with a third party in the course of business operations' concerning failed mutual savings banks.

The KDIC actively sought prospective buyers for Smile Savings Bank, declared insolvent in May 2013, and resolved it through P&A by a third party in the course of business operations. This represented an improvement in its existing resolution mechanism for failed financial institutions, which was limited to bridge bank P&A to prevent any disruption to financial services. Due to prolonged under-performance and business slowdown of mutual savings banks, there were enough investors interested in buying a savings bank. Despite such adverse conditions, the KDIC successfully completed its restructuring ahead of schedule by pursuing not bridge bank P&A, but third-party P&A in the course of business operations whereby the insolvent mutual savings bank was sold directly to a third party. This reduced depositors' inconveniences and financial market turmoil to a minimum. This consolidated public trust in the deposit insurance system. The KDIC applied this mechanism to resolution of Green Non-Life Insurance, demonstrating that the new resolution method was readily applicable to entities in other financial sectors than mutual savings banking.

Such endeavors by the KDIC fully eliminated concerns about inconveniences and financial damage on the part of depositors of failed financial institutions. A timely P&A helped normalize lending and maintain continuity of financial transactions, which subsequently prevented a decrease in the banks' asset value and a slump in the local financial market. It greatly calmed fears in the financial market by informing depositors that the KDIC was doing its best to minimize any financial damage and inconveniences to depositors within the scope of its protection concerning resolution of insolvent financial institutions.

Figure Ⅵ - 1

Comparison of Old and New Resolution Procedures



3. Management of the Special Assets of Insolvent Financial Institutions

Status of Special Assets

Overview

Since 2011, the financial authorities have suspended the operations of many mutual savings banks including those affiliated with Busan Bank owing to deteriorating business conditions including the prolonged stagnation in the real estate market. Many of the assets of these insolvent mutual savings banks were classified as special assets. As of the end of 2013, the KDIC was managing a total of KRW 6.5 trillion in special assets, based on loans receivable.

Special assets are created by illegal means including establishment of an SPC under a borrowed name by related parties such as stockholders, granting of loans to them, and execution of a large-scale construction project such as apartment construction in Korea or abroad. Thus, there are numerous legal disputes among the interested parties concerning such assets, which can be extremely varied, ranging from artworks to luxury foreign vehicles. They must be managed very closely and appropriately in consideration of their nature to maintain their value.

The KDIC launched the Department of Special Asset Management and Recovery in the second half of 2011 for precisely that purpose. In March 2013, the department was expanded to two departments (Departments of Asset Management I and II).

Table Ⅵ - 6

Loans By the Type of Special Asset

(As of Dec. 31, 2013, Unit: KRW 100 million)

Loans			Investments[1] (Value, B)	Total (A+B)
Project Type	Number of Project Sites	Amount(A)		
Apartments, etc.	34	23,641	1,126	64,736
Resorts, etc.	8	6,345		
Golf Clubs	16	9,355		
Ship Investments	9	4,078		
Overseas Construction	12	6,859		
Other (Mausoleums, etc,)	15	7,146		
General Loans	29	6,186		
Total	123	63,610	1,126	64,736

Note : 1) The number of investments is 10.

Management of Special Assets

Beginning from business suspension of mutual savings banks, the KDIC department in charge of management of special assets identifies the current status of special assets by ascertaining the credit facility extension process pertinent to the special assets, analyzing related rights, and inspecting business sites. At the same time, it analyzes factors reducing the value of such assets and determines what is necessary to maintain their value.

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

Table Ⅵ - 7

Management of Special Assets by Type

Maximum Special Asset Recovery

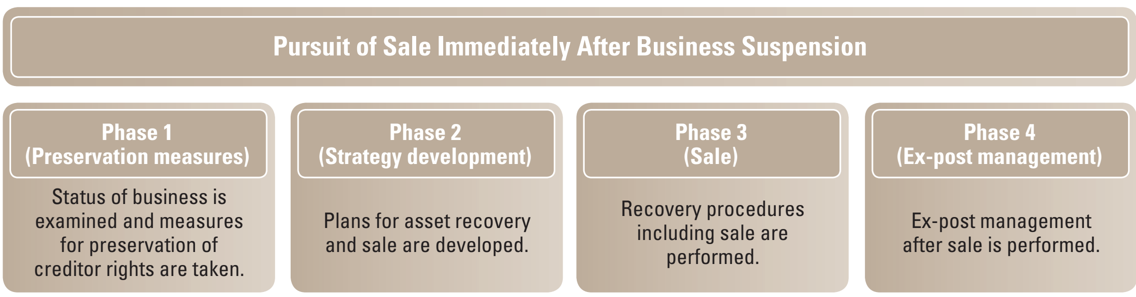
Recovery Management System

The KDIC employs a consistent management system for special assets held by mutual savings banks from their business suspension to their bankruptcy when full-scale recovery is performed for maximum recovery.

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

Table Ⅵ - 8

Four-Phase Special Asset Recovery Process



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

The KDIC set up the *Sales Consulting Committee* comprised of external experts from academia and the financial, legal, and accounting communities to enhance fairness and transparency in the sale of special assets. The Committee serves as an advisory body, deliberating on and receiving reports on important issues related to the sale of special assets. The Committee performed such role on fourteen occasions in 2013.

Table Ⅵ - 9

Types and Sale Procedures of Special Assets

Categorization of special assets	PF loans	Overseas assets	Ships	Other assets (Artworks, etc.)
Sale procedures	**Selection of advisor, etc.** • Accounting firms, law firms, etc.	**Due diligence** • Identification of rights • Value appraisal, etc.	**Market making** • Preparation of bid packages • Identification of prospective buyers; promotional activities	**Sale** • Public announcement of sale • Follow-up management

The KDIC maintains cooperative ties with the agencies concerned for effective management and recovery of special assets. In close cooperation with the Public Prosecutors' Office, which is in charge of investigating irregularities involving primary stockholders and other related parties of insolvent mutual savings banks, it swiftly puts seized assets under its custody for preservation of creditors' rights. It also submits regular reports on special asset management to the court of competent jurisdiction. For efficient recovery of special assets invested in foreign countries including Cambodia, the KDIC maintains close relations with the Ministry of Foreign Affairs and Korean embassies abroad to resolve local legal and administrative issues.

Recovery Process

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

For fair evaluation of special assets and formulation of optimal recovery methods, the KDIC selects an accounting firm that conducts a feasibility study for a business. Based on legal consultation by outside professionals including lawyers, juristic relations regarding the corresponding assets are analyzed. Then, their sale is pursued according to recovery plans set up for each business or asset.

Table Ⅵ - 10

Types of External Experts Retained by Asset for Sale

Asset type	Business site, stock, etc.	Vessels	Artworks	Foreign cars
Advisor, etc.	Accounting firms, securities companies	Ship brokerage companies	Specialized auction companies	Registration agents/ specialized auction companies

The KDIC commissions an accounting firm to conduct a feasibility study including calculation of the liquidation value and going concern value of special businesses including PF sites. It then determines whether to continue business. A business whose liquidation value exceeds its going concern value is directly sold after subrogation payments by the KDIC or subject to a public auction by a trustee, court auction, repayment consultation with the parties related to loan facilities, or other means for loan recovery.

As part of pre-marketing efforts for foreign-made cars, the KDIC hosted a “Media Day” targeting potential buyers and conducted driving tests. For artworks, it held an exhibition tour at major sites prior to their auction to build interest in them.

The entire sale process is evaluated on a quarterly basis. In case of underperformance, its causes are analyzed and necessary measures are implemented. Except for cases that take a long period of time until resolution such as legal disputes, the KDIC seeks early recovery of loans based on consultation with the lenders, consultation with interested parties, or restructuring of debts.

Recovery Performance

The KDIC strived to maximize recovery through its special asset recovery management system. In 2013, it collected a total of KRW 502.7 billion in loans through sale of core assets including business sites, disposition of equities including shares, repayment by joint and several guarantors through negotiations, and auction of tangible assets including artworks. Appropriate recovery methods were used for each type of special asset.

Table Ⅵ - 11

Recovery Performance by Type

(As of 31 Dec. 2013, Unit: 100 million won)

Recovery Type	Business	Recovery Performance
Sale of business lot	Development project site in Shinan-gun, etc.	1,075
Sale of buildings	Jamzon, a mixed-use shopping center, in Bucheon, a theatre in Doksan-dong, etc.	323
Sale of ships	Three foreign ships, etc.	505
Sale of stock	Shares in CNK International, etc.	1,150
Auction of corporeal property	Artworks, foreign-made cars, machinery & equipment	109
Repayment including voluntary payment	Loans related to a casino at Hyatt Regency Jeju and JAU Tour, etc.	316
Rental fee income	Charterage, building rental fees, etc.	448
Others	Sale of business rights, etc.	1,102
Total		5,027

VII

Management of Bankruptcy Estates and Acquired Assets

1. Management of Bankruptcy Estates

Management Status of Bankruptcy Estates

KDIC's Role as Bankruptcy Trustee

Article 20 of the Special Act on the Management of Public Funds enacted on December 20, 2000 stipulates that "where any insured financial institution that received public funds including deposit payoffs is dissolved or becomes bankrupt, a court of competent jurisdiction shall appoint the Korea Deposit Insurance Corporation or its executive or employee as liquidator or bankruptcy trustee thereof, if it is necessary to efficiently recover such public funds, notwithstanding other Acts related to the appointment of liquidators or bankruptcy trustees." Pursuant to said article, the KDIC staff serving as liquidator or bankruptcy trustee shall not be subject to such other Acts providing for a court's authority of dismissal or permission, or consent by audit committee members.

Article 3 of the Addenda of the Special Act provides that "if an efficient recovery of public funds is required, a court of competent jurisdiction shall, within three months after entry into force of this Act, additionally appoint the Korea Deposit Insurance Corporation or its executive or employee as bankruptcy trustee of an insured financial institution whose bankruptcy procedures are in progress at the time this Act is in effect." The Depositor Protection Act was revised in December, 2002 to incorporate the above in Article 35-8.

Accordingly, KDIC bankruptcy trustees were appointed to 51 bankruptcy estates of insured financial institutions nationwide, either as solitary trustees or in groups of two or more, as of the end of 2012. In close consultation with a court, they pursued efficient and swift implementation of bankruptcy procedures to maximize the recovery of public funds.

Table Ⅶ- 1

Appointment of Receivers

(As of Dec. 31, 2013, Unit: No. of estates, No. of persons)

Category	Total No. of Bankruptcy Estates[1]	Receivers		
		KDIC Employee	Attorney	Jointly[2]
No. of Bankruptcy Estates	50	48	-	2

Note : 1) Excluding legally terminated bankruptcy estates (434), estates of Korea and Dongseo Securities to which public funds were not provided, and estates of 14 failed credit unions which were transferred to the National Credit Union Federation of Korea

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

Efficient Management of Bankruptcy Estates

The KDIC established its Regional Supervisor System in July 2007, according to which it groups the bankruptcy estates scattered all over the country into eight regional groups for more efficient management.

A single bankruptcy trustee takes responsibility for multiple bankruptcy estates located in its region. This consolidation of bankruptcy estates has indeed increased the efficiency in management of their employees and asset holdings; prevented cash seepage; and significantly reduced the costs of rent, building maintenance, office supplies, and the like.

The KDIC regularly rotated employees stationed at bankruptcy estates including trustees in order to prevent financial incidents and to improve work efficiency. In 2012, the KDIC hosted the workshops for bankruptcy trustees in which they were encouraged to share their experiences and know-how and held regional meetings with bankruptcy trustees to discuss their work progress and work-related complaints.

In order to boost recovery performance of bankruptcy estates of insolvent financial institutions, there was a growing need for more efficient management of their staff as well as bankruptcy trustees. The KDIC, therefore, began offering special bonuses as incentives to the staff at bankruptcy estates who achieve considerable progress in the liquidation of real estate, recovery of non-performing loans, etc.

Improvement of Debt Rescheduling

Since 2011, the KDIC has employed a debt rescheduling system for debtors of bankruptcy estates not expected to normally repay their obligations, with their assets and debt service capacity taken into account. It has consistently improved the debt rescheduling scheme to boost the economy. In 2013, it eased debt restructuring criteria for underprivileged people including basic livelihood security beneficiaries after conducting a comparative review of other debt rescheduling schemes including the National Happiness Fund. It also rectified some faults in such criteria.

The KDIC gave increased publicity to its debt restructuring system through leaflets and posters in order to promote understanding of the system by the public including debtors of bankruptcy estates. For the purpose of improving debtors' convenience, it built a *Debt Information Inquiry System* that allows debtors to retrieve their debt information on its webpage. With a series of actions to enhance its debt rescheduling system, the KDIC is striving to lessen the financial burden on ordinary people and to recover public funds granted to bankrupt mutual savings banks more efficiently.

Maximization of Asset Marketability and Dividend Collection

The KDIC maximized efficiency in its effort to sell off assets owned by bankruptcy estates by consolidating all assets into packages depending on their types.

In 2013, the KDIC recovered KRW 262.6 billion from twelve joint sales of 406 properties around the nation. For the sale of real estate owned by bankruptcy estates, the KDIC created and made improvements to the Information on Bankruptcy Estates-Held Real Estate Sales menu on its website for easier access by prospective buyers to public sale information.

Individual bankruptcy estates found selling non-listed shares of stock difficult because there are no market prices set for them and too few prospective buyers. The KDIC encouraged the bankruptcy estates to appoint sales advisors to value and market such non-listed shares, and take charge of the sale of non-listed shares through open bidding. Five sales were conducted in 2013, and the proceeds totaled KRW 15.7 billion.

The KDIC also actively pursued the disposal of bankruptcy estate assets other than real estate or shares of stocks (such as golf and condominium memberships) through various channels including membership exchanges. It managed to sell 32 assets in 2013 for a total of KRW 4.0 billion.

The KDIC established the Fund Asset Status Tracking System, also known as the FASTs, for efficient management of assets owned by bankruptcy estates. The system has greatly improved asset management by facilitating systemic and ongoing identification of asset status per type and per asset targeted for sale. In 2008, the KDIC established the Credit and Dividend Information System (CDIS) to improve bankruptcy estates' efficiency in recovering claims and managing dividend collection and payment.

Table Ⅶ- 2

Sales of Assets Owned by Bankruptcy Estates

(As of Dec. 31, 2013, Unit: No. of sales, KRW 100 million)

Category	2011		2012		2013	
	No.	Amount	No.	Amount	No.	Amount
Real Estate	42	231	106	748	406	2,626
Non-listed Stocks	4	1	6	95	26	157
Golf and Condominium Membership, etc.	9	52	13	41	32	40

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

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

Timely Closure of Bankruptcy Estates

The KDIC frequently examines the liquidation efficiency of bankruptcy estates against their costs. It pursues legal closure of inefficient bankruptcy estates after evaluation and sale of remaining assets and final distribution of dividends, based on consultation with a competent court. Such quick disposal of inefficient bankruptcy estates maximizes dividend payments to bankruptcy creditors.

As of the end of December of 2013, 434 out of a total of 484 bankruptcy estates were declared closed by a court and the KDIC plans to proceed with early closure of the remaining 50 estates by selling remaining assets.

Even after closure of bankruptcy estates, the KDIC commissions each regional supervisor to carry out their follow-up management including rendering public information services and straightening out legal relations.

Table Ⅶ- 3

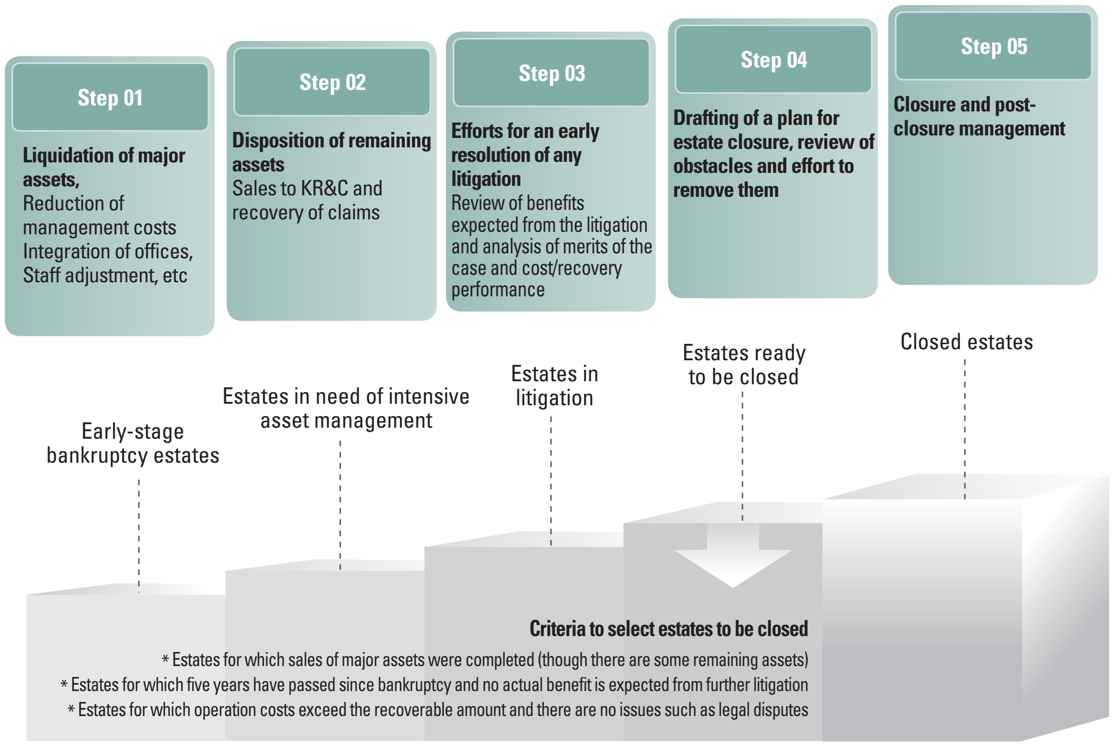
Bankruptcy Estates That Were Closed or Are in Progress

(As of Dec. 31, 2013, Unit: No. of estates, %)

Category		Banks	Insurers	Investment Firms	Merchant Banks	Savings Banks	Credit Unions	Total
Total No. of Estates(A)		5	11	4	22	117	325	484
Closed	No. of Closed Estates (B)	5	10	4	14	76	325	434
	Closure Rate (B/A×100)	100	91	100	64	65	100	90
Remaining Estates (A-B)		0	1	0	8	41	0	50

Figure Ⅶ- 1

Bankruptcy Estate Management from Establishment to Termination



2. Management of Assets Acquired from Insolvent Financial Institutions

Assets Acquired from Insolvent Financial Institutions

By year-end 2013, the KDIC had acquired a total of KRW 49.482 trillion in assets (based on acquisition costs) through resolution financial institutions. Of that amount, KRW 7.3 billion worth of assets (based on acquisition costs) were acquired in 2013.

Table Ⅶ- 4

Assets Acquired by the Resolution Financial Institution in 2013

(As of Dec. 31, 2013, Unit: KRW 100 million)

Category		Amount of Claims	Amount Purchased	Note
KR&C	Bankruptcy Estates	1,686	57	9 bankruptcy estates including that of Gimcheon Savings Bank
	Failed Savings Banks	411	16	5 savings banks including that of Shilla Savings Bank

In December 1999, the RFC (currently the KR&C) was established to acquire assets of Korea First Bank (KFB) that were not taken over by its acquirer (New Bridge Capital), KFB's put-back options, and other assets that had not been assumed by any acquirer in the process of restructuring of other failed financial institutions. By the end of 2013, with borrowings from the DIF Bond Redemption Fund of the KDIC, the RFC had acquired assets worth KRW 49.482 trillion (based on acquisition costs). This included KRW 7,838.6 billion from KFB, KRW 158.8 billion from five acquirer banks (Kookmin, H&CB, Shinhan, Hana, and Koram), KRW 355 billion from five failed life insurance companies (Kookmin, Dong-A, Taepyongyang, Handuk, and Korea), KRW 1,307.2 billion from the sale of three financial investment companies (Korea, Daehan, and Hyundai), KRW 369.2 billion from 469 bankruptcy estates, KRW 508.5 billion from 35 mutual savings banks (Hanmaum, Hanjung, Arim, Good Friend, Daewon, Hongik, Kyongbook, Hyundai, Bundang, Jeonbuk, Eutteum, Jeonil, Busan, Busan 2, Busan Central, Daejeon, Jeonju, Bohae, Domin, Kyongeun, Ace, Jeil, Jeil 2, Jinheung, Tomato, Tomato 2, Parangsae, Prime, Hanju, Gyeonggi, Shilla, Seoul, Youngnam, Smile and Hanul), and KRW 38.5109 trillion from the absorption of Hanareum Merchant Bank and Hanareum Mutual Savings Bank.

Table Ⅶ- 5

Assets Acquired by the Resolution Financial Institution (Accumulated)

(As of Dec. 31, 2013, Unit: KRW 100 million)

Category		Amount of Claims	Amount Purchased	Note
KR&C	Banks	98,693[1]	79,974	6 banks (including Korea First Bank)
	Insurance Companies	4,032	3,550	5 life insurers
	Investment Companies	25,324	13,072	3 investment companies
	Bankruptcy Estates	86,667[2]	3,692	469 estates (5 banks, 10 insurers, 4 investment firms, 22 merchant banks, 80[3] savings banks, 339[4] credit unions)
	Mutual Savings Banks	26,214	5,085	35 mutual savings banks
	Subtotal	240,930	105,373	-
Hanareum Merchant Bank[5]	Merchant Bank (KDIC subsidiary)	330,588	326,625[6]	16 merchant banks
Hanareum Savings Bank[5]	Savings and Loan Institution (KDIC subsidiary)	79,848	58,484[6]	41 mutual savings banks
Total		651,366	490,482	-

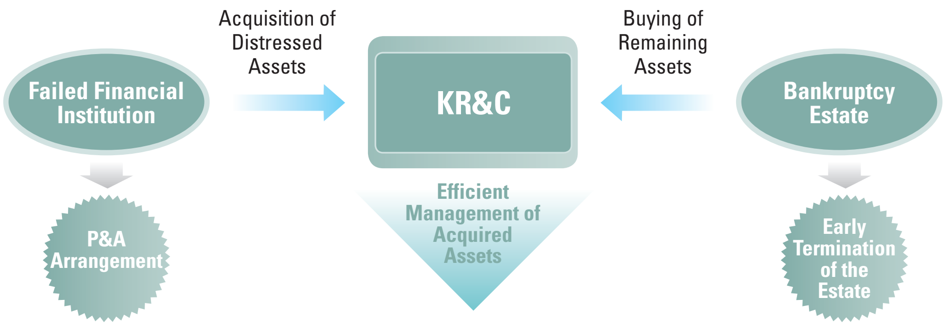
Note : 1) Including KRW 21.2 billion as in-kind refund of the NPL Resolution Fund (acquisition value: KRW 0)
2) Including KRW 500 million as in-kind refund of the NPL Resolution Fund (acquisition value: KRW 0)
3) Excluding 12 bankruptcy estates of failed savings banks that were not taken over
4) Including 14 bankruptcy estates transferred to the responsibility of the National Credit Union Federation of Korea on Jan. 1 of 2010
5) Organizations in charge of making deposit payments on behalf of failed banks (based on the classification criteria for public fund assistance)
6) Claims acquired in exchange for deposit payoffs

Efficient Management of Assets Acquired from Insolvent Financial Institutions

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

Figure Ⅶ- 2

Duties of KR&C



As of the end of 2013, the balance of assets held by the KR&C stood at KRW 15.3328 trillion, of which KRW 6.3753 trillion was directly managed by the KR&C while the remaining KRW 8.9575 trillion was entrusted to outside agencies for efficient management.

The KDIC actively used a variety of collection methods in addition to the traditional recovery-at-maturity approach in order to raise the value of acquired assets held by the KR&C and to enable more timely recovery. The methods included M&As and sales through issuance of asset-backed securities (ABS). With regard to the diversity in the KR&C's asset types which included locked-up shares of stock, corporate bonds, and convertible bonds, the KDIC is looking into other recovery methods to determine which would be most appropriate for each asset category.

Table Ⅶ- 6

Assets Owned by the KR&C (Balance)

(As of Dec. 31, 2013, Unit: KRW 100 million)

Asset Type	Directly Managed	Commissioned to Outside Experts for Management	Total
Loans	463	88,681	89,144
Securities	4,656	-	4,656
Real Estate	730	894	1,624
Indemnity Receivables	57,904	-	57,904
Total	63,753	89,575	153,328

VIII

Promotion of Sound Business Management and Accountability for Insolvency

1. Promotion of Sound Business Management Among Insured Financial Institutions

Education for Mutual Savings Bank Employees

The importance of preemptive measures to prevent financial institution failures has been re-emphasized in the wake of the recent spate of business suspensions of mutual savings banks since 2011. Wrongful acts and moral hazard on the part of employees have been cited as the main causes of their insolvencies.

In response, the KDIC provided a training course on sound business management for mutual savings bank employees in order to ensure that those banks will engage in sound management and to prevent further financial incidents. The employees were taught about the governing laws and regulations that apply to their day-to-day operations and other useful content including recent insolvency cases and related court rulings.

In August 2013, the KDIC introduced customized training programs for mutual savings banks whose targets are differentiated by bank size and job levels, which increased the level of satisfaction with its training and promoted its practical application to business affairs. The KDIC also hosted a workshop for auditors of mutual savings banks to ensure their effective performance of duties and enhance their expertise, and it established regional meetings of loan officers. This was a part of the KDIC's ongoing effort to prevent more mutual savings bank failures and improve their internal systems.

Expansion of Education for Sound Business Management

In September 2013, the KDIC participated in a workshop held by the Korea Federation of Savings Banks for compliance officers and audit personnel and gave presentations on recent financial failures of mutual savings banks. The KDIC, in close cooperation with associations of other financial sectors as well, is continually expanding education programs to encourage insured financial institutions to engage in sound business management.

2. Investigations Into Insolvent Financial Institutions

Improvement of Efficiency in Investigation Into Insolvent Financial Institutions' Illegal and Wrongful Acts

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

* Former or incumbent officers or employees of insolvent financial institutions, persons who instruct others to perform duties as prescribed in the Commerce Act, debtors who have not performed obligations to insolvent financial institutions, and other third parties

As there is a growing possibility that insolvent financial institutions and default debtor companies may perpetrate illegal acts in collusion, it became imperative to conduct organically linked investigations that can look into both parties. For this reason, the Insolvency Investigation Division, formed by the merger of the former Investigation Department (in charge of investigations into insolvent financial institutions) and the former Special Investigation Mission for Default Debtor Corporations (in charge of investigations into default debtor companies), was established in March 2008. The consolidation of these two units into one streamlined the organizational structure and enhanced investigation efficiency. Structured as two bureaux, department, and office, the Insolvency Investigation Division had 71 members as of the end of 2013 including seconded officers from appropriate organizations such as the Public Prosecutors' Office. For increased efficiency of investigations, the Division not only utilizes the expertise and know-how of the seconded officers but actively seeks data from appropriate organizations.

The KDIC refers illegal activities revealed in investigations to the *Accountability Review Committee* for Insolvent Financial Institutions for fair and objective review. The Committee is made up of external experts from the legal services industry, academia, financial industry, etc.

In the face of a wave of suspensions of mutual savings banks over the past three years, the Committee was convened more often to expedite legal proceedings for damages, and its business process was improved including formulation of criteria to select the targets of review, standardization of review processes, and revision of related regulations. Protection of the rights of persons subject to investigations was stepped up, and review results were made more easily acceptable by lengthening the explanatory period for them and improving guidance on the explanatory system. By the end of 2013, deliberations on accountability for financial institution failures resulted in a confirmation of accountability for 6,234 persons in 527 insolvency cases. The KDIC requested the insolvent financial institutions and their bankruptcy estates to file for damages against these people.

Table Ⅷ- 1

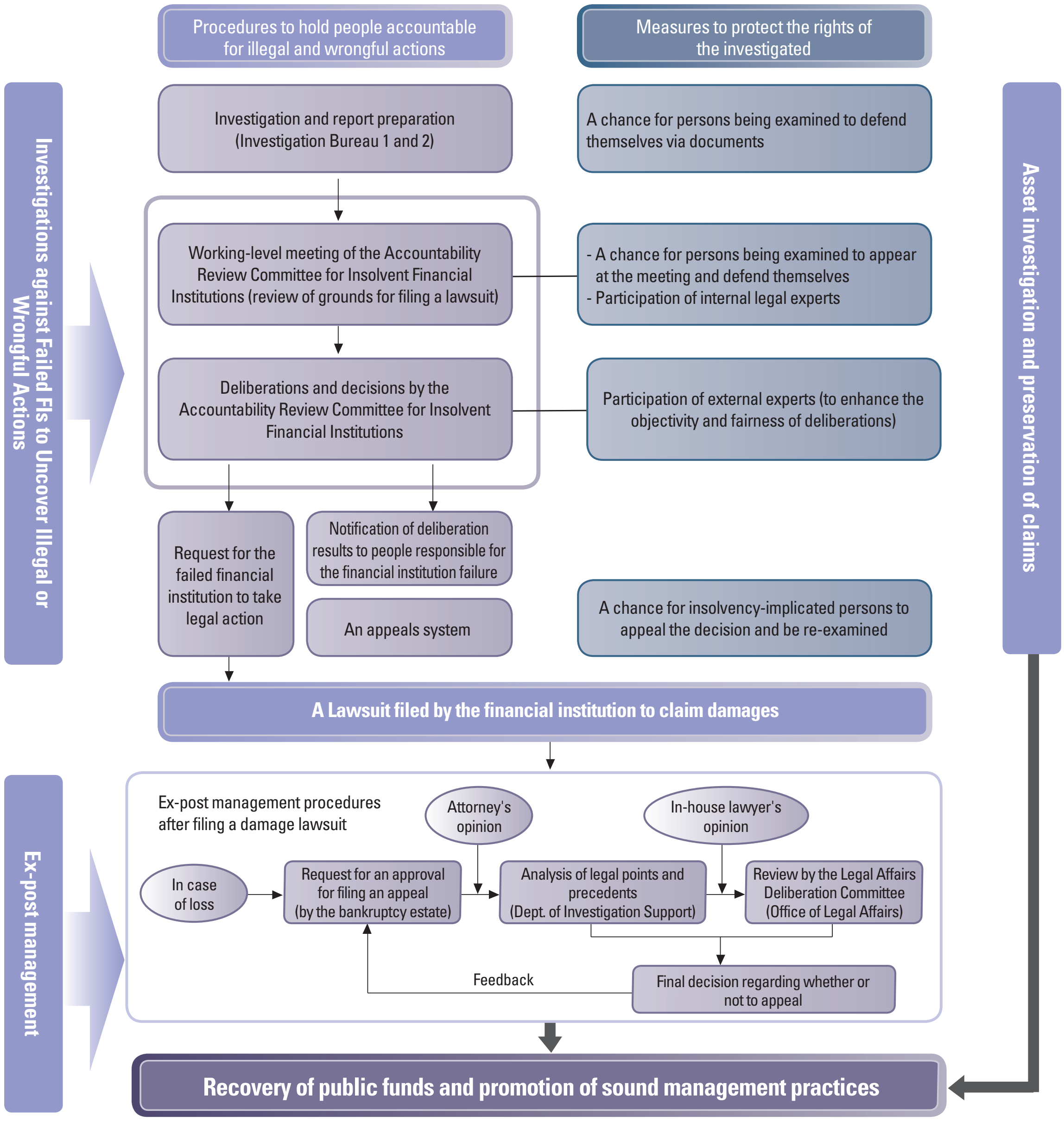
Investigations into Illegal and Wrongful Activities Regarding Failed Financial Institutions

(As of Dec.31, 2013, Unit: No. of cases, No. of persons)

Category	Redemption Fund		DI Fund	
	No. of Institutions	No. of People Responsible for the Failures	No. of Institutions	No. of People Responsible for the Failures
Banks	15	191	-	-
Investment Companies	6	65	-	-
Insurance Companies	18	236	-	-
Merchant Banks	22	160	-	-
MSBs	86	789	41	464
Credit Unions	325	4,146	14	183
Total	472	5,587	55	647

Figure Ⅷ- 1

Procedures to Hold People Accountable for Their Illegal and Wrongful Actions and the System to Protect the Rights of the Investigated



Damage Claim Proceedings Against Insolvency-Implicated Persons

Insolvent financial institutions and their bankruptcy estates have filed damage claims against people involved in their insolvencies following the KDIC's request for damage claims. By the end of 2013, damage claims for KRW 1,811.8 billion were instituted against 9,013 people implicated in insolvencies of financial institutions in which funds of the Deposit Insurance Fund (DIF) Bond Redemption Fund had been injected. Most of the lawsuits have come to a close. The KDIC is striving to recover the amount of monetary sanctions against insolvency-implicated persons, which was finalized by a court ruling, by various means including foreclosure on their property.

Table Ⅷ- 2

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

(As of Dec. 31, 2013, Unit: No. of cases, No, of persons, KRW 100 million)

Category	Banks	Investment Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions[1]	Total
No. of Failed Financial Institutions	15	6	18	22	85	311	457
No. of Defendants	191	83	276	181	1,026	7,256	9,013
Amount Claimed[2]	1,004	342	2,435	3,048	5,433	5,856	18,118
Amount Awarded[3]	471	218	1,346	548	4,056	3,208	9,847
Amount Collected[4]	102	54	218	660	922	769	2,726

Note: 1) Estates of the 14 credit unions which were transferred to the National Credit Union Federation of Korea on Jan. 1 of 2010 were not included.
2) The amount claimed in damages
3) The amount awarded by the court
4) The amount of damages actually collected through the court's enforcement procedures, etc.

The KDIC also requests that insolvent financial institutions and their bankruptcy estates file litigation claiming damages against persons involved in insolvencies of mutual savings banks that had received funds of the Deposit Insurance Fund. By the end of 2013, damage claims for KRW 313.9 billion were filed against 573 people implicated in failures of 36 insolvent mutual savings banks.

Table Ⅷ- 3

Lawsuits Filed in Relation to Failed Savings Banks that Received Financial Assistance from the Deposit Insurance Fund

(As of Dec. 31, 2013, Unit: No. of cases, No, of persons, KRW 100 million)

No. of Mutual Savings Banks	No. of Defendants	Amount Claimed[1]	Amount Awarded	Amount Collected
36	573	890	639	301

Note : 1) From cases for which a ruling has been made (Total amount of damages claimed: KRW 313.9 billion, the amount of damages current sought in court: KRW 224.9 billion)

The KDIC provides support and conducts ex-post management of legal actions taken by insolvent financial institutions and their bankruptcy estates following the KDIC's demand for damage claims and preservation of creditor rights. As part of this effort, the KDIC established the Litigation Support Team mainly comprised of legal experts, including lawyers, to enable a clear and logical presentation of defense and submission of evidence. The KDIC developed a litigation management improvement plan for bankruptcy estates with a view to building a system to regularly review its litigation support activities.

3. Investigations Into Default Debtor Corporations

Investigations Into Illegal and Wrongful Acts of Default Debtor Corporations

By the end of 2006, the KDIC's former Special Investigation Mission for Default Debtor Corporations completed its investigations into insolvent default debtor corporations that failed to pay their debts to public fund-injected insolvent financial institutions. In 2007, it began to investigate illegal and wrongful acts of default debtor corporations of mutual savings banks that had received financial assistance from the Deposit Insurance Fund. After a preliminary investigation in the first half of 2007, it started full-fledged investigations into these default debtor companies in the second half of the year. Through an organizational reshuffle in March 2008, the former Special Investigation Mission for Default Debtor Corporations and the former Investigation Department, which used to take exclusive responsibility for investigating insolvent financial institutions, were consolidated to form the new Insolvency Investigation Division, which currently performs investigations into default debtor corporations. In March 2013, it launched Investigation Bureau II to beef up investigations into default debtor corporations.

After reviewing the Insolvency Investigation Division's investigation results regarding illegal and wrongful acts of default debtor corporations, the Accountability Review Committee for Insolvent Financial Institutions confirmed as of the end of 2013 that 840 persons were responsible for financial failures and gave notice to the insolvent financial institutions and their bankruptcy estates so that they could start damage claim proceedings against those people.

Table Ⅷ-4

Investigations against Default Debtor Corporations

(As of late Dec. 31, 2013, Unit: No. of cases, No. of persons)

No. of Corporations Investigated On-site	No. of Insolvency-Implicated Persons
321	840

Enhanced Support for Damage Claim Proceedings Against Insolvency-implicated Persons of Default Corporate Debtors

In compliance with the KDIC's request, insolvent financial institutions and their bankruptcy estates filed 187 damage claim suits totaling KRW 980 billion against people implicated in insolvencies.

Table Ⅷ-5

Lawsuits Filed in Relation to Default Debtor Corporations

(As of Dec. 31, 2013, Unit: No. of cases, No. of persons, KRW 100 million)

No. of Companies	No. of Defendants	Amount Claimed	Amount Awarded	Amount Collected
148	1,180	9,800	4,492	1,179

The KDIC has continued to conduct ex-post management of legal actions taken by insolvent financial institutions following its request to file damage claims against those implicated in their insolvencies and take measures to preserve creditor rights. The KDIC checks the progress in lawsuits filed by insolvent financial institutions and their bankruptcy estates on a regular basis. Furthermore, the KDIC provides consulting services for management of lawsuits and preservation of creditor rights by holding meetings with the employees of insolvent financial institutions and their bankruptcy estates who are in charge of the lawsuits, if necessary.

4. Investigation Into Properties Owned by Insolvency-Implicated Persons

Stricter Investigations Into Assets Located in Korea

Pursuant to the Depositor Protection Act, the KDIC carried out thorough investigations into persons implicated in the insolvency of a public fund-injected financial institution. During the investigations, the KDIC utilized information stored in databases compiled by central administrative agencies and other public institutions regarding real estate and other property holdings. The KDIC was allowed to gather data from a wider range of institutions with the revision of applicable laws.

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

To secure assets of the insolvency-implicated persons of the 28 mutual savings banks which were suspended from operations and declared insolvent in or after 2011 such as Busan Savings Bank and Green Non-Life Insurance, the KDIC conducted property investigations. It found KRW 318 billion in financial assets and 2,590 lots of real estate owned by such persons including large stockholders and employees who had inflicted losses upon the mutual savings banks as a result of their illegal or wrongful acts.

To ensure preservation of creditor rights, the KDIC promptly notified mutual savings banks of the financial assets and real estate holdings of those involved in their insolvencies that had been found through its property investigations. As of the end of December 2013, mutual savings banks took several legal measures including (provisional) seizures totaling KRW 362.4 billion and 60 provisional injunctions.

Table Ⅷ- 6

Asset Investigations and Claims Preservation Measures Taken in Relation to MSB Failures that Occurred after 2011

(As of Dec. 31, 2013, Unit: No. of cases, No. of land lots, KRW 100 million)

Category	Assets Uncovered		Claims Preservation	
	Financial Assets	Real Estate	(Provisional) Seizure[1]	Provisional Disposition
Responsible Parties	3,180	2,590	3,624	60

Note : 1) The amount claimed on the provisional seizure order

Expanded Investigations Into Assets Located Overseas

To fully investigate overseas assets owned by insolvency-implicated persons, the KDIC prepared a plan to more extensively investigate offshore assets in September 2006. In 2007, the KDIC chose seven countries including the U.S., Canada, Japan, Australia, China, New Zealand, and the Philippines as investigation targets and launched an investigation through professional firms which specialize in investigations into hidden overseas assets.

Insolvency-implicated persons became increasingly sophisticated in their ability to conceal their assets, prompting the KDIC to redouble its overseas asset investigation efforts in 2013. For instance, it expanded the scope of countries and individuals subject to such investigations by reviewing overseas remittance records, in addition to existing records on immigration as well as registration of Korean nationals residing abroad.

It increased the number of targeted countries from 7 to 28 and the scope of investigation target individuals from insolvency-implicated persons cited in court decisions to their interested parties and corporations as well as insolvency-implicated persons not cited in court decisions.

After analyzing overseas remittance records of 9,928 insolvency-implicated persons, the KDIC commissioned professional firms to investigate possible hidden overseas assets of 181 persons at high risk of concealing assets abroad. This led to discovery of hidden overseas assets of approximately USD 22.2 million, against which legal measures could be taken. The amount of such discovered assets marked a six-fold increase from the previous year. What is more, the amount of recoveries increased as many as 24 times from the preceding year, from USD 415,000 to USD 9.866 million.

The KDIC formulated the *"Plan to Support Recovery of Hidden Overseas Assets of Bankruptcy Estates"* to implement prompt legal actions toward discovered assets and recover them in a well-organized manner. When the plan is executed in full swing in 2014 as scheduled, it is expected to recover more and more assets concealed abroad.

Table Ⅷ- 7

Recovery of Assets Hidden Overseas by Year

(As of Dec. 31, 2013, Unit: USD 1,000

Year	2003~2007	2008	2009	2010	2011	2012	2013	Total
Amount	3,044	-	2	349	1,400	415	9,866	15,076

Increasing Recoveries Through the Concealed Property Report Center

The KDIC opened the *Concealed Property Report Center* in May 2002 to encourage reporting on assets concealed by those implicated in insolvencies, maximize recovery through effective investigation and collection efforts, and prevent mismanagement of insured financial institutions. Up until the end of December 2013, the Center had received 242 reports, recovered KRW 32.2 billion in 40 cases and paid KRW 1.84 billion in rewards. On July 1, 2013, it increased the maximum reward for reporters from KRW 500 million to KRW 1 billion to offer greater incentive.

Recognizing that public interest and participation are the key to more effective enforcement of accountability, the KDIC continues to carry out multi-faceted promotion campaigns for the Center at home and abroad. It sought to build keen public attention on the received reports by distributing press releases on the hidden assets of certain persons such as controlling shareholders of insolvent mutual savings banks and by having interviews with major daily newspapers. It also ran advertisements in newspapers and on the subway. As part of its ongoing publicity efforts, it made presentations at bankruptcy estates and linked its webpage to those of the National Tax Service and Korea Customs Service.

The KDIC's concealed asset reporting system functioned much more effectively when it began to employ a publicity strategy using press reports in the latter half of 2012 and raised the maximum reward for reporters to KRW 1 billion: 53 reports were made in 2013, a 2.3-fold increase from the previous year; and a total of KRW 2.5 billion was recovered, a 3.09-fold increase from the preceding year.

To encourage the reporting of hidden overseas assets, the KDIC aggressively promoted the *Concealed Property Report Center* by visiting the Koreans' Foundations abroad (the U.S., Canada, Japan, Australia, New Zealand, and the Philippines) and appointed local Koreans in each foundation as PR (public relations) ambassadors for higher awareness. In 2013, it stepped up its promotional effort in the US by having interviews with the Korea Daily and other Korean broadcasting companies and by carrying radio advertisements. The KDIC publicized itself in a greater number of countries through various means including advertisements in the newsletters of Korean associations in China. It also launched a toll free number in the U.S. and Canada to establish a system for local Koreans to report hidden overseas assets at any time.

Table Ⅷ- 8

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

(As of Dec. 31, 2013, Unit: No. of cases, KRW 100 million)

Category	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
No. of Cases Reported	21	12	17	10	22	21	15	19	12	17	23	53	242
No. of Recoveries	-	1	1	2	3	8	4	2	4	2	5	8	40
Recovered Amount	-	3,156	374	231	11,791	6,184	2,637	2,830	605	1,058	825	2,547	32,238

IX

Fund Management

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

1. Deposit Insurance Fund Bond Redemption Fund

As of January 1, 2003, under the Public Fund Redemption Plan (Redemption Plan) devised by the government in 2002, the assets and liabilities of the Deposit Insurance Fund (DIF) that had been related to the restructuring process were separated from the Fund and put into a new fund called the Deposit Insurance Fund Bond Redemption Fund (Redemption Fund). The Redemption Fund was established to facilitate the financial restructuring efforts as well as recovery and repayment of public funds. The new DIF, which is funded by insurance premiums paid by KDIC-insured financial institutions, has been used for the day-to-day operations of the KDIC concerning insurance events that have occurred since 2003.

Stable Financing

Special Contributions for Redemption of DIF Bonds

Pursuant to Article 30-3 of the Depositor Protection Act and Article 16-4 of its Enforcement Decree, insured financial institutions, for the period from 2003 to 2027, are required to pay a given ratio of their deposit balances (the arithmetic mean of liability reserves and premium revenues in case of insurance companies) to the KDIC as *Special Contribution for Redemption of DIF Bonds (Special Contribution)*. Banks must pay the Special Contributions within one month following the end of each quarter. Other insured financial institutions are required to make payments within three months following the end of each fiscal year. In 2013, the KDIC received KRW 1,283 billion in Special Contributions.

Table Ⅸ- 1

Special Contribution Rates by Financial Sector

Sector	Banks	Investment Companies	Insurance Companies	Merchant Banks	Mutual Savings Banks	Credit Unions
Rates	1/1,000	1/1,000	1/1,000	1/1,000	1/1,000	5/10,000[1)]
Legal Limits	3/1,000	3/1,000	3/1,000	3/1,000	3/1,000	3/1,000

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

Table Ⅸ-2

Special Contribution Payments from Each Financial Sector

(Unit: KRW 100 million)

Year	Banks	Investment Companies	Insurance Companies		Merchant Banks	Mutual Savings Banks	Credit Unions[1]	Total
			Life	Non-life				
2003	4,775	156	889	185	21	222	-	6,247
2004	4,956	168	978	198	6	264	-	6,570
2005	4,872	145	1,069	219	5	319	-	6,628
2006	4,987	151	1,160	242	6	370	216	7,133
2007	5,027	156	1,265	278	7	430	116	7,280
2008	4,976	185	1,364	319	8	491	129	7,472
2009	5,965	169	1,430	352	10	593	137	8,656
2010	6,811	213	1,534	409	19	715	170	9,871
2011	7,789	227	1,650	487	12	718	205	11,087
2012	8,518	226	1,760	592	10	521	228	11,855
2013	8,973	202	2,297	707	9	394	248	12,830
Total	67,648	1,999	15,395	3,986	112	5,038	1,449	95,627

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

Contributions from the Public Fund Redemption Fund

In accordance with the Redemption Plan, the KDIC had received a total of KRW 52.3064 trillion in contributions from the Public Fund Redemption Fund during the four-year period from 2003 to 2006 and partially repaid the principal and interest of the Deposit Insurance Fund Bonds (DIF Bonds) issued on or before December 31, 2002, as provided in Article 4 of the Act on the Fund for Repayment of Public Funds. The KDIC has not received any more contributions from the Public Fund Redemption Fund since 2007.

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

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

With the establishment of the Redemption Fund in 2003, the outstanding balance of DIF Bonds amounting to KRW 80.9744 trillion as of the end of 2002 was transferred to the Redemption Fund. The DIF Bonds issued on or before December 31, 2002 that matured afterwards were repaid with contributions from the Redemption Fund, money raised by issuing DIF Bond Redemption Fund Bonds (Redemption Fund Bonds), Special Contributions, and other recovered funds, etc. in accordance with the Redemption Plan. All DIF Bonds issued on or before December 31, 2002 were paid off as of the end of 2008.

Table Ⅸ- 3

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

(Unit: KRW 100 million)

Year	Issued Amount	Redeemed Amount	Balance
1998	210,150	-	210,150
1999	224,849	-	434,999
2000	89,407	-	524,406
2001	310,593	14,640	820,359
2002	36,600	47,215	809,744
2003	-	97,371	712,373
2004	-	166,227	546,146
2005	-	180,904	365,242
2006	-	190,636	174,606
2007	-	60,672	113,933
2008	-	113,933	-
Total	871,599[1)]	871,599	-

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

Issuance and Repayment of Redemption Fund Bonds

Under Article 26-3 of the Depositor Protection Act, the KDIC is authorized to issue Redemption Fund Bonds to repay the principal and interest of DIF Bonds issued on or before December 31, 2002. In 2013, the KDIC issued Redemption Fund Bonds in the amount of KRW 7.27 trillion through public offering at a fixed rate and a three- or five-year maturity. The KDIC repaid KRW 7.57 trillion that matured in 2013, and the outstanding balance of Redemption Fund Bonds as of the end of 2013 was KRW 22.52 trillion.

Table Ⅸ- 4

Issuance and Redemption of Redemption Fund Bonds

(Unit: KRW 100 million)

Year	Issued Amount	Redeemed Amount	Balance
2004	65,000	-	65,000
2005	74,400	-	139,400
2006	28,705	3,155	164,950
2007	27,200	450	191,700
2008	88,000	100	279,600
2009	58,600	65,000	273,200
2010	68,100	74,400	266,900
2011	7,800	37,300	237,400
2012	47,700	56,900	228,200
2013	72,700	75,700	225,200
Total	538,205	313,005	225,200

Borrowings

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

The balance of the previous borrowings of the KDIC was transferred to the Redemption Fund, which was established in 2003. As the KDIC was exempted from repaying all previous borrowings from the Special Account for Government Investment and Financing as of January 1, 2003 in accordance with the Redemption Plan, it has not borrowed any money since 2003 under the Redemption Fund's lines of credit. In 2012, the KDIC repaid KRW 116.8 billion (USD 100 million) for the principal of loans from the IBRD. As of the end of 2013, there was no outstanding balance.

Table Ⅸ-5

Borrowings and Loan Repayment of the Redemption Fund

(Unit: KRW 100 million)

Year	Borrowed Amount				Repaid Amount	Balance
	Member Institutions	Loans[1]	Special Account for Government Investment and Financing	Subtotal		
Amount Received	76,011	-	-	76,011	-	76,011
1998	3,295	2,416	10,582	16,293	9,337	82,967
1999	13,870	12,016	26,254	52,140	33,870	101,237
2000	90,028	13	39,533	129,574	9,802	221,009
2001	-	8	49,672	49,680	110,196	160,493
2002	-	-	59,553	59,553	3	220,043
2003	-	-	-	-	195,993	24,050
2004	-	-	-	-	11,168	12,882
2005	-	-	-	-	3,538	9,344
2006	-	-	-	-	1,168	8,176
2007	-	-	-	-	1,168	7,008
2008	-	-	-	-	1,168	5,840
2009	-	-	-	-	1,168	4,672
2010	-	-	-	-	1,168	3,504
2011	-	-	-	-	1,168	2,336
2012	-	-	-	-	1,168	1,168
2013	-	-	-	-	1,168	1,168
Total	183,204	14,453	185,594	383,251	383,251	0

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

Financial Assistance

Overview

The KDIC provides financial assistance from the Redemption Fund in the form of deposit payoffs as well as equity investment, contributions, loans, etc. to resolve insolvent financial institutions. The Redemption Fund provided a total of KRW 3 million in financial assistance during 2013, all of which was in the form of contributions.

Table Ⅸ-6

Financial Assistance and Deposit Insurance Payments from the Redemption Fund (2013)

(Unit: KRW 1 million)

Sector	Equity Investment	Capital Contributions	Asset Purchase	Loans	Deposit Insurance Payments	Total
Banks	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	3	-	-	-	3
Merchant Banks	-	-	-	-	-	-
Mutual Savings Banks	-	-	-	-	-	-
Credit Unions	-	-	-	-	-	-
Total	-	3	-	-	-	3

The total amount of public funds provided by the Redemption Fund for the restructuring of insured financial institutions came to KRW 110.8945 trillion as of the end of 2013. This amount includes KRW 30.3124 trillion (27.3%) in payment of deposits for depositors of bankrupt insured financial institutions, KRW 50.7937 trillion (45.8%) in equity investment for business normalization, KRW 18.6117 trillion (16.8%) in contributions for P&As, and KRW 11.1767 trillion (10.1%) for the purchase of other assets.

Table Ⅸ-7

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

(As of Dec. 31, 2013, Unit: KRW 100 million)

Sector	Equity Investment	Capital Contributions	Asset Purchase[1)]	Loans	Deposit Insurance Payments	Total
Banks	222,039	139,189	81,064	-	-	442,292
Investment Companies	99,769	4,143	21,239	-	113	125,264
Insurance Companies	159,198	31,192	3,495	-	-	193,885
Merchant Banks	26,931	7,431	-	-	182,718	217,080
Mutual Savings Banks	1	4,161	-	5,969	72,892	83,023
Credit Unions	-	-	-	-	47,402	47,402
Total	507,937	186,117	105,799	5,969	303,124	1,108,945

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

Assistance for Each Sector of the Financial Industry

A. Banks

In 2013, the KDIC did not provide any funds to banks in the form of deposit insurance claim payments, equity investment, contributions, or loans from the Redemption Fund.

B. Insurance Companies

KB Life Insurance, based on the contribution agreement that it signed with the KDIC when it took over Hanil Life Insurance, requested the KDIC to settle dormant claims paid upon customer requests from June 1, 2011 to May 31, 2013. Thus, the KDIC paid KRW 3 million in additional contributions from the Redemption Fund in 2013.

C. Investment Companies

In 2013, the KDIC did not provide any funds to investment companies in the form of deposit insurance claim payments, equity investment, contributions, or loans from the Redemption Fund.

D. Mutual Savings Banks

In 2013, the KDIC did not provide any funds to mutual savings banks in the form of deposit insurance claim payments, equity investment, contributions, or loans from the Redemption Fund.

Table Ⅸ- 8

Deposit Insurance Payments for Savings Banks Depositors by Year

(Unit: No. of banks, KRW 100 million)

Year	No. of Failed Savings Banks	Amount of DI Payments
1998	17	14,705
1999	19	14,272
2000	11	6,500
2001	5	29,537
2002	10	7,719
2003	7	5
2004	8	26
2005	7	1
2006	8	3
2007	2	128
2008	-	△4
2009	1	-
2010	-	-
2011	-	-
2012	-	-
2013	-	-
Total	95	72,892

Table Ⅸ- 9

Financial Assistance to Savings Banks

(As of Dec. 31, 2013, Unit: KRW 100 million)

Name	Equity Investment		Capital Contributions		Loans	
	Before 2012	2013	Before 2012	2013	Before 2012	2013
Gyeonggi (former Commit)	-	-	254	-	1,654	-
Kyungbuk (former Hanuri)	-	-	85	-	-	-
Daecheon (current Daejeon)	-	-	-	-	102	-
Domin (Keumkang)	-	-	28	-	709	-
Dongwon (Korea Investment)	-	-	63	-	783	-
Bumin (Busan)	-	-	243	-	-	-
Busan 2	-	-	-	-	271	-
Sangup (former Hyundai)	-	-	701	-	-	-
Saenuri	-	-	13	-	21	-
Solomon (former Gold)	-	-	663	-	-	-
New Choongbuk	-	-	-	-	161	-
Arim	-	-	-	-	615	-
Union	-	-	39	-	518	-
J-one	-	-	325	-	-	-
Choil	-	-	29	-	738	-
Choongnam (former New Onyang)	-	-	-	-	45	-
Choongil	-	-	-	-	89	-
Telson (former New Hankook)	-	-	775	-	-	-
Hanaro	-	-	422	-	-	-
Hanmaum	-	-	521	-	-	-
Haedong (Kyunggi)	-	-	-	-	263	-
KR&C	1[1)]	-	-	-	-	-
Total	1	-	4,161	-	5,969	-

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

Maximization of Public Fund Recovery

Overview

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

The accumulated amount of public funds recovered as of the end of 2013 totaled KRW 50.9587 trillion including KRW 799.2 billion recovered in 2013 alone.

Table Ⅸ- 10

Redemption Fund Recovery (2013)

(As of Dec. 31, 2013, Unit: KRW 100 million)

Sector	Recovery of Equity Investment	Settlement of Capital Contributions, etc.	Asset Sales[1]	Recovery of Loans	Collection of Bankruptcy Dividends[1]	Total
Banks	1,141	2	11	-	△26[2]	1,127
Investment Companies	-	0.06	10	-	-	10
Insurance Companies	1,794	0.1	14	-	-	1,808
Merchant Banks	33	-	-	-	4,311	4,344
Mutual Savings Banks	-	0.4	-	-	698	698
Credit Unions	-	-	-	-	5	5
Total	2,968	3	34	-	4,987	7,992

Note: 1) Including recoveries through the resolution financial institution

2) Recoveries arising from allocation of the NPL Resolution Fund's remaining assets (KRW 7.4 billion) represent internal transactions of public funds between the NPL Resolution Fund and the DIF Bond Redemption Fund and, accordingly, were deducted from recoveries (KRW 4.8 billion) to prevent an overlap in recovery calculation.

Table Ⅸ- 11

Redemption Fund Recovery (Accumulated)

(As of Dec. 31, 2013, Unit: KRW 100 million)

Sector	Recovery of Equity Investment	Settlement of Capital Contributions, etc.	Asset Sales[1]	Recovery of Loans	Collection of Bankruptcy Dividends[1]	Total
Banks	163,053	701	65,845	-	18,469	248,068
Investment Companies	12,121	3,231	17,989	-	78	33,419
Insurance Companies	38,094	888	2,419	-	4,310	45,712
Merchant Banks	1,449	59	-	-	88,656	90,164
Mutual Savings Banks	-	342	-	5,969	51,721	58,032
Credit Unions	-	4	-	-	34,188	34,192
Total	214,718	5,225	86,253	5,969	197,423	509,587

Note: 1) Including recoveries through the resolution financial institution

Sale of Equity Stakes, etc.

A. Banks

In 2013, the KDIC collected KRW 2.4 billion by selling its stake in Jeju Bank on the stock market. It also recovered KRW 114.8 billion and KRW 200 million in dividends from Woori Financial Group and Jeju Bank. With finalization of litigation costs related to Korea First Bank (closed in April 2012), it recovered KRW 200 million from Standard Chartered Bank Korea.

In connection with the sale of Woori Financial Group (WFG), the KDIC pursued the sale of Kyongnam Bank and Kwangju Bank according to WFG privatization plan approved by the Public Fund Oversight Committee on June 26, 2013. In late 2013, BS Financial Group and JB Financial Group were respectively selected as the preferred bidder for Kyongnam Bank and Kwangju Bank.

B. Insurance Companies

In 2013, the KDIC respectively recovered KRW 32.2 billion and KRW 147.2 billion through dividend collection from Hanwha Life Insurance and Seoul Guarantee Insurance.

The KDIC also recovered KRW 12 million in loan recoveries according to the contribution agreement that it concluded with Hanwha Life Insurance during P&As of Hyundai, Doowon, and Samshin Life Insurance.

C. Investment companies

Pursuant to the stock sale/purchase agreement that it signed at the time of sale of Korea Investment & Securities and Daehan Investment Trust Securities, the KDIC recovered KRW 6 million from Korea Investment Holdings and Hana Daetoo Securities in dividends from auctioning of real estate held by insolvency-implicated persons.

D. Miscellaneous

In April 2013, the KDIC recovered KRW 126.2 billion through a block sale of the KR&C's 0.63% stake in SK Hynix. In June 2013, it recovered KRW 16 billion by selling the KR&C's 100% stake in Pohang Terminal in open bidding. In November 2013, it recovered KRW 277.4 billion through a block sale of the KR&C's 1.36% stake in KEPCO (Korea Electric Power Corporation).

The KDIC also recovered KRW 300 million through public sale of five issues* of unlisted shares held by the KR&C. With respect to unlisted shares held by the KR&C, it collected KRW 1.2 billion in dividends.

* Five issues of shares including those in Digital eMation and Inkel

Recovery by the KR&C

The KR&C also employs a variety of means of recovery in addition to the traditional method of recovery-at-maturity. These include sales through M&A transactions, disposal of non-performing loans (NPLs) through joint venture special purpose companies (J.V. SPCs), and issuance of asset-backed securities (ABSs). By the end of 2013, the KR&C recovered a total of KRW 41.3091 trillion.

In 2013, the KR&C recovered KRW 677.5 billion through securities sales entrusted to the KDIC, collection of loans, litigation at home and abroad, real estate sales in auctions, and collection of bankruptcy dividends based on the rights of indemnity, etc.

Table Ⅸ- 12

Recovery from Sale of KR&C-Owned Assets

(As of the end of December 2013, Unit: KRW 100 million)

Year	Asset Type[1)]	Assets Subject to Sale	Amount Recovered	Recovery Method
Amount recovered in 2013	Loans	Loans in KRW	1,086	Direct collection and litigation
		Loans in foreign currencies	1	
		Subtotal	1,087	
	Marketable securities	Listed and unlisted stock	4,344[2)]	Open bidding, sale on the stock market, and dividend collection
	Real estate	Business buildings, etc.	19	-
	Right of indemnity	Claims as subrogee for insured depositors, etc.	1,325	Bankruptcy dividend collection
	Total		6,775	-
Accumulated amount	Loans	Loans in KRW	106,917	International bidding, NPL sale, ABS issuance, etc.
		Loans in foreign currencies	30,704	
		Subtotal	137,621	
	Marketable securities	Listed and unlisted stock	61,286	Joint sale, block sale, etc.
	Real estate	Business buildings, etc.	6,708	Auction and negotiated contract
	Right of indemnity	Claims as subrogee for insured depositors, etc.	207,476	Bankruptcy dividend collection
	Total		413,091	-

Note: 1) Among assets owned by Hanareum Merchant Bank and Hanareum Mutual Savings Bank which are classified as 'claims as subrogee for insured depositors' under the classification criteria for determining the types of public fund assistance, only the amount recovered from the sale of loans, marketable securities, and real estate (not the amount recovered from the exercise of subrogee rights) was included.
2) The recovered amount (KRW 420.5 billion) from the KDIC's sale of the KR&C's marketable securities is included.

Bankruptcy Dividends

In 2013, the KDIC received KRW 498.7 billion in bankruptcy dividends (KRW △2.6 billion from bankruptcy estates of banks, investment companies, and insurance companies and KRW 501.3 billion from bankruptcy estates of merchant banks, mutual savings banks, and credit unions). By the end of 2013, the cumulative total of money recovered through bankruptcy dividend collection was KRW 19.7423 trillion.

Table IX- 13

Bankruptcy Dividends Collection by Financial Sector[1)]

(As of Dec. 31, 2013, Unit: No. of estates, KRW 100 million)

Sector	No. of Estates	Recovered Amount	
		2013	From 1999 to 2013
Banks	5	△26[2)]	18,469
Investment Companies	10	-	4,310
Insurance Companies	4	-	78
Merchant Banks	22	4,311	88,656
Savings Banks	75	698	51,721
Credit Unions	325	5	34,188
Total	441	4,987	197,423

Note : 1) The amount of bankruptcy dividends collected by the KDIC from estates of failed financial institutions (in cases where the KDIC reimbursed depositors directly) and the KR&C (in cases where the KDIC repaid depositors through the former Hanareum Merchant Bank or Hanareum Savings Bank)
2) Recoveries arising from surplus allocation of the NPL Resolution Fund's remaining assets (KRW 7.4 billion) represent internal transactions of public funds and, accordingly, were deducted from the KDIC's public fund recoveries (KRW 4.8 billion) to prevent an overlap in recovery calculation.

Recovery of Loans, etc.

By the end of 2013, the KDIC had provided KRW 596.9 billion in loans, all of which were recovered. By the end of 2013, it recovered KRW 522.5 billion by settlement of contributions, etc. In 2013, it recovered approximately KRW 300 million by recovering KRW 200 million from Standard Chartered Bank Korea, KRW 10 million from Daehan Fire & Marine Insurance, and KRW 40 million in damage claims against the parties implicated in mutual savings bank failures.

2. Deposit Insurance Fund

Diversification of Funding Sources

Deposit Insurance Premiums

Pursuant to Article 30 of the Depositor Protection Act and Article 16 of its Enforcement Decree, insured financial institutions are required to pay the KDIC a given ratio of their deposit balance (in the case of insurance companies, the arithmetic mean of liability reserves and premium revenues) as insurance premiums. At present, banks must pay premiums within one month following the end of each quarter. Other insured financial institutions are required to pay premiums within three months following the end of each fiscal year. Deposit insurance premiums collected up to 2002 were transferred to the Redemption Fund established under the Redemption Plan while deposit insurance premiums collected since 2003 have been placed in the Deposit Insurance Fund (DIF).

The KDIC set up the Special Account for Mutual Savings Bank Restructuring (Special Account) to improve the financial health of the mutual savings bank account in the DIF in accordance with Article 24-4 of the Depositor Protection Act amended in March 2011. The Special Account is funded by 45% of the yearly insurance premiums paid by KDIC-insured financial institutions (such ratio as determined by the Deposit Insurance Committee in the case of mutual savings banks), issuance of DIF Bonds to finance the Special Account, external borrowings, and recovered funds, etc. The total amount of premiums received from insured financial institutions including the Special Account in 2013 remained at KRW 1.159 billion.

Table Ⅸ- 14

Insurance Premium Rates for Different Financial Sectors

Category	Banks	Investment Companies	Insurance Companies	Merchant Banks	Mutual Savings Banks
DI Premium Rates	8/10,000	15/10,000[1]	15/10,000[2]	15/10,000	40/10,000[3]
Legal Limit	50/10,000	50/10,000	50/10,000	50/10,000	50/10,000

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

Table Ⅸ- 15

Deposit Insurance Premium Revenue by Financial Sector

(Unit: KRW 100 million)

Year	Banks	Investment Companies	Insurance Companies		Merchant Banks	Mutual Savings Banks	Special Account[2]	Total[4]
			Life	Non-life				
2003[1]	4,775	312	2,580	535	73	667	-	8,942
2004	4,960	336	2,832	571	17	793	-	9,509
2005	4,869	300	3,109	628	15	974	-	9,895
2006	4,987	303	3,362	697	19	1,116	-	10,484
2007	5,027	256	3,654	801	22	1,306	-	11,066
2008	4,808	305	3,934	918	24	1,483	-	11,472
2009	5,291	276	4,097	1,016	29	1,737	-	12,446
2010	5,451	284	2,609	698	34	2,524	-	11,600
2011	4,795	283	2,362	700	18	2,331	1,742	12,231
2012[5]	3,748	2	-14[3]	100	8	1,344	5,816	11,004
2013[5]	3,948	-	221	488	8	253	6,672	11,590
Total	52,659	2,657	28,746	7,152	267	14,528	14,230	120,239

Note : 1) Insurance premiums received up to 2002 were transferred to the DIF Bond Redemption Fund.
2) Established in April 2011
3) There was a refund of some of the premiums paid before 2012.
4) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was not included.
5) According to implementation of the target fund system, insurance premiums were exempted or reduced in 2012 (exemption for financial investment and life insurance companies and 15% reduction for non-life insurance companies) and in 2013 (exemption for financial investment companies, 45% reduction for life insurance companies, and 7% reduction for non-life insurance companies).

Contributions from Insured Financial Institutions

Article 24 of the Depositor Protection Act and Article 14 of its Enforcement Decree requires that a newly insured financial institution which obtained authorization for its operations or incorporation should contribute a specific proportion of its paid-in-capital or equity capital within one month of starting business in order to receive deposit insurance coverage. With the creation of the Redemption Fund, contributions made up to 2002 were transferred to the Redemption Fund, whereas contributions received since 2003 have been incorporated into the Deposit Insurance Fund. The KDIC received KRW 7.9 billion in contributions from insured financial institutions in 2013.

Table Ⅸ- 16

Contributions from Member Institutions

(Unit: KRW 100 million)

Year	Banks	Investment Companies	Insurance Companies		Merchant Banks	Mutual Savings Banks	Special Account[2]	Total[3]
			Life	Non-life				
2003[1]	0.3	-	6.5	2.0	-	-	-	8.8
2004	3.4	2.0	6.0	2.0	-	-	-	13.4
2005	2.2	2.0	-	-	-	12.5	-	16.7
2006	3.8	8.0	-	2.0	-	13.4	-	27.2
2007	-	-	-	-	-	-	-	-
2008	1.6	110.1	-	-	-	5.6	-	117.2
2009	7.7	43.1	4.2	3.4	0.2	7.8	-	66.3
2010	0.8	5.8	9.0	0.3	-	-	-	15.9
2011	0.3	-	-	-	-	12.0	-	12.3
2012	5.8	1.3	50.0	8.0	-	24.0	-	89.1
2013	0.8	21.7	3.2	3.1	0.0	49.8	-	78.6
Total	26.7	194.0	78.9	20.8	0.2	125.1	-	445.6

Note : 1) Contributions received up to 2002 were transferred to the DIF Bond Redemption Fund.
2) The Special Account which was established for the resolution of failed savings banks has no revenue from contributions.
3) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was not included.

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

Pursuant to Articles 24-4 and 26-2 of the Depositor Protection Act, the KDIC, for the first time, issued DIF Bonds to finance the Special Account without government guarantees using its own credit facility in December 2011. In 2013, it issued KRW 2.09 trillion in bonds for funding to meet sustained demand for financial assistance for the resolution of insolvent financial institutions, etc.

Table Ⅸ- 17

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

(Unit: KRW 100 million)

Year	Amount Issued	Redeemed Amount	Balance
2011	12,000	-	12,000
2012	200,400	-	200,400
2013	20,900	-	20,900
Total	233,300	-	233,300

Borrowings

According to Article 26 of the Depositor Protection Act and Article 15 of its Enforcement Decree, the Deposit Insurance Fund (DIF) is authorized to, when necessary for deposit payoffs or resolution of insolvent financial institutions, borrow funds from various entities including the government, the Bank of Korea, insured financial institutions, and other financial institutions set forth in Article 15(3) of the Enforcement Decree. Accordingly, the KDIC borrowed a total of KRW 166.4 billion in 2003 and 2004 to reimburse depositors of failed credit unions and KRW 231.4 billion in 2007 to resolve failed mutual savings banks.

Table Ⅸ- 18

Borrowings and Loan Repayments of the DIF

(Unit: KRW 100 million)

Account Name	Year	Borrowed Amount[1]				Repaid Amount	Balance
		Member Institutions	BOK etc.	Government	Subtotal		
Mutual Savings Banks	2007	2,314	-	-	2,314	-	2,314
	2008	-	-	-	-	2,314	-
	Subtotal	2,314	-	-	2,314	2,314	-
Special Account	2011	104,199	-	-	104,199	12,000	92,199
	2012	141,932	-	1,000	142,932	222,625	12,506
	2013	19,364	-	1,000	20,364	30,870	2,000
	Subtotal	265,495	-	2,000	267,495	265,495	2,000
Total		267,809	-	2,000	269,809	267,809	2,000

Note : 1) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was not included.

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

As for the Special Account set up in 2011 for the mass resolution of insolvent mutual savings banks, a total of 26.5495 trillion was borrowed from insured financial institutions including banks by the end of 2013. To increase funding for the Special Account, the KDIC, in 2012 and 2013, applied for government loans from the Public Capital Management Fund at no interest (ten-year maturity and installment payments over a five-year period). Thus, it received KRW 200 billion's government borrowings in total.

By the end of 2013, KRW 26.5495 trillion was repaid out of KRW 26.7495 trillion in borrowings in the Special Account through issuance of DIF Bonds, etc. As of the end of 2013, the outstanding borrowings amounted to KRW 200 billion, and all of them represent long-term borrowings from the government.

Timely Provision of Financial Assistance

Overview

Since 2003, the KDIC has provided financial assistance from the DIF for deposit payoffs in the case of insurance events and resolution of insolvent financial institutions in the form of equity investment, contributions, and loans.

Until 2010, a total of KRW 4,527.5 billion was provided, from the DIF's mutual savings bank account, to 16 insolvent mutual savings banks where an insurance event occurred, including Kimchun Mutual Savings and Finance. From 2011, a total of KRW 26.8088 trillion was provided to 29 insolvent mutual savings banks from the Special Account. In 2013, KRW 22.6 billion was provided to one non-life insurance company from the Non-Life Insurance Account.

Table Ⅸ- 19

Financial Assistance and Deposit Insurance Payments from the DIF (2013)

(Unit: KRW 100 million)

Account Name[1]	Equity Investment	Capital Contributions	Deposit Insurance Payment[2]	Loans	Advance Dividend Payments	Total
Special Account	1,271	17,678	154	34	-	19,137
Non-Life Insurance Account	-	226	-	-	-	226
Total	1,271	17,904	154	34	-	19,363

Note : 1) Aside from the Special Account, no account in the DIF had to make expenditures for financial assistance in 2012.

Table Ⅸ- 20

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

(As of Dec. 31, 2013, Unit: KRW 100 million)

Account Name	Equity Investment	Capital Contributions	Deposit Insurance Payment	Loans	Advance Dividend Payments	Total[1]
Banks	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	226	-	-	-	226
Merchant Banks	-	-	-	-	-	-
Mutual Savings Banks	1,211	24,542	14,412	4,891	219	45,275
Special Account	3,655	226,311	36,213	1,134	775	268,088
Total	4,866	251,079	50,625	6,025	994	313,589

Note : 1) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was not included.

Assistance for Each Financial Sector

A. Mutual Savings Banks

For the 29 insolvent mutual savings banks that were suspended from operations in 2011 or afterwards, the KDIC made deposit payoffs, including interim deposit payments, through the Special Account. The assistance took the form of equity contributions to make up for net asset shortages to enable a P&A of failed mutual savings banks. Troubled assets were subject to a P&A by the KR&C and necessary loans were granted accordingly.

Following is a summary of financial assistance and deposit payoffs for mutual savings banks that were suspended by the end of 2013.

Table Ⅸ- 21

Financial Assistance and Deposit Insurance Payments from the Special Account*

(As of Dec. 31, 2013, Unit: KRW 100 million)

Bank Name	Date of Business Suspension	Payment of Deposit Insurance (including Interim Deposit Payments)	Capital Contributions, Loans, etc.	Total
16 failed MSBs including Samhwa	2011	32,754	127,034	159,788
8 failed MSBs including Solomon	2012	3,431	86,706	90,137
Seoul	2013. 2.15	10	6,288	6,298
Youngnam	2013. 2.15	1	2,766	2,767
Shilla	2013. 4.12	17	6,660	6,677
Smile	2013.11. 1	-	1,081	1,081
Hanul	2013.12.27	1	1,339	1,340
Total		36,214	231,874	268,088

* An additional KRW 4.4 billion and KRW 93.1 billion was provided to '16 failed MSBs including Samhwa' and '8 failed MSBs including Solomon', respectively.

B. Insurance companies

Since 2003, no financial assistance had been provided to insured financial institutions other than mutual savings banks. For resolution of Green Non-Life Insurance suspended in 2012, however, the KDIC rendered assistance in the form of payment of a KRW 22.6 billion contribution to the acquirer (MG Non-Life Insurance) through the DIF Non-Life Insurance Account in order to make up for the net asset shortage during the P&A transaction with the thirdparty acquirer.

Table Ⅸ- 22

Financial Assistance and Deposit Insurance Payments from the Non-Life Insurance Account

(As of Dec. 31, 2013, Unit: KRW 100 million)

Non-life Insurance Company	Date of Business Suspension	Payment of Deposit Insurance (including Interim Deposit Payments)	Capital Contributions, Loans, etc.	Total
Green	2012. 5.16	-	226	226
Total		-	226	226

Recovery Maximization

Overview

The DIF uses the same methods as in the case of the Redemption Fund to recover the public funds provided in financial assistance. Such methods include: sale of equity stakes in insured financial institutions, collection of bankruptcy dividends through participation in bankruptcy procedures, and recovery of loans it made to insured financial institutions. The KDIC recovered KRW 2,754.8 billion in total from 2003 to 2013 including KRW 97 billion in the mutual savings bank account and KRW 1,044.6 billion in the Special Account recovered in 2013 alone.

Table Ⅸ-23

DIF Recovery (2013 and Accumulated)

(As of Dec. 31, 2013, Unit: KRW 100 million)

Category		Equity Investment	Capital Contributions	Money Paid in Deposit Insurance Payments	Loans	Money Paid in Advance Dividends	Total 1)
2013	MSBs	1	516	247	76	130	970
	Special Account	1,268	4,410	4,191	133	444	10,446
	Total	1,269	4,926	4,438	209	574	11,416
2003 to 2013 Accumulated		3,815	5,957	11,590	5,400	786	27,548

Note : 1) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was not included.

Recovery of Loans and Bankruptcy Dividends

In 2013, the KDIC collected KRW 993.9 billion in bankruptcy dividends through the sale of remaining assets owned by bankruptcy estates of mutual savings banks that had received public fund assistance from the DIF. From 2003 to 2013, a cumulative total of KRW 1,678.6 billion was recovered.

From 2003 to 2013, the KDIC offered KRW 602.5 billion in loans to the KR&C to facilitate the resolution of failed mutual savings banks including Gyeongbuk Mutual Savings Bank, among which KRW 540 billion was recovered.

Table Ⅸ-24

Collection of Bankruptcy Dividends and Loans

(As of Dec. 31, 2013, Unit: KRW 100 million)

Financial Sector	Collection of Dividends from Estates, etc. 1)		Collection of Loans 1)	
	2013	2003-2013 Accumulated	2013	2003-2013 Accumulated
Mutual Savings Banks (Including the Special Account)	9,939	16,786	208	5,400

Note : 1) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was not included.

Enhancement of the Financial Health of the DIF

The new Deposit Insurance Fund (DIF) was launched in 2003. The ministerial meeting for regulatory reform held in May 2006 approved the adoption of the Target Fund System and the overhaul of insurance premium rates as a means to improve the deposit insurance system. Thus, the KDIC outsourced research services and held a deposit insurance policy symposium to gather opinions from various fields. In October 2007, a private-public joint task force team was formed to make improvements to the deposit insurance system including the introduction of the Target Fund System and adjustment of the premium rates. In December 2007, the National Assembly amended the Depositor Protection Act as proposed by lawmakers and thus approved the implementation of the Target Fund System starting in 2009.

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

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

In 2012 and March 2013, the KDIC published a white paper on management of the Special Account pursuant to Article 24-4 of the Depositor Protection Act. It also reported the results of settlement of accounts for the Special Account for 2011 as well as its management plan for 2012 to the corresponding standing committee in the National Assembly for the purpose of increasing transparency. In July 2012 and November 2013, the KDIC received KRW 100 billions respectively of no-interest-bearing borrowings from the government (Public Capital Management Fund) to expand financing for, and diversify the funding sources of, the Special Account. Such endeavor helped make its management more healthy and reliable.

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

The KDIC experienced difficulties in managing assets owing to the low-interest environment and ample liquidity of banks. However, it enhanced profitability by giving incentives to those financial institutions which would take deposits from the KDIC in the form of higher investment in their debt instruments. It actively responded to market conditions by appropriately allocating assets on the basis of market interest rates, prospects for the yield curve, and forecasts of major economic developments.

In line with introduction of a multiple manager system for public fund investment pools, the KDIC became the first public fund to establish a means to administer multiple managers. It sought to diversify asset management by reviewing possible adoption of repurchase agreement transactions among institutions. Considering that various external factors including the reduction of quantitative easing by the US served to increase volatility in the domestic financial market, it improved its contingency plan for surplus fund management in preparation for a potential global economic shock. It also employed more independent surplus fund management methods, based on revision of internal guidelines.

Going forward, the KDIC will work closely with the government and other appropriate organizations to reduce the deficit in the mutual savings bank account and the Special Account. The KDIC is committed to protecting depositors and maintaining financial stability by promoting the financial health of the DIF.

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Account Settlement for Fiscal Year 2013

1. Overview of Account Settlement

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

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

The KDIC has retained the services of accounting firms to conduct independent audits since fiscal year 2002 to enhance the credibility and transparency of its financial statements. For the account settlement of 2013, the audit was conducted by Nexia Samduk, and the auditor's opinion was “unqualified.”

2. Criteria for Account Settlement

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

Deposit Insurance Fund and KDIC Internal Account

Accounting for Assets and Liabilities

Classification and Valuation of Securities

A. Acquisition Cost and Classification of Securities

The acquisition costs of securities are estimated by adding together the purchase prices and incidental costs incurre d in acquiring the securities. The KDIC classifies securities as available-for-sale (AFS) financial assets, held-to-maturity (HTM) financial assets, and investments in associates, according to their nature and ownership purpose. In 2013, only the DIF held securities, all of which were categorized as AFS financial assets.

B. Valuation of Securities

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

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

Valuation of Loans, etc.

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

Reserves for Outstanding Claims

Other provisional liabilities (reserves for outstanding claims) are estimated and set aside by the KDIC to cover any liability arising from an insurance event or loss in a lawsuit.

Transferred-out Capital Budget and General Expenses of the KDIC

The DIF covers the costs incurred in the KDIC's acquisition of assets as well as its general expenses. The money used for capital expenditures of the KDIC Internal Account is appropriated as other non-current assets (transferred-out capital budget) and, if the asset decreases in value due to depreciation, etc. the corresponding amount is deducted from other non-current assets (transferred-out capital budget) and added to general expenses. The costs of the operation of the KDIC such as labor costs are treated as recurring general expenses.

Accounting for Revenues and Expenses

Revenue Recognition Criteria

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

Accrual of Revenues and Expenses

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

(1) (Deferral of Expenses) If an expense belonging to the following fiscal year is prepaid, it is booked as a prepaid expense and deducted from current expenditures.

(2) (Expense Booking) An expense belonging to the current fiscal year but remaining unpaid as of the date of account settlement is recorded as an unpaid expense and added to expenses. An expense whose amount had not been fixed as of the date of account settlement is not recorded.

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

DIF Bond Redemption Fund

Application of Government Accounting Standards

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

Accounting for Assets and Liabilities

Classification and Valuation of Securities

A. Acquisition Cost and Classification of Securities

The acquisition costs of securities are calculated by adding ancillary costs to the purchase prices and applying the identified cost method. Securities are classified in accordance with asset classification standards into short-term and long-term investment securities. Short-term investment securities include debt securities, equity securities, and other short-term securities with a maturity of no more than one year or to be sold within one year. Long-term investment securities include debt securities, equity securities, and other long-term investment securities with a maturity of more than one year or to be sold after one year.

B. Valuation of Securities

Debt securities are valued at their amortized acquisition cost, while equity securities and other long- and short-term investment securities are valued at their acquisition cost. However, long- and short-term investment securities purchased for investment purposes are valued at fair value if the fair value can be reliably estimated on the balance sheet date and the difference between book value and fair value is recorded as an adjustment in the statement of changes in net assets.

In the meantime, if the recoverable amount of securities declines below their book value and the decline is sustained for such a prolonged period that restoration is not likely, the corresponding difference is recognized as an impairment loss and reflected in the net cost for financial management. If the recoverable amount of impaired securities recovers above the book value prior to the recognition of their impairment loss, the amount of a reversal shall be recognized as a reversal of impairment loss and included in the net cost for financial management, but not exceeding the book value.

Valuation of Loans, etc.

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

Provisions for Long-Term Liabilities

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

Discount or Premium on Debentures Issued

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

Transferred-out Capital Budget and General Expenses of the KDIC

The Redemption Fund covers the costs associated with assets used by the KDIC and other general expenses. The money spent for capital expenditures of the KDIC Internal Account is appropriated to assets as other non-current assets, and if the asset decreases in value due to depreciation, etc., the corresponding amount is deducted from other non-current assets and added to administrative and general expenses. The costs of the operation of the KDIC such as labor costs which are allocated to the financial policy support program are booked as total program costs and the rest as administrative and general expenses.

Accounting for Revenues and Expenses

Revenue Recognition Criteria

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

Expense Recognition Criteria

Expenses are recognized when assets are reduced for the provision of goods or services and the amount can be reasonably estimated, or when obligations for expenditures exist under applicable laws or regulations and the amount can be reasonably estimated. When the economic benefit of an asset that was recognized as an asset in the past decreases or disappears, or when a liability is clearly incurred or increases without an expenditure of resources, it is recognized as an expense.

3. Account Settlement Results

KDIC (Combined with the DIF)

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

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

Deposit Insurance Fund

A. Financial Status

The total assets of the DIF increased by KRW 1,892.5 billion or 12.3% in 2013 to KRW 17.3135 trillion. The increase is mainly attributable to an increase in indemnity receivables (KRW 1,123.7 billion) due to financial assistance for the resolution of insolvent mutual savings banks in 2013 and an increase in cash reserves (KRW 708.9 billion) in the accounts other than the Special Account.

Total liabilities increased by KRW 1,191.8 billion or 5.2% in 2013 to KRW 23.9147 trillion, primarily owing to a net increase in external borrowings (KRW 939.4 billion) including DIF Bond issuance, a rise in treasury loans (KRW 100 billion), and establishment of provisions (KRW 131.1 billion).

* Increase in the DIF Bonds (KRW 2.09 trillion) - Decrease in KDB borrowings (KRW 1.1506 trillion)

Total equity increased by KRW 700.7 billion or 9.6% to KRW –6,601.2 billion in 2013 as a result of the rise in retained earnings, stemming mainly from the net income of KRW 708.9 billion.

B. Profits and Losses

In 2013, the operating profits and total comprehensive income respectively stood at KRW 708.9 billion and KRW 700.7 billion, registering positive net income for the first time since 2011.

The operating profits calculated by deducting operating costs from operating revenues amounted to KRW 543.6 billion. The operating revenues (KRW 1,456.5 billion) are mainly comprised of insurance premium revenues (KRW 1,242 billion) and interest income earned from asset management (KRW 203.5 billion). The operating costs (KRW 912.9 billion) include interest expenses for borrowings (KRW 823.6 billion) and KDIC operating expenses (KRW 83.7 billion).

Non-operating profits were KRW 165.3 billion, mainly attributable to the net reversal of provisions (KRW 327.1 billion) because of an increase in expected recovery of indemnity receivables, to the transfer of other provisions (△KRW 131.1 billion), and to losses from evaluation of bridge mutual savings banks (△KRW 32.9 billion).

KDIC Internal Account

A. Financial Status

Total assets stood at KRW 19.6 billion as of the end of 2013, up KRW 1 billion or 5.2% from a year earlier.

The current assets decreased by KRW 500 million during the year to KRW 1.7 billion. This is ascribed to a decline in cash reserves as a result of income tax withholding and premium payments to the four major public insurance schemes. Non-current assets amounted to KRW 17.9 billion, up KRW 1.5 billion from the end of the previous year, due to an increase in deposits with financial institutions (plan assets) to prepare for resignation/retirement of employees.

Total liabilities decreased by KRW 2 billion or 8.1% to about KRW 22.7 billion as of the end of 2013.

Total equity stood at approximately KRW -3 billion at the end of 2013, up KRW 3 billion compared to a year ago. The KDIC has a negative total equity because it began to post the estimated costs of annual leaves (account closing for 2012 and beyond) and business incentives (account closing for 2013 and beyond) as liabilities according to the revisions to accounting principles.

B. Profits and Losses

The net income and the total comprehensive income in 2013 remained at KRW 800 million and KRW 3 million, respectively.

Total revenues, at KRW 95.3 billion, consist of operating revenues of KRW 94.8 billion including revenues transferred from the DIF (KRW 94.7 billion) and other revenues (KRW 500 million).

The total costs, at KRW 94.5 billion, include labor costs of KRW 57.9 billion (61%) and general expenses of KRW 36.6 billion (39%).

Redemption Fund

Financial Status

As of the end of 2013, the total assets of the Redemption Fund stood at KRW 12.4343 trillion, up KRW 1,091.1 billion or 9.6% from the end of the previous year. The current assets grew by KRW 42.3 billion due to an increase in year-end cash reserves (KRW 918.3 billion) for bond redemption in January 2014, which more than offset a decrease in the current assets (KRW 878.6 billion) due to the transfer of short-term loans to the long-term loan account in line with the KR&C's extended operations. Investment assets expanded by KRW 1,063.7 billion for such reasons as an increase in the appraised value of the shares in Woori Financial Group, etc. (KRW 695 billion) and the transfer of loans due from the KR&C to the long-term loan account (KRW 373.9 billion).

As of the end of 2013, the total liabilities decreased by KRW 410.7 billion or 1.8% year-on-year to KRW 22.74 trillion. This is because loans recovered from the KR&C (KRW 583.7 billion) were used to repay a part of the existing debts.

The total net assets stood at KRW –10.3055 trillion as of the end of 2013, up KRW 1,501.8 billion or 12.7% from the end of the previous year. This is because the net asset adjustment increased by KRW 653.7 billion (29.0%) due to realization of net income amounting to KRW 848.1 billion and a rise in the price of equity securities.

Profits and Losses

In 2013, the Redemption Fund's financial operation generated a result of KRW –848.1 billion, recording a year-on-year income increase of KRW 277.2 billion or 48.5%. “Financial operation result” is the opposite of net income in corporate accounting. The negative result means that revenues exceeded costs. The increase in net income in 2013 is primarily attributable to a year-on-year decline in interest expenses of Redemption Fund Bonds (KRW 268.4 billion) and an increase in revenues from Special Contributions (KRW 76 billion).

The net program costs incurred for the operation of the financial policy support program, an essential business of the Redemption Fund, remained at KRW 475.1 billion. This figure was arrived at by deducting program income of KRW 699 billion from the total program costs of KRW 1,174.1 billion.

The net cost for financial management came to KRW 434.9 billion, calculated by adding KRW 10 billion of administrative and operating expenses and KRW 3 billion of non-allocated costs to the net program costs of KRW 475.1 billion and then deducting KRW 53.2 billion of non-allocated revenues. The administrative and operating expenses above refer to management expenses including labor costs and general expenses that are not allocated to program costs. Non-allocated costs and revenues are those that are not related to the program operation.

The financial operation result of KRW –848.1 billion was calculated by deducting non-exchange revenues of KRW 1,283 billion from the net cost for financial management of KRW 434.9 billion. Non-exchange revenues above are Special Contributions received that arise without any direct consideration in return.

Table Ⅹ-1

Condensed Statement of Financial Position

Current period : As of December 31, 2013
Previous period : As of December 31, 2012

(DIF and KDIC Internal Account Combined) (Unit : KRW 100 million)

ASSETS	Amount	
	Current period	Previous period
Current Assets	58,856	48,881
1. Cash and Cash Equivalents	1,598	2,850
2. Current Financial Assets	50,833	40,504
Available-for sale Securities	18,024	14,007
Short-term Loans	1,209	1,336
(Allowance for Doubtful Accounts)	(-)521	(-)669
Short-term Financial Instruments	32,121	25,830
3. Trade and Other Receivables	6,423	5,526
Short-term Accrued Income	6,445	5,556
(Allowance for Doubtful Accounts)	(-)22	(-)30
4. Current Non-financial Assets	2	1
Short-term Prepaid Expenses	2	1
Non-current Assets	114,379	105,424
1. Non-current Financial Assets	16,723	19,019
Available-for-sale Securities	12,746	19,013
Long-term Loans	6	6
Long-term Financial Instruments	3,970	
2. Long-term Trade and other Receivables	111	103
Long-term Deposits Provided	119	115
(Present Value Discount)	(-)8	(-)12
3. Tangible Assets	38	37
Lands	1	1
Buildings	15	10
Structures	10	6
Other Tangible Assets	195	187
(Accumulated Depreciation)	(-)184	(-)167
4. Intangible Assets Other than Goodwill	6	7
Other Intangible Assets	6	7
5. Non-current Non-financial Assets	97,492	86,258
Long-term Advanced Payment	8	11
Long-term Indemnity Receivables	278,593	270,472
(Allowance for Doubtful Accounts)	(-)181,109	(-)184,225
6. Net Defined Benefit Assets	10	-
Total Assets	173,235	154,305

LIABILITIES and EQUITY	Amount	
	Current period	Previous period
Current Liabilities	15,749	13,671
1. Accounts and Other Payables (Accrued interest etc.)	2,370	2,100
2. Current Financial Liabilities	12,003	11,506
Short-term Borrowings	-	11,506
Bonds	12,000	-
Discounts on Bonds Payable	3	-
3. Current Non-financial Liabilities	45	43
Short-term Deposits	45	43
4. Current Provisions	1,331	21
Provisions for Employee Benefits	20	21
Other Current Provisions	1,311	-
Non-current Liabilities	223,530	213,714
1. Non-current Financial Liabilities	223,456	213,621
Long-term Borrowings	2,000	1,000
(Present Value Discount)	(-)699	(-)365
Government Subsidy	690	362
Bonds	221,300	212,400
(Discounts (Premiums) on Bonds Payable)	165	225
2. Non-current Non-financial Liabilities	74	74
Other Non-current Non-financial Liabilities	74	74
3. Employee Benefit Liabilities	-	19
Net Defined Benefit Liabilities and etc.	-	19
Total Liabilities	239,278	227,385
Deficit	(-)66,087	(-)73,206
Current Period: (+) 7,077		
Previous Period: (-) 31,312		
Elements of Other Equity	44	127
Accumulated Other Comprehensive Gains/Losses	44	127
Total Equity	(-)66,043	(-)73,079
Total Liabilities and Equity	173,235	154,305

Table Ⅹ-2

Condensed Income Statement

Current period : For the year ended December 31, 2013
Previous period : For the year ended December 31, 2012

(DIF and KDIC Internal Account Combined) (Unit : KRW 100 million)

Categories	Current Period	Previous Period
Income from Operations (A=B–C)	5,439	7,160
Operating Revenues (B)	14,676	14,379
Premium Revenues	12,420	11,212
Interest Revenues	2,036	2,942
Transfer Income	110	103
Other Income	110	121
Operating Expenses (C)	9,237	7,219
Interest Expenses	8,236	6,196
Personnel Expenses	579	548
General Expenses	366	374
Others	56	101
Other Gains and Losses (D)	1,987	(-)38,171
Net Reversal of (Transfer to) Other Provisions	(-)1,311	57,898
Net Reversal of (Transfer to) Allowance for Doubtful Accounts	3,271	(-)96,099
Others	27	30
Financial Gains and Losses (E)	(-)329	(-)301
Gains on Disposal of Financial Assets	(-)131	-
Impairment Loss of Available-for-sale Securities	(-)198	(-)301
Net Profit of Loss for Current Period (F=A+D+E)	7,097	(-)31,312
Other Comprehensive Income (G)	(-)61	69
Total Comprehensive Income (H=F+G)	7,036	(-)31,243

Table Ⅹ-3

Condensed Statement of Financial Position

Current period : As of December 31, 2013
Previous period : As of December 31, 2012

(DIF) (Unit : KRW 100 million)

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
Current Assets	58,839	48,859	Current Liabilities	15,691	13,607
1. Cash and Cash Equivalents	1,583	2,828	1. Accounts and Other Payables (Accrued interest etc.)	2,342	2,070
(Government Subsidy)		-	2. Current Financial Liabilities	12,003	11,506
2. Current Financial Assets	50,833	40,505	Short-term Borrowings	-	11,506
Available-for-sale Securities	18,024	14,007	Bonds	12,000	-
Short-term Loans	1,209	1,336	Discounts on Bonds Payable	3	-
(Allowance for Doubtful Accounts)	(-)521	(-)669	3. Current Non-financial Liabilities	35	31
Short-term Financial Instruments	32,121	25,831	Shor-term Advances Received		-
3. Trade and Other Receivables	6,423	5,526	Short-term Deposits	35	31
Short-term Accrued Income	6,445	5,556	4. Current Provisions	1,311	-
(Allowance for Doubtful Accounts)	(-)22	(-)30	Non-current Liabilities	223,456	213,621
Non-current Assets	114,296	105,351	1. Non-current Financial Liabilities		
1. Non-current Financial Assets	16,716	19,013	Long-term Borrowings	2,000	1,000
2. Non-current Non-financial Assets	97,580	86,338	(Present Value Discount)	(-)699	(-)365
Long-term Indemnity Receivables	278,593	270,472	Government Subsidy	690	362
(Allowance for Doubtful Accounts)	(-)181,109	(-)184,225	Bonds	221,300	212,400
Other Non-current Non-financial Assets	96	91	(Discounts (Premiums) on Bonds Payable)	165	225
			Total Liabilities	239,147	227,229
			Deficit	(-)66,057	(-)73,146
			Current Period : (+) 7,089		
			Previous Period : (-)31,308		
			Elements of Other Equity	44	126
			Accumulated Other Comprehensive Gains/Losses	44	126
			Total Equity	(-)66,012	(-)73,019
Total Assets	173,135	154,210	Total Liabilities and Equity	173,135	154,210

Table Ⅹ-4

Condensed Income Statement

Current period : For the year ended December 31, 2013
Previous period : For the year ended December 31, 2012

(DIF) (Unit : KRW 100 million)

Categories	Current Period	Previous Period
Income from Operations (A=B–C)	5,436	7,167
Operating Revenues (B)	14,565	14,257
Premium Revenues	12,420	11,212
Interest Revenues	2,035	2,942
Transfer Income	110	103
Operating Expenses (C)	9,129	7,090
Interest Expenses	8,236	6,196
Operating Expenses and etc.	893	893
Other Gains and Losses (D)	1,982	(-)38,174
Net Reversal of (Transfer to) Other Provisions	(-)1,311	57,901
Net Reversal of (Transfer to) Allowance for Doubtful Accounts	3,271	(-)96,099
Others	22	24
Financial Gains and Losses (E)	(-)329	(-)301
Gains on Disposal of Financial Assets	(-)131	-
Impairment Loss of Available-for-sale Securities	(-)198	(-)301
Net Profit of Loss for Current Period (F=A+D+E)	7,089	(-)31,308
Other Comprehensive Income (G)	(-)82	81
Total Comprehensive Income (H=F+G)	7,007	(-)31,227

Table Ⅹ-5

Condensed Statement of Financial Position

Current period : As of December 31, 2013
Previous period : As of December 31, 2012

(KDIC Internal Account) (Unit : KRW 100 million)

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
Current Assets	17	22	Current Liabilities	57	63
1. Cash and Cash Equivalents	15	22	1. Accounts and Other Payables (Accrued Expenses, Yearly Vacation Related)	27	30
2. Trade and Other Receivables	-	-	2. Current Non-financial Liabilities	10	12
Short-term Accrued Income	-	-	Short-term Deposits	10	12
3. Current Non-financial Assets	2	1	3. Current Provisions	20	21
Short-term Prepaid Expenses and etc.	2	1	Management Assessment Incentive Liabilities	20	21
Non Current Assets	179	164	Non-current Liabilities	169	183
1. Non-current Financial Assets	6	6	1. Non-current Non-financial Liabilities	169	164
Long-term Loans	6	6	Other Non-current Non-financial Liabilities	169	164
2. Long-term Trade and Other Receivables	111	103	2. Employee Benefit Liabilities	-	19
Long-term Deposits Provided	119	115	Net Defined Benefit Liabilities and etc.	-	19
(Present Value Discount)	(-)8	(-)12	Total Liabilities	227	247
3. Tangible Assets	38	37			
Lands	1	1			
Buildings	15	10			
Structures	10	6			
Other Tangible Assets	195	187			
(Accumulated Depreciation)	(-)184	(-)167			
4. Intangible Assets Other than Goodwill	6	7			
Other Intangible Assets	6	7	Deficit	(-)30	(-)60
5. Non-current Non-financial Assets	8	11	Current Period: (+)30		
Long-term Advanced Payment	8	11	Previous Period : (-)16		
6. Net Defined Benefit Assets	10	-	Total Equity	(-)30	(-)60
Total Assets	196	187	Total Liabilities and Equity	196	187

Table Ⅹ-6

Condensed Income Statement

Current period : For the year ended December 31, 2013
Previous period : For the year ended December 31, 2012

(KDIC Internal Account)　　(Unit : KRW 100 million)

Categories	Current Period	Previous Period
Income from Operations (A=B–C)	2	-7
Operating Revenues (B)	948	916
Interest Revenues	1	1
Revenues of Funds Transfer	947	915
Operating Expenses (C)	945	922
Personnel Expenses	579	548
General Expenses	366	374
Other Gains and Losses (D)	5	3
Net Reversal of Other Provisions	1	(-)4
Others	4	7
Net Profit of Loss for Current Period (F=A+D+E)	8	(-)4
Other Comprehensive Income (G)	22	(-)12
Total Comprehensive Income (H=F+G)	30	(-)16

Table Ⅹ-7

Condensed Statement of Financial Position

Current period : As of December 31, 2013
Previous period : As of December 31, 2012

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

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
Current Assets	31,173	30,750	Current Liabilities	52,063	78,598
1. Cash and Cash Equivalents	2,267	813	1. Current Portion of Long-term Liabilities	50,120	76,713
2. Short-term Financial Instruments	25,873	19,604	2. Other Current Liabilities	1,943	1,885
3. Short-term Investment Securities	2,857	1,397			
4. Account Receivables	13,859	15,561			
(Allowance for Doubtful Accounts)	(-)13,722	(-)15,470	Long-term Borrowing Liabilities	175,337	152,909
5. Short-term Loans	73	145,165	1. Public Bonds	175,337	152,909
(Allowance for Doubtful Accounts)	(-)35	(-)136,320			
Investment Assets	93,088	82,451			
1. Long-term Loans	143,799	1,290			
(Allowance for Doubtful Accounts)	(-)139,809	(-)986			
2. Long-term Investment Securities	89,098	82,147			
			Total Liabilities	227,400	231,507
Other Non-current Assets	82	231			
1. Long-term Notes Receivables	71	93	Net Asset		
(Allowance for Doubtful Accounts)	(-)70	(-)92	1. Net Asset	523,064	523,064
2. Other Non-current Assets	81	230	2. Reserves and Surplus	(-)655,167	(-)663,647
			3. Net Asset Adjustment	29,046	22,508
			Total Net Asset	(-)103,057	(-)118,075
Total Assets	124,343	113,432	Total Liabilities and Net Asset	124,343	113,432

Table Ⅹ-8

Condensed Financial Operating Statement

Current period : For the year ended December 31, 2013
Previous period : For the year ended December 31, 20122

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

Categories	Current Period			Previous Period		
	Total Cost	Profit	Net Cost	Total Cost	Profit	Net Cost
Ⅰ. Program Net Cost	**11,741**	**6,990**	**4,751**	**13,908**	**7,267**	**6,641**
1. Financial Policy Support	11,741	6,990	4,751	13,908	7,267	6,641
General Expenses	-			2		
Payment Fees	43			52		
Loss on Disposal of Long-term Investment Securities	-			3		
Allownce for Doubtful Accounts	2,761			2,230		
Interest Expense on Public Bonds and etc.	8,937			11,621		
Other Interest Expenses		-			3	
Gains on Disposal of Long-term Investment Securities		1			-	
Gains on Disposal of Other Investment Securities		11			21	
Reversal of Provisions		-			35	
Reversal of Impairment Loss on Investment Securities		413			436	
Miscellaneous Revenue		-			2	
Reversal of Allowances for Doubtful Accounts		70			903	
Dividend Income		2,944			3,294	
Interest Income from Loans to Non-Government Organizations		3,551			2,573	
Ⅱ. Management and Administrative Expenses			**100**			**107**
1. General Expenses			100			107
Ⅲ. Non-Allocated Costs			**30**			**161**
1. Payment Fees			1			1
2. Valuation Loss			-			82
3. Other Expenses			29			78
Ⅳ. Non-Allocated Revenues			**532**			**549**
1. Interest Income			464			440
2. Valuation Gains			-			82
3. Other Income			68			27
Ⅴ. Net Cost for Financial Operation (Ⅰ + Ⅱ + Ⅲ - Ⅳ)			**4,349**			**6,361**
Ⅵ. Non-Exchange Revenues			**12,830**			**12,070**
1. Revenues from Contributions			12,830			12,070
Ⅶ. Financial Operation Result(Ⅴ - Ⅵ)			**(-)8,481**			**(-)5,709**

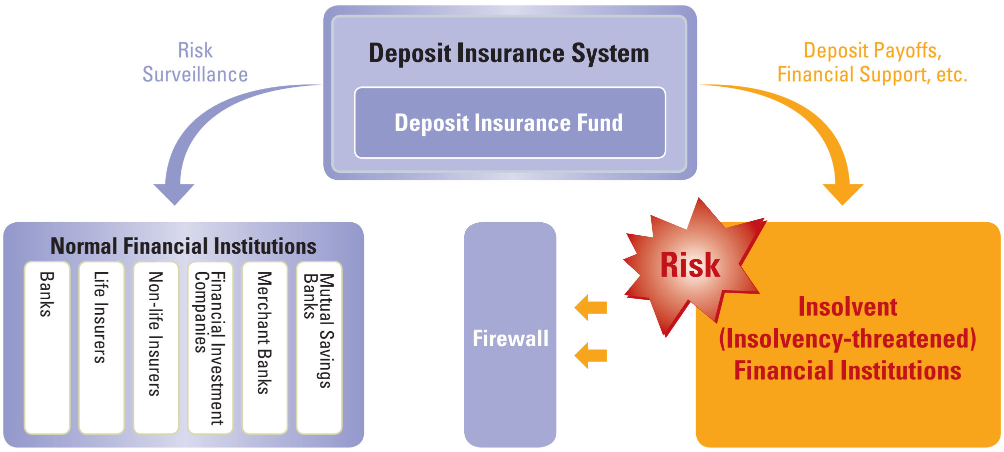
Appendix

1. Overview of the Deposit Insurance System

Significance of the Deposit Insurance System

The deposit insurance system protects depositors and stabilizes the financial market by paying insurance claims or providing financial assistance in a timely manner when an insured financial institution fails. For that purpose, it maintains the Deposit Insurance Fund ex ante with deposit insurance premiums paid by insured financial institutions in normal times.

< Purpose of the Deposit Insurance System >



Insured Financial Institutions

Insured financial institutions are those that are required to join the deposit insurance system under the Depositor Protection Act. They include banks, financial investment traders/brokers, insurance companies, merchant banks, and mutual savings banks. In Korea, deposit insurance coverage is compulsory for individual companies in the corresponding areas of the financial industry.

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

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

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

Insured Financial Products

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

< Insured and Uninsured Financial Products >

(As of Dec. 31, 2013))

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

Coverage Limit

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

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

As the financial market became more stable, the Enforcement Decree of the Depositor Protection Act was revised in October 2000 to raise the coverage limit to KRW 50 million in an effort to minimize possible ripple effects on the financial market.

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

< Coverage Limit >

<table>
<tr><th rowspan="3">Financial Sector</th><th colspan="3">Until December 31, 2000</th><th rowspan="3">Since January 1, 2001</th></tr>
<tr><th rowspan="2">Before July 31, 1998</th><th colspan="2">Since August 1, 1998</th></tr>
<tr><th>Principal amounting to KRW 20 million or less (Or premiums paid to KRW 20 mil or less)</th><th>Principal exceeding KRW 20 million (Or premiums paid in excess of KRW 20 mil)</th></tr>
<tr><td>Banking, Financial Investment, Merchant Banking, Mutual Savings Banking</td><td>Blanket guarantee for principal and contractual interest</td><td>Up to KRW 20 million including principal and designated interest</td><td>Principal only</td><td>Up to KRW 50 million including principal and designated interest</td></tr>
<tr><td rowspan="2">Insurance</td><td rowspan="2">Blanket guarantee for surrender value (or insurance payouts at maturity or accident benefits) and other payments
Blanket guarantee for surrender value (or insurance payouts at maturity or accident benefits) and other payments</td><td>Lesser of the sum of surrender value (or insurance payouts at maturity) and other payments, or the sum of premiums paid and designated interest. The coverage limit is KRW 20 million.</td><td>Lesser of the sum of surrender value (or insurance payouts at maturity) and other payments, or premiums paid</td><td rowspan="2">The sum of surrender value (or insurance payout at maturity) and other payments. The coverage limit is KRW 50 million.</td></tr>
<tr><td colspan="2">Accident benefits that would have been paid if the insurance company had not failed</td></tr>
</table>

2. Independent Evaluation

Management Evaluation of Public Institutions

In March 2012, the KDIC submitted its managerial performance report for 2011 (including a statement of accounts, financial statements, and accompanying documents) together with a report on the progress in implementing the chairman & president's management plan to the Minister of Strategy and Finance and the chairman of the Financial Services Commission under Article 47 of the Act on the Management of Public Institutions. Based on the reports, a team organized by the Minister of Strategy and Finance evaluated the performance of the KDIC and its chairman & president.

In its announcement in June 2013, the evaluation team gave the KDIC an "A" grade for the performance of the KDIC and its chairman & president in 2012.

Fund Management Evaluation

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

The KDIC prepared a fund management performance report for the DIF Bond Redemption Fund in 2011 and submitted it to the Fund Management Evaluation Committee in February 2012. The Committee made available the evaluation results in May 2012 after conducting due diligence and opinion gathering.

According to the fund (asset) management evaluation results for 2011, the Redemption Fund gained the highest rating of "excellent" (given to 6 out of 43 funds). This attests to the fact that the KDIC has the strongest fund management ability.

3. Summary of Major Events in 2013

Date	Major Events
Jan. 31	Yehanbyoul Savings Bank sold
Feb. 15	Yeju Savings Bank subjected to a P&A
Feb. 15	Yesol Savings Bank subjected to a P&A
Mar. 27	Regulations on Operation of the Risk-Based Premium System formulated
Apr. 12	Yesin Savings Bank subjected to a P&A
Apr. 16	Recovered KRW 114.8 billion in dividends from Woori Financial Group
Apr. 29	Recovered KRW 126.2 billion through a block sale of a 0.63% stake in SK Hynix
May 3	P&A and business suspension of Green Non-Life Insurance decided
May 14~15	Annual Meeting of the IADI Asia Pacific Regional Committee held
May 28	"Excellence", the highest grade, granted to the DIF Bond Redemption Fund's fund management (asset management) in 2012 (such grade given to 6 out of 38 funds)
Jun. 24	Recovered KRW 16 billion by selling a 100% stake in Pohang Terminal in an open bidding
Jun. 26	A plan to privatize Woori Financial Group formulated
Jun. 28	Recovered KRW 32.2 billion in dividends from Hanwha Life Insurance
Jul. 15	Yesol Savings Bank sold
Jul. 25	Recovered KRW 147.2 billion in dividends from Seoul Guarantee Insurance
Aug. 26	Designated as the best employer in Korea (KMAC)
Sep. 2	Yehansol Savings Bank sold
Oct. 2	Financial Literacy Education Center opened
Oct. 11	G-ISMS certification obtained
Nov. 1	OSB Savings Bank subjected to a P&A
Nov. 7	KDIC Chairman & President Joo Hyun Kim appointed as a member of the IADI Executive Council
Nov. 22	Recovered KRW 277.4 billion through a block sale of a 1.36% stake in KEPCO
Nov. 22	An agreement signed for sale/purchase of shares in Yes Savings Bank
Nov. 29	The 2013 Korea Public Management grand prize awarded (Korea Economic Daily)
Dec. 9	Family-friendly company certification obtained (Ministry of Gender Equality and Family)
Dec. 11	Emergency response commission set up to bolster management of liabilities
Dec. 13	Policy symposium held jointly with the KMFA and KIF
Dec. 16	Korean Educational Donation grand prize awarded (Ministry of Education)
Dec. 27	Pepper Savings Bank subjected to a P&A
Dec. 31	Preferred bidders for Kyongnam Bank and Kwangju Bank selected
2013	Recovered KRW 2.4 billion by selling a 2.04% stake in Jeju Bank on the stock market

4. Statistics

Insured Financial Institutions[1)]

(As of Dec.31, 2013, Unit: No. of financial institutions)

Financial Sector	2007	2008	2009	2010	2011	2012	2013
Banks	53	55	54	54	55	56	57
(Domestic)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
(Foreign)	(36)	(38)	(37)	(37)	(38)	(39)	(40)
Investment Companies[2)]	53	60	115	118	117	115	117
Insurance Companies	44	43	43	44	44	46	47
(Life)	(22)	(22)	(22)	(23)	(23)	(24)	(25)
(Non-Life)	(22)	(21)	(21)	(21)	(21)	(22)	(22)
Merchant Banks	2	2	2	1	1	1	1
MSBs[3)]	109	106	106	105	107	101	89
Total	261	266	320	322	324	319	311

Note : 1) The number of insured financial institutions is tallied based on the business opening date and the date of license revocation or business dissolution / bankruptcy.

2) Financial investment traders and brokers licensed under the Financial Investment Services and Capital Markets Act which came into force in February, 2009 (For periods prior to February, 2009, this category includes securities companies only).

3) Excluding the Korea Federation of Savings Banks (which joined the DI system in December 2007)

Insurable Deposits by Financial Sector[1)]

(As of Sep. 30, 2013, Unit: KRW 100 million)

Financial Sector	2012(B)	2013(A)	Change(A-B)
Banks	8,918,135	9,213,184	295,049
Investment Companies	201,021	183,469	△17,552
Insurance Companies	4,498,770	4,948,536	449,766
(Life)	(3,648,358)	(3,974,206)	(325,848)
(Non-Life)	(850,413)	(974,330)	(123,917)
Merchant Banks	8,830	7,088	△1,742
MSBs	426,203	342,529	△83,674
Total	14,052,959	14,694,806	641,847

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

DIF Bond Redemption Fund Revenues

(As of Dec. 31, 2013, Unit: KRW 100 million)

Financial Sector	Insurance Premium revenue Prior to Creation of DIF Bond Redemption Fund (KRW 100 million)[2]						Special Assessments Paid by Insured FIs to the DIF Bond Redemption Fund (KRW)						
	Before 1998[1]	1999	2000	2001	2002	Total	2007	2008	2009	2010	2011	2012	2013
Banks	1,613	1,975	2,630	4,139	4,361	14,718	5,027	4,976	5,965	6,811	7,789	8,518	8,973
Investment Companies	-	51	156	218	262	687	156	185	169	213	227	226	202
Insurance Companies	2,322	1,260	1,781	2,416	2,780	10,559	1,543	1,683	1,782	1,943	2,137	2,352	3,004
(Life)	(1,800)	(1,011)	(1,402)	(1,938)	(2,295)	(8,446)	1,265	1,364	1,430	1,534	1,650	1,760	2,297
(Non-Life)	(522)	(249)	(379)	(478)	(485)	(2,113)	278	319	352	409	487	592	707
Merchant Banks	980	336	233	139	130	1,818	7	8	10	19	12	10	9
MSBs	2,407	377	323	529	604	4,240	430	491	593	715	718	521	394
Credit Unions	402	162	281	407	641	1,893	116	129	137	170	205	228	248
Total	7,724	4,161	5,404	7,848	8,778	33,915	7,280	7,472	8,656	9,871	11,087	11,855	12,830

Note : 1) The insurance premium revenue for 1998 is inclusive of the applicable funds transferred from the Insurance Supervisory Board, Credit Management Fund, and National Federation of Credit Unions on April 1, 1998 as a result of the consolidation of the funds into the DIF at the beginning of 1998 with the exception of the Securities Investor Protection Fund which was dismantled subsequent to the consolidation.
2) It was transferred to the DIF Bond Redemption Fund after the revision of related laws in 2002.

DIF Premium Revenues

(As of Dec. 31, 2013, Unit: KRW 100 million)

Financial Sector	2003[1]	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Banks	4,775	4,960	4,869	4,987	5,027	4,808	5,291	5,451	4,795	3,748	3,947	52,658
Investment Companies	312	336	300	303	256	305	276	284	283	2	-	2,657
Insurance Companies	3,115	3,403	3,737	4,059	4,455	4,852	5,113	3,307	3,062	86	708	35,897
(Life)	(2,580)	(2,832)	(3,109)	(3,362)	(3,654)	(3,934)	(4,097)	(2,609)	(2,362)	(-14)	(221)	(28,746)
(Non-Life)	(535)	(571)	(628)	(697)	(801)	(918)	(1,016)	(698)	(700)	(100)	(487)	(7,151)
Merchant Banks	73	17	15	19	22	24	29	34	18	8	8	267
MSBs	667	793	974	1,116	1,306	1,483	1,737	2,524	2,331	1,344	253	14,528
Special Account[2]	-	-	-	-	-	-	-	-	1,742	5,816	6,672	14,230
Total[3]	8,942	9,509	9,895	10,484	11,066	11,472	12,446	11,600	12,231	11,004	11,590	120,239

Note : 1) Insurance premiums paid until 2002 were transferred to the Redemption Fund after the revision of relevant laws.
2) It was created in April 2011.
3) The credit union account of the DIF which was transferred to the National Credit Union Federation of Korea as of January 1, 2010 is excluded.

DIF Bonds Issued

(As of Dec. 31, 2013, Unit: KRW 100 million)

Financial Sector	1998	1999	2000	2001	2002	Total
Banks	120,650	158,591	60,307	77,617	36,600	453,765
Investment Companies	160	3	-	32,185	-	32,348
Insurance Companies	11,534	42,100	10,000	92,089	-	155,723
(Life)	(11,534)	(41,422)	-	(24,120)	-	(77,076)
(Non-Life)	-	(678)	(10,000)	(67,969)	-	(78,647)
Merchant Banks	65,120	-	12,600	73,344	-	151,064
MSBs	9,917	15,977	6,500	33,331	-	65,725
Credit Unions	2,769	8,178	-	2,027	-	12,974
Total	210,150	224,849	89,407	310,593	36,600	871,599[1]

Note : 1) Cumulative issue amount that includes conversion issuance

Financial Assistance from the DIF Bond Redemption Fund

(As of Dec. 31, 2013, Unit: KRW 100 million)

Financial Sector	Equity Investment	Contributions	Deposit Payoffs[1]	Asset Purchase[1]	Loans	Total
Banks	222,039	139,189	-	81,064	-	442,292
Investment Companies	99,769	4,143	113	21,239	-	125,264
Insurance Companies	159,198	31,192	-	3,495	-	193,885
(Life)	56,697	27,519	-	3,495	-	87,710
(Non-Life)	102,501	3,673	-	-	-	106,174
Merchant Banks	26,931	7,431	182,718	-	-	217,080
MSBs	1	4,161	72,892	-	5,969	83,023
Credit Unions	-	-	47,402	-	-	47,402
Total	507,937	186,117	303,124	105,799	5,969	1,108,945

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

Details of Financial Assistance from the DIF Bond Redemption Fun

(As of Dec. 31, 2013, Unit: KRW 100 million)

Injection Type & Recipient Institutions		Amount Provided
Equity Investment	Seoul Bank	46,809
	Korea First Bank	50,248
	Hanvit Bank	60,286
	Five acquiring banks including Kookmin Bank	11,923
	Hana Bank (Merger of Hana Bank and Boram Bank)	3,295
	Chohung Bank	27,179
	Peace Bank	4,930
	Kyungnam Bank	2,590
	Gwangju Bank	1,704
	Jeju Bank	531
	National Federation of Fisheries Cooperatives	11,581
	National Agricultural Cooperative Federation	962
	Hanareum Banking Corporation	300
	Hanaro Merchant Bank	24,912
	Hans, Korea, Joongang Merchant Bank	2
	Youngnam Merchant Bank	1,717
	Hanareum MSB	1
	Seoul Guarantee Insurance Corporation	102,500
	Korea Life Insurance	35,500
	Kookmin, Taepyongyang, Doowon, Dong-A, Handuck, Chosun Life Insurance	21,197
	Korea Investment Trust Management & Securities	51,649
	Daehan Investment Trust Securities	29,003
	KR&C	1
	Daehan, Kookje Fire Insurance	1
	Hyundai Investment & Securities	19,116
	Sub-total	**507,937**
Contribution	Kookmin, Housing & Commercial, Shinhan, Hana, Koram Bank (five acquiring banks)	97,113
	Hanvit, Kyungnam, 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)	11,528
	Korea, Hyundai, Kumho, Tongyang, SK Life	14,220
	Financial companies including Boomin MSB	4,161
	Daehan Fire	509
	Woori (Former Hanaro Merchant Bank) Merchant Bank	7,431
	Kookje Fire	739
	Tongyang, Samsung, Hyundai, LG, Dongbu Fire	2,425
	Green Cross (Daishin) Life	1,393
	KB (Hanil) Life	265
	Korea Investment Trust Management & Securities	784
	Daehan Investment Trust Securities	630
	Hyundai Investment & Securities	2,730
	Sub-total	**186,117**

Injection Type & Recipient Institutions			Amount Provided
Deposit Payoffs	Deposit Payoffs	Credit Unions	47,402
		Financial Investment Companies (4 companies)	113
		MSBs	12,335
		Youngnam, Hansol, Korea Merchant Bank	1
	Payment through Resolution Financial Institutions	Hanareum Banking Corporation (in resolving 18 merchant banks)	182,717
		Hanareum MSB (in resolving 59 MSBs)	60,557
	Sub-total		303,124
Asset Purchase	Direct Purchase	Korea First Bank (BW)	249
		Korea First Bank (Shares of KFB's Vietnam and New York subsidiaries)	165
		Hyundai Investment & Securities (Shares of Hyundai Autonet, etc.)	8,570
	Indirect Purchase by Lending Money to the RFC	Five acquiring banks including Kookmin Bank (KB)	1,588
		Korea First Bank	79,063
		Dong-A, Kookmin, Taepyongyang, Daehan, SK Life	3,495
		Korea Investment Trust Management & Securities	4,830
		Daehan Investment Trust Securities	6,539
		Hyundai Investment & Securities	1,300
	Sub-total		105,799
Loans		MSB (13 MSBs)	5,969
		Sub-total	5,969
Aggregate Total			1,108,945

Financial Assistance from the DIF

(As of Dec. 31, 2013, Unit: KRW 100 million)

Financial Sector	Equity Investment	Contributions	Deposit Payoffs	Loans	Provisional Deposit Payment	Total[1]
Banks	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	226	-	-	-	226
(Life)	-	226	-	-	-	226
(Non-Life)	-	-	-	-	-	-
Merchant Banks	-	-	-	-	-	-
MSBs	1,211	24,542	14,412	4,891	219	45,275
Special Account	3,655	226,311	36,213	1,134	775	268,088
Total	4,866	251,079	50,625	6,025	994	313,589

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

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

(As of Dec. 31, 2013, Unit: KRW 100 million)

Year	Amount
Before 2000	103,457
2001	41,179
2002	26,634
2003	56,034
2004	56,672
2005	36,117
2006	34,001
2007	43,660
2008	23,980
2009	24,118
2010	29,295
2011	12,679
2012	13,769
2013	7,992
Total[1)]	509,587

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

Fund Recoveries by Type (DIF Bond Redemption Fund)

(As of Dec. 31, 2013, Unit: KRW 100 million)

Financial Sector	Recovery of Equity Investment	Settlement of Contributions, etc.	Dividends from Bankruptcy Estates	Asset Sales[1)]	Collection of Loans	Total
Banks	163,053	701	18,469	65,845	-	248,068
Investment Companies	12,121	3,231	78	17,989	-	33,419
Insurance Companies	38,094	888	4,310	2,419	-	45,712
(Life)	14,200	848	3,662	2,419	-	21,130
(Non-Life)	23,894	40	648	-	-	24,582
Merchant Banks	1,449	59	88,656	-	-	90,164
MSBs	-	342	51,721	-	5,969	58,032
Credit Unions	-	4	34,188	-	-	34,192
Total	214,718	5,225	197,423	86,253	5,969	509,587

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

Progress in Financial Restructuring

(As of Jun. 30, 2013, Unit: No. of financial institutions, %)

Financial Sector	No. of Institutions, Year-end 1997 (A)	Restructuring Status					Newly Opened	Current Total
		Revocation of License	Merger	Liquidation, Bankruptcy, and/or Business Transfer, etc.	Total (B)	Proportion (B/A)		
Banks	33	5	11	-	16	48.5	1	18
Non-Banks	2,062	188	233	585	1,006	48.8	206	1,262
Merchant Banks	30	22	8	-	30	100.0	1	1
Investment Companies	36	6	9	2	17	47.2	31	50
Insurance Companies	50	10	7	6	23	46.0	29	56
Asset Management Companies	24	7	10	-	17	70.8	78	85
MSBs	231	138	29	1	168	72.7	31	94
Credit Unions	1,666	w2	157	576	735	44.1	18	949
Lease Companies	25	3	13	-	16	64.0	18	27
Total	2,095	193	244	585	1,022	48.8	207	1,280

Source: Public Fund Management White Book published in August 2012

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

(from Nov. 1997 to Dec. 31, 2013, Unit: KRW 1 trillion)

Financial Sector	Equity Investment	Contributions	Deposit Payoffs	Asset Purchase	Non-performing Loan Purchase	Total
Banks	34.0	13.9	-	14.4	24.6	86.9
Non-Banks	29.5	4.7	30.3	3.3	11.5	79.4
Merchant Banks	2.7	0.7	18.3	-	1.0	22.8
Investment Companies	10.9	0.4	0.01	2.1	8.5	21.9
Insurance Companies	15.9	3.1	-	0.3	1.8	21.2
Credit Unions	-	-	4.7	0.3	-	5.0
MSBs	-	0.4	7.3	0.6	0.2	8.5
Foreign Financial Institutions	-	-	-	-	2.4	2.4
Total	63.5	18.6	30.3	17.8	38.5	168.7

Source: Financial Services Commission

5. Acronyms

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

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