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KOREA DEPOSIT
INSURANCE CORPORATION

2014
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, the global economy sustained moderate growth despite the tapering of quantitative easing in the U.S., slow-down of the Chinese economy and fiscal problems in some Eurozone countries. Meanwhile, the Korean economy had a rather tepid recovery due to weak domestic demand and rising household debt.

Against this challenging backdrop, however, the Korea Deposit Insurance Corporation (KDIC) made the utmost effort to maximize recovery of funds and managed to successfully complete the restructuring of failed mutual savings banks.

In particular, a new approach was adopted for the sale of Woori Finance Holdings Co. and its subsidiaries, which the government had attempted to sell several times with little success. The financial group was split into three batches - two regional banks, the brokerage unit and related affiliates, and flagship Woori Bank - to better accommodate investor interest. This led to the return of part of the government's stake to the private sector and recovery of public funds, which marked another milestone in the privatization of Woori.

Also, by selling off the five KDIC-managed bridge banks established to take over a dozen failed savings banks, the KDIC was able to finalize the restructuring of failed savings banks that started in 2011.

In addition, the KDIC worked on many fronts to develop tailored strategies to recover as much as possible of the assets that it assumed in the resolution process or those held by the estates of failed financial institutions. At the same time, in an effort to promote safe and sound management of financial institutions, the KDIC conducted thorough investigations against the directors and officers of failed financial institutions to hold them accountable for their misconduct.

During the last year, the KDIC faithfully performed its role as a protector of small depositors and a safeguard against market instability by managing the exposure of the Deposit Insurance Fund and preventing losses.

In 2014, the KDIC's 314 member institutions were assessed on the basis of their respective risk profiles for the first time and the risk-based premium system successfully took hold as the system went through a series of fine-tuning designed to ensure its accuracy and impartiality.

Moreover, the 2014 amendment of the Depositor Protection Act granted the KDIC the authority to ask the Financial Supervisory Service (FSS) to take corrective action against a financial institution which showed risks according to the results of the KDIC's examination (be it an independent or a joint examination with the FSS) and inform the KDIC of the outcome, which is expected to strengthen the effectiveness of the KDIC's risk minimizer role.

In the meantime, the KDIC was engaged in a variety of social contribution programs, for example, by educating financially vulnerable groups and foreigners in financial literacy and deposit insurance issues. It also hosted an international seminar together with the International Association of Deposit Insurers (IADI) and signed MOUs with deposit insurers in the UK, the Philippines, Albania and Laos.

As an important part of the financial safety-net, the KDIC will use its experience and expertise to promptly detect financial market risks and pro-actively respond to them. Another priority will be to seek to further advance the deposit insurance system taking into account the characteristics of each financial services sector, businesses operating in each sector and the products they sell, with a view to enhancing protection of depositors and financial stability.

I hope that this Annual Report will help broaden the public's understanding of the deposit insurance system and the KDIC's activities and increase public confidence in the financial system.

곽 범 국

GWAK Bumgook

Chairman & President

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Major Initiatives

In 2014, the Korea Deposit Insurance Corporation (KDIC) sought to privatize Woori Financial Group by selling off the group's regional banks and securities companies, and it indeed managed to sell its total equity holdings in Kyongnam Bank and Kwangju Bank (56.97%). The KDIC sold part (5.94%) of its stake in Woori Bank, following the sell-offs of the regional banks and subsequent merger of Woori Financial Group with Woori Bank. In addition, the KDIC executed a reorganization primarily to ensure fast recovery of assets held by bankruptcy estates of failed mutual savings banks (MSBs) and to minimize losses incurred by the Deposit Insurance Fund (DIF). The KDIC did its best to improve asset management and recovery while calling to account those officers, employees and major stockholders who caused financial failures as a matter of principle.

The KDIC resolved Haesol Savings Bank, which had been declared insolvent in 2013, by means of a ‘P&A (Purchase & Assumption) transaction with a third party during normal operations,’ thereby minimizing depositors' inconvenience stemming from business suspension and helping to maintain the stability of the financial market. Sale of all its stakes in bridge savings banks set up in the course of resolution of failed mutual savings banks marked the practical completion of the KDIC's massive mutual savings bank restructuring initiative, which it commenced in 2011.

The KDIC seamlessly implemented the risk-based premium system, launched in 2014, and it performed independent and joint examinations of insured financial institutions. Legislation of its authority to request the Financial Supervisory Service (FSS) to order corrective action according to those examination findings and to confirm compliance with such corrective action enhanced the effectiveness of its endeavors to prevent financial failures.

Also, the KDIC stepped up education and publicity efforts for those members of the public who are relatively unknowledgeable about finance to improve public understanding of the depositor protection system. Internationally, it raised its stature by sharing experience in deposit insurance system operation with other deposit insurers in emerging countries.

Stronger Risk Monitoring of Insured Financial Institutions

Using models developed in-house, the KDIC monitors changes in insured financial institutions’ financial conditions and the risks they face on an ongoing basis. It bolstered on-site examinations of insured financial institutions, found through monitoring to be at risk of insolvency, in an effort to prevent an insurance event.

In 2014, the KDIC improved its own risk monitoring model (called REFS) by incorporating recent changes in the financial environment in it. The increased integrity and explanatory power of the model has improved its ongoing risk monitoring.

The Depositor Protection Act amended in May 2014 requires the FSS to notify the KDIC of the corrective action taken by the FSS based on the findings of the KDIC’s independent and joint examinations and its outcome. This has increased the effectiveness of both types of examinations. In July 2014, the MOU between the KDIC and the FSS on joint examinations of KDIC-insured financial institutions was revised, allowing the KDIC to request the FSS to separately send a notice to insured financial institutions concerning matters requiring urgent corrective action even before the FSS decides what disciplinary or punitive measures should be taken.

In close cooperation with the FSS, the KDIC conducted joint examinations of nine insured financial institutions including six 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 issuing recommendations to the insured financial institutions about how to improve business management. The KDIC also carried out independent examinations of seventeen mutual savings banks which breached certain triggers (e.g. BIS capital adequacy ratio of 2% or less, deficits for three consecutive financial 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. By its authority to request corrective action under the Depositor Protection Act amended in May 2014, the KDIC made requests for corrective action to the FSS based on findings from its independent examinations of thirteen mutual savings banks.

Table I - 1

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

	2010	2011	2012	2013	2014
Joint Examinations	24 Institutions	31 Institutions	9 Institutions	18 Institutions	9 Institutions
Independent Examinations	-	-	8 Institutions	11 Institutions	17 Institutions

The KDIC dispatches administrators jointly with the FSS to mutual savings banks which show signs of financial distress and are likely to be placed under prompt corrective action (PCA), which 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

In 2014, the KDIC resolved Haesol Savings Bank by means of a 'P&A transaction with a third party during normal operations.'

Beginning in the latter half of 2012, the KDIC introduced a resolution system that does not interrupt the normal flow of financial transactions, suspending mutual savings banks declared insolvent at the close of business hours on a Friday. Then, 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.

Table I - 2

Mutual Savings Banks Suspended in 2014

Date of suspension	Name
May 2, 2014	Haesol

In the second half of 2012 and the first half of 2013, the KDIC adopted bridge bank P&As to swiftly resolve insolvent mutual savings banks based on 'resolution without interruption in financial services.' However, as the number of failed mutual savings banks resolved through bridge bank P&A reached seven, the KDIC faced a substantial burden in managing and marketing bridge banks.

In response, the KDIC worked hard to find prospective buyers and succeeded in finding market investors. Through these experiences, from the latter half of 2013, 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

Resolution of Mutual Savings Banks Suspended in 2014

Suspended Mutual Savings Bank	Acquirer
Haesol	Welcome

The prolonged weakness in the industry and lack of prospective acquirers has rendered the arrangement of sales for bridge savings banks a significant challenge. Nevertheless, the KDIC exerted a multi-faceted effort to ensure the efficient sale of bridge banks. It held road shows and investor seminars to maximize interest among prospective buyers. In the case of Yenarae, the KDIC helped to reduce the financial burden of the acquirer through a capital stock reduction by payment in cash and alleviating the risk of down payment confiscation.

As a result of such proactive endeavors, the KDIC in 2014 managed to sell all of its stakes in five bridge banks that it had held as of the end of 2013: Yes, Yenarae, Yesung, Yeju, and Yeshin. This practically brought to an end its major drive to restructure the savings banking industry launched in 2011.

Efficient Sale of Special Assets

Using the service of professional service providers specializing 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 financing) project. In collaboration with the government and public agencies concerned, the KDIC obtained or extended development permits and business licenses for PF projects in which the failed savings bank had invested in an effort to maintain the value of those 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 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.

In addition, the KDIC convened the Sales Consulting Committee comprising external experts at least once a month. Its deliberation and report on sales methods improved the fairness and transparency of special asset recovery. Concerning business feasibility testing of PF projects, the KDIC shifted from hiring a single organization to do all the assessments to using a pool of qualified organizations that can provide evaluation services.

The KDIC also has a system whereby advice from outside experts are sought in areas that require special expertise. The hiring of professional examiners enhanced the professional quality of the sales process. An advisory group and a professional managers' pool were created for the sale of golf courses, and a sales advisory group of local experts was set up for the sale of assets located overseas.

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 developed new 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 periodic re-valuation of assets performed by bankruptcy estates, the KDIC ascertained the value of assets in its possession as well as assets put up for sale. This system helped to develop sales methods that are tailored to each type of assets, which contributed to ensuring efficient asset sale.

The KDIC sets an annual target for bankruptcy dividend payment for each bankruptcy estate and constantly monitors whether the estates are meeting their target. It strives to maximize bankruptcy dividends by encouraging dividend payment at the earliest possible date. Its efforts in this regard were extremely effective in 2014: recoveries in the form of bankruptcy dividends, etc. totaled KRW 2,647.4 billion.

From time to time, the KDIC examines how cost efficient the estates are in their effort to dispose of assets. It is pressing hard for the quickest possible recovery of claims by aggressively pursuing the closure of bankruptcy estates which show poor efficiency. As of the end of 2014, it had closed 438 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 usually establishes an investigative unit immediately comprised of experts to thoroughly investigate employees of the failed bank including executive officers and determine exactly who are responsible for the failure. It completed such investigations against 28 mutual savings banks and one non-life insurance company from 2011 to 2013. Another such investigation is now underway against Haesol Savings Bank, which was suspended from operations in the first half of 2014.

The KDIC stepped up investigation against debtor corporations that failed to honor their obligations to failed financial institutions. In consideration of collectibility, it designated high-priority accountability investigation targets and thoroughly investigated them. For low-priority debtor companies, it applied advanced investigation techniques used by the prosecution, acquiring necessary data in advance and consequently increasing the effectiveness of its accountability investigations.

To ensure maximum possible fairness and objectivity in deliberation of accountability investigation findings and to more effectively address the increasingly complex and diverse issues involved, the KDIC recruited external financial and economic experts as outside members of the Accountability Review Committee for Insolvent Financial Institutions.

The KDIC granted investigated parties an opportunity to give an explanation of their situation and to raise objection at any time in any phase of accountability investigation so as to safeguard their rights and interests and prevent them from suffering any undue damage. For greater efficiency, it drafted a checklist for rights and interests protection and established a system for easy on-line look-up of the status of an accountability investigation.

In order to uncover assets hidden by persons responsible for mutual savings bank failures including large stockholders, the KDIC also conducts investigations of their properties immediately upon business suspension.

The KDIC hosts a workshop for auditors of mutual savings banks, holds regional meetings of loan officers at local banks, and provides training to bank staff members on how to detect risks and prevent failure in an effort to provide customized education programs and create an environment of sound business management. Additionally, the KDIC publishes and distributes booklets providing detailed information about court precedents where damages were claimed against bankers who committed illegal or wrongful acts.

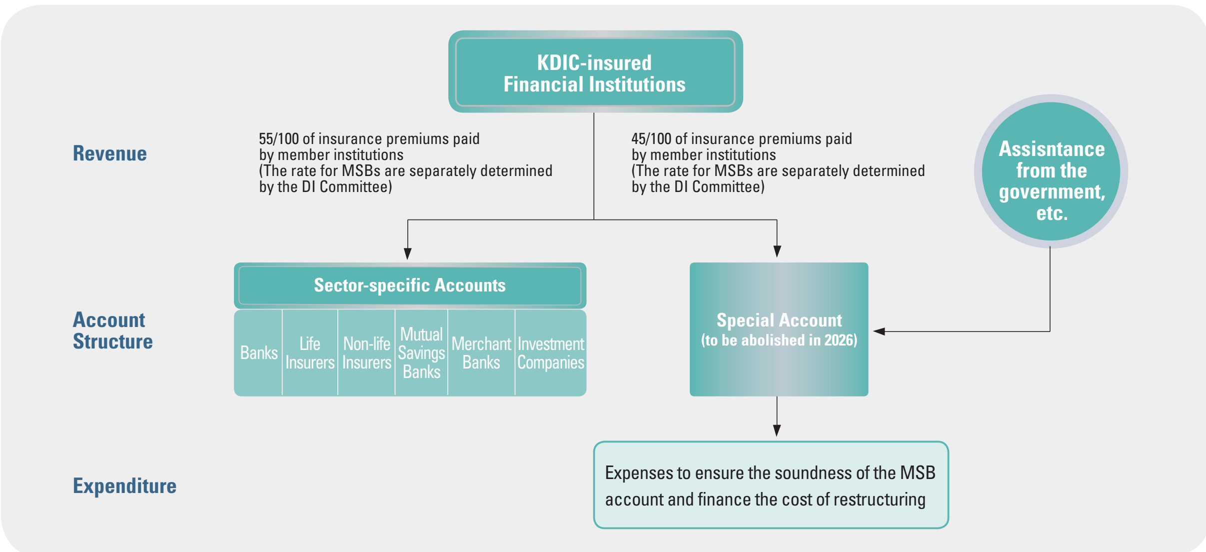
Increased Stability of the Deposit Insurance Fund

To support the smooth restructuring of failed mutual savings banks, the KDIC created a *'Special Account for Mutual Savings Bank Restructuring*'* in April 2011. Through the end of 2014, it raised and provided KRW 27,116.7 billion in a timely fashion for the restructuring of 30 insolvent mutual savings banks, making deposit insurance payments, etc. In 2014, the KDIC disbursed KRW 307.8 billion from the special account for the restructuring of one mutual savings bank.

* 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 MSB Restructuring



In July 2012, November 2013 and October 2014, the KDIC took a KRW-250-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 10.5 trillion).

Table Ⅰ - 4

Funding of and Expenditures from the Special Account

(As of Dec. 31, 2014, Unit: KRW 1 trillion)

Amount Provided in Financial Assistance			Amount Raised	
30 MSBs including Samhwa	Equity investment, capital contributions, deposit payoffs, etc.	27.1	Borrowing from the other DIF accounts	1.8
			Outside funding (e.g. issuance of bonds)	22.4
			Deposit insurance premiums, etc.	2.9
Total		27.1	Total	27.1

In addition, the KDIC made efforts to collect funds provided in financial assistance from the DIF (including the special account). It recovered KRW 2,855.1 billion during 2014 by various means including sale of bridge savings banks and bankruptcy dividend collection.

Not one insured financial institution raised objection to the assessment rates determined under the risk-based premium system introduced by the KDIC in 2014, which is a strong indication that their risk-based premiums were fair and reasonable. The KDIC revised some regulations in April 2014 and drafted an internal control checklist to make the risk-based premium system more efficient. For smooth implementation of the system, it gave presentations to insured financial institutions prior to conducting its assessments. As a result of these efforts, the system is being implemented successfully.

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 2013. Meanwhile, life and non-life insurance companies received a discount of 38% and 1%, respectively, on premiums for the period from January 1, 2014 to December 31, 2014 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 (Redemption Fund). The Fund contains all the assets and liabilities from the financial restructuring that occurred after the Asian financial crisis.

By the end of 2014, the KDIC had repaid KRW 63.9 trillion with government contributions (KRW 45.7 trillion) and recovered funds (KRW 18.2 trillion) out of KRW 82.4 trillion to be repaid under the *Public Fund Redemption Plan*. It plans to repay the remaining KRW 18.5 trillion with recovered funds and special contributions paid by member institutions by 2027 as scheduled. According to findings from the Financial Services Commission's (FSC's) regular public fund re-computation in 2013, the KDIC is expected to be able to repay the remaining debt without much difficulty.

In the meantime, the KDIC continues to recover public funds spent on restructuring failed financial institutions in the wake of the Asian financial crisis by selling equity stakes and receiving dividends. In 2014 alone, it recovered KRW 2,444.9 billion by selling its stakes in financial institutions, receiving dividends, and having redeemable preferred shares of stock redeemed.

Table Ⅰ - 5

Major Recoveries of Public Funds in 2014

Kyongnam Bank	• Oct. 2014, Recovered KRW 1,226.9 billion by selling the bank to BS Financial Group
Kwangju Bank	• Oct. 2014, Recovered KRW 500.3 billion by selling the bank to JB Financial Group
Woori Bank	• Jan. - Mar. 2014, Recovered KRW 1.6 billion by selling its stake on the stock market • Jul. 2014, Recovered KRW 22.6 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
Daewoo Shipbuilding & Marine Engineering	• Jan. 2014, Recovered KRW 38.1 billion in a block sale of its stake
Other equities	• 2014, Recovered KRW 6.3 billion through public sale of twelve issues of unlisted shares held by the KR&C
Miscellaneous	• Jan. - Dec. 2013, Recovered KRW 294.4 billion by receiving stock dividends/ • Jan. - Dec. 2013, Recovered KRW 16.4 billion by receiving bankruptcy dividends

In connection with the sale of Woori Financial Group, the KDIC pushed for the sell-offs of Woori's subsidiaries in 2014 according to its privatization plan approved by the Public Fund Oversight Committee on June 26, 2013. According to the plan, the KDIC sold its 56.97% stake in each of Kyongnam Bank and Kwangju Bank to BS Financial Group and JB Financial Group in October 2014, respectively, which resulted in recovery of KRW 1,727.2 billion. Its stakes in six other subsidiaries engaged in the securities business, such as Woori Investment and Securities, were directly sold by Woori Financial Group in June 2014.

In compliance with the privatization plan for Woori Bank approved by the Public Fund Oversight Committee on June 23, 2014, the KDIC simultaneously pursued the merger and sale of Woori Bank. The merger of Woori Financial Group with Woori Bank was completed in November 2014. The KDIC sold its 5.94% stake in Woori Bank in December 2014, recovering KRW 453.1 billion.

Of its 16.38% stake in Jeju Bank, the KDIC sold 1.27% on the stock market from January to March 2014 and recovered KRW 1.6 billion. In July 2014, it recovered KRW 22.6 billion in a block sale of the remaining 15.11%.

The KDIC recovered KRW 38.1 billion in a block sale of its 0.55% stake in Daewoo Shipbuilding & Marine Engineering held by the Korea Resolution and Collection (KR&C) in January 2014. It also recovered KRW 6.3 billion through public sale of twelve issues of unlisted shares.

Table I - 6

KDIC Stakes in Financial Institutions

(As of Dec. 31, 2014, Unit: KRW 1 billion, %)

Category	Financial Assistance	Recoveries[1]	Value of Remaining Stakes[2]	KDIC Stakes
Woori Financial Group	12,766.3	7,937.3[3]	3,451.4	51.04
National Federation of Fisheries Cooperatives	1,158.1	-	1,093.5	Preferred Securities
Seoul Guarantee Insurance	10,250.0	2,469.6	136.1	93.85
Hanwha Life Insurance	3,550.0	1,421.2	1,782.0	24.75
Total	27,724.4	11,830.1	6,463.0	-

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, 2014 for listed stocks, and the figures on the KDIC's balance sheet as of December 31, 2014 for unlisted stocks.
3) Including proceeds from the sale of Kyongnam Bank and Kwangju Bank

Proactive Depositor Protection Services

The KDIC succeeded in recovering data on some types of deposits which were customarily treated as miscellaneous revenues by financial institutions prior to completion of negative prescription and thus excluded from the list of deposits eligible for deposit insurance payments. It determined deposits eligible for deposit insurance payments and proactively provided necessary information to depositors in an attempt to strengthen depositor protection.

To lessen the administrative burden 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 began implementing online inspections on a pilot basis, raising the productivity of each involved employee by 384%. 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 institution branches.

In the meantime, the KDIC has implemented company-wide outreach programs to repay public trust and fulfill its responsibility as a public institution. In 2014, it adopted '*Haengbok Yegam* (Expecting Happiness)' as a brand name representing its social contribution activities. It came up with the name through a public contest. The KDIC also introduced a 'donation petition system' for delivery of voluntary donations from employees to the underprivileged. The 'petition' part of the program comes from the fact that the beneficiaries are chosen if they get a certain number of recommendations from KDIC employees who read their stories posted on the company's internet. 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 Agency for Traditional Market Administration, and the Korea Association of Senior Welfare Centers. In 2014, the KDIC launched a financial literacy program for middle and high school students through the Korea Foundation for the Advancement of Science and Creativity.

Table Ⅰ-7

Financial Literacy Education in 2014

(As of Dec. 31, 2014, Unit: No. of persons)

Category	Elementary, middle and high school students	The elderly	Traditional market merchants	Multicultural families	Others	Total
No. of Persons	50,023	8,180	41,320	367	2,464	102,354

In 2014, the KDIC executed an 'action-prompting publicity initiative' that is designed to raise public awareness of the depositor protection system and motivate depositors to check whether their deposits are protected. It produced serial advertisements on the essentials of the depositor protection system and carried them in newspapers, magazines, and advertisement media on public transportation or broadcast them on cable television and radio. This greatly increased the level of public awareness* of the depositor protection system and the KDIC compared to the previous year.

* Level of awareness of the depositor protection system: 89.5% in 2013 → 90.1% in 2014, level of awareness of the KDIC: 86.0% in 2013 → 87.9% in 2014

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 deposit insurance systems, the KDIC has proactively pursued the 'Global-KDIC Knowledge Sharing Program (KSP)' since December 2010. It had worked with fifteen emerging economies by the end of 2014, and it took part in the 'Knowledge Sharing Program (KSP)' undertaken by the Korean government, helping Mongolia and Tanzania introduce, modernize, and improve their deposit insurance systems.

So far, the KDIC has focused its Global-KDIC KSP on providing policy advice on enactment of laws and introduction of systems for deposit insurance in emerging economies. In 2014, it expanded the scope of its assistance to IT systems. It has effectively paved the way for domestic IT companies to advance into foreign markets by collaborating with private IT businesses which participated in KSP projects and provided consultation for Tanzania and the Philippines for the establishment/improvement of their own deposit insurance systems.

The KDIC entered into memorandums of understanding (MOUs) on mutual cooperation with eighteen institutions in sixteen countries, including Japan and Malaysia, which signed such MOUs in 2014. It has, thereby, continuously expanded information and personnel exchange with foreign deposit insurers regarding outstanding issues.

In 2014, the KDIC hosted an international seminar jointly with the International Association of Deposit Insurers (IADI) to promote sharing of knowledge on operation of deposit insurance systems. The international knowledge sharing seminar was the first of its kind hosted by the KDIC. Attended by over 60 officials and high-ranking officers of financial safety net entities from 22 countries including the IADI Secretary General, the seminar was a great success.

The KDIC will continue to actively take part in the IADI's activities, including discussions of the key global agenda items 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; development, modification, and settlement of the KDIC's budget; formulation of guidelines for the KDIC's operations; development of management plans for the Deposit Insurance Fund (DIF) and the 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 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, 2014)

Title		Name
Ex-officio Members	Chairman and President of KDIC	Joo Hyun Kim
	Vice Chairman of FSC	Chan-woo Jeong
	Deputy Minister of Ministry of Strategy and Finance	Kyoungho Choo
	Senior Deputy Governor of Bank of Korea	Byung Wha Jang
Commissioned Members	Designated by the Financial Services Commission	Hong Kwon Lee
	Recommended by the Minister of Strategy and Finance	Chul Whan Lee
	Recommended by the Governor of the Bank of Korea	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 financial resolution institution • 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 2014

Date	Agenda
Jan. 22	• Issuance of DIF Bond Redemption Fund Bonds for 2014 • Request for participation in the joint examinations of four financial institutions including ○○ Mutual Savings Bank • Reporting on the joint examination results of ○○ Securities • Reporting on the joint examination results of ○○ and △△ Mutual Savings Banks • Reporting on the examination results of four mutual savings banks including ○○ Mutual Savings Bank • Modification of the KDIC budget for 2014
Feb. 26	• Guidelines for the asset management of the DIF Bond Redemption Fund in 2014 • Guidelines for the asset management of the DIF in 2014 • Settlement of the DIF, KDIC, and DIF Bond Redemption Fund accounts for fiscal year 2013 • Reporting on execution of the DIF management plan for 2013 • Reporting on transactions between accounts of the DIF and the DIF Bond Redemption Fund for 2013 • Reporting on operating expense settlement for 2013 • Reporting on the joint examination results of ○○ Life Insurance • Reporting on the progress in implementation of business normalization MOUs during the third quarter of 2013
Mar. 25	• Request for participation in the joint examination of ○○ Bank • Addition to the business normalization plan for Woori Financial Group, Woori Bank, Kwangju Bank, Kyongnam Bank, credit business unit of the National Federation of Fisheries Cooperatives, and Seoul Guarantee Insurance • Reporting on the joint examination results of ○○-affiliated Mutual Savings Bank
Apr. 14	• Decision on the risk-based premiums of the domestic branch of ○○ Bank, etc. for fiscal year 2014
May 28	• DIF Bond Redemption Fund management plan for 2015 • Issuance of DIF Bond Redemption Fund Bonds in 2015 and application for government guarantees for the bonds • Decision on the risk-based premiums of ○○ Securities • Reporting on the examination results of ○○ Mutual Savings Bank

Date	Agenda
Jun. 12	• Request for participation in the joint examination for the third quarter of 2014 • Decision on the risk-based premiums of insured financial institutions closing accounts at the end of December 2013 • Revision of standards and decision on reduction of deposit insurance premium payment for DIF accounts that have exceeded reserve targets • Conclusion of a sale/purchase agreement of stock in Kyongnam Bank and Kwangju Bank • Revision of the rules on examination of insured financial institutions • Reporting on the examination results of ○○, △△ and □□ Mutual Savings Banks
Aug. 20	• Decision on the risk-based premiums of insured financial institutions closing accounts at the end of March 2014 • Request for additional participation in the joint examination for the third quarter of 2014 • Reporting on the progress in implementation of business normalization MOUs during the first quarter of 2014
Sep. 24	• Request for participation in the joint examination for the fourth quarter of 2014 • Reporting on the joint examination results of ○○ Bank • Reporting on the examination results of five mutual savings banks including ○○ Mutual Savings Bank • Reporting on the results of semi-annual account settlement for the DIF and the DIF Bond Redemption Fund for fiscal year 2014
Oct. 29	• Reporting on the examination results of ○○ and △△ Mutual Savings Banks • Reporting on the progress in implementation of business normalization MOUs during the second quarter of 2014
Nov. 26	• Decision on the risk-based premiums of insured financial institutions closing accounts at the end of June 2014 • Reporting on the joint examination results of ○○-affiliated Mutual Savings Bank • Reporting on the examination results of three mutual savings banks including ○○ Mutual Savings Bank • Reporting on the joint examination results of ○○ Securities
Dec. 11	• DIF management plan for 2015
Dec. 26	• KDIC budget for 2015

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 Executives Recommendation Committee and the Chairman of the FSC, and the Executive Directors are appointed by the Chairman and President of the KDIC. The Non-executive Directors are appointed by the Chairman of the FSC on recommendation of the Executives Recommendation Committee. The Auditor is appointed by the President of the Republic of Korea on recommendation of the Executives Recommendation Committee, deliberation and decision of the Public Agencies Operating Committee, and recommendation of the Minister of MOSF. The Chairman and President of the KDIC is appointed for a period of three years and the Executive Directors and the Auditor are appointed for a 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; development, revision and abolition of internal rules; executives' remuneration; acquisition and disposal of assets; matters related to the KDIC's operations such as organization structures and human resources management; items that are required to be put to a vote of the Board of Directors by law, the Articles of Incorporation or internal rules; and any other matters deemed necessary by the Board of Directors or its chairperson.

Table Ⅱ - 4

Executive Board Members

(As of Dec. 31, 2014)

Title	Name
Chairman and President	Joo Hyun Kim
Executive Vice President	Hyeon Chul Joe
Executive Director	Oang Ho Jung
Executive Director	Wook Ho Chung
Executive Director	Seung Wou Shin
Executive Director	Kwang Nam Kim
Non-executive Director	Sang Il Lee
Non-executive Director	Hong Sik Choe
Non-executive Director	Sul Young Lee
Non-executive Director	Seung Ho Choi
Non-executive Director	Don Sun Yang
Non-executive Director	Sung Su Choi
Non-executive Director	Jae Yeon Lee
Auditor	-

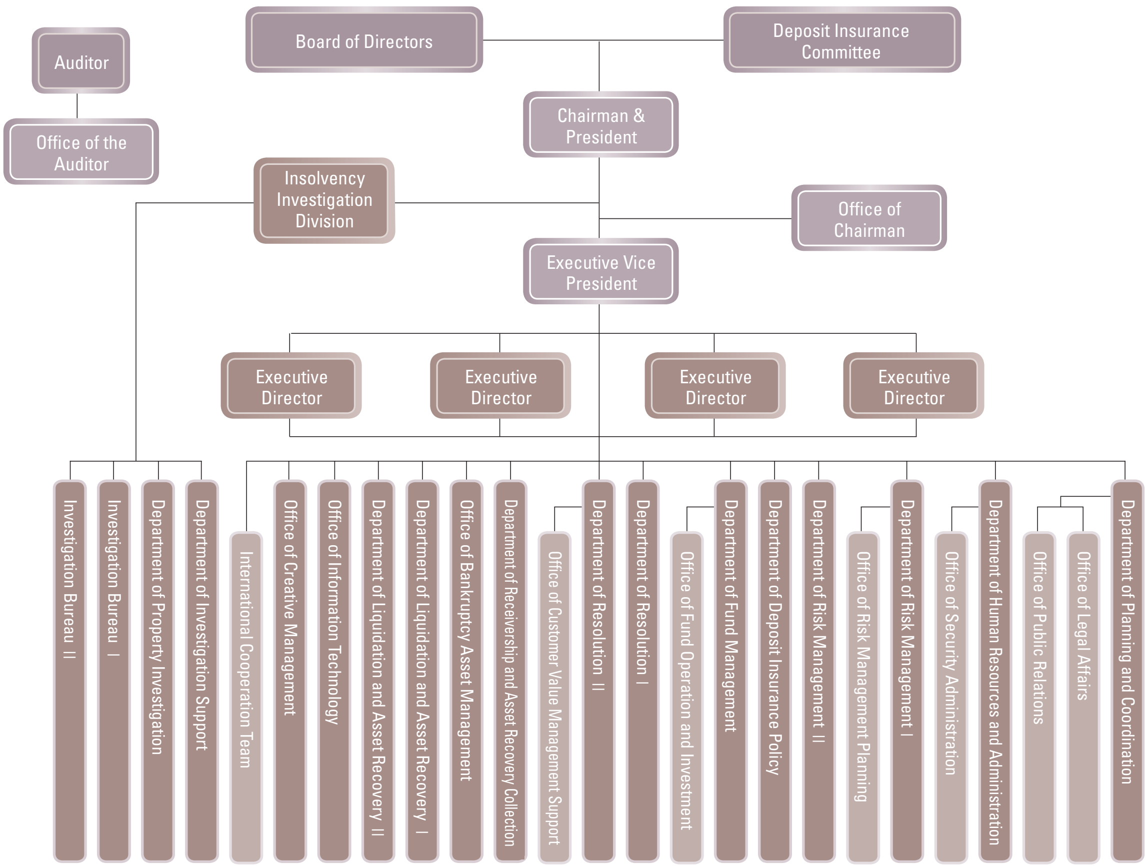
Organization

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, 2014, it had eleven departments, five offices, and one division: Department of Planning and Coordination, Department of Human Resources and Administration, Departments of Risk Management I and II, Department of Deposit Insurance Policy, Department of Fund Management, Departments of Resolution I and II, Department of Receivership and Asset Recovery Collection, Departments of Liquidation and Asset Recovery I and II, Office of Information Technology, Office of Bankruptcy Asset Management, Office of Creative Management, Office of the Chairman, Office of the Auditor, and Insolvency Investigation Division.

Table Ⅱ - 5

Organizational Chart

(As of Dec. 31, 2014)



* International Cooperation Team is a team unit.

Table Ⅱ - 6

Number of Staff

(As of Dec. 31, 2014, Unit: No. of Persons)

Category	Executive Board Members	Staff		
		Regular	Special[2)]	Total
No. of People	13[1)]	539	94	646

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

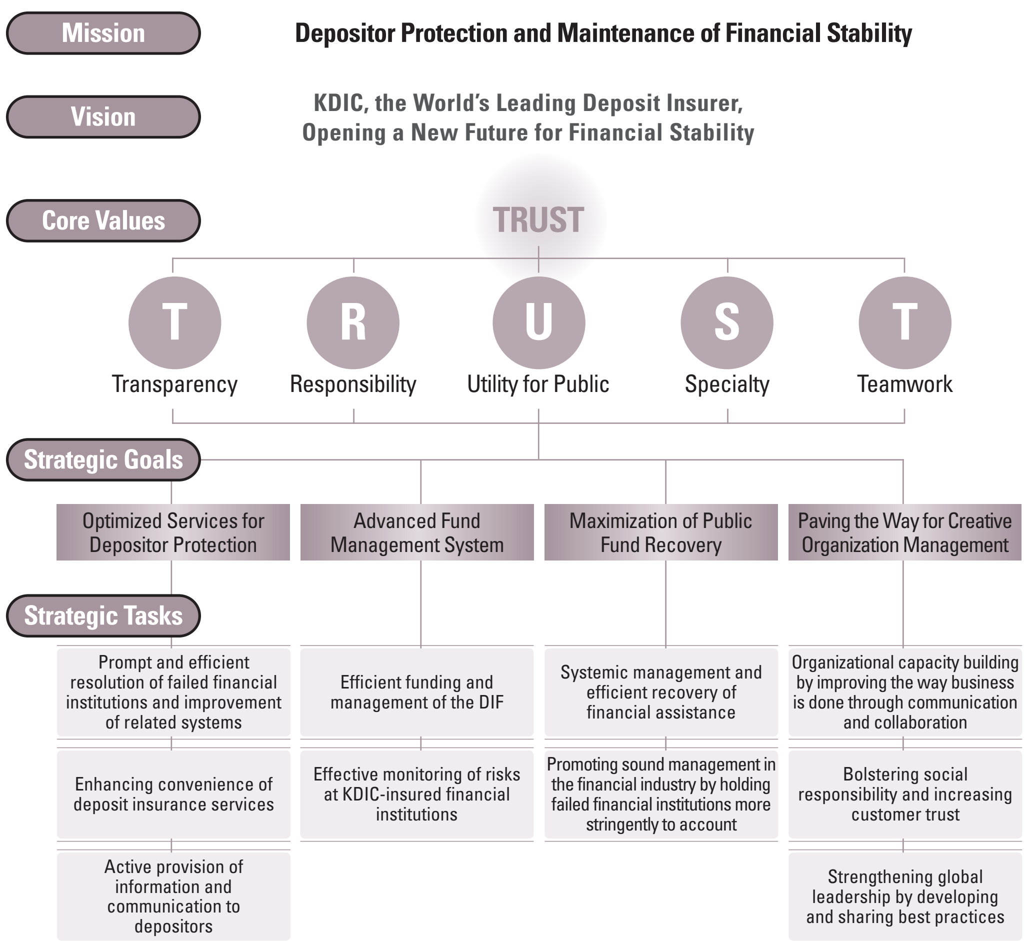
KDIC Vision and Its Meaning

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

International discussion and institutional improvement are underway to bolster the financial system and prevent a recurrence of the global financial crisis. Building on its 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 continued effort for system advancement. The vision statement expresses our commitment to that goal.

Figure II - 1

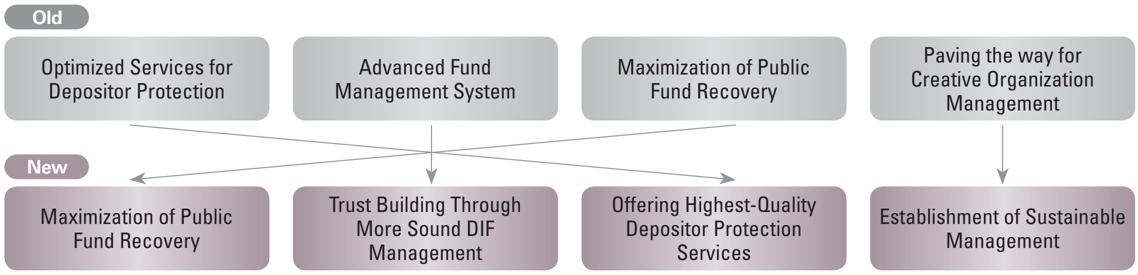
Vision and Strategy Map



Overhaul of Strategic Goals and Tasks

To reflect changes in the internal and external management environment, increase the effectiveness of the government's effort to normalize public institutions, and promote its own business goals, the KDIC revamped its strategy in September 2014, after considering opinions of its employees and professional consultants. The KDIC aggressively pressed for debt reduction and complied with the government's policy to normalize public institutions. It placed top priority on “maximization of public fund recovery” to boost its recovery function, which it has focused on since restructuring of mutual savings banks.

● Modification of Strategic Goals



● Modification of Strategic Tasks

■ Creation of new strategic tasks to proactively implement government policies for such purposes as normalization of public institutions and the Government 3.0 initiative, and improvement of efficiency in task execution by integrating similar tasks into one

Previous Strategic Tasks		New Strategic Tasks
• Bolstering social responsibility and increasing customer trust • Enhancing convenience of deposit insurance services • Proactive guidance to depositor protection system	➜	• Public trust building based on advanced government policy • Reinforcement of customized depositor protection

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

Previous Strategic Tasks		New Strategic Tasks
• Efficient funding and management of the DIF • Systemic management and efficient recovery of financial assistance	➜	• Increased funding through efficient DIF management • Debt reduction through efficient recovery

■ Exploration of new tasks for stronger linkage to high-level strategic goals and adjustment, realignment, and simplification of existing tasks

Previous Strategic Task		New Strategic Task
• Promoting sound management in the financial industry by holding failed financial institutions more stringently to account • Prompt and efficient resolution of failed financial institutions and improvement of related systems	➜	• Strategic change management through creative innovation • Holding failed financial institutions stringently to account • Application of advanced resolution procedures for financial institutions

Strategic Goals, Strategic Tasks, and Detailed Action Plans

To realize the new vision and generate tangible results, the KDIC set four mid- to long-term strategic goals: maximization of public fund recovery, trust building through more sound DIF management, offering highest-quality depositor protection services, and establishment of sustainable management. It then modified or realigned ten strategic tasks to achieve these strategic goals and established detailed annual action plans for the next five years (from 2015 to 2019).

Table Ⅱ - 7

Strategic Goals, Strategic Tasks, and Detailed Action Plans

Strategic Goals	Strategic Tasks	Detailed Action Plans
Maximization of Public Fund Recovery	Debt reduction through efficient recovery	• Efficient sale of KDIC's shares and assets
		• Increasing efficiency in MOU management
		• Efficient management of bankruptcy estates and improved recovery
		• Efficient management of special assets and maximization of recovery
	Holding failed financial institutions stringently to account	• Rigorous investigation and closer post-failure monitoring
		• Efficient investigation into assets owned by persons implicated in insolvencies at home and abroad
Trust Building Through More Sound DIF Management	Increased funding through efficient DIF management	• Stable management of the DIF
		• Efficient 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 management of insolvency risks	• Increasing capacity for risk surveillance and analysis
		• Early identification of risk factors and timely response
		• Efficient performance of independent and joint examinations
Offering Highest-Quality Depositor Protection Services	Reinforcement of customized depositor protection	• Fast and convenient deposit insurance claims payment
		• Rendering support for reasonable choice by financial consumers
		• Provision of user-oriented deposit insurance information
		• Enhanced integrity in the administration of deposit insurance
	Application of advanced resolution procedures for financial institutions	• Prompt and efficient resolution of insolvent financial institutions
		• Development of a more advanced resolution system for large financial companies
	Improving stature by strengthening global leadership	• Global sharing of best practices and experience in deposit insurance operation
		• Closer cooperation with the IADI and foreign deposit insurers
Establishment of Sustainable Management	Enhancement of core competencies and efficient resources management	• Efficient organization and budget management focused on core business activities
		• Improved effectiveness of the compensation and performance evaluation systems
		• Efficient management and development of human resources
		• Increased business efficiency based on IT system improvement
	Strategic change management through creative innovation	• Creation of change-oriented organizational culture
		• Exploration of future tasks and strategic response
	Public trust building based on advanced government policy	• Making the KDIC more capable through sharing and collaboration
		• Increasing customer satisfaction by an improved customer satisfaction (CS) management system
		• Institutionalization of ethical management for greater reliability

Dynamic Organizational Culture for HR Management and Business Operations

'*Hi-KDIC*' Program to Build a Dynamic Organizational Culture

The KDIC is implementing 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 add a boost the KDIC's efforts to carry out its strategic tasks, thereby helping to achieve its mission and vision.

Table Ⅱ - 8

Hi-KDIC Program

Task	Program Name	Description
Communication Facilitation (Multi-directional communication)	Culture Day	• In line with the government's policy for 'cultural enrichment' and 'work-family balance,' employees are encouraged to engage in various cultural activities with their families.
	Smart Board	• Smart Board consists of seven representatives from each level of the company hierarchy and serves as an "interactive communication channel."
	Cross Meeting (Joint Meeting)	• Meetings between departments (teams) are held to promote mutual understanding, with business relevance taken into account.
	Happy Time	• Executives visit teams to give them encouragement when deemed necessary to boost employee morale company-wide.
	Lunch call	• The CEO has lunch with any employees who wish to participate.
	Tea & Talk	• The CEO regularly visits selected teams to lend employees encouragement.
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 a soup kitchen or food banks on a regular basis.
	Mentoring	• Senior members with many years of service at the KDIC and extensive business knowledge mentor new staff members for a certain period.
	Job Posting System	• Competent in-house human resources are preferentially selected and deployed in appropriate positions to increase efficiency in HR management.
	KDIC-Highway Training	• To facilitate communication, staff members from different departments and different job levels team up and enjoy cultural activities together.
	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.
	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.
Participation by All (Sharing of core values)	KDIC-Daum	• Training workshops are provided to communicate what the KDIC's core values are and how to practice them in everyday work life.
	Space for Cooperation and Sharing	• The KDIC operates a knowledge portal system for knowledge management.
	Fago TV	• VOD service is made to share management strategies and relevant materials such as the KDIC mission, strategy meeting results, and PR messages/press releases.

Organizational Restructuring Reflecting Change in Business Environment Including Bolstered Recovery Function

The KDIC reorganized itself in January 2014 to fully comply with the government's requirements for normalization of public institutions including debt reduction. It sought to maximize recovery by improving its recovery planning and supervisory functions, establishing the Office of Bankruptcy Asset Management I, expanding the Department of Property Investigation, and overhauling other departments. In December 2014, it created the Office of Risk Management Planning to brace for changes in the financial environment arising from low growth and interest rates and to improve its risk monitoring. All in all, the KDIC worked hard to bolster its capabilities to cope 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 the Balanced Score Card (BSC) in late 2005. It applied the BSC to every department in 2006 and then to all teams in 2007. It then developed an IT system for performance management in 2009, and it has refined performance indicators and evaluation methods on a continuous basis. By inviting employee opinions and expert advice on those indicators and methods, it has consistently pressed for improvement of its performance evaluation system. The KDIC improved the scheme in 2014 to minimize the burden of non-quantitative indicator assessment and make the evaluation results more acceptable to those evaluated. It also assessed the efforts to quantify business performance to ensure effective performance measurement and develop superb indicators. These efforts indeed helped to improve the objectivity of performance evaluation.

For successful operation of the performance-based annual salary system, the KDIC adopted an individual performance evaluation system known as Management by Objectives (MBO) in 2010 under an agreement between labor and management. Under the MBO, each staff member consults with his or her supervisor, sets targets that will help to maximize the organization’s performance, and regularly undergoes reasonable and fair evaluation. In 2012, the KDIC built an online system for MBO and focused on ensuring more complete adoption of the system. In 2014, the KDIC adjusted the ratios between achievement evaluation and competency assessment and improved career evaluation to refine the MBO system.

Ethical Management and Corporate Social Responsibility

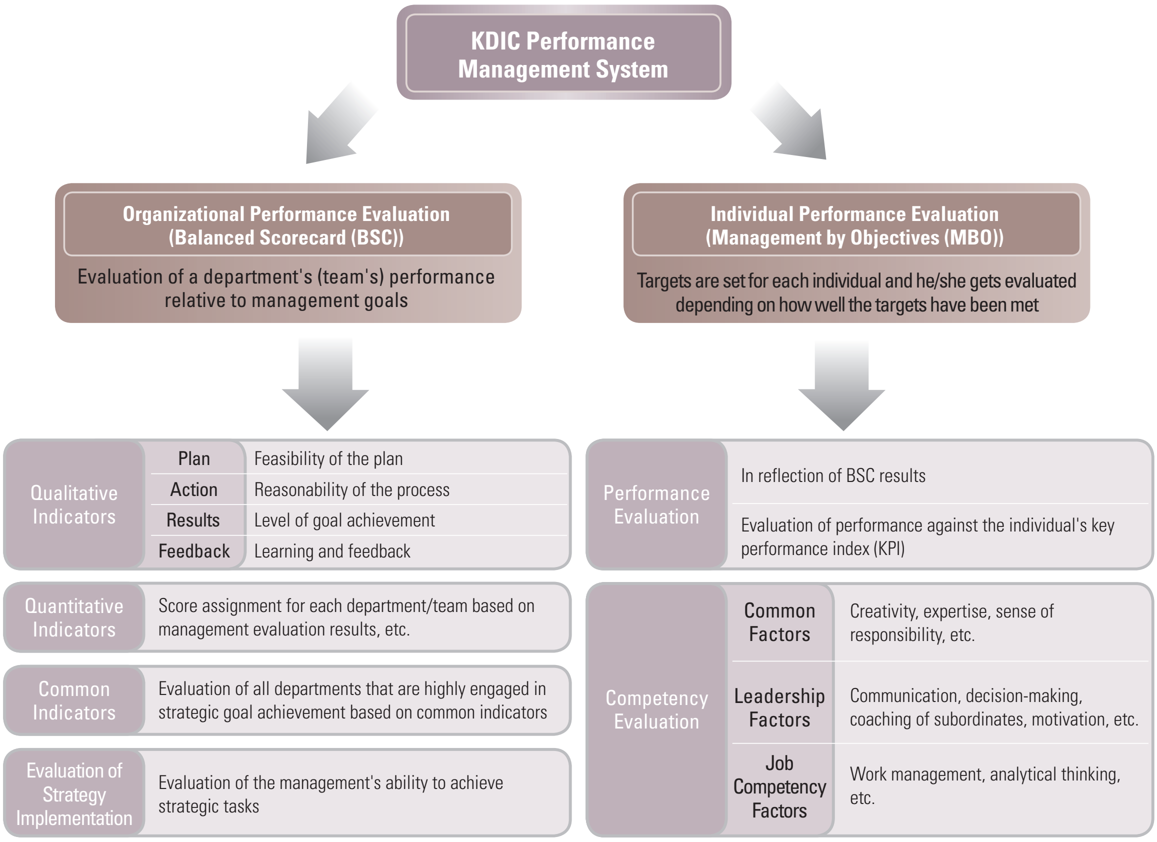
Ethical Management

The KDIC adopted TRUST (Transparency, Responsibility, Utility for Public Good, 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 its corporate hierarchy. For that purpose, it formulated mid- to long-term and annual ethical management plans that properly reflect changes in the ethical management environment and government policy. It then developed and executed detailed action plans to help ensure that ethical management firmly takes root as an integral part of the corporate culture.

In 2014, the KDIC published and distributed ‘A Guidebook for Ethical Management’ to forge a consensus

Figure Ⅱ - 2

KDIC Performance Management System

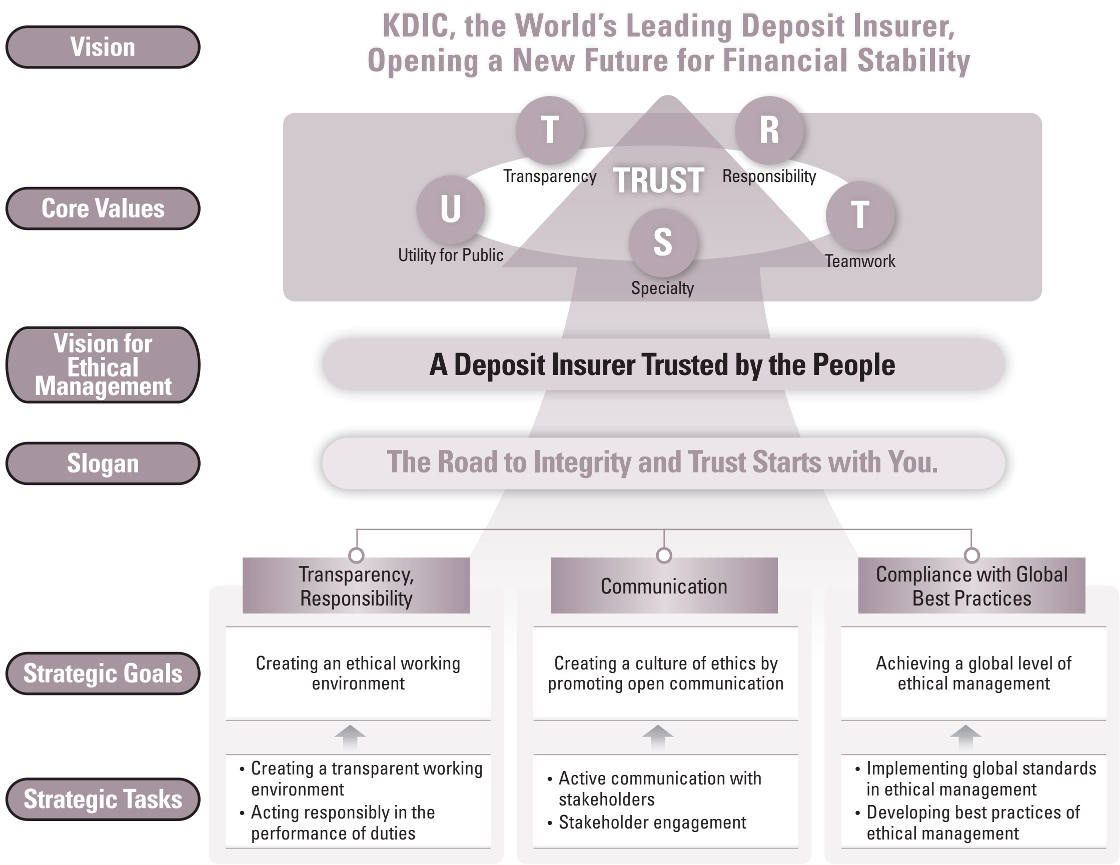


on ethical management among its employees and teach them how to handle ethically conflicting situations such as solicitation of special favors. To create an atmosphere more conducive to ethical management both internally and externally, it conducted story-telling cyber education, hosted workshops for leaders of ethical management and integrity, and invited ideas for promotion of integrity. In addition, it requested bankruptcy estates of failed savings banks, which are in direct contact with customers, to develop and implement anti-corruption/integrity tasks. It also hosted integrity workshops for bankruptcy estate trustees to promote application of its ethical management practices at the point of contact with customers. It reported progress in satisfying the requirements of the UNGC (United Nations Global Compact), an initiative under the UN to encourage businesses and organizations to fulfill their social responsibilities, and participated in the KoBEX SM survey conducted by the Ministry of Trade, Industry and Energy. In doing so, the KDIC has greatly enhanced public confidence in its commitment to ethical management.

These endeavors reaped excellent results when the Anti-Corruption and Civil Rights Commission gave the KDIC grade 2 in its integrity assessment in 2014, placing it in the second rank among fund-managing quasi-governmental agencies. It was also awarded an 'AAA' rating, the highest possible rating, in the KoBEX SM survey, as in 2013.

Figure Ⅱ-3

New Mid- to Long-Term Ethical Management Promotion Strategy



Corporate Social Responsibility

(1) Brand Adoption and Expansion of Social Contribution Activities

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 that end, it explored and executed diverse programs suitable for an institution of its nature including an employee and college student 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 2014, the KDIC adopted 'Haengbok Yegam (Expecting Happiness)' as a brand representing its social contribution activities for the first time by inviting ideas from employees. It was aimed at establishing the identity of the KDIC's social contribution activities and encouraging employees' interest and participation. This brand embodies the KDIC's resolution to fulfill its social responsibilities by providing financial services that completely satisfy the public. All social contribution programs of the KDIC are now undertaken under the brand name. In line with its purpose, the KDIC continues to extend a helping hand to various beneficiaries.

In 2014, the KDIC also introduced the 'Haengbok Yegam Voluntary Completion Program' to encourage its employees to participate in social contribution activities on their own initiative. It engaged in many different activities that answer specific beneficiaries' needs, in turn greatly satisfying both the volunteers and the beneficiaries.

(2) Pursuit of '*Haengbok Yegam*' Activities Creating Value through Collaboration

In 2014, the KDIC determined and undertook three major projects under 'Haengbok Yegam' to ensure effective and consistent implementation of activities, rather than merely expanding them. These three major projects were a social safety network project, an environmental protection project, and a global project. The KDIC created shared value by maximizing synergy through inter-agency collaboration.

For the social safety net project, the KDIC worked closely together with the Ministry of Patriots and Veterans Affairs in many ways to directly help patriots and veterans in need, going beyond visiting the National Cemetery to perform volunteer services. Its employees directly took part in renovation of homes of patriots and veterans in Jung-gu, Seoul, while providing them with financial assistance and daily necessities. It donated 10,800 heating briquettes to all patriots and veterans in need who live in Seoul. Its employees also personally delivered briquettes to patriots and veterans residing in Songpa-gu, Seoul.

Concerning the environmental protection project, the KDIC broadened the scope of its activities from the clean-up of Cheonggyecheon Stream to nationwide environmental protection in cooperation with the Korea Forest Service and the Gangwon-do provincial government. Its employees planted 3,000 trees on a mountain in Chuncheon-si, Gangwon-do, and the KDIC made a registration with the forest carbon offset system under which it will carry out reforestation for the next ten years. The KDIC is committed to helping absorb 58 tons of carbon dioxide during these ten years, and it was the first public institution to receive an award from the minister of the Korea Forest Service in recognition of its meritorious service in forestry policy development.

As part of the global project, the KDIC began focusing on multicultural families, a financially underserved group. In April 2014, it successfully hosted a financial education camp for all multicultural family support centers in Seoul in cooperation with the Seoul Metropolitan Government. It expanded its existing camp held in collaboration with the Guro-gu Multicultural Family Support Center.

Table Ⅱ - 9

Overview of Three Major Projects Under *Haengbok Yegam* Initiative

Description	Social Safety Net Project	Environmental Protection Project	Global Project
Purpose	Similar to the purpose of the KDIC's establishment (safeguarding the financial safety net); emphasis on the public interest and responsibility; helping to enhance the social safety net	Aimed at creating a healthy, sound, and prosperous society by directly participating in green growth projects	Intended to diversify programs as the KDIC had mainly focused on domestic activities
Partner	Ministry of Patriots and Veterans Affairs, etc.	Korea Forestry Service, Gangwon-do provincial government, etc.	Seoul Metropolitan Government, multicultural family support centers
Major Activities	Support for patriots and veterans (residential environment improvement and briquette supply)	Registration with the forest carbon offset system	Support for multicultural families (provision of equipment and hosting of camps)

(3) Increased Support for Traditional Markets for Their Revitalization

To support traditional markets, the KDIC established a sisterhood relationship with Seoul 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 KDIC staff-provided lectures at merchant universities.

In 2013, the KDIC forged sisterhood relations with traditional markets in two locations where bankruptcy estates are (Daegu and Jeonju) to give a nationwide boost to traditional markets. In 2014, it established additional sisterhood relations with traditional markets in the Seoul metropolitan area, Chungcheong-do, 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

Traditional Markets with Sisterhood Relations by Region

Region	Traditional Market	Region	Traditional Market
Capital Area	Anyang Central Market	Jeonbuk	Jeonju Nambu Market
Chungcheong	Daejeon Central Market	Gwangju·Jeonnam	Mokpo Dongbu Market
Daegu·Gyeongbuk	Daegu Chilseong Market	Jeju	Jeju Dongmun Market

(4) Various Haengbok Yegam Activities to Fulfill Social Responsibility

In 2014, the KDIC set up the “Sharing Love” Fund worth of KRW 216.53 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 169.89 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 rendered scholarships of KRW 1 million per person to ten high school students from low-income families in the Seoul metropolitan area and ten high school students selected by the Small Business Association in the Da-dong and Mugyo-dong area. In 2014, it began to provide scholarships to students all across the nation including not only academic high achievers but students who are artistically or athletically talented or practicing uncommon filial piety towards their parents. It also established sisterhood relationships with persons with disabilities by offering volunteer services 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 within the KDIC) 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); and it undertook outreach activities including making and sharing kimchi and delivering heating briquettes. 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 2014

(As of Dec. 31, 2014, Unit: No. of person, KRW 1,000)

Category		Program Names	No. of Times	Participants	Frequency
Neighbors	Donation of cash and goods	Helping the less fortunate, collection of coins in a piggy bank	15	-	Yearly
	Scholarship	(10) High school students from low-income families in the Seoul area	1	20	Yearly
	Help for people with disabilities	Volunteering at the Seoul Jungjin School and Sengga Temple	14	110	First Thursday of every month
	Family-friendly activities	Club activities, etc.	9	11	From time to time
Local Community	Volunteering at food banks	At the Nest of Sharing in Eunpyeong-Gu	12	111	Third Tuesday of every month
	Matching one family with one department	Assistance to 24 families and women's shelters	168	660	Monthly
	the House of love	Improvement of living conditions for low-income families (in connection with Habitat)	5	90	Quarterly
	Support for Traditional Market Merchants	Day to Visit a Traditional Market campaign	49	1,008	Every Thursday
	Signatories to the Da-dong and Mugyo-dong agreement	Blood donation, provision of free meals, support for local festivals, etc.	16	26	All year round
	National Cemetery	Weeding, flower replacement, etc.	3	58	All year round
	Others	Delivering heating briquettes and making and sharing kimchi	2	60	Yearly
Rural Communities	Building cooperative ties with rural villages	Helping farmers at sister villages at peak season (apple orchards)	1	70	Half-yearly
Environment	Cleaning-up the Cheonggye Stream	From Cheonggye Plaza to Samil Bridge	9	101	Fourth Friday of every month
	Up-Cycle Campaign	Use of discarded earphones and placards	1	21	From time to time
	Tree planting	Tree planting in Chuncheon, Gangwon-do	1	36	All year round
Total		-	306	2,382	-

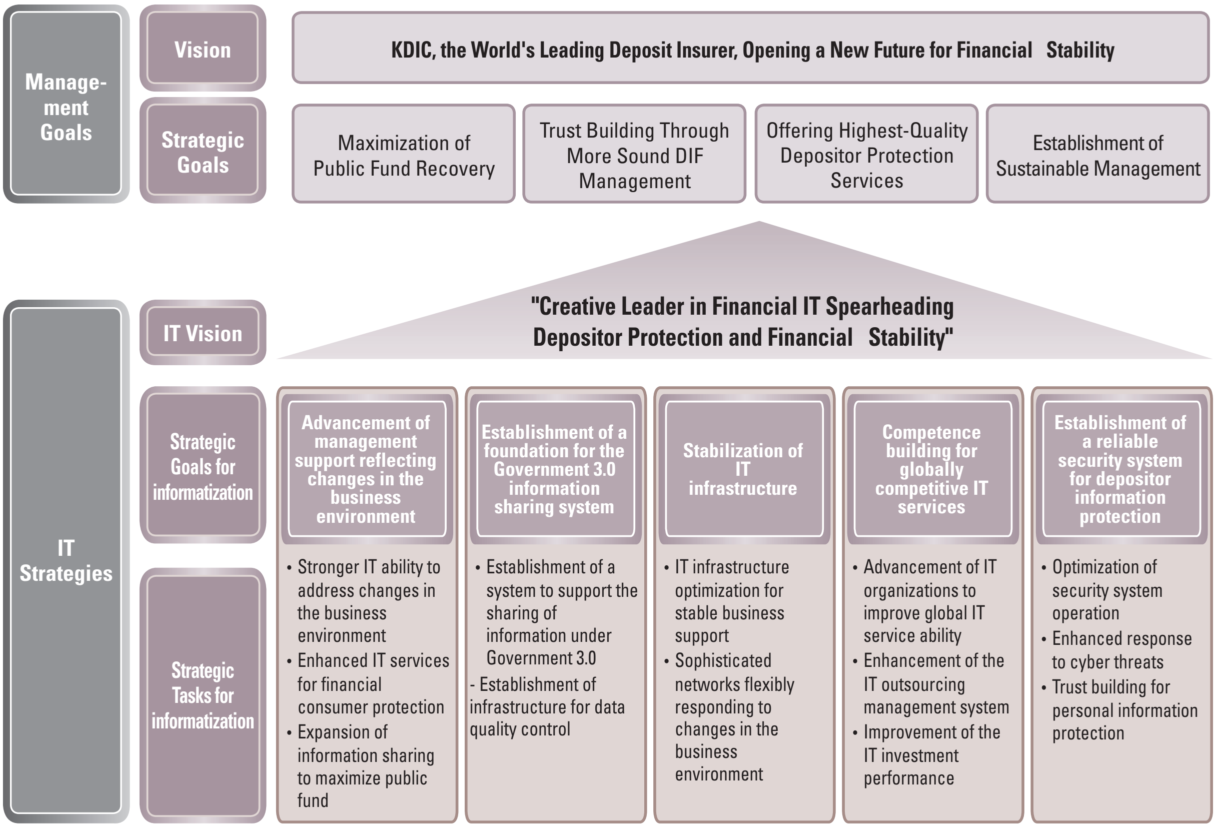
Progress in the Mid- to Long-Term Information Technology Plan

To facilitate execution of its business strategies, the KDIC, based on an extensive analysis of its internal and external environment, has adopted the Mid- to Long-Term Strategy for IT Advancement since 2014 to work on IT projects in an organized way.

In late 2013, it formulated the fourth 'Mid- to Long-Term Information Technology Plan' (2014-2016). Under the new IT vision of "Creative Leader in Financial IT Spearheading Depositor Protection and Financial Stability," it has been implementing IT projects in phases in accordance with five strategies and thirteen strategic tasks.

Figure Ⅱ - 4

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



In 2014, which marked the first phase of the fourth '*Mid- to Long-Term Information Technology Plan*', corresponding strategic tasks were undertaken.

To pursue "enhanced IT services for financial consumer protection," one of the strategic tasks under the strategic goal of "advancement of management support reflecting changes in the business environment," the KDIC improved the VOC (Voice of Customer) system for integrated management of civil petitions by external customers including depositors, which greatly enhanced customers' convenience. The KDIC also introduced the concept of the "team room" and overhauled its knowledge management system in such ways as establishing an in-house messenger system. This enhanced collaboration and communication among its employees.

To accomplish the goal of "establishing a foundation for the Government 3.0 information sharing system," the KDIC began building an original text disclosure system to make its approval documents fully available on the Internet according to the Government 3.0 initiative. The KDIC made every effort to complete the system in 2015. To flexibly cope with changes in the financial environment in Korea and abroad, the KDIC optimized its risk monitoring model for improved forecast capability, and it can now more effectively monitor the financial market on an on-going basis. It also revamped its mobile homepage, allowing depositors to easily access services available on the webpage by means of various media.

For the purpose of attaining the goal of "stabilizing IT infrastructure," the KDIC upgraded the functionality and capacity of its data storage devices and thus rendered its IT services far more stable. It intends to provide the most reliable IT services in Korea with dual network equipment.

Under the goal of "establishing a reliable security system for depositor information protection" designed to prevent recurrence of security incidents leading to information leakage, the KDIC successfully executed a pilot project for separating its business and Internet systems, laying a basis for full-scale network separation. After obtaining certification for its information security management system in 2013, it performed very well in a follow-up assessment, demonstrating consistency in its information security. It deployed additional security equipment and introduced a solution transforming physical data into virtual data at a testing stage. By dint of these efforts, the KDIC has managed to maintain a 'zero' security incident record since its establishment.

Table Ⅱ - 12

Detailed Action Plans for the Forth Phase (2014)

Strategic Goals	Detailed Action Plans (2014)	
Ⅰ. Advancement of management support reflecting changes in the business environment	• Adoption of a more advanced system for integrated civil matters management system for financial consumer protection	Nov. 2014
	• Improvement of a new knowledge management system to bolster internal business competences	May 2014
Ⅱ. Establishment of a foundation for the Government 3.0 information sharing system	• Revamping of the mobile webpage	Nov. 2014
	• Improvement of the risk monitoring model system	Nov. 2014
Ⅲ. Stabilization of IT infrastructure and establishment of a reliable security system	• Replacement of storage devices for stable operations	Oct. 2014
	• Separation of business/Internet networks on a pilot basis to prevent security incidents	Nov. 2014
	• Follow-up assessment of the information security management system	Oct. 2014
	• Implementation of additional security equipment to prevent hacking	Dec. 2014

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 various promotional campaigns to publicize its roles and values and improve the public's understanding of the deposit insurance system. It conducted public surveys, analyzed the effect of promotional media during the previous year to explore ways to improve its publicity efforts and launched a promotional campaign aimed directly at the financially underserved including people in their twenties, students, housewives and people in their fifties or older.

It produced promotional contents (newspaper and magazine advertisements, etc.) targeted at specific groups. It used ordinary people including housewives, office workers, and the elderly as models to familiarize the public with the depositor protection system and the KDIC. Newspaper and magazine advertisements were produced in the form of serial advertisements to provide essential information on the depositor protection system (for example, types of protected products and companies, and the coverage limit). It also adopted 'action-prompting' phrases (e.g. "Please Check Now," "Three Things You Must Know"), which induce the public to check important information.

It mainly used cable television and radio advertisements in consideration of their wide reach as well as budget constraints. It chose channels and programs that are most effective for publicity, taking into account viewing/listening rates and major viewers/listeners. 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 ineligibility of subordinated bonds for deposit insurance coverage. The KDIC worked hard to prevent good-faith financial investors from sustaining any damage.

It staged publicity campaigns targeting the least financially knowledgeable groups: college students, housewives, and the elderly. It hosted a contest among college students concerning promotion strategies and print advertisements to collect fresh opinions on its publicity drive. It established a group of housewife reporters who wrote and spread SNS articles from the perspective of homemakers, and it distributed promotional materials on the depositor protection system to elderly welfare centers around the country. By participating in money shows targeting primarily the elderly, it conducted on-site surveys on awareness of the depositor protection system and the KDIC, and performed one-on-one counseling.

Furthermore, it had SNS (blog, Twitter, and Facebook) reporters in operation and held SNS events all year round for communication with the public. Through constant communication with SNS users, it promoted public understanding of the depositor protection system and the KDIC. It also overhauled its mobile homepage to take advantage of the high utilization rate of mobile devices, which improved the convenience of the users visiting the homepage.

Table Ⅲ - 1

Image Ads to Raise Public Awareness of Deposit Insurance

TYPE	2012	2013	2014
Image Ads			

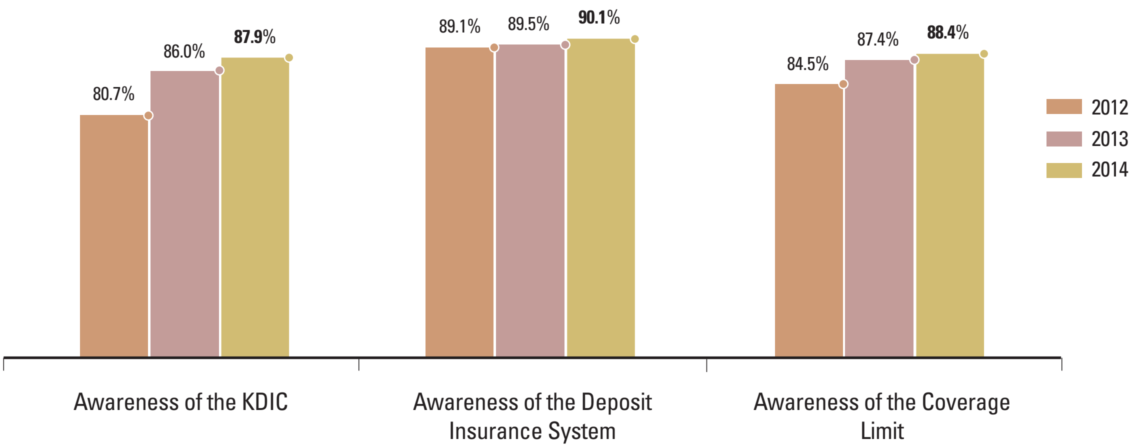
Awareness of the deposit insurance system

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 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 2014, 87.9% of the public is aware of the KDIC, an increase of 1.9%p from the previous year, and awareness of the deposit insurance system rose 0.6%p to 90.1%. Awareness of the deposit coverage limit was 88.4%, up 1.0%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 insurance and, if so, for how much. The KDIC is authorized to verify their compliance with such signage display requirements. Insured financial institutions must provide accurate information about the deposit insurance system so that financial consumers can make informed decisions when choosing financial products.

Table Ⅲ - 3

Inspection of Compliance with KDIC Signage Display Requirements

(Unit: No. of inspections and branches)

Description		2011	2012	2013	2014
On-site inspections		472	639	617	683
	No. of branches inspected per inspector	120.3	159.8	205.7	273.2
On-line inspections		-	-	-	1,683
Total		472	639	617	2,366

The KDIC examines insured financial institutions' compliance with the indication requirements in a non-imposing way in order to increase business efficiency through cooperation and communication. In 2014, the KDIC improved its inspection method regarding compliance with the indication requirements. It vigorously requested banks and mutual savings banks to file an online report regarding how compliant they are with the signage display requirements online. This dramatically pushed up the number of inspected branches. The KDIC re-designed the format for the register of protected financial products in an effort to enhance readability and accessibility of financial information and keep good-faith financial consumers from suffering from any damage.

The KDIC translated guides to the deposit insurance system into English, Chinese, Japanese, Filipino, Thai, Vietnamese, French, Arabic, Russian, and Spanish to offer accurate information on the system to foreign nationals with poor access to financial information and, thereby, to prevent any avoidable damage they could suffer. 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. It expanded the scope of its education to traditional market merchants in 2011, multicultural families in 2013, and middle and high school students in 2014.

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 2014, the KDIC held 270 education sessions for 21,470 elementary school students at schools nationwide.

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 make financial literacy education for the elderly much more organized. The KDIC offered 86 regular courses for 8,180 members in 2014. It also provided some senior welfare centers with necessary educational devices, including 23 laptop computers and 6 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 November 2011, the KDIC concluded an agreement with the Agency for Traditional Market Administration (currently the Small Enterprise and Market Service) 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 103 financial literacy education sessions for 41,320 merchants in 2014. It also supplied traditional markets with needed educational devices, including 20 sets of laptop computers and beam projectors, to improve their educational environment. Furthermore, it participated in various exhibitions hosted by the Small Enterprise and Market Service, 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 launched financial literacy education for multicultural families in 2013. It held 13 financial literacy education sessions for 367 persons in 2014. It also provided 24 laptops to facilitate learning by multicultural families and improve their educational conditions.

For the purpose of financial literacy education for middle and high school students, the KDIC registered itself with the Korea Foundation for the Advancement of Science and Creativity as an educational donator in February 2014. Then, it completed development of educational programs and textbooks in collaboration with the Korea Foundation for the Advancement of Science and Creativity and the Financial Education Council. In 2014, the KDIC hosted 162 financial literacy education sessions for 28,553 middle and high school students.

In 2014, the KDIC held 645 financial literacy education sessions for 102,354 financially underserved persons such as elementary school students, traditional market merchants, elderly persons, and self-supporting youths.

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. It drafted new textbooks for education specifically for targeted demographics. In addition to the seven existing textbooks (for market merchants, the elderly, beginnerand intermediary-level multicultural families, other ordinary people, and lower- and higher-grade elementary school students), it drafted three more textbooks in 2014 (for middle school students, high school students, and youth career education).

Table Ⅲ - 4

Financial Literacy Education in 2014

(As of Dec. 31, 2014, Unit: No. of people)

Category	Elementary School Students	Elderly	Traditional Market Merchant	Multicultural Families	Middle & High School Students	Teachers & Parents	Other Ordinary People	Total
No. of People	21,470	8,180	41,320	367	28,533	249	2,215	102,354

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
Enhanced guidance for debtors	Forwarding of loan balance statements to each debtor and posting of an official announcement regarding loan repayment on the KDIC webpage upon commencement of conservatorship	Prevention of damage to debtors by help them to avoid loan default
Guide on debt refinancing	Guide on debt refinancing options with lower interest rates including Haetsal (sunshine) Loans	Reduction in interest payments
Provision of guidelines on loan extension	Clarification of who are eligible for due date extension and conditions regarding loans coming due	Improvement in borrowers' repayment ability

For enhanced guidance to debtors, the KDIC sent loan balance statements to each debtor and publicly notified loan repayment methods on its webpage upon commencement of conservatorship. It provided information on low-interest loans available to low-income families including Haetsal (Sunshine) Loans to high-interest loan borrowers. By considering specific conditions of debtors, it provided 'guidelines on loan extension' for payment adjustments including due date extension.

Stable Deposit Insurance Payment and Improved Services

The KDIC recovered data on deposits which were customarily treated as miscellaneous revenues by financial institutions prior to completion of negative prescription and thus excluded from the targets of deposit insurance payments. It determined deposits eligible for deposit insurance payments and proactively provided necessary information to depositors to help protect depositors' interests and improve its deposit insurance services.

As part of such effort, it deployed its staff on-site for data validation and deposit insurance claims calculation. They selected 24,000 persons (KRW 2.7 billion) entitled to additional payment of deposit insurance claims from 27 savings banks. For such deposit insurance payments, the KDIC educated tellers at (payment) agent banks in advance and organized a complaint and inquiry unit to respond to depositors' inquiries.

For timely and effective guidance on deposit insurance payment, it acquired electronic data on resident registration from appropriate agencies and sent mail to corrected addresses when necessary. In the event of a depositor's death, the KDIC contacted his/her heir at an address provided by the Jung-gu Office in Seoul to offer advice on how to make a claim.

The KDIC also launched services allowing families of deceased depositors to check unclaimed deposits. A total of 65,000 customers used the services.

To enhance depositors' convenience, the KDIC posted a map showing the locations of 477 agent bank branches around the nation on its Internet and mobile homepage. It abolished the collection of a signed form to ensure that the KDIC is subrogated to the depositor's paid-off claims at the time of deposit insurance payment to minimize depositors' inconvenience.

Minimization of Financial Transaction Suspension Period

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

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

From the latter half of 2013, the KDIC resolved insolvent mutual savings banks by proactively searching for potential buyers and implementing 'third-party P&A during normal operations,' which does not require the use of a bridge bank. Thus, the KDIC has established a robust new resolution system that reduces not only depositors' inconveniences, but also its burden concerning the sale and management of bridge mutual savings banks, and greatly accelerates the restructuring of insolvent mutual savings banks. In 2014, Haesol Savings Bank was resolved through a 'P&A transaction with a third party during normal operations' without any disruption to financial services.

Table Ⅲ - 6

Resolution of MSB Failures that Occurred in 2014

Bank Name	Resolution Method	Date of Business Suspension	Date of Business Resumption	Business Suspension Period
Haesol	3rd-party P&A	2014. 5. 2	2014. 5. 7	2 days (next business day)

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 claims for deposits in excess of the coverage limit, from depositors upon their request, makes an estimate of the expected dividends from the bankruptcy estate's assets, and makes payment to depositors in advance on a pro-rata basis in exchange for their claims. This is intended to minimize depositors' financial hardship caused by a prolonged bankruptcy procedure.

As the amount of recoveries minus costs exceeded the amount of such advance payments, the KDIC additionally paid about KRW 29.7 billion to over 28,000 depositors at seven mutual savings banks in December 2014 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 creditors with uncollected dividends, the KDIC launched the '*Unclaimed Dividend Notification Campaign*' in August 2005.

The KDIC received the addresses of creditors with uncollected dividends by posting newspaper advertisements or with the help of the Ministry of Government Administration and Home Affairs, and requested bankruptcy estates to send dividend payment notifications to the updated addresses. Creditors can sign up for 'Unclaimed Dividend Notification Services' on the KDIC website where they can check online to see if there are any unpaid dividends they can claim.

IV

Advancement of the Deposit Insurance System

1. Improvement of the Deposit Insurance System
2. Research on Deposit Insurance Schemes
3. International Exchange and Cooperation

1. Improvement of the Deposit Insurance System

Revamping of Laws Applicable to the Deposit Insurance System

The KDIC was empowered to request information from the heads of appropriate agencies on assets of individuals deemed responsible for the failures or insolvency risks of financial institutions in order to claim compensation for damage against them. To enable performance of such affairs, regulations permitting the KDIC to request necessary information on individuals, such as spouses of insolvency-implicated persons, from the heads of relevant agencies were required as a precondition. Under these circumstances, the Depositor Protection Act was amended in March 2014 to allow the KDIC to request data on families of responsible persons from the heads of appropriate agencies. This laid the basis for proper compensation from implicated persons [(Article 21-3(1)]. The KDIC needed to consistently inquire into the liability of those who caused the recent financial failures, including insolvencies of mutual savings banks, and to uncover assets concealed by them in an increasingly cunning manner. Thus, it was granted an extension of the term of its authority to request provision of financial transaction information, which had been effective until March 23, 2014, for five years ending on March 23, 2019 (Article 2 of Addendum of Act No. 10691).

The KDIC previously lacked the authority to request the FSS to take corrective action when it conducted independent examinations and to confirm compliance with such action by insured financial institutions following its joint or independent examinations. This imposed limitations on its ability to discourage and prevent unlawful acts by examined insured financial institutions, such as mis-selling, and to protect good-faith investors. The Depositor Protection Act amended in May 2014 stipulates that the KDIC may request corrective action by the FSS Governor according to the findings of its independent and joint examinations and that the FSS Governor shall notify the KDIC of the results of such action and compliance by the institutions concerned. This prepared the ground for more efficient independent and joint examinations by the KDIC [Articles 21(6) and (8)]. Owing to changes in the economic environment, fines under laws in force increasingly lacked proportionality to illegal acts. To redress this situation, the revised Act provides for higher fines against the use of financial transaction information for any undesignated purpose, employees' divulgence of proprietary secrets acquired in the course of performing duties, financial institutions' refusal to submit requested data or their submission of false information, and rejection, obstruction, or avoidance of examinations (Articles 39-2, 40, and 41).

The KDIC protects reserves for DC (defined contribution) pension and IRP (individual retirement pension) plans invested in financial products eligible for deposit protection (bank deposits, interest rate sensitive or guaranteed interest insurance products, etc.) in accordance with the Guarantee of Workers' Retirement Benefits Act. However, in the event of a financial institution failure, if a depositor has other insured deposits with the institution in addition to such protected reserves, a combined deposit protection limit of KRW 50 million applies. This raises the need to improve the deposit protection limit system to afford stronger protection of retirement plan participants' right to receive benefits. The KDIC is pursuing amendment of the Enforcement Decree of the Depositor Protection Act so that a separate coverage will be applied to protected reserves of DC pension and IRP plans.

2. Research on Deposit Insurance Schemes

Research on Deposit Insurance Schemes and Financial Safety Nets

The KDIC is committed to applying best practices to its deposit insurance operations by studying more advanced deposit insurance schemes and supporting independent study and thesis programs.

Table Ⅳ- 1

Major Research Reports in 2014

Subject	Title
Deposit insurance schemes in major countries in line with changes in the financial environment	• Proposed improvement to the US Prompt Corrective Action in the wake of the global financial crisis and its implications • Major details of the EU Single Supervisory Mechanism and Single Resolution Mechanism establishment plan (draft) and its implications • Revision of the EU Deposit Guarantee Schemes Directive and its implications • Compensation scheme for financial consumers in the UK • The UK's overhaul of the financial investment instrument sale & advisory service business and its investor protection system • Major details of financial reform in China following the third plenary session of the 18th Central Committee of the Communist Party of China • China's plan to introduce a deposit insurance scheme • Public fund management by the Deposit Insurance Corporation of Japan
Study on financial and economic issues including the global financial crisis	• Cause and effect of, and policy response to, the financial crisis • International discussion on depositor preference following the global financial crisis and its implications • Major details of an improvement to the FSB's Key Attributes of Effective Resolution Regimes for Financial Institutions and its implications • Analysis of the potential threat of ETFs to financial stability • Global discussion on shadow banking and its implications • Financial inclusion and deposit insurance system

In the aftermath of the recent global financial crisis, major countries around the world have made multi-pronged efforts to rectify problems with their financial systems that became apparent in the process of combatting the crisis while seeking to improve their deposit insurance schemes. Industrialized nations including the US and EU members formulated new supervisory and regulatory schemes and established a resolution system for large financial institutions.

In an attempt to reform its resolution scheme and bolster the financial system, the KDIC ascertained the trends in major countries including the US, the UK, the EU, Japan and China. It conducted in-depth research into their implications for the Korean deposit insurance system and the ways to introduce related changes, based on a preliminary study on financial and economic issues.

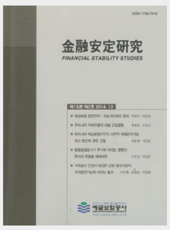
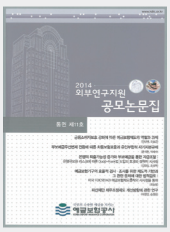
In the wake of the global financial crisis, there was growing demand for academic research on financial stabilization mechanisms such as deposit insurance and resolution of financial institutions. In response, the KDIC hosted symposiums with prominent foreign scholars and experts.

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-2

Major Publications in 2014

Title	Key Theses Published
Financial Stability Studies (Vol. 15; Issues 1 & 2) 	• International changes in financial institution resolution schemes and their implications • Research on the ways to improve the resolution scheme for large or highly complex institutions in Korea • Study on factors affecting recovery of PF loans extended by failed mutual savings banks • Analysis of systemic risk in the banking sector using the SRISK model: performance analysis by data frequency • Effect of having a credit rating on the price earnings ratio and volatility • Asset price dynamics of economic agents with dynamic herding behavior and bounded rationality • Study on deposit insurance literature: implications for institutional improvement • Herding behavior in lending by mutual savings banks in Korea • Insight into approaches to improve preemptive risk management by the deposit insurer in Korea • Impact of misappropriation disclosure on stock prices and trading patterns by type of investors • Impact of an increase in contract multipliers on the price discovery function of the KOSPI 200 options market
A Collection of Theses Submitted to a Contest for Research Funding 	• Roles and challenges of a deposit insurer in providing stronger financial consumer protection • Risk-based premiums and incentive-compatible capital adequacy requirements according to a shift to insured depositor preference • Increase in the possibility of exit of banks from the market and financing through insured deposits: effect of the introduction of the Dodd-Frank Act depending on the size and risk profile of banks and its policy implications • Institutional foundation for more efficient inspection/examinations by deposit insurers and a legal review of related issues: based on a review of the principles utilized by the US FDIC and the IADI for effective deposit insurance operations • Study on the ways to improve the debt restructuring system for bankruptcy estates

3. International Exchange and Cooperation

Stronger Global Leadership at International Organizations Including the IADI

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

The 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.

In February 2013, the IADI began the 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. The *Core Principles for Effective Deposit Insurance Systems* was finally revised in November 2014.

As a founding member of the IADI, a member of the IADI Executive Council, and the winner of the 2012 Deposit Insurance Organization of the Year Award, the KDIC has been playing a leading role in major projects initiated by the IADI. The KDIC resolved numerous failed financial institutions in the banking, insurance, securities, and mutual savings banking sectors in the process of tackling two financial crises. It, in the process, accumulated substantial know-how regarding resolution of insolvent financial institutions and successfully implemented the deposit insurance system. In recognition of such experience and capability, the IADI made KDIC Chair of the IADI Subcommittee on Integrated Protection Schemes. As part of its activities on the Subcommittee, the KDIC conducted a survey of deposit insurers around the world. It is expected to issue a finalized report in 2015.

The IADI also requested that the KDIC, which has extensive experience in purchase and assumption (P&A) transactions, to chair the Subcommittee on P&A. The KDIC has been serving as the Subcommittee's Chair since leading its launch.

Hosting of the 2014 IADI-KDIC International Seminar for Expertise Sharing on Deposit Insurance

From December 3 to 4, 2014, the KDIC and the IADI held the IADI-KDIC International Seminar for Expertise Sharing on Deposit Insurance.

The event was a great success. Over 60 participants were officials and high-ranking officers from financial safety net agencies in 22 countries including IADI Secretary General Ms. Gail Verley; Mr. Hiroyuki Obata, Chairman of the IADI Asia-Pacific Regional Committee and Deputy Governor of the Deposit Insurance Corporation of Japan; presidents of deposit insurers in Switzerland, the Philippines, Mongolia, Thailand, and Brunei; and officials of the Asian Development Bank (ADB) and US Agency for International Development (USAID).

The theme of the international seminar was 'Cross-border Cooperation for Capacity Building and Effective Delivery of Services.' It provided a forum for mutual learning in which the KDIC discussed ways to efficiently conduct knowledge sharing programs with participants who have expertise in the area.

The event brought together knowledge donors/recipients and international organizations for the first time at the IADI level. It was an opportunity for the KDIC to publicize its achievements in knowledge sharing, and it indeed confirmed itself as a leader in knowledge sharing in the international community.

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 information exchange for the development of deposit insurance schemes and to expedite consultation concerning current issues. An MOU enables the KDIC to avoid one-time 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 2014, it concluded new MOUs with the deposit insurers of the UK, the Philippines, Mongolia, Albania and Laos and renewed MOUs with the deposit insurers of Taiwan and Nepal.

On March 31, 2014, the KDIC entered into an MOU with the Financial Services Compensation Scheme (FSCS) of the UK. The MOU was designed to formalize and upgrade friendly ties between the two organizations which had been maintained since their exchange of an informal letter of understanding in 2006 for promotion of relations. At the MOU signing ceremony, the KDIC said that the UK's measures to reform its financial system and reinforce its deposit insurance scheme following the global financial crisis had significant implications for Korea. Conclusion of the MOU is expected to allow the KDIC to strengthen its global network of financial cooperation and benchmark foreign best practices.

As part of the 'Global-KDIC KSP,' the KDIC signed MOUs with the Philippine Deposit Insurance Corporation (July 23, 2014), Deposit Insurance Corporation of Mongolia (August 13, 2014), Albanian Deposit Insurance Agency (December 2, 2014) and the Laos Depositor Protection Fund (December 2, 2014). The MOUs set forth various mutual cooperation tasks such as regular meetings, provision of policy advice and information, and personnel exchange. The KDIC effectively overcame two financial crises and will continuously share its knowledge and experience with foreign depositors to support the promotion of more advanced practices.

On March 11, 2014, the KDIC also renewed its MOU with the Central Deposit Insurance Corporation of Taiwan that it initially signed in 2003, and on December 2, 2014, it renewed its MOU with the Nepalese Deposit and Credit Guarantee Corporation originally concluded in 2011.

In March 2014, the KDIC dispatched staff to Tanzania for six months upon request from the Tanzanian Deposit Insurance Board. In August 2014, it sent staff to Mongolia for a year at the request of the Deposit Insurance Corporation of Mongolia. In October 2014, it hosted a workshop for sharing of experience in deposit insurance payments, IT system operation, and resolution of insolvent financial institutions at the request of the Malaysia Deposit Insurance Corporation. In December 2014, the KDIC received two employees of the Deposit Insurance Corporation of Japan in accordance with the MOU between the two organizations in order to learn about the deposit insurance scheme, investigations against the directors and officers of failed financial institutions, and recent resolution cases in Japan and to 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 that intend to introduce or advance their deposit insurance system.

In 2014, the KDIC hosted customized international workshops and training sessions to share its knowledge and experience in deposit insurance with aspiring participants. In February, the KDIC, at the request of the Laos Depositor Protection Fund, held a local seminar for employees of the country's central bank to present its experience in deposit insurance. In March, it invited employees of the Vietnamese government and financial authorities to explain its functions and deposit insurance system, outstanding issues, and methods to address them. In May, it introduced its experience in resolution of failed financial institutions, recovery of claims, and risk management, which it had gained in the course of tiding over two financial crises and restructuring failed savings banks, to thirteen employees of the deposit insurers from seven countries: Japan, Taiwan, Laos, Mongolia, Ukraine, Thailand, and Turkey. In June, it attended the Korea-Myanmar Financial Forum to expound on the role of the deposit insurance system in enhancing confidence in the banking industry. In October, a delegation from Honduras, including the President of the National Commission on Banking and Insurance, visited the KDIC. In November, employees of state-owned Myanmar Insurance Business Supervisory Board and officers of the Myanmar Ministry of Finance visited the KDIC for sharing of experience in deposit insurance.

Table Ⅳ-3

Exchange with Foreign Deposit Insurers in 2014

Country	Audience	Month	Description
Laos	Depositor Protection Fund, central bank	Feb.	· Local seminar for employees of the Laos Depositor Protection Fund and central bank
Vietnam	Government, financial authorities	Mar.	· Visit to the KDIC by employees of the Vietnamese government and financial authorities
Japan, Taiwan, Laos, Mongolia, Ukraine, Thailand, Turkey	Deposit insurers	May	· Implementation of the KDIC Staff Invitation Program
Myanmar	Ministry of Finance, central bank	Jun.	· Attendance at the Korea-Myanmar Financial Forum
Honduras	National Commission on Banking and Insurance, central bank	Oct.	· Visit to the KDIC by a Honduras delegation
Myanmar	Myanmar Insurance, Ministry of Finance	Nov.	· Training for the visiting employees of the Myanmar Insurance Business Supervisory Board
Philippines, Tanzania	Deposit insurers	Jul.-Dec.	· Consulting for IT system improvement (IT support for deposit reimbursement)

The KDIC linked the Korean government's *KSP* with its *Global-KDIC KSP*. In the past, the KDIC focused its Global-KDIC KSP on providing policy advice on enactment of laws and introduction of systems for deposit insurance. In 2014, it expanded the scope of its assistance to implementation of IT systems for deposit insurance operations. To gain more timely and market relevant knowledge, the KDIC collaborated with private IT firms in KSP projects consulting for Tanzania and the Philippines.

V

Risk Management

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

1. Independent and Joint Examinations

Enhancement of Risk Surveillance

Reinforcement of the Basis for Risk Surveillance

The KDIC monitors and forecasts the volatilities 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.

To maintain the integrity of its risk surveillance models, the KDIC has consistently adjusted the thresholds and weights for indicators used to assess different financial sector institutions. In 2014, it incorporated in the models those changes in the domestic and overseas financial markets such as introduction of international accounting standards, adoption of the Basel Ⅲ and the risk-based capital (RBC) rule, and changes in regulatory ratios for major financial sectors including the new net capital ratio (NCR). The KDIC sought to improve the integrity and explanatory power of the models across the board in close cooperation with independent agencies. It extended the time period of data collection and applied significance tests to more indicators, including the IMF's financial soundness indicators and the indicators used in its differential premium assessment model. The KDIC also tried to increase the use of risk surveillance models based on improved user convenience by ensuring better interpretation of findings and by adding the functions to input data in batches and to conduct a comparative review of insured financial institutions.

The KDIC simultaneously retained a consulting agency to recommend stress test methodologies for the early detection of signs of financial distress. The consultants, together with KDIC staff members, studied many different stress test methodologies and analyzed the strengths and weaknesses of each one. The consultants finally recommended that the KDIC use the IMF's balance sheet-based stress test model. Based on this methodology, the KDIC is devising an integrated stress test model to more effectively discover aborning signs of financial distress.

The KDIC agreed with the FSS to constantly share information in order to monitor lending by mutual savings banks subject to its independent or joint examinations. The FSS provided the KDIC with quality data, precluding the need for those mutual savings banks to submit information to both the FSS and the KDIC and increasing the effectiveness of independent and joint examinations.

In September 2009, the organizations concerned including the KDIC, FSS, and the Bank of Korea signed an MOU on sharing of financial information to facilitate cooperation and expedite sharing of information. In 2014, they increased the scope of information to be shared, greatly minimizing the burden on financial institutions arising from overlaps in business report submission. They also solidified cooperation among the entities involved in macro-prudential supervision.

Strengthening of Risk Surveillance Capabilities

The KDIC is improving its risk surveillance capabilities and the quality of analysis reports in a number of respects. It invited experts from appropriate local institutions and credit rating agencies to give training in an effort to enhance its employees' ability to analyze the macroeconomic environment and assess risks. To ensure effective joint examinations, it hosted in-house workshops, too.

It also conducted an internal user education session in the first and second half of 2014 respectively to improve trainees' ability to utilize the *Financial Information Analysis System* (FIAS), *Examination/Inspection MOU Management System* (EIMS), and risk surveillance model. 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. It monitored risk factors on an ongoing basis by actively using external financial information services specialized in each financial sector.

For the purpose of establishing a process that accurately assesses examination capacity and increases professionalism concerning mutual savings banks in particular, 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 which received an examination(s) were implemented to gauge their reaction to examination processes and results. The assessment score was 91.4, which implies a very high level of satisfaction.

Experts from academia, financial industry, and financial supervisory authorities, who attended the December 2014 workshop on development of mutual savings bank examination to explore the direction of such examination, noted that the KDIC possessed excellent examination ability.

On-Site Verification Including Independent and Joint Examinations

On-Site Risk Verification

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

In 2014, it performed joint examinations with the FSS of nine insured financial institutions including banks, insurance companies, securities companies. and mutual savings banks. In preparation, the KDIC implemented a thorough preliminary analysis to enable substantive joint examinations. With respect to any matters requiring corrective action based on joint examination findings, it gave notice to the FSS for their rectification. In collaboration with the entities involved in joint examinations such as the FSS and the Bank of Korea, it hosted workshops to promote mutual understanding and cooperation regarding joint examinations.

Pursuant to the standards stipulated in the Enforcement Decree of the Depositor Protection Act, the KDIC launched timely independent examinations of mutual savings banks. Since any overlap between the FSS examinations 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. Among the mutual savings banks meeting the criteria for the declaration of "at risk of insolvency" under the Enforcement Decree of the Depositor Protection Act, the KDIC selected targets for independent examinations excluding those subject to joint examinations, resolution procedures such as market sale, and examinations by the FSS. Through ongoing consultation with the FSS, it implemented independent examinations according to a well-coordinated plan.

In 2014, the KDIC collected written data from 17 mutual savings banks designated for independent 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 requested financial supervisory authorities to take appropriate action.

The KDIC closely listened to opinions of the managements of mutual savings banks and duly considered them when addressing issues it had noted. 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.

Institutional Improvement for More Effective Independent and Joint Examinations

The Depositor Protection Act amended in May 2014 empowers the KDIC to request corrective action according to its independent examination findings. Under the revised Act, the FSS must notify the KDIC of its measures, based on the KDIC's independent and joint examination findings and subsequent requests for corrective action, as well as compliance by insured financial institutions.

Table Ⅴ- 1

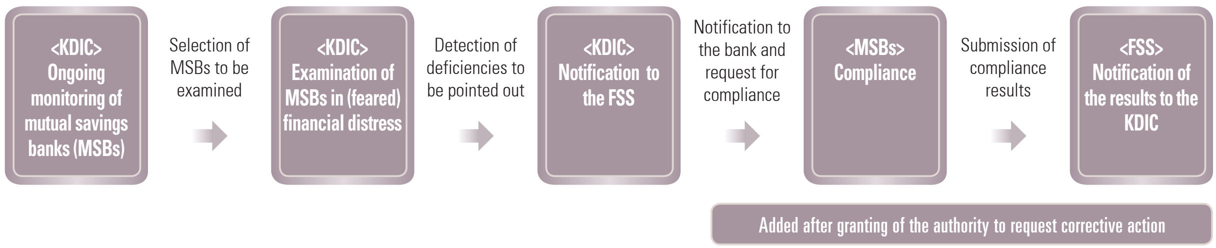
Amendment of the Depositor Protection Act

Act	Newly Inserted Provision
Depositor Protection Act	Article 21 Request to Insured Financial Institutions for Submission of Data (6) The Corporation may, as a result of investigations under paragraph (2), ask the Financial Supervisory Service Governor to take necessary corrective action against such insured financial institution and the financial holding company which has such insured financial institution as its subsidiary, etc. under the Financial Holding Companies Act. In this case, the Financial Supervisory Service Governor shall comply with such request, unless there are special reasons to the contrary, and deliver notice of corrective action taken and compliance activities by the applicable institution to the Corporation. *<Newly Inserted by Act No. 12714, May 28, 2014>* (8) The Corporation may ask the Financial Supervisory Service Governor to deliver a copy of the report of an investigation under paragraph (3), or to take necessary corrective action against the concerned insured financial institution and the financial holding company which has such insured financial institution as its subsidiary, etc. under the Financial Holding Companies Act based on the investigation results. In this case, the Financial Supervisory Service Governor shall comply with such request and deliver notice of correction action taken and compliance activities taken by the applicable institution to the Corporation. *<Newly Inserted, May 28, 2014>*

Following amendment of the Depositor Protection Act, the KDIC issued 120 requests for corrective action to the FSS regarding 17 insured financial institutions. As this mechanism ensures compliance with the KDIC's requests to redress issues identified through its independent examinations, its independent and joint examinations will become more effective and sound management of mutual savings banks will be promoted.

Table Ⅴ-2

Change in Examination Work Flow After Granting of the Authority to Request Corrective Action



In July 2014, the KDIC and the FSS modified the MOU on Joint Examinations of Financial Institutions based on deliberation by the Financial Supervisory Policy Council. The examination cycle for large or financial group-affiliated mutual savings banks was lengthened and the burden on examined insured financial institutions was dramatically reduced with the KDIC and the FSS conducting joint examinations under a unified examination system. During joint examinations in 2014, the KDIC examined the status of lending by dividing the workload with the FSS to make their joint examination scheme more efficient. Concerning matters requiring urgent corrective action, the KDIC now may request the FSS to separately send a notice to insured financial institutions even before punitive measures by the FSS are finalized. This renders their joint examinations far more effective.

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.

As restructuring of mutual savings banks launched in 2011 was drawing to an end, there is less need to convene the Ongoing Surveillance Council at regular intervals. Accordingly, applicable regulations were revised in 2014 to allow written deliberation in case an insurance event is unlikely, which streamlined the Council's operation. In 2014, the Council reviewed 22 agenda items, accelerating extensive opinion exchange and information sharing among the departments concerned. At the end of the year, the KDIC awarded prizes to the proposers of three outstanding agenda items.

Market-friendly Risk Surveillance

Stepped-Up Exchange with Market Experts

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

The year 2014 marked the tenth anniversary of its publication. The KDIC published a special issue containing more contributions by external experts. In its winter issue, the magazine carried extra articles by the KDIC's own research staff to promote professionalism and raise reader satisfaction.

Table V - 3

Main Contents of Financial Risk Review in 2014

Issue	Main Contents
Spring 2014	• Cause of banking incidents and methods to improve internal control • Global discussions on regulation related to shadow banking
Summer 2014	• Designation of D-SIB and discussions on the direction of financial regulation • Recent asset management by non-life insurance companies
Autumn 2014	• Study on risk management concerning governance of financial companies • Introduction of contingent convertible bonds and analysis of actual cases
Winter 2014	• Ownership/governance of mutual savings banks and their management performance • Adoption of the risk-based premium system for deposit insurance and stability of financial markets

In 2014, the KDIC hosted the Cheonggye Financial Forum ten 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 speakers at Ongoing Surveillance Forum meetings, which were held four times in 2014. During the forums, the attendees shared practical financial knowledge including risk management techniques.

Since 2011, the KDIC has sought to collect opinions of financial experts in academia and have more constant communication with college students. As part of the efforts, it operates the KDIC Exchange Program with the Finance Academy (KEPA), which consists of field training of college students, KDIC staff's special lectures at universities, and lectures by academic experts. A total of 27 sessions were conducted by the end of 2014. The KDIC intends to consistently pursue the program to publicize its deposit insurance system and ensure efficient communication with academia. The KDIC will rectify any shortcomings in the program and consider others' opinions on its improvement.

Strengthened Exchange with Insured Financial Institutions

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

The KDIC held a workshop for the CEOs and risk management officers of mutual savings banks. At 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 sector 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 provided 16 educational assistance sessions in 2014, for both its benefit and that of the mutual savings banks.

The KDIC will continue to improve its market-friendly risk surveillance efforts by, for example, providing consultation and information, along with examinations and inspections.

2. Successful Implementation of the Risk-Based Premium System

Significance and Overview of the Risk-Based Premium System

The risk-based (or differential) premium system applies different premium rates to insured financial institutions in consideration of their managerial and financial conditions in order to reduce moral hazard and induce sound management. The KDIC strove to introduce the system and thus Article 30(1) of the Depositor Protection Act was amended in February 2009. Accordingly, the system must be applied to all insured financial institutions, beginning from 2014.

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 imposed by financial authorities.

Table Ⅴ-4

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 the relevant grade
Assessment Based on a Specifically-assigned Rate	Companies paying a small amount of premiums, etc.	No risk assessment needed	Rates predetermined in the regulations
Non-grade Assessment	Failed financial institutions, companies subject to a business improvement order including prompt corrective action restrictions	No risk assessment needed	Rates predetermined in the regulations which are higher to compensate for risk

To minimize the impact of the risk-based premium system on insured financial institutions, the KDIC designated 2014 to 2016 as a so-called soft landing period and decided to gradually increase premium rate differentiation in phases.

Table Ⅴ- 5

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

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

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

Differential Assessment of Insured Financial Institutions

In 2014, the KDIC implemented differential assessment of 314 insured financial institutions for the first time. Although the risk-based premium system was put in place for the first time in 2014, no single objection was raised against the differential assessment results, which testifies to the fact that risk-based premiums were calculated fairly and accurately. Such outcome was possible due to the KDIC's ceaseless efforts to raise awareness of the system and guarantee the accuracy of the differential assessment results, including holding presentations on the system for insured financial institutions. The KDIC also steadfastly improved the Risk-Based Premium System (RBPS) towards that end.

Table Ⅴ- 6

Presentations Held for Each Financial Sector

Financial Sector	Bank	Life Insurance	Non-life Insurance	Financial Investment	Mutual Savings Bank	Total
No.	8	1	1	1	6	17

Ongoing Improvement of the Risk-Based Premium System and Reflection of Opinions

In April and May 2014, the KDIC revised the ‘Regulations on Operation of the Risk-Based Premium System’ and their detailed enforcement rules so as to expand the scope of information classified confidential under the system and ensure greater fairness in premium assessment. More specifically, all insured financial institutions that acquired failed financial institutions were subject to a specifically assigned rate (grade 2), not a premium rate (grade 3), or to model-based assessment (grade 1 depending on assessment findings) for three years following their acquisitions. Model-based assessment was even applicable to newly established insured financial institutions.

The KDIC formulated the Internal Control Checklist Management Plan in May 2014 to prevent a possible leakage of differential assessment criteria and results that may affect the credit standing of insured financial institutions. In compliance with the plan, it independently examined implementation of internal control procedures on a semi-annual basis. Such inspections did not reveal any violation, which indicates that its autonomous internal control system is functioning properly.

To improve the accuracy and objectivity of differential assessment, the KDIC developed operational criteria regarding how to verify the assessment results in August and November 2014. It also formulated the 'Guidelines on Verification of Differential Assessment Results of Insured Financial Institutions' in December 2014. It pursues institutional improvement for stabilization of the risk-based premium system by cross-validating differential assessment findings.

The KDIC implements a survey on overall awareness of the risk-based premium system. Working-level officers of insured financial institutions are surveyed to gauge their awareness and acceptance of the system and evaluate the KDIC's effectiveness in execution of the system. Survey results are used to improve the system. The survey indicated that there was a general improvement in awareness of the system among insured financial institutions, their determination to maintain sound management, and the KDIC's efforts.

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.

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

MOU Conclusion and Examination of MOU Implementation

Since 1999, the KDIC has entered into MOUs with 14 public fund recipients and monitored their compliance with business normalization requirements in the MOUs in order to increase their corporate value and recover public funds injected into them as early as possible. Beginning from April 2002, 11 MOUs signed with financial institutions, including one with Jeju Bank, were terminated when these institutions were sold or merged with another healthy financial institution (Kwangju and Kyongnam Bank on October 10, 2014 and Woori Financial Group on November 3, 2014). As of the end of 2014, the MOUs with Woori Bank, credit business unit of the National Federation of Fisheries Cooperatives, and Seoul Guarantee Insurance were under the KDIC's management.

After a review of performance under the MOUs during the period from the fourth quarter of 2013 to the third quarter of 2014, the KDIC found that Woori Financial Group, Kwangju Bank, Kyongnam Bank had partly failed to attain the targeted financial ratios for 2013.

In response to the failure of certain financial institutions to meet some of the financial targets for 2013, the KDIC took appropriate measures pursuant to its MOU Management Rules. It demanded group-wide profitability enhancement, cost cutting, and asset quality improvement to Woori Financial Group and required Woori Bank to improve profitability and asset quality by reducing bad debt expenses. The KDIC exempted Kwangju Bank and Kyongnam Bank from measures against such failure given that these MOU signatories had recorded satisfactory financial ratios across the board with a few minor exceptions.

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.

Table V - 7

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

(As of Dec. 31, 2014)

<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
2014. 3.25</td><td rowspan="4">2004. 9.22
2007.12.26
2010. 3.23</td><td>Nov. 3, 2014
(Merged with Woori Bank)</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>Oct. 10, 2014
(Sold to JB Financial Group)</td></tr>
<tr><td>Kyongnam Bank</td><td>2000.12.30</td><td>Oct. 10, 2014
(Sold to BS Financial Group)</td></tr>
<tr><td>Credit business unit 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
2014. 3.25</td><td>2003. 2.12
2003. 7. 9
2005.12.21
2007.12.26
2010. 3.23</td><td>-</td></tr>
<tr><td>Seoul Guarantee Insurance Corporation</td><td>2000. 4.12[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>Daetoo 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).

Improvement in MOU Management Efficiency

Setting of Reasonable Targets for MOUs

The KDIC applied a better method of goal setting for MOUs according to its 2010-2011 MOU Management Improvement Plan. The financial and non-financial targets for 2014 were set using this method. In particular, among the factors taken into consideration in adjusting the targets were: a reduction in net interest margin of the banking industry arising from low growth and interest rates; and a financial effect of the drive to privatize Woori Financial Group.

Consultation with the Executives of Financial Institutions with an MOU with the KDIC

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

Following 2013, the KDIC held a consolidated working-level workshop for personnel in charge of carrying out MOU-related affairs in December 2014. It sought to share information and improve understanding between itself and the financial institutions to raise the quality and efficiency of MOU management.

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 Special Assets of Insolvent Financial Institutions

1. Receivership of Insolvent Financial Institutions

Insolvent Financial Institutions in KDIC Receivership

Many insolvent mutual savings banks were placed into restructuring simultaneously in 2011. The restructuring of some of them continued into 2013 and 2014. In 2014, one mutual savings bank and one financial investment company were suspended from business. The KDIC was appointed as receiver. All insolvent financial institutions suspended in 2014 were resolved through P&A transactions, and the KDIC is now serving as trustee of the assets excluded from the P&A transaction.

All of the six mutual savings banks suspended in 2013 were declared bankrupt by courts, which led to the establishment of their bankruptcy estates. Out of two insolvent financial institutions suspended in 2014, Haesol Savings Bank was declared bankrupt by a court in 2014 and its bankruptcy estate was subsequently set up. The KDIC dispatched an administrator and an assistant administrator to Hanmag Securities, suspended in January 2014. Investors' assets deposited with Hanmag Securities were transferred under a P&A scheme, and its bankruptcy estate is to be set up in 2015.

Table Ⅵ - 1

Receivership of Insolvent Financial Institutions Since 2013

Bank Name	Date of Biz Suspension	Current Status (Acquirer)	Date of P&A	Date of Bankruptcy Declaration
Seoul	Feb. 15, 2013	Bridge bank P&A (Yeju Savings Bank)	Feb. 15, 2013	Sep. 26, 2013
Youngnam	Feb. 15, 2013	Bridge bank P&A (Yesol Savings Bank)	Feb. 15, 2013	Sep. 26, 2013
Shilla	Apr. 12, 2013	Bridge bank P&A (Yeshin Savings Bank)	Apr. 12, 2013	Oct. 29, 2013
Green Non-Life Insurance	May 3, 2013	3rd-party P&A (MG Non-Life Insurance)	May 3, 2013	Nov. 1, 2013
Smile*	Nov. 1, 2013	Bridge bank P&A (OSB Savings Bank)	Nov. 1, 2013	-
Hanul	Dec. 27, 2013	Bridge bank P&A (Pepper Savings Bank)	Dec. 27, 2013	-
Haesol Savings Bank	May 2, 2014	3rd-party P&A (Welcome Savings Bank)	May 2, 2014	Oct. 21, 2014
Hanmag Securities	Jan. 15, 2014	P&A of assets deposited by investors (IM Investment & Securities)	Dec. 26, 2014	-

Systematic Receivership of Insolvent Financial Institutions

The KDIC's dispatch of staff and provision of business support ensures orderliness in the receivership of failed financial institutions.

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

The KDIC sent 2 administrators and 14 assistant administrators to two insolvent financial institutions suspended in 2014, according to its staffing standards based on the amount of assets and the number of branches of suspended mutual savings banks. Among them were three part-time examiners. Most of part-time examiners engaged by the KDIC are retired financial experts who had long careers at the KDIC or commercial banks and have substantial experience in the banking business including deposit taking and lending.

Table Ⅵ - 2

Number of Staff Dispatched to Each MSB Suspended in 2014

(As of Dec. 31, 2014, Unit : No. of persons)

Name of MSB	No. of KDIC Employees	No. of Examiners Hired on a Contract Basis	Total
Haesol Savings Bank	10	3	13
Hanmag Securities	3	-	3
Total (Two)	13	3	16

To minimize damage to customers resulting from suspension of insured financial institutions, the KDIC has analyzed customer complaints received while restructuring mutual savings banks and implemented improvement measures. The KDIC has maintained a customer response unit dedicated to handling customer complaints since 2014 to address the huge inevitable influx of telephone inquiries immediately following suspension of a mutual savings bank. It helped alleviate customers' concerns about being unable to connect with bank employees by telephone and prevented situations that would cause them to complain.

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

Prompt Resolution of Insolvent Mutual Savings Banks

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

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

The KDIC pursued the same arrangement for Haesol Savings Bank, declared insolvent in October 2013. For Haesol Savings Bank, a P&A transaction with Welcome Creditline Corp. was completed in May 2014. For resolution of Golden Bridge Savings Bank, which fell into insolvency in August 2014, the KDIC chose Choeun Savings Bank as its preferred bidder. Its resolution is underway following conclusion of a P&A agreement.

Table Ⅵ - 3

Resolution of MSB Failures that Occurred in 2014
(P&A with a third party in the course of normal operations)

Name of MSB	Date of Declaration of Insolvency	Date of P&A (=Date of Business Suspension)	Acquiring Institution
Haesol	Oct. 10, 2013	May 2, 2014	Welcome Savings Bank
Golden Bridge	Aug. 27, 2014	-	Selection of a preferred bidder

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

The IADI requested that the KDIC, which has extensive experience in resolution through P&A, to chair the Subcommittee. The KDIC has been serving as the Subcommittee's Chair since leading its launch.

Efficient Sale of Bridge Mutual Savings Banks

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. The situation is the same with bridge mutual savings banks used by the KDIC in resolving failed savings banks. In response, the KDIC has taken steps to increase interest in them.

It held investor seminars to market bridge banks to potential acquirers, increasing their interest. The seminars offered information on the status and investment merits of each bank. Yenarae Savings Bank realized structural income as a result of the KDIC's effort to promote management efficiency of bridge banks, and the KDIC allowed the bank to reduce its capital stock by payment in cash to 20% of the BIS capital adequacy ratio. Reducing its net worth this way eased the financial burden of its potential acquirer. In the event an acquirer fails to obtain approval from the Financial Services Commission, the KDIC clearly limited the reasons for down payment forfeiture to non-satisfaction of majority stockholder eligibility requirements under applicable laws and rejection of the financial supervisory authorities' request to submit d ata. This reduced the risks associated with down payment. One of the institutional improvements to promote sale of bridge banks that the KDIC made was to ensure that investors who signed a confidentiality agreement would be provided with a prospectus in advance even before their submission of a letter of intent to facilitate their due diligence on the banks for sale.

By such proactive endeavors, the KDIC in March to July 2014 managed to sell all of its stakes in five bridge banks that it had held as of the end of 2013: Yes, Yenarae, Yesung, Yeju, and Yeshin. This practically brought to an end its major drive to restructure mutual savings banks begun in 2011. Fund recovery through their sale also helped to reduce the debts of the DIF, created in the course of resolving insolvent mutual savings banks.

Table Ⅵ - 4

Sale of Bridge Banks in 2014

Bridge Bank	Establishment	Date of Sale	Acquirer
Yes	Mar. 19, 2009	Mar. 7, 2014	Samho Industry
Yenarae	Mar. 19, 2010	Jul. 3, 2014	Apro Service Group (98%), A&P Financial (2%)
Yesung	Dec. 21, 2012	Apr. 21, 2014	Korea Investment Holdings
Yeju	Feb. 6, 2013	Jul. 3, 2014	Apro Service Group (98%), A&P Financial (2%)
Yeshin	Feb. 6, 2013	Apr. 30, 2014	Welcome Creditline Corp.

3. Management of Special Assets of Insolvent Financial Institutions

Status of Special Assets

Overview

Since 2011, financial authorities have suspended many mutual savings banks from operation including those affiliated with Busan Bank owing to deteriorating business conditions resulting from the prolonged slowdown in the real estate market, among other things. Many of the assets of these insolvent mutual savings banks were classified as special assets. As of the end of 2014, the KDIC was managing a total of KRW 12,856.4 billion in special assets, based on the amount of loans.

Special assets are those acquired through illegal means by, for example, establishing an SPC (special purpose company) under a borrowed name by persons closely related to a bank such as stockholders, granting of loans by the bank to such persons, and implementing a large-scale construction project such as apartment construction in Korea or abroad. Thus, there are numerous legal disputes among the interested parties concerning such assets, which can be extremely varied, 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. As of the end of 2014, the department was expanded to two departments (Departments of Recovery and Collection I and II).

Table Ⅵ - 5

Loans Related to Special Assets by Type

(As of Dec. 31, 2014, Unit: KRW 1 billion)

Loans			Investments[1] (Value, B)	Total (A+B)
Project Type	Number of Project Sites	Amount(A)		
Apartments, etc.	312	6,216.6	244.5	12,856.4
Resorts, etc.	104	2,049.6		
Golf Clubs	17	1,045.3		
Distribution Centers, etc.	75	936.6		
Ship Investments	3	320.6		
Overseas Construction	10	494.8		
Other (Mausoleums, etc,)	25	939.0		
General Loans	30	609.4		
Total	576	12,611.9	244.5	12,856.4

Note : 1) The number of investments is 12.

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 loan underwriting 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 needs to be done to efficiently manage them.

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

Table Ⅵ - 6

Management of Special Assets by Type

Special assets	Assets purchased with PF loans (apartments, resorts, golf clubs, and ships), artworks, foreign vehicles

Asset Typ	General PF Loans	Golf Clubs	Ships	Artworks	Foreign Vehicles
How They Are Managed	Individually	Focused/ consolidated	Focused/ consolidated	Focused/ consolidated	Focused/ consolidated

Ensuring Maximum Recovery of Special Assets

Recovery Management System

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

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

Table Ⅵ - 7

Four-Phase Special Asset Recovery Process

Pursuit of Sale Immediately After Business Suspension			
Phase 1 (Preservation Measures)	Phase 2 (Strategy development)	Phase 3 (Sale)	Phase 4 (Ex-post management)
Status of business is examined and measures for preservation of creditor claims are taken.	Plans for asset recovery and sale are developed.	Recovery procedures including sale are performed.	Ex-post management after sale is performed.

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

The KDIC set up the 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.

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

Table Ⅵ - 8

Types and Sale Procedures of Special Assets

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

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

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

Table Ⅵ - 9

Types of Outside Experts Retained by the KDIC for Asset

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

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

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

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

Recovery Performance

The KDIC strived to maximize recovery by using its special asset recovery management system. In 2014, it collected a total of KRW 1,839.4 billion in loans through sale of core assets including project sites, disposition of shares and other equity, 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 - 10

Recovery Performance by Type

(As of 31 Dec. 2014, Unit: 1 billion won)

Type	Business	Recovery Performance
Sale of Business Lot	Apartment complex in Pyeongnae District, Namyangju, Gyeonggi-do, etc.	147.1
Sale of Buildings	Mixed-use shopping center in Bucheon, Gyeonggi-do, etc.	919.8
Sale of Other Real Estate	Development project in Shinan-gun, Jeollanam-do, etc.	88.7
Sale of Ships	Foreign ships, etc.	130.0
Sale of Stock	Shares in CNK International, etc.	92.2
Sale of Tangible Assets	Artworks, foreign-made cars, machinery & equipment	15.0
Repayment including Voluntary Payment	Loans related to JAU Tour, etc.	132.1
Rental Fee Income	Charterage, building rental fees, etc.	52.8
Other	Sale of business rights, etc.	261.7
Total		1,839.4

VII

Management of Bankruptcy Estates and Acquired Assets

1. Management of Bankruptcy Estates

2. Management of Assets Acquired from Insolvent Financial Institutions

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 the said article, any KDIC staff "appointed as liquidator or bankruptcy trustee shall not be subject to 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 49 bankruptcy estates of insured financial institutions nationwide, either as solitary trustees or in groups of two or more, as of the end of 2014. 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 Trustees

(As of Dec. 31, 2014, Unit: No. of estates)

Category	Total No. of Bankruptcy Estates[1)]	Trustees		
		KDIC Employee	Attorney	Jointly[2)]
No. of Bankruptcy Estates	49	48	-	1

Note : 1) Excluding legally terminated bankruptcy estates (421), 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 trustee 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 the region under his/her charge. This consolidation of bankruptcy estates has indeed increased the efficiency in management of 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 2014, the KDIC hosted 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 of funds by bankruptcy estates, 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 loans, given their financial conditions and debt service capacity. It has consistently improved the debt rescheduling scheme.

In 2014, it took steps to prevent moral hazard including debtors' concealment of assets and other forms of abuse of the debt rescheduling system. It required the collection of a memorandum with a condition subsequent before debt rescheduling and conducted more rigorous follow-up investigations into assets.

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.

On its webpage, it began to provide potential buyers with detailed information on bankruptcy estates' real estate for sale. In 2014, the government cited this measure as one of the Government 3.0 Best Practices. During the year, the KDIC recovered KRW 521.9 billion from sale of real estate owned by bankruptcy estates, up 199% from 2013. It recovered KRW 112 million by selling properties that had been available for sale for a long time by means of the Korea Asset Management Corporation's OnBid system, a portal for public sale. The KDIC sought to boost the sale of real estate held by bankruptcy estates in every possible way, including regularly sending potential purchasers e-mails and text messages containing sale information.

The KDIC pushed for sale of unlisted shares owned by bankruptcy estates. It designated a lead manager to perform valuation and marketing, shifted to a monthly instead of a quarterly bidding cycle in April 2014, and disclosed pre-sale estimates in October 2014. It recovered KRW 23.5 billion in 22 sales in 2014.

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 the use of membership exchanges. It managed to sell 90 such assets in 2014 for a total of KRW 104.0 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, 2014, Unit: No. of sales, KRW 1 billion)

Category	2012		2013		2014	
	No.	Amount	No.	Amount	No.	Amount
Real Estate	106	74.8	406	262.6	304	521.9
Non-listed Stocks	6	9.5	26	15.7	22	23.5
Golf and Condominium Membership, etc.	50	4.1	32	4.0	90	10.4

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

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

Timely Closure of Bankruptcy Estates

The KDIC frequently examines the 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 early termination of inefficient bankruptcy estates maximizes dividend payments to bankruptcy creditors.

As of the end of December 2014, 438 out of a total of 487 bankruptcy estates were declared closed by the court and the KDIC plans to proceed with early closure of the remaining 49 estates by selling off remaining assets.

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

Table Ⅶ- 3

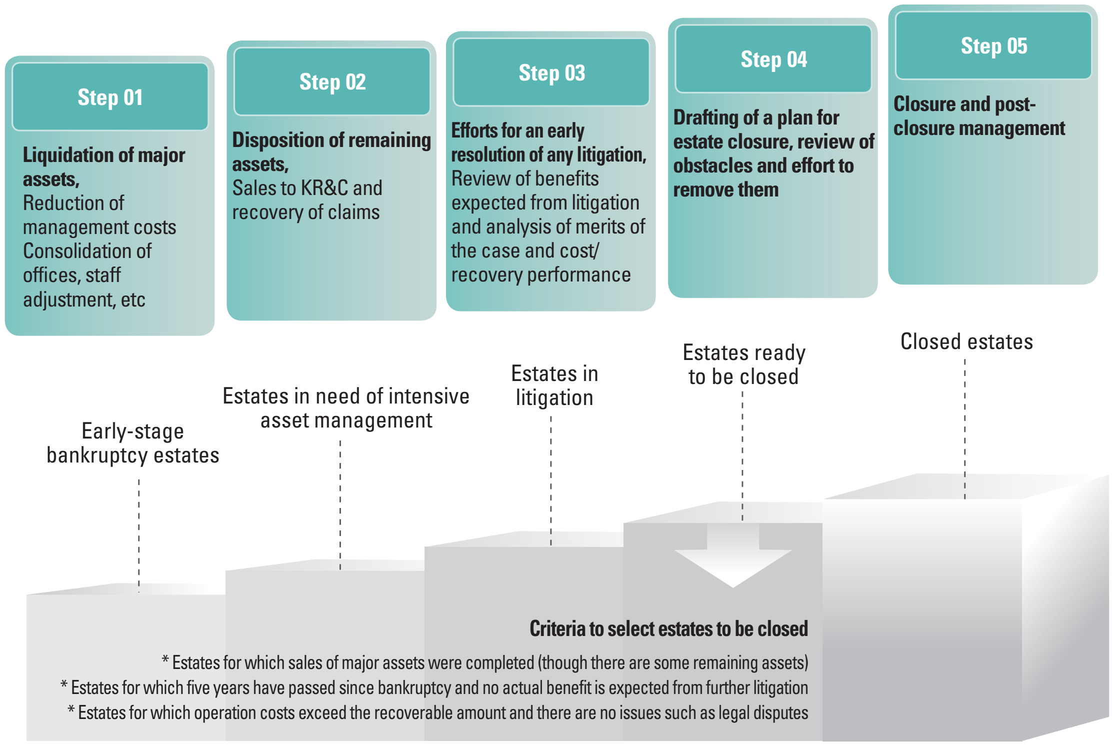
Bankruptcy Estates That Were Closed or Are Still Open

(As of Dec. 31, 2014, 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	120	325	487
Closed	No. of Closed Estates (B)	5	10	4	17	77	325	438
	Closure Rate (B/A×100)	100	91	100	77	64	100	90
Remaining Estates (A-B)		0	1	0	5	43	0	49

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 2014, the KDIC had acquired a total of KRW 49,051.3 billion in assets (based on acquisition costs) through a resolution financial institution (called KR&C). Of that amount, KRW 3.3 billion worth of assets (based on acquisition costs) were acquired in 2014.

Table Ⅶ- 4

Assets Acquired by the Resolution Financial Institution in 2014

(As of Dec. 31, 2014, Unit: KRW 1 billion)

Category		Amount of Claims	Amount Purchased	Note
KR&C	Bankruptcy Estates	291.7	3.1	4 bankruptcy estates including that of Plus Savings Bank
	Failed Savings Banks	4.7	0.2	Haesol 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, 2014, Unit: KRW 1 billion)

Category		Amount of Claims	Amount Purchased	Note
KR&C	Banks	9,869.3	7,997.4	6 banks (including Korea First Bank)
	Insurance Companies	403.2	355.0	5 life insurers
	Investment Companies	2,532.4	1,307.2	3 investment companies
	Bankruptcy Estates	9,034.7	372.2	466 estates (5 banks, 10 insurers, 4 investment firms, 22 merchant banks, 86[1] savings banks, 339 credit unions)
	Mutual Savings Banks	2,625.9	508.6	36 mutual savings banks
	Subtotal	2,465.5	10,540.4	-
Hanareum Merchant Bank[2]	Merchant Bank (KDIC subsidiary)	33,058.8	32,662.5[3]	16 merchant banks
Hanareum Savings Bank[2]	Savings and Loan Institution (KDIC subsidiary)	7,984.8	5,848.4[3]	41 mutual savings banks
Total		65,509.1	49,051.3	-

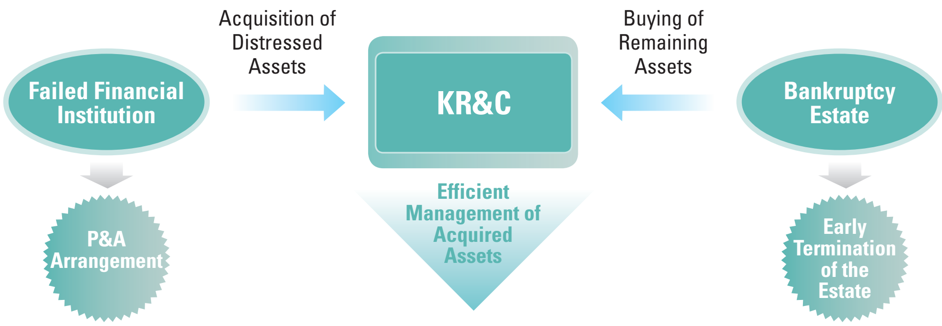
Note : 1) Including 14 bankruptcy estates transferred to the responsibility of the National Credit Union Federation of Korea on Jan. 1 of 2010
2) Organizations eligible for the KDIC's deposit protection (based on the classification criteria for public fund assistance)
3) Claims acquired in return for 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 expedite their closure.

Figure Ⅶ- 2

Duties of KR&C



As of the end of 2014, the balance of assets held by the KR&C stood at KRW 15,137.6 billion, of which KRW 5,916.2 billion was directly managed by the KR&C while the remaining KRW 9,221.4 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, 2014, Unit: KRW 1 billion)

Asset Type	Directly Managed	Commissioned to Outside Experts for Management	Total
Loans	41.7	9,156.9	9,198.6
Securities	47.6	-	47.6
Real Estate	5,753.9	-	5,753.9
Indemnity Receivables	73.0	64.5	137.5
Total	5,916.2	9,221.4	15,137.6

Note: Compensation for damages claims and etc. are excluded

VIII

Promotion of Sound Business Management and Accountability for Insolvency

1. Investigations into Insolvent Financial Institutions
2. Investigations Into Default Debtor Corporations
3. Investigations Into Properties Owned by Insolvency- Implicated Persons
4. Promotion of Sound Business Management Among Insured Financial Institutions

1. Investigations into Insolvent Financial Institutions

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

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

* Current or former officers or employees of insolvent financial institutions, persons who 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

The KDIC found it imperative to systematically investigate unlawful activities by insolvent financial institutions and default debtor companies in close collusion with those institutions. It organized the Insolvency Investigation Division in March 2008 by merging the Investigation Department in charge of investigations into insolvent financial institutions and the Special Investigation Mission for Default Debtor Corporations responsible for investigations into default debtor companies. Structured as two bureaus, one department, and one office, the Insolvency Investigation Division had 82 members as of end-2014 including seconded officers from related organizations such as the Public Prosecutors' Office. For increased efficiency of investigations, the Division not only utilizes the expertise and know-how of the seconded officers but actively seeks data from appropriate organizations.

The KDIC refers illegal activities revealed in investigations to the Accountability Review Committee for Insolvent Financial Institutions for fair and objective review. The Committee is made up of external experts from the legal services industry, academia, financial industry, etc. Financial and economic experts were appointed as members of the Committee to cope with the increasing complexity of accountability issues

Table Ⅷ- 1

Investigations into Illegal and Wrongful Activities Regarding Insolvent Financial Institutions

(As of Dec.31, 2014, 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	244	1	6
Merchant Banks	22	160	-	-
MSBs	86	789	44	502
Credit Unions[1)]	325	4,146	-	-
Total	472	5,595	45	508

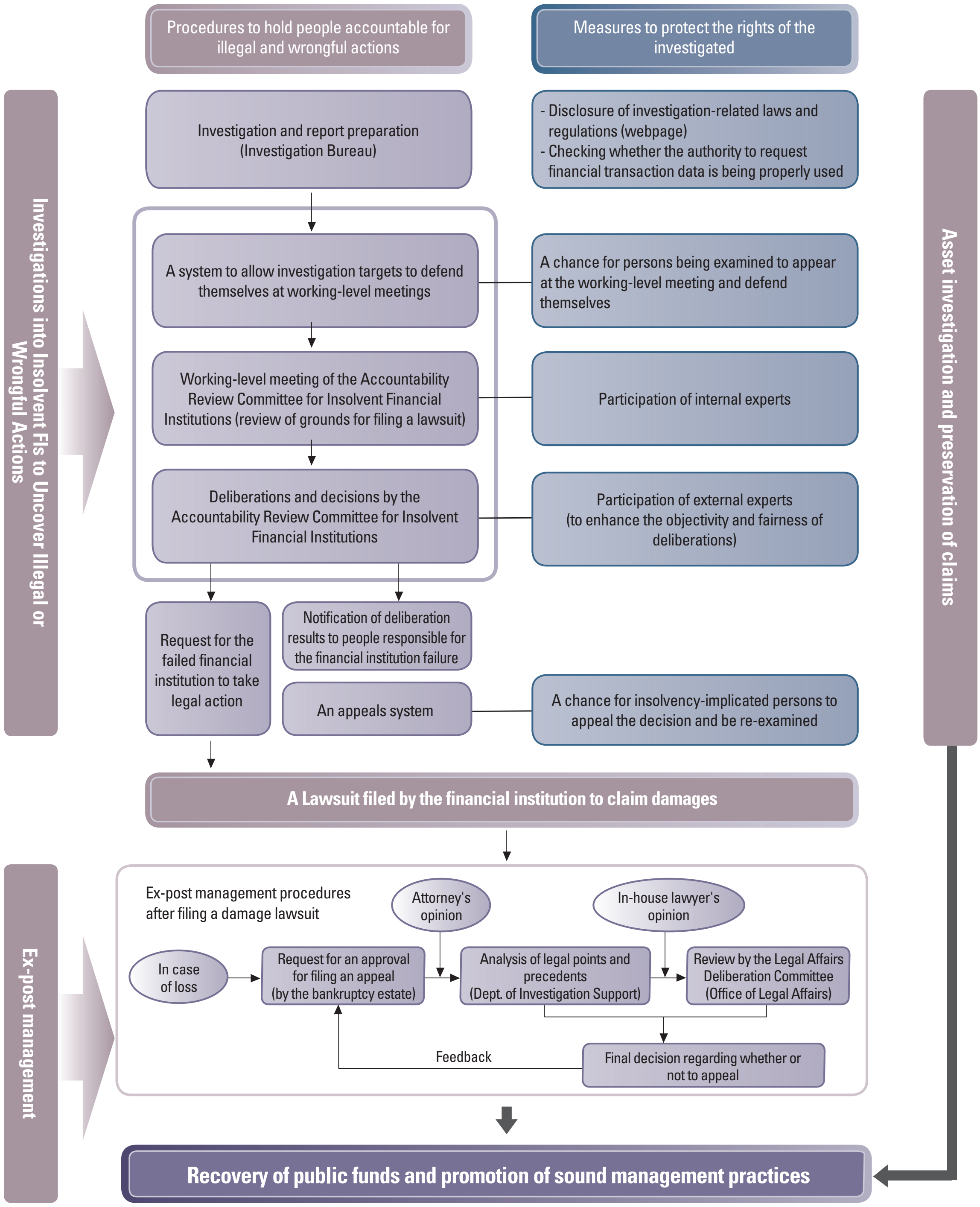
Note : 1) 14 credit unions which were transferred to the National Credit Union Federation on Jan. 1, 2010 were not included.

involved in large-scale failures of mutual savings banks and suspension of insurance companies that happened in the past four years, and to enhance its review standards.

By the end of 2014, deliberations on accountability for financial institution failures resulted in a confirmation of accountability for 6,103 persons in 517 insolvency cases. The KDIC requested the insolvent financial institutions and their bankruptcy estates to file for damages against these people.

Figure Ⅷ- 1

Procedures to Hold People Accountable for Their Illegal and Wrongful Acts 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 seeking damage. By the end of 2014, damage claims for KRW 1,811.8 billion were instituted against 9,013 people implicated in insolvencies of financial institutions into which funds of the Deposit Insurance Fund (DIF) Bond Redemption Fund had been injected. Most of the lawsuits have come to a close. The KDIC is now striving to collect monetary sanctions from insolvency-implicated persons, which was finalized by a court ruling, by various means including foreclosure on their property.

Table Ⅷ-2

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

(As of Dec. 31, 2014, Unit: No. of cases, No, of persons, KRW 1 billion)

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]	100.4	34.2	243.5	304.8	543.3	585.6	1,811.8
Amount Awarded[3]	47.1	21.8	1,34.6	54.8	405.6	320.8	984.7
Amount Collected[4]	10.2	5.4	21.8	66.0	92.3	76.9	272.6

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 received financial support from the Deposit Insurance Fund. By the end of 2014, damage claims for KRW 429.9 billion were filed against 654 people implicated in failures of 44 mutual savings banks.

Table Ⅷ-3

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

(As of Dec. 31, 2014, Unit: No. of cases, No, of persons, KRW 1 billion)

No. of Mutual Savings Banks	No. of Defendants	Amount Claimed[1]	Amount Awarded	Amount Collected
44	654	107.2	74.2	35.0

Note : 1) From cases for which a ruling has been made (Total amount of damages claimed: KRW 429.9 billion, the amount of damages current sought in court: KRW 322.7 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 claims. As part of this effort, the KDIC established the Litigation Support Team mainly comprised of legal experts, including attorneys, 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.

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

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

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

In 2014, it drafted a checklist for rights protection, which listed information to be provided by on-site investigation staff and deliberation officers to persons subject to investigations for greater efficiency. It also established a system on its webpage for easy on-line look-up of the status of an accountability investigation. Providing additional information such as the duration of each type of investigation effectively customized the services provided to investigated persons and helped them gain a better understanding of the investigation scheme.

The KDIC intends to protect the rights of the investigated by preventing any infringement on their rights and any undue damage while still stringently holding them accountable for any wrongful acts.

2. Investigations 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. In 2008, it was reorganized into the Insolvency Investigation Division following a merger with the Investigation Department in charge of investigations into insolvent financial institutions. In March 2013, Investigation Bureau II was set up to take responsibility for default debtor companies. This reinforced investigations into unlawful or wrongful actions by default debtor companies and increased the effectiveness of claim recovery by securing assets held by persons involved in insolvencies.

After reviewing the Insolvency Investigation Division's investigation results regarding illegal and wrongful acts of default debtor corporations, the Accountability Review Committee for Insolvent Financial Institutions confirmed as of the end of 2014 that 845 persons were responsible for financial institution failures and gave notice to the insolvent financial institutions and their bankruptcy estates so that they could start damage claim proceedings against those people.

Table Ⅷ- 4

Investigations against Default Debtor Corporations

(As of late Dec. 31, 2014, Unit: No. of cases, No. of persons)

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

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

In compliance with the KDIC's request, insolvent financial institutions and their bankruptcy estates filed 207 suits claiming KRW 996 billion of damages in total against people implicated in insolvencies.

The KDIC places people involved in failures of default debtor companies on par with those implicated in insolvencies of failed financial institutions, and it has duly expedited legal measures against them through consistent support for, and adequate follow-up management of, insolvent financial institutions and their bankruptcy estates.

Table Ⅷ- 5

Lawsuits Filed in Relation to Default Debtor Corporations

(As of Dec. 31, 2014, Unit: No. of cases, No. of persons, KRW 1 billion)

No. of Companies	No. of Defendants	Amount Claimed	Amount Awarded	Amount Collected
322	1,229	996.0	449.2	118.7

3. Investigations 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 against persons implicated in the insolvency of public fund-injected financial institutions. During the investigations, the KDIC utilized information stored in databases compiled by financial institutions and public institutions regarding their financial and real estate holdings. The KDIC was allowed to gather data from a wider range of institutions with the revision of applicable laws. With amendment of the Depositor Protection Act in March 2014, the National Court Administration was included in the list of entities from which the KDIC may request data. This permits the KDIC to look into family registration data.

By exercising its authority to request financial transaction data 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 more accurate financial transaction data regarding persons implicated in insolvencies in a more timely manner and took legal action based on the data. 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. As a result of the amendment of the Depositor Protection Act in March 2014, the term of its authority to request provision of financial transaction data from the heads of financial institutions, which had been scheduled to expire on March 23, 2014, was extended for five years ending on March 23, 2019. Accordingly, the KDIC can continue to inquire into accountability more consistently.

To secure assets of the insolvency-implicated persons of the 29 mutual savings banks which were suspended 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 282.5 billion in financial assets and 4,827 lots of real estate owned by such persons including large stockholders and employees who had inflicted losses upon the failed financial institutions as a result of their illegal or wrongful acts. It provided the data to the corresponding insolvent financial institutions and requested them to take steps to preserve creditor claims. Accordingly, those financial institutions implemented appropriate legal measures including (provisional) seizures totaling KRW 347 billion and 52 provisional injunctions.

Table Ⅷ- 6

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

(As of Dec. 31, 2014)

Category	Assets Uncovered		Claims Preservation	
	Financial Assets (KRW 1 bn)	Real Estate (No. of lots)	(Provisional) Seizure[1] (KRW 1 bn)	Provisional Disposition (No. of cases)
Responsible Parties	282.5	4,827	347.0	52

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 possible destinations for such investigations and conducted investigations through professional asset search firms.

Due to business suspension of numerous mutual savings banks, a rapidly increasing number of persons became implicated in insolvencies starting in 2011. In addition, insolvency-implicated persons became more sophisticated in their ability to conceal their assets. During the seventh investigation into hidden overseas assets from 2013 to 2014, yet more persons became implicated and more countries became involved, and a wider range of investigation techniques were used.

Through a preliminary investigation with foreign property investigators, the KDIC ascertained additional countries where property investigations and legal measures were likely to be beneficial. It identified 28 countries in 2013 and 37 in 2014. The KDIC then commissioned professional firms to investigate possible hidden overseas assets of 323 persons at high risk of concealing assets abroad. This led to new discovery of hidden overseas assets of approximately USD 21 million.

The KDIC formulated the Standards for Overseas Litigation by Bankruptcy Estates for organized recovery of hidden overseas assets. It chose a pool of candidate foreign legal representatives from 16 law firms in 12 countries including the US and Australia, which minimized litigation costs while enabling timely legal measures against secondary asset concealment. It implemented a legal step regarding USD 26 million in detected assets, and thus the amount of assets subject to legal proceedings rose 4.2-fold from the previous year. These changes clearly allowed for a great increase in the recovery of assets concealed overseas.

Table Ⅷ- 7

Recovery of Assets Hidden Overseas by Year

(As of Dec. 31, 2014, Unit: USD 1,000)

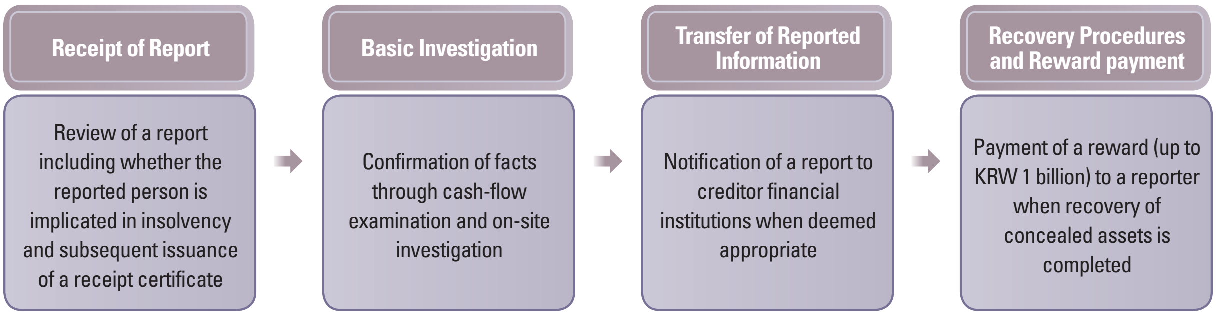
Year	2003~2007	2008	2009	2010	2011	2012	2013	2014	Total
Amount	3,044	-	2	349	1,400	415	9,866	249	15,076

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. Upon receipt of a report on concealed assets, a preliminary investigation including a cash-flow examination is carried out. Then, a report containing useful and valuable information is delivered to creditor financial institutions, which in turn take measures for claims preservation such as provisional seizure and consequently recover claims by means of a lawsuit for rectification of a fraudulent act and the like.

Figure Ⅷ- 2

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



In April 2014, the KDIC began dedicating one employee to each report to ensure business continuity through a single channel from receipt of a report to conclusion of its processing. It also prepared a follow-up management register to accelerate recovery of hidden assets based on systematic ex-post management.

Recognizing that public interest and participation are the key to upholding accountability, the KDIC heavily publicized the Conceal Property Report Center at home and abroad. It employed numerous channels in Korea including SNS advertisements and banner advertisements on the webpages of related organizations (Ministry of Foreign Affairs, Korea Federation of Banks, and Korea Federation of Savings Banks), in addition to traditional newspaper advertisements. In seven foreign countries (US, Canada, Japan, Australia, New Zealand, the Philippines and Cambodia), it appointed local Koreans as public relations ambassadors and waged publicity campaigns through the websites and newsletters of Korean associations.

Through the end of December 2014, the KDIC received 275 reports, recovered KRW 33 billion in 48 cases, and paid out KRW 2.01 billion in rewards.

Table Ⅷ- 8

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

(As of Dec. 31, 2014, Unit: No. of cases, KRW 1 million)

Category	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
No. of Cases Reported	21	12	17	10	22	21	15	19	12	17	23	53	33	275
No. of Recoveries	-	1	1	2	3	8	4	2	4	2	5	9	7	48
Recovered Amount	-	3,156	374	231	11,791	6,184	2,637	2,830	605	1,058	825	2,553	732	32,976

4. Promotion of Sound Business Management Among Insured Financial Institutions

Preemptive measures to prevent financial institution failures have assumed renewed importance in the wake of the recent spate of business suspensions of mutual savings banks since 2011. Wrongful acts and moral hazard on the part of large shareholders and employees have been cited as the main causes of their insolvencies. To ensure sound and prudent management of mutual savings banks, the KDIC has undertaken various programs for their employees.

The KDIC provided an on-site training course on prevention of insolvencies for mutual savings bank employees around the country. The employees were taught about the governing laws and regulations that apply to their day-to-day operations and other useful information including recent insolvency cases and relevant court rulings. In 2014, the KDIC produced a textbook explaining each type of financial failure with texts and drawings to promote their understanding. More working-level officers including those in charge of litigation were utilized as instructors to increase the level of trainee satisfaction.

The KDIC hosts an annual workshop for auditors of all mutual savings banks to ensure that they have the expertise to properly conduct audits of business affairs and to strengthen internal control. At the workshop for 2014, it introduced arguments by auditors concerning torts and the consequences of their accountability and explored their implications including insights into audit affairs. This elicited a highly favorable response from attendees.

The KDIC holds a regional meeting of executive loan officers to direct attention to the risks associated with the lending business, which is vulnerable to improprieties including illegal or wrongful granting of loans. In 2014, it visited mutual savings banks in major cities including Daejeon and Gwangju to introduce cases of unjustified lending and explain the consequences confronted by insolvency-implicated executives; address inquiries and difficulties of bank employees; and find ways to overcome challenges. The KDIC has worked hard to create a climate of sound management in many ways.

The KDIC plans to establish a culture in which rule of law is respected and to create a climate of sound management for financial institutions.

IX
Fund Management

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

1. Deposit Insurance Fund Bond Redemption Fund

As of January 1, 2003, under the Public Fund Redemption Plan (Redemption Plan) devised by the government in 2002, the assets and liabilities of the Deposit Insurance Fund (DIF) 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 Assessment Payments

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 Assessment Payments (SAPs). Banks must pay the SAPs 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 2014, the KDIC received KRW 1,356 billion in SAPs.

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 1 billion)

Year	Banks	Investment Companies	Insurance Companies		Merchant Banks	Mutual Savings Banks	Credit Unions[1]	Total
			Life	Non-life				
2003	477.5	15.6	88.9	18.5	2.1	22.2	-	624.7
2004	495.6	16.8	97.8	19.8	0.6	26.4	-	657.0
2005	487.2	14.5	106.9	21.9	0.5	31.9	-	662.8
2006	498.7	15.1	116.0	24.2	0.6	37.0	21.6	713.3
2007	502.7	15.6	126.5	27.8	0.7	43.0	11.6	728.0
2008	497.6	18.5	136.4	31.9	0.8	49.1	12.9	747.2
2009	596.5	16.9	143.0	35.2	1.0	59.3	13.7	865.6
2010	681.1	21.3	153.4	40.9	1.9	71.5	17.0	987.1
2011	778.9	22.7	165.0	48.7	1.2	71.8	20.5	1,108.7
2012	851.8	22.6	176.0	59.2	1.0	52.1	22.8	1,185.5
2013	897.3	20.2	229.7	70.7	0.9	39.4	24.8	1,283.0
2014	959.0	20.0	238.6	79.0	0.7	32.3	26.3	1,356.0
Total	7,723.9	220.0	1,778.1	477.6	12.0	536.0	171.2	10,918.7

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 52,306.4 billion 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 87,159.9 billion in DIF Bonds from 1998 to 2002.

With the establishment of the Redemption Fund in 2003, the outstanding balance of DIF Bonds amounting to KRW 80,974.4 billion as of the end of 2002 was transferred to the Redemption Fund. 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 Assessment Payments, 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 1 billion)

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

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

Issuance and Repayment of Redemption Fund Bonds

Under Article 26-3 of the Depositor Protection Act, the KDIC is authorized to issue Redemption Fund Bonds to repay the principal and interest of DIF Bonds issued on or before December 31, 2002. In 2014, the KDIC issued Redemption Fund Bonds in the amount of KRW 1.10 trillion through public offering at a fixed rate and a three-year maturity. The KDIC repaid KRW 5.10 trillion that matured in 2014, and the outstanding balance of Redemption Fund Bonds as of the end of 2014 was KRW 18.52 trillion.

Table Ⅸ-4

Issuance and Redemption of Redemption Fund Bonds

(Unit: KRW 1 billion)

Year	Issued Amount	Redeemed Amount	Balance
2004	6,500.0	-	6,500.0
2005	7,440.0	-	13,940.0
2006	2,870.5	315.5	16,495.0
2007	2,720.0	45.0	19,170.0
2008	8,800.0	10.0	27,960.0
2009	5,860.0	6,500.0	27,320.0
2010	6,810.0	7,440.0	26,690.0
2011	700.0	3,730.0	23,740.0
2012	4,770.0	5,690.0	22,820.0
2013	7,270.0	7,570.0	22,520.0
2014	1,010.0	5,010.0	18,520.0
Total	54,830.5	36,310.5	18,520.0

Borrowings

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

The balance of the previous borrowings of the KDIC was transferred to the Redemption Fund, which was established in 2003. As the KDIC was exempted from repaying all previous borrowings from the Special Account for Government Investment and Financing as of January 1, 2003 in accordance with the Redemption Plan, it has not borrowed any money since 2003 under the Redemption Fund's lines of credit. In 2013, the KDIC repaid KRW 116.8 billion (USD 100 million) for the principal of loans from the IBRD. As of the end of 2014, there was no outstanding balance.

Table Ⅸ- 5

Borrowings and Loan Repayment of the Redemption Fund

(Unit: KRW 1 billion)

Year	Borrowed Amount				Repaid Amount	Balance
	Member Institutions	Loans[1]	Special Account for Government Investment and Financing	Subtotal		
Amount Received	7,601.1	-	-	7,601.1	-	7,601.1
1998	329.5	241.6	1,058.2	1,629.3	933.7	8,296.7
1999	1,387.0	1,201.6	2,625.4	5,214.0	3,387.0	10,123.7
2000	9,002.8	1.3	3,953.3	12,957.4	980.2	22,100.9
2001	-	0.8	4,967.2	4,968.0	11,019.6	16,049.3
2002	-	-	5,955.3	5,955.3	0.3	22,004.3
2003	-	-	-	-	19,599.3	2,405.0
2004	-	-	-	-	1,116.8	1,288.2
2005	-	-	-	-	353.8	934.4
2006	-	-	-	-	116.8	817.6
2007	-	-	-	-	116.8	700.8
2008	-	-	-	-	116.8	584.0
2009	-	-	-	-	116.8	467.2
2010	-	-	-	-	116.8	350.4
2011	-	-	-	-	116.8	233.6
2012	-	-	-	-	116.8	116.8
2013	-	-	-	-	116.8	116.8
Total	18,320.4	1,445.3	18,559.4	38,325.1	38,325.1	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 6 million in financial assistance during 2014, all of which was in the form of contributions.

Table Ⅸ- 6

Financial Assistance and Deposit Insurance Payments from the Redemption Fund (2014)

(Unit: KRW 1 million)

Sector	Equity Investment	Capital Contributions	Asset Purchase	Loans	Deposit Insurance Payments	Total
Banks	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	6	-	-	-	6
Merchant Banks	-	-	-	-	-	-
Mutual Savings Banks	-	-	-	-	-	-
Credit Unions	-	-	-	-	-	-
Total	-	6	-	-	-	6

The total amount of public funds provided by the Redemption Fund for the restructuring of insured financial institutions came to KRW 110,894.5 billion as of the end of 2014. This amount includes KRW 30,312.4 billion (27.3%) in payment of deposits for depositors of bankrupt insured financial institutions, KRW 50,793.7 billion (45.8%) in equity investment for business normalization, KRW 18,611.7 billion (16.8%) in contributions for P&As, and KRW 11,176.7 billion (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, 2014, Unit: KRW 1 billion)

Sector	Equity Investment	Capital Contributions	Asset Purchase[1)]	Loans	Deposit Insurance Payments)	Total
Banks	22,203.9	13,918.9	8,106.4	-	-	44,229.2
Investment Companies	9,976.9	414.3	2,123.9	-	11.3	12,526.4
Insurance Companies	15,919.8	3,119.2	349.5	-	-	19,388.5
Merchant Banks	2,693.1	743.1	-	-	18,271.8	21,708.0
Mutual Savings Banks	0.1	416.1	-	596.9	7,289.2	8,302.3
Credit Unions	-	-	-	-	4,740.2	4740.2
Total	50,793.7	18,611.7	10,579.9	596.9	30,312.4	110,894.5

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

Assistance for Each Sector of the Financial Industry

A. Banks

In 2014, 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, 2015. Thus, the KDIC paid KRW 6 million in additional contributions from the Redemption Fund in 2014.

C. Investment Companies

In 2014, 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 2014, 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 1 billion)

Year	# of Failed Savings Banks	Amount of DI Payments
1998	17	1,470.5
1999	19	1,427.2
2000	11	650.0
2001	5	2,953.7
2002	10	771.9
2003	7	0.5
2004	8	2.6
2005	7	0.1
2006	8	0.3
2007	2	12.8
2008	-	△0.4
2009	1	-
2010	-	-
2011	-	-
2012	-	-
2013	-	-
2014	-	-
Total	95	7,289.2

Table Ⅸ-9

Financial Assistance to Savings Banks

(As of Dec. 31, 2014, Unit: KRW 1 billion)

Name	Equity Investment		Capital Contributions		Loans	
	Before 2012	2013	Before 2012	2013	Before 2012	2013
Gyeonggi (former Commit)	-	-	25.4	-	1,65.4	-
Kyungbuk (former Hanuri)	-	-	8.5	-	-	-
Daecheon (current Daejeon)	-	-	-	-	10.2	-
Domin (Keumkang)	-	-	2.8	-	70.9	-
Dongwon (Korea Investment)	-	-	6.3	-	78.3	-
Bumin (Busan)	-	-	24.3	-	-	-
Busan 2	-	-	-	-	27.1	-
Sangup (former Hyundai)	-	-	70.1	-	-	-
Saenuri	-	-	1.3	-	2.1	-
Solomon (former Gold)	-	-	66.3	-	-	-
New Choongbuk	-	-	-	-	16.1	-
Arim	-	-	-	-	61.5	-
Union	-	-	3.9	-	51.8	-
J-one	-	-	32.5	-	-	-
Choil	-	-	2.9	-	73.8	-
Choongnam (former New Onyang)	-	-	-	-	4.5	-
Choongil	-	-	-	-	8.9	-
Telson (former New Hankook)	-	-	77.5	-	-	-
Hanaro	-	-	42.2	-	-	-
Hanmaum	-	-	52.1	-	-	-
Haedong (Kyunggi)	-	-	-	-	26.3	-
KR&C	0.1[1)]	-	-	-	-	-
Total	0.1	-	416.1	-	596.9	-

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

Maximization of Public Fund Recovery

Overview

Depending on the nature of the support extended, the KDIC uses a number of methods to recover public funds. Firstly, equity stakes received in exchange for financial assistance are liquidated. Secondly, for 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 2014 totaled KRW 53,403.6 billion including KRW 2,444.9 billion recovered in 2014 alone.

Table Ⅸ- 10

Redemption Fund Recovery (2014)

(As of Dec. 31, 2014, Unit: KRW 1 billion)

Sector	Recovery of Equity Investment	Settlement of Capital Contributions, etc.	Asset Sales[1]	Recovery of Loans	Collection of Bankruptcy Dividends[1]	Total
Banks	2,189.2	-	19.4	-	0.3	2,208.9
Investment Companies	-	-	1.5	-	-	1.6
Insurance Companies	108.3	-	-	-	-	108.3
Merchant Banks	15.6	-	-	-	103.4	119.0
Mutual Savings Banks	-	0.1	-	-	7.0	7.1
Credit Unions	-	-	-	-	-	-
Total	2,313.2	0.1	20.9	-	110.7	2,444.9

Note: 1) Including recoveries through the resolution financial institution

Table Ⅸ- 11

Redemption Fund Recovery (Accumulated)

(As of Dec. 31, 2014, Unit: KRW 1 billion)

Sector	Recovery of Equity Investment	Settlement of Capital Contributions, etc.	Asset Sales[1]	Recovery of Loans	Collection of Bankruptcy Dividends[1]	Total
Banks	18,494.5	70.1	6,603.9	-	1,847.2	27,015.7
Investment Companies	1,212.2	323.1	1,800.4	-	7.8	3,343.5
Insurance Companies	3,917.7	88.8	241.9	-	431.0	4,679.5
Merchant Banks	160.5	5.9	-	-	8,968.9	9,135.4
Mutual Savings Banks	-	34.3	-	596.9	5,179.1	5,810.3
Credit Unions	-	0.4	-	-	3,418.8	3,419.2
Total	23,784.9	522.6	8,646.2	596.9	19,853.0	53,403.6

Note: 1) Including recoveries through the resolution financial institution

Sale of Equity Stakes, etc.

A. Banks

In 2014, the KDIC recovered KRW 1,727.2 billion by selling all its stakes of 56.97% in Kyongnam Bank and Kwangju Bank, KRW 453.1 billion by selling 5.94% of its stake in Woori Bank, and KRW 24.2 billion by selling its remaining stake of 16.38% in Jeju Bank. It also recovered KRW 400 million in dividends from Jeju Bank.

B. Insurance Companies

In 2014, the KDIC respectively recovered KRW 27.9 billion and KRW 80.3 billion through dividend collection from Hanwha Life Insurance and Seoul Guarantee 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 12 million from Korea Investment Holdings and Hana Daetoo Securities in dividends from auctioning of real estate held by insolvency-implicated persons and KRW 1.6 billion in proceeds from liquidation of the SPC of Hyundai Investment & Securities.

D. Merchant Banks

In selling its minority stake of 5.94% in Woori Bank, the KDIC recovered KRW 15.6 billion related to Woori Investment Bank, in addition to the bank account.

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 2014, the KR&C recovered a total of KRW 41,532.3 billion.

Table Ⅸ- 12

Recovery from Sale of KR&C-Owned Assets

(As of the end of December 2014, Unit: KRW 1 billion)

Year	Asset Type[1)]	Assets Subject to Sale	Amount Recovered	Recovery Method
Amount recovered in 2013	Loans	Loans in KRW	105.1	Direct collection and litigation
		Loans in foreign currencies	2.2	
		Subtotal	107.3	-
	Marketable securities	Listed and unlisted stock	34.2	Auction, sale on the stock market, and dividend collection
	Real estate	Business buildings, etc.	13.0	Auction, etc.
	Right of indemnity	Claims as subrogee for insured depositors, etc.	40.5	Bankruptcy dividend collection
	Total		195.0	-
Accumulated amount	Loans	Loans in KRW	10,806.4	International bidding, NPL sale, ABS issuance, etc.
		Loans in foreign currencies	3,072.6	
		Subtotal	13,879.0	
	Marketable securities	Listed and unlisted stock	6,181.4	Auction, block sale, etc.
	Real estate	Business buildings, etc.	683.8	Auction, etc.
	Right of indemnity	Claims as subrogee for insured depositors, etc.	20,788.1	Bankruptcy dividend collection
	Total		41,532.3	-

In 2014, the KR&C recovered KRW 195 billion including KRW 107.3 billion by collecting loans receivable, KRW 34.2 billion by selling its securities including a KRW 19.8 billion block sale of equity shares in Daewoo Shipbuilding & Marine Engineering, KRW 13 billion by disposing of real estate through public sale, and KRW 40.5 billion in bankruptcy dividends based on the rights of indemnity.

Bankruptcy Dividends

In 2014, the KDIC received KRW 110.7 billion in bankruptcy dividends (KRW 0.3 billion from bankruptcy estates of banks, KRW 7.0 billion from mutual savings bank and KRW 103.4 billion from bankruptcy estates of merchant banks). By the end of 2014, the cumulative total of money recovered through bankruptcy dividend collection was KRW 19,853 billion.

Table Ⅸ- 13

Bankruptcy Dividends Collection by Financial Sector[1)]

(As of Dec. 31, 2014, Unit: No. of estates, KRW 1 billion)

Sector	No. of Estates	Recovered Amount	
		2014	From 1999 to 2014
Banks	5	0.3	1,847.2
Investment Companies	10	-	431.0
Insurance Companies	4	-	7.8
Merchant Banks	22	103.4	8,968.9
Savings Banks	75	7.0	5,179.1
Credit Unions	325	-	3,418.8
Total	441	110.7	19,853.0

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)

Recovery of Loans, etc.

By the end of 2014, the KDIC had provided KRW 596.9 billion in loans, all of which were recovered. By the end of 2014, it recovered KRW 522.6 billion by settlement of contributions, etc. In 2014, it recovered approximately KRW 5 million from Hanwha Life Insurance in connection with the P&As of Doowon, Hyundai, and Samshin Life Insurance and KRW 100 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 six months 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 2014 remained at KRW 1,187.2 billion.

Table Ⅸ- 14

Deposit Insurance Premium Revenue by Financial Sector

(Unit: KRW 1 billion)

Year	Banks	Investment Companies	Insurance Companies		Merchant Banks	Mutual Savings Banks	Special Account[2]	Total[4]
			Life	Non-life				
2003[1]	477.5	31.2	258.0	53.5	7.3	66.7	-	894.2
2004	496.0	33.6	283.2	57.1	1.7	79.3	-	950.9
2005	486.9	30.0	310.9	62.8	1.5	97.4	-	989.5
2006	498.7	30.3	336.2	69.7	1.9	111.6	-	1,048.4
2007	502.7	25.6	365.4	80.1	2.2	130.6	-	1,106.6
2008	480.8	30.5	393.4	91.8	2.4	148.3	-	1,147.2
2009	529.1	27.6	409.7	101.6	2.9	173.7	-	1,244.6
2010	545.1	28.4	260.9	69.8	3.4	252.4	-	1,160.0
2011	479.5	28.3	236.2	70.0	1.8	233.1	174.2	1,223.1
2012[5]	374.8	0.2	-1.4[3]	10.0	0.8	134.4	581.6	1,100.4
2013[5]	394.8	-	22.1	48.8	0.8	25.3	667.2	1,159.0
2014[5]	419.7	-	81.1	44.5	0.6	25.6	615.8	1,187.2
Total	5,685.5	265.8	2,955.7	759.6	27.2	1,478.5	2,038.9	13,211.2

Note : 1) IInsurance 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); in 2013 (exemption for financial investment companies, 45% reduction for life insurance companies, and 7% reduction for non-life insurance companies); and in 2014 (exemption for financial investment companies, 38% reduction for life insurance companies, and 1% reduction for non-life insurance companies).

Table Ⅸ- 15

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	15/10,000	40/10,000[2]
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 rate was changed in July, 2011 in accordance with the amended Enforcement Decree of the Depositor Protection Act. (previously 35/10,000)

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 9.1 billion in contributions from insured financial institutions in 2014.

Table Ⅸ- 16

Contributions from Member Institutions

(Unit: KRW 1 billion)

Year	Banks	Investment Companies	Insurance Companies		Merchant Banks	Mutual Savings Banks	Special Account	Total[2]
			Life	Non-life				
2003[1]	0.03	-	0.65	0.2	-	-	-	0.88
2004	0.34	0.2	0.60	0.2	-	-	-	1.34
2005	0.22	0.2	-	-	-	1.25	-	1.67
2006	0.38	0.8	-	0.2	-	1.34	-	2.72
2007	-	-	-	-	-	-	-	-
2008	0.16	11.01	-	-	-	0.56	-	11.72
2009	0.77	4.31	0.42	0.34	0.02	0.78	-	6.63
2010	0.08	0.58	0.90	0.03	-	-	-	1.59
2011	0.03	-	-	-	-	1.2	-	1.23
2012	0.58	0.13	5	0.8	-	2.4	-	8.91
2013	0.08	2.17	0.32	0.31	0.00	4.98	-	7.86
2014	-	0.06	-	-	-	9.06	-	9.12
Total	2.67	19.46	7.89	2.08	0.02	21.57	-	53.67

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

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

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 23,330 billion in bonds for funding to meet sustained demand for financial assistance for the resolution of insolvent financial institutions, etc. In 2014, it redeemed KRW 1.2 trillion in bonds.

Table Ⅸ- 17

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

(Unit: KRW 1 billion)

Year	Amount Issued	Redeemed Amount	Balance
2011	1,200	-	1,200
2012	20,040	-	21,240
2013	2,090	-	23,330
2014	-	1,200	22,130
Total	23,330	1,200	22,130

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. In 2011 and afterwards, it borrowed KRW 26,645.6 billion.

Table Ⅸ- 18

Borrowings and Loan Repayments of the DIF

(Unit: KRW 1 billion)

Account Name	Year	Borrowed Amount1)				Repaid Amount	Balance
		Member Institutions	BOK etc.	Government	Subtotal		
Savings Banks	2007	231.4	-	-	231.4	-	231.4
	2008	-	-	-	-	231.4	-
	Subtotal	231.4	-	-	231.4	231.4	-
Special Account	2011	10,419.9	-	-	10,419.9	1,200.0	9,219.9
	2012	14,193.2	-	100.0	14,293.2	22,262.5	1,250.6
	2013	1,936.4	-	100.0	2,036.4	3,087.0	200.0
	2014	96.0	-	50.0	146.0	96.0	250.0
	Subtotal	26,645.5	-	250.0	26,895.5	26,645.5	250.0
Total		26,876.9		250.0	27,126.9	26,876.9	250.0

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

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 26,876.9 billion was borrowed from insured financial institutions including banks by the end of 2014. To increase funding for the Special Account, the KDIC applied for government loans from the Public Capital Management Fund at no interest (ten-year maturity and installment payments over a five-year period) starting in 2012. Thus, it received KRW 250 billion's government borrowings in total.

By the end of 2014, KRW 27,126.9 billion was repaid out of KRW 26,876.9 billion in borrowings in the Special Account through issuance of DIF Bonds, etc. As of the end of 2014, the outstanding borrowings amounted to KRW 250 billion, and all of them represent long-term borrowings from the government.

Timely Provision of Financial Assistance

Overview

Since 2003, the KDIC has provided financial assistance from the DIF for deposit payoffs in the 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 27,116.7 billion was provided to 30 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 (2014)

(Unit: KRW 1 billion)

Account Name[1]	Equity Investment	Capital Contributions	Deposit Insurance Payment[2]	Loans	Advance Dividend Payments	Total
Special Account	-	304.2	3.4	0.2	-	307.8
Total	-	304.2	3.4	0.2	-	307.8

Note : 1) Aside from the Special Account, no account in the DIF had to make expenditures for financial assistance in 2014

Table Ⅸ-20

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

(As of Dec. 31, 2014, Unit: KRW 1 billion)

Account Name	Equity Investment	Capital Contributions	Deposit Insurance Payment	Loans	Advance Dividend Payments	Total[1]
Banks	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	22.6	-	-	-	22.6
Merchant Banks	-	-	-	-	-	-
Mutual Savings Banks	121.1	2,454.2	1,441.2	489.1	21.9	4,527.5
Special Account	365.5	22,935.4	3,624.7	113.6	77.5	27,116.7
Total	486.6	25,412.2	5,065.9	602.7	99.4	31,666.8

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 30 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 2014.

Table Ⅸ-21

Financial Assistance and Deposit Insurance Payments from the Special Account*

(As of Dec. 31, 2014, Unit: KRW 1 billion)

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	3,277.2	12,703.4	15,980.6
8 failed MSBs including Solomon	2012	344.7	8,670.7	9,015.4
5 failed MSBs including Seoul	2013	2.8	1,818.5	1,821.3
Haesol	2014.5.7	-	299.4	299.4
Total		3,624.7	23,492.0	27,116.7

Note : 1) In 2014, KRW 8.4 billion has been additionally provided to nine mutual savings banks including Solomon for payment of deposit insurance, capital contributions, and etc.

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, 2014, Unit: KRW 1 billion)

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	-	22.6	22.6
Total		-	22.6	22.6

Recovery Maximizatio

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 5,609.9 billion in total from 2003 to 2014 including KRW 61.7 billion in the mutual savings bank account and KRW 2,793.4 billion in the Special Account recovered in 2014 alone.

Table Ⅸ- 23

DIF Recovery (2014 and Accumulated)

(As of Dec. 31, 2014, Unit: KRW 1 billion)

Category		Equity Investment	Capital Contributions	Money Paid in Deposit Insurance Payments	Loans	Money Paid in Advance Dividends	Total [1)]
2014	MSBs	29.2	5.7	24.0	2.8	-	61.7
	Special Account	184.1	2,456.5	148.8	0.6	3.4	2,793.4
	Total	213.3	2,462.2	172.8	3.4	3.4	2,855.1
2003 to 2014 Accumulated		594.8	3,057.8	1,331.8	543.4	82.0	5,609.9

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 2014, the KDIC collected KRW 2,638.4 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 2014, a cumulative total of KRW 4,317.0 billion was recovered.

From 2003 to 2014, the KDIC offered KRW 602.7 billion in loans to the KR&C to facilitate the resolution of failed mutual savings banks including Gyeongbuk Mutual Savings Bank, among which KRW 543.4 billion was recovered.

Table Ⅸ-24

Collection of Bankruptcy Dividends and Loans

(As of Dec. 31, 2014, Unit: KRW 1 billion)

Financial Sector	Collection of Dividends from Estates, etc.[1]		Collection of Loans[1]	
	2014	2003-2014 Accumulated	2014	2003-2014 Accumulated
Mutual Savings Banks (Including the Special Account)	2,638.4	4,317.0	3.4	543.4

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.

After 2012, the KDIC published a white paper on management of the Special Account pursuant to Article 24-4 of the Depositor Protection Act. It also reported the results of settlement of accounts for the Special Account for 2011 as well as its management plan for 2012 to the corresponding standing committee in the National Assembly for the purpose of increasing transparency. In July 2012, November 2013 and October 2014 the KDIC received KRW 250 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 continued to experience difficulties in managing assets. Interest rate volatility increased because interest rates had been kept at such a low level. The benchmark interest rates were pushed down twice in the latter half of 2014 alone. What is more, ample liquidity left banks reluctant to take deposits from the KDIC. It actively responded to market conditions by appropriately allocating assets and adjusting bond durations on the basis of market interest rates, prospects for the yield curve, and macroeconomic forecasts. It enhanced profitability by giving incentives to those financial institutions that would take deposits from the KDIC in the form of increased investment in their debt instruments.

For practical risk management of the DIF, the KDIC reviewed its process to manage credit, liquidity, and operational risks and worked out an improvement plan. Thus, it bolstered the comprehensive risk management system, which can deal with changes in the financial market overall. It also conducted a bond-type factor analysis in examining the actual earning rate against the base earning rate. Based on a more sophisticated analysis, it formulated effective asset management strategies.

X

Account Settlement for Fiscal Year 2014

1. Overview of Account Settlement
2. Criteria for Account Settlement
3. Account Settlement Results

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 2014, the audit was conducted by Yeil Accounting Corp., and the auditor's opinion was “unqualified.”

2. Criteria for Account Settlement

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

Deposit Insurance Fund and KDIC Internal Account

Accounting for Assets and Liabilities

• Classification and Valuation of Securities

(1) Acquisition Cost and Classification of Securities

The acquisition costs of securities are estimated by adding together the purchase prices and incidental costs incurred in acquiring the securities. The KDIC classifies securities as available-for-sale (AFS) financial assets, held-to-maturity (HTM) financial assets, and investments in associates, according to their nature and ownership purpose. In 2014, only the DIF held securities, all of which were categorized as AFS financial assets.

(2) 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

(1) 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.

(2) 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

Integration of the Deposit Insurance Fund and KDIC Internal Account

The KDIC prepares consolidated financial statements for the DIF and the KDIC Internal Account under the 'Act on the Management of Public Institutions' and the 'Accounting Rules for Public Corporations and Quasi-Government Institutions.' 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

(1) Financial Status

The total assets of the DIF decreased by KRW 879.6 billion or 5.13% in 2014 to KRW 16,433.9 billion. This is primarily attributable to a reduction in indemnity receivables of KRW 2,930.6 billion due to payment of bankruptcy dividends despite an increase in operating assets of KRW 2,064.7 billion from the beginning of the year owing to insurance premium income.

Total liabilities decreased by KRW 1,280.9 billion or 5.4% in 2014 to KRW 22,633.8 billion. This is mainly ascribed to redemption of DIF Bonds to finance the Special Account totaling KRW 1,200 billion and a decrease in provisions of KRW 114.2 billion.*

* Estimated losses of the DIF concerning mutual savings banks to which financial assistance is expected to be provided (Haesol: KRW △131.1 billion, Golden Bridge: KRW 16.6 billion), etc.

Total equity increased by KRW 401.3 billion or 6.1% to KRW △6,199.9 billion in 2014 as a result of a reduction in deficits stemming mainly from the net income of KRW 380.7 billion.

(2) Profits and Losses

In 2014, net income stood at KRW 380.7 billion, down KRW 328.2 billion or 46.3% from 2013.

The operating profits calculated by deducting operating costs from operating revenues amounted to KRW 834.8 billion. The operating revenues (KRW 1,738.8 billion) are mainly comprised of insurance premium revenues (KRW 1,484.8 billion) and interest income earned from asset management (KRW 238.9 billion). The operating costs (KRW 904.0 billion) include interest expenses for borrowings (KRW 815.2 billion) and KDIC operating expenses (KRW 85.8 billion).

Non-operating profits were KRW △454.1 billion, mainly attributable to the net transfer of provisions (KRW △603.5 billion) because of an increase in expected recovery of indemnity receivables, and to the net reversal of provisions (KRW 114.3 billion).

KDIC Internal Account

(1) Financial Status

Total assets stood at KRW 19.6 billion as of the end of 2014, nearly unchanged from the end of 2013.

The current assets increased by KRW 400 million during the year to KRW 2.1 billion. This is ascribed to a increase 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 17.5 billion, down KRW 400 million from the end of the previous year. This is because tangible assets grew about KRW 700 million as a result of acquisition of other tangible assets while net defined benefit assets fell approximately KRW 1 billion.*

* In 2013, plan assets exceeded defined benefit liabilities, leading to registration of net defined benefit assets. In 2014, however, net defined benefit liabilities were posted.

Total liabilities increased by KRW 2.2 billion or 9.3% to about KRW 24.8 billion as of the end of 2014.

Total equity stood at approximately KRW △5.2 billion at the end of 2014, down KRW 2.2 billion (73.3%) compared to a year ago.

The KDIC has a negative total equity because balance sheet liabilities soared irrespective of actual cash flows since annual leaves granted according to provision of services in 2014 and management evaluation incentives in the amount of KRW 4.2 billion were reflected in advance following application of international accounting standards from 2013 and KRW 1.1 billion in net defined benefit liabilities according to actuarial assumptions were recorded.

(2) Profits and Losses

The net income, the variance between total revenues and total costs, in 2014 remained at KRW 200 million.

Total revenues, at KRW 93.6 billion, consist of operating revenues of KRW 92.6 billion including revenues transferred from the DIF (KRW 92.7 billion) and other revenues (KRW 900 million).

The total costs, at KRW 93.4 billion, include labor costs of KRW 56.6 billion (60.6%) and general expenses of KRW 36.8 billion (39.4%).

Redemption Fund

Financial Status

As of the end of 2014, the total assets of the Redemption Fund stood at KRW 9,107 billion, down KRW 3,273.3 billion or 26.8% from the end of the previous year.

The current assets decreased by KRW 877.5 billion, including a reduction of KRW 875.3 billion in operating assets owing to net redemption of the Redemption Fund Bonds. Investment assets shrank by KRW 2,452.6 billion including a decrease in equity securities (KRW 2,446.7 billion) as a consequence of disposition of shares and valuation losses. Other non-current assets grew KRW 2.8 billion due to reversal of indemnity receivables to allowance for doubtful accounts.

As of the end of 2014, the total liabilities decreased by KRW 3,999 billion or 17.6% year-on-year to KRW 18,741 billion. This is due to net redemption of KRW 4,000 billion in Redemption Fund Bonds.

The total net assets stood at KRW △9,634 billion as of the end of 2014, up KRW 671.7 billion or 6.5% from the end of the previous year. This is due to KRW 2,461.7 billion in net income and KRW 1,790 billion in downward net asset adjustment arising from disposition of shares and valuation losses.

Profits and Losses

In 2014, the Redemption Fund's financial operation generated a result of KRW △2,461.7 billion, recording a year-on-year income increase of KRW 1,613.6 billion or 190.3%. The increase in net income in 2014 is ascribed to a gain of KRW 1,446 billion from disposition of shares and reduction of KRW 207 billion in interest expenses due to net redemption of the Redemption Fund Bonds.

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

The net program costs incurred for the operation of the financial policy support program, an essential business of the Redemption Fund, remained at KRW △1,079.9 billion. This figure was arrived at by deducting program income of KRW 1,956.3 billion from the total program costs of KRW 876.4 billion.

The net cost for financial management came to KRW △1,105.7 billion, which was calculated by adding KRW 7.6 billion in administrative and operating expenses to, and deducting KRW 33.4 billion in non-allocated revenues from, the net program costs of KRW △1,079.9 billion. The administrative and operating expenses above refer to management expenses including labor costs and general expenses that are not allocated to program costs. Non-allocated costs and revenues are those that are not related to the program operation.

The financial operation result of KRW △2,461.7 billion was calculated by deducting non-exchange revenues of KRW 1,356 billion from the net cost for financial management of KRW △1,105.7 billion. Non-exchange revenues above are Special Assessment Payments received that arise without any direct consideration in return.

Table Ⅹ-1

Condensed Statement of Financial Position

Current period : As of December 31, 2014
Previous period : As of December 31, 2013

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

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
Current Assets	7,331.4	5,885.6	Current Liabilities	10,134.7	1,574.8
1. Cash and Cash Equivalents	154.6	159.8	1. Accounts and Other Payables (Accrued interest etc.)	233.9	236.9
2. Current Financial Assets	6,360.5	5,083.3	2. Current Financial Liabilities	9,881.6	1,200.3
Available-for sale Securities	1,218.5	1,802.4	Short-term Borrowings	-	-
Short-term Loans	121.1	120.9	Bonds	9,880.0	1,200.0
(Allowance for Doubtful Accounts)	△55.9	△52.1	Discounts on Bonds Payable	1.6	0.3
Short-term Financial Instruments	5,076.8	3,212.1	3. Current Non-financial Liabilities	0.9	4.5
3. Trade and Other Receivables	816.2	642.3	Short-term Deposits	0.9	4.5
Short-term Accrued Income	818.2	644.5	4. Current Provisions	18.3	133.1
(Allowance for Doubtful Accounts)	△2.0	△2.2	Provisions for Employee Benefits	1.7	2.0
4. Current Non-financial Assets	0.1	0.2	Other Current Provisions	16.6	131.1
Short-term Prepaid Expenses	0.1	0.2	Non-current Liabilities	12,513.8	22,353.0
Non-current Assets	9,111.9	11,437.9	1. Non-current Financial Liabilities	12,505.0	22,345.6
1. Non-current Financial Assets	2,277.4	1,672.3	Long-term Borrowings	250.0	200.0
Available-for-sale Securities	2,244.5	1,274.6	(Present Value Discount)	△78.9	△69.9
Long-term Loans	0.7	0.6	Government Subsidy	77.0	69.0
Long-term Financial Instruments	32.2	397.0	Bonds	12,250.0	22,130.0
2. Long-term Trade and other Receivables	11.2	11.1	(Discounts (Premiums) on Bonds Payable)	6.9	16.5
Long-term Deposits Provided	11.6	11.9	2. Non-current Non-financial Liabilities	7.4	7.4
(Present Value Discount)	△0.4	△0.8	Other Non-current Non-financial Liabilities	7.4	7.4
3. Tangible Assets	4.5	3.8	3. Employee Benefit Liabilities	1.1	-
			Net Defined Benefit Liabilities and etc.	1.1	-
Lands	0.1	0.1	4. Non-current Provisions	0.3	-
			Long-term Legal Proceedings Provisions	0.3	-
Buildings	1.5	1.5	Total Liabilities	22,648.5	23,927.8
Structures	0.9	1.0			
Other Tangible Assets	20.9	19.5			
(Accumulated depreciation)	△18.9	△18.4			
4. Intangible Assets Other than Goodwill	0.6	0.6			
Other Intangible Assets	0.6	0.6	Deficit	△6,230.2	△6,608.7
5. Non-current Non-financial Assets	6,818.2	9,749.2	Current Period: (+) 380.9		
Long-term Advanced Payment	0.4	0.8	Previous Period: (+) 709.7		
Long-term Indemnity Receivables	25,467.7	27,859.3	Elements of Other Equity	25.0	4.4
(Allowance for Doubtful Accounts)	△18,649.9	△18,110.9	Accumulated Other Comprehensive Gains/Losses	25.0	4.4
6. Net Defined Benefit Assets	-	1.0	Total Equity	△6,205.2	△6,604.3
Total Assets	16,443.3	17,323.5	Total Liabilities and Equity	16,443.3	17,323.5

Table Ⅹ-2

Condensed Income Statement

Current period : For the year ended December 31, 2014
Previous period : For the year ended December 31, 2013

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

Categories	Current Period	Previous Period
Income from Operations (A=B–C)	834.4	543.9
Operating Revenues (B)	1,747.4	1,467.6
(Premium Revenues)	1,484.8	1,242.0
(Interest Revenues)	239.0	203.6
(Transfer Income)	15.0	11.0
(Other Income)	8.6	11.0
Operating Expenses (C)	913.0	923.7
(Interest Expenses)	815.1	823.6
(Personnel Expenses)	56.6	57.9
(General Expenses)	36.8	36.6
(Others)	4.5	5.6
Other Gains and Losses (D)	△484.3	198.7
Net Reversal of (Transfer to) Other Provisions	114.4	△131.1
Net Reversal of (Transfer to) Allowance for Doubtful Accounts	△603.5	327.1
Others	4.8	2.7
Financial Gains and Losses (E)	30.8	△32.9
(Gains on Disposal of Financial Assets)	30.8	△13.1
(Impairment Loss of Available-for-sale Securities)	-	△19.8
Net Profit of Loss for Current Period (F=A+D+E)	380.9	709.7
Other Comprehensive Income (G)	18.2	△6.1
Total Comprehensive Income (H=F+G)	399.1	703.6

Table Ⅹ-3

Condensed Statement of Financial Position

Current period : As of December 31, 2014
Previous period : As of December 31, 2013

(DIF) (Unit : KRW 1 billion)

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
Current Assets	7,329.3	5,883.9	Current Liabilities	10,128.6	1,569.1
1. Cash and Cash Equivalents	152.6	158.3	1. Accounts and Other Payables(Accrued interest etc.)	230.4	234.2
(Government Subsidy)	-	-	2. Current Financial Liabilities	9,881.6	1,200.3
2. Current Financial Assets	6,360.5	5,083.3	Short-term Borrowings	-	-
Available-for-sale Securities	1,218.5	1,802.4	Bonds	9,880.0	1,200.0
Short-term Loans	121.1	120.9	Discounts on Bonds Payable	1.6	0.3
(Allowance for Doubtful Accounts)	△55.9	△52.1	3. Current Non-financial Liabilities	-	3.5
Short-term Financial Instruments	5,076.8	3,212.1	Shor-term Advances Received	-	-
3. Trade and Other Receivables	816.2	642.3	Short-term Deposits	-	3.5
Short-term Accrued Income	818.2	644.5	4. Current Provisions	16.6	131.1
(Allowance for Doubtful Accounts)	△2.0	△2.2	Non-current Liabilities	12,505.2	22,345.6
Non-current Assets	9,104.6	11,429.6	1. Non-current Financial Liabilities	12,504.9	22,345.6
1. Non-current Financial Assets	2,276.7	1,671.6	Long-term Borrowings	250.0	200.0
2. Non-current Non-financial Assets	6,827.9	9,758.0	(Present Value Discount)	△78.9	△69.9
Long-term Indemnity Receivables	25,467.7	27,859.3	Government Subsidy	77.0	69.0
(Allowance for Doubtful Accounts)	△18,649.9	△18,110.9	Bonds	12,250.0	22,130.0
Other Non-current Non-financial Assets	10.1	9.6	(Discounts (Premiums) on Bonds Payable)	6.8	16.5
			2. Non-current Provisions	0.3	-
			Total Liabilities	22,633.8	23,914.7
			Deficit	△6,225.0	△6,605.7
			Current Period : (+) 380.7		
			Previous Period : (+) 708.9		
			Elements of Other Equity	25.1	4.5
			Accumulated Other Comprehensive Gains/Losses	25.1	4.5
			Total Equity	△6,199.9	△6,601.2
Total Assets	16,433.9	17,313.5	Total Liabilities and Equity	16,433.9	17,313.5

Table Ⅹ-4

Condensed Income Statement

Current period : For the year ended December 31, 2014
Previous period : For the year ended December 31, 2013

(DIF) (Unit : KRW 1 billion)

Categories	Current Period	Previous Period
Income from Operations (A=B–C)	834.8	543.6
Operating Revenues (B)	1,738.8	1,456.5
(Premium Revenues)	1,484.8	1,242.0
(Interest Revenues)	238.9	203.5
(Transfer Income)	15.1	11.0
Operating Expenses (C)	904.0	912.9
(Interest Expenses)	815.2	823.6
(Operating Expenses and etc.)	88.8	89.3
Other Gains and Losses (D)	△484.9	198.2
Net Reversal of (Transfer to) Other Provisions	114.3	△131.1
Net Reversal of (Transfer to) Allowance for Doubtful Accounts	△603.5	327.1
Others	4.3	2.2
Financial Gains and Losses (E)	30.8	△32.9
(Gains on Disposal of Financial Assets)	30.8	△13.1
(Impairment Loss of Available-for-sale Securities)	-	△19.8
Net Profit of Loss for Current Period (F=A+D+E)	380.7	708.9
Other Comprehensive Income (G)	20.6	△8.2
Total Comprehensive Income (H=F+G)	401.3	700.7

Table Ⅹ-5

Condensed Statement of Financial Position

Current period : As of December 31, 2014
Previous period : As of December 31, 2013

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

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
Current Assets	2.1	1.7	Current Liabilities	6.2	5.7
1. Cash and Cash Equivalents	2.0	1.5	1. Accounts and Other Payables (Accrued Expenses, Yearly Vacation Related)	3.5	2.7
2. Trade and Other Receivables	-	-	2. Current Non-financial Liabilities	0.9	1.0
Short-term Accrued Income	-	-	Short-term Deposits	0.9	1.0
3. Current Non-financial Assets	0.1	0.2	3. Current Provisions	1.8	2.0
Short-term Prepaid Expenses and etc.	0.1	0.2	Management Assessment Incentive Liabilities	1.8	2.0
Non-current Assets	17.5	17.9	Non-current Liabilities	18.6	16.9
1. Non-current Financial Assets	0.7	0.6	1. Non-current Non-financial Liabilities	17.5	16.9
Long-term Loans	0.7	0.6	Other Non-current Non-financial Liabilities	17.5	16.9
2. Long-term Trade and Other Receivables	11.2	11.1	2. Employee Benefit Liabilities	1.1	-
Long-term Deposits Provided	11.6	11.9	Net Defined Benefit Liabilities and etc.	1.1	-
(Present Value Discount)	△0.4	△0.8	Total Liabilities	24.8	22.7
3. Tangible Assets	4.6	3.8			
Lands	0.1	0.1			
Buildings	1.4	1.5			
Structures	0.2	1.0			
Other Tangible Assets	20.9	19.5			
(Accumulated Depreciation)	△18.0	△18.4			
4. Intangible Assets Other than Goodwill	0.6	0.6			
Other Intangible Assets	0.6	0.6	Deficit	△5.2	△3.0
5. Non-current Non-financial Assets	0.4	0.8	Current Period: △2.2		
Long-term Advanced Payment	0.4	0.8	Previous Period : (+)3.0		
6. Net Defined Benefit Assets	-	1.0	Total Equity	△5.2	△3.0
Total Assets	19.6	19.6	Total Liabilities and Equity	19.6	19.6

Table Ⅹ-6

Condensed Income Statement

Current period : For the year ended December 31, 2014
Previous period : For the year ended December 31, 2013

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

Categories	Current Period	Previous Period
Income from Operations (A=B–C)	△0.7	0.2
Operating Revenues (B)	92.7	94.8
(Interest Revenues)	0.1	0.1
(Revenues of Funds Transfer)	92.6	94.7
Operating Expenses (C)	93.4	94.5
(Personnel Expenses)	56.6	57.9
(General Expenses)	36.8	36.6
Other Gains and Losses (D)	0.9	0.5
Net Reversal of Other Provisions	0.2	0.1
Others	0.7	0.4
Net Profit of Loss for Current Period (F=A+D+E)	0.2	0.8
Other Comprehensive Income (G)	△2.4	2.2
Total Comprehensive Income (H=F+G)	△2.2	3.0

Table Ⅹ-7

Condensed Statement of Financial Position

Current period : As of December 31, 2014
Previous period : As of December 31, 2013

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

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
Current Assets	2,239.8	3,117.3	Current Liabilities	4,896.6	5,206.3
1. Cash and Cash Equivalents	93.7	226.7	1. Current Portion of Long-term Liabilities	4,690.1	5,012.0
2. Short-term Financial Instruments	2,030.4	2,587.3	2. Other Current Liabilities	206.5	194.3
3. Short-term Investment Securities	100.4	285.7			
4. Receivables	1,111.5	1,385.9			
(Allowance for Doubtful Accounts)	△1,102.8	△1,372.2	Long-term Borrowing Liabilities	13,844.4	17,533.7
5. Short-term Loans	11.3	7.3	1. Public Bonds	13,844.4	17,533.7
(Allowance for Doubtful Accounts)	△4.7	△3.5			
Investment Assets	6,856.2	9,308.8			
1. Long-term Loans	14,368.6	14,379.9			
(Allowance for Doubtful Accounts)	△13,975.4	△13,980.9			
2. Long-term Investment Securities	6,463.0	8,909.8			
			Total Liabilities	18,741.0	22,740.0
Other Non-current Assets	11.0	8.2			
1. Long-term Notes Receivables	4.1	7.1	Net Asset		
(Allowance for Doubtful Accounts)	△4.1	△7.0	1. Net Asset	52,306.4	52,306.4
2. Other Non-current Assets	11.0	8.1	2. Reserves and Surplus	△63,055.0	△65,516.7
			3. Net Asset Adjustment	1,114.6	2,904.6
			Total Net Asset	△9,634.0	△10,305.7
Total Assets	9,107.0	12,434.3	Total Liabilities and Net Asset	9,107.0	12,434.3

Table Ⅹ-8

Condensed Financial Operating Statement

Current period : For the year ended December 31, 2014
Previous period : For the year ended December 31, 2013

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

Categories	Current Period			Previous Period		
	Total Cost	Profit	Net Cost	Total Cost	Profit	Net Cost
Ⅰ. Program Net Cost	**876.4**	**1,956.3**	**△1,079.9**	**1,174.1**	**699.0**	**475.1**
1. Financial Policy Support	876.4	1,956.3	△1,079.9	1,174.1	699.0	75.1
Loss on Disposal of Long-term Investment Securities	149.2			-		
Payment Fees	6.6			3.2		
Allownce for Doubtful Accounts	32.8			276.1		
Interest Expense on Public Bonds and etc.	687.8			894.8		
Gains on Disposal of Long-term Investment Securities		1,595.2			0.1	
Gains on Disposal of Other Investment Securities		1.4			1.1	
Interest Income from Loans to Non-Government Organizations		132.6			355.1	
Reversal of Impairment Loss on Investment Securities		78.6			41.3	
Reversal of Allowances for Doubtful Accounts		39.8			7.0	
Dividend Income		108.6			294.4	
Miscellaneous Revenue		0.1			-	
Ⅱ. Management and Administrative Expenses			**7.6**			**10.0**
1. Personnel Expenses			-			-
2. General Expenses			7.6			10.0
Ⅲ. Non-Allocated Costs			**-**			**3.0**
1. Payment Fees			-			0.1
2. Other Expenses			-			2.9
Ⅳ. Non-Allocated Revenues			**33.4**			**53.2**
1. Interest Income			21.9			46.4
2. Valuation Gains			2.4			-
3. Other Income			9.1			6.8
Ⅴ. Net Cost for Financial Operation (Ⅰ + Ⅱ + Ⅲ - Ⅳ)			**△1,105.7**			**434.9**
Ⅵ. Non-Exchange Revenues			**1,356.0**			**1,283.0**
1. Revenues from Contributions			1,356.0			1,283.0
Ⅶ. Financial Operation Result (Ⅴ - Ⅵ)			**△2,461.7**			**△848.1**

Appendix

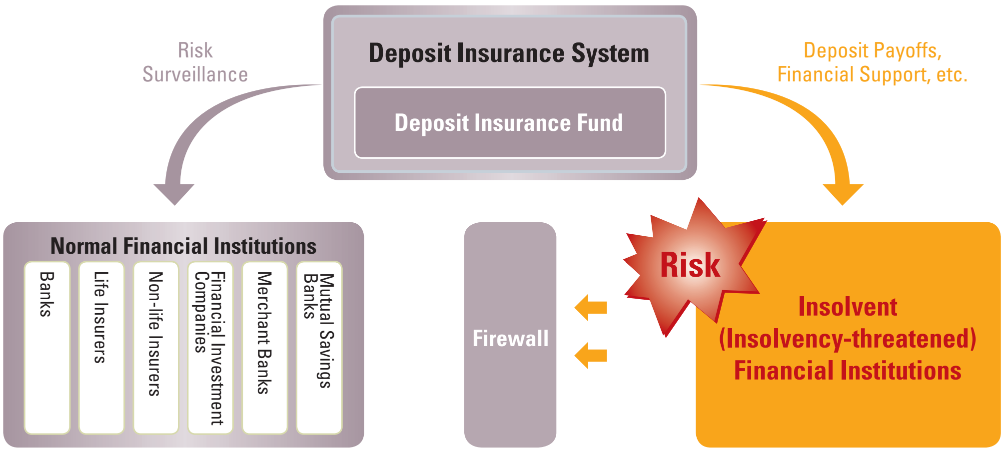
1. Overview of the Deposit Insurance System
2. Independent Evaluation
3. Summary of Major Events in 2014
4. Statistics
5. Acronyms

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, 2014)

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</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 2014, the KDIC submitted its managerial performance report for 2013 to the Minister of Strategy and Finance 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.

In its announcement in June 2014, the evaluation team gave the KDIC an "C" grade for the performance of the KDIC and its chairman & president in 2013.

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 2013 and submitted it to the Fund Management Evaluation Committee in February 2014. The Committee made available the evaluation results in May 2014 after conducting due diligence and opinion gathering.

According to the fund (asset) management evaluation results for 2013, the Redemption Fund gained the highest rating of “excellent” (given to 6 out of 44 funds). This attests to the fact that the KDIC has the strongest fund management ability.

Anti-Corruption Policy Evaluation and Integrity Assessment for Public Institutions

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

According to the anti-corruption policy evaluation findings for 2014 unveiled in February 2015, the KDIC was rated grade 2 (excellence). The KDIC achieved grade 2 or higher rating every year since 2010.

※ Number of organizations rated grade 2 (excellence) or higher for the last three consecutive years: 40 out of 254

In a public institution integrity survey for 2014 targeting its own employees and customers, the KDIC obtained grade 2 for five consecutive years since 2010.

Inspection of Independent Audit Activities by Internal Audit Unit

Pursuant to Article 39 of the Act on Public Sector Audits, the KDIC submitted its independent audit results to the Board of Audit and Inspection in January each year and underwent an on-site inspection by an assessment team whose members included audit staff of other organizations. The inspection covered four areas: audit organization & human resources management, audit activities, audit performance, and follow-up management.

According to the inspection findings released in July 2014, the KDIC was rated 'excellent,' the highest grade, for two consecutive years. Even among the five organizations rated 'excellent' out of the 33 quasi-government organizations, it was recognized as an 'outstanding institution.'

3. Summary of Major Events in 2014

Date	Major Events
Jan. 20	Recovered KRW 38.1 billion through a block sale of a 0.55% stake in Daewoo Shipbuilding & Marine Engineering
Jan.~Mar.	Recovered KRW 1.6 billion by selling a 1.27% stake in Jeju Bank on the stock market
Feb. 27	Grand Prize conferred on the KDIC in the Korea Employers Federation's Labor-Management Cooperation Award
Mar. 7	Yes Savings Bank sold
Mar. 28	Recovered KRW 27.9 billion in dividends from Hanwha Life Insurance
Mar. 31	Concluded an MOU with the UK's FSCS
Mar. 31	Recovered KRW 7.3 billion in loans from Daewon Savings Bank
Apr. 8~9	Recovered KRW 400 million in dividends from Jeju Bank
Apr. 14	Initial risk-based premiums for insured financial institutions decided
Apr. 21	Yesung Savings Bank sold
Apr. 25	Recovered KRW 80.3 billion in dividends from Seoul Guarantee Insurance
Apr. 30	Yeshin Savings Bank sold
May 2	Haesol Savings Bank subjected to a P&A
Jun. 13	Stock sale/purchase agreement concluded regarding a 56.97% stake in Kwangju Bank
Jun. 23	Woori Bank privatization plan formulated
Jun. 30	Stock sale/purchase agreement concluded regarding a 56.97% stake in Kyongnam Bank
Jul. 3	Yenarae Savings Bank and Yeju Savings Bank sold
Jul. 23	Concluded an MOU with the Philippine Deposit Insurance Corporation
Jul. 23	Recovered KRW 22.6 billion through a block sale of a 15.11% stake in Jeju Bank
Aug. 13	Concluded an MOU with the Deposit Insurance Corporation of Mongolia
Oct. 10	Recovered KRW 1,226.9 billion by selling Kyongnam Bank to BS Financial Group Recovered KRW 500.3 billion by selling Kwangju Bank to JBFinancial Group
Nov. 26	Preferred bidder for Golden Bridge Savings Bank selected
Dec. 2	Concluded an MOU with the Albanian Deposit Insurance Agency and the Laos Depositor Protection Fund
Dec. 3~4	IADI-KDIC International Seminar for Expertise Sharing on Deposit Insurance held
Dec. 8	Recovered KRW 453.1 billion by selling a 5.94% stake in Woori Bank
Dec. 26	Hanmag Securities subjected to a P&A
Dec. 29	Award conferred on the KDIC by the minister of the Korea Forest Service in recognition of meritorious service in forestry policy development in 2014

4. Statistics

Insured Financial Institutions[1)]

(As of Dec.31, 2014, Unit: No. of financial institutions)

Financial Sector	2008	2009	2010	2011	2012	2013	2014
Banks	55	54	54	55	56	57	56
(Domestic)	17	17	17	17	17	17	17
(Foreign)	38	37	37	38	39	40	39
Investment Companies[2)]	60	115	118	117	115	117	116
Insurance Companies	43	43	44	44	46	47	48
(Life)	22	22	23	23	24	25	25
(Non-Life)	21	21	21	21	22	22	23
Merchant Banks	2	2	1	1	1	1	1
MSBs[3)]	106	106	105	107	101	89	80
Total	266	320	322	324	319	311	301

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, 2014, Unit: KRW 1 billion)

Financial Sector	2013(A)	2014(B)	Change(B-A)
Banks	921,318.4	956,870.1	35,551.7
Investment Companies	18,346.9	18,380.6	33.7
Insurance Companies	494,853.6	549,556.6	54,703.0
(Life)	397,420.6	435,100.8	37,680.2
(Non-Life)	97,433.0	114,455.8	17,022.8
Merchant Banks	708.8	684.7	△24.1
MSBs	34,252.9	30,792.0	△3,460.9
Total	1,469,480.6	1,556,284.0	86,803.4

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, 2014, Unit: KRW 1 billion)

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	2014
Banks	161.3	197.5	263.0	413.9	436.1	1,471.8	502.7	497.6	596.5	681.1	778.9	851.8	897.3	959.0
Investment Companies	-	5.1	15.6	21.8	26.2	68.7	15.6	18.5	16.9	21.3	22.7	22.6	20.2	20.0
Insurance Companies	232.2	126.0	178.1	241.6	278.0	1,055.9	154.3	168.3	178.2	194.3	213.7	235.2	300.4	317.6
(Life)	180.0	101.1	140.2	193.8	229.5	844.6	126.5	136.4	143.0	153.4	165.0	176.0	229.7	238.6
(Non-Life)	52.2	24.9	37.9	47.8	48.5	211.3	27.8	31.9	35.2	40.9	48.7	59.2	70.7	79.0
Merchant Banks	98.0	33.6	23.3	13.9	13.0	181.8	0.7	0.8	1.0	1.9	1.2	1.0	0.9	0.7
MSBs	240.7	37.7	32.3	52.9	60.4	424.0	43.0	49.1	59.3	71.5	71.8	52.1	39.4	32.3
Credit Unions	40.2	16.2	28.1	40.7	64.1	189.3	11.6	12.9	13.7	17.0	20.5	22.8	24.8	26.3
Total	772.4	416.1	540.4	784.8	877.8	3,391.5	728.0	747.2	865.6	987.1	1,108.7	1,185.5	1,283.0	1,356.0

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, 2014, Unit: KRW 1 billion)

Financial Sector	2003[1]	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Banks	477.5	496.0	486.9	498.7	502.7	480.8	529.1	545.1	479.5	374.8	394.7	419.7	5,685.5
Investment Companies	31.2	33.6	30.0	30.3	25.6	30.5	27.6	28.4	28.3	0.2	-	-	265.8
Insurance Companies	311.5	340.3	373.7	405.9	445.5	485.2	511.3	330.7	306.2	8.6	70.8	125.6	3,715.3
(Life)	258.0	283.2	310.9	336.2	365.4	393.4	409.7	260.9	236.2	-	22.1	81.1	2,957.7
(Non-Life)	53.5	57.1	62.8	69.7	80.1	91.8	101.6	69.8	70.0	10.0	48.7	44.5	759.6
Merchant Banks	7.3	1.7	1.5	1.9	2.2	2.4	2.9	3.4	1.8	0.8	0.8	0.6	27.2
MSBs	66.7	79.3	97.4	111.6	130.6	148.3	173.7	252.4	233.1	134.4	25.3	25.6	1,478.5
Special Account[2]	-	-	-	-	-	-	-	-	174.2	581.6	667.2	615.8	2,038.9
Total[3]	894.2	950.9	989.5	1,048.4	1,106.6	1,147.2	1,244.6	1,160.0	1,223.1	1,100.4	1,159.0	1,187.2	13,211.2

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, 2014, Unit: KRW 1 billion)

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

Note : 1) Cumulative issue amount that includes conversion issuance

Financial Assistance from the DIF Bond Redemption Fund

(As of Dec. 31, 2014, Unit: KRW 1 billion)

Financial Sector	Equity Investment	Contributions	Deposit Payoffs[1]	Asset Purchase[1]	Loans	Total
Banks	22,203.9	13,918.9	-	8,106.4	-	44,229.2
Investment Companies	9,976.9	414.3	11.3	2,123.9	-	12,526.4
Insurance Companies	15,919.8	3,119.2	-	349.5	-	19,388.5
(Life)	5,669.7	2,751.9	-	349.5	-	8,771.0
(Non-Life)	10,250.1	367.3	-	-	-	10,617.4
Merchant Banks	2,693.1	743.1	18,271.8	-	-	21,708.0
MSBs	0.1	416.1	7,289.2	-	596.9	8,302.3
Credit Unions	-	-	4,740.2	-	-	4,740.2
Total	50,793.7	18,611.7	30,312.4	10,579.9	596.9	110,894.5

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

Details of Financial Assistance from the DIF Bond Redemption Fund

(As of Dec. 31, 2014, Unit: KRW 1 billion)

Injection Type & Recipient Institutions		Amount Provided
Equity Investment	Seoul Bank	4,680.9
	Korea First Bank	5,024.8
	Hanvit Bank	6,028.6
	Five acquiring banks including Kookmin Bank	1,192.3
	Hana Bank (Merger of Hana Bank and Boram Bank)	329.5
	Chohung Bank	2,717.9
	Peace Bank	493.0
	Kyungnam Bank	259.0
	Kwangju Bank	170.4
	Jeju Bank	53.1
	National Federation of Fisheries Cooperatives	1,158.1
	National Agricultural Cooperative Federation	96.2
	Hanareum Banking Corporation	30.0
	Hanaro Merchant Bank	2,491.2
	Hans, Korea, Joongang Merchant Bank	0.2
	Youngnam Merchant Bank	171.7
	Hanareum MSB	0.1
	Seoul Guarantee Insurance Corporation	10,250.0
	Korea Life Insurance	3,550.0
	Kookmin, Taepyongyang, Doowon, Dong-A, Handuck, Chosun Life Insurance	2,119.7
	Korea Investment Trust Management & Securities	5,164.9
	Daehan Investment Trust Securities	2,900.3
	KR&C	0.1
	Daehan, Kookje Fire Insurance	0.1
	Hyundai Investment & Securities	1,911.6
	Sub-total	50,793.7
Contribution	Kookmin, Housing & Commercial, Shinhan, Hana, Koram Bank (five acquiring banks)	9,711.3
	Hanvit, Kyungnam, Gwangju, Peace, Seoul, Jeju Bank	2,967.7
	National Agricultural Cooperative Federation	87.0
	Samsung, Heungkuk, Kyobo, Allianz Life (four acquiring insurance companies)	1,164.1
	Korea First Bank (KFB)	1,152.8
	Korea, Hyundai, Kumho, Tongyang, SK Life	1,422.0
	Financial companies including Boomin MSB	416.1
	Daehan Fire	50.9
	Woori (Former Hanaro Merchant Bank) Merchant Bank	743.1
	Kookje Fire	73.9
	Tongyang, Samsung, Hyundai, LG, Dongbu Fire	242.5
	Green Cross (Daishin) Life	139.3
	KB (Hanil) Life	26.5
	Korea Investment Trust Management & Securities	78.4
	Daehan Investment Trust Securities	63.0
	Hyundai Investment & Securities	273.0
	Sub-total	18,611.7

Injection Type & Recipient Institutions			Amount Provided
Deposit Payoffs	Deposit Payoffs	Credit Unions	4,740.2
		Financial Investment Companies (4 companies)	11.3
		MSBs	1,233.5
		Youngnam, Hansol, Korea Merchant Bank	0.1
	Payment through Resolution Financial Institutions	Hanareum Banking Corporation(in resolving 18 merchant banks)	18,271.7
		Hanareum MSB (in resolving 59 MSBs)	6,055.7
	Sub-total		30,312.4
Asset Purchase	Direct Purchase	Korea First Bank (BW)	24.9
		Korea First Bank (Shares of KFB's Vietnamand New York subsidiaries)	16.5
		Hyundai Investment & Securities(Shares of Hyundai Autonet, etc.)	857.0
	Indirect Purchase by Lending Money to the RFC	Five acquiring banks including Kookmin Bank (KB)	158.8
		Korea First Bank	7,906.3
		Dong-A, Kookmin, Taepyongyang, Daehan, SK Life	349.5
		Korea Investment Trust Management & Securities	483.0
		Daehan Investment Trust Securities	653.9
		Hyundai Investment & Securities	130.0
	Sub-total		10,579.9
Loans		MSB (13 MSBs)	596.9
		Sub-total	596.9
Aggregate Total			110,894.5

Financial Assistance from the DIF

(As of Dec. 31, 2014, Unit: KRW 1 billion)

Financial Sector	Equity Investment	Contributions	Deposit Payoffs	Loans	Provisional Deposit Payment	Total[1]
Banks	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	22.6	-	-	-	22.6
(Life)	-	.-	-	-	-	-
(Non-Life)	-	22.6	-	-	-	22.6
Merchant Banks	-	.-	-	-	-	-
MSBs	121.1	2,454.2	1,441.2	489.1	21.9	4,527.5
Special Account	365.5	22,935.4	3,624.7	113.6	77.5	27,116.7
Total	486.6	25,412.2	5,065.9	602.7	99.4	31,666.8

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, 2014, Unit: KRW 1 billion)

Year	Amount
2000 and before	10,345.7
2001	4,117.9
2002	2,663.4
2003	5,603.4
2004	5,667.2
2005	3,611.7
2006	3,400.1
2007	4,366.0
2008	2,398.0
2009	2,411.8
2010	2,929.5
2011	1,267.9
2012	1,376.9
2013	799.2
2014	2,444.9
Total[1)]	53,403.6

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, 2014, Unit: KRW 1 billion)

Financial Sector	Recovery of Equity Investment	Settlement of Contributions, etc.	Dividends from Bankruptcy Estates	Asset Sales[1)]	Collection of Loans	Total
Banks	18,494.5	70.1	1,847.2	6,603.9	-	27,015.7
Investment Companies	1,212.1	323.1	7.8	1,800.4	-	3,343.5
Insurance Companies	3,917.7	88.8	431.0	241.9	-	4,679.5
(Life)	1,448.0	84.8	366.2	241.9	-	2,140.9
(Non-Life)	2,469.7	4.0	64.8	-	-	2,538.5
Merchant Banks	160.5	5.9	8,968.9	-	-	9,135.4
MSBs	-	34.3	5,179.1	-	596.9	5,810.3
Credit Unions	-	0.4	3,418.8	-	-	3,419.2
Total	23,784.9	522.6	19,853.0	8,646.2	596.9	53,403.6

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

Progress in Financial Restructuring

(As of Jun. 30, 2014, 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	196	244	593	1,033	50.1	213	1,242
• Merchant Banks	30	22	8	-	30	100.0	1	1
• Investment Companies	36	6	9	3	18	50.0	32	50
• Insurance Companies	50	10	7	7	24	48.0	30	56
• Asset Management Companies	24	7	10	1	18	75.0	80	86
• MSBs	231	143	31	1	175	75.8	31	87
• Credit Unions	1,666	2	166	581	749	45.0	18	935
• Lease Companies	25	6	13	-	19	76.0	21	27
Total	2,095	201	255	593	1,049	50.1	214	1,260

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, 2014, Unit: KRW 1 trillion)

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