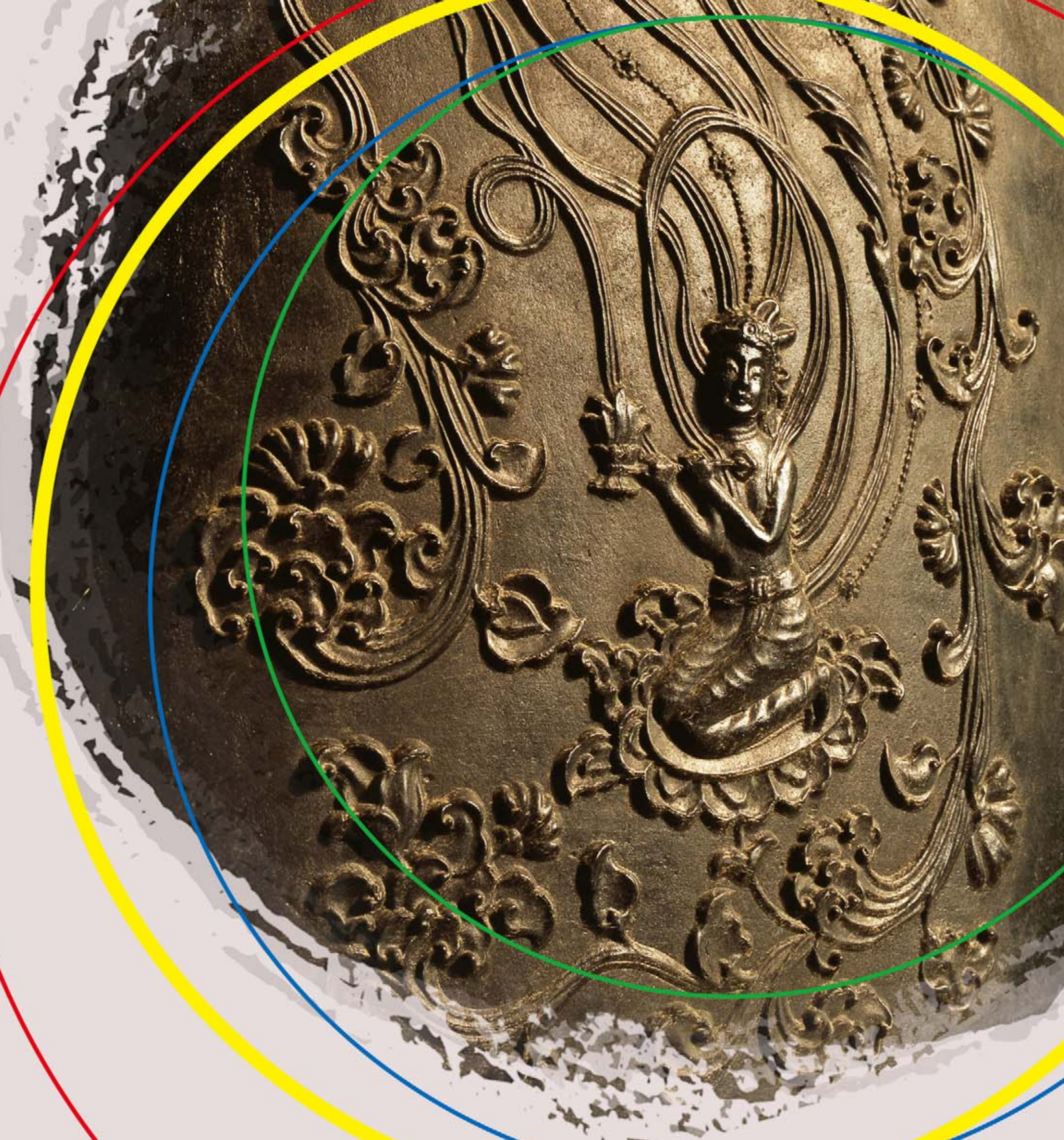

2012 ANNUAL REPORT

KOREA DEPOSIT INSURANCE CORPORATION

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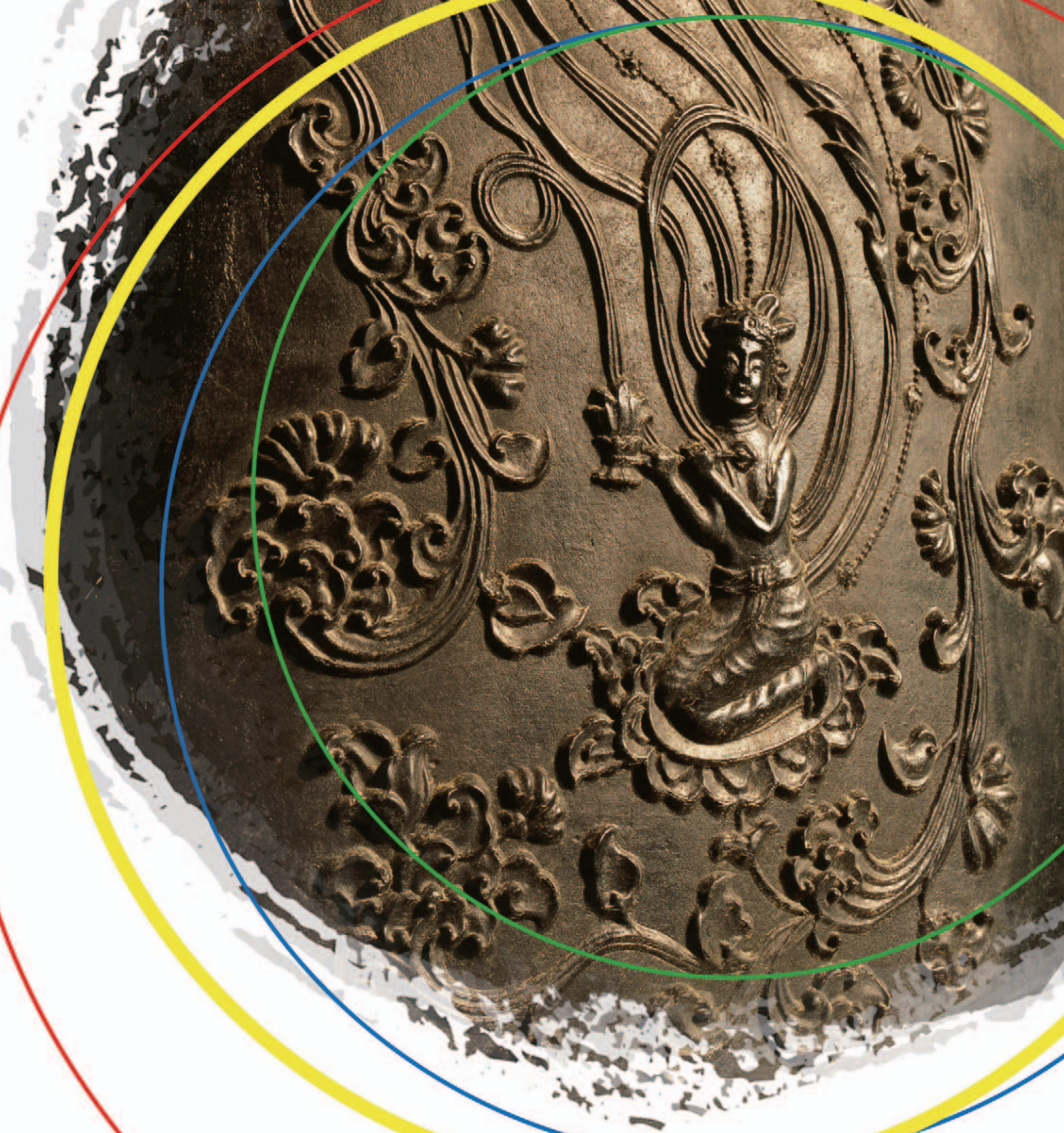

2012
ANNUAL REPORT

KOREA DEPOSIT INSURANCE CORPORATION

KOREA DEPOSIT
INSURANCE CORPORATION

Heavenly maiden on the Divine Bell of King Seongdeok the Great (771 A.D.)

2012 Deposit Insurance Organization of the Year Award

The Korea Deposit Insurance Corporation (KDIC) received the 2012 Deposit Insurance Organization of the Year Award at the 11th IADI Annual General Meeting in London on October 25, 2012.

The IADI annually confers the award upon a member organization that made a significant contribution to domestic financial stability and international cooperation concerning deposit insurance.

Last year, the world economy, especially the U.S. and Europe, continued to face slower growth and uncertainty brought on by fiscal deficits. The Korean economy, too, failed to regain momentum as decreased exports and increasing household debts put downward pressure on consumption and investment.

Amid these difficult economic conditions, Korean financial institutions struggled. After 15 mutual savings bank failures in 2011, another 8 failed in 2012 with one non-life insurer declared insolvent.

Against this backdrop, the KDIC has made every effort to successfully carry out its mission of ensuring financial stability and protecting depositors, taking advantage of many years of experience and expertise.

In particular, the KDIC adopted a new approach to resolution in 2012 to resolve failed mutual savings banks in a prompt and efficient manner without any disruption to financial services. This helped to reduce depositors' inconvenience and market confusion.

In the course of resolving failed mutual savings banks, the KDIC took special care to efficiently manage troubled assets owned by those banks, for example, wholly-owned special purpose vehicles and project financing loans, and find sales methods to increase the assets' potential for revenue in order to maximize recovery.

The KDIC also conducted thorough investigations against the owners and employees of the failed mutual savings banks to hold them accountable for their actions, which imposed strict discipline on the financial industry and encouraged the adoption of sound management practices.

"KDIC re-assessed its vision and core values to make sure that they reflect the changes in the financial landscape after the recent global financial crisis. The renewed vision statement shows the KDIC's commitment to reinventing itself as a leading deposit insurer trusted by depositors and markets."

FurthermoreFurthermore, the KDIC has significantly enhanced efforts to minimize losses to the Deposit Insurance Fund through early detection of risks. To do that, the KDIC not only participated in supervisory examinations by the regulatory authority of large and financial group-affiliated mutual savings banks but also conducted its own independent examinations of at-risk mutual savings banks.

In the meantime, initiatives for corporate social responsibility continued to be undertaken. The KDIC is conducting various programs to raise awareness of deposit insurance among the financially challenged, ensure banks' compliance with the requirements for the signage and disclosure of KDIC coverage and contribute to social cohesion and integration.

In addition, the KDIC re-assessed its vision and core values to make sure that they reflect the changes in the financial landscape after the recent global financial crisis. The renewed vision statement shows the KDIC's commitment to reinventing itself as a leading deposit insurer trusted by depositors and markets.

Going forward, the KDIC will remain committed to improving its systems and providing strong leadership in the areas of depositor protection and financial stability.

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

Joo Hyun KIM

Chairman & President

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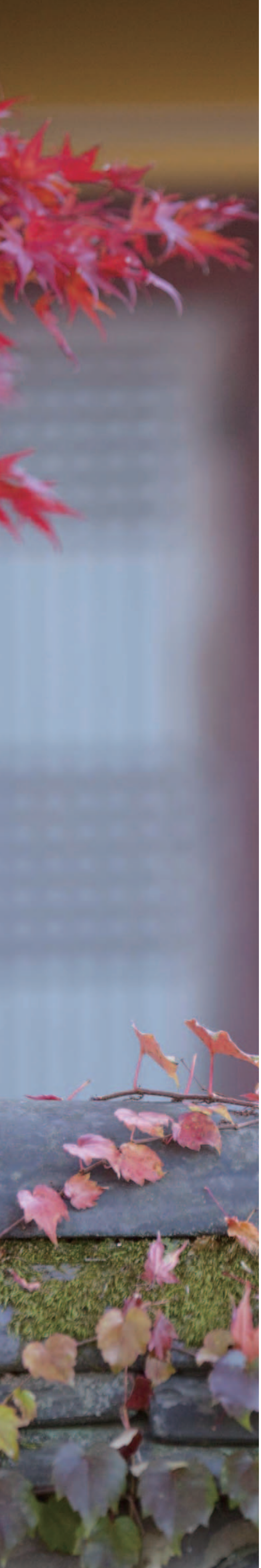

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Carillon, Korean set of bells

I
Major Initiatives

I

Major Initiatives

The last several years have witnessed significant upheavals in the financial services industry. The operations of sixteen mutual savings banks were suspended in 2011, and another eight mutual savings banks were suspended in 2012. One non-life insurance company was declared insolvent. Through all the turmoil, the Korea Deposit Insurance Corporation (KDIC) has strived to minimize the resulting inconvenience to depositors and stabilize the financial market.

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

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

Also, the KDIC bolstered depositor protection for people with poor access to financial information. This was part of its larger, ongoing effort to safeguard depositors and maintain the stability of the financial system. In response to the sweeping changes that have occurred at home and abroad in the aftermath of the global financial crisis, the KDIC overhauled its vision and core values.

Proactive Depositor Protection Services

To better protect depositors with deposits in excess of KRW 50 million at mutual savings banks, the KDIC expanded the interim deposit payment limit to up to 40% of principal (maximum KRW 50 million) and improved its system to prevent depositors from sustaining interest losses in case payment of deposit insurance is delayed. To brace for a possible IT system failure at the time of interim deposit payment, the KDIC increased the number of banks which would provide payment services for deposit reimbursement and where reserve accounts would be maintained, thereby building a network of over 300 agent banks.

To address the inconvenience experienced by borrowers of failed mutual savings banks, the KDIC organized a loan review committee to allow adjustment of loan terms and payment plans (if necessary), set guidelines for due date extension, and provided information on government-sponsored low-interest loans for low-income earners including the Haetsal (Sunshine) Loan. For the purpose of minimizing inconvenience caused to 374 depositors at Hanju Savings Bank who suffered KRW 16.5 billion of losses due to employee embezzlement, the KDIC swiftly completed its cash flow investigation and provided deposit protection to all of the victims.

The KDIC set up a "exclusive desk" for the verification of compliance by member institutions with the KDIC's requirements for public notification of deposit insurance coverage to upgrade guidance on KDIC signage display so that vulnerable groups with poor access to information could avoid any unnecessary damage. On its webpage, it continued to provide a simulation calculator to allow visitors to find out how much of their deposits are protected. In 2012, to assess the level of compliance with its signage display requirements, the KDIC inspected 639 branches of financial institutions, an increase of 35% (167 branches) from the previous year. The inspections focused on mutual savings banks, many of whose customers lack access to financial information, bank branches with a large number of depositors, and customer centers of insurance companies. This helped to prevent losses to financial consumers.

In consultation with the Agency for Traditional Market Administration, the Korea Association of Senior Welfare Centers, and other such organizations, the KDIC provided financial literacy education programs at so-called market merchant universities and senior welfare centers, and it also opened a webpage offering such education. At the same time, KDIC employees regularly visited elementary schools around the nation to give financial education for elementary school students in cooperation with the Ministry of Education, Science and Technology and participated in the Economic Education Encouragement Expo hosted by the Korea Association of Economic Education.

Table Ⅰ-1 Financial Literacy Education in 2012

(As of Dec. 31, 2012, Unit: No. of Sessions and Persons)

Category	Education			Campaigns		Total
	Elementary School Students	Market Merchant University Students	Other	Traditional Markets	Other	
No. of Sessions	213	98	5	143	7	466
No. of People	15,904	5,889	157	24,974	45,732	92,656

To minimize losses suffered by financial consumers without sufficient access to financial information including the elderly and by persons with over KRW 50 million in deposits, the KDIC boosted publicity regarding its deposit protection scheme through local TV stations in major cities, newspapers, radio, public service announcements at theaters, adds on public transportation, and other such means.

The KDIC proactively provided education on deposit insurance (e.g. the coverage limit) for traditional market merchants and other such small business proprietors. It conducted on-site training for employees of insured financial institutions and the general public as well.

Improvement of Global Cooperation with Foreign Deposit Insurers

The global financial crisis in 2008 underscored the importance of deposit insurance around the world. This triggered an increasing demand from foreign countries, particularly developing countries, for insights into how the KDIC weathered the crisis and successfully operated the deposit insurance system.

Since December 2010, the KDIC has shared its successes and failures through the Global-KDIC Knowledge Sharing Program (KSP) for professional training and policy consultation.

In 2012, the KDIC took part in the Korean government's KSP initiative, by which it shared its experience with Tanzania and Mongolia through workshops, training for working-level officials, and others.

To effectively accommodate the needs and circumstances of different countries, the KDIC named a dozen staff members as KDIC Specialists who have expertise in six key areas of deposit insurance to address the rising demand for knowledge-sharing from emerging nations, and the Specialists have played a leading role in producing operation modules for each of the six areas. This has rendered KSP management much more efficient.

The KDIC has ceaselessly endeavored to expand exchange with foreign deposit insurers. To promote exchange of information and personnel regarding current deposit insurance issues, the KDIC entered into memorandums of understanding (MOUs) on mutual cooperation with fifteen institutions in twelve countries as of the end of 2012, including Tanzania and Ukraine, which signed such MOUs in 2012.

In recognition of the KDIC's contribution to international cooperation, the International Association of Deposit Insurers (IADI) awarded the 2012 Deposit Insurance Organization of the Year Award to the KDIC at its eleventh annual general meeting in London.

As a member of the IADI Executive Council, the KDIC will continue to actively participate in the IADI's activities including discussions of the key agenda as well as research and capacity building expertise.

Stronger Risk Monitoring of Insured Financial Institutions

The KDIC has its own models to monitor any change in the financial positions of insured financial institutions and any potential risks on an ongoing basis. It has stepped up on-site monitoring as part of its overall risk control effort to prevent the occurrence of an insurance event at a mismanaged member institution.

The amendment of the Enforcement Decree of the Depositor Protection Act on March 26, 2012, in accordance with the Financial Supervision Innovation Plan announced on September 2, 2011, expanded the scope of the KDIC's examinations of mutual savings banks. Also, it became mandatory that the KDIC and the Financial Supervisory Service (FSS) conduct joint examinations of large or financial group-affiliated mutual savings banks on an annual basis. The KDIC was also given an authority to conduct independent examinations of member institutions which meet pre-determined criteria (e.g. BIS capital adequacy ratio of less than 7%, deficits for three consecutive years). In 2012, the KDIC examined eight mutual savings banks on its own. The findings of independent examinations were notified to the FSS and the concerned mutual savings banks in order to induce changes in management practices. As for joint examinations with the FSS, the KDIC participated in the examinations of six mutual savings banks that are affiliated with financial groups and requested the FSS to take corrective action where necessary. It also informed the six mutual savings banks of its recommendations for management improvement.

Table Ⅰ-2 Joint Examinations with the FSS and the KDIC's Independent Examinations

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

To promote mutual cooperation, the KDIC serves as a member of the Macro-Economic and Financial Meeting, a coordinating council of five government agencies responsible for the development of financial policies including the Ministry of Strategy and Finance (MOSF), the Financial Services Commission (FSC), the Financial Supervisory Services (FSS), and the Bank of Korea (BOK). The KDIC shares financial information on insured financial institutions under the MOU on financial information-sharing signed with the BOK and the FSS. In 2012, it received three additional types of data from the BOK, which led to the sharing of 22 periodic reports. It also received 1,272 business reports from the FSS.

The KDIC dispatches supervisors jointly with the FSS to mutual savings banks showing signs of financial distress, against which timely corrective action might be ordered. This effort has reinforced on-site monitoring of mutual savings banks. For improvement of mutual savings banks' business fundamentals, the KDIC provides customized management consulting services, encouraging players in the industry to make themselves more competitive.

Efficient Resolution of Failed Financial Institutions and Improvement of Applicable Systems

The KDIC successfully arranged P&A (purchase of assets and assumption of liabilities) transactions for eight failed mutual savings banks which were suspended in 2012 (Solomon Savings Bank, Korea Savings Bank, Mirae Mutual Savings Bank, Hanju Savings Bank, Tomato 2 Savings Bank, Jinheung Savings Bank, Gyeonggi Savings Bank, and W Mutual Savings Bank) with a third party or a bridge mutual savings bank.

Table Ⅰ-3 Mutual Savings Banks Suspended from Business in 2012

Date of Suspension	May 6, 2012	Oct. 19, 2012	Nov. 16, 2012	Dec. 28, 2012
Name	Solomon, Korea, Mirae, Hanju	Tomato 2	Jinheung	Gyeonggi, W

Concerning Solomon Savings Bank, Korea Savings Bank, and Mirae Mutual Savings Bank which were suspended from business in the first half of the year, the KDIC could quickly find third-party buyers because the terms of bidding were set in a flexible manner to attract more prospective buyers and suit various buyer preferences. This was impressive in light of the fact that the market at the time was a buyer's market: there was an extreme lack of demand due to a spate of business suspensions of mutual savings banks since 2011.

On the other hand, mutual savings banks that failed in the latter half of the year, including Tomato 2 Savings Bank, Jinheung Savings Bank, Gyeonggi Savings Bank, and W Mutual Savings Bank, were resolved without business suspension after they were declared insolvent. This was a break from the then standard resolution mechanism. These failed mutual savings banks were suspended from business 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 inconvenience from interruption of financial services and enabled resolution of failed mutual savings banks without any disturbance in the financial market.

Table Ⅰ-4 Resolution of the 8 Mutual Savings Banks Suspended from Business in 2012

Name	Solomon	Korea	Mirae	Hanju	Tomato 2	Jinheung	Gyeonggi	W
Acquirer	WFG	Hana	Chinae[1]	Yenarae (Bridge)	Yesol (Bridge)	Yehanbyoul (Bridge)	Yehansol (Bridge)	Yesung (Bridge)

Note : 1) A mutual savings bank established by Japan-based KC Card Co. Ltd.

A division within the KDIC was charged with the responsibility to efficiently manage and support bridge and financial group-affiliated mutual savings banks to improve their financial structure and sales value. Some of the bridge mutual savings banks actually managed to realize profits or to reduce losses. Efforts to improve the operating efficiency of financial group-affiliated mutual savings banks are also underway through the assessment of management capacity and appointment of directors and management.

Arranging sales for the mutual savings banks under the KDIC's conservatorship, including bridge ones, has been a challenge. Interest in their acquisition is lacking as a result of the prolonged weakness in the industry and excessive supply on the market. The KDIC sought to increase their sales value by enhancing their management efficiency while aggressively seeking buyers. Shinhan Financial Group was selected as a preferred bidder for the sale of Yehanbyoul Savings Bank in the second half of 2012.

In addition, the KDIC is pursuing the sale of Green Non-Life Insurance. The KDIC announced its planned sale on August 23, 2012 after the management improvement plan submitted by the company was rejected by the FSC in July 2012. The KDIC selected three prospective buyers on September 12, 2012 and chose Jabez PEF II as the preferred bidder on November 12, 2012. The sales process is proceeding as planned.

Efficient Sale of Special Assets

For efficient disposition of special assets of failed mutual savings banks including PF loans and SPC assets, the KDIC formulated recovery methods suitable for each type of assets.

Using the service of professional agencies specializing in different types of assets, the KDIC tried to identify the best sales opportunities and to develop and implement appropriate sale strategies. Different approaches were selected for different types of assets based on the findings of feasibility assessments regarding PF projects. In order to prevent PF projects from collapsing, the KDIC called for cooperation from the government and public agencies concerned to obtain or extend development permits and business licenses. Similar assets were grouped together for efficiency of management and dedicated managers were assigned to each asset to manage them in a consistent manner.

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

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

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

Efficient Management of Bankruptcy Estates

Through its Bankruptcy Estate Closure Support Team, the KDIC is pressing hard for the quickest possible recovery of bankruptcy claims, aggressively pursuing the closure of bankruptcy estates. As of December 2012, it had closed 421 out of 472 bankruptcy estates.

In the meantime, the KDIC paid creditors bankruptcy dividends that it received on their behalf through a campaign to have uncollected dividends reclaimed by legitimate claimants. It is doing the best it can to reduce estate management costs, minimize the time consumed, and render effective depositor protection services.

The KDIC sets an annual target for bankruptcy dividend payment for each bankruptcy estate and constantly monitors whether the targets are being met. It strives to maximize bankruptcy dividends by encouraging dividend payment at the earliest possible date. Its efforts in this regard were extremely effective in 2012: bankruptcy dividends totaled KRW 316.8 billion, which was 37% over the year's target of KRW 231.2 billion.

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

By means of the Fund Asset Status Tracking System known as FASTs, the KDIC ascertained the assets in its possession by type as well as the assets put up for sale. This system helped to develop sales methods that are tailored to each type of assets, which led to increased sales.

Rigorously and Efficiently Holding Persons Responsible for Financial Institution Failures to Account

In the event of a failure of a mutual savings bank, the KDIC often establishes an investigative unitcomprised of experts to investigate who are responsible for the failure, taking into account how far the Public Prosecutors' Office's investigation has progressed and the scale of assets at stake. In this way, it carried out thorough investigations against employees of failed mutual savings banks including executive officers to determine who are responsible for the failures. In April 2012, it completed an accountability investigation concerning fifteen mutual savings banks whose business operations had been suspended in 2011. In October 2012, it concluded further investigations into four mutual savings banks suspended in the first half of 2012. Such investigations are now underway at Tomato 2 Savings Bank and Jinheung Savings Bank, which were both suspended in the second half of 2012.

Upon completion of an accountability investigation, the KDIC sets up an initial support team for litigation to claim damages and a supervision and inspection team, and a legal counsel is assigned to the case. The KDIC assists bankruptcy estates in filing damage lawsuits against persons deemed responsible for financial institution failures.

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

The KDIC is also conducting investigations against a select number of corporate debtors that failed to meet their debt obligations to the failed mutual savings banks and thus added to their financial distress. It has prioritized them in consideration of the likelihood of loan recovery. It completed on-site investigations of financially-distressed corporate debtors and borrowers of mutual savings banks suspended before 2011 and attained a high level of recovery by inducing their voluntary repayment.

In order to swiftly find concealed assets of persons responsible for mutual savings bank failures including large stockholders, the KDIC initiates investigations of their properties immediately upon business suspension. Since establishing a cooperative system in 2011, the KDIC has been sharing information on concealed assets of responsible parties with the Public Prosecutors' Office for better tracking of such assets.

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

Increased Stability of the Deposit Insurance Fund

To support the smooth restructuring of failed mutual savings banks, the KDIC created a special account for mutual savings bank restructuring* in April 2011. Through the end of December 2012, it raised and provided KRW 24.8951 trillion in a timely fashion for the restructuring of 24 insolvent mutual savings banks, including KRW 12.3031 trillion in 2012 alone, to make deposit insurance payments, etc.

* 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 mutual savings bank failures that began in January 2011.

Figure Ⅰ-1 Special Account for MSB Restructuring

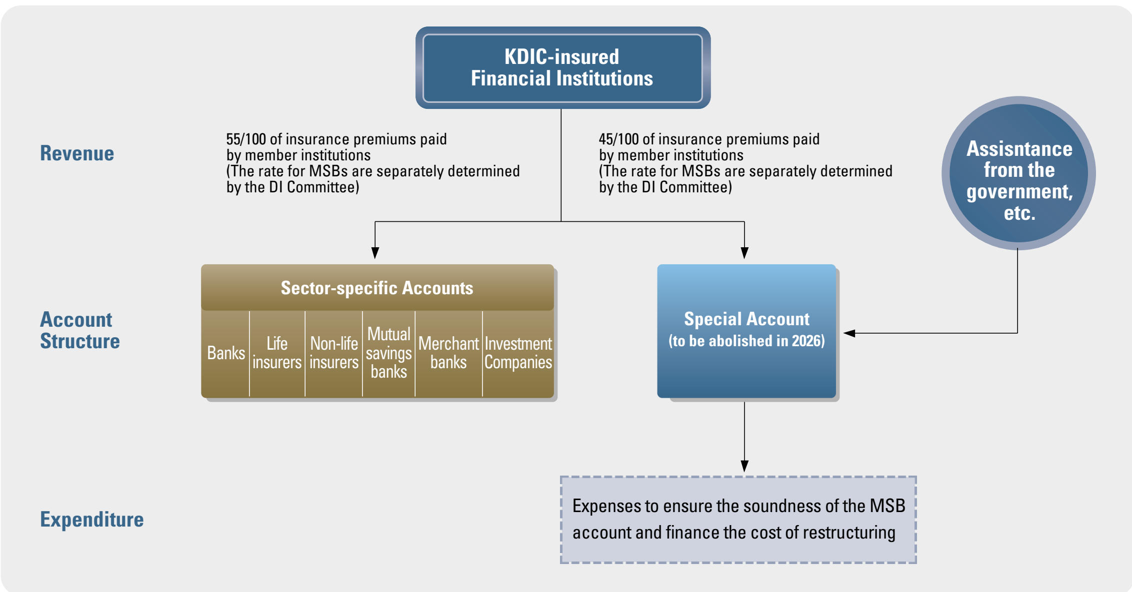


Table Ⅰ-5 Funding of and Expenditure from the Special Account

(As of Dec. 31, 2012, Unit: KRW 1 trillion)

Amount Provided in Financial Assistance			Amount Raised	
24 MSBs including Samhwa	Equity investment, capital contributions, deposit payoffs, etc.	24.9	Borrowings from the other accounts	1.8
			Outside funding (e.g. issuance of bonds)	22.5
			Deposit insurance premiums, etc.	0.6
Total		24.9	Total	24.9

In July 2012, the KDIC expanded its financing capabilities by taking a KRW-100-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 interest costs by issuing Deposit Insurance Fund (DIF) Bonds for the Special Account for MSB Restructuring to finance the rollover of debts from external entities including banks, building its own electronic bidding system for bonds called E-BAS, and lowering interest rates when it negotiated extending line of credit agreements with banks, etc. (maximum KRW 15 trillion).

In the meantime, the KDIC made efforts to collect funds provided through financial assistance from the DIF (including the special account). It collected KRW 219.4 billion during 2012 by collecting bankruptcy dividends and other means.

To ensure the smooth implementation of the risk-based premium system, which is scheduled to be introduced in 2014, the KDIC finalized the Basic Plan on Implementation of the Risk-Based Premium System in March 2012. The plan includes a framework for a differential risk assessment model and evaluation indices for each sector of the financial industry. An IT system called the Risk-Based Premium System (RBPS) for differential premium calculation and data management has been put in place, and comments from the industry are being gathered and taken into consideration.

Under the Target Fund System, the KDIC waived insurance premiums for investment and life insurance companies because the reserves in their accounts exceeded the highest reserve targets at the end of 2011. Meanwhile, non-life insurance companies received a discount (15%) on premiums for the period from January 1, 2012 to December 31, 2012 because their DIF reserves reached the lowest target amount.

Smooth Repayment of Public Funds

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

By the end of 2012, the KDIC had repaid KRW 59.5 trillion from government contributions (KRW 45.7 trillion) and recovered funds (KRW 13.8 trillion) out of KRW 82.4 trillion to be repaid under the Public Fund Redemption Plan. It plans to repay the remaining KRW 22.9 trillion with recovered funds and special contributions paid by member institutions by 2027 as scheduled.

In the meantime, the KDIC continues to recover public funds spent on restructuring failed financial institutions since the Asian financial crisis by selling equity stakes and receiving dividends. In 2012 alone, it recovered KRW 1.3769 trillion by selling its stakes in financial institutions, receiving dividends, and reimbursing redeemable preferred shares of stock.

The KDIC recovered KRW 608.7 billion in a block sale of its 3.66% stake in KEPCO (held by the KR&C) in October 2012 and KRW 102.2 billion by selling its 0.74% stake in SK Hynix (held by the KR&C) in a joint sale by the creditors' group in February 2012. It collected KRW 100 million by respectively selling a 0.06% stake in Jeju Bank (held by the KDIC) and a 0.07% stake in SG Corporation (held by the KR&C) on the stock market. In addition, it recovered KRW 600 million through public sale of unlisted shares held by the KDIC and the KR&C.

Table Ⅰ-6 Major Recoveries of Public Funds in 2012

KEPCO	• Collected KRW 608.7 billion in a block sale of common shares in October 2012
SK Hynix	• Collected KRW 102.2 billion by means of a joint sale by the creditors' group of common shares in February 2012
Jeju Bank	• Collected KRW 100 million by selling common shares on the market from January to December 2012
SG Corporation	• Collected KRW 40 million by selling common shares on the market in January 2012
Others	• Collected KRW 100 million through public sale of unlisted shares (5 items) held by the KDIC and the KR&C in September 2012 • Collected KRW 500 million through public sale of unlisted shares (4 items) held by the KDIC and the KR&C in December 2012
Bankruptcy Estates	• Collected KRW 293.9 billion in bankruptcy dividends from January to December 2012

The KDIC also has an equity stake in Woori Financial Group, the sale of which will be pursued in tandem with the privatization of the company. After several failed attempts, the Public Fund Oversight Committee decided to make another go at selling the company to private investors in April 2012. However, a failure to generate workable competition among prospective bidders brought the sales process to a halt in August 2012.

The KDIC will carefully consider the timing and method of selling of its equity shares in Woori Financial Group in consultation with the Public Fund Oversight Committee. In addition, the KDIC plans to sell its stakes in other financial institutions in block sales or on the stock market as appropriate considering the characteristics of each stake, financial market conditions, and share price changes.

Table Ⅰ-7 KDIC Stakes in Financial Institutions

(As of Dec. 31, 2012, Unit: KRW 100 million, %)

Category		Financial Assistance	Recoveries[1]	Value of Remaining Stakes[2]	KDIC Stakes
MOU-bound Financial Institutions	Woori Financial Group	127,663	56,237	54,185	56.97
	National Federation of Fisheries Cooperatives	11,581	-	9,735	Preferred Securities
	Seoul Guarantee Insurance	102,500	22,421	1,361	93.85
Korea Life Insurance		35,500	13,609	16,681	24.75
Jeju Bank		2,182	294	181	18.42
Total		279,426	92,561	82,143	-

Note : 1) It includes the amounts recovered from the sale of stakes, collection of dividends, redemption of preferred stocks, etc.
2) The valuation is based on the closing prices as of December 31, 2012 for listed stocks, and the figures on the KDIC's balance sheet as of December 31, 2012 for unlisted stocks.


Gayageum, Korean zither with twelve strings

II
Organization Operations

Ⅱ

Organization Operations

1 Organization Setup

1-1. Deposit Insurance Committee and Board of Directors

A. Deposit Insurance Committee

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

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

Table Ⅱ-1 Deposit Insurance Committee Members

(As of Dec. 31, 2012)

	Title	Name
Ex-officio members	Chairman & President of KDIC	Joo Hyun Kim
	Vice Chairman of FSC	Kyung Ho Choo
	Deputy Minister of Ministry of Strategy and Finance	Je Yoon Shin
	Senior Deputy Governor of Bank of Korea	Won Shik Park
Commissioned members	Appointed 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	Se Il Ahn

Table Ⅱ-2 Major Responsibilities of the Deposit Insurance Committee

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

Table Ⅱ-3 Deposit Insurance Committee Agenda in 2012

Date	Agenda
January 10	• Financial support for partial P&A of Jeil Savings Bank • Purchase of claims such as deposit liabilities in excess of the deposit insurance coverage limit and advance payments of bankruptcy dividends concerning Jeil Savings Bank
January 26	• Issuance of DIF Bond Redemption Fund Bonds for 2012 • Revision of the operating expenses allocation rules • Reporting on government-approved guarantees regarding the DIF Bond Redemption Fund operation plan and bond issuance for 2012 • Reporting on transactions between accounts of the DIF Bond Redemption Fund and the DIF for 2011
February 2	• Financial support for partial P&A of Jeil 2 Savings Bank and Ace Mutual Savings Bank • Purchase of claims such as deposit liabilities in excess of the deposit insurance coverage limit and advance payments of bankruptcy dividends concerning Jeil 2 Savings Bank and Ace Mutual Savings Bank • Guidelines for the asset management of the DIF Bond Redemption Fund in 2012 • Guidelines for the asset management of the DIF in 2012
February 16	• Settlement of the DIF, DIF Bond Redemption Fund, and KDIC accounts for fiscal year 2011 • Reporting on operating expense settlement for 2011
February 22	• Revision of the rules on the KDIC signage display requirements • Reporting on the joint examination results of ○○Securities
March 29	• Reporting on the joint examination results of ○○Non-Life Insurance • Addition to the business normalization plan for Woori Financial Group, Woori Bank, Kwangju Bank and Kyongnam Bank, and the credit business unit of the National Federation of Fisheries Cooperatives • Basic plan on implementation of the risk-based premium system
April 19	• Enactment of the rules on investigation of insured financial institutions • Borrowing of government funds for the special account for MSB restructuring • Reporting on the progress in business normalization MOUs implementation during the fourth quarter of 2011
May 7	• Interim deposit payments to depositors of four mutual savings banks including Solomon Savings Bank • External funding for the special account for MSB restructuring • Changes to the DIF operation plan for 2012
May 17	• Decision to reduce deposit insurance premium payment for accounts that have exceeded reserve targets (financial investment, life insurance and non-life insurance) • Revision of the rules on joint examinations of insured financial institutions
June 12	• DIF Bond Redemption Fund operation plan for 2013 • Issuance of DIF Bond Redemption Fund Bonds in 2013 and application for government guarantees for the bonds • Addition to the business normalization plan for Seoul Guarantee Insurance • Creation of an additional supplementary budget for the KDIC for year 2012
June 27	• Deposit insurance payments to depositors of four mutual savings banks including Solomon Savings Bank • Request for joint examinations of seven financial institutions including ○○Life Insurance • Reporting on the joint examination results of ○○Non-Life Insurance

Date	Agenda
July 18	• Reporting on the progress in business normalization MOUs implementation during the first quarter of 2012
August 20	• Financial support for partial P&A of three mutual savings banks including Solomon Savings Bank • Purchase of claims such as deposit liabilities in excess of the deposit insurance coverage limit and advance payments of bankruptcy dividends concerning four mutual savings banks including Solomon Savings Bank
August 24	• Reporting on the examination results of ○○, △△, and □□Mutual Savings Banks
September 3	• Designation of Tomato 2 Savings Bank as an insolvent financial institution
September 20	• Request for joint examinations of financial institutions • Reporting on the results of semi-annual account settlement for the DIF and the DIF Bond Redemption Fund for fiscal year 2012
September 25	• Designation of Jinheung Savings Bank and Gyeonggi Savings Bank as insolvent financial institutions
October 4	• Financial support for partial P&A of Mirae Mutual Savings Bank
October 17	• Financial support for partial P&A of Tomato 2 Savings Bank • Deposit insurance payments and advance payments of bankruptcy dividends to depositors of Tomato 2 Savings Bank • Reporting on the joint examination results of ○○and △△, Mutual Savings Banks • Reporting on the progress in business normalization MOUs implementation during the second quarter of 2012
November 1	• Reporting on the examination results of ○○and △△, Mutual Savings Banks • Reporting on the joint examination results of ○○Life Insurance
November 14	• Financial support for partial P&A of Jinheung Savings Bank • Deposit insurance payments and advance payments of bankruptcy dividends to depositors of Jinheung Savings Bank • Revision of the rules on payment of insurance premiums and special contributions
December 6	• Request for a joint examination of ○○Mutual Savings Bank • Reporting on the joint examination results of ○○and △△Mutual Savings Banks • Reporting on the joint examination results of ○○Investment & Securities
December 20	• DIF operation plan for year 2013 • KDIC budget for year 2013
December 26	• Financial support for partial P&A of Gyeonggi Savings Bank • Financial support for partial P&A of W Mutual Savings Bank • Deposit insurance payments and advance payments of bankruptcy dividends to depositors of Gyeonggi Savings Bank • Deposit insurance payments and advance payments of bankruptcy dividends to depositors of W Mutual Savings Bank

B. Board of Directors

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

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

Table Ⅱ-4 Executive Board Members

(As of Dec. 31, 2012)

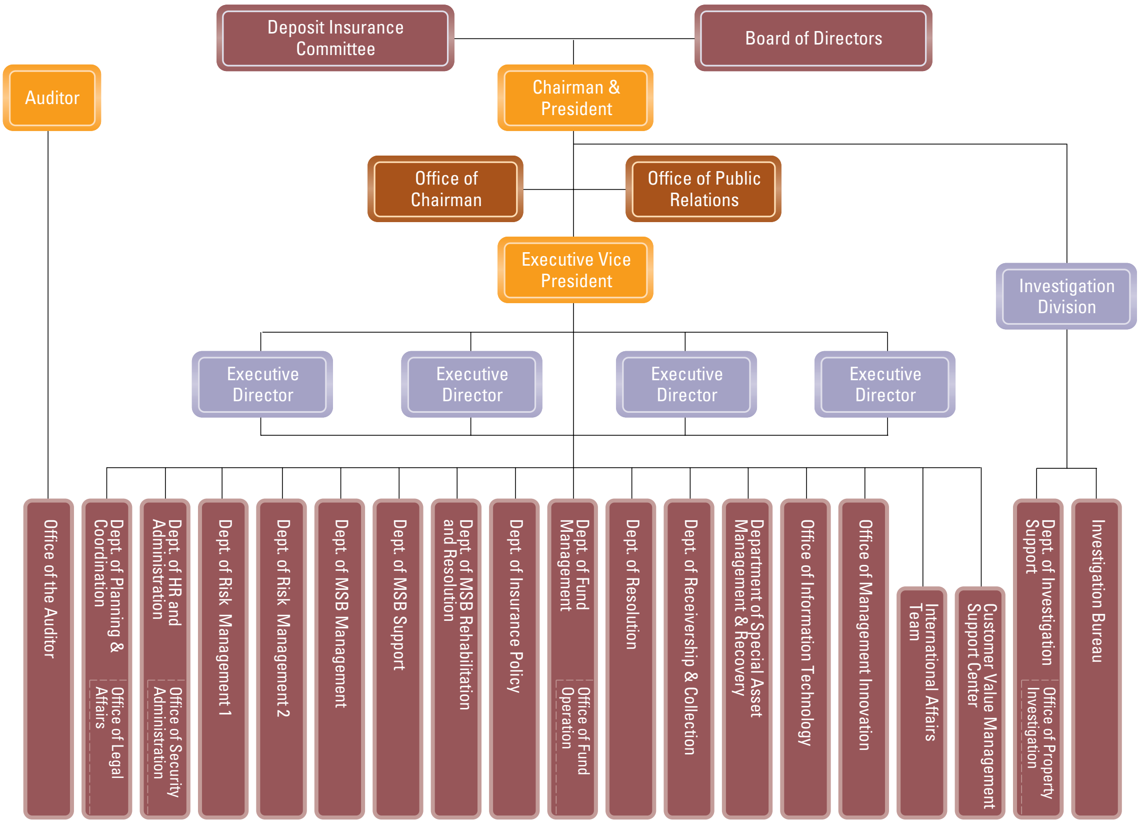
Title	Name
Chairman & President	Joo Hyun Kim
Executive Vice President	Won-Tae Yi
Executive Director	Sang Keun Jin
Executive Director	Hyosoon Choi
Executive Director	Hyeon Chul Joe
Executive Director	Oang Ho Jung
Non-executive Director	Seok Jin Kim
Non-executive Director	Chan-Woo Jeong
Non-executive Director	Jeong Gil Han
Non-executive Director	Soo Hwa Lee
Non-executive Director	Ki-Seok Lee
Non-executive Director	Chang Seok Oh
Non-executive Director	Kyo Sik Kim
Auditor	Sang Mok Lee

1-2. 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, 2012, it had twelve departments, five offices, and one division: Department of Planning and Coordination, Department of Human Resources and Administration, Department of Risk Management I, Department of Risk Management II, Department of Mutual Savings Bank Management, Department of Mutual Savings Bank Support, Department of Mutual Savings Bank Rehabilitation and Resolution, Department of Deposit Insurance Policy, Department of Fund Management, Department of Resolution, Department of Receivership and Collection, Department of Special Asset Management and Recovery, Office of Information Technology, Office of Management Innovation, Office of Public Relations, Office of the Chairman, Office of the Auditor, and Insolvency Investigation Division.

Table Ⅱ-5 Organizational Chart

(As of Dec. 31, 2012)



* Customer Value Management Support Center and International Affairs Team are team units.

Table Ⅱ-6 Number of Staff

(As of Dec. 31, 2012, Unit: No. of Persons)

Category	Executive Board Members	Staff		
		Regular	Special[2]	Total
No. of People	14[1]	465	123	588

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

2-1. Vision and Mid- to Long-Term Management Plan

A. Background of Vision Overhaul

The KDIC gathered opinions from executives and staff members and created a new vision in October 2012 to address the changes in the business environment at home and abroad, uphold the management philosophy of its new Chairman & President, and meet calls for a more engaging vision from inside and outside the company.

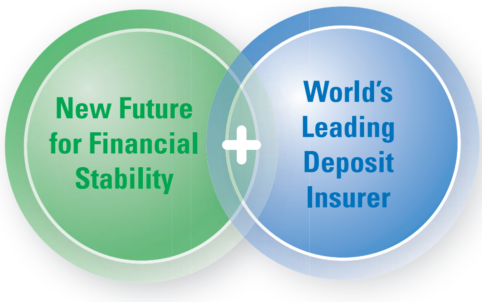
The new vision paints a desirable picture for the KDIC's future and establishes challenging goals satisfying social expectations. The KDIC's high- and low-level visions were integrated into a single vision to set a clearer direction for its future.

< Vision Overhaul >

Category	Old	New
High-level vision	KDIC, the Cornerstone of Financial Stability, Protects Your Valuable Deposits	KDIC, the World's Leading Deposit Insurer, Opening a New Future for Financial Stability
Low-level vision	Global Leader in Deposit Insurance Service Best Fund Managing Institution in Korea Leading Public Institution in Sustainable Management	

B. Outcomes

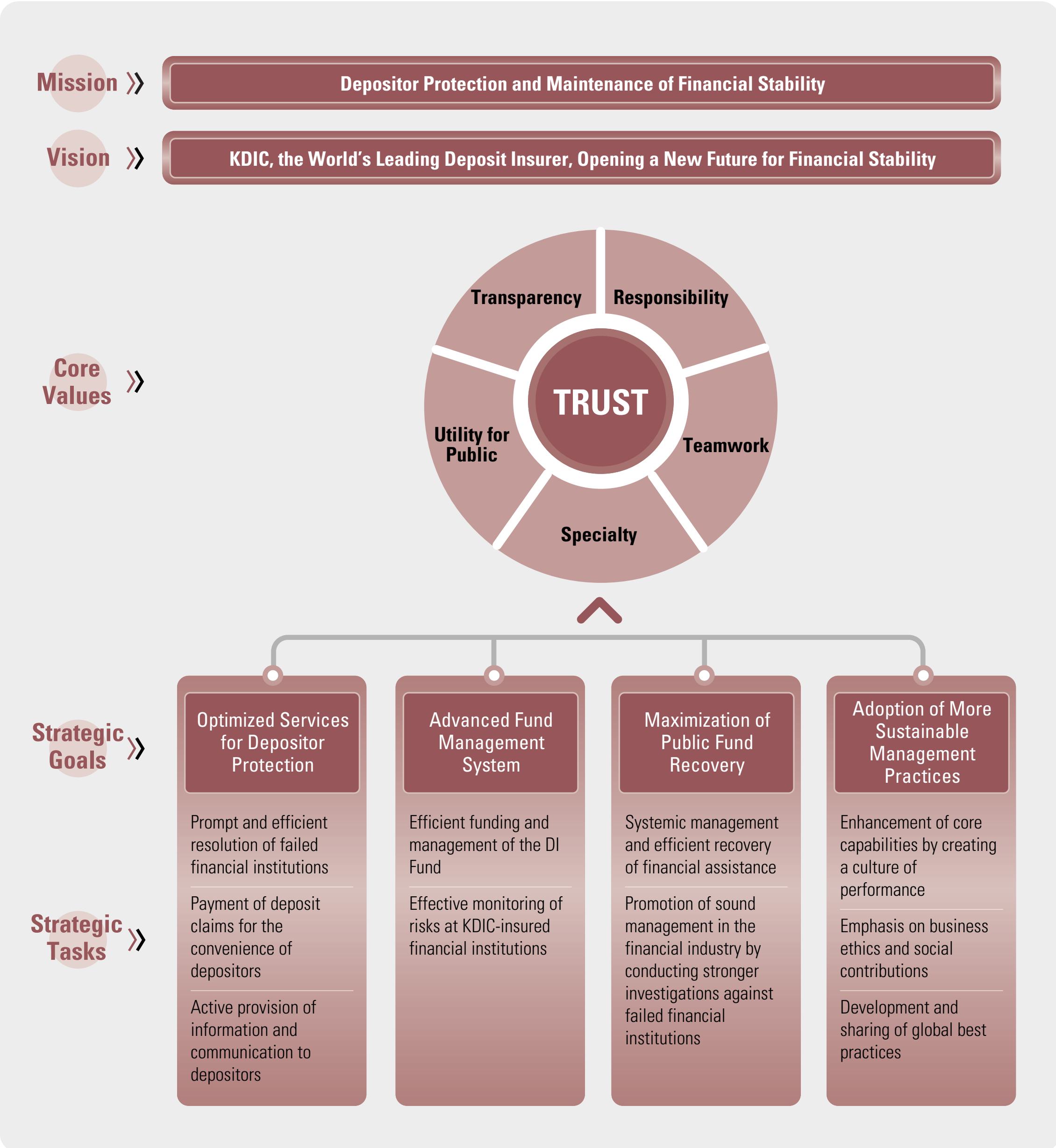
(1) Definition of Vision



In the wake of the recent global financial crisis, discussions have started to define a new financial paradigm. Against this backdrop, the KDIC is working tirelessly to become one of the top global players in the field of deposit insurance by making significant contributions to financial stability, building on its 16-year experience in successfully operating the deposit insurance system. The vision statement is a show of our commitment to that goal.

(2) Chart of Vision and Management Goals

Figure Ⅱ-1 KDIC Vision and Management Goals



C. Strategic Goals, Strategic Tasks, and Detailed Action Plans

To realize the new vision and generate tangible results, the KDIC selected four mid- to long-term strategic goals: optimized services for depositor protection service; advanced fund management system; maximization of public fund recovery; and adoption of more sustainable management practices. It then developed ten strategic tasks to achieve these strategic goals and established specific annual action plans for the next five years (from 2013 to 2017).

Table Ⅱ-7 Strategic Goals, Strategic Tasks, and Detailed Action Plans

Strategic Goals	Strategic Tasks	Detailed Action Plans
Optimized Services for Depositor Protection	Prompt and efficient resolution of failed financial institutions	• Prompt and efficient resolution of insolvent mutual savings banks and improvement of related systems
	Payment of deposit claims for the convenience of depositors	• Fast and well-organized services for payment of deposit claims
		• Robust legal support for improvement of the deposit insurance system
	Active provision of information and communication to depositors	• Stronger financial consumer protection through inspection of compliance with the KDIC signage display requirements
		• Increased awareness of the depositor protection system
Advanced Fund Management System	Efficient funding and management of the DI Fund	• Efficient management of the Deposit Insurance Fund (DIF)
		• Implementation and operation of the risk-based premium system
		• Efficient management of the Redemption Fund for the repayment of public funds
		• Striking a balance between profitability and stability
	Effective monitoring of risks at KDIC-insured financial institutions	• Increased capacity for risk surveillance and analysis
		• Early identification of risk factors and timely response
		• Efficient performance of investigations/joint examinations
Maximization of Public Fund Recovery	Systemic management and efficient recovery of financial assistance	• Efficient sale of KDIC's shares and assets
		• Increased efficiency in MOU management
		• Efficient management of bankruptcy estates
		• Efficient management of special assets and maximization of recovery
	Promotion of sound management in the financial industry by conducting stronger investigations against failed financial institutions	• Ongoing investigation of assets owned by persons implicated in insolvencies at home and abroad
		• Stronger efforts to convict those responsible for insolvencies in order to promote sound management practices
		• Tightened post-failure monitoring of people who were involved in illegal activities and wrongdoing
Adoption of More Sustainable Management Practices	Enhancement of core capabilities by creating a culture of performance	• Organizational management focused on core business activities and budget savings
		• Improved effectiveness of the performance-based evaluation system
		• HR and remuneration systems for efficient HR management and capacity building
		• Smooth coordination of activities supported by IT services and infrastructure
	Emphasis on business ethics and social contributions	• Increased customer satisfaction with an improved CS management system
		• Ethical management to keep the public's trust
		• Improved financial literacy education programs for the financially underserved population
	Development and sharing of global best practices	• Sharing of best practices and achievements in deposit insurance implementation with foreign deposit insurers
		• Participation in major IADI initiatives and cooperation with foreign deposit insurers

2-2. Dynamic Organizational Culture for HR Management and Business Operations

A. Hi-KDIC Program to Build a Dynamic Organizational Culture

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

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

Table Ⅱ-8 Hi-KDIC Program

Task	Program Name	Description	Results in 2012
Communication Facilitation (Multi-directional communication)	Movie Day	• One high-performing team is selected as "Team of the Month" and all team members go watch a movie together, courtesy of the KDIC.	12 times
	Smart Board	• Smart Board consists of ten representatives from each level of the company hierarchy and serves as an "interactive communication channel."	On an as-needed basis
	Cross Meeting (Joint Meeting)	• Meetings between departments (teams) are held to promote mutual understanding, with business relevance taken into account.	19 teams
	Happy Night	• To boost the employee morale and promote amicable workplace relations, executives visit teams working overtime to give them encouragement.	16 times
	Mentoring	• Senior members with many years of service at the KDIC and extensive business knowledge mentor new staff members for a certain period.	100 persons
	Tang Day and Hof Day	• On Tang Days (bi-monthly) and Hof Days (quarterly), employees and executive officers meet in a casual setting and mingle.	54 times
Consensus Building (Happy workplace)	Social Contribution Activities	• To fulfill social responsibility as a public institution, various activities are undertaken. For example, one department is matched with one person or an organization in need of help. And staff members serve at the soup kitchen or food banks on a regular basis.	12 programs (3,000 persons)
	Job Posting System	• Competent in-house human resources are preferentially selected and deployed in appropriate positions to increase efficiency in HR management.	10 persons including subject-area experts and assignees to the U.S. FDIC
	KDIC-Highway Training	• To facilitate communication, staff members from different departments and different job levels team up and enjoy cultural activities together.	5 teams (25 persons)
	Follow-up Training	• Training is given to employees who have spent more than five years at the KDIC so that they can have a better sense of belonging to the company and improve leadership skills.	1 time (15 persons)
	Family Day	• Every Wednesday is designated as Family Day to encourage employees to get off work on time so that they can have more family time.	Every Wednesday
Participation by All (Sharing of core values)	Policy Briefing Session	• Executives and heads of departments explain key policies of the KDIC to staff members.	22 times
	KDIC-Daum	• Training workshops are provided to communicate the KDIC's core values and the proper attitudes to uphold them.	2 times
	K-Oasis	• The KDIC operates a knowledge portal system for knowledge management.	Year-round
	FAGO TV	• VOD service is made available to share management strategies and relevant materials such as the KDIC mission, strategy meeting results, and PR messages/press releases.	Year-round

B. Organizational Restructuring to Improve Deposit Insurance Functions and Management Efficiency

The KDIC sought to improve its capacity to deal with changes in the business environment in a number of ways. For instance, it set up a dedicated team in January 2012 to effectively perform joint examinations with the FSS and deal with an increase in the number of targets for the KDIC's own examinations according to the Financial Supervision Innovation Plan of the Financial Supervision Innovation Task Force led by the Prime Minister's Office.

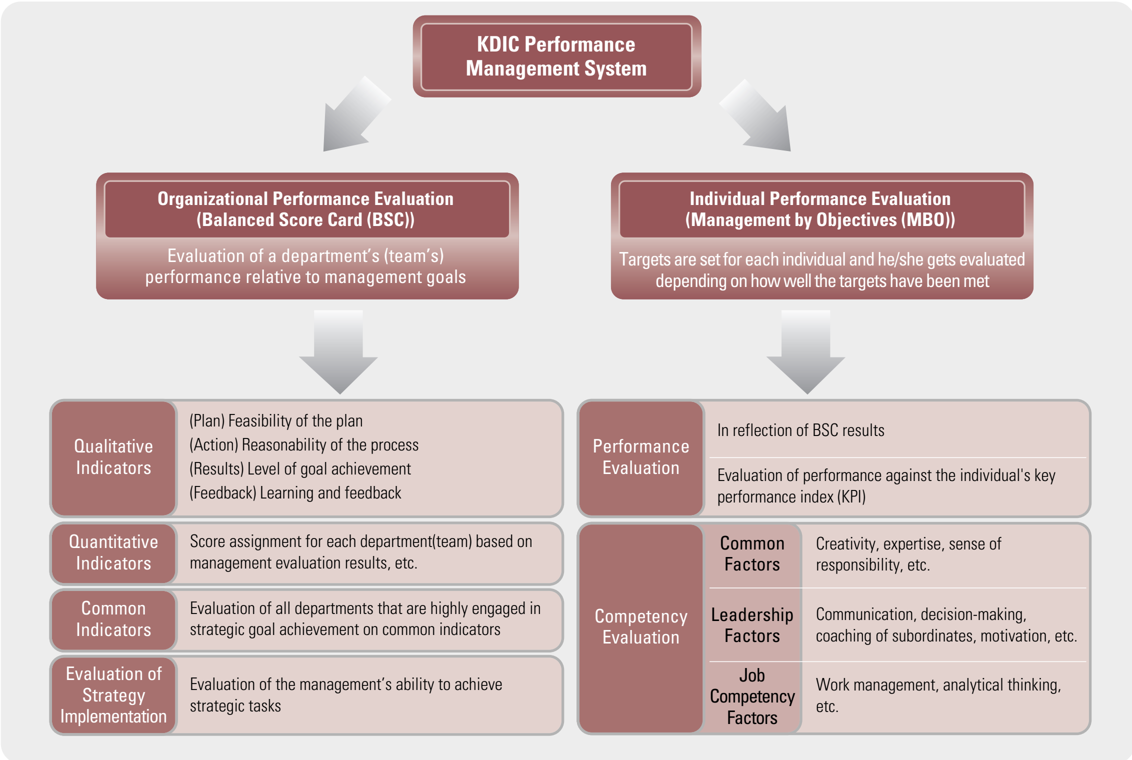
It also strived to increase management efficiency in various ways including, for example, increasing flexibility in HR management and productivity in business operations by streamlining business processes between departments and making use of temporary, yet specialized task forces.

C. Performance Evaluation for a Performance-Based Organizational Culture

To build a performance-based organizational culture, the KDIC introduced a strategic performance management system called BSC (Balanced Score Card) in late 2005. It applied the BSC to every department in 2006 and then to all teams in 2007. It also developed an IT system for performance management in 2009, and it has refined evaluation indicators and methods on a continuous basis. In particular, it built a unique risk-based performance management scheme that takes into account threats to strategy and goal execution in the assessment of performance. This laid the foundation for sustainable business success, which enables the KDIC to more promptly tackle changes in the business environment.

In line with the performance-based annual salary system introduced under an agreement between labor and management, the KDIC adopted an individual performance evaluation system known as MBO (Management by Objectives) where each staff member consults with his or her supervisor, sets targets that will help to maximize the organization's performance, and undergoes reasonable and fair evaluation regularly. In 2012, the KDIC built an online system for MBO to enable a more effective management of individual performance.

Figure Ⅱ-2 KDIC Performance Management System



2-3. Ethical Management and Corporate Social Responsibility

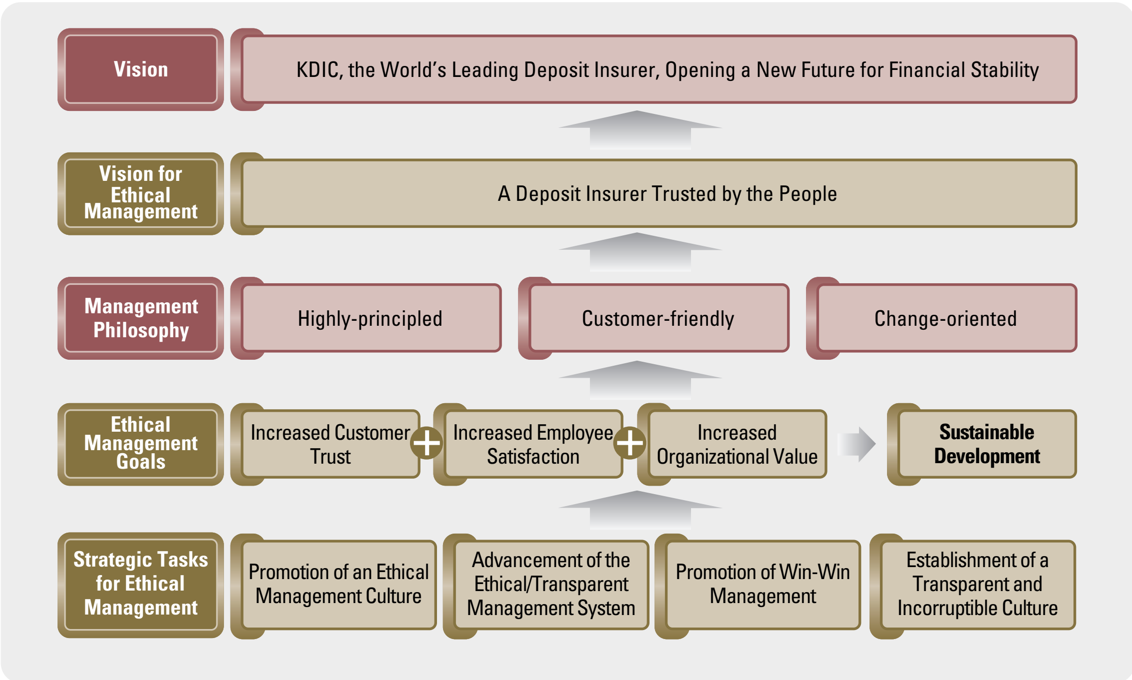
A. Ethical Management

The KDIC adopted TRUST (Transparency, Responsibility, Utility for public, Speciality, and Teamwork) as a short reminder of its core values, particularly corporate social responsibility. The KDIC aspires to high ethical standards by applying ethical management at every level of the hierarchy. For that purpose, it formulated a mid- to long-term ethical management plan and set four strategic tasks. To accomplish those tasks, it developed and executed detailed action plans in 2012 to help ensure that ethical management firmly takes root as an integral part of the corporate culture.

In 2012, the KDIC expanded online training on ethical management and conducted a regular self-assessment of business practices. It hosted a workshop for auditors of mutual savings banks to create a sound business atmosphere and made a case report on its ethical management at the Korean Academy of Business Ethics in a bid to promote ethical management outside the organization as well. It reported progress in satisfying the requirements of the UNGC (United Nations Global Compact, joined in August 2007), 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 Knowledge and Economy. In doing so, the KDIC has greatly enhanced public confidence in its ethical management. It even celebrates its anniversary as an Ethical Management and Integrity Day, showing its strong commitment to business ethics.

These endeavors reaped excellent results when the KDIC received the ethical management grand prize in pension and fund management from the Korean Academy of Business Ethics in April 2012. In November 2012, it obtained an 'AAA' grade, the highest level in the KoBEX SM survey.

Figure Ⅱ-3 Mid- to Long-Term Ethical Management Promotion Strategy



B. Corporate Social Responsibility

(1) Consistent Execution of Social Contribution Programs Appropriate for the Business

To show appreciation for the public's confidence in the KDIC and to fully carry out its duties as a public institution, all employees are encouraged to participate in volunteer activities. The KDIC has expanded its social contribution activities, for example, by diversifying the "SMART Financial Literacy Education" program for the financially underserved population.

In 2012, the KDIC expanded the SMART Financial Literacy Education program by 53.9%. It designated the program as its major social contribution activity in 2011, and it is building a foundation for systematic and consistent education.

For the financially underserved population, including traditional market merchants, elementary school students, and senior citizens, the KDIC provided 466 financial literacy education sessions for 92,656 persons in 2012. It signed an agreement with the Korea Association of Senior Welfare Centers to conduct financial literacy education for the elderly, and opened a financial literacy education webpage to offer online education services. The KDIC donated much-needed educational equipment to 110 market merchant universities around the nation, including laptop computers and beam projectors, through the Agency for Traditional Market Administration.

(2) Social Contribution Activities in Collaboration with Related Organizations

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

In October 2012, the KDIC signed an agreement on shared growth and social contribution with Samsung Fire & Marine Insurance, Hana Bank, Citibank, and the Small Business Association in the Da-dong and Mugyo-dong area. The agreement is intended to expedite mutual growth and development of all the companies and the local community and to help promote the culture of social contribution. The signatories intend to commence joint social contribution activities and to support local festivals in 2013.

(3) Increased Support for Traditional Markets for Their Revitalization

To support traditional markets, the KDIC established a sisterhood relationship with Tongin Market, located in Tongin-dong, Jongno-gu, Seoul, in August 2011. It rendered full support for the revitalization of traditional markets by encouraging employees to visit traditional markets at least once a month (the last Saturday of every month) and purchasing goods necessary to offer free meals for the less privileged at those markets. In 2012, the KDIC designated every Thursday as a day to visit traditional markets, provided shuttle bus services for those having lunch at traditional markets, and tried to support the sister market by providing educational devices and materials. In 2012 alone, 485 participants in the initiative used Tongin Market. Major media outlets including the Dong-A Ilbo and SBS introduced the lunchbox cafe established by the KDIC and Tongin Market. With their relationship cited as an exemplary case of corporation-market sisterhood, the KDIC received a plaque of appreciation from the Agency for Traditional Market Administration, which seeks to reinvigorate traditional markets.

(4) Social Contribution Activities to Fulfill Social Responsibility

In 2012, the KDIC set up the "Sharing Love" Fund worth of KRW 195.13 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 155.45 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 provided scholarships of KRW 1 million to each of ten high school students from low-income families in the Seoul metropolitan area, in addition to financial literacy education on the deposit insurance system, which represents the KDIC's major social contribution activity. It also established sisterhood relations with persons with disabilities by rendering volunteer service at Seoul Jungjin School, a public school for children and adults with intellectual disabilities, as well as Seunggawon, a Buddhist facility in Seoul for the disabled. It made cash and goods donations to social welfare organizations and encouraged its employees to donate blood. In 2012, it embarked upon overseas social contribution activities in tandem with the Global-KDIC Knowledge Sharing Program (KSP), providing educational supplies to Nagashanqui Elementary School in Tanzania, for instance.

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; and the KDIC supported the revitalization of traditional markets through the "Day to Visit Traditional Markets" and the "Guide to Deposit Insurance System" campaigns. 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-9 Social Contribution Activities in 2012

(As of Dec. 31, 2012, Unit: No. of Sessions, No. of People, KRW 1,000)

Category		Program Names	Participants	Donation, etc.	Frequency
Neighbors	Donation of cash and goods	Helping the less fortunate, collection of coins in a piggy bank	103	82,328	-
	Scholarship	(10) High school students from low-income families in the Seoul area	14	10,000	Yearly
	Help for people with disabilities	Volunteering at the Seoul Jungjin School and Sengga Temple	131	548	First Thursday of every month
	Financial education	SMART financial literacy education programs	648	-	
	Blood donation	Blood donation	36	-	Yearly
	Global contribution	Donation of educational materials to a school in Tanzania	4	5,000	
	Personal volunteer activities	-	110	-	
Local Community	Volunteering at food banks	At the Nest of Sharing in Eunpyeong-Gu	138	12,400	Third Tuesday of every month
	Matching one family with one department	Assistance to 24 families and women's shelters	875	28,940	Monthly
	the House of love	Improvement of living conditions for low-income families (in connection with Habitat)	10	2,104	Quarterly
	Support for Traditional Market Merchants	Day to Visit a Traditional Market campaign	485	-	Every Thursday
Rural Communities	Building cooperative ties with rural villages	Helping farmers at sister villages at peak season (apple orchards)	240	12,832	Half-yearly
Environment	Cleaning-up the Cheonggye Stream	From Cheonggye Plaza to Samil Bridge	126	1,295	Fourth Friday of every month
Total		-	2,920	155,447	-

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

2-4. Progress in the Mid- to Long-Term Information Technology Plan

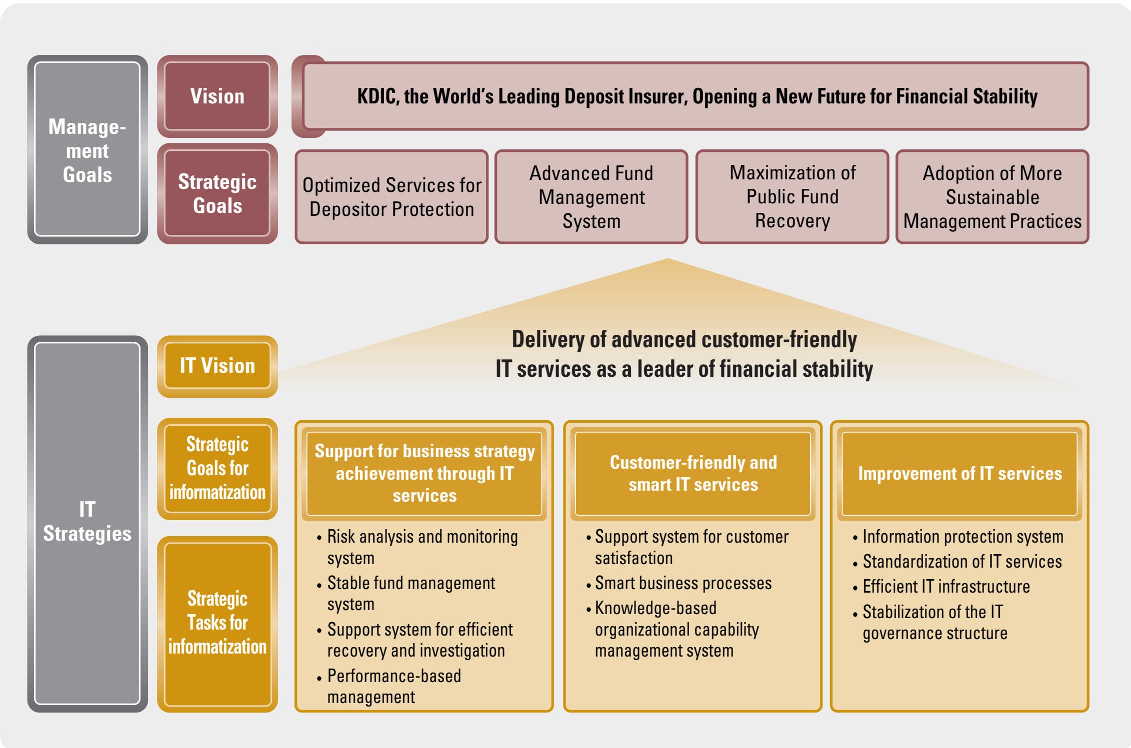
The KDIC analyzed its internal and external environment and formulated the third Mid- to Long-Term Information Technology Plan for the period from 2011 to 2013 to facilitate the execution of its business strategies and improve customer support. The KDIC intends to achieve the IT vision of "delivery of advanced, customer-friendly IT service as a leader of financial stability" and is working on IT projects in an organized way towards that end.

The Mid- to Long-Term Information Technology Plan has specific goals for each stage of the three-year period. The following actions were undertaken in 2012, as a second phase step of the plan.

To achieve the goal of providing "support for business strategy achievement through IT services", the KDIC made improvements to its e-HR system to incorporate changes in the individual performance management system and the performance-based annual salary system. It also built a risk-based premium calculation system to prepare for the implementation of the risk-based premium system.

In order to cope with the sweeping changes in the business environment including the massive restructuring of mutual savings banks, the KDIC sought functional improvements of the risk surveillance system for mutual savings banks. It also built an e-bidding system to check the growth in commissions paid to external service providers as a result of an increase in bond issuance and to ensure smooth and stable bond issuance.

Figure Ⅱ-4 Mid- to Long-Term Strategy for IT Advancement (2011~2013)



In order to achieve the goal of "customer-friendly and smart IT service", the KDIC opened a webpage on financial literacy education where the general public can learn about the deposit insurance system and acquire common knowledge on economics and finance. Since a growing number of employees are expected to telecommute thanks to the wider adoption of flexible work arrangements, the KDIC built a PC-based teleconferencing system to support remote communication.

In the meantime, a functional improvement was made to the integrated resolution information system to simplify the online application process for interim deposit payment as part of the ongoing effort to improve user convenience.

To achieve the goal of "improvement of IT services", the KDIC built an automated information distribution system which automatically updates changes including modifications of business system programs in operation. Also, to comply with the information protection requirements of the Personal Information Protection Act, the KDIC improved its business system by adding such features as data encryption and storage of personal information access records.

The KDIC also bolstered protection measures by, for example, installing the ISMS (Information Security Management System) for e-Government and the DB access control system. It passed the follow-up conformity assessment of the ISO 20000 certification that it obtained in 2010.

Table Ⅱ-10 Detailed Action Plans for the Second Phase (2012)

Strategic Goals	Detailed Action Plans for the Second Phase (2012)	
Ⅰ. Support for business strategy achievement through IT services	• Refine the HR management system	(Oct.~Dec. 2012)
	• Apply the international accounting report standards and refine the accounting system	(Dec. 2012~Jul. 2013)
	• Build a risk-based premium calculation system	(Mar.~Sep. 2012)
	• Improve the functions of the risk surveillance system	(Aug.~Oct. 2012)
	• Build an electronic bond bidding system	(Mar.~Jul. 2012)
Ⅱ. Customer-friendly and smart IT services	• Build a webpage for financial literacy education	(Oct.~Dec. 2012)
	• Improve the functions of the integrated resolution information system	(Aug.~Nov. 2012)
	• Build a PC-based teleconferencing system	(Nov.~Dec. 2012)
Ⅲ. Improvement of IT services	• Build an automated information distribution system	(Oct.~Dec. 2012)
	• Reinforce the internet firewall	(Aug.~Sep. 2012)
	• Pass the follow-up conformity assessment of the ISO 20000 certification	(May 2012)
	• Improve the business system for personal information protection	(Sep.~Dec. 2012)
	• Reinforce protection measures to qualify for the certification of the information protection & management system and improve the integrated PC security control system	(Sep.~Dec. 2012)
	• Build a DB access control system	(Dec. 2012)

Kerosene lamp

III

Stronger Financial Consumer Protection

III

Stronger Financial Consumer Protection

1 Prevention of Damage to Financial Consumers

1-1. Increased Awareness of the Depositor Protection System

A. Key Promotional Activities

The KDIC staged an extensive promotional campaign in 2012 to promote its roles and values and improve the public's understanding of the depositor protection system. Its major targets were people in their twenties and financially underserved people including the elderly. For the first time since its establishment, the KDIC conducted a public campaign over the three major national television networks. The campaign was carried out by fully using advertising media which financial consumers commonly see every day, such as newspapers, magazines, the KTX's (Korea Train Express's) wide color display boards, media on public transportation, LED electronic display banners, and outdoor electronic ad displays. The campaign specifically addressed the protection limit and ineligibility of subordinated bonds under the deposit insurance system and projected a positive image of the KDIC.

The KDIC also sought to utilize appropriate no-cost forms of media. It introduced a short notice on the depositor protection system in bank account books distributed by financial institutions and neighborhood meeting circulars issued by local governments. It ran feature articles on the system using promotional channels of related organizations, and created promotional videos to be shown at branches of financial institutions.

To determine the most appropriate targets for the campaign, the KDIC referred to the results of a public opinion poll on the deposit insurance system, and employed the "selection and concentration" strategy. More specifically, it made a smart choice by deciding to use new media including social network services (SNS), which is commonly used by those in their twenties, particularly university students. The KDIC set up a Facebook account, hired blogger reporters, and held a blog column contest, which helped to spread information about the KDIC and the depositor protection system in real-time. Also, it held another ad contest for university students after the first one in 2011 to raise the level of general understanding about the KDIC and the depositor protection system among people in their twenties.

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

Table Ⅲ-1 Image Ads to Raise Public Awareness of Deposit Insurance

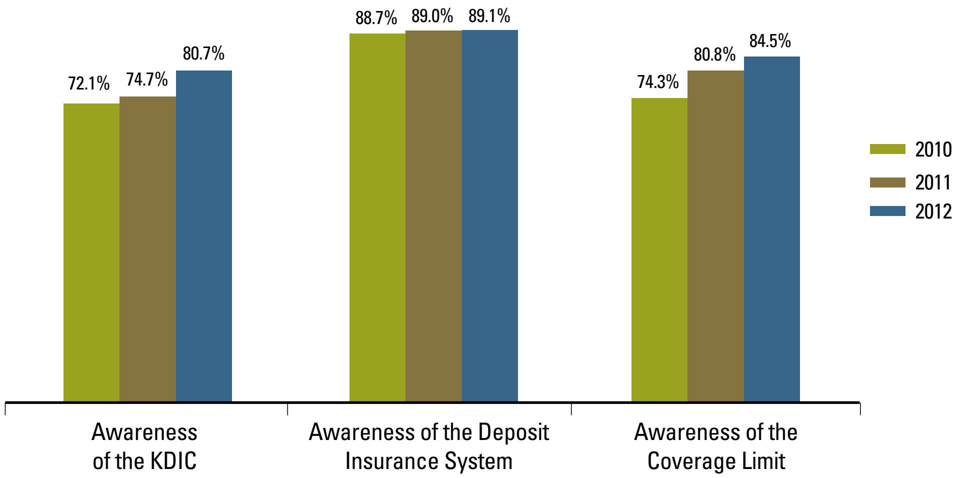
TYPE	2010	2011	2012
Image Ads			

The KDIC ran a promotional cartoon titled 'Easy-to-Understand Depositor Protection System' to publicize the depositor protection system and the roles of the KDIC in detail for financially undeserved persons including elementary school students, housewives, and merchants at traditional markets. The cartoon was based on a popular folk lore of Korea.

B. Awareness of the Depositor Protection 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 depositor protection system among those aged 19 or older. The KDIC has effectively managed to raise its public awareness through promotional activities, social contribution activities, and economic education programs. The increasing frequency of citations of the KDIC in the media at large has helped to promote public awareness of the KDIC. According to a survey in 2012, 80.7% of the public is aware of the KDIC, an increase of 6.0%p from the previous year, and awareness of the depositor protection system rose 0.1%p to 89.1%. Awareness of the deposit coverage limit was 84.5%, up 3.7%p from the previous year.

Table Ⅲ-2 Survey Results Regarding Awareness of Deposit Insurance by Year



1-2. Review of and Guidance for Compliance with KDIC Signage Display Requirements

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

Table Ⅲ-3 Number of Branches Inspected On-site Per Inspector Regarding the Display of KDIC Signage

Category	2011	2012	Difference
Number of branches inspected per inspector	120	159	32.5% ↑

The KDIC checks insured financial institutions' compliance with the indication requirements in a non-imposing way not to burden them with needless administrative efforts and to enhance the KDIC's image. It streamlined the inspection process by drafting separate checklists for headquarters and branches of insured financial institutions and changed inspection methods in 2011. It also adopted a precheck system for their self-inspection. In 2012, the KDIC provided a detailed explanation about checklists to reduce the workload on inspected financial institutions. Each inspector can now check compliance with the KDIC signage display requirements for as many as 159 branches of insured financial institutions.

Figure Ⅲ-1 Simulation Calculator for Deposit Insurance Coverage

The KDIC distributed 150,000 information packages of posters, leaflets, and stickers to all branches of insured financial institutions containing accurate information about the deposit insurance system. It put a simulation calculator of insurance coverage on its website in November 2011 so that a depositor can find out how much of his or her deposit is protected by entering data such as the type of financial institution, product type, and account balance. It is ceaselessly improving the calculator for increased user convenience.

1-3. Financial Literacy Education

A. Education for the Financially Underserved Population

Prompted by the global financial crisis in 2008 and the rising needs for financial literacy education, the KDIC began in 2010 to provide such education for the elderly and elementary school students, i.e. groups which are financially underserved. In early 2011, many financially underserved people such as the elderly and traditional market merchants sustained damage during the spate of suspensions of mutual savings banks due to their insufficient understanding of the deposit insurance system. In June 2011, the KDIC formulated the SMART Financial Literacy Education Plan, which included on-site education and consulting on the deposit insurance system and a public awareness campaign.

Each year, the KDIC sent official notices on financial literacy education to elementary schools around the country with the support from the Ministry of Education, Science and Technology and received applications from them. Then, KDIC employees visited those schools to carry out financial literacy education on money management and the deposit insurance system. In 2012, the KDIC held 213 education sessions for 15,904 elementary school students at 106 schools nationwide.

In November 2011, the KDIC concluded an agreement with the Agency for Traditional Market Administration under which it began to participate in 2012 in the regular curricula of merchant universities, which provide business education for merchants in traditional markets. It provided financial literacy education for 5,889 merchants at 98 merchant universities. It produced instructional videos that addressed merchants' specific needs, and it supplied merchant universities with needed educational devices, including 110 sets of laptop computers and beam projectors, through the Agency for Traditional Market Administration. For the benefit of merchants who cannot attend merchant universities or who work in markets with no merchant universities, KDIC staff visited markets to provide guidance and counseling regarding the depositor protection system.

In 2012, the KDIC held 466 financial literacy education sessions for 92,656 financially underserved persons such as elementary school students, traditional market merchants, and self-supporting youths.

B. Establishment of Foundation for Systematic Education of the Elderly

The KDIC on occasion educates the elderly about the depositor protection system, mainly at senior welfare centers and senior community centers. Its conclusion of an agreement with the Korea Association of Senior Welfare Centers in September 2012 rendered financial literacy education for the elderly much more organized. Beginning from 2013, it plans to offer regular courses for 1.5 million members of 220 senior welfare centers around the nation. It will provide basic education on tax-rebated products and voice phishing prevention to the elderly and develop teaching materials for the elderly for guidance on the deposit insurance system.

C. Launch of Online Education Service

The KDIC's financial literacy education had been mostly offered through on-site education and awareness campaigns. Offline education inevitably faces limitations owing to constraints in terms of time, space, human resources, and budget. In response, the KDIC opened a webpage for its financial literacy education in 2012 to enable users to learn on their own. The webpage is mainly designed with the specific needs of the financially underserved population in mind. The website also introduces traditional markets and offers a money diary and a financial literacy quiz game to make learning about the financial system easier and more fun.

Table Ⅲ-4 Financial Literacy Education in 2012

(As of Dec. 31, 2012, Unit: No. of Sessions, No. of people)

Category		No. of Sessions	No. of People	Topics
Education	Elementary School Students	213	15,904	Importance of allowance management, Information about deposit insurance
	Traditional Market Merchant University Students	98	5,889	How to avoid voice phishing scams, Information about deposit insurance, etc.
	Other	5	157	How to avoid voice phishing scams, Information about deposit insurance, etc.
Campaigns	Traditional Markets	143	24,974	How not to be a victim of loan sharks, Information about deposit insurance, etc.
	Other	7	45,732	How not to be a victim of loan sharks, Information about deposit insurance, etc.
Total		466	92,656	-

2 Protection of Financial Consumers of Insolvent Financial Institutions

2-1. Alleviation of Inconveniences to Financial Cosumers During Conservatorship

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

Table Ⅲ-5 Approaches to Alleviate Inconveniences of Borrowers

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

The KDIC oversees the consultations by the loan review committee among the parties concerned on the overlapping borrowers of member financial institutions or multiple loans secured with the same collateral. This has increased the efficiency of the lending business and dramatically reduced debtors' inconveniences.

The targets and lengths of due date extension were clarified. When necessary to prevent further insolvencies and maintain the failed institution's franchise value, extension periods and other terms of loans may be adjusted as needed in consideration of each debtor's circumstances.

In addition, the KDIC stepped up guidance for borrowers at suspended mutual savings banks. It required that suspended mutual savings banks which send loan statements to borrowers should enclose letters providing information on low-interest rate financial support for ordinary people including microfinance and the Haetsal (subshine) Loan. Many of these borrowers had high-interest loans. The KDIC also posted guidance for borrowers on its webpage to ensure that borrowers, like depositors, also have timely access to information on business suspensions of financial institutions.

2-2. Reliable Deposit Insurance Payment and Improved Services

Major suspensions of insolvent mutual savings banks in 2011 sparked a surge in requests for interim deposit payments. At some mutual savings banks, numerous depositors had to queue up to receive interim deposit payments.

In 2012, the KDIC made several improvements to its payments including interim deposit payments to minimize depositors' inconvenience. It prevented depositors from having to wait in line for a long time to receive interim deposit payments by making sure that there are a sufficient number of teller windows* to handle depositor claims at branches of six commercial banks.** In addition, the KDIC enabled the opening of accounts to which payments of deposit insurance can be made at three banks. Previously, such accounts could only be opened at Nonghyup. To ensure uninterrupted transaction handling in the event of an IT system failure, it established reserve accounts at several banks.

* Over 700 windows were opened at 338 branches, increasing deposit payment handling capacity per hour by 62% from the previous year.

** Nonghyup, Kookmin Bank, Industrial Bank of Korea, Shinhan Bank, Woori Bank, and Hana Bank

Considering that the majority of the depositors at mutual savings banks are elderly people who are not familiar with the Internet, the KDIC made a number of simplifications to the display screen of its online deposit payment system, and this alone led to an 11% rise in the elderly's online requests for payments including interim deposit payments from the preceding year.

Consistent efforts to offer depositors interim deposit payments and other means of relief have allowed the KDIC to reliably make interim deposit payments to depositors at eight mutual savings banks suspended in 2012.

In addition, the KDIC made a vigorous effort to minimize losses to depositors by complementing its existing schemes.

Despite a series of upward adjustments in the interim deposit payment limit by the KDIC for depositors with deposits of over KRW 50 million, when an attempt to arrange a P&A failed, they had to wait and suffer until a successful P&A could be arranged. The KDIC sought ways to raise the interim deposit payment limit for them further. At four mutual savings banks (Solomon Savings Bank, Korea Savings Bank, Mirae Mutual Savings Bank, and Hanju Savings Bank) in 2012, the KDIC ensured that up to KRW 20 million in interim deposit payments would be made to holders of no more than KRW 50 million in deposits and that up to 40% of principal would be paid, under the coverage limit, to depositors with deposits exceeding KRW 50 million.

The P&A process for Mirae Mutual Savings Bank was especially prolonged. Given that deposits held by depositors subject to the P&A would not be properly manageable for an extended period of time, the KDIC made additional interim deposit payments of up to KRW 20 million on the occasion of Chuseok, the Korean Thanksgiving, when there is greater demand for cash.

If certain persons are found through accountability investigations to be liable for the insolvency of a mutual savings bank, the KDIC puts a hold on payment of deposit insurance concerning deposits of its former and current officers/employees as well as their related parties for six months from the date of payment announcement as prescribed by the Depositor Protection Act in order to institute a lawsuit to claim damages.

Former and current officers/employees and their related parties of a mutual savings bank who were subject to deposit insurance payment suspension due to their presumed accountability despite a prospective P&A were required to receive their deposits in the form of insurance claims to the extent that they were finally declared to have no responsibility for mismanagement. As a result, they suffered monetary losses when compared to their deposits receivable under the P&A scheme.* To alleviate such inconvenience, the KDIC introduced a system where a P&A is pursued by pledging suspended deposits with the consent of depositors. In other words, the system allows preservation of creditors' rights through establishment of a pledge to claim damages in the future. When involved personnel are found to have no liability, the pledge is lifted for recovery of deposits at an agreed interest rate.

* In the case of a P&A, an agreed interest rate is guaranteed. However, the interest rate applicable when insurance claims are paid represents the lower between the agreed interest rate under a deposit agreement with a mutual savings bank and the interest rate determined by the KDIC. In most cases, the KDIC-determined interest rate is lower than the agreed interest rate.

The KDIC has steadily made institutional improvements not only for more reliable payment of deposit insurance claims and improvement of depositor protection services but to duly earn the public's unwavering trust.

2-3. Minimization of Financial Transaction Suspension Period

The KDIC pursued the sales of Solomon Savings Bank, Korea Savings Bank, Mirae Mutual Savings Bank, and Hanju Savings Bank (suspended in May 2012) immediately after they were declared insolvent. By promptly arranging P&As to a third party or a bridge mutual savings bank, the KDIC restored their financial transactions as soon as possible, minimizing inconveniences and damage to customers including depositors.

Table Ⅲ-6 Resolution of MSB Failures that Occurred 2012

Name of MSB	Resolution Method	Date of Business Suspension	Date of Business Resumption	Business Suspension Period	Note
Solomon	3rd-party P&A	May 6, 2012	Sep. 10, 2012	127 days	Resolution after business suspension
Korea	3rd-party P&A	May 6, 2012	Sep. 10, 2012	127 days	
Mirae	3rd-party P&A	May 6, 2012	Sep. 10, 2012	159 days	
Hanju	Bridge bank P&A	May 6, 2012	Oct. 12, 2012	127 days	
Tomato 2	Bridge bank P&A	Oct. 19, 2012	Oct. 22, 2012	2 days (next biz day)	Resolution without business suspension
Jinheung	Bridge bank P&A	Nov. 16, 2012	Nov. 19, 2012	2 days (next biz day)	
Gyeonggi	Bridge bank P&A	Dec. 28, 2012	Dec. 31, 2012	2 days (next biz day)	
W	Bridge bank P&A	Dec. 28, 2012	Dec. 31, 2012	2 days (next biz day)	

In spite of such effort, financial transactions at these banks could not be resumed for two to three months after the suspensions. This situation caused great inconveniences and damage to people who needed access to financial transactions including the depositors. The KDIC responded by introducing a "resolution system without any disruption to financial services" in the latter half of 2012. Failed mutual savings banks were suspended from business 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 depositors' inconveniences and damage arising from interruption of financial transactions and enabled resolution of insolvent mutual savings banks without any disruption to financial transactions.

2-4. Early and Maximum Payment of Bankruptcy Dividends

For holders of deposits in excess of the coverage limit as prescribed in Article 35-2 of the Depositor Protection Act, the KDIC makes advance payments of bankruptcy dividends. The KDIC purchases claims from depositors, such as deposit liabilities in excess of the coverage limit upon their request, makes an estimate of the expected dividends from the bankruptcy estate, and pays the money to depositors on a pro-rata basis in exchange for their claims.

The KDIC makes such payments as soon as possible to minimize depositors' economic inconveniences caused by a prolonged bankruptcy procedure. It built a system in August 2011 where a claim for advance bankruptcy dividends payment can be filed online.

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

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

In 2012, the KDIC identified addresses of bankruptcy creditors with the help of the Ministry of Public Administration and Security, and requested the bankruptcy estates to send dividend payment notifications to those addresses. In 2012 alone, addresses of 65,437 creditors were corrected; 46,427 creditors of 22 bankruptcy estates in the first half and 19,010 creditors of 21 bankruptcy estates in the second half. Also, the KDIC set up the Unclaimed Dividend Notification System on its website where a creditor can check if there are any unpaid dividends for him or her after completing an authentication process.

As a result of these endeavors, KRW 22.6 billion (14,830 cases) of long-overdue dividends were paid to bankruptcy creditors in 2012. From August 2005 through the end of 2012, this campaign paid out dividends totaling KRW 233.6 billion to bankruptcy creditors (418,869 cases).

Table Ⅲ-7 Payment of Unclaimed Dividends to Rightful Claimants

(As of Dec. 31, 2012, Unit: No. of cases, KRW 100 million)

Category		Banks	Investment Companies	Insurance Companies	Merchant Banks	Mutual Savings Banks	Credit Unions	Total
2012	Amount (No. of cases)	17 (157)	0.1 (157)	0.1 (640)	194 (356)	15 (13,508)	0.003 (12)	226 (14,830)
Aug. 2005 ~ Dec. 2012	Amount (No. of cases)	118 (378)	4 (22,365)	1 (6,866)	694 (17,579)	1,518 (370,164)	1 (1,517)	2,336 (418,869)

Traditional bullfighting

IV

Advancement of the Deposit Insurance System

IV

Advancement of the Deposit Insurance System

1 Improvement of the Deposit Insurance System

1-1. Amendment of Laws to Improve the KDIC's Risk Monitoring

Amendment of the Enforcement Decree of the Depositor Protection Act in March 2012 expanded the scope of the KDIC's independent examinations of mutual savings banks. Originally, only the financial institutions already showing signs of failure (requiring implementation of prompt correction action (PCA) measures) had been subject to the KDIC's independent examinations, which made it difficult for the KDIC to detect any risks of insolvency in advance through its examinations. The amended Enforcement Decree authorizes the KDIC to conduct an independent examination when "(i) the mutual savings bank has a BIS capital adequacy ratio that is less than the trigger for PCA restrictions plus 2%p; (ii) the mutual savings bank has registered net losses for the last three consecutive fiscal years; or (iii) the KDIC, in consultation with the Financial Supervisory Service (FSS), determines that it is necessary to carry out an examination in consideration of the downward trend in an institution's BIS capital adequacy ratio."

The Act on the Establishment, Etc. of the Financial Services Commission (FSC) was amended in March 2012. It allows the KDIC to request necessary corrective measures depending on the findings of its joint examinations with the FSS (including independent examinations of the FSS at the request of the KDIC). As the amended Act mandates the FSS to comply with such request, it empowers the KDIC to take effective follow-up actions.

Because of the expansion of the scope of its independent examinations and authorization of issuing requests for corrective measures based on joint examination findings, the KDIC now has greater capacity to monitor the risks of insolvency among insured financial institutions and take preemptive action, which in turn improves its ability to maintain stability of the financial system across the board.

1-2. Preparation for the Implementation of the Risk-Based Premium System

In Korea, deposit insurance premiums have been charged based on sector-specific fixed rates. In other words, the same premium rate is applied to all insured financial institutions in the same sector irrespective of their risks of financial distress. This system is clearly unfair. Stronger financial institutions are in effect compelled to pay subsidy to weaker financial institutions, and it engenders moral hazard on the part of some insured financial institutions.

The KDIC has constantly pushed for introduction of the risk-based premium system to encourage sound management of insured financial institutions and to ensure fair imposition of deposit insurance premiums. The Depositor Protection Act was amended in February 2009 after review of opinions collected from leaders in the industry and discussion among lawmakers. The amended Act calls for the implementation of a risk-based premium system for all insured financial institutions starting in 2014.

A joint task force between the KDIC and the financial industry formulated a differential (risk-based) risk assessment model based on third-party study findings and outside expert opinions acquired through a public hearing in December 2011 on how to execute the risk-based premium system. The Deposit Insurance Committee finalized the Basic Plan for the Implementation of the Risk-Based Premium System in March 2012.

The gist of the Basic Plan is as follows: (i) an absolute evaluation of each individual insured financial institution is done annually under the differential risk assessment model; (ii) each of the institutions is assigned a grade from 1 to 3 depending on evaluation results, and then varying premium rates are applied to them accordingly; (iii) the differential risk assessment model comprises basic evaluation (80 points) and supplementary evaluation (20 points); (iv) basic evaluation indicators, which are highly correlated to mismanagement of financial institutions based on statistical verification, are designed to assess the management team's ability to cope with a crisis, ensure financial soundness, and recover from losses; and (v) supplementary evaluation indicators include non-financial indicators (10 points) such as 'sanctions by the financial authorities' as well as financial indicators (10 points) that would address the rigid nature of quantitative indicators in basic evaluation and reflect changes in the financial regulatory environment for the corresponding year.

The KDIC plans to further develop details not defined in the Basic Plan and incorporate them into regulations and rules. In 2013, it will roll out the risk-based premium system on a pilot basis in preparation for its complete implementation later on.

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, implementation of the system will help the Korean deposit insurance system fully meet international standards and help raise the nation's international credit standing.

2 Research on Deposit Insurance Systems

2-1. Research on Deposit Insurance Systems and Financial Safety Net

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

In the wake of the global financial crisis, the US and the EU imposed more rigorous capital adequacy standards and devised a new resolution system in a bid to overhaul their financial regulatory frameworks. In tandem with the paradigm shift in global financial regulation, the KDIC did a number of case studies concerning changes in the deposit insurance systems and financial policies/supervision of major countries and studied their implications. It also analyzed current financial and economic issues in depth in response to growing unease in the global financial markets caused by the European fiscal crisis and fears of slowing global growth.

Table Ⅳ-1 Major Research Reports in 2012

Subject	Title
Research on financial and economic issues	• Spillover of the eurozone crisis and its implications
	• Review of and outlook for the EU's response to the recent crisis
	• Impact of Korea's introduction of covered bonds and its implications
	• Analysis of the possibility of volatility in oil prices triggered by Iran and its impact
	• Management performance of the FDIC-insured banks in the first quarter of 2012
	• Analysis of conditions in the domestic and overseas bond markets and their implications
	• Analysis of risk factors concerning household debts and their implications

Subject	Title
Changes in the deposit insurance systems and financial regulation in major countries	• Change in deposit insurance systems of major countries following the global financial crisis and its implications
	• Change in the US financial regulatory framework following the financial crisis in 2008 and its implications
	• US FDIC's formulation of the criteria for large bank resolution plan (RP) submission and its implications
	• US FDIC's P&A process and its implications
	• Major details of the UK banking reform report
	• Major details of the 'EU banking structure reform report' and its implications
	• Major details of the 'EU recovery and resolution guidelines for financial institutions'
	• Macroeconomic costs of more rigorous capital adequacy regulation of banks
	• Early intervention system in the UK for financial supervision

2-2. 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 2012

Title	Key Theses Published
Financial Stability Studies (Vol. 13; Issues 1 and 2) 	• Identification and supervision of N-SIFIs in emerging markets • Improvement in the Korean deposit insurance system in light of the Core Principles for Effective Deposit Insurance Systems of the International Association of Deposit Insurers (IADI) • Analysis of factors affecting the banking industry's productivity • Is investment in high-dividend stocks effective in the Korean stock market? • Performance analysis regarding equities recommended by securities companies • Empirical analysis of relationship lending in the SME loan market • Roles of micro and macro information in the estimation of default probability • Impact of the use of derivatives and income smoothing through discretionary accruals on enterprise value • Analysis of Korea's inflation indicators • Cyclical changes in the efficiency of loan provision under asymmetric information
A Collection of Theses Submitted to a Contest for Research Funding 	• Impact of banks' lending expansion on their profitability and risks (with focus on Bankscope data) • Analysis of household debt servicing capacity for specific types of financial liabilities • Research on risky investment by mutual savings banks and competition in the consumer finance market • Impact of large stockholders' stakes and loan risks on the productivity of mutual savings banks • Investor protection and the role of disclosure upon inquiry

3 International Exchange and Cooperation

3-1. Expansion of Global Network Through Active Participation in IADI Initiatives

A. The IADI Deposit Insurance Organization of the Year 2012 Award

The global financial crisis in 2008 has created renewed international interest in deposit insurers as bulwarks of financial stability. The 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*, global standards in deposit insurance, and had them included in the Compendium of Standards designated by the Financial Stability Board (FSB) in February 2011.

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

The KDIC has participated in major initiatives of the IADI as its Executive Council member and founding member. Recognized for its experience in effectively responding to financial crises, the KDIC has been conducting research as chair of the Sub-committee on Handling of Systemic Crises under the Research and Guidance Committee since 2010. As an exemplary deposit insurer protecting both the banking and non-banking sectors, the KDIC took the initiative for the launch of the Subcommittee on Integrated Protection Schemes. It is the current chair of the subcommittee.

In recognition of the KDIC's vigorous efforts in the international community, the IADI awarded the Deposit Insurance Organization of the Year Award to the KDIC at its eleventh annual general meeting in London on October 25, 2012. The IADI annually confers the award upon a member organization that made a significant contribution to domestic financial stability and international cooperation concerning deposit insurance. The deposit insurer which obtains the largest number of votes in a secret ballot among all IADI members becomes the recipient of the award. The KDIC has cemented its stature as an IADI founding member and Executive Council member. Despite a relatively short history of sixteen years, it emerged as a role model for other deposit insurers by overcoming the 1997 Asian financial crisis that culminated in an IMF bailout and by successfully restructuring failed mutual savings banks in recent years. It also helped advance the deposit insurance systems of emerging economies by sharing its experience through the new Global-KDIC KSP (Knowledge Sharing Program).

B. IADI Executive Training Seminar

To promote understanding of the deposit insurance system and share experience among participants, the IADI has held seminars for training of executives and other high-ranking officers of financial safety net organizations including deposit insurers since 2007. For the purpose of fulfilling its duties as an exemplary member of the IADI and facilitate capacity building of participants, the KDIC hosted an IADI executive training seminar in Seoul from November 13 to 15, 2012. The seminar was well received. Fifty representatives from 25 countries participated including Mr. Jean Pierre Sabourin (the first President of the IADI), heads of the deposit insurance organizations of Switzerland and Ukraine, and high-ranking officers of the deposit insurance organizations of the US and the UK. There can be no denying that the IADI executive training seminar bolstered the KDIC's position as a model deposit insurer.

3-2. Expansion of Exchange with Foreign Deposit Insurers

A. Conclusion of MOUs for Promotion of Information and Personnel Exchange

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

On January 16, 2012, the KDIC concluded a tripartite MOU with the Tanzanian Ministry of Finance and the Bank of Tanzania. Since the launch of the Tanzania KSP, the KDIC and the Tanzanian financial authorities have pressed for regular exchange. Conclusion of the MOU set the stage to promote mutual cooperation for development of their respective deposit insurance systems. On March 15, 2012, the KDIC renewed an MOU with the Deposit Insurance Agency of Russia to consistently promote exchange. On November 12, 2012, another MOU was signed with the Deposit Guarantee Fund of Ukraine. On the same day, the KDIC renewed its MOU with the Savings Deposit Insurance Fund of Turkey. These MOUs should help build a network whereby partner organizations share information in a timely manner on how to address issues of deposit insurance and overcome a financial crisis.

In March 2012, the KDIC dispatched two employees to the Central Deposit Insurance Corporation of Taiwan, based on the MOU between the two organizations, to carry out an in-depth study of Taiwan's deposit insurance system.

B. Sharing of Korea's Deposit Insurance System Experience (Global-KDIC KSP)

Deposit insurance has assumed vastly 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 give capacity-building training and policy consultation to other countries which are preparing to enact deposit protection laws or to establish deposit insurance organizations.

In 2012, the KDIC hosted international workshops and training sessions to share its extensive knowledge and experience in deposit insurance with aspiring participants. In May 2012, it shared its experience in deposit insurance system implementation with the employees of the People's Bank of China and the Development Research Center of the State Council who are in charge of introducing such systems. During the same month, the KDIC shared its experience as an integrated deposit insurer with the employees of the deposit insurers of Taiwan and Nigeria at their request. In April 2012, it invited staff members of the Deposit Insurance of Vietnam, including its President, for training on IT system operation after receiving a request for knowledge sharing in that area. In April and November 2012, the KDIC dispatched several staff members to Vietnam to speak at the combined training sessions for the officials of the State Bank of Vietnam and the Bank for Investment and Development of Vietnam. Staff members of the Nepalese central bank, the Thai central bank, and the Indonesian Ministry of Finance visited the KDIC in April, July, and November 2012 respectively to learn about its experience in deposit insurance system operation.

The KDIC began to link the Korean government's KSP (Knowledge Sharing Program) with its Global-KDIC KSP project in 2010. In 2012, it provided policy consultation to the Mongolian government for the country's introduction of a deposit insurance system. To share its experience in deposit insurance system implementation, the KDIC hosted a workshop for working-level officials from Mongolia in December 2012.

Following 2011, the KDIC won the Tanzania KSP project again in 2012 from the Korea Development Institute that was commissioned by the Ministry of Strategy and Finance. The KDIC independently provided policy consultation to support the Tanzanian government in its effort to establish a deposit insurance organization. In August 2012, the KDIC interviewed senior policy-makers in Tanzania as part of a local demand survey designed to identify specific topics of interest. High-ranking officials of the FSC, an organization related to the KDIC, also participated in the survey. On the part of the KDIC, the Executive Director in charge of international affairs and KSP team members partook in the survey. In September 2012, the KDIC conducted a local study to ascertain the economic conditions in Tanzania, the expected effects of the establishment of an independent deposit insurer, and potential problems. In collaboration with the Tanzania Deposit Insurance Board, it hosted an international workshop on building effective IT systems in Dar es Salaam, Tanzania for employees of deposit insurers in neighboring countries including Kenya and Zimbabwe.

Table Ⅳ-3 Exchange with Foreign Deposit Insurers in 2012

Country	Audience	Month	Description
Vietnam	Central Bank and Deposit Insurer	April	• Presentation for the visiting President of the Deposit Insurance of Vietnam
		April	• Sending speakers to give presentations on "resolution of insolvent banks" for executives and employees of the Vietnamese central bank
		November	• Sending speakers to give presentations at the combined training sessions for the officials of the Ministry of Finance and the Bank for Investment and Development of Vietnam
Mongolia	Government, Parliament, and Central Bank	July	• Business trip to Mongolia as ADB consultant for a demand survey concerning introduction of a deposit insurance system in the country • Interview with officials of the Mongolian Ministry of Finance and the Bank of Mongolia
		November	• Business trip to Mongolia as ADB consultant to conduct a detailed study concerning introduction of a deposit insurance system in the country
		December	• Training for working-level officials of Mongolia
Indonesia	Deposit Insurer	November	• Participation in the KDIC-hosted "IADI executive training seminar"
	Finance Ministry	December	• Training for working-level officials regarding the KDIC's early warning system
China	Central Bank	May	• Training for visiting staff of the People's Bank of China
Nigeria	Parliament and Deposit Insurer	May	• Workshop on integrated deposit insurance systems for members of the National Assembly of Nigeria and the Nigeria Deposit Insurance Corporation
		December	• Sending a speaker to the IADI Africa Regional Committee at the invitation of the CEO of the Nigeria Deposit Insurance Corporation
Kenya	Deposit Insurer	September	• Workshop for establishment of efficient IT systems
Malaysia	Deposit Insurer	November	• Participation in the KDIC-hosted "IADI executive training seminar"
Nepal	Deposit Insurer	April	• Training for the visiting executives and employees of the Nepalese central bank
	Finance Minister and Central Bank	November	• Training for working-level officials concerning restructuring of failed banks
Taiwan	Deposit Insurer	May	• Workshop on integrated deposit insurance systems for staff of the Central Deposit Insurance Corporation of Taiwan
Ukraine	Deposit Insurer	November	• Conclusion of an MOU with the deposit insurer in Ukraine • Participation in the KDIC-hosted "IADI executive training seminar"
Tanzania	Government and Central Bank	January	• Final report on the Tanzania KSP for 2011 • Interview with the Minister of Finance and the Deputy Governor of the Bank of Tanzania
		August	• Local demand survey
		September	• Local pilot study
		October, November	• Interim report and training for working-level officials • Participation in the KDIC-hosted "IADI executive training seminar"

Writing brush for calligraphy

V

Risk Management

V
Risk Management

1 Inspections and Joint Examinations

1-1. Enhancement of Risk Surveillance

A. Improvement of Risk Surveillance Models

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

The KDIC continues to improve and refine its risk surveillance models to effectively respond to changes in the financial environment. Due to the rise in risks stemming from low-interest and household loans, the KDIC recently reviewed the existing indicators and altered the risk surveillance models to improve their integrity. In 2012, in particular, the KDIC developed a stress test model to beef up its risk surveillance capacity in a crisis situation. The model forecasts fluctuations of each financial institution's financial indicators in response to internal risk factors in each area of the financial industry and external risk factors such as rising interest rates and slumping stock prices. To deal with changes in the business environment arising from the recent restructuring of mutual savings banks and in the financial positions of individual mutual savings banks, the KDIC modified variables and weights of its risk surveillance models to better monitor the risks of the mutual savings banking sector.

B. Strengthening of Risk Surveillance Capabilities

The KDIC is improving risk surveillance capabilities and the quality of analysis reports in a number of respects. In 2011, it surveyed all employees to measure the effectiveness of an in-house course on ongoing risk surveillance. Based on the survey findings, the KDIC formulated a plan to administer the course in a way that better satisfies users' needs, producing good results in 2012. Useful and timely information pertinent to major current issues in the financial market was identified and included in the course; competent instructors were recruited; and the contents of the program were adjusted to address both theory and practical applications.

Table Ⅴ-1 Risk Surveillance Classes Held in 2012

Time	Topic
Apr. 2012	• Assessment of business and financial conditions of an investment company
Jun. 2012	• Understanding the risk-based premium system
Oct. 2012	• Basel Ⅲ and risk management
Dec. 2012	• Analysis of a financial institution's financial statements and account fraud cases

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

The KDIC selects reports among those generated by risk surveillance departments and posts them on the in-house portal. For KDIC employees' better understanding of the financial industry, three reports in the first half of 2012 and three in the latter half were cited for their especially high quality. The KDIC seeks to improve its risk analysis regarding insured financial institutions by such means as sharing analysis methods through in-house study clubs.

C. Legal Basis of Insurance Event Risk Management

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

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

1-2. Capacity Building for Independent Examinations of Mutual Savings Banks

A. Revision of the Enforcement Decree of the Depositor Protection Act

In September 2011, the Financial Supervision Innovation Task Force under the Prime Minister's Office requested that the surveillance capabilities of the KDIC be reinforced by expanding the scope of mutual savings banks subject to its independent examinations. In follow-up, Article 12-2 (Criteria for the Declaration of an Insolvency-threatened Financial Institution) of the Enforcement Decree of the Depositor Protection Act was revised in March 2012 to set forth the new criteria for the KDIC's independent examinations of mutual savings banks. The scope of mutual savings banks that may be subject to its independent examinations was expanded from the targets of timely corrective action measures to those banks of which capital adequacy ratios are lower than the BIS trigger plus 2%p or which registered net losses for the three previous consecutive years.

Table Ⅴ-2 Comparison of the Old and New Enforcement Decrees of the Depositor Protection Act

Law	Old	New
Enforcement Decree of the Depositor Protection Act	Article 12-2 Criteria for the Declaration of an Insolvency-threatened Financial Institution The term "standards as set by the Presidential Decree" in Article 21(2) of the Act means the standards as set by the Financial Services Commission (FSC) under Article 10(2) of the Act on the Structural Improvement of the Financial Industry.	Article 12-2 Criteria for the Declaration of an Insolvency-threatened Financial Institution The term "standards as set by the Presidential Decree" in Article 21(2) of the Act means the standards as set by the Financial Services Commission (FSC) under Article 10(2) of the Act on the Structural Improvement of the Financial Industry; provided that in the case of a mutual savings bank subject to the Mutual Savings Banks Act, the term means any of the following: 1.When the bank falls under the standards set by the FSC according to Article 10(2) of the Act on the Structural Improvement of the Financial Industry; 2.When the bank's capital adequacy ratio is lower than the standards set forth in the foregoing Subparagraph 1 plus two percent; 3.When the bank has recorded net losses for the last three consecutive fiscal years; or 4.When the KDIC acknowledges in consultation with the Financial Supervisory Service (FSS) that it is necessary to conduct an examination by considering the downward trend and scale of the bank's capital adequacy ratio.

B. Formulation of Applicable Regulations and Improvement of Capabilities

Following amendment of the Enforcement Decree of the Depositor Protection Act, the KDIC formulated the Regulations on Examinations of Insured Financial Institutions in April 2012 to speed up its examinations of mutual savings banks. For fair deliberation of examination results, it set up the Management Risk Deliberation Committee, which mostly comprises outside members. It also revamped the Problem Loan Search System (PLSS) for filtering problem loans prior to commencement of on-site examinations to increase their efficiency. For systematic management of the entire independent and joint examination process, the KDIC established the Examination/Inspection MOU Management System (EIMS).

To enhance expertise of examiners, the KDIC carried out specialized examination training sessions and posted experienced staff recruited from accounting firms at examination departments. As IT systems have become increasingly important in its examination process, it recruited two experienced IT workers from mutual savings banks as dedicated IT examiners in the second half of 2012.

The KDIC introduced a scheme to protect the interests of and lessen the burden on people involved in examinations of mutual savings banks as targets. It also adopted an interest protection system where its in-house lawyers redress the difficulties experienced by stakeholders of mutual savings banks from an independent viewpoint if the procedures or contents of an examination are illegal or unreasonable or if any material defect is found in such examination. To minimize the burden on mutual savings banks, the KDIC bore all the expenses incurred by its examinations, and it established a complete process by which targets of examinations can defend themselves and appeal to examination findings. Employees of mutual savings banks can easily provide explanation or raise objection by using the KDIC webpage.

1-3. Independent and Joint Examinations

A. Independent Examinations of Mutual Savings Banks

In the latter half of 2012, the KDIC selected examination targets and commenced examinations according to the criteria under the revised Enforcement Decree of the Depositor Protection Act. Since any overlap between the FSS inspections and the KDIC independent examinations can overwork the employees of mutual savings banks, the KDIC made sure its examinations were closely coordinated with those of the FSS.

The KDIC collected written materials from sixteen mutual savings banks selected for examinations. It then excluded those banks that had already undergone an FSS inspection or a joint examination and conducted on-site examinations only of the remaining eight mutual savings banks. It recommended a capital increase for mutual savings banks whose financial positions were found to be in distress, and it requested the FSC to take corrective actions on three mutual savings banks deemed to pose high risk of an insurance event.

B. More Effective Joint Examinations Through Institutional Improvements

In September 2011, the Act on the Establishment, Etc. of the Financial Services Commission was revised as recommended in the Financial Supervision Innovation Plan of the Financial Supervision Innovation Task Force under the Prime Minister's Office. This accorded the KDIC the authority to request the FSS to take necessary corrective actions and provide examination findings. In effect, the KDIC can now indirectly implement corrective measures against insured financial institutions as joint examination findings suggest and officially receive examination findings of the FSS, which enhances the effectiveness of the joint examinations.

Table Ⅴ-3 Comparison of the Old and New Acts on the Establishment, Etc. of the Financial Services Commission

Law	Old	New
Act on the Establishment, Etc. of the Financial Services Commission	Article 66 Request for Inspection of the Korea Deposit Insurance Corporation <Newly inserted>	Article 66 Request for Inspection of the Korea Deposit Insurance Corporation ③ The Korea Deposit Insurance Corporation may request the Financial Supervisory Service to provide examination results as provided in Paragraph (1) or take necessary corrective actions concerning such examination results.
	③ When the chairman and president of the Korea Deposit Insurance Corporation issues a request under the provisions of Paragraph (1), the Financial Supervisory Service shall comply with such request as far as there is no particular reason to the contrary.	④ When the Korea Deposit Insurance Corporation issues a request under the provisions of Paragraphs (1) and (3), the Financial Supervisory Service shall comply with such request.

The Financial Supervision Innovation Task Force requested that the FSS and KDIC annually carry out joint examinations of large/group-affiliated mutual savings banks that could inflict a heavy loss on the DIF in the event of insolvency. The KDIC modified its MOU on joint examinations with the FSS in February 2012, according to which they must conduct annual joint examinations of a large mutual savings bank with no less than KRW 2 trillion in total assets as of the end of the latest fiscal year and a mutual savings bank affiliated with an institution in the same area of the financial sector. In 2012, six group-affiliated mutual savings banks were subject to joint examinations.

Table Ⅴ-4 Joint Examinations of Financial Institutions with the FSS

(Unit: No. of examinations)

Year	Before 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
No.	1	0	6	8	11	12	9	15	24	31	9	126

1-4. Promotion of Ongoing Risk Surveillance Activities

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

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

In 2011, the KDIC provided the Bank of Korea with nineteen financial information packages on insured financial institutions for the first time. In 2012, it provided three more information items. It also provided the FSS with 29 financial information packages, three more than in 2011. In 2012, the KDIC received 48 business reports from the Bank of Korea and 1,272 business reports from the FSS and fully utilized them in ongoing surveillance.

The KDIC consolidated or reorganized the Economic and Financial Status Review Meeting, Foreign Exchange Market Stabilization Council, and Financial Operations Council, which are consultative bodies on financial policy among the MOSF, the FSC, the Bank of Korea, the FSS, and the KDIC. In effect, it set up the Macro-Economic and Financial Meeting, which is a standing consultative body of their deputy heads. The participants intend to periodically review macroeconomic soundness, share financial information, and coordinate joint examinations to ensure mutual cooperation among financial policymakers; to share information on overall risk factors regarding finance and foreign exchange; and to proactively explore ways to promote collaboration.

The KDIC assigned dedicated personnel to each insured financial institution or each financial sector to constantly monitor their risk profiles. Staff members also analyze specific risk factors on an ongoing basis as part of the general effort to increase expertise in financial risk assessment. Information compiled and produced through these processes is then used in regular analysis meetings to identify risk factors in the financial market and their contagion channels in a timely fashion. Highly relevant issues are presented in summary in risk analysis reports (called "KDIC Financial Field Information"), which are distributed to financial authorities such as the FSC, academia, the press, and insured financial institutions. These efforts have facilitated the issuance of early warnings and the formulation of effective policies against potential risk factors in the domestic financial market in the face of the European fiscal crisis and the prolonged stagnation of the domestic economy.

The risk surveillance system was streamlined in 2012 to enable early detection of signs of insolvency in the mutual savings bank sector. The KDIC also strengthened the link between written analysis and on-site confirmation including independent and joint examinations. It periodically implemented a management risk analysis of individual mutual savings banks and predicted the levels of risk posed by mismanagement of mutual savings banks as a whole. By officially requesting mutual savings banks, in writing, to tighten risk control and conducting interviews with their management, the KDIC sought to reduce risks associated with them, and it executed a mock inspection of mutual savings banks prior to their independent or joint examinations on the basis of written materials.

1-5. Market-friendly Risk Surveillance

The KDIC publishes the quarterly Financial Risk Review to analyze risk factors of insured financial institutions and to promote market-friendly risk surveillance. Financial Risk Review includes risk analysis information produced by the KDIC and articles on risk management techniques contributed by experts in academia and the financial markets. The magazine is sent to financial authorities such as the FSC as well as the National Assembly, academia, and insured financial institutions.

Table Ⅴ-5 Main Contents of Financial Risk Review in 2012

Issue	Main Contents
Spring 2012	• Criteria of the US FDIC on submission of resolution plans for large banks and their implications • Introduction of Korean-style hedge funds and risk management
Summer 2012	• Impact of Korea's introduction of covered bonds and its implications • Impact of introduction of the Basel III regime and possible responses by financial institutions
Autumn 2012	• Status of domestic bank holding companies and risk analysis • Status of household debts and countermeasures
Winter 2012	• Main contents of the EU directive on recovery and resolution of financial institutions • Possibility of a prolonged period of low growth and low interest rates and its implications for the life insurance industry

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

The KDIC regularly hosted the Cheonggye Financial Forum for executives and employees of insured financial institutions. The Forum features lectures and discussions on risk factors and major issues in each financial sector, in addition to sharing of information on outstanding issues in the financial markets. Experts from insured financial institutions were invited as lecturers for ongoing surveillance forums where the attendees shared practical financial knowledge including risk management techniques.

In 2012, the KDIC provided business consulting to three mutual savings banks. Its effort to improve expertise by working with outside experts and building capacity of staff members led to greater satisfaction with its consulting services compared to 2011.

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

1-6. Response to Bank Runs on Mutual Savings Banks

The restructuring of mutual savings banks in 2011 increased anxiety among depositors and the possibility of bank runs. In January 2012, the KDIC formulated a plan to counter bank runs for 2012 under which it built a system to monitor mutual savings banks on an ongoing basis and devised ways to take preemptive measures against a potential bank run.

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

2 Management of Financial Institutions Receiving Public Funds

2-1. MOU Conclusion and Examination of MOU Implementation

Since 1999, the KDIC has entered into MOUs with fourteen public fund recipients and monitored their compliance with the business normalization requirements in the MOUs in order to increase their corporate value and recover the public funds injected into them as early as possible. Beginning from April 2002, eight MOUs that were signed with financial institutions, including one with Jeju Bank, were terminated in accordance with their sales or mergers. As of the end of 2012, six institutions (Woori Financial Group, Woori Bank, Kwangju Bank, Kyongnam Bank, Credit Business of the National Federation of Fisheries Cooperatives, and Seoul Guarantee Insurance) had effective MOUs with the KDIC.

The KDIC examined how the MOU signatory financial institutions implemented the MOUs from the fourth quarter of 2011 to the third quarter of 2012. It found out that all those institutions attained the goals set under the MOUs. To increase enterprise value of the MOU signatories through risk management, the KDIC called for implementation of the following measures concerning matters requiring improvement or correction according to inspection findings.

With regard to financial performance, after a review of MOU implementation during the first quarter of 2012, the KDIC requested Kyongnam Bank to establish a lending process whereby staff members liable for any non-performing loans arising from asset expansion are held accountable. To brace for a possible reduction in adjusted operating income owing to economic slowdown, the KDIC requested formulation of a method for consolidated management of the per-capita adjusted operating income and selling, general & administrative expenses (SG&A) ratio. Based on review findings on MOU execution during the second quarter of 2012, the KDIC required Kwangju Bank to come up with ways to increase its adjusted operating income and manage its SG&A ratio for better productivity. The KDIC requested Kyongnam Bank to formulate measures to improve its net interest margin, while requesting the Credit Business of the National Federation of Fisheries Cooperatives to establish an approach to resolving overdue household loans and improving their soundness. Seoul Guarantee Insurance persistently registered a dwindling ratio of interest profits to operating income, so the KDIC required it to formulate an asset management plan to increase profitability.

In terms of non-financial performance, after a review of MOU implementation during the fourth quarter of 2011, the KDIC required that Woori Bank, in connection with employee fringe benefits, set up a comprehensive management plan linked to its overall wage levels. It required Seoul Guarantee Insurance to find ways to utilize an increasing number of staff subject to the salary peak system. According to its review findings for the second half of 2012, the KDIC required Woori Bank to tighten its internal control system and bolster employee education for insurance event prevention.

The KDIC will continue to closely monitor the progress in MOU implementation. In case of a failure to meet MOU targets, it will analyze the causes and strictly hold responsible parties accountable for their actions. Even when those targets are attained, the KDIC will try to enhance the corporate value of public fund recipients through ongoing risk surveillance.

Table Ⅴ-6 Conclusion of, Addition to, and Revision of the MOUs on Business Normalization

(As of Dec. 31, 2012)

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

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

2-2. Improvement in MOU Management Efficiency

A. Setting of Reasonable Targets for MOUs

The KDIC applied a better method of goal setting for MOUs according to a plan to improve its MOU management system in 2010 and 2011. In 2011, the KDIC imposed financial and non-financial goals for 2012 upon the financial institutions that had effective MOUs with the KDIC. Regarding the targeted financial ratios under the MOUs including the SG&A ratio and the accrued expense ratio, expenses stemming from unreasonable management of fringe benefits including the granting of excessive compensation for unused annual leaves as noted in an audit by the Board of Audit and Inspection were deducted from SG&A and accrued expenses. Such effort induced financial institutions to adopt a better employee welfare system.

B. Management Consultation with Executives of Financial Institutions with Effective MOUs

In 2012, the KDIC had 76 discussion sessions with financial institutions subject to MOUs; 16 CEO meetings, 19 management meetings, and 41 working-level meetings. In November 2012, the KDIC held a consolidated MOU working-level workshop for information sharing and better understanding between the KDIC and the financial institutions, and it gathered opinions and suggestions for MOU management improvement.

The KDIC ceaselessly tries to consult with the executives of financial institutions subject to MOUs and share opinions on market conditions and key managerial issues, forging a necessary consensus to enhance their enterprise value.

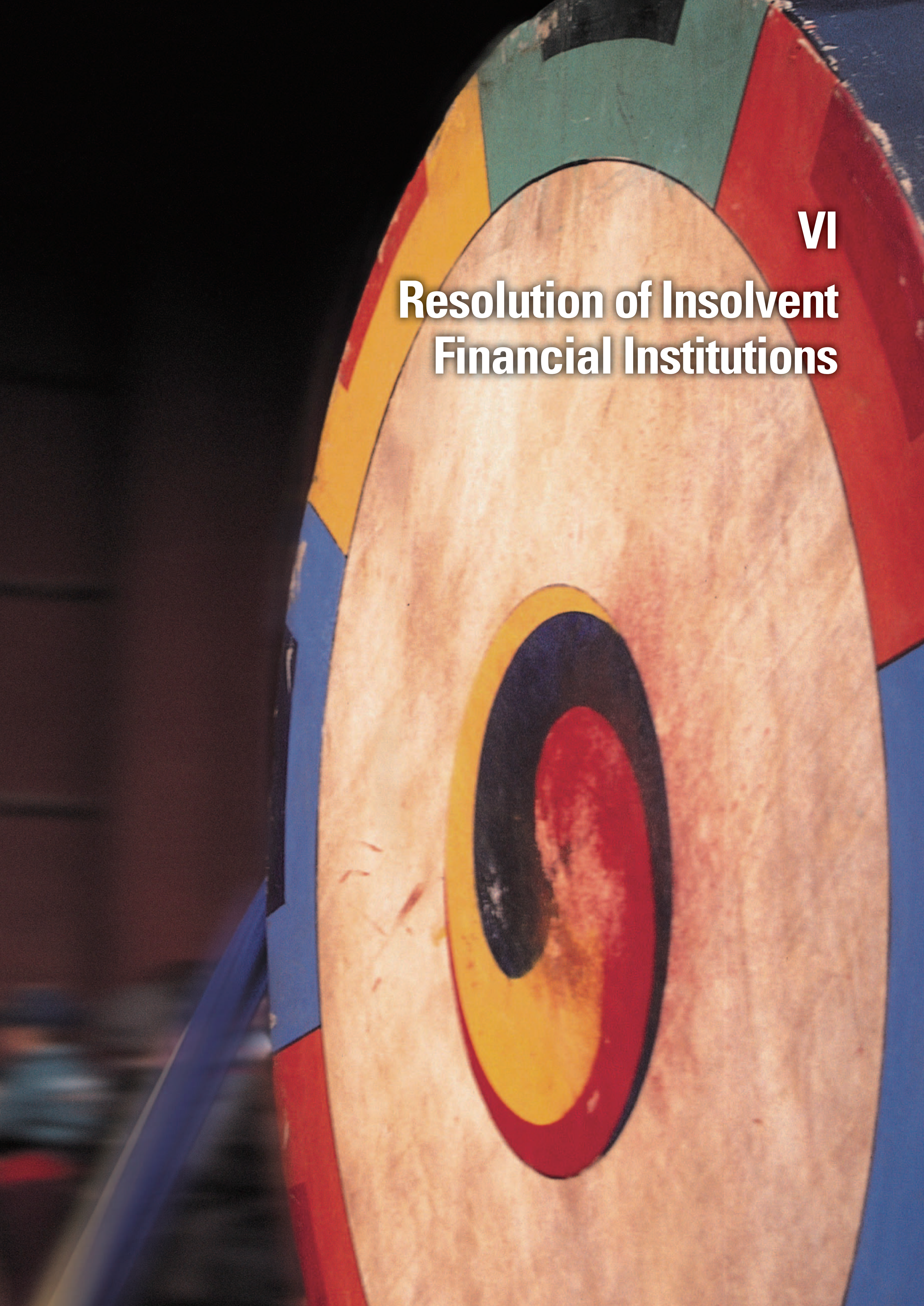
C. Support for Outside Directors in Monitoring Financial Institutions Subject to MOUs

The KDIC has redoubled its efforts to persuade financial institutions with effective MOUs to adopt responsible management practices, with focus on the boards of directors. This has partly involved expanding the scope of and raising the quality of information provided to their outside directors. In particular, the KDIC helped outside directors of the MOU signatory financial institutions monitor management performance. For example, in 2012, the KDIC provided 45 detailed reports in a timely manner to outside directors of the MOU signatory financial institutions to facilitate their management monitoring. These reports included specific analytical information on deficiencies in MOU fulfillment, current issues, and the like.

Traditional drum

VI

Resolution of Insolvent Financial Institutions



VI

Resolution of Insolvent Financial Institutions

1 Conservatorship of Insolvent Financial Institutions

1-1. Insolvent Financial Institutions Under KDIC Conservatorship

Many insolvent mutual savings banks were substantially restructured simultaneously in 2011. The restructuring of some of them continued into 2012. In the first half of the year, four mutual savings banks were suspended from business operations, and another four were suspended in the second half. The KDIC implemented conservatorship management by dispatching conservators and supervisors. All mutual savings banks suspended in 2012 were acquired by the P&A approach, and the KDIC is now serving as the conservator in regard of the assets excluded from the P&A process.

The sixteen mutual savings banks suspended in 2011, with the exception of Daeyoung Mutual Savings Bank which was taken over by Hyundai Securities by means of an M&A, were declared bankrupt by a court in 2011 or 2012, which led to establishment of their bankruptcy estates. The bankruptcy estates for mutual savings banks suspended in 2012 are to be set up in 2013.

Table Ⅵ-1 Receivership of Insolvent Financial Institutions Since 2011

Name of MSB	Date of Biz Suspension	Current Status (Acquirer)	Date of P&A	Date of Bankruptcy Declaration
Samhwa	2011. 1.14	3rd-party P&A (Woori FG Savings Bank)	2011. 3.16	2011. 6.24
Busan	2011. 2.17	Bridge bank P&A (Yesol Savings Bank)	2011.11.23	2012. 3. 7
Daejeon	2011. 2.17	Bridge bank P&A (Yenarae Savings Bank)	2011. 9. 5	2012. 2. 2
Busan 2	2011. 2.19	3rd-party P&A (Daishin Savings Bank)	2011. 8.26	2012. 3. 7
Busan Central	2011. 2.19	3rd-party P&A (Daishin Savings Bank)	2011. 8.26	2012. 2.23
Bohae	2011. 2.19	Bridge bank P&A (Yenarae Savings Bank)	2011. 9. 5	2012. 3. 5
Jeonju	2011. 2.19	Bridge bank P&A (Yes Savings Bank)	2011. 9. 5	2012. 2.23
Domin	2011. 2.22	3rd-party P&A (Daishin Savings Bank)	2011. 8.26	2012. 3.27
Kyongeun	2011. 8. 5	Bridge bank P&A (Yesol Savings Bank)	2011.10.19	2012. 6.21
Tomato	2011. 9.18	3rd-party P&A (Shinhan Savings Bank)	2012. 1. 2	2012. 8.31
Prime	2011. 9.18	3rd-party P&A (BS Savings Bank)	2012. 1. 2	2012. 9. 7
Parangsae	2011. 9.18	3rd-party P&A (BS Savings Bank)	2012. 1. 2	2012.10.30
Jeil	2011. 9.18	3rd-party P&A (KB Savings Bank)	2012. 1.13	2012. 9. 7
Jeil 2	2011. 9.18	3rd-party P&A (Hana Savings Bank)	2012. 2. 8	2012. 9. 7
Ace	2011. 9.18	3rd-party P&A (Hana Savings Bank)	2012. 2. 8	2012. 9.26
Daeyoung	2011. 9.18	M&A (Hyundai Savings Bank)	2011.11.21 (Business Start Date)	M&A
Solomon	2012. 5. 6	3rd-party P&A (Woori FG Savings Bank)	2012. 9. 5	-
Korea	2012. 5. 6	3rd-party P&A (Hana Savings Bank)	2012. 9. 5	-
Mirae	2012. 5. 6	3rd-party P&A (Chinae Savings Bank)	2012.10. 5	-
Hanju	2012. 5. 6	Bridge bank P&A (Yenarae Savings Bank)	2012. 9. 5	-
Tomato 2	2012.10.19	Bridge bank P&A (Yesol Savings Bank)	2012.10.19	-
Jinheung	2012.11.16	Bridge bank P&A (Yehanbyoul Savings Bank)	2012.11.16	-
Gyeonggi	2012.12.28	Bridge bank P&A (Yehansol Savings Bank)	2012.12.28	-
W	2012.12.28	Bridge bank P&A (Yesung Savings Bank)	2012.12.28	-

1-2. Systematic Conservatorship of Insolvent Financial Institutions

The KDIC's Conservatorship Task Force ensures well-organized conservatorship management for insolvent mutual savings banks. It has been operating as a separate unit since October 2011. Through this organization, the KDIC supports staff and operations related to conservatorship.

The Conservatorship Task Force produced and distributed a conservatorship reference book and a booklet for staff on how to handle initial phases of conservatorship at mutual savings banks in May 2012. For major outstanding issues of each mutual savings bank, it lessened the burden on conservatorship staff by rendering multi-faceted support to them through business consultation and legal review.

The KDIC dispatched 168 persons to eight mutual savings banks suspended in 2012, according to its staffing standards based on the amount of assets and the number of branches of suspended mutual savings banks'. Among them were 98 temporary inspectors who played a pivotal role in swiftly stabilizing the KDIC's conservatorship programs. Most of them were retired financial experts who had long careers at the KDIC or commercial banks and had substantial experience in the banking business including deposit taking and lending.

Table Ⅵ-2 Number of Staff Dispatched at Each MSB Suspended in 2012

(As of Dec. 31, 2012, Unit : No. of persons)

Name of MSB	No. of KDIC employees	No. of Examiners Hired on a Contract Basis	Total
Solomon	17	30	47
Korea	13	27	40
Mirae	18	28	46
Hanju	5	1	6
Tomato 2	4	4	8
Jinheung	3	3	6
W	7	-	7
Gyeonggi	3	5	8
Total (8 Savings Banks)	70	98	168

The Conservatorship Task Force made arrangements so that depositors who are in need of funds in addition to interim deposit payments can get up to KRW 45 million in deposit-secured loans from commercial banks close to their suspended mutual savings banks at the same interest rates as those on their deposits. An exclusive window was set up at each commercial bank to ensure that they can simply obtain loans without individual consultation.

Concerning the four mutual savings banks suspended in the second half of 2012 (Tomato 2 Savings Bank, Jinheung Savings Bank, W Mutual Savings Bank, and Gyeonggi Savings Bank), introduction of restructuring without disruption to operations permitted their simultaneous business suspension and P&As,

eliminating the need to execute interim deposit payments and to make arrangements for provision of deposit-secured loans.

Table Ⅵ-3 Number of Deposit-secured Loans Arranged

(As of Dec. 31, 2012, Unit: No. of loans, KRW 100 million)

Name of MSB	No. of Loans	Amount	Names of Banks Which Issued Loans with Deposits as Collateral
Solomon	215	37	Nonghyup, Kookmin, Shinhan, Woori, Industrial Bank of Korea and Hana
Korea	83	12	Nonghyup, Kookmin, Shinhan, Woori, Industrial Bank of Korea and Hana
Mirae	93	19	Nonghyup, Kookmin, Shinhan, Woori, Industrial Bank of Korea and Hana
Hanju	23	5	Nonghyup, Kookmin, Shinhan, Woori, Industrial Bank of Korea and Hana
Total (4 savings banks)	414	73	

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

2-1. Prompt Resolution of Insolvent Mutual Savings Banks

A. First Half of 2012

In May 2012, Solomon Savings Bank, Korea Savings Bank, Mirae Mutual Savings Bank, and Hanju Savings Bank were designated as insolvent financial institutions and suspended. The KDIC pursued their prompt resolution upon business suspension including a due diligence review of their properties. As a result of the mutual savings banks' failure to implement the business improvement order from the FSC, the KDIC conducted a bidding targeting the parties with sufficient financial strength and management capability. It respectively chose Woori Financial Group, Hana Financial Group, and J Trust, which met the least-cost requirements, as preferred bidders for Solomon Savings Bank, Korea Savings Bank, and Mirae Mutual Savings Bank to proceed with their sale.

Twenty mutual savings banks were suspended from 2011 through the first half of 2012. There were also a number of insolvent mutual savings banks. Despite the extreme difficulty in finding prospective buyers for so many banks, the assets for P&As were reorganized and flexible requirements were applied to eligibility for bidding. Solomon Savings Bank, Korea Savings Bank, and Mirae Mutual Savings Bank were indeed sold to third parties in the end. In September 2012, Solomon Savings Bank and Korea Savings Bank were respectively subject to partial P&As by Woori FG Savings Bank and Hana Savings Bank. For Mirae Mutual Savings Bank, additional time was required to review whether its potential acquirer was eligible to become its primary stockholder. In October 2012, it finally underwent a P&A by Chinae Savings Bank. In the meantime, Yenarae Savings Bank, a bridge mutual savings bank, conducted the P&A of Hanju Savings Bank after its failed bidding. Accordingly, the four mutual savings banks suspended in the first half of 2012 were all resolved within three to four months from their business suspension.

Table Ⅵ-4 Resolution of MSB Failure that Occurred in the 1st-half of 2012

Name of MSB	Date of P&A	Acquiring Bank	Resolution Method
Solomon	2012. 9. 5	Woori FG Savings Bank	3rd-party P&A
Korea	2012. 9. 5	Hana Savings Bank	3rd-party P&A
Mirae	2012.10. 5	Chinae Savings Bank	3rd-party P&A
Hanju	2012. 9. 5	Yenarae Savings Bank	Bridge bank P&A

B. Second Half of 2012

In the latter half of 2012, the 'resolution method system for uninterrupted execution of financial services' was adopted for the first time. Failed mutual savings banks were suspended from operations 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 in the morning of the following Monday. Since 2005, the KDIC had swiftly resumed operations of insolvent mutual savings banks through a bridge bank, reducing depositors' inconvenience to a minimum. However, financial transactions of depositors had to be discontinued while their business remained suspended until a P&A by a bridge bank after they were declared insolvent. The new resolution system was introduced to redress such inconvenience.

With adoption of the method, Tomato 2 Savings Bank, Jinheung Savings Bank, Gyeonggi Savings Bank, and W Mutual Savings Bank were suspended from operations at the end of business hours on a Friday and a P&A to a bridge bank was finished over the weekend. They were respectively taken over by Yesol Savings Bank, Yehanbyoul Savings Bank, Yehansoul Mutual Savings Bank, and Yesung Savings Bank, all of which are bridge mutual savings banks. Their business resumption on the following Monday virtually materialized 'resolution without disrupting financial services.' This approach sped up the resolution process: from a decision to declare financial institutions insolvent to a P&A, the resolution process was completed within two or three months, more than one month faster than in the first half of the year.

Table Ⅵ-5 Resolution of MSB Failure that Occurred in the 2nd-half of 2012 (Resolution without Disrupting Financial Services)

Name of MSB	Date of P&A	Acquiring Bank	Resolution Method
Tomato 2	2012.10.19	Yesol Savings Bank	Bridge bank P&A
Jinheung	2012.11.16	Yehanbyoul Savings Bank	Bridge bank P&A
Gyeonggi	2012.12.28	Yehansol Savings Bank	Bridge bank P&A
W	2012.12.28	Yesung Savings Bank	Bridge bank P&A

2-2. Efficient Management of Mutual Savings Banks Under KDIC Conservatorship

A. Bridge Mutual Savings Banks

As of 2012, there were six bridge mutual savings banks: Yes Savings Bank, Yenarae Savings Bank, Yesol Savings Bank, Yehanbyoul Savings Bank, Yehansoul Mutual Savings Bank, and Yesung Savings Bank. It is difficult to formulate a mid-to-long term management strategy or business model for them because they are only temporary organizations intended to implement early sale of failed mutual savings banks. Most of their employees are from different insolvent mutual savings banks, which makes it hard to manage them by a comprehensive approach. Yes Savings Bank, Yenarae Savings Bank, and Yesol Savings Bank are regional banks and cannot pursue aggressive business operations since they must comply with the mandatory credit ratio limit within their respective regions of operations. Due to cash contributions equivalent to net asset shortfalls in the event of a P&A, the bridge mutual savings banks have excess cash and cash equivalents, which lead to a reverse margin. This structure renders it difficult for them to generate profits within a short period of time.

To improve the financial structure and enterprise value of bridge mutual savings banks, an exclusive unit in the KDIC has pressed ahead with their efficient management and support. Immediately after establishment of bridge mutual savings banks, a 'business normalization MOU' reflecting their business environment, financial position, and business plan is concluded. Performance of the MOU is monitored regularly. Their business performance, including monthly operation results, is examined through monthly working-level business review meetings. To improve business performance including asset and credit management, arrangements are made for consulting by external experts in specific fields. Designated KDIC staff constantly monitor the banks for major management issues. In a bid to bolster their ability to review granting of new credit facilities, bridge mutual savings banks have recruited professionals and employed an optimal assessment system. They seek to make their operations more efficient and effective, which in some cases entailed consolidating branches for cost cutting. These efforts have yielded tangible outcomes. Yenarae Savings Bank registered a surplus in 2012 while Yes Savings Bank and Yesol Savings Bank reduced their losses and are expected to become profitable soon.

The mutual savings banking sector has been in the doldrums for an extended period of time, and there are too many such banks for sale to readily find acquirers for all of them. The KDIC has, therefore, pushed for their sale in sequence instead of putting a large number of mutual savings banks on sale at the same time. As a result of the effort to increase the possibility of their sale, many prospective buyers participated in the bidding for Yehanbyoul Savings Bank in the second half of 2012, and Shinhan Financial Group was selected as the preferred bidder.

B. Affiliated Mutual Savings Banks

There are six mutual savings banks affiliated with the mutual savings banks suspended as of 2012: Busan and Honam Solomon Savings Banks affiliated with Solomon Savings Bank; Youngnam Savings Bank, Jinheung Savings Bank, and Gyeonggi Savings Bank affiliated with Korea Savings Bank; and Tomato 2 Savings Bank affiliated with Tomato Savings Bank. To minimize a reduction in their enterprise value and prevent financial incidents while their resolution including sale is underway, the KDIC proactively pursues their efficient management and support through its exclusive organization. Management assessments were conducted by accounting firms; business goals were established with consideration of the situation at each mutual savings bank including the business environment and financial conditions; and implementation of action plans for accomplishment of given targets is examined periodically. Professional managers with extensive financial expertise and experience were installed in place of the existing management to prevent majority stockholders from exercising undue influence, maintain enterprise value, and facilitate the sale. Busan and Honam Solomon Savings Banks respectively changed their names to Haesol Savings Bank and Hanul Savings Bank to create a fresh corporate image.

The KDIC promptly pursued restructuring of Tomato 2 Savings Bank, Jinheung Savings Bank, and Gyeonggi Savings Bank, whose liabilities exceeded assets. In the second half of 2012, they were respectively subject to a P&A by Yesol Savings Bank, Yehanbyoul Savings Bank, and Yehansoul Mutual Savings Bank through a 'resolution without disrupting financial services'. The KDIC plans to sell the other affiliated mutual savings banks, i.e. Busan and Honam Solomon Savings Banks and Youngnam Savings Bank, in consideration of market conditions and managerial performance. It intends to stabilize their management until their sale.

2-3. Introduction of Resolution Without Disrupting Financial Services

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

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

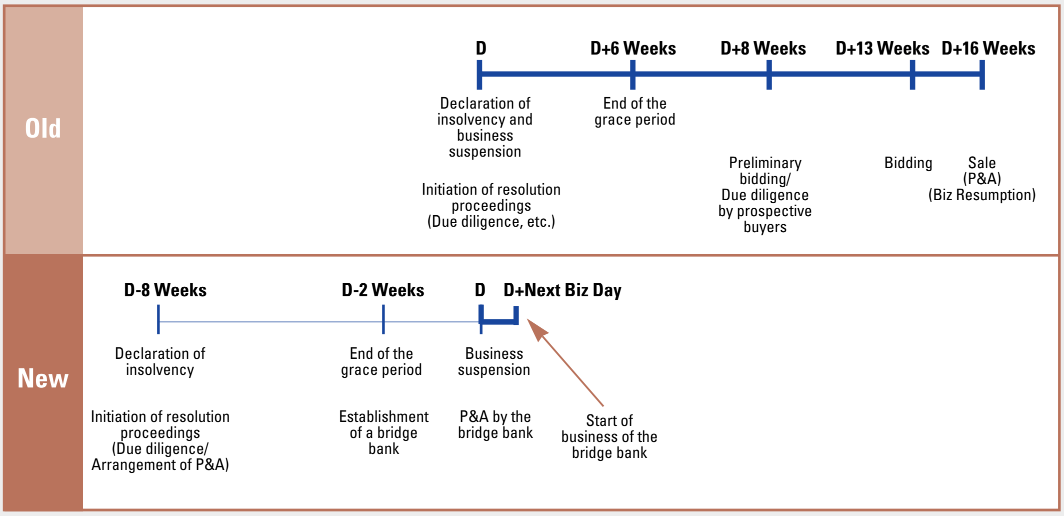
In the course of resolution of mutual savings banks kept in operation, the KDIC, upon imposition of a timely corrective measure, suspended the duties of their existing executives and appointed KDIC and FSS employees as conservators to prevent any unlawful activities by their majority stockholders and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

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

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

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

Figure Ⅵ-1 Comparison of Old and New Resolution Procedures



3 Management of the Special Assets of Insolvent Financial Institutions

3-1. Status of Special Assets

A. Overview

The financial authorities suspended the operations of eight mutual savings banks in 2012 owing to deteriorating business conditions of mutual savings banks including the prolonged stagnation in the real estate market. Assets of these insolvent mutual savings banks were classified as special assets. As of the end of 2012, the KDIC was managing a total of KRW 7.9 trillion in special assets, based on loans receivable.

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

The KDIC launched the Department of Special Asset Management and Recovery in the second half of 2011 for precisely that purpose.

Table Ⅵ-6 Special Asset Holdings

(As of Dec. 31, 2012)

Asset Type		Value
Loans Related to SPCs and PF Deals	Development Projects including Apartment Complexes	KRW 5.1 trillion (e.g. development of Shinan-Gun)
	Golf Courses (including land)	KRW 0.9 trillion (e.g. Arumdaun CC)
	Foreign Investments	KRW 0.7 trillion (e.g. Camko City)
	Ship Investments	KRW 0.5 trillion
	Other	KRW 0.7 trillion (e.g. shares in Seoul Credit Rating & Information Inc.)
Subtotal		KRW 7.9 trillion
Personal Properties including Artworks		1,470 pieces of artworks, high-end cars, etc.

B. Management of Special Assets

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

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

Table Ⅵ-7 Management of Special Assets by Type

Special assets	SPC-PF loans (apartments, resorts, golf courses, and ships), artworks, foreign vehicles				
Group type	**General SPC-PF loans**	**Golf courses**	**Ships**	**Artworks**	**Foreign vehicles**
Management type	Individual	Focused/ consolidated	Focused/ consolidated	Focused/ consolidated	Focused/ consolidated

3-2. Maximum Special Asset Recovery

A. Recovery Management System

The KDIC employs a consistent management system for special assets held by mutual savings banks from their business suspension to their bankruptcy when full-scale recovery is performed for maximum recovery. To secure financial resources through on-site investigations for recovery of special assets, it takes measures needed to preserve creditor rights including provisional seizure on the property concerned. Then, it devises recovery strategies, including those for sale, suitable for each type of asset based on advice from external professionals. It follows the general procedure for their sale including public announcement and implementation of bidding. Finally, it carries out follow-up management including receipt of payments for assets sold. The four-phase process is summarized as follows:

Table Ⅵ-8 Four-Phase Special Asset Recovery Process

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 rights 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 were grouped together, and dedicated managers were assigned to each asset for more efficient recovery.

Table Ⅵ-9 Types and Sale Procedures of Special Assets

Categorization of special assets	SPC loans	PF loans	Overseas assets	Ships (Bulk carriers, etc.)	Other assets (Artworks, etc.)

Sale procedures	Selection of advisor, etc.	Due diligence	Market making	Sale
	• Accounting firms, law firms, etc.	• Identification of rights • Value appraisal, etc.	• Preparation of bid packages • Identification of prospective buyers; promotional activities	• Public announcement of sale • Follow-up management

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

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

B. Recovery Process

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

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

Table Ⅵ-10 Types of External Experts Retained by Asset for Sale

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

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

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

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

C. Recovery Performance

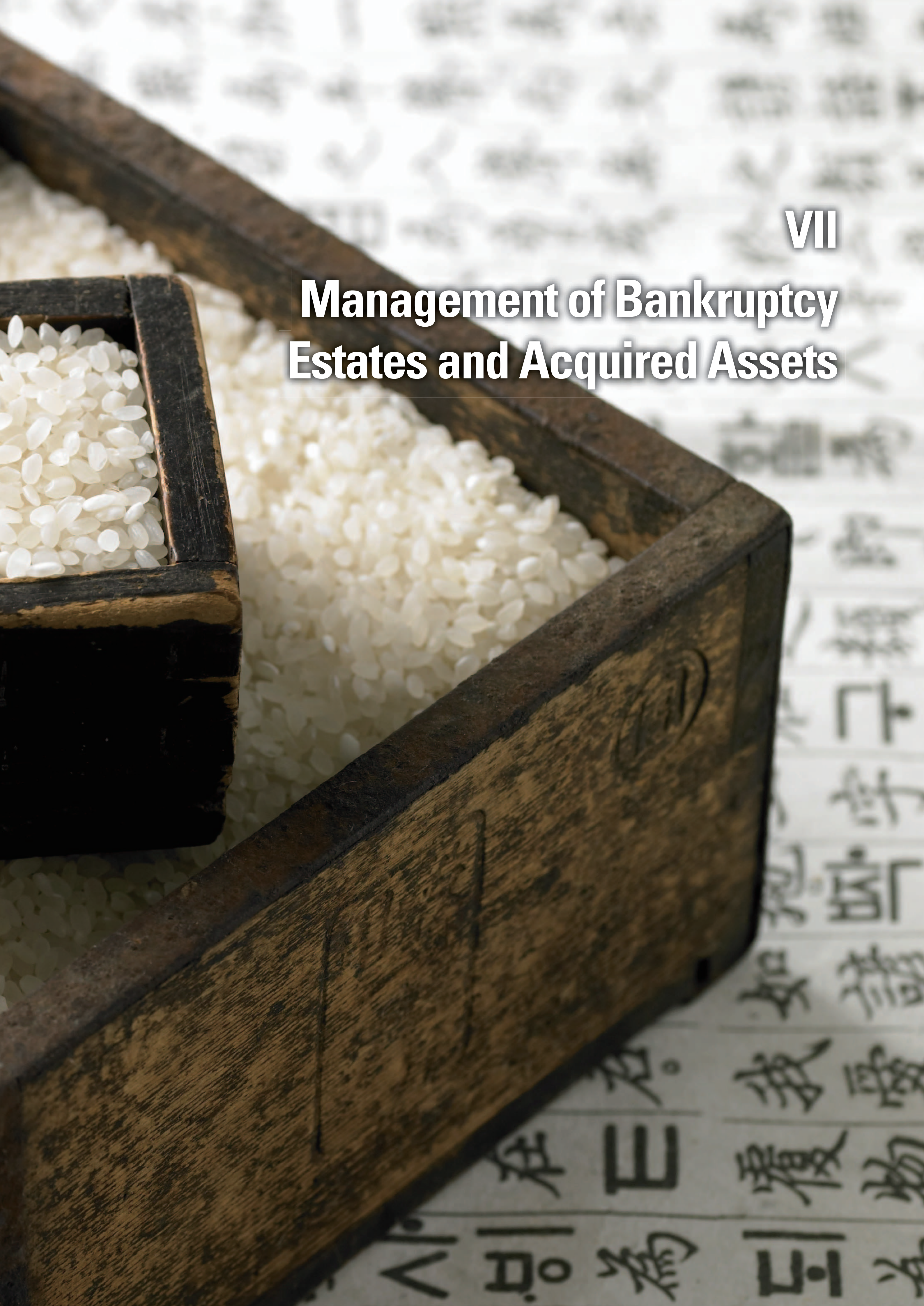
The KDIC strived to maximize recovery through its special asset recovery management system. In 2012, it collected a total of KRW 170.9 billion in loans through sale of core assets including business sites, disposition of equities including shares, repayment by joint and several guarantors through negotiations, and auction of tangible assets including artworks. Appropriate recovery methods were used for each type of special asset.

Table Ⅵ-11 Recovery Performance by Type

(Unit: 100 million won)

Recovery Type	Business	Recovery Performance
Sale of business lot	Shipyard site in Yeongam, South Jeolla Province, etc.	519
Sale of stock	Shares in CXC Investment & Credit Capital Corporation, Credit Rating & Information, etc.	381
Auction of corporeal property	Artworks, foreign-made cars, etc.	100
Third-party redemption	Casino at Shilla Hotel Jeju	117
Repayment by a joint and several guarantor	Golf course in Sammachi-ri, Gangwon Province	100
Recovery of embezzled money, etc.	Shinan-gun development project, etc.	492
Total		1,709

Traditional bowl used as a measure



VII
Management of Bankruptcy Estates and Acquired Assets

VII

Management of Bankruptcy Estates and Acquired Assets

1 Management of Bankruptcy Estates

1-1. Management Status of Bankruptcy Estates

A. KDIC's Role as Bankruptcy Trustee

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

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

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

Table Ⅶ-1 Appointment of Receivers

(As of Dec. 31, 2012, Unit: No. of estates, No. of persons)

Category	Total No. of Bankruptcy Estates[1]	Receivers		
		KDIC Employee	Attorney	Jointly[2]
No. of Bankruptcy Estates	51	48	-	3

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 receiver with an attorney, etc.

B. Efficient Management of Bankruptcy Estates

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

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

In order to boost recovery performance of bankruptcy estates of insolvent financial institutions, there was a growing need for more efficient management of their staff as well as bankruptcy trustees. The KDIC, therefore, began offering special bonuses as incentives to the staff at bankruptcy estates who achieve considerable progress in the liquidation of real estate, recovery of non-performing loans, etc. The KDIC evaluated the performance of each bankruptcy estate and trustee by assessing the level of public fund recovery and the cost effectiveness, and it granted performance bonuses and replaced several trustees whose bankruptcy estates showed poor performance based on its findings.

C. Facilitation of Debt Rescheduling

In order to promote the debt restructuring of bankruptcy estates and maximize the recovery of claims, the KDIC devised a plan in 2010 to facilitate the debt rescheduling of debtors of bankruptcy estates. Activities conducted under the plan included: notification of the debtors of the availability of debt rescheduling programs; approval of a debt rescheduling for debtor companies that were expected to be liquidated or go bankrupt; and relaxation of the debt rescheduling criteria for salaried workers with small debts who have no personal properties to give them opportunities for economic rehabilitation.

In March 2012, the KDIC revised its debt rescheduling criteria applied to individual debtors of bankruptcy estates: the existing requirement that "ten percent of total debts should be paid" for due date extension of up to three months based on prior approval of a bankruptcy trustee was relaxed to "repayment of five percent of the loan principal." A new provision was inserted to apply the existing debt restructuring criteria for individual debtors to "debt reduction for small corporate debtors." The criteria for depreciation and relinquishment of assets owned by bankruptcy estates were revised to change the requirement for asset depreciation from approval of the KDIC to prior approval by a bankruptcy trustee.

These efforts protected the public interest, ensured smoother loan recovery, and reduced claims management costs by empowering the KDIC to help debtors restore their credit standing.

1-2. Maximization of Asset Marketability and Dividend Collection

The KDIC maximized efficiency in its effort to sell off real estate and unlisted shares of stock owned by bankruptcy estates by consolidating all assets into packages depending on their types rather than selling them individually.

For the sale of real estate owned by bankruptcy estates, the KDIC created and made improvements to the Information on Bankruptcy Estates-Held Real Estate Sales menu on its website for easier access by prospective buyers to public sale information. In 2012, the KDIC recovered KRW 35.5 billion from nine joint sales of 61 properties around the nation.

Individual bankruptcy estates found selling non-listed shares of stock difficult because there are no open market transactions nor market prices set for them. The KDIC encouraged the bankruptcy estates to jointly appoint a sales advisor in cooperation with the KR&C* to take charge of the sale of non-listed shares through open bidding. Three sales were conducted in 2012, and the proceeds totaled KRW 8 million.

* The KR&C is a resolution financial institution established by conversion of the former Resolution & Finance Corporation (RFC) into a paper company in November 2009 according to the second plan to advance public institutions (August 2008). The RFC had taken over Hanareum Merchant Bank and Hanareum Mutual Savings Bank, and its functions were later transferred to the KR&C. The role of the KR&C is to quickly acquire troubled assets (e.g. doubtful loans, estimated loss, and non-business purpose real estate) from insolvent financial institutions for the purpose of improving the efficiency of their P&A process as well as to purchase remaining assets from bankruptcy estates to facilitate their closure.

The KDIC also actively pursued the disposal of bankruptcy estate assets other than real estate or shares of stocks (such as golf and condominium memberships) through various channels including membership exchanges. It managed to sell 14 assets in 2012 for a total of KRW 3.4 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. In 2012, the system was used to set an annual dividend payment target for each estate and check their compliance to ensure proper and speedy handling of dividends.

Table Ⅶ-2 Sales of Assets Owned by Bankruptcy Estates

(As of Dec. 31, 2012, Unit: No. of sales, KRW 100 million)

Category		2010	2011	2012
Real Estate	No. of Auctions Conducted	10	11	9
	No. of Assets Sold (Amount)	58 (561)	42 (231)	61 (355)
Non-listed Stocks	No. of Auctions Conducted	4	4	3
	No. of Assets Sold (Amount)	5 (420)	4 (1)	3 (-)
Golf and Condominium Membership, etc.	No. of Assets Sold (Amount)	47 (4)	9 (52)	14 (34)

1-3. Timely Closure of Bankruptcy Estates

The KDIC classifies bankruptcy estates into four categories for phased management; early-stage bankruptcy estates; estates in need of intensive asset management; estates in litigation; and estates ready to be closed. When most of an estate's assets have been liquidated and lawsuits are expected to be ineffective, the estate is designated as an estate ready to be closed, and it is finally closed after evaluation and sale of remaining assets and a final distribution of dividends after approval from or consultation with a competent court. In the meantime, inefficient bankruptcy estates where the costs to maintain them exceed the amount of potentially recoverable funds are disposed of quickly to maximize dividend payments to bankruptcy creditors.

As of the end of December of 2012, 421 out of a total of 472 bankruptcy estates were declared closed by a court and the KDIC plans to proceed with early closure of the remaining 51 estates by selling remaining assets.

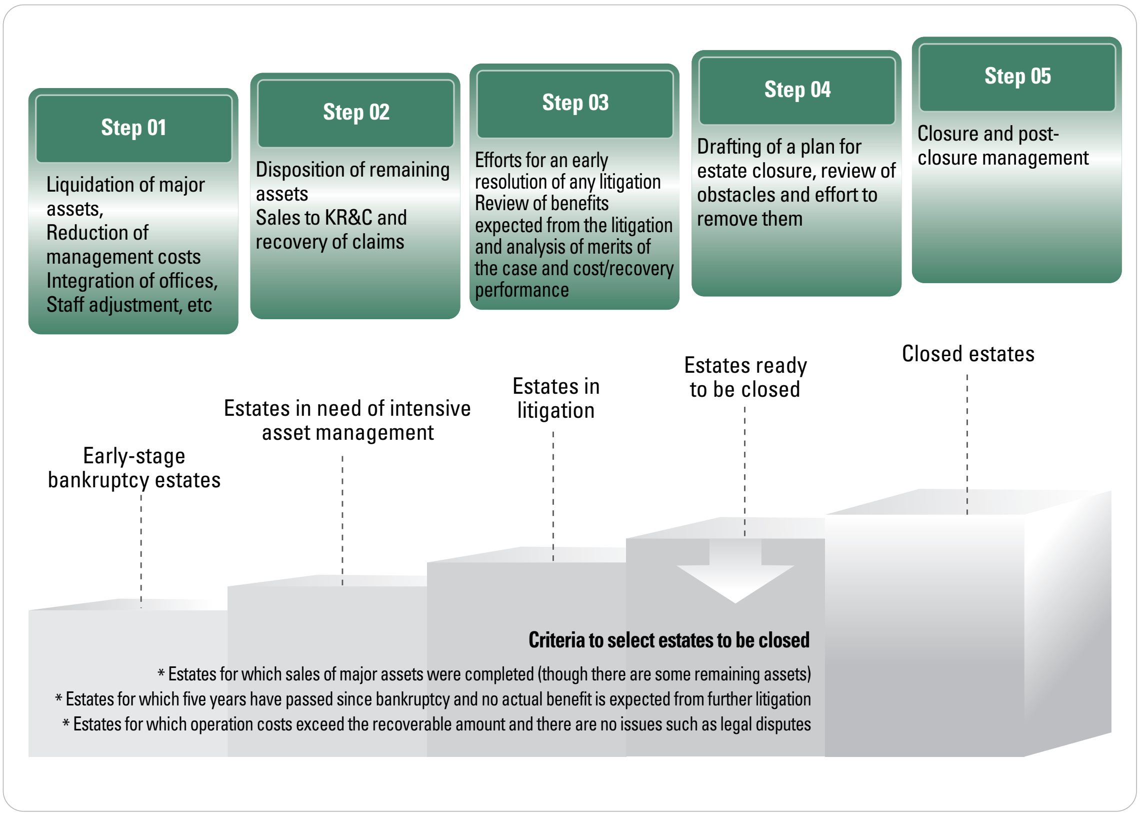
For the sake of record-keeping and post-bankruptcy management of closed insolvent financial institutions, the KDIC drafted the Report on Bankruptcy Management and Accompanying Documents for each bankruptcy estate, which systematically provides information on milestones in bankruptcy proceedings and major compiled documents. This report is used as a reference by a number of agencies as well as the KDIC itself.

Table Ⅶ-3 Bankruptcy Estates That Were Closed or Are in Progress

(As of Dec. 31, 2012, Unit: No. of estates, %)

Category		Banks	Insurance Companies	Investment Companies	Merchant Banks	Mutual Savings Banks	Credit Unions	Total
Total No. of Estates(A)		5	10	4	22	106	325	472
Closed	No. of Closed Estates (B)	3	10	4	9	71	324	421
	Closure Rate (B/Ax100)	60	100	100	40	66	99	89
Remaining Estates (A-B)		2	0	0	13	35	1	51

Figure Ⅶ-1 Bankruptcy Estate Management from Establishment to Termination



2 Management of Assets Acquired from Insolvent Financial Institutions

2-1. Assets Acquired from Insolvent Financial Institutions

By year-end 2012, the KDIC had acquired a total of KRW 53.5235 trillion in assets (based on acquisition costs) through resolution financial institutions. Of that amount, KRW 28.1 billion worth of assets (based on acquisition costs) were acquired in 2012.

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 2012, with borrowings from the DIF Bond Redemption Fund of the KDIC, the RFC had acquired assets worth KRW 53.5253 trillion (based on acquisition costs). This included KRW 7.8549 trillion 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 1.3072 trillion from the sale of three financial investment companies (Korea, Daehan, and Hyundai), KRW 347.2 billion from 460 bankruptcy estates, KRW 512.7 billion from 30 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, and Gyeonggi), and KRW 42.9895 trillion from the absorption of Hanareum Merchant Bank and Hanareum Mutual Savings Bank.

Table Ⅶ-4 Assets Acquired by the Resolution Financial Institution in 2012

(As of Dec. 31, 2012, Unit: KRW 100 million)

<table>
<tr><th colspan="2">Category</th><th>Amount of Claims</th><th>Amount Purchased</th><th>Note</th></tr>
<tr><td rowspan="2">KR&C</td><td>Bankruptcy Estates</td><td>24,617</td><td>186</td><td>41 bankruptcy estates including that of Gyeonggi Bank</td></tr>
<tr><td>Failed Mutual Savings Banks</td><td>1,289</td><td>95</td><td>Ace, Jeil 2, Jeil,
Jinheung, Tomato 2, Tomato,
Parangsae, Prime, Hanju, Gyeonggi</td></tr>
</table>

Table Ⅶ-5 Assets Acquired by the Resolution Financial Institution (Accumulated)

(As of Dec. 31, 2012, Unit: KRW 100 million)

Category		Amount of Claims	Purchase Price	Remark
KR&C	Banks	98,640	80,137	6 banks (including Korea First Bank)
	Insurance Companies	4,032	3,550	5 life insurers
	Investment Companies	25,324	13,072	3 investment companies
	Bankruptcy Estates	85,655	3,472	460 estates (5 banks, 10 insurers, 4 investment firms, 22 merchant banks, 80[1] savings banks, 339[2] credit unions)
	Mutual Savings Banks	25,637	5,127	30 mutual savings banks
	Subtotal	239,288	105,358	-
Hanareum Merchant Bank[3]	Merchant Bank (KDIC subsidiary)	367,503	363,540[4]	16 merchant banks
Hanareum Mutual Savings Bank[3]	Savings and Loan Institution (KDIC subsidiary)	87,719	66,355[4]	41 mutual savings banks
Total		694,510	535,253	-

Note : 1) Excluding 12 bankruptcy estates of failed savings banks that were not taken over
2) Including 14 bankruptcy estates transferred to the responsibility of the National Credit Union Federation of Korea on Jan. 1 of 2010
3) Organizations in charge of making deposit payments on behalf of failed banks (based on the classification criteria for public fund assistance)
4) Claims acquired in exchange for deposit payoffs

2-2. Efficient Management of Assets Acquired from Insolvent Financial Institutions

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

As of the end of 2012, the balance of assets held by the KR&C stood at KRW 20.3025 trillion, of which KRW 11.3167 trillion was directly managed by the KR&C while the remaining KRW 8.9858 trillion was entrusted to outside agencies for efficient management.

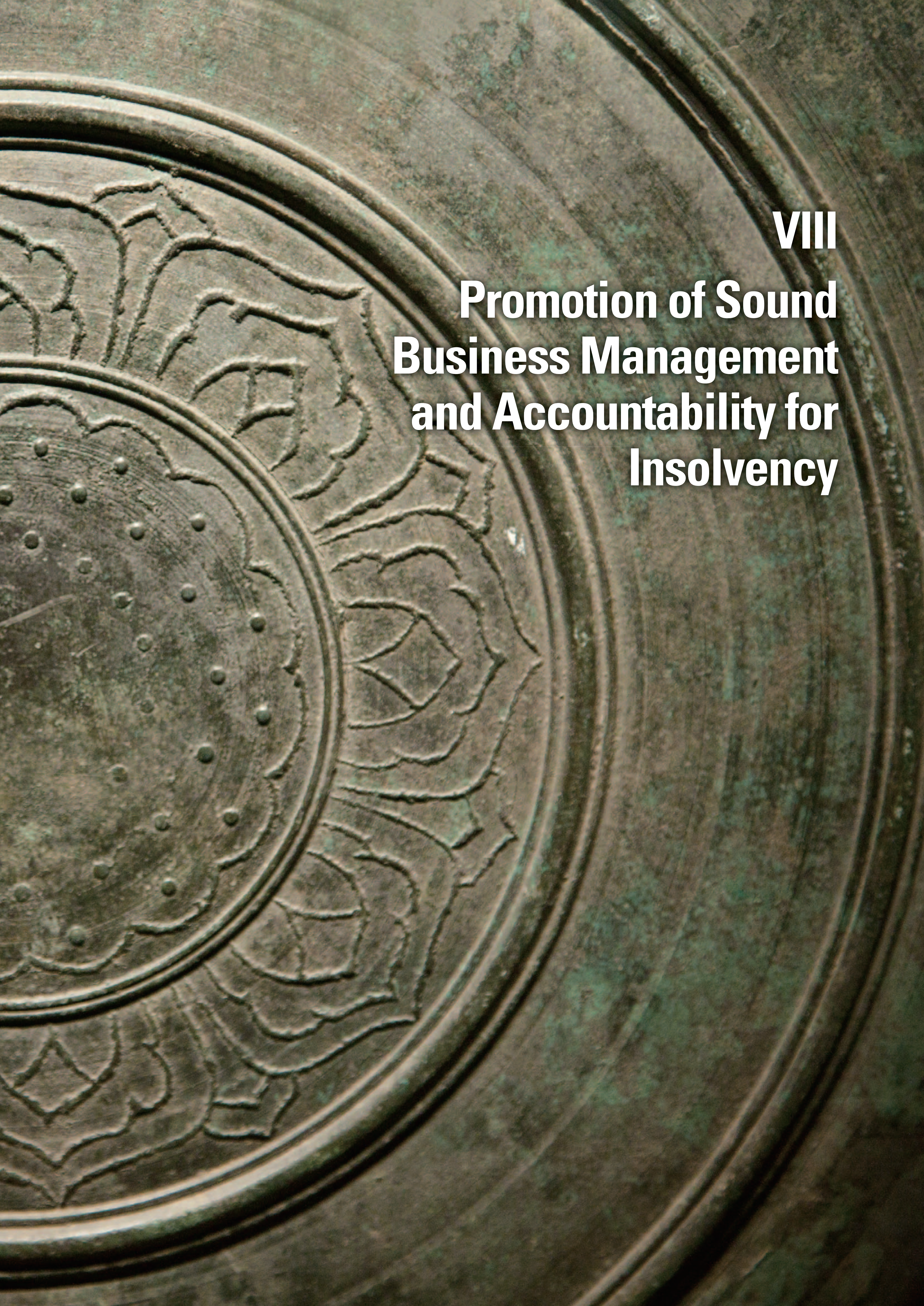
The KDIC actively used a variety of collection methods in addition to the traditional recovery-at-maturity approach in order to raise the value of acquired assets held by the KR&C and to enable more timely recovery. The methods included M&As and sales through issuance of asset-backed securities (ABS). 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, 2012, Unit: KRW 100 million)

Asset Type	Directly Managed	Commissioned to Outside Experts for Management	Total
Loans	478	88,917	89,395
Securities	7,944	-	7,944
Real Estate	730	941	1,671
Indemnity Receivables	104,015	-	104,015
Total	113,167	89,858	203,025

Jing, Korean percussive instrument



VIII
Promotion of Sound Business Management and Accountability for Insolvency

VIII

Promotion of Sound Business Management and Accountability for Insolvency

1 Promotion of Sound Business Management Among Insured Financial Institutions

1-1. Education for Mutual Savings Bank Employees

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

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

In October 2012, the KDIC hosted another workshop for auditors of mutual savings banks following 2011 to promote their effective performance of duties and enhance their expertise. This was a part of the KDIC's effort to prevent more mutual savings bank failures and improve their internal systems.

1-2. Expansion of Education for Sound Business Management

The KDIC, in close cooperation with financial industry associations, is expanding education programs to encourage insured financial institutions to engage in sound business management. The KDIC ran a course titled Creation of Sound Management Climate Through Financial Infrastructure Enhancement in April 2012 for trainees at the Korea Financial Investment Association. In December 2012, the KDIC participated in a workshop held by the Korea Federation of Savings Banks for compliance officers and staffers in charge of audit and gave presentations on investigations into financial failures and accountability in insolvency cases.

2 Investigations Into Insolvent Financial Institutions

2-1. Improvement of Efficiency in Investigation Into Insolvent Financial Institutions' Illegal and Wrongful Acts

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

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

As there is a growing possibility that insolvent financial institutions and default debtor companies may perpetrate illegal acts in collusion, it became imperative to conduct organically linked investigations that can look into both parties. For this reason, the Insolvency Investigation Division, formed by the merger of the former Investigation Department (in charge of investigations into insolvent financial institutions) and the former Special Investigation Mission for Default Debtor Corporations (in charge of investigations into default debtor companies), was established in March 2008. The consolidation of these two units into one streamlined the organizational structure and enhanced investigation efficiency. Structured as a single bureau, department, and office, the Insolvency Investigation Division had 65 members as of the end of 2012 including seconded officers from appropriate organizations such as the Public Prosecutors' Office. For increased efficiency of investigations, the Division not only utilizes the expertise and know-how of the seconded officers but actively seeks data from appropriate organizations.

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

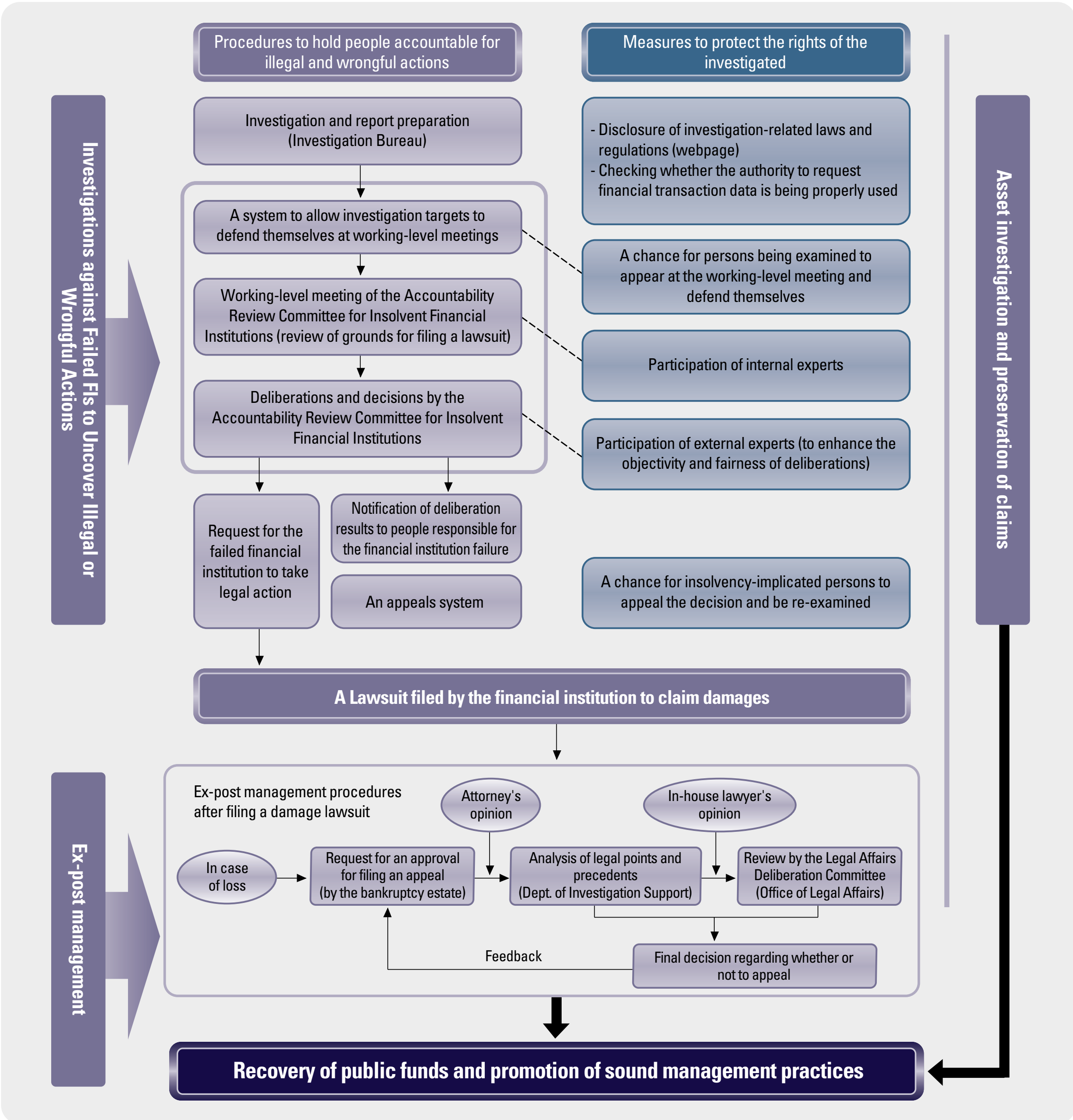
In the face of a wave of suspensions of mutual savings banks over the past two years, the Committee was convened more often to expedite legal proceedings for damages, and its business process was improved including formulation of criteria to select the targets of review. Protection of the rights of persons subject to investigations was stepped up, and review results were made more easily acceptable by lengthening the explanatory period for them and improving guidance on the explanatory system. By the end of 2012, deliberations on accountability for financial institution failures resulted in a confirmation of accountability for 6,126 persons in 517 insolvency cases. The KDIC requested the insolvent financial institutions and their bankruptcy estates to file for damages against these people.

Table Ⅷ-1 Investigations into Illegal and Wrongful Activities Regarding Failed Financial Institutions

(As of Dec.31, 2012, Unit: No. of cases, No. of persons)

Category	Redemption Fund		DI Fund	
	No. of Institutions	No. of People Responsible for the Failures	No. of Institutions	No. of People Responsible for the Failures
Banks	15	191	-	-
Investment Companies	6	65	-	-
Insurance Companies	18	236	-	-
Merchant Banks	22	160	-	-
Mutual Savings Banks	86	789	31	356
Credit Unions	325	4,146	14	183
Total	472	5,587	45	539

Figure Ⅷ-1 Procedures to Hold People Accountable for Their Illegal and Wrongful Actions and the System to Protect the Rights of the Investigated



2-2. Damage Claim Proceedings Against Insolvency-Implicated Persons

Insolvent financial institutions and their bankruptcy estates have filed damage claims against people involved in their insolvencies following the KDIC's request for damage claims. By the end of 2012, damage claims for KRW 1.8118 trillion were instituted against 9,013 people implicated in insolvencies of financial institutions in which funds of the Deposit Insurance Fund (DIF) Bond Redemption Fund had been injected. Most of the lawsuits have come to a close. The KDIC is striving to recover the amount of monetary sanctions against insolvency-implicated persons, which was finalized by a court ruling, by various means including foreclosure on their property.

Table Ⅷ-2 Lawsuits Filed in Relation to Failed Financial Institutions that Received Financial Assistance from the Redemption Fund

(As of Dec. 31, 2012, Unit: No. of cases, No, of persons, KRW 100 million)

Category	Banks	Investment Companies	Insurance Companies	Merchant Banks	Mutual Savings Banks	Credit Unions[1]	Total
No. of Failed Financial Institutions	15	6	18	22	85	311	457
No. of Defendants	191	83	276	181	1,026	7,256	9,013
Amount Claimed[2]	1,004	342	2,435	3,047	5,434	5,856	18,118
Amount Awarded[3]	471	218	1,346	548	4,056	3,208	9,847
Amount Collected[4]	102	54	218	660	922	769	2,725

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

The KDIC also requests that insolvent financial institutions and their bankruptcy estates file litigation claiming damages against persons involved in insolvencies of mutual savings banks that had received funds of the Deposit Insurance Fund. By the end of 2012, damage claims for KRW 193.3 billion were filed against 425 people implicated in failures of 28 insolvent mutual savings banks.

Table Ⅷ-3 Lawsuits Filed in Relation to Failed Mutual Savings Banks that Received Financial Assistance from the Deposit Insurance Fund

(As of Dec. 31, 2012, Unit: No. of cases, No, of persons, KRW 100 million)

No. of Mutual Savings Banks	No. of Defendants	Amount Claimed[1]	Amount Awarded	Amount Collected
28	425	765	618	176

Note: 1) From cases for which a ruling has been made (Total amount of damages claimed: KRW 193.3 billion, the amount of damages current sought in court: KRW 116.8 billion)

The KDIC provides support and conducts ex-post management of legal actions taken by insolvent financial institutions and their bankruptcy estates following the KDIC's demand for damage claims and preservation of creditor rights. As part of this effort, the KDIC established the Litigation Support Team mainly comprised of legal experts, including lawyers, to enable a clear and logical presentation of defense and submission of evidence. The KDIC developed a litigation management improvement plan for bankruptcy estates with a view to building a system to regularly review its litigation support activities. Also, as part of the litigation management improvement plan, the KDIC has operated a system in which one legal counsel is appointed for each region to deal with all cases within that region, and thus enhanced the success rate in damage claims.

3 Investigations Into Default Debtor Corporations

3-1. Investigations Into Illegal and Wrongful Acts of Default Debtor Corporations

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

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 2012 that 814 persons were responsible for financial failures and gave notice to the insolvent financial institutions and their bankruptcy estates so that they could start damage claim proceedings against those people.

Table Ⅷ-4 Investigations against Default Debtor Corporations

(As of late Dec. 31, 2012, Unit: No. of cases, No. of persons)

No. of Corporations Investigated On-site	No. of Insolvency-Implicated Persons
966	814

3-2. 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 187 damage claim suits totaling KRW 980 billion against people implicated in insolvencies.

Table Ⅷ-5 Lawsuits Filed in Relation to Default Debtor Corporations

(As of Dec. 31, 2012, Unit: No. of cases, No. of persons, KRW 100 million)

No. of Companies	No. of Defendants	Amount Claimed	Amount Awarded	Amount Collected
148	1,180	9,800	4,492	1,178

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

4 Investigation Into Properties Owned by Insolvency- Implicated Persons

4-1. Stricter Investigations Into Assets Located in Korea

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

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

To secure assets of the insolvency-implicated persons of the 24 mutual savings banks which were suspended from operations and declared insolvent in or after 2011 such as Busan Savings Bank, the KDIC conducted property investigations. It found KRW 88.3 billion in financial assets and 2,201 lots of real estate owned by such persons including large stockholders and employees who had inflicted losses upon the mutual savings banks as a result of their illegal or wrongful acts. It also detected financial assets worth KRW 2,160.9 billion and 93,826 lots of real estate held by debtors who had caused losses to the mutual savings banks due to their non-performance of obligations.

To ensure preservation of creditor rights, the KDIC promptly notified mutual savings banks of the financial assets and real estate holdings of those involved in their insolvencies that had been found through its property investigations. As of the end of December 2012, mutual savings banks took several legal measures including (provisional) seizures totaling KRW 1,686.3 billion and 65 provisional injunctions.

Table Ⅷ-6 Asset Investigations and Claims Preservation Measures Taken in Relation to MSB Failures that Occurred after 2011

(As of Dec. 31, 2012, Unit: No. of cases, No. of land lots, KRW 100 million)

Category	Assets Uncovered		Claims Preservation		
	Financial Assets	Real Estate	(Provisional) Seizure[1] Financial Assets	(Provisional) Seizure[1] Real Estate	Provisional Disposition
Responsible Parties	883	2,201	726	758	28
Default Debtors	21,609	93,826	8,669	6,710	37
Total	22,492	96,027	9,395	7,468	65

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

4-2. Expanded Investigations Into Assets Located Overseas

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

As of the end of December 2012, the investigations discovered hidden overseas assets of 2,665 responsible persons at high risk of fleeing abroad or concealing assets overseas, and a total of USD 5.21 million was recovered. The KDIC's fifth overseas asset investigation revealed a substantially larger amount of assets concealed abroad. In 2012, the KDIC filed lawsuits in local courts against 18 persons, a six-fold increase from the previous year (3 persons), for overseas asset recovery, laying the groundwork for maximum recovery.

For effective recovery from the debtors of Seoul Guarantee Insurance whose assets hidden abroad were detected by the KDIC in most cases, the KDIC established a recovery system at Seoul Guarantee Insurance and shared with its working-level staff necessary information including business manuals and recovery cases. As a result of such support, Seoul Guarantee Insurance instituted local actions against 11 persons (ten in the U.S. and one in New Zealand) in 2012 for recovery of overseas assets found.

Table Ⅷ-7 Recovery of Assets Hidden Overseas by Year

(As of Dec. 31, 2012, Unit: USD 1,000)

Year	2003~2007	2008	2009	2010	2011	2012	Total
Amount	3,044	-	2	349	1,400	415	5,210

4-3. Increasing Recoveries Through the Concealed Property Report Center

The KDIC opened the Concealed Property Report Center in May 2002 to encourage reporting on assets concealed by those implicated in insolvencies, maximize recovery through effective investigation and collection efforts, and prevent mismanagement of insured financial institutions. Up until the end of December 2012, the Center had received 188 reports, recovered KRW 29.6 billion in 31 cases and paid KRW 1.48 billion in rewards.

Recognizing that public interest and participation are the key to more effective enforcement of accountability, the KDIC continues to carry out multi-faceted promotion campaigns for the Center at home and abroad.

To increase domestic promotional activities, the KDIC tours bankruptcy estates and suspended mutual savings banks to give presentations on the Concealed Property Report Center and carries advertisements in newspapers and on the subway. Based on cooperation and coordination with the agencies concerned, the Center on the KDIC webpage remains linked to the Overseas Tax Evasion Report Center on the National Tax Service website and the Delinquent Taxpayers' Concealed Property Report Center on the Korea Customs Service website as part of ongoing publicity efforts.

In 2012 in particular, the KDIC took full advantage of free-of-charge publicity media. By inserting advertisements in various publications of the KDIC and training guide books of the Korea Banking Institute, it expanded the scope of targets for its publicity campaigns. It maximized the promotional effect of the received reports by distributing press releases on the hidden assets of certain persons such as majority shareholders at insolvent mutual savings banks and by having interviews with major daily newspapers. To bolster publicity efforts, the KDIC carried an advertisement in three major dailies (Munhwa Ilbo, Seoul Shinmun, and Segye Ilbo) and conducted a publicity campaign on the Busan subway (Line 1) and the Seoul metropolitan subway (Lines 2 and 7).

To encourage the reporting of hidden overseas assets, the KDIC aggressively promoted the Concealed Property Report Center by visiting the Koreans' Foundations abroad (the U.S., Canada, Japan, Australia, New Zealand, and the Philippines) and appointed local Koreans in each foundation as PR (public relations) ambassadors for higher awareness. The KDIC also launched a toll free number in the U.S. and Canada to establish a system for local Koreans to report hidden overseas assets at any time.

In 2012, the KDIC posted internet banner advertisements on the webpages of the Koreans' Foundations in the U.S. (LA and New York) and New Zealand (Auckland). It visited the Koreans' Foundations in the U.S. (Washington D.C., New York, Boston, and LA) and the Korean Consulate General in LA to ask for their cooperation. It also appointed local Koreans in California as PR ambassadors to boost its overseas publicity efforts.

Table Ⅷ-8 Number of Cases Reported, Number of Recoveries, and the Recovered Amount by Year

(As of Dec. 31, 2012, Unit: No. of cases, KRW 100 million)

Category	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
No. of Cases Reported	21	12	17	10	22	21	15	19	12	16	23	188
No. of Recoveries	-	1	1	2	3	8	4	2	4	2	4	31
Recovered Amount	-	3,156	374	231	11,791	6,184	2,637	2,830	605	1,056	755	29,619

Earthenware jar

V
Fund Management

IX

Fund Management

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.

1 Deposit Insurance Fund Bond Redemption Fund

1-1. Stable Financing

A. 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 (SPAs). Banks must pay the SPAs 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 2012, the KDIC received KRW 1,185.5 billion in SPAs.

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)

Year	Banks	Investment Companies	Insurance Companies		Merchant Banks	Mutual Savings Banks	Credit Unions[1]	Total
			Life	Non-life				
2003	477,476,429,913	15,583,224,891	88,888,017,031	18,472,746,000	2,051,155,000	22,249,552,000	-	624,721,124,835
2004	495,600,167,905	16,808,361,665	97,815,297,519	19,780,120,619	562,468,000	26,428,683,000	-	656,995,098,708
2005	487,166,510,833	14,540,165,582	106,857,085,000	21,851,803,423	496,537,000	31,858,110,000	-	662,770,211,838
2006	498,681,846,988	15,144,470,993	116,019,390,370	24,194,140,937	636,385,000	36,957,658,017	21,636,276,543	713,270,168,848
2007	502,689,354,851	15,640,959,000	126,530,624,919	27,765,668,399	722,757,000	43,004,233,839	11,608,513,513	727,962,111,521
2008	497,628,429,865	18,450,538,082	136,365,120,000	31,887,977,512	794,110,000	49,122,536,517	12,910,122,846	747,158,834,822
2009	596,495,263,169	16,924,950,377	143,006,160,079	35,158,267,859	1,013,841,000	59,293,898,815	13,675,874,192	865,568,255,491
2010	681,137,103,049	21,309,273,266	153,430,348,000	40,861,760,000	1,899,113,000	71,512,241,512	16,962,417,699	987,112,256,526
2011	778,873,175,496	22,707,528,407	165,012,412,538	48,650,634,000	1,169,424,000	71,802,311,638	20,479,299,838	1,108,694,785,917
2012	851,819,585,691	22,575,972,492	175,951,332,846	59,246,731,571	968,148,000	52,111,753,417	22,797,105,416	1,185,470,629,433
Total	5,867,567,867,760	179,685,444,755	1,309,875,788,302	327,869,850,320	10,313,938,000	464,340,978,755	120,069,610,047	8,279,723,477,939

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

B. Contributions from the Public Fund Redemption Fund

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

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

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

With the establishment of the Redemption Fund in 2003, the outstanding balance of DIF Bonds amounting to KRW 80.9744 trillion as of the end of 2002 was transferred to the Redemption Fund. The DIF Bonds issued on or before December 31, 2002 that matured afterwards were repaid with contributions from the Redemption Fund, money raised by issuing DIF Bond Redemption Fund Bonds (Redemption Fund Bonds), Special 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)

Year	Issued Amount	Redeemed Amount	Balance
1998	21,015,044,000,000	-	21,015,044,000,000
1999	22,484,903,000,000	-	43,499,947,000,000
2000	8,940,700,000,000	-	52,440,647,000,000
2001	31,059,300,000,000	1,464,000,000,000	82,035,947,000,000
2002	3,660,000,000,000	4,721,500,000,000	80,974,447,000,000
2003	-	9,737,144,000,000	71,237,303,000,000
2004	-	16,622,737,500,000	54,614,565,500,000
2005	-	18,090,401,500,000	36,524,164,000,000
2006	-	19,063,614,000,000	17,460,550,000,000
2007	-	6,067,243,500,000	11,393,306,500,000
2008	-	11,393,306,500,000	-
Total	87,159,947,000,000[1)]	87,159,947,000,000	-

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

D. 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 2012, the KDIC issued Redemption Fund Bonds in the amount of KRW 4.77 trillion through public offering at a fixed rate and a four- or five-year maturity. The KDIC repaid KRW 5.69 trillion that matured in 2012, and the outstanding balance of Redemption Fund Bonds as of the end of 2012 was KRW 22.82 trillion.

Table Ⅸ-4 Issuance and Redemption of Redemption Fund Bonds

(Unit: KRW)

Year	Issued Amount	Redeemed Amount	Balance
2004	6,500,000,000,000	-	6,500,000,000,000
2005	7,440,000,000,000	-	13,940,000,000,000
2006	2,870,500,000,000	315,500,000,000	16,495,000,000,000
2007	2,720,000,000,000	45,000,000,000	19,170,000,000,000
2008	8,800,000,000,000	10,000,000,000	27,960,000,000,000
2009	5,860,000,000,000	6,500,000,000,000	27,320,000,000,000
2010	6,810,000,000,000	7,440,000,000,000	26,690,000,000,000
2011	780,000,000,000	3,730,000,000,000	23,740,000,000,000
2012	4,770,000,000,000	5,690,000,000,000	22,820,000,000,000
Total	46,550,500,000,000	23,730,500,000,000	22,820,000,000,000

E. Borrowings

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

The balance of the previous borrowings of the KDIC was transferred to the Redemption Fund, which was established in 2003. As the KDIC was exempted from repaying all previous borrowings from the Special Account for Government Investment and Financing as of January 1, 2003 in accordance with the Redemption Plan, it has not borrowed any money since 2003 under the Redemption Fund's lines of credit. In 2012, the KDIC repaid KRW 116.8 billion (USD 100 million) for the principal of loans from the IBRD, leaving the outstanding balance as of the end of 2012 at KRW 116.8 billion.

Table IX-5 Borrowings and Loan Repayment of the Redemption Fund

(Unit: KRW 100 million)

Year	Borrowed Amount				Repaid Amount	Balance
	Member Institutions	Loans[1]	Special Account for Government Investment and Financing	Subtotal		
Amount Received	76,011	-	-	76,011	-	76,011
1998	3,295	2,416	10,582	16,293	9,337	82,967
1999	13,870	12,016	26,254	52,140	33,870	101,237
2000	90,028	13	39,533	129,574	9,802	221,009
2001	-	8	49,672	49,680	110,196	160,493
2002	-	-	59,553	59,553	3	220,043
2003	-	-	-	-	195,993	24,050
2004	-	-	-	-	11,168	12,882
2005	-	-	-	-	3,538	9,344
2006	-	-	-	-	1,168	8,176
2007	-	-	-	-	1,168	7,008
2008	-	-	-	-	1,168	5,840
2009	-	-	-	-	1,168	4,672
2010	-	-	-	-	1,168	3,504
2011	-	-	-	-	1,168	2,336
2012	-	-	-	-	1,168	1,168
Total	183,204	14,453	185,594	383,251	382,083	1,168

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

1-2. Financial Assistance

A. 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 9.6 billion in financial assistance during 2012, all of which was in the form of contributions.

Table Ⅸ-6 Financial Assistance and Deposit Insurance Payments from the Redemption Fund (2012)

(Unit: KRW)

Sector	Equity Investment	Capital Contributions	Asset Purchase	Loans	Deposit Insurance Payments	Total
Banks	-	9,576,185,980	-	-	-	9,576,185,980
Investment Companies	-	759,330	-	-	-	759,330
Insurance Companies	-	48,470,844	-	-	-	48,470,844
Merchant Banks	-	-	-	-	-	0
Mutual Savings Banks	-	-	-	-	-	0
Credit Unions	-	-	-	-	-	0
Total	-	9,625,416,154	-	-	-	9,625,416,154

The total amount of public funds provided by the Redemption Fund for the restructuring of insured financial institutions came to KRW 110.8945 trillion as of the end of 2012. This amount includes KRW 30.3124 trillion (27.3%) in payment of deposits for depositors of bankrupt insured financial institutions, KRW 50.7937 trillion (45.8%) in equity investment for business normalization, KRW 18.6117 trillion (16.8%) in contributions for P&As, and KRW 11.1767 trillion (10.1%) for the purchase of other assets.

Table Ⅸ-7 Financial Assistance and Deposit Insurance Payments from the Redemption Fund (Accumulated)

(As of Dec. 31, 2012, Unit: KRW)

Sector	Equity Investment	Capital Contributions	Asset Purchase[1)]	Loans	Deposit Insurance Payments	Total
Banks	22,203,879,614,160	13,918,880,538,191	8,106,444,073,801	-	-	44,229,204,226,152
Investment Companies	9,976,873,000,000	414,332,785,796	2,123,943,660,527	-	11,270,816,793	12,526,420,263,116
Insurance Companies	15,919,758,000,000	3,119,211,303,513	349,481,101,882	-	-	19,388,450,405,395
Merchant Banks	2,693,050,000,000	743,110,579,116	-	-	18,271,810,047,468	21,707,970,626,584
Mutual Savings Banks	100,000,000	416,147,029,007	-	596,860,000,000	7,289,213,136,680	8,302,320,165,687
Credit Unions	-	-	-	-	4,740,151,481,096	4,740,151,481,096
Total	50,793,660,614,160	18,611,682,235,623	10,579,868,836,210	596,860,000,000	30,312,445,482,037	110,894,517,168,030

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

B. Assistance for Each Sector of the Financial Industry

(1) Banks

Standard Chartered Bank Korea requested indemnification of the costs incurred in connection with litigation and taxation under the indemnification clauses in the stock sales contract concluded between the KDIC and the acquirer of Korea First Bank (Newbridge Capital). In 2012, the KDIC made additional contributions amounting to KRW 9,576 million from the Redemption Fund.

(2) Investment Companies

Hana Daetoo Securities requested indemnification of the auction costs regarding real estate held by insolvency-implicated persons under the indemnification clauses in the stock sales contract signed by the KDIC for the sale of Daehan Investment & Securities. The KDIC paid KRW 1 million in additional contributions from the Redemption Fund in 2012.

(3) Insurance Companies

Mirae Asset Life Insurance (formerly, SK Life Insurance), based on the additional contribution agreement that it signed with the KDIC when it took over Kookmin Life Insurance and Handuk Life Insurance, requested the KDIC to cover the costs incurred in connection with a lawsuit to nullify employee dismissal. Thus, the KDIC paid KRW 48 million in additional contributions from the Redemption Fund in 2012.

(4) Mutual Savings Banks

In 2012, the KDIC did not provide any funds to mutual savings banks in the form of deposit insurance claim payments, equity investment, contributions, or loans from the Redemption Fund.

Table Ⅸ-8 Deposit Insurance Payments for Mutual Savings Banks Depositors by Year

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

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

Table Ⅸ-9 Financial Assistance to Mutual Savings Banks

(As of Dec. 31, 2012, Unit: KRW 100 million)

Name	Equity Investment		Capital Contributions		Loans	
	Before 2011	2012	Before 2011	2012	Before 2011	2012
Gyeonggi (former Commit)	-	-	254	-	1,654	-
Kyungbuk (former Hanuri)	-	-	85	-	-	-
Daecheon (current Daejeon)	-	-	-	-	102	-
Domin (Keumkang)	-	-	28	-	709	-
Dongwon (Korea Investment)	-	-	63	-	783	-
Bumin (Busan)	-	-	243	-	-	-
Busan 2	-	-	-	-	271	-
Sangup (former Hyundai)	-	-	701	-	-	-
Saenuri	-	-	13	-	21	-
Solomon (former Gold)	-	-	663	-	-	-
New Choongbuk	-	-	-	-	161	-
Arim	-	-	-	-	615	-
Union	-	-	39	-	518	-
J-one	-	-	325	-	-	-
Choil	-	-	29	-	738	-
Choongnam (former New Onyang)	-	-	-	-	45	-
Choongil	-	-	-	-	89	-
Telson (former New Hankook)	-	-	775	-	-	-
Hanaro	-	-	422	-	-	-
Hanmaum	-	-	521	-	-	-
Haedong (Kyunggi)	-	-	-	-	263	-
KR&C	1[1)]	-	-	-	-	-
Total	1	-	4,161	-	5,969	-

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

1-3. Maximization of Public Fund Recovery

A. 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 2012 totaled KRW 50.1595 trillion including KRW 1,376.9 billion recovered in 2012 alone.

Table IX-10 Redemption Fund Recovery (2012)

(As of Dec. 31, 2012, Unit: KRW)

Sector	Recovery of Equity Investment	Settlement of Capital Contributions, etc.	Asset Sales[1]	Recovery of Loans	Collection of Bankruptcy Dividends[1]	Total
Banks	111,539,642,569	128,952,077	737,977,429,744	-	31,361,998,053	881,008,022,443
Investment Companies	-	79,679,861	7,362,721,495	-	334,709,829	7,777,111,185
Insurance Companies	214,213,694,137	353,100,138	8,048,836,578	-	1,206,819,258	223,822,450,111
Merchant Banks	3,325,129,381	-	-	-	218,567,498,932	221,892,628,313
Mutual Savings Banks	-	2,176,227	-	-	31,523,544,551	31,525,720,778
Credit Unions	-	-	-	-	10,911,711,804	10,911,711,804
Total	329,078,466,087	563,908,303	753,388,987,817	-	293,906,282,427	1,376,937,644,634

Note : 1) Including recoveries through the resolution financial institution

Table IX-11 Redemption Fund Recovery (Accumulated)

(As of Dec. 31, 2012, Unit: KRW)

Sector	Recovery of Equity Investment	Settlement of Capital Contributions, etc.	Asset Sales[1]	Recovery of Loans	Collection of Bankruptcy Dividends[1]	Total
Banks	16,191,224,103,757	69,899,577,343	6,583,437,515,441	-	1,849,501,530,669	24,694,062,727,210
Investment Companies	1,212,144,785,109	323,124,716,519	1,797,921,926,521	-	7,800,810,225	3,340,992,238,374
Insurance Companies	3,630,002,518,132	88,750,917,579	240,566,938,460	-	431,028,239,213	4,390,348,613,384
Merchant Banks	141,581,602,890	5,931,643,350	-	-	8,434,489,993,851	8,582,003,240,091
Mutual Savings Banks	-	34,129,258,277	-	596,860,000,000	5,102,352,317,709	5,733,341,575,986
Credit Unions	-	401,687,311	-	-	3,418,372,118,209	3,418,773,805,520
Total	21,174,953,009,888	522,237,800,379	8,621,926,380,422	596,860,000,000	19,243,545,009,876	50,159,522,200,565

Note : 1) Including recoveries through the resolution financial institution

B. Sale of Equity Stakes, etc.

(1) Banks

In 2012, the KDIC recovered KRW 114.8 billion in total in dividends from Woori Financial Group and collected KRW 100 million by selling its stake in Jeju Bank on the stock market. It also recovered KRW 100 million in Korea First Bank-related bankruptcy dividends from Daewoo Corporation.

Regarding the sale of Woori Financial Group, the KDIC resumed the sale process in accordance with the Plan for Resumption of the Sale of Woori Financial Group unveiled by the Public Fund Oversight Committee on April 27, 2012. However, no preliminary bid was submitted, which prompted the Public Fund Oversight Committee to stop the sale process on August 2, 2012.

(2) Insurance Companies

In 2012, the KDIC respectively recovered KRW 49.4 billion and KRW 164.8 billion through dividend collection from Hanwha Life Insurance and Seoul Guarantee Insurance.

(3) Miscellaneous

In October 2012, the KDIC recovered KRW 608.7 billion through a block sale of the KR&C's 3.66% stake in KEPCO (Korean Electric Power Corporation). In February 2012, it recovered KRW 102.2 billion through a creditors' joint sale of the KR&C's 0.74% stake in SK Hynix. In January 2012, it recovered KRW 40 million by selling the KR&C's 0.07% stake in SG Corporation on the stock market.

The KDIC also recovered KRW 600 million through public sale* of unlisted shares held by the KDIC and the KR&C. With respect to unlisted shares held by the KR&C, it collected KRW 1.5 billion in dividends.

* Nine issues of shares including those in Seil Electronics, Inkel, and Gyeonggi Urban Innovation Corporation

As shown above, the KDIC sold shares held by the KR&C (formerly, RFC) in a number of ways including block sales, joint sales by creditors, sales on the stock market, and public sales. These efforts resulted in recovery of KRW 713 billion in total in 2012.

C. 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 2012, the KR&C recovered a total of KRW 40.6316 trillion.

In 2012, the KR&C recovered KRW 988.7 billion through securities sales entrusted to the KDIC, collection of loans, litigation at home and abroad, real estate sales in auctions, and collection of bankruptcy dividends based on the rights of indemnity, etc.

Table Ⅸ-12 Recovery from Sale of KR&C-Owned Assets

(As of the end of December 2012, Unit: KRW 100 million)

Year	Asset Type[1]	Assets Subject to Sale	Amount Recovered	Recovery Method
Amount recovered in 2012	Loans	Loans in KRW	1,198	Direct collection and litigation
		Loans in foreign currencies	43	
		Subtotal	1,241	-
	Marketable securities	Listed and unlisted stock	7,324[2]	Open bidding, sale on the stock market, and dividend collection
	Real estates	Business buildings, etc.	80	-
	Right of indemnity	Claims as subrogee for insured depositors, etc	1,242	Bankruptcy dividend collection
	Total		9,887	-
Accumulated amount	Loans	Loans in KRW	105,831	International bidding, NPL sale, ABS issuance, etc.
		Loans in foreign currencies	30,703	
		Sub-total	136,534	
	Marketable securities	Listed and unlisted stock	56,942	Joint sale, block sale, etc.
	Real estates	Business buildings, etc.	6,689	Auction and negotiated contract
	Right of indemnity	Claims as subrogee for insured depositors, etc	206,151	Bankruptcy dividend collection
	Total		406,316	-

Note : 1) Among assets owned by Hanareum Merchant Bank and Hanareum Mutual Savings Bank which are classified as 'claims as subrogee for insured depositors' under the classification criteria for determining the types of public fund assistance, only the amount recovered from the sale of loans, marketable securities, and real estate (not the amount recovered from the exercise of subrogee rights) was included.
2) The recovered amount (KRW 713 billion) from the KDIC's sale of the KR&C's marketable securities in 2012 is included.

D. Bankruptcy Dividends

In 2012, the KDIC received KRW 293.9 billion in bankruptcy dividends (KRW 32.9 billion from bankruptcy estates of banks, investment companies, and insurance companies and KRW 261 billion from bankruptcy estates of merchant banks, mutual savings banks, and credit unions). By the end of 2012, the cumulative total of money recovered through bankruptcy dividend collection was KRW 19.2435 trillion.

Table Ⅸ-13 Bankruptcy Dividends Collection by Financial Sector[1]

(As of Dec. 31, 2012, Unit: No. of estates, KRW 100 million)

Sector	No. of Estates	Recovered Amount	
		2012	From 1999 to 2012
Banks	5	314	18,495
Investment Companies	4	3	78
Insurance Companies	10	12	4,310
Merchant Banks	22	2,186	84,345
Mutual Savings Banks	75	315	51,024
Credit Unions	325	109	34,184
Total	441	2,939	192,435

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)

E. Recovery of Loans, etc.

By the end of 2012, the KDIC had provided KRW 596.9 billion in loans, all of which were recovered. By the end of 2012, it recovered KRW 522.2 billion by settlement of contributions, etc. In 2012, it recovered approximately KRW 600 million by recovering KRW 100 million from Standard Chartered Bank Korea, KRW 100 million from Hana Daetoo Securities, KRW 400 million from Daehan Fire & Marine Insurance, and KRW 20 million in damage claims against the parties implicated in mutual savings bank failures.

2 Deposit Insurance Fund

1-1. Diversification of Funding Sources

A. Deposit Insurance Premiums

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

The KDIC set up the Special Account for Mutual Savings Bank Restructuring (Special Account) to improve the financial health of the mutual savings bank account in the DIF in accordance with Article 24-4 of the Depositor Protection Act amended in March 2011. The Special Account is funded by 45% of the yearly insurance premiums paid by KDIC-insured financial institutions (such ratio as determined by the Deposit Insurance Committee in the case of mutual savings banks), issuance of DIF Bonds to finance the Special Account, external borrowings, and recovered funds, etc. The total amount of premiums received from insured financial institutions including the Special Account in 2012 remained at KRW 1,100.4 billion.

Table Ⅸ-14 Insurance Premium Rates for Different Financial Sectors

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

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

Table Ⅸ-15 Deposit Insurance Premium Revenue by Financial Sector

(Unit: KRW 100 million)

Year	Banks	Investment Companies	Insurance Companies		Merchant Banks	Mutual Savings Banks	Special Account[2]	Total[4]
			Life	Non-life				
2003[1]	4,775	312	2,580	535	73	667	-	8,942
2004	4,960	336	2,832	571	17	793	-	9,509
2005	4,869	300	3,109	628	15	974	-	9,895
2006	4,987	303	3,362	697	19	1,116	-	10,484
2007	5,027	256	3,654	801	22	1,306	-	11,066
2008	4,808	305	3,934	918	24	1,483	-	11,472
2009	5,291	276	4,097	1,016	29	1,737	-	12,446
2010	5,451	284	2,609	698	34	2,524	-	11,600
2011	4,795	283	2,362	700	18	2,331	1,742	12,231
2012	3,748	2	-14[3]	100	8	1,344	5,816	11,004
Total	48,711	2,657	28,525	6,664	259	14,275	7,558	108,649

Note : 1) Insurance premiums received up to 2002 were transferred to the DIF Bond Redemption Fund.
2) Established in April 2011
3) There was a refund of some of the premiums paid before 2012.
4) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010 was not included.

B. 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 8.9 billion in contributions from insured financial institutions in 2012.

Table Ⅸ-16 Contributions from Member Institutions

(Unit: KRW 1 million)

Year	Banks	Investment Companies	Insurance Companies		Merchant Banks	Mutual Savings Banks	Special Account[2]	Total[3]
			Life	Non-life				
2003[1]	30	-	650	200	-	-	-	880
2004	340	200	600	200	-	-	-	1,340
2005	220	200	-	-	-	1,250	-	1,670
2006	380	800	-	200	-	1,340	-	2,720
2007	-	-	-	-	-	-	-	-
2008	160	11,005	-	-	-	556	-	11,721
2009	766	4,312	419	342	17	777	-	6,633
2010	80	584	900	30	-	-	-	1,594
2011	30	-	-	-	-	1,200	-	1,230
2012	575	130	5,000	800	-	2,400	-	8,905
Total	2,581	17,231	7,569	1,772	17	7,523	-	36,693

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

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

Pursuant to Articles 24-4 and 26-2 of the Depositor Protection Act, the KDIC, for the first time, issued DIF Bonds to finance the Special Account without government guarantees using its own credit facility in December 2011. To meet sustained demand for bond issuance since 2012, the KDIC has steadily issued the bonds. In August 2012, the KDIC began to issue the bonds by an independent bidding system to minimize third-party service costs. In 2012, it issued KRW 20.04 trillion in bonds for funding of the Special Account.

Table Ⅸ-17 Issuance and Redemption of Bonds for the Funding of the Special Account in the DIF

(Unit: KRW 100 million)

Year	Amount Issued	Redeemed Amount	Balance
2011	12,000	-	12,000
2012	200,400	-	200,400
Total	212,400	-	212,400

D. 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.

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 24.6131 trillion was borrowed from insured financial institutions including banks by the end of 2012. To increase funding for the Special Account, the KDIC, in 2012, applied for government loans from the Public Capital Management Fund at no interest (ten-year maturity and installment payments over a five-year period). Thus, it received KRW 100 billion's government borrowings in July 2012.

By the end of 2012, KRW 23.4625 trillion was repaid out of KRW 24.7131 trillion in borrowings in the Special Account through issuance of DIF Bonds, etc. As of the end of 2012, the outstanding borrowings amounted to KRW 1,250.6 billion.

Table Ⅸ-18 Borrowings and Loan Repayments of the DIF

(Unit: KRW 100 million)

Account Name	Year	Borrowed Amount[1]				Recovered Amount	Balance
		Member Institutions	BOK, etc.	Government	Subtotal		
Mutual Savings Banks	2007	2,314	-	-	2,314	-	2,314
	2008	-	-	-	-	2,314	-
	Subtotal	2,314	-	-	2,314	2,314	-
Special Account	2011	104,199	-	-	104,199	12,000	92,199
	2012	141,932	-	1,000	142,932	222,625	12,506
	Subtotal	246,131	-	1,000	247,131	234,625	12,506
Total		248,445	-	1,000	249,445	236,939	12,506

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.

2-2. Timely Provision of Financial Assistance

A. 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 24.8951 trillion was provided to 24 insolvent mutual savings banks from the Special Account.

Table Ⅸ-19 Financial Assistance and Deposit Insurance Payments from the DIF (2012)

(Unit: KRW 100 million)

Account Name	Equity Investment	Capital Contributions	Deposit Insurance Payment[2]	Loans	Advance Dividend Payments	Total
Special Account[1]	1,411	150,120	-29,390	533	357	123,031

Note : 1) Aside from the Special Account, no account in the DIF had to make expenditures for financial assistance in 2012.
2) Some of the interim deposit payments made in 2011 were returned in 2012 when P&A transactions were carried out.

Table Ⅸ-20 Financial Assistance and Deposit Insurance Payments from the DIF (Accumulated)

(As of Dec. 31, 2012, Unit: KRW 100 million)

Account Name	Equity Investment	Capital Contributions	Deposit Insurance Payment	Loans	Advance Dividend Payments	Total[1]
Banks	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	-	-	-	-	-
Merchant Banks	-	-	-	-	-	-
Mutual Savings Banks	1,211	24,542	14,412	4,891	219	45,275
Special Account	2,383	208,633	36,060	1,100	775	248,951
Total	3,594	233,175	50,472	5,991	994	294,226

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.

B. Assistance for Mutual Savings Banks (Special Account)

For the 24 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 2012.

Table Ⅸ-21 Financial Assistance and Deposit Insurance Payments from the Special Account

(As of Dec. 31, 2012, Unit: KRW 100 million)

Name of MSB	Date of Business Suspension	Payment of Deposit Insurance (including Interim Deposit Payments)	Capital Contributions, Loans, etc.	Total
16 failed MSBs including Samhwa	2011	32,710	127,034	159,744
Solomon	2012. 5. 6	1,680	32,934	34,614
Mirae	2012. 5. 6	604	11,638	12,242
Korea	2012. 5. 6	653	10,914	11,567
Hanju	2012. 5. 6	200	1,678	1,878
Tomato 2	2012.10.19	1	5,094	5,095
Jinheung	2012.11.16	165	10,178	10,343
Gyeonggi	2012.12.28	7	9,847	9,854
W	2012.12.28	40	3,574	3,614
Total		36,060	212,891	248,951

2-3. Recovery Maximization

A. 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 1,613.1 billion in total from 2003 to 2012 including KRW 104.4 billion in the mutual savings bank account and KRW 115 billion in the Special Account recovered in 2012 alone.

Table IX-22 DIF Recovery (2012 and Accumulated)

(As of Dec. 31, 2012, Unit: KRW 100 million)

Category		Equity Investment	Capital Contributions	Money Paid in Deposit Insurance Payments	Loans	Money Paid in Advance Dividends	Total[1]
2012	MSBs	6	245	345	395	53	1,044
	Special Account	11	-	317	702	120	1,150
	Total	17	245	662	1,097	173	2,194
2003 to 2012 Accumulated		2,546	1,031	7,151	5,192	211	16,131

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.

B. Recovery of Loans and Bankruptcy Dividends

In 2012, the KDIC collected KRW 104.4 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 2012, a cumulative total of KRW 753.3 billion was recovered.

From 2003 to 2012, the KDIC offered KRW 599.1 billion in loans to the KR&C to facilitate the resolution of failed mutual savings banks including Gyeongbuk Mutual Savings Bank, among which KRW 519.2 billion was recovered.

Table IX-23 Collection of Bankruptcy Dividends and Loans

(As of Dec. 31, 2012, Unit: KRW 100 million)

Financial Sector	Collection of Dividends from Estates, etc.[1]		Collection of Loans[1]	
	2012	2003-2012 Accumulated	2012	2003-2012 Accumulated
Mutual Savings Banks (including the Special Account)	1,044	7,533	1,097	5,192

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.

C. Enhancement of the Financial Health of the DIF

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

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

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

In March 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, the KDIC received 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 diversified the types of assets in which the surplus funds in the DIF can be invested, with the addition of bank bonds in September 2010. It financed restructuring of mutual savings banks in a timely fashion while garnering gains from large-scale bond sales in February 2011.

To strike a balance between stability and profit-seeking in DIF surplus fund management, the KDIC made efforts to adopt a more advanced management system. By keeping liquidity at an optimal level year round based on accurate profit/loss forecasts and statistical approaches, it effectively accomplished the DIF goals including principal and interest repayment. It also strived to minimize cash-type funds in possession and improve criteria for setting banking investment limits in a bid to increase its profitability. In January 2012, it introduced market VaR for deposits to reinforce market risk control by type of asset. In June 2012, it established a risk indicator monitoring system to enhance its risk management.

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

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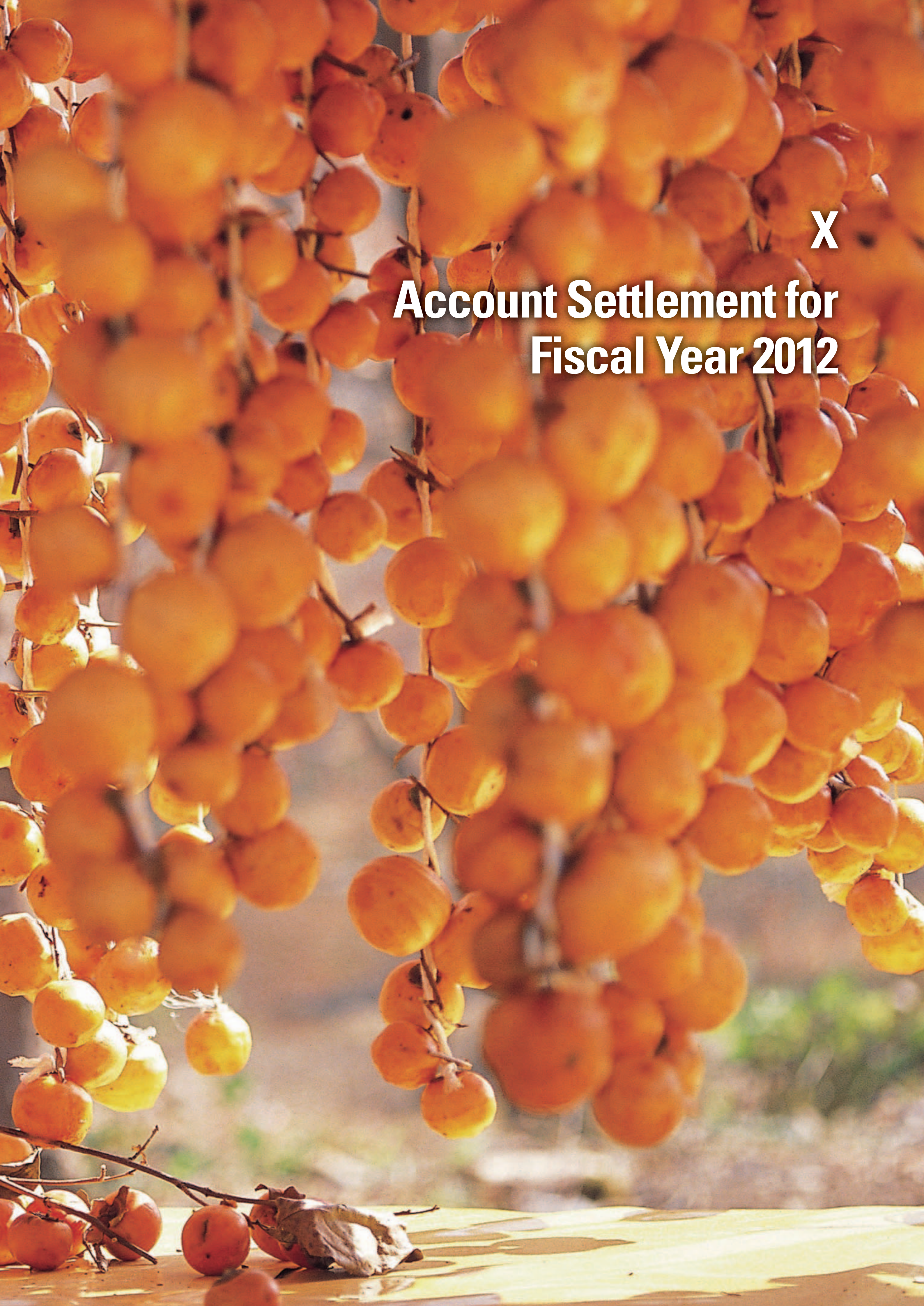

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Account Settlement for Fiscal Year 2012

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Account Settlement for Fiscal Year 2012

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 2012, the audit was conducted by Nexia Samduk, and the auditor's opinion was "unqualified."

2 Criteria for Account Settlement

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

2-1. Deposit Insurance Fund and KDIC Internal Account

2-1-1. Accounting for Assets and Liabilities

A. 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 trading, available-for-sale (AFS), held-to-maturity (HTS) and equity method securities, according to the nature and ownership purpose of each of the securities. Equity method securities refer to equity securities by which material influence is exercisable over the invested company.

(2) Valuation of Securities

The value of trading and AFS securities is estimated by the fair value method. In the case of marketable securities, the market price, determined as the closing price as of the balance sheet date, is used as the fair value. However, in cases where AFS securities are non-marketable equity securities and their fair value cannot reliably be assessed, their acquisition cost is deemed to be the fair value. Unrealized gains/losses on trading securities arising from fair value assessment are booked in net income/losses and such unrealized gains/losses on AFS securities are treated as accumulated other comprehensive income/losses. The accumulated other comprehensive income/losses on AFS securities are recorded as net income/losses at the time the AFS securities are sold or impairment losses are recognized. When the estimated recoverable amount is less than the acquisition cost of debt securities after a write-off or the acquisition cost of equity securities and there is clear evidence that the impairment is genuine, the impairment loss is booked in net income/losses. The accounting treatment of a reversal of an impairment loss that occurs subsequent to the recording of the impairment loss is as follows: When the reversal of an impairment loss is objectively related to an event occurring after the recognition of the impairment loss, the amount of the reversal shall be recognized as a reversal of an impairment loss and included in periodic income within the amount of the previously recognized impairment loss.

(3) Valuation of Equity Method Securities

The value of equity securities by which material influence can be exercised over the invested company is determined by the equity method. Initially, equity method securities are valuated at their acquisition cost and then the changes in their value after the acquisition are directly added to or deducted from the acquisition cost. If the changes originate from net income/loss of the invested company, the pertinent gains/losses are reflected in net income/loss by recording them as gains/losses on valuation of investment stock using the equity method. If the changes originate from an increase or decrease in unappropriated retained earnings carried over from the prior year due to material misstatement or accounting procedure changes of the invested company, the gains/losses are added to or deducted from the net income/loss or unappropriated retained earnings carried over from the prior year. The decision to choose which account of the two to use should be based on its impact on the invested company's financial statements. If the changes are due to a fluctuation in the equity capital, excluding net income/loss or unappropriated retained earnings carried over from the prior year, the gains/losses are added to or deducted from accumulated other comprehensive income/losses under the title of a gain (or loss) on valuation of investment stock by the equity method.

B. 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.

C. 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.

D. 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.

2-1-2. Accounting for Revenues and Expenses

A. 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.

B. 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.

2-2. DIF Bond Redemption Fund

2-2-1. 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.

2-2-2. Accounting for Assets and Liabilities

A. 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.

B. 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.

C. Conversion of Foreign Currency-Denominated Assets and Liabilities

For conversion of foreign currency-denominated assets and liabilities, the base exchange rate as of the balance sheet date is applied. The gains/losses arising from the foreign exchange valuation are booked in the net cost for financial management.

D. Accounting for Derivatives Transactions

After valuing the rights and obligations associated with derivatives contracts at their fair value, the determined value is recorded as assets or liabilities. The valuation gains/losses are reflected in the net cost for financial management at the time of their accrual. However, for the valuation of derivatives acquired to mitigate the risk in cash flow fluctuations, the valuation gains/losses are recorded as gains/losses on valuation of derivatives instruments in the reconciliation account of the statement of changes in net assets.

E. 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.

F. 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.

G. 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.

2-2-3. Accounting for Revenues and Expenses

A. 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.

B. 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

3-1. KDIC (Combined with the DIF)

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

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

A. Deposit Insurance Fund

(1) Financial Status

As of the end of 2012, the total assets of the DIF increased by KRW 3,038 billion or 25.0% to KRW 15.1905 trillion compared to a year ago. The increase is mainly attributable to an increase in indemnity receivables (KRW 7,093.5 billion) due to financial assistance for the resolution of insolvent mutual savings banks in 2012, an increase in investment assets (KRW 523.9 billion) owing to year-end cash in hand, and a decrease in interim deposit payments (KRW 4,917.2 billion) recorded at the end of the preceding year.

Indemnity receivables increased by a total of KRW 16.3395 trillion to KRW 27.0472 trillion due to deposit payoffs and contributions related to mutual savings bank failures in 2012. The net asset increase, after deducting the increased allowances for bad debts of KRW 9,246 billion, remains at KRW 7,093.5 billion. Investment assets increased by KRW 523.9 billion to KRW 1,901.3 billion because of year-end cash in hand and establishment of new bridge mutual savings banks.

Compared to a year ago, the total liabilities increased by KRW 6,362.1 billion to KRW 22.7232 trillion as of the end of 2012. This is because DIF Bond issuance increased (KRW 20.0614 trillion) as a result of failures of mutual savings banks and a subsequent fund shortage in the Special Account despite liabilities having decreased partly due to reversal of reserves (KRW 5,790.2 billion) representing the estimated losses from the resolution of mutual savings banks where an insurance event occurred in 2011.

As of the end of 2012, the total equity dropped by KRW 3,324.1 billion or 79.0% to KRW -7,532.7 billion. This was caused by the reduction in retained earnings mainly because of the net loss of KRW 3,332.5 billion.

(2) Profits and Losses

The net losses in 2012 decreased by KRW 7,631.6 billion to KRW -3,332.5 billion, compared to the previous year.

The operating profits calculated by deducting operating costs from operating revenues stood at KRW 718.2 billion. The operating revenues (KRW 1,426 billion) are mainly comprised of insurance premium revenues (KRW 1,121.2 billion) and interest income earned from asset management (KRW 216 billion). The operating costs (KRW 707.8 billion) include interest expenses for borrowings (KRW 160.4 billion), interest expenses for bonds (KRW 458.1 billion) and recurring operating expenses (KRW 81.5 billion).

Meanwhile, non-operating losses stood at KRW -4,050.7 billion, which is mainly attributable to the net transfer of provisions (KRW 9,811 billion) related to deposit payoffs and indemnity receivables for contributions and to the net reversal of other provisions (KRW 5,790.2 billion). The net reversal of other provisions reflects expected losses from the failures of seven mutual savings banks (Tomato, Prime, Parangsae, Jeil, Jeil 2, Ace and Busan) reversed in 2012. They became insolvent in 2011, but their P&As or deposit payoffs were not completed as of December 31, 2011.

B. KDIC Internal Account

(1) Financial Status

The total assets stood at KRW 19.3 billion as of the end of 2012, down by KRW 1.8 billion or 8.5% from a year earlier. The current assets decreased by KRW 3.7 billion year-over-year to KRW 2.2 billion. This is because of the KDIC's introduction of a retirement pension scheme in 2012 and a subsequent change in its accounting principles that required deposits at financial institutions to be deducted from the allowance for severance liabilities. The non-current assets stood at KRW 17.1 billion, up KRW 1.9 billion from the end of the previous year, due to additional leasing of company houses for its employees, etc.

The total liabilities decreased by KRW 200 million or 0.8% to about KRW 20.8 billion as of the end of 2012. This is because the current liabilities went up KRW 2.2 billion due to recognition as liabilities of the estimated costs of annual leaves, which arose under the Labor Standards Act according to revision of the accounting principles generally accepted in Korea, while the non-current liabilities dropped by KRW 2.4 billion owing to the deposit of provisions for retirement (recorded in the form of deductions from the allowance for severance liabilities).

The total equity stood at approximately KRW -1.5 billion at the end of 2012, down by KRW 1.6 billion compared to a year ago. This is mainly ascribable to recognition of liabilities regarding annual leaves under the Labor Standards Act.

(2) Profits and Losses

The net income in 2012 remained at KRW 300 million, the difference between the total revenues of KRW 92.1 billion and the total costs of KRW 91.8 billion.

The total revenues, at KRW 92.1 billion, are broken down into financial revenues of KRW 500 million including interest income from deposits (0.5%) and other operating income of KRW 91.6 billion (99.5%) including revenues transferred from the DIF.

The total costs, at KRW 91.8 billion, include labor costs of KRW 55 billion (59%) and general expenses of KRW 36.8 billion (41%).

3-2. Redemption Fund

A. Financial Status

As of the end of 2012, the total assets of the Redemption Fund stood at KRW 11.3432 trillion, up KRW 771.5 billion or 7.3% from the end of the previous year. The current assets (KRW 3,075 billion) grew by KRW 1,397.8 billion due to transfer of the loans payable by the KR&C to current assets and year-end cash in hand, while the investment assets (KRW 8,245.1 billion) shrank by KRW 538.7 billion for such reasons as recovery of loans to the KR&C (KRW 725.6 billion) and transfers to current assets (KRW 878.6 billion) despite an increase in the appraised value of the shares in Woori Financial Group, etc. (KRW 1,165.7 billion).

As of the end of 2012, the total liabilities decreased by KRW 963.6 billion or 4.0% year-on-year to KRW 23.1507 trillion. This is because loans recovered from the KR&C (KRW 725.6 billion) were used to repay a part of the existing debts.

The total net assets stood at KRW -11.8075 trillion as of the end of 2012, up KRW 1,735.1 billion or 12.8% from the end of the previous year. This is because the net asset adjustment increased by KRW 1,164.1 billion due to realization of net income amounting to KRW 570.9 billion and a rise in the price of equity securities.

B. Profits and Losses

In 2012, the Redemption Fund's financial operation generated a result of KRW -570.9 billion, recording a year-on-year income increase of KRW 491.5 billion or 618.4%. "Financial operation result" is the opposite of net income in corporate accounting. The negative result means that revenues exceeded costs. The increase in net income in 2012 is primarily attributable to the fact that net program costs declined KRW 405.2 billion for such reasons as a reduction in transfers to bad debt allowances (KRW

521.5 billion), an increase in dividend income (KRW 162.8 billion) and a decrease in interest income (KRW 277 billion) and that non-exchange revenues, i.e. Special Assessment Payments received, expanded by KRW 98.3 billion.

The net program costs incurred for the operation of the financial policy support program, an essential business of the Redemption Fund, remained at KRW 664.1 billion. This figure was arrived at by deducting program income of KRW 726.7 billion from the total program costs of KRW 1,390.8 billion.

The net cost for financial management came to KRW 636.1 billion, calculated by adding KRW 10.7 billion of administrative and operating expenses and KRW 16.1 billion of non-allocated costs to the net program costs of KRW 664.1 billion and then deducting KRW 54.9 billion of non-allocated revenues. The administrative and operating expenses above refer to management expenses including labor costs and general expenses that are not allocated to program costs. Non-allocated costs and revenues are those that are not related to the program operation.

The financial operation result of KRW -570.9 billion was calculated by deducting non-exchange revenues of KRW 1,207 billion from the net cost for financial management of KRW 636.1 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, 2012
Previous period : As of December 31, 2011

(DIF and KDIC Internal Accounts Combined)

(Unit : KRW 100 million)

ASSETS	Amount	
	Current Period	Previous Period
Current Assets	48,881	94,722
1.Quick Assets	48,881	94,722
Cash and Cash Equivalents	2,850	2,149
Short-term Financial Instruments	25,831	17,162
Current Available-for-sale Securities	14,007	19,944
Short-term Loans	1,336	1,786
(Allowance for Doubtful Accounts)	△669	△805
Accrued Income	5,556	5,348
(Allowance for Doubtful Accounts)	△30	△36
Advanced Payment	-	49,174
Prepaid Expenses	1	-
Non Current Assets	103,125	26,933
1. Investment Assets	19,094	13,822
Available-for sale Securities	16,844	12,667
Equity Method Securities	2,169	1,067
Long-term Loans	0	40
Other Investment Assets	12	6
Membership	18	14
Buildings	6	6
(Accumulated depreciation)	△5	△5
Other Tangible Assets	187	170
(Accumulated depreciation)	△161	△143
2. Other Non Current Assets	84,057	13,111
Indemnity Receivables	270,472	107,077
(Allowance for Doubtful Accounts)	△186,530	△94,070
Deposit	115	104
Other Non Current Assets	-	-
Total Assets	152,007	121,655

LIABILITIES AND EQUITY	Amount	
	Current Period	Previous Period
Current Liabilities	13,650	151,621
1. Short-term Borrowings	11,506	92,199
2. Account Payables	-	-
3. Deposits	43	26
4. Advances from Customers	-	6
5. Accrued Expenses	2,101	1,488
6. Other Provisions	-	57,902
Non Current Liabilities	213,699	12,120
1. Long-term Borrowings	1,000	-
2. Bonds	212,400	12,000
Bonds Premium	317	11
(Bonds Discount)	△92	-
3. Provisions for Severance Benefits	123	127
(Contribution to National Pension Plan)	-	-
(Provisions for Retirement)	△122	-
(Deposits for Severance Insurance)	-	△92
4. Other Non Current Liabilities	74	74
Total Liabilities	227,349	163,741
Retained Earnings	△75,464	△42,124
Current Period: △33,323		
Previous Period: △109,642		
Accumulated Other Comprehensive Gains/Losses	122	38
1. Valuation Gain on Available-for-sale securities	205	337
2. Valuation Loss on Available-for-sale securities	△78	△299
3. Equity Adjustment under Equity Method	△5	-
Total Equity	△75,342	△42,086
Total Liabilities and Equity	152,007	121,655

Table Ⅹ-2 Condensed Income Statement

Current period : For the year ended December 31, 2012
Previous period : For the year ended December 31, 2011

(DIF and KDIC Internal Accounts Combined)

(Unit : KRW 100 million)

EXPENSES	Amount	
	Current Period	Previous Period
Operating Expenses(B)	7,204	2,730
1. Direct Operating Expenses	6,285	1,852
Ordinary Expenses	21	-
Interest Expenses on Borrowings	1,604	1,817
Interest Expenses on Bonds	4,581	28
KDIC Direct Expenses	79	7
2. Salaries	550	500
3. General Expenses	369	378
Operating Income/Loss (C=A-B)	7,184	11,671
Other Expenses (E)	104,703	182,043
1. Other Allowances for Doubtful Accounts	104,399	64,800
2. Other Transferred-in Provisions	-	117,084
3. Equity Method Loss	304	159
4. Other Expenses	-	-
Net Income (C+D-E)	△33,323	△109,642

REVENUES	Amount	
	Current Period	Previous Period
Operating Income (A)	14,388	14,401
1. Financing Income	2,165	1,968
Interest Income on Deposits	1,018	688
Interest Income on Securities	1,080	1,171
Interest Income on Loans	67	69
Gains on Disposal of Securities	-	40
2. Other Operating Income	12,223	12,433
Insurance Premiums	11,212	11,381
Contributions	89	12
Contributions to Fund	121	128
Other Operating Income	801	912
Other Income (D)	64,196	60,730
1. Reversal of Allowances for Doubtful Accounts	6,288	1,540
2. Reversal of other provisions	57,902	59,182
3. Equity Method Gains		8
4. Other Income	6	-

Table Ⅹ-3 Condensed Statement of Financial Position

Current period : As of December 31, 2012
Previous period :As of December 31, 2011

(DIF)

(Unit : KRW 100 million)

ASSETS	Amount	
	Current Period	Previous Period
Current Assets	48,859	94,664
1.Quick Assets	48,859	94,664
Cash and Cash Equivalents	2,828	2,129
Short-term Financial Instruments	25,831	17,126
Current Available-for-sale Securities	14,007	19,944
Short-term Loans	1,336	1,786
(Allowance for Doubtful Accounts)	△669	△805
Accrued Income	5,556	5,348
(Allowance for Doubtful Accounts)	△30	△36
Advanced Payment	-	49,172
Non Current Assets	103,046	26,861
1. Investment Assets	19,013	13,774
Available-for-sale Securities	16,843	12,667
Equity Method Securities	2,169	1,067
Long-term Loans	-	40
2. Other Non Current Assets	84,033	13,087
Indemnity Receivables	270,472	107,077
(Allowance for Doubtful Accounts)	△186,529	△94,070
Other Non Current Assets	91	80
Total Assets	151,905	121,525

LIABILITIES AND EQUITY	Amount	
	Current Period	Previous Period
Current Liabilities	13,607	151,600
1. Short-term Borrowings	11,506	92,199
2. Account Payables	-	-
3. Deposits	31	15
4. Advances from Customers	-	6
5. Accrued Expenses	2,070	1,478
6. Other Provisions		57,902
Non Current Liabilities	213,625	12,011
1. Bonds	212,400	12,000
Bonds Premium	317	11
(Bonds Discount)	△92	-
2.Long-term Borrowings	1,000	-
Total Liabilities	227,232	163,611
Retained Earnings	△75,449	△42,124
Current period: △33,325		
Previous Period: △109,641		
Accumulated Other Comprehensive Gains/Losses	122	38
1. Valuation Gain on Available-for-sale securities	205	337
2. Valuation Loss on Available-for-sale securities	△78	△299
3. Equity Adjustment under Equity Method	△5	-
Total Equity	△75,327	△42,086
Total Liabilities and Equity	151,905	121,525

Table Ⅹ-4 Condensed Income Statement

Current period : For the year ended December 31, 2012
Previous period : For the year ended December 31, 2011

(DIF) (Unit : KRW 100 million)

EXPENSES	Amount		REVENUES	Amount	
	Current Period	Previous Period		Current Period	Previous Period
Operating Expenses(B)	7,078	2,598	Operating Income (A)	14,260	14,267
1. Direct Operating Expenses	7,078	2,598	1. Financing Income	2,160	1,963
Ordinary Expenses	815	746	Interest Income on Deposits	1,013	683
Interest Expenses on Borrowings	1,604	1,817	Interest Income on Securities	1,080	1,171
Interest Expenses on Bonds	4,581	28	Interest Income on Loans	66	69
DIF Direct Expenses	78	7	Gains on Disposal of Securities	-	40
			2. Other Operating Income	12,100	12,304
			Insurance Premiums	11,212	11,381
			Contributions	89	12
Operating Income/Loss (C=A-B)	7,182	11,669	Other Operating Income	799	911
Other Expenses (E)	104,703	182,043	Other Income (D)	64,196	60,733
1. Other Allowances for Doubtful Accounts	104,399	64,800	1. Reversal of Allowances for Doubtful Accounts	6,289	1,540
2. Other Transferred-in Provisions	-	117,084	2. Reversal of other provisions	57,902	59,182
3. Equity Method Loss	304	159	3. Equity Method Gains	-	8
4. Other Expenses	-	-	4. Other Income	5	3
Net Income (C+D-E)	△33,325	△109,641			

Table Ⅹ-5 Condensed Statement of Financial Position

Current period : As of December 31, 2012
Previous period : As of December 31, 2011

(KDIC) (Unit : KRW 1 million)

ASSETS	Amount		LIABILITIES AND EQUITY	Amount	
	Current Period	Previous Period		Current Period	Previous Period
Current Assets	2,242	5,913	Current Liabilities	4,257	2,012
1. Quick Assets	2,242	5,913	1. Deposits	1,216	1,087
Cash and Cash Equivalents	2,179	2,013	2. Accrued Expenses	3,041	925
Short-term Financial Instruments	-	3,621			
Accrued Income	3	6			
Advanced Payments	-	216			
Account Receivables	9	9			
Prepaid Expenses	51	48			
Non Current Assets	17,055	15,159	Non Current Liabilities	16,515	18,933
1. Investment Assets	5,586	4,710	1. Provisions for Severance Benefits	12,302	12,703
Other Investment Assets	1,160	555	(Contribution to National Pension Plan)	△2	△2
Membership	1,813	1,421	(Deposits for Severance Insurance)	-	△9,143
Buildings	591	591	(Provisions for Retirement)	△12,300	-
(Accumulated depreciation)	△520	△488	2. Other Non Current Liabilities	16,515	15,375
Other Tangible Assets	18,689	16,988	Total Liabilities	20,772	20,945
(Accumulated depreciation)	△16,147	△14,357	1. Retained Earnings	△1,475	127
			Current period: 293		
2. Other Non Current Assets	11,469	10,449	Previous Period: △3		
Deposits	11,469	10,449			
			Total Equity	△1,475	127
Total Assets	19,297	21,072	Total Liabilities and Equity	19,297	21,072

Table Ⅹ-6 Condensed Income Statement

Current period : For the year ended December 31, 2012
Previous period : For the year ended December 31, 2011

(KDIC) (Unit : KRW 1 million)

EXPENSES	Amount		REVENUES	Amount	
	Current Period	Previous Period		Current Period	Previous Period
Operating Expenses(B)	91,852	85,731	Operating Income (A)	92,145	85,728
1. Direct Operating Expenses	-	-	1. Financing Income	522	524
Other Operating Expenses	-	-	Interest Income on Deposits	522	524
2. Salaries	54,983	50,023	2. Other Operating Income	91,623	85,204
3. General Expenses	36,869	35,708	Contribution to the Fund	91,466	85,024
Operating Income/Loss (C=A-B)	293	△3	Other Operating Income	157	180
Other Expenses (E)	-	-	Other Income (D)	-	
Net Income (C+D-E)	293	△3			

Table Ⅹ-7 Condensed Statement of Financial Position

Current period : As of December 31, 2012
Previous period : As of December 31, 2011

(DIF Bond Redemption Fund)

(Unit : 100 million)

ASSETS	Amount	
	Current Period	Previous Period
Current Assets	30,750	16,772
1. Cash and Cash Equivalents	813	4,789
2. Short-term Financial Instruments	19,604	10,457
3. Short-term Investment Securities	1,397	1,398
4. Account Receivables	15,561	13,776
(Allowance for Doubtful Accounts)	△15,470	△13,721
5. Short-term Loans	145,165	73
(Allowance for Doubtful Accounts)	△136,320	-
6. Other Current Assets	-	-
Investment Assets	82,451	87,838
1. Long-term Loans	1,290	153,710
(Allowance for Doubtful Accounts)	△986	△136,026
2. Long-term Investment Securities	82,147	70,154
3. Other Investment Securities	-	-
Other Non Current Assets	231	1,107
1. Long-term Notes Receivables	93	103
(Allowance for Doubtful Accounts)	△92	△101
2. Other Non Current Assets	230	1,105
Total Assets	113,432	105,717

LIABILITIES AND EQUITY	Amount	
	Current Period	Previous Period
Current Liabilities	78,598	59,501
1. Current Portion of Long-term liabilities	76,713	57,982
2. Other Current Liabilities	1,885	1,519
Long-term Borrowing Liabilities	152,909	181,450
1. Public Bonds	152,909	180,296
2. Long-term Borrowing	-	1,154
Provisions for Long-term Liabilities	-	131
1. Provisions for Other Long-term Liabilities	-	131
Other Non Current Liabilities	-	61
1. Other Non Current Liabilities	-	61
Total Liabilities	231,507	241,143
Net Asset		
1. Net Asset	523,064	523,064
2. Reserves and Surplus	△663,647	△669,357
3. Net Asset Adjustments	22,508	10,867
Total Net Asset	△118,075	△135,426
Total Liabilities and Net Asset	113,432	105,717

Table Ⅹ-8 Condensed Financial Operating Statement

Current period : For the year ended December 31, 2012
Previous period : For the year ended December 31, 2011

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

ASSETS	Current Period			Previous Period		
	Total Cost	Profit	Net Cost	Total Cost	Profit	Net Cost
Ⅰ.Program Net Cost	13,908	7,267	6,641	20,114	9,421	10,693
1. Financial Policy Support	13,908	7,267	6,641	20,114	9,421	10,693
Insurance Expenses	-	-	-	9	-	-
Salaries	-	-	-	-	-	-
General Expenses	2	-	-	1	-	-
Payment Fees	52	-	-	67	-	-
Loss on Disposal of Long-term Investment Securities	3	-	-	-	-	-
Allowance for Doubtful Accounts	2,230	-	-	7,445	-	-
Interest Expenses on Public Bonds	11,618	-	-	12,592	-	-
Interest Expenses on Borrowings	3	-	-	-	-	-
Impairment Loss on Investment Securities	-	-	-	-	-	-
Other Interest Income	-	3	-	-	-	-
Gains on Disposal of Long-term Investment Securities	-	-	-	-	1,532	-
Gains on Disposal of Other Investment Securities	-	21	-	-	16	-
Reversal of Provisions	-	35	-	-	-	-
reversal of Impairment Loss on Investment Securities	-	436	-	-	779	-
Miscellaneous Revenue	-	2	-	-	4	-
Reversal of Allowances for Doubtful Accounts	-	903	-	-	81	-
Dividend Income	-	3,294	-	-	1,666	-
Interest Income from Loans to Non-Government Organizations	-	2,573	-	-	5,343	-
Ⅱ.Management and Administrative Expenses	-	-	107	-	-	106
1.Salaries	-	-	-	-	-	-
2. General Expenses	-	-	107	-	-	106
Ⅲ.Non-Allocated Costs	-	-	161	-	-	48
1. Payment Fees	-	-	1	-	-	-
2. Allowances for Doubtful Accounts	-	-	-	-	-	-
3. Valuation Loss	-	-	82	-	-	29
4. Other Expenses	-	-	78	-	-	19
Ⅳ.Non-Allocated Revenues	-	-	549	-	-	555
1. Interest Income	-	-	440	-	-	410
2. Valuation Gains	-	-	82	-	-	29
3. Other Income	-	-	27	-	-	116
Ⅴ.Net Cost for Financial Operation(Ⅰ+Ⅱ+Ⅲ+Ⅳ)	-	-	6,361	-	-	10,292
Ⅵ.Non-Exchange Revenues	-	-	12,070	-	-	11,087
1. Revenues from Contributions	-	-	12,070	-	-	11,087
Ⅶ.Financial Operation Result (Ⅴ-Ⅵ)	-	-	△5,709	-	-	△795

Dancheong, traditional multicolored paintwork on wooden buildings

Appendix

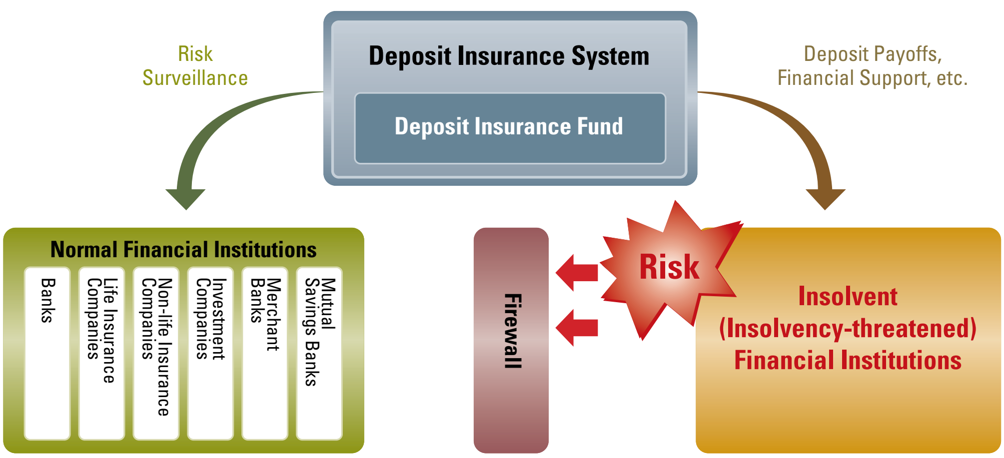
Appendix

1. Overview of the Deposit Insurance System

A. 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 >



B. 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.

C. 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, 2012)

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 areinvested 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.

D. 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, 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

A. Management Evaluation of Public Institutions

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

In its announcement in June 2012, the evaluation team gave the KDIC an "A" grade for the performance of the KDIC and its Chairman & President in 2011, respectively one grade higher from the preceding year.

B. Fund Management Evaluation

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

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

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

3. Summary of Major Events in 2012

Date	Major Events
January 5	• Recovered KRW 40 million by selling a 0.07% stake in SG Corporation on the stock market
February 20	• Recovered KRW 102.2 billion through creditors' joint sale of a 0.74% stake in SK Hynix
April 18	• Recovered KRW 114.8 billion in dividends from Woori Financial Group
May 6	• Solomon Savings Bank, Korea Savings Bank, Mirae Mutual Savings Bank, and Hanju Savings Bank suspended from operations
July 4	• Recovered KRW 49.4 billion in dividends from Hanwha Life Insurance
July 24	• Recovered KRW 164.8 billion in dividends from Seoul Guarantee Insurance
September 5	• Solomon Savings Bank, Korea Savings Bank, and Hanju Savings Bank subject to a P&A
September 27	• Recovered KRW 100 million through public sale of five issues of shares in Gyeonggi Urban Innovation Corporation, etc.
October 5	• Mirae Mutual Savings Bank subject to a P&A
October 10	• Recovered KRW 608.7 billion by selling a 3.66% stake in KEPCO (block sale)
October 19	• Tomato 2 Savings Bank suspended from operations and subject to a P&A
October 25	• Received the 'Deposit Insurance Organization of the Year Award' from the IADI
November 16	• Jinheung Savings Bank suspended from operations and subject to a P&A
December 21	• Recovered KRW 500 million through public sale of four issues of shares in Seil Electronics, etc.
December 28	• Gyeonggi Savings Bank and W Mutual Savings Bank suspended from operations and subject to a P&A
January 2 ~ December 28	• Recovered KRW 100 million by selling common shares of Jeju Bank on the stock market

4. Statistics

A. Insured Financial Institutions[1)]

(As of Dec.31, 2012, Unit: No. of financial institutions)

Financial Sector	2006	2007	2008	2009	2010	2011	2012
Banks	53	53	55	54	54	55	56
(Domestic)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
(Foreign)	(36)	(36)	(38)	(37)	(37)	(38)	(39)
Investment Companies[2)]	53	53	60	115	118	117	115
Insurance Companies	43	44	43	43	44	44	46
(Life)	(22)	(22)	(22)	(22)	(23)	(23)	(24)
(Non-life)	(21)	(22)	(21)	(21)	(21)	(21)	(22)
Merchant Banks	2	2	2	2	1	1	1
Mutual Savings Banks [3)]	110	109	106	106	105	107	101
Total	261	261	266	320	322	324	319

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)

B. Insurable Deposits by Financial Sector[1)]

(As of Dec.31, 2012, Unit: KRW 1 billion)

Financial Sector	2011(B)	2012(A)	Change(A-B)
Banks	850,117	891,813	41,696
Investment Companies	20,476	20,102	△374
Insurance Companies	357,921	449,877	91,956
(Life)	(289,364)	(364,836)	(75,472)
(Non-life)	(68,557)	(85,041)	(16,484)
Merchant Banks	1,047	884	△163
Mutual Savings Banks	51,499	42,620	△8,879
Total	1,281,060	1,405,296	124,236

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.

C. DIF Bond Redemption Fund Revenues

(As of Dec. 31, 2012, Unit: KRW)

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
Banks	1,613	1,975	2,630	4,139	4,361	14,718	502,689,354,851	497,628,429,865	596,495,263,169	681,137,103,049	778,873,175,496	851,819,585,691
Investment Companies	-	51	156	218	262	687	15,640,959,000	18,450,538,082	16,924,950,377	21,309,273,266	22,707,528,407	22,575,972,492
Insurance Companies	2,322	1,260	1,781	2,416	2,780	10,559	154,296,293,318	168,253,097,512	178,164,427,938	194,292,108,000	213,663,046,538	235,198,064,417
(Life)	(1,800)	(1,011)	(1,402)	(1,938)	(2,295)	(8,446)	126,530,624,919	136,365,120,000	143,006,160,079	153,430,348,000	165,012,412,538	175,951,332,846
(Non-life)	(522)	(249)	(379)	(478)	(485)	(2,113)	27,765,668,399	31,887,977,512	35,158,267,859	40,861,760,000	48,650,634,000	59,246,731,571
Merchant Banks	980	336	233	139	130	1,818	722,757,000	794,110,000	1,013,841,000	1,899,113,000	1,169,424,000	968,148,000
Mutual Savings Banks	2,407	377	323	529	604	4,240	43,004,233,839	49,122,536,517	59,293,898,815	71,512,241,512	71,802,311,638	52,111,753,417
Credit Unions	402	162	281	407	641	1,893	11,608,513,513	12,910,122,846	13,675,874,192	16,962,417,699	20,479,299,838	22,797,105,416
Total	7,724	4,161	5,404	7,848	8,778	33,915	727,962,111,521	747,158,834,822	865,568,255,491	987,112,256,526	1,108,694,785,917	1,185,470,629,433

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

D. DIF Premium Revenues

(As of Dec. 31, 2012, Unit: KRW 100 million)

Financial Sector	2003[1]	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Banks	4,775	4,960	4,869	4,987	5,027	4,808	5,291	5,451	4,795	3,748	48,711
Investment Companies	312	336	300	303	256	305	276	284	283	2	2,657
Insurance Companies	3,115	3,403	3,737	4,059	4,455	4,852	5,113	3,307	3,062	86	35,189
(Life)	(2,580)	(2,832)	(3,109)	(3,362)	(3,654)	(3,934)	(4,097)	(2,609)	(2,362)	(-14)	(28,525)
(Non-life)	(535)	(571)	(628)	(697)	(801)	(918)	(1,016)	(698)	(700)	(100)	(6,664)
Merchant Banks	73	17	15	19	22	24	29	34	18	8	259
Mutual Savings Banks	667	793	974	1,116	1,306	1,483	1,737	2,524	2,331	1,344	14,275
Special Account[2]	-	-	-	-	-	-	-	-	1,742	5,816	7,558
Total[3]	8,942	9,509	9,895	10,484	11,066	11,472	12,446	11,600	12,231	11,004	108,649

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.

E. DIF Bonds Issued

(As of Dec. 31, 2012, Unit: KRW 100 million)

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

Note: 1) Cumulative issue amount that includes conversion issuance

F. Financial Assistance from the DIF Bond Redemption Fund

(As of Dec. 31, 2012, Unit: KRW)

Financial Sector	Equity Investment	Contributions	Deposit Payoffs[1]	Asset Purchase[1]	Loans	Total
Banks	22,203,879,614,160	13,918,880,538,191	-	8,106,444,073,801	-	44,229,204,226,152
Investment Companies	9,976,873,000,000	414,332,785,796	11,270,816,793	2,123,943,660,527	-	12,526,420,263,116
Insurance Companies	15,919,758,000,000	3,119,211,303,513	-	349,481,101,882	-	19,388,450,405,395
(Life)	5,669,658,000,000	2,751,890,303,513	-	349,481,101,882	-	8,771,029,405,395
(Non-life)	10,250,100,000,000	367,321,000,000	-	-	-	10,617,421,000,000
Merchant Banks	2,693,050,000,000	743,110,579,116	18,271,810,047,468	-	-	21,707,970,626,584
Mutual Savings Banks	100,000,000	416,147,029,007	7,289,213,136,680	-	596,860,000,000	8,302,320,165,687
Credit Unions	-	-	4,740,151,481,096	-	-	4,740,151,481,096
Total	50,793,660,614,160	18,611,682,235,623	30,312,445,482,037	10,579,868,836,210	596,860,000,000	110,894,517,168,030

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

G. Details of Financial Assistance from the DIF Bond Redemption Fund

(As of Dec. 31, 2012, Unit: KRW)

Injection Type & Recipient Institutions		Amount Provided
Equity Investment	Seoul Bank	4,680,900,000,000
	Korea First Bank	5,024,779,614,160
	Hanvit Bank	6,028,600,000,000
	Five acquiring banks including Kookmin Bank	1,192,300,000,000
	Hana Bank (Merger of Hana Bank and Boram Bank)	329,500,000,000
	Chohung Bank	2,717,900,000,000
	Peace Bank	493,000,000,000
	Kyungnam Bank	259,000,000,000
	Gwangju Bank	170,400,000,000
	Jeju Bank	53,100,000,000
	National Federation of Fisheries Cooperatives	1,158,100,000,000
	National Agricultural Cooperative Federation	96,200,000,000
	Hanareum Banking Corporation	30,000,000,000
	Hanaro Merchant Bank	2,491,200,000,000
	Hans, Korea, Joongang Merchant Bank	150,000,000
	Youngnam Merchant Bank	171,700,000,000
	Hanareum MSB	100,000,000
	Seoul Guarantee Insurance Corporation	10,250,000,000,000
	Korea Life Insurance	3,550,000,000,000
	Kookmin, Taepyongyang, Doowon, Dong-A, Handuck, Chosun Life Insurance	2,119,658,000,000
	Korea Investment Trust Management & Securities	5,164,942,000,000
	Daehan Investment Trust Securities	2,900,332,000,000
	KR&C	100,000,000
	Daehan, Kookje Fire Insurance	100,000,000
	Hyundai Investment & Securities	1,911,599,000,000
	Sub-total	50,793,660,614,160
Contribution	Kookmin, Housing & Commercial, Shinhan, Hana, Koram Bank (five acquiring banks)	9,711,345,100,982
	Hanvit, Kyungnam, Gwangju, Peace, Seoul, Jeju Bank	2,967,700,000,000
	National Agricultural Cooperative Federation	87,000,000,000
	Samsung, Heungkuk, Kyobo, Allianz Life (four acquiring insurance companies)	1,164,097,000,000
	Korea First Bank (KFB)	1,152,835,437,209
	Korea, Hyundai, Kumho, Tongyang, SK Life	1,422,018,490,794
	Financial companies including Boomin MSB	416,147,029,007
	Daehan Fire	50,943,000,000
	Woori (Former Hanaro Merchant Bank) Merchant Bank	743,110,579,116
	Kookje Fire	73,927,000,000
	Tongyang, Samsung, Hyundai, LG, Dongbu Fire	242,451,000,000
	Green Cross (Daishin) Life	139,254,000,000
	KB (Hanil) Life	26,520,812,719
	Korea Investment Trust Management & Securities	78,361,926,245
	Daehan Investment Trust Securities	63,012,085,327
	Hyundai Investment & Securities	272,958,774,224
	Sub-total	18,611,682,235,623

Injection Type & Recipient Institutions			Amount Provided
Deposit Payoffs	Deposit Payoffs	Credit Unions	4,740,151,481,096
		Financial Investment Companies (4 companies)	11,270,816,793
		MSBs	1,233,544,136,6800
		Youngnam, Hansol, Korea Merchant Bank	146,321,444
	Payment through Resolution Financial Institutions	Hanareum Banking Corporation (in resolving 18 merchant banks)	18,271,663,726,024
		Hanareum MSB (in resolving 59 MSBs)	6,055,669,000,000
	Sub Total		30,312,445,482,037
Asset Purchase	Direct Purchase	Korea First Bank (BW)	24,896,685,840
		Korea First Bank (Shares of KFB's Vietnam and New York subsidiaries)	16,477,525,891
		Hyundai Investment & Securities (Shares of Hyundai Autonet, etc.)	856,969,163,340
	Indirect Purchase by Lending Money to the RFC	Five acquiring banks including Kookmin Bank (KB)	158,800,000,000
		Korea First Bank	7,906,269,862,070
		Dong-A, Kookmin, Taepyongyang, Daehan, SK Life	349,481,101,882
		Korea Investment Trust Management & Securities	483,046,830,489
		Daehan Investment Trust Securities	653,949,292,558
		Hyundai Investment & Securities	129,978,374,140
	Sub Total		10,579,868,836,210
Loans		MSB (13 MSBs)	596,860,000,000
		Sub-total	596,860,000,000
Aggregate Total			110,894,517,168,030

H. Financial Assistance from the DIF

(As of Dec. 31, 2012, Unit: KRW 100 million)

Financial Sector	Equity Investment	Contributions	Deposit Payoffs	Loans	Provisional Deposit Payment	Total[1]
Banks	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	-	-	-	-	-
(Life)	-	-	-	-	-	-
(Non-life)	-	-	-	-	-	-
Merchant Banks	-	-	-	-	-	-
Mutual Savings Banks	1,211	24,542	14,412	4,891	219	45,275
Special Account	2,383	208,633	36,060	1,100	775	248,951
Total	45,275	233,175	50,472	5,991	994	294,226

Note : 1) Credit union account of the Deposit Insurance Fund transferred to the National Credit Union Federation of Korea as of January 1, 2010 is excluded.

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

(As of Dec. 31, 2012, Unit: KRW 100 million)

Year	Amount
Before 2000	103,457
2001	41,179
2002	26,634
2003	56,034
2004	56,672
2005	36,117
2006	34,001
2007	43,660
2008	23,980
2009	24,118
2010	29,295
2011	12,679
2012	13,769
Total[1]	501,595

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

J. Fund Recoveries by Type (DIF Bond Redemption Fund)

(As of Dec. 31, 2012, Unit: KRW)

Financial Sector	Recovery of Equity Investment	Settlement of Contributions, etc.	Dividends from Bankruptcy Estates	Asset Sales[1]	Collection of Loans	Total
Banks	16,191,224,103,757	69,899,577,343	1,849,501,530,669	6,583,437,515,441	-	24,694,062,727,210
Investment Companies	1,212,144,785,109	323,124,716,519	7,800,810,225	1,797,921,926,521	-	3,340,992,238,374
Insurance Companies	3,630,002,518,132	88,750,917,579	431,028,239,213	240,566,938,460	-	4,390,348,613,384
(Life)	1,387,770,564,000	84,780,058,175	366,222,730,440	240,566,938,460	-	2,079,340,291,075
(Non-life)	2,242,231,954,132	3,970,859,404	64,805,508,773	-	-	2,311,008,322,309
Merchant Banks	141,581,602,890	5,931,643,350	8,434,489,993,851	-	-	8,582,003,240,091
Mutual Savings Banks	-	34,129,258,277	5,102,352,317,709	-	596,860,000,000	5,733,341,575,986
Credit Unions	-	401,687,311	3,418,372,118,209	-	-	3,418,773,805,520
Total	21,174,953,009,888	522,237,800,379	19,243,545,009,876	8,621,926,380,422	596,860,000,000	50,159,522,200,565

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

K. Progress in Financial Restructuring

(As of Jun. 30, 2012, 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	179	228	583	990	48.0	195	1,267
Merchant Banks	30	22	8	-	30	100.0	1	1
Investment Companies	36	6	8	2	16	44.4	31	51
Insurance Companies	50	10	7	6	23	46.0	28	55
Asset Management Companies	24	6	10	-	16	66.7	74	82
MSBs	231	130	28	1	159	68.8	25	97
Credit Unions	1,666	2	154	574	730	43.8	18	954
Lease Companies	25	3	13	-	16	64.0	18	27
Total	2,095	184	239	583	1,006	48.0	196	1,285

Source: Public Fund Management White Book published in August 2012

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

(from Nov. 1997 to Dec. 31, 2012, 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
	Mutual Savings Banks	-	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

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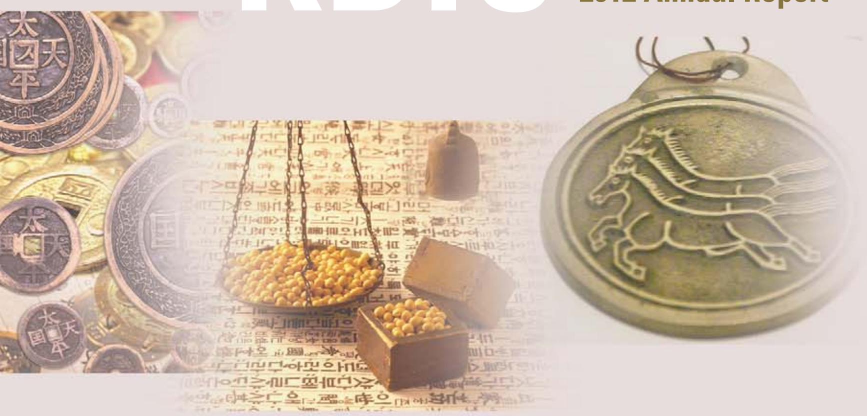

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