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

Korea Deposit
Insurance Corporation

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2017 ANNUAL REPORT

KOREA DEPOSIT INSURANCE CORPORATION

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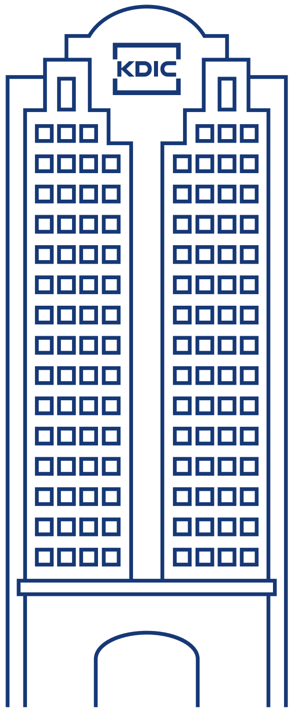

KDIC

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CEO Message

In 2017, the global economy saw growth in both advanced and emerging economies on the back of economic stimulus measures in many countries and a pick-up in global trade, but uncertainties continued around the normalization of monetary policies in major countries, especially around the anticipated interest rate hikes by the US Fed. Domestically, even though exports had been on a recovery path, with an increase in household debts and geopolitical risks associated with North Korea, the Korean economy struggled to revive domestic consumption.

Against this backdrop, the Korea Deposit Insurance Corporation (KDIC) focused on recovering funds injected into the resolution of failed financial institutions and reduced its debts by KRW 6.3 trillion in 2017 alone, which helped to pull the Deposit Insurance Fund out of a net asset deficit for the first time in six years since the mutual savings bank crisis in 2011.

In particular, the KDIC managed to recover KRW 1.2 trillion of public funds by selling shares in Woori Bank, Hanhwa Life Insurance and others. Also, by developing customized marketing strategies for each asset type, the KDIC successfully sold assets remaining in the estates of failed financial institutions and received KRW 1.1 trillion from the proceeds of the sales. In addition, the KDIC opened a local office in Phnom Penh to maximize recovery of assets located in Cambodia.

Internally, the KDIC took an initiative in leading public institutions in their efforts to meet social responsibilities. For instance, non-regular workers at the KDIC were transitioned to regular work status and a "blind" hiring policy was adopted in its recruitment process. Furthermore, the KDIC continuously made efforts to help those at an economic disadvantage, like borrowers with overdue loans, to rebuild their finances and become productive members of society again by reducing their debt burden (owed to failed institutions).

In the meantime, in order to strengthen protection of people who have less access to information on financial services, the KDIC expanded the requirements for the display of the deposit insurance logo to be applied to insurance firms as well as banks. Also, a new information system was built to ensure that depositors can get reimbursed within seven working days in case their bank fails. The KDIC also carried out a variety of social contribution activities by, for example, inviting immigrant-Korean families to finance camps and providing free consultation to small businesses.

Additionally, the KDIC opened the Global Training Center and hosted a global training program called One Asia with KDIC with great success to share its experience in deposit insurance operations with other countries in an effort to enhance global cooperation. Also newly launched at the KDIC is the Deposit Insurance Research Center where in-depth research will be conducted to study deposit insurance laws and regulations, at home and abroad, and current issues facing the financial services industry to provide a theoretical and empirical foundation to the deposit insurance system.

I believe that the next two decades of the KDIC will be a time in which the KDIC will try to be even more faithful to its role of protecting depositors and maintaining financial stability. Only then, the KDIC will win more trust and confidence from the public.

This Annual Report provides a summary of the KDIC's major achievements during 2017. I hope that it will help the public to better understand what the KDIC does and how it works.

곽 범 국

GWAK Bumgook

Chairman & President

Contents

Major Initiatives

In 2017, the Korea Deposit Insurance Corporation (KDIC) recovered KRW 754.8 billion in total by selling off its stakes including disposition of a 5.25% stake in Hanwha Life Insurance by means of a block sale. It sold assets held by bankruptcy estates of failed mutual savings banks in ways most appropriate for the types of assets involved. It ultimately recovered KRW 1.0672 trillion in bankruptcy dividends.

In addition, the KDIC made preparations to introduce a scheme that would require KDIC-insured financial institutions to keep depositor records in a format that would provide a comprehensive view of each customer's all eligible deposits, to ensure timely payment of deposit insurance claims. In 2017, it developed such scheme targeted specifically at banks and improved its insurance claim payment system to clear the way for implementation of the scheme.

The KDIC established a core risk analysis system for each financial sector to effectively preempt the insolvency of insured financial institutions. This primarily involved stepping up its analysis of risk factors. It set up the Specialized Risk Assessment Committee comprised of outside experts to improve the reliability of its risk analysis model.

The KDIC established the Deposit Insurance Research Center to bolster its empirical research capabilities and strengthen its expertise concerning deposit insurance schemes and current financial issues. It also hosted the special seminar “20 Years after the Asian Financial Crisis: Retrospect and Lessons” to review the lessons of the financial crisis and explore its implications.

For better protection of those demographic groups with poor access to financial information, the KDIC adopted a deposit protection logo for the mutual savings banking sector in 2016 and expanded it in phases to Internet primary banks, insurance companies, and commercial banks in 2017.

The KDIC fulfilled its social responsibility as a public institution in a number of ways. Among these, it changed its non-regular workers into regular workers to improve their work conditions. It also hosted camping events for multicultural families, operated a farmers’ market, and rendered support for small businesses through the “Promising Deposit Insurance for My Store” project.

It implemented the “One Asia with KDIC” global deposit insurance training program for 24 people from nine countries, and signed a memorandum of understanding (MOU) with the World Bank and carried out an advisory project for the Indonesia Deposit Insurance Corporation to share its experience in deposit insurance system operation.

Stronger Risk Monitoring of Insured Financial Institutions

The KDIC improved its selection and analysis of risk factors for early detection of any changes in insured financial institutions’ financial condition and the risks they face. It established a core risk analysis system for each financial sector to effectively preempt serious financial deterioration of individual financial institutions. The system more effectively analyzes the risk factors confronting the financial market and individual financial companies. To render the findings of its quarterly model evaluation more reliable, it created the Specialized Risk Assessment Committee comprised of outside experts for each sector.

Risk management and resolution were through the years conducted on a case-by-case basis. The KDIC commissioned a study on the criteria for identifying financial institutions at risk of insolvency and now conducts risk management and resolution in a more coordinated way. It is also upgrading the risk profiling system that it set up last year. Improvement of the mechanism to utilize early warning indicators (EWIs) and qualitative information will enable the KDIC to detect and respond to risk of insolvency at insured financial institutions in a more prompt and appropriate way.

The KDIC is increasingly handling on-site examinations of insured financial institutions through working-level consultations with the Financial Supervisory Service (FSS). Before selecting the subjects of joint examinations, it more closely reviews evaluation findings utilizing its models and considers the possibility of losses to the Deposit Insurance Fund (DIF). Based on quarterly prior consultation with the supervisory authorities, it also established a joint examination process designed to facilitate inter-agency cooperation. In 2017, it conducted 15 joint and independent examinations of weak financial institutions. These efforts proved successful in enhancing the effectiveness of joint examinations in that they allowed for more exploration of opportunities for corrective action and system improvement and ensuing notification to the FSS. The primary focus was placed on minimizing the risks faced by vulnerable financial institutions based on rectification of faulty reinsurance operations and the like.

The KDIC carried out consultation with the supervisory authorities for joint examinations for 2018 at an earlier date this year (November 2017), which allowed for a more comprehensive incorporation of the KDIC's concerns regarding specific financial institutions into the supervisory authorities' examination plan.

To prevent financial incidents, the KDIC also dispatched administrators jointly with the FSS to mutual savings banks likely to be placed under prompt corrective action (PCA) restrictions, in a bid to reinforce on-site monitoring of their operations and induce recapitalization.

In an effort to strengthen mutual savings banks' risk management capabilities, the KDIC opened 'SHARE-3.0,' a comprehensive information portal on such mutual savings banks, on its webpage, granting visitors including their employees and media outlets access to risk analysis reports and each mutual savings bank's financial data. It also shared information on the best practices of risk management by hosting workshops for the management of mutual savings banks, and offered educational support to small- and medium-sized mutual savings banks to increase their viability.

Efficient Resolution of Failed Financial Institutions and Improvement of Applicable Systems

In the latter half of 2012, the KDIC introduced a resolution system that does not interrupt the normal flow of financial transactions: suspending mutual savings banks declared insolvent at the close of business hours on a Friday, then completing a P&A over the weekend so that business can resume on the following Monday. This helped to minimize hardship arising from interruption of financial services for depositors.

Table Ⅰ - 1

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

	2013	2014	2015	2016	2017
Joint Examinations	18	9	9	10	9
Independent Examinations	11	17	8	4	6

From the second half of 2012 to the first half of 2013, the KDIC sought to resolve insolvent mutual savings banks without interruption of financial services. However, as it experienced difficulties in finding buyers, it was compelled to resolve them through bridge bank P&A, which increased the burden in managing and selling the bridge banks.

In response, the KDIC worked hard to find prospective buyers and succeeded in finding market investors. Thanks to such efforts, the new resolution method has been used successfully since the latter half of 2013, and the KDIC was able to minimize not only depositors' inconveniences, but also its burden concerning the sale and management of bridge savings banks.

To expedite payment of insurance claims, it sought to introduce a scheme to impose depositor information requirements on banks, merchant banks, and mutual savings banks receiving deposits. In 2017, it built an IT system towards that end, developing such scheme to be applied to banks and other financial institutions and improving its own insurance claim system.

In 2016, the KDIC refined its contingency plan to ensure a timely and coordinated response to a potential financial crisis, and it conducted joint crisis simulation exercises with appropriate agencies for the first time to brace for a financial crisis. In 2017, it laid out an emergency staffing plan for efficient deployment of human resources in the event of a financial crisis and began to carry out joint exercises with appropriate organizations on a regular basis.

It is also overhauling the resolution scheme for large financial companies to minimize potential disturbances in the financial system owing to financial distress of systematically important financial institutions (SIFIs) as well as the taxpayers' burden stemming from the 'too big to fail' problem.

Efficient Sale of Special Assets

Utilizing professional service providers specializing in different types of assets, the KDIC formulated sales strategies and examined appropriate timing of sale in consideration of the characteristics of each PF (project financing) project to maximize recovery of funds. In collaboration with government offices, it acquired or extended authorizations and permits to keep the value of PF projects intact.

As regards high-priced artworks, the KDIC staged an aggressive marketing initiative. It hosted exhibitions and put the artworks up for auction abroad, which resulted in greater interest among potential investors. For increased consistency and efficiency, it grouped similar assets together and designated dedicated managers for each type.

In addition, the KDIC convened the Sales Consulting Committee comprising external experts at least once a month. Its deliberation and report on sales methods improved the fairness and transparency of special asset recovery.

The KDIC has managed to increase its recoveries every year since 2011. By the end of 2017, it had recovered KRW 4.26 trillion in total, including a sales agreement worth KRW 251 billion, by means of a new sales mechanism called "grand sale."

Efficient Management of Bankruptcy Estates

For more efficient management of bankruptcy estates, the KDIC closed and consolidated bankruptcy estate offices scattered throughout the country and developed new criteria for staffing, which helped curtail operating costs of bankruptcy estates and systemize their operations. To prevent financial fraud and reinforce discipline, the KDIC beefed up internal control of bankruptcy estates by conducting training of bankruptcy trustees and staff, examining the operational status of bankruptcy estates, and reinforcing personal information protection.

By means of periodic re-valuation of assets performed by bankruptcy estates, the KDIC ascertained the value of assets in its possession as well as assets put up for sale. This system helped to develop sales methods that are tailored to each type of assets, which contributed to ensuring efficient asset sales. As a result, it recovered KRW 1,067.2 billion in bankruptcy dividends in 2017.

For closure of less efficient bankruptcy estates, the KDIC examines how cost-effective the estates are in their effort to dispose of assets. As of the end of 2017, it closed 454 out of 490 bankruptcy estates.

For the purpose of building recovery capacity and enhancing business efficiency, the KDIC has been operating the county's first 'Bankruptcy and Resolution Academy' since 2016 to develop professionals in practical bankruptcy affairs. In 2017, 62 employees of the KDIC and bankruptcy estates completed training, and 37 of them acquired licenses as 'specialists in the administration of financial firm bankruptcies' (national registration no. 2016-001836).

Holding Persons Responsible for Financial Institution Failures to Account

In the event of a failure, the KDIC immediately establishes an investigative unit comprised of experts to thoroughly investigate executive officers and employees of the failed bank and determine exactly who are responsible for the failure.

Based on investigation findings, the KDIC conducts accountability deliberations to ensure the objectivity and fairness of its decisions regarding against whom damages should be sought. By the end of 2016, it had completed deliberations on accountability for 319 employees of 31 financial institutions that fell into insolvency during or after 2011. Since 2017, it has carried out such deliberations into default debtor corporations in full swing.

The KDIC also sought to address inconsistency and inefficiency stemming from its being responsible for accountability investigation and deliberation while it is the bankruptcy estates that are responsible for bringing actual legal action to claim damages. Thus, the KDIC directly took charge of certain lawsuits for damages. Following such improvement, it instituted 18 damage suits by the end of 2017.

In order to uncover assets hidden by persons responsible for mutual savings banks failures including large stockholders, the KDIC conducts investigations of their properties immediately upon business suspension. It also shares litigation know-how and information on major legal issues through a workshop for legal representatives.

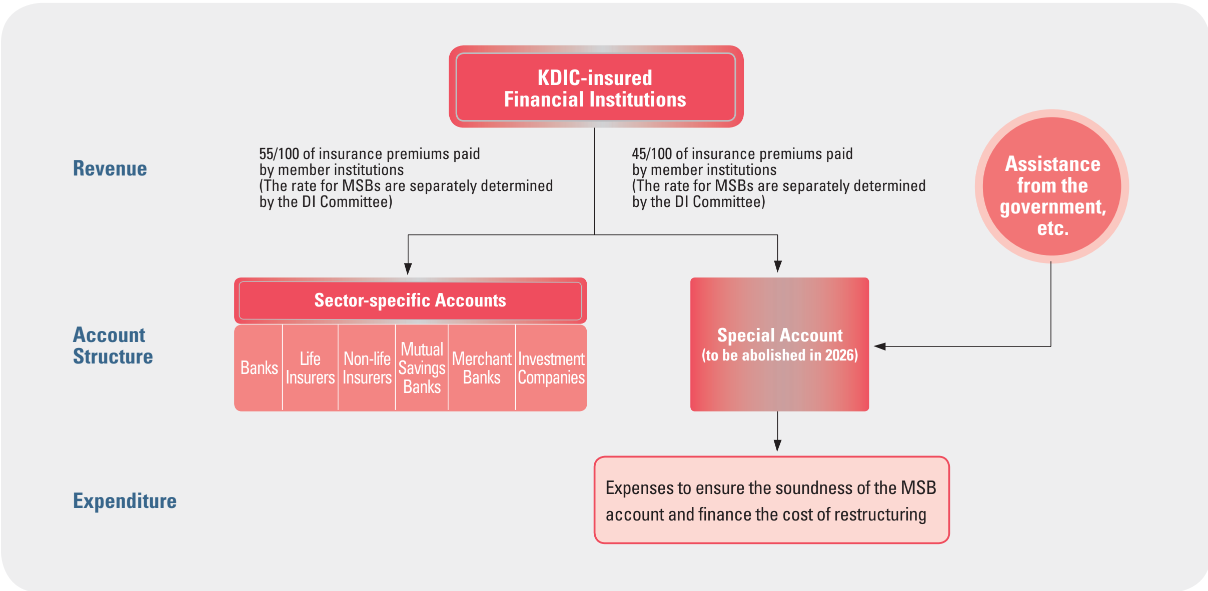
To encourage sound business management in the financial industry, the KDIC performed or supported financial failure prevention training targeted at the mutual savings banking sector, and it published and distributed booklets analyzing court precedents where damages were claimed against bankers who had 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 the Special Account for Mutual Savings Bank Restructuring (Special Account)* in April 2011. Through the end of 2017, it raised and provided, in a timely manner, KRW 27,171.7 billion to handle failures of 31 mutual savings banks by paying out insured deposits, etc.

Figure Ⅰ - 1

Special Account for Mutual Savings Bank Restructuring



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

In July 2012, November 2013 and October 2014, the KDIC used a KRW-250-billion credit facility from the Public Capital Management Fund without interest to be repaid over a 5-year period after a 10-year grace period. It also reduced borrowing costs by issuing 'Deposit Insurance Fund Bonds for the Special Account for Mutual Savings Bank Restructuring' to finance the repayment of debts from external entities, building its own electronic bidding system for bonds called E-BAS, borrowing money at rates lower than market ones under line of credit agreements it has with insured financial institutions, and utilizing Asset Backed Short-Term Bonds. Furthermore, the KDIC made vigorous efforts to collect funds provided in financial assistance from the DIF (including the Special Account). It recovered KRW 1.030 trillion during 2017 by various means including bankruptcy dividend collection.

Table Ⅰ - 2

Funding of and Expenditures from the Special Account

(As of Dec. 31, 2017, Unit: KRW 1 trillion)

Amount Provided in Financial Assistance			Amount Raised	
31 MSBs including Samhwa	Capital contributions, equity investments, deposit payoffs, etc.	27.2	Borrowing from the other DIF accounts	1.9
			Outside funding (e.g. issuance of bonds)	13.3
			Deposit insurance premiums, etc.	12.0
Total		27.2	Total	27.2

Under the Target Fund System, the KDIC waived insurance premiums for investment companies as the reserves in their account exceeded the highest reserve target at the end of 2016. Meanwhile, life insurance companies, the DIF reserves of which reached the lowest target amount, received a discount of 5% on premiums charged for the period from January 1, 2017 to December 31.

Smooth Repayment of Public Funds

Under the 'Public Fund Redemption Plan' formulated by the government in 2002, the KDIC established the Deposit Insurance Fund Bond Redemption Fund (Redemption Fund). The Redemption Fund contains all the assets and liabilities from the financial restructuring that occurred after the Asian financial crisis in the late 1990s.

By the end of 2017, the KDIC had repaid KRW 72.8 trillion with government contributions (KRW 45.7 trillion) and recovered funds (KRW 27.1 trillion) out of KRW 82.4 trillion to be repaid under the Public Fund Redemption Plan. It plans to repay the remaining KRW 9.68 trillion with recovered funds and special contributions paid by insured institutions by 2027 as scheduled.

In the meantime, the KDIC continues to recover public funds spent on restructuring failed financial institutions in the wake of the 1997 Asian financial crisis by selling equity stakes and receiving dividends. In 2017, recoveries from the sale of equity stakes amounted to KRW 754.8 billion (which includes the proceeds from the sale of preferred shares in the Special Account of the Credit Business Unit of the National Federation of Fisheries Cooperatives to the Federation. The Federation retired the shares afterwards.) including selling a 5.25% stake in Hanwha Life Insurance by block sale. Though efforts to

Table I - 3

KDIC Stakes in Financial Institutions

(As of Dec. 31, 2017, Unit: KRW 1 billion, %)

Category		Financial Assistance	Recoveries[1]	Value of Remaining Stakes[2]	KDIC Stakes
KDIC	Woori Financial Group	12,766.3	10,932.1	1,962.5	18.43%
	Hanwha Life Insurance	3,550.0	2,481.0	600.2	10.00%
	Seoul Guarantee Insurance	10,250.0	3,522.9	2.259.6	93.85%
	Special Account of the Credit Business Unit of the National Federation of Fisheries Cooperatives	1,158.1	12.7	1,145.4	Preferred equity investment
Total		27,724.4	16,948.7	5,967.7	-

Note : 1) Based on the amounts recovered from share sales, collection of dividends, redemption of preferred shares of stock, etc.

2) For Woori Bank and Hanwha Life Insurance, the valuation is based on the closing prices as of December 31. 2017. The figure for Seoul Guarantee Insurance is based on the results of recomputation of the Redemption Fund in 2013 while the acquisition price is KRW 136.1 billion. The valuation for the Special Account of the Credit Business Unit of the National Federation of Fisheries Cooperatives is based on the KDIC's balance sheet as of December 31, 2017.

maximize dividends, the KDIC collected KRW 402.2 billion of dividends in 2017, an increase of approximately 10.1% compared to the previous year.

* KRW 70.6 billion from Woori Bank, KRW 321.0 billion from Seoul Guarantee Insurance, and KRW 10.6 billion from Hanwha Life Insurance

The KDIC recovered another KRW 75.5 billion by disposing of the assets of bankruptcy estates into which public funds were injected and by selling the assets held by the Korea Resolution and Collection (KR&C).

Proactive Depositor Protection Services

The KDIC built a consolidated application system allowing creditors to claim any uncollected amounts including their insured funds at failed financial institutions, bankruptcy dividends, and the difference between actual and advance dividend payments. It sent notices to the corrected addresses of the corresponding depositors and ran advertisements in newspapers to give increased publicity to the system and better protect depositors' interests.

At the same time, the KDIC selected approximately a thousand branches of financial companies and carried out on-site inspections to ensure that the notification and confirmation scheme is operating properly. This scheme mandates financial institutions to 'notify' to customers, in advance, whether a financial product is covered by deposit insurance during its sale and, if so, for how much and to receive 'confirmation' by signature from them that they understood such explanation. Introduced with the amendment of the Depositor Protection Act in December 2015, the scheme was implemented in June 2016 to protect bona-fide victims of improper selling practices. Furthermore, in 2017 a draft amendment to the Depositor Protection Act to enforce criminal punishment in case of such financial fraud impersonating deposit insurance was submitted and is currently under review of the National Assembly.

In 2016, the KDIC designed a deposit protection logo to improve protection of people with poor access to financial information including the elderly. The deposit protection logo projects the KDIC's new corporate identity and clearly indicates to customers whether a financial product is subject to deposit insurance protection. It was introduced into the mutual savings banking sector on a pilot basis in August 2016. Then, it was adopted by Internet primary banks, life and non-life insurance companies, and commercial banks during 2017, after much opinion-gathering and consultation with each financial sector.

Meanwhile, all employees of the KDIC render volunteer services to repay public trust and fulfill social responsibilities as a public institution. In 2017 KDIC newly initiated the "Promising Deposit Insurance for My Store" program to provide business consulting, capacity building education, facility improvement for small business owners. Furthermore, to promote the agricultural business in Chungju-si, Sinni-myeon which is where the KDIC Global Academy is located, KDIC installed a separate booth for Chung-ju agricultural goods in the "Haengbok Yegam (Expecting Happiness) Market." It also held "Farming Volunteer and Activity Event" in Chungju Naepogindeul Town

Table Ⅰ-4

Financial Literacy Education in 2017

(Unit: No. of Persons)

Category	Elementary, middle, and high school students	Merchants	The elderly	Multicultural families	The disabled	Local children	Others	Total
No. of Persons	53,923	4,026	12,080	1,008	1,307	1,098	2,372	75,814

participated by KDIC executives and staff, making efforts to coexist with the local community.

Furthermore, the KDIC, in cooperation with the Korea Foundation for the Advancement of Science and Creativity, the Korea Association of Senior Welfare Centers, and the Small Enterprise and Market Service, provided financial literacy training for the financially underserved populations including students, seniors, and merchants. A total of 75,814 people underwent the training in 1,107 sessions, a 15.4% increase from the year before. The KDIC particularly expanded financial literacy training for vulnerable social groups including the disabled and minors. In November 2017, it was awarded a citation by the Minister of Health and Welfare in recognition of its contribution toward improving the financial capabilities of the aged at senior welfare centers around the nation.

The KDIC engaged in diverse publicity initiatives to raise public awareness of the depositor protection system through television broadcasting, media reports, and Seoul Metro advertisements. It actively executed customized publicity efforts for people with poor access to financial information, as well as online publicity initiatives using social networking sites such as Facebook. This greatly increased the level of public awareness* of the depositor protection system and the KDIC compared to the previous year.

* Level of awareness of the depositor protection system: 92.2% in 2016 → 93.2% in 2017, Level of awareness of the KDIC: 89.3% in 2016 → 90.7% in 2017

In consideration of its internal and external business situation as well as the tenor of government policy, the KDIC formulated strategy for promotion specifically designed for each target group. It tried to deliver a positive image by selecting suitable promotional media and appropriate promotional messages. It introduced public service advertisements targeting the financially underserved and promotional materials containing text-to-speech conversion barcodes to improve information accessibility. It proactively utilized new promotional means and contents such as its mascots (Yeteuni and Yesomi), a webpage using responsive web technology, digital signage, and an offline promotion center. By these efforts, the KDIC effectively publicized both itself and its deposit insurance scheme.

Furthermore, the KDIC produced the 'Protect! KDIC' commercial film depicting its depositor protection system as a reliable and robust sports game. The film will be extensively used in 2018 and afterwards in terrestrial television broadcasting, newspapers, public transportation, and terminal shopping malls.

Improvement of Global Cooperation with Foreign Deposit Insurers and others

As of 2017, the KDIC had entered into MOUs on mutual cooperation with 22 institutions in 21 countries. It has, thereby, steadily expanded information and personnel exchange with foreign deposit insurers regarding current issues.

In 2017, it concluded an MOU with the World Bank, in addition to foreign deposit insurers. The MOU was aimed at promoting mutual cooperation to encourage the adoption of deposit insurance in developing countries and to develop the necessary competencies. Based on the MOU, the KDIC rendered advice in December to the Indonesia Deposit Insurance Corporation regarding how it can build up its resolution function.

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

It had worked with 17 countries by the end of 2017, and it undertook various programs, assisting emerging economies in introducing and improving their deposit insurance systems through its advisory, IT system consulting, and capacity-building training programs.

In 2017, the KDIC created a regular global training program titled “One Asia with KDIC” to systematically deal with Asian emerging economies’ numerous requests for sharing of its experience in operating the deposit insurance system.

The first “One Asia with KDIC” was held for three days at the KDIC Global Academy in Chungju in June 2017. Twenty four participants from nine countries (Taiwan, Laos, Mongolia, Myanmar, Vietnam, Indonesia, Cambodia, Thailand, and the Philippines) took part.

The participants expressed their overall satisfaction with the training, saying that they indeed gained insights into how best to design deposit insurance systems based on direct communication and interaction with personnel from other Asian deposit insurers.

The KDIC will solidify global cooperation and boost its international status through conclusion of MOUs with foreign deposit insurers and international organizations and sharing of knowledge on operation of deposit insurance systems through such means as global training programs.

Organization Operations

1. Organization Setup

Deposit Insurance Committee and Board of Directors

Deposit Insurance Committee

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

The Committee deliberates and decides on important matters including revision of the KDIC's Articles of Incorporation; development, modification, and settlement of the KDIC's budget; formulation of guidelines for the KDIC's operations; development of management plans for the Deposit Insurance Fund (DIF) and the Deposit Insurance Fund Bond Redemption Fund (Redemption Fund); issuance of DIF Bonds and 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 insurance claims and interim deposit payoffs; provision of financial assistance to resolution financial institutions and insured financial institutions; and requests to the Governor of the FSS to allow the KDIC's participation in joint examinations of insured financial institutions and financial holding companies.

Table Ⅱ - 1

Deposit Insurance Committee Members

(As of Dec. 31, 2017)

Title		Name
Ex-officio Members	Chairman and President of Korea Deposit Insurance Corporation	Bumgook Gwak
	Vice Chairman of Financial Services Commission	Yong Beom Kim
	Vice Minister of Ministry of Strategy and Finance	Hyeong Gwon Go
	Senior Deputy Governor of Bank of Korea	Myeon Sik Yun
Commissioned Members	Designated by the Financial Services Commission	Seok Min Kim
	Recommended by the Minister of Ministry of Strategy and Finance	Chul Hwan Lee
	Recommended by the Governor of the Bank of Korea	Jae Hyun Choi

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 of or all contributions, deposit insurance premiums and arrears charges • Decision on payment of deposit claims • Approval of advance payment of bankruptcy dividends • Provision of financial support to financial resolution institutions • Provision of financial support to insured financial institutions • Operational guidelines for the Deposit Insurance Committee • Request to the Governor of the FSS to share examination findings on insured financial institutions and financial holding companies and allow KDIC's participation in joint examinations • 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 2017

Date	Agenda
Jan. 25	• Reporting on the examination findings of ○○ Mutual Savings Bank • Reporting on the joint examination findings of ○○ Non-Life Insurance
Feb. 27	• Issuance of guidelines on asset management of the DIF Bond Redemption Fund and the DIF in 2017 • Settlement of the KDIC accounts for fiscal year 2016 • Reporting on modification of the DIF management plan and execution results in 2016 • Reporting on KDIC operating expense settlement and reporting on the transactions between accounts of the DIF and the DIF Bond Redemption Fund for 2016 • Reporting on the joint examination findings of ○○ Life Insurance
Mar. 22	• Request for participation in the joint examination for the second quarter of 2017 • Decision on the risk-based premiums of three insured financial institutions, including the Korean branch of ○○ Bank, for fiscal year 2016 • Amendment of the business normalization plan for Suhyup Bank and Seoul Guarantee Insurance • Reporting on the examination findings of ○○ Mutual Savings Bank
Apr. 26	• Reporting on the progress in implementation of business normalization MOUs during the fourth quarter of 2016 • Reporting on the examination findings of ○○ Mutual Savings Bank
May. 26	• DIF Bond Redemption Fund management plan for 2018 • Plan for the issuance of DIF Bond Redemption Fund Bonds in 2018 and application for government guarantees for the bonds • Decision on the risk-based premiums of insured financial institutions closing accounts at the end of December 2016 • Reporting on the examination findings of ○○ Mutual Savings Bank

Date	Agenda
Jun. 28	• Request for participation in the joint examination for the third quarter of 2017 • Decision on reduction of deposit insurance premium payment for DIF accounts that have exceeded reserve targets • Approval of the issuance limit of asset-backed short-term bonds in 2017 • Measures targeting Suhyup Bank in accordance with the Board of Audit and Inspection’s request for action and partial modification of targeted financial ratios under MOUs • Reporting on the progress in implementation of business normalization MOUs during the first quarter of 2017
Aug. 30	• Decision on the risk-based premiums of insured financial institutions closing accounts at the end of March 2017 • Reporting on the examination findings of ○○ Mutual Savings Bank • Reporting on the joint examination findings of ○○ Mutual Savings Bank • Reporting on the joint examination findings of ○○ Securities
Sep. 27	• Request for participation in the joint examination for the fourth quarter of 2017 • Reporting on the joint examination findings of ○○ Bank • Reporting on the joint examination findings of ○○ Fire & Marine Insurance • Reporting on the progress in implementation of business normalization MOUs during the second quarter of 2017
Oct. 25	• Results of KDIC’s semi-annual account settlement for fiscal year 2017
Nov. 22	• Reporting on the examination findings of ○○ and △△ Mutual Savings Bank • Reporting on the joint examination findings of ○○ Mutual Savings Bank
Dec. 18	• KDIC budget for 2018
Dec. 20	• DIF management plan for 2018 • Plan for the issuance of DIF Bond Redemption Fund Bonds in 2018 • Reporting on the joint examination findings of ○○ Life Insurance • Reporting on the joint examination findings of ○○ Mutual Savings Bank • Reporting on the progress in implementation of business normalization MOUs during the third quarter of 2017

Board of Directors

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

The Chairman and President of the KDIC is appointed by the President of the Republic of Korea on recommendation of the Executives Recommendation Committee and the Chairman of the FSC, and the Executive Directors are appointed by the Chairman and President of the KDIC. The Non-executive Directors are appointed by the Chairman of the FSC on recommendation of the Executives Recommendation Committee. The Auditor is appointed by the President of the Republic of Korea on recommendation of the Executives Recommendation Committee, deliberation and decision of the Public Agencies Operating Committee, and recommendation of the Minister of the MOSF. The Chairman and President of the KDIC is appointed for a period of three years and the Executive Directors and the Auditor are appointed for a 2-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 changing management goals; development, revision and abolition of internal rules; remuneration of executives; acquisition and disposal of assets; matters related to the KDIC's operations such as organization structures and human resources management; items that are required to be put to a vote of the Board of Directors by law, the Articles of Incorporation or internal rules; and any other matters deemed necessary by the Board of Directors or its chairperson.

Organization Restructure

To tackle the increasing uncertainties in the financial market stemming from rising interest rates in the US and growing household debt and to counter the resultant insolvency risks of insured financial institutions, the KDIC implemented an organizational reshuffle in January 2017 for better risk management

Table Ⅱ - 4

Executive Board Members

(As of Dec. 31, 2017)

Title	Name
Chairman and President	Bumgook Gwak
Executive Vice President	Kwang Nam Kim
Executive Director	Seong Yeol Lim
Executive Director	Joon Ki Kim
Executive Director	Jong Bok Moon
Executive Director	Chan Hyung Jeong
Non-executive Director	Jae Yeon Lee
Non-executive Director	Seok In Kang
Non-executive Director	Young Baek Kim
Non-executive Director	Myeong Seon Lee
Non-executive Director	Ki Sang Cho
Non-executive Director	Sang Deok Nam
Auditor	Chang Keun Yoon

of insured financial institutions. As of the end of 2017, it consisted of thirteen departments, one center, twelve offices, two bureaus, and one foreign office.

The Office of Risk Management for Insurance Companies was set up for more effective ongoing risk monitoring for insurance companies, which are expected to face more uncertainties due to the introduction of IFRS17*. The Department of Research and Analysis was expanded and renamed as the Deposit Insurance Research Center to bolster empirical research capabilities concerning deposit insurance schemes and current financial issues. The International Cooperation Team was expanded and renamed as the Office of International Cooperation to ensure further cooperation with international organizations and foreign deposit insurers including the Financial Stability Board (FSB) and the International Association of Deposit Insurers (IADI). The KDIC Global Academy was established to train deposit insurance professionals and enlarge the KDIC's network. This did much to expand experience and know-how sharing programs among deposit insurers at home and abroad.

* International Financial Reporting Standard entering into force in 2021 which changes the basis for recognition of insurance liabilities from 'cost' to 'mark-to-market'

Figure Ⅱ - 1

Organizational Chart

(As of Dec. 31, 2017)

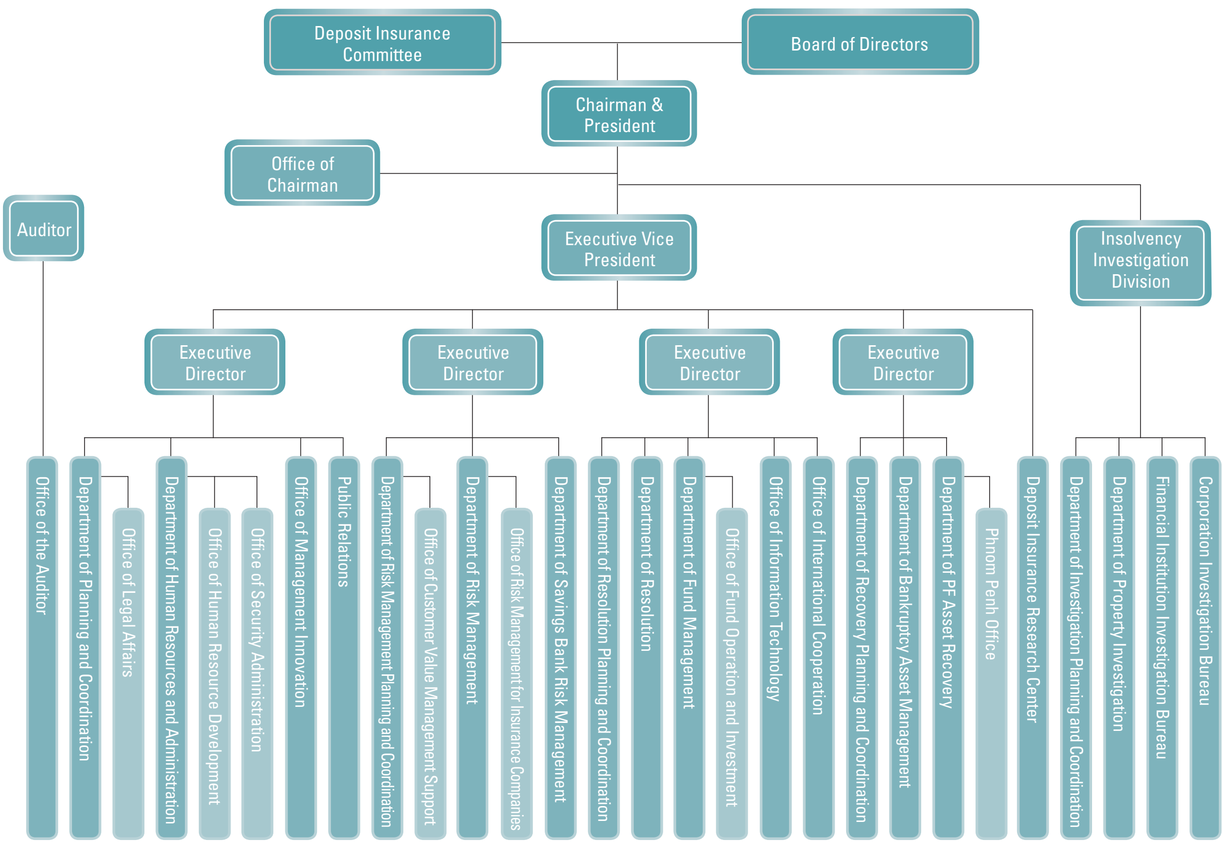


Table Ⅱ - 5

Number of Staff

(As of Dec. 31, 2017, Unit: No. of Persons)

Category	Senior Management	Staff				Total
		Regular	Special[2]	Support Staff[3]	Sub-total	
No. of People	13[1]	616	88	37	741	754

Note: 1) Including seven Non-executive Directors appointed under the Public Agencies Operational Act
2) Professional staff, special service providers, etc.
3) A new job category created in December 2017 in line with conversion of non-regular workers into regular workers

Photo Ⅱ - 1

Opening Ceremony of KDIC Global Academy

2. Organization Management

Vision and Mid- to Long-Term Management Plan

In August 2017, the KDIC duly refined its corporate strategy based on collection of opinions from its employees and advice from external experts to grapple with internal and external changes including the inauguration of the new administration in Korea in May 2017 and to upgrade its strategy to better address future challenges in a more consistent way. This enabled the KDIC to effectively execute the new administration's policy.

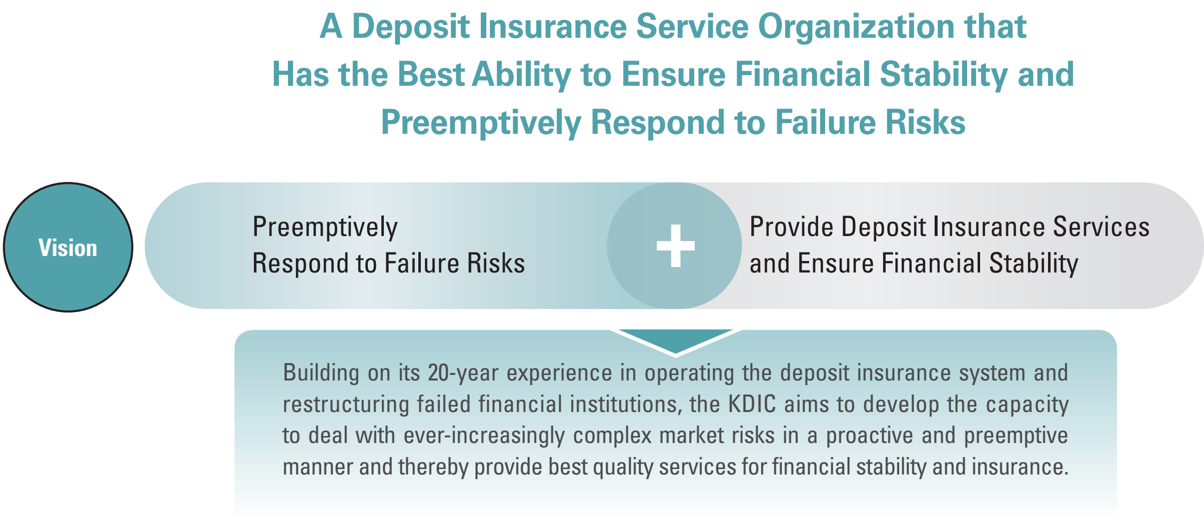
Vision Structure

A. KDIC Vision and Its Meaning

"A deposit insurance service organization that has the best ability to ensure financial stability and preemptively respond to failure risks" - Building on its 20-year experience in operating the deposit insurance system and restructuring failed financial institutions, the KDIC aims to develop the capacity to deal with ever-increasingly complex market risks in a proactive and preemptive manner and thereby provide best quality services for financial stability and deposit insurance.

Figure Ⅱ- 2

KDIC Vision and Its Meaning



B. Vision and Strategy Map

Figure Ⅱ- 3

KDIC Vision and Strategy Map

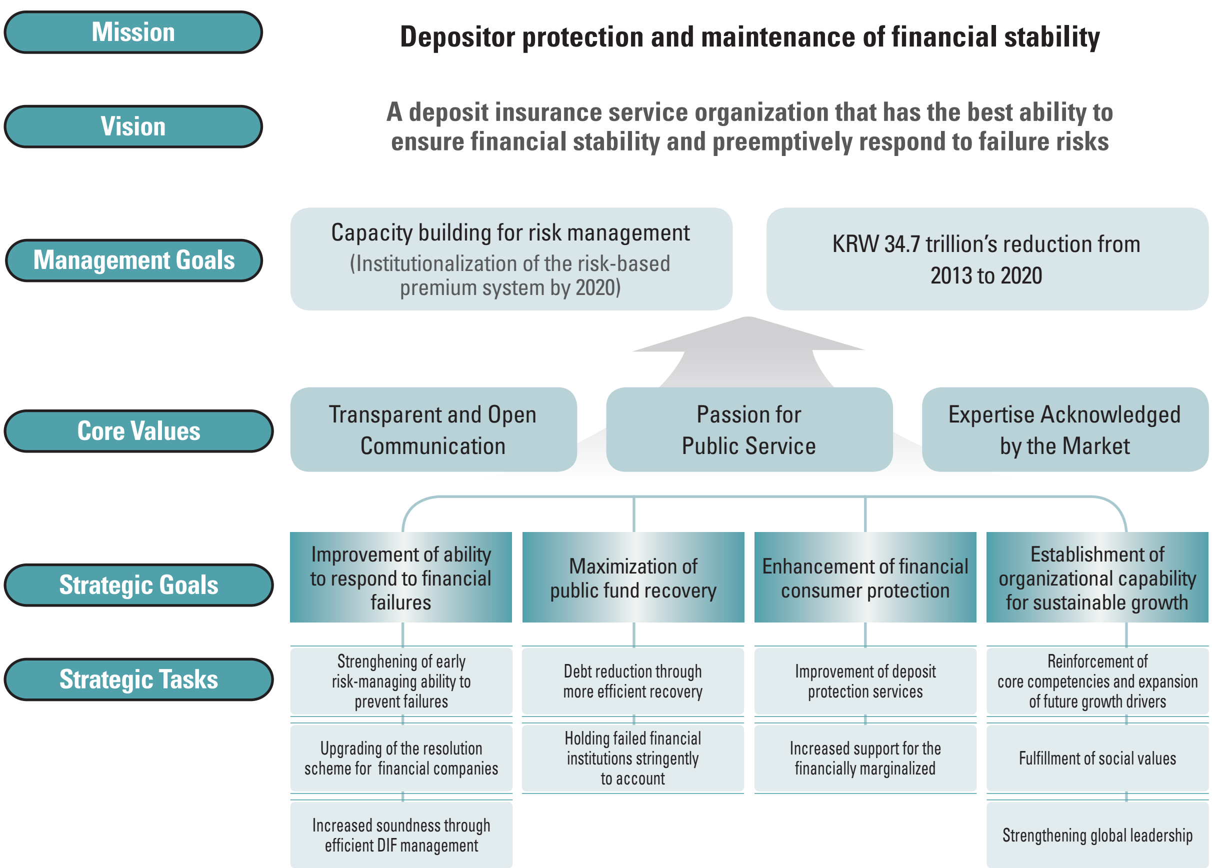


Table Ⅱ - 6

Strategic Goals, Strategic Tasks, and Detailed Action Plans

Strategic Goals	Strategic Tasks	Detailed Action Plans
Improvement of Ability to Respond to Financial Institution Failures	Capacity building for preemptive insurance incident risk management	• Improvement of ongoing monitoring system for such purposes as early detection of the risks of insurance events
		• Effective operation of the risk-based premium system
		• Efficient performance of independent and joint examinations based on choice and focus
	Upgrading of the resolution scheme for financial institutions	• Upgrading of the resolution scheme for large financial institutions
		• Improvement of contingency plans and simulation exercises for efficient resolution
	Increased soundness through efficient DIF management	• Stable management of the DIF
		• Efficient management of the Redemption Fund for the repayment of public funds
		• Striking a balance between profitability and stability
Maximization of Public Fund Recovery	Debt reduction through more efficient recovery	• Efficient sale of KDIC's assets including equities
		• Efficient management of bankruptcy estates and improved recovery
		• Efficient management of special assets and maximization of recovery
	Holding failed financial institutions stringently to account	• Rigorous investigation and closer post-failure monitoring
		• Efficient investigation into assets held by persons implicated in insolvencies at home and abroad
Enhancement of Financial Consumer Protection	Improvement of deposit protection services	• Enhanced integrity in the administration of deposit insurance
		• Rendering support for reasonable choice by financial consumers
		• Fast and efficient resolution and deposit insurance claims payment
	Increased support for the financially marginalized	• Active efforts to facilitate debt restructuring for the financially marginalized
		• Promotion of publicity efforts and financial literacy education for the financially marginalized
Establishment of Organizational Capability for Sustainable Growth	Reinforcement of core competencies and expansion of future growth drivers	• Efficient organization and budget management focused on core business activities
		• Development of a system to enhance business structure
		• Human resources development and reasonable performance evaluation
		• Exploration of future tasks and strategic response
	Fulfillment of social values	• Creation of high-quality jobs and reinforcement of labor-management cooperation
		• Increasing customer satisfaction by an improved customer satisfaction (CS) management system
		• Institutionalization of ethical management for greater public trust
	Strengthening global leadership	• Exercise of global leadership by expanding the KDIC's role in the international community
		• Global dissemination and sharing of experience in deposit insurance system operation

Strategic Goals, Strategic Tasks, and Detailed Action Plans

To realize the new vision and generate tangible results, the KDIC set four mid- to long-term strategic goals: ‘improvement of ability to respond to financial institution failures,’ ‘maximization of public fund recovery,’ ‘enhancement of financial consumer protection,’ and ‘establishment of organizational capability for sustainable growth.’ It then realigned 10 strategic tasks to achieve these strategic goals and devised new detailed annual action plans for the next five years (from 2018 to 2022).

Reflecting the new government’s policy to fulfill social values and promote cooperation with foreign organizations, the KDIC declared realization of social values and strengthening of global leadership to be separate strategic tasks.

Dynamic Organizational Culture for Human Resources Management and Business Operations

Conversion of Non-Regular Workers into Regular Workers and Expansion of Youth Employment

The KDIC decided to swiftly convert non-regular workers engaged in ongoing work into regular workers. Under the principle, it quickly converted 20 directly hired non-regular workers and 37 indirectly employed non-regular workers into regular workers. Its labor and management jointly set up a task force team in July 2017 to handle the conversions, and the team convened eight times. In order to discuss the conversion process, the KDIC established the Deliberation Committee for Conversion into Regular Workers and the Labor-Management Expert Consultative Body involving external experts.

The KDIC particularly reached out to youths and employed 30 new workers in the latter half of 2017, the largest number of new hires since its establishment. It employed a total of 40 new recruits in 2017, up about 52% from its average employment over the past three

Photo Ⅱ - 2

Appointment Ceremony for Conversion of Non-regular Workers into Regular Workers

years. It adopted a blind hiring approach to eliminate bias with respect to qualifications and conducted interviews in a systematic way with emphasis on merit. Meanwhile, particular attention was also paid to the integration of social equality concerns into hiring practices, which led to a higher number of the disabled and local talents among new recruits.

Institutionalization of Communication and Learning

The KDIC's organizational culture programs uphold communication, enthusiasm, and professionalism, which are increasingly aligned with its core values. In 2017, it created the "Compassion Bulletin Board," a bulletin board for solving problems by collective intelligence by which employees can anonymously and candidly raise issues. This program proved instrumental in promoting an organizational culture in which workers enthusiastically involve themselves in tackling issues confronted by the organization. The KDIC also deepened understanding among its members through "Link," a program that helps workers sharing common interests or pursuits within the KDIC to organize social gatherings.

It established the "Brown Bag Seminar" and "Book Sound" programs. The former enables corporation-wide discussion of outstanding issues among different departments while the latter motivates employees to read books by inviting good book reviews. These efforts promoted a climate of knowledge management throughout the KDIC and institutionalized voluntary learning, which served as an important driver of the KDIC's pursuit of strategic goals.

Performance Evaluation to Promote a Performance-Based Organizational Culture

To build a performance-based organizational culture, the KDIC introduced a strategic performance management system called the Balanced Score Card (BSC) in late 2005. It applied the BSC to every department and to the performance-based portion of the pay plan for employees of grade 3 or higher in 2006 and then to all teams in 2007. It began to apply the BSC to performance-based pay of all employees in 2008.

The KDIC has consistently solicited employee opinions and expert advice on performance evaluation indicators and methods for steady improvement of its

Table Ⅱ - 7

Organizational Culture Programs

Category	Program Name	Description
Communication	Compassion Bulletin Board	• Anonymous bulletin board providing a forum for free communication between the management and workers
	Link	• Cultural activities and gatherings among employees who have common interests
	ICU	• Cultural activities and gatherings among department members
	Talk2U	• Meetings with the CEO for lunch and tea party
	Buy4U	• Delivery of snacks by executive officers or luncheon among members of an organization
	Youth Board of Directors Ye:Ullim	• Channel to disseminate strategic tasks and the CEO's management philosophy and to collect opinions on major issues
Passion and Expertise	Brown Bag Seminar	• Brief seminar to share opinions and discuss key issues
	Book Sound	• Encouragement of knowledge management by recommending "books of the month" and inviting good book reviews

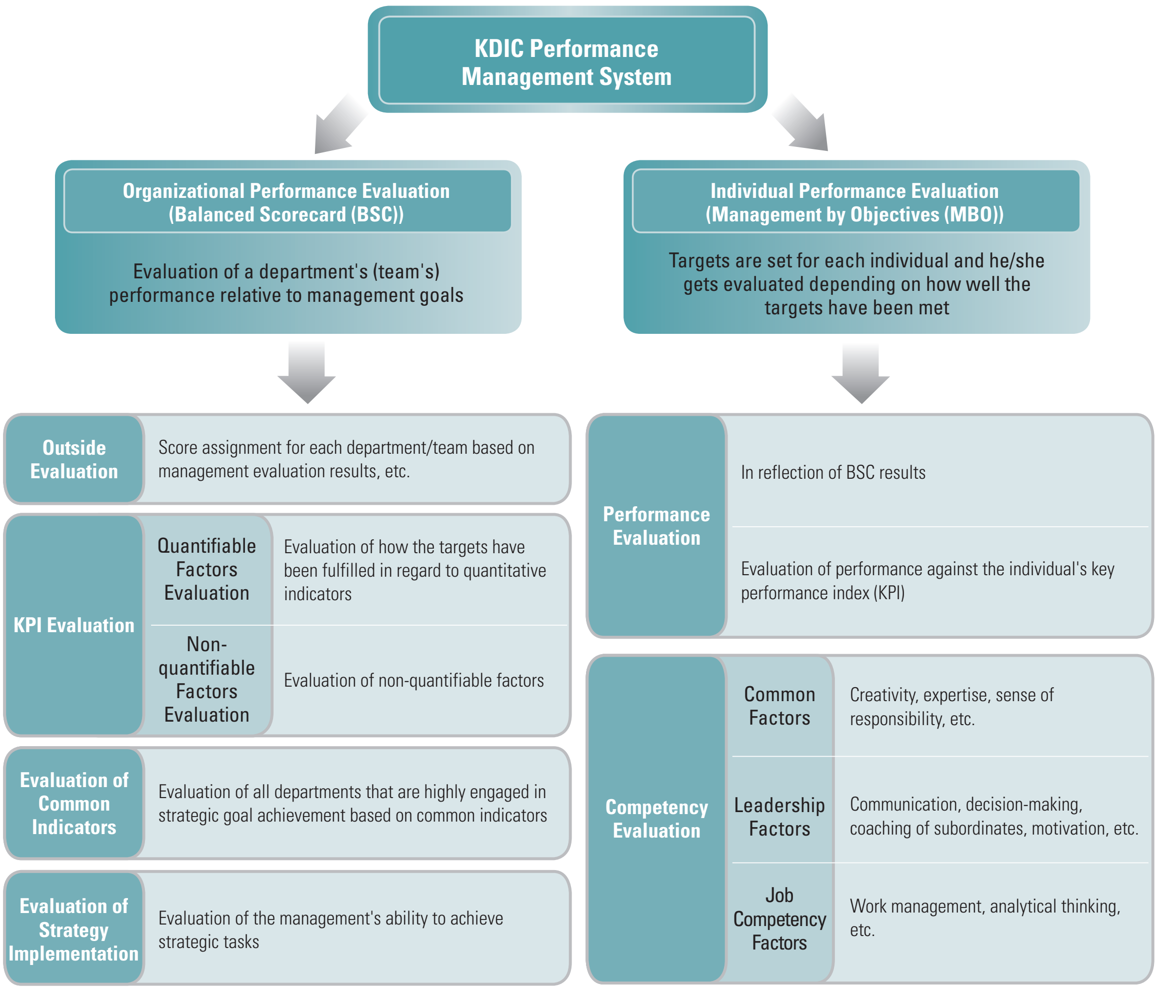
performance evaluation system. In 2017, it (i) increased the number of extra scores that are assigned to indicators related to long-term performance and stretch goals, (ii) proactively supported government policy by incorporating job creation and open innovation into evaluation items, and (iii) increased fairness and reasonableness in the attribution of the results of external evaluation (annual performance evaluations by the government).

For effective operation of the performance-based annual salary system, the KDIC adopted an individual performance evaluation system known as Management by Objectives (MBO) in 2010 under an agreement between labor and management. In 2012, the KDIC built an online system for MBO. Since 2011, it has operated the Joint Labor-Management Committee on Improving the Performance Evaluation System to make ongoing improvements to MBO based on an organization-wide collection of opinions.

In 2017, the KDIC formulated many new measures for improvement based on proactive opinion sharing and discussion between labor and management. Among them are creation of an evaluation scheme for contract workers assigned to open positions, improvement of performance assessment items at individual team member level, modification of performance evaluation scoring for promotion, and rationalization of the application scope of multidimensional assessment. These efforts significantly enhanced the fairness and acceptability of its evaluation system.

Figure Ⅱ - 4

KDIC Performance Management System



※ Three extra points are awarded for efforts to create new jobs.

Ethical Management and Corporate Social Responsibility

Ethical Management

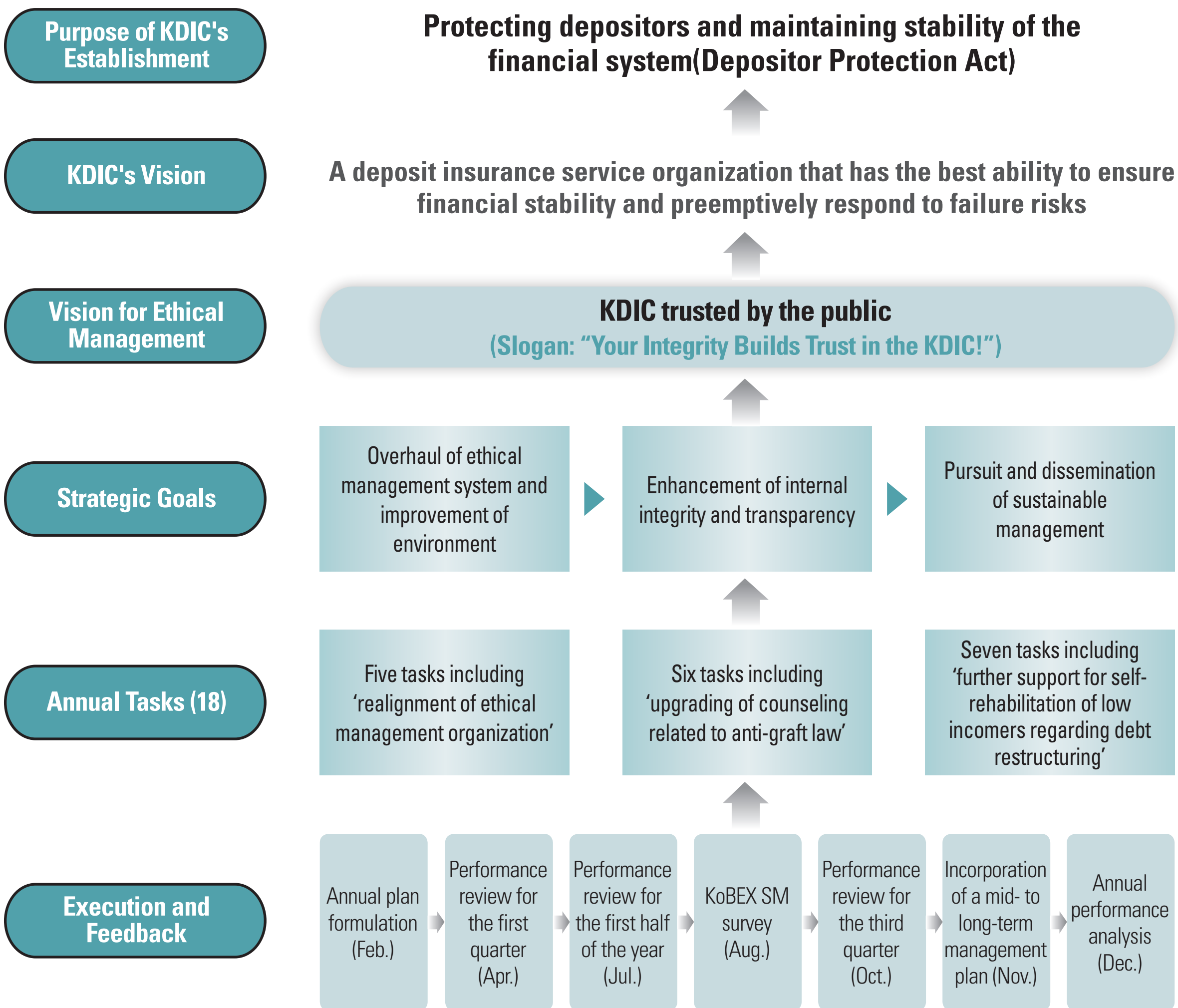
The KDIC adopted 'Transparent and Open Communication,' 'Passion for Public Service,' and 'Expertise Acknowledged by the Market' as its core values, particularly to fulfill its corporate social responsibility. The KDIC aspires to high ethical standards by applying ethical management at every level of its corporate hierarchy.

For that purpose, it formulated mid- to long-term and annual ethical management plans that properly reflect changes in the ethical management environment and government policy. It then developed and executed detailed action plans to help ensure that ethical management would firmly take root as an integral part of its corporate culture.

In 2017, the KDIC held 'Integrity Day' each month and regularly posted Integrity Talks on its intranet to forge a consensus on ethical management among its employees and teach them how to handle ethical conflicts such as solicitation of special favors. To create an atmosphere more conducive to ethical management inside the organization, it conducted selectable cyber education for all its employees, invited ideas for promotion of integrity, and hosted regular meetings and workshops for leaders of ethical management and integrity.

Figure Ⅱ - 5

Strategy Map for Ethical Management



In line with the current administration's emphasis on human rights, it carried out employee training on human rights-based management. It also invited employees to submit slogans for ethical management as part of endeavors to bolster ethics in management in the face of changes in the external environment. It reported progress in satisfying the requirements of the UNGC (United Nations Global Compact), an initiative under the UN to encourage businesses and organizations to fulfill their social responsibilities, and participated in the KoBEX SM (Korean Business Ethics Index Sustainability Management) survey conducted by the Ministry of Trade, Industry and Energy. By doing so, the KDIC has greatly enhanced public confidence in its commitment to ethical management.

Due to these endeavors, KDIC was awarded an 'AAA' rating, the highest possible rating, in the KoBEX SM survey for the sixth consecutive year since 2012.

Corporate Social Responsibility

A. Social Contribution for the Underprivileged and New Projects for Job Creation

The KDIC has implemented extensive outreach programs involving all its employees to repay the trust that the public has invested in it and fulfill its responsibility as a public institution. To promote its social contribution activities, it executed diverse programs and offered rewards for employees and departments for their faithful service. In 2017, the KDIC moved to create new jobs in accordance with government policy through the new 'Promising Deposit Insurance for My Store' project.

The project involves rendering assistance to underserved small business owners in financial duress, including particularly single parents, disabled persons, and youths. The assistance is in the form of management assessment consulting, capacity-building training, or funds for facility improvement. The KDIC selected seven shops operated by underprivileged small business owners through on-site examinations and interviews and put the owners through management training. As of January 2018, management assessment consulting was underway on expectations that eighteen jobs will be created through the project. The KDIC plans to scale the project up in 2018.

The KDIC will continue to pursue social contribution for people in need and fulfill its social responsibilities as a public institution by planning and implementing various programs that can benefit the underprivileged the most.

Photo Ⅱ - 3

'Promising Deposit Insurance for My Store' Main Events

Fund delivery ceremony

Management Training

B. Social Contribution in Chungju

In 2017, the KDIC opened the KDIC Global Academy, an in-house training facility, in Sinni-myeon, Chungju. To strengthen the win-win partnership with local communities in the city, it engaged in various social contribution efforts involving local residents. It established a sisterhood relationship with the Yongwon Youth Study Center, an educational facility for teenagers located near the Academy. Since June, its employees have periodically rendered services for the facility including cleaning and providing books.

The KDIC set up a separate booth in the Haengbok Yegam (Expecting Happiness) farmers' market that it regularly holds to increase the incomes of farmers in Chungju. In 2017, it opened the farmers' market twice in May and September to promote the sale of agricultural products produced in Chungju. It also brought together its employees and their families to provide a helping hand to a farming village named Naepo Gindeul. In 2018, the KDIC plans to engage in more such efforts on behalf of local communities in Chungju.

C. Strengthening of Public Relations Including Production of Social Contribution Logo

The KDIC produced the Haengbok Yegam logo to publicize its social contribution initiatives and raise its public profile. Haengbok Yegam represents its overall social contribution program and is intended to tell the KDIC's "touching stories for people's happiness." In designing the logo, a warm image was developed through employee interviews in consideration of consistency with its corporate identity (CI). It published the 'KDIC Haengbok Yegam White Paper' to introduce its social contribution efforts and report its performance and had its employees' social contribution endeavors broadcast on television. It publicized its social contribution activities to the public including internal and external stakeholders through all possible channels.

Photo Ⅱ - 4

Public Relations Efforts on Corporate Social Responsibility

Haengbok Yegam logo and White Paper

Aired in SBS Daily Economy

Table Ⅱ - 8

Social Contribution Activities in 2017

(As of Dec. 31, 2017, Unit: No. of Times, No. of Persons)

Category	Program Names	Activities	No. of Times	No. of Participants	Frequency
Neighbors	Assistance for the needy	Support for individuals and facilities in need	11	-	Occasionally
	KDIC scholarship	Granting of scholarships to high school students from low-income families nationwide	1	20	Yearly
	Assistance for people of national merit	Support for people of national merit (delivery of heating briquettes, etc.)	1	33	Occasionally
	Service at Namsanwon	Arrangement of environment including cleanup of the foster care facilities	13	146	Monthly
	Provision of microcredit	Provision of business start-up funds to the underprivileged	1	-	Yearly
	Promising Deposit Insurance for My Store	Provision of consulting and facility improvement funds to small business owners	1	-	Yearly
Local Communities	Soup kitchen services	Support for a soup kitchen (Nest of Sharing) and food distribution services	12	122	Monthly
	Matching 1 shelter (family) with 1 department	Support for each department's activities to help 1 shelter (family)	81	331	Occasionally
	Repair of houses	Improvement of residential environment for low-income families (in cooperation with Habitat)	2	46	Year-round
	Invigoration of traditional markets	Promotion of Tongin Market (purchase of brass coins usable for purchases in the market, meals, etc.)	140	908	Weekly
	Visit KDIC program	Invitation of middle school students for financial literacy and career exploration education	4	-	Occasionally
Rural Villages	Event to experience a rural village	Helping farmers at a sister village	2	173	Year-round
	Haengbok Yegam farmers' market	Operation of a farmers' market to support farmers	2	-	Year-round
Environment	Tree planting	Reduction of carbon emissions by planting trees	1	25	Yearly
	Up-Cycling Campaign	Helping hearing-impaired persons by recycling of discarded earphones	4	111	Quarterly
Total			276	1,915	

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

To effectively achieve management goals and quickly respond to changes in the business environment, the KDIC is upgrading its IT through the Mid- to Long-Term Strategy for IT Advancement.

2017 is the first year of the fifth Mid- to Long-Term Information Technology Plan (2017~2019) and to accomplish its IT vision, the KDIC successfully completed the following tasks for IT advancement.

First, the KDIC created a methodical data management environment by establishing a corporation-wide standard data management scheme and ultimately ensuring consistency and reliability of data contained in all its information systems. It also improved data quality for its deposit insurance claim payment system on a trial basis. In recognition of its efforts, it was awarded the Minister of Science and ICT prize for the 2017 Korea Data Quality Awards hosted by the Ministry of Science and ICT. It also qualified for the "platinum" class, the highest grade in data quality certification by the Korea Data Agency. Now, the KDIC plans to be more proactive in implementing government policies including further opening of public data.

Second, the KDIC built a depositor information retention system to refine its deposit insurance claim payment services as its core function. The system will be used to regularly collect depositor information from insured financial institutions, review basic insurance claim data in advance, and conduct simulations for timely calculation and payout of insurance claims to depositors in the event of a major failure at banks or other financial institutions.

Third, the KDIC performs ongoing risk monitoring to preemptively deal with insured financial institutions' risk of insolvency. It applies risk profiling that enables early detection of, and timely response to, risks of insured financial institutions. In 2017, it improved the data collection mechanism of its risk profiling system to allow for multifaceted analysis of risks for each financial sector. It also facilitated risk analysis and monitoring by automating collection of market information through diverse channels such as social networking services (SNS), Internet articles, and external reports on financial institutions.

The KDIC takes information security very seriously and has moved aggressively to safeguard its major information assets. In 2016, it built an integrated management system of servers, networks, and security equipment to manage its Internet IT infrastructure in

Figure Ⅱ - 6

Mid- to Long-Term Strategy for IT Advancement (2017~2019)

Vision	Building capacity to preempt problems through IT services		
Direction of Strategy	Trusted system operation	Upgrading of the IT support system based on communication	Increasing expertise of the IT organization and staff
Specific Strategy	IT system upgrading to ensure business unity, connectivity, and convenience	Improvement of the information protection system to reinforce internal and external security	IT service support to promote information sharing and improve the business environment
	Application of new ICT technology to preempt a crisis and strengthen communication with financial consumers	Reinforcement of a personal information protection system to better protect personal information	Establishment of an IT governance structure to improve the quality of IT services and ensure professionalism

follow-up for organization-wide physical network partition. It conducted a variety of drills for employees to build up their cyber crisis management capabilities including training to tackle distributed denial of service (DDoS) attacks and phishing.

The KDIC established secure means of physical information protection including a document security system which automatically encrypts documents on a PC as well as a personal information leakage and exposure prevention system that detects and blocks illegitimate personal information divulgence from a business system on a real-time basis. It bolstered its personal information protection capabilities by acquiring liability insurance to minimize financial losses that could arise from personal information leakage, drafting a manual on how to respond in case of a personal information breach, and conducting simulation exercises.

These efforts were recognized by a citation of the Minister of Land, Infrastructure and Transport in an inspection of personal information utilization in 2017. During the year, the KDIC was also recognized as an 'excellent institution' for a fourth consecutive year in the Ministry of the Interior and Safety's assessment of personal information management. It remains one of the best public financial institutions in terms of personal information protection.

The KDIC took part in a program for the Ministry of the Interior and Safety's export of an e-government system for two consecutive years and rendered consulting to build a deposit insurance claim payment system for the Depositor Protection Fund of Laos in 2017, following such consulting for the Deposit Insurance Corporation of Mongolia in 2016. The KDIC intends to consistently share and disseminate its core IT systems to help deposit insurers in other countries that are considering the adoption or refinement of their IT systems.

Table Ⅱ - 9

Action Plan for IT Advancement (2017)

Strategy	Action Plan	
Ⅰ. IT system upgrading to ensure business unity, connectivity, and convenience	• Upgrading of risk profiling	~ Dec.
	• Establishment of a statistical information system	~ Dec.
Ⅱ. Application of new ICT technology to preempt a crisis and strengthen communication with financial consumers	• Establishment of a risk analysis system (big data application on a pilot basis)	~ Dec.
	• Implementation of a server virtualization system (expanded cloud computing)	~ Aug.
Ⅲ. Improvement of the information protection system to reinforce internal and external security	• Upgrading of the information security system including improvement of the IT infrastructure management mechanismm	~ Jul.
	• Separate SSL-VPN network configuration	~ Jul.
Ⅳ. Reinforcement of a personal information protection system to better protect personal information	• Obtainment of liability insurance coverage against personal information leakage	~ May
	• Implementation of a personal information leakage/exposure prevention system	~ Sep.
	• Establishment of a PC document security system	~ Oct.
Ⅴ. IT service support to promote information sharing and improve business environment	• Periodic webpage updating and redesign	~ Jul.
	• Establishment of a depositor information retention system (prior to a failure)	~ Dec.
Ⅵ. Establishment of an IT governance structure to improve the quality of IT services and ensure professionalism	• Renewal of the Information Security Management System (ISMS) certification	~ Nov.

Stronger Financial Consumer Protection

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

1. Prevention of Damage to Financial Consumers

Increased Awareness of the Deposit Insurance System

Key Promotional Activities

The KDIC determined its goals based on public survey results and analysis findings concerning the effects of promotional media used during the previous year. It sought to increase public understanding of the depositor protection system and raise its brand awareness among financially underserved demographics (people in their twenties or sixties, traditional market merchants, housewives, etc.). Then, the KDIC mapped out its public relations plan for 2017 and undertook an array of promotional initiatives.

It widely reported through print publications and promotional contents containing its mascots that the deposit insurance limit is KRW 50 million. Its print publication advertisement said, “Good for you! KDIC is here to protect KRW 50 million of your money!” It designed its ‘Yeteuni and Yesomi’ mascots in the form of paper notes wearing safety helmets. They were intended to publicize the deposit protection limit in a readily comprehensible and friendly manner. In 2017, 96.7% of the public was aware of the protection limit, up 2.5%p from the preceding year.

The KDIC mainly used terrestrial television and newspapers in consideration of their high reliability. It selected those television channels that have the greatest advertising impact and programs that are most effective for publicity, taking into account viewing rates and major groups of viewers. It also made heavy use of advertisements on public transportation including the KTX (Korea Train Express), buses, and subways, and outdoor electronic ad displays. It also overhauled the main page of its website to give it a simpler and more intuitive design. By expanding customer-tailored menus, it improved users’ concentration on and use of information.

Figure Ⅲ- 1

Image Ads to Raise Public Awareness of Deposit Insurance

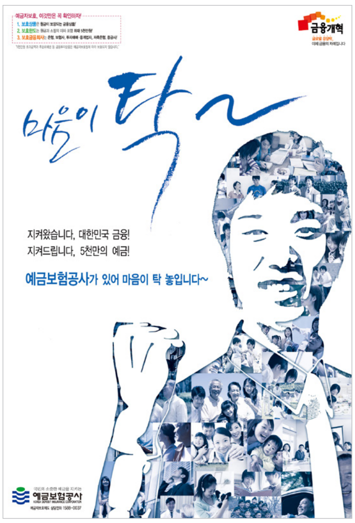
TYPE	2015	2016	2017
Image Ads			

Photo Ⅲ-1

Subway Advertisement

Figure Ⅲ-2

Comparison before and after the website overhaul

The KDIC staged public awareness campaigns targeting the least financially knowledgeable groups based on survey findings, especially those in their twenties and sixties, students, and housewives. To increase the effectiveness of its promotional efforts, the KDIC appointed college students as SNS (social networking service) reporters for accelerated communication with young new media users, and it took advantage of magazines for college students. The KDIC even took part in investment technique exhibitions where more than 70% of the participants were in their fifties or older to offer information on deposit insurance with a particular focus on financial products ineligible for insurance coverage such as subordinated bonds. In addition, it produced promotional materials aligned with its financial literacy education for multicultural families and North Korean defectors. Taking advantage of its network with related organizations including multicultural centers, it staged a publicity campaign designed to increase overall awareness of the KDIC and its depositor protection system among the financially underserved.

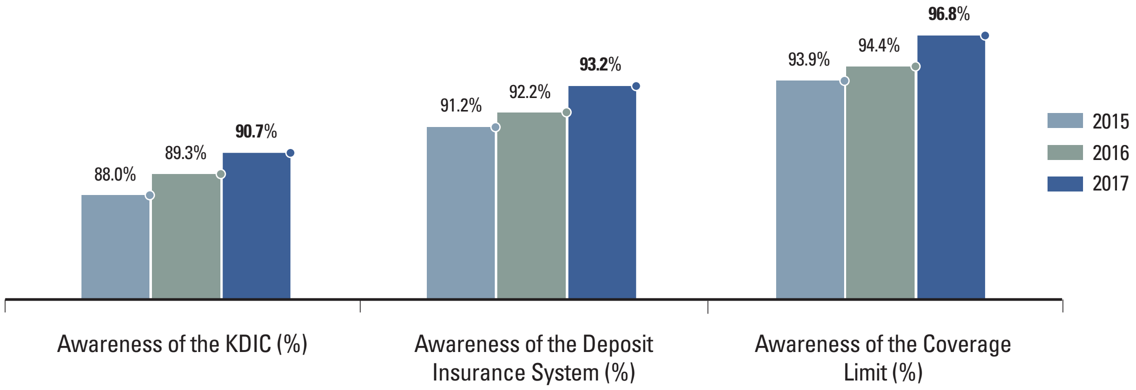
Awareness of the Deposit Insurance System

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

According to a survey conducted in 2017, 90.7% of the public is aware of the KDIC, a 1.4%p increase year-on-year, and awareness of the deposit insurance system rose 1.0%p to 93.2% compared to a year ago. Awareness of the deposit coverage limit was 96.7%, up 2.3%p from the previous year.

Figure Ⅲ-3

Survey Results Regarding Awareness of Deposit Insurance by Year



Enhanced Guidance for the Provision of Information on the Deposit Insurance System

Promoting the use of deposit protection logo

In a dramatically changing digital financial environment characterized by rapid expansion of Internet and mobile banking, the KDIC designed a deposit protection logo that clearly indicates to customers whether or not a financial product is subject to deposit insurance protection. The logo was introduced into the mutual savings banking sector in August 2016. Then, it was adopted by the banking sector including Internet primary banks in April 2017 and by insurance companies in July 2017 after consultation with industry associations and financial institutions.

Figure Ⅲ-4

Deposit Protection Logo and How It Is Used

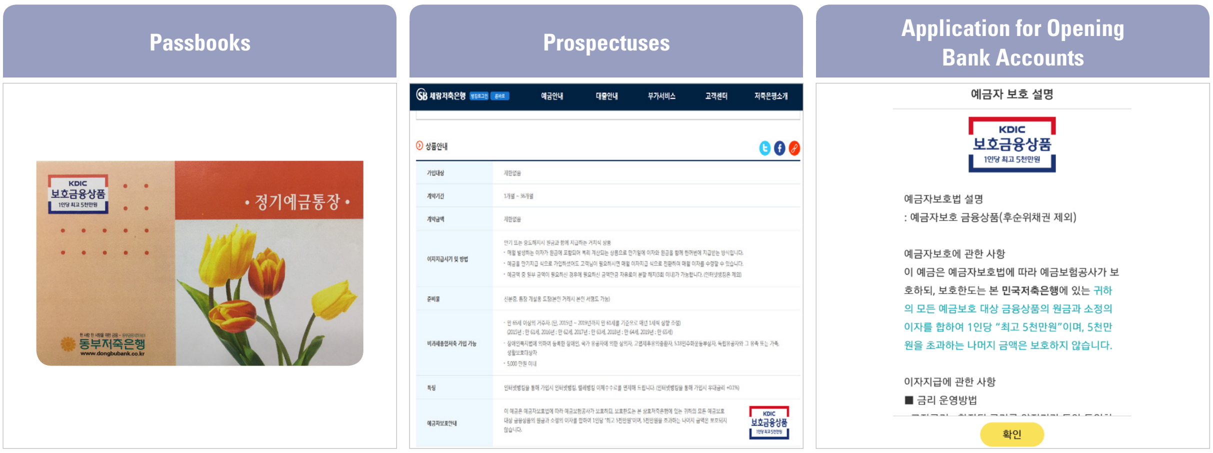
KDIC
보호금융상품
1인당 최고 5천만원

Insured financial institutions use the deposit protection logo on passbooks, prospectuses, promotional materials, and Internet/mobile screens of protected financial products to allow consumers to readily determine whether they are covered by deposit insurance.

For the mutual savings banking sector, the deposit protection logo was included in passbooks, product descriptions, and webpages in August 2016 on a trial basis. The logo indeed promoted sales in the sector by increasing public awareness of the availability of deposit protection coverage for eligible products. The logo was, in fact, so well received and effective that other financial institutions were eager to start using it as well.

Figure Ⅲ-5

Implementing Deposit Protection Logo in Savings Banks



To enable consumers to easily understand the features of insurance products, the insurance sector, led by the Korea Life Insurance Association and the General Insurance Association of Korea, decided to introduce key information documents* in the third quarter of 2017. Through ongoing consultation with those associations, the KDIC incorporated its deposit protection logo in key information documents.

* Documents presenting core information on insurance products in the form of icons (26 types) that are shown on the first page of product descriptions

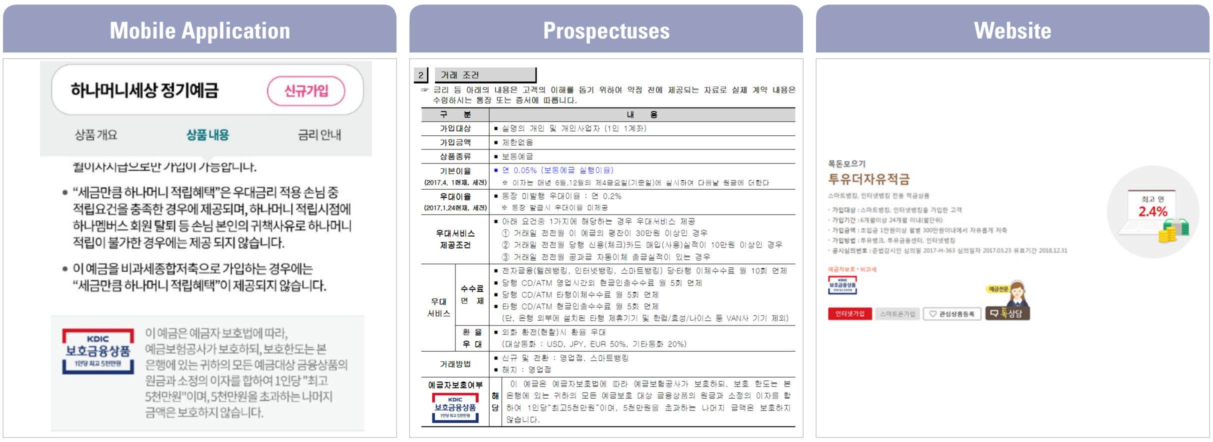
Figure Ⅲ-6

Implementing Deposit Protection Logo in Insurance Companies

In consideration of the increase in non-face-to-face transactions evidenced by the launch of Internet primary banks and the phasing-out of passbooks, the traditional banking industry began showing the deposit protection logo on webpages, mobile apps, and product descriptions in April 2017.

Figure Ⅲ-7

Implementing Deposit Protection Logo in Banks



The KDIC designed the deposit protection logo in August 2016 and has introduced it to one sector of the financial industry after another. The logo is readily visible and understandable, making it an extremely useful means to protect financial consumers amid the ceaseless change in the industry, including especially the rise in non-face-to-face transactions. The KDIC intends to encourage extended use of the logo by consistently upgrading the system going forward.

Inspection for Compliance with KDIC Deposit Insurance Coverage Explanation & Confirmation Scheme

Pursuant to the Depositor Protection Act, all insured financial institutions must comply with the KDIC signage display requirements and deposit insurance coverage explanation & confirmation scheme for such purposes as prevention of mis-selling. The KDIC regularly visits branches of insured financial institutions for on-site examinations and conducts other inspections to ensure their compliance.

- Signage display requirements: The applicability and limit of depositor protection must be indicated in passbooks, product descriptions, and promotional materials of financial products, and each branch of financial institutions must keep guide materials on the deposit insurance system (posters, leaflets, stickers, and stands) and a register of protected financial products available on-site at all times.
- Deposit insurance coverage explanation & confirmation scheme: Because signage display requirements failed to make some financially underserved groups fully understand the deposit insurance system, investors in bonds and commercial papers suffered huge losses during the mutual savings bank debacle in 2011 and the collapse of Tongyang Securities in 2013. To prevent recurrence, insured financial institutions have since June 2016 been required to explain to customers whether or not and for how much a financial product is covered by deposit insurance when selling the product and receive confirmation of each customer's understanding by such means as signature.

In 2017, the targets of on-site inspections were substantially increased from 817 in 2016 to 1,021 for full institutionalization of the explanation & confirmation scheme at branches of financial institutions. Specialists (those hired under the salary peak system) were tasked with conducting on-site inspections for the first time to make the most of their experience and know-how. To raise public awareness of the signage display requirements and the explanation & confirmation scheme and to alert financial institutions, the KDIC stepped up its promotional efforts, specifically by distributing press releases on its on-site inspection plan and findings.

Along with on-site inspections, the KDIC made many different inquiries into financial products at greatest risk of being mis-sold due to overly heated sales competition. In July 2017, it reviewed 48 retirement pension service providers' compliance with the signage display requirements and the explanation & confirmation scheme, considering that eligibility for an IRP (individual retirement pension) plan is expanded from salaried workers to the self-employed, military service personnel, and government employees. In December 2017, it examined the compliance of Korea Investment & Securities to prepare for sale of notes issued by mega-sized investment banks.

In view of the surge in non-face-to-face financial transactions through the new Internet primary banks and the like, the KDIC examined 239 webpages and 95 mobile apps of 292 insured financial institutions in September 2017 to check their implementation of the signage display requirements and the explanation & confirmation scheme.

The KDIC intends to expand planned inquiries, including mystery shopping, into financial products at greatest risk of being mis-sold while continually conducting on-site inspections of financial institutions' branches. It will do the best it can to further protect financial consumers and thus prevent bona fide consumers from sustaining losses.

Table Ⅲ- 1

2017 Inspection Results for Compliance with KDIC Deposit Insurance Coverage Explanation & Confirmation Scheme by Financial Industry

(Unit: No. of inspections and branches)

Industry	Inspected Financial Companies		Follow-up Measures	
		Inspected Branches	Notice of Matter Requiring Attention	On-site Measures
Bank	16	881	-	81
FinancialInvestment	4	10	2	-
Insurance	8	40	4	14
Savings	58	90	-	1
Total	86	1,021	6	96

Table Ⅲ- 2

Yearly Trend of Inspection for Compliance with KDIC Deposit Insurance Coverage Explanation & Confirmation Scheme

(Unite : Number)

Year	2014	2015	2016	2017
Inspected Branches	683	649	817	1,021
Number of Follow-up Measures Taken	35	31	34	102*

Note : The number of measures taken increased due to the newly implemented Explanation & Confirmation Scheme, an increase in the number of branches inspected, change in information materials, etc

Prevention of Financial Fraud Including Misrepresentation about Depositor Protection

Some peer-to-peer (P2P) finance companies recently committed fraud where they solicited investors with false assurances that the investments were subject to depositor protection. The KDIC stepped up its efforts in 2017 to prevent more such false statements about depositor protection.

Case 1 Mr. L invested based on what he heard at an investment seminar and SNS postings that promoted product A as "principal amount insured and protected by deposit insurance up to KRW 50 million" and made a loss.

Case 2 Mr. A invested believing company S which said that "if he invests in company S, he can earn fixed yearly revenue of 30%~40% while the principal amount is protected by KDIC." A invested 500 million won and made a loss.

In January 2017, it began to take action according to its "comprehensive plan to prevent false statements about depositor protection," which involves revision of law, ongoing monitoring, strengthening of public relations, and collaboration and imposition of sanctions.

There had not previously been any stipulation explicitly penalizing a person who falsely uses an indication or mark signifying depositor protection. The KDIC is now in discussions with appropriate agencies after drafting an amendment to the Depositor Protection Act for criminal prosecution of anyone who makes a misrepresentation about depositor protection.

The KDIC closely examined the webpages of investment advisory companies, P2P companies, and quasi-investment advisory business entities to check whether they contain any misleading phrases about depositor protection. To prevent any damage, it presented cases to market merchants, senior citizens, and multicultural families and received reports on false statements about depositor protection.

The KDIC also stepped up its promotional effort targeting media outlets. It distributed press releases on precautions to be taken regarding depositor protection. In collaboration with the Korea Financial Telecommunications & Clearings Institute, it posted a public notice and popup window about its depositor protection scheme on the Integrated Account Management Service (Account Info) webpage launched

Figure Ⅲ-8

Improvements on Information Guide Introducing Deposit Insurance

	Before	After
Informing the public about non-insured products	"Subordinated bonds and investment products are not insured by the KDIC."	Deposits, savings, insurance policies and other guaranteed products at banks, securities firms, insurance companies, savings banks and merchant banks are protected by the Korea Deposit Insurance Corporation (**with the exception of investment instruments such as bonds, and main policies of variable insurance policies**).
Alerting the public about the risks of unregulated deposit schemes and P2P lending	No information provided	**Fundraising schemes which offer services similar to those of investment advisers or banks but do not receive any regulation, or peer-to-peer (P2P) finance companies are not protected by deposit insurance.** **Fraudulent cases of falsely indicating depositor protection** ▶ Mr. L invested based on what he heard at an investment seminar and SNS postings by Company R, which is not a legally regulated entity, that promoted product A as "principal amount insured and protected by deposit insurance up to KRW 50 million," but he could not get his investment back. ▶ Mr. B and Mrs. B, both wage earners, attended at investment seminar hosted by Mr. OOO in Busan and were told lies that investment in the stock recommended by Mr. OOO would be protected by the deposit insurance law. Later, they also received Kakaotalk (an instant messaging service popular in Korea) messages with false assurances that their investment would be guaranteed up to KRW 50M for the principal amount. They invested a large sum which they are still trying to recover.
Unification and clarification of deposit insurance notices at banks and insurers	"The KDIC protects up to KRW 50 million per customer including principal and designated interest."	**Protected up to KRW 50M** per depositor per institution including principal and designated interest (cash surrender value plus some other payments in the case of an insurance policy)

in December 2016. In the final stage of account integration, users are now required to sign important matters regarding depositor protection. At the same time, the KDIC corrected information contained in posters and leaflets about deposit insurance and included advice in them about precautions against unauthorized fund-raisers and P2P lenders.

Lastly, the KDIC beefed up its cooperation with appropriate agencies to make a timely response to misrepresentations about depositor protection. It joined the FSS financial consultative body to eradicate five major financial problems and eliminate "three quasi's (fund-raising, lending, and investment advisory business without permission)" and "three nevers (mis-selling, unfair trading, and unlawful practices)." As a member of the consultative body comprised of regulatory authorities and financial associations, the KDIC collected and shared useful information in closer cooperation with the organizations concerned.

Financial Literacy Education

Revitalized Education for the Financially Underserved Population

Prompted by the global financial crisis in 2008 and the rising need for financial literacy education, the KDIC provides education for future financial consumers (elementary, middle, and high school students) and financially underserved people (the elderly, market merchants, multicultural families, etc.).

Beginning with elementary school students in 2010, the KDIC gradually expanded the scope of its financial literacy education to merchants in 2012; multicultural families in 2013; middle and high school students in 2014; military service personnel, North Korean defectors, and persons of national merit in 2015; and foreign students in Korea in 2016. In 2017, it broadened the foundation of such education particularly to reach out to financially underserved persons including the disabled and children. During the year, it educated a total of 75,814 persons, up 15.4% from the preceding year. It held education sessions for 20,466 underprivileged persons, a 21.5% increase from the previous year.

Following conclusion of an MOU with the Korea Association of Senior Welfare Centers in 2012, the KDIC helped promote the welfare of the elderly by conducting financial literacy education and improving education at senior welfare centers. Such endeavors were duly recognized with a 'citation by the Minister of Health and Welfare' in the Nationwide Convention of Senior Welfare Centers.

Photo Ⅲ-2

Awarded "Minister of Health and Welfare Award" for Contributing to Enhancing Welfare for the Elderly

Award Certificate

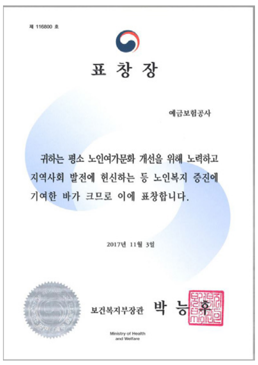

제 116800 호

표 창 장

예금보험공사

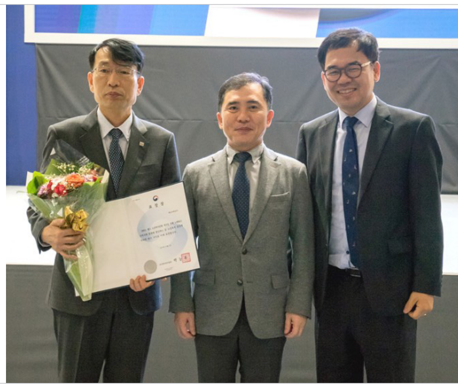
귀하는 평소 노인여가문화 개선을 위해 노력하고 지역사회 발전에 헌신하는 등 노인복지 증진에 기여한 바가 크므로 이에 표창합니다.

2017년 11월 3일

보건복지부장관 박 능 후

Ministry of Health and Welfare

Award Ceremony



Developing tools for experiential financial literacy education and operating experiential financial education programs

Experiential education is rapidly spreading, and the KDIC has adopted such educational mode itself for financial literacy education, moving away from the traditional educational system centering on lectures.

It developed 'three tools for experiential financial literacy education' to maximize the effectiveness of the instruction. Through the 'Master of Deposit Ⅰ and Ⅱ' games, it increased awareness of the importance of deposits as well as understanding of the depositor protection system. It also presented a board game named 'KDIC, Please Protect Finance!' to introduce its primary functions.

In line with the opening of the KDIC Global Academy in April 2017, it expanded user-customized education programs featuring experiential activities in addition to existing on-site financial literacy education programs.

Utilizing the infrastructure within the KDIC Global Academy, it developed new programs including the two-day 'financial camp for families' and the 'Global Academy visit program' to raise trainees' satisfaction.

Photo Ⅲ-3

Three Tools for Experiential Financial Literacy Education

Master of Deposit Ⅰ

Master of Deposit

KDIC, Please Protect Finance !

Photo Ⅲ-4

Financial Camp for Experiential Financial Literacy Education

Financial Camp for Multicultural Families

Financial Camp for Local Children

2. Protection of Financial Consumers of Insolvent Financial Institutions

Minimization of Financial Transaction Suspension Period

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

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

From the latter half of 2013, the KDIC resolved insolvent mutual savings banks by proactively searching for potential buyers and implementing ‘third-party P&A during normal operations,’ which does not require the use of a bridge bank. Thus, the KDIC has adopted a robust new resolution method that reduces not only depositors' inconveniences, but also its burden concerning the sale and management of bridge mutual savings banks, and greatly accelerated the restructuring of insolvent mutual savings banks.

Alleviation of Inconveniences to Financial Consumers During Conservatorship

The ongoing restructuring of failed mutual savings banks that began in the second half of 2012 has enabled ‘resolution without interruption in financial services.’ This approach shortened the duration of conservatorship and thus sharply reduced depositors' hardship.

In the past, a depositor with a deposit of not more than KRW 50 million could only access his or her deposit in the form of a provisional payment or deposit-secured loan for about three months following business suspension of a mutual savings bank. Under the new resolution method, depositors can continue to make financial transactions without interruption. A person with a deposit of more than KRW 50 million can now manage his or her funds more efficiently even if their

Table Ⅲ-3

Resolution of MSB Failures Since the Latter Half of 2013

Bank Name	Resolution Method	Date of Business Suspension	Date of Business Resumption	Business Suspension Period
Smile	3rd-Party P&A	2013.11. 1	2013.11. 4	0 business days
Hanul	3rd-Party P&A	2013.12.27	2013.12.30	0 business days
Haesol	3rd-Party P&A	2014. 5. 2	2014. 5. 7	0 business days
Golden Bridge	3rd-Party P&A	2015. 1.16	2015. 1.19	0 business days

bank fails because payment of deposit insurance claims and advance payment of bankruptcy dividends have been brought forward by approximately five months, too.

The shortened conservatorship period benefits not only depositors but also the KDIC because it reduces human resources needs and costs, including labor costs.

Efforts for Payment of Uncollected Claims to Depositors

Payment of Deposit Insurance Claims, Bankruptcy Dividends, Advance Dividend Payments, and Difference Between Actual and Advance Dividend Payments

When an insured financial institution goes bankrupt, according to applicable laws including the DPA, the KDIC pays insurance claims for deposits KRW 50 million and below as well as dividends to the creditors, including depositors of over KRW 50 million, in proportion to their claims.

Holders of deposits in excess of KRW 50 million, suffered financially because of the prolonged duration of the bankruptcy proceedings. To minimize the damage to them, the KDIC makes partial advance payments of bankruptcy dividends. The KDIC purchases unprotected claims in excess of KRW 50 million from depositors upon their request, makes an estimate of the expected dividends from the bankruptcy estate's assets, and makes payment to depositors on a pro-rata basis based on the estimated recovery amount.

If, after the final sale of assets, the amount of bankruptcy dividends payable exceeds the amount paid in advance, the KDIC distributes the excess to the creditors.

Operating 'Services Allowing Creditors to Claim Any Uncollected Claims'

The KDIC has actively paid deposit insurance claims, bankruptcy dividends, advance dividend payments, and the difference between actual and advance dividend payments, but there still exists a significant amount of uncollected claims. This is because a large number of victims are the financially underserved including the elderly. They are not yet aware of such claims even though a long time has passed since the bankruptcies of some insured financial institutions. Under the circumstances, the KDIC pushed for 'services allowing creditors to claim any uncollected claims' to minimize depositors' losses.

(1) Establishment of Integrated Management System

The KDIC rolled out a system enabling depositors to apply for payment of uncollected claims through its website. For greater depositor convenience, it built a consolidated application system in 2016, allowing depositors to search and claim any uncollected amounts including their insured funds at failed financial institutions, bankruptcy dividends, and the difference between actual and advance dividend payments. In the past, uncollected claims could be recovered only at ten payment agents near failed financial institutions. Now, all uncollected claims can be collected at over 300 payment agents and their branches, irrespective of the type of bankrupt financial institutions.

(2) Reinforcement of Coordinated Services with Related Agencies

The KDIC exerted every effort to improve coordinated services with the government and related institutions. The KDIC, in cooperation with the FSS, expanded the scope of information on dormant claims accessible by heirs to deceased claimants from deposit insurance claims to the difference between actual and advance dividend payments and bankruptcy dividends. It also built a shortcut to the consolidated application system on the webpages of appropriate organizations including the Korea Federation of Savings Banks, allowing depositors to claim any uncollected amounts. In 2017, the KDIC enabled both dormant accounts and uncollected claims to be shown on the Korea Federation of Banks' integrated dormant account search system to increase depositors' accessibility.

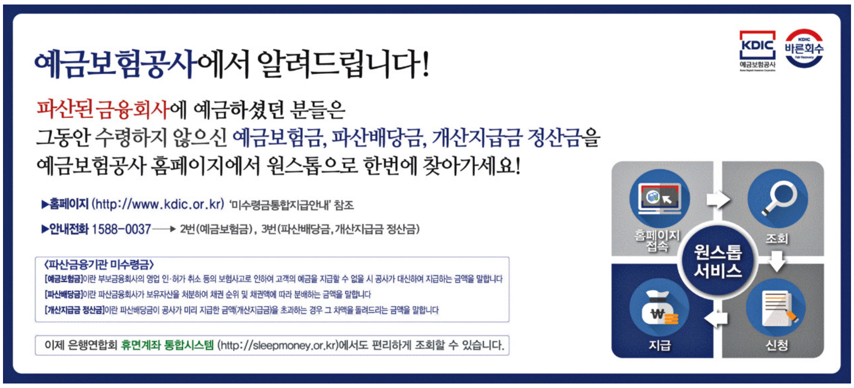
(3) Improvement of Tailored Guidance and Promotion

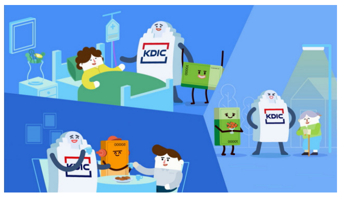
The KDIC made multi-pronged guidance and publicity efforts to satisfy depositors' specific needs. Among them were individual notices to eligible claimants in cooperation with the Ministry of the Interior and Safety, on-site services for large claimants and senior citizens, newspaper advertisements, and production and distribution of promotional leaflets and videos.

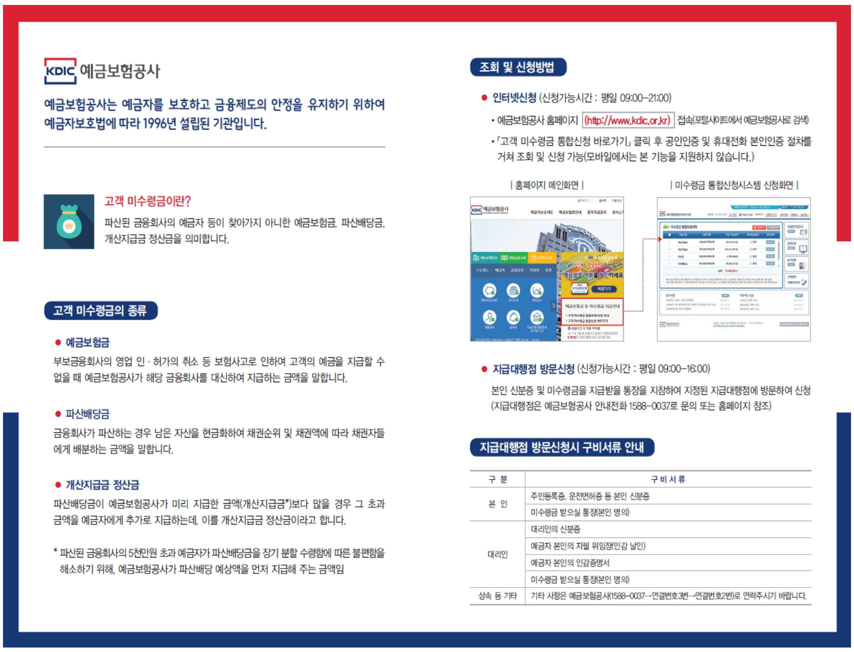
These strenuous efforts proved effective in many ways such as increased user convenience, improved public accessibility, and growing awareness of the deposit insurance system and uncollected claims. The balance of uncollected claims fell about 60% from KRW 13.4 billion at the end of 2015 to KRW 5.3 billion by the end of 2017. For this feat, the KDIC won the Prime Minister's award in the second Competition of Best Practices in Proactive Administration in 2017 hosted by the Ministry of Personnel Management.

Photo Ⅲ-5

Newspaper Advertisements, Promotional Leaflets and Videos







IV

Advancement of the Deposit Insurance System

1. Improvement of the Deposit Insurance System

Proposing Amendments to the Depositor Protection Act

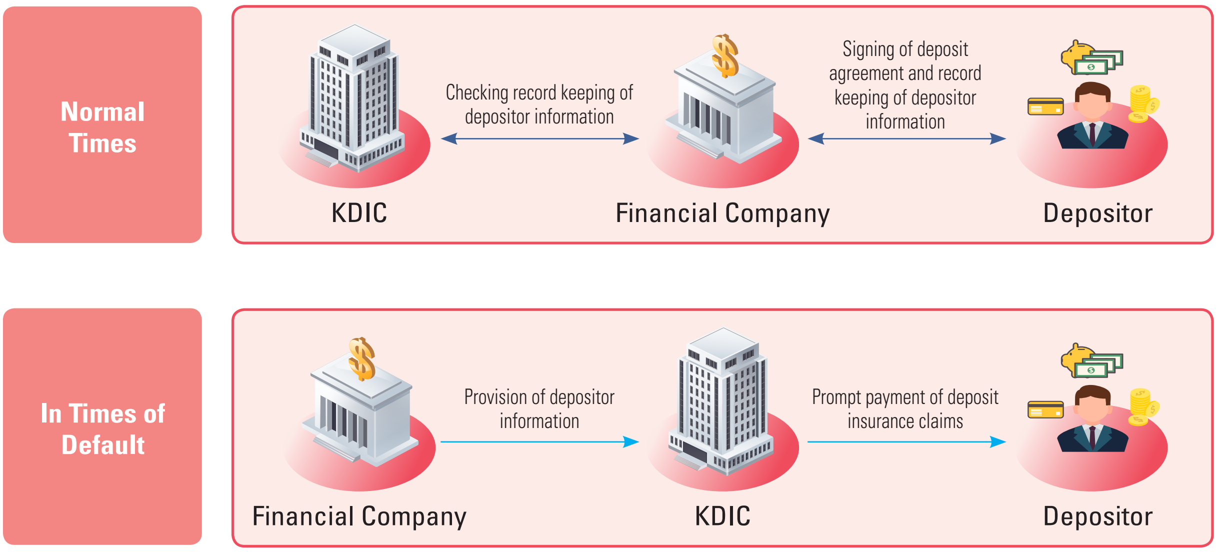
The KDIC made an institutional improvement for more effective, controlled operation of its deposit protection scheme. An amendment to the Depositor Protection Act (DPA) was proposed on November 22, 2017, and it will be finalized by the National Assembly after a review.

The proposed amendment involves (i) creation of an obligation to swiftly pay deposit insurance claims; (ii) protection of deposits incorporated into specified money trusts; (iii) elimination of a vacuum in deposit protection arising from purchase of assets and assumption of liabilities (P&A) transactions and business change of financial institutions; (iv) establishment of a rationale for legal prosecution for making misrepresentations about depositor protection; (v) reinforcement of the resolution method regarding insolvent holding companies; and (vi) MOU management aligned with the progress in normalization of assisted financial institutions' business operations.

If the National Assembly passes the proposed amendment, numerous changes can be expected, including quicker payout of deposit insurance claims, removal of blind spots in depositor protection, and prevention of losses on the part of financial consumers.

Figure Ⅳ- 1

Record Keeping of Depositor Information and Deposit Reimbursement



2. Research on Deposit Insurance Schemes

Conduct Empirical Research on Deposit Protection Scheme and Current Financial Issues

In 2017, the KDIC thoroughly studied and considered ways to improve the deposit protection scheme and promote financial stability. It set up the Empirical Research Team within the Deposit Insurance Research Center expanded in January, and the team conducted both documentary and empirical research into the deposit protection scheme and current financial issues.

Comprised of the KDIC's own researchers, the Empirical Research Team produced empirical research reports on a variety of issues such as the risk-based premium system, deposit protection limit, dividend policy in the banking sector, effects of prudential regulations on mutual savings banks, and forecasts of financial failures. It empirically analyzed the existing deposit insurance scheme and its effects on financial policy and outstanding issues. It also sought to present theoretical and empirical logics for effective financial policymaking as well as their implications.

Legislation Research Related to Deposit Protection Scheme

The KDIC helps protect depositors and maintain the stability of the financial system by studying the deposit insurance system as well as financial and economic issues and thereby provides a theoretical basis for upgrading the deposit insurance system.

In the aftermath of the global financial crisis, major countries around the world established a separate mechanism to effectively deal with systemic risk. They had seen financial instability escalate into a full-fledged

Table Ⅳ- 1

Major Empirical Research in 2017

Subject	Title
Empirical Research on Deposit Protection Scheme and Current Financial Issues	• Regulation and Bank Risk: Evidence from Savings Banks in Korea • Empirical Study on the Effects of Domestic Banks' Dividend Payout Determinants and Dividend Payment on Management Performance and Risk • Analysis of Credit Spread Determinants Concerning Deposit Insurance Fund Bonds for the Special Account for Mutual Savings Bank Restructuring and Their Implications • Study on Possible Flow of Funds at Mutual Savings Banks in Case of Application of Differential Deposit Protection Limits to Mutual Savings Banks and Ordinary Banks • Market Discipline by Depositors: the Case of Mutual Savings Banks in Korea • Empirical Research on the Impact of Institutional Depositors' Deposit Portion on Bank Dividends • Comparative Analysis of Insured Financial Institutions' Risk-Taking Behaviors Before and After Introduction of the Risk-Based Premium System • Empirical Research on Depositor Behaviors at Mutual Savings Banks and Forecast of Their Insolvency

economic crisis and were intent on preventing a recurrence. The EU established the European Systemic Risk Board (ESRB) and the European Stability Mechanism (ESM) to cope with systemic risk in a coordinated manner. The Deposit Insurance Corporation of Japan (DICJ) has a mechanism in place to provide liquidity to and increase capital of normal financial institutions in the event of a systemic risk, based on counter-measures against a financial crisis and orderly resolution of failed financial institutions. The US Federal Deposit Insurance Corporation (FDIC) may supply funds to normal insured financial institutions through debt guarantees if a liquidity crisis in the financial market is deemed to pose a serious systemic threat.

The international community is pressing ahead with improvement of the deposit insurance scheme and the resolution system so that depositor protection can help maintain the stability of the financial system even in the event of another financial crisis. In particular, the EU is establishing the Banking Union, a unified financial regulatory framework in the Eurozone. It also formulated the EU Bank Recovery and Resolution Directive (BRRD) and the Deposit Guarantee Schemes Directive (DGSD) and pursued their expedited implementation by each member country.

The KDIC scrutinized the introduction and enhancement of policies on deposit insurance and systems for risk response by key foreign nations and organizations, and it studied the policy implications of these issues and the necessity of their adoption in Korea in depth.

Research Support Through Utilization of Database on Failed Mutual Savings Banks

To fully support research, including empirical analyses, which may help prevent failures of financial institutions, the KDIC made data on insolvent mutual savings banks available to researchers outside the KDIC as well. It built a database on 30 mutual savings banks that fell into insolvency in or after 2011 and then made it available on its webpage. The database contains information on (i) overall management; (ii) financial condition; (iii) ledgers; and (iv) other data.

Academia and the general public have indeed requested data since the opening of the database on failed mutual savings banks. Four studies were conducted using data from the database.

Table Ⅳ-2

Major Research Analysis Results in 2017

Subject	Title
Major Countries' Systemic Risk Response System and Deposit Protection Scheme	• The EU's Systemic Risk Response System • Preemptive Fund Provision Systems of Major Foreign Countries and Their Implications • The European Stability Mechanism (ESM) • Japan's Systemic Risk Response and Resolution Systems • EU Deposit Guarantee Schemes Directive and Major Countries' Deposit Insurance Schemes • Resolution System Operation by the EU and Its Core Members • Scope of Protected Deposits in Major Countries and Its Implications • The Right to Approve or Terminate Deposit Insurance Membership in Major Countries and Its Implications • The US FDIC's Authority to Take Measures Against Misrepresentations About Deposit Protection • Functions of the Industrial Revitalization Corporation of Japan and Their Implications

Table Ⅳ-3

Reports Based on DB of Failed Mutual Savings Bank

Category	Title
Research Based on DB of Failed Mutual Savings Bank	• Regulation and Bank Risk: Evidence from Savings Banks in Korea • Market Discipline by Depositors: the Case of Mutual Savings Banks in Korea • Study on Concentrated Exposure and Failure of Mutual Savings Banks • Empirical Research on Behaviors of Depositors at Failed Mutual Savings Banks

Sharing of Research Results

In 2017, the KDIC actively shared its research results internally and externally in order to raise awareness of the deposit insurance scheme and promote understanding of current financial issues.

Externally, it shared its research findings with foreign experts including those in academia in various ways such as hosting of policy symposiums and special seminars, publishing of studies in academic journals, distribution of press releases, and submission of contributions. Internally, it shared research results through employee seminars, advisory committees, and working-level consultations.

The KDIC also hosted a number of seminars and meetings on empirical research methodologies with outside experts including scholars to enhance its empirical research capabilities and improve the quality of its research reports.

For efficient operation and improvement of its deposit insurance scheme, the KDIC has supported specialized and innovative studies on subjects related to deposit insurance and financial stability; published research findings in Financial Stability Studies (an academic journal accredited by the National Research Foundation of Korea); compiled a collection of theses submitted to a contest for research funding; and distributed the findings to appropriate authorities, related agencies, academia, and the media.

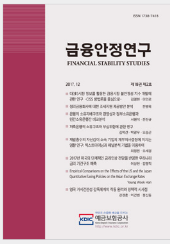
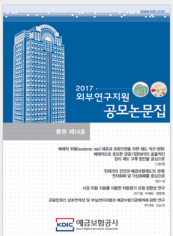
Table Ⅳ-4

Academic Events Held and Presentation Topics

Category	Date	Main Points from Presentation
Policy Symposium	2017 July	• Development of the financial industry and financial consumer protection • Changes in the Korean financial market and policy direction • Rise of fintech and change in the Korean financial industry
Special Seminar	2017 November	• A new Korean historical drama: 20 years after the Asian Financial Crisis • Role of the KDIC in overcoming financial crises and future tasks

Table Ⅳ-5

Major Publications in 2017

Title	Key Theses Published
Financial Stability Studies (Vol. 18; Issues 1 & 2) 	• Deposit Insurance and the 2008-2009 Global Financial Crisis • The Impact of Cooperative Banks on Risk, Financial Stability and Employment • The Impact of Higher Capital Ratio on the Cost of Equity: An Empirical Study of Korean Banks • Brief Review of Banks' Credit Creation Ability • Examining the Relationship between Macroeconomic Variables and the Lapse Rates of Variable Life Insurance • Forecasting Stock Market Volatility Using GARCH-MIDAS Model • CEO Overconfidence and R&D Investment: Evidence from Korean Chaebols • Credit Rating and Volatility of Corporate Debt Financing: Empirical Analysis of Listed Firms in Korea • A Proposal for a Systemic Stress Index in Korea – A Ciss Approach • How to Provide Tax Benefits to Resolution Financial Institution • Governance Structure and Business Performance of Banks • A Study on the Ownership Structure and Insolvencies of Savings Bank • The Effects of CEO Confidence on Corporate Financial Decision Makings in Korean Chaebols • Forecasting Korea's Yield Curve Using Analyst's Views on US Rate Hikes in 2017 • Empirical Comparisons on the Effects of the US and Japan Quantitative Easing Policies on the Asian exchange rates • Principles of UK Macroprudential Supervision and Policy Implications
A Collection of Theses Submitted to a Contest for Research Funding 	• Institutional Improvement to Cope with Systemic Risk and Promote Financial Stability: Focusing on Establishment of Effective Resolution System for Systemically Important Financial Institutions (SIFIs) • Advancement of Fin-Tech and Challenges for Deposit Insurance System: Focusing on Electronic Money and Virtual Currency • A Study on Consistency of Differential Premium Assessment Models Using Market Risk Indicators • Study on Interconnectedness of Financial Sectors, Insolvency Contagion Risk, and DIF System
KDIC Deposit Insurance Research (Issues 1, 2, 3) 	• Regulation and Bank Risk: Evidence from Savings Banks in Korea • Analysis of the Effects of Domestic Banks' Dividend Payout Determinants and Dividend Payment on Management Performance and Risk • Japan's Systemic Risk Response and Resolution Systems • The European Stability Mechanism (ESM) • Analysis of Credit Spread Determinants Concerning Deposit Insurance Fund Bonds for the Special Account for Mutual Savings Bank Restructuring and Their Implications • Market Discipline by Depositors: the Case of Mutual Savings Banks in Korea • Scope of Protected Deposits in Major Countries and Its Implications • Preemptive Fund Provision System of Major Countries and Its Implications • Comparative Analysis of Insured Financial Institutions' Risk-Taking Behaviors Before and After Introduction of the Risk-Based Premium System • Empirical Research on Depositor Behaviors at Mutual Savings Banks and Forecast of Their Insolvency • The Right to Approve or Terminate Deposit Insurance Membership in Major Countries and Its Implications • EU Deposit Guarantee Schemes Directive and Major Member Countries' Deposit

3. International Exchange and Cooperation

Stronger Global Leadership at International Organizations Including the IADI

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

IADI is an association of various deposit insurers all over the world, consisting 106 deposit insurers including 84 members, 8 associates, 14 partners. As a founding member of the IADI and a member of the IADI Executive Council, the KDIC plays a leading role in policy and decision making.

The KDIC resolved numerous failed financial institutions in the banking, insurance, securities, and mutual savings banking sectors. In the process, it accumulated substantial know-how regarding resolution of insolvent financial institutions, which the KDIC passes on to various IADI members around the world. The KDIC serves as chair of the Research Subcommittee on Purchase and Assumption under the IADI. It is taking part in various other research subcommittees including the Subcommittee on Recoveries from Assets of Failed Banks and the Subcommittee on the Deposit Insurers' Role in Contingency Planning and System-wide Crisis Preparedness and Management.

In 2017, the KDIC attended many conferences and seminars hosted by the IADI and engaged in presentations and discussions on various themes.

Table Ⅳ-6

2018 KDIC's Major Activities within IADI

Date	Location	Event	Presentation Topic
Feb.	Japan (Tokyo)	51st IADI Executive Council Meeting and International Conference	• Fintech and Deposit Insurers
Mar.	Morocco (Casablanca)	IADI 1st Technical Assistance Workshop with Africa Regional Committee and Middle East and North Africa Regional Committee	• KDIC's Advice for Effective Resolution Schemes
Jun.	Switzerland (Basel)	52nd IADI Executive Council Meeting and Research Conference & South Korea, United States, Japan Roundtable Discussion	• KDIC's Differential Premium System Results
Jul.	Indonesia (Yogyakarta)	Asia-Pacific Regional Committee Annual Meeting and Regional Workshop	• KDIC's Mutual Savings Bank Risk Management System
		Asia-Pacific Regional Committee Annual Meeting and International Conference	• KDIC's Overcoming of Financial Crises and Future Challenges
Sep.	Kazakhstan (Almaty)	Eurasia Regional Committee Annual Meeting and International Technical Seminar-Conference	• KDIC's Advanced Resolution Scheme

Photo Ⅳ-1

52nd IADI Executive Council Meeting and Research Conference & Roundtable Discussion

KDIC as Chair of the Working Group to Revise IADI Council Committee's Terms of Reference

In the 51st IADI Executive Council Meeting held in February 2017, the KDIC was appointed as the chair of a Working Group to finalize the Council Committee Terms of Reference (ToRs) at the recommendation of the IADI Chairman. The ToRs set forth criteria necessary for operation of the four Council Committees that carry out the IADI's core functions and oversee its Secretariat. This important issue had been outstanding for about two years following the commencement of a governance reform of the IADI in 2015. The Working Group was composed of representatives from national deposit insurers of nine countries, i.e. Korea, France, Switzerland, Canada, India, Mexico, Argentina, Taiwan, and Turkey.

In the process of revising the ToRs, the KDIC, as the chair of the Working Group, played a leading role in presenting compromises and reconciling various opinions. Finally agreed ToRs were proposed and approved at the 52nd IADI Executive Council Meeting held in Basel, Switzerland in May. Accordingly, reorganization of the IADI's governance structure, which was launched in 2015, was completed after about two years of hard work. The IADI Council Committees now operate more smoothly in accordance with the new ToRs.

Photo Ⅳ-2

Working Group to Revise the IADI Council Committee Terms of Reference

Expansion of Exchange with Foreign Deposit Insurers

Launch of the Global Deposit Insurance Training Program, 「One Asia with KDIC」

The global financial crisis in 2008 greatly renewed interest in the deposit insurance system. Emerging Asian economies that wish to introduce or improve their own deposit insurance systems increasingly demanded advisory services and training concerning Korea's experience in deposit insurance scheme operation.

In order to systematically and efficiently respond to requests for training on the Korean deposit insurance system, the KDIC established "One Asia with KDIC," a regular global deposit insurance training program. Korea is eager to help bolster financial stability in Asia by supporting regional deposit insurers' capacity building.

The first "One Asia with KDIC" held in June 2017 was attended by 24 officials from Taiwan, Laos, Mongolia, Myanmar, Vietnam, Indonesia, Cambodia, Thailand, and the Philippines. The training program ran for three days at the KDIC Global Academy in Chungju.

The KDIC set up a simultaneous interpretation system in the Global Academy for professional delivery and smooth communication. To ensure the most systematic training, it directly developed a modular program that can be tailored to the needs of training recipients taking into consideration the stage of development and key functions of their respective deposit insurance systems and the number of targeted countries. Such program was first adopted for the training in 2017.

Participants introduced their own insurance systems and current issues and engaged in group discussions intended to encourage benchmarking. This differentiated "One Asia with KDIC" from the KDIC's other training programs and elicited active participation and a very positive response from the trainees.

The participants stated that the overall training program did not merely involve delivery of fragmentary knowledge. Rather, it was a good experience to communicate directly with personnel from other Asian deposit insurers and gain valuable new insights into deposit insurance schemes. They also said that they would strongly recommend the training program to their organizations.

In light of the excellent results of its training in 2017 and the participants' high level of satisfaction, the KDIC plans to offer the training to a greater number of countries not only in Asia, but also in the Middle East and Africa in 2018. It intends to divide the annual training program into basic and intensive courses and thus offer training sessions twice a year.

Photo Ⅳ-3

Photos from the 2017「One Asia with KDIC」

Sharing of Korea's Deposit Insurance System Experience

Since 2010, the KDIC has organized the Global-KDIC KSP (Knowledge Sharing Program) Program and provided policy and system consultation as well as capacity-building training to other countries that intend to introduce or advance their deposit insurance system.

In line with the launch of “One Asia with KDIC” in 2017, its basic program on the deposit insurance system was incorporated into the global training program. For better training and advisory services, the KDIC designed a curriculum that addresses specific matters raised by different countries.

In March, the KDIC introduced its experience in operation of advanced resolution and insurance claim payment systems upon a request from the Deposit Protection Agency of Thailand ahead of its introduction of an insurance claim payment management system. The KDIC conducted practical training including a demonstration of how its system actually works.

The KDIC has been exemplary in its operation of an integrated deposit insurance scheme since 1998. In April, it shared its know-how with employees of the Central Deposit Insurance Corporation of Taiwan, which was preparing for integration with a policyholder protection agency, and provided training on risk monitoring and fund management aligned with operation of an integrated deposit insurance scheme.

In November, a senior executive of the National Bank of Cambodia who attended “One Asia with KDIC” in June asked the KDIC, through the Cambodian Ministry of Economy and Finance, to provide detailed training and know-how regarding how to operate a deposit insurance scheme still at its embryonic phase. Nine high-ranking government officials including the Deputy Governor of the National Bank of Cambodia and a department head of the Ministry of Economy and Finance visited Korea to participate in training. In light of the fact that Cambodia was pushing for introduction of a deposit insurance scheme, the training involved lectures and interviews on the developments leading to establishment of the KDIC including enactment of the Depositor Protection Act as well as the specific functions of the deposit insurance system such as resolution of failed financial institutions.

Conclusion of MOUs for Promotion of Information and Personnel Exchange

The KDIC has signed memoranda of understanding (MOUs) with foreign deposit insurers and central banks to promote information exchange for the development of deposit insurance schemes and to expedite consultation concerning current issues. The MOUs encompass a wide array of cooperation activities including regular meetings between the two signatories, provision of policy advice and information, and personnel exchange.

In 2017, the KDIC renewed existing MOUs with two foreign deposit insurers. The MOU which it signed with the Central Deposit Insurance Corporation of Taiwan in 2003 was renewed in 2014 and again in March 2017. The MOU concluded with the Financial Services Compensation Scheme of the UK in 2014 was also renewed in March 2017. A provision serving as a rationale for mutual consultation over deposit reimbursement was inserted in the renewed MOUs with these deposit insurers to prepare for a possible failure of banks operating in both Korea and Taiwan or Korea and the UK.

In 2017, the KDIC signed new MOUs with four foreign deposit insurers. In March, the KDIC concluded an MOU with the National Bank of Cambodia which had been pursuing introduction of a deposit insurance system, and it conducted “One Asia with KDIC” training in June and on-site training at its premises in November for the Cambodians.

In the past, its MOU signatories concentrated in Southeast Asia. To get signatories from other parts of the world, the KDIC signed an MOU with the Palestine Deposit Insurance Corporation in the Middle East in October and with the Deposit Insurance Agency of Kyrgyzstan in Central Asia in December. In November, it entered into an MOU with the Kenya Deposit Insurance Corporation, which already has an advanced protection system for mobile banking users, and simultaneously held working-level discussions on areas of mutual interest.

The KDIC will continue to solidify mutual cooperation with MOU signatories while maintaining close ties with them through active exchange of information and personnel.

Strengthening Exchange and Cooperation with International Organizations

In September 2017, the KDIC signed an MOU with the World Bank for cooperation in the development of deposit insurance schemes and capacity building in developing countries. The MOU primarily concerns advisory services, experience sharing, and practical support for countries in the Asia-Pacific region, based on collaboration between the two organizations to establish an efficient financial safety net and achieve financial inclusion.

On the basis of the MOU, the KDIC implemented a deposit insurance advisory project planned by the KDIC and sponsored by the World Bank in December at the request of the Indonesia Deposit Insurance Corporation (IDIC) for expansion of its resolution function concerning failed financial institutions.

As part of this project, the KDIC offered training designed specifically for the Indonesian Ministry of Finance, Financial Services Authority, central bank, and the IDIC, which are participants in the country's financial safety net. The program primarily addressed the KDIC's actual practices regarding resolution of insolvent financial institutions and acquisition/management of their troubled assets.

The KDIC plans to broaden the base of exchange and cooperation with various international organizations such as the World Bank.

Photo Ⅳ-4

MOU Signing with Taiwan and Kenya Deposit Insurance Corporation

Photo Ⅳ-5

Indonesia Deposit Insurance Advisory Project

V

Risk Management

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

1. Independent and Joint Examinations

Enhancement of Risk Surveillance

Reinforcement of the Basis for Risk Surveillance

The KDIC monitors and forecasts the volatilities in 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 institutions for the purpose of ongoing monitoring.

In 2009, the KDIC signed an MOU on sharing of financial information with the Financial Supervisory Service (FSS) and the Bank of Korea, and the MOU was modified in 2012. The information acquired under the MOU is the primary source of data for its risk monitoring models. In cooperation with the agencies concerned, it has continually improved the timeliness and accuracy of such information.

In 2017, the KDIC upgraded its risk profiling system built for timely detection and management of troubled insured financial institutions. This involved expansion of the data warehouse for ongoing monitoring; automation of analytic file generation, management, and retrieval; improvement of outlier detection in financial data; creation of a multi-vision situation room; and establishment of a large-capacity microdata analysis system. The improved system automatically creates files for ongoing monitoring and allows multifaceted risk analysis, which in turn has enabled the KDIC to expand the scope of risk analysis data and more efficiently conduct risk surveillance with limited personnel.

Improvement of Risk Surveillance Process and Capabilities

The KDIC is making every effort to improve its risk surveillance. In 2017, it prepared analytical reports based on a risk monitoring model and established a monthly core risk theme analysis process for each financial sector to quickly detect and tackle risk factors. This process involved conducting in-depth analyses of matters that might affect the management of financial institutions. Then, it provided policymakers including the FSC with its analysis findings and engaged in consultation over potential institutional improvements.

In addition, the KDIC operated a special committee for each financial sector to improve its ability to detect vulnerable insured financial institutions and make its risk surveillance system as reliable as possible.

The KDIC commissioned a study on the standards to determine which financial institutions are in danger of insolvency, thereby establishing a process systematically connecting risk management and resolution. It also built a more solid foundation for early recognition of, and timely response to, possible failures of insured financial institutions.

To build the expertise of its risk management personnel, the KDIC implemented training programs appropriate for each financial sector. Through practical in-house risk training, it bolstered its risk monitoring capabilities such as the ability to utilize a risk analysis system and prepare analytical reports. In addition, it executed diverse capacity-building programs including lectures and training sessions by experts from related agencies and credit rating agencies that are experienced in analyzing the macroeconomic environment and assessing financial institutions. To analyze the risk factors of each financial sector and the insolvency risks of individual insured financial institutions, the KDIC continued to work closely together with private credit bureaus.

As in the previous year, eight persons with ample experience and knowledge in different fields were appointed as external evaluators in 2017 to assess failure risk management capacity. The KDIC will enhance its risk monitoring process and risk management capacity on the basis of their assessment findings and recommendations for institutional improvements.

More Active Ongoing Risk Surveillance

For the qualitative improvement of its ongoing risk surveillance, the KDIC analyzed individual insured financial institutions. Among other matters, it focused on the fluctuations in their capital adequacy arising from changes in the business environment such as interest rate and stock price movements. It strengthened ongoing risk monitoring by analyzing risks stemming from changes in the financial system and outstanding issues in each financial sector. The KDIC hosted regular presentations on business risk analysis for each sector and evaluation findings utilizing its models, with the Department of Risk Management Planning and Coordination playing a pivotal role. The KDIC bolstered its ability to preempt risks by sharing its risk analysis methodologies and primary risk factors across the organization.

It took preemptive measures to grapple with institutional changes in each financial sector including imposition of the more rigorous Basel III capital requirements for the banking sector, introduction of IFRS9 (slated for 2018), adoption of IFRS17 and K-ICS(scheduled for 2021) for the insurance sector, and the need to encourage the development of mega investment banks for the financial investment sector. It sought to eliminate the risks of insolvency by means of ongoing monitoring of insured financial institutions which are not financially sound.

The KDIC, in fact, dispatched administrators jointly with the FSS to high-risk mutual savings banks that could incur losses to the DIF. The KDIC prevented their failures by monitoring their implementation of MOUs on business normalization and inducing large stockholders to increase their capital at crucial moments. In an attempt to preempt possible failures of internet primary banks including K-Bank and Kakao Bank, the KDIC examined actual operation cases of internet primary banks in major countries including Japan, the UK, and Germany and shared them with the internet primary banks in Korea to encourage formulation of innovative management strategies and to support policymaking.

In addition, it beefed up its risk analysis ability and regularly hosted programs for risk analysis capacity building to make its ongoing surveillance more efficient in such ways as revitalization of the efforts to share information on risks with different financial sectors. It analyzed and shared information on the management status and risks of individual insured financial institutions, promoting their understanding of other financial sectors and utilizing such information in risk analysis.

When volatility and uncertainty in the financial market spiked in 2017 in response to North Korea's nuclear tests and missile launches, meetings to review the situation surrounding insured financial institutions were held in accordance with the KDIC's contingency plan. It also put a preemptive response unit into operation to monitor risk factors of insured financial institutions and the movements of the policy-making authorities and to ultimately preempt uncertainties in the financial market in a timely manner.

For the purpose of overseeing and coordinating risk management activities and ensuring effective responses to failure risks, the KDIC established the Ongoing Surveillance Council in 2006. This solidified its role as a major agency in the event of a crisis by promoting extensive opinion exchange and information sharing among the related departments concerning important risk issues in the financial market and individual insured financial institutions. The Ongoing Surveillance Council was convened four times in 2017 primarily to discuss core issues including the management of individual financial institutions, corresponding response plans, and risk factors facing internet primary banks.

Strengthening On-Site Verification by Means of Independent and Joint Examinations

On-Site Risk Verification

When choosing the targets of independent and joint examinations, the KDIC considers ongoing monitoring and model assessment results. To scrutinize possible loss triggers to the DIF, it proactively checks risks on-site by means of joint examinations with the FSS under Article 21(3) of the Depositor Protection Act, independent examinations under Article 21(2) of said Act, and interviews with the management of insured financial institutions when necessary.

The KDIC set the 'basic directions for joint examinations in 2017' specifically in the interests of minimizing damage to the DIF and preventing any burden to the public. These include 'reinforcement of joint examinations of vulnerable insured financial institutions,' 'increased collaboration with the FSS,' and 'reduction of the compliance burden on financial institutions.' This, in turn, facilitated its refinement of its on-site examination scheme. Then, the KDIC actively implemented working-level consultations over joint examinations with the FSS and conducted prior consultations with the supervisory authorities on a quarterly basis. In particular, it established a process for joint examinations with a view to promoting inter-agency cooperation. It sought to carry out independent or joint examinations of financial institutions at high risk for failure as soon as possible. As a result, the KDIC, jointly with the FSS, executed examinations of nine insured financial institutions including insurance companies, securities companies, and mutual savings banks. The joint examinations of high-risk players in the non-mutual savings banking sector were mostly completed in the first half of the year.

In collaboration with the FSS and the Bank of Korea, the KDIC hosted workshops to promote mutual understanding and cooperation regarding joint examinations. It engaged in timely consultations with the supervisory authorities for joint examinations in 2018, improving its business process in a way that fully includes selected distressed insured financial institutions in the supervisory authorities' examination plan.

Pursuant to the standards stipulated in Article 12-2 (Criteria for the Declaration of Insolvency-threatened Financial Institution) the Enforcement Decree of the DPA, the KDIC performed six timely independent examinations of mutual savings banks. In consultation with the FSS, the KDIC chose, as examinees not only mutual savings banks meeting the quantitative criteria for being declared 'at risk of insolvency' including BIS capital adequacy ratios, but those at greater risk in non-quantitative terms according to ongoing monitoring. It specifically boosted its independent examinations of mutual savings banks facing non-quantitative risks.

It also introduced a prior review system allowing mutual savings banks to autonomously check their managerial risk factors and vulnerabilities before examinations. This helped increase the efficiency of on-site examinations and maximize monitoring capabilities.

Independent and Joint Examinations Focused on Preventing Damage to the DIF

The KDIC placed the focus of its independent and joint examinations on risk factors which might cause losses to the DIF, rather than on compliance issues. The KDIC explored possible corrective actions and institutional improvements focusing on risk reduction of troubled financial institutions, particularly in connection with mutual savings banks' concurrent engagement in the financial investment business. Further differentiating its joint examinations, it effectively served as a risk surveillance agency.

Concerning mutual savings banks in particular, the KDIC pursued various institutional improvements to substantively reduce their risk factors based on independent and joint examination findings. In its independent examination process, the KDIC, among others, detected underwriting of convertible bonds and sales of call options, which call into question business qualifications under applicable law and are likely to cause losses to financial consumers. It requested the financial authorities to conduct thorough inspections and make institutional improvements, thereby preventing eleven mutual savings banks from engaging in such businesses as investment brokerage.

In the insurance sector, the KDIC noted in joint examinations that risks associated with insurance companies' retirement pension assets were not reflected in regulatory capital. In 2017, it cited to the financial authorities the need for, and methods of, institutional improvements, incorporating such details into the revised Regulations on Supervision of Insurance Business and its Detailed Rules. The KDIC also analyzed all insurance companies' retirement pension business and risk factors and published its findings in the Financial Risk Review to communicate the need for insurers' retirement pension risk management to market participants. This helped reduce the insolvency risk of insurance companies by encouraging them to streamline their risk management systems for retirement pension assets and to increase their capital.

Market-friendly Risk Surveillance

Stepped-Up Exchange with Market Experts

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

The Financial Risk Review mainly analyzes changes and issues in the financial market environment as well as their implications. It is distributed to major government agencies, relevant institutions, college libraries, and the like. In 2017, experts in various fields wrote about pressing issues including ways to deal with the Fourth Industrial Revolution, household debt, and revision of international accounting standards regarding insurance contracts. As a result, the Financial Risk Review offered even more timely reporting on financial risks.

It held a meeting of research coordinating officers from major research centers in each sector in February 2017 to encourage sharing of risk information with policy research institutes. The KDIC hosted the Cheonggye Financial Forum[1)] nine times for executives and employees of insured financial institutions and other related personnel. The Forum features lectures and discussions on risk factors and major issues in different financial sectors. Experts from insured financial institutions or outside professionals were invited as speakers at the Ongoing Surveillance Forum[2)] (held nineteen times) and Risk Study Forum[3)] (held once) meetings. During the forums, the attendees developed practical financial knowledge including risk management techniques.

Note : 1) Featured discussion by personnel and experts on the development of a specific financial sector (meetings held by sector)
2) Sought to build up the KDIC's risk management capability by inviting experts from insured financial institutions (banks, financial investment firms, conglomerates, and insurance companies)
3) Aimed to strengthen the KDIC's risk management capability by soliciting advice from outside professionals (mutual savings banks)

Table Ⅴ - 1

Main Contents of Financial Risk Review in 2017

Issue	Main Contents
Spring 2017	• The potential impact of interest rate hikes in the US on the Korean economy • Changes in the asset/profit structure in the financial investment sector and their implications
Summer 2017	• The 4th industrial revolution, future of financial services and our response • Household default risk due to changes in the residential property market and its implications
Autumn 2017	• Adoption of group-wide supervision of financial conglomerates, discussions regarding the evaluation of financial group risks and their implications • Risks due to an increase in non face-to-face financial transactions and their implications
Winter 2017	• Recent changes in the financial services industry and strengthening of financial resilience • Changes in the business accounting regime in the insurance sector and asset management by insurance companies • An evaluation of household debt risk in Australia and its policy implications

Since 2011, the KDIC has sought to collect opinions of financial experts in academia and have more constant communication with college students. As part of the effort, it operates the KDIC Exchange Program with the Finance Academy (KEPA), which consists of field training of college students, special lectures by KDIC staff members at universities, and lectures by academics.

In 2017, the KDIC offered field training to college students in the form of regular courses. The program informed students, as financial consumers, about the KDIC’s roles and responsibilities and served as an opportunity for them to gain hands-on financial experience. To deliver lectures, KDIC personnel visited not only college students, but also the financially underserved (the elderly), which is especially important now in light of the rise in digital financial transactions. The KDIC intends to consistently pursue and refine the program to publicize its deposit insurance system and ensure efficient communication with academia.

Strengthened Exchange with Insured Financial Institutions

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

In notifying each insured financial institution of its premium rate determined through risk analysis, the KDIC provided the management of such institution with information on any improvements from the previous year and the results of a comprehensive analysis based on comparison with and analysis of the entire financial sector concerned. This was intended to enhance fairness in deposit insurance premium pricing among insured financial institutions and to encourage their sound management.

Meanwhile, the KDIC expanded SHARE-3.0, a comprehensive information portal on mutual savings banks launched in 2016, to cover other financial sectors (banks, insurance carriers, and financial investment companies) as well. In July 2017, a comprehensive information portal on financial institutions was opened on its home page. For mutual savings banks, the portal offers more information, including CAEL indicators and key financial ratios, and data visualization makes it easier to read and more user-friendly. The portal has attracted many visitors, and its data is often quoted in media reports.

The KDIC hosted the fifth workshop for the management of mutual savings banks. The speakers included bank managers as well as policymakers and external experts, and the workshop featured presentations and panel discussions on various subjects concerning assessment of risk factors of mutual savings banks and best practices of risk management. On the day of the workshop, media outlets released fifteen articles. The number of the CEOs of mutual savings banks who attended the workshop rose sharply from 26 in 2016 to 38 in 2017, showing that the workshop is now a widely anticipated event in the sector. To improve risk management capabilities of the employees of mutual savings banks, the KDIC provided 46 training sessions in 2017.

The KDIC will continue to improve its market-friendly risk surveillance efforts by providing high-quality consultation and information.

Figure V - 1

Comprehensive Information Portal

Photo V - 1

The 5th Mutual Savings Banks Management Workshop and Training Sessions

2. Successful Implementation of the Risk-Based Premium System

Significance and Overview of the Risk-Based Premium System

The risk-based (or differential) premium system applies different premium rates to insured financial institutions in consideration of their managerial and financial conditions in order to reduce moral hazard and induce sound management. As a result of the KDIC's effort to introduce the system, Article 30(1) of the DPA was amended in February 2009. The amended law mandates that the system be applied to all insured financial institutions, beginning from 2014.

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

Table Ⅴ - 2

Types of Risk-based Assessment

<table>
<tr><th>Category</th><th>Target</th><th>Assessment Method</th><th>Applicable Rates</th></tr>
<tr><td>Model-based Assessment</td><td>Insured financial institutions that are not subject to either of the other types of risk-based assessment</td><td>Assignment of a grade from 1 to 3 depending on the firm's score on a 100-point scale</td><td>The premium rate assigned to the relevant grade</td></tr>
<tr><td>Assessment Based on a Specifically assigned Rate</td><td>Companies paying a small amount of premiums, etc.</td><td rowspan="2">No risk assessment needed</td><td>Rates predetermined in the regulations</td></tr>
<tr><td>Non-grade Assessment</td><td>Failed financial institutions, companies subject to a business improvement order including prompt corrective action restrictions, etc.</td><td>Rates predetermined in the regulations which are higher to compensate for risk</td></tr>
</table>

Table Ⅴ- 3

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

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

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

To minimize the impact on insured financial institutions' premium burden, the KDIC designated 2014 to 2016 as a "soft landing period" and 2017 and afterwards as a "full implementation period" in which the gap in differential premiums by grade increases. It is now gradually increasing the degree of premium rate differentiation in phases.

Risk-based Assessment of Insured Financial Institutions to Induce Sound Management

In 2017, the KDIC implemented risk-based premium assessment of 294 insured financial institutions for the first time. No single objection was raised against the risk-based assessment results, which testifies to the fact that risk-based premiums were calculated fairly and accurately. Such outcome was possible due to the KDIC's ceaseless efforts to raise awareness of the system and guarantee the accuracy of the risk-based assessment results, including holding presentations on the system for the staff of insured financial institutions. The KDIC also steadfastly improved the relevant IT system called Risk-Based Premium System (RBPS) towards that end.

The KDIC encourages sound management of insured financial institutions by active and timely provision of necessary information. Towards that end, it duly improved and expanded its comprehensive differential assessment analysis reports and implemented simulated differential assessments for the first time.

Continuous Improvement of Risk-Based Premium System

The KDIC overhauled its differential assessment model in 2016. It sought to incorporate supplementary financial indicators applicable to all financial sectors in 2017 for the first time since implementation of

Table Ⅴ- 4

Presentations Held for Each Financial Sector

Financial Sector	Bank	Life and Non-Life Insurance	Financial Investment	Mutual Savings Bank	Total
No.	1	1	1	5	8

differential assessment. It ultimately seeks to effectively grapple with changes in the financial environment, such as the surge in household loans in the banking sector, restructuring of marginal companies, and the burden of having to set aside more policy reserves on the insurance sector, and to make a timely response to core risk factors.

From the recommendation phase of suggested supplementary financial indicators, the KDIC induced active participation by insured financial institutions and their associations. It twice collected opinions on the proposed indicators to minimize potential dissatisfaction with the modified indicators, and it enhanced reliability regarding the indicator selection process to maximize their acceptability. Taking advantage of its ample experience and advanced expertise, the KDIC chose and notified indicators earlier in the year than before (May 2017) and allowed insured financial institutions to implement focused management of risk factors.

In addition, the KDIC swiftly reflected the changes in the regulatory environment in its differential assessment model to make the model more consistent. It identified changes in the Regulations on Supervision of Banking Business revised in 2016 and then modified its differential assessment indicators and thresholds. These developments were subsequently reflected in the Detailed Rules of the Regulations on Operation of the Risk-Based Premium System, which went into force in September 2017.

In December 2017, the KDIC formally recognized employees of ten insured financial institutions that achieved outstanding improvements in their risk-based assessment grades and made significant contributions to the development of the risk-based premium system, thereby increasing awareness of the system throughout the entire industry.

The KDIC implemented a survey on overall awareness of the risk-based premium system, and the findings are being used to improve the system. Working-level officers of insured financial institutions were surveyed to gauge the level of receptiveness to the system and evaluate the adequacy and effects of its operation. To ensure the greatest possible objectivity, the KDIC commissioned the survey to an external survey agency for the first time, and the highest-ever score was recorded since 2014, when the survey was first conducted. Survey respondents also said that their managers showed greater interest and exhibited stronger determination to achieve higher grades, which demonstrates that the insured financial institutions indeed became more aware of the risk-based premium system and increased their efforts to reduce major risks.

Photo Ⅴ - 2

Award of Merit for Advancing Risk-Based Premium System

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

MOU Conclusion and Examination of MOU Implementation

Since 1999, the KDIC has entered into MOUs with 14 public fund recipients and monitored their compliance with business normalization requirements in the MOUs in order to increase their corporate value and recover public funds injected into them as early as possible. Beginning in April 2002, 12 MOUs signed with financial institutions, including one with Woori Bank, were terminated when these institutions were sold to, or merged with healthy financial institutions. On December 1, 2016, the KDIC entered into an MOU with Suhyup Bank, spun off from the credit business unit of the National Federation of Fisheries Cooperatives, as a result of business restructuring. As of the end of 2017, the MOUs with Suhyup Bank and Seoul Guarantee Insurance were still in effect.

After a review of performance under the MOUs during the period from the fourth quarter of 2016 to the third quarter of 2017, the KDIC found that both Suhyup Bank and Woori Bank attained their targets.

The KDIC will continue to closely monitor the progress in MOU implementation, and it will seek to raise the corporate value of public fund-assisted companies in a way that enhances their system.

Improvement in MOU Management Efficiency

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

The KDIC also held three consolidated workshops with financial institutions that had signed MOUs with it. It thereby sought to share information and improve understanding between itself and the corresponding financial institutions for more effective MOU management. The KDIC shared information on its endeavors and plans to induce MOU signatories to create jobs and participate in financial inclusion initiatives.

Table V - 5

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

(As of Dec. 31, 2017)

<table>
<tr><th rowspan="2">Name of the Financial Institution</th><th rowspan="2">MOU Conclusion (Renewal)</th><th colspan="2">Business Performance Targets in the MOU</th><th rowspan="2">MOU Termination</th></tr>
<tr><th>Addition</th><th>Adjustment</th></tr>
<tr><td>Suhyup Bank (former credit business unit of the National Federation of Fisheries Cooperatives)</td><td>2001. 4.25
(2016. 12.1.[1])</td><td>2005. 3.23
2007. 3.28
2009. 3.30
2011. 3.30
2012. 3.29
2013. 4.24
2014. 3.25
2015. 3.25
2016. 3.25
2017. 3.22</td><td>2003. 2.12
2003. 7. 9
2005.12.21
2007.12.26
2010. 3.23</td><td>-</td></tr>
<tr><td>Seoul Guarantee Insurance Corporation</td><td>2000. 4.12[2]
(2001. 6. 9)</td><td>2005. 6.22
2007. 7.18
2009. 6.10
2011. 6. 8
2012. 6.12
2013. 6.26
2014. 3.25
2015. 3.25
2016. 3.25
2017. 3.22</td><td>2002. 7.10
2006. 6.21
2007.12.26</td><td>-</td></tr>
<tr><td>Woori Bank (former Hanvit Bank)</td><td>1999. 1.22[3]
(2000.12.30)</td><td>2003. 1.22
2005. 3.23
2007. 3.28
2009. 3.30
2011. 3.30
2012. 3.29
2013. 4.24
2014. 3.25
2015. 3.25
2016. 3.25</td><td>2004. 9.22
2007.12.26
2010. 3.23</td><td>2016.12.16.[3]
(Sold to Oligopolistic Shareholders)</td></tr>
<tr><td>Jeju Bank</td><td>2000.12.30</td><td>-</td><td>-</td><td>2002. 4.29
(Sold to Shinhan Financial Group)</td></tr>
<tr><td>Seoul Bank</td><td>2000.12.30</td><td>-</td><td>2001. 6.29</td><td>2002.12. 1
(Sold to Hana Bank)</td></tr>
<tr><td>Chohung Bank</td><td>1999.11.12[2]
(2002. 1.31)</td><td>-</td><td>-</td><td>2003. 8.19
(Sold to Shinhan Financial Group)</td></tr>
<tr><td>Daetoo Investment & Securities</td><td>2000. 9.25[2]
(2002. 2.20)</td><td>-</td><td>-</td><td>2005. 5.31
(Sold to Hana Bank)</td></tr>
<tr><td>Korea Investment & Securities</td><td>2000. 9.25[2]
(2002. 2.20)</td><td>-</td><td>-</td><td>2005. 3.31
(Sold to former Dongwon Financial Group)</td></tr>
<tr><td>Korea Life Insurance</td><td>2000. 4.12[2]
(2001. 9. 5)</td><td>-</td><td>-</td><td>2002.12.12
(Sold to Hanwha Consortium)</td></tr>
<tr><td>Woori Credit Card (former Peace Bank)</td><td>2000. 6. 7[2]
(2000.12.30)</td><td>-</td><td>2002. 3.25</td><td>2004. 3.31
(Merged with Woori Bank)</td></tr>
<tr><td>Woori Merchant Bank</td><td>2000.12. 9</td><td>-</td><td>2001. 6.29</td><td>2003. 8. 1
(Merged with Woori Bank)</td></tr>
<tr><td>Woori Finance Holdings Co.</td><td>2001. 7. 2</td><td>-</td><td rowspan="3">2004. 9.22
2007.12.26
2010. 3.23</td><td>2014. 11. 3
(Merged with Woori Bank)</td></tr>
<tr><td>Kwangju Bank</td><td>2000.12.30</td><td>-</td><td>2014.10.10
(Merged with JB Financial Group Co.)</td></tr>
<tr><td>Kyongnam Bank</td><td>2000.12.30</td><td>-</td><td>2014.10.10
(Merged with BS Financial Group Inc.)</td></tr>
</table>

Note : 1) On December 1, 2016, an MOU was concluded with Suhyup Bank, which was spun off from the credit business unit of the National Federation of Fisheries Cooperatives according to its organizational restructuring.

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

3) The MOU between the KDIC and Woori Bank was terminated by resolution of the Public Fund Oversight Committee on August 22, 2016 under Article 9(2) of the MOU Management Rules when sale of the bank to a group of shareholders who formed a consortium was clinched.

VI

Resolution of Insolvent Financial Institutions

1. Conservatorship of Insolvent Financial Institutions

Insolvent Financial Institutions in KDIC Conservatorship

Many insolvent mutual savings banks (MSBs) were placed into restructuring simultaneously in 2011. The restructuring of some of them continued into 2013 through 2015. Immediately after Golden Bridge Savings Bank was designated as insolvent on August 27, 2014, the KDIC was appointed as conservator. According to the business suspension and P&A (Purchase and Assumption) order by the FSC on January 16, 2015, the KDIC swiftly resolved the bank through a 'P&A transaction with a third party in the course of normal operations.' In accordance with issuance of a business improvement order on September 16, 2015, ○○ Savings Bank was put under conservatorship, which was brought to an end in April 2016 as it was normalized after a paid-in capital increase by its controlling shareholder.

Table Ⅵ- 1

Receivership of Insolvent Financial Institutions Since 2013

Bank Name	Date of Business Suspension	Current Status (Acquirer)	Date of P&A	Date of Bankruptcy Declaration
Seoul Savings Bank	2013. 2.15	Bridge bank P&A (Yeju Savings Bank)	2013. 2.15	2013. 9.26
Youngnam Savings Bank	2013. 2.15	Bridge bank P&A (Yesol Savings Bank)	2013. 2.15	2013. 9.26
Shilla Savings Bank	2013. 4.12	Bridge bank P&A (Yeshin Savings Bank)	2013. 4.12	2013.10.29
Green Non-Life Insurance	2013. 5. 3	3rd-party P&A (MG Non-Life Insurance)	2013. 5. 3	2013.11. 1
Smile Savings Bank	2013.11. 1	Bridge bank P&A (OSB Savings Bank)	2013.11. 1	2014. 4.29
Hanul Savings Bank	2013.12.27	Bridge bank P&A (Pepper Savings Bank)	2013.12.27	2014.7. 1
Haesol Savings Bank	2014. 5. 2	3rd-party P&A (Welcome Savings Bank)	2014. 5. 2	2014.10.21
Hanmag Investment Securities	2014. 1.15	P&A of assets deposited by investors (IM Investment & Securities)	2014.12.26	2015. 2.16
Golden Bridge Savings Bank	2015. 1.16	3rd-party P&A (Choeun Savings Bank)	2015. 1.16	2015. 6.15
○○ Savings Bank	-	Business Normalized	-	-

Systematic Conservatorship of Insolvent Financial Institutions

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

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

After a business improvement order was issued against ○○ Mutual Savings Bank in 2015, the KDIC sent one administrator and one assistant administrator to the suspended mutual savings bank according to its staffing standards until its conservatorship was ended in April 2016. The KDIC also sent one assistant administrator to △△ Mutual Savings Bank, a subsidiary of the former, and both of their business administration and asset management indeed improved.

2. Depositor Friendly Resolution of Insolvent Financial Institutions

Resolution of Insolvent Financial Institutions and Improvement of the Resolution System

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

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

The KDIC pursued the same arrangement for Haesol Savings Bank, declared insolvent in October 2013. For Haesol Savings Bank, a P&A transaction with Welcome Savings Bank was completed in May 2014. For resolution of Golden Bridge Savings Bank, which fell into insolvency in August 2014, a P&A transaction with Choeun Savings Bank during normal operations was completed in January 2015, which maintained the momentum for resolving insolvent financial institutions without disruption to financial transactions. In 2017, no mutual savings bank was declared insolvent, and the KDIC reviewed its resolution process to better prepare for the possibility of any mutual savings bank falling into insolvency.

Table Ⅵ-2

Resolution of MSB Failures that Occurred in 2014 through 2017 (P&A with a third party in the course of normal operations)

Name of MSB	Date of Declaration of Insolvency	Date of P&A (Date of Business Suspension)	Acquiring Institution
Haesol Savings Bank	2013.10.10	2014. 5. 2	Welcome Savings Bank
Golden Bridge Savings Bank	2014. 8.27	2015. 1.16	Choeun Savings Bank

Swift Payment of Deposit Insurance Claims

In the past, it took at least four months to pay off deposit insurance claims when an insolvent bank's operations were suspended. It was because depositor information necessary for calculation of such claims was not stored in a bank's IT system.

In the first half of 2017, the KDIC pursued establishment of a scheme that would require KDIC-insured financial institutions to keep depositor records in a format that would provide a comprehensive view of each customer's all eligible deposits in consultation with seventeen banks and one merchant bank in Korea to ensure timely payment of deposit insurance claims, and it completed development of the necessary information system in December. Such a system had already been implemented for the mutual savings banking sector in 2016. Now, all banks carry out ongoing maintenance and management of depositor information needed to compute individual insurance claims. In the event of a bank's business suspension, the KDIC is now capable of receiving depositor information promptly and paying deposit insurance claims swiftly.

The fact that domestic depositors can quickly collect deposit insurance claims in accordance with global standards has greatly reinforced not only depositor protection, but perhaps most importantly, boosted public confidence in deposit insurance services.

Table Ⅵ-3

Depositor Information Retention Scheme Development Process

Date	Process
2017 Jan.	• Seminars to explain system requirements and distribution of development guidelines
2017 Feb~May	• Seminars with working-level staff of individual banks, etc.
2017 May~Dec.	• Consultation with banks, etc. regarding IT work involved in system development, and commencement of work
2017 Dec.	• Completion of system development and testing

3. Sale of KDIC stakes in Woori Bank, Hanwha Life Insurance, etc.

In 2017, the KDIC recovered approximately KRW 275.3 billion from Woori Bank by selling off its stake through call options granted upon sale of minority interests in 2014. In April 2017, it recovered KRW 57.8 billion in regular dividends. In August 2017, it collected KRW 12.8 billion in interim dividends after Woori Bank's completion of a bond sale regarding the Hua Fu building in China (KRW 171 billion in special profits realized). As shown above, the KDIC worked hard to fulfill its obligations as a public fund management agency. As of the end of 2017, the KDIC had a 18.43% stake in Woori Bank.

In 2017, it recovered KRW 333 billion through two block sales of a 5.25% stake in Hanwha Life Insurance (1st sale: 2.75%, 2nd sale: 2.5%). Its stake in Hanwha Life Insurance stood at 10.0% as of the end of December 2017. During the year, it also collected KRW 321 billion in regular dividends from Seoul Guarantee Insurance on its 93.85% stake.

Table Ⅵ-4

Major Sales of KDIC Stakes in 2017

Date	Process
2017.1.31.	• Recovered KRW 133.8 billion by selling a 2% stake in Woori Bank to IMM PE, which is one of the investors who as a group have ownership of the bank
2017.3.31.	• Recovered KRW 10.6 billion in regular dividends from Hanwha Life Insurance
2017.4.12.	• Recovered KRW 12.7 billion from the sale of preferred shares in the National Federation of Fisheries Cooperatives to the Federation, which then retired the shares
2017.4.14.	• Recovered KRW 57.8 billion in regular dividends from Woori Bank
2017.4.28.	• Recovered KRW 321 billion in regular dividends from Seoul Guarantee Insurance
2017.5.11.	• Shinhan Investment Corp. exercised its call option. → Sold a 0.09% stake in Woori Bank for about KRW 8.3 billion
2017.6.16.	• Woori Bank Employee Stock Ownership Association exercised its call option (1st). → Sold a 1.62% stake in Woori Bank for about KRW 152 billion
2017.6.22.~28.	• NH Investment & Securities exercised its call option. → Sold a 0.70% stake in Woori Bank for about KRW 65.3 billion
2017.7.3.	• Hyosung Capital exercised its call option. → Sold a 0.18% stake in Woori Bank for about KRW 17.3 billion
2017.8.11.	• Recovered KRW 12.8 billion in interim dividends from Woori Bank
2017.8.21.	• Recovered KRW 173.9 billion through a block sale of 2.75% of shares in Hanwha Life Insurance
2017.9.28.	• Woori Bank Employee Stock Ownership Association exercised its call option (2nd). → Sold a 0.26% stake in Woori Bank for about KRW 24 billion
2017.11.23.	• Recovered KRW 159.1 billion through a block sale of 2.5% of shares in Hanwha Life Insurance
2017.12.7.	• Woori Bank Employee Stock Ownership Association exercised its call option (3rd). → Sold a 0.09% stake in Woori Bank for about KRW 8.3 billion

Table Ⅵ-5

Provision of Financial Assistance and Recoveries by KDIC

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Institutions		Amount Provided	Amount Recovered[1)]	In 2017	Recovery Rate	Value of Remaining Stake[2)]	KDIC Stake
KDIC	Woori Bank	12,766.3	10,932.1	417.4	85.6%	1,962.5 (1,575.0 per share)	18.43%
	Seoul Guarantee Insurance Corporation	10,250.0	3,522.9	321.0	34.4%	2,259.6	93.85%
	Hanwha Life Insurance	3,550.0	2,481.0	343.6	69.9%	600.2 (691.0 per share)	10.00%
	Special Account of the Credit Business Unit of the National Federation of Fisheries Cooperatives	1,158.1	12.7	12.7	1.1%	1,145.4	Preferred Shares
Total		27,724.4	16,948.7	1,094.7	60.7%	5,967.7	-

Note : 1) Based on amounts recovered in share sales, stock dividends, redemption of redeemable convertible shares, etc.
2) The valuation for Woori Bank and Hanwha Life Insurance is based on the closing prices on Dec. 31, 2017.
The valuation for Seoul Guarantee Insurance is based on the valuation carried out in 2013 when a re-calculation was performed for the Redemption Fund (with an acquisition cost of KRW 136.1 billion).
The valuation for the Special Account of the Credit Business Unit of the National Federation of Fisheries Cooperatives is based on the KDIC's closing statement at the end of 2017.

4. Management of Special Assets of Insolvent Financial Institutions

Status of Special Assets

Overview

Since 2011, financial authorities have suspended many mutual savings banks from operation including those affiliated with Busan Bank owing to deteriorating business conditions resulting from the prolonged slowdown in the real estate market, among other things. Many of the assets of these insolvent mutual savings banks were classified as special assets. As of the end of 2017, the KDIC was managing a total of KRW 11.2406 trillion in special assets.

Special assets are those acquired through illegal means by, for example, establishing an SPC (special purpose company) under a borrowed name by persons closely related to a bank such as stockholders, granting of loans by the bank to such SPCs, and implementing a large-scale construction project such as apartment construction in Korea or abroad. Thus, there are numerous legal disputes among the interested parties

Table Ⅵ- 6

Status of Special Assets

(As of Dec. 31, 2017, Unit: No., KRW 1 billion)

Type	Number of Project Sites	Loan Balance	Effective Collateral Value
Real Estate Including PF Real Estate	756	9,622.5	1,268.5
Ship Investments	4	345.0	-
Equity Holdings	23	297.2	1.6
Foreign Assets	24	706.2	275.9
Others Including Artworks	5	10.0	10.4
Total	812	10,980.9	1,556.4

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 established the Department of Special Asset Management and Recovery in the second half of 2011 for precisely that purpose. The department is to be reorganized into one department (Department of Project Financed (PF) Asset Recovery) and two offices (Phnom Penh Office, Complex Asset Recovery Task Force) in January 2018.

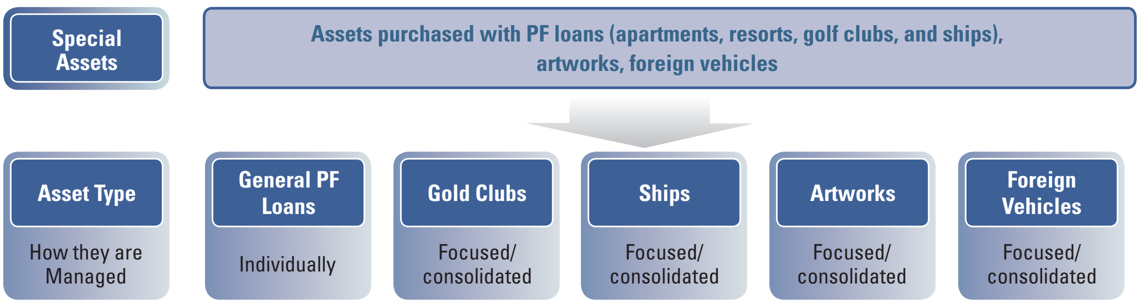
Management of Special Assets

Beginning from the time a mutual savings bank is suspended from business, the department in charge of managing special assets identifies the current status of special assets by ascertaining the loan underwriting process pertinent to the special assets, analyzing related rights, and inspecting construction sites in the case of a PF loan. At the same time, it analyzes factors reducing the value of such assets and determines what needs to be done to efficiently manage them.

In addition, the KDIC preferentially handles recovery of special assets whose value is expected to drop sharply such as project sites regarding which

Figure Ⅵ- 1

Management of Special Assets by Type



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.

The KDIC set up the Asset Recovery Advisory 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.

Ensuring Maximum Recovery of Special Assets

Recovery Management System

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

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

Similar assets are grouped together, and dedicated managers are assigned to each asset for more efficient recovery.

Since 2014, the KDIC hosted 10 investor seminars in Seoul and seven major provincial cities including Busan to offer necessary information to prospective investors. In the process, it listened closely to the potential investors and provided them with the information that they had indicated in surveys as being most important.

The KDIC maintains cooperative ties with the agencies concerned for effective management and recovery of special assets. In close cooperation with the Public Prosecutors' Office, which is in charge of investigating irregularities involving major shareholders and other related parties of insolvent mutual savings banks, it swiftly takes over seized assets to preserve its claim as creditor. It also submits regular reports on special asset management to the court of competent jurisdiction. For efficient recovery of special assets located in foreign countries including Cambodia, the KDIC set up a local office and to resolve local legal and administrative issues, utilizes expert groups including local law firms and maintains close relations with Korean embassies abroad.

Figure Ⅵ-2

Four-Phase Special Asset Recovery Process

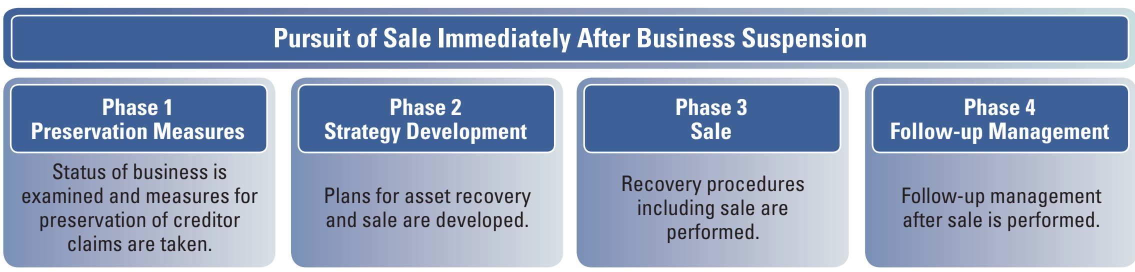
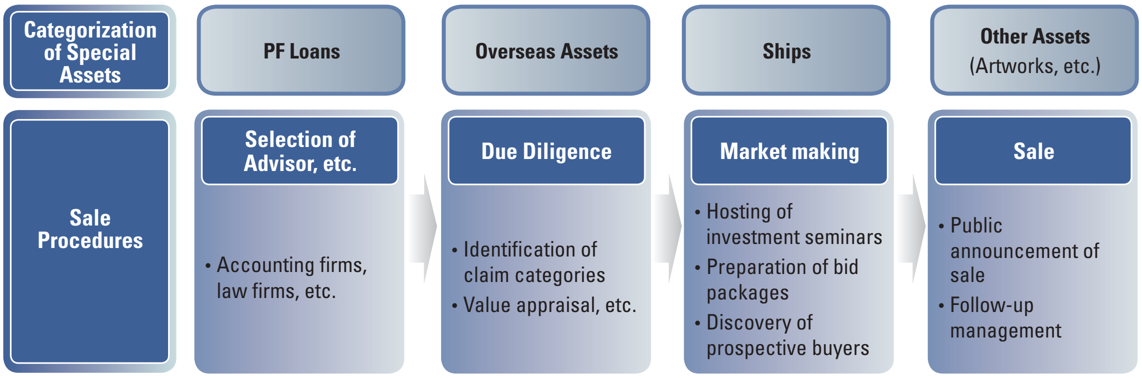


Figure Ⅵ- 3

Types and Sale Procedures of Special Assets



Recovery Process

The procedure for the disposal of special assets is as follows: estimation of proper prices considering the characteristics of the asset (usually a construction project) concerned and marketability of the collateral; development of a recovery plan appropriate for the asset; selection of a sales advisor; and sale with open bidding.

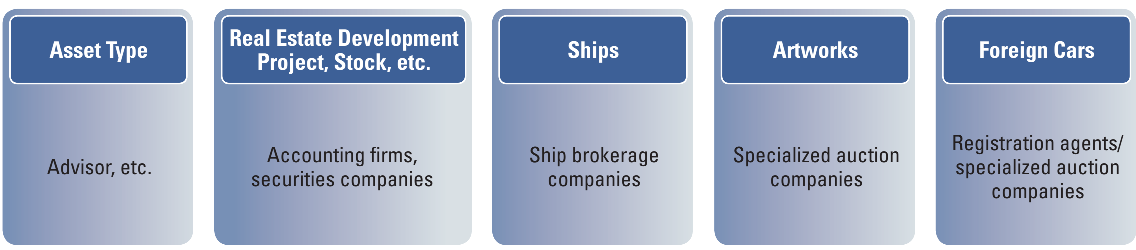
For the sale of special assets at fair value, the KDIC selects an accounting firm to conduct a feasibility study for a real estate development project. Based on legal consultation by outside professionals including attorneys, priority of claims and any legal issues associated with the asset is analyzed.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

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

The KDIC analyzed the approaches and difficulties to sale of PF projects remaining unsold for an extended period of time, and it collected opinions of appropriate institutions (namely, trust companies) concerning their sale. This resulted in adoption of a new approach dubbed “grand sale” for PF projects. The KDIC employed a wider array of sale methods for over 30 projects each quarter and placed a full-page advertisement for greater publicity.

Figure Ⅵ- 4

Types of Outside Experts Retained by the KDIC for Asset Sale



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

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

Recovery Performance

The KDIC aggressively pursued recoveries on the basis of its special asset recovery management system. It has managed to increase its recoveries every year since 2011. By the end of 2017, it recovered KRW 4.29 trillion in total including KRW 251 billion through a sales agreement by means of a new sales mechanism called "grand sale."

Table Ⅵ- 7

Recovery of Special Assets by Type

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Type	Recovery Performance						
	Before 2012	2013	2014	2015	2016	2017	Total
Real Estate	173.7	352.9	952.2	1,051.6	482.9	540.8	3,554.1
Ships	22.3	66.1	87.0	120.0	15.2	-	310.6
Stock	83.8	64.1	21.4	18.3	0.1	1.0	188.7
Foreign Assets	75.2	15.4	35.7	8.1	7.5	35.0	176.9
Others Including Artworks	5.3	4.9	8.6	16.1	11.6	12.1	58.6
Total	360.3	503.4	1,104.9	1,214.1	517.3	588.9	4,288.9

Photo Ⅵ- 1

Opening of Cambodia Phnom Penh Office

VII

Management of Bankruptcy Estates and Acquired Assets

1. Management of Bankruptcy Estates
2. Management of Assets Acquired from Insolvent Financial Institutions

1. Management of Bankruptcy Estates

Management Status of Bankruptcy Estates

KDIC's Role as Bankruptcy Trustee

A bankruptcy trustee is a "person appointed by court to manage the assets of a bankruptcy estate and handle its affairs in accordance with bankruptcy procedures" (「Legal Glossary」, Ministry of Government Legislation). Upon declaration of bankruptcy, a court appoints a bankruptcy trustee who shall determine the date of the first meeting of creditors and the like (Article 312(1) of the Debtor Rehabilitation and Bankruptcy Act).

Under the Debtor Rehabilitation and Bankruptcy Act, a bankruptcy trustee takes over, manages and disposes of the assets held by a bankruptcy estate, assesses their value, and distributes the proceeds of asset sales to creditors with court approval. A bankruptcy trustee must fulfill his duties by exercising due care and shall be liable to render compensation for losses incurred by stakeholders as a result of his neglect of due care (Article 361 of the same Act).

In the meantime, the Depositor Protection Act, for the purpose of efficient recovery of public funds, provides that if an insured financial institution for which the KDIC reimbursed depositors or provided financial assistance is dissolved or becomes bankrupt, the KDIC or its employee shall be appointed as a liquidator or bankruptcy trustee notwithstanding applicable laws (Article 35-8 of the Depositor Protection Act).

Accordingly, the KDIC was appointed as a bankruptcy trustee for 36 bankruptcy estates of insured financial institutions nationwide and dispatched its employees as its representatives as of the end of 2017. In close cooperation with the court, it pursued efficient and swift implementation of bankruptcy procedures to maximize the recovery of public funds.

Efficient Management of Bankruptcy Estates

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

The KDIC has several schemes in place to prevent financial incidents and to improve work efficiency. For

Table Ⅶ- 1

Bankruptcy Estates and Trustees

(Unit : No. of Estates, No. of Persons)

Category	End of 2016	End of 2017
Bankruptcy Estate	39	36*
Bankruptcy Trustee	34	31

* In the case of two estates (Wise Asset Management and Hanmag Investment Securities) which had not received KDIC funds, the FSC recommended that KDIC be appointed as their trustee base on Article 15 of the Act on the Structural Improvement of the Financial Industry.

instance, it regularly rotates employees stationed at bankruptcy estates including trustees. It hosts annual workshops for bankruptcy trustees in which they are encouraged to share their experience and know-how and provides them with estate management guidelines and business instructions. In July and September of 2017, the KDIC held workshops for bankruptcy estate staff in Seoul and the surrounding metropolitan area and in Daejeon to improve their recovery capabilities.

In 2017, the KDIC began offering practical training for bankruptcy estate employees at the Bankruptcy and Resolution Academy, the KDIC's training program for professional bankruptcy personnel, and sixteen persons took the training for capacity building.

In order to boost recovery of funds by bankruptcy estates, the KDIC began offering special bonuses as incentives to the staff at bankruptcy estates who achieve considerable progress in the liquidation of real estate holdings, recovery of non-performing loans, etc.

Improvement of Debt Restructuring and Debt Relief

Since 2001, the KDIC has employed a debt restructuring system for debtors of bankruptcy estates not expected to normally repay their loans, given their financial conditions and debt service capacity. It has consistently improved the debt restructuring scheme.

In 2017, a KDIC menu was created for the integrated small-loan finance call center (telephone number: 1397) to enable guidance and counseling on, and subsequently boost, debt restructuring. Besides, online debt restructuring services were launched to allow debtors to request counseling on the KDIC webpage without visiting bankruptcy estates, which greatly increased their accessibility.

In addition, the KDIC was able to confirm and correct debtors' addresses starting in 2017 because the Ministry of Government Administration and Home Affairs made its electronic resident registration data available. The KDIC improved guidance on debt restructuring by stipulating that notices providing information on the debt restructuring system must be sent to corrected addresses by mail at least twice a year. To alleviate the burden on debtors, the grace period was extended to up to three years and interest was waived during the grace period.

The KDIC rescheduled debt for 17,149 debtors in 2017 through a series of improvements to the debt restructuring system, providing them with an opportunity to become financially independent once again. It recovered KRW 90 billion in long-overdue bankruptcy claims of which collection had remained quite uncertain.

As regards the negative prescription of debts applicable to the financially underserved populations including

Photo Ⅶ- 1

2017 Bankruptcy Estate Trustees and Staff Workshop

Table Ⅶ- 2

Institutional Improvement for Debt Restructuring Services and Debt Relief

Improved Area	Eligible Debtor	Main Activity
Call Center Consultation	• All debtors	- Working with a small-loan finance call center (#1397) that provides financial counseling for the working poor, the KDIC started to provide advice to the financially marginalized regarding how to have their debts restructured.
Online Debt Adjustment Service	• All debtors	- Can view debt details and apply for debt adjustment on KDIC website without visiting bankrupt financial companies
Reduction of Debt Burden	• Socially underprivileged, etc	- Expansion of grace period (from two years to a maximum of three years) and elimination of the cap on the number of applications for debt restructuring, and waivering of interest payment during the grace period
Greater Publicity Efforts	• All debtors	- Mandatory provision of information (at least twice a year) on the debt restructuring system and one-stop change of debtors 'addresses
Debt Relief	• Debtors against Whom Payment Cannot be Claimed	- Relief of debts whose time limit for collection has expired, etc. - The KDIC enabled a view of individual debtors' forgiven debt (owed to failed financial institutions) on the websites of the KDIC and the Korea Credit Information Services.

the elderly and small debtors, prescription extension in principle was replaced by selective prescription extension. The KDIC wrote off (or waived) 30,000 debts totaling KRW 0.7 trillion which lacked legal claims for such reasons as completion of the negative prescription (102,000 debts totaling KRW 1.8 trillion on a cumulative basis). This completely eliminated the risk of debt restoration. The KDIC improved its debt information inquiry system so that any forgiven debts may be checked on the webpages of the KDIC and Korea Credit Information Services.

Maximization of Asset Marketability and Dividend Collection

The KDIC sought to sell off assets owned by bankruptcy estates in a number of ways and in an efficient and prompt manner. Depending on the type of asset, it utilized the Korea Asset Management Corporation's OnBid electronic bidding system, public sale by trust companies, or court or other auctions. It did its best to maximize purchasers' convenience by, for example, easing the conditions for extending payment deadlines.

It also upgraded the KDIC Public Auction Information system, which provides potential buyers with easier access to information on joint public sale of assets held by bankruptcy estates. It emphasized greater user-friendliness to allow even those without any knowledge or experience in an auction or public sale to use the system. For such purpose, the KDIC collected opinions of various users and benchmarked excellent functions of related sites. It then designed a graphic main screen and menu that are easy to see and use, and the system indeed enabled more convenient search of information on various assets for sale, their public sale, and other events. Furthermore, the KDIC produced webtoons and posted them on its home page, blog, and YouTube channel to promote understanding of the joint public sale scheme and bidding method.

The KDIC embedded banners promoting joint public sale on the websites of appropriate organizations such

Photo Ⅶ- 2

Upgraded KDIC Public Auction Information System

as the Korea Association of Realtors and Good Auction, and it distributed leaflets at joint public sale sites and leading market expos around the country.

Taking advantage of its accumulated experience, the KDIC has operated the Recovery Support System for efficient management of assets owned by bankruptcy estates. The system greatly improved asset management of bankruptcy estates by facilitating systematic and ongoing identification of asset status per type and assets targeted for sale and generating useful statistical data.

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.

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

Table Ⅶ- 3

Sales of Assets Owned by Bankruptcy Estates

(As of Dec. 31, 2017, Unit: No. of sales, KRW 1 billion)

Category	2015		2016		2017	
	No.	Amount	No.	Amount	No.	Amount
Real Estate	238	309.7	175	186.7	65	60.5
Golf and Condominium Membership, etc.	132	11.8	38	7.7	14	2.2
Non-listed Stocks	19	2.3	8	0.1	8	2.3

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

Timely Closure of Bankruptcy Estates

With respect to bankruptcy estates whose bankruptcy proceedings have been so drawn out that they can not be managed efficiently any more, the KDIC pursues legal closure of inefficient bankruptcy estates after evaluation and sale of remaining assets and final distribution of dividends, based on consultation with a competent court. Such early termination of inefficient bankruptcy estates maximizes dividend payments to bankruptcy creditors.

As of the end of December 2017, 454 out of a total of 490 bankruptcy estates were declared closed by the court and the KDIC plans to pursue legal closure of inefficient bankruptcy estates among the remaining 36 estates.

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

Table Ⅶ- 4

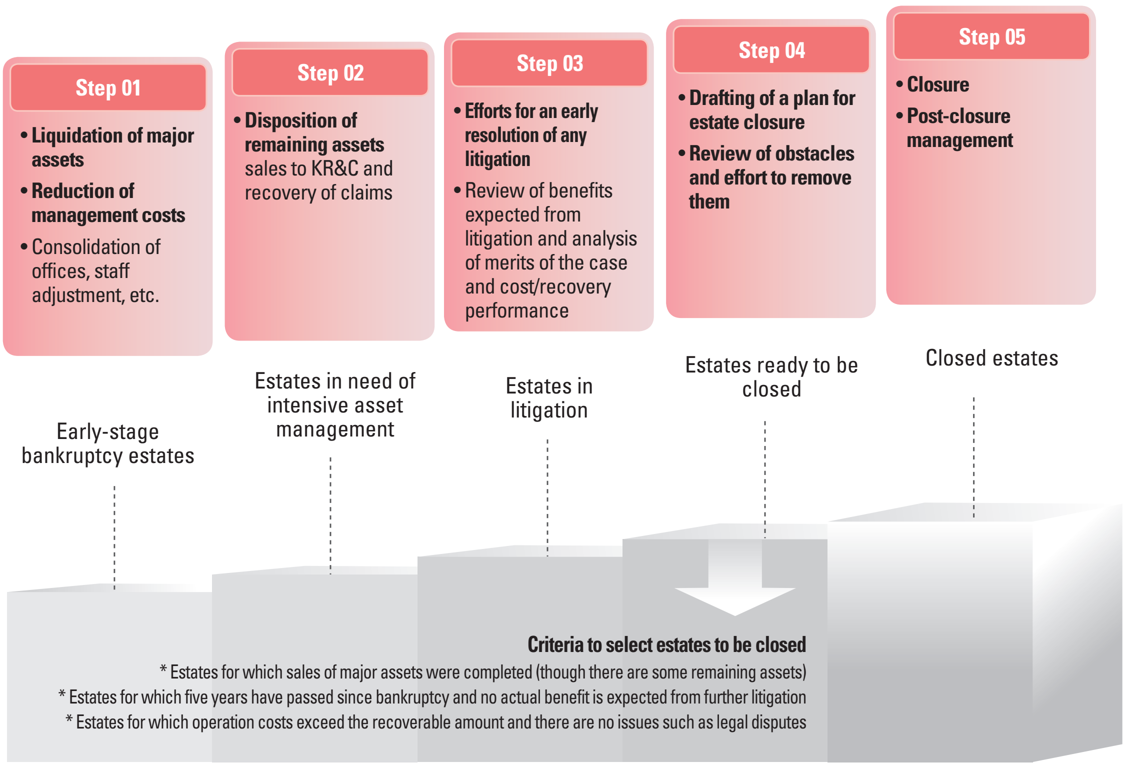
Bankruptcy Estates that are Closed or Still Open

(As of Dec. 31, 2017, Unit: No. of estates, %)

Category		Banks	Insurers	Investment Firms	Merchant Banks	Savings Banks	Credit Unions	Total
Total No. of Estates(A)		5	11	6	22	121	325	490
Closed	No. of Closed Estates (B)	5	10	4	22	88	325	454
	Closure Rate (B/A×100)	100	91	67	100	73	100	93
Remaining Estates (A-B)		0	1	2	0	33	0	36

Figure Ⅶ- 1

Bankruptcy Estate Management from Establishment to Termination



2. Management of Assets Acquired from Insolvent Financial Institutions

Assets Acquired from Insolvent Financial Institutions

By year-end 2017, the KDIC had acquired a total of KRW 49.061 trillion in assets (based on acquisition costs) through a resolution financial institution (called the Korea Resolution & Collection, KR&C). Of that amount, KRW 0.3 billion worth of assets (based on acquisition costs) were acquired in 2017 alone.

In December 1999, the Resolution & Finance Corporation (RFC, currently the KR&C) was established to acquire assets of Korea First Bank (KFB) which the acquirer (New Bridge Capital) refused to take over and KFB's put-back options, along with assets that had not been assumed by any acquirer in the process of restructuring of other failed financial institutions. By the end of 2017, with borrowings from the DIF Bond Redemption Fund of the KDIC, the RFC had acquired assets worth KRW 49.061. trillion (based on acquisition costs). This included KRW 7.8386 trillion from KFB, KRW 158.8 billion from five acquiring banks (Kookmin, H&CB, Shinhan, Hana, and Koram), KRW 355.0 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 375.7 billion from 467 bankruptcy estates, KRW 514.8 billion from 37 mutual savings banks*, and KRW 38.5109 trillion from the absorption of Hanareum Merchant Bank and Hanareum Mutual Savings Bank.

* Hanmaum, Hanjung, Arim, Good Friend, Daewon, Hongik, Kyongbook, Hyundai, Bundang, Jeonbuk, Eutteum, Jeonil, Busan, Busan 2, Busan Central, Daejeon, Jeonju, Bohae, Domin, Kyongeun, Ace, Jeil, Jeil 2, Jinheung, Tomato, Tomato 2, Parangsae, Prime, Hanju, Gyeonggi, Shilla, Seoul, Youngnam, Smile, Hanul, Haesol, and Golden Bridge

Table Ⅶ- 5

Assets Acquired by the Resolution Financial Institution (Accumulated)

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Category		Amount of Claims	Amount Purchased	Note
KR&C	Banks	9,869.5	7,997.4	6 banks (including Jeil Bank)
	Insurance Company	403.2	355.0	5 life insurers
	Investment Companies	2,532.4	1,307.2	3 investment companies
	Bankruptcy Estates	9,847.9	375.7	467 estates (5 banks, 10 insurers, 4 investment firms, 22 merchant banks, 87 savings banks, 339 credit unions[1])
	Mutual Savings Banks	2,642.9	514.8	37 mutual savings banks
	Subtotal	25,295.9	10,550.1	-
Hanareum Merchant Bank[2]	Merchant Bank	33,058.8	32,662.5[3]	16 merchant banks
Hanareum Savings Bank[2]	Savings and Loan Institution	7,984.8	5,848.4[3]	41 mutual savings banks
Total		66,339.5	49,061.0	-

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

Table Ⅶ- 6

Assets Acquired by the Resolution Financial Institution in 2017

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Acquired Parties	Amount of Claims	Amount Purchased	Note
Three Bankruptcy Estates Including That of Hongik Mutual Savings Bank	189.1	0.3	-

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 speed up their closure.

As of the end of 2017, the balance of assets held by the KR&C stood at KRW 7.8488 trillion, KRW 140.6 billion of which was directly managed by the KR&C while the remaining KRW 7.7082 trillion was entrusted to outside agencies for efficient management.

In addition, the KDIC recovers loans by means of using services of specialized external agencies for loan collection and restructuring. It pursues recovery through regular joint public auctions for securities and real estate, and through collection of bankruptcy dividends for indemnity claims.

Figure Ⅶ- 2

Duties of the KR&C

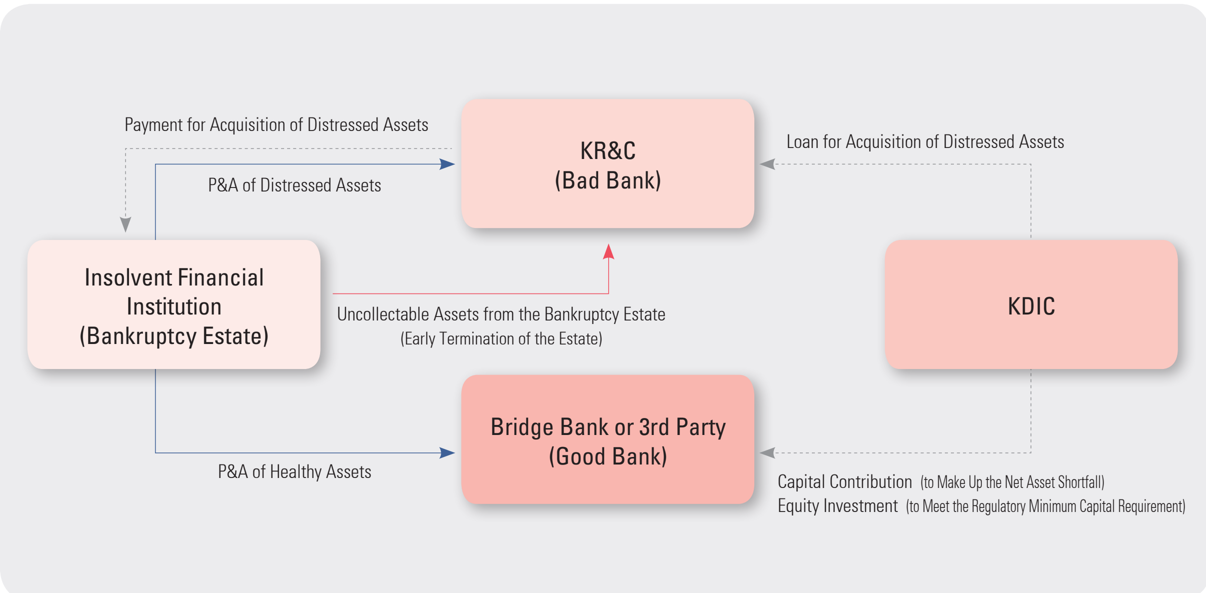


Table Ⅶ- 7

Assets Owned by the KR&C (Balance)

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Asset Type*	Directly Managed	Commissioned to Outside Experts for Management	Total
Loans	41.7	7,661.2	7,702.9
Securities	25.9	-	25.9
Indemnity Receivables**	-	-	-
Real Estate, etc.	73.0	47.0	120.0
Total	140.6	7,708.2	7,848.8

* Compensation for damages claims and etc. are excluded
** The remaining balance of indemnity receivables is zero because all merchant banks and mutual savings and finance companies for which the KDIC paid off deposits have been liquidated through bankruptcy as of end-2017.

VIII

Accountability for Insolvency

1. Investigations against Insolvent Financial Institutions

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

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

* Current or former officers or employees of insolvent financial institutions, persons who can give business instructions to others as prescribed in the Commerce Act, debtors who have not performed obligations to insolvent financial institutions, and other third parties

The KDIC found it imperative to systematically investigate unlawful activities perpetrated by insolvent financial institutions and default debtor companies in close collusion with those institutions. It organized the Insolvency Investigation Division in March 2008 by merging the Investigation Department in charge of investigations against insolvent financial institutions and the Special Investigation Mission for Default Debtor Corporations responsible for investigations against default debtor companies. Structured as two bureaus and two departments, the Insolvency Investigation Division had 106 members as of end-2017 including seconded officers from related organizations such as the Public Prosecutors' Office. For increased efficiency of investigations, the Division not only utilizes the expertise and know-how of the seconded officers but actively seeks data from appropriate organizations.

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

Table Ⅷ- 1

Investigations into Illegal and Wrongful Activities Regarding Insolvent Financial Institutions (Accumulated)

(As of Dec. 31, 2017, Unit: No. of cases, No. of persons)

Category	Redemption Fund		DI Fund		Total	
	No. of Institutions (A)	No of Employees Responsible for the Failures (B)	No. of Institutions (C)	No of Employees Responsible for the Failures (D)	No. of Institutions (A+C)	No of Employees Responsible for the Failures (B+D)
Banks	15	191	-	-	15	191
Investment Companies	6	65	-	-	6	65
Insurance Companies	18	244	1	6	19	250
Merchant Banks	22	160	-	-	22	160
MSBs	86	789	46	516	132	1,305
Credit Union[1]	325	4,146	-	-	325	4,146
Total	472	5,595	47	522	519	6,117

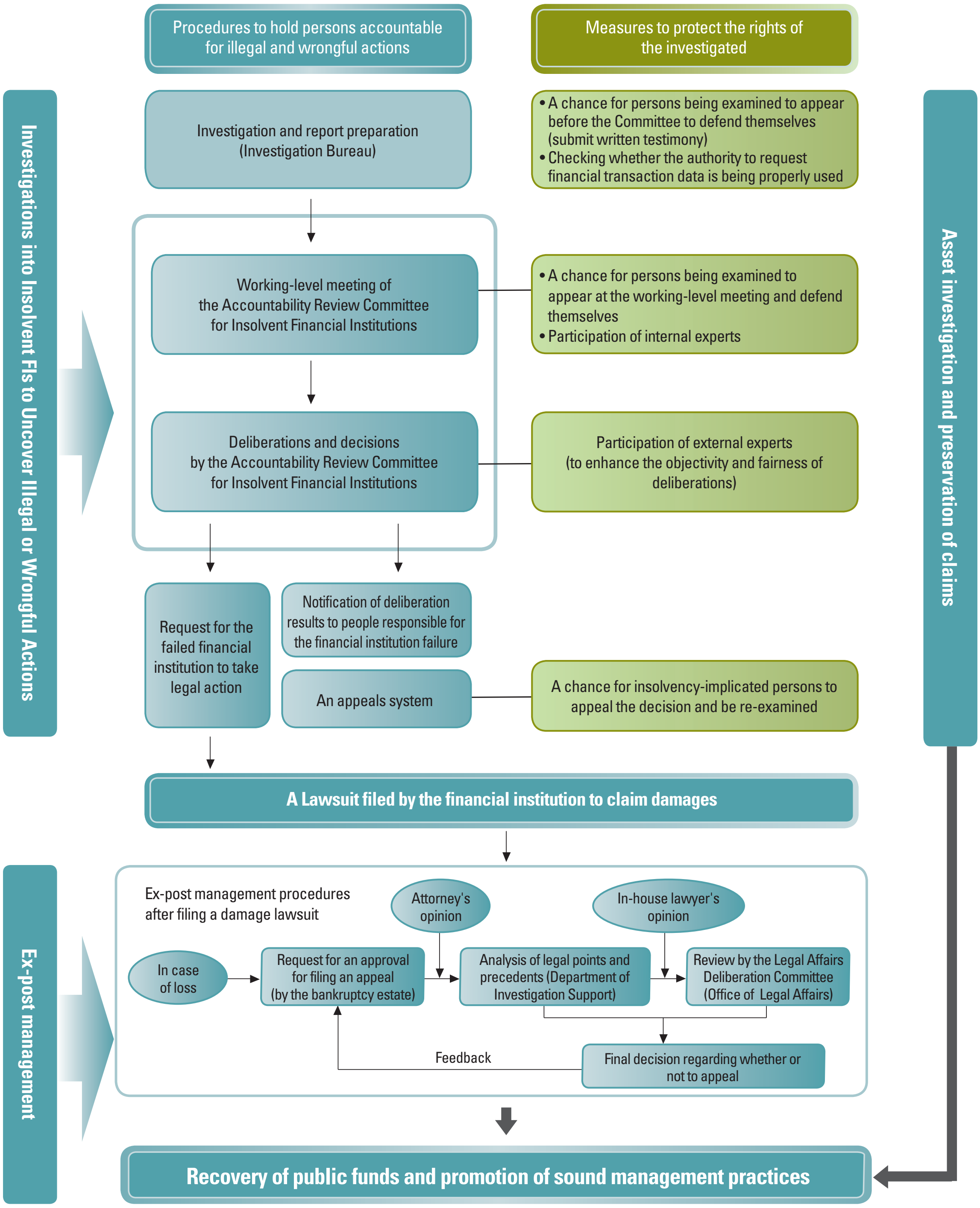
Note : 1) 14 credit unions which were transferred to the National Credit Union Federation on Jan. 1, 2010 were not included.

the increasing diversity and complexity of accountability issues involved in large-scale failures of mutual savings banks and suspension of insurance companies that happened in the past five years. As a result, the KDIC is improving its expertise in the review of illegal and wrongful acts.

By the end of 2017, deliberations on accountability for financial institution failures resulted in a confirmation of accountability for 6,117 persons in 519 insolvency cases. The KDIC requested the insolvent financial institutions and their bankruptcy estates to file for damages against these people.

Figure Ⅷ- 1

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



Damage Claim Proceedings against Insolvency-Implicated Persons

Following the KDIC's request for seeking damage, insolvent financial institutions and their bankruptcy estates filed damage claims against persons involved in insolvencies. By the end of 2017, damage claims for KRW 1.8118 trillion were instituted against 9,013 persons implicated in insolvencies of financial institutions into which funds of the Deposit Insurance Fund (DIF) Bond Redemption Fund had been injected. Most of the lawsuits have come to a close. The KDIC is now striving to collect monetary sanctions from insolvency-implicated persons by various means including foreclosure on their property.

The KDIC also requests that insolvent financial institutions and their bankruptcy estates file litigation claiming damages against persons involved in insolvencies of financial institutions that received financial support from the Deposit Insurance Fund. By the end of 2017, damage claims for KRW 459.2 billion were filed against 699 persons implicated in failures of 47 insolvent financial institutions.

The KDIC provides support and conducts follow-up management of legal actions taken by insolvent financial institutions and their bankruptcy estates following the KDIC's demand for damage claims and preservation of creditor claims. The KDIC established the Accountability Litigation Support Team comprised of accountability investigation and deliberation

Table Ⅷ- 2

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

(As of Dec. 31, 2017, Unit: No. of cases, No, of persons, KRW 1 billion)

Category	Banks	Investment Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions1)	Total
No. of Failed Financial Institutions	15	6	18	22	85	311	457[3]
No. of Defendants	191	83	276	181	1,026	7,256	9,013
Amount Claimed	100.4	34.2	243.5	304.8	543.3	585.6	1,811.8
Amount Awarded	47.6	21.8	1,34.6	54.8	405.6	320.8	985.2
Amount Collected[2]	10.2	5.4	21.8	66.0	92.3	76.9	272.6

Note: 1) 14 credit unions which were transferred to the National Credit Union Federation of Korea on Jan. 1, 2010 were excluded
2) The amount of damages actually collected through the court's enforcement procedures, etc.
3) Excluding 15 companies that did not institute legal action after investigation completion for such reasons as voluntary repayment and liability exemption.

Table Ⅷ- 3

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

(As of Dec. 31, 2017, Unit: No. of cases, No, of persons, KRW 1 billion)

No. of Failed Financial Institutions	No. of Defendants	Amount Finalized[1]	Amount Awarded	Amount Collected[2]
47	699	393.5	229.6	93.9

Note : 1) Claimed amount: KRW 459.2 billion; pending litigation: KRW 65.7 billion
2) The amount of damages actually collected through the court's enforcement procedures, etc.

professionals and legal experts to enable clear and logical presentation of defense and submission of extensive evidence in legal proceedings. The KDIC continues to manage outstanding claims for damages on an ongoing basis to allow additional lawsuits to be filed immediately if more assets of persons implicated in insolvencies are found.

To facilitate legal proceedings and ensure business continuity, the KDIC made it possible to directly file specific damage suits that had previously been lodged by bankruptcy estates, with their difficulty and impact on other litigations taken into consideration. It instituted 16 damage suits by the end of 2017. Thus, the KDIC addressed inconsistency and inefficiency stemming from its being responsible for accountability investigation and review while bankruptcy estates instituted legal actions to claim damages.

In addition, it held a workshop for legal representatives of bankruptcy estates in those damage suits to promote sharing of necessary know-how and maximize chances at winning lawsuits. It also published a collection of litigation cases that addressed legal issues of major court decisions and distributed it to all of the bankruptcy estates in order to improve their litigation efforts.

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

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

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

The KDIC remains committed to make institutional improvements so that it can protect the rights of the investigated by preventing any infringement on their rights and any undue damage while still stringently holding them accountable for any wrongful acts.

2. Investigations against Default Debtor Corporations

Investigations into Illegal and Wrongful Acts of Default Debtor Corporations

By the end of 2006, the KDIC's former Special Investigation Mission for Default Debtor Corporations completed its investigations against 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 which had received financial assistance from the Deposit Insurance Fund.

In 2008, the Special Investigation Mission for Default Debtor Corporations was reorganized into the Insolvency Investigation Division following a merger with the Investigation Department in charge of investigations against insolvent financial institutions.

Table Ⅷ- 4

Investigations against Default Debtor Corporations

(As of Dec. 31, 2017, Unit: No. of cases, No. of persons)

No. of Default Debtor Corporations	No. of Insolvency-Implicated Persons
325	851

In 2013, Investigation Bureau II was set up to lead investigations against default debtor companies. This reinforced investigations into unlawful or wrongful actions by default debtor companies and increased the effectiveness of claim recovery by securing assets held by persons involved in insolvencies.

After reviewing the Insolvency Investigation Division's investigation results regarding illegal and wrongful acts of default debtor corporations, the Accountability Review Committee for Insolvent Financial Institutions confirmed as of the end of 2017 that 851 persons were responsible for financial institution failures and gave notice to the insolvent financial institutions and their bankruptcy estates so that they could start damage claim proceedings against those persons.

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

Through steadfast assistance and follow-up management of insolvent financial institutions and their bankruptcy estates, the KDIC seeks to ensure that the same legal measures as applicable to persons responsible for their failures are taken against default debtor companies' personnel at fault. In compliance with the KDIC's request, insolvent financial institutions and their bankruptcy estates filed 208 suits claiming KRW 998.6 billion of damages in total against persons implicated in insolvencies as of the end of 2017.

Table Ⅷ- 5

Lawsuits Filed in Relation to Default Debtor Corporations (Accumulated)

(As of Dec. 31, 2017, Unit: No. of cases, No. of persons, KRW 1 billion)

No. of Companies	No. of Defendants	Amount Claimed	Amount Awarded	Amount Recovered[1)]
322	1,230	998.6	464.1	119.4

Note : 1) The amount of damages actually collected through the court's enforcement procedures, etc.

3. Investigations into Properties Owned by Insolvency-Implicated Persons

Stricter Investigations into Assets Located in Korea

The KDIC endeavors to maximize fund recovery and create a climate of sound management at insured financial institutions. Towards that end, it holds insolvency-implicated persons stringently to account by systematically tracking and recovering their assets or those concealed by them with the help of a third party.

In 2017, the KDIC stepped up cooperation with related organizations including the Ministry of Employment and Labor and the National Court Administration to expand the scope of property investigation against persons involved in insolvencies to include such information as their eligibility for employment insurance and data on their family relationships in the government database. For timely recovery of uncovered assets, the KDIC monitors quarterly the execution of claims preservation measures. Since 2015, no financial institution has fallen into insolvency and, accordingly, nobody has been added to the list of insolvency-implicated persons. Nevertheless, the KDIC discovered KRW 30.9 billion in assets held by insolvency-implicated persons in Korea and completed measures to preserve its claims in 2017. The KDIC recovered a total of KRW 423.2 billion from persons involved in insolvencies of financial institutions as of the end of December 2017.

Figure Ⅷ- 2

Flow Chart of Domestic Asset Investigation

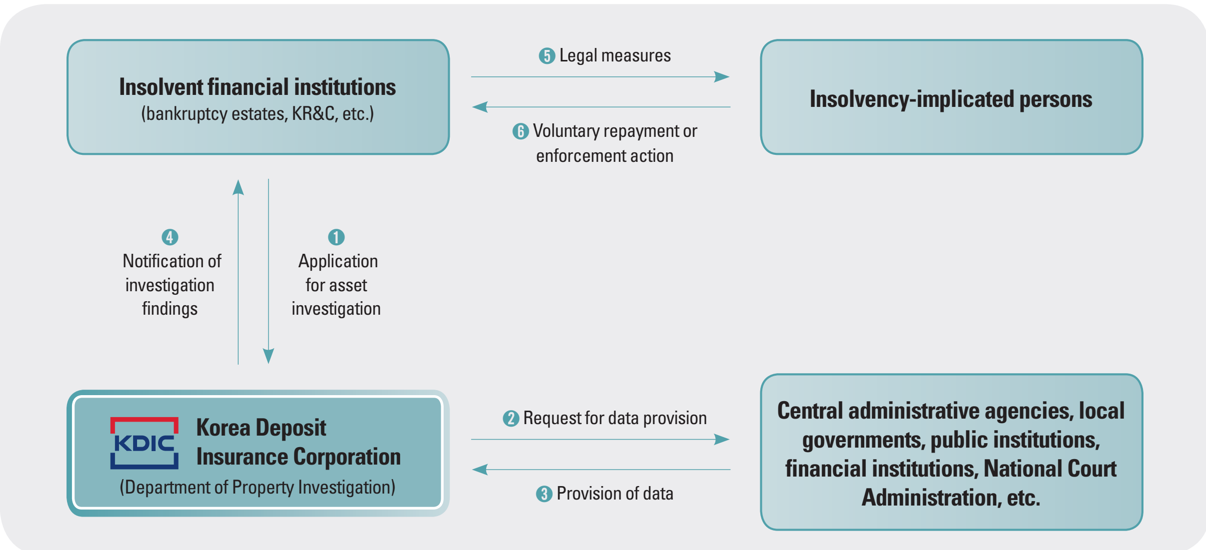


Table Ⅷ- 6

Recovery of Insolvency-Implicated Persons' Domestic Asset by Year (DIF)

(As of Dec. 31, 2017, Unit: No. of sales, KRW 1 billion)

Year	2003~2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Amount	6.5	10.6	17.4	15.4	17.7	89.5	42.3	72.4	122.4	29.0	423.2

Expanded Investigations into Assets Located Overseas

The KDIC embarked on investigation of overseas assets owned by insolvency-implicated persons in 2002. It began a full-swing investigation into offshore assets in September 2006 in the US, Canada, Japan, Australia, China, New Zealand, and the Philippines.
Due to business suspension of numerous mutual savings banks, a sharply increasing number of persons became involved in insolvencies starting in 2011. By the end of 2017, the KDIC expanded the scope of investigations to trace and identify hidden assets to 41 countries. To hold insolvency-implicated persons more stringently to account, it modified the criteria for selection of the targets of overseas investigation. In addition, it strived to diversify investigative channels by visiting Korean-American associations and consulates in eight major geographic regions of the world to promote awareness of the Concealed Property Report Center.

Thanks to these efforts, in 2017, the KDIC discovered USD 4 million (equivalent to KRW 4.3 billion) in assets hidden by insolvency-implicated persons in four foreign countries including the US through its own investigations, despite increasingly sophisticated concealment methods.

The KDIC also made a sweeping revision of its overseas asset recovery business standards. Based on a thorough reexamination of candidate legal representatives abroad, it chose 29 attorneys-at-law at 25 law firms in 15 countries as part of the effort to improve its recovery mechanism. In addition to legal proceedings, it introduced a recovery approach utilizing overseas debt collectors. Its use of a wider range of asset recovery channels overseas proved instrumental in maximizing asset recovery.

The KDIC recovered USD 1.5 million (equivalent to KRW 1.7 billion) out of the concealed assets that it discovered in 2017. Its recovery will likely increase in the future because it is pursuing collection through legal actions in foreign countries including the US.

Recoveries through the Concealed Property Report Center

The KDIC opened the Concealed Property Report Center in May 2002 to encourage reporting on concealed assets that cannot otherwise be found by regular and special property investigations and to maximize recovery of those assets.

Upon receipt of a report on concealed assets, a preliminary investigation including a cash-flow examination is carried out. Then, a report is delivered to the creditor financial institution, which in turn takes measures for claims preservation such as filing for provisional seizure and recovers its claims by means of a lawsuit for rectification of a fraudulent conveyance and the like.

To encourage reporting on assets hidden abroad, the KDIC embedded a banner of the Concealed Property Report Center into the webpages of Korean diplomatic

Table Ⅷ- 7

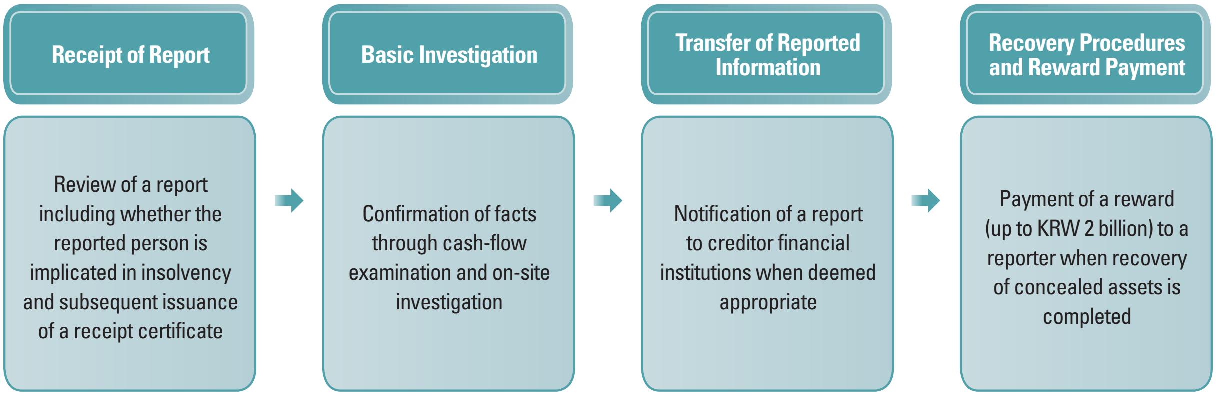
Recovery of Assets Hidden Overseas by Year

(As of Dec. 31, 2017, Unit: USD 1,000)

Year	2003~2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Amount	3,044	2	349	1,400	415	11,653	2,252	5,027	6,250	1,496	31,888

Figure Ⅷ- 3

Work Flow at the Concealed Property Report Center



missions in countries around the globe including the US, Japan, China, the UK, France, and Germany, and it posted an ad of the Center in magazines for Koreans residing abroad. To induce legal experts including legal counsel to report concealed assets, the KDIC placed a banner of the Center on the home pages of the Korean Bar Association and the Korea Association of Beommusa Lawyer (judicial scrivener) and carried an ad in legal newspapers such as the Korean Bar Newspaper and the Law Times.

Based on an analysis of how people became aware of the concealed asset report scheme, the KDIC waged multifaceted publicity initiatives including subway and SNS advertisement and leaflet distribution. The KDIC also revamped the website of the Concealed Property Report Center to offer such services as one-stop report, reward inquiry, and mobile report.

By the end of December 2017, the KDIC received 373 reports, recovered KRW 50.7 billion in 76 cases, and paid out KRW 3.7 billion in rewards. As shown above, the Concealed Property Report Center fully performs its role as a hidden vanguard for recovery of concealed assets.

Table Ⅷ- 8

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

(As of Dec. 31, 2017, Unit: No. of cases, KRW 1 million)

Category	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
No. of Cases Reported	21	12	17	10	22	21	15	19	12	17	23	53	33	36	37	25	373
No. of Recoveries	-	1	1	2	3	8	4	2	4	2	5	9	7	8	9	11	76
Recovered Amount	-	3,156	374	231	11,791	6,184	2,637	2,830	605	1,058	825	2,553	732	3,230	6,745	7,779	50,730

4. Promotion of Sound Business Management Among Insured Financial Institutions

Preemptive measures to prevent financial institution failures have assumed renewed importance in the wake of the recent spate of business suspensions of mutual savings banks since 2011. Wrongful acts and moral hazard on the part of large shareholders and employees have been cited as the main causes of their insolvencies.

To prevent failures of mutual savings banks and ensure their sound management, the KDIC gives training designed for specific groups of their employees.

The KDIC provided on-site training on prevention of insolvencies to employees of mutual savings banks. They were taught about the laws and regulations that apply to their day-to-day operations and other useful information including items of inspection, insolvency cases, and relevant court rulings.

To meet the training needs in the new lending environment, the KDIC drafted case studies of the most recent insolvency cases, including those in 2016. To make the training of such a heavy subject matter more readily understandable and effective for the trainees, it inserted in its training textbook not only cases where employees of mutual savings banks were held accountable but also cases where they were exempted from liability.

To satisfy the needs of interested parties, the KDIC shifted its focus to training on its premises rather than on-site training by visiting instructors. For the purpose of rendering its independent training easier to follow, it produced and offered a textbook mostly about applicable laws and judicial precedents including recent court ruling criteria instead of liability cases, which it can hardly teach on its own.

In order to help insured financial institutions establish a corporate culture conducive to safe and sound management, the KDIC strives to promote respect for law and order while minimizing education burden on their employees. The KDIC will consistently promote a sound business culture by maintaining a healthy, win-win relationship between itself and insured financial institutions.

Table Ⅷ- 9

Insolvency Prevention Training Since 2011

(As of Dec. 31, 2017, Unit: No. of banks)

Description	2011	2012	2013	2014	2015	2016	2017
Number of Target Mutual Savings Banks	35	43	60	67	78	79	79

IX

Fund Management

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

1. Deposit Insurance Fund Bond Redemption Fund

As of January 1, 2003, under the Public Fund Redemption Plan (Redemption Plan) devised by the government in 2002, the assets and liabilities of the Deposit Insurance Fund (DIF) related to the restructuring process that was undertaken after the 1997 Asian financial crisis 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 to fund the resolution of financial institution failures that occurred in 2003 and afterwards.

Stable Financing

Special Contributions

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 percentage of their deposit balances (the arithmetic mean of liability reserves and premium revenues in the case of insurance companies) to the KDIC as Special Contributions. Banks must pay Special Contributions within one month following the end of each quarter and other insured financial institutions within three months following the end of each fiscal year. In 2017, the KDIC received KRW 1.6531 trillion in Special Contributions.

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

Table Ⅸ- 1

Rates of Special Contributions by Financial Sector

Sector	Banks	Investment Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions
Rates	1/1,000	1/1,000	1/1,000	1/1,000	1/1,000	5/10,000[1)]

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

Table Ⅸ- 2

Special Contributions from Each Financial Sector

(Unit: KRW 1 billion)

Year	Banks	Investment Companies	Life Insurance Company	Non-life Insurance Company	Merchant Banks	MSBs	Credit Unions[1]	Total
2003	477.5	15.6	88.9	18.5	2.1	22.2	-	624.7
2004	495.6	16.8	97.8	19.8	0.6	26.4	-	657.0
2005	487.2	14.5	106.9	21.9	0.5	31.9	-	662.8
2006	498.7	15.1	116.0	24.2	0.6	37.0	21.6	713.3
2007	502.7	15.6	126.5	27.8	0.7	43.0	11.6	728.0
2008	497.6	18.5	136.4	31.9	0.8	49.1	12.9	747.2
2009	596.5	16.9	143.0	35.2	1.0	59.3	13.7	865.6
2010	681.1	21.3	153.4	40.9	1.9	71.5	17.0	987.1
2011	778.9	22.7	165.0	48.7	1.2	71.8	20.5	1,108.7
2012	851.8	22.6	176.0	59.2	1.0	52.1	22.8	1,185.5
2013	897.3	20.2	229.7	70.7	0.9	39.4	24.8	1,283.0
2014	959.0	20.0	238.6	79.0	0.7	32.3	26.3	1,356.0
2015	978.6	17.9	261.7	89.6	0.7	30.8	27.5	1,406.8
2016	1,066.4	24.0	283.5	100.1	0.8	34.8	29.9	1,539.4
2017	1,134.4	27.2	306.8	110.3	1.0	40.3	33.2	1,653.1
Total	10,903.3	289.1	2,630.1	777.6	14.5	641.8	261.7	15,518.0

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

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 additional contributions from the Public Fund Redemption Fund since 2007.

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

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

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

Table Ⅸ-3

Issuance and Redemption of DIF Bonds Issued On or Before Dec. 31, 2002

(Unit: KRW 1 billion)

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

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

Issuance and Repayment of Redemption Fund Bonds

Under Article 26-3 of the Depositor Protection Act, the KDIC is authorized to issue Redemption Fund Bonds to repay the principal and interest of DIF Bonds issued on or before December 31, 2002. In 2017, the KDIC issued Redemption Fund Bonds in the amount of KRW 1.520 trillion through public offering at a fixed rate and a three-year maturity. The KDIC repaid KRW 4.39 trillion that matured in 2017, which brought the outstanding balance of Redemption Fund Bonds as of the end of 2017 to KRW 9.68 trillion.

Table Ⅸ-4

Issuance and Redemption of Redemption Fund Bonds

(Unit: KRW 1 billion)

Year	Issued Amount	Redeemed Amount	Balance
2004	6,500.0	-	6,500.0
2005	7,440.0	-	13,940.0
2006	2,870.5	315.5	16,495.0
2007	2,720.0	45.0	19,170.0
2008	8,800.0	10.0	27,960.0
2009	5,860.0	6,500.0	27,320.0
2010	6,810.0	7,440.0	26,690.0
2011	780.0	3,730.0	23,740.0
2012	4,770.0	5,690.0	22,820.0
2013	7,270.0	7,570.0	22,520.0
2014	1,010.0	5,010.0	18,520.0
2015	880.0	4,690.0	14,710.0
2016	1,970.0	4,130.0	12,550.0
2017	1520.0	4,390.0	9,680.0
Total	59,200.5	49,520.5	

Borrowings

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

The balance of the previous borrowings of the KDIC was transferred to the Redemption Fund, which was established in 2003. As the KDIC was exempted from repaying all previous borrowings from the Special Account for Government Investment and Financing as of January 1, 2003 in accordance with the Redemption Plan, it has not borrowed any money since 2003 under the Redemption Fund's lines of credit. In 2013, the KDIC repaid KRW 116.8 billion (USD 100 million) for the principal of loans from the IBRD. As of the end of 2017, there was no outstanding balance.

Table Ⅸ-5

Borrowings and Loan Repayment of the Redemption Fund

(Unit: KRW 1 billion)

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

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

Financial Assistance

Overview

The KDIC provided 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 2 million in financial assistance during 2017, all of which was in the form of capital contribution.

The total amount of public funds provided from the Redemption Fund for the restructuring of insured financial institutions came to KRW 110.8945 trillion as of the end of 2017. This amount includes KRW 30.3124 trillion (30.3%) in payment of deposits for depositors of insolvent financial institutions, KRW 50.7937 trillion (50.8%) in equity investment for business normalization, KRW 18.6117 trillion (18.6%) in capital contributions for P&As, and KRW 11.1767 trillion (11.2%) for the purchase of assets, etc.

Table Ⅸ-6

Financial Assistance and Deposit Insurance Payments from the Redemption Fund (2017)

(Unit: KRW 1 million)

Sector	Equity Investment	Capital Contributions	Asset Purchase	Loans	Deposit Insurance Payments	Total
Banks	-	(-)1,086[1)	-	-	-	(-)1,086
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	2.0	-	-	-	2.0
Merchant Banks	-	-	-	-	-	-
MSBs	-	-	-	-	-	-
Credit Unions	-	-	-	-	-	-
Total	-	(-)1,084	-	-	-	(-)1,084

Note: 1) There was a change in the statistical treatment (indicated now with minus sign) of the figures for the compensation of losses incurred by the acquiring institution (BNK Financial Group) of Kyongnam Bank, which was paid in 2016.

Table Ⅸ-7

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

(As of Dec. 31, 2017, Unit: KRW 1 billion)

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

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

Assistance for Each Sector of the Financial Industry

A. Banks

In 2017, the KDIC did not provide any funds to banks in the form of deposit insurance claim payments, equity investment, contributions, or loans from the Redemption Fund.

B. Insurance Companies

Hana Financial Investment requested ex-post facto loss compensation according to a stock purchase and sale agreement that it signed with the KDIC upon sale of Daehan Investment Trust Securities. In 2017, the KDIC made an additional contribution of KRW 2 million from the Redemption Fund.

C. Investment Companies

In 2017, the KDIC did not provide any funds to insurance companies in the form of deposit insurance claim payments, equity investment, contributions, or loans from the Redemption Fund.

D. Mutual Savings Banks

In 2017, 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 Bank Depositors by Year

(Unit: No. of banks, KRW 1 billion)

Year	No. of Failed MSBs	Amount of DI Payments
1998	17	1,470.5
1999	19	1,427.2
2000	11	650.0
2001	5	2,953.7
2002	10	771.9
2003	7	0.5
2004	8	2.6
2005	7	0.1
2006	8	0.3
2007	2	12.8
2008	-	(-)0.4
2009	1	-
2010	-	-
2011	-	-
2012	-	-
2013	-	-
2014	-	-
2015	-	-
2016	-	-
2017	-	-
Total	95	7,289.2

Table Ⅸ- 9

Financial Assistance to Mutual Savings Banks

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Name	Equity Investment		Capital Contributions		Loans	
	Before 2015	2016	Before 2015	2016	Before 2015	2016
Gyeonggi (former Commit)	-	-	25.4	-	165.4	-
Kyungbuk (former Hanuri)	-	-	8.5	-	-	-
Daecheon (current Daejeon)	-	-	-	-	10.2	-
Domin (Keumkang)	-	-	2.8	-	70.9	-
Dongwon (Korea Investment)	-	-	6.3	-	78.3	-
Bumin (Busan)	-	-	24.3	-	-	-
Busan 2	-	-	-	-	27.1	-
Sangup (former Hyundai)	-	-	70.1	-	-	-
Saenuri	-	-	1.3	-	2.1	-
Solomon (former Gold)	-	-	66.3	-	-	-
New Choongbuk	-	-	-	-	16.1	-
Arim	-	-	-	-	61.5	-
Union	-	-	3.9	-	51.8	-
J-one	-	-	32.5	-	-	-
Choil	-	-	2.9	-	73.8	-
Choongnam (former New Onyang)	-	-	-	-	4.5	-
Choongil	-	-	-	-	8.9	-
Telson (former New Hankook)	-	-	77.5	-	-	-
Hanaro	-	-	42.2	-	-	-
Hanmaum	-	-	52.1	-	-	-
Haedong (Kyunggi)	-	-	-	-	26.3	-
KR&C	0.1[1)]	-	-	-	-	-
Total	0.1	-	416.1	-	596.9	-

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

Maximization of Public Fund Recovery

Overview

Depending on the nature of the support extended, the KDIC uses a number of methods to recover public funds. Firstly, equity stakes received in exchange for financial assistance are liquidated. Secondly, for insolvent financial institutions whose liabilities exceed assets and for whom the KDIC made deposit payoffs or capital contributions, the KDIC directly participates in their bankruptcy process as a creditor and receives dividends from the proceeds of asset sales. 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 2017 totaled KRW 58.8454 trillion including KRW 1.1692 trillion recovered in 2017 alone.

Table Ⅸ- 10

Redemption Fund Recovery (2017)

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Sector	Recovery of Equity Investment	Settlement of Capital Contributions, etc.	Asset Sales[1]	Recovery of Loans	Collection of Bankruptcy Dividends[1]	Total
Banks	412.5	0.1	-	-	-	412.6
Investment Companies	-	-	-	-	-	-
Insurance Companies	664.6	-	-	-	-	664.6
Merchant Banks	16.6	-	-	-	71.5	88.1
MSBs	-	-	-	-	4.0	4.0
Credit Unions	-	-	-	-	-	-
Total	1,093.6	0.1	-	-	75.5	1,169.2

Note: 1) Including recoveries through the resolution financial institution

Table Ⅸ- 11

Redemption Fund Recovery (Accumulated)

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Sector	Recovery of Equity Investment	Settlement of Capital Contributions, etc.	Asset Sales[1]	Recovery of Loans	Collection of Bankruptcy Dividends[1]	Total
Banks	21,391.1	70.2	6,631.2	-	1,847.2	29,939.7
Investment Companies	1,212.1	337.3	1,801.3	-	7.8	3,358.6
Insurance Companies	6,030.7	88.8	245.3	-	431.0	6,795.8
Merchant Banks	265.9	5.9	-	-	9,241.7	9,513.6
MSBs	-	34.3	-	596.9	5,183.3	5,814.5
Credit Unions	-	0.4	-	-	3,422.9	3,423.3
Total	28,899.9	536.9	8,677.8	596.9	20,133.9	58,845.4

Note: 1) Including recoveries through the resolution financial institution

Sale of Equity Stakes, etc.

A. Banks

In accordance with investors' exercise of call options granted upon sale of minority interests in Woori Bank in 2014, the KDIC recovered KRW 265.8 billion (equivalent to its stake in the banking account) by selling off its shares in 2017. It also collected KRW 68.2 billion (equivalent to its stake in the banking account) in dividends from the bank. The KDIC received another KRW 129.2 billion (equivalent to its stake in the banking account) in remaining sales proceeds according to an agreement on stock sale to a group of investors in Woori Bank executed in 2016. In 2017, Suhyup Bank fully redressed deficits after 16 years following injection of public funds in 2001 and then repaid KRW 12.7 billion in preferential investment for the first time. Meanwhile, the KDIC paid KRW 63.4 billion including damages to the purchaser of Kyongnam Bank (BNK Financial Group) which prevailed in a damage suit related to stock sale and purchase.

B. Insurance Companies

In 2017, the KDIC recovered KRW 333 billion in a block sale of its 5.25% stake in Hanwha Life Insurance, and it collected KRW 10.6 billion and KRW 321 billion in dividends respectively from Hanwha Life Insurance and Seoul Guarantee Insurance.

C. Investment Companies

The KDIC recovered KRW 4 million by selling the assets that it purchased in the course of restructuring Hyundai Investment & Securities.

D. Merchant Banks

In accordance with investors' exercise of call options granted upon sale of minority interests in Woori Bank in 2014, the KDIC recovered KRW 9.5 billion (equivalent to its stake in the merchant bank account) by selling off its shares in 2017. It also collected KRW 2.4 billion (equivalent to its stake in the merchant bank account) in dividends from the bank. In addition, the KDIC received KRW 4.6 billion (equivalent to its stake in the merchant bank account) in remaining sale proceeds according to an agreement on stock sale to a group of investors in Woori Bank executed in 2016.

Bankruptcy Dividends

In 2017, the KDIC (and KR&C) received KRW 71.5 billion in bankruptcy dividends from bankruptcy estates of merchant banks and KRW 4.0 billion from bankruptcy estates of mutual savings bank through sale of their assets. By the end of 2017, the cumulative total of funds recovered through bankruptcy dividends reached KRW 20.1339 trillion.

Table Ⅸ- 12

Bankruptcy Dividends Collection by Financial Sector[1)]

(As of Dec. 31, 2017, Unit: No. of estates, KRW 1 billion)

Sector	No. of Estates[2)]	Recovered Amount	
		2017	1999~2017
Banks	5	-	1,847.2
Investment Companies	4	0.0001	7.8
Insurance Companies	10	-	431.0
Merchant Banks	22	71.5	9,241.7
MSBs	75	4.0	5,183.3
Credit Unions	325	0.01	3,422.9
Total	441	75.5	20,133.9

Note : 1) The amount of bankruptcy dividends collected by the KDIC from estates of failed financial institutions (in cases where the KDIC reimbursed depositors directly) and the KR&C (in cases where the KDIC repaid depositors through the former Hanareum Merchant Bank or Hanareum Savings Bank)
2) Based on bankruptcy estates tied to the Redemption Fund

Recovery of Loans, etc.

By the end of 2017, the KDIC had provided KRW 596.9 billion in loans, all of which were recovered.

By the end of 2016, it recovered KRW 536.9 billion by settlement of capital contributions, etc. In 2017, it recovered KRW 6 million from Hanwha Life Insurance in connection with its P&A.

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 2017, on a cumulative basis, the KR&C recovered a total of KRW 41.2496 trillion and repaid KRW 20.7882 trillion to the KDIC.

* Amount of loans from the KDIC for the purpose of resolving insolvent financial institutions: KRW 34.009 trillion

In 2017, the KR&C recovered a total of KRW 81.2 billion including KRW 49.8 billion by debt restructuring and asset sales*, KRW 2.3 billion by selling securities, and KRW 29.1 billion by collecting bankruptcy dividends based on the rights of indemnity. It repaid KRW 75.5 billion to the KDIC (including some recoveries from before 2017).

* Sale to the Korea Asset Management Corporation of KRW 198.6 billion in personal loans written-off as irrecoverable (on the basis of principal amount) under such circumstances as non-existence of discovered assets, according to the FSC's Plan to Improve Non-Performing Loan Management System of Public Institutions in the Financial Sector (March 7, 2017)

Table Ⅸ- 13

Recovery from Sale of KR&C-Owned Assets

(As of the end of December 2017, Unit: KRW 1 billion)

Category	Assets Subject to Sale		Amount Recovered	Recovery Method
Amount recovered in 2017	Loans	Loans in KRW	49.8	Direct collection and litigation
		Loans in foreign currencies	-	
		Subtotal	49.8	
	Marketable securities	Listed and unlisted stock	2.3	Auction, sale on the stock market, and dividend collection
	Real estate	Business buildings, etc.	0	Auction, etc.
	Right of indemnity	Claims as subrogee for insured depositors, etc.	29.1	Bankruptcy dividend collection
	Total		81.2	-
Accumulated amount	Loans	Loans in KRW	10,427.6	International bidding, NPL sale, ABS issuance, etc.
		Loans in foreign currencies	3,072.6	
		Subtotal	13,500.2	
	Marketable securities	Listed and unlisted stock	6,197.8	Auction, block sale, etc.
	Real estate	Business buildings, etc.	623.3	Auction
	Right of indemnity	Claims as subrogee for insured depositors, etc.	20,928.3	Bankruptcy dividend collection
	Total		41,249.6	-

2. Deposit Insurance Fund

Stable Financing

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 percentage of their deposit balances (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 and other insured financial institutions within six months following the end of each fiscal year.

Table Ⅸ- 14

Insurance Premium Rates for Different Financial Sectors

Category	Banks	Investment Companies	Insurance Company	Merchant Banks	MSBs
DI Premium Rates	8/10,000	15/10,000[1]	15/10,000	15/10,000	40/10,000[2]

Note : 1) The premium rate assessed on customer depositors at securities firms deposited by investment firms was cut by 30% starting from 2007
2) The rate was changed in July, 2011 in accordance with the amended Enforcement Decree of the Depositor Protection Act (previously 35/10,000)

Table Ⅸ- 15

Deposit Insurance Premium Revenue by Financial Sector

(As of the end of December 2017, Unit: KRW 1 billion)

Year	Banks	Investment Companies	Life Insurance Companies	Non-life Insurance Companies	Merchant Banks	MSBs	Special Account[2]	Total[4]
2003[1]	477.5	31.2	258.0	53.5	7.3	66.7	-	894.2
2004	496.0	33.6	283.2	57.1	1.7	79.3	-	950.9
2005	486.9	30.0	310.9	62.8	1.5	97.4	-	989.5
2006	498.7	30.3	336.2	69.7	1.9	111.6	-	1,048.4
2007	502.7	25.6	365.4	80.1	2.2	130.6	-	1,106.6
2008	480.8	30.5	393.4	91.8	2.4	148.3	-	1,147.2
2009	529.1	27.6	409.7	101.6	2.9	173.7	-	1,244.6
2010	545.1	28.4	260.9	69.8	3.4	252.4	-	1,160.0
2011	479.5	28.3	236.2	70.0	1.8	233.2	174.2	1,223.1
2012[5]	374.8	0.2	(-)1.4[3]	10.0	0.8	134.5	581.6	1,100.4
2013[5]	394.8	-	22.1	48.8	0.8	25.3	667.2	1,159.0
2014[5]	419.7	-	81.1	44.5	0.6	25.6	615.8	1,187.2
2015[5]	436.9	-	128.0	71.0	0.4	6.4	712.0	1,354.7
2016[5]	467.5	-	185.7	80.6	0.7	29.6	682.3	1,446.3
2017[5]	500.5	-	234.9	88.3	0.9	28.6	824.2	1,677.4
Total	7,090.4	265.8	3,504.3	999.5	29.2	1,543.2	4,257.5	17,689.7

Note : 1) Insurance premiums received up to 2002 were transferred to the DIF Bond Redemption Fund
2) The Special Account for Mutual Savings Bank Restructuring was established in April 2011 (to be maintained until the end of 2026).
3) There was a refund of some of the premiums paid before 2012.
4) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010, was not included.
5) According to implementation of the target fund system, insurance premiums were exempted or reduced in 2012 (exemption for financial investment and life insurance companies and 15% reduction for non-life insurance companies); in 2013 (exemption for financial investment companies, 45% reduction for life insurance companies, and 7% reduction for non-life insurance companies); in 2014 (exemption for financial investment companies, 38% reduction for life insurance companies, and 1% reduction for non-life insurance companies); in 2015 (exemption for financial investment companies, and 17% reduction for non-life insurance companies); and in 2016 (exemption for financial investment companies, and 5% reduction for life insurance companies).

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, external borrowings, recovered funds, etc.

The total amount of premiums received from insured financial institutions including those that went to the Special Account in 2017 remained at KRW 1.6774 trillion.

Contributions from Insured Financial Institutions

Before June 2016, under Article 24 of the Depositor Protection Act and Article 14 of its Enforcement Decree, a newly insured financial institution which obtained authorization for its operations or incorporation, contributed a specific proportion of its paid-in capital or equity capital to the KDIC within one month of starting business in order to receive deposit insurance coverage.

With amendment of the Enforcement Decree of the Depositor Protection Act in June 2016, however, an insured financial institution now contributes to the KDIC a certain proportion of its minimum regulatory

Table Ⅸ- 16

Contributions from KDIC-insured Financial Institutions

(Unit: KRW 1 billion)

Year	Banks	Investment Companies	Life Insurance Companies	Non-life Insurance Companies	Merchant Banks	MSBs	Special Account	Total[2]
2003[1]	0.03	-	0.65	0.20	-	-	-	0.88
2004	0.34	0.20	0.60	0.20	-	-	-	1.34
2005	0.22	0.20	-	-	-	1.25	-	1.67
2006	0.38	0.80	-	0.20	-	1.34	-	2.72
2007	-	-	-	-	-	-	-	-
2008	0.16	11.01	-	-	-	0.56	-	11.72
2009	0.77	4.31	0.42	0.34	0.02	0.78	-	6.63
2010	0.08	0.58	0.90	0.03	-	-	-	1.59
2011	0.03	-	-	-	-	1.20	-	1.23
2012	0.58	0.13	5.00	0.80	-	2.40	-	8.91
2013	0.08	2.17	0.32	0.31	0.00	4.98	-	7.86
2014	-	0.06	-	-	-	9.06	-	9.12
2015	-	-	-	-	-	-	-	-
2016	0.88	0.53	-	0.60	-	-	-	2.01
2017	2.03	0.06	-	0.03	-	-	-	2.12
Total	5.57	20.05	7.89	2.71	0.02	21.56	-	59.8

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

capital or minimum shareholders' equity necessary for authorization and permission. If minimum shareholders' equity is larger than paid-in capital, it should pay a specific proportion of its paid-in capital to the KDIC.

With the creation of the Redemption Fund, contributions received up to 2002 were transferred to the Redemption Fund, whereas contributions received since 2003 have been incorporated into the Deposit Insurance Fund.

Issuance and Redemption of DIF Bonds

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 based on its own credit standing in December 2011. From 2011 to 2013, it issued such bonds to finance the restructuring of insolvent mutual savings banks. Since 2014, it has issued bonds for the purpose of redeeming (or rolling over) the maturing bonds. It is consistently reducing the amount of outstanding bonds by repaying them with funds recovered and insurance premiums received. In 2017, it redeemed KRW 7.29 trillion in bonds while rolling over KRW 3.73 trillion. As of the end of 2017, the outstanding bonds to finance the Special Account amounted to KRW 12.74 trillion.

Pursuant to Article 26-2 of the Depositor Protection Act and Article 30 of the Act on Issuance and Distribution of Short-Term Electronic Bonds, etc., the KDIC issued short-term bonds for the first time in July 2017 with a view to diversifying the means of funding and reducing the costs of financing. They are being utilized as a vehicle to supplement borrowings from insured financial institutions, which are used in the event of a temporary fund mismatch. In 2017, the KDIC issued short-term bonds totaling KRW 750 billion and fully redeemed them by the end of the year.

Table Ⅸ- 17

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

(Unit: KRW 1 billion)

Year	Amount Issued	Redeemed Amount	Balance
2011	1,200	-	1,200
2012	20,040	-	21,240
2013	2,090	-	23,330
2014	-	1,200	22,130
2015	5,640	9,880	17,890
2016	2,630	4,220	16,300
2017	3,730	7,290	12,740
Total	35,330	22,590	12,740

Table Ⅸ- 18

Issuance and Redemption of Short-term Electronic Bonds

(Unit: KRW 1 billion)

Year	Amount Issued	Redeemed Amount	Balance
2017	750	750	-
Total	750	750	-

Borrowings

According to Article 26 of the Depositor Protection Act and Article 15 of its Enforcement Decree, the Deposit Insurance Fund (DIF) is authorized to, when necessary for deposit payoffs or resolution of insolvent financial institutions, borrow funds from various entities including the government, the Bank of Korea, insured financial institutions, and other financial institutions set forth in Article 15(3) of the Enforcement Decree. Accordingly, the KDIC borrowed a total of KRW 166.4 billion in 2003 and 2004 to reimburse depositors of failed credit unions and KRW 231.4 billion in 2007 to resolve failed mutual savings banks. In 2011 and afterwards, it borrowed KRW 35.9283 trillion.

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 collection of 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 39.949 trillion was borrowed from insured financial institutions including banks by the end of 2017. To increase funding for the Special Account, the KDIC applied for government loans from the Public Capital Management Fund at no interest (with a 10-year grace period and installment payments over a five-year period) starting in 2012. It received KRW 250 billion's government borrowings in total.

By the end of 2017, KRW 39.669 trillion was repaid out of KRW 40.199 trillion in borrowings in the Special Account through issuance of DIF Bonds, etc. As of the end of 2017, the outstanding borrowings amounted to KRW 530 billion.

Table Ⅸ- 19

Borrowings and Loan Repayments of the DIF

(Unit: KRW 1 billion)

Account Name	Year	Borrowed Amount[1)]				Repaid Amount	Balance
		Member Institution	BOK etc.	Government	Subtotal		
MSBs	2007	231.4	-	-	231.4	-	231.4
	2008	-	-	-	-	231.4	-
	Subtotal	231.4	-	-	231.4	231.4	-
Special Account	2011	10,419.9	-	-	10,419.9	1,200.0	9,219.9
	2012	14,193.2	-	100.0	14,293.2	22,262.5	1,250.6
	2013	1,936.5	-	100.0	2,036.5	3,087.1	200.0
	2014	96.0	-	50.0	146.0	96.0	250.0
	2015	6,733.9	-	-	6,733.9	6,733.9	250.0
	2016	2,298.8	-	-	2,298.8	2,298.8	250.0
	2017	4,270.7	-	-	4,270.7	3,990.7	530.0
	Subtotal	39,949.0	-	250.0	40,199.0	39,669.0	530.0
Total		40,180.4	-	250.0	40,430.4	39,900.4	530.0

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

Timely Provision of Financial Assistance

Overview

Since 2003, the KDIC has provided financial assistance from the DIF for deposit payoffs in the event of an insolvency and resolution of insolvent financial institutions in the form of equity investment, capital contributions, and loans.

Until 2010, a total of KRW 4.5276 trillion was provided, from the DIF's mutual savings bank account, to 16 insolvent mutual savings banks, including Kimchun Mutual Savings and Finance. From 2011, a total of KRW 27.1717 trillion was provided to 31 insolvent mutual savings banks from the Special Account.

In 2013, KRW 22.6 billion was provided to one non-life insurance company from the non-life insurance account.

Assistance for Each Financial Sector

A. Banks

In 2017, the KDIC did not provide any funds to banks in the form of deposit insurance claim payments, equity investment, contributions, or loans from the DIF.

Table Ⅸ-20

Financial Assistance and Deposit Insurance Payments from the DIF (2017)

(Unit: KRW 1 billion)

Account Name	Equity Investment	Capital Contributions	Deposit Insurance Payment	Loans	Advance Dividend Payments	Total
MSBs	-	-	-	-	-	-
Special Account	-	0.02	0.54[1)]	-	-	0.56
Total	-	0.02	0.54	-	-	0.56

Note : 1) Deposit insurance payments in relation to failures of mutual savings banks that occurred before 2017

Table Ⅸ-21

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

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Account Name	Equity Investment	Capital Contributions	Deposit Insurance Payment	Loans	Advance Dividend Payments	Total[1)]
Banks	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	22.6	-	-	-	22.6
Merchant Banks	-	-	-	-	-	-
MSBs	121.1	2,454.2	1,441.3	489.1	21.9	4,527.6
Special Account	365.5	22,987.3	3,627.8	113.6	77.5	27,171.7
Total	486.6	25,464.2	5,069.0	602.7	99.4	31,721.9

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

B. Investment Companies

In 2017, the KDIC did not provide any funds to investment companies in the form of deposit insurance claim payments, equity investment, contributions, or loans from the DIF.

C. Insurance Companies

In 2017, the KDIC did not provide any funds to insurance companies in the form of deposit insurance claim payments, equity investment, contributions, or loans from the DIF.

D. Mutual Savings Banks (Special Account)

For the 31 insolvent mutual savings banks suspended from operations in 2011 and afterwards, the KDIC made deposit payoffs, including interim deposit payments, from funds in the Special Account. The assistance mainly took the form of capital contributions to make up for net asset shortages to facilitate P&As. Troubled assets were transferred to the KR&C as part P&A transactions and the KR&C purchased the assets with loans from the KDIC.

No mutual savings bank was suspended in 2017, but the KDIC paid out KRW 560 million in outstanding deposit insurance claims to depositors of suspended mutual savings banks. The table below is a summary of the financial assistance and deposit payoffs since 2011 for insolvent mutual savings banks.

Maximization of Fund Recovery

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 12.9465 trillion from 2003 to 2017, with KRW 1.3 billion in the non-life insurance account, KRW 44.6 billion in the mutual savings bank account, and KRW 1.0303 trillion in the Special Account recovered in 2017 alone.

Collection of Bankruptcy Dividends and Recovery of Loans

In 2017, the KDIC collected KRW 1.0667 trillion in bankruptcy dividends through the sale of remaining assets owned by bankruptcy estates of insolvent mutual savings banks that had received public fund assistance from the DIF.

From 2003 to 2017, a cumulative total of KRW 11.6103 trillion was recovered.

Table Ⅸ- 22

Financial Assistance and Deposit Insurance Payments from the Special Account

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Bank Name	Date of Business Suspension	Payment of Deposit Insurance	Capital Contributions, Loans, etc.	Total
16 failed MSBs including Samhwa	2011	3,279.8	12,703.4	15,983.2
8 failed MSBs including Solomon	2012	345.1	8,670.6	9,015.7
5 failed MSBs including Seoul	2013	2.9	1,818.5	1,821.4
Haesol	2014	-	299.4	299.4
Golden Bridge	2015	-	52.0	52.0
Total		3,627.8	23,543.9	27,171.7

From 2003 to 2017, the KDIC offered KRW 602.7 billion in loans to the KR&C to facilitate the resolution of failed mutual savings banks, from which KRW 586.7 billion was recovered.

Recovery by the KR&C

The KR&C recovered a cumulative total of KRW 685.3 billion by the end of 2017 by various means including recovery of loans, disposal of non-performing loans, and public auctions. Of the amount, KRW 586.7 billion was paid to the KDIC in loan repayments.*

* Amount of loans from the KDIC for the purpose of resolving insolvent mutual savings banks from 2003 to 2017: KRW 602.7 billion

In 2017, the KR&C recovered a total of KRW 30.9 billion by means of debt restructuring and asset sale* and repaid KRW 9.5 billion to the KDIC.

* Sale to the Korea Asset Management Corporation of KRW 111.7 billion in personal loans written-off as irrecoverable (on the basis of principal amount) under such circumstances as non-existence of discovered assets, according to the FSC's Plan to Improve Non-Performing Loan Management System of Public Institutions in the Financial Sector (March 7, 2017)

Table Ⅸ-23

DIF Recovery (2017 and Accumulated)

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Category		Equity Investment	Capital Contributions	Money Paid in Deposit Insurance Payments	Loans[1]	Money Paid in Advance Dividends	Total [2]
2017	Non-life Insurance Companies	-	1.3	-	-	-	1.3
	MSBs	-	18.3	17.1	9.2	-	44.6
	Special Account	-	964.0	66.1	0.3	-	1,030.3
	Total	-	983.6	83.2	9.5	-	1,076.2
2003 to 2017 Accumulated		594.8	9,568.5	2,097.0	586.7	99.4	12,946.5

Note : 1) Recovery of loan principal and interest through the KR&C
2) The credit union account in the DIF, which was transferred to the Korean Federation of Community Credit Cooperatives on January 1, 2010, was not included.

Table Ⅸ-24

Collection of Bankruptcy Dividends and Loans

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Financial Sector	Collection of dividends from Estates		Collection of Loans	
	2017	2003~2017 Accumulated	2017	2003~2017 Accumulated
Non-life Insurance Companies	1.3	1.3	-	-
MSBs (Including the Special Account)	1,065.5	11,598.1	9.5	586.7
Total	1,066.7	11,610.3	9.5	586.7

Table Ⅸ- 25

Recovery from Sale of KR&C-Owned Assets

(As of the end of Dec. 31, 2017, Unit: KRW 1 billion)

Year	Asset Type	Assets Subject to Sale	Amount Recovered	Recovery Method
Amount recovered in 2017	Loans	Loans in KRW	30.9	Direct collection, debt rescheduling, etc.
		Loans in foreign currencies	-	
		Subtotal	30.9	-
	Marketable securities	Listed and unlisted stock	-	-
	Real estate and etc.	Land, etc.	0	Auction, etc.
	Total		30.9	-
Accumulated Amount	Loans	Loans in KRW	617.1	NPL sale, direct collection, debt rescheduling, etc
		Loans in foreign currencies	-	
		Subtotal	617.1	
	Marketable securities	Listed and unlisted stock	0.2	Auction, etc.
	Real estate and etc.	Land, etc.	68.0	Auction, etc.
	Total		685.3	-

Enhancement of the Financial Health of the DIF

The new 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 commissioned research to outside research organizations 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 identify possible 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 premiums by its resolution if fund reserves reach the targeted amount.

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

After 2012, the KDIC published a white paper on management of the Special Account pursuant to Article 24-4 of the Depositor Protection Act. It also reported the results of settlement of accounts for the Special Account for 2011 as well as its management plan for 2012 to the corresponding standing committee in the National Assembly for the purpose of increasing transparency. On three occasions in July 2012, November 2013, and October 2014, the KDIC received a combined total of KRW 250 billion in no-interest loans from the government (Public Capital Management Fund, to be exact) to expand financing for, and diversify the funding sources of, the Special Account. Such endeavor helped make DIF 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 standing. However, 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.

Beginning in 2017, the KDIC issued short-term electronic bonds as a means to supplement short-term borrowings from insured financial institutions, which are used in the event of a temporary fund mismatch in the Special Account. This allowed the KDIC to curtail financing costs and obtain short-term funds in the direct financial market, in addition to borrowings from the indirect financial market, ultimately upgrading its financing capability.

Adverse conditions complicating management of the DIF persisted in 2017. Amid increasing interest rate volatility stemming from economic recovery and North Korea’s nuclear threat, risk management concerning the DIF assumed even greater importance when market interest rates started to rise after the US Federal Reserve and the Bank of Korea hiked their benchmark rates.

To preempt extreme volatility from interest rates, the KDIC introduced more flexibility into asset allocation and bond duration management on the basis of financial market trends and market rate prospects. It sought to raise the investment return of the DIF by eliciting assistance from market experts and more proactively responding to rapidly changing market conditions.

X

Account Settlement for Fiscal Year 2017

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 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 2017, the audit was conducted by Hanul Choojung LLC, and the auditor's opinion was “unqualified.”

2. Criteria for Account Settlement

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

Deposit Insurance Fund and KDIC Internal Account

Accounting for Assets and Liabilities

Classification and Valuation of Securities

A. Acquisition Cost and Classification of Securities

The acquisition costs of securities are estimated by adding together the purchase prices and incidental costs incurred in acquiring the securities. The KDIC classifies securities as available-for-sale (AFS) financial assets, held-to-maturity (HTM) financial assets, and investments in associates, according to their nature and ownership purpose. In 2017, only the DIF held securities, all of which were categorized as AFS financial assets.

B. Valuation of Securities

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

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

Valuation of Loans, etc.

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

Reserves for Outstanding Claims

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

Transferred-out Capital Budget and General Expenses of the KDIC

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

Accounting for Revenues and Expenses

Revenue Recognition Criteria

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

Cut-off for Recognition 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 because its due date has not arrived under a certain contract or agreement is recorded as accrued revenue and added to income.

DIF Bond Redemption Fund

Application of Government Accounting Standards

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

Accounting for Assets and Liabilities

Classification and Valuation of Securities

A. Acquisition Cost and Classification of Securities

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

B. Valuation of Securities

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

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

Valuation of Loans, etc.

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

Provisions for Long-Term Liabilities

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

Discount or Premium on Debentures Issued

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

Transferred-out Capital Budget and General Expenses of the KDIC

The Redemption Fund covers the costs associated with assets used by the KDIC and other general expenses. The money spent for capital expenditures of the KDIC Internal Account is appropriated to assets as other non-current assets, and if the asset decreases in value due to depreciation, etc., the corresponding amount is deducted from other non-current assets and added to administrative and general expenses.

The costs of the operation of the KDIC such as labor costs which are allocated to the financial policy support program are booked as total program costs and the rest as administrative and general expenses.

Accounting for Revenues and Expenses

Revenue Recognition Criteria

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

Expense Recognition Criteria

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

3. Account Settlement Results

Integration of the Deposit Insurance Fund and KDIC Internal Account

Financial Status

Assets totaled KRW 13.9903 trillion as of the end of 2017, down 8.1% (KRW 1.2394 trillion) from the end of 2016. The decrease is primarily attributable to a decline in operating assets (KRW 863.8 billion) arising from net redemption of Deposit Insurance Fund Bonds for the Special Account for Mutual Savings Bank Restructuring ("Special Account Bonds") and a reduction in indemnity receivables (KRW 489.6 billion) owing to receipt of bankruptcy dividends.

Total liabilities decreased by KRW 3.332 trillion or 19.8% to KRW 13.4954 trillion as of the end of 2017. This is mainly ascribed to net redemption of Special Account Bonds and borrowings totaling KRW 3.2800 trillion from deposit insurance premiums (KRW 1.7 trillion), bankruptcy dividends (KRW 1.1 trillion), and funds carried over from the previous year.

Total equity increased by KRW 2.0927 trillion or 131.0% to KRW 494.9 billion in 2017 as a result of net income of KRW 2.0983 trillion. The negative net worth caused by a series of insolvencies of mutual savings banks in 2011 was finally redressed in six years.

Profits and Losses

In 2017, net income stood at KRW 2.0983 trillion, down KRW 339.4 billion or 13.9% from 2016.

The operating profits, calculated by deducting operating costs from operating revenues, amounted to KRW 1.5144 trillion. The operating revenues (KRW 1.9508 trillion) are mainly comprised of insurance premium revenues (KRW 1.7747 trillion) and interest income earned from asset management (KRW 163.4 billion). The operating costs (KRW 436.4 billion) include interest expenses for Special Account Bonds and borrowings (KRW 327.7 billion) and KDIC operating expenses (KRW 104.9 billion).

Meanwhile, the amount of other income was KRW 583.3 billion, mainly attributable to the reversal of allowances for doubtful accounts (KRW 582.2 billion) because of an increase in expected recovery of indemnity receivables.

Redemption Fund

Financial Status

As of the end of 2017, the total assets of the Redemption Fund stood at KRW 6.3224 trillion, down KRW 693.0 billion or 9.9% from the end of the previous year. This is mostly due to a decrease in operating assets (KRW 353.0 billion) caused by net redemption of DIF Redemption Fund Bonds ("Redemption Fund Bonds").

As of the end of 2017, total liabilities decreased by KRW 2.9569 trillion or 23.3% year-on-year to KRW 9.7554 trillion. This is primarily attributed to net redemption of Redemption Fund Bonds (KRW 2.87 trillion) by use of special contributions (KRW 1.7 trillion), stock dividends (KRW 0.4 trillion), and stock sale proceeds (KRW 0.7 trillion).

As of the end of 2017, total net equity stood at KRW (-)3.433 trillion, up KRW 2.2639 trillion or 39.7% from the end of 2016. This is primarily owing to KRW 2.058 trillion in net income.

Profits and Losses

In 2017, the Redemption Fund's financial operation* generated a result of KRW (-)2.58 trillion, recording a year-on-year increase of KRW 53 billion or 2.5%.

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

The net program costs incurred for the operation of the financial policy support program, an essential business of the Redemption Fund, remained at KRW (-)368.6 billion. This figure was arrived at by deducting program income of KRW 861.6 billion from the total program costs of KRW 493.0 billion. Total program costs consist of interest expenses of Redemption Fund Bonds (KRW 300.2 billion) and others. Program income is comprised of dividend income (KRW 407.6 billion), gains on stock disposition (KRW 371.4 billion), and the like.

The net cost for financial management came to KRW (-)404.9 billion, which was calculated by adding KRW 3.5 billion in administrative and operating expenses and deducting KRW 40.0 billion in non-allocated revenues from, the net program costs of KRW (-)368.6 billion. The administrative and operating expenses above refer to management expenses including labor costs and general expenses that are not allocated to program costs. Non-allocated revenues are those that are not related to the program operation.

The financial operation result of KRW (-)2.058 trillion was calculated by deducting non-exchange revenues of KRW 1.6531 trillion from the net cost for financial management of KRW (-)404.9 billion. Non-exchange revenues above are special contributions received that arise without any direct consideration in return.

Table Ⅹ-1

Condensed Statement of Financial Position

Current period : As of December 31, 2017
Previous period : As of December 31, 2016

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

ASSETS	Amount: Current period	Amount: Previous period	LIABILITIES and EQUITY	Amount: Current period	Amount: Previous period
Current Assets	8,994.7	10,228.4	Current Liabilities	3,151.3	7,563.7
1.Cash and Cash Equivalents	95.3	1,160.2	1. Accounts and Other Payables	76.0	128.1
2. Current Financial Assets	7,715.5	7,987.9	Short-term Accrued Expenses	76.0	128.1
Available-for-sale Securities	1,791.9	2,807.6	2. Current Financial Liabilities	2,930.1	7,290.7
Short-term Loans	84.4	92.4	Short-term Borrowings	280.0	
(Allowance for Doubtful Accounts)	(-)20.8	(-)26.0	Bonds	2,650.0	7,290.0
Short-term Financial Instruments	5,860.0	5,113.9	Discounts on Bonds Payable	0.1	0.7
3. Trade and Other Receivables	1,183.8	1,080.2	3. Current Non-financial Liabilities	143.2	143.0
Short-term Accrued Income	1,184.4	1,081.1	Short-term Deposits	143.2	143.0
(Allowance for Doubtful Accounts)	(-)0.6	(-)0.9	4. Current Provisions	2.0	1.9
4. Current Non-financial Assets	0.1	0.1	Provisions for Employee Benefits	2.0	1.9
Short-term Prepaid Expenses	0.1	0.1	Non-current Liabilities	10,344.1	9,263.8
Non-current Assets	4,995.6	5,001.3	1. Non-current Financial Liabilities	10,334.9	9,255.0
1. Non-Current Financial Assets	2,375.0	1,904.2	Long-term Borrowings	250.0	250.0
Available-for-sale Securities	2,218.8	1,494.3	(Present Value Discount)	(-)60.8	(-)67.0
Long-term Loans	0.7	0.6	Government Subsidy	56.4	63.3
Long-term Financial Instruments	155.5	409.3	Bonds	10,090.0	9,010.0
2. Long-term Trade and other Receivables	11.3	10.7	(Discounts (Premiums) on Bonds Payable)	(-)0.7	(-)1.3
Long-term Deposits Provided	12.4	12.1	2. Non-current Non-financial Liabilities	7.4	7.4
(Present Value Discount)	(-)1.1	(-)1.4	Other Non-current Non-financial Liabilities	7.4	7.4
3. Tangible Assets	19.2	6.4	3. Employee Benefit Liabilities	1.8	1.4
Lands	5.2	0.1	Net Defined Benefit Liabilities and etc.	1.8	1.4
Buildings	10.2	1.5			
Structures	1.8	0.9	Total Liabilities	13,495.4	16,827.5
Other Tangible Assets	28.7	27.2			
(Accumulated Depreciation)	(-)26.7	(-)23.3			
4. Intangible Assets Other than Goodwill	0.6	0.6	Deficit	505.7	(-)1,593.5
Other Intangible Assets	0.6	0.6	Current Period: (+) 2,098.3		
5. Non-current Non-financial Assets	2,589.5	3,079.4	Precious Period: (+) 2,437.7		
Long-term Advanced Payment	0.9	1.3	Elements of Other Equity	(-)10.8	(-)4.3
Long-term Indemnity Receivables	17,117.2	18,546.3	Accumulated Other Comprehensive Income (Loss)	(-)10.8	(-)4.3
(Allowance for Doubtful Accounts)	(-)14,528.6	(-)15,468.2	Total Equity	494.9	(-)1,597.8
Total Assets	13,990.3	15,229.7	Total Liabilities and Equity	13,990.3	15,229.7

Table Ⅹ-2

Condensed Income Statement

Current period : For the year ended December 31, 2017
Previous period : For the year ended December 31, 2016

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

Categories	Current Period	Previous Period
Income from Operations (A=B–C)	1,514.4	1,209.7
Operating Revenues (B)	1,950.8	1,801.3
Premium Revenues	1,774.7	1,616.0
Interest Revenues	163.4	173.0
Transfer Income	9.0	8.9
Other Income	3.7	3.4
Operating Expenses (C)	436.4	591.6
Interest Expenses	327.7	484.9
Personnel Expenses	65.7	61.0
General Expenses	39.2	42.0
Others	3.8	3.7
Other Gains and Losses (D)	583.3	1,228.0
Net Reversal of (Transfer to) Other Provisions	(-)0.1	0.1
Net Reversal of (Transfer to) Allowance for Doubtful Accounts	582.2	1,224.1
Others	1.2	3.8
Financial Gains and Losses (E)	0.6	-
Gains on Disposal of Financial Assets	0.6	-
Net Profit of Loss for Current Period (F=A+D+E)	2,098.3	2,437.7
Other Comprehensive Income (G)	(-)5.6	(-)20.3
Total Comprehensive Income (H=F+G)	2,092.7	2,417.4

Table Ⅹ-3

Condensed Statement of Financial Position

Current period : As of December 31, 2017
Previous period : As of December 31, 2016

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

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
Current Assets	**2,182.4**	**2,534.3**	**Current Liabilities**	**5,396.1**	**4,555.1**
1. Cash and Cash Equivalents	2,000.9	1,226.6	1. Current Portion of Long-term Liabilities	5,309.0	4,393.1
2. Short-term Financial Instruments	160.0	1,297.3	2. Other Current Liabilities	77.1	162.0
3. Short-term Investment Securities	10.0	-			
4. Outstanding Bonds	1,107.6	1,106.5			
(Allowance for Doubtful Accounts)	(-)1,102.8	(-)1,102.8	**Long-term Borrowing Liabilities**	**4,369.3**	**8,157.2**
5. Short-term Loans	11.3	11.3	1. Public Bonds	4,369.3	8,157.2
(Allowance for Doubtful Accounts)	(-)4.6	(-)4.6			
			Total Liabilities	**9,755.4**	**12,712.3**
Investment Assets	**4,132.6**	**4,473.7**			
1. Long-term Loans	14,281.6	14,292.9			
(Allowance for Doubtful Accounts)	(-)13,993.2	(-)13,992.5			
2. Long-term Investment Securities	3,844.2	4,173.3			
			Net Asset		
Other Non-current Assets	**7.4**	**7.4**	1. Net Asset	52,306.4	52,306.4
1. Long-term Notes Receivables	-	0.1	2. Reserves and Surplus	(-)56,768.8	(-)58,826.8
(Allowance for Doubtful Accounts)	-	(-)0.1	3. Net Asset Adjustment	1,029.4	823.5
2. Long-term Indemnity Receivables, etc.	8.5	8.5			
(Allowance for Doubtful Accounts)	(-)1.1	(-)1.1	**Total Net Asset**	**(-)3,433.0**	**(-)5,696.9**
Total Assets	**6,322.4**	**7,015.4**	**Total Liabilities and Net Asset**	**6,322.4**	**7,015.4**

Table Ⅹ-4

Condensed Financial Operating Statement

Current period : As of December 31, 2017
Previous period : As of December 31, 2016

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

Categories	Current Period			Previous Period		
	Total Cost	Profit	Net Cost	Total Cost	Profit	Net Cost
Ⅰ. Program Net Cost	493.0	861.6	(-)368.6	1,121.8	1,698.3	(-)576.5
1. Financial Policy Support	493.0	861.6	(-)368.6	1,121.8	1,698.3	(-)576.5
Loss on Disposal of Asset	121.0			687.5		
Interest Expense	300.2			391.3		
Allowance for Doubtful Accounts	6.8			38.1		
Payment Fees	65.0			4.9		
Gains on Disposal of Assetw		371.4			1,250.2	
Dividend Income		407.6			365.2	
Interest Income from Loans to Non-Government Organizations		76.1			60.3	
Reversal of Impairment Loss on Investment Securities		-			15.0	
Reversal of Allowances for Doubtful Accounts		6.1			7.6	
Miscellaneous Revenue		0.4			-	
Ⅱ. Management and Administrative Expenses			3.5			3.1
1. Commissions Paid			3.5			3.1
Ⅲ. Non-Allocated Costs			-			14.9
1. Valuation Loses			-			14.9
Ⅳ. Non-Allocated Revenues			39.8			13.1
1. Interest Income			39.3			9.1
2. Other Income			0.5			4.0
Ⅴ. Net Cost for Financial Operation (Ⅰ + Ⅱ + Ⅲ - Ⅳ)			(-)404.9			(-)571.6
Ⅵ. Non-Exchange Revenues			1,653.1			1,539.4
1. Revenues from Contributions			1,653.1			1,539.4
Ⅶ. Financial Operation Result (Ⅴ - Ⅵ)			(-)2,058.0			(-)2,111.0

Appendix

1. Overview of the Deposit Insurance System
2. Independent Evaluation
3. Summary of Major Events in 2017
4. Statistics

1. Overview of the Deposit Insurance System

Significance of the Deposit Insurance System

The deposit insurance system protects depositors and stabilizes financial markets by reimbursing depositors 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 during normal times.

Insured Financial Institutions

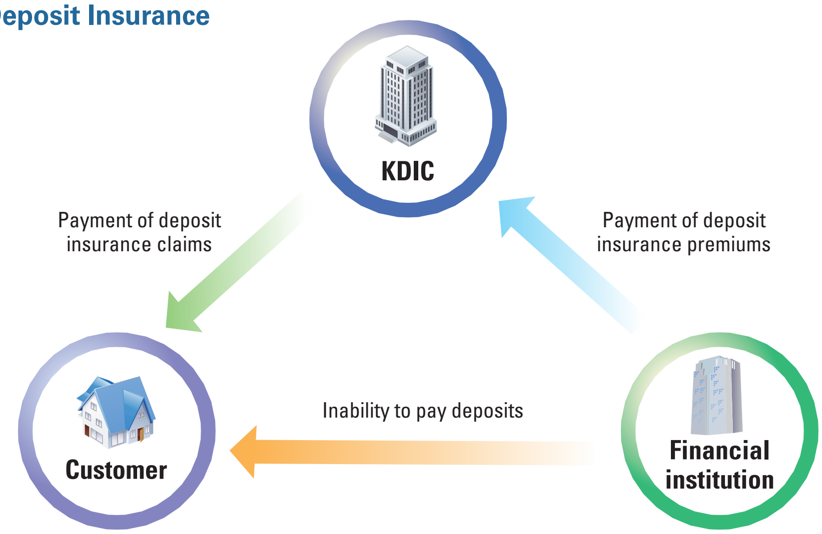
Insured financial institutions are those that are required to join the deposit insurance system under the Depositor Protection Act. They include banks, financial investment traders/brokers, insurance companies, merchant banks, and mutual savings banks. In Korea, deposit insurance membership is compulsory 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 Federation of Agricultural Cooperatives 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 under domestic law. While member cooperatives of the national federations of agricultural and fisheries cooperatives, credit unions and community credit cooperatives (called Saemaeul Geumgo) are not insured by the KDIC, for those licensed for investment trading and brokerage services, the KDIC protects deposits at those institutions made for the purpose of using such services. All "insurance companies," except reinsurance firms, are included in the scope of insured financial institutions.

Figure Appendix - 1

Structure of Deposit Insurance



Insured Financial Products

Insured financial products are deposits that are guaranteed by the KDIC in case a financial institution becomes unable to repay depositors their money for reasons such as bankruptcy. The scope of KDIC coverage is defined in Article 2 of the Depositor Protection Act and Article 3 of its Enforcement Decree.

Table Appendix **- 1**

Insured and Uninsured Financial Products

(As of Dec. 31, 2017)

Financial Sector	Insured Financial Products	Uninsured Financial Products
Banks	• Demand deposits (e.g. ordinary deposits, corporate deposits, temporary deposits, checking deposits) • Savings deposits (term deposits, time and savings deposits, housing subscription deposits, and issued notes) • Installment deposits (e.g. installment savings deposits, installment savings for housing, and mutual installment deposits • Foreign currency deposits • Money trusts with principal guarantees • Financial products subject to deposit protection which are incorporated into individual savings accounts (ISAs) • 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 (e.g. money market trust) • Bank-issued bonds • Some types of housing subscription deposits
Investment Traders and Brokers	• 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 • Deposits in defined contribution retirement pension accounts or individual retirement accounts that are invested in KDIC-insured products • Financial products subject to deposit protection which are incorporated into individual savings accounts (ISAs) • Money trusts with principal guarantees • Cash deposits with securities finance companies made under Article 330(1) of the Financial Investment Services and Capital Markets Act	• 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. • Deposits for gold transactions in kind, etc.
Insurance Companies	• Individual policies • Retirement insurance • Special policy conditions for variable insurance contracts • Guaranteed minimums for variable insurance contracts such as guaranteed minimum death benefits, guaranteed minimum accumulation benefits, guaranteed minimum withdrawal benefits, and guaranteed lifetime withdrawal benefits • Deposits in defined contribution retirement pension accounts or individual retirement accounts that are invested in KDIC-insured products • Financial products subject to deposit protection which are incorporated into individual savings accounts (ISAs) • 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 (excluding guaranteed minimums such as guaranteed minimum death benefits, guaranteed minimum accumulation benefits, guaranteed minimum withdrawal benefits, and guaranteed lifetime withdrawal benefits), etc.
Merchant Banks	• 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 Banks	• 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.

* Deposits of the central and local governments (including national and public schools), the Bank of Korea, FSS, KDIC and insured financial institutions are excluded from the scope of protection

Coverage Limit

When the KDIC was launched in 1996, deposit insurance coverage was up to KRW 20 million per depositor. However, as financial markets became unstable and systemic risk started to manifest itself across the economic system in the wake of the Asian financial crisis in 1997, deposit insurance coverage was temporarily 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 in the case of policyholders) was no more than KRW 20 million, principal and designated interest* were guaranteed up to KRW 20 million. If principal (or insurance premiums paid in the case of policyholders) exceeded KRW 20 million, only principal was protected.

* The lesser amount between the interest rate publicly announced by the KDIC (average of the base rates applicable to one-year term deposits (monthly interest payment) of 11 nationwide commercial banks) and the contractual interest rate (interest rate after maturity if the deposit has already reached maturity)

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 ensure sustainable stability in the financial market.

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

Starting in June 2009, the KDIC protected reserves for DC (defined contribution) pension and IRP (individual retirement pension) plans invested in financial products eligible for deposit protection (bank deposits, interest rate sensitive or guaranteed interest insurance products, etc.) in accordance with the Guarantee of Workers' Retirement Benefits Act.

If a depositor had other insured deposits at an insured financial institution in addition to such protected reserves, however, a combined deposit protection limit of KRW 50 million applied. This raised the need to adjust the protection limit in a way that better safeguards the rights of subscribers to retirement pension plans. The Enforcement Decree of the Depositor Protection Act revised in February 2015 applies a separate protection limit of KRW 50 million respectively to each depositor's protected ordinary financial products and reserves for retirement pension plans.

Table Appendix -2

Coverage Limit

Period	Coverage Limit
Jan. 1, 1997 ~ Nov. 18, 1997	• KRW 20 million per person
Nov. 19, 1997 ~ Jul. 31, 1998	• Blanket guarantee for principal and interest
Aug. 1, 1998 ~ Dec. 31, 2000	• Subscribed before Aug. 1, 1998: Blanket guarantee • Subscribed on or after Aug. 1, 1998: - Principal exceeding KRW 20 million: Principal only - Principal of up to KRW 20 million: Up to KRW 20 million including principal and designated interest
Jan. 1, 2001 ~ Feb. 25, 2015	• KRW 50 million per person (Blanket guarantee for bank demand deposits made by December 31, 2003)
Feb. 26, 2015 ~ Present	• KRW 50 million per person (Reserves for DC and IRP plans* managed as financial instruments eligible for deposit protection: KRW 50 million separately) * Including retirement insurance and retirement lump-sum payment trust

2. Independent Evaluation

Management Evaluation of Public Institutions

In March 2017, the KDIC submitted its managerial performance report for 2016 to the Minister of Strategy and Finance under Article 47 of the Act on the Management of Public Institutions. Based on the report, a team organized by the Minister of Strategy and Finance evaluated the performance of the KDIC.

In its announcement in June 2017, the evaluation team gave the KDIC a "B" grade for 2016's performance of the KDIC.

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 consists of two categories: business management and asset management.

The KDIC prepared a fund management performance report (asset management) for the DIF Bond Redemption Fund in 2016 and submitted it to the Fund Management Evaluation Committee in February 2017. The Committee made available the evaluation results in May 2017 after conducting due diligence and opinion gathering.

According to the fund management evaluation (asset management) results for 2016, the Redemption Fund gained the rating of "superior." This attests to the fact that the KDIC has the strongest fund management ability.

Anti-Corruption Policy Evaluation and Integrity Assessment for Public Institutions

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

In integrity assessment, the KDIC was rated excellent (grade 2 or higher in overall integrity) for a second consecutive year. In 2017, it was accordingly excluded from the targets of anti-corruption policy evaluation where it has achieved grade 2 or higher every year.

In a public institution integrity survey for 2017 targeting its employees and customers, the KDIC recorded 8.51 (overall integrity level), up 0.06 points from the preceding year, but it was demoted from grade 2 to grade 3 for such reasons as a change in entities in the evaluated group.

3. Summary of Major Events in 2017

Date	Major Events
Jan. 10	• Implemented an organizational reshuffle to improve preemptive risk management
Jan. 31	• Recovered KRW 133.8 billion by selling a 2% stake in Woori Bank to IMM PE, which is one of the investors who as a group have ownership of the bank
Feb. 14	• Acquired information protection management system certification by the Ministry of Science, ICT and Future Planning
Mar. 6	• Executed on-site examinations of compliance with the KDIC signage display requirements and the explanation & confirmation scheme
Mar. 9	• Opened an office in Phnom Penh, Cambodia
Mar. 30	• Recovered KRW 11.26 billion in loans from Daewon Savings Bank
Mar. 30	• Recognized as an outstanding institution in ‘Government 3.0 initiative assessment for public institutions’for a third consecutive year
Mar. 31	• Recovered KRW 10.6 billion in regular dividends from Hanwha Life Insurance
Apr. 7	• Opened the KDIC Global Academy
Apr. 12	• Recovered KRW 12,8 billion from the sale of preferred shares in the National Federation of Fisheries Cooperatives to the Federation, which then retired the shares
Apr. 14	• Recovered KRW 57.8 billion in regular dividends from Woori Bank
Apr. 24	• Hosted a KDIC/FSS joint seminar on insurance risk
Apr. 28	• Recovered KRW 321 billion in regular dividends from Seoul Guarantee Insurance
May 26	• Rated 'superior' in the fund management evaluation for 2016
Jun. 1	• Carried out social contribution activities on the occasion of its 21st anniversary
Jun. 9	• Scored grade A in the Board of Audit and Inspection’s independent audit assessment
Jun. 20~23	• Launched a global deposit insurance training program named ‘One Asia with KDIC’
Jul. 4	• KDIC’s deposit insurance system selected by the Ministry of Government Administration and Home Affairs for support of e-government system export
Jul. 6	• Hosted a policy seminar with the Korean Economic Association
Aug. 11	• Recovered KRW 12.8 billion in interim dividends from Woori Bank
Aug. 21	Recovered KRW 173.9 billion in a block sale of its 2.75% stake in Hanwha Life Insurance
Aug. 31	• Worked out a labor-management agreement on follow-up measures concerning the performance-based annual salary system
Sep. 21	• Concluded an MOU with the World Bank
Nov. 9	• Won the grand prize in the 2017 Korea Data Quality Awards
Nov. 15	• Hosted a workshop for the management of mutual savings banks
Nov. 23	• Recovered KRW 159.1 billion in a block sale of its 2.5% stake in Hanwha Life Insurance
Nov. 29	• Hosted a special seminar on 'Years after the Asian Financial Crisis: Retrospect and Lessons'
Dec. 4	• Won the Prime Minister’s award in the competition of best practices in proactive administration
Dec. 7	• Recognized as the best institution in 2017 by the Institute of Internal Auditors
Dec. 21	• Conclusively determined to convert 57 non-regular workers into regular employees
Dec. 27	• Completed development of a prior depositor information retention scheme with domestic banks and other institutions

4. Statistics

Insured Financial Institutions[1)]

(As of Dec.31, 2017 Unit: No. of financial institutions)

Financial Sector		2013	2014	2015	2016	2017
Banks		57	56	58	60	56
	Domestic	17	17	16	17	18
	Foreign	40	39	42	43	38
Investment Companies[2)]		117	116	114	104	110
Insurance Companies		48	48	48	47	47
	Life	25	25	25	25	25
	Non-life	23	23	23	22	22
Merchant Banks		1	1	1	1	1
MSBs[3)]		92	81	80	80	80
Total		315	302	301	292	294

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/brokers authorized to engage in financial investment trading/brokerage regarding securities according to Article 12 of the Financial Investment Services and Capital Markets Act
3) Including the Korea Federation of Savings Banks

Insurable Deposits by Financial Sector[1)]

(As of Sep. 31 2017, Unit: KRW 1 billion)

Financial Sector		2016 Dec. 31 (A)	2017 Sep. 31(B)	Change(B-A)
Banks		1,140,810.8	1,171,375.4	30,564.6
Investment Companies		26,745.4	27,717.5	972.1
Insurance Companies		687,099.4	724,778.4	37,679.0
	Life	531,825.3	556,461.6	24,636.3
	Non-life	155,274.1	168,316.8	13,042.7
Merchant Banks		1,172.5	1,129.8	(-)42.7
MSBs		44,409.8	48,623.0	4,213.2
Total		1,900,237.9	1,973,624.1	73,386.2

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

DIF Bond Redemption Fund Revenues

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Financial Sector	Insurance Premium revenue Prior to Creation of DIF Bond Redemption Fund[2]			Special Assessments Paid by Insured FIs to the DIF Bond Redemption Fund							
	Before 1998[1]	1999 ~2002	Total	2003 ~2011	2012	2013	2014	2015	2016	2017	Total
Banks	161.3	1,310.5	1,471.8	5,015.7	851.8	897.3	959.0	978.6	1,066.4	1,134.4	10,903.3
Investment Companies	-	68.7	68.7	157.1	22.6	20.2	20.0	17.9	24.0	27.2	289.1
Insurance Companies	232.2	823.7	1,055.9	1,402.6	235.2	300.4	317.6	351.3	383.6	417.1	3,407.7
Life	180.0	664.6	844.6	1,133.9	176.0	229.7	238.6	261.7	283.5	306.7	2,630.1
Non-Life	52.2	159.1	211.3	268.7	59.2	70.7	79.0	89.6	100.1	110.3	777.6
Merchant Banks	98.0	83.8	181.8	9.4	1.0	0.9	0.7	0.7	0.8	1.0	14.5
MSBs	240.7	183.3	424.0	412.2	52.1	39.4	32.3	30.8	34.8	40.3	641.8
Credit Unions	40.2	149.1	189.3	97.3	22.8	24.8	26.3	27.5	29.9	33.2	261.7
Total	772.4	2,619.1	3,391.5	7,094.2	1,185.5	1,283.0	1,356.0	1,406.8	1,923.1	1,653.1	15,518.0

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

DIF Premium Revenues

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Financial Sector	2003~2011[1]	2012[5]	2013[5]	2014[5]	2015[5]	2016[5]	2017[5]	Total
Banks	4,496.3	374.8	394.8	419.7	436.9	467.5	500.5	7,090.4
Investment Companies	265.5	0.2	-	-	-	-	-	265.8
Insurance Companies	3,510.3	8.6	70.9	125.6	199.0	266.2	323.3	4,503.7
Life	2,853.9	-1.4[3]	22.1	81.1	128.0	185.7	234.9	3,504.3
Non-Life	656.4	10.0	48.8	44.5	71.0	80.6	88.3	999.5
Merchant Banks	25.1	0.8	0.8	0.6	0.4	0.7	0.9	29.2
MSBs	1,293.1	134.5	25.3	25.6	6.4	29.6	28.6	1,543.2
Special Account[2]	174.2	581.6	667.2	615.8	712.0	682.3	824.2	4,257.5
Total[4]	9,764.5	1,100.4	1,159.0	1,187.2	1,354.7	1,446.3	1,677.4	17,689.7

Note : 1) Insurance premiums paid until 2002 were transferred to the Redemption Fund after the revision of relevant laws.
2) Establishment of the Special Account for Mutual Savings Bank Restructuring in April 2011 (to be maintained until the end of 2026)
3) Refund of deposit insurance premiums paid before 2012
4) 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.
5) Insurance premium reductions under the target fund system: exemption for financial investment companies and life insurance companies and 15% reduction for non-life insurance companies in 2012; exemption for financial investment companies, 45% reduction for life insurance companies, and 7% reduction for non-life insurance companies in 2013; exemption for financial investment companies, 38% reduction for life insurance companies, and 1% reduction for non-life insurance companies in 2014; exemption for financial investment companies and 17% reduction for life insurance companies in 2015; exemption for financial investment companies and 5% reduction for life insurance companies in 2016.

DIF Bonds Issued (Old DIF Bonds Issued in 2002)

(As of Dec. 31, 2017, Unit: KRW 1 billion)

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

Note : 1) Cumulative issue amount that includes conversion issuance

Financial Assistance from the DIF Bond Redemption Fund

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Financial Sector	Equity Investment	Contributions	Deposit Payoffs[1]	Asset Purchase[1]	Loans	Total
Banks	22,203.9	13,918.9	-	8,106.4	-	44,229.2
Investment Companies	9,976.9	414.3	11.3	2,123.9	-	12,526.4
Insurance Companies	15,919.8	3,119.2	-	349.5	-	19,388.5
Life	5,669.7	2,751.9	-	349.5	-	8,771.1
Non-Life	10,250.1	367.3	-	-	-	10,617.4
Merchant Banks	2,693.1	743.1	18,271.8	-	-	21,708.0
MSBs	0.1	416.1	7,289.2	-	596.9	8,302.3
Credit Unions	-	-	4,740.2	-	-	4,740.2
Total	50,793.7	18,611.7	30,312.4	10,579.9	596.9	110,894.5

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

Details of Financial Assistance from the DIF Bond Redemption Fund

(As of Dec. 31, 2017, Unit: KRW 1 billion)

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

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

Financial Assistance from the DIF

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Financial Sector	Equity Investment	Contributions	Deposit Payoffs	Loans	Provisional Deposit Payment	Total[1]
Banks	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-
Insurance Companies	-	22.6	-	-	-	22.6
Life	-	-	-	-	-	-
Non-Life	-	22.6	-	-	-	22.6
Merchant Banks	-	-	-	-	-	-
MSBs	121.1	2,454.2	1,441.3	489.1	21.9	4,527.6
Special Account	365.5	22,987.3	3,627.8	113.6	77.5	27,171.7
Total	486.6	25,464.2	5,069.0	602.7	99.4	31,721.9

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

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

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Year	Amount
2000 and before	10,345.7
2001	4,117.9
2002	2,663.4
2003	5,603.4
2004	5,667.2
2005	3,611.7
2006	3,400.1
2007	4,366.0
2008	2,398.0
2009	2,411.8
2010	2,929.5
2011	1,267.9
2012	1,376.9
2013	799.2
2014	2,444.9
2015	1,624.3
2016	2,648.3
2017	1,169.2
Total[1]	**58,845.4**

Note : 1) Including KRW 235.1 billion (2004), KRW 45.8 billion (2006), KRW 9.3 billion (2007) and KRW 20 billion (2012) in liability charges paid by majority shareholders of insolvent financial institutions such as Hyundai Investment & Securities

Fund Recoveries by Type (DIF Bond Redemption Fund)

(As of Dec. 31, 2017, Unit: KRW 1 billion)

Financial Sector		Recovery of Equity Investment	Settlement of Contributions, etc.	Dividends from Bankruptcy Estates[1]	Asset Sales[1]	Collection of Loans	Total
Banks		21,391.1	70.2	1,847.2	6,631.2	-	29,939.7
Investment Companies		1,212.1	337.3	7.8	1,801.3	-	3,358.6
Insurance Companies		6,030.7	88.8	431.0	245.3	-	6,795.8
	Life	2,507.8	84.8	366.2	245.3	-	3,204.1
	Non-life	3,523.0	4.0	64.8	-	-	3,591.7
Merchant Banks		265.9	5.9	9,241.7	-	-	9,513.6
MSBs		-	34.3	5,183.3	-	596.9	5,814.5
Credit Unions		-	0.4	3,422.9	-	-	3,423.3
Total		28,899.9	536.9	20,133.9	8,677.8	596.9	58,845.4

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

Progress in Financial Restructuring

(As of Jun. 30, 2017, 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	12	-	17	51.5	1	17
Non- Banks	2,062	201	279	605	1,085	52.6	318	1,295
• Merchant Banks	30	22	8	-	30	100.0	1	1
• Investment Companies	36	6	13	6	25	69.4	32	43
• Insurance Companies	50	11	7	7	25	50.0	33	58
• Asset Management Companies	24	7	11	1	19	79.2	180	185
• MSBs	231	144	38	1	183	79.2	31	79
• Credit Unions	1,666	3	188	590	781	46.9	19	904
• Lease Companies	25	8	14	-	22	88.0	22	25
Total	2,095	206	291	605	1,102	52.6	319	1,312

Source: Public Fund Management White Book published in August 2017

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

(from Nov. 1997 to Dec. 31, 2017, Unit: KRW 1 trillion)

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