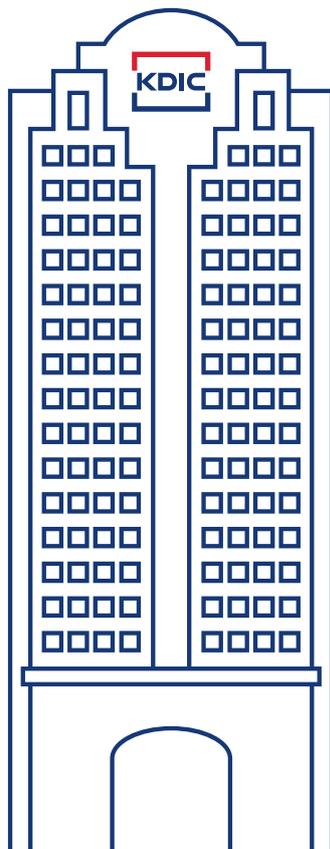


# KDIC

KOREA DEPOSIT INSURANCE CORPORATION

## 2018 ANNUAL REPORT

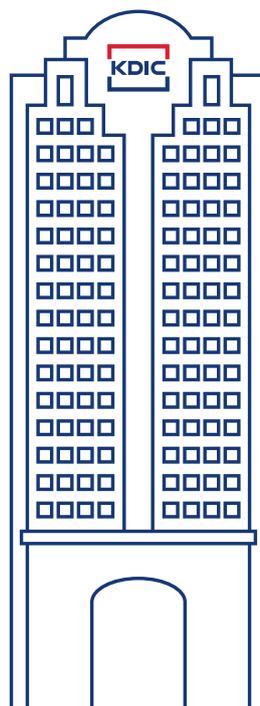
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# KDIC

KOREA DEPOSIT INSURANCE CORPORATION

## 2018 ANNUAL REPORT



Korea Deposit  
Insurance Corporation

# CEO Message



In 2018, against a backdrop of external uncertainties due to the escalation of trade tension between the US and China and other factors, the Korean national economy struggled as its manufacturing sector started to grow slower and investments contracted. In the financial services industry, a rise in household debts and the expansion of a new ecosystem driven by fintech development have led to increasing uncertainties, which raised important questions about future financial stability and protection of financially vulnerable groups.

Under the circumstances, the Korea Deposit Insurance Corporation (KDIC) made arrangements to proactively deal with these potential risks while making a variety of efforts to ensure that no financial consumer would be left in the blind spot of protection. Furthermore, the KDIC tried to fulfill its responsibility as a public organization by adding to the effort to overcome the challenges Korean society faces and create engines of sustainable growth.

Building on feedback from the general public and its staff, the KDIC announced a new corporate vision – Safe Deposits, Compassionate Finance and Happy People – and conducted an organizational overhaul which included the creation of the Department of Social Value Management. This meant a readjustment of the KDIC’s role of maintaining financial stability and protecting depositors in a more socially inclusive way, thereby laying the groundwork for realizing social values and increasing the level of happiness among the people.

First, to “make deposits safe,” the KDIC faithfully carried out preventive monitoring of failure risks at financial institutions by organizing discussions on how to improve information sharing among safety net participants and refining risk assessment models for different financial sectors. Also, it made arrangements to prepare for a future crisis by, for example, building a Single Customer View (SCV) system that would allow prompt deposit reimbursements in case of a failure.

It also recovered KRW 1.4 trillion and reduced KRW 5.4 trillion of debts owed by the deposit insurance funds through the collection of stock dividends and sale of assets with the use of tailored marketing strategies, which further enhanced the soundness of the funds.

In celebration of the 20th anniversary of merging sectoral protection schemes into one single agency, the KDIC organized a policy symposium in December last year under the topic of “Achievements of the Integrated Deposit Insurance Scheme and Future Challenges” which brought together members of the National Assembly, academia and policy-making circles for in-depth discussions on the topic. Going forward, the KDIC will continue to listen to the opinions of the public as well as experts and play a growing role in ensuring depositor protection and financial stability.

Also, for more “compassionate finance,” the KDIC actively engaged in many projects designed to realize social values. These include “a project to fill empty shopping malls with new jobs and dreams of youth” (which was chosen as a model case of efforts to achieve proactive government), improvements to debt restructuring programs to give financially marginalized people a second chance at financial freedom, and holding direct-from-the-farm market events in connection with social enterprises.

Moreover, together with the Government 24 website, the KDIC began providing services aimed at helping depositors of failed financial institutions to claim and receive deposit insurance payments more easily by

notifying them of their unclaimed funds. It also developed and distributed a summary deposit insurance brochure that is resized to fit the screen of a mobile device. Thanks to these efforts, awareness of the deposit insurance scheme among the Korean people hit a new high.

Now the KDIC has newly launched a project to provide relief to victims of misdirected wire transfers which are on the rise as people transact more online. A bill to amend the law to make it happen is currently under way. Providing protection to victims of misdirected wire transfers will enhance the safety of financial transactions and make financial consumers feel more secure.

This Annual Report provides a summary of the KDIC’s major achievements during 2018 in making deposits safe and creating a “warmer” financial environment and thereby making people happier. I hope that it will help the public to better understand what the KDIC does and how it works.

Thank you.



Wi Seongbak  
Chairman & President

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# Major Initiatives

In 2018, the Korea Deposit Insurance Corporation (KDIC) declared its new corporate vision, “Safe Deposits, Compassionate Finance and Happy People” and duly realigned its corporate strategy, core values, strategic goals, and strategic tasks with the new CEO’s management philosophy to address internal and external changes.

The KDIC also established the Social Value Creation Committee (the Chairman and CEO of the KDIC serves as the chairperson of the Committee) comprised of outside experts to fulfill its social responsibility as a public institution. The Committee helped the KDIC develop and implement new projects to realize social values. Among these, the KDIC ran a project to make vacant PF building spaces available for young, aspiring entrepreneurs and cultural experiences, for which it won the President’s Award in the Competition on Best Practices in Proactive Administration in 2018.

In response to the increase in remittance errors that has attended the rise of Internet and mobile banking, the KDIC has sought greater relief and protection for those making remittances. KDIC plans to directly purchase and collect the receivables of incorrect remittances that unintended recipients refuse to return. An amendment to the Depositor Protection Act (DPA) was proposed to address this problem and is currently under review by the National Assembly.

The KDIC drafted a shorter version of the standard depositor protection notification and promoted its use to allow consumers to more easily determine whether they are covered by deposit insurance. To prevent improper selling practices and improve the protection of financial consumers, the KDIC conducted on-site inspections of 1,100 branches of financial institutions to ensure that the notification and confirmation scheme is functioning properly.

Simultaneously, the KDIC commissioned a study on improvement in information-sharing practices among

financial safety net participants, and it made efforts to forge a consensus among internal and external stakeholders on the need to address the problems with the information-sharing system.

The KDIC focused on improving the financial soundness of the Deposit Insurance Fund (DIF) and developed marketing strategies specifically designed for each asset type. These efforts helped to reduce its debt by KRW 5.4 trillion in 2018 alone. In particular, the KDIC managed to recover injected funds by selling assets remaining in the estates of failed financial institutions and collecting dividends from its equity stakes in the financial institutions into which public funds were injected. To expedite payment of insurance claims, it sought to facilitate the adoption of a scheme to impose depositor information requirements on all financial institutions. Towards that end, it expanded the scheme to cover domestic branches of international banks, and Internet-primary banks in 2018.

Additionally, the KDIC sought to enhance cooperation with deposit insurance agencies in other countries by expanding its global deposit insurance training program, One Asia with KDIC, and by hosting international conferences and policy symposiums on inclusive finance and integrated deposit insurance schemes while pursuing the mid- to long-term development of the deposit insurance system in Korea.

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## Public Service and Corporate Social Responsibility

In 2018, the KDIC fulfilled its social responsibility as a public institution in a number of ways. Focusing on realizing social values in line with the purpose of its establishment and the tenor of government policy, it took on a wide range of initiatives.

The KDIC established the Social Value Creation Committee (the Chairman and CEO of the KDIC serves as the chairperson of the Committee) comprised of outside experts to fulfill its social responsibility as a public institution. It bolstered social value creation in management by establishing the Division of Social Value Fulfillment and an organization that handles the practical aspects of implementation (the Department of Social Value Management). Based on opinions gathered from the public and advice from external consultants, it formulated the Framework Plan for Social Value Creation, which contains strategies to generate social values and how best to make company-wide efforts toward that end.

Under the Framework Plan, the KDIC created social value in many ways through projects aligned with its main businesses. It understands that PF real-estate properties held by failed financial institutions as collateral for secured loans might remain vacant for a considerable period until a sale can be arranged. The KDIC made the properties available for cultural events for the underprivileged and promotion and sale of locally-grown products. For this initiative, the KDIC won the President's Award in the Competition on Best Practices in Proactive Administration in 2018 hosted by the Ministry of Personnel Management. To prevent the debtors of failed financial institutions whose debts were restructured from lapsing into a vicious cycle of debt again, the KDIC started a program to support their financial rehabilitation by offering jobs and financial assistance in collaboration with the Korea Inclusive Finance Agency.

In accordance with government policy, the KDIC employed 39 new workers in 2018. It applied a blind hiring approach to maximize the fairness and transparency of the process. In recognition of its efforts, the KDIC was awarded the Minister of Employment and Labor Prize. Also, as it monitored the performance of financial institutions with whom the KDIC entered into an MOU for business normalization, the KDIC encouraged the institutions to develop and offer small loan products and expand

guarantees for small- and medium-sized enterprises to the extent that such measures did not hurt the institutions' financial soundness. These endeavors helped create jobs in the private sector.

The KDIC launched a number of new social contribution initiatives and has continued earlier initiatives. In 2018, it selected 22 shops operated by underprivileged small business owners including low-income earners, female breadwinners, and the disabled and rendered assistance to them through the Social Solidarity Bank in the form of consulting and funds. The first Social Enterprise Marketplace opened in partnership with the Korea Social Enterprise Promotion Agency and the Korea Microcredit Joyful Union. The KDIC moved to cover the cost of ingredients and provide volunteers to four bakery social enterprises set up to employ the disabled. To promote private-public sector partnership in social contribution, the KDIC took part in the Happy Alliance, the largest social contribution network in the nation with 50 corporate members.

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### **Stronger Financial Consumer Protection and Proactive Depositor Protection Services**

The rapid expansion of Internet and mobile banking has afforded users far greater convenience. The downside is that it has also given rise to a sharp increase in remittance errors where the remitter inadvertently makes a wrong entry for the amount to be wire-transferred, the receiving financial institution, or the recipient's account number. This has been a source of tremendous mental and financial stress for users. The recovery of funds is time-consuming and costly if the unintended recipient refuses to return them as a refund. Then, it would require legal proceedings, causing significant damage\* to depositors. The KDIC made efforts to afford relief to the ever-increasing number of victims of remittance errors. KDIC plans to directly purchases and collect the receivables of incorrect

remittances generated in cases where unintended recipients refuse to return them. An amendment to the Depositor Protection Act was submitted and is currently under review by the National Assembly.

\* For the entire financial industry, 117,000 remittance errors occurred involving KRW 293 billion in 2017 alone, and 51.6% or 60,000 of them were not returned.

The KDIC conducted on-site inspections of 1,100 branches of financial institutions to ensure that the notification and confirmation scheme is operating properly. The inspections aimed at discouraging improper selling practices and better protecting financial consumers. To assess the non-face-to-face channels such as webpages and mobile applications of financial institutions, the KDIC carried out online examinations as well.

The KDIC drafted a shorter version of the depositor protection notification to allow consumers to more easily determine whether a particular financial product is covered by deposit insurance and promoted its use in investment banking and insurance. For better depositor protection, the KDIC rolled out a system enabling financially underserved depositors including the elderly to search and claim any uncollected funds including their insured funds at failed financial institutions, bankruptcy dividends, and the difference between actual and advance dividend payments.

The KDIC staged a multipronged publicity campaign to raise public awareness of the depositor protection system. The campaign was run through television, media reports, public transportation advertisements, and social networks including Facebook, and it was specifically directed at people with poor access to information on financial services. 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: 93.2% in 2017 → 94.9% in 2018, Level of awareness of the KDIC: 90.7% in 2017 → 91.0% in 2018

In consideration of its internal and external business situation as well as the tenor of government policy, the KDIC formulated strategies for promotion specifically directed at each target group. It tried to project a positive image by selecting suitable promotional media and appropriate promotional messages.

In 2018, it introduced public service advertisements targeting the financially underserved under the Inclusive PR Project. The Project was launched in a series. It involved creating promotional materials containing text-to-speech conversion barcodes and a video using infographics in a talk show format to make information more accessible by the disabled. Under the theme of “Hopeful Journey to Create Happy Society, Haengbok Yegam (Expecting Happiness),” the KDIC worked with Happy Bean, a donation platform of Naver, Korea’s largest web portal, throughout June. The KDIC focused its promotional efforts on donation and coexistence. It launched a talent donation campaign to support the organizations for whom the KDIC creates social values so that they could garner more interest and financial assistance.

The KDIC produced the “We Safeguard! Protect! and Take Responsibility!” commercial film, depicting its depositor protection system as a reliable and robust sports game, and ‘Trust in Full Bloom~’ using familiar melodies. Those films were used extensively in terrestrial television broadcasting, on public transportation, and at shopping malls.

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 100,362 people underwent the training in 1,449 sessions, a 32.4% increase from the year before.

The KDIC reached out to financially underserved persons, including the elderly. During the year, it

educated a total of 29,965 persons, up 46.4%. It entered into an MOU with the Incheon Senior Resources Development Center to offer financial literacy education to senior citizens.

To offer financial literacy education programs in a more systematic manner and raise awareness of the programs, the KDIC acquired Education Donation Career Experience Institution Certification in July and was recognized by the Ministry of Education as an excellent institution for education donation in November, 2018. Thanks to its contribution to education donation for the youth, the KDIC was awarded the grand prize in education donation (Minister of Education prize) by the Korea Foundation for the Advancement of Science and Creativity and the Korea Education Donation Award (Chairman of the Korean Council on Economic Education Award) by the Ministry of Economy and Finance in 2018.

### Stronger Risk Monitoring of Insured Financial Institutions

In the interests of minimizing damage to the DIF, the KDIC performs ongoing risk monitoring to preemptively deal with insured financial institutions' risks of insolvency. It collects financial information in a timely manner and uses the information in analyzing and assessing insolvency risks as well as conducting on-site verification before a Prompt Corrective Action (PCA) order is issued, when necessary.

The KDIC commissioned a study on the improvement

in information-sharing practices among financial safety-net participants to ensure more timely collection of financial information. Recognizing the need to address the problems with the existing information-sharing scheme, it also continuously made efforts to forge a consensus among internal and external stakeholders regarding the matter. Meanwhile, the National Assembly organized a seminar on "How to Improve Information-Sharing Practices among Financial Safety Net Participants," solidifying the social consensus.

The KDIC collects information to enable early detection of any changes in insured financial institutions' financial condition and the risks they face to identify insured financial institutions' risk of insolvency. It established a risk analysis system for each financial sector to more effectively analyze key risk factors confronting the financial market and individual financial sectors. To render the findings of its quarterly model evaluation more reliable and to ensure the balance between qualitative and quantitative approaches, it convened the Specialized Risk Assessment Committee comprised of outside experts for each sector. In consideration of market concerns in regards to specific risk factors confronting each financial sector, the KDIC continually improves its ongoing risk monitoring as necessary.

The KDIC rendered consultation with the supervisory authorities for joint examinations at an earlier date, and this allowed for more comprehensive incorporation of the KDIC's concerns regarding specific financial institutions into the supervisory authorities' examination plan. Before selecting the subjects of joint

Table I - 1

#### Financial Literacy Education in 2018

(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	69,757	2,214	19,642	503	1,787	5,208	1,251	100,362

Table I - 2

### Number of Joint Examinations (with the FSS) and Independent Examinations Conducted

	2014	2015	2016	2017	2018
Joint Examinations	9	9	10	9	8
Independent Examinations	17	8	4	6	3

examinations, it held quarterly consultations with the supervisory authorities. In 2018, it conducted 11 joint and independent examinations of weak financial institutions. Some insurance companies underwent joint examinations based on the predicted insolvency risks derived from sensitivity analysis. These efforts proved successful in containing insolvency risks in that they allowed for more timely detection of opportunities for prompt corrective action and ensuing recommendations to the FSS.

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

The KDIC reviewed and analyzed the deposit-taking practices of mutual savings banks in response to an increase in the number of individual deposits of more than KRW 50 million, which are not fully covered by deposit insurance. Based on the results and findings, it requested the mutual savings banks to prepare plans to manage liquidity and improve the loan underwriting process.

### 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 transaction 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.

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, the KDIC 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 ensure timely payment of deposit insurance claims, it sought to facilitate the adoption of a scheme to impose depositor information requirements on all financial institutions. Toward that end, it expanded the scheme to cover domestic branches of international banks, and Internet-primary banks in 2018, following the system setup for banks in 2017.

In 2018, the KDIC maintained and refined its know-how regarding the resolution of insolvent financial institutions and upgraded its contingency plan including an emergency staffing plan and a crisis response plan to ensure a timely and coordinated response in the event of a failure. Based on the plan, it conducted a joint simulation exercise with depositor protection agencies and a crisis management exercise for the retirees.

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.

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### 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 group.

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

The KDIC has continued to generate significant recovery results since 2011. By the end of 2018, it had recovered KRW 4.72 trillion in total.

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### 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 maintained a proper level of staffing, which helped reduce operating costs of bankruptcy estates and systemize their operations. To prevent financial fraud regarding bankruptcy estates and reinforce discipline, the KDIC beefed up internal control of bankruptcy estates by conducting training for bankruptcy trustees and staff, examining the operational status of bankruptcy estates, and protecting and managing personal information.

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 912.2 billion in bankruptcy dividends in 2018.

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 2018, it closed 455 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 2018, the KDIC made its Bankruptcy and Resolution Academy available to outside workers, and four employees of the Mutual Finance Division of the National Federation of Cooperatives completed training along with 52 employees of the KDIC and ten of bankruptcy estates. Then, 21 (16 of the KDIC, and five of bankruptcy estates) acquired licenses as "Specialists in Administration of Financial Firm Bankruptcies (national registration no. 2016-001836)."

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### **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 2018, 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 2018.

In order to uncover assets hidden by persons responsible for mutual savings bank failures including large stockholders, the KDIC conducts investigations into their asset holdings 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 casebooks analyzing court rulings since the establishment of the KDIC where damages were claimed against the persons responsible for financial institution failures.

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### **Increased Stability of the Deposit Insurance Fund**

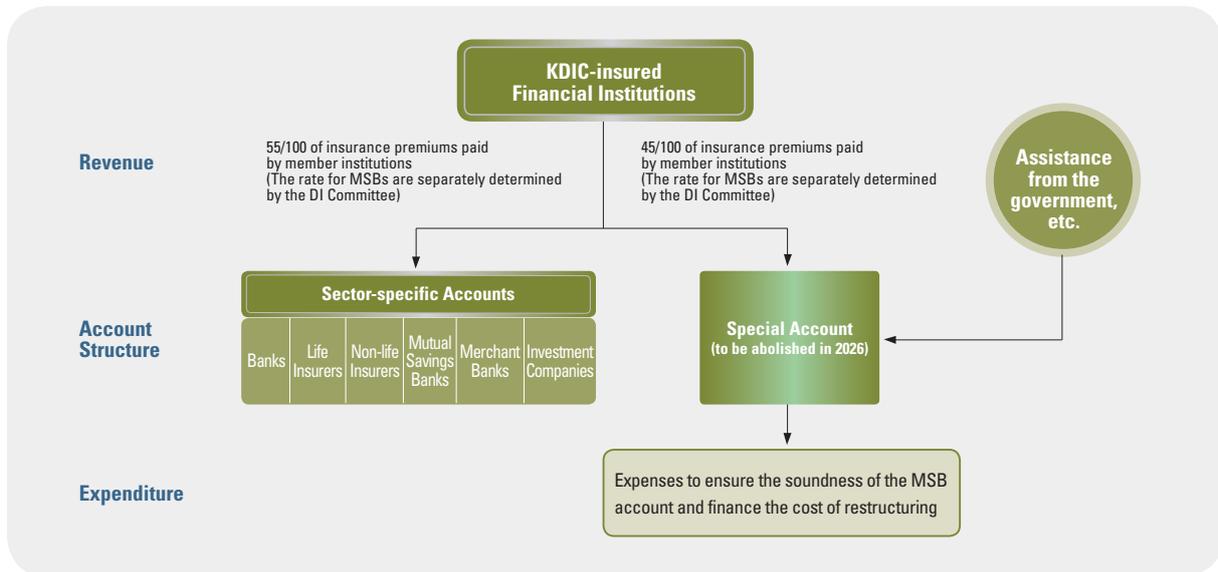
To support the smooth restructuring of failed mutual savings banks, the KDIC created the Special Account for Mutual Savings Bank Restructuring (Special Account)\* in April 2011. Through the end of 2018, it raised and provided, in a timely manner, KRW 27,171.8 billion to handle failures of 31 mutual savings banks by paying out insured deposits, etc.

\* 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,

Figure I - 1

## Special Account for Mutual Savings Bank Restructuring



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.

Under the Target Fund System, the KDIC reduced insurance premiums for investment companies by 80% as the reserves in their account exceeded the highest reserve target at the end of 2017. Life insurance companies, the DIF reserves of which reached the lowest target amount, received a discount of 6% on premiums charged for the period from January 1, 2018 to December 31, 2018.

### 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 2018, the KDIC had repaid KRW 76.5 trillion with government contributions (KRW 45.7 trillion) and recovered funds (KRW 30.8 trillion) out

Table I - 3

## Funding of and Expenditures from the Special Account

(As of Dec. 31, 2018, 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	2.0	
			Outside funding (e.g. issuance of bonds)	11.8	
			Deposit insurance premiums, etc.	13.4	
Total		27.2	Total		27.2

of KRW 82.4 trillion to be repaid under the Public Fund Redemption Plan. It plans to repay the remaining KRW 5.85 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 2018, the KDIC recovered KRW 110 billion 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 afterward. Through efforts to maximize dividends, the KDIC collected KRW 290.4 billion of dividends in 2018.

\* KRW 62.3 billion from Woori Bank, KRW 215.9 billion from Seoul Guarantee Insurance, and KRW 12.2 billion from Hanwha Life Insurance

The KDIC recovered another KRW 115.0 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).

### Improvement of Global Cooperation with Foreign Deposit Insurers and Others

As of 2018, 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.

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.

Table I - 4

#### KDIC Stakes in Financial Institutions

(As of Dec. 31, 2018, Unit: KRW 1 billion, %)

Category	Financial Assistance	Recoveries <sup>1)</sup>	Value of Remaining Stakes <sup>2)</sup>	KDIC Stakes
Woori Bank	12,766.3	10,994.4	1,943.8	18.43%
Hanwha Life Insurance	3,550.0	2,493.2	366.5	10.00%
KDIC				
Seoul Guarantee Insurance	10,250.0	3,738.7	3,046.3	93.85%
Special Account of the Credit Business Unit of the National Federation of Fisheries Cooperatives	1,158.1	122.7	1,035.4	Preferred equity investment
Total	27,724.4	17,349.0	6,392.0	-

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, 2018. The figure for Seoul Guarantee Insurance is based on the results of recomputation of the Redemption Fund in 2018 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 estimated recovery from the preferred equity investment

KDIC had worked with 17 countries by the end of 2018, 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 2018, the KDIC offered “One Asia with KDIC”, a regular global training program to share its experience in operating the deposit insurance system with a greater number of countries not only in Asia, but also in the Middle East and Africa and offered both basic and intensive courses.

The basic course of “One Asia with KDIC” was held for three days at the KDIC Global Academy in May 2018. Sixteen participants from eight countries (Taiwan, Mongolia, Bangladesh, Jordan, Indonesia, Kenya, Kyrgyzstan, and Thailand) took part. The first intensive course of “One Asia with KDIC” was hosted for four

days in November 2018. The course provided an in-depth look at the resolution and risk surveillance functions of the deposit insurance system, and eighteen participants from thirteen countries (including Nigeria, Laos, Vietnam, China, and Kazakhstan) took part.

The participants of both the basic and intensive courses expressed overall satisfaction with the training, saying that they would recommend the training program to their organizations.

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
2. Organization Management

# 1. Organization Setup

## 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 Economy and Finance (MoEF), 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 MoEF 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, 2018)

	Title	Name
Ex-officio Members	Chairman and President of Korea Deposit Insurance Corporation	Seongbak Wi
	Vice Chairman of Financial Services Commission	Yong Beom Kim
	Vice Minister of Ministry of Economy and Finance	Ho-Seung Lee
	Senior Deputy Governor of Bank of Korea	Myueon Sik Yun
Commissioned Members	Designated by the Financial Services Commission	Suk-Min Kim
	Recommended by the Minister of Ministry of Economy and Finance	Hyeong Uk Kang
	Recommended by the Governor of the Bank of Korea	Jae Hyun Choi

Table II - 2

### Major Responsibilities of the Deposit Insurance Committee

Category	Responsibilities
	<ul style="list-style-type: none"> <li>• Amendment of the Articles of Incorporation</li> <li>• Budget compilation/modification and settlement of accounts</li> <li>• Issuance of Deposit Insurance Fund (DIF) Bonds and DIF Bond Redemption Fund Bonds</li> <li>• Reduction/deferment on the payment of part of or all contributions, deposit insurance premiums and arrears charges</li> <li>• Setting of reserve targets for the DIF</li> <li>• Decision on payment of deposit claims</li> <li>• Approval of advance payment of bankruptcy dividends</li> <li>• Provision of financial support to financial resolution institutions</li> <li>• Provision of financial support to insured financial institutions</li> <li>• Operational guidelines for the Deposit Insurance Committee</li> <li>• 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</li> <li>• Request to the FSC for necessary measures such as a P&amp;A order or a bankruptcy filing regarding insolvent financial institutions</li> </ul>
Items for Resolution	<ul style="list-style-type: none"> <li>• Designation of insolvent financial institutions</li> <li>• Designation of insolvency-threatened financial institutions</li> <li>• Transactions between DIF accounts</li> <li>• Method of the Deposit Insurance Committee's minutes disclosure</li> <li>• Necessary measures for DIF Bonds and DIF Bond Redemption Fund Bonds</li> <li>• Service fee payment for third-party services</li> <li>• Payment of interim deposit payoffs</li> <li>• Exception to the least-cost principle</li> </ul>
	<ul style="list-style-type: none"> <li>• DIF operation plan</li> <li>• Formulation and revision of rules and regulations on KDIC operations</li> </ul>
	<ul style="list-style-type: none"> <li>• Management of surplus funds               <ul style="list-style-type: none"> <li>- Purchase of designated securities</li> <li>- Deposits at designated insured financial institutions</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>• Report of quarterly inspection results regarding business normalization MOUs</li> </ul>

Table II - 3

## Deposit Insurance Committee Agenda in 2018

Date	Agenda
Feb.28	<ul style="list-style-type: none"> <li>• Issuance of guidelines on asset management of the DIF Bond Redemption Fund and the DIF in 2018</li> <li>• Settlement of the KDIC accounts for fiscal year 2017</li> <li>• Reporting of the modification of the DIF Bond Redemption Fund management plan and execution results in 2017</li> <li>• Reporting of the modification of the DIF management plan and execution results in 2017</li> <li>• Reporting on KDIC operating expense settlement and the transactions between accounts of the DIF for 2017</li> <li>• Reporting on the examination findings of ○○ Mutual Savings Bank</li> <li>• Reporting on the joint examination findings of ○○ Mutual Savings Bank and ○○ Mutual Savings Bank</li> </ul>
Mar. 8	<ul style="list-style-type: none"> <li>• Request for participation in the joint examination of ○○ Insurance Co., Ltd.</li> </ul>
Mar. 28	<ul style="list-style-type: none"> <li>• Decision on the risk-based premiums of two insured financial institutions closing accounts at the end of September 2017 and October 2017, respectively, for fiscal year 2017</li> <li>• Request for participation in the joint examination for the second quarter of 2018</li> <li>• Amendment of the business normalization plan for Suhyup Bank and Seoul Guarantee Insurance</li> </ul>
Apr. 25	<ul style="list-style-type: none"> <li>• Reporting on the progress in implementation of business normalization MOUs during the fourth quarter of 2017</li> </ul>
May. 21	<ul style="list-style-type: none"> <li>• Decision on the risk-based premiums of insured financial institutions closing accounts at the end of December 2017</li> <li>• Request for participation in the joint examination of ○○ Mutual Savings Bank</li> <li>• DIF Bond Redemption Fund management plan for 2019</li> <li>• Plan for the issuance of DIF Bond Redemption Fund bonds in 2019 and application for government guarantees for the bonds</li> <li>• Reporting on the joint examination findings of ○○ Non-Life Insurance Co., Ltd.</li> </ul>
Jun. 27	<ul style="list-style-type: none"> <li>• Request for participation in the joint examination of ○○ Insurance Co., Ltd.</li> <li>• Decision on the reduction of deposit insurance premium payments of DIF accounts that have exceeded reserve targets</li> <li>• Reporting on the progress in implementation of business normalization MOUs during the first quarter of 2018</li> </ul>

Date	Agenda
Aug. 30	<ul style="list-style-type: none"> <li>• Decision on the risk-based premiums of insured financial institutions closing accounts at the end of March 2018</li> <li>• Reporting on the themed examination findings of Mutual Savings Banks</li> <li>• Reporting on the joint examination findings of ○○ Mutual Savings Bank</li> </ul>
Sep. 27	<ul style="list-style-type: none"> <li>• Request for participation in the joint examination of ○○ Mutual Savings Bank and ○○ Mutual Savings Bank</li> <li>• Reporting on the joint examination findings of ○○ Mutual Savings Bank</li> <li>• Reporting on the joint examination findings of ○○ Bank</li> <li>• Reporting on the joint examination findings of ○○ Securities Co., Ltd.</li> <li>• Reporting on the progress in implementation of business normalization MOUs during the second quarter of 2018</li> </ul>
Oct. 31	<ul style="list-style-type: none"> <li>• Plan for deferment on the payment of deposit insurance premiums for the third quarter of fiscal year 2018 and special contributions for the fourth quarter of fiscal year 2018 for ○○ Bank's Seoul Branch</li> <li>• Results of KDIC's semi-annual account settlement for fiscal year 2018</li> <li>• Reporting on the examination findings of ○○ Mutual Savings Bank</li> </ul>
Nov. 21	<ul style="list-style-type: none"> <li>• Reporting on the joint examination findings of ○○ Insurance Co., Ltd.</li> </ul>
Dec. 18	<ul style="list-style-type: none"> <li>• KDIC budget for 2019</li> </ul>
Dec. 20	<ul style="list-style-type: none"> <li>• Request for participation in the joint examination of ○○ Mutual Savings Bank</li> <li>• DIF management plan for 2019</li> <li>• Plan for the issuance of DIF Bond Redemption Fund bonds in 2019</li> <li>• Reporting on the progress in implementation of business normalization MOUs during the third quarter of 2018</li> </ul>

## 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 MoEF. 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.

Table II - 4

### Executive Board Members

(As of Dec. 31, 2018)

Title	Name
Chairman and President	Seongbak Wi
Executive Vice President	Joon Ki Kim
Executive Director	Hyung Su Sohn
Executive Director	Han Chul Jang
Executive Director	Yeon Seo Park
Non-executive Director	Seok In Kang
Non-executive Director	Young Baek Kim
Non-executive Director	Myung Seon Lee
Non-executive Director	Ki Sang Jo
Non-executive Director	Sang Duk Nam
Non-executive Director	Yong Ki Kim
Non-executive Director	Gye Du Kang
Auditor	Hwan Gyu Seon

## 2. Organization Management

### Vision and Mid- to Long-Term Management Plan

In December 2018, the KDIC duly realigned its corporate strategy, vision, and core values with the new CEO's management philosophy to better respond to the sweeping changes in the internal and external environment and held a ceremony to declare its new vision.

This enabled the KDIC to effectively execute government policy on inclusive finance and social value creation and address future challenges in a more consistent way.

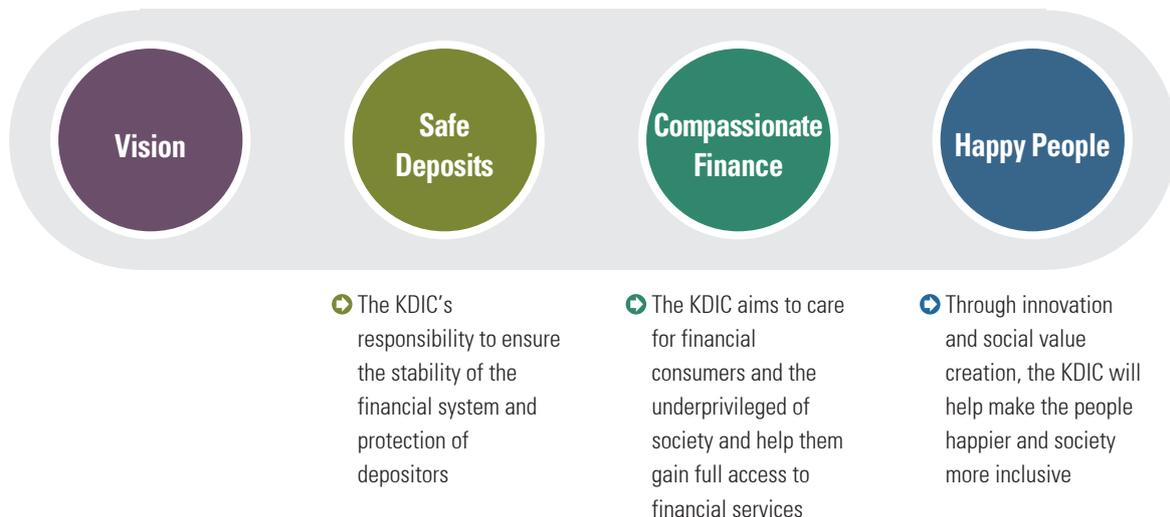
### Vision Structure

#### A. KDIC Vision and Its Meaning

“Safe Deposits, Compassionate Finance and Happy People” – By fulfilling its responsibility to ensure the stability of the financial system and protect depositors through innovation and social value creation, the KDIC aims to care for financial consumers and the underprivileged of society, help them fully access financial services, and thereby help make the people happier and society more inclusive.

Figure II - 1

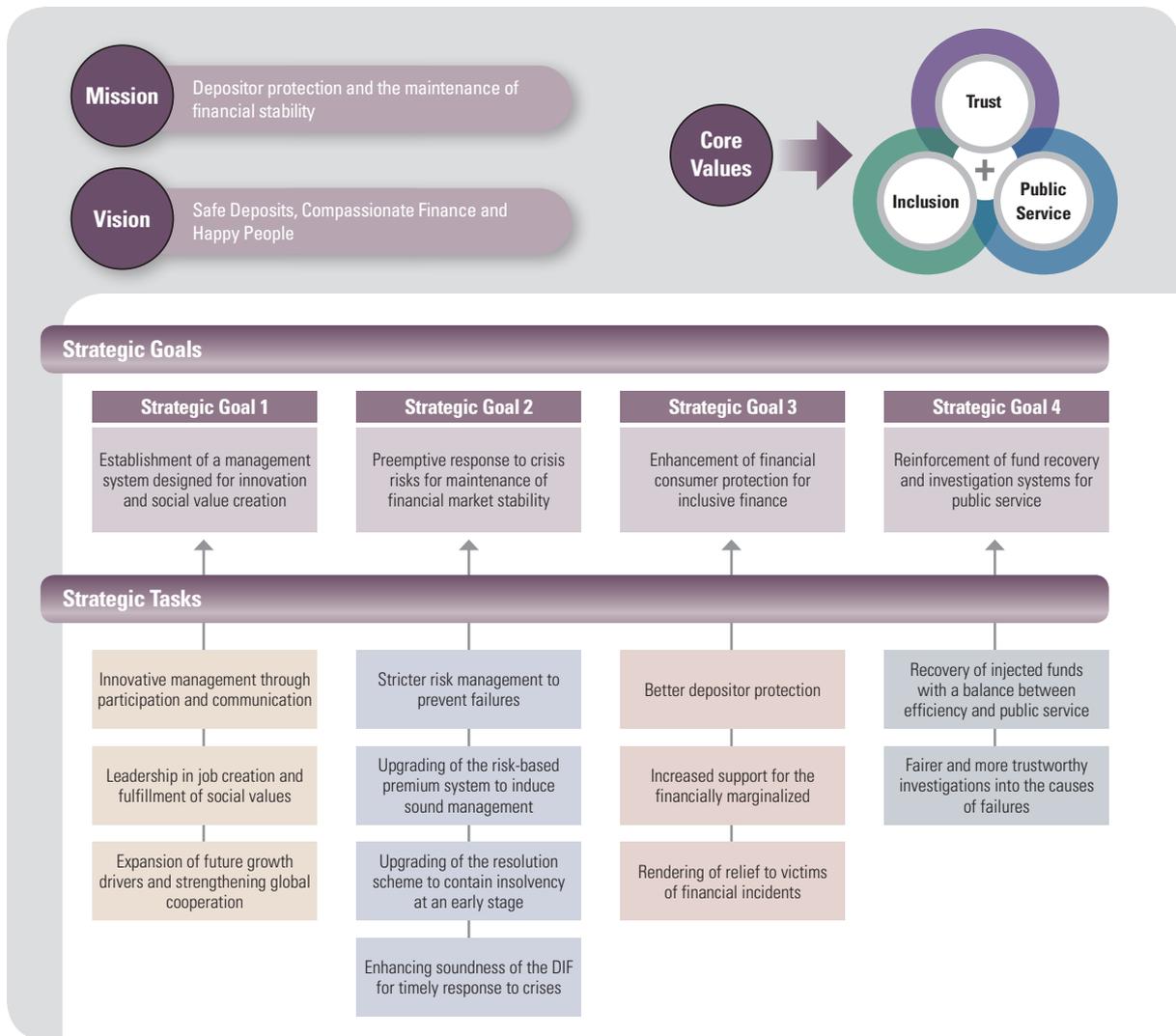
#### KDIC Vision and Its Meaning



## A. Vision and Strategy Map

Figure II - 2

### KDIC Vision and Strategy Map



### 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 goals: establishment of a management system designed for innovation and social value creation, preemptive response to crisis risks for maintenance of financial market stability, enhancement of financial consumer protection for inclusive finance, and reinforcement of the fund recovery and investigation systems for public service. It

then realigned 12 strategic tasks to achieve these strategic goals and devised new detailed annual action plans for the next five years (2019 to 2023).

Reflecting the new government's policy to fulfill social values and to facilitate financial institutions' efforts for sound business management, the KDIC declared innovative management through participation and communication and upgrading of the risk-based premium system to be separate strategic tasks.

Table II - 5

### Strategic Goals, Strategic Tasks, and Detailed Action Plans

Strategic Goals	Strategic Tasks	Detailed Action Plans
Establishment of a management system designed for innovation and social value creation	Innovative management through participation and communication	<ul style="list-style-type: none"> <li>• Establishment of a management structure to promote public service</li> <li>• Organization and budget management focused on innovation</li> <li>• Disclosure of government data to the public and building a system therefor</li> <li>• Business innovation through public participation and communication</li> <li>• Reinforcement of harmonious labor-management cooperation</li> <li>• Creation of a healthy corporate culture based on communication and discussion</li> <li>• Ensuring transparency in recruitment and human resources management and professionalism of the employees</li> </ul>
	Leadership in job creation and fulfillment of social values	<ul style="list-style-type: none"> <li>• Greater corporate social responsibility for the public</li> <li>• Ethical management and human rights protection in line with public sentiment</li> <li>• Job creation and improvement of employment quality</li> </ul>
	Expansion of future growth drivers and strengthening global cooperation	<ul style="list-style-type: none"> <li>• Exploration of future tasks and strategic response</li> <li>• Exercise of global leadership by expanding the KDIC's role in the international community</li> <li>• Sharing and dissemination of experience in deposit insurance system operation</li> </ul>
Preemptive response to crisis risks for maintenance of financial market stability	Stricter risk management to prevent failures	<ul style="list-style-type: none"> <li>• Improvement of ongoing monitoring based on the collection and analysis of information on insolvency risks</li> <li>• Efficient performance of independent and joint examinations based on choice and focus</li> <li>• Analysis of systemic risks and the development of a response scheme</li> <li>• Enhanced risk analysis in response to the changing financial and regulatory environment</li> </ul>
	Upgrading of the risk-based premium system to induce sound management	<ul style="list-style-type: none"> <li>• Improvement of the risk-based premium system operation</li> </ul>
	Upgrading of the resolution scheme to contain insolvency at an early stage	<ul style="list-style-type: none"> <li>• Upgrading of the resolution scheme for large financial institutions</li> <li>• Improvement of contingency plans and simulation exercises for efficient resolution</li> <li>• Realignment of resolution scheme for each financial sector for greater financial stability</li> </ul>
	Enhancing soundness of the DIF for timely response to crises	<ul style="list-style-type: none"> <li>• Enhanced integrity in the assessment of deposit insurance premiums and the improvement of fund management</li> <li>• Efficient management of the Redemption Fund for the repayment of public funds</li> <li>• Striking a balance among stability, profitability, and public interest in fund management</li> </ul>
Enhancement of financial consumer protection for inclusive finance	Improvement of deposit protection services	<ul style="list-style-type: none"> <li>• Enhanced integrity in the administration of deposit insurance</li> <li>• Fast and efficient resolution and deposit insurance claims payment</li> <li>• Allowing creditors to claim uncollected funds through inter-agency collaboration</li> </ul>
	Increased support for the financially marginalized	<ul style="list-style-type: none"> <li>• Active facilitation of debt restructuring for the financially marginalized and support for their financial rehabilitation</li> <li>• Promotion of publicity efforts and financial literacy education for the financially marginalized</li> </ul>
	Rendering of relief to victims of financial incidents	<ul style="list-style-type: none"> <li>• Rendering support for depositors affected by remittance errors</li> <li>• Protection of financial consumers through prevention of mis-selling</li> </ul>
Reinforcement of the fund recovery and investigation systems for public service	Recovery of assistance funds with a balance between efficiency and public service	<ul style="list-style-type: none"> <li>• Efficient management and sale of KDIC's equity stakes</li> <li>• Efficient management and improved recovery of bankruptcy estates and utilization of their assets for public service</li> </ul>
	Fairer and more trustworthy investigations into the causes of failures	<ul style="list-style-type: none"> <li>• Rigorous investigation and closer post-failure monitoring</li> <li>• Efficient investigation into assets held by persons implicated in insolvencies at home and abroad</li> </ul>

## Organization Restructuring

To counter insolvency risks of financial institutions and shore up financial stability for better response to crises and to shift the resources involved in insolvency prevention to resolution and recovery in the event of

financial failures, the KDIC implemented a massive organizational reshuffle in December 2018 for better efficiency and flexibility in operating the organization.

The units responsible for risk management and resolution of failed financial institutions were

Figure II - 3

### Organizational Chart

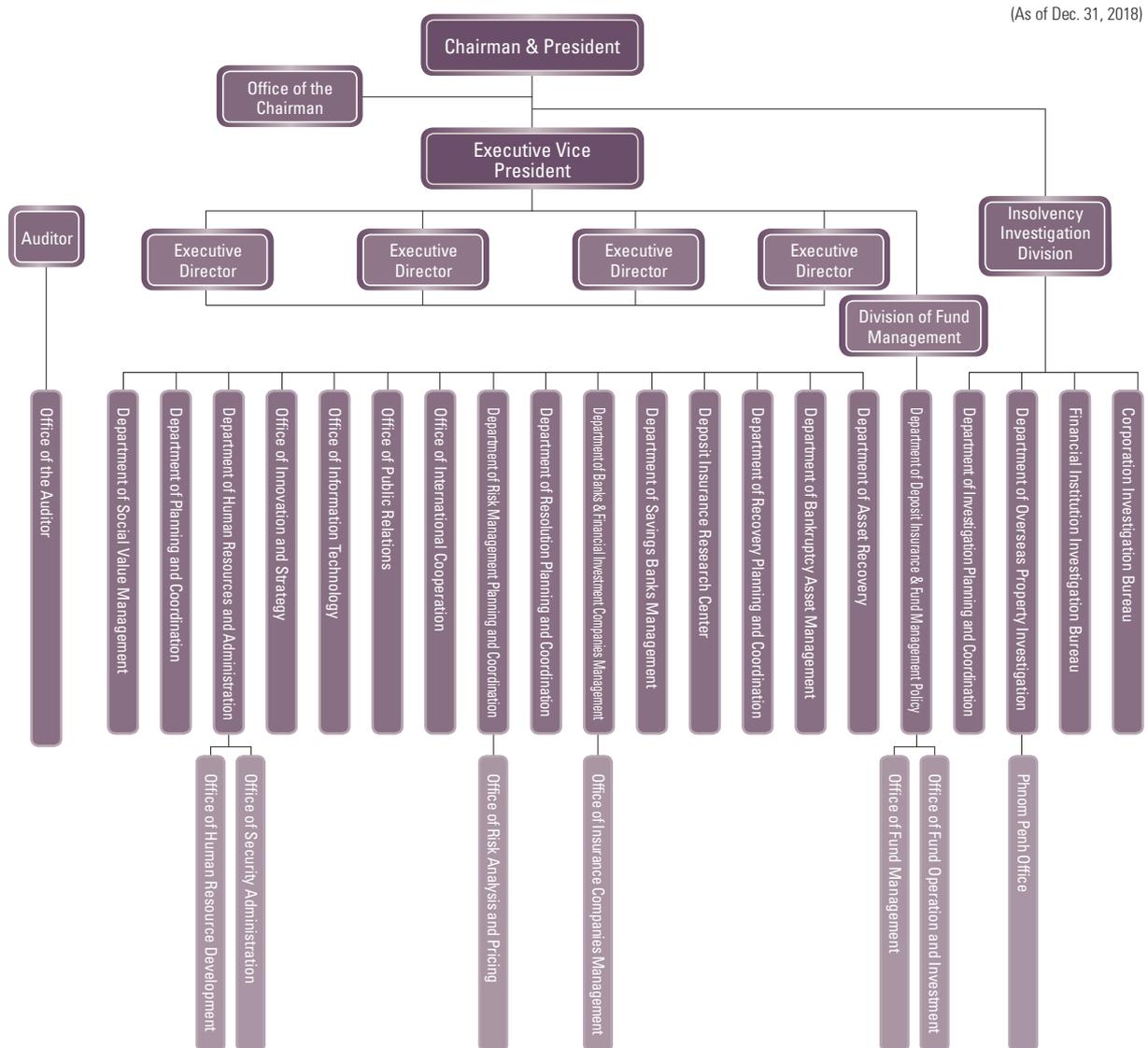


Table II - 6

### Number of Staff

(As of Dec. 31, 2018, Unit: No. of Persons)

Category	Senior Management	Staff			Sub-total	Total
		Regular	Special <sup>2)</sup>	Support Staff <sup>3)</sup>		
No. of People	13 <sup>1)</sup>	644	77	51	772	785

Note: 1) Including seven Non-executive Directors appointed under the Act on the Management of Public Institutions

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

reorganized to serve each specific financial sector into the Department of Banks and Financial Investment Companies Management, the Department of Insurance Companies Management, and the Department of Savings Banks Management. Each department now handles risk management as well as the restructuring of insured financial institutions of its own sector, ensuring alignment between the two responsibilities. The Office of Risk Analysis and Pricing was set up to raise the reliability of the risk-based premium system through enhanced integrity by means of grade segmentation. The Office refines and segments the differential assessment model and communicates with the financial industry. The Office of Customer Value Management Support was expanded and renamed the Department of Social Value Management to develop and implement new projects to fulfill social values in accordance with government policy to create jobs. It now serves as a control tower with better execution. The Division of Fund Management was established to expand the fund management organization. The expansion into a Division, which sits over the Department of Deposit Insurance & Fund Management

Policy, the Office of Fund Management, and the Office of Fund Operation and Investment, has dramatically improved professionalism, increased independence, and reinforced accountability in managing funds and has boosted communication with external parties on major issues such as improvement of the target fund system and demand for reduction in insurance premiums.

## Dynamic Organizational Culture for Human Resources Management and Business Operations

### 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 2018, the KDIC introduced programs to promote an organizational culture that encourages learning about

Table II - 7

#### Organizational Culture Programs

Program Name	Description
Walking in My Colleague's Shoes	<ul style="list-style-type: none"> <li>Gatherings to promote understanding among different generations and job positions</li> </ul>
Compassion Bulletin Board	<ul style="list-style-type: none"> <li>Anonymous bulletin board providing a forum for free communication between the management and workers</li> </ul>
Lunch TongTong Day	<ul style="list-style-type: none"> <li>Departmental lunch gatherings</li> </ul>
Culture Day	<ul style="list-style-type: none"> <li>Team cultural activities</li> </ul>
Talk2U	<ul style="list-style-type: none"> <li>Meetings with the CEO for lunch and tea</li> </ul>
Buy4U	<ul style="list-style-type: none"> <li>Delivery of snacks by executive officers to boost morale of employees</li> </ul>
Youth Board of Directors YeUllim	<ul style="list-style-type: none"> <li>Channel to disseminate strategic tasks and the CEO's management philosophy and to collect opinions on major issues</li> </ul>
Brown Bag Seminar	<ul style="list-style-type: none"> <li>Brief seminar to share opinions and discuss key issues</li> </ul>
Book Sound	<ul style="list-style-type: none"> <li>Encouragement of knowledge management by recommending "books of the month" and inviting good book reviews</li> </ul>
Eureka	<ul style="list-style-type: none"> <li>Eliciting ideas for improvement from in-house experts including experienced persons in specific fields</li> </ul>

various topics and expanded programs to deepen and widen communication throughout the organization.

It created the Walking in My Colleague's Shoes program to encourage the employees to get involved in conversations on a wide range of topics and to strive to recognize and understand each other's differences regardless of age, gender or job position. The program served as a platform to share personal interests, opinions, and wishes without regard to job position, gender, and age, and it helped to create common ground among the employees. In an effort to help employees at different positions better understand each other, the KDIC also produced a cartoon, Explorations of Communication, which attempts to interpret the different languages spoken by different generations. The cartoon, which depicts when and how unnecessary misunderstandings arise due to lack of mutual understanding and how to deal with such situations, helped to promote mutual understanding among the employees and a more dynamic corporate culture.

The KDIC institutionalized the Brown Bag Seminar for corporation-wide, inter-departmental discussion of a wide range of outstanding issues. Also, the KDIC continues to run the Book Sound program, which 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 performance evaluation system. In 2018, it (i) incorporated job creation and fulfillment of social values into evaluation indicators and introduced extra scores that are assigned to indicators related to social value fulfillment in setting team-level performance indicators in full support of government policy, (ii) assigned scores for improvements, increased minimum deviations, and improved determination of the level of involvement to more rationally assign credit and accountability for the results of external evaluations (annual performance evaluations by the government), and (iii) created a detailed evaluation method to be applied to interim organizations including task force teams and improved the evaluation method for departments subject to different evaluation criteria. These efforts significantly enhanced the fairness and acceptance of its performance evaluation system.

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

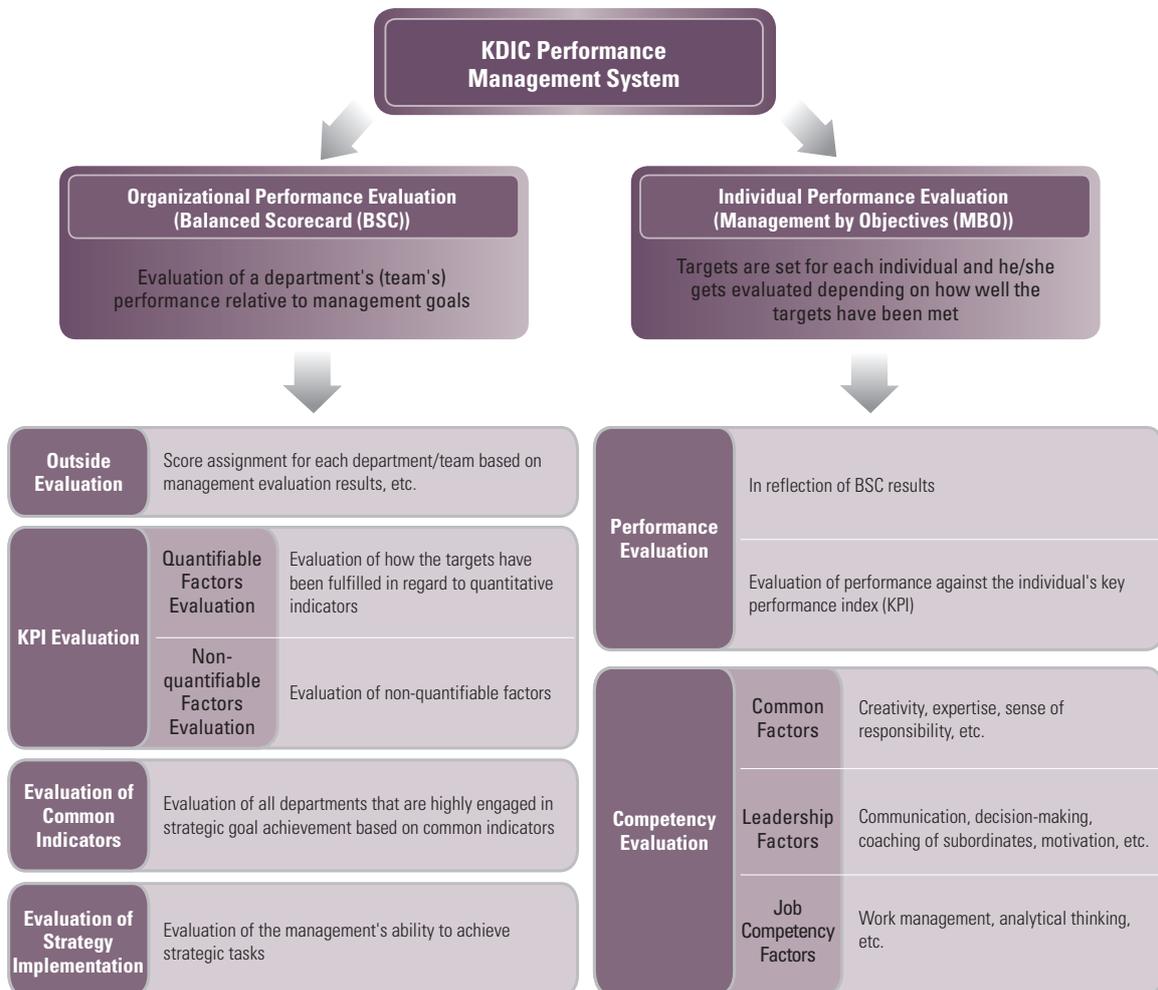
application scope of multidimensional assessment. These efforts significantly enhanced the fairness and acceptability of its evaluation system. In 2018, the KDIC introduced and implemented multidimensional assessment, including bottom-up evaluation and peer reviews to comprehensively evaluate the employees in every respect. This multidimensional assessment will complement traditional top-down performance evaluation and serve as a reference for each employee's personal development as well as for personnel management for managerial positions.

### 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. 2018 is the second year of the fifth Mid- to Long-Term Information Technology Plan (2017 - 2019), and to accomplish its IT vision, the KDIC completed the following tasks for IT advancement.

First, the KDIC successfully completed 13 information technology projects formulated at the beginning of 2018, including enhancement of the Risk-Based

Figure II - 4  
KDIC Performance Management System



Premium System (RBPS), and thus proactively supported government policy to create jobs in the private sector.

It made multi-pronged efforts to methodically manage its information assets from information technology planning to performance evaluation. These efforts were aimed at efficient implementation of information technology projects and maximizing feasibility of investment in information technology. In recognition of these efforts, the KDIC was rated ‘5,’ the highest possible rating, in the IT Advancement Competencies Evaluation by the Ministry of the Interior and Safety for a second consecutive year and received a citation by the Minister of the Interior and Safety in information resource management at the e-government progress briefing.

It also completed a project to establish a corporation-wide standard data and data quality management scheme, which was started in 2017. The KDIC was widely recognized for its capabilities in data management. Its Recovery Support System qualified for the “platinum” class, the highest grade in data quality certification by the Korea Data Agency in 2018, following the

certification of the Deposit Insurance Claims Payment System in 2017.

Second, the KDIC ramped up its efforts to better protect personal information of the public and its major information assets through personal information protection and information security activities. By virtue of these efforts, the KDIC effectively projected an image of a public institution that is secure and trusted by the public.

The KDIC implemented a mechanism to address and respond to advanced persistent threats (APT) such as ransomware attacks, which are proliferating rapidly throughout the world, and rendered multi-faceted guidance including information security training sessions to raise the awareness of the employees about information security. It conducted a variety of drills for employees to build up their cyber crisis management capabilities, including training to counter distributed denial of service (DDoS) attacks and phishing.

The KDIC introduced additional system security controls and administrative, physical security controls. It established a mechanism to check the security of

Figure II - 5

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

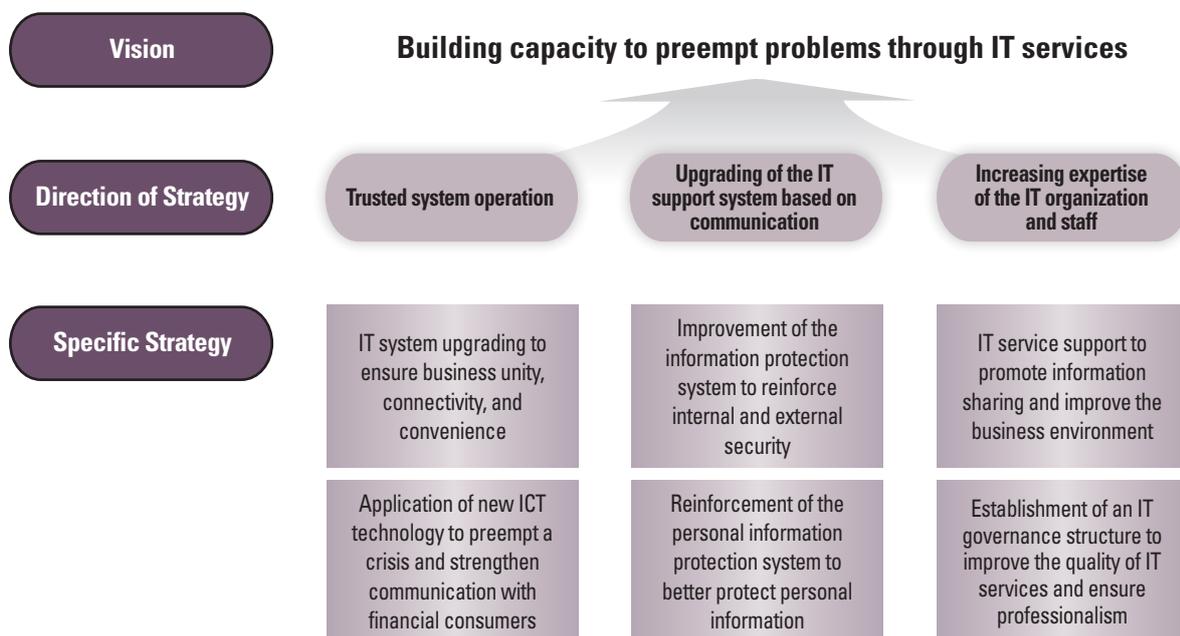


Photo II - 1

## Efforts to Improve IT Resource Management and Data Quality



Awarded the Minister of the Interior and Safety's Citation for IT Resource Management (Dec. 12)



A Ceremony Where the KDIC's Recovery Support System Was Certified for Its Data Quality (Oct. 12)

personal information on a PC that automatically scans the PC for any security vulnerability and database access control functions that control unauthorized access to the database. It moved to build an ongoing surveillance mechanism that monitors personal information breach risks on a daily basis. Thanks to these efforts, the KDIC was recognized as an 'excellent institution' for a fifth consecutive year in the Ministry of the Interior and Safety's assessment of personal information management and was awarded a citation by the Minister of the Interior and Safety for the feat.

Third, the KDIC proactively implemented government policies including the further opening of public data and strengthening private sector engagement in job creation by taking part in a program for the Ministry of the Interior and Safety's export of IT systems and the opening of government data.

More specifically, the KDIC made fully available 25 types of public data including financial information of insured financial institutions, which the public has a high level of interest in and views as valuable, and thereby upheld the public's right to know and offered new business opportunities to the private sector. Now, the KDIC plans to make the public data more available to the public.

Furthermore, the KDIC continues to carry out the advanced IT system export program for three consecutive years, which includes consulting to build a deposit insurance claims payment system for the Deposit Insurance Corporation of Mongolia in 2016, Deposit Protection Fund of Laos in 2017 and Deposit Insurance Fund of Kazakhstan in 2018. 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.

Photo II - 2

### Efforts to Open More Data to the Public and Export IT Systems



Presentation on Best Practices in Opening Government Data to the Public (Nov. 26)



Final Reporting Ceremony of a Consultation Project for Development of IT Systems (Nov. 6)

Table II - 8

### Major Achievements in IT Advancement in 2018

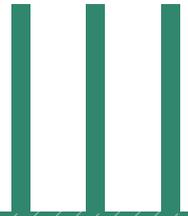
External Assessment	Supervisor	Assessment Result
<ul style="list-style-type: none"> <li>IT advancement competencies evaluation</li> </ul>		<ul style="list-style-type: none"> <li>Awarded a citation by the Minister of the Interior and Safety in information resource management</li> </ul>
<ul style="list-style-type: none"> <li>Opening of public data</li> </ul>	Ministry of the Interior and Safety	<ul style="list-style-type: none"> <li>Recognized for best practices in opening public data and received a citation by the Minister of the Interior and Safety (Jan. 2019)</li> </ul>
<ul style="list-style-type: none"> <li>Personal information management assessment</li> </ul>		<ul style="list-style-type: none"> <li>Recognized as an 'excellent institution' and won a citation by the Minister of the Interior and Safety</li> </ul>
<ul style="list-style-type: none"> <li>Data quality certification</li> </ul>	Korea Data Agency	<ul style="list-style-type: none"> <li>Awarded the platinum class (the highest grade) for a second consecutive year</li> </ul>
<ul style="list-style-type: none"> <li>Selection of excellent public software development project clients</li> </ul>	Ministry of Science and ICT	<ul style="list-style-type: none"> <li>Received a citation by the Minister of Science and ICT in facilitating the utilization of software project deliverables</li> </ul>

Table II - 9

## Action Plan for IT Advancement (2018)

Strategy	Action Plan
I . IT system upgrading to ensure business unity, connectivity, and convenience	• Enhancement of a performance management system ~ Apr.
	• Implementation of a data disclosure management system ~ Nov.
II . Application of new ICT technology to preempt a crisis and strengthen communication with financial consumers	• Enhancement of the Risk-Based Premium System (RBPS) ~ Nov.
	• Replacement of obsolete hardware and expansion of disaster recovery mechanism ~ Aug.
III . Improvement of the information protection system to reinforce internal and external security	• Establishment of an APT (advanced persistent threat) response system ~ Jun.
	• Improvement of the stability of the information protection system ~ Oct.
IV . Reinforcement of the personal information protection system to better protect personal information	• Establishment of a scheme to verify security measures to protect personal information on PCs ~ Jul.
	• Consulting for the certification of data protection and personal information protection management mechanisms ~ Oct.
V . IT service support to promote information sharing and improve business environment	• Establishment of a comprehensive information database of insured financial institutions (in relation to opening of public data) ~ Dec.
	• Consulting for the export of KIDC IT systems ~ Nov.
	• Rebuilding of a webmail system ~ Jul.
	• Upgrading of a unified search software ~ Nov.
VI . Establishment of an IT governance structure to improve the quality of IT services and ensure professionalism	• Setup of a data quality management mechanism ~ Dec.





# Fulfillment of Social Values and Innovation

1. Efforts to Fulfill Social Values
2. Efforts to Create Jobs
3. Efforts to Promote Innovation

# 1. Efforts to Fulfill Social Values

## Organization for Social Value Fulfillment and Progress

### Realignment of Organization for Social Value Fulfillment

Public institutions have long been operated under the paradigm of efficiency and economy. However, this paradigm has never effectively achieved social integration. To the contrary, it has marginalized the disadvantaged, and this has elicited increasing demands in recent years throughout society to place public service and public interest at the center of social values. Social values include human rights protection, opportunities for the underprivileged of the society, social integration, coexistence and cooperation, creation of decent jobs, and business-initiated corporate social responsibility, all of which serve the public interest and further the development of the

community in every respect including society, economy, environment, and culture.

In 2018, the KDIC fulfilled its social responsibility as a public institution in a number of ways. Focusing on realizing social values in line with the purpose of its establishment and the tenor of government policy, it took on a wide range of initiatives to respond to the increasing need for the KDIC to act as a stimulus to social value creation in the private sector.

The KDIC realigned its organization to create social values methodically. It established the Social Value Creation Committee comprised of its own executive officers and outside experts. As the highest decision-making body overseeing strategies to fulfill social values, the Committee helped the KDIC secure important corporation-wide drivers to pursue and implement projects in that regard. It substantiated its

Figure III-1

### Organization for Social Value Fulfillment



social value creation initiatives by establishing the Group of Social Value Fulfillment that sets goals for tasks on social value fulfillment and monitors progress, and an organization that handles the practical aspects of implementation: the Department of Social Value Management.

### Formulation of the Framework Plan for Social Value Creation

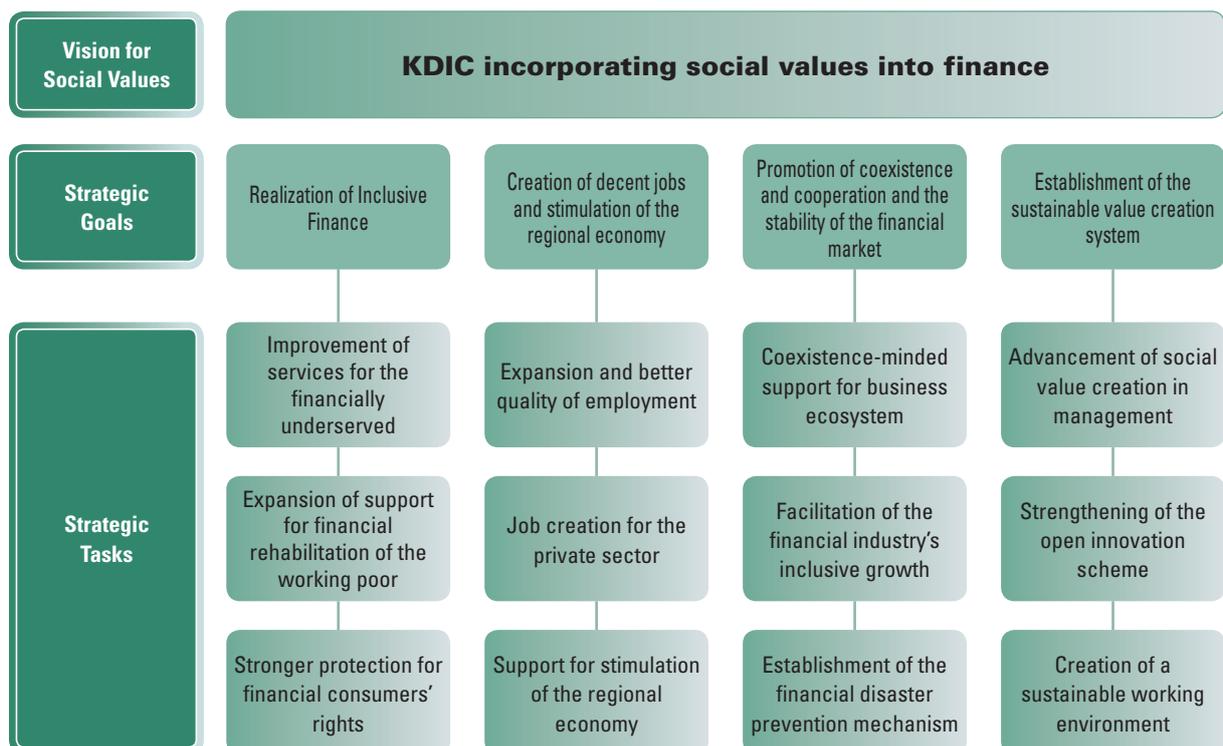
In 2018, the KDIC formulated the ‘Framework Plan for Social Value Creation,’ which contains strategies to generate social values and how best to make corporation-wide efforts toward that end. To ensure objectivity in developing its strategy regarding fulfillment of social values, it sought opinions and advice from external consultants and held a meeting with social value experts and civic organizations to solicit views of consumers.

“KDIC incorporating social values into finance” – Under this vision to fulfill social values, the KDIC set four strategic goals: realization of inclusive finance, creation of decent jobs and stimulation of the regional economy, promotion of coexistence and cooperation and stability of the financial market, and establishment of sustainable value creation system, and it drafted 12 strategic tasks.

The KDIC regularly convened the Social Value Creation Committee and the Group of Social Value Fulfillment to monitor the progress of specific tasks and participate in the ongoing discussion to address difficulties, identify improvements, and develop potential projects. For better execution, the KDIC incorporated ‘social value fulfillment’ into performance evaluation indicators and introduced other incentive schemes for social value fulfillment such as rewards for employees.

The KDIC hosted a special lecture by experts and departmental workshops and designed a training program about social value to raise awareness among

Figure III - 2  
Strategy Map for Fulfillment of Social Values



its employees of the importance of social values. These efforts helped create a shared understanding throughout the KDIC of how essential it is to fulfill social values. To encourage proactive consideration of social values, including coexistence and cooperation in implementing major activities, it introduced a 'social values checklist scheme.'

## Social Value Fulfillment Tasks and Key Activities

### Development and Implementation of Social Value Fulfillment Projects Aligned with Key Projects

#### (1) Utilization of Vacant PF Real Estate

The KDIC has managed and disposed of PF real estate properties including commercial buildings held as collateral by 30 mutual savings banks that fell into insolvency at the time of mutual savings bank restructuring.

Such properties tend to have multiple claims, which makes it difficult to dispose of the assets. Stagnant regional economies and repeated failures in the

bidding, which might drive down the values of the assets, have been another cause of concern as well. The KDIC's solution to this problem is utilization of commercial buildings which are vacant or of which construction is suspended for public service before the sale of the assets. This has helped it fulfill social values and enhance the value of the assets simultaneously.

To select the sites to be turned into spaces for the youth, local communities, and the underserved, the KDIC surveyed and analyzed the location and claim categories of all 236 estates, and it highlighted the benefits from the project in reinvigorating the neighborhood and the projected increases in asset value to the stakeholders, including other creditors who opposed the project, citing the potential delay in disposition and non-generation of profits.

This project transformed multiple vacant PF buildings into a space for cultural experiences and promotion and sale of locally grown products. A commercial building in Jukjeon-dong, Yongin-si is used for free ceramic-making experience for the marginalized, including the children under the care of social welfare organizations. A historic house in Asan-si, Chungcheongnam-do, which is a state-designated cultural property, is now open to the public. Local products from Gangwon-do are promoted and marketed at the commercial buildings in Hwanghak-dong and

Photo III - 1

#### Recognized with the President's award in the Competition of Best Practices on Proactive Administration in 2018



Sangam-dong, Seoul. In addition to the fulfillment of social values, the project supported the stimulation of the economy of the neighborhood by fully utilizing once-vacant commercial buildings and thereby boosting the asset value at no additional cost.

In recognition of these efforts, the KDIC received the President's award with the highest score among 557 government agencies, local authorities, and public institutions in the Competition on Best Practices in Proactive Administration in November 2018 hosted by the Ministry of Personnel Management.

## **(2) Improvement of Debt Restructuring and Introduction of Financial Rehabilitation Program**

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 2018, the KDIC eased the debt service burden of low-incomers and the underprivileged by improving the debt restructuring system. It increased the maximum principal reduction from 80% to 90% for the recipients of basic living security benefits and the severely disabled and categorized farmland and commercial vehicles no larger than a certain capacity as essential property for livelihood and, therefore, not included in the calculation of the repayable amount.

The KDIC moved to shorten the period to determine salaried workers' debt service capacity from five years to three years and expanded the eligibility for interest rate adjustment to include not only non-regular workers and employees of small- and medium-sized enterprises but all individuals. Improved calculation of the minimum amount to be repaid by joint and several guarantors reduced guarantors' debt burdens as well.

To prevent the debtors who are subject to the debt restructuring from lapsing into a vicious cycle of debt

due to lack of stable sources of income, the KDIC started a program to support debtors' financial rehabilitation after debt restructuring.

To design a support program that could most effectively meet the needs of debtors, it analyzed the outstanding principal, durations of delinquency, sources of income, and ages of those subject to debt restructuring. To extend multi-pronged support, the KDIC devised a one-stop service program that involves offering jobs and financial assistance in collaboration with the Employment Welfare Plus Center under the Ministry of Employment and Welfare and the Korea Inclusive Finance Agency.

The KDIC rescheduled debt for 12,767 debtors in 2018 through a series of improvements to the debt restructuring system, providing them with an opportunity to become financially independent once again. It recovered KRW 48 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 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.

## **(3) Business Start-up Funds and Facility Improvement for Job Creation in the Private Sector**

To induce sustainable financial independence based on employment, the KDIC initiated a program to provide facility improvement for small business

Table III-1

## Institutional Improvement for Debt Restructuring Services and Debt Relief

Improved Area	Eligible Debtor	Main Activity
Institutional Improvement for Debt Restructuring Services	<ul style="list-style-type: none"> <li>▪ Socially underprivileged</li> </ul>	<ul style="list-style-type: none"> <li>• Increased maximum principal reduction for the recipients of basic living security benefits and the severely disabled from 80% to 90%</li> </ul>
	<ul style="list-style-type: none"> <li>▪ All debtors</li> </ul>	<ul style="list-style-type: none"> <li>• Farmland of up to 1,000m<sup>2</sup> (officially announced land price of up to KRW 10 million) and a commercial vehicle no larger than one ton are categorized as essential property for livelihood and not included in the calculation of the amount repayable.</li> <li>• For a debtor with outstanding principal of no more than KRW 20 million and annual income of no higher than KRW 36 million, the applicable interest rate can be adjusted to the government-notified interest rate irrespective of the amount repayable.</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Salaried Workers</li> </ul>	<ul style="list-style-type: none"> <li>• For a salaried worker, the economically active period to determine debt service capacity is reduced from five years to three years.</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Joint and several guarantors</li> </ul>	<ul style="list-style-type: none"> <li>• In calculating the minimum repayment amount for debt restructuring of joint and several guarantors, the outstanding balance to be borne by guarantors is calculated on a pro-rata basis, even if another guarantor is a legal entity whose business is closed or shut down.</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Debtors who apply for debt restructuring</li> </ul>	<ul style="list-style-type: none"> <li>• Provision of financial literacy education, job opportunities through the Employment Welfare Plus Center, and financial assistance through the Korea Inclusive Finance Agency to support financial rehabilitation after debt restructuring</li> </ul>
Debt Relief	<ul style="list-style-type: none"> <li>▪ Debtors against whom payment cannot be claimed</li> </ul>	<ul style="list-style-type: none"> <li>• Relief of debts whose extinctive prescription period has expired, etc.</li> <li>• 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.</li> </ul>

owners in November 2017 and continued the project to offer microcredit for business start-ups.

The microcredit project, which has selected one aspiring entrepreneur every year since 2016, involved rendering assistance to the financially underserved in the form of business start-up funds, and education and consulting services with the Social Solidarity Bank to help them become financially independent and create

jobs. For one entrepreneur selected in December 2018, the KDIC will provide customized consulting, financial literacy education, and business start-up funds in 2019.

Promising Deposit Insurance for Your Neighborhood is a program that supports shops operated by underprivileged small business owners including low-income earners, female breadwinners, and disabled

persons who have difficulties sourcing funds to improve their shops. The program rendered business consulting and financial assistance for facility improvement to them through the Social Solidarity Bank and thereby facilitated job retention and job creation for the socially underprivileged.

The KDIC selected 22 small shops through three open contests since 2017 and supported them with consulting services and facility improvement funds by the end of 2018. The program proved successful in creating jobs. The number of employees of the 22 shops increased from 56 as of the end of 2017 to 68 by the end of 2018. The participants' satisfaction with the program reached 6.8 on a scale of 0 to 7 in a satisfaction survey on the business owners conducted in October 2018.

To ensure further development and expansion of the program, the KDIC plans to monitor the progress reported by the 22 shops and devise new measures for improvement.

#### **(4) Support for Social Enterprises through the Operation of Markets and Baking Bread of Love**

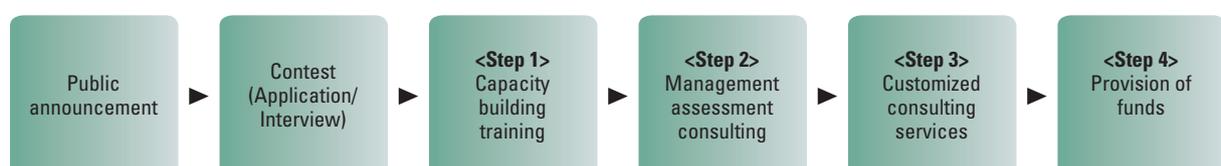
To help facilitate the local economy and fulfill social values, the KDIC has held the Haengbok Yegam (Expecting Happiness) Farmers' Market in front of the KDIC headquarters every year since 2015. Citizens and KDIC employees purchase agricultural products directly from farmers in the marketplace. The products that the KDIC purchased were donated to social welfare facilities including a soup kitchen in the neighborhood.

The KDIC opened a farmers' market in May 2018 in collaboration with Nonghyup Business Holdings (a group of subsidiaries of the National Agricultural Cooperatives Federation that are engaged in industrial and retail sectors) and the community service center of Sinni-myeon, Chungju-si where the KDIC Global Academy is located. Seventeen farms took part in the market to promote the agricultural business. The KDIC formed a partnership with the Korea Social Enterprise Promotion Agency, the Korea Microcredit Joyful Union, and the Korea Central Council of Social Enterprise to engage social enterprises in the market and held the market for two days, one day longer than previous years, in September 2018 in order to promote and support social enterprises which were established to create jobs for the underprivileged including the disabled. It helped to explore ways to market household items, fair trade coffee, dried fruits, and the like produced by people with developmental disorders in an effort to create a strong social economy.

Multi-faceted efforts were made to grow the sales of farmers and social enterprises at the market: 1) taking pre-orders from KDIC employees, 2) accepting credit card payments and providing delivery services, 3) expanding means of payment including Onnunri Gift Certificates, 4) publicizing the market through posters, LED boards, and the company bulletin board, 5) handing out souvenirs and promotional materials about the deposit insurance system at the KDIC booth, and 6) distributing press releases. These efforts paid off with the highest sales since the launch of the program at KRW 107.17 million for 2018, including KRW 50.55 million by the participating farmers and KRW 15.02 million by the participating social enterprises. Despite the rainy weather, the goods in

Figure III-3

#### **Facility Improvement Program Process**



stock of some social enterprises were sold out, to the fullest satisfaction of the social enterprises that participated in the market for the first time.

The new volunteer activity Baking Bread of Love was directed at social enterprises specialized in confectionery and bakery. The KDIC selected four bakery-related social enterprises located in the same neighborhood as its headquarters and covered the costs of ingredients used by its employees who visited and baked bread at those enterprises. Afterwards, the bread was donated to nearby welfare facilities.

The year 2018 saw six Baking Bread of Love volunteer events which served to publicize social enterprises, grow their sales, and support neighbors in need through the donation of bread.

#### **(5) Promotion of Private-Public Cooperation for Social Contribution through Participation in Happy Alliance**

To reinforce cooperation with relevant organizations and coordinate social contribution efforts with them, the KDIC signed an MOU for inclusive growth with Da-dong and Mugyo-dong in October 2012 and an MOU for social contribution with four public institutions located in Mugyo-dong in March 2016.

The KDIC worked hard to create and increase synergy in its social contribution activities by stepping up cooperation with social enterprises and businesses of all sizes in 2018. It concluded an MOU with the Happiness Foundation in September 2018 and joined the Happy Alliance\*, the largest social contribution network in the nation.

\* Created by the Happiness Foundation in November 2016 to rally the social contribution capabilities of corporations and non-profit organizations. Its membership includes 50 public and private organizations such as LH, the Seoul50Plus Foundation, SK, and Kolon.

The KDIC was engaged in various campaigns: donation for underfed children, delivery of lunchboxes for children who are missing meals, financial literacy education, support for the market for social enterprises, and the Happy Alliance flea market and “talk concert” to disseminate the culture of sharing.

It will redouble its efforts to diversify its social contribution activities and introduce new social contribution programs based on consultation with other members and private-public partnerships.

Photo III - 2

#### **Haengbok Yegam Farmers' Market and Baking Bread of Love Event**



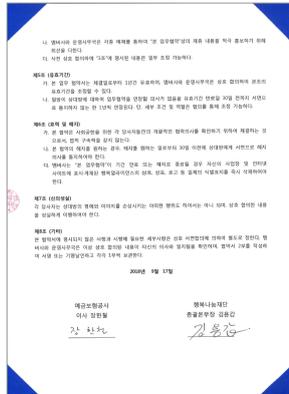
Haengbok Yegam Farmers' Market



Baking Bread of Love

Photo III - 3

Materials Related to Happy Alliance



Happy Alliance MOU



Newspaper advertisements for Happy Alliance

**(6) Corporate Social Responsibility Activities for Invigoration of Local Economy and Support for the Underserved**

To repay the trust that the public has invested in it and fulfill its social responsibility as a public institution, the KDIC implemented a number of corporate social responsibility initiatives which involve all its employees. In 2014, it created a social contribution brand Haengbok Yegam (Expecting Happiness) and the associated logo to publicize its social contribution initiatives and raise its public profile. Under this brand that tells the KDIC’s “touching stories for people’s happiness,” the KDIC carried out its social contribution activities more systematically in four categories: neighbors, local communities, rural villages, and environment.

Under the Neighbors category, the KDIC supports the dreams of the most vulnerable members of society as well as their financial independence through programs such as the KDIC scholarship. The programs for local communities are designed for revitalizing and empowering local communities, and they include invigoration of traditional markets, soup kitchen service, and the like. Designating every Thursday as a

day to visit Tongin Market is also part of this category of activities. For rural villages, the KDIC renders farming volunteering and operates a farmers’ market alongside Cheonggyecheon to promote and support the local economy. The KDIC’s efforts for the environment include its tree-planting campaign for forestation. Furthermore, the KDIC signed an MOU to help spread the culture of sharing and caring, to carry out its social contribution activities with other public institutions located close to the KDIC including the Korea Broadcast Advertising Corporation, the Korea Trade Insurance Corporation, and the National Information Society Agency, and ultimately to make its social contribution activities more effective and sustainable.

In 2018, the KDIC engaged in a number of social contribution activities ranging from the weekly traditional market visit day, monthly service at foster care facilities and a soup kitchen, matching one shelter with one department to help the shelters (sisterhood relationships formed with 11 welfare facilities), tree-planting in April, volunteer farming in April, improvement of the residential environment for low-income families in May, granting of the KDIC scholarship in November, and delivery of home heating

Photo III - 4

### Key Corporate Social Responsibility Activities



KDIC Scholarship Award Ceremony



Delivery of Heating Briquettes for People of National Merit

briquettes for people of national merit in December in collaboration with the Ministry of Patriots and Veterans Affairs.

The KDIC Scholarship program expanded its partnership to include Seoul Auction, which handles the disposition of some collections owned by failed mutual savings banks, in addition to its existing partners for the program, the Community Chest of Korea, and the Korea Association of Social Welfare Centers, and it increased the number of student beneficiaries of the program from 20 to 30.

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.

### Fulfillment of Social Values through Cooperation with the Private Sector

To adequately address the limitations it faces as a regulatory body in extending support to the private sector and to actively pursue social values, the KDIC

established a mechanism to collaborate with a wide range of private organizations.

The KDIC exerted efforts to develop projects for ongoing support for the financial independence and growth of social economy enterprises in line with government policy to grow the social economy. It specifically chose to target cooperatives and unions that represent a significant portion of the social economy enterprises and selected the Korea Microcredit Joyful Union as a partner to help broaden the foundation for cooperatives and unions and organize and implement its sponsorship programs. Under the agreement with the Korea Microcredit Joyful Union signed in December 2018, the KDIC plans to encourage its employees' membership in the Union, provide financial support to and extend volunteer activities to social unions and cooperatives, and sponsor social unions and cooperatives with excellent track records.

The KDIC is in the process of devising a scheme to quantify and measure the performance and social impact of its programs and projects based on the agreement signed in October 2018 with the Center for Social Value Enhancement Studies (CSES) and the

Table III-2

## Social Contribution Activities in 2018

(As of Dec. 31, 2018, Unit: No. of Times, No. of Persons)

Category	Program Names	Activities	Note	'18 Achievements	
				No. of Times	No. of Participants
Neighbors	Business start-up support	Provision of business start-up funds, consulting, and financial literacy education for the underprivileged	Every year since Jun. '16	1	1
	Facility improvement for small business owners	Provision of business consulting and facility improvement funds to small business owners	Every year since Nov. '17	1	22
	KDIC scholarship	Granting of scholarships to students recognized for filial piety or academic performance in partnership with appropriate organizations	Every year since '05	1	30
	Baking bread of love	Baking of bread, cookies, and rice cake at a social enterprise and donation to a welfare facility in the neighborhood	Every year since Jun. '18	6	116
	Assistance for people of national merit	Delivery of heating briquettes for people of national merit with the Ministry of Patriots and Veterans Affairs	Every year since '14	1	35
Local Communities	Traditional market day	Promotion of Tongin Market through Tongin Market Visit Day, provision of facility improvement funds, and shopping at the market on traditional holidays	Every year since Aug. '11	49	1003
	Service at foster care facilities	Support for, and arrangement of the environment including cleanup of, foster care facilities	Every year since '15	12	127
	Soup kitchen services	Provision of food ingredients to a soup kitchen and food distribution services	Every year since May '08	16	136
	Matching 1 shelter (family) with 1 department	Matching one shelter with one department to help and support the shelter with goods and labor	Every year since Sep. '06	107	443
Rural Villages	Farming volunteer and activity event	Support for the rural community through volunteer farming and purchase of agricultural products	Every year since Nov. '05	2	183
	Haengbok Yegam farmers' market	Operation of a farmers' market to support farmers at Cheonggyecheon in front of the KDIC headquarters jointly with the National Agricultural Cooperatives Federation and social enterprises	Every year since Jul. '15	2	-
Environment	Tree planting	Support for forestation through annual tree-planting events	Every year since Apr. '14	1	16
	Repair of houses	Improvement of residential environment for low-income families and provision of construction workers	Every year since Aug. '08	2	52
Total				201	2,164

Korea Capital Market Institute (KCMI). Under this scheme, the KDIC and the CSES will develop a mechanism and indicators to measure the social impact performance in consideration of the unique characteristics of the KDIC, and the KCMI, based on its objective research expertise in the financial industry, will serve as an advisor. The KDIC plans to take into account the relationship with its core functions, the impact on the public benefits, and the feasibility of defining and measuring outcomes when selecting a project to solve social issues and to fulfill social values, and it will then carry out the pilot measurement, which will be used to improve its social impact measurement scheme.

## Ethical Management

The KDIC adopted ‘Trust,’ ‘Inclusion,’ and ‘Public Service’ as its core values, particularly to fulfill its corporate social responsibility as a public institution

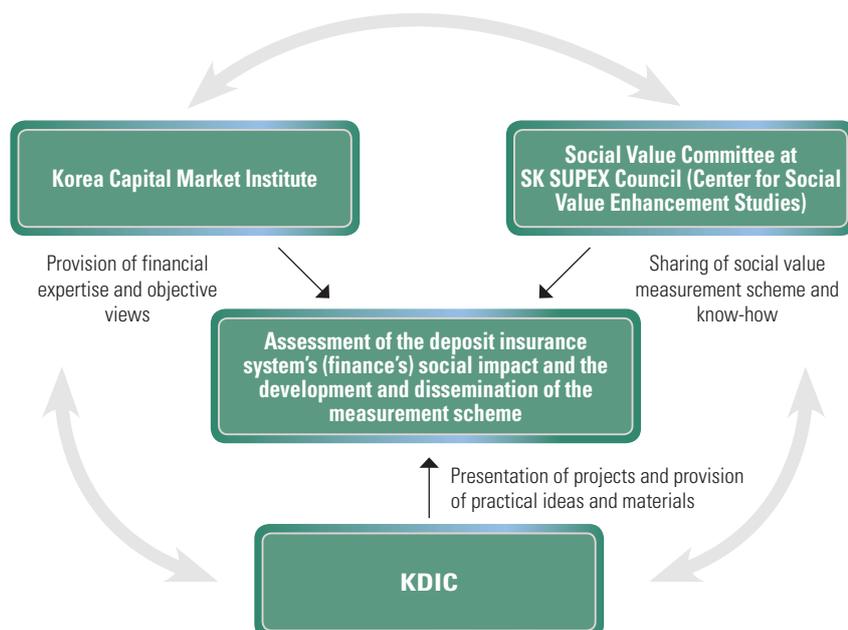
trusted by the public. The KDIC aspired to high ethical standards by applying ethical management at every level of its corporate hierarchy.

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 2018, 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 III - 4

### Overview of the Collaboration to Develop Social Impact Measurement Scheme

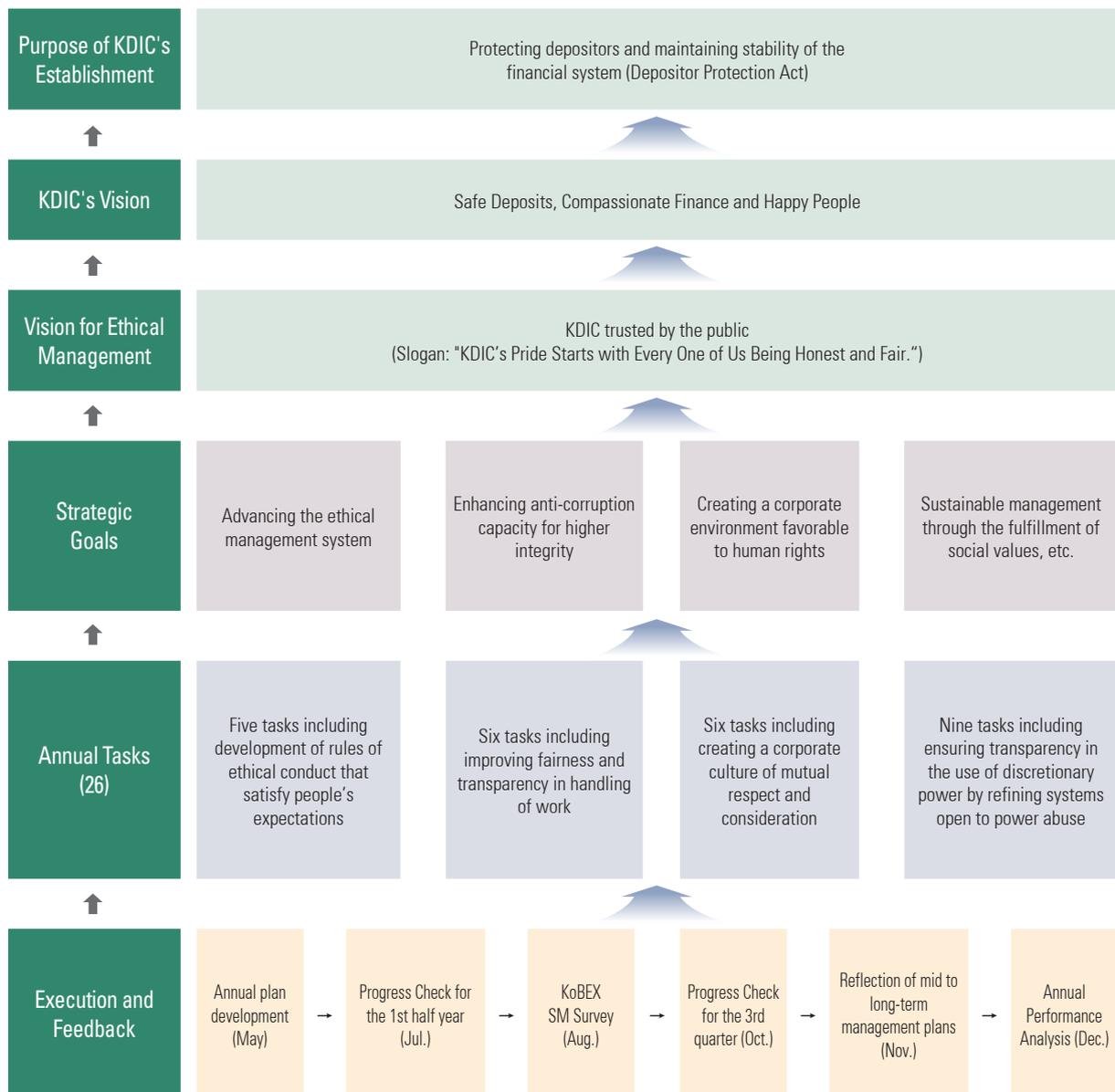


In line with the current administration's emphasis on human rights and the human rights management manual for state-owned enterprises by the National Human Rights Commission of Korea, the KDIC drafted the Detailed Rules for Human Rights Management and rendered employee training on human rights-based management: Business and Human Rights. 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 seventh consecutive year since 2012.

**Figure III - 5**  
**Strategy Map for Ethical Management**



## 2. Efforts to Create Jobs

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

Starting in late 2017, the KDIC converted non-regular workers employed on an ongoing basis into regular workers in line with government guidelines. In 2018, it transitioned 11 non-regular workers including technicians and call operators into regular workers and established a subsidiary for the conversion of facility management workers at the KDIC headquarters and the KDIC Global Academy in Chungju-si into regular workers.

The KDIC reached out to youths and employed 39 new workers in the latter half of 2018, up about 18% from its average recruitment over the past three years. It took a blind hiring approach to emphasize merit and increasingly involved internal auditors and outside experts throughout the hiring process to enhance fairness and transparency, which led to a higher number of local and female talents among recruits. Because of the integration of social equality concerns into the hiring process, the KDIC made seven hires of veterans or members of their families.

### Support for Job Creation in the Private Sector

To effectively execute the administration's core policy of job creation, the KDIC defined its vision for job creation, "KDIC that fulfills social values through sustainable job creation," based on the opinions of internal and external stakeholders and corporation-wide assessment of its resources and competencies. To realize this vision, the KDIC defined the strategic goals and detailed action plans. The three strategic goals involve, internally, improvement of the job creation scheme and expansion of direct employment, and externally, support for the private sector's engagement in job creation with emphasis on cooperation with the private sector and assistance for jobs that enhance social values. It also devised and methodically implemented 24 detailed action plans to achieve the strategic goals.

The KDIC carried out a number of projects to support job creation in the private sector. First, as it monitored the performance of financial institutions with whom it entered into an MOU for business normalization, the KDIC encouraged the institutions to expand hiring,

Photo III - 5

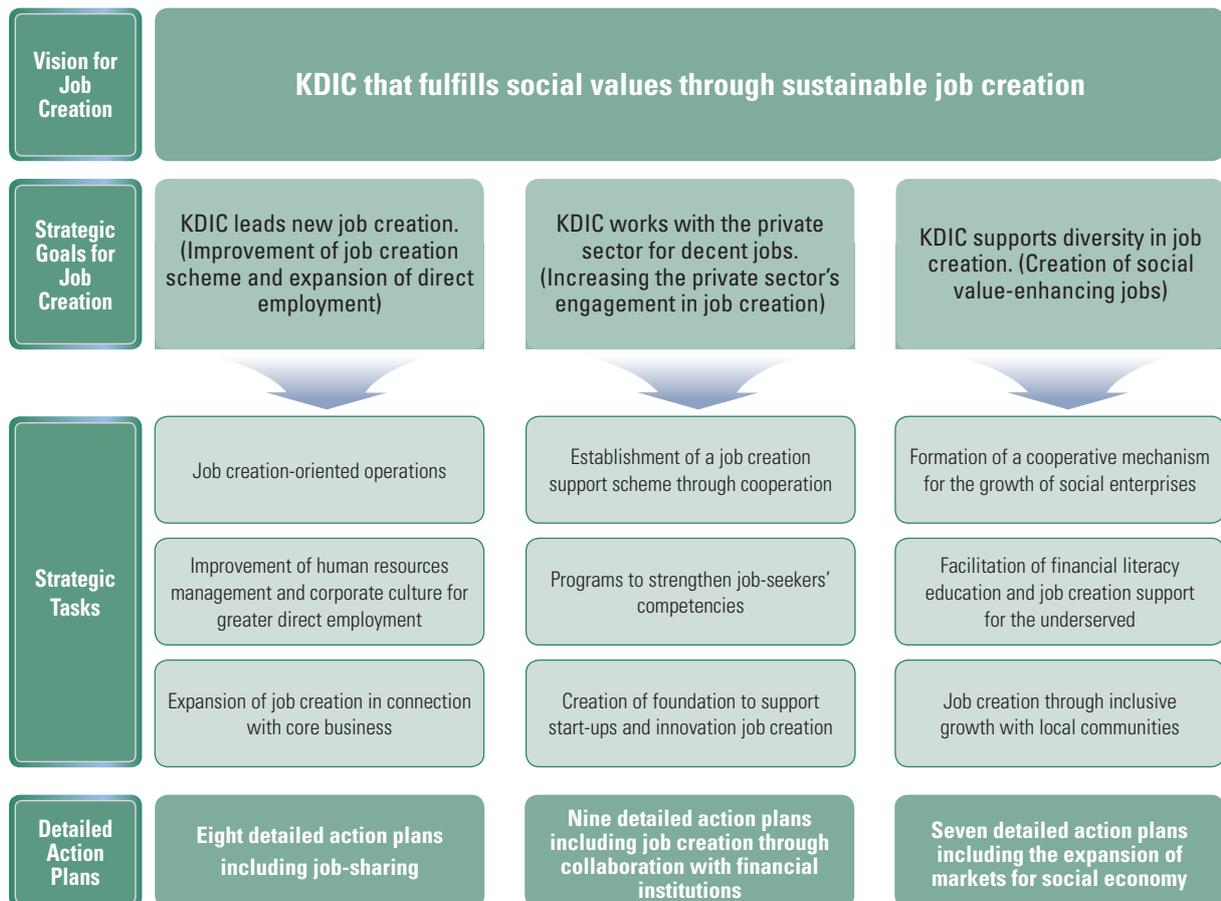
#### Appointment Ceremony for New Recruits in the Latter Half of 2018



develop and offer small loan products, and increase guarantees for small- and medium-sized enterprises to the extent that such measures did not hurt the institutions' financial soundness. These endeavors indeed promoted inclusive finance. Second, the KDIC made PF real-estates previously held by failed financial institutions and currently under its management available for cultural experiences of the underprivileged and promotion and sale of locally grown products while seeking their quick disposition through normalization efforts including debt restructuring and sale. This project helped create jobs in the private sector as well as social values. Third, the KDIC facilitated the private sector's engagement in job

creation through its Microcredit project and the Promising Deposit Insurance for Your Neighborhood project. Under the Microcredit project, the KDIC extended financial assistance to small business owners in financial duress in partnership with the Social Solidarity Bank. The Promising Deposit Insurance for Your Neighborhood project provided management assessment consulting and funds for facility improvement. These projects supported 22 shops, created 15 jobs, and maintained 56 other jobs in 2018. The KDIC continually developed new projects for job creation in connection with its core business, and worked hard to support job creation in the private sector.

**Figure III-6**  
**Strategy Map for Job Creation**



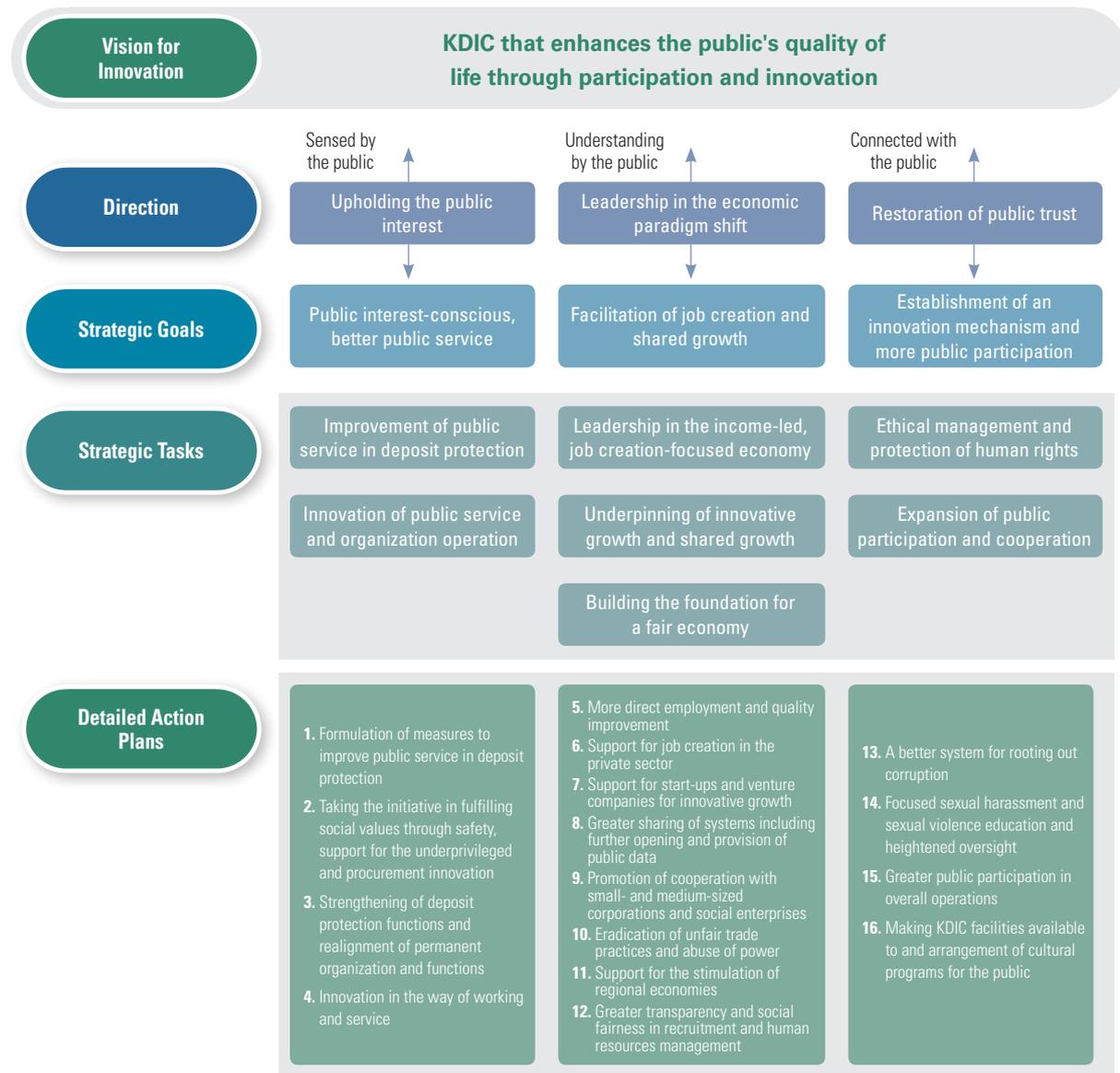
### 3. Efforts to Promote Innovation

#### Vision and Strategy for Innovation

In consideration of the government’s strategies for government innovation (promotion of the public interest, leadership in the economic paradigm shift, and restoration of public trust in government) and the circumstances facing the KDIC as well as its specific characteristics, the KDIC set a new vision for

innovation: “KDIC that enhances the public’s quality of life through participation and innovation.” Based on its analysis of the business environment, it developed three strategic goals through public participation to ensure that its initiatives for innovation and the results are embraced by the public and formulated seven strategic tasks to fulfill the goals.

Figure III-7  
Innovation Strategy Map



### Establishment of an Innovation Mechanism

The KDIC established the Innovation Committee, the highest decision-making body that deliberates upon and approves innovation matters, including the creation of a vision for innovation and formulation of strategies. To reflect a full range of outside opinions, it appointed external experts from various fields including civil society, academia, and the financial sector as members of the Committee, and the majority of the Committee, five out of nine members, are from outside.

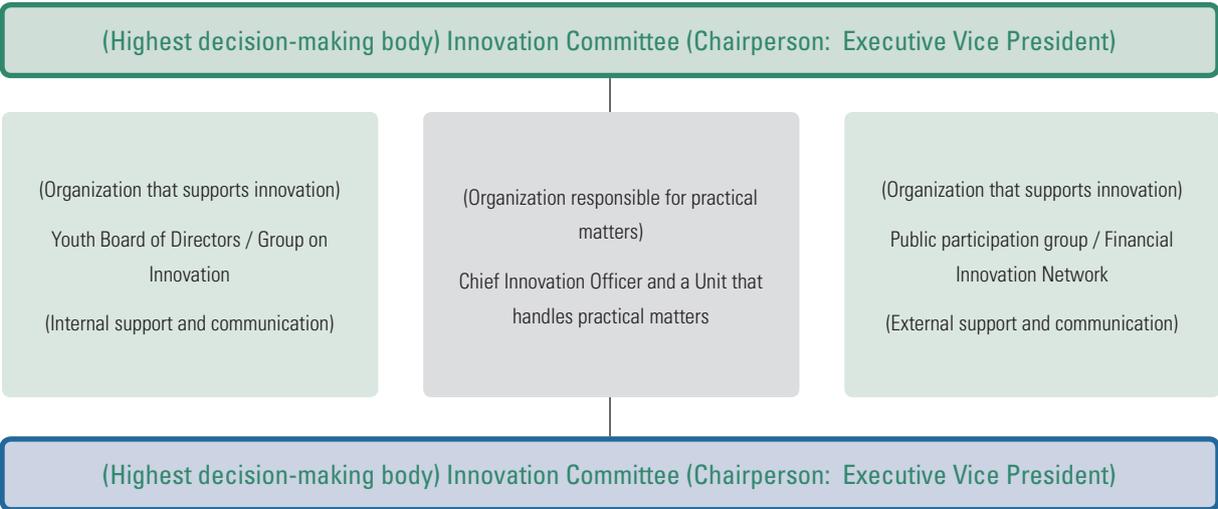
The KDIC designated the Office of Innovation and Strategy as a unit tasked with practical matters related to innovation such as the development of innovation projects and monitoring and management of progress, and appointed the director of the Office as the Chief Innovation Officer to oversee innovation activities and projects. To capture the opinions of the employees and support and drive innovation within the KDIC, it operated the Youth Board of Directors<sup>1</sup> and the Group on Innovation.<sup>2</sup> To actively listen to the public, it formed a public participation group of 50 ordinary

citizens across genders and regional backgrounds, and to jointly develop and implement projects and to share innovation outcomes and collaborate, launched the Financial Innovation Network with the Korea Trade Insurance Corporation, the Export-Import Bank of Korea, and the Korea Investment Corporation.

### Innovative Idea Contest

The KDIC held the Innovative Idea Contest 2018 to gather a variety of ideas in-house as well as outside for development of new innovation projects. The Contest received 119 ideas, 43 from external applicants and 76 from KDIC employees. Through the first round of screening by the public participation group and the Youth Board of Directors and the second round of screening by the Innovation Committee, the KDIC selected and awarded prizes for six excellent ideas (three external applicants and three internal applicants) and applied 19 ideas to its operations.

Figure III-8  
Organization for Innovation



Notes: 1) The Youth Board of Directors is comprised of 10 employees at grades 3 through 5, and it develops innovation projects and disseminates innovation philosophy within the KDIC.  
2) The Group on Innovation drives corporation-wide innovation with 28 members selected from each department as innovation leaders.



# IV

## Stronger Financial Consumer Protection

1. Rendering of Relief for Remittance Errors
2. Protection of Financial Consumers of Insolvent Financial Institutions

# 1. Rendering of Relief for Remittance Errors

One downside to the rise of Internet and mobile banking is that more people are committing errors when electronically remitting funds. This is an increasingly serious problem, and the KDIC has introduced a scheme to render greater relief and protection for those making remittances.

The KDIC purchases and collects the receivables of incorrect remittances that unintended recipients refuse to return to ensure remitters swift relief. This scheme addresses the inherent limitations of the preventive measures of confirming the recipient's information when making an electronic financial transaction and streamlines the relief procedure by financial institutions and thereby minimizes the damage to financial consumers.

To institutionalize relief measures, the KDIC devised a business plan to identify solutions to the issues raised by the media and the parliamentary inspection of the administration and consulted appropriate organizations including the Financial Services Commission and the National Assembly. It also held a meeting to form a consensus on the need for applicable laws and measures. An amendment to the Depositor Protection Act was submitted in December 2018, and the KDIC will implement the scheme in the first half of 2019.

Through the program to render relief to the depositors affected by remittance errors, the KDIC is expected to address about 43,000 cases of remittance errors involving KRW 37 billion. This alone will significantly improve the public's quality of life, and it highlights the KDIC's focus on the public interest.

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

### Abridged Version of Depositor Protection Notification on Financial Products Advertisement

Under the Depositor Protection Act, insured financial institutions must post displays indicating whether their financial products are protected by deposit insurance, and if so, how much is covered pursuant to the requirements set by the KDIC. Accordingly, the KDIC defined how and what should be displayed (depositor protection notification) in advertising materials and the like in applicable rules and regulations.

The KDIC drafted a shorter version of the standard depositor protection notification and promoted its use

Figure IV-1

### Structure of Remittance Error Relief Program



Table IV-1

## Depositor Protection Notification

Category	Standard Depositor Protection Notification	Abridged Version of Notification
General Insurance	This insurance contract is protected by the Korea Deposit Insurance Corporation (KDIC) under the Depositor Protection Act up to KRW 50 million, including cash surrender value (or insurance payout at maturity) and other payments, per person, per institution. Any amount in excess of KRW 50 million is not protected.	Protected up to KRW 50M per depositor, per institution including cash surrender value (or payout at maturity) and other payments for all products at this insurer combined
Variable Insurance	This insurance contract is not protected by the Korea Deposit Insurance Corporation (KDIC) under the Depositor Protection Act. Guaranteed minimum benefits ( <i>product-specific terminology<sup>note</sup></i> ) and special policy conditions are protected by the KDIC under the Depositor Protection Act up to KRW 50 million, including cash surrender value (or insurance payout at maturity) and other payments for all your KDIC-insured products at this insurer, per person, per institution. Any amount in excess of KRW 50 million is not protected.	Not Protected by the Depositor Protection Act. However, guaranteed minimum benefits and special policy conditions are protected up to KRW 50M per depositor, per institution including cash surrender value (or payout at maturity) and other payments for all products at this insurer combined
Retirement Pension (DC/IRP)	Deposits in this retirement pension account subject to deposit protection are protected by the Korea Deposit Insurance Corporation (KDIC) under the Depositor Protection Act up to KRW 50 million, separately from other KDIC-insured products, per person, per institution. Any amount in excess of KRW 50 million is not protected. If you are subscribed to two or more retirement pensions, the combined protection limit of KRW 50 million applies.	Deposits in KDIC-insured product is protected up to KRW 50M per depositor, per institution, including deposits for all products at this company combined, separately from other KDIC-insured products.
ISA	Financial products subject to deposit protection which are incorporated into this individual savings account (ISA) are protected by the Korea Deposit Insurance Corporation (KDIC) under the Depositor Protection Act up to KRW 50 million, including principal and interest, per person, per institution for each financial institution. Any amount in excess of KRW 50 million is not protected.	Protected up to KRW 50M per depositor, per institution for all KDIC-insured products at this company combined
Securities and Deposits	This cash deposit, which is not used to purchase securities, is protected by the Korea Deposit Insurance Corporation (KDIC) under the Depositor Protection Act up to KRW 50 million, including principal and interest, per person, per institution. Any amount in excess of KRW 50 million is not protected.	Protected up to KRW 50M per depositor, per institution including cash balance after securities purchase for all products at this company combined

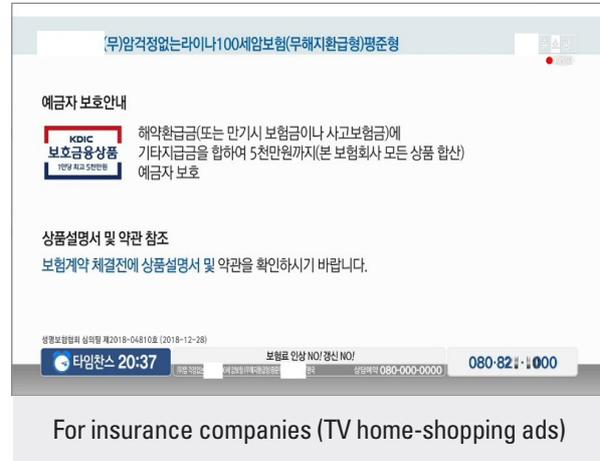
Note: Depending on the type of variable insurance contracts, the terminology used in the existing terms and conditions or investment memorandum shall be used, such as *guaranteed minimum death benefits*, *guaranteed minimum accumulation benefits*, *guaranteed minimum withdrawal benefits*, and *guaranteed lifetime withdrawal benefits*, with the definitions of the terminology in the investment memorandum or terms and conditions.

to help consumers more easily determine whether they are covered by deposit insurance, based on the understanding that non-face-to-face channels including the Internet and mobile banking apps are growing and the standard notification might be difficult to present in advertising materials and to read on account of its length.

The KDIC targeted its consultation efforts at investment companies, which have the least number of products subject to deposit protection for the use of the abridged version of depositor protection notification. Starting in June 2018, the shorter version was used in advertisements with limited time and space such as Internet banners, TV commercials, and radio

Photo IV-1

### Implementing a Shorter Version of Notification



commercials. Following the introduction at investment companies, it was used for the insurance sector based on consultation regarding the content starting in December 2018. The KDIC plans to continue to improve the scheme to encourage and spread the use of the abridged version.

### 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 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 a recurrence, insured financial institutions are now required to explain verbally or in writing to customers whether or not and for how much a financial product is covered by deposit insurance when selling the product.
- Deposit insurance confirmation scheme: This scheme mandates financial institutions to receive a confirmation by signature from customers that they understand whether or not and for how much a financial product is covered by deposit insurance when closing a contract for financial transaction.

The KDIC conducts on-site inspections every year. In 2018, the number of targets of on-site inspections was increased. A total of 1,100 branches of 161 financial institutions in six financial sectors were inspected for full institutionalization of the explanation & confirmation scheme. Of this total, the number of local branches subject to on-site inspections was substantially increased from 164 or 16% in 2017 to 442 or 40% in 2018, specifically for better protection of the financially underserved. The inspections found that most of the branches were in compliance with the scheme. There were 64 minor violations, and all were

**Table IV-2**

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

(Unit : Number)

Year	2015	2016	2017	2018
Inspected Branches	649	817	1,021	1,100
Number of Follow-up Measures Taken	31	34	102*	64

\* The number of measures taken increased due to the newly implemented Explanation & Confirmation Scheme, an increase in the number of branches inspected, changes in information materials, etc.

**Table IV-3**

### 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	800	-	44
Financial Investment	33	38	1	3
Insurance	32	151	3	5
Savings Bank	79	110	-	8
Merchant Bank	1	1	-	-
Total	161	1,100	4	60

subject to follow-up measures and second inspections in December.

In view of the surge in financial transactions through Internet and mobile banking and financial institutions' focus on non-face-to-face channels including the upgrading of Internet webpages and launch of mobile apps, the KDIC examined the non-face-to-face channels of insured financial institutions. To annualize the examination of Internet and mobile channels, the KDIC will revise applicable rules and regulations and enhance its guidance for the examination of Internet

and mobile channels to raise awareness among insured financial institutions.

The KDIC has made various planned inquiries into financial products at higher risk of being missold while continually conducting on-site inspections of financial institutions' branches. It carried out an examination of notes with rapidly growing sales volume issued by mega-investment banks since sales launch in December 2017. It also checked the level of compliance with the signage display requirements by the commercials for insurance products aired via five TV

home-shopping channels after identifying high risks of mis-selling. It will do the best it can to protect financial consumers further and thus prevent bona fide consumers from sustaining losses by conducting a greater number of inquiries by various means including mystery shopping.

To increase public awareness of the KDIC and the deposit insurance system, it widely reported through print publications and promotional contents containing its mascots that the public is protected by the deposit insurance system. Based on the concept of “Deposit Holding Out Hope for a Better Today” its print publication advertisement said, “The KDIC is here to protect your hope,” highlighting the KDIC’s role of protection. These were intended to raise public awareness and boost confidence in the financial system. The KDIC created a portfolio of sub-images, each of which is used for different media and is intended to maximize publicity effects.

## 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 and in their sixties, traditional market merchants, housewives, etc.). Then, the KDIC mapped out its public relations plan for 2018 and undertook an array of promotional initiatives.

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 appropriate 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.

Photo IV - 2

### Image Ads to Raise Public Awareness of Deposit Insurance



In 2018, it introduced public service advertisements targeting the financially underserved under the Inclusive PR Project. It produced promotional materials, including press releases, promotional leaflets, and posters, containing text-to-speech conversion barcodes and a video using infographics in a talk show format to make information more accessible by the disabled. Under the theme of “Hopeful Journey to Create Happy Society, Haengbok Yegam (Expecting Happiness),” the KDIC worked with Happybean, a donation platform of Naver, Korea’s largest web portal, throughout June. The KDIC focused its promotional efforts on donation and coexistence. It launched a talent donation campaign to support those organizations for whom the KDIC creates social values so that they could garner more interest and financial assistance.

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 young people as SNS (social networking service) reporters for accelerated communication with young new media users. The KDIC even took part in finance exhibitions where more than 50% of the participants were in their fifties or older to offer information on deposit insurance with 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.

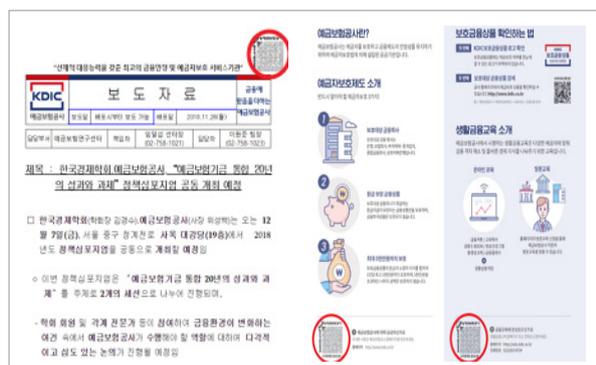
### Awareness of the Deposit Insurance System

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 2018, 91.0% of the public is aware of the KDIC, a 0.3%p increase year-on-year, and awareness of the deposit insurance system

Photo IV - 3

### Text-to-speech Conversion Barcodes for the Visually Impaired and a Video in Sign Language for the Hearing Impaired



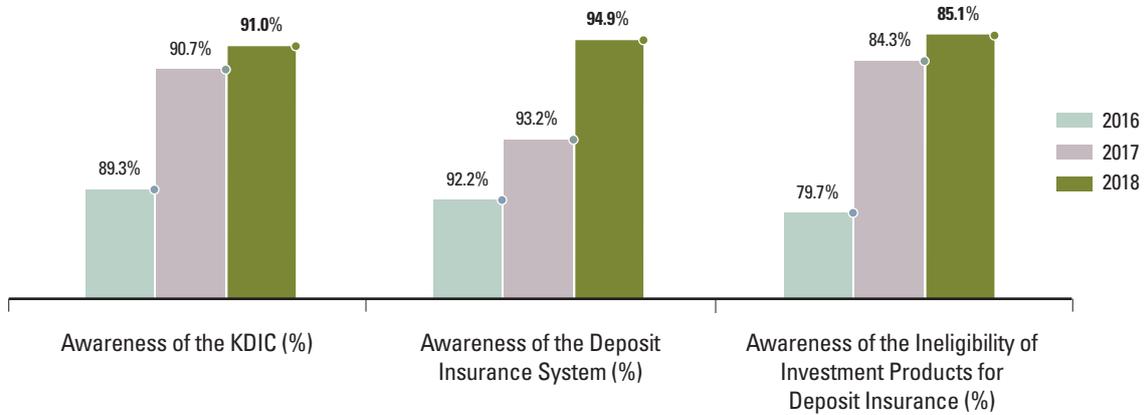
Example of text-to-speech conversion barcodes for the visually impaired



Example of a video in sign language for the hearing impaired

Figure IV-2

## Survey Results Regarding Awareness of Deposit Insurance by Year



rose 1.7%p to 94.9% compared to a year ago. Awareness of the ineligibility of investment products for deposit insurance grew 0.8%p from a year ago to 85.1%.

During the year, it educated a total of 100,362 persons, up 32.4% from the preceding year. It held education sessions for 29,965 financially underprivileged individuals, a 46.4% increase from the previous year.

## 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 and senior citizens 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 and North Korean defectors in 2015; and the disabled and local children in 2017. In 2018, it broadened the foundation of such education particularly to reach out to financially underserved persons including the elderly who are seeking jobs under the MOU with the Incheon Senior Resources Development Center.

### Enhanced Credibility of Financial Literacy Education

To offer financial literacy education programs in a more systematic manner and raise awareness of the programs, the KDIC acquired Education Donation Career Experience Institution Certification in July and was recognized by the Ministry of Education as an excellent institution for education donation in November.

Thanks to its contribution to education donation for the youth, the KDIC was awarded the grand prize in education donation (Minister of Education prize) by the Korea Foundation for the Advancement of Science and Creativity and the Korea Education Donation Award (Chairman of the Korean Council on Economic Education Award) by the Ministry of Economy and Finance in 2018. It received a plaque of appreciation from the Korea Association of Senior Welfare Centers for its contribution to senior citizens' financial literacy and capability and their welfare.

Photo IV- 4

**Grand Prize in Education Donation, Financial Literacy Education Award and External Certifications**

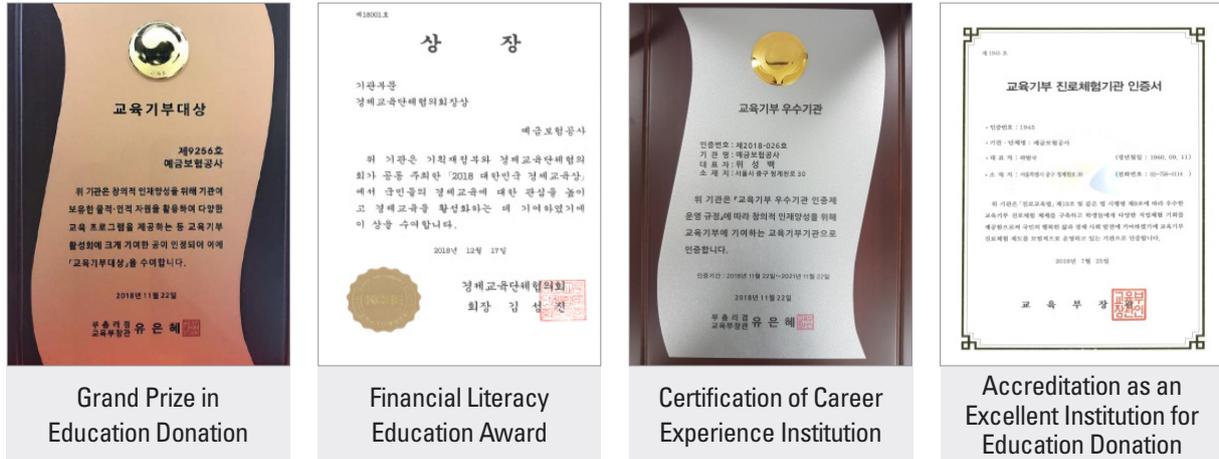


Table IV- 4

**Experiential Financial Literacy Education in 2018**

Category	Boardgame for financial literacy education	KDIC visit program	Financial camp	Financial musical
Targets	Local children	Middle and high school students	Local children and multi-cultural families	High school seniors
Content	<ul style="list-style-type: none"> <li>Experiential education using four types of games as a teaching aid</li> <li>Explanation of the importance of deposits</li> <li>Introduction to the deposit insurance system</li> </ul>	<ul style="list-style-type: none"> <li>Tour of the KDIC promotion center</li> <li>Career education</li> <li>Introduction to the KDIC and the deposit insurance system</li> <li>Experiential financial literacy education</li> </ul>	<ul style="list-style-type: none"> <li>Tailored financial literacy education with participating organizations</li> <li>Two-day camp for families for effective financial literacy education</li> </ul>	<ul style="list-style-type: none"> <li>Healthy credit management for teens</li> <li>Easy-to-understand musical format</li> </ul>
Results	336 times	Six times	Six times	Two times
Photos				

## Experience-oriented educational programs

In 2018, the KDIC offered a variety of financial literacy education programs which are both fun and informative to meet the growing demand for experiential learning. They include a board game, KDIC visit, financial camp, and financial musical.

## Better Financial Literacy Education by Enhancing Instructors' Competencies

To facilitate financial literacy education in local communities and thereby make education more widely and equally available between regions, the KDIC has appointed local instructors with comprehensive understanding of each region since 2015 and offered locally embedded financial literacy education. In early 2018, it increased the number of local instructors to 30 and significantly improved the treatment of instructors including the organization of a demonstration-focused workshop to bolster the competencies of instructors and thereby further develop its financial literacy education.

Photo IV - 5

### Appointment of and Training for Region-Specific Instructors



## 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 IV-5

#### 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 the Difference Between Actual and Advance Dividend Payments

When an insured financial institution goes bankrupt, according to applicable laws including the Depositor Protection Act, the KDIC pays insurance claims for deposits worth 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 claimants 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 an 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 made both dormant accounts and uncollected claims searchable on the Korea Federation of Banks' consolidated dormant account search system to increase depositors' accessibility. In 2018, it went one step further by making the dormant account information available on Government 24, an integrated web portal for administrative services, allowing depositors of failed financial institutions to claim any uncollected amounts.

### (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.

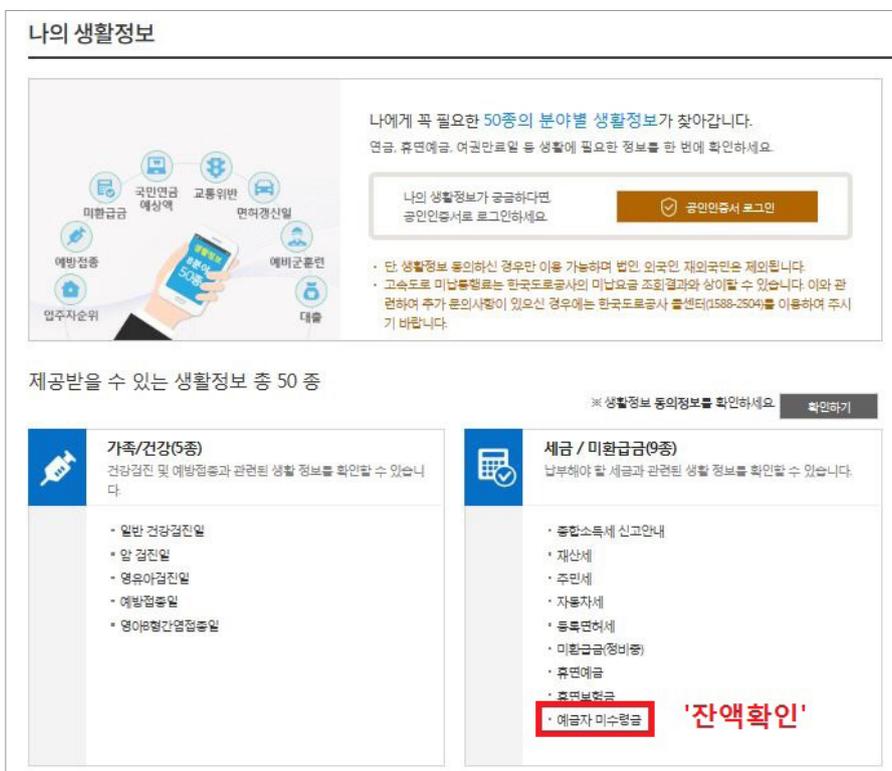
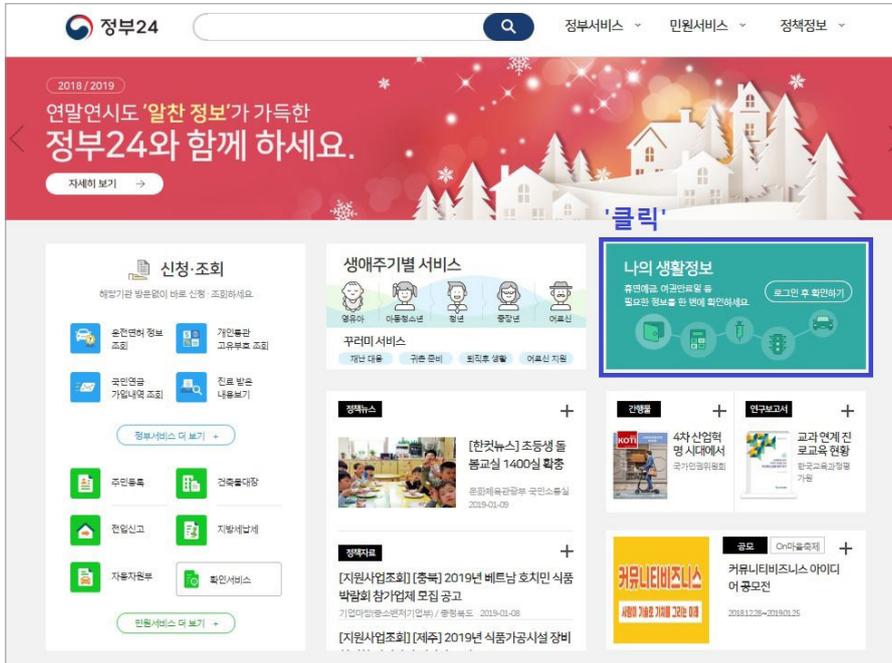
These strenuous efforts proved effective in many ways, such as increased user convenience, improved public accessibility, and growing awareness of the deposit insurance system and uncollected claims. The balance of uncollected claims fell to KRW 6.4 billion by the end of 2018. For this feat, the KDIC won the Prime Minister's award in the second Competition on Best Practices in Proactive Administration in 2017 hosted by the Ministry of Personnel Management.

Photo IV - 6

### Newspaper Advertisements, Promotional Leaflets and Videos

Photo IV-6

Government 24 Web Page





# Advancement of the Deposit Insurance System

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

# 1. Improvement of the Deposit Insurance System

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## Proposing Amendments to the Depositor Protection Act

The KDIC has made an institutional improvement for more effective, controlled operation of its deposit protection scheme. An Amendment to the Depositor Protection Act was proposed on November 22, 2017 and submitted to the National Policy Committee on February 27, 2018 and 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 statutory basis 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.

The rapid expansion of Internet and mobile banking has afforded users far greater convenience. The downside is that it has also given rise to a sharp increase in remittance errors where the remitter inadvertently makes a wrong entry for the amount to be wire-transferred, the receiving financial institution, or the recipient's account number. An Amendment to the Depositor Protection Act was proposed in December 2018 and is currently undergoing deliberation by the National Assembly to minimize the financial damage to depositors who made remittance errors and raise the stability in financial transactions and to ensure smooth recovery of public funds by institutionalizing the rights to demand financial transaction information regarding those who are responsible for failure.

## 2. Research on Deposit Insurance Schemes and Financial Stability

### Empirical Research on Deposit Protection Schemes and Current Financial Issues

In 2018, the KDIC thoroughly studied and considered ways to improve the deposit protection scheme and promote financial stability. It hired four more researchers with doctorate degree at the Deposit Insurance Research Center to expand its empirical research into the deposit protection scheme and current financial issues.

The doctorate-level researchers produced empirical research reports on a variety of issues such as the risk-based premium system, the effects of deposit insurance in the event of bank run, the progress of an integrated deposit insurance scheme, and challenges going

forward. They empirically analyzed the existing deposit insurance scheme and its effects on financial policy and outstanding issues. They also sought to present theoretical and empirical logics for effective financial policymaking as well as their implications.

### Legislation Research Related to Deposit Protection Schemes

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 through legislation research and thereby

Table V - 1

#### Major Empirical Research in 2018

Subject	Title
<p>Empirical Research on Deposit Protection Scheme and Current Financial Issues</p>	<ul style="list-style-type: none"> <li>• Empirical Study on Insolvency Contagion Risk and Synchronization Phenomenon among Financial Sectors</li> <li>• Analysis of the Impact of Growing Size of Securities Firms on Insolvency Risk</li> <li>• Management of Profit and Capital Ratio through Discretionary Adjustment of Loan Loss Provisions</li> <li>• Study on Possible Use of Deposits in Excess of Deposit Insurance Limit as an Indicator for Risk-Based Premiums for Mutual Savings Banks</li> <li>• Impact of Deposit Insurance Premiums on Interest Rates Charged by Deposit-Taking Institutions</li> <li>• Empirical Study on the Cause of Deposit Withdrawal and the Effects of Deposit Insurance in the Event of Bank Run Risks</li> <li>• Study on the Possible Use of Deposit-to-Liabilities Ratio as an Indicator for Insolvency Prediction</li> <li>• Impact of the Changing Demographic Structure on Financial Institutions and the Role of the KDIC (jointly with outside researchers)</li> <li>• Outcome of the Introduction of the Integrated Deposit Insurance System and Future Challenges (jointly with outside researchers)</li> <li>• Establishment of a Systemic Risk Response Mechanism and the Role of an Integrated Deposit Insurer (jointly with outside researchers)</li> </ul>

provides a theoretical basis for upgrading the deposit insurance system. Conducting research centered around inclusive finance and protection of financial consumers, the KDIC has explored policy implications to fulfill social values.

In the aftermath of the global financial crisis, major countries around the world established and improved the financial mechanism and deposit insurance scheme to effectively deal with risks. They had seen financial instability escalate into a full-fledged economic crisis and were intent on preventing a recurrence. Recognizing how critical it is to maintain the stability of the financial system, Sweden established the Resolution Reserve and the Stability Fund, separate from the Deposit Insurance Fund to ensure smooth resolution of failed financial institutions and extend liquidity to performing financial institutions at the risk of causing systemic risk in an organized manner. The UK formed the Financial Policy Committee after the global financial crisis and upgraded its special resolution scheme to better respond to financial crises, if they arise. The US Federal Deposit Insurance Corporation (FDIC) improved its risk-based premium system and premium assessment criteria to increase the financial soundness of the Deposit Insurance Fund. Canada introduced a resolution scheme for large-scale

banks and a bail-in power to improve its resolution scheme.

The international community is pressing ahead with mitigation of financial marginalization and the improvement of confidence in the financial market through inclusive finance and protection of financial consumers. The IADI established a sub-committee to research into inclusive finance and its implications for deposit insurance systems. In particular, the FDIC is offering financial literacy education and a program to enhance financial accessibility of the financially underserved in active pursuit of inclusive finance. Other major economies, in addition to deposit protection, are operating a fund to protect investors against losses in the event of investment companies' failure to safeguard rights of financial consumers or a scheme to protect insurance policyholders with wider scope of protection and higher limit.

The KDIC scrutinized and analyzed the introduction and enhancement of policies on mechanisms for financial stability and deposit insurance systems and protection of financial consumers by key foreign nations and organizations. Also, KDIC studied the policy implications of these issues and the necessity of their adoption in Korea in depth.

Table V-2

### Major Legislation Research in 2018

Subject	Title
<p>Legislation Research on Deposit Insurance Schemes and Inclusive Finance</p>	<ul style="list-style-type: none"> <li>• Status and Evaluation of Sweden's Financial Industry and Financial Safety Net Scheme</li> <li>• Research on the Management and Funding of the Deposit Insurance Fund of Major Economies</li> <li>• Integrated Protection Scheme of the UK's FSCS and Its Implications</li> <li>• Research on Deposit Insurance System Operation by Canada</li> <li>• Inclusive Finance and Deposit Insurance Systems</li> <li>• Case Study of the FDIC's Inclusive Finance Initiatives</li> <li>• Insurance Policyholder Protection Scheme Operation of Major Economies and the Evaluation</li> <li>• Study on the Financial Investor Protection Mechanisms of Major Economies</li> <li>• White Paper on the FDIC's Policy Response: Policy Response and Lessons</li> </ul>

## Research Support Through Utilization of the 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 the data since the opening of the database on failed mutual savings banks. Seven studies were conducted using data from the database.

## Sharing of Research Results

In 2018, the KDIC hosted symposiums and conferences to reflect on social issues and actively shared its

research results internally and externally in order to promote understanding of current financial issues.

Externally, it shared its research findings with outside experts including those in academia in various ways such as hosting of international conferences, policy symposiums, and deposit insurance research forums, publishing of studies in academic journals, distribution of press releases, and submission of contributions. In particular, the KDIC invited the former Vice Chairman of the FDIC as a keynote speaker to open the floors for discussion on inclusive finance and the deposit insurance system. The Deposit Insurance Research Forum introduced in 2018 helped the KDIC lead academic discourse on the deposit insurance system and develop policy issues.

Internally, it shared research results through employee seminars, research strategy meetings, and working-level consultations. In particular, the research strategy meeting newly initiated in 2018 contributed to setting research directions and selecting research items for the long-term as well as short-term benefits to the KDIC.

The KDIC has supported specialized and innovative studies on subjects related to the deposit insurance

Table V-3

### Reports Based on the DB on Failed Mutual Savings Banks

Category	Title
Research Based on the DB on Failed Mutual Savings Bank	<ul style="list-style-type: none"> <li>• Regulation and Bank Risk: Evidence from Savings Banks in Korea</li> <li>• Market Discipline by Depositors: the Case of Mutual Savings Banks in Korea</li> <li>• Study on Concentrated Exposure and Failure of Mutual Savings Banks</li> <li>• Empirical Research on Behaviors of Depositors at Failed Mutual Savings Banks</li> <li>• Study on the Possible Use of Deposits in Excess of Deposit Insurance Limit as an Indicator for Risk-Based Premiums for Mutual Savings Banks</li> <li>• Empirical Study on the Cause of Deposit Withdrawal and the Effects of Deposit Insurance in the Event of Bank Run Risks</li> <li>• Study on the Possible Use of Deposit-to-Liabilities Ratio as an Indicator for Insolvency Prediction</li> </ul>

system 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 including the KDIC deposit insurance research periodicals previously distributed internally to appropriate authorities, related agencies, academia, and the media to raise its profile.

Photo V - 1

## International Conference(2018 May)



Table V - 4

## Academic Events Held and Presentation Topics

Category	Date	Main Points from Presentation
International Conference	2018 May	<ul style="list-style-type: none"> <li>· Theme: "The Role of Deposit Insurance Institutions for Inclusive Finance"</li> <li>· Keynote Speaker: Thomas Hoenig (former Vice Chairman of the FDIC)</li> <li>· Presentation: Session 1 (Financial Stability and Financial Inclusion, ADB) Session 2 (Financial Inclusion and Deposit Insurance, Korea Institute of Finance)</li> </ul>
Policy Symposium	2018 December	<ul style="list-style-type: none"> <li>· Theme : "Years after the Integration of Deposit Insurance Funds, the Accomplishment and Challenges Ahead"</li> <li>· Co-hosted by the Korean Economic Association</li> <li>· Presentation: Session 1 (Outcome of the Integrated Deposit Insurance Scheme and Challenges) Session 2 (Establishment of a Systemic Risk Response Mechanism and the Role of the Deposit Insurer)</li> </ul>
Deposit Insurance Research Forum	2018 April	<ul style="list-style-type: none"> <li>· Crypto-currency at Issue and Its Implications</li> <li>· Empirical Study on Insolvency Contagion Risk and Synchronization Phenomenon among Financial Sectors</li> </ul>
	2018 June	<ul style="list-style-type: none"> <li>· Universalization of Korean Financial Groups and Integrated Risk Management—Status and Challenges Ahead</li> <li>· Management of Profit and Capital Ratio through Discretionary Adjustment of Loan Loss Provisions: Comparative Analysis of Banks and Mutual Savings Banks</li> </ul>
	2018 August	<ul style="list-style-type: none"> <li>· Trends and Outlook of the US Financial Regulatory Reform</li> <li>· Impact of Deposit Insurance Premiums on the Deposit and Lending Interest Rates of Insured Banks</li> </ul>
	2018 October	<ul style="list-style-type: none"> <li>· Lending Behavior of Prudent Banks around the 2008 Financial Crisis</li> <li>· Empirical Study on the Cause of Deposit Withdrawal and the Effects of Deposit Insurance in the Event of Bank Run Risks</li> </ul>
	2018 December	<ul style="list-style-type: none"> <li>· Potential Improvements to the Depositor Protection Laws and Regulations for the Early Resolution of Failed Financial Institutions</li> <li>· Relations between Experience and College Major of an Independent Director at a Mutual Savings Bank and Its Asset Quality and Capital Adequacy</li> </ul>

Table V - 5

## Major Publications in 2018

Title	Key Theses Published
<p><b>Financial Stability Studies</b> (Vol. 19; Issues 1 &amp; 2)</p> 	<ul style="list-style-type: none"> <li>• Measurement and Management of Systemic Risks: Survey and Recommendations</li> <li>• Study on the Integrity of the KDIC's Differential Premium Assessment Model Using Market Risk/Probability of Default Model: Focusing on Banks</li> <li>• Investigation on the Interconnectivity in the Korean Financial Industry</li> <li>• Empirical Research on the Impact of Monetary Policy on Profitability, Financial Soundness, and Share Prices</li> <li>• Valuation of Step-Up Bonds</li> <li>• Study on the Interconnectivity among Financial Sectors, Insolvency Contagion Risk, and the Deposit Insurance Fund Scheme</li> </ul>
<p><b>A Collection of Theses Submitted to a Contest for Research Funding</b></p> 	<ul style="list-style-type: none"> <li>• Impact of the Changing Demographic Structure on Financial Institutions and the Role of the KDIC</li> <li>• Improvement Measures for Depositor Protection Laws and Regulations for the Early Resolution of Failed Financial Institutions</li> <li>• Relations between Experience and College Major of an Independent Director at a Mutual Savings Bank and Its Asset Quality and Capital Adequacy</li> <li>• Study on the Impact of US Monetary Policy on the Stability of the Global Capital Market, the Financial Market, and Financial Institutions</li> </ul>
<p><b>KDIC Deposit Insurance Research</b> (Issues 1, 2, 3, 4)</p> 	<ul style="list-style-type: none"> <li>• Empirical Study on Insolvency Contagion Risk and Synchronization Phenomenon among Financial Sectors</li> <li>• Financial Safety Net Systems of Major Economies and Their Implications</li> <li>• Status and Evaluation of Sweden's Financial Industry and Financial Safety Net Scheme</li> <li>• Financial Inclusion and Deposit Insurance Scheme</li> <li>• KDIC Global Policy Issue Briefing for December 2017, January and February 2018</li> <li>• Analysis of the Impact of Growing Size of Securities Firms on Insolvency Risk</li> <li>• Management of Profit and Capital Ratio through Discretionary Adjustment of Loan Loss Provisions</li> <li>• Case Study of the FDIC's Inclusive Finance Initiatives</li> <li>• Insurance Policyholder Protection Scheme Operation of Major Economies and Its Implications</li> <li>• KDIC Global Policy Issue Briefing for March, April, and May 2018</li> <li>• Study on the Possible Use of Deposits in Excess of Deposit Insurance Limit as an Indicator for Risk-Based Premiums for Mutual Savings Banks</li> <li>• Impact of Deposit Insurance Premiums on the Deposit and Lending Interest Rates of Insured Banks</li> <li>• Empirical Study on the Cause of Deposit Withdrawal and the Effects of Deposit Insurance in the Event of Bank Run Risks</li> <li>• Research on the Management and Funding of Deposit Insurance Funds of Major Economies</li> <li>• Financial Investor Protection Mechanisms of Major Economies and Their Implications - Focusing on Post-Measures for Investor Protection</li> <li>• KDIC Global Policy Issue Briefing for June, July, and August 2018</li> <li>• Outcome of the Introduction of the Integrated Deposit Insurance System and Future Challenges</li> <li>• Establishment of a Systemic Risk Response Mechanism and the Role of Integrated Deposit Insurers</li> <li>• Research on Deposit Insurance System Operation by Canada</li> <li>• Integrated Protection Scheme of the UK's FSCS and Its Implications</li> <li>• Global Policy Issue Briefing for September, October, and November 2018</li> </ul>

### 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 107 deposit insurers including 83 members, 10 associates, and 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 Technical

Committee on Purchase and Assumption under the IADI. It is taking part in various other research subcommittees including the Differential Premium System Technical Committee, Crisis Preparedness and Management Technical Committee, and more.

In 2018, the KDIC attended many conferences and seminars hosted by the IADI and actively engaged in presentations and discussions on various topics and themes.

#### Exerting Greater Influence in IADI as a Member of the Executive Council

At the 17th Annual General Meeting of the IADI held in Basel Switzerland, the Executive Vice President of the KDIC was elected as a member of the Executive Council through a voting in which 83 members took part. The Executive Council is de facto highest decision-making body overseeing the overall operations of the IADI that sets the direction that the deposit insurance

Table V - 6

#### KDIC's Major Activities within IADI in 2018

Date	Location	Event	Presentation Topic
Apr.	Vietnam (Hanoi)	16 <sup>th</sup> IADI Asia-Pacific Regional Committee Annual Meeting and International Conference	<ul style="list-style-type: none"> <li>Examining, Supervising and Supporting Insured Institutions in Korea</li> <li>Experience with SATAP in Korea</li> </ul>
May.	Turkey (Istanbul)	11 <sup>th</sup> IADI Eurasia Regional Committee Annual Meeting and International Conference	<ul style="list-style-type: none"> <li>Risk Assessment and Early Warning System at the KDIC</li> </ul>
	Russia (Moscow)	55 <sup>th</sup> IADI Executive Council Meeting and International Conference	<ul style="list-style-type: none"> <li>KDIC's Communication Programs and Activities with Customers</li> </ul>
Nov.	Taiwan (Taipei)	IADI Asia-Pacific Regional Committee Workshop	<ul style="list-style-type: none"> <li>Deposit Insurers - Way Forward as a Resolution Authority</li> <li>Open Bank Assistance (OBA) - Korean Methods and Experiences</li> </ul>

system shall pursue and seeks measures to facilitate cooperation among member countries.

The appointment reaffirmed the KDIC's leadership as one of the four members including the U.S., Japan, and Mexico that have served every term of the Executive Council since the establishment of the IADI and attested that the role that the KDIC has played in the development of the IADI as an outstanding and leading member of various committees is fully recognized by member countries. The appointment is expected to help further boost the KDIC's international status by giving full weight to Korea's opinion in the formulation and revision of international standards related to deposit insurance including the IADI Core Principles for deposit insurers.

After the conclusion of the Annual General Meeting, the Chairman of the IADI held the 56th Executive Council Meeting and arranged a meeting between the newly elected Executive Council and the Secretariat. The Executive Vice President of the KDIC said that it is quite encouraging that the IADI has organized its knowledge-sharing program and the KDIC will continue to support the training-enhancement project the IADI has put forth through its global training program, One Asia with KDIC.

## Stronger Global Leadership at International Organizations Including the IFIGS

The International Forum of Insurance Guarantee Schemes (IFIGS) is a consultative body to protect insurance policyholders and has twenty three full members and two associate members. The KDIC joined the IFIGS as a founding member when it was established in 2013.

For clarification of rules and regulations regarding voting rights and reorganization of the Board of Directors, the IFIGS, a relatively new organization, created a Working Group on the Restructuring of Governance directed at revising Terms of References (ToRs) to bolster its organization and improve its capabilities. The KDIC, as part of the Working Group, played a leading role in reviewing the revision and presenting its opinions. Finally agreed ToRs were proposed and approved at the General Meeting held in October 2018.

The IFIGS set up an Advisory Group for strengthening of the organization structure, improvement of capabilities, and support for the leadership. The KDIC, as a member of the Advisory Group, will participate in meetings to set the mid- to long-term goals of the

Photo V - 2

### 56<sup>th</sup> Executive Council Meeting



Photo V - 3

**5<sup>th</sup> IFIGS Annual Meeting**

IFIGS and discuss major milestones and timelines and thereby boost its international status as a leading deposit insurance institution.

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### **Expansion of Exchange with Foreign Deposit Insurers**

#### **Successful Institutionalization of the Global Training Program, “One Asia with KDIC”**

In June 2017, the KDIC created a regular global training program titled “One Asia with KDIC” to systematically deal with the numerous requests from countries around the globe to share Korea’s experience in operating the deposit insurance system.

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

The basic course was held in May 2018 and sixteen participants from eight countries took part including Jordan, Kenya, and Kyrgyzstan who first participated in the course. As in the course in 2017, the participants introduced each country’s deposit insurance system and engaged in a discussion to identify implications for their own deposit insurance systems during “Peer Benchmark”, an interactive, student-led session. Allocation of more time to “Peer Benchmark” and diversification of discussion topics significantly increased the level of participation.

The first intensive course of “One Asia with KDIC” hosted in November 2018 was attended by eighteen participants from thirteen countries including China, Nigeria, and Kazakhstan who first participated in the course. The course took an in-depth look at the resolution and risk surveillance functions of the deposit insurance system, for which the most number of requests had been made by deposit insurers of other countries.

The intensive course took a case-study approach to foster problem-solving capabilities. The participants applied what they learned from instructors into actual cases and were engaged in a discussion to find answers themselves. Moreover, special lectures on topics

Photo V - 4

2018 "One Asia with KDIC" Basic Course



Photo V - 5

2018 "One Asia with KDIC" Intensive Course



selected by the participants themselves, such as ‘the KDIC’s experiences in overcoming crises’ and ‘IADI Core Principles’, were provided to raise participants’ satisfaction.

## 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 own deposit insurance systems.

Since the launch of “One Asia with KDIC” in 2017, the KDIC has been providing regular training programs for sharing knowledge and experiences in operating the deposit insurance system. However, upon request by individual countries for a training program on specific topics, the KDIC provided training program with a curriculum specifically designed to cover the requested topics.

In September 2018, the KDIC conducted an invitational training program at its premises upon a request from

the Indonesia Deposit Insurance Corporation to enhance the resolution capabilities of its officials.

Nine officials including the Chairman of the Indonesia Deposit Insurance Corporation participated in the training where a variety of topics were discussed and looked into, such as resolution scheme, operation and management of the deposit insurance fund, asset management, and operation of a training center through in-depth interviews with KDIC experts.

## 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 signatories, provision of policy advice and information, and personnel exchange.

In 2018, the KDIC renewed the existing MOU with the Savings Deposit Insurance Fund of Turkey. The MOU

Photo V - 6

### Indonesia Deposit Insurance Corporation Research Visit



which it signed in 2009 was renewed in 2012 and again in 2015. The KDIC signed a new MOU with the Jordan Deposit Insurance Corporation and under the MOU, employees of the Jordan Deposit Insurance Corporation joined the intensive course of “One Asia with KDIC” in November. The KDIC will continue to solidify mutual cooperation with deposit insurers in the Middle East.

Based on a provision of the MOU signed with the Deposit Insurance Corporation of Japan regarding personnel exchange, the KDIC ran a short-term exchange program in June 2018, sharing information on each other's system for accountability investigation and for crisis response.

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

**Photo V - 7**

### **MOU Signing with the Savings Deposit Insurance Fund of Turkey and the Jordan Deposit Insurance Corporation**





# VI

## 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 financial positions and factors of volatility of insured financial institutions through risk surveillance models that detect and assess any risks that may affect the Deposit Insurance Fund (DIF). Each institution is graded in accordance with the risk classification criteria, different for each type of financial institution, for ongoing monitoring and efficient risk surveillance.

The KDIC signed an MOU on sharing of financial information with the Financial Supervisory Service (FSS) and the Bank of Korea. The information acquired under the MOU is the primary source of data for the KDIC's risk monitoring models. In cooperation with the agencies concerned, it has continually improved the timeliness and accuracy of such information. The KDIC commissioned a study on the improvement in information-sharing among financial safety net participants to ensure more timely collection of financial information, and it has strived to forge a consensus among the internal and external stakeholders on the need to address the problems with the existing information-sharing scheme. For its part, the National Assembly organized a seminar 'How to Improve Information-Sharing Practices among Financial Safety Net Participants,' helping to solidify the social consensus.

In 2018, the KDIC built the Comprehensive Risk Information Platform for timely detection and management of troubled insured financial institutions. The platform enables automation of basic financial analysis; comprehensive inquiry into financial and non-financial information; trend analysis of indicators

of insolvency; and outlier detection, and it has indeed allowed the KDIC to more efficiently use financial data and thereby more effectively monitor risk.

### Improvement of Risk Surveillance Process and Capabilities

The KDIC is making a dedicated effort to improve its risk surveillance through a better work process. In 2017, it began to conduct a thematic analysis of key risks facing each financial sector to detect and tackle risk factors more quickly. In 2018, it focused more heavily on in-depth analysis of matters that could materially affect the management of financial institutions. The KDIC shared the thematic risk analysis results for each financial sector and consulted with financial authorities including the FSC for institutional improvements.

The KDIC has also established a special committee for each financial sector since 2017 to improve its ability to detect vulnerable insured financial institutions and make its risk surveillance system as reliable as possible. This committee shares and discusses the analysis findings of the risk monitoring model and major risk factors for each financial sector and renders advice on risk surveillance, and it has thereby significantly improved the KDIC's risk surveillance capabilities.

To build the capacity and capability of its risk management personnel, the KDIC implemented training programs appropriate for each financial sector. Practical risk training bolstered its risk monitoring capabilities including the ability to utilize a risk monitoring model and prepare analytical reports. Simultaneously, in consultation with appropriate agencies, it hosted lectures, training sessions, and other such events for capacity building by outside

experts on 'risk management for banks in 2019 and operation of stress tests'.

The KDIC, furthermore, undertook a program for risk analysis capacity building to make its ongoing surveillance more efficient. It analyzed and shared information on the managerial conditions and risks of individual insured financial institutions across departments tasked with risk monitoring of different financial sectors, promoting their understanding of all financial sectors and utilizing such information in risk analysis.

The KDIC is receiving third-party evaluation of its risk monitoring activities in an effort to get an independent, objective assessment of its performance and to improve existing capacity to more effectively deal with environmental changes inside and outside the organization. In 2018, eight persons with ample experience and knowledge in different fields were appointed as external evaluators to assess insolvency risk management capacity. To elicit expert views on its risk management capability, the KDIC invited experts on risk surveillance including an outside member of the Specialized Risk Assessment Committee. The KDIC will continue to improve its risk monitoring and management on the basis of their assessment findings and recommendations going forward.

## More Active 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. The KDIC bolstered its ability to preempt risks by sharing its risk analysis methodologies and primary risk factors across the organization.

The KDIC took preemptive measures to grapple with changing circumstances for as well as institutional changes in each financial sector including imposition of the more rigorous Basel III capital requirements, introduction of IFRS17, adoption of K-ICS (scheduled for 2022), and the initiation of notes issuance by mega investment banks. It sought to eliminate the risks of insolvency by means of ongoing monitoring of insured financial institutions which are not financially sound.

To better preempt possible failures of Internet primary banks, the KDIC analyzed potential risk factors in the sector and examined the actual operation of Internet primary banks in China, as it did for Japan and Europe last year, and shared its findings with the Internet primary banks in Korea to encourage them to improve their own risk management and formulate innovative management strategies.

The KDIC comprehensively reviewed the market risks surrounding insured financial institutions in 2018, when volatility in the financial markets spiked in response to the US-China trade disputes, rising global protectionism, and the end of quantitative easing by major economies. It preempted uncertainties in the financial markets in a timely manner by monitoring risks of insured financial institutions and the movements of the policy-making authorities.

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 contribution at crucial moments.

For the purpose of overseeing and coordinating risk management and ensuring effective responses to

insolvency risks, the KDIC established the Ongoing Surveillance Council in 2006. It has braced the KDIC to respond preemptively to any crisis by promoting extensive exchange of opinions and information among the related departments about important risk issues in the financial markets and individual insured financial institutions.

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## 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 failures and 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 the said Act, and interviews the management of insured financial institutions.

Before selecting the subjects of joint examinations, the KDIC held quarterly consultations with the supervisory authorities and institutionalized the consultative process and made it more transparent. In 2018, it conducted eight joint examinations of weak financial institutions including banks, insurance companies, securities companies, and mutual savings banks. In collaboration with the FSS and the Bank of Korea, the KDIC hosted workshops to promote mutual understanding and cooperation regarding joint examinations.

Under the memorandum of understanding on joint examinations of financial institutions, the KDIC performed joint examinations of mutual savings banks controlled by the same financial group, and large savings banks with assets of KRW 2 trillion or more. In

consultation with the FSS, the KDIC chose, as examinees, mutual savings banks meeting the criteria for being declared 'at risk of insolvency' in terms of the BIS capital adequacy ratio, and those exhibiting heightened 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 focus of the KDIC's independent and joint examinations was on risk factors that could lead to losses to the DIF, rather than on compliance issues. The KDIC explored possible corrective actions and institutional improvements with focus on risk reduction of insured financial institutions. These efforts to differentiate its examination focus from that of the supervisory authority helped to cement the KDIC's role in monitoring financial institution risks.

Concerning mutual savings banks in particular, the KDIC examined mutual savings banks where deposits in excess of KRW 50 million accounted for significant shares of total deposits in response to an increase in the number of individual deposits of more than KRW 50 million, which are not subject to depositor protection. Based on the results and findings, it identified the risks associated with such deposits and then requested the mutual savings banks to take corrective actions and issued recommendations to the FSS.

In 2018, it cited to the financial authorities the need for corrective actions for substantial reduction of risk factors. It specifically identified and detected cases of rising risk concentration and improper origination and

post-management of securities-related loans. Under Article 21(6) of the Depositor Protection Act, it requested the FSS to take corrective actions and delivered its opinions to the FSC for policymaking.

In the financial investment sector, the KDIC noted in joint examinations of securities firms' liquidity response that there was no proper contingency funding plan to address a liquidity crunch. It requested the concerned securities firms to apply corrective actions and the financial authorities to thoroughly inspect all securities firms and make institutional improvements.

In the insurance sector, the KDIC noted in joint examinations that insurance companies could evade capital requirements through their reinsurance products, which have insufficient risk transfer due to the ex-post facto loss compensation provision. It requested the financial authorities to conduct additional inspections of other insurance companies and make institutional improvements, and it published its findings in the Financial Risk Review to communicate the need to address the problem to market participants. The KDIC received examination findings of insurers for which it had requested inspections in 2018 to confirm the implementation of corrective actions, and the financial authorities are adjusting capital requirements and management evaluation criteria for reinsurance accordingly.

## Market-friendly Risk Surveillance

### Stepped-Up Exchange with Market Experts

In January 2018, the KDIC held a meeting with external stakeholders to discuss major risk issues for each sector which might incur losses to the DIF and to explore ways to fulfill social values through its risk management activities in consideration of the changes

in the financial markets. In May 2018, it invited international experts to the Insurance Risk Seminar to discuss how to deal with institutional changes in the insurance sector. It held a meeting of research coordination officers from major research centers in each sector in December 2018 to encourage sharing of risk information with policy research institutes.

The KDIC hosted the Cheonggye Financial Forum<sup>1)</sup> ten 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 to the Ongoing Surveillance Forum<sup>2)</sup> (held seventeen times) and Risk Study Forum<sup>3)</sup> (held three times). During those regular forums, the attendees interacted with market experts and developed practical financial knowledge including risk surveillance 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)

To support the introduction of the comprehensive supervision scheme for financial groups that the government is pushing forward, the KDIC co-hosted a seminar on comprehensive supervision of financial groups with the FSC and the FSS for the executives and employees of seven financial groups including Samsung. The seminar shared practical cases of risk management and know-how with regulated financial groups and thereby helped them prepare for the comprehensive supervision scheme.

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.

Table VI- 1

**Main Contents of Financial Risk Review in 2018**

Issue	Main Contents
Spring 2018	<ul style="list-style-type: none"> <li>• Stable development of mega investment banks</li> <li>• Impact of marking insurance liabilities to market and its implications</li> <li>• The 4th industrial revolution and the impact of the fintech industry's development on the financial system</li> <li>• Rising US interest rates and the Korean economy</li> <li>• Risks posed by regulatory changes to the insurance sector and its response</li> </ul>
Summer 2018	<ul style="list-style-type: none"> <li>• Global policy response to the financial crisis and challenges ahead</li> <li>• Global real-estate bubble risk and the Korean economy</li> <li>• Deposit insurance agency's timely detection of and intervention in insolvency risks of insured financial institutions</li> <li>• Rising US interest rates and dollar strength and crisis of emerging markets</li> <li>• Liquidity risk management for a possible economic recession</li> </ul>
Autumn 2018	<ul style="list-style-type: none"> <li>• Household debt in the non-banking sector and risk factor analysis</li> <li>• Risk factors in the financial market posed by the expansion of ETFs</li> <li>• An evaluation of the risk-based premium system and the path forward</li> </ul>
Winter 2018	<ul style="list-style-type: none"> <li>• Analysis of possible triggers to financial risks accompanying changes in the global trade landscape</li> <li>• Probability of loan default for vulnerable industries and its implications</li> <li>• Operation of a risk surveillance model for preemptive crisis response</li> </ul>

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 2018, the Financial Risk Review featured contributions of experts in various fields on topics including household debt in the non-banking sector, the rise in US interest rates, and the global policy response after the global financial crisis to firmly establish itself as a financial risk journal.

Since 2011, the KDIC has sought to fulfill social values and had more constant communication with college students. Its KDIC Exchange Program with Finance Academy (KEPA) offers field training for college students,<sup>1)</sup> and it offers special lectures by KDIC staff members at universities.<sup>2)</sup> In 2018, KDIC personnel visited regional universities, where students have more limited access to financial information, to help them

gain more of the skills they need to get jobs. The KDIC intends to consistently offer the training and lectures to publicize its deposit insurance system and maintain efficient communication with academia.

Note : 1) Pairing a college student and a KDIC employee as a mentee and a mentor to prepare and present a report on major issues for each financial sector (first half of 2018 at Hankuk University of Foreign Studies and second half at Chung-Ang University)

2) KDIC's risk management personnel visit colleges to give lectures on the deposit insurance system and current issues in the financial industry (nine times in 2018 at colleges including Chonnam National University)

### **Strengthened Exchange with Insured Financial Institutions**

The KDIC makes specific recommendations for each insured financial institution which was found in its independent examination or in a joint examination

Photo VI- 1

**Special Lecture at a college (Chonnam National University) and a Final Reporting after a field training program (Hankuk University of Foreign Studies)**



with the FSS to have certain risk factors. This aims at encouraging insured financial institutions to take initiative in minimizing risk.

In notifying each insured financial institution of its premium rate determined through risk analysis, the KDIC provided the management of such institution with the results of a comprehensive analysis including its ranking in the concerned financial sector, its performance on each indicator, and the average grade, using infographics to make the results easier to understand. This was intended to enhance fairness in and acceptance of deposit insurance premium pricing among insured financial institutions and to encourage their sound management.

The KDIC hosted the sixth workshop for the management of mutual savings banks in November 2018. The speakers included bank managers, policymakers,

and external experts, and the workshop featured presentations and panel discussions on various subjects concerning best practices of productive and inclusive finance and thereby encouraged mutual savings banks to explore strategies for growth.

Meanwhile, the KDIC expanded SHARE-3.0, a comprehensive information portal on mutual savings banks launched in 2016, to also cover banks, insurance companies, and financial investment companies. In July 2017, the KDIC opened a comprehensive information portal on financial institutions on its website. The portal visualizes financial ratios and other key data of each financial sector and has attracted many visitors.

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

Photo VI - 2

Comprehensive Information Portal



Photo VI - 3

The 6th 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.

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.

Table VI-2

#### Types of Risk-based Assessment

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

Table VI-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%)

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

Three years into the implementation of the risk-based premium system, some financial sectors were found to have severe concentrations in a certain grade. Meanwhile, a need arose to account for changes in financial supervisory indicators and in the financial markets including the introduction of Basel III capital requirements in the differential assessment model.

To meet the need, the KDIC replaced some indicators and adjusted critical values and grade thresholds in 2016 using the latest data. It also put limits on the proportion of institutions in each grade to minimize the volatility in insurance premiums borne by insured financial institutions caused by economic fluctuations.

It sought to incorporate supplementary financial indicators applicable to all financial sectors in 2017 to better evaluate firms' financial risk management capacity. It ultimately seeks to effectively handle changes in the financial environment, such as the surge in household debt 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 quickly respond to core risk factors.

### Successful Operation of the Risk-Based Premium System

In 2018, the first year of evaluation since the enhancement of its risk-based premium system, the KDIC assessed the risk-based premiums of 295 insured financial institutions. In the process, it ensured fairness and accuracy in the calculation of risk-based premiums. This was possible due to the KDIC's ceaseless efforts to improve the system including the holding of presentations for the staff of insured financial institutions in the introduction and implementation of the system and formulation of a comprehensive response scheme regarding the differential assessment system. The KDIC encourages sound management of insured financial institutions by proactive 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.

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 in 2018, thereby increasing awareness of the system throughout the entire industry.

Table VI-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

The KDIC conducted 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.

### 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 2017 to the third quarter of 2018, 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.

Table VI-5

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

(As of Dec. 31, 2018)

Name of the Financial Institution	MOU Conclusion (Renewal)	Business Performance Targets in the MOU		MOU Termination
		Addition	Adjustment	
<u>Suhyup Bank (former credit business unit of the National Federation of Fisheries Cooperatives)</u>	2001. 4.25 (2016. 12.1.1)	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 2018. 3.28	2003. 2.12 2003. 7. 9 2005.12.21 2007.12.26 2010. 3.23	-
<u>Seoul Guarantee Insurance Corporation</u>	2000. 4.122) (2001. 6. 9)	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 2018. 3.28	2002. 7.10 2006. 6.21 2007.12.26	-
<b>Woori Bank (former Hanvit Bank)</b>	1999. 1.22 <sup>3)</sup> (2000.12.30)	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	2004. 9.22 2007.12.26 2010. 3.23	2016.12.16. <sup>3)</sup> (Sold to a consortium of investors who collectively hold controlling interests )
<b>Jeju Bank</b>	2000.12.30	-	-	2002. 4.29 (Sold to Shinhan Financial Group)
<b>Seoul Bank</b>	2000.12.30	-	2001. 6.29	2002.12. 1 (Sold to Hana Bank)
<b>Chohung Bank</b>	1999.11.12 <sup>2)</sup> (2002. 1.31)	-	-	2003. 8.19 (Sold to Shinhan Financial Group)
<u>Daetoo Investment &amp; Securities</u>	2000. 9.25 <sup>2)</sup> (2002. 2.20)	-	-	2005. 5.31 (Sold to Hana Bank)
<u>Korea Investment &amp; Securities</u>	2000. 9.25 <sup>2)</sup> (2002. 2.20)	-	-	2005. 3.31 (Sold to former Dongwon Financial Group)
<u>Korea Life Insurance</u>	2000. 4.12 <sup>2)</sup> (2001. 9. 5)	-	-	2002.12.12 (Sold to Hanwha Consortium)
<b>Woori Credit Card (former Peace Bank)</b>	2000. 6. 7 <sup>2)</sup> (2000.12.30)	-	2002. 3.25	2004. 3.31 (Merged with Woori Bank)
<u>Woori Merchant Bank</u>	2000.12. 9	-	2001. 6.29	2003. 8. 1 (Merged with Woori Bank)
<u>Woori Finance Holdings Co.</u>	2001. 7. 2	-	-	2014. 11. 3 (Merged with Woori Bank)
<b>Kwangju Bank</b>	2000.12.30	-	2004. 9.22 2007.12.26 2010. 3.23	2014.10.10 (Merged with JB Financial Group Co.)
<b>Kyongnam Bank</b>	2000.12.30	-	-	2014.10.10 (Merged with BS Financial Group Inc.)

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 a 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.

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



# VII

## Resolution of Insolvent Financial Institutions and Management of Bankruptcy Estates

1. Conservatorship of Insolvent Financial Institutions
2. Depositor Friendly Resolution of Insolvent Financial Institutions
3. Management of Special Assets of Insolvent Financial Institutions
4. Management of Bankruptcy Estates and Acquired Assets
5. Management of Assets Acquired from 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 VII- 1

### Receivership of Insolvent Financial Institutions Since 2013

Institutions 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 and achieve '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 2018, 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 VII-2

### Resolution of MSB Failures that Occurred in 2014 through 2018 (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 2018, the KDIC established a scheme to keep depositor records in consultation with domestic branches of foreign banks and Internet primary banks 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 seventeen banks and

one merchant bank in 2017 and the mutual savings bank sector in 2016. Now, all deposit-taking institutions, including banks, carry out ongoing maintenance and management of depositor information needed to compute individual insurance claims. In the event of a business suspension of any of insured financial institutions, the KDIC is now capable of identifying 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 VII-3

### Depositor Information Maintenance Scheme Development Process

Date	Process
2018 Jan.-Feb.	<ul style="list-style-type: none"> <li>Seminars to explain system requirements and distribution of development guidelines to domestic branches of foreign banks</li> </ul>
2018 Mar.-Dec.	<ul style="list-style-type: none"> <li>Consultation with domestic branches of foreign banks, etc. regarding IT work involved in system development, and commencement of work</li> </ul>
2018 Dec.	<ul style="list-style-type: none"> <li>Completion of system development</li> </ul>

### 3. Management of Special Assets of Insolvent Financial Institutions

#### Status of Special Assets

##### Overview

Since 2011, the financial authorities have suspended many mutual savings banks, including Busan financial group-affiliated savings banks, owing to deteriorating business conditions stemming from the prolonged slowdown in the real estate market, among other things. Many of the assets held by failed mutual savings banks as collateral for secured loans were classified as special assets. As of the end of 2018, the KDIC was managing a total of KRW 11.388 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 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 now reorganized into one department (Department of Asset Recovery), one team (Overseas Property Investigation Team) and one office (Phnom Penh Office).

#### 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.

Table VII-4

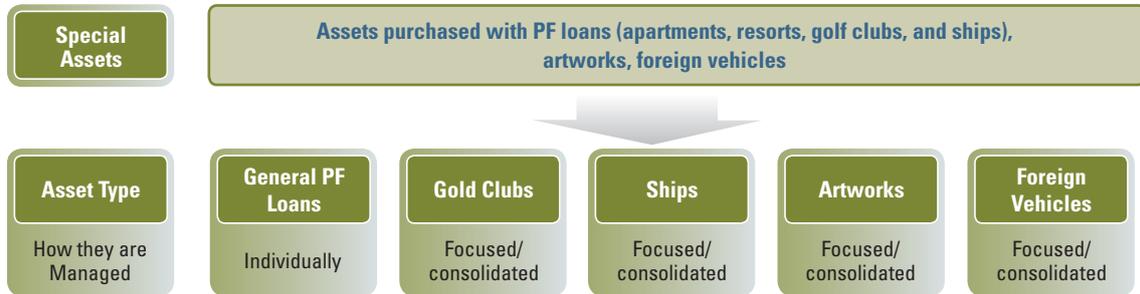
#### Status of Special Assets

(As of Dec. 31, 2018, Unit: No., KRW 1 billion)

Type	Number of Project Sites	Loan Balance	Effective Collateral Value
Real Estate Including PF Real Estate	755	10,055.5	813.4
Ship Investments	4	345.0	-
Equity Holdings	23	296.5	1.4
Foreign Assets	23	685.1	205.2
Others Including Artworks	5	5.9	5.2
Total	810	11,388	1,025.2

Figure VII- 1

**Management of Special Assets by Type**



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

**(1) Four-Phase Recovery Process**

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

**Ensuring Maximum Recovery of Special Assets**

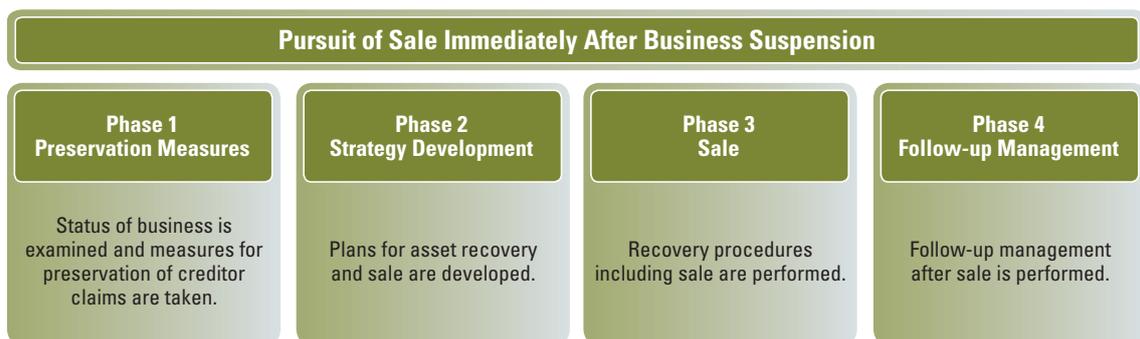
**Recovery Management System**

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.

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

Figure VII- 2

**Four-Phase Special Asset Recovery Process**



## (2) Creation of Social Values and Raising Sales Value Prior to a Sale

While seeking to maximize recovery of injected funds, the KDIC has helped to create jobs for young people and to fulfill social values. Its initiative for proactive administration utilized vacant commercial buildings for public services and raised the asset value of those buildings.

## (3) Asset Recovery Advisory Committee

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.

## (4) Investor Seminars

Since 2014, the KDIC has hosted 12 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.

## (5) Closer Cooperation with Relevant Organizations

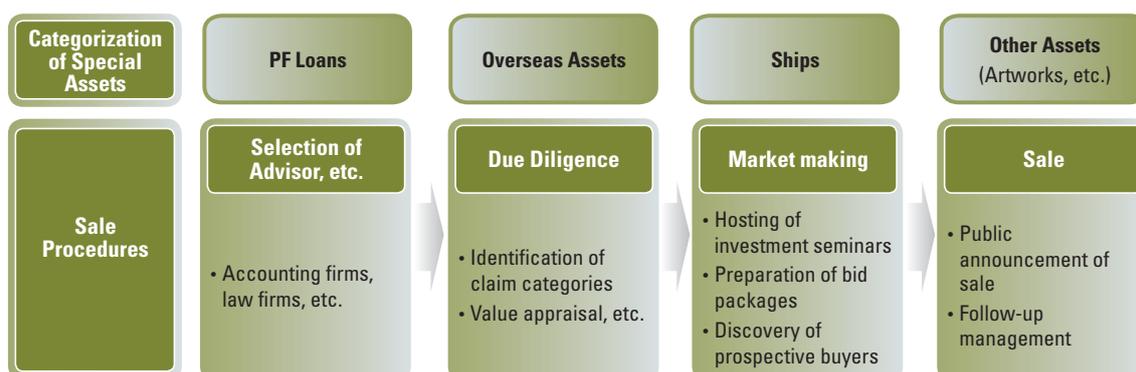
The KDIC maintains cooperative ties with appropriate organizations to source prospective investors and maximize the probability of sale. In March 2018, it worked closely with the Korea Development Bank to widely share information on PF projects, and it concluded an agreement with twenty-nine regional realtors that are located close to the PF real-estate properties that are up for sale. Those realtors are now maintaining and publicizing the assets. To facilitate the sale of special assets, the KDIC has actively offered project information to trust companies, investment banks, and the like and closely cooperated with relevant organizations to secure bridge financing for PF real-estate properties from them.

## (6) Cooperation with Other Agencies

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

Figure VII-3

### Types and Sale Procedures of Special Assets



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.

## 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 to and difficulties in the sale of PF projects remaining unsold for an extended period of time, and it collected opinions of trust companies concerning their sale. This resulted in the adoption of a new approach dubbed “Grand Fair” for PF projects. To dispose of approximately 30 projects each quarter through this Grand Fair, the KDIC placed a full-page advertisement in a newspaper.

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, and it has consistently produced tangible results in its recoveries since 2011. By the end of 2018, it recovered KRW 4.72 trillion in total.

Figure VII- 4

### Types of Outside Experts Retained by the KDIC for Asset Sale

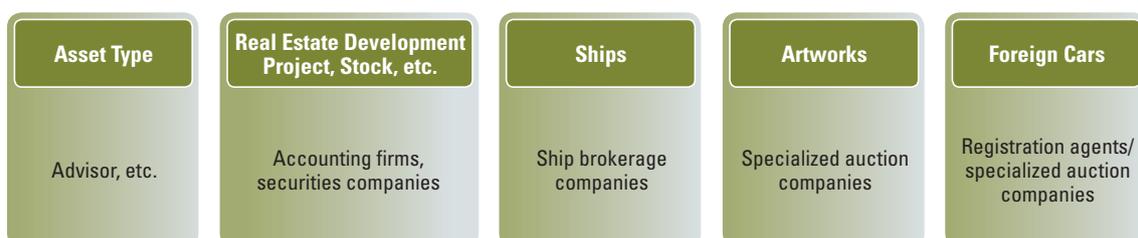


Table VII-5

## Recovery of Special Assets by Type

(As of Dec. 31, 2018, Unit: KRW 1 billion)

Type	Recovery Performance							Total
	Before 2012	2013	2014	2015	2016	2017	2018	
Real Estate	173.7	352.9	952.2	1,051.6	482.9	540.8	386.3	3,940.4
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	1.6	190.3
Foreign Assets	75.2	15.4	35.7	8.1	7.5	35.0	34.9	211.8
Others Including Artworks	5.3	4.9	8.6	16.1	11.6	12.1	10.4	69.0
Total	360.3	503.4	1,104.9	1,214.1	517.3	588.9	433.2	4,722.1

## 4. Management of Bankruptcy Estates and Acquired Assets

### 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).

Table VII- 6

**Bankruptcy Estates and Trustees**

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

Category	End of 2016	End of 2017	End of 2018
Bankruptcy Estate	39	36	35*
Bankruptcy Trustee	34	31	29

\* 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 based on Article 15 of the Act on the Structural Improvement of the Financial Industry.

Accordingly, the KDIC was appointed as a bankruptcy trustee for 35 bankruptcy estates of insured financial institutions nationwide and dispatched its employees as its representatives as of the end of 2018. In close cooperation with the court, it pursued efficient and swift implementation of bankruptcy procedures to maximize the recovery of injected 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 instance, it reviews work performance of bankruptcy estates and has estates in the same regional group cross-check each other's work. It hosts semi-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 2018, the KDIC held a workshop for bankruptcy estate employees in the Busan and Gyeongnam areas for capacity building and better recovery of funds. It also offered special bonuses as incentives to the staff at bankruptcy estates who achieve considerable progress in the liquidation of assets, etc.

In 2018, the KDIC made its Bankruptcy and Resolution Academy, which was established to develop professionals in practical bankruptcy affairs, available to ten bankruptcy estate employees. Then, five of them acquired licenses as 'specialists in administration of financial firm bankruptcies' (national registration no. 2016-001836).

### Maximization of Asset Marketability and Dividend Collection

The KDIC seeks 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 assets, it utilizes the Korea Asset Management Corporation's OnBid electronic bidding system, public sale by trust companies or court, or other auctions.

Photo VII- 1

## 2018 Bankruptcy Estate Trustees and Staff Workshop



Figure VII- 5

## KDIC Public Auction Information System



Meanwhile, the KDIC continued to publicize joint public sale throughout the country and to facilitate the sale of assets through its online and offline publicity efforts. It embedded banners promoting joint public sales on the websites of appropriate organizations such as real-estate property portal Budongsan 114 and on Good Auction, and it distributed leaflets and carried out face-to-face publicity activities at joint public sale sites around the country and the Seoul Money Show 2018.

It also operates the KDIC Public Auction Information system, which provides prospective buyers with easier access to information on joint public sale of assets held by bankruptcy estates. Especially great effort was made to make the system user-friendly to allow even those without any knowledge or experience in an auction or public sale to use the system. The system is easy to navigate and use, and it allows more convenient search of information on various assets for sale, their public sale, and other events. The KDIC even produced

Table VII-7

**Sales of Assets Owned by Bankruptcy Estates**

(As of Dec. 31, 2018, Unit: No. of sales, KRW 1 billion)

Category	2016		2017		2018	
	No.	Amount	No.	Amount	No.	Amount
Real Estate	175	186.7	66	69.8	29	53.3
Golf and Condominium Membership, etc.	38	7.7	14	2.2	13	3.3
Non-listed Stocks	8	0.1	8	2.3	10	2.4

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

webtoons and posted them on the KDIC Public Auction Information system website and the YouTube channel to further promote understanding of the joint public sale scheme and bidding.

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.

### 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 2018, 455 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 35 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- 8**

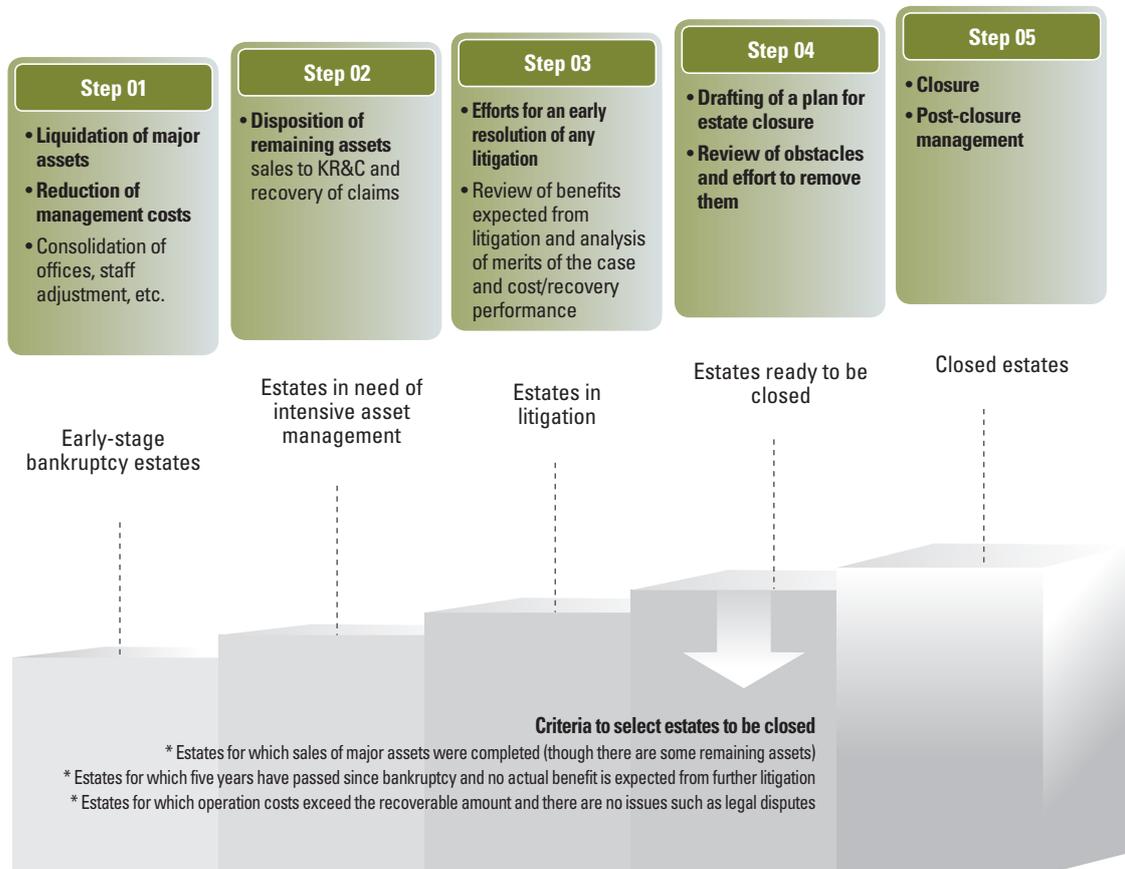
**Bankruptcy Estates That Are Closed or Still Open**

(As of Dec. 31, 2018, Unit: No. of estates, %)

Category		Banks	Insurance Companies	Investment Firms	Merchant Banks	Saving 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	89	325	455
	Closure Rate (B/A×100)	100	91	67	100	74	100	93
Remaining Estates (A-B)		0	1	2	0	32	0	35

**Figure VII- 6**

**Bankruptcy Estate Management from Establishment to Termination**



## 5. Management of Assets Acquired from Insolvent Financial Institutions

### Assets Acquired from Insolvent Financial Institutions

By year-end 2018, the KDIC had acquired a total of KRW 49.063 trillion in assets (based on acquisition costs) through a resolution financial institution (called the Korea Resolution & Collection, KR&C). Of that amount, KRW 2 billion worth of assets (based on acquisition costs) were acquired in 2018 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 2018, with borrowings from the DIF Bond Redemption Fund of the KDIC, the RFC had acquired assets worth KRW 49.063 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, Kyongseon, Ace, Jeil, Jeil 2, Jinheung, Tomato, Tomato 2, Parangsa, Prime, Hanju, Gyeonggi, Shilla, Seoul, Youngnam, Smile, Hanul, Haesol, and Golden Bridge

### 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 2018, the balance of assets held by the KR&C stood at KRW 8.4223 trillion, KRW 139.5 billion of which was directly managed by the KR&C while the remaining KRW 8.2828 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.

Table VII-9

#### Assets Acquired by the Resolution Financial Institution in 2018

(As of Dec. 31, 2018, Unit: KRW 1 billion)

Acquired Parties	Amount of Claims	Purchasing Price	Note
Three Bankruptcy Estates Including That of Hongik Mutual Savings Bank	652.1	2	-

Table VII- 10

## Assets Acquired by the Resolution Financial Institution (Accumulated)

(As of Dec. 31, 2018, Unit: KRW 1 billion)

Category		Amount of Claims	Purchasing Price	Note
KR&C	Banks	9,869.5	7,997.4	6 banks (including Korea First Bank)
	Insurance Company	403.2	355.0	5 life insurance companies
	Investment Companies	2,532.4	1,307.2	3 investment companies
	Bankruptcy Estates	10,500.0	377.7	468 estates (5 banks, 10 insurance companies, 4 investment firms, 22 merchant banks, 88 savings banks, 339 credit unions <sup>1)</sup> )
	Mutual Savings Banks	2,642.9	514.8	37 mutual savings banks
	Subtotal	25,948	10,552.1	-
Hanareum Merchant Bank <sup>2)</sup>	Merchant Bank	33,058.8	32,662.5 <sup>3)</sup>	16 merchant banks
Hanareum Savings Bank <sup>2)</sup>	Savings and Loan Institution	7,984.8	5,848.4 <sup>3)</sup>	41 mutual savings banks
Total		66,991.6	49,063.0	-

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

Figure VII- 7

## Duties of the KR&amp;C

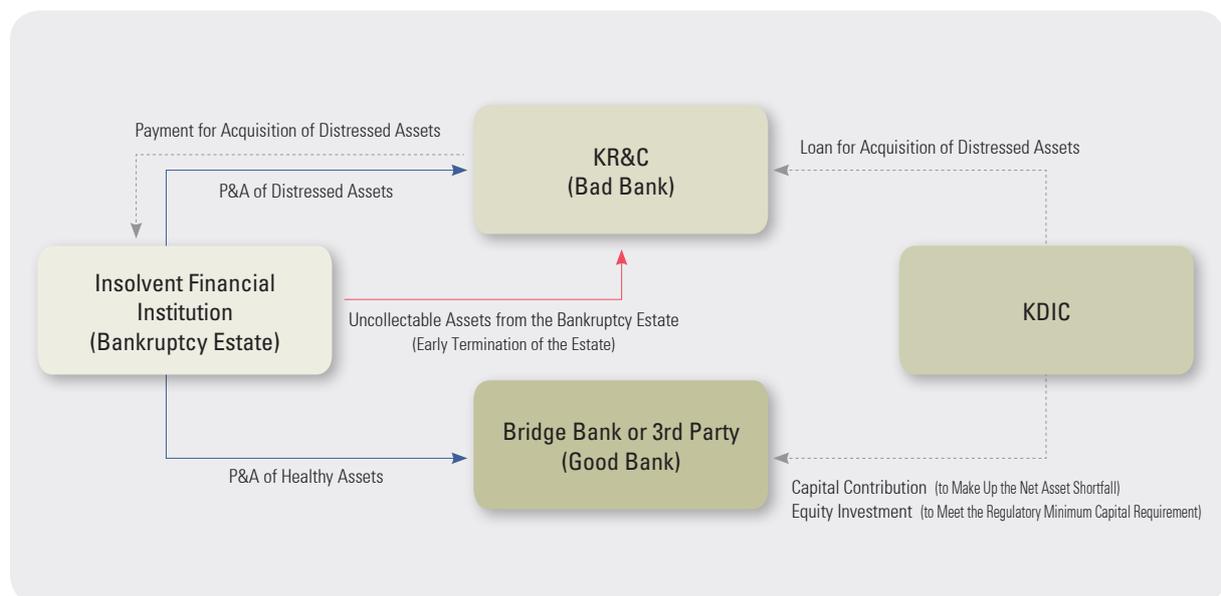


Table VII- 11

**Assets Owned by the KR&C (Balance)**

(As of Dec. 31, 2018, Unit: KRW 1 billion)

Asset Type*	Directly Managed	Commissioned to Outside Experts for Management	Total
Loans	42.5	8,235.9	8,278.4
Securities	24.0	-	24.0
Indemnity Receivables**	-	-	-
Real Estate, etc.	73.0	46.9	119.9
<b>Total</b>	<b>139.5</b>	<b>8,282.8</b>	<b>8,422.3</b>

\* Compensation for damages claims and etc. are excluded

\*\* The remaining balance of indemnity receivables is zero because all merchant banks and mutual savings banks and finance companies for which the KDIC paid off deposits have been liquidated through bankruptcy as of end 2018.

# VIII

## Promotion of Accountability for Insolvency

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

# 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 that might have caused their failures. The KDIC then asks 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 103 members as of end-2018 including seconded officers from related organizations such as the 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 the increasing diversity and complexity of accountability

Table VIII- 1

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

(As of Dec. 31, 2018, Unit: No. of cases, No. of persons)

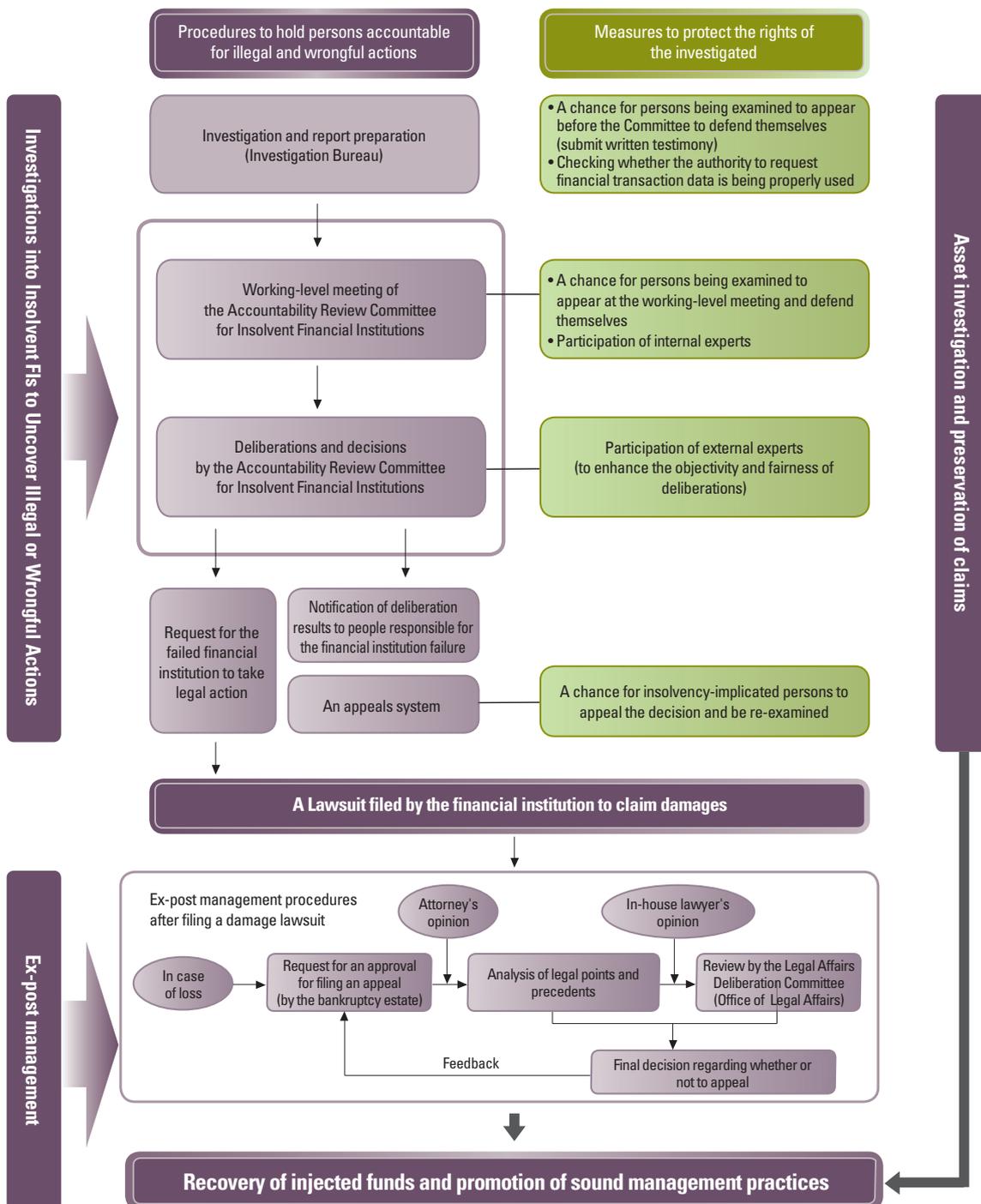
Category	Redemption Fund		DI Fund		Total	
	No. of Institutions (A)	No of Employees Responsible for the Failures (B)	No. of Institutions (C)	No of Employees Responsible for the Failures (D)	No. of Institutions (A+C)	No of Employees Responsible for the Failures (B+D)
Banks	15	191	-	-	15	191
Investment Companies	6	65	-	-	6	65
Insurance Companies	18	244	1	6	19	250
Merchant Banks	22	160	-	-	22	160
MSBs	86	789	46	521	132	1,310
Credit Union <sup>1)</sup>	325	4,146	-	-	325	4,146
Total	472	5,595	47	527	519	6,122

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

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 2018, deliberations on accountability for financial institution failures resulted in a confirmation of accountability for 6,122 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 2018, 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 2018, damage claims for KRW 459.4 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. It also has a supporting system in place to enable clear and logical presentation of defense and submission of extensive evidence in

Table VIII-2

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

(As of Dec. 31, 2018, Unit: No. of cases, No. of persons, KRW 1 billion)

Category	Banks	Investment Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions <sup>1)</sup>	Total
No. of Failed Financial Institutions	15	6	18	22	85	311	457 <sup>3)</sup>
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 <sup>2)</sup>	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, 2018, Unit: No. of cases, No. of persons, KRW 1 billion)

No. of Failed Financial Institutions	No. of Defendants	Amount Claimed	Amount Finalized <sup>1)</sup>	Amount Awarded	Amount Collected <sup>2)</sup>
47	699	459.4	418.1	246.6	102.9

Note : 1) Pending litigation: KRW 41.3 billion

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

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 for itself to directly file damage suits that had previously been lodged by bankruptcy estates, with their difficulty and impact on other litigations taken into consideration. It instituted 18 damage suits by the end of 2018. 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.

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## 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. 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 2018 that 865 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 suits claiming KRW 999.7 billion of damages in total against 1,236 persons implicated in insolvencies as of the end of 2018.

Table VIII- 4

#### Investigations against Default Debtor Corporations

(As of Dec. 31, 2018, Unit: No. of cases, No. of persons)

No. of Default Debtor Corporations	No. of Insolvency-Implicated Persons
341	865

Table VIII- 5

#### Lawsuits Filed in Relation to Default Debtor Corporations (Accumulated)

(As of Dec. 31, 2018, Unit: No. of cases, No. of persons, KRW 1 billion)

No. of Companies	No. of Defendants	Amount Claimed	Amount Awarded	Amount Recovered <sup>1)</sup>
325	1,236	999.7	464.1	119.6

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 2018, the KDIC stepped up cooperation with appropriate organizations including the National Pension Service, the National Health Insurance Service, and the National Court Administration to receive information on the eligibility of persons involved in insolvencies for the national pension plan and health insurance and data on their family relationships in the government database on an ongoing basis.

In 2016, the KDIC commissioned a statistics consultant to help it set the priority and cycle of fourteen investigation items. In 2018, it improved the property

analysis and statistics function of the Recovery Support System to analyze progress in the discovery and recovery of assets per investigation item and per person under investigation. Utilizing the enhanced feature, it analyzed the year-over-year movements of asset discovery and the asset rediscovery rate specific to those persons investigated in the previous five years (2013 to 2017), and the results of such analysis was used to update the selection criteria for investigation targets as well as the investigation cycle for each item in order to prevent repeated investigations with no actual benefits and to improve asset identification and recovery.

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 another KRW 25.6 billion in assets held by insolvency-implicated persons in Korea, roughly the same amount as in the previous year. The KDIC recovered a total of KRW 1.315 trillion from persons involved in insolvencies of financial institutions as of the end of December 2018.

Figure VIII-2

#### Flow Chart of Domestic Asset Investigation

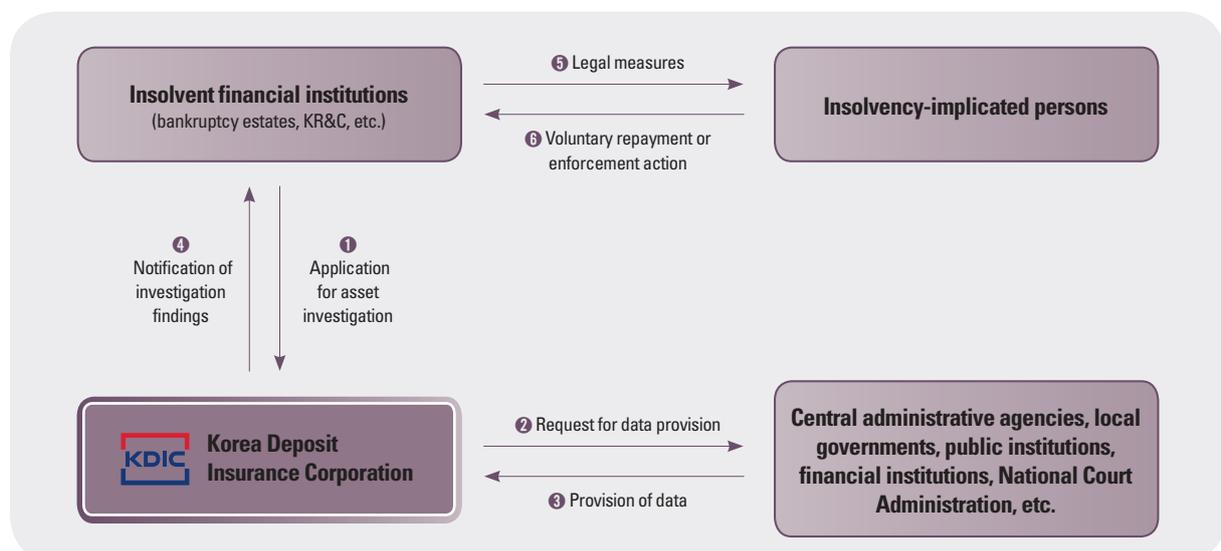


Table VIII- 6

**Recovery Status of Domestic Assets**

(As of Dec. 31, 2018, Unit: No. of sales, KRW 1 billion)

Year	2003 ~ 2013	2014	2015	2016	2017	2018	Total
Amount	994.2	55.4	85.1	125.7	29.0	25.6	1,315

**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-on 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 2018, the KDIC expanded the scope of investigations to trace and identify assets hidden in 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 open new investigative channels by visiting associations of Korean residents and consulates in five major geographic regions of the world to further facilitate concealed property reporting.

Thanks to these efforts, in 2018, the KDIC discovered USD 1.56 million (equivalent to KRW 1.7 billion) in assets hidden by insolvency-implicated persons in five foreign countries including the US through its own investigations, despite increasingly sophisticated concealment methods.

After thorough reexamination of candidates for legal representation abroad, it chose 20 attorneys-at-law at 17 law firms in 11 countries as part of the effort to improve its recovery mechanism. The KDIC produced and distributed leaflets introducing a debt restructuring scheme to Koreans overseas and added a page to its website explaining the scheme. These efforts helped to promote the debt restructuring scheme and thereby maximize asset recovery.

The KDIC recovered USD 1.6 million (equivalent to KRW 1.8 billion) out of the concealed assets that it discovered in 2018. 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.

Table VIII- 7

**Recovery of Assets Hidden Overseas**

(As of Dec. 31, 2018, Unit: USD 1,000)

Year	2003 ~ 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Amount	3,046	349	1,400	415	11,653	2,252	5,027	6,250	1,496	1,596	33,484

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.

In 2018, the KDIC increased the reward for a reporter of concealed assets from KRW 2 billion to KRW 3 billion to encourage active reporting and consulted with courts to pay out each reward upon the ruling of a competent court. Based on an analysis of how people become aware of the concealed asset report scheme, the KDIC waged a multifaceted publicity campaign. It ran print ads and embedded banners promoting the scheme on the websites of appropriate organizations

and distributed leaflets. The KDIC also made full use of online channels such as YouTube and Facebook in promoting the report and reward scheme to distribute a news article written in an easy-to-understand card format and infographics. These activities indeed raised awareness of the concealed property report scheme among potential reporters.

Thanks to these efforts, recoveries exceeded KRW 10 billion at KRW 10.2 billion in 2018 for the first time since the establishment of the Concealed Property Report Center in 2002. By the end of 2018, the KDIC received 508 reports, recovered KRW 60.9 billion in 85 cases, and paid out KRW 3.7 billion in rewards.

As shown above, the Concealed Property Report Center continues to maximize the recovery of concealed assets based on citizen tips about potential hidden assets.

Figure VIII-3

### Work Flow at the Concealed Property Report Center

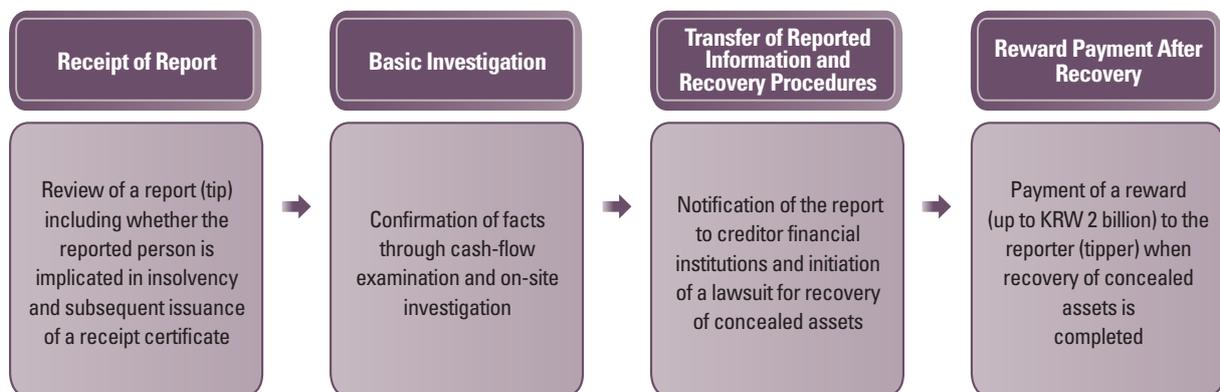


Table VIII-8

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

(As of Dec. 31, 2018, Unit: No. of cases, KRW 1 million)

Category	2002 ~ 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
No. of Cases Reported	118	19	12	17	23	53	33	64	53	56	60	508
No. of Recoveries	19	2	4	2	5	9	7	8	9	11	9	85
Recovered Amount	24,373	2,830	605	1,058	825	2,553	732	3,230	6,745	7,779	10,191	60,921

## 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 a spate of business suspensions of mutual savings banks in 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 bank 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 raise the level of satisfaction among trainees, the KDIC began to conduct the training on its premises. For the purpose of rendering its independent training easier to follow and understand, it produced and

offered a textbook mostly about case studies and judicial precedents.

To alert financial institutions and raise awareness of the need for insolvency prevention, the KDIC analyzed court rulings by insolvency type on the accountability of executives and employees of failed financial institutions for which bankruptcy estates were formed since the foundation of the KDIC, and then published and distributed a casebook containing civil court decisions on the accountability for insolvency to appropriate organizations and insured financial institutions.

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 the education burden on their employees. The KDIC will consistently promote a sound business culture by maintaining a healthy, win-win relationship with insured financial institutions.

# IX

## Fund Management

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

# 1. Deposit Insurance Fund Bond Redemption Fund

As of January 1, 2003, under the Public Fund Redemption Plan (Redemption Plan) devised by the government in 2002, the assets and liabilities of the Deposit Insurance Fund (DIF) 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 2018, the KDIC received KRW 1.7121 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 <sup>1)</sup>

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 <sup>1)</sup>	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
2018	1,201.1	30.0	313.3	119.7	1.1	46.9	-	1,712.1
Total	12,104.3	319.1	2,943.4	897.2	15.6	688.7	261.7	17,230.0

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 <sup>1)</sup>	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 2018, the KDIC

issued Redemption Fund Bonds in the amount of KRW 1.48 trillion through public offering at a fixed rate and a three-year maturity. The KDIC repaid KRW 5.31 trillion that matured in 2018, which brought the outstanding balance of Redemption Fund Bonds as of the end of 2018 to KRW 5.85 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	1,520.0	4,390.0	9,680.0
2018	1,480.0	5,310.0	5,850.0
Total	60,680.5	54,830.5	

## 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 2018, 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 <sup>1)</sup>	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 5 trillion in financial assistance during 2018, 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 2018. 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 (2018)

(Unit: KRW 1 million)

Sector	Equity Investment	Capital Contributions	Asset Purchase	Loans	Deposit Insurance Payments	Total
Banks	-	-	-	-	-	-
Investment Companies	-	5	-	-	-	5
Insurance Companies	-	-	-	-	-	-
Merchant Banks	-	-	-	-	-	-
MSBs	-	-	-	-	-	-
Credit Unions	-	-	-	-	-	-
Total	-	5	-	-	-	5

Table IX-7

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

(As of Dec. 31, 2018, Unit: KRW 1 billion)

Sector	Equity Investment	Capital Contributions	Asset Purchase <sup>1)</sup>	Loans	Deposit Insurance Payments <sup>1)</sup>	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

### (1) Banks

By the end of 2018, the KDIC provided KRW 44.2292 trillion from the Redemption Fund in the form of equity investment, contributions, or asset purchases to restructure 20 banks. In 2018, the KDIC did not provide any financial assistance to banks from the Redemption Fund.

### (2) Insurance Companies

By the end of 2018, the KDIC provided KRW 12.5264 trillion from the Redemption Fund in the form of equity investment, contributions, or asset purchases to restructure seven securities firms. Hana Financial Investment requested ex-post-facto loss compensation according to a stock purchase and sale agreement that it had signed with the KDIC upon the acquisition of Daehan Investment Trust Securities. Accordingly, the KDIC made an additional contribution of KRW 5 million from the Redemption Fund.

### (3) Investment Companies

By the end of 2018, the KDIC provided KRW 19.3885 trillion from the Redemption Fund in the form of equity investment, contributions, or asset purchases to restructure 21 insurance companies. KB Life requested settlement of dormant claims paid from June 1, 2017 to November 30, 2017 upon the request of customers according to a contribution agreement that it had signed with the KDIC upon the acquisition of Hanil Life. Accordingly, the KDIC made an additional contribution of KRW 20,000 in 2018.

### (4) Mutual Savings Banks

By the end of 2018, the KDIC provided KRW 21.708 trillion in the form of equity investment, contributions, or payouts of insurance claims to restructure 29 merchant banks. In 2018, the KDIC did not provide any financial assistance to merchant banks.

### (5) Mutual Savings Banks

By the end of 2018, the KDIC restructured 92 mutual

savings banks in the form of payout of deposit insurance claims or contributions and provided KRW 8.3023 trillion from the Redemption Fund. In 2018, the KDIC did not provide any financial assistance to mutual savings banks.

### (6) Credit Union

By the end of 2018, the KDIC provided KRW 4.7402 trillion to restructure 348 credit unions. In 2018, the KDIC did not provide financial assistance to credit unions.

## 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 2018 totaled KRW 59.3494 trillion including KRW 0.504 trillion recovered in 2018 alone.

### Sale of Equity Stakes, etc.

#### (1) Banks

In 2018, the KDIC collected KRW 60.2 billion (equivalent to its stake in the banking account) in dividends from Woori Bank. It recovered KRW 110 billion in 2018 following the first recovery of public funds in 2017 involving KRW 12.7 billion from Suhyup Bank.

Table IX-8

## Redemption Fund Recovery (2018)

(As of Dec. 31, 2018, Unit: KRW 1 billion)

Sector	Recovery of Equity Investment	Settlement of Capital Contributions, etc.	Asset Sales <sup>1)</sup>	Recovery of Loans	Collection of Bankruptcy Dividends <sup>1)</sup>	Total
Banks	170.2	-	-	-	-	170.2
Investment Companies	-	0.1	-	-	-	0.1
Insurance Companies	228.0	0.005	0.006	-	-	228.0
Merchant Banks	2.2	-	-	-	50.9	88.1
MSBs	-	-	-	-	52.6	4.0
Credit Unions	-	-	-	-	-	-
Total	400.3	0.2	-	-	103.5	504.0

Note: 1) Including recoveries through the resolution financial institution

Table IX-9

## Redemption Fund Recovery (Accumulated)

(As of Dec. 31, 2018, Unit: KRW 1 billion)

Sector	Recovery of Equity Investment	Settlement of Capital Contributions, etc.	Asset Sales <sup>1)</sup>	Recovery of Loans	Collection of Bankruptcy Dividends <sup>1)</sup>	Total
Banks	21,561.2	70.2	6,631.2	-	1,847.2	30,109.8
Investment Companies	1,212.1	337.5	1,801.3	-	7.8	3,358.7
Insurance Companies	6,258.8	88.8	245.3	-	431.0	7,023.9
Merchant Banks	268.1	5.9	-	-	9,292.6	9,566.6
MSBs	-	34.3	-	596.9	5,235.9	5,867.1
Credit Unions	-	0.4	-	-	3,422.9	3,423.3
Total	29,300.2	537.1	8,677.8	596.9	20,237.4	59,349.4

Note: 1) Including recoveries through the resolution financial institution

**(2) Insurance Companies**

In 2018, the KDIC collected KRW 12.2 billion and KRW 215.9 billion in dividends respectively from Hanwha Life Insurance and Seoul Guarantee Insurance.

**(3) Investment companies**

The KDIC recovered KRW 6 million by selling the assets that it purchased in the course of restructuring Hyundai Investment & Securities.

**(4) Merchant Banks**

In 2018, the KDIC collected KRW 2.2 billion (equivalent to its stake in the merchant bank account) in dividends from Woori Bank.

**Bankruptcy Dividends**

In 2018, the KDIC (and the KR&C) received KRW 50.9 billion in bankruptcy dividends from bankruptcy estates of merchant banks and KRW 52.6 billion from

Table IX- 10

**Bankruptcy Dividends Collection by Financial Sector<sup>1)</sup>**

(As of Dec. 31, 2018, Unit: No. of estates, KRW 1 billion)

Sector	No. of Estates <sup>2)</sup>	Recovered Amount	
		2018	1999~2018
Banks	5	-	1,847.2
Investment Companies	4	-	7.8
Insurance Companies	10	0.0005	431.0
Merchant Banks	22	50.9	9,292.6
MSBs	75	52.6	5,235.9
Credit Unions	325	-	3,422.9
<b>Total</b>	<b>441</b>	<b>103.5</b>	<b>20,237.4</b>

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

bankruptcy estates of mutual savings bank through sale of their assets. By the end of 2018, the cumulative total of funds recovered through bankruptcy dividends, etc. reached KRW 20.2374 trillion.

## Recovery of Loans, etc.

By the end of 2018, the KDIC had provided KRW 596.9 billion in loans, all of which were recovered. By the end of 2017, it recovered KRW 536.9 billion by a settlement of capital contributions, etc. In 2018, it recovered an additional KRW 200 million from Hyundai Life Insurance in connection with its P&A and settlement of capital contributions in connection with the sale of Daehan Investment Trust Securities.

## 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 2018, on a cumulative basis, the KR&C recovered a total of KRW 41.2836 trillion and repaid KRW 20.8917 trillion to the KDIC.

\* Amount of loans from the KDIC for the purpose of resolving insolvent financial institutions: KRW 34.089 trillion

In 2018, the KR&C recovered a total of KRW 34 billion including KRW 29.2 billion by debt restructuring and asset sales\* and KRW 4.8 billion by selling securities. It repaid KRW 103.5 billion to the KDIC (including some recoveries from before 2018).

\* Sale to the Korea Asset Management Corporation of KRW 10.2 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-11

## Recovery from Sale of KR&amp;C-Owned Assets

(As of the end of December 2018, Unit: KRW 1 billion)

Category	Assets Subject to Sale		Amount Recovered	Recovery Method
Amount recovered in 2018	Loans	Loans in KRW	29.2	Direct collection, debt restructuring, debt write-offs, etc.
		Loans in foreign currencies	-	
		Subtotal	29.2	
	Marketable securities	Listed and unlisted stock	4.8	Auction, sale on the stock market, dividend collection, etc.
	Real estate	Land, etc.	0	Auction, etc.
	Right of indemnity	Claims as subrogee for insured depositors, etc.	-	Bankruptcy dividend collection
	Total		34	-
Accumulated amount	Loans	Loans in KRW	10,456.8	International bidding, NPL sale, ABS issuance, etc.
		Loans in foreign currencies	3,072.6	
		Subtotal	13,529.4	
	Marketable securities	Listed and unlisted stock	6,202.5	Auction, block sale, etc.
	Real estate	Land, etc.	623.3	Auction
	Right of indemnity	Claims as subrogee for insured depositors, etc.	20,928.3	Bankruptcy dividend collection
	Total		41,283.5	-

## 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- 12

#### 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 <sup>1)</sup>	15/10,000	15/10,000	40/10,000 <sup>2)</sup>

Note : 1) The premium rate assessed on customer deposits at securities finance company deposited by investment brokers and dealers was cut by 30% starting in 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- 13

#### Deposit Insurance Premium Revenue by Financial Sector

(As of the end of December 2018, Unit: KRW 1 billion)

Year	Banks	Investment Companies	Life Insurance Companies	Non-life Insurance Companies	Merchant Banks	MSBs	Special Account <sup>2)</sup>	Total <sup>4)</sup>
2003 <sup>1)</sup>	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 <sup>5)</sup>	374.8	0.2	-1.4 <sup>3)</sup>	10.0	0.8	134.5	581.6	1,100.4
2013 <sup>5)</sup>	394.8	-	22.1	48.8	0.8	25.3	667.2	1,159.0
2014 <sup>5)</sup>	419.7	-	81.1	44.5	0.6	25.6	615.8	1,187.2
2015 <sup>5)</sup>	436.9	-	128.0	71.0	0.4	6.4	712.0	1,354.7
2016 <sup>5)</sup>	467.5	-	185.7	80.6	0.7	29.6	682.3	1,446.3
2017 <sup>5)</sup>	500.5	-	234.9	88.3	0.9	28.6	824.2	1,677.4
2018 <sup>5)</sup>	525.0	-	246.6	97.3	0.9	13.9	910.2	1,794.0
Total	7,615.5	265.7	3,750.8	1,096.9	30.2	1,557.1	5,167.5	19,483.5

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) With the 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); in 2016 (exemption for financial investment companies, and 5% reduction for life insurance companies); in 2017 (exemption for financial investment companies, and 5% reduction for life insurance companies); and in 2018 (80% reduction for financial investment companies, and 6% 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 2018 remained at KRW 1.7940 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

Table IX- 14

### 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 <sup>2)</sup>
2003 <sup>1)</sup>	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	-	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
2018	-	0.29	0.30	-	-	-	-	0.59
<b>Total</b>	<b>5.58</b>	<b>20.34</b>	<b>8.19</b>	<b>2.71</b>	<b>0.02</b>	<b>21.57</b>	<b>-</b>	<b>58.39</b>

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.

KDIC a certain proportion of its minimum regulatory 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 2018, it redeemed KRW 2.65 trillion in bonds while rolling over KRW 1.45 trillion. As of the end of 2018, the outstanding bonds to finance the Special Account amounted to KRW 11.54 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 2018, the KDIC issued short-term bonds totaling KRW 1.48 trillion and fully redeemed them by the end of the year.

Table IX- 15

### 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
2017	1,450	2,650	11,540
Total	36,780	25,240	11,540

Table IX- 16

### Issuance and Redemption of Short-term Electronic Bonds

(Unit: KRW 1 billion)

Year	Amount Issued	Redeemed Amount	Balance
2017	750	750	-
2018	1,480	1,480	-
Total	2,230	2,230	-

## 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 41.5866 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 41.5866 trillion was borrowed from insured financial institutions including banks by the end of 2018. 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 2018, KRW 41.5866 trillion was repaid out of KRW 41.8366 trillion in borrowings in the Special Account through issuance of DIF Bonds, etc. As of the end of 2018, the outstanding borrowings amounted to KRW 250 billion.

Table IX- 17

### Borrowings and Loan Repayments of the DIF

(Unit: KRW 1 billion)

Account Name	Year	Borrowed Amount <sup>1)</sup>				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
	2018	1,637.6	-	-	1,637.6	1,917.6	250.0
	Subtotal	41,586.6	-	250	41,836.6	41,586.6	250.0
<b>Total</b>		<b>41,818.0</b>	<b>-</b>	<b>250.0</b>	<b>42,068.0</b>	<b>41,818.0</b>	<b>250.0</b>

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 member 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 Bank. From 2011, a total of KRW

27.1718 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

#### (1) Banks

In 2018, 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- 18

#### Financial Assistance and Deposit Insurance Payments from the DIF (2018)

(Unit: KRW 1 billion)

Account Name	Equity Investment	Capital Contributions	Deposit Insurance Payment	Loans	Advance Dividend Payments	Total
MSBs	-	-	-	-	-	-
Special Account	-	-	0.07 <sup>1)</sup>	-	-	0.07
Total	-	-	0.07	-	-	0.07

Note : 1) Deposit insurance payments in relation to failures of mutual savings banks that occurred before 2018

Table IX- 19

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

(As of Dec. 31, 2018, Unit: KRW 1 billion)

Account Name	Equity Investment	Capital Contributions	Deposit Insurance Payment	Loans	Advance Dividend Payments	Total <sup>1)</sup>
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	27,171.8
Total	486.6	25,464.1	5,069.1	602.7	99.4	31,722

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

## (2) Investment companies

In 2018, 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.

## (3) Insurance companies

In 2018, 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.

## (4) 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 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 2018, but the KDIC paid out KRW 70 million in outstanding deposit insurance claims to depositors of mutual savings banks suspended from business operation. The table below is a summary of the financial assistance and deposit payoffs since 2011 for insolvent mutual savings banks.

Table IX-20

### Financial Assistance and Deposit Insurance Payments from the Special Account

(As of Dec. 31, 2018, 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	3,279.7	12,703.4	15,983.1
8 failed MSBs including Solomon	2012	345.2	8,670.7	9,015.9
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	23,544	27,171.8

## 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 13.8665 trillion from 2003 to 2018, with KRW 33.6 billion in the mutual savings bank account, and KRW 886.4 billion in the Special Account recovered in 2018 alone.

### Collection of Bankruptcy Dividends and Recovery of Loans

In 2018, the KDIC collected KRW 912.2 billion in bankruptcy dividends through the sale of remaining assets owned by bankruptcy estates of insolvent mutual savings banks that had received financial assistance from the DIF. From 2003 to 2018, a cumulative total of KRW 12.5225 trillion was recovered.

From 2003 to 2018, 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 594.5 billion was recovered.

## Recovery by the KR&C

The KR&C recovered a cumulative total of KRW 710.7 billion by the end of 2018 by various means including recovery of loans, disposal of non-performing loans, and public auctions. Of the amount, KRW 594.5 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 2018: KRW 602.7 billion

In 2018, the KR&C recovered a total of KRW 25.3 billion by means of debt restructuring and asset sale\* and repaid KRW 7.8 billion to the KDIC.

\* Sale to the Korea Asset Management Corporation of KRW 48.1 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-21

### DIF Recovery (2018 and Accumulated)

(As of Dec. 31, 2018, Unit: KRW 1 billion)

Category		Equity Investment	Capital Contributions	Money Paid in Deposit Insurance Payments	Loans <sup>1)</sup>	Money Paid in Advance Dividends	Total <sup>2)</sup>
2018	Non-life Insurance Companies	-	-	-	-	-	-
	MSBs	-	26.1	-	7.5	-	33.6
	Special Account	-	765.6	120.5	0.3	-	886.4
	Total	-	791.7	120.5	7.8	-	920
2003 to 2018 Accumulated		594.8	10,360.2	2,217.5	594.5	99.4	13,866.4

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-22

### Collection of Bankruptcy Dividends and Loans

(As of Dec. 31, 2018, Unit: KRW 1 billion)

Financial Sector	Collection of dividends from Estates		Collection of Loans	
	2018	2003~2018 Accumulated	2018	2003~2018 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-23

## Recovery from Sale of KR&amp;C-Owned Assets

(As of the end of Dec. 31, 2018, Unit: KRW 1 billion)

Year	Asset Type	Assets Subject to Sale	Amount Recovered	Recovery Method
Amount recovered in 2018	Loans	Loans in KRW	25.3	Direct collection, debt rescheduling, etc.
		Loans in foreign currencies	-	
		Subtotal	25.3	
	Marketable securities	Listed and unlisted stock	-	-
	Real estate and etc.	Land, etc.	0.1	Auction, etc.
	<b>Total</b>		<b>25.4</b>	<b>-</b>
Accumulated Amount	Loans	Loans in KRW	642.4	NPL sale, direct collection, debt rescheduling, etc
		Loans in foreign currencies	0	
		Subtotal	642.4	
	Marketable securities	Listed and unlisted stock	0.2	Auction, etc.
	Real estate and etc.	Land, etc.	68.1	Auction, etc.
	<b>Total</b>		<b>710.7</b>	<b>-</b>

## 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 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 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.

With respect to fund management, circumstances remained challenging in 2018. Monetary tightening over the world, trade tensions between the US and China and concerns about crisis contagion in emerging markets resulted in heightened volatility in interest rates while interest rate hikes by the US Federal Reserve and the Bank of Korea placed an added importance on managing risks of investments held in the Deposit Insurance Fund.

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.





# Account Settlement for Fiscal Year 2018

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

## 1. Overview of Account Settlement

The KDIC has classified its funds into three accounting units: the Deposit Insurance Fund (DIF), the KDIC Internal Account, and the DIF Bond Redemption Fund (Redemption Fund) pursuant to Article 24-3 (Separate Audit of Accounts) of the Depositor Protection Act.

However, the DIF and the KDIC Internal Account issue consolidated financial statements with the exception of internal transactions between separate accounting entities 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 account settlement of 2018, the audit was conducted by Hanul 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

##### (1) Acquisition Cost and Classification of Securities

The acquisition costs of securities are estimated by adding together the purchase prices and incidental

costs incurred in acquiring the securities. The KDIC classifies securities as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets carried at amortized cost, and investments in associates, according to their nature and ownership purpose. In 2018, only the DIF held securities with its MMF holdings classified as financial assets at fair value through profit or loss and bond holdings as financial assets at fair value through other comprehensive income.

## **(2) Valuation of Securities**

The value of financial assets at fair value through profit or loss is estimated by the fair value method. Gains/losses on remeasurement to fair value or on the sale of assets are recorded as net income/losses.

The value of financial assets at fair value through other comprehensive income is estimated by the fair value method. Unrealized gains/losses on those 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 assets are sold or impairment losses are recognized. If it is impossible to reliably measure the fair value of non-marketable equity securities among financial assets at fair value through other comprehensive income, they are evaluated at their acquisition cost.

As for financial assets carried at amortized cost, the difference between their acquisition cost and maturity face value is depreciated, with application of the effective interest rate method, over the life of the assets. 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's 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 financial

assets at fair value through profit or loss or through other comprehensive income, 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.

## **Provisions**

The KDIC sets aside provisions by estimating expected losses from pending litigation, etc.

## **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

##### (1) Acquisition Cost and Classification of Securities

The acquisition costs of securities are calculated by adding ancillary costs to the purchase prices and applying the identified cost method. Securities are classified in accordance with asset classification standards into short-term and long-term investment securities. Short-term investment securities include debt securities, equity securities, and other short-term 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.

##### (2) Valuation of Securities

Debt securities are valued at their amortized acquisition cost, while equity securities and other long- and short-term investment securities are valued at their acquisition cost. However, long- and short-term investment securities purchased for investment purposes are valued at fair value if the fair value can be reliably estimated on the balance sheet date and the

difference between book value and fair value is recorded as an adjustment in the statement of changes in net assets.

In the meantime, if the recoverable amount of securities declines below their book value and the decline is sustained for such a prolonged period that restoration is not likely, the corresponding difference is recognized as an impairment loss and reflected in the net cost for financial management. If the recoverable amount of impaired securities recovers above the 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 14.5011 trillion as of the end of 2018, up 3.7% (KRW 510.8 billion) from a year earlier. The increase is attributable to a rise in current assets such as short-term financial instruments of KRW 1.6043 trillion and a KRW 1.0935 trillion reduction in non-current assets like long-term indemnity receivables.

As of the end of 2018, total liabilities stood at KRW 12.0134 trillion, down 11.0% (KRW 1.482 trillion) year-on-year. This is mainly ascribed to redemption of Deposit Insurance Fund Bonds for the Special Account (“Special Account Bonds”) and repayment of borrowings (KRW 1.48 trillion) with funds from deposit insurance premiums and bankruptcy dividends.

Total equity increased by KRW 1.9928 trillion or 402.7% to KRW 2.4877 trillion as of end-2018 from a year ago, largely due to positive net income of KRW 1.9798 trillion.

#### Profits and Losses

In 2018, net income stood at KRW 1.9798 trillion, down KRW 118.5 billion or 5.6% from 2017.

The operating profits, calculated by deducting operating costs from operating revenues, amounted to KRW 1.7182 trillion. The operating revenues (KRW 2.0889 trillion) are mainly comprised of insurance premium revenues (KRW 1.8641 trillion) and interest income earned from asset management (KRW 213.6 billion). The operating costs (KRW 370.7 billion) include interest expenses for Special Account Bonds and borrowings (KRW 261.1 billion) and KDIC operating expenses (KRW 106.4 billion).

Meanwhile, the amount of other income was KRW 261.5 billion, mainly attributable to the reversal of allowances for doubtful accounts (KRW 260.4 billion) because of an increase in expected recovery of indemnity receivables.

## Redemption Fund

### Financial Status

As of the end of 2018, the total assets of the Redemption Fund stood at KRW 4.1485 trillion, down KRW 2.1739 trillion or 34.4% from the end of the previous year. This is mostly due to a decrease in current assets such as cash and cash equivalents of KRW 1.8086 trillion and a KRW 365.3 billion reduction in investment assets like long-term investment securities (arising from loss from the revaluation of shares and retirement of preferred shares in Suhyup).

As of the end of 2018, total liabilities decreased by KRW 3.8743 trillion or 39.7% year-on-year to KRW 5.8811 trillion. This is primarily attributable to an increase (KRW 3.83 trillion) in net redemption of Redemption Fund Bonds by use of Special Contributions, stock dividends and retirement of shares, and a decrease (KRW 0.04 trillion) in unpaid interest due to a decline in the outstanding balance of Redemption Fund Bonds.

As of the end of 2018, total net equity stood at KRW (-)1.7326 trillion, up KRW 1.7004 trillion or 49.5% from the end of 2017. This is primarily owing to KRW 1.9527 trillion in net income.

### Profits and Losses

In 2018, the Redemption Fund's financial operation\* generated a result of KRW (-)1.9,527 trillion, recording a year-on-year decrease of KRW 105.3 billion or 5.15%.

\* 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 (-)227.0 billion. This figure was arrived at by deducting program income of KRW 448.2 billion from the total program costs of KRW 221.2 billion. Total program costs consist of interest expenses of Redemption Fund Bonds (KRW 167.8 billion) and others. Program income is comprised of dividend income (KRW 290.3 billion), interest income on loans to the KR&C (KRW 103.5 billion) and the like.

The net cost for financial management came to KRW (-)239.9 billion, which was calculated by adding KRW 3.8 billion in administrative and operating expenses and deducting KRW 16.7 billion in non-allocated revenues from, the net program costs of KRW (-)227.0 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 program operation.

The financial operation result of KRW (-)1.9527 trillion was calculated by deducting non-exchange revenues of KRW 1.7128 trillion from the net cost for financial management of KRW (-)239.9 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, 2018

Previous period : As of December 31, 2017

(DIF and KDIC Internal Account Combined)

(Unit : KRW 1 billion)

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
<b>Current Assets</b>	<b>10,599.0</b>	<b>8,994.7</b>	<b>Current Liabilities</b>	<b>2,846.7</b>	<b>3,151.3</b>
1. Cash and Cash Equivalents	12.7	95.3	1. Accounts and Other Payables	71.3	76.0
2. Current Financial Assets	9,305.5	7,715.5	Short-term Accrued Expenses	71.3	76.0
Financial Assets Carried at Fair Value through Profit or Loss (MMF)	101.3		2. Current Financial Liabilities	2,630.2	2,930.1
Financial Assets carried at Fair Value through Other Comprehensive Income (Bonds)	2,883.7		Short-term Borrowings	-	280.0
Available-for-sale Securities		1,791.9	Bonds	2,630.0	2,650.0
Short-term Loans	78.0	84.4	Discounts on Bonds Payable	0.2	0.1
(A Allowance for Doubtful Accounts)	(-11.7)	(-20.8)	3. Current Non-financial Liabilities	143.1	143.2
Short-term Financial Instruments	6,254.2	5,860.0	Short-term Deposits	143.1	143.2
3. Trade and Other Receivables	1,280.6	1,183.8	4. Current Provisions	2.1	2.0
Short-term Accrued Income	1,281.3	1,184.4	Provisions for Performance-based Bonuses after the Government's Evaluation of the KDIC's Performance	2.1	2.0
(A Allowance for Doubtful Accounts)	(-0.7)	(-0.6)	<b>Non-current Liabilities</b>	<b>9,166.7</b>	<b>10,344.1</b>
4. Current Non-financial Assets	0.2	0.1	1. Non-current Financial Liabilities	9,154.1	10,334.9
Short-term Prepaid Expenses	0.2	0.1	Long-term Borrowings	250.0	250.0
<b>Non-current Assets</b>	<b>3,902.1</b>	<b>4,995.6</b>	(Present Value Discount)	(-54.4)	(-60.8)
1. Non-current Financial Assets	1,942.9	2,375.0	Government Subsidy	49.6	56.4
Financial Assets Carried at Fair Value through Other Comprehensive Income (Bonds)	1,822.3		Bonds	8,910.0	10,090.0
Available-for-sale Securities		2,218.8	(D Discounts (Premiums) on Bonds Payable)	(-1.1)	(-0.7)
Long-term Loans	0.6	0.7	2. Non-current Non-financial Liabilities	7.4	7.4
Long-term Financial Instruments	120.0	155.5	Other Non-current Non-financial Liabilities	7.4	7.4
2. Long-term Trade and Other Receivables	11.8	11.3	3. Employee Benefit Liabilities	5.1	1.8
Long-term Deposits Provided	12.6	12.4	Net Defined Benefit Liabilities and etc.	5.1	1.8
(P Present Value Discount)	(-0.8)	(-1.1)	4 Non-current Provisions	0.1	-
3. Tangible Assets	18.3	19.2	Legal Proceedings Provisions	0.1	-
Lands	5.2	5.2	<b>Total Liabilities</b>	<b>12,013.4</b>	<b>13,495.4</b>
Buildings	10.2	10.2	<b>Deficit</b>	<b>2,482.1</b>	<b>505.7</b>
Structures	1.8	1.8	Net Income: (+) 19,798		
Other Tangible Assets	30.6	28.7	Changes in Other Retained Earnings: (-) 33		
(A Accumulated Depreciation)	(-29.5)	(-26.7)	Elements of Other Equity	5.6	(-10.8)
4. Intangible Assets Other than Goodwill	0.6	0.6	Accumulated Other Comprehensive Income (Loss)	5.6	(-10.8)
Other Intangible Assets	0.6	0.6	<b>Total Equity</b>	<b>2,487.7</b>	<b>494.9</b>
5. Non-current Non-financial Assets	1,928.5	2,589.5	<b>Total Liabilities and Equity</b>	<b>14,501.1</b>	<b>13,990.3</b>
Long-term Advanced Payment	0.7	0.9			
Long-term Indemnity Receivables	15,916.9	17,117.2			
(A Allowance for Doubtful Accounts)	(-13,989.1)	(-14,528.6)			
<b>Total Assets</b>	<b>14,501.1</b>	<b>13,990.3</b>			

Table X-2

**Condensed Income Statement**

Current period : For the year ended December 31, 2018

Previous period : For the year ended December 31, 2017

(DIF and KDIC Internal Account Combined)

(Unit : KRW 1 billion)

Categories	Current Period	Previous Period
<b>Income from Operations (A=B-C)</b>	<b>1,718.2</b>	<b>1,514.4</b>
<b>Operating Revenues (B)</b>	<b>2,088.9</b>	<b>1,950.8</b>
Premium Revenues	1,864.1	1,774.7
Interest Revenues	213.6	163.4
Transfer Income	7.4	9.0
Other Income	3.8	3.7
<b>Operating Expenses (C)</b>	<b>370.7</b>	<b>436.4</b>
Interest Expenses	261.1	327.7
Personnel Expenses	67.5	65.7
General Expenses	38.9	39.2
Others	3.2	3.8
<b>Other Gains and Losses (D)</b>	<b>261.5</b>	<b>583.3</b>
Net Reversal of (Transfer to) Other Provisions	(-)0.2	(-)0.1
Net Reversal of (Transfer to) Allowance for Doubtful Accounts	260.4	582.2
Others	1.3	1.2
<b>Financial Gains and Losses (E)</b>	<b>0.1</b>	<b>0.6</b>
Gains on Disposal of Financial Assets	0.1	0.6
<b>Net Profit of Loss for Current Period (F=A+D+E)</b>	<b>1,979.8</b>	<b>2,098.3</b>
<b>Other Comprehensive Income (G)</b>	<b>13.1</b>	<b>(-)5.6</b>
<b>Total Comprehensive Income (H=F+G)</b>	<b>1,992.9</b>	<b>2,092.7</b>

Table X-3

## Condensed Statement of Financial Position

Current period : As of December 31, 2018

Previous period : As of December 31, 2017

(DIF Bond Redemption Fund)

(Unit : KRW 1 billion)

ASSETS	Amount		LIABILITIES and EQUITY	Amount	
	Current period	Previous period		Current period	Previous period
<b>Current Assets</b>	<b>373.8</b>	<b>2,182.4</b>	<b>Current Liabilities</b>	<b>2,002.0</b>	<b>5,386.1</b>
1. Cash and Cash Equivalents	343.6	2,000.9	1. Current Portion of Long-term Liabilities	1,970.2	5,309.0
2. Short-term Financial Instruments	28.0	160.0	2. Other Current Liabilities	31.8	77.1
3. Short-term Investment Securities	-	10.0			
4. Outstanding Bonds	1,105.0	1,107.6			
(Allowance for Doubtful Accounts)	(-1,102.8)	(-1,102.8)	<b>Long-term Borrowing Liabilities</b>	<b>3,879.1</b>	<b>4,369.3</b>
5. Short-term Loans	-	11.3	1. Public Bonds	3,879.1	4,369.3
(Allowance for Doubtful Accounts)	-	(-4.6)			
			<b>Total Liabilities</b>	<b>5,881.1</b>	<b>9,755.4</b>
<b>Investment Assets</b>	<b>3,767.3</b>	<b>4,132.6</b>			
1. Long-term Loans	14,281.4	14,281.6			
(Allowance for Doubtful Accounts)	(-13,996.0)	(-139,93.2)			
2. Long-term Investment Securities	3,481.9	3,844.2			
			<b>Net Asset</b>		
<b>Other Non-current Assets</b>	<b>7.4</b>	<b>7.4</b>	1. Net Asset	52,306.4	52,306.4
1. Long-term Indemnity Receivables, etc.	8.5	8.5	2. Reserves and Surplus	(-154,816.1)	(-156,768.8)
(Allowance for Doubtful Accounts)	(-1.1)	(-1.1)	3. Net Asset Adjustment	777.1	1,029.4
			<b>Total Net Asset</b>	<b>(-1,732.6)</b>	<b>(-3,433.0)</b>
<b>Total Assets</b>	<b>4,148.5</b>	<b>6,322.4</b>	<b>Total Liabilities and Net Asset</b>	<b>4,148.5</b>	<b>6,322.4</b>

Table X-4

## Condensed Financial Operating Statement

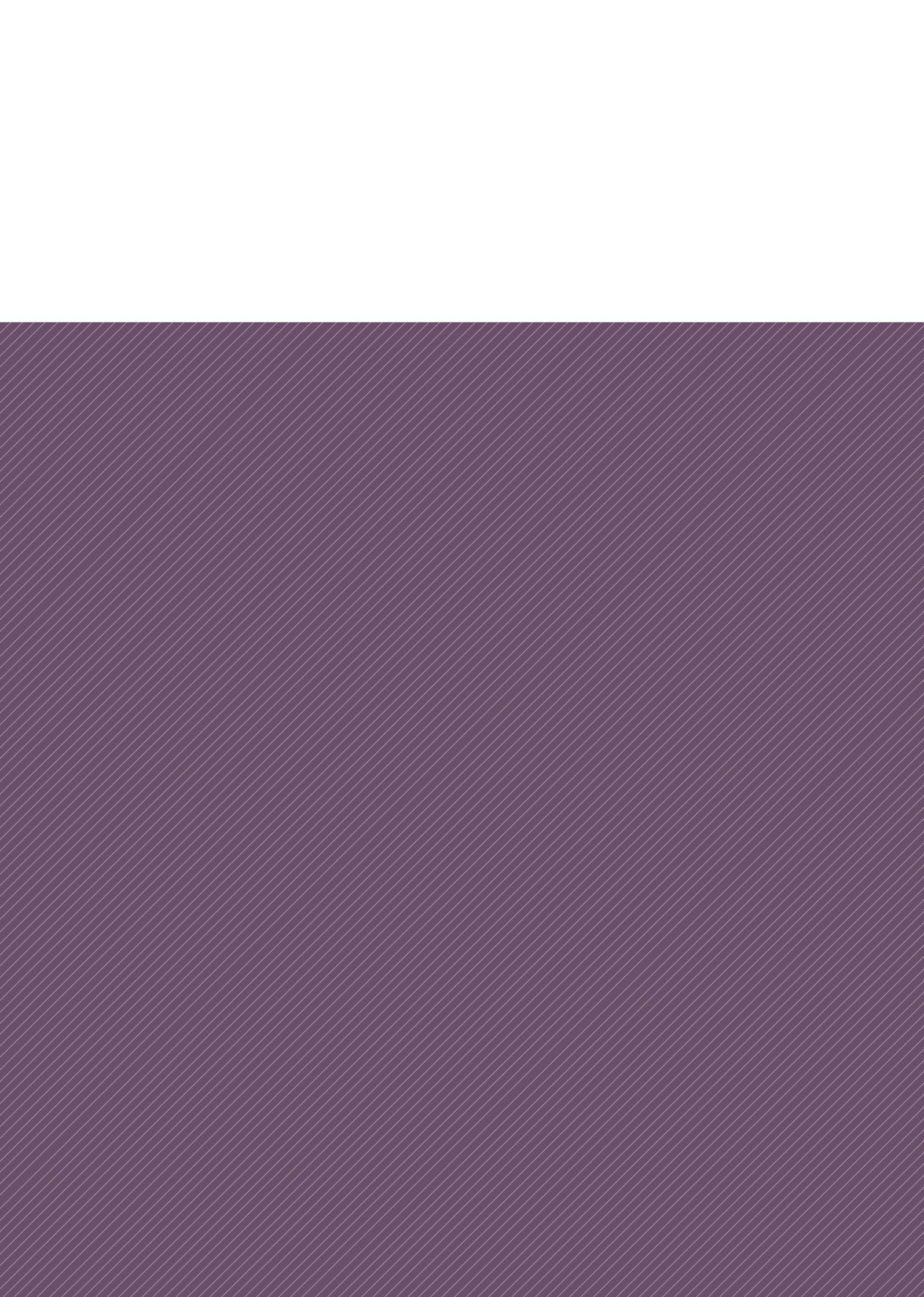
Current period : As of December 31, 2018

Previous period : As of December 31, 2017

(DIF Bond Redemption Fund)

(Unit : KRW 1 billion)

Categories	Current Period			Previous Period		
	Total Cost	Profit	Net Cost	Total Cost	Profit	Net Cost
<b>I . Program Net Cost</b>	221.2	448.2	(-)227.0	493.0	861.6	(-)368.6
1. Financial Policy Support	221.2	448.2	(-)227.0	493.0	861.6	(-)368.6
Loss on Disposal of Asset	-			121.0		
Interest Expense	167.8			300.2		
Allowance for Doubtful Accounts	52.5			6.8		
Payment Fees	0.9			65.0		
Gains on Disposal of Asset		-			371.4	
Dividend Income		290.3			407.6	
Interest Income from Loans to Non-Government Organizations		103.5			76.1	
Reversal of Allowances for Doubtful Accounts		54.2			6.1	
Miscellaneous Revenue		0.2			0.4	
<b>II . Management and Administrative Expenses</b>			3.7			3.5
1. Commissions Paid			3.7			3.5
<b>III . Non-Allocated Costs</b>			0.1			-
1. Valuation Losses			0.1			-
<b>IV . Non-Allocated Revenues</b>			16.7			39.8
1. Interest Income			16.7			39.3
2. Other Income			-			0.5
<b>V . Net Cost for Financial Operation ( I + II + III - IV)</b>			(-)239.9			(-)404.9
<b>VI . Non-Exchange Revenues</b>			1,712.8			1,653.1
1. Revenues from Contributions			1,712.8			1,653.1
<b>VII . Financial Operation Result ( V - VI)</b>			(-)1,952.7			(-)20,58.0



# Appendix

1. Overview of the Deposit Insurance System

2. Independent Evaluation

3. Summary of Major Events in 2018

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

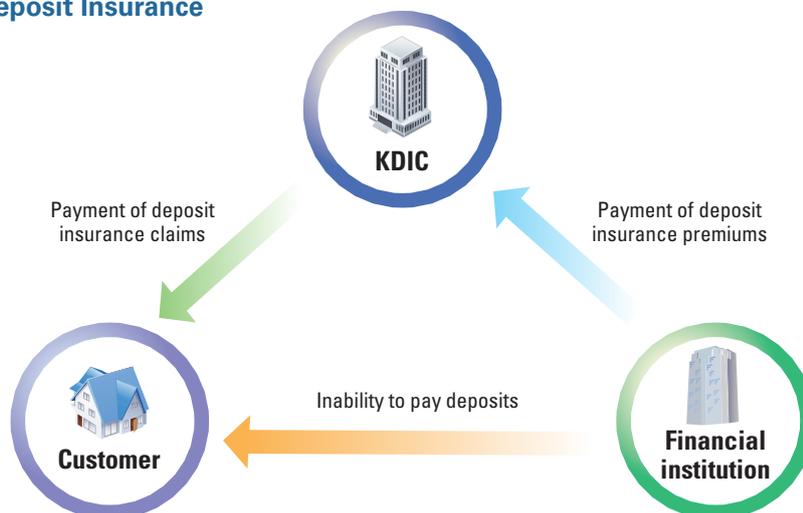
Insured financial institutions are those that are required to join the deposit insurance system under the Depositor Protection Act. They include banks, financial investment traders/brokers, insurance companies, merchant banks, and mutual savings banks. In Korea, deposit insurance membership is compulsory 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 foreign 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 foreign 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 cash deposits protected

under Article 2 of the Depositor Protection Act other than deposits of the government, local authorities, and other insured financial institutions defined in Article 3 of its Enforcement Decree.

Table Appendix - 1

### Insured and Uninsured Financial Products

(As of Dec. 31, 2018)

Financial Sector	Insured Financial Products	Uninsured Financial Products
Banks	<ul style="list-style-type: none"> <li>• Demand deposits (e.g. ordinary deposits, corporate deposits, temporary deposits, checking deposits)</li> <li>• Savings deposits (term deposits, time and savings deposits, housing subscription deposits, and issued notes)</li> <li>• Installment deposits (e.g. installment savings deposits, installment savings for housing, and mutual installment deposits)</li> <li>• Foreign currency deposits</li> <li>• Money trusts with principal guarantees</li> <li>• Financial products subject to deposit protection which are incorporated into individual savings accounts (ISAs)</li> <li>• Deposits in defined contribution retirement pension accounts or individual retirement accounts that are invested in KDIC-insured products</li> </ul>	<ul style="list-style-type: none"> <li>• Certificates of Deposits (CD), Repurchase agreements (RP)</li> <li>• Financial investment products (e.g. beneficiary certificates, mutual funds, money market funds (MMF))</li> <li>• Real fiduciary accounts (e.g. money market trust)</li> <li>• Bank-issued bonds</li> <li>• Some types of housing subscription deposits</li> </ul>
Investment Traders and Brokers	<ul style="list-style-type: none"> <li>• Money that remains in cash in customer accounts which has not been used to purchase securities, etc.</li> <li>• Cash balance from deposits for stock margin loans (proprietary), deposits for opening a margin account and deposits for margin loans</li> <li>• Deposits in defined contribution retirement pension accounts or individual retirement accounts that are invested in KDIC-insured products</li> <li>• Financial products subject to deposit protection which are incorporated into individual savings accounts (ISAs)</li> <li>• Money trusts with principal guarantees</li> <li>• Cash deposits with securities finance companies made under Article 330(1) of the Financial Investment Services and Capital Markets Act</li> </ul>	<ul style="list-style-type: none"> <li>• Financial investment products (e.g. beneficiary certificates, mutual funds, MMF)</li> <li>• Subscription deposits, taxes withheld, deposits for futures and options trading, deposits for stock margin loans (KSFC)</li> <li>• Repurchase agreements (RP), bonds issued by securities companies</li> <li>• Cash management accounts (CMA), wrap accounts, equity-linked securities (ELS), equity-linked warrants (ELW), etc.</li> <li>• Deposits for gold transactions in kind, etc.</li> </ul>
Insurance Companies	<ul style="list-style-type: none"> <li>• Individual policies</li> <li>• Retirement insurance</li> <li>• Special policy conditions for variable insurance contracts</li> <li>• 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</li> <li>• Deposits in defined contribution retirement pension accounts or individual retirement accounts that are invested in KDIC-insured products</li> <li>• Financial products subject to deposit protection which are incorporated into individual savings accounts (ISAs)</li> <li>• Monetary trusts with principal guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Policies of which the holders and premium payers are corporate entities</li> <li>• Guarantee insurance or reinsurance policies</li> <li>• 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.</li> </ul>
Merchant Banks	<ul style="list-style-type: none"> <li>• Notes issued, CMA</li> </ul>	<ul style="list-style-type: none"> <li>• Financial investment products (e.g. beneficiary certificates, mutual funds, MMF)</li> <li>• Repurchase agreements (RP), Certificates of Deposits (CD), Commercial Papers (CP), bonds issued by merchant banks, etc.</li> </ul>
Mutual Savings Banks	<ul style="list-style-type: none"> <li>• Ordinary deposits, savings deposits, term deposits, term installment savings, mutual installment deposits, notes issued, etc.</li> <li>• Reserves in DC pension and IRP accounts invested in financial products covered by deposit insurance</li> <li>• Cashier's checks issued by the Korea Federation of Savings Banks, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Bonds issued by savings banks (subordinated bonds), etc.</li> </ul>

\* 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)

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

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.

## 2. Independent Evaluation

### Management Evaluation of Public Institutions

In March 2018, the KDIC submitted its managerial performance report for 2017 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 2018, the evaluation team gave the KDIC a "B" grade for 2017'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 2017 and submitted it to the Fund Management Evaluation Committee in February 2018. The Committee made available the evaluation results in May 2018 after conducting due diligence and opinion gathering.

According to the fund management evaluation (asset management) results, the Redemption Fund was rated "superior," the highest rating for funds. This attests to the fact that the KDIC has the best fund management of all funds of its kind.

### Anti-Corruption Policy Evaluation and Integrity Assessment for Public Institutions

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

In anti-corruption policy evaluation, which assesses the anti-corruption measures and institutional improvements of an institution, the KDIC was rated "excellent" (grade 2) in 2018. In 2017, it was excluded from the targets of anti-corruption policy evaluation as it had achieved grade 2 or higher for at least two consecutive years. The KDIC was rated "excellent" (grade 2) or higher for a ninth consecutive year, since 2010.

In a public institution integrity survey for 2018 targeting its employees and customers, the KDIC was rated grade 2, up from the preceding year. It was recognized for the establishment of the private-public cooperation-based integrity promotion system, which includes use of citizens as integrity watchdogs, and was recognized as one of the top ten institutions with excellent or improved integrity out of 612 institutions subject to the survey.

### 3. Summary of Major Events in 2018

Date	Major Events
Feb. 2	• Received the Minister of Employment and Labor Prize in the competition of best practices in employment without prejudice and blind hiring
Mar. 5~13	• Held a seminar on the operation of the risk-based premium system for 2018
Mar. 15	• Executed on-site examinations of compliance with the 2018 KDIC signage display requirements and the explanation & confirmation scheme
Mar. 29	• Recovered KRW 11.26 billion in loans from Daewon Savings Bank
Apr. 3	• Recovered KRW 12.2 billion in regular dividends from Hanwha Life Insurance
Apr. 5	• Recovered approximately KRW 11.7 billion by selling TSB in Cambodia
Apr. 11	• Recovered KRW 62.3 billion in regular dividends from Woori Bank
Apr. 13	• Recovered KRW 110 billion from the sale of preferred shares in the National Federation of Fisheries Cooperatives to the Federation, which then retired the shares
Apr. 27	• Recovered KRW 215.9 billion in regular dividends from Seoul Guarantee Insurance
Apr. 30	• Hosted a seminar on 'Comprehensive Supervision of Financial Groups' with the FSC and the FSS
May. 3	• Hosted the KDIC International Conference on Inclusive Finance
May. 8~11	• Launched a global deposit insurance training program named 'One Asia with KDIC'
May. 11	• Held an investment seminar on PF real-estate properties for the first half of 2018
May. 15	• Hosted the Insurance Risk Seminar with an invited speaker from overseas
May. 24	• Rated "superior" in the fund management evaluation for a seventh consecutive year
Jun. 1	• Carried out social contribution activities on the occasion of its 22nd anniversary
Jun. 22	• Launched the Social Value Creation Committee
Jun. 28	• Worked out a labor-management agreement on early introduction of the 52-hour work week
Jul. 13	• Established the Innovation Committee
Aug. 6	• Recognized for harmonious labor-management relations in 2018
Sep. 17~19	• Conducted intensive training for Indonesia Deposit Insurance Corporation employees
Sep. 18	• Inauguration of WI Seongbak as the 10th Chairman & President
Sep. 18	• Held a briefing to announce relief measures for remittance errors with the FSC
Sep. 27	• Held an investment seminar on PF real-estate properties for the second half of 2018
Oct. 12	• The Recovery Support System, qualified for the "platinum" class, the highest grade in data quality certification
Oct. 17	• Launched a program to support debtors' financial rehabilitation after debt restructuring
Oct. 18	• The Executive Vice President elected as a member of the Executive Council of the IADI
Nov. 5~9	• Held the intensive course of the global training program, One Asia with KDIC
Nov. 28	• Won the President's Award in the Competition on Best Practices in Proactive Administration in 2018
Dec. 5	• Recognized as one of the top ten institutions with excellent or improved integrity out of 612 institutions in a public institution integrity survey
Dec. 7	• Hosted the policy symposium, "20 years after the Integration of Deposit Insurance Fund, the Accomplishment and Challenges Ahead"
Dec. 12	• Received a citation by the Minister of Interior and Safety in information resource management at the e-government progress briefing
Dec. 20	• Declared a new vision, "Safe Deposits, Compassionate Finance, and Happy People"

## 4. Statistics

### Insured Financial Institutions<sup>1)</sup>

(As of Dec.31, 2018 Unit: No. of financial institutions)

Financial Sector	2014	2015	2016	2017	2018
Banks	56	58	60	56	56
Domestic	17	16	17	18	18
Foreign	39	42	43	38	38
Investment Companies <sup>2)</sup>	116	114	104	110	124
Insurance Companies	48	48	47	47	44
Life	25	25	25	25	24
Non-life	23	23	22	22	20
Merchant Banks	1	1	1	1	1
MSBs <sup>3)</sup>	81	80	80	80	80
<b>Total</b>	<b>302</b>	<b>301</b>	<b>292</b>	<b>294</b>	<b>305</b>

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<sup>1)</sup>

(As of Sep. 31 2018, Unit: KRW 1 billion)

Financial Sector	Dec. 31, 2017 (A)	Sep. 31, 2018 (B)	Change (B-A)
Banks	1,198,109.2	1,220,853.8	22,744.6
Investment Companies	31,537.6	32,613.3	1,075.7
Insurance Companies	736,033.6	764,951.7	28,918.1
Life	563,851.8	581,904.7	18,052.9
Non-life	172,181.8	183,047.0	10,865.2
Merchant Banks	1,009.0	1,262.9	253.9
MSBs	50,635.7	55,852.2	5,216.5
<b>Total</b>	<b>2,017,325.1</b>	<b>2,075,533.9</b>	<b>58,208.8</b>

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, 2018, Unit: KRW 1 billion)

Financial Sector	Insurance Premium Revenue Prior to Creation of DIF Bond Redemption Fund <sup>2)</sup>			Special Assessments Paid by Insured FIs to the DIF Bond Redemption Fund								
	Before 1998 <sup>1)</sup>	1999 ~2002	Total	2003 ~2011	2012	2013	2014	2015	2016	2017	2018	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	1,201.1	12,104.3
Investment Companies	-	68.7	68.7	157.1	22.6	20.2	20.0	17.9	24.0	27.2	30.0	319.1
Insurance Companies	232.2	823.7	1,055.9	1,402.6	235.2	300.4	317.6	351.3	383.6	417.1	433.0	3,840.6
Life	180.0	664.6	844.6	1,133.9	176.0	229.7	238.6	261.7	283.5	306.7	313.3	2,943.4
Non-Life	52.2	159.1	211.3	268.7	59.2	70.7	79.0	89.6	100.1	110.3	119.7	897.2
Merchant Banks	98.0	83.8	181.8	9.4	1.0	0.9	0.7	0.7	0.8	1.0	1.1	15.6
MSBs	240.7	183.3	424.0	412.2	52.1	39.4	32.3	30.8	34.8	40.3	46.9	688.7
Credit Unions	40.2	149.1	189.3	97.3	22.8	24.8	26.3	27.5	29.9	33.2	-	261.7
<b>Total</b>	<b>772.4</b>	<b>2619.1</b>	<b>3,391.5</b>	<b>7,094.2</b>	<b>1,185.5</b>	<b>1,283.0</b>	<b>1,356.0</b>	<b>1,406.8</b>	<b>1,539.4</b>	<b>1,653.1</b>	<b>1,712.1</b>	<b>17,230.0</b>

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, 2018, Unit: KRW 1 billion)

Financial Sector	2003~2011 <sup>1)</sup>	2012 <sup>5)</sup>	2013 <sup>5)</sup>	2014 <sup>5)</sup>	2015 <sup>5)</sup>	2016 <sup>5)</sup>	2017 <sup>5)</sup>	2018 <sup>5)</sup>	Total
Banks	4,496.3	374.8	394.8	419.7	436.9	467.5	500.5	525.0	7,615.4
Investment Companies	265.5	0.2	0	0	0	0	0	0	265.8
Insurance Companies	3,510.3	8.6	70.9	125.6	199.0	266.2	323.3	343.9	4,847.7
Life	2,853.9	-1.43	22.1	81.1	128.0	185.7	234.9	246.6	3,750.8
Non-Life	656.4	10.0	48.8	44.5	71.0	80.6	88.3	97.3	1,096.8
Merchant Banks	25.1	0.8	0.8	0.6	0.4	0.7	0.9	0.9	30.1
MSBs	1,293.1	134.5	25.3	25.6	6.4	29.6	28.6	13.9	1,557.1
Special Account <sup>2)</sup>	174.2	581.6	667.2	615.8	712.0	682.3	824.2	910.2	5,167.7
<b>Total<sup>4)</sup></b>	<b>9,764.5</b>	<b>1,100.4</b>	<b>1,159.0</b>	<b>1,187.2</b>	<b>1,354.7</b>	<b>1,446.3</b>	<b>1,677.4</b>	<b>1,794.0</b>	<b>19,483.7</b>

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; exemption for financial investment companies and 5% reduction for life insurance companies in 2017; 80% reduction for financial investment companies and 6% reduction for life insurance companies in 2018;

## DIF Bonds Issued (Old DIF Bonds Issued in 2002)

(As of Dec. 31, 2018, 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	11,534	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
<b>Total</b>	<b>21,015.0</b>	<b>22,484.9</b>	<b>8,940.7</b>	<b>31,059.3</b>	<b>3,660.0</b>	<b>87,159.9<sup>1)</sup></b>

Note : 1) Cumulative issue amount that includes conversion issuance

## Financial Assistance from the DIF Bond Redemption Fund

(As of Dec. 31, 2018, Unit: KRW 1 billion)

Financial Sector	Equity Investment	Contributions	Deposit Payoffs <sup>1)</sup>	Asset Purchase <sup>1)</sup>	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
<b>Total</b>	<b>50,793.7</b>	<b>18,611.7</b>	<b>30,312.4</b>	<b>10,579.9</b>	<b>596.9</b>	<b>110,894.5</b>

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

## Details of Financial Assistance from the DIF Bond Redemption Fund

(As of Dec. 31, 2018, 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, Taepyeongyang, 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
		<b>Sub-total</b>
Contribution	Kookmin, Housing & Commercial, Shinhan, Hana, Korum 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
	<b>Sub-total</b>	<b>18,611.7</b>

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, 2018, Unit: KRW 1 billion)

Financial Sector	Equity Investment	Contributions	Deposit Payoffs	Loans	Provisional Deposit Payment	Total <sup>1)</sup>
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, 2018, 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
2018	504.0
<b>Total<sup>1)</sup></b>	<b>59,349.4</b>

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, 2018, Unit: KRW 1 billion)

Financial Sector	Recovery of Equity Investment	Settlement of Contributions, etc.	Dividends from Bankruptcy Estates <sup>1)</sup>	Asset Sales <sup>1)</sup>	Collection of Loans	Total
Banks	21,561.2	70.2	1,847.2	6,631.2	-	30,109.8
Investment Companies	1,212.1	337.5	7.8	1,801.3	-	3,358.7
Insurance Companies	6,258.8	88.8	431.0	245.3	-	7,023.8
Life	2,519.9	84.8	366.2	245.3	-	3,216.3
Non-life	3,738.8	4.0	64.8	-	-	3,807.6
Merchant Banks	268.1	5.9	9,292.6	-	-	9,566.6
MSBs	-	34.3	5,235.9	-	596.9	5,867.1
Credit Unions	-	0.4	3,422.9	-	-	3,423.3
<b>Total</b>	<b>29,300.2</b>	<b>537.1</b>	<b>20,237.4</b>	<b>8,677.8</b>	<b>596.9</b>	<b>59,349.4</b>

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

## Progress in Financial Restructuring

(As of Jun. 30, 2018, 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	3	19
Non- Banks	2,062	202	284	614	1,100	53.3	373	1,335
• Merchant Banks	30	22	8	—	30	100.0	1	1
• Investment Companies	36	6	14	6	26	72.2	45	55
• Insurance Companies	50	11	8	10	29	58.0	34	55
• Asset Management Companies	24	7	12	1	20	83.3	224	228
• MSBs	231	144	38	1	183	79.2	31	79
• Credit Unions	1,666	3	190	596	789	47.4	15	892
• Lease Companies	25	9	14	—	23	92.0	23	25
<b>Total</b>	<b>2,095</b>	<b>207</b>	<b>296</b>	<b>614</b>	<b>1,117</b>	<b>53.3</b>	<b>376</b>	<b>1,354</b>

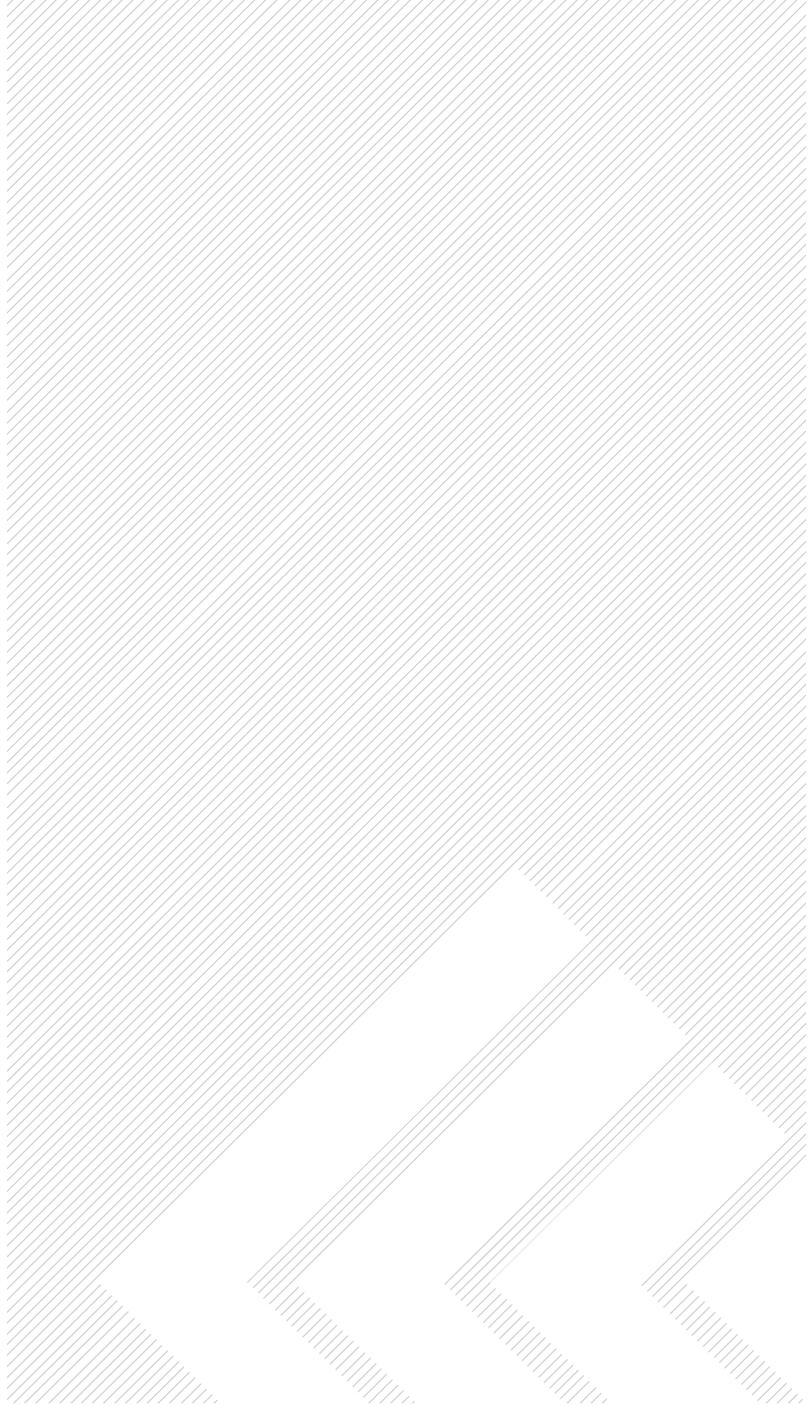
Source: Public Fund Management White Book published in August 2018

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

(from Nov. 1997 to Dec. 31, 2018, 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	
<b>Total</b>	<b>63.5</b>	<b>18.6</b>	<b>30.3</b>	<b>17.8</b>	<b>38.5</b>	<b>168.7</b>	

Source: Financial Services Commission



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**PUBLISHER** | Seongbak Wi

**EDITOR** | Chayong Yoon

Cheonggyecheon-no 30, Jung-gu, Seoul, 04521, Korea

Tel. 82-2-758-1125

Fax. 82-2-758-1120

E-mail. [international@kdic.or.kr](mailto:international@kdic.or.kr)

<http://www.kdic.or.kr>

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