2006 Annual Report



# Chairman's Address

The Korea Deposit Insurance Corporation celebrated its tenth anniversary in 2006. During the past ten years, the KDIC has utilized its accumulated experience in financial restructuring and its know-how in risk surveillance to ensure depositor protection and stability in the financial market, and to prepare a framework for greater progress over the next ten years.

The KDIC also laid the foundation for improving the deposit insurance system through the establishment of a differential premium system and target fund system that had been promoted for ex ante risk surveillance and viability of the deposit insurance fund. It made further efforts to ensure the systematic flow of operations from ongoing risk surveillance, prompt resolution and investigation into the accountability for insolvency, to the recovery of public funds.

To this end, the KDIC first enhanced the function of the Financial Information Analysis System (FIAS) and expanded information sharing with relevant agencies to solidify the basis for ongoing risk surveillance of insured financial institutions. Moreover, it launched matrix-style ongoing risk surveillance teams, by financial sector, and established the Ongoing Risk Surveillance Council as means to preemptively cope with changes in the financial environment.

The KDIC strived to stabilize the local economy and financial market by promptly and efficiently resolving insolvent mutual savings banks through the establishment of a bridge bank or sale to a third party. It referred the sale of Korea Life to international commercial arbitration to firmly establish basic order in its transactions, and promptly recovered the maximum amount of public funds through the sale of its shares in Shinhan Financial Group and the decrease of capital, with consideration, of Seoul Guarantee Insurance Company.

By establishing the Task Force Team on the Recovery of Concealed Overseas Property of Parties Implicated in Insolvency, the KDIC conducted strict investigation into accountability for insolvency. This prevented innocent parties from being implicated, while correcting ill practices of the past. In addition, it introduced performance-based criteria for bankruptcy estates and founded the Bankruptcy Estate Management Council to facilitate efficient management of bankrupt estates and increased collection of dividends on bankruptcy claims.

In 2006, the KDIC promoted enterprise-wide management innovation, successfully put in place a strategic performance management system (Balanced Score Card), and further improved its services to the public such as the campaigns to notify depositors of uncollected insurance payments and dividends. As a result, it received an excellent rating during the annual business performance analysis of government agencies.

The KDIC will continue to faithfully play its pivotal role as a pillar of the financial safety net in preventing financial crisis in a rapidly changing environment. Through the expansive improvements to the deposit insurance system currently underway, it will also do its utmost to become an advanced and market-friendly integrated deposit insurance institution.

This year's annual report gives an outline of the KDIC's status and a description and statistical information related to its operations in 2006. It covers fund management, ongoing risk surveillance of insured financial institutions, as well as deposit payoff, resolution, investigation and public fund recovery concerning insolvent financial institutions. It is our hope that this annual report will help promote public understanding of and depositors' confidence in our operations and the deposit insurance system in Korea.

We look forward to your continued interest and support.

Jang-Bong Choi Chairman and President

Jay Boy Choi

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# I. Overview

In 2006, the uncertainties constraining Korea's economic recovery continued with deteriorating export conditions driven by high oil prices and the strong won, volatility in the real estate market and the North Korean nuclear issue. Nevertheless, Korea's domestic demand showed a robust growth while its export increased dramatically.

As for the real economy, the increase in facility investment on electronic/electric machinery as well as export growth backed by global economic recovery helped the GDP growth rate to reach 5.0%, which is higher than the 4.0% of 2005. However, private consumption, which had been on the recovery since 2005, contracted due to the slowed increase of real wages and weakening consumer sentiment, and export became stagnant in the fourth quarter. As a result, the growth of GDP slowed down in the latter half of the year.

In the financial market, concerns about the real estate market led the Monetary Policy Committee to raise the call rate target by 0.25%p over three times, resulting in the increase of short-term interest rates. Long-term interest rates have remained low since late 2005 on account of slow economic recovery and stable prices. The five-year government bond yield dropped to 4.6% level at the end of September, but started to slowly climb up since then to 5% level by the end of 2006.

In the securities market, the Korea Composite Stock Price Index (KOSPI) fell to the level of 1,200 points in the first half of the year owing to reduced global liquidity, sluggish economy and foreign net selling. However, with the strong global securities market and stable international oil prices, the KOSPI picked up from the second half of the year, and finished at 1,434.46, up 4% from the previous year. The KOSDAQ index which fluctuated together with the securities market, recorded 606.15, down 13.6% from the previous year.

With the effects of the weak dollar, the current account surplus and the sales of forward exchange by shipbuilding companies, etc., the won-dollar exchange rate showed a continuous downward tendency, closing at 929.8 won to the dollar, down 81.8 won over last year. The won-yen exchange rate also decreased by 76.2 won compared to the previous year to 783.8 won. The appreciation rate of the won was higher than that of the currencies of Korea's major trade rivals in Asia such as Japan, China and Taiwan.

The financial industry went through an active voluntary restructuring in 2006 through establishment, merger and sale of insured financial institutions. In the case of banks, Shinhan Bank merged with Chohung Bank. With the merger between the Bank of Tokyo-Mitsubishi

and UFJ Bank, the Seoul branches of the two banks merged into a single branch, Seoul Branch of the Bank of Tokyo-Mitsubishi UFJ. In addition, the Seoul branch of Goldman Sachs Bank opened while those of National Australian Bank and Union Bank of California closed down. Meanwhile, in the securities sector, Sejong Securities and Fides Securities Brokerage were sold to National Agricultural Cooperative Federation and Taekwang Group, respectively, and Macquarie Securities transformed its Seoul branch into a local subsidiary. In the insurance sector, Hyundai Hicar Direct automobile insurance was launched, and Hungkuk Fire Insurance was sold to Taekwang Group to create Hungkuk-Ssangyong Fire Insurance. As for the mutual savings bank (MSB) industry, Invest Mutual Savings Bank was transferred to Parangsae Mutual Savings Bank through a P&A, and Plus Mutual Savings Bank went bankrupt. The number of banks, insurance companies, and mutual savings banks changed from 56 to 53, 42 to 43 and 111 to 110, respectively, and the number of securities companies and merchant banks stayed the same at 53 and 2, respectively. Thus, the total number of insured financial institutions stood at 261, decreasing by 3 from the previous year.

The amount of insured deposits in the overall finance sector amounted to 702 trillion won as of the end of 2006, increasing by 2.5% over last year. Insured deposits totaled 492 trillion won and 14 trillion won in the banking and securities sectors, respectively, each representing a year-on-year decrease of 0.6% and 3.7%. Insured deposits in the insurance, merchant bank and MSB sectors rose by 10%, 2.4% and 18.5% to 151 trillion won, 0.7 trillion won and 44 trillion won, respectively. As a result, the aggregate amount of premiums paid to the Korea Deposit Insurance Corporation ("KDIC," "the Corporation") from the five sectors recorded 1.48 trillion won in 2006, an increase of 58.9 billion won (6%) over last year.

To expand the foundation for ongoing risk surveillance of insured financial institutions, the KDIC strengthened the management information system, increased information sharing with the Bank of Korea (BOK) and the Financial Supervisory Service (FSS), and improved the risk assessment system for risk analysis by finance sectors. The KDIC also strived to preemptively cope with the changes in the financial environment including the emergence of large financial groups by establishing an Ongoing Surveillance Council and facilitating sharing of ongoing risk surveillance information.

Furthermore, the Corporation conducted joint investigation with the FSS of 11 financial institutions as part of its efforts to prevent insolvency of insured financial institutions. It signed MOUs with six financial institutions it invested in, and promoted the efficiency of MOU management by enhancing ongoing risk monitoring of such institutions and carrying out intensive check-ups of parts showing abnormal signs.

The KDIC introduced a new resolution method using a bridge bank or a third party sale in place of the previous method of liquidation/bankruptcy through payment of insurance claims.

The measure enabled prompt and efficient resolution of insolvent MSBs which minimized the adverse effects of resolution on the local economy while promoting financial market stability. The Corporation transferred Invest Savings Bank, whose business was suspended in July 2005, to Parangsae Savings Bank via P&A in May 2006, and sold Yegaram Mutual Savings Bank to Goryo Consortium in May 2006 in return for receiving the amount 2.5 times greater than the injected funds. It is proceeding with resolution procedures of Good Friend Bank, whose business has been suspended in September 2006, through a bridge bank according to the least cost principle.

After consultations with relevant agencies, the KDIC made improvements to some of the resolution-related systems including participation in the Business Valuation Committee and pre-notification to the KDIC in case of prompt corrective action (PCA) in June 2006. This provided for institutional basis for prompt resolution of insolvent financial institutions.

The Corporation conducted insolvency accountability investigation of insolvent financial institutions provided with public funds and default debtor companies, and demanded them to file damage claim proceedings against those held liable for insolvencies.

In order to prevent innocent parties from being implicated, the KDIC granted those under investigation the opportunity to comment, and made sure that sufficient accountability deliberation is made on investigation results and objections filed. As the revision of the DPA in March 2006 enabled "bulk search of financial transaction information," the KDIC's investigative right was strengthened. Also, a "Taskforce Team on the Recovery of Concealed Overseas Property of Parties Implicated in Insolvency" was established to reinforce investigation of overseas properties.

The case of Korea Life sold by the KDIC in December 2002 was referred to international commercial arbitration to firmly establish basic order in transactions of the KDIC which manages the assets of the public. In addition, the KDIC recovered 1.04 trillion won in April 2006 through the sale of 22 million callable convertible preferred shares of Shinhan Financial Group, which were converted to common shares in November 2005, and recovered 168.5 billion won through collection of 9 million callable preferred shares in August 2006. As for Seoul Guaranty Insurance Company, the Corporation carried out capital increase with consideration worth 9.2 trillion won, and received payments for the capital increase in proportion to its equity ratio in March 2006, recovering 545.6 billion won in public funds. The Corporation also recovered 649.7 billion won in bankruptcy dividends from bankruptcy estates, and collected 289.4 billion won by selling the assets of bankruptcy estates.

For efficient management of bankruptcy estates and asset holdings, the KDIC introduced performance-based criteria for bankruptcy estates, had one office to manage multiple

bankruptcy estates, and established the Bankruptcy Estate Management Council. Furthermore, it maximized the recovery from individual assets and sped up the disposition of other asset holdings through joint sale of real estates, etc., enhancing asset marketability and dividends on bankruptcy claims.

To promote the development of the deposit insurance system in a rapidly changing financial and economic environment, the KDIC conducted multi-faceted studies while further strengthening research and analysis of financial market trends and current economic issues. In June 2006, the KDIC hosted International Open House, and signed agreements with both the FSCS and SIPC on information exchange and mutual cooperation as a means to enhance cooperation and exchange with international organizations.

In addition, the KDIC designated the creation of customer-oriented innovation results as its innovation goal to promote enterprise-wide management innovation, and successfully put in place a strategic performance management system (BSC) to ensure appropriate compensation for performance. It also improved services to satisfy public confidence in the government through campaigns to notify uncollected insurance payments and dividends, early provisional payment of insurance claims and management of customer service center. This enabled the KDIC to receive high scores in business performance analysis of government agencies, fund management evaluation, and innovation evaluation of public institutions, etc.

In 2006, a strong foundation for the improvement of the deposit insurance system such as risk-based premium system and target funds system was established as a result of the Corporation's multi-faceted efforts to ensure the viability of ex ante risk surveillance and the deposit insurance fund (DIF). A concrete time schedule for improvements to the DIF was proposed at the ministerial meeting for regulatory reform in May 2006, and as soon as the commissioned outside professional entity discloses its research results, the KDIC will analyze various effects of such improvements, and will seek to legislate them in the latter half of 2007 after collecting the opinions of stakeholders and consulting with the government.

# II. Organization and Operations

# 1. Organization

# 1-1. The Deposit Insurance Committee

The Deposit Insurance Committee is the highest decision-making body of the KDIC. As such, the Committee deliberates and renders decisions on important matters including the following:

- Establishment of basic guidelines for the Corporation's operations
- Review of operation plan for the Deposit Insurance Fund (DIF)
- Amendments to the Articles of Incorporation
- Enactment, amendment and nullification of rules and regulations related to the Corporation's business objectives
- Matters related to the budget and to settlement of accounts
- Issuance of Deposit Insurance Fund Bonds ("DIF Bonds") and DIF
- Bond Repayment Fund Bonds
- Reduction or postponement of deposit insurance premium payments
- Actual and provisional payment of insurance claims
- Approval of payment on estimated insurance claims
- Financial support for Resolution Financial Institutions
- Financial support for insured financial institutions
- Transactions between Funds, Payment of fees arising from outsourcing, operation of surplus funds, etc.

# <Table II-1> Deposit Insurance Committee Members

(As of December 31, 2006)

TITLE	NAME
President of KDIC (Chairman)	Jang-Bong CHOI
Vice Minister of MOFE	Byong-Won BAHK
Vice Minister of MOPB	Hae-Bang CHUNG
Vice Governor of FSC	Seok-Dong KIM
Deputy Governor of BOK	Sung-Il LEE
Commissioned Member	Man-Woo LEE
Commissioned Member	Do-Sung CHUNG
Commissioned Member	Noh-Joong HUH
Commissioned Member	Dae-Sik KIM

The Committee is comprised of nine individuals in all, including the President of the KDIC, who serves as committee chairman. Other members are: the vice minister of Finance and Economy, the vice minister of Planning and Budget, the vice chairman of the Financial Supervisory Commission (FSC), and the deputy governor of the Bank of Korea (BOK). The four remaining committee members are appointees commissioned by the Minister of Finance and Economy. Of that number, one committee member is commissioned directly by the Minister of Finance and Economy with the remainder recommended by the Minister of Planning and Budget, the Chairman of the FSC, and the Governor of the BOK- each of them is allowed to recommend one committee member apiece. The recommended members are then commissioned by the Minister of Finance and Economy.

< Table II-2> Items Deliberated by Deposit Insurance Committee in 2006

DATE	ITEMS
	- Issuance of 2006 DIF Bond Repayment Fund bonds
Jan. 11	- Report of 2006 DIF Bond Repayment Fund operation plan
Jan. 11	- Measures for the establishment of internal accounting management system
	- Progress on the sale of Yegaram Mutual Savings Bank and Invest Mutual Savings Bank
	- Overall amendment of the regulation on premium payment
	- Overall amendment of the regulation on joint examination
Jan. 26	- Report of examination results of mutual savings banks in the 4th quarter of 2005
Jan. 20	- Report of examination of MOU implementation results in the 3 <sup>rd</sup> quarter of 2005
	- Report of 2005 Fund operation results
	- Report of changes in 2005 Repayment Fund operation plan
	- Request for participation in 2006 joint investigation
Feb. 15	- 2006 DIF Bond Repayment Fund management guideline
166. 19	- 2006 DIF management guideline
	- Transactions between DIF Bond Repayment Fund accounts in the second half of 2005
	- Settlement of accounts in FY 2005
Feb. 22	- Computation of distribution ratio of 2005 operation expenses and report of settlement results
	- Report of operation and evaluation results of internal accounting management system
	- Establishment of ceiling on transaction loans between the accounts of DIF and DIF Bond
	Repayment Fund
	- Conclusion of agreement, financial assistance and inter-account transactions for the sale of
Mar. 29	Invest Mutual Savings Bank (Busan)
	- Regulation on insolvency accountability investigation, etc.
	- Partial amendment of the regulation on MOU management
	- Examination results of and measures for MOU implementation results in the 4th quarter of
	2005
	- Sales of Yegaram Mutual Savings Bank shares
	- Report of joint examination results in the 1st quarter of 2006
Apr. 26	- Report of joint examination plan in the 2 <sup>nd</sup> quarter of 2006
	- Acceptance of economic liability charges paid by majority shareholders of insolvent financial
	institutions
	- Partial amendment of the regulation on insurance claim payments
May 24	- The fifth DIF Bond Repayment Fund operation plan for 2007
, , ,	- 2007 plan for issuance of DIF Bond Repayment Fund bonds & request for state guarantee on
	the bonds

DATE	ITEMS
Jun. 21	<ul> <li>Request for participation in the joint examination of sectoral investigation for the second half of 2006</li> <li>Revision of the MOU plan of Seoul Guarantee Insurance Company</li> </ul>
	- Examination results of and measures for MOU implementation results in the first quarter of 2006
Jul. 26	- Report of results of joint examination of life insurance companies in the second quarter of 2006
	<ul> <li>Report of joint examination plan in the third quarter of 2006</li> <li>2007 plan for issuance of DIF Bond Repayment Fund bonds &amp; revision of request for state - guarantee on the bonds</li> </ul>
Sep. 13	<ul> <li>Report of results of joint examination of mutual savings banks in the second quarter of 2006</li> <li>Transactions between DIF Bond Repayment Fund accounts in the first half of 2006</li> </ul>
	<ul> <li>Report of operation of internal accounting management system in the first half of 2006</li> <li>Report of half-yearly Fund accounting settlement results in FY 2006</li> </ul>
Sep. 20	- Provisional payment of insurance claims to depositors of Good Friend Mutual Savings Bank and transactions between the Bank's accounts
Oct. 11	- Report of examination results of and measures for MOU implementation results in the second quarter of 2006
Oct. 18	- Report of examination results of and measures for MOU implementation results in the second quarter of 2006
Nov. 3	- Decision on insurance claims payment to depositors of Good Friend Mutual Savings Bank
Nov. 8	<ul> <li>Report of results of joint examination of mutual savings banks in the third quarter of 2006</li> <li>Report of plan for joint investigation in fourth quarter of 2006</li> </ul>
NOV. 0	- Report of KDIC investigation results as part of investigation of government offices by the National Assembly
	- Establishment of Resolution Financial Institution - Partial amendment of regulation on reserve fund operation
Dec. 13	- Partial revision of 2006 DIF Bond Repayment Fund management guideline
Dec. 13	- Partial revision of 2006 DIF management guideline
	- Report of results of joint investigation of mutual savings banks in the third quarter of 2006
	- The 12th DIF operation plan for 2007
	- Roll-over of Credit Unions' borrowings from banks
Dec. 27	- 2007 KDIC budget
DCC. 2/	- 2007 business plan
	- Report of examination results of and measures for MOU implementation results in the third quarter of 2006

# 1-2. The Board of Directors

The Board of Directors, as the highest executive body of the KDIC, is comprised of one president, one vice president, and four executive directors. The auditor may express opinions at board meetings, but cannot participate in the Board's voting process.

The president of the KDIC is appointed by the President of the Republic of Korea on the recommendation of the Minister of Finance and Economy. The vice president and executive

directors are appointed by the Minister of Finance and Economy on the recommendation of the KDIC President. The auditor is appointed by the Minister of Finance and Economy. Board members are appointed for a period of three years and may be reappointed. The Board renders decisions on various matters including the following:

- Matters that require deliberation and decision-making by the Policy Committee
- Enactment, amendment and nullification of rules and regulations related to the operation of the Corporation
- Matters related to the Corporation's organization and system
- Matters related to the signing, notification and canceling of important contracts
- Matters related to important court proceedings and arbitrations
- Other matters that the President of the KDIC deems appropriate

<Table II-3> Executive Board Members

(As of December 31, 2006)

TITLE	NAME
Chairman and President	Jang-Bong CHOI
Vice President	Ju-Hyung LEE
Executive Director	Dong-Il KIM
Executive Director	Kyun-Heum SHIM
Executive Director	Byeong-Gab CHOI
Executive Director	Sung-Hwan BAE
Auditor	Yang-Han LEE

# 1-3. Organization

The KDIC was established on June 1, 1996, as a non-capital base special corporation to provide an effective deposit insurance system for the public by protecting depositors and maintaining the stability of the nation's financial system. It is composed of 10 departments, 6 offices, and 1 regional office, 1 mission (3 bureaus and 1 department), and 64 teams.

<Table II-4> Designated Number of Staff by Employment Class

(As of December 31, 2006)

	Employees								
Executive				Regular					
Directors	Class 1	Class 2	Class 3	Class 4	Class 5	General Affairs Staff	Sub Total	Special <sup>1)</sup>	Total
7	20	28	58	123	133	28	390	232	622

Special employees include experts such as attorneys, management specialists, bankruptcy estate support personnel, examiners, etc.

# 2. Major Initiatives

# 2-1. Major Achievements

In March 2005, with aim to present the course of development of the deposit insurance system and establish its future image, the KDIC formulated, based on the opinions of its employees, its mid- to long-term vision of "Becoming the World's Leading Expert Institution on Ongoing Risk Surveillance and Prompt Resolution," and classified itself into 4 primary functions including risk surveillance, insurance & resolution, investigation & recovery as well as management & support. The Corporation revised and improved its three-year mid- to long-term management plan, a phased action plan established for vision accomplishment, in view of external environmental changes in April 2006, to make it better reflect the reality.

#### A. Risk Surveillance

The KDIC has continuously promoted introduction of the Risk-based Premium System by creating an evaluation model to induce sound management of financial institutions and promote fair levy of deposit insurance premium. As a result of such efforts, the ministerial meeting for regulatory reform made a decision to improve the deposit insurance system through introduction of the Risk-based Premium System. The Corporation commissioned outside professional entities to prepare an objective introduction plan, and is continuously consulting with relevant institutions for the System's early introduction.

The KDIC enhanced risk surveillance of financial groups such as financial holding companies to preemptively cope with changes in the financial environment including the emergence of large financial groups. It also established ongoing risk surveillance team system by financial sectors to accelerate decision-making, and formed the Ongoing Surveillance Council for sharing of ongoing surveillance information by sectors. Furthermore, in addition to "Relationship Manager System," it introduced "Risk Manager System" by subject, a system where certain risks that commonly occur in the financial industry are analyzed, thereby improving the quality of risk surveillance.

The Corporation expanded the scope of financial institutions subject to sectoral examination to include those subject to its joint examination with the FSS being conducted with view to reducing management risk through identification of risks of financial institutions. In order to strengthen the MSBs' competitiveness, Business Advisory Council consisting of experts was set up to offer MSBs "tailored" business consulting services.

Six MOUs signed with financial institutions including Woori Financial Group were reviewed

<sup>\*</sup> Young-nam branch is excluded.

for each quarter, and appropriate measures were taken to address any insufficiencies in their implementation. For maximization of corporate value, greater reward on performance of the management of the institutions was given so that such reward would be linked with the institutions' own performance goals or autonomous goals that are higher than those of the MOUs.

Much effort was focused on conducting diverse researches on the development of the deposit insurance system and the stability of the financial system while promoting examination and analysis of financial market trends and pending economic issues to preemptively cope with rapid changes in the financial environment. In addition, to promote external and internal research cooperation activities, the KDIC organized academic events such as policy symposium and Deposit Insurance Workshop, expanded support for external research, and is constantly managing the network it built in relation to such research. Also, it continuously expanded the scope of information sharing among financial safety net institutions including the FSS and the Bank of Korea (BOK) while expanding the function of and creating a stable environment for the Financial Information Analysis System.

In addition, the KDIC reinforced its role as a member of the International Association of Deposit Insurers (IADI), and at the same time, increased exchange with deposit insurers in other countries by signing agreement for increased exchange and cooperation with the U.K. Financial Services Compensation Scheme (FSC) and recently-launched Deposit Insurance of Vietnam, participating in the European Forum of Deposit Insurers (EFDI) as an observer, and by signing MOU with the U.S. Securities Investor Protection Corporation (SIPC).

# B. Insurance & Resolution

For prompt resolution of insolvent financial institutions, the KDIC improved some of the resolution-related systems including participation in the Business Valuation Committee and pre-notification to the KDIC in case of prompt corrective action (PCA) in June 2006, after consultation with financial supervision authorities. It is also actively promoting the introduction of a resolution system free from suspension in financial transaction to minimize inconvenience to depositors caused by prolonged business suspension of insolvent financial institutions.

When a savings bank becomes insolvent, the KDIC usually used liquidation and bankruptcy method through payment of insurance claims. However, it was able to reduce resolution costs as well as enhance the stability of regional economy as well as protection of depositors by introducing new resolution methods using bridge bank or a third party sale.

The Corporation transferred Invest Savings Bank, whose business was suspended in July 2005,

to Parangsae Savings Bank via P&A in May 2006, and successfully sold Yegaram Mutual Savings Bank which had undertaken blue chip assets of Arim Savings Bank as well as Hanjung Savings Bank, which became insolvent during the year 2005, to Goryo Consortium in May 2006. It sent an integrated business management team in Good Friend Bank whose business was suspended in September 2006, and is proceeding with resolution procedures through a bridge bank. It also promoted provisional payment of insurance claims and provided full support for institutions wishing to make secured loans so as to prepare for the capital demand of depositors.

As a result of its campaign to deliver uncollected insurance payments to depositors for protection of their property rights, the KDIC was able to deliver payments worth around 10 billion won to depositors during 2006. As the Corporation's separate notification was excluded from the reasoning for interruption of prescription with the revision of the Depositor Protection Act (DPA) in March 2006, it made various efforts such as posting announcements on newspaper and sending out separate notices.

The KDIC classified the DIF into seven accounts including the one for banks, in accordance with the DPA. With the revision of the Act in March 24, 2006, it placed a loan ceiling to prevent insolvency of a certain account from being transferred to another account or to the whole DIF. With regard to fund-lacking account for MSBs, it plans to borrow funds from financial institutions or issue bonds when the amount spent to make up for the shortage exceeds the borrowing ceiling between accounts, and is continuously consulting with relevant institutions to find a fundamental solution to the issue.

# C. Investigation & Recovery

The KDIC is striving to maximize the recovery of public funds and create an environment in which responsible corporate governance becomes firmly entrenched by way of correcting unreasonable past business practices through investigation of employees of fund-injected financial institutions who were attributed to the insolvent states of their respective institutions.

By the end of 2006, the Corporation conducted investigation into a total of 492 insolvent financial institutions and 13,098 default debtor companies, and filed damage-claim proceedings against those held liable for the insolvencies. It investigated hidden assets of about 740,000 responsible parties, and took legal measures such as provisional attachment and preliminary injunction of such assets.

To promote investigation of overseas property, a "Taskforce Team on the Recovery of Concealed Overseas Property of Parties Implicated in Insolvency" was launched. In addition, various efforts are underway to provide those under investigation with sufficient opportunity

to comment so that they will not be unfairly implicated, as well as to include outside experts in the Accountability Review Committee.

By late 2006, a total of 112.2 trillion won of public fund was provided to 517 insolvent financial institutions as part of restructuring efforts, and 36.6 trillion of the injected funds was recovered through the sale of investment certificates. By the end of the year, the Corporation readily paid off 66.2 trillion won of 84.5 trillion won (principal) subject to redemption according to the Public Fund Repayment Policy established in late 2002.

The shares of KDIC-invested financial institutions acquired through public fund injection for financial restructuring since 1997 are being sold through transparent procedures including review of the Public Fund Oversight Committee.

In April 2006, the KDIC recovered 1.39 trillion won by selling callable convertible preferred stocks of Shinhan Financial Group it obtained by selling Chohung Bank through after-hours block trade. It also recovered 168.5 billion won in August 2006 by redeeming callable preferred stocks.

Capital Decrease of Seoul Guarantee Insurance in March 2006 resolved accumulated losses, recovering 545.6 billion won, which paved the way for additional recovery of public fund in the future. More recovery was made through repurchase (48.1 billion won) of preferred investment certificates of National Agricultural Cooperative Federation and collection of dividends (353.7 billion won) from shares in Woori Financial Group, etc.

In the meantime, continuous efforts were made to expeditiously complete bankruptcy proceedings and improve efficiency of management of bankruptcy estates for maximization of bankruptcy dividends. As of late 2006, 426 estates out of a total of 462 have completed bankruptcy proceedings including 67 that completed the proceedings within the year 2006, helping the Corporation recover 16.7 trillion won through collection of bankruptcy dividends. Furthermore, a total of 12.5 billion won was delivered to creditors of bankruptcy estates through a campaign conducted from August 2005 to protect their property rights.

# D. Management & Support

As financial restructuring neared completion, the KDIC received consulting advice from outside professional entities in the latter half of 2006, for establishment of "Measures for Midto Long-term Organization & Personnel Management and Establishment of Career Development System" to effectively support its vision and mid- to long-term management plan.

To meet people's demand for management innovation of public corporations, the Corporation signed an agreement on innovation performance with the Minister of Finance and Economy in September 2006 on its key innovation projects, which include the project for innovation of the deposit insurance system such as the introduction of the Risk-based Premium System. It also signed an Integrity Pact for its management in October so that ethical management will be promoted and performance-based responsible management will be firmly rooted.

With the introduction of a strategic performance management system based on BSC (Balanced Score Card), the KDIC was able to improve its internal evaluation system that formerly relied on qualitative assessments and firmly established a performance-based organizational culture. In the process of the system introduction, it reflected all the opinions of people from in and outside, and conducted a pilot run of the system in 23 divisions in the first half of 2006. It provided appropriate performance-based compensation by awarding divisions with excellent results and offering differential payment according to the assessment result, and is striving to expand the scope of BSC by changing the unit of assessment from division to team.

In addition, the establishment and enhancement of the Work Support System made it more convenient for internal and external users to do business. Services through deposit insurance support system for customers were improved through the introduction of the Uncollected Insurance Payment Notification System, and a support system for insured financial institutions was built through the Insurance Premium Calculation System. Also, e-HR, integrated asset management system and internal accounting system were developed, and the definition and functional improvement of K-Oasis knowledge map increased convenience in work.

# 2-2. Improvement of Deposit Insurance System

## A. Risk-based Premium System

It is becoming increasingly important to prevent future insolvencies through market discipline as part of front-end risk surveillance to reinforce protection of depositors and stability of the financial system. Against this backdrop, the KDIC promoted the introduction of the Risk-based Premium System that imposes deposit insurance premiums according to the degree of risk of financial institutions.

The KDIC made constant efforts for introduction of the System such as commissioning outside professional entities to study the issue as well as conducting internal simulations replicating possible scenarios. As market conditions are maturing with the financial soundness and accounting information transparency of individual institutions improving, the Corporation is preparing measures for the System's early adoption through objective and transparent

procedures. In accordance with the plans on the introduction of the System presented by the Ministry of Finance and Economy (MOFE) in May 2006, relevant studies are underway.

# B. Target Fund System & Deposit Insurance Premium Rate by Financial Sector

The Target Fund System enables the DIF to cover the losses incurred not only by a system crisis but by insolvency resolution of insured institutions by setting an appropriate target reserve and levying premiums based on the reserve level of the Fund. The system is adopted by many countries including the U.S. for the stability of the financial system and increased predictability of premium payment.

The present deposit insurance premium rate has been increased several times from the one set at the time of the merger of deposit insurers by financial sector in April 1998, in order to expand financial resources in the financial restructuring process and consider risks by sector. Nevertheless, recent changes in the financial environment brought on by the emergence of universal banking and large financial institutions raised the issue of fair levy of premiums among sectors. Moreover, the DPA (Article 3 of Addenda <Act No. 5556, Sep. 16, 1998>) stipulates that in the case the rate ceiling on the deposit insurance premium (0.5% of the balance of deposits) is not altered through review of the Regulatory Reform Committee until August 31, 2008, it should be restored to the previous level. As a result, it is necessary to review the appropriateness of the premium rate by financial sector and make adequate improvements.

With the launch of a new deposit insurance fund in 2003, the KDIC strived to introduce the Target Fund System to secure viability and maintain soundness of the fund for sustained credibility of the deposit insurance system. As part of this effort, it commissioned outside professional entities to conduct related researches, and hosted policy symposiums to collect the opinions of stakeholders by sector.

The ministerial meeting for regulatory reform held in Many 2006 decided to introduce the Target Fund System and Risk-based Premium System and reform the deposit insurance premium system as measures to improve the deposit insurance system, and presented a concrete time schedule to this end. Hence, the Corporation commissioned outside professional entities to study the introduction of the Target Fund System and reform of the deposit insurance premium system. As soon as the study is completed, it will decide on specific measures by collecting opinions of stakeholders and consulting with the government, and push for legislation in the second half of 2007.

# <Outline of the Decision of the Ministerial Meeting for Regulatory Reform on Improvement of Deposit Insurance System>

- ◆ The Meeting agreed on the overall improvement of the deposit insurance system through introduction of the Risk-based Premium System and the Target Fund System and through reform of the deposit insurance premium rate.
- ◆ Time Schedule for the Improvement Measures
  - o Jun. 2006 Jul. 2006: Organization of previous study. Designation of future course and scope of study.
  - o Aug. 2006 Mar. 2007 : Study by outside entities.
  - o Apr. 2007 Jun. 2007 : Formation of and discussion by a public-private task force.
  - o Jul. 2007 and after: Revision of laws and regulations.

# C. Depositor Protection of Retirement Pension Products

The government implemented the retirement pension system in December 2005 as part of a measure to provide security for the elderly against population aging and reduction of years in service. The introduction of the system allowed insured financial institutions (banks, securities companies, insurance companies) to develop and sell retirement pension products. However, since the products are not guaranteed, product subscribers may suffer unexpected losses in case of failure in the institution.

To address the issue, the KDIC has promoted protection of depositors subscribed to retirement pension products to protect their property rights and increase the effectiveness of the retirement pension system. The Corporation commissioned outside professional entities to conduct researches on depositor protection in November 2006, based on the result of which it will prepare concrete measures for system introduction and push for legislation before the end of 2007.

# 2-3. External Evaluation

# A. Business Performance Analysis of Government Agencies

Government agencies including public corporations are required to submit business performance reports, financial statements and annexed documents of the year to the head of the competent agencies until the end of March of the following year, pursuant to the Government Agencies Management Act. Based on such reports, the Minister of Planning and Budget (MPB) organizes a business performance evaluation commission to evaluate the performance of government agencies. The criteria for evaluation consist of 3 areas including business in general, major projects as well as business management, and evaluation indices are classified into metric and non-metric ones.

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The 2005 business performance evaluation results announced in 2006 placed the KDIC third among 16 public agencies.

# B. Fund Management Evaluation

According to the National Finance Act (former Fund Management Act), the MPB is required to analyze and evaluate the management conditions of funds under the effect of the Act, as well as consider whether to uphold the funds every 3 years. The evaluation is conducted in the fields of business management and asset management.

In this regard, the KDIC prepared a report on the management of DIF Repayment Fund for 2005 and submitted it to the fund management evaluation commission in March 2006. Based on the report, the commission disclosed the result of its evaluation in July 2006 after carrying out due diligence and opinion poll.

In the 2005 evaluation result of the Corporation's Deposit Insurance Fund Bond Repayment Fund, the KDIC took second place in the area of asset management among 18 Type 4 funds whose average balance of surplus funds is 200 billion won or less. It ranked fourth in the domain of business management among a total of 11 funds classified as pension finance, jumping up 2 places from the previous year.

Such achievement was attributable to the KDIC's efforts to improve transparency by creating a new division exclusively responsible for asset management and independent from performance evaluation and risk management divisions. The Corporation was also lauded for efficiently managing the fund through comprehensive management of assets and debts based on organic use of the fund management system, and for continuously curtailing the deposits of insured institutions.

The evaluation commission, on the other hand, pointed out that the KDIC needs to make efforts to increase profitability such as drawing up mid- to long- term asset management strategies and diversifying portfolio, and recommended that it additionally separates its fund management and fund settlement functions.

Based on the 2005 evaluation results, the Corporation prepared a comprehensive improvement plan in 2006. First, it commissioned outside professional entities to set up a mid- to long- term asset management strategies for more appropriate management of assets. Second, it joined the investment pool for public funds (MMF) for better profitability. Lastly, it reduced operational risks by additionally separating its fund management and fund settlement affairs, improving its risk management system in line with advanced standards.

## C. Innovation Evaluation

The MPB assesses the level of innovation in public institutions including government agencies and government-invested institutions every year starting from 2005, to objectively examine and assess innovation efforts and results of public institutions and build a comprehensive innovation management system at the government level. The innovation level is assessed in 5 areas: innovation leadership, vision and strategy, innovation institutionalization, innovation capacity of staff members, and innovation implementation and results. All assessors are consisted of scholars and innovation experts from outside for fair and objective assessment.

According to the innovation level assessment conducted for the second time in 2006, the KDIC's innovation level was at Stage 4, up one place from the previous year. This put the Corporation at top 40% of 210 public institutions in terms of innovation. The ascent in innovation level seems to be attributable to the distinguished innovation vision and strategy, the Chairman's stern will for innovation as well as significant improvement in innovation institutionalization and results. Moreover, the campaign to deliver uncollected insurance payments to depositors was introduced in the 2005 Final Report on the Innovation Assessment of Public Institution as one of the 7 representative innovation cases.

The MOFE, in the meanwhile, formed an "Innovation Support Committee for MOFE-Affiliated Agencies" consisting of 20 innovation experts from the private sector, as part of the efforts separate from the innovation evaluation on all public institutions, to reinforce innovation endeavors of its affiliated agencies\*. The Committee examines and assesses innovation efforts and results with the focus on best practices submitted by each agency.

\* KDIC, KIBO Technology Fund (KIBO), Korea Credit Guarantee Fund (KODIT), Industrial Bank of Korea (IBK), Export-Import Bank of Korea (Korea Eximbank), Korea Development Bank (KDB), Korea Minting & Security Printing Corporation (KOMSCO), Korea Housing Finance Corporation (KHFC) and Korea Consumer Agency (KCA)

On the evaluation of 15 best practice cases submitted during 5 months from July to November 2006, the KDIC received high scores in practicing innovation supported by the Chairman's strong leadership and in producing customer-based innovation results through high innovation capacity of its staff members, and won the Most Innovative Award.

# 3. KDIC Vision and Mid- to Long-term Management Plan

# 3-1. Establishment and Promotion of KDIC Vision and Mid- to Long-term Management Plan

# A. Objective

In March 2005, with aim to present the course of development of the deposit insurance system and clarify its future image, the KDIC formulated, based on the opinions of its employees, its mid- to long-term vision of "Becoming the World's Leading and Reliable Expert Institution on Ongoing Risk Surveillance and Prompt Resolution of Financial Institutions," and established the Three-Year Mid- to Long-term Management Plan to achieve this vision. To systematically accomplish its vision and Plan, it designated "All-Member Management," "Value-based Management" and "Ethical Management" as the core values that must be shared by all employees, and also selected Creovation Vision, HD Vision and IT Vision as the three drivers.

The Plan and detailed action agenda were revised and improved in April 2006 to reflect changes in internal and external business environment, while increasing the Plan's timeliness and relevance. The revised Plan includes definitions of keywords in the vision statement and a diagram describing the connection between the vision and the functions of the KDIC, to raise employee awareness for its stronger implementation.

# B. Vision

# (1) Vision

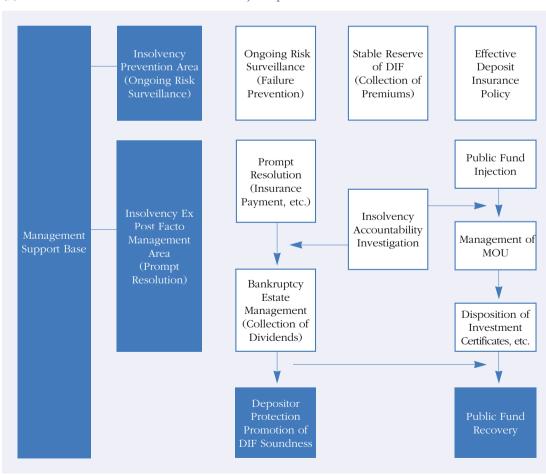
Becoming the World's Leading and Reliable Expert Institution on Ongoing Risk Surveillance and Prompt Resolution of Financial Institutions

# (2) Definitions of Keywords

Keyword	Classification	Meaning	
World's Leading Aim		A level which matches that of the FDIC (U.S.) or the CDIC (Canada) with excellent capacity to prevent and cope with financial crises, at which the legal and institutional environment for the internationally-accepted deposit insurance system is flawless.	
Expert Institution	Form of Business	A state institution working for the public interest that possesses excellent problem-solving ability through highly professional labor force and state-of-the-art information technology.	

Keyword	Classification	Meaning		
Ongoing Risk Surveillance Business Area		Insolvency prevention activity through analysis/assessment as well as reduction of various insolvency-causing risk-factors using risk surveillance techniques such as written surveys and risk assessment model.		
Prompt Resolution Business Area		Timely and appropriate resolution in consideration of market conditions and the characteristics of the institution subject to resolution so as to minimize its value loss. All ex post facto management activities after the occurrence of insolvency such as disposition of assets acquired during resolution process, management of bankruptcy estates and insolvency accountability investigation.		
Reliable Foundation of Establishment		The foundation of the establishment of the KDIC that includes creation of an environment for safe financial activities of the public through depositor protection and promotion of stable financial system.		
Financial Institutions Target of Operation		Individual financial institutions such as banks, insurance companies, securities companies and savings banks subject to the deposit insurance system.		

# (3) Connection between the Vision and Major Operations



# C. Management Philosophies

All-member Management

To maximize the synergy between all officers and employees by fulfilling their respective roles with a sense of ownership and a business mindset

Value-based Management

To maximize the value of individuals, to create human capital, and ultimately to maximize the value of the organization

**Ethical Management** 

Ethical and moral sense are the basis for people's trust

## D. Three Drivers

Creovation Vision

- Set up the direction of innovation by designating "the establishment of a market-friendly deposit insurance system" as the Innovative Vision
- 5 Targeted Areas for Innovation: strengthen innovative spirit, promote performance-based HR management, secure viability of the DIF, provide customer service and satisfaction, and strengthen transparent management & ethical management
- Innovation Goal of 2006 : establish an innovation culture based on performance and knowledge
- Task : Introduce BSC, knowledge management system and management by fun
- How to : promote voluntary innovation through participation of all the employees including the Innovation Supporters

HD Vision \* HD : Human Development

- Define HR requirements through systematic HR development for HR fostering, a key to management philosophy
- Build HR development capacity: groundwork in 2005, system design and commencement of computerization in 2006, and completion of computerization and full-scale application by 2007
- Competency-based Training : categorize into Basic, Leadership, Work Capacity, and link up with the 4 major functions of the KDIC
- Education : Self-driven learning (SDL), career development program (CDP) and E-Learning, etc.

IT Vision
\* IT: Information Technology

- Set the direction of IT advancement through the establishment of the IT Advancement Vision
- Enhance the business efficiency and expertise of on-site users through systematic and reliable IT services
- Establish a 3-stage plan to actively and flexibly respond to changes in business and information technology
- Stage 1 (2005): Strengthen internal capacity; Stage 2 (2006): Establish strong collaboration with outside entities; Stage 3 (2007): Upgrade IT services

# E. Core Competencies

Creovation ability, risk analysis ability, professional restructuring ability, information system literacy, quality human resources, dynamic organizational culture were designated as the six core competencies necessary for vision accomplishment

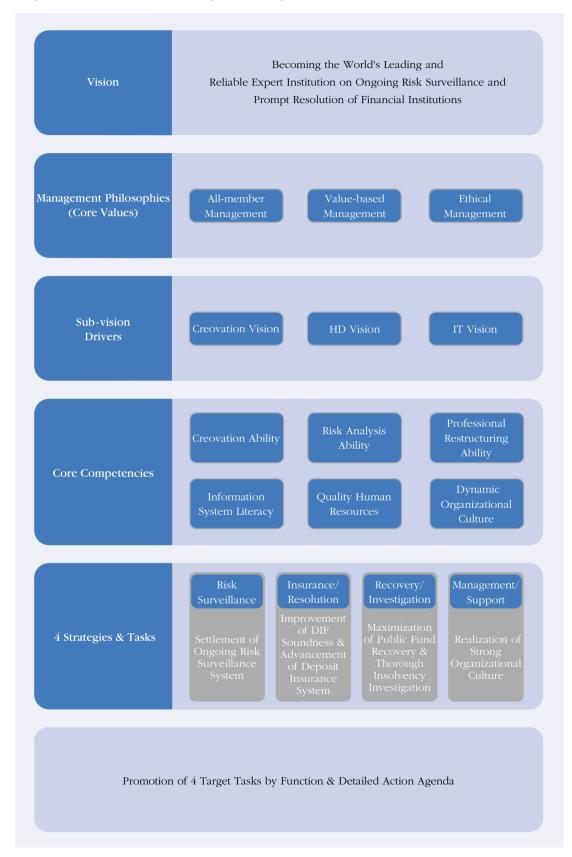
# F. 4 Major Strategies and 14 Tasks

Mid- to Long-term Strategy	Target Task	Responsible Department
I . Settlement of ongoing risk surveillance system	<ol> <li>Ex-ante insolvency prevention through early identification of signs of failure</li> <li>Market-friendly ongoing risk surveillance</li> </ol>	Risk Surveillance
I . Improvement of DIF soundness & advancement of deposit insurance system	Guarantee of stability & effective management of DIF     Prompt procurement of necessary capital     Promotion of effective deposit insurance policy     Enhancement of depositor protection service     Prompt resolution of insolvent financial institutions     Efficient management of insurance payment system	Fund/ Insurance/ Resolution/
■ . Maximization of public fund recovery & thorough insolvency investigation	Prompt recovery of public funds provided for insolvency resolution     Efficient management of bankruptcy estates and the Resolution and Finance Corporation (RFC)     Creation of sound business climate by calling culpable parties to account through close investigation of parties responsible for insolvencies	Recovery/ Receivership & Collection/ Investigation/ Special Investigation
IV. Realization of strong organizational culture	Promotion of creovation     Establishment of dynamic organizational culture     Upgrade of IT services and job competencies	All

# G. Detailed Action Agenda by Department

A total of 126 detailed action agenda by department were selected based on the 4 major strategies and 14 target tasks. These agenda will be stated by period and carried out in stages in consideration of the implementation feasibility under current conditions as well as the need for continuous and long-term promotion.

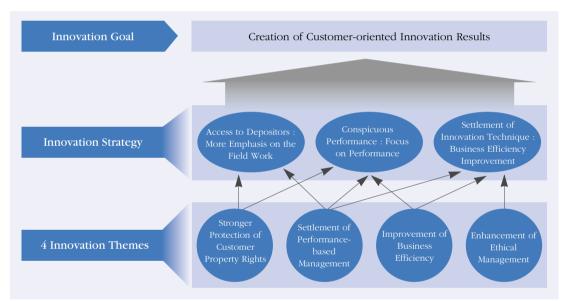
<Figure II-2> Vision & Mid- to Long-term Management Plan



# 3-2. Promotion of Enterprise-wide Management Innovation

# A. Creation of Customer-oriented Innovation Results

At the Ceremony for Innovation Announcement held in 2004, the KDIC publicly declared "establishing market-friendly and advanced deposit insurance system" as its innovation vision. In 2006, it established "Creation of Customer-oriented Innovation Results" as the innovation goal in order to provide more convenience for the depositors (customers) based on the innovation capacity it has accumulated. It also selected "Stronger Protection of Customers' Property Rights," "Establishment of Performance-based Management," "Business Efficiency Improvement" and "Enhancement of Ethical Management" as 4 innovation themes so that "customer-oriented innovation" will take place in all its operations.



<Figure II-3> Innovation Goal & 4 Innovation Themes

The Corporation developed 68 innovation tasks for each of the innovation themes, and established the "Office of Strategic Innovation" in charge of innovation affairs under the direct control of the Vice President in February 2006, to give momentum to the implementation of the tasks. It reorganized the "Innovation Committee" and "Innovation Supporters," the 2 autonomous innovation organizations of employees, to strengthen their efficiency and action so that it can listen to various voices on innovation while reinforcing the implementation of the tasks.

Furthermore, the Corporation diversified the CoP (Community of Practice), hosted the Wednesday Seminar for Innovation, opened the Cyber Innovation Class for on-line education and trained discussion facilitators, to foster employees' innovation capacity. In October 2006,

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it relaunched the existing Innovation Mileage System as the "Inno-point System" and created the "Employee of the Month Award," as measures to maximize employees' motivation for innovation through proper evaluation and compensation systems.

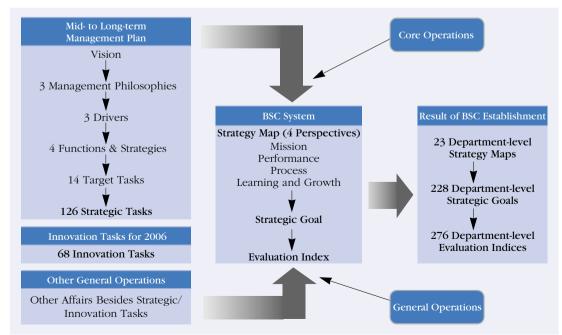
On the basis of these efforts, the management innovation tasks carried out in 2006 contributed to strengthening the Corporation's pre-emptive risk surveillance capacity by providing management consulting advices to mutual savings banks, and to increasing the amount of public fund recovery by collecting the hidden assets of persons implicated in insolvencies. As a result, the KDIC received highest scores in innovation assessment of MOFE-affiliated institutions conducted in December 2006.

## B. Successful Settlement of BSC

The KDIC received consulting services on the strategic performance management system based on BSC (Balanced Score Card) to improve its internal evaluation system that relies on qualitative indices, and as a result, succeeded in establishing a performance-based organizational culture.

To develop reasonable evaluation indices, the Corporation organized workshops by or for heads of teams/departments in light of the Mid- to Long-term Management Plan and innovation tasks for 2006. It also classified the final indices into 4 groups according to the procedure and the flow of deposit insurance affairs and developed metric and non-metric indices in the ratio of 7 to 3.

<Figure II-4> Evaluation Index Development Process



The KDIC conducted a pilot run of the evaluation indices in 23 departments in the first half of 2006, and for fair evaluation, provided training to evaluators and established related organizations (Performance Management Committee, Internal Evaluation Commission (led by a director), Metric Achievement Inspection Commission (led by Class 4 or 5 officials), Index Management Committee, outside advisory committee), giving birth to a reasonable evaluation system.

At workshops by departments held at the end of 2006, participants shared strategic goals by departments/teams and exchanged opinions on developing reasonable indices, to change the unit of BSC evaluation from department to team.

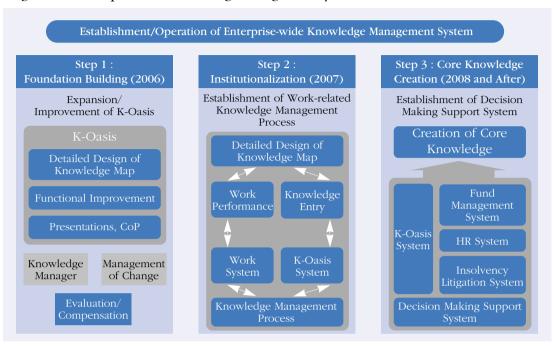
# C. Establishment and Promotion of Knowledge Management System

To establish the foundation for knowledge management within the organization, the KDIC expanded and reformed the information sharing channel in the portal site in August 2004 to create K-Oasis (knowledge management system), and began to systematically accumulate and manage internal knowledge and information. K-Oasis facilitated the sharing of core operational information by departments and production of work manual, attracting employees' interest in information sharing.

In 2006, the KDIC implemented measures to continue knowledge management activities and increase employee participation in K-Oasis. Through the "employee opinion poll on knowledge management", it found out some of the problems in the previous system such as lack of interest in the system due to system operation focused on certain areas (risk management) and overly strict security. To address the problems, it prepared "Measures for Establishment and Operation of Enterprise-wide Knowledge Management System" which include promotion of 3-step knowledge management plan, functional expansion and improvement of K-Oasis, introduction of knowledge manager system as well as establishment of integrated compensation system in September 2006.

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<Figure II-5> Enterprise-wide Knowledge Management System



- Step 1 Foundation Building (2006): Design the knowledge map in detail by 4 functions and improve its functions in K-Oasis System
- Step 2 Institutionalization (2007): Establish a knowledge management process linking knowledge management activities on K-Oasis System with work
- Step 3 Core Knowledge Creation (2008 and after) : Develop K-Oasis System into a final decision making system through creation of core knowledge

The Corporation is currently promoting a "Knowledge Management System Expansion Project," aiming at completing the detailed design and functional improvement of the K-Oasis knowledge map, integration and online implementation of the presentation system as well as provision of the foundation for promotion of online CoP by March 2007.

To encourage employees to contribute useful knowledge and share information, the number of information entries each department makes in K-Oasis is reflected on the performance index of BSC department evaluation (information contribution). Also, compensation that used to be provided exclusively to employees in the risk management, was expanded and integrated so that K-Oasis-related activities of all employees are reflected in the upgraded compensation system called "Inno-point (innovation point system)" from October 2006.

<Table II-5> Participation in K-Oasis Knowledge Activities

Classification	2005	2006	Increase Rate (%)
No. of net entries	6,300	12,676	101.2
No. of net entries per person	10.75	16.97	57.9
No. of hits	61,886	164,567	165.9
No. of entry evaluation	1,061	7,741	629.6

# D. Conclusion of Business Performance Agreement and Integrity Pact for Executives

For settlement of performance-based responsible management system and enhancement of ethical management, "Business Performance Agreement and Integrity Pact" were signed by KDIC executives on October 20, 2006. The Agreement and the Pact sets business goals by individuals to accomplish the Corporation's mid- to long-term vision, and requires the signees to take responsibility for the consequences. The executives sign the Business Performance Agreement on a one-year basis, and receive graded bonuses based on how faithfully they abided by the Agreement.

The Chairman and the Auditor signed the "Public Integrity Pact" on December 21, 2006 to nurture ethical mindset and create a transparent corporate culture. Considering that they do not have the other party to the Pact unlike the case with the executives, the Pact passed through an authentication procedure of a law firm and was made public on the KDIC website, ensuring credibility from in and outside the organization.

On September 29, 2006, the Chairman publicly announced his commitment to responsible and performance-based management by signing with the Minister of MOFE the "Innovation Performance Agreement" related to the Corporation's key innovation tasks of "maximization of public fund recovery," "expansion and promotion of the DIF," "prevention of insolvency of financial institution in advance" and "promotion of efficiency in human resources management."

# 3-3. Customer Satisfaction Management

# A. Uncollected Insurance Payment Notification Campaign

As there are considerable amount of insurance payments that are not collected by depositors for a certain period of time after payment, and the 5-year extinctive prescription for the right of depositors to claim the insurance money is running out, the KDIC carried out a campaign to deliver such uncollected payments to depositors for protection of their rights and interests.

To provide depositors an easy access to the information on uncollected payments and bank branches that make the payment, the Corporation continuously provided such information through the "Uncollected Insurance Payment Notification System" it installed on its website in May 2005 using the information technology. In addition, an exception was made to the Depositor Protection Act (DPA) on March 24, 2006 so that the extinctive prescription for payment claim will not be interrupted even if the KDIC notified the depositors of the payments they have not collected.

## <Related Provision in the DPA>

- Paragraph 8 was added to Article 31 (Payment of Insurance Money).

Notwithstanding Paragraph (7) and Article 168(3) of the Civil Act, the guidance and notification, etc. the Corporation makes to depositors to promote the rights thereof to claim the insurance money shall not have the effect of interrupting prescription.

The campaign was conducted in various forms such as delivery of individual notification to those who have 50,000 won or more of uncollected payments, newspaper advertising and establishment of a call center. Also, the number of Nonghyup branches in charge of payments increased from to 311 branches across the country, making it more convenient for depositors to collect the payments.

#### < Table II-6> Individual Notifications Since DPA Revision

Completion of	1	No. of Pe	rtinent Instit	utions	No. of Pertinent Depositors			
Prescription Date	Dispatch Date	Savings Banks			Savings Banks	Credit Unions	Total	
2 <sup>nd</sup> quarter of 2006	Mar. 27, 2006	12	14	26	8,831	2,107	10,848	
3 <sup>rd</sup> quarter of 2006	Jun. 2, 2006	2	3	5	2,394	169	2,563	
4th quarter of 2006	Aug. 31, 2006	2	5	7	1,119	940	2,059	
1st quarter of 2007	Dec. 7, 2006	1	2	3	854	948	1,802	
Total		17	24	41	13,198	4,074	17,272	

As a result of these efforts, the amount of insurance payments depositors receive every month doubled after the revision of the DPA, with around 16,000 depositors receiving payments during the period between April and December of 2006.

<Table II-7> Uncollected Insurance Payments Delivered to Depositors by Month

(Unit: 100 million won)

Cl:6		ore Revi	sion		After Revision								
Classification		Feb. 2006	Mar. 2006	Apr. 2006	May 2006	Jun. 2006	Jul. 2006	Aug. 2006	Sep. 2006	Oct. 2006	Nov. 2006	Dec. 2006	
Monthly Amount	6	4	10	34	11	12	6	2	4	6	7	6	
Monthly Average		6				10							

# B. Uncollected Dividend Notification Campaign

As of the end of June 2005, there were uncollected dividends amounting to 19.9 billion won (16,400 cases) in bankruptcy estates due to various reasons including bankruptcy creditors' lack of awareness, bankruptcy proceedings underway and unwillingness to pay for the cost for receiving small amount of dividends. Dividends not collected by creditors until the completion of bankruptcy estates are deposited according to relevant laws, and reverted to the

national treasury after a certain period (10 years) since being deposited, in case of which they will no longer be collectable. To resolve this issue, the KDIC conducted a campaign to deliver uncollected dividends to creditors since August 2005 with aims to actively protect bankruptcy creditors' property rights and contribute to early completion of bankruptcy proceedings.

# <Progress of Uncollected Dividend Notification Campaign>

- Aug. 2005: The Campaign began.
- A new menu called "Guidance to Collection of Uncollected Dividends" was created on the KDIC website
- Feb. 2006: Press release on the progress of the campaign was distributed.
- Mar. 2006: The Campaign was advertised on newspapers (3 times).
- Apr. 2006: A customer communication manual for the call center was made.
- Apr. 2006: The Campaign was introduced on the innovation casebook for MOFE-affiliated agencies.
- Nov. Dec. 2006: "Measures to Increase Uncollected Dividend Payment Rate" was prepared and implemented.
- Addresses of 19,178 creditors who have uncollected dividends were updated with the help from the Ministry of Government Administration and Home Affairs. (Notification via mail and dividend remittance to accounts are expected to be completed by January 2007.)
- "Uncollected Dividend Notification System" was installed on the KDIC website.

An analysis conducted by the KDIC found out that as of September 2006, about 99% of cases concerning uncollected dividends involve small amount of dividends and failure in notification due to changes in creditors' addresses. Thus, the Corporation used the electronic database on resident registration of the Ministry of Government Administration and Home Affairs to identify the current addresses of 19,000 creditors who have not received dividend notifications. Corresponding bankruptcy estates delivered notifications via mail to the updated addresses, and remitted the dividends to creditors' accounts with their consent.

The Corporation went on to install the "Uncollected Dividend Notification System" on its website so as to allow creditors to search information on uncollected dividends and how to receive them. The KDIC and the Bankruptcy Department of Seoul Central District Court agreed that after the completion of bankruptcy proceedings, only the uncollected dividends amounting to 10,000 won or less will be deposited, and those of creditors whose addresses are unknown will be used as dividend resources of other creditors. Such measure is expected to accelerate legal completion of bankruptcy estates.

The Campaign succeeded in delivering dividends worth 12.5 billion won (1,529 cases) to bankruptcy creditors from August 2005 to December 2006.

# C. Promotion of Insurance Relations Indication System

The KDIC requires insured financial institutions to indicate in their financial products whether

insurance relations have been built (e.g. protection under the DPA) in order to protect depositors from any damage.

The "Regulation on Indication of Deposit Insurance Relations" was amended on January 2006 to actively cope with rapidly changing financial environment brought on by increased cross selling of financial products and emergence of complex financial products following the progress of universal banking. The revision is also aimed at as promoting the efficiency of the depositor protection system while improving customer satisfaction of depositor protection services. A seminar on the overall deposit insurance relations indication system including the purpose and contents of the Regulation amendment was also held with views to raise the understanding of persons in charge of indication system in insured financial institutions, listen to their opinions on the system, and ultimately to help insured institutions reasonably implement the system.

The KDIC strengthened the inspection of insured institutions' implementation of the system which includes posting notices and brochures about depositor protection so that depositors are provided with accurate information on the depositor protection system. It conducted onsite investigations of 315 business branches of insured financial institutions across the country on the system implementation in April and October 2006.

The inspections were usually focused on proper indication of depositor protection notice on passbooks, bills and certificates, propriety of the contents of register for protected financial products, posting of depositor protection brochure, propriety of insured institutions' self-developed promotional materials for their products, and sale and report of their new products. The registers for protected financial products posted on the institutions' websites were also checked taking account that financial transactions through the internet are increasing recently.

# <a href="#"><Article 29 (Insurance Relations) of the DPA></a>

- (1) Insurance relations among the Corporation, an insured financial institution, and depositors shall be formed and effected when a depositor holds claims such as deposits against an insured financial institution.
- (2) Any insured financial institution shall indicate whether insurance relations have been created and their contents under paragraph (1) on such terms and conditions as the Corporation may determine.
- (3) The Corporation may investigate whether any insured financial institution has indicated whether insurance relations have been built and their contents under the provisions of paragraph (2).

The KDIC provided an on-site education program to 2,400 employees of 151 financial institutions over 26 times in 2006. The program was initiated in the latter half of 2005 to raise the understanding of employees of insured financial institutions.

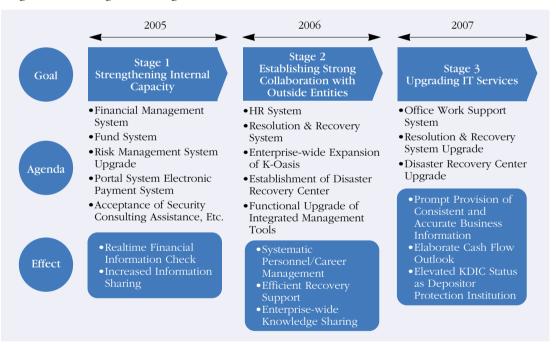
# 3-4. IT Advancement for Vision Achievement

# A. Mid- to Long-term IT Advancement Plan

# (1) Implementation of IT Advancement Vision

The KDIC established the EAP (Enterprise Architecture Planning) in 2004 to systematically support its vision achievement, and to actively and flexibly respond to changes in information technologies. In 2006, with view to "establishing strong collaboration system with outside entities" (Stage 2 action agenda), the Corporation built an efficient support system in line with the changes in its core operations through development of e-HR and enterprise-wide expansion of K-Oasis, and established a disaster recovery center for physical stability of its electronic system.

<Figure II-6> 3 Stage Action Agenda for IT Vision



# (2) Reorganization of Basis for IT Advancement

The KDIC operated the IT Advancement Committee to institutionally support the measures to promote the efficiency of the procedures for development/operation and ex post facto management of information system. It also ordered departments requesting system development to submit a development plan, and reorganized relevant regulations such as matters on procedures related to development and ex post facto management of the information system. In addition, it developed a crisis countermeasure manual to effectively

deal with financial crises such as system paralysis or interruption resulting from natural, artificial, technical or electronic disasters.

The Corporation assessed the utilization rate and user satisfaction level of the business process system through improved assessment criteria to reinforce ex post facto management of the system for the second time since 2005, and succeeded in reducing budgetary wastes through prevention of unnecessarily redundant investments by checking whether the system attains its development goals, and by identifying and resolving problems in the system usage.

# B. Development and Functional Improvement of Work Support System

- (1) Service Enhancement through Deposit Insurance Support System for Customers
- 1) Functional Enhancement of Uncollected Insurance Notification System

The convenience for service users was drastically improved in 2006 with an increased number of bank branches paying uncollected deposit insurance money and addition of the menu for searching the branches by region. Furthermore, the search menu was integrated with that of the Uncollected Dividend Notification System developed in 2006, enabling users to enjoy a one-stop service without having to login again.

## 2) Establishment of Uncollected Dividend Notification System

A notification system, where users can search bankruptcy dividends on the internet regardless of time and space, was established as part of a campaign to deliver uncollected dividends of bankrupt financial institutions to creditors. The system enabled bankruptcy creditors to immediately search the amount of uncollected dividends, the contact numbers of concerned bankruptcy estates as well as collection procedures.

- (2) Enhancement of Support System Services for Insured Financial Institutions
- 1) Establishment of Insurance Premium Calculation System

Before the insurance premium calculation system was established, insured financial institutions had to submit to the KDIC by mail the data on calculation of premiums/special assessment payments/contributions, and the Corporation experienced some difficulty in managing such data. However, the system allowed the institutions to send the data through the internet, increasing convenience for both the Corporation and the insured institutions.

2) Expansion of Deposit Trend System

The KDIC developed the Deposit Trend System in 2003 to promote convenience in analyzing the trends of insured deposits and collecting related data. Life and non-life insurance companies as well as securities companies became subject to the System's data collection in 2006 in addition to bank, mutual savings banks and merchant banks.

#### (3) Functional Enhancement of IISM

The Insolvency Investigation and Suit Management System (IISM) has been used for efficiency in investigating and collecting assets of parties implicated in insolvencies. The DPA revised in 2006 allowed the KDIC to collect a large amount of financial transaction data from insured financial institutions. This added en bloc input and management of data to the functions of IISM, and thus required improvement of the manual data input method. In consideration of the urgency of the issue, the Corporation decided to make timely improvements to the system for its application in site operations.

# (4) Functional Improvement of FIAS

The Financial Information Analysis System (FIAS) was built for systematic and stable management of the original copies of various reports submitted by the FSS, etc. To correct errors in the reports' format information and promote reliability of the data submitted under the system, the meta method\* of the FSS was adopted for search of original copies. The method was used in separation and storage of 3 types of information including the report preparer, format and data, and in timely correction and analysis of format information in case of a change, thus improving the reliability of the original copies.

\* Meta Method : A method used for correcting errors in a report through one-on-one comparison of the report's format information with data value.

The OLAP (OnLine Analytical Processing) was also used to help users in report analysis by allowing advanced search under various terms and increasing user accessibility through web OLAP.

- (5) Integration of Internal Information System for User-oriented Information Environment
- 1) Development of e-HR

The development of e-HR was initiated in September 2006 to establish a human resources management system that organically inter-links employment, positioning, fostering, evaluation, compensation and welfare of employees. The system is currently under progress with a view to complete the 1<sup>st</sup> stage of development in December 2006, the 2<sup>nd</sup> stage in July 2007 and the 3<sup>rd</sup> stage in September 2007. The areas to be developed in each stage include the search menu

II. Organization and Operations 🗸 ´

for general HR information and statistical information in the 1<sup>st</sup> stage; organization, HR, wages and the benefits package in the 2<sup>nd</sup> stage; and training and CDP in the 3<sup>rd</sup> stage.

# 2) Development of Integrated Asset Management System

For increased operational efficiency in the asset management system, efficient asset management through reliable buildup and inspection of data, and accurate assessment (including public fund recovery estimates) and report, the KDIC launched a project to establish an integrated asset management system encompassing funds and assets of bankruptcy estates and the RFC in November 2006. It plans to complete the project by September 2007.

# (6) Electronic Support for Management Innovation Activities

# 1) Development of Internal Accounting System

An internal accounting system was developed to establish proper accounting procedures and enhance transparency and reliability of financial statements through tight control and monitoring of DIF usage. Under the system, major processes of the Corporation's fund accounting were defined, the purpose and procedures of control were put into the system database, and the systems for self-evaluation of control and monitoring were developed together, in order to strengthen the Corporation's internal control based on the information system.

# 2) Definition and Functional Improvement of K-Oasis Knowledge Map

K-Oasis was built in 2004 to systematically collect and manage non-financial information on insured financial institutions. The new version of the system integrated and reorganized in April 2006 provides an integrated search screen using a portal system and some menus in the homepage of the portal site. Also, a new project on the "definition and functional improvement of the knowledge map (scheduled for completion in February 2007)" is underway to design the additionally unified knowledge map, improve user convenience, and to upgrade the knowledge entry evaluation system.

# C. Establishment and Operation of Disaster Recovery Center

The KDIC disaster recovery center was opened in the electronic center of Koscom in Anyang to put in place a disaster countermeasure system, prevent important data losses, and ensure service continuity for the public in case of a disaster. This was a move to prepare the foundation for real time data replication through safe and prompt data transmission using the

high-speed private line between the Corporation's electronic center and the disaster recovery center.

In addition, a guideline on the operation of disaster recovery system was established to develop an organizational structure for disaster recovery. Regular simulation trainings were also conducted every month so that the Corporation can continue to store important data and provide services to the public in the face of disasters.

# D. Establishment of Integrated Security Management System

An integrated security management system was introduced in accordance with the "Mid- to Long-term Plan for Information Security (established in November 2005)" to effectively protect the Corporation's information assets and prevent infringement of such assets in advance. The system collects and analyzes various event logs in the system.

II. Organization and Operations

# III. Management of the Deposit **Insurance Fund**

As of January 1, 2003, the Public Fund Redemption Plan ("Redemption Plan"), prepared by the government in 2002, separated the assets and liabilities of the existing Deposit Insurance Fund (DIF) that had been used in the restructuring process, and established the Deposit Insurance Fund Bond Repayment Fund ("Repayment Fund"). The Repayment Fund was given the task of completing the financial restructuring efforts and conducting recovery and repayment of public funds. The new DIF, which started from a clean slate with insurance premiums from 2003, conducts the day-to-day operations of the Fund relating to insolvencies from 2003 onwards.

# 1. Deposit Insurance Fund Bond Repayment Fund

# 1-1. Procurement and Repayment of the Deposit Insurance Fund

# A. Special Assessment Payments

Pursuant to paragraph 3 of Article 30 of the Depositor Protection Act (DPA) and paragraph 2 of Article 16 of the DPA Enforcement Decree, for the period 2003 to 2027, insured financial institutions are required to pay a given ratio of their deposit balances (deposit balances for insurance companies, for example, would be the arithmetic average of the deposit liability reserve fund and the premiums received) to the KDIC, as Special Assessment Payments (SAPs). At present, banks are required to pay SAPs within one month following the end of each quarter. Other insured financial institutions are required to pay their premiums within three months following the end of each business year. In 2006, the KDIC received SAPs in the amount of 713.3 billion won from six insured financial sectors.

< Table III-1> Special Assessment by Financial Sector

	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions	
Applied Special Assessment Rate	1/1,000	1/1,000	1/1,000	1/1,000	1/1,000	1/1,000	
Legal Upper Limit	3/1,000	3/1,000	3/1,000	3/1,000	3/1,000	3/1,000	

# <Table III-2> Special Assessment Revenues

(Unit: 100 million won)

		Securities	Insurance	Companies	Merchant		Credit		
Year Banks	Companies	Life	Non-Life	Banks	MSBs	Unions <sup>1)</sup>	Total		
2003	4,775	156	889	185	20	222	-	6,247	
2004	4,956	168	978	198	6	264	-	6,570	
2005	4,871	145	1,069	219	5	319	-	6,628	
2006	4,987	151	1,160	242	6	370	216	7,133	
Total	19,589	620	4,096	844	37	1,175	216	26,578	

<sup>1)</sup> Credit unions will make payments from 2006 to 2017

# B. Contributions from the Public Fund Redemption Fund

In accordance with the Redemption Plan, the KDIC has received a total of 52.31 trillion won as contributions from the Repayment Fund during four years from 2003 and 2006 including 12.39 trillion won received in 2006, to pay for the principal of Deposit Insurance Fund Bonds ("DIF Bonds").

# C. Issuance and Redemption of Deposit Insurance Fund Bonds

As provided in Article 26-2 and 26-3 of the DPA, the KDIC can issue DIF Bonds. During 1998-2001, the KDIC issued DIF Bonds on 77 different occasions and yielded a total of 83.5 trillion won. Since 1998, the KDIC has thus issued DIF Bonds amounting to a total of 87.16 trillion won, including bonds worth 3.66 trillion won issued in 2002. It has not issued any DIF Bonds since 2003 when the Repayment Fund was established.

The DIF Bond issuance amount was placed under the Repayment Fund in 2003 according to the Redemption Plan. The DIF Bonds that matured since 2003 were repaid with contributions from the Redemption Fund, capital raised through the issuance of Deposit Insurance Fund Bond Repayment Fund ("Repayment Fund Bonds") and existing funds in the Repayment Fund, etc. The principal amount of DIF Bonds maturing in 2006, which came to a total of 19.64 trillion won, were repaid with contributions from the Redemption Fund (12 trillion won), capital raised through the issuance of Repayment Fund Bonds (2.78 trillion won) and existing funds in the Repayment Fund (4.28 trillion won). The balance of DIF Bonds as of the end of 2006 recorded 17.46 trillion won.

<Table III-3> Issuance and Redemption of Deposit Insurance Fund Bonds by Year

(Unit: 100 million won)

Issue Year	Issued Amount	Repaid Amount	Balance
1998	210,150	-	210,150
1999	224,850	-	435,000
2000	89,407	-	524,407
2001	310,593	14,640	820,360
2002	36,600	47,215	809,745
2003	-	97,371	712,374
2004	-	166,228	546,146
2005	-	180,904	365,242
2006	-	190,636	174,606
Total	871,600	696,994	-

# D. Issuance and Redemption of Deposit Insurance Fund Bond Repayment Fund Bonds

Under Article 26-2 and 26-3 of the DPA, the KDIC is authorized to issue Deposit Insurance Fund Bond Repayment Fund Bonds ("Repayment Fund Bonds") to repay the principal of DIF Bonds. The Corporation issued Repayment Fund Bonds in the amount of 2.5 trillion won through public offering and 370.5 billion won through private offering in 2006. The publicly offered bonds were issued at a fixed rate with a five-year maturity. The 315.5 billion won out of 370.5 billion won of the amount of bonds issued through private offering were repaid in 2006, leaving the balance of Repayment Fund Bonds at 16.49 trillion won as of late 2006.

<Table III-4> Issuance of DIF Repayment Fund Bonds by Year

(Unit: 100 million won)

Issue Year	Issued Amount	Repaid Amount	Balance
2004	65,000	-	65,000
2005	74,400	-	139,400
2006	28,705	3,155	164,950
Total	168,105	3,155	-

# E. Borrowings

The KDIC is authorized, when necessary, for payment of insurance claims or resolution of insolvent financial institutions, to borrow funds from various entities including the government, the Bank of Korea, insured financial institutions or institutions stipulated by Presidential Decree. The Corporation borrowed necessary funds from the IBRD, the ADB, and financial institutions up to 2002.

The previous borrowings of the KDIC were placed under the Repayment Fund, established in

2003. As the KDIC became exempt from repaying all previous fiscal borrowings, in accordance with the Public Fund Redemption Fund Act, it made no borrowings since January 1, 2003. In 2006, the Corporation repaid 116.8 billion won (US\$100 million) of principal amount of loans from the IBRD as scheduled. The outstanding balance of its borrowings as of the end of 2006 stood at 817.6 billion won.

<Table III-5> Borrowings of DIF Repayment Fund

(Unit: 100 million won)

		Lender Ir	ıstitution		Repaid	Outstanding
Year	Financial Institutions	IBRD and ADB <sup>1)</sup>	Government	Total	Amount	Balance
Amount Received	76,011	-	-	76,011	-	76,011
1998	3,295	2,416	10,582	16,293	9,337	82,967
1999	13,870	12,016	26,254	52,140	33,870	101,237
2000	90,028	13	39,533	129,574	9,802	221,009
2001	-	8	49,672	49,680	110,196	160,493
2002	-	-	59,553	59,553	3	220,043
2003	-	-	-	-	195,933	24,050
2004	-	-	-	-	11,168	12,882
2005	-	-	-	-	3,538	9,344
2006	-	-	-	-	1,168	8,176
Total	183,204	14,453	185,594	383,251	375,075	-

<sup>1)</sup> International Bank for Reconstruction and Development and Asian Development Bank

# 1-2. Assistance

# A. Overview

The KDIC provides public funds from the Repayment Fund, in the form of insurance claim payments and equity participation etc., to enable the resolution of insolvent financial institutions. In accordance with the DPA, the Repayment Fund is responsible for costs arising from the resolution of financial institutions that have become, or were designated as, insolvent financial institutions before 2002 year-end.

The Repayment Fund provided a total of 587.5 billion won in public funds during 2006, of which 392.8 billion won (66.9%) was for equity participation, and 194.7 billion won (33.1%) for purchase of assets.

< Table III-6> Financial Assistance by Deposit Insurance Fund During 2006

(As of December 31, 2006, Unit: 100 million won)

Financial Sector	Contribution	Insurance Claim Payment	Asset Purchase	Total
Banks	4	-	-	4
Securities Companies	853	-	1,945	2,799

Financial Sector	Contribution	Insurance Claim Payment	Asset Purchase	Total
Insurance Companies	-	-	-	-
Merchant Banks	2,570	-	-	2,570
MSBs	501	3	-	504
Credit Unions	-	△1	-	△1
Total	3,928	2	1,945	5,875

The total amount of public funds provided by the Repayment Fund for the restructuring of financial institutions comes to 112.1 trillion won as of year-end 2006. The amount includes 48.9 trillion won (43.6%) in equity participation for management normalization, 18.5 trillion won (16.5%) in contributions for P&As (purchase & assumptions), 30.3 trillion won (27.0%) for payments of insurance claims and 14.4 trillion won (12.9%) for purchase of other assets, etc.

<Table III-7> Financial Assistance by Repayment Fund

(As of December 31, 2006, Unit: 100 million won)

Financial Sector	Equity Participation	Contribution	Insurance Claim Payment	Asset Purchase	Loan	Total
Banks	222,039	139,048	-	100,064	-	461,152
Securities Companies	80,769	3,368	144	19,045	-	103,326
Insurance Companies	159,198	31,171	-	3,495	-	193,863
Merchant Banks	27,052	7,431	182,718	-	12,917	230,118
MSBs	101	3,762	72,768	-	8,532	85,163
Credit Unions	-	-	47,576	-	367	47,944
Total	489,158	184,779	303,207	122,604	21,817	1,121,565

# B. Assistance by Financial Sector

# (1) Banks

In 1999, a formal agreement was made with New Bridge Capital for the sale of Korea First Bank, which states that the KDIC would provide financial support in the form of contribution to the bank for losses occurred from lawsuits concerning business operations prior to the acquisition. The KDIC provided 400 million won to the bank in the form of contribution in 2006.

<Table III-8> Financial Assistance Provided to Banks

(As of December 31, 2006, Unit: 100 million won)

Name of	Equity Participation					Contri	Asset Purchase					
Institution	Prior to 2003	2004	2005	2006	Prior to 2003	2004	2005	2006	Prior to 2003	2004	2005	2006
Korea First	50,248	-	-	-	10,1751)	79	1,129	4	79,476	-	-	-
Woori	60,286	-	-	-	18,772	-	-	-	-	-	-	-

Name of	Equi	ity Part	icipati	on		Contri	bution		As	set Pu	rchase	
Institution	Prior to 2003	2004	2005	2006	Prior to 2003	2004	2005	2006	Prior to 2003	2004	2005	2006
Seoul	46,809	-	-	-	2,216	-	-	-	-	-	-	-
Chohung	27,179	-	-	-	-	-	-	-	-	-	-	-
Peace	4,930	-	-	-	3,386	-	-	-	-	-	-	-
Kyungnam	2,590	-	-	-	938	-	-	-	-	-	-	-
Kwangju	1,704		-	-	2,714	-	-	-	-	-	-	-
Jeju	531	-		-	1,651	-	-	-	-	-	-	-
Koookmin	2,000	-		-	18,308	11	-	-	179	-	-	-
Н&СВ	2,965	-	-	-	17,995	80	-	-	538	-	-	-
Shinhan	2,925	-	-	-	25,204	-	-	-	591	-	-	-
Hana	4,728	-	-	-	11,161	-	-	-	54	-	-	-
KorAm	2,600	-	-	-	24,356	-	-	-	226	-	-	-
KDB	-	-	-	-	-	-	-	-	13,000	-	-	-
IBK	-	-	-	-	-	-	-	-	6,000	-	-	-
AC	962	-	-	-	870	-	-	-	-	-	-	-
FC	11,581	-	-	-	-	-	-	-	-	-	-	-
Chungbuk	-	-	-	-	-	-	-	-	-	-	-	-
RFC	1	-	-	-	-	-	-	-	-	-	-	-
Total	222,039	-	-	-	137,746	170	1,129	4	100,064	-	-	-

<sup>1)</sup> Includes 407.9 billion won in asset purchase according to post-sale settlement

# (2) Securities Companies

In 2006, the KDIC provided additional contributions worth 23.7 billion won and 12.6 billion to Korea Investment & Securities and Daehan Investment & Securities, respectively, following the sale of the two companies in 2005. The measure was aimed at covering for losses related to lawsuits incurred by the companies, in accordance with the indemnification clause in the Agreement on Sales and Purchase of Shares.

Upon the disposition of its stake (80%) in Prudential Investment & Securities (now Hyundai Securities), the Corporation, in accordance with the Agreement on Sales and Purchase of Shares, provided 49.1 billion won as contributions to the company for indemnification, and purchased 194.5 billion won of subordinated CBOs pursuant to the agreement with the company in 2006.

# <Table III-9> Financial Assistance Provided to Securities Companies

(As of December 31, 2006, Unit: 100 million won)

Name of   Equity Participa		ticipation	Contribution <sup>1)</sup>		Asset P	urchase	Insurance Claim Payment²)	
Institution	2005 and Earlier	2006	2005 and Earlier	2006	2005 and Earlier	2006	2005 and Earlier	2006
Jangeun Securities	-	-	-	-	-	-	40	-

Name of	Equity Par	ticipation	Contrib	oution¹)	Asset P	urchase	Insurand   Paym	ce Claim nent²)
Institution	2005 and Earlier	2006	2005 and Earlier	2006	2005 and Earlier	2006	2005 and Earlier	2006
Dongbang Peregrine Securities	-	-	-	-	-	-	100	-
Hannam Investment & Securities	-	-	-	-	-	-	1	-
Korea Industrial Securities	-	-	-	-	-	-	3	-
Korea Investment Trust Management & Securities	38,649	-	517	237	4,830	-	-	-
Daehan Investment & Securities	23,003	-	502	126	6,539	-	-	-
Prudential	19,116	-	1,494	491	5,730	1,945	-	-
Total	80,769	-	2,514	853	17,099	1,945	144	-

<sup>1)</sup> Includes contributions for losses occurred after the sale (Korea Investment Trust Management Securities Co. : 2.54 billion won, Daehan Investment Trust Securities Co. : 12.8 billion won)

# (3) Insurance Companies

The KDIC did not provide any funds to insurance companies in the form of equity participation or contributions during 2006. It may, however, offer financial assistance to Mirae Asset Life (now SK Life) depending on judicial decisions of the lawsuits filed during the indemnification period regarding the sale of Kookmin Life and Handuk Life.

<Table III-10> Financial Assistance Provided to Insurance Companies

(As of December 31, 2006, Unit: 100 million won)

Name of	Equity	Parti	cipatio	n	Со	ntribu	ıtion		Asset Purchase			
Institution	2003 and Earlier	2004	2005	2006	2003 and Earlier	2004	2005	2006	2003 and Earlier	2004	2005	2006
Seoul Guarantee	102,500	-	-	-	-	-	-	-	-	-	-	-
Korea Life	35,500	-	-	-	-	-	-	-	-	-	-	-
Korea Life (Acquisition of Hyundai Life)	-	-	-	-	7,716	-	-	-	48	-	-	-
Korea Life (Acquisition of Samshin Life)	-	-	-	-	1,518	-	-	-	-	-	-	-
Daehan Cement (Acquisition of Daehan Fire)	0.5	-	-	-	509	-	-	-	-	-	-	-

Nan	ne of	Equity	Partio	cipatio	n	Со	ntribu	ition		Asse	et Pur	chase	
	tution	2003 and Earlier	2004	2005	2006	2003 and Earlier	2004	2005	2006	2003 and Earlier	2004	2005	2006
(Acqui	narmaceutical isition of en Fire)	0.5	-	-	-	739	-	-	-	-	-	-	-
(Acqui	no Life sition of ah Life)	10,922	-	-	-	754	-	-	-	2,711	-	-	-
(Acqui	Life sition of nin Life)	2,862	-	-	-	239	59	-	-	168	-	-	-
(Acqui	ang Life sition of gyang Life)	2,597	-	-	-	451	-	-	-	289	-	-	-
(Acqui	Life sition of ick Life)	3,350	-	-	-	384	3	-	-	279	-	-	-
(Acqui	dai Life sition of ın Life)	1,166	-	-	-	111	-	-	-	-	-	-	-
(Acqui	a Life sition of on Life)	300	-	-	-	2,967	-	-	-	-	-	-	-
(Acqui	ing Life sition of je Life)	-	-	-	-	4,351	-	-	-	-	-	-	-
(Acqui	oo Life sition of C Life)	-	-	-	-	2,411	-	-	-	-	-	-	-
(Acqui	xook Life sition of ng Life)	-	-	-	-	2,792	-	-	-	-	-	-	-
(Acqui	Life sition of o Life)	-	-	-	-	2,087	-	-	-	-	-	-	-
	Oriental Fire	-	-	-	-	225	-	16	-	-	-	-	-
Acquisi-	Samsung Fire	-	-	-	-	1,526	-	5	-	-	-	-	-
tion of Regent Fire	Hyundai Marine & Fire	-	-	-	-	437	-	9	-	-	-	-	-
	LG Fire	-	-	-	-	193	-	4	-	-	-	-	-
	Dongbu Fire	-	-	-	-	5	-	5	-	-	-	-	-
(Acqui	Cross Life sition of in Life)	-	-	-	-	1,393	-	-	-	-	-	-	-
	Acquisition nil Life)	-	-	-	-	-	262	-	-	-	-	-	-
Т	otal	159,198	-	-	-	30,808	324	39	-	3,495	-	-	_

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<sup>2)</sup> Based on the amount of required payments

# (4) Merchant Banks

The Deposit Insurance Committee decided on January 8, 2003, to settle the Credit & Obligations Transfer Agreement, signed on March 31, 2001, at the end of 2005. The Agreement stipulates that KDIC pay dividends of bankruptcy estates of four merchant banks to Woori Investment Bank (Woori Investment Bank merged into Woori Bank on August 1, 2003). However, the Corporation was unable to make the payment since the settlement was made on a holiday. Thus, it paid 257 billion won out of a total of 743.1 billion to the bank on the next business day, which is January 2, 2006, in addition to the 486.1 billion it recovered as bankruptcy dividends and already paid out.

<Table III-11> Accounts Payable to Woori Investment Bank

(As of December 31, 2006, Unit: 100 million won)

			(113 01 15)	ecember 31, 2000, Unit : 100 million Won)
Category		Date	Amount	Notes
Total Amount of	Initial	Mar. 31, 2001	7,424	Conclusion of Transfer Agreement
Accounts Payable (A)	Changes	Apr. 2001-Mar. 2002	71)	Adjustment of Transfer Agreement
Total			7,431	
		Dec. 20, 2001	343	B.D. <sup>3)</sup> of Youngnam Merchant Bank
		Mar. 30, 2002	177	B.D. of Korea Merchant Bank
		Nov. 20, 2002	419	B.D. of Youngnam Merchant Bank
		Nov. 27, 2002	234	B.D. of Joongang Merchant Bank
		Feb. 24, 2003	168	B.D. of Hans Merchant Bank
		Jun. 30, 2003	269	B.D. of Joongang Merchant Bank
Repayment Amount (B)	Details	Jun. 30, 2003	210	B.D. of Youngnam Merchant Bank
Repayment Amount (b)	Details	Jun. 2, 2004	2,141	B.D. of Korea Merchant Bank
		Jun. 30, 2004	227	B.D. of Joongang Merchant Bank
		Dec. 22, 2004	139	B.D. of Hans Merchant Bank
		Jan. 25, 2005	153	B.D. of Youngnam Merchant Bank
		Feb. 23, 2005	160	B.D. of Joongang Merchant Bank
		Aug. 5, 2005	222	B.D. of Korea Merchant Bank
		Jan. 2, 2006	2,5702)	Balance of Accounts Payable
Total			7,431	

<sup>1)</sup> Woori Investment Bank's asset/liability transfer proceeds changed in accordance with the changes in the P&A agreements (due diligence reports) of the 4 merchant banks (Mar. 31, 2002)

< Table III-12> Financial Assistance Provided to Merchant Banks

(As of December 31, 2006, Unit: 100 million won)

27	Equity Participation		Contribution		Deposit Payoff		Loan	
Name of Institution	2005 and Earlier	2006	2005 and Earlier	2006	2005 and Earlier	2006	2005 and Earlier	2006
Kyungnam	-	-	-	-	5,652	-	-	-
Kyungil	-	-	-	-	2,990	-	-	-
Koryo	-	-	-	-	4,706	-	-	-
Kumho	-	-	-	-	-	-	375	-

	Equity Parti	icipation	Contrib	ution	Deposit l	Payoff	Loai	ı
Name of Institution	2005 and Earlier	2006	2005 and Earlier	2006	2005 and Earlier	2006	2005 and Earlier	2006
Nara	-	-	-	-	27,779	-	-	-
Daegu	-	-	-	-	6,725	-	502	-
Daehan	-	-	-	-	25,903	-	-	-
Tongyang	-	-	-	-	-	-	1,200	-
Samsam	-	-	-	-	8,145	-	-	-
Samyang	-	-	-	-	3,194	-	250	-
Saehan	-	-	-	-	7,889	-	4,238	-
Shinsegae	-	-	-	-	7,520	-	-	-
Shinhan	-	-	-	-	22,242	-	-	-
Ssangyong	-	-	-	-	6,662	-	-	-
Youngnam	1,717	-	-	-	1	-	370	-
Ulsan	-	-	-	-	-	-	200	-
Jeil	-	-	-	-	16,529	-	1,118	-
Joongang	0.5	-	-	-	-	-	-	
Chungsol	121	-	-	-	1,477	-	1,275	-
Hanaro	24,912	-	4,861	2,570	-	-	-	-
Korea	0.5	-	-	-	-	-	914	-
Hangi	-	-	-	-	6,547	-	1,139	-
Hansol	-	-	-	-	9,220	-	-	-
Hans	0.5	-	-	-	-	-	300	-
Hanareum	300	-	-	-	-	-	-	-
Hanwoi	-	-	-	-	-	-	531	-
Hanwha	-	-	-	-	14,343	-	-	-
Hangdo	-	-	-	-	5,194	-	-	-
Hyundai	-	-	-	-	-	-	505	-
Total	27,052	-	4,861	2,570	182,718	-	12,917	-

# (5) Mutual Savings Banks

Financial assistance was provided to 14 mutual savings banks (MSBs) including Boomin Mutual Savings and Finance Co. that had acquired insolvent banks through contract transfer before 2002, in order to indemnify for the losses incurred in the process of acquisition. A total of 50.1 billion won of contributions was given to such MSBs in 2006.

<Table III-13> Financial Assistance Provided to Mutual Savings Banks

(As of December 31, 2006, Unit: 100 million won)

			(A	s of December 31,	2006, Unit : 10	0 million won)	
		ticipation	Contr	ibution	Deposit Payoff		
Name of Institution	2005 and Earlier	2006	2005 and Earlier	2006	2005 and Earlier	2006	
New Choongbuk	100	-	-	-	161	-	
Kisan	-	-	-	-	541	-	
Dongwha	-	-	-	-	639	-	
Ilshin	-	-	-	-	155	-	
Dong-ah	-	-	-	-	104	-	
Kyungbuk	-	-	-	-	170	-	

<sup>2)</sup> The balance of accounts payable paid out with the settlement of Credit & Obligations Transfer Agreement

<sup>3)</sup> Bankruptcy dividends

	Equity part	ticipation	Contri	ibution	Deposit Payoff		
Name of Institution	2005 and Earlier	2006	2005 and Earlier	2006	2005 and Earlier	2006	
Saenuri	-	-	11	2	413	-	
Daewon	-	-	-	-	563	-	
Choongi	-	-	-	-	89	-	
Daejeon	-	-	-	-	102	-	
Haedong	-	-	-	-	263	-	
Choongnam	-	-	-	-	45	-	
Pusan2	-	-	-	-	271	-	
Union	-	-	32	7	518	-	
Arim	-	-	-	-	615	-	
Korea Investment (Dongwon)	-	-	41	10	783	-	
MS (Choil)	-	-	20	4	738	-	
Domin	-	-	20	3	709	-	
Kyunggi	-	-	213	21	1,654	-	
Boomin	-	-	198	34	-	-	
Hanmaum	-	-	522	-	-	-	
Kyungbuk	-	-	68	12	-	-	
Shilla (Telson)	-	-	583	110	-	-	
Hanaro	-	-	317	60	-	-	
Solomon	-	-	499	94	-	-	
J-1	-	-	233	46	-	-	
Sangup	-	-	504	98	-	-	
RFC	11)	-	-	-	-	-	
Total	101	-	3,261	501	8,532	-	

<sup>1)</sup> Equity participation in Hanarum Mutual Credit Cooperatives that merged into the Resolution & Finance Corporation as of December 2001

Since 1998, insurance claims have been provided to MSBs which became insolvent. Even the MSBs which became insolvent before 2002 were given additional insurance payments when they won the suit on request for payments or the reason for payment referral was removed.

<Table III-14> Insurance Claim Payments to Mutual Savings Banks

(Unit: 100 million won)

		(Clift : 100 million won)
Year	No. of Institutions <sup>1)</sup>	Payment Amount
1998	17	14,705
1999	19	14,272
2000	11	6,500
2001	5	29,537
2002	10	7,719
2003	7	5
2004	8	26
2005	7	1
2006	8	3
Total	-	72,768

<sup>1)</sup> The total number of institutions provided with insurance claim payments from the DIF Bond Repayment Fund is 75.

## (6) Credit Unions

There have been no new insolvencies with respect to credit unions since 2004 as they have been excluded from the institutions which are objects of application of deposit insurance pursuant to Article 2 and addenda of the DPA. However, additional insurance payments were provided to the unions when they had won the suit on request for payments or the reason for payment referral had been removed. In 2006, the amount of recapture of insurance payments due to the setoff of insurance payments and guaranty obligation was 100 million won greater than the amount of payments.

<Table III-15> Insurance Claim Payments to Credit Unions

(Unit: 100 million won)

Year	No. of Institutions <sup>1)</sup>	Payment Amount
1998	39	4,306
1999	95	8,302
2000	122	3,991
2001	127	3,892
2002	235	16,060
2003	248	10,950
2004	173	61
2005	195	16
2006	196	-1
Total	-	47,576

<sup>1)</sup> The total number of institutions provided with insurance claim payments from the DIF Bond Repayment Fund is 325.

# 1-3. Recovery

## A. Overview

The KDIC uses a number of methods to recover public funds extended, depending upon the form of support provision. First, it recovers funds injected in the form of equity participation through disposition of its equity stakes. Second, it makes recovery of funds provided as contributions on deposit payoffs, for financial institutions that closed because their liabilities exceeded their assets, by receiving dividends through participation in the bankruptcy procedure of the concerned institution. Third, in the case of assets the Corporation has assumed and loans it extended to financial institutions, it recovers the funds through disposition of assets or collection of loans using a variety of methods. The accumulated amount of public funds recovered as of the end of 2006 recorded 36.56 trillion won including 3.24 trillion won recovered in 2006 alone.

# <Table III-16> DIF Bond Repayment Fund (Public Fund) Recovered in 2006

(As of December 31, 2006, Unit: 100 million won)

			(	Beechiber 31, 20	,	
Financial Sector	Equity Participation	Contribution	Bankruptcy Dividend <sup>1)</sup>	Recovery of Loan	Asset Sale <sup>2)</sup>	Total
Banks	15,855	59	-	-	1,235	17,149
Securities Companies	-	526	-	-	1,610	2,136
Insurance Companies	5,456	422	222	-	50	6,150
Merchant Banks	73	49	4,351	-	-	4,473
MSBs	-	14	759	567	-	1,340
Credit Unions	-	-	1,166	-	-	1,166
Total	21,384	1,070	6,497	567	2,894	32,414

<sup>1)</sup> Includes bankruptcy dividend resources reimbursed by the RFC

< Table III-17 > Total DIF Bond Repayment Fund (Public Fund) Recovered

(As of December 31, 2006, Unit: 100 million won)

Financial Sector	Equity Participation	Contribution	Bankruptcy Dividend <sup>1)</sup>	Recovery of Loan	Asset Sale <sup>2)</sup>	Total
Banks	104,781	420	16,853	-	43,669	165,722
Securities Companies	11,279	2,833	65	-	6,973	21,149
Insurance Companies	13,962	783	3,685	-	1,877	20,307
Merchant Banks	330	49	68,289	10,445	-	79,113
MSBs	-	314	44,143	2,150	-	46,608
Credit Unions	-	4	32,395	355	-	32,754
Total	130,350	4,404	165,430	12,950	52,518	365,653

<sup>1)</sup> Includes bankruptcy dividend resources reimbursed by Resolution Financial Institutions

# B. Disposition of Equity Stake

The equity investments the KDIC has recovered until now can be categorized into those from banks (recovery of equity investments in Korea First Bank; recovery of preferred shares of banks that acquired the five failed banks; sale of shares of Jeju Bank, Woori Financial Group; Shinhan Financial Group and Chohung Bank; sale of Seoul Bank), securities companies (sale of shares of Hyundai Investment and Securities Co., Korea Life Insurance and Daehan Investment & Securities), insurance companies (sale of shares of Daehan Life Insurance) and from others (recovery of National Agricultural Cooperative Federation (NACF) preferred stocks). In 2006, the KDIC recovered 2.14 trillion won from selling its shares.

# (1) Banks

The KDIC recovered 1.58 trillion won from selling its shares in banks in 2006. As for the disposition of Chohung Bank, the KDIC and Shinhan Financial Group signed a sales

agreement which states that the maximum sale value should be set at 3.37 trillion won and that payment should be made both in cash (1.72 trillion won) and callable preferred shares as well as callable convertible preferred shares of Shinhan (91 million shares). The 900 billion won of the cash portion was recovered on August 19, 2003, and 368.2 billion won from the remaining 818.8 billion was collected in February 2006, excluding the 450.6 billion that was determined to be unrecoverable for indemnification purpose. Also, 1.04 trillion won was recovered in April 2006 through the sale of 22 million callable convertible preferred shares that were repaid in November 2005, and 168.5 billion won was recovered when 9 million callable preferred shares were repaid in August 2006.

In an effort to help the NACF maintain its BIS ratio, which had dropped when it purchased the assets of the Korea Federation of Livestock Cooperatives, the KDIC acquired preferred stocks of the NACF amounting to 96.2 billion won in September 28, 2001. In accordance with the agreement on the financial assistance, the KDIC recovered 48.1 billion won in September 2005 and 48.1 billion won in September 2006 from the Federation.

## (2) Insurance Companies

For management normalization of Seoul Guarantee Insurance Company (SGIC) that became insolvent through guarantee of corporate bonds, the KDIC provided, from June 1999 to November 2001, a total of 10.25 trillion won, all in the form of equity participation, to be used for flexibility increase and payoff of corporate bonds including Daewoo bonds. As a result, the SGIC achieved management normalization as well as dramatically improved financial conditions by producing a massive net income from the business year 2003, with net assets worth 1.86 trillion won and solvency margin ratio of 1,425% as of the end of March 2006. In spite of such achievement, the SGIC has not been able to reimburse public funds with dividends, etc. because of its large volume of accumulated losses (8.66 trillion won as of March 2006). The insurer also had to address the need to raise capital efficiency by maintaining an appropriate level of capital, and to prevent risk-causing factors and moral hazard, resulting from an excess of equity capital.

Thus it was decided that the SGIC will reimburse public funds through profit distribution by resolving the accumulated losses through capital reduction without consideration, and that it will repay the equity capital which exceeds the appropriate level through capital increase with consideration.

Following deliberations by the Sales Examining Subcommittee on January 6, 2006 and the Public Fund Oversight Committee on January 16, 2006, the SGIC underwent a capital reduction amounting to a total of 9.21 trillion won without consideration including 550 billion won of shareholders' repayments as well as 8.66 trillion won to make up for the loss

<sup>2)</sup> Includes asset sale proceeds reimbursed by the RFC

<sup>2)</sup> Includes asset sale proceeds reimbursed by Resolution Financial Institutions

carryforwards in common shares and preferred shares. On March 30, 2006, the company repaid public funds worth 545.6 billion to the KDIC with gains from the capital reduction with consideration.

After two years since the completion of the sale of Korea Life Insurance, some problems were found in connection to Hanwha Group's acquisition of the insurance company when the Group's executive member in charge of the acquisition was arrested. The prosecution disclosed that the Group made a side deal with Macquarie Life so that the Australian insurer would join Hanwha Consortium to help the Group meet the qualifications for the acquisition bid set by the Public Fund Oversight Committee. The Group was also accused of offering bribes to a high-ranking government official involved in the sale when the examination of the conditions for the sale had been delayed. In respect that Hanwha Group's side deal had undermined the fair bidding of the government as well as the recovery of public funds, the KDIC nullified the sales agreement with the Group, and referred the case to the ICC International Court of Arbitration on July 28, 2006.

# C. Bankruptcy Dividends

During 2006, the KDIC received bankruptcy dividends worth 649.7 billion won through disposition of its equity stakes in bankruptcy estates that had received public funds, thus recovering a total of 16.54 trillion won by the end of the year.

In the banking and insurance sector, the Corporation made up for the net capital losses of financial institutions that undertook the assets and liabilities of insolvent institutions which consist of five banks including Dongwha Bank and ten insurance companies including Hyundai Life Insurance. With the addition of 22.2 billion won recovered from Hyundai Life Insurance during 2006, the total amount of public funds recovered up to the end of 2006 came to 2.54 trillion won.

By late 2006, a total of 4 securities companies, 22 merchant banks, 79 MSBs and 325 credit unions went bankrupt. The Corporation provided funds to these institutions in the form of deposit payoffs, and recovered a total of 14.49 trillion won in bankruptcy dividends by the end of 2006, through collecting 435.1 billion from merchant banks, 75.9 billion won from MSBs and 116.6 billion won from credit unions during 2006.

<Table III-18> Bankruptcy Dividends Recovered by Financial Sector<sup>1)</sup>

(As of December 31, 2006, Unit: 100 million won)

Financial Sector	No. of	Form of Assistance	Recovered Amount		
Financial Sector	Bankruptcy Estate	FORM OF ASSISTANCE	2006	Cumulative Total	
Banks	5	Contribution	-	16,853	
Insurance Companies	10	Contribution	222	3,685	
Securities Companies	4	Deposit Payoff	-	65	
Merchant Banks	22	Deposit Payoff, etc.	4,351	68,289	
MSBs	75	Deposit Payoff, etc.	759	44,143	
Credit Unions	325	Deposit Payoff, etc.	1,166	32,395	
Total	441	-	6,497	165,430	

<sup>1)</sup> The amount of bankruptcy dividends recovered by the KDIC from bankruptcy estates and Resolution & Finance Corporation (former Hanareum Merchant Bank/Hanareum Mutual Credit Cooperatives)

# D. Disposition of Assets

The Corporation undertook some of the assets held by financial institutions when it sold the Korea First Bank to an overseas buyer; when it transferred the depositor contracts of five banks via P&As; when it sold five insurance companies through M&A; and when it sold off Hyundai Investment & Securities and Daehan Investment Trust Securities. The Corporation recovered a total of 5.25 trillion won through the disposition of such assets. This amount includes 15.8 billion won that the Corporation collected through the disposition of Korea First Bank's overseas branches in Vietnam and New York, 191.8 billion won recovered through the disposition of Hyundai Autonet shares that had been purchased from Hyundai Investment and Securities, and 4.99 trillion won recovered from the disposition of assets held by the Resolution Finance Corporation (RFC).

The RFC uses a variety of recovery methods in addition to the traditional recovery at full asset maturity: the methods include sale through M&A, disposition of non-performing loans (NPLs) through joint venture special purpose companies (J.V.SPCs), issuance of asset backed securities (ABSs), offshore issuance of exchangeable bonds, and recovery of foreign currency-denominated bonds through Standard Asset Management & Disposition Agreements (SAMDAs\*). By the end of 2006, the RFC repaid KDIC a total of 4.99 trillion won.

<Table III-19> Recoveries from Asset Sales by the Resolution & Finance Corporation<sup>1)</sup>

(As of December 31, 2006, Unit: 100 million won)

Assets Sold	Sales Method	Sales Amount	Purchaser
Stocks (Ileun Securities)	M&A	1,1952)	Regent Group
Stocks (Kia Motors)	OTC Sale	1,158	Fiduciary OGF(L), Ltd.
Stocks (KT&G)	Buybacks	1,681	KT&G

<sup>\*</sup> SAMDA is an NPL resolution method adopted by the U.S. Resolution Trust Corporation to entrust management and sale of insolvent assets to private professional resolution companies. SAMDA gives such companies the right to bond management, principal call and sale/disposition.

Assets Sold	Sales Method	Sales Amount	Purchaser
Stocks (ShinDongBang)	M&A	3	CJ Consortium
Loans and Stocks (Shinho Petrochemical)	M&A	153	Aram Financial
Stocks (Shinho Petrochemical)	M&A	20	Aram Consortium
Stocks (Hynix)	OTC Sale	890	Foreign/Domestic Investors
Stocks (Daewoo Engineering & Construction)	M&A	1,668	Kumho Asiana Consortium
Stocks (KEPCO)	Exchangeable Bonds	633)	Foreign Investors
	J.V.SPC	2,044	Lone Star
	International Auction (RFC2001-1)	2,690	Lone Star/Merrill Lynch
Loans	International Auction (Jinro Bonds)	104	Morgan Stanley
	Sale to KAMCO	7,014	KAMCO
	ABS Issuance	572	Domestic Investors
Real Estates	Public Sale Consignment	3,632	Domestic Investors
Foreign Currency Debentures	SAMDA	429	Foreign Investors
Loans/Securities	Principal/Interest Call, Market Sale	26,678	-
Total		49,994	-

<sup>1)</sup> Counts only assets of banks, insurance companies and securities companies

# E. Recovery of Loans

The Corporation extended 2.18 trillion won in loans to merchant banks, MSBs and credit unions, and recovered a total of 56.7 billion won in 2006 including 51.8 billion won from Union Savings Bank, 3.3 billion from Daewon Savings Bank, 1.1 billion won from Daesung Savings Bank and 500 million won from Saenuri Savings Bank. The total amount of recoveries up to the end of 2006 stood at 1.45 trillion won of which 1.29 trillion won was the amount collected directly rather than in bankruptcy dividends.

During 2006, the KDIC also collected a total of 105 billion won through the settlement of contributions including 41 billion won from Daehan Life Insurance, and 52.6 billion form Korea Investment & Securities, Daehan Investment & Securities and Hyundai Investment and Securities. It also recovered 2 billion won by claming damages against employees of savings banks who are responsible for the insolvencies.

# 2. Deposit Insurance Fund

# 2-1. Procurement and Management of Deposit Insurance Fund

# A. Insurance Premiums

Pursuant to Article 30 of the Depositor Protection Act (DPA) and Article 16 of the DPA Enforcement Decree, insured financial institutions are required to pay a given ratio of their deposit balances to the KDIC. Deposit balances for insurance companies, for example, would be the arithmetic average of the deposit liability reserve fund and the premiums received. At present, banks are required to pay deposit insurance premiums within one month following the end of each quarter. Other insured financial institutions are required to pay their premiums within three months following the end of each business year. The deposit insurance premiums up to 2002 were placed under the Repayment Fund in line with its establishment. The Deposit Insurance Fund (DIF) started collecting deposit insurance premiums from 2003, and the total received in 2006 from five insured financial sectors came to 1.48 trillion won.

## <Table III-20> Insurance Premium Revenues

(Unit: 100 million won)

37	Davidson	Securities	Insurance	Companies	Merchant	McM-	Credit	T-4-1
Year	Banks	Companies	Life	Non-Life	Banks	MSMs	Unions	Total
Amount Remitted <sup>1)</sup>	-	-	1,414	379	848	2,017	402	5,060
1997	321	-	-	-	-	-	-	321
1998	1,292	-	386	143	132	390	-	2,343
1999	1,975	51	1,011	249	336	377	162	4,161
2000	2,630	156	1,402	379	233	323	281	5,404
2001	4,139	218	1,938	478	139	529	407	7,848
20022)	4,361	262	2,295	485	130	604	641	8,778
2003	4,775	312	2,580	535	73	667	603	9,545
2004	4,960	336	2,832	571	17	793	4	9,513
2005	4,869	300	3,109	628	15	974	-	9,895
2006	4,987	303	3,362	697	19	1,116	-	10,484
Total	34,309	1,938	20,329	4,544	1,942	7,790	2,500	73,352

<sup>1)</sup> Includes the amount transferred from the Credit Management Fund when it was considered with the Deposit Insurance Fund in April of 1998

# < Table III-21> Deposit Insurance Premiums by Financial Sector

	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs
Applied Premium Rate	10/10,000	20/10,000	30/10,0001)	30/10,000	30/10,000
Legal Upper Limit	50/10,000	50/10,000	50/10,000	50/10,000	50/10,000

<sup>1)</sup> The premium rates are gradually applied within a designated range, based on the number of years the insurance companies have been in business, their credit levels and the conditions of their financial statuses.

<sup>2)</sup> Includes 10.2 billion won of dividends

<sup>3)</sup> Based on exchangeable bond stock exchange of KEPCO (Korea Electric Power Corporation)

<sup>2)</sup> Insurance premiums received up to 2002 were transferred to DIF Bond Repayment Fund

# B. Contributions from Insured Financial Institutions

Article 24 of the Depositor Protection Act and Article 14 of the DPA Enforcement Decree require that a newly insured financial institution contribute a proportion of its paid-in-capital or equity participation to receive deposit insurance coverage within one month of starting business operations. Due to the Redemption Plan and setup of the Repayment Fund, contributions made up to 2002 were incorporated into the Repayment Fund. In 2006, the KDIC received contributions in the amount of 2.72 billion won from five insured financial sectors.

<Table III-22> Contribution Remittances by Financial Sector

(Unit: million won)

Year	Banks   Securities		Insurance	Companies	Merchant	MSMs	Credit	Total
rear	Danks	Companies	Life	Non-Life	Banks	MSMS	Unions	Total
Amount Remitted <sup>1)</sup>	-	-	-	-	24,000	7,998	2,871	34,869
1998	-	-	-	-	-	200	9	209
1999	300	1,050	-	30	-	715	3	2,098
2000	60	32,814	-	32	-	-	-	32,906
2001	126	759	30	260	1,500	-	-	2,675
20022)	125	500	-	330	-	390	-	1,345
2003	30	-	650	200	-	-	-	880
2004	340	200	600	200	-	-	-	1,340
2005	220	200	-	-	-	1,250	-	1,670
2006	380	800	-	200	-	1,340	-	2,720
Total	1,581	36,323	1,280	1,252	25,500	11,893	2,883	80,712

<sup>1)</sup> Includes the amount transferred from the Credit Management Fund when it was consolidated with the Deposit Insurance Fund in April of 1998

# C. Borrowings

Pursuant to Article 26 of the Deposit Protection Act and Article 15 of the DPA Enforcement Decree, the DIF is authorized to, when necessary, for payment of insurance claims or resolutions of insolvent financial institutions, borrow funds from various entities including the government, the Bank of Korea, financial institutions that are insured or stipulated by Presidential Decree. In accordance with this, the KDIC borrowed a total of 104.6 billion won during 2003 and 61.8 billion won in 2004 to make insurance claim payments to depositors of credit unions. Of this amount, 42.5 billion won, 38.5 billion won and 6 billion won were repaid in 2004, 2005 and 2006 respectively, leaving the total borrowings at 79.4 billion won.

# 2-2. Assistance

# A. Overview

The DIF has been responsible for costs arising from the resolution of financial institutions that have become, or were designated as, insolvent financial institutions from 2003. The DIF provided a total of 221.5 billion won for the restructuring of mutual savings banks (MSBs) during 2006.

The DIF has, as of the end of 2006, spent a total of 1.7 trillion won on insurance claim payments, etc. to depositors of 8 MSBs including Gimcheon Mutual Savings Banks and 14 credit unions including Wolpyeong Credit Union.

< Table III-23> Financial Assistance by Deposit Insurance Fund

(As of December 31, 2006, Unit: 100 million won)

Financial Sector	Equity Participation	Contribution	Insurance Claim Payment <sup>1)</sup>	Loan	Total
MSBs	168	6,135	7,387	1,085	14,775
Credit Unions	-	-	2,199	-	2,199
Total	168	6,135	9,586	1,085	16,974

<sup>1)</sup> The amount of net financial assistance excluding the recovery from prepaid deposit insurance payments for mutual savings banks worth 438.2 billion won

# B. Assistance by Financial Sector

## (1) Mutual Savings Banks (MSBs)

During 2005, the KDIC contributed a total of 52.4 billion won to Busan Solomon Mutual Savings Bank in conformity with the basic agreement on the transfer of Hanmaum Mutual Savings Bank to Busan Solomon via P&A. Pursuant to the agreement, it also contributed 15 billion won (maximum amount) to make up for a part of the net capital deficiencies that changed during the period from the base date of asset valuation to the base date of the P&A. Furthermore, the KDIC contributed the parts of the estimated amounts of bonds subject to additional settlement that changed in the first six months since the P&A and in the six months afterwards in the amount of 25.4 billion won and 12 billion, respectively.

The Corporation completed the sale of Invest Mutual Savings Bank, which became insolvent in 2005, to a third party in 2006. It provided contributions in the amount of 124.6 billion won excluding acquisition premiums from net capital deficiencies, while transferring the assets and liabilities of Invest to Parangsae Savings Bank. It also contributed 11.3 billion won for the amount of net capital deficiencies that changed from the base date of net capital valuation until the base date of P&A according to the basic agreement on the acquisition.

In addition, the KDIC established Yeareum Mutual Savings Bank as a bridge bank to resolve insolvent MSBs with contributions of 680 million won, based on the agreement with the purchaser of Yegaram.

<sup>2)</sup> Insurance premiums received up to 2002 were transferred to DIF Bond Repayment Fund

In 2006, Plus Mutual Savings Bank, which was under resolution procedures, was declared bankrupt as the FSC canceled its business license. As a consequence, the KDIC, which had been making provisional payment of 11.8 billion won, additionally provided insurance claim payments worth 16.2 billion won. It also gave provisional payments amounting to 60 billion won to the depositors of Good Friend Bank when its business was suspended on September 8, 2006. On the other hand, the KDIC recaptured the provisional payments made to Invest as the bank was sold to Parangsae via P&A. As a result, the Corporation's net insurance claim payment made during 2006 totaled 32.6 billion won.

<Table III-24> Insurance Claim Payments to Mutual Savings Banks

(Unit: 100 million won)

Year	No. of Institution <sup>1)</sup>	Payment Amount
2003	1	764
2004	3	1,770
2005	7	4,527
2006	7	326
Total	-	7,387

1) The number of institutions provided with insurance claim payments from the DIF is 5.

# (2) Credit Unions

Since credit unions have been excluded from insurance coverage of the KDIC as provided for as an additional clause to Article 2 of the DPA since 2004 onwards, no new insured risk events occur in relation to credit unions. However, there have been cases where the KDIC had to pay insurance claims when the reason for payment referral was removed or when credit unions won the suit on request for payments. In the case of 2006, the total amount of insurance payments remained unchanged when the recaptured payments due to the guaranty obligation setoff were subtracted from the amount paid out.

<Table III-25> Insurance Claim Payments to Credit Unions

(Unit: 100 million won)

Year	No. of Institution <sup>1)</sup>	Payment Amount
2003	8	1,543
2004	12	645
2005	8	12
2006	12	0
Total	-	2,199

1) The number of institutions provided with insurance claim payments from the DIF is 14.

# 2-3. Recovery

# A. Overview

The KDIC uses the same methods as in the case with the Repayment Fund to recover the public funds extended by the DIF. Such methods include recovering funds by selling equity stakes in financial institutions that it invested in, collecting bankruptcy dividends through participation in bankruptcy procedures of insolvent financial institutions, and by recovering the loans it made to financial institutions.

# <Table III-26> Deposit Insurance Fund Recovered in 2006

(As of December 31, 2006, Unit: 100 million won)

Financial Sector	Equity Participation	Contribution	Bankruptcy Dividend	Recovery of Loan	Total
MSBs	423	8	119	144	694
Credit Unions	-	-	146	-	146
Total	423	8	265	144	840

# <Table III-27> Total Deposit Insurance Fund Recovered

(As of December 31, 2006, Unit: 100 million won)

				· · · · · · · · · · · · · · · · · · ·	
Financial Sector	Equity Participation	Contribution	Bankruptcy Dividend	Recovery of Loan	Total
MSBs	423	8	975	144	1,550
Credit Unions	-	-	1,031	-	1,031
Total	423	8	2,006	144	2,581

# B. Disposition of Equity Stakes

The KDIC sold all of its equity stakes in Yegaram Savings Bank, established as a bridge bank in 2005, to Goryo Consortium (Goryo Savings Bank, Daehan Synthetic Fiber, Aekyung Petrochemical and Woori Bank), recovering 42.3 billion won from the sale.

# C. Bankruptcy Dividends

During 2006, the KDIC received bankruptcy dividends worth 26.5 billion won through disposition of its equity stakes in bankruptcy estates that had received public funds from the DIF. By financial sector, it recovered 11.9 billion won from the bankruptcy estate of Gimcheon Savings Bank, etc. and 14.6 billion from the bankruptcy estate of Chungcheong Credit Union, etc. during 2006.

# <Table III-28> Bankruptcy Dividends Recovered by Financial Sector

(As of December 31, 2006, Unit: 100 million won)

Financial Sector	No. of Bankruptcy Estate	Form of Assistance	Year	
			2006	Cumulative Total
MSBs	7	Deposit Payoff, etc.	119	975
Credit Unions	14	Deposit Payoff	146	1,031
Total	21		265	2,006

# D. Recovery of Loans, etc.

In 2006, the Corporation recovered 13.8 billion won of loans from the Resolution Finance Corporation including 10 billion won from Arim Savings Bank and Hanjung Savings Bank. It also collected 600 million won from interests for its subordinated loan to Busan Solomon Savings Bank as well as 800 million won through settlement of contributions to the bank.

# IV. Risk Surveillance of Insured Financial Institutions and Management of MOU

# 1. Establishment of Ongoing Risk Surveillance System

# 1-1. Establishment of Solid Foundation for Risk Surveillance of Insured Financial Institutions

# A. Functional Enhancement of Risk Information System and Expansion of Information Sharing

The KDIC established the Financial Information Analysis System (FIAS) to collect and analyze diverse risk-related information on insured financial institutions. Using the FIAS established in 2003, the KDIC systematically obtains and manages diverse financial information such as business reports, deposit trend reports and foreign exchange reports, etc. of insured institutions. On November 2005, a consulting project on the system's functional improvement was completed, based on which, a project on "Functional Expansion of Management Information System" was launched on January 2006 and completed in November of the same year. The new system significantly reinforced the credibility and the efficiency of ongoing surveillance affairs through promoting stable collection of risk information and diversifying search and analysis methods.

In line with its aim to improve the efficiency of deposit insurance affairs and lessen the burden on insured financial institutions, the Financial Information-Sharing Council ("the Council") was established in March 2001 with the participation of the KDIC, the Financial Supervisory Service (FSS) and the Bank of Korea (BOK). In 2004, to strengthen its cooperation regarding financial information with the FSS and the BOK, the KDIC signed a Memorandum of Understanding (MOU) on sharing financial information with the two institutions. In 2006, a working-level council for financial information sharing was decided to be held on a regular basis, and new business reports and foreign exchange reports of insured financial institutions became subject to information sharing.

# B. Improvement of Risk Evaluation System

The KDIC strives to make the ongoing risk surveillance of insured financial institutions more

scientific through sound management of the Deposit Insurance Fund (DIF), in order to protect depositors and contribute to the stability of the financial system.

Recognizing the importance of preventing insolvency beforehand, the KDIC has been making continuous efforts to promote the predictability and the functions of the risk assessment model so that signs of insolvency can be detected in advance.

For banks, a risk evaluation model (RE) and a risk forecast model (RF) have been used for early detection of insolvency signs. Continuous efforts were made in 2005 to improve the risk assessment model for its greater significance through the adjustment of assessment criteria for profitability and of the weight of each assessment area. The development of non-quantitative assessment technique for risks in banks was constantly promoted to build a comprehensive risk assessment system that encompasses both quantitative and non-quantitative risk assessments.

For insurance companies, a risk evaluation model (RE) and an insolvency prediction model (RF) were developed in 2002, and improvements were made to the models such as changing assessment indices, adjusting the weight of assessment and adding a monitoring function to the models in 2004. In 2006, the KDIC upgraded the models for greater efficiency by having its own personnel to adjust the weight of assessment indices of the risk assessment model, thereby promoting the objectivity and the credibility of model analysis results.

For securities companies, a risk assessment system developed in December 2004 is being used for ongoing risk surveillance affairs such as early detection of insolvency signs of securities companies through the management of a risk evaluation model (RE), a risk forecast model (RF) and an outlier removal system. Constant efforts were also made to improve the objectivity and the credibility of model analysis results. As part of these endeavors, a system was put in place to check the suitability of the results and assessment variables of some models.

For MSBs, a multi-model risk assessment system was developed in 2003 and is being applied in the risk surveillance of MSBs including management consulting, management analysis and selection of MSBs subject to surveillance. Meanwhile, in 2004, Growth Monitoring System (GMS) was added for early identification of MSBs with abnormal signs in business operations, to prevent insolvencies resulting from rapid increases in deposits. For better alignment of the models, improvements were made to basic models such as logit model in 2005, and the alignment of the complementary models such as survival model was examined in 2006.

Meanwhile, in 2005, the KDIC developed the Financial Sector Risk Index (FSRI) model according to each financial sector for use in analyzing the relative level and trends of risks by finance sector, through identification of financial market risks and preparation of measures for

timely response to such risks. This model calculates risk indices for each financial sector, i.e. banks, insurance companies and MSBs that are used for ongoing surveillance. The FSRI model helped the KDIC to utilize information on risks of individual companies as well as risks of each sector so that it can perform more effective and systematic ongoing risk surveillance.

# 1-2. Promotion of Ongoing Surveillance Function

The KDIC has made efforts to enhance ongoing surveillance of insured financial institutions to enable early detection of risks of the institutions and prevention of such risks from leading to a failure.

As part of these efforts, the KDIC is closely monitoring financial institutions showing abnormal signs through quarterly management analysis of insured financial institutions and management of risk assessment model. It conducts "differentiated surveillance" according to the level of risk based on regular risk assessment of insured institutions, and thus strengthened the connection between "recognition, measurement and confirmation/control of risk." To this end, the Corporation designated persons in charge of each financial institution for ongoing surveillance through the Relationship Manager System.

Furthermore, the KDIC succeeded in early identification and analysis of potential risk factors through timely analysis of issues related to risks of insured financial institutions. When necessary, it collected opinions from or provided analysis information to the market to induce autonomous risk surveillance of the institutions.

To this end, an ongoing surveillance forum was held to learn about the credit rating techniques and risk management of financial groups from experts of financial holding companies. Also, events gathering people from banks, insurance companies and securities companies were hosted to expand the scope of mutual understanding and to exchange information on industry trends.

The Corporation, in the meanwhile, formed an ongoing surveillance council to build a system that connects the ex ante risk surveillance and ex post resolution affairs of the ongoing risk surveillance team established to promote ongoing surveillance of insured financial institutions. This permanent council, through participation of ongoing surveillance team and divisions responsible for the DIF, resolution, asset recovery and insurance policies, performs comprehensive adjustment of the operations of five ongoing surveillance teams under direct control of an executive director. The council also shares analysis information on the management status of insured financial institutions and discusses comprehensive measures for possible insolvencies. During 2006, the council held a total of twelve meetings to share

ongoing surveillance information by financial sector and discuss major issues at hand.

# 1-3. Investigation and Joint Examination

As failure prevention and loss minimization issues became more important, the KDIC has been focusing its efforts on conducting effective investigations and joint examinations of insured institutions, especially those that have been identified as being troubled.

To enable more efficient joint investigations and to reduce the burden of undergoing examination of insured institutions, the Corporation signed an MOU with the FSS on joint examination of financial institutions in September 2003, legislated the Regulations on Joint Examination in October of the same year, and enacted Rules on Joint Examination in April 2004. In 2006, the Corporation completely reorganized the Regulations and Enforcement Bylaws to create the conditions for more effective joint examinations.

Based on these institutional arrangements, the KDIC participated in joint examinations of 6 financial institutions in 2004, 8 institutions in 2005 and 11 institutions in 2006 with the FSS and requested our findings be reflected in the FSS's examination reports. Meanwhile, training and workshops were held for staff members working in risk management to increase their performance during joint examinations. Further efforts will be made to strengthen the effectiveness of joint examinations.

The KDIC is also conducting a limited number of non-disclosed investigations with management of troubled financial institutions, which came to a total of 14 for 2006. The Corporation plans to work closely with the FSS to further promote the use of joint examinations and to conduct written investigations and, when necessary, on sight examinations, bearing in mind conditions of the financial market.

# 1-4. Market-friendly Risk Surveillance

In monitoring the risk of financial institutions on an ongoing basis, it is important to minimize the burden on insured financial institutions and to facilitate the market discipline. For this purpose, the KDIC has continuously worked on building a solid foundation for the market-friendly ongoing surveillance.

Accordingly, the KDIC has provided a free consulting service for mutual savings banks since 2003 to improve management system and strengthen core competence of the banks in conjunction with specialist firms. In 2006, it offered customized consulting services with

diversified contents and greater expertise for 7 MSBs (a total of 49 MSBs since 2003). The KDIC collects the opinions of MSBs through surveys to provide consulting services that best meet their needs. To address the demands of MSBs found in the result of a survey related to management consulting service to MSBs, the KDIC provided consulting services in the specific area pointed out by MSBs using a pool of working-level professionals from the areas of loans business, risk management, real estate and from an accounting firm specializing in consulting service. Based on the findings of a survey conducted shortly after the provision of these consulting services, they seem to help MSBs establish long-term management strategies and to gain more knowledge about good practices and management analyses of well-run MSBs at home and abroad.

In addition, during 2006, the KDIC assessed the status and difficulties of MSBs through meetings with 2 regional branches, interviews with the management of 45 MSBs, 3 meetings with financial holding companies, 5 meetings with the securities/insurance sectors, 14 interviews with working-level staff members of 7 banks in charge of risk.

In addition to these efforts, the KDIC is working hard to promote awareness for financial institutions to properly consider the risk that they need to manage. In 2006, it produced and distributed total of 37 press releases, and provided useful information concerning the risk management of insured financial institutions to the market through publication and online posting of Financial Stability Studies, Financial Risk Reviews, management indices of insured financial institutions, and of statistical information on deposit trends.

# 1-5. Enhancement of Risk Surveillance Capability

In recognizing the need to strengthen its internal competency for more efficient risk surveillance of financial institutions, the KDIC has made constant efforts to enhance the expertise of its staff.

As such, it requires its staff to engage in taking tests and training programs on risk management, to enable them to adjust to the needs presented by the changing financial environment. For stronger risk surveillance capability, the KDIC is having its staff members in charge of risk surveillance attend training programs on risk analysis and investigation held by related foreign institutions such as S&P, the FRB, and Moody's as well as conducting in-house training sessions on risk surveillance and study of management analysis. It also hosted a total of 16 ongoing surveillance forums on risk surveillance of financial groups, surveillance techniques, credit rating methods, and on current financial issues, by inviting financial experts including analysts and professionals from credit rating institutions.

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IV. Risk Surveillance of Insured Financial Institutions and Management of MOU

Furthermore, the KDIC strived to enhance the risk surveillance capability of its executive members in risk-related divisions and promote their qualities as risk professionals through a training program on ongoing risk surveillance. Over three times in the latter half of 2006, the KDIC provided them with opportunities to learn about ongoing risk surveillance affairs and case studies by each area of the organization, and invited outside professionals to give lectures.

The Corporation also introduced the Risk Focused Manager (RFM) System to nurture professionals for each financial risk factor as a way to attain its vision of becoming the world's leading expert institution on ongoing risk surveillance of financial institutions. Each of the RFM was given the task of constantly analyzing a specific issue related to common risk factors in the financial sector. The system enabled the KDIC to perform matrix-based risk surveillance together with the Relationship Manager System.

Moreover, five outside experts with professional knowledge and experience in deposit insurance and the financial system were appointed as advisors, and their opinions were actively reflected on risk surveillance affairs. The quality of risk surveillance analysis reports were improved with the help from written advices from the advisors.

## 2. MOU Management of Public Fund-injected Financial Institutions

#### 2-1. Conclusion and Examination of MOUs

The KDIC has strengthened its efforts in the post public fund injection management of financial institutions (including financial holding companies) who have received public fund assistance, with the aim of hastening normalization of their operations. Since 1999, the Corporation has entered into memorandums of understanding (MOUs) with 14 support recipients and monitored their adherence in order to recover, as early as possible, the public funds injected. In April 2002, 8 MOUs signed with financial institutions, including Jeju Bank, were terminated as the Corporation' stake in these institutions was sold off. As a result, the total number of institutions in active MOUs with the KDIC is 6 as of the end of 2006.

During the period from the fourth quarter of 2005 to the third quarter of 2006, the KDIC pointed out 18 problems concerning fulfillment of the MOUs. As a result, 25 measures were taken, including 3 cases of warning to executive officers, 4 cases of demand for disciplinary action, and 18 cases of warning, improvement, correction, notification and on-site measure to pertinent financial institutions.

Regarding the area of finance, Woori Financial Group and 4 companies in the banking sector were able to achieve the financial ratio targets set by the MOUs thanks to the increase in interest revenues and the stable level of bad debts owing to the growth of loans. Seoul Guarantee Insurance Company (SGIC) also met the targets with the rise in premiums received and the decrease in accrued losses and gains.

On the other hand, measures were taken for poor MOU implementation by financial institutions in the non-finance area. The management of both Woori Financial Group and Woori Bank received warnings for violating the MOUs when Woori Bank gave its employees special bonuses unrelated to management performance, but no measures were taken by the Group to strengthen the supervision of the bank's expenses. SGIC was ordered to reform its unreasonable quasi-voluntary retirement system.

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#### <Table IV-1> MOU Conclusions/Amendments/Additions

(As of December 31, 2006)

Financial Institution	Conclusion	Re- conclusion	Amendment	Addition	Termination	Notes
Woori Financial Group	Jul. 2, 2001	-	Sep. 22, 2004	Jan. 22, 2003 Mar. 23, 2005	-	Launched on Mar. 27, 2001
Woori Bank	Jan. 22, 1999 <sup>1)</sup>	Dec. 30, 2000	Sep. 22, 2004	Jan. 22, 2003 Mar. 23, 2005	-	Former Hanvit Bank
Kwangju Bank	Dec. 30, 2000	-	Sep. 22, 2004	Jan. 22, 2003 Mar. 23, 2005	-	-
Kyungnam Bank	Dec. 30, 2000	-	Sep. 22, 2004	Jan. 22, 2003 Mar. 23, 2005	-	-
Jeju Bank	Dec. 30, 2000	-	-	-	Apr. 29, 2002	Sold shares to Shinhan Financial Group
Seoul Bank	Dec. 30, 2000	-	Jun. 29, 2001	-	Dec. 1, 2002	Sold shares to Hana Bank <sup>2)</sup>
Chohung Bank	Nov. 12, 1999 <sup>1)</sup>	Jan. 31, 2002	-	-	Aug. 19, 2003	Sold shares to Shinhan Financial Group
Credit Business Part of National Federation of Fisheries Cooperatives	Apr. 25, 2001	-	Feb. 12, 2003 Jul. 9, 2003 Dec. 21, 2005	Mar. 23, 2005		
Daehan Investment Trust Securities	Sep. 25, 2000 <sup>1)</sup>	Feb. 20, 2002	-	-	May 31, 2005	Sold shares to Hana Bank
Korea Investment Trust Management & Securities	Sep. 25, 2000 <sup>1)</sup>	Feb. 20, 2002	-	-	Mar. 31, 2005	Sold shares to Dongwon Financial Group
SGIC	Apr. 12, 2000 <sup>1)</sup>	Jun. 9, 2001	Jul. 10, 2002 Jun. 21, 2006	Jun. 22, 2005		-
Korea Life Insurance	Apr. 12, 2000 <sup>1)</sup>	Sep. 5, 2001	-	-	Dec. 12, 2002	Sold to Hanwha Consortium
Woori Credit Card	Jun. 7, 2000	Dec. 30, 2000	Mar. 25, 2002	Jun. 4, 2003	Mar. 31, 2004	Former Peace Bank
Woori Investment Bank	Dec. 9, 2000 <sup>3)</sup>	-	Jun. 29, 2001	-	Aug. 1, 2003	Merged with Woori Financial Group

<sup>1)</sup> MOU was signed between the corresponding institution, the KDIC and the Financial Supervisory Commission.

#### 2-2. Improvement of MOU Management Efficiency

During 2006, an MOU examination by risk factors was conducted through "Theme Examination" in addition to the existing MOU examinations, to maximize the corporate value

of the financial institutions. Further efforts are being made for increased efficiency of MOU management such as inducing sound management by making timely amendments to MOU-related regulations and strengthening the management surveillance activities of outside directors in the concerned financial institutions.

#### A. Introduction of Theme Examination Strategy

In addition to the quarterly examination on the progress of target achievement, specific themes were selected and examined for each financial institution for greater professionalism and efficiency. Also, examination by issues and risk factors such as capital increase rate paved the way for minimizing future management risks, and thus contributed\* to preventing damages to corporate value in advance.

\* The KDIC found, through an in-depth analysis, double counting of operating profits during 2004-2005 in the business reports of Woori Bank. It induced the bank to reduce 10.5 billion won under SGA expenses.

#### B. Support of Activities of Outside Director and Auditor

The KDIC prepared the "Measures to Support the Management Surveillance Activities of Outside Director, etc. Recommended by the KDIC" to effectively induce its outside director's management surveillance of financial institutions whose equity stakes are held by the Corporation. The measures require the outside director to provide ongoing analysis data on the corresponding institutions to increase his/her expertise. The measures also call upon the outside director to notify the Corporation of concerns for depreciation of the institutions' corporate value due to moral hazard, etc. of their executives. This built the foundation for sound management and preemptive prevention of moral hazards by encouraging self-correction efforts led by boards of directors.

#### C. Amendment of Regulations on MOU Management

The regulations and enforcement bylaws on the management of MOUs were amended in accordance with revisions of the Public Fund Oversight Special Act and the Depositor Protection Act. The amendments include giving "warning" instead of rendering "strict caution" to executives violating the MOUs and changing the MOU index on the capital adequacy of bank holding companies to "consolidated BIS capital ratio."

#### D. Target Revision According to Management Environment Changes

SGIC earned a massive net income of 657.1 billion won, and wrote down its equities by 550 billion won with consideration in FY2005. In line with such changes in the management environment, SGIC revised the management normalization plan to reflect reasonable and

<sup>2)</sup> The KDIC had been the largest shareholder of the merged bank (Seoul + Hana) holding 30.9% of its shares, but terminated the MOU on December 1, 2002 according to the decision by the Public Fund Oversight Committee to give an autonomous management right to the bank. The KDIC sold off its equity stakes on April 20, 2004.

<sup>3)</sup> MOU signed with Peace Bank

objective targets, based on the opinions of accounting firms and outside professionals.

#### E. Improvement of MOU Management

As the financial institutions show considerable management improvement, there are views that MOU management many pose difficulties for autonomous management of the concerned institutions. Thus, discussions are underway to increase the flexibility of MOU management and to prepare measures to prevent potential moral hazards. To this end, the KDIC commissioned outside professional entities to conduct a research, based on the results of which it plans to study the measures to promote flexibility in MOU management.

#### 2-3. Establishment of Performance Evaluation and Compensation System

In January 2006, the KDIC took measures to promote the corporate value of the institutions that signed the MOUs by improving the performance evaluation and compensation system for their management.

The management results of KDIC-invested financial institutions including Woori Financial Group exceeded the financial ratio management targets of the MOUs as of late 2005. This indicated, with the progress in management normalization, that the management conditions needed to achieve MOU targets became different from the ones at the time of public fund injection. Such difference made it seem inadequate to have benchmark targets for performance evaluation of the financial institutions that are identical to MOU targets.

To effectively address this issue, the MOU targets were determined at a reasonable level that needs to be reached by the financial institutions to normalize management and improve corporate value. At the same time, management targets related to performance compensation for the management were set at a level higher than that of the MOU targets. Also, the management and the Management Development Compensation Committee consisting of outside directors were given the autonomy to conclude the targets concerning performance compensation when signing the management contract in 2006. This measure was aimed at ensuring management autonomy while allowing the financial institutions to attain more than the targeted level of the MOUs and also increase management efficiency.

# V. Resolution and Management Supervision of Insolvent Financial Institutions

#### 1. Resolution of Insolvent Financial Institutions

#### 1-1. Implementation of Diverse Methods for Resolution

Fundamental changes have occurred in the way the KDIC resolves insolvent mutual savings banks since 2005. According to the new resolution method, when the Financial Supervisory Commission renders its final decision that management normalization of an MSB would be difficult, the KDIC presents a least cost resolution method for such institution. This enabled the Corporation to search for diverse resolution methods that would minimize the losses in the deposit insurance fund in 2006. It tried to find the best resolution method among sale of shares after purchase and assumption transaction with a bridge bank, direct P&A with a third party, launch of bankruptcy proceedings and establishment of a bridge bank, with consideration of the market, local environment and the status of the insolvent institution. Through this effort, the KDIC paved the way for strengthening its role as a respectable prompt resolution institution using flexible resolution strategies.

<Table V-1> Resolutions of Insolvent Financial Institutions During 2006<sup>1)</sup>

(Unit: 100 million won)

Classification	Yegaram (Seoul)	Invest (Busan)	Plus (Busan)	Good Friend (Gyeonggi)
Business Suspension Date (Resolution Completion Date <sup>2)</sup> )	Aug. 29, 2005 <sup>3)</sup> (May 29, 2006)	Jul. 22, 2005 (May 26, 2006)	Jan. 28, 2005 (Jun. 27, 2006)	Sep. 8, 2006 (Resolution under progress)
No. of Employees	46	50	63	45
No. of Business Branches	3	1	2	1
Total Assets	1,609	1,892	2,535	3,863
Total Deposits	1,400	2,666	4,299	5,539
Equity Capital	155	△852	△2,014	△1,889

<sup>1)</sup> Based on the day before the business suspension date; Based on Oct. 31, 2005 (base date for the seller's due diligence) in the case of Yegaram Mutual Savings Bank.

<sup>2)</sup> The date of P&A, bankruptcy declaration, etc.

<sup>3)</sup> The opening date of Geochang Branch of Yegaram

#### A. Sale of Bridge Bank Shares

The KDIC transferred a part of the assets and deposits of insolvent Hanjung Mutual Savings Bank and Arim Mutual Savings Bank to Yegaram Mutual Savings Bank, which is a bridge bank, and resumed business operation in 2005. To promptly recover injected funds, the KDIC sought to sell the shares of Yegarm in October 2005. Based on the evaluation results of final acquisition proposals, Koryo Mutual Savings Bank Consortium was selected as the preferred bidder. After negotiations, Koryo agreed to pay 42.3 billion won from the sale of shares, set the limitation of damages at 320 million won, submit a business plan, and to state and guarantee financial statements, etc. The KDIC and Koryo signed a stock transfer agreement on April 27, 2006. The government approval procedures necessary for the implementation of the sales agreement were completed when Koryo finished the approval and notification procedures of the FSC on the stock transfer and the KDIC gained approval from the Ministry of Finance and Economy (MOFE) on the completion of Yegaram's role as a resolution financial institution. Accordingly, the KDIC transferred all of its equities in Yegaram to Koryo, recovering amounts that are 2.5 times greater than the funds it had provided.

#### B. Resolution of Invest Mutual Savings Bank through P&A

Invest Mutual Savings Bank was determined as insolvent financial institution when the establishment of Yegarm was under progress. With the gradual improvement of market conditions following the sale of Hanmaum Savings Bank, the subsequent ease of pressure in the market, and the positive upturn in industry profitability, the KDIC decided to sell Invest Savings Bank together with Yegaram in the market. After selecting sales advisors and reviewing letters of intent, the KDIC decided to sell Invest to an individual investor in Busan. With the finalization of negotiations, the Deposit Insurance Committee approved the sales agreement and the proposals for financial assistance and inter-account transaction on March 20, 2006. As a result, a general agreement on the acquisition of Invest was signed on March 30, 2006, and the assets and liabilities of the bank were transferred to Parangsae Mutual Savings Bank upon the FSC's decision on the P&A on May 26, 2006. Parangsae started business operation after the transfer on May 29, 2006.

#### C. Resolution of Plus Mutual Savings Bank through Liquidation & Bankruptcy

Plus Mutual Savings Bank had been subject to cancellation of business license for having its assets completely impaired, making loans to investors, and treating loans in excess of the limit per person. However, such measure has been deferred as the bank filed an administrative complaint. Nevertheless, on January 25, 2006, the FSC cancelled its business license and appointed a liquidator. The KDIC made a prompt decision to provide insurance claims to the bank, and made the payments on February 28, 2006. After Busan District Court declared the

MSB bankrupt on June 27, 2006, the resolution of Plus was finally completed.

#### D. Resolution of Good Friend Bank through Establishment of Bridge Bank

On September 8, 2006, the FSC ordered business suspension of Good Friend Mutual Savings Bank sighting liabilities exceeding the assets and BIS capital adequacy ratio falling short of the required level. After considering different methods for insurance claims payment and P&A, the KDIC decided to resolve the bank through P&A based on the least cost principle. The KDIC also determined to proceed with the resolution through the establishment of a bridge bank as it can reduce inconvenience for depositors and prevent depreciation of the bank's corporate value by shortening the duration of business suspension, and at the same time, secure enough time to sort out the complicated issue of who holds the right to loans, etc. Thus, Yeareum Savings Bank, a second bridge bank after Yegaram, was established on December 28, 2006 and embarked upon the resolution of Good Friend.

#### 1-2. Improvement and Effect of Resolution Method of Insolvent MSBs

During 2005, the conditions for resolution showed slight improvement as the FSC handed over to the KDIC a part of the right to decide the method for resolving insolvent MSBs. However, there still exited many institutional constraints in reducing the inconvenience to depositors of insolvent MSBs and in promptly resolving such institutions. To deal with the problem of delay in resolution procedures, the Corporation prepared measures to improve prompt corrective action (PCA), and made continuous request to the FSC and other relevant agencies to apply the measures. Such efforts contributed to the improvement of the PCA and the revision of supervisory regulations, and consequently built the foundation for prompt and efficient resolution.

In December 2005, the FSC made amendments to some of the supervisory regulations. The Regulation on Business Improvement Order was revised so that the review and the approval of business improvement plans take place before business suspension order. This provided for an institutional foundation for reducing the time spent on reviewing the plans after suspension of business. Also, the FSC sought to ensure legality in administrative procedures by granting institutions 10 to 15 days to comment through advance notification before PCA. The amendments also include replacing business improvement plans with implementation plans. Whereas business improvement plans are requested and approved by the FSC after PCA order, implementation plans should be submitted before PCA order. Such amendments did not take as much time as expected as a result of the constant efforts exerted by the KDIC.

In June 2006, the FSC announced PCA revision measures to bring about prompt management

normalization by reducing the PCA implementation period and related procedures, prevent the spread of insolvency through greater efficiency, and to decrease public funds injected and inconvenience of depositors through stronger cooperation with the KDIC as well as efforts to maintain corporate value when resolving insolvent MSBs.

In accordance with the FSC measures, the PCA implementation period in the case of business improvement request was shortened from one year to six months. Also, business improvement order could now be given for non-fulfillment of business improvement recommendation based on business status examination results whereas only business improvement request could be made before. To strengthen the cooperation between the supervisory authority and the deposit insurance authority, the KDIC was granted the right to participate in the Management Evaluation Committee as an observer and in the due diligence of assets before business suspension to organically link the due diligence with resolution procedures and shorten the in-depth due diligence process. The FSC was also given the task of reporting to the KDIC when giving a prior notification to an MSB before imposing PCA.

Furthermore, the revised PCA will introduce ways to induce the KDIC to establish a bridge bank right before/after business suspension for a prompt P&A with the bank in order to deter a sharp drop in asset value and alleviate inconvenience to depositors after the business suspension. It will also add "operations deemed to require a manager to prevent increase of insolvency and maintain corporate value" to the list of operations allowed to be conducted during management supervision.

Such measures contributed to reducing PCA implementation period and procedures and completing deliberation of management improvement plans before business suspension order, and succeeded in preventing greater insolvency and promoting swift resolution of insolvent financial institutions. Moreover, they created the foundation for a deposit insurance institution to prepare prompt and effective resolution measures prior to business suspension by participating in the Management Evaluation Committee and due diligence of assets through stronger cooperation with the supervisory authority.

# 2. Management Supervision of Insolvent Financial Institutions

#### 2-1. Management Supervision

The system of management supervision is an administrative device by which the supervisory authority appoints a management supervisor to oversee insolvent financial institutions and manage and/or dispose of assets of insured financial institutions. The scheme aims to minimize the loss of depositors and preserve order in the credit market by preventing further failure of an insolvent financial institution.

The supervisor takes over the position of the director of the savings banks (credit union) who has been terminated from his/her position and conducts most activities concerning management and/or disposal of assets, as well as legal procedures in progress.

The courts describe this position as being more or less equal to the representative director and thereby a kind of public trustee working for the benefit of the mutual savings bank. (Supreme Court, December 12, 1997, Nu-10284)

#### 2-2. Improved Efficiency of Management Supervision

During 2006, the KDIC completed management supervision of MSBs including Hanjung, Plus and Invest and started on management supervision of Good Friend Mutual Savings Bank. In the year 2006, the KDIC focused on minimizing the inconveniences to depositors of insolvent financial institutions by easing their concerns. In line with this effort, the supervisor took the initiative in distributing brochures by stages containing information on the progress made in management supervision and upcoming schedules, holding briefing sessions for customers, and in providing related information via the KDIC website and press releases.

The introduction of the Insured Event Response Council enabled prompt response to failures through organic inter-department collaboration by sharing information on insolvent financial institutions on demand and promptly assigning people to appropriate positions when a failure occurs.

In 2006, the KDIC made a request through the Council to the related industry and the supervisory authority for legitimate management of potential insolvency factors such as MSBs' treatment of project financing (PF) loans. The Corporation also asked the authority to prepare measures for prevention of insolvencies of some insurance companies, improving the companies' financial conditions and building a preemptive response system for insolvency

V. Resolution and Management Supervision of Insolvent Financial Institutions

prevention. The KDIC submitted a report on the causes of insolvencies to the Council in an effort to use the report as basic data for improving the resolution system. The report provides an in-depth analysis of factors that incurred serious damages to the deposit insurance fund after resolution of insolvent institutions.

Recent revisions to regulations and the experiences of people who had conducted management supervision affairs were compiled into a management supervision manual, and exemplary answers to questions frequently asked during management supervision were provided, to promote the efficiency of management supervision and store such data as valuable assets.

#### VI. Insolvency Investigations

#### 1. Investigation into Insolvent Financial Institutions

#### 1-1. Investigations into Insolvencies and the Securing of Assets for Damage Redemption

By the end of 2006, the KDIC had conducted investigations into 492 insolvent financial institutions injected with public funds. As a result, damage-claim proceedings were initiated against 5,841 officers, employees and other persons whose actions, in whole or in part, were attributed to the insolvent states of their respective institutions.

<Table VI-1> Investigations into Accountability for Insolvency

(As of December 31, 2006)

Classification	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions	Total
No. of Companies	15	6	18	22	92	339	492
No. of Persons	191	63	236	159	868	4,324	5,841

The KDIC has secured and is making full use of property information databases compiled by governmental agencies, such as the Ministry of Government Administration and Home Affairs to call culpable parties to account and to step up the recovery. In addition, wide-ranging efforts including the setting up and operation of the Concealed Property Report Center resulted in 4,625 provisional seizures of property valued at 1 trillion won and the provisional disposition of property in 514 cases as of the end of 2006.

<Table VI-2> Creditors' Claim Right Preservation Measures

(As of December 31, 2006, Unit : 100 million won)

Classification	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions	Total
No. of Provisional Seizures	94	31	160	167	877	3,296	4,625
Amounts of Provisional Seizures	227	86	997	927	4,044	3,792	10,073
No. of Provisional Dispositions	24	1	23	27	140	299	514

#### 1-2. Deliberations on Liability Investigation Results and Objections

In the course of filing for damage claims, the Committee on Liability Deliberation of Insolvent Financial Institutions, composed of lawyers and other legal experts, conducted thorough and comprehensive assessments regarding the seriousness of illegalities or irregularities, the degree of involvement or responsibility, the final determination of material evidence and circumstantial issues, the chances of winning in court, among other things. This careful assessment was made to ensure that the KDIC's liability deliberations would be carried out in a fair and objective manner.

In order to prevent innocent parties from being implicated, those under investigation were granted sufficient opportunity to comment and were able to file objections even after notification of investigation results.

As a result, as of the end of December 2006, the Committee held a total of 164 meetings to deliberate on investigation results and review objections filed by 478 individuals.

#### 1-3. Damage Claim Proceedings

As mentioned above, the KDIC has conducted assessments to identify culpable parties and determine restitution amounts, and notified the relevant bankruptcy estates of the results. As a consequence, court proceedings have been initiated against 9,225 persons from 473 institutions, for compensation worth 1.7 trillion won in total.

#### <Table VI-3> Lawsuits Filed

(As of December 31, 2006, Unit: 100 million won)

Classification	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions	Total
No. of Institutions	15	6	18	22	90	322	473
No. of Defendants	195	73	253	159	1,151	7,394	9,225
Amounts Claimed	997	254	2,052	2,758	5,096	5,886	17,043

## 2. Investigations into Default Debtors of Insolvent Financial Institutions

#### 2-1. Improvement of System

With the legal basis established by the amendment of the Depositor Protection Act on December 30, 2000, investigations into the assets/properties of default debtors of financial institutions injected with public funds are carried out based on the real estate and other such property-related information databases compiled by governmental agencies. At the same time, efforts such as request for revision of related laws are made to increase the scope of institutions subject to data collection.

Also, the revision of the DPA in March 2006 enabled "collective search of financial transaction information," through which the KDIC receives information on financial properties of default debtors from financial institutions and takes measures to preserve creditors' claims, etc., promoting the efficiency investigations into accountability for insolvency. The revised DPA strengthened the investigative authority of the KDIC by giving it the authority to request data on the duties and properties of those implicated in insolvencies as well as the authority to summon them, and to request data on administrative agencies and financial institutions.

The KDIC, on its part, unified the three major regulations (regulations on creditor claims investigation, damage claims and on property investigation) related to the investigations into accountability for insolvency, thereby concretizing various requirements and procedures and clearly defining work procedures, to make the investigations more appropriate. The KDIC also introduced a "prior explanation system" and improved the "ongoing comment and objection system" to provide investigated parties with sufficient opportunities to raise objections.

The KDIC opened the Concealed Property Report Center in May 23, 2002, and received a total of 82 reports (including 71 in Korea and 11 in foreign countries) involving 181.9 billion won as of the end of December 2006. After conducting basic investigation into the reported cases, the Corporation selected 31 reports involving 52.6 billion won and made requests for transfer of notification and preservation of creditors' claims to creditor institutions regarding the cases. As a result, it recovered 15.6 billion won (6 cases) and paid out 620 million won (5 cases) as rewards for reports.

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#### 2-2. Investigation into Hidden Assets

Pursuant to Article 21-3 of the Depositor Protection Act, the Corporation, exercising its authorized right to access governmental agency information on the assets/properties of individuals, performed investigations into properties held by 743,066 default debtors of 493 financial institutions provided with funds. Based on its findings, the KDIC submitted requests to the pertinent institutions for seizure of the identified assets from the debtors.

<Table VI-4> Investigations into Properties of Parties Implicated in Insolvencies

(As of December 31, 2006)

Classification	Banks	Securities Companies	Insurance Companies		MSBs	Credit Unions	Resolution Financial   Institutions	Total
No. of Companies	15	6	18	22	92	339	1	493
No. of Persons	18,006	217	351,884	3,371	197,319	58,629	113,640	743,066

The KDIC also conducted in-depth investigations of those who have the final responsibility according to the final judgment, those who are responsible for embezzlement/misappropriation and those whose extinctive prescription for remaining claims is running out. As a result, the Corporation has conducted special property investigations of 1,435 parties implicated in insolvencies up to the end of December 2006.

As part of its measures to promote investigation of overseas properties, the Corporation formed a "Taskforce Team on the Recovery of Concealed Overseas Property of Parties Implicated in Insolvency," and conducted its own investigations and commissioned local professional firms to conduct investigations. As of the end of December 2006, overseas properties of a total of 60 people were investigated.

In addition, the Corporation launched a special hot-line, and ran advertisements for and conducted interviews of the U.S. media and Korean-American organizations, to encourage report of concealed overseas properties.

#### 3. Investigations into Default Debtor Corporations

#### 3-1. Investigations into Default Debtor Corporations

As of late 2006, the "Special Investigation Mission for Default Debtor Corporations" of the KDIC completed its investigations of 13,098 insolvent public fund-injected companies that failed to pay their debts. The Mission conducted on-site investigations of 771 companies and documentary investigation and on-site monitoring of the rest of the companies.

<Table VI-5> On-site Investigations by Year

(As of December 31, 2006)

Year <sup>1)</sup>	2002	2003	2004	2005	2006	Total
No. of					,	
Corporations	60	111	133	151	262	717
Investigated						

<sup>1)</sup> Based on the time of commencement of investigation

After the on-site investigations, the KDIC called on creditor financial institutions to file damage claims against 762 officers of 150 companies. The concerned creditor financial institutions filed suits against 639 officers of 130 companies for 910.2 billion won in damages.

Beginning from 2007, the KDIC plans to launch investigations of default debtor corporations that failed to pay their debts to financial institutions provided with deposit insurance funds. As of the end of 2006, there are around 1,100 default debtor corporations that owe debts to 8 mutual savings banks including Hanmaum.

#### 3-2. Ex Post Facto Management Including Deliberation and Damage Claims

When some of the results of on-site investigations found some parties to have committed illegal acts, their accountability for insolvency is reviewed by the "Accountability Deliberation Working Group for Default Debtor Corporations\*" and deliberated in a fair and objective manner by the "Accountability Deliberation Committee for Default Debtor Corporations" consisting of outside experts from the academia and the legal and financial circles.

\* The "Accountability Deliberation Working Group for Default Debtor Corporations" was established to assist the "Accountability Deliberation Committee for Default Debtor Corporations." It consists of 3 members including the Head of Special Investigation Mission (the chair), the Director General of Special Investigation Bureau and an employee with a law license.

As of the end of December 2006, the KDIC concluded that a total of 762 people from 150 companies were accountable for insolvency-related damages worth 14.21 trillion won, and requested corresponding creditor financial institutions to file damage claims against such individuals. During 2006, the Corporation held a total of 14 Accountability Deliberation Committee meetings, and decided that 68 people from 18 companies were responsible for damages worth 263.6 billion won.

The KDIC has continued to conduct ex post facto management of legal measures by creditor financial institutions following the filing of damage claims and demands for measures to preserve creditor rights. It also regularly monitors the progress of legal proceedings, and holds meetings of creditor financial institutions to encourage them to proceed with legal measures or provide them with advice and guidance on legal proceedings and measures to preserve creditor rights.

#### 3-3. Legal Measures against Parties Implicated in Insolvency and Results of Recovery

The KDIC conducted a thorough investigation of the properties of parties implicated in insolvency based on the data provided by the Ministry of Construction and Transportation, the Ministry of Government Administration and Home Affairs and the National Tax Service, in order to maximize the recovery of their assets in case it wins the damage claim suits filed against them. After the investigation, the KDIC took measures such as provisional seizure of 674.4 billion won (1,534 cases) and provisional disposition of properties (295 cases).

Although most of the legal proceedings are still underway, a total of 185.7 billion won has been recovered by the end of December 2006. This amount includes 59 billion won recovered through damage claim suits and 126.7 billion won recovered by inducing voluntary repayment of default debtor corporations through organic collaboration with related agencies such as the Prosecution.

#### <Table VI-6> Legal Measures Taken against Persons Implicated in Insolvency

(As of December 31, 2006)

No. of	Accountable for Insolvency		L	egal Proceedir	ıg	Provision	Provisional Disposition	
Corporations Investigated	Corpora- tions	Implicated Parties	Corpora- tions	Defendants	Amount (million dollars)	No. of Cases	Amount (million dollars)	(No. of Cases)
717	150	762	130	639	9,102	1,534	6,744	295

#### 3-4. Enhancement of Cooperation with Relevant Institutions

The Special Investigation Mission for Default Debtor Corporations comprises one department and three bureaus with a staff of 110. It has continued to maintain close relations with the Prosecution, the Police, the National Tax Service, the Korea Customs Service, the Financial Supervisory Service, and other relevant institutions which it has received personnel as well as necessary documentation and information (data on investigation, supervision and taxation).

Based on close bilateral cooperation, the KDIC requests the Prosecution to investigate the cases of illegal acts of persons implicated in insolvencies such as fraud, embezzlement or misappropriation found during the investigation of default debtor corporations. The KDIC receives the information on hidden assets of such persons discovered by the Prosecution during the investigation process, and takes measures to preserve creditors' claims rights regarding such assets. By imposing civil and criminal liabilities on the persons responsible for insolvencies based on organic cooperation with related institutions, the KDIC not only contributed to promoting responsible corporate management, but also to improving the transparency of corporate accounting through prevention of window dressing settlement and unreliable auditing.

VI. Insolvency Investigations

# VII. Management of Bankruptcy Estates and Asset Holdings

#### 1. Management of Bankruptcy Estates

#### 1-1. Improvement of Public Fund Recovery System

#### A. Settlement of KDIC Bankruptcy Trustee System

The Public Fund Oversight Special Act, put into effect on December 20, 2000, and the amended Depositor Protection Act of December 26, 2002, stipulates that officers or employees of the KDIC or the KDIC itself can be more readily appointed as trustees of bankruptcy estates when this is necessary for the recovery of public funds.

Since March 15, 2001, when the Constitutional Court of Korea ruled that the appointment of the Corporation' officers and employees as bankruptcy trustees was constitutional, KDIC trustees have been appointed to their position, either solely or jointly with the courts, for 358 of 359 bankruptcy estates nationwide (as of December 2006). Therefore, the Corporation' efforts to aggressively pursue a system where its officers and employees can be appointed as trustees for speedier and more efficient bankruptcy proceedings have indeed proven successful. This was evident when KDIC trustees were solely or jointly appointed as trustees in all three bankruptcy estates declared bankrupt in 2006.

#### <Table VII-1> Status of Appointed Bankruptcy Trustees

(As of December 31, 2006)

Classification	Total No. of	Trustees					
Classification	Bankruptcy Estates	KDIC	Attorneys	Joint Appointment20			
No. of Bankruptcy Estates	359 <sup>1)</sup>	344	1	14			

<sup>1)</sup> Excludes 130 bankruptcy estates in closure or in the process of closure, excluding Goryo Securities and Dongseo Securities that were not injected with public funds

#### B. Efficient Management of Bankruptcy Estates

The KDIC has a single trustee to take responsibility for more than one bankruptcy estate and only one office to manage multiple estates, to promote efficient management of bankruptcy

estates. It designated 8 base estates nation-wide to actively integrate them with nearby bankruptcy estates. Such efforts enabled efficient management of employees of bankruptcy estates and asset holdings and prevention of cash leakage, and significantly reduced the amount of rents, maintenance costs of buildings, office supplies expenses, and other costs.

The KDIC recognized that the possibility for the occurrence of financial accidents increases when one trustee takes charge of one bankruptcy estate over a long period of time. Thus, to prevent such accidents and improve trustees' work efficiency, it introduced rotative positioning system by region under which the trustees are transferred to another region after serving in one region for a certain time.

#### C. Introduction of Performance-based Criteria for Bankruptcy Estates

The KDIC has carried out reductions in force at relevant bankruptcy estates and has made an effort to instill good corporate ethics and discipline. Accordingly, the Corporation instructs its appointed trustees to focus on individual performance of employees when managing bankruptcy estates and to discharge staff members exhibiting substandard performance.

The introduction of the KDIC trustee system in all bankruptcy estates increased the need to place the focus of the management of bankruptcy estates on the recovery results, and to manage the trustees and the support staff based on their performance. To facilitate debt collection by the support staff of bankruptcy estates and to encourage voluntary efforts to recover debts, the Corporation provides special bonuses as incentives to those support staff making considerable contributions in real estate sales, recovery of NPLs, etc.

Furthermore, the KDIC analyzed the public fund recovery rate, asset resolution rate and cost efficiency during the assessment of performance of the support staff, and introduced a fair and transparent performance competition system among bankruptcy estates. Accordingly, it provides differential performance-based bonuses based on the assessment results, and replaces trustees and estates showing poor performance.

#### D. Management of Bankruptcy Estate Management Council

To improve operational efficiency and maximize recovery of injected funds, the "Bankruptcy Estate Management Council" was established in September 2006. The Council is chaired by the executive director in charge of liquidation affairs, and has the head of the division responsible for bankruptcy estates as its member.

The Council meets once every month to discuss the basic direction and coordination of operations related to bankruptcy estates, and other matters subject to improvement.

VII. Management of Bankruptcy Estates and Asset Holdings

<sup>2)</sup> Conjoint bankruptcy trusteeships jointly held by the KDIC (or employees) and attorneys

#### E. Establishment of Debt Rescheduling Standards on Personal Loans of Bankruptcy Estates

The corporate loans made by bankruptcy estates, mostly consisting of loans to companies under legal management, workout program or court-mediated debt rescheduling program, are rescheduled through the debt rescheduling standards on special loans of bankruptcy estates or creditors' assembly based on related laws. However, there were no unified debt rescheduling standards for personal debtors, and only the loans to some debtors such as defaulting parties were rescheduled restrictively through review of their financial conditions.

The KDIC implemented the "Debt Rescheduling Standards on Personal Loans of Bankruptcy Estates" from February 1, 2006, to address the need to stabilize the working-class economy, provide fair opportunities to personal debtors, and to increase the efficiency of debt recovery, through introduction of a reasonable debt reduction scheme.

Such measure enabled consistent debt rescheduling for personal debtors of bankruptcy estates where the Corporation or its employees are appointed as trustees, and helped restore the credit of insolvent debtors by rescheduling the debts of those clearly intended to repay their debts based on the overall review of their financial conditions and work capacity.

The major contents of the Standards include lowering the interest rate on high interest rate loans, alleviating the obligation of joint obligors, allowing redemption of loans by installment, extending the debt redemption date, and removing the debtors agreeing to debt rescheduling from the delinquent financial transaction data.

The implementation of the Standards is expected to encourage debtors' economic recovery and willingness to pay back their debts, and to promote early closure of bankruptcy proceedings by reducing the amount of insolvent assets which had been difficult to recover for a long time, increasing the efficiency of management of bankruptcy estates.

#### <Table VII-2> Debt Rescheduling for Personal Debtors

(Feb.- Dec. 2006, Unit: million won)

Classification	No. of Bankruptcy Estates	No. of Debtors	Amount of Debts	Reduced Amount	Notes
Debt Rescheduling	58	5,425	26,563	16,130	-

#### 1-2. Enhancement of Asset Marketability and Dividends on Bankruptcy Claims

#### A. Maximization of Recovery from Individual Assets

In an effort to maximize the disposition value of special loan assets (loans extended to companies under court receivership, court mediation and workout programs), the KDIC, during debt rescheduling of debtor corporations in 2006, recovered about 20.7 billion won more than the amount originally requested by the corporations through investigation of properties of debtors and joint obligors of debtor corporations, in-depth corporate analysis and negotiation power.

While bankruptcy estates had given up on recovery of most of the special loan assets, the KDIC aggressively persuaded debtors and joint obligors to remit payments by clearly explaining possible measures that could be taken against them for failing to pay and by inducing voluntary redemption of loans. In addition, the Corporation requested the help of government agencies, such as the Ministry of Government Administration and Home Affairs, the Ministry of Construction and Transportation, the National Tax Service, etc., in conducting investigations to locate hidden assets of debtors and guarantors, as well as in seizing the property of those identified.

#### B. Disposition of Other Asset Holdings

An internal regulation was devised during 2006 to increase efficiency, transparency and fairness for sales of real estate held by the bankruptcy estates. Accordingly, joint sales of such properties were pursued. The KDIC began providing information on real estate held by bankruptcy estates via its website (www.kdic.or.kr) in an effort to attract public attention to those assets. Consequently, the income from 71 properties sold amounted to 39.7 billion won during 11 joint sales of real estate.

As for non-publicly listed shares, individual sales by bankruptcy estate may be difficult as there are no open market transactions or market prices set for such shares. Thus, the Corporation designated a company in charge of the sales jointly with bankruptcy estates, and actively sought the sales through public offerings, etc.

#### 1-3. Early Closure of Bankruptcy Proceedings

Some bankruptcy estates may, after a certain time since establishment, require maintenance costs exceeding the amount of recoverable funds due to stagnant conversion of asset holdings into cash, and consequently bring about inefficiency. To maximize the dividends for

bankruptcy creditors and promptly recover public funds, the Corporation introduced an early closure system. It first designated target bankruptcy estates, and with the court's approval, standardized the related procedure from assessment/sale of asset holdings, and final distribution of dividends, to closure, in accordance with the Bankruptcy Act.

As it is difficult to proceed with closure of legal formality of the estates under litigation concerning bankruptcy claims, fulfillment of obligation and damage claims, the KDIC performs a "de facto closure" of bankruptcy proceedings, in which it pays out interim dividends through disposition of assets excluding those related to legal proceedings. The KDIC also integrates the bankruptcy estates in de facto closure, and has the bankruptcy trustee of the integrated estate to take charge of the unsettled affairs such as document safekeeping and legal proceedings to minimize the estates' maintenance costs. As for dividend proceeds resulting from litigation, the Corporation conducts final distribution of dividends to complete bankruptcy proceedings.

Due to the above efforts, among a total of 462 bankruptcy estates as of the end of December 2006, 103 estates were declared closed by the court and 323 estates ready to be concluded when ongoing litigations are concluded. The Corporation plans to proceed with early closure of the remaining 36 estates

These efforts contributed to early recovery of 1.78 trillion won and to saving operational costs of bankruptcy estates by cutting down office and personnel expenditure, thus maximizing the public fund recovery.

<Table VII-3> Results and Progress of Early Closure of Bankruptcy Estates

(As of December 31, 2006)

	Classifica	tion	Banks	Insurance Companies	Securities Companies	Merchant Banks	MSBs	Credit Unions	Total
Banl	Total No kruptcy Es		5	10	4	22	82	339	462
com-	T1 F	etion of mality (B)	-	1	1	-	-	101	103
ple- tion		facto tion <sup>1)</sup> (C)	5	8	2	20	72	216	323
	Sub	Subtotal		9	3	20	72	317	426
Rei	Remaining A-B		5	9	3	22	82	238	359
E	estates	А-В-С	-	1	1	2	10	22	36

<sup>1)</sup> In case of bankruptcy estates of de facto completion, they are ready to be concluded pending the final disposition of ongoing litigation when the fulfillment of an obligation, claim for damages and bankruptcy claim, etc. are declared

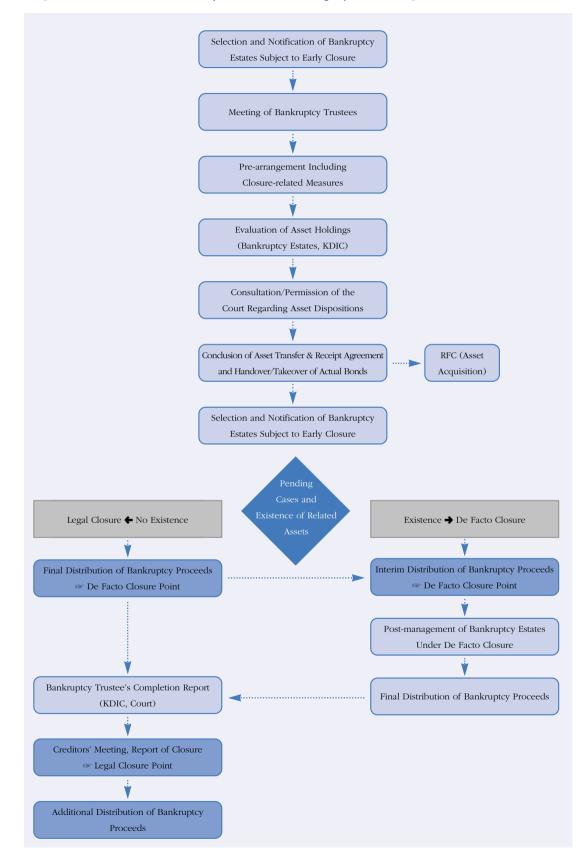
#### <Table VII-4> Recovery through Early Closure of Bankruptcy Estates

(As of December 31, 2006, Unit: million won)

			Divic	lends through	n Early Compl	etion		
Classification	No. of Bankruptcy Estates	2001 (No. of Bankruptcy Estates)	2002 (No. of Bankruptcy Estates)	2003 (No. of Bankruptcy Estates)	2004 (No. of Bankruptcy Estates)	2005 (No. of Bankruptcy Estates)	2006 (No. of Bankruptcy Estates)	Total
Banks	5	-	-	10,661	56,474	17,626	-	84,761
				(1)	(4)	(-)		
Insurance	9	-	8,899	31,691	9,334	12,967	13,413	76,304
Companies			(2)	(3)	(1)	(2)	(1)	
Securities	3	-	-	520	-	27	-	547
Companies				(2)		(1)		
Merchant	20	-	-	23,414	524,303	260,025	189,630	997,372
Banks				(1)	(13)	(4)	(2)	
MSBs	72	-	51,909	98,308	49,258	50,666	41,403	291,544
MSDS			(19)	(26)	(10)	(8)	(9)	
Credit	317	7,297	25,318	51,670	72,586	91,692	84,871	333,434
Unions		(16)	(52)	(63)	(68)	(63)	(55)	
Total	426	7,297	86,126	216,264	711,955	433,003	329,317	1,783,962
TOTAL		(16)	(73)	(96)	(96)	(78)	(67)	

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<Figure VII-1> Flow Chart of Early Closure of Bankruptcy Proceedings



#### 2. Management of Asset Holdings

#### 2-1. Acquisition of Assets

By year-end 2006, the KDIC had acquired a total of 22 trillion won in assets. Of that amount, 10 trillion won worth of assets had been acquired by the Resolution and Finance Corporation (RFC) 10.6 trillion won by Hanareum Banking Corporation (HBC) and 1.3 trillion won by Hanareum Mutual Savings and Finance Corporation (HMSF).

At the end of December 2006, through borrowings from the Repayment Fund of the KDIC, the RFC had acquired assets worth a total of 10.2 trillion won. This included 7.9 trillion won from Korea First Bank, 158.8 billion won from five acquirer banks (Kookmin, H&CB, Shinhan, Hana and KorAm), 355 billion won from four life insurance companies (Taepyongyang, Dong-ah, Kookmin and Handuk), 96.3 billion won from three MSBs (Hanmaum, Hanjung and Arim) 286 billion won from 421 bankruptcy estates and 1.27 trillion won from the sale of securities companies (Korea, Daehan and Hyundai).

<Table VII-5> Asset Acquisition by Resolution Financial Institutions

(As of December 31, 2006, Unit: 100 million won)

	Classification		Purchase Price	Notes
	Banks	98,640	80,137	6 banks (including KFB)
	Insurance Companies	4,032	3,550	5 insurance companies
	Securities Companies	22,263	12,695	3 securities companies
	Bankruptcy Estates	49,152	2,860	421 bankruptcy estates
DEC				(5 banks, 9 insurance companies,
RFC				2 securities companies, 20 banking
				corporations, 72 mutual savings and
				finance corporations, 313 credit unions)
	MSBs	2,212	963	3 MSBs
	Subtotal	176,299	100,205	-
HBC	Banking Corporations	110,225	106,262	16 banking corporations
HMSF	MSBs	34,831	13,467	41 MSBs
	Total	321,355	219,934	-

#### <Table VII-6> Asset Acquisition by Resolution Financial Institutions

(Jan.-Dec. 2006, Unit : 100 million won)

Classification		Debenture Amount	Purchase Price	Notes
RFC	Bankruptcy Estates	4,618	334	63 bankruptcy estates (5 mutual savings and finance corporations, 1 insurance company, 56 credit unions, 1 banking corporation)

#### 2-2. Disposition of Acquired Assets

To facilitate the early recovery of public funds through the disposition of acquired assets, the KDIC uses various recovery methods besides the traditional recovery at full asset maturity, including M&A, issuance of asset-backed securities (ABS), disposition based on the SAMDA method, and so forth.

In 2006, based on a decision made by the Public Fund Oversight Committee, the KDIC recovered 166.8 billion won from the sale of the shares of Daewoo Engineering & Construction held by the RFC to Kumho Asiana Consortium, 113.4 billion won with the completion of the debt workout of Hyundai Engineering & Construction and 18.6 billion won with the maturity of Korea First Bank bonds lent to Jeil Mutual Savings Bank to fund the acquisition. It also recovered 21.6 billion won from M&As of special bond holdings of five companies including Kunyoung and 4.7 billion won through the sale of foreign exchange assets of Daehung Lease, etc.

Also, the KDIC has commissioned an outside professional entity to sell real estates possessed by the RFC by public auction, recovering 363.2 billion won up to the end of 2006. It actively pursued the sale of non-listed shares by appointing a lead manager and using public auction as a sales method

With regard to securities held by the RFC such as locked-up stocks, corporate bonds and convertible bonds, the KDIC is looking into various recovery methods that suit the characteristics of each asset.

#### 2-3. Guidance for and Supervision of the Resolution and Finance Corporation

The RFC took over Hanareum Mutual Savings & Finance Corporation on December 31, 2001 and subsequently completed all required follow-up measures including account settlement and public disclosure. Additionally, the KDIC took necessary measures to adjust the budget and applicable rules governing staff, organization and other matters to ensure the smooth operation of the combined entity.

In 2006, the KDIC systematically improved the matters that require its approval and report in the conditions for financial assistance to the RFC, management of asset holdings, and recovery plans. As part of these efforts, it enacted the "Regulations on Supervision of the Resolution and Finance Corporation" and "Enforcement Bylaws of Regulations on Supervision of the Resolution and Finance Corporation" in March 2006.

Meanwhile, the KDIC concluded that the RFC should continue to exist to complete the disposition of assets and debts in its custody and to expedite bankruptcy proceedings. Therefore, the operation of the RFC, which was due to come to an end in December 2004, was extended for three more years (December 2007) by approval of the Minister of Finance and Economy, in accordance with Article 36 of the DPA.

<Table VII-7> Asset Dispositions by Resolution Financial Institutions

(As of December 31, 2006, Unit: 100 million won)

Disposition Project	Date	Sale Amount	Purchaser	Advisor
Sales proceeds from Korea First Bank New York Branch (M&A) <sup>1)</sup>	Feb. 25, 2000	99	Nara Bank	-
Transfer loans to KAMCO	Mar. 20, 2000	360	KAMCO	-
Bulk sale of Kia Motors shares	Sep. 15, 2000	1,158	Fiduciary OGF(L) Ltd	Daiwa Securities
Transfer loans to KAMCO	Sep. 27, 2000	1,204	KAMCO	-
Stocks of Ileun securities (M&A)	Nov. 15, 2000	1,195	Regent Group	KDB, KPMG
Sales proceeds from Korea First Bank Vietnam Branch (M&A) <sup>1)</sup>	Nov. 24, 2000	59	Chohung Bank	Samil Accounting
Issue ABS denominated in Korean won	Dec. 11, 2000	2,000	Domestic investors	Samsung Securities, LG Securities
Bulk sale of loans (JV-SPC)	Dec. 19, 2000	2,044	Lone Star	Samjong Houlihan Lokey
Transfer loans to KAMCO	Dec. 28, 2000	839	KAMCO	-
Issue ABS denominated in Korean Won	Feb. 5, 2001	550	Domestic investors	Samsung Securities, LG Securities
Bulk sale of loans (RFC2001-1)	May. 7, 2001	1,505	Loan Star	Samil Accounting
Bulk sale of loans (RFC2001-1)	Jun. 21, 2001	1,185	Merrill Lynch	Samil Accounting
Issue ABS denominated in foreign currency	Sep. 14, 2001	3,573	Domestic/foreign investors	CSFB, SG, Daewoo Securities, Hyundai Securities
Bulk sale of loans (Hanareum 2001-2)	Feb. 27, 2002	1,932	5 companies including GE Capitals, etc.	Samjong KPMG
Transfer loans to KAMCO	Jun. 14, 2002	7,137	KAMCO	Samil Accounting
Bulk sale of KT&G loans	Sep. 12, 2002	1,681	KT&G	-
Transfer loans to KAMCO	Nov. 21, 2002	608	KAMCO	Samjong KPMG
Bulk sale of loans (KDIC JR Loan Sale 2003 Program)	Dec. 9, 2003	442	Morgan Stanley	Samjong KPMG, Bae, Kim & Lee
Sale of ShinDongBang securities	Mar. 25, 2004	75	CJ Consortium	Samil Acconting
Issue ABS denominated in Korean won	Mar. 29, 2004	2,000	Domestic investors	Daewoo Securities /KDB Consortium
Sale of Shinho Petrochemical securities	Sep. 13, 2004	153	Aram Financial	Samil Accounting
Sale of debt equity swap securities of Shinho Paper	Dec. 20, 2004	20	Cooperative Enterprise Consortium of Shinho Paper	KDB Partners
Sale of debt equity swap securities of Ssangyong Motor	Dec. 27, 2004	680	Shanghai Motor	Samil Accounting
Sale of debt equity swap securities of Samyang Food	Oct. 18, 2005	90	Former company owner	-
Sale of debt equity swap securities of Hynix	Oct. 31, 2005	916	Domestic/foreign investors	6 corporations including Merrill Lynch
Sale of debt equity swap securities of Daewoo Engineering & Construction  1) Assets disposed directly by KDIC	Dec. 15, 2006	1,668	Kumho Asiana Consortium	Citigolbal & Samsung Securities

<sup>1)</sup> Assets disposed directly by KDIC

VII. Management of Bankruptcy Estates and Asset Holdings

# VIII. Improvement of Laws Related to Deposit Insurance System, Researches & Studies and International Exchange & Cooperation

# 1. Improvement of Laws Related to Deposit Insurance System

#### 1-1. Amendment of the Depositor Protection Act (March 24, 2006)

#### A. Objective

The amendment of the Depositor Protection Act is aimed at facilitating the investigation of accountability for insolvency and the identification of concealed properties, to maximize timely recovery of public funds through more exhaustive investigation into accountability for insolvency. It is also geared towards inducing depositors to actively exercise their rights to claim insurance payments and resolving some insufficiencies in the operation of the current system.

#### **B.** Major Contents

(1) Improvement of Investigation of Accountability for Insolvency

According to the amended DPA, the KDIC is granted the investigative right to request those implicated in insolvency to submit related data and the right to summon them. The KDIC is also allowed to ask financial institutions for data on implicated parties, and included in the scope of such data not only the information on their properties but also their work duties.

Furthermore, the KDIC is given the right to demand heads of financial institutions to submit the minimum financial transaction information that it needs for three years from the DPA implementation date so that it can place an equal stress on public fund recovery and guarantee of confidentiality of financial transaction information. (2) Improvement of Uncollected Insurance Payment Notification System and Exception to Notification and Delivery
An exception clause was made to the DPA that, notwithstanding Article 168(3) of the Civil Act,
the guidance and notification, etc. the Corporation makes to depositors to promote the rights
thereof to claim the insurance money shall not have the effect of interrupting prescription.

In addition, when the Corporation or a finance resolution institution, etc. prescribed by the DPA file for voluntary real estate auction, they are deemed to have made the notification of the auction by sending it to the address of the real estate in the register book or resident registration book, speeding up the procedure of auction.

#### (3) Subdivision of Disciplinary Measures against MOU Violators

Measures can be taken against officers or employees of a financial institution that has received public funds when they are found to have breached a provision of the MOU. The officers may be relieved of their positions, suspended, or receive warnings, and the employees may receive disciplinary actions or warning notices.

#### 1-2. Establishment of the National Finance Act (October 4, 2006)

#### A. Objective

The National Finance Act (NFA) was enacted as a basic law for national finance management and is an integrated version of the "Budget and Accounts Act" and the "Fund Management Act." The aim is to promote the efficiency, transparency and soundness of finance by establishing the national finance management plan and the national liability management plan, and expanding the publication of finance information.

#### B. Major KDIC-related Contents

First, the heads of central government offices and those in charge of fund management are given the responsibility to submit a performance plan or a performance report in the case they establish a performance management system for financial activities and submit a budget request or a fund management plan.

Second, for efficient management of national finances, extra financial resources were allowed to be transferred between accounts and funds, provided that the contents of the transfer are included in the budget plan or the fund management plan and submitted to the National Assembly. Also, when making changes to the fund management plan, the proportion of the amount that can be changed without having to notify the National Assembly was reduced from 30% to 20% for non-financial funds and from 50% to 30% for financial funds.

Third, the general public was granted the right to demand the heads of central government offices or those in charge of fund management for correction of illegal appropriation of budgets and funds. And if the correction measure contributes to saving the budget, budgetary savings incentives can be provided to the person who had demanded such measure.

#### 2. Research Activities on the Deposit Insurance System

The KDIC conducted various research activities deemed necessary for the improvement of the deposit insurance system in a rapidly changing external and internal economic environment and financial market. In 2006, it focused on researches needed for the introduction of an integrated deposit insurance system through study of overseas cases on investor protection and the system for protection of parties to insurance contract. The KDIC also studied the emergence of large financial groups and the progress of universal banking in the financial market and the legislation of the Capital Market Integration Act, their effects on the financial market and the deposit insurance system, and measures to improve the system. The results of the study were used as the basic data for the Corporation's operations such as risk surveillance of insured financial institutions and the establishment of deposit insurance policies. The KDIC's regular publications such as the data on research and analysis of the deposit insurance system and the financial system stability, the Study on Financial Stability and the Financial Risk Review served as invaluable reference for many relevant institutions, the academia, and policy makers.

<Table VIII-1> Major Research Activities of the KDIC in 2006

Subject	Title
Measures for Improvement and Ongoing Surveillance of Deposit Protection System with Emergence of Large Financial Groups and Progress of Universal Banking	Current Status and Implications of Emergence of Large Global Financial Groups Integrated Supervision of and Capital Restrictions on Financial Groups Deposit Insurance System in the Era of Large Financial Groups
Effects of the Implementation of Capital Market Integration Act on Deposit Insurance System and Each Financial Sector	Major Contents of Measures for Implementation of the Capital Market Integration Act Objectives and Key Issues of the Capital Market Integration Act Bankruptcy and Investor Protection of Financial Institutions: Cases of Other Countries and Implications

Subject	Title
	Case Study of Insolvency of MSBs
Changes in Macroeconomic Environment	Bank Ownership Structure and the Issue of Nationality of Major Shareholders
and Risk Analysis of Insured Financial Institutions	Analysis of Changes in Productivity of Life Insurance Companies
	by Form of Establishment and Size
	Analysis of Korean Insurance Industry : Current Status and Tasks
	Integrated Deposit Insurance System
	Financial Market Consumer Protection System of OECD Countries
	Depositor & Investor Protection System of Private Commercial
	Banks in Germany
	Financial Service Protection System of the United Kingdom
	The Protection System for Investors and Parties to
	Insurance Contract
	Trans-border Trade and Investor Protection in View of Korea-
	U.S. FTA Negotiations
	Management and Implications of EU Investor Compensation System
	Discussion on Bankruptcy of Securities Companies and
Research of Integrated Deposit Insurance	Improvement of Investor Protection System in Hong Kong
System	European Protection System for Parties to Insurance Contract & Trends and Implications of EU Guidelines
	Discussions on Introduction of Protection System for Parties to
	Insurance Contract of the U.S. Federal Licensing and Insurance
	Company
	Depositor Protection System
	Revision and Implications of the U.S. FDIC Act
	Revisions and Implications of the Differential Premium System
	of the FDIC
	Mechanism for Determination of Premium Rates of the Deposit
	Insurance Corporation of Japan and its Implications
	Current Status and Implications of German MSBs
	Study of Market Discipline on Depositors
	Estimation of Deposit Insurance Fund in the Banking Sector

#### 3. Cooperation and Exchange with International Organizations

The year 2006 saw the KDIC's successful accomplishment of its vision in the area of international exchange, streighthening its place in the international community by assuming a leading role. At the Annual General Meeting of International Association of Deposit Insurers (IADI) held in November 2006, the Corporation gave a presentation about the Guidance Paper on fund financing, and provided opinions and advices on Guidance Papers on other areas of

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deposit insurance, playing a key role as a member country, Vice Chair of the Research and Guidance Committee and as Chair of the Advisory Group of the IADI.

To celebrate its tenth anniversary, the KDIC hosted the International Open House from June 14 to 16, 2006, gathering people from 52 deposit insurance agencies and relevant institutions from a total of 18 countries. At the event, the KDIC introduced Korea's deposit insurance system and financial restructuring cases to participants.

The KDIC also increased exchange with various international organizations such as European Forum of Deposit Insurers (EFDI), Financial Services Compensation Scheme (FSCS) of the U.K., Securities Investor Protection Corporation (SIPC) of the U.S. and New York State Insurance Department. It signed agreements with both the FSCS and SIPC on information exchange and mutual cooperation, paving the way for continuous exchange in the future.

The KDIC paid a visit to the FDIC and strived to strengthen cooperation with other major deposit insurance agencies. It also attended annual general meetings of Inter-American Development Bank (IDB), Asian Development Bank (ADB), International Monetary Fund (IMF)/World Bank (WB), International Organization of Securities Commissions (IOSCO) and International Association of Insurance Supervisors (IAIS) to expand and manage international network and to understand global financial market trends.

To continuously export capital infrastructure to the Deposit Insurance of Vietnam (DIV), a group of KDIC working-level staff visited the deposit insurer in October 2006. The KDIC introduce its know-hows on the Depositor Protection Act, information technology, risk management, and on financial restructuring, and signed an MOU on October 31 with the DIV on expanding information sharing and personnel exchange.

Delegates of international organizations including S&P and IMF visited the KDIC to learn about the status of KDIC-issued bonds, major sales of KDIC's asset holdings in financial institutions and the timing for introduction of the differential premium rate, thereby increasing their understanding of the Corporation's major operations.

# IX. Account Settlement Results of 2006

#### 1. Overview of Account Settlement

In order to increase the credibility and transparency of its accounts, the KDIC has used the services of an external auditor from fiscal year 2002. For the Account Settlement of 2006, the audit was conducted by Ernst & Young (Han Young LLC) and the auditor's opinion, following an audit, was 'Unqualified'.

Meanwhile, beginning from 2004, it has become mandatory for the DIF Repayment Fund to also receive external audit, and the due date for submission of results has been changed.

#### 2. Criteria for Account Settlement

The financial statements of the Deposit Insurance Fund, Deposit Insurance Fund Bond Repayment Fund and KDIC are laid out in accordance with Generally Accepted Accounting Principles (GAAP) as well as KDIC's internal accounting standards.

#### 2-1. Accounting for Assets and Liabilities

#### A. Classification and Evaluation of Securities

The KDIC classifies its marketable shares and bonds as short-term sale securities, marketable shares, and hold-until-maturity bonds, according to the ownership purpose of each of the securities. Fair market prices are to be entered for marketable shares and bonds, while purchasing prices are to be entered for non-marketable securities. However, if and when net asset prices erode beyond any possibility of recovery, purchasing prices are to be replaced by net asset prices.

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#### B. Evaluation of Loans, etc.

For loans, contributions or indemnity receivables, the estimated unrecoverable amount was established as allowance for doubtful accounts in estimation of the expected rate of recovery as of the date of settlement of account, based on past loan loss rates. Contributions without indemnity receivable were entered as expenses.

#### C. Evaluation of Foreign Currency-denominated Note-type Assets and Liabilities

These were evaluated based on the benchmark exchange rates as of the date of account settlement.

#### D. Reserve for Outstanding Claims

Any amount of liabilities decided by the courts to be covered by the Deposit Insurance Fund or the Deposit Insurance Fund Bond Repayment Fund must be estimated and set aside as a reserve for outstanding claims.

#### E. Bond Premium/Discount

The DIF Bond Repayment Fund categorizes the difference between issuing price and face value as fund for issuance at premium/discount.

#### F. Operating Costs of the KDIC

The Deposit Insurance Fund and the Deposit Insurance Fund Bond Repayment Fund cover the assets and the operating costs of the KDIC. Operating costs of the KDIC are accounted for under expenses, on KDIC operations.

#### 2-2. Accounting for Revenues and Expenses

#### A. Total Entering of Revenue and Expense

Revenues and expenses were entered on the basis of the total amount, without setoffs.

#### B. Revenue Identification Criteria

Insurance premium revenues are identified with the passage of time. Interest revenues arising from deposits, etc. are also identified with the passage of time but interest revenues arising

from unrecoverable bonds are identified as cash basis revenues.

#### C. Periods Covering Revenue and Expense

Revenues and expenses were entered as follows, on the accrual basis:

- (1) (Deferment of Expense) If an expense belonging to the next term was prepaid, it was marked as repaid expense and deducted from the current expense.
- (2) (Entering of Expense) An expense belonging to the current term but remaining unpaid as of the date of account settlement was marked as unpaid expense and added to expense. An expense whose amount had not been fixed as of the date of account settlement was not entered
- (3) (Entering of Revenue) Revenue belonging to the current term that had not been realized as income in cash as of the date of account settlement was marked as accrued revenue and added to profit. Revenue from loans provided to insured financial institutions under suspensions of operations was excluded from the calculation.

#### 3. Account Settlement Status

#### 3-1. Deposit Insurance Fund Accounting

#### A. Financial Status

The total assets of the Fund increased to 3.57 trillion won, which represented a 1.79 trillion won increase on the previous year. The increase comprised 985.6 billion won in operating assets (deposits, securities), 620.6 billion won (476 billion won in allowances for credit losses) in indemnity receivables to Hamaum/Plus/Invest Mutual Savings Banks, 73.6 billion won in uncollected premiums, 11.5 billion won (with the decrease in allowances for credit losses) in short-term loans, etc.

The total liabilities stood at 318.2 billion won, which represented a 167.4 billion won increase on the year before. The increase in liabilities comprised 123.7 billion won in payment reserves in the savings bank account and 49.6 billion won in outstanding payments in the life insurance account, etc.

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#### B. Status of Profit and Loss

The net operating profit of the Fund came to 1.17 trillion won, as total operating revenue was 1.23 trillion won while total operating expenses came to 56 billion won for the period.

Operating revenues included 1.12 trillion won from insurance premiums and contributions from financial institutions, 96.6 billion won in revenues from reserve fund operations, etc. Operating expenses included 50.1 billion won for KDIC operational expenses and 4.1 billion won for interest payments on loans.

Meanwhile, non-operating revenues and non-operating expenses came to 94.6 billion won and 356.2 billion won, respectively.

Therefore, the DIF recorded a net profit on the term of 908.9 billion won.

#### 3-2. Deposit Insurance Fund Bond Repayment Fund Accounting

#### A. Financial Status

The total assets of the Fund at the end of the current term stood at 26.15 trillion won, a 2.88 trillion won (9.9%) decrease from the total assets of 26.15 trillion won at the end of the previous year.

In terms of the status of assets, current assets such as short-term loans, operating bonds and deposits, etc. totaled 6.4 trillion won, accounting for 24.5% of total assets.

Meanwhile, fixed assets including long-term securities, purchased assets, indemnity receivables and long-term loans, etc. totaled 19.74 trillion won, accounting for 75.5% of total assets.

The total liabilities of the Fund at the end of the current term stood at 34.97 trillion won, a 16.98 trillion won (32.7%) decrease from 51.95 trillion won at the end of 2005.

#### B. Status of Profit and Loss

The net operating loss of the Fund came to 1.32 trillion won, as total operating revenue was 1.2 trillion won while total operating expenses came to 2.52 trillion won for the period.

Operating revenues included 662.8 billion won from special assessment payments from insured financial institutions, 113.7 billion won from interest on deposits, etc. Operating

expenses included 1.41 trillion won from interest on Outstanding DIF bonds, 776.3 billion won from interest on Outstanding DIF Bond Repayment Fund Bonds, and 255.4 billion won for contribution expense and 22.3 billion won for KDIC operational expenses, etc.

Meanwhile, non-operating revenues and non-operating expenses came to 3.16 trillion won and 1.38 trillion won, respectively.

Therefore, the Repayment Fund recorded a net income on the term of 315.8 billion won.

#### 3-3. KDIC Accounting

#### A. Financial Status

The total assets of the KDIC at the end of the current term stood at 14.13 billion won, an increase of 814 million won from the total of the preceding term with the increase in cash, deposits, deposit provided and tangible assets, etc.

Assets can be divided into fixed assets amounting to 12.52 billion won (88.6% of total assets) and current assets amounting to 1.6 billion won (11.4% of total assets).

The total liabilities for the term stood at 14.37 billion won, an increase of 992 million won on the previous term.

#### B. Status of Profit and Loss

The total revenue and expenses of the KDIC in 2006 stood at 72 billion won and 72.19 billion won, respectively.

Revenues were generated through receipt and management of operating expenses. The total revenue consists of 71.09 billion won in revenues on fund and 921 million won in fund operation revenues. The total operating expenses were 41.68 billion won (57.7%) in wages, 26.37 billion won (36.5%) in general expenses, and 4.14 billion won (5.7%) in transferred-in group severance allowance reserves.

The net loss of the KDIC accounting came to 178 million won, after deduction of 72.19 billion won in total expenses from the total revenue of 72 billion won.

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#### <Table IX-1> Aggregate Balance Sheet

Current Period : As of December 31, 2006 Previous Period : As of December 31, 2005

(DIF Account) (Unit: 100 million won)

	Amo	ount	LIABILITIES and	Amo	ount
ASSETS	Current Period	Previous Period	CAPITALS	Current Period	Previous Period
Current Assets	22,926	21,614	Current Liabilities	3,182	1,508
1. Operating Assets	16,012	14,547	1. Contributed Liabilities	794	854
Deposits	4,801	3,187	Short-term Borrowings	794	854
Short-term Operating Bonds	11,211	11,360	2. Other Current Liabilities	2,388	654
2. Contributed Assets	467	352	Reserve for Outstanding	1,889	652
Short-term Loans	866	965	Claims		
(Allowance for	(399)	(613)	Others	499	2
Doubtful Accounts)			Long-term Liabilities	-	-
3. Other Current Assets	6,447	6,715	1. Contributed Liabilities	-	-
Uncollected Premiums	5,638	4,902	2. Other Current Liabilities	-	-
Provisional Payment	600	4,608	Total Liabilities	3,182	1,508
(Allowance for	-	(2,856)			
Doubtful Accounts)					
Others	209	61			
Fixed Assets	12,748	3,267	DIF Surplus	32,514	23,425
1. Operating Assets	10,669	2,278	(Net Income)		
Long-term Operating Bonds	10,669	2,278	Current Period: 9,089		
2. Contributed Assets	120	309	Previous Period: 4,429		
Long-term Securities	-	189			
Long-term Loans	120	120	Capital Adjustments	(22)	(52)
3. Indemnity Receivables	1,906	639	1. Gains/Losses on Valuation	(22)	(52)
Indemnity Receivables	6,977	2,910	of Securities Sold		
for Insurance Payment			Total Capitals	32,492	23,373
(Allowance for	(5,262)	(2,333)			
Doubtful Accounts)					
Contributions Indemnity	6,121	4,246			
Receivables					
(Allowance for Doubtful	(5,930)	(4,184)			
Accounts)					
Other Indemnity Receivables	568	590			
(Allowance for Doubtful	(568)	(590)			
Accounts)					
4. Other Fixed Assets	53	41			
Transferred Capital Budget	53	41			
Total Assets	35,674	24,881	Total Liabilities and Capitals	35,674	24,881

#### <Table IX-2> Aggregate Income Statement

Current Period : Jan. 1, 2006-Dec. 31, 2006 Previous Period : Jan. 1, 2005-Dec. 31, 2005

(DIF Account) (Unit: 100 million won)

	Amount			Amount	
EXPENSES	Current Period	Previous Period	REVENUES	Current Period	Previous Period
Operating Expenses (B)	560	511	Operating Revenues (A)	12,265	10,745
1. KDIC Operation Expenses	501	454	1. Revenues on Fund	11,246	10,069
2. Fund Administrative Expenses	59	57	Insurance Premiums	11,219	10,052
Contributions Expenses	-	-	Contributions	27	17
Interest on Loans	41	45	2. Revenues on Fund Operation	1,013	627
Direct Expense to Fund	18	12	Interest on Deposits	170	200
			Interest on Securities	796	409
			Interest on Loans	43	18
			Gains on Sale of Securities	4	-
Operating Profit (C=A-B)	11,705	10,234	3. Gains on Other Operation	6	49
Non-Operating Expenses (E)	3,562	7,989	Non-Operating Revenues (D)	946	2,184
1. Contribution to Allowance	1,673	7,334	1. Reversal of Reserve for	652	2,026
for Doubtful Accounts			Outstanding Claims		
2. Losses on Foreign Currency	-	-	2. Gains on Valuation of	-	-
Translation			Derivatives		
3. Contribution to Reserve for	1,889	652	3. Reversal of Allowance for	67	137
Outstanding Claims			Doubtful Accounts		
4. Other Non-Operating	-	3	4. Equity Income on Investments	227	21
Expenses			5. Other Non-operating Revenues	-	-
Net Income (C+D-E)	9,089	4,429			

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#### <Table IX-3> Aggregate Balance Sheet

Current Period: As of December 31, 2006 Previous Period: As of December 31, 2005

DIF Bond Repayment Fund Account)				(Unit : 100	00 million won)	
A COETTC		ount	LIABILITIES and	Amount		
ASSETS	Current Period	Previous Period	CAPITALS	Current Period	Previous Period	
Current Assets	64,038	54,462	Current Liabilities	59,309	196,977	
1. Operating Assets	22,637	53,593	1. Contributed Liabilities	56,952	190,849	
Deposits	2,690	6,906	Short-term Borrowings	930	1,013	
Short-term Operating Bonds	19,947	46,687	_		, -	
2. Short-term Loans	191,452	534	Outstanding DIF Bonds	55,572	189,836	
(Allowance for Doubtful	(150,093)	-	Outstanding DIF Bond	450	-	
Accounts)			Repayment Fund Bonds			
3. Other Current Assets	42	335	2. Other Current Liabilities	2,357	6,128	
Accounts Receivable	-	187		·		
(Allowance for Doubtful			Accounts Payable expenses	2,049	3,146	
Accounts)			Others	308	2,982	
Accrued Revenues	11,080	11,301	Long-term Liabilities	290,391	322,522	
(Allowance for Doubtful	(11,038)	(11,153)	1. Contributed Liabilities	288,876	321,424	
Accounts)				£ 570		
Fixed Assets	197,441	235,805	Long-term Borrowings	5,578	7,091	
1. Contributed Assets	193,868	231,051	Outstanding DIF Bonds	119,033	175,406	
Investment Securities	171,489	165,045	Outstanding DIF Bond	164,500	139,400	
Long-term Loans	7,334	206,827	Repayment Fund Bonds			
(Allowance for Doubtful	(2,316)	(162,469)	Premium on Bonds	270	163	
Accounts)				·		
Purchased Assets	17,361	21,648	(Discount on Bonds)	(505)	(636)	
2. Indemnity Receivables	3,487	4,674	2. Other Long-term Liabilities	1,515	1,098	
Indemnity Receivables	142,068	150,026	Total Liabilities	349,700	519,499	
(Allowance for Doubtful	(138,581)	(145,352)	Contributions	523,064	399,161	
Accounts)						
3. Other Fixed Assets	86	80	DIF Surplus (Deficit)	(705,555)	(708,713)	
Long-term Accounts	180	186	(Net Income)			
Receivable			Current Period: 3,158			
(Allowance for Doubtful	(170)	(184)	Previous Period : 9,480			
Accounts)				04.270	80.220	
Transferred Capital	76	78	Capital Adjustments	94,270	80,320	
			Total Capitals	(88,221)	(229,232)	
Total Assets	261,479	290,267	Total Liabilities and Capitals	261,479	290,267	

#### <Table IX-4> Aggregate Income Statement

Current Period: Jan. 1, 2006-Dec. 31, 2006 Previous Period: Jan. 1, 2005-Dec. 31, 2005

(DIF Bond Repayment Fund Account)

(Unit: 100 million won)

	Amo	ount		Amount	
EXPENSES	Current Period	Previous Period	REVENUES	Current Period	Previous Period
Operating Expenses (B)	25,202	38,992	Operating Revenues (A)	11,999	11,822
1. KDIC Operating Expenses	223	240	1. Revenues on Fund	7,591	6,628
2. Fund Administrative Expenses	24,979	38,752	Special Assessment	7,133	6,628
Contribution Expenses	2,554	3,690	Contributions	458	-
Interest on Loans	513	1,509	2. Revenues on Fund Operation	4,304	5,194
Interest on Outstanding	14,098	29,378	Interest on Deposits	387	1,503
DIF Bonds			Interest on Securities	738	1,505
Interest on Outstanding DIF	7,763	3,979	Interest on Loans Revenues	12	676
Bonds Repayment Fund Bonds			Dividends Earnings	3,167	1,510
Others	51	196	3. Other Operating Revenues	104	-
Operating Profit (C=A-B)	(13,203)	(27,170)			
Non-operating Expenses (E)	13,802	7,165	Non-operating Revenues (D)	30,163	43,815
1. Contribution to Allowance	56	1,477	1. Reversal of Allowance for	10,851	20,729
for Doubtful Accounts			Doubtful Accounts		
2. Losses on Sale of	12,514	3,187	2. Equity Income on Investments	7	10
Contributed Assets			3. Recovery of Impairment	7,005	12,431
3. Impairment Losses on	-	1,111	Losses on Securities		
Securities			4. Recovery of Impairment	11,632	9,367
4. Losses on Foreign	546	603	Losses on Securities		
Currency Transaction			5. Profit on Foreign Currency	52	293
5. Losses on Foreign Currency	-	373	Transaction		
Translation			6. Gains on Foreign Currency	584	246
6. Losses on Derivatives	46	140	Translation		
Transaction			7. Reversal of Reserve for	-	50
7. Losses on Valuation of	584	246	Outstanding Claims		
Derivatives			8. Gains on Derivatives Transaction	-	614
8. Others	56	28	9. Gains on Valuation of	-	-
			Derivatives		
Net Income/Loss (C+D-E)	3,158	9,480	10. Others	32	75

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#### <Table IX-5> Balance Sheet

Current Period : As of December 31, 2006 Previous Period : As of December 31, 2005

(KDIC Account) (Unit : million won)

	Amount		LIABILITIES and	Amount	
ASSETS	Current Period	Previous Period	CAPITALS	Current Period	Previous Period
Current Assets	1,606	1,511	Current Liabilities	1,424	1,538
1. Current Assets	1,588	1,490	1. Accounts Payable	-	16
2. Accounts Receivable	-	-	2. Accrued Expenses	402	454
3. Accrued income	12	16	3. Deposits	1,022	1,068
4. Prepaid Expenses	6	5	Long-term Liabilities	12,942	11,836
5. Prepaid Income Taxes	_	_	1. Contribution to Capital	12,942	11,808
Fixed Assets	12,528	11,809	Budget		
	,	, ,	2. Provision for Severance	18,931	16,014
1. Investment Assets	10,124	9,821	Benefits		
Deposit Provided	8,910	8,705	(Contribution to National	(7)	(10)
Long-term Securities	4	8	Pension Plan)		
Other Investments	1,210	1,108	(Deposits for Severance	(18,924)	(15,976)
2. Property, Plant & Equipment	2,404	1,988	Benefits)		
Buildings	2,024	2,045	Total Liabilities	14,366	13,374
Vehicles	16	59	1. Retained Earnings	(232)	(54)
Other Tangible Assets	11,892	10,773	(Net Surplus:		
e e		· ·	Current Period : (-)178		
(Accumulated Depreciation)	(11,528)	(10,889)	Previous Period : (-)434)		
			Total Capital	(232)	(54)
Total Assets	14,134	13,320	Total Liabilities and Reserves	14,134	13,320

#### <Table IX-6> Income Statement

Current Period : As of December 31, 2006. Previous Period : As of December 31, 2005

(KDIC Account) (Unit : million won)

	Amount			Amount	
EXPENSES	Current Period	Previous Period	REVENUES	Current Period	Previous Period
KDIC Administrative Expenses	72,194	68,928	Revenues on Fund	71,095	67,713
1. Wages	41,684	40,500	1. Contribution Revenue to Fund	71,095	67,713
2. General Expenses	26,367	24,314	Revenues on Fund Operation	921	781
3. Contribution to Allowance	4,143	4,114	1. Interest on Deposits	804	745
4. Other Administrative Expenses	-	-	2. Interest on Securities	-	1
5. Loss on Prior Period Error	-	-	3. Others	117	35
Correction			4. Gain on Prior Period Error	-	-
Total Expenses	72,194	68,928	Correction		
Net Surplus	(178)	(434)	Total Revenues	72,016	68,494

# **Appendix**

- 1. Financial Status in 2006
- 2. Deposit Insurance Committee Activities
- 3. Summary of Events in 2006
- 4. Management Innovation Activities in 2006
- 5. Outline of the Deposit Insurance System in Korea
- 6. Statistics

#### 1. Financial Status in 2006

#### Aggregate Balance Sheet

Current Period (4th): As of December 31, 2006 Previous Period (3rd): As of December 31, 2005

(DIF Bond Repayment Fund) (Unit: won)									
	Cuuren	t Period	Previous Period						
	Amo	ount	Ame	ount					
I. Current Assets		6,403,759,140,794		5,446,257,925,713					
1. Operating Assets		2,263,729,995,663		5,359,328,369,427					
2. Contributed Assets		4,135,864,009,506		53,440,000,000					
Short-term Loans	19,145,180,401,437		53,440,000,000						
(Allowance for Doubtful Accounts)	(15,009,316,391,931)		0						
3. Other Current Assets		4,165,135,625		33,489,556,286					
Accounts Receivable	-		18,707,000,000						
Accrued Revenues	1,107,985,641,953		1,130,065,283,839						
(Allowance for Doubtful Accounts	(1,103,820,506,328)		(1,115,282,727,553)						
II. Fixed Assets		19,744,152,117,682		23,580,461,597,134					
1. Contributed Assets		19,386,764,891,672		23,105,060,110,390					
Investment Securities	17,148,891,136,603		16,504,476,098,607						
Long-term Loans	733,384,542,364		20,682,719,378,801						
(Allowance for Doubtful Accounts)	(231,639,103,329)		(16,246,951,686,650)						
Purchased Assets	1,736,128,316,034		2,164,816,319,632						
2. Indemnity Receivables		348,724,021,759		467,438,631,433					
Indemnity Receivables	14,206,815,638,774		15,002,622,661,216						
(Allowance for Doubtful Accounts)	(13,858,091,617,015)		(14,535,184,029,783)						
3. Other Fixed Assets		8,663,204,251		7,962,855,311					
Uncollected Premiums	17,967,341,310		18,600,392,427						
(Allowance for Doubtful Accounts)	(16,925,418,259)		(18,382,007,435)						
Capital Budget Transfer	7,621,281,200		7,744,470,319						
Total Assets		26,147,911,258,476		29,026,719,522,847					
I. Current Liabilities		5,930,899,937,686		19,697,743,501,326					
1. Contributed Liabilities		5,695,203,500,000		19,084,914,000,000					
Short-term Borrowings	92,960,000,000		101,300,000,000						
Outstanding DIF Bonds	5,557,243,500,000		18,983,614,000,000						
Outstanding DIF Bond Repayment	45,000,000,000		0						
Fund Bonds									
2. Other Current Liabilities		235,696,437,686		612,829,501,326					
II. Long-term Liabilities		29,039,078,010,280		32,252,156,039,426					
1. Contributed Liabilities		28,887,585,926,328		32,142,418,550,796					
Long-term Borrowings	557,760,000,000		709,100,000,000						
Outstanding DIF Bonds	11,903,306,500,000		17,540,550,000,000						
Outstanding DIF Bond Repayment	16,450,000,000,000		13,940,000,000,000						
Fund Bonds									
Fund for Issuance at Premium	27,059,207,152		16,321,984,181						
(Fund for Issuance at Discount)	(50,539,780,824)		(63,553,433,385)						
2. Other Long-term Liabilities		151,492,083,952		109,737,488,630					
Total Liabilities		34,969,977,947,966		51,949,899,540,752					
I. Contributions provided from the		52,306,379,605,328		39,916,139,205,798					
Public Fund Redemption Fund									
II. DIF Surplus		(70,555,533,222,793)		(70,871,329,656,307)					
(Net Profit/Loss)	315,796,433,514	, ,	948,005,698,041						
III. Capital Adjustment		9,427,086,927,975		8,032,010,432,604					
Total Capitals		(8,822,066,689,490)		(22,923,180,017,905)					
Total Liabilities and Capitals		26,147,911,258,476		29,026,719,522,847					

#### Aggregate Income Statement

Current Period (4th): As of December 31, 2006 Previous Period (3rd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

	Cuuren	t Period	Previous	s Period
	Amo	ount	Amo	ount
I. Operating Revenues		1,199,849,966,616		1,182,218,436,352
1. Revenues of Fund		759,088,963,307		662,770,211,838
Special Assessment	713,270,168,848		662,770,211,838	
Contributions	45,818,794,459		-	
2. Revenues on Fund Operation		430,393,140,587		519,448,224,514
Interest on Deposits	38,663,107,314		150,325,452,164	
Interest on Securities	73,855,085,320		150,548,708,632	
Interest on Loans	1,209,510,971		67,596,381,638	
Dividends Earnings	316,665,436,982		150,977,682,080	
3. other Operating Revenues		10,367,862,722		-
II. Operating Expenses		2,520,163,773,327		3,899,207,403,615
KDIC Operation Expenses		22,324,701,433		24,021,485,126
2. Fund Administrative Expenses		2,497,839,071,894		3,875,185,918,489
Contribution Expenses	255,387,648,684	, , , , , , , , , , , , , , , , , , , ,	369,042,594,002	
Interest on Loans	51,313,478,679		150,889,575,123	
Interest on Outstanding DIF Bonds	1,409,762,775,571		2,937,833,284,490	
Interest on Outstanding DIF Bond	776,286,548,238		397,847,390,344	
Repayment Fund Bonds	, , , ,		0,1,1,0,1,0	
Direct Expenses to Fund	5,088,620,722		19,573,074,530	
III. Operating Profit and Loss	2,,.	(1,320,313,806,711)	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	(2,716,988,967,263)
IV. Non-Operating Revenues		3,016,274,420,988		4,381,508,291,959
Reversal of Allowance for Doubtful		1,085,096,636,365		2,072,937,444,788
Accounts		-, -, -, -, -, -, -, -, -, -, -, -, -, -		_,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
2. Revenues on Transaction between		677,860,463		1,037,198,458
Accounts		0,7,,000,200		-,037,-70,050
3. Profits on valuation of equity method		700,476,264,183		1,243,083,341,620
4. Gains on Sale of Contributed Assets		1,163,232,774,800		936,703,094,829
5. Recovery of Impairment Losses on		5,236,506,649		29,259,782,820
Securities		<i>y</i> ,= <i>y</i> 0, <i>y</i> 00,01 <i>y</i>		
6. Gains on Foreign Currency Transaction		58,380,000,000		24,640,000,000
7. Gains on Foreign Currency Translation		-		5,000,000,000
8. Gains on Derivatives Transaction		_		61,413,278,021
9. Gains on Valuation of Derivatives		_		01,113,270,021
10. Others		3,174,378,528		7,434,151,423
V. Non-Operating Expenses		1,380,164,180,763		716,513,626,655
Contribution to Allownace for		5,576,521,460		147,708,738,032
Doubtful Accounts		9,970,921,100		117,700,750,052
Expenses on Transaction between				
Accounts		-		_
3. Losses on Sale of Contributed Assets		1 251 200 /7/ 202		318,742,000,000
4. Impairment Losses on Securities		1,251,399,474,303		111,068,736,589
Impairment Losses on Securities     Losses on Foreign Currency Transaction		54,607,185,000		60,310,276,233
6. Losses on Foreign Currency Translation		74,007,103,000		37,256,623,881
7. Comtribution to Reserve for		5,464,000,000		37,430,043,001
		3,404,000,000		-
Outstanding Claims 8. Losses on Derivatives Transaction		4,555,000,000		14,023,679,944
S. Losses on Derivatives Transaction     Losses on Valuation of Derivatives				
,		58,380,000,000		24,640,000,000
10. Others		182,000,000		2,763,571,976
VI. Net Income (Loss)		315,796,433,514		948,005,698,041

#### Balance Sheet (Banks Account)

Current Period (4th): As of December 31, 2006 Previous Period (3rd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

Cuurent Period Previous Period				
	Amo		Amo	
7.0	AIIIC		Ainc	
I. Current Assets		3,301,642,860,404		1,041,313,558,315
1. Operating Assets		1,189,702,813,634		1,017,739,099,880
2. Contributed Assets	2.570.5(2.472.22(	2,109,204,387,525		-
Short-term Loans	3,579,563,173,226		-	
(Allowance for Doubtful Accounts)	(1,470,358,785,701)	2 = 25 (52 2 /5	-	22.57 / /52 /25
3. Other Current Assets	<b>-</b> 06 (/4 00 <b>5</b>	2,735,659,245	2 250 255	23,574,458,435
Revenus on Transaction between	786,441,395		2,270,855	
accounts			40 =00 400 000	
Accounts Receivable	-		18,700,188,929	
Accrued Revenues	1,046,687,178,977		1,062,139,509,778	
(Allowance for Doubtful Accounts)	(1,044,737,961,127)		(1,057,267,511,127)	
II. Fixed Assets		16,006,389,309,832		17,016,075,177,750
1. Contributed Assets		15,942,552,206,963		16,958,097,386,566
Investment Securities	14,206,423,890,929		12,919,689,352,540	
Long-term Loans	-		3,757,456,608,226	
(Allowance for Doubtful Accounts)	-		(1,883,864,893,832)	
Purchased Assets	1,736,128,316,034		2,164,816,319,632	
2. Indemnity Receivables		59,460,140,981		53,530,080,801
Indemnity Receivables	8,016,513,848,750		8,016,513,848,750	
(Allowance for Doubtful Accounts)	(7,957,053,707,769)		(7,962,983,767,949)	
3. Other Fixed Assets		4,376,961,888		4,447,710,383
Total Assets		19,308,032,170,236		18,057,388,736,065
I. Current Liabilities		5,322,906,013,585		4,575,968,777,589
1. Contributed Liabilities		4,937,350,000,000		4,474,874,405,351
Outstanding DIF Bonds	4,937,350,000,000		4,474,874,405,351	
2. Other Current Liabilities		385,556,013,585		101,094,372,238
II. Long-term Liabilities		11,711,407,455,851		16,781,564,750,540
1. Contributed Liabilities		11,711,407,455,851		16,781,564,750,540
Outstanding DIF Bonds	2,034,930,580,007		7,284,780,580,007	
Outstanding DIF Bond Repayment	9,707,332,410,809		9,538,832,410,809	
Fund Bonds				
Fund for Issuance at Premium	13,464,786,635		13,859,151,333	
Fund for Issuance at Discount	(44,320,321,600)		(55,907,391,609)	
2. Other Long-term Liabilities		-		-
Total Liabilities		17,034,313,469,436		21,357,533,528,129
I. Contributions provided from the		16,445,591,188,867		13,251,019,795,037
Public Fund Redemption Fund				
II. DIF Surplus		(25,333,682,864,551)		(26,345,918,105,956)
(Net Profit/Loss)	1,012,235,241,405		1,242,543,108,611	
III. Capital Adjustment		11,161,810,376,484		9,794,753,518,855
Total Capitals		2,273,718,700,800		(3,300,144,792,064)
<b>Total Liabilities and Capitals</b>		19,308,032,170,236		18,057,388,736,065

#### Income Statement (Banks Account)

Current Period (4th): As of December 31, 2006 Previous Period (3rd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

	Cuuren	Period	Previous	s Period
	Amo	ount	Amo	ount
I. Operating Revenues		863,386,895,889		856,291,749,458
1. Revenues of Fund		498,681,846,988		487,166,510,833
Special Assessment	498,681,846,988		487,166,510,833	
Contributions	-		-	
2. Revenues on Fund Operation		358,973,169,386		369,125,238,625
Interest on Deposits	15,447,781,319		104,152,137,775	
Interest on Securities	34,070,716,852		56,362,644,448	
Interest on Loans	70,462,509		65,709,051,572	
Dividends Earnings	309,384,208,706		142,901,404,830	
Gains on Sale of Securities	-		-	
3. other Operating Revenues		5,731,879,515		-
II. Operating Expenses		958,510,094,341		1,559,751,476,833
1. KDIC Operation Expenses		6,637,288,070		8,069,081,108
2. Fund Administrative Expenses		951,872,806,271		1,551,682,395,725
Losses on Sale of Securities	-		-	
Contribution Expenses	-		112,941,158,505	
Interest on Loans	-		94,707,047,611	
Interest on Outstanding DIF Bonds	480,497,895,372		1,109,139,765,178	
Interest on Outstanding DIF Bond	468,848,695,708		234,313,005,867	
Repayment Fund Bonds				
Direct Expenses to Fund	2,526,215,191		581,418,564	
III. Operating Profit and Loss		(95,123,198,452)		(703,459,727,375)
IV. Non-Operating Revenues		1,165,415,358,688		2,042,557,115,140
1. Reversal of Allowance for Doubtful		419,436,168,311		769,619,834,500
Accounts				
2. Revenues on Transaction between		-		-
Accounts				
3. Profits on valuation of equity method		-		-
4. Gains on Sale of Contributed Assets		633,934,685,928		1,143,739,686,960
5. Recovery of Impairment Losses on		112,040,441,449		56,604,106,840
Securities		/ - /		
6. Gains on Foreign Currency Transaction		4,063,000		27,231,274,001
7. Gains on Foreign Currency Translation		-		-
8. Gains on Derivatives Transaction		-		-
9. Gains on Valuation of Derivatives		-		45,341,238,695
10. Others		-		20,974,144
V. Non-Operating Expenses		58,056,918,831		96,554,279,154
Contribution to Allownace for		-		-
Doubtful Accounts		2 2/7 722 024		
2. Expenses on Transaction between		3,267,733,831		-
Accounts				
3. Losses on Sale of Contributed Assets		-		-
Impairment Losses on Securities     Losses on Foreign Currency Transaction		5// 607 105 000		47 272 665 002
5. Losses on Foreign Currency Transaction		54,607,185,000		47,372,665,083
6. Losses on Foreign Currency Translation		-		37,256,623,881
7. Losses on Derivatives Transaction		-		11,924,981,620
8. Losses on Valuation of Derivatives		102.000.000		0.530
9. Others		182,000,000		8,570
VI. Net Income (Loss)		1,012,235,241,405		1,242,543,108,611

#### Balance Sheet (Securities Companies Account)

Current Period (4th): As of December 31, 2006 Previous Period (3rd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

	Cuuren	t Period	Previou	revious Period	
	Amo	ount	Amo	ount	
I. Current Assets		812,757,173,626		941,924,714,050	
1. Operating Assets		31,455,322,783		939,952,558,686	
2. Contributed Assets		781,174,502,187		-	
Short-term Loans	781,174,502,187		-		
(Allowance for Doubtful Accounts)	-		-		
3. Other Current Assets		127,348,656		1,972,155,364	
Accounts Receivable	-		801,210		
Accrued Revenues	127,348,656		1,971,354,154		
Others	-		-		
II. Fixed Assets		58,261,612,358		786,026,849,300	
1. Contributed Assets		57,354,320,866		785,134,083,934	
Investment Securities	57,354,320,866		45,988,777,006		
Long-term Loans	-		941,174,502,187		
(Allowance for Doubtful Accounts)	-		(202,029,195,259)		
2. Indemnity Receivables		524,546,525		504,055,216	
Indemnity Receivables	7,926,090,261		7,930,674,233		
(Allowance for Doubtful Accounts)	(7,401,543,736)		(7,426,619,017)		
3. Other Fixed Assets		382,744,967		388,710,150	
Total Assets		871,018,785,984		1,727,951,563,350	
I. Current Liabilities		458,320,472,356		6,589,141,961,114	
1. Contributed Liabilities		170,000,000,000		6,507,221,791,020	
(1) Short-term Borrowings	-		-		
(2) Outstanding DIF Bonds	170,000,000,000		6,507,221,791,020		
(3) Outstanding DIF Bond	-		-		
Repayment Fund Bonds					
2. Other Current Liabilities		288,320,472,356		81,920,170,094	
II. Long-term Liabilities		3,103,468,396,060		794,480,483,857	
1. Contributed Liabilities		3,103,468,396,060		794,480,483,857	
Long-term Borrowings	-		-		
Outstanding DIF Bonds	1,176,685,655,236		450,928,655,236		
Outstanding DIF Bond Repayment	1,916,437,995,742		343,597,145,237		
Fund Bonds					
Fund for Issuance at Premium	10,696,630,262		389,543,951		
Fund for Issuance at Discount	(351,885,180)		(434,860,567)		
2. Other Long-term Liabilities		-		-	
Total Liabilities		3,561,788,868,416		7,383,622,444,971	
I. Contributions provided from the		6,509,303,377,974		3,320,654,661,855	
Public Fund Redemption Fund					
II. DIF Surplus		(9,200,072,859,072)		(8,976,194,675,089)	
(Net Profit/Loss)	(223,878,183,983)		(1,053,069,591,614)		
III. Capital Adjustment		(601,334)		(130,868,387)	
Total Capitals		(2,690,770,082,432)		(5,655,670,881,621)	
<b>Total Liabilities and Capitals</b>		871,018,785,984		1,727,951,563,350	

#### Income Statement (Securities Companies Account)

Current Period (4th): As of December 31, 2006 Previous Period (3rd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

	Cuuren	t Period	Previou	s Period
	Amo	ount	Amo	ount
I. Operating Revenues		23,356,933,715		41,069,383,279
1. Revenues of Fund		15,144,470,993		14,540,165,582
Special Assessment	15,144,470,993		14,540,165,582	
Contributions	-		-	
2. Revenues on Fund Operation		7,246,655,184		26,529,217,697
Interest on Deposits	3,521,885,113		6,450,523,910	
Interest on Securities	3,724,770,071		14,732,877,187	
Interest on Loans	-			
Dividends Earnings	-		5,345,816,600	
Gains on Sale of Securities	-	_	-	
3. Other Operating Revenues		965,807,538		-
II. Operating Expenses		455,737,888,125		614,710,488,719
1. KDIC Operation Expenses		2,562,877,990		2,349,850,962
2. Fund Administrative Expenses		453,175,010,135		612,360,637,757
Losses on Sale of Securities	-			
Contribution Expenses	205,293,859,107		149,079,906,267	
Interest on Loans	-		-	
Interest on Outstanding DIF Bonds	164,777,952,887		437,735,205,596	
Interest on Outstanding DIF Bond	82,202,781,009		10,634,165,010	
Repayment Fund Bonds	000 (17 122		1/011 3/0 00/	
Direct Expenses to Fund	900,417,132	(422 200 05 4 410)	14,911,360,884	(572 (41 105 440)
III. Operating Profit and Loss IV. Non-Operating Revenues		(432,380,954,410)		(573,641,105,440)
Reversal of Allowance for Doubtful		<b>216,412,929,331</b> 202,055,006,943		99,478,347,752
Accounts		202,077,000,747		_
2. Revenues on Transaction between				
Accounts				
3. Profits on valuation of equity method		_		_
4. Gains on Sale of Contributed Assets		_		99,343,654,660
5. Recovery of Impairment Losses on		11,365,543,860		-
Securities		11,505,515,000		
6. Gains on Foreign Currency Transaction		-		134,693,092
7. Gains on Foreign Currency Translation		-		
8. Gains on Derivatives Transaction		-		_
9. Gains on Valuation of Derivatives		-		_
10. Others		2,992,378,528		-
V. Non-Operating Expenses		7,910,158,904		578,906,833,926
1. Contribution to Allownace for		-		147,581,197,469
Doubtful Accounts				
Expenses on Transaction between     Accounts		2,446,158,904		-
3. Losses on Sale of Contributed Assets		-		318,742,000,000
4. Impairment Losses on Securities		-		111,068,736,589
5. Losses on Foreign Currency Transaction		-		-
6. Losses on Foreign Currency Translation		-		-
7. Comtribution to Reserve for		5,464,000,000		-
Outstanding Claims				
8. Losses on Derivatives Transaction		-		140,080,816
9. Losses on Valuation of Derivatives		-		-
10. Others		-		1,374,819,052
VI. Net Income (Loss)		(223,878,183,983)		(1,053,069,591,614)

#### Balance Sheet (Life Insurace Companies Account)

Current Period (4th): As of December 31, 2006 Previous Period (3rd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

	Cuuren	t Period	Previou	s Period
	Amo	ount	Amo	ount
I. Current Assets		217,114,842,670		454,573,327,297
1. Operating Assets		147,088,814,532		454,066,421,465
2. Contributed Assets		69,795,639,076		-
Short-term Loans	161,763,000,000		-	
(Allowance for Doubtful Accounts)	(91,967,360,924)		-	
3. Other Current Assets		230,389,062		506,905,832
Revenus on Transaction	-		2,258,298	
between accounts				
Accounts Receivable	58,245,605,488		58,519,863,960	
Accrued Revenues	(58,015,216,426)		(58,015,216,426)	
Others	-		-	
II. Fixed Assets		1,389,031,756,032		1,355,999,783,009
1. Contributed Assets		1,361,566,676,147		1,298,780,715,163
Investment Securities	1,361,566,676,147	, , , ,	1,226,282,931,535	
Long-term Loans	-		166,763,000,000	
(Allowance for Doubtful Accounts)	-		(94,265,216,372)	
Purchased Assets	_		-	
2. Indemnity Receivables		26,381,766,646		56,118,420,279
Indemnity Receivables	1,846,129,277,458	20,501,700,010	2,263,272,828,652	J0,110,1 <b>2</b> 0, <b>2</b> //
(Allowance for Doubtful Accounts)	(1,819,747,510,812)		(2,207,154,408,373)	
3. Other Fixed Assets	(=,0=2,), =,,,,==,,0==,)	1,083,313,239	(-,,-> -,,5)	1,100,647,567
Total Assets		1,606,146,598,702		1,810,573,110,306
I. Current Liabilities		461,470,586,246		3,246,773,881,065
Contributed Liabilities		449,893,500,000		3,224,440,138,416
Short-term Borrowings	_	117,075,700,000	_	5,221,110,130,110
Outstanding DIF Bonds	449,893,500,000		3,224,440,138,416	
Outstanding DIF Bond Repayment	117,075,700,000		5,221,110,130,110	
Fund Bonds				
Exchangeable Bonds	_		_	
Long-term Accrued Expenses	_		_	
Other Current Liabilities		11,577,086,246		22,333,742,649
II. Long-term Liabilities		714,809,828,278		1,109,762,497,631
Contributed Liabilities		714,809,828,278		1,109,762,497,631
Long-term Borrowings		/14,009,020,2/0		1,109,702,497,031
Outstanding DIF Bonds	541,681,317,570		936,574,817,570	
Outstanding DIF Bond Repayment	172,959,286,809		172,959,286,809	
Fund Bonds	1/2,939,200,009		1/2,939,200,009	
Fund for Issuance at Premium	284,759,043		372,301,673	
Fund for Issuance at Discount				
	(115,535,144)		(143,908,421)	
2. Other Long-term Liabilities		1 17( 200 /1/ 52/		- 4 25( 52( 2 <b>5</b> 0 (0)
Total Liabilities		1,176,280,414,524		4,356,536,378,696
I. Contributions provided from the		5,963,288,934,104		3,124,225,424,076
Public Fund Redemption Fund		(F F22 402 F(4 2F0)		(F (TO 120 22( (TO)
II. DIF Surplus	13/ 73/ 773 010	(5,533,403,564,259)	55 100 /05 3 <del>33</del>	(5,670,138,336,478)
(Net Profit/Loss)	136,734,772,219	(40.40= ((=)	55,102,485,377	(#0.2## 000)
III. Capital Adjustment		(19,185,667)		(50,355,988)
Total Capitals		429,866,184,178		(2,545,963,268,390)
Total Liabilities and Capitals		1,606,146,598,702		1,810,573,110,306

#### Income Statement (Life-Insurace Companies Account)

Current Period (4th): As of December 31, 2006 Previous Period (3rd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

	Cuurent	Period	Previou	s Period
	Amo	ount	Amo	ount
I. Operating Revenues		170,240,256,387		123,386,086,091
1. Revenues of Fund		156,904,173,402		106,857,085,000
Special Assessment	116,019,390,370		106,857,085,000	
Contributions	40,884,783,032		-	
2. Revenues on Fund Operation		13,170,663,795		16,529,001,091
Interest on Deposits	4,240,699,184		5,160,444,286	
Interest on Securities	8,929,964,611		11,368,556,805	
Interest on Loans	-		-	
Dividends Earnings	-		-	
Gains on Sale of Securities	-		-	
3. Other Operating Revenues		165,419,190		-
II. Operating Expenses		163,212,707,320		253,027,340,061
1. KDIC Operation Expenses		2,330,834,737		2,191,209,995
2. Fund Administrative Expenses		160,881,872,583		250,836,130,066
Losses on Sale of Securities	-		-	
Contribution Expenses	-		-	
Interest on Loans	-		-	
Interest on Outstanding DIF Bonds	151,951,454,433		244,797,023,324	
Interest on Outstanding DIF Bond	8,128,536,625		5,992,619,024	
Repayment Fund Bonds				
Direct Expenses to Fund	801,881,525		46,487,718	
III. Operating Profit and Loss		7,027,549,067		(129,641,253,970)
IV. Non-Operating Revenues		135,283,744,612		184,784,761,857
1. Reversal of Allowance for		-		49,329,392,499
Doubtful Accounts				
2. Revenues on Transaction		-		2,006
between Accounts				
3. Profits on valuation of equity method		-		-
4. Gains on Sale of Contributed Assets		-		-
5. Recovery of Impairment		135,283,744,612		135,440,894,052
Losses on Securities				
6. Gains on Foreign Currency Transaction		-		-
7. Gains on Foreign Currency Translation		-		-
8. Gains on Derivatives Transaction		-		-
9. Gains on Valuation of Derivatives		-		-
10. Others		-		14,473,300
V. Non-Operating Expenses		5,576,521,460		41,022,510
1. Contribution to Allownace for		5,576,521,460		-
Doubtful Accounts				
2. Expenses on Transactions		-		-
between Account				
3. Losses on Sale of Contributed Assets		-		-
4. Impairment Losses on Securities		-		-
5. Losses on Foreign Currency Transaction		-		-
6. Losses on Foreign Currency Translation		-		-
7. Comtribution to Reserve for		-		-
Outstanding Claims				
8. Losses on Derivatives Transaction		-		-
9. Losses on Valuation of Derivatives		-		-
10. Others		-		41,022,510
VI. Net Income (Loss)		136,734,772,219		55,102,485,377

#### Balance Sheet (Non-life Insurance Companies Account)

Current Period (4th): As of December 31, 2006 Previous Period (3nd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

	Cuuren	t Period	Previou	s Period
	Amo	ount	Amo	ount
I. Current Assets		173,424,841,463		145,406,754,987
1. Operating Assets		173,054,275,350		144,101,766,660
2. Contributed Assets		-		-
Short-term Loans	-		-	
(Allowance for Doubtful Accounts)	-		-	
3. Other Current Assets		370,566,113		1,304,988,327
Revenus on Transaction	206,822,400		869,700,538	
between accounts				
Accounts Receivable	-		581,364	
Accrued Revenues	163,743,713		434,706,425	
Others	-		-	
II. Fixed Assets		1,120,304,592,213		1,946,053,723,358
1. Contributed Assets		1,115,970,645,000		1,941,926,437,328
Investment Securities	1,115,970,645,000		1,941,926,437,328	
Long-term Loans	-		-	
(Allowance for Doubtful Accounts)	-		-	
Purchased Assets	-		-	
2. Indemnity Receivables		4,057,025,431		3,845,888,132
Indemnity Receivables	180,982,977,874		182,241,775,857	
(Allowance for Doubtful Accounts)	(176,925,952,443)		(178,395,887,725)	
3. Other Fixed Assets		276,921,782		281,397,898
Total Assets		1,293,729,433,676		2,091,460,478,345
I. Current Liabilities		224,393,871,336		2,066,846,334,225
1. Contributed Liabilities		92,960,000,000		1,979,243,211,457
Short-term Borrowings	92,960,000,000		101,300,000,000	
Outstanding DIF Bonds	-		1,877,943,211,457	
Outstanding DIF Bond Repayment				
Fund Bonds				
Exchangeable Bonds	-		-	
Long-term Accrued Expenses	-		-	
2. Other Current Liabilities		131,433,871,336		87,603,122,768
II. Long-term Liabilities		6,435,453,700,718		6,068,650,671,178
1. Contributed Liabilities		6,283,961,616,766		5,958,913,182,548
Long-term Borrowings	557,760,000,000		709,100,000,000	
Outstanding DIF Bonds	4,096,629,446,657		4,221,629,446,657	
Outstanding DIF Bond Repayment Fund Bonds	1,633,069,743,005		1,033,069,743,005	
Fund for Issuance at Premium	1,088,740,399		667,853,471	
Fund for Issuance at Discount	(4,586,313,295)		(5,553,860,585)	
Exchangeable Bonds	-		_	
Long-term Accrued Expenses	-		_	
2. Other Long-term Liabilities		151,492,083,952		109,737,488,630
Total Liabilities		6,659,847,572,054		8,135,497,005,403
I. Contributions provided from the		5,476,077,333,135		4,131,840,812,619
Public Fund Redemption Fund				
II. DIF Surplus		(10,857,622,086,875)		(10,199,934,823,702)
(Net Profit/Loss)	(657,687,263,173)		211,783,995,618	
III. Capital Adjustment		15,426,615,362		24,057,484,025
Total Capitals		(5,366,118,138,378)		(6,044,036,527,058)
Total Liabilities and Capitals		1,293,729,433,676		2,091,460,478,345

#### Income Statement (Non-Life Insurance Companies Account)

Current Period (4th): As of December 31, 2006 Previous Period (3rd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

	Cuurent	Period	Previou	s Period
	Amo	ount	Amo	ount
I. Operating Revenues		38,499,042,666		26,415,994,541
1. Revenues of Fund		24,194,140,937		21,851,803,423
Special Assessment	24,194,140,937		21,851,803,423	
Contributions	-		-	
2. Revenues on Fund Operation		13,818,872,445		4,564,191,118
Interest on Deposits	4,740,877,866		2,833,389,193	
Interest on Securities	9,077,994,579		1,730,801,925	
Interest on Loans	-		-	
Dividends Earnings	-		-	
Gains on Sale of Securities	-		-	
3. Other Operating Revenues		486,029,284		
II. Operating Expenses		417,905,064,371		562,296,979,458
1. KDIC Operation Expenses		2,729,229,695		3,211,582,559
2. Fund Administrative Expenses		415,175,834,676		559,085,396,899
Losses on Sale of Securities	-		_	
Contribution Expenses	-		_	
Interest on Loans	51,313,478,679		56,182,527,512	
Interest on Outstanding DIF Bonds	284,280,150,680		468,775,522,567	
Interest on Outstanding DIF Bond	79,484,297,490		34,111,240,971	
Repayment Fund Bonds				
Direct Expenses to Fund	97,907,827		16,105,849	
III. Operating Profit and Loss		(379,406,021,705)		(535,880,984,917)
IV. Non-Operating Revenues		1,036,053,232,835		785,370,134,264
Reversal of Allowance fors		1,174,166,052		-
Doubtful Account				
2. Revenues on Transaction		-		-
between Accounts				
3. Profits on valuation of equity method		-		-
4. Gains on Sale of Contributed Assets		66,541,578,255		-
5. Recovery of Impairment		904,543,044,879		744,658,093,937
Losses on Securities				
6. Gains on Foreign Currency Transaction		5,232,443,649		-
7. Gains on Foreign Currency Translation		58,380,000,000		24,640,000,000
8. Gains on Derivatives Transaction		-		16,072,039,326
9. Gains on Valuation of Derivatives		-		-
10. Others		182,000,000		1,001
V. Non-Operating Expenses		1,314,334,474,303		37,705,153,729
Contribution to Allownace for		-		127,540,563
Doubtful Accounts				
2. Expenses on Transaction		-		2,006
between Accounts				,
3. Losses on Sale of Contributed Assets		1,251,399,474,303		-
4. Impairment Losses on Securities		-		_
5. Losses on Foreign Currency Transaction		-		12,937,611,150
6. Losses on Foreign Currency Translation		-		-
7. Comtribution to Reserve for		_		
Outstanding Claims				
8. Losses on Derivatives Transaction		4,555,000,000		_
9. Losses on Valuation of Derivatives		58,380,000,000		24,640,000,000
10. Others		- ,2 ,		10
VI. Net Income (Loss)		(657,687,263,173)		211,783,995,618

#### Balance Sheet (Merchant Banks Account)

Current Period (4th): As of December 31, 2006 Previous Period (3nd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

Cuurent Period Previous Period				
	Aille	ount	Ailio	ount
I. Current Assets		1,239,554,217,637		1,280,873,469,326
1. Operating Assets		313,151,479,351		1,278,336,459,020
2. Contributed Assets		925,259,563,278		-
Short-term Loans	12,092,863,726,024		-	
(Allowance for Doubtful Accounts)	(11,167,604,162,746)	/	-	
3. Other Current Assets		1,143,175,008		2,537,010,306
Revenus on Transaction between	112,081,923		378,995,016	
accounts				
Accounts Receivable	-		966,995	
Accrued Revenues	1,031,093,085		2,157,048,295	
Others	-		-	
II. Fixed Assets		494,414,885,728		1,463,497,653,018
1. Contributed Assets		423,504,749,164		1,367,121,510,202
Investment Securities	407,575,603,661		370,588,600,198	
Long-term Loans	118,336,400,572		12,611,200,126,596	
(Allowance for Doubtful Accounts)	(102,407,255,069)		(11,614,667,216,592)	
Purchased Assets	-		-	
2. Indemnity Receivables		69,657,424,436		95,745,568,354
Indemnity Receivables	2,507,341,450,689		2,542,393,556,971	
(Allowance for Doubtful Accounts)	(2,437,684,026,253)		(2,446,647,988,617)	
3. Other Fixed Assets		1,252,712,128		630,574,462
Total Assets		1,733,969,103,365		2,744,371,122,344
I. Current Liabilities		131,060,686,800		2,464,122,322,691
1. Contributed Liabilities		45,000,000,000		2,156,532,756,881
Short-term Borrowings	-		-	
Outstanding DIF Bonds	-		2,156,532,756,881	
Outstanding DIF Bond Repayment	45,000,000,000			
Fund Bonds				
Exchangeable Bonds	-		-	
2. Other Current Liabilities		86,060,686,800		307,589,565,810
II. Long-term Liabilities		6,622,390,399,178		6,503,533,442,953
1. Contributed Liabilities		6,622,390,399,178		6,503,533,442,953
Long-term Borrowings	-		-	
Outstanding DIF Bonds	3,739,795,080,090		3,826,295,080,090	
Outstanding DIF Bond Repayment	2,882,238,362,863		2,677,238,362,863	
Fund Bonds				
Fund for Issuance at Premium	1,400,838,638			
Fund for Issuance at Discount	(1,043,882,413)		-	
2. Other Long-term Liabilities		-		-
Total Liabilities		6,753,451,085,978		8,967,120,884,682
I. Contributions provided from the		11,622,878,076,377		10,411,386,274,057
Public Fund Redemption Fund				
II. DIF Surplus		(14,892,391,211,973)		(14,847,735,783,678)
(Net Profit/Loss)	(44,655,428,295)		202,283,729,964	
III. Capital Adjustment		(1,749,968,847,017)		(1,786,400,252,717)
Total Capitals		(5,019,481,982,613)		(6,222,749,762,338)
Total Liabilities and Capitals		1,733,969,103,365		2,744,371,122,344

#### Income Statement (Merchant Banks Account)

Current Period (4th): As of December 31, 2006 Previous Period (3rd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

	Cuurent	Period	Previou	s Period
	Amo	ount	Amo	ount
I. Operating Revenues		21,507,390,796		48,625,306,054
1. Revenues of Fund		5,570,396,427		496,537,000
Special Assessment	636,385,000		496,537,000	
Contributions	4,934,011,427		-	
2. Revenues on Fund Operation		15,936,958,944		48,128,769,054
Interest on Deposits	4,856,499,320		15,072,217,783	
Interest on Securities	3,799,231,348		30,326,090,621	
Interest on Loans	-		-	
Dividends Earnings	7,281,228,276		2,730,460,650	
Gains on Sale of Securities	-		-	
3. other Operating Revenues		35,425		-
II. Operating Expenses		421,553,113,397		637,102,875,507
1. KDIC Operation Expenses		3,794,659,924		4,108,607,464
2. Fund Administrative Expenses		417,758,453,473		632,994,268,043
Losses on Sale of Securities	-		-	
Contribution Expenses	-		-	
Interest on Loans	-		_	
Interest on Outstanding DIF Bonds	286,539,938,444		523,278,844,959	
Interest on Outstanding DIF Bond	130,962,527,057		106,192,176,589	
Repayment Fund Bonds				
Direct Expenses to Fund	255,987,972		3,523,246,495	
III. Operating Profit and Loss		(400,045,722,601)		(588,477,569,453)
IV. Non-Operating Revenues		355,453,509,648		790,761,302,617
1. Reversal of Allowance for		354,775,649,185		789,699,178,818
Doubtful Accounts				
2. Revenues on Transaction		-		-
between Accounts				
3. Profits on valuation of equity method		677,860,463		1,037,198,458
4. Gains on Sale of Contributed Assets		-		-
5. Recovery of Impairment Losses on		-		-
Securities				
6. Gains on Foreign Currency Transaction		-		-
7. Gains on Foreign Currency Translation		-		-
8. Gains on Derivatives Transaction		-		-
9. Gains on Valuation of Derivatives		-		-
10. Others		-		24,925,341
V. Non-Operating Expenses		63,215,342		3,200
1. Contribution to Allownace for		-		-
Doubtful Accounts				
2. Expenses on Transaction between		63,215,342		-
Accounts				
3. Losses on Sale of Contributed Assets		-		-
4. Impairment Losses on Securities		-		-
5. Losses on Foreign Currency Transaction	n	-		-
6. Losses on Foreign Currency Translation		-		-
7. Comtribution to Reserve for				
Outstanding Claims				
8. Losses on Derivatives Transaction		-		-
9. Losses on Valuation of Derivatives		-		-
10. Others		-		3,200
VI. Net Income (Loss)		(44,655,428,295)		202,283,729,964

#### Balance Sheet (Mutual Savings Banks Account)

Current Period (4th): As of December 31, 2006 Previous Period (3nd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

Cuurent Period Previou				
Amo	ount	Amo	ount	
	443,707,328,427		735,756,316,771	
	192,895,353,907		678,898,578,881	
	250,429,917,440		53,440,000,000	
2,529,816,000,000		53,440,000,000		
(2,279,386,082,560)		-		
	382,057,080		3,417,737,890	
-		367,112,403		
-		1,225,412		
1,449,385,855		3,049,400,075		
(1,067,328,775)		-		
-		-		
	560,124,178,109		818,413,898,697	
	485,816,293,532		753,999,977,197	
-		-		
614,946,574,635		3,206,023,574,635		
(129,130,281,103)		(2,452,023,597,438)		
-		-		
	73,530,210,161		63,820,786,378	
336,628,728,610		354,250,403,243		
	777,674,416		593,135,122	
			1,554,170,215,468	
			688,662,574,925	
	-		675,152,149,873	
-		-		
-		675,152,149,873		
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-		-		
	2.056.370.052		13,510,425,052	
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			3,276,496,845,602	
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	(3.337,755,528,388)		(3,353,960,409,108)	
16,204 880 720	(0,001,100,000)	125.813 173 762	(0,000,000,100,100)	
10,201,000,720	(68.023.081)	1=2,013,173,702	(86,544,784)	
			(77,550,108,290)	
	1,003,831,506,536		1,554,170,215,468	
	2,529,816,000,000 (2,279,386,082,560) - - 1,449,385,855 (1,067,328,775) - - 614,946,574,635 (129,130,281,103)	192,895,353,907 250,429,917,440  2,529,816,000,000 (2,279,386,082,560)  382,057,080  382,057,080  382,057,080  560,124,178,109 485,816,293,532  614,946,574,635 (129,130,281,103)  73,530,210,161 336,628,728,610 (263,098,518,449)  777,674,416  1,003,831,506,536  2,056,370,052 451,548,230,195  451,548,230,195  453,604,600,247 3,888,050,457,758  (3,337,755,528,388)  16,204,880,720  (68,023,081) 550,226,906,289	443,707,328,427 192,895,353,907 250,429,917,440  2,529,816,000,000 (2,279,386,082,560)  -	

#### Income Statement (Mutual Savings Banks Account)

Current Period (4th): As of December 31, 2006 Previous Period (3rd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

	Cuurent Period		Previou	s Period
	Amo	ount	Amo	ount
I. Operating Revenues		46,528,154,858		61,586,275,326
1. Revenues of Fund		36,957,658,017		31,858,110,000
Special Assessment	36,957,658,017		31,858,110,000	
Contributions	-		-	
2. Revenues on Fund Operation		6,725,646,801		29,728,165,326
Interest on Deposits	1,477,286,651		9,203,317,598	
Interest on Securities	4,109,311,688		18,666,090,932	
Interest on Loans	1,139,048,462		1,858,756,796	
Dividends Earnings	-		-	
Gains on Sale of Securities	-		-	
3. Other Operating Revenues		2,844,850,040		-
II. Operating Expenses		100,190,948,832		260,922,869,021
1. KDIC Operation Expenses		2,558,167,415		2,341,547,993
2. Fund Administrative Expenses		97,632,781,417		258,581,321,028
Losses on Sale of Securities	-		-	
Contribution Expenses	50,093,789,577		107,021,529,230	
Interest on Loans	-		-	
Interest on Outstanding DIF Bonds	40,721,690,776		145,601,958,671	
Interest on Outstanding DIF Bond	6,491,167,297		5,465,010,676	
Repayment Fund Bonds				
Direct Expenses to Fund	326,133,767		492,822,451	
III. Operating Profit and Loss		(53,662,793,974)		(199,336,593,695)
IV. Non-Operating Revenues		69,867,674,694		327,391,830,784
1. Reversal of Allowance for Doubtful		69,867,674,694		313,697,197,425
Accounts				
2. Revenues on Transaction between		-		-
Accounts				
3. Profits on valuation of equity method		-		-
4. Gains on Sale of Contributed Assets		-		-
5. Recovery of Impairment Losses on		-		1,648,058,835
Securities				
6. Gains on Foreign Currency Transaction		-		-
7. Gains on Foreign Currency Translation		-		5,000,000,000
8. Gains on Derivatives Transaction		-		-
9. Gains on Valuation of Derivatives		-		/ < / /
10. Others		-		7,046,574,524
V. Non-Operating Expenses		-		2,242,063,327
Contribution to Allownace for		-		-
Doubtful Accounts				
2. Expenses on Transaction between		-		-
Accounts				
3. Losses on Sale of Contributed Assets		-		-
4. Impairment Losses on Securities		-		_
5. Losses on Foreign Currency Transaction		-		_
<ul><li>6. Losses on Foreign Currency Translation</li><li>7. Comtribution to Reserve for</li></ul>		-		_
		-		
Outstanding Claims  8. Losses on Derivatives Transaction				1,702,559,429
9. Losses on Valuation of Derivatives		-		1,/02,339,429
10. Others		-		539,503,898
VI. Net Income (Loss)		16,204,880,720		125,813,173,762
The rect lifeorite (1000)		10,204,000,720		127,013,1/3,/02

#### Balance Sheet (Credit Unions Account)

Current Period (4th): As of December 31, 2006 Previous Period (3rd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

	Cuurent Period Previou			us Period	
	Amo	ount	Amo	ount	
I. Current Assets		884,892,932,855		848,378,435,495	
1. Operating Assets		216,381,936,106		846,233,484,835	
2. Contributed Assets		-		-	
Short-term Loans	-		-		
(Allowance for Doubtful Accounts)	-		-		
3. Other Current Assets		668,510,996,749		2,144,950,660	
Revenus on Transaction between	668,229,710,570		350,571,716		
accounts					
Accounts Receivable	-		977,792		
Accrued Revenues	281,286,179		1,793,401,152		
(Allowance for Doubtful Accounts)	-		-		
Others	-		-		
II. Fixed Assets		115,625,783,410		194,394,512,002	
1. Contributed Assets		-		-	
Investment Securities	-		-		
Long-term Loans	101,567,157		101,567,157		
(Allowance for Doubtful Accounts)	(101,567,157)		(101,567,157)		
Purchased Assets	-		-		
2. Indemnity Receivables		115,112,907,579		193,873,832,273	
Indemnity Receivables	1,311,293,265,132		1,636,019,573,510		
(Allowance for Doubtful Accounts)	(1,196,180,357,553)		(1,442,145,741,237)		
3. Other Fixed Assets		512,875,831		520,679,729	
Total Assets		1,000,518,716,265		1,042,772,947,497	
I. Current Liabilities		26,993,599		68,196,300,245	
1. Contributed Liabilities		-		67,449,547,002	
Short-term Borrowings	-		-		
Outstanding DIF Bonds	-		67,449,547,002		
Outstanding DIF Bond Repayment	-				
Fund Bonds					
Exchangeable Bonds	-		-		
Long-term Accrued Expenses	-		-		
2. Other Current Liabilities		26,993,599		746,753,243	
II. Long-term Liabilities		-		51,641,325,396	
1. Contributed Liabilities		-		51,641,325,396	
Long-term Borrowings	-		-		
Outstanding DIF Bonds	-		21,257,000,000		
Outstanding DIF Bond Repayment	-		30,340,850,505		
Fund Bonds					
Fund for Issuance at Premium	-		45,658,621		
Fund for Issuance at Discount	-		(2,183,730)		
2. Other Long-term Liabilities		-		-	
Total Liabilities		26,993,599		119,837,625,641	
I. Contributions provided from the		2,401,190,237,113		2,400,515,392,552	
Public Fund Redemption Fund					
II. DIF Surplus		(1,400,605,107,675)		(1,477,447,522,296)	
(Net Profit/Loss)	76,842,414,621		163,548,796,323		
III. Capital Adjustment		(93,406,772)		(132,548,400)	
Total Capitals		1,000,491,722,666		922,935,321,856	
Total Liabilities and Capitals		1,000,518,716,265		1,042,772,947,497	

#### Income Statement (Credit Unions Account)

Current Period (4th): As of December 31, 2006 Previous Period (3rd): As of December 31, 2005

(DIF Bond Repayment Fund)

(Unit: won)

	Cuuren	t Period	Previou	s Period
	Amo	ount	Amo	ount
I. Operating Revenues		36,331,292,305		24,843,641,603
1. Revenues of Fund		21,636,276,543		-
Special Assessment	21,636,276,543		-	
Contributions	-		-	
2. Revenues on Fund Operation		14,521,174,032		24,843,641,603
Interest on Deposits	4,378,077,861		7,453,421,619	
Interest on Securities	10,143,096,171		17,361,646,714	
Interest on Loans	-		28,573,270	
Dividends Earnings	-		-	
Gains on Sale of Securities	-		-	
3. Other Operating Revenues		173,841,730		-
II. Operating Expenses		3,053,956,941		11,395,374,016
1. KDIC Operation Expenses		1,711,643,602		1,749,605,045
2. Fund Administrative Expenses		1,342,313,339		9,645,768,971
Losses on Sale of Securities	-		-	
Contribution Expenses	-		-	
Interest on Loans	-		-	
Interest on Outstanding DIF Bonds	993,692,979		8,504,964,195	
Interest on Outstanding DIF Bond	168,543,052		1,139,172,207	
Repayment Fund Bonds				
Direct Expenses to Fund	180,077,308		1,632,569	
III. Operating Profit and Loss		33,277,335,364		13,448,267,587
IV. Non-Operating Revenues		43,565,079,257		151,164,801,551
1. Reversal of Allowance for Doubtful		37,787,971,180		150,591,841,546
2. Revenues on Transaction between		5,777,108,077		-
Accounts				
3. Profits on valuation of equity method		-		-
4. Gains on Sale of Contributed Assets		-		-
5. Recovery of Impairment Losses on				-
Securities				
6. Gains on Foreign Currency Transaction		-		245,756,892
7. Gains on Foreign Currency Translation		-		-
8. Gains on Derivatives Transaction		-		-
9. Gains on Valuation of Derivatives		-		-
10. Others		-		327,203,113
V. Non-Operating Expenses		-		1,064,272,815
1. Contribution to Allownace for		-		-
Doubtful Accounts				
2. Expenses on Transaction between		-		-
Accounts				
3. Losses on Sale of Contributed Assets		-		-
4. Impairment Losses on Securities		-		-
5. Losses on Foreign Currency Transaction		-		-
6. Losses on Foreign Currency Translation		-		-
7. Comtribution to Reserve for		-		
Outstanding Claims				
8. Losses on Derivatives Transaction		-		256,058,079
9. Losses on Valuation of Derivatives		-		-
10. Others				808,214,736
VI. Net Income (Loss)		76,842,414,621		163,548,796,323

#### Aggregate Balance Sheet

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

	Current	ent Period I		Previous Period	
	Amo	ount	Amo	ount	
I. Current Assets		2,292,577,434,536		2,161,366,557,941	
1. Operating Assets		1,601,175,628,619		1,454,691,182,468	
Deposits	480,123,994,102		318,715,323,245		
Short-term Securities	1,121,051,634,517		1,135,975,859,223		
2. Contributed Assets		46,668,676,052		35,228,949,993	
Short-term Loans	86,547,956,171		96,547,956,171		
(Allowance for Doubtful Accounts)	(39,879,280,119)		(61,319,006,178)		
3. Other Current Assets		644,733,129,865		671,446,425,480	
Revenus on Transaction between	-		-		
accounts					
Accrued Revenues	24,203,051,726		7,540,249,712		
(Allowance for Doubtful Accounts)	(3,258,335,861)		(1,530,978,142)		
Uncollected Premiums	563,784,694,000		490,221,547,000		
Provisional Payment of Insurance Claim	60,000,000,000		460,783,606,910		
(Allowance for Doubtful Accounts)	-		(285,568,000,000)		
Provisional Payment	3,720,000		-		
II. Fixed Assets		1,274,779,638,708		326,744,685,606	
1. Operating Bonds		1,066,849,610,453		227,802,086,311	
Long-term Operation Bonds	1,066,849,610,453		227,802,086,311		
2. Contributed Assets	-	12,049,900,000		30,893,960,804	
Investment Securities	49,900,000		18,893,960,804		
Long-term Loans	12,000,000,000		12,000,000,000		
3. Indemnity Receivables	-	190,554,699,230		63,980,456,226	
Indemnity Receivables	1,366,730,493,763		774,622,222,807		
(Allowance for Doubtful Accounts)	(1,176,175,794,533)		(710,641,766,581)		
4. Other Fixed Assets		5,325,429,025		4,068,182,265	
Total Assets		3,567,357,073,244		2,488,111,243,547	
I. Current Liabilities		318,197,887,231		150,831,202,617	
1. Contribution Liabilities		79,400,000,000		85,400,000,000	
Short-term Borrowings	79,400,000,000		85,400,000,000		
2. Other Current Liabilities		238,797,887,231		65,431,202,617	
Revenus on Transaction between	-		-		
accounts					
Accounts Payable	49,642,200,000		-		
Deposits	-		3,567,330		
accrued expense	260,687,231		246,635,287		
Reserve for Outstanding Claims	188,895,000,000		65,181,000,000		
II. Long-term Liabilities		-		-	
Total Liabilities		318,197,887,231		150,831,202,617	
I. DIF Surplus		3,251,373,809,662	,,	2,342,441,509,704	
(Net Income)	908,932,299,958		442,889,431,960		
II. Capital Adjustment		(2,214,623,649)		(5,161,468,774)	
Total Capitals		3,249,159,186,013		2,337,280,040,930	
Total Liabilities and Capitals		3,567,357,073,244		2,488,111,243,547	

#### Aggregate Income Statement

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

	Cuurent	t Period	Previous	s Period
	Amo	ount	Amo	ount
I. Operating Revenues		1,226,549,153,909		1,074,486,873,861
1. Revenues of Fund		1,124,639,694,006		1,006,941,525,284
Insurance Premiums	1,121,919,694,006		1,005,271,525,284	
Contributions	2,720,000,000		1,670,000,000	
2. Revenues on Fund Operation		101,296,464,042		62,650,653,585
Interest on Deposits	16,971,476,560		19,983,730,161	
Interest on Securities	79,616,972,278		40,865,383,091	
Interest on loans	4,321,850,280		1,801,540,333	
Gains on Sale of Securities	386,164,924		-	
3. Other Operating Revenues		612,995,861		4,894,694,992
II. Operating Expenses		56,035,835,782		51,109,019,632
1. KDIC Operation Expenses		50,139,567,557		45,444,225,343
2. Fund Administrative Expenses		5,896,268,225		5,664,794,289
Interest on Loans	4,095,490,487		4,463,353,215	
Direct Expenses to Fund	1,800,777,738		1,201,441,074	
III. Operating Profit and Loss		1,170,513,318,127		1,023,377,854,229
IV. Non-Operating Revenues		94,604,653,452		218,393,029,382
1. Revenues on Transactions between		-		-
accounts				
2. Reversal of Reserve for Outstanding		65,181,000,000		202,621,000,000
Claims				
3. Profits on Valuation of Derivatives		-		-
4. Reversal of allowance for doubtful		6,697,614,256		13,678,068,578
accounts				
5. Profits on valuation of equity method		22,726,039,196		2,093,960,804
6. Others		-		-
V. Non-Operating Expenses		356,185,671,621		798,881,451,651
1. Reversal of Allowance for Doubtful		167,290,671,621		733,429,845,230
Accounts				
2. Expenses on Transactions between		-		-
accounts				
3. Gains on Foreign Currency Translation		-		-
4. Comtribution to Reserve for		188,895,000,000		65,181,000,000
Outstanding Claims				
5. Others		-		270,606,421
VI. Net Income		908,932,299,958		442,889,431,960

#### Balance Sheet (Banks Account)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

	Cuuren	us Period		
	Amo	ount	Amo	ount
I. Current Assets		1,631,861,803,986		1,510,590,141,242
1. Operating Assets		763,967,920,690		774,517,470,203
Deposits	213,577,017,317		152,947,812,391	
Short-term Securities	550,390,903,373		621,569,657,812	
2. Contributed Assets		-		-
Short-term Loans	-		-	
(Allowance for Doubtful Accounts)	-		-	
3. Other Current Assets		867,893,883,296		736,072,671,039
Revenus on Transaction between	729,519,365,341		610,044,664,726	
accounts				
Accrued Revenues	10,699,196,955		2,575,284,313	
(Allowance for Doubtful Accounts)	-		-	
Uncollected Premiums	127,675,321,000		123,452,722,000	
Provisional Payment of Insurance Claim	-		-	
(Allowance for Doubtful Accounts)	-		-	
Provisional Payment	-		-	
II. Fixed Assets		550,173,979,280		110,774,242,465
1. Operating Bonds		547,745,083,336		108,899,230,873
Long-term Operation Bonds	547,745,083,336		108,899,230,873	
2. Contributed Assets		-		-
Investment Securities	-		-	
Long-term Loans	-		-	
3. Indemnity Receivables		-		-
Indemnity Receivables	-		-	
(Allowance for Doubtful Accounts)	-		-	
4. Other Fixed Assets		2,428,895,944		1,875,011,592
Total Assets		2,182,035,783,266		1,621,364,383,707
I. Current Liabilities		-		480,110
1. Contribution Liabilities		-		
Short-term Borrowings	-			- /
2. Other Current Liabilities		-	(00.110	480,110
Revenus on Transaction between	-	-	480,110	-
accounts				
Accounts Payable	-		-	
Deposits	-		-	
accrued expense	-		-	
Reserve for Outstanding Claims	-		-	
II. Long-term Liabilities		-		- (20.440
Total Liabilities		2 102 405 005 410		480,110
I. DIF Surplus	550 700 722 055	2,183,405,975,419	£1£ 2 <del>7</del> 6 200 050	1,623,606,252,464
(Net Income)	559,799,722,955	(1 250 100 152)	515,376,280,850	(2 2/2 2/9 9/=)
II. Capital Adjustment Total Capitals		(1,370,192,153) 2,182,035,783,266		(2,242,348,867)
Total Capitals  Total Liabilities and Capitals				1,621,363,903,597
Total Liabilities and Capitals		2,182,035,783,266		1,621,364,383,707

#### Income Statement (Banks Account)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

	Cuurent Period		Previous	s Period
	Amo	ount	Amo	ount
I. Operating Revenues		552,988,230,143		521,435,725,694
1. Revenues of Fund		503,292,827,836		489,625,450,876
Insurance Premiums	502,912,827,836		489,405,450,876	
Contributions	380,000,000		220,000,000	
2. Revenues on Fund Operation		49,695,402,207		31,810,274,818
Interest on Deposits	7,386,563,717		10,752,622,655	
Interest on Securities	42,308,838,490		21,057,652,163	
Interest on loans	-		-	
Gains on Sale of Securities	-		-	
3. Other Operating Revenues		100		
II. Operating Expenses		22,396,461,628		20,371,248,904
1. KDIC Operation Expenses		22,378,861,628		20,356,948,904
2. Fund Administrative Expenses		17,600,000		14,300,000
Contribution Expenses	-		-	
Interest on Loans	-		-	
Direct Expenses to Fund	17,600,000		14,300,000	
III. Operating Profit and Loss		530,591,768,515		501,064,476,790
IV. Non-Operating Revenues		29,207,954,440		14,311,804,230
1. Revenues on Transactions between		29,207,954,440		14,311,804,230
accounts				
2. Reversal of Reserve for Outstanding		-		-
Claims				
3. Profits on Valuation of Derivatives		-		-
4. Reversal of allowance for doubtful		-		-
accounts				
5. Profits on valuation of equity method		-		-
6. Others		-		-
V. Non-Operating Expenses		-		170
Reversal of Allowance for Doubtful		-		-
Accounts				
2. Expenses on Transactions between		_		-
accounts				
3. Gains on Foreign Currency Translation		-		-
4. Comtribution to Reserve for		_		-
Outstanding Claims				
5. Others		-		170
VI. Net Income		559,799,722,955		515,376,280,850

#### Balance Sheet (Securities Companies Account)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

(Deposit Insurance Fund)				(Unit: won)
	Cuurent	Period	Previous	Period
	Amo	ount	Amo	ount
I. Current Assets		70,706,970,183		78,123,615,836
1. Operating Assets		46,897,749,270		54,287,048,702
Deposits	6,919,812,385		4,771,350,815	
Short-term Securities	39,977,936,885		49,515,697,887	
2. Contributed Assets		-		-
Short-term Loans	-		-	
(Allowance for Doubtful Accounts)	-		-	
3. Other Current Assets		23,809,220,913		23,836,567,134
Revenus on Transaction between	-		25,970,036	
accounts				
Accrued Revenues	1,090,241,913		398,750,098	
(Allowance for Doubtful Accounts)	-		-	
Uncollected Premiums	22,718,979,000		23,411,847,000	
Provisional Payment of Insurance Claim	-		-	
(Allowance for Doubtful Accounts)	-		-	
Provisional Payment	-		-	
II. Fixed Assets		80,107,361,047		39,816,179,029
1. Operating Bonds		79,765,878,131		39,597,365,195
Long-term Operation Bonds	79,765,878,131		39,597,365,195	
2. Contributed Assets		-		-
Investment Securities	-		-	
Long-term Loans	-		-	
3. Indemnity Receivables		-		-
Indemnity Receivables	-		-	
(Allowance for Doubtful Accounts)	-	2/4 /02.04/	-	240.040.02/
4. Other Fixed Assets		341,482,916	-	218,813,834
Total Assets		150,814,331,230	-	117,939,794,865
I. Current Liabilities		1,086,743,344		53,448
Contribution Liabilities		-		
Short-term Borrowings	-	1.00( 7/2.2//		52 //0
2. Other Current Liabilities	1.00( 7/2.2/4	1,086,743,344	53.440	53,448
Revenus on Transaction between	1,086,743,344	-	53,448	-
accounts				
Accounts Payable	-		-	
Deposits	-		-	
accrued expense	-		-	
Reserve for Outstanding Claims	-		-	
II. Long-term Liabilities Total Liabilities		1 006 7/2 2/4	_	F2 449
		1,086,743,344	_	53,448
I. DIF Surplus (Net Income)	31,384,633,261	149,853,752,241	26,848,758,227	118,469,118,980
II. Capital Adjustment	31,304,033,201	(126,164,355)	40,040,/30,44/	(529,377,563)
Total Capitals		149,727,587,886		117,939,741,417
Total Liabilities and Capitals		150,814,331,230	-	117,939,741,417
Total Liabilities and Capitals		1,0,014,331,230		11/,777,/74,005

#### Income Statement (Securities Companies Account)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

	Cuurent Period		Previous	s Period
	Amo	ount	Amount	
I. Operating Revenues		35,063,306,483		29,509,592,318
1. Revenues of Fund		30,389,330,010		26,657,366,165
Insurance Premiums	29,589,330,010		26,457,366,165	
Contributions	800,000,000		200,000,000	
2. Revenues on Fund Operation		4,673,976,473		2,852,226,153
Interest on Deposits	328,839,681		367,153,477	
Interest on Securities	4,345,136,792		2,485,072,676	
Interest on loans	-		-	
Gains on Sale of Securities	-		-	
3. Other Operating Revenues		-		
II. Operating Expenses		3,678,673,222		2,390,227,920
1. KDIC Operation Expenses		3,678,673,222		2,390,227,920
2. Fund Administrative Expenses		-		-
Contribution Expenses	-		-	
Interest on Loans	-		-	
Direct Expenses to Fund	-		-	
III.Operating Profit and Loss		31,384,633,261		27,119,364,398
IV. Non-Operating Revenues		-		-
Revenues on Transactions between		-		-
accounts				
2. Reversal of Reserve for Outstanding		-		-
Claims				
3. Profits on Valuation of Derivatives		-		-
4. Reversal of allowance for doubtful		-		-
accounts				
5. Profits on valuation of equity method		_		-
6. Others		_		_
V. Non-Operating Expenses		-		270,606,171
Reversal of Allowance for Doubtful		_		270,000,171
Accounts				
Expenses on Transactions between		_		_
accounts				
3. Gains on Foreign Currency Translation		_		_
Comtribution to Reserve for				_
Outstanding Claims				
5. Others				270,606,171
VI. Net Income		31,384,633,261		26,848,758,227

#### Balance Sheet (Life Insurance Companies Account)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

	Period	Previous	Period	
	Amo	unt	Amo	unt
I. Current Assets		1,225,074,255,025		1,079,317,655,418
1.Operating Assets		514,490,734,433		475,039,065,969
Deposits	192,675,724,778		138,324,424,078	
Short-term Securities	321,815,009,655		336,714,641,891	
2. Contributed Assets		-		-
Short-term Loans	-		-	
(Allowance for Doubtful Accounts)	-		-	
3. Other Current Assets		710,583,520,592		604,278,589,449
Revenus on Transaction between	417,367,381,170		359,492,616,788	
accounts				
Accrued Revenues	7,266,340,422		2,269,496,661	
(Allowance for Doubtful Accounts)	-		-	
Uncollected Premiums	285,949,799,000		242,516,476,000	
Provisional Payment of Insurance Claim	-		-	
(Allowance for Doubtful Accounts)	-		-	
Provisional Payment	-		-	
II. Fixed Assets		360,701,600,660		40,550,043,087
1. Operating Bonds		359,555,231,152		39,704,228,961
Long-term Operation Bonds	359,555,231,152		39,704,228,961	
2. Contributed Assets		-		-
Investment Securities	-		-	
Long-term Loans	-		-	
3. Indemnity Receivables		-		-
Indemnity Receivables	-		-	
(Allowance for Doubtful Accounts)	-		-	
4. Other Fixed Assets		1,146,369,508		845,814,126
Total Assets		1,585,775,855,685		1,119,867,698,505
I. Current Liabilities		50,101,540,943		398,079,672
1. Contribution Liabilities	192,675,724,778	-		
Short-term Borrowings	-			-
2. Other Current Liabilities		50,101,540,943		398,079,672
Revenus on Transaction between	459,340,943	-	394,512,342	-
accounts				
Accounts Payable	49,642,200,000		-	
Deposits	-		3,567,330	
accrued expense	-		-	
Reserve for Outstanding Claims	_		-	
II. Long-term Liabilities				-
Total Liabilities		50,101,540,943		398,079,672
I. DIF Surplus		1,536,220,632,461		1,120,948,952,004
(Net Income)	415,271,680,457		334,272,815,291	
II. Capital Adjustment		(546,317,719)		(1,479,333,171)
Total Capitals		1,535,674,314,742		1,119,469,618,833
Total Liabilities and Capitals		1,585,775,855,685		1,119,867,698,505

#### Income Statement (Life Insurnace Companies Accoumt)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

	Cuurent Period		Previous	s Period	
	Amo	ount	Amo	Amount	
I. Operating Revenues		410,549,289,550		337,329,637,293	
1. Revenues of Fund		379,620,067,259		318,270,701,000	
Insurance Premiums	379,620,067,259		318,270,701,000		
Contributions	-		-		
2. Revenues on Fund Operation		30,929,222,175		19,058,936,293	
Interest on Deposits	6,269,690,504		5,011,672,586		
Interest on Securities	24,436,165,028		14,047,263,707		
Interest on loans	-		-		
Gains on Sale of Securities	223,366,643		-		
3. Other Operating Revenues		116		-	
II. Operating Expenses		11,103,760,615		9,716,737,094	
1. KDIC Operation Expenses		11,103,760,615		9,716,737,094	
2. Fund Administrative Expenses		-		-	
(1) contribution expense	-		-		
(2) Interest on Loans	-		-		
(3) Direct Expenses to Fund	-		-		
III.Operating Profit and Loss		399,445,528,935		327,612,900,199	
IV. Non-Operating Revenues		15,826,151,522		6,659,915,142	
Revenues on Transactions		15,826,151,522		6,659,915,142	
between accounts					
2. Reversal of Reserve for Outstanding		-		-	
Claims					
3. Profits on Valuation of Derivatives		-		-	
4. Reversal of allowance for doubtful		-		-	
accounts					
5. Profits on valuation of equity method		-		-	
6. Others		-		-	
V. Non-Operating Expenses		-		50	
Reversal of Allowance for Doubtful		_		-	
Accounts					
2. Expenses on Transactions between		_		-	
accounts					
3. Gains on Foreign Currency Translation		_		-	
Comtribution to Reserve for				_	
Outstanding Claims				_	
5. Others				50	
VI. Net Income		415,271,680,457		334,272,815,291	

#### Balance Sheet (Non-Life Insurnace Companies Account)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

	Cuurent Period Pre			
	Amou	ınt	Amo	unt
I. Current Assets		228,599,471,636		182,705,717,144
1. Operating Assets		167,334,376,434		133,208,686,554
Deposits	48,108,501,830		5,032,824,921	
Short-term Securities	119,225,874,604		128,175,861,633	
2. Contributed Assets		-		-
Short-term Loans	-		-	
(Allowance for Doubtful Accounts)	-		-	
3. Other Current Assets		61,265,095,202		49,497,030,590
Revenus on Transaction between	-		39,700	
accounts				
Accrued Revenues	1,435,613,202		477,942,890	
(Allowance for Doubtful Accounts)	-		-	
Uncollected Premiums	59,829,482,000		49,019,048,000	
Provisional Payment of Insurance Claim	-		-	
(Allowance for Doubtful Accounts)	-		-	
Provisional Payment	-		-	
II. Fixed Assets		80,272,898,597		39,953,997,560
1. Operating Bonds		79,783,417,834		39,601,261,282
Long-term Operation Bonds	79,783,417,834		39,601,261,282	
2. Contributed Assets		-		-
Investment Securities	-		-	
Long-term Loans	-		-	
3. Indemnity Receivables		-		-
Indemnity Receivables	-		-	
(Allowance for Doubtful Accounts)	-		-	
4. Other Fixed Assets		489,480,763		352,736,278
Total Assets		308,872,370,233		222,659,714,704
I. Current Liabilities		446,023,185		138,162,894
1. Contribution Liabilities		-		
Short-term Borrowings	-			-
2. Other Current Liabilities		446,023,185		138,162,894
Revenus on Transaction between	446,023,185	-	138,162,894	-
accounts				
Accounts Payable	-		-	
Deposits	-		-	
accrued expense	-		-	
Reserve for Outstanding Claims	-		-	
II. Long-term Liabilities		-		-
Total Liabilities		446,023,185		138,162,894
I. DIF Surplus		308,591,143,006		223,431,960,983
(Net Income)	85,159,182,023	, , , , , , ,	65,503,698,317	
II. Capital Adjustment	, , , ,	(164,795,958)	, -, -,	(910,409,173)
Total Capitals		308,426,347,048		222,521,551,810
Total Liabilities and Capitals		308,872,370,233	<u> </u>	222,659,714,704

#### Income Statement (Non-Life Insurance Companies Account)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

	Cuurent Period		Previous Period	
	Amount		Amount	
I. Operating Revenues		89,759,150,526		69,486,651,670
1. Revenues of Fund		80,709,847,851		64,226,400,429
Insurance Premiums	80,509,847,851		64,226,400,429	
Contributions	200,000,000		-	
2. Revenues on Fund Operation		9,049,297,463		5,260,251,241
Interest on Deposits	1,072,755,678		1,984,856,696	
Interest on Securities	7,813,743,504		3,275,394,545	
Interest on loans	-		-	
Gains on Sale of Securities	162,798,281		-	
3. Other Operating Revenues		5,212		-
II. Operating Expenses		4,803,635,963		3,982,953,323
1. KDIC Operation Expenses		4,803,635,963		3,982,953,323
2. Fund Administrative Expenses		-		-
(1) contribution expense	-		-	
(2) Interest on Loans	-		-	
(3) Direct Expenses to Fund	-		-	
III. Operating Profit and Loss		84,955,514,563		65,503,698,347
IV. Non-Operating Revenues		203,667,460		-
1. Revenues on Transactions between		203,667,460		-
accounts				
2. Reversal of Reserve for Outstanding		-		-
Claims				
3. Profits on Valuation of Derivatives		-		-
4. Reversal of allowance for doubtful		-		-
accounts				
5. Profits on valuation of equity method		-		-
6. Others		-		-
V. Non-Operating Expenses		-		30
Reversal of Allowance for Doubtful		-		-
Accounts				
2. Expenses on Transactions between		-		-
accounts				
3. Gains on Foreign Currency Translation		-		-
4. Comtribution to Reserve for				-
Outstanding Claims				
5. Others		-		30
VI. Net Income		85,159,182,023		65,503,698,317

#### Balance Sheet (Merchant Banks Account)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

	Cuurent Period  Amount		Previous Period  Amount	
I. Current Assets		12,602,503,217		10,432,465,459
1. Operating Assets		10,590,705,694		9,257,639,302
Deposits	8,603,687,694		9,257,639,302	
Short-term Securities	1,987,018,000		-	
2. Contributed Assets		-		-
Short-term Loans	-		-	
(Allowance for Doubtful Accounts)	-		-	
3. Other Current Assets		2,011,797,523		1,174,826,157
Revenus on Transaction between	403,776,157		1,796,985	
accounts				
Accrued Revenues	116,128,366		11,130,172	
(Allowance for Doubtful Accounts)	-		-	
Uncollected Premiums	1,491,893,000		1,161,899,000	
Provisional Payment of Insurance Claim	-		-	
(Allowance for Doubtful Accounts)	-		-	
Provisional Payment	-		-	
II. Fixed Assets		76,687,612		76,206,178
1. Operating Bonds		-		-
Long-term Operation Bonds	-		-	
2. Contributed Assets		-		-
Investment Securities	-		-	
Long-term Loans	-		-	
3. Indemnity Receivables		-		-
Indemnity Receivables	-		-	
(Allowance for Doubtful Accounts)	-		-	
4. Other Fixed Assets		76,687,612		76,206,178
Total Assets		12,679,190,829		10,508,671,637
I. Current Liabilities		-		925,863
1. Contribution Liabilities		-		
Short-term Borrowings	-			-
2. Other Current Liabilities		-		925,863
Revenus on Transaction between	-	-	925,863	-
accounts				
Accounts Payable	-		-	
Deposits	-		-	
accrued expense	-		-	
Reserve for Outstanding Claims	-		-	
II. Long-term Liabilities		-		-
Total Liabilities		-		925,863
I. DIF Surplus		12,679,543,883		10,507,745,774
(Net Income)	2,171,798,109		798,846,047	
II. Capital Adjustment		(353,054)		0
Total Capitals		12,679,190,829		10,507,745,774
Total Liabilities and Capitals		12,679,190,829		10,508,671,637

#### Income Statement (Merchant Banks Account)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

	Cuurent Period		Previous Period	
	Amount		Amount	
I. Operating Revenues		2,659,845,604		1,585,990,651
1. Revenues of Fund		2,239,153,000		1,297,369,000
Insurance Premiums	2,239,153,000		1,297,369,000	
Contributions	-		-	
2. Revenues on Fund Operation		420,692,604		288,621,651
Interest on Deposits	285,912,550		288,621,651	
Interest on Securities	134,780,054		-	
Interest on loans	-		-	
Gains on Sale of Securities	-		-	
3. Other Operating Revenues		-		-
II. Operating Expenses		488,047,495		787,144,604
1. KDIC Operation Expenses		488,047,495		787,144,604
2. Fund Administrative Expenses		-		-
(1) contribution expense	-		-	
(2) Interest on Loans	-		-	
(3) Direct Expenses to Fund	-		-	
III.Operating Profit and Loss		2,171,798,109		798,846,047
IV. Non-Operating Revenues		-		-
1. Revenues on Transactions between		-		-
accounts				
2. Reversal of Reserve for Outstanding		-		-
Claims				
3. Profits on Valuation of Derivatives		-		-
4. Reversal of allowance for doubtful		-		-
accounts				
5. Profits on valuation of equity method		-		-
6. Others		-		-
V. Non-Operating Expenses		-		-
Reversal of Allowance for Doubtful		-		-
Accounts				
2. Expenses on Transactions between		_		-
accounts				
3. Gains on Foreign Currency Translation		_		-
4. Comtribution to Reserve for		_		-
Outstanding Claims				
5. Others		_		-
VI. Net Income		2,171,798,109		798,846,047

#### Balance Sheet (Mutual Savings Banks Account)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

	Cuurent Period Pro			Period
	Amount		Amo	unt
I. Current Assets		266,256,493,722		268,448,485,143
1. Operating Assets		91,245,946,342		7,068,179,231
Deposits	6,571,581,342		7,068,179,231	
Short-term Securities	84,674,365,000		-	
2. Contributed Assets		46,668,676,052		35,228,949,993
Short-term Loans	86,547,956,171		96,547,956,171	
(Allowance for Doubtful Accounts)	(39,879,280,119)		(61,319,006,178)	
3. Other Current Assets		128,341,871,328		226,151,355,919
Revenus on Transaction between	1,891,307,483		273,360	
accounts				
Accrued Revenues	3,585,959,706		1,806,898,791	
(Allowance for Doubtful Accounts)	(3,258,335,861)		(1,530,978,142)	
Uncollected Premiums	66,119,220,000		50,659,555,000	
Provisional Payment of Insurance Claim	60,000,000,000		460,783,606,910	
(Allowance for Doubtful Accounts)	-		(285,568,000,000)	
Provisional Payment	3,720,000		-	
II. Fixed Assets		186,751,619,501		70,921,521,426
1. Operating Bonds		-		-
Long-term Operation Bonds	-		-	
2. Contributed Assets		12,049,900,000		30,893,960,804
Investment Securities	49,900,000		18,893,960,804	
Long-term Loans	12,000,000,000		12,000,000,000	
3. Indemnity Receivables		173,863,197,219		39,331,950,365
Indemnity Receivables	1,193,104,785,034		584,181,209,749	
(Allowance for Doubtful Accounts)	(1,019,241,587,815)		(544,849,259,384)	
4. Other Fixed Assets		838,522,282		695,610,257
Total Assets		453,008,113,223		339,370,006,569
I. Current Liabilities		1,335,552,586,579		1,034,892,276,445
1. Contribution Liabilities		-		
Short-term Borrowings	-			-
2. Other Current Liabilities		1,335,552,586,579		1,034,892,276,445
Revenus on Transaction between	1,146,657,586,579	-	969,711,276,445	-
accounts				
Accounts Payable	-		-	
Deposits	-		-	
accrued expense	-		-	
Reserve for Outstanding Claims	188,895,000,000		65,181,000,000	
II. Long-term Liabilities		-		-
Total Liabilities		1,335,552,586,579		1,034,892,276,445
I. DIF Surplus		(882,538,202,528)		(695,522,269,876)
(Net Income)	(187,015,932,652)		-509,198,146,116	
II. Capital Adjustment		(6,270,828)		0
Total Capitals		(882,544,473,356)		(695,522,269,876)
Total Liabilities and Capitals		453,008,113,223		339,370,006,569

#### Income Statement (Mutual Savings Banks Account)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

	Cuurent Period		Previous Period	
	Amo	ount	Amo	ount
I. Operating Revenues		135,366,670,741		115,012,069,535
1. Revenues of Fund		128,388,468,050		106,859,326,814
Insurance Premiums	127,048,468,050		105,609,326,814	
Contributions	1,340,000,000		1,250,000,000	
2. Revenues on Fund Operation		6,365,212,258		3,258,047,729
Interest on Deposits	1,479,911,150		1,456,507,396	
Interest on Securities	563,450,828		-	
Interest on loans	4,321,850,280		1,801,540,333	
Gains on Sale of Securities	-		-	
3. Other Operating Revenues		612,990,433		4,894,694,992
II. Operating Expenses		8,866,197,546		9,342,611,853
1. KDIC Operation Expenses		7,093,081,553		8,156,329,879
2. Fund Administrative Expenses		1,773,115,993		1,186,281,974
(1) contribution expense	-		-	
(2) Interest on Loans	-		-	
(3) Direct Expenses to Fund	1,773,115,993		1,186,281,974	
III.Operating Profit and Loss		126,500,473,195		105,669,457,682
IV. Non-Operating Revenues		87,907,039,196		204,714,960,804
1. Revenues on Transactions between		-		-
accounts				
2. Reversal of Reserve for Outstanding		65,181,000,000		202,621,000,000
Claims				
3. Profits on Valuation of Derivatives		-		-
4. Reversal of allowance for doubtful		-		-
accounts				
5. Profits on valuation of equity method		22,726,039,196		2,093,960,804
6. Others		-		-
V. Non-Operating Expenses		401,423,445,043		819,582,564,602
1. Reversal of Allowance for Doubtful		167,290,671,621		733,429,845,230
Accounts		/ <b>5</b> 22 <b>7</b> 2 /22		20.0=4.=40.0=2
2. Expenses on Transactions between		45,237,773,422		20,971,719,372
accounts				
3. Gains on Foreign Currency Translation		400.5-7		-
4. Comtribution to Reserve for		188,895,000,000		65,181,000,000
Outstanding Claims				
5. Others		-		-
VI. Net Income		(187,015,932,652)		(509,198,146,116)

1. Financial Status in 2006 145

#### Balance Sheet (Credit Unions Account)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

(Deposit filsulance Fund)				(Clific Wolf)
	Cuurent Period		Previous	s Period
	Amo	ount	Amo	ount
I. Current Assets		6,657,766,918		1,993,888,801
1. Operating Assets		6,648,195,756		1,313,092,507
Deposits	3,667,668,756		1,313,092,507	
Short-term Securities	2,980,527,000		-	
2. Contributed Assets		-		-
Short-term Loans	-		-	
(Allowance for Doubtful Accounts)	0		-	
3. Other Current Assets		9,571,162		680,796,294
Revenus on Transaction between	-		680,049,507	
accounts				
Accrued Revenues	9,571,162		746,787	
(Allowance for Doubtful Accounts)	-		-	
Uncollected Premiums	-		-	
Provisional Payment of Insurance Claim	-		-	
(Allowance for Doubtful Accounts)	-		-	
Provisional Payment	-		-	
II. Fixed Assets		16,695,492,011		24,652,495,861
1. Operating Bonds		-		-
Long-term Operation Bonds	-		-	
2. Contributed Assets		-		-
Investment Securities	-		-	
Long-term Loans	-		-	
3. Indemnity Receivables		16,691,502,011		24,648,505,861
Indemnity Receivables	173,625,708,729		190,441,013,058	
(Allowance for Doubtful Accounts)	(156,934,206,718)		(165,792,507,197)	
4. Other Fixed Assets		3,990,000		3,990,000
Total Assets		23,353,258,929		26,646,384,662
I. Current Liabilities		80,192,823,331		85,646,635,287
1. Contribution Liabilities		79,400,000,000		85,400,000,000
Short-term Borrowings	79,400,000,000		85,400,000,000	
2. Other Current Liabilities		792,823,331		246,635,287
Revenus on Transaction between	532,136,100		-	
accounts				
Accounts Payable	-		-	
Deposits	-		-	
accrued expense	260,687,231		246,635,287	
Reserve for Outstanding Claims	-		-	
II. Long-term Liabilities				
Total Liabilities		80,192,823,331		85,646,635,287
I. DIF Surplus		(56,839,034,820)		(59,000,250,625)
(Net Income)	2,161,215,805		9,287,179,344	
II. Capital Adjustment		(529,582)		0
Total Capitals		(56,839,564,402)		(59,000,250,625)
Total Liabilities and Capitals		23,353,258,929		26,646,384,662

#### Income Statement (Credit Unions Account)

Current Period (11th): As of December 31, 2006 Previous Period (10th): As of December 31, 2005

(Deposit Insurance Fund)

(Unit: won)

I. Operating Revenues  1. Revenues of Fund Insurance Premiums Contributions  2. Revenues on Fund Operation Interest on Deposits Interest on Securities Interest on loans Gains on Sale of Securities 3. Other Operating Revenues II. Operating Expenses 1. KDIC Operation Expenses 2. Fund Administrative Expenses (1) contribution expense (2) Interest on Loans	Amc - -	162,660,862 -	<b>Amo</b>	127,206,700
1. Revenues of Fund Insurance Premiums Contributions 2. Revenues on Fund Operation Interest on Deposits Interest on Securities Interest on loans Gains on Sale of Securities 3. Other Operating Revenues II. Operating Expenses 1. KDIC Operation Expenses 2. Fund Administrative Expenses (1) contribution expense	-	162,660,862	4,911,000	
Insurance Premiums Contributions  2. Revenues on Fund Operation Interest on Deposits Interest on Securities Interest on loans Gains on Sale of Securities  3. Other Operating Revenues  II. Operating Expenses  1. KDIC Operation Expenses  2. Fund Administrative Expenses  (1) contribution expense		-	4,911,000	
Contributions  2. Revenues on Fund Operation Interest on Deposits Interest on Securities Interest on loans Gains on Sale of Securities  3. Other Operating Revenues  II. Operating Expenses  1. KDIC Operation Expenses  2. Fund Administrative Expenses  (1) contribution expense	-		4,911,000	4,911,000
2. Revenues on Fund Operation Interest on Deposits Interest on Securities Interest on loans Gains on Sale of Securities 3. Other Operating Revenues II. Operating Expenses 1. KDIC Operation Expenses 2. Fund Administrative Expenses (1) contribution expense	-			
Interest on Deposits Interest on Securities Interest on loans Gains on Sale of Securities 3. Other Operating Revenues II. Operating Expenses 1. KDIC Operation Expenses 2. Fund Administrative Expenses (1) contribution expense			-	
Interest on Securities Interest on loans Gains on Sale of Securities 3. Other Operating Revenues II. Operating Expenses 1. KDIC Operation Expenses 2. Fund Administrative Expenses (1) contribution expense		162,660,862		122,295,700
Interest on loans Gains on Sale of Securities 3. Other Operating Revenues II. Operating Expenses 1. KDIC Operation Expenses 2. Fund Administrative Expenses (1) contribution expense	147,803,280		122,295,700	
Gains on Sale of Securities 3. Other Operating Revenues II. Operating Expenses 1. KDIC Operation Expenses 2. Fund Administrative Expenses (1) contribution expense	14,857,582		-	
3. Other Operating Revenues  II. Operating Expenses  1. KDIC Operation Expenses  2. Fund Administrative Expenses  (1) contribution expense	-		-	
II. Operating Expenses  1. KDIC Operation Expenses  2. Fund Administrative Expenses  (1) contribution expense	-		-	
KDIC Operation Expenses     Fund Administrative Expenses     (1) contribution expense		-		-
Fund Administrative Expenses     (1) contribution expense		4,699,059,313		4,518,095,934
(1) contribution expense		593,507,081		53,883,619
(1) contribution expense		4,105,552,232		4,464,212,315
	-		-	
(2) IIIICICSI OII LOAIIS	4,095,490,487		4,463,353,215	
(3) Direct Expenses to Fund	10,061,745		859,100	
III.Operating Profit and Loss		(4,536,398,451)		(4,390,889,234)
IV. Non-Operating Revenues		6,697,614,256		13,678,068,578
Revenues on Transactions between		-		-
accounts				
2. Reversal of Reserve for Outstanding		-		-
Claims				
3. Profits on Valuation of Derivatives		-		-
4. Reversal of allowance for doubtful		6,697,614,256		13,678,068,578
accounts		, , , ,		
5. Profits on valuation of equity method		-		-
6. Others		-		-
V. Non-Operating Expenses		-		-
Reversal of Allowance for Doubtful		-		-
Accounts				
2. Expenses on Transactions between		-		-
accounts				
3. Gains on Foreign Currency Translation		_		_
4. Comtribution to Reserve for		-		-
Outstanding Claims				
5. Others		-		-
VI. Net Income				

1. Financial Status in 2006 147

# 2. Deposit Insurance Committee Activities

CLASSIFICATION	MAJOR ACTIVITIES
	· Amendments to the Articles of Incorporation
	· Budget and settlement of accounts
	· Issuance of Deposit Insurance Fund Bonds and Repayment Fund Bonds
	· Reduction/deferment of insurance premiums
	· Payment of insurance claims
T. C	· Approval of tentatively calculated insurance claim payments
Items for	· Financial support for resolution financial institutions
Resolution	· Financial support for insured financial institutions
	· Operational guidelines of the Committee
	· Request to Governor of FSS regarding investigation and its results on insured financial
	institutions or joint examination
	· Request for necessary actions to Financial Supervisory Committee regarding P&As,
	bankruptcy filing, etc.
	· Determination of insolvent financial institutions
	· Determination of financial institutions at risk of insolvency
	· Transactions between Deposit Insurance Fund accounts
T. C	· Publication method of meeting minutes
Items for	· Necessary actions in respect of Deposit Insurance Fund Bonds and Repayment Fund
Decision	Bonds
	· Payment of service fees for third party operations
	· Provisional payment of insurance claims
	· Approval of exception of financial assistance based on the least cost method
Items for	· Operational plan of the Deposit Insurance Fund
Deliberation	· Adoption and revision of rules and regulations related to KDIC operation
	· Operation of reserve funds:
Designated Items	- Designation and purchase of securities
	- Designation of insured institutions for deposits
Items for Report	· Report of quarterly inspection results on MOU

# 3. Summary of Events in 2006

DATE	MAJOR EVENTS
Jan. 13	Made post adjustment payments (15 billion won) related to P&A of Hanmaum Mutual Savings Bank to Busan Solomon Mutual Savings Bank
Jan. 22	The FSC ordered additional business suspension of Invest Mutual Savings Bank
Jan. 24	The FSC ordered additional business suspension of Hanjung Mutual Savings Bank
Feb. 1	Received remaining payments for the sale of Chohung Bank
Feb. 24	Seoul Central District Court ordered bankruptcy of Hanjung Mutual Savings Bank
Mar. 30	Received payments (545.6 billion won) for capital reduction with consideration of Seoul Guarantee Insurance Company
Apr. 13	Carried out block sale of KDIC stake (6.22%) in Shinhan Financial Group at 46,600 won per share (no discount) and received 1.04 trillion won for the sale
May 22	Recovered additional contributions (58 million won) made to Korea Life
May 26	Provided financial assistance (124.6 billion won) to Parangsae Mutual Savings Bank related to P&A of Invest Mutual Savings Bank
May 26	The MOFE approved the completion of the role of Yegaram Mutual Savings Bank as a resolution financial institution
May 29	Received payments (42.3 billion won) from Goryo Consortium for the sale of KDIC stake in Yegaram Mutual Savings Bank
Jun. 26	Received unpaid reserve for outstanding claims (530 million won) related to P&A of Hanil Life
Jun. 27	Busan District Court ordered bankruptcy of Plus Mutual Savings Bank
Jun. 30	Made the 1st additional adjustment payments (25.4 billion won) related to P&A of Hanmaum Mutual Savings Bank to Busan Solomon Savings Bank
Jul. 22	Received interests (630 million won) on subordinated loans (12 billion won) from Busan Solomon Mutual Savings Bank
Aug. 21	The remaining callable convertible preferred shares (22.36 million shares, 5.86%) of Shinhan Financial Group held by the KDIC were converted to common shares
Aug. 21	The 1st portion of callable preferred shares of Shinhan Financial Group held by the KDIC were repaid (9.32 million shares worth 168.5 billion won)
Aug. 29	Provided financial assistance (680 million won) to Yegaram Mutual Savings Bank according to the agreement on the sale of Yegaram
Sep. 8	The FSS ordered business suspension of Good Friend Mutual Savings Bank
Sep. 15	Made post adjustment payments (11.3 billion won) related to P&A of Invest Mutual Savings Bank to Parangsae Mutual Savings Bank
Sep. 28	Repurchased the second portion of preferred certificates of contribution (4.81 million shares worth 48.1 billion won)
Nov. 20	Recovered additional contributions (69 million won) made to Korea Life
Dec. 26	Made the second post adjustment payments (12 billion won) related to P&A of Hanmaum Mutual Savings Bank to Busan Solomon Mutual Savings Bank
Dec. 27	The MOFE made notification of its approval of incorporation of resolution financial institutions
Dec. 28	Incorporation of Yeareum Mutual Savings Bank was registered

2. Deposit Insurance Committee Activities / 3. Summary of Events in 2006 149

# 4. Management Innovation Activities in 2006

DATE	MAJOR ACTIVITIES
Jan. 2	New Year's Address on continuous creovation and strong organizational culture was
	delivered by the Chairman
Jan. 13	Held 7th Wednesday Seminar for Innovation (lecture on business manner and image
	making by Director Kyeong-Mi Kim)
Jan. 19	Collected opinions on improvement of multi-faceted evaluation system; introduced
	employee recommendation system for the Office of Strategic Innovation
Jan. 25	Held 8th Wednesday Seminar for Innovation (lecture on ethical management by Prof.
	Young-Myun Lee of Dongguk University)
Feb. 1	Established the Office of Strategic Innovation
Feb. 16	Held February Seminar for Innovation (lecture on the flow of human resources and career
	development by Director Seon-Pyo Gong)
Mar. 10	Submitted business performance reports and results of joint innovation project
Mar. 13	The management meeting for innovation held discussions on the guideline for
	management innovation projects
Mar. 20	The innovation committee decided on 68 management innovation projects
Mar. 22	Held March Seminar for Innovation (lecture on sustainable change model by Chairman
	Young-Mok Ha)
Mar. 27	Underwent management performance evaluation and evaluation through interviews with
11 20	heads of organizations by the Ministry of Planning and Budget (MPB)
Mar. 29	Held regular meeting for the 2nd-term Innovation Supporters
Apr. 6	Underwent on-site due diligence in the quantitative area of business performance evaluation
Apr. 14	Attended the MPB's briefing on the new system for management innovation guideline for 2006
Apr. 20	Underwent due diligence on business performance and DIF management evaluation
Apr. 24	Innovation casebook for MOFE-affiliated agencies was published
Apr. 25	Held a meeting of executives on BSC
Apr. 26	Held April Seminar for Innovation (lecture on TQ 5 Game and innovative thinking by
	Director Choong-In Kang)
Apr. 27	Installed a bulletin board showing the progress on management innovation projects in the
	Office of Strategic Innovation
May 3	Korea Independent Commission against Corruption (KICAC) studied the actual conditions
	for the "establishment of measures for institutional improvement concerning public
	service-related agencies"
May 4	Transferred ethical management affairs to the Office of Strategic Innovation
Jun. 2	Revised the code of conduct for executives and employees
Jun. 12	Measures for innovation evaluation of MOFE-affiliated agencies were confirmed
Jun. 19	The KICAC made notification of the final draft concerning corruption assessment affairs
Jun. 30	A meeting on innovation evaluation of MOFE-affiliated agencies was held
July	Underwent business performance evaluation (ranked 3rd among 16 agencies in 2005 from
	6th among 15 agencies in 2004), advanced to level 4 from level 3 in assessment of
	innovation level
Jul. 7	Conducted first year-half mock BSC evaluation and training

DATE	MAJOR ACTIVITIES
Jul. 31	Posted 3 innovation cases on the innovation board for MOFE-affiliated agencies
Jul. 31	The KICAC submitted the list of people who filed civil petitions in relation to "customer satisfaction"
Aug. 1	Hosted a lecture by an outside expert on multi-faceted evaluation (IBS Consulting Company)
Aug. 3-4	Conducted multi-faceted evaluation
Aug. 25	Posted innovation cases on the innovation board for MOFE-affiliated agencies
Aug. 30	Designated 12 3rd-term Innovation Supporters
Sep. 7-8	Held a workshop for Innovation Supporters
Sep. 18	Began "KDIC 100 Day Diet" program
Sep. 19	Conducted a survey on innovation reward activities
Sep. 20	Held September Seminar for Innovation (lecture on leadership communication by Eun- Kyung Kim, Director of Sejong Leadership Institute)
Sep. 22	Submitted innovation cases to be posted on the innovation bulletin board for MOFE-affiliated agencies
Sep. 29	Signed agreement on innovation performance
Sep. 29	Held 1st regular meeting for Innovation Supporters
Oct. 18	Held 2nd regular meeting for Innovation Supporters
Oct. 20	Signed Business Performance Agreement and Integrity Pact for Executives
Oct. 27	Submitted innovation cases to be posted on the innovation bulletin board for MOFE-affiliated agencies
Nov. 2	Attended Inno-going Meeting (innovation-related meeting of representatives of MOFE-affiliated agencies)
Nov. 9	Established enterprise-wide ethical management system and confirmed 3-year plan
Nov. 14	Held November Seminar for Innovation (lecture on understanding of six sigma and management innovation strategy by Chairman Joo-Hyung Cha)
Nov. 17	Held 3rd regular meeting for Innovation Supporters
Nov. 22	Held an informal meeting between executives and Innovation Supporters
Nov. 23	Launched a cyber innovation training program on PAGO TV
Nov. 24	Hosted an innovation lecture by Moo-Jong Park, President of Korea Times
Nov. 24	Submitted innovation cases to be posted on the innovation bulletin board for MOFE-affiliated agencies
Nov. 27-30	Carried out You-Answer program
Nov. 30	Attended Inno-going Meeting
Dec. 6	Attended MPB's innovation forum for heads of organizations
Dec. 12	Attended MPB's innovation forum for executives
Dec. 14	Introduced the case of uncollected insurance claim payments in the first issue of the MOFE's newsletter for innovation
Dec. 14	Held December Seminar for Innovation (lecture on 7 habits of highly effective people by Chairman Kyung-Sup Kim)
Dec. 15	Held 4th regular meeting for Innovation Supporters
Dec. 19	Hosted ethical management committee meeting
Dec. 21	The KICAC announced corruption perceptions index
Dec. 27	Won the most innovative award among MOFE-affiliated agencies
Dec. 29	Hosted innovation competition contest; presented the Best Employee of the Year award; awarded employees with high Inno-points

4. Management Innovation Activities in 2006 151

### 5. Outline of the Deposit Insurance System in Korea

# A. Insured Financial Institutions, Insured Deposits and Protection Limit

#### (1) Insured Financial Institutions

The term "insured financial institutions" refers to financial institutions that have subscribed to deposit insurance coverage from the Corporation pursuant to the Depositor Protection Act. Banks, securities companies, insurance companies, merchant banks and mutual savings banks (MSBs) are included in the category. The applicable laws require all financial institutions operating in Korea to partake in the deposit insurance scheme. Therefore, deposit insurance is mandatory for all banking and financial institutions wishing to do business in Korea.

Commercial and regional banks that are approved under the Banking Act, domestic branches of foreign banks, specialized banks such as the Korea Development Bank (excluding the Export-Import Bank of Korea), the National Agricultural Cooperative Federation established pursuant to the Agricultural Cooperatives Act, the National Federation of Fisheries Cooperatives established pursuant to the Fisheries Cooperatives Act, and regional branches of fisheries cooperatives that perform and manage credit union services are the banks under the scope of protection of the KDIC.

All domestic securities companies and domestic branches of foreign securities companies, as well as all insurance companies with the exception of reinsurance companies are within the scope of protection of the KDIC.

Other merchant banks and mutual savings banks can obtain protection from the KDIC after being approved under the pertinent laws and acknowledged as KDIC-insurable financial institutions.

#### (2) Insured Deposits

The term "insured deposits" refers to deposits that the KDIC guarantees to pay if an insured financial institution cannot make payment on them as the result of an insured risk event, in accordance with the guidelines of Article 2 of the Depositor Protection Act and Article 3 of the DPA Enforcement Decree. Certain financial products and local provincial government deposits received temporary blanket coverage until the end of 2000, in light of the financial crisis, and were subsequently removed from the scope of protection as of January 1, 2001.

#### (A) Banks

Financial instruments covered by the KDIC are deposits, savings and installment deposits, as

well as deposits from money trusts whose principals are protected in accordance with Paragraph 3 of Article 10 of the Trust Business Act. Foreign currency denominated deposits, CDs, development trusts, bank-issued bonds, RPs and retirement pensions are excluded from the scope of coverage.

#### (B) Securities Companies

Deposits received by securities companies from investors for the purpose of purchasing securities as well as deposits from money trusts whose principals are protected in accordance with Paragraph 3 of Article 10 of the Trust Business Act are fully protected. However, funds set aside for taxes incurred with respect to securities including beneficiary certificates, bonds issued by securities companies and customer deposits do not fall within the coverage scope. RPs and collateral funds for loaned securities were also removed from the scope of protection.

#### (C) Insurance Companies

While insurance premiums paid by individual policyholders and severance benefits pursuant to the Employee Retirement Benefit Security Act as well as deposits from money trusts whose principals are protected in accordance with Paragraph 3 of Article 10 of the Trust Business Act receive full coverage pursuant to the Labor Standard Act, retirement pensions, variable benefit contracts and reinsurance contracts are excluded. Institutional insurance contracts (where the policyholder and premium payer is an institution) and premiums received by surety companies have also been dropped from the scope of coverage.

#### (D) Merchant Banks

Deposits received by merchant banks through issuance of notes and financial instruments collected from unspecified persons to invest in securities and to pay the proceeds are protected. However, bills including beneficiary certificates, bonds issued by merchant banks, RPs and CPs are not covered.

#### (E) Mutual Savings Banks

Deposits, savings and installment deposits, as well as issued notes are protected.

#### (3) Deposit Insurance Protection Limits

When the KDIC was first established in 1996, the insurance coverage limit was 20 million won per individual depositor. Due to the market instability resulting from the financial crisis of 1997, however, blanket coverage was introduced through an amendment to the Enforcement Decree of Depositor Protection Act in December of 1997. Afterwards, the market gradually stabilized due to the restructuring process, while at the same time the possibility of moral hazard became more apparent. The Enforcement Decree was amended in July 1998, therefore, to decrease the protection limit so that for deposits (or paid-in premiums) with principal not

<Table 1> Status of Insured Deposits

(As of December 31, 2006)

Classification	Insured Deposits	Non-Insured Deposits	
	· Demand Deposits such as Ordinary	· Foreign Currency Deposits, CDs, RPs,	
	Deposits, Temporary Deposits, Checking	Bonds Issued by Banks	
	Deposits, etc.	· Performance Based Trusts such as	
	· Time and Savings Deposits such as Time	Specified Money in Trusts and	
	Deposits, Savings Deposits, Corporate Free	Development Trusts	
	Savings Deposits, Apartment-application	· Retirement Pensions	
D 1	Deposits, etc.	· Indirect Investment Products (Beneficiary	
Banks	· Accumulative Deposits such as Installment	Certificates and Mutual Fund, etc.)	
	Deposits, Apartment-application	· Insurance Related Financial Products	
	Installment Deposits, Mutual Installment	(National Agricultural Cooperative	
	Deposits, etc.	Federation, National Federation of	
	· Principal-covered Trusts and Secondary	Fisheries Cooperatives)	
	Bills such as Pension Trusts, Retirement		
	Trusts, etc.		
	· Cash balance of Consignor deposit,	· Securities, Subscriber Deposits, Tax	
	Deposits for Savings Accounts, Deposits	Liability Withholdings, Collateral for	
Securities	for Beneficiaries.	Loaned Securities, RPs, Bonds Issued by	
	· Cash balance of Collateral for Stock Loans	Stock Companies	
Companies	on Margin Account, Deposits for Opening	· Cash Management Accounts (CMAs)	
	a Margin Account, Guarantee Deposits in	· Indirect Investment Products (Beneficiary	
	Fiduciary Loans, etc.	Certificates and Mutual Funds, etc.)	
Tananana	· Individual Policies, Severance Benefits	· Corporate Insurance Policies Surety	
Insurance	Policies	Policies, Retirement Pensions, Reinsurance	
Companies		Policies, Variable Benefit Contracts.	
Merchant Banks	· Notes Payable, Issued Notes, CMAs	· Beneficiary Certificates, RPs, Bonds issued	
Werenant banks		by Merchant Banks, CPs	
	· Ordinary Deposits, Savings Deposits, Time		
MSBs	Deposits, Installment Deposits, Credit	-	
	Installments, Cover Bills, etc.		

exceeding 20 million won, the principal and designated interest\* - would be guaranteed up to 20 million won, and for those with more than 20 million won in principal, only the principal would be covered.

\* designated interest: the lesser of the contracted interest and the KDIC determined interest (interest set by the Deposit Insurance Committee in consideration of the average interest rate of 1-year time deposits of banks).

As financial market stability became more apparent, a partial protection system was reinstated with the limit raised to 50 million won through amendment of the Enforcement Decree in October 2000, in order to alleviate public anxiety.

Consequently, beginning from January 1, 2001, deposits in banks, securities companies, merchant banks and mutual savings banks are protected up to 50 million won, covering the principal and designated interest. For insurance companies, the lesser of either the sum of the

<Table 2> Deposit Insurance Claim Payment Limitations

	U	ntil December 31, 20	00	
		Purchased on or a	Purchased on or	
Classification	Purchased on or before July 31, 1998	Principal or paid-in premium: Less than or equal to 20 million won	Principal or paid-in premium: Greater than 20 million won	after January 1, 2001
Banks Securities Companies Merchant Banks MSBs	Principal and committed interest fully covered.	Sum of principal and designated interest covered up to 20 million won	Only principal covered	Sum of principal and designated interest covered up to 50 million won
Insurance Companies	Sum of cancellation refund received (insurance payments on maturity or loss compensation) and other payments fully covered	before a payment freez	Lower of the sum of cancellation refund received (insurance payments on maturity) and other payments, and sum of paid-in premium, covered riggering incident occurs are or a bankruptcy of the curs, insurance payments will be fully covered	Lower of the sum of cancellation refund received (insurance payments on maturity or insurance payments on loss compensation) and other payments, covered up to 50 million won

paid-in premium plus designated interest or the sum of the cancellation refund received (or insurance payments on maturity), plus other related obligations up to 50 million won, are covered.

## B. Collection of Deposit Insurance Premiums, Special Assessment and Contributions

#### (1) Collection of Deposit Insurance Premiums and Special Assessment

The KDIC receives premiums from insured financial institutions, in accordance with Article 30 of the Depositor Protection Act and Article 16 of the DPA Enforcement Decree. It also receives special assessment in accordance with Article 30-3 of the Depositor Protection Act and Article

16-2 of the DPA Enforcement Decree.

#### (A) Coverage of Insured Deposits

Insured deposits are deposits that fall under any of the items of Paragraph 2 of Article 2 of the Depositor Protection Act.

#### (B) Calculation Unit of Premiums and Special Assessment

Deposit insurance premiums and special assessment are calculated for each fiscal year. However, in case of banks, it is calculated on a quarterly basis.

#### (C) Calculation of Premiums and Special Assessment

Insurance Premium (Special Assessment) = Insured Deposits × Premium Rate (Special Assessment Rate)

(In the case of banks, however, the result is divided by four, as banks' premiums are calculated quarterly).

The minimum insurance premium amount to be paid by an insurer is 100,000 won per year. In a case where the period subject to insurance premium calculation is less than one year, the premium amount shall be calculated on a pro-rata basis for the number of pertinent days.

<Table 3> Premium Rate and Special Assessment Rate

	Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs	Credit Unions
Applied Premium Rate	10/10,000	20/10,000	30/10,000	30/10,000	30/10,000	-
Applied Special Assessment Rate <sup>1)</sup>	1/1,000	1/1,000	1/1,000	1/1,000	1/1,000	1/1,000

<sup>1) 5</sup> financial sectors and credit unions should pay the special assessment from 2003 to 2007, and from 2006 to 2017, respectively

#### (D) Due Date of Insurance Premiums and Special Assessment

An insured financial institution must pay its deposit insurance premium and special assessment to the KDIC within three months from the end of each fiscal year (within one month from the end of each quarter, for banks).

#### (E) Insurance Premium and Special Assessment Payment Methods

All insured financial institutions must pay their insurance premiums and special assessment in cash, checks or account transfers (including reserve transfers) to the account of a financial institution designated by the President of the KDIC. For banks, however, the KDIC may request that payment be made by way of clearing house. Units lower than 1,000 won are rounded off.

#### (F) Data Submission for Calculation of Insurance Premiums and Special Assessment

Each insured financial institution must submit data for calculation of insurance premiums and special assessment to the KDIC within two months from the end of every fiscal year. For banks, however, data submission is required by the 20th of the month immediately following the end of every quarter.

The data for premium and special assessment calculation include the insurance premium calculation table, the balance sheet (quarterly average balance in the case of banks), and for insurance companies, the year-end data showing insurance revenues and total amount of premiums received by the end of fiscal year. Each insured financial institution must comply with requests for additional information pertaining to calculation of premiums, made by the President of the KDIC.

#### (G) Delinquent Charge

The formula for calculating a deposit insurance premium delinquent charge is the following:

Delinquent Charge = Insurance Premium (or Special Assessment) Not Paid by the Due Date  $\times$  Rate of Interest in Arrears  $\times$  Number of Days of Delay/365

The rate of interest in arrears shall be calculated based on the average rate of interest in arrears for loans of general purpose by each insured financial institution as of the payment due date. The number of days of delinquency shall be calculated beginning with the day following the due date and continuing until the date of actual payment.

#### (2) Collection of Contributions

Pursuant to Article 24 of the Depositor Protection Act and Article 14 of the Act's Enforcement Decree, newly formed insured financial institutions are required to pay one-time contributions into the Deposit Insurance Fund.

#### (A) Contribution Payers

All insured financial institutions that have obtained operating licenses from the Financial Supervisory Commission are subject to the contribution payment requirement.

#### (B) Basis for Contribution Calculation

Based on the paid-in-capital or total share subscriptions of the institution, the applicable rates by financial sector are in the following table.

#### <Table 4> Basis for Contribution

(as ratios of either paid-in-capital or total equity )

Banks	Securities Companies	Insurance Companies	Merchant Banks	MSBs
1/100	1/100	1/100	5/100	5/100

## C. Insurance Claim Payments

#### (1) Insurance Claim Payments

The KDIC makes insurance claim payments under two categories of conditions. The first is when the Financial Supervisory Commission mandates deposit or obligation payment suspension because of insolvency. The other is a situation where an insured financial institution self-declares dissolution or bankruptcy, or has its operational/business license revoked by the authorities. The appropriate claim payments for such failures are made per each depositor's request (see Article 31 of the Depositor Protection Act).

With respect to the first scenario, the KDIC Deposit Insurance Committee must determine and announce the claim payment schedule within two months after receiving failure notification. This period can be extended for up to one additional month upon the approval by the minister of Finance and Economy (see Article 31, Paragraph 1 and Article 34 of the Depositor Protection Act). The Corporation may suspend insurance claim payment for up to six months from the date of payment announcement to any depositor who is found to have caused or contributed to the insolvency or insolvency-threatening situation of the financial institution concerned or to any depositor who is found to be in a special relationship with such an insolvency-related person (see Article 31, Paragraph 6 of the Depositor Protection Act).

#### (2) Public Announcement and Calculation of Insurance Claim Payments

In making insurance claim payments, matters such as the date of payment commencement, the payment period and other necessary details shall be publicly announced on daily newspapers, etc. The insurance money will be calculated by deducting the total amount of liabilities that a depositor owes to the relevant financial institution from the total amount of claims including deposits that he/she holds in that institution as of the date of the insurance money payment announcement (see Articles 31 and 32 of the Depositor Protection Act).

#### (3) Limit on Insurance Claim Payments

The maximum amount of insurance money to be paid will be determined by Presidential

Decree, in consideration of the nation's per-capita GDP and the total amount of insured deposits. The maximum amount of insurance money to be paid for an insured risk event occurring on or after January 1, 2001 will be 50 million won. Non-interest bearing deposits (temporary deposits and current deposits) in settlement-oriented accounts will be protected in full until December 31, 2003. In a case where a depositor with a claim has designated his or her deposits or other assets held by the relevant institution as collateral or guaranty obligations on behalf of a third party, the KDIC may suspend payment of the insurance money within the limit of the amount equal to such collateralized claims or guarantees (see Article 32, Paragraph 2 of the Depositor Protection Act and Article 18, Addendum Articles 2 of the Act's Enforcement Decree).

#### (4) Suspension and Provisional Payment of Insurance Claim Payments

In the case of a Category 1 insured risk event, in MSBs, payment of deposits are suspended for generally 5 to 6 months because of P&As and related activities. In order to alleviate the inconveniences that depositors must undergo for a lengthy period, provisional payments within the insurance limits may be made as determined by the Deposit Insurance Committee. Also, provisional payments may be made to small depositors with 5 million won or less in deposits in credit unions. This system was introduced to minimize the burden on the mostly working-class retail depositors, when a large number of insolvent credit unions were suspended from operations on November 4, 2002. If the amount of provisional payment made falls short of the insurance claim payment due, the KDIC shall pay the difference to the pertinent depositor and vice versa (see Article 31 of the Depositor Protection Act). When the KDIC makes such provisional payment, it shall be granted the creditor rights of the provisional payment receiving depositor against the pertinent financial institution, within the scope of the amount paid (see Article 35 of the Depositor Protection Act).

# D. Risk Management of Insured Financial Institutions

#### (1) Data Submission and Investigations

The KDIC may request submission of operations and asset-related data from insured financial institutions and financial holding companies that have pertinent financial institutions (insured financial institutions) as affiliates under the Financial Holding Company Act, within the scope deemed necessary for determination as to such financial institutions found to be insolvent or potentially insolvent. If an insured institution is found to be on the brink of insolvency based on a preliminary review of such data, the KDIC may perform a more detailed investigation,

including a review of the institution's operation and assets (see Paragraphs 1 and 2 of Article 21 of the Depositor Protection Act).

#### (2) Request for and Confirmation of Data Supplied by the FSS

In cases necessary for the protection of depositors, the KDIC may submit a request to the Governor of the Financial Supervisory Service asking for provision of data related to the insured financial institutions within a determined scope. When the KDIC finds it necessary to confirm the data supplied by the Financial Supervisory Service (FSS) to assess the risk of insured risk events for insured institutions, the KDIC may ask the Governor of FSS to confirm the data, allowing a one-month period to examine the institution. If the data fails to be confirmed, the Corporation may conduct investigations on the operations and asset status of the insured institutions to confirm the data. If, as a result of such inspection or investigation, factors are found that may lead to the occurrence of an insured risk event, it may also request that the Financial Supervisory Commission take proper steps regarding the institution (see Paragraphs 2 and 6 of Article 21 of the Depositor Protection Act).

#### (3) Request for Investigation and Joint Investigations

If necessary, the KDIC may also request the Governor of the FSS to perform an official investigation into specific areas of the pertinent financial institution's operations and to inform the Corporation of the results. The KDIC may also request the FSS to have KDIC employees conjointly participate in such investigation through the decision of the Deposit Insurance Committee. Also, the Governor of the FSS is obligated to respond to these requests (see Paragraph 3 of Article 21 of the Depositor Protection Act).

### E. Resolution of Insolvent Financial Institutions

#### (1) Insolvent (Potentially Insolvent) Financial Institutions

The KDIC or the Financial Supervisory Commission may declare a financial institution to be insolvent or potentially insolvent if its financial structure is unsound, such as:

- ① When an on-site inspection of the institution reveals that it has liabilities exceeding its assets, or when it is clear that normal operation of the institution would be difficult due to its liabilities exceeding its assets following a major financial incident involving a huge amount or NPL;
- ② When the institution's remittances on deposits or liabilities, or payments on loans from other financial institutions, have been effectively stopped; or

③ When the institution may face difficulties in making payments on deposits or liabilities, or in making payments on loans from other financial institutions, without receiving financial support or additional borrowings from outside institutions (excluding borrowings in normal financial transactions).

#### (2) Financial Support

When an insured financial institution becomes insolvent, the KDIC may make insurance claim payments to eligible depositors and take resolution measures in respect of the failed institution. By supporting resolution of the failed institution through M&A or requesting P&A and bankruptcy filing, the KDIC may also help protect depositors and minimize the resolution costs. Specifically, in the interest of maintaining the stability of the financial system, the KDIC may arrange an M&A by a healthy insured financial institution, or arrange a third party acquisition of the insolvent or insolvency-threatened institution (or the parent financial holding company pursuant to the Financial Holding Company Act), in which the pertinent insolvent or insolvency threatened institution (or parent financial holding company) is the contracting party. In this case, the party that intends to take over or merge with the insolvent or potentially insolvent institution (or parent financial holding company) may apply for financial support from the KDIC. The KDIC may also request that the Financial Supervisory Commission order the pertinent financial institution to take necessary actions for P&A or for bankruptcy filing, if such measures are unavoidable for the protection of depositors under the criteria prescribed by Presidential Decree.

#### (3) Provisions Necessary for Financial Support

Subject to the Deposit Insurance Committee's decision, the KDIC may provide financial support to an insured financial institution or to a financial holding company having an insured financial institution as an affiliate under the Financial Holding Company Act, if such support:

- ① is considered necessary for smooth merger of the insolvent financial institution with another, or has been requested by the parties involved in such merger;
- ② is required for the improvement of the financial structure of the insolvent financial institution in the interest of protecting depositors and maintaining stability and order of the credit business industry; or
- ③ is requested by the Financial Supervisory Service in accordance with the Act on the Structural Improvement of the Financial Industry.

#### (4) Application of Least Cost Principle

When providing such financial support, the KDIC shall do its best to select a method that

minimizes resolution expenses and maximizes support efficiency. The Corporation is responsible for maintaining documentary evidence of its exercise of this least cost principle. In applying the least cost principle, the KDIC shall consider any possible economic loss at the national level which liquidation or bankruptcy of the pertinent financial institution might cause. The Corporation must also consider whether the chosen method of financial support is the most economical method, i.e., whether it minimizes the difference between the support to be provided and the estimated recovery from the support.

# F. Insolvency-related Investigations and Accountability Claims

#### (1) Investigation of Insolvent Financial Institution

Pursuant to Article 21-2 of the Depositor Protection Act, the KDIC investigates insolvency accountability and files damage claim lawsuits against those (usually officers/employees and major shareholders of an insolvent financial institution) suspected of having engaged in illegal or irregular actions to cause loss to the financial institution.

In order to properly handle public fund recovery and accountability discovery with respect to insolvency-related persons, the KDIC established a department specialized in debt management in 1999 and initiated relevant investigations in June of that year in respect of both civil and commercial claims. As the auditor of seventeen merchant bank bankruptcy estates, the Corporation has conducted additional similar investigations.

More recently, the Depositor Protection Act was amended in January 2000 so that the KDIC could investigate financial institutions that are under liquidation proceedings or bankrupt. Later, in December of that year, the Act's Enforcement Decree was also amended to include institutions which are still operating but potentially insolvent within the scope of investigation.

The fundamental purpose of the KDIC's investigation is to help in firmly establishing responsible and prudent governance systems within the Korean financial sector, so as to prevent recurrence of financial crisis.

#### (2) Investigation of Default Debtors

Pursuant to Article 21-3 of the Depositor Protection Act, the KDIC may utilize default debtorrelated information retained by public institutions, and may perform investigations in respect of default debtors of public fund recipient financial institutions in accordance with Article 21-2, Paragraphs 1 and 7 of the Depositor Protection Act and Articles 404 and 406 of the Civil Act.

Subsequent to attaining the names of its default debtors from a public fund recipient financial institution, the KDIC may investigate the assets and properties of such default debtors, and cause the financial institution to file injunctions to freeze such assets in order to preserve its creditor rights.

Also, the revision of the DPA in March 2006 enabled "bulk search of financial transaction information," through which the KDIC receives information on financial properties of default debtors from financial institutions and takes measures to preserve creditors' claim rights, etc.

#### (3) Investigation of Default Debtor Corporations

Pursuant to Article 21-2 of the Depositor Protection Act, the KDIC can request that an insolvent financial institution file damage claims against its default debtor corporations or third parties culpable in its insolvency. If the insolvent financial institution does not cooperate with such request, the KDIC may file the damage retribution claims in subrogation of institution. Furthermore, pursuant to the relevant Articles of the Enforcement Decree of the Depositor Protection Act, the KDIC may investigate the operations and assets of related parties culpable in its insolvency such as default debtor corporations in relation to such damage claim proceedings. On this basis, the Corporation has been exerting particular efforts to discover and determine appropriate claimable assets of default debtor corporations

As mentioned earlier, the ultimate purpose of the KDIC's investigative efforts in respect of default debtor corporations of insolvent financial institutions, and its determination of culpability for such insolvencies is to create an environment in which responsible corporate governance becomes firmly entrenched and the burden on the public reduced through actual recovery of public funds.

# (4) Operation of the Concealed Property Report Center of Insolvency-related Parties

In order to strengthen investigations on those accountable for insolvent financial institutions that receive public fund injections, and to realize effective recovery of public funds, the KDIC established in May the Concealed Property Report Center, and opened a toll-free hot-line for report from the U.S. to receive information from citizens at home and abroad on hidden assets of those responsible for the insolvencies.

## 6. Statistics

### A. Number of Insured Financial Institutions<sup>1)</sup>

Financial Sector	End of 2002	End of 2003	End of 2004	End of 2005	End of 2006
Banks	100	58	55	56	53
(Domestic)	(18)	(18)	(18)	(18)	(17)
(Foreign)	(40)	(40)	(37)	(38)	(36)
(Others)2)	(42)	-	-	-	-
Securities	60	50	56	52	52
Companies	00	58	50	53	53
Insurance	43	43	43	42	43
Companies	45	45	45	42	45
(Life)	(23)	(23)	(23)	(22)	(22)
(Non-Life)	(20)	(20)	(20)	(20)	(21)
Merchant Banks	3	2	2	2	2
MSBs	116	114	113	111	110
Credit Unions <sup>3)</sup>	1,233	1,086	-	-	-
Total	1,555	1,361	269	264	261

<sup>1)</sup> The number of insured financial institutions is on the basis of business operation date and business license revocation date.

## B. Insured Deposits by Financial Sector<sup>1)</sup>

(Unit: 100 million won, %)

Financial Sector	End of 2003	End of 2004	End of 2005 (A)	End of 2006 (B)	Difference (B-A) (rate of increase)
Banks <sup>2)</sup>	492,615	478,997	494,962	491,812	△3,150(△0.6)
Securities Companies <sup>3)</sup>	15,986	12,510	14,789	14,247	△542(△3.7)
Insurance Companies <sup>3)</sup>	117,467	129,186	137,140	150,893	13,753(10.0)
(Life)	97,680	107,342	113,328	(123,774)	(10,446)(9.2)
(Non-Life)	19,787	21,844	23,812	(27,119)	(3,307)(13.9)
Merchant Banks	560	499	713	730	17(2.4)
MSBs	26,730	32,519	37,145	44,004	6,859(18.5)
Credit Unions4)	18,306	-	-	-	-
Total	671,664	653,711	684,749	701,686	16,937(2.5)

<sup>1)</sup> Insured deposits exclude the deposits of government, local authorities and other insured institutions and are prepared based on the balance.

Insured deposits of securities companies = Annual average balance of insured deposits of securities companies = Annual average of insured financial products from B/S of the end of FY

Insured deposits of insured liability reserves and annual insurance premium revenues 
Liability reserves and annual insurance premium revenues from end of FY 

Liability reserves and annual insurance premium revenues from end of FY 

Liability reserves and annual insurance premium revenues from prepared date (the end of month)

## C. DIF Bond Repayment Fund Revenues

(As of December 31, 2006, Unit: 100 million won)

Financial Sector	Insu	Insurance Premium Revenues prior to DIF Bond Repayment Fund <sup>2)</sup>							Special Assessment Revenues of DIF Bond Repayment Fund			
	Prior to 1998 <sup>1)</sup>	1999	2000	2001	2002	Total	2003	2004	2005	2006	Total	
Banks	1,613	1,975	2,630	4,139	4,361	14,718	4,775	4,956	4,871	4,987	19,589	
Securities		51	156	218	262	687	156	168	145	151	620	
Companies	-	)1	130	210	202	007	1)0	100	14)	1)1	020	
Insurance	2,322	1,260	1,781	2,416	2,780	10,559	1,074	1,176	1,288	1,402	4,940	
Companies	2,322	1,200	1,/01	2,410	2,700	10,555	1,0/4	1,170	1,200	1,402	4,940	
(Life)	(1,800)	(1,011)	(1,402)	(1,938)	(2,295)	(8,446)	(889)	(978)	(1,069)	(1,160)	(4,096)	
(Non-Life)	(522)	(249)	(379)	(478)	(485)	(2,113)	(185)	(198)	(219)	(242)	(844)	
Merchant Banks	980	336	233	139	130	1,818	20	6	5	6	37	
MSBs	2,407	377	323	529	604	4,240	222	264	319	370	1,175	
Credit Unions	402	162	281	407	641	1,893	1	-	-	216	216	
Total	7,724	4,161	5,404	7,848	8,778	33,9153)	6,247	6,570	6,628	7,133	26,578	

<sup>1)</sup> The insurance premium revenues for 1998 is inclusive of the applicable funds transferred from the Insurance Supervisory Board, Korea Non-Deposit Insurance Corporation, National Federation of Credit Unions on April 1, 1998 as a result of the consolidation of the funds into the Deposit Insurance Fund in the beginning of 1998 with the exception of the Securities Investor Protection Fund which was dismantled subsequent to the consolidation.

### D. DIF Premium Revenues

(As of December 31, 2006, Unit: 100 million won)

				<u> </u>	<u></u>
Financial Sector	2003	2004	2005	2006	Total
Banks	4,775	4,960	4,869	4,987	19,591
Securities Companies	312	336	300	303	1,251
Insurance Companies	3,115	3,403	3,737	4,059	14,314
(Life)	(2,580)	(2,832)	(3,109)	(3,362)	(11,883)
(Non-Life)	(535)	(571)	(628)	(697)	(2,431)
Merchant Banks	73	17	15	19	124
MSBs	667	793	974	1,116	3,550
Credit Unions	603	4	-	-	607
Total	9,545	9,513	9,895	10,484	39,437

<sup>2)</sup> Regional fisheries cooperatives that conduct credit business were excluded from deposit protection as of January 1, 2003.

<sup>3)</sup> Credit Unions were excluded from deposit protection as of January 1,  $2004\,$ 

<sup>2)</sup> In the case of banks, data is a combination of domestic banks and branches of 7 major foreign banks.

<sup>3)</sup> Prepared date is the end of Dec. of each year. However, prepared date of securities companies and insurance companies is the end of Mar. of next year.

<sup>4)</sup> Credit unions were excluded from deposit protection as of January 1, 2004.

<sup>2)</sup> DIF premium revenues until 2002 transferred to DIF Bond Repayment Fund according to the amendment of related law

<sup>3)</sup> Includes bankruptcy dividends received with respect to indemnity receivables in respect of unpaid insurance premiums

# E. Status of Deposit Insurance Fund Bond Issuance

(As of December 31, 2006, Unit: 100 million won)

Financial Sector	1998	1999	2000	2001	2002	Total
Banks	120,650	158,591	60,307	77,617	36,600	453,765
Securities	160	3		32,185		32,348
Companies	100	3	-	32,10)	-	32,346
Insurance	11,534	42,100	10,000	92,089		155,723
Companies	11,554	42,100	10,000	72,007		199,723
(Life)	(11,534)	(41,422)	-	(24,120)	-	(77,076)
(Non-Life)	-	(678)	(10,000)	(67,969)	-	(78,647)
Merchant Banks	65,120	-	12,600	73,342	-	151,062
MSBs	9,917	15,977	6,500	33,332	-	65,726
Credit Unions	2,769	8,179	-	2,028	-	12,976
Total	210,150	224,850	89,407	310,593	36,600	871,6001)

<sup>1)</sup> Cumulative amounts of whole issuance that includes conversion issuance

## F. Status of the DIF Repayment Fund Provision

(As of December 31, 2006, Unit: 100 million won)

Financial Sector	Equity Participation	Contri- butions	Deposit Payoff	Asset Purchases	Loans	Total <sup>1)</sup>
Banks	222,039	139,048	-	100,064	-	461,152
Securities Companies	80,769	3,368	144	19,045	-	103,326
Insurance Companies	159,198	31,171	-	3,495	-	193,863
(Life)	(56,697)	(27,498)	-	(3,495)	-	(87,689)
(Non-Life)	(102,501)	(3,673)	-	-	-	(106,174)
Merchant Banks	27,052	7,431	182,718	-	12,917	230,118
MSBs	101	3,762	72,768	-	8,532	85,163
Credit Unions	-	-	47,576	-	367	47,944
Total	489,158	184,779	303,207	122,604	21,817	1,121,565

<sup>1)</sup> Includes 1,606.9 billion won of public fund support provided prior to the consolidation under the KDIC

# G. Detailed Status of the Public Fund Injection (Aggregate Amount Basis)

(As of December 31, 2006, Unit: 100 million won)

	Injection Type/Recipient Institution	Amount		
	Seoul Bank	46,809		
	Korea First Bank (KFB)	50,248		
	Hanvit Bank	60,286		
	5 Acquiring banks including Kookmin Bank (KB)	11,923		
	Hana Bank (Merger of Hana and Boram)	3,295		
	Chohung Bank			
	Peace Bank	4,930		
	Kyungnam Bank	2,590		
	Kwangju Bank	1,704		
	Jeju Bank	531		
	National Federation of Fisheries Cooperatives	11,581		
	National Agricultural Cooperative Federation	962		
	НВС	300		
Equity Participation	CMB	121		
	Hanaro Merchant Bank	24,912		
	Hans Merchant Bank, Korea Merchant Bank, Joongang Merchant Bank	1.5		
	Youngnam Merchant Bank	1,717		
	New Choongbuk MSFC	100		
	Hanareum MSFC	1		
	Seoul Guarantee Insurance Company	102,500		
	Korea Life Insurance Company	35,500		
	Kookmin, Taepyongyang, Doowon, Dong-ah, Handuck, Chosun Life	21,197		
	Korea Investment Trust Management & Securities	38,649		
	Daehan Investment Trust Securities	23,003		
	RFC	1		
	Daehan, Kookje Fire	1		
	Hyundai Investment & Securities	19,116		
	Subtotal	489,158		
	5 Acquiring banks including Kookmin Bank (KB)	97,113		
	6 Banks including Hanvit Bank	29,677		
	National Agricultural Cooperative Federation	870		
	4 Acquiring Insurance Companies including Samsung Life	11,641		
	Korea First Bank (KFB)	11,388		
	Korea, Hyundai, Kumho, Tongyang, SK Life	14,202		
Contribution	Financial companies including Boomin MSFC	3,762		
Contribution	Daehan Fire	509		
	Woori (Former Hanaro) Investment Bank	7,431		
	Kookje Fire	739		
	Oriental, Samsung, Hyundai, LG, Dongbu Fire	2,425		
	Green Cross (Daishin) Life	1,393		
	KB (Hanil) Life	262		
	Korea Investment Trust Management & Securities	754		

		Injection Type/Recipient Institution	Amount
		Daehan Investment Trust Securities	628
Contrib	ution	Hyundai Investment & Securities (Present Prudential Investment &	1,985
		Securities)	
	184,779		
		Credit Unions	47,576
Insurance	Direct	Securities Companies (4 companies)	144
Claim	Direct	MSFCs	12,212
Payments		Youngnam, Hansol Merchant Bank	1
rayments	Through	HBC (in resolving 18 merchant banks)	182,717
	RFIs	HMSF (in resolving 59 MSFCs)	60,557
	ı	Subtotal	303,207
		KFB (BW)	249
	Direct	KFB (Shares of KFB's Vietnam and New York subsidiaries)	165
		Korea Development Bank (KDB)	13,000
		Industrial Bank of Korea (IBK)	6,000
		Hyundai Investment & Securities (Shares of Hyundai Autonet, etc)	6,375
Asset		5 Acquiring banks including Kookmin Bank (KB)	1,588
Purchases		Korea First Bank	79,063
		Dong-ah, Kookmin, Taepyongyang, SK Life	3,495
	Through	Korea Investment Trust Management & Securities	4,830
	RFIs	Daehan Investment Trust Securities	6,539
		Hyundai Investment & Securities (Present Prudential Investment &	1,300
		Securities)	
	•	Subtotal	122,604
		14 Merchant Banks	12,917
Contrib	ution	19 MSFCs	8,532
		39 Credit Unions	367
		Subtotal	21,817
		Aggregate Total	1,121,565

# H. Status of Financial Assistance by DIF

(As of December 31, 2006, Unit: 100 million won)

	(As of December 51, 2000, Office 100 million work)						
Sector	Equity Participation	Contri- butions	Deposit Payoff	Asset Purchases	Loans	Total	
Banks	-	-	-	-	-	-	
Securities							
Companies	-	-	-	-	-	-	
Insurance							
Companies	-	-	-	-	-	-	
(Life)	-	-	-	-	-	-	
(Non-Life)	-	-	-	-	-	-	
Merchant Banks	-	-	-	-	-	-	
MSBs	168	6,135	7,387	-	1,085	14,775	
Credit Unions	-	-	2,199	-	-	2,199	
Total	168	6,135	9,586	-	1,085	16,974	

# I. Recovery of Public Funds by Year

(As of December 31, 2006, Unit: 100 million won)

Year	Amount
Prior to 2000	114,427
2001	41,776
2002	31,424
2003	55,138
2004	55,157
2005	35,317
2006	32,414
Total <sup>1)</sup>	365,653

<sup>1)</sup> Including 235.1 billion won (2004) and 45.8 billion won (2006) in liability charges paid by majority shareholders of insolvent financial institutions such as Hyundai Investment & Securities

# J. Recovery Performance by Each Type of DIF Bond Repayment Fund Provisions

(As of December 31, 2006, Unit: 100 million won)

Sector	Recovery of Equity Participation	Settlement of Contributions, etc.	Bankruptcy Estate Dividends <sup>1)</sup>	Reimburse - ment of Loans	Asset Sales <sup>2)</sup>	Total
Banks	104,781	420	16,853	-	43,669	165,722
Securities Companies	11,279	2,833	65	-	6,973	21,149
Insurance Companies	13,962	783	3,685	-	1,877	20,307
Merchant Banks	330	49	68,289	10,445	-	79,113
MSBs	-	314	44,143	2,150	-	46,608
Credit Unions	-	4	32,395	355	-	32,754
Total	130,350	4,404	165,430	12,950	52,518	365,653

<sup>1)</sup> Including recovery of dividends from resolution financial institutions

<sup>2)</sup> Including recovery of asset sales from resolution financial institutions

## K. Financial Restructuring Progress

(As of December 31, 2006)

			Re	structuring Stat	tus			
Financial Sector	No. of Companies, Year-end 1997 (A)	No. of License Revoca- tions	No. of Merger	No. of Liquidations, Bankruptcies, and/or Suspensions of Operations	Total (B)	Change (B/A) (%)	Opened	Current Total
Banks	33	5	111)	-	16	48.5	1	182)
Merchant Banks	30	223)	74)	-	29	96.7	1	2
Securities Companies	36	5	75)	3	15	41.7	19	40
Insurance	50	10	66	4	207)	40.0	21	51
Companies						1- 2		
ITCs	32	7	6	-	13	40.6	3089	49
MSBs	231	1079)	28	1	136	58.9	15	110
Credit Unions	1,666	2	124	530	656	39.4	15	1,025
Lease Companies	25	11	210)	1	14	56.0	9	2011)
Total	2,103	169	191	539	899	42.7	111	1,315

<sup>1)</sup> Hana[(Hana+Boram)+Seoul], Chohung(Chohung+Choongbuk+Kangwon), Agricultural Cooperative(Agricultural Cooperative+Livestock Cooperative), Woori[Hanvit(Commercial Bank of Korea+Hanil)+Peace], Newly opened Kookmin[Kookmin+Korea Long Term Credit Bank)+H&CB], Shinhan(Shinhan+Chohung)

Source: Public Fund Oversight Committee

## L. Public Fund Support Provision Status

(Between November 1997 and December 2006, Unit: trillion won)

Financial Sector		Equity Participation	Contri- butions	Deposit Payoff	Asset Purchases	Non-performing Loan Purchases	Total
N o n - B a n k I n g	Banks	34.0	13.9	-	14.4	24.6	86.9
	Merchant Banks	2.7	0.7	18.3	-	1.3	23.0
	Securities Cos. and ITCs	10.9	0.3	0.01	1.9	8.5	21.6
	Insurance Cos	15.9	3.1	-	0.3	1.8	21.2
	Credit Unions	-	-	4.8	-	-	4.8
	MSBs	-	0.4	7.3	0.6	0.2	8.4
	Subtotal	29.5	4.6	30.3	2.9	11.8	79.1
Foreign Institutions		-	-	-	-	2.4	2.4
Total		63.5	18.5	30.3	17.3	38.7	168.3

Source: Public Find Oversight Committee

<sup>2)</sup> There are 15 in consideration of the 3 Banks (Woori, Kyongnam, Kwangju) incorporated into Woori Financial Group and 3 Banks (Shinhan, Cheju, Chohung) incorporated into Shinhan Financial Group.

<sup>3) 16(</sup>P&A + License Revocation to Hanareum Mutual Savings & Finance Corporation), 2(License revocation), 4(P&A)

<sup>4)</sup> Hyundai Merchant Bank+Kangwon Bank (Feb. 1999), Hanwoi Merchant Bank+KEB (Jan. 1999), LG Merchant Bank+LG Securities Companies (Nov. 1999), Hyundai Ulsan Merchant Bank+Tongyang Merchant Bank (Mar. 2001), Regent Merchant Bank+Tongyang-Hyundai Merchant Bank (Jun. 2001), Tongyang Securities Co.+Tongyang-Hyundai Merchant Bank (Nov. 2001), Woori Bank+Woori Investment Bank (Jul. 2003)

<sup>5)</sup> Samsung Securities Co.+Samsung Investment Trust & Securities, Regent Securities Co.+Ileun Securities Co.=Bridge Securities Co., Goodmorning Securities Co.+Shinhan Securities Co.=Goodmorning Shinhan Securities Co., Dongbu Securities Co.+Getmore Securities Co.=Dongbu Securities Co., LG Investment Securities Co.+Woori Securities Co.=Woori Investment Securities Co. (Mar. 31, 2005), Dongwon Securities Co.+Korea Investment Securities Co.=Korea Investment Securities Co. (Jun.1, 2005), Tongyang Investment Bank+Tonguang Orion Investment Securities=Tongyang Investment Bank (Oct. 1, 2005)

<sup>6)</sup> Seoul Guarantee (Daehan+Korea), Hyundai Life (Hyundai+Chosun), Kumho life (Kumho+Dong-ah), Tongyang Life (Tongyang+Taepyongyang), SK Life (SK+Kookmin+Handuck)

<sup>7)</sup> Excludes Daehan Fire (sold on Dec. 2001), Kookje Fire (sold on Feb. 2002), Korea Life (sold on Dec. 2002)

<sup>8)</sup> Includes 13 asset management companies and excludes multi-function institutions, newly established Darby Hana Infrastructure Fund Management Co.

<sup>9)</sup> Includes 29 (P&A)

<sup>10)</sup> Hanvit Lease (Hanil Lease+KCB Lease), Hankook Capital (Hankook Capital+Kyungnam Lease)

<sup>11)</sup> Includes KDB Capital