

2016 KOREA **POST** Annual Report



Korea Post is in the
forefront of realizing a
best-in-class state organization.

Korea Post offers universal postal
services at affordable prices based
on stable revenue sources to help the
public use our services conveniently
anywhere and anytime.



Contents

Introduction	Major Achievements	Financial Highlights
President's Message 04	Performance-based Management System 36	Financial Statements 64
Our Vision and Mission 06	Organization and HR Management 37	Independent Auditor's Report 70
Organization Chart and History 07	Improved Internal Customer Satisfaction 38	Key Performance Indicators 79
Awards and Recognition 08	Business Digitization 40	
	Customer Satisfaction 42	
	Global Partnerships 44	
Business Overview	Sustainable Management	Appendix
Overview of Korea Post 12	Corporate Social Responsibility 48	2016 Postage Stamp Program 82
Postal Service 16	Financial Prudence 52	
Savings Service 23	Public Benefits Enhancement 57	
Insurance Service 29	Public Policy Support 58	
	Postal Culture Promotion 60	

President's Message

“Aiming to become Korea's
best government agency”



Our annual report analyzes and evaluates our management performance for the fiscal year. It contains management information on each of our business areas, activities for the fiscal year, and financial statements.

We achieved a great deal as a result of our ongoing efforts to improve our management performance last year.

In Postal Service we improved customer convenience by launching a range of new products and services such as prepaid postage envelopes for small packages, and prepaid registered mail labels, streamlined mailing service, and the preferred day delivery service, all in response to the relentless decline in letter mail volume.

In Savings Service, we introduced simple remittance and payment service to meet the shifting demands for financial services and change in consumption patterns. We also launched a postpaid check card and other products to diversify business lines to establish more revenue streams and improve profit structure.

In Insurance Service, we enhanced the accessibility to insurance by launching new products such as Post Office Customized Lifestage Insurance that meet consumers' specific needs and by introducing simple insurance service for our digital channels.

In asset management, we maintained public trust as a government-run financial service provider by achieving stable, higher returns through exploration of new investment avenues such as alternative assets and steady acquisition of long-term bonds.

Furthermore, we have strived to fulfill our role and social responsibility as a government-run organization by actively supporting small business owners, farmers, and fishermen in their sales activities and providing support in various ways to the underprivileged.

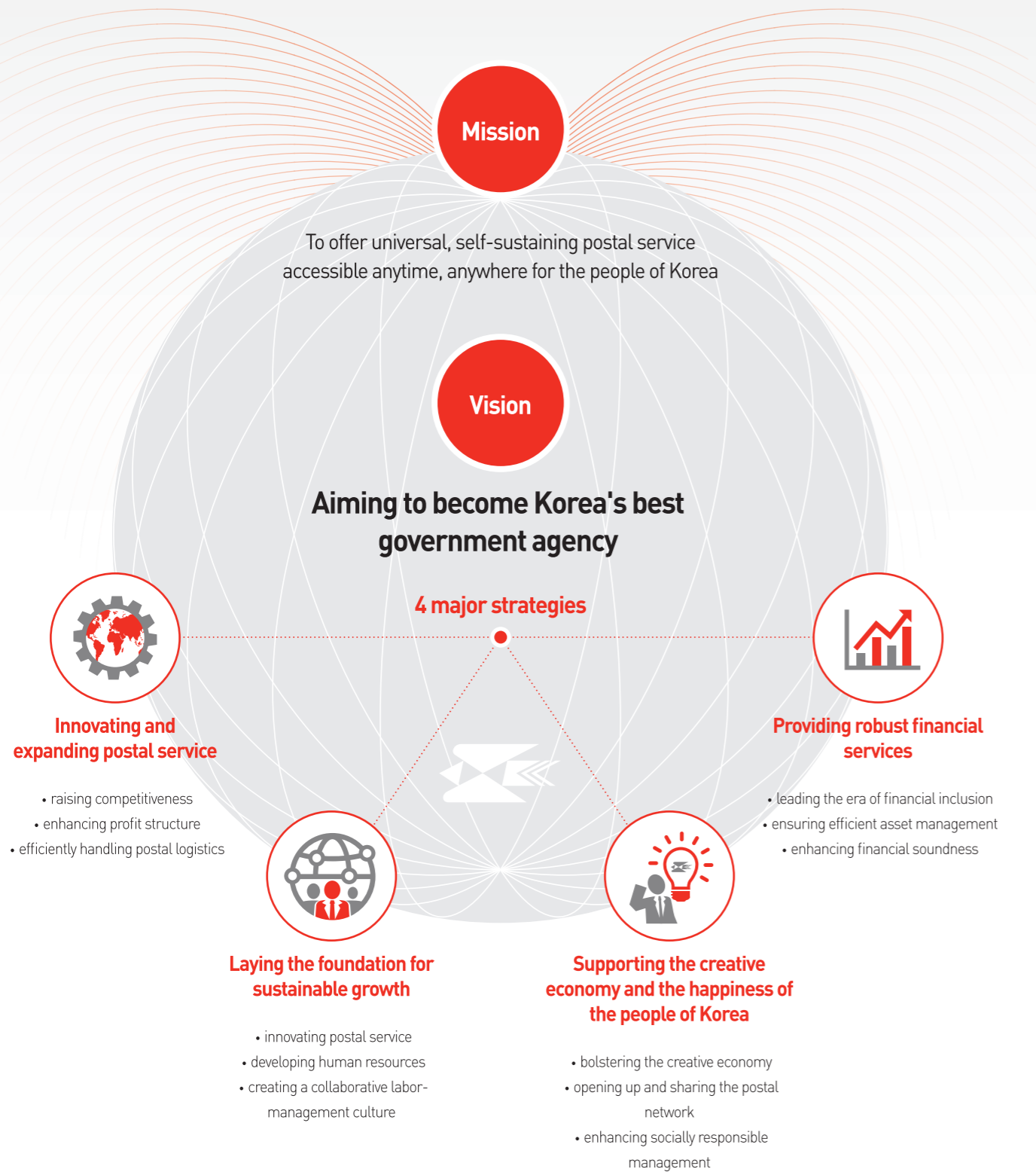
By dint of our efforts, we earned first prize in the KCSI (Korean Customer Satisfaction Index) public service sector for an 18th consecutive year, and externally, we were elected to both the Council of Administration and the Postal Operations Council of the Universal Postal Union for the first time in 10 years.

We promise that all the employees of Korea Post will be united with a strong sense of ownership to make Korea Post the best government-run organization and achieve sustainable growth for the future.

Thank you.

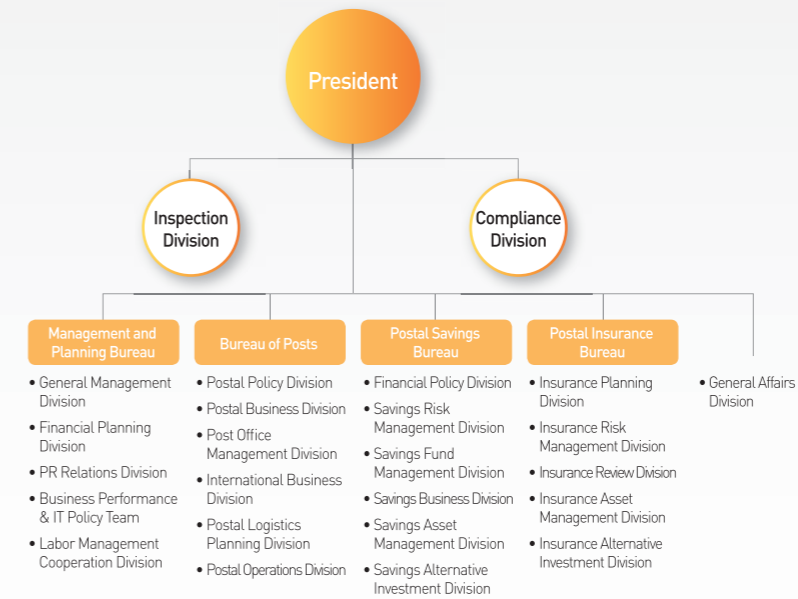
President of Korea Post

Our Vision and Mission

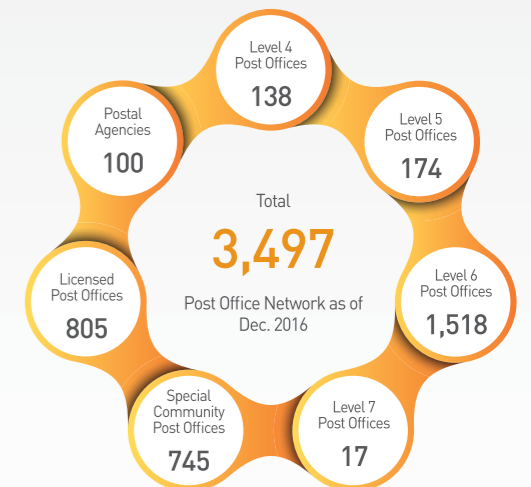


Organization Chart and History

Organization Chart



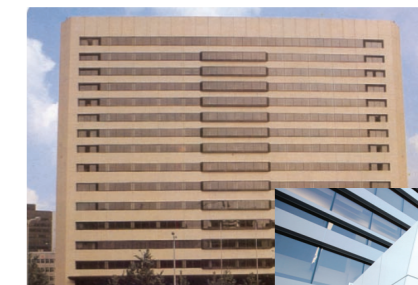
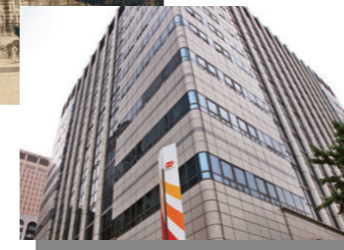
Affiliates



- Subordinate Offices (3): Korea Post Officials Training Institute, Korea Post Information Center, Korea Post Procurement and Construction Center
- Regional Offices (9): Seoul, Gyeongin(Gyeonggi-Incheon), Busan, Chungcheong, Jeonnam(South Jeolla Province), Gyeongbuk(North Geongsang Province), Jeonbuk(North Jeolla Province), Gangwon and Jeju

Major historical milestones

- 1884. 04. 22.** Postal Directorate established
- 1884. 11. 18.** Postal Directorate opened to the public
- 1900. 03. 23.** Office of Communication established under the Ministry of Agriculture, Commerce and Industry of the Korean Empire
- 1948. 08. 15.** The Ministry of Communications of the Republic of Korea founded
- 1994. 12. 23.** Renamed the Ministry of Information and Communication
- 2000. 07. 01.** Korea Post launched
- 2008. 02. 29.** Korea Post placed under the Ministry of Knowledge and Economy
- 2013. 03. 23.** Korea Post placed under the Ministry of Science, ICT and Future Planning

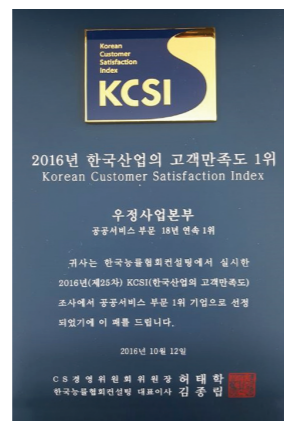


Awards and Recognition



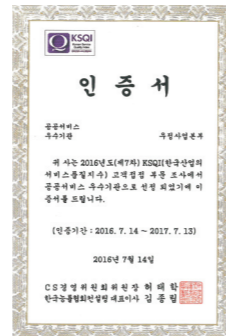
Won first prize for 18 consecutive years in the KCSI public service sector

We set the remarkable record of winning first prize for an 18th consecutive year for our postal service on the KCSI (Korean Customer Satisfaction Index), the leading customer satisfaction index in Korea administered by KMAC, with a score of 76.8, up 1.2 points from the previous year.



Recognized as a leading service provider in 2016 on the KSQL

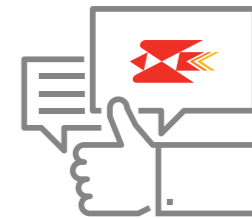
The year 2016 saw us recognized for a second year by KMAC as a leading service provider in the public service sector in the KSQL (Korean Service Quality Index) survey conducted by a service audit team visiting customer touch-points and evaluating customer service.



Door-to-door delivery service evaluation on the NCSI and by Ministry of Land, Infrastructure and Transport

Winning first prize for 10 consecutive years on the NCSI

We made the splendid achievement of winning first prize for a 10th consecutive year with a score of 76 points in 2016 for our door-to-door delivery service on the NCSI (National Customer Satisfaction index) given by the Korea Productivity Center.



EMS Gold Performance Award and Customer Care Award

In 2016, we were the proud recipient of the Gold award in recognition for excellence by the Universal Postal Union in EMS (Express Mail Service) for a ninth time. We also received the Customer Care Award given by the Universal Postal Union for a second consecutive year, publicizing the excellence of Korea Post's customer service throughout the world.



02

Business Overview

Overview of Korea Post

Postal Service

Insurance Service

Savings Service

We sincerely wish for the happiness
of everyone in Korea.

Whenever you need us,
we at Korea Post will be there for you.

Overview of Korea Post

Based on our 130 years of tradition in the service of the public, it is our humblest promise to provide the highest standards in terms of postal, savings and insurance services, to be accessible with convenience by the entire nation at any time and any place.



Korea Post at a glance

We have grown steadily through numerous challenges and changes over the past 133 years since our inception as the Postal Directorate in 1884. We are a public entity that provides universal postal service at uniform rates nationwide. We are also engaged in corporate business activities to cover our operational expenses by self-generated profits. By use of three special accounts (postal service, postal savings, and postal insurance), we cover our expenditures including the payroll with self-generated revenues and transfer our profits to the government's general account. In addition, we have been actively working for the public interest, fulfilling our corporate social responsibilities through various programs as a government agency. We support low-income households and the underprivileged, support digitization and environmental protection, and offer scholarships and donations to create a society of shared happiness.

Postal Service

We endeavor to provide the public with quality postal services at reasonable rates. In essence, the postal service involves receiving and delivering mail, including letters, parcels, and EMS. In addition to these basic functions, we provide a wide array of other services for public convenience, such as Korea Post Shopping and flower delivery. In 2016, our annual postal traffic totaled about 3.9 billion items, and revenues totaled KRW 2,807 billion, which translates into about 75 items of mail per capita for the year.

► Postal Statistics

(in million items, hundred millions of Korean won, %)

Year	Volume	Year-over-Year Change	Sales	Year-over-Year Change
2000	4,517	18.2	12,542	14.9
2001	5,056	11.9	14,172	13.0
2002	5,537	9.5	17,082	20.5
2003	5,256	△5.1	17,154	0.4
2004	4,975	△5.3	17,342	1.1
2005	4,777	△4.0	18,840	8.6
2006	4,842	1.3	20,437	8.5
2007	4,942	2.1	22,159	8.4
2008	4,884	△1.2	23,057	4.1
2009	4,832	△1.1	23,814	3.3
2010	4,870	0.8	24,623	3.4
2011	4,816	△1.1	25,110	2.0
2012	4,651	△3.4	26,367	5.0
2013	4,429	△4.8	27,292	3.5
2014	4,284	△3.3	28,474	4.3
2015	4,021	△6.2	27,640	△2.9
2016	3,895	△3.1	28,076	1.6

Savings Service

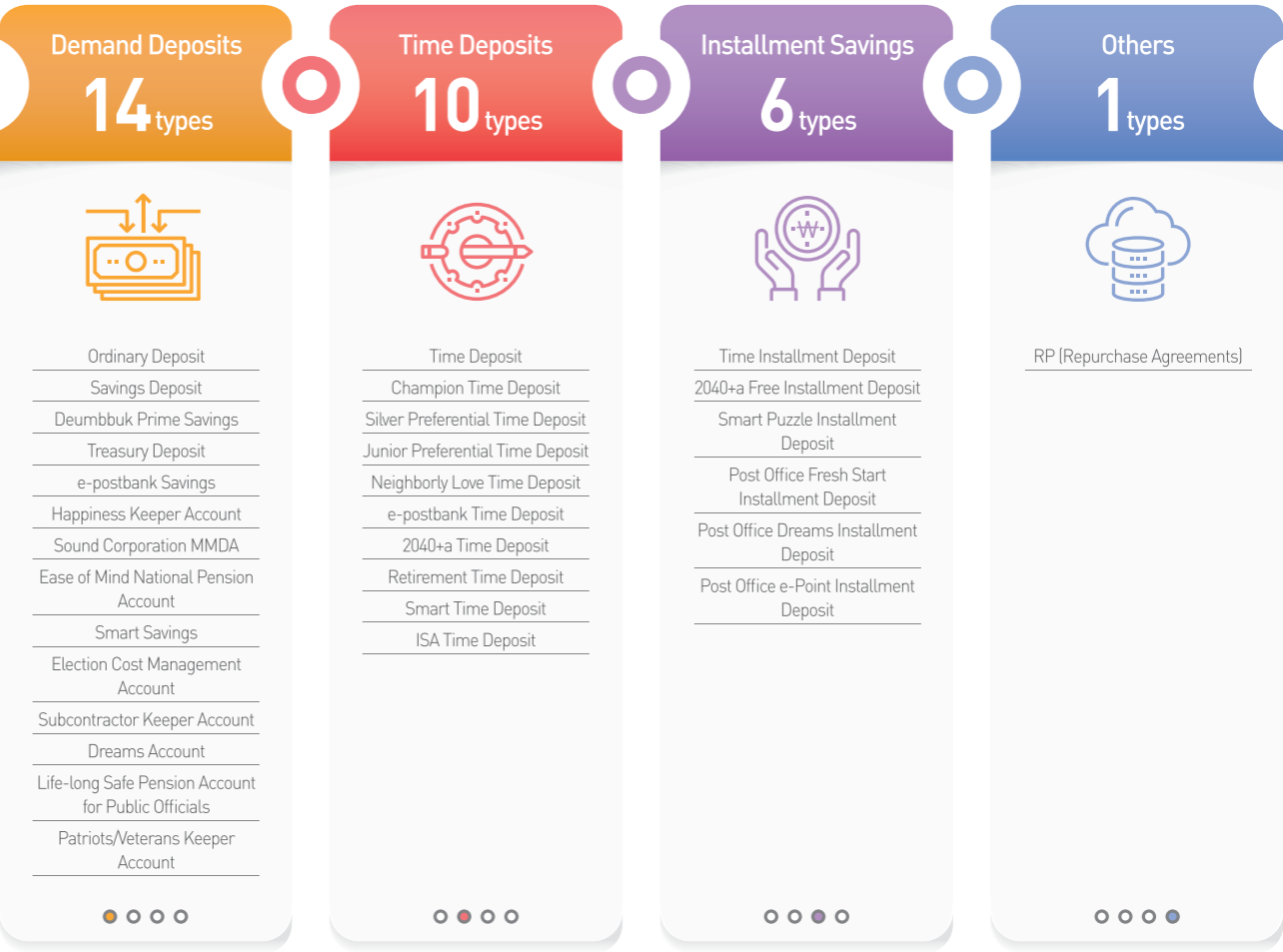
Amid the substantial challenges of the business environment stemming from the prolonged financial market instability and low interests, we have continued to provide greater and more convenient access to financial services for remote village residents, helping them to enjoy some modicum of economic security. We offer a wide range of financial products and services including 31 deposit products (e.g. Silver Preferential Time Deposit), check cards, mobile banking, and overseas remittance. As of 2016, we had a total of 12.71 million depositors and held KRW 61.6 trillion in deposits.

► Total Deposits in Savings Accounts

(in hundred millions of Korean won)

Classification	2010	2011	2012	2013	2014	2015	2016
Total deposits received	504,464	564,079	602,660	615,192	601,308	611,001	615,631

► Types of Deposit Products



Insurance Service

Leveraging our national network of post offices, we have helped improve the quality of life for the public by providing insurance products to low-income or disadvantaged demographics and remote village residents with limited access to financial services. We have also faithfully fulfilled our mandate as a government-owned financial service provider by expanding our investment in start-ups and promoting micro-insurance products. We offer around 20 insurance products including fee-for-service health insurance and pension insurance products, and we held KRW 51.2 trillion in total assets as of 2016.

► Insurance Assets (in hundred millions of Korean won, %)

Classification	2010	2011	2012	2013	2014	2015	2016
Total insurance assets (YoY growth)	318,087 (11.3)	356,974 (12.2)	416,652 (16.7)	461,280 (10.7)	477,170 (3.4)	493,777 (3.5)	511,729 (3.6)

► Insurance Service Statistics (in hundred millions of Korean won, thousand cases, %)

Classification	2010	2011	2012	2013	2014	2015	2016
Number of policies held	11,567 (8.6)	12,218 (5.6)	13,041 (6.7)	13,747 (5.4)	14,014 (1.9)	14,323 (2.2)	14,712 (2.7)
Total face value of policies in force	1,387,061 (6.8)	1,460,843 (5.3)	1,563,536 (7.0)	1,648,801 (5.5)	1,668,121 (1.2)	1,698,782 (1.8)	1,734,846 (2.1)
Number of policyholders	4,752	4,943 (4.0)	5,139 (4.0)	5,350 (4.1)	5,426 (1.4)	5,504 (1.4)	5,609 (1.9)
Premium income	Protection	29,781 (1.2)	30,695 (3.1)	31,256 (1.8)	31,680 (1.4)	31,721 (0.1)	32,423 (2.2)
	Savings	39,693 (△14.0)	43,409 (9.4)	67,233 (54.9)	51,073 (△24.0)	21,836 (△57.2)	27,116 (24.2)
	Total	69,474 (△8.1)	74,104 (6.7)	98,489 (32.9)	82,753 (△16.0)	53,557 (△35.3)	59,538 (11.2)
Benefit payments	50,944 (14.0)	43,180 (△15.2)	53,411 (23.7)	48,407 (△9.4)	53,046 (9.6)	56,542 (6.6)	53,264 (△5.8)
Reserves	298,033 (12.1)	339,789 (14.0)	393,344 (15.8)	436,561 (11.0)	453,362 (3.8)	466,022 (2.8)	482,722 (3.6)

► Postal Insurance Product Line-up as of Dec. 2016

	Products	Start of Sales
Protection	Post Office Fee-for-Service Healthcare Insurance	Oct. 26, 2009
	Post Office Major Disease Major Protection Insurance	Jan. 03, 2011
	Post office Health Clinic Insurance	Jan. 03, 2011
	Post Office Hanaro OK Insurance	Mar. 25, 2011
	Post Office Safety Belt Insurance	Apr. 15, 2008
	Dream Tree (Child Healthcare) Insurance	Apr. 30, 2010
	Ever Rich Accident Insurance	Oct. 05, 2005
	Arms Around Each Other Insurance	Dec. 01, 2010
	Happiness of 10,000 Won Insurance	Jan. 04, 2010
	Post Office Dental Insurance	Mar. 16, 2012
	Post Office Convalescence Insurance	Dec. 21, 2012
	Post Office Funeral Insurance	May 16, 2014
	100-year Comprehensive Protection Insurance	Oct. 02, 2014
	Elderly Fee-for-Service Healthcare Insurance	Mar. 25, 2016
	Post Office Customized Life-stage Insurance	Aug. 12, 2016
	Our Family Cancer Insurance	Aug. 12, 2016
	Subtotal 16 types	
Savings	Green Bonus Savings Insurance	Oct. 9, 2009
	Power Savings Insurance	May 16, 2014
	Essential Switch Insurance	Jan. 05, 2010
	Ever Rich Welfare Insurance	Jan. 05, 2010
	Subtotal 4 types	
Pension	Postal Pension Insurance	Dec. 01, 2003
	Post Office Pension Savings Insurance	May 16, 2014
	Plus Pension Insurance	Nov. 01, 2007
	Arms Around Each Other Pension Insurance	Jul. 13, 2015
	Subtotal 4 types	
	Total 24 types	

Postal Service

We strive to impress our customers by providing differentiated services, from ordinary mail service, parcel delivery to international express mail service.

Postal service laws, regulations, and guidelines improved

Postal service laws and regulations have been revamped to enhance autonomous operation of postal business and to create a stable business base.

[Enforcement Decree of the Postal Service Act]

The enforcement decree of the Postal Service Act has been modified to accommodate modern lifestyle changes such as the rise in single-member or double-income households and to provide greater convenience to postal service users. Major amendments include the addition of special provisions relating to delivery, the extension of service offices for customer convenience such as addressee's address change & mail return, and the enhancement of basis for returned mail at customer request for acceptance cancellation.

[Enforcement Rules of the Postal Service Act]

We created election mail service to ensure the effective delivery of election-related mail subject to the laws and regulations governing elections and voting such as the Public Official Election Act and the National Referendum Act. The elements of the special care required in the handling of election mail for timely and accurate delivery are reflected in the enforcement rules.

[Postal Service Guidelines]

Postal service guidelines have been upgraded to improve accuracy and efficiency of postal service. Regional offices are now able to change business hours and report such change to the president without obtaining prior approval that was required before the guideline change. Daily closing of stamp sales is eliminated to streamline postal business closing and the rules for special mail delivery are in place.

In addition, we have continued to rationalize the postal service guidelines with the aim of making our postal work processing more efficient and our customers more satisfied.

For example, we eliminated the requirement of a personal seal for postal contracts, replacing it with a signature, and improved the procedures for signing contracts for post-paid postage mail and receiving post-paid mail. We also improved service in a number of ways to reach out to more customers by, for example, providing a booklet detailing various postal services for hearing-impaired customers.

Suggestion box

We have upgraded our suggestion box system to make our postal service work more efficient and profitable. A newly appointed team manages the entire suggestion system and hosts regular presentations where all suggestions received are reported. The suggestions received go through rigorous evaluation to shortlist high-impact suggestions for implementation.

► 2016 Suggestion Box Statistics

(number of cases)

Total number of suggestions received	Selected		Not selected	Under implemen- tation	Under additional review	Selection rate
	(High impact)					
859	412	45	173	170	104	48.0%

* A sharp rise in the number of suggestions received and selected from the previous year (516 cases ↑ , 35.5% ↑)

Letter mail systems and services enhanced

Sender's address format streamlined for registered mail

With the exception of registered mail requiring delivery confirmation, sender's address formats for registered mail are streamlined to reduce tellers' workloads and customers' waiting time and to improve service quality. This change shortens the time taken for a teller to process registered mail at the counter, which was previously needlessly prolonged because of the lengthy sender's address format.

New Year's card message printing service introduced and improved

In October 2016, we introduced a new service where we produce customized New Year's cards with customer-provided messages inserted. We expanded our service from the simple on-line sale of New Year's cards to the sale of New Year's cards with customized messages printed and the delivery of the cards. This is a type of O2O (Online to offline) service where customers can buy our New Year's cards on-line anytime, anywhere and have them delivered to anyone to whom they want to send seasons' greetings. Message printing work for large volume customers has been automated to reduce tellers' workload.

► New Year's Card Message Printing Process Improvement

Channel	1~100 copies		Over 100 copies	
	As Is	To Be	As Is	To Be
Post Office	Manual by tellers	Korea Post (Korea Postal Service Agency)	Outsourcing by post office	Korea Post (Korea Postal Service Agency)
ePOST	Manual by customers	Korea Post (Korea Postal Service Agency)	Manual by customers	Korea Post (Korea Postal Service Agency)

Altteul Phone mobile inquiry service offered

We began the consignment sale of the budget Altteul Phone in September 27, 2013 to vitalize the Altteul Phone market, ultimately to help households minimize telecommunication expenses and small and mid-sized enterprises grow their business. A total of 666 people subscribed to the Altteul Phone on the first day, and the subscriber base grew substantially to 310,000 in 2015 and then more than doubled to 680,000 in 2016. In April 2016, we launched a new service that enables Altteul Phone users to view their real-time billing statements that includes current or previous total amounts due and total minutes or megabytes used and to use Q&A service online using their mobile phones. We also opened the Post Office Altteul Phone Online Shop at the ePOST website where people can subscribe to the Altteul Phone service with ease.

► Procedure for using the Altteul Phone mobile inquiry service



Go to m.epost.kr ► Post Office ► Altteul Phone ► Altteul Phone billing inquiry
► log-in (or sign-in) ► authentication ► inquiry and Q&A service

Mobile phone rental service for military service personnel launched

In January 2016, we began mobile phone rental service for military service personnel, which we believe will serve multiple purposes of improving welfare of military service personnel by promoting a sound culture of communication, furthering environmental protection through recycling of used phones, and creating jobs. Military service personnel can rent mobile phones operated by Korea Post at PX (Post Exchange) to communicate with families and friends both on base and off base.

Efforts to increase letter mail revenue

New Samsung Cloud-based mail service introduced

In April 2016, we introduced an innovative postal service in partnership with Samsung Cloud to enable our customers to use the Samsung Cloud Print app to have files stored in Samsung Cloud printed and delivered as mail to a designated addressee by Korea Post.



Prepaid postage envelopes for small packages introduced

In July 2016, a prepaid postage envelope was introduced for small packages that are smaller than an A5 sheet of paper in length and width and lighter than one kilogram. This envelope sold at a single rate of 1,000 won eliminates the customer's need to buy and attach stamps, reduces the workload of the tellers, and increases revenue of letter mail.

Prepaid postage labels for registered mail introduced

In October 2016, we introduced, on a pilot basis, a prepaid postage label for general registered mail. With these prepaid postage labels, customers no longer have to visit the post office to send registered mail as they can do so through various post office channels including post boxes, self-service kiosks, or home pick-up service. The sale of the label, designed to meet diverse customer needs, made postal service easier to use and allowed customers to spend less time at the post office waiting in line for service.

Promotional material production service and e-green mail service increased

We authorized more post offices to produce and mail customized promotional materials for small businesses and expanded the scope of service coverage. We also improved the online tools that small business owners can use to edit the contents of their promotional materials and distributed service guidebooks and leaflets in May. Thanks to these efforts, revenue from promotional material production service rose 193.3% in 2016 to KRW 8.8 billion from KRW 3 billion in 2015.

We also saw an increase in the revenue from e-green mail service to KRW 158.3 billion, an increase of 10.9% from KRW 142.7 billion in 2015, as we added new services and improved processes, more effectively linking them to the services of other public offices.

Mail processing code introduced to raise delivery service quality

Korea Post introduced a mail processing code system in December 2015 for the processing of registered mail and is extending its coverage to all general mail. The mail processing code is a four-part combination of one letter and a single-digit number, a three-digit number, and two two-digit numbers that represent the arrival distribution center, delivery post office, delivery team, and delivery district, making mail classification easy even for inexperienced workers and improving worker productivity substantially. The extended use of mail processing codes will help us raise the quality of our postal service by ensuring quicker and more accurate mail delivery.

► Mail Processing Code



Domestic mail transport network optimization

To enhance the financial performance of postal business and employee satisfaction, we revamped our domestic transport network to raise the loading rate and to cut transport costs.

- Changes made: the operation of the backbone transport network is outsourced, and the Logistics Support Team directly operates the post office network
 - The use of larger vehicles and the raising of the loading rate to over 30% (individual parcels and flat pallets) for the backbone network reduced annual costs by KRW 11.1 billion
 - Korea Postal Logistics Agency supervises the outsourcing service company to ensure reliable operation of the backbone network
 - Employee satisfaction increased as a result of putting post office operation directly under the control of Korea Postal Logistics Agency, which has extensive experience in postal business

* Backbone network: network between distribution centers
Post office network: network between post offices and distribution centers

Simple mail acceptance service made available at self-service kiosks

We began to install self-service kiosks in October 2016 to reduce customer waiting time at the post office counter and tellers' workloads. At self-service kiosks, customers can have their mail scanned, stored, and accepted without manually inputting addresses. The adoption of the simple mail acceptance service cut the mail acceptance lead time from 3~4 minutes to less than one minute.

► Simple mail acceptance service at self-service kiosks



► Types of Self-service Kiosks



Simple advance service introduced

In June 2016, we introduced 'simple advance service' available through the internet and mobile devices in order to make the process of inputting required information for registered mail more convenient and cut customers' waiting time at the counter. The reservation service enables customers to key in required information for registered mail (names and addresses of the sender and the addressee) using the Korea Post app or website and to store or print out a barcode containing that information before visiting a post office. The teller at the counter will scan the barcode presented by the customer and complete the receiving process without any additional steps.

At the initial stage of adoption, we posted promotion banners on the Korea Post website and blog and offered discount coupons usable for Korea Post Shopping to advertise and promote the new simple advance service. We also gathered customers' opinions and implemented the suggestions of printing out address labels to attach to mail and operating a counter dedicated to simple advance service users, and this substantially shortened waiting time and increased customer convenience.

Mail delivery load management system improved

In May 2012, Korea Post deployed a mail delivery load management system developed by ETRI (Electronics and Telecommunications Research Institute) that accurately quantifies delivery load and the number of required mail carriers. The system was introduced to reduce regional imbalance in distribution load.

Later, we improved the system to accommodate the new requirements that reflect different delivery environments of different post offices and reduce input errors. The project ended in November 2016, and it indeed improved confidence in the system and its reliability.

Nine major improvements were made in terms of calculation logic and parameters. For example, vehicle travel time was changed from speed determined by the type of building to the average speed for the distance travelled. The ratio of mail carriers on standby to fill in for absent on-duty mail carriers was raised from 3.5% to 4.0%. Standard time for mail carriers delivering parcels was increased by 25 seconds to account for getting in and getting out of the delivery vehicle and opening and closing the cargo box.

These changes to the mail delivery load management system are expected to improve the efficiency and quality of mail delivery by enabling better delivery load balancing and facilitating resource planning.

Door-to-door delivery for certain apartments outsourced

We outsource parcel delivery for 500-unit and larger apartment complexes where delivery is difficult due to tight access and security control or where ground-level vehicle passage is blocked.

We have contracted delivery service providers such as the Korea Association of Community Seniors Club or the Korean Senior Citizens Association that have contracts with the parties in charge of managing the apartments we target or the management offices that are authorized by the resident council to deliver parcels. We pay a commission of KRW 800 per delivery (including VAT) and believe the outsourcing will help cut costs and raise delivery efficiency.

New parcel service features introduced

Prepaid postage parcel boxes

Post offices are losing their monopoly on parcel service as more and more people use convenience stores as drop-off and pick-up locations for small parcels. In response, Korea Post introduced prepaid registered parcel boxes in order to offer the best possible customer experience and to streamline the parcel handling process, which will help us maintain our competitive advantage in parcel business. Prepaid parcel boxes come in a single standard size of 32cm x 21cm x 9cm, suitable for sending books and clothing the size of an A4 sheet of paper and at a uniform rates for any destination in Korea. And a 10% discount is offered for a single purchase of 10 or more units, offering savings for organizations, small business owners, and small and medium businesses that need to send out small packages on a regular basis.

In a pilot sales promotion at 62 post offices in Seoul and regional metropolitan cities and the e-POST website since March 1, 2016, a total of 27,117 boxes (14,727 at post offices and 12,390 by the website) have been sold, recording KRW 107.88 million in revenue.

► Work Process





The Preferred day delivery service

“지정한 날 배송해드려요”

우체국택배 지정일 배달서비스

우체국택배 지정일 배달서비스란?
발송인이 지정한 날 배송해주는 부가우편서비스입니다.

이용수수료	1,000원
취급대상	국내 등기소포
대상지역	전국 (선전 운송지역 제외)
이용방법	1. 우체국 창구에서 접수 2. 날짜 지정 (연초 당일로부터 3~10일제 가능) 3. 지정일 배달 스티커 부착 4. 지정된 날 배달 (일요일, 공휴일 제외)

서비스 이용문의 | 우체국콜센터(1588-1300) 또는 가까운 우체국

우정사업본부
KOREA POST

Kahala CEO Board Meeting



The 26th Universal Postal Congress



Year-end gift box

We introduced designer parcel boxes featuring New Year's themes for our door-to-door delivery service to meet the consumer demand for good designs. We began offering the New Year's limited edition parcel boxes in early November 2016. A total of 60,000 were sold, indicating that they were well received.

Preferred day delivery service

Door-to-door delivery service has become an integral part of modern life. This has in turn caused consumers' expectations to continue to rise, and these rigorous expectations are met by a series of new customer services introduced by various industry players. Korea Post faces growing competition not only within the same sector, but also from cross-industry players such as Coupang's Rocket Delivery and Emart's SSG Delivery.

In response to the rising competition, Korea Post introduced the preferred day delivery service on November 1, 2016. This new service caters to those customers who want to have packages delivered on the preferred day because they are planning for anniversaries or events or they will be out of town for a holiday or for other similar reasons.

New international services adopted and global partnerships enhanced

New international services

We adopted new e-commerce services such as eParcel express delivery for Europe and K-Packet (bonded package delivery service) to capitalize on the explosion in cross-border e-commerce, helping local businesses cut logistics costs and increase exports.

▶ New International Service

Service	Start Date	Countries	Key Features
eParcel express delivery for Europe	Aug. 1 2016	14 European countries including France, Germany, and the UK	Prior provision of customs clearance information and bundled customs clearance shortens delivery leadtime and cuts prices to about 35% lower than EMS (prices are based on a parcel of 2kg in weight going to Germany)
K-Packet (bonded package delivery service) (K-Packet)	Jun. 1 2016	Worldwide	Bonded packages less than 30kg in weight imported from foreign countries are received as international packages and mailed to a third country

Hosting KPG CEO Board Meeting and entry into POC/CA

Korea Post hosted the 14th KPG CEO Board Meeting in Seoul on July 27, 2016. The board meeting of the Kahala Posts Group brought together high-ranking postal service officials from 10 major countries including Korea, China, Japan, the UK, and Australia to discuss ways to improve express mail service and delivery of low-weight e-commerce products and air parcels. To provide better express mail service, the participants discussed offering of express mail delivery in more countries, advance exchange of customs clearance information, and real-time tracking.

During the 26th Universal Postal Congress held in Istanbul in September 2016, Korea was elected both to the Council of Administration and to the Postal Operations Council for the first time in 10 years. The members of the Council of Administration manage postal regulations and the budget and organization of UPU, and the Postal Operations Council supervises postal service operation, settlement, postal technology standards, and the modifications of the UPU treaty and regulations. Korea's entry into the councils will allow Korea to actively participate in reform of international postal systems and the establishment of global postal standards and raise Korea's global standing.

Savings Service

Korea Post provides reliable deposit services available for convenient use by customers at any time and any place.

Product development and service improvements

Post Office Patriots/Veterans Keeper Account launched

We launched the Post Office Patriots/Veterans Keeper Account product in June 2016 to help patriots and veterans protect from foreclosures the benefits they receive for their contributions to the independence and protection of the country and have financial security. We have launched a number of policy products to protect statutory benefit recipients.

Classification	Description
Eligibility requirements	Recipients of statutory benefits for patriots or veterans can open accounts under their real names (one account per person only)
Features	Deposits are limited only to patriots/veterans benefits paid to the account holder, and the account is exempt from any foreclosures in accordance with applicable laws and regulations

Digital channel and service upgraded

In response to the change in the financial market environment and consumption patterns, we are augmenting the customer experience through digital channels for easier access and greater convenience to expand our mobile customer base.

Faced with a sharp increase in the use of digital channels including the mobile channel and the rapid adoption of fintech service, we built a real name authentication system for digital channels to enable our customers to open accounts through digital channels.

We introduced improved UI (User Interface) screens to offer more practical and convenient transaction processing for our mobile banking service, and we expanded the scope of mobile banking service, adding services that had been available only through internet banking channel to the mobile channel.

▶ Consolidation of internet and mobile banking services

Extension of account activity search period Account activity search period is extended from three months to 10 years	ID search service Electronic banking agreement ID can be searched for the issuance and reissuance of digital certificates.	Change of wire transfer cap A new menu item is added to allow for modification of wire transfer cap per day and per transfer
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Our internet banking site has been renewed to synchronize its look and feel with that of the mobile banking site, which reflects the latest trends in the financial services market and highlights the reliability and consistency of Korea Post's financial services. Recommendation service for wealth management is added and financial products are visualized to improve customer convenience. New and improved security features are introduced such as the financial security center on the menu and personalized security features to ensure safe and secure transactions.

The Post Office Hybrid Travel Check Card



The Post-paid Hi-Pass Card



Overseas remittance service



[Security reinforcements for safe and secure transactions]

- (Foreign IP address blocking service) In order to prevent at the source financial fraud through hacking or phishing of foreign origin, access attempts from a foreign IP address are blocked from log-in services requiring a digital certificate. Access to non-login services such as inquiries is allowed.
- (Prior consent required for issuing a digital certificate) To prevent fraudulent issuance of a digital certificate, the requirement of prior consent is added to the process steps for the issuance and re-issuance of a digital certificate.
- (Smart OTP) A one time password (OTP) is created when touching the NFC-enabled smart phone with a designated IC card.
- (Financial security center for internet banking security) Security has been enhanced with forgery-proof security solutions, improved accessibility to the security menu, and personalized security level adjustment.

Savings service diversification

We diversified our savings business in a number of ways, including expansion of non-interest revenue, to build a foundation for sustainable business operation and to improve the bottom line. We introduced the Post Office Hybrid Travel Check Card, the first check card sold by Korea Post. It is both a post-paid public transportation card and a low limit credit card (less than KRW 300,000). We also launched the Post-paid Hi-Pass Card for commuters using highways. We have partnerships with 246 organizations to provide 18 alliance services including the newly added services of ISA (Individual Savings Account), payment service, and virtual account service. We also actively explore opportunities to earn non-interest revenue and strive to provide better service to our customers. We expanded our foreign exchange and currency service in response to the growing demand for such service and to bolster the foreign exchange market. We began offering no-account express overseas remittance service by which recipients can collect remitted funds within 10 minutes, and we resumed the direct purchase and sale of foreign currencies through partnership with Shinhan Bank in December.

Bottom-line and balance sheet improvements

We have expanded the offering of low-cost deposits while maintaining total deposits received at appropriate levels to rebalance our financial structure towards low-cost debt.

► Postal Savings Deposits

(in trillions of Korean won, %)

Classification	Dec. 2016			Dec. 2015		
	Planned (%)	Actual (%)	Actual/Planned	Planned (%)	Actual (%)	Actual/Planned
Total deposits received	60.5	61.6	101.8	60.0	61.1	101.8
Demand deposits	12.5 [20.0%]	14.3 [23.3%]	114.8	12.0 [20.0%]	12.5 [20.5%]	104.5
Time deposits	-	43.1 [69.9%]	-	-	44.8 [73.2%]	-
Others	-	4.2 [6.8%]	-	-	3.8 [6.3%]	-

Also, we have managed to reduce the cost of funds by flexibly setting deposit rates considering the financial market environment and business strategy.

► Cost of Funds

(in %)

Classification	2016. 12.	2015. 12.	Reduction
Average cost of funds	1.40	1.81	41bp ↓

Asset management and financial soundness improved

We achieved a 2.71% rate of return in our management of deposit assets with total returns of KRW 1.724 trillion in 2016. Our return on investment in foreign equities and fixed income rose, but the overall rate of return fell 0.61%p from a year earlier due to a decline in the re-investment return for book-value credits and the investment return for domestic equities due to the persistently low interest rates. However, the fund operating margin settled at 1.31%, 0.36%p above the 2016 target margin.

- fund operation margin (1.31%) = return on investment (3.32%) - cost of funds (1.4%)

* exceeding the 2016 target margin of 0.95% by 0.36%p

Despite the adverse global investment environment, we managed to exceed our target margin thanks to rigorous quarterly planning of strategic and tactical asset allocation based on continuous monitoring of the global financial markets and use of expert advice, and the high caliber of our fund managers. Attaining a stable margin on fund operations helped us effectively manage the deposits that the citizens of Korea entrusted with us and to offer universal postal service at affordable rates.

► Asset Management Performance

(in hundred millions of Korean won, %)

Asset Class	NAV	NAV percentage	Average balance	Returns	Rate of return	
Book value	460,330	70.8	447,790	13,428	3.00	
Fixed income	Bonds	135,544	20.8	125,432	4,152	3.31
	Structured products	76,392	11.7	65,538	3,495	5.33
Financial instruments	Interest rate-based	46,000	7.1	44,576	746	1.67
	Return-based	166,958	25.7	170,513	4,373	2.56
Short-term funds	24,309	3.7	35,342	530	1.50	
Public Capital Management Fund deposit	7,179	1.1	2,047	17	0.84	
Others	3,948	0.6	4,341	115	2.64	
Market value	190,264	29.2	189,308	3,817	2.02	
Local equities	31,893	4.9	32,572	-670	-2.06	
Local fixed income	99,755	15.3	99,949	1,974	1.97	
Foreign equities	15,862	2.4	14,984	868	5.80	
Foreign fixed income	8,306	1.3	7,546	322	4.27	
Structured instruments	4,346	0.7	5,447	2	0.03	
Alternative	IG	11,204	1.7	10,129	634	6.26
	CG	18,899	2.9	18,683	687	3.67
Total	650,593	100.0	637,098	17,245	2.71	

Foundations laid for advanced asset management

We began to hold an asset allocation meeting—the Alpha Plus Meeting—eight to 12 times a year as part of our effort to upgrade our asset management. It brings together fund managers to discuss the latest developments in the financial markets and the direction of asset management and to review the investment portfolios with particular focus on poorly-performing investments. The market data used in the meeting combines analyst reports with data from various proprietary quantitative models designed to make predictions on highly unpredictable variables.

Higher returns on investments in equities and credits

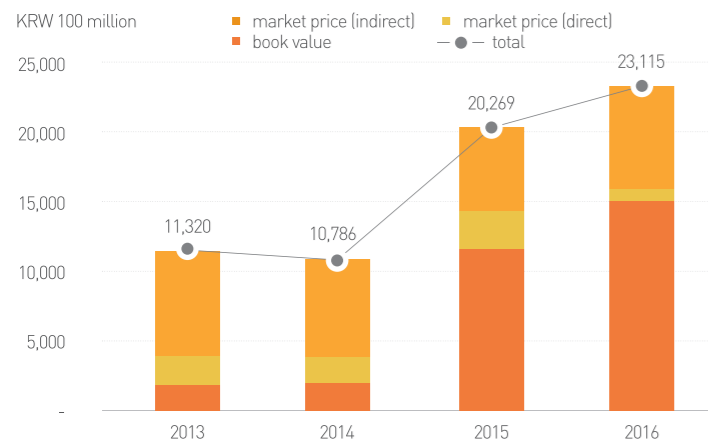
Efficient management of traditional assets

We invested in equities, credits, and financial instruments and exceeded our target returns. Our return on investments in domestic bonds and financial instruments was 2.37%, 0.96%p higher than the cost of funds thanks to proactive sourcing, rigorous risk management, and improved outsourcing of asset management. A stable return on investments in domestic equities is expected in the mid and long term as we rebalance the investment portfolio to address the excessive weighting in particular stocks.

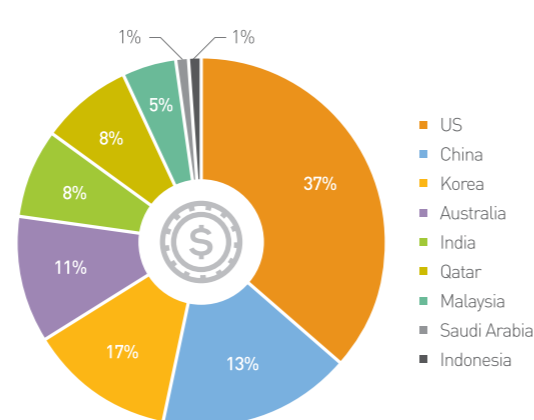
Expanded overseas credit investments

Faced with the prospect of interest rates remaining at historically low levels in the domestic market for a prolonged period of time, we have raised our exposure to offshore bonds to KRW 2.3 trillion. We have also begun establishing a portfolio of offshore bonds by investing in dollar-denominated bonds of blue-chip businesses in major countries' markets and state-owned enterprises in emerging markets. Our portfolio covers sovereign debt and credit backed by strong fundamentals¹⁾ in the US, China, Australia, India, and Qatar, which should bring stable returns along with risk and return diversification.

► Investments in Overseas Credits



► Country Breakdown of Direct Investments in Overseas Credits



1) Fundamental: a term that indicates the health of an economy and refers to macroeconomic indicators such as GDP growth, inflation, unemployment, and current account balance

Exemption of security transaction tax on arbitrage trading of domestic stocks

The imposition of the security transaction tax on Korea Post in 2013 resulted in a decline in arbitrage trading and volatility, and the derivative market contracted significantly. To revitalize our arbitrage trading and the securities market, we made an effort to obtain an exemption on the security transaction tax on our arbitrage trading. Thanks to the understanding and cooperation of the involved government bodies, we will be exempt from the security transaction tax on arbitrage trading until the end of 2018. Our investments in arbitrage trading are expected to further the expansion and development of Korea's securities market as it will serve to mitigate market shocks by narrowing the spread between spot prices and forward prices and vitalize the market through active trading.

Expertise and transparency in deposit asset management

We have developed even greater expertise and transparency in asset management for sustainable growth. In January 2016, we tightened the qualifications for asset management positions, commissioned an outside agency to conduct quarterly evaluation on investment performance, and built a database of financial market and real economy trends. These changes helped us upgrade our performance evaluation system to the level of major pension fund management institutions. Furthermore, we continued to host finance seminars and gave two special lecture sessions for all employees to educate them on global issues and the postal business outlook.

We conducted due diligence on the investment performance of the GTAA (Global Tactical Asset Allocation) fund manager, which is managing part of Korea Post's deposit assets.

We also upgraded asset management policies as needed in response to the changes in the investment environment and transferred the responsibility for asset management performance evaluation to Savings Risk Management Division to enable more professional and objective evaluation. We established Compliance Division to enhance internal control and transparency and modified internal control policies.

Corporate Special Lecture I - Brexit (July 7, 2016)



Corporate Special Lecture II - Trump's Policies (December 22, 2016)

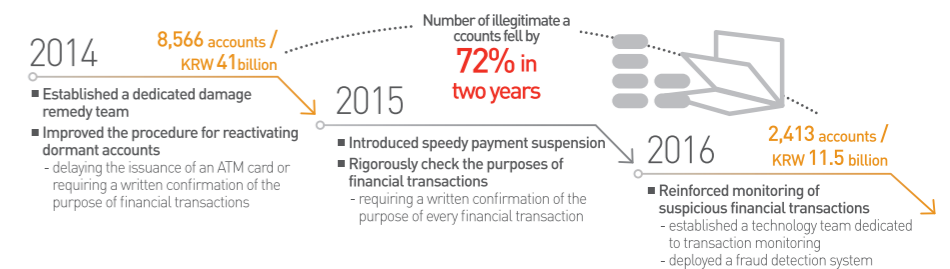


Eradication of fraudulent use of postal deposit accounts and improved remedies for damage

Illegitimate accounts tackled to mitigate damage to the public

We have made multi-faceted efforts to eradicate the use of postal deposit accounts for purposes of fraud. We took a tough new stance on fraudulent use of accounts in September 2014, and we established partnerships in March 2016 with the Financial Supervisory Service, the Korean National Police Agency, and other organizations concerned with financial fraud to collaborate in the prevention and crack-down on voice-phishing. In September 2016, we deployed a fraud detection system. The number of illegitimate accounts fell 72% from 8,566 in 2014 to 2,413 in 2016.

► Results of Fraud Eradication Efforts



We published booklets on illegitimate accounts and fraud prevention and distributed them at post offices throughout the country. We also reached out to the public to raise awareness of fraud using illegitimate accounts, fulfilling our role as a government-run financial service provider. We visited senior citizens' community centers and traditional grocery markets around the country to spread the word about the most common types of fraud and how to avoid them.

▶ PR on Preventing Fraud using Illegitimate Accounts

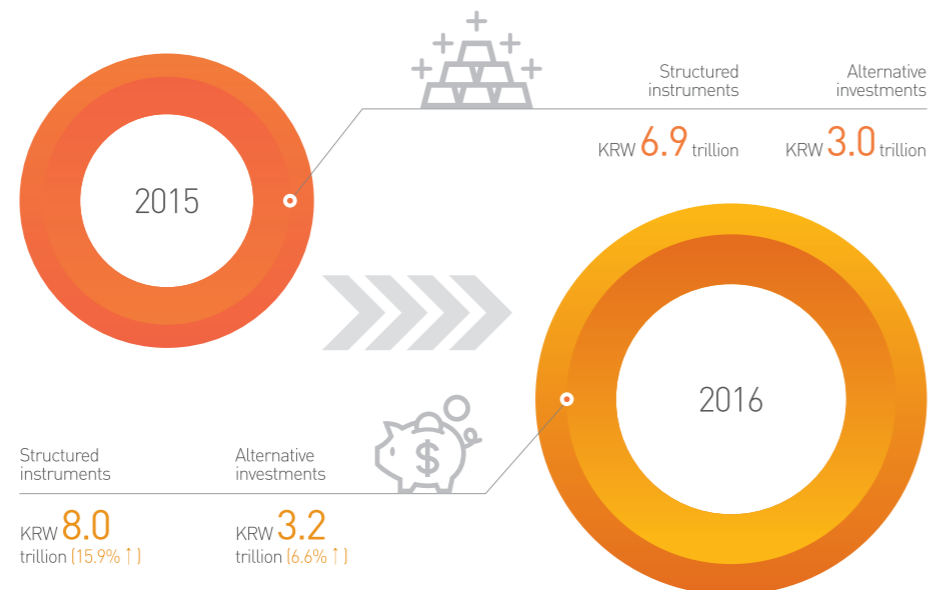


Investment diversification through greater alternative investments

We have steadily increased our exposure to alternative investment opportunities that can bring stable returns. In particular, we have increased the share of structured instruments with call options in order to earn stable returns.

We invested in investment-grade tranches²⁾ of CLO³⁾ and CMBS⁴⁾ and acquired equity stakes in real estate in the Eurozone including Paris, France and Poland.

▶ Structured Finance Investments



2) Tranches: a tranche is one of several issues of a security (structured financing) offered at the same time

3) CLO (Collateralized Loan Obligation): a security backed by a pool of debt of financial institutions

4) CMBS (Commercial Mortgage-Backed Securities): a type of mortgage-backed security secured by mortgages on commercial properties

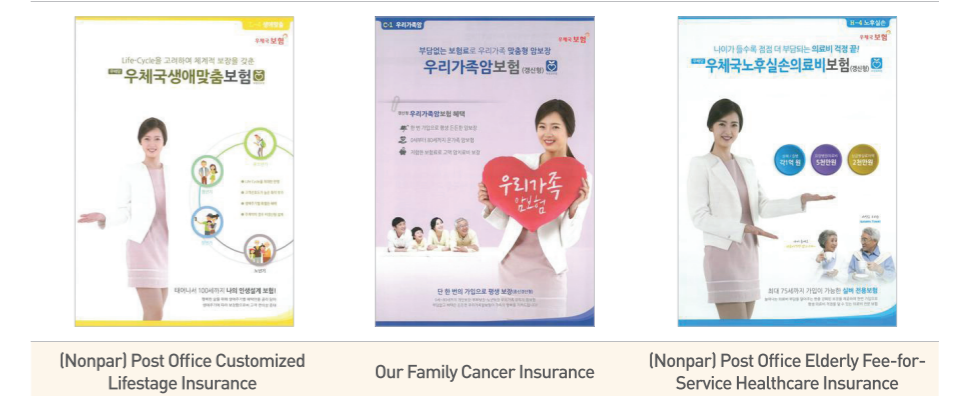
Insurance Service

Korea Post Insurance always stays one step ahead in responding to rapid changes in financial markets and understanding customers' needs.

New product launch and product renewals

We introduced new insurance products appropriate for the changing consumer needs and the insurance market environment, and for consumers with limited access to insurance service, which helped build the foundation for continued growth and fulfill our mandate as a government-run insurance service provider.

In particular, we introduced the Post Office Customized Lifestage Insurance product. It provides structured protection until the age of 100 with specific benefits for each stage of the policyholder's life. This product helped us enter a new market segment and enhance our product competitiveness. The newly introduced Our Family Cancer Insurance product was designed to better meet the diverse protection needs of a family. The individual type offers benefits if the policy holder is diagnosed with a second primary cancer and additional benefits to cover living costs. The couple type offers double protection for a married couple, and the silver type can be subscribed to by people with hypertension and diabetes. We also developed the Elderly Fee-for-Service Healthcare Insurance product that reimburses the elderly for medical expenses.

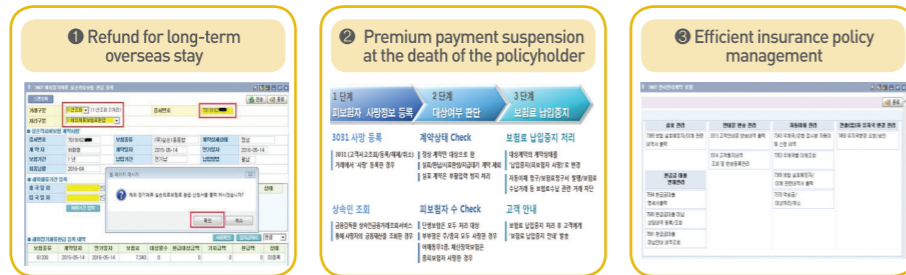


Consumer rights enhanced through new service

We introduced a refund process for insurance premiums for fee-for-service healthcare insurance products paid during a long-term overseas stay of over three consecutive months as part of efforts to enhance consumer rights. We also implemented a service under which premium payment is discontinued when the death of the insured person is confirmed.

We realize the increasing importance of maintaining existing policyholders amid the slowing growth of new contracts. Policy management became complicated by turnover or position changes, and we developed and implemented new guidelines to ensure more efficient and transparent management of existing insurance policies.

simple insurance service



Better customer experience through digital channels

We introduced 'simple insurance service' on September 30, 2016, making 11 activities including real-time premium payment and policy review available at our mobile banking site for non-mobile banking subscribers and staged major awareness campaigns. As a result, the average monthly use of the simple insurance service rose dramatically by 74.9%.

We began to use KakaoTalk, a free texting app, on November 21, 2016 as a channel to send notification mail on 11 products that need detailed information, which resulted in a huge reduction of KRW 322 million on SMS (Short Messaging Service) costs per year and a 4.5% decline in the number of inquiry calls at the call center.

Higher revenues from TCM and CM channels increase growth potential

In order to secure a stable revenue base and improve customer accessibility, we opened a new sales channel on December 1, 2010: TEC (Tele-Cyber Marketing). The center has 38 TMFC (Telemarketing Financial Consultants) who sell seven types of protection products (Cancer Insurance, Convalescence Insurance, Health Clinic Insurance, Major Disease Major Protection Insurance, Dream Tree Insurance, Safety Belt Insurance, and Dental Insurance). In 2016, the TCM channel sold 17,192 new contracts and recorded KRW 1.463 billion in initial premium payments.

Internet insurance (CM; Cyber Marketing) channel revenue more than tripled thanks to diverse changes made in August 2016 to improve customer accessibility and convenience. We entirely overhauled the web site, increased the number of products sold from four to eight (Postal Pension Insurance, Ever Rich Welfare Insurance, Ever Rich Accident Insurance, Post Office Safety Belt Insurance, Post Office Pension Savings Insurance, Post Office Funeral Insurance, Green Bonus Savings Insurance, and Power Savings Insurance), extended the operating hours for insurance subscription, and eased the eligibility requirements for subscription.

CRM system improved to acquire new customers

We have been using a CRM (Customer Relationship Management) system since October 2004 to carry out personalized marketing campaigns based on detailed customer analysis in collaboration with sales organizations to acquire new customers and encourage existing customers to stay with us. In 2016 we executed cross-selling campaigns to sell more products to the policyholders who hold only one policy with us, targeting customers in their 30s and 40s and fee-for-service healthcare insurance policyholders. We also carried out campaigns for the Post Office Customized Lifestage Insurance and Convalescence Insurance products. The number of policyholders rose by 110,000 to 5.61 million as of the end of 2016.

We have extended our gratitude to our customers by providing special benefits to 50,000 loyal customers commensurate with their loyalty grade since 2007, and we have strived to retain existing customers and acquire new customers for sustainable growth.

Financial consultant capability enhancement

We implemented various initiatives to reinforce the capabilities of our financial consultants in 2016. These included introducing golden rules to follow in sales activities, nurturing high-performing financial consultants (FCs) and MDRT⁵⁾ members, and evaluating and rewarding FC managers. We selected 599 top-performing FCs and 219 MDRT members and provided them with marketing materials and training. We continued to host presentations across the country to recruit FCs throughout the year and instituted golden rules for sales to further motivate FCs to carry out sales activities more effectively.

These efforts resulted in an increase in the share of FCs in total sales from 61.4% in 2013 to 70.6% in 2016.

FCs' share of sales



Post Office Master FCs Day



Principles and direction of insurance asset management

We manage insurance reserves composed of benefits to be paid for an event or an accident covered by insurance products sold at post offices nationwide and of refunds to be paid at maturity or cancellation of such products.

In order for us to prepare for claims that may arise at any time in the future, we put top priority on stability in our management of our reserve assets. We diversify our asset allocation appropriately for the given risk-return profile, and we faithfully fulfill our role as a government-run financial institution by helping to vitalize regional economies and financially supporting small and medium businesses.

Expertise and transparency in insurance asset management

To raise the expertise of our insurance asset management personnel, we institutionalized policy meetings of an advisory board consisting of experts in equities, fixed income, and alternative investments, and we have provided them with professional training administered by specialized external agencies including the Korea Financial Investment Association to encourage them to acquire related licenses and certificates. We have also upgraded our asset management guidelines and regulations to bring us on par with major pension fund management institutions and enhanced transparency in asset management by extending the disclosure cycle and scope.

5) MDRT: The Million Dollar Round Table is a trade association of high-performing financial consultants in life insurance.

Ongoing efforts to raise returns with stable bond investments

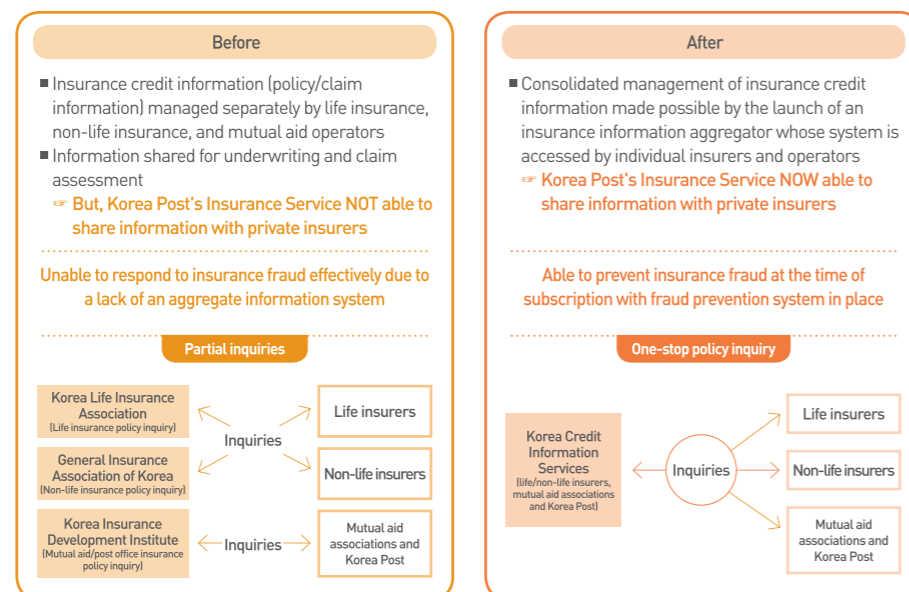
We have maintained the direction of stable asset management given the Fed's recent benchmark rate hike, weak domestic demand, and other domestic and global market uncertainties. Considering the high percentage of long-term debt, a common trait of insurance business, we continued to purchase 50-year treasury bonds and US 30-year treasury bonds to lengthen the asset duration. Against the backdrop of the prolonged low growth and low interest rates, we have worked strenuously to maximize returns by increasing our exposure to offshore and alternative assets. We also continue to invest in offshore debt, structured debt, and global ETF⁶⁾, and we improved investment returns by expanding alternative investment in domestic PEF⁷⁾, offshore PDF⁸⁾, real estate and commodities.

Advanced underwriting system

We implemented several initiatives to upgrade our underwriting system, which include the strengthening of special underwriting to use private insurer's credit information made available through consolidation of insurance credit information, deployment of the Smart Underwriting Support System, upgrading of the underwriting IT system, and introduction of over-the-phone eligibility evaluation. These initiatives have helped to prevent 'adverse selection' and to enhance our ability to counter insurance fraud, which in turn helped us grow our insurance business and solidify our financial soundness.

We also encouraged the use of our smart subscription service to streamline the subscription process and took measures to provide customer-centric subscription service such as real-time incorporation of regulatory changes in the subscription agreement, expanding the scope of coverage exceptions for certain diseases or body parts, and improvement of re-underwriting.

► Integration of insurance credit information with private insurers



Preventing reverse selection and enhancing fraud response capability to boost business operations

6) Exchange-traded Fund

7) Private Equity Fund

8) Private Debt Fund

Loss ratio improved through reliable claims payment

We made our claims payment system very reliable by expanding the number of claims payment centers from two pilot centers in Seoul and North Gyeongsang Province that opened in April 2016 to nine on December 26, 2016. We recruited and trained personnel for claims assessment to cope with claims volume that was rising at a compounded annual rate of 15%. We maximized the efficiency of claims assessment by assigning high-caliber personnel from the Postal Savings & Insurance Development Institute to large-sum claims of high complexity.

Insurance fraud prevention to protect consumer rights

To protect innocent customers from fraud, we conducted fraud investigations on the South Jeolla Province in the first half and on the Busan area in the second half of 2016 to prevent KRW 20.1 billion in losses due to insurance fraud. We also conducted joint investigations with other insurers, the Financial Supervisory Service, and other appropriate agencies and sent fraud cases involving KRW 7.36 billion to the prosecutor's office. These actions helped us build a stronger foundation for preventing and responding to fraud.

We enacted and enforced the 'Rules on insurance fraud reporting and reward payment' as a directive in September 2016 in order to establish an official insurance fraud reporting process, and we created a three-member data analytics team in December, 2016 that collects and analyzes data on insurance fraud and are using the derived insights strategically to prevent and cope with fraud.

[Key details of the rule on insurance fraud reporting and reward payment]

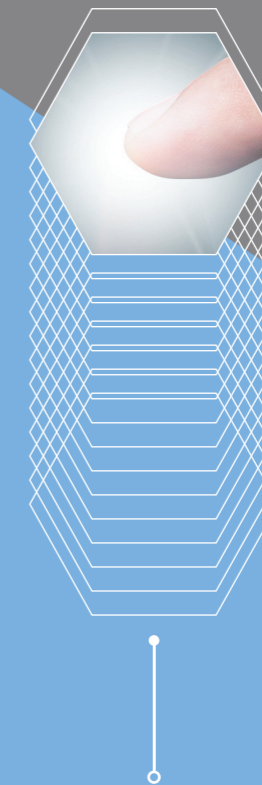
- [Reward recipient coverage expanded] Coverage is expanded to include post office tellers and financial consultants most likely to detect fraud
- [Identity protection enhanced] Rigorous protection measures are devised to prevent the exposure of the identity of the reporter
- [Progress notification required] Status on the reported cases is regularly reported
- [Closing of long outstanding cases] Cases of low likelihood to involve fraud are closed through committee deliberation

03

Major Achievements



We make a constant effort to innovate our service and improve our competitiveness.



Whenever you need us,
we at Korea Post will be there for you.

Performance-based Management System

Endless endeavors for change and innovation are the foundation for the outstanding accomplishments of Korea Post, which have continued for 130 years since its inception.

Performance evaluation of Korea Post

Our performance evaluation system is in line with the Act on Special Cases Concerning the Management of Postal Service, under which the yearly performance of Korea Post is evaluated against set business goals. The president's yearly performance, regarding the fulfillment of his employment contract, is also evaluated.

We submitted our performance report for 2016 to an evaluation panel appointed by the Minister of Science, ICT and Future Planning and received grade S. We implemented the evaluation panel's recommendations, thereby setting an example in creating a sound organizational culture as a government-run organization.

Performance evaluation of subordinate organizations

We began conducting a performance evaluation of postal organizations under our supervision in 1997 to encourage healthy, performance-based competition. This evaluation system was instrumental in establishing responsible management practices in field offices and building a foundation for sustainable growth.

In 2016, we raised the credibility of performance evaluation by maintaining consistency in the performance evaluation system and took actions to make field units focus on manageable core businesses. We modified performance indicators to put greater weights on revenue generation and cost reduction and created a performance-based reward system.

Vendor briefings on 2016 IT projects

In 2006, we began hosting IT vendor briefings to provide equal opportunities to vendors and ensure higher quality and transparency for IT projects.

In 2016, we successfully hosted 34 such briefings for projects worth KRW 174.1 billion for Postal Administration, Postal Service, Savings Service, and Insurance Service, bringing together 350 participants from 200 vendors.

We faced a challenge in digitizing our business due to the relocation of the Korea Post Information Center to Naju in March 2013 and the imposition of government restrictions on large corporations' participation in public sector IT project bidding, which resulted in greater participation by small and medium IT vendors. We overcame the challenge and successfully completed our digitization projects by allowing for sufficient time and by defining business requirements in great detail and precision.

▶ 2016 IT Projects (in millions of Korean won)

Classification	IT investments (estimated budgets)			
	Sub total	HW/SW	Maintenance	New developments
Administration	93,217	3,325	87,765	2,127
Postal Service	43,169	17,527	20,442	5,200
Savings Service	35,449	8,663	24,686	2,100
Insurance Service	2,300	1,100	-	1,200
Total	174,135	30,615	132,893	10,627

Organization and HR Management

We strove to realize efficiency and rationality in our organizational functions in order to improve the competitiveness of the postal service.

Organizational design for higher transparency and expertise

More transparent management

We created the Compliance Division directly under the president to meet the mounting internal and external demand for greater transparency and accountability in managing the growing volume of financial assets. The Compliance Division's role of supervising overall asset management raised employee awareness of the importance of ethics and strengthened internal control, which has helped prevent financial incidents and fraud.

Greater asset management expertise and new Insurance Review Division

We separated the Insurance Asset Management Division into the Securities Management Division and the Alternative Investment Division to improve expertise in these two very different asset management areas. The Securities Management Division manages short-term assets with focus on equity and bond investing, and the Alternative Investment Division handles hedge fund investment planning, project financing, venture capital investment, and real estate and commodity investment. We also created an insurance claims review and payment function in nine supervising post offices* to allow for centralized claims review and payment for entire regions.

* Gwanghwamun, Seo-Suwon, Seongnam, Bundang, Dong-Busan, Daejeon, Dong-Daegu, Jeonju, and Wonju

One more level 4 post office opened

We opened a level 4 supervising post office (Seoul Guro Post Office) in 2016 to meet the growing demand for easier and more convenient access to postal service for the residents in the Guro area.

Efficient human resource management

We recruited and deployed more full-time mail carriers in the Seoul Metropolitan Area for more efficient resource management. We specifically assigned 40 more mail carriers in the Gyeonggi-Incheon part of the Seoul Metropolitan Area, where the completion of new city development projects established more households and subsequently created more mail delivery volume.

To handle peak-time workload, which cannot be accommodated by overtime by regular workers, we introduced a new resource management scheme that allows us to hire part-time workers for only one to two days per week at daily wages that match wage levels in the private sector*. The purported 'non-government employee super-short term resource operation scheme' materially improved our human resource management.

* KRW 100,000 per day for parcel handling (pick-up/registration/transport to mail centers), and KRW 80,000 per day for other tasks

Improved Internal Customer Satisfaction

All of our employees at Korea Post vow to unite in providing the public with the finest services.

A sound labor-management partnership

We hosted labor-management workshops to discuss business issues and to reach a consensus on building a healthy labor-management culture, and we established a foundation for a stable labor-management partnership by providing more training opportunities to personnel responsible for labor-management relations.

We held two labor-management council meetings in 2016 to discuss ideas on improving the work environment, and carried out four community service programs that brought together labor and management while fulfilling our corporate social responsibility.



Welfare programs for employees and families

To meet the diverse demands and provide a greater choice of welfare benefits to our employees, we established a welfare mall offering a wide range of welfare benefits and options in partnership with private companies. The welfare mall opened in March 2016 and is an online shopping mall comprised of several smaller malls such as the point mall, the partnership mall, and the special mall. Together, they offer 129 benefits. A total of 6,659 employees have used the mall since its opening to take advantage of welfare benefits of their choice, including family retreats at hotels or resorts around the country and medical check-ups. This new, user-centric welfare system did much to improve employee satisfaction.



Honoring employees who died on duty and supporting bereaved families

To honor those employees who died in the line of duty, we erected monuments for the deceased in December 2005 and we have hosted a memorial event every year since 2006. We have supported the bereaved families of the deceased by providing consolation funds and scholarships to make our employees and their families feel proud of being a part of Korea Post.



► Support for bereaved families in 2016 (in persons, a thousand Korean won)

Classification	Consolation funds	Middle/high school merit scholarships	College entrance scholarships	Funerals organized by head-officer	Total
Beneficiaries	2	17	9	6	34
Amount	20,000	14,000	23,000	33,340	90,340

Uniform quality improvement

We modified our policy on employee uniforms in September 2016 in order to establish guidelines on design of uniforms appropriate for the changing work environment. This can help improve work efficiency. We conducted the first functional testing to reflect more rigorous functional requirements for uniforms, and we hosted a uniform exhibition to collect opinions on them from employees, which will help raise employee satisfaction and productivity.



CPR training



Expansion of Health and Safety Committee



Industrial disaster prevention

We raised employee awareness on health and safety issues and created a safety-first culture by implementing detailed action plans to promote occupational health and safety. We provided general group training and special training to health and safety personnel, thereby strengthening health and safety work systems and procedures.

We intend to give all employees CPR (cardiopulmonary resuscitation) training by 2017, and 75% of our employees have completed the training so far. To prevent safety accidents involving our employees, we required all offices including smaller offices with fewer than 100 employees to operate a health and safety committee. In addition, we carried out risk assessment for all supervising post offices and mail centers to identify risk factors in the post office work environment and to formulate plans to mitigate and manage those risks.

Business Digitization

By Business Digitization, Korea Post provides more convenient postal services.

Post Pay Launching Event (2016.3.3.)



Launch of the Post Pay app

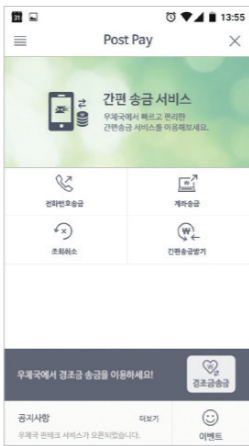
We unveiled the Post Pay app in March 2016 to provide our customers with a simple, easy to use fintech service. Post Pay combines fintech features with Korea Post's unique offline wire transfer service for sending congratulatory and condolence money. Post Pay enables our customers to send congratulatory and condolence money to their friends and acquaintances by simply keying in the mobile phone number of the recipient without the need to know the person's bank account or address.

The Post Pay mobile checkcard can be used with ease for money transfer without having to take the trouble of signing up for online banking or getting a digital certificate normally required for a financial transaction. Post Pay has the so-called 'Dutch pay' function, making it easy for the users to go Dutch for bill payment. Post Pay is also convenient for residents in rural and remote areas who have to travel long distances to the nearest branch of a financial institution.

With new fintech services proliferating in this age of the 'Pay War', we will continue to offer differentiated fintech services going forward to build on what we have with Post Pay. We, as a government-run financial service provider, will expand our service and coverage scope to give greater benefits to a greater number of people in Korea.



Congratulatory and condolence money transfer



Simple fund transfer



Check card service

Simple payment service expansion

We have established a stable customer base and revenue streams by offering a wide array of financial services based on the post office account. In particular, we expanded simple payment service by opening up our financial infrastructure to fintech startups in line with the government-led support for startups.

Joining hands with UBPAY, we launched charging service for prepaid expressway hi-pass cards without requiring cash or credit cards, having the payment automatically debited from the cardholder's bank account. We also participated in the 'Bank Wallet Service' platform jointly operated by the Korea Financial Telecommunications & Clearings Institute and 16 banks to allow our deposit customers to make payments easily, online and offline.

Partnerships in simple payment and remittance services

Classification	Toss	Paynow	Naver Pay	UBpay	Bank Wallet
Key features	Simple remittance	Simple payment/remittance	Simple payment/remittance	Simple payment	Simple payment/remittance

ePOST website renewal

We completely overhauled the ePOST website to reflect the changes in the postal logistics environment. Our new postal service system launched in July 2016, and the new shopping mall system launched in October. For user convenience, the new ePOST website does not require Active X. It offers customer-centric UI and can run on many different browsers. ePOST offers real-time funds transfer that has been expanded to all services and the simple payment service enabled by Syrup Pay, Kakao Pay, Paynow, and other payment platforms. As for the mobile channel, multiple apps are now consolidated into the Post Office app (postal service) and the Korea Post Shopping app, making them more accessible by the increasing number of mobile users.

Korea Post Shopping Mall (mall.epost.go.kr)



Customer Satisfaction

Throughout the 130-year history of Korea Post, it has been our most treasured promise to deliver services to the utmost satisfaction of our customers.

Postal deposit customer panel

We introduced a customer panel comprising our savings service users to better understand customers' needs and review our deposit products, service, and process from the customer's perspective. Five panel meetings were held in 2016 where 480 meaningful suggestions were presented, most of which were adopted to improve our service for customers. The panel meetings helped us explore ways to grow our savings business along with our customers.

Improved customer service for our financial services business

We changed the payment provision for our deposit products reserved for people with disabilities to improve convenience for disabled customers. The change made it possible for the payment at maturity to be made to an account under the name of the disabled customer or an account under the name of a family member including a parent if the disabled user does not have any account under his or her own name. Before the change, the payment could be made only to a designated guardian. As it becomes mandatory to obtain customer consent for sending advertising mail every two years, we took a leading role in protecting customer information and customer's financial information by sending out notification mail on the requirement of customer consent for receiving advertising mail and ensuring that our customers are properly informed of important financial information and rules. We launched the Post Office e-Point Installment Savings product, an online-only product, in December 2016 to gain greater competitiveness in digital channels and deploy mobile banking products from a strategic perspective.

Classification	Description
Qualification	An individual (one account per person under his/her real name)
Features	An online-only installment savings product that automatically deposits the points earned on the Post Office Checkcard into the account and offers de-facto tax exemption on the interest earned on the points

Postal service quality improvements at customer touchpoints

We, as a leading public service provider, have upheld customer satisfaction in managing our service, leveraging our experience and expertise to improve service quality at the customer touchpoints. By our strenuous efforts toward customer satisfaction-focused management, we have been able to raise our competitiveness and build a foundation for sustainable revenue growth. To improve our postal service quality, we performed a KPCSI (Korea Post Customer Satisfaction Index) survey every month and expanded the operation of a team of trained personnel from the Korea Post Customer Satisfaction Support Center to provide CS field consulting service where they assess the service levels at diverse customer touchpoints and take advantage of opportunities for improvements. Furthermore, we gave general group training and customized field training and upgraded the Happy Post service manual to better meet the requirements of different customer

touchpoints and to help employees handle customers more effectively. To make our customers feel more comfortable and welcome during their visits to our post offices, throughout the year, we regularly inspected our post office facilities including the counters and made legally required amenities for the disabled available at all our locations. We actively utilized the Voice of Customer system to identify and execute improvement opportunities and encouraged our employees to participate in service quality improvements by giving the Idea of the Year and Korea Post Creative Grand Prix awards to the presenters of the best ideas.

First Prize in Customer Satisfaction

Survey Title	Organizer	Business Area	2016	Remarks
KCSI (Korean Customer Satisfaction Index)	KMA	Postal service	First Prize	No. 1 for 18 consecutive years
NCSI (National Customer Satisfaction Index)	KPC	Door-to-door delivery	First Prize	No. 1 for 10 consecutive years

Customer-centric call center operation

The 'Visible ARS Service'

On October 24, 2016, we began offering 'visible' ARS (Automatic Response System) service at the call center. It uses smart IVR technology to display information on the caller's smart phone screen and to enable the caller to browse the displayed information by touching the screen. Making inquiries about postal service prices and restricted products used to be a lengthy process, but the new system has rendered it much quicker and easier. What is more, the contents browsed by the caller are automatically transmitted to the customer rep's screen, making it unnecessary for the customer to give the rep an explanation about the contents. Customers who want to track registered mail can simply click the QR code or bar code feature on the screen to activate the phone's camera to take a picture of the registered mail receipt. Customers can also access detailed mail tracking information.

'Premium Call' introduced at Korea Post finance call center

We improved the work process and customer service at our finance call center to enhance customer satisfaction. We earned public recognition for our call center operations by obtaining KS (Korea Standard) and KSQI (Korean Service Quality Index) certifications thanks to our efforts to provide better customer service, which include the creation of a remote technology support team to handle the rapidly rising volume of technical inquiries with the proliferation of digital banking and the publication of a work manual designed to improve competence of customers reps. We analyzed incoming calls and developed scripts and guidelines for customer reps to use for inquiry handling to provide customized service depending on the type of inquiry, and we introduced Premium Call service to shorten waiting time for premium customers.



Global Partnerships

Korea Post is expanding its stage of operations to the wider world towards the goal of serving a global customer base of 6 billion people.



Active international engagement and pursuit of collaboration

We sent a delegation to various international conferences for global postal regulators, postal service operators, and international organizations to strengthen international partnerships for better postal service and to discuss the roles of involved parties in diversifying postal service and offering universal service. We also attended the 26th Universal Postal Union (UPU) Congress held every four years, the UPU Council of Administration and the Postal Operations Council meetings, the Asia-Pacific Postal Union Executive Council meeting, the Kahala Posts Group board meetings, and the Korea-China-Japan High-level Postal Meeting to share ideas on improving postal service and to exchange information on best practices in new service development.

Exchange with Asia-Pacific postal organizations

Asia is emerging as a major e-commerce market, raising the significance of regional collaboration covering the Asia-Pacific region. We are actively pursuing collaboration with Asia-Pacific postal organizations. We sent delegations to the Asia-Pacific Postal Union Executive Council and the Asia-Pacific Post Cooperative Congress held in Malaysia to share ideas on service improvements and new service development, to discuss expanding e-commerce service, and to coordinate the positions of Asia-Pacific postal organizations for key agenda for the UPU Congress. Korea Post was re-elected to the APP Cooperative Management Board, laying the foundation for playing a leadership role in promoting postal business in the bloc. We also participated in the Business Meeting of the ASEAN Post++ representing 15 countries including 10 ASEAN members and Korea, China, Japan, India, and Hong Kong, which was held in Myanmar, November 2016, to discuss ways to vitalize e-commerce and to conduct bilateral discussions on new business development.

APPU Executive Council Meeting



The ASEAN Post++ Business Meeting



Feasibility study consulting final presentation - Uzbekistan Post



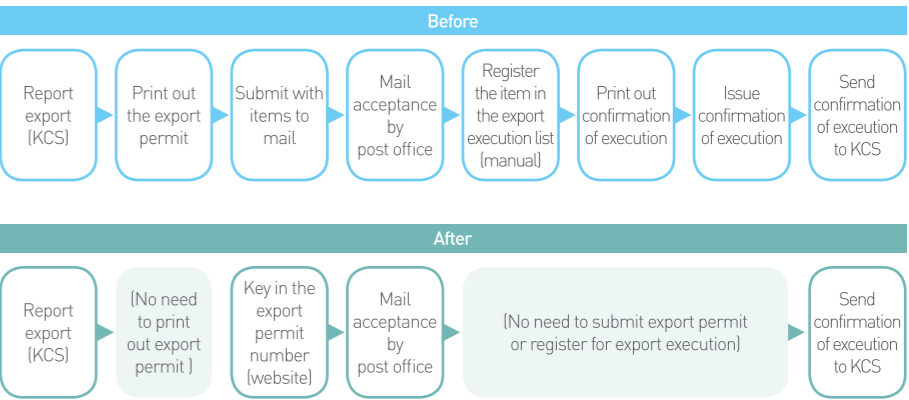
Efforts to boost international postal business

As part of our 'Korea Post 2025 Business Strategy', we formulated mid- and long-term action plans engendering initiatives to boost our international postal business. The actions include expanding the geographic scope of international mail delivery, amending policies related to mail consolidators, and providing greater convenience to customers, and they will help us make our international postal business more competitive in the global market.

Export support for e-commerce players

Sending out items for export by international mail is now easier for e-commerce players. We worked with the Korea Customs Service (KCS) to link our systems so that the export information inputted by e-commerce exporters into the KCS system will be automatically transferred to the Korea Post system, making it unnecessary for them to manually submit a copy of the export permit. We also formed partnerships with e-commerce platform providers to offer special discounts to their members and used the system linkage with KCS to help streamline the export procedures.

Export execution registration procedures



04

Sustainable Management



We actively pursue our corporate social responsibilities.



Whenever you need us,
we at Korea Post will be there for you.

Corporate Social Responsibility

We always strive to fulfill our social responsibility as a state-run corporation by putting into action the welfare services critically needed to improve the well-being of the underprivileged.

Increased social contribution

In 1995, we launched a scholarship program for children who provide for their families and we have continued to support people deprived of access to social welfare services including children, senior citizens, and people with disabilities, thereby fulfilling our social responsibility as a government-run corporation and reinforcing the social safety net.

We established the Korea Post Foundation in September 2013 to push ahead with our social contribution more systematically and efficiently. The foundation implemented various community outreach projects for people in need in 2016, providing KRW 67.5 billion in support to 1.01 million beneficiaries through 231 projects. Major projects include the Post Office Community Service Group, support for the underprivileged, support for pediatric cancer patients, free subscription to Post Office Youth Dream Insurance, and promotion of 10,000 won Happiness of Sharing Insurance products.

Community outreach programs in 2016

2016 Objectives	2016 Activities
Fostering public-private cooperation through post office resources and networks	<ul style="list-style-type: none">• Operation of Post Office Happiness Sharing Groups• Green eco-post• Support for underprivileged residents of local communities
Laying the foundation for fostering future generations with creativity	<ul style="list-style-type: none">• Post Office Youth Dream Insurance subscription• Mentoring for children/teenagers with disabled parents• Support for the settlement of young North Korean defectors
Creating medical welfare system	<ul style="list-style-type: none">• Nighttime care service for patients with no caregiver• Support for pediatric cancer patients through Hansarang House• Cancer Insurance subscription for disabled low-income people• Support for the National Wheelchair Basketball Championship

Social Contributions in 2016

(in cases, millions of Korean won, persons)

Classification	Projects	Budget	Spending	Beneficiaries	Participants
Total	10	5,860	5,769	95,012	36,330

Reinforcing the social safety net through Happiness Sharing Groups

Community service activities led by Happiness Sharing Groups

About 430 Happiness Sharing Groups, employee volunteer groups, are in operation at post offices across the nation. They are engaged in many different types of volunteer activities such as home improvement and delivery of food and daily supplies that are needed most by local communities. A total of 36,330 employees participated, bringing benefits worth about KRW 690 million to 71,239 people and contributing to the prevention of social problems and the reinforcement of the social safety net.

Community Service by Post office Happiness Sharing Groups



Warm Winter Post Office Happiness Sharing Week

We designated the first week of December as 'Warm Winter Post office Happiness Sharing Week' to consistently and effectively render community service at every year-end.

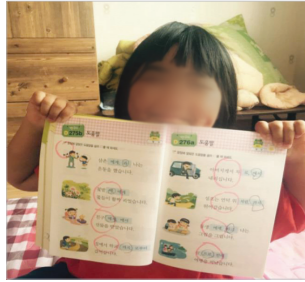
We installed 'Wish-list' mailboxes at 247 social welfare institutions across the nation to collect letters containing the items or conveying emotional support that low-income senior citizens wish to receive. We delivered on their wishes by providing the wishlisted items and support through our volunteer activities.

We distributed basic necessities such as warm clothing and electric blankets, health supplements, washing machines, and other supplies and rendered personalized welfare service such as trips to a hot spring or roof repair for 4,101 senior citizens with a budget of about KRW 370 million.

Warm Winter Post Office Happiness Sharing Week



Support for education



Hope Do-dream Concert



Support for the underprivileged

Mentoring for children and teenagers with disabled parents

To help children and teenagers with disabled parents overcome the psychological conflicts they often experience growing up, we selected 280 children and teenagers with disabled parents and matched them with 280 college student mentors who guide them on hygiene and health management including visits to community health centers once or twice per week and helping them with study and school life. We also helped establish a support network for the disabled families by creating a parent self-help group and promoting participation in cultural and community service activities.

Support for teenage defectors from North Korea

We helped teenagers who defected from North Korea to adapt to the new culture of South Korea and to maintain mental health so that they could become leaders of the future Korea and important customers of Korea Post.

We offered music tutoring for 227 teenage defectors to support their emotional development and hosted the 'Hope Do-dream Concert' where they demonstrated the music skills they had practiced for a year.

Supporting pediatric cancer patients and families through Hansarang House

We have operated the Hansarang House since 2000 to provide temporary shelter for pediatric cancer patients and their families while undergoing treatment at hospitals, and provided funding for direct and indirect medical expenses to help alleviate their economic and psychological burdens and to boost their spirit to regain health.

Direct medical expense support of up to KRW 5 million per person and indirect medical expense support of up to KRW 1 million per person were paid out to 45 recipients, and a total of 803 patients and family members stayed at the Hansarang House. Of them, 433 participated in art therapy sessions and 149 participated in a camp for pediatric cancer patients and families.

▶ Pediatric cancer patients and families camp



Night patient care



Free night care for patients with no caregiver

Since 2008, we have provided nighttime caregivers to patients with no caregiver or from low-income households so that they can get proper care during the night, when caregiving service is least likely to be available.

We recruited 45 middle-aged women from low-income households with appropriate qualifications such as caregiver certificates and one youth intern to provide this service. Thus, this program also helped create jobs for the underprivileged.

The 15th National Wheelchair Basketball Championship



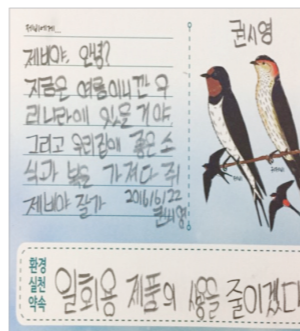
Education tool making



Environment education



Writing about environment



National Wheelchair Basketball Championship

We have hosted the National Wheelchair Basketball Championship since 2002 to imbue people with disabilities with hope and courage as well as to improve the general public perception of disabled people through sports.

The 15th Korea Post President's Cup National Wheelchair Basketball Championship was joined by a total of 444 participants including 29 wheelchair basketball team members and referees. The opening and the final games attracted an audience of 4,200 spectators.

Green eco-post

As part of our social cause projects to help combat climate change and protect our natural environment, we collected 610 scrapped banners weighing 213.8 kilograms through the post office network. We recycled the collected banners to make 4,480 units of environment education tools and used them in environmental education for 1,920 children from 64 elementary schools and children's charity centers, fulfilling our responsibility in environmental protection and promotion.

We commissioned social enterprises to recycle the collected banners and make education tools and eco-friendly products out of them, helping to create 117 jobs for the underprivileged and to give them opportunities to become self-supporting.

Allowing for financial stability through our public insurance products

Support of Post Office Youth Dream Insurance

The Post Office Youth Dream Insurance program launched in 1995. It was our very first social contribution program. It is a scholarship program that provides financial support to children and teenagers in need to help them become healthy, responsible members of society.

Since the program's inception, we have selected 149 children and teenagers who live in orphanages or foster homes and provided them with free Youth Dream Insurance that pays tuition and medical expenses. Two of the students admitted to science and IT departments received college entrance scholarships. We also hosted a 'hope camp' where about 100 of them participated and experienced various cultural and job-related events designed to help them build hope for the future.

Support of Post Office Cancer Insurance for low-income people with disabilities

We helped improve the quality of life of disabled people from low-income households by providing free Arms Around Each Other Insurance.

▶ Post Office Youth Dream Insurance Hope Camp



Financial Prudence

We secure the assets of our customers by employing transparent and advanced management methods.

Financial soundness for financial services business

Heightened financial soundness for deposit assets

We developed and implemented risk management and risk limit operation plans to manage the capital adequacy of our Postal Savings Service. We regularly monitor the adequacy of internal capital (maximum estimated loss) against available capital (real equity) and keep risks within limits, thereby improving the financial soundness of our Savings Service. In the interests of greater financial prudence for deposit assets, we set, manage, and monitor investment limits for high-risk investment products. Risk management issues are discussed and resolved through Risk Management Committee meetings, and risk management status reports are presented to the committee.

We share risk analysis with business units and monitor risks regularly as needed to support the investment decisions of the savings division.

Heightened financial soundness for insurance assets

Interest rates and economic growth have both remained low for an extraordinarily long period of time. In response, we regularly monitor and analyze different types of risks for our insurance business based on our risk management and risk limit management plans, and we have taken various measures to minimize the relentlessly increasing interest rate risk, ultimately to contribute to continued growth and to improve the resilience of the insurance division.

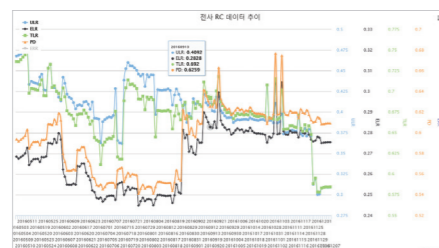
More stringent credit and market risk management

Risk management for Savings Service

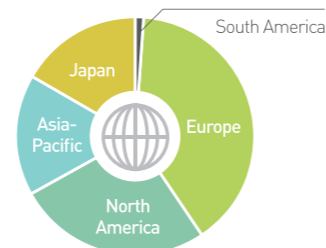
Market risk management

We analyze the risks of loss that may arise from potential changes in the value of assets and liabilities driven by market risk factors including interest rates, foreign exchange rates, and stock market movements. In 2016, we further strengthened our risk management by acquiring asset allocation details of the master-feeder funds we invested in and improving risk management systems. We also managed concentration risks by setting risk limits for each geographic region for our foreign assets.

► Minimizing risk exposure through measurement improvements



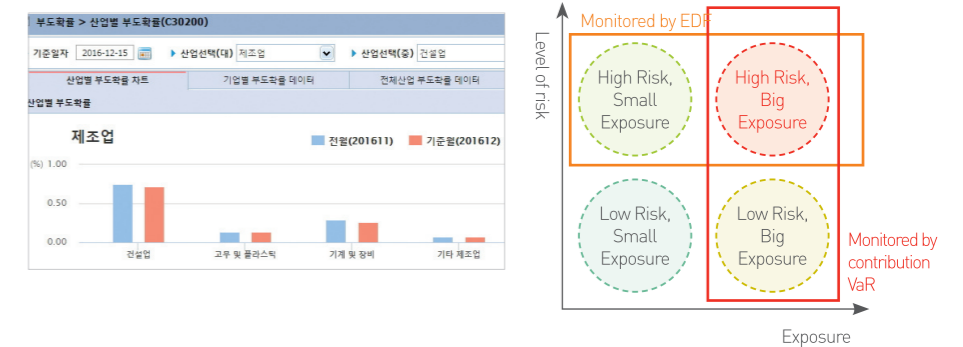
► Risk limits set by geographic region



Credit risk management

We produce a monthly report on our analysis of credit VaR, estimated default rates, and estimated loss to highlight the risks of loss that may arise in the event of a significant deterioration in financial conditions and a default by the counter-party. In 2016, we improved the management of credit concentration risk by managing risks by industry sector and by corporate group (each affiliated company). We upgraded our credit risk measurement system to improve the accuracy of our risk exposure calculation.

► Risk measurement and monitoring

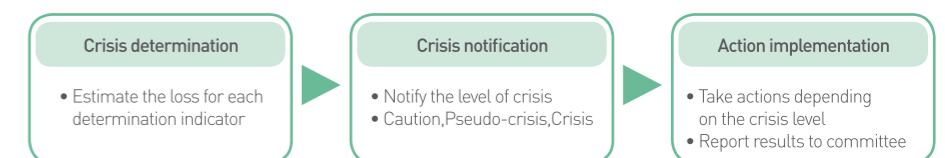


Interest risk management

We analyze, monitor, and report the risks of loss that may arise from changes in the value of assets and liabilities and subsequent changes in returns driven by unexpected interest rate changes. For assets whose maturities are not clearly determined, we use historical data in accordance with the Financial Supervisory Service regulations to calculate and apply appropriate maturities. We also continue to upgrade our risk management systems to maximize accuracy in the computation of value at risk and to reflect regulatory changes.

Crisis Management

We conduct quarterly crisis analysis using crisis scenarios to gauge our crisis readiness and monitor crisis determination indicators to thereby allow us to respond to emergent situations systematically. We also regularly review and update crisis scenarios to reflect market changes.



Risk management for Insurance Service

Market risk management

We analyze the risks of loss that may arise from changes in the value of assets and liabilities driven by market risk factors including interest rates, foreign exchange rates, and stock market movements. We measure investment positions and risks related to our equity, fixed income (short-term training), and derivative exposures each business day and produce a monthly report on VaR, investment limits, and loss limits. We also run scenario analyses on important events such as Federal Reserve rate decisions and election outcomes in advanced countries to closely monitor the changes in market risk that may be caused by a shock in the financial markets.

Credit risk management

We produce a monthly report on our analysis of credit VaR, estimated default rates, and estimated loss to highlight the risks of loss that may arise from a worsening financial condition and a default by the counter-party. Since 2016, we have monitored the movements of the credit ratings of general domestic companies by predictive modeling that classifies them into four credit rating groups including the watchlist group to preempt credit risk issues.

Alternative investment risk management

We strive to bolster the stability of our financial assets through thorough review of risks before deciding whether to invest in high-risk alternative investment products, and we manage risks rigorously after making investments. The asset management team drafts up investment plans, selects products, and then asks the risk team for a risk review. The investment proposal is sent to the investment committee, which makes the final investment decision after thorough deliberation. The invested assets are closely monitored and managed through regular reporting, verification of fair value by a third party, and post-investment due diligence. In 2016, to better manage risks post-investment, we analyzed the causes of non-performance of assets and addressed the causes through the calculation and report of KRI (key risk indicators) of alternative assets.

Managing financial soundness

Managing the BIS ratio

Since 2007, we have calculated and managed the BIS ratio of Savings Service, which is reported to the Financial Supervisory Commission every year, and we have disclosed our management information in accordance with soundness requirements.

We have adhered to Basel III for calculating the BIS ratio since December 2013. As of the 2016 year-end, Our Savings Service' BIS ratio (14.47%) was well above the Financial Supervisory Service's requirement (8%) and the requirement for the CAMELS first rating (10%).

We have strived to raise the BIS ratio and build up the capital conservation buffer (2.5%p) in compliance with gradually toughening capital requirements (8.625% for 2016).

We have seen a gradual increase in the BIS ratio each year thanks to ongoing monitoring of market price evaluation gains and of risk-weighted asset limits and will continue to make efforts to meet even the tougher new capital requirements.

► Capital ratio of Savings Service

Classification	2015	2016	Change
Common shareholders' equity ratio	13.01%	14.46%	1.45%p
Tier 1 capital ratio	13.01%	14.46%	1.45%p
Total capital ratio (CAR)	13.02%	14.47%	1.45%p

► BIS ratio of Savings Service

(in hundred millions of Korean won)

Classification	2015	2016	Change
Equity capital (A)	56,835	51,081	-5,754
Risk-weighted assets (B)	436,419	352,889	-85,530
BIS ratio (A/B)	13.02%	14.47%	+1.45%p

► BIS ratio comparison between local banks and Korea Post

Classification	2013	2014	2015 (a)	2016 (b)	Change (b-a)
Local banks	14.53%	14.00%	13.90%	14.92%	1.01%p
Korea Post	11.84%	12.96%	13.02%	14.47%	1.45%p

With the adoption of Pillar 2 for domestic banks in 2016, we conducted a review of the risk management for our savings business. We used the evaluation criteria for local banks and duly considered the unique nature of our savings business. The review showed that our overall risk management is good. Going forward we will incorporate the improvements opportunities identified during the review to further upgrade risk management quality for our savings business.

RBC ratio management for Insurance Service

We have been calculating our risk-based capital (RBC) ratio since 2009 and have disclosed the ratio along with other financial solvency indicators since 2014 as part of efforts to manage capital adequacy at the appropriate levels required of a government-run insurance service provider. In 2016, we formulated mid-and long-term plans to manage interest rate risk to cope with a potential fall in the RBC ratio and we hosted RBC discussion forums that brought together experts from the industry, academia and research communities to discuss ways to improve accuracy in risk measurement and the impact of and response to the tougher regulations on financial solvency. Thanks to this organization-wide risk management effort, our RBC ratio rose 18.0%p from the previous year.

► RBC ratio in 2016

(in millions of Korean won, %)

Classification	Capital available	Capital required	The RBC ratio
2016	42,006	30,079	239.7

* The risk-based capital ratio reflects 100% government guarantees.

Internal control for asset management strengthened

In February 2016, we established the Compliance Division headed up by an outside expert who was brought in to establish sound internal control framework for robust asset management befitting the size of our financial assets.

With the new Compliance Division, we put in place an internal control framework and standards for our financial asset management and created an organizational culture where compliance matters are given priority at all times and employees abide by compliance standards to prevent compliance breaches.

We provide training and counseling to asset management personnel to imbue them with a strong sense of ethics and help them fully comply with laws and regulations. We also have an internal control committee comprised of the heads of asset management divisions that actively works to ensure transparency in asset management.

[Compliance Division's main responsibilities]

- Maximize transparency in asset management
 - develop and modify internal control policies for Korea Post and for asset management divisions
 - develop and execute key action plans for internal control in asset management
 - review internal control in asset management (compliance) and draft a compliance report
 - host Internal Control Committee meetings for asset management
 - operate and manage telephone (screen) and voice-recording (video recording) systems
- Raise awareness on compliance
 - provide training, regular and ad-hoc, on asset management compliance and ethics
 - test asset management personnel for their understanding of internal control policies and activities
- Handle compliance tasks
 - manage Korea Post's compliance systems
 - publish and distribute asset management compliance manual
 - review key documentation including asset management contracts to support Corporate Counsel

► Asset Management Internal Control Committee

Number of members		Chairman and members		Activities
		Head of Compliance Division (Chairman)		
9	(Internal)	Savings Service - Directors of Risk Management	Insurance Service - Directors of Insurance Planning	Discussion and resolution of asset management issues
		Fund Management	Risk Management	
		Asset Management	Asset Management	
		Alternative Investment	Alternative Investment	

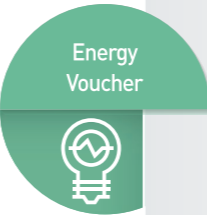
Public Benefits Enhancement

As a government-owned enterprise, we strive to provide happiness for everyone in Korea.

Role of a public organization

Supporting for the pro low-income earner policy

We issued and mailed the Energy Voucher Card to low-income families to help alleviate the burden of their heating costs. We added Childcare Voucher Service to our Post Office Citizen Happiness Card and distributed the cards to selected families with both parents working or disabled, or having more than three children.



Description

a service that alleviates the burden of heating cost in winter for low-income families (administered by Ministry of Trade, Industry and Energy)

Beneficiaries


households receiving national basic livelihood or medical benefits and having a member older than 65 (about 700,000 households)

Benefits

support a part of actual heating cost incurred (ranging from KRW 81,000 ~ 114,000 per household)

Payment

households use the voucher card to pay for heating energy such as electricity, kerosene, and LPG



Description

a service for selected families with children aged three months to 12 that sends a babysitter to their home to take care of the children (organized by Ministry of Gender Equality and Family)

Beneficiaries

low double-income families, disabled parents, or families with more than three children.

Benefits

benefit amounts determined based on income and other eligibility factors

- part time: KRW 1,625 ~ 4,875 per hour
- full time for infants: 390,000 ~ 910,000 per month



Services designed specifically for small producers, farmers, and fishermen

The year 2016 was the 30th anniversary of Korea Post Shopping, launched to protect small producers and to deliver safe food from local districts of Korea to urban consumers.

The Korea Post Shopping marketplace started with 11 products representing specific local districts with total sales of KRW 11 million in its first year in 1986. It has since grown into a full-blown marketplace dealing in a wide variety of products by small and medium businesses and traditional markets as well as 9,000 local district products. In 2016, it sold KRW 180 billion worth of products with cumulative sales of KRW 2.7 trillion for the past 30 years.

We opened an e-commerce Support Center in Daejeon in October 2016 to help small producers from local districts develop e-commerce capabilities for their entry into the fast-growing e-commerce market. The center offers a wide range of incubator services, from product planning consulting and product photographing to on-line marketing message development.

Public Policy Support

We have faithfully fulfilled our role to support the Government's policy such as Government 3.0 and to realize the creative economy.



Supporting and promoting the 'Creative Economy' initiative

We initiated 'Creative Economy' projects to create jobs and new added value to support the government-led 'Creative Economy' initiative, leveraging our ICT capabilities and creative energy. In support of the Creative Economy initiative, we created a task force and support plans based on which we identified 10 potential project opportunities and shortlisted the three projects with the greatest expected benefits. We have executed the three projects to introduce EMS e-parcel service for small and mid-size exporters, the Post Pay fintech app, and smart 'One-Stop' subscription service made possible by ICT technologies. We also utilized our post office network to promote the Creative Economy initiative and provide economic policy training focused on the Creative Economy initiative and economic innovation to raise awareness of the initiative.

Government 3.0 projects and Korea Post 3.0 projects

We took a leading role in carrying out Government 3.0 projects, designed to open and share public information (transparent government), to improve work efficiency through inter-governmental agency collaboration (competent government), and to offer customized public service (servicing government). We also identified and executed Korea Post 3.0 services that are in line with Government 3.0 such as telecom cost-saving consulting for the elderly, voice-phishing prevention consulting, and process improvement for issuing disability registration certificates, and they all meaningfully enhanced public welfare. We supported the government's drive to offer citizen-friendly services (servicing government) by providing financial service fee exemption to natural disaster victims, discounts for Post Office Fee-for-service Healthcare Insurance to statutory medical benefit recipients, and discounts for EMS to multi-cultural families and by introducing Post Office 10,000 won Happiness of Sharing Insurance. We also helped make the government 'competent government' by promoting the policies of 30 government agencies including the Office of Government Policy Coordination using the display at Seoul Central Post office, 313 PDP displays, and bulletin boards at post offices nationwide and by installing forest fire prevention campaign flags on 9,500 mail delivery bikes.

Public-private partnerships for Korea Post Shopping

We joined hands with government agencies and local governments to assist small and grass-roots producers in local districts in reaching out to consumers through our e-commerce platform: the Korea Post Shopping website. In 2016, Village Producers and Informatization Village of the Ministry of the Interior and Self-support Businesses of the Ministry of Health and Welfare made entries to our website. The Korea Post Shopping website deals in 4,200 products made by 620 producers.

► Partnership Status

Responsible Ministry	Producers	Tenants (2016)	Time of entry
Ministry of the Interior	Village Producers	20 producers/ 45 products	Aug. 2016
	Informatization Village	1 producer / 56 products * Informatization Village Association	Nov. 2016
Ministry of Health and Welfare	Self-support Businesses	4 producers / 36 products	Jul. 2016
	Voucher	9 producers / 205 products	Oct. 2015
Ministry of Trade, Industry and Energy	Grass-roots Producers	20 producers / 109 products	Jul. 2015
Local government	Nine including Chungnam Nongsarang	372 producers / 2,407 products	Aug. 2014
Ministry of Science, IT and Future Planning	Creative innovative products	9 producers / 52 products	Oct. 2016
Ministry of Agriculture, Food and Rural Affairs	aT Korea agro-Fisheries & Food Trade Corporation	28 producers/ 212 products	Aug. 2013
Others	Public home shopping channels	6 producers / 6 products * based on 2016 broadcasting schedule	May 2015

Postal Culture Promotion

It is our sincerest hope that cultivating diverse channels of communication and access to postal culture will bring us closer to the interest and affection of the public.

2016 Korea Stamp Exhibition

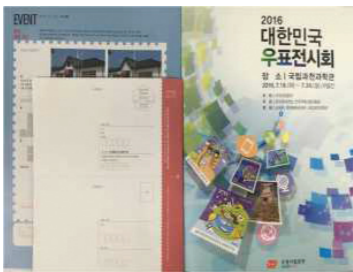
We hosted the 2016 Korea Stamp Exhibition at the Gwacheon National Science Center from July 19 through 24 under the theme of 'The story of stamps and science'. This exhibition marked its 57th anniversary in 2016 and is the largest and one of the oldest stamp exhibitions in Korea. It showcased 600 frames of works and featured many different education and cultural experience programs. The 2016 exhibition was held along with the 29th Korea Children's Stamp Exhibition that showcased the philatelic works of children aged thirteen and under, and the award ceremony and the winning works of the Stamp Design and Letter Competition. Visitors took a tour of the past and the future of stamps of Korea in the stamp pavilions and the stamp museum, enjoyed a unique opportunity to see a variety of rare stamps, and bought some stamps through auctions and stamp selling booths.

Visitor statistics

Classification	2011	2012	2013	2015	2016
Visitors	22,111	23,819	25,176	13,132	16,309
Visitor's satisfaction score	69.4	69.7	76.1	82.9	85.5
Venue	COEX (Seoul)	COEX (Seoul)	COEX (Seoul)	Daejeon Trade Center	Gwacheon National Science Center

※ PHILAKOREA 2014 World Stamp Exhibition was hosted in 2014.

Exhibition Posters



Digital Post (June/July)



Korea Letter Family (Vol. 63)

Stamp designer autograph event



Letter writing workshop



Stamp and currency auction



Letter writing lecture



Stamp collection workshop



Stamp-themed facepainting



'Slow-moving' letter writing

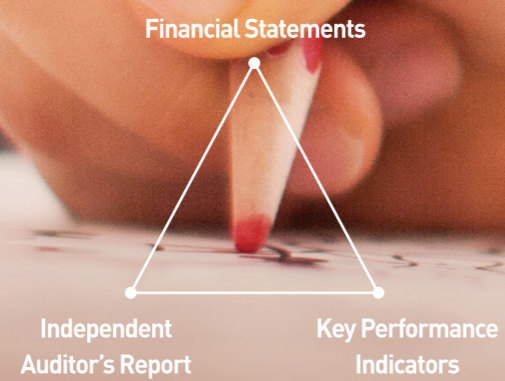


My unique name tag made with stamps

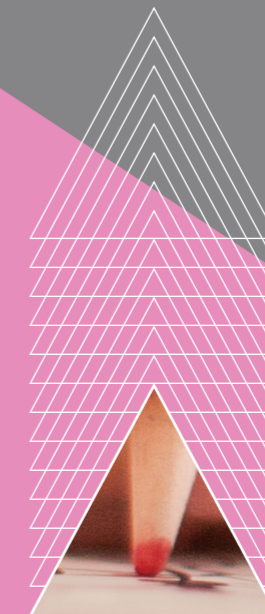


05

Financial Highlights



We think and act from the customer's point of view.



Whenever you need us,
we at Korea Post will be there for you.

Financial Statements

Special Account for Postal Service

► Statement of Financial Position (in millions of Korean Won, %)

Classification	2016 (A)	2015 (B)	Change	
			Amount (C=A-B)	Ratio (C/B)
Total Assets (a)	6,625,892	6,478,690	147,202	2.3
I . Current Assets	222,383	328,968	△106,585	△32.4
II . Investments	255,486	135,486	120,000	88.6
III . Tangible Assets	6,108,659	5,973,674	134,985	2.3
IV . Intangible Assets	695	1,022	△327	△32.0
V . Other non-current assets	38,670	39,540	△870	△2.2
Total Liabilities (b)	1,481,352	1,461,761	19,590	1.3
I . Current Liabilities	355,469	318,235	37,234	11.7
II . Long-term Debts	32,089	32,411	△322	△1.0
III . Long-term provisions	50,700	68,063	△17,363	△25.5
IV . Other non-current liabilities	1,043,094	1,043,052	42	0.0
Net Assets (a-b)	5,144,540	5,016,928	127,612	2.5

Assets rose by 147,202 million KRW from the previous year.

- Current Assets: Cash and cash equivalents declined by 112,739 million KRW, receivables increased by 6,896 million KRW, short-term loans rose by 10,700 million KRW and other current assets declined by 11,442 million KRW.
- Investments: long-term loans increased by 120,000 million KRW.
- Tangible Assets: Land rose by 554,453 million KRW, buildings fell by 398,977 million KRW, structures decreased by 6,476 million KRW, machinery dropped by 4,692 million KRW, furniture, fixtures and equipment fell by 7,577 million KRW, and general tangible assets under construction declined by 1,745 million KRW.
- Intangible Assets: Software declined by 327 million KRW.
- Other non-current assets: Other non-current assets declined by 870 million KRW.

Liabilities rose by 19,590 million KRW year after year.

- Current Liabilities: Current portion of long-term borrowings increased by 2,588 million KRW and other current liabilities increased by 34,646 million KRW.
- Long-term borrowings: Long-term borrowing fell by 322 million KRW.
- Long-term Long-term provisions: Severance pay provisions rose by 11,302 million KRW. Legal action provisions declined by 28,665 million KRW.
- Other non-current liabilities: Other non-current liabilities increased by 42 million KRW.

Net Assets rose by 127,612 million KRW from a year early.

► Statement of Financial Operations (in millions of Korean won, %)

Classification	2016 (A)	2015 (B)	Change	
			Amount (C=A-B)	Ratio (C/B)
I . Net program costs	233,815	211,913	21,902	10.3
II . Administrative and perating costs	402,218	429,541	△27,323	△6.4
III . Un-allocated cost	234,671	21,779	212,892	977.5
IV . Un-allocated revenues	78,031	42,253	35,778	84.7
V . Net operating costs (I + II + III - IV)	792,673	620,980	171,693	27.6
VI . Non-exchange revenue, etc.	600,470	591,316	9,154	1.5
VII . Results of financial operations (V - VI)	192,203	29,665	162,538	547.9

Net program costs of 21,902 million KRW were incurred.

- Total program costs of increased by 88,417 million KRW. This is due to increased labor costs.
- Total program revenues of 66,515 million KRW were increased by revenues from services rendered.

Administrative and operating costs decreased by 27,323 million KRW from 429,541 million KRW in 2015 to 402,218 million KRW in 2016.

Un-allocated costs increased by 212,892 million KRW from 21,779 million KRW in 2015 to 234,671 million KRW in 2016.

Un-allocated revenue rose by 35,778 million KRW from 42,253 million KRW in 2014 to 78,031 million KRW in 2016.

Net operating costs increased by 171,693 million KRW from 620,980 million KRW in 2015 to 792,673 million KRW in 2016.

Non-exchange revenue rose by 9,154 million KRW from 591,316 million KRW in 2015 to 600,470 million KRW in 2016.

The results of financial operations increased by 162,538 million KRW from 29,665 million KRW in 2015 to 192,203 million KRW in 2016.

► Statement of Changes in Net Assets (in millions of Korean won, %)

Classification	2016 (A)	2015 (B)	Change	
			I . Beginning net assets	Ratio (C/B)
I . Beginning net assets	5,016,928	4,801,887	215,041	4.5
II . Financial operation results	192,203	29,665	162,538	547.9
III . Adjustments	319,815	244,706	75,109	30.7
IV . Ending net assets (I + II + III)	5,144,540	5,016,928	127,612	2.5

Net assets rose by 127,612 million KRW from 5,016,928 million KRW in 2015 to 5,144,540 million KRW in 2016.

- Results of financial operations expanded by 162,538 million KRW from 29,665 million KRW in 2015 to 192,203 million KRW in 2016.
- Adjustments rose by 75,109 million KRW in revaluation gains of general tangible assets.

Special Account for Postal Savings

▶ Statement of Financial Position

(in millions of Korean won, %)

Classification	2016 (A)	2015 (B)	Change	
			Amount (C=A-B)	Ratio (C/B)
Total Assets (a)	69,472,609	65,605,578	3,867,031	5.9
I . Current assets	29,670,912	27,926,429	1,744,482	6.2
II . Investments	37,697,350	35,527,295	2,170,055	6.1
III . General tangible assets	1,046,909	1,090,471	△43,562	△4.0
IV . Intangible assets	5,833	9,536	△3,703	△38.8
V . Other non-current assets	1,051,606	1,051,847	△241	0.0
Total Liabilities (b)	64,303,645	60,679,987	3,623,658	6.0
I . Current liabilities	59,701,534	56,476,591	3,224,943	5.7
II . Long-term debt liabilities	4,602,111	4,203,396	398,715	9.5
III . Long-term provisions	-	-	-	-
Net Assets (a-b)	5,168,964	4,925,591	243,373	4.9

Assets increased by 3,867,031 million KRW from the previous year.

- Current assets: Cash and cash equivalents declined by 486,740 million KRW, short-term financial instruments increased by 2,325,048 million KRW, short-term securities rose by 258,464 million KRW, receivables decreased by 267,376 million KRW, short-term loans rose by 100,000 million KRW and other current assets declined by 184,914 million KRW.
- Investments: Long-term financial instruments decreased by 22,715 million KRW, long-term loans rose by 489,725 million KRW, long-term securities rose by 1,740,223 million KRW and other
- investments fell by 37,178 million KRW.
- General tangible assets: Land rose by 107,077 million KRW, buildings declined by 119,293 million KRW, structures dropped by 2,344 million KRW, and machinery slipped by 1,432 million KRW, furniture, fixtures, vehicles and transportation equipment decreased by 8,144 million KRW and general tangible assets under construction declined by 19,425 million KRW.
- Intangible assets: Software declined by 3,703 million KRW.
- Other non-current assets: Other miscellaneous non-current assets decreased by 241 million KRW.

Liabilities increased by 3,623,658 million KRW from the previous year.

- Current liabilities: Short-term borrowing rose by 3,241,098 million KRW, the current portion of long-term borrowing fell by 4,999 million KRW and other current liabilities fell by 11,155 million KRW.
- Long-term debt liabilities: long-term borrowing expanded by 398,715 million KRW.

Net assets climbed by 243,373 million KRW from the previous year.

- The results of financial operation recorded a shortage of 75,863 million KRW.
- Adjustments of 167,510 million KRW occurred. [Gains on valuation of securities of 158,146 million KRW, losses on valuation of derivatives of 622 million KRW, and losses on revaluation of general tangible assets of 9,986 million KRW]

▶ Statement of Financial Operations

(in millions of Korean won, %)

Classification	2016 (A)	2015 (B)	Change	
			Amount (C=A-B)	Ratio (C/B)
I . Net program costs	△539,132	△461,965	△77,167	△16.7
II . Administrative and operating costs	34	1,215	△1,181	△97.2
III . Un-allocated costs	137,226	71,459	65,767	92.0
IV . Un-allocated revenues	5,301	12,788	△7,487	△58.5
V . Net operating costs (I + II + III - IV)	△407,173	△402,079	△5,094	△1.3
VI . Non-exchange revenue, etc.	△331,310	△307,277	△24,033	△7.8
VII . Results of financial operations (V - VI)	△75,863	△94,802	18,939	20.0

Net program costs (sustainable management of postal savings service) of (-)539,132 million KRW were incurred.

- Total program costs of 1,865,723 million KRW were incurred.
- Program revenues of 2,404,855 million KRW were earned including revenues from the services rendered.

Administrative and operating costs dropped by 1,181 million KRW from 1,215 million KRW in 2015 to 34 million KRW in 2016.

Un-allocated costs grew by 65,767 million KRW from 71,459 million KRW in 2015 to 137,226 million KRW in 2016.

Un-allocated revenues decreased 7,487 million KRW from 12,788 million KRW in 2015 to 5,301 million KRW in 2016.

Net operating costs shrank by 5,094 million KRW from (-)402,079 million KRW in 2015 to (-)407,173 million KRW in 2016.

Non-exchange revenue dropped by 24,033 million KRW from (-)307,277 million KRW in 2015 to (-)331,310 million KRW in 2016.

Financial operating results expanded by 18,939 million KRW from (-)94,802 million KRW in 2015 to (-)75,863 million KRW in 2016.

▶ Statement of Changes in Net Assets

(in millions of Korean won, %)

Classification	2016 (A)	2015 (B)	Change	
			Amount (C=A-B)	Ratio (C/B)
I .Beginning net assets	4,925,591	4,782,486	143,106	3.0
II .Results of financial operations	△75,863	△94,802	18,939	20.0
III . Adjustments	167,510	48,303	119,207	246.8
IV . Ending net assets (I - II + III)	5,168,964	4,925,591	243,373	4.9

Net assets rose by 243,373 million KRW from 4,925,591 million KRW in 2015 to 5,168,964 million KRW in 2016.

- Results of financial operations climbed by 18,939 million KRW from (-)94,802 million KRW in 2015 to (-)75,863 million KRW in 2016.
- Adjustments of 119,207 million KRW occurred from gains or losses on valuation of securities, derivatives and general tangible assets.

Special Account for Postal Insurance Service

▶ Statement of Financial Position

(in millions of Korean won, %)

Classification	2016 (A)	2015 (B)	Change	
			Amount (C=A-B)	Ratio (C/B)
Total Assets (a)	51,174,383	49,379,185	1,795,198	3.64
I . Current assets	9,505,199	10,214,239	△709,040	△6.94
II . Investments	41,487,500	38,988,565	2,498,935	6.41
III . General tangible assets	181,684	176,381	5,303	3.01
Total Liabilities (b)	48,601,688	47,069,488	1,532,200	3.26
I . Current liabilities	965,920	547,716	418,204	76.35
II . Long-term debt liabilities	1,456	1,660	△204	△12.29
III . Long-term provisions	47,634,312	46,520,112	1,114,200	2.40
Net Assets (a-b)	2,572,695	2,309,697	262,998	11.39

Assets increased by 1,795,198 million KRW from the previous year.

- Current assets: Cash and cash equivalents rose by 303,083 million KRW, short-term financial instruments declined by 1,221,907 million KRW, short-term securities increased by 190,131 million KRW, receivables fell by 100,059 million KRW, short-term loans increased by 116,363 million KRW, and other current assets increased by 3,349 million KRW.
- Investments: Long-term investments increased by 2,498,935 million KRW.
- General tangible assets: Land rose by 14,873 million KRW, Buildings decreased by 8,646 million KRW, structures fell by 1,362 million KRW, machinery increased by 25 million KRW, furniture, fixtures, vehicles and transportation equipment rose by 476 million KRW, and general tangible assets under construction decreased by 63 million KRW.

Liabilities increased by 1,532,200 million KRW from the previous year.

- Current liabilities: Current portion of long-term borrowings rose by 119 million KRW and other current liabilities increased by 418,085 million KRW.
- Long-term borrowing: Long-term borrowing fell by 204 million KRW.
- Long-term provisions: Severance pay provisions rose by 29 million KRW, liabilities due to insurance benefits increased by 1,114,369 million KRW and other long-term provisions fell by 200 million KRW.

Net assets increased by 262,998 million KRW from the previous year.

- Financial operation results of (-)610,544 million KRW was incurred.
- Funds financed or transferred of (-)283,853 million KRW was incurred.
- Adjustments of (-)63,693 million KRW occurred. (gains on valuation of securities of (-)173,171 million KRW, gains on valuation of derivatives of 45,358 million KRW, and gains on valuation of general tangible assets of (-)17,960 million KRW, and other net assets of 82,080 million KRW)

▶ Statement of Financial Operations

(in millions of Korean won, %)

Classification	2016 (A)	2015 (B)	Change	
			Amount (C=A-B)	Ratio (C/B)
I . Net program costs	358,001	288,626	69,375	24.04
II . Administrative and operating costs	83	2,663	△2,580	△96.88
III . Un-allocated costs	7,728,627	7,642,717	85,910	1.12
IV . Un-allocated revenues	8,697,255	8,467,178	230,077	2.72
V . Net operating costs (I + II + III - IV)	△610,544	△533,172	△77,372	14.51
VI . Results of financial operations (V)	△610,544	△533,172	△77,372	14.51

Net program costs (postal insurance service enhancements) of 358,001 million KRW were incurred.

- Total program costs of 358,393 million KRW were incurred.

Administrative and operating costs decreased by 2,580 million KRW from 2,663 million KRW in 2015 to 83 million KRW in 2016.

Un-allocated costs climbed by 85,910 million KRW from 7,642,717 million KRW in 2015 to 7,728,627 million KRW in 2016.

Un-allocated revenues increased by 230,077 million KRW from 8,467,178 million KRW in 2015 to 8,697,255 million KRW in 2016.

Net operating costs decreased by 77,372 million KRW from (-)533,172 million KRW in 2015 to (-)610,544 million KRW in 2016.

Financial operating results decreased by 77,372 million KRW from (-)533,172 million KRW in 2015 to (-)610,544 million KRW in 2016.

▶ Statement of Changes in Net Assets

(in millions of Korean won, %)

Classification	2016 (A)	2015 (B)	Change	
			Amount (C=A-B)	Ratio (C/B)
I .Beginning net asset	2,309,697	2,023,407	286,290	14.51
II .Result of financial operations	△610,544	△533,172	△77,372	14.51
III .Funds financed or transferred	△283,853	△320,337	36,484	△11.39
IV .Adjustments	△63,393	73,455	△137,148	△186.71
V . Ending net assets (I - II + III + IV)	2,572,695	2,309,697	262,998	11.39

Net assets increased by 262,998 million KRW from 2,390,697 million KRW in 2015 to 2,572,695 million KRW in 2016.

- Financial operating results of (-)610,544 million KRW was recorded.
- Financial operating results decreased by 77,372 million KRW from (-)533,172 million KRW in 2015 to (-)610,544 million KRW in 2016.
- Funds financed or transferred increased by 36,484 million KRW from (-)320,337 million KRW in 2015 to (-)283,853 million KRW in 2016.
- Adjustments of (-)137,148 million KRW occurred from gains or losses on valuation of securities and derivatives, and revaluation of general tangible assets.

Independent Auditor’s Report



Special Account for Postal Savings

▶ Statement of Financial Position

(in Korean won)

Account	2016	2015
Assets		
I . Cash and due from banks	23,869,568,406,583	21,464,250,491,494
1. Cash	776,662,168,173	1,261,502,386,504
2. Due from banks	23,092,906,238,410	20,202,748,104,990
II . Financial assets designated at fair value through profit and loss analysis	395,603,740,000	546,603,990,000
III . Marketable securities	41,177,814,058,305	39,028,126,572,331
1. Securities held for trading	1,597,573,658,335	1,288,141,679,247
2. Available-for-sale securities	18,630,941,631,322	19,026,573,166,961
3. Held-to-maturity securities	20,949,298,768,648	18,713,411,726,123
IV . Loans	389,223,929,970	406,769,053,950
1. Overdraft for checks	394,790,558,561	412,475,372,380
Loan loss provision	△5,566,628,591	△5,706,318,430
V . Tangible Assets	1,046,908,924,825	1,090,470,875,115
VI . Other Assets	2,344,637,149,726	3,069,140,763,055
1. Guarantee deposits	8,553,578,533	8,766,883,547
2. Receivables	1,004,177,620	1,178,490,258
3. Accrued income	383,954,863,533	431,494,251,753
4. Prepaid expenses	78,420,439,807	63,309,740,082
5. Derivative assets	1,561,411,039	38,739,468,338
6. intangible assets	5,833,324,254	9,563,609,901
7. Domestic exchange settlement debits	677,848,619,902	877,273,940,382
8. Other miscellaneous assets	1,187,460,735,038	1,638,814,378,794
Total Assets	69,223,756,209,409	65,605,361,745,945

Account	2016	2015
Liabilities		
I . Depository liabilities	60,768,226,541,934	57,103,201,574,759
1. Deposits in KRW	60,739,552,026,949	57,073,153,739,899
(1) Demand deposit	1,271,617,063,399	1,188,133,539,367
(2) Deposit with time limit	59,467,934,963,550	55,885,020,200,532
2. Postal capital	28,674,514,985	30,047,834,860
II . Debt liabilities	1,219,531,120,000	1,247,422,680,000
1. Bonds sold under repurchase agreements	1,219,531,120,000	1,247,422,680,000
III . Other liabilities	2,126,058,036,898	2,387,824,822,441
1. Derivative liabilities	517,840,651,456	369,979,075,166
2. Agency	139,317,872,735	130,873,231,994
3. Domestic exchange settlement credits	545,595,592,949	444,689,384,539
4. Accounts for agency business	33,634,979,623	72,339,053,435
5. Other miscellaneous liabilities	889,668,940,135	1,369,944,077,307
Total liabilities	64,113,815,698,832	60,738,449,077,200
Net Assets		
I . Internal net assets	-	-
II . Reserves and retained earnings	2,370,061,365,412	2,294,870,213,855
1. Free reserves	2,037,049,602,967	1,964,837,905,353
2. Surplus from contributed facilities	57,230,843,805	57,176,477,105
3. Other retained earnings	121,818,191,330	121,818,191,330
4. Unappropriated retained earnings	153,962,727,310	151,037,640,067
III . Net asset adjustments	2,739,879,145,165	2,572,042,454,890
1. Revaluation gains on tangible assets	432,716,733,754	422,730,430,920
2. Profit and loss on valuation of available-for-sale securities	2,308,295,557,468	2,149,823,169,715
3. Profit and loss on valuation of derivatives	△1,133,146,057	△511,145,745
Total net assets	5,109,940,510,577	4,866,912,668,745
Total liabilities and net assets	69,223,756,209,409	65,605,361,745,945

► Profit and Loss Statement

(in Korean won)

Account	2016	2015
I . Operating Revenue	2,398,389,169,616	2,470,216,166,752
(1) Interest revenue	1,375,922,721,240	1,538,186,569,106
(2) Gains on valuation and disposition of financial assets designated at fair value through profit and loss analysis	12,166,010,760	12,158,750,000
(3) Gains on valuation and disposition of securities	160,564,286,034	250,712,445,827
(4) Gains on valuation and disposition of loans	139,689,839	235,239,126
(5) Gains on foreign exchange	414,296,021,099	527,605,931,335
(6) Commission income	86,165,144,156	84,401,027,681
(7) Stock dividends	16,740,000,000	16,740,000,000
(8) Other operating income	332,395,296,488	40,176,203,677
II . Operating Expenses	2,134,868,145,917	2,272,365,753,363
(1) interest expenses	866,722,105,862	1,105,838,277,749
(2) Losses on valuation and disposition of financial assets designated at fair value through profit and loss analysis	4,998,250,000	11,308,350,000
(3) Losses on valuation and disposition of securities	18,237,792,414	60,140,550,966
(4) Losses on foreign exchange	77,163,741,927	22,123,105,826
(5) Commission expenses	66,288,550,418	66,301,190,233
(6) Sales and administrative expenses	462,844,977,509	450,979,840,764
(7) Other operating expenses	638,612,727,787	555,674,437,825
III . Operating Income	263,521,023,699	197,850,413,389
IV . Non-operating Income	14,514,215,645	14,192,098,900
1. Rental income	11,897,054,507	5,527,027,237
2. Gains on disposition of tangible assets	206,754,739	1,373,192,422
3. Other non-operating income	2,410,406,399	7,291,879,241
V . Non-operating expenses	127,842,612,557	64,774,972,745
1. Losses on disposition of tangible assets	622,421,707	2,353,280,652
2. Other non-operating expenses	127,220,190,850	62,421,692,093
VIII. Net Income	150,192,626,787	147,267,539,544

Special Account for Postal Insurance

► Statement of Financial Position

(in Korean won)

Account	2016	2015
Assets		
I . Savings and amount due from banks	3,684,364,528,754	4,603,189,101,608
1. Savings	2,731,066,847,120	3,902,504,310,390
A. Savings (insurance revenue)	213,733,475,900	141,193,217,390
B. Time deposits	2,233,380,000,000	3,707,900,000,000
C. Other savings	283,953,371,220	53,411,093,000
MMDA	283,953,371,220	53,411,093,000
2. Money in trust	953,297,681,634	700,684,791,218
II . Securities	43,195,058,131,473	40,505,993,160,158
1. Securities held for trading	1,707,558,585,983	1,517,428,081,885
A. Beneficiary certificates	794,393,153,057	906,782,494,985
B. Foreign currency securities	635,987,627,000	403,476,616,900
C. Other securities	277,177,805,926	207,168,970,000
2. Available-for-sale securities	12,745,292,555,492	12,515,785,833,980
A. Stocks	14,808,281,600	15,007,555,200
B. Government and public bonds	273,263,000,120	138,358,724,070
C. Special purpose bonds	197,301,588,446	221,558,909,025
D. Corporate bonds	141,473,861,881	325,999,676,282
E. Beneficiary certificates	1,201,969,467,485	1,345,740,883,816
F. Foreign currency securities	5,318,384,259,228	4,995,428,184,351
G. Other securities	5,598,092,096,732	5,473,691,901,236
3. Held-to-maturity securities	28,742,206,989,998	26,472,779,244,293
A. Government and public bonds	8,311,507,081,017	6,771,891,840,552
B. Special purpose bonds	5,319,880,248,467	6,143,558,247,340
C. Corporate bonds	4,897,919,382,827	5,943,749,156,401
D. Foreign currency securities	9,492,900,277,687	6,463,580,000,000
E. Other securities	720,000,000,000	1,150,000,000,000

Account	2016	2015
III. Loans	2,854,456,795,214	2,738,093,542,175
Loan loss provision (-)	△7,808,427,126	△8,014,794,935
1. Policy loans	2,856,027,116,530	2,738,045,112,620
2. Credit loans	66,545,370	391,142,830
3. Guarantee insurance bonds for policy holders	-	401,363,220
4. Guarantee insurance bonds for staf	6,171,561,440	7,270,718,440
5. Loans secured by savings	-	-
6. Other loans	-	-
IV. Tangible assets	180,183,921,287	174,866,473,080
1. Land	101,967,629,307	87,095,035,220
A. Land	103,006,825,746	88,134,231,659
B. Reserves for public projects (land)	△1,039,196,439	△1,039,196,439
2. Buildings	60,187,269,005	68,819,143,918
A. Buildings	68,621,321,181	77,204,806,383
B. Cumulative depreciation	△7,972,851,530	△7,910,610,879
C. Reserves for public projects (buildings)	△461,200,646	△475,051,586
3. Structures	12,821,826,252	14,183,537,966
A. Structures	34,100,235,747	33,743,865,576
B. Cumulative depreciation	△21,278,409,495	△19,560,327,610
4. Machinery	518,021,052	492,758,224
A. Machinery	1,256,407,324	1,122,356,169
B. Cumulative depreciation	△738,386,272	△629,597,945
5. Equipment	4,687,354,487	4,210,511,555
A. Electronic communication equipment	2,711,231,732	2,664,924,421
B. Cumulative depreciation (electronic communication equipment)	△2,235,870,360	△2,144,598,390
C. Office equipment	1,677,757,321	1,243,084,385
D. Cumulative depreciation (office equipment)	△599,548,058	△491,301,319
E. Office equipment (financial lease)	4,052,294,790	3,149,794,790
F. Cumulative depreciation (office equipment_ financial lease)	△1,319,453,114	△666,024,384
G. Office furniture and fixtures	581,593,739	579,687,743
H. Cumulative depreciation (office furniture and fixtures)	△307,159,625	△281,974,741
I. Electronic equipment (financial lease)	167,056,040	167,056,040
J. Cumulative depreciation (electronic equipment_ financial lease)	△40,547,978	△10,136,990

Account	2016	2015
6. Vehicles and transportation equipment	1,821,184	2,488,197
A. Vehicles and transportation equipment	5,459,250	5,459,250
B. Cumulative depreciation (vehicles and transportation equipment)	△3,638,066	△2,971,053
7. Assets under construction	-	62,998,000
V. Other assets	1,258,819,398,040	1,355,528,637,294
1. Insurance receivables	44,290,283,498	215,397,745,800
2. Receivables	5,386,858,364	3,575,638,040
Loss provision (-)	△5,023,692,074	△3,243,093,330
3. Accrued income	696,605,222,893	625,586,736,955
Loss provision (-)	△696,569	△220,873
4. Prepaid expenses	90,208,015,188	73,124,941,589
5. Prepaid value added tax	-	-
6. Derivative assets	40,461,256,727	66,676,808,426
7. Unamortized acquisition expenses	386,892,150,013	374,410,080,687
Total Assets	51,172,882,774,768	49,377,670,914,315
[Assets]	51,172,882,774,768	49,377,670,914,315
Liabilities		
I . Policy Reserves	47,051,856,430,587	45,838,754,027,609
(Reserve adjustment account for reinsurance ceded)	△2,738,672,897	△99,194,351
1. Premium reserves	44,261,049,188,750	43,118,420,399,600
2. Required reserves	630,553,247,999	589,734,336,087
3. Unearned premium reserves	60,633,800	80,048,640
4. Policyholder dividend reserves	1,013,000,958,180	904,404,552,530
5. Long-term dividend reserves	708,878,532,366	809,447,844,253
6. Reserves for insurance losses	441,052,542,389	416,766,040,850
II . Policyholder Share Adjustment	574,042,507,222	672,775,501,214
1. Gains on valuation of available-for-sale securities	574,042,507,222	672,775,501,214

Account	2016	2015
III . Other Liabilities	1,000,384,696,348	582,133,509,534
1. Insurance claims payable	60,146,490,604	65,092,020,770
2. Other accounts payable	219,693,442,501	142,154,967,287
3. Advance received	-	-
4. Value added taxes withheld	87,357,125	86,526,788
5. Deferred premiums	32,662,559,180	31,269,857,440
6. Lease security deposits	38,347,376,820	37,304,369,020
7. Severance pay provision	93,293,601	63,866,998
8. Reserves for public projects	6,818,962,701	7,004,451,678
9. Derivative liabilities	642,535,213,816	299,157,449,553
[Liabilities]	48,626,283,634,157	47,093,663,038,357
[Equity]		
I . Capital Surplus	63,532,535,933	81,492,507,150
1. Revaluation Gains on Assets	63,532,535,933	81,492,507,150
A. Land	53,180,752,149	63,339,302,871
B. Buildings	9,992,739,381	17,706,102,061
C. Structures	359,044,403	447,102,218
II . Accumulated other comprehensive income	455,810,193,065	491,500,636,545
1. Gains on valuation of available-for-sale securities	482,467,137,349	563,516,016,475
2. Gains on valuation of derivatives	134,467,883	11,080,985,403
3. Losses on valuation of derivatives	△26,791,412,167	△83,096,365,333
III . Retained Earnings	2,027,256,411,613	1,711,014,732,263
1. Unappropriated Retained Earnings	2,027,256,411,613	1,711,014,732,263
A. Retained earnings carried over from the prior year	1,694,361,732,263	1,490,028,004,124
B. Net Income	332,894,679,350	220,986,728,139
[Equity]	2,546,599,140,611	2,284,007,875,958
[Liabilities and Equity]	51,172,882,774,768	49,377,670,914,315

► Profit and Loss Statement

[in Korean won]

Account	2016	2015
I . Insurance operating revenue	8,702,530,251,192	8,481,321,526,316
1. Premium revenue	5,621,308,818,120	5,953,825,766,296
A. New business premiums	93,179,591,610	680,888,244,050
B. Continuation premiums	5,528,129,226,510	5,272,937,522,246
2. Interest revenue	1,540,053,505,488	1,574,445,150,754
A. Interest on deposits	52,355,320,317	76,660,227,522
B. Interest on securities held for trading	27,247,291,166	55,431,761,459
C. Interest on available-for-sale securities	151,698,282,103	178,281,523,383
D. Interest on held-to-maturity securities	1,156,564,879,832	1,113,813,414,670
E. Interest on loans	152,080,580,620	150,128,004,500
F. Other interest revenues	107,151,450	130,219,220
3. Reinsurance revenue	8,490,233,677	1,083,028,979
4. Gains on valuation and disposition of securities	284,666,929,815	304,353,889,283
A. Gains on valuation of securities held for trading	18,852,747,053	21,614,245,226
B. Gains on disposition of securities held for trading	14,474,089,675	39,354,454,059
C. Gains on disposition of available-for-sale securities	241,894,673,535	239,101,823,786
D. Reversal of impairment losses on available-for-sale securities	9,401,930,570	4,216,827,503
E. Reversal of impairment losses on held-to-maturity securities	43,488,982	66,538,709
5. Gains on foreign exchange	719,053,076,075	416,884,069,589
A. Gains on foreign currency translation	653,961,746,154	351,116,295,139
B. Gains on foreign currency transactions	65,091,329,921	65,767,774,450
6. Gains on valuation and disposition of loans	59,172,035	6,360,163,098
A. Reversal of loss provision	59,172,035	6,360,163,098
7. Gains on money trust	20,706,957,246	33,189,715,844
8. Dividend income	137,934,915,030	93,871,758,060
9. Rental income	4,208,149,510	4,266,804,740
10. Commission income	2,694,428,840	2,064,661,910
11. Other operating revenue	363,354,065,356	90,976,517,763
A. Gains on derivative transactions	331,250,405,307	61,242,949,578
B. Gains on valuation of derivatives	32,103,660,049	29,733,568,185
C. Other operating revenue	-	-
II . Insurance Operating Expenses	8,367,450,835,500	8,262,162,033,133
1. Increased in policy reserves	1,213,102,402,978	1,172,911,449,948
2. Claims paid	5,326,409,289,710	5,654,239,457,580
A. Benefit paid	2,293,578,317,080	2,614,164,017,170
B. Refunds	2,951,564,412,530	2,956,947,997,290
C. Dividend expenses	81,266,560,100	83,127,443,120
3. Reinsurance expense	12,821,828,691	1,246,045,536
4. Management expenses	459,953,084,245	484,936,190,609
A. Acquisition expenses	256,613,533,859	212,039,581,664
B. Retention expenses	420,423,626,939	447,863,197,646
[Deferred acquisition expenses]	△217,084,076,553	△174,966,588,701

Key Performance Indicators

Account	2016	2015
5. Amortization of acquisition expenses	204,602,007,227	197,257,972,321
6. Investment administrative expenses	836,254,644	1,597,664,552
7. Losses on valuation and disposition of securities	18,655,405,062	75,123,399,288
A. Losses on valuation of securities held for trading	588,570,850	6,642,550,000
B. Losses on disposition of securities held for	-	4,238,569,957
C. Losses on disposition of available-for-sale securities	9,963,616,262	14,987,455,965
D. Impairment losses on available-for-sale securities	8,103,217,950	49,254,823,366
8. Losses on valuation and disposition of loans	578,764,906	-
A. Bad debt expenses	578,764,906	-
9. Losses on foreign exchange	332,685,285,517	93,155,627,880
A. Losses on foreign currency translation	270,013,610,343	4,560,000,000
B. Losses on foreign currency transactions	62,671,675,174	88,595,627,880
10. Depreciation expenses	4,232,528,405	4,019,951,035
11. Advance payment discounts	1,551,973,130	1,731,957,880
12. Transfer to reserves for public projects	1,002,697,523	1,010,263,736
13. Other insurance operating expenses	791,019,313,462	574,932,052,768
A. Losses on derivative transactions	159,652,485,920	342,606,592,257
B. Losses on valuation of derivatives	624,885,806,196	227,614,088,841
C. Bad debt expenses	475,696	-
D. Other operating expenses	6,480,545,650	4,711,371,670
III . Operating Income (Loss)	335,079,415,692	219,159,493,183
IV . Non-operating Income	2,316,363,549	1,860,771,617
1. Gains on disposition of tangible assets	172,000	-
2. Miscellaneous income	2,316,191,549	1,860,771,617
V . Non-operating Expenses	4,501,099,891	33,536,661
1. Losses on disposition of tangible assets	10,513,147	28,992,924
2. Losses on prior period error correction	1,276,855,191	-
3. Miscellaneous losses	3,213,731,553	4,543,737
VII. Net Income	332,894,679,350	220,986,728,139

Revenues and Expenses

► Revenues and Expenses (in hundred millions of Korean won)

Classification	Account	2010	2011	2012	2013	2014	2015	2016	YoY (%)
Revenues	Postal service	33,589	35,089	35,659	36,373	38,613	39,792	39,498	△0.7
	Savings	36,046	35,883	38,346	38,612	31,763	31,094	28,585	△8.1
	Insurance	6,151	7,079	7,823	7,979	7,779	8,220	9,087	10.5
Expenses	Postal service	32,768	35,021	35,271	35,671	37,021	37,876	38,709	2.3
	Savings	22,679	21,981	28,253	28,535	22,975	25,511	23,552	△6.4
	Insurance	5,978	6,986	7,754	7,897	6,429	6,808	6,950	5.9

► Revenues (in hundred millions of Korean won)

Classification	Account	Budget Item	Performance	
Revenue	Special account for Postal Service	Operating income	28,268	
		Government property ren	359	
		Profit and loss	Miscellaneous income	128
		Intra-governmental income and others	6,854	
		Balance carried from the previous year	1,723	
		Profit and loss balance	37,332	
		Capital	Balance carried from the previous year	193
		Income from government property sale	583	
		Intra-governmental income and others	1,390	
		Total capital	2,166	
	Subtotal of the special account for Postal Service		39,498	
	Special account for Savings Service	Financial services income	17,473	
		Profit and loss	Miscellaneous income	10
		Income from government property sale	1,939	
		Balance carried from the previous year	9,002	
		Profit and loss balance	28,424	
		Capital	Balance carried from the previous year	74
		Income from government property sale	-	
		Intra-governmental income and others	87	
		Total capital	161	
	Subtotal of the special account for Savings Service		28,585	
Special account for Insurance Service	Profit and loss	Add-on premium income	9,083	
		Miscellaneous income	4	
	Profit and loss balance		9,087	
	Subtotal of the special account for Insurance Service		9,087	
Total revenue		77,170		

► Expenses

(in hundred millions of Korean won)

Classification	Account	Budget Item	Performance
Expenses	Special account for Postal Service	Postal Service Closer to You	9,497
		Management support	5,584
		Administrative support	16,940
		Profit and loss	
		Inter-account transfers (out)	-
		Inter-account fund transactions	3,451
		Inter-account transactions	1,390
		Profit and loss balance	36,862
		Capital	
		Postal Service Closer to You	138
		Management support	1,407
		Inter-account transfers (out)	303
		Total capital	1,848
		Subtotal of the special account for Postal Service	38,709
	Special account for Savings Service	Sustainable management of postal saving	11,457
		Administrative support	1
		Profit and loss	
		Inter-account transfers (out)	4,160
		Inter-account fund transactions (out)	585
		Inter-account fund transactions	7,179
		Inter-account transactions	86
		Profit and loss balance	23,468
		Capital	
		Sustainable management of postal savings	84
		Total capital	84
		Subtotal of the special account for Savings Service	23,552
	Special account for Insurance Service	Insurance service enhancements	3,407
		Administrative support	1
		Profit and loss	
		Inter-account transfers (out)	3,285
		Inter-account fund transactions (out)	257
		Profit and loss balance	6,950
		Subtotal of the special account for Insurance Service	6,950
	Total expenses		69,211

Staff and facilities

► Staff (as of the end of 2016)

(number of persons)

Classification	Total (A+B)	Public officials					Non-public officials				
		Fixed-term post	Admin-istrative and technical posts	Postal service jobs	Specialized Officer	Subtotal (A)	Special post office staff	Private police guards	Assistant		Subtotal (B)
									Non-fixed term contractors	Fixed-term contractors	
Number of persons	41,948	1	9,513	20,653	9	30,176	3,832	29	7,075	836	11,772

► Postal facilities

(number of units)

Classification	2010	2011	2012	2013	2014	2015	2016
Post boxes	22,051	21,083	19,428	18,060	15,681	14,920	14,026
PO boxes	26,180	25,684	20,969	19,828	16,981	16,846	17,078
Automobiles	3,794	3,800	3,847	3,882	3,962	4,049	4,181
Motorcycles	14,110	14,186	14,228	14,226	14,493	14,395	14,588
Postal delivery vehicles	45,366	51,702	53,619	55,401	54,207	55,840	59,396
Trolleys	5,321	4,877	4,737	4,115	2,932	2,501	3,171
Franking machines	235	186	181	134	124	162	103
Franking machines for deferred payments	406	359	362	257	263	215	204
Automatic strapping machine	3,964	3,783	3,770	3,262	3,119	3,073	3,362

► Funds raised through savings and insurance services

(in hundred millions of Korean won)

Classification	2010	2011	2012	2013	2014	2015	2016
Savings	492,461	565,799	602,920	617,882	607,955	625,508	637,098
Insurance	298,030	339,790	393,340	436,560	453,362	466,022	482,722

한국의 문화

Korean Postage Stamp

2016

Feb. 4

50th Anniversary of KIST



Mar. 15

Endangered Wildlife



Mar. 24

Postage Stamp Design Contest
(Peace, Safety)

Apr. 21

Science in Korea [2nd]



Apr. 28

100th Anniversary of Won-Buddhism



May 2

2016 Rotary International
Seoul Convention

May 17

100th Anniversary of Sorokdo
National Hospital

Jun. 1

Heroes, National Independence Activists



Jun. 3

130 Years of Korea-France
Diplomatic Ties

Jun. 27

Modern Korean Figures
(Religious Leaders)

Jul. 19

Post Culture Week



Aug. 25

Beautiful Lighthouses



Aug. 12

Must-Visit Tourist Destinations for Koreans (2nd)



Sept. 1

100th Anniversary of the Birth of Lee Jung-Seop



Sept. 21

Golden Crowns of
Korea

Oct. 7

Korean Professional Baseball



Oct. 28

UNESCO World
Heritage (Baekje
historic Areas)

Nov. 10

The Seals of the Joseon Dynasty (2nd)



Nov. 22

Nature in DMZ (1st)



Dec. 1

New Year's Greetings

