

 **DGB FINANCIAL GROUP**





아름다운 동행

Growing Towards the Better Together

# One Plus



The four leaf clover represents the four values (ethics and corporate culture, sustainable finance, environmental management, and social contributions) that are covered in DGB Financial Group's sustainability report. This icon symbolizes DGB Financial Group's goal of creating a happier and healthier future through balanced growth in all four areas.



The blue bird expresses our Ethical Beliefs and Corporate Culture of reaching for our dreams. Our emphasis on achieving a proper work-life balance will help create a workplace that satisfies and rewards all our employees.



The seed represents the Sustainable Finance that will help us grow with the local community. DGB Financial Group is committed to contributing to the local economy by providing it with active financial support to create a better regional financial base.



The flower shows our full-hearted commitment to Social Contributions. DGB Financial Group promotes the development of local culture and the arts, education, and sports as a means of helping local residents lead a more fulfilling life.



The new bud signifies our emphasis on nature and Environmental Management. Caring for our planet will leave future generations with a cleaner and greener environment.





# About this Report

This report is the seventh sustainability report published by DGB Financial Group. This report covers our past performance record in fulfilling our economic, social, and environmental responsibilities and is to be used to enhance our stakeholders' understanding of DGB Financial Group's aims toward sustainability management. This report has been published every year since 2006.

※ The first four reports, from 2006 to 2009, were published by Daegu Bank.

## Reporting Period

The reporting period covered herein is from January 1, 2011 to December 31, 2011, but some data up through June 30, 2012 is included. The previous report was published in September of 2011, and the scope of reporting, the bounds of reporting, and the methods of data collection used in this report are the same as those of the previous year. The sections that have been changed or modified will be denoted.

## Scope of Reporting

The report covers the activities and performance of DGB Financial Group, Daegu Bank, DGB Capital, Kardnet, Daegu Credit Information, and the DGB Data System.

## Reporting Principles

The report adheres to the global guidelines on sustainability reporting that are announced each year. This report was written in compliance with the GRI G3.1 Guidelines, GRI Financial Service Sector Supplement, ISO 26000, and the UN Global Compact's 10 Principles.

※ The economic performance data was collected in accordance with the International Accounting Standards, and consistent data collection methods were applied to the social and environmental performance data during the reporting period.

## Verification

This report has been independently audited by the Korea Standard Association, an external third party, and has been reviewed in accordance with the 2008 AA1000AS Assurance Standard. The report is confirmed to be in accordance with an A+ Application Level of the GRI Guidelines.

## • Contact Information

The report is published in both Korean and English and is available for viewing on the official websites of DGB Financial Group and Daegu Bank. If you have any inquiries or suggestions, please contact us via the contact information below.

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Daegu Bank	<a href="http://www.dgb.co.kr">www.dgb.co.kr</a>
Daegu Credit Information	<a href="http://www.daegucredit.co.kr">www.daegucredit.co.kr</a>
Kardnet	<a href="http://www.kardnet.com">www.kardnet.com</a>
DGB Capital	<a href="http://www.dgbcapital.co.kr">www.dgbcapital.co.kr</a>
DGB Data System	<a href="http://www.dgbd.co.kr">www.dgbd.co.kr</a>





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# DGB Financial Group's Sustainability Management Performance Results

CSR Strategic Direction		2011 Key Tasks	2011 Goals	
<b>Responsible Management</b> Service, Passion & Honesty 	 <b>Sound Corporate Governance</b>	Percentage of outside directors	80.0%	
		Board of directors attendance rate	95.0%	
	 <b>Ethical Management</b>	Violations against anti-corruption or laws	0	
		Training hours in ethics and human rights	20/50	
	 <b>Employee Value Creation</b>	Average training expenditure per employee	KRW 1 million	
		Industrial Accident Rate (0%)	0%	
		Employee Satisfaction Rate (90%)	90.0%	
	 <b>Customer Value Creation</b>	VOC Handling	150cases	
		Customer Satisfaction Rate	95points	
		Civil Complaint Assessment Rating	Level 1	
	<b>Sustainable Finance</b> Sustainable Finance 	 <b>Sustainable Performance Creation</b>	Market share in the Daegu-Gyeongbuk region (in loans/in deposits)	30% in loans/35% in deposits
			BIS Capital Adequacy Ratio	14.5%
 <b>Fair Finance</b>		Support expenses for small-loan finance	KRW 750.0 billion	
		Socially responsible investment expenses	KRW 10 billion	
 <b>Green Finance</b>		Companies utilizing the Environmental Management Checklist	11,000companies	
		Sales of green financial products	KRW 500 billion in loans/ KRW 100 billion in deposits	
<b>Community Involvement &amp; Development</b> Love & Share 		 <b>Mutual Growth</b>	SME Loans Rate	63%
			Business consulting service performance	80 clients
	 <b>Social Contribution</b>	Percentage of social contributions out of net profit (%)	8.0%	
		No. of volunteers	22,000persons	
<b>Green Management</b> Green Initiative 	 <b>Response to Climate Change</b>	Amount of water consumption	115,000m <sup>3</sup> / branch	
		Amount of renewable energy consumption	30,000KW	
	 <b>Environment Performance Management</b>	Amount of GHG emissions (SCOPE 1+2)	85.0tCO <sub>2</sub> /branch	
		Amount of paper consumption	110.0ton	



2011 Performance	Progress	2012 Tasks/Goals
83.0%	103.8%	85.0%
98.4%	103.6%	100.0%
0	100%	0
Ethics 19/Human rights 52	94.7%/104%	22/55
KRW 1.1 million	110%	KRW 1.2 million
0%	100%	0%
89.0%	98.9%	90.0%
197cases	68.7%	150cases
92points	96.8%	97points
Level 1	100%	Level 1
29.4%/34.8%	98.0%/99.4%	29.8%/35.2%
14.18%	100.6%	14.20%
KRW 747.9 billion	99.7%	KRW 785.2 billion
9.62billion	96.2%	10billion
11,223companies	102.0%	11,922companies
444.1billion/85.3billion	88.8%/85.3%	550 billion/120 billion
62.4%	99.0%	63.0%
82clients	102.5%	65clients
7.8%	97.5%	8.0%
22,198persons	100.9%	22,500persons
119.266m <sup>2</sup> /branch	96.3%	115,000m <sup>2</sup> /branch
29,076KW	96.9%	30,000KW
83.5tCO <sub>2</sub> /branch	101.8%	80.0tCO <sub>2</sub> /branch
116.3ton	94.5%	110.0ton



Civil Complaint Assessment Rating



11,223companies → 11,922companies (2012 Goals)

Companies utilizing the Environmental Management Checklist



62.4% → 63.0% (2012 Goals)

SME Loans Rate



83.5tCO<sub>2</sub>/branch → 80.0tCO<sub>2</sub>/branch (2012 Goals)

Amount of GHG emissions (SCOPE 1+2)





## CEO Message



DGB Financial Group is ever striving to become the best comprehensive financial group by strengthening its stakeholder oriented win-win management style and sustainability management, which offer hope and convenient services to local communities and its customers and provide value and happiness to its shareholders and employees.



**Dear valued stakeholders,**

In May of 2011, DGB Financial Group ventured to become a regionally based comprehensive financial group. In order to turn itself into a ‘small, but strong and superior comprehensive financial group’ it had to overcome the limitations of being a local bank and establish a foothold for improved growth. To do so, DGB Financial Group has been accumulating resources from DGB Capital, KARDNET, Daegu Credit Information, and the DGB Data System. At the heart of all this is Daegu Bank, Korea’s first regional bank, with 45 years of history.

In the short span of one year after its establishment, DGB Financial Group has contributed to the vitalization of the local economy and small-loan financing. It has also focused its resources on establishing the foundations for the group’s synergy businesses. As a result, we have been maintaining a stable, steady growth and recorded a 1.09% return on assets (ROA), a 15.02% return on equity (ROE), a 1.38% nonperforming loan ratio (NPL Ratio), and total assets of 34 trillion won. Notably, as a result of accomplishing solid financial results and promoting sustainability management last year, we were listed in both the ‘2011 Dow Jones Sustainability Index - Asia Pacific (DJSI Asia Pacific),’ and the in a row. In addition, we were selected as the leading financial company for climate change information disclosure in the ‘2011 Carbon Information Disclosure Project (CDP Korea),’ for three consecutive years. Moreover, we were the first in the financial field to win the private sector grand prize in the ‘Korea Sustainability Management Grand Prize.’ These accomplishments have raised the prestige of our credible financial group, which faithfully strives towards our company’s high social responsibility.

On a foundation based on this continuous growth, DGB Financial Group will continue to grow alongside our diverse stakeholders, which include customers and stockholders, local communities, and employees. In order to become a superior financial group, we will faithfully strive to accomplish the following tasks.

**First,** to maximize our group’s synergy, we will strengthen our affiliated businesses with a focus on communication and solidarity. We will lay down even stronger roots in the region by demonstrating group synergy with teamwork between our subsidiaries. It will also be achieved through the accomplishment of balanced development by strengthening the capabilities of both our bank and our subsidiaries.

**Second,** we will establish a foundation for sustainable growth that is unshakable when faced with any type of environmental change. We will accomplish this by improving our management structure with constant development and innovation. We will strive in every single step towards the long-term future to achieve sustainable growth. This will be done by diversifying into non-banking sectors and accelerating outward advancement with the goal of creating a successful group, rather than a goal of futureless external expansion.

**Third,** we will strengthen our ‘warm-hearted finance’ by being a loving and reliable financial partner that promotes a win-win situation with the local area. For the development of the local community, we will strengthen social sharing and contribution activities and actively create ‘compassionate finance,’ such as diversifying small-loan financing in financial businesses. These actions will also increase our prominence as a regionally based comprehensive financial group.

**Fourth,** we will reemphasize the importance of ethical management and put it into practice. Ethical management focuses on the protection of financial customers by establishing itself on legal principles and socially accepted moral codes. We regard this as a cornerstone for the achievement of sustainability management. We will establish this as the company culture of DGB Financial Group.



The 2011/2012 Sustainability Report, published by DGB Financial Group, is created with international standards of social responsibility (ISO26000) and the GRI G3.1 Guidelines. It also reflects the opinions of various stakeholders, including shareholders, customers, local communities, partner companies, and employees. We strive to be transparent in disclosing our actions to fulfill the UN Global Compact’s 10 Principles.

This report focuses on Daegu Bank, the main affiliate of DGB Financial Group. It contains our initiative to fulfill our role and responsibilities to the economy, society, and environment. We are also determined to transparently disclose our visions, goals, major execution strategies, and activities for sustainability management, while faithfully implementing them.

We will continue to practice sustainability management that meets global standards while listening to the voices of our stakeholders. In our endeavor to become a world class regional bank that shares its dreams and prosperity with the local community, I humbly ask all of you, our stakeholders, for your continued, unwavering support and encouragement.

Thank you,

Chairman of the Board & CEO

**Ha, Chun-soo**

하준수



# 2011/2012 Highlights



## 1 Business Credit Rating 'AAA' (June 2011)

DGB Financial Group received the highest "AAA" rating for financial stability and a rating outlook of "stable" from the Korea Ratings Corporation and NICE Investors Service Corporation in its first corporate credit rating since its establishment. These ratings acknowledge DGB Financial Group's firm regional foothold and high credit standing, as well as its well-recognized and reliable profit-making abilities.



## 2 First Financial Institution to Establish a Social Contribution Foundation (September 2011)

DGB Financial Group launched the 'DGB Social Contribution Foundation' to fulfill the company's social responsibilities. Through this foundation, the company will concentrate its efforts in promoting 6 different areas, which include the establishment and support of social corporations, the DGB Financial Scholarship Foundation, social welfare, culture/arts/athletics, environment/global, and the DGB Volunteers Association.



## 3

### Listed on the DJSI (Dow Jones Sustainability Index), for the 3<sup>rd</sup> Consecutive Year (October 2011)

DGB Financial Group is the first regional financial group to be listed on a Dow Jones Sustainability Index and has been listed on the DJSI Korea for the 3rd consecutive year since 2009. It has also been listed on the DJSI Asia-Pacific for 2 consecutive years since 2010.



## 4

### First Korean Financial Institution to be Named "The Top Financial Company Tackling Climate Change" for the 3<sup>rd</sup> Consecutive Year (October 2011)

DGB Financial Group is the first and only Korean financial company to be selected as the leading company in climate change response in the financial sector by CDP Korea for the 3rd consecutive year since 2009.



## 5

### Selected as the '2011 Top Mutual Growth Company' (October 2011)

DGB Financial Group was recognized for its outstanding management performance and diverse programs for 'Together for Hope' with the local community of its regional base. It was selected as the '2011 Successful Case Company of Mutual Growth.'



6

**Awarded the Private Company Grand Prize at the '6th Sustainability Management Awards' (November 2011)**

DGB Financial Group was the first financial institution to be awarded the grand prize for a private company, the Ministry of Knowledge Economy Prize, at the Sustainability Management Awards sponsored by the Ministry of Knowledge Economy and KCCI.



7

**Daegu Bank, First Financial Institution to Acquire the 'Green Management System Certification' (November 2011)**

Daegu Bank became the first financial institution in Korea to acquire the 'Green Management System (GMS: KSI 7001/7002) Certification.' The Green Management System Certification is the Korean certification system that includes the Environmental Management System (ISO 14001), Energy Management System (ISO 5001), International Standards for GHG Emissions Inventories and Verification (ISO 14064), and the international standards on social responsibility (ISO 26000).



8

**Received the Microfinance Award at the '2011 Korea Finance Awards' (December 2011)**

Daegu Bank was recognized for its contribution to the vitalization of small-loan financing targeting small business owners and self-employed workers. It received the Microfinance Award at the Korea Finance Awards Ceremony held for the first time in 2011.



9

**Daegu Bank, the Only Top-rating Banking Institution in the Financial Company Civil Compliant Assessment Rating for the 6th Consecutive Year (April 2012)**

Daegu Bank was selected as the only top-rating banking institution for the 6th consecutive year in the 2011 Financial Company Civil Compliant Assessment Rating sponsored by the FSS. It has been awarded this rating since 2006.



10

**All DGB Financial Group Employees Joined the Carbon Point System (April 2012)**

About 2,200 DGB Financial Group employees joined the Carbon Point System and have been actively reducing GHG emissions by reducing energy consumption, such as electricity, water, and gas, in their homes as well as in the workplace.





# Sustainability Management Reporting System

## I . Environmental Analysis (Trend/Impact)

### Internal/Risk Management

- Protection of minor shareholders' rights
- Creation and division of economic performance
- Corporate credibility
- Increasing demand for transparency
- Anti-Corruption
- Anti-Discrimination
- Fair, appropriate consideration for the quality of working conditions (employee turnover rate)
- Increasing importance of employees' rights and roles
- Human resources development and on-the-job training (training hours and lifelong learning programs for employees)

### Internal/Value Creation

- Intensifying competition in the finance industry
- Divergence and conglomeration of finance
- Expansion of responsibility for goods and services
- Environmental influence on goods and services
- Expansion of socially responsible investments (SRI)
- Increasing youth unemployment and non-regular workers
- Decreasing birth rate and population
- Expansion of an aging society

### External/Value Creation

- Customer satisfaction activities and providing goods & services information
- Increasing number of customers concerned about health, environment, and society
- Increase of customer demands that are diverse and intensified
- Increasing need for business information gathering
- Consumer protection in advertisements and sales promotion (fair advertising)
- Customer data protection
- Safe financial transactions (personal information disclosure, etc.)

### External/Risk Management

- Increasing importance of partner companies' rights and roles
- Participation in economic development of the local community
- Contributions to local education and cultural development
- Generation of local wealth and income (utilization of local workforce and products)
- Investments and support for local development projects
- Promotion of socially responsible activities
- Efforts to improve local healthcare
- Increasing globalization and mutual relevance
- Efforts to mitigate climate change (reduction of energy consumption and utilization of renewable energy)

## II . Resources & Capabilities

- Providing and improving financial transaction processes and financial product services
- Improving relationships with core stakeholders, including the local community
- Forming active relationships for group development, customer protection, and suppliers
- Intangible assets related to corporate reputation and brand
- Tangible assets for operating activities (stores, ATMs, and online banking, etc.)
- Ability to comprehend and implement human rights, ethical values, and group strategy
- Social value awareness and activities
- Intellectual property, including patents for financial products, copyrights, computer systems, etc.

## III . Management Philosophy and Policy

- Philosophy - Sharing Dreams and Prosperity with the Local Community
- Policy - Trusted and Well-Loved Financial Partner
- Strategy – New Challenge! Creation of New Growth Engine
  - Challenge to Change! Response to Climate Change
  - Challenge Together! Reinforcement of Group Synergy



## CSR Strategic Direction ( I + II + III )



## Report Contents

- **Sound Corporate Governance** (p.22~23)
- **Ethical management** (p.32~34)
- **Employee value creation** (p.35~37)
- **Customer value creation** (p.38~39)

- **Small-loan finance** (p.42~44)
- **Fair finance** (p.45~49)
- **Green finance** (p.50~51)

- **Mutual growth** (p.54~57)
- **Social contribution** (p.58~61)
- **Social contribution programs** (p.62~65)

- **Response to climate change** (p.68~70)
- **Environmental performances management** (p.71~75)



# DGB Financial Group's Stakeholders

DGB Financial Group listens to different stakeholders through the stakeholder engagement process and has established various communication channels to strengthen our stakeholder-oriented sustainability management.

## Applicable Issue: Stakeholder Engagement

### Identification and Prioritization of Stakeholders

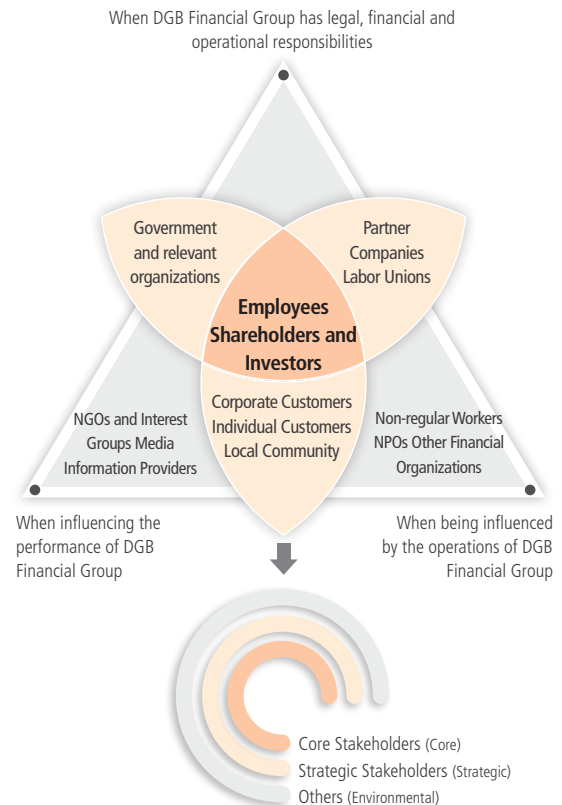
The DGB Financial Group has utilized standards suggested in ISO 26000 to identify stakeholders. We classified stakeholders into three different groups: stakeholders who influence the performance of the organization, stakeholders who are influenced by the performance of the organization, and stakeholders who have legal, financial, or operational obligations. We also prioritized them according to their level of economic, social and environmental influence on our organization and vice versa, and their level of future influence.

### Stakeholder Engagement

For stakeholder engagement, we gathered opinions by conducting interviews and surveys on experts who represent the stakeholder groups with the highest priorities.

**Interviews with Stakeholders** • DGB Financial Group has conducted in-depth interviews with the representatives of key stakeholders, including subsidiaries, labor unions, partner companies, NGOs, and corporate and individual customers, to identify their expectations concerning DGB Financial Group. In addition, we have held separate meeting sessions with our partners to solidify our initiative for win-win cooperation.

**Survey on Stakeholders** • We have conducted surveys on stakeholder groups about issues brought to our attention by an environmental analysis and the interviews with stakeholders. The results of the surveys were used to identify their interests and response to DGB Financial Group's sustainability issues.



### Communication Channels for Stakeholders







# Stakeholders' Interviews

DGB Financial Group conducted interviews on the subject of the company's sustainability management to gather the opinions of internal and external stakeholders.

DGB Financial Group conducted in-depth, face-to-face interviews to gather stakeholders' opinions.

We selected key stakeholder groups, including the labor unions, local NGOs, subsidiaries, partner companies, corporate customers, and individual customers, and recorded their opinions on DGB Financial Group's pending issues.

For DGB Financial Group's endeavors towards social responsibility, the following interviews are of our stakeholders' opinions on the most important issues.



"Daegu Bank, the main subsidiary of DGB Financial Group, has grown regionally. Since we earned our profits and enjoyed growth in the local community, it is important that we return our success to the local community in a way that actually impacts it. Also, it is important to fix the problem of youth unemployment by creating jobs. As our bank gets bigger and stronger, the number of jobs available will increase and youth employment can be resolved. The continuous growth of our bank is imperative."

**Kim Seong-ae**, Labor Union Vice-Chairman



"Daegu Bank has made many efforts in the environmental field, for example, the Dokdo preservation campaign, anti-desertification forests in Mongolia, and the STOP CO2 plan. We need to raise the level of actions to protect the environment through merit-giving products. This can be done by developing financial products like Green Installment Savings and by being involved in environment-related activities."

**An Gyeong-suk**, Director of a local NGO/  
Dr. An's Local Love Research Center

"Customers use Daegu Bank because their interest rates and customer service exceeds all expectations. We have to provide many more contributions and opportunities to be able to demonstrate the talent and capabilities of our local community. Also, Daegu Bank must make it known that it is interested in constructing the infrastructure and participating in the local community."

**Kim Jae-hwan**, Department Head at Daegu  
Credit Information, a subsidiary



"Overall, our society is aging and the population of senior citizens is increasing. The main customers of financial institutions used to be economic leaders in their 30's and 40's, but now we are seeing an increase of customers over 50. So, we need to actively respond to this aging trend. We must provide new value for our senior customers."

**Jung Hyeon-jin**,  
Team Manager at Kardnet, a subsidiary

"Though the appeal of deposits or financial products is important at Daegu Bank, it is more important to explain to customers how certain products can help them. The bank must take interest in actual and realistic social problems. It must practice certain business principles that make it a role model in the eyes of other companies. While banks hope that their customers make more money so that they can help the bank, customers hope for the opposite scenario. With the understanding of the different viewpoints, I hope that Daegu Bank will strive to help their customers live better lives."

**Kang Seok-eun**,  
Team Manager at Daekyung TMS Co. Ltd, a partner company



"I fully trust and use Daegu Bank for all my financial needs because I have used them for over 15 years. It's important for banks and companies to maintain good relations and be able to coexist with each other. Banks should reduce interest burdens on companies and help companies going through hard times. I think the most important thing in the end is to survive. Daegu Bank must stay strong and continue to exist so that the employees of Daegu Bank and the companies that use the bank can survive alongside the bank. It's crucial to create long-lasting conditions for the benefit of customers. In that way, we will all make it in the end."

**Kim Nak-hyeon**,  
CEO of DAEDONGMETALS Co. Ltd.

"Banks and customers need to be considerate of each other, not just in terms of monetary gain, but by paying attention. This will help Daegu Bank grow from a successful regional bank into a successful national bank and increase its recognizability. This is the foundation on which national and global companies are built upon. We have to study ways to respond to and create practical policies for the aging generation. Practical policies are what moves people."

**Cho Hee-chang**,  
Corporate Customer/Individual Customer Representative

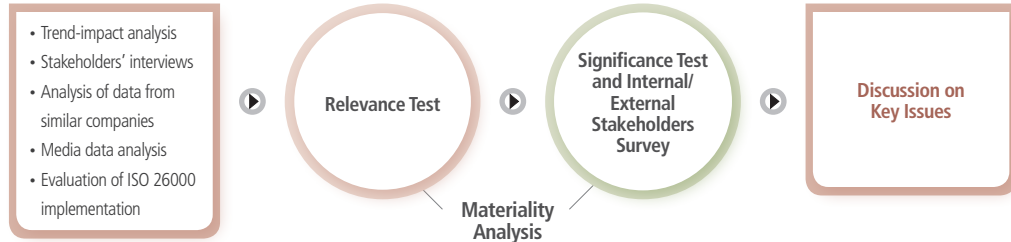




# Materiality Analysis Process and Results

In order to examine the material issues generated in 2012 and to identify new issues, DGB Financial Group selected some material issues in compliance with the procedures set forth in the GRI Guidelines and ISO 26000 and determined the contents of this report.

## Deduction Process for Material Issues



## Internal and External Environmental Analysis

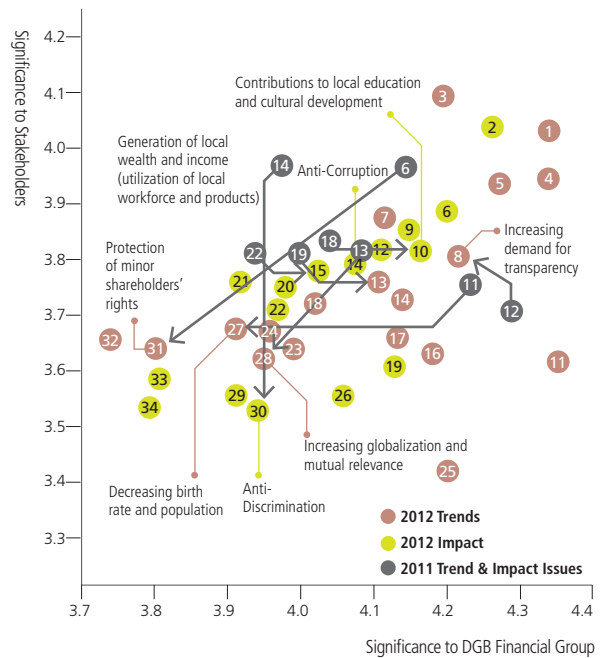
The internal and external environmental analyses were conducted with the help of stakeholders to search for sustainability issues that should be considered by DGB Financial Group's management when performing its operations and to help our group recognize its responsibilities to society.

**Media Analysis** ● Material issues have been gathered by analyzing 5,324 valid news articles published from 2008 through 2011 in order to analyze DGB Financial Group's sustainability management activities in the media.

**Analysis of Data from in the same line business** ● The reporting standards set by DGB Financial Group's sustainability management performance reports were comparatively analyzed against reporting standard indicators from 5 major financial companies in Korea. The reporting standard indicators that were relatively low according to analysis results were examined and supplemented to the appropriate standard.

**Evaluation of Sustainability Management Standards (2012)** ● Using sustainability management standard evaluation indicators from ISO 26000, implementation levels were examined and issues were drawn from weak areas.

DGB Financial Group's Material Issues



## Materiality Analysis

The materiality analysis was conducted in two stages: a relevance test and a significance test.

**Relevance Test (ISO 26000 7.3.2.1)** ● 40 trends and influential issues were selected after the issues drawn from the internal and external environmental analyses and interviews with stakeholders passed through a relevance screening.

**Significance Test (ISO 26000 7.3.2.2)** ● A significance test was conducted with a stakeholder survey, which narrowed the trends and influential issues derived from the relevance test down to 34 material issues.

Changing Material Issues	2011 → 2012
Increasing demand for transparency	12 → 8
Contributions to local education and cultural development	18 → 10
Anti-Corruption	19 → 13
Generation of local wealth and income (utilization of local workforce and products)	22 → 15
Decreasing birth rate and population	11 → 27
Increasing globalization and mutual relevance	13 → 28
Anti-Discrimination	14 → 30
Protection of minor shareholders' rights	6 → 31





# Material Issues

Through a materiality analysis conducted with the participation of our stakeholders, DGB Financial Group derived 40 issues related to trend and impact from a total of 103 sustainability issues and 34 were finally selected as issues for this report. The following are the ranking of the material issues and issues that are important to our stakeholders.

Rank	Material Issue	Area/ Field	Employees	Government and Relevant Organizations	Corporate Customers	Individual Customers	Local Community	2011 Ranking	Reporting page
1	Increase of customer demands that are diverse and intensified		1	14	1	4	4	2	38
2	Customer data protection		5	3	17	3	2	-	39
3	Financial transactions (personal information disclosure, etc.)		8	7	2	2	1	5	39
4	Corporate credibility		3	13	4	8		1	33
5	Expansion of responsibility for goods and services		4	5	3	5		3	42
6	Participation in economic development of the local community		9	4	9	13		-	56
7	Increasing number of customers concerned about health, environment, and society		13	8	7	6		7	38
8	Increasing demand for transparency		6		11	18		12	32
9	Customer satisfaction activities and providing goods & services information		12	20	5	10	8	-	38
10	Contributions to local education and cultural development		11	21	6	16		18	58
11	Intensifying competition in the finance industry		2					4	42
12	Promotion of socially responsible activities		17	2	8	9		-	61
13	Anti-Corruption		18	1	23	12		19	33
14	Expansion of an aging society		14		18		6	10	44
15	Generation of local wealth and income (utilization of local workforce and products)		20	6	10	17		22	54
16	Divergence and conglomeration of finance		10	11				8	43
17	Increasing need for business information gathering		15		16			-	38
18	Increasing youth unemployment and non-regular workers		21		27	14	5	9	57
19	Human resources development and on-the-job training (training hours and lifelong learning programs for employees)		16		26			-	37
20	Investments and support for local development projects		23		14	15		-	54
21	Consumer protection in advertisements and sales promotion (fair advertising)		28	12	21	7		-	39
22	Environmental influence on goods and services		24	19	25	11		-	50
23	Expansion of socially responsible investments (SRI)		22		13			15	45
24	Increasing importance of partner companies' rights and roles		25	15	12			-	57
25	Increasing importance of employees' rights and roles		7		19			-	37
26	Fair, appropriate consideration for the quality of working conditions (employee turnover rate)		19		22			-	36
27	Decreasing birth rate and population		30	9			3	11	44
28	Increasing globalization and mutual relevance		26	10	24			13	58
29	Creation and division of economic performance		29	16				16	27
30	Anti-Discrimination		27	17				14	34
31	Protection of minor shareholders' rights		36		15	20		6	23
32	Climate Change		37		18	1	7	-	68
33	Efforts to improve local healthcare		34		23			-	62
34	Efforts to mitigate climate change (reduction of energy consumption and utilization of renewable energy)		35		22		9	23	71

● Impact ● Trend Responsible Management Sustainable Finance Local Community Involvement and Development Green Management



# DGB Financial Group's Sustainability Management Implementation System

DGB Financial Group established and operates the Sustainability Committee chaired by the CEO to foster a global standard of sustainability management.

## DGB Financial Group's Sustainability Management Implementation System

DGB Financial Group established the Sustainability Committee to promote its sustainability management. It evaluates sustainability management activities and guides banks in practicing integrated and systemic sustainability management strategies. The Sustainability Committee-affiliated Sustainability Organization establishes detailed strategies for different

fields, which are then executed as concrete programs by four sub-groups. The Green Financial Division oversees sustainability management tasks, such as internal and external initiatives, establishment of foundations, and performance management.

### Sustainability Management Organization



### CSR Initiative

#### Responsibilities Towards Voluntary External Agreements



##### UN Global Compact

- DGB Financial Group CEO acted as the director of the UNGC Korea Network
- Submitted Communications On Progress



##### The CEO Water Mandate

##### CEO Water Mandate

- Reported the status of water resources management, such as recycling rainwater



##### UNEP Finance Initiative Innovative financing for sustainability

##### UNEP Financial Initiative

- Participated in regular meetings of the UNEP FI Korea Group
- Acted as a member of the Green Economy Initiative

##### CARBON DISCLOSURE PROJECT

##### Carbon Disclosure Project

- Participated in the CDP every year since 2007

#### Financial Initiatives



##### Listed on the global sustainability management indexes, DJSI (Dow Jones Sustainability Indexes)

- Listed on the DJSI Asia-Pacific for the 2nd consecutive year
- Listed on the DJSI Korea for the 3rd consecutive year
- Sold funds for DJSI Korea listed companies



##### Selected as the top company tackling climate change with the Carbon Disclosure Project (CDP Korea)

- Strengthened response activities to climate change through the CDP since 2009



##### FTSE4Good

##### Listed on Index for socially and ethically responsible companies (FTSE4Good Indexes)

- Listed on the FTSE4Good Korea Index for the 2nd consecutive year since 2011



# DGB Financial Group's ISO 26000 Performance Assessment

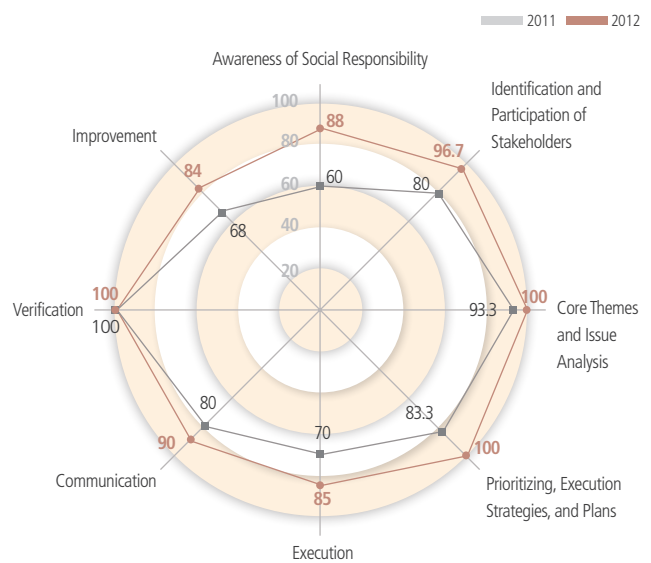
Every year, DGB Financial group conducts a performance assessment based on the social responsibility standards of ISO 26000 to foster a global standard of sustainability management.

## Integration of Social Responsibility Practices

DGB Financial Group conducted the ISO 26000 performance assessment in two parts: Part I: Integration of Social Responsibility Practices, Part II: Performance of Core Themes. As a result, DGB Financial Group scored 900 points out of 1,000 points.

The performance of processes, such as the identification and participation of stakeholders, including social responsibility awareness, showed general improvement compared to the previous year. The performance of social responsibility awareness was improved by a significant 28% in comparison to the previous year.

Performance of Processes (Unit: %)

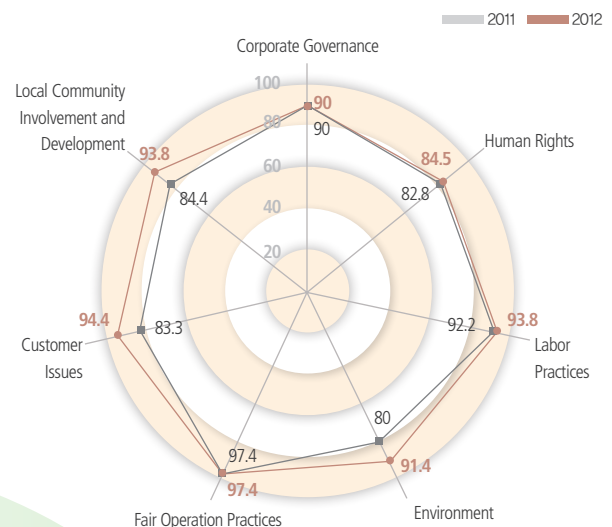


## Performance of Core Themes

The performance of core themes, such as customer issues, including local community involvement and development, showed overall improvement compared to the previous year. Out of 7 major core themes, performance related to human rights scored relatively low compared to the other themes.

In relations to human rights, our subcontractors have shown insufficient due diligence in performing investigative surveys on human rights violations (abusive languages, sexual harassment, prolonged working hours, etc.) in our company. A definition and a response system for human rights risk situations are needed and we strive to constantly improve on this area. While the financial industry tends to have lower environmental obligations than the manufacturing sectors, we will strive to 'adapt to and mitigate climate change' in line with our circumstances and continuously manage our performance in this area.

Performance of Core Themes (Unit: %)





# DGB Financial Group Profile



## History

May 17, 2011 - Established DGB Financial Group  
May 17, 2011 - Received the top AAA Business Credit Rating (Korea Rating Corporations, NICE)  
May 29, 2011 - Acquired the Environmental Management System (EMS: ISO 14001) Certification  
Sep 28, 2011 - Established the DGB Social Contribution Foundation  
Oct 6, 2011 - Selected as the top Sustainability Index Business in the banking sector for the third consecutive year at the 2011 Sustainability Conference  
Oct 12, 2011 - Listed on the DJSI Korea for three consecutive years from 2009 to 2011, listed on the DJSI ASIA-PACIFIC for two consecutive years from 2010 to 2011  
Oct 26, 2011 - Selected as the leading Climate Change Response Company in the financial sector for the third consecutive year since 2009 by the CDP Korea  
Sep 11, 2011 - Awarded the Private Company Grand Prize at the 6th Sustainability Management Awards (sponsored by the Ministry of Knowledge Economy and KCCI)  
Sept 16, 2011 - Became the first financial institution to acquire the Green Management System (GMS: KSI 7001/7002) Certification  
Dec 06, 2011 - Received the Microfinance Award at the 2011 Korea Finance Awards

2011~

May 08, 2000 - Launched online banking services  
Aug 15, 2001 - Opened the Dokdo cyber branch  
Jul 18, 2006 - Joined the UN Global Compact  
Sep 27, 2006 - Joined the UNEP/FI and declared commitment to sustainability management  
May 11, 2007 - Published first sustainability report  
Oct 01, 2007 - Constructed the Open Plaza, opened the DGB Gallery and DGB Finance Museum  
Dec 21, 2007 - Received the Sustainability Management Presidential Award at the 2nd Sustainability Management Awards (sponsored by MOCTE and KCCI)  
Jun 18, 2008 - Opened the Shanghai representative office  
Feb 05, 2009 - Awarded the grade prize in the business category at the 1st Manifesto Promise Awards (sponsored by the Korea Manifesto Movement)  
Mar 05, 2009 - Awarded the grand prize in the environmental management category at the 7th Korea Ethical Management Awards (sponsored by the New Industry Management Agency)  
Jun 16, 2009 - Created a DGB Anti-Desertification Forest in Mongolia  
Sep 23, 2009 - Awarded the grand prize at the 10th Audit Awards (sponsored by the FSS and the Korea Listed Companies Association)  
Oct 20, 2009 - Listed on the Dow Jones Sustainability Index Korea (DJSI KOREA) (sponsored by the DJSI, SAM, and Korea Productivity Center)  
Oct 26, 2009 - Awarded the top prize in the service/finance/retail category at the 2009 LOHAS Management Awards (sponsored by the Green Fund)  
Nov 04, 2009 - Received the Innovation Management Award at the 4th Sustainability Management Awards (sponsored by the Ministry of Knowledge Economy and the KCCI)  
Nov 12, 2009 - Received the FSS Presidential Award in the organizations category at the 4th Economic & Financial Education Awards (sponsored by the FSS, Credit Counseling and Recovery Service and the Kyunghyang Daily Newspaper)  
Dec 08, 2009 - Awarded the Premier Prize at the 2009 Daegu Volunteer Awards (sponsored by Daegu City)

2000~



1967~

Oct 07, 1967 - Established as Korea's first regional bank



## 2012~

- Jan 10, 2012 - Acquired DGB Capital
- Mar 22, 2012 - Established the Bluebird Dream Center for Children (DGB Child Welfare Agency)
- Apr 01, 2012 - Listed on the FTSE4Good for the second consecutive year
- Apr 09, 2012 - Established the DGB Data System
- Apr 11, 2012 - Selected as the only top-rating banking institution for the sixth consecutive year at the 2011 Financial Company Civil Compliant Assessment Rating (sponsored by the FSS)
- Apr 30, 2012 - Selected as the top Socially Responsible Company at the 2012 Society Business Conference (sponsored by the Ministry of Knowledge Economy, Ministry of Environment, Ministry of Employment and Labor, and the Chosun Ilbo)
- Jun 06, 2012 - CEO Ha Chun-soo received the 44th Korean Management Award
- Jun 09, 2012 - Created the 4th Anti-Desertification Forest in Mongolia

## 2010~

- Jan 22, 2010 - Received the Customer Satisfaction Award in the finance/banking category for the third consecutive year (sponsored by the Korea Institute for Sustainability Management and Korea Economic Daily)
- May 04, 2010 - Opened Korea's first web-based green store, DGB Cyber Green Branch
- Jun 17, 2010 - Signed an MOU with Mongolia's Golomt Bank for global social contributions and foreign exchange business
- Oct 13, 2010 - Received the Innovation Management Award for the second consecutive year at the 5th Sustainability Management Awards (sponsored by the Ministry of Knowledge Economy)
- Nov 16, 2010 - Awarded the Premier Prize at the 2010 Korea Sustainability Awards (sponsored by the Korea Standards Association and the GRI)

## 1990~

- Sep 09, 1991 - Launched comprehensive online services
- Feb 18, 1999 - Developed a new comprehensive online system





# Overview of DGB Financial Group

While customers' demands for comprehensive financial services are increasing, banks are finding the need to secure competitiveness, especially local banks, which must create new and specialized growth potential. In recognition of these trends, DGB Financial Group was established through a share swap acquisition of Daegu Bank, Kardnet, and Daegu Credit Information, on May 17, 2011. DGB Capital and DGB Data System were also created to vitalize small-loan finance, create group synergy, and support IT industry development. As of the end of June 2012, we are a full-fledged holding company made up of 5 companies.

## DGB Financial Group's Vision

DGB Financial Group is a regional financial company that has grown hand-in-hand with its customers. DGB Financial Group has become a "trusted and well-loved financial partner" under the management philosophy of 'Sharing Dreams and Prosperity with the Local Community.' We are ever striving to become the best comprehensive financial group by providing 'convenience to our customers, hope to our community, and happiness to our employees.'

DGB Financial Group will establish a foothold for growth by establishing the system of a holding company as quickly as possible to become a superior comprehensive financial group. In the short term, we will enhance financial convenience for local customers by entering into the small-loan financial market with a focus on Daegu Bank and DGB Capital. In the medium and long term, we will strengthen our capabilities in providing comprehensive financial services so that we can maximize our synergy effect. Our mid-term vision is to become a superior comprehensive group attaining total assets of over KRW 100 trillion, a net profit of above KRW 1 trillion, and a ROA of at least 1%. In order to achieve this vision, we will maximize our group's synergy by firstly strengthening business ties between our subsidiaries and improving our revenue and expense structure by securing new revenue sources and efficiently utilizing resources. Moreover, we will create new, long-term growth potential by promoting continuous business diversification and revealing a new growth momentum. We will expand our one-stop comprehensive financial services by connecting our subsidiaries' networks and channels to our customers and fulfilling a complementary network/channel mix strategy.

### Management Philosophy and Policy

Philosophy

**'Sharing Dreams and Prosperity with the Local Community'**

Policy

**"Trusted and Well-Loved Financial Partner"**  
(Best Financial Partner)

- Convenience for our customers
  - Hope for our community
  - Happiness for our employees
- Create the Best Comprehensive Financial Group

### Maximize Group Synergy

- Strengthen business ties between subsidiaries
- Improve revenue/expense structure

### Regionally Based Comprehensive Financial Group

### Create New Growth Potential

- Business diversification
- Create new growth potential
- Respond to future trends

### Expand Comprehensive Financial Services

- One-stop comprehensive financial service network/channel mix



## 2012 Management Goal and Strategies

DGB Financial Group chose “2012 Challenge! Towards the New Future” as the management goal for 2012. It represents our efforts to focus on our group’s capabilities to become a sustainable comprehensive financial group, which will be achieved by our employees uniting to overcome uncertain external and internal circumstances and the creation of new growth potential.

### 2012 Management Goal and Strategies

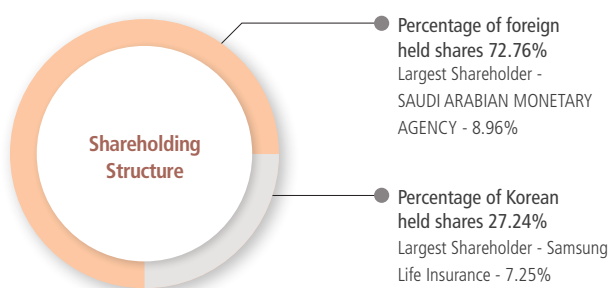




# Sound Corporate Governance

## DGB Financial Group's Governance System

As of June 2012, DGB Financial Group's paid-in capital stood at KRW 670.3 billion and the total number of outstanding shares amounted to 134,053,154. The largest shareholder, Saudi Arabian Monetary Agency, owns 8.96%, while the largest Korean shareholder, Samsung Life Insurance, claims 7.25%.



※ As of the end of December 2011

### Shareholding Structure of Subsidiaries and Affiliated Companies

Subsidiary	DGB Financial Group
Daegu Bank	100%
DGB Capital	100%
Kardnet	100%
Daegu Credit Information	100%
DGB Data System	100%

## Board of Directors

**BOD Profile** ● The Board of Directors (BOD) of DGB Financial Group fully abides by the Articles of Incorporation, industrial regulations and the Outside Directors Guidelines established by the Korea Federation of Banks (KFB), in its activities to reinforce transparency and responsibility in management through efficient corporate governance. Consisting of six directors, one standing and five outside directors, the board is chaired by the CEO of the bank and is independently operated based on its expertise. The chairman of the board can convene regular or ad-hoc meetings of the BOD, at which they resolve agendas through majority voting, unless otherwise stipulated in the bylaws. The BOD approves and monitors the implementation of the group's management strategies and policies, and oversees the internal control system,

including risk management. In accordance with prescribed guidelines, the BOD also resolves issues of management compensation based on an evaluation of their performances in a fair and appropriate manner.

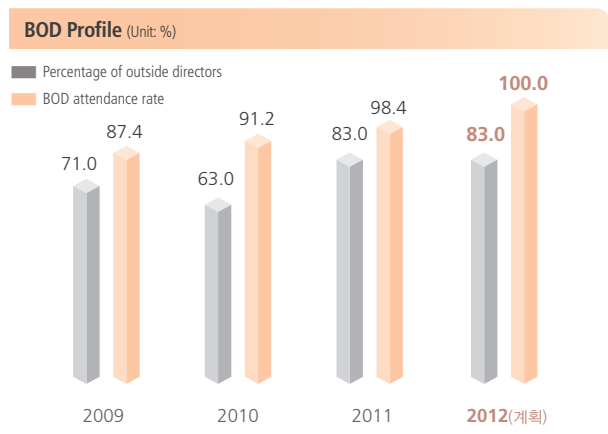
**Director Remuneration Regulations** ● Standing directors are offered a base pay and bonuses (short-term incentives and long-term performance based cash compensation) and outside directors are remunerated with a base pay. A director's base pay is determined by the board of directors. In addition, the short-term incentives of standing directors are determined by the board of directors according to their performance evaluation, which is based on managerial performance and compensation standards.

### BOD Profile

Type	Name	Term	Duties	Other Position(s)
Standing Directors	Ha Chun-soo	2 yrs	Chairman of the Board	Daegu Bank CEO
	Ahn Choong-young	2 yrs	President of Management Development & Compensation Committee President of Risk Management Committee	President of Regulatory Reform Committee Endowed professor, Chungang University
	Lee Jeong-do	2 yrs	Management Development & Compensation Committee	Professor emeritus, Kyungbuk National University
Outside Directors	Seong Nak-in	2 yrs	Management Development & Compensation Committee Risk Management Committee	President of Korea Law Professors Association Professor, Seoul National University, School of Law
	Jang Ik-hyun	2 yrs	Management Development & Compensation Committee Auditors' Committee	(Former) President of Audit Committee
	Lee Ji-eon	2 yrs	Management Development & Compensation Committee Auditors' Committee	Director of Korea Institute of Finance

## BOD-affiliated Committees

**Management Council** ● DGB Financial group operates the Management Council, which is composed of the holding company's CEO, the director of the management planning division, and representatives from the subsidiaries. The Management Council holds at least one session each quarter to discuss matters that require the group's cooperation, such as the establishment and execution of the group's strategies, matters requiring group-wide discussion, including synergy creation and cost reduction, and other matters that have an important influence on the group, such as issues with the management of subsidiaries. In addition, DGB Financial Group operates the Executive Committee on a monthly basis. The committee is made up of executives from the head offices of the holding company and determines important matters regarding the management of the holding company.

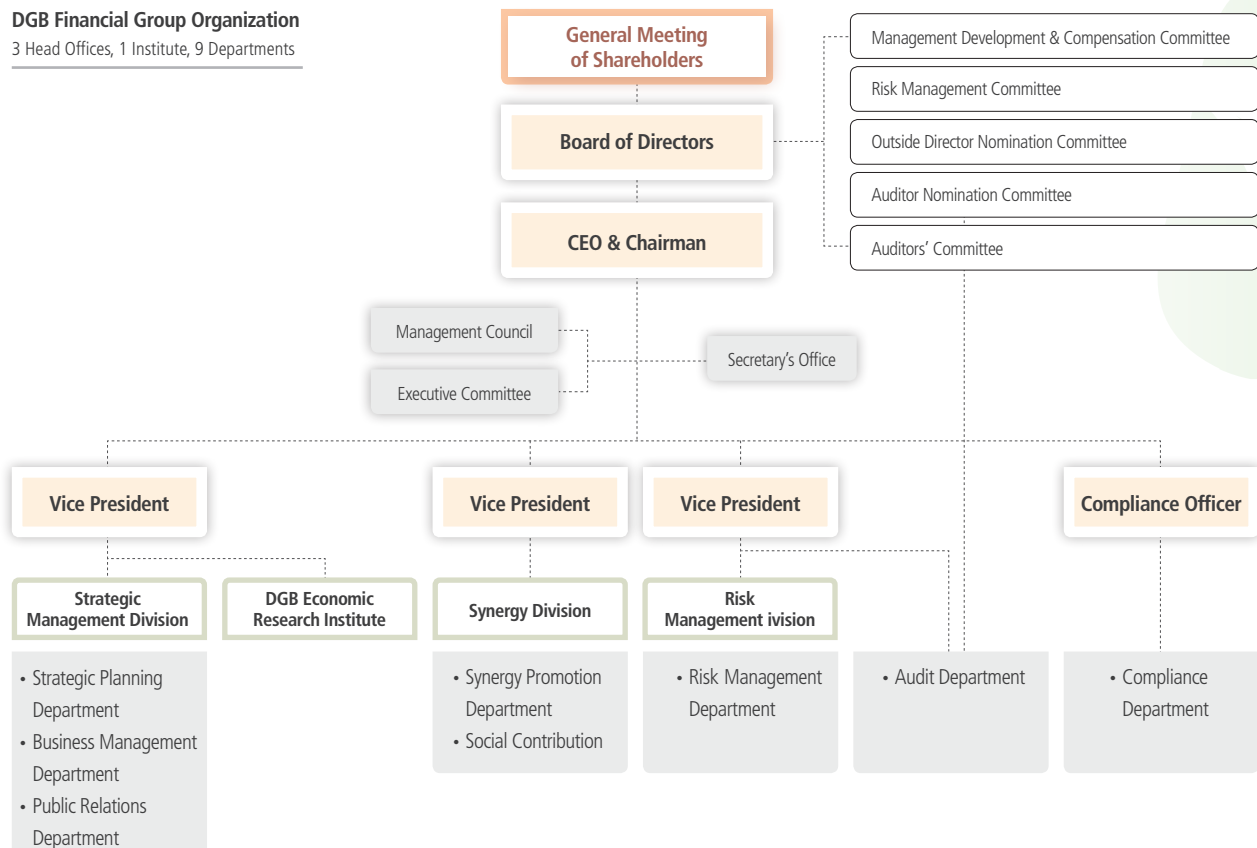


## Protection of Minority Shareholders' Rights

Minority shareholders are invited to the general meetings of shareholders so that a wide range of opinions can be compiled. There have not been any suggestions made by minority shareholders at the general meetings during the reporting period.

### DGB Financial Group Organization

3 Head Offices, 1 Institute, 9 Departments







# DGB Financial Group's Subsidiaries

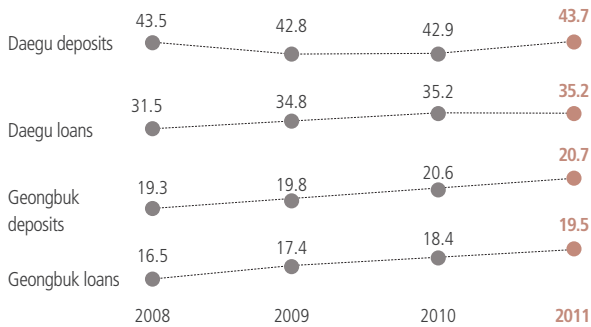
## Daegu Bank

Daegu Bank was established in 1976 as Korea's first regional bank. For 45 years, it has continued to grow in step with the local economy in order to revitalize the local economy through the accumulation of local funds.

## Daegu Bank, 45 Year History of Growing with the Local Community

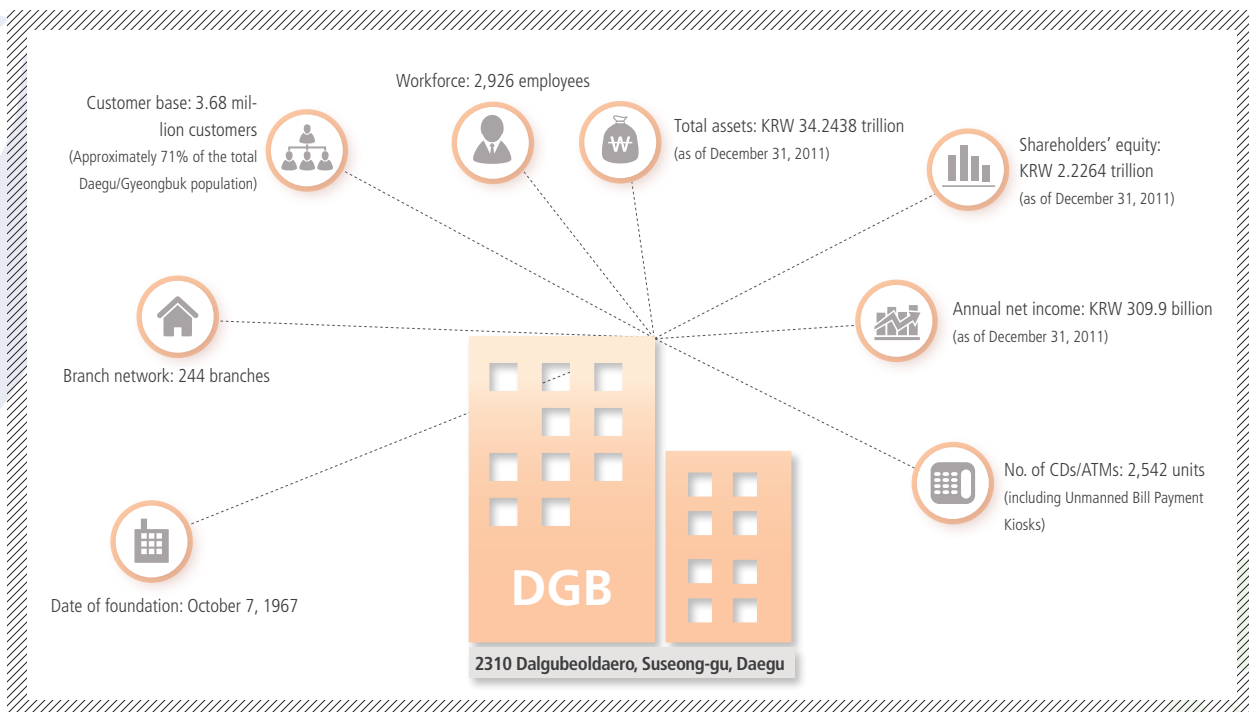
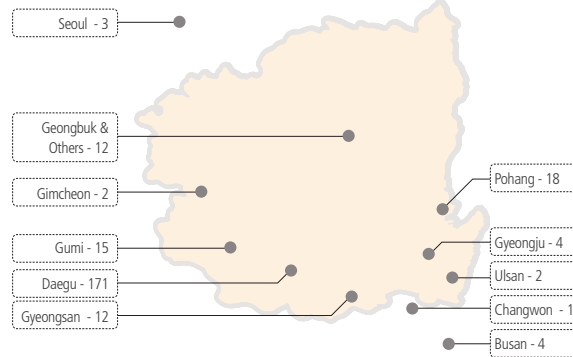
As of the end of June 2012, our 2,926 dedicated employees provide quality financial services to 3.68 million customers through 244 branches, including head offices, one overseas office, and 2,542 ATMs. Despite the unfavorable business environment, Daegu Bank has consistently expanded its loans to local customers. Through its preemptive risk management and timely clean-up of non-performing loans, DGB has become a small, but strong regional bank.

Regional Market Share (Unit: %)



Daegu Bank's Branches

※As of June 31, 2012



## Daegu Bank's Vision and Core Values



## Daegu Bank's Board of Directors

The Board of Directors (BOD) of Daegu Bank fully abides by the Articles of Incorporation, industrial regulations, and the best practices of outside directors established by the Korea Federation of Banks (KFB), in its activities to reinforce transparency in management through efficient corporate governance. The board is chaired by the CEO of the bank and is made up of eight directors, three standing and five outside directors. The BOD has independently es-

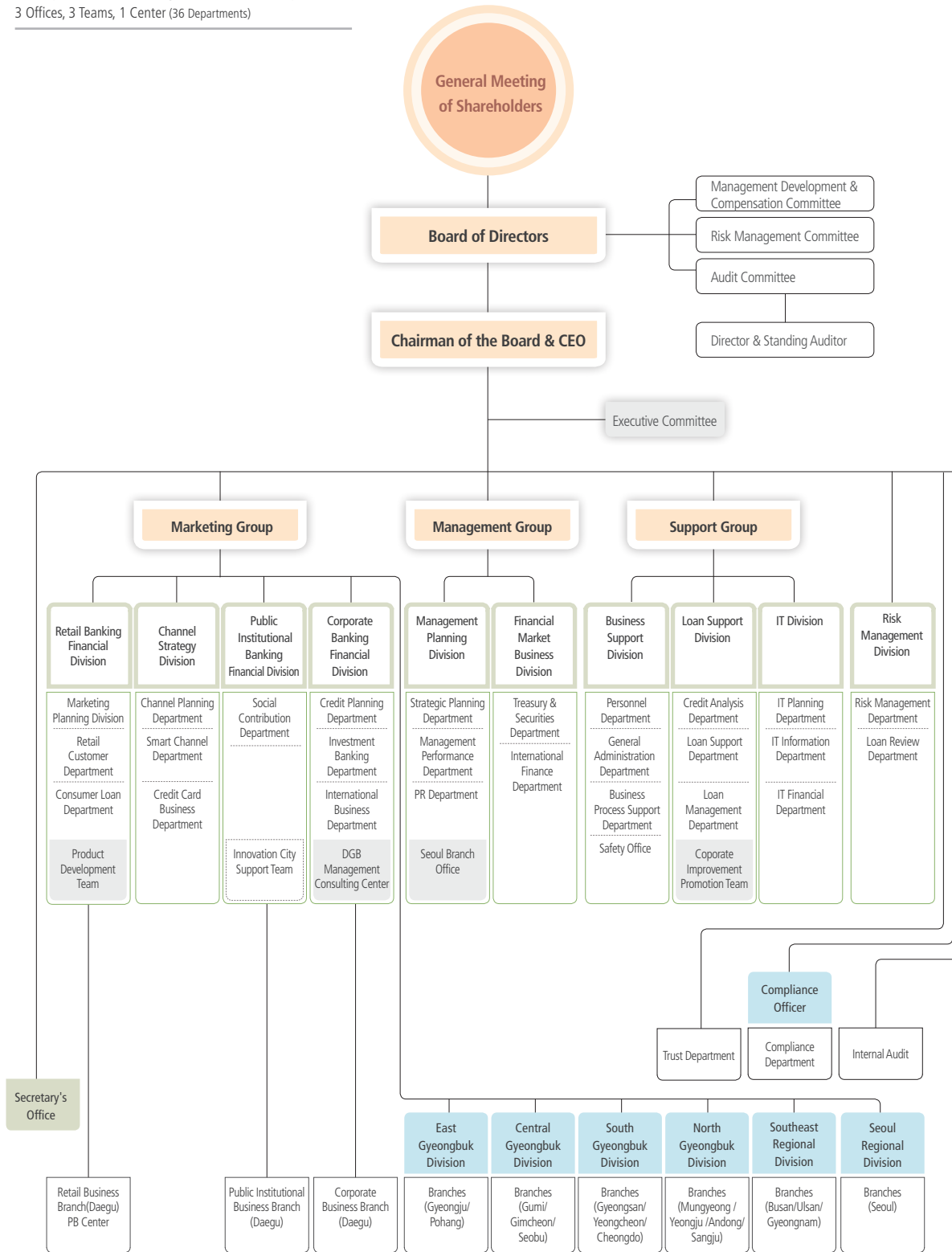
tablished the Management Development & Compensation Committee, Auditors' Committee, Risk Management Committee, and the Outside Director Nomination Committee, whose purposes are to facilitate operations of the board and the deliberation process. All committee members, excluding those in the audit committee, are recommended by the Management Development & Compensation Committee and approved by the BOD.

BOD Profile					
Title	Name	Term	Title	Outside Position(s)	
Standing Directors	Ha Chun-soo	3 yrs	Chairman & CEO		
	Park In-gyu	1 yr	Vice President	Business Support Division	
	Jung Chang-mo	3 yrs	Director & Standing Auditor	Operations Auditor	
Outside Directors	Ahn Choong-young	2 yrs	Management Development & Compensation Committee/ Risk Management Committee	President of the Regulatory Reform Committee Endowed professor, Chungang University	
	Lee Jung-do	2 yrs	Management Development & Compensation Committee / Auditors' Committee	Professor emeritus, Kyungbuk National University	
	Sung, Nak-in	2 yrs	Management Development & Compensation Committee/ Risk Management Committee	President of the Korea Law Professors Association Professor, Seoul National University, School of Law	
	Kim Joong-gi	2 yrs	Management Development & Compensation Committee / Auditors' Committee	President of Daegu District Bar Association	
	Lee Ji-eun	2 yrs	Management Development & Compensation Committee/ Risk Management Committee	Director of Korea Institute of Finance	

2011 BOD Operations					
No.	Date	Key Agenda	No. of Attendees (persons)		
			Standing directors	Outside directors	
1	Jan. 31, 2011	54th Business Performance Report (2010), etc.	3	5	
2	Feb. 23, 2011	54th General Meeting of Shareholders, etc.	3	5	
3	Mar. 18, 2011	Appointment of BOD chairman, etc.	3	5	
4	Apr. 29, 2011	Auditors' Committee Resolutions Report, etc.	3	5	
5	May. 17, 2011	Regulations on providing and using customer information, etc.	3	4	
6	Aug. 09, 2011	Enactment of corporate governance standards, etc.	3	5	
7	Nov. 01, 2011	Closure and base date of stockholder registry for interim closing, etc.	3	5	
8	Dec. 28, 2011	56th Business Operation Plan (2012), Appointment of BOD committee members, etc.	3	5	

## Daegu Bank Organization

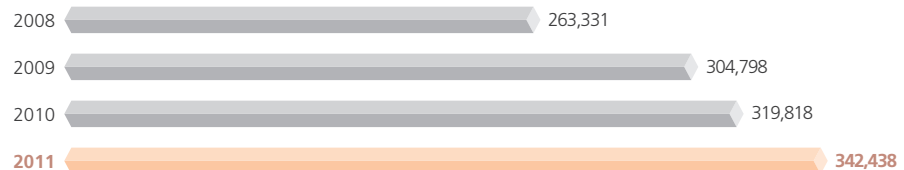
3 Groups, 10 Divisions, 6 Regional Divisions, 29 Departments,  
3 Offices, 3 Teams, 1 Center (36 Departments)



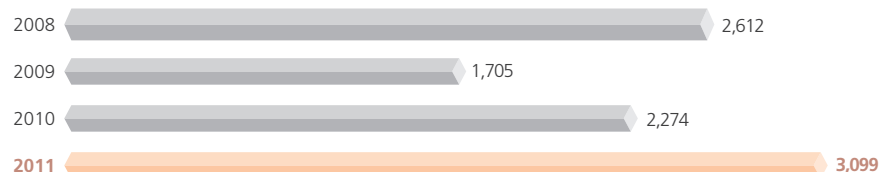
## 2011 Key Business Performance Results

Despite unfavorable economic conditions at home and abroad and the advent of business competitors in the aftermath of the global financial crisis in 2011, Daegu Bank saw a huge increase in net profit. The bank earned an increase of 36% from the previous year thanks to its strong customer base and extensive business experience. The bank also recorded a low delinquency rate of 0.47%, a fixed minimum loan rate of 1.43%, and a ROA (profitability index) of 0.98%. Total assets amounted to KRW 34.2438 trillion, a 7.1% increase from the previous year, indicating a reliable, continuous growth based on a stable foundation. The bank chose '2012, Challenge Towards the New Future!' as its management goal and set its financial goal at a net profit of KRW 320 billion. It will strive to show the world its core competencies as a successful comprehensive financial group through its management strategies of securing new growth potential, enhancing asset soundness, and creating customer value.

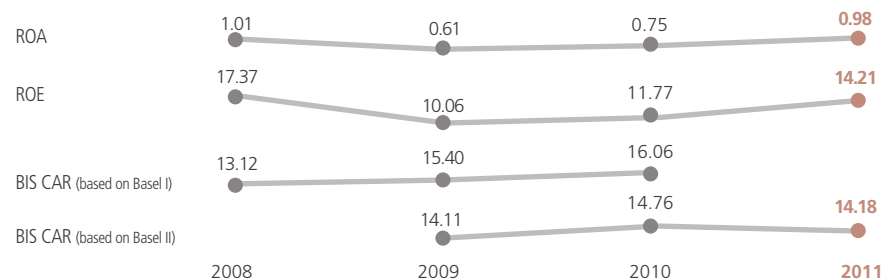
### Total Assets (Unit: KRW in billions)



### Net Income (Unit: KRW in billions)



### ROA & BIS CAR (Unit:%)



※ The bank has applied Basel II since 2011

### Distribution of Economic Value (Unit: KRW in millions)

Type	2008	2009	2010	2011
Wages & welfare benefits	201,531	208,181	211,794	246,274
Dividends	79,275	33,031	39,638	56,814
Interest expenses	844,197	744,413	683,976	726,695
Taxes	87,964	64,852	72,304	108,686
Donations	9,196	12,327	10,556	15,751



# DGB Financial Group will strengthen its sustainability management to grow together with the local community.



DGB Capital  
CEO Kim Ki-joo

## DGB Capital

**“DGB Capital became part of the DGB Financial Group family in January 2012. With the love and loyalty of our customers, we are striving to become a specialized credit financial company that will lead the future.”**

DGB Capital chose ‘stable growth of assets through diversified portfolios’ as its management goal for 2012 and is focusing its resources on increasing top clients and strengthening its risk management. In addition, we will make every effort to become a top-ranking specialized credit financial company that aims for customer satisfaction by providing diverse financial services.

CEO	Kim Ki-joo
Date of foundation	September 14 2009
Address	Sambu Building 19th Fl., 237 Teheran-ro, Gangnam-gu, Seoul, Korea
Business region(s)	Nation-wide
Shareholders	DGB Financial Group 100%
Workforce	42 persons (4 executives and 38 employees)
Revenue	KRW 22.05 billion
Paid-in capital	KRW 61 billion
Total assets	KRW 296.9 billion
Net income	KRW 3.8 billion

※As of the end of June 2012



Kardnet  
CEO Kim Tae-yeong

## Kardnet

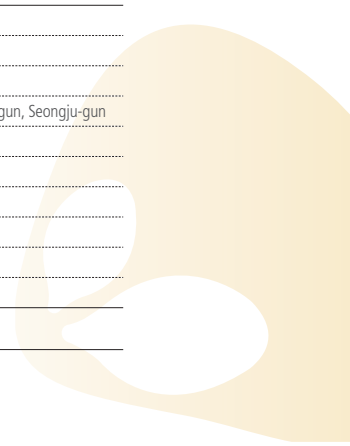
**“Kardnet was established in December 1999 with a goal to create a new 21st-century financial system where everything is possible with a single transportation card.”**

### Leader in the 21st Century’s Ubiquitous Era

Kardnet reinvented the Daegyung Transportation Card into a new form of RF electronic money. By expanding its reach from transportation to retail, internet, telecommunication, and security systems, the company is evolving as a true leader in this ubiquitous era. The company’s plan for 2012 is to embark on a new venture to overcome crisis and take a new leap forward. Under the slogan “a new beginning, a greater leap forward, a year of new ventures,” the company has been promoting three key strategic tasks: operating under management principles, securing new growth potential, and maximizing synergy.

CEO	Kim Tae-yeong
Date of foundation	December 27 1999
Address	223-5 Dongil Building 2nd Fl., Beomeo-2dong, Suseong-gu, Daegu
Business region(s)	Daegu, Gyeongsan-si, Yeongcheon-si, Cheongdo-gun, Goryeong-gun, Chilgok-gun, Seongju-gun
Shareholders	DGB Financial Group 100%
Workforce	24 persons (4 executives and 20 employees)
Revenue	KRW 5.779 billion
Paid-in capital	KRW 2.2 billion
Total assets	KRW 24.3 billion
Net income	KRW 1.528 billion

※As of December 31, 2011



## Daegu Credit Information

"Daegu Credit Information was jointly established by Daegu Bank and seven regional SMEs on July 5, 2000. The company primarily engages in bond collection, including the recovery of nonperforming loans, credit research, and serves as an agency addressing civil affairs with the goal of supporting regional development and establishing a credit-based society."

### A Partner in Regional Financial Development for a Credit-based Society

Daegu Credit Information's management goal for 2012 is to lay the foundations for sustainable growth. To achieve this, the company has been striving to strengthen its competitiveness and create shareholder value by promoting key operation strategies, including increasing sales of special-purpose bonds by more than 10%, strengthening operation capacity for foreign credit, expanding market share for investigative leases, exploring outsourcing opportunities in new enterprises, enhancing the capacity of debt collectors, securing talent, and maximizing synergy with the newly established financial group.

CEO	Sin Jin-hui
Date of foundation	July 5, 2000
Address	527-4 Bisan 6-dong, Seo-gu, Daegu
Business region(s)	Nation-wide
Shareholders	DGB Financial Group 100%
Workforce	27 persons (4 executives and 23 employees)
Revenue	KRW 2.292 billion
Paid-in capital	KRW 3 billion
Total assets	KRW 4.62 billion
Bond holdings	2.856905 trillion
Net income	KRW 276 million

※As of December 31, 2011



Daegu Credit Information  
CEO Sin Jin-hui

## DGB Data System

"DGB Data System, established in April 2012, specializes in IT to maximize group synergy. We strive to contribute to IT industry development by focusing on developing information systems, operating integrated IT, and providing IT services, such as IT training.

### Pursuing High-valued IT Solutions for a Better Future

DGB Data System will put DGB Financial Group's management philosophy of 'sharing dreams and prosperity with the local community' into practice. We will serve our customers and prepare for the future by developing the best IT solutions with passion and creativity. We will also become a contributor to local IT industry development.

CEO	Kang Jong-seok
Date of foundation	April 9 2012
Address	118 Suseong-2ga, Suseong-gu, Daegu
Business region(s)	Nation-wide
Shareholders	DGB Financial Group 100%
Workforce	22 persons (4 executives and 18 employees)
Paid-in capital	KRW 6 billion
Total assets	KRW 5.9 billion

※As of the end of June 2012



DGB Data System  
CEO Kang Jong-seok



SERVICE,  
PASSION  
AND HONESTY



T  P +  
Responsible Management





# Disclosure on Management Approach

## Vision

Daegu Bank creates a company culture based on communication between employees by sharing and spreading its vision and core values. We are strengthening our morality as a financial institution by voluntarily putting ethical values into practice. We also strive to establish a family-friendly working environment where our employees can find happiness and work-life balance.

## Strategic Direction

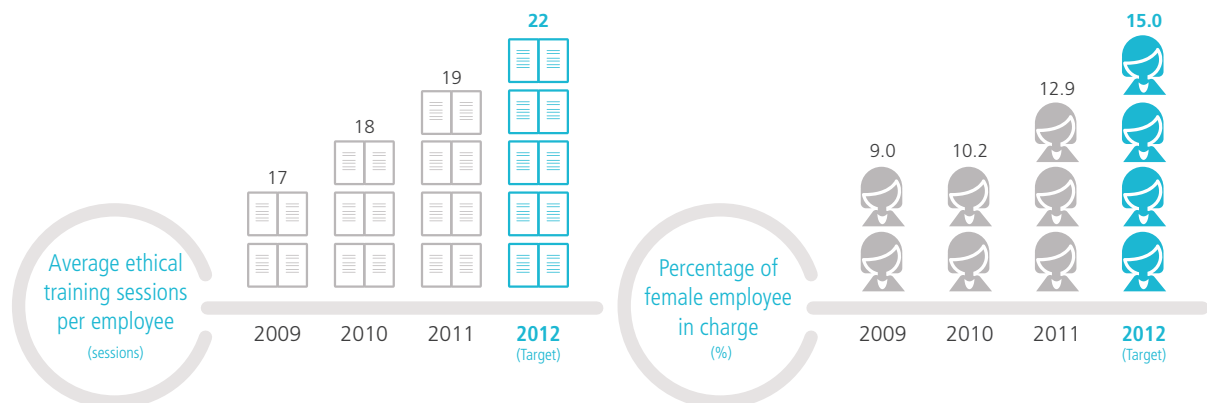


## Material Issues



## Key Performance Results

구분	2009	2010	2011	2012(Target)
Percentage of outside directors (%)	71.0	63.0	83.0	83.0
Board of directors attendance rate (%)	87.4	91.2	98.4	100.0
Average human rights-related training hours per employee (hour)	17/53	18/53	19/52	22/55
Average training hours per employee (hour)	40	40	46	50
Percentage of female employee in charge	9.0	10.2	12.9	15.0
Sick leave absentees (including vacation) (persons)	31	31	20	15
Civil Complaint Assessment (rating)	1	1	1	1





# Ethical Management

## Ethical Management System

DGB Financial Group strives to enhance the ethical mindset of its employees and help them fulfill their fiduciary duties. We therefore enacted a practical code of ethics and job-specific behavioral guidelines for employees to establish an ethical corporate culture.

### Daegu Bank's Code of Ethics(Basic Principles)

- We make every effort to provide customers with profits and satisfaction by always thinking and acting from a customer's point of view and by providing customers with the best goods and services.
- We provide long-term and stable profits to shareholders by maximizing our corporate value through reasonable investments and sound management.
- We respect each employee's dignity and value, conduct a fair personnel system, provide fair opportunities, and enhance their quality of life.
- We contribute to the development of the local and national community by respecting social values, complying with various regulations, and taking the initiative in establishing a fair financial system.

### Employee Ethics

- ① Employees shall maintain their honor and dignity, comply with legislations, regulations, and bank policies in performing bank tasks, and sincerely perform their jobs on the basis of morality and probity.
- ② Employees shall maintain a lifestyle of integrity at all times and refrain from engaging in unfavorable activities, such as speculative assets investments or excessive borrowing.
- ③ Employees shall immediately report to their supervisors according to proper procedures upon observing any illegal or unlawful behavior, put utmost efforts into solving problems, and never conceal wrongful matters.
- ④ Supervisors shall not give unreasonable directions to their employees and subordinate employees shall not submit to improper instructions from their supervisors.
- ⑤ Employees shall not make any personal request regarding personnel matters or intervene in personnel matters by using their position in an unfair manner.
- ⑥ Employees shall not engage in personal cash loans or guarantees of debt for clients or other employees.
- ⑦ Employees shall not reveal confidential information of the bank, customer transactions, other confidential details, or arbitrarily respond to such inquiries.
- ⑧ Employees shall not accept any money or incentives from customers or the persons concerned under any pretext.
- ⑨ Employees shall respect each other and practice good manners, not commit sexual harassment, or discriminate against anyone based on their gender, age, educational background, origin, family, and/or religion.
- ⑩ Employees shall not pursue personal profits by using their positions or utilize bank properties for personal use.



## Ethics and Human Rights-related Training

DGB Financial Group conducts training sessions in ethics at least once a month to establish a company culture of ethical business practices. The sessions cover topics including, fair performance of duties, transparent management, diversity, and anti-discrimination. The company also runs regular training sessions on human rights at least once a week.



※Standards for calculating the no. of training sessions -  
 1. Each branch conducts ethical practice training once a month (12 sessions a year)  
 2. Includes training in the directing department of ethical management (Compliance Assistance Department) and the ethical practice campaign

### | Anti-Corruption and Legal Violations |

DGB Financial Group strives to eradicate corrupted practices, such as rebates for partner companies, embezzlement of company funds, and the receiving of bribery. There have not been any fined or non-monetary sanctions imposed on our company due to legal or regulation violations in the

## Ethical Management Initiatives

### | Establishment of a Company-wide Compliance System |

DGB Financial Group's Compliance System ensures that each employee obeys every regulation thoroughly as an unbiased manager of customers' assets. In addition, we establish and manage compliance related to our business duties by obeying the bank's policies, bylaws and governing regulations and monitoring our employees' compliance to them.

### | Operating a Internal Control System |

DGB Financial Group's Internal Control System ensures the creditability and transparency of financial tasks by establishing a reliable internal control system and conducting thorough audits through daily audits, general audits, special audits, and regular audits,

past 3 years. We will also strive to prevent any practices of corruption and legal violation in 2012.

Type	2009	2010	2011
Case (s)	0	0	0

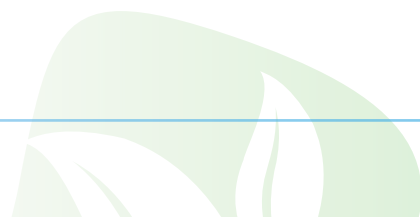
### | Ethical Management Practices |

With the participation of all its employees, Daegu Bank has established the following two slogans under the theme of "Ethical Practices throughout the Year" for 2011 and 2012. The first is 'The first step in protecting ourselves and our bank is abiding by the law' in 2011 and the second is 'Moral management, being faithful to the basics, can guarantee our future' in 2012. By conducting regular monthly and yearly ethics training sessions, Daegu Bank thoroughly strengthens its employee ethics. Notably, through the special traditional holiday ethical practice campaign called "Spending Faultless and Warm Traditional Holidays" and the "No Gifts between Customers and Employees Movement," Daegu Bank constantly encourages its employees to make ethical management a way of life. When they are obliged to receive gifts, they should use them in helping others in need, such as teen breadwinners, orphanages, and senior citizens who live alone, through the Gift Return Center in Compliance Office of Daegu Bank. This way helps our employees spend warm traditional holidays with the local community.

Type	Daily audits	General audits	Special audits	Regular audits
Internal Control System(cases)	1,454	273	217	171,149

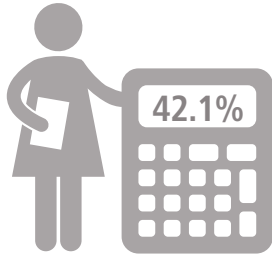
### | Operating a Compliance System |

DGB Financial Group's Compliance System ensures that each employee obeys every regulation thoroughly as an unbiased manager of customers' assets. In addition, we establish and manage compliance related to our business duties by obeying the bank's policies, bylaws and governing regulations and monitoring our employees' compliance to them. Employees monitor the internal control and compliance practices of each branch by checking them against the company's "Branch Compliance Checklist." All employees are also obliged to check their compliance practices against the "Compliance Self-Checklist" on the 1st of every month.





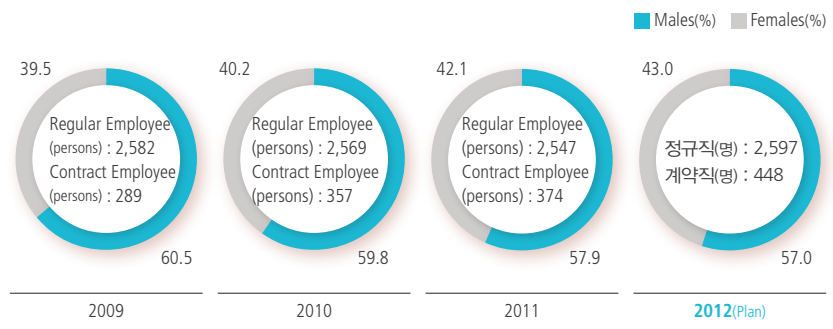
Percentage of female employees in 2011



## Human Rights Protection and Anti-Discrimination

DBG Financial Group strives to comply with the ten principles of the UN Global Compact. Based on ethical management and active communication with our employees, we are providing all employees with equal opportunities by increasing the recruitment rate of female employees and making every effort to prevent discrimination or unfair promotions and incentives.

### Employees



### | Abolishing Discrimination |

Since 2009, Daegu Bank has been continuously increasing its recruitment of women and employees with disabilities through a fair recruitment process for the protection of the economic rights of disadvantaged groups.

### Recruitment Rate of Female Employees

Type	2009	2010	2011	2012(Plan)	
Position	Bank Employee (%)	73.2	73.4	72.4	72.0
	Person in charge or Manager (%)	9.0	10.2	12.9	13.2
Contract Type	Regular Employee	39.8	39.6	40.0	41.0
	Contract Employee (full time) (%)	38.9	46.9	54.6	53.0

### | Human Rights in Partner Companies |

DGB Financial Group plans to share its corporate ethics and socially responsible mindset with partner companies to promote its social responsibility and spread its ethical corporate consciousness. In addition, we will recommend that partner companies introduce ethical corporate practices through due diligence of monitoring the actual status of human rights violations inside and outside the organization.



# Employee Value Creation

## Employee Health and Safety

### | Happy DGB, Together for EAP |

DGB Financial Group operates an EAP (Employee Assistance Program), an employee support program, where licensed, professional counselors help employees and their families deal with a range of problems, including stress from work and at home. These are efforts to create a 'happy workplace' where employees can resolve work-related, personal, and family problems. We are helping them maintain a healthy life at home and at work by reducing stress with professional help from different fields.

### | 'Happiness for Life' Health Campaign |

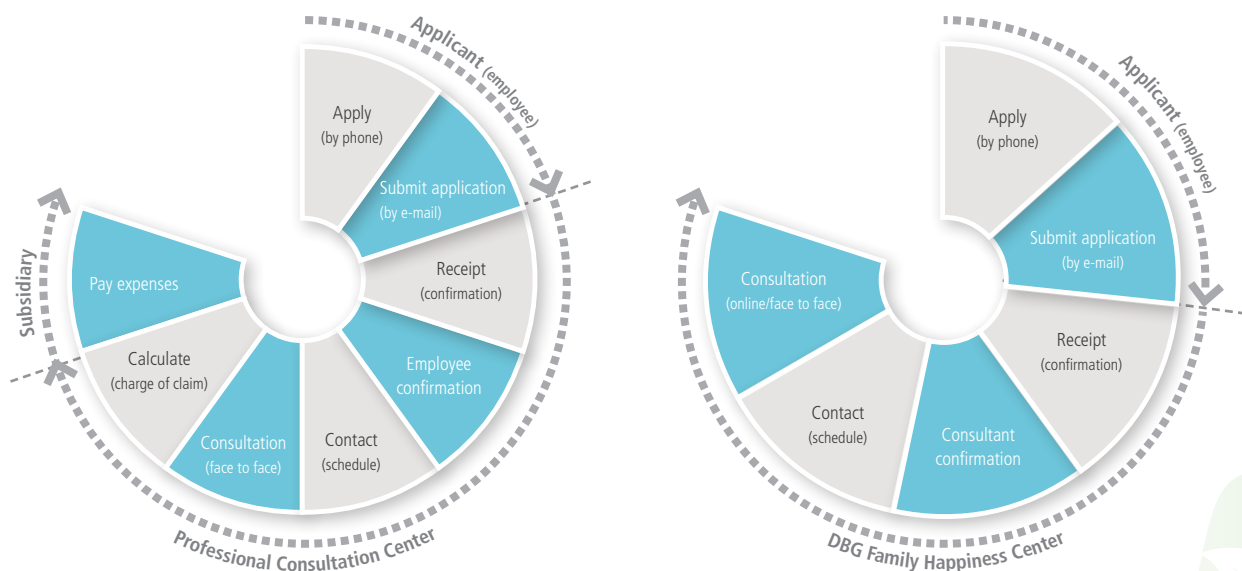
DGB Financial Group is running a 'Happiness for Life' health campaign in its best efforts to enhance employees' health and prevent diseases through regular medical examinations. All employees are required to receive a comprehensive health exam and a "happy call" follow-up is offered as a preventive measure every three and six month to employees requiring additional care as a result of medical examination. We have seen a preventive effect as the result of this campaign. We will make every effort to promote employees' health and continue to reduce lost work hours due to illnesses.

Sick Leave Absentees(including vacation) and Lost Hours Due to Illness

Type	2009	2010	2011	2012(Plan)
Sick leave absentees (including vacation) (persons)	31	31	20	15
Lost hours due to illness	2,323	4,768	4,321	4,000

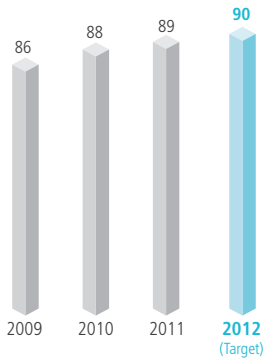
※Calculation criteria: sick leave absentees and vacation time

### EAP (Employee Assistance Program) Processes

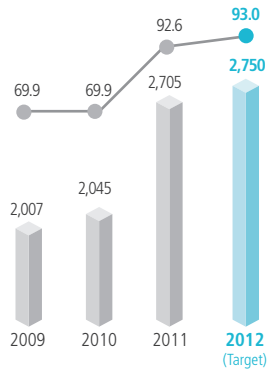


## Work-Life Balance

### Employee Satisfaction Index(points)



### Welfare Pension Membership



■ Target No. for pension system (persons)  
● Membership rate of pension system (%)

### | Employee Satisfaction Index |

Every year, DGB Financial Group conducts an Employee Satisfaction Index Survey. We make every effort for our employees' satisfaction by offering programs, such as various welfare systems, health campaigns, and cultural events. In addition, we are prepared to help employees maintain a quality life after retirement by offering retirement pensions to all employees.

### Average Years of Continuous Service

Type	2009	2010	2011
Continuous service (years)	14.95	15.09	15.2

### | Workplace Childcare Facilities |

Since March of 2008, DGB Financial Group has been operating the DGB I Gunteo Child Care Center, a workplace childcare facility, to alleviate the child-rearing burdens of female employees. It is the largest facility among financial institutions in Korea and can accommodate 150 pre-school children at one time. In addition, by providing quality education programs, we enhance their satisfaction in child education.

### Number of Employees Using Childcare Facilities

2009	2010	2011	2012 Target
83persons	103persons	112persons	120persons

### | Cultural Events for Employees |

The Daegu Bank Labor Union holds cultural events for the enjoyment of our hard-working employees and their families. In 2011, about 1600 employees and their families were offered tickets to the musical 'The Phantom of Opera,' which received high marks in the satisfaction index. Since 2007, the labor union has continuously held cultural events to enhance communication among employees.



Free viewing event for the musical 'Turandot'



## Building Practical Competences

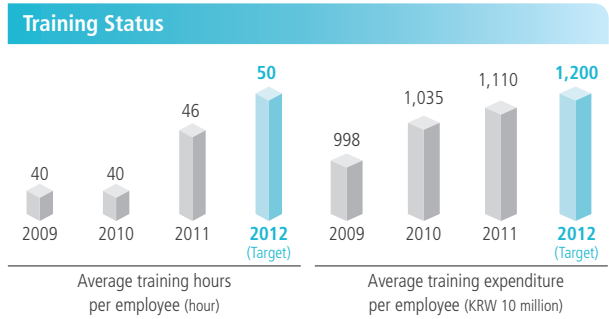
### | Competency Programs for Employees |

DGB Financial Group conducts a wide array of training programs in order to assist its employees in building their skills and maximizing their individual abilities as professional financiers.

**Strengthening Employees' Practical Competences** ● The Loan/FX Rookie course and cyber courses are designed to help our employees build practical competences.

**Strengthening Expert Training** ● We developed a roadmap for training internal experts and established a systematic step-by-step career development program (CDP). The competence-building courses entail CDP, OJT, mentoring and feedback in the areas of foreign exchange (FX), derivatives, FX investments, and bond operations. We send our employees in charge of equity, bond, and derivatives operations to investment institutions for on-site training. Meanwhile, we promote community of practice (CoP) activities and hold performance presentations every six months.

**Strengthening Competences of New Employees** ● We also designate mentors for new employees to assist them in quickly adapting to new duties and self-development.



### | Fostering Global Leaders |

To foster global talent among our employees, we are conducting language training courses that complement on-site business by creating an "Expert in China" course and sending our employees to Shanghai for training. In addition, we conduct the "World-class Finance Program," an overseas training course that focuses on internationally advanced financial institutions, which is taken during our employees' overseas training.

### | Employee Participation through the HR-Partners System |

Daegu Bank operates the HR-Partners Program to encourage employees' participation when establishing a new personnel system. The HR Partners Program is designed to facilitate communication among employees and banks. The HR-Partners selected by each branch play a pivotal role in strengthening the stability of the system and acceptance of new members by reviewing new personnel systems and providing feedback and measures for improvements.

## Communicating with Employees

### | Employee Communication Campaign |

The "3HWA Campaign" represents the 3 values of dialogue, friendliness, and harmony, while HWA stands for Heart, We, and Accept—all together, the campaign moves to "change hearts together." We recognize that communication is crucial in establishing an ethical corporate culture and this campaign was created to encourage active communication among employees.

### | Opening the CEO's Office |

We opened the CEO's office to the employees of our bank and subsidiaries to give them an opportunity to communicate with the CEO. The purpose of this is to assist employees in communicating with the CEO by changing formerly fixed system and practices.



Opening of the CEO's office

### | Win-win and Cooperative Labor-Management Relationship |

DGB Financial Group maintains a cooperative labor-management relationship based on mutual trust and information-sharing through diverse communication channels. We see the Labor Union as a sustainable growth partner and strive to build a cooperative labor-management relationship. The Labor-Management Council holds meetings twice every year, while in the event of special labor issues, ad-hoc meetings are held for transparent and fair negotiations. Other communication channels between labor and management include the DGB Development Council and Collective Bargaining Meetings, which are designed to prevent labor disputes in advance.

### | Information Exchange |

DGB Financial Group shares information with subsidiaries through the company's newsletter and financial information is disclosed through the 'DGB Economic Review' and CEO information. In addition, through the 'DGB Friendship (7.9) Day', we hold many events, such as ice-breakers between employees in our subsidiaries and sports events for our departments and subsidiaries, to encourage friendship among all employees.

Daegu Bank Labor Union Membership			
Type	2009	2010	2011
Entire workforce (persons)	2,582	2,569	2,547
Prospective labor union applicants (persons)	1,945	1,898	1,976
Percentage of labor union members among workforce (%)	75.3	73.8	77.6
Percentage of labor union members among prospective applicants (%)	100.0	100.0	100.0

※ Executives, higher ranked employees (over level 3), or employees in the human resources department are prohibited from joining the labor union for effectual union operations.



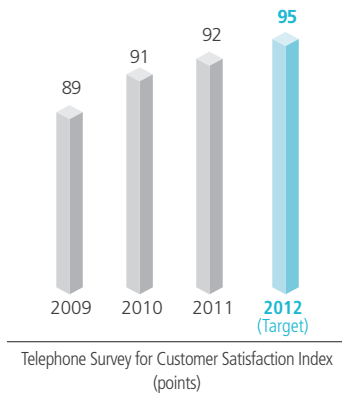


# Customer Value Creation



## Customer Satisfaction Activities

### Customer Satisfaction Index (out of 100 points)



### | Enhancing Customer Satisfaction (CS) |

Daegu Bank set its CS vision as a "service leading company" and CS slogan as "Customer Care, Community Care, and DGB Care." The bank's recent "Hi-CS Campaign" is a smile corporate culture campaign, encouraging employees to greet customers with a smile and provide high-quality service. We constantly conduct internal employee education, classified by off-the-job training and visiting lecturers to branches, to enhance our customer satisfaction.

### Customer Satisfaction (CS) Training (sessions)

Type	2009	2010	2011	2012 (Target)
Visiting Lecturers	113	136	173	180
Off-the-job Training	2	11	20	20
Other	16	33	50	50

### VOC Handling (cases)

Type	2009	2010	2011
<b>Total</b>	<b>839</b>	<b>850</b>	<b>1,106</b>
Complaints	144	153	197
Issues	115	96	292
Compliments	305	367	408
Other	275	234	209

※ Increase of business inquiries following the introduction of a next-generation system in 2011

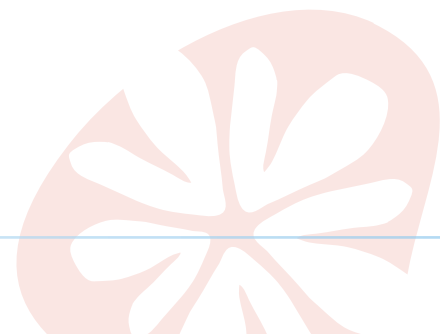
### | Customer Satisfaction Dream Team |

We operate a Customer Satisfaction Dream Team to enhance our customer service. We strive to minimize and solve civil complaints by appointing a director in charge of handling civil complaints for each business team.

### | The Only Top-Rating Banking Institution in the Civil Compliant Assessment Rating for the 6<sup>th</sup> Consecutive Year |

In April 2012, Daegu Bank was the only bank in Korea that has received the Level 1 rating for the 6th consecutive year in the Civil Compliant Assessment Rating, conducted by the FSS. We lead in solving civil complaints by operating the Customer Satisfaction Dream Team and appointing CS managers at each branch. The Civil Compliant Assessment Rating was started in 2002 by the FSS to encourage financial companies to prevent complaints voluntarily.

Financial Supervisory Service  
2011 Financial Company  
Civil Compliant Assessment  
Rating Level 1 Banking  
Institution, 3 Consecutive Years  
(2012 Target: Level 1)





## Safe Finance

### | Selected as Outstanding Anti-Money Laundering Institution |

In December 2011, Daegu Bank was selected as an outstanding anti-money laundering institution and awarded the Financial Services Commissioner's Commendation at the '5th Anti-Money Laundering Day' event, held by the KoFIU of the Financial Services Commission. Daegu Bank was highly recognized for its contributions to the development of anti-money laundering activities through its world-class anti-money laundering system.

### | Safe Financial Transactions & Customer Information Security |

Daegu Bank adopted the end-to-end (E2E) encryption security program in order to prevent any leakage of customer information during online banking transactions. The program protects customer information, especially passwords, from hacking or other online infringements. We have constructed a high-level security system to prevent any sort of security incidents. In addition, we fully comply with the Korean Act on Real Name Financial Transactions and Guarantee of Secrecy. To that effect, we constantly educate our employees in regards to information security guidelines involving personal financial transactions, while further enhancing our internal control system. The provision of any personal information acquired in the course of banking businesses to a third party is completely prohibited.



Daegu Bank, selected as an outstanding anti-money laundering institution

Personal Information Leaks (cases)			
Type	2009	2010	2011
Personal information leaks	0	0	0

### | Global Certificate of Information Protection |

Daegu Bank has received the BS 7799 certificate since 2003 and has been re-certified with ISO 27001, the international ISO certification in customer information security. In addition, we have established a detection and prevention system against DDoS (Distributed Denial-of-Service) attacks to respond to emergency situations, such as the ever-increasing acts of cyber terrorism, more effectively.

### | Protecting Investors through Observance of Product and Service Sales Principles |

In preparation for the "Capital Markets and Financial Investment Services Law," Daegu Bank has put in place various financial product sales guidelines in line with the principles of Robust Investment Advisory, Suitability, and Obligation to Explain. Under the guidelines, we implement extensive employee education and create and maintain various slips and documents, such as collective investments application forms and investor information confirmation forms.

### | Customer Information Protection Regulations |

Following the government's enactment of the Personal Information Protection Act, DGB Financial Group enacted and implemented its Customer Information Protection Regulations in March 2012. We designated the Compliance Department as the department that oversees all business related to customer information protection and designated a compliance officer as the director of customer information protection. We enacted management systems for customer information and disclosed it on each branches' homepage. In addition, we established the technical and physical management system required by the Personal Information Protection Act, as well as a notice system, for when customer information is leaked.



Global Certificate of Information Protection (ISO 27001)



# SUSTAINABLE FINANCE



Sustainable Finance



 **open**





# Disclosure on Management Approach

## Strategic Direction

**Creation of Sustainable Performance**

**Fair Finance**

**Green Finance**

## Material Issues

- Intensifying competition in the finance industry
- Divergence and conglomeration of finance
- Expansion of an aging society
- Decreasing birth rate and population

- Expansion of responsibility for goods and services

- Environmental influence on goods and services
- Expansion of socially responsible investments (SRI)

## Key Performance Results

Type	2009	2010	2011	2012(Plan)
Deposits (M/S in Daegu/Gyeongbuk) (%)	33.8	34.3	34.8	35.2
Loans (M/S in Daegu/Gyeongbuk) (%)	28.5	29.0	29.4	29.8
SME Loans (Ratio) (KRW trillion)	11.0165 (64.1%)	11.4993 (63.4%)	11.5824 (62.4%)	11.7000 (63.0%)
SRI Products Sales Amounts (KRW billion)	17.060	8.806	9.620	10
BIS Capital Adequacy Ratio (%)	14.11	14.76	14.18	14.50
Sales of green financial products (Loans in M/S / Deposits M/S KRW billion)	318.7/232.8	318.8/229.2	444.1/85.3	500.0/100.0







# Creation of Sustainable Performance

## Risk Management



DGB Financial Group classifies the risk that arises during management activities into five parts: credit, market, interest rate, liquidity, and operational.

### | Risk Management Policy |

Group risk management requires that the holding company's directing operations be in checks and balances with the subsidiaries' risk management operations.

### | Risk Control Structure |

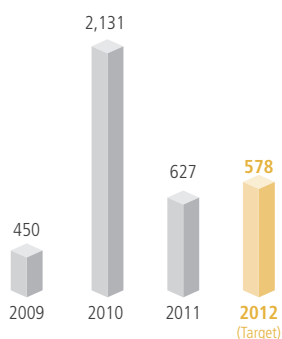
**Risk Management Committee** ● The Risk Management Committee is the top decision-making body in risk management. The committee establishes the risk management system and systemically manages details related to group risk, such as the establishment and approval of group risk policies and risk tolerance limits. The committee is comprised of one standing director and two outside directors.

**Risk Management Council** ● The Risk Management Council deliberates on the details related to all group risks to maintain consistency in the risk policies and strategies of the group and subsidiaries. The council is chaired by the executive in charge of the holding company's risk management, and the members of the council are comprised of the holding company's risk management department director, main department directors, and executives in charge of each subsidiary's risk management.

**Risk Management Administrative Department** ● The holding company's Risk Management Department conducts the detailed activities for risk management to establish an integrated risk management system.

- Integrates the details related to group risk management, such as the management of group risk tolerance limits
- Operates the detailed policies, procedures, and work processes related to the holding company's risk management
- Prevents conflicts between the holding company and subsidiaries or between subsidiaries
- Provides information about the holding company's Risk Management Committee, Risk Management Council, and management

### Risk Management Training



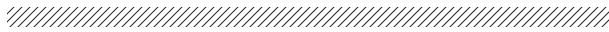
No. of employees receiving risk management training (persons)

※ Employee training increased upon the introduction of operation risk on May 3, 2010

※ Excludes employees' official document training for risk management

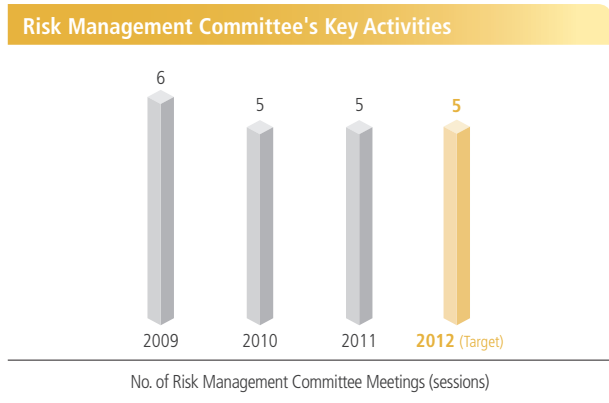
### | Employee Risk Management Training |

DGB Financial Group has been continuously conducting training courses for all its employees on the types of risks the company faces. In 2009, the total number of employees who received risk-related training was 450 employees. In 2010 and 2011, the total number of employees who received such training was 2,131 and 627, respectively. By expanding risk training to employees, we are increasing their awareness of possible risk. DGB Financial Group is cooperating with its financial subsidiaries to find risk solutions through synergy. We will continue to strengthen training courses on a variety of risks following events of external shock, such as the European financial crisis.



### | Risk Management Committee's Key Activities |

DGB Financial Group holds Risk Management Committee meetings to effectively manage key risks that the company faces. Meetings were held 6 times in 2009 and 5 times each in both 2010 and 2011. In 2012, we strive for exceptional risk management considering the rapidly changing financial environments at home and abroad.



**2011 Risk Management Committee's Key Activities**

**No. of Meetings: 5 Sessions**

**Key resolutions**

- Appoint Risk Management Committee President and enact risk management regulations
- Approve group's risk tolerance limit for 2011
- Report group's risk management status and BIS CAR
- Acquire Metro Asia Capital as a subsidiary
- Deliberate on plans for subsidiary support funds and set risk management plans for independent subsidiaries

### Differentiated Customer-Oriented Services

Based in Daegu and the Gyeongbuk region, DGB Financial Group strives for sustainability to provide world-class financial services.

#### | The 4<sup>th</sup> DGB Investment Fair |

In November 2011, Daegu Bank celebrated its 44th foundation anniversary by holding the 4th DGB Investment Fair to offer better financial services to its regional customers. The fair, under the theme "Money and Life, Beginning and Finishing," was held for all types of customers interested in asset management and investment techniques, including college students, university graduates, general customers, investors, and VIP customers. Moreover, the fair included special lectures on various subjects, such as successful strategies for inheritance and family business transfer, seniors' health, preparation for a happy retirement, 2012 economic and investment environment outlook, country doctor Park Kyung-chul's investment solutions and economics of the rich, economic trends for young adults and a daring challenge against the youth crisis (by Yang Jun-hyeok).

The expert-lead counseling sessions on financial planning, funds, insurance plans, taxes, laws, and real estate helped regional customers solve many difficulties they faced. Daegu Bank will develop and strengthen its financial services in various forms by reflecting the needs of its customers. We have specially developed and offered 'VVIP bank accounts' for our distinguished VVIP customers and we offer top-notch services in various fields, including life care, investments, taxes, inheritance, and real estate, exclusively to our VVIP customers.



DGB Investment Fair





### | DGB Private Bank Services |

In order to offer differentiated services for VVIP customers, Daegu Bank launched the 'DGB Private Bank Services' on March 12, 2012. Responding to the needs of our VVIP customers, the services are divided into the 2 categories: Life-Care Services that include remember honeymoon packages, concerts, themed travel, sports, and other services for customers' leisure, and Advisory Services that cover topics such as taxes, laws, real estate, and asset management.

### | 119 System for Fund Sales |

In order to strengthen marketing activities targeted at large fund investors and other targeted fund investors and improve services for customers with complaints regarding their investments, Daegu Bank launched the '119 System for Fund Sales,' a counseling service provided by experts from the head office, on May 2, 2012. Despite the variability of stock trends due to rapidly changing financial circumstances, we have continually reinforced our financial services for fund investors.

### | Tax Care Service 911 |

Each year, Daegu Bank offers its customers the 'Tax Care Service 911' free of charge regarding their aggregate taxation on financial income and aggregate income tax return. The service is offered to all applicants regardless of their banking transactions with Daegu Bank.



## Development of New Products(June 2011 ~ June 2012)

Financial Products	Description	Launch Date
DGB Conversion Loan	A loan that converts interest rates for customers with high interest rates of over 20%	Jun 30, 2011
Love Sharing Account	A product to spread a culture of micro-donations among elementary, middle, and high school students	Nov 9, 2011
3355 Manager Account	A product that provides a variety of benefits for easy and convenient management of group/club funds	Dec 15, 2011
Love Sharing ETF Fund	A fund product that allows the donator to donate under their own name within the up-front fee limit and participate in social contributions through investments	May 9, 2012
DGB Hope Date Loan	A loan that supports emergency funds of self-employed workers who can repay by installments with daily sales profits.	May 14, 2012
Education Love Account	A product that encourages transactions of employees who work in elementary, middle, high schools, and universities	Mar 15, 2012
Daegu Fighting Fixed Deposit/Savings	A public interest account for the support of Daegu FC and the successful opening of the 93rd National Sports Festival	Jun 11, 2012
DGB Conversion Loans for Young People	A conversion loan that converts interest rates for low income young people and college students who are paying for educational and living expenses with loans with interest rates over 20%	Jun 18, 2012







# Fair Finance

## Responsibility for Product Services

Daegu Bank fulfills its social responsibilities as a corporate citizen and its roles as a partner of the local community by constantly developing and selling public service-oriented products for local community development.

### | Supporting the Revitalization of the Local Economy |

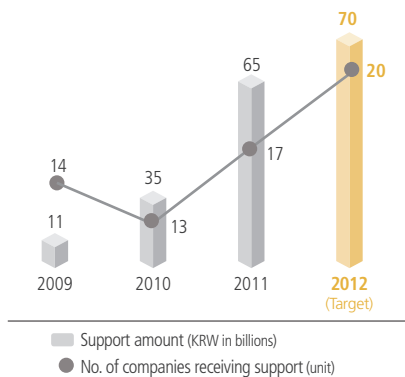
Daegu Bank has been enhancing its loan support for local SMEs and small business owners in accordance with its established intent and goal to revitalize the local economy. In 2009, support contributions for SME loans

amounted to KRW 11.165 trillion and SME loans accounted for approximately 63.1% of all loans at that time. In 2010, we supported approximately 63.4% of all SME loans with KRW 11.4995 trillion. In addition, the percentage of SME loans out of total corporate loans reached approximately 93%. About 4.4% of small business owner loans (out of SME loans) and 4.5% of microfinance loans (out of household loans) received support contributions. We will fulfill our role as a local bank to revitalize and grow with the local economy by expanding loans to support local SMEs.

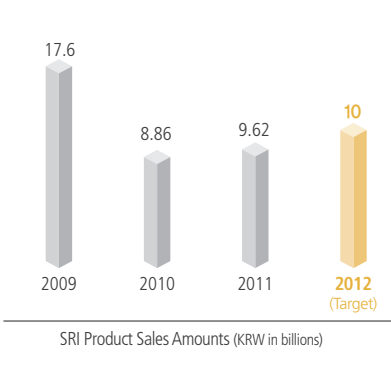
SME Loans				
Type	2009	2010	2011	2012 (Target)
SME loan amounts (KRW in trillions)	11.165	11.4993	11.5824	11.7000
SME loan ratio (%)	64.1	63.4	62.4	63.0

※As of the end of June 2012

### Financial Support for Female Business Owners



### Contributions to the SRI Public Service Fund



### Financial Support for Female Business Owners



### | Socially Responsible Investment (SRI) Funds |

Since 2008, Daegu Bank has been selling the 'Woori Frontier Sustainable Business SRI Equity Fund,' a socially responsible investment fund, to strengthen its social responsibility position. Partial profits generated from the sale of this fund are put into a public service fund and used to support economic education for multi-cultural families. Under an agreement with Woori Asset Management, we contribute 10% of sales and operating profits, respectively, to the public service fund.

### Contributions to the SRI Public Service Fund

Type	2009	2010	2011	2012 (Target)
Service Fund (KRW in 10 thousands)	3,900	3,400	1,700	5,000

### Public Service Fund Products

SRI Funds	DGB AUM (KRW in millions)		Rate of Return (%)		
	Initial	Balance	3 months	6 months	1 year
Woori Frontier Sustainable Business SRI Equity Fund	212	48	-10.09	-1.23	-12.44
Midas Green SRI Equity Investment Trust	11	10	-9.28	-0.25	-11.71
Mirae Asset Green Growth Equity Investment Trust	26	26	-11.18	-4.76	-21.09
Mirae Asset Love Sharing ETF Equity Investment Trust	-	11	-	-	-

※As of the end of June 2012

※Mirae Asset Love Sharing ETF Equity Investment Trust sales started in March 2012



### | Happiness Protector Account |

Since May 2011, Daegu Bank has been selling a financial product that prohibits the seizure of government subsidies from those on the poverty line. This product complies with laws enacted by the Ministry of Health and Welfare. We provide these customers with many benefits, such as exemption from electronic banking fees (phone banking, on-line banking, PDA, Daegu Bank CD/ATMs), certificate issuance, and re-issuance of bankbooks.

### | 1365 Happiness Deposits/Savings |

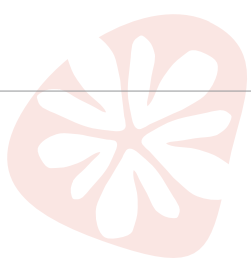
Since June 2011, Daegu Bank has been selling 1365 Happiness Deposits and Savings, products that apply prime interest rates according to customers' volunteer service hours, beneficiary certificates and bancassurance products. Notably, these products offer additional interest rates of up to 0.2% according to volunteer service hours to promote customer volunteer service. Recognition of customer performance can be viewed on the 1365 volunteer service portal site ([www.1365.go.kr](http://www.1365.go.kr)) or at the Nation Volunteer Service Center.

#### Customized Public Service Products

Financial Products	Description	Sales Records		Launch Date
		No. of accounts sold (accounts)	Amount (KRW in millions)	
DGB Dokdo Card	A credit card that raises funds for various Dokdo projects, such as the restoration of Seom-mal Nari in Ulleung-do	125,956	118,055	Mar 2, 2005
Senior Citizen's Transportation Savings Account	A product that maximizes banking convenience for elderly customers who receive transportation subsidies and wish to conduct small-sum transactions	5,670	595	Jul 5, 2007
Love Gyeongbuk Deposit Account	A special deposit account designed to contribute to the growth and public works of Gyeongsangbuk-do province	51,328	555,673	Jan 17, 2008
Hope Giving Deposits/Savings Accounts	Products to assist the homeless become independent	62	14	Feb 2, 2009
I Zoa (Child Love) Deposit Account	A child birth promotion product that provides benefits to families with more than three children	892	907	Feb 2, 2009
DGB Love Sharing Household Loan	A loan designed to reduce financial costs and provide low interest households with loans	766	540	April 1, 2009
DGB Seed for Hope Loan	A low-interest-rate loan for ordinary citizens that provides them with additional financial stability and offers customers with low credit ratings a chance to receive bank loans, therefore helping them avoid loan sharks	1,357	110	Apr 21, 2009
Happy Sharing Savings	A low-income family support product that helps children from low-income families become independent	66	307	May 21, 2009
Segero Deposit	A deposit that contributes to public funds supporting the 2011 World Athletic Championships	2,058	30,916	Nov 2, 2009
2030 Self-Support Account	A product that supports the financially disadvantaged overcome poverty	234	552	Jun 22, 2010
DGB Seed for New Hope Loan	A new product for continuous service after the end of the DGB Seed for Hope Loan	7,963	563	Nov 8, 2010
Happiness Protector Account	A product that prohibits seizure of government subsidies from those on the poverty line, exempting them from electronic banking fees, providing certificate issuance and limit-less re-issuance of bankbooks (common in all other banks in Korea)	1,615	163	May 11, 2011
DGB Conversion Loan	A loan that converts interest rates for those with high yearly interest rates of over 20%	354	30	Jun 30, 2011
Sharing Love Account	A product that spreads a culture of micro-donation among elementary, middle and high school students in Daegu	43,823	144	Sep 8, 2011
DGB Didimdol Soho (Self-Employed Support) Loan	A loan that strengthens financial support for low-income, self-employed workers	498	2,119	Nov 2, 2011

※As of the end of June 2012





## Community-Based Finance

### | Love Sharing Accounts |

Since September 2011, Daegu Bank has been selling Love Sharing Accounts in practicing its management philosophy of sharing and to spread a culture of micro-donations among elementary, middle, and high school students in the Daegu area. Donations made through Love Sharing Accounts will be deposited into the Daegu branch of the Korea Community Chest and the payment details of donations can be confirmed through the account. In addition, donors can designate and donate to the cause of their choice through the 'Designation Donation System.' With this improved system, donations can be used transparently and usefully, and donors can participate actively.

### | Love Sharing ETF Fund |

In May 2012, Daegu Bank became the first Korean bank to sell the 'Love Sharing ETF Fund.' This fund allows investors to directly participate in social contribution through fund investments. The product allows the donor to donate under their own name within the up-front fee limit. Investors who agree to donate the same amount as the up-front fee (0.5% of payment) of the investment to an organization of the vendor's choice, under the name of the beneficiary, can be exempted from the up-front fee.

### | Daegu Fighting! Term Deposit/Savings |

Daegu Bank started selling the 'Daegu Fighting! Fixed Deposit/Savings' in June 2012. This product was designed to support the Daegu FC professional soccer team and the successful opening of the '93rd National Sports Festival' held in Daegu in October 2012. Prime interest rate of up to 0.2% will be applied according to the Daegu FC's ranking in the K-League. Increases of 0.1%, up to a total of 0.4%, will be added according to the performance of the Daegu Team and the Daegu Bank Tennis Team at the 93rd National Sports Festival.



Daegu FC professional soccer team



Meetings with the CEO

DGB Financial Group provides comprehensive financial services under the goal of Total Life Care for our 3.68 million customers, which accounts for 71% of the regional population in Daegu and Gyeongbuk.

### | Received the Microfinance Award |

In December 2011, Daegu Bank received the Microfinance Award at the 2011 Korea Finance Awards, held by the Financial Supervisory Service and supervised by Maeil Business Newspaper. In order to enhance support for small-loan finance in 2011, Daegu Bank expanded the original contribution goal of 'DGB Seed for New Hope Loan' from KRW 40 billion to KRW 45 billion. It achieved the best performance results out of all banking institutions by contributing a total of KRW 457.4 billion in funds by the end of 2011. The Microfinance Award was a high recognition of Daegu Bank's efforts to support small-loan finance. Daegu Bank is strengthening its supportive loans to resolve the difficulties of local residents and to grow with them.

### | Contributions to Small-loan Finance |

Daegu Bank contributes to a range of small-loan finance products, such as the DGB Seed for New Hope Loan, DGB Business Partner Loan, DGB Smart Biz Loan, DGB Conversion Loan, DGB Hopeful Days Loan, and DGB Conversion Loans for Young People. It has contributed a total of KRW 0000 billion through 00000 cases to local residents and small business owners from 2008 to the present. Through these contributions, Daegu Bank is fulfilling its social responsibilities as a local bank and its role to grow with the local community.

#### Small-Loan Finance Loan Amounts (KRW in billions)

Type	2009	2010	2011	2012 (Target)
Small-Loan Finance Loan Amounts (KRW in billions)	744.9	382.1	747.9	785.2

※ As of the end of June 2012

### | Meetings with the CEO |

Daegu Bank CEO Ha Chun-soo leads 'CEO Meeting' sessions by regional groups to hear various opinions on work sites firsthand and to solve problems. The sessions started with the CEO Meeting in the Gumi area on March 22, 2011 and the CEO Meeting in the Seoul area was held on November 1st. The meetings are held at least once a month and are supervised by a bank director. The CEO has visited over 300 partner companies in person and listened to the difficulties on work sites. The CEO Meeting is a program that supports the difficult management circumstances of Daegu Bank's key partner companies.



## Small-Loan Finance

Daegu Bank offers a variety of customized services to help small business owners and low-credit customers find success.

### | DGB Business Partner Loan |

To provide better financial support to small business owners with good credit rating, Daegu Bank started offering the DGB Business Partner Loan in May 2010. This special loan offers up to KRW 150 million per borrower and does not require any credit guarantees. As of the end of 2011, we have provided KRW 1.2 billion with this loan.

### | DGB Seed for New Hope Loan |

As the sales of 'DGB Seed for Hope Loan,' a small-loan financial product, have ended in October 2010, Daegu Bank is offering the 'Seed for New Hope Loan'. This product uses about 10% of the operating profits from the previous year and offers it as credit loans to ordinary people. In May 2012, the target age group for this loan was expanded from 25 to 55 year olds to 25 to 65 year olds and its maximum contractual interest rate is limited to 14%, expanding its potential to provide financial support to more customers.

### | DGB Smart Biz Loan |

Celebrating the receipt of the 'Presidential Commendation for Outstanding Institutions that Financially Support Small and Medium-Sized Companies,' Daegu Bank launched the 'DGB Smart Biz Loan' in January 2011 to resolve the financial difficulties of local businesses and reduce their interest burden. We have contributed to the reinforcement of competitiveness of companies by supporting various preferential loans through the expansion of branch managers' authority to reduce interest rates, and the relaxation of credit evaluations and arbitrary decision rights.

### | DGB Conversion Loan |

In June 2011, Daegu Bank signed an agreement with the Korea Asset Management Corporation to implement the government's policy for the vitalization of small-loan finance and provide active financial support for local people and the financially disadvantaged. Since then, we have been offering the DGB Changing Dream Loan. The loan is targeted at individuals who have loans with high annual interest rate of over 20% and have received a credit guaranty from the credit recovery fund. We will fulfill our lasting role in creating a happier society through diverse financial support systems for everyone.

### | DGB Hopeful Days Loan |

In celebration of DGB Financial Group's 1st foundation anniversary in May 2012, Daegu Bank offered the DGB Hopeful Days Loan to support small business owners. This loan was created and targeted at customers with credit ratings of level 1 to 6 according to an 'MOU on the stability and vitalization of local economies' that was signed with the city of Daegu on May 10, 2012. The maximum term of this loan is 3 years and repayment is made through daily installments via automatic withdrawal. Through interest rate reduction options, borrowers can receive a reduction of up to 1%, which is treated as non-guaranteed credit.

#### DGB Smart Biz Loan

Presidential  
Commendation for  
Outstanding Institutions  
that Financially  
Support Small and  
Medium-Sized  
Companies



DGB Conversion Loan

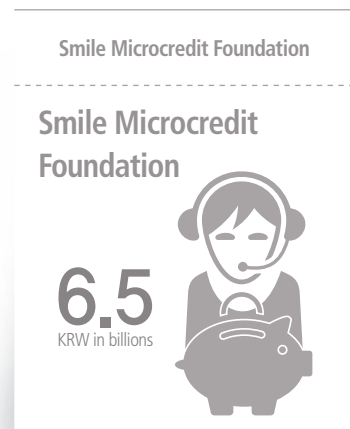


### | DGB Conversion Loans for Young People |

Daegu Bank signed an MOU on conversion loans for young people, including college students with high interest rate loans, with the Credit Counseling & Recovery Service in June 2012 to financially support disadvantaged populations and participate in the government's policies regarding the promotion of microfinance. The conversion loans allow low income young people, including college students and graduate students who are paying educational and living expenses with loans with interest rates of over 20%, to convert their rate to a fixed annual interest rate of 6% through the guarantee presented by the Credit Counseling & Recovery Service.

### | Smile Microcredit |

Smile Microcredit is offered to financially disadvantaged populations with credit ratings of 7 or lower that have difficulty using formal financial institutions. Using dormant bank deposits and contributions, Smile Microcredit helps them become financially independent by offering unsecured and non-guaranteed loans for the funds to open and operate businesses or improve their current business facilities. Smile Microcredit is offered to financially disadvantaged populations with credit ratings of 7 or lower that have difficulty using formal financial institutions. Using dormant bank deposits and contributions, Smile Microcredit helps them become financially independent by offering unsecured and non-guaranteed loans for the funds to open and operate businesses or improve their current business facilities.



Smile Microcredit Loans				
Type	2009	2010	2011	2012(Target)
Smile Microcredit Loans (KRW in billions)	19	31	11	4

Finance Loans					
Product	Offering Period	Support Scale			
		Total Accounts (accounts)	Total Support Amounts (KRW in billions)	No. of Current Accounts (accounts)	Balances (KRW in billions)
Special Loans for Liquidity Support to Self-Employed	2008.12.05 ~ 2009.12.31	8,223	118.2	5,794	37.3
DGB Hope Sharing Special Loan	2009.03.30 ~ 2009.12.31	653	225.9	224	79.2
DGB Love Sharing Household Loan	2009.04.01 ~ 2009.12.31	3,070	228.4	766	54
SME Hope Sharing Loan	2009.04.14 ~ 2009.12.31	3,264	84.6	2,240	36.8
DGB Seed for Hope Loan	2009.04.21 ~ 2010.11.08	2,872	27.9	1,357	11
Special Guarantee Loan for Financially Distressed Self-Employed	2009.08.03 ~ 2010.06.30	2,193	22.2	1,470	9.9
Door-to-Door Prime Loan for Small Business Owners	2010.02.22 ~ 2010.12.31	1,534	31.5	1,054	8.7
Special Guarantee Loan for Companies Creating Jobs	2010.05.28 ~ 2010.12.31	259	457.4	220	309.1
DGB Seed for New Hope Loan	2010.11.08 ~ present	10,225	81.5	7,963	56.3
DGBDGB Business Partner Loan	2010.05.02 ~ present	76	1.2	48	0.9
DGB Smart Biz Loan	2011.01.03 ~ 2011.12.31	509	185.8	357	131.5
DGB Conversion Loan	2011.06.01 ~ present	368	3.3	354	3
DGB Hopeful Days Loan	2012.05.17 ~ present	128	10.2	127	10.2

※As of the end of June 2012



# Green Finance

## Environmentally Responsible Activities



### | DGB Financial Group's Green Finance Division |

DGB Financial Group launched the Green Finance Division in December 2011. Major functions of the Green Finance Division include developing green growth strategies, setting the directions and strategies for the development of green financial instruments, maintaining internal and external networks and creating new business opportunities, operating the Green Management System (GMS), as well as publishing CSR reports and operating the bank's Sustainability Management Working Group.



DGB Cyber Green Branch

### | DGB Cyber Green Branch |

In May 2010, Daegu Bank launched its web-based environment-oriented DGB Cyber Green Branch, a first among Korean banks. The branch is comprised of four parts: the Green Product Mall, DGB Environmental Management, Environmental Information, and Green e-Banking. The Green Product Mall introduces various financial products, such as environment-friendly deposit/savings, environment-friendly funds, credit cards, and deposit/savings securities, which can be transacted through Green e-Banking. We provide many benefits to customers using Green e-Banking, such as fee discounts, prime interest rates, and free SMS. When customers purchase environment-friendly financial products, we use and donate portions of the profits to environment preservation activities, without any obligations from our customers.

#### Performance

Type	2010	2011	2012(As of the end of June 2012)
No. of accounts (accounts)	546	1,569	1,696
Amount (KRW in millions)	3,029	2,716	1,928

### | Environmental Management Checklist |

Daegu Bank applies the Environmental Management Checklist to its credit evaluation process when processing loans to expand environmental management to its customer companies. Increases in point values are granted to companies that score highly on the assessment. This checklist has been used since 2006, and can be applied to all organizations undergoing the CRMS, with the exception of schools and public organizations. Daegu Bank's credit process is part of its endeavor to fulfill environmental responsibilities as a financial organization.

#### Environmental Management Checklist-applied Companies and Rate of Application

Type	2009	2010	2011	2012(Target)
Checklist-applied companies (companies)	7,881	10,010	11,223	11,922
Checklist-exempted companies (companies)	190	139	174	129
Rate of checklist-applied companies (%)	97.64	98.63	98.47	98.93





### | Green Finance Products |

Daegu Bank offers a variety of green financial products to strengthen its exemplary role as an environment-friendly bank that proactively responds to global climate change. Green finance products are divided into the 4 categories: deposit, loan, fund and card products. Deposit products are divided into 2 categories: investment type deposit products and installment deposit products, which include eco-friendly deposits/savings, green health installment savings, e-convenient time deposits and e-convenient installment sav-

ings. Loan products include DGB Green Loans. In terms of fund products, we are operating the A-type and C-type KB Global Warming Thematic Trust Investments (Equities). Card products include various eco-friendly products, such as the DGB Green Card. As of 2012, a total of 0000 accounts and KRW 0000 of eco-friendly products were sold. Through the Eco-friendly Love Deposits, we offer additional interest rates and customers can participate in raising environmental protection funds without any additional obligations.

Green Finance Products						
Type	Green Finance Products	Description	Performance (accounts, KRW in millions)			
			Total Accounts	Total Amount	No. of Current Accounts	Current Amount
Installment Savings	Eco-friendly Green Installment Savings	This product offers prime interest rates of up to 0.4% to customers participating in the weekly No-drive Day Campaign, operating low-emission vehicles or bicycles, or engaging in carbon reduction activities.	42,770	184,510	1,218	13,064
	Green Health Installment Savings	In promotion of a low-carbon green lifestyle, this product offers prime interest rates to customers who walk to work or use public transportation, as well as subsidies on health check-ups.	8,089	25,022	1,684	3,305
	e-Convenient Installment Savings	This product is available on the Internet or via phone, without the need to visit a branch, and provides additional interest rates according to transaction conditions. Customers can also contribute to environmental protection funds subsidized by the bank.	21,348	75,717	3,050	8,219
Financial Technology Deposits	Eco-friendly Green Deposits	This product offers prime interest rates of up to 0.4% to customers participating in the weekly No-drive Day Campaign, operating low-emission vehicles or bicycles, or engaging in carbon reduction activities.	18,731	268,461	45	417
	e-Convenient Time Deposits	This product is available on the Internet or via phone, without the need to visit a branch, and provides additional interest rates according to transaction conditions. Customers can also contribute to environmental protection funds subsidized by the bank.	41,881	364,366	5,907	56,083
Offshore Funds	KB Global Warming Thematic Trust Investment (Equity) – Type A	This product invests in global blue chips with high growth potential with regards to global warming, such as alternative energy, greenhouse gas emissions reduction, energy-efficiency, and alternative fuel.	158	479	44	175
	KB Global Warming Thematic Trust Investment (Equity) – Type C	This product invests in global blue chips with high growth potential with regards to global warming, such as alternative energy, greenhouse gas emissions reduction, energy-efficiency, and alternative fuel.	129	297	19	69
Loans	DGB Green Loan	Based on eco-friendly performance evaluation results, this loan offers prime interest rates and fee discounts to ISO14001 certified businesses, LED manufacturers, and other eco-friendly businesses.	18	3,800	15	2,500
Cards	DGB Green Card	This card offers carbon points in energy saving, eco-money points when purchasing eco-friendly products, eco-money mileage when using public transportation, and discount services for tickets to nation-wide cultural and sports facilities. 0.1% of all credit sales amounts are accrued as mileage towards the Green Life Fund.	-	-	172,375	56,604

※As of the end of June 2012



LOVE  
AND SHARE



 our +

Local Community Involvement  
and Development



# Disclosure on Management Approach

## Vision

DGB Financial Group strengthens its local community through its strong regional roots and is making every effort to become a well-loved financial group. We strive to become an enterprise that shares dreams and prosperity with the local community as a result of a management engaged in active sharing.

## Strategic Direction



## Material Issues

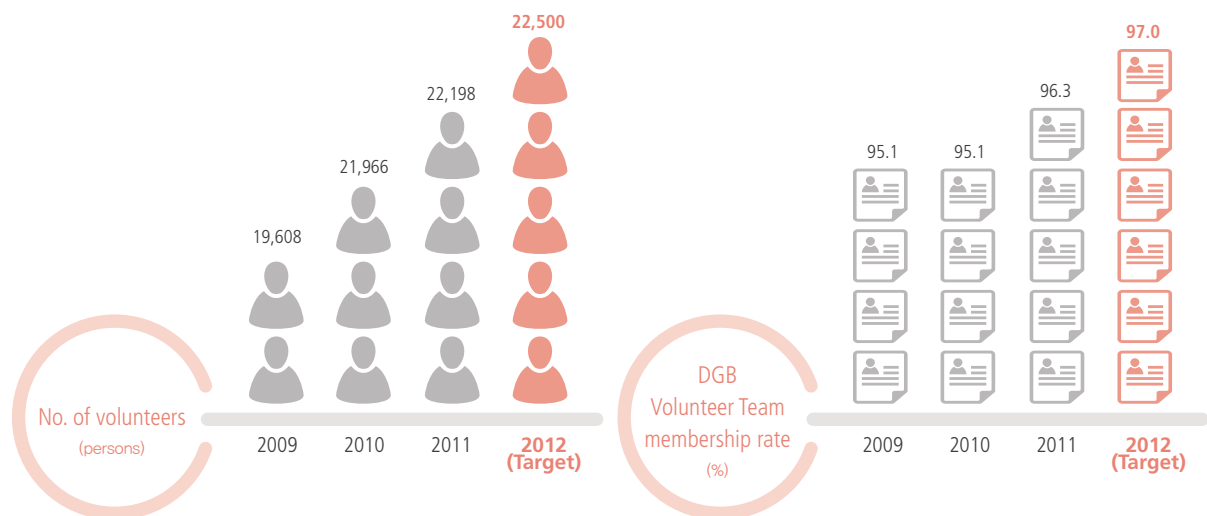
- Increasing youth unemployment and non-regular workers
- Increasing importance of partner companies' rights and roles
- Participation in economic development of the local community
- Contributions to local education and cultural development
- Generation of local wealth and income (utilization of local workforce and products)
- Investments and support for local development projects



- Promotion of socially responsible activities
- Increasing globalization and mutual relevance
- Efforts to improve local healthcare

## Key Performance Results

Type	2009	2010	2011	2012(Target)
Percentage of social contributions out of net profit (%)	8.9	8.3	7.8	8.0
No. of volunteers (persons)	19,608	21,966	22,198	22,500
DGB Volunteer Team membership rate (%)	95.1	95.1	96.3	97.0
Job creation (recruitment of new bankers) (persons)	103	171	177	124





# Mutual Growth

## Win-win Programs for the Region

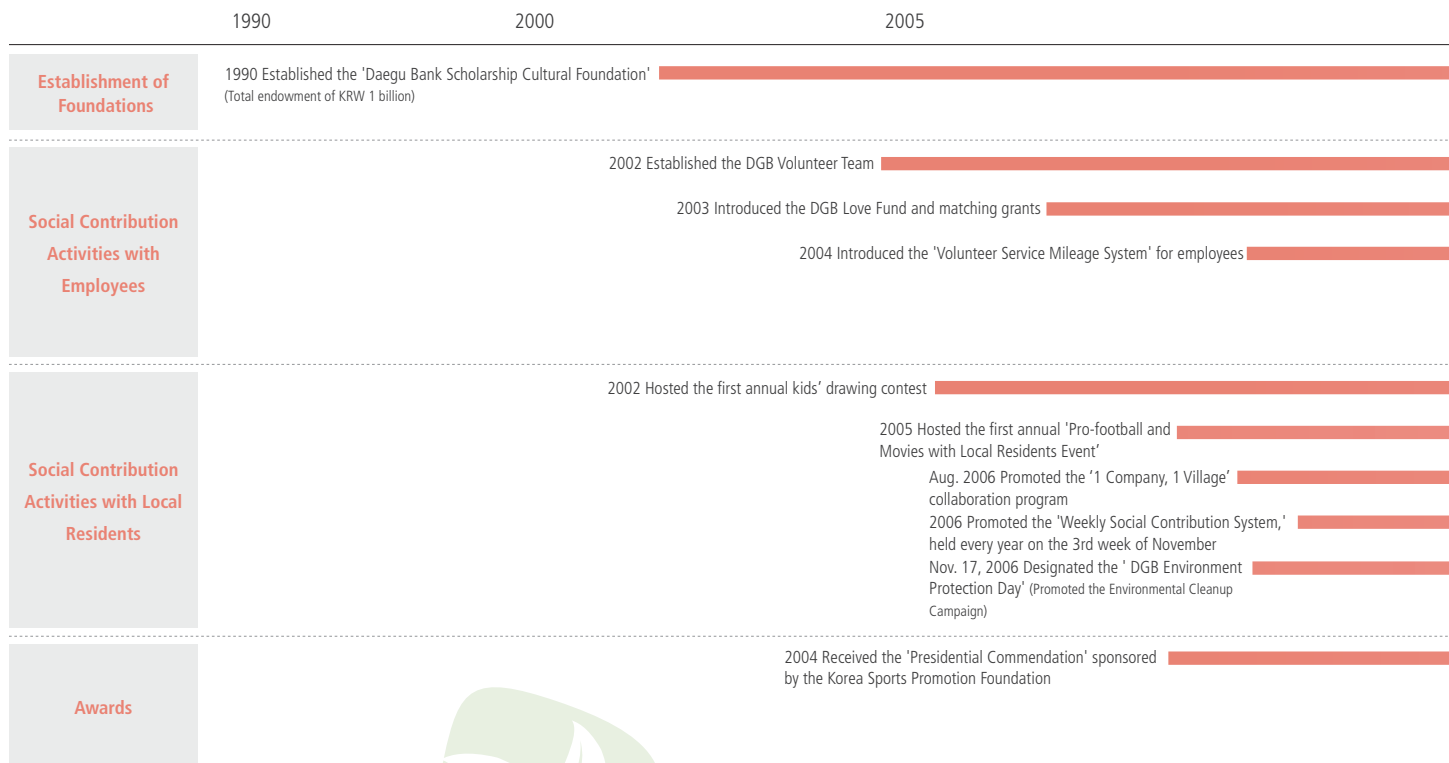


Strategic Business Partnership to Support the Inventory Finance of Local Textile Enterprises

### | Strategic Business Partnership to Support the Inventory Finance of Local Textile Enterprises |

In June 2012, DGB Financial Group entered into an 'Agreement for Strategic Business Partnership to Support the Inventory Finance of Local Textile Companies' with the Textile Cooperation Promotion Agency. Due to the recent European financial crisis, many textile companies are suffering a temporary decrease in sales, resulting in inventory surpluses. This agreement is made to help them take out loans on collateral of textile inventory in order to prevent dumping sales. Daegu Bank offers prime interest rates to companies requesting inventory finance, and by flexibly adjusting its support limits, it also takes an active role in helping local companies overcome the financial crisis.

## DGB Financial Group's Social Contribution Activities





Consumption Promotion Relay Campaign for the Revival of the Local Economy



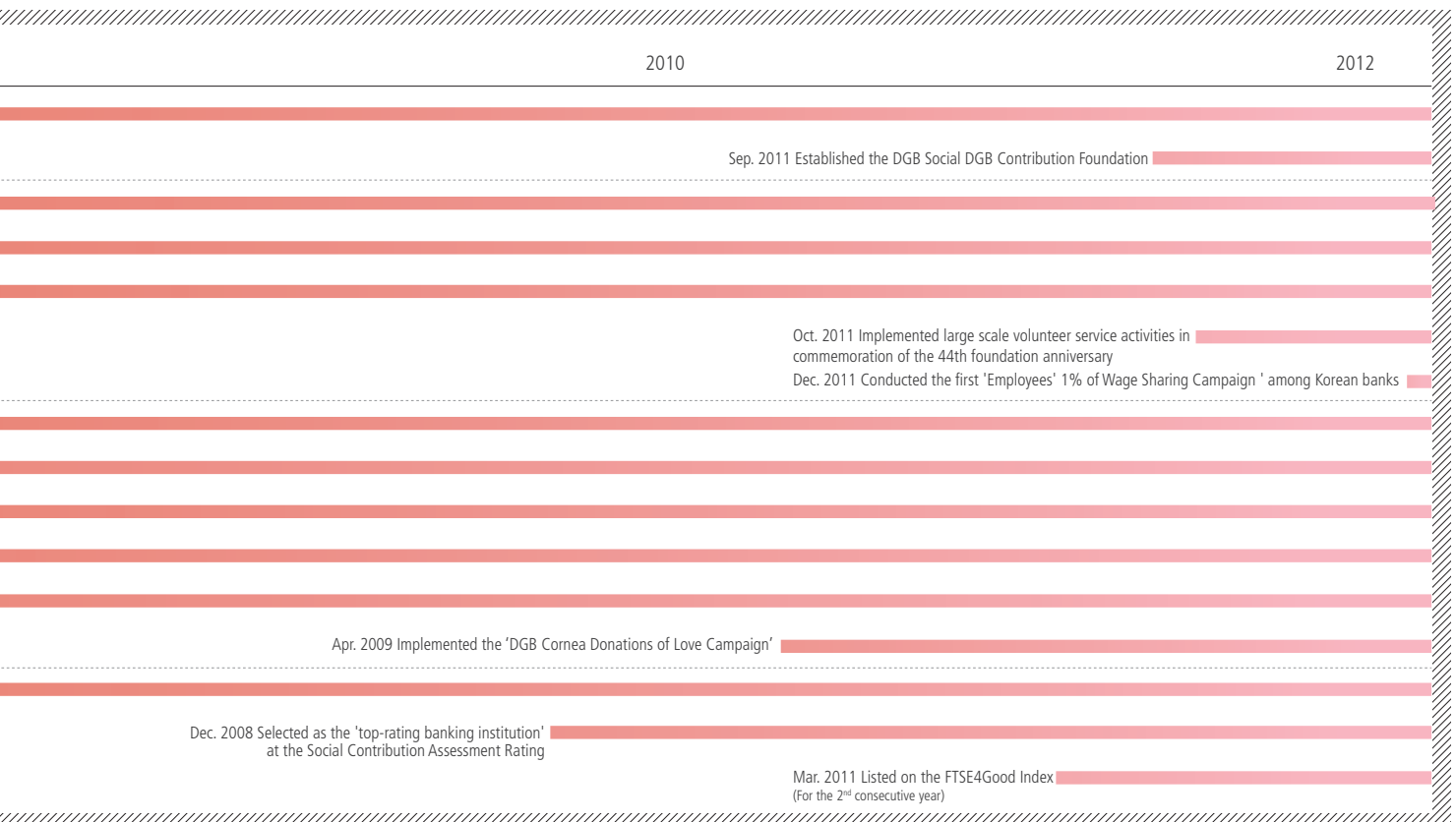
Business Partnership between DGB Financial Group and Daegu Gyeongbuk Development Institute to Develop Local Development Policies

### | Consumption Promotion Relay Campaign for the Revival of the Local Economy |

In May 2012, DGB Financial Group entered into an 「Agreement for the Consumption Promotion Relay Campaign」 for the revival of the local economy with 6 different organizations: the Daegu Chamber of Commerce and Industry, Daegu Gyeongbuk Branch of Korean Women Entrepreneurs Association, Daegu Gyeongbuk Branch of Korea Federation of Small and Medium-sized Businesses, Daegu Gyeongbuk Convergence Federation of Small and Medium-sized Businesses, and the Daegu Council of Consumer Organizations. Through the agreement, these 6 organizations are committed to carrying out various projects, such as designating one day of the week as Family Day and promoting dining-out with family, which helps revive the local restaurant industry, and designating Traditional Market Shopping Day, which promotes Onnuri gift certificates and public transportation.

### | Business Partnership between DGB Financial Group and Daegu Gyeongbuk Development Institute to Develop Local Development Policies |

In April 2012, DGB Financial Group signed an 「Agreement of Mutual Business Exchange for Local Policy Development」 with the Daegu Gyeongbuk Development Institute. Both organizations will strive to contribute to the revival of the local economy by jointly conducting extensive research and holding various seminars, symposiums, and workshops for the development of the local community and local economy.







DGB University Student PR Corps



Youth Employment Academy

### | Job Creation |

Daegu Financial Group recruits university students for the DGB University Student PR Corps, DGB University Student Green Press Corps and the Youth Work Experience Program to give them positive experiences and encouragement to work in the finance industry in the future. We also contribute to decreasing youth unemployment by recruiting new employees (high school and university graduates).

**DGB University Student PR Corps** ● Every year since 2009, Daegu Bank selects 20 university students in Daegu and Gyeongbuk to conduct various activities, such as volunteer service for community centers and rural communities, nature conservation projects, and PR for Daegu Bank's financial products. These programs are conducted over 50 times in the local community every year and have all been well received. The university students selected for the DGB University Student PR Corps receive a fixed monthly activity subsidy for their educational expenses and they fulfill outstanding roles as intermediaries between the company and the local community. By expanding the DGB University Student PR Corps from 20 students to 30 university students, Daegu Bank continues to provide opportunities to local university students and offer them positive experiences.

**Youth Job Experience Program** ● DGB Financial Group has been operating the Youth Job Experience Program in cooperation with local universities. The 6 month program offers university students the opportunity to have a hands-on experience of working in a bank while earning 15 course credits towards their graduation. We are giving students a chance to explore career paths and develop work experience to overcome the difficulties of youth employment.

**Internship Program** ● Daegu Bank conducts various job creation programs for the local community. We hire interns to utilize talented local university students and to contribute to creating jobs through the resolution of youth unemployment. We recruited 150 interns in 2010, 50 interns in 2011, and 50 interns in 2012.

**Youth Employment Academy** ● Since 2011, Daegu Bank has been conducting the 'Key-Man Training Course' and the 'Mid-Level Banker Training Course' for the promotion of youth employment. 120 students have completed the 'Key-Man Training Course' and 54 students have finished the 'Mid-Level Banker Training Course.' In 2012, 60 students participated in the 'Key-Man Training Course,' 40 in the 'Foreign Trade Training Course,' and 90 in the 'Customized Financial Workforce Training Course.'

#### Jobs Created in the Local Community

Type		2010	2011	2012(Target)
No. of interns recruited		150	50	50
No. of persons selected from the Youth Employment Academy	Key-Man Training Course	-	120	60
	Mid-Level Banker Training Course	-	54	55
	Foreign Trade Training Course	-	-	40
	Customized Financial Workforce Training Course	-	-	70

※ Youth Employment Academy courses began in 2011



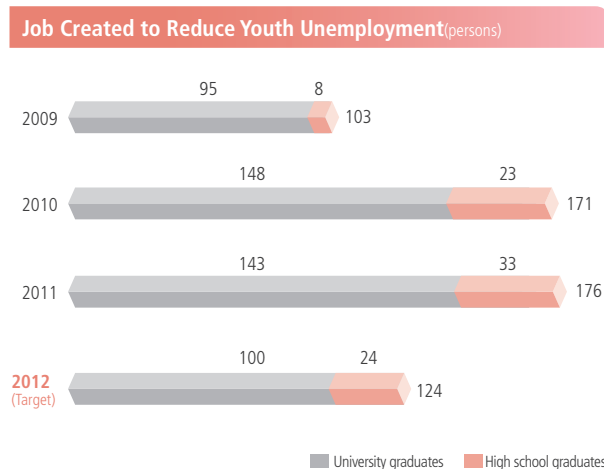


**Daegu Bank Job Fair** ● In September 2011, Daegu Bank held a job fair in the auditorium of its head office. This event was created to recruit new bank employees for the second half of this year, and about 400 applicants participated. In celebration of DGB Financial Group's first year of establishment, various informational sessions were offered to applicants on topics such as, the personnel system, welfare benefits, and wages. In-depth Q and A sessions and additional consultation corners were also provided.



Daegu Bank Job Fair

**Recruitment of New Employees** ● Daegu Bank, the most preferred company in the region, participates in overcoming employment problems of high school graduates and university graduates by hiring new employees every year. Notably, Daegu Bank led in resuming the recruitment of high school graduates, a practice that had disappeared after the IMF crisis, and hired a total of 122 high school graduates from 2003 to 2011. In addition, we have contributed to promoting youth employment in the local community by hiring a total of 878 university graduates since 2003. Daegu Bank will continue to strengthen its role in growing with the local community.



**| CEO Forum |**

DGB Financial Group holds an annual CEO Forum for CEOs in the Daegu, Gumi, Pohang, and Gimcheon area to reinforce the competitiveness of local companies. We invite prominent instructors active in various fields, such as strategy, human resources, marketing, and culture, and provide CEOs with crucial knowledge and information. Since its beginning in 1996, the CEO Forum has become a place for the exchange of opinions from representative CEOs in the region. DGB Financial Group recognizes that the competitiveness of local companies will grow with the group's sustainable development. We will strengthen our role as a provider of diverse information and ideas for local CEOs through the CEO Forum.

**| Business Consulting Services |**

Daegu Bank contributes to the enhancement of local companies by providing consulting services in various areas, including management strategies, marketing, personnel organization, finance and accounting, sales, production management, green biz, and employee training, based on the extensive information and know-how it has accumulated over the past 44 years. We do this to help local companies enhance their management performance and efficiency through management innovation. We have provided management consulting services for a total of 373 companies from 2007 to 2011. We are strengthening our role in our mutual growth with local companies by providing consulting services for their sustainable growth.

Business Consulting Service Records				
Type	2009	2010	2011	2012 (Target)
No. of companies receiving business consulting services (companies)	91	85	82	65

**| Conferences with Partners Companies |**

In March 2012, DGB Financial Group invited the representatives from partner companies to join in a workshop on win-win cooperation. At this workshop, we discussed problems related to the system improvements that were proposed during the 2011 workshop and gathered opinions on future improvement plans. DGB Financial Group proposed standards for fair competition and win-win cooperation between companies to promote sustainable cooperation. We also shared our partner companies' opinions related to the proposals. In addition, we discussed plans for various types of system introductions for our partner companies' sustainability management. DGB Financial Group promotes continuous cooperation for the mutual growth of subsidiaries and partner companies and strengthens its role for its social responsibility



Conference with partners companies



# Social Contributions



## Social Contribution System

DGB Financial Group will continue to carry out various volunteer service and sharing activities for mutual growth with the local community.



Establishment of DGB Social Contribution Foundation

### | DGB Social Contribution Foundation |

In September 2011, DGB Financial Group established the DGB Social Contribution Foundation that covers the DGB Volunteer Team, DGB Scholarship Foundation, and the establishment of environmental-global, cultural-sports-arts, and social organizations. The foundation is the first comprehensive social contribution foundation among Korean banks and its KRW 15 billion-scale operation is largest among local financial institutions. Through the establishment of this foundation, DGB Financial Group will strengthen communication channels with the local society and its continuous role in growing with local community and its residents.



DGB Financial Group Meals of Love volunteer service

### | DGB Financial Group Volunteer Corps |

In March 2012, DGB Financial Group reorganized and expanded the DGB Volunteer Team that was operated by Daegu Bank and launched the DGB Financial Group Volunteer Corps. The new Volunteer Corps, which includes 5 subsidiaries: Daegu Bank, DGB Capital, Kardnet, Daegu Credit Information, and DGB Data System, will lead in exhibiting the community-based management for DGB Financial Group's sustainable growth. Daegu Bank had been operating the DGB Volunteer Team since 2002, with 95% of its employees participating in a total of 29 volunteer teams serving the Daegu, Gyeongbuk, and Seoul area.

### DGB Social Contribution Foundation's Key Programs (Sep. 2011 ~ Jun. 2012)

Areas	Main Programs	Contributions (KRW in millions)
Society	Establishing social organizations, etc.	450.0
Children/ Adolescents	Helping those raising grandchildren on their own, Hope Sharing School, Children's Day events, etc.	230.6
Support for People with Disabilities	Supporting welfare facilities, vocational training for people with disabilities, and defoliant sufferers, etc.	14.5
Multicultural Families	Publishing 'Rainbow World,' supporting athletic competitions for foreign workers, etc.	26.0
Cultural Events	Love Sharing Benefit Shows, Family Love Festivals, sponsoring the discovery of cultural assets, etc.	28.6
Support for Senior Citizens	Meals of Love volunteer service, Silvers Unite Festival, New Years Charity Events, etc.	31.8
Support for Athletics	Sports festivals for international youth, etc.	263.0
Environment	Anti-desertification forest creation in Mongolia, etc.	62.0
Others	Supporting traditional markets, veteran families, etc.	78.5





**| DGB Child Welfare Agency, a Preliminary Social Organization |**

In March 2012, DGB Social Contribution Foundation established the 'Bluebird Dream Center for Children,' the first welfare facility for children and youths founded by a financial institution in Korea. The center runs various programs, such as 'School Safety Belt,' a solution program for school violence, and 'Alto, Racto,' a Saturday program for solving children and youth issues that can arise during the five-day school week. In addition, the center operates a day/night care programs for children from disadvantaged social groups, while offering study guidance and personality education. Having various facilities such as a library, cinema, gym, and cafeteria, as well as professional instructors and social workers, the center has become a safe and beneficial welfare facility. The DGB Social Contribution Foundation will continually improve its role to strengthen its social responsibility: 'Sharing Dreams and Prosperity with the Local Community.'

**| DGB Volunteer Team's Major Activities in 2011 |**

The DGB Volunteer Team is involved in community projects that include labor services, social and cultural events, donations, and environmental preservation. Its major programs include: the 'Hometown Love Campaign' held in association with 23 cities and towns in the Gyeongbuk region, 'Sharing Coal and Kimchi with Love' through the DGB Love Fund, 'Free Meals on the Move Event,' helping children with incurable diseases, supporting welfare facilities and volunteer work, feeding migratory birds, and putting up forest fire warning banners. In 2011, a total of 22,198 people participated in a total of 1,315 community programs for the local community and its residents.

**DGB Volunteer Team's Major Activities in 2011**

Total of **22,198** people participated in a total of **1,315** community programs



**| DGB Financial Group Women's Association |**

In 1975, 16 wives of directors at branches of Daegu Bank formed a group to promote mutual friendship and participate in volunteer services for the local community. As of 2012, the DGB Financial Group Women's Association has about 300 active members. Every month, the association participates in a variety of volunteer programs, including volunteer services at welfare facilities, free meal programs, free meal events at charity markets hosted by the Red Cross, and serving shaved ice treats to employees and major clients. They also provide strong support to Daegu Bank's sharing management.



Bluebird Dream Center for Children



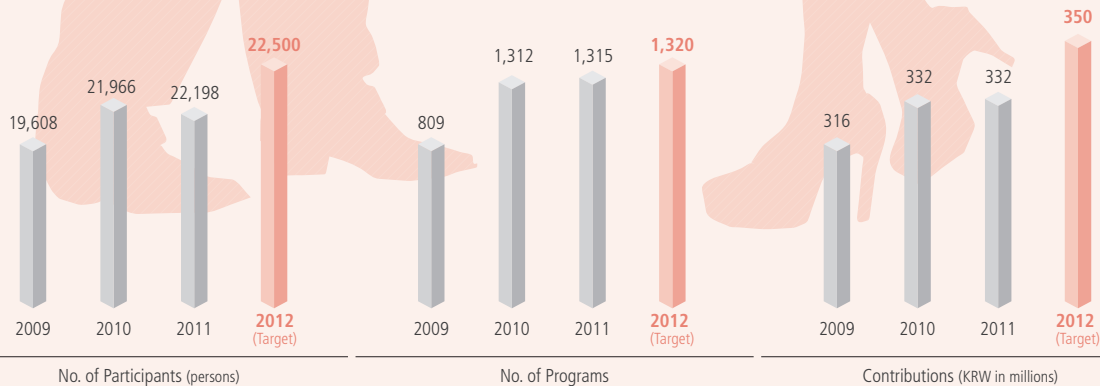
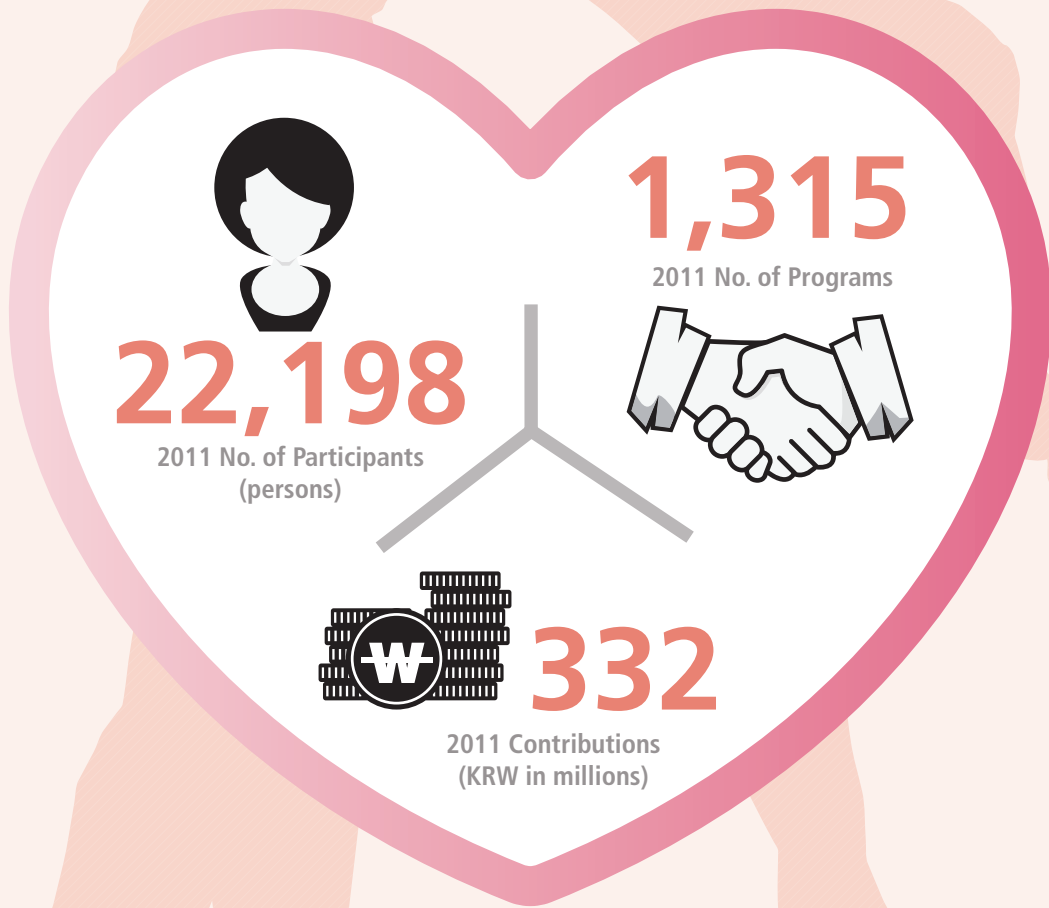
Bluebird Dream Center for Children



DGB Financial Group Women's Association



# Volunteer Service Programs





### | Daegu Bank's Major Social Contributions Activities |

Daegu Bank has continuously participated in social contribution activities in various fields, including the local community and public interest, culture, sports and arts, and micro credits.

### | Campaign to Find Owners of Dormant Trust Accounts |

Daegu Bank and the Financial Supervisory Service jointly conducted a 'Campaign to Find Owners of Dormant Trust Accounts' to protect the rights of financial consumers. We found KRW 1,387,084 in a total of 1,977 accounts for customers during the campaign. Through this campaign, we will strengthen our social role as a transparent, reliable bank to improve customer satisfaction.

2011 Social Contribution Activities by Area				
Area	Main Programs	Participation (no. of times)	Contribution Amounts (KRW in billions)	No. of Volunteers (persons)
Local Community · Public Interest	Operation of the DGB Volunteer Team, free meal programs, blood donation drives, longevity photo shoots for seniors, Hometown Love Campaign, Good Fortune Ginseng Chicken Soup Sharing Event, etc.	20,404	11.5	13,157
Academic-Education (No. of educational beneficiaries)	Daegu Bank Scholarship Cultural Foundation, Love Sharing Accounts Business, DGB Dokdo Love Golden Bell Quiz, and DGB Financial Economic Education Agency	115	2.8	226
Environment	Nakdong river information, creation of the Forest of Hope, setting up forest fire warning banners while hiking, etc.	422	0.1	9,041
Culture · Sports · Arts	Children's Drawing Contest and Women's Essay Contest, Professional Soccer/ Free Invitation Baseball Event	142	3	8,544
Global Social Contribution	Anti-desertification forest creation project in Mongolia, etc.	1	0.13	-
Micro Credit	DGB Happiness Sharing Project, Dormant Savings and Smile Finance, etc.	-	6.85	-
<b>Total</b>		<b>21,084</b>	<b>24.38</b>	<b>30,968*</b>

\* Includes 8,770 volunteers from each branch's own social contribution programs

Scholarship Cultural Foundation's Scholarship Contributions (Unit: KRW in millions)								
Year	Middle School		High School		University		Total	
	No. of recipients	Amount	No. of recipients	Amount	No. of recipients	Amount	No. of recipients	Amount
1991~2008	716	288	1,089	908	1,033	1,759	2,838	2,955
2009	-	-	111	175	89	216	200	391
2010	-	-	115	182	94	245	209	427
2011	-	-	118	181	95	264	213	445
<b>Total</b>	<b>716</b>	<b>288</b>	<b>1,433</b>	<b>1,446</b>	<b>1,311</b>	<b>2,484</b>	<b>3,460</b>	<b>4,218</b>

Campaign to Find Owners of Dormant Trust Accounts		
Area	No. of accounts	Amounts (KRW in thousands)
Fixed Dividend Trust (A)	18	3,356
Principal Preservation Trust (B)	181	1,000,929
Merit Allocation Trust (C)	1,778	382,799
<b>Total Unspecified Trust Cash Fund (A+B+C)</b>	<b>1,977</b>	<b>1,387,084</b>



Love Sharing Account Business



# Social Contribution Programs



## Sharing with the Local Community

DGB Financial Group has always been there for disadvantaged groups in the local community. Sharing with our neighbors in need is our way of extending neighborly love and promoting mutual growth with the community.



Free Meals from Our Hearts



Neighborly Love, Community Love Campaign



Ginseng Chicken Soup of Love for Summer



'Good Fortune Ginseng Chicken Soup Sharing Event' for Summer Enjoyment

### | Bank Love Sharing Network |

DGB Financial Group conducts various volunteer services through the 'Bank Love Sharing Network Campaign', co-hosted by the Korean Federation of Banks. We promote sharing programs for the local community, including 'Free Meals on the Move,' the 'Saving Traditional Markets Event,' and 'Meals of Love' events held by the DGB Financial Group Women's Association.

### Season of Neighborly and Community Love' in Honor of Daegu Bank's 44th Founding Anniversary

● In honor of Daegu Bank's 44th foundation anniversary on October 7, 2011 and with a deep sense of gratitude for all its local residents and customers, DGB Financial Group led a large-scale neighborly love movement with the participation of all its employees, by designating the whole month of October as the 'Season of Neighborly and Community Love.' 'Neighborly Love' represents DGB Financial Group's desire to show its appreciation to local communities and its customers, as part of its Community Love Campaign.

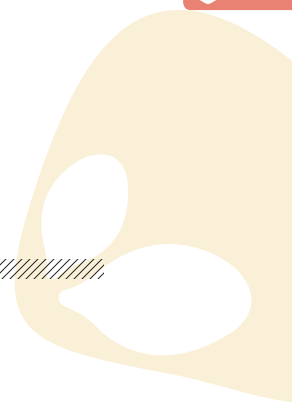
**Employees' 1% of Wage Sharing Campaign** ● In December 2011, DGB Financial Group started the 'Employees' 1% of Wage Sharing Campaign' through a joint labor-management proclamation. By raising approximately KRW 800 million in funds every year, we are conducting various social contribution activities, such as scholarship programs for children from low-income and financially disadvantaged families, contributing support to kimchi making, coals of love and free meals, and helping hungry children. DGB Financial Group will continue to strengthen its sharing activities with the local community.

**Longevity Photo Shoots for Seniors** ● In 2012, Daegu Bank held a photo shoot for about 80 seniors citizens at the Daedeok Senior Welfare Center to wish them good health and longevity. About 1,500 seniors have participated in the photo shoots since the event started last year as part of the bank's management philosophy of sharing with the local community. The event will continue in 2012 and will be gradually introduced to different regions for seniors at local senior welfare centers. Notably, Daegu Bank employees personally touch up the photos, frame them, and deliver them in person as part of the 'employees' talent donations' program. Daegu Bank will actively promote its "warm-hearted finance" that creates and shares happiness by conducting differentiated social contribution activities, such as this longevity photo shoot that brings happiness local seniors citizens.

**'Good Fortune Ginseng Chicken Soup Sharing Event' for Summer Enjoyment** ● In July 2011, DGB held a 'Good Fortune Ginseng Chicken Soup Sharing Event' for senior citizens from 23 senior welfare centers in Daegu and the Gyeongbuk region to practice its sharing management with the local areas. Around 250 volunteers from the DGB Volunteer Team and nearly 4,000 senior citizens participated in the event.

**Kimchi Making and Sharing with Love Event** ● In November 2011, DGB Financial Group held the 'Kimchi Making and Sharing with Love Event' in cooperation with the Daegu Branch of Korea Red Cross (President Nam Seong-hee). A total of 100 people participated in this event, 70 people from the DGB Volunteer Corps and the Women's Association, including new recruits, and 30 from the Red Cross Service Group. The volunteers made 5 tons of kimchi and distributed 10kg each to about 430 households from disadvantaged social groups, including senior citizens who live alone and grandparents raising grandchildren.





**| The 11th Dokdo Love and Visiting Event |**

In May 2012, DGB Financial Group held the 11th Dokdo Love and Visiting Event. To promote patriotism and interest in Dokdo, DGB Financial Group holds this event every year and selects some customers who are using the Cyber Dokdo Branch of Daegu Bank. This year, there were about 30 participants from the DGB College Student Green Press Corps and College Student Ambassadors, including winners of the 1st DGB Dokdo Love Golden Bell Quiz. Since the opening its Cyber Dokdo Branch in 2011, Daegu Bank has implemented various Dokdo support projects, such as contributing to funds to build a Dokdo Museum and the revival of the Dokdo abalone industry.



The 11th Dokdo Love and Visiting Event

**| CEO's Message of Hope |**

In October 2011, CEO Ha Chun-soo delivered a 'CEO's Message of Hope' during a visit to the Hanel Community Childcare Center. This program was held as part of a customized social contribution activity for children and teenagers, who will assume leading roles in the future society. Hanel Community Childcare Center provides after-school programs for children from double- or low-income families. CEO Ha Chun-soo delivered a message filled with hope and dreams for children, while wearing a green Santa Claus costume symbolizing 'Hope,' and even made a 'Hope Tree' out of cards with children's wishes.



CEO's Message of Hope

**| 2011 Hope Sharing School Summer Camp |**

In August 2011, DGB Financial Group held the '2011 Hope Sharing School Summer Camp' in association with the Daegu Office of Education (Superintendent Woo Dong-gi). This program was designed to strengthen the characters and social adaptability of participating students and offer them cultural experiences and counseling. About 550 students from 21 elementary schools and 5 middle schools in the Daegu region participated in this camp. 'Financial Economy Classes' were also held to help students develop good financial senses.



2011 Hope Sharing School Summer Camp

**| Daegu Bank Labor Union's Contributions to Disadvantaged Social Groups |**

Since 2006, the Daegu Bank Labor Union (Leader Kim Gi-man) has continuously participated in community projects for children of families without parents, children in welfare facilities, those raising grandchildren on their own, and hungry children through the Daegu-Gyeongbuk regional headquarters of the Children's Foundation. The Social Contribution Fund that supports these projects is created by our employees' voluntary participation.



Labor Union's Visions & Dreams

Daegu Bank Labor Union's Contributions to Disadvantaged Social Groups (KRW in millions)				
Type	2009	2010	2011	2012.6
Fostering gifted children, hands-on foreign culture experiences, helping children with incurable diseases, children from multicultural families, support for scholarship funds, donations and facilities for single mothers, making notebooks for preventing missing children, etc.	106	121	260	106





## Educational, Cultural, Artistic, Sports Programs



DGB Dokdo Love Golden Bell Quiz

### | DGB Dokdo Love Golden Bell Quiz |

The '1st DGB Dokdo Love Golden Bell Quiz' was held on December 17, 2011 to reinforce historical and cultural awareness for Dokdo and financial common sense for middle and high school students in Daegu and the Gyeongbuk region. A total of 400 students participated in the preliminaries, 102 students advanced to the semi-finals, and 14 students competed in the final round. Seo Ji-su from Daegu Girls' High School won the final round, received prize money of KRW 10 million, a reward for her school, and an opportunity to visit Dokdo.



The 11th Children's Drawing Contest

### | 'The 2nd DGB LADY CLUB' Graduation Ceremony |

The 'DGB LADY CLUB' is built on a concept of a women's college and is composed of 60 female members from the Daegu area. It was formed to offer its members a place to exchange ideas and receive high quality lectures. For six months, the club offered its members various lectures on investment techniques, laws, liberal arts, smile therapy, and cooking traditional food. The DGB LADY CLUB, different from other courses for housewives ran by other institutions, offers VIP female customers in Daegu various opportunities to participate in educational programs.

### | The 11th Children's Drawing Contest and Women's Essay Contest |

In April 2011, Daegu Bank held the 11th Children's Drawing Contest and Women's Essay Contest at the Daegu World Cup Soccer Field. It is the largest cultural event held in the region every year that offers hopes and dreams to children and an opportunity for female customers to participate in local cultural activities. In 2012, we also participated in the 'Professional Football Customer Invitation Event' at the Daegu World Cup Soccer Field that took place after the two events.



A Special Exhibition of Love for Dokdo

### | A Special Exhibition of Love for Dokdo |

To celebrate the 10th anniversary of the launching of its cyber Dokdo branch, Daegu Bank held a special exhibition on Dokdo in August 2011. The exhibition featured 150 photographs of Dokdo's nature and life, videos, ancient documents and maps related to Dokdo. In order to clarify historical, geographical, and environmental facts about Dokdo, Daegu Bank launched the 'cyber Dokdo branch,' an internet-based branch in 2001. Portions of this branch's operating revenues are used for events to promote Dokdo.

#### Use of Funds for Dokdo

Area	Main Programs	Contributions (KRW in millions)
Dokdo projects (2011~2012)	Seom-mal Nari Restoration Event, Care Package Delivery for Dokdo Guards, revival of Dokdo's indigenous abalone industry, delivery of compensation for village director Kim Seong-do, essays on love for Dokdo, etc.	1,660





**| Magoksa Temple Stay Program, 'Relaxation at a Mountain Temple' |**

In celebration of DGB Financial Group's foundation, Daegu Bank conducted a temple stay program, 'Relaxation at a Mountain Temple,' at Magoksa Temple located in Gongju, Chungcheongnam-do for its VIP customers in June 2011. Temple stay programs allow visitors to experience and learn about the lives of monks and enjoy the beauty and peace of Buddhist temples. The temple stay program was held for two days and one night with 41 VIP customers.



Magoksa Temple Stay Program, 'Relaxation at a Mountain Temple'

**| Hope Sharing Concert |**

In December 2011, the Daegu Bank Scholarship Cultural Foundation and Daegu District Bar Association held a 'Hope Sharing Concert' for teenagers in the auditorium of the Daegu Bank head office. In celebration of the Christmas season, this concert was organized to encourage local children and teenagers in need and has been held three times this year. Transportation cards, bookstore gift certificates, and stationery were given as gifts to the 200 students invited to the event, and after the concert, about 20 lawyers participating in the event provided counseling sessions for teenagers on conventional laws and future career paths.



Hope Sharing Concert

**| Home Runs of Love Zone |**

Since 2006, Daegu Bank has been operating the 'Home Runs of Love Zone' inside the Daegu Baseball Stadium for the enjoyment and encouragement of local residents. Whenever a home run is hit into the zone, KRW 1 million is raised for a year-end charity fund. The fund is a matching grant, so Daegu Bank donates the same amount as the DGB Love Fund, which is raised by portions of employees' monthly salaries. In 2011, Daegu Bank donated the funds raised from 0 home runs to 0. We have donated a total amount of KRW 0 million since 2006.



Home Runs of Love Zone

**| Cheering for the 2011 Daegu IAAF World Championships |**

In August 2011, DGB Financial Group hosted a large pep rally for the success of the '2011 Daegu IAAF World Championships' and for the women's marathon event that included 3 runners from Daegu Bank. About 1,500 employees from DGB Financial Group participated in the event and the 'Daegu, Go Beyond! Hanmaeum Concert' was held in the open square of the head office to share the festivities with local residents.



Cheering for the 2011 Daegu IAAF World Championships





# GREEN INITIATIVE



**ECO+**  
Green Management



# Disclosure on Management Approach

## Vision

DGB Financial Group solidifies its initiative to establish a foundation for creation of new profits by improving its brand image as a green banking leader and strengthening its capabilities to promote carbon banking.

## Strategic Direction

**Response to Climate Change**

**Environmental Performance Management**

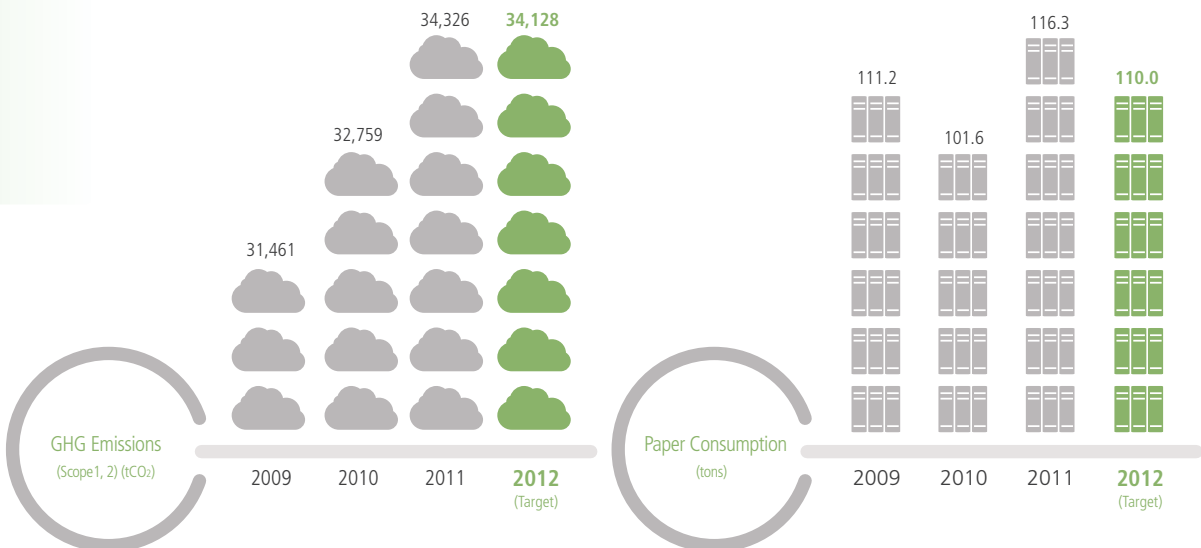
## Material Issues

- Climate change

- Reduction of energy consumption and utilization of renewable energy

## Key Performance Results

Type	2009	2010	2011	2012(Target)
The total Amount of GHG emissions (Scope 1, 2)(tCO <sub>2</sub> )	31,461	32,759	34,326	<b>34,128</b>
The total Amount of water consumption (per branch)(m <sup>3</sup> )	114,650	103,435	119,266	<b>115,000</b>
Paper Consumption (ton)	111.2	101.6	116.3	<b>110.0</b>







# Response to Climate Change



## Anti-Desertification Forest Project in Mongolia



DGB Financial Group, 'The 4th DGB Anti-Desertification Forest' Event

### | 'The 4th DGB Anti-Desertification Forest' Event |

In June 2012, DGB Financial Group held 'The 4th DGB Anti-Desertification Forest' event with its employees and about 100 Mongolian citizens in Munggunmorit, Mongolia. These events started in 2007 with the donation of a 'DGB Korea-Mongolia Friendship Well' to resolve the drinking water shortage in the region. We have planted about 180,000 trees, such as pines, Biseul trees, and larches over the past 3 years starting from 2009. To celebrate the 4th anniversary of the event, 20 employees from DGB Financial Group planted about 2,100 vitamin trees over a 3-hectare area with the governor of Munggunmorit and 100 local residents. These trees, in addition to the 10,000 trees we have planted in the region, have become part of the forest. Moreover, we delivered 500 articles of winter clothing to Munggunmorit residents and held friendly volleyball matches for a lasting friendship between Korea and Mongolia. We awarded scholarships to 4 local Munggunmorit students studying in Ulaanbaatar, the capital of Mongolia, and 2 Mongolian Ph.D. students studying abroad in Daegu and the Gyeongbuk area in Korea.

## DGB Financial Groups Environmental Management Activities

	2006	2007	2008
Proclamations of Global Standards	Sep. 2006 Joined the UN Environment Programme Finance Initiative (UNEP FI)	Apr. 2007 Adopted the Global Climate Change Manifesto	
	2006 Set partner companies on Green standards		
Environmental Contribution Activities		Nov. 2007 Signed an MOU to participate in the creation of the Daegu Solar Canopy	Mar. 2008 Proclaimed the DGB STOP CO <sub>2</sub> Plan
Environmental Management System		Nov. 2007 Received the 'Outstanding Company Award' in the finance category at the LOHAS Management Awards	
	2006 Received the 'Environment-friendly Management Award'		2008 Received the top Daegu Metropolitan City Mayor's Award at the 'Energy Conservation Promotion Convention'
Awards			



## Protection of Natural Habitats and Biological Diversity

### | Ecological Restoration of Seommalnari on Ulleongdo |

Every year, DGB Financial Group sends a visiting group of employees and local residents to Ulleongdo to promote the ecological restoration of Seommalnari, a rare species of lilies native to Ulleongdo. We donate all proceeds from the cyber Dokdo branch to ecosystem projects, such as the protection of sea lions and abalone, in cooperation with the Ecological Restoration Research Team.



Ecological Restoration of Seommalnari on Ulleongdo

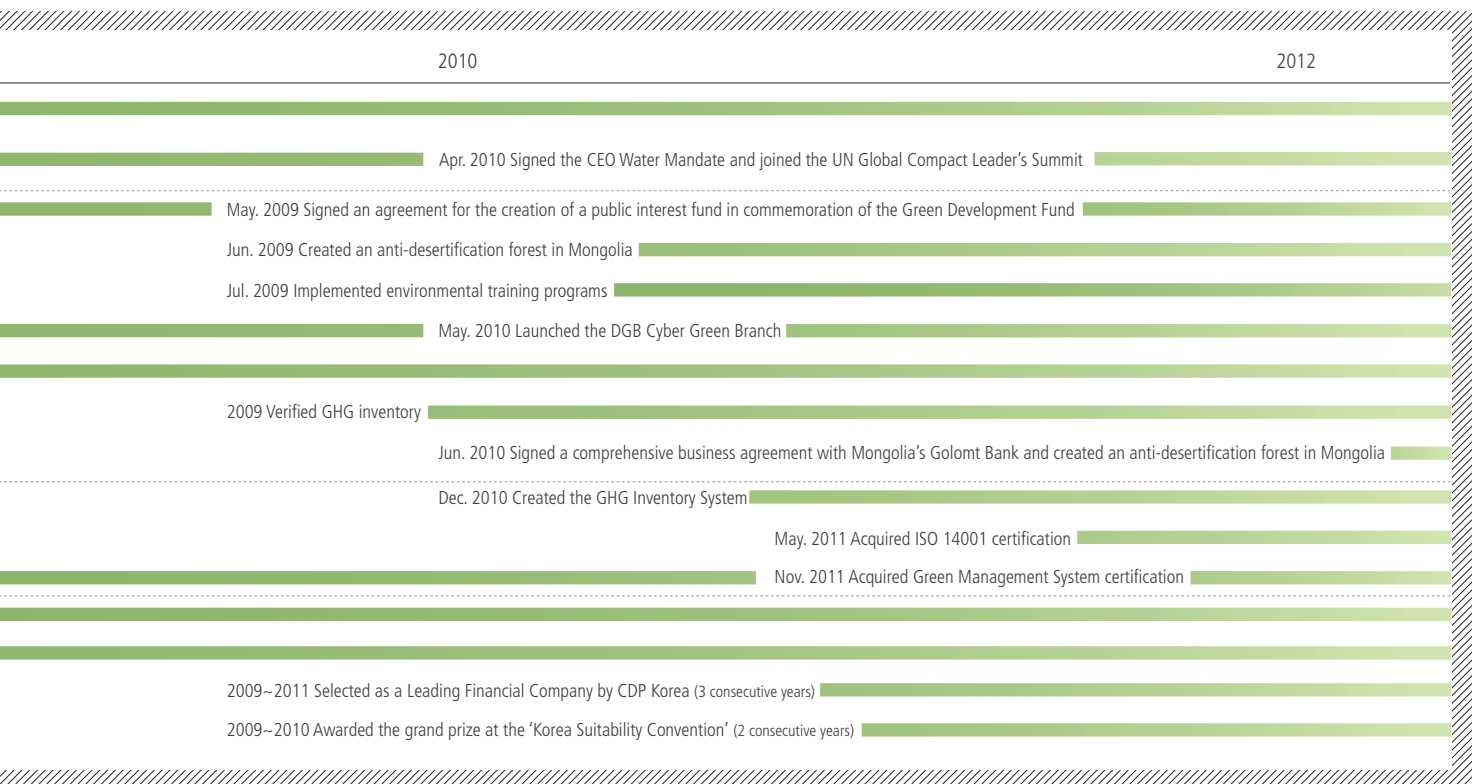
maintains grade 2 water and is home to diverse types of native fish and many otters. The past 10 years of effort has transformed the local stream into a clean, beautiful river.

### | Feeding Winter Migratory Birds |

The DGB Volunteer Team holds an annual 'Winter Migratory Bird Feeding' event on the riversides of the Nakdong River (the Haepyeong Wetland) in Haepyeong-ri, Seonsan-gun, Gumi-si, Gyeongsangbuk-do. The Haepyeong Wetland, certified as a red-crowned crane habitat by international organizations for migratory birds, has become an important place as many types of migratory birds including hooded cranes (Korean National Monument No.228), white-naped cranes (Korean National Monument No.203), bean geese, white-fronted geese, and ox-birds visit the area. The DGB Volunteer Team conducted training on the ecological importance of the area, participated in bird watching activities, and sprinkled 400kg of rice seeds around the wetland. Meanwhile, the DGB Volunteer Team has continuously conducted other local environment-friendly activities, such as hanging nametags on trees at major parks, setting up forest fire warning banners, and the Geumho River Love Campaigns.

### | 1 Company 1 River Restoration Campaign |

Since 2001, we have been releasing carp fries into the Shincheon River every year in efforts to restore the river. The Shincheon River currently





## Green Education Program



NIE Energy Diary Contest



University Student Green Press Corps

### | 'The 3rd NIE Energy Diary Contest' Awards Ceremony |

DGB Financial Group has held the NIE Energy Diary Contest since 2009. The contest is designed to strengthen environmental practices in daily life through the use of 'NIE (Newspaper in Education: Education using newspapers).' The contest has been well received by the local elementary, middle, and high school students and local residents because it helps students improve their creativity and integrative thinking, while contributing to environment conservation, through the composition of environmental diaries.

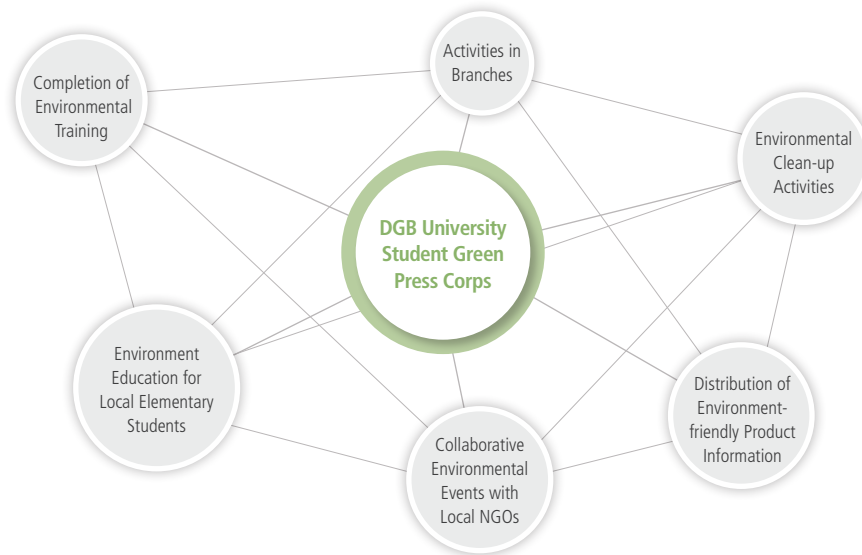
To celebrate the 4th anniversary of the contest in 2012, we held a nation-wide contest for elementary, middle, and high school students beyond Daegu and the Gyeongbuk area. Notably, the Minister of Environment, Yoo Young-sook, participated in the 3rd Awards Ceremony and personally awarded prizes to participating students. It was a meaningful event to all who participated.

### | The 3rd DGB University Student Green Press Corps |

DGB Financial Group is operating its '3rd DGB University Student Green Press Corps' in 2012. It is the first Korean bank to launch a green press corps that is comprised of local university students. The corps discloses various environmental management activities that DGB Financial Group conducts to the local community. The university students receive training related to the environment and news writing from professional instructors, including environmental experts and NGO members. We give the students an opportunity to fulfill their role in raising local residents' awareness on climate change and environmental problems.

#### Green Press Corps Activities (sessions)

Type	Completion of Environmental Training	Activities in Branches	Environmental Clean-up Activities	Distribution of Environment-friendly Product Information	Collaborative Environmental Events with Local NGOs	Environment Education for Local Elementary Students
1 <sup>st</sup> Corps (7 persons)	3	2	1	1	1	2
2 <sup>nd</sup> Corps (8 persons)	3	1	1	1	2	1
3 <sup>rd</sup> Corps (8 persons)	3	2	1	1	2 (plan)	2 (plan)





# Environmental Performance Management

## Green Management System

### | Introduction and Operation of the Green Management System |

In November 2011, Daegu Bank became the first financial institution to acquire the Green Management System (GMS) Certification to strengthen its leadership role in realizing a low-carbon society by actively responding to climate change. The GMS is a certification system that covers a company's environmental management and social responsibility by covering four global standards: ISO 14001 (international standards for environmental management system), ISO 14064 (international standards for GHG emission inventory), ISO 26000 (international standards for corporate social responsibility), and ISO 50001 (international standards for energy management system). DGB Financial Group enacted green management policies, regulations, and guidelines as its internal policy and is seeking various implementation ways to strengthen its green management activities in all its management areas.

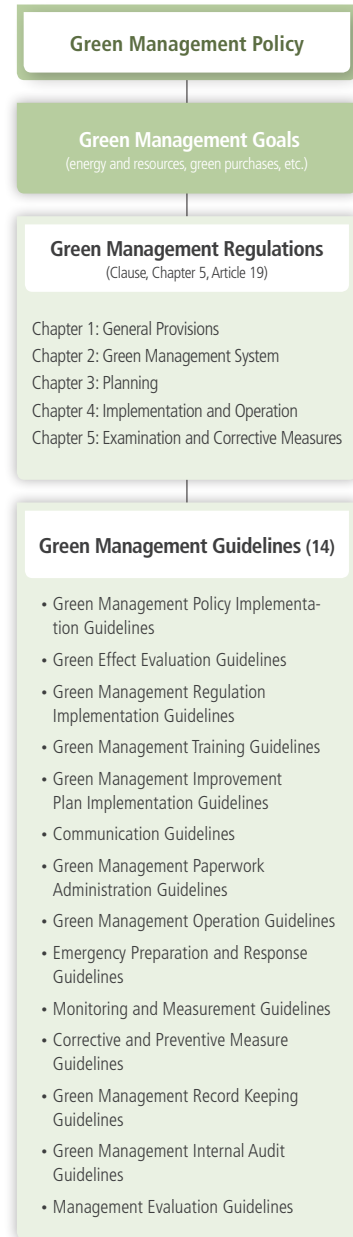
Green Management Goals	
Type	Green Management Goals
Stakeholder	1. Sharing of Green Management Information and Improvement of Stakeholder Relations 1) Publish the Sustainability Management Report (once a year) 2) Post Green Management information (homepage/ company bulletin board) 3) Strengthen Green Management training for applicable employees and employees of partner companies
Engagement and Communication	
Green Purchases	
Green Finance	2. Use of Green Products and Continuous Increase of Partner Companies' Participation in Green Management
Energy and Resources	3. Development and Sale of Green Financial Products and Prioritization of Green Management Tasks
Greenhouse Gases	4. Continuous Reduction of Energy and Resource Consumption 1) Reduce 10% of electricity consumption by 2013 (compared to 2010) 2) Reduce 10% of water resources consumption by 2013 (compared to 2010) 3) Reduce 10% of paper product consumption by 2013 (compared to 2010)
	5. 10% Reduction in the Omission of Greenhouse Gasses by 2013 (compared to 2010)

### | Internal Audit and Compliance Evaluation |

In April 2012, Daegu Bank appointed an internal auditor, conducted an internal audit and compliance evaluation, and is implemented corrective measures. The purpose of the internal audit was to evaluate the suitability, effectiveness, and efficiency of the Green Management System and to determine Daegu Bank's compliance with applied environmental regulations and other requirements.

Corrective and Preventive Measures					
Type	Non conformities	Actions Taken	Progress Rate (%)	Notes	
2011	Internal Audit	4	4	100	<ul style="list-style-type: none"> <li>Green Management Policy approved</li> <li>Applicable paperwork approved</li> <li>Regulation registration distributed</li> <li>Emergency response plan distributed</li> </ul>
	Compliance Evaluation	-	-	-	
2012 (April)	Internal Audit	2	-	-	<ul style="list-style-type: none"> <li>Corrective measures conducted</li> <li>Insufficient Green Management Policy training</li> <li>Incomplete evaluation of suppliers' green effect</li> </ul>
	Compliance Evaluation	-	-	-	

### Green Management implementation System



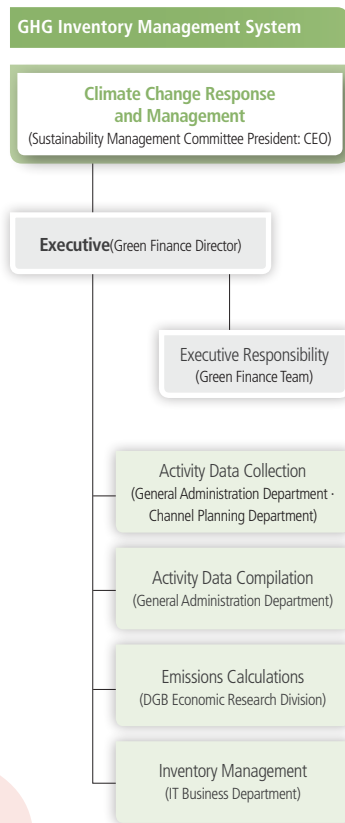
**Evaluation Results**

- Corrective measures were taken to rectify results of the internal audit and compliance evaluation in 2011
- Corrective measures are required to rectify the results of the internal audit and compliance evaluation implemented in April 2012





## Energy Saving and GHG Emission Reduction



### Green Management Training Hours for Employees

277

Hours in 2011



### | Employee Environmental Training |

DGB Financial Group is strengthening its green management to enhance its employees' environmental awareness. Courses in green management and green financial processes are fundamental in the process of training employees for each position. Other courses, such as greenhouse gas inventory system users' training and internal auditors' GMS (green management system) training, are conducted intermittently. Daegu Bank holds weekend workshops on green finance for loan examiners through commissioned training courses with invited outside specialists. It also conducts dispatch-training courses by sending employees to external specialized training institutions, such as the Korea Banking Institute, Korea Environmental Industry & Technology Institute, and Korean Standards Association. In 2010, employee-training hours in green management totaled 16,800 hours as greenhouse gas inventory users' training was conducted for all employees. A total of 277 hours of training was conducted in 2011. In 2012, training hours will be expanded as the number of DGB Financial Group subsidiaries increase.

### | Daegu Bank's Calculation and Verification of GHG Emissions |

DGB Financial Group is actively responding to energy and environmental issues by diligently implementing environment-friendly management activities to save energy and reduce GHG emissions.

### | Scope and Organization of GHG Reports |

#### Report Scopes

	Type	Emission Source
Scope 1	Stationary Combustion Emissions	Facilities within the scope of Daegu Bank's administration scope that use fossil fuels: boilers, restaurants, emergency electricity generators, etc.
	Mobile Combustion Emissions	Company-owned vehicles and leased (long-term lease) vehicles
Scope 2	Purchased Electricity	Electricity Facilities
Scope 3	Mobile (Business Trips)	Transportation methods for business trips to the countryside and overseas

#### Organization

	Type	Emission Source
	Head Office (including DGB Financial Holdings, DGB Data System)	Includes DGB Financial Holdings in the Suseong-gu main branch, the Information Center in the main branch annex building, and the Training Center in Chilgok-gun.
	Branches	Includes branches in company-owned building and the leased store branches.
	Vehicles	Includes company-owned and leased vehicles.
	Daegu Credit Information	Includes inventory report targets as a group subsidiary.
	Kardnet	Includes inventory report targets as a group subsidiary.





### | Energy Consumption and GHG Emissions |

DGB Financial Group is managing its energy consumption and GHG emissions in real time through the GHG Inventory System. After its establishment in June 2011, the group has made many efforts to reduce GHG emissions and continues to calculate its GHG emissions, including that of its subsidiaries, Daegu Credit Information and Kardnet. Energy consumption is increasing due to the expansion of branches and marketing networks and overall GHG emissions tend to increase also, but we have displayed a decreasing trend in GHG emissions compared to the previous year based on basic unit calculations. DGB Financial Group will continue to put utmost efforts into reducing its GHG emissions.

Energy Consumption (TJ)				
Type	2009	2010	2011	2012(Target)
Total	253.33	264.90	283.47	270.00
Direct	34.98	34.63	46.88	45.00
Indirect	218.35	230.27	236.59	225.00

GHG Emissions					
Type	2009	2010	2011	2012(Target)	
Amount of GHG emissions (tCO <sub>2</sub> e)	Scope1+2	31,461	32,759	34,326	34,128
	Scope1	2,974	2,543	3,196	3,100
	Scope2*	28,487	30,216	31,130	31,028
	Scope3	225	361	715	500

※Daegu Credit Information is included in 2009, 2010, and 2011. Karnet is included only in 2011.  
 ※In the case of Scope 2, adjustments in the baseline due to changes in allotted sizes applied to leased stores caused the recalculation of GHG emission from 2009 to 2011.

Indirect GHG Emissions (Scope 2) (tCO <sub>2</sub> e)				
Type	2009	2010	2011	2012(Target)
Branches	20,502	20,842	20,373	20,300
ATMs	3,997	4,751	6,122	6,200
Head Office (including DGB Financial Group and DGB Data System)	3,954	4,573	4,500	4,400
Daegu Credit Information	34	50	50	48
Kardnet	-	-	85	80

### | Recycling Waste and Reusing Paper |

Waste generated at all of Daegu Bank's offices includes general waste, paper waste, and office fixtures related to computers. All waste is collected by waste consignment companies on a regular basis in order to enhance collecting efficiency and minimize environmental contamination. Paper is the most highly used resource at Daegu Bank. We are standardizing the reuse of paper and the use of recyclable paper by actively using recycling bins for waste paper and reusable paper in our head office and branches. In regards to electronic office supplies that were for single-use, we try to reuse them by replacing changeable parts. We reduced electricity consumption by 16% by purchasing and using high efficiency (power-saving) products for office supplies, such as copy machines, fax machines, and other electronic items.

Waste Disposal						
Type	Paper		Electronics/Printers		Toner	
	Amount disposed	Recycling Rate	Amount disposed	Recycling Rate	Amount disposed	Recycling Rate
2009	111.2tons	100%	676KG	17.2%	2.5ton	8%
2010	101.6tons	100%	716KG	18.2%	2.4ton	12%
2011	116.3tons	100%	729KG	15.7%	2.6ton	13%

### | Paper Consumption |

Daegu Bank uses paper in various forms, including statements and receipts in each branch and paperwork and reports in the head offices. Paper consumption increased compared to the previous year due to the expansion of marketing networks and addition of subsidiaries at the end of 2011. However, most of the paper used is 100% recyclable and we are reducing paper consumption by encouraging the shift from printed paper bills for customers to electronic e-mail bills. Through these efforts every year, we have a huge effect on conserving resources, as well as helping customers realize the value of trees.

Paper Consumption	
Type	Amount used (boxes)
2009	9,504
2010	8,690
2011	9,940
<b>2012(Target)</b>	<b>9,425</b>

※ 1 box of paper = 500 sheets of A4 sized paper x 5 reams

E-mail Bills				
Type	2009	2010	2011	2012 (As of June 30, 2011)
No. sent (total)	4,790,507	5,692,488	5,958,626	3,198,205
No. of sent e-mail bills (bills)	642,508	891,626	1,042,176	742,181
Rate of e-mail bills (%)	13.4%	15.6%	17.4%	23.2%



### | Reduction of CO<sub>2</sub> Emissions through Renewable Energy |

Daegu Bank has reduced its energy consumption and approximately 40,000 tons in annual CO<sub>2</sub> emissions by producing renewable energy through the solar power generators at its Banyawol branch and Gyeongju branch.

Renewable Energy				
Type	2009	2010	2011	2012 (Target)
Banyawol branch(%)	11.54	11.60	12.10	12.50
Gyeongju branch(%)	12.57	12.10	12.45	12.70

### | Water Resources Consumption |

Public waterworks is the main source of water supply for Daegu Bank's head office and all its branches. In recognition of the importance of water, DGB Financial Group installed storage devices for collecting rainwater on the rooftop of its head office in 2009. Through these storage devices, we can store 360 tons of rainwater each year and utilize this water for cleaning purposes, thus lowering our dependence on public waterworks.

Water Consumption				
Type	2009	2010	2011	2012 (Target)
Total Amount (tons)	114,650	103,435	119,266	110,000
Amount per branch (tons)	774.6	698.8	805.0	743.0
Scope of water data collection	Head office and 147 branches			

## Continuous Promotion of a Comprehensive GHG Reduction Plan

### | All DGB Financial Group Employees Join the Daegu Carbon Points System |

About 2,200 DGB Financial Group employees joined the 「Carbon Point System」 and have been actively reducing GHG emissions. Through the 'Carbon Point System,' they are strengthening their efforts to practice green living in their homes, as well as continuously promoting the reduction of CO<sub>2</sub> emissions in the workplace. All DGB Financial Group employees are actively reducing GHG emissions to practice green living and are striving to encourage voluntary participation from many others.

### | 'Public Transportation Friendship Day' on the 9<sup>th</sup> Day of Each Month |

DGB Financial Group designates the 9<sup>th</sup> day of each month as the 'Public Transportation Friendship Day' when all employees voluntarily use public transportation. The event is designed to make using public transportation a way of life and is conducted to encourage employees and local residents to use public transportation. Employees' use of public transportation can even have the same effect as planting 300 pine trees a month



'Public Transportation Friendship Day'

### | Resource Conservation Campaign |

In 2011, Daegu Bank set a goal of 5% (KRW 850 million) in resource conservation. Based on employees' voluntary participation and mutual consensus, we conducted the 'Smart-S Line 2011 Campaign' and inaugurated a bank-wide energy saving campaign through the elimination of unnecessary waste factors within the organization. With the goal of saving costs for energy, water, and supplies, we provide cash-back rewards to the departments with excellent results in reducing costs, which also promotes an awareness of energy conservation among our employees. As a result, we saved about KRW 700 million in the conservation of energy, paper, and supplies compared to the previous year.





## Green Purchases

DGB Financial Group is expanding green purchases in accordance with its green management goals. MRO product purchases in 2011 amounted to KRW 84.65 million, a KRW 21.30 million increase from the previous year and we will expand our green purchase rate to 85% in 2012. In addition, each of DGB Financial Group's branches, including DGB Financial Holdings and Daegu Bank, plans to expand green purchases by participating in a voluntary agreement for the government's green industrial purchases in the second half of this year.

### Green Purchases (MRO Products)



## Green Management Principles

DGB Financial Group will give priority to green management over all other business activities and continuously promote improvements that will minimize the environmental impact from the use of energy resources and production of greenhouse gases. To fulfill our social responsibilities and contribute to environmental conservation, we will implement the following.

1. Identify areas in the workplace to apply green management and continue to develop products and services that take green management into consideration.
2. Use resources and energies efficiently, minimize emissions of greenhouse gases and pollutants, and recognize and put into practice environment-related social responsibilities.
3. Comply with and proactively implement environmental regulations and requirements that shall be applied to DGB Financial Group.
4. Provide all employees with training programs to raise their awareness of green management and encourage their participation.
5. Establish and implement green management goals and detailed targets for the application green management principles, and conduct periodic check-ups for the purpose of continuous improvement







# Board of Directors



## Lee, Ji-eun

Outside Director  
(DGB Financial Group,  
Daegu Bank)

## Sung, Nak-in

Outside Director  
(DGB Financial Group,  
Daegu Bank)

## Ahn, Choong-yong

Outside Director  
(DGB Financial Group,  
Daegu Bank)



**Ha, Chun-soo**  
Chairman & CEO

**Lee, Jeong-do**  
Outside Director  
(DGB Financial Group,  
Daegu Bank)

**Jang, Ik-hyun**  
Outside Director  
(DGB Financial Group)





# Board of Directors

**Jung, Chang-mo**

Director & Standing Auditor  
(Daegu Bank)

**Kim, Jung-ki**

Outside Director  
(Daegu Bank)

**Park, In-gyu**

Executive Director  
(Daegu Bank)





Consolidated Financial Statements

December 31, 2011

(With Independent Auditors' Report Thereon)

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# Management's Discussion & Analysis

## DGB Financial Group

In May 2011, DGB Financial Group was established through a share swap acquisition of Daegu Bank, Daegu Credit Information, and Kardnet. Our mid-term vision is to achieve total assets of over KRW 100 trillion, a net profit of above KRW 1 trillion, and a ROA of at least 1% through gradual business diversification and becoming a superior regionally based comprehensive financial group.

Classification	DGB Group	Daegu Bank	Kardnet	Daegu Credit Information	Other(*)
Gross Operating Profits	1,026.5	1,024.3	4.1	1.2	-3.1
Interest Income	948.2	947.4	0.8	0.1	-0.1
Non-interest Income	78.3	76.9	3.3	1.1	-3.0
General and Administrative Expenses	466.9	461.2	1.3	0.9	3.5
Provisioning Expenses	144.4	144.4	0.0	0.0	0.0
Operating Income	415.2	418.7	2.8	0.3	-6.6
Net Profit	305.8	309.9	2.0	0.3	-6.4
Total Assets	33,248.5	31,289.3	26.2	4.1	1,928.9

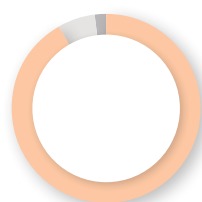
(KRW in billions)

In 2011, the first year of its establishment, DGB Financial Group achieved total assets of KRW 33 trillion, an operating income of KRW 305.8 billion, and a net profit of KRW 415.2 billion. Daegu Bank recorded an operating income of KRW 412.1 billion (after excluding intercompany transactions) and contributed to 99.3% of the whole group's operating income.

The ROA and ROE of DGB Financial Group are 0.97% and 13.95%, respectively, and are lower than those of Daegu Bank by 0.01% and 0.26%, respectively. This is due to the profits of non-banking subsidiaries being lower than the profits of Daegu Bank.

DGB Financial Group's asset quality index is same as Daegu Bank's, and it recorded a BIS CAR of 15.33%, slightly higher than Daegu Bank's

### Operating Income Contribution



- Daegu Bank 99.3%
- Kardnet 0.7%
- Daegu Credit Information 0.1%

Type	Items	(%)
Profitability	ROA	0.97
	ROE	13.95
Asset Quality	NPL Ratio	1.14
	Loan loss coverage Ratio	154.7
	Delinquency rate	0.92
Capital Adequacy	Capital adequacy ratio	15.33
	Tier I CAR	11.74

# Management's Discussion & Analysis

## Daegu Bank

### I. Operating Results

#### Net Interest Income & Net Interest Margin (NIM)

Classification	2011	2010	YoY Change	
			Amount	(%)
<b>Interest income</b>	1,673.6	1,550.6	123.0	7.9%
Cash & due from banks	27.5	23.9	3.6	15.1%
Securities	266.6	247.7	18.9	7.6%
Loans	1,373.7	1,271.7	102	8.0%
Others	5.8	7.3	-1.5	-20.5%
<b>Interest expenses</b>	726.2	683.9	42.3	6.2%
Deposits	496.8	443.5	53.3	12.0%
Borrowings	101.1	96.1	5	5.2%
Bonds	125.8	142	-16.2	-11.4%
Others	2.5	2.3	0.2	8.7%
<b>Net interest income</b>	947.4	866.7	80.7	9.3%
Net interest margin (%)	3.12%	3.21%	-0.1%	-
Net interest spread in Won(%)	3.79%	3.90%	-0.1%	-

(KRW in billions)

Classification	2011	2010	YoY Change	
			Amount	(%)
Interest bearing asset	27,046	24,904	2,142	-0.11%
Interest expense liabilities	26,573	24,507	2,066	-0.11%
Net Interest bearing asset	473	397	76	0.00%

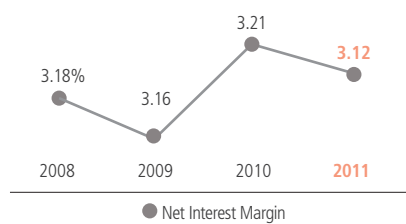
(KRW in billions)

Classification	2011	2010	YoY Change
			Amount
Net Interest Spread in Won	3.79%	3.90%	-0.11%
Average Lending Rate	6.39%	6.50%	-0.11%
Average Deposit Rate	2.60%	2.60%	0.00%

Daegu Bank recorded a net interest income of KRW 947.4 billion, a 9.3% increase from the previous year. The net interest margin decreased by 0.1% compared to the previous year, while net interest bearing assets increased by 19.1% compared to the previous year and contributed to increasing the net interest income. The average lending rate decreased by 0.11% compared to the previous year, while the average deposit rate remained the same as the previous year. Thus, net interest spread in won decreased by the same rate as the average lending rate.

# Management's Discussion & Analysis

## NIM for 4 years



Due to DGB Financial Group's efforts to strengthen differential interest rates reflecting interbank rates and its credit rating, the net interest margin has been maintaining a stable growth of 3.1%. However, the net interest margin in 2012 is predicted to fall under lower level pressures, such as a slowdown in loan growth due to the adjustment of loan base rates and the uncertain foreign economic conditions.

## Non-interest Income

Classification	2011	2010	YoY Change	
			Amount	(%)
<b>Non-interest Income</b>	76.9	101.3	-24.4	-24.1%
Commission income	113.2	112.4	0.8	0.7%
Gain on securities	51.9	78.1	-26.2	-33.5%
Gain on foreign currency transactions & derivatives products	15.1	20.9	-5.8	-27.8%
Gain(Loss) on disposition of loans	16.1	-4.2	20.3	-
Loss on credit card	-37.7	-44.3	6.6	-14.9%
Other operating expenses	-68.4	-61.6	-6.8	11.0%
Changes with application of K-IRS	-13.3	0.0	-13.3	-

(KRW in billions)

In 2011, non-interest income amounted to KRW 76.9 billion, a 24.1% decrease from the previous year. Since the application of K-IRS in 2011, accounting standards have changed and KRW 13.3 billion was excluded from the calculation of non-interest income, which originally totaled KRW 90.2 billion, resulting in a KRW 11.1 billion decrease from the previous year. The main cause is that gains and losses related to marketable securities decreased by KRW 26.2 billion compared to the previous year, while gains on the disposition of loans increased by KRW 20.3 billion compared to the previous year.

## General & Administrative Expenses

Classification	2011	2010	YoY Change	
			Amount	(%)
<b>General and administrative expenses</b>	461.2	397.8	63.4	15.9%
Salaries and employee benefits	233.5	206.4	27.1	13.1%
Taxes and dues & depreciation	62.0	49.4	12.6	25.5%
Retirement allowances	40.3	23.8	16.5	69.3%
Other G&A expenses	125.4	118.2	7.2	0.6%
Cost-income ratio (%)	45.0%	41.1%	3.9%	-

(KRW in billions)

## Management's Discussion & Analysis

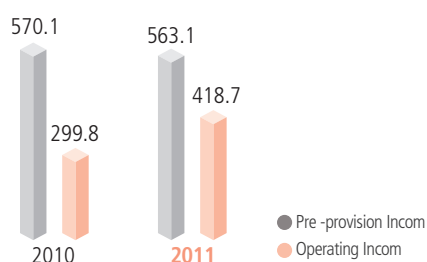
General and administrative expenses in 2011 amounted to KRW 461.2 billion, a 15.9% increase from the previous year. Due to a decrease in net interest income and an increase in general and administrative expenses, the cost-income ratio totaled 45.0%, a 3.9% increase from the previous year. Following the increase of 10 additional branches from the previous year, salaries and employee benefits increased by KRW 27.1 billion compared to the previous year, and early voluntary retirement allowances and allowance for severance liability increased by KRW 3.3 billion and KRW 13.2 billion, respectively, compared to the previous year. The increase of branches is expected to increase future profits, and the increase of employees is expected to improve productivity. The cost-income ratio will improve in 2012.

### Provisioning Expenses

Classification	2011	2010	YoY Change	
			Amount	(%)
<b>Pre-provisioning operating income</b>	563.1	570.1	-7.0	-1.2%
Operating income	418.7	299.8	118.9	39.7%
Total provision	144.4	270.3	-125.9	-46.6%
Provision for loan losses	127.8	267.8	-140.0	-52.3%
Others	16.6	2.5	14.1	564.0%

(KRW in billions)

### Pre-provision Income & Operating Income



Though net interest income increased by KRW 80.7 billion, pre-provisioning operating income in 2011 totaled KRW 563.1 billion, a slight decrease of 1.2% from the previous year. This is due to the increase in general and administrative expenses and decrease in non-interest income following the expansion of branches. On the other hand, operating income amounted to KRW 418.7 billion, a 39.7% increase from the previous year, because the accumulated provisions for loan losses during the term decreased by KRW 140 billion due to accumulation of conservative provisions following the conclusion of the construction industry restructuring and government regulations over the past 3 years.

### Provisioning Expenses

Classification	2011	2010	YoY Change	
			Amount	(%)
<b>Assets</b>	31,289.3	30,084.1	1,205.2	4.0%
Cash and due from banks	1,427.5	1,800.9	-373.4	-20.7%
Securities	6,214.3	5,795.6	418.7	7.2%
Loans	21,898.3	19,479.7	2,418.6	12.4%
Fixed assets	295.0	399.7	-104.7	-26.2%
Other assets	1,454.2	2,608.2	-1,154.0	-44.2%

(KRW in billions)

Total assets in 2011 amounted to KRW 31,289.3 billion, a 4% increase from the previous year. Despite the economic recession and the uncertain foreign economic conditions, the loan market share in Daegu and the Gyeongbuk area increased by 0.6% compared to the previous year. This is a result of a 12.4% increase in loans compared to the previous year.

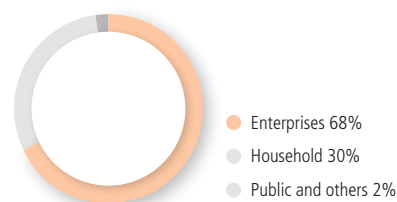


# Management's Discussion & Analysis

## Loans

Classification	2011	2010	YoY Change	
			Amount	(%)
<b>Total loans</b>	21,898.3	19,479.7	2,418.6	12.4%
Loans in KRW	20,244.5	18,237.9	2,006.6	11.0%
Loans to companies	13,748.9	12,361.2	1,387.7	11.2%
Loans to households	6,070.5	5,520.8	549.7	10.0%
Loans to public and others	425.1	355.9	69.2	19.4%

### Loan Composition

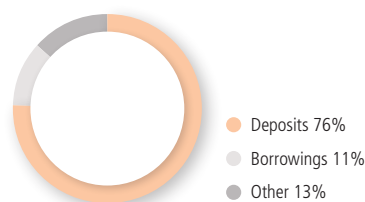


Despite the economic recession, loans to companies totaled KRW 13,748.9 billion, an 11.2% increase from the previous year due to the improvement of local exports. On the other hand, loans to households amounted to KRW 6,070.5 billion, a 10% increase from the previous year due to the housing market recession and government regulations on loans to households, while loans to the public and others with respectively low credit risk amounted to KRW 425.1 billion, a 19.4% increase from the previous year.

## Funding Structure

Classification	2011	2010	YoY Change	
			Amount	(%)
<b>Total liabilities</b>	29,062.9	28,071.3	991.6	3.5%
Deposits	22,032.9	19,094.7	2,938.2	15.4%
Borrowings	3,328.8	3,680.6	-351.8	-9.5%
Others	3,701.2	5,296.0	-1,594.8	-30.1%

### Funding Composition



Total liabilities in 2011 amounted to KRW 991.6 billion, a slight increase of 3.5% from the previous year. Borrowings with relatively high interest rates decreased by 9.5% compared to the previous year, while deposits with relatively low interest rates increased by 15.4% compared to the previous year.

Classification	2011	2010	YoY Change	
			Amount	(%)
Core deposits(A)	8,167.6	7,344.9	822.7	11.2%
<b>Total deposits (in KRW)(B)</b>	19,336.0	16,111.9	3,224.1	20.0%
% of core deposits(A/B)	42.2%	45.6%	-3.4%	
<b>Total deposits(C)</b>	25,234.6	23,225.2	2,009.4	8.7%
% of core deposits(A/C)	32.4%	31.6%	0.8%	

## Management's Discussion & Analysis

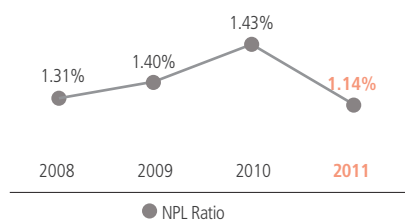
Due to the increasing attractiveness of core deposits and the strategic performance of strengthening the attractiveness of public deposits, core deposits in 2011 totaled KRW 8,167.6 billion, an 11.2% increase from the previous year. However, the portion of core deposits among total deposits increased by only a slight 0.8% compared to the previous year due to the increase of total deposits.

### Asset Quality

Classification	2011	2010	YoY Change	
			Amount	(%)
<b>Total credits</b>	22,150.1	20,059.6	2,090.5	10.4%
Normal	21,450.7	19,252.0	2,198.7	11.4%
Precautionary	447.6	520.6	-73.0	-14.0%
Substandard	193.7	165.8	27.9	16.8%
Doubtful	49.0	110.2	-61.2	-55.5%
Estimated loss	9.1	11.0	-1.9	-17.3%
NPL ratio (%)	1.14	1.43	-0.29	-
Loan loss coverage ratio (%)	154.7	115.6	39.1	-
Delinquency rate (%)	0.92	0.47	0.45	-

Nonperforming loans (NPL) in 2011 amounted to KRW 251.8 billion, a KRW 35.2 billion decrease from the previous year. This resulted in a NPL ratio of 1.14%, a 0.29% decrease from the previous year. Due to the accumulation of conservative provisions following the conclusion of the construction industry restructuring and government regulations over the past 3 years, the NPL coverage ratio amounted to 154.7%, a 39.1% increase from the previous year.

### NPL Ratio for 4 years



Due to the insolvency of PF loans following the economic and apartment housing market recession in Korea caused by uncertain foreign economic conditions over the past 3 years, the NPL ratio has continuously increased by 1.31% to 1.43%. As of the end of 2011, due to conservative risk management and accumulation of provisions, NPL ratio amounted to 1.14%, a slight decrease from before. However, it is predicated to increase by an even smaller amount than the previous year in 2012 because economic uncertainty due to the European economic crisis has yet to be resolved.

Classification	2011	2010	YoY Change	
			Amount	(%)
<b>Total capital</b>	3,149.4	3,033.2	116.2	3.8%
Tier I capital	2,391.7	2,269.5	122.2	5.4%
Tier II capital	757.7	763.7	-6.0	-0.8%
<b>Risk-weighted assets</b>	22,210.2	20,550.4	1,659.8	8.1%
<b>BIS ratio</b>	14.18%	14.76%	-0.58%	-
Tier I CAR (%)	10.77%	11.04%	-0.27%	-
Tier II CAR (%)	3.41%	3.72%	-0.31%	-

Total assets in 2011 amounted KRW 3,149.4 billion, a 3.8% increase from the previous year due to the increase of Tier I capital. Due to increases in assets, including loans, risk-weighted assets increased by 8.1% compared to the previous year and it resulted in a BIS ratio of 14.18%, a 0.58% decrease from the previous year. This exceeds the industry average in Korea and the 8% guideline of the Bank of International Settlement (BIS).

# Independent Auditors' Report

Based on a report originally issued in Korean

## The Board of Directors and Stockholders DGB Financial Group Co., LTD.:

We have audited the accompanying consolidated statements of financial position of DGB Financial Group Co., LTD and its subsidiaries (the "Group") as of December 31, 2011 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the two hundred-twenty-nine day period, ended December 31, 2011 (the "period"). Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and the results of its operations and its cash flows for the period ended December 31, 2011, in accordance with Korean International Financial Reporting Standards.

KPMG Samjong Accounting Corp. Seoul, Korea  
February 28, 2012

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Tel +82 (53) 741-7711 | Fax +82 (53) 741-7715 | www.kr.kpmg.com

### Notice to Readers

This report is effective as of February 28, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

# Consolidated Statements of Financial Position

As of December 31, 2011

(In millions of won)	Note	2011
<b>Assets</b>		
Cash and due from banks	5, 42, 46	₩ 1,427,705
Financial assets held for trading	6, 46	81,116
Financial assets designated at fair value through profit or loss	7, 46	215,553
Available-for-sale financial assets	8, 46	1,743,557
Held-to-maturity financial assets	9, 10, 46	4,015,267
Loans & receivables	13, 14, 15, 16, 46	23,279,493
Derivative assets - hedge accounting	17, 46	24,862
Investments in associates	12	264
Property and equipment	18	299,123
Investment property	20	87,640
Intangible assets	19	80,380
Deferred income tax assets	40	63
Other assets	20	38,980
<b>Total assets</b>		<b>₩ 31,294,003</b>
<b>Liabilities</b>		
Depository liabilities	21, 46	₩ 21,943,410
Financial liabilities held for trading	46	67,361
Derivative liabilities – hedging instruments	17, 46	704
Borrowings	22, 46	3,328,764
Bonds payable	22, 46	2,206,765
Defined benefit obligations	24	16,524
Provisions	23	31,997
Deferred income tax liabilities	40	42,565
Other liabilities	25	1,364,512
<b>Total liabilities</b>		<b>₩ 29,002,602</b>
<b>Stockholders' equity</b>		
Capital stock	1, 27	670,266
Capital surplus	27	1,423,535
Retained earnings	28	174,569
Capital adjustment	27	(10)
Accumulated other comprehensive income, net of taxes	29	23,040
<b>Total stockholders' equity</b>		<b>2,291,401</b>
<b>Total liabilities and stockholders' equity</b>		<b>₩ 31,294,003</b>

(In millions of won)



# Consolidated Statements of Comprehensive Income

For the two hundred-twenty-nine day period ended December 31, 2011

	Note	₩	2011
Net interest income	4	₩	724,246
Interest income	4, 30		1,284,486
Interest expense	4, 30		(560,240)
Net fee & commission income	4		54,713
Fee & commission income	31		94,699
Commission expense	31		(39,986)
Income on financial assets held for trading, net	32		11,212
Income on financial assets designated at fair value through profit or loss, net	33		11,609
Income on available-for-sale financial assets, net	34		12,270
Income on derivative assets - hedge accounting, net			16,192
Impairment loss on financial assets	35		(110,394)
Net loss on foreign exchange	26		(24,341)
General and administrative expenses	36,37		(371,745)
Net other operating loss	38		(43,712)
<b>Operating income</b>	<b>39</b>		<b>280,050</b>
<b>Income before income tax expense</b>			<b>280,050</b>
Income tax expense	40		74,957
<b>Net income for the period</b>	<b>41</b>	₩	<b>205,093</b>
Other comprehensive loss for the period			(7,484)
Loss on valuation of available-for-sale financial assets			(7,491)
Gain on valuation of derivative instrument for cash flow hedge			7
<b>Total comprehensive income for the period</b>		₩	<b>197,609</b>
<b>Earnings per share in won</b>		₩	<b>1,542</b>

(In millions of won, except earnings per share)

## Consolidated Statements of Changes in Equity

For the two hundred-twenty-nine day period ended December 31, 2011

	Note	Common stock	Capital surplus	Capital adjustment	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
<b>Balance at May 17, 2011</b>	₩	<b>670,266</b>	<b>1,421,835</b>	<b>(19,628)</b>	-	-	<b>2,072,474</b>
Net income for the period		-	-	-	-	205,093	205,093
Disposal of treasury stock		-	1,700	19,618	-	-	21,318
Loss on valuation of available-for-sale financial assets net of taxes		-	-	-	(7,491)	-	(7,491)
Gain on valuation of derivative instruments for cash flow hedges net of taxes		-	-	-	7	-	7
Others		-	-	-	30,524	(30,524)	-
<b>Balance at December 31, 2011</b>	₩	<b>670,266</b>	<b>1,423,535</b>	<b>(10)</b>	<b>23,040</b>	<b>174,569</b>	<b>2,291,401</b>

(In millions of won)

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Cash Flows, Continued

For the two hundred-twenty-nine day period ended December 31, 2011

	Note	2011
<b>Cash flows from operating activities</b>		<b>₩ 734,987</b>
Net income for period		205,093
Adjustment of revenues & expenses not involving cash flows :		(486,764)
Income tax expense		74,957
Interest expense		560,240
Loss on valuation of financial assets held for trading		4,621
Loss on valuation of trading derivative instruments		276,627
Provision for trading derivative instruments		20,269
Loss on valuation of financial assets designated at fair value through profit or loss		1,143
Loss on sale of available-for-sale financial assets		3,142
Impairment loss of available-for-sale financial assets		8,892
Loss on hedged assets		17,125
Impairment loss on investments in associates		191
Provision for loan losses		101,312
Provision for others		8,331
Depreciation & amortization		36,196
Loss on disposal of property and equipment		38
Employee benefits		14,220
Retirement benefits		26,422
Loss on foreign exchange		515,649
Other operating expense		991
Loss on valuation of hedging derivative instruments		965
Receipt of dividends		(11,672)
Interest income		(1,284,486)
Gain on valuation of financial assets held for trading		(95)
Gain on valuation of trading derivative instruments		(315,145)
Gain on valuation of financial assets designated at fair value through profit or loss		(10,219)
Gain on sale of available-for-sale financial assets		(23,468)
Reversal of reserve for credit risk-adjusted hedging derivative instruments		(78)
Gain on valuation of hedging derivative instruments		(17,079)
Gain on disposal of property and equipment		(198)
Reversal of expense of stock options		(609)
Recovery of provisions		(3,738)
Gain on foreign exchange		(491,308)
Changes in assets and liabilities:		261,062
Decrease in restricted due from banks		112,539
Decrease in trading securities		48,236
Decrease in derivative assets-trading		86,567
Increase in financial assets designated at fair value through profit or loss		(100,000)
Increase in loans & receivables		(693,600)
Increase in deferred loan origination costs		(8,754)

## Consolidated Statements of Cash Flows, Continued

For the two hundred-twenty-nine day period ended December 31, 2011

	Note	2011
Decrease in deferred loan origination fees		(1,929)
Recovery of previously written-off loans		38,386
Decrease in derivative assets-hedge accounting		4,804
Decrease in other assets		30,258
Increase in depository liabilities		1,974,050
Decrease in derivative liabilities-trading		(41,806)
Decrease in derivative liabilities-hedge accounting		(2,889)
Decrease in provision for retirement benefits		(393)
Increase in plan assets		(15,865)
Decrease in provisions		(4,481)
Decrease in other liabilities		(1,164,061)
Cash outflows from interest		(499,649)
Cash inflows from interest		1,246,013
Cash inflows from dividends		11,672
Cash outflows from income tax expense		(2,440)
<b>Cash flows from investing activities</b>		<b>(148,920)</b>
Decrease in available-for-sale financial assets		237,898
Increase in held-to-maturity financial assets		(330,130)
Increase in associates investments		(20)
Purchase of property and equipment		(20,890)
Disposal of property and equipment		253
Purchase of investment property		(64)
Purchase of intangible assets		(31,234)
Increase in guarantee deposits		(4,733)
<b>Cash flows from financing activities</b>		<b>(1,104,971)</b>
Decrease in borrowings		(1,093,239)
Issuance of debentures		580,000
Repayment of debentures		(626,647)
Decrease in deposits for letter of guarantees		(4,089)
Increase in borrowings from trust accounts		21,393
Decrease in foreign exchange settlement credits		(3,576)
Decrease in domestic exchange settlement credits		(131)
Disposal of treasury stock		21,318
<b>Increase in cash and cash equivalents</b>		<b>(518,904)</b>
<b>Cash and cash equivalents at May 17, 2011</b>		<b>1,392,770</b>
<b>Effect of cash and cash equivalents on foreign exchange</b>		<b>2,686</b>
<b>Cash and cash equivalents at December 31, 2011</b>	<b>42 ₩</b>	<b>876,552</b>

(In millions of won)



# Notes to the Consolidated Financial Statements

December 31, 2011

## 1. General Information

General information of the parent (DGB Financial Group Co., LTD, the "Company") and subsidiaries (the collective term of the Company and subsidiaries is the "Group") which are defined in Korean International Financial Reporting Standards ("K-IFRSs") No. 1027 'Consolidated and Separate Financial Statements' are as follows.

### (a) The Company

The Company was incorporated on May 17, 2011 through a business combination involving the exchange of the Company's common stock with the former shareholders of Daegu Bank, Kardnet Inc. and Daegu Credit Information Co., Ltd. The Company's shares were listed on the Korea Exchange on June 7, 2011 and the Company's outstanding common stock totalled 670,266 million as of December 31, 2011.

### (b) Subsidiaries

Details of ownership as of December 31, 2011 are as follows:

(i)

Classification	Number of shares	Ownership	Acquisition cost	Net asset value	Book value
Daegu Bank	132,125,000	100%	₩ 2,081,249	2,226,397	2,081,249
Kardnet Inc.	444,500	100%	7,243	8,705	7,243
Daegu Credit Information Co., Ltd.	300,000	100%	3,609	3,829	3,609
<b>Total</b>			<b>₩ 2,092,101</b>	<b>2,238,93</b>	<b>2,092,101</b>

(In millions of won, except share information)

(ii)

Classification	Revenue	Net income	Location	Reporting date
Daegu Bank	₩ 2,898,959	310,035	Daegu	December 31, 2011
Kardnet Inc.	6,647	2,046	Daegu	December 31, 2011
Daegu Credit Information Co., Ltd.	2,292	276	Daegu	December 31, 2011
<b>Total</b>	<b>₩ 2,097,898</b>	<b>312,357</b>		

(In millions of won, except share information)

## 2. Basis of Preparation

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audits of Corporations.

The consolidated financial statements were authorized for issue by the board of directors on February 8, 2012.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statement of financial position:

# Notes to the Consolidated Financial Statements

December 31, 2011

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Available-for-sale financial assets are measured at fair value
- Liabilities for cash-settled share-based payment arrangements are measured at fair value
- Liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

## (c) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is the Parent Company's functional currency and the currency of the primary economic environment in which the Group operates.

## (d) Use of estimation and judgment

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 13 – Loans and Receivables
- Note 20 – Investment property and other assets
- Note 35 – Impairment losses and reversal

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 13 – Loans and Receivables
- Note 23 – Provisions
- Note 24 – Retirement payment liabilities
- Note 44 – Commitments and contingencies

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements.

### (a) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

# Notes to the Consolidated Financial Statements

December 31, 2011

## (ii) Investments in associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Joint ventures are those entities over which the activities are jointly controlled by the Group and another party, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

## (iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

## (b) Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group has four operating segments which consist of Individuals, Corporate, Public and Money Market Center, as described in note 4.

## (c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are used by the Group in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents. However, redeemable preference shares, for which the period from the acquisition to redemption is short, are classified as cash and cash equivalents. Bank overdrafts are deducted from cash and cash equivalents.

## (d) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

### (i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is held-for-trading or is designated as such upon initial

# Notes to the Consolidated Financial Statements

December 31, 2011

recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

## (ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

## (iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

## (iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

## (v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

## (vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

## (e) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

### (i) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), includ-



# Notes to the Consolidated Financial Statements

December 31, 2011

ing the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on a quarterly basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80%-125%. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

## Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

## Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

## (ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

## (iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

## (f) Recognition of trade date profit & loss

When a financial instrument is recognized initially, the Group measures it at fair value. If there are any significant observable inputs used in the valuation technique, the transaction price is not the initial fair value. Using systematic methods, any profit & loss implied from the valuation technique at the trade date is deferred. The deferred amount is recognized over the period between the trade date and the date when the market is expected to become observable, or over the life of the trade (whichever is shorter).

## (g) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective

## Notes to the Consolidated Financial Statements

December 31, 2011

evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

### (i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

### (ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

### (iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

### (h) Property, plant and equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

# Notes to the Consolidated Financial Statements

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Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation method and the useful lives of the respective assets are as follows:

	Depreciation method	Useful lives (years)
Buildings	Straight-line method	40
Leasehold improvements	Straight-line method	5
Operating moveable properties	Declining-balance method	4

## (i) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

The estimated useful lives of the Group's assets are as follows:

	Useful lives (years)
Computer software	4
Contributed acceptances	10 – 20
Usable and profitable donation assets	10 – 20
Industrial property	5

No depreciation is provided on intangible assets with an indefinite useful life, and are subject to impairment testing, if deemed appropriate. The useful life, residual value and depreciation method of such intangible asset should be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite assessment for that asset. If they do not, the change in the assessment from indefinite to finite should be accounted for as a change in accounting estimate.

## (i) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred.

## (ii) Subsequent expenditure

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, is recognized in profit or loss as incurred.

## (j) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

# Notes to the Consolidated Financial Statements

December 31, 2011

## (k) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of Cash-Generating Unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## (e) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

### (i) Finance leases

At the commencement of the lease term, the Group recognizes as financial assets and financial liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

### (ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.



# Notes to the Consolidated Financial Statements

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## (iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest.

## (m) Non-current assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 'Impairment of Assets'.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

## (n) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

### (i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

### (ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

# Notes to the Consolidated Financial Statements

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## (o) Fair value of financial instruments

(i) Determination of fair value of financial instruments that are measured at fair value Where the classification of a financial instrument requires it to be stated at fair value, fair value is determined by reference to a quoted market price for that instrument or by using a valuation model.

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, as reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Periodically, the Group calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument or based on any available observable market data.

Unobservable inputs are determined based on the best information available, for example by reference to similar assets, similar maturities or other analytical techniques.

### (ii) Classification and level of disclosure for fair value

K-IFRSs No. 1107 'Financial Instruments: Disclosures' requires the Group to classify its financial instruments held at fair value according to a hierarchy that reflects the significance of observable market inputs. The classification of a financial instrument is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined below.

Level	Description
Level 1	Financial instruments are classified as Level 1 if their value is observable in an active market.
Level 2	If there are no quoted prices (unadjusted) in active markets, financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market.
Level 3	Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs).

### (iii) Determination of fair value of financial instruments that are not measured at fair value

#### Deposit, loans and receivable

The estimated fair value of deposit (with a residual maturity of less than 6 months) and loans and receivables is carrying amount. The estimated fair value of deposit (not impaired) and loans and receivable is discounted at current market rates by considering the default rates and credit spreads.

#### Held-to-maturity financial assets

Held-to-maturity financial assets include interest earning, held-to-maturity financial assets and their fair values are determined the price quoted by the market or a credible and public evaluator. If there is no such information, their fair values are estimated by using financial assets with similar credit level, maturity or profit rate.

# Notes to the Consolidated Financial Statements

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## Deposits

The estimated fair value of non-interest earning deposits with no stated maturity or a residual maturity of less than 6 months is the carrying amount. The estimated fair value of interest earning deposits is discounted at the interest rate (market rate) of recently issued deposits with similar maturities.

## Borrowings

The estimated fair value of borrowings with readjustment term for floating rate or a contract maturity of less than 6 months is the carrying amount. The estimated fair value of borrowings not quoted in an active market is discounted at interest rate (market rate) of recently issued borrowings with similar maturity. The estimated fair value of borrowings in won is the carrying amount. In the case of borrowings in foreign currency, the estimated fair value of borrowings with a residual maturity of less than 6 months is the carrying amount and the estimated fair value of borrowings with a residual maturity of more than 6 months is discounted at LIBOR.

## (p) Employee benefits

### (i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

### (ii) Other long-term employee benefits

The Group provides employees with an overseas education program and participation in this program is contingent on the years of service. The estimated costs are recognized similarly with the accounting procedure of defined benefit plans.

### (iii) Defined-contribution retirement plans

Defined-contribution retirement plans must pay the specified contribution regardless of results from operating pension. The Group recognizes the contribution to be paid as retirement benefit in the accounting period.

### (iv) Defined benefit plans

The Group's obligation is to provide the agreed benefits to current and former employees and actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased. Defined benefit plans use actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit. The Group shall determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

### (v) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

# Notes to the Consolidated Financial Statements

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## (q) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision shall be used only for expenditures for which the provision was originally recognized.

## (r) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

## (s) Capital

### (i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

### (ii) Repurchase of share capital (treasury shares)

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received results in an increase in equity, and the resulting net amount on the transaction is not recognized in current year profit and loss.

## (t) Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.



# Notes to the Consolidated Financial Statements

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The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

## (u) Financial income and expense

### (i) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

### (ii) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

### (iii) Dividends

The Group recognizes dividend income when the shareholder's right to receive payment is established.

## (v) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

### (i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

### (ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction

# Notes to the Consolidated Financial Statements

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that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

## (w) Accounting for trust accounts

The Group accounts for trust accounts separately from its bank accounts under the Financial Investment Services and Capital Markets Act. Funds transferred between a bank account and a trust account is recognized as borrowings from trust accounts in other liabilities with fees for managing the accounts recognized as non-interest income by the Group.

## (x) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

## 4. Segment Reporting

The Group has a Procurement Division, Operational Division, Strategic Business Division, Management Support Division, Business Support Division, and conducts interdivisional and intradivisional performance evaluations.

Each business sector has been identified by each division on the basis of revenues and expenses, segment performance evaluations and resource allocation decisions by financial segment unit.

# Notes to the Consolidated Financial Statements

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Segment aggregation is on the basis of intersegmental economic similarity (eg. characteristics of the services provided). The Group is divided into four separate segments by importance of generating revenue and profit. The four reportable segments are as follows:

Description	Business area
Corporate	Procurement and financial services for corporate
Individuals	Procurement and financial services for individuals
Public	Procurement and financial services for public
Money market center	Securities (including stocks) investment and operation, business acquisitions and sales of public debt, derivatives design and operation, work related to foreign exchange

Segment reporting as of and for the two hundred-twenty-nine day period ended December 31, 2011 is as follows:

Classification		Corporate	Individuals	Public	Money market center	Other	Subtotal	Adjustment	Financial accounting
Net interest income (loss)	₩	274,152	240,895	77,315	150,767	(17,584)	725,545	(1,299)	724,246
Interest income		854,145	677,838	217,043	1,351,804	8,962	3,109,792	-	-
(Interest income from external customers)		630,865	319,938	84,025	255,579	1,510	1,291,917	(7,431)	1,284,486
Interest expense		579,993	436,943	139,728	1,201,037	26,546	2,384,247	-	-
(Interest expense to external customers)		146,672	222,099	80,597	110,352	1,681	561,401	(1,161)	560,240
Fee & commission Income, net		27,594	50,308	9,507	1,595	1,608	90,612	(35,899)	54,713
Other financial Income*		11,405	2,141	800	22,135	527	37,008	(19,147)	17,861
Bad debt expense		-	-	-	-	-	-	(101,312)	(101,312)
Other operating loss		(83,315)	(138,948)	(36,744)	(40,334)	(6,728)	(306,069)	(109,388)	(415,457)
Income (loss) before tax expense		229,836	154,396	50,878	134,163	(22,177)	547,096	(267,046)	280,050
Total assets		14,791,834	8,459,039	1,863,349	6,065,938	109,103	31,289,263	4,740	31,294,003

(In millions of won)

\* Other financial income, (excluding interest income/expense and the dividend income) includes net income on financial assets held for trading, net income on financial assets designated at fair value through profit or loss, net income on available-for-sale financial assets, net income on held-to-maturity financial assets, net income on derivative assets - hedge accounting, net income on assets-hedge accounting, impairment loss and reversal of impairment loss on financial assets, net income on foreign exchange and net disposal income of loans and receivables.

# Notes to the Consolidated Financial Statements

December 31, 2011

## 5. Cash and due from Banks

(a) Cash and due from banks as of December 31, 2011 are as follows:

Classification		Book value	Fair value
Cash and cash equivalents	₩	403,363	403,363
	The Bank of Korea	521,235	521,235
	Commercial banks	330,000	330,000
Due from banks in won	Non-monetary financial institutions	110,000	110,000
	Others	6,201	6,201
	Subtotal	967,436	967,436
Due from banks in foreigncurrency	The Bank of Korea	29,918	29,918
	Commercial banks	12,008	12,008
	Banks in foreign countries	14,980	14,980
	Subtotal	56,906	56,906
<b>Total</b>	₩	<b>1,427,705</b>	<b>1,427,705</b>

(In millions of won)

Due from banks, where the expiration of time arrives within 12 months are ₩ 1,427,705 million as of December 31, 2011. There is no amount of due from banks, where the expiration of time arrives after 12 months as of December 31, 2011.

(b) Restricted due from banks as of December 31, 2011 are as follows:

Classification		
Reserve deposits in the Bank of Korea	₩	521,235
Reserve deposits in the Bank of Korean foreign currency		29,918
<b>Total</b>	₩	<b>551,153</b>

(In millions of won)

## 6. Financial Assets Held for Trading (except Trading Derivative Instruments)

(a) Financial assets held-for-trading

Details of financial assets held-for-trading as of December 31, 2011 are as follows:

	Book Value before valuation	Fair value	Gain on valuation
Equity securities Listed securities	₩ 5,874	5,838	(36)

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

## (b) Classification and level of financial assets held-for-trading

Classification and level of financial assets held-for-trading according to fair value hierarchy as of December 31, 2011 are as follows:

		Level 1	Level 2	Level 3	Total
Equity securities	₩	5,838	-	-	5,838

(In millions of won)

## 7. Financial Assets Designated at Fair Value through Profit or Loss

### (a) The components of financial assets designated at fair value through profit or loss

The Group designated hybrid securities containing embedded derivatives as financial assets at fair value through profit and loss. Financial assets designated at fair value through profit or loss as of December 31, 2011 are as follows:

Classification		Book price before valuation	Fair value	Gain on valuation
Equity securities Redeemable preferred	₩	196,038	204,650	8,612
Debt securities Credit linked securities		10,439	10,903	464
<b>Total</b>	₩	<b>206,477</b>	<b>215,553</b>	<b>9,076</b>

(In millions of won)

There is no amount of debt securities designated at fair value through profit or loss, where the expiration date arrives within 12 months as of December 31, 2011. The amount of debt securities designated at fair value through profit or loss where the expiration date arrives after 12 months are ₩ 10,903 million as of December 31, 2011.

### (b) Classification and level of financial assets designated at fair value through profit or loss for value measurement

Classification and level of financial assets designated at fair value through profit or loss for value measurement as of December 31, 2011 are as follows:

Classification		Level 1	Level 2	Level 3	Total
Equity securities	₩	-	-	204,650	204,650
Debt securities		-	-	10,903	10,903
<b>Total</b>	₩	-	-	<b>215,553</b>	<b>215,553</b>

(In millions of won)



## Notes to the Consolidated Financial Statements

December 31, 2011

### (c) Changes in Level 3

Details of changes in level 3 of financial assets designated at fair value through profit or loss for the two hundred-twenty-nine day period ended December 31, 2011 (the "period") are as follows:

Classification		Equity securities	Debt securities	Total
Beginning balance	₩	96,038	10,027	106,065
Gain*		8,612	464	9,076
Effect of exchange rate		-	412	412
Purchase		100,000	-	100,000
<b>Ending balance</b>	<b>₩</b>	<b>252,978</b>	<b>10,903</b>	<b>215,553</b>

(In millions of won)

\* Gain of ₩ 9,076 million from financial assets designated at fair value through profit or loss classified as level 3 over this period has been accounted for as net income on financial assets designated at fair value through profit or loss.

### (d) Deferred recognition of day-one profit or loss

There is no amount of deferred day-one profit or loss for the period ended December 31, 2011.

## 8. Available-for-sale Financial Assets

### (e) Available-for-sale financial assets

Details of available-for-sale financial assets as of December 31, 2011 are as follows:

Classification		Equity securities	Debt securities	Total
Listed equity securities	₩	66,458	59,847	(6,611)
Unlisted equity securities		210,706	246,725	36,019
Subtotal		277,164	306,572	29,408
Government bonds		57,653	58,436	783
Financial debentures		500,192	501,303	1,111
Corporate bonds		70,565	71,378	813
Available-for-sale securities in foreign currency		11,533	9,803	(1,730)
Other		601,156	605,061	3,905
Subtotal		1,241,099	1,245,981	4,882
Beneficiary certificate		201,301	191,004	(10,297)
<b>Total</b>	<b>₩</b>	<b>1,719,564</b>	<b>1,743,557</b>	<b>23,993</b>

(In millions of won)

The amount of available-for-sale financial assets, where the expiration of time arrives within 12 months and after 12 months are ₩ 494,512 million and ₩ 942,473 million, respectively as of December 31, 2011.

The gain or loss includes accumulated loss on valuation of fair value hedged items amounting to ₩ 6,401 million, as of December 31, 2011.

# Notes to the Consolidated Financial Statements

December 31, 2011

## (b) Level classification for evaluation of available-for-sale financial assets at fair value

Classification and level of financial assets at fair value through profit or loss for value measurement as of December 31, 2011 are as follows:

Classification		Level 1	Level 2	Level 3	Total
Equity securities	₩	53,594	-	252,978	306,572
Debt securities		199,941	1,036,237	9,803	1,245,981
Beneficiary certificate		72,868	118,136	-	191,004
<b>Total</b>		<b>326,403</b>	<b>1,154,373</b>	<b>262,781</b>	<b>1,743,557</b>

(In millions of won)

## (c) Change history of level 3

Details of change history of level 3 (available-for-sale financial assets) for the period ended December 31, 2011 are as follows:

Classification		Equity securities	Debt securities	Total
Beginning balance	₩	240,273	9,411	249,684
Realized loss (impairment loss)		(7,849)	-	(7,849)
Unrealized gain (loss)		11,770	248	12,018
Acquisition		16,743	-	16,743
Disposal		(6,941)	-	(6,941)
Transfer*		(1,018)	-	(1,018)
Effect of exchange rate		-	144	144
<b>Ending balance</b>	₩	<b>252,978</b>	<b>9,803</b>	<b>262,781</b>

(In millions of won)

\* 60% of MB. Corp. securities were transferred to level 1 as the lock-up provision was lifted during the reporting period.

## (d) Deferred recognition of day-one profit or loss

There is no amount of deferred day-one profit or loss for the period ended December 31, 2011.

## (e) Unrealized gain (loss)

Details of unrealized gain (loss) on available-for-sale financial assets as of December 31, 2011 are as follows:

Classification		Equity securities	Debt securities	Beneficiary certificate	Total
Beginning balance	₩	25,678	4,644	9,974	40,296
Realized gains (losses) on disposition of securities		520	(4,238)	(5,516)	(9,234)
Unrealized gain (loss)		9,611	4,476	(14,755)	(668)
Ending balance		35,809	4,882	(10,297)	30,394
Deferred income tax effects		(8,665)	(1,181)	2,492	(7,354)
<b>Net balance at December 31, 2011</b>	₩	<b>27,144</b>	<b>3,701</b>	<b>(7,805)</b>	<b>23,040</b>

(In millions of won)

## Notes to the Consolidated Financial Statements

December 31, 2011

### (f) Impairment losses

Impairment losses on available-for-sale financial assets for the period ended December 31, 2011 are as follows:

Classification		Amount before impairment	Amount after impairment	Impairment loss
Equity securities	₩	16,883	8,030	8,853
Beneficiary certificate		82	43	39
<b>Total</b>	₩	<b>16,965</b>	<b>8,073</b>	<b>8,892</b>

(In millions of won)

### (g) Available-for-sale securities carried at cost

Details of available-for-sale securities carried at cost for the period ended December 31, 2011 are as follows:

Classification		December 31, 2011
Korea BTL 1st Investment Co., Ltd.	₩	41,831
Shinhan Infrastructure Portfolio Fund		34,964
Credit recovery fund callable stock		17,403
Pohang Techno Valley PFV		3,300
Union ARK Development Co., Ltd.		1,815
Megabowcity		1,800
Ulsan green		1,732
Korea Asset Management Corp.		1,570
Kyung Ju SMC Co., Ltd.		1,488
Others		16,359
<b>Total</b>	₩	<b>122,262</b>

(In millions of won)

Gain on disposal of securities carried at cost for the period ended December 31, 2011 are as follows:

		Depreciation method	Useful lives (years)
Badbank Harmony	₩	8	240
IL SUNG CORPORATION		1,043	-
Korea BTL 1st Investment Co., Ltd.		539	-
Green Kimhae Enviro Co.,Ltd		9	-
<b>Total</b>	₩	<b>1,599</b>	<b>240</b>

(In millions of won)

Impairment loss of securities at cost for the period ended December 31, 2011 are as follows:

		Amount after impairment	Impairment loss
Gyeongju Culture & Arts Center	₩	105	508
Sangmyung Co.,Ltd		-	104
<b>Total</b>	₩	<b>105</b>	<b>612</b>

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

## 9. Held-to-maturity Financial Assets

Held-to-maturity financial assets (debt securities) as of December 31, 2011 are as follows:

Classification		Par value	Acquisition cost	Amortized cost	Fair value
Government bonds	₩	2,038,478	1,927,375	1,952,861	2,023,043
Financial debentures		290,000	289,955	290,031	295,447
Corporate bonds		160,000	160,000	160,000	160,616
Others		1,610,223	1,610,116	1,612,375	1,636,848
<b>Total</b>		<b>4,098,701</b>	<b>3,987,446</b>	<b>4,015,267</b>	<b>4,115,954</b>

(In millions of won)

The amount of held-to-maturity financial assets, where the expiration of time arrives within 12 months and after 12 months are ₩ 719,488 million and ₩ 3,295,779 million, respectively as of December 31, 2011.

## 10. Collateral Securities

Investment securities pledged to various institutions as of December 31, 2011 are as follows:

Classification		Collateralized value	Book value of held-to-maturity securities
Bank of Korea borrowings	₩	130,000	127,193
Bank of Korea daylight overdraft		255,000	233,126
Borrowings in foreign currency		80,000	73,878
Bonds under repurchase agreements		150,000	151,829
Other		175	20,135
<b>Total</b>	₩	<b>615,175</b>	<b>606,161</b>

(In millions of won)

## 11. Structured Securities

Structured securities as of December 31, 2011 are as follows:

Classification	Structured form	Face amount	Book value	Inherent risk
Financial assets designated at fair value through profit or loss	Credit linked securities	10,000	9,454	Interests may not be paid in the case that operating performance will be declined, but the principle will be guaranteed.
Financial assets available for-sale	Collateral bond for loan	10,000	8,500	Interests may not be paid in the case that operating performance will be declined.
<b>Total</b>		<b>20,000</b>	<b>17,954</b>	

(In thousands of US dollar)

# Notes to the Consolidated Financial Statements

December 31, 2011

## 12. Investment in Subsidiaries and Associates

### (a) Information of subsidiaries

Summarized financial information of subsidiaries as of December 31, 2011 are as follows:

Classification		Assets	Liabilities	Revenue	Net income
Daegu Bank	₩	31,289,263	29,062,866	2,898,959	310,035
Kardnet Inc.		26,196	17,491	6,647	2,046
Daegu Credit Information Co., Ltd.		4,063	234	2,292	276
<b>Total</b>		<b>31,319,522</b>	<b>29,080,591</b>	<b>2,907,898</b>	<b>312,357</b>

(In millions of won)

### (b) Details of ownership

Details of ownership on associates as of December 31, 2011 are as follows:

Classification	Relation	Capital stock	Ownership	Acquisition cost	Net asset value	Book value	Net loss	Location	Reporting date
Daegu FC*	₩ Associated company	300,000	9.20%	516	264	264	(1,852)	Daegu	December 31, 2011

(In millions of won)

\* Ownership of Daegu FC is less than 20%, but was classified as an associate as the Group can exercise significant influence over Daegu FC through sharing of management.

### (c) Equity method

Relation		May 17, 2011	Equity loss	December 31, 2011
Daegu FC	₩	432	(168)	264

(In millions of won)

### (d) Summarized financial information

Summarized financial information of associates as of December 31, 2011 are as follows:

Relation		Assets	Liabilities	Gross income	Net loss
Daegu FC	₩	5,389	2,518	6,939	(1,852)

(In millions of won)



# Notes to the Consolidated Financial Statements

December 31, 2011

## 13. Loans and Receivables

### (a) Loans and receivables

Details of loans and receivables as of December 31, 2011 are as follows:

Classification		Book value	Fair value	
Loans in won	Loans to enterprises	₩ 13,748,913	13,814,001	
	Loans to households	6,070,535	6,068,972	
	Loans to public sectors and others	346,733	347,238	
	Subtotal	20,166,181	20,230,211	
Loans in foreign currency	Loans to enterprises	643,358	642,680	
Loans to other banks		78,326	78,326	
Loans	Bill bought	34,714	34,714	
	Bill bought in foreign currency	125,130	125,130	
	Payments on guarantees	96	96	
	Credit card accounts	443,594	443,292	
	Other	Bonds purchased under resale agreements	290,000	290,000
	Call loans	122,330	122,330	
	Privately placed debentures	303,663	302,457	
	Privately placed public loan	233,856	235,936	
	Subtotal	1,553,383	1,553,955	
	Subtotal	22,441,248	22,505,172	
Receivables	Guaranty money	135,862	131,714	
	Account receivables	704,274	715,734	
	Accrued income	249,572	249,572	
	Other receivables	62,266	62,266	
	Subtotal	1,151,974	1,159,286	
	Allowance for loan losses (-)	(312,295)	(312,295)	
	Present value discount (-)	(7,475)	(7,475)	
	Loan origination fee (-)	(6,334)	(6,334)	
	Loan origination cost (+)	12,375	12,375	
	<b>Total</b>	₩ <b>23,279,493</b>	<b>23,350,729</b>	

(In millions of won)

The amount of loans and receivables, where the expiration of time arrives within 12 months and after 12 months are ₩ 14,816,235 million and ₩ 7,625,013 million, respectively as of December 30, 2011.

# Notes to the Consolidated Financial Statements

December 31, 2011

## (b) Loans in won

Details of loans in won as of December 31, 2011 are as follows:

Classification			
Loans to enterprises	Operation loans	₩	8,911,794
	Facility loans		4,837,119
	Subtotal		13,748,913
Loans to households	Operation loans		4,000,736
	Housing loans		2,069,799
	Subtotal		6,070,535
Loans to public sectors and others	Operation loans		127,722
	Facility loans		219,011
	Subtotal		346,733
<b>Total</b>		₩	<b>20,166,181</b>

(In millions of won)

## (c) Loans in foreign currency

Details of loans in foreign currency as of December 31, 2011 are as follows:

Classification			
Loans to enterprises	Operation loans	₩	94,322
	Facility loans		331,979
	Domestic import usance		217,057
<b>Total</b>		₩	<b>643,358</b>

(In millions of won)

## (d) Loans transfer

Details of transfer of loans for the period ended December 31, 2011 are as follows:

Classification					
Loans (11 holders) disposal*	Korea Asset Management Corporation	₩	21,043	16,882	Defined disposal
Duk Won Construction Ltd. PF loan disposal**	United PF No 1. Corporation		18,910	6,407	Defined disposal
Sae Nal Co., Ltd PF loan disposal***	United PF No 1. Corporation		32,537	15,118	Defined disposal
Loans(21 holders) disposal****	Korea Asset Management Corporation		21,385	16,735	Defined disposal
<b>Total</b>		₩	<b>93,875</b>	<b>55,142</b>	

(In millions of won)

\* The amount of loans totally written off was ₩ 3,001 million.

\*\* Duk Won Construction Ltd. PF loan was totally written off.

\*\*\* The amount of loans totally written off was ₩ 20,715 million.

\*\*\*\* The amount of loans totally written off was ₩ 3,791 million.

## 14. Allowance for Loan Losses

# Notes to the Consolidated Financial Statements

December 31, 2011

Changes in allowance for loan losses for the period ended December 31, 2011 are as follows:

Classification		
Beginning balance	₩	311,229
Provision for losses		101,312
Collection of depreciation loans		38,385
Disposal of loans		(13,673)
Write-offs		(101,534)
Unwinding effect		(23,446)
Effect of exchange rate		371
Others		(349)
<b>Ending balance</b>	<b>₩</b>	<b>312,295</b>

(In millions of won)

## 15. Deferred Origination Fees and Costs

### (a) Deferred origination fees

Changes in deferred origination fees for the period ended December 31, 2011 are as follows:

Classification		
Beginning balance	₩	6,080
Increase		3,386
Decrease		(3,132)
<b>Ending balance</b>	<b>₩</b>	<b>6,334</b>

(In millions of won)

### (b) Deferred origination costs

Changes in deferred origination costs for the period ended December 31, 2011 are as follows:

Classification		
Beginning balance	₩	3,622
Increase		14,286
Decrease		(5,533)
<b>Ending balance</b>	<b>₩</b>	<b>12,375</b>

(In millions of won)

## 16. Restructured Loans

# Notes to the Consolidated Financial Statements

December 31, 2011

Details of restructured loans with workout plans or other similar restructuring programs as of December 31, 2011 are as follows:

Classification		The number of companies	Balance before restructuring	Allowance account	Balance after restructuring
Workout	₩	10	161,966	59,231	102,735
Revival, industrial rationalization		16	43,270	10,207	33,063
<b>Total</b>		<b>26</b>	<b>205,236</b>	<b>69,438</b>	<b>135,798</b>

(In millions of won, except the number of companies)

## 17. Derivative Instruments

### (a) Notional amounts of unsettled derivative instruments

Details of notional amounts of unsettled derivative instruments as of December 31, 2011 are as follows:

Classification			Trading	Hedge	Total
Currency related	Forward	₩	3,743,599	-	3,743,599
	Swap		7,023	-	7,023
	Option bought		412,105	-	412,105
	Option sold		412,103	-	412,103
	Subtotal		4,574,830	-	4,574,830
Interest rate related	Swap		100,000	-	100,000
Stock price index related	Option bought		206,778	76,337	283,115
	Option sold		181,583	44,914	226,497
	Future sold		2,147	-	2,147
	Subtotal		390,508	121,251	511,759
<b>Total</b>		₩	<b>5,065,338</b>	<b>121,251</b>	<b>5,186,589</b>

(In millions of won)

### (b) Valuation on trading and hedging derivative instruments

# Notes to the Consolidated Financial Statements

December 31, 2011

Details of valuation on trading and hedging derivative instruments as of December 31, 2011 are as follows:

Classification		Valuation gains (losses)			Fair value (trading)		Fair value (hedge)		
		Trading (through profit and loss)	Hedge		Total	Assets	Liabilities	Assets	Liabilities
			Through profit and loss	Other comprehensive income					
<Currency related>									
Forward	₩	41,659	-	-	41,659	86,902	34,143	-	-
Swap		17	(366)	9	(340)	257	257	-	-
Option		(5,960)	-	-	(5,960)	48,505	29,688	-	-
Subtotal		35,716	(366)	9	35,359	135,664	64,088	-	-
<Interest rate related>									
Swap		(307)	452	-	145	108	118	-	-
<Stock price index related>									
Option		3,109	16,029	-	19,138	11,365	3,157	24,967	704
Allowance for credit risk adjustment		(20,269)	78	-	(20,191)	(71,859)	-	(105)	-
<b>Total</b>	₩	<b>18,249</b>	<b>16,193</b>	<b>9</b>	<b>34,451</b>	<b>75,278</b>	<b>67,363</b>	<b>24,862</b>	<b>704</b>

(In millions of won)

## (c) Loss on valuation of hedged asset

Loss on valuation of hedged asset for the period ended December 31, 2011 are as follows:

Classification		Gain on valuation	Loss on valuation
Available-for-sale financial assets	₩	-	16,452

## (d) Classification and level of derivatives for fair value measurement

Classification and level of derivatives for fair value measurement as of December 31, 2011 are as follows:

Classification		Level 1	Level 2	Level 3	Total
Trading derivatives instrument assets*	₩	-	135,772	11,365	147,137
Trading derivatives instrument liabilities		-	64,206	3,157	67,363
Hedged derivatives instrument assets*		-	-	24,967	24,967
Hedged derivatives instrument liabilities		-	-	704	704

(In millions of won)

\* Before allowance for credit risk adjustment

## (e) Deferred recognition of day-one profit or loss



## Notes to the Consolidated Financial Statements

December 31, 2011

There is no amount of deferred day-one profit or loss for the period ended December 31, 2011.

### (f) Changes in level 3

Changes in level 3 (derivative instruments) for the period ended December 31, 2011 are as follows:

Classification		Trading derivatives instrument assets	Trading derivatives instrument liabilities	Hedged derivatives instrument assets	Hedged derivatives instrument liabilities
Beginning balance	₩	7,883	117	14,841	4,083
Gain (Loss)		(3,177)	(3,397)	10,881	(3,392)
Purchase		4,252	(44)	4,671	-
Sale		13,410	17,574	-	4,290
Settlement		11,003	11,093	5,426	4,277
<b>Total</b>		<b>11,365</b>	<b>3,157</b>	<b>24,967</b>	<b>704</b>

(In millions of won)

## 18. Property and Equipment

### (a) Property and equipment

Property and equipment assets as of December 31, 2011 are as follows:

Classification		Acquisition cost	Accumulated Depreciation	Net book value
Land	₩	130,567	-	130,567
Buildings		177,349	46,109	131,240
Leasehold improvement		31,323	24,067	7,256
Movable properties		192,960	163,217	29,743
Construction-in-progress		317	-	317
<b>Total</b>	₩	<b>532,516</b>	<b>233,393</b>	<b>299,123</b>

(In millions of won)

### (b) Changes in property and equipment

Changes in property and equipment for the period ended December 31, 2011 are as follows:

Classification		Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩	131,370	-	-	-	803	130,567
Buildings		134,255	2,105	-	3,280	1,840	131,240
Leasehold improvement		6,315	2,712	46	2,328	603	7,256
Movable properties		28,521	14,115	33	14,355	1,495	29,743
Construction-in-progress		283	1,958	14	-	(1,910)	317
<b>Total</b>	₩	<b>300,744</b>	<b>20,890</b>	<b>93</b>	<b>19,963</b>	<b>2,831</b>	<b>299,123</b>

(c) Assets insured

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

Details of assets insured as of December 31, 2011 are as follows:

Classification	Type		Level 1	Level 2	Total
Buildings	Package insurance	₩	171,209	1 year	Samsung Fire & Marine Insurance Co., Ltd
Leasehold improvement	Package insurance		9,137	1 year	Samsung Fire & Marine Insurance Co., Ltd
Movable properties	Package insurance		29,106	1 year	Samsung Fire & Marine Insurance Co., Ltd
<b>Total</b>			<b>209,452</b>	<b>-</b>	

(In millions of won)

## (d) Operating lease

Details of operating lease for the period ended December 31, 2011 are as follows:

Classification		Operating lease revenues	Operating lease expenses
Within 1 year	₩	390	3,159
Exceed 1 year and within 5 years		98	4,730
Exceed 5 years		-	-
<b>Total</b>	₩	<b>488</b>	<b>7,889</b>

(In millions of won)

Real estates for rent, lease correspond to operating leases. Therefore rental income, rental costs that will occur were assumed to be operating lease expenses.

## 19. Intangible Property

Changes in intangible property for the period ended December 31, 2011 are as follows:

Classification		Net balance at beginning of year	Additions	Amortization expenses on intangible assets	Other	Net balance at end of year
Software	₩	13,382	43,858	10,028	-	47,212
Contributed acceptance assets		10,409	-	633	-	9,776
Membership*		4,184	835	-	468	4,551
Others**		21,908	1,627	4,694	-	18,841
<b>Total</b>		<b>49,833</b>	<b>46,320</b>	<b>15,355</b>	<b>468</b>	<b>80,380</b>

(In millions of won)

\* Impairment loss of ₩ 155 million was recognized due to a significant decline in its fair value.

\*\* Other intangible assets are entirely usable and profitable donation assets.

## 20. Investment Property and Other Assets

# Notes to the Consolidated Financial Statements

December 31, 2011

## (a) Investment property

Changes in investment property for the period ended December 31, 2011 are as follows:

Classification	Beginning balance	Increase	Decrease	Ending balance
Land	₩ 54,631	803	-	55,434
Buildings	31,173	2,334	1,301	32,206
<b>Total</b>	<b>85,804</b>	<b>3,137</b>	<b>1,301</b>	<b>87,640</b>

(In millions of won)

## (b) Book value and fair value of investment property

Book value and fair value of investment property as of December 31, 2011 are as follows:

Classification	Book value	Fair value	Difference
Land	₩ 55,434	65,444	10,010
Buildings	32,206	31,466	(740)
<b>Total</b>	<b>₩ 87,640</b>	<b>96,910</b>	<b>9,270</b>

(In millions of won)

The fair value of investment property has been determined by considering the price of similar real estate transactions by independent real estate appraisal experts.

## (c) Rental income and expenses of investment property

Rental income and expenses of investment property for the period ended December 31, 2011 are as follows:

Classification	Book value	Difference
Generating rental income	₩ 588	128
Non-generating rental income	-	328
<b>Total</b>	<b>₩ 588</b>	<b>456</b>

(In millions of won)

## (d) Other assets

Details of other assets as of December 31, 2011 are as follows:

Classification	
Non-current assets held for sale	₩ 16,807
Accumulated impairment losses (non-current assets held for sale)	(188)
Prepaid expenses	19,095
Others	3,266
<b>Total</b>	<b>₩ 38,980</b>

(In millions of won)

## (e) Non-current assets held for sale

# Notes to the Consolidated Financial Statements

December 31, 2011

Non-current assets held for sale as of December 31, 2011 are as follows:

Classification		
Land	₩	16,619

The land which is acquired through foreclosure on collateral in relation to loans, is classified as non-current assets held for sale if it is expected to be disposed of within 1 year. Non-current assets held for sale are measured by the lesser amount of book value and net fair value (deducted from the estimated disposal costs at fair value). As of December 31, 2011, the difference between book value and net fair value (₩ 188 million) is accounted for in accumulated impairment losses.

## 21. Depository Liabilities

### (a) Depository liabilities

Depository liabilities as of December 31, 2011 are as follows:

Classification		Book value	Fair value
Demand deposits	₩	8,554,301	8,554,301
Time deposits		12,492,841	12,464,812
Negotiable certificates of deposit		896,268	896,255
<b>Total</b>	₩	<b>21,943,410</b>	<b>21,915,368</b>

(In millions of won)

The amount of depository liabilities expiring within 12 months and after 12 months are ₩ 14,165,691 million and ₩ 7,777,719 million, respectively, as of December 31, 2011.

### (b) Demand deposits

Demand deposits as of December 31, 2011 are as follows:

Classification			
Deposits in won	Passbook deposits	₩	912,066
	Savings deposits		4,655,964
	Corporate free savings deposits		2,214,088
	Others		650,641
	Subtotal		8,432,759
Loans to households	Current deposits		726
	Subtotal		726
(c) Time deposits	Passbook deposits		120,683
	Temporary deposits		133
	Subtotal		121,542
<b>Total</b>		₩	<b>8,554,301</b>

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

Time Deposits as of December 31, 2011 are as follows:

Classification			
Deposits in won	Time deposits	₩	11,334,179
	Installment savings deposits		750,975
	Long term housing saving deposits		234,668
	Mutual installment deposits		153,088
	Others		8,755
	Subtotal		12,481,665
Deposits in foreign currency	Time deposits		10,706
	Installment savings deposits		470
	Subtotal		11,176
<b>Total</b>		₩	<b>12,492,841</b>

(In millions of won)

## 22. Borrowings and Debentures

### (a) Borrowings and debentures

Details of borrowings and debentures as of December 31, 2011 are as follows:

Classification			Average interest rate	Book value	Fair value
Borrowings in won	The Bank of Korea	₩	1.45%	388,569	388,569
	Others		3.09%	1,642,269	1,642,269
	Subtotal			2,030,838	2,030,838
Borrowings in foreign currency	Borrowings from banks		1.36%	922,597	922,597
	Non-bank		3.51%	211,959	213,652
	Bonds sold under repurchase agreement		1.32%	124,497	124,654
	Subtotal			336,456	338,306
Other	Bills sold		3.34%	38,873	38,890
<b>Total</b>		₩		<b>3,328,764</b>	<b>3,329,133</b>
Debentures	In won		4.84%	1,809,000	1,855,111
	Other (hybrid bond)		8.60%	400,000	437,463
	Less discount on debentures			(2,235)	(2,235)
<b>Total</b>		₩		<b>2,206,765</b>	<b>2,290,339</b>
<b>Borrowings &amp; debentures</b>		₩		<b>5,535,529</b>	<b>5,619,472</b>

(In millions of won)

The amount of borrowings and debentures expiring within 12 months and after 12 months are ₩ 2,441,143 million and ₩ 3,094,386 million, respectively, as of December 31, 2011.



# Notes to the Consolidated Financial Statements

December 31, 2011

Debentures as of December 31, 2011 are as follows:

Issuance date	Maturity date	Interest rate		December 31, 2011
2006-12-04	2012-01-04	5.32%	₩	100,000
2007-02-06	2013-01-06	5.53%		50,000
2007-02-06	2013-01-06	5.53%		20,000
2007-02-26	2013-01-26	5.53%		30,000
2008-01-25	2014-01-25	6.76%		110,000
2008-02-28	2014-02-28	6.02%		90,000
2008-11-19	2015-02-19	8.00%		45,800
2008-11-21	2015-02-21	8.00%		47,500
2008-11-25	2015-02-25	8.00%		55,700
2008-12-31	2011-12-31	6.27%		10,000
2009-01-19	2039-01-19	8.60%		270,000
2009-01-29	2039-01-29	8.60%		130,000
2010-07-26	2012-01-26	3.88%		30,000
2010-07-30	2012-01-30	3.87%		30,000
2010-08-06	2012-02-06	3.85%		20,000
2010-08-20	2012-08-20	3.91%		30,000
2010-08-31	2016-12-31	5.05%		120,000
2010-08-31	2016-12-31	5.05%		80,000
2010-10-14	2012-04-14	3.34%		30,000
2010-10-15	2012-04-15	3.24%		100,000
2010-10-26	2012-04-26	3.22%		50,000
2010-11-05	2012-05-05	3.46%		50,000
2011-02-16	2013-08-16	4.24%		20,000
2011-02-21	2014-11-21	4.55%		50,000
2011-02-24	2012-02-24	3.64%		60,000
2011-04-15	2016-04-15	4.46%		100,000
2011-05-02	2014-05-02	4.17%		40,000
2011-05-06	2016-05-06	4.43%		20,000
2011-05-16	2012-05-16	3.71%		80,000
2011-08-03	2013-08-03	4.17%		50,000
2011-09-06	2013-09-06	3.82%		60,000
2011-10-20	2018-01-20	4.49%		120,000
2011-10-20	2018-01-20	4.49%		10,000
2011-11-24	2013-05-24	3.61%		10,000
2011-11-24	2013-11-24	3.71%		20,000

(In millions of won)

Issuance date	Maturity date	Interest rate		December 31, 2011
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# Notes to the Consolidated Financial Statements

December 31, 2011

2011-10-20	2016-10-20	4.25%	₩	70,000
Subtotal				2,209,000
Less discount on debentures				(2,235)
<b>Total</b>			₩	<b>9,2206,765</b>

(In millions of won)

## 23. Provisions

### (a) Changes in provisions

Changes in provisions for the period ended December 31, 2011 are as follows:

Classification	Beginning balance	Increase	Decrease	Ending balance
Provision for financial guarantee	₩ 2,494	148	-	2,642
Allowance* Non-financial guarantee contract	8,598	1,071	5,037	4,632
Subtotal	11,092	1,219	5,037	7,274
Unused commitment**	9,015	3,696	(638)	13,349
Provision for restoration***	2,937	417	(66)	3,420
Mileage on credit cards	1,683	25	10	1,698
Dormant deposits written-off	424	4,265	300	4,389
Other allowance Welfare of retired employees	2,019	64	217	1,866
Lawsuits	4,325	-	4,325	-
Others	5	4	8	1
Subtotal	8,456	4,358	4,860	7,954
<b>Total</b>	₩ <b>31,500</b>	<b>9,690</b>	<b>9,193</b>	<b>31,997</b>

(In millions of won)

\* Allowance is accounted for as the estimated amount that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a guarantee obligation.

\*\* In the case that there is the commitment to providing the credit line, unused commitment is recognized as allowance because the additional withdrawing amount and time for unused commitment are not certain and are exposed to credit loss risk.

\*\*\* Provision for restoration is stated as the present value of the restoration expense estimated and calculated at a discount rate for the Bank's leased branches as of December 31, 2011.

### (b) Non-financial guarantee contracts

# Notes to the Consolidated Financial Statements

December 31, 2011

Details of non-financial guarantee contracts as of December 31, 2011 are as follows:

Classification		
Acceptances and guarantees outstanding in won	₩	185,394
Acceptances and guarantees outstanding in foreign currency		82,313
Contingent acceptances and guarantees		337,995
Loan commitments in won		5,991,616
Purchasing securities		106,284
<b>Total</b>	<b>₩</b>	<b>6,703,602</b>

(In millions of won)

## (c) Financial guarantee contracts

Details of financial guarantee contracts as of December 31, 2011 are as follows:

Classification		
Financial guarantee contract in won	₩	27,314
Financial guarantee contract in foreign currency		20,035
Purchasing securities for ABCP in won		60,000
<b>Total</b>	<b>₩</b>	<b>107,349</b>

(In millions of won)

## 24. Defined Benefit Obligations

### (a) Primary assumptions of actuarial valuation

Primary assumptions of actuarial valuation as of December 31, 2011 are as follows:

Classification		
Discount rate	₩	6.50%
Expected rate of return on plan assets		4.50%
Salary increases		Application of job group and age group according to experience statistics

(In millions of won)

### (b) The profits and losses related to defined benefit plans

The profits and losses related to defined benefit plans for the period ended December 31, 2011 are as follows:

Classification		
Current service cost	₩	9,349
Interest cost		1,331
Expected return on plan assets		(989)
Actuarial gains and losses		16,702
<b>(c) Defined benefit obligations</b>		
<b>Total</b>	<b>₩</b>	<b>26,393</b>

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

Details of defined benefit obligations as of December 31, 2011 are as follows:

Classification		
Present value of retirement benefit obligations	₩	57,247
Fair value on plan assets		40,723
<b>Net retirement benefit obligations</b>	<b>₩</b>	<b>16,524</b>

(In millions of won)

## (d) Changes in present value of retirement benefit obligations

Changes in present value of retirement benefit obligations for the period ended December 31, 2011 are as follows:

Classification		
Defined benefit obligations at beginning of the period	₩	31,158
Current service cost		9,349
Interest cost		1,331
Actuarial gains and losses		17,275
Payment		(1,866)
<b>Defined benefit obligations at end of the period</b>	<b>₩</b>	<b>57,247</b>

(In millions of won)

## (e) Changes in fair value of plan assets

Changes in fair value of plan assets for the period ended December 31, 2011 are as follows:

Classification		
Fair value on plan assets at beginning of the period	₩	24,856
Expected return on plan assets		990
Actuarial gains and losses		574
Contribution of employer		15,212
Payment		(909)
<b>Fair value on plan assets at end of the period</b>	<b>₩</b>	<b>40,723</b>

(In millions of won)

## (f) Expected rate of return on plan assets by category

Expected rate of return on plan assets by category as of December 31, 2011 are as follows:

Classification	Expected rate of return		Fair value on plan assets
Debt securities	4.50%	₩	40,723

(In millions of won)

Expected rate of return is the weighted average from expected return on plan assets. Management evaluated expected rate of return based on historical return trends and market forecasting analysis.

# Notes to the Consolidated Financial Statements

December 31, 2011

## 25. Other Liabilities

Details of other liabilities as of December 31, 2011 are as follows:

	Classification		Book value	Fair value
Other financial liabilities	Financial guarantee contract	₩	744	744
	Suspense receipts		449	449
	Accounts payable		682,269	682,269
	Accrued expenses		382,621	382,621
	Domestic exchange settlements credits		57	57
	Prepaid cards		4,872	4,872
	Debit cards		400	400
	Guarantee deposit for securities subscription		450	450
	Liabilities incurred by agency relationship		44,311	44,311
	Deposit for credit control		800	800
	Withholding taxes		13,361	13,361
	Deposits for letter of guarantees and other		24,173	24,033
	Account for agency business		31,145	31,145
	Other		83,961	83,961
		Subtotal		1,269,568
Other non-financial liabilities	Unearned revenue		18,067	18,067
	Income tax payable		73,490	73,490
	Other		3,534	3,534
		Subtotal		95,091
Discount present value (-)			(147)	(147)
Total		₩	1,364,512	1,364,372

(In millions of won)

The amount of other liabilities expiring within 12 months and after 12 months are ₩ 727,236 million and ₩ 637,423 million, respectively, as of December 31, 2011.



# Notes to the Consolidated Financial Statements

December 31, 2011

## 26. Assets and Liabilities Denominated in Foreign Currency

### (a) Assets and liabilities denominated in foreign currency

Details of assets and liabilities denominated in foreign currency as of December 31, 2011 are as follows:

		Classification	Book value	Fair value	
Assets	Cash in foreign currencies		₩ 41,831	48,244	
	Due from banks in foreign currency		49,342	56,906	
	Financial assets designated at fair value through profit or loss		9,454	10,903	
	Available for sale financial assets		8,500	9,803	
	Loans and receivables	Loans in foreign currency		557,841	643,358
		Bills bought in foreign currency		108,498	125,130
		Advances for customers in foreign currency		83	96
		Credit card accounts in foreign currency		1,336	1,541
		Call loans in foreign currency		100,000	115,330
	Total foreign currency denominated assets			876,885	1,011,311
Liabilities	Deposits in foreign currency		115,078	132,718	
	Borrowings & bonds payable	Borrowings in foreign currency		799,963	922,597
		Bonds sold under repurchase agreements in foreign currency		107,948	124,497
	Other liabilities	Foreign exchanges payable		2,978	3,435
		Import deposit money in foreign currency		7,027	8,104
Total foreign currency denominated liabilities			₩ 1,032,994	1,191,351	

(Thousand of US dollar / In millions of won)

### (b) Profit and loss of foreign currency transactions

Profit and loss of foreign currency transactions for the period ended December 31, 2011 are as follows:

		Classification	
	Foreign currency trading profit	₩	491,308
	Foreign currency trading loss		515,649
	<b>Foreign currency trading net loss</b>	₩	<b>(24,341)</b>

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

## 27. Capital stock, Capital Surplus and Capital Adjustments

Capital stock, capital surplus and capital adjustments as of December 31, 2011 are as follows:

(1) Authorized shares	500,000,000 shares
(2) Number of shares issued	134,053,154 shares
(3) Par price	5,000 won
(4) Capital	670,265,770,000 won
(5) Capital surplus*	1,423,535,331,574 won
(6) Capital adjustment**	(9,622,553) won

\* Capital surplus consists of capital in excess of par value ₩ 1,421,835 million and gain on sales of treasury stock 1,700 million as of December 31, 2011.

\*\* Daegu Bank holds 679 common stocks of the Company.

## 28. Retained Earnings

The Group's retained earnings is ₩ 174,569 million as of December 31, 2011 and unappropriated retained earnings is in full. The Group's allowance reserve to be accumulated is ₩ 125,484 million as of December 31, 2011.

## 29. Accumulated Other Comprehensive Income

Changes of accumulated other comprehensive income for the period ended December 31, 2011 are as follows:

Classification		Gain (loss) on valuation of available-for-sale securities	Gain (loss) on cash flow hedge	Total
Beginning balance	₩	30,451	(7)	30,444
Net increase due to valuation of available-for-sale financial assets		(11,862)	-	(11,862)
Loss on valuation of available-for-sale securities		(9,232)	-	(9,232)
Gain of the fair value hedge accounting		11,317	-	11,317
Net increase due to loss on cash flow hedge		-	9	9
Effect of Income taxes		2,366	(2)	2,364
<b>Net balance at end of the period</b>	₩	<b>23,040</b>	<b>-</b>	<b>23,040</b>

(In millions of won)

## 30. Interest Income and Interest Expense

### (a) Interest income

Details of interest income for the period ended December 31, 2011 are as follows:

Classification		
Interest on deposits	₩	21,491
Interest on financial assets held for trading		144
Interest on available-for-sale financial assets		46,909
Interest on held-to-maturity financial assets		156,378
Interest on loans		1,055,262
Others		4,302
<b>Total</b>	₩	<b>1,284,486</b>

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

## (b) Interest expense

Details of interest expense for the period ended December 31, 2011 are as follows:

Classification		
Interest on deposits	₩	387,220
Interest on borrowings		77,697
Interest on bonds payable		93,710
Interest on borrowings from trust account		792
Others		821
<b>Total</b>	<b>₩</b>	<b>560,240</b>

(In millions of won)

## 31. Fee and Commission Income & Commission Expense

### (a) Fee and commission income

Details of fee and commission income for the period ended December 31, 2011 are as follows:

Classification		
Commissions received	₩	87,653
Guarantee fees		2,786
Commissions received from termination of commodities in trust account		4,260
<b>Total</b>	<b>₩</b>	<b>94,699</b>

(In millions of won)

### (b) Commission expense

Details of commission expenses for the period ended December 31, 2011 are as follows:

Classification		
Commissions paid	₩	8,853
Commissions on credit cards		31,111
Commissions received from termination of commodities in trust account		22
<b>Total</b>	<b>₩</b>	<b>39,986</b>

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

## 32. Net income of Financial Assets Held for Trading

### (a) Profit of financial assets held for trading

Profit of financial assets held for trading for the period ended December 31, 2011 are as follows:

Classification			
Profit of financial assets held for trading	Dividend income	₩	68
	Gain on disposal of financial assets held for trading		9,215
	Gain on valuation of financial assets held		95
	Subtotal		9,378
Profit of derivatives Instrument held for trading	Trading profit of derivatives instrument		276,363
	Gain on valuation of derivatives instrument		38,782
	Reversal of reserve for credit risk-adjusted		(6,463)
	Subtotal		308,682
<b>Total</b>		₩	<b>318,060</b>

(In millions of won)

### (b) Loss of financial assets held for trading

Details of loss of financial assets held for trading for the period ended December 31, 2011 are as follows:

Classification			
Loss of financial assets held for trading	Commission expenses (purchase expenses)	₩	194
	Loss on disposal of financial assets held for trading		11,600
	Loss on valuation of financial assets held for trading		4,621
	Subtotal		16,415
Loss of derivatives instrument held for trading	Commission expenses (purchase expenses)		269
	Trading loss of derivatives instrument		275,425
	Loss on valuation of derivatives instrument		933
	Transfer to reserve for credit risk adjustment		13,806
	Subtotal		290,433
<b>Total</b>		₩	<b>306,848</b>

(In millions of won)

Net income on financial assets held for trading contains interest income, interest expense, and gain on dividends, net income on valuation and net income of disposal which is accrued financial assets held for trading.

## 33. Net Income on Financial Assets Designated at Fair Value through Profit or Loss

### (a) Income on financial assets designated at fair value through profit or loss

Details of income on financial assets designated at fair value through profit or loss for the period ended December 31, 2011 are as follows:

Classification			
Gain on dividends	₩	2,533	
Gain on valuation		10,219	
<b>Total</b>	₩	<b>12,752</b>	

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

## (b) Expense on financial assets designated at fair value through profit or loss

Details of expense on financial assets designated at fair value through profit or loss for the period ended December 31, 2011 are as follows:

Classification		
Loss on valuation	₩	1,143

(In millions of won)

Net income on financial assets designated at fair value through profit or loss contains interest income, interest expense, and gain on dividends, net income on valuation and net income of disposal which is accrued on financial assets designated at fair value through profit or loss.

## 34. Gains (losses) on Available-for-sale Financial Assets

### (a) Gain on available-for-sale financial assets

Details of gains (losses) on available-for-sale financial assets for the period ended December 31, 2011 are as follows:

Classification		
Dividend income	₩	9,070
Gains on disposal		13,605
Gains on redemption		9,863
Losses on assets attributable to fair value		(3,556)
<b>Total</b>	₩	<b>28,982</b>

(In millions of won)

### (b) Loss on available-for-sale financial assets

Details of losses on available-for-sale financial assets for the period ended December 31, 2011 are as follows:

Classification		
Losses on disposal	₩	13
Losses on redemption		3,130
Losses on valuation of fair value hedged items		13,445
Losses on redemption of fair value hedged items		124
<b>Total</b>	₩	<b>16,712</b>

(In millions of won)

## 35. Impairment Losses and Reversal

Details of impairment losses and reversal for the period ended December 31, 2011 are as follows:

Classification		
Impairment losses on available-for-sale financial assets	₩	8,891
Impairment losses on investment in associates		191
Bad debt expenses		101,312
<b>Total</b>	₩	<b>110,394</b>

(In millions of won)



# Notes to the Consolidated Financial Statements

December 31, 2011

## 36. General Administrative Expense

Details of general administrative expense for the period ended December 31, 2011 are as follows:

Classification		
Employee benefits	₩	245,815
Rent		11,103
Depreciation		20,841
Amortization		15,355
Tax and dues		9,731
Advertising expense		8,228
Physical training expense		1,354
Service expense		20,470
Other		38,848
<b>Total</b>	<b>₩</b>	<b>371,745</b>

(In millions of won)

## 37. Share-based payment transactions

### (a) Stock options

(i) Stock options as of December 31, 2011 are as follows:

Classification		6th	7th	8th	9th
Shares to be issued	₩	45,150 shares	76,872 shares	28,008 shares	28,030 shares
Grant date		2006.03.10	2006.12.29	2007.12.27	2008.03.12
Exercise method		Cash settlement	Cash settlement	Cash settlement	Cash settlement
Conditions		Service conditions/ performance conditions	Service conditions/ performance conditions	Service conditions/ performance conditions	Service conditions/ performance conditions
Exercise price per share in won		14,855	15,823	15,297	13,099
Exercise period		2009.3.11~2012.3.10	2009.12.30~2012.12.29	2010.12.28~2013.12.27	2011.3.13~2014.3.12

(In millions of won)

(ii) Change in cash-settled share appreciation rights for the period ended December 31, 2011 are as follows:

Classification	Amount		Weighted average exercise price per share in won
At beginning of year	256,991 shares	₩	15,523
Exercise	78,931 shares		7,674
At end of the period	178,060 shares	₩	15,066

(In won)

## Notes to the Consolidated Financial Statements

December 31, 2011

(iii) The primary factors of evaluating fair value by using the Black-Scholes option pricing model for the period ended December 31, 2011 are as follows:

Classification	Option pricing model	Stock price	Option price	Expected variance	Expected continued period	Risk free rate	Fair value
6th	Black-Scholes option pricing model	₩ 12,900	14,855	37.40%	0.19years	3.35%	246
7th	Black-Scholes option pricing model	12,900	15,823	30.97%	0.58years	3.42%	366
8th	Black-Scholes option pricing model	12,900	15,297	30.43%	1.58years	3.39%	1,140
9th	Black-Scholes option pricing model	12,900	13,099	31.18%	1.79years	3.36%	2,013

(In won, years)

(iv) Expense of stock option for the period ended December 31, 2011 are as follows:

Classification	
Expense of stock option	₩ (609)

(In millions of won)

(v) Liability of stock option as of December 31, 2011 are as follows:

Classification	
Long-term accrued expenses	₩ 125

(In millions of won)

### (b) Equity linked special incentive (Long-Term Performance Share Plan)

(i) The group granted equity linked special incentive for the purpose of motivation to improve long-term performance. Equity linked special incentive as of December 31, 2011 are as follows:

Classification		6th	7th	8th	9th	
Shares to be granted	₩	24,832 shares	5,859 shares	9,534 shares	14,655 shares	5,223 shares
Grant date		2009. 03. 25	2009. 03. 26	2009. 12. 27	2010. 12. 28	2011. 03. 18
Exercise method		Cash settlement	Cash settlement	Cash settlement	Cash settlement	Cash settlement
Conditions		Service conditions/ performance Conditions	Service conditions/ performance Conditions	Service conditions/ performance conditions	Service conditions/ performance conditions	Service conditions/ performance conditions
Exercise price per share in won		6,798	6,853	16,851	15,253	16,323
Obligatory period of service		3 years	3 years	3 years	3 years	3 years

(In won)

# Notes to the Consolidated Financial Statements

December 31, 2011

(ii) Change in cash-settled share appreciation rights for the years ended December 31, 2011 are as follows:

Classification	December 31, 2011	
	Amount	Weighted average exercise price per share
At beginning of year	67,888 shares	₩ 11,770
Shares to be granted	5,223 shares	16,323
Option exercised	13,008 shares	15,849
At end of year	60,103 shares	11,283

(In won)

(iii) The primary factors of evaluating fair value by using the Black-Scholes option pricing model for the period ended December 31, 2011 are as follows:

Classification	Option pricing model	Stock price	Option price	Expected variance	Expected continued period	Risk free rate	Fair value
2nd	Black-Scholes option pricing model	₩ 12,900	6,798	31.01%	0.23years	3.38%	6,093
2nd	Black-Scholes option pricing model	12,900	6,853	31.01%	0.23years	3.38%	6,038
3rd	Black-Scholes option pricing model	12,900	16,851	29.56%	0.99years	3.53%	452
4th	Black-Scholes option pricing model	12,900	15,253	36.67%	1.99years	3.54%	1,888
5th	Black-Scholes option pricing model	12,900	16,323	39.07%	2.21years	3.53%	1,926

(In won, years)

(iv) Expense of equity linked special incentive for the period ended December 31, 2011 are as follows:

Classification	
Expense of equity linked special incentive	₩ 284

(In millions of won)

(v) Liability of equity linked special incentive as of December 31, 2011 are as follows:

Classification	
Long-term accrued expenses	₩ 198

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

## 38. Other Operating Income (Loss)

Other operating income (loss) for the period ended December 31, 2011 are as follows:

	Classification		
Other operating income	Gain on disposal of tangible assets for business	₩	198
	Gain on sale of loans		19,491
	Rental of tangible assets		1,113
	Others		9,721
	<b>Total</b>		<b>30,523</b>
Other operating loss	Loss on disposal of tangible assets for business		(38)
	Loss on sale of loans		(4,318)
	Fees for credit guarantee fund		(30,577)
	Deposit insurance premiums		(21,757)
	Donations		(8,373)
	Collecting expenses for special loans		(1,024)
	Others		(8,148)
<b>Total</b>		₩	<b>(74,235)</b>

(In millions of won)

## 39. Operating Revenue and Expense

Details of operating income and expense for the period ended December 31, 2011 are as follows:

	Classification		
<b>Operating revenue</b>		₩	<b>2,277,892</b>
Interest Income			1,284,486
Fee and commission income			94,699
Profit of financial assets held for trading			318,060
Income on financial assets designated at fair value through profit or loss			12,752
Gain on available-for-sale financial assets			28,982
Income on derivative assets-hedge accounting			17,082
Income on foreign exchange			491,308
Others			30,523
<b>Operating expense</b>			<b>1,997,842</b>
Interest expense			560,240
Commission expense			39,986
Loss of financial assets held for trading			306,848
Expense on financial assets designated at fair value through profit or loss			1,143
Loss on available-for-sale financial assets			16,712
Loss on derivative assets-hedge accounting			890
Loss on foreign exchange			515,649
Impairment loss on financial assets			110,394
General administrative expenses			371,745
Others			74,235
<b>Operating net income</b>			<b>280,050</b>

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

## 40. Income Taxes

### (a) Income taxes

Income taxes for the period ended December 31, 2011 are as follows:

Classification		
Income tax currently payable	₩	78,902
Changes in temporary differences		(6,294)
Deficit carried over		983
Not identified deferred tax assets		(983)
Income tax expense directly charged to shareholder's equity		2,349
<b>Income tax expense</b>	<b>₩</b>	<b>74,957</b>

(In millions of won)

### (b) The reconciliation of accounting income and taxable income

The reconciliation of accounting income and taxable income for the period ended December 31, 2011 are as follows:

Classification		
Income before income taxes	₩	280,050
Income tax calculated at the effective tax rate		69,257
Adjustments		
Income not assessable for tax purposes		33,589
Expense not deductible for tax purposes		(25,748)
Tax credit		(33)
Supplementary payment of income taxes		2,553
Effect of tax rate changes		29
Others		(4,690)
<b>Income tax expense</b>	<b>₩</b>	<b>74,957</b>

(In millions of won)



# Notes to the Consolidated Financial Statements

December 31, 2011

## (c) Changes in deferred tax assets (liabilities)

Changes in deferred tax assets (liabilities) as of December 31, 2011 are as follows:

Classification	Temporary differences to be deducted (added) from taxable income				Deferred income tax assets (liabilities)			
	May 17, 2011	Increase	Decrease	December 31, 2011	May 17, 2011	Increase	Decrease	December 31, 2011
<b>&lt;Temporary differences&gt;</b>								
Accrued income	₩ (128,933)	(25,702)	(266)	(154,369)	(29,754)	(7,667)	(64)	(37,357)
Present value discount on securities	(50,997)	(21,125)	(19,658)	(52,464)	(11,529)	(5,790)	(4,623)	(12,696)
Gain on valuation of securities	45,438	(3,313)	(5,473)	47,598	10,996	(581)	(1,105)	11,520
Gain on valuation of derivatives	(36,771)	22,685	-	(14,086)	(8,899)	5,490	-	(3,409)
Allowance for loan losses	(55,383)	(5,376)	(31,371)	(29,388)	(12,185)	(1,301)	(6,374)	(7,112)
Other provisions, etc.	34,607	(6,951)	-	28,556	8,344	(1,434)	-	6,910
Stipend for unused annual/monthly leave	-	26,244	-	26,244	-	6,351	-	6,351
Prescription acquired deposit	10,559	(5,139)	-	5,420	2,555	(1,244)	-	1,311
Others	(883)	11,478	12,091	(1,496)	(491)	2,754	2,929	(666)
subtotal	₩ (182,363)	(6,299)	(44,677)	(143,985)	(40,963)	(3,422)	(9,237)	(35,148)
<b>&lt;Accumulated other comprehensive income&gt;</b>								
Gain on valuation of AFS financial assets	(40,262)	9,902	34	(30,394)	(9,720)	2,374	8	(7,354)
Loss on valuation of derivatives for cashflow hedge	8	(8)	-	-	2	(2)	-	-
Subtotal	(40,254)	9,894	34	(30,394)	(9,718)	2,372	8	(7,354)
<b>Total</b>	₩ <b>(222,617)</b>	<b>3,595</b>	<b>(44,643)</b>	<b>(174,379)</b>	<b>(50,681)</b>	<b>(1,050)</b>	<b>(9,229)</b>	<b>(42,502)</b>

(In millions of won)

## (d) Deferred tax assets (liabilities) before set-off

Deferred tax assets (liabilities) before set-off as of December 31, 2011 as follows:

Classification	
Deferred tax assets	₩ 63
Deferred tax liabilities	(42,565)
<b>Deferred tax liabilities, net</b>	₩ <b>(42,502)</b>

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

## (e) Income tax payable and prepaid income tax before set-off

Income tax payable and prepaid income tax before set-off as of December 31, 2011 are as follows:

Classification		
Income tax payable	₩	108,661
Prepaid income tax		35,172
<b>Income tax payable, net</b>	<b>₩</b>	<b>73,489</b>

(In millions of won)

## 41. Basic Earnings per Share

Classification		
Net income	₩	205,093,265,732
Weighted average number of common shares outstanding*		132,984,719 shares
Basic earnings per share	₩	1,542

(In won, except share information)

\* Weighted average number of common shares outstanding

Number of shares issued	Treasury stock	Number of common shares outstanding	Weighted average number of common shares outstanding
134,053,154 shares	679 shares	134,052,475 shares	132,984,719 shares

(In won, except share information)

## 42. Cash and Cash Equivalents

Cash and cash equivalents on statements of cash flows as of December 31, 2011 are as follows:

Classification		
Cash and due from banks	₩	1,427,705
Restricted cash and deposits		551,153
<b>Cash of cash flows</b>	<b>₩</b>	<b>876,552</b>

(In millions of won)

## 43. Major Non-cash Transactions

Major non-cash transactions for the period ended December 31, 2011 are as follows:

Classification		
Decrease in loans due to writing-off	₩	118,920
Transferred to buildings from construction-in-progress		293
Transferred to software on construction-in-progress	₩	122

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

## 44. Commitments and Contingencies

As of December 31, 2011, there are 12 pending lawsuits against the Group amounting to ₩ 6,770 million and 4 pending lawsuits brought to court by the Group, as a plaintiff, amounting to ₩ 260 million. A lawsuit amounting to ₩ 2,237 million against Daegu Regional National Tax service, was partially won in the first trial, but the second trial is in progress.

The Group recognized no provision in respect to the lawsuits. The Group believes that the unrecognized litigation lawsuit will not have a material adverse effect on the Group's financial position, operating results and cash flow.

## 45. Transactions with Related Companies

### (a) Transactions with subsidiary

Transactions with subsidiary for the period ended December 31, 2011 are as follows:

Subsidiary	Classification		
THE DAEGU BANK LTD	Due from banks	₩	64,519
	Receivables		1,380
	Retirement		422
	Others		422
	Interest income		422
	Expenses		59

(In millions of won)

### (b) Transactions between subsidiaries and associate

Transactions between THE DAEGU BANK LTD (subsidiary) and other subsidiaries or associate for the period ended December 31, 2011 are as follows:

Classification			Daegu Credit Information Co.,Ltd	Kardnet Inc.	Daegu FC
Liabilities	Deposit	₩	3,567	20,993	2,836
	Import deposit money		140	150	-
	Others		251	1,030	-
	<b>Total</b>		<b>3,958</b>	<b>22,173</b>	<b>2,836</b>
Revenue	Others		1	511	-
Expense	Interest		130	679	139
	Others		1,993	908	1,375
	<b>Total</b>	₩	<b>2,123</b>	<b>1,587</b>	<b>1,514</b>

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

## (c) Key management personnel compensation

Details of key management personnel compensation in total and for each of the following categories for the period ended December 31, 2011 are as follows:

Classification		
Short-term employee benefits	₩	3,093
Other long-term benefits		(187)
Post-employment benefits		569
Share-based payment		(609)
<b>Total</b>	₩	<b>2,866</b>

(In millions of won)

## 46. Financial Risk Management

### (a) Purpose of risk management

The Group has exposure to credit risk, liquidity risk, market risk and operational risk from financial instruments. The Group's risk management system aims at maintaining capital adequacy and management stability through the comprehensive appraisal and management of significant risks that arise in management activities. By optimizing risk and return balance, the risk management system realizes the stable growth of the Group, while maximizing shareholder value and maintaining an adequate equity capital level as well as achieving business strategies, policies and plans.

### (b) Risk management organization

The Group's risk management organization consists of a risk management committee, risk management council and risk management department. The risk management committee (the Committee) is the top decision-making body chaired by an outside director. It sets up risk management strategy, maintains the adequacy of capital level and manages risk tolerance. Commissioned by the Committee, the risk management council (the Council) deliberates and resolves issues on the agenda, develops and controls risk management strategies and policies and oversees interest rates, capital supply and management risks involving new products and businesses. The risk management department (the Department) assists top management, the Committee, the Council and individual risk management department of each division fine-tune their risk management plans and measure as well as analyze risks at the division level.

### (c) Credit risk

#### Overview of credit risk

Credit risk is the risk of financial loss to the Group, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's balance accounts and off balance accounts such as loans and receivables, payment guarantee, securities, derivatives from customers and investment securities.

## Notes to the Consolidated Financial Statements

December 31, 2011

### Credit risk management

The purposes of credit risk management are to maintain the asset quality by controlling loss possibility for the counterparty in falling to meet its contractual obligations and to manage industry type and borrower type concentration risk by controlling a loan portfolio and the credit share limit. Credit risk management is conducted by the Committee, the Council, the Working Group, the Department, loan review department and sub risk management departments. The Department conducts recognizing, measuring, controlling and checking the adequacy of the Group-wide, departmental or organizational credit risk. It also conducts analyzing and reporting credit risk, developing and improving credit risk management skill, reporting the result of credit risk check-up and providing the information, installing and operating the credit risk management system.

Loan review department conducts check-up of loan quality classification through regular credit review. Sub-risk management departments establish and implement credit risk management plans, recognize, measure, analyze and report credit risk, manage loan portfolio considering risk and return, analyze credit risk and conduct follow-up management resulted from new product launching, implement the resolutions from the Committee and Council, supervise countries' credit risk considering credit level of international credit appraisal institutes and submit other credit risk reporting documents. Internal audit inspects the adequacy of recognizing, measuring and evaluating credit risk, credit risk control organization and managing process.

### Maximum exposure of credit risk

	December 31, 2011	
<b>Balance account*</b>		
Due from banks**	₩	473,189
Financial assets held for trading***		75,278
Financial assets designated at fair value through profit or loss***		10,903
Available-for-sale financial assets***		1,245,981
Held-to-maturity financial assets		4,015,267
Loans		22,167,801
Receivables		1,111,692
Derivative assets-hedge accounting		24,862
<b>Total</b>		<b>29,124,973</b>
<b>Off balance account*</b>		
Financial guarantee		107,349
Contracts		6,097,900
<b>Total</b>		<b>6,205,249</b>

(In millions of won)

\* After impairment and off set

\*\* Except for the due from Bank of Korea

\*\*\* Except for equity securities and beneficiary certificate

Degree of credit risk exposure is based on the net book value of financial position. In the case of financial guarantee, it is measured as the maximum amount to be paid for the debtor and in the case of loan contract which can not be cancelled or can be cancelled if critical changes occur, it is measured as the entire amount of the contract.



# Notes to the Consolidated Financial Statements

December 31, 2011

## (c) Credit risk

Degree of industrial risk concentration of financial assets

Degree of industrial risk concentration of financial assets which have credit risk as of December 31, 2011 are as follows:

Classification		Balance account*					Off balance account*			Total
		Financial assets held for trading **	Financial assets designated at FVTPL **	Available-for-sale financial assets **	Held-to-maturity financial assets	Loans	Derivative assets-hedge accounting	Financial guarantee	Contracts	
Manufacturing	₩	-	-	51,089	80,000	6,631,756	-	31,230	1,651,601	8,445,676
Construction		-	-	-	-	803,021	-	60,383	192,272	1,055,676
Wholesale and retail		-	-	-	-	1,929,435	-	5,762	424,182	2,359,379
Financial services and insurance		-	-	321,650	310,031	933,865	-	72	234,416	1,800,034
Others		-	-	-	60,000	5,048,453	-	9,902	196,857	5,315,212
Industry subtotal		-	-	372,739	450,031	15,346,530	-	107,349	2,699,328	18,975,977
Households		-	-	-	-	6,070,535	-	-	1,026,250	7,096,785
Government and public institutions		-	10,903	873,242	3,565,236	580,589	-	-	5,524	5,035,494
Credit card		-	-	-	-	443,594	-	-	2,366,798	2,810,392
Derivatives		147,137	-	-	-	-	24,967	-	-	172,104
Allowance		(71,859)	-	-	-	(276,593)	(105)	-	-	(348,557)
Present value discount		-	-	-	-	(2,895)	-	-	-	(2,895)
Loan originated cost and fee		-	-	-	-	6,041	-	-	-	6,041
<b>Total</b>	₩	<b>75,278</b>	<b>10,903</b>	<b>1,245,981</b>	<b>4,015,267</b>	<b>22,167,801</b>	<b>24,862</b>	<b>107,349</b>	<b>6,097,900</b>	<b>33,745,341</b>

(In millions of won)

\* After impairment and off set

\*\* Except for equity securities and beneficiary certificates

## Notes to the Consolidated Financial Statements

December 31, 2011

### Loans

Loans as of December 31, 2011 are as follows:

Classification		Enterprises	Households	Public sectors and others	Credit card	Total
Neither overdue nor impaired loan	₩	14,896,624	6,013,166	580,589	439,516	21,929,895
Not impaired but overdue loan		34,154	36,524	-	137	70,815
Impaired loan		415,752	20,845	-	3,941	440,538
<b>Total</b>		<b>15,346,530</b>	<b>6,070,535</b>	<b>580,589</b>	<b>443,594</b>	<b>22,441,248</b>
Allowance for doubtful accounts		(236,839)	(27,133)	(1,624)	(10,997)	(276,593)
Present value discount		(1,866)	(1,029)	-	-	(2,895)
Loan originated cost and fee		(87)	6,019	109	-	6,041
<b>Net book value</b>		<b>15,107,738</b>	<b>6,048,392</b>	<b>579,074</b>	<b>432,597</b>	<b>22,167,801</b>

(In millions of won)

Overdue occurs when the counterparty of the contract is not able to pay the principal and interest on the date of contract. Impairment is the case when there is objective evidence of impairment and the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets and a reliable estimate of the loss amount can be made. The evidences of impairment are such as: past due more than 90 days, bad credit information according to credit information management regulation, restructuring of receivables and debt in overdue condition and revolving of bad exposure.

### Loans that are neither overdue nor impaired

Credit qualities of loans as of December 31, 2011 that are neither overdue nor impaired refer to the Group's internal credit appraisal system and are as follows:

Classification		Loans*				Total
		Enterprises	Households	Public sectors and others	Credit card	
1~6	₩	14,228,598	5,225,477	571,435	256,242	20,281,752
7		327,424	324,922	186	51,555	704,087
8**		44,065	153,566	207	65,482	263,320
9**		19,600	87,486	-	45,338	152,424
10**		20,238	41,583	-	16,439	78,260
Not rated***		256,699	180,132	8,761	4,460	450,052
<b>Total</b>		<b>14,896,624</b>	<b>6,013,166</b>	<b>580,589</b>	<b>439,516</b>	<b>21,929,895</b>

(In millions of won)

\* The Group assesses and manages credit rating of loans dividing loans into enterprises (external audit, non-external audit, individual business, financial institute, public sector and special finance) and loans to households. Combined evaluation model of financial model and non-financial model is used for loans to enterprises excluding financial institute, public sector and special finance. Regular check for adequacy is conducted to guarantee the adequacy of credit rating.

\*\* The definition of bankruptcy in Basel II is based on overdue criteria and default criteria and is applied to the definition of impairment of the Group. Impairment unit is borrower criteria thus there might be loans under 8th degree which are neither overdue nor impaired.

\*\*\* Amount of non-rated loan is ₩ 450,052 million and arises from inter-company transactions such as a call loan, purchase of RP, and inter-bank loans and loans related with sound collateral (deposits and warranty) and sound bills (discounted bills and electronic factoring). Amount of not rated loans from inter-bank transactions and sound loan borrowers is ₩ 124,629 million and ₩ 325,423 million, respectively.

# Notes to the Consolidated Financial Statements

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Relationship between internal credit rating and external credit rating are as follows:

Classification of rating	Internal credit rating	External credit rating
Current	1~6	AAA~BB-
Precautionary	7	B
Substandard	8	CCC
Doubtful	9	CC, C
Estimated loss	10	D

(In millions of won)

Loans that are past due but not impaired

① Age analysis of loans that are overdue but not impaired

Classification		Enterprises	Households	Credit card	Total
Less than 30 days	₩	18,900	34,802	132	53,834
More than 30 days ~ less than 60 days		8,643	1,665	5	10,313
More than 60 days ~ less than 90 days		6,611	57	-	6,668
<b>Total</b>		<b>34,154</b>	<b>36,524</b>	<b>137</b>	<b>70,815</b>

(In millions of won)

② Estimated fair value of collateral for the loans that are overdue but not impaired is as follows:

Classification		Enterprises	Households	Credit card	Total
Real estate	₩	11,933	20,451	5	32,389
Movable asset		26	-	-	26
Securities and Debentures		5	223	-	228
Warranty		9,836	1,666	-	11,502
Others		-	55	-	55
<b>Total</b>		<b>21,800</b>	<b>22,395</b>	<b>5</b>	<b>44,200</b>

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

## Impaired loans

Loans which have evidence of impairment are evaluated either individually or collectively according to material criteria of the loan. Loans either individually or collectively evaluated for impairment, collateral and estimated fair value of other credit reinforcement are as follows:

### ① Categories of impaired loans

Classification			Enterprises	Households	Credit card	Total
Individual assessment	Impaired loans	₩	377,038	800	359	378,197
	Allowance for doubtful accounts		115,122	-	334	115,456
Collective assessment	Impaired loans		38,714	20,045	3,582	62,341
	Allowance for doubtful accounts		8,504	6,162	2,251	16,917
Total	Impaired loans		415,752	20,845	3,941	440,538
	Allowance for doubtful accounts		123,626	6,162	2,585	132,373

(In millions of won)

### ② Estimated fair value of collateral for impaired loans

Classification		Enterprises	Households	Credit card	Total
Real estate	₩	58,655	7,406	-	66,061
Movable asset		533	-	-	533
Securities and Debentures		26,431	624	-	27,055
Warranty		5,130	562	-	5,692
Others		-	9	-	9
<b>Total</b>		<b>90,749</b>	<b>8,601</b>	<b>-</b>	<b>99,350</b>

(In millions of won)

## Restructuring loans and receivables

Restructuring loans and receivables is an activity to maximize the collection of loans and receivables by changing the condition of a financially troubled borrower and includes extension of maturity, postponement of payment and relief of interest rate. Restructured loans and receivables as of December 31, 2011 is ₩ 205,236 million.

## External credit rating of debt securities

The Group manages debt securities using external credit rating and debt securities classified by external credit rating and categories are as follows:

The relationships between external credit rating and internal credit rate are described in note (page 64) 'Loans that are neither overdue nor impaired'

# Notes to the Consolidated Financial Statements

December 31, 2011

## ① Debt securities in Korean won

Classification		Enterprises	Households	Credit card	Total
AAA	₩	-	623,778	1,426,101	2,049,879
AA+ ~ AA-		-	261,788	426,341	688,129
A+ ~ A-		-	40,834	100,000	140,834
BBB+ ~ BBB-		-	30	20,000	20,030
Not rated		-	309,748	2,042,825	2,352,573
<b>Total</b>		-	<b>1,236,178</b>	<b>4,015,267</b>	<b>5,251,445</b>

(In millions of won)

Not rated amount is ₩ 2,352,573 million and domestic credit appraisal companies do not assess the credit rating of government and some public entities. Among not rated amount, government and public entity bond is ₩ 2,011,297 million, monetary stabilization bond is ₩ 199,941 million and other bond is ₩ 141,335.

## ② Debt securities in foreign currency

Classification		Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Total
AAA	₩	10,903	-	10,903
AA+ ~ AA-		-	9,803	9,803
A+ ~ A-		-	-	-
BBB+ ~ BBB-		-	-	-
<b>Total</b>		<b>10,903</b>	<b>9,803</b>	<b>20,706</b>

(In millions of won)

Reobtained collateral are as follows:

Classification		
Land / Ho-jung Housing Co., Ltd.	₩	1,207
Land / Wooshin Co., Ltd.		15,412
<b>Total</b>	₩	<b>16,619</b>

(In millions of won)

After being reobtained, collateral is subject to public auction at least once every six months. The Group's rule is to complete the sell-off procedure within a year. Reobtained collateral is classified as other assets.



# Notes to the Consolidated Financial Statements

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## (d) Liquidity risk

### Overview of liquidity risk

Liquidity risk management is to manage the risk which occurs when there are not enough financial resources and liquidity for principal and interest, not due to the problem of payment ability but due to the situation such as maturity inconsistency of assets and liabilities. Additional reasons for liquidity risk include abnormal disposal of assets or fund raising through liabilities.

### Liquidity risk management

Liquidity risk is managed by the risk management regulations, risk management guidelines and liquidity emergency action plan that apply to all of the risk management policy and procedures that may occur in the overall management

For the liquidity risk control, The Group calculates and manages each subsidiary's liquidity gap and ratio of subsidiaries for all transaction affecting each subsidiary's local and foreign currency fund and off-balance sheet transaction related liquidity. The Group will report regularly to the Committee and the Council

Liquidity risk management covers all the monetary transactions of assets and liabilities. The methods of measuring, evaluating and managing liquidity risk are as follows:

- Establish liquidity ratio of supervising organization and periodic liquidity gap limit for the maturity differences of assets and liabilities and report the results to the Committee and the Council.
- Promote the precaution of liquidity risk considering fund raising time.
- Possess sufficient current assets as provision for liquidity shortage.
- Establish and implement a liquidity risk dealing plan.

### Maturity analysis of financial liabilities

Non-discounted payable cash flows of contractually remaining maturity for the financial liabilities are as follows.

Financial liabilities held for trading and demand deposits are recognized as fair value in the 'On Demand' section.



## Notes to the Consolidated Financial Statements

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### ② Derivative financial liabilities

Classification		Less than 1 month	1 ~ 3 months	4 ~ 6 months	7 ~12 months	13 ~ 36 months	37 ~ 60 months	Total
<b>Trading derivatives</b>								
Currency related	₩	8,288	16,733	9,682	8,758	20,625	-	64,086
Interest rate related		-	118	-	-	-	-	118
Stock price index related		39	441	822	1,855	-	-	3,157
Subtotal		8,327	17,292	10,504	10,613	20,625	-	67,361
<b>Hedging derivatives</b>								
Currency related		-	-	-	-	-	-	-
Interest rate related		-	-	-	-	-	-	-
Stock price index related		-	-	314	390	-	-	704
Subtotal		-	-	314	390	-	-	704
<b>Total</b>	₩	<b>8,327</b>	<b>17,292</b>	<b>10,818</b>	<b>11,003</b>	<b>20,625</b>	<b>-</b>	<b>68,065</b>

Available assets to fulfill the payment obligations of liabilities and to carry out the unpaid loan contracts are cash, due from Bank of Korea, loans, equity securities and debt securities. The Group is able to deal with unexpected cash flows through the disposal of securities and by additional fund raising resources such as the asset liquidization market.

### (e) Market risk

#### Overview of market risk

Market risk is the risk that the fair value of financial instruments or future cash flows is affected by the volatility of market rates or prices such as interest rates, stock prices and foreign exchange rates. The most important risk related trading position is interest rate risk arising from debt securities or interest bearing financial instrument securities. Additional risk is stock risk and foreign exchange risk. Also, non-trading position is exposed to interest rate risk

#### Market risk management

Purposes of market risk management are to secure the profitability and stability by controlling the losses generated from managed assets and liabilities due to volatility of market risk factors such as interest rates, stock prices and foreign exchange rates. Objects for market risk management are securities held for trading, foreign currency net open positions, derivatives, off balance transactions and other market risk inherent assets and liabilities.

The Group divides the exposure degree to market risk into trading position and non-trading position. To promote the classification and management of trading position, the Group operates its accounting and computer system according to the classification. The Group also classifies and operates a trading desk and non-trading desk separately. Market risk management of the Group is conducted by the Committee, the Council, the Working Group, the Department and sub risk management departments. The Department is distinctly separated from operating departments and controls entire market risk. The main tasks of the Department are to establish and implement a market risk management policy-to review the adequacy of market risk management criteria, to establish and implement the market risk tolerance management system-to distribute market risk tolerance, to monitor the observance of market risk tolerance, to assess, analyze and report total market risk and to establish and implement the market risk management system. Front Office is distinctly separated from the assisting department and the Department. The main tasks of the Front Office are to establish and implement investing policy, process and strategy, to set out and operate the limit of the Group's market risk toler-

# Notes to the Consolidated Financial Statements

December 31, 2011

ance, to record transaction history and to submit related documents to assisting department. Assisting department is supposed to secure the restrict separation of work and mutual control function between Middle Office and Back Office. The main tasks of assisting departments are to review the compliance of limits, transactions, profit and loss evaluation, to conduct follow-up works such as exchanging transaction confirmation documents based on operating department's transaction documents, accounting, money and to submit market risk reports.

## Trading position

### ① Definition of trading position

Trading position is the interest rate, equity positions, derivatives, foreign exchange positions, among others, that pursue profit from short-term changes in market factor price rather than pursue profit from interest income. Specifically, it includes short-term trading and the financial instruments for arbitrage trading of stock, interest rates, foreign exchange, commodity, among others, which are acquired by a professional dealer or operational departments within a predetermined limit, things acquired for hedging risk, derivative that does not apply hedge accounting, etc.

### ② Risk management method

The tolerance limit (including the limit of VaR, investment, loss or sale of a loss) to manage the market risk on trading positions is required to be set principally at least once a year, and approved by the Committee. Compliance of the tolerance limit is monitored daily and the changes of the risk are simultaneously reported to the management, the Council and the Committee on a regular basis (daily, monthly, and annually). Plans for dealing with the market risk are established and operated for each level of the risk.

### ③ VaR (Value at Risk)

#### -Measurement of VaR

The main method to measure and manage exposure to market risk for trading position is VaR. The VaR measures the potential loss in value of a risky asset or portfolio over a defined period for a given confidence interval. The VaR is calculated by applying 99% confidence level at a 10-day MA method.

#### -Verification

Adequacy of the VaR model is continuously monitored through follow-up verification. Verification is conducted for the latest 250 business days. If real loss exceeds virtual loss (1-day VaR) of the previous day significantly, the Group verifies assumptions and modifies the model, if necessary. Verification is conducted every business day and implementations are reported to the Council once or more times a month.

#### -Analysis of crisis situations (stress resting)

The Group conducts crisis situation analysis to determine changes in market price of the portfolio under extreme market volatility that can not be considered in the VaR model. Crisis situation analysis is conducted every business day for all the assets, or if necessary, can be performed by constructing a portfolio. Implementations are reported to the Council one or more times a month. At times of severe changes, historical scenario, historical interest rates, stock prices, or exchange rates are used.

# Notes to the Consolidated Financial Statements

December 31, 2011

-VaR by risk types (trading position)

VaR by risk types as of December 31, 2011 are as follows:

Classification		End	Average	Minimum	Maximum
Interest rate risk	₩	-	52	-	493
Foreign exchange risk		439	1,933	76	5,215
Stock risk		550	2,028	-	4,133
Diversification effect		(478)	(1,967)	16	(4,110)
<b>Total risk</b>		<b>511</b>	<b>2,046</b>	<b>92</b>	<b>5,731</b>

(In millions of won)

The sum of VaR for each risk type does not match the total VaR due to correlation between risk factors and the diversification effect.

#### ④ Details of risk type

-Interest rate risk

The majority of the interest rate risk from the Group's trading position arises on debt securities in won. The Group's trading strategy focuses on trading gain. Because the value of trading instruments is assessed daily, the interest rate risk related with trading accounts is managed through the value-at-risk and sensitivity analysis.

-Foreign currency risk

The majority of foreign currency risk arises on assets and liabilities in foreign currency. Most of assets and liabilities in foreign currency are presented in USD and the rest are presented in JPY or EUR. The Group manages the foreign exchange risk through the VaR and risk capital limit.

-Stock risk

Stock risk arises on trading stock in won, and the portfolio for trading stock in won consists of listed stocks on the Korea Exchange and derivative instruments related with stock, and is managed through the strict portfolio limit.

#### Non-trading position

##### ① Definition of non-trading position

The Group manages interest rate risk for non-trading position. Interest rate risk of non-trading position is the risk that the net asset value or net interest income might decrease due to the inconsistency of interest rate maturity and the unfavorable change of market interest rate. The Group measures interest rate risk for interest assets such as loans, dues and bonds, for interest rate liabilities such as deposits and borrowings and for hedge derivatives. The majority of Interest-earning assets and interest-bearing liabilities are presented in Won, and the majority of assets and liabilities in foreign currency are presented in USD and the rest are presented in JPY or EUR.

##### ② Risk management method

The tolerance limit to manage the interest rate risk on trading positions is required to be set principally at least once a year, and approved by the Committee. To verify complying with the tolerance limit, the interest risk is measured and managed at least once a month, and reported to the management, the Council and the Committee.

# Notes to the Consolidated Financial Statements

December 31, 2011

## ③ Assessment Methods for Interest Rate Risk

### -Interest rate VaR (VaR)

Interest rate VaR measures the potential loss in value of a net asset over a defined period for a given confidence interval. The Group calculates interest rate VaR by the gap of interest rate and the modified duration.

### -Output of interest rate VaR

Interest rate VaR is calculated by the BIS standard method by considering the interval interest rate gap proposed from BIS, the standard modified duration of a defined period and the possibility of changes in interest rates. Interest rate VaR as of December 31, 2011 are as follows:

Classification		End	Average	Minimum	Maximum
December 31, 2011	₩	14,466	38,220	14,466	59,000

(In millions of won)

### -Other method

The Group measures the interest rate risk by using interest rate VaR in addition to the interest rate EaR and interest rate gap ratio etc. The Group analyzes the influence on interest rate risk through analysis of the crisis when abnormal market conditions occurred.

## Foreign exchange bias

Foreign exchange risk is the risk that the fair value of financial instruments or future cash flows is affected by the volatility of foreign exchange rate. The Group does not divide foreign exchange position into trading position and non-trading position but manages it on the whole.

Degrees of exposure to foreign exchange risk as of December 31, 2011 are as follows:

Classification		Enterprises	Households	Credit card	Total
December 31, 2011	Foreign currency financial assets	₩ 1,351,467	359,948	190,849	23,532
	Foreign currency financial liabilities	1,714,664	308,992	174,461	5,693

(In millions of won)

## (f) Operational risk

### Overview of operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors.

### Operational risk management

The Group designates a related department to identify operational risk and other departments are responsible for recognition of loss data and computer system management. The Department is responsible for establishing and implementing operational risk strategy, policy and process. It is also responsible for establishment, operation and improvement of operational risk management system and management of the Group's loss data. The Group applies basic index method and calculates 15% of average gross profit based on last three years' statements of income, as required capital. Tolerable limit for operational risk is set at least once a year and gets approval from the Committee. Operational risk is measured and is reported to the management, the Council and the Committee on a regular basis.



## Notes to the Consolidated Financial Statements

December 31, 2011

### (g) Capital management

The Group manages internal capital, which is able to maintain its business continuously with various risk. It can be defined as the scale of capital required to cover unexpected losses under a certain probability. The purpose of capital management is to use measure of financial strength rating by comparing internal capital scale with available capital scale, and to provide base of performance measurement considering risk. The Group allocates to credit risk, interest rate risk, and operation risk annually in available capital through resolution of the Committee. The Group first computes available capital by adding loan loss reserves and deducting the expected losses from base capital, and then distributes risk capital based on business plans designed to reflect risks associated with credit, market, interest rate, credit bias and liquidity. The unallocated capital is retained as capital buffer to cover other risks. Regulatory capital adequacy of the Group is mandated to maintain more than 8% on BIS ratio compared to risk-weighted assets by adopting the recommendations of BIS's Basel Committee on Banking Supervision. The Republic of Korea and the Group comply with Basel recommendations.

The Committee determines the Risk Appetite in associated with the group's strategy and allocates the risk capital to major subsidiaries by the type of risk. The major subsidiaries operate efficiently the capital within the allocated risk capital. The Council monitors the compliance of risk capital limit status and reports to management, The Council and The Committee. In the case that risk capital exceeds the limitation due to launching a new business or expanding a business, the Group manages through previous review and approval process of the Group's capital adequacy control.

Regulatory capital of the Group consists of the following capital.

-Basic capital : capital stock, capital surplus, hybrid capital securities, the Group's non-controlling interest

-Complementary capital : revaluation reserve, amount equivalent to 45% of unrealized gain on valuation of available-for-sale securities and gain on valuation of equity method, eligible allowance exceeding the expected loss, convertible preferred stock not included in hybrid capital securities, issued funds of usance subordinated bonds in the period (more than 10 years) and borrowed funds of usance subordinated bonds in the period (more than 10 years), issued funds of usance subordinated bonds in the period (more than 5 years) and borrowed funds of usance subordinated bonds in the period (more than 5 years), permanent subordinated bonds and cumulative preferred stock.

Regulated capital and BIS ratio of the Group as of December 31, 2011 are as follows.

Classification		
<b>Basic capital</b>		<b>2,409,207</b>
Capital stock	₩	670,266
Capital surplus		1,423,535
Retained earnings		57,099
Non-controlling interest		-
Hybrid capital securities		399,706
Deductions		141,399
<b>Supplementary capital</b>		<b>736,606</b>
Specific amounts of accumulated other comprehensive income		3,084
Allowance for doubtful accounts		256,579
Subordinated debt		476,943
Deductions		-
<b>Total</b>	<b>₩</b>	<b>6,205,249</b>

(In millions of won)

# Notes to the Consolidated Financial Statements

December 31, 2011

<b>Risk weighted asset</b>	₩	<b>20,526,281</b>
Credit risk asset		20,477,288
Market risk asset		48,993

(In millions of won)

<b>BIS ratio</b>		<b>20,526,281</b>
Ratio of owner's capital		15.33%
Ratio of basic capital		11.74%
Ratio of supplementary capital		3.59%

(In millions of won)

\* Retained earnings after deducting the amount of allowance reserve have been presented

The purpose of a capital policy is to maintain the adequacy of capital and stability of management. Evaluation and management of capital adequacy is conducted for all of the potentially important risks and based on consolidation level. (However, if subsidiary's ratio of total asset is under 5%, that subsidiary can be exempted.) The Group sets the policy of risk capital management and risk tolerable limit to evaluate and manage the capital adequacy. The Group reviews the adequacy regularly and reports the results to the Committee and management. Capital management of the Group meets both external and internal criteria and the results of capital adequacy evaluation are used through the management. The Group constantly pursues improvement in risk recognition and evaluation.

## (h) Allowance reserve

Allowance reserve as of December 31, 2011 are as follows:

Classification		
Allowance reserve at beginning of period	₩	-
Allowance reserve to be accumulated		125,484
Allowance reserve at end of period		125,484

(In millions of won)

Adjusted income after allowance reserve for the period ended December 31, 2011 are as follows:

Classification		
Reversal of allowance reserve	₩	59,282
Adjusted income after allowance reserve		145,811
Earnings per share after adjusting		1,096 won

(In millions of won, except earnings per share)

# APPENDIX

**Independent Assurance Report**

**UN Global Compact**

**GRI G3.1 / ISO26000 Index**

**Survey of Reader's Opinions**

# Third-Party Assurance Statement

## To the Management and Stakeholders of DGB Financial Group

### ■ Introduction

Korean Standards Association ("KSA") received a request for the independent assurance of the 2010/2011 Sustainability Report("the report") from DGB Financial Group ("DGB"). Therefore, KSA reviewed data, performance results, and evidence and feasibility of the relevant systems to offer an independent third-party opinion. DGB is responsible for collecting, analyzing, and organizing the information necessary to generate the report as well as all the claims made therein.

### ■ Independence

KSA is independent and autonomous from any and all influences of DGB and its stakeholders, offering nothing more than thirdpartyassurance on the report.

### ■ Standards and Credibility

KSA performed assurance based on the AA1000AS 2008 assurance standards (AA1000 AS), ISO 26000, and GRI G3.1 guidelines. In this manner, the principles of the AA1000AS 2008 assurance standards - inclusivity, materiality, and responsiveness -- wereapplied to the assessment of the report. The credibility of information in DGB's Sustainability Report was verified with a moderate level of assurance.

### ■ Type and Scope

KSA performed Type 2 assurance in compliance with the AA 1000 assurance standards (AA1000 AS). Type 2 assurance involves the assessment of credibility and accuracy with regard to the performance information contained in the report in accordance with the principle of reporting responsibility as set forth in the AA 1000 sustainability standards (AA1000 AS) 2008.

The assurance scope is limited to the 2012 DGB Sustainability Report and on-site check of the DGB headquarters between January 1, 2011 and June 30, 2012.

### ■ Methodology

KSA collected the necessary information, data, and evidence relevant to the assurance scope and performed assurance using the following methods:

- review of sustainability issues that may affect DGB and attractstakeholders' interest

- review of the process that determines the major issues contained in the report
- examination of the performance data collection system and reporting process in each field
- interviewing the staff in charge of sustainability management
- investigation of sustainability data drawing-up process and system by visiting the headquarters
- review of internal documents and basic data that can back up the key assertions of the report
- scrutiny of consistency of the financial information contained in the report and audit report

### ■ Findings & Opinion

KSA reviewed the draft report and presented opinions on it, and the report was revised as necessary. DGB is deemed to have presented sustainability management activities without major errors or biases in the report, based on our assurance.

#### • Inclusivity

- **Is stakeholder engagement guaranteed in the process of developing and adopting strategic responses to sustainability?**

DGB operates appropriate engagement process and channels to guarantee stakeholder engagement. In particular, DGB is considered to be communicating actively through channels such as VOC handling, interviews with stakeholders, social gatherings, and opening of the DGB president's office.

#### • Materiality

- **Does the report contain material issues affecting DGB and its stakeholders?**

DGB has neither omitted nor excluded material information when it comes to its stakeholders. DGB is confirmed to draw core issues through the materiality assessment process to identify sustainability issues based on the analyses of media, relevant corporate data, and ISO 26000 level diagnosis and stakeholders research.

• **Responsiveness**

– **Is DGB responding appropriately to stakeholder issues?**

DGB reflects material sustainability issues on the organization’s policies and activities and responds to stakeholders’ demand.

■ **Opinion and Recommendation for Improvement**

DGB Financial Group has been continuously making efforts to implement sustainability management by carrying out governance reorganization and consolidating corporate social responsibility (CSR) leadership. Especially, DGB was chosen as Korea’s leading company in the financial sector for two consecutive years, incorporated into DJSI Asia-Pacific, awarded the grand prize in the 2010 Korea Sustainability Conference for two years in a row, and incorporated into the FTSE4 Good index. KSA advises DGB to expand recognition on social responsibility and sustainability to all DGB organizations and support partner firms’ sustainability management.

• **Sustainability Financial Activities**

DGB consolidates fund support for local small and medium businesses and ordinary people. It plays the role of a community partner through extensive financial activities for neighbors suffering from difficulties and environmental protection to foster and spread a mature investment culture considering CSR. KSA suggests establishing a decision, assessment, and management system on social and environmental risks with regard to green financial products and loan product development.

• **Green Management**

DGB has acquired the green management system (GMS) for the first time in the Korean financial sector. KSA recommends the continuous improvement of the environmental performance data management system.

• **Participation in Community and Community Development**

DGB aggressively implements management sharing together with communities. KSA suggests developing effective CSR programs that can revitalize the local economy.

• **Ethics and Corporate Culture**

DGB strives to fulfill its duties earnestly, maintaining morality and honesty as a member of Korea’s financial industry. DGB also makes an effort to grow together with communities and build win-win industrial relations. KSA recommends establishing an internal informant protection system and an external information verification system. DGB also needs to conduct an internal integrity survey regularly. KSA suggests adopting and executing a system for diffusing the sustainability management of partner firms.

July 30, 2012

Kim, Chang-Ryong  
KSA Chairman & CEO

*Chang Ryong Kim*



AA1000  
Licensed Assurance Provider  
000-2



KSA is a special corporation established under the Korea Industrial Standardization Act in 1962. KSA is a knowledge service agency that disseminates industrial standardization, quality management, sustainability management, and KS/ISO certification to companies. As Korea’s ISO 26000 administrative agency, certified GRI training partner, AS 1000 assurance provider, Korean Sustainability Index(KSI) operating agency, UN CDM operating body, and greenhouse gas and energy target management verification body, KSA contributes to our society’s sustainable development.

# UN Global Compact Index



We joined the UN Global Compact, the UN International convention on corporate social responsibility in July, 2006 and complies with the 10 principles in the 4 areas (human rights/labor/ environment/anti-corruption)

UN Global Compact principles compliance	Principle	Page	Page
<b>Human Rights</b>			
	Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights;	16	Fulfillment of CSR Leadership
	Principle 2 make sure that they are not complicit in human rights abuses.	33	Revision of human rights policies, operation of voluntary compliance programs
<b>Labour Standards</b>			
	Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	37	Construction of a win-win culture between labor and management
	Principle 4 the elimination of all forms of forced and compulsory labour;	33	Implementation of a people-orientated management philosophy
	Principle 5 the effective abolition of child labour; and	33	Implementation of a people-orientated management philosophy
	Principle 6 the elimination of discrimination in respect of employment and occupation.	34	Provision of equal opportunities
<b>Environment</b>			
	Principle 7 Businesses should support a precautionary approach to environmental challenges;	68-75	EHS&Q Comprehensive Information System based on precautionary principles
	Principle 8 undertake initiatives to promote greater environmental responsibility; and	68-75	Application of rules that prioritize environmental regulations
	Principle 9 encourage the development and diffusion of environmentally friendly technologies.	74	New growth potential
<b>Anti-Corruption</b>			
	Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.	33	Fair business compliance programs

# GRI G3.1/ISO 26000 Index

● Disclosed ○ Disclosed Partially ○ Not Available N/A Not Applicable

	GRI G3.1	Reporting level	Page	ISO 26000	ISO 26000 Core subject & issue
Principles of stakeholder engagement				6.8.2	Participation in local community
Border protocol				6.6.5	Promotion of social responsibility in value
<b>Strategy and Analysis</b>					
1.1	Statement from the most senior decision-maker of the company (e.g. CEO, chair, or equivalent senior position) on the importance of sustainability to the organization and its strateg	●	7	6.2	Organization governance
1.2	Description of key impacts, risks and opportunities	●	10~11	6.2	
<b>Organizational Profile</b>					
2.1	Name of the organization	●	18~29		
2.2	Primary brands, products and / or services	●	18~29		
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries and joint ventures	●	18~29	6.2	Organization governance
2.4	Location of organizations' headquarters	●	18~29		
2.5	Number of countries where the organization operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	●	18~29		
2.6	Nature of ownership and legal form	●	18~29		
2.7	Characteristics of markets (including geographic breakdown, sectors served and types of customers / beneficiaries)	●	18~29		
2.8	Scale of the reporting organization	●	18~29		
2.9	Significant changes during the reporting period regarding size, structure or ownership	●	20		
2.10	Awards received in the reporting period	●	19		



● Disclosed ◐ Disclosed Partially ○ Not Available N/A Not Applicable

	GRI G3.1	Reporting level	Page	ISO 26000	ISO 26000 Core subject & issue
<b>Report Parameters</b>					
3.1	Reporting period (e.g. fiscal / calendar year)	●	About this report		
3.2	Date of the latest report (if any)	●	About this report		
3.3	Reporting cycle (annual, biennial, etc.)	●	About this report		
3.4	Contact point for questions on report	●	About this report		
3.5	Process for defining report content	●	About this report		
3.6	Boundaries of the report (e.g. countries, divisions, subsidiaries, suppliers)	●	About this report		
3.7	State any specific limitations on the scope of the report	●	About this report		
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organizations	●	About this report		
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report	●	About this report		
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	●	About this report		
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report	●	About this report		
3.12	Table identifying the location of the Standard Disclosures in the report	●	83~86		
3.13	Policy and current practice with regards to seeking external assurance	●	About this report	7.5.3	Verification
<b>Governance, Commitments and Engagement</b>					
4.1	Governance structure of the organization	●	22~23	6.2	
4.2	Indication of whether the Chair of the highest governance body is also an executive officer	●	22, 25	6.2	
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and / or nonexecutive members	●	22, 25	6.2	
4.4	Mechanisms enabling shareholders and employees to provide recommendations or direction to the highest governance body	●	23	6.2	
4.5	Link between the company's performance and compensation for members of the highest governance body, senior managers and executives	●	22	6.2	
4.6	Processes for the highest governance body to prevent conflicts of interest	●	22	6.2	
4.7	Process for determining the qualifications and expertise of the members of the highest governance body to guide the organization's strategy on economic, environmental, and social topics	◐	22, 25	6.2	
4.8	Internally developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation	●	10, 20, 21, 25, 32, 75	6.2	Organization governance
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental and social performance, including relevant risks and opportunities and adherence or compliance with internationally agreed standards, codes of conduct and principles	◐	7, 16	6.2	
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	◐	16, 22, 25	6.2	
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	◐	42	6.2	
4.12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or endorse	●	16	6.2	
4.13	Membership (Example: Industry Associations) in associations (such as industry associations) and / or national /international advocacy organizations	●	16	6.2	
4.14	List of stakeholder groups engaged by the organization	●	12~13	6.2	
4.15	Basis for identification and selection of stakeholders	●	12	6.2	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	●	14	6.2	
4.17	Key topics and concerns that have been raised through stakeholder engagement and how the organization has responded to those key topics and concerns, including through its reporting	●	14~15	6.2	

# GRI G3.1/ISO 26000 Index

● Disclosed ○ Disclosed Partially ○ Not Available N/A Not Applicable

	GRI G3.1	Reporting level	Page	ISO 26000	ISO 26000 Core subject & issue
<b>Economic Performance Approach</b>					
EC1	Direct economic value generated and distributed (e.g.: profit, operating cost, employee compensation, donation, investment in local community, earned surplus, capital costs, tax, etc.)	●	27	6.8/6.8.3/ 6.8.7/6.8.9	Local community engagement and development/Local community engagement/ Generation of wealth and income/ Social investment/
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	●	71-75	6.5.5	Climate change mitigation and adaptation
EC3	Coverage of the organization's defined benefit plan obligations	●	36	6.4.4/6.8	
EC4	Significant financial assistance received from government	N/A			
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	○	27, 34	6.4.4/6.8	Working conditions and social protection/Local community engagement and development
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	●	54-57	6.6.6/6.8/ 6.8.5/6.8.7	Promotion of social responsibility in value chain/ Local community engagement and development/Job creation and development of functions /eneration of wealth and income
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	●	56	6.8/ 6.8.5/ 6.8.7	Local community engagement and development/Job creation and development of functions/Generation of wealth and income
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	●	61	6.3.9/6.8/ 6.8.3/ 6.8.4/6.8.5/ 6.8.6/ 6.8.7/6.8.9	Economic, social and cultural rights/ Local community engagement and development/ Local community engagement /Education and culture/ Technological development and access \eneration of wealth and income/Social investment
EC9	Understanding and describing significant indirect economic impacts including the extent of impacts	○	54-59	6.3.9/6.6.6/ 6.6.7/6.7.8/ 6.8/6.8.5/ 6.8.6/6.8.7/ 6.8.9	Economic, social and cultural rights/ Promotion of social responsibilities in value chain /Respect for property rights/Access to necessary service/Local community engagement and development/Job creation and development of functions/Technological development and access/Generation of wealth and income/ Social investment
<b>Environment Performance Indicators</b>			35		
EN1	Materials used by weight or volume	N/A	-		
EN2	Percentage of materials used that are recycled input materials	N/A	-		
EN3	Direct energy consumption by primary energy source	●	73		
EN4	Indirect energy consumption by primary source	●	73		
EN5	Energy saved due to conservation and efficiency improvements	●	73		
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services and reductions in energy requirements as a result of these initiatives	●	74	6.5/6.5.4	Environment/Sustainable resource use
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	●	74		
EN8	Total water withdrawal by source	●	74		
EN9	Water sources significantly affected by withdrawal of water	○	74		
EN10	Percentage and total volume of water recycled and reused	○	73		
EN11	Location and size of ecological protections reserves and areas with high-valued biodiversity or land in surrounding regions that is owned, leased, or managed	●	68-69		
EN12	Effect on biodiversity from activities, products, and services in ecological protections reserves and areas with high-valued biodiversity	●	68-69	6.5/6.5.6	Environment/Environmental protection, diversity and natural habitat restoration
EN13	Habitats protected or restored	●	68-69		
EN14	Strategies, current actions and future plans for managing impacts on biodiversity	●	68-69		
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	●	68-69		
EN16	Total direct and indirect greenhouse gas emissions by weight	●	73		
EN17	Other relevant indirect greenhouse gas emissions by weight	●	73	6.5/6.5.5	Environment/Climate change mitigation and adaptation
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	●	73-75		

● Disclosed ◐ Disclosed Partially ○ Not Available N/A Not Applicable

	GRI G3.1	Reporting level	Page	ISO 26000	ISO 26000 Core subject & issue
EN19	Emissions of ozone-depleting substances by weight	●	73		
EN20	NOx, Sox and other significant air emissions by type and weight	N/A	-		
EN21	Total weight discharge by quality and destination	◐	74		
EN22	Total weight of waste by type and disposal method	●	73	6.5/6.5.3	Environment/Pollution prevention
EN23	Total number and volume of significant spills	N/A	-		
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII and percentage of transported waste shipped internationally	N/A	-		
EN25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff	◐	69	6.5/6.5.4/ 6.5.6	Environment/Sustainable resource use/Environmental protection, diversity and natural habitat restoration
EN26	Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation	◐	50~51	6.5/6.5.4/ 6.6.6/6.7.5	Environment/Sustainable resource use/ Promotion of social responsibility in value chain /Sustainable consumption
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	N/A	-	6.5/6.5.4/ 6.7.5	Environment/Sustainable resource use/Sustainable consumption
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	N/A	-	6.5	Environment
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations and transporting members of the workforce	◐	73	6.5/6.5.4 /6.6.6	Environment/Sustainable resource use/ Promotion of social responsibility in value chain
EN30	Total environmental protection expenditures and investments by type	◐	61	6.5	Environment
<b>Labor Practice &amp; Decent Work Performance</b>					
LA1	Employment patterns based on gender by employment type, employment contract and region	●	34	6.4/6.4.3	Custom of labor relations/Employment and employment relationship
LA2	Total number and rate of employee turnover by age group, gender and region	●	34, 36, 57		
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations (Work-sites based on regional importance)	◐	34	6.4/6.4.3/ 6.4.4	Custom of labor relations/Employment and employment relationship/ Labor conditions and social protection
LA4	Percentage of employees covered by collective bargaining agreements	●	37	6.4/6.4.3/ 6.4.4/ 6.4.5/6.3.10	Custom of labor relations/Employment and employment relationship/ Labor conditions and social protection/ Social dialogue/Basic principles and rights in labor
LA5	Minimum notice period (s) regarding significant operational changes including whether it is specified in collective agreements	◐	35	6.4/6.4.3/ 6.4.4/6.4.5	Custom of labor relations/Employment and employment relationship/ Labor conditions and social protection/ Social dialogue
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	◐	37	6.4/6.4.6	Custom of labor relations/Health and safety in labor
LA7	Rates of injury, occupational diseases, lost days and absenteeism and total number of work-related fatalities by region(Categorized by region and gender)	●	35		
LA8	Education, training, counseling, prevention and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	●	35	6.4/6.4.6 /6.8/6.8.3/6.8.4/ 6.8.8	Custom of labor relations/Health and safety in labor/ Local community engagement and development/Local community engagement/Education and culture/Health
LA9	Health and safety topics covered in formal agreements with trade unions	◐	37	6.4/6.4.6	Custom of labor relations/Health and safety in labor
LA10	Average hours of training per year per employee by employee category	◐	37	6.4/6.4.7	Custom of labor relations/Human development and training at work
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	◐	37	6.4/6.4.7/ 6.8.5	Custom of labor relations/Human development and training at work/ Job creation and development of functions
LA12	Percentage of employees receiving regular performance and career development reviews	◐	37	6.4/6.4.7	Custom of labor relations/Human development and training at work
LA13	Current status by personnel categories within the board of directors and workforce (according to gender, age group, minority group membership and other indicators of diversity)	◐	22, 25, 34	6.3.7/6.3.10/ 6.4/6.4.3	Discrimination and vulnerable group/Basic principles and rights in labor/Custom of labor relations/ Employment and employment relationship
LA14	Ratio of basic salary of men to women by employee category	◐	34	6.3.7/6.3.10/ 6.4/6.4.3/ 6.4.4	Discrimination and vulnerable group/Basic principles and rights in labor/Custom of labor relations/ Employment and employment relationship/ Labor conditions and social dialogue
LA15	Reinstatement and maintenance ratio by gender after parental leave	◐	36		Prohibition on discrimination against vulnerable groups / Guarantee of company's and local member's economic, social and cultural rights

# GRI G3.1/ISO 26000 Index

● Disclosed ● Disclosed Partially ○ Not Available N/A Not Applicable

	GRI G3.1	Reporting level	Page	ISO 26000	ISO 26000 Core subject & issue
<b>Human Rights Performance</b>					
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	●	33	6.3/6.33/ 6.3.5/6.6.6	Human rights/Due diligence /Evasion of conspiracy/ Promotion of social responsibility in value chain
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	●	34	6.3/6.3.3/ 6.3.5/ 6.4.3/6.6.6	Human rights/Due diligence /Evasion of conspiracy/ Employment and employment relationship/Promotion of social responsibility in value chain
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	●	33	6.3/6.3.5	Human rights/Evasion of conspiracy
HR4	Total number of incidents of discrimination and actions taken	●	35, 36	6.3/6.3.6/ 6.3.7 /6.3.10/6.4.3	Human rights/Grievance treatment/ Discrimination and vulnerable group/Basic principles and rights in labor/Employment and employment relationship
HR5	Actions to guarantee the rights of major suppliers and businesses that are judged to seriously infringe on or violate the freedom of association and collective bargaining	●	37	6.3/6.3.3 /6.3.4/6.3.5/ 6.3.8/6.3.10/ 6.4.3/6.4.5	Human rights/Due diligence /Human rights risk situation/Evasion of conspiracy/Civil rights and political rights/Basic principles and rights in labor/Employment and employment relationship/Social dialogue
HR6	Operations identified as having significant risk for incidents of child labor and measures taken to contribute to the elimination of child labor	●	59	6.3/6.3.3/ 6.3.4/6.3.5/ 6.3.7/6.3.10	Human rights/Due diligence / Human rights risk situation/Evasion of conspiracy/Discrimination and vulnerable groups/Basic principles and rights in labor
HR7	Operations that are likely to have forced labor and measures taken	●	34		Human rights/Evasion of conspiracy evasion/ Employment and employment relationship/Promotion of social responsibility in value chain
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	●	38	6.3/6.3.5/ 6.4.3/6.6.6	Human rights/Grievance treatment/ Discrimination and vulnerable groups/Basic principles and rights in labor/Employment and employment relationship
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	N/A	-	6.3/6.3.6/6.3.7/ 6.3.8/6.6.7	Human rights/Grievance treatment/ Discrimination and vulnerable groups/Civil rights and political rights/Respect for property rights
HR10	Total number and percentage of worksites receiving inspection and assessment of human rights	●	34		Due diligence /Human rights risk situation
HR11	Total number of complaints regarding human rights received and settled through official complaint settlement system	●	38		Problem resolution
<b>Society Performance</b>					
SO1	Ratio of projects which implement local community engagement, impact assessment and development programs	●	47, 56-57	6.3.9/6.8/ 6.8.5/ 6.8.7*/6.6.7	Economic, social and cultural rights/ Local community engagement and development/Job creation and development of function/Generation of wealth and income/Respect for property rights
SO2	Percentage and total number of business units analyzed for risks related to corruption	N/A	-		
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	●	32, 33	6.6/6.6.3	Fair operation practice/ SO3 Anti-corruption
SO4	Actions taken in response to incidents of corruption	●	33		
SO5	Public policy positions and participation in public policy development and lobbying	N/A	-	6.6/6.6.4/ 6.8.3	Fair operation practices/Responsible political participation/Local community engagement
SO6	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	N/A	-		
SO7	Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes	N/A	-	6.6/6.6.5/	Fair operation practices/Fair competition/ Respect for property rights
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	N/A	-	6.6.7	Fair operation practices/Respect for property rights/ Generation of wealth and income
SO9	Projects which has significant potential influence on local community or which has actual negative influence on the local community	●	53, 57	6.6/6.6.7/6.8.7*	Local community engagement and development
SO10	Measures to prevent or mitigate significant potential influence or actual negative influence of businesses on the local community	●	53, 57		Local community engagement and development
<b>Product Responsibility Performance</b>					
PR1	Last stage of the life cycle that evaluates the effect of improvement products and services on health and safety, rate of evaluations for major products and services	●	50	6.3.9/6.6.6/ 6.7/6.7.4 /6.7.5	Economic, social and cultural rights/ Promotion of social responsibility in value chain/Consumer issue/ Protection of consumer health and safety/ Sustainable consumption
PR2	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements	N/A	-		

● Disclosed ◐ Disclosed Partially ○ Not Available N/A Not Applicable

	GRI G3.1	Reporting level	Page	ISO 26000	ISO 26000 Core subject & issue
PR3	Percentage of employees trained in organization's anti-corruption policies and procedures	●	50	6.7/6.7.3/ 6.7.4/	Consumer issue/ Fair marketing, realistic and balanced information and fair contraction practice / Protection of consumer health and safety/Sustainable consumption / Consumer service, support and complaint and dispute handling / Education and enhancement of awareness
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	N/A	-	6.7.5/6.7.6/ 6.7.9	Consumer issue/Protection of consumer health and safety/Sustainable consumption/ Consumer service, support and complaint and dispute handling /Access to necessary service/ Education and enhancement of awareness
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	●	38	6.7/6.7.4/ 6.7.5/ 6.7.6/6.7.8/ 6.7.9	Consumer issue/Fair marketing, realistic and balanced information and fair contraction practice/ Consumer service, support and complaint and dispute handling / Education and enhancement of awareness
PR6	Programs for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	◐	32	6.7/6.7.3/ 6.7.6/6.7.9	Consumer issue/Customer information protection and privacy
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of outcomes	N/A	-		Consumer issue/Consumer service, support and complaint and dispute handling / Education and enhancement of awareness
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	●	39	6.7/6.7.7	Consumer issue/Consumer service, support and complaint and dispute handling
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	N/A	-	6.7/6.7.6	

## Financial Services Sector Supplement

● Disclosed ◐ Disclosed Partially ○ Not Available N/A Not Applicable

		Reporting level	Page	note
<b>Product and Service Impact Section</b>				
FS1	Policies with specific environmental and social components applied to business lines.	◐	23	
FS2	FS2 Procedures for assessing and screening environmental and social risks in business lines. 40,58	◐	40,58	
FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.	◐	50	
FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.	◐	58	
FS5	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.	◐	7	
<b>Financial Services Sector Specific Performance Indicators</b>				
FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector.	◐	27	
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.	●	28~31	
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.	●	32~33	
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.	◐	34	
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues.	◐	34, 35	
FS11	Percentage of assets subject to positive and negative environmental or social screening	◐	34, 35	
FS12	Voting polic(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting.	◐	17, 18, 20, 21	
<b>Financial Services Sector Specific on product Responsibility society performance indicators</b>				
FS13	Access points in low-populated or economically disadvantaged areas by type.	●	28~31, 42~43, 48~49	
FS14	Initiatives to improve access to financial services for disadvantaged people.	◐	28~33	
<b>Financial Services Sector Specific Disclosure on Management Approach</b>				
FS15	Policies for the fair design and sale of financial products and services.	◐	27~33	
FS16	Initiatives to enhance financial literacy by type of beneficiary.	◐	27~33	

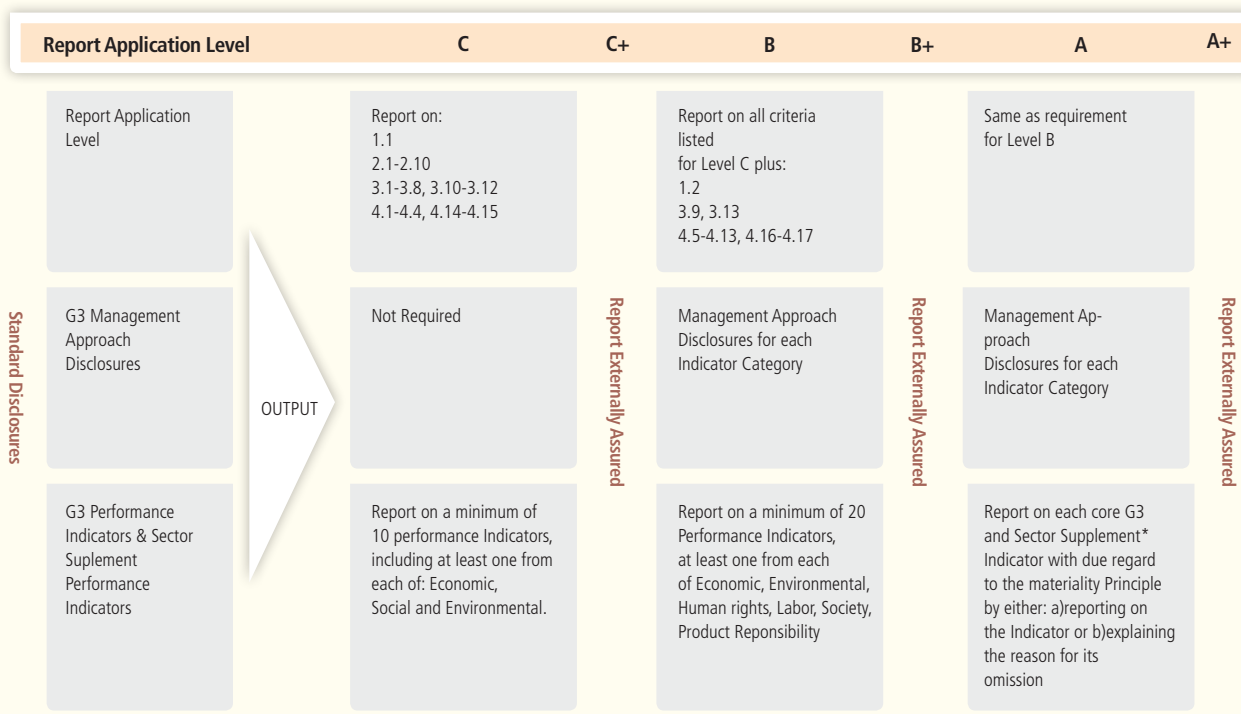
# Additional Explanation about GRI Index not explained in the Report

GRI Index	Indicators
EC4	The bank has not received government subsidies.
EN11	DGB Financial Group's activities do not impact on biodiversity or protected areas.
EN12	DGB Financial Group's activities do not impact on biodiversity or protected areas.
EN20	DGB Financial Group's does not NOx, SOx and other significant air pollutant emission
EN23	There was no significant accidental spillage during the year.
EN24	The transportation of hazardous waste is not material.
EN28	There was no corruption incident about environmental laws and regulations during the year.
HR9	There was no incident with indigenous people.
SO2	DGB Financial Group has internal audit to analyzed for risks related to corruption, and there was no accident during the year.
SO5	DGB Financial Group does not participate in setting public policy our engagement in lobbying.
SO6	DGB Financial Group does not make any contribution to it.
SO7	There was no corruption incident during the year
SO8	DGB Financial Group's product and services do not have an impact on customer's health and safety.
PR2	There was no corruption incident about laws and regulations of impact on customer health and safety.
PR4	There was no corruption incident during year.
PR7	There was no incident about information security during the year
PR9	There was no corruption incident about provision and use of products and services during the year

## Declaration of the GRI G3.1 Guideline Application Level

DGB Financial Group 2010/2011 Sustainability Report is in accordance with the GRI G3.1 Guidelines. In addition, as a report which fully reflects the GRI G3.1 Guidelines, the report officially publishes self-declaration and the third-party assurance declaration. The report fully fulfills the requirements of the stage A among A, B and C in accordance with the standards of the GRI G3.1 application level. Moreover, DGB Financial Group 2010/2011 sustainability report declares that its GRI G3.1 application level is 'A+' through the third-party assurance.

## GRI G3.1 Guideline Application Level





Independent Assurance Report

아름다운 동행

Growing Towards the Better Together



Post Card

Name : \_\_\_\_\_

Address : \_\_\_\_\_

□ □ □ - □ □ □

우편요금  
수취인 후납부담  
발송유효기간  
2012.9.1~2013.8.31  
대구수성우체국  
승인 제40118호



CSR Department  
DGB Economic Research Institute  
10th floor, Daegu Bank headquarters  
2310 Dalgubeoldaero, Suseong-gu, Daegu, Korea

7 0 6 - 7 1 2

DGB Financial Group("DGB") welcomes your feedback regarding our Sustainability Report. We will carefully review your opinions and suggestion to address or reflect them in future editions. Please fill out survey below and send it to us via fax or mail.  
Thank you,

**DGB Financial Group**  
**DGB Economic Research Institute**  
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Fax 82-53-740-7997  
E-mail sustainability@dgbfg.co.kr  
2310 Dalgubeoldaero, Suseong-gu, Daegu, Korea

**1. To which group do you belong?**

- ① DGB customer      ② DGB employee      ③ Partner firm      ④ Local resident  
⑤ NGOs      ⑥ Academia      ⑦ Government / local government      ⑧ (      )

**2. How did you learn about our Sustainability Report?**

- ① DGB websites      ② DGB IR activities      ③ Other website      ④ Forum / seminar  
⑤ (      )

**3. Which section of this report did you find most interesting?**

- ① ISO/DIS 26000 Preparedness Test      ② Sustainability Management Initiatives  
③ Sustainable finance      ④ Environmental management      ⑤ Social Contribution  
⑥ Ethics & corporate culture

**4. Do you think this report accurately reflected DGB's management performance?**

- ① Perfectly reflected      ② Well reflected      ③ Average      ④ Below average  
⑤ To be improved

**5. In which area of sustainable management do you think DGB is the most active?**

- ① Sustainable finance      ② Environmental management      ③ Social contribution  
④ Ethics & corporate culture

**6. Please state areas where our Sustainability Report may be further improved.**

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### Contact Information

If you have any questions about our sustainable management or this report, please contact us through the following channels.

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DGB Financial Group	<a href="http://www.dgbfg.co.kr">www.dgbfg.co.kr</a>
Daegu Bank	<a href="http://www.dgb.co.kr">www.dgb.co.kr</a>
DGB Capital	<a href="http://www.dgbcapital.co.kr">www.dgbcapital.co.kr</a>
Kardnet	<a href="http://www.kardnet.com">www.kardnet.com</a>
Daegu Credit Information	<a href="http://www.daegucredit.co.kr">www.daegucredit.co.kr</a>
DGB Data System	<a href="http://www.dgbds.co.kr">www.dgbds.co.kr</a>

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