



This report has been printed on environmentally friendly paper using soy ink.

Dream Green Bank



Dream Green Bank





The four-leaf clover represents the four topics (sustainable finance, environmental management, social contributions, and ethics and corporate culture) that are covered in this sustainability report. The icon symbolizes Daegu Bank's goal of helping to shape a happier and healthier future through balanced growth of all four areas.



The seed stands for **Sustainable Finance** that will help us grow with the local community. Daegu Bank is committed to contributing to the local economy by providing it with active financial support to yield a better regional financial base.



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.



The flower shows our full-hearted commitment to the **Social Contributions**. Daegu Bank 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 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.

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Daegu Bank 2008 Sustainability Report

This marks the third year for Daegu Bank's sustainability report. It reports on the bank's responsibilities to its stakeholders and the contributions it has made towards sustainable development.

About this Report

- Daegu Bank conducted a Materiality Test to identify and highlight major issues of interest to its stakeholders and guide their decision-making.
- The 2008 Sustainability Report features a Disclosure on Management Approach (DMA) to introduce our vision and strategies, and outline issues, achievements, and future plans for sustainability management-especially in the areas of sustainable finance, environmental management, social contributions, and ethics and corporate culture.
- We focused on identifying areas of interest for our stakeholders. During the reporting period, we conducted media analyses by looking at sixty-nine key words selected from general areas, the environment, society, and the economy in Korean daily newspapers, economic dailies, and regional broadcasts and newspapers. Both internal and external stakeholders were also surveyed to discover their needs.
- The report's reliability has been heightened through examinations by professional institutions and expert groups. These included the Korean Standards Association, the official Korea partner of GRI, which has also been designated to promote the activities of the Korea Social Responsibility Forum. In addition, two external experts reviewed the report from a stakeholder's perspective.

Reporting Scope: Activities of Daegu Bank headquarters and all its branches (Some indicators only relate to the headquarters)

Reporting Period: January 1, 2008 to December 31, 2008
(Some data through 2Q 2009 have been included)

Reporting Cycle: Once a year

Reporting Framework

- Principal framework: GRI G3 Guidelines
- Additional framework: GRI Financial Services Sector Supplement

Distribution of and Feedback on the Report

The report is published in both Korean and English and is sent to community institutions, shareholders, customers, investors, financial institutions, correspondent banks, sustainability management institutions, and companies. Feedback can be made by mail, phone, or at our website.



Voiceye

We also added a "Voice Eye" function, which converts text into voice. This will enable visually-challenged readers to access this report more easily.

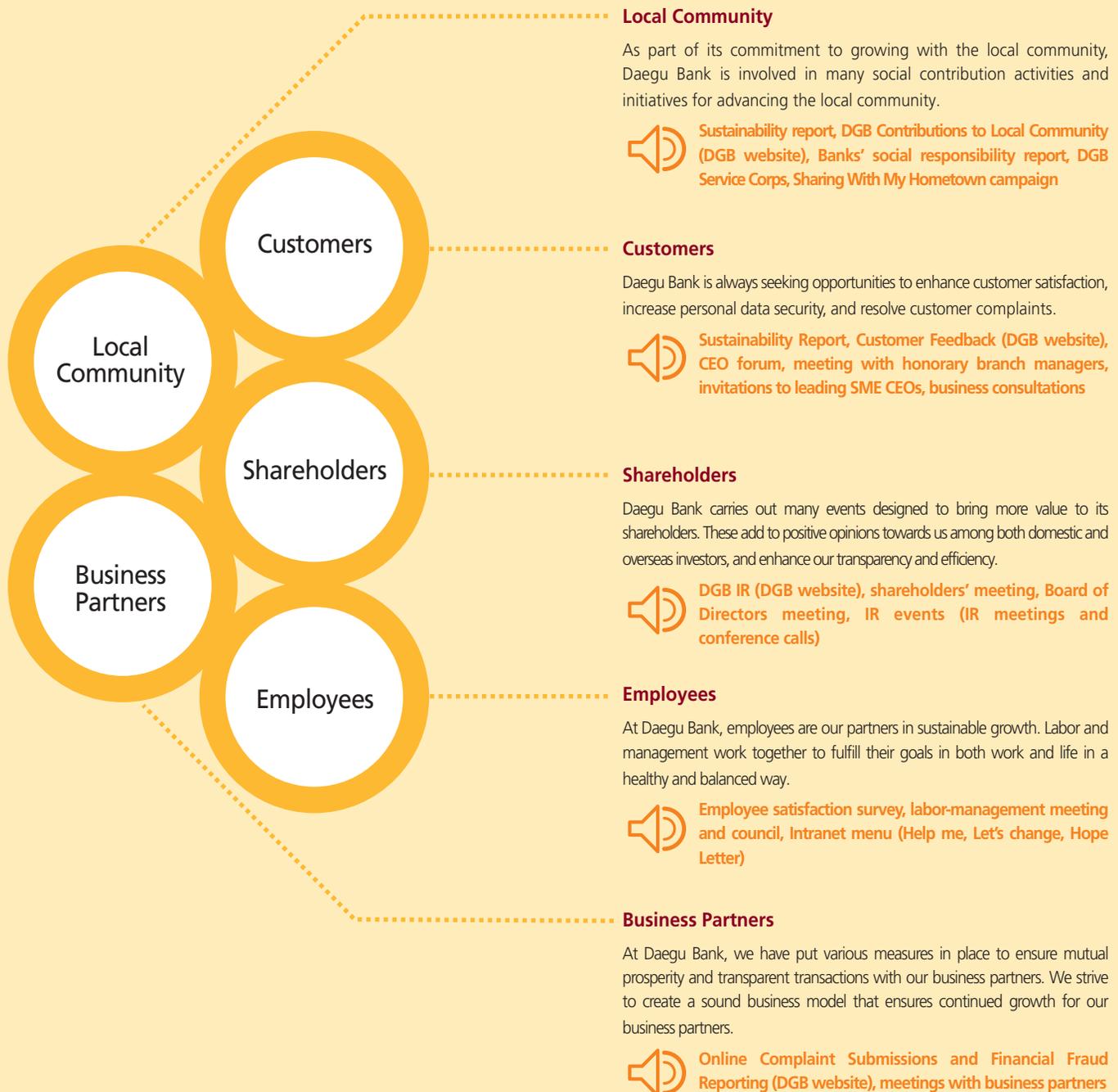
Invest in the Sustainability



Communication with Stakeholders

In its pursuit of sustainability management based on broadly-accepted global standards, Daegu Bank places a high priority on a continued communication with stakeholders. Their feedback is incorporated into our management processes through a variety of communication channels. We strive to keep aware of issues of interest to our stakeholders.

DGB Communications with Stakeholders



Materiality Assessment

Daegu Bank conducted a materiality assessment test to identify issues of interest to our stakeholders and employees regarding sustainability management. The results, generated by going through the following three steps, have been described to our employees and in this report so that they can drive our sustainability management strategy. We plan to improve the materiality assessment platform every year to identify issues of interest more accurately.

Materiality Assessment Platform



Top 10 Issues from Materiality Assessment

1. Plans and Products to Stimulate the Local Economy

To support SMEs, the pillars of the regional economy, Daegu Bank offers them priority in loan amount allocations, discount rates, tailored products, and contributions to SME funds. We also have an SME Difficulty Consulting team and business consulting services. >> p. 24~30

2. Support for Talented Youths and Social Welfare

Children in the region are the future for the region's development. Daegu Bank has established a scholarship foundation to support them and improve the local learning environment. We also raise "Love Funds" with our employees to reach out to the less fortunate around us. >> p. 44, 46

3. Environmentally Friendly Financial Products

Daegu Bank is committed to the protection of the environment. We launched the "DGB Environmental Love Deposit" to address air pollution in the region, and participated in the Carbon Disclosure Project led by global financial institutions. Some of our product offerings are also designed to support "green" companies. >> p. 30~31

4. Efforts to Tackle Global Warming

With the declaration of its "DGB STOP CO₂ Plan" to reduce the volume of carbon emissions, Daegu Bank has been launching various campaigns with its employees and the local community and providing guidance to local companies on how to respond to the UN convention on climate change. Our efforts to combat global warming go beyond Korea, as is evidenced by the DGB Anti-Desertification Forest in Mongolia. >> p. 34~38

5. Customer Satisfaction

Daegu Bank makes every effort to provide its customers with satisfactory services. We earned a customer satisfaction award from KSME [Korea Sustainability Management Evaluation] for two consecutive years. >> p. 21

6. Leadership and Communications

We have a variety of communications programs, such as Hiking & Conversation with the CEO, Fun Fun DGB, Yr DGB Best, and HR Partners, all designed to bring employees closer together. >> p. 52

7. Ethical Management

We have strengthened our Customer Due Diligence procedures and launched a Voluntary Ethical Practices campaign to guarantee open and honest financial transactions. We always emphasize compliance with rules and regulations, and run a gift return center to deal with gifts received from customers. >> p. 50

8. Sustainability Management Strategy and Organization

Daegu Bank has the Sustainability Committee chaired by the CEO and the Sustainability Working Group, with councils on sustainable finance, environmental management, social contributions, and ethics & corporate culture. This organization contributes to the efficient pursuit of sustainability management. >> p. 18~19

9. Employee Development and Benefits

We have a wide variety of employee benefits, and focus on furnishing our employees with a global perspective to prepare for our advance into the world market. >> p. 51

10. Green Purchasing and Green Energy

Daegu Bank works hard to increase the use of environmentally friendly office supplies and recycling while minimizing the volume of disposables. We are exploring ways to use new renewable energy sources at our branches, such as photovoltaic power generation. >> p. 36~38

CEO's Message



“Daegu Bank is committed to sustainability management that centers on our stakeholders. We will continue to act on our management policies of sharing prosperity with the local community, satisfying our customers, bringing value to our shareholders, and communicating with our employees.”

Dear Stakeholders:

The global economic recession in 2008 hit the Korean economy hard. Despite this, we recorded a net profit of over 200 billion Won for the third consecutive year, and our asset quality, stability, and profitability all put us at the top of the industry. Last year, we received an excellent review from overseas analysts in the AsiaMoney poll of Asia's Best-Managed Companies. We also won the “best company” honor this year (in the environmental management category) at the seventh annual Korea Ethical Management Awards hosted by the New Industry Management Academy. All these acclamations add to our reputation as a bank that is committed to its social responsibilities.

In addition, we are engaged in a variety of activities to fulfill our obligations and responsibilities as a member of the UN Global Compact and the UNEP Finance Initiative. We also participate in the Carbon Disclosure Project as part of our ongoing efforts to tackle climate change.

Having taken office as the tenth CEO of the bank in March 2009, I consider it my calling to grow us into a world-class regional bank by building on our forty-two years of history and tradition. We will spare no effort to achieve this mission. My appointment as a director of the UN Global Compact Korea Network has further strengthened my belief that we should also evolve into a leading bank in the area of sustainability management.

With our vision of becoming a “world-class regional bank that embraces sustainability management,” we will take the lead both in terms of financial performance and our ethical, environmental, and social responsibilities. In addition, we will act upon our management policies of sharing prosperity with the local community, satisfying our customers, bringing value to our shareholders, and communicating with our employees.

Our 2008 Sustainability Report is based on the Materiality Assessment generated from surveys of shareholders, customers, the local community, and our partners and employees, with a focus on meeting the global standard of GRI guidelines. It is a testament to our commitment to communicating our vision, goals, strategies, and activities clearly to our stakeholders and to acting on our corporate responsibilities in the economic, social, and environmental areas.

The publication of this 2008 Sustainability Report also serves as a valuable opportunity for us to keep our ears open to the views of our stakeholders and pursue sustainability management at a global level. We will spare no effort to achieve our goal of “sharing dreams and prosperity with the local community.”

Thank you.

Ha Chun Soo

Ha, Chun-soo

Chairman of the Board & CEO

Top 10 Highlights



1 Contract workers turned into regular employees: Jan. 1, 2008

Daegu Bank gave regular worker status to 650 non-regular employees at its headquarters with the best condition in the domestic banking industry.

2 Opened Shanghai Office and collected donations for victims of the Sichuan earthquake: Jun. 18, 2008

Daegu Bank opened an office in Shanghai in China. By saving money from its opening ceremony, we were able to collect about 68 million won to help earthquake victims in Sichuan province in China.



3 Launched Total Asset Management System: Sep. 2, 2008

Daegu Bank implemented its very own Total Asset Management Systems (TAMS), which enables the comprehensive management of individual customers' assets.

4 Ranked best among its peers in social contributions: Dec. 23, 2008

Daegu Bank was the only member of the financial industry to receive the first-ever Manifesto Promise Award from the Korea Manifesto Movement. We also ranked first in the industry in SMART indicator assessment of social contributions.



5 Received customer satisfaction award for two years in a row: Jan. 16, 2009

Daegu Bank received the highest honor for the second consecutive year at the Customer Satisfaction Awards 2009, organized by the Korea Sustainability Management Evaluation. It won in the finance/banking category.





6 Recognized for best environmental management at Korea Ethical Management Awards: Mar. 11, 2009

Daegu Bank won the “best company” prize in the environmental management category at the seventh annual Korea Ethical Management Awards, hosted by the New Industry Management Academy.

7 Declared the DGB New Vision & Management Policy: Mar. 27, 2009

As our tenth CEO Ha Chun-Soo took office, we declared our new vision and policy, which are “A World-Class Regional Bank that Embraces Sustainability Management” and “Together for Hope.”



8 Launched Cornea Donations for Love Campaign: Apr. 22, 2009

In keeping with our philosophy of sharing, we launched a Cornea Donations for Love campaign. More than half the employees participated, including our new CEO.



9 Created Public Benefit Fund in line with the sale of Green Growth Fund: May 9, 2009

Celebrating the launch of the Green Growth Fund investing in environment protection and green businesses, Daegu Bank signed an agreement to contribute 10% of the fund’s sale proceeds every year to a public fund dedicated to protecting the environment.



10 Created DGB Anti-Desertification Forest in Mongolia: June 16, 2009

As part of our efforts to prevent desertification, we planted 60,000 larch trees at the 198,348-m² forest at Mongonmorit near Ulan Bator, Mongolia. We also supported growing about 500,000 young trees at the DGB tree nursery to continue to create lush forests in Mongolia.



DREAM WITH DGB





Sharing Dreams and Prosperity with the Local Community

Sustainability Management brings dreams and prosperity to the local community
Dream Green Bank, DGB

How much faith do you have in invisible value?
At Daegu Bank, we have the foresight to identify the value that lies ahead.
To grow into a strong supporter of the local community,
With extraordinary efforts to protect the nature for our future generations,
We continue to invest in sustainability
For our future as a world's leading bank
with a history of 100 years.



Dream with DGB

DGB Overview

Launched as the first regional bank in Korea, Daegu Bank has grown into a representative bank in Daegu and Gyeongsangbuk-do province. We strive for continued growth to share our dreams and prosperity with the local community.

Daegu Bank: Your Closest Neighbor

Daegu Bank was the first Korean regional bank with operations in Daegu and Gyeongsangbuk-do province. Its headquarters, 219 branches, one overseas office, and 2,317 ATMs with 24-hour access, serve 3.51 million customers.

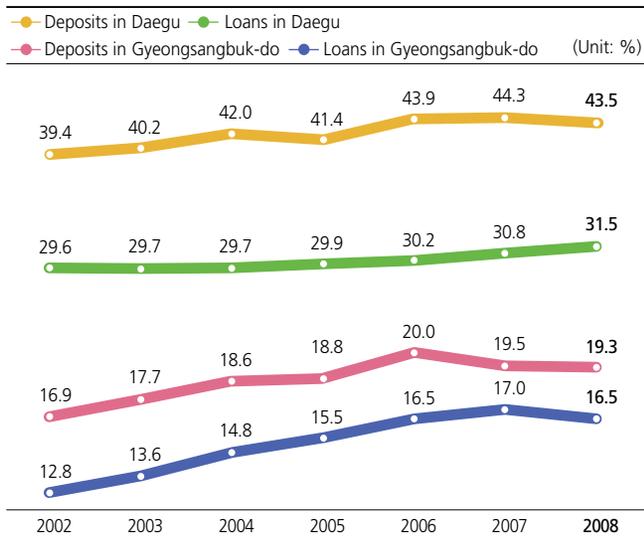
Although Daegu Bank is a relatively small-sized bank, with total assets of 28.3 trillion Won, it proudly weathered the Asian financial crisis without needing any public funding. This outstanding performance resulted from our focus on serving the local community, valuing all our shareholders, and using change and innovation to satisfy our employees and customers. As the representative regional bank of Korea, we are a comparatively small but highly competitive player, with the best level of financial performance anywhere in the country.

Profile

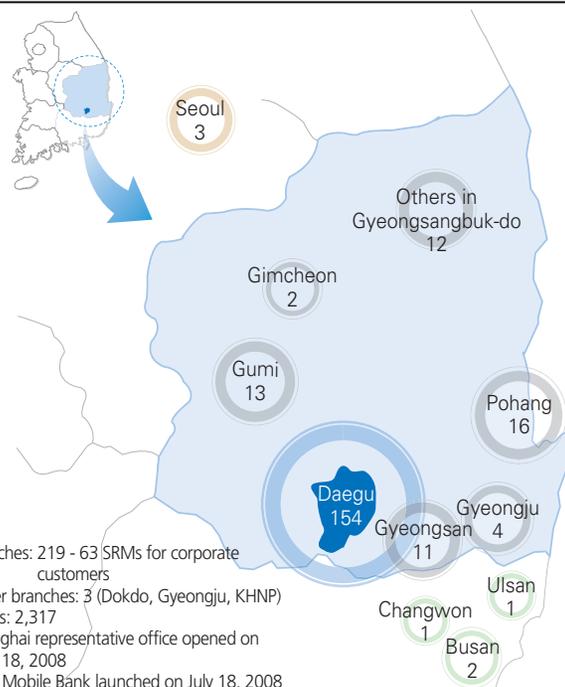
(Dec. 31, 2008)

Date established	October 7, 1967
Headquarters	118, Suseong-dong 2-ga, Suseong-gu, Daegu, Korea
No. of branches	219
No. of employees	2,825 (full-time)
No. of customers	3.51 million (65% of the population of Daegu/Gyeongsangbuk-do)
Total assets	KRW 28,333.1 billion
Shareholders' equity	KRW 1,598.7 billion (Paid-in capital: KRW 660.6 billion)
No. of CDs/ATMs	2,317 (Including 216 automated tax payment machines)
# of Internet banking users	1.26 million

Market Share Trend



Branch Network



History

1967. 10. 07	• Established with paid-in capital of KRW 150 million
1975. 01. 04	• Enlisted to handle financial transactions for Daegu city
1983. 02. 07	• Commenced online transactions at all branches
1985. 06. 01	• Commenced credit card business
1991. 09. 09	• Commenced comprehensive online services
1991. 12. 27	• Established Daegu Bank Scholarship Foundation
1995. 01. 03	• Launched "Blue Bird," the first phone banking service in Korea
1996. 11. 20	• Implemented Cyber Bank system
2000. 05. 08	• Commenced Internet banking service
2001. 06. 23	• Implemented Credit Risk Management System
2001. 08. 15	• Opened cyber branch for Dokdo
2001. 09. 07	• Commenced "Plus Firm" Banking (corporate Internet banking)
2002. 07. 02	• Designated "Model of Corporate Governance" by Korea Stock Exchange
2003. 07. 08	• Awarded Prime Minister's Citation for DGB Service Corps community service
2003. 09. 03	• Commenced insurance agency business
2004. 06. 21	• Selected as one of 30 most-respected companies in Korea; ranked first in financial sector by Dong-A daily newspaper and IBM BCS Korea
2005. 10. 19	• Received "Korea's Most Admired CEO" award in ethical management category from Korea Economic Daily and Seoul National University
2005. 11. 16	• Received Grand Prize at seventh Hankyung IR Awards
2006. 04. 27	• Received Ministry of Health and Welfare award at fifth Social Welfare Volunteering Competition
2006. 06. 16	• Received Grand Prize for 2006 Environmental Management Award (service/banking sector) from Korea Economic Daily and Open Management Research
2006. 07. 14	• Opened SKY (Sharing Knowledge for You) knowledge management system
2006. 07. 18	• Joined UN Global Compact
2006. 09. 27	• Joined UNEP FI and declared commitment to sustainable management
2007. 01. 02	• Unveiled new CI
2007. 05. 11	• Published first sustainability report
2007. 05. 29	• DGB Service Corps received Daegu/Gyeongbuk volunteer group award
2007. 06. 02	• Received first Regional Economy Awards from Korea Economics and Business Association
2007. 07. 25	• Credit rating raised by three notches to "A2" by Moody's
2007. 10. 01	• Launched Open Plaza, DGB Gallery, and DGB finance museum (D-time)
2007. 11. 23	• Received LOHAS Management Prize in service/finance category from Korea Green Foundation
2007. 12. 21	• Received Sustainability Management Award in ethical and socially responsible management category from MOCIE and KCCI
2008. 01. 11	• Received Customer Satisfaction Award in finance/banking category for second consecutive year from Korea Economic Daily
2008. 02. 21	• Named "Asia's Best-Managed Company" by AsiaMoney
2008. 03. 04	• Ranked 284 th in Top 500 Financial Brands listing by The Banker
2008. 06. 18	• Opened Shanghai representative office
2008. 10. 16	• Received KNCSO prize at Sustainability Management Awards from Korea Sustainability Management Evaluation
2008. 11. 19	• Received top award in Daegu City's "2008 Energy Savings Competition"
2008. 11. 22	• Received "21 st Century Business Leadership Award" in sustainability management category from Korea Media Research Institution
2009. 02. 01	• CEO received award at fourteenth Awards for Excellence in International Transactions Credibility from Korean Association of Arbitration Studies
2009. 02. 05	• Received first Manifesto Promise Award in corporations category from Korea Manifesto Movement
2009. 03. 11	• Received seventh Korea Ethical Management Award in environmental management category from New Industry Management Agency
2009. 03. 27	• Declared and launched new management philosophy, vision, and policy
2009. 05. 07	• Created a fund for public works from sale proceeds of newly-launched Green Growth Fund
2009. 06. 16	• Created DGB Anti-Desertification Forest in Mongolia



Dream with DGB

Management Philosophy and Vision

Daegu Bank's management philosophy and vision underscore its commitment to become a world-class regional bank celebrating 100-year history down the road.

Philosophy

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

Vision

**A World-Class Regional Bank
that Embraces Sustainability Management**

Working Together for Hope

Policy



Dream with DGB

Corporate Governance

Transparency and a focus on our stakeholders are part of everything we do. In recognition of our efforts to advance the cause of corporate governance and transparent disclosures, Daegu Bank has been included in the Korea Exchange's "Hall of Fame" for corporate governance since 2002.

Board of Directors

In line with our focus on transparency and the welfare of our stakeholders, the Board of Directors mainly consists of outside directors, and enjoys full autonomy. Except for the CEO who chairs it and a standing auditor, outside directors comprise 71% of the Board. A steering committee consisting of each divisions head is also in place to ensure the efficient execution of Board decisions.

BOD Profile

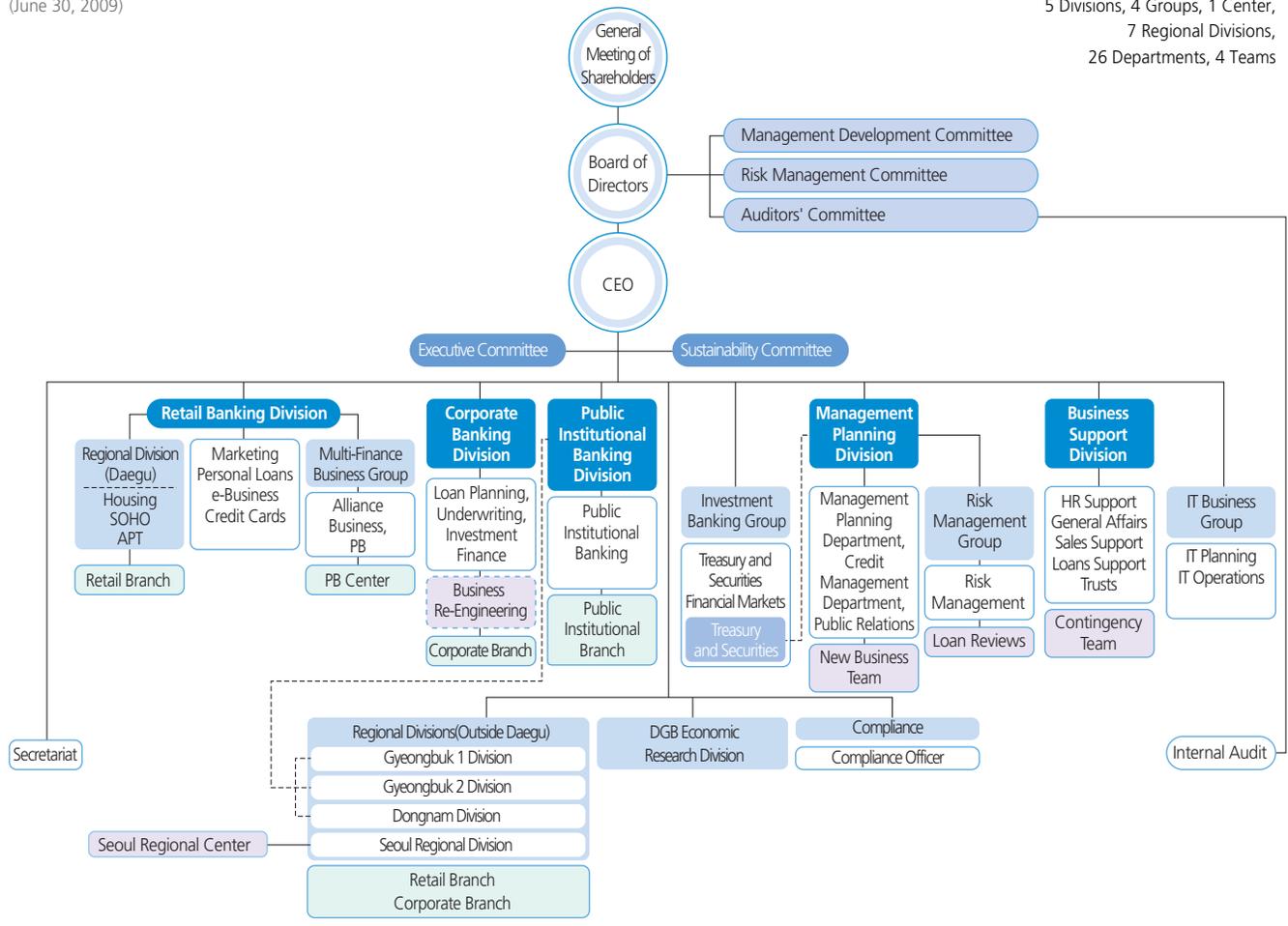
(As of June 30, 2009)

Name	Title	Remarks
Ha Chun-soo	Chairman & CEO	
Kim Young-beom	Standing Auditor & Director	
Kim Byung-chan	Outside director	Attorney
Ahn Choong-yong	Outside director	Endowed professor, Chungang University
Kwon Young-ho	Outside director	CEO, IB Group
Chung Kun-young	Outside director	Professor, Keimyung University
Kim Young-hoon David	Outside director	CEO, Daesung Group

Organizational Chart

(June 30, 2009)

5 Divisions, 4 Groups, 1 Center, 7 Regional Divisions, 26 Departments, 4 Teams





Responsibilities of the Board

Including the general shareholders' meeting, held at the beginning of each year, the Board of Directors meets six times a year to decide on the bank's overall strategy and supervise the bank's execution of its decisions. Key management decisions are made by the Management Development Committee, the Auditors' Committee, the Risk Management Committee, and the Sustainability Committee, all led by Board members. All the members of the Management Development Committee are outside directors, which gives independence and objectivity to the committee's decisions on performance evaluations, compensation scheme reviews, and the setting of business goals. To ensure more transparency in our corporate governance, the Auditors' Committee and the Risk Management Committee are also chaired by outside directors. In recognition of this advanced level of corporate governance and transparency, Daegu Bank was designated as a model of corporate governance by the Korea Exchange in 2002, and is permanently featured in its "Hall of Fame." AsiaMoney named Daegu Bank as "Korea's Small-Cap Corporate Citizen of the Year" in its 2008 survey of "Asia's Best-Managed Companies."

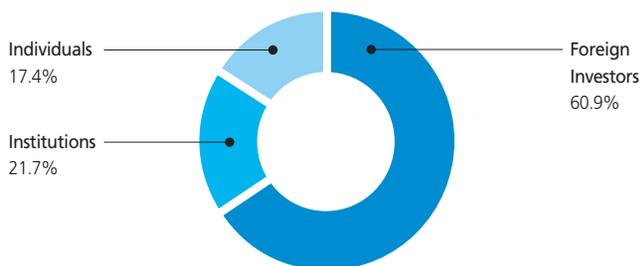
Shareholders

As of the end of 2008, our paid-in capital stood at KRW 606 billion. The total number of outstanding shares is 132.125 million, and they are listed in the Korea Exchange. Foreign ownership is 60.4%, while Korean institutional investors hold 21.7% (7.4% by Samsung Life Insurance) and individuals hold 17.9%.

Trends in Stock Prices and Foreign Ownership



Structure of Shareholder



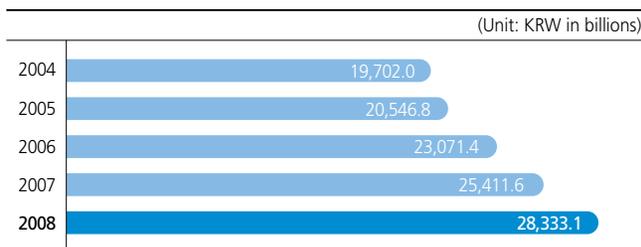
Dream with DGB Financial Performance

Daegu Bank discloses its financial results based on global-standard accounting principles. Taking 2008, the year of our 41st anniversary, as the turning point for sustainable growth with a focus on stronger sales capabilities, we were able to achieve extremely satisfactory results.

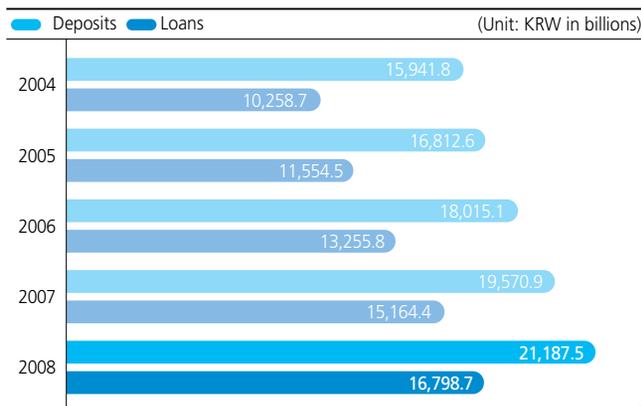
Summary

Having set its goal for 2008 as becoming a bank with sales strengths, Daegu Bank has worked hard to improve its financial performance. Despite the global financial crisis, we still recorded our highest-ever net profit (KRW 261.2 billion) while achieving a ROA of 1.01% and a ROE of 17.37%.

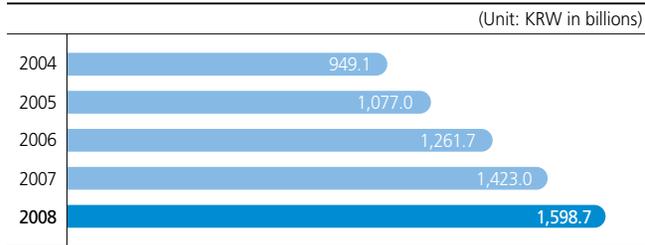
Total assets



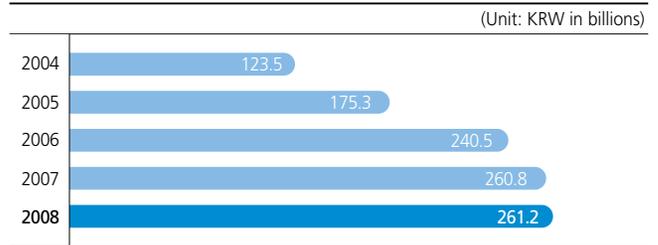
Deposits and Loans



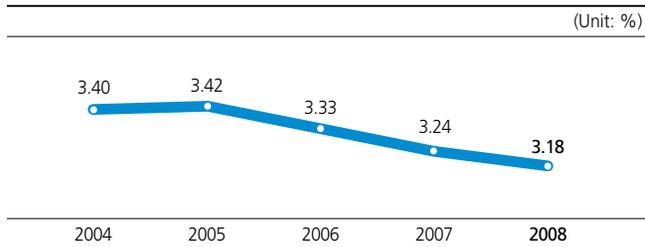
Shareholders' equity



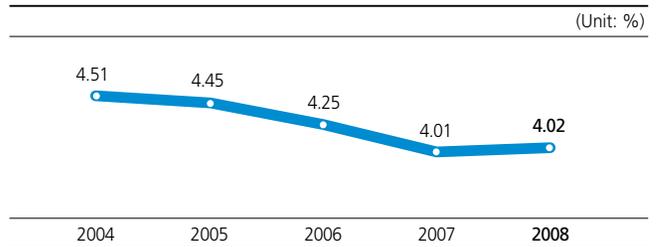
Net profit



Net interest margin

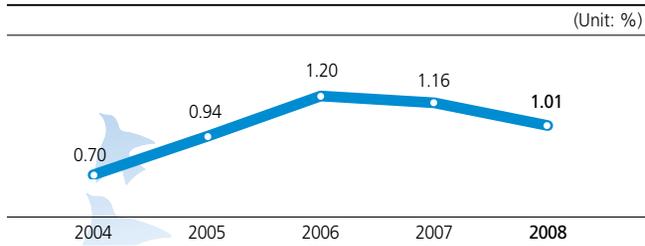


Net interest spread

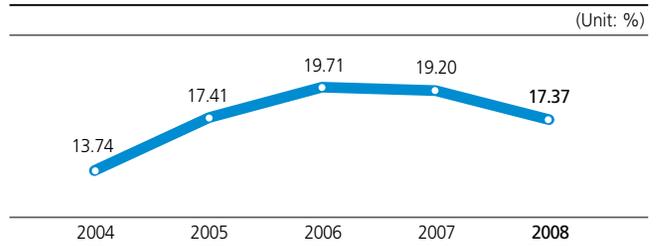


※Based on revised disclosure guidelines (inclusion of credit sales) as of December 2005

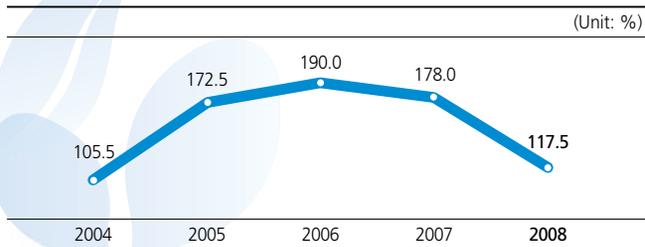
ROA



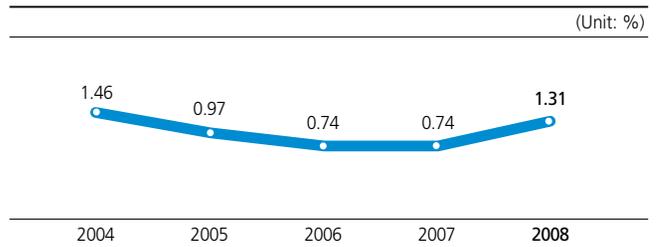
ROE



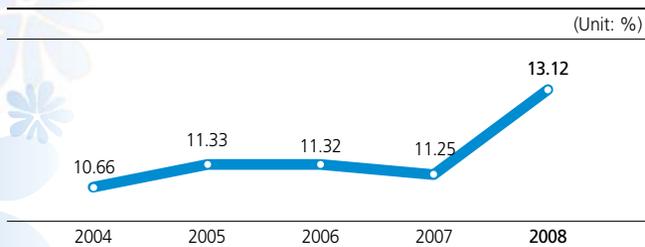
NPL coverage ratio



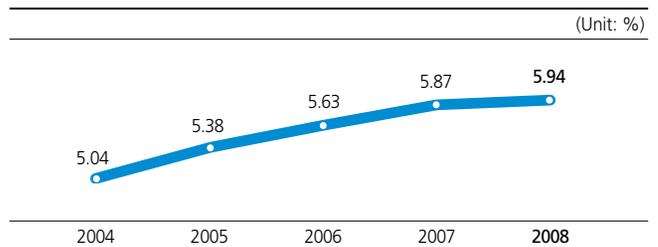
Substandard and below loans



BIS CAR (based on Basel I)



Equity-to-asset ratio





Dream with DGB Sustainability Management

Daegu Bank strives to fulfill its corporate responsibilities by strengthening relationships with its stakeholders, ensuring transparent management, promoting eco-friendly financial transactions, and offering sustainable financial products and services. These enable us to grow with the local community and achieve our vision of becoming a world-class regional bank.

Sustainability Organization

In line with its strategy of adopting global standards in sustainability management, Daegu Bank has organized a Sustainability Committee, chaired by the CEO, as well as a Sustainability Working Group.

Sustainability management organization



Set up in 2006, the Sustainability Committee is chaired by the CEO and composed of the heads of each business division. The committee evaluates the organization’s sustainability activities while establishing directions for more effective and comprehensive actions towards sustainability management. Strategies set by the Sustainability Committee are put into action by the Sustainability Working Group.

The main tasks of the working group include publication of the sustainability report, as well as internal and external communications of the bank’s sustainability management activities. The working group has four councils under it, each of which draws up detailed action plans for execution. They are the Sustainable Finance Council, the Environmental Management Council, the Social Contributions Council, and the Council for Ethics and Corporate Culture. Sustainability programs are executed only after discussions by the working group and councils.

The Sustainable Finance Council is tasked with increasing the volume of loans to eco-friendly businesses and raising the awareness of local customers of the seriousness of Carbon Emission. Seeing sustainable finance as a major new growth engine, Daegu Bank is introducing various sustainable finance products, including an environmental fund. As part of our programs to counteract climate change and achieve low carbon banking by curbing carbon emissions, we implemented the “DGB STOP CO₂ Plan” in 2008, in which all our employees participate. The Environmental Management Council’s activities are led by environment supporters in each department and branch, who focus on energy savings, environmental protection, and eco-friendly purchases. The council also introduced a rain recycling facility at our headquarters to emphasize the importance of water.

The Social Contributions Council promotes various environmentally friendly activities for a greener community. Its efforts go beyond Korea, as evidenced by the forest we created in Mongolia to prevent desertification. The Ethics and Corporate Culture Council launched a “Family Action to Save the Earth” campaign in concert with our employees’ families. The campaign aims to make our community cleaner and leave a greener environment to future generations.

Major Activities of Sustainability Working Group

Sustainable Finance Council	<ul style="list-style-type: none"> Sustainable finance products, such as DGB Deposits for a Greener Environment, DGB Loans for a Green Company, DGB Green Loans
Environmental Management Council	<ul style="list-style-type: none"> Environmental fund DGB STOP CO₂ Plan Additional photovoltaic power generator at Gyeongju branch Bio-diversity protection DGB Anti-Desertification Forest in Mongolia Environmental support activities
Social Contributions Council	<ul style="list-style-type: none"> Strategic planning for social contributions Volunteering by the bank's "Love Network" Donations of SRI fund sales gains for eye surgeries of the needy
Ethics and Corporate Culture Council	<ul style="list-style-type: none"> Expanding Family Day Corporate culture campaign, "Fun Fun DGB" Ethics Day creation Enhanced sustainability management training Employee satisfaction surveys SDT and EDD implementation



Additional photovoltaic power generator



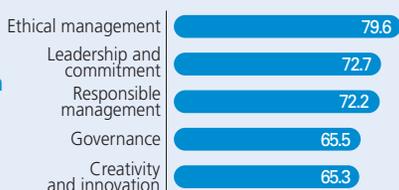
Volunteering by bank's "Love Network"

Stakeholder Survey Results

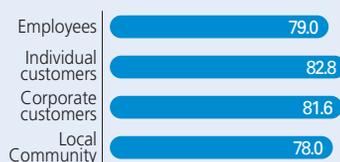
The graph below shows the results of an evaluation done by our stakeholders of DGB's sustainability management and the top five material issues for sustainability management they selected. Overall, our sustainability management practices are seen positively. However, the

local community has given us relatively low ratings, especially in terms of communications with stakeholders. This indicates the necessity for more activities to communicate our sustainability management to the local community and enhance its understanding.

Top five issues for sustainability management from the materiality assessment test



Q. Does Daegu Bank play its role in enhancing corporate social responsibilities for sustainability management?



Q. Is Daegu Bank implementing its sustainability management policy across the organization?



Q. Does Daegu Bank make efforts to communicate with stakeholders in order to enhance its sustainability management?



(Score averaged out between the highest and lowest on a scale of 100)



Dream with DGB Working Together for Hope

Daegu Bank takes its stakeholders seriously. We carry out a wide range of activities to facilitate communications with the local community, our shareholders, investors, customers, and employees.

After setting the bank's new management policy as "Working Together for Hope," our new CEO, Ha Chun-soo, declared that we will strongly pursue sharing prosperity with the local community, satisfying our customers, bringing value to shareholders, and communicating with our employees.

Sharing Prosperity with the Local Community

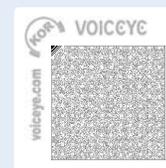
In line with its determination to be a company that fulfills its social responsibilities and grows with the local community, Daegu Bank has launched a variety of activities to serve the region. For example, the 2,632-member DGB Service Corps, launched in 2002, engages in a broad range of volunteer activities, with twenty-eight clubs located in Daegu, Gyeongsangbuk-do, and Seoul. In addition, DGB plays an active role in advancing the arts and culture and enhancing the quality of life of local residents. Because of our position as a regional bank, we can also offer financial products geared to local residents. These include a deposit product to spread the spirit of giving, an easy-to-use account for senior citizens, and a product aimed at increasing the birth rate in the region. We also offer specialized loans to help the unemployed and low-income earners.

Our CEO practiced the spirit of sharing by registering himself as an organ donor in line with the movement of organ donation stimulated by the deceased Korean cardinal Stephen Kim Sou-hwan. We also launched a cornea donation campaign, in which 1,200 employees and their families agreed to add their names to the cornea and organ donors register.

Satisfying Customers

Under the motto of "being your closest and most convenient bank," Daegu Bank provides its customers with comprehensive financial services and boasts the largest number of branches in the region. We serve 3.51 million people, or 65% of the region's population, are continuously





adding new branches and ATMs, and tailor all our services to truly fit our customers' needs.

Category	Product and Service
Branch network	<ul style="list-style-type: none"> • Largest branch network in the region-219 • Cyber Dokdo Branch (Hub), Cyber Gyeongju Love Branch, Cyber KHNP Branch • 2,317ATMs • 1.69 million phone banking and 1.26 million Internet banking customers
Products	<ul style="list-style-type: none"> • Customized products for the local community and its residents • Variety of products based on strategic alliances • Priority service, upgraded customer service
Services	<ul style="list-style-type: none"> • Enhanced sales infrastructure, such as BPR and SSP • Regional information and news Communications with local community

In line with our Customer Satisfaction (CS) vision of being a "Leading Service Company" and our CS slogan of "Love for Customers, Love for the Local Community, and Love for Daegu Bank," we strive to develop in tandem with our customers and the region in which we operate. To this end, we constantly monitor our services, carry out customer satisfaction surveys, and operate a variety of activities to improve our level of customer satisfaction. We also run a system for anticipating potential complaint areas, and offer free etiquette classes to local government agencies and companies. The classes involved about 20,000 people in 150 classes over the last three years. We also offer a phone translation service for non-Koreans, operate our branches on Sundays, and make it easy for foreign workers to send money back home. Our dedication to customer service has led to our winning the Customer Satisfaction Management Award (in the finance/banking category) for two years in a row from the Korea Economic Daily and Horwath Choongjung Consulting. In addition, Daegu Bank received a first grade, the highest possible rating, in the annual evaluation of customer complaints handling conducted by the Financial Supervisory Service.

FSS Evaluation of Bank's Complaint Handling (2008)

Grade	Bank
1 st Grade	Daegubank, IBK, Busanbank
2 nd Grade	Gwangjubank, NH, Shinhanbank, Hanabank, Citibank
3 rd Grade	KB, NFFC, Wooribank, SC Firstbank
4 th Grade	Kyongnambank
5 th Grade	HSBC

In addition, we focus on addressing the needs of small and medium-sized enterprises, or SMEs. For example, we have increased the number of our CEO's visits to SMEs, and often make a decisions on loan disbursement during his visits.

Blessed with a solid regional customer base and an unusually strong level of customer loyalty, a part of our mission is to reach out to the less privileged in the region and provide financial support for the area's growth. We will spare no effort to fulfill these goals.

Bringing Value to Shareholders

Daegu Bank posted a record-high net profit of KRW 261.2 billion for fiscal year 2008. As of the end of 2008, shareholders' equity stood at KRW 1,598.7 billion, an increase by 12.3% from a year earlier. The total number of outstanding shares is 132.125 million. Non-Korean ownership was 60.4%, while Korean institutional investors held 17.9% and individuals 21.7%.

Since 2002, we have been holding IR events both at home and abroad to better communicate our corporate value and solid financial status. We held 287 IR meetings in 2008, including two IR conferences, seventy-eight meetings with overseas investors, and sixteen conference calls. We take pride in being one of the KOSPI-listed companies that undertake the highest number of IR activities every year.

Thanks to these vigorous IR efforts, Daegu Bank obtained ratings of AA*/Stable from National Information & Credit Evaluations and Korea Ratings. In addition, Moody's, the global credit rating agency, honored us with a C-rating for financial strength and an A2 rating for long-term deposits. These are the highest levels we have ever received, and are the same as Korea's sovereign rating.

Communicating with Employees

In keeping with our CEO's belief that open and honest communications with employees is what ultimately drives higher shareholder value and customer satisfaction, we focus on helping our employees strike a healthy balance between their work and their private lives.

As part of our commitment to more open management, our CEO sends messages through our internal broadcasting facilities every month, and uses the employee letterbox on our website to better share his business philosophy. These efforts towards enhanced two-way communications help lower barriers between the CEO and our employees.

The CEO also held a bank-wide workshop at a downtown restaurant, in contrast to past meetings that were held at the bank. This flowed from his desire to bring the bank closer to the local community and his philosophy of communications and caring. Everyone enjoyed this time together, with active discussions taking place on a wide range of issues in a casual and comfortable milieu.



SUSTAINABLE FINANCE

At Daegu Bank, we strive to grow and generate value both for ourselves and for the communities in which we operate. As the provider of finance to the regional economy, we support local SMEs and are investing in a better social welfare system and a healthier environment. We make every effort for sustainable finance to ensure a better future both for us and the local community.





Sustainable Finance

Disclosure on Management Approach

Vision

Daegu Bank is committed to providing comprehensive financial services aimed at invigorating the local economy and in the region. We also develop products that will lead to sustainable development.

Strategic Directions

- **Strengthening risk control:** Introduce environmental assessments in loan decisions
- **Innovating sustainable financial products:** Add to the list of sustainable financial products, such as the Socially Responsible Investments (SRI) fund.
- **Increasing eco-friendly financial transactions and investments:** Introduce financial products centering on environmental protection, participate in environmental projects financing

Material Issues

- Provide a variety of custom-tailored products to energize local businesses
- Focus on eco-friendly products to fulfill initiative on tackling climate change
- Consider environmental risks to realize sustainable finance

Important Achievements

One of Daegu Bank's primary roles is to be the best financial partner in the region. We do this, in part, by enhancing our loan supports for local SMEs and small business owners. At the same time, we focus on developing a mature investment culture and socially responsible companies by featuring products that help the needy and protect the environment.

Category	2007	2008	2009 (planned)
Deposits M/S in Daegu/Gyeongbuk	34.3%	33.7% (↓ 0.6%p)	34.0% (↑ 0.3%p)
Loans M/S in Daegu/Gyeongbuk	25.9%	26.0% (↑ 0.1%p)	26.5% (↑ 0.5%p)
SME loans amounts	KRW 9,827.7 billion	KRW 10,568. 2 billion (↑ 7.5%)	KRW 11,096.6 billion (↑ 5%)
SRI product sales amounts	KRW 28,997 million	KRW 26,360 million (↓ 9.1%)	KRW 27,678 million (↑ 5%)



Sustainable Finance

Financial Support for SMEs

Small and medium-sized enterprises are the pillars of any regional economy. As a result, we place a high priority on helping them in order to invigorate the local economy and industries.

Custom-Tailored Support & SME Difficulty Consulting Team

At Daegu Bank, loans to local SMEs account for over 66% of our loans in Won. As part of our effort to support SMEs, we offer them special loans, business consultations, and management information. We also help financially weak SMEs to get loans. In 2008, we supported SMEs through B2B Purchase Loans, the SME Difficulty Addressing Team, an innovative SME identification program, and loans supported by local government agencies. As a result, our loans to SMEs increased to KRW 8,630.9 billion, a 13.9% increase from a year earlier.

In addition, our CEO visits SMEs to listen to their difficulties directly and seek solutions on many fronts. We also run the SME Difficulty Consulting Team, consisting of SME experts, to address SME issues resulting from loans, F/X transactions, and derivatives. The team also offers consultations on more general matters, such as credit management, government policy-based loans, letters of credit guarantee, work-out programs, and company management, and also identifies areas needing improvement in terms of financial transactions.

We also introduced "DGB i-branch," an online virtual branch set up as an individual company system, to support the financial management of companies in the region. The i-branch system also includes "DGB Cash Plus" and "NEO Bank," both of which help SMEs lacking a proper financial management system to enjoy a more convenient banking experience.



Financial consulting for SMEs



Visit to leading SMEs in the region

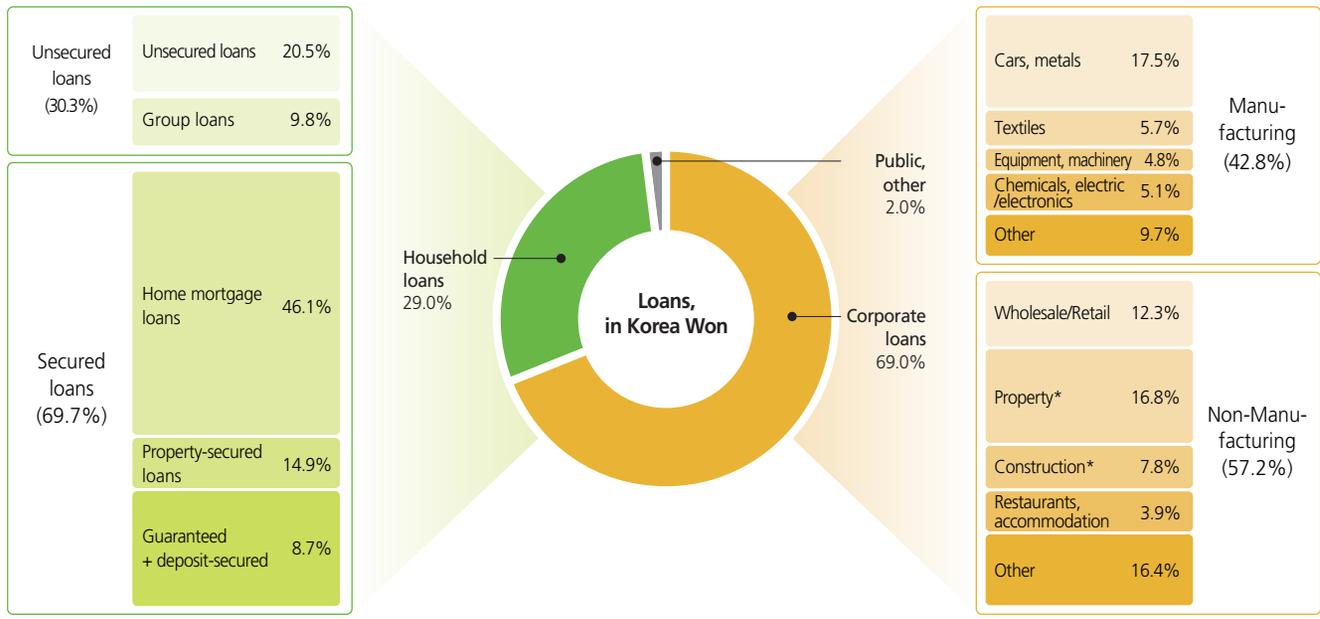
B2B Purchase Loan with Regional Credit Guarantee Foundations

Rising interest rates, higher oil prices, and foreign exchange fluctuations all pose a challenge to regional SMEs in the region. We help them survive such difficult times in a number of ways. For example, our B2B Purchase Loan, provided in cooperation with the Korea Federation of Credit Guarantee Foundations, helps SMEs to raise funds for raw materials more easily. In tandem with programs offered by local credit guarantee foundations, Daegu Bank, and the B2B Market Place, B2B Purchase Loans enable companies to apply for and receive letters of guarantee, sign contracts, and make payments online. In addition to the Korea Credit Guarantee Fund and the Korea Technology Guarantee Fund, we also signed an agreement with the KFCGF, a first for a domestic regional bank. As a result, our B2B Purchase Loan is now connected with all major guarantee foundations.



Forum with outstanding SME leaders

Loan, in Korean Won (2008)



Liquidity Support Agreement with Korea Credit Guarantee Fund

As part of our effort to ease the liquidity crunch facing local SMEs, Daegu Bank signed an agreement with the Korea Credit Guarantee Fund on April 7, 2009, and the Korea Technology Credit Guarantee Fund on April 24, 2009, to provide guarantee to companies viewed as potential new growth engines.

Credit guarantee worth sixty billion Won (including our own contribution) has been offered to start-ups, exporters, "green" companies, and companies making investments in new facilities.



Liquidity Support Agreement with Korea Credit Guarantee Fund

Agreement on Financial Support for SMEs

Daegu Bank signed an agreement with Daegu City and the Korea Credit Guarantee Fund to facilitate financial support for SMEs. Its aims are to promote the balanced development of the local economy and provide one-stop financial services to enhance the overall competitiveness of SMEs. Under the agreement, eligible SMEs are given priority in the credit allocation process and can access lower interest rates, credit grade adjustments, and consulting services.

Eligible SMEs

Category	Eligible companies
Daegu Bank	Promising SMEs
Daegu City	"Star Companies" and other promising SMEs
Korea Credit Guarantee Fund	Regionally specialized businesses
Other	Manufacturing-based SMEs moving their business sites from the Seoul metropolitan area to Daegu

Liquidity Support for Small Business Owners

The continued economic downturn is affecting the self-employed and small business owners in Daegu and the Gyeongsangbuk-do region. Our Special Loans for the Self-Employed are designed to ease their liquidity problems. In an effort to provide a more convenient banking experience for small business owners, we provide consultations at teller windows and conduct business site inspections on behalf of credit guaranteeing institutions.

Our "DGB Business Partner Loan" is aimed at providing financial support to small business owners. In an effort to provide more practical support, we are expanding volume of unsecured loans to small business owners, who often lack proper collateral.

As further proof of our commitment to helping struggling small business owners and turning the local economy around, we have contributed KRW 3 billion to the Daegu Credit Guarantee Foundation, KRW 1 billion to the Gyeongbuk Credit Guarantee Foundation, and KRW 11.5 billion to the Hope and Economy Fund of Daegu City.



Sustainable Finance

One-Stop, Total Financial Services

Daegu Bank is committed to growing into a comprehensive financial services provider offering customized, one-stop financial services. Our goal is to be our customers' most convenient bank and most dependable partner.

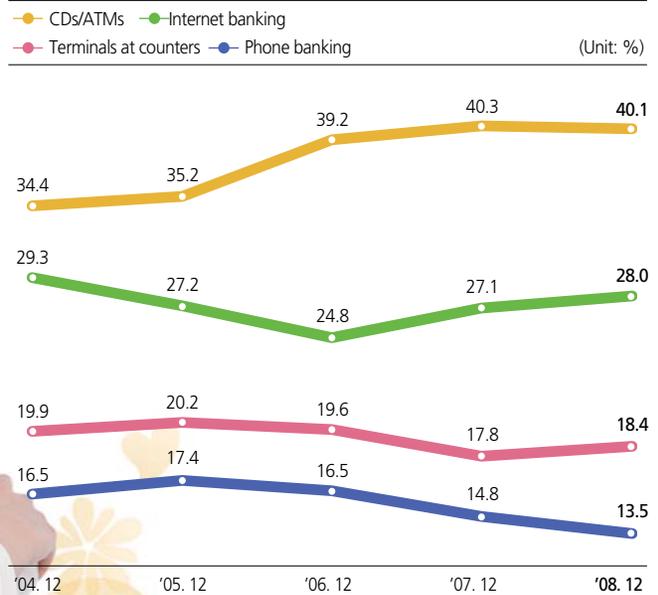
Delivery Channels

Daegu Bank services 3.51 million clients (about 65% of the total Daegu and Gyeongbuk-do population) through 219 branches and such other channels as online banking, phone banking, and mobile banking. We offer a full range of financial services.

We introduced Internet banking in 2000, and it is now being used by over 1.26 million customers. Our website was recently overhauled to improve user friendliness through the Single Sign On (SSO) service, and our e-banking services are programmed to distinguish individuals from corporate customers.

We also offer a school banking service to promote education in the region and support schools' IT operations. It allows parents to automatically transfer tuition and lunch fees from their accounts to a school's account. So far, approximately 250 primary, middle, and high schools have adopted the system, and we are now issuing ID cards to high school students and those in a higher education institution.

Trends in financial channel usage



DGB Mobile Bank

In July 2008, as part of our program to make our services available anytime and anywhere, we opened a DGB mobile bank. Converted from a 16-ton truck, it can be moved and put into operation almost immediately, and is equipped with such high-tech equipment as a satellite transceiver, generator, and mega LED display, as well as 3 online terminals and 2 ATMs. Five staffs work in it, providing a full range of banking services.

While the mobile bank was being used on weekends at beaches area during the summer holiday season, we conducted the Dokdo Island Love Campaign to promote our Dokdo Love Deposit product. We also issued Dokdo Card to help make local residents and tourists more interested in Dokdo.



DGB Mobile Bank

Online Mutual Fund Mall

In order to better meet the diverse needs of our customers and gain a competitive edge in the burgeoning online mutual fund market, we have opened a “fund mall” on our website. Leveraging our alliance with Zeroin, a fund evaluation specialist, this facility can provide a wide range of fund analyses and evaluation and perform search and comparison functions, all with a focus on customer convenience. At the main screen, customers can easily search for products, compare the ones they have selected, and enquire about such matters as base prices through simulations. The facility also allows customers to access domestic and global stock market information and check returns on their holdings. In the future, we plan to add a fund clinic function to facilitate customers’ checking of their asset and return on investment.



Online Mutual Fund Mall

Asset Management Clinic and Consulting Fair

In order to lessen customers’ anxieties regarding our array of asset management tools, we hosted the first-ever “DGB Investment Fair” at our headquarters. This included seminars on topics ranging from the Korean and global stock markets, the real estate market, and inheritance and gift strategies to asset management. We also offered advice on financial planning, mutual funds, and alternative investments, such as real estate, golf memberships, and works of art, as well as information on working holiday program.



Asset Management Clinic

Tuition Fees Payment via Cyber Accounts & Access to Consolidated Account Information

We also offer a service that allows customers to use a cyber account to pay their tuition fees through any channels, regardless of their primary bank. Payments can be confirmed immediately via the Internet, providing convenience to students and their parents, while “real-time” connection with the schools results in simplified administrative processes. This service is currently being offered to eighteen universities in Daegu and Gyeongsangbuk-do.

In order to facilitate Internet banking customers’ access to information on their accounts and transactions, we are providing an account information enquiry service through the integrated account service of an Internet portal called “Naver.” This service provides customers with a consolidated view of their accounts at various financial institutions, such as banks, credit card companies, and securities companies.



Access to Consolidated Account Information



Sustainable Finance

Relationship Banking

Daegu Bank hosts annual seminars with SME leaders and new honorary branch managers, and builds strong ties with the local business community through the CEO Forum and its various business information and consulting services.

Financial Transaction Services for Public Institutions

We provide financial transaction services to thirty-five public institutions in the region. In 2008, we became the only bank to handle general accounting affairs for Gyeongsan City. Besides adding to the convenience of local residents, this service provides a much-needed boost to the local economy by reinvesting public funds in local SMEs with high growth potential or in value-added regional industries.

Management Consulting

Recognizing that competitive local businesses are the key to sustainable development within the local community, we offer a wide range of consulting services to encourage corporate innovation and enhance business performance and efficiencies. Drawing upon data accumulated over the past forty years, we provide advice on various topics, such as business strategies, human resources, finances and accounting, sales, production management, and training. These services are aimed at optimal solutions that help local SMEs produce strong results and boost their efficiency at an affordable cost.

This service was offered to six companies in 2005, thirty-three in 2006, fifty-five in 2007, and sixty in 2008. As a result, we were ranked number one in terms of client satisfaction for three straight years in the area of consulting for knowledge-based organization creation. We have also been conducting management consulting projects for Daegu City since 2005, and are involved in a variety of efforts to support local businesses. These include selecting promising companies in Daegu and providing them with management assistance.

Support for Next-Generation SME Leaders

In June 2008, Daegu Bank signed an agreement regarding joint support for next-generation SME leaders with the Small Business Corporation (SBC). Under the agreement, we will work with the SBC to provide support for future leaders of SMEs in Daegu and Gyeongsangbuk-do region. This will include creating a network of next-generation SME leaders, organizing programs to increase their abilities, and helping to ensure a smooth succession of businesses and efficient management activities of the leaders down the road.

Revitalizing Traditional Markets

In 2007, we started offering “traditional market gift coupons,” which can be used at forty traditional markets in the Daegu area. The coupons are available in KRW 5,000 and KRW 10,000 denominations at all Daegu Bank branches. To help revive traditional markets, we do not charge fees on the sale or exchange of these coupons. Coupon sales reached KRW 2.8 billion in 2008.



Traditional market coupon
- KRW 5,000 denomination



Traditional market coupon
- KRW 10,000 denomination

Preferential Financial Treatment for On-Time Taxpayers

Many small and medium-sized companies in the region are struggling due to the recent financial crisis. To help them, we will leverage our “Fast Track” program to extend support for construction companies and others suffering from temporary liquidity shortfalls. Pre-Workout System (also known as advanced debt restructuring) will be also utilized to help turn SMEs around.

We also signed an agreement with Daegu City and the Daegu Credit Guarantee Foundation to give low-interest loans to SMEs lacking proper. In addition, we reward on-time taxpayers with preferential interest rates and give them priority in loan disbursements, as per an agreement with the Daegu Tax Office.

Sustainable Finance

Socially Responsible Financial Activities

Daegu Bank promotes an investment culture that prioritizes ethics and social responsibility, and engages in the selling of public service-oriented products to help our neighbors in need.

Offering Foreign Currency Remittance Service for Foreign Workers on Sundays

To make it more convenient for foreign workers who cannot make it to a bank on weekdays, Daegu Bank turned the second floor of its Gyodong Market branch into a facility for foreign workers, and provides them with an overseas remittance and foreign currency exchange service every Sunday from 10 am to 4 pm. The branch has become a place of gathering and rest for foreign workers, which is believed to help to ease the labor shortages experienced by local SMEs and enhance their competitiveness. We intend to develop other services for foreign workers, such as salary transfer accounts and automated remittances.

Customized Public Service Products

Daegu Bank offers public service products to support the local community and help shape a greener world. For example, we have introduced the "Hanmaeum Savings Account for Serving Community" to encourage donations for local community development.

The product benefits customers who participate in blood-drive or financial donation. The former offers a prime rate and other benefits



Hope Giving Savings product to assist the homeless in supporting themselves

when people turn in their blood donation certificates to the bank, which we in turn deliver to the local community. The donation savings feature gives account holders an easy way to donate to charity groups and gain tax deductions. It also promotes sharing by offering such incentives as exemptions from bank transfer fees.

Customized Public Service Products

Product Name	Description	Offering period
Senior Citizens' Transportation Savings Account	• Savings to maximize banking convenience for elderly customers who receive transportation subsidies and want to conduct small-sum transactions	July 5, 2004
DGB Dokdo Card	• A credit card raises funds to sponsor various Dokdo projects	Mar. 2, 2005
Daegu City Special Guarantee Loan for Hope	• A special loan to support small businesses in Daegu	Sep. 28, 2006
Love Gyeongbuk Deposit	• A special deposit designed to contribute to a fund for supporting growth and public works of Gyeongsangbuk-do province	Jan. 17, 2008
Hope Giving Deposit/Savings Accounts	• A product to assists the homeless in supporting themselves	Feb. 2, 2009
DGB Love Sharing Household Loan	• A loan to lower financial costs and provide low-interest household loans to support the jobless and public assistance recipients	Apr. 1, 2009
DGB Seed for Hope Loan	• Low-interest-rate loan for ordinary citizens to give them added financial stability. It offers people with low credit ratings a chance to get a bank loan so that they will not be victimized by loan sharks	Apr. 21, 2009

Special Loan to Celebrate Winning the Manifesto Promise Award

To celebrate winning the first-ever "Manifesto Promise Award for Business" from the Korea Manifesto Movement, we launched a special, low-interest-rate SME loan to help spur the growth of the local economy and support local SMEs by addressing their financing needs. To this end, we have also streamlined our lending procedures. For example, a branch manager's authority to approve interest rate discounts has been increased, while credit examinations at the bank's headquarters and requirements for delegated authority have been eased. delegated authority have been eased.



Love Sharing Deposit Product & Household Loan

Coinciding with the inauguration of our new CEO in March 2009, we launched a special loan called “DGB Hope Sharing,” which reflects our commitment to growing with local businesses and boosting the regional economy. We also transformed our SME facility loans into working capital loans for the year 2009 to relieve SME debt burdens, and revised our grace period requirement so that they can apply for loan maturity extension of up to one year. We also started selling our “Love Sharing Deposits” product in March as part of our efforts towards practicing the management of sharing with the local community. It offers prime interest rates to organ donation applicants, blood donors, and the underprivileged.

Loan Guidance Service Customized to Ordinary Citizens

Beginning on March 20, 2009, Daegu Bank began working to prevent ordinary citizens from falling victim to the extremely high interest rates demanded by loan sharks and help them obtain loans at favorable terms. In addition, we are participating in the “Loan Guidance Service Customized to Ordinary Citizens” offered by Korea EG Loan under the aegis of the Financial Supervisory Service to facilitate access to low-interest loans based on credit worthiness. This offers low-interest, unsecured loans to local residents, thereby lowering their cost of borrowing. In addition, we offer loans to help people with poor credit ratings obtain low-interest loans.

Credit Recovery of the Financially Distressed

To help people in financial distress get back on their feet again, we launched the “DGB Hope Sharing Credit Recovery Support” program in April 2009. The program forgives delinquent loan balances to a maximum of 50% of the principal and 80% of the interest—the highest level of debt relief in the Korean financial sector. Once the debt is fully repaid, the borrower’s ability to access normal financing is renewed by the lifting of credit bureau constraints and various restrictions on payments to him or her.

Sustainable Finance

Eco-Friendly Financial Activities

Daegu Bank is leading the way in the area of eco-friendly financial activities by supporting “green” industries, combating climate change.

Participation in CDP (Carbon Disclosure Project)

Daegu Bank is a participant in the Korean financial institutions’ Carbon Disclosure Project (CDP), which recognizes our responsibilities regarding climate change and preserving the environment. Introduced in 2000, the CDP is an initiative wherein global financial institutions and institutional investors ask companies to provide annual disclosure of their greenhouse gas emissions. Korean companies began responding in 2007 with CDP 7. Daegu Bank has participated in CDP 5, CDP 6, and CDP 2009, acting as a bridge to assist Korean companies in presenting their responses to the international community.

Financial Products for the Prevention of Air Pollution

As part of its efforts to focus the attention of Daegu’s citizens on environmental issues, Daegu Bank launched the “DGB Environmental Love Deposit” in August 2008. It features a preferential interest rate based on improvements in air quality as measured through micro-dust levels in the city. By paying an interest rate that is directly dependent on micro-dust levels, customers of this product become motivated to take part in environmental improvement efforts. When we sell this product, we remind customers that vehicle gas emissions account for more than 70% of a city’s micro-dust levels, and that they can contribute to reducing them by driving cars less often and switching to alternative means of transportation, such as the subway, buses, bicycles, or walking. We also encourage them to cut down on the use of air conditioners and heaters and to separate their garbage. The product offers an extra 0.3%p in interest over the fixed rate if the average level of micro-dust in Daegu falls below forty-four micrograms for the six months starting from July 2008. Micro-dust levels in Daegu over that period were forty-four micrograms in 2006 and forty-seven in 2007.

Agreement to Form Public Benefit Fund to Celebrate the Launch of “Green Growth” Fund 🌱

In May 2009, Daegu Bank began offering two “green growth” funds, the “Mirae Asset Green Growth Equity Investment Trust No. 1,” and the “Midas Green SRI (Sustainable and Responsible Investment) Equity Investment Trust.” Both products invest in “green” industries, seeing them as both future growth engines and a means to protect the environment. To celebrate the launch of these funds, we agreed to contribute 10% of our annual sales commissions to public works-including environmental preservation projects.

Green Financial Product to Support Eco-Friendly and “Green Growth” Businesses

Starting in May 2009, we began selling the “DGB Green Loan,” which provides a prime lending rate and free foreign exchange transactions to eco-friendly and “green growth” companies. The product was launched in concert with the central government’s “green growth” policy, part of its “new growth” vision that includes exploring new business possibilities and giving financial support to SMEs that take advantage of “green” technologies. The loans are available to companies in any industry. Eligible applicants include “green product” manufacturers, registered new and renewable energy companies, new

and renewable energy providers, general or designated recycling companies with official certifications or registrations, companies that have signed the “green product” purchasing agreement, LED companies, and businesses that have acquired the ISO14001 series certification or received a score of 60 or better on our “green company” evaluation.

Green Financial Product

Product Name	Description
KB Global Warming Thematic Equity Fund	<ul style="list-style-type: none"> Environmental thematic fund (Sep. 11, 2007)
DGB Eco-Friendly Corporate Loan	<ul style="list-style-type: none"> Expands branch manager’s authority for interest rate discounts and eases credit evaluation criteria for eco-friendly companies receiving scores of 60 or above on our “green company” evaluation (May 6, 2008)
DGB Environmental Love Deposit	<ul style="list-style-type: none"> Provides a prime rate bonus (to a maximum of 0.3%) based on improvements in Daegu’s micro-dust levels (Aug. 4, 2008)
Mirae Asset Green Growth Equity Investment Trust No. 1	<ul style="list-style-type: none"> Environmental thematic fund (May 7, 2009)
Midas Green SRI Equity Investment Trust	<ul style="list-style-type: none"> Environmental thematic fund (May 7, 2009)
DGB Green Loan	<ul style="list-style-type: none"> Provides prime lending rate and exemption to foreign exchange fees to eco-friendly companies and “green growth” companies (May 11, 2009)

Stakeholder Survey Results

The followings show the top five material issues from the viewpoints of individual and corporate customers. Both stakeholder groups regarded efforts to stimulate the local economy as the biggest issue. The survey also showed positive response to Daegu Bank’s efforts to spur the local economy. In addition, individual customers viewed consideration to

customer satisfaction enhancement and incorporation of customer opinion into management importantly, while corporate customers stressed the significance of communications with customers and environmentally friendly financial activities.

Top five issues for sustainable finance from the materiality assessment test



(Score averaged out between the highest and lowest on a scale of 100)



GREEN INITIATIVE

Climate change is not just a challenge for a few countries or corporations; it is a hugely important issue in which the survival of humanity is at stake. In order to cope with this threat, Daegu Bank is making maximum efforts for “green” growth and low carbon emissions. These range from employees’ day-to-day practices and the “STOP CO₂” campaign to the creation of a Forest in Mongolia. At “Dream Green Bank,” we are committed to investment for fighting against climate change and achievement of green growth.





Green Initiative

Disclosure on Management Approach

Vision

We are committed to being a leader in the area of sustainable management, continually engaging in environmentally friendly business activities and actively responding to global climate change. Another of our goals is to be a Blue Ocean pioneer in the environmental area, expanding our profit base and raising our profile world-wide as a leading “green” bank.

Strategic Directions

- **Providing leadership on the environment:** Create an eco-friendly organization, Increase efforts to combat climate change, Issue a “carbon neutral” declaration
- **Strengthening environmental risk management:** Introduce environmental impact assessment in loan decision, Develop environmental management guidelines, Adopt environmental accounting system
- **Developing eco-friendly banking activities:** Establish environmental management system Strengthen environmental banking product development Introduce environmental financial services
- **Increasing eco-friendly investment activities:** Sell “green” mutual funds Participate in environmental project financing Take part in local municipalities’ “green” projects

Material Issues

- Open up the environmental Blue Ocean to improve profit base, strengthening initiatives to cope with climate change
- Conduct carbon emissions-compensating activities and promote eco-friendly product procurement
- Intensify energy saving and bio-diversity protection activities

Important Achievements

Daegu Bank is playing an active role in efforts to deal with climate change through carbon emissions reductions and by pursuing various projects with its stakeholders. Through these efforts, we are establishing a model in environmental management within the local community and Korea’s financial industry.

Classification	2007	2008	2009 (planned)
Carbon emissions reductions	34.3%	33.7% (↓0.6%p)	34.0% (↑0.3%p)
• Scope 1 (CO ₂ ton)	328.40 (HQ)	2,139.42 (inc.branches)	2,100 (inc. branches)
• Scope 2	3,336 (HQ)	13,268 (inc. branches)	13,000 (inc.branches)
• Scope 3	353.03 (HQ)	286.12 (inc. branches)	280.0 (inc. branches)
Energy consumption savings	25.9%	26.0% (↑0.1%)	26.5% (↑0.5%)
Waste generation (ton)	56.0	50.9 (↓9.1%)	48.4 (↓5%)
Renewable energy use	–	7,050 kW (5 months)	25,908 kW (↑256%)



Green Initiative

Donating Wells of Life to the Mongolian Green Land

In today's business world, sustainability management is becoming increasingly important. It means that companies must focus on their social, ethical, and environmental responsibilities as well as on sales and profits, and pursue harmony between the two areas. Daegu Bank practices sustainability management both at home and abroad, including the DGB Forest for combating desertification in Mongolia.

Bringing Life Back to a Desert

Daegu Bank's relationship with Mongolia dates back to August 2007. At that time, the residents of Mongonmorit, a town in Mongolia, were suffering from a lack of water due to desertification. We helped them build wells, and this was a small but important first step in our journey to create a forest in Mongolia to combat desertification.

Creating a Forest in Mongolia to Combat Desertification

Daegu Bank has been working to create the DGB Anti-Desertification Forest in Mongonmorit since April, 2009. In June of this year, when thirty employees visited Mongolia to plant trees in the forest, we have confirmed our belief that the forest creation would benefit local residents by providing a more stable livelihood.

Daegu Bank is involved with this project for the following reasons. First, we want sustainability management to take hold on a global level. Second, we are committed to raising our profile as a world-class regional bank that leads in the fight against climate change. To facilitate the project, our employees went to Mongolia to sign business agreements with the Northeastern Asian Forest Forum and the Mongolia Forest Forum.

Succeeded in Creating a Forest and Jobs

Daegu Bank has planted 60,000 larches on about 204,516-ft² of land in Mongolia. The Mongolian Forest Forum, our counterpart there, then takes care of them so that they do not suffer from drought. We support the entire cost of the project. Our actions are based on the



understanding that a proper means of supporting the lives of local residents should be in place before any continuing protection of the forest can take place.

We have also created a 161,460-ft² field to cultivate young trees, including 500,000 larches and sea buckthorns. It serves as a starting point for growing a forest, as well as employing people and developing the local economy.

The “Mongolia Project” for a Greener Future

Projects centering on the needs of local residents bring us closer to the local community in Mongolia, and we are expanding our areas of support to include cultural exchanges and scholarships. Beginning in the second half of 2009, we will give scholarships to students from Mongolia studying in universities in Daegu City and Gyeongsangbuk-do Province.





Green Initiative

DGB STOP CO₂ Plan

In line with the global effort to fight against climate change and achieve green growth, Daegu Bank works hard to save energy and reduce carbon emissions.

DGB STP CO₂ Plan Declaration Ceremony

In a “first” for a Korean financial institution, Daegu Bank held a ceremony in March 2008 declaring its commitment to curbing CO₂ emissions by reducing energy usage and promoting earth-positive activities. It also adopted the “DGB STOP CO₂ Plan Code of Conduct.” To stress our realization that the wasteful use of energy and resources are the primary source of global warming and the depletion of the world’s resources, we have established a comprehensive initiative called the “DGB STOP CO₂ Plan” to reduce the volume of regional greenhouse gas emissions.

The plan converts energy consumption level at our headquarters and branches (such as electricity, water, heating, and automobile gas) into CO₂ emissions, and contains specific methods to reduce them. It also includes ways to reduce paper waste through the use of electronic documents and double-siding paper, curb the incidence of disposable items and food waste, and increase the use of recycled and other environmentally friendly products.

Outcomes of tasks to curb carbon emissions

Classification	Major tasks	Outcomes
HQ	<ul style="list-style-type: none"> Establish reduction goals by energy source and manage by unit (CO₂ emissions management) Encourage purchase of environmentally friendly goods Promote “green” thinking and pursue various energy-reducing activities 	<ul style="list-style-type: none"> Replaced LED lighting Added photovoltaic power generator at Gyeongjoo branch Rooftop greening (in progress) HQ energy consumption management Installed rainwater tank at HQ
Branches	<ul style="list-style-type: none"> Manage by energy source Increase environmental protection activities 	<ul style="list-style-type: none"> Gathered staff ideas to cut greenhouse gas emissions Managed energy consumption by HQ and branches
Employees (Families)	<ul style="list-style-type: none"> Conduct energy savings and recycling activities Participate in environmental protection activities, use public transportation and bicycles Share best practices of energy reduction 	<ul style="list-style-type: none"> Staff CO₂ reduction campaign Enforced five-day rotation system for vehicle use

Daegu Bank is committed to minimizing greenhouse gas emissions and preserving our environment. It will achieve these goals by such means as planting trees and participating in campaigns to raise funds to offset its CO₂ emissions.

Climbing the Stairs of Love

Daegu Bank’s “Climbing the Stairs of Love” event on Apr. 3, 2008 serves three purposes: reinforcing the bank’s image as an environmentally friendly company, promoting the health of employees by encouraging them to use stairs, and helping the less fortunate by donating funds every time an employee does so. All funds raised during the event were presented to an environmental or charity group.

Collecting Staff Ideas on Energy Conservation and Carbon Emissions Reductions

To enhance our employees’ environmental awareness and encourage them to participate in the bank’s Corporate Social Responsibility (CSR) efforts, we gathered staffs ideas on energy conservation and carbon emission reduction on Dec. 10, 2008. They were asked to submit ideas in three areas: a slogan to reflect the bank’s vision of itself as an environmental business; employee practices to conserve energy and curb carbon emissions; and ways to promote the bank’s image and develop strategic alliance with the local community in the environmental area.

Increasing Initiatives to Deal with Global Warming

Daegu Bank outlined its best practices in the area of sustainable management at the “Sustainable Management Global Conference” sponsored by UNEP FI, the UN Global Compact, and UN PRI in Seoul in June 2008. We also shared our sustainable management practices at the “World Green Energy Forum” held by the Gyeongsangbuk-do and Gyeongju City local governments in Gyeongju in October 2008. To encourage action by the local community, we proposed that local municipalities should also take on actions to achieve green growth with low carbon emissions. We also provide regular education sessions to local government officials to raise their environmental awareness.

Campaign to Curb Employees' CO₂ Emissions

We held an "Everyday Habit to Save the Earth - Our Family, Reducing CO₂ Emissions" campaign. The goal was to encourage the families of our employees and local residents to conserve energy and protect nature, creating a clean and pleasant environment and preserving it for succeeding generations.

In the promotion leaflet for the campaign, we talked about the causes and impacts of global warming and domestic and international response to it. The leaflet also featured educational information, including good habits to save the earth.

Energy and Resource Management

In addition to participating in energy savings campaigns, Daegu Bank has set reduction targets for each of its energy sources and resources, such as electricity, energy, water, and wastes, in order to reduce CO₂ emissions.

Electricity is the primary source of energy at Daegu Bank. Although commercial electricity is our main electrical source, we also use industrial electricity in emergency situations. Our calculation of electrical usage centered on our headquarters in 2007. In 2008, however, we also managed electrical usage at our branches.

We also use kerosene for heating and fuels for vehicles. Oil boilers had been used for heating, kerosene is replaced with natural gas in November 2007 given its higher energy efficiency and lower emission of green house gases.

We have been replacing old equipment with energy-saving devices since 2006. This produces a pleasant working environment and reduces air and noise pollution. Since then, we have replaced seven old pumps with high-efficiency cooling circulation ones, resulting in savings of approximately KRW 10.4 million in 2008 alone.

We also want to reduce our electricity usage by 64,000kw/h. We will do this by using fluorescent light on the eleventh floor of the headquarters building, installing reflective lamp shades, and dividing up light switches. In addition, we are using recyclable printer ribbons and toners. When such movable and work-related properties are included in our calculation, we achieved savings of KRW 33.4 million in 2008.

Effect of energy-saving activities at headquarters

(Unit: KRW million)

Major activities	Savings effect	
	2007	2008
Adjustment of inside temperature and facilities improvement	17	20.63
Electricity-saving campaign and use of high-efficiency equipment	16.1	20.3
Total	33.1	40.93

To curb energy usage over the long term, we replaced oil boilers with gas ones and combined cooling/heating systems. This resulted in KRW 110 million in annual savings at headquarters alone.

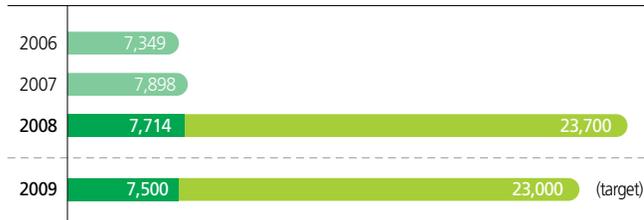
Effect of using high-efficiency pumps

(Unit: kWh)

	Existing pumps	New pumps	Savings effect
Electricity usage	142.5	89.5	53.0

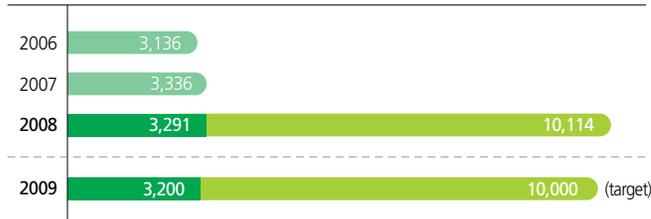
Electricity use

 HQ  Branches (Unit: MWh)



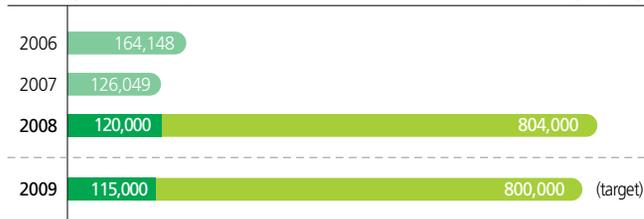
Indirect CO₂ emissions through electricity usage

 HQ  Branches (Unit: CO₂ ton)



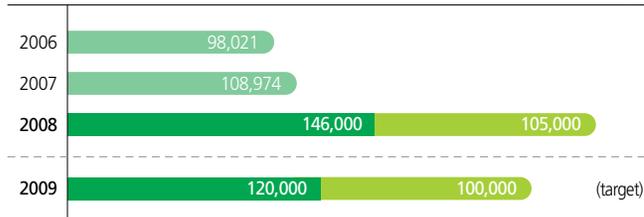
Heating energy consumption (kerosene)

 HQ  Branches (Unit: ℓ)



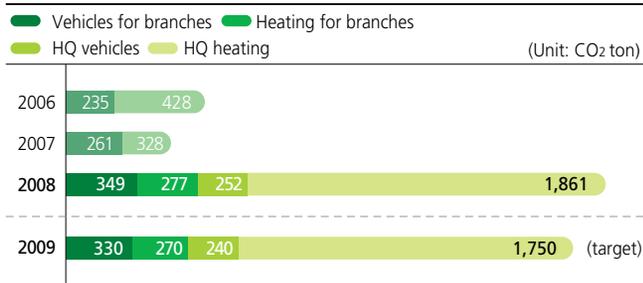
Vehicle fuel (gasoline) consumption

 HQ  Branches (Unit: ℓ)

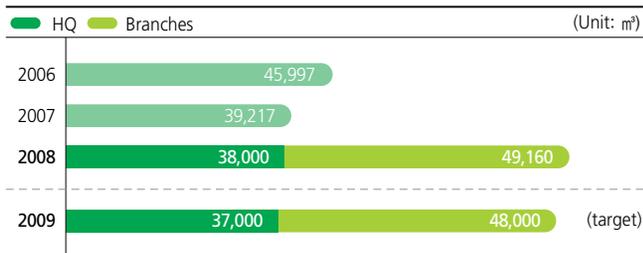




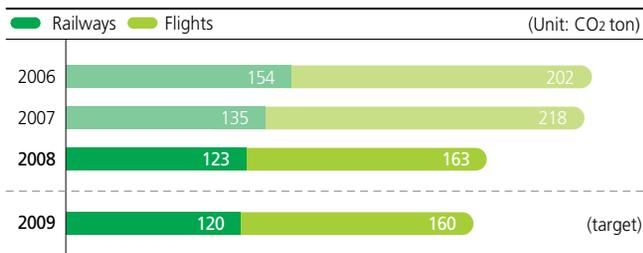
CO₂ emissions from total energy consumption



Water consumption



Indirect CO₂ emissions from business trips



Waste and Increased Use of Recyclable Goods

Waste generated at our offices includes general waste, paper waste, and office equipment. Fifty-six tons of waste were generated in 2008, an increase of 12% from fifty tons in 2007. Most of this increase resulted from remodeling work at the bank's headquarters.

Waste documents and equipment are collected on a regular basis. Goods that are not being used are sent to branches where they are needed, helping us to save resource and lessen their environmental burden.

We are also increasing our use of recyclable office supplies, such as printer ribbons and laser printer toners. These efforts have saved us roughly KRW 54 million annually. We also discourage the use of disposable cups, except when they must be used for guests.

Although paper is a crucial resource in our operations, we are reducing its use through the adoption of electronic documents (e.g., the OASIS system). We also encourage the reuse of paper, and provide separate boxes for waste paper and paper that can be reused.

Strengthened Role for Environmental Supporters

In addition to participating in the government's energy savings initiatives, Daegu Bank is carrying out various campaigns to promote efficient energy consumption. We have Environmental Supporters designated at each department/branch to oversee energy savings activities. They are responsible for monitoring and providing guidance on energy savings and related activities.

Environmentally Friendly Office Supplies

Paper is the most-used resource at Daegu Bank. Headquarters and each branch have boxes for waste paper and paper that can be reused. Additionally, we are minimizing the use of coated paper and coatings for in-house reports because they cannot be recycled.

We have also replaced disposable office supplies with recyclable items whenever possible.

Daegu Bank currently uses twenty-five varieties of office supplies. Ten of them can be reused or refilled, resulting in approximately KRW 53 million in annual savings. A collection system for office waste is also in place to promote the use of environmentally friendly goods.

Increased Use of Photovoltaic Power Generation Facilities

Daegu Bank is a clean workplace, hardly producing any direct air, soil, water, or noise pollution given the nature of its business. However, we still strive to minimize our environmental impact by monitoring and reducing waste from short-term causes and indirect waste.

We joined the central government's initiative to promote alternative energy sources in 2007. In a first for a Korean financial institution, we installed 15kw photovoltaic power generation facilities at our Banyawol branch in 2007, and the Gyeongju one in 2008.

Rooftop Greening Project

We are carrying out a rooftop greening project to reduce energy costs and cut CO₂ emissions. This effort to plant the 230m² of rooftop at our HQ and IT building annex will make the air cleaner, save on cooling and heating costs, extend the life and enhance the look of the buildings, and create a habitat for micro-biomes.

Green Initiative

Enhanced Protection of Bio-Diversity

Daegu Bank is helping to preserve the bio-diversity of the region's natural environment, protect rare and endangered plants, and restore the marine ecosystem.

Preserving the natural state of rivers in the region

Since 2001, Daegu Bank has been supporting the release of fry into the Shincheon River as part of its efforts to restore it to its natural, clean state. To do so, 50,000 carp fry have been released, as of the end of 2008.

Feeding migratory birds at the Haepyeong Wetlands in Gumi

The DGB Service Corps conducted a "Feeding Migratory Birds" event at the Nakdong River (Haepyeong Wetlands) in Haepyeong-ri, Seonsan-gun, Gumi, Gyeongsangbuk-do on December 20, 2008. This site, an officially certified crane habitat endorsed by the International Organization for Migratory Birds' Protection, is renowned for its variety of migratory birds, including the black crane

(natural heritage No. 228), white-naped crane (natural heritage No. 203), bean goose, and white-fronted fresh-water snipe. Participants were also trained in how to promote the environmental importance of the area and bird behavior.



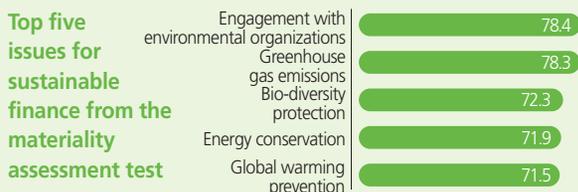
Feeding winter migratory birds event

Financial Support for the Dokdo Ear Shell Restoration Project

As part of an effort to forward Korea's sovereignty over Dokdo Islet and preserve its environment, we signed an agreement with the Gyeongsangbuk-do government on May 29, 2008 to provide funding for the Dokdo ear shell restoration project being conducted by the local government. Through this commitment, we will play the role of an environmental protector preserving the environment of Dokdo.

Stakeholder Survey Results

The graphs below show the five top material issues for Daegu Bank's environmental management, as identified in the materiality assessment survey and the stakeholder survey on our environmental management practices. The survey reveals that our environmental management practices did not impress most of the stakeholders, with particularly low



scores from local community members. Our environmentally friendly management practices and environmental financial products received high scores from corporate and individual customers, whereas environmental protection activities received a relatively high score from employees and corporate customers.



(Score averaged out between the highest and lowest on a scale of 100)



LOVE & SHARE

Committed to fulfilling our corporate responsibilities and growing with the local community, Daegu Bank strives to act on our philosophy of “Sharing Dreams and Prosperity with the Local Community” by advancing local culture, sports, education, and welfare. At Daegu Bank, we invest in sharing, with an aspiration to become a true partner of the local community winning its love and trust.





Love & Share

Disclosure on Management Approach

Vision

Daegu Bank is committed to fulfilling its role as a responsible corporate citizen, practicing the management of sharing by returning a portion of its corporate profits to society and serving the local community.

Strategic Directions

- **Serving the public good:** Engage in social contribution activities by connecting with the local community and non-profit organizations
- **Being representative:** Develop and drive social contribution programs that meet a variety of needs
- **Pursuing profitability:** Perform social activities by strategically linking them with profits
- **Making consistent efforts:** Enhance our brand image through continuous social contributions

Material Issues

- Strengthen strategic social contribution activities
- Increase collaboration with the local community
- Conduct activities in different areas, such as culture and the arts, scholarships and education, sports, social welfare, and environmental protection.

Important Achievements

With its service corps having grown from 23 to 28 in January 2009, Daegu Bank has had 77,045 volunteers participating in 2,840 different activities since 2002. We also received the highest rating in the financial sector category in the SMART Manifesto criteria-based assessment-the banking sector's declaration of its responsibilities and commitments as enunciated by the Korea Manifesto Movement.

Classification	2007	2008	2009 (planned)
Social contributions expenditure rate	3.5%	5.1%	5%
No. of participating staff (persons)	17,560	18,574 (↑5.8%)	↑15%
No. of activities (cases)	450	658 (↑46.2%)	↑15%
DGB Service Corps membership rate	93.2%	95.6%	96.5%



Love & Share

Contributions to Local Communities

In 2002, as part of our mission to fulfill our social corporate responsibilities, we organized the “DGB Service Corps,” the first such organization in the financial sector, through the voluntary participation of employees. It carries out social contribution activities in an organized manner and engages in a variety of community services to put our love for the local community into practice.

Roles of in-company community service groups

Classification	Major programs	
DGB Service Corps	• Oversee social service activities	
Social contributions council	• Carry out social service activities at bank level	
Sub-service corps	Service clubs at business divisions	• Support community services at division level • Decide on focus of each service club
	Service clubs at geographical area level	• Free meals, marketplace for sharing, sharing briquettes, events for the physically challenged, etc.
	Other service clubs	• Promote alliances with local municipalities • Help farming communities
Individual service corps	• Perform services for stronger connections with local communities	

Status of 2008 DGB Service Corps Activities (Units: cases, persons)

Classification	No. of activities	No. of participants
A sponsorship/services to social facilities	448	10,580
Environmental protection	112	6,350
Street order	42	902
Others	56	742
2008 total	658	18,574
Cumulative, from 2002 to 2008	2,840	77,045

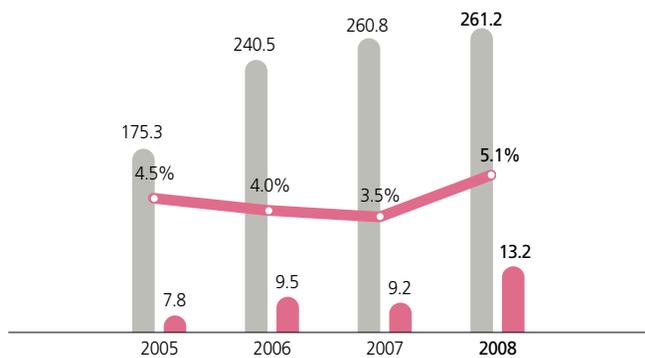
Major activities by area

(Units: KRW in billions, persons)

Area	Major programs	Financial support	No. of volunteers
Contributions to local communities	Helping farm villages (28), Chicken Soup Event on “First Dog Day,” sponsoring Habitat for Humanity, building ties with social welfare facilities, financing eyesight recovery surgery for low-income people, making kimchi for donating, helping children from low-income families	5.246	10,580
Academics and Education	Operating scholarships foundation (KRW 11 billion), running DGB children’s finance camp, book donations, supporting academic seminars, commending children with good records of saving	3.416	– (2,752)
Environment	Feeding migratory birds, hanging forest fire caution banners, financially supporting Dokdo ear shell recovery project, tending Shincheon River, hanging name cards on trees	0.24	399
Culture, Sports, and the Arts	Concerts for teenaged heads of families, professional soccer event on Customer Gratitude Day, professional baseball event on Customer Gratitude Day, Homerun Zone of Love, children’s drawing contest & women’s literary contest, sponsorship of tennis, shooting, and women’s marathon teams	4.285	7,515
Global social contributions	Building wells and the Anti-desertification Forest in Ulaanbaatar and Mongonmorit areas in Mongolia, helping victims of Sichuan earthquake in China with the funding raised through savings from the DGB Shanghai office opening and staff donation	0.078	80
Total		13.265	18,574

Annual financial support for social contributions

■ Net income ■ Social contributions
● Social contributions funding as a percentage of net income (Unit: KRW in billions)



Love & Share

Sharing with Neighbors

Support for Farm Communities 🌸

In order to foster urban and farm communities' mutual prosperity, the DGB Service Corps formed ties with farming villages in twenty-three cities and counties in Daegu and Gyeongsangbuk-do in August 2006 and provided them with labor assistance, purchase of agricultural produce, and improvements to their environments. In 2008, our volunteers aided in grape sprout grafting at Yeongjeon-ri in Gyeonsan city, pulled sulfur garlic at Suji 1-ri in Dalseong-gun, and painted the Senior's House at Bohyeon-ri in Yeongcheon-City.



Labor assistance for a farm community

Social Contribution Agreement with Daegu Red Cross

The DGB Service Corps and the Daegu office of the Korean Red Cross organized a kimchi-making and sharing event at the Daegu office on November 17, 2008. At the event, which was financed by the "DGB Love Fund", 80 members of the DGB Service Corps and volunteer workers from the Red Cross made five tons of kimchi, and ten kilograms were given to each of five-hundred households of seniors living alone or raising grandchildren on their own, and other underprivileged people. We also have signed a social contribution agreement with the Daegu Red Cross, and engage in a wide range of volunteer activities to help the needy, such as offering them free meals and holding bazaars.

Kids' Finance Camp 🌸

We organized the fifth annual DGB Children's Finance Camp for fifth and sixth elementary school pupils in Daegu and Gyeongsangbuk-do in August 2008. It is designed to teach children in the region the importance of finance in their daily lives by introducing so-called "Children Financial Country" and playing games using bills and coins. They also studied the creation of markets and used a program on interest and interest rates. We will continue to hold these camps to instill the idea of finance as a useful part of everyday life.



Kids' Finance Camp

Labor-Management Joint Declaration for Shared Prosperity with Local Communities 🌸

In April 2009, in a "first" among regional companies, Daegu Bank issued a "Labor-Management Joint Declaration" of its commitment to practicing the management of sharing and creating jobs to address youth unemployment. Our executives returned 15% of their annual salaries, semi-executives 11%, general managers and branch managers 5%, and the rest of the employees gave up their compensation from unused leaves. We expanded the number of new recruits by more than two times from the year before, and provided internships for four hundred undergraduates and graduates in Daegu and Gyeongsangbuk-do. The fund is also used to aid jobless families, undernourished children, and other underprivileged members of society.



Labor-management joint declaration on shared prosperity with the local community



Kids' Drawing and Women's Literary Contests

In April 2008, we held a children's drawing and women's literary contest in Daegu, Pohang, and Gumi. About 5,750 drawings and five hundred writings were submitted in total.

These contests are becoming more and more popular each year, and are the biggest cultural events for children and women in the Daegu and Gyeongsangbuk-do region. We will continue to host these and similar activities throughout the area.



Kids' Drawing Contests

Aid to Victims of the Sichuan Earthquake

We provided relief assistance in the amount of 450 thousand Yuan (equivalent of KRW 68 million) raised through savings from the DGB Shanghai office opening and staff donation to the Shanghai Red Cross on June 19, 2008. This was done to help Chinese people impacted by the Sichuan earthquake.

Love Sharing Concert for the Underprivileged Children

The DGB labor union invited orphans who are the breadwinners for their families to a Love Sharing Concert held at the Waterside Park in Daegu in September, 2008, and donated 100 million Won to the Child Fund Korea. The fund has been created by our employees, who donate the last digit amount of their monthly pay to help children in need.

Organ and Cornea Donation Campaign

In April 2009, we conducted a "Cornea Donation of Love Campaign" with our employees and their families, and collected cornea donation commitment from them. Prior to the campaign, starting from March 25, we sold our "Love Sharing Deposit and Savings" product, which offers a preferential interest rate to customers signing up to be organ donors. The product received a lot of attention, with more than 4,000 customers purchasing them.

Love & Share Social Welfare

DGB Love Fund for Employees Participating in Social Contributions Activities

Since 2003, our employees have put a fixed amount of money each month into the "DGB Love Fund" to finance the campaign for the local community support. Daegu Bank then contributes a matching amount, with the total being a cumulative KRW 1.1 billion as of the end of 2008. The fund is used to support the neighborly love campaign and farm communities.

Sharing Briquettes of Love

The DGB Service Corps provided charcoal briquettes to Daegu and Gyeongsangbuk-do residents living in single rooms or depending on government assistance to lessen the impact of rising heating bills in these tough economic times. The Corps distributed about two hundred pieces to each household.

We have been donating briquettes since 2006, and the grand total that we have distributed so far is 427,000.

Free Meals of Love

The DGB Service Corps and Korean Red Cross provided free meals at the Cultural and Arts Center in Dooryoo Park, Daegu, on November 19, 2008. Forty volunteers acted as servers, feeding about eight hundred elderly, physically-challenged, and homeless people.



Free meal offering event

Love & Share Sports Promotion

Sponsorship of Daegu International Marathon Competition and Donation to Athletic Fund

As part of the effort to pave the way for the IAAF 2011 World Championships in Athletics, we acted as an official sponsor of the Daegu International Marathon Competition in April 2008.

We provided financial support again this year, with two hundred of our employees joining in-the largest number from any single organization.

Many of our volunteers were also members of the DGB Marathon Club, who took part in public relations activities for the 2011 events.

In February 2009, we donated KRW 150 million to the Daegu Athletic Association to support the city's swimming team.

We have provided the same amount of funding every year since 2001 as part of our efforts to assist the development of athletics in Daegu and the surrounding region.



Donation for sports promotion

Professional Baseball Event for Customer Gratitude Day

Each May (or Family Month), we invite our customers to a professional baseball game to show our appreciation toward them.

Local residents and children living in social welfare facilities are also invited to the event, which is designed both to forward the spirit of sharing and to stimulate the regional economy.

Sponsoring and Participating in Daegu and Gyeongsang buk-do Citizens' Walking Event

Daegu Bank served as an official sponsor of a local citizens walking event to win the bid for an Advanced Medical Complex and support the successful hosting of the IAAF 2011 World Championships in Athletics. Attended by approximately forty thousand citizens (including 2,000 of our employees), the event demonstrated the enthusiasm of local citizens in securing the bid for a medical complex and successfully hosting the 2011 World Championship in Athletics.





Love & Share

Education and Scholarships

Children's Savings Award

In May, which is Family Month in Korea, DGB's branch managers visit elementary schools and award citations to children with good savings records. We do this to encourage the children to develop a good understanding of the financial world. For example, they learn how to spend wisely and form the habit of saving.

The Ggoom-na-moo Pyeong-saeng savings product (meaning "dream tree lifetime savings," with "dream tree" symbolizing children) offers free insurance coverage for children. It provides comprehensive coverage for accidents at the school, home, and other places.

Scholarships for Students from Low-income Families

In December 2008, we visited the Daegu City government and offered KRW 750 million in scholarships for children from low-income families. The scholarships were for children from families relying on government financial assistance and others hit hardest by the global economic crisis. We will continue to extend further support for economically distressed people in the region.

DGB Reading Campaign

To help establish the culture of reading among students, we donated 1,717 books purchased through the "DGB Reading Campaign" to the Daegu City Office of Education in February 2009. Launched in 2007, this campaign helps employees purchase books from various genres to add to their knowledge and understanding of the world's rapidly evolving economy and business environment.

Daegu Bank Scholarship Foundation

In May 2009, the Daegu Bank Scholarship Foundation granted KRW 203 million in scholarships to 198 high school and university students in Daegu and Gyeongsangbuk-do. Established in 1990, the foundation has so far raised KRW 11 billion, the largest level of funding in the region. It has donated KRW 3,904 million in scholarships to 3,319 students, as well as equipment worth KRW 897 million. Despite a poor business environment, we added fifteen scholarships more than the previous year and plan to continue increasing our funding to help improve the level of education in the region.



Love & Share Culture and the Arts

Cultural Event for Customers

In an effort to advance the region's cultural development and satisfy our customers' thirst for cultural content, we present top-notch theatrical performances playing in the region and invite our loyal customers to see them. Our customers were invited to "Butterfly," a highly-regarded Chinese musical, in June 2008 as a celebration of our Shanghai office opening. In addition, the opera "Cinderella" was presented in October to celebrate our forty-first anniversary-at no charge.

Publication of "Community & Culture" and Free Offering of DGB Gallery to Artists

To illustrate its high level of interest in preserving local culture, Daegu Bank has been publishing a quarterly magazine called Community & Culture since 1996. It has a nation-wide readership. In addition, Daegu Bank makes the DGB Gallery, which opened in October 2007, available as a free exhibition space, helping local residents enhance their appreciation of art and purchase works at very reasonable prices. Renowned artists from across the region are invited to exhibit their work at the gallery on a quarterly basis, while

others can use the space on a reservation basis. More than sixty special exhibitions have been held so far.

Donated Two-Wheeled Fire Prevention Vehicle to Protect Local Cultural Heritage

In April 2008, we donated two-wheeled fire prevention vehicles to 6 temples, that are Donghwa Temple on Mount Palgong, Seonbon Temple in Gatbawi rock, Jikji Temple in Gimcheon, Eunhye Temple in Yeongcheon, Goeun temple in Euseong, and Bulkuk Temple in Gyeongju, to protect the temples against any possible occurrence of fire. The donation, which will play a critical role in extinguishing early stage fires, was made as part of our environment management program. Since important cultural artifacts, such as the Sunglye Gate, have been lost to fires recently, we are focusing more to act as a guardian of the cultural heritage in the region.

Donations to National Debt Repayment Movement Memorial Center

In May 2009, we donated KRW 100 million to the National Debt Repayment Movement Memorial Association to help establish a memorial center at the National Debt Repayment Movement Park at Dongin-dong, Joong-gu, Daegu. The donation, to which all our employees contributed, will be used to help purchase historical materials related to the movement.

Stakeholder Survey Results

The materiality assessment test suggested that local community contributions were of relatively high importance to our sustainable management practices. Scholarships and educational supports and social welfare were the top-rated issues in the materiality assessment test. This may be attributed to our unique status as a regional bank and the impact of the economic downturn. The first graph represents the top five issues for our contributions to the local community. The

survey found that the respondents were very positive about our social contributions, with employees giving an average score of 77.6, individual customers 79.4, and corporate customers 79.0. All of them gave higher-than-average score to our local community engagement and social welfare policies. Members of the local community gave us a high rating for cultural and artistic events.





SERVICE, PASSION & HONESTY



Based on our core value of being service-oriented, passionate, and honest, we run a variety of programs to help our employees strike a healthy balance between work and their private lives. This effort is based on our belief that employees perform best when their families are also happy, which will ultimately benefit our customers. A reliable company fully embedded with service-oriented mind, passion, and honesty is what we are all about.



Great
Workplace



Service, Passion & Honesty

Disclosure on Management Approach

Vision

Daegu Bank is committed to practicing ethical and transparent management to raise stakeholders' confidence in our operations. We are also striving to create a happy workplace, with a healthy balance between work and private life. We do this by promoting employee development, encouraging open communications among employees, and enhancing employee benefits to allow them to realize their full potential.

Strategic Directions

- **Ethical management:** Create a business environment that earns the confidence of our customers
- **Employee development:** Continuously develop talented human resource to ensure sustainable growth
- **Open communications:** Promote communication between employees and departments.
- **Employee benefits:** Build a benefits system that enables staff to perform with optimum efficiency

Material Issues

- Creating detailed guidelines to build an ethical and transparent corporate environment
- Developing an open and ethical corporate culture to achieve sustainable management
- Conducting detailed activities to build an open culture

Important Achievements

We received a Grade 1, the best possible rating, in the Financial Supervisory Service's assessment of bank customer complaint handling. As was demonstrated by our joint labor-management declaration to support mutual prosperity with the local community, our labor and management make much effort to create the culture of strong cooperation with each other. We seek to become a workplace where our employees can strike a healthy balance between work and life.

Classification	2007	2008	2009 (planned)
Customer complaints assessments	Grade 1	Grade 1	Grade 1
Customer satisfaction (with 100 as full score)	82.74 (Target: 80.0)	87.51 (Target: 85.0)	87.0 (Target)
Average training time per employee	30 hours	38hours (↑ 26.7%)	40 hours (↑ 5.3%)
Female officer rate	4%	4%	4% (-)
Employee satisfaction	64.1%	80.0%	85.0% (↑ 5.0%)
No. of staff on sick leave	25	33 (↑ 32.0%)	30 (↓ 9.0%)



Service, Passion & Honesty

Ethical Management

In the financial service business, trust is the most fundamental part of a relationship with one's customers. Daegu Bank is striving to create an open and trustworthy financial culture and a sound and ethical value system in which its employees always act ethically and regard ethics as "business as usual."

Implementing Enhanced Due Diligence (EDD)

Daegu Bank currently has the following programs in place: Suspicious Transaction Report (STR), Currency Transaction Report (CTR), and Customer Due Diligence (CDD). While all of them are designed to prevent money laundering, EDD features more and better controls than the others. With it, financial institutions can conduct their own assessment of a customer's likelihood of laundering money-depending on such factors as customer and transaction type-and perform different level of due diligence as a result. The program helps to protect customers and the bank from fraud, as the bank can pay extra attention to ensure its products and services are not susceptible to illegal activities.



Implementation of customer due diligence

Establishing Guidelines to Prevent Conflict of Interest in Financial Investment Functions

We have developed a guideline on financial investment services to avoid any conflict of interest. It establishes the processes and

standards that staff must comply with when they are performing work governed by the Law on Capital Markets and Financial Investment Services. We also ensure safer and more secure financial transactions through our Code of Conduct on financial investment sales and procedures governing conflicts of interest and other matters.

Voluntary Ethical Practices Campaign

Daegu Bank conducts a "Voluntary Ethical Practices Campaign" to encourage its staff to perform their jobs ethically and in adherence to all relevant laws. Every employee should also maintain an open and overboard lifestyle and not engage in speculative investments.

No Gift Acceptance from Customers Campaign

We also carry out a campaign to discourage staff from accepting gifts from customers. In the case of gifts that cannot easily be refused, employees can send them to the gift return center in the compliance office, which will then donate them the less fortunate.



Voluntary Ethical Practices Campaign

Service, Passion & Honesty

Employee Development

We run a variety of talent development programs to maximize the capabilities of our employees, so all of them will be capable of responding to customer needs swiftly and growing the bank into a global company.



DGB training center

Recruiting “Wealth Masters”

To satisfy our customers’ needs for the best possible asset management in a rapidly changing financial environment and provide them with stable and continuous returns on their investments, Daegu Bank launched a “Wealth Masters Scheme.” This is an expert, in-company asset management group, with qualified specialists being recruited from among all our employees. Its aim is to maximize sales by retaining existing customers and attract new ones through an industry-leading, comprehensive asset management service. The bank provides various supports for its Wealth Masters, and manages them as part of its critical, long-term human resource pool.

Nurturing China Regional Experts

In February 2009, we initiated a China-region expert development course, with the objective of obtaining local information on China and preparing for future branch opening there. The course is a forward-looking investment mechanism to facilitate the bank’s efforts to our business network extend to china with strong growth potential. It is also a part of our strategy of properly responding to rapid changes in the global financial environment.

Course in Enhancing Customer Consulting Capabilities

In September 2008, we launched a “Customer Consulting Capability Enhancement Course” to raise our employees’ level of proficiency in customer consultations and marketing. Originally developed by the Korea Banking Institute, it is now offered by the bank itself, and is meant to meet our employees’ need for a broad range of knowledge in finance and the heightened ability to offer a full range of financial services.

Course Title	Description
Finance MBA	<ul style="list-style-type: none"> Finance MBA course at the KAIST Graduate School of Finance: Nurture experts in derivatives, asset management, marketing, and risk management
DGB Advanced Finance Course	<ul style="list-style-type: none"> Training in such areas as marketing, real estate, taxes, economics, and strategic management to equip employees to deal with a rapidly changing financial environment. For mid-level managers of Grade 4 and above
Customer Consulting Capability Enhancement Course	<ul style="list-style-type: none"> To improve employees’ capabilities in customer consultations and marketing This in-company training course aims to give our staff the opportunity to acquire a broadly-based financial knowledge and the competence to provide comprehensive financial services to their customers



Service, Passion & Honesty

Employee Benefits

Expanded Family Day

With the aim of increasing our employees' level of job satisfaction and boosting their morale, we conduct various programs to free them from their busy work schedule and let them spend "quality time" with their families. Since 2002, we have run a "Family Day" on the first and third Wednesdays on every month. From 2009, we are extending "Family Day" into "Dad's Early Homecoming Day" on the first and third weeks and "Mom's Early Homecoming Day" on the second and fourth. We prohibit formal gatherings and team dinners on those days, and have received very positive response from our employees.

Theme Trip and Seniors' Travel for Families of Employees

To help employees spend their longer weekends resulting from the introduction of a five-day work-week, the DGB labor union offered its members a trip in October, 2008. This gave the employees and their families an opportunity to leave their work behind and have fun together. We also offer seniors' travel to 280 parents of employees or spouses aged sixty or higher.

Cultural Events with Employees

At the end of 2008, Daegu Bank labor union held a "Cultural Event with Employees" event, inviting all its members to a theatrical performance at no charge. The union organized the event to express its gratitude to the members for their efforts over the last year and build stronger bonds among them.

Love DGB Campaign

In an effort to boost a sense of loyalty among our employees as an integral part of Daegu Bank, we have been carrying on a "Love DGB Campaign" since January, 2009. The program encourages our employees and their families to increase their volume of transactions with the bank. Featuring such benefits as family members enjoying the same level of fee discounts as employees, the campaign has been very well received.

Service, Passion & Honesty

Open Culture

Hiking with the CEO

Daegu Bank holds "Hiking with the CEO" event to promote unity, kindness, sharing, and communication among its employees. It results in a full and frank exchange of ideas on a wide range of topics between the CEO and the employees in a relaxed and informal setting.

Fun Fun DGB

The "Fun Fun DGB Campaign" is a part of our effort to establish a healthy and collegial corporate culture. It includes "Reading Campaign" to encourage self-development and mental stimulation, "Smoking Cessation Campaign" to promote healthy lifestyles, and "Energy Boosting Campaign" to foster the development of creative ideas and active interaction between departments and branches. Various ideas are being implemented to breathe new energy into our corporate culture.

Yr DGB Best

Daegu Bank has been conducting a "Yr DGB Best" program to boost staffs morale since April 2009. The program features cases of exemplary work abilities, attitudes, and achievements, raising the bank's profile both internally or externally. It is designed to encourage mutual recognition and praise for good work. Those employees receiving the most compliments are rewarded with a vacation.

HR Partners

We run an "HR Partners" scheme to enhance communications in the operation of our HR system. The "HR Partners," who have been selected from either departments or branches, provide inputs to improve the current HR system and serve on a panel that reviews the appropriateness of the proposed new HR one. In effect, they play the role of "change manager" for our HR systems.

Service, Passion & Honesty

Protection of Customer Information

Customer Data Security System

Because of our heightened awareness of the need for private data protection, Daegu Bank obtained a BS7799 certification in 2003, and our ISO27001 certification was renewed in 2008. This is a more strengthened form of international certification for information security management, established by the International Organization for Standardization. We also devised measures to protect our IT network against an increasing number of cyber attacks while running a disaster recovery center for possible IT failures.



ISO 27001 certification

Secure Debit Transactions (SDT)

From October 13, 2008, Daegu Bank is providing a “Popbanking” and “Hellopay” service, or real-time secure debit transactions (SDT), to reduce the possibility of data leakage for customers using wire transfers to pay for their home shopping purchases via the Internet or telephone. With SDT enabling us to process payments through direct connection to our customers, we are now able to offer them the strongest possible security mechanism to protect against security incidents and data leaks.



Develop debit transaction service

Stakeholder Survey Results

The materiality assessment revealed that stakeholders give high importance to communications and welfare. In the survey, stakeholders gave high scores to ethical management and corporate culture; more specifically, corporate customers rated ethical management (score 84.8) and creative management (81.8) the highest, while individual customers

gave the highest rating to a sustainable management culture (82.4). Employees gave all items higher-than-average scores, and members of the local community rated ethical management and a sustainable management culture relatively highly (69.0 each).

Top five issues relating to employees from the materiality assessment test



Q. Do you think that Daegu Bank is an innovative and creative bank?



Q. Does Daegu Bank give ethics the highest priority in all its management activities?



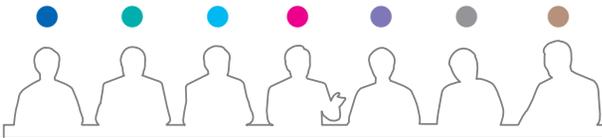
Q. Does Daegu Bank's management strive to establish a sustainable management culture?





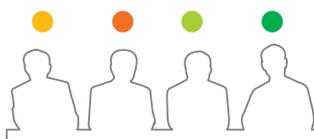
Board of Directors

- Ha, Chun-soo
Chairman & CEO
- Kim, Young-beom
Standing Auditor & Director
- Kim, Byung-chan
Outside Director
- Ahn, Choong-yong
Outside Director
- Kwon, Young-ho
Outside Director
- Chung, Kun-young
Outside Director
- Kim, Young-hoon David
Outside Director



Executive Officers

- Park, Duk-sang
Deputy Chief Executive Officer
(Public Institutional Banking Division)
- Lee, Jong-hee
Senior Executive Vice-President
(Retail Banking Division)
- Kim, Byoung-tae
Senior Executive Vice-President
(Corporate Banking Division)
- Jin, Byung-yong
Executive Vice-President
(Daegu Bank Economic Research Division)



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Management's Discussion & Analysis

In this section, Daegu Bank provides information that will give the reader an understanding of and insight into its current operational status and future objectives. As a consequence, this section may contain forward-looking statements that are reflective of plans for future operations, products, or services, along with forecasts of revenues, earnings, or other measures of economic performance. However, these statements are subject to risks and uncertainties that could cause actual results to differ materially from these outlooks. Daegu Bank will not undertake to update such statements to reflect circumstances or events that occur after the date they were made, or the occurrence of unanticipated events. The term "DGB" or "the bank," as used here, without any other qualifying description, will henceforth refer to Daegu Bank.

Selected Financial Information

	(In billions of KRW)			
	2008	2007	YoY Change	
			Amount	Percentage (%)
Key financials				
Net interest income	755.40	687.00	68.40	10.00
Non-interest income (net)	126.50	117.00	9.50	8.10
G&A expenses	395.90	385.70	10.20	2.60
Provisions for loan losses	117.50	47.80	69.70	145.80
Operating income	353.30	364.80	(11.50)	(3.20)
Pre-provision income	486.00	418.30	67.70	16.20
Net income	261.20	260.80	0.40	0.20
Total assets	26,503.30	23,784.30	2,719.00	11.40
Total loans	17,523.40	16,097.70	1,425.70	8.90
Total liabilities	24,904.60	22,361.30	2,543.30	11.40
Total deposits	16,910.00	15,899.10	1,010.90	6.40
Shareholders' equity	1,598.70	1,423.00	175.70	12.30
Profitability				
ROA (%)	1.00	1.20	-	(0.20)
ROE (%)	17.40	19.20	-	(1.80)
Cost-to-income ratio (%)	44.90	48.30	-	(3.40)
Earnings per share (KRW)	1,977.00	1,974.00	3.00	0.20
Asset quality				
NPL ratio (%)	1.31	0.74	-	0.57
NPL coverage ratio (%)	117.50	178.00	-	(60.50)
Capital adequacy				
BIS CAR (%)	13.12	11.25	-	1.87
Tier I CAR (%)	8.76	8.32	-	0.44
Tier II CAR (%)	4.36	2.93	-	1.43

Management's Discussion & Analysis

In 2008, Daegu Bank faced a number of difficulties. These included unstable foreign exchange markets, a liquidity crunch following upon the bankruptcy of Lehman Brothers Securities, stagnant business activities, and intensifying competition among banks. Despite such a problematical operating environment, the bank still managed to record total income of KRW 881.9 billion and net income of KRW 261.2 billion in fiscal 2008, representing rises of 9.7% and 0.2% respectively from a year earlier. This was attributable to the bank's enhanced management efficiencies, the unreserved cooperation of its employees, and differentiated marketing strategies. ROA and ROE both edged down, by 0.2% and 1.8% respectively.

For 2008, the average interest rate for loans and deposits rose by 54 basis points and 62 basis points respectively to 7.82% and 3.54%. Although the bank's net interest margin (NIM) dropped by 6 basis points to 3.18%, it still outperformed the industry's average, thanks to its continuous re-pricing of interest rates on loans and efforts to expand core deposits by increasing its attractiveness to public institutions. The net interest spread (NIS) remained static at 4.02%.

The bank's asset soundness was reduced compared to the previous year, since seven borrowers asked it for financing assistance or applied for turnarounds at court.

Consequently, the bank's provisions for loan losses surged by 145.8% to KRW 117.5 billion, leading to a 3.2% decrease in operating income to KRW 353.3 billion. However, pre-provision income increased by 16.2% to KRW 486.0 billion.

The bank's total assets rose by 11.4% year-on-year to KRW 26.1 trillion. This was due primarily to an increase in loans despite the economic slowdown and behind the central government's liquidity support policy for SMEs.

Meanwhile, a rise in cash and due from banks resulted from an augmentation in the amount of required reserves following an increase in time deposits and time installment savings.

Deposits, which are the bank's major funding source, grew by 6.4% over the year to KRW 1.7 trillion, while total liabilities went up by 11.4% to KRW 2.5 trillion in 2008. However, core deposits, whose funding expenses are relatively lower, decreased by a marginal 0.9% to KRW 5,788 billion.

The bank's total shareholders' equity rose by 12.3% to KRW 1.6 trillion, reflecting a continuous upturn in net income.



Net interest income

(In billions of KRW)

	2008			2007			YoY Change (% , %p)
	Avg. rate	Avg. balance	Interest	Avg. rate	Avg. balance	Interest	
Interest income							
Cash & due from banks ¹⁾	3.97	782	31	5.04	67	3	966.7
Securities ²⁾	4.97	4,370	217	4.76	4,543	216	0.5
Loans	7.82	17,208	1,346	7.28	15,087	1,098	22.5
Total	7.13	22,360	1,594	6.69	19,698	1,318	20.9
Interest expenses							
Deposits	3.54	16,025	570	2.92	15,151	442	29.0
Borrowings	4.00	3,456	138	3.96	3,133	124	11.3
Bond	5.70	1,940	111	5.55	883	49	126.5
Total	3.82	21,421	819	3.21	19,166	615	33.2
Net interest income			755			687	9.9
Net interest margin (%)			3.18			3.24	(0.06)
Net interest spread (%)			4.02			4.01	0.01

1) Basic due from banks included for 2008, excluded for 2007

2) Excluding stocks

The bank's interest income amounted to KRW 1.6 trillion, up 20.9% from a year earlier. This was attributable to its loan policy of continuously considering credit risk and engaging in re-pricing, as well as an increase in assets. Thanks to the bank's persistent re-pricing measures, the annualized average interest rate for loans, which accounted for 84% of its total interest income, advanced by 54 basis points over the year to 7.82%. The annualized average balance of loans also moved up by 22.5%, following the central government's policy to expand credit guarantees for SMEs.

In 2008, interest expenses were KRW 819 billion, a rise of 33.2% over the year. The annualized average interest rate for deposits increased by 62 basis points to 3.54%, due to the reinforced marketing of CMAs by securities companies and intensifying competition for new customers among banks. Interest expenses generated from deposits and borrowings advanced by 29.0% and 11.3% each to KRW 570 and KRW 138 billion. To start off potential risks under global financial crisis circumstance, the bank made effects to boost BIS and liquidity ratios by issuing debentures.

The bank made up for a shortage of funds through debentures rather than deposits and borrowings. As a result, its annualized average balance of debentures increased by KRW 1.57 trillion, while interest expenses for debentures soared by 126.5% to KRW 111 billion.

The NIM stood at 3.18%, down 0.06% over the year, due to a rise in loans and competition for financing among banks. However, this still exceeded the average NIM at other commercial banks. All in all, net interest income rose by 9.9% (or KRW 68 billion) over the year to KRW 755 billion, despite the slight decline in NIM.

Management's Discussion & Analysis

Non-interest income

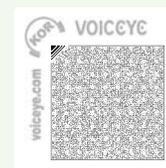
(In billions of KRW)

	2008	2007	YoY Change	
			Amount	Percentage (%)
Non-interest income	3,023.4	609.0	2,414.4	396.5
Commission income	139.2	134.5	4.7	3.5
Gain on securities	39.5	71.2	(31.7)	(44.5)
Gain on derivatives	2,046.5	254.0	1,792.5	705.7
Gain on foreign currency transactions	785.2	92.4	692.8	749.8
Other non-interest income	13.0	56.9	(43.9)	(77.2)
Non-interest expenses	2,896.9	492.0	2,404.9	488.8
Commission expenses	40.5	38.8	1.7	4.4
Loss on securities	9.9	19.4	(9.5)	(49.0)
Loss on derivatives	2,570.0	299.2	2,270.8	759.0
Loss on foreign currency transactions	174.1	79.5	94.6	119.0
Other non-interest expenses	102.4	55.1	47.3	85.8
Net non-interest income	126.5	117.0	9.5	8.1

The bank's non-interest income leaped by 396.5% to KRW 3.23 trillion in 2008. This was primarily due to unusual upturns in gains on derivatives and foreign currency transactions as the result of lingering instability in the exchange market during the year. Non-interest income, excluding gains and losses due to fluctuations in exchange rates, amounted to KRW 191.9 billion, down by KRW 70.7 billion from the preceding year. This was led by a decrease of KRW 31.7 billion securities-related gains behind the bearish securities market of 2008.

Non-interest expenses surged by 488.8% to KRW 2.9 trillion in 2008. As mentioned above, this resulted from sharp upturns in losses on derivatives and foreign currency transactions that are recorded as exchange rate-related gains and losses.

The bank's commission expenses increased by 4.4% to KRW 40.5 billion, while losses on securities fell by 49.0% to KRW 9.9 billion. Other non-interest expenses swelled by 85.8% in 2008. This was due to an augmentation of KRW 69.4 billion in loan loss provisions. Overall, the bank's net non-interest income strengthened by 8.1% to KRW 126.5 billion, due to the continuous generation of net commission income and a rise in gains on foreign currency transactions.



G&A and Provisioning Expenses

(In billions of KRW)

	2008	2007	YoY Change	
			Amount	Percentage (% , %p)
General and administrative expenses	395.9	385.7	10.2	2.6
Salaries and employee benefits	202.4	197.7	4.7	2.4
Retirement allowances	17.2	18.4	(1.2)	(6.5)
Depreciation expense	36.3	36.8	(0.5)	(1.4)
Taxes and dues	12.7	11.2	1.5	13.4
Other G&A expenses	127.3	121.6	5.7	4.7
Cost-to-income ratio (%)	44.9	48.3	–	(3.4)
Provision for loans and guarantees	117.5	47.8	69.7	145.8
Provision for unused credit lines	0	3.3	(3.3)	(100.0)
Total provisioning for credit	117.5	51.1	66.4	129.9

The bank's cost-to-income ratio improved by 3.4%p in 2008, declining for the second consecutive year. This resulted from its continuous efforts to enhance management efficiencies. However, sales and administrative (G&A) expenses edged up by 2.6% to KRW 395.9 billion.

Salaries and employee benefits inched up by 1.8% to KRW 201.3 billion. This low rate was made possible because all employees participated in the company's policies, including voluntary retirements and wage freezes. Retirement allowances fell by 6.5% to KRW 17.2 billion. Other G&A expenses dropped by 4.7% to KRW 12.73 billion, reflecting the generation of voluntary retirement allowances. Depreciation expenses decreased by 1.4% to KRW 36.3 billion, while taxes and dues increased by 13.4% to KRW 12.7 billion.

Sudden rises in exchange rates and raw materials prices and the capital crunch aggravated management circumstances in 2008. This in turn triggered restructuring efforts centering on the construction and shipbuilding industries. As well, seven deposit customers asked the bank for financial assistance or applied for turnarounds at court. As a result, substandard and below loans increased by KRW 114.4 billion from a year earlier, and loan loss provisions surged by 145.8% to KRW 117.5 billion.

Management's Discussion & Analysis

Assets

(In billions of KRW)

	2008	2007	YoY Change	
			Amount	Percentage (%)
Assets	26,503.3	23,784.2	2,719.1	11.4
Cash and due from banks	2,060.4	1,131.4	929.0	82.1
Securities	4,656.0	4,622.5	33.5	0.7
Loans	17,523.4	16,097.7	1,425.7	8.9
Fixed assets	399.3	386.0	13.3	3.4
Other assets	1,864.2	1,546.6	317.6	20.5

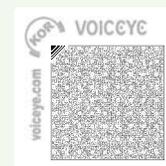
Total assets increased by 11.4% over the year to KRW 26.5 trillion in 2008. Loans climbed by 8.9% to KRW 17.5 trillion. This was due to a rise in loans to SMEs in the wake of the central government's liquidity support policy. Cash and due from banks and other assets grew by 82.1% and 20.5%, respectively. This arose from upturns in required reserves by KRW 588.0 billion, following a rise in time deposits and installment savings and derivative assets by KRW 553.6 billion, following fluctuations in exchange rates.

Loan Portfolio

(In billions of KRW)

	% of total	2008	2007	YoY Change	
				Amount	Percentage (%)
Manufacturing	29.6	4,766	4,475	291.0	6.5
Construction	5.4	869	891	(22.0)	(2.5)
Wholesale and retail	8.5	1,367	1,318	49.0	3.7
Financials and insurance	1.5	237	205	32.0	15.6
Others	24.2	3,895	3,344	551.0	16.5
Corporate loans	69.0	11,134	10,233	901.0	8.8
Household loans	29.0	4,683	4,396	287.0	6.5
Public and others	1.9	311	276	35.0	12.7
Total loans (in won)	100.0	16,128	14,905	1,223.0	8.2

The bank's won-currency corporate loans and won-currency household loans rose by KRW 901.0 billion and KRW 287.0 billion, respectively, making up 69% and 29% of the bank's total loans in 2008. These component ratios showed no significant change from the previous year's figures. Loans to the construction industry decreased by 2.5% to KRW 869.0 billion, reflecting sharp upturns in raw materials prices, a rise in unsold apartments, and a lethargic real estate market. On the other hand, loans to the financial sector, including insurance companies with relatively lower risks, surged by 15.6% to KRW 237.0 billion. SME and household loans increased despite the economic slowdown, contributing to the upward movement in total won-currency loans and reflecting the central government's policy of expanding credit guarantees.



Funding Structure

(In billions of KRW)

	2008	2007	YoY Change	
			Amount	Percentage (% , %p)
Total liabilities	24,905	22,361	2,544.0	11.4
Deposits	16,910	15,899	1,011.0	6.4
Borrowings	3,260	2,657	603.0	22.7
Debentures	2,225	1,395	830.0	59.5
Other liabilities	2,510	2,410	100.0	4.1
Shareholders' equity	1,599	1,423	176.0	12.4

	2008	2007	Amount	Percentage (% , %p)
Core deposits				
Total deposits (in won)	5,788	5,838	(50.0)	(0.9)
% of core deposits	12,389	12,193	196.0	1.6
Total deposits	46.7	47.9	-	(1.2)
% of core deposits	20,442	18,327	2,115.0	11.5
	28.3	31.9	-	(3.6)

The bank's core deposits only decreased by a slight 0.9% over the year to KRW 5,788 billion, even in the face of reinforced CMA marketing by securities firms and intense competition for new customers among banks in 2008. This good news resulted from the bank's proactive sales activities including its efforts to attract public depositories and institutional deposits, which grew by KRW 535.6 billion to KRW 3.4 trillion.

For 2008, borrowings and debentures surged by 22.7% and 59.5%, respectively. This occurred because the bank was forced to raise additional funds through borrowings and the issuance of debentures in order to boost BIS and liquidity ratios. This led to a 3.6% decline (to 28.3%) in the weighting of core deposits to total deposits.

Management's Discussion & Analysis

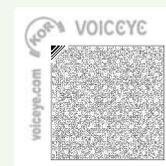
Asset Quality

(In billions of KRW)

	2008	2007	YoY Change	
			Amount	Percentage (% , %p)
Normal	17,316.5	15,879.4	1,437.1	9.1
Precautionary	312.5	196.0	116.5	59.4
Substandard	128.7	85.5	43.2	50.5
Doubtful	93.1	19.1	74.0	387.4
Estimated loss	12.8	15.6	(2.8)	(17.9)
Total credits	17,863.6	16,195.7	1,667.9	10.3
NPL ratio (%)	1.31	0.74	–	0.57
Loan loss coverage ratio (%)	117.5	178.0	–	(60.5)
Delinquency ratio (%)	1.12	0.53	–	0.59

In 2008, the bank's total credits expanded by 10.3% over the year to KRW 17.9 trillion. Overall asset soundness worsened, however, mainly due to year-on-year rises in the non-performing loans (NPLs) and delinquency ratios of 0.57% and 0.59%, respectively. This deterioration in asset quality was almost entirely attributable to the economic slowdown, centered on the construction and shipbuilding industries. This problem was not limited to Daegu Bank; on the contrary, it was a common phenomenon in the overall banking sector, and was greatly affected by corporate restructuring efforts.

Substandard and below loans soared by 95.2% to KRW 234.6 billion, while the NPL ratio rose by 57 basis points to 1.31%. The loan loss coverage ratio stood at 117.5%, falling by 60.5% over the year. The percentage of bankrupt companies to the total number of companies in the Daegu and Gyeongbuk region went up to 0.48% from 0.39% the previous year, due to unfavorable business environment. The bank's delinquency ratios also rose by 59 basis points to 1.12%, after factoring in a rise in the delinquency ratio of corporate loans in 2008.



Capital Adequacy

(In billions of KRW)

	2008		2007	YoY Change	
	Basel II	Basel I		Amount	Percentage (% , %p)
Tier I capital	1,518.8	1,519.2	1,300.5	218.7	16.8%
Tier II capital	755.7	756.1	457.6	298.5	65.2%
Total capital	2,274.5	2,275.3	1,757.3	518.0	29.5%
Risk-weighted assets	19,035.3	17,339.2	15,624.0	1,715.2	11.0%
Capital adequacy ratio (%)	11.95	13.12	11.25	-	1.87
Tier I CAR (%)	7.98	8.76	8.32	-	0.44
Tier II CAR (%)	3.97	4.36	2.93	-	1.43

The bank's equity capital rose by 29.5% over the year to KRW 2.27 trillion in 2008; Tier I surged by 16.8% to KRW 1.5 trillion, due to the bank's continuous generation of net income, and Tier II advanced by 65.2%, due to the issuance of subordinated bonds. Risk-weighted assets increased by 11.0%, due to an escalation in loans. Overall, the bank's capital adequacy ratio (CAR) edged up by 1.87%p to 13.12% when applying Basel I, and by 0.7% to 11.95% when applying Basel II. This well exceeded the BIS guideline of 8%. Meanwhile, the bank plans to issue hybrid bonds to increase its Tier I ratio.

Independent Auditors' Report

Based on a report originally issued in Korean



Dongil Bldg. 9th fl., 223-5 Beomeo 2-Dong, Suseong-Gu, Daegu 706-823 Republic of Korea

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

The Board of Directors and Stockholders

Daegu Bank:

We have audited the accompanying non-consolidated balance sheets of Daegu Bank(the "Bank") as of December 31, 2008 and 2007, and the related non-consolidated statements of income, appropriation of retained earnings, changes in equity and cash flows for the years then ended. These non-consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these non-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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Daegu Bank as of December 31, 2008 and 2007 and the results of its operations, the appropriation of its retained earnings, the changes in its equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 2 (a) to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, changes in equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such non-consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.

Seoul, Korea

February 19, 2009

This report is effective as of February 19, 2009, 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 non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Non-Consolidated Balance Sheets

As of December 31, 2008 and 2007

(In millions of Won, except share data)

		2008	2007
Assets			
Cash and due from banks (note 3, 15, 16 and 25)	₩	2,060,423	1,131,407
Securities (note 2, 4, 15, 16 and 25)		4,656,017	4,622,480
Loans (note 2, 5, 6, 7, 15, 16 and 25)		17,523,354	16,097,708
Property and equipment (note 2, 8 and 26)		399,321	385,953
Other assets (note 9)		1,864,234	1,546,749
Total assets	₩	26,503,349	23,784,297
Liabilities			
Deposits (note 10, 15, 16 and 25)	₩	16,910,029	15,899,102
Borrowings (note 11, 12, 13, 15, 16 and 25)		5,478,571	4,041,954
Other liabilities (note 9 and 14)		2,516,071	2,420,285
Total liabilities		24,904,671	22,361,341
Stockholders' equity			
Common stock of ₩5,000 par value			
Authorized - 300 million shares			
Issued - 132.1 million shares		660,625	660,625
Capital surplus		12,328	12,328
Accumulated other comprehensive loss (note 4 and 33)		(29,315)	(23,138)
Retained earnings		955,040	773,141
Total stockholders' equity		1,598,678	1,422,956
Total liabilities and stockholders' equity	₩	26,503,349	23,784,297

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

For the years ended December 31, 2008 and 2007

(In millions of Won, except earnings per share)

	2008	2007
Operating revenues		
Interest income (note 25)		
Interest on due from banks	₩ 31,415	3,381
Interest on trading securities	969	4,556
Interest on available-for-sale securities	97,413	89,009
Interest on held-to-maturity securities	118,980	122,619
Interest on loans	1,345,468	1,098,221
Interest - other	5,358	5,130
	1,599,603	1,322,916
Gain on valuation and disposal of securities	13,352	67,863
Gain on valuation and sales of receivables	1,556	61
Gain on foreign currency transactions	785,232	92,376
Fee and commission income	139,189	134,507
Fee and commission from trust account	8,752	9,609
Dividend income	26,165	3,252
Other	2,049,164	301,283
	4,623,013	1,931,867
Operating expenses		
Interest expense (note 25)		
Interest on deposits	570,291	441,837
Interest on borrowings	138,139	124,191
Interest on debentures	110,615	48,952
Interest on borrowings from trust account	23,731	19,564
Interest - other	1,422	1,359
	844,198	635,903
Loss on valuation and disposal of securities	9,897	19,379
Loss on valuation and sales of receivables	128,203	47,873
Loss on foreign currency transactions	174,139	79,522
Commission expenses	40,488	38,847
General and administrative expenses (note 17)	395,873	385,661
Other	2,676,873	359,854
	₩ 4,269,671	1,567,039

(continued)

(In millions of Won, except earnings per share)

		2008	2007
Operating income	₩	353,342	364,828
Non-operating expense, net (note 18)		(4,204)	(2,905)
Income before income taxes		349,138	361,923
Income taxes (note 19)		87,964	101,103
Net income		261,174	260,820
Basic earnings per share (note 20)		1,977	1,974
Diluted earnings per share (note 20)	₩	1,977	1,974

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2008 and 2007

Date of Appropriation for 2008: March 25, 2009

Date of Appropriation for 2007: March 15, 2008

(In millions of Won, except share data)

	2008	2007
Unappropriated retained earnings		
Balance at beginning of year	₩ 66	21
Net income	261,174	260,820
Balance at end of year before appropriation	261,240	260,841
Transfer from voluntary reserves	-	-
Unappropriated retained earnings available for appropriation	261,240	260,841
Appropriation of retained earnings		
Legal reserve	(26,200)	(26,100)
Voluntary reserve	(202,000)	(155,400)
Dividends - 5% on par value of ₩250 per share (note 29)	(33,032)	(79,275)
	(261,232)	(260,775)
Unappropriated retained earnings to be carried over to subsequent year	₩ 8	66

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Changes in Equity

For the years ended December 31, 2008 and 2007

(In millions of Won)

	Common stock	Capital surplus	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
Balance at January 1, 2007	₩ 660,625	12,328	1,797	586,972	1,261,722
Dividends paid (note 29)	–	–	–	(74,651)	(74,651)
Net income	–	–	–	260,820	260,820
Effective portion of changes in fair value of cash flow hedges, net of tax (note 2, 28)	–	–	(420)	–	(420)
Changes in unrealized gain on valuation of available- for-sale securities, net of tax (note 2, 4)	–	–	(24,515)	–	(24,515)
Balance at December 31, 2007	₩ 660,625	12,328	(23,138)	773,141	1,422,956
Balance at January 1, 2008	₩ 660,625	12,328	(23,138)	773,141	1,422,956
Dividends paid (note 29)	–	–	–	(79,275)	(79,275)
Net income	–	–	–	261,174	261,174
Effective portion of changes in fair value of cash flow hedges, net of tax (note 2, 28)	–	–	(260)	–	(260)
Changes in unrealized gain on valuation of available- for-sale securities, net of tax (note 2, 4)	–	–	(5,917)	–	(5,917)
Balance at December 31, 2008	₩ 660,625	12,328	(29,315)	955,040	1,598,678

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(In millions of Won)

		2008	2007
Cash flows from operating activities			
Net income	₩	261,174	260,820
Adjustments for:			
Depreciation		27,379	27,418
Amortization		8,947	9,358
Provision for loan losses, net		116,724	47,352
Provision for retirements and severance benefits		17,241	18,362
Loss (Gain) on trading securities, net		(1,186)	4,372
Loss (Gain) on sale of available-for-sale securities, net		33,329	(100,077)
Loss (Gain) on equity method investments		(18)	1,043
Loss on sale of loan, net		9,923	461
Loss on derivatives, net		523,556	45,142
Other, net		13,114	5,505
		749,009	58,936
Changes in assets and liabilities:			
Trading securities		6,196	190,744
Due from banks		(589,017)	112,461
Available-for-sale securities		(52,108)	251,543
Held-to-maturity securities		(27,556)	328,097
Loans		(1,552,293)	(2,102,406)
Retirement and severance benefits paid		(16,176)	(16,813)
Deposit for severance benefit trust		(3,199)	(3,146)
Other, net		(665,702)	163,654
Net cash used in operating activities		(1,889,672)	(756,110)
Cash flows from investing activities			
Disposal of fixed assets		345	2,244
Acquisition of fixed assets		(48,974)	(71,083)
Other, net		280,485	(600,966)
Net cash provided by (used in) investing activities	₩	231,856	(669,805)

(continued)

(In millions of Won)

	2008	2007
Cash flows from financing activities		
Increase in deposits	₩ 1,236,245	1,507,395
Increase in borrowings	312,426	203,831
Increase in debentures issued	833,709	1,000,447
Increase in others	293,740	1,005,441
Decrease in deposits	(225,318)	(838,680)
Decrease in borrowings	–	(33,466)
Decrease in others	(373,712)	(1,283,657)
Dividends paid	(79,275)	(74,651)
Net cash provided by financing activities	1,997,815	1,486,660
Net increase in cash	339,999	60,745
Cash and due from banks at beginning of period	587,260	526,515
Cash and due from banks at end of period	₩ 927,259	587,260

See accompanying notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

1. Organization and Description of the Bank

Daegu Bank (the "Bank") was incorporated on October 7, 1967 under the laws of the Republic of Korea. The Bank is engaged in commercial banking and foreign exchange activities. The Bank's shares have been listed on the Korea Exchange since May 12, 1972. The Bank's head office is located in Daegu City and as of December 31, 2008 the Bank has 175 branches, 25 mini-branches and 12 corporate business centers in Daegu and North Gyongsang Province and additionally, it has 5 branches and 2 corporate business centers in other provinces in the Republic of Korea including Seoul.

The Bank's outstanding common stock (par value ₩5,000) totaled ₩661 billion as of December 31, 2008.

2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies

(a) Basis of Presenting Financial Statements

The Bank maintains its accounting records in Korean Won and prepares statutory non-consolidated financial statements in Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended solely for use by only those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English with certain expanded descriptions from the Korean language non-consolidated financial statements.

Certain information included in the Korean language non-consolidated financial statements, but not required for a fair presentation of the Bank's financial position, results of operations, cash flows or change in equity is not presented in the accompanying non-consolidated financial statements.

(b) Application of the Statements of Korean Financial Accounting Standards

The Bank prepares the financial statements in accordance with generally accepted accounting principles in the Republic of Korea and the Bank applied the same accounting policies that were adopted in the 2007's financial statements.

(c) Accrued Interest Income

The Bank recognizes interest income on loans on an accrual basis. Interest on loans that are not fully collateralized by customer deposits or guaranteed by financial institutions is recognized on a cash basis. In addition, interest on loans that have past due principal or interest as of the balance sheet date is also recognized on a cash basis.

(d) Allowance for Loan Losses and Guarantees and Acceptances

The allowances for loan losses and payment guarantees calculated based on historical loss rates by loan category and are established at the level sufficient to cover the minimum allowance requirements set by the FSS. The loss rates are calculated for loans classified as normal, precautionary and estimated loss. In addition, the allowance for loan losses for significant outstanding loans is individually evaluated and estimated based on each customer's financial capability and credit history.

The following table shows the periods on which the calculation of historical loss rates for each category of loans was based

Loan category	For roll rate analysis	Recovery period
Estimated loss	5 years	3 years
Normal or precautionary corporate loans	5 years	Not applicable
Normal or precautionary household loans	5 years	Not applicable
Normal or precautionary credit card loans	4 years	Not applicable

Considering the characteristics of each group of loans, loan terms, experienced periods of loan recoveries and other past loan trends, the most reasonable migration analysis periods have been determined.

(e) Provision, Contingent Liabilities and Contingent Assets

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when, it is virtually certain that reimbursement will be received if the Bank settles the obligation. The expense relating to a provision is presented net of the amount recognized for a reimbursement.

(f) Investments in Securities

Classification

Upon acquisition, the Bank classifies debt and equity securities (excluding investments in subsidiaries, associates and joint ventures) into the following categories: held-to-maturity, available-for-sale or trading securities. This classification is reassessed at each balance sheet date.

Investments in debt securities where the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are acquired principally for the purpose of selling in the short term are classified as trading securities. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Initial recognition

Investments in securities (excluding investments in subsidiaries, associates and joint ventures) are initially recognized at cost.

Subsequent measurement and income recognition

Trading securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of trading securities are included in the income statement in the period in which they arise. Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized as accumulated other comprehensive income, net of tax, directly in equity. Investments in available-for-sale securities that do not have readily determinable fair values are recognized at cost less impairment, if any. Held-to-maturity investments are carried at amortized cost with interest income and expense recognized in the income statement using the effective interest method.

Fair value information

The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable debt securities are

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

fair valued by discounting cash flows using the prevailing market rates for debt with a similar credit risk and remaining maturity. Credit risk is determined using the Bank's credit rating as announced by accredited credit rating agencies in Korea. The fair value of investments in money market funds is determined by investment management companies.

Presentation

Trading securities are presented as current assets. Available-for-sale securities, which mature within one year from the balance sheet date or where the likelihood of disposal within one year from the balance sheet date is probable, are presented as current assets. Held-to-maturity securities, which mature within one year from the balance sheet date, are presented as current assets. All other available-for-sale securities and held-to-maturity securities are presented as long-term investments.

Impairment

The Bank reviews investments in securities whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Impairment losses are recognized when the reasonably estimated recoverable amounts are less than the carrying amount and it is not obviously evidenced that impairment is unnecessary.

(g) Investments in Associates and Subsidiaries

Associates are all entities over which the Bank has the ability to significantly influence the financial and operating policies and procedures, generally accompanying a shareholding of over 20 per cent of the voting rights. Subsidiaries are entities controlled by the Bank.

Investments in associates and subsidiaries are accounted for using the equity method of accounting and are initially recognized at cost.

The Bank's investments in associates and subsidiaries include goodwill identified on acquisition (net of any accumulated impairment loss). Goodwill is calculated as the excess of the acquisition cost of an investment in an associate or subsidiary over the Bank's share of the fair value of the identifiable net assets acquired. Goodwill is amortized using the straight-line method over its estimated useful life. Amortization of goodwill is recorded together with equity income (losses).

When events or circumstances indicate that the carrying value of goodwill may not be recoverable, the Bank reviews goodwill for impairment and records any impairment loss immediately in the statement of income.

The Bank's share of its post-acquisition profits or losses in investments in associates and subsidiaries is recognized in the income statement, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of each investment. Changes in the carrying amount of an investment resulting from dividends by an associate or subsidiary are recognized when the associate or subsidiary declares the dividend. When the Bank's share of losses in an associate or subsidiary equals or exceeds its interest in the associate or subsidiary, including preferred stock or other long term loans and receivables issued by the associate or subsidiary, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or subsidiary. Unrealized gains on transactions between the Bank and its associates or subsidiaries are eliminated to the extent of the Bank's interest in each associate or subsidiary.

(h) Property and Equipment

Property, plant and equipment are stated at cost, except in the case of revaluations made in accordance with the Asset Revaluation Law which allowed for asset revaluation prior to the Law being revoked. Assets acquired through investment in kind or donation, are recorded at their fair value upon acquisition. For assets acquired in exchange for a non-monetary asset, the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

Significant additions or improvements extending useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

Depreciation is computed by the declining-balance method for personal properties and the straight-line method for buildings, structures and leasehold improvements over the useful lives of the respective assets as follows:

	Useful lives (years)
Buildings	40
Leasehold improvements	5
Operating movable properties	4

The Bank recognizes interest costs and other financial charges on borrowings associated with the production, acquisition or construction of property, plant and equipment as an expense in the period in which they are incurred.

(i) Leases

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

The assumption of substantially all the risks and rewards of ownership is evidenced when one or more of the criteria listed below are met:

- Ownership of the leased property will be transferred to the lessee at the end of the lease term.
- The lessee has a bargain purchase option, and it is reasonably certain at the inception of the lease that the option will be exercised.
- The lessee has a bargain purchase option, and it is reasonably certain at the inception of the lease that the option will be exercised.
- The lease term is equal to 75% or more of the estimated economic useful life of the leased property.
- The present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the fair value of the leased property.

In addition, if the leased property is specialized to the extent that only the lessee can use it without any major modification, it would be considered a capital lease.

Where the Bank is a lessee under a capital lease, the present value of future minimum lease payments is capitalized and a corresponding liability is recognized. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(j) Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Impairment losses are determined as the amount required to reduce the carrying amount of an intangible asset to its recoverable amount.

The criteria for determining whether an incurred cost qualifies as an intangible asset and the periods of amortization for each classification of intangible asset are described below.

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

	Useful lives (years)
Computer software	4
Contributed acceptances	10 - 20
Leasehold improvements	5

(k) Retirement and Severance Benefits

Employees who have been with the Bank for more than one year are entitled to lump-sum payments based on current salary rates of pay and length of service when they leave the Bank. The Bank's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying non-consolidated balance sheets. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying non-consolidated balance sheets as a reduction of the liability for retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Bank transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be payable to the employees when they leave the Bank and is accordingly reflected in the accompanying non-consolidated financial statements as a reduction of the retirement and severance benefits liability. However, due to the new regulation effective applied since April 1999, such transfers to the National Pension Fund are no longer been required.

(l) Troubled Debts Restructuring

A loan of which the contractual terms have been modified in a troubled debt restructuring program is accounted for at the present value of future cash flows in the modified contracts discounted at a reasonable effective interest rate. If the present value differs from the face value of the loan, the difference is recorded as an allowance for loan losses as a deduction from the nominal value of the loan. The allowance for loan losses is amortized using the effective interest method recognized as interest income.

(m) Translation of Foreign Currency Denominated Assets and Liabilities

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains or losses recognized in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rate of exchange on December 31, 2008 that is presented by Seoul Money Brokerage Services.

(n) Derivative Instruments

The bank holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Attributable transaction costs are recognized in profit or loss when incurred.

Hedge accounting

Where a derivative, which meets certain criteria, is used for hedging the exposure to changes in the fair value of a recognized asset, liability or firm commitment, it is designated as a fair value hedge. Where a derivative, which meets certain criteria, is used for hedging the exposure to the variability of the future cash flows of a forecasted transaction it is designated as a cash flow hedge.

The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in fair values or cash flows of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to any ineffective portion is recognized immediately in the statement of income. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivative instruments that are not designated as fair value or cash flow hedges are recognized immediately in the statement of income.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized immediately in the statement of income.

The stock option program allows the Bank's employees to acquire shares of the Bank for a specified price at specified times. The option exercise price is generally fixed at below the market price of underlying shares at the date of the grant. The Bank values equity-settled stock options based upon an option pricing model under the fair value method and recognizes this value as an expense and capital adjustment over the period in which the options vest. When the options are exercised, equity is increased by the amount of the proceeds received which is equal to the exercise price. However, compensation cost for cash-settled stock options is measured each period based on the current stock price and is recognized as an expense and a liability over the service period.

(o) Income Tax

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference for those with no related asset or liability such as loss carryforwards and tax credit carryforwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

(p) Use of Estimates

The preparation of non-consolidated financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the non-consolidated financial statements and related notes to non-consolidated financial statements. Actual results could differ from those estimates.

(q) Accounting for Trust Accounts

The Bank separately maintains the books of accounts and financial statements in connection with the trust operations (Trust accounts) from those of the bank accounts in accordance with the Trust Business Act. The funds lent to the trust accounts are recorded as loans to the trust account and the funds borrowed from the trust accounts are recorded as borrowing from the trust accounts. The Bank receives fees for operation and management of the trust business and accounts for them as fees and commissions from trust accounts.

With respect to certain trust account products, the Bank guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to the bank accounts and receiving compensation contributions from the bank accounts of the Bank. If the Bank pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as other operating expense of the bank accounts.

3. Cash and Due from Banks

(a) Cash and due from banks as of December 31, 2008 and 2007 are as follows:

	(In millions of Won)	
	2008	2007
Cash & due from banks	₩ 305,311	319,669
Due from banks in Won	1,680,577	785,313
Due from banks in foreign currency	74,535	26,425
	₩ 2,060,423	1,131,407

(b) Due from banks as of December 31, 2008 and 2007 are as follows:

	(In millions of Won)	
	2008	2007
Due from banks in Won:		
The Bank of Korea	₩ 1,127,337	539,198
Commercial banks	525,603	232,058
Non-monetary financial institutions	20,000	-
Other	7,637	14,057
	₩ 1,680,577	785,313
Due from banks in foreign currency:		
The Bank of Korea	₩ 5,827	4,950
Commercial banks	6,181	10,276
Banks in foreign countries	13,273	11,117
Other	49,254	82
	₩ 74,535	26,425

(c) Restricted due from banks as of December 31, 2008 and 2007 are as follows:

	(In millions of Won)	
	2008	2007
Reserve deposits in the Bank of Korea	₩ 1,127,337	539,198
Reserve deposits in the Bank of Korea in foreign currency	5,827	4,950
	₩ 1,133,164	544,148

4. Securities

(a) Securities as of December 31, 2008 and 2007 are as follows:

	(In millions of Won)	
	2008	2007
Trading securities	₩ -	5,011
Available-for-sale securities	2,339,169	2,328,196
Held-to-maturity securities	2,316,373	2,288,816
Equity method investment securities	475	457
	₩ 4,656,017	4,622,480

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(b) Trading securities

(i) Valuation of trading securities as of December 31, 2008 and 2007 are as follows:

	(In millions of Won)				
		Acquisition cost		Fair value ^(*)	
		2008	2007	2008	2007
Other	₩	-	4,977	-	5,011

(*) Debt securities are recorded at fair value using the standard-yield-ratio of Korea Bond Pricing & KR Co. and KIS Pricing Inc.

(ii) Classifications by issuers of trading securities as of December 31, 2008 and 2007 are as follows:

Bonds

	(In millions of Won)				
		2008		2007	
		Amount	Ratio (%)	Amount	Ratio (%)
Other	₩	-	-	5,011	100.00

(c) Available-for-Sale securities

(i) Details of available-for-sale securities as of December 31, 2008 and 2007 are as follows:

	(In millions of Won)		
		2008	2007
Equity Securities	₩	322,891	319,565
Debt Securities in Won		1,923,127	1,856,958
Debt Securities in foreign currency		93,151	151,673
	₩	2,339,169	2,328,196

(ii) Equity securities

(In millions of Won)

	2008				
	Number of shares	Ownership	Cost ^(*)	Fair value ^(**)	Gain (Loss) on valuation
(Unlisted Securities)					
Korea Housing Guarantee Co., Ltd.	2,577,800	0.40%	₩ 3,916	10,345	6,429
Daewoo Electronics Co., Ltd.	1,134,140	1.07%	671	790	119
BC Card Co., Ltd.	87,120	1.98%	792	4,873	4,081
Korea infra 2 Invest Co., Ltd.	1,021,524	2.00%	11,054	11,189	135
Korea Securities Finance Corp.	2,008	0.00%	10	14	4
Korea Asset Management Corp.	314,000	0.54%	1,570	1,570	-
Ilung Engineering Co., Ltd.	769,230	8.21%	1,000	1,000	-
Daegu Credit Information Co., Ltd. ^(***)	159,970	53.32%	800	800	-
Daegu World Trade Center	109,875	0.59%	505	505	-
Korea Money Brokerage Corp.	11,134	0.56%	56	234	178
KTB2006	1	9.90%	23,926	26,837	2,911
Donghae Pulp ^(****)	2,325,582	7.46%	24,048	11,930	(4,034)
Shinhan bank callable prefer stock	700,000		70,000	68,527	(1,473)
Others	-		148,103	145,849	(2,255)
			286,451	284,463	6,095
(Listed securities)	217,480		53,308	38,428	(205)
			₩ 339,759	322,891	5,890
		Deferred tax effect			(1,425)
		Accumulated other comprehensive income			4,465

(In millions of Won)

	2007				
	Number of shares	Ownership	Cost ^(*)	Fair value ^(**)	Gain (Loss) on valuation
(Unlisted Securities)					
Korea Housing Guarantee Co., Ltd.	2,577,800	0.40%	₩ 3,916	10,337	6,421
Daewoo Electronics Co., Ltd.	1,134,140	1.07%	671	671	-
BC Card Co., Ltd.	87,120	1.98%	792	4,257	3,465
Korea infra 2 Invest Co., Ltd.	176,899	2.00%	9,680	9,484	(196)
Korea Securities Finance Corp.	2,008	0.00%	10	13	3
Korea Asset Management Corp.	314,000	0.54%	1,570	1,570	-
Ilung Engineering Co., Ltd.	769,230	8.21%	1,000	1,000	-
Daegu Credit Information Co., Ltd. ^(***)	159,970	53.32%	800	800	-
Daegu World Trade Center	109,875	0.59%	505	505	-
Huchems fine chemical Co., Ltd.	604,606	3.52%	8,985	11,634	2,649
KTB2006	1	9.90%	23,926	26,108	2,182
Shinhan bank callable prefer stock.	700,000		70,000	67,836	(2,164)
Others	-		77,367	79,663	2,295
			199,222	213,878	14,655
(Listed securities) ^(****)	269,516		94,332	105,687	355
			₩ 293,554	319,565	15,010
		Deferred tax effect			(4,127)
		Accumulated other comprehensive income			10,883

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(*) Impairment loss was deducted from cost.

(**) The unlisted securities are recorded at fair value using the standard-yield-ratio of Korea Bond Pricing & KR Co. However, the others are recorded at acquisition cost, since the fair value is not available or readily determined.

(***) Since total assets of Daegu Credit Information Co., Ltd. did not exceed ₩7,000 million as of December 31, 2007 and the effect of the equity method adjustment is not material, the equity securities are not accounted for using the equity method of accounting.

(****) Since the securities of Donghae Pulp and POSCO are subject to fair value hedge, the gain or loss relating to these securities is recognized immediately in the statement of income

(iii) Debt securities

Details of debt securities as of December 31, 2008 and 2007 are as follows:

(In millions of Won)				
2008	Face value	Amortized cost	Fair value(*)	Gain (Loss) on valuation
Government bonds	₩ 691,000	673,676	682,193	8,517
Financial debentures	390,000	390,303	393,121	2,818
Corporate bonds	238,276	238,003	229,007	(8,996)
Beneficiary certificates	417,097	418,304	381,912	(36,392)
Available-for-sale securities in foreign currency	107,516	109,608	93,151	(16,457)
Other	230,000	230,051	236,894	6,843
	₩ 2,073,889	2,059,945	2,016,278	(43,667)
				Deferred tax effect
				10,568
				Accumulated other comprehensive income
				(33,099)

(In millions of Won)				
2007	Face value	Amortized cost	Fair value(*)	Gain (Loss) on valuation
Government bonds	₩ 750,000	732,311	707,916	(24,395)
Financial debentures	640,000	636,658	628,745	(7,913)
Corporate bonds	135,924	135,794	132,540	(3,254)
Beneficiary certificates	273,494	272,217	268,120	(4,097)
Available-for-sale securities in foreign currency	160,302	156,136	151,673	(4,463)
Other	120,000	121,860	119,637	(2,223)
	₩ 2,079,720	2,054,976	2,008,631	(46,345)
				Deferred tax effect
				12,745
				Accumulated other comprehensive income
				(33,600)

(*) Debt securities are recorded at fair value using the standard-yield-ratio of Korea Bond Pricing & KR Co. and KIS Pricing Inc.

(iv) Details of unrealized gain(loss) on available-for-sale securities for the years ended December 31, 2008 and 2007 are as follows:

(In millions of Won)

	Equity securities	Bonds in local currency	Bonds in foreign currency	Total
Beginning balance	₩ 15,010	(41,882)	(4,463)	(31,335)
Realized gains on disposition of securities	(6,260)	459	(1,720)	(7,521)
Unrealized gain (loss)	5,287	(32,383)	(3,620)	(30,716)
Net balance at end of year	5,890	(27,210)	(16,457)	(37,777)
Deferred income tax assets (liabilities)	1,425	(6,585)	(3,983)	(9,143)
Net balance at end of year	₩ 4,465	(20,625)	(12,474)	(28,634)

(d) Held-to-maturity Securities

Details of held-to-maturity securities as of December 31, 2008 and 2007 are as follows:

(In millions of Won)

	2008			
	Face value	Acquisition cost	Amortized cost	Book value
Government bonds	₩ 1,243,626	1,178,764	1,199,573	1,199,573
Financial debentures	620,000	609,499	609,869	609,869
Other	510,340	504,273	506,931	506,931
	₩ 2,373,966	2,292,536	2,316,373	2,316,373

(In millions of Won)

	2007			
	Face value	Acquisition cost	Amortized cost	Book value
Government bonds	₩ 1,319,027	1,241,681	1,261,237	1,261,237
Financial debentures	380,000	379,496	379,613	379,613
Held-to-maturity securities in foreign currency	9,382	9,382	9,382	9,382
Other	644,828	636,623	638,584	638,584
	₩ 2,353,237	2,267,182	2,288,816	2,288,816

(e) Impairment losses on securities as of December 31, 2008 are as follows:

(In millions of Won)

	Amount before impairment	Amount after impairment	Impairment loss
Stock:			
KDS	₩ 27	26	1
Bond:			
Harrier Finance Ltd.	4,903	–	4,903
	₩ 4,930	26	4,904

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(f) Available-for-sale securities and held-to-maturity securities in Won classified by issuer, as of December 31, 2008 and 2007 are as follows:

	2008		2007	
	Amount	Ratio (%)	Amount	Ratio (%)
Bonds:				
Government and public	₩ 1,881,766	44.39	1,969,153	47.61
Financial institution	1,002,990	23.66	1,008,358	24.38
Corporate	229,007	5.40	132,540	3.20
Other	1,125,737	26.55	1,026,341	24.81
	₩ 4,239,500	100.00	4,136,392	100.00
Stock:				
Manufacture	₩ 28,863	8.94	70,706	22.13
Construction	13,900	4.30	13,900	4.35
Wholesale and retail	2,920	0.90	2,920	0.91
Other	277,208	85.86	232,039	72.61
	₩ 322,891	100.00	319,565	100.00

(g) Available-for-sale bonds and held-to-maturity bonds denominated in foreign currency, by issuer, as of December 31, 2008 and 2007 are as follows:

By issuer

(In millions of Korean Won and thousands of U.S. Dollars)

	2008			2007		
	USD	Won equivalent	Ratio (%)	USD	Won equivalent	Ratio (%)
Financial institutions	\$ 14,229	₩ 17,893	19.21	15,371	14,421	8.95
Corporate	59,848	75,258	80.79	156,293	146,634	91.05
	\$ 74,077	₩ 93,151	100.00	171,664	161,055	100.00

By country

(In millions of Korean Won and thousands of U.S. Dollars)

	2008			2007		
	USD	Won equivalent	Ratio (%)	USD	Won equivalent	Ratio (%)
Korea	\$ 42,974	₩ 54,039	58.01	110,977	104,119	64.65
Ireland	24,691	31,049	33.33	37,539	35,219	21.87
Cayman Island	6,412	8,063	8.66	23,148	21,717	13.48
	\$ 74,077	₩ 93,151	100.00	171,664	161,055	100.00

(In millions of Korean Won and thousands of U.S. Dollars and EUR)

2008				2007			
Currency type		Won equivalent	Ratio (%)	Currency type		Won equivalent	Ratio (%)
USD	74,077	₩ 93,151	100.00	USD	164,277	₩ 154,125	95.70
EUR		–	–	EUR	7,387	6,930	4.30
		₩ 93,151	100.00			₩ 161,055	100.00

(h) Investment securities pledged to various institutions as of December 31, 2008 are as follows:

(In millions of Won)

		Book value		
		Collateralized value	Available-for-sale securities	Held-to-maturity securities
Bank of Korea borrowings	₩	100,000	–	99,417
Gross limited borrowings under credit line		249,200	126,790	114,220
Foreign currency margin call		274,500	226,374	48,050
Derivative instruments transactions		27,280	–	26,236
Deposit		3,540	–	3,394
Bonds under repurchase agreements		1,018,000	99,600	898,531
	₩	1,672,520	452,764	1,189,848

(i) Structured notes as of December 31, 2008 are as follows:

(In millions of Won)

	Type of structure	Face value	Book value	Embedded risk
Held-to-maturity securities in Won	Interest rate linked floating rate bonds	₩ 118,791	118,791	Earning declines when interest rate declines

(j) Investment Securities under the Equity Method of Accounting

(i) Details of investment securities under the equity method of accounting as of December 31, 2008 are as follows:

(In millions of Won)

Affiliate	Number of shares	Ownership	Cost	Net asset value	Book value
Daegu F.C.	₩ 300,000	9.20%	1,500	475	475

Bank applied equity method though the ratio of shareholding is less than 20% because the Bank can affect to the figure policy of subsidiary.

(ii) The details of valuation using the equity method for the year ended December 31, 2008 are as follows:

(In millions of Won)

Affiliate	January 1, 2008	Equity method income	December 31, 2008
Daegu F.C.	₩ 457	18	475

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The Company used the unaudited financial statements of these companies when applying the equity method of accounting. Additional review procedures were performed to assess the reliability of those financial statements.

(iii) The financial information of affiliated companies as of December 31, 2008 is as follows:

(In millions of Won)				
Affiliate	Total assets	Total liabilities	Operating revenues	Net income
Daegu F.C.	₩ 7,956	2,797	6,590	195

5. Loans

(a) Loans as of December 31, 2008 and 2007 are as follows:

			(In millions of Won)	
			2008	2007
Loans in Won	₩	16,128,534		14,904,896
Loans in foreign currency		645,784		238,801
Bills bought in Won		52,113		12,095
Discount present value		(433)		–
Bills bought in foreign currency		107,344		149,184
Advances for customers		4,676		563
Credit card accounts		392,406		353,852
Bonds purchased under resale agreements		70,000		–
Call loan		37,725		241,919
Private placed debenture		365,159		415,106
Loans for debt-equity swap		999		999
		17,804,307		16,317,415
Less: allowance for loan losses		(280,953)		(219,707)
	₩	17,523,354		16,097,708

(b) Loans in Won as of December 31, 2008 and 2007 are as follows:

		(In millions of Won)	
		Book value	Declared value
Loans to enterprises	Operation loans	₩ 8,044,472	7,518,468
	Facility loans	3,089,744	2,714,797
		11,134,216	10,233,265
Loans to households	Operation loans	3,584,116	4,290,760
	Housing loans	104,830	98,546
	Others	994,442	6,138
		4,683,388	4,395,444
Loans to public sectors and others	Operation loans	43,944	48,775
	Facility loans	90,032	81,452
		133,976	130,227
Loans to other banks		176,955	145,960
		₩ 16,128,535	14,904,896

(c) Loans in foreign currency as of December 31, 2008 and 2007 are as follows:

		(In millions of Won)	
		2008	2007
Loans to enterprises	₩	504,530	154,672
Loans in Won presented in Yen		-	20
Domestic import usance bills		141,254	72,339
Other		-	11,770
	₩	645,784	238,801

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(d) Loans to financial institutions as of December 31, 2008 and 2007 are as follows:

(In millions of Won)

	2008			
	Bank of Korea	Banks	Other financial institutions	Total
Loans in Won	–	176,955	59,676	236,631
Call loan in foreign currency	–	–	37,725	37,725
Bonds purchased under resale agreements	70,000	–	–	70,000
	₩ 70,000	176,955	97,401	344,356

	2007			
	Bank of Korea	Banks	Other financial institutions	Total
Loans in Won	–	145,960	58,949	204,909
Call loan in Won	–	153,000	–	153,000
Call loan in Foreign currency	–	88,919	–	88,919
	₩ –	387,879	58,949	446,828

(e) Loans in Korean Won classified by industry as of December 31, 2008 and 2007 are as follows:

(In millions of Won)

	2008		2007	
	Amount	Ratio (%)	Amount	Ratio (%)
Manufacturing	₩ 4,765,896	29.5	4,474,655	30.0
Construction	869,439	5.4	891,339	6.0
Wholesale and retail	1,366,977	8.5	1,318,221	8.8
Financial services and insurance	236,631	1.5	204,909	1.4
Other corporate loans	4,206,204	26.1	3,620,328	24.3
Households	4,683,388	29.0	4,395,444	29.5
	₩ 16,128,535	100.0	14,904,896	100.0

(f) Loans in foreign currency classified by industry as of December 31, 2008 and 2007 are as follows:

(In millions of Won)

	2008		2007	
	Amount	Ratio (%)	Amount	Ratio (%)
Manufacturing	₩ 226,850	35.1	86,200	36.1
Construction	1,704	0.3	1,056	0.4
Wholesale and retail	64,603	10.0	12,627	5.3
Domestic banker's usance	141,254	21.9	72,339	30.3
Other	211,373	32.7	66,579	27.9
	₩ 645,784	100.0	238,801	100.0

(g) Loan in give over by other as of December 31, 2008 is as follows:

			(In millions of Won)	
	Company		Amount	Condition
Loan	Korea Asset Management Corporation		11,774	After cost

6. Allowance for Loan Losses

(a) The allowances for loan losses, credit risk classifications and allowance rates as of December 31, 2008 and 2007 are as follows:

							(In millions of Won)	
	2008			2007				
	Amount ^(*)	Allowance rate (%)	Allowance for loan losses	Amount ^(*)	Allowance rate (%)	Allowance for loan losses		
Current	₩ 16,971,414	0.94	160,242	15,612,053	0.96	149,636		
Precautionary	307,394	8.60	26,433	193,748	9.49	18,383		
Substandard	128,630	20.00	25,728	85,463	20.01	17,099		
Doubtful	93,147	51.70	48,154	19,122	59.24	11,328		
Estimated loss	12,842	100.00	12,842	15,652	100.00	15,652		
Present value discount	–		7,554	–		7,609		
	₩ 17,513,427		280,953	15,926,038		219,707		

(*) This amount excludes call loan, bonds purchased under resale agreements and loans to banks.

(b) Details of allowances for loan losses as of December 31, 2008 and 2007 are as follows:

				(In millions of Won)	
	2008		2007		
Loans in Won	₩	230,162			180,731
Loans in foreign currency		7,447			3,590
Payments on guarantees		680			146
Bills bought in foreign currency		3,120			1,393
Credit card accounts		16,650			17,515
Privately placed debentures		13,876			4,604
Other		9,018			11,728
	₩	280,953			219,707

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(c) Allowance ratios as of December 31, 2008, 2007 and 2006 as follows:

(In millions of Won)

		Loans	Allowance for loan losses	Allowance ratio (%)
December 31, 2008	₩	17,513,427	280,953	1.6
December 31, 2007		15,926,038	219,707	1.4
December 31, 2006		14,012,749	204,769	1.5

(d) Changes in allowance for loan losses for the years ended December 31, 2008 and 2007 are as follows:

(In millions of Won)

	2008	2007
Beginning balance	219,707	204,769
Provision for losses	116,724	47,352
Write-off	(74,704)	(53,338)
Other changes ^(*)	19,226	20,924
Ending balance	₩ 280,953	219,707

(*) Sales of loans and recoveries of loans previously written-off.

7. Restructured Loans

(a) Restructured loans with workout plans or other similar restructuring programs as of December 31, 2008 are as follows:

(In millions of Won)

	The number of company	Balance before restructuring	Balance after restructuring	Present value discount
Workout	1	₩ 2,158	2,017	141
Revival	1	5,355	4,052	1,303
	2	₩ 7,513	6,069	1,444

(b) Changes in allowance for loan losses (present value discounts) for the year ended December 31, 2008 are as follows:

(In millions of Won)

	Beginning balance	Increase	Decrease	Ending balance
Allowance for loan losses	₩ 7,609	1,444	(1,499)	7,554

8. Property and equipment

(a) Property and equipment assets as of December 31, 2008 and 2007 are as follows:

(In millions of Won)			
	2008		2007
Property and equipment, at cost	₩	591,227	570,442
Accumulated depreciation		(209,551)	(185,999)
Net property and equipment		381,676	384,443
Other not used for business purpose		17,645	1,510
Ending balance	₩	399,321	385,953

(b) Changes in property and equipment for the years ended December 31, 2008 and 2007 are as follows:

(In millions of Won)						
	2008					December 31, 2008
	January 1, 2008	Acquisition	Disposal	Depreciation		
Land	₩ 185,985	-	-	-		185,985
Buildings	155,930	11,299	-	5,104		162,125
Leasehold improvement	6,762	2,853	-	2,078		7,537
Movable properties	31,663	14,183	43	20,197		25,606
Construction in progress	4,105	5,169	8,850	-		424
	₩ 384,445	33,504	8,893	27,379		381,677

(In millions of Won)						
	2007					December 31, 2008
	January 1, 2007	Acquisition	Disposal	Depreciation		
Land	₩ 170,843	15,781	639	-		185,985
Buildings	137,674	23,475	480	4,739		155,930
Leasehold improvements	5,080	3,436	-	1,754		6,762
Operating movable properties	30,347	22,251	11	20,925		31,662
Construction in progress	3,314	14,207	13,416	-		4,105
	₩ 347,258	79,150	14,546	27,418		384,444

(c) The book value and published value of land declared by the government for the purposes of taxes and land policy as of December 31, 2008 and 2007 are as follows:

(In millions of Won)					
	2008			2007	
	Book value	Published value		Book value	Published value
Land	₩ 185,985	164,143		185,985	158,693

Notes to Non-Consolidated Financial Statements

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(d) Assets insured as of December 31, 2008 are as follows:

(In millions of Won)			
Type	Asset	Insurance amount	Insurance company
Theft insurance	Cash	₩ 10,000	Samsung Fire Insurance Co., Ltd.
Package insurance	Building	209,120	Samsung Fire Insurance Co., Ltd.
Directors & officers liability		5,000	Samsung Fire Insurance Co., Ltd.
		₩ 224,120	

In addition, the Bank's automobiles are covered by fire and accident insurance.

9. Other Assets and Liabilities

(a) Other assets as of December 31, 2008 and 2007 are as follows:

(In millions of Won)		
	2008	2007
Other assets:		
Guarantee deposits paid	₩ 129,569	120,793
Accounts receivable	760,104	1,049,365
Accrued income	259,222	215,532
Prepaid expenses	6,917	4,254
Derivative instrument - assets	673,636	120,029
Intangible assets ^(*)	27,004	28,070
Suspense Receivable	2,727	4,616
Expenditures	1,657	2,056
Deposit money to court	159	160
Domestic Exchange Settlements Debits	3,239	1,874
	₩ 1,864,234	1,546,749

(*) Changes in intangible assets for the years ended December 31, 2008 and 2007 are as follows:

(In millions of Won)		
	2008	2007
Beginning balance	₩ 28,070	32,078
Acquisition	7,881	5,349
Decrease	(8,947)	(9,357)
Ending balance	₩ 27,004	28,070

(b) Other liabilities as of December 31, 2008 and 2007 are as follows:

	(In millions of Won)	
	2008	2007
Other liabilities:		
Retirement and severance benefits-net (note 14)	₩ 15,732	17,864
Allowances for acceptances and guarantees losses (note 13)	2,758	2,481
Allowances for undrawn commitment	21,985	23,160
Other allowances	25,485	9,296
Borrowing from trust account	419,552	569,766
Foreign exchange remittances pending	7,484	3,831
Accounts payable	842,549	1,061,997
Accrued expenses	380,578	309,591
Long-term accrued expense	60	3,696
Unearned income	26,334	29,290
Deposits for letter of guarantees and other	17,471	23,441
Deferred income tax liabilities (note 19)	32,713	31,997
Account for agency business	57,679	49,929
Liabilities incurred by agency relationship	26,266	60,078
Income tax payable	45,234	35,314
Derivative instrument - liabilities	531,204	120,091
Suspense receipts	4,086	738
Deposit for credit control	2,297	9,258
Withholding taxes	9,558	12,472
Guarantee deposit for securities subscription	1,807	11,645
Domestic exchange settlements credits	41,991	31,013
Lottery sold	3	3
Prepaid card	2,678	2,667
Debit card	288	308
Other	279	360
	₩ 2,516,071	2,420,286

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

10. Deposits

(a) Demand deposits as of December 31, 2008 and 2007 are as follows:

	(In millions of Won)	
	2008	2007
Deposits in Won:	₩ 703,094	670,843
Passbook deposits	3,542,102	3,658,989
Savings deposits	1,530,750	1,268,775
Corporate free savings deposits	699,844	751,244
Other	6,475,790	6,349,851
Deposits in foreign currency:	488	431
Current deposits	110,155	45,939
Passbook deposits	19	15
Temporary deposits	110,662	46,385
	₩ 6,586,452	6,396,236

(b) Time deposits as of December 31, 2008 and 2007 are as follows:

	(In millions of Won)	
	2008	2007
Deposits in Won:		
Time deposits	₩ 6,002,850	5,067,558
Installment savings deposits	561,483	295,334
Long term housing saving deposits	284,341	286,684
Mutual installment deposits	230,896	342,252
Other	36,526	74,678
	7,116,096	6,066,506
Deposits in foreign currency:		
Time deposits	22,944	28,824
Installment savings deposits	2,549	229
	25,493	29,053
	₩ 7,141,589	6,095,559

(c) Deposits in Won from financial institutions as of December 31, 2008 are as follows:

	(In millions of Won)	
	2008	2007
Banks	167,624	179,328
Other financial institutions	865,529	221,940
	₩ 1,033,153	401,268

11. Borrowings

(a) Details of borrowings as of December 31, 2008 and 2007 are as follows:

(In millions of Won)					
Account	Section	2008		2007	
Borrowings in Won	The Bank of Korea	₩ 317,491	3.05%	224,656	2.97%
	Government and public	–		149,647	3.23%
	Other	1,054,336	3.77%	885,147	3.84%
		1,371,827		1,259,450	
Borrowings in foreign currency	Borrowings from banks	988,688	3.82%	788,639	3.74%
Bonds sold under repurchase agreement	Bank	26,500	4.94%	–	
	Other	717,167	5.02%	595,067	4.22%
		743,667			
Bills sold		10,094	5.20%	13,351	4.46%
Call money	In foreign currency	145,140	5.09%	–	–%
		–		–	
Debentures	In Won	2,219,155	5.68%	1,385,447	5.54%
		₩ 5,478,571		4,041,954	

(b) Borrowings from financial institutions as of December 31, 2008 and 2007 are as follows:

(In millions of Won)				
	2008			
	The Bank of Korea	Other banks	Other financial institutions	Total
Borrowings in Won	₩ 317,491	115,505	–	432,996
Borrowings in foreign currency	–	255,226	–	255,226
	₩ 317,491	370,731	–	688,222

(In millions of Won)				
	2007			
	The Bank of Korea	Other banks	Other financial institutions	Total
Borrowings in Won	₩ 224,656	100,916	–	325,572
Borrowings in foreign currency	–	230,141	–	230,141
	₩ 224,656	331,057	–	555,713

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12. Debentures

Debentures as of December 31, 2008 and 2007 are as follows:

Issuance date	Maturity date	Coupon rate	2008	2007
2002. 11. 26	2008. 02. 26	6.75%	₩ -	55,000
2003. 12. 26	2009. 01. 26	6.00%	60,000	60,000
2005. 07. 26	2011. 01. 26	5.00%	120,000	120,000
2006. 12. 04	2012. 01. 04	5.32%	100,000	100,000
2007. 02. 06	2013. 01. 06	5.53%	70,000	70,000
2007. 02. 26	2013. 01. 26	5.53%	30,000	30,000
2007. 04. 02	2009. 04. 02	5.10%	100,000	100,000
2007. 04. 05	2010. 04. 05	5.15%	100,000	100,000
2007. 04. 26	2010. 04. 26	5.35%	100,000	100,000
2007. 04. 26	2009. 04. 26	5.31%	100,000	100,000
2007. 05. 15	2009. 05. 15	5.35%	100,000	100,000
2007. 08. 27	2008. 08. 27	5.54%	-	20,000
2007. 08. 29	2008. 08. 29	5.57%	-	10,000
2007. 08. 29	2009. 08. 29	5.73%	80,000	80,000
2007. 08. 31	2010. 08. 31	5.79%	40,000	40,000
2007. 09. 12	2010. 09. 12	5.86%	10,000	10,000
2007. 09. 18	2008. 09. 18	5.74%	-	50,000
2007. 10. 11	2008. 10. 11	5.72%	-	50,000
2007. 10. 17	2009. 10. 17	5.95%	70,000	70,000
2007. 10. 24	2008. 10. 24	5.69%	-	20,000
2007. 11. 09	2008. 11. 09	5.81%	-	50,000
2007. 12. 18	2008. 12. 18	6.43%	-	20,000
2007. 12. 27	2009. 12. 27	6.91%	40,000	40,000
2008. 01. 15	2010. 01. 15	6.58%	50,000	-
2008. 01. 25	2014. 01. 25	6.76%	110,000	-
2008. 01. 29	2009. 01. 29	5.55%	50,000	-
2008. 02. 01	2009. 02. 01	5.37%	45,000	-
2008. 02. 15	2009. 02. 15	5.22%	40,000	-
2008. 02. 07	2010. 02. 07	5.56%	50,000	-
2008. 02. 28	2014. 02. 28	6.02%	90,000	-
2008. 03. 06	2009. 03. 06	5.21%	30,000	-
2008. 04. 07	2009. 10. 07	5.84%	50,000	-
2008. 04. 14	2009. 10. 14	5.70%	60,000	-
2008. 04. 15	2009. 04. 15	5.55%	10,000	-
2008. 04. 16	2009. 10. 16	5.67%	30,000	-
2008. 04. 21	2009. 07. 21	5.61%	30,000	-
2008. 04. 28	2009. 07. 28	5.57%	60,000	-
2008. 05. 06	2009. 05. 06	5.47%	60,000	-
2008. 08. 26	2010. 02. 26	7.32%	10,000	-
2008. 08. 26	2010. 08. 26	7.46%	₩ 30,000	-

Issuance date	Maturity date	Coupon rate	2008		2007
2008. 11. 19	2015. 02. 19	8.00%	₩	17,026	-
2008. 11. 19	2015. 02. 19	8.00%		28,772	-
2008. 11. 21	2015. 02. 21	8.00%		31,867	-
2008. 11. 21	2015. 02. 21	8.00%		16,660	-
2008. 11. 25	2015. 02. 25	8.00%		24,119	-
2008. 11. 25	2015. 02. 25	8.00%		31,556	-
2008. 12. 30	2009. 12. 30	5.58%		20,000	-
2008. 12. 30	2010. 12. 30	6.15%		40,000	-
2008. 12. 31	2009. 12. 31	5.54%		50,000	-
2008. 12. 31	2010. 12. 31	6.11%		30,000	-
2008. 12. 31	2011. 12. 31	6.27%		10,000	-
				2,225,000	1,395,000
Less discount debentures				(5,845)	(9,553)
				₩ 2,219,155	1,385,447

13. Guarantees and Acceptances

(a) Allowances for losses on guarantees and acceptances outstanding as of December 31, 2008 and 2007 are as follows:

							(In millions of Won)
							2008
		Current	Precautionary	Substandard	Doubtful	Estimated loss	Total
Guarantees and Acceptances outstanding							
Guaranteed amount	₩	288,419	5,127	26	-	-	293,572
Allowance		1,921	339	3	-	-	2,263
Contingent guarantees and acceptances							
Guaranteed amount		120,979	4,034	6	-	-	125,019
Allowance		364	130	1	-	-	495
Guaranteed amount	₩	409,398	9,161	32	-	-	418,591
Allowance	₩	2,285	469	4	-	-	2,758
							2007
		Current	Precautionary	Substandard	Doubtful	Estimated loss	Total
Guarantees and Acceptances outstanding							
Guaranteed amount	₩	211,694	2,198	-	-	-	213,892
Allowance		1,524	283	-	-	-	1,807
Contingent guarantees and acceptances							
Guaranteed amount		154,791	4,335	5	296	18	159,445
Allowance		484	151	-	30	9	674
Guaranteed amount	₩	366,485	6,533	5	296	18	373,337
Allowance	₩	2,008	434	-	30	9	2,481

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(b) The ratio of allowance for losses on guarantees and acceptances to the amount guaranteed as of December 31, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
Guaranteed amount	₩ 293,572	213,892	132,494
Allowances for guarantees and acceptances	2,263	1,807	1,366
Ratio	0.77%	0.84%	1.03%

(c) Guarantees and acceptances classified by industry as of December 31, 2008 are as follows:

	Guarantees and acceptances outstanding				Contingent guarantees and acceptances		Total	
	Won		Foreign currencies		Balance	Ratio (%)	Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)				
Manufacturing	₩ 67,288	47.70	78,561	51.51	105,802	84.63	251,651	60.12
Construction	5,621	3.98	822	0.54	38	0.03	6,481	1.55
Retail and wholesale	59,892	42.46	8,600	5.64	17,049	13.64	85,541	20.44
Finance and insurance	937	0.67	-	-	-	-	937	0.22
Other	7,326	5.19	64,525	42.31	2,130	1.70	73,981	17.67
	₩ 141,064	100.00	152,508	100.00	125,019	100.00	418,591	100.00

(d) Guarantees and acceptances classified by consumer as of December 31, 2008 are as follows:

	Guarantees and acceptances outstanding				Contingent guarantees and acceptances		Total	
	Won		Foreign currencies		Balance	Ratio (%)	Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)				
Corporate	₩ 141,064	100.00	152,508	100.00	125,019	100.00	418,591	100.00

(e) Changes in other allowance for the year ended December 31, 2008 are as follows:

	January 1, 2008	Increase	Decrease	December 31, 2008
Unused commitment	₩ 23,160	-	1,175	21,985
Mileage on credit cards	5,849	3,024	200	8,673
Sale of assets retention	4	(2)	-	2
Welfare of retired employees	2,050	(150)	-	1,900
Dormant deposits written-off	1,392	191	-	1,583
Valuation of derivatives	-	13,327	-	13,327
	₩ 9,295	16,390	200	25,485

14. Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2008 and 2007 are summarized as follows:

	(In millions of Won)	
	2008	2007
Estimated severance accrual at beginning of year	₩ 44,738	43,190
Provision for retirement and severance benefits	17,241	18,362
Payments	(16,175)	(16,814)
Estimated severance accrual at end of year	45,804	44,738
Transfer to National Pension Fund	(4)	(5)
Deposit for severance benefit insurance	(30,068)	(26,869)
Net balance at end of year	₩ 15,732	17,864

15. Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2008 and 2007 are as follows:

	(In millions of Won and thousands of U.S. Dollars)			
	2008		2007	
	USD	Won equivalent	USD	Won equivalent
Assets:				
Cash in foreign currencies	\$ 26,841	₩ 33,752	\$ 24,949	₩ 23,408
Due from banks in foreign currency	59,272	74,535	28,165	26,425
Available-for-sale securities in foreign currency	74,077	93,151	161,664	151,673
Held-to-maturity securities in foreign currency	-	-	10,000	9,382
Loans in foreign currency	513,546	645,784	254,529	238,801
Call loans in foreign currency	30,000	37,725	94,776	88,919
Bills bought in foreign currency	85,363	107,344	159,010	149,184
	\$ 789,099	₩ 992,291	\$ 733,093	₩ 687,792
Liabilities:				
Deposits in foreign currency	\$ 108,274	₩ 136,155	\$ 80,407	₩ 75,439
Borrowings in foreign currency	786,233	988,688	840,582	788,639
Call money in foreign currency	115,420	145,140	-	-
Foreign exchanges payable	5,951	7,484	4,083	3,831
Import deposit money in foreign currency	4,822	6,063	11,387	10,684
	\$ 1,020,700	₩ 1,283,530	\$ 936,459	₩ 878,593

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16. Assets and Liabilities by Maturity

Assets and liabilities by maturity as of December 31, 2008 and 2007 are summarized as follows:

(In millions of Won)

	2008					Total
	Less than six months	Less than one year	Less than three years	Greater than three years		
Assets:						
Due from banks in Won	₩ 328,801	202,301	14,500	1,134,975	1,680,577	
Due from banks in foreign currency	25,281	–	–	49,254	74,535	
Securities in Won	708,114	880,834	2,106,991	866,926	4,562,865	
Securities in foreign currency	9,805	–	31,076	52,270	93,151	
Payments on guarantees	4,676	–	–	–	4,676	
Loans in Won	5,663,016	4,642,049	2,132,693	3,690,777	16,128,535	
Loans in foreign currency	397,779	62,743	87,986	97,276	645,784	
Bills brought in foreign currency	106,269	885	190	–	107,344	
Call loans	37,725	–	–	–	37,725	
	₩ 7,281,466	5,788,812	4,373,436	5,891,478	23,335,192	
Liabilities:						
Deposits in Won	₩ 3,563,869	2,703,217	586,415	6,738,385	13,591,886	
Deposits in foreign currency	24,202	1,290	–	110,662	136,154	
Certificates of deposit	2,228,268	929,250	24,470	–	3,181,988	
Borrowings in Won ^(*)	1,103,803	117,172	377,475	527,137	2,125,587	
Borrowings in foreign currency	648,940	239,147	100,600	–	988,687	
Debentures in won	595,000	490,000	590,000	550,000	2,225,000	
Call money in foreign currency	145,140	–	–	–	145,140	
	₩ 8,309,222	4,480,076	1,678,960	7,926,184	22,394,442	

(*) Include bond sold under repurchase agreement bills sold.

Assets and liabilities by maturity as of December 31, 2008 and 2007 are summarized as follows:

(In millions of Won)

	2007				Total
	Less than six months	Less than one year	Less than three years	Greater than three years	
Assets:					
Due from banks in Won	₩ –	131,534	100,524	553,255	785,313
Due from banks in foreign currency	26,343	–	–	82	26,425
Securities in Won	386,061	841,848	2,251,024	982,491	4,461,424
Securities in foreign currency	8,450	52,956	25,318	74,331	161,055
Payments on guarantees	563	–	–	–	563
Loans in Won	4,908,266	4,540,306	2,088,867	3,367,457	14,904,896
Loans in foreign currency	127,047	29,143	47,776	34,835	238,801
Bills brought in foreign currency	148,833	351	–	–	149,184
Call loans	241,919	–	–	–	241,919
	₩ 5,847,482	5,596,138	4,513,509	5,012,451	20,969,580

(continued)

(In millions of Won)

	2007				Total
	Less than six months	Less than one year	Less than three years	Greater than three years	
Liabilities:					
Deposits in Won	₩ 3,265,743	2,254,762	387,258	6,508,594	12,416,357
Deposits in foreign currency	26,378	2,675	–	46,386	75,439
Certificates of deposit	2,352,987	953,108	101,211	–	3,407,306
Borrowings in Won ^(*)	869,908	106,506	364,099	527,355	1,867,868
Borrowings in foreign currency	458,330	264,635	65,674	–	788,639
Debentures in won	55,000	220,000	800,000	320,000	1,395,000
	₩ 7,028,346	3,801,686	1,718,242	7,402,335	19,950,609

17. General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2008 and 2007 are as follows:

(In millions of Won)

	2008	2007
Salaries and wages	₩ 147,020	145,477
Provision for retirement and severance benefits	17,241	18,362
Other employee benefits	25,854	24,732
Rent	6,585	5,645
Depreciation	27,379	27,418
Amortization	8,947	9,357
Tax and dues	12,698	11,158
Advertising	11,067	9,618
Physical training and culture expense	34,073	33,168
Service expense	23,564	20,997
Other	81,445	79,729
	₩ 395,873	385,661

18. Non-operating Income (Expense)

Details of Non-operating income (expense) for the years ended December 31, 2008 and 2007 are as follows:

(In millions of Won)

	2008	2007
Non-operating income		
Gain on disposal of tangible assets	₩ 55	1,397
Rent fee received	1,786	1,710
Other	11,882	16,595
	13,723	19,702

(continued)

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	(In millions of Won)	
	2008	2007
Non-operating expenses		
Loss on disposal of tangible assets	₩ (56)	(283)
Expenses on loan recovery	(2,084)	(1,673)
Donations	(9,197)	(6,169)
Other	(6,590)	(14,482)
	(17,927)	(22,607)
Non-operating income, net	₩ (4,204)	(2,905)

19. Income Taxes

(a) Components of income tax expense for the years ended December 31, 2008 and 2007 are as follows:

	(In millions of Won)	
	2008	2007
Income tax currently payable	₩ 86,666	97,738
Total tax effect	87,381	91,645
Income tax expense directly charged to shareholder's equity	583	9,458
Income tax expense	₩ 87,964	101,103

(b) Deferred tax liabilities are measured using the tax rate to be applied for the year in which temporary differences are expected to be realized and among the change in deferred tax liabilities due to the reduce in the income tax rate amounting to ₩7,354 millions, of which ₩1,277 millions was recognized directly to equity and ₩8,631 millions was recognized in current income tax benefits.

(c) The reconciliation of accounting income and taxable income for the years ended December 31, 2008 and 2007 is as follows:

	(In millions of Won)	
	2008	2007
Net income before income tax expense	₩ 349,138	361,923
Income tax calculated at the effective tax rate	95,982	99,516
Adjustments		
Income not assessable for tax purposes	(590)	(246)
Expense not deductible for tax purposes	1,466	1,584
Unrecognized effect of deferred tax in temporary differences	(4)	286
Tax credit	(287)	16
Effect of change in tax rate	(8,631)	-
Others	28	(53)
Income tax expense	87,964	101,103
Effective tax rate	25.19%	27.93%

(d) Changes in deferred tax assets (liabilities) for the years ended December 31, 2008 and 2007 are as follows:

(In millions of Won)

	2008				
	January 1, 2008	Decrease	Increase	December 31, 2008	Deferred income tax assets (liabilities)
Deductible (Taxable) temporary differences:					
Accrued income	₩ (154,062)	(45,630)	(48,166)	(156,599)	(36,218)
Gain on valuation of securities	(55,508)	(462)	(29,064)	(84,110)	(19,172)
Risk of fair price	(47,220)	1,512	84,331	35,599	8,614
Gain (loss) on valuation of derivatives	(3,603)	702,155	602,673	(103,085)	(24,946)
Loss on valuations using equity method of accounting	1,043	17	–	1,026	–
Extinctive prescription of deposit	2,017	2,017	5,511	5,511	1,333
Allowance for acceptances and guarantees losses	2,481	464	741	2,758	667
Retirement and severance benefit	3,498	–	–	3,498	773
Stock options	3,695	3,636	–	59	14
Accrual of expenses	4,825	4,825	21,976	21,976	5,318
Gain on valuation of trading securities	6,917	7,012	95	–	–
Other allowance	32,455	1,374	16,390	47,471	11,487
Other	56,235	19,766	6,080	42,550	10,059
	₩ (147,227)	696,686	660,567	183,346	(42,071)
Directly charged to the capital adjustment account:					
Loss on valuation of available-for-sale Securities					9,141
Effective portion of changes in fair value of cash flow hedges					217
Deferred income tax liabilities					(32,713)

(In millions of Won)

	2007				
	January 1, 2008	Decrease	Increase	December 31, 2008	Deferred income tax assets (liabilities)
Deductible (Taxable) temporary differences:					
Accrued income	₩ (162,162)	(78,150)	(70,049)	(154,061)	(42,367)
Gain on valuation of securities	(86,316)	(54,771)	(23,964)	(55,509)	(15,265)
Risk of fair price	(8,443)	(8,452)	(47,230)	(47,221)	(12,986)
Gain (loss) on valuation of derivatives	8,617	119,571	107,350	(3,604)	(991)
Loss on valuations using equity method of accounting	–	–	1,043	1,043	–
Extinctive prescription of deposit	2,016	2,016	2,018	2,018	555
Allowance for acceptances and guarantees losses	1,992	–	489	2,481	682

(continued)

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

(In millions of Won)

	2007				
	January 1, 2008	Decrease	Increase	December 31, 2008	Deferred income tax assets (liabilities)
Retirement and severance benefits	₩ 3,498	–	–	3,498	962
Stock options	4,469	1,191	418	3,696	1,016
Accrual of expenses	3,947	3,947	4,826	4,826	1,327
Gain on valuation of trading securities	6,485	1,106	1,537	6,916	1,902
Other allowance	28,099	1,357	5,713	32,455	8,925
Other	61,839	20,839	15,238	56,238	15,465
	₩ (135,959)	8,654	(2,611)	(147,224)	(40,775)
Directly charged to the capital adjustment account:					
Loss on valuation of available-for-sale Securities	₩				8,617
Effective portion of changes in fair value of cash flow hedges					159
Deferred income tax liabilities	₩				(31,997)

(e) Corporate tax amount and deferred income tax which was directly charged to the capital in 2008 and 2007 are as follow:

(In millions of Won)

	2008		2007	
	Amount	Deferred income tax liabilities	Amount	Deferred income tax liabilities
Effective portion of changes in fair value of cash flow hedges, net of tax	₩ (37,776)	(9,141)	(31,335)	(8,617)
Changes in unrealized gain on valuation of available-for-sale securities, net of tax	(898)	(217)	(580)	(159)
	₩ (38,674)	(9,358)	(31,915)	(8,776)

(f) Effective tax rates for the years ended December 31, 2008 and 2007 are as follows:

(In millions of Won)

	2008	2007
Income tax expense	₩ 87,965	101,103
Income before income taxes	349,137	361,923
Effective tax rate	₩ 25.19%	27.93%

(g) Item which was not recognized as deferred tax asset as of December 31, 2008 is as follows:

(In millions of Won)

	Amount	Expiry date
Deductible temporary difference	₩ 1,026	–

(h) Item which was not recognized as deferred tax liability is as follows:

	(In millions of Won)	
	2008	2007
Land for business purposes	₩ (23,727)	(23,727)

(i) Deferred tax assets (liabilities) before set-off are as follows:

	(In millions of Won)	
	2008	2007
Deferred tax assets	₩ 48,242	40,366
Deferred tax liabilities	(80,954)	(72,363)
Deferred tax liabilities (net)	₩ (32,712)	(31,997)

(j) Income tax payable and prepaid income tax before set-off are as follows:

	(In millions of Won)	
	2008	2007
Income tax payable	₩ 86,665	97,738
Prepaid income tax	41,431	62,424
Income tax payable (net)	₩ 45,234	35,314

20. Basic and Diluted Earnings Per Share

(a) Basic earnings per share

	(In millions of Won, except shares date)	
	2008	2007
Net income	₩ 261,174	260,820
Weighted average number of shares outstanding	132,125,000	132,125,000
Basic earnings per share in Won	₩ 1,977	1,974

(b) Diluted earnings per share are equal to basic earnings per share, as the Bank has no dilutive debt instruments.

21. Stock Options

Details of stock options are as follows:

(a) Stock options as of December 31, 2008

Stock option	Shares to be issued	Grant date	Exercise method	Exercise price per share in Won	Exercise period
3 rd	985 shares	2003. 03. 26	Cash settlement	₩ 5,000	06. 03. 27~09. 03. 26
4 th	58,013 shares	2004. 03. 19	Cash settlement	6,929	07. 03. 20~10. 03. 19
5 th	241,627 shares	2005. 03. 25	Cash settlement	7,674	08. 03. 26~11. 03. 25
6 th	45,150 shares	2006. 03. 10	Cash settlement	14,855	09. 03. 11~12. 03. 10
7 th	84,000 shares	2006. 12. 19	Cash settlement	15,823	09. 12. 30~12. 12. 29
8 th	37,333 shares	2007. 12. 26	Cash settlement	15,297	10. 12. 28~13. 12. 27
9 th	121,334 shares	2008. 03. 12	Cash settlement	13,099	11. 03. 13~14. 03. 12

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

(b) Increase in stock options for the years December 31, 2008 and 2007 are as follows:

	(In millions of Won)	
	2008	2007
January 1, 2008	₩ 659,045	721,768
Increase	121,334	60,000
Exercise	(131,332)	(115,736)
Cancelled	(60,605)	(6,987)
December 31, 2008	₩ 588,442	659,045

(c) The primary factors of evaluating fair value by using Black-sholes option pricing model.

(In Won)						
Share appreciation rights	Stock price	Option price	Expected variance	Expected continued period	Risk free rate	Fair value
8 th	₩ 6,700	15,297	41.79%	4.58 years	3.77%	703
9 th	6,700	13,099	41.88%	4.79 years	3.77%	931

22. Related Party Transactions

(a) Related parties and investments as of December 31, 2008 are as follows:

(In millions of Won)			
	Relation	Capital stock	Equity ratio
Daegu Credit Information Co., Ltd.	Unconsolidated subsidiary	₩ 1,500	53.32%
Daegu FC	Affiliated Company	16,300	9.20%
Korea Lease Financing Co., Ltd.	Affiliated Company	20,000	22.29%

(b) Significant transactions and related account balances which occurred in the normal course of business with related parties as of and for the years ended December 31, 2008 and 2007 are as follows:

	(In millions of Won)					
	Daegu FC		Daegu Credit Information Co., Ltd.		Korea Lease Financing Co., Ltd.	
	2008	2007	2008	2007	2008	2007
Assets:						
Loans	₩ -	-	-	-	12,007	12,270
Liabilities:						
Deposits	6,242	6,014	3,127	3,267	4,457	4,457
Guarantee deposits received	-	-	165	165	-	-
	6,242	6,014	3,292	3,432	4,457	4,457
Revenues:						
Interest on loans	-	-	-	-	13	54
Other	-	-	34	34	-	-
	-	-	34	34	13	54

(continued)

(In millions of Won)

	Daegu FC		Daegu Credit Information Co., Ltd.		Korea Lease Financing Co., Ltd.	
	2008	2007	2008	2007	2008	2007
Expenses:						
Interest on deposits	₩ 238	105	165	150	250	612
Other	560	770	2,092	2,416	-	-
	₩ 798	875	2,257	2,566	250	612

(c) Compensation and employee benefits for the management as of December 31, 2008 and 2007 are as follows:

(In millions of Won)

	2008	2007
Salaries	₩ 1,405	1,388
Stock option	(1,388)	401
	₩ 17	1,789

23. Trusts with Guarantees

Trusts with guarantees as of December 31, 2008 and 2007 are as follows:

(In millions of Won)

	2008		2007		Remark
	Book value	Trust fee	Book value	Trust fee	
Unspecific money trusts	₩ 32	31	73	5	Guarantees of principal and yield
Development trusts	-	773	-	1,263	"
Reserving objective trusts	82	15	208	13	Guarantees of principal
Housing money trusts	5,803	252	7,794	107	"
Retirement pension trusts	1,816	94	2,582	112	"
Business money trusts	105	1	107	-	"
Personal pension money trusts	141,026	1,011	161,795	1,382	"
Retirement trusts	55,009	357	56,689	343	"
New personal pension trusts	2,619	30	2,894	31	"
New retirement pension trusts	10,256	893	19,953	1,788	"
Pension trusts	50,952	454	42,431	358	"
	₩ 267,700	3,911	294,526	5,402	

There is no trust account which is protected by the Bank accounts.

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

24. Commitments and Contingencies

Commitments and contingencies as of December 31, 2008 and 2007 are as follows:

	(In millions of Won)	
	2008	2007
(a) Payment guarantee		
Acceptances and guarantees outstanding	₩ 293,572	213,892
Contingent acceptances and guarantees	152,019	159,445
	₩ 418,591	373,337
(b) Commitments		
Loan commitments in Won	₩ 4,305,049	3,905,813
Loan commitments in foreign currency	-	9,382
Commitments in foreign currency transaction	-	488,639
Purchasing securities	53,142	-
	₩ 4,358,191	4,403,834

(c) As of December 31, 2008, there are 10 pending lawsuits against the Bank amounting to ₩15,001 million. Management believes that the foregoing lawsuits will not have a material adverse effect on the Bank's financial position, operating results or cash flows.

(d) As of December 31, 2008, commercial loans aggregating to ₩1,105 billion were granted to those who applied for or had been already placed under court receivership or workout plans. Since the collectibles of such loans depends solely upon the results of these plans, it is currently not possible to predict the ultimate outcome.

25. Average Asset Balance with Interest Income and Average Liability Balance with Interest Expense

Average asset balance with interest income and average liability balance with interest expense for the ended December 31, 2008 and 2007 are as follows:

	(In millions of Won)		
	2008		
	Average amount	Interest income/expense	Average interest ratio
Interest income:			
Cash and due from banks ^(*)	₩ 782,485	31,220	3.97%
Securities ^(**)	4,369,469	217,362	4.97%
Loans	17,208,273	1,345,468	7.82%
	₩ 22,360,227	1,594,050	7.13%
Interest expense:			
Deposits	₩ 16,025,463	570,291	3.54%
Borrowings	3,456,003	138,139	4.00%
Bonds	1,939,751	110,615	5.70%
	₩ 21,421,217	819,045	3.82%

(*) Excluding reserve deposits

(**) Excluding equity securities

(In millions of Won)

	2007		
	Average amount	Interest income/expense	Average interest ratio
Interest income:			
Cash and due from banks ^(*)	₩ 67,093	3,381	5.04%
Securities ^(**)	4,542,965	216,184	4.76%
Loans	15,087,450	1,098,221	7.28%
	₩ 19,697,508	1,317,786	6.69%
Interest expense:			
Deposits	₩ 15,150,637	441,837	2.92%
Borrowings	3,132,610	124,191	3.96%
Bonds	882,578	48,952	5.55%
	₩ 19,165,825	614,980	3.21%

(*) Excluding reserve deposits

(**) Excluding equity securities

26. Leases

(a) The Bank leases certain computer equipment and other related furniture from IBM Korea Inc. under capital lease arrangements. As of December 31, 2008 the assets and related accumulated depreciation recorded under capital leases are as follows:

(In millions of Won)

2008	
Personal properties:	
Acquisition	₩ 12,704
Accumulated depreciation	1,519
Book value	11,185
Depreciation expenses in 2008	515
Intangible assets:	
Acquisition	138
Accumulated depreciation	111
Book value	27
Depreciation expenses in 2008	30

(b) Future minimum lease payments under capital lease as of December 31, 2008 are as follows:

(In millions of Won)

Year ending December 31, 2009	827
Less unearned interest	15
Present value of net minimum capital lease payments	₩ 827

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

27. Statement of Cash Flows

As of December 31, 2008 and 2007, the differences between cash in the non-consolidated statements of cash flows and cash and due from banks in the non-consolidated balance sheets are due to restricted cash and deposits as follows:

	(In millions of Won)	
	2008	2007
Cash and due from banks	₩ 2,060,423	1,131,407
Restricted cash and deposits	(1,133,164)	(544,142)
Cash at end of year	₩ 927,259	587,260

28. Derivative Instruments

(a) Details of notional amounts of unsettled derivative instruments as of December 31, 2008 and 2007 were as follows:

	(In millions of Won)		
	2008		
	Purpose of transactions		
	Trading	Hedge	Total
Currency related:			
Forwards	₩ 3,555,542	-	3,555,542
Swap	112,976	166,619	279,595
Futures	56,587	-	56,587
Options bought	2,414,000	-	2,414,000
Option sold	1,954,892	-	1,954,892
	8,093,997	166,619	8,260,616
Interest rate related:			
Futures sold	3,521	-	3,521
Swaps bought	180,180	29,551	209,731
Swaps sold	180,180	29,551	209,731
	363,881	59,102	422,983
Stock price index related:			
Options bought	168,621	100,191	268,812
Option sold	168,621	51,227	219,848
	337,242	151,418	488,660
Credit related:			
	69,162	-	69,162
	₩ 8,864,282	377,139	9,241,421

(In millions of Won)

	2007		
	Purpose of transactions		
	Trading	Hedge	Total
Currency related:			
Forwards	₩ 10,244,317	–	10,244,317
Swap	177,475	–	177,475
Futures	194,114	–	194,114
Options bought	1,229,672	–	1,229,672
Option sold	1,135,248	–	1,135,248
	12,980,826	–	12,980,826
Interest rate related:			
Futures sold	4,691	–	4,691
Swaps	355,200	44,095	399,295
	359,891	44,095	403,986
Stock price index related:			
Options bought	9,198	89,800	98,998
Option sold	9,198	89,802	99,000
	18,396	179,602	197,998
	₩ 13,359,113	223,697	13,582,810

29. Dividends

(a) Details of dividends for the years ended December 31, 2008 and 2007 are as follows:

	(In millions of Won, except share data)	
	2008	2007
Dividend per share in Won	₩ 250	600
Dividend rate per share	5%	12%
Number of shares issued	132,125,000	132,125,000
Dividend amount	₩ 33,031	79,275

(b) Payout ratios for the years ended December 31, 2008 and 2007 are as follows:

	(In millions of Won, except share data)	
	2008	2007
Dividend amounts	₩ 33,031	79,275
Net income	261,174	260,820
Dividend payout ratios	12.65%	30.39%

Notes to Non-Consolidated Financial Statements

December 31, 2008 and 2007

(c) Dividend yield ratios for the years ended December 31, 2008 and 2007 are as follows:

	(In millions of Won)	
	2008	2007
Dividend per share (A)	₩ 250	600
Stock price at the balance sheet date (B)	6,700	15,550
Dividend yield ratio (A/B)	3.73%	3.86%

30. Interim Performance (the 4th Quarter)

Operating results for the three months ended December 31, 2008 and 2007 are as follows:

	(In millions of Won)	
	2008	2007
Operating revenue	₩ 1,736,266	505,614
Operating income	60,787	62,691
Net income	49,396	36,988
Basic net income per share	374	280

31. Added Value

The components of general and administrative expenses which are necessary in calculating added value at December 31, 2008 and 2007 are as follows:

	(In millions of Won)	
	2008	2007
Salaries	₩ 147,220	145,477
Retirement allowance and severance benefits	17,240	18,362
Other employee benefits	25,854	24,732
Rent	6,585	5,645
Depreciation	27,379	27,418
Taxes and dues	12,698	11,158

32. Effective Date for Financial Statements

The accompanying non-consolidated financial statements are to be approved at the Board of Directors' meeting on January 19, 2008.

33. Comprehensive Income

Comprehensive income for the years ended December 31, 2008 and 2007 was as follows:

	(In millions of Won)	
	2008	2007
Net income	₩ 261,174	260,820
Cumulative effect of change in accounting policy		
Change in fair value of available-for-sale securities, net of tax effect of ₩524 in 2008 and ₩9,299 in 2007	(5,917)	(24,515)
Effective portion of changes in fair value of cash flow hedges, net of tax effect of ₩58 in 2008 and ₩159 in 2007	(260)	(420)
Comprehensive income	₩ 254,997	235,885

34. Subsequent Events

The bank issued hybrid bonds on January 19, 2009 and January 29, 2009 as follows:

Date of issue	January 19, 2009
Type of securities	Hybrid Bond
Type of bond	Registered coupon bond without warranty
Total amount	₩ 270,000,000,000
Interest rate	8.60% (9.60% after 10 years)
Redemption and maturity	Though January 19, 2039 is the maturity of redemption for principal, according to the Bank's decision, the maturity might be extended under the same condition (special contract No.4) or it also can be redeemed earlier than its maturity, if it meets certain conditions (special contract No.5). If the redemption day is the Bank's holiday, it can be redeemed on the very next business day with interest for the delayed days at the rate of the last calculation day.
Date of issue	January 29, 2009
Type of securities	Hybrid Bond
Type of bond	Registered coupon bond without warranty
Total amount	₩ 130,000,000,000
Interest rate	8.60%
Redemption and maturity	Though January 29, 2039 is the maturity of redemption for principal, according to the Bank's decision, the maturity might be extended under the same condition (special contract No.4) or it also can be redeemed earlier than its maturity, if it meets certain conditions (special contract No.5). If the redemption day is the Bank's holiday, it can be redeemed on the very next business day with interest for the delayed days at the rate of the last calculation day.

Independent Accountants' Review Report on Internal Accounting Control System

English Translation of a Report Originally Issued in Korean



Dongil Bldg. 9th fl., 223-5 Beomeo 2-Dong, Suseong-Gu, Daegu 706-823 Republic of Korea
Tel +82 (53) 741 7711 Fax +82 (53) 741 7715 www.kr.kpmg.com

To the Representative Director

Daegu Bank:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Daegu Bank (the "Bank") as of December 31, 2008. The Bank's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Bank's management stated: "Based on the assessment on the operations of the IACS, the Bank's IACS has been effectively designed and is operating as of December 31, 2008 in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Bank's IACS, inquiries of Bank personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A Bank's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2008 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Bank's IACS in existence as of December 31, 2008. We did not review the Bank's IACS subsequent to December 31, 2008. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.

Seoul, Korea

February 19, 2009

Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2008 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Report on the Operations of Internal Accounting Control System



Dongil Bldg. 9th fl., 223-5 Beomeo 2-Dong, Suseong-Gu, Daegu 706-823 Republic of Korea
Tel +82 (53) 741 7711 Fax +82 (53) 741 7715 www.kr.kpmg.com

To the Board of Directors and Audit Committee of
Daegu Bank

I, as the internal Accounting Control Officer ("IACO") of Daegu Bank (the "Bank") have assessed the status of the design and Bank's internal Accounting Control system ("IACS") for the year ended December 31, 2008.

The Bank's management including OACO is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purpose. I, as the IACO, applied the IACS Framework for the assessment of design and operations of the IACS.

Based on the assessment of the operations of IACS, the Bank's IACS has been effectively designed and is operating as of December 31, 2008. in all material respects, in accordance with the IACS Framework issued by the internal Accounting Control System Operation Committee.

Kim, Hong Jin, Internal Accounting Control Officer

Lee, Hwa Eon, Chief Executive Officer

February 19, 2009

Consolidated Balance Sheets

As of December 31, 2008 and 2007

(In millions of Won, except share data)

		2008	2007
Assets			
Cash and due from banks	₩	2,060,423	1,131,407
Securities		4,877,454	4,892,873
Loans		17,543,830	16,117,276
Property and equipment		399,321	385,953
Other assets		1,867,508	1,550,698
Total assets	₩	26,748,536	24,078,207
Liabilities			
Deposits	₩	17,177,729	16,193,627
Borrowings		5,478,571	4,041,954
Other liabilities		2,493,558	2,419,670
Total liabilities		25,149,858	22,655,251
Stockholders' equity			
Common stock of ₩5,000 par value			
Authorized - 300 million shares			
Issued - 132.1 million shares		660,625	660,625
Capital surplus		12,328	12,328
Accumulated other comprehensive loss		(29,315)	(23,138)
Retained earnings		955,040	773,141
Total stockholders' equity		1,598,678	1,422,956
Total liabilities and stockholders' equity	₩	26,748,536	24,078,207

Consolidated Statements of Income

For the years ended December 31, 2008 and 2007

(In millions of Won, except earnings per share)

	2008	2007
Operating revenues		
Interest income		
Interest on due from banks	₩ 31,415	3,381
Interest on trading securities	15,714	19,595
Interest on available-for-sale securities	97,413	89,009
Interest on held-to-maturity securities	118,980	122,619
Interest on loans	1,346,683	1,099,396
Interest - other	5,359	5,130
	1,615,564	1,339,130
Gain on valuation and disposal of securities	14,501	68,156
Gain on valuation and sales of receivables	1,556	61
Gain on foreign currency transactions	785,232	92,376
Fee and commission income	139,197	134,534
Fee and commission from trust account	4,842	4,206
Dividend income	26,165	3,252
Other	2,049,164	301,283
	4,636,221	1,942,998
Operating expenses		
Interest expense		
Interest on deposits	584,208	453,863
Interest on borrowings	138,139	124,191
Interest on debentures	110,615	48,952
Interest on borrowings from trust account	21,911	18,019
Interest - other	1,421	1,359
	856,294	646,384
Loss on valuation and disposal of securities	10,507	19,610
Loss on valuation and sales of receivables	128,203	47,873
Loss on foreign currency transactions	174,139	79,522
Commission expenses	40,525	38,856
General and administrative expenses	395,873	385,661
Other	2,677,384	360,449
	4,282,925	1,578,355
Operating income	353,296	364,643
Non-operating expense, net	(4,158)	(2,720)
Income before income taxes	349,138	361,923
Income taxes	87,964	101,103
Net income	₩ 261,174	260,820
Basic earnings per share	₩ 1,977	1,974
Diluted earnings per share	₩ 1,977	1,974

Consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2008 and 2007

(Date of Appropriation for 2008: March 25, 2009 | Date of Appropriation for 2007: March 15, 2008)

(In millions of Won, except share data)

	2008	2007
Unappropriated retained earnings		
Balance at beginning of year	₩ 66	21
Net income	261,174	260,820
Balance at end of year before appropriation	261,240	260,841
Transfer from voluntary reserves	-	-
Unappropriated retained earnings available for appropriation	261,240	260,841
Appropriation of retained earnings		
Legal reserve	(26,200)	(26,100)
Voluntary reserve	(202,000)	(155,400)
Dividends - 5% on par value of ₩250 per share	(33,032)	(79,275)
	(261,232)	(260,775)
Unappropriated retained earnings to be carried over to subsequent year	₩ 8	66

Consolidated Statements of Changes in Equity

For the years ended December 31, 2008 and 2007

(In millions of Won)

		Common stock	Capital surplus	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
Balance at January 1, 2007	₩	660,625	12,328	1,797	586,972	1,261,722
Dividends paid		-	-	-	(74,651)	(74,651)
Net income		-	-	-	260,820	260,820
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	(420)	-	(420)
Changes in unrealized gain on valuation of available- for-sale securities, net of tax		-	-	(24,515)	-	(24,515)
Balance at December 31, 2007	₩	660,625	12,328	(23,138)	773,141	1,422,956
Balance at January 1, 2008	₩	660,625	12,328	(23,138)	773,141	1,422,956
Dividends paid		-	-	-	(79,275)	(79,275)
Net income		-	-	-	261,174	261,174
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	(260)	-	(260)
Changes in unrealized gain on valuation of available- for-sale securities, net of tax		-	-	(5,917)	-	(5,917)
Balance at December 31, 2008	₩	660,625	12,328	(29,315)	955,040	1,598,678

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(In millions of Won)

	2008	2007
Cash flows from operating activities	₩ 261,174	260,820
Net income		
Adjustments for:		
Depreciation	27,379	27,418
Amortization	8,947	9,357
Provision for loan losses, net	116,724	47,352
Provision for retirements and severance benefits	17,241	18,362
Loss (Gain) on trading securities, net	(1,726)	4,311
Loss (Gain) on sale of available-for-sale securities, net	33,329	(100,077)
Loss (Gain) from equity method	(18)	1,043
Loss on sale of loan, net	9,923	461
Loss on derivatives, net	523,556	45,142
Other, net	13,114	5,505
	748,469	58,874
Changes in assets and liabilities:		
Trading securities	55,692	227,243
Due from banks	(589,017)	112,461
Available-for-sale securities	(52,108)	251,543
Held-to-maturity securities	(27,556)	328,097
Loans	(1,553,202)	(2,095,044)
Retirement and severance benefits paid	(16,176)	(16,813)
Deposit for severance benefit trust	(3,199)	(3,146)
Other, net	(664,782)	158,653
Net cash used in operating activities	₩ (1,840,705)	(717,312)



(In millions of Won)

	2008	2007
Cash flows from investing activities		
Disposal of fixed assets	₩ 345	2,244
Acquisition of fixed assets	(48,974)	(71,083)
Other, net	280,466	(600,955)
Net cash provided by (used in) investing activities	231,837	(669,794)
Cash flows from financing activities		
Increase in deposits	1,236,245	1,507,395
Increase in borrowings	312,426	203,831
Increase in debentures issued	833,709	1,000,447
Increase in others	293,740	1,007,122
Decrease in deposits	(225,318)	(838,680)
Decrease in borrowings	–	(33,466)
Decrease in others	(422,660)	(1,324,147)
Dividends paid	(79,275)	(74,651)
Net cash provided by financing activities	1,948,867	1,447,851
Net increase in cash	339,999	60,745
Cash and due from banks at beginning of period	587,260	526,515
Cash and due from banks at end of period	₩ 927,259	587,260

APPENDIX

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DGB STOP CO₂ Code of Conduct

Daegu Bank recognizes that the unlimited use of energy and resources is the cause behind global resource depletion and climate change. We thereby declare the following to realize our DGB STOP CO₂ Plan, aimed at saving our planet and creating a more clean and pleasant regional society.

One, in recognition that excessive energy use is behind global warming, we will actively reduce energy consumption by saving electricity and water, and by maintaining an appropriate cooling/heating temperature.

Two, in recognition of the importance of resources, we will curb the use of disposable goods and increase the employment of recycled goods and environmentally-friendly products.

Three, in recognition that the use of automobiles is a main cause of air pollution and energy waste, we will comply with a rotation system for car use and carpooling, while making greater use of public transportation.

Four, with the pride and duty that come as an environmental protector, and an employee of a bank known for its model environmental and sustainability management, we will lead by example in efforts at work, home and community, to preserve the environment and save energy.

Third Party Opinion



Ju Cheol-ki
Secretary General / Vice Chairman
UN Global Compact Network Korea

First of all, I'd like to congratulate on the publication of the DGB 2008 Sustainability Report. This report is produced through the materiality assessment conducted by Daegu Bank every year, to identify issues of interest to its stakeholders as well as to its own employees. As the materiality assessment result serves as a basis for implementing sustainability activities in detail and from many fronts, stakeholder opinions are effectively reflected into the bank's management strategies.

Among the achievements of Daegu Bank, it is noteworthy that the bank ranked high among its peers in terms of financial performance, which is shown by its high net profit and good credit ratings by renowned global rating agencies. At the same time, Daegu Bank's drive for sustainability management has been strengthened with the appointment of its CEO as the director for the UN Global Compact Network Korea.

Blessed with strong regional base, Daegu Bank has been consistently involved in activities to promote sustainability management, by pursuing advanced corporate governance, sharing with the local community, providing over 66% of its total loans to local SMEs, offering business consulting, invigorating local traditional markets, and focusing on sustainable finance initiatives. By doing so, Daegu Bank has been actively working on its plan of growing into a leading bank that will celebrate the history of 100 years.

Daegu Bank is engaged in social contributions that go beyond Korea, such as donation for earthquake victims in Sichuan province in China, anti-desertification forest creation in Mongolia, campaign for organ and cornea donation, and volunteering by the DGB Service Corps. As these activities contribute to achieving the Millennium Development Goals set by the UN, Daegu Bank should recognize the fact that their social contributions help to accelerate the completion of MDGs. In this regard, the bank's social contribution results should be also assessed in light of the MDGs.

In the area of human rights and labors, it is quite noteworthy that Daegu Bank has turned the status of many contractual workers into regular employees despite the recent economic recession. In addition, Daegu Bank did not opt for massive layoff. Instead, it focused on creating more employment through declaration between labor and the management, employees' voluntary reduction of wages, and recruitment of hundreds in internship. These exemplary cases in human rights and labors need to be communicated more actively to the outside. Daegu Bank's efforts for employee welfare can be also communicated more effectively by linking it with the ultimate goal of advancing human rights and employees' rights.

Despite a volume of social contribution activities for the local community, however, the stakeholder survey indicated that more communication with the local community is required. As is mentioned in this report, it is advisable that Daegu Bank should make more efforts to eliminate any stumbling block to communication with the local community, the most critical stakeholder to its operation.

For the environmental management, Daegu Bank has swiftly adapted to the changing business environment by promoting a wide range of initiatives, such as DGB forest creation in Mongolia, launch of DGB STOP CO2 Plan, carbon emission reduction activities, and photovoltaic power generation installation at branches. In addition, Daegu Bank responded quickly to the government's green growth policy and the global effort for fighting against climate change, by participating in the Carbon Disclosure Project, launching green growth funds, and developing a product to save our environment.

Overall, the 2008 sustainability report well captures the essence of Daegu Bank's efforts for sustainability management. This report is a proof of Daegu Bank's hard work in putting the spirit of sustainability management into action while achieving a continued growth as a financially strong bank despite its regional operation base.



Secretary General / Vice Chairman UN Global Compact Network Korea
Ju Cheol-ki



An Byeong-hun
 Professor of KAIST Business School
 Head of the CSR Research Center

With the declaration of new financial strategy and corporate culture, Daegu Bank announced its strong drive to become the best in every field of sustainability management covering ethics, environment, and social contributions, with sound financial vision underpinning the drive for sustainable growth.

Daegu Bank has stayed ahead of other domestic companies in understanding and acting on sustainability management, which is proven by many awards given to the bank. Its activities for sustainable management go beyond Korea, which include participation in the UN Global Compact, the UN PRI, the UNEP FI, and the Carbon Disclosure Project. Daegu Bank has also issued the sustainability report based on the GRI guideline for the third consecutive years. Daegu Bank Employees have made these continued efforts for sustainability management despite the current economic recession, which has truly earned my respect.

It is particularly impressive that Daegu Bank did not use the paradigm of sustainability management simply as a tool for publicity or brand image enhancement. Instead, Daegu Bank is incorporating the paradigm into its management system, business activities, and corporate culture. Ultimately, sustainable management is embraced as part of the bank's new management strategies.

For the 2008 sustainability report, Daegu Bank conducted Materiality Assessment based on a survey of stakeholders. This is a good start in a journey toward sustainability management centering on stakeholders, as the concept of customer these days has expanded to cover good suppliers, loyal employees, and local community as well as final consumers. As a result, companies strive to develop the management system that "serves" and "communicates" with their stakeholders. Hoping that Daegu Bank will build on its good start and foundation, I would like to suggest the followings.

■ Extended corporate governance covering all the stakeholders

Daegu Bank has advanced corporate governance programs in place, and makes much effort to give more transparency and independence to its corporate governance which was established based on the agreement

among stakeholders, the board, and the management. Now, Daegu Bank needs to extend the governance system to include all the stakeholder groups comprehensively. For this purpose, it is advisable for Daegu Bank to define the relationship and communication channel with stakeholders more clearly, and to build relationship based on trust in each other. At the same time, efforts should be made to ensure that paradigm of sustainability management is incorporated into decision making process and performance evaluation system of internal stakeholders. Along the process, stakeholder groups will be formed who concern about the long-term value of Daegu Bank a decade after with a true sense of ownership in the bank. Relationship with them should be fostered as a valuable asset, which is what the sustainability management is all about. On this front, it is encouraging that Daegu Bank is off to a good start.

■ Improving sustainability in the business area of banking itself

In the sustainability management of financial institutions, offering of sustainable finance products and services is considered important. Daegu Bank excels in this area as well with its social contribution programs such as support for SMEs and micro credit services for the less fortunate. While these programs should continue, it might be necessary to place a higher priority on establishing sustainability firmly in the business of banking itself, such as loan offering and investments. For this purpose, active engagement programs with customers to communicate, support, and oversee the process before and after a business action should be institutionalized.

Daegu Bank has continued to launch a variety of programs for sustainability management. Now, what is required for Daegu Bank is to take its sustainability management to a higher level, by identifying priorities among diverse programs, and focusing on selected items after performance evaluation.

In a declaration of corporate culture, Daegu Bank announced its core value as "serving for all, passion for change, and honesty with ourselves," which points out the key driver of sustainability management very impressively. I believe that as a regional bank underpinned by strong corporate governance and transparency, Daegu Bank will continue to build trust, collaborate, and communicate with stakeholder groups, thereby emerging as a leading bank in sustainability management both at home and abroad.



Professor of KAIST Business School | Head of the CSR Research Center
 An Byeong-hun

Assurance Report

■ Introduction

The Korean Standards Association was asked by Daegu Bank to conduct an independent review of its 2008 Sustainability Report (hereinafter referred to as "the Report"). Daegu Bank, which is responsible for the subject matter in the Report, is known to pursue continued activities for achieving prosperity with the local community, fulfilling social responsibilities, and eco-friendly financial activities as a member of the UN Global Compact and the UNEP FI. We hereby present our independent assurance report of the DGB 2008 Sustainability Report based on our verification of data, achievements, and systems described in the Sustainability Report.

■ Scope

We conducted assurance procedures for the entire contents of the Report. Site visits were also done to the Daegu Bank headquarters and 219 branches to check their systems and activities on a sample basis as of the fiscal year 2008.

- Financial data in the Report was reconciled with that in the DGB audit report for 2008.

■ Criteria

We evaluated the Report based on the sustainability report assurance system of the Korean Standards Association which was developed based on the new AA1000AS 2008 and the GRI G3 guidelines.

■ Methodology

Our assurance procedures included the following works:

- Search of media coverage and data on the web that mention sustainability aspect of Daegu Bank and other financial institutions;
- Site visits to the headquarters and branches;
- Review of system and process applied for improving and reporting sustainability management achievements;
- Review of internal documents and materials at a basis level; and Interview with employees in charge of sustainability management and issue handling

■ Independence

We do not have any interests at stake in the overall operations of Daegu Bank. We only take a role of providing a third party assurance to the DGB 2008 Sustainability Report. In addition, we do not hold any prejudice against any stakeholders of Daegu Bank.

■ Conclusions and Opinion

We concluded that the Report does not have any major errors or prejudices in explaining the sustainability management of Daegu Bank. Major conclusions are included in this report as below, and more details regarding our conclusions and recommendations were delivered to Daegu Bank.

• Materiality

Daegu Bank identified issues of interest to stakeholders by conducting industry benchmarking, media research, and stakeholder survey. All of the material issues identified are addressed in the Report without any deletion.

We'd like to recommend a more strengthened process for understanding stakeholders and identifying issues of materiality to them. This will enable Daegu Bank to pay attention to a wider range of issues, such as internal sustainability activities, and social norms and standards on sustainability, which will, in turn, help Daegu Bank to understand the stakeholder interest and impact to the bank more accurately.

• Completeness

With a strong willingness for improvement, Daegu Bank monitors and improves material issues identified through the materiality assessment with progress of the improvement reported in a balanced way. We'd like to recommend that Daegu Bank use a quantitative measure for each of material issues so that a more complete and balanced reporting can be done in tracking the issue progress.

• Responsiveness

Daegu Bank reflects material issues of sustainability management in its policy and operations to respond to issues of interest to stakeholders. We'd like to recommend the followings to facilitate a better communication of the sustainability activities to stakeholders:

- Providing enough opportunities to stakeholders so that they can voice their opinion in setting policies, strategies, and plans for material issues in Daegu Bank;
- Enabling a easier access by stakeholders to information on how Daegu Bank responds to the issues of interest to stakeholders; and
- Specifying how each action is linked to the vision and strategy of Daegu Bank, and how much progress is achieved toward a certain goal.

■ Opinions and Areas for Improvement

With a view to strengthening relationship with stakeholders and fulfilling social responsibilities, Daegu Bank has four councils under Sustainability Committee to conduct detailed programs for major areas of sustainability management. Vision and strategies are set for each area with major issues and achievement managed on an annual basis. This is captured in the Disclosure on Management Approach of this Report.

• Sustainable Finance

Daegu Bank has developed and provided a variety of products tailored to revitalization of the local economy and financial industry to share prosperity with the local community. It is also noteworthy that Daegu Bank has developed green products as part of efforts to fulfill social responsibilities and tackle climate change. Going forward, Daegu Bank needs to think of measures to incorporate sustainability strategies and policies not just to a single product, but to the overall line of its products and services.

• Environmental Management

Daegu Bank's participation in the Carbon Disclosure Project and launch of eco-friendly products contribute to raising environmental awareness of individual customers while driving more actions of corporate customers. In an effort to measure and reduce green house gas emissions, Daegu Bank is involved in activities for restoring the green nature, creating the Anti-Desertification Forest in Mongolia, and controlling the use of energy and natural resources. When measuring and reducing green house gas emissions generated from its operations, introduction of internationally accepted rules and methods are recommended.

• Contributions to the Local Community

In conducting a variety of programs to advance welfare, sports, education, and scholarship of the local community, Daegu Bank needs to identify main stakeholders involved in such programs, and to encourage their participation more actively.

• Ethics & Corporate Culture

It is quite extraordinary that Daegu Bank strives to help employees to strike a healthy balance between work and life based on efforts to ensure transparency, ethics, and openness in corporate culture. Going forward, the bank is recommended to specify issues in ethical and fair transactions considering the nature of its industry, and address those issues under the ethical management strategy.

■ Reporting on the GRI Indicators

We have confirmed that contents pertaining to GRI indicators in the GRI Index are fully or partially described in the Report.



July 30, 2009

Kap-hong CHOI

President of Korean Standards Association

GRI Index

● : Disclosed ◎ : Disclosed Partially ○ : Not Available NA: Not Applicable

GRI Index	Indicators	Reporting level	Page
Strategy and Analysis			
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 strategy	●	4-7, 15-16, 58
1.2	Description of key impacts, risks and opportunities	◎	23, 30-31, 33
Organizational Profile			
2.1	Name of the organization	●	15, 18, 42
2.2	Primary brands, products and / or services	◎	23-33, 59
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries and joint ventures	●	15
2.4	Location of organizations' headquarters	●	12, Postcard, 70
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	●	8, 12, 44, 51
2.6	Nature of ownership and legal form	●	15, 16
2.7	Characteristics of markets (including geographic breakdown, sectors served and types of customers / beneficiaries)	●	4, 12, 20, 21
2.8	Scale of the reporting organization	◎	12, 16,-17, 42
2.9	Significant changes during the reporting period regarding size, structure or ownership	●	12, 15
2.10	Awards received in the reporting period	●	6, 9, 13, 16, 21
Report Parameters			
3.1	Reporting period (e.g. fiscal / calendar year)	●	COVER
3.2	Date of the latest report (if any)	●	COVER
3.3	Reporting cycle (annual, biennial, etc.)	●	COVER
3.4	Contact point for questions on report	●	Postcard, 70
3.5	Process for defining report content	●	COVER, 4-5, 19, 31, 47, 53, 58-59
3.6	Boundaries of the report (e.g. countries, divisions, subsidiaries, suppliers)	●	COVER
3.7	State any specific limitations on the scope of the report	●	COVER, 58
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	●	COVER, 12
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	◎	COVER, 12, 16-17
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	◎	COVER, 23, 33, 41, 49
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report	◎	COVER
3.12	Table identifying the location of the Standard Disclosures in the report	◎	60-65
3.13	Policy and current practice with regards to seeking external assurance	◎	COVER, 5, 58-59
Governance, Commitments and Engagement			
4.1	Governance structure of the organization	◎	15-16, 18, 42
4.2	Indication of whether the Chair of the highest governance body is also an executive officer	●	15-16
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 non-executive members	●	15-16
4.4	Mechanisms enabling shareholders and employees to provide recommendations or direction to the highest governance body	◎	4-5, 15
4.5	Link between the company's performance and compensation for members of the highest governance body, senior managers and executives	◎	15-16
4.6	Processes for the highest governance body to prevent conflicts of interest	◎	15-16
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	◎	15-16



●: Disclosed ◎: Disclosed Partially ○: Not Available N/A: Not Applicable

GRI Index	Indicators	Reporting level	Page
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	◎	22-23, 32-33, 36, 40-41, 48-49
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	◎	15-16, 55
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	◎	15-16
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	◎	30-31
4.12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or endorses	●	7, 36, 58
4.13	Membership in associations (such as industry associations) and / or national / international advocacy organizations	●	7, 36, 58
4.14	List of stakeholder groups engaged by the organization	●	4-7, 31, 39, 47, 53
4.15	Basis for identification and selection of stakeholders	●	4-5
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	●	4-7, 31, 39, 47, 53
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	●	4-7, 31, 39, 47, 53
	<i>Economic Performance Approach</i>		
	Disclosure of Management Approach		
EC 1	Direct economic value generated and distributed	◎	16-17, 29, 32-35, 40-47
EC 2	Financial implications and other risks and opportunities for the organization's activities due to climate change	◎	23, 30, 32-39, 58-59
EC 3	Coverage of the organization's defined benefit plan obligations	◎	52
EC 4	Significant financial assistance received from government	○	64
EC 5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	N/A	
EC 6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	◎	36-38
EC 7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	◎	8, 43
EC 8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	◎	COVER, 5, 7, 18, 23, 28-31, 40-47, 59
EC 9	Understanding and describing significant indirect economic impacts including the extent of impacts	◎	24-25, 28
	<i>Environment Performance Indicators</i>		
	Disclosure on Management Approach		
EN 1	Materials used by weight or volume	●	37-38
EN 2	Percentage of materials used that are recycled input materials	●	33, 37-38
EN 3	Direct energy consumption by primary energy source	●	33, 37-38
EN 4	Indirect energy consumption by primary source	●	33, 37-38
EN 5	Energy saved due to conservation and efficiency improvements	●	38
EN 6	Initiatives to provide energy-efficient or renewable energy-based products and services and reductions in energy requirements as a result of these initiatives	◎	19, 36, 38
EN 7	Initiatives to reduce indirect energy consumption and reductions achieved	◎	37, 38
EN 8	Total water withdrawal by source	◎	38
EN 9	Water sources significantly affected by withdrawal of water	◎	38
EN 10	Percentage and total volume of water recycled and reused	◎	38
EN 11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected area	○	64

GRI Index

● : Disclosed ◎ : Disclosed Partially ○ : Not Available NA: Not Applicable

GRI Index	Indicators	Reporting level	Page
EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	○	64
EN13	Habitats protected or restored	◎	34-35, 39
EN14	Strategies, current actions and future plans for managing impacts on biodiversity	●	19, 33-36, 39
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	○	64
EN16	Total direct and indirect greenhouse gas emissions by weight	◎	33, 36-39, 59
EN17	Other relevant indirect greenhouse gas emissions by weight	◎	33, 36-39, 59
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	◎	30, 33, 36, 38-39, 59
EN19	Emissions of ozone-depleting substances by weight	◎	33, 37-38
EN20	NOx, Sox and other significant air emissions by type and weight	◎	33, 37-38
EN21	Total weight discharge by quality and destination	◎	38
EN22	Total weight of waste by type and disposal method	◎	38
EN23	Total number and volume of significant spills	○	64
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	○	64
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	◎	19, 33-39
EN26	Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation	◎	18-19, 36-37
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	◎	18, 38
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	○	64
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations and transporting members of the workforce	◎	31, 37-38
EN30	Total environmental protection expenditures and investments by type	◎	9, 18, 37-38, 42, 59
	<i>Labor Practice & Decent Work Performance</i>		
	<i>Disclosure on Management Approach</i>		
LA1	Total workforce by employment type, employment contract and region	◎	8
LA2	Total number and rate of employee turnover by age group, gender and region	◎	49
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	◎	52
LA4	Percentage of employees covered by collective bargaining agreements	◎	12
LA5	Minimum notice period (s) regarding significant operational changes including whether it is specified in collective agreements	◎	53
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	◎	12, 49
LA7	Rates of injury, occupational diseases, lost days and absenteeism and total number of work-related fatalities by region	◎	49
LA8	Education, training, counseling, prevention and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	◎	49
LA9	Health and safety topics covered in formal agreements with trade unions	◎	43, 49
LA10	Average hours of training per year per employee by employee category	◎	49, 51
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	N/A	
LA12	Percentage of employees receiving regular performance and career development reviews	N/A	
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity	◎	15
LA14	Ratio of basic salary of men to women by employee category	N/A	



● : Disclosed ◎ : Disclosed Partially ○ : Not Available N/A: Not Applicable

	Indicators	Reporting level	Page
	Human Rights Performance		
	Disclosure on Management Approach		
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	◎	42-43, 50
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	◎	50
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	◎	49
HR4	Total number of incidents of discrimination and actions taken	◎	49
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk and actions taken to support these rights	◎	4, 43
HR6	Operations identified as having significant risk for incidents of child labor and measures taken to contribute to the elimination of child labor	●	49
HR7	Operations that are likely to have forced labor and measures taken	●	49
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	◎	49, 57
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	○	64
	Society Performance		
	Disclosure on Management Approach		
SO1	Nature, scope and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting	●	4, 7, 18, 57-58
SO2	Percentage and total number of business units analyzed for risks related to corruption	○	64
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	◎	49-50
SO4	Actions taken in response to incidents of corruption	◎	49-50
SO5	Public policy positions and participation in public policy development and lobbying	○	64
SO6	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	○	64
SO7	Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes	○	64
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	○	64
	Product Responsibility Performance		
	Disclosure on Management Approach		
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement and percentage of significant products and services categories subject to such procedures	◎	49
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services, by type of outcomes	○	64
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements	○	64
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	○	64
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	◎	5, 9, 21, 31, 49
PR6	Programs for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	◎	7, 46
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	○	64
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	◎	21, 31, 49-50
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	○	64

GRI Index

Financial Service Environmental Performance Indicators

● : Disclosed ◎ : Disclosed Partially ○ : Not Available NA: Not Applicable

GRI Index	Indicators	Reporting level	Page
F1	Description of environmental policies applied to core business lines	●	23, 33, 36-39
F2	Description of process (es) for assessing and screening environmental risks in core business lines	◎	29, 30-31
F3	State the threshold (s) at which environmental risk assessment procedures are applied to each core business line	◎	29, 30-31
F4	Description of processes for monitoring clients' implementation of and compliance with environmental aspects raised in risk assessment process (es)	◎	30-31
F5	Description of process (es) for improving staff competency in addressing environmental risks and opportunities	◎	49
F6	Number and frequency of audits that include the examination of environmental risk systems and procedures related to core business lines	◎	30-31
F7	Description of interactions with clients/investee companies / business partners regarding environmental risks and opportunities	◎	30-31, 39
F8	Percentage and number of companies held in the institution's portfolio with which the reporting organisation has engaged on environmental issues	◎	30-31
F9	Percentage of assets subjected to positive, negative and best-in-class environmental screening	◎	30, 31
F10	Description of voting policy on environmental issues for shares over which the reporting organisation holds the right to vote shares or advise on voting	◎	36-37, 39
F11	Percentage of assets under management where the reporting organisation holds the right to vote shares or advise on voting	◎	36-37
F12	Total monetary value of specific environmental products and services broken down according to the core business lines	◎	30-31
F13	Value of portfolio for each core business line broken down by specific region and by sector	◎	25

Financial Service Social Performance Indicators

● : Disclosed ◎ : Disclosed Partially ○ : Not Available NA: Not Applicable

GRI Index	Indicators	Reporting level	Page
CSR1	CSR Policy	●	7, 14, 18
CSR2	CSR Organisation	●	18
CSR3	CSR Audits	◎	18
CSR4	Management of Sensitive Issues	●	4-5, 19, 23, 31, 33, 39, 41, 47, 49, 53
CSR5	Non-Compliance	○	64
CSR6	Stakeholder Dialogue	●	4
INT1	Internal CSR Policy	●	7, 14, 18
INT2	Staff Turnover and Job Creation	◎	8, 43
INT3	Employee Satisfaction	●	49
INT4	Senior Management Remuneration	◎	49
INT5	Bonuses Fostering Sustainable Success	◎	49
INT6	Female-Male Salary Ratio	N/A	
INT7	Employee Profile	○	15
SUP1	Screening of Major Suppliers	◎	49-50
SUP2	Supplier Satisfaction	◎	49
SOC1	Charitable Contributions	●	40-47
SOC2	Economic Value Added	◎	24-25, 28



Financial Service Social Performance Indicators

GRI Index	Indicators
EC4	The bank has not received government subsidies
EN11	The bank's activities do not impact on biodiversity or protected areas
EN12	The bank's activities do not impact on biodiversity or protected areas
EN15	The bank's activities do not impact on biodiversity or protected areas
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	The bank has internal audit to analyzed for risks related to corruption, and there was no accident during the year
SO5	The bank does not participate in setting public policy or engagement in lobbying
SO6	The bank does not make any contribution to it
SO7	There was no corruption incident during the year
SO8	There was no corruption incident about laws and regulations that resulted in fines and non-monetary restrictions during the year
PR2	The bank's product and services do not have an impact on customer's health and safety
PR3	The bank's product and services do not need eco-labeling
PR4	There was no corruption incident during the year
PR7	There was no corruption incident during the year
PR9	There were no corruption incidents about provision and use of products and services during the year
CSR5	There was no corruption incident about laws and regulations during the year
INT7	The employee profile is available at the website of Daegu Bank (www.dgb.co.kr)

The page is described the reason why some indicators are omitted in context shortly.

Daegu Bank 2008 Sustainability Report was prepared by using the GRI G3 Guidelines revealed in November 2006

GRI recommends the all reports registered on the GRI website carry information on the application level of the GRI Guidelines.

There are three application levels titled A, B and C.

Daegu Bank 2008 Sustainability Report was faithfully discloses information based on the GRI G3 Guidelines. This report stands for A+ level checked by 3rd party.

GRI Application Levels



Report Application Level		C	C+	B	B+	A	A+
Standard Disclosures	G3 Profile Disclosures	Report on: 1.1 2.1-2.10 3.1-3.8, 3.10-3.12 4.1-4.4, 4.14-4.15	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17	Same as requirement for Level B	Report on each core G3 and Sector Supplement* Indicator with due regard to the materiality Principle by either: a)reporting on the Indicator or b)explaining the reason for its omission
	G3 Management Approach Disclosures	Not Required	Management Approach Disclosures for each Indicator Category	Report on each core G3 and Sector Supplement* Indicator with due regard to the materiality Principle by either: a)reporting on the Indicator or b)explaining the reason for its omission			
	G3 Performance Indicators & Sector Supplement Performance Indicators	Report on a minimum of 10 performance Indicators, including at least one from each of: Economic, Social and Environmental.	Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.	Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.	Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.	Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.	Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.
OUTPUT			Report Externally Assured				

www.dgb.co.kr

SURVEY



DGB 2008 Sustainability Report

Dream Green Bank



Post Card

Name : _____

Address : _____

□ □ □ - □ □ □



CSR Department
DGB Economic Research Division
10th floor, Daegu Bank headquarters
118, 2-ga, Suseong-dong, Suseong-gu, Daegu, Korea

7 0 6 - 7 1 2

Daegu Bank 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.

Tel : 82-53-740-2808
Fax : 82-53-740-6954
E-mail : sustainability@dgb.co.kr
118, Suseong-dong 2-ga,
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 homepage 2) DGB IR activities
- 3) Other website 4) Forum / seminar
- 5) ()

3. Which section of this Report did you find most interesting?

- 1) Dream with DGB
- 2) DGB sustainable management
- 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.

Contact information

We have taken the first steps in our sustainable management activities.

Going forward, we will strive to further embed such activities into our corporate culture and disclose the results in a transparent manner. If you have any questions about our sustainable management or this report, please contact us through the following channels.

Credit Planning Department

Address : 118, Suseong-dong Suseong-gu, Daegu 706-112, Korea

Fax : 82-53-740-6910

SWIFT : DAEBKR22

Tel : General Manager 82-53-740-2541

82-53-740-2559

International Finance Department

Address : 70, Sogong-dong, Jung-gu, Seoul 100-070, Korea

SWIFT : DAEBKR22SEL

Telex : K28306 DAEGUBK

Fax : 82-2-775-8864

Tel : Fixed Income & Money Market 82-2-318-0689

FX Trading 82-2-752-2897

Seoul Regional Division

Address : 70, Sogong-dong Jung-gu, Seoul 100-070, Korea

SWIFT : DAEBKR22SEL

Telex : K28306 DAEGUBK

Fax : 82-2-775-7484

Tel : Correspondent Banking 82-2-773-0583

Business Process Support Department at Headquarters, Daegu

Address : 118, Suseong-dong Suseong-gu, Daegu 706-112, Korea

SWIFT : DAEBKR22

Fax : 82-53-756-2095

Telex : K54334 DAEGUBK

Tel : Import 82-53-740-2986

Export 82-53-740-2942

Money Transfer & Check Collection 82-53-740-2946

Foreign Trade Finance & Local L/C 82-53-740-2978

Business Process Support Department at Seoul

Address : 70, Sogong-dong Jung-gu, Seoul 100-070, Korea

SWIFT : DAEBKR22SEL

Telex : K28306 DAEGUBK

Fax : 82-2-757-8695

Tel : Import/Export 82-2-771-6100 (ext 341)

DGB Economic Research Division

Address : 118, 2-ga, Suseong-dong Suseong-gu, Daegu, Korea

Tel : 82-53-740-2808

Fax : 82-53-740-6954

e-mail : sustainability@dgb.co.kr

Corporate Information

Major Stockholders

(AS of December 31, 2008)

Name	Stocks	Ownership (%)
SAMSUNG LIFE INSURANCE	9,724,690	7.36
SSB-SMALLCAP	6,361,090	4.81
CREDIT SUISSE SECURITIES (EUROPE) LIMIT	4,493,700	3.40
NATIONAL PENSION FUND	4,065,892	3.08
PL-ABDN GL	3,999,490	3.03
NTC-GOV SPORE	2,999,070	2.27
MSCOP-PLEDGEE OF 12676	2,444,158	1.85
TEMPLETON GLOBAL		
SMALLER COMPANIES FUND	2,369,760	1.79
HBFS-I-JF KOR FD	2,215,070	1.68
ABU DHABI INVESTMENT AUT	2,049,987	1.55

Subsidiaries

Daegu Credit Information Co., Ltd.

Tel : 82-53-573-7700

Fax : 82-53-608-1400

Capital : KRW 1.5 billion

The Bank's ownership : 53.32%

Korea Non-Bank Lease Financing Co., Ltd

Tel : 82-2-398-4118

Fax : 82-2-398-4198

Capital : KRW 20.0 billion

The Bank's ownership : 22.29%

Note) The above subsidiaries are not applicable to prepare the consolidated financial statements by KGAAP

Domestic Network

(As of June 30, 2009)

Area	Branches	Sub-branches	Sub-total
Daegu	139	17	156
Gyeongbuk	48	10	58
Seoul	2	-	2
Busan	2	-	2
Ulsan	1	-	1
Changwon	1	-	1
Total	193	27	220

Note) Headquarters included as a branch in the Daegu area.

Number of employees (As of June 30, 2009) 2,793

Note) Temporary employees are out of consideration