



# Dream Green Bank

녹색금융의  
미래를 열다

Opening the Future for Green Finance



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.

## About the Report

### About this Report

This is the fourth year for Daegu Bank's sustainability report, covering the economic, social and environmental activities and performances of the bank. It helps the bank's stakeholders and readers to keep updated with its commitment to and accomplishments in sustainability management.

**Reporting Period :** January 1, 2009 to December 31, 2009  
(some that through 2Q 2010 have been included)

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

**Reporting Cycle :** Once a year

### Reporting Framework

- Principal framework : GRI G3 Guidelines
- Supplement framework : GRI Financial Service Sector Supplement

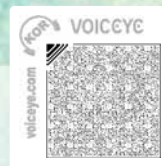
### Assurance

The contents and the compiling procedures of this report have been assured by an external third party, Korea Standards Association. The Assurance Statement is attached at the end of this report. In addition, the Third Party Assurance Report further enhances the reliability of this report.

### Distribution of and Feedback on the Report

Published in Korean and English, this report is also available on our website. Feedback on the report can be made via online, mail and phone.





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## 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.



## Dear stakeholders,

Daegu Bank suffered a considerable decrease in net income in 2009 following the aftermath of global financial crisis. However, the silver lining of this was that we were able to realize Tier 1 asset quality on the strength of preemptive risk management, conservative provisioning policy and the early clean-up of bad loans. Furthermore, our stock prices rallied 156% on the previous year, an industry-leading growth rate. In recognition of our sound performance in sustainability management, Daegu Bank was listed on the Dow Jones Sustainability Index Korea (DJSI Korea). Furthermore, we were named as part of the financial sector's group of leaders at the Carbon Disclosure Project Korea 2009 and presented with an award by the Prime Minister at the 2009 Daegu Volunteer Contest. All these achievements perfectly highlight Daegu Bank's position as a trusted and responsible corporate citizen.

As a member of the UN Global Compact and UNEP FI, we fulfill our corporate citizen responsibilities through a variety of programs and initiatives, such as the Carbon Disclosure Project (CDP) which aims to mitigate climate change.

As part of the "DGB Anti-Desertification Forest in Mongolia" project that we began in 2009, I flew to the site in June 2010 to plant 60,000 larch trees with local residents. Furthermore, I attended the "UN Global Compact Leaders Summit 2010" in New York as a director of the Korean Network, and learned a lot of useful information and knowledge regarding sustainability management.

As part of our green finance initiatives, we launched the DGB Cyber Green Branch in May 2010, while also vowing to take the lead in future green finance business in response to climate change and low-carbon green growth.

As a platform for stakeholder-oriented sustainability management, we developed our management policies: sharing with local communities; satisfying customers; bringing value to shareholders and communicating with employees.

The Daegu Bank 2009/2010 Sustainability Report has been compiled based on materiality test results from a survey on our shareholders, customers, local communities, business partners and employees according to GRI G3 Guidelines and ISO/DIS 26000. This is our fourth sustainability report covering all DGB's business activities in regards to economic, social and environmental aspects as well as the bank's sustainability management vision, goals, strategies and performances.

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

Thank you,

Chairman of the Board & CEO Ha, Chun-soo

**1 July 2009 Environmental Education Programs**



Daegu Bank has run the “Kids Environmental Education Project” in cooperation with a local environmental NGO since July 2009. Also beginning 2009, we have conducted the “NIE Energy Diary” contest for local students. In May 2010, we launched the “DGB University Student Environmental Reporters Group,” which serves as environmental guards at local communities and universities.

**2 July 2009 New DGB Vision Publication**

Daegu Bank announced its new vision for future financial strategies and corporate culture, reiterating our resolution towards sustainable growth for the next 100 years and beyond. Furthermore, we revealed new management innovation projects and introduced our new mascots “Saeromi” and “Arumi.”



**3 Oct. 2009 Incorporated to the DJSI Korea**

Daegu Bank became the first regional bank to be enlisted to the DJSI Korea in May 2009. Launched in 2009, the DJSI is a leading global Socially Responsible Investment (SRI) index which assesses businesses’ sustainability in light of social, ethical and environmental values.



**4 Oct. 2009 CDP Korea 2009 Financial Leader**

The Carbon Disclosure Project (CDP) is a global initiative of business and financial investment sectors to voluntarily disclose carbon management performances and make investment decisions accordingly. Of Korea’s top 100 market capitalizations, the CDP 2009 selected 12 leading companies, including Daegu Bank which was selected as the financial leader.

**5 Nov. 2009 Contribution to the Smile Microcredit Foundation**



Daegu Bank signed an agreement with the Smile Microcredit Foundation to contribute KRW 6.5 billion to the fund by 2012. The Smile Microcredit Foundation helps financially-distressed people overlooked by the institutional financial sector to find their feet.





**6 Jan. 2010 Customer Satisfaction Management Award for Third Consecutive Year**

Daegu bank won the grand prize in the financial/banking service category at the 2010 Customer Satisfaction Management Awards held by the Korea Sustainability Management Evaluation (KSME) for the third straight year.

**7 Apr. 2010 Signed up to the "CEO Water Mandate" and Attended the UN Global Compact Leaders Summit**

President Ha, Choon-soo was selected to serve as a director of the UN Global Compact Korean Network in June 2009. Daegu Bank became the first Korean financial institution to sign up to the "CEO Water Mandate," a voluntary initiative to address water scarcity and safety in April 2010. As a director of the UNGC Korea Network, he attended the "2010 UN Global Compact Leaders Summit" in New York in June 2010.



**8 May 2010 First Grade in the Annual Evaluation of Customer Complaint Handling for the Fourth Year in a Row**

Daegu Bank earned the first grade in the Evaluation of Customer Complaints Handling by the Financial Supervisory Service. With this achievement, we became the only Korean bank to win the highest rating for four consecutive years, clear evidence of the trust that we have earned from our customers in handling their complaints.

**9 May 2010 DGB Cyber Green Branch**

Daegu Bank became the first Korean bank to open an environmental branch, called DGB Cyber Green Branch. Providing specialized environmental financial products and services, the DGB Cyber Green Bank offers a wide array of environmental contents, such as information on environmental policies, environmental technologies and DGB's environmental management.



**10 June 2010 Comprehensive Business Partnership with Golomt Bank and Anti-Desertification Forest project in Mongolia**

Daegu Bank entered into a comprehensive business partnership with Golomt Bank of Mongolia on June 17, 2010 in regards to global CSR activities and foreign exchange business. Daegu Bank also created the second anti-desertification forest in Mungunmorit Som in Mongolia.



## DGB's Stakeholders

DGB operates a diverse stakeholder engagement process so as to effectively collect and reflect their opinions in its management activities. Daegu Bank actively communicates with its stakeholders in order to reflect their opinions in its management activities.

### Step 1: Defining Stakeholders

Daegu Bank identified various stakeholder groups with interactive influence on the bank's management decisions and business activities. We then classified these 42 stakeholder groups into 10 categories, including stakeholders related to DGB's responsibilities, those who have influence over the bank or decision rights in the bank, those who are in cooperative relationship with the bank, those who directly or indirectly rely on the bank's management activities, those who represents certain areas, and those who are related to the bank's policies and values.



### Step 2: Prioritizing Stakeholder Groups

We have our employees and external experts prioritize the 42 stakeholder groups in 10 categories for the efficient reflection of stakeholder opinions and to spread sustainability values to local communities. Based on the results, we concluded local communities, employees, shareholders & investors, customers and business partners as the major stakeholder groups.



### Step 3: Stakeholder Engagement

Stakeholders' active participation provides the direction for all our management activities. Therefore, we are developing more diverse and efficient engagement processes for our stakeholders.





### Shareholders and Investors

Daegu Bank carries out a variety of programs for the benefit of shareholders and investors, while further striving to enhance its management transparency and efficiency. These activities have contributed to creating a favorable sentiment towards the bank in the capital market.



DGB Web site (DGB IR), shareholders' meetings, board of directors meetings, IR events (IR meetings and conference calls), etc.



### Local Community

Committed to growing hand-in-hand with the local community, Daegu Bank is involved in various diverse social contribution activities and community development projects.



Sustainability report, DGB Web site (DGB contributions to local community), banks' social responsibility report, DGB Volunteer Corps, Sharing with My Hometown campaign



### Employees

Employees are our internal stakeholders and partners for sustainable growth. At Daegu Bank, the entire company has strived to create an environment in which everyone is given the opportunity to realize their full potential as well as establish an effective work-life balance.



Employee satisfaction survey, labor-management meetings and council, Intranet menu (Help me, Let's Change, Letter of Hope: in Korean), etc.



### Customers

Daegu Bank maintains diverse communication channels with customers so as to reflect their opinions in our management, enhance customer satisfaction, protect customer information and more effectively deal with customer complaints.



Sustainability Report, DGB Web site (customer feedback), CEO forum, meeting with honorary branch managers, meetings with leading SME CEOs, business consulting service, etc.



### Business Partners

Daegu Bank puts various work processes in place to ensure mutual prosperity and fair transactions with our business partners, while striving to create a sound business model for the sustainable growth of our business partners.



DGB Web site (Online Ombudsman, Financial Fraud reporting: in Korean), meetings with business partners, etc.

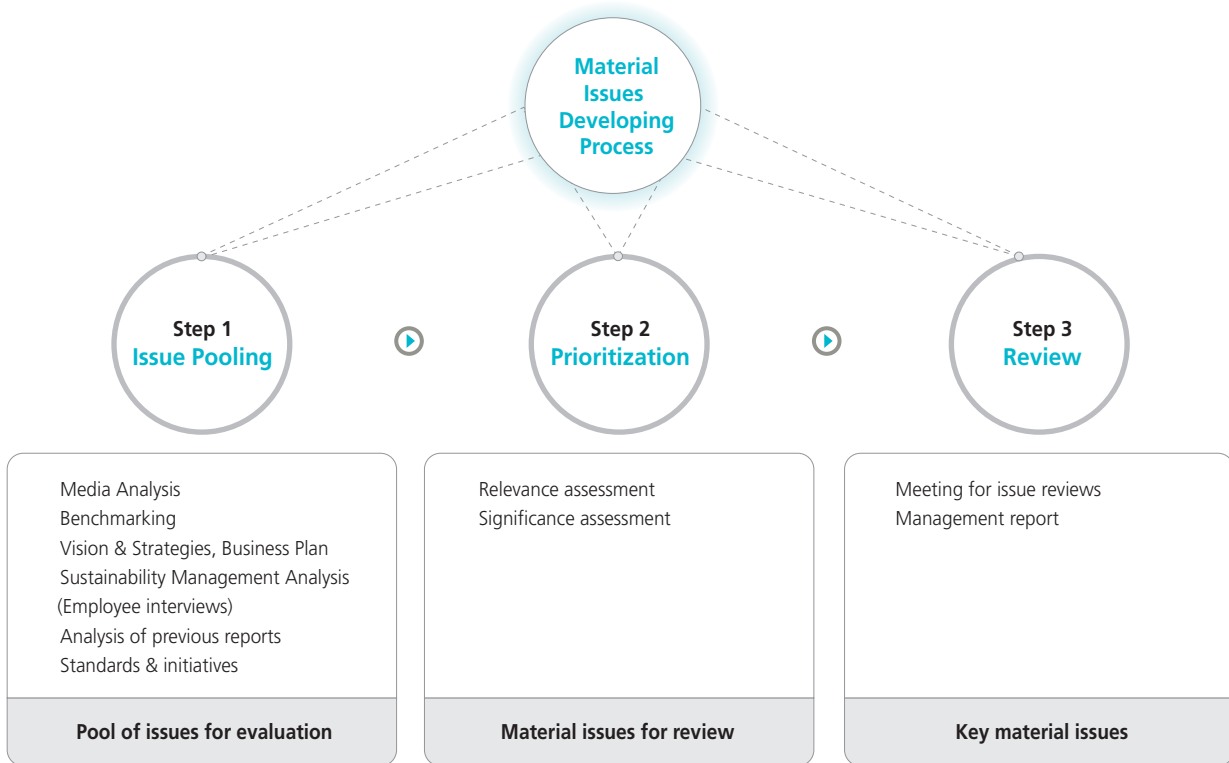


# Material Issues Developing Process

In fulfilling our sustainable management and social responsibilities, we first learned about major issues related to our management decisions and activities. The 2009 report followed the ISO/DIS 26000 (CSR) standards in order to finalize material issues under the new process.

In accordance with the process for developing major issues, we concluded the material issues of high stakeholder concerns and with

business impact. The material issues are defined as issues with significant influence on the bank's or its stakeholders' decision-making, behavior and business performances. At Daegu Bank, we are dedicated to addressing these material issues and improving our sustainability management performances through active communications with stakeholders.



### Step 1: Issue Pooling

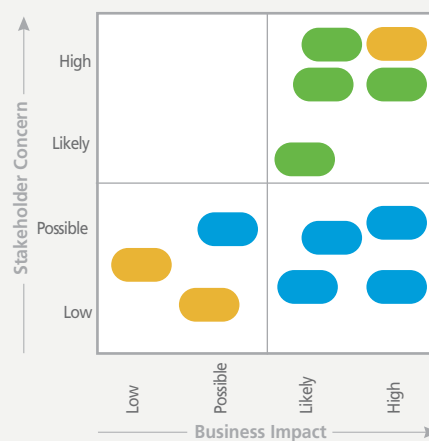
We conducted a media analysis regarding coverage during the reporting period, benchmarked domestic and global best practices, reviewed our vision, strategies and business plan, interviewed employees about the ISO/DIS 26000 standards, reviewed our previous sustainability reports and analyzed the Sustainability Reporting guidelines and initiatives in order to establish a pool of 66 issues.



### Step 2: Prioritization

► **Relevance assessment\*** : We assessed the relevance of these 66 issues to our management decision-making and business activities. This relevance can be defined here as short-term financial impact, business policy performances, relevance to the financial industry, stakeholders’ behaviors and concerns, and relevance to social issues. Of these, we finalized 38 issues in consideration of our business impact and social concerns.

► **Significance assessment\*\*** : We assessed the significance of the selected 38 issues so as to finalize the material issues. As shown on the right, we assessed these 38 issues for their significance based on stakeholders’ concerns and business impact and finalized 29 material issues. A total of 1,084 stakeholders—771 internal and 313 external stakeholders—participated in the significance assessment procedures.



\* Accountability : Relevance(5-part Materiality Test)/ISO 26000 : Relevance  
 \*\* Accountability/ISO 26000 : Significance



### Step 3: Review

From the 29 issues concluded in the relevance and significance assessments, we settled on 23 material issues that can fairly reflect DGB’s sustainability management performances and finalized these as material issues after reporting to top management.

## Sustainability Issues

The table below describes the material issues by stakeholder group and the pages and chapters where these issues can be found.

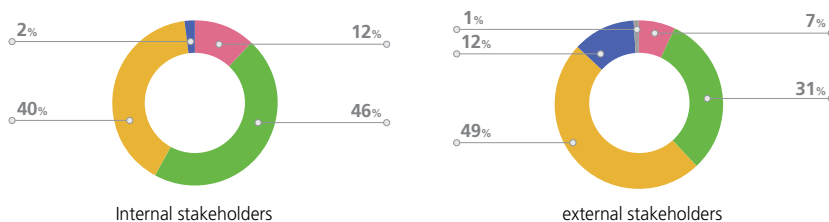
Stakeholders						Material Issues	Reported Chapters
Local communities	Employees	Shareholders / investors	Customers	Business partners	Experts		
	●	●				1. Corporate governance & decision-making system	(19page)Corporate Governance
	●	●		●		2. Strategy, organization and performance management	(18page)Philosophy & Vision (21page)Sustainability Management
	●			●	●	3. Customer & stakeholder engagement	(8~11page)Communications with Stakeholders
				●	●	4. Response to and compliance with environmental and social regulations	(43page)Sustainability Management (40, 43page)Climate Change & Energy (60page)Ethical Management
				●		5. Building a sustainability management network	(43page)Sustainability Management
				●	●	6. Creating and distributing economic values	(15page)Business Performances
	●	●		●		7. Cost reduction and operating profits	(25page)Sustainable Growth Initiatives
	●	●	●	●		8. Asset quality and risk management	(27page)Sustainable Growth Initiatives
	●	●	●	●		9. New growth engines and new products	(27page)Sustainable Growth Initiatives
	●			●		10. Employee education & health/medical rights, work-life balance	(26page)Sustainable Growth Initiatives
	●					11. Job security	(63page)Employee-friendly Management
	●					12. Working conditions and social security	(61page)Employee-friendly Management
	●					13. Human resources development and OJT	(26page)Sustainable Growth Initiatives
	●	●	●		●	14. Anti-corruption activities	(60page)Ethical Management
●	●	●	●	●		15. Contributing to regional economic development	(32page)Community Engagement (30, 32page)Regional Economic Development
				●	●	16. Providing socially and environmentally responsible financial services	(35page)Green Finance Service
		●		●	●	17. Customer service, support and dealing with complaints and disputes	(37page)Enhancing Customer Satisfaction
●		●		●	●	18. Customer information security & financial transaction safety	(37page)Enhancing Customer Satisfaction
				●	●	19. Green finance	(36page)Green Finance Service
				●	●	20. Socially responsible investments	(33page)Socially Responsible Investment
		●		●	●	21. Protecting investors	(37page)Enhancing Customer Satisfaction
		●		●	●	22. Compliance with financial service regulations	(37page)Enhancing Customer Satisfaction
						23. Carbon emission reduction activities	(41~47page)Climate Change & Energy

# Stakeholders' Opinions on DGB's Sustainability Management Practices

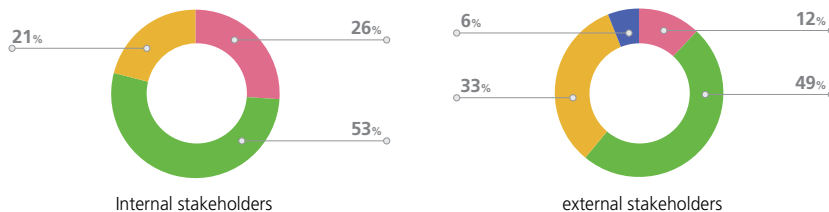
Daegu Bank conducted a survey on its external and internal stakeholders in regards to their recognition of the bank's sustainability management practices (social responsibilities). In the survey, 771 internal and 313 external stakeholders answered questions.

Very well Well Appropriately Hardly Not at all

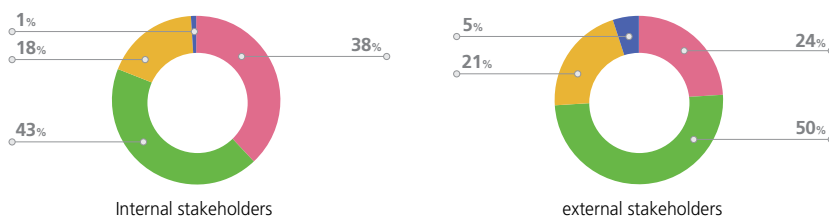
## 1 Daegu Bank is doing well in addressing climate change.



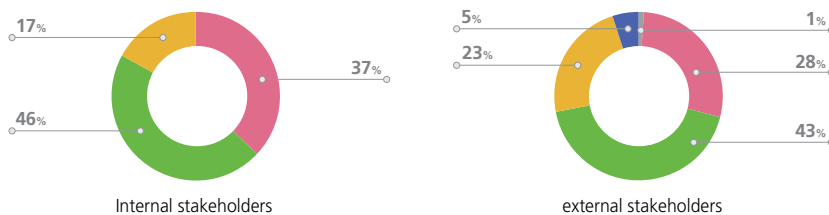
## 2 Daegu Bank is fulfilling its social responsibilities.



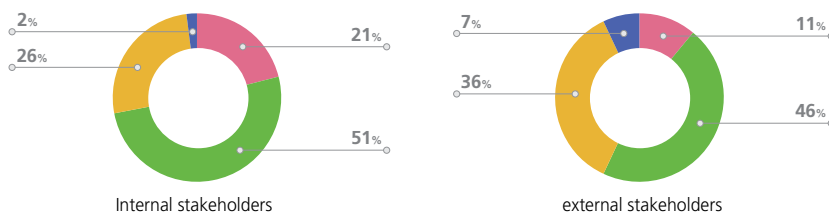
## 3 Daegu Bank contributes to local communities.



## 4 Daegu Bank contributes to regional economic development.



## 5 Daegu Bank's sustainability management practices contribute to improving its employees' quality of life.




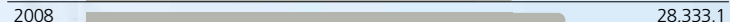
# DGB Profile


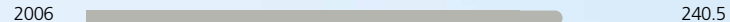


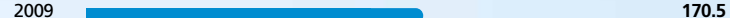


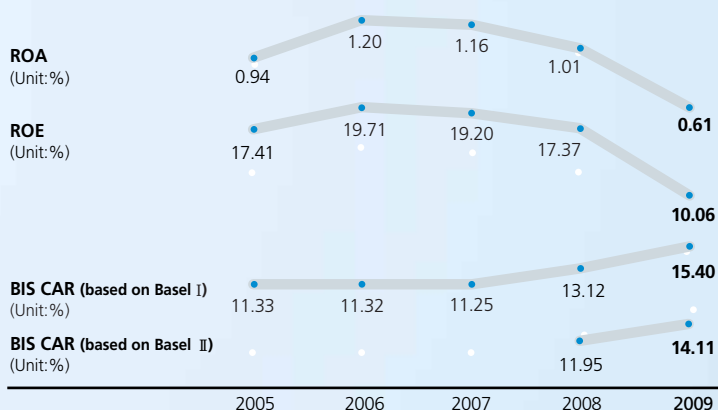


## 2009 Business Performances

Daegu Bank suffered a 35% decrease in net income from the previous year, mainly due to the increased ratio of provisioning for corporate restructuring and a decrease in non-interest income following the aftermath of the global financial crisis. However, the bank realized the first grade in asset quality through the timely clean-up of bad loans and preemptive risk management measures. In 2010, we set the "3050" strategy which aims to realize 30% and 50% market shares in Gyeongbuk and Daegu areas, respectively, through creative marketing campaigns and opportunities.

Total Assets		(Unit:KRW billion)
2005		20,546.8
2006		23,071.4
2007		25,411.6
2008		28,333.1
2009		<b>30,479.8</b>

Net Income		(Unit:KRW billion)
2005		175.3
2006		240.5
2007		260.8
2008		261.2
2009		<b>170.5</b>



### Distribution of Economic Values

Category		(Unit:KRW in millions)		
		2007	2008	2009
Operating expenses	Rents	5,645	6,585	6,815
	Commissions	38,847	40,488	56,181
	Asset acquisition	36,776	36,326	32,308
Wages & welfare benefits		200,469	201,531	208,181
Capital expenses	Dividends	74,651	79,275	33,031
	Interest expenses	635,903	844,197	744,413
Taxes		101,103	87,964	64,852
Donations		6,168	9,196	12,327





# DGB Overview

## Your Close and Convenient Bank

Daegu Bank was Korea's first regional bank to operate mainly in the Daegu and Gyeongsangbuk-do (Gyeongbuk) regions. Under the management philosophy of "Sharing Dreams and Prosperity with the Local Community," DGB has grown hand-in-hand with its customers. As of the end of June 2010, our 2,822 dedicated employees provide quality financial services to 3.6 million customers through 225 branches, one overseas office, and 2,420 ATMs. Despite unfavorable business environments due to the financial crisis and economic recession, DGB has consistently expanded its loans to

local customers. As a result, household loans totaled KRW 5 trillion as of 2009. This unprecedented achievement as a regional bank can be attributed to the bank's preemptive risk management, conservative provisioning policy and timely clean-up of non-performing loans. Consequently, DGB has become a small but strong regional bank boasting first-grade asset quality.

### [ Branch Network ]



- 225 retail branches
- 63 corporate SRMs
- 4 Cyber branches : Dokdo, Gyeongju, KHNP and Cyber Green
- 2,420 ATMs
- Shanghai rep. office opened on June 18, 2008
- DGB Mobile Bank launched on July 18, 2008

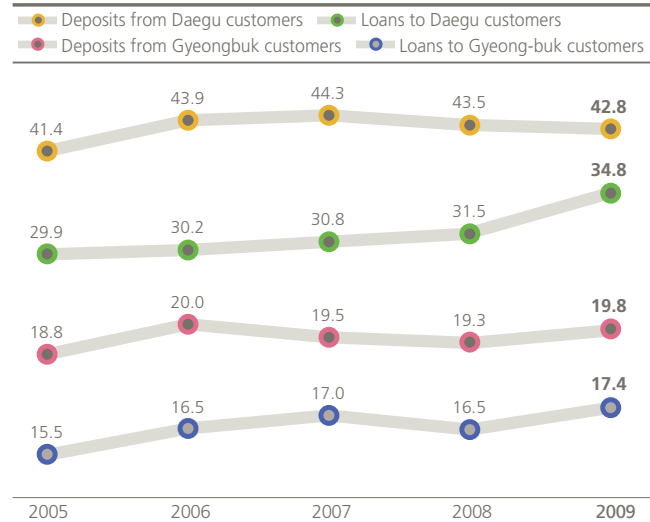
### [ Profile ]

(As of June 30, 2010)

<b>Established</b>	October 7, 1967
<b>Headquarters</b>	118, Suseong-dong 2-ga, Suseong-gu, Daegu, Korea
<b>Branch network</b>	225 branches
<b>Workforce</b>	2,822 persons
<b>Customer base</b>	3.60 million persons (67% of local population)
<b>Total assets</b>	KRW 30,479.8 billion
<b>Shareholders' equity</b>	KRW 1,772.9 billion
<b>Net income</b>	KRW 170.5 billion
<b>No. of CD/ATM units</b>	2,420 units (including Unmanned Bill Payment Kiosk)

### [ Market Share Trend ]

(unit : %)





## Brief History

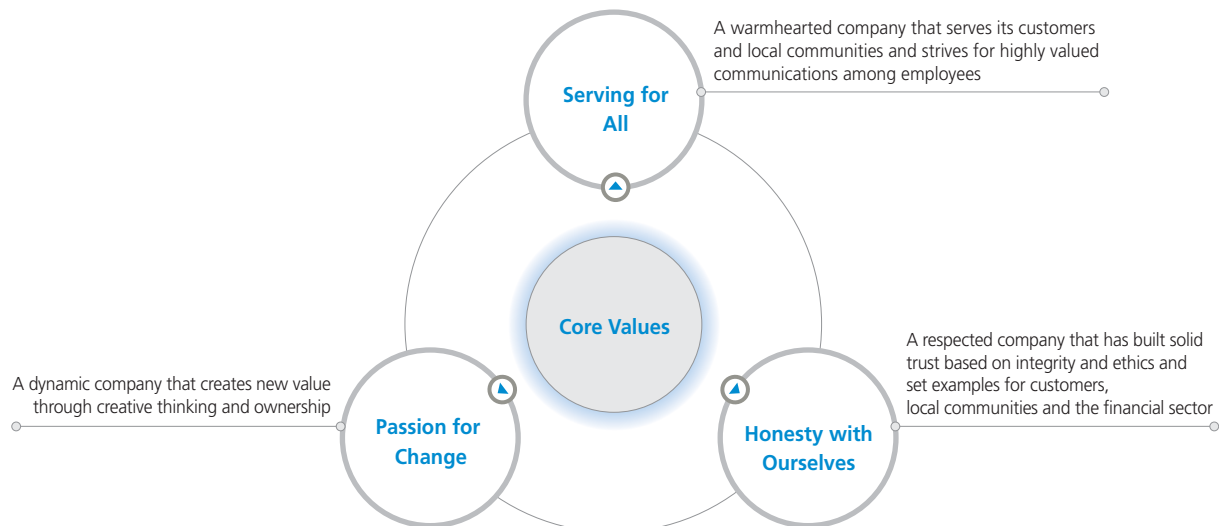
- Oct. 07, 1967 Established as Korea's first regional bank
- Jan. 04, 1975 Enlisted to handle financial transactions for Daegu City
- Sep. 09, 1991 Commenced comprehensive online services
- Dec. 15, 1994 Awarded Management Innovation Award by Korea Management Association
- Feb. 18, 1999 Developed new comprehensive online system
- May 08, 2000 Commenced Internet banking service
- Aug. 15, 2001 Opened cyber branch for Dokdo
- Oct. 18, 2003 Awarded Management Innovation Award by the Korean Society for Quality Management and Forbes Korea
- Mar. 10, 2004 The Dokdo Cyber Cash product awarded special prize at the Maekyung Financial Product Awards by the Korea Federation of Banks and Maeil Economic Newspaper
- June 21, 2004 Selected as one of the 30 most respected companies in Korea; ranked first in the financial sector By Dong-A Daily newspaper and IBM BCS Korea
- July 18, 2006 Joined UN Global Compact
- Sep. 27, 2006 Joined UNEP FI and declared commitment to sustainability management
- May 11, 2007 Published first sustainability report
- Oct. 01, 2007 Launched Open Plaza, DGB Gallery and DGB Finance Museum (D-time)
- Dec. 21, 2007 Received Sustainability Management Award in the ethical and socially responsible management Category by the MOCIE and KCCI
- June 18, 2008 Opened Shanghai representative office
- Oct. 16, 2008 Received KNICSD prize at the Sustainability Management Awards from the Korea Sustainability Management Evaluation
- Feb. 05, 2009 Received the first Manifesto Promise Award in corporations category from the Korea Manifesto Movement
- Mar. 11, 2009 Received the seventh Korea Ethical Management Award in the environmental management category from the New Industry Management Agency
- May 07, 2009 Signed an agreement to establish a fund for public works from the sales proceeds of the newly-launched Green Growth Fund
- June 16, 2009 Created a DGB Anti-Desertification Forest in Mongolia
- July 02, 2009 Declared New Management Philosophy, 'Vision and Policy'
- Sep. 23, 2009 Awarded the grand prize at the 「10<sup>th</sup> Audit Award」- by the FSS and the Korea Listed Companies Association
- Oct. 14, 2009 Awarded the grand prize in the Sustainability Report service category at the 「2009 Korea Sustainability Awards」 by the Korea Standards Association and GRI
- Oct. 20, 2009 Incorporated to the 「Dow Jones Sustainability Index Korea (DJSI KOREA)」 by the DJSI, SAM and Korea Productivity Center
- Oct. 26, 2009 Awarded the first prize of the service/finance/retail category at the 「2009 LOHAS Management Awards」 by the Green Fund
- Oct. 28, 2009 Selected as a financial leader by the CDP KOREA
- Nov. 04, 2009 Awarded the innovation management prize at the 「4<sup>th</sup> Sustainability Management Awards」 by the Ministry of Knowledge Economy
- Nov. 12, 2009 Awarded the FSS president prize at the 「4<sup>th</sup> Economic & Financial Education Awards」 by the FSS, Credit Counseling and Recovery Service and Kyunghyang Daily newspaper
- Dec. 08, 2009 Awarded the premier prize at the 「2009 Daegu Volunteer Awards」 by Daegu City
- Jan. 22, 2010 Received the Customer Satisfaction Award in finance/banking category for third consecutive year from Korea Economic Daily
- May 04, 2010 Opened Korea's first green branch 「DGB Cyber Green Branch」
- May 12, 2010 Earned first grade evaluation for fourth consecutive year in the Customer Complaint Handling Evaluation by the FSS
- June 16, 2010 Created a DGB Anti-Desertification Forest in Mongolia
- June 17, 2010 Entered into an MOU with Golomt Bank on global social contributions and foreign exchange business



# Philosophy, Vision & Core Values

Taking its first step into sustainable growth for the next 100 years and beyond, Daegu Bank proclaimed its new financial strategies and business plans in July 2009. At the event, the bank declared the core values of “serving for all,” “passion for change” and “honesty with

ourselves.” We also rendered the commission certificates to our new mascots “Saeromi” and “Arumi” that will propagate our corporate culture and facilitate communications among employees.



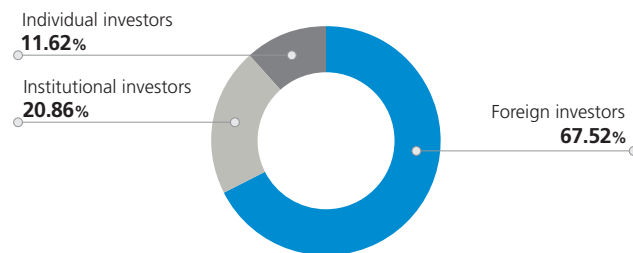


# Corporate Governance

## Shareholders

As of the end of 2009, Daegu Bank's paid-in capital stood at KRW 660.6 billion. The total number of outstanding shares amounted to 132.125 million, with the largest shareholder Samsung Life Insurance, claiming 7.36%. There was no proposal for a general shareholders' meeting by minority shareholders during the reporting period. The ownership structure is shown below.

### 【 Stock Ownership Structure 】



## Board of Directors

The Board of Directors (BOD) of Daegu Bank fully abides by the Articles of Incorporation, industrial regulations and the Outside Directors Guidelines established by the Korea Federation of Banks (KFB), in its activities to reinforce transparency in management through efficient corporate governance. Consisting of seven directors—two standing and five outside directors—the board is chaired by the CEO of the bank. In addition to the three subcommittees?Management Development & Compensation Committee, Audit Committee and Risk Management Committee—the BOD is backed by the Steering Committee and Sustainability Management Committee, each comprised of chief officers from respective divisions, for major decision-making and efficient operation. Outside directors contribute their specialties to our management activities. The chairman of the board can convene

regular or ad-hoc meetings of the BOD, at which they resolve agendas through majority voting, unless otherwise stipulated in the bylaws. The BOD approves and monitors the implementation of the bank's management strategies and policies, and oversees the internal control system, including risk management. In accordance with prescribed guidelines, the BOD also resolves issues of management compensation based on an evaluation of their performances in a fair and appropriate manner.

### 【 BOD Profile 】

(as of March 19, 2010)

	Name	Term	Duties	Outside Position
Standing Directors	Ha Chun-soo	3 yrs	Chairman & CEO	
	Kim Yong-beom	3 yrs	Standing auditor	
Outside Directors	Ahn Choong-young	2 yrs	Management Development & Compensation Committee Audit Committee	Endowed professor, Chungang University
	Kwon Young-ho	2 yrs	Management Development & Compensation Committee Risk Management Committee	CEO, IB Group
	Chung Kun-young	2 yrs	Management Development & Compensation Committee Risk Management Committee	Professor, Kyemyung University
	Kim Young-hoon David	2 yrs	Management Development & Compensation Committee Risk Management Committee	CEO Daesung Group
	Jang Ik-hyun	2 yrs	Management Development & Compensation Committee	Audit Committee

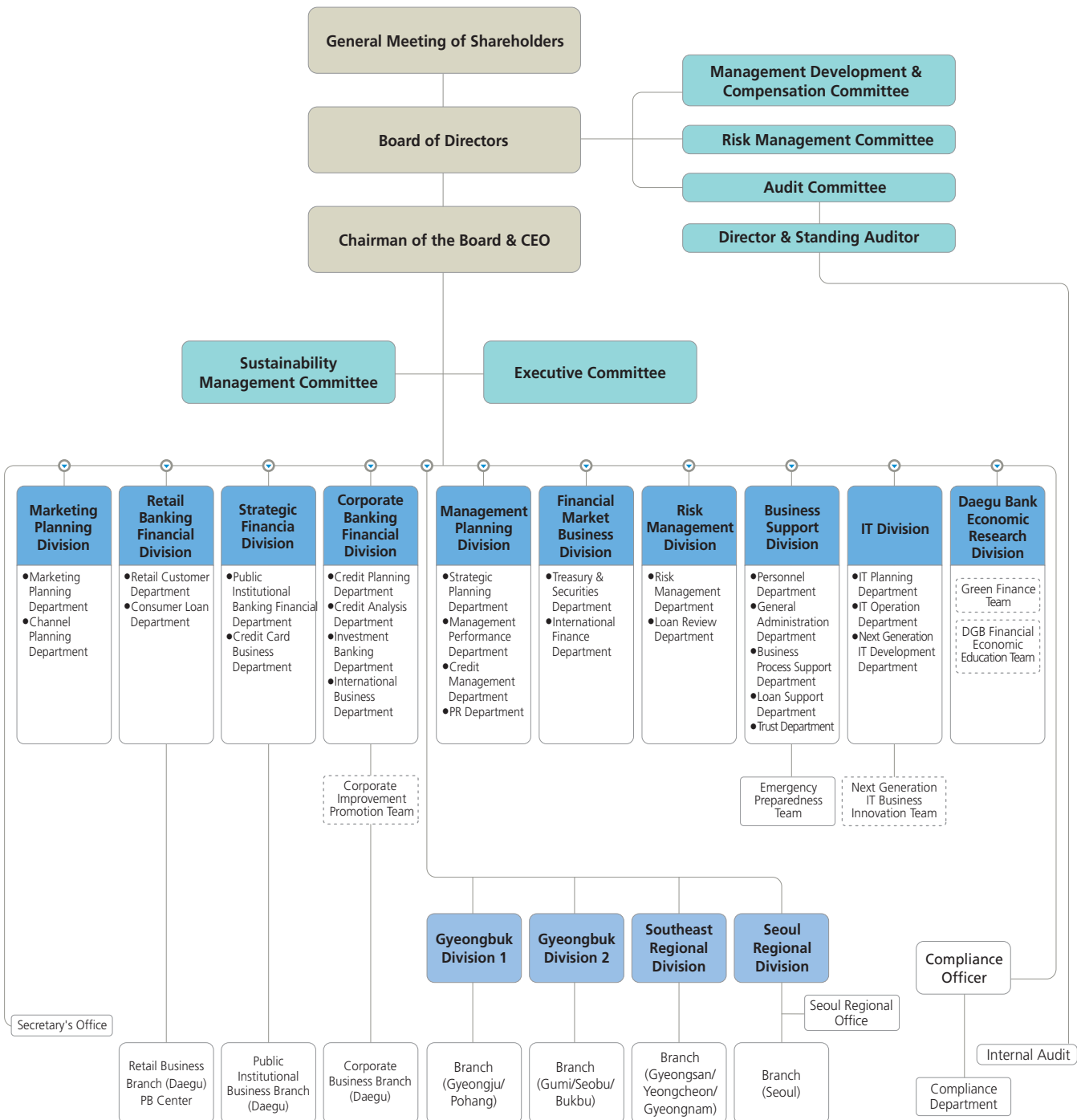
### 【 2009 BOD Operations 】

	Date	Agenda	No. of Attendees	
			Standing directors	Outside directors
1	Jan. 19, 2009	Issuance of structured securities, etc.	2	5
2	Feb. 05, 2009	Reporting of 52 <sup>nd</sup> Year business results, etc.	2	5
3	Mar. 02, 2009	General shareholders' meeting, etc.	2	5
4	Mar. 22, 2009	Revocation of stock options	2	4
5	Mar. 25, 2009	Revision to BOD regulations, etc.	2	4
6	Apr. 27, 2009	Reporting 1Q business results, etc.	2	4
7	May 26, 2009	MOU on the acceptance and guarantee issued in foreign currency	2	4
8	July 28, 2009	Reporting 1H business results, etc.	2	4
9	Oct. 27, 2009	Reporting 3Q business results, etc.	2	4
10	Dec. 24, 2009	Revision to Executive Officers Regulations	2	5
11	Dec. 29, 2009	2010 business plan, etc.	2	4



## Organization Chart

[10 Divisions, 4 Regional Divisions, 29 Departments, 5 Teams]





# Sustainability Management

DGB is a leading bank in the practice of sustainability management in the Korean financial industry. As declared in our vision, a “world-class regional bank that embraces sustainability management,” sustainability constitutes the core part of our management policy. Having established a Sustainability Management Committee as early as 2006, we have instituted a dedicated system to evaluate sustainability management practices and set an integrated direction towards sustainability management. The Sustainability Management Working Group fine-tunes details regarding sustainability management strategies, operating four subcommittees for the practical implementation of these programs. In order to better develop green business and green finance as our new growth engines, we launched the Green Finance Division in February 2010. The Green Finance Division plans and develops green finance products and services and conducts various green finance projects and CSR activities. In 2009, the Sustainability Management Working Group developed

and sold the DGB Deposit for a Greener Environment, numerous domestic and offshore environmental funds, DGB Loans for Green Companies and DGB Green Loans. Furthermore, we opened the first environmental branch, DGB Cyber Green Branch, in the Korean financial industry, in order to promote green finance. To effectively promote and strengthen our identity as a green bank, we launched the DGB University Student Environmental Reporter Group, which serves as an environmental guard at local communities and universities. Meanwhile, our commitment of KRW 6.5 billion to the Smile Microcredit Foundation over a period from 2009 to 2012 is considered one of our major social contribution programs. In addition, the 3HWA campaign is our attempt to establish an ethical corporate culture. Furthermore, as a means of preemptively preventing any employee violation of regulations, we have heightened our ethical guidelines and established an anti-money laundering system.

**[ Sustainability Management Organization Chart ]**



**[ Sustainability Management Working Group Activities ]**

Council	Activities
<b>Sustainable Finance Council</b>	<ul style="list-style-type: none"> <li>• Sustainable finance products such as DGB Deposits for a Greener Environment, DGB Loans for Green Companies and DGB Green Loan</li> <li>• Environmental fund</li> <li>• DGB STOP CO<sub>2</sub> Plan</li> <li>• Establishes DGB Cyber Green Branch</li> </ul>
<b>Environmental Management Council</b>	<ul style="list-style-type: none"> <li>• Bio-diversity protection</li> <li>• DGB Anti-Desertification Forest in Mongolia (second)</li> <li>• DGB University Student Environmental Reporters Group</li> <li>• NIE Energy Diary Contest</li> </ul>
<b>Social contributions Council</b>	<ul style="list-style-type: none"> <li>• Strategic planning for social contributions</li> <li>• Volunteering by the bank's "Love Network"</li> <li>• DGB Baby Love Campaign</li> <li>• Smile Microcredit Bank</li> </ul>
<b>Ethics &amp; Corporate Culture Council</b>	<ul style="list-style-type: none"> <li>• Propagating Family Day</li> <li>• 3HWA campaign</li> <li>• Established the DGB Institute for Happy Family</li> <li>• Expanded sustainability management and green finance training programs for loan officers through additional weekend classes</li> <li>• Developing a compliance system and augmenting an Anti-Money Laundering (AML) system</li> </ul>



## Sustainability Management Performances

Daegu Bank became the only regional bank in Korea to be enlisted on the Dow Jones Sustainability Index (DJSI) Korea in 2009. The DJSI Korea Index evaluated Korea's top 200 market capitalizations and narrowed these down to 41 finalists. The DJSI World Index is the world's most renowned Socially Responsible Investment (SRI) index. Every year since 1999, the Dow Jones, the U.S. based largest financial credit rating agency in the world, and Sustainable Asset Management (SAM), a Switzerland-based asset management company, review global businesses in regards to their financial, social, ethical and environmental performances, with these then used as guidelines for the SRI.



Having joined the UN Global Compact in July 2006, DGB fully abides by the group's ten principles in four categories; human rights, labor, environment and anti-corruption. The appointment of President Ha as a director of the UNGC Korea Network in June 2009 motivated us to further our commitment to creating a sustainable world.

As a member of the UNEP Financial Initiative (FI) and the Carbon Disclosure Project (CDP), we fulfill our obligations and responsibilities as a leading green bank.

In recognition of our commitment to sustainability management and green finance, the DGB Sustainability Report was awarded the grand prize in the service category, while DGB ranked top in the insurance/finance industry at the 2009 Korea Sustainability Awards held by the Korea Standards Association (KSA) and GRI. DGB was also named the best practice in the Socially Responsible Investment (SRI) Index by the Korea Exchange in terms of non-financial sustainable growth.

We also take pride in our nomination as one of the financial leaders among Korea's top 100 businesses in the 2009 Carbon Disclosure Project by the CDP Korea. Furthermore, we also won the grand prize at the "2009 Global CSR Awards" conducted by the Hankyoreh Economic Research Institute (HERI) and Korea CSR in terms of social, environmental, governance and ethical management performances. The bank also won the innovation management award at the 4th Sustainability Management Awards held by the Ministry of

Knowledge Economy as well as first prize in the service/finance/retail business category at the 2009 LOHAS Management Awards conducted by the Green Fund.



## Complaint Handling Evaluation by the FSS

Daegu Bank gained the first grade, the highest possible rating, in the annual evaluation of customer complaint handling by the Financial Supervisory Service (FSS) for the fourth consecutive year—a clear indication of the bank's active communications with customers.

### 【 FSS Evaluation of Bank's Complaint Handling in 2009 】

Grade	Bank
1 <sup>st</sup>	DGB
2 <sup>nd</sup>	IBK, Busan Bank, Jeonbuk Bank
3 <sup>rd</sup>	Shinhan Bank, Citibank
4 <sup>th</sup>	Gwangju Bank, NH, KEB, Hana Bank
5 <sup>th</sup>	Gyeongnam Bank, KB, NFFC, Woori Bank, HSBC, SCFirst Bank



## ISO/DIS 26000 Preparedness Test

In tandem with growing concerns over industrialization, globalization and economic development, there is rising demand for sustainable development and socially responsible investment. In step with these global trends, and in response to the launch of the ISO 26000, we strive to ensure that our sustainability management practices meet global standards.

### ISO 26000 Institution & Background

Industrialization and globalization gave rise to social calls for sustainable development and corporate social responsibilities. As CSR has become one of the integral factors in making investment decisions, global initiatives for international CSR standards were triggered in 2001 by the ISO board of directors when it commissioned the COPOLCO to conduct a feasibility study of the SRI guidelines. The ISO COPOLCO reviewed the feasibility of SRI guidelines and developed an integrated SRI institution and guidelines. In January 2007, COPOLCO agreed upon 37 issues in seven core themes for the ISO 26000, including governance, human rights, labor practice, environment, fair competition, consumer issues and community involvement and development.

The ISO/DIS 26000 Guidance Standards serve as the current DIS-stage standards and will be launched as the formal ISO standards in October 2010. Experts from more than 90 countries around the world and 40 international and regional groups related to CSR participated in the development of the ISO/DIS 26000. However, as this is not a management system standard, the ISO/DIS 26000 can not be used for any kind of certification, regulation or contract.

### ISO/DIS 26000 Preparedness Test

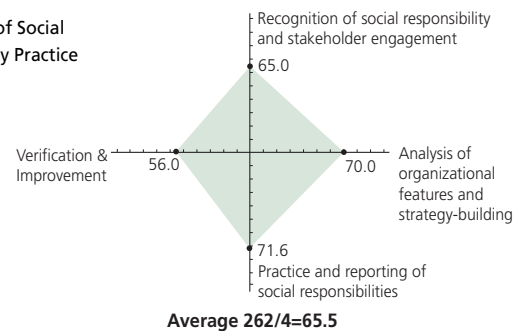
Daegu Bank will adopt the ISO/DIS 26000 as its sustainability management guidelines when it is published internationally. We tested our preparedness in regards to the ISO 26000 based on the

“CSR System-Building Model under the ISO 26000” which the Korea Standards Association developed as guidelines for adopting the ISO 26000. The test features four categories under “Part I. Integration of Social Responsibility Practice” and seven categories under “Part II. Performances of Core Themes.”

#### [ ISO 26000 Preparedness Test ]

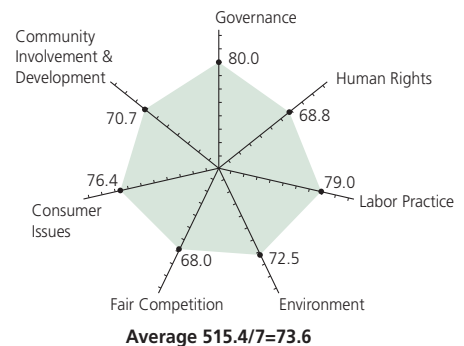
##### Part I.

##### Integration of Social Responsibility Practice



##### Part II.

##### Performances of Core Themes



The “Part I. Integration of Social Responsibility Practice” evaluates the integration of a CSR practice system into the existing organization system in regards to understanding, compliance, internal control and strategic approach. The “Part II. Performances of Core Themes” evaluates CSR performances and implementation in regards to the core themes. From the test, we earned a relatively low grade in the “Part I. Integration of Social Responsibility Practice.” In particular, the results found we underperformed in the areas of verification and improvement. Based on these results, we will strive to improve in the future.



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## CSR Practice and Application

Since the ISO 26000 is not considered a standard for certification, regulation or contract, Daegu Bank will not use the ISO 26000 for corporate evaluation or certification purposes. However, it will provide guidance in our endeavors to promote sustainability management practices for our customers and business partners.

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## Corporate Evaluation

Daegu Bank does not include the certification or evaluation by ISO 26000 in its corporate loan review criteria. However, the CSR and sustainability management practices of a borrower will play an important part of our corporate loan review.

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## Self-Evaluation and Analysis

Daegu Bank runs the "ISO 26000 Preparedness Test" every year to evaluate the integration of CSR into our organizational system and the performance of each core theme. The evaluation results will serve as an effective tool for us to overcome any shortcomings. The test will begin when the ISO/DIS 26000 is published internationally. Although we simply calculate and aggregate each of the criteria currently, we plan to develop weighted criteria by reflecting the opinions of our stakeholders.

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## Promotion to Business Partners

In order to promote our business partner's sustainability management practices, we will transfer any experience and knowledge learnt from our integration and operation of the ISO 26000 guidance standards to our business partners, and consider their CSR practices as an important criteria when selecting future business partners.







# Sustainability Management Initiatives

## Improving Management Efficiency

In 2009, Daegu Bank mounted its "S-Line 2009 Campaign" in order to streamline operations and improve profitability through cost reduction. This campaign helped weave a "Me First" corporate culture into the organization by streamlining the company-wide resource management in response to unfavorable business environments. The campaign included the ten-ten initiative (saving 10% of resources and 10% of purchase expenses), an idea contest and the investigation of successful cases involving resource conservation. As a result, we saved a total of KRW 6.1 billion in expenses through enhanced asset efficiency, contract soundness and resource conservation.

In response to the rapidly-changing financial markets, Daegu Bank put in place the management efficiency project "HI Project 1" in 2010. HI stands for the pursuit of the best, or "high," as well as the initial letters of "Hope and Innovation." The financial landscape is undergoing abrupt change due to universal banking trends, the tearing down of barriers between financial sectors and deregulation regarding the ownership of financial firms by industrial businesses. Despite signs of a recovery in the domestic economy, regional economies are still staggering. Therefore, in order to improve cost structure, we reviewed the total organization of our headquarters and branch networks; improving operation efficiency and strengthening market power by enhancing business practices and processes. We also focused on enhancing management efficiency and sustainability by eliminating any inefficiency through the reengineering of our business processes. We also have in place a taskforce team and working group in order to improve management sustainability efficiency.

## Next-Generation System Project

In a bid to further enhance customer satisfaction and productivity, Daegu Bank began constructing its next-generation system in December 2009. The next-generation system project involves reconstructing the business process and IT system. We named the project the "NexPia Project" following a brand naming contest. The NexPia Project is currently overhauling the core banking system and related IT system in an attempt to make them more customer-oriented, function-based and user-friendly. The new system with improved flexibility in operations is slated to be launched in 2011. The objectives of NexPia Project are 1) to address IT issues and reinforce competitiveness in financial markets in response to differentiated customer needs, 2) to develop a next-generation system that perfectly integrates business with IT, therefore effectively supporting management goals, 3) to ensure IT competitiveness by maximizing flexibility, efficiency, economy and productivity.

One of the major achievements in our IT sector in 2009 was the completion of an integrated Customer Relationship Management (CRM) system, which strategically integrated our individual and corporate customer relationship databases.

This improved the user-friendliness and accessibility of the system, thereby heightening employee satisfaction. Furthermore, we improved the efficiency of the system by standardizing programs and integrating menus and functions, thereby further enhancing our marketing competences. Overall, this new efficient and systematic CRM system has enhanced our productivity in business and IT.





## Human Resources Development

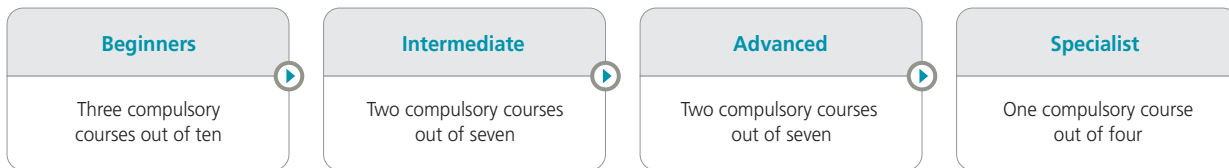
Our employees are integral to successful management innovation and sustainable growth. Therefore, we conduct a wide array of training programs in order to assist our employees build their core competences. The Loan/FX Rookie course and cyber courses are designed to help our employees build practical competences.

In 2009, we developed a roadmap for training internal experts and established a systematic step-by-step career development program (CDP). The competence-building courses entail CDP, OJT, mentoring and feedback in the areas of foreign exchange (FX), derivatives, FX

investments and bond operations.

New employees are mandated to attend intensive courses from the beginner, intermediate and advanced courses for two years. In addition, all employees undertake advanced and specialist courses twice a year. In a bid to ensure the stable operations of funds by benchmarking best practices, we send those of our employees in charge of equity, bond and derivatives operations to investment institutions for on-site training. Meanwhile, internally, we promote community of practice (CoP) activities and hold performance presentations every six months. We also designate mentors for newly assigned employees so as to assist them quickly adapt to new duties and self-development.

### 【 Specialist Training Roadmap 】



### 【 Major Training Courses 】

Project	Course
Leadership Development	- DGB dept. and branch managers leadership course
	- MBA courses at universities
	- Competence-building courses for branch managers, 3 <sup>rd</sup> and 4 <sup>th</sup> grade employees
	- Branch manager-to-be courses, etc.
Core Talent Development	- KAIST MBA courses
	- International specialist course in China
Bank Teller Competence	- Leadership course / advanced financial specialists course at Seoul University, etc.
	- Sale Academy / Fund Academy / Loan (F/X) Academy
	- Compulsory courses at every grade level
	- Loan (F/X) competence-building courses
	- Derivatives / fund theme / credit card
	- OJT for newcomers at branches / branch-level courses, etc.

Project	Courses
Specialist	- Customer consultant course (FA, PB courses)
	- Loan officer course (Credit analyst, loan review, loan regulations)
	- IB specialist course
	- F/X specialist course
	- Package course for specialist training
License and Certifications	- External courses at educational institutions
	- DGB advanced finance courses, etc.
	- Acquiring certificates of AFPK, CFP, etc.
Self-directed Learning	- Acquiring stock-trading (real estate, derivatives) fund consultant certificates
	- Acquiring insurance agent certificates
Language Courses	- Acquiring financial specialist certificates
	- Subsidies to acquiring certificates
Self-directed Learning	- Korea Banking Institute (KIB) course/ distance-learning
	- Cyber course/Reading & distance learning
Language Courses	- Subsidies for institution fees/phone English/cyber course

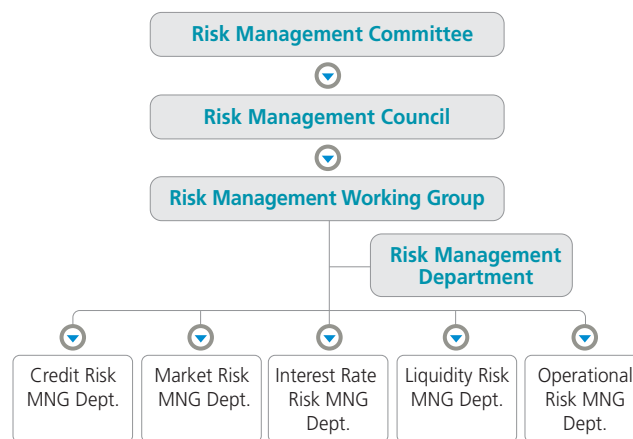
## New Growth Engines

In pursuit of new sources of revenue and a competitive edge in local markets, Daegu Bank proactively creates new business opportunities. The new growth engines for sustainable growth include participation in local community development projects, the financing of local development projects in Daegu city and Gyeongbuk province, participation in M&A and equity investment in prospective companies. Furthermore, we also positively review the financing of BTO and BTL projects. Meanwhile, in a bid to develop new growth engines, we concentrate on our strategic businesses, such as B2B loans as well as continue to expand our market shares in offshore projects. Daegu Bank makes strenuous efforts to develop new products that cater to our customers' needs. Departing from conventional financial instruments, such as deposits, loans and credit cards, we will continue to develop hybrid financial services and package products according to individual customer groups. For instance, we will offer salary-men h package products that provide comprehensive financial services such as asset management, housing and eco-friendly products. In addition, we are developing customized products to retain potential customers, such as SOHO deposits for the self-employed and specialized financial products that cater to the respective needs of teenagers, university students, females and silver customers.

## Risk Management

Daegu Bank maintains the constant management of risks involved in all business activities so as to mitigate any uncertainties in management, while enhancing transparency and soundness in the system. At Daegu Bank, we classify risks into credit, operational, market and liquidity risks. Our risk management system aims at maintaining capital adequacy and management stability through the comprehensive appraisal and management of significant risks that our inevitable in our management activities. By optimizing our risk and return balance, our risk management system realizes the stable growth of the bank, while maximizing shareholder values and maintaining an adequate equity capital level as well as achieving business strategies, policies and plans. Our risk management strategies are aimed at striking the right balance between risk and return, thus preventing a concentration of risks in specific areas and securing independence in risk management. To that end, we have

developed and implement an internal system and process for the recognition, measuring, appraisal, control and reporting of risks.



The Risk Management Committee (the Committee) is the top decision-making body in risk management. Chaired by an outside director, the Committee is comprised of three outside directors and one standing director. The Committee develops risk management strategies, evaluates capital adequacy and sets risk tolerance.

Commissioned by the Committee, the Risk Management Council (the Council) deliberates and resolves on the agenda, develops and controls risk management strategies and policies and oversees interest-rates, capital supply and management risks involving new products and businesses. The Risk Management Working Group (the Working Group) monitors the operation and practical review of resolutions and deliberations of and by the Council. The Risk Management Department (the Department) assists top management, the Committee, the Council and individual Risk Management Department of each division fine-tune their risk management plans and measures as well as analyzes risks at the division level.

In 2009, we successfully improved asset quality through various measures. First, we reinforced investment in corporate bonds and risk management. In order to augment the risk management associated with corporate bonds and CP operations in tandem with growing credit risks, the Council improved the review process of unsecured corporate bonds and notes, reducing the limit of authority for officers and mandating to report any excess of limits to the Loan Council. Second, we heightened our control of derivative product soundness. In order to control risks arising from fluctuating exchange rates and derivatives, we upgraded the accrual rate of performance bonds on currency derivatives and set the credit ceilings of OTC derivatives by credit ratings.



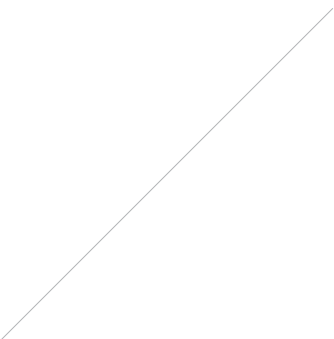
**Visiting customers  
through "door-to-  
door" marketing**



**Sales of SRI Fund  
products as part  
of CSR initiative**



# Sustainable Finance





# Sustainable Finance

## DISCLOSURE ON MANAGEMENT APPROACH

### Vision

Daegu Bank endeavors to develop the regional economy and financial industry through comprehensive financial services. We will continue to commit ourselves to developing sustainable financial products and services.

### Strategic Directions

- **Strengthening risk control:** securing asset quality
- **Innovative sustainable financial products:** adding to the list of sustainable financial products, such as the SRI fund
- **Increasing eco-friendly financing & investments:** introducing eco-friendly financial products and environmental projects

### Participation in finance Material Issues

- Supporting and contributing to the regional economy
- Developing green products that addresses climate change issues
- Customer information security and safe financial transactions
- Compliance with regulations governing financial products and services

### 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 support for local SMEs and ordinary people. At the same time, we focus on promoting socially responsible investment practices by introducing financial products and projects that help those in need and protect the environment.

	2008	2009	2010 (Plan)
Deposits M/S in Daegu/Gyeongbuk	33.7	33.8( ↑ 0.1)	35.0( ↑ 1.2)
Loans M/S in Daegu/Gyeongbuk	26.0	28.5( ↑ 2.5)	30.0( ↑ 1.5)
SME loans amounts (KRW billion)	10,5682	11,016.5	11,500.0
SRI product sales amounts (KRW billion)	26.36	17.06	18.00



## Finance for Co-Prosperity with our Neighbors and the Environment

지속가능 금융

Daegu Bank has a dream. We dream of realizing co-prosperity with our local small businesses and providing total financial care to local residents. We dream of becoming a socially responsible bank. We dream of becoming a global bank that cares about environmental issues and one that competes shoulder to shoulder with leading global banks. Daegu Bank brings all these dreams to reality for a greener future for the planet



## Financial Support for Those in Need

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

### DGB Hope Sharing Special Loan

Daegu Bank sold a special loan called "DGB Hope Sharing" from March to December 2009 in a bid to relieve our clients suffering from the liquidity crunch and prop up the regional economy. Beneficiaries were SMEs with credit ratings of between 4<sup>th</sup> to 6<sup>th</sup> grade, excluding the SOHO grade, and higher than the 7<sup>th</sup> grade of the SOHO grade, with a collateral rate of at least 70%. With a total limit of KRW 200 billion, the credit limit per borrower was set at KRW 2.0 billion. Applying an eased credit rating criteria, we offered loan opportunities to low-credit rated borrowers.

### DGB Seed for Hope Loan

As part of the company's "sharing spirit" philosophy and in response to the government's policy to stabilize the financial market, Daegu Bank launched the 'Seed for Hope Loan' in April 2009. Beneficiaries of this included borrowers with credit ratings lower than 7<sup>th</sup> grade and thus unqualified for conventional loans, as well as victims of loan sharks. Those eligible included residents living in Daegu for at least three years with an annual income of more than KRW 10 million and a debt-to-income ratio of less than 200%, and regional business.

### SME Hope Sharing Loan

Daegu Bank sold its 'SME Hope Sharing Loan' from April to December 2009, to provide financial aid to small business owners. Those eligible for the KRW 50 million maximum credit loan included small businesses that had been in business for at least three months and which had earned the 'SME Hope Sharing Guarantee'. Beneficiaries are exempt from credit check fees, while individual branches conducted due diligence and credit guarantee agreements for borrowers of less than KRW 20 million.

### Special Loans for Financially-Excluded Self-Employed

Daegu Bank signed an agreement with the Korea Federation of Credit Guarantee Foundations (KOREG) in August 2009 regarding the creation of a special loan for the financially-excluded, in order to finance low-credited, self-employed and unregistered small business owners. Those eligible include low-credited small business owners, unregistered business owners, stall keepers, financial planners and other manpower service providers. Provided with the credit lines totaling KRW 5 million per borrower on condition of a four-year installment repayment with one-year grace period, the loan does not require collateral under the full guarantee by the KOREG.

For greater convenience and speed, KOREG delegated all document reviews and due diligence during the application process to DGB's branches, thereby further streamlining the entire procedure.

### DGB Hope Sharing Credit Recovery Support

Daegu Bank extended the 'DGB Hope Sharing Credit Recovery Support' program slated to end in June 2009 to the end of the year. Launched to aid those financially excluded to recover from the burden of debt, the program provided 2,500 individuals with funds totaling KRW 4.0 billion by the end of 2009. The bank continues to strive to help more local residents through various promotional activities of the program.

### Loan Guidance Service Customized to Ordinary Citizens

Daegu Bank has committed itself to keeping ordinary citizens from falling victim to loan sharks by helping them get loans under favorable terms. We are the first regional bank to participate in the 'Loan Guidance Service Customized to Ordinary Citizens' offered by Korea EG Loan under the aegis of the Financial Supervisory Service (FSS) in order to facilitate access to low-interest loans based on credit worthiness. Furthermore, we offer loans to help low-credited poor people gain access to low-interest loans.



### Door-to-Door Prime Loan for Small Business Owners

Beginning February 2010, Daegu Bank has been offering a 'Door-to-Door Prime Loan for Small Business Owners' in a bid to finance regional small business owners and increase revenue from quality loans as well as stimulate the regional economy. Those eligible include small business owners who have been in business for at least six months and obtained a guarantee from the Daegu Credit Guarantee Foundation (DCGF). Borrowers from the manufacturing, construction, transportation and mining industries were required to have less than ten employees, while those from wholesale and other businesses were required to have less than five employees.

### Special Guaranteed Loans to Companies Creating Jobs

In an effort to ease the liquidity crunch facing local SMEs, Daegu Bank entered into a partnership with the Daegu Credit Guarantee Foundation (DCGF) in May 2010 regarding the creation of a 'Special Guaranteed Loans to Daegu SMEs that create jobs'. Under the

agreement, we will extend special loans to local SMEs that create new jobs and been guaranteed by the DCGF until the end of 2010.

### Contribution to Smile Microcredit Foundation

As part of its dedication to giving back to the local community, Daegu Bank signed an agreement with the Smile Microcredit Foundation (SMF) in November 2009 regarding the contribution of KRW 6.5 billion to the SMF from 2009 to 2012. Under the agreement, Daegu Bank will donate KRW 1.9 billion in 2009, KRW 2.2 billion in 2010, KRW 1.8 billion in 2011 and KRW 0.6 billion in 2012 to the SMF. The SMF is a nation-wide financial project designed to help those in the low-credit rated, low-income brackets and small business owners find their feet, as well as give financial assistance to financially-excluded ordinary people, and thus relieving them from the pressure of high interest loans. This project is expected to broaden the scope of financial services to include local residents suffering from low credit-ratings.

#### [ Finance Loans ]

(Unit: accounts, KRW in billions)

Product	Offering Period	No. of accounts sold	Volume
Special Loans for Liquidity Support to Self-Employed (as of Dec. 31, 2009)	2008.12.05~2009.12.31	7,708	111.5
DGB Hope Sharing Special Loan (as of Dec. 31, 2009)	2009.03.30~2009.12.31	657	306.5
DGB Love Sharing Household Loan (as of Dec. 31, 2009)	2009.04.01~2009.12.31	3,039	222.5
SME Hope Sharing Loan (as of Dec. 31, 2009)	2009.04.14~2009.12.31	2,156	58.0
DGB Seed for Hope Loan (as of Dec. 31, 2009)	2009.04.21~2010.06.30	1,059	15.2
Special Guarantee Loan for Financially Distressed Self-Employed (as of Dec. 31, 2009)	2009.08.03~2010.06.30	961	8.3
Door-to-Door Prime Loan for Small Business Owners (as of June 30, 2010)	2010.02.22~2010.06.30	948	21.3
Special Guarantee Loan for Companies Creating Jobs (as of June 30, 2010)	2010.05.28~2010.06.30	5	1.3





## Community Engagement Finance

### Mutual Growth with Local Businesses

Daegu Bank has been supporting local SMEs through various programs, such as our CEO making personal visits to these businesses to address their financial needs and the creation of special loans for the self-employed in order to ease their liquidity problems. In 2009, we held meetings with the CEOs of local SMEs in Gyeongju, Yeongcheon and Gumi in order to address their needs and reflect their opinions in our SME loans and financing strategies. Launched in February 2010, our 'Door-to-Door Prime Loan for Small Business Owners' was designed to relieve Daegu small business owners from the liquidity crunch by financing them based on their sales and credit ratings.

### Financial Privileges to Local Female Business Owners

Daegu Bank launched its "Queen's Biz Loan" in December 2009, extending secured or unsecured loans to SMEs run by local female business owners with a certain credit rating. Extended on the condition of 3-years for working capital and 10-years for capital expenditure, the loan procedures have been drastically simplified, enabling speedy financing and generous credit research criteria. Consisting of head office loan officers and consultants, a dedicated task force was established to provide female-owned businesses consulting services. Furthermore, we also created an academy program for female business owners, providing them with comprehensive business consulting services such as financing, investment strategies and mentoring services. In addition, we continue to constantly provide local female CEOs and their businesses with practical benefits in order to boost employment and businesses in the regional economy.

### Business Consulting Services

Daegu Bank believes that sustainable growth of regional businesses empowers the development of the regional economy. Therefore, we

offer business consulting services to regional businesses in order to assist them in management innovation.

Leveraging our rich business experience and know-how accumulated over the past 40 years, we offer the best possible solutions to local SMEs in the areas of business strategies, personnel management, finance and accounting, sales, operational management and employee education for a reasonable consulting fee. Our CoP consulting service has ranked top in the national consulting satisfaction survey for the third year in a row.

### 【 Business Consulting Service Trends 】

(No. of companies)

2006		33
2007		55
2008		60
2009		91

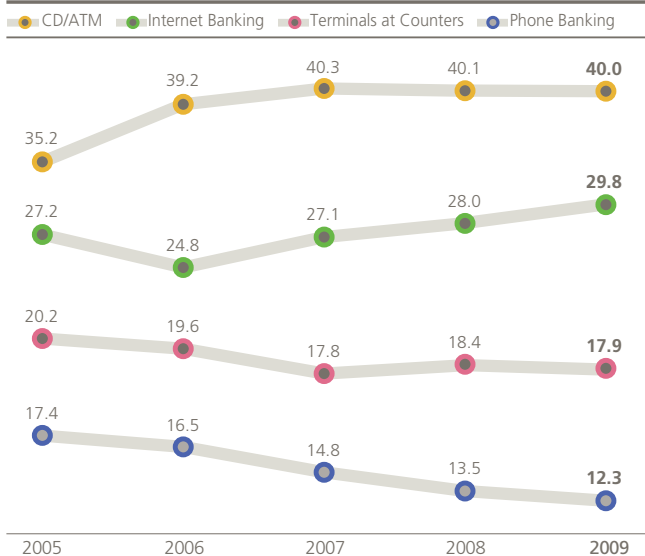
### Differentiated Customer-oriented Financial Services

Daegu Bank provided comprehensive ubiquitous service through our 225 retail branch network in Daegu and Gyeongbuk, as well as Internet, phone and mobile banking services to our 3.6 million clients in the Daegu and Gyeongbuk region, accounting for 67% of the regional population.

Launched in 2000, our Internet banking service boasts 1.39 million clients, up 10.6% from the previous year, while our phone banking service has 1.85 million users, a 3.9% year-on-year growth. In addition, our Web site has significantly improved following a recent overhaul and the adoption of a Single Sign On (SSO) service and the provision of distinguished services to our individual and corporate clients. Meanwhile, our School Banking Service allows parents to easily and conveniently wire tuition and lunch fees to their child's school account.

**【 Financial Channel Use Trends 】**

(Unit: %)



**Phone Banking Deposits & VM Banking 2 Services**

Daegu Bank’s call center offers a ‘Phone Banking Deposit-Making Service’, in which call center consultants assist mobility-challenged and Internet-challenged customers make new deposits via the phone. Meanwhile, our ‘VM Banking Service’ allows mobile phone users to conveniently take care of their banking business.

Furthermore, we have upgraded our old ‘Chip Mobile Banking’ service by improving convenience, such as by allowing access to credit card information and adding an F/C money transfer service and fund management service. In the future, we plan to introduce more customer-oriented services, including a smart phone banking service.

**Investment Lectures and Investment Fair**

Daegu Bank has conducted various lectures on feng-shui, asset management, financial markets and fund management strategies to customers and local residents. We also held the ‘2009 DGB Investment Fair’ for local residents in an attempt to allay concerns over fluctuating economic developments and provide asset management solutions. Under the theme ‘Building a Happier Future’

we held eight seminars on domestic and overseas stock markets, asset management, the real estate market and retirement life planning during the fair. Furthermore, we also provided consulting services on financial planning, fund clinic services and various alternative investment vehicles including real estate investment and asset management. In addition, we have extended our investment lectures that were previously confined to a handful of VIP customers to all customers, thus contributing to sound investment practices in the region.

**Socially Responsible Financial Services**

In fulfilling our ethical and social responsibilities as a corporate citizen, we constantly develop public service-oriented products in order to help those of our neighbors in need. We have also committed ourselves to financial inclusion initiatives and supporting traditional local markets so as to better help the underprivileged.

**Socially Responsible Investment (SRI) Funds**

Sustainability Management is associated with the triple bottom lines (TBL) of business management performances. The SRI funds make investment decisions in consideration of the TBL performances. Daegu Bank sells various SRI funds that consider TBL performances for responsible investment practices. Sustainable Business Funds invest in socially responsible businesses showing sustainable growth potential in consideration of their financial and non-financial performances. The SRI Funds makes selective investments based on financial and non-financial corporate assessments, especially in regards to the green industry and SRI investments. Meanwhile, Green Growth Funds invest in stocks and related assets in the green industry making profits from interest and dividend incomes. The Dow Jones Fund invests in Korean companies boasting excellent performances in sustainability management using the Dow Jones Sustainability Index (DJSI) as a benchmark.

(as of June 30, 2010)

SRI Funds	DGB AUM (KRW in millions)	Rate of Return		
		3 months	6 months	1 year
Woori Frontier Sustainable Business SRI Equity Fund	11,348	2.81	2.8	22.63
Midas Green SRI Equity Investment Trust	110	5.63	8.77	36.66
Mirae Asset Green Growth Equity Investment Trust	1,406	3.66	2.43	15.87
Yuri Dow Jones Responsible Business Fund	101	-0.19	2.8	22.63



### Customized Public Service Products

Daegu Bank constantly develops customized public service products as part of its social responsibilities and in support of regional economic development. Launched in 2009, the 'Hope Dream Deposits' was designed to aid the homeless become independent, while the 'DGB Seed for Hope Loan' aims to provide citizens with

low credit access to low-interest loans.

The 'DGB Love Sharing Household Special Loans' were extended to the financially-distressed, such as the unemployed and those living on governmental subsidies, and excludes any loan interest. We will continue to develop public service products that are customized to the needs of communities.

#### [ Customized Public Service Products ]

Product	Description	Sales Records		Launch Date
		accounts sold	Total deposits	
Senior Citizen's Transportation Savings Account	• Savings to maximize banking convenience for elderly customers who receive transportation subsidies and want to conduct small-sum transactions	6,995	KRW 713 million	July 5, 2004
Love Gyeongbuk Deposit	• A special deposit designed to contribute to the growth and public work of Gyeongsangbuk-do province	12,836	KRW 92,324 million	January 17, 2008
Hope Giving Deposits/ Savings Accounts	• A product to assist the homeless become independent	54	KRW 20 million	February 2, 2009
I Zoa (Child Love) Deposit	• A child birth promotion product that provides benefits to families with more than three children	853	KRW 619 million	February 2, 2009
Happy Sharing Savings	• A low-income family support product that helps children from low-income families become independent	50	KRW 88 million	May 21, 2009
Segero Deposit	• Contributes to public funds supporting the 2011 World Athletic Championships	12,237	KRW 240,150 million	November 2, 2009
Moa Dream Deposit/ Savings	• A product that provides benefits to businesses creating jobs	2,024	KRW 13,594 million	November 17, 2009
2030 Self-Support Account	• A product to support those financially-distressed overcome poverty	270	KRW 28 million	June 22, 2010
DGB Love Sharing Household Loan	• A loan designed to reduce financial costs and provide low-interest households with loans	3,039	KRW 222.5billion extended	April 1, 2009
DGB Seed for Hope Loan	• A low-interest-rate loan for ordinary citizens in order to provide additional financial stability. It offers people with low credit ratings a chance to get a bank loan, therefore helping them avoid loan sharks	1,059	KRW 15.2 billion extended	April 21, 2009
DGB Dokdo Card	• A credit card that raises funds for various Dokdo projects	241,373	KRW 175,052 million	March 2, 2005

※ These sales records are as of December 31, 2009, except for the Moa Dream Deposit/Savings and 2030 Self-Support Account figures, which are as of June 30, 2010.



## Green Finance

### DGB Cyber Green Branch

In response to the government's low-carbon green growth initiative, Daegu Bank created a taskforce team in July 2009 designed to operate the DGB Cyber Green Branch, which aims to make profits from green finance. Following nine months of preparation, we opened the Internet-based environment-specialized DGB Cyber Green Branch in May 2010, a first among Korean banks.

The DGB Cyber Green branch provides green e-banking services specialized in environmental products, and which is separate from our Internet banking. The service scope covers everything from money-wiring, green deposit/savings, fund purchase and loan information inquiries, to credit card subscription, information access, F/C deposits and account-checking services. Featuring the Green Product Mall, DGB Environmental Management, Environmental Information and Green E-Banking Services, the DGB Cyber Green Branch features a wide array of environmental information, such as in-depth details regarding environmental regulations and policies, environmental studies, DGB's environmental management activities and an environmental glossary.

The Green Product Mall provides detailed information on eco-friendly deposit/savings, domestic and offshore eco-friendly funds, eco-friendly loans and credit cards. These eco-friendly green deposits offer prime interest rates in proportion to a customer's accomplishments in terms of their green lifestyle through programs such as a weekly no-drive day, as well as their participation in green lifestyle groups, such as those encouraging low emission vehicles, the reduction of carbon emissions and cycling. Green Fund Products invest in the future value of the green industry and mitigating global warming in consideration of corporate non-financial performances in such areas as environmental management, social responsibility and corporate governance.

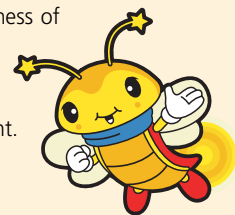
The DGB Environmental Management introduces DGB's environmental management policies, including its vision, strategies environmental protection campaigns, Green Finance Division activities and associations with environmental groups.

The Environmental Information section provides various environmental information, such as environmental regulations and policies, news, a glossary and a bulletin board at which visitors can leave messages. Customers of the Cyber Green Branch are also provided with a free "SMS service" and carbon emission calculator, with which customers can learn about their own carbon emissions. They are also provided with diverse information and opportunities to reduce carbon emissions as well as prime interest rates and fee exemption for their financial transactions with DGB Cyber Green Branch. In addition, we are also planning on introducing environmental funds with some of our proceeds from the branch which will donate to the 'Nakdong River Afforestation' and 'Anti-Desertification Forest in Mongolia' projects.

### Environmental Mascot

Daegu Bank's environmental mascot "Bandi" functions as an effective symbol of the bank's commitment to environmental management. Taking its motif from the firefly—"bandi" in Korean—that is known to live in clean environments, Bandi represents the bank's dedication to fighting pollution. The star-shaped antenna carries a message of hope; the yellow halo represents the warm heart and friendliness of the character, while the blue wrap around Bandi's neck highlights our dedication to protecting the environment.

[ DGB Environmental Mascot Bandi ]



[ DGB Cyber Green Branch ]

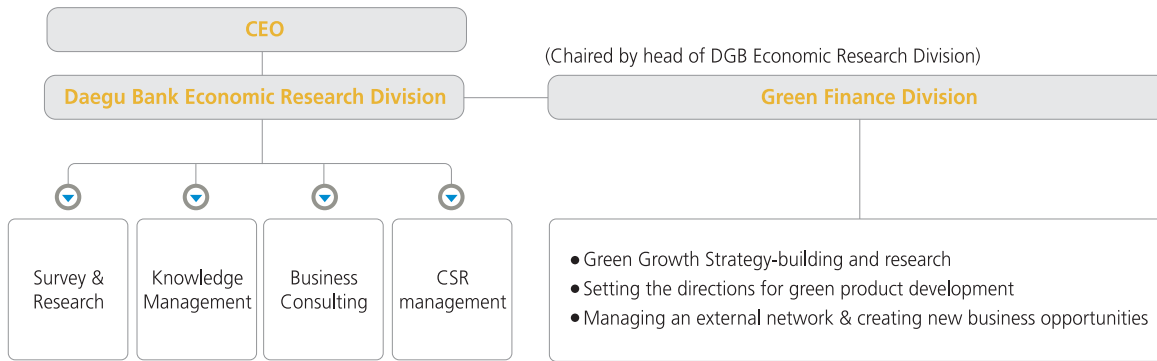


## Green Finance Division

Daegu Bank launched its Green Finance Division in February 2010 as a dedicated organization designed to develop new growth engines such as green business and green finance as well as effectively communicate our brand image as a green banking leader. Chaired by the Senior Vice President, the Green Finance Division is comprised of 12 employees, including non-regular staff, with expertise in CSR,

loan and deposit product planning, funds, investment and environmental risk management. Major functions of the Green Finance Division include developing green growth strategies, setting the directions and strategies for the development of green financial instruments, maintaining internal and external networks and creating new business opportunities, as well as publishing CSR reports and operating the bank's Sustainability Management Working Group. In order to achieve its goal of implementing an effective green finance business, the Division conducts monthly council meetings.

### [ Organization Chart ]



### [ Green Finance Products ]

(as of June 30, 2010)

Green finance products	Product name	Description	Performance	
			No. of accounts	Amount (KRW in Thousand Won)
Installment savings	Eco-friendly green installment savings	It offers prime interest rates of up to 0.4%p to customers participating in the weekly no-drive day campaign, operating low-emission vehicles or bicycles, carbon reduction activities.	38,290	92,000,000
	Green health installment savings	In promotion of a low-carbon green lifestyle, it offers prime interest rates to customers who walk to work or use public transportation, as well as subsidies on health check-ups.	4,554	9,983,000
	e-convenient installment savings	It is available on the Internet or via phone, without the need to visit a branch, providing additional interest rates according to transaction conditions. Customers can also contribute to environmental protection funds subsidized by the Bank.	19	4,230
Financial technology deposits	Eco-friendly green deposits	It offers prime interest rates of up to 0.4%p to customers participating in the weekly no-drive day campaign, operating low-emission vehicles or bicycles, carbon reduction activities.	7,945	233,900,000
	e-convenient time deposits	It is available on the Internet or via phone, without the need to visit a branch, providing additional interest rates according to transaction conditions. Customers can also contribute to environmental protection funds subsidized by the Bank.	13	165,300
Offshore funds	KB Global Warming Thematic	It invests in global blue chips with high growth potential in regards to global warming, such as alternative energy, greenhouse gas emissions reduction, energy-efficiency and alternative fuel.	70	300,369
	Trust Investment(Equity) A KB Global Warming	It invests in global blue chips with high growth potential in regard to global warming, such as alternative energy, greenhouse gas emissions reduction, energy-efficiency, and alternative fuel.	35	114,587
Loans	Thematic Trust Investment(Equity) B DGB Green Loan	Based on eco-friendly performance evaluation results, it offers prime interest rates and fee discounts to ISO14001 certified businesses, LED manufacturers and other eco-friendly businesses.	4	956,000
Cards	Dandi transform card	Made of Korean traditional paper, it is an eco-friendly, degradable credit card.	296	689,753



# Customer Information Security & Customer Satisfaction

## Safe Financial Transactions & Customer Information Security

Daegu Bank adopted the end-to-end (E2E) encryption security program in April 2009 in order to prevent any leakage of customer information during Internet banking transactions. By encrypting all information during Internet banking transactions, the program protects customer information, especially passwords, from hacking or other online infringements.

Daegu Bank fully complies with the Korean Act on Real Name Financial Transactions and Guarantee of Secrecy. To that effect, we constantly educate our employees in regards to information security guidelines involving personal financial transactions, while further enhancing our internal control system. The provision of any personal information acquired in the course of banking businesses to a third party is completely prohibited. In particular, we obtained the BS7799 certification in 2003, while our ISO27001 certification was renewed in 2009. In a bid to effectively counter the recent rise in cyber attacks, we developed a system to detect and prevent DDoS attacks in February 2009 as well as continue to operate an infringement TF and disaster restoration center in order to prevent security system emergencies.

## Protecting investors' value through observance of product and service sales principles

In preparation of the "Capital Markets and Financial Investment Services Law," Daegu Bank has put in place various financial product sales guidelines in line with the principles of Robust Investment Advisory, Suitability and Obligation to Explain. Under the guidelines, we implement extensive employee education and create and maintain various slips and documents such as collective investment vehicles application forms and investor information confirmation forms. The guidelines stipulate: first, investment advisors should assist customers to make informed decisions as part of their fiduciary duty; second, employees must ensure the suitability of products

match investors' needs by checking a customer's intention to invest; and lastly, customers should be provided with investment advisory that includes a detailed explanation covering aspects such as product description, associated risks, product structure and feature and cancelling options, with customers then confirming that the explanation is fully understood through signature or other means

## Enhancing Customer Satisfaction

Daegu Bank set its CS vision as "service leading company" and CS slogan, "Customer Care, Community Care and DGB Care." The Bank's recent "Hi-CS Campaign" is a smile corporate culture campaign, encouraging employees to greet customers with a smile and provide high-quality service.

We constantly conduct employee education so as to enhance customer satisfaction. In addition to off-the-job training, lecturers visit branches to enhance a CS mindset both before and after operating hours as well as provide personal coaching and feedback through clinics. These differentiated training methodologies include reminding, addressing shortcomings, video class, handling customer complaints, image making and invigorating branch atmosphere. Off-the-job training classifies trainees into CS leaders, CS officers, new bankers and branch managers in order to maximize the efficiency of the program.

In 2009, Daegu Bank upgraded its customer satisfaction to an industry-topping level, while striving to improve service quality in order to satisfy customer needs. With the aim of providing the best possible quality of service, we will continue to serve as the benchmark for best practices, while minimizing customer complaints through satisfaction surveys.

### [ 2009 VOC Handling ]

(Units : cases)

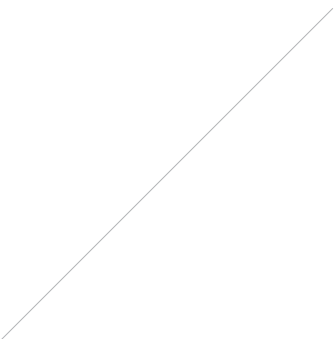
	1H 2009	2H 2009
Overall	322	359
Complaints	55	87
Issues	51	53
Complements	108	172
Others	108	47







# Green Initiative





# Environmental Management

## DISCLOSURE ON MANAGEMENT APPROACH

### Vision

As the region's leading bank in sustainability management, we commit ourselves to environmental management by proactively responding to climate change. At the same time, we will pioneer the blue ocean of environmental management, thus reinforcing our revenue structure and raising our global profile as a leading green bank

### Strategic Directions

- **Ensuring our green leadership:** create an eco-friendly organization by augmenting our counteraction to climate change and announcing our carbon neutral declaration — Building the GHG Inventory System & Third Party Assurance
- **Strengthening environmental risk management:** introduce environmental impact assessments in loan decisions, develop environmental management guidelines and adopt an environmental accounting system
- **Developing green financing activities:** establish an environmental management system, improve green financial product development and introduce green financial services
- **Increasing eco-friendly investment activities:** Sell "green" mutual funds, participate in environmental project financing and; take part in local governments' green projects

### Material Issues

- **High Issues:** Further develop the environmental blue ocean in order to strengthen revenue structure and augment initiatives to cope with climate change
- **Medium Issues:** conduct carbon offset initiatives and promote eco-friendly product procurement and Building the GHG Inventory System
- **Low Issues:** intensify energy saving initiatives and bio-diversity protection activities

### Important Achievements

Daegu Bank is proactively involved in carbon reduction initiatives in response to climate change. Furthermore, we also cooperate with our stakeholders in various projects, establishing ourselves as a leading green bank in the local community and Korean financial industry.

	2008	2009	2010 (Plan)
Carbon Emissions(CO <sub>2</sub> ton)	15,693.54	15,380	14,695
Scope 1(CO <sub>2</sub> ton)	2,139.42	2,100	2,079
Scope 2(CO <sub>2</sub> ton)	13,268.00	13,000	12,350
Scope 3(CO <sub>2</sub> ton)	286.12	280	266
Renewable energy consumption(kwh)	7,050	31,844 ( ↑ 351.6%)	33,000 ( ↑ 3.6%)

※ 2008~2010 figures include emissions by branches.



자연의 균형

## Creating a perfect balance with nature

Green investment is the most significant investment that Daegu Bank has made to provide our generation and future generations with a greener society. Dedicated to reducing carbon emissions, we improved our energy consumption patterns and created a greenhouse gas inventory, thus further strengthening our carbon management. These efforts will contribute to generating positive energies powerful enough to build forest in desertifying areas around the globe.

Recycled waste and rainwater will help protect the habitat of polar bears. This is how Daegu Bank commits itself to protecting the environment and pursues co-prosperity with nature.



## Green Management in a Low-Carbon Society

Our diverse initiatives to mitigate climate change include the declaration of the "DGB STOP CO<sub>2</sub> Plan" in March 2008. In addition, we adopted a green management vision, strategy and code of conduct as part of a company-wide commitment to green management. Under the plan, we aim to reduce our GHG emissions by 30% by 2020.

### Climate Change Convention & Risk

According to the 2006 Stern Review, climate change will cause a 5 to 20% fall in the world economy in terms of annual GDP if it goes unchecked. However, the global society has moved to mitigate climate change, specifically by reducing greenhouse gas emissions.

In 1992, governments around the world held various climate change conventions in order to find ways to reduce GHG emissions. By enforcing the Kyoto Protocol, EU governments pushed for GHG emission regulations, which in turn gave rise to the emissions trading market. The Kyoto Protocol mandates world economies to reduce GHG emissions by 5.2% of the 1990 level during a five year period from 2008 to 2012.

Held in Copenhagen in December 2009, the United Nations Framework Convention on Climate Change Conference of Parties 15 (UNFCCC COP15) resolved to curtail the global temperature rise within 2°C of that of pre-industrialization levels, and to consider readjustment of the figure to 1.5°C through interim evaluation. Under the agreement, Annex 1 parties must submit reduction goals by 2020 and get their attainment assessed accordingly, while developing countries—non-Annex 1 parties—must submit reduction plans and have performances evaluated according to international standards. Countries on international support shall also receive verification by an international authority.

Against this backdrop, the Korean government has declared low-carbon green growth a national vision. By creating a system in which economic growth considers environmental protection and the

environment becomes a new growth engine, a virtuous circle between economy and environment can be created. Green growth, therefore, is the underlying national vision, one that addresses energy and environmental issues as well as encompassing job creation, growth engines, corporate competitiveness and changes in lifestyle. After an intensive analysis of GHG emissions and reduction potential, the Korean government announced its goal to reduce national GHG emissions by 30% of the 2020 estimate by 2020.

In support of this, the National Assembly passed the "Low Carbon Green Growth Basic Law" in November 15, 2009. With the effectuation of the enforcement act on April 14, 2010, all sectors set detailed goals from 2010 and adopted "GHG & Energy Target Management." Encouraging effective countermeasures to climate change and energy issues, the Carbon Management, and Cap & Trade Scheme are expected to have both a direct and indirect influence on Korean companies.

### GHG & Energy Target Management

The GHG & Energy Target Management is a system by which corporations and the government cooperate to set energy consumption and efficiency goals. The government sets and manages targets for companies that generate certain levels of GHG and energy consumers. In turn, these companies must release details of their annual GHG emissions and energy consumption and have these figures verified by a certified third party before reporting them to the government.

### Cap & Trade

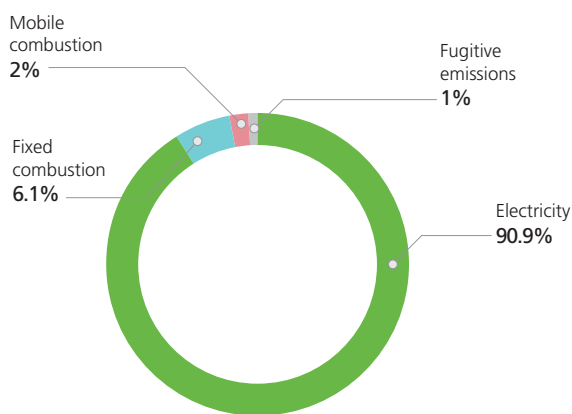
The cap & trade scheme allots GHG emission caps to companies for a given period as well as allowing trading these caps at market prices. Under the scheme, companies can trade emissions within the total allotment. If these allotments are exceeded, a company must purchase an additional emissions limit to offset the excess.

This scheme, however, has caused concerns that it will compromise the competitiveness of high energy-consuming companies and hinder capital expenditure, therefore impeding the sustainable growth of companies.

The EU allowed an emissions trading scheme within its judiciaries as early as 2005, and Annex 1 parties have begun efforts to extend their emission caps through Joint Implementation (JI) or clean development mechanism (CDM) projects. In the future, these schemes are expected to lead to significant changes in the business environment in all aspects of GHG emissions regulations, energy source replacement and the fight against climate change.

### Calculation and Verification of DGB's GHG Emissions

Daegu Bank is committed to reducing its GHG emissions and coping with changes in the business environment. First, we began calculating and identifying our GHG emissions and their sources in order to develop a reduction plan. Our major sources of GHG emissions were found to be the air conditioning systems of its main office and retail branches, as well as vehicle fuel consumption. Inevitably, any expansion in our branch network will cause an increase in CO<sub>2</sub> emissions. In an effort to minimize the impact of our growing sales networks, we continue to install ATMs instead of branches whenever possible. Daegu Bank's GHG emissions are disclosed in the SAM-DJSI, Carbon Disclosure Project (CDP) and this report.



In 2009, direct emissions, including fixed combustion, mobile combustion and fugitive emissions, accounted for 9.1%, while indirect emissions, including electricity use, took up 90.9% of total GHG emissions by Daegu Bank. By emissions source, GHG emissions from the use of electricity claims the dominant share; 90.9% of total GHG emissions by the bank.

### Calculation of GHG Emissions

We calculated the GHG emissions as follows:

#### 1. Scope

- GHG emissions included those by our head office, academy center and branches, either rented or owned by the bank, as well as ATMs.
- Direct emissions (Scope 1): rented cars were not included.
- Indirect emissions (Scope 2): indirect CO<sub>2</sub> emissions from the use of electricity were included.

#### 2. Guidelines

The calculation was made in line with the 2006 Guidelines for National Greenhouse Gas Inventories of the IPCC and the ISO 14064-1 (principles and requirements at the organization level for quantification and reporting of GHG emissions), and the 2004 Corporate Accounting and Reporting Standards by the WRI/WBCSD.

\* IPCC: Intergovernmental Panel on Climate Change

\* WRI: World Resources Institute

\* WBCSD: World Business Council for Sustainable Development

#### 3. Factors by Energy Source

The heat value by energy source was based on the net calorific value as set forth in the energy calories conversion standards of the Enforcement Act of the Energy Basic Law. The electricity calculation applied the emission factors of the National Electricity GHG Emission Factor (Korea Power Exchange, December 2009). As for factors not provided with national emission factors, we applied the IPCC emission factors.



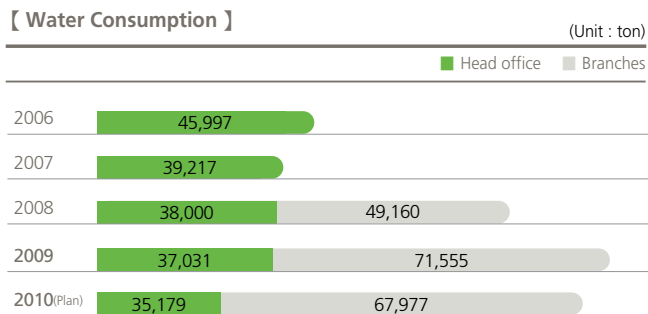
DGB's GHG emissions include all direct and indirect emissions by the main office and branches of the bank. We will reduce our GHG emissions through various measures, such as installing ATMs, energy conservation, green finance, renewable energies and enhancing the energy efficiency of buildings we use.

Carbon neutrality refers to achieving zero carbon emissions by balancing a measured amount of carbon released with an equivalent amount sequestered or offset through green finance or social GHG reduction initiatives to make up the difference. To achieve carbon neutrality, Daegu Bank will devote its resources to reducing social GHG emissions, while supporting technologies and business activities to local SMEs for GHG reduction.

Carbon intensity is calculated by dividing GHG emissions with the number of employees. At Daegu Bank, carbon intensity is a qualitative measure of the relevance between the number of DGB branches and GHG emissions. We will keep improving our carbon intensity to more than 50% of the 2009 level by 2020. DGB's carbon intensity decreased 0.8% in 2009 from 2008, from the equivalent of 141.7 ton CO<sub>2</sub>-eq/branch to 140.6 ton CO<sub>2</sub>-eq/branch.

## Water Consumption

In 2009, Daegu Bank consumed 81,495 tons of water, a 6.5% decline from the previous year. In addition, the water use load factor improved 6.6%, from 22.8 tons/person in 2008 to 21.3 tons/person in 2009.



Daegu Bank aims to improve water use to 30% of BAU by 2020. We will strive to attain that goal by reducing water consumption and recycling wastewater and rainwater in order to tackle water poverty issues arising from climate change.

## DGB STOP CO<sub>2</sub> Plan

Daegu Bank initiated its DGB STOP CO<sub>2</sub> Plan in March 2008 in order to reduce carbon emissions through energy saving and eco-friendly campaigns. We converted energy consumption levels at our head office and branches (such as electricity, water, heating, and vehicle fuels) into CO<sub>2</sub> emission levels, and have implemented action plans to reduce these emissions. For example, we are striving to create paperless offices, curb the incidence of disposable items and food waste, and increase the use of recycled and eco-friendly products. In the future, we will continue our efforts to minimize GHG emissions through energy saving and offset inevitable carbon emissions by planting trees and being involving in other environmental protection campaigns.



## 【 Carbon Emissions 】

	2008	2009	2010(Plan)
Scope 1(CO <sub>2</sub> ton)	2,139.42	2,100	2,079
Scope 2	13,268	13,000	12,350
Scope 3	286.12	280.0	266
Renewable energy consumption	7,050kWh	31,844kWh (↑ 351.6%)	33,000kWh (↑ 3.6%)

※ 2008~2010 figures include emissions by branches.

## Carbon Disclosure Project (CDP)

Committed to addressing climate change, Daegu Bank participates in the global Carbon Disclosure Project (CDP) initiative by disclosing its GHG emissions

Launched in 2000, the CDP is an annual project in which international financial institutions and institutional investors request global companies to disclose their GHG emissions and risks.

Daegu Bank has participated in the program since 2007, and using it to raise its corporate value and image as a leading green bank.

## Increasing Initiatives to Mitigate Climate Change

Daegu Bank signed the "Caring for Climate" initiative at the "Global Summit 2010 (B4E: Business for the Environment)" in April 2010. Furthermore, we were the first Korean financial institution to join the "CEO Water Mandate."

Initiated by the incumbent UN Secretary, General Bahn at the UN Global Compact Summit Meeting in July 2007, the "Caring for Climate (C4C)" program endows companies around the world to share practical schemes to deal with the environmental crisis, raise public awareness and influence public policies to mitigate climate change. The "CEO Water Mandate" is a voluntary corporate initiative designed to disclose and implement corporate strategies and plans for water sustainability by dealing with water poverty and hygiene. Corporate cooperation is integral to overcoming the global water crisis, with signatory companies voluntarily taking responsibility to manage water resources in line with the UN Global Compact Vision and the Millennium Development Goal (MDG).

A number of leading global companies currently participate in the initiative.



Caring for Climate



The CEO Water Mandate

Daegu Bank CEO, Ha Choon-su became the first and only Korean financial institution CEO to participate in the UNGC Leaders Summit 2010 as a director of the UN Global Compact Korean Network in June 2010, exchanging opinions with global leaders on issues such as sustainable and ethical management, social contributions and environmental management.



Daegu Bank CEO posing with participants of the UNGC Leaders Summit 2010

## S-Line 2009 Campaign

Daegu Bank launched its "S-Line 2009 Campaign" in April 2009 in order to eliminate waste and losses within the organization in order to save energy. Major programs include the LOTOO (Light Off Turn Off OK) campaign, the discouragement of the use of personal heaters and coolers, no-tie in the summer and the wearing of thermal underwear in the winter policies, the switching of computer monitors to the power saving mode, lowering room temperatures, the use of stairs instead of elevators, a no-drive day and commuting by mass transportation.

In 2010, we are planning an "Edge-S Line 2010 campaign," which aims at reducing energy and natural resource consumption by 10%, thus saving us KRW 6.7 billion in energy costs.

**[ Energy Cost Reduction Goal (10% reduction) ]** (Unit : KRW million)

Year	Energy	Copying paper	Disposable cups	Office Supplies	Total
2009	5,865	10,083	2,052	1,613	19,613
2010	5,280	9,075	1,847	1,452	17,654



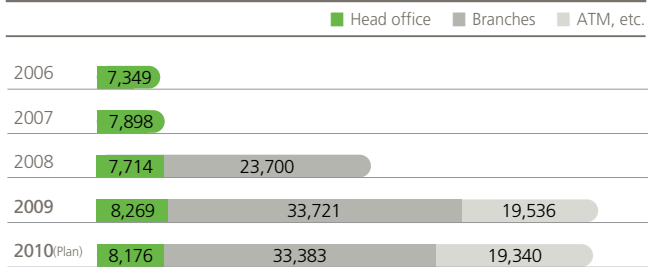
## Energy and Resource Management

In addition to participating in energy savings campaigns, Daegu Bank has set reduction targets for its energy sources and natural resources, such as electricity, energy, water and waste, in order to reduce CO<sub>2</sub> emissions.

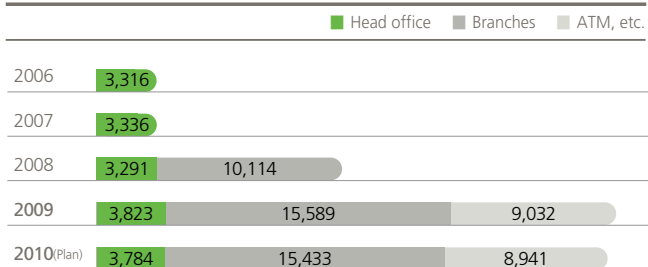
Electricity is the primary source of energy at Daegu Bank. Although commercial electricity is our main power source, we also use industrial electricity in emergencies. Our 2009 calculation takes into account electrical use at our head office, branches and ATMs, with the figure then verified by an independent third party.

In addition to electricity, we also use kerosene and vehicle fuels. In order to improve energy efficiency and reduce GHG emissions, we have replaced oil boilers with natural gas. Vehicle fuels are consumed for official short journeys. Vehicle fuel consumption is used as the basic data for the environmental impact analysis of the transportation of our commodities and employees.

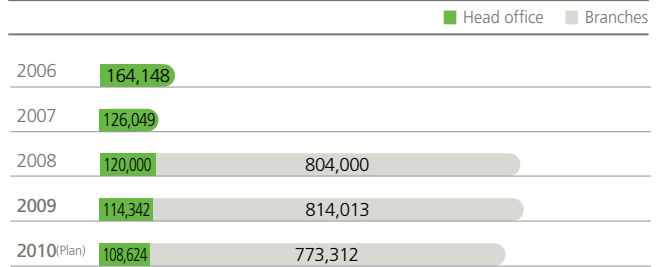
### 【 Electricity Use 】 (Unit : Mwh)



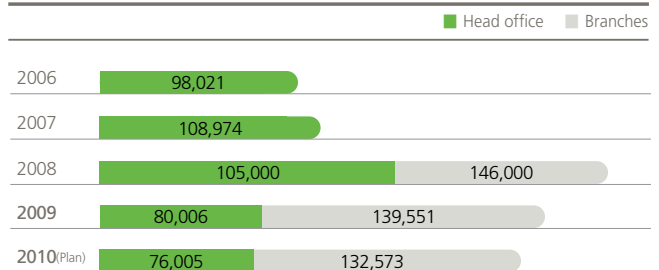
### 【 Indirect CO<sub>2</sub> Emission from Electricity Use 】 (Unit : CO<sub>2</sub> ton)



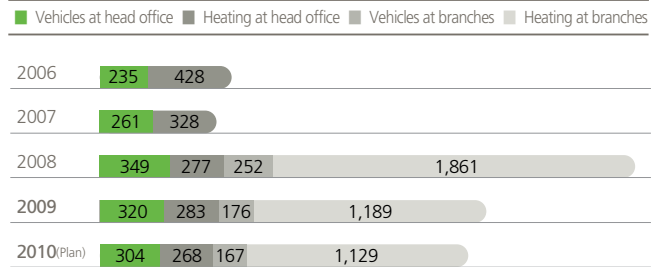
### 【 Heating Energy (Kerosene) Use 】 (Unit : ℓ)



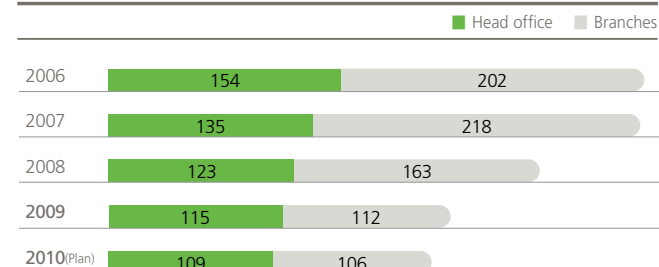
### 【 Mobile Combustion (Gasoline) 】 (Unit : ℓ)



### 【 CO<sub>2</sub> Emissions from Energy Consumption 】 (Unit : CO<sub>2</sub> ton)



### 【 Indirect CO<sub>2</sub> Emissions during Business Trips 】 (Unit : CO<sub>2</sub> ton)





## Energy Consumption Savings Initiatives

Daegu Bank begun replacing outdated equipment with energy efficient equipment in 2006 and completed the process in 2008, thus creating a pleasant workplace with reduced environmental impacts, such as air pollution and noise.

In 2009, we replaced the lighting at our head office, meeting rooms, control center and night-duty room with LED lights as well as installed LED signboards at six of our new branches. Embedded timers in the signboards automatically turn on and off throughout the day as well as an hour earlier in the winter, and thus saving approximately KRW 20 million in energy costs.

### 【 Power-saving effect of Energy-Efficient Lighting & LED Lamp Replacements 】

(Unit : kWh)			
	Old lightings	Energy-efficient & LED lamps	Saved
Electricity	14,782	6,702	8,080

### 【 Head Office Energy Consumption Savings Effect 】 (Unit : KRW million)

Activities	Savings Effect		
	2007	2008	2009
Room Temperature Controlling and Facility Improvement	17.0	20.6	0
Energy-saving campaign & energy-efficient replacement	16.1	20.3	3.0
<b>Total</b>	<b>33.1</b>	<b>41.0</b>	<b>3.0</b>

## Recycling Waste and Waste Paper

Waste generated at our offices includes general waste, paper waste and office fixtures. Waste papers and fixtures are collected on a regular basis in order to enhance recycling efficiency. Meanwhile, unused devices and fixtures are distributed to branches where they are needed, thus reducing the wasting of resources and minimizing any environmental impact.

We are also increasing our use of recyclable office supplies, such as printer ribbons and laser printer toners. These efforts have saved us approximately KRW 35 million annually.

Initiated in 2009, the "S-Line 2009" campaign successfully established among our employees the habits of recycling and reusing copy paper and reducing the use of disposable goods. Recycling desks and office supplies and other business assets saved costs totaling KRW 1,505 million.

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

## Waste Mobile Phone Collection Campaign

As a leading regional green bank, Daegu Bank participates in the "2010 Waste Mobile Phone Collection Campaign." Initiated by Daegu city in June 2010, the campaign aims at collecting 250,000 disused mobile phones. In addition to encouraging our employees to participate, we also placed collection boxes at branches to induce customer participation.

We joined the campaign in order to raise public awareness of environmental issues and to reduce carbon emissions. All proceeds will be donated to those in need.





### Solar Power Generation as Alternative Energy Source

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

By energy production, the Banyawol branch generated 21,886kwh over the past 21 months and Gyeongju branch, 19,340kwh for the last 12 months. The monthly average production of the Banyawol branch stood at 1,042kwh (operating 3.2 hours per day on average), supplying 12.27% of the branch's electricity needs. The generator at the Gyeongju branch supplied 12.57% of the branches total electricity consumption, producing 1,381kwh per day (operating 3.75 hours) on average. As a result, solar power generation reduced our energy costs by KRW 5.5 million.

### Green Purchasing

Paper is the resource most used at Daegu Bank. In order to combat this, we put in place boxes at in offices at our head office and branches in order to separate reusable paper from waste paper, while also encouraging the use of eco-friendly recycled paper.

Furthermore, we have also replaced disposable office supplies with recyclable goods. By purchasing energy-efficient equipment such as copy machines, fax machines and other electric devices, our electricity consumption has decreased by 16%.

### Eco-Friendly Eco Bags

Daegu Bank opened a Cyber Green Branch in May 2010. In a bid to raise our customers' environmental awareness, we distributed 17,000 eco bags available in four different types to our retail branches. Made of cotton, which is biodegradable, the eco bag was produced to reduce plastic bag use in consideration of the environment. As part of our green purchasing campaign, these eco bags were given to customers who had opened eco-friendly time/saving deposits worth more than KRW 1 million or had received eco-friendly loans worth more than KRW 10 million.



### Rainwater Recycling Facilities at Head Office

In a bid to raise public awareness in regards to water poverty, Daegu Bank introduced rainwater storage facilities on the rooftop of its head office building in May 2009. With an annual storage capacity of 360 tons of rainwater, the facility recycles water for car cleaning, toilet water and cleaning water. In the future, we aim to expand the facility to our branches.



## Signatory to the CEO Water Mandate

In April 2010, Daegu Bank became Korea's first financial institution to sign up to the CEO Water Mandate, a global voluntary commitment to dealing with water safety and scarcity under the UN Global Compact. The CEO Water Mandate is a global corporate voluntary initiative to regarding the disclosure of water sustainability policies and practices. The bank joined the UN Global Compact in July 2006, and CEO Ha was elected to be a director of the UNGC Korea Network in June 2009. Daegu Bank faithfully abides by the ten principles of the UN Global Compact regarding human rights, labor, environment and anti-corruption.

## Spreading the initiatives of GHG reduction to local communities

Daegu Bank held the first "NIE Energy Diary Contest" in 2009, in cooperation with a local environmental NGO to promote a regional GHG reduction campaign. NIE, standing for Newspapers in

Education, aims to use news articles to develop creativity and integrated thinking.

By encouraging local students to collect environmental news articles and keep environmental diaries, the contest contributed to raising local environmental awareness and environmental protection activities. A total of 10,000 diaries were distributed throughout our branch networks and 2,500 diaries were submitted to the contest over a period of five months.

The contest is still in progress as of 2010, garnering good responses from local schools, communities and environmental groups. In 2010, we organized the DGB University Student Environmental Reporters' Group to support diverse local eco-friendly campaigns. These university reporters participate in various environmental volunteer activities as well as report on environmental news articles and take photographs.

Dedicated to making Daegu a low-carbon green city, Daegu Bank held a bicycle parade at our head office in March 2010. In the parade, 100 employees cycled the 15km-course around Daegu city, demonstrating their dedication to environmental protection. In a bid to reduce local GHG production, we also held the DGB Green Love Festival to return profits to our customers as well as donated 2,011 bicycles to environmental groups and local communities.



DGB University Student Environmental Reporters Group



1<sup>st</sup> NIE Energy Diary Contest Winners



2010 Daegu Bicycle Parade



## Protecting 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 Regional Swamp and Streams

The DGB Service Corps has conducted a "Feeding Migratory Birds" event at the Nakdong River (Haepyeong Wetlands) in Haepyeong-ri, Gyeongsangbuk-do every year since 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 as well as in bird behavior.

Since 2001, Daegu Bank has been supporting the release of carp fry into the Shincheon River as part of efforts to restore the river to its natural, clean state. As of 2009, approximately 50,000 carp fry have been released into the river.



Feeding winter migratory birds event

### Helping Seommalnari Flourish

Daegu Bank is engaged in a project to restore the ecosystem of the Seommalnari, a rare species of lily. Grown naturally only in Ulleungdo, the Seommalnari is a very rare species, and was designated "Rare and Endangered Plant Species No. 37" in 1996 by the Korea Forest Service (KFS).

In collaboration with the Seommalnari Restoration R&D Team, Daegu Bank formed a Seommalnari hill on Ulleungdo and promoted Ulleungdo to the global society as an ecosystem warehouse. The bank donates all proceeds from its cyber Dokdo branch to the project every year.



Helping Seonmmalnari flourish



# Mongolia "DGB Anti-Desertification Forest" Project

As a leading green bank, Daegu Bank actively engages in the carbon neutral campaign to mitigate global warming. Launching the "DGB Anti-Desertification Forest" project in 2009, DGB formed a tree nursery, donated water wells and sponsored scholarships for students in Mongolia.

Entering into a business partnership with the Mongolian Forest Forum and the Northeast Asian Forest Forum (NEAFF), DGB carried out the alteration and repair of the "DGB Korea-Mongolia Friendship Fountain" in June 2009. Concluding the agreement on the "Mongolia Anti-Desertification DGB Forest," we planted 60,000 larches at the 198,347m<sup>2</sup> DGB Forest site in Mongolia.

Furthermore, we nursed 500,000 young trees at the 16,529m<sup>2</sup> DGB nursery site in April 2009; further supporting the anti-desertification forest project. By providing all the equipment, seeds, water tank and administration expenses of the nursery, we have also contributed to the region's economic development by creating jobs in the local community.

In June 2010, DGB's CEO Ha, Chun-soo flew to the site to participate in the 2nd project, which was the same size as the previous year. In 2010, we also distributed vitamin tree seeds as well as larch seeds.

The vitamin tree is popular in Mongolia as a source of revenue.

The DGB Well that we dug in 2007 has now become an invaluable asset to water-poor local residents. In 2010, we renovated the surroundings of the well, turning the area into a relaxing spot for local residents.

As part of our commitment to cultural exchange and mutual development between Korea and Mongolia, Daegu Bank has provided scholarships to selected Mongolian university students studying in Daegu since 2009. The first scholar was Mr. Utshu, a researcher from the Geographical Center of Mongolian Forest Science Center. Mr. Utshu is on the doctorate course of Forest Science at Gyeongbuk University and will work as a forest expert in Mongolia after graduation.

In recognition of our dedication to fighting desertification in Mongolia, the Climate Change Green Network of the Korea Forest Service and the Northeast Asian Forest Forum (NEAFF) issued us with a certificate revealing that 3,002CO<sub>2</sub> tons, (the equivalent to estimated emissions for the next 40 years), of CO<sub>2</sub> was absorbed by 120,000 larches at our 40 ha-site in Munggunmorit Som in Mongolia.



Northeast Asian Forest Forum CO<sub>2</sub> Emissions Reduction Certificate



Planting trees with local residents of Munggunmorit, Mongolia

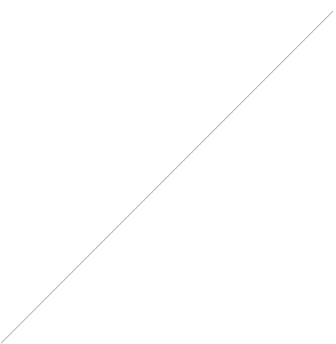


Spending time with local children from Munggunmorit, Mongolia





**Love &  
Share**





# Social Contributions

## DISCLOSURE ON MANAGEMENT APPROACH

### Vision

As a leading regional bank, Daegu Bank aims to further expand its community development projects. Through various social contribution programs, we will become a respected partner to our local community by sharing dreams and prosperity.

### Strategic Directions

- **Opportunity:** push forward with social contribution projects that meet the needs of the times
- **Theme:** push forward with social contribution projects that tell stories with a common touch
- **Welfare:** push forward with social contribution programs that correspond with public policies
- **Consistency:** consistently strive to develop community programs that cater to local needs

### Material Issues

- Contributing to the development of the local economy
- Engaging in strategic community programs

### Important Achievements

Daegu Bank expanded its financial aid to local SMEs. Committed to financial inclusion, we have introduced various financial products that encourage socially responsible investment and green financing activities in our role as a reliable financial partner to the local community.

	2008	2009	2010 (Plan)
Social Contribution Expenses/Sales	5.1%	8.9%	6.0%
No. of Volunteers	18,574( ↑ 5.8%)	19,608( ↑ 5.7%)	20,000( ↑ 2.0%)
No. of events	658( ↑ 46.2%)	809( ↑ 23.0%)	850( ↑ 5.1%)
DGB Volunteer Corps membership ratio	95.6%	95.1%	97%





## A small step resonates around the world

사회공헌

Daegu Bank's small touch turned around the biting cold winter for the socially underprivileged. Having started with the intention of shedding light on the marginalized, the DGB Scholarship Foundation is providing a brighter future for our next generation. Our sharing philosophy has given talented future generations the opportunity to realize their dreams. In addition, we continue to strengthen the bonds of families with children from multi-cultural families and Korean society in general.

Daegu Bank will continue inspire the world with its warmhearted care for its neighbors.



# Social Contribution Programs

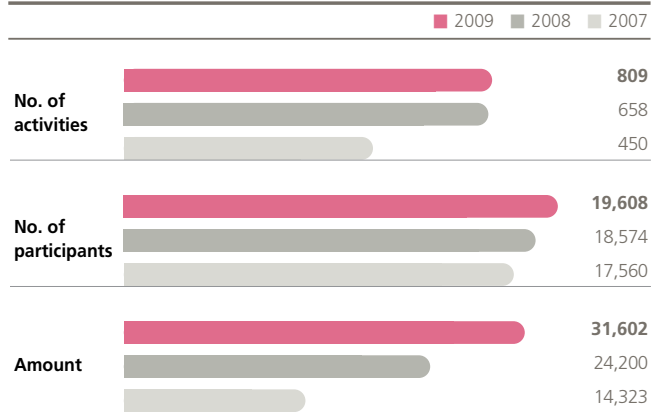
## DGB Volunteer Corps

Launched in 2002, the DGB Volunteer Corps practices the management philosophy of 'sharing dreams and prosperity with the local community' through various community programs. Including twenty groups in Daegu, seven in Gyeongbuk and one in Seoul, a total of 28 groups consisting of 2,684 members, 95.1% of our total workforce, are participating in various activities to cater to local needs.

### Major Activities

The DGB Volunteer Corps is involved in community projects in four major areas; manual service, environmental preservation, social and cultural events and donations. In 2009, we participated in various programs, including: the 'Love Rice Donation', 'Sharing with My Hometown', 'Farm Village', 'DGB Love Fund', 'Sharing Briquettes /Kimchi of Love', 'Free Meals on the Move'. 'Dream Green Summer Camp' and 'Shincheon Stream Care' campaigns. In addition we also conducted various fund-raising events, such as book donations and flea markets in order to help children who are undernourished or suffering from serious diseases, as well as feeding migratory birds

and distributing 'forest fire caution banners'. A total of 19,608 people participated in a total of 809 community programs.



## DGB Financial & Economic Education Center

Daegu Bank has so far conducted various financial and economic education programs for local residents, and continues to strive to improve these. Daegu Bank launched the DGB Financial & Economic Education Center in March 2010. The Center invites DGB's PBs and in-house lecturers as well as retirees to lecture at various programs for local students, such as financial economic classes, financial camp, financial academy and weekend financial classes.

### [ 2009 Activities by Area ]

Areas	(Units : persons, KRW million)	
	No. of beneficiaries	Support amount
Sports		3,093.6
Welfare, administrative/ financial support	10,021	2,877.7
Education & scholarship programs	8,559(No. of beneficiaries)	3,206.2
Environmental, cultural, global and other support	9,587	1,919.5
Contributions to Smile Microcredit Finance/dormant deposits		2,934.9
Contribution to the Credit Recovery Fund		17,403.0
Community involvement programs by branch		1,059.2
<b>Total</b>	<b>19,608</b>	<b>32,494.2</b>



# Social Contribution Program

## Sharing with the Local Community

### “Love Sharing Network” Week

Through participation of the ‘Bank’s Sharing Network’ week in cooperation with the KFB, Daegu Bank delivered winter preparations to those in need. The CEO of DGB and the head of Daegu Red Cross donated 550 sets of winter supplies to senior citizens living alone or those raising grandchildren on their own. The winter supplies included 10kg of rice and subsidiary foods such as sesame oil, soy sauce, frying powders and Chinese noodles. DGB Volunteer Corps and Daegu Red Cross members visited 550 underprivileged households in eight counties in the Gyeongbuk region to deliver comforts worth KRW 22 million during the ‘Love Sharing Network’ week. The ‘Love Sharing Network’ is a cooperative program of the KFB and Red Cross Korea. In 2009, the program raised KRW 500 million in funds to extend helping hands to those in need across the nation.



### “Love Rice” Funding

Commemorating its 42nd anniversary, Daegu Bank raised funds for rice in September 2009 as part of its “sharing” management philosophy. Raising funds through the bank’s intranet, all our employees contributed, with the bank matching this and donating the fund to the Community of Chest Korea.

### Santa Clauses at Daegu Bank

The Daegu Bank Labor Union held a Santa Clauses event at the head office of Daegu Bank in December 2009. Approximately 30 employees, including the chairman of the Labor Union and the bank CEO, and 15 volunteers from local charities dressed up as Santa Clauses to visit 80 underprivileged households, delivering gifts worth KRW 10 million to child breadwinners, single-parented children and children living with grandparents.

Following the event, the bank CEO and chairman of the Labor Union visited a charity in southern Daegu to spend time decorating a Christmas tree as well as present gifts to the children there. The Daegu Bank Labor Union donates more than KRW 100 million every year to those members of the local community in need.

### Sharing with Multi-cultural Families

Daegu Bank invited 200 children from multi-cultural families as well as various charities in Daegu city to the ‘2010 Great Gaya Festival’ held in Goryeong, Gyeongbuk. The bank CEO personally welcomed the children at the entrance, presenting them with caps and book rests as souvenirs. The event was particularly significant as it introduced multi-cultural families to Korean culture. Children interested in banking were also invited to experience the workings of a bank at the DGB Mobile Bank. Furthermore, more than 20 DGB goodwill ambassadors attended the event. As part of its partnership on “promoting Dokdo to multi-cultural families,” Daegu Bank invited 40 intermarried couples to the first event in 2009.





## Cultural, Artistic, Sports Programs

### 'Hope Sharing Concert' for Underprivileged Teenagers

The DGB Scholarship Foundation held a 'Hope Sharing Concert' for underprivileged teenagers in cooperation with the Daegu Classical Music Association and Daegu District Bar Association. After the concert, 20 lawyers from the Bar Association had dinner with the teenagers at the Bank's cafeteria, providing them with consulting services regarding future careers as well as legal advice. In the future, the Foundation aims to keep developing various programs for local teenagers in various areas, such as culture and art.

### Protecting Local Cultural Heritage

Daegu Bank published a special edition of its quarterly magazine 'Community & Culture' so as to shed light on the history and culture of Great Gaya, and donated 1,000 copies to the Goryeong-gun office. Issuing a total of 21,000 copies, the special edition covered the history, culture and lifestyle of Great Gaya that thrived in the Goryeong area centuries ago. The special edition serves as a good tour guidebook, containing useful information on local tourist spots such as the Great Gaya Museum, the Great Gaya History theme park, the Ureuk Museum and various local festivals. This special edition builds on our sponsorship of educational equipment to the Great Gaya Training Center in 2007 and will serve as a good foundation for future community care programs.

### Museum of Daegu Bank Web site



We opened the Web site for the Museum of Daegu Bank in April 2010 (<http://museum.dgb.co.kr>). The Web site introduces the museum, exhibition calendar and its exhibits as well as providing numerous

convenient functions, such as online reservation. The Museum of Daegu Bank is the first museum to be established by a local company in Daegu. The museum contains lots of intriguing and useful financial information, including documents regarding the foundation of Daegu Bank, banking office devices, bankbooks and money from

countries around the world. The museum also offers visitors the opportunity to learn about the history of money, what it is like to work as a banker, the making of bankbooks and a lecture on how to manage pocket money.

### Professional Football Event for Customer Gratitude Day

In celebration of its 42nd anniversary, Daegu Bank invited customers to the match between Daegu FC and Incheon UTD at Daegu Stadium in October 2009 for its 'Customer Gratitude Day'. Before the match, a team made up of DGB employees and the Gyeongbuk University soccer club held a friendly match before presenting 150 Daegu FC signed soccer balls to members of the audience.

### Kids' Drawing and Women's Literary Contests

Held every May, our kids drawing and women's literary contests have grown into the biggest cultural events for children and women in the Daegu and Gyeongbuk region.



### DGB Love Baby Campaign

We installed nursery rooms at our Siji and Taejeondong branches, providing cradles and other conveniences for breastfeeding and diaper changing, while at six of our local branches we introduced exclusive parking spaces for customers with babies. In the presence of representatives from relevant organizations, we held a promotion event for pregnant women and passer-bys at the 'Love Baby' Parking Lot and Convenience Facilities at our Gyeongsan office. All of the initiatives are part of our commitment to dealing with the social issue of low birth rate as well as nurturing and satisfying future customers.



## Educating our Future Generations

### Daegu Bank Scholarship Foundation

The DGB Scholarship Foundation was founded on a KRW 11.0 billion fund, the largest in the region. Of the total KRW, 5.2 billion that the Foundation has donated to date, KRW 4.296 billion has gone on scholarships for 3,519 students, while KRW 907 million has been used to provide educational equipment to schools in the region. The Foundation selects and provides scholarships to high school and university students in need of support every year. Earlier in 2010, we delivered KRW 220 million to 209 high school and university students in the region. As a consistent sponsor of the local community, we will strive to continue our programs in the areas of culture, welfare and sports.

### "Children Economic Festival"

As a reliable partner to local residents, Daegu Bank hosted a 'Children Economic Festival' at a charity for teenagers in Gimcheon. At the event, volunteers conducted various fun financial programs with students in grades 4 to 6 at 12 elementary schools in Gimcheon, inspiring an economic mindset and cultivating good spending habits in our future generations. Dedicated to fostering wise financial consumption habits in our next generations, Daegu Bank has been inviting financial experts to give financial lectures to students in Daegu and Gyeongbuk since 2003. Through these programs and activities, we aim to help children better understand the concepts of economy and investment and develop in them an economic and sound spending culture.

### "Love Home Run Zone" Fund

We installed a 'DGB Love Home Run Zone' at the Daegu Stadium and donated KRW 6 million to a local welfare center, which delivered special scholarships to 20 students from multi-cultural families. At the event, the DGB CEO and Samsung Lions baseball team players presented signed balls and scholarships to children from multi-cultural families. DGB first created the zone in 2006 and continues to donate funds for every home-run hit by a Samsung Lions player. A total of 18 home runs were hit for three years from 2006 to 2009 and 12 this year, raising a total of KRW 30 million to date.

### 2010 University Admissions Strategy Presentation Meeting

In the run-up to 2010 university admission season, we held a presentation meeting for customers who are parents of high school seniors at our head office in November 2009. Inviting famous admission consultants to give lectures, the program included a briefing on the 2010 university admission test outlook as well as strategies for successful essays and interviews. In addition, we also provided attendees with information booklets on the 2010 university admission test outlook and strategies as well as a collection of poems by poets from the Daegu/Gyeongbuk region. In the future, we plan on conducting more educational programs for our customers and their children, such as providing mentoring and study planning.

### Fostering our Future Generations

In April 2010, we launched the 'Goodwill Ambassadors Group' at our head office. Consisting of 20 university students from the region, the group will be involved in diverse PR activities designed to brand Daegu Bank as an energetic and young bank to local residents.





# Stimulating Local Economy

## Creating Jobs for the Local Community

In practice of its "sharing" management philosophy, Daegu Bank remains faithful to its responsibility as a leading regional bank in the local community. In that vein, we hired 400 interns in 2009 and 150 in 2010, from the Daegu/Gyeongbuk region, thus creating jobs for the local community. Graduated from universities in the Daegu and Gyeongbuk region, these interns received three-day OJTs before starting work at our head office and branches.

In a bid to operate a reserve of talented people, we select OJT trainees from university student candidates. In cooperation with the Korean Women Entrepreneurs Association and Taegu Gyeongbuk Association of Machinery Industry Cooperative (TAMICO), we selected candidates and assigned them to our head office and branches for banking jobs after orientation. Every year during the vacation period, Daegu Bank provides university students with opportunities to experience jobs at the bank, while constantly expanding recruitment in order to address the unemployment issue.

## Sharing Jobs for Local Community Development

Fulfilling its social responsibilities as a leading regional bank and in an attempt to stimulate the local economy, we announced a joint Labor-Management declaration in April and October, 2009.

By participating in the municipal government's job-creation project and by contributing to overcoming the economic crisis, our employees continue to strive to share and reduce the burdens of the local community. All employees donated a certain portion of their salaries to fund the bank's job creation cause. As a result, the bank employed 400 interns, 51 tellers and 40 new employees. The fund is also used to aid jobless families, undernourished children and other underprivileged members of society.

## Supporting Social Enterprises

Daegu Bank entered into an agreement with the Ministry of Labor and the Daegu Institute of Society Research to support social enterprises. Identifying local social enterprises, we provide business consulting services and contributions. We also develop exclusive deposit products and internship programs for these companies. Social enterprises are those companies that create jobs for the underprivileged and contribute to enhancing the quality of life for the local community. By supporting these social enterprises, we are able to create jobs for the underprivileged, contribute to the development of local economy and raise public recognition of us being a leading regional bank.

### 【 2009 Beneficiaries of Business Consulting Service 】

Beneficiary	Service
Nanum Community	Management innovation
Good Citizen	Management diagnosis & marketing
Chamsari (Well-being)	Management innovation
Korea Association of Massagers	Establishing subsidiaries
Korea Sapsaree Association	Developing marketing plans
Daegu Media Education Center	Developing marketing plans
Korea Traditional Culture Promotion	Developing new business model
Hwajin Tech Co., Ltd.	Developing new business model
Pohang YMCA	Developing new business model
Gagyeong Welfare Center	Developing new business model
Gumi Christians Welfare Center	Developing new business model
Wolseong Welfare Center	Developing new business model
Museum of Natural Dye Arts	Developing new business model
Hanguk Vocational College	Management innovation
Daegu Suseong Senior Club	Developing new business model
Haesol "Happy Pizza"	Developing marketing plans

In January 2010, Daegu Bank held a meeting to brainstorm ideas for creating jobs, the utmost mission of Daegu city in 2010. Chaired by the mayor of Daegu city and 30 participants from local businesses and organizations, including the Daegu Bank CEO, participants

deliberated on measures needed to create a total of 73,000 new jobs; 10,000 life-time jobs and 63,000 social welfare jobs. To that effect, Daegu Bank committed itself to providing financial aid such as loan support and prime interest rates to social enterprises and companies creating jobs, as well as establishing a social enterprise of its own to further create new jobs. Our commitment to supporting social enterprises includes providing pro bono business consulting services to local social enterprises. Furthermore, we also make preferential purchases from social enterprises, helping them hone their competitive edge and develop on their own. As of the end of November 2009, certified social enterprises numbered 266, of these, 51 were social enterprises (7 certified and 44 preliminary) operating in Daegu, and generating 1,020 jobs.



### “Shop at Traditional Markets” Campaign

In the run up to Korean traditional festivals—Chuseok and Seol, Daegu Bank mounted a campaign to encourage customers and employees to shop at traditional markets in Daegu and Gyeongbuk. With 300 of our employees participating, the campaign aimed to support local SMEs and stimulate the regional economy. In the future, we plan to continue encouraging our employees and customers to shop at local traditional markets.



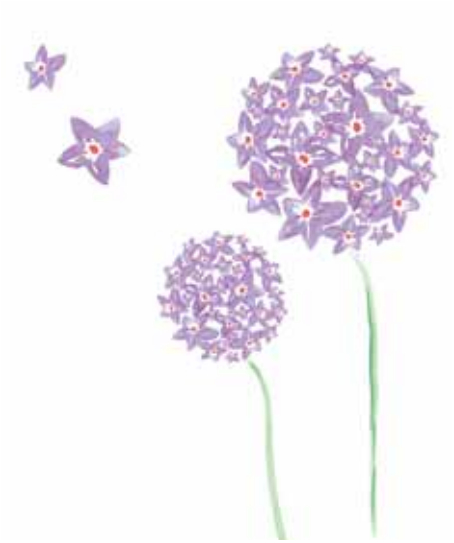
### Publishing DGB Economic Review

We redesigned and renamed our economic magazine the ‘DGB Economic Review’ in July 2009. The magazine has covered academic articles on the domestic and regional economy as well as financial and banking business strategies. The redesign introduced various new features such as CEO pages and a more colorful and reader-friendly visual layout. Main contents of ‘DGB Economic Review’ include interviews with CEOs of local businesses, visits to local businesses, briefings on local worksites, introductions to new financial products and examples of business consulting as well as various cultural and artistic features such as music, art, books, travel and food. Customized to the special needs of the CEO’s of local businesses, the magazine will cover everything from down-to-earth stories of worksites to the very latest business news as well as useful information on local business environments and other local issues.

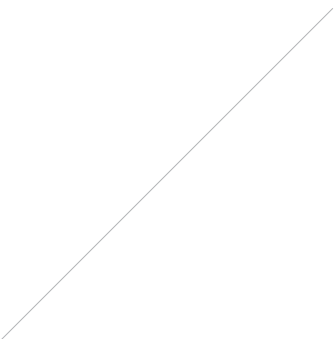








**Service,  
Passion &  
Honesty**





# Ethics & Corporate Culture

## DISCLOSURE ON MANAGEMENT APPROACH

### Vision

Daegu Bank shares its vision and core values with employees through active communication with our employees. Incorporating self-regulated ethical practices into our corporate culture, we will further enhance our ethical mindset as fiduciary duty. Furthermore, we will strive to create a family-friendly working environment in which our employees can realize a work-life balance.

### Strategic Direction

- **Ethical Management:** promoting ethical practice and anti-corruption activities to become a reliable financial company
- **Open Communication:** promoting communication across the board on core values and corporate culture
- **Welfare Benefits:** improving welfare programs, building a great workplace and helping employees realize a work-life balance

### Material Issues

- Employee education, health/medical welfare, perfect balance of a physical and spiritual life
- Stable labor-management relationship
- Improving working conditions and providing social security

### Major Achievements

	2008	2009	2010 (plan)
Customer Complaint Evaluation	1 <sup>st</sup> grade	1 <sup>st</sup> grade	1 <sup>st</sup> grade
Average training hours per employee	38 hours	40 hours	46 hours
Percentage of female managers	8.2%	9%	10.1%
No. of staff on sick leave	33 persons	31 persons	25 persons



음력.  
기업문화

## Touching heart strings through communication and trust

Reliable and respected corporate citizens have their origins in trust-based corporate culture based on interactive communication. The '3HWA' campaign, the CEO's compatriot leadership and our family-friendly management have helped create a fun and open corporate culture, while our ethics practice campaign nourished sound and transparent business practices. In the future, we will continue to build trust across the board through open-hearted, interactive communication.



# Ethical Management

## Ethical Management System

Committed to ethical and transparent management practices, Daegu Bank formulated its code of ethics in December 2000 and code of conduct in October 2002 in order to incorporate business ethics into the organization. In addition, we have put in place behavioral guidelines for employees and ethics guidelines by job function so as to enhance the ethical mindset of our employees and help them fulfill their fiduciary duties. We fulfill our day-to-day business duties in compliance with the bank's policies, bylaws and governing regulations. Furthermore, in order to ensure compliance, we introduced a compliance officer system.

### [ Code of Conduct for Employees ]

- Responsibilities to Customers and Shareholders
- Service regulations for employees
- Prohibition of illegal and unfair transactions
- Fair accounting practices
- Prohibition on unethical practices at head office and branches

## Ethical Management Initiatives

### Internal Control

In support of the Compliance Officer (CO) and the Office of CO, we designate compliance employees at each of our branches. These

employees monitor the internal control and compliance practices of each branch by checking these against the company's 'Branch Compliance Checklist'. All employees are also obliged to check their compliance practices against the 'Compliance Self-Checklist' on the 1<sup>st</sup> of every month. Furthermore, on the first business day of every year, all employees sign an integrity pact, declaring their dedication to ethical management practices.

### Strengthened Anti-Money Laundering System

In order to strengthen our anti-money laundering system (AML), we developed a dedicated IT system in the beginning of 2009 and introduced the system in July 2010. Through training, this system helps our employees better understand Enhanced Due Diligence (EDD), the mechanism of the Suspicious Transaction Report (STR) and the Currency Transaction Report (CTR). In recognition of these efforts, the Financial Intelligence Unit (FIU) awarded Daegu Bank an 'excellent' grade in its AML practice evaluation.

### Ethical Practices Campaign

Daegu Bank continues to conduct ethics training and PR as well as workshops to enhance the ethics awareness and competence of our employees. The 'Ethical Practices Campaign' helps our employees stay on the same page and establish ethical management into our corporate culture. We also encourage our customers and employees to halt the practice of offering and receiving gifts in the run-up to traditional holidays, as part of our practice of ethical management. Employees to receive gifts beyond their control are encouraged to report the incident to the 'Gift Return Center' in the Compliance Department, which then donates these gifts to those in need.



# Communication with Employees

## Open Culture

### Campaigns to Establish Interactive Communication

Communication is imperative to establishing an ethical corporate culture. Therefore, we mounted a '3HWA campaign' to encourage active communication among employees.

The '3HWA campaign'—composition of 3(dialogue/friendliness /harmony) and HWA (Heart, We, Accept), includes an opening ceremony, at which branches reaffirm their commitment to corporate culture, as well as monthly missions.

In addition to the campaign, each branch changes its theme every month and develops plans accordingly. Original and creative ideas and best practices are rewarded in order to encourage employee participation.

In 2009, the Core Value Awards awarded three individuals and three branches for setting examples in practicing the core values of "serving for all," "passion for change" and "honesty with ourselves."

### Opening the Door to the CEO

DGB CEO, Ha, Chun-soo named his office "Hi-CS Office" and opened it to employees. Those first invited to his office in May 2010 were thirteen employees selected for their excellent performances in customer services. In reflection of the CEO's commitment to communication with employees and inspiring future leaders, the program aims to invite more employees and listen to their opinions. As such, the CEO is leading efforts for a more open communication with employees regarding the practice of management policies such as sharing, the ensuring of customer satisfaction, value-creation and communication management.

### 'Fun Fun DGB'

The 'Fun Fun DGB Campaign' is a part of our efforts to establish a healthy and collegial corporate culture. It includes a 'Reading Campaign' designed to encourage self-development and mental stimulation, a 'Smoking Cessation Campaign' to promote a healthy lifestyle, and an 'Energy Boosting Campaign' to foster the development of creative ideas and active interaction between departments and branches. As a result, various ideas are being implemented in order to breathe new energy into our corporate culture.

As our employees are the most valuable assets of DGB, we strive to build a healthy and energetic corporate culture and create a great workplace through these programs.

As of the end of December 2009, DGB's total workforce stood at 2,822 persons, including 2,701 office workers and 121 others. The average time of employment currently stands at 14.95 years.

### Employees Participation in the Improvement of HRM System

The 'HR-Partners' program encourages employees' participation in the development of a new HRM system, and is just one of our programs designed to strengthen communications between the bank and employees. These 'HR Partners' who have been selected from departments and branches provide input so as to help us improve the current HR system. These employees' participation not only enhances the stability of the system but also ensures their acceptability of the system.

### Establishing Compliments in Corporate Culture

Compliance enhances organizational productivity. Praises enhance organizational productivity. Therefore, we have operated the 'Yr DGB Best' program since April 2009 so as to raise employee morale. The program features cases of exemplary abilities, attitudes and achievements, thus raising the bank's profile both internally and externally. The program is designed to encourage mutual recognition and praise for good work, with those employees receiving the most compliments rewarded with a vacation.



### New Mascot of Corporate Culture

To serve as an efficient communication tool with employees regarding the Daegu Bank's corporate culture, we developed two mascots, Saeromi and Arumi, a first among Korean financial institutions.

#### Saeromi

The rolled-up sleeves and red tie show the service mind-set of DGB people.

#### Arumi

Wearing a red shirt—a symbol of passion, and a blue skirt—a symbol of trust, Arumi embodies the integrity of DGB people.



## Welfare Benefits

### Adopting EAP System—'Happy DGB People Center'

Daegu Bank opened the 'Happy DGB People Center' in September 2009 to realize interactive communication and facilitate the compatriot leadership initiative of the CEO.

As the first 'Employee Assistance Program' (EAP) adopted by a regional company, the Center assists DGB employees and their families' with individual, family, work, stress and financial issues in order to create a great workplace within the bank.

Consisting of 13 in-house specialists with certificates in job coaching, health management, legal affairs, taxation and financial management, as well as 12 outside experts in the areas of marriage management, child education and parenting issues, the Center provides a total care service on and off line to its employees and their families. We aim to expand these programs in order to better help our employees lead happy lives.

### Health Management

Daegu Bank strives to provide health management for our employees. Therefore, we conduct annual health check-ups for our employees and their families. In 2009, a total of 2,225 people

received this comprehensive health check-up.

Based on the results, those diagnosed with diseases receive follow-ups and a 'Happy Call' every three months and six months.

In addition, mounted the '2010 Happiness for Life Health Campaign' in order to give our employees a healthy and happy life. Meanwhile, we also introduced six month 'Care for Your Liver' and 'Vein Diet' campaigns for selected employees, encouraging them to set goals and self-monitor their health.

### Theme Trip for DGB Families

The DGB Labor Union develops various welfare programs to instill pride in our employees and their families regarding the bank. In May 2009, we sent 800 employees and their families on trips to Yongin Everland, the mud-flats at Hajeon village in Gochang, and Jeollabuk-do in Spring.

Daegu Bank is committed to realizing a work-life balance for its employees through family-friendly management practices.



### Cultural Events

At the end of every year since 2007, the DGB Labor Union hosts an event for employees and their families. In 2007 this was a performance of 'Nante', in 2008 'Jump' and in 2009 'Gwangsu Idea'. A total of 1,600 DGB employees and their families watched nine shows over three days for free in 2009. Employee satisfaction with the program rises every year.

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## Labor-Management Relationship

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### Labor Union

Daegu Bank maintains a cooperative labor-management relationship based on mutual trust and information-sharing through diverse communication channels. Daegu Bank upholds the “right of organization,” “right to collective bargaining,” and “right to collective action” under the relative regulations. All employees who have subscribed to the Labor Union are protected by the Trade Union and Labor Relations Adjustment Act. As of the end of December 2009, union membership stood at 99%, with 1,949 active members. There was no incident of labor dispute or violation of labor laws in 2009.

### Cooperative Labor-Management Relationship

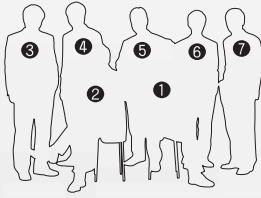
Daegu Bank sees the Labor Union as a sustainable growth partner and strives to build a cooperative labor-management relationship based on mutual trust. Our open and interactive communication channels facilitate information-sharing and the strengthening of solidarity on management issues among employees. The Labor-Management Council holds meetings twice every year, while in the event of special labor issues, ad-hoc meetings are held for transparent and fair negotiations. Other communication channels between labor and management include the DGB Development Council and Collective Bargaining Meetings, which are designed to prevent labor disputes in advance.

#### [ 2009 Labor-Management Council Performances ]

Subcommittees	Frequency	Description
Regular meetings	2	20 preliminary meetings and 16 secondary meetings
Ad-hoc meetings	1	Job sharing
DGB Development Council	2	Funds, campaign, and promotions



# BOARD OF DIRECTORS



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

02. Outside Director  
**Ahn, Choong-yong**

03. Outside Director  
**Jang, Ik Hyun**

04. Standing Auditor & Director  
**Kim, Young Beom**

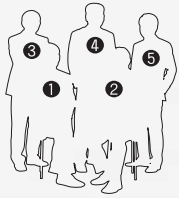
05. Outside Director  
**Kim, Young-hoon David**

06. Outside Director  
**Chung, Kun-young**

07. Outside Director  
**Kwon, Young-ho**







01. Senior Executive Vice-President  
(Daegu Bank Economic Research Division)  
**Jin, Byung Yong**

02. Executive Vice-President  
(Management Planning Division)  
**Seo, Jung-won**

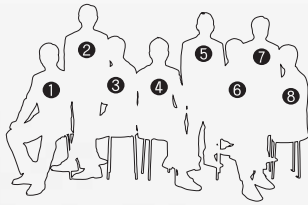
03. Executive Vice-President  
(Retail Banking Financial Division)  
**Kim, Kwang-su**

04. Executive Vice-President  
(Strategic Financial Division)  
**Park, In-gyu**

05. Executive Vice-President  
(Marketing Planning Division)  
**Kim, Hee-cheol**



# MANAGING DIRECTORS



01. Director of Division  
(Gyeongbuk Division 2)

**Lee, Mahn Hee**

02. Director of Division  
(Gyeongbuk Division 1)

**Choi, Young-soo**

03. Director of Division  
(Southeast Regional Division)

**Lee, Chun-ki**

04. Director of Division  
(Financial Market Business  
Division and Seoul Regional  
Division)

**Kim, Ki-Ju**

05. Director of Division  
(Business Support Division)

**Shin, Jin-Hee**

06. Director of Division  
(Risk Management Division)

**Sin, Deok-Yul**

07. Director of Division  
(IT Division)

**Jung, Young-man**

08. Director of Division  
(Corporate Banking Financial  
Division)

**Lee, Chan Hee**



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## Selected Financial Data

(in KRW billions)

			Change	
	2009	2008	Amount	(%)
<b>Profitability</b>				
Net interest income	790.9	755.4	35.5	4.7%
Non-interest income (net)	50.6	126.5	-75.9	-60.0%
G&A expenses	391.9	395.9	-4.0	-1.0%
Provisions for loan losses	158.0	117.5	40.5	34.5%
Operating income	240.7	353.3	-112.6	-31.9%
Pre-provision income	449.6	486.0	-36.4	-7.5%
Net income	170.5	261.2	-90.7	-34.7%
<b>Financial Condition</b>				
Total assets	27,864.4	26,503.3	1,361.1	5.1%
Total loans	18,765.1	17,523.4	1,241.7	7.1%
Total liabilities	26,091.4	24,904.7	1,186.7	4.8%
Total deposits	17,641.7	16,910.0	731.7	4.3%
Shareholders' equity	1,772.9	1,598.7	174.2	10.9%
<b>Key Financial Indicators</b>				
BIS CAR ratio	14.11%	11.95%		2.16%p
Tier I ratio	10.68%	7.98%		2.70%p
Tier II ratio	3.43%	3.97%		-0.54%p
NPL ratio	1.40%	1.31%		0.09%p
NPL coverage ratio	118.8%	117.5%		1.3%p
ROA	0.61%	1.01%		-0.40%p
ROE	10.06%	17.37%		-7.31%p
Cost-to-income ratio	46.6%	44.9%		1.7%p
EPS (KRW)	1,291	1,977	-686	-34.7%

## Management's Discussion & Analysis

In this section, Daegu Bank provides information that will give readers an understanding and insight into its current operational status as well as 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. These statements are subject to certain risks and uncertainties which could cause actual results to differ materially. Daegu Bank will not undertake to update such statements to reflect circumstances or events that occur after the date they were made or to reflect 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.

### I. Executive Summary

The year 2009 witnessed the global economy recover from severe recession, backed by joint global stimulus packages. Although the staggering financial markets and sagging economic sentiment hinted at prolonged depression, global and domestic economies turned around to recovery thanks to financial stabilization measures and aggressive steps to stimulate financial spending.

On the domestic front, the government came up with various timely measures, such as cutting interest rates, quenching foreign currency liquidity stringency and the successful stabilization of the financial sector and real economy. Nonetheless, the crisis provided a hurtful lesson that the Korean economy is still vulnerable to the developments of the global economy and the sudden outbreak of risks despite its remarkable growth into the world’s 12th largest economy.

The Korean financial market, for its part, was mired in complicated difficulties. Fluctuating foreign exchange rates brought about by foreign currency liquidity problems, a declining interest income, restructuring of marginal corporate companies, dull housing markets and sagging domestic consumption deteriorated the asset quality of financial institutions, coupled with a depletion of capital, increasing bad loans and decreasing loans.

In dealing with these challenges, the financial sector began the corporate restructuring of industries possessing high delinquency risks. The financial sector sought to restore profitability through interest rate policies as well as the improvement of asset adequacy through the reduction of bad loans.

Against this backdrop, Daegu Bank realized remarkable achievements. The Bank regained market trust following the successful issuance of structured securities worth KRW 400 billion in the first quarter. Meanwhile, in a bid to prevent deteriorating profitability brought about by low interest rates, DGB hedged the dropping net interest margins by improving its funding structure, while reductions in bad loan and costs improved the fundamental.

Although net income decreased from the previous year, the Bank realized significant performances for 2009. Net income declined due to the increased provision for corporate restructuring. However, this increase owes much to preemptive and conservative provisioning policy. This provisioning is expected to gradually diminish as the economy picks up in 2010.

Net income recorded KRW 170.5 billion for 2009, down 34.7% year-on-year, while operating income declined 31.9% to total KRW 240.7 billion. Interest income edged up by 4.7%, or KRW 35.5 billion, as the net interest margin (NIM) outperformed the annual target of 3.14% by 2 basis points. However, the declining sales of funds and bancassurance dragged down non-interest income by 60.0%, or KRW 50.6 billion, while the return on equity (ROE) and return on assets (ROA) stood at 10.6% and 0.61%, respectively.

## Management's Discussion & Analysis

As of the end of December 2009, DGB's total assets amounted to KRW 28 trillion, up 5.1% year-on-year, largely thanks to increased loans. Liabilities rose 4.8% to KRW 26,091.4 billion due to the growth in savings deposits.

The non-performing loan (NPL) ratio improved 0.09%p compared to the 3rd quarter, rising to 1.40% thanks to aggressive measures to reduce bad loans. Meanwhile, the NPL coverage ratio against potential losses continued to improve, reaching 118.8%.

Capital adequacy improved thanks to the Bank's efforts to increase capital through issuing structured securities. For instance, BIS CAR and Tier I ratio improved 2.16%p and 2.70%p to 14.11% and 10.68%, respectively.

### II. Operating Results

#### Net Interest Income & NIM

(in KRW billions)

			Change	
	2009	2008	Amount	(%)
<b>Interest income</b>	1,535.3	1,599.6	-64.3	-4.0%
Cash & due from banks	24.7	31.4	-6.7	-21.3%
Securities	239.2	217.4	21.8	10.0%
Loans	1,265.8	1,345.5	-79.7	-5.9%
Others	5.6	5.4	0.2	3.7%
<b>Interest expenses</b>	744.4	844.2	-99.8	-11.8%
Deposits	491.5	570.3	-78.8	-13.8%
Borrowings	104.1	138.1	-34.0	-24.6%
Bonds	144.2	110.6	33.6	30.4%
Others	4.6	25.2	-20.6	-81.7%
<b>Net interest income</b>	790.9	755.4	35.5	4.7%
Net interest margin (%)	3.16%	3.18%		-0.02%p
Net interest spread (%)	3.81%	4.02%		-0.21%p

(in KRW billions)

	2009			2008			Change		
	Avg. balance	Profit / cost	%	Avg. balance	Profit / cost	%	Avg. balance	Profit / cost	%
Interest income asset	23,435.5	1,535.3	6.55%	22,439.0	1,599.4	7.13%	996.5	-64.1	-0.58%p
Interest expense liabilities	22,785.0	744.4	3.27%	21,584.1	844.0	3.91%	1,200.9	-99.6	-0.64%p

Interest income rose 4.7%, or KRW 790.9 billion, year-on-year, as the drop in interest-bearing debt rates outpaced the decline in the interest income asset rates. The average balance of interest-bearing assets stood at KRW 23,435.5 billion, up 4.4%, or KRW 996.5 billion. The average income rate edged down by 0.58%p to 6.55%.

Furthermore, interest income subsided by 4.0% year-on-year to total KRW 1,535.3 billion. This drop can be attributed to the KRW 79.7 billion, or 5.9%, year-on-year drop in interest income from loans due to the interest rate cuts for new loans and loan repricing.

The average balance of interest expense liabilities stood at KRW 22,785.0 billion for 2009, up 5.6%, or KRW 1,200.9 billion, from the previous year. The average expense rate of interest expense liabilities dropped 0.64%p from 3.91% to 3.27%. In addition, interest expenses fell 11.8% year-on-year to total KRW 744.4 billion, due to growth in low-cost and core deposits as well as an improved funding structure. DGB was able to improve the funding source by replacing the high interest expense deposits with low-cost deposits.

The accumulated NIM posted 3.16% in 2009, down by 2 basis points from 3.18% in 2008. However, this drop is negligible when compared with the industry average. The NIM plunged in the first quarter due to an abrupt cut in market interest rates. However, the Bank focused on expanding low-cost deposits such as core deposits, as well as reigning in rising funding expenses by replacing high interest-expense time deposits and raising loan interest in order to hedge credit risks. As a result, the NIM regained 24 basis points by the end of the fourth quarter from the previous quarter.

### Non Interest Income

(in KRW billions)

	2009	2008	Change	
			Amount	(%)
<b>Non-interest income</b>	50.6	126.5	-75.9	-60.0%
Commission income	69.7	98.7	-29.0	-29.4%
Gain on securities*	22.8	43.9	-21.1	-48.1%
Gain on foreign currency transactions & derivatives products	25.5	37.7	-12.2	-32.4%
Trust	6.6	8.8	-2.2	-25.0%
Income by category	124.6	189.1	-64.5	-34.1%
Loss on disposition of loans**	-16.1	-9.9	-6.2	n.a
Other operating expenses	57.9	52.7	5.2	9.9%

\* Losses from stock options included

\*\* Gain/loss from disposition of loans included

Non-interest income stood at KRW 50.6 billion, down KRW 75.9 billion, or 60.0%, from 2008 due to the declined commission income. Commission income decreased due to conservative investors' sentiment in the aftermath of the global financial crisis and severe recession in the construction business, as well as the resultant drop in the sales of funds and bancassurance and project financing commissions. Furthermore, commissions from the sales of beneficiary certificates dropped by 19.5% year-on-year to KRW 26.8 billion, while bancassurance fell by 15.2% to KRW 17.8 billion. On the other hand, commissions on foreign currency transactions and guarantee fees jumped by 27.0% and 16.1% to KRW 4.7 billion and KRW 3.6 billion, respectively.

The prolonged low-interest rate trends and continued rallies in the stock markets since the beginning of the year boasted gains on the evaluation and disposition of securities of 166.1% to reach KRW 35.5 billion. However, gains on securities plummeted KRW 21.1 billion, or 48.1%, year-on-year, to KRW 22.8 billion due to the KRW 17.5 billion of NPL Management Fund and losses on securities arising from corporate restructuring. Shrinking transactions of foreign currency and derivatives cut gains in foreign currency transactions and derivatives by 32.4% to KRW 25.5 billion. Meanwhile, losses on the disposition of loans amounted to KRW 16.1 billion, largely due to the amortization of bad debts worth KRW 221.5 billion in order to improve asset quality.

## Management's Discussion & Analysis

### General & Administrative Expenses

(in KRW billions)

	2009	2008	Change	
			Amount	(%)
<b>General and administrative expenses</b>	391.9	395.9	-4.0	-1.0%
Salaries and employee benefits	197.8	190.1	7.7	4.1%
Taxes and dues	44.7	49.0	-4.3	-8.8%
Retirement allowances	10.4	11.4	-1.0	-8.8%
Other G&A expenses	139.0	145.4	-6.4	-4.4%
<b>Cost-to-income ratio (%)</b>	46.6%	44.9%		1.7%p

Despite rising ordinary expenses in 2009, the Bank reduced unnecessary expenses thanks to voluntary wage cuts and the partial return of wages by employees. As a result, the DGB spent only 92%, or KRW 391.9 billion, of the G&A budget. Taking into account retirement allowances in the fourth quarter, the annual cost-to-income ratio stood at 46.6%, up 1.7%p year-on-year. While labor costs increased 4.4% from the previous year, taxes and dues declined by 8.8% year-on-year.

### Provisioning Expenses

(in KRW billions)

	2009	2008	Change	
			Amount	(%)
<b>Pre-provisioning income</b>	449.6	486.0	-36.4	-1.0%
Provision for loans and guarantees	208.9	132.7	76.2	57.4%
Provision for loan losses	158.0	117.5	40.5	34.5%

Rising corporate restructuring gave rise to the loan loss factors and reinforced provisioning to hedge derivative products, resulting in a growth in miscellaneous expenses. Consequently, total provisioning expenses soared by KRW 76.2 billion from the previous year. Of the KRW 158.0 billion loan loss provisioning in 2009, KRW 113.4 billion was from the first half of the year (KRW 85.7 billion in 1Q and KRW 27.7 billion in 2Q). The economic recovery in the second half of the year reduced provisioning expenses. In 2009, provisioning expenses accounted for 83 basis points of total loans.

## III. Financial Position

### General & Administrative Expenses

(in KRW billions)

	2009	2008	Change	
			Amount	(%)
<b>Assets</b>	27,864.4	26,503.3	1,361.1	5.1%
Cash and due from banks	1,285.7	2,060.4	-774.7	-37.6%
Securities	5,203.2	4,656.0	547.2	11.8%
Loans	18,765.1	17,523.4	1,241.7	7.1%
Fixed assets	398.6	399.3	-0.7	-0.2%
Other assets	2,211.8	1,864.2	347.6	18.6%



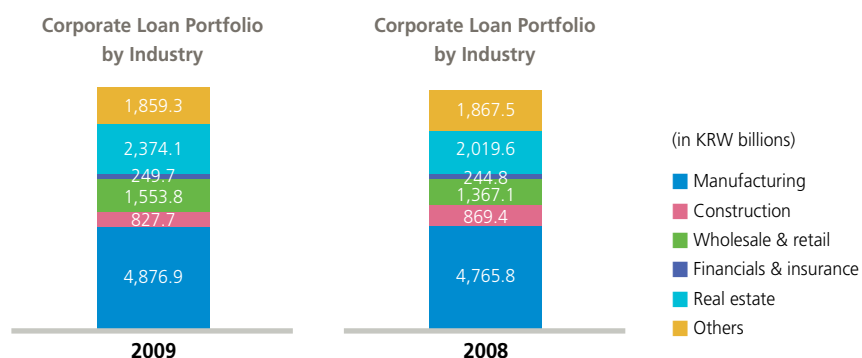
As of the end of 2009, total assets rose KRW 1,361.1 billion, a 5.1% year-on-year growth, to reach KRW 27,864.4 billion. Of this, loans gained 7.1%, or KRW 1,241.7 billion, thanks to continued growth in corporate and mortgage loans, while expanded new investments increased securities by KRW 547.2 billion, or 11.8%, year-on-year. Meanwhile, cash and due from banks fell 3.76% to KRW 1,285.7 billion. Other assets realized a robust KRW 347.6 billion growth, reaching KRW 2,211.8 billion despite the subsided transactions of derivatives and derivative assets.

## Loans

(in KRW billions)

	2009	2008	Change	
			Amount	(%)
<b>Total loans</b>	117,887.0	16,798.7	1,088.3	6.5%
Total loans (in KRW)	17,322.8	16,128.5	1,194.3	7.4%
Corporate loans	11,741.5	11,134.2	607.3	5.5%
Large	725.1	623.2	101.9	16.4%
SME	11,016.4	10,511.0	505.4	4.8%
Household loans	5,213.1	4,683.4	529.7	11.3%
Mortgage loans	2,675.6	2,159.7	515.9	23.9%
Public & Others	221.9	310.9	-89.0	-28.6%

In 2009, won-denominated loans grew by 7.4%, or KRW 1,194.3 billion, year-on-year, mainly driven by a growth in SME loans. Corporate loans surged 5.5%, or KRW 607.3 billion, year-on-year. Furthermore, despite the caps on housing loans brought about by the LTV and DTI regulations, household loans surged by 11.3%, or KRW 529.7 billion, mainly through mortgage loans. Of household loans, secured loans took up 70.2%, with unsecured loans and guaranteed loans accounting for 28.5% and 1.3%, respectively.



The Bank's corporate loans are concentrated in the manufacturing sector, while loans to construction and real estate sectors lowered 1.7% year-on-year to KRW 2,687.0 billion, due to contracting real estate markets and a continued rise in unsold apartments.

## Management's Discussion & Analysis

### Funding Structure

(in KRW billions)

	Change			
	2009	2008	Amount	(%)
<b>Total liabilities</b>	26,091.4	24,904.7	1,186.7	4.8%
Deposits	17,641.7	16,910.0	731.7	4.3%
Borrowings	5,928.1	5,478.6	449.5	8.2%
Others	2,521.6	2,516.1	5.5	0.2%

(in KRW billions, based on average balance)

	Change			
	2009	2008	Amount	(%)
Core deposits	6,678.9	5,788.2	890.7	15.4%
<b>Total deposits (in KRW)</b>	13,902.7	12,389.4	1,513.3	12.2%
% of core deposits	48.0%	46.7%	-	1.3%p
<b>Total deposits</b>	21,328.3	20,442.3	886.0	4.3%
% of core deposits	31.3%	28.3%	-	3.0%p

As of the end of 2009, total liabilities posted KRW 26,091.4 billion, up 4.8% year-on-year. The declining CD interest rates caused decrease in the CD amounts, while deposits realized a 4.3% growth, or KRW 731.7 billion, to reach KRW 17,641.7 billion. Borrowings grew KRW 449.5 billion, or 8.2%, to KRW 5,928.1 billion as a result of growing won-denominated borrowings and bond issuance. Meanwhile, derivative product liabilities dropped 54.9% or KRW 291.9 billion to KRW 239.4 billion, as the foreign exchange rate stabilized.

In 2009, total deposits posted a robust growth, with an average balance of KRW 22,185 billion, up 4.7% from the previous year. As a result of the Bank's effort to raise the percentage of deposits, core deposits realized a high 15.4%, or KRW 890.7 billion, growth year-on-year. Conservative customer sentiment also propped up savings deposits by 10.0% or KRW 1,186.6 billion. DGB induced the maturing CDs to time deposits, strengthening its loan-to-deposit rates, while increasing the percentage of deposits in retail financing. As a result, DGB successfully maintained its loan-to-deposit ratio under 100%, standing at 99.1% for 2009. Overall, the market-oriented funding structure improved to a deposit-oriented structure, with the percentage of funding from bank debentures remaining at 11.8%.

### Asset Quality

(in KRW billions)

	Change			
	2009	2008	Amount	(%)
<b>Total credits</b>	18,943.0	17,863.6	1,079.4	6.0%
Normal	18,158.6	17,316.5	842.1	4.9%
Precautionary	519.2	312.5	206.7	66.1%
Substandard	149.4	128.7	20.7	16.1%
Doubtful	95.1	93.1	2.0	2.1%
Estimated loss	20.7	12.8	7.9	61.7%
NPL ratio (%)	1.40	1.31		0.09%p
Loan loss coverage ratio (%)	118.8	117.5		1.3%p
Delinquency rate (%)	1.07	1.12		-0.05%p

As of the end of 2009, DGB's substandard and below loans amounted to KRW 149.4 billion, up KRW 20.7 billion, a 16.1%, year-on-year increase, posting the NPL ratio at 1.40%. The Bank also aggressively amortized on bad loans in order to deal with the growing NPLs brought about by the global economic slowdown, sagging domestic economy, rising SME bankruptcy and corporate restructuring. Precautionary and below loans recorded KRW 519.2 billion, surging 66.1%, or KRW 206.7 billion, year-on-year. This was because of the reclassification of KRW 170.7 billion in loans to precautionary loans following the review of project financing in the fourth quarter. Meanwhile, the actual precautionary loan ratio stood at 1.84%, down 7 basis points from the previous quarter. DGB also adopted a preemptive and conservative asset quality policy, maintaining an adequate 118.8% loan loss coverage ratio. In addition, the delinquency rate posted 1.07%, down 0.05% year-on-year through constant amortization of NPLs.

### Capital Adequacy

(in KRW billions)

	Change			
	2009	2008	Amount	(%)
Total capital	2,774.0	2,274.5	499.5	22.0%
Tier I capital	2,099.7	1,518.8	580.9	38.2%
Tier II capital	674.3	755.7	-81.4	-10.8%
Risk-weighted assets	19,654.5	19,035.3	619.2	3.3%
<b>Capital adequacy ratio (%)</b>	<b>14.11</b>	<b>11.95</b>		<b>2.16%p</b>
Tier I CAR (%)	10.68	7.98		2.70%p
Tier II CAR (%)	3.43	3.97		-0.54%p

The Bank's capital adequacy ratio rose 2.16%p year-on-year, to 14.11% at the end of 2009. Tier I CAR increased 2.70%p to a moderate 10.68%. This rise in the CAR can be attributed to the retained earnings growth and the KRW 400.0 billion in structured securities issued in the first quarter. The equity capital ratio also posted a 0.32% year-on-year growth to total 6.26%.

### IV. 2010 Outlook

Although the real economy is forecast to recover in 2010, uncertainties in the financial markets are expected to remain. In response, DGB aims to make 2010 the year it begins to bounce back. Therefore, the Bank will reinforce its customer engagement marketing practices, improve profitability and strengthen its sustainability competences, while also solidifying the foundation for future growth.

In order to better its profitability, DGB will concentrate on improving asset quality and reducing costs. While proactively responding to the rapidly-changing financial environments, DGB will proactively develop new growth engines and solidify the platform for sustainable growth.

In addition to its strenuous efforts to realize outstanding business results, the Bank will continue to fulfill its social responsibilities as a corporate citizen. It will expand its environmental management practices and reinforce community programs as part of its sustainability initiatives. At the same time, it will develop opportunities in the green financing businesses.

# Independent Auditors' Report

Based on a report originally issued in Korean



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## The Board of Directors and Stockholders

### Daegu Bank:

We have audited the accompanying non-consolidated statements of financial position of Daegu Bank (the "Bank") as of December 31, 2009 and 2008 and the related non-consolidated statements of income, appropriation of retained earnings, changes in equity and cash flows for the years then ended. These nonconsolidated 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, 2009 and 2008 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 12, 2010

This report is effective as of February 12, 2010, 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 Statements of Financial Position

As of December 31, 2009 and 2008

(In millions of Won, except share data)

	Note		2009	2008
<b>Assets</b>				
Cash and due from banks	3,15,16,26	₩	1,285,746	2,060,423
Securities	2,4,15,16,26		5,203,208	4,656,017
Loans	2,5,6,7,15,16,26		18,765,115	17,523,354
Property and equipment	2,8		398,559	399,321
Other assets	9		2,211,760	1,864,234
<b>Total assets</b>		₩	27,864,388	26,503,349
<b>Liabilities</b>				
Deposits	10,15,16,26	₩	17,641,673	16,910,029
Borrowings	11,12,13,15,16,26		5,928,135	5,478,571
Other liabilities	9,14		2,521,635	2,516,071
<b>Total liabilities</b>			26,091,443	24,904,671
<b>Stockholders' equity</b>				
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	4,22		7,467	(29,315)
Retained earnings			1,092,525	955,040
<b>Total stockholders' equity</b>			1,772,945	1,598,678
<b>Total liabilities and stockholders' equity</b>		₩	27,864,388	26,503,349

See accompanying notes to non-consolidated financial statements.

## Non-consolidated Statements of Income

For the years ended December 31, 2009 and 2008

(In millions of Won, except earnings per share)

	Note	2009	2008
<b>Operating revenues</b>			
Interest income	26		
Interest on due from banks		₩ 24,718	31,415
Interest on trading securities		291	969
Interest on available-for-sale securities		74,158	97,413
Interest on held-to-maturity securities		164,728	118,980
Interest on loans		1,265,789	1,345,468
Interest - other		5,591	5,358
		1,535,275	1,599,603
Gain on valuation and disposal of securities		35,534	13,352
Gain on valuation and sales of receivables		7,145	1,556
Gain on foreign currency transactions		358,099	785,232
Fee and commission income		125,888	139,189
Fee and commission from trust accounts		6,647	8,752
Dividend income		11,009	26,165
Other		801,829	2,049,164
		2,881,426	4,623,013
<b>Operating expenses</b>			
Interest expense	26		
Interest on deposits		491,514	570,291
Interest on borrowings		104,062	138,139
Interest on debentures		144,228	110,615
Interest on borrowings from trust account		4,089	23,731
Interest - other		521	1,422
		744,414	844,198
Loss on valuation and disposal of securities		25,561	9,897
Loss on valuation and sale of receivables		180,311	128,203
Loss on foreign currency transactions		338,054	174,139
Commission expenses		56,181	40,488
General and administrative expenses	17	391,949	395,873
Other		904,293	2,676,873
		2,640,763	4,269,671
<b>Operating income</b>		240,663	353,342
Non-operating expense, net	18	(5,295)	(4,204)
<b>Income before income taxes</b>		235,368	349,138
Income taxes	19	64,852	87,964
<b>Net income</b>		₩ 170,516	261,174
Basic earnings per share	20	₩ 1,291	1,977

See accompanying notes to non-consolidated financial statements.

## Non-consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2009 and 2008

Date of Appropriation for 2009: March 19, 2010

Date of Appropriation for 2008: March 25, 2009

(In millions of Won, except share data)

	Note	2009	2008
<b>Unappropriated retained earnings</b>			
Balance at beginning of year		₩ 8	66
Net income		170,516	261,174
<b>Balance at end of year before appropriation</b>		170,524	261,240
<b>Transfer from voluntary reserves</b>			
		-	-
<b>Unappropriated retained earnings available for appropriation</b>		170,524	261,240
<b>Appropriation of retained earnings</b>			
Legal reserve		(17,100)	(26,200)
Voluntary reserve		(132,200)	(202,000)
Dividends			
-3.2% on par value of ₩160 per share in 2009			
5.0% on par value of ₩250 per share in 2008	29	(21,140)	(33,032)
		(170,440)	(261,232)
<b>Unappropriated retained earnings to be carried over to subsequent year</b>		₩ 84	8

## Non-consolidated Statements of Changes in Equity

For the years ended December 31, 2009 and 2008

(In millions of Won)

	Note	Common stock	Capital surplus	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
<b>Balance at January 1, 2008</b>		₩ 660,625	12,328	(23,138)	773,141	1,422,956
Dividends paid	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	2,28	-	-	(260)	-	(260)
Changes in unrealized gain on valuation of available-for-sale securities, net of tax		-	-	(5,917)	-	(5,917)
<b>Balance at December 31, 2008</b>		₩ 660,625	12,328	(29,315)	955,040	1,598,678
<b>Balance at January 1, 2009</b>		₩ 660,625	12,328	(29,315)	955,040	1,598,678
Dividends paid	29	-	-	-	(33,031)	(33,031)
Net income		-	-	-	170,516	170,516
Effective portion of changes in fair value of cash flow hedges, net of tax	2,28	-	-	30	-	30
Changes in unrealized gain on valuation of available-for-sale securities, net of tax	2,4	-	-	36,752	-	36,752
<b>Balance at December 31, 2009</b>		₩ 660,625	12,328	7,467	1,092,525	1,772,945



## Non-consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

	Note	2009	2008
(In millions of Won)			
<b>Cash flows from operating activities</b>			
Net income		₩ 170,516	261,174
Adjustments for:			
Depreciation		24,231	27,379
Amortization		8,077	8,947
Provision for loan losses, net		157,076	116,724
Provision for retirements and severance benefits		16,904	17,241
Loss (gain) on trading securities, net		(5,265)	(1,186)
Loss (gain) on sale of available-for-sale securities, net		(27,788)	33,329
Loss (gain) on equity method investments		(41)	(18)
Loss on sale of loan, net		-	9,923
Loss on derivatives, net		15,824	523,556
Other, net		55,205	13,114
		244,223	749,009
Changes in assets and liabilities:			
Trading securities		(37,672)	6,196
Due from banks		632,041	(589,017)
Available-for-sale securities		275,453	(52,108)
Held-to-maturity securities		(704,761)	(27,556)
Loans		(1,398,837)	(1,552,293)
Retirement and severance benefits paid		(22,212)	(16,176)
Deposit for severance benefit trust		3,678	(3,199)
Other, net		14,764	(665,702)
		(822,807)	(1,889,672)
<b>Net cash used in operating activities</b>			
<b>Cash flows from investing activities</b>			
Disposal of fixed assets		₩ 199	345
Acquisition of fixed assets		(36,076)	(48,974)
Other, net		(712,717)	280,485
		(748,594)	231,856
<b>Net cash provided by (used in) investing activities</b>			
<b>Cash flows from financing activities</b>			
Increase in deposits		₩ 1,189,053	1,236,245
Increase in borrowings		346,508	312,426
Increase in debentures issued		381,387	833,709
Increase in others		662,309	293,740
Decrease in deposits		(457,409)	(225,318)
Decrease in borrowings		(276,553)	-
Decrease in others		(383,500)	(373,712)
Dividends paid		(33,031)	(79,275)
		1,428,764	1,997,815
<b>Net cash provided by financing activities</b>			
Net increase (decrease) in cash		(142,637)	339,999
Cash and due from banks at beginning of period		927,259	587,260
<b>Cash and due from banks at end of period</b>	27	₩ 784,622	927,259

See accompanying notes to non-consolidated financial statements.

# Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

## 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, 2009 the Bank has 175 branches, 29 mini-branches and 12 corporate business centers in Daegu and North Gyongsang Province and additionally, it has 4 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, 2009.

## 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 the 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 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.

The Bank prepares the non-consolidated financial statements in accordance with generally accepted accounting principles in the Republic of Korea. The Bank applied the same accounting policies that were adopted in the previous year's non-consolidated financial statements.

### (b) 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 end of reporting period is also recognized on a cash basis.

### (c) 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	6 years	3 years
Normal or precautionary corporate loans	6 years	Not applicable
Normal or precautionary household loans	6 years	Not applicable
Normal or precautionary credit card loans	5 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.

#### (d) 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.

#### (e) Investments in Securities

##### Classification

Upon acquisition, the Bank classifies debt and equity securities into the following categories: held-to-maturity, available-for-sale or trading securities.

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

## Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

### 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.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized and a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized in the asset in prior years. For financial assets measured at amortized cost and available-for-sale assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

### (f) Investments in Associates and Subsidiaries

Associates are entities of the Bank and its subsidiaries that have the ability to significantly influence the financial and operating policies. It is presumed to have significant influence if the Bank holds directly or indirectly 20 percent or more of the voting power unless it can be clearly demonstrated that this is not the case. 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 the acquisition date (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.

If an associate or a subsidiary uses accounting policies or estimates other than those of the Bank for like transactions and events in similar circumstances, the Bank makes appropriate adjustments to conform the associate's accounting policies to those of the Bank when the associate's financial statements are used by the Bank in applying the equity method. However, under the revised SKAS No. 15 Equity Method of Accounting, in the event that accounting policies and estimates differ due to the application of Exceptions to Accounting for Small and Medium-Sized Entities or K-IFRS, no adjustments are made.

If the investee is a subsidiary, net income and net assets of the parent Bank's separate financial statements should agree with the parent Bank's share in the net income and net assets of the consolidated financial statements, except when the Bank discontinues the application of the equity method due to its investment in a subsidiary being reduced to zero.

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.

**(g) Property, Plant 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 on December 31, 2000. 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 the useful life of assets are capitalized. 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.

**(h) Leases**

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

The assumption of substantially all of 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 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.

# Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

## (i) 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.

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

## (j) Retirement and Severance Benefits

Employees who have been with the Bank for more than one year are entitled to lump-sum payments based on salary rates and length of service at the time they leave the Bank. The Bank's estimated liability under the plan, which would be payable if all employees left at the end of the reporting period, is accrued in the accompanying non-consolidated statements of financial position. 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 Bank (or the bank) in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying non-consolidated statements of financial position 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 reduced the retirement and severance benefit amount to be paid 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 regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

## (k) 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.

## (l) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the foreign exchange rate on the end of the reporting period, with the resulting gains or losses recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate on the date of the transaction.

Foreign currency assets and liabilities of foreign-based operations and companies accounted for using the equity method are translated at

the rate of exchange at the end of the reporting period. Foreign currency amounts in the statement of income are translated using an average rate and foreign currency balances in the capital account are translated using the historical rate. Translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based operations are recorded net as accumulated other comprehensive income. These gains and losses are subsequently recognized as income in the year the foreign operations or the companies are liquidated or sold.

### (m) Derivatives and Hedge Accounting

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 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 are 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 income or expense. 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.

# Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

## Separable embedded derivatives

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

## (n) Share-based Payments

The Bank has granted shares or share options to its employees and other parties. For equity-settled share-based payment transactions, the Bank measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot reliably estimate the fair value of the goods or services received, the Bank measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Bank measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest. For cash-settled share-based payment transactions, the Bank measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Bank remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period.

## (0) Income Taxes

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 end of the reporting period.

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.

Changes in deferred taxes due to a change in the tax rate except for those related to items initially recognized outside profit or loss (either in other comprehensive income or directly in equity) are recognized as income in the current year.

## (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 nonconsolidated 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, 2009 and 2008 are as follows:

	(In millions of Won)	
	2009	2008
Cash and cash equivalents	₩ 306,664	305,311
Due from banks in Won	960,217	1,680,577
Due from banks in foreign currency	18,865	74,535
	₩ 1,285,746	2,060,423

#### (b) Due from banks as of December 31, 2009 and 2008 are as follows:

	(In millions of Won)	
	2009	2008
Due from banks in Won:		
The Bank of Korea	₩ 492,313	1,127,337
Commercial banks	345,000	525,603
Non-monetary financial institutions	100,000	20,000
Other	22,904	7,637
	₩ 960,217	1,680,577
Due from banks in foreign currency:		
The Bank of Korea	₩ 8,812	5,827
Commercial banks	1,271	6,181
Banks in foreign countries	8,782	13,273
Other	-	49,254
	₩ 18,865	74,535

## Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

(c) Restricted due from banks as of December 31, 2009 and 2008 are as follows:

	(In millions of Won)	
	2009	2008
Reserve deposits in the Bank of Korea	₩ 492,313	1,127,337
Reserve deposits in the Bank of Korea in foreign currency	8,812	5,827
Other	32	-
	₩ 501,157	1,133,164

### 4. Securities

(a) Securities as of December 31, 2009 and 2008 are as follows:

	(In millions of Won)	
	2009	2008
Trading securities	₩ 42,937	-
Available-for-sale securities	2,138,622	2,339,169
Held-to-maturity securities	3,021,133	2,316,373
Equity method investment securities	516	475
	₩ 5,203,208	4,656,017

(b) Trading Securities

(i) Valuation of trading securities as of December 31, 2009 and 2008 are as follows:

	(In millions of Won)			
	Acquisition cost		Book value (*)	
	2009	2008	2009	2008
Stock	₩ 21,774	-	23,077	-
Debt securities	19,958	-	19,860	-
	₩ 41,732	-	42,937	-

(\*) 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, 2009 are as follows:

Stock

	(In millions of Won)	
	Amount	Ratio
Manufacture	₩ 20,023	86.77%
Construction	159	0.69%
Wholesale and retail	548	2.37%
Other	2,347	10.17%
	₩ 23,077	100.00%

## Debt securities

(In millions of Won)

	2009	
	Amount	Ratio
Government	₩ 9,908	49.89%
Financial institution	9,952	50.11%
	₩ 19,860	100.00%

## (c) Available-for-sale Securities

## (i) Equity securities

Details of equity securities as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	Number of shares	Ownership	2009		
			Cost (*)	Fair value (**)	Gain (Loss) on valuation
(Unlisted Securities)					
Daegu Credit Information Co., Ltd. (***)	159,970	53.32%	₩ 800	800	-
Korea Housing Guarantee Co., Ltd.	2,577,800	0.40%	3,917	11,804	7,887
Daewoo Electronics Co., Ltd.	1,134,140	1.06%	671	885	214
Ilsung Engineering Co., Ltd.	769,230	0.23%	1,000	3,918	2,918
Daegu World Trade Center	109,875	0.56%	505	502	(3)
BC Card Co., Ltd.	87,120	1.98%	792	7,103	6,311
Korea Asset Management Corp.	314,000	0.54%	1,570	1,570	-
Korea Securities Finance Corp.	2,008	0.00%	10	17	7
Korea Infra 2 Invest Co., Ltd.	1,703,360	2.00%	7,187	7,011	(176)
KTB2006	1	9.90%	19,016	19,016	-
Shinhan Bank callable prefer stock	700,000	-	70,000	71,344	1,344
Korea Money Brokerage Corp.	11,134	0.56%	55	239	184
Green Cross Life Insurance Co., Ltd. common stock	159,330	0.99%	1,545	1,955	410
Green Cross Life Insurance Co., Ltd. convertible prefer stock	356,130	-	3,454	4,098	644
Korea Enterprise Data Co., Ltd.	200,000	1.29%	1,000	785	(215)
BoGo	18	2.00%	9,770	8,535	(1,235)
Korea Asset Investment	200,000	9.91%	1,000	1,209	209
Pantech&Curitel Co., Ltd.	12,000,000	3.45%	648	6,551	5,903
Daegu South Beltway Co., Ltd.	689,002	8.75%	3,445	3,545	100
KTB2007	11	4.34%	14,608	11,915	(2,693)
1 KTB Network	1,371,030	2.50%	13,333	10,723	(2,610)
2 KTB Network	685,520	2.50%	6,667	7,083	416
Others	1,189,176,027	-	163,625	141,168	104
			₩ 324,618	321,776	19,719
(Listed securities)	2,128,426		70,546	73,450	(2,453)
			₩ 395,164	395,226	17,266
Deferred tax effect					(4,179)
Accumulated other comprehensive income					13,087

# Notes to Non-consolidated Financial Statements

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(In millions of Won)

	2008				
	Number of shares	Ownership	Cost (*)	Fair value (**)	Gain (Loss) on valuation
<b>(Unlisted Securities)</b>					
Daegu Credit Information Co., Ltd. (***)	159,970	53.32%	₩ 800	800	-
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
Ilseung Engineering Co., Ltd.	769,230	8.21%	1,000	1,000	-
Daegu World Trade Center	109,875	0.59%	505	505	-
BC Card Co., Ltd.	87,120	1.98%	792	4,873	4,081
Korea Money Brokerage Corp.	11,134	0.56%	56	234	178
Korea Asset Management Corp.	314,000	0.54%	1,570	1,570	-
Korea Securities Finance Corp.	2,008	0.00%	10	14	4
Korea Infra 2 Invest Co., Ltd.	1,021,524	2.00%	11,054	11,189	135
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	145,848	(2,255)
			286,451	284,462	6,095
<b>(Listed securities)</b>	<b>217,480</b>		<b>53,308</b>	<b>38,428</b>	<b>(205)</b>
			₩ 339,759	322,890	5,890
					(1,425)
					4,465

(\*) 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, 2009 and 2008 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

## (ii) Debt securities

Details of debt securities as of December 31, 2009 and 2008 are as follows:

(In millions of Won)				
2009	Face value	Amortized cost	Fair value(*)	Gain (loss) on valuation
Government bonds	₩ 349,400	330,640	327,582	(3,058)
Financial debentures	400,000	402,816	402,441	(375)
Corporate bonds	195,587	179,816	185,293	5,477
Beneficiary certificates	268,623	268,624	292,388	23,764
Available-for-sale securities in foreign currency	102,165	87,802	83,951	(3,851)
Other	450,000	453,911	451,741	(2,170)
	₩ 1,765,775	1,723,609	1,743,396	19,787
	Deferred tax effect			(4,788)
	Accumulated other comprehensive income			14,999

(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)

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

## (iii) Details of unrealized gain (loss) on available-for-sale securities for the years ended December 31, 2009 are as follows:

(In millions of Won)				
	Equity securities	Bonds in local currency	Bonds in foreign currency	Total
Beginning balance	₩ 5,890	(27,210)	(16,457)	(37,777)
Realized gains on disposition of securities	807	867	38	1,712
Unrealized gain	10,569	23,638	12,568	46,775
Net balance at end of year	17,266	(2,705)	(3,851)	10,710
Deferred income tax assets (liabilities)	(4,179)	655	932	(2,592)
Net balance at end of year	₩ 13,087	(2,050)	(2,919)	8,118

## Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

### (d) Held-to-maturity Securities,

Details of held-to-maturity securities as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009			
	Face value	Acquisition cost	Amortized cost	Book value
Government bonds	₩ 1,452,676	1,376,424	1,396,435	1,396,435
Financial debentures	500,000	498,637	499,631	499,631
Corporate bonds	160,000	160,000	160,000	160,000
Other	970,533	962,664	965,067	965,067
	₩ 3,083,209	2,997,725	3,021,133	3,021,133

(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

### (e) Impairment losses on securities as of December 31, 2009 are as follows:

(In millions of Won)

	Amount before impairment	Amount after impairment	Impairment loss
Stock:			
Daegu World Trade Center	₩ 505	502	3
KTB2006	23,926	19,015	4,911
GB Vietnam	2,000	1,350	650
	₩ 26,431	20,867	5,564
Bonds:			
Kumho industrial 253	₩ 19,906	11,944	7,962
Kumho industrial 256	4,977	2,986	1,991
OCEAN FINANCE	11,676	10,877	799
AXIOM	11,676	10,467	1,209
ALBATROSS	11,676	9,546	2,130
	₩ 59,911	45,820	14,091

(f) Available-for-sale securities and held-to-maturity securities in Won classified by issuer, as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009		2008	
	Amount	Ratio	Amount	Ratio
<b>Bonds:</b>				
Government and public	₩ 1,724,017	36.83%	1,881,766	44.39%
Financial institution	902,072	19.27%	1,002,990	23.66%
Corporate	345,293	7.38%	229,007	5.40%
Other	1,709,196	36.52%	1,125,737	26.55%
	₩ 4,680,578	100.00%	4,239,500	100.00%
<b>Stock:</b>				
Manufacture	₩ 85,883	21.73%	28,863	8.94%
Construction	-	-	13,900	4.30%
Wholesale and retail	-	-	2,920	0.90%
Other	309,343	78.27%	277,208	85.86%
	₩ 395,226	100.00%	322,891	100.00%

(g) Available-for-sale bonds and held-to-maturity bonds denominated in foreign currency, by issuer, as of December 31, 2009 and 2008 are as follows:

By issuer

(In millions of Korean Won and thousands of US Dollars)

	2009			2008		
	USD	Won equivalent	Ratio	USD	Won equivalent	Ratio
Financial institutions	\$ 15,618	₩ 18,236	21.72%	14,229	17,893	19.21%
Corporate	56,282	65,715	78.28%	59,848	75,258	80.79%
	\$ 71,900	₩ 83,951	100.00%	74,077	93,151	100.00%

By country

(In millions of Korean Won and thousands of US Dollars)

	2009			2008		
	USD	Won equivalent	Ratio	USD	Won equivalent	Ratio
Korea	\$ 37,788	₩ 44,122	52.56%	42,974	54,039	58.01%
Ireland	26,456	30,890	36.80%	24,691	31,049	33.33%
Cayman Island	7,656	8,939	10.64%	6,412	8,063	8.66%
	\$ 71,900	₩ 83,951	100.00%	74,077	93,151	100.00%

## Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

By currency type

(In millions of Korean Won and thousands of US Dollars)

2009			2008						
Currency type	Won equivalent	Ratio	Currency type	Won equivalent	Ratio				
USD	71,900	₩	83,951	100.00%	USD	74,077	₩	93,151	100.00%

(h) Investment securities pledged to various institutions as of December 31, 2009 are as follows:

(In millions of Won)

	Collateralized value	Book value		
		Available-for-sale Securities	Held-to-maturity securities	
Bank of Korea borrowings	₩	100,000	-	93,362
Gross limited borrowings under credit line		249,200	90,530	146,020
Derivative instruments transactions		80,905	10,092	67,441
Deposits		170,000	-	172,850
Bank of Korea repurchase agreements		30,000	-	27,772
Bonds under repurchase agreements		984,000	40,423	934,762
	₩	1,614,105	141,045	1,442,207

(i) Structured notes as of December 31, 2009 are as follows:

(In millions of Won)

	Type of structure	Face value	Book value	
Available-for-sale securities in Won	Interest rate linked			
	floating rate bonds	₩	100,000	99,885
Held-to-maturity securities in Won	Interest rate linked			
	floating rate bonds		140,563	140,563
		₩	240,563	240,448

(j) Assets and liabilities of non-specific private equity fund as of December 31, 2009 are as follows:

(In millions of Won)

	2009	
Face value	₩	295,029
Present value		
Stocks		111,629
Securities		45,709
Call loan		18,571
Other deposits		9,484
Other assets		52,552
Non-trade receivables		53,730
Non-trade payables		2,447
		1,734
Gain on valuation of available-for-sale securities	₩	292,388



### (k) Investment Securities under the Equity Method of Accounting

(i) Details of investment securities under the equity method of accounting as of December 31, 2009 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	516	516

The Bank applied the equity method despite the fact that the ownership percentage is less than 20% because the Bank has the ability to significantly influence the financial and operating policy decisions of the subsidiary.

(ii) The details of valuation using the equity method for the period ended December 31, 2009 are as follows:

(In millions of Won)			
Affiliate	January 1, 2009	Equity method income	December 31, 2009
Daegu F.C.	₩ 475	41	516

The Bank 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.

## 5. Loans

(a) Loans as of December 31, 2009 and 2008 are as follows:

(In millions of Won)		
	2009	2008
Loans in Won	₩ 17,322,809	16,128,534
Loans in foreign currency	581,040	645,784
Bills bought in Won	31,084	52,113
Discount present value	-	(433)
Bills bought in foreign currency	119,532	107,344
Advances for customers	4,957	4,676
Credit card accounts	445,973	392,406
Bonds purchased under resale agreements	150,600	70,000
Call loan	201,014	37,725
Private placed debenture	250,710	365,159
Loans for debt-equity swap	-	999
	19,107,719	17,804,307
Less: allowance for loan losses	(339,675)	(280,953)
Less: deferred loan origination Fees	(2,929)	-
	₩ 18,765,115	17,523,354

## Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

(b) Loans in Won as of December 31, 2009 and 2008 are as follows:

		(In millions of Won)	
		2009	2008
Loans to enterprises	Operation loans	₩ 8,462,499	8,044,472
	Facility loans	3,278,962	3,089,744
		11,741,461	11,134,216
Loans to households	Operation loans	3,649,409	3,584,116
	Housing loans	1,556,961	1,089,648
	Others	6,722	9,624
		5,213,092	4,683,388
Loans to public sectors and others	Operation loans	110,372	43,944
	Facility loans	111,529	90,032
		221,901	133,976
Loans to other banks		146,355	176,955
		₩ 17,322,809	16,128,535

(c) Loans in foreign currency as of December 31, 2009 and 2008 are as follows:

		(In millions of Won)	
		2009	2008
Loans to enterprise	₩	468,316	504,530
Domestic import usance bills		77,696	141,254
Loans to other banks		35,028	-
		₩ 581,040	645,784

(d) Loans to financial institutions as of December 31, 2009 and 2008 are as follows:

		(In millions of Won)			
		2009			
		Bank of Korea	Banks	Other financial institutions	Total
Loans in Won	₩	-	146,355	-	146,355
Call loans in Won		-	100,000	-	100,000
Call loans in foreign currency		-	101,014	-	101,014
Bonds purchased under Resale agreements		-	-	150,600	150,600
		₩	347,369	150,600	497,969

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

(e) Won denominated loans classified by industry as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009		2008	
	Amount	Ratio	Amount	Ratio
Manufacturing	₩ 4,876,311	28.1%	4,765,896	29.5%
Construction	827,754	4.8%	869,439	5.4%
Wholesale and retail	1,553,793	9.0%	1,366,977	8.5%
Financial services and insurance	396,068	2.3%	236,631	1.5%
Other corporate loans	4,455,791	25.7%	4,206,204	26.1%
Households	5,213,092	30.1%	4,683,388	29.0%
	₩ 17,322,809	100.0%	16,128,535	100.0%

(f) Foreign currency denominated loans classified by industry as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009		2008	
	Amount	Ratio	Amount	Ratio
Manufacturing	₩ 225,994	38.9%	226,850	35.1%
Construction	932	0.2%	1,704	0.3%
Wholesale and retail	53,677	9.2%	64,603	10.0%
Financial services and insurance	35,028	6.0%	-	-
Other	187,713	32.3%	211,373	32.7%
Domestic banker's usance	77,696	13.4%	141,254	21.9%
	₩ 581,040	100.0%	645,784	100.0%

## 6. Allowance for Loan Losses

(a) The allowances for loan losses, credit risk classifications and allowance rates as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009			2008		
	Amount (*)	Allowance rate	Allowance for loan losses	Amount (*)	Allowance rate	Allowance for loan losses
Current	₩ 17,764,945	0.94%	167,810	16,971,414	0.94%	160,242
Precautionary	519,252	8.61%	44,719	307,394	8.60%	26,433
Substandard	149,382	20.93%	31,263	128,630	20.00%	25,728
Doubtful	93,782	50.81%	47,655	93,147	51.70%	48,154
Estimated loss	20,695	100.00%	20,695	12,842	100.00%	12,842
Present value discount	-		27,533	-		7,554
	₩ 18,548,056		339,675	17,513,427		280,953

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

## Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

(b) Details of allowances for loan losses as of December 31, 2009 and 2008 are as follows:

	(In millions of Won)	
	2009	2008
Loans in Won	₩ 274,333	230,162
Loans in foreign currency	7,526	7,447
Payments on guarantees	1,284	680
Bills bought in foreign currency	1,286	3,120
Credit card accounts	15,489	16,650
Privately placed debentures	11,991	13,876
Other	27,766	9,018
	₩ 339,675	280,953

(c) Allowance ratios as of December 31, 2009, 2008 and 2007 as follows:

	(In millions of Won)		
	Loans	Allowance for loan losses	Allowance ratio
December 31, 2009	₩ 18,548,056	339,675	1.8%
December 31, 2008	17,513,427	280,953	1.6%
December 31, 2007	15,926,038	219,707	1.4%

(d) Changes in allowance for loan losses for the years ended December 31, 2009 and 2008 are as follows:

	(In millions of Won)	
	2009	2008
Beginning balance	₩ 280,953	219,707
Provision for losses	157,076	116,724
Write-offs	(116,475)	(74,704)
Other changes(*)	18,121	19,226
Ending balance	₩ 339,675	280,953

(\*) 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, 2009 are as follows:

	(In millions of Won)			
	The number of companies	Balance before restructuring	Balance after restructuring	Present value discount
Workout	4	₩ 54,173	43,967	10,206
Revival	21	74,672	61,700	12,972
	25	₩ 128,845	105,667	23,178

(b) Changes in allowance for loan losses (present value discounts) for the year ended December 31, 2009 are as follows:

	(In millions of Won)			
	Beginning balance	Increase	Decrease	Ending balance
Allowance for loan losses	₩ 7,554	23,178	(3,199)	27,533

## 8. Property and equipment

(a) Property and equipment assets as of December 31, 2009 and 2008 are as follows:

	(In millions of Won)	
	2009	2008
Property and equipment, at cost	₩ 602,281	591,227
Accumulated depreciation	(221,366)	(209,550)
Net property and equipment	380,915	381,677
Other not used for business purpose	17,644	17,644
Ending balance	₩ 398,559	399,321

(b) Changes in property and equipment for the years ended December 31, 2009 and 2008 are as follows:

	(In millions of Won)					
	2009					December 31, 2009
	January 1, 2009	Acquisition	Disposal	Depreciation	Other	
Land	₩ 185,985	-	-	-	16	186,001
Buildings	162,125	2,625	-	(5,223)	923	160,450
Leasehold improvement	7,537	2,188	-	(2,760)	1	6,966
Movable properties	25,606	17,969	(225)	(16,248)	-	27,102
Construction in progress	424	912	-	-	(940)	396
	₩ 381,677	23,694	(225)	(24,231)	-	380,915

	(In millions of Won)					
	2008					December 31, 2008
	January 1, 2008	Acquisition	Disposal	Depreciation	Other	
Land	₩ 185,985	-	-	-	-	185,985
Buildings	155,930	2,742	-	(5,104)	8,557	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	4,876	-	-	(8,557)	424
	₩ 384,445	24,654	(43)	(27,379)	-	381,677

## Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

(c) The officially declared value of land at December 31, 2009 and 2008 as announced by the Ministry of Land, Transport and Maritime Affairs, are as follows:

	(In millions of Won)			
	2009		2008	
	Book value	Declared value	Book value	Declared value
Land	₩ 186,001	193,398	185,985	164,143

(d) Assets insured as of December 31, 2009 are as follows:

(In millions of Won)				
Asset	Type	Insurance amount	Insurance company	
Cash	Theft insurance	₩ 10,000	Hyundai Marine & Fire Insurance Co., Ltd.	
Building	Package insurance	204,363	Hyundai Marine & Fire Insurance Co., Ltd.	
	Directors & officers liability	5,000	Samsung Fire Insurance Co., Ltd.	
		₩ 219,363		

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, 2009 and 2008 are as follows:

	(In millions of Won)	
	2009	2008
Other assets:		
Guarantee deposits paid	₩ 131,938	129,569
Accounts receivable	1,470,453	760,104
Accrued income	216,106	259,222
Prepaid expenses	6,688	6,917
Derivative instrument- assets	342,393	673,636
Deferred income tax asset (note 19)	156	-
Intangible assets(*)	31,309	27,004
Suspense receivable	8,460	2,727
Expenditures	1,262	1,657
Deposit money to court	97	159
Domestic exchange settlements debits	2,898	3,239
	₩ 2,211,760	1,864,234

(\*) Changes in intangible assets for the year ended December 31, 2009 and 2008 are as follows:

	(In millions of Won)	
	2009	2008
<b>Net balance at beginning of year</b>	₩ 27,004	28,070
Additions	12,382	7,881
Amortization	(8,077)	(8,947)
<b>Net balance at end of year</b>	₩ 31,309	27,004

(b) Other liabilities as of December 31, 2009 and 2008 are as follows:

	(In millions of Won)	
	2009	2008
Other liabilities:		
Retirement and severance benefits-net (note 14)	₩ 14,103	15,732
Allowances for acceptances and guarantees losses (note 13)	3,685	2,758
Allowances for unused commitments	26,734	21,985
Other allowances	71,589	25,485
Borrowing from trust account	65,868	419,552
Foreign exchange remittances pending	2,689	7,484
Accounts payable	1,476,821	842,549
Accrued expenses	299,148	380,578
Long-term accrued expense	2,413	60
Unearned income	10,950	26,334
Deposits for letter of guarantees and other	22,767	17,471
Deferred income tax liabilities (note 19)	-	32,713
Account for agency business	60,007	57,679
Liabilities incurred by agency relationship	53,599	26,266
Income tax payable	71,298	45,234
Derivative instrument-liabilities	239,354	531,204
Suspense receipts	740	4,086
Deposit for credit control	828	2,297
Withholding taxes	7,974	9,558
Guarantee deposit for securities subscription	365	1,807
Domestic exchange settlements credits	86,897	41,991
Lottery sold	3	3
Prepaid cards	3,376	2,678
Debit cards	358	288
Other	69	279
	₩ 2,521,635	2,516,071

## Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

### 10. Deposits

(a) Demand deposits as of December 31, 2009 and 2008 are as follows:

		2009	2008
(In millions of Won)			
Deposits in Won:			
Passbook deposits	₩	758,555	703,094
Savings deposits		3,986,430	3,542,102
Corporate free savings deposits		1,788,073	1,530,750
Other		615,692	699,844
		7,148,750	6,475,790
Deposits in foreign currency:			
Current deposits		946	488
Passbook deposits		82,283	110,155
Temporary deposits		21	19
		83,250	110,662
	₩	7,232,000	6,586,452

(b) Time deposits as of December 31, 2009 and 2008 are as follows:

		2009	2008
(In millions of Won)			
Deposits in Won:			
Time deposits	₩	6,424,960	6,002,850
Installment savings deposits		617,787	561,483
Long term housing saving deposits		291,286	284,341
Mutual installment deposits		255,334	230,896
Other		23,731	36,526
		7,613,098	7,116,096
Deposits in foreign currency:			
Time deposits		65,305	22,944
Installment savings deposits		6,691	2,549
		71,996	25,493
	₩	7,685,094	7,141,589

(c) Deposits in Won from financial institutions as of December 31, 2009 and 2008 are as follows:

		2009	2008
(In millions of Won)			
Banks		102,629	167,624
Other financial institutions		873,417	865,529
	₩	976,046	1,033,153



## 11. Borrowings

(a) Details of borrowings as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

Account	Section	2009		2008	
Borrowings in Won	The Bank of Korea	₩ 368,631	1.28%	317,491	3.05%
	Other	1,349,704	3.13%	1,054,336	3.77%
		1,718,335		1,371,827	
Borrowings in foreign currency	Borrowings from banks	712,135	3.14%	988,688	3.82%
Bonds sold under repurchase agreement	Bank	-	-%	26,500	4.94%
	Other	771,703	3.35%	717,167	5.02%
		771,703		743,667	
Bills sold		7,368	3.43%	10,094	5.20%
Call money	In foreign currency	118,051	1.77%	145,140	5.09%
Debentures	In Won	2,600,543	6.12%	2,219,155	5.68%
		₩ 5,928,135		5,478,571	

(b) Borrowings from financial institutions as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009			
	The Bank of Korea	Other banks	Other financial institutions	Total
Borrowings in Won	₩ 368,631	507,054	-	875,685
Borrowings in foreign currency	-	284,148	-	284,148
	₩ 368,631	791,202	-	1,159,833

(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

## Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

### 12. Debentures

Debentures as of December 31, 2009 and 2008 are as follows:

Issuance date	Maturity date	Coupon rate		2009	2008
2003-12-26	2009-01-26	6.00%	₩	-	60,000
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
2008-03-06	2009-03-06	5.21%		-	30,000
2007-04-02	2009-04-02	5.10%		-	100,000
2008-04-15	2009-04-15	5.55%		-	10,000
2007-04-26	2009-04-26	5.31%		-	100,000
2008-05-06	2009-05-06	5.47%		-	60,000
2007-05-15	2009-05-15	5.35%		-	100,000
2008-04-21	2009-07-21	5.61%		-	30,000
2008-04-28	2009-07-28	5.57%		-	60,000
2007-08-29	2009-08-29	5.73%		-	80,000
2008-04-07	2009-10-07	5.84%		-	50,000
2008-04-14	2009-10-14	5.70%		-	60,000
2008-04-16	2009-10-16	5.67%		-	30,000
2007-10-17	2009-10-17	5.95%		-	70,000
2007-12-27	2009-12-27	6.91%		-	40,000
2008-12-30	2009-12-30	5.58%		-	20,000
2008-12-31	2009-12-31	5.54%		-	50,000
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%		50,000	50,000
2007-02-06	2013-01-06	5.53%		20,000	20,000
2007-02-26	2013-01-26	5.53%		30,000	30,000
2007-04-05	2010-04-05	5.15%		100,000	100,000
2007-04-26	2010-04-26	5.35%		100,000	100,000
2007-08-31	2010-08-31	5.79%		40,000	40,000
2007-09-12	2010-09-12	5.86%		10,000	10,000
2008-01-15	2010-01-15	6.58%		50,000	50,000
2008-01-25	2014-01-25	6.76%		110,000	110,000
2008-02-27	2010-02-27	5.56%		50,000	50,000
2008-02-28	2014-02-28	6.02%		90,000	90,000
2008-08-26	2010-02-26	7.32%		10,000	10,000
2008-08-26	2010-08-26	7.46%		30,000	30,000
2008-11-19	2015-02-19	8.00%		45,800	45,800
2008-11-21	2015-02-21	8.00%		48,500	48,500
2008-11-25	2015-02-25	8.00%		55,700	55,700
2008-12-30	2010-12-30	6.15%		40,000	40,000

Issuance date	Maturity date	Coupon rate	2009	2008
2008-12-31	2010-12-31	6.11%	30,000	30,000
2008-12-31	2011-12-31	6.27%	10,000	10,000
2009-01-19	2039-01-19	8.60%	270,000	-
2009-01-29	2039-01-29	8.60%	130,000	-
2009-04-21	2010-04-21	3.07%	90,000	-
2009-05-13	2010-05-13	3.29%	30,000	-
2009-05-13	2010-11-13	3.81%	70,000	-
2009-05-13	2011-05-13	4.27%	10,000	-
2009-05-27	2010-05-27	3.23%	50,000	-
2009-07-29	2010-07-29	3.47%	50,000	-
2009-08-20	2010-08-20	3.94%	40,000	-
2009-08-20	2011-02-20	4.45%	30,000	-
2009-08-24	2010-11-24	4.20%	10,000	-
2009-08-24	2011-02-24	4.45%	20,000	-
2009-09-11	2010-09-11	3.27%	40,000	-
2009-09-18	2011-03-18	4.74%	140,000	-
2009-10-22	2010-10-22	4.30%	30,000	-
2009-10-23	2010-10-23	4.30%	40,000	-
2009-10-23	2011-04-23	4.90%	45,000	-
2009-11-04	2010-11-04	4.29%	30,000	-
2009-11-06	2011-05-06	4.87%	40,000	-
2009-11-06	2011-11-06	5.25%	40,000	-
2009-12-01	2010-12-01	3.98%	50,000	-
2009-12-03	2010-12-03	3.95%	50,000	-
2009-12-10	2010-12-10	4.01%	50,000	-
2009-12-11	2011-06-11	4.53%	70,000	-
2009-12-18	2010-12-18	4.19%	30,000	-
2009-12-18	2011-06-18	4.70%	20,000	-
			2,615,000	2,225,000
Less discount debentures			(14,457)	(5,845)
			₩ 2,600,543	2,219,155

# Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

## 13. Guarantees and Acceptances

(a) Allowances for losses on guarantees and acceptances outstanding as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009					
	Current	Precautionary	Sub-standard	Doubtful	Estimated loss	Total
Guarantees and acceptances outstanding						
Guaranteed amount	₩ 300,062	-	2	1,330	-	301,394
Allowance	2,203	-	-	665	-	2,868
Contingent guarantees and acceptances						
Guaranteed amount	159,597	-	2,480	-	-	162,077
Allowance	569	-	248	-	-	817
Guaranteed amount	₩ 459,659	-	2,482	1,330	-	463,471
Allowance	₩ 2,772	-	248	665	-	3,685

(In millions of Won)

	2008					
	Current	Precautionary	Sub-standard	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

(b) The ratio of allowance for losses on guarantees and acceptances to the amount guaranteed as of December 31, 2009, 2008 and 2007 are as follows:

(In millions of Won)

	2009	2008	2007
Guaranteed amount	₩ 301,394	293,572	213,892
Allowances for guarantees and acceptances	2,868	2,263	1,807
Ratio	0.95%	0.77%	0.84%

(c) Guarantees and acceptances classified by industry as of December 31, 2009 are as follows:

(In millions of Won)

	Guarantees and acceptances outstanding				Contingent guarantees and acceptances		Total	
	Won		Foreign currencies		Balance	Ratio	Balance	Ratio
	Balance	Ratio	Balance	Ratio				
Manufacturing	₩ 71,437	46.99%	92,390	61.86%	135,206	83.42%	299,033	64.52%
Construction	8,133	5.35%	268	0.18%	107	0.07%	8,508	1.84%
Wholesale and retail	65,728	43.23%	3,399	2.28%	20,506	12.65%	89,633	19.34%
Finance and insurance	137	0.09%	-	-	-	-	137	0.03%
Other	6,605	4.34%	53,297	35.69%	6,258	3.86%	66,160	14.27%
	₩152,040	100.00%	149,354	100.00%	162,077	100.00%	463,471	100.00%

(d) Guarantees and acceptances classified by consumer as of December 31, 2009 are as follows:

(In millions of Won)

	Guarantees and acceptances outstanding				Contingent guarantees and acceptances		Total	
	Won		Foreign currencies		Balance	Ratio	Balance	Ratio
	Balance	Ratio	Balance	Ratio				
Corporate	₩152,040	100.00%	149,354	100.00%	162,077	100.00%	463,471	100.00%

(e) Changes in other allowance for the year ended December 31, 2009 are as follows:

(In millions of Won)

	January 1, 2009	Increase	Decrease	December 31, 2009
Unused commitment	₩ 21,985	4,749	-	26,734
Mileage on credit cards	8,673	775	-	9,448
Sale of assets retention	2	-	(1)	1
Welfare of retired employees	1,900	-	(48)	1,852
Lawsuits	-	1,977	-	1,977
Dormant deposits written-off	1,583	1,820	-	3,403
Valuation of derivatives	13,327	41,581	-	54,908
	₩ 47,470	50,902	(49)	98,323

## Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

### 14. Retirement and Severance Benefits

Changes in retirement and severance benefits for the year ended December 31, 2009 and 2008 were as follows:

	(In millions of Won)	
	2009	2008
<b>Estimated retirement and severance benefits at beginning of year</b>	₩ 45,804	44,738
Accrual for retirement and severance benefits	16,904	17,241
Payments	(22,212)	(16,175)
<b>Estimated retirement and severance benefits at end of year</b>	40,496	45,804
Transfer to National Pension Fund	(3)	(4)
Deposit for severance benefit insurance	(26,390)	(30,068)
<b>Net balance at end of year</b>	₩ 14,103	15,732

### 15. Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2009 are summarized as follows:

	(In millions of Won and thousands of US Dollars)			
	2009			
	Foreign currency	Exchange rate	Translation into Won	
Cash in foreign currencies	\$ 21,065	₩ 1,167.60	₩	24,596
Due from banks in foreign currency	16,157	1,167.60		18,865
Available-for-sale securities in foreign currency	71,900	1,167.60		83,951
Loans in foreign currency	497,636	1,167.60		581,040
Call loans in foreign currency	86,514	1,167.60		101,014
Bills bought in foreign currency	102,374	1,167.60		119,532
<b>Total foreign currency denominated assets</b>	\$ 795,646		₩	928,998
Deposits in foreign currency	\$ 132,962	1,167.60	₩	155,246
Borrowings in foreign currency	609,913	1,167.60		712,135
Call money in foreign currency	101,106	1,167.60		118,051
Foreign exchanges payable	2,303	1,167.60		2,689
Import deposit money in foreign currency	6,160	1,167.60		7,192
<b>Total foreign currency denominated liabilities</b>	\$ 852,444		₩	995,313

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

(In millions of Won and thousands of US Dollars)

	2008		
	Foreign currency	Exchange rate	Translation into Won
Cash in foreign currencies	\$ 26,841	₩ 1,257.50	₩ 33,752
Due from banks in foreign currency	59,272	1,257.50	74,535
Available-for-sale securities in foreign currency	74,077	1,257.50	93,151
Loans in foreign currency	513,546	1,257.50	645,784
Call loans in foreign currency	30,000	1,257.50	37,725
Bills bought in foreign currency	85,363	1,257.50	107,344
<b>Total foreign currency denominated assets</b>	<b>\$ 789,099</b>		<b>₩ 992,291</b>
Deposits in foreign currency	\$ 108,274	1,257.50	₩ 136,155
Borrowings in foreign currency	786,233	1,257.50	988,688
Call money in foreign currency	115,420	1,257.50	145,140
Foreign exchanges payable	5,951	1,257.50	7,484
Import deposit money in foreign currency	4,822	1,257.50	6,063
<b>Total foreign currency denominated liabilities</b>	<b>\$ 1,020,700</b>		<b>₩ 1,283,530</b>

# Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

## 16. Assets and Liabilities by Maturity

Assets and liabilities by maturity as of December 31, 2009 are summarized as follows:

	(In millions of Won)				
	2009				
	Less than six months	Less than one year	Less than three years	Greater than three years	Total
<b>Assets:</b>					
Due from banks in Won	₩ 445,000	-	-	515,217	960,217
Due from banks in foreign currency	18,865	-	-	-	18,865
Securities in Won	394,440	626,679	1,879,887	2,218,251	5,119,257
Securities in foreign currency	5,885	16,309	8,431	53,326	83,951
Payments on guarantees	4,957	-	-	-	4,957
Loans in Won	6,486,855	5,228,814	1,753,942	3,853,198	17,322,809
Loans in foreign currency(*)	244,182	189,096	99,341	48,421	581,040
Bills bought in foreign currency	118,164	1,368	-	-	119,532
Call loans	201,014	-	-	-	201,014
	₩ 7,919,362	6,062,266	3,741,601	6,688,413	24,411,642
<b>Liabilities:</b>					
Deposits in Won	₩ 3,948,818	2,946,350	486,566	7,380,114	14,761,848
Deposits in foreign currency	70,496	1,500	-	83,250	155,246
Certificates of deposit	1,843,234	831,155	50,190	-	2,724,579
Borrowings in Won (**)	1,382,228	127,302	413,673	574,204	2,497,407
Borrowings in foreign currency	386,385	133,095	192,654	-	712,134
Debentures in won	480,000	640,000	645,000	850,000	2,615,000
Call money in foreign currency	118,051	-	-	-	118,051
	₩ 8,229,212	4,679,402	1,788,083	8,887,568	23,584,265

(\*) Include domestic import usance bills and loans to bank.

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



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

	(In millions of Won)				
	2008				
	Less than six months	Less than one year	Less than three years	Greater than three years	Total
<b>Assets:</b>					
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 bought 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
<b>Liabilities:</b>					
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

## 17. General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2009 and 2008 are as follows:

	(In millions of Won)	
	2009	2008
Salaries	₩ 155,529	147,020
Accrual for retirement and severance benefits	16,904	17,241
Other employee benefits	25,368	25,854
Rent	6,815	6,585
Depreciation	24,231	27,379
Amortization	8,077	8,947
Taxes and dues	12,437	12,698
Advertising	9,065	11,067
Physical training expense	22,439	34,073
Service expense	25,496	23,564
Other	85,588	81,445
	₩ 391,949	395,873

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### 18. Non-operating Income (Expense)

Details of Non-operating income (expense) for the years ended December 31, 2009 and 2008 are as follows:

	(In millions of Won)	
	2009	2008
Non-operating income		
Gain on disposal of tangible assets	₩ 16	55
Rent fee received	1,762	1,786
Other	11,341	11,882
	13,119	13,723
Non-operating expenses		
Loss on disposal of tangible assets	(41)	(56)
Expenses on loan recovery	(1,376)	(2,084)
Donations	(12,327)	(9,197)
Other	(4,670)	(6,590)
	(18,414)	(17,927)
Non-operating expense, net	₩ (5,295)	(4,204)

### 19. Income Taxes

(a) The Bank was subject to income taxes on taxable income at the following normal tax rates.

Taxable income	(In millions of Won)			
	2008	2009	2010 & 2011	Thereafter
2008 and thereafter				
Up to ₩200 million	12.1%	12.1%	11.0%	11.0%
Over ₩200 million	27.5%	24.2%	24.2%	22.0%

In December 2009, the Korean government postponed the reduction of the corporate income tax rate (including resident tax) from 24.2% to 22.0% until 2012.

(b) The components of income tax expense for the years ended December 31, 2009 and 2008 were as follows:

	(In millions of Won)	
	2009	2008
Income tax currently payable	₩ 109,464	86,666
Changes in temporary differences	(32,869)	715
Income tax expense directly charged to shareholder's equity	(11,743)	583
Income tax expense	₩ 64,852	87,964

(c) The income tax expense calculated by applying statutory tax rates to The Bank's income before income taxes for the year differs from the actual tax expense in the Non-consolidated Statement of Income for the years ended December 31, 2009 and 2008 for the following reasons:

	(In millions of Won)	
	2009	2008
Income before income taxes	₩ 235,368	349,137
Income tax calculated at the effective tax rate	56,935	95,982
Adjustments		
Income not assessable for tax purposes	(1,802)	(590)
Expense not deductible for tax purposes	1,989	1,466
Unrecognized effect of deferred tax in temporary differences	10	(4)
Tax credit	(13)	(287)
Effect of change in tax rate	2,547	(8,631)
Others	5,186	28
Income tax expense	₩ 64,852	87,964
Effective tax rate	% 27.55%	25.19%

(d) Changes in deferred tax assets (liabilities) for the years ended December 31, 2009 and 2008 are as follows:

	(In millions of Won)				
	2009				Deferred income tax assets(liabilities)
	January 1, 2009	Increase	Decrease	December 31, 2009	
Temporary differences to be deducted from taxable income:					
Retirement and severance benefit	₩ 3,498	-	-	3,498	846
Accrued income	(156,602)	(4,450)	(95,880)	(65,172)	(15,772)
Gain on valuation of securities	(84,111)	(25,152)	(39,755)	69,508	(16,821)
Available-for-sale securities impairment loss	33,134	19,655	-	52,789	12,775
Other allowance	47,470	50,853	-	98,323	23,794
Allowance for acceptances and guarantees losses	2,758	927	-	3,685	892
Discount present value	2,744	-	497	2,247	544
Loss(gain) on valuation of derivatives	(103,086)	825,491	725,642	(3,237)	(783)
Stock options	60	3,400	1,047	2,413	584
Loss on valuations using equity method of accounting	1,025	-	42	983	-
Other	52,355	29,555	96,451	(14,541)	(3,519)
	₩ (200,755)	900,279	688,044	11,480	2,540
Directly charged to the capital adjustment account:					
Loss (gain) on valuation of available-for-sale securities	37,776	(10,710)	37,776	(10,710)	(2,592)
Effective portion of changes in fair value of cash flow hedges	898	859	898	859	208
Gain on revaluation of assets	(23,727)	-	-	(23,727)	-
Deferred income tax assets	₩ (185,808)	890,428	726,718	(22,098)	156

# Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

(In millions of Won)

	2008				
	January 1, 2008	Increase	Decrease	December 31, 2008	Deferred income tax assets(liabilities)
Temporary differences to be deducted from taxable income:					
Retirement and severance benefit	₩ 3,498	-	-	3,498	773
Accrued income	(154,062)	(48,166)	(45,630)	(156,599)	(36,218)
Gain on valuation of securities	(55,508)	(29,064)	(462)	(84,110)	(19,172)
Available-for-sale securities impairment loss	36,843	4,903	8,613	33,133	7,920
Other allowance	32,455	16,390	1,374	47,471	11,487
Allowance for acceptances and guarantees losses	2,481	741	464	2,758	667
Discount present value	3,281	-	537	2,744	664
Loss(gain) on valuation of derivatives	(3,603)	602,673	702,155	(103,085)	(24,946)
Stock options	3,695	-	3,636	59	14
Loss on valuations using equity method of accounting	1,043	-	17	1,026	-
Other	(17,350)	113,090	25,982	69,759	16,740
	₩ (147,227)	660,567	696,686	(183,346)	(42,071)
Directly charged to the capital adjustment account:					
Loss on valuation of available-for-sale securities	31,334	37,776	31,334	37,776	9,141
Effective portion of changes in fair value of cash flow hedges	579	898	579	898	217
Gain on revaluation of assets	(23,727)	-	-	(23,727)	-
Deferred income tax liabilities	₩ (139,041)	699,241	728,599	(168,399)	(32,713)

(e) Item which was not recognized as deferred tax asset as of December 31, 2009 is as follows:

(In millions of Won)

	Amount	Expiry date
Deductible temporary difference	₩ 984	-

(f) Item which was not recognized as deferred tax liability as of December 31, 2009 and 2008 is as follows:

(In millions of Won)

	2009	2008
Land for business purposes	₩ (23,727)	(23,727)

(g) Corporate tax amount and deferred income tax which was directly charged to the capital as of December 31, 2009 and 2008 are as follow:

(In millions of Won)

	2009		2008	
	Amount	Deferred income tax assets (liabilities)	Amount	Deferred income tax assets (liabilities)
Effective portion of changes in fair value of cash flow hedges, net of tax	₩ 39	(9)	(318)	58
Changes in unrealized gain on valuation of available-for-sale securities, net of tax	48,486	(11,734)	(6,442)	525
	₩ 48,525	(11,743)	(6,760)	583

(h) Deferred tax assets (liabilities) before set-off as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009	2008
Deferred tax assets	₩ 47,010	48,242
Deferred tax liabilities	(46,854)	(80,955)
Deferred tax assets (liabilities), net	₩ 156	(32,713)

(i) Income tax payable and prepaid income tax before set-off as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009	2008
Income tax payable	₩ 108,471	86,666
Prepaid income tax	(37,174)	(41,431)
Income tax payable (net)	₩ 71,297	45,235

## 20. Earnings Per Share

(a) Basic earnings (loss) per share for the years ended December 31, 2009 and 2008 were as follows:

(In Won, except share information)

	2009	2008
<b>Net income</b>	₩ 170,516,383,035	261,173,735,123
Weighted average number of common shares outstanding	132,125,000	132,125,000
<b>Basic earnings per share in Won</b>	₩ 1,291	1,977

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

## Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

### 21. Stock Options

Details of stock options are as follows:

#### (a) Stock options as of December 31, 2009

Stock option	Shares to be issued	Grant date	Exercise method	Exercise price per share in Won	Exercise period
4th	6,000 shares	2004.03.19	Cash settlement	₩ 6,929	07.03.20~10.03.19
5th	176,279 shares	2005.03.25	Cash settlement	7,674	08.03.26~11.03.25
6th	45,150 shares	2006.03.10	Cash settlement	14,855	09.03.11~12.03.10
7th	76,872 shares	2006.12.29	Cash settlement	15,823	09.12.30~12.12.29
8th	37,333 shares	2007.12.26	Cash settlement	15,297	10.12.28~13.12.27
9th	28,030 shares	2008.03.12	Cash settlement	13,099	11.03.13~14.03.12

#### (b) Increase (decrease) in cash-settled share appreciation rights for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
At beginning of year	₩ 588,442	659,045
Increase	-	121,334
Exercise	(118,346)	(131,332)
Cancelled	(100,432)	(60,605)
At end of year	₩ 369,664	588,442

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

Share appreciation rights	Stock price	Option price	Expected variance	Expected continued period	Risk free rate	Fair value
8th	16,886	₩ 15,297	46.37%	3.58 years	4.56%	5,962
9th	16,886	13,099	46.37%	3.79 years	4.61%	6,814

(In Won)

#### (d) Long-term performance compensation as of December 31, 2009

	1st	2nd
Grant date	2008.03.12	2009.03.25
Shares to be issued	3,474	29,092
Exercise method	Cash settlement	Cash settlement
Exercise price per share in Won	₩ 13,099	6,684

(In Won, except share information)

(e) The total carrying amounts of liabilities and compensation costs arising from share-based payment transactions as of December 31, 2009 were ₩2,413 million and ₩3,398 million, respectively.

## 22. Comprehensive Income

Comprehensive income for the years ended December 31, 2009 and 2008 was as follows:

	(In thousands of Won)	
	2009	2008
<b>Net income</b>	₩ 170,516	261,174
Other comprehensive gain (loss)		
Unrealized gain (loss) on available-for-sale securities	36,752	(5,917)
Gain (loss) on valuation of derivatives instruments for cash flow hedge	30	(260)
<b>Comprehensive income</b>	₩ 207,298	254,997

## 23. Commitments and Contingencies

Commitments and contingencies as of December 31, 2009 and 2008 are as follows:

	(In millions of Won)	
	2009	2008
(a) Payment guarantee		
Acceptances and guarantees outstanding	₩ 301,394	293,572
Contingent acceptances and guarantees	162,077	125,019
	₩ 463,471	418,591
(b) Commitments		
Loan commitments in Won	₩ 5,087,724	4,305,049
Purchasing securities	53,142	53,142
	₩ 5,140,866	4,358,191

(c) As of December 31, 2009, there are 17 pending lawsuits against the Bank amounting to ₩10,750 million. The Bank reserved a contingent liability in the amount of ₩1,977 million regarding those pending litigations. The Bank believes that the unrecognized remaining litigation lawsuit will not have a material adverse effect on the Bank's financial position, operating results and cash flow. However, there is a possibility of additional losses depending on the future outcome.

(d) As of December 31, 2009, commercial loans aggregating to ₩323.1 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.

(e) As of December 31, 2009, bills pledged as collateral relating to the borrowings from the Bank of Korea are ₩841,835 million.

# Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

## 24. Transactions and Balances with Related Companies

(a) Details of parent and subsidiary relationships as of December 31, 2009 were as follows:

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

(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, 2009 and 2008 are as follows:

	(In millions of Won)					
	Daegu Credit Information Co., Ltd.		Korea Lease Financing Co., Ltd.		Daegu FC	
	2009	2008	2009	2008	2009	2008
<b>Assets</b>						
Loans	₩ -	-	1,179	12,007	-	-
<b>Liabilities</b>						
Deposits	3,190	3,127	4,457	4,457	4,948	6,242
Guarantee deposits received	130	165	-	-	-	-
	3,320	3,292	4,457	4,457	4,948	6,242
<b>Revenues</b>						
Interest on loans	-	-	-	13	-	-
Other	25	34	-	-	-	-
	25	34	-	13	-	-
<b>Expenses</b>						
Interest on deposits	142	165	158	250	312	238
Other	1,718	2,092	-	-	557	560
	₩ 1,860	2,257	158	250	869	798

(c) Key management personnel compensation in total and for each of the following categories for the years ended December 31, 2009 and 2008 was as follows:

Compensation details	(In millions of Won)	
	2009	2008
Short-term employee benefits	₩ 1,811	1,405
Post-employment benefits	223	253
Share-based payment	315	(1,388)
<b>Total</b>	₩ 2,349	270



## 25. Trusts with Guarantees

Trusts with guarantees as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009		2008		Remark
	Book value	Trust fee	Book value	Trust fee	
Unspecific money trusts	₩ 33	-	32	31	Guarantees of principal and yield
Development trusts	-	409	-	773	"
Reserving objective trusts	72	3	82	15	Guarantees of principal
Housing money trusts	5,260	95	5,803	252	"
Retirement pension trusts	1,140	153	1,816	94	"
Business money trusts	93	2	105	1	"
Personal pension money trusts	132,092	746	141,026	1,011	"
Retirement trusts	49,606	344	55,009	357	"
New personal pension trusts	2,994	31	2,619	30	"
New retirement pension trusts	7,696	416	10,256	893	"
Pension trusts	61,200	574	50,952	454	"
	₩ 260,186	2,773	267,700	3,911	

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

## 26. 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 years ended December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009		
	Average amount	Interest income(expense)	Average interest ratio
Interest income:			
Cash and due from banks (*)	₩ 1,094,352	24,718	2.26%
Securities (**)	4,666,825	239,177	5.13%
Loans	18,098,917	1,265,789	6.99%
	₩ 23,860,094	1,529,684	6.41%
Interest expense:			
Deposits	₩ 17,002,174	491,514	2.89%
Borrowings	3,573,257	104,061	2.91%
Bonds	2,353,762	144,228	6.13%
	₩ 22,929,193	739,803	3.23%

(\*) Excluding reserve deposits

(\*\*) Excluding equity securities

## Notes to Non-consolidated Financial Statements

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Average asset balance with interest income and average liability balance with interest expense for the years ended December 31, 2009 and 2008 are as follows, continued:

		(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

### 27. Statement of Cash Flows

As of December 31, 2009 and 2008, the differences between cash in the non-consolidated statements of cash flows and cash and due from banks in the non-consolidated statement of financial position are due to restricted cash and deposits as follows:

		(In millions of Won)	
		2009	2008
Cash and due from banks	₩	1,285,746	2,060,423
Restricted cash and deposits (note 3)		(501,124)	(1,133,164)
Cash at end of year	₩	784,622	927,259

## 28. Derivative Instruments

(a) Details of notional amounts of unsettled derivative instruments as of December 31, 2009 and 2008 were as follows:

(In millions of Won)

	2009		
	Purpose of transactions		
	Trading	Hedge	Total
Currency related:			
Forward	₩ 4,077,264	-	4,077,264
Swap	84,303	35,028	119,331
Future	-	-	-
Option bought	1,601,004	-	1,601,004
Option sold	1,257,380	-	1,257,380
	7,019,951	35,028	7,054,979
Interest rate related:			
Swap	295,780	54,878	350,658
	295,780	54,878	350,658
Stock price index related:			
Option bought	221,805	84,359	306,164
Option sold	221,805	40,708	262,513
	443,610	125,067	568,677
	₩ 7,759,341	214,973	7,974,314

(In millions of Won)

	2008		
	Purpose of transactions		
	Trading	Hedge	Total
Currency related:			
Forward	₩ 3,555,542	-	3,555,542
Swap	112,976	166,619	279,595
Future	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
Swap	360,360	59,102	419,462
	363,881	59,102	422,983
Stock price index related:			
Option bought	168,621	100,191	268,812
Option sold	168,621	51,227	219,848
	337,242	151,418	488,660
Credit related:			
Swap	69,162	-	69,162
	69,162	-	69,162
	₩ 8,864,282	377,139	9,241,421

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(b) Details of valuation on trading and hedging derivative instruments as of December 31, 2009 and 2008 are as follows:

	(In millions of Won)					
	2009			Fair value		
	Valuation gains(losses)			Assets	Liabilities	
	Trading	Hedge	Total			
Currency related:						
Forward	₩ 32,101	-	32,101	97,566	85,790	
Swap	2	(3,126)	(3,124)	10,556	5,793	
Option	(10,570)	-	(10,570)	194,181	112,951	
	21,533	(3,126)	18,407	302,303	204,534	
Interest rate related:						
Swap	-	692	692	917	2,511	
	-	692	692	917	2,511	
Stock price index related:						
Option bought	4,930	(1,488)	3,442	39,172	-	
Option sold	(4,930)	(14,374)	(19,304)	-	32,308	
	-	(15,862)	(15,862)	39,172	32,308	
	₩ 21,533	(18,296)	3,237	342,392	239,353	

	(In millions of Won)					
	2008			Fair value		
	Valuation gains(losses)			Assets	Liabilities	
	Trading	Hedge	Total			
Currency related:						
Forward	₩ (29,543)	-	(29,543)	200,424	230,117	
Swap	38,299	-	38,299	50,841	11,722	
Option	65,283	-	65,283	375,349	277,892	
	74,039	-	74,039	626,614	519,731	
Interest rate related:						
Swap	73	(1,503)	(1,430)	2,843	5,124	
	73	(1,503)	(1,430)	2,843	5,124	
Stock price index related:						
Option bought	(3,215)	32,052	28,837	44,179	-	
Option sold	3,215	-	3,215	-	4,886	
	-	32,052	32,052	44,179	4,886	
Credit related:						
Swap	(1,575)	-	(1,575)	-	1,463	
	(1,575)	-	(1,575)	-	1,463	
	₩ 72,537	30,549	103,086	673,636	531,204	

## 29. Dividends

(a) Details of dividends for the years ended December 31, 2009 and 2008 are as follows:

		(In millions of Won, except share data)	
		2009	2008
Dividend per share in Won	₩	160	250
Dividend rate per share		3.2%	5.0%
Number of shares issued		132,125,000	132,125,000
Dividend amount	₩	21,140	33,031

(b) Payout ratios for the years ended December 31, 2009 and 2008 are as follows:

		(In millions of Won, except share data)	
		2009	2008
Dividend amounts	₩	21,140	33,031
Net income		170,516	261,174
Dividend payout ratios		12.40%	12.65%

(c) Dividend yield ratios for the years ended December 31, 2009 and 2008 are as follows:

		(In Won)	
		2009	2008
Dividend per share (A)	₩	160	250
Market price as of year end (B)		17,200	6,700
Dividend yield ratio (A/B)		0.93%	3.73%

## 30. Interim Performance (the 4<sup>th</sup> Quarter)

Operating results for the three months ended December 31, 2009 and 2008 are as follows:

		(In millions of Won)	
		2009	2008
Operating revenue	₩	577,812	1,736,266
Operating income		35,151	60,787
Net income		24,861	49,396
Basic net income per share in Won		188	374

## Notes to Non-consolidated Financial Statements

December 31, 2009 and 2008

### 31. Added Value

Details of accounts included in the computation of value added for the years ended December 31, 2009 and 2008 are as follows:

		(In millions of Won)	
		2009	2008
Salaries	₩	155,529	147,020
Retirement allowance and severance benefits		16,904	17,240
Other employee benefits		25,368	25,854
Rent		6,815	6,585
Depreciation		24,231	27,379
Taxes and dues		12,437	12,698

### 32. Effective Date for Financial Statements

The accompanying non-consolidated financial statements are to be approved at the Board of Directors' meeting on January 26, 2010.

### 33. Planning and Adoption of K-IFRS (International Financial Reporting Standards)

(a) The Financial Supervisory Commission announced roadmap for the adoption of K-IFRS in March 2007. The Bank plans to issue financial statements prepared in accordance with K-IFRS from 2011. The Bank organized a Task Force Team to conduct internal training and to analyze the main differences between IFRS and K-IFRS and to establish accounting systems to apply the new accounting treatments. The details of the K-IFRS Adoption Plan are as follows:

Main Activities	Preparation Plan	State at December 31, 2009
Formation of the K-IFRS Adoption Task Force Team and analysis of the likely effects of K-IFRS adoption	Complete the K-IFRS Adoption Plan by the end of 2010	Sep. 2008 - Established the K-IFRS Adoption Task Force Team Oct. ~ Dec. 2008 - Engaged an accounting firm to carry out an analysis of the likely effects of K-IFRS adoption Mar. ~ Dec. 2009 - Engaging an accounting firm to carry out an analysis of the likely effects of K-IFRS adoption and detailed methodologies, accounting manuals
Alignment of accounting systems	Complete the establishment of accounting systems to apply the new accounting treatments under K-IFRS by the end of 2010	Completed the analysis of the scope of required changes to the system
Training	Acquire the skills required for IFRS conversion by the end of 2009	Oct. 2008 ~ Dec. 2009 - Held training for in-charge staff - Reporting to the board of directors and management on a regular basis

(b) Differences between Accounting under K-IFRS and under K-GAAP Expected to Have a Material Effect on the Bank

Below is a list of notable differences between the financial statements as of and for the year ended December 31, 2009 as presented and as they would have been prepared under K-IFRS. The below list is not exhaustive, as in the future other unforeseen differences may appear as a result of future changes. In addition, practical effect of some of the significant differences listed below may not be obtainable.

Area	Current (K-GAAP)	K-IFRS
Change of consolidation scope	Companies having total assets less than 7 billion and SPEs are excluded from the scope of consolidation	Companies having total assets less than 7 billion and SPEs are included in the scope of consolidation
Classification of investment in properties	The real estate owned for the purpose of rent is classified as tangible assets	The real estate owned for the purpose of rent or investment is classified as investment in properties
Retirement benefits liabilities	The provision is set to cover retirement of all the employees of December 31, 2009	The provision is calculated by applying an actuarial assumption
Effects of exchange rate changes on foreign currency denominated interest income and expenses	Exchange rate for foreign currency interest income and expense is applied as of the reporting date	Exchange rate for foreign currency interest income and expense is applied as of the transaction date
Allowance for doubtful accounts	The Company establishes a reserve in the larger of the proportion determined by regulators or a proportion based on past experience	On the reporting date, the bank checks the existence of objective evidence that loans were impaired and if so, the allowance for doubtful accounts is provided based on separate or group evaluation
Interest income recognized on the impaired loans	In principle, impaired loans do not recognize interest income	If loans are impaired, interest incomes are recognized by the rate used to discount future cash flow to estimate the amount of impairment losses
Limited recovery of impairment losses on equity securities	Recovery of impairment losses on equity securities is accepted	Recovery of impairment losses on equity securities is prohibited
Reflect credit level of derivatives instruments transaction	Allowance is recognized by the minimum provision rate based on forward looking criteria of transaction counterparty	Allowance is recognized based on credit level of transaction counterparty considering exposure, the possibility of bankruptcy and the loss rate of bankruptcy
Hedge accounting	Only the simple method and retroactive method are accepted when evaluating the effectiveness of a risk hedge	The simple method is not accepted but the advance method and retroactive methods are accepted when evaluating the effectiveness of a risk hedge

# Independent Accountants' Review Report on Internal Accounting Control System

English translation of a Report Originally Issued in Korean



Dongil Bldg. 9<sup>th</sup> fl., 223-5 Beomeo 2-Dong, Suseong-Gu, Daegu 706-823 Republic of Korea  
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## 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, 2009. 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, 2009, 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.

The 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, 2009 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, 2009. We did not review the Bank's IACS subsequent to December 31, 2009. 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 12, 2010

#### Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2009 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



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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 operations of the Bank’s internal accounting control system (“IACS”) for the year ended December 31, 2009.

The Bank’s management, including IACO, 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 statement preparation and presentation for external uses. I, as the IACO, applied the IACS Standards issued by the internal Accounting Control System Operation Committee for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Bank’s IACS has been effectively designed and is operating as of December 31, 2009, in all material respects, in accordance with the IACS Standards issued by the internal Accounting Control System Operation Committee.

Seo, Jung Won, Internal Accounting Control Officer

Ha, Chun Soo, Chief Executive Officer or President

February 12, 2010

# APPENDIX

DGB STOP CO<sub>2</sub> Code of Conduct | [131](#)    Third Party Opinion | [132](#)    Assurance Report | [134](#)    GRI Index | [136](#)    SURVEY | [143](#)

## DGB STOP CO<sub>2</sub> 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 CO<sub>2</sub> 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 Assurance Report



**Kim, Joon-han**  
Head of POSCO Research Institute

The Daegu Bank 2009 Sustainability Report sets the directions for the financial industry in implementing the national drive for “Low-Carbon Green Growth”. As implied in the title “Opening the Future for Green Finance,” the report represents the Bank’s commitment to becoming a “Dream Green Bank,” and a trailblazer in green finance, setting a benchmark for the financial industry.

As described in the report, Daegu Bank places high importance on the opinions of its stakeholders, including, shareholders, customers, local communities, suppliers and employees. It also explicates that the Bank has well established sustainability management in pursuit of balanced growth in the triple bottom lines. In particular, the report describes the Bank’s sustainable finance and social contribution activities through its various initiatives for the local economy and financial support to local SMEs.

Daegu Bank’s systematic sustainability activities are structured in four chapters; CEO Message, Sustainable Finance, Environmental Management, Social Contributions and Ethical Management & Corporate Culture. Most notably, the Bank established its vision and core values through open communications with stakeholders, and developed its unique corporate culture as an efficient tool for realizing these. Created in accordance with GRI Guidelines, the report states the vision, strategic directions, major issues and performances of the Bank in an easy-to-understand way.

In spite of these achievements, the report and the Bank’s sustainability activities were found to contain areas that could be improved in order for the Bank to become a leading regional bank in sustainability management.

First, the report lacks logical connections between parts. A description of the relevance between the material issues identified from stakeholder communications and the CEO Message, four strategic directions and KPI would help readers better understand the Bank’s sustainability initiatives.

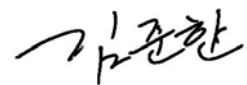
Second, the report hastened to include the Bank’s compliance with international standards. Although it was a good idea to include the Bank’s preemptive response to the ISO 26000, it needs to be more careful when dealing with an issue that is still in deliberation.

Third, the Bank needs to take a more positive approach to global standards. Not content with enlisting on the domestic CDP and SAM DJSI, the Bank is required to make efforts regarding global sustainability indexes.

Finally, the Third Party Assurance Report needs to be improved. The assurance is an important procedure to guarantee the objectiveness of the data collection process and information accuracy. In particular, reports by financial institutions must satisfy the materiality, relevancy and completeness principles of reporting. An assurance and guarantee of the KPI based on these principles will further enhance the reliability of the report to financial investors and other stakeholders.

The environment provides modern businesses with both obligations and opportunities. We believe the publication of this report, “Opening the Future of Green Finance,” will serve as an opportunity for Daegu Bank to grow as a leader in the financial sector’s drive for sustainability management.

**Kim, Joon-han**  
Head of POSCO Research Institute





Lee, Chun-sun  
Sustainability Management Center  
Korea Productivity Center

We reviewed the Daegu Bank 2009 Sustainability Report against the AA1000APS and AA1000AS, and whether it reports the Bank's sustainability management activities and performances in accordance with the GRI G3 Guidelines following appropriate procedures and methodologies.

The Daegu Bank 2009 Sustainability Report was structured in an easy-to-understand manner, enhancing readability and the conveyance of information. Stakeholder engagement helped the report achieve substantiality in reporting the Bank's domestic and international initiatives performances, setting the future directions for Daegu Bank's sustainability report. In review of the Daegu Bank 2009 Sustainability Report, the Korea Productivity Center (KPC) presents the following three points for improvement:

First, an integrated stakeholder engagement system is required.

The Korea Productivity Center (KPC) highly evaluates Daegu Bank's effort to encourage stakeholder engagement in preparing the report. The KPC reviewed whether stakeholder engagement faithfully followed the AA1000SES, an international guideline for stakeholder engagement. We found that the report clearly defines the scope of stakeholder groups and conducted stakeholder surveys following justifiable procedures and manners. A materiality test was used to identify and prioritize material issues in compliance with the responsiveness principle of GRI Guidelines. Therefore, the report well constitutes a communication channel with stakeholders.

However, the Bank needs to establish a systematic stakeholder communication channel to better represent the stakeholders' opinions in its management activities. To that end, it is highly recommended that the Bank establishes an integrated stakeholder management system and a regular program of stakeholder engagement as part of its sustainable financial business model, not a one-time event for a sustainability report. Once established, the new system will expand the scope of stakeholder engagement in the Bank's sustainability management, further improving the quality of future sustainability reports.

Second, advanced sustainability management activities need to be made a core competence of the Bank.

This report faithfully describes how faithfully the Bank fulfills its duties and responsibilities as a member of the UN Global Compact and UNEP FI. In particular, the report well depicts the Bank's participation in external assurance and evaluation procedures, such as the Carbon Disclosure Project (CDP) as well as its enlisting to the Dow Jones Sustainability Index (DJSI), setting the future

directions for the financial sector in their practice of sustainability management.

In the future, we hope the Bank's industry-leading sustainability initiatives will take its sustainability management to the next phase. To that effect, it is recommended the Bank establish sustainability key performance indicators (KPI) and report KPI performances in future sustainability reports.

Finally, the Bank needs to establish systematic sustainability management practices with local communities.

The driving motive of Daegu Bank's sustainability management lies in its corporate culture. Based on ethical management and humanism, its corporate culture can be characterized by the core values of "serving for all," "passion for change" and "honesty with ourselves." The report shows how well the Bank practices these values in its community engagement activities and communicates these efforts to stakeholders. Most notably, the report details the Bank's performance in fulfilling its role as a green bank and numerous community engagement projects.

However, the Bank is recommended creating a sustainable financial business model of its own by establishing a process to report its sustainability management activities and performances. This will further enrich the contents of the report and establish guidelines for the Bank to expand its social contribution programs beyond the Daegu & Gyeongbuk area.

In closing, the Korea Productivity Center found that the Daegu Bank 2009 Sustainability Report struck the right balance in reporting the adverse and positive aspects of the Bank's sustainability activities.

In the future, we hope the report can become a communication tool for the Bank and its stakeholders and provide opportunities to employees to incorporate sustainability management practices into their daily business activities. We hope that Daegu Bank can grow into a leading global bank, competing shoulder to shoulder with leading global financial institutions, while "opening the future for green finance" as implied in the title.

Lee, Chun-sun  
Sustainability Management Center  
Korea Productivity Center

# Assurance Statement

To the Management and Stakeholders of Daegu Bank

## ■ Introduction

The Korean Standards Association ("Assurer") has received a request for independent assurance on the "2009 Daegu Bank Sustainability Report" from Daegu Bank. The assurer presents an independent assurance statement on the report after gathering enough evidence to back the data and reviewing performances as well as the relevant system governing the report drawn up by the bank.

Daegu Bank is responsible for the collection, analyses, and arrangement of information as well as all the assertions made in the report to draw up the report.

## ■ Independence

The assurer has no interest in pursuing its own profit with regard to Daegu Bank's overall business activities other than third-party assurance on the report. Neither does the assurer hold any biased opinion in favor of -- or against -- any stakeholder of the bank.

## ■ Assurance Standards and Level

The assurer has performed assurance by applying the AA1000AS 2008 Assurance Standards (AA1000 AS) and GRI G3 Guidelines. In particular, the assurer has set the following assurance principles of AA1000 AS 2008: foundation principle of inclusivity, principle of materiality, and principle of responsiveness.

The reliability of the information contained in the 2009 Daegu Bank Sustainability Management Report has been assured at the level of moderate assurance.

## ■ Assurance Type and Scope

The assurer has undertaken type 2 assurance in accordance with the AA1000 Assurance Standards (AA1000 AS) 2008. Type 2 assurance means that the accuracy and quality of sustainable performance information as contained in Daegu Bank's assertion and report have been assessed based on the principle of report responsibility of the AA1000 Assurance Standards (AA1000 AS) 2008.

The assurer has carried out assurance focusing on the system and

activities of Daegu Bank together with field check by sampling 224 domestic branches and the head office of the bank based on fiscal year 2009 along with the 2009 Daegu Bank Sustainability Report during the period Jan. 1 - Dec. 31, 2009.

Assurance of financial data except the environmental, social, and comprehensive economic performances has been carried out from the perspective of comparing and checking consistency with the 2009 financial audit report.

## ■ Methods

The assurer has performed assurance after collecting information, data, and evidence related to the assurance scope by using the following methods:

- Examining the data on the Internet and those reported by the media regarding the sustainable aspect of Daegu Bank and financial institutions during the report period.
- On-site visit including visit to the head office
- Review of management systems and processes used to improve sustainability management performance and draw up the report
- Tracking review of internal documents and basic data
- Interviews with the management, personnel in charge of sustainability management, and reporting administrators

## ■ Assurance Results and Opinion

The assurer found -- through assurance activities -- that the sustainability management activities of Daegu Bank have been reported without any major error or bias. All major assurance results are included in the assurance statement. Moreover, additional details on the following assurance results and recommendations have been presented to the bank:

### • Inclusivity

Daegu Bank is aware of its responsibility to report to its stakeholders, who wield an impact on — or are impacted by — the bank. It encourages stakeholder engagement and executes decision making considering the issues concerning — and impacts on — the stakeholders.

• **Materiality**

The bank identifies sustainability issues and re-establishes a process for drawing up important issues that stakeholders are concerned about through benchmarking in the industry, media survey, and questionnaire survey among stakeholders. This way, the bank identifies the major issues and includes them in the report.

The bank needs to establish a process of continuously monitoring and improving performances relevant to these issues in the future.

• **Responsiveness**

The bank reflects the major sustainability management issues on the organization's policy and activities and takes the interest of stakeholders into account at all times.

It is important for the bank to make efforts continuously toward sustainability management in line with the stakeholders' interest.

■ **Opinions and Recommendations for Improvement**

The bank continually endeavors to integrate the fulfillment of its social responsibility into its organizational operation according to ISO 26000 (Social Responsibility Standards). Likewise, it actively makes efforts toward sustainability management in view of the enthusiastic response to the Carbon Disclosure Project (CDP) and incorporation into DJSI.

• **Sustainable Banking**

The bank develops and offers various customized services for local economic activation and local industrial development to ensure a win-win situation with communities. Its efforts to consolidate the development and sales of green financial products in fulfillment of its social responsibility and its leading role in responding to climate change are quite admirable.

The bank needs to pay attention to sustainable enhancement and fostering of expertise and professionalism for the continual development and provision of green financial products.

• **Environmental Banking**

The bank is currently in the process of establishing a system that will

efficiently manage greenhouse information; it is actively engaged in CDP as well in the course of establishing greenhouse inventory. Moreover, the bank vigorously tries to improve the environment by promoting the formation of DGB desertification prevention forest in Mongolia and consolidating bio diversification activities. The bank needs to disseminate and monitor such efforts across its organization to realize actual performance improvement.

• **Social Contribution**

The bank systematizes its social contribution activities by forming a DGB service corps and diversifies its social contribution programs. Likewise, the bank tries to promote community activation through local economic revitalization and job sharing.

• **Ethical and Corporate Culture**

Through the transparent, open, and ethical corporate culture it has established, the bank is recognized for its efforts to build a workplace where work and personal life are in harmony.

■ **GRI Report**

The assurer has verified that the report contains -- in whole or in part -- the GRI indicators recorded in the GRI Index (Appendix).



August 30, 2010  
**Kaphong CHOI**  
 President  
 Korean Standards Association

**KSA 한국표준협회**



# 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	●	5, 18-20
1.2	Description of key impacts, risks and opportunities	◎	21, 25-27
Organizational Profile			
2.1	Name of the organization	●	20, 21, 27, 52
2.2	Primary brands, products and / or services	◎	31, 33, 34, 36
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries and joint ventures	●	20
2.4	Location of organizations' headquarters	●	16
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	●	16, 21, 47, 49
2.6	Nature of ownership and legal form	●	19-20
2.7	Characteristics of markets (including geographic breakdown, sectors served and types of customers / beneficiaries)	●	16, 20, 21
2.8	Scale of the reporting organization	◎	13, 15, 16
2.9	Significant changes during the reporting period regarding size, structure or ownership	●	19, 20
2.10	Awards received in the reporting period	●	5, 6, 17, 22, 42
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
3.5	Process for defining report content	●	8-13
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
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, 16
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, 15
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	◎	COVER, 15
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	◎	70-74
3.13	Policy and current practice with regards to seeking external assurance	◎	COVER, 8-13
Governance, Commitments and Engagement			
4.1	Governance structure of the organization	◎	19, 20, 21
4.2	Indication of whether the Chair of the highest governance body is also an executive officer	●	18, 19
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	●	19
4.4	Mechanisms enabling shareholders and employees to provide recommendations or direction to the highest governance body	◎	8, 9
4.5	Link between the company's performance and compensation for members of the highest governance body, senior managers and executives	◎	12, 15-16
4.6	Processes for the highest governance body to prevent conflicts of interest	◎	19-20
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	◎	19-20



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	◎	18-19
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	◎	19-20, 23-24, 40-43
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	◎	15, 25
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	◎	30-34, 40-43, 47
4.12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or endorses	●	6, 7, 22, 23, 47
4.13	Membership in associations (such as industry associations) and / or national / international advocacy organizations	●	6-7, 17, 22
4.14	List of stakeholder groups engaged by the organization	●	8-13, 19
4.15	Basis for identification and selection of stakeholders	●	8-13, 19
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	●	8-13, 19
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	●	8-13, 19
<i>Economic Performance Approach</i>			
Disclosure of Management Approach			
EC1	Direct economic value generated and distributed	◎	15, 16, 21, 30-37
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	◎	39-49
EC3	Coverage of the organization's defined benefit plan obligations	◎	61-62
EC4	Significant financial assistance received from government	○	75
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	N/A	-
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	◎	46
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	◎	56
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	◎	30-37, 46, 52-57
EC9	Understanding and describing significant indirect economic impacts including the extent of impacts	◎	46, 47
<i>Environment Performance Indicators</i>			
Disclosure on Management Approach			
EN1	Materials used by weight or volume	●	40-46
EN2	Percentage of materials used that are recycled input materials	●	33, 37-38
EN3	Direct energy consumption by primary energy source	●	33, 37-38
EN4	Indirect energy consumption by primary source	●	33, 37-38
EN5	Energy saved due to conservation and efficiency improvements	●	42
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services and reductions in energy requirements as a result of these initiatives	◎	40-46
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	◎	42-46
EN8	Total water withdrawal by source	◎	42
EN9	Water sources significantly affected by withdrawal of water	◎	42
EN10	Percentage and total volume of water recycled and reused	◎	42
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected area	○	75

# 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	○	75
EN13	Habitats protected or restored	◎	48-49
EN14	Strategies, current actions and future plans for managing impacts on biodiversity	◎	48-49
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	○	48-49
EN16	Total direct and indirect greenhouse gas emissions by weight	◎	39-42
EN17	Other relevant indirect greenhouse gas emissions by weight	◎	39-42
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	◎	39-42
EN19	Emissions of ozone-depleting substances by weight	◎	39-42
EN20	NOx, Sox and other significant air emissions by type and weight	◎	39-42
EN21	Total weight discharge by quality and destination	◎	42
EN22	Total weight of waste by type and disposal method	◎	45
EN23	Total number and volume of significant spills	○	75
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	○	75
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	◎	48
EN26	Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation	◎	39-47
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	◎	45
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	○	75
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations and transporting members of the workforce	◎	42
EN30	Total environmental protection expenditures and investments by type	◎	39-47
	<i>Labor Practice &amp; Decent Work Performance</i>		
	Disclosure on Management Approach		
LA1	Total workforce by employment type, employment contract and region	◎	19
LA2	Total number and rate of employee turnover by age group, gender and region	◎	61-63
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	◎	62
LA4	Percentage of employees covered by collective bargaining agreements	◎	63
LA5	Minimum notice period (s) regarding significant operational changes including whether it is specified in collective agreements	◎	63
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	◎	60-63
LA7	Rates of injury, occupational diseases, lost days and absenteeism and total number of work-related fatalities by region	◎	58
LA8	Education, training, counseling, prevention and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	◎	60-63
LA9	Health and safety topics covered in formal agreements with trade unions	◎	63
LA10	Average hours of training per year per employee by employee category	◎	59
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	◎	19
LA14	Ratio of basic salary of men to women by employee category	N/A	-

GRI Index	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	◎	47
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	◎	60
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	◎	60-61
HR4	Total number of incidents of discrimination and actions taken	◎	63
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	◎	63
HR6	Operations identified as having significant risk for incidents of child labor and measures taken to contribute to the elimination of child labor	●	47
HR7	Operations that are likely to have forced labor and measures taken	●	47
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	◎	60-61
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	○	75
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	●	52-57
SO2	Percentage and total number of business units analyzed for risks related to corruption	○	75
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	◎	60
SO4	Actions taken in response to incidents of corruption	◎	60
SO5	Public policy positions and participation in public policy development and lobbying	○	75
SO6	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	○	75
SO7	Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes	○	75
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	○	75
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	○	75
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements	○	30-36
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	○	75
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	◎	6-7, 17, 22
PR6	Programs for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	◎	47
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	○	75
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	◎	60
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	○	75

# GRI Index

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

## Financial Service Environmental Performance Indicators

GRI Index	Indicators	Reporting level	Page
<b>Product and Service Impact Section</b>			
<b>Financial Services Sector Specific Disclosure on Management Approach</b>			
FS1	Policies with specific environmental and social components applied to business lines.	◎	Cover, 5, 21-22
FS2	Procedures for assessing and screening environmental and social risks in business lines.	◎	8-13, 27, 40-41
FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.	◎	8-13, 27, 37, 60
FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.	◎	26, 60
FS5	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.	◎	8-13, 30, 35-36
<b>Financial Services Sector Specific Performance Indicators</b>			
FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector.	◎	16, 28, 30-37
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.	◎	30-34, 37
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.	◎	35-37, 40
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.	◎	28, 30-37
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues.	◎	28, 30-37
FS11	Percentage of assets subject to positive and negative environmental or social screening.	◎	28, 30-37
FS12	Voting polic(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting.	◎	8-13, 19, 30-37
<b>Society</b>			
<b>Financial Services Sector Specific on product Responsibility society performance indicators</b>			
FS13	Access points in low-populated or economically disadvantaged areas by type.	◎	7, 30-37, 56-57
FS14	Initiatives to improve access to financial services for disadvantaged people.	◎	8-13, 30-37
<b>Product Responsibility</b>			
<b>Financial Services Sector Specific Disclosure on Management Approach</b>			
FS15	Policies for the fair design and sale of financial products and services.	◎	8-13, 30-37, 60
FS16	Initiatives to enhance financial literacy by type of beneficiary.	◎	37, 52, 55

## 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 our engagement in lobbying.
SO6	The bank does not make any contribution to it.
SO7	There was no corruption incident during the year
SO8	The bank's product and services do not have an impact on customer's health and safety.
PR2	There was no corruption incident about laws and regulations of impact on customer health and safety.
PR4	There was no corruption incident during year.
PR7	There was no incident about information security during the year.
PR9	There was no corruption incident about provision and use of products and services during the year

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

### Daegu Bank 2009/2010 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 2009/2010 Sustainability Report was faithfully discloses information based on the GRI G3 Guidelines. This report stands for A+ level checked by 3<sup>rd</sup> 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	Same as requirement for Level B	Same as requirement for Level B	Same as requirement for Level B
	G3 Management Approach Disclosures	Not Required	Management Approach Disclosures for each Indicator Category	Management Approach Disclosures for each Indicator Category	Management Approach Disclosures for each Indicator Category	Management Approach Disclosures for each Indicator Category
	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 Externally Assured Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.	Report Externally Assured Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.	Report Externally Assured 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	Report Externally Assured 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
OUTPUT						

[www.dgb.co.kr](http://www.dgb.co.kr)

# SURVEY



DGB 2009/2010 Sustainability Report

**Dream  
Green  
Bank**

녹색금융의  
미래를 열다



Post Card

Name : \_\_\_\_\_

Address : \_\_\_\_\_

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CSR Department  
DGB Economic Research Division  
10<sup>th</sup> 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) ISO/DIS 26000 Preparedness Test
- 2) Sustainability Management Initiatives
- 3) Sustainable finance
- 4) Environmental management
- 5) Social Contribution
- 6) Ethics & corporate culture

**4. Do you think this Report accurately reflected DGB's management performance?**

- 1) Perfectly reflected
- 2) Well reflected
- 3) Average
- 4) Below average
- 5) To be improved

**5. In which area of sustainable management do you think DGB is the most active?**

- 1) Sustainable finance
- 2) Environmental management
- 3) Social contribution
- 4) Ethics & corporate culture

**6. Please state areas where our Sustainability Report may be further improved.**

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## Contact Information

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 : 82-53-740-6907  
 SWIFT : DAEBKR22  
 Tel : 82-53-740-2322

### International Finance Department

Address : 70, Sogong-dong, Jung-gu, Seoul 100-070, Korea  
 Swift : DAEBKR22SEL  
 Telex : K28306DAEGUBK  
 Fax : 82-2-775-8864  
 Tel : Fixed Income & Money Market 52-2-318-6736  
 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 : 82-2-779-6752  
 Tel : Correspondent Banking 82-2-773-0583

### International Business Department

Address : 118, Suseong-dong Suseong-gu, Daegu 706-112, Korea  
 SWIFT : DAEBKR22  
 Fax : 82-53-756-2095  
 Telex : K54334DAEGUBK  
 Tel : Import 82-53-740-2942  
     Export 82-53-740-2986  
     Money Transfer & Check Collection 82-53-740-2946  
     Foreign Trade Finance & Local L/C 82-53-740-2978

### 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, 2009)

NAME	Stocks	Ownership(%)
Samsung Life Insurance	9,724,688	7.36
SSB-SMALLCAP	4,879,110	3.69
Mirae Asset Financial Group Co.,Ltd.	4,696,116	3.55
ABERDEEN GLOBAL	4,034,490	3.05
SAUDI ARABIAN MONETARY A	3,938,950	2.98
NATIONAL PENSION SERVICE	3,410,499	2.58
SAUDI ARABIAN MONETARY AGENCY	2,784,120	2.11
SR GLOBAL FUND L.P.	2,555,600	1.93
UBS HANA ASSET MANAGEMENT CO.,LTD.	2,503,981	1.90
THE GOVERNMENT OF SINGAPORE	1,994,460	1.51
ABU DHABI INVESTMENT AUT	1,978,267	1.50
GMO EMERGING MARKETS FUND	1,672,192	1.27
TEMPLETON GLOBAL SMALLER COMPANIES FUND	1,497,510	1.13
AVIVA FUNDS	1,413,477	1.07
ABERDEEN ASIA PACIFIC FUND	1,375,400	1.04

### Subsidiaries

#### Daegu Credit Information Co., Ltd.

Tel : 82-53-573-7700  
 Fax : 82-53-608-1400  
 Capital : KRW 1.5billion  
 The bank's ownership : 53.32%

#### Korea Non-Bank Lease Financing CO., Ltd

Tel : 82-2-398-4114  
 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 statement by KGAAAP

### Domestic Network

(as of June 30, 2010)

Area	Branch	Sub-Branch	Sub-total
Daegu	134	26	160
Gyeongbuk	48	10	58
Seoul	3	-	3
Busan	2	-	2
Ulsan	1	-	1
Changwon	1	-	1
Total	189	36	225

Note) Headquarters included as a branch in the Daegu area

Number of employees(as of June 30, 2010) 2,823

Note) Temporary employees are out of consideration.



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

# Dream Green Bank