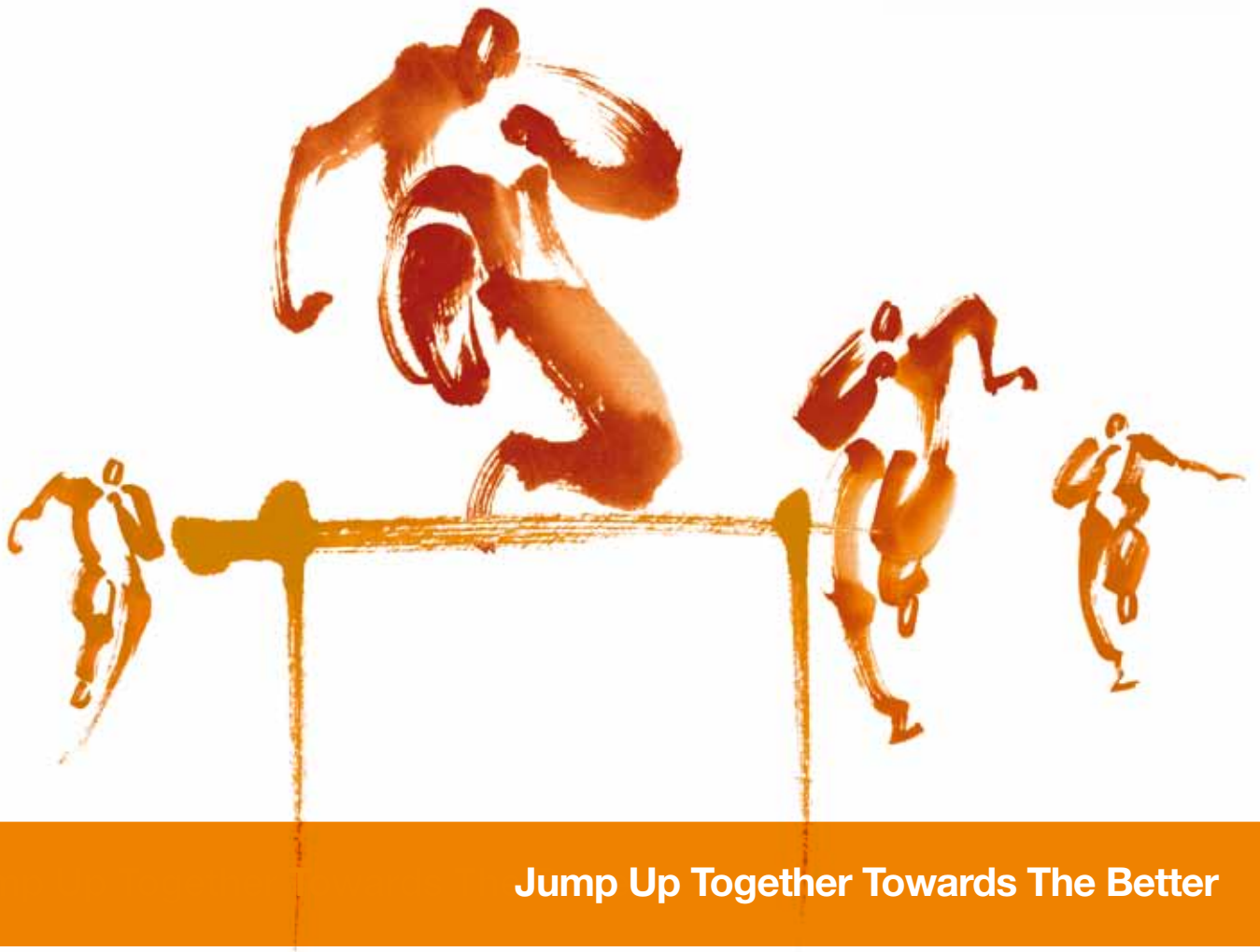




아름다운 동행



Jump Up Together Towards The Better



A four-leaf clover is the symbol of DGB Financial Group's sustainability report, with each leaf symbolizing one of our four core values: ethics and corporate culture, sustainable finance, social contribution, and environmental management. This represents DGB Financial Group's goal of creating a happier and healthier future through balanced growth in all four areas.



A blue bird flying in a blue sky expresses our ethics and corporate culture of reaching for our dreams. Our emphasis on achieving a real work-life balance will help create a workplace that both satisfies and rewards all employees.



A seed in a yellow leaf represents sustainable finance, which will allow us to grow with local communities. DGB Financial Group devotes itself to contributing to the local economy; thus sowing the seeds for a better regional financial base.



A flower in a red leaf reveals our full-hearted commitment to social contribution. DGB Financial Group promotes the development of local culture, the arts, education, and sports as a means of enriching the lives of local residents.



A fledgling bud in a green leaf signifies the emphasis we place on nature and environmental management. Caring for our planet will ensure future generations can enjoy a cleaner and greener environment.

About This Report

This report is the eighth sustainability report published by DGB Financial Group. This report covers our past performance record in fulfilling our economic, social and environmental responsibilities and is to be used to enhance stakeholder understanding of DGB Financial Group's aims regarding sustainability management. This report has been published annually since 2006, with the latest report being published in September 2013.

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

Reporting Period & Scope

The reporting period covered herein covers January 1, 2013 to December 31, 2013, with some additional data covering the first half of 2014 also included. The report covers the activities and performance of DGB Financial Group, Daegu Bank, DGB Capital, U-Payment, DGB Data System, and the Daegu Credit Information. The scope, limit and method of data collection used in this report are the same as those of the previous report. The reporting scope of material issues are separately presented on pages 30 to 31. Sections that have been changed or modified are denoted.

Reporting Guidelines











The report was prepared in compliance with the "comprehensive" option of the G4 Guidelines of GRI (Global Reporting Initiative), GRI Financial Service Sector Supplement, ISO 26000, and the UN Global Compact's 10 principles. The report also adheres to the IR Framework provided by the International Integrated Reporting Council (IIRC).

* Economic performance data was collected in accordance with International Accounting Standards, while social and environmental performance data covered in this report was collected using recognized and respected data collection methods.

Assurance

This report has been independently audited by the Korea Standards Association, an external third party assurance provider, and has been reviewed in accordance with the AA 1000AS (2008) Assurance Standard. The assurance report can be found on pages 168 and 169 of this report.

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Contact Information

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DGB Financial Group Website

Daegu Financial Group	www.dgbfn.com
Daegu Bank	www.dgb.co.kr
DGB Capital	www.dgbfncapital.co.kr
U-Payment	www.ubi-pay.com
DGB Data System	www.dgbdcs.co.kr
Daegu Credit Information	www.daegucredit.co.kr

아름다운 동행



Committed to emerging as a regionally-based comprehensive financial group, DGB Financial Group aims to transform itself into a 'small, but strong and superior comprehensive financial group.' Led by Daegu Bank—Korea's first regional bank—the flagship company, DGB Capital, U-Payment, DGB Data System, and Daegu Credit Information are partnering up to attain this goal.



DGB Financial Group Profile

CEO's Message



Sharing Dreams and Prosperity with local Communities

Dear Valued Stakeholders,

I became the second chairman of DGB Financial Group in March 2014, a time when the group was entering the third year in operation since its launch as a financial group with an ambitious plan to become a regionally based comprehensive financial group. I remain committed to creating a sustainability management system for the group and a brighter future as a regionally-based leading financial group.

In retrospect, the business environment around DGB Financial Group posed many challenges, such as the prolonged low-growth · low-interest rate trends, fierce competition in the financial industry and stricter regulations in 2013. However, our 4,000 employees were able to overcome such difficulties by turning risks and changes into growth opportunities. As a result, the group was able to sustain sound growth based on stable fundamentals, posting a 0.65 percent return on assets (ROA), a 8.63 percent return on equity (ROE), and a 1.04 percent non-performing loan ratio (NPL Ratio), with total assets reaching KRW 42 trillion and net income KRW 238.3 billion for 2013. Of particular note was that we won several international awards in 2013 in recognition of our exemplary sustainability management practices. To name a few, we were listed on the 2013 Dow Jones Sustainability Index (DJSI) Asia-Pacific and DJSI Korea for four and five consecutive years, respectively, as well as The Financial Times Stock Exchange (FTSE) 4Good Index Series for a third straight year. Furthermore, we also earned the highest AA grade in our 2013 Environmental Social and Governance (ESG) Performance Assessment.

Taking the helm of DGB Financial Group, I put forward the management philosophy of practical management and set the 2014 vision of becoming the best partner to our stakeholders. This means that we will strive to become a leading corporate citizen, one that satisfies the economic expectations of its customers, shareholders, investors and employees, as well as take the lead in the development of society and environmentally-conscious local communities. To that end, we have developed the following three initiatives.

First, I will practice management by walking about (MBWA) as everything that really matters is in the field. Putting customer value before everything else, we will provide the best possible products and services to our customers through customer-oriented management approaches, while also developing innovative marketing infrastructure and policies in order to resolve any complaints and better reflect suggestions made by our staff in the field.

Second, we will become a trustworthy financial partner to our customers and society through appropriate management practices. As witnessed in the recent customer information leakage scandal in the domestic financial sector, negligence can cause a financial institution to lose the trust of its customers; a lethal blow for a financial institution. Acutely aware of this, we will go back to basics and review our information security practices in order to ensure customer information and financial consumer protection practices are air-tight. Furthermore, we will continue to fulfill our social responsibilities through various programs and volunteer activities.

Last, we will put into action our own future-oriented management practices in order to reinforce long-term growth and competitiveness. While strategically seizing new opportunities on our home turf of Daegu and Gyeongsangbuk-do to further solidify our position in the region, we will proactively pursue new opportunities in areas including overseas networks, gerontology finance, asset management, and smartphone-based financial services. In order to further diversify our business portfolio, we will strengthen our customer service competencies, especially in asset management, insurance, and securities, so as to further promote synergy among subsidiaries.

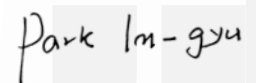
The 2013/2014 Sustainability Report published by DGB Financial Group was compiled in accordance with international standards regarding social responsibility (ISO 26000) and GRI G4 Guidelines, transparently disclosing our fulfillment of the UN Global Compact's 10 Principles. The report reflects the opinions of various stakeholders, including shareholders, customers, local communities, partner companies, and employees.

The report contains our commitment to fulfilling our economic, social and environmental responsibilities as a financial group, and is based on our determination to communicate with stakeholders regarding our vision, goals, key initiatives and activities. Going forward, we will continue to listen to our stakeholders and make strenuous efforts to realize our vision of sharing our dreams and prosperity with local communities. Throughout these endeavors, I humbly ask all our stakeholders for your continued support and encouragement.

Thank you.

CEO of DGB Financial Group

Park, In-gyu





DGB Financial Group Overview

With the aim of writing a new chapter in becoming a regionally-engaged comprehensive financial group, DGB Financial Group was launched in 2011, led by Daegu Bank—Korea’s first regional bank—and consisting of DGB Capital, U-Payment, DGB Data System and Daegu Credit Information. In this fast-changing financial market, everyone at the group is committed to generating a stable source of revenue and growing the group into a premium financial player through synergies between the banking and non-banking subsidiaries.

DGB Financial Group's Total Assets

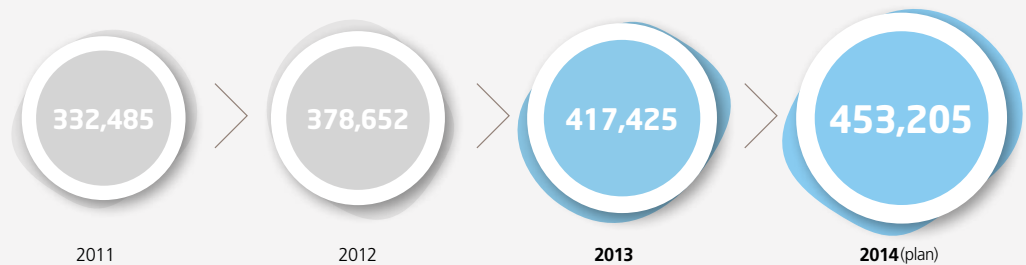


417,425
KRW 100 million

DGB Financial Group's Business Performance Results

Total Assets

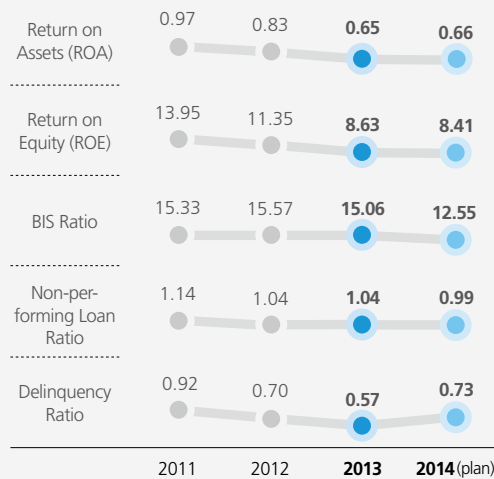
(Unit: KRW 100 million)



* Total assets are the sum of the bank's assets and trusted assets.

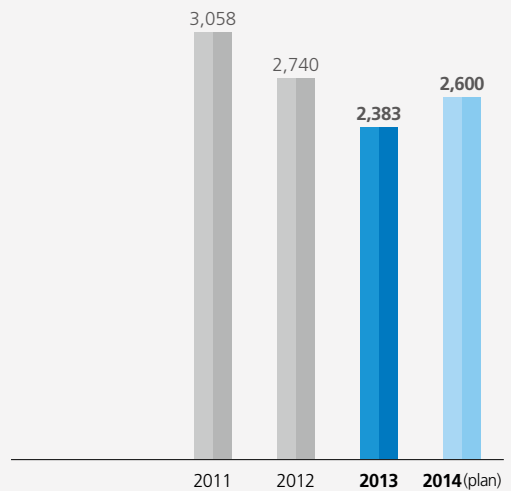
Return on Assets (ROA) & BIS Ratio

(Unit: %)



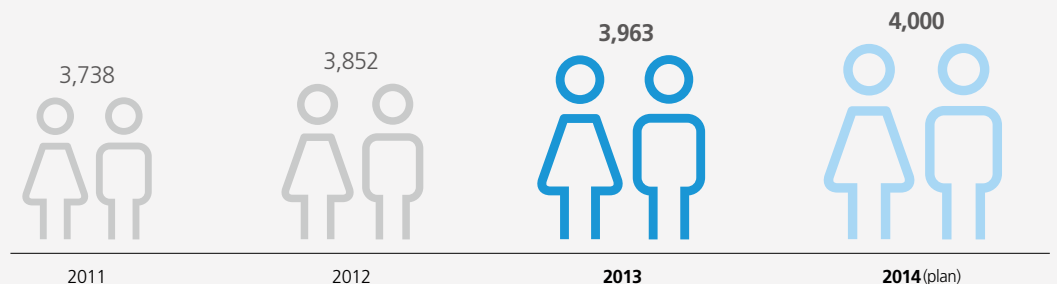
Net income on controlling interest

(Unit: KRW 100 million)



Employees

(Unit: persons)



DGB Financial Group Vision

With the aim of sharing our dreams and prosperity with local communities, DGB Financial Group will implement three management policies: MBWA, which places customer value first by engaging in customer-oriented management; rightful management practices that return to basic principles and fulfill social responsibilities; and future-oriented management practices through sales network expansion and business portfolio diversification.

In pursuit of becoming a comprehensive premium financial group, DGB Financial Group will reinforce its market power and enhance the financial convenience of local customers.

Our mid-term vision is to become a regionally-based comprehensive premium financial group. To that end, we will further strengthen our total financial service competencies while fortifying cross-selling among the group's subsidiaries so as to realign our revenue and expense structure. In addition, we will continue efforts to diversify our business portfolio in the pursuit of new growth momentum so as to secure new growth engines, while realizing a one-stop total financial service by weaving our subsidiaries' networks and channels around customer needs. After having focused on substantial growth in 2014, we are now concentrating efforts on increasing management stability through organizational restructuring and enhancing management efficiency through streamlined cost structure and risk management through balanced growth and profitability.

"Sharing Dreams and Prosperity with Local Communities"

Management Principle & Policies

Management Principle

Sharing dreams and prosperity with local communities

Vision

Becoming the best partner for a brighter future

Management Policies



2014 Management Goal & Strategies

Goal

Turning crises into opportunities!

Substantial & Growth

Strategies





DGB Financial Group's Sustainable Value Chain

DGB Financial Group's business model is closely linked with the value chain that can generate added value from management activities. This value chain spans from planning, strategy-building, and financial product development, to the marketing and sales of financial products. These activities are closely correlated, thus generating direct and indirect value for DGB Financial Group's stakeholders.

Developing Financial Products

As part of our commitment to social responsibilities, DGB Financial Group develops and introduces sustainable financial services and products. Our ultimate goal is to provide a total financial service that reflects customer needs and contributes to local economies and industries.

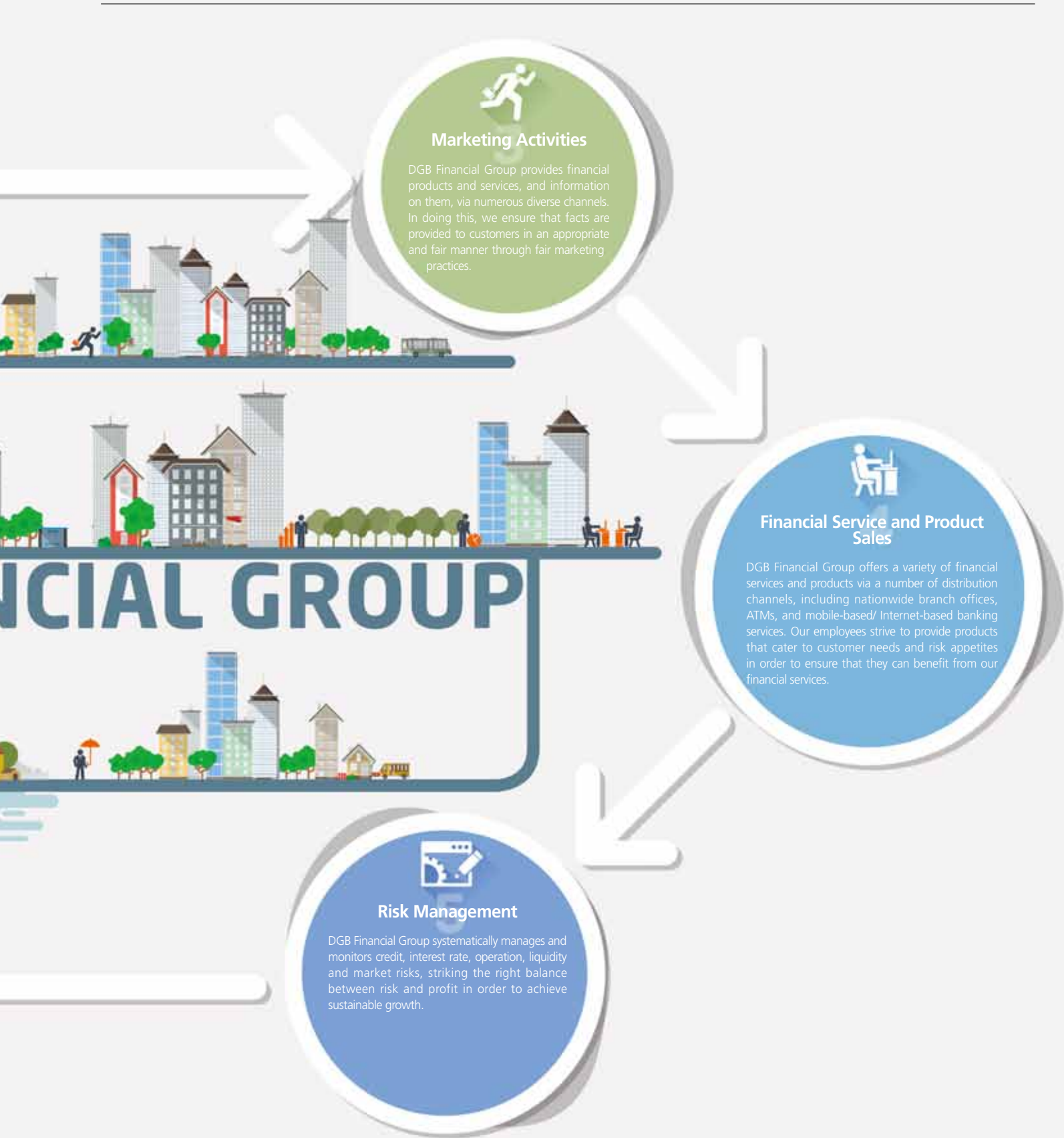
Planning & Strategy-Building

We are planning and implementing strategies to provide a community-engaged total financial service that will enhance the financial convenience of customers, inspire hope for local economies and contribute to a happier life for our employees. By discerning risk factors from opportunity factors in a timely manner, we are preemptively responding to the changing business environment, thereby enabling us to effectively relocate resources so as to generate higher value for our stakeholders.

Social Contribution

DGB Financial Group returns the economic value it has earned from business activities in the form of job creation, cultural and education sponsorships, and reinvestment in local communities.

DGB FINAN



Marketing Activities

DGB Financial Group provides financial products and services, and information on them, via numerous diverse channels. In doing this, we ensure that facts are provided to customers in an appropriate and fair manner through fair marketing practices.

Financial Service and Product Sales

DGB Financial Group offers a variety of financial services and products via a number of distribution channels, including nationwide branch offices, ATMs, and mobile-based/ Internet-based banking services. Our employees strive to provide products that cater to customer needs and risk appetites in order to ensure that they can benefit from our financial services.

Risk Management

DGB Financial Group systematically manages and monitors credit, interest rate, operation, liquidity and market risks, striking the right balance between risk and profit in order to achieve sustainable growth.



DGB Financial Group Governance Structure

Sound Corporate Governance

As of the end of June 2014, the largest shareholder of DGB Financial Group was Samsung Life Insurance, with a 7.25 percent share of the company, while the largest overseas shareholder was Saudi Arabian Monetary Agency with 6.41 percent.

Ownership Structure

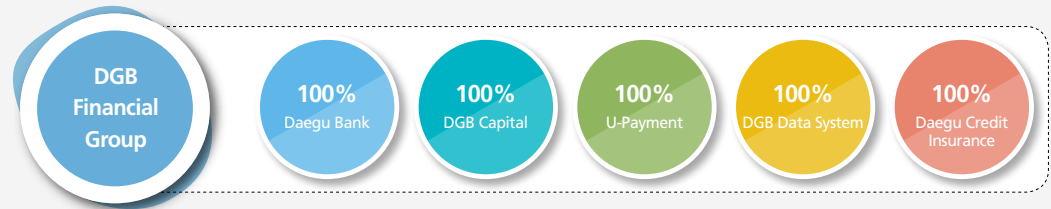
* As of the end of June 2014

Korean shareholders 24.49 %
Largest Shareholder – Samsung Life Insurance – 7.25 %



Foreign shareholders 75.51 %
Largest overseas shareholder – Saudi Arabian Monetary Agency – 6.41 %

Ownership of Subsidiaries and Affiliates



Board of Directors

The board of directors (BOD) at DGB Financial Group consists of two standing and five outside directors, and is chaired by the CEO. In order to independently monitor and advise on management activities and conform with regulations, outside directors make up the majority of BOD members. Outside directors are appointed at a general shareholders' meeting following recommendations by the Outside Director Nomination Committee.

DGB Financial Group BOD Profile

Type	Name	Gender	Age	Term	Duties	Remarks
Standing Director	Park, In-gyu	Male	60	3yrs	<ul style="list-style-type: none"> Chairman of the Board Chair of Outside Director Nomination Committee 	Chairman of DGB Financial Group CEO of Daegu Bank
	Park, Dong-gowan	Male	61		<ul style="list-style-type: none"> Member of Risk Management Committee 	Vice President of DGB Financial Group
Outside Director	Lee, Jeong-do	Male	72	1yr	<ul style="list-style-type: none"> Senior Outside Director Chair of Management Development & Compensation Committee Chair of Audit Committee Chair of Outside Director Nomination Committee 	Former Dean of Business at Kyungbuk National University Professor emeritus, Kyungbuk National University
	Cho, Hae-nyoung	Male	71	2yrs	<ul style="list-style-type: none"> Member of Management Development & Compensation Committee Chair of Risk Management Committee Member of Auditor Nomination Committee 	Former Mayor of Daegu City President of the Community Chest of Daegu
	Kim, Ssang-su	Male	70	2yrs	<ul style="list-style-type: none"> Member of Management Development & Compensation Committee Member of Audit Committee Member of Outside Director Nomination Committee Member of Auditor Nomination Committee 	Former President of LG Electronics Former President of Korea Electric Power Corporation
	Chang, Ik-hyun	Male	57	1yr	<ul style="list-style-type: none"> Member of Management Development & Compensation Committee Member of Audit Committee Member of Outside Director Nomination Committee Member of Auditor Nomination Committee 	Former President of Daegu District Bar Association Attorney at Chang Ik-hyun Law Office
	Lee, Ji-eun	Male	52	1yr	<ul style="list-style-type: none"> Member of Management Development & Compensation Committee Member of Risk Management Committee Member of Auditor Nomination Committee 	Senior Researcher, Korea Institute of Finance

* As of the end of March 2014

**BOD's Attendance Rate
in 2013**



Director Appointment Process

At DGB Financial Group, only those who meet the requirements stipulated in governing laws—Financial Holding Companies Act, Commercial Law and the DGB Financial Group's Articles of Incorporation—are elected to director positions. Candidates must also abide by criteria dictated in the Outside Directors Guidelines. Including the Chairman of the board, nearly all members of the Outside Director Nomination Committee are outside directors, thus helping to guarantee independence and transparency when electing new directors.

Director Nomination Process

Position	Details
Chairman	Candidate(s) nominated by the Chairman Candidate Nomination Committee, comprised of one representative shareholder and five outside directors
Standing director(s)	Candidate(s) nominated by the Board of Directors
Outside director(s)	Candidate(s) nominated by the Outside Director Nomination Committee, comprised of one standing and two outside directors

Board of Directors Operating

The Board of Directors approves and monitors the implementation of the Group's management strategies and policies, as well as overseeing the internal control system so as to guarantee management stability across the entire group. The chairman of the board can convene regular and ad-hoc BOD meetings in order to resolve issues through majority voting, unless otherwise stipulated in the bylaws. Under the BOD are four subcommittees—Management Development & Compensation Committee, Risk Management Committee, Audit Committee and Outside Director Nomination Committee—each of which are comprised of experts in management and law. All of these committees are operated transparently and independently.

Committee	Members	Functions
Management Development & Compensation Committee	Five outside directors	Approval of each committee's operational plans and evaluation of performance
Risk Management Committee	Two outside directors One standing director	Monitoring and checking the appropriateness of risk management for the soundness and stability of management activities
Audit Committee	Three outside directors	Developing and implementing audit plans and reviewing results with follow-ups and improvement suggestions
Outside Director Nomination Committee	Chairman Two outside directors	Nominating candidates for outside director positions
Auditor Nomination Committee	Five outside directors	Nominating candidates for audit committee member positions

BOD Operational Results

Category	2011	2012	2013	2014 (Plan)
No. of BOD meetings	5	10	12	10
Percentage of outside directors to total BOD members	83.3	83.3	83.3	71.4
Participation rate (%)	88	95	100	100

Major BOD Agenda in 2013

Meeting	Date	Agenda	No. of outside directors attended (total)
1	Feb. 6, 2013	Approval of nine agenda, including Second Term Financial Statements and Notes, Business Reports, Consolidated Financial Statements	5(5)
2	Feb. 20, 2013	Approval of six agenda, including the 2 nd Annual General Shareholders' Meeting (proposal)	5(5)
3	Mar. 22, 2013	Approval of two agenda, including the election of new chairman of the board	5(5)
4	Mar. 22, 2013	Approval of four agenda, including the Group's bond issuance and contribution to subsidiaries	5(5)
5	Apr. 25, 2013	Report on the participation in the bidding for Yesol Savings Bank	5(5)
6	May 9, 2013	Approval of four agenda, including the extension of borrowing period for working capital	5(5)
7	Aug. 2, 2013	Approval of five agenda, including the agreement for consulting services	5(5)
8	Sep. 16, 2013	Submission of preliminary bid proposals for regional bank and pledge	5(5)
9	Oct. 29, 2013	Approval of four agenda, including the agreement between the holding company and subsidiary for establishing a computer system	5(5)
10	Dec. 16, 2013	Report on the plan for participation in the privatization of regional bank	5(5)
11	Dec. 20, 2013	Approval of six agenda, including the 2014 DGB Financial Group Business Plan	5(5)
12	Dec. 26, 2013	Approval of agenda regarding appointment of new compliance officer	5(5)

Director Remuneration

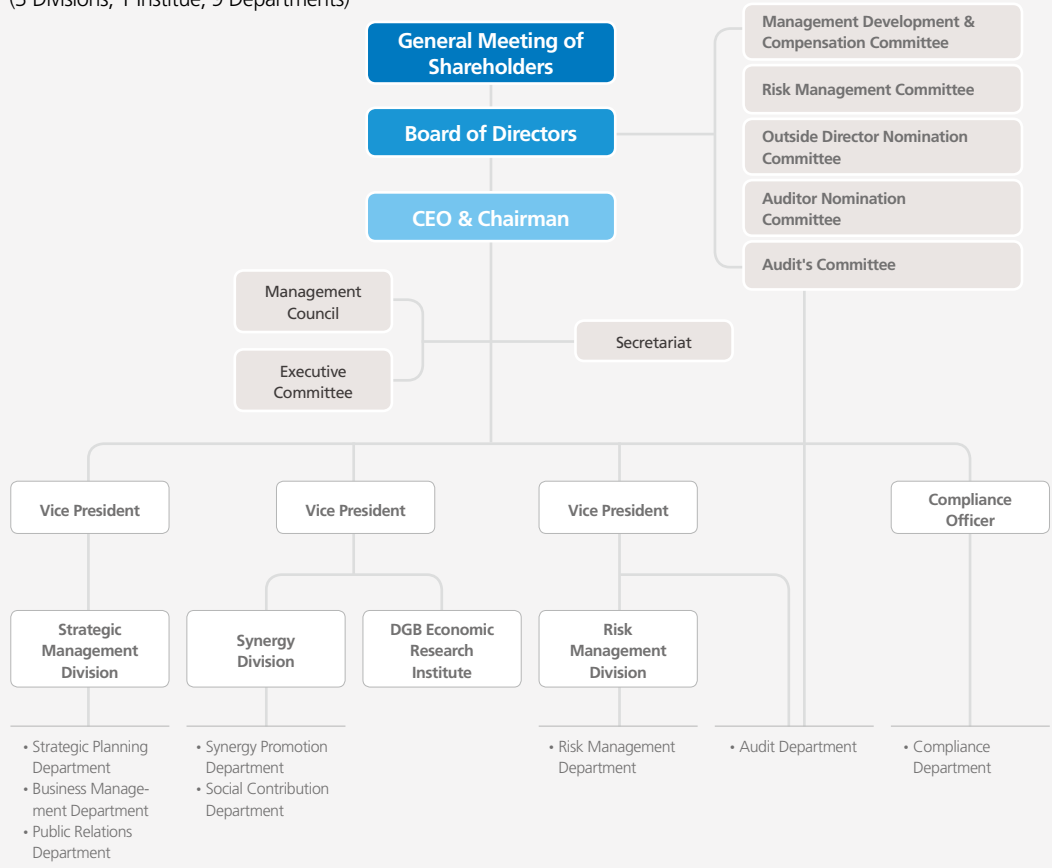
Compensation to directors is made in the form of a basic salary and profit sharing (short-term incentives, long-term performance cash) within the limits approved at the general shareholders' meeting. Short-term incentives are determined by BOD meetings based on management performance evaluation and the resultant compensation guidelines, while long-term performance cash is paid in a fixed amount based on long-term evaluation of management performance and directors' service terms. Remuneration to the concurrent post-holder (chairman) is first paid by his/her original company, with the remaining being settled after they have left the post according to the percentage of duty performance. In 2013, the highest amount of remuneration paid to a single person was 9.8 times higher than the median of payments made to the entire workforce. Annual remuneration was down by three percent from 2012.

Remuneration to Board of Directors (as of 2013)

Type	No. of Directors	Total Remuneration Paid (KRW in millions)	Mean of Remuneration Paid Per Person (KRW in millions)	Remarks	
Standing Directors	2	282	141	Including the concurrent post-holder (chairman)	
Outside Directors	Members of Risk Management Committee	2	66	33	
	Auditor/Members of Audit Committee	3	82	27	
Total	7	430	61		

DGB Financial Group Organization Chart

(3 Divisions, 1 Institute, 9 Departments)



Sustainability Management Committee

DGB Financial Group established the Sustainability Management Committee for better Group-wide integrated sustainability management practices. The Committee is in charge of monitoring company-wide sustainability management activities, evaluating performance and providing feedback.

Under the Committee is the Sustainability Working Council, which develops sustainability strategies and implements action plans through four sub-councils. Each sub-council convenes at least twice a year to evaluate risks and opportunities arising from economic, environmental and social issues and their impact on the Group's business, while also developing and upgrading the Group's objectives, values, policies and goals. Any material issues related to Group-wide sustainability management practices or sustainability reporting are reviewed by the chair of the council (Director of the DGB Economic Research Institute), before being submitted to the Sustainability Management Committee for approval.

Sustainability Management Framework



CSR INITIATIVE

Commitment to External Voluntary Agreements



UN Global Compact

- Chairman of DGB Financial Group is a director of the UNGC Korea
- Submitted the Communication On Progress



The CEO Water Mandate

CEO Water Mandate

- Reported on water resource management practices, including rainwater recycling



UNEP Finance Initiative Innovative financing for sustainability

UNEP Financial Initiative

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

CARBON DISCLOSURE PROJECT

Carbon Disclosure Project

- Annual signatory since 2007



Climate Disclosure Standard Board

- Member of the CDSB Korean Working Group in 2012

Financial Initiatives



Dow Jones Sustainability Indexes Member 2013/14

DJSI (Dow Jones Sustainability Indexes)

- Enlisted to the DJSI Asia-Pacific for the 4th consecutive year
- Enlisted to the DJSI Korea for the 5th consecutive year
- Sold funds of DJSI Korea members



Selected as an Excellent performer in addressing climate change by CDP Korea

- Reinforcing initiatives to address climate change through carbon disclosure
- Named an 'Excellent Performer' for the 4th consecutive year since 2009



FTSE4Good Indexes

FTSE4Good Indexes

- Enlisted on the FTSE4Good Korea Index for the 3rd consecutive year since 2011

Risk Management

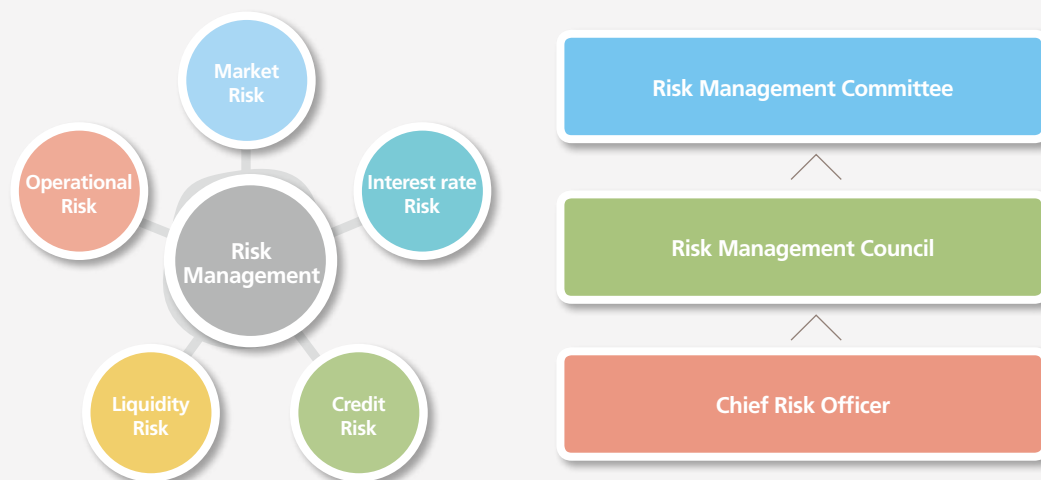
DGB Financial Group classifies risks that can arise in the due course of business activities into five categories: credit, interest rate, operation, liquidity and market, and strives to keep all of these in control.

Risk Management Philosophy

DGB Financial Group's risk management philosophy is to balance risk and profit in all business activities in order to achieve sustainable growth within the Group's risk appetite.

Risk Management Principle

In accordance with the Group's risk management principles, the holding company's supervisory authority performs checks and balances with the individual subsidiaries' risk management functions.



2013 Risk Management Committee Activities

- Election of Chair of the Committee
- Report on Group-wide risk management practices
- Report on Group's BIS ratio
- Report on the implementation of Risk Management Committee resolutions
- Report on resolutions/deliberations of Risk Management Council
- Report on subsidiaries' risk management committee meetings
- Review of proposal to change Group-level risk appetite for FY 2013
- Review of proposal to set Group-level risk appetite for FY 2014
- Deliberation of proposal for DGB Financial Group's 2014 business plan
- Report on Group-wide integrated stress test results
- Report on subsidiaries' risk management committee meetings

No. of Risk Management Meetings in 2013



6 meetings

Risk Management Committee Meetings

Category	2011	2012	2013	2014(Plan)
No. of Risk Management Committee meetings	5	9	6	6



DGB Financial Group's Subsidiaries

Daegu Bank

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

Established in 1967, Daegu Bank was Korea's first regional bank. For the past 46 years, the bank has contributed to the development of the local economy.

Daegu Bank Vision

Management Principle

Sharing Dreams and Prosperity with Local Communities

Vision

A world-class regional bank that embraces sustainability management

Slogan: "Happy Finance for a Better Future, OK DGB"

Management Policies

Customer-oriented Finance

Trustful Finance

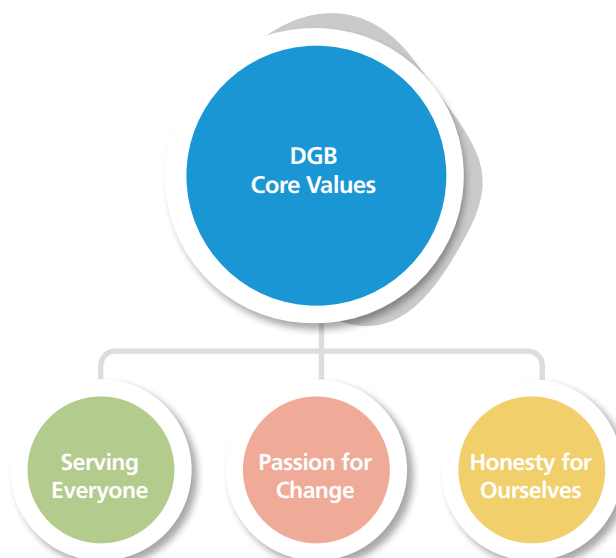
Go-together Finance

We pursue a better future through customer-oriented, trustworthy business activities and sharing profits with our stakeholders.

Five Key Initiatives



Daegu Bank Core Values



Serving Everyone

A compassionate company that serves its customers and local communities, and strives for mutual communication with employees

Passion for Change

A dynamic corporate culture that creates new value through creative thinking and promotes a sense of ownership

Honesty for Ourselves

A respected company that builds lasting trust based on integrity and ethics, and which sets examples for customers, local communities, and the financial sector

No. of DGB Branches



252

No. of CDs/ATMs



2,571 units

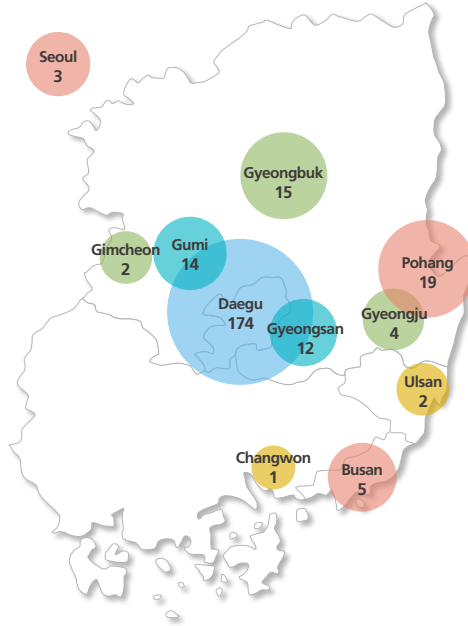
No. of DGB Cyber Branches



5

Daegu Bank's Branch Network

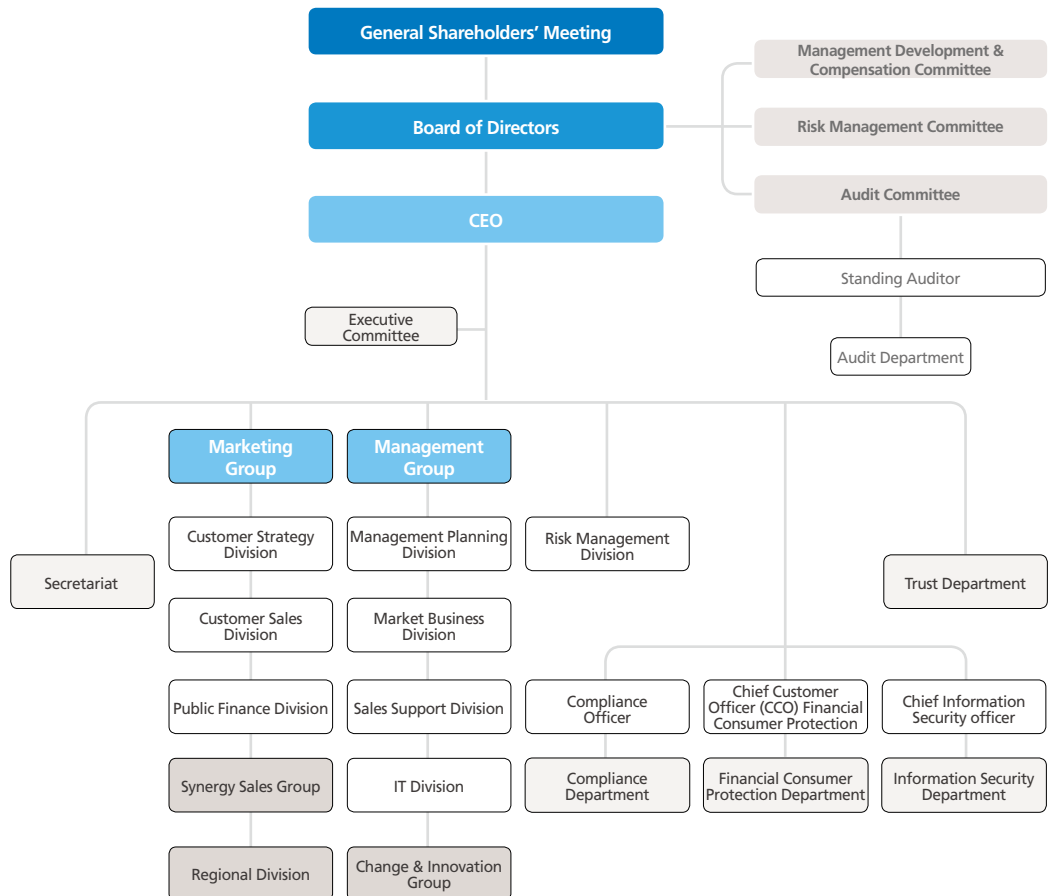
As of March 2014



- Branch network: 251 in Korea and 1 overseas (Shanghai Branch)
- No. of CDs/ATMs: 2,571 units
- Cyber branches: Five (Dok-do, Gyeongju, Korea Hydro & Nuclear Power Corporation, Innovation City, and Green branches)
- No. of Employees: 2,973 employees

Daegu Bank Organization Chart

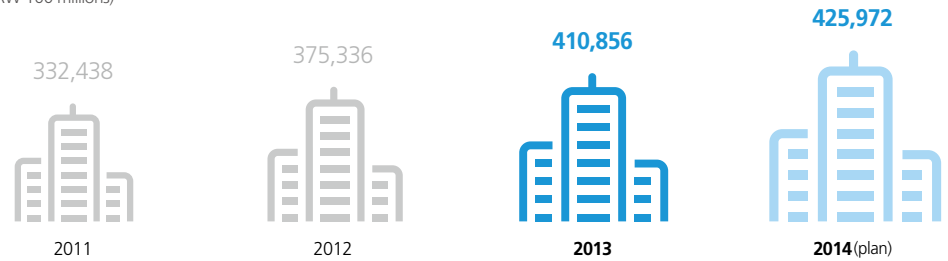
Two Groups and Eight Divisions



Financial Highlights

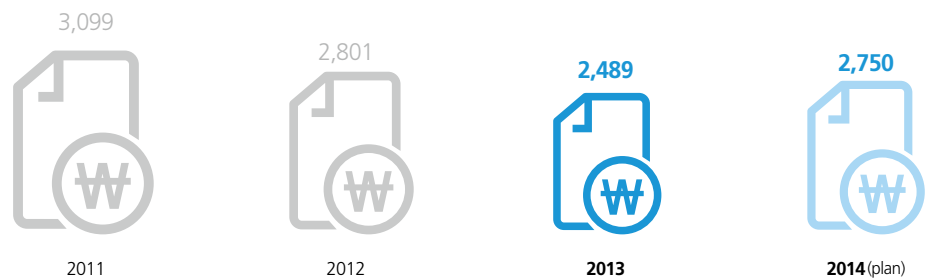
Total Assets

(Unit: KRW 100 millions)



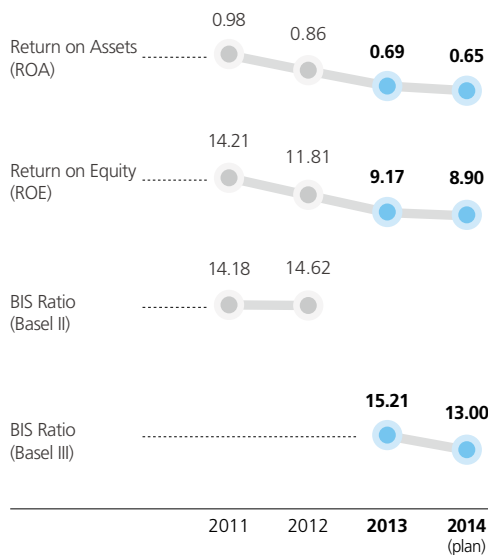
Net Income on Controlling Interest

(Unit: KRW 100 millions)



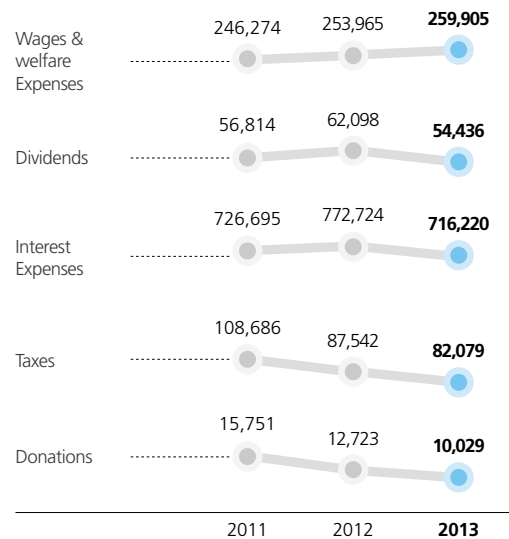
Return on Assets (ROA) & BIS Ratio

(Unit: %)



Distribution of Economic Value

(Unit: KRW in millions)



DGB Capital



CEO
Park, Chang-ho

DGB Capital is a financial company specialized in lease, installment finance, and loans, serving under banked SMEs and the working class. Specifically, we lease and offer installment finance on industrial machinery, such as machining tools, construction equipment, printing machinery, and injectors, as well as providing investment banking services, such as facility loans, working capital loans and factoring. For individual borrowers, the company offers personal credit loans, mortgage loans and chonseil loans. Despite lingering uncertainties in the domestic and international financial markets, DGB Capital has been consistently expanding its communication channels with customers, while at the same time fulfilling its social responsibilities under the belief that our growth is based on our customers' prosperity. Furthermore, the company continues to practice low-cost, high-efficient management based on the 'choose and focus' strategy, while paying attention to market developments through consistent market analysis and identifying niche markets. As such, DGB Capital aims to grow into a premium loan-specialized financial company, one that strategically balances its growth and profit with financial stability, and thus solidifying its position as a mainstay of the group.

Introduction

Since its incorporation into DGB Financial Group in January 2012, DGB Capital has achieved remarkable growth. In 2014, the company set goals at KRW 1 trillion in operating assets and KRW 13 billion in net income with the aim of becoming a major capital company. To this end, DGB Capital is expanding its business platform and continuing with system innovation, while diversifying its product portfolio through various new product R&D activities. By harnessing the group's synergies, the company is proud to take a pivotal role in strengthening the Group's quality assets while serving the different financial needs of customers. Coupled with this asset growth strategy, the company is strategically dispersing risk through policies such as small-amount, multi-account dispersion, appropriate portfolios by business type and financial product, and good credit performer-oriented loans. Moving forward, the company will continue to strive to become a respected company trusted by its stakeholders through stable asset growth, thorough risk management and profit maximization policies.

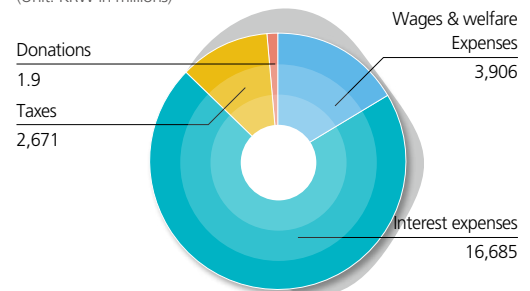
Corporate Overview

CEO	Park, Chang-ho
Establishment	September 14, 2009
Headquarters	18F, 39 Eonju-ro 30-gil, Gangnam-gu, Seoul, Korea
Business Region	Nationwide
Shareholders	DGB Financial Group 100%
Workforce	81 employees (4 executives and 77 employees)
Revenue	KRW 41.0 billion

As of the end of December 2013

Distribution of Economic Value

(Unit: KRW in millions)



Sustainability Management Performance

On-site Oriented Management

The CEO of DGB Capital translates his MBWA policy into action in order to listen to the voices of customers. He visits clients according to business type, size, region and customer class once/twice a week. This policy has received good reviews from customers, with many claiming such visits help close the gap between the company and customers, thus eliminating any misconceptions about the company being conservative and financially rigid in structure. Furthermore, the company arranges numerous brainstorming sessions and opportunities for in-depth discussions regarding market developments, thus further promoting mutual growth and strengthening ties.

Social Contribution Activities

Amid decreasing social contribution activities nationwide as a result of the prolonged economic slowdown, DGB Capital has continued all of its social contribution and volunteer activities. In addition to regular volunteer activities through the DGB Financial Group Volunteer Corps, the company has introduced various ideas in order to facilitate employee social contribution activities, such as a donation program run in conjunction with the company's Cafeteria Program. In addition, all employees participate in the 'Employees' 1 percent of Wage Sharing Campaign', which helps to raise funds for the DGB Social Contribution Foundation.



U-Payment



CEO
Lee, Chun-ki



U-Payment provides electronic payment solutions, including public transportation card services, micro-payment transactions, and security checkpoint systems. Since joining the group in 2011, the company has introduced various new services, including the launch of a 'One-Pass' card that is compatible with all transportation nationwide, and a deferred payment traffic card service. As a member of DGB Financial Group, U-Payment will grow into a respected corporate citizen, one that gives back to society under the Group's management philosophy of "sharing our dreams and prosperity with local communities."

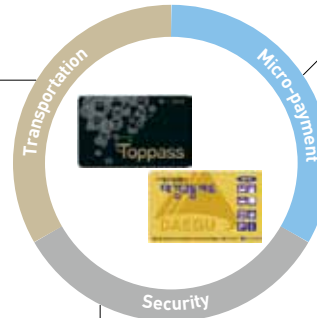
Introduction

Everyone at U-Payment reaffirmed their commitment to the company's stable growth with passion and an enterprising spirit, setting the management goal for 2014 as "2014: the starting point for a jump for a better future." In line with this goal, the company devised three key initiatives: maximizing profitability, reinforcing corporate competitiveness, and securing future growth engines. Ultimately, the company aims to focus on mass transportation services, micro-payment transactions, electronic ticketing service, and electronic government with the aim of becoming a leader in the 21st century's ubiquitous era.



Transportation card service

- Bus
- Urban Subway (Daegu Subway Line No. 1 and 2)
- Taxi
- Toll Roads
- Parking Lots



Micro-payment transactions

- Sports (baseball, soccer)
- Movie theaters
- Government offices (official document fees)
- Cafeterias
- Vending machines
- Payphones
- Convenience stores and other stores



Security checkpoint system

- Apartment security card
- School attendance recorders

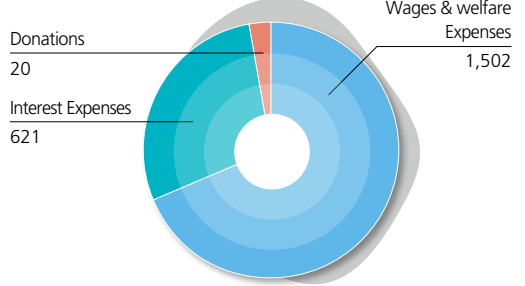
Corporate overview

CEO	Lee, Chun-ki
Establishment	December 29, 1999 (former Kardnet)
Headquarters	2503 Dalgubeol-daero (9F, Beomeo-dong), Suseong-gu, Daegu, Korea
Business Region	Daegu, Gyeongsan, Yeongcheon, and part of Gyeongsangbuk-do and Seoul Metropolitan Area
Shareholders	DGB Financial Group 100%
Workforce	32 employees
Revenue	KRW 12,028 million

As of the end of December 2013

Distribution of Economic Value

(Unit: KRW in millions)



Sustainability Management Performance

Launch of Mobile One-Pass Card

U-Payment launched a mobile prepaid card (mobile One-Pass) to provide customers with a more convenient payment service. This new service allows passengers to pay mass transportation fares, including buses, taxis, subways and toll roads, using just their mobile phones. Furthermore, the company launched a 'Taxi Safe Home' mobile app service, enabling customers to get home safe and sound.

Social Contribution Activities

Committed to its corporate social responsibilities, U-Payment engages in a number of social contribution programs, including providing scholarships to families in the transportation industry, offering transportation subsidies to low-income families, and donating to SOS Children's Villages Korea.



DGB Data System



CEO
Jung, Young-man

DGB Data System's primary focus is on information system development and integrated IT operations, with the aim of targeting affiliated companies and SMEs operating in the Daegu and Gyeongsang regions. Under the slogan "Leading the way with passion and creative thinking," DGB Data System employs IT specialists and constantly upgrades its internal process so as to be better positioned to offer leading IT services. Under this shared goal, everyone at DGB Data System strives to further expand the company's business domain. In line with the Group's management philosophy "Sharing our dreams and prosperity with local communities," DGB Data System also pursues technology-oriented strategic partnerships with local SMEs, providing them with quality control and technical support, thus contributing to synergies within the regional IT industry through joint R&D projects.

Introduction

Founded in April 2012, DGB Data System is an IT service provider specializing in information system development, integrated IT operations, IT consulting and IT education. Committed to the development of the local IT industry through synergies with group affiliates, the company contributes its extensive know-how in IT services to the development of its customers. DGB Data System also provides optimized solutions for corporate clients' system needs based on its professional human resources and expertise in the IT finance sector. In the future, we will continue to contribute to the higher competitiveness and corporate value of our customers by providing excellent IT services, while further strengthening our future competitiveness and foundation for sustainable growth through partnerships and joint R&D projects with local governments.

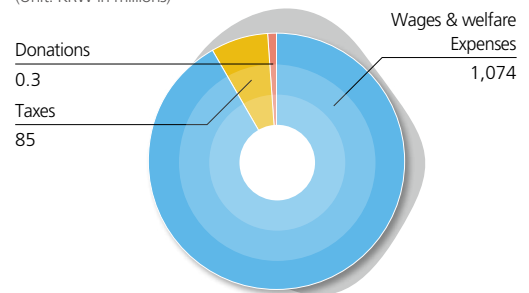
Corporate Overview

CEO	Jung, Young-man
Establishment	April 9, 2012
Headquarters	118, Suseong-dong 2-ga, Suseong-gu, Daegu, Korea
Business Region	Nationwide
Shareholders	DGB Financial Group 100%
Workforce	45 employees
Revenue	KRW 2,236 million

As of the end of December 2013

Distribution of Economic Value

(Unit: KRW in millions)



Sustainability Management Performance

Regional SME Support Activities

Leveraging its excellent workforce and IT systems, DGB Data System has established and continues to open various support systems for local SMEs. Based on an alliance with DGB Business Consulting Center, the company has completed a performance evaluation system for regional SMEs and is now developing a human resource evaluation system, ERP system, groupware, and treasury settlement system. By utilizing its advanced IT competitiveness, the company is increasing its support of group affiliates as well as contributing to the development of the regional IT industry.



Social Contribution Activities

DGB Data System launched its own volunteer corps in May 2013 in order to systematically organize social contribution activities. All Group affiliates participated in the Habitat for Humanity event; providing Samgyetang (chicken soup) to local underprivileged residents during the hottest period of summer. In the run-up to Chuseok (Korean Thanksgiving Day) volunteer corps delivered donations to the Beommul Social Welfare Center, as well as Chuseok gifts to those in need. In 2014, the corps helped relocated and furnish the office of the Daegu SOS Children's Village. The company will continue to fulfill its social responsibilities through a number of social contribution programs.

Daegu Credit Information



CEO
Son, Soon-ho

Established on July 5, 2000, Daegu Credit Information is a specialized bond collection service provider authorized by the Financial Supervisory Service, and became a member of DGB Financial Group in May 2011. Beginning 2014, the market environment poses challenges to the company with banks' belt-tightening policies and the contracting market size of the bond collection service following enforcement of the IFRS, which resulted in a drop in bond collection practices. In response, the company strives to maintain its sales revenue by expanding into rental market research, complaint agency, and asset inspection services. At the same time, the company is training experts in pursuit of new growth engines under revised related regulations, such as the Credit Information Act which allows bond collection service providers to buy non-performing loans, and the State Credit Management Act that allows bond collection service providers to be entrusted with delinquent state credit management.

Introduction

Daegu Credit Information is a specialized company in bold collection services. Its primary services include the recovery of non-performing loans, commercial and civil obligations, credit research and a civil affairs handling service. Since its foundation, the company has grown from KRW 1.5 billion of equity capital to a total asset size of KRW 4.5 billion thanks to its staying in the black for 14 consecutive years. In 2014, the company will proactively prepare for stricter regulations regarding the bond collection service industry and stronger financial consumer rights protection by diversifying its business portfolio into rental market research and civil affairs, while moving to recover deferred state bonds as quickly as possible.

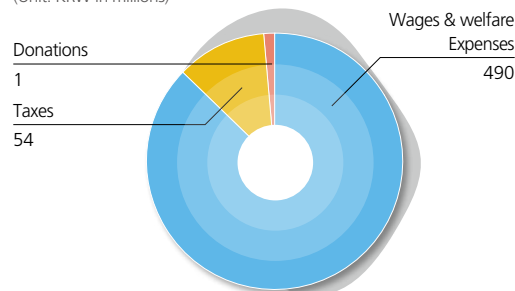
Corporate Overview

CEO	Son, Soon-ho
Establishment	July 5, 2000
Headquarters	(4F, Daegu Bank North Bisan Branch) 183, Dalseo-ro, Seo-gu, Daegu, Korea
Business Region	Nationwide
Shareholders	DGB Financial Group 100%
Workforce	60 employees
Revenue	KRW 2,007 million

As of the end of December 2013

Distribution of Economic Value

(Unit: KRW in millions)



Sustainability Management Performance

Social Contribution Activities

Daegu Credit Information is involved in a number of social contribution activities for local communities. In 2013, 20 of its employees provided assistance to local farmers and arranging parties for local elderly citizens. In January 2014, the company cleaned up trails on a local mountain as part of its environmental protection campaign after the New Year's Rally. Company volunteers also participated in the DGB Emergency Aid Volunteer Corps which aims to serve local communities.





Sep. 2, 2013

DGB commenced foreign exchange and overseas remittance services at 'Global F/X ATM'

DGB have introduced ATMs that allow customers to change Korean Won into US Dollars using their debit cards, and bankbooks, as well as overseas remittance. These new machines also feature the Chinese Yuan; a first among Korean financial institutions. Customers are also able to change currencies using debits cards from other banks.



Sep. 12, 2013

DGB Financial Group's Women Association Receives Minister's Prize at Happy Sharing Awards

DGB Financial Group's Women Association won the Welfare Minister's Prize in the Talent Donation/Volunteerism category at the 3rd Happy Sharing Awards organized by the Ministry of Health and Welfare and the Sharing Korea Network on September 12, 2013. Launched in 1975, the Association has conducted monthly volunteer activities at local welfare centers and donated scholarships totaling KRW 20 million every year for the past four decades.



Oct. 7, 2013

Opening 'DGB Bluebird Multi-Culture Welfare Center'

In order to diversify its social contribution programs and expand the CSR base, DGB Contribution Foundation opened the DGB Bluebird Multi-Culture Welfare Center in 2013 on its own foundation day, October, 7. The new center will add language programs and psychological therapy to its programs so as to provide much needed assistance to recently married immigrants in an attempt to help them better adapt to a new culture and society.



Nov. 15, 2013

Participation in the Korea Climate & Environment Convention

DGB Financial Group participated in the 2013 Green Start National Convention, co-organized by the Ministry of Environment and the Korea Climate & Environment Network, operating a pavilion and conducting events designed to promote its environmental campaigns.



Nov. 27, 2013

Strategic alliance for the development of the local economy and local communities

Daegu Bank concluded a strategic business alliance with the Korea Appraisal Board (KAB) for the development of the local economy and local communities on November 27, 2013. The agreement was part of a shared goal to contribute to the development of the local economy between regional financial institutions and state-run corporations preparing to move into the Shinseo Innovation City of Daegu. The agreement calls for bilateral collaboration in common interest initiatives, such as the promotion of financial transactions focused on the mutual growth and advancement of the regional real estate market and joint projects regarding corporate social responsibilities.



Nov. 28, 2013

DGB was Selected as an Excellent Performer of Anti-Money Laundry Practices

Daegu Bank was officially commended by the Prime Minister as an excellent performer of money laundry prevention at the 7th Money Laundry Prevention Day held by the Financial Intelligence Unit (FIU) of the Financial Services Commission (FSC). Daegu Bank earned the high score for its contribution to the FIU's money laundry prevention practices through its advanced money laundry prevention system, process innovation and risk analysis model, systematic training programs designed to raise employee awareness, and external programs designed to raise public awareness.



Mar. 21, 2014

Park, In-gyu was appointed as Second Chairman of DGB Financial Group

DGB Financial Group held the annual general shareholders' meeting and board of directors meeting to appoint former vice president of Daegu Bank, Park In-gyu, as the 2nd Chairman of DGB Financial Group and the 11th president of Daegu Bank on March 21, 2014. In his inauguration speech, Chairman Park presented "On-site oriented management and Practical management" as his management philosophy, as well as a management vision of "Best Partner for the Future," while also announcing a management policy focusing on customer-oriented management, rightful management and future-oriented management practices.



Apr. 15, 2014

DGB Embarks on IT System Upgrading Project

Daegu Bank established a Marketing Innovation Team for differentiated marketing activities based on the big-data model, and which has since commenced the 17 month-long IT System Upgrading project that involves preparatory maintenance of required data, marketing & CRM strategic initiatives, and an upgraded IT system, as well as the development of a roadmap for bank-wide marketing competence-building.



Apr. 24, 2014

DGB, First Earn Top Grade in Financial Company Civil Complaint Assessment Ratings for 8th Straight Year

Daegu Bank earned the top grade in the banking sector at the 2013 Financial Company Civil Complaint Assessment Rating by the Financial Supervisory Service (FSS) on April 24, 2014. The bank became the first Korean financial institution to be rated 1st grade for eight consecutive years; proving its excellent performance in protecting consumer rights.



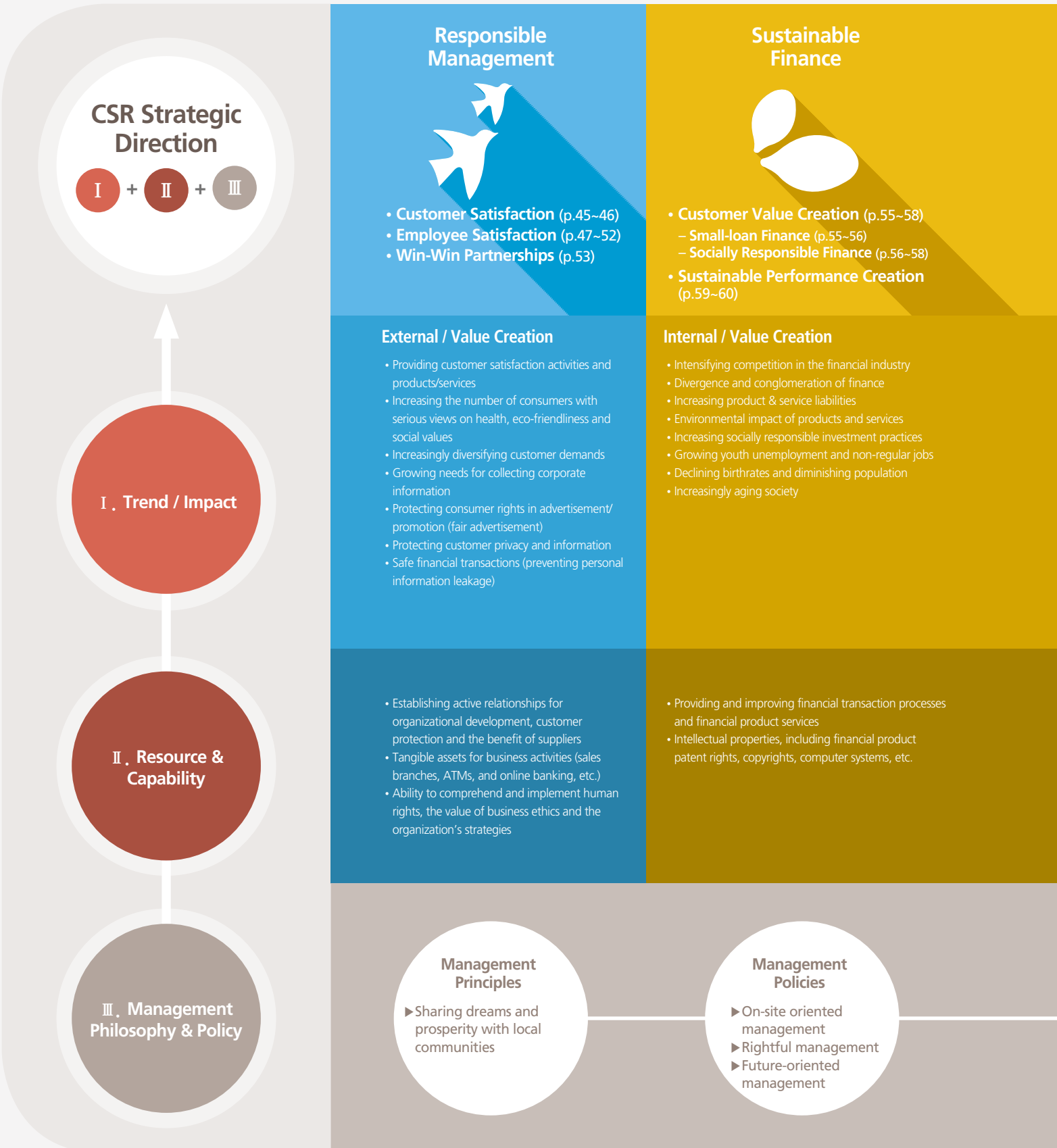
Apr. 8, 2014

DGB Financial Group Publishes Mongolian Anti-Desertification Forest Project Whitepaper

As part of its global CSR activities, DGB Financial Group published the DGB Mongolian Anti-Desertification Forest Project Whitepaper, in which it revealed its success in combating desertification in Mongolia between 2009 and 2013.



Sustainability Management Reporting Framework



CSR Strategic Direction

I + II + III

I. Trend / Impact

II. Resource & Capability

III. Management Philosophy & Policy

Responsible Management



- Customer Satisfaction (p.45~46)
- Employee Satisfaction (p.47~52)
- Win-Win Partnerships (p.53)

Sustainable Finance



- Customer Value Creation (p.55~58)
 - Small-loan Finance (p.55~56)
 - Socially Responsible Finance (p.56~58)
- Sustainable Performance Creation (p.59~60)

External / Value Creation

- Providing customer satisfaction activities and products/services
- Increasing the number of consumers with serious views on health, eco-friendliness and social values
- Increasingly diversifying customer demands
- Growing needs for collecting corporate information
- Protecting consumer rights in advertisement/promotion (fair advertisement)
- Protecting customer privacy and information
- Safe financial transactions (preventing personal information leakage)

Internal / Value Creation

- Intensifying competition in the financial industry
- Divergence and conglomeration of finance
- Increasing product & service liabilities
- Environmental impact of products and services
- Increasing socially responsible investment practices
- Growing youth unemployment and non-regular jobs
- Declining birthrates and diminishing population
- Increasingly aging society

- Establishing active relationships for organizational development, customer protection and the benefit of suppliers
- Tangible assets for business activities (sales branches, ATMs, and online banking, etc.)
- Ability to comprehend and implement human rights, the value of business ethics and the organization's strategies

- Providing and improving financial transaction processes and financial product services
- Intellectual properties, including financial product patent rights, copyrights, computer systems, etc.

Management Principles

- ▶ Sharing dreams and prosperity with local communities

Management Policies

- ▶ On-site oriented management
- ▶ Rightful management
- ▶ Future-oriented management

Local Community Involvement & Development



- **Contribution to the Development of Local Economies** (p.62~64)
- **Sharing with Local Communities** (p.65~67)

Environmental Management



- **Green Finance** (p.69~70)
- **Addressing Climate Change** (p.71~72)
- **Environmental Performance Management** (p.73~77)

Internal / Risk Management

- Protecting minor shareholders' rights
- Creation and distribution of economic performance
- Corporate credibility
- Increasing demand for transparency
- Anti-corruption
- Anti-discrimination
- Fair and adequate consideration for the quality of working conditions (employee turnover rate)
- Growing importance of employees' rights and roles
- Human resources development and on-the-job training (training hours and life-long learning programs for employees)

External / Risk Management

- Increasing importance of partner companies' rights and roles
- Commitment to the development of the local economy
- Contribution to the development of local education and culture
- Generation of local wealth and income (utilization of local workers and products)
- Investment and support for local development projects
- Promotion of socially responsible activities
- Efforts to improve local healthcare
- Increasing globalization and mutual relevance
- Efforts to mitigate climate change (reduction of energy consumption and utilization of renewable energy)

- Maintaining relationships with key stakeholders, including local communities
- Intangible assets related to corporate reputation and brand value

- Social value recognition and awareness-raising activities

Management Goal

- ▶ Turning Crises into Opportunities!
- Substantial Growth**

Management Strategies

- ▶ Enhancing Management Efficiency
- ▶ Enhancing Management Stability



Material Issue Storyline for Compiling the Report

Recognition of Core Issues

- Recognition of the external/internal impact of issues as well as their significance
- Explanation of DGB Financial Group's selections regarding key issues and their significance

Strategies and Implementation Framework for Each Issue

- Basic approach on activities related to each issue
- Framework for implementing each activity

Quantitative Performance Results and Activity Programs

- Description of activities performed for each issue
- Targets and progress results for each issue expressed in quantitative terms

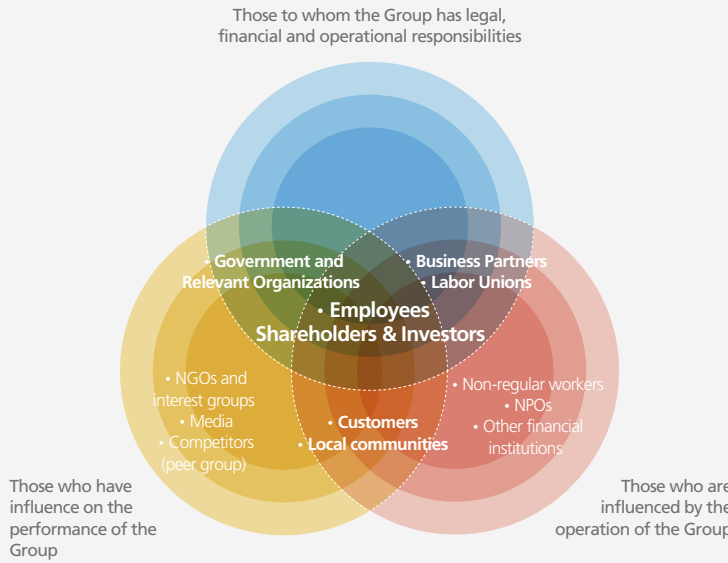
Future Agenda

- Stakeholders' perspective of viewing DGB Financial Group's issues
- Feedback on the voices of stakeholders
- Reflecting on 2014 business plans

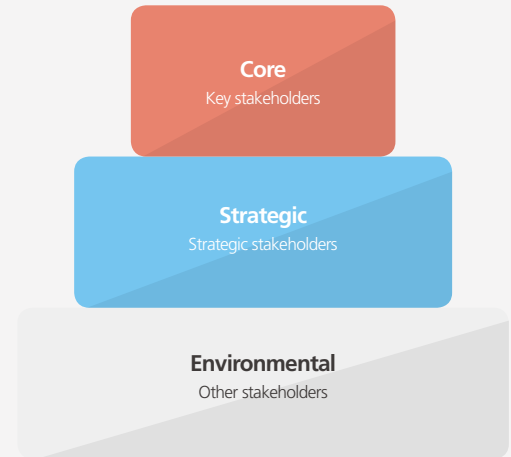


DGB Financial Group Stakeholders

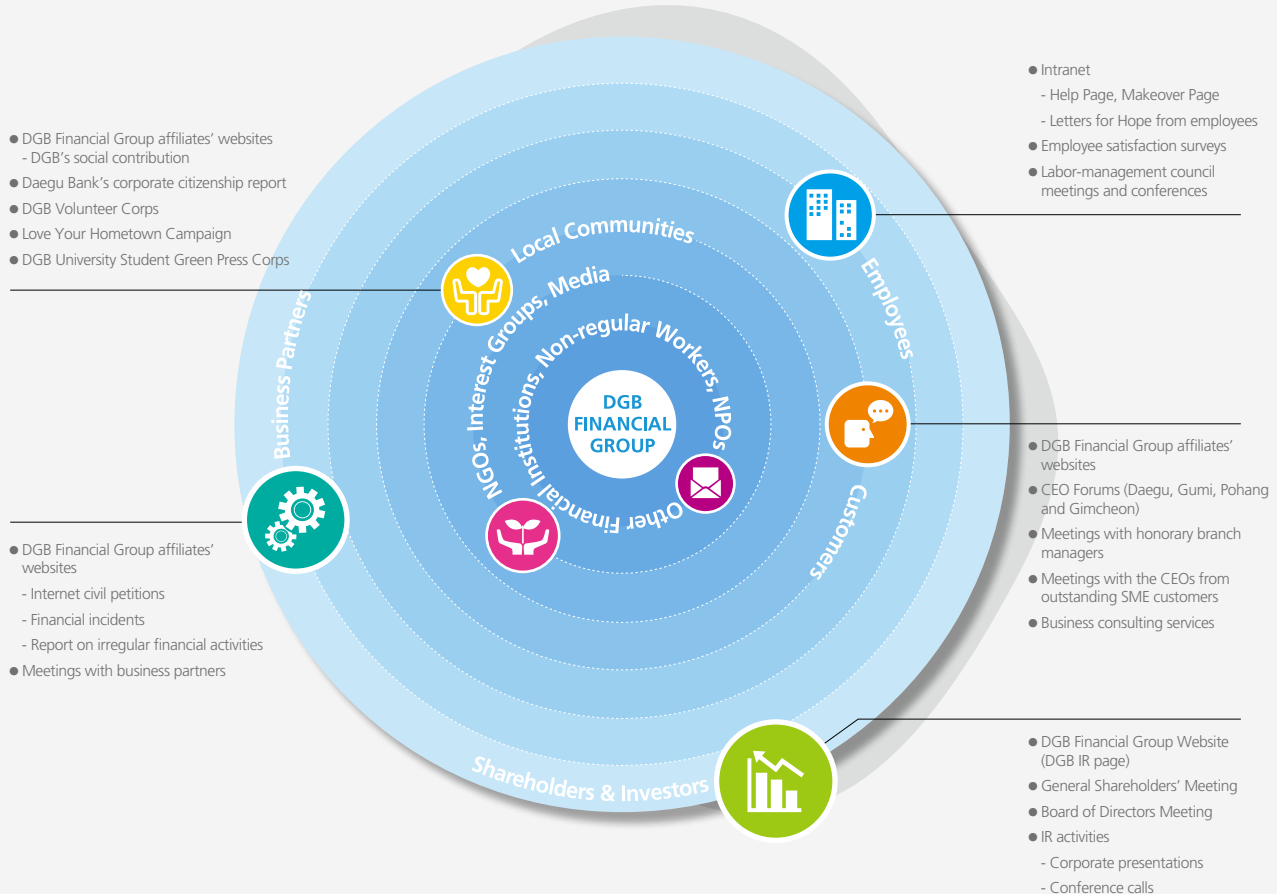
Stakeholder Group Mapping



Stakeholder Grouping



Communication Channels for Stakeholders



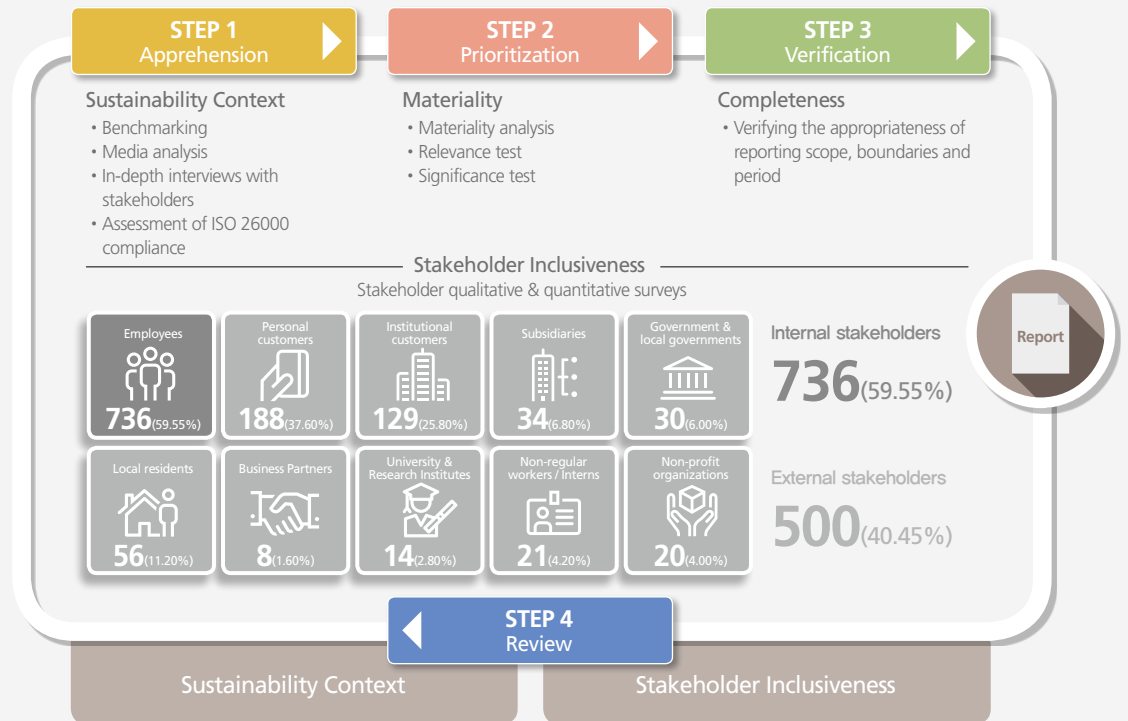


Materiality Analysis Process & Results

Material management issues requiring our attention were identified through materiality test procedures recommended by the ISO 26000, GRI G4 Guidelines and IIRC. The report content was structured based on selected material issues, with particular focus on issues of high concern to our stakeholders and those with a high impact on the Group's business activities.

Materiality Analysis Process

Internal and external environmental analysis and materiality analysis were conducted on selected sustainability issues based on the four principles of sustainability context, materiality, completeness and stakeholder inclusiveness.



STEP 1

Identification of sustainability management issues through internal / external environmental analysis

Benchmarking | By categorizing the sustainability reports published by domestic and international financial companies into 8 groups (strategy, governance, economy, environment, labor, human rights, society, and product), we identified major issues of high significance to peer companies.

Media Analysis | Material issues have been identified by analyzing 4,891 valid articles published between 2011 and 2013 in order to analyze the public recognition of the Group.

Assessment of ISO 26000 Compliance | The Group's sustainability management practices were assessed against ISO 26000 criteria, with bad performances included in the report.

Stakeholder In-Depth Interviews | In order to work out the details of the Group's sustainability issues, six representatives were selected from five key stakeholder groups—customers (consumer financing and corporate banking), business partners, local communities, knowledge workers and NGOs—for in-depth interviews.

STEP 2

Materiality analysis in order to prioritize key sustainability issues

Materiality analysis has been conducted in two phases: relevance test and significance test. The relevance test involves assessing the relevance of issues identified from in-depth interviews with six representative stakeholders and those issues generated from internal/external environmental analysis and narrowing these down to 60 issues. As part of the materiality analysis, we ran online surveys on 1,236 Group stakeholders for eight days in March 2014, before then placing 32 key issues in order of significance.

STEP 3

Verification

DGB Financial Group's Sustainability Management Working Council conducted a TFT workshop to verify the significance of the selected 32 key issues, as well as develop reporting plans and outline reporting levels on key issues, such as scope, boundary and period.

STEP 4

Review

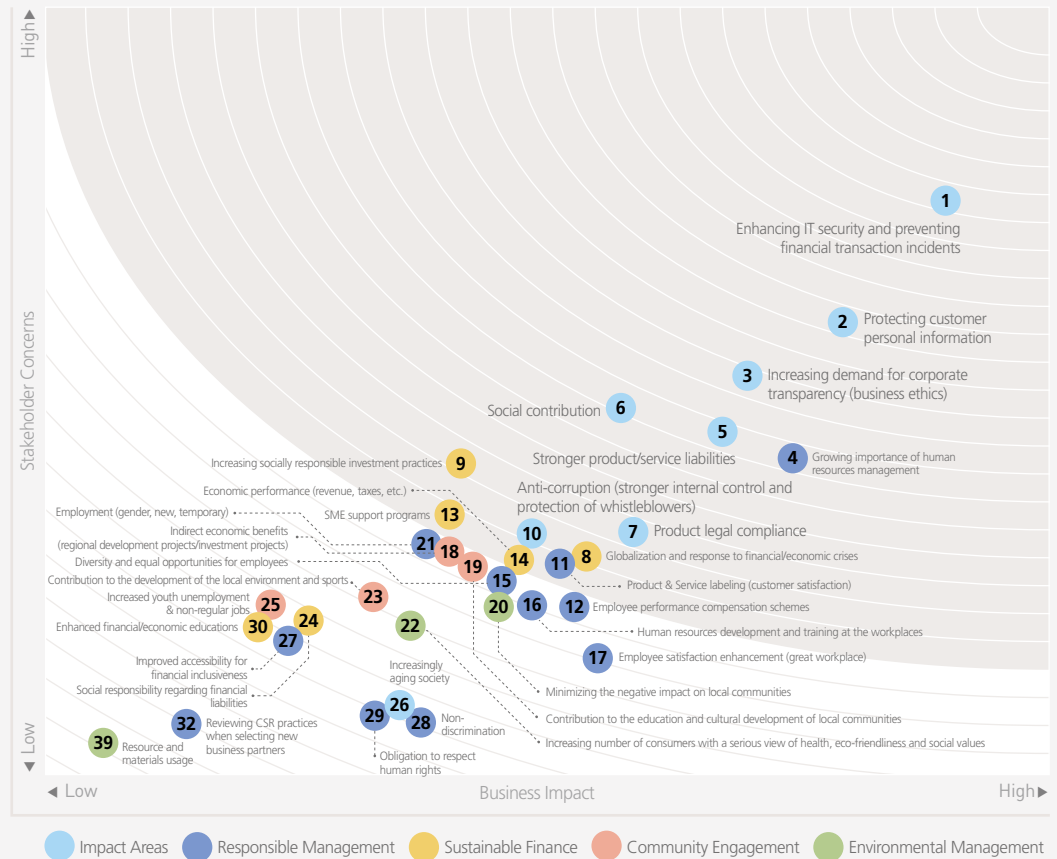
Stakeholders' feedback on the 2012-2013 Sustainability Report and external agency's ESG test recommendation are reflected in this report.



Materiality Analysis Results

For this year's report, we selected 30 issues that scored an average of 3.74 points or higher through the materiality analysis and added Supply Chain CSR Management and Environmental Management. In particular, four issues were of the highest concern to our employees and stakeholders for the 2013/2014 report: 'customer personal information protection,' 'ethical management,' 'responsible finance,' and 'community engagement programs.' These four issues were designated as key issues for this report and are looked at in the Impact Areas section.

DGB Financial Group Material Issues



Changes to Material issues (2013 Vs. 2014)



Issue	Rank
Stronger IT security	2 ⇌ 1
Protecting the personal information of customers	14 ⇌ 2
Increasing demand for corporate transparency	15 ⇌ 3
Growing importance of human resources management	New
Stronger product/service liabilities	9 ⇌ 5
Social contribution	New
Product legal compliance	New
Indirect economic benefits (regional development projects / investment projects)	1 ⇌ 18
Social responsibility regarding financial liabilities	5 ⇌ 24

2013/2014 DGB Sustainability Management Material Issues

We structured the content of the report based on the 32 material issues in-line with the Group's CSR strategies, and finalized what issues were to be reported by mapping out key issues. The following table shows the priority of material issues and their relevance to the four strategies.

Material issues priority & issues of high concern to stakeholder groups

Strategy	Theme	Material Issue	Rank	Pages	
 Impact Areas : Zoom-in DGB	Protecting Customer Privacy and Information	Enhancing IT security and preventing financial transaction incidents	1	34	
		Protecting customer personal information	2	35	
	Ethical Management	Growing demand for corporate transparency (business ethics)	3	37	
		Anti-corruption (stronger internal control and protecting whistleblowers)	10	37	
	Responsible Finance	Stronger product/service liabilities	5	39	
		Product legal compliance	7	39	
	Optimized Social Contribution for Community	Social contribution to local communities	6	40	
		Increasingly aging society	26	41	
	 Responsible Management	Customer Satisfaction	Product/Service Labeling (customer satisfaction)	11	45
			Improved accessibility for financial inclusiveness	27	46
Employee Satisfaction		Growing importance of human resources management	4	47	
		Employee performance compensation schemes	12	12	
		Diversity and equal opportunities for employees	15	48	
		Human resources development and training at the workplaces	16	47	
		Employee satisfaction enhancement (great workplace)	17	50	
		Employment (gender, new, temporary)	21	48	
		Non-discrimination	28	48	
		Obligation to respect human rights	29	48	
Win-Win Partnerships	Reviewing CSR practices when selecting new business partners*	32	53		
 Sustainable Finance	Customer Value Creation	Increasing socially responsible investment practices	9	57	
		SME corporate customers support programs	13	55	
	Sustainable Performance Creation	Globalization and response to financial/economic crises	8	55, 59	
		Economic performance (revenue, taxes, etc.)	14	17	
		Social responsibilities to financial liabilities	24	60	
		Enhanced financial/economic educations	30	60	
 Local Community Involvement & Development	Contribution to the Development of Local Economies	Indirect economic benefits (regional development projects/investment support)	18	62, 63	
		Increasing youth unemployment and non-regular jobs	25	64	
	Sharing with Local Communities	Contribution to the educational and cultural development of local communities	19	66	
		Contribution to the development of local environment and sports	23	66	
 Environmental Management	Green Finance	Increasing number of consumers with serious views on health, eco-friendliness and social value	22	69-70	
	Addressing Climate Change	Minimizing the negative impact on local communities	20	72	
	Environmental Performance Management	Resources and materials usage*	39	74-77	

* These are not the key sustainability issues, but are included in the report because they are strategically significant to the Group's operations.



Disclosures on Management Approach

This section focuses on our management approach to the 14 selected material issues identified from the materiality test; detailing why each issue is important; what we are doing about them; and how we measure relevant performances.

	Why is it important?	What are we doing about it?	How do we measure performance?	GRI Aspect	GRI Indicator	Boundary
Protecting Customer Information	<ul style="list-style-type: none"> Personal information leakage entails the risk of being a victim of criminal practices, such as spam mailing, illegal marketing, and voice phishing. As seen in recent security scandals, the slightest mishap involving information security can negatively affect the credibility of a company. In fact, the consequences of personal information leaks can often be immeasurable, both psychologically and physically, to businesses. 	<ul style="list-style-type: none"> As a financial institution that handles customers' personal information, DGB Financial Group applies air-tight information security control measures. Appointing a chief information security officer (CISO) and establishing a dedicated system for information security, we will adhere to basic principles when it comes to protecting customer information. 	<ul style="list-style-type: none"> No. of cases of personal information leakage 	Protecting customer privacy	G4-PR8	Within
Ethical Management	<ul style="list-style-type: none"> At DGB Financial Group, we believe business ethics and integrity are an integral part of the credibility of a company. Therefore, this issue can have a significant impact on the Group's reputation, customer base, recruitment, employee welfare, and the environmental and social performance of an invested company. 	<ul style="list-style-type: none"> DGB Financial Group is establishing ethical management within its corporate culture by instituting the Code of Conduct for Employees and the Guiding Principles for Each Job Position. At the same time, we have established the Compliance Officer System and put into practice the Jeong-do Management Program in order to further strengthen our credibility. 	<ul style="list-style-type: none"> No. of breaches of anti-corruption and legal violations No. of per-employee ethics and human rights education sessions No. of internal control system management cases 	Anti-corruption, Ethics and integrity	G4-SO3, SO4, SO5 G4-56,57,58	Within
Responsible Financing	<ul style="list-style-type: none"> Changes to financial policies and laws as a result of the changing financial market environment pose significant issues to DGB Financial Group. Product liability and legal compliance can have a potential impact on the economic performance, reputation and stock prices of the Group. 	<ul style="list-style-type: none"> DGB Financial Group put into place the Financial Consumer Protection Department and enacted the Financial Consumer Protection Charter as part of its diverse endeavors to protect consumer rights, improve bad practices, and prevent and minimize consumer complaints and damage. 	<ul style="list-style-type: none"> FSS' Civil Complaint Assessment Rating No. of violations of laws and regulations 	Product & Service labeling, Compliance	G4-PR3 G4-PR4 G4-PR9	Within
Optimized Social Contribution for Community	<ul style="list-style-type: none"> As a regionally-based financial institution, DGB Financial Group's business results are under direct influence of local communities. The economic development of Deagu and the Gyeongbuk region poses opportunities for the Group, thus the trust and reputation of local communities are imperative to the Group's operations. 	<ul style="list-style-type: none"> DGB Financial Group focuses its social contribution activities on promoting the self-sufficiency of local communities and generating direct economic and social value for them in various forms, such as job creation. 	<ul style="list-style-type: none"> Percentage of social contribution expenses to net income (KRW in millions) 	Local communities	G4-SO1	Outside
Customer Value Creation	<ul style="list-style-type: none"> We are clearly aware that we can provide more value to our customers when we are faithful to our main business and thereby create shared value. In the practice of sustainable financing, we heartedly listen to our customers' demands and develop products that attend to our economic, social, and environmental responsibilities. 	<ul style="list-style-type: none"> DGB Financial Group provides a number of financial products designed for mutual prosperity with local communities, while also offering diverse products for under-banked small business owners and low-credit individuals. 	<ul style="list-style-type: none"> SME loan amount/rate (KRW in 100 millions/%) Sales of socially responsible investment products (KRW) No. of female business owners/amounts (companies/ KRW in 100 millions) 	Local communities (FS) Product & service labeling (FS)	FS13~14 FS15~16	Within & Outside
Sustainable Performance Results	<ul style="list-style-type: none"> DGB Financial Group's sustainable growth and revenue stream can economically benefit its employees, investors, business partners and local communities. Furthermore, its sustainable performance results can have a significant impact on its own business expansion, organizational restructuring and reinvestment in local communities. 	<ul style="list-style-type: none"> DGB Financial Group strives to provide globally competitive financial services through group-wide synergies. By preemptively managing risks, the Group timely responds to the fluctuating financial market environment, as well as being involving in the development of new products and making socially responsible investments. 	<ul style="list-style-type: none"> No. of Risk Management Committee meetings (meetings) Deposit market share in Daegu/Gyeongbuk region (%) Loan market share in Daegu/Gyeongbuk region (%) BIS capital adequacy ratio (%) Financial classes (No. of companies/persons) 	Economic performance, Product portfolio (FS)	G4-EC1, EC2, EC3, EC4 FS1~9	Within & Outside
Customer Satisfaction Management	<ul style="list-style-type: none"> Customer satisfaction is essential to customer relationship management, from attracting new customers and retaining them, to turning prospective customers into regulars. As customer satisfaction management has a direct impact on business performance, we put customer value before anything else in all our business activities, while providing customers with the information they require when making financial transactions. 	<ul style="list-style-type: none"> At DGB Financial Group, we consider customer satisfaction to be the best marketing strategy, and thus strive to enhance customer satisfaction levels. While improving our customer services, we instigated a story-based marketing approach in order to win the minds of customers and make consistent efforts towards financial inclusion. 	<ul style="list-style-type: none"> Customer satisfaction (points) Customer satisfaction education performance (sessions) 	Product & Service labeling (customer satisfaction)	G4-PR5	Outside

	Why is it important?	What are we doing about it?	How do we measure performance?	GRI Aspect	GRI Indicator	Boundary
Employee Satisfaction	<ul style="list-style-type: none"> Talented employees play a pivotal role in maintaining business performance and market share. Therefore, it is important for the Group's sustainability to recruit talented employees and nurture them through the use of systematic training and providing them with a healthy and affluent life. 	<ul style="list-style-type: none"> DGB Financial Group has in place a variety of education and training programs that assist in building the competencies of employees, as well as various activities designed to promote a healthy work-life balance. 	<ul style="list-style-type: none"> Per-employee average education hours Percentage of female managers (%) No. of employees on sick leave (persons) 	Employment, training & education, diversity and equal opportunity, investments, and non-discrimination	G4-LA1, LA2, LA3, G4-LA9, LA10, LA11, LA12, G4-HR1, HR2, HR3	Within
Win-win partnerships	<ul style="list-style-type: none"> DGB Financial Group relies on outside specialized companies for its procurement, IT security, credit ratings and accounting audits, as well as the organization's legal compliance. In this relationship, fair and transparent transactions are critical to the Group's operational and reputational risks. 	<ul style="list-style-type: none"> Committed to win-win partnerships, DGB Financial Group holds annual Win-Win Partnership Council meetings and listens to the suggestions/complaints of partner companies through in-depth interviews so as to better reflect their voices in our following business plans. 	<ul style="list-style-type: none"> Complaints addressed and reflected in management (cases) 			Outside
Green Finance	<ul style="list-style-type: none"> In step with growing global concerns over environmental issues, many domestic and international financial institutions are creating financial conditions to foster green companies as well as develop green products and technologies. DGB Financial Group, for its part, is also making varied efforts to help develop a green economy. 	<ul style="list-style-type: none"> DGB Financial Group is developing a number of green financial products and operating environmentally-specialized stores, while continuing efforts to spread green management practices throughout the Group. 	<ul style="list-style-type: none"> Green financial product (deposit/loan) sales amount (KRW in millions) Percentage of companies eligible for environmental impact evaluation 	Products & services	G4-EN27, EN28	Within & Outside
Addressing Climate Change	<ul style="list-style-type: none"> Climate change stemming from global warming has become an ongoing controversial issue in the global community. Climate change poses risks, both financial and regulatory, to businesses around the world, yet also poses opportunities for those ready with differentiated business practices. 	<ul style="list-style-type: none"> At DGB Financial Group, we engage in diverse activities under the notion that environmental consciousness and behavioral change of present and future generations are imperative to addressing climate change. 	<ul style="list-style-type: none"> Participation in the NIE energy diary contest (persons) No. of activities by DGB University Green Reporters (sessions) 	Local communities	G4-SO2	Within & Outside
Environmental performance management	<ul style="list-style-type: none"> Growing business domain and size inevitably accompanies an increase in the use of resources. Efficient usage and management of natural resources and the use of alternative resources help minimize our environmental impact and positively contribute to our financial performance. 	<ul style="list-style-type: none"> DGB Financial Group has instituted green management policies and guidelines as its bylaws, and put in place a number of action plans for the promotion of green management activities on a group-wide level. Having established the Green Finance Group, which oversees group-wide environmental management practices, we are implementing and expanding the scope of such practices among our subsidiaries and supply chain. 	<ul style="list-style-type: none"> Greenhouse gas emissions volume (Scopes 1, 2, and 3) (tCO₂) Water resource use (m³) Paper use (tons) Percentage of e-billing (%) 			Within & Outside
Contribution to Local Economies	<ul style="list-style-type: none"> The regional economy recently showed signs of regaining, with recovering housing prices, stable oil prices and growing exports, but per capita gross regional domestic product (GRDP) still remains bottom among local governments. 	<ul style="list-style-type: none"> DGB Financial Group engages in a number of mutual growth activities for local economies, such as providing business consulting services, pledging support to local SMEs and lending prime loans to technology-driven ventures. Committed to addressing youth unemployment and increasing the number of non-regular jobs, it also recruits more new employees and operates job experience programs for university students. 	<ul style="list-style-type: none"> Jobs created (new employees) (persons) No. of business consulting service beneficiaries (companies) 	Indirect economic benefits	G4-EC7, EC8	Outside
Social Contribution	<ul style="list-style-type: none"> Supporting socially vulnerable groups and underprivileged people is essential to realizing an inclusive community for all. As a responsible corporate citizen of the region, DGB Financial Group returns part of its business gains to local communities in the form of reinvestment and contributions. 	<ul style="list-style-type: none"> DGB Financial Group engages in diverse community engagement programs, such as sharing with social minority groups, sponsorships and donations. In addition, the Group also patronizes educational, cultural, artistic and sports activities in the region for local residents. 	<ul style="list-style-type: none"> DGB labor union social contribution amount (KRW in millions) Scholarship Cultural Foundation's scholarship contributions 	Local communities (FS)	FS13, FS14	Outside



Summary of Sustainability Management Performance

CSR Strategic Direction	2013 key tasks	2013 Goals	2013 Progress	Accomplishments	2014 Goals	
RESPONSIBLE MANAGEMENT (SERVICE, PASSION AND HONESTY)	Percentage of Outside Directors	85.0%	83.3%	98.0%	83.3%	
	participation rate	100.0%	100.0%	100.0%	100.0%	
	No. of anti-corruption breaches and legal violations cases	0건	0건	100.0%	0건	
	No. of ethics and human rights education sessions	22/53	24/52	109.0%/98.1%	27/52	
	Per-employee average education expenses	KRW 1.20 million	KRW 1.10 million	91.6%	KRW 1.11 million	
	Industrial injury rates	0%	0%	100.0%	0%	
	Employee satisfaction	92 points	90 points	97.8%	91 points	
	No. of VOC complaints handled	80 cases	135 cases	59.3%	100 cases	
	Customer satisfaction	93 points	94 points	101.0%	94 points	
	Civil petition assessment ratings	1 st grade	1 st grade	100.0%	1 st grade	
SUSTAINABLE FINANCE	Market share in Daegu/ Gyeongbuk (loans/deposits)	29.8%/35.5%	29.0%/36.2%	97.3%/102.0%	30.0%/37.0%	
	Percentage of SME loans	61.5%	63.0%	102.4%	64.0%	
	BIS Capital Adequacy Ratio	15.0%	15.06%	100.4%	12.6%	
	Micro-financing balance	KRW 785.2 billion	KRW 1,015.4 billion	129.3%	KRW 1,100 billion	
	Socially responsible investments	KRW 13.0 billion	KRW 7.79 billion	59.9%	KRW 11.0 billion	
	No. of companies eligible for environmental management checklist	13,538	13,992	103.3%	15,391	
	Green finance product sales amount (loan/deposit)	KRW 475 billion/ KRW 350 billion	KRW 538.7 billion/ KRW 157.2 billion	113.4%/55.1%	KRW 562.0 billion/ KRW 160.0 billion	
LOCAL COMMUNITY INVOLVEMENT & DEVELOPMENT (LOVE AND SHARE)	No. of Business Consulting Service beneficiaries	90	67	74.4%	70	
	Percentage of social contribution expenses to net income	8.5%	9.0%	105.8%	9.0%	
	No. of voluntary participants	22,000	22,001	100.0%	23,000	
ENVIRONMENTAL MANAGEMENT (GREEN INITIATIVE)	Water resource use	105,000m ³	174,518m ³	60.1%	173,500m ³	
	Total greenhouse gas emissions	SCOPE 1	2,288.70tCO ₂	2,095tCO ₂	109.2%	2,080tCO ₂
		SCOPE 2	27,194.40tCO ₂	28,051tCO ₂	96.9%	28,000tCO ₂
		SCOPE 3	324.90tCO ₂	2,414tCO ₂	13.4%	2,400tCO ₂
	Total paper use	105 tons	119.3 tons	88.0%	118.0 tons	



IMPACT AREAS :

Zoom-in DGB

Protecting customer privacy & information | DGB Financial Group appointed a chief information security officer (CISO) in 2013 and established information security infrastructure, thus adhering to basic principles and applying its utmost effort to protect customer information.

Ethical management | DGB Financial Group is establishing ethical management within its corporate culture by instituting the Code of Conduct for Employees and the Guiding Principles for Each Job Position. In addition, we prepared the Compliance Officer System and put into practice the Jeong-do Management Program as part of efforts to raise our credibility.

Responsible Financing | DGB Financial Group established the Financial Consumer Protection Department and enacted the Financial Consumer Protection Charter as part of its diverse endeavors to protect consumer rights, improve bad practices, and prevent and minimize consumer complaints and damage.

Optimized Social Contribution for Community | DGB Financial Group implements community engagement management based on the trust and support of local residents, and carries out a number of social contribution programs, such as social welfare projects, cultural/artistic/sports programs, environmental/global projects, education/scholarship programs, social enterprises and DGB Volunteer Corps.



Protecting Customer Privacy & Information

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Ethical Management

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Responsible Financing

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Community Engagement Programs

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Protecting Customer Privacy and Information

Material Issue

Strengthening IT Security & Preventing Financial Incident

Q The recent data theft scandals involving financial companies and telecommunications service providers in Korea resulted in a great deal of social stress. What measures does DGB Financial Group take to protect the personal information of customers?

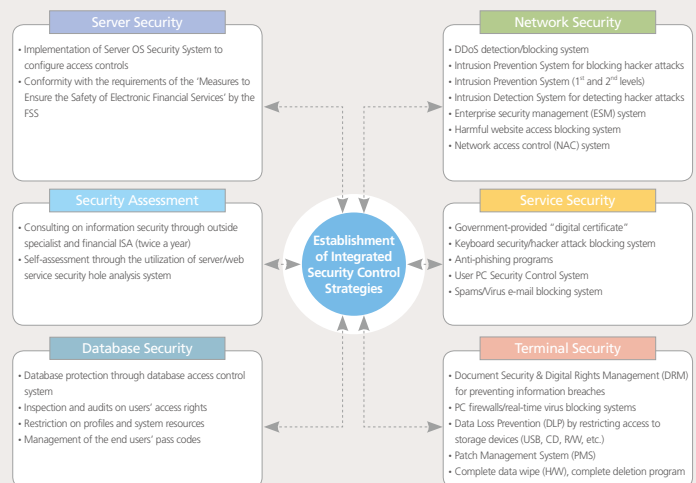
A Personal information leakage entails the risks of being abused in criminal practices, such as spam mailing, illegal marketing, or voice phishing. Personal information leakage entails the risk of being a victim of criminal practices, such as spam mailing, illegal marketing, and voice phishing. As seen in recent security scandals, the slightest mishap involving information security can negatively affect the credibility of a company. In fact, the consequences of personal information leaks can be immeasurable, both psychologically and physically, to businesses. Clearly aware of this, DGB Financial Group, a financial institution that handles the personal information of customers, applies air-tight information security control measures. In 2011, we appointed chief information security officer (CISO) and established a dedicated system for information security. We have also completed infrastructure within the organization, and will adhere to basic principles when it comes to protecting customer information.

Q Introduce us to the Group's information security system.

A DGB Financial Group boasts the nation's leading customer information protection system. While we concentrated on infrastructure for IT security in 2012, 2013 was about establishing substantial information security practices. In particular, Daegu Bank upgraded its PC control and integrated PC protection system to reinforce the monitoring of customer privacy and personal information protection. A web-based anti-counterfeiting solution was established to strengthen the operation and safety

of our Internet-based customer services. Additionally, firewalls have been upgraded at each step of the Internet banking procedure, bolstering the overall security and availability of our Internet banking services. We have also improved our responsiveness to various browsers (safari, firefox, and chrome), as well as securing Internet banking services on these browsers. In promotion of mobile-based operations, we adopted mobile device management (MDM) solutions and completed security solutions for enhanced infrastructure for mobile security software, such as mobile web/app counterfeiting prevention, traffic encryption, virtual keypad, and firewall.

Daegu Bank Information Security System





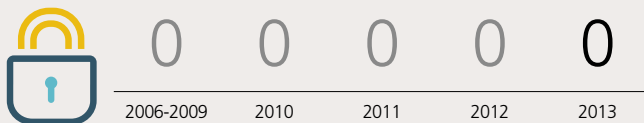
Q What are the roles and responsibilities of the chief information security officer (CISO) in regards to protecting customer information?

A DGB Financial Group was the first regional bank to appoint a CISO in 2011. The CISO oversees all IT system operations, including collection/usage/disposal of personal information, provision/consignment of personal information, the safe management of personal information, protecting the rights of information providers, and personal information security education.

Q Share with us the track record of DGB Financial Group regarding personal information leakage.

A DGB Financial Group has remained free of any such accident since its establishment in 2006. We monitor our customer information management practices on a regular basis through a round-the-clock security monitoring system in partnership with the Korea Financial Telecommunications & Clearings Institute (KFTC), as well as regular system checking. We strive to prevent customer information leaks at source through the use of PC security programs, anti-virus programs and the DRM.

Personal Information Leaks by Year



Q Please introduce the differentiated customer information protection services of DGB Financial Group.

A Daegu Bank has in place a DGB Secret Account service designed to protect customer rights and keep information confidential. The DGB Secret Account Service is a PB-exclusive service that allows only the primary account holder to have access to their bank account. Bank employees do not have access to these accounts, except from the branches where the accounts were originally opened, thus keeping all related information confidential. Other bank services include a safe account inquiry service that conceals account numbers and account holder names during financial transactions, and a security account service that blocks all e-transactions, including inquiries and account transfers through Internet banking or phone-based banking services.

Q What future plans does DGB Financial Group have to protect customer privacy and information?

A DGB Financial Group initiated a project in 2014 to upgrade Daegu Bank's IT system. The main purpose is to improve the existing information security system's functionality and enhance operational efficiency in order to help the bank better protect our customers' privacy and personal information.



Ethical Management

Material Issue
Increasing demand for transparency
(ethical management)

Material Issue
Anti-corruption
(stronger internal control and protecting whistleblowers)

Q What does DGB Financial Group do in response to the growing social demand for ethical management?

A At DGB Financial Group, we believe business ethics and integrity are an integral part of the credibility of a company. Therefore, this issue can have a significant impact on the Group's reputation, customer base, recruitment, employee welfare, and the environmental and social performance of an invested company. DGB Financial Group is establishing ethical management within its corporate culture by instituting the Code of Conduct for Employees and the Guiding Principles for Each Job Position. At the same time, we introduced the Compliance Officer System and put into practice the Jeong-do Management Program as part of efforts to raise our credibility.

Q What kinds of systems do DGB Financial Group have in place in regards to ethical management and anti-corruption?

A DGB Financial Group has enacted the Ethics Code of Conduct for its employees and conducts various campaigns in order to raise an individual employees' ethical awareness. The Group conducts monthly compliance self-assessment and ethics training at each branch, as well as an ethics management rediscovery program so as to incorporate ethical management practices into our corporate culture. All these efforts are directed at maintaining customer trust in the Group as a reliable financial partner by reinforcing employee job ethics and legal compliance awareness, as well as developing their ethical decision-making capabilities. In particular, all contracting procedures are culminated in integrity pacts collected from the counterparts.



**Jeong-do Management:
going back to basic principles**

"Sharing our dreams and prosperity with local communities"
We are committed to creating a better future through the provision of financial services.

Codes of ethics

Integrity and ethical behavior are fundamental values.



Code of conduct for employees

Translating ethics into action is the beginning of practicing Jeong-do Management



Ethical Practice Program

Practicing business ethics is our commitment to customers.



Ethical Management Rediscovery Program

- Implementing "Ethical Management Awareness-Raising Day"
- Sharing examples of money laundry attempts being prevented
- Sharing examples of financial accidents being prevented
- Education on Real-Name Financial Transactions and Guarantee of Secrecy Act
- Investigation of case studies regarding dispersed overseas remittance and applications to the Foreign Exchange Control Law
- Education regarding credit card application requirements
- Education on compensatory deposit requirements
- Education on the Code of Conduct and sexual harassment prevention in the workplace

Ethics & Human Rights Education Performance by Year

Category	2011	2012	2013	2014 (Plan)
Average number of ethics education sessions per employee	19	21	24	27
Average number of human rights education sessions per employee	52	52	52	52

DGB Financial Group is consistently tightening its internal control system. Daegu Bank operates a "whistle-blowing center" page on its corporate website for the reporting of unethical practices, as well as applies exhaustive auditing (routine, general, ad hoc, and ordinary auditing) to reinforce credibility and transparency in financial transactions.

**Internal Control System
Operational Performance (cases)**

Category	2011	2012	2013
Routine Audit	1,454	1,487	1,393
General Audit	273	285	298
Ad hoc Audit	25	11	12
Ordinary Audit	146,361	354,399	913,677

Report by registered mail: addressed to staff in charge of whistle-blowing at the Compliance Department

- Legal Compliance System
- Whistle-blowing Hotline
- Whistle-blowing e-mail
- Whistle-blowing Center (corporate website)

Q Where there any cases of violations of laws or regulations regarding ethical management or anti-corruption in 2013?

A At DGB Financial Group, we make every effort to eradicate corruptive practices, such as bribery and embezzlement. For its advanced system, risk calculation model and process innovation, as well as continued education programs designed to enhance employee specialties and awareness, Daegu Bank was commended by the Korean Prime Minister as an excellent performer in the anti-money laundry campaign at the 7th Anti-Money Laundry Day ceremony in December 2013.

Legal Violations

Category	2011	2012	2013	2014 (Plan)
No. of violations (cases)	0	3	0	0

Q What future plans are there for the continued promotion of transparency in business operations and ethical management practices?

A DGB Financial Group conducts various programs and systems to establish a corporate culture that adheres to the basic principles and puts ethical management before everything else. In order to facilitate the establishment of ethical management within the organization, the company has been commemorating "Ethical Management Awareness-Raising Day" on the first and second Monday of each month, as well as regular monthly ethics education. Additionally, we will continue to bolster our internal control system, while increasing the channels for whistle-blowing.

Ethical Practice Programs

Enactment of code of conduct and integrity pact (the beginning of each year)

Ethical Practice Day (monthly)

Legal compliance self-assessment (first business day of every month)

Various employee education programs (at least once a month)

Internal Control Legal Compliance Council (quarterly)

Integrity pact (contracting procedures)

Whistle-blowing program (at all times)



Responsible Finance

Material Issue

Product Legal Compliance

Material Issue

Product & Service Liabilities

Q What does DGB Financial Group do to meet the growing demand for responsible finance and the protection of financial consumer rights?

A DGB Financial Group is committed to protecting the rights of financial consumers, mending irregularities in its business practices, and minimizing consumer inconvenience. As recommended in the Good Practices for Financial Consumer Protect developed by the World Bank, Daegu Bank created a Financial Consumer Protection Department and appointed a chief consumer officer (CCO) in July 2013. We have also enacted the Financial Consumer Protection Charter. Inviting customers to participate in the planning of new financial products, preparing sales guidelines for our products and mending our framework of follow-ups, we have introduced a system that will allow us to prevent customer inconvenience at source. Furthermore, each of our 300 nationwide branches has a dedicated employee in charge of consumer rights protection.

Q Employees working at points of contact with customers play a pivotal role in the bank's commitment to protecting financial consumers. Please, share with us their activities.

A Daegu Bank has introduced the Financial Consumer Protection Charter that calls for improving irregularities, the prompt redemption of damage and the elimination of illegal marketing activities, and provides employees with regular education every month on the DGB Consumer Protection Day. In addition, employees share customer complaints and self-check their consumer protection practices in order to constantly improve their practices. Furthermore, every employee strictly abides by the principles for businesses as provided by the Financial Services Commission, thus minimizing the risk of mis-selling and customer complaints at source.

Daegu Bank Financial Consumer Protection Charter

- We shall provide sufficient information and assist our consumers in making rational decisions.
- We shall refrain from conducting irrational business practices by listening to our consumers' requests.
- We shall promptly and fairly respond to our consumers' complaints.
- We shall not engage in any unethical sales practices, nor shall we make irrational discrimination that infringes on consumer rights.
- We shall fulfill our responsibility as a member of the local community and provide assistance to financially disadvantaged populations.

Voice of Customers

Category	2011	2012	2013
Complaints	197	83	135
Issues	292	348	248
Praises	408	509	512
Others	209	763	140
Total	1,106	1,703	1,035

Six Regulatory Principle of Marketing

Category	Details
Principle of Suitability	A principle that investment adviser must reasonably believe that a certain investment decision will benefit a client before making a recommendation to him/her based on their apprehension of a client's financial status
Principle of Adequacy	A principle that investment adviser must notify the client when he/she is to purchase a product that is not deemed adequate to his/her financial conditions
Obligation of Explanation	Obligation to provide adequate explanation of a product that a client is about to purchase
Prohibition on tying practices	Prohibition on the practice of selling unsolicited products or services as a mandatory addition to the purchase of a different product or service
Prohibition on unsolicited marketing practices	Prohibition on the illegal solicitation practices of providing information based on factual error or wrongful judgment
Advertisement Standards	Guidelines on the essentials of financial product advertisement and prohibited practices

* Source: Financial Services Commission

Q What are the future plans of DGB Financial Group in regards to providing responsible financing and protecting financial consumer rights?

A DGB Financial Group has in place several programs for financial inclusion and the protection of financial consumers, as well as the higher financial welfare of local residents. For instance, we have increased stakeholder engagement in each phase of our financial service providing processes, while also promoting transparency and fairness in our financial services.

2013 Major Achievements

Daegu Bank, Exemplary Bank for Reducing Civil Complaints

Daegu Bank was singled out as an exemplary organization for reducing civil complaints at the 1st Civil Complaints Inspection Day organized by the FSS in May 2013. At the event, designed by the nation's financial authority to promote the private sectors' awareness of civil complaints and financial consumer protection, Daegu Bank was highlighted for its remarkable performances in consumer-oriented corporate culture, community engagement programs, the promotion of consumers' right of choice and other consumer protection practices.

Top-Rating in FSS's Civil Complaint Assessment for 8th Straight Year



Daegu Bank earned a grade 1 rating for the eighth consecutive year in the Civil Complaint Assessment by the FSS in April 2014. Every year, the Korea's Financial Supervisory Service (FSS) reviews civil complaints regarding financial institutions' services and other operations for that year, along with an institution's commitment to addressing such complaints in consideration of its total assets and customer base. Daegu Bank was the only Korean bank to receive a first grade in the 2013 assessment, and therefore making it the only Korean bank to maintain a first grade for 8 straight years from 2006 to 2014.

	2012	2013	2014	2015(Plan)
Civil Complaint Assessment Rating	1 st grade	1 st grade	1 st grade	1 st grade



Optimized Social Contribution for Community

Material Issue
Social Contribution

Q 'Local communities have a direct impact on the business performance of DGB Financial Group, which has the lion's share of its business in the regional communities of Daegu and Gyeongbuk. In other words, the development of the local economy poses opportunities for the Group to grow. Consequently, the trust and reputation with local communities is essential to the Group's prosperity. In this context, what does DGB Financial Group do to contribute to the development of local communities?

A DGB Financial Group is well aware that its growth to date can be accredited to the trust and support of its local residents. In return for their continued support, the Group engages in a number of social contribution programs, such as social welfare, cultural/artistic/sports projects, environmental/global projects, educational/scholarship programs, social enterprises, and DGB Volunteer Corps. Recently, the Group has focused on leading a new paradigm of social contribution by reaching out further to help local communities stand on their own feet financially and socially through projects such as job creation. Examples include the Bluebird Senior Happy Workplace which opened in 2012 and the Bluebird Multi-cultural Welfare Center which opened in 2013.

Q Given the fact that the Daegu and Gyeongbuk region is one of the most aging communities in Korea, the Bluebird Senior Happy Workplace seems to address the growing need of jobs for seniors.

A Yes, it does. It was launched to preemptively address the growing social need for workplaces that provide decent jobs to local senior residents, thus assisting them with financial independence. At the moment, 10 senior citizens are working for the Center. Their main jobs are cleaning and sterilizing toys at various local childcare centers, including kindergartens and daycare centers. Directed at providing socially vulnerable groups with paying jobs, the project has been well received by local communities as it has changed the social contribution paradigm in a more sustainable way.



Material Issue

Aging Society

Bluebird Senior Happy Workplace

1. Total welfare program for senior jobseekers
2. Fostering senior citizens as toy-cleaning specialists
3. Helping clients keep their premises neat and clean
4. Synergy efforts of creating jobs

Q Introduce us to the Bluebird Multi-cultural Welfare Center.

At the moment, approximately 6,700 immigrants with diverse national backgrounds reside in the eight districts of Daegu City, with the number growing each year. In order to help immigrant residents quickly adapt to our culture, DGB Social Contribution Foundation opened the Bluebird Multi-cultural Welfare Center in October 2013. The Center offers individual and family counseling services to help immigrants with problems arising from cultural differences. Art and play therapy are also offered to children from multi-cultural families so as to help them better adapt to their peers. In March 2014, the Center entered into an MOU with the Transactional Analysis Counseling Academy for bilateral partnerships on promoting the welfare of multi-cultural families through increased specialized counseling services for marriage-immigrants and their children. Of particular note was that the partnership enabled a more specialized counseling service regarding child peer group issues and teacher relationship issues. This allowed the Center to complete an integrated case study system that provides follow-ups with the mentoring programs.



Q What are DGB Financial Group's future plans for optimized social contribution for community?

A DGB Financial Group's DGB Social Contribution Foundation is operating the "Future Generation Education Project Group", which recently became the first in the Korean financial sector to earn the certificate of social enterprise. Coupled with DGB Financial Group's commitment to providing jobs and support to local minority groups, the Project Group will commit itself to promoting educational equality for the local youths and children so that they can grow with hope and vision of a brighter future. In the future, we plan to introduce more education courses to cultivate expertise in our staff, while providing services such as counseling for students, and arranging meetings between students and their job mentors and camps. All proceeds from such programs will be reinvested into social services for children from underprivileged families.



CSR STRATEGY & PERFORMANCE



I. Responsible Management Service, Passion, Honesty

- Customer Satisfaction 45
- Employee Satisfaction 47
- Win-Win Partnerships 53

II. Sustainable Finance Sustainable Finance

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III. Local Community Involvement & Development

Love & Share

- Contribution to the Development of
Local Economies 62
- Sharing with Local Communities 65



IV. Environmental Management

Green Initiative

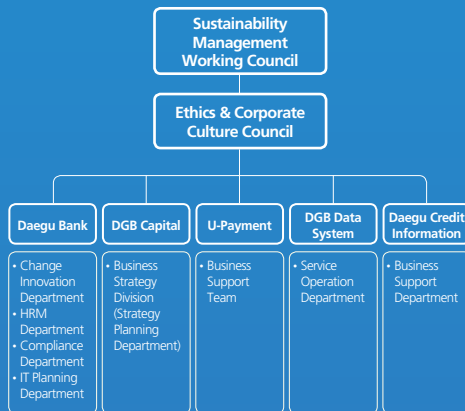
- Green Finance 69
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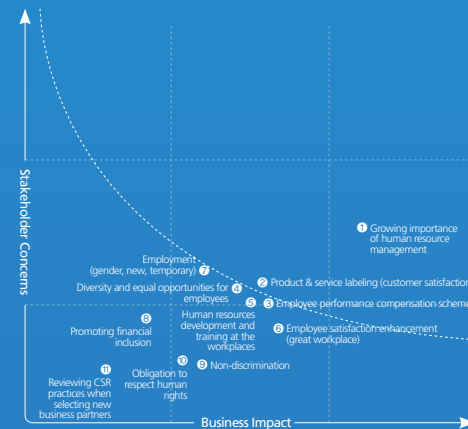
Responsible Management

DGB Financial Group is committed to enhancing customer value through industry-leading financial services, while realizing family-friendly working environments that help employees balance between life and work with a high sense of morality.

Sustainability Management Organization



Material Issues



Strategic Direction

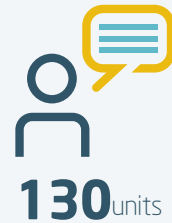


Key Performance Indicators

Category	2011	2012	2013	2014 (Plan)
Per-employee average ethics/human rights education (sessions)	19/52	21/52	24/52	27/52
Per-employee average education hours (hours)	46	33.8	39	40
Percentage of female managers (%)	12.9	13.6	15.7	16.5
No. of employees on sick leave, including those on vacation (persons)	20	21	16	20

2013 Major Achievements

Financial terms amended



Customer satisfaction



Per-employee training hours



Employee satisfaction





CONTEXT & CHALLENGES

Customer satisfaction is essential to customer relationship management, from attracting new customers and retaining them, to turning prospective customers into regulars. As customer satisfaction management has a direct impact on business performance, we put customer value before everything in our business activities, while providing customers with adequate information in support of their rational and fair financial transactions.

OUR APPROACH

At DGB Financial Group, we consider customer satisfaction management as the best marketing strategy, and thus apply our utmost to enhance customer satisfaction levels. While stepping up our customer services, we took a story-based marketing approach to win the minds of customers and consistently improve our services for financial inclusion.

OUR PROGRESS

Customer-oriented Management

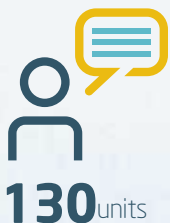
Enhancing Customer Satisfaction Management

In 2013, Daegu Bank launched its key marketing brand "Engage Your Customers". To that effect, the bank developed educational programs and systems for its employees to actively engage in communication with customers, raise their awareness of customer complaints and financial consumer protection, while striving to reduce customer complaints. In October 2013, the bank hosted the DGB Hope Forum for its executives and 250 branch managers on the subject of protecting financial consumer rights and financial company's IT operations.

Storytelling Marketing

In a more friendly approach to its customers, Daegu Bank introduced Storytelling Marketing at its branch offices. With characteristic interior decorations that reflect the special features of each branch office, the new marketing approach is bringing about change in our branch network.

Financial terms amended



Amending Financial Jargon

Committed to helping customers better understand financial jargon, Daegu Bank amended approximately 130 incomprehensible financial terms and published its Improved Financial Terms Standards. By conducting surveys on customers and employees, the bank improved 58 terms in deposit operations, 38 terms in loan-extending operations, 11 terms in credit card operations, 8 terms in Internet banking services, 7 terms in trust products, 4 terms in Call Center services, and 3 terms regarding mobile-phone banking service codes.



Stakeholder Interview

Customers are concerned about uncertainties, unpredictability, and opacity in financial markets. DGB Financial Group needs to enhance the systematic operation and efficiency of its basic deposit-taking and loan-extending operations so that it can raise stability and transparency for the sake of sustainable growth.

Hak-su, Kim, owner of Cafe Helens

Services to Promote Financial Inclusion

Financial Services for the Disabled

Daegu Bank introduced the DGB Open Bank (<http://open.dgb.co.kr>) service especially for the visually-impaired in April 2013. Developed under Korean Web Content Accessibility Guidelines, the website offers voice browser and keyboard-based Internet banking services. Visually-impaired customers can use the voice-based Internet banking service with the help of a screen reader program, while the keyboard-based Internet banking service is available for those who find using a mouse uncomfortable.

Braille Credit/Check Cards for Visually Impaired

Daegu Bank has been issuing braille credit cards and check cards for visually-impaired customers since January 2013. Marking key information on the front of such cards, like product names, serial numbers and valid date, in Braille, the new service has significantly improved customer services. The bank plans to expand this service to all its card products in the future.



Portable DGB Team for Financial Accessibility

For the improved financial convenience of customers, Daegu Bank launched the Portable DGB Team service in October 2013. The team travels to customers lacking access to the bank's branches or those living in areas without nearby branches, providing basic teller services and more professional financial counseling services, such as financial transaction inquiries, account-opening, check card issuance, and other e-financing services.



Customer Satisfaction Enhancement



Daegu bank wins Grand Prize in bank category at 8th Korea Service Awards

Daegu Bank was awarded the grand prize in the financial services bank category at the 8th Korea Service Satisfaction Awards in April 2014. The bank won the award for its commitment to customer communication, raising public awareness of financial consumer protection and reducing customer complaints. The bank was nominated through the paper-screening of its service practices and business strategies, and due diligence of its service practices via phone and visit-monitoring. It was the only prizewinner among Korean banks. Starting in 2014, Daegu Bank is spurring its customer satisfaction service so that it can realize an even higher level of customer satisfaction through the organic convergence of consumer protection and customer satisfaction services.

Customer Satisfaction

Customer Satisfaction

Category	2011	2012	2013	1Q 2014
Customer Satisfaction Scores	92 points	93 points	94 points	94.54 points

Daegu Bank runs annual customer satisfaction surveys to provide better customer services by employing the NICE R&C, which is the universal survey system in the Korean financial sector. These phone-based surveys are conducted on all branches every month, with visit-monitoring conducted at all branches every two months. Daegu Bank is earning high scores relative to other financial institutions as a result of its consistent endeavor to realize higher customer satisfaction.

Customer satisfaction



94points



CONTEXT & CHALLENGES

Talented employees play a pivotal role in maintaining business performance and market share. Therefore, it is important for the Group's sustainability to recruit talented employees and nurture them through the use of systematic training and providing them with a healthy and affluent life.

OUR APPROACH

DGB Financial Group has in place a variety of education and training programs that assist in building the competencies of employees, as well as various activities designed to promote a healthy work-life balance. In addition, employees' job performances and career development are constantly monitored and reviewed.

OUR PROGRESS

Talent Management

Building New Employees' Competence

Daegu Bank has a mentoring program in which mentors help new employees adapt to the organization and their job duties.

Fostering Experts

Daegu Bank operates a tailored roadmap and systematic career development program (CDP) so as to foster experts. A variety of competence-building courses are also conducted in the areas of foreign exchange (FX), derivatives, F/X investments, and bond operations. Additionally, employees working in equity, bond and derivatives operations are posted at other investment companies for on-site training regarding advanced investment techniques.

Cultivating Core Talents

Daegu Bank operates various training programs to foster future leaders. These programs include—an MBA course at KAIST (Korea Advanced Institute of Science and Technology), international specialist training in China, and a pre-CEO course and advance finance course at Seoul National University—through which core talents can nurture management theories and practices.

Lifelong Learning Program

Starting in February 2014, Daegu Bank has introduced the Continuous Learning Support System and Job Accreditation System to foster experts and establish life-long learning practices within its corporate culture. This will help us reinforce our human resource competitiveness in the fast-changing financial market.

Per-employee training hours



39 hours

Employee Training

Category	2011	2012	2013	2014(Plan)
Per-employee average education hours	46	33.8	39	40
Per-employee average education expenses (KRW 1,000)	1,110	1,110	1,100	1,110

Human Rights Protection and Non-Discrimination



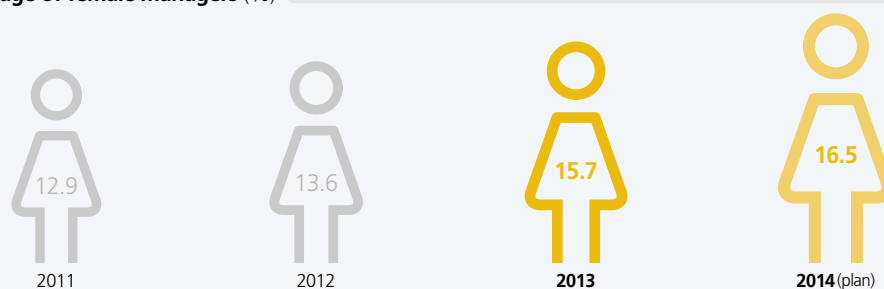
Promoting Job Security

To preemptively address social issues concerning non-regular jobs in the Korean financial sector, Daegu Bank reemployed all 150 contract-based, non-regular tellers and one computer programmer and one IT employee as regular employees in February 2013. The move helped promote job security and inspire pride and loyalty among our employees. Furthermore, the bank has hired only regular workers during its annual recruitment since 2013.

First Regional Bank to Select Female Division Director

Daegu Bank does not discriminate against gender when it comes to evaluating employees' performance. In 2013, Daegu Bank became the first regional bank in Korea to assign a female to the position of divisional director. Coupled with outstanding competence and expertise in our business, the compassionate and subtle leadership of the newly assigned female director is highly expected to propel the company forward.

Percentage of female managers (%)



No. of employees reemployed as regular staff (persons)



Workforce Breakdown (persons, %)

Category	2011	2012	2013	2014 (Plan)
Regular (persons)	2,547	2,626	2,776	2,850
Contract-based (persons)	374	376	264	260
Male (%)	42.1	57	50.3	47.0
Female (%)	57.9	43	49.7	53.0

Percentage of Female Workers (%)

Category	2011	2012	2013	2014 (Plan)	
Position	Percentage of female bankers to overall bankers	72.4	72.5	74.5	73.4
	Percentage of female managers to overall managers	12.9	13.6	15.7	17.2
Contract Type	Percentage of female workers to overall contract-based regular workers	40	41.2	44.9	45
	Percentage of female workers to overall contract-based workers	54.6	54.5	32.8	32

No. of Employees on Maternity Leave & Return to Work

Category	2011	2012	2013
No. of employees on maternity leave (persons)	107	102	104
No. of employees who have returned from maternity leave for the year (persons)	99	90	47
Return rate (Return rate from maternity leave, %)	92.5	88.2	45.2
No. of employees who retired after maternity leave (persons)	8	12	4

*Employees can take up to two years maternity leave. As a result of this, there have been some disparities in the calculation of the number of people going on leave and those returning. Therefore, the number of employees returning from leave is designated as those who have returned to work for the year, while the return rate is the ratio of employees on leave to those who returned for the year.

Work-Life Balance

PC Shut-down Program on Family Day

As part of its family-friendly policy to help employees achieve a healthy work life balance, Daegu Bank has designated Wednesdays as Family Day. To encourage employees to leave the office on time, all office computers are turned off at office 18:30 every Wednesday.

Smart Vacation Program

Daegu Bank has instigated a Smart Vacation Program since 2013 in order to encourage employees take vacations so that they can strike the right balance between work and life. The program includes subsidizing vacation expenses and an intranet bulletin board for employees to share reviews and useful tips on good lodges and places to go.

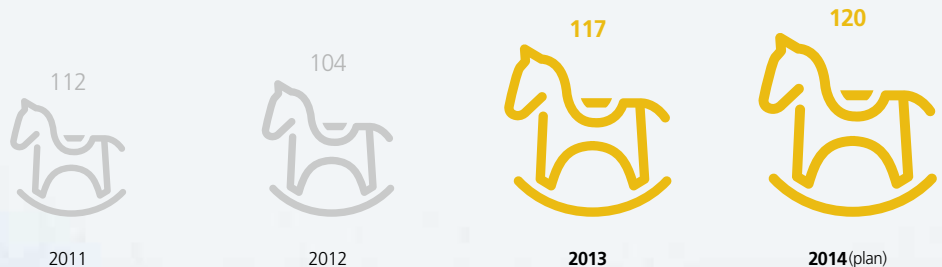
A Family-Friendly Workplace

Daegu Bank promotes maternity protection system in order to help female employees with pregnancy, labor and childcare. Since 2008, the bank has been running an in-house daycare center, and also offers one-year paid leave to infertile couples as well as fertility clinic subsidies and leave for fertility treatment.

Family-Friendly Programs

Program	Description
Smart Vacation Program	<ul style="list-style-type: none"> Employees can take up to 8 days vacation to refresh themselves and enhance work efficiency with increased creativity Subsidies to vacation expenses
Culture Programs	<ul style="list-style-type: none"> DGB Healing Culture events, tickets to musical performances such as Jump and Broadway 42nd
Child Support Programs	<ul style="list-style-type: none"> Bank CEO's special gifts to children entering elementary school Company-sponsored presentations on efficient learning strategies and university entrance strategies in the run-up to new semesters Bank CEO's special gifts to children taking their SATs

No. of children registered at the 'DGB Children's Dream Nursery' (unit: persons)



A Happy Great Workplace

In the lobby of Daegu Bank's head office is the Space of Fragrance, which features seasonal colors to brighten the atmosphere, and a pianist playing the piano during commutation hours and lunch breaks. The area also features the Fragrant Postbox, which provides a good channel for communication among employees.

Employee Health Promotion Program

Daegu Bank runs annual health campaigns to enhance the efficiency of its human resources and establish a healthy corporate culture. In 2013, the bank launched the "I Love ME Health" campaign, while continuing to provide health education via the intranet on subjects such as first aid, CPR, chronic disease care, and healthy habits designed to prevent cancer.

Program	Eligibility	Healthcare Tips	Success Rate
Metabolic Syndrome	Diagnosed by the co-occurrence of elevated blood pressure, blood sugar and neutral lipid	Body fat controlling and diet	· No. of participants: 67 employees · Success cases: 45 employees (67 %)
Immunity Enhancement	Diagnosed with below-standard leukocyte levels	Various immunity enhancement programs	· No. of participants: 55 employees · Success cases: 34 employees (61%)
Healthcare Call Service	Branches selected from those who requested	· Measuring blood pressure, blood sugar and body mass · Testing the sympathetic nerves and parasympathetic nerves (serotonin hormone level) (surveys for stress test) · Health management counseling for employees and their families	

Stress Management

Daegu Bank operates the Healthcare Call Service to educate employees on stress management. The DGB Happy Family Center offers psychotherapy to employees and their families in partnership with in-house and outsourced counselors.

Sick Leave Absentees and Lost Hours Due to Illness

Category	2011	2012	2013	2014 (Plan)
Sick leave absentees (persons)	20	21	16	20
Lost hours due to illness (hours)	4,321	3,742	2,826	3,650
Lost hours from overwork (hours)	0	0	0	0

* Criteria: sick leave and hours of vacancy

Employee Satisfaction Enhancement

Daegu Bank conducts annual surveys regarding employee satisfaction aimed at creating a better quality of life for employees. The bank also offers an assortment of welfare policies, health promotion campaigns, and culture events designed to bring about higher levels of satisfaction in the workplace.

Employee Satisfaction (points)

2011	2012	2013	2014 (Plan)
89	91	90	91

Employee Satisfaction



Welfare Pension Memberships

Category	2011	2012	2013	2014 (Plan)
No. of employees enrolled (persons)	2,705	2,755	2,980	2,985
Enrollment rate (%)	92.8	92.2	97.2	97

Support for Funeral Costs

Category	2011	2012	2013	2014 (Plan)
No. of funerals supported (cases)	600	650	81	85
Total amount of support (KRW in millions)	491	423	121,5	127

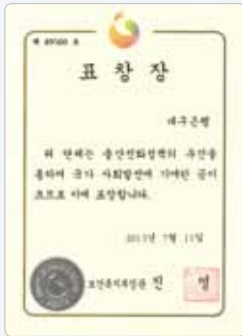
* Funeral supplies and personnel, transportation is provided for the funerals of employees, their spouses, children, parents and spouses' parents.

DGB Happy Family Center

As part of the Employee Assistance Program, Daegu Bank operates the DGB Happy Family Center, in which certified employees provide job coaching, problem-solving, health, legal, tax and financial consulting services. Furthermore, diverse experts from outside agencies offer counseling services on various issues, including those regarding children and parents, so as to better promote a happy work-life balance for our employees.

A Maternity-Friendly Company at the 4th Work-Life Balance Daegu CEO Forum

Daegu Bank received the commendation by the Ministry of Health and Welfare for its successful maternity-friendly policies in July 2013. The bank was also named a maternity-friendly company at the 4th Work-Life Balance Daegu CEO Forum in October. Organized to raise public awareness and find solutions to low birthrate, the Forum features a childbirth promotion campaign and special lectures.



Open Corporate Culture

Communicative Management 'Help CEO/Answer Me DGB'

Daegu Bank operates a number of channels for communication among departments and employees of different ranks. The 'Help CEO/Answer Me DGB' is an anonymous/registered intranet channel that provides employees with direct access to the CEO.



Wink-Talk Program

Daegu Bank runs the Wink-Talk program to promote mutual understanding among employees. Employees can deliver positive messages and praise either anonymously or not, and has been found to positively help raise morale among employees.

Open HR Practices

Under the slogan "Open HR Practices," Daegu Bank engages in active communication with its employees. While promoting employee understanding of the personnel management system, the bank also reflects feedback in its creative personnel management practices. Consisting of employees selected from branches and head office, the program promotes active communication between the bank and employees. In addition, a regular Open HR Counseling bulletin on the intranet provides employees with information regarding HR grievances.

Cooperative and Harmonious Labor-Management Relationship

Daegu Bank recognizes the labor union as an organization for protecting the rights of its workers and therefore respects its freedom. As of the end of 2013, all employees eligible to join the labor union are allowed to do so.

Daegu Bank Labor Union Membership

Type	2011	2012	2013	2014 (Plan)
Entire workforce (persons)	2,547	2,618	2,926	2,973
No. of employees eligible for union membership (persons)	1,976	1,931	2,253	2,287
Percentage of labor union members to workforce (%)	77.6	73.7	77	76.9
Percentage of labor union members to those eligible (%)	100	100	100	100

* Eligibility: Executives, higher ranked employees (over level 3), or employees in the human resources department and secretary's office are not eligible for union membership.





CONTEXT & CHALLENGES

DGB Financial Group relies on specialized outside companies for its procurement, IT security, credit ratings and accounting audits, as well as the organization's legal compliance. In this relationship, fair and transparent transactions are critical to the Group's operational and reputational risks.

OUR APPROACH

DGB Financial Group manages its supply chain for reputation risk management and cost efficiency, as well as to enhance the quality of procurement and services and promote product and service innovation. While maintaining close relationships through conferences with partner companies, the Group strives to enhance the competitiveness of its entire supply chain through the promotion of sustainability management practices and education.

OUR PROGRESS

Promoting Sustainability Management on Supply Chain



Conferences with Business Partners

DGB Financial Group holds regular conferences regarding win-win partnerships with business partners. Held in May 2014, the DGB Financial Group Conference on 'Win-Win Partnerships with Business Partners' provided a venue for sharing the previous year's performance and future plans regarding the Group's Green Management and Sustainability Management practices.

Conferences with Business Partners

Type	2012	2013	2014
Proposals by business partners	0 proposal	1 proposal Regional advantage in the selection of business partners	2 proposal Expanding educational support to business partners (safety, ethics and sustainability management) Appropriate compensation for weekend and overnight overtime
Suggestions by DGB Financial Group	1 proposal Introduction of green procurement guidelines	1 proposal Introduction of green procurement standards	1 proposal Improvement to the business partners management system
Resolutions	1 suggestion in progress	1 proposal in progress	Proposal under review

Next Steps

DGB Financial Group is considering a code of conduct for its business partners, as well as establishing a management system and education programs designed to promote sustainability management practices.



Promoting Sustainability Awareness Among Business Partners

DGB Financial Group has provided education on Sustainability Management Trends and Strategies in order to help business partners raise awareness of sustainability management. During the session, participants discussed market trends, such as the significance of a sustainable supply chain, major domestic and international issues concerning supply chains, and sustainability management evaluation schemes regarding supply chain, as well as exchanged opinions on the future directions of DGB Financial Group business partners.



Stakeholder Interview

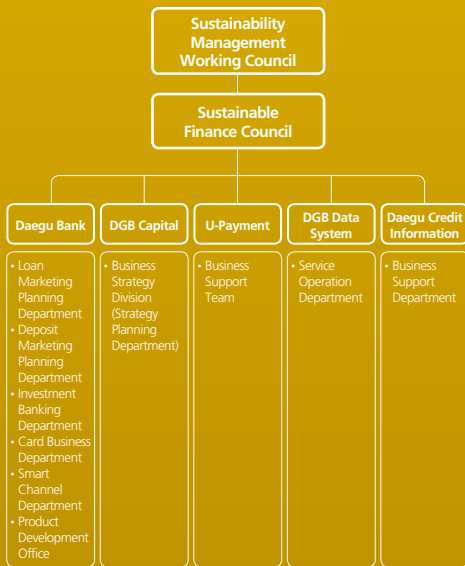
The Daegu regional economy is currently experiencing difficult times, yet Daegu citizens trust and are loyal to DGB because together they have experienced ups and downs. Therefore, I think the partnerships between DGB and its business partners are sustainable. I would like to ask DGB to fulfill its responsibility to local communities as a regional bank in discovering and supporting local SMEs with competitive technologies.

Gil-jo Lee, owner of Mijin Printing

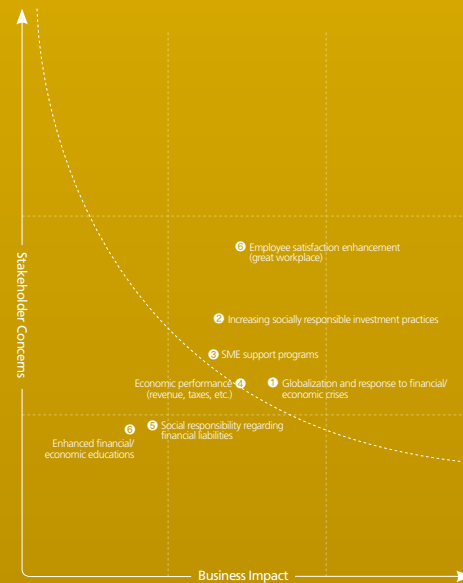
Sustainable Finance

Committed to the development of regional economy and industry, DGB Financial Group is developing financial products that contribute to the sustainable growth of the region and providing total financial service that contributes to social value.

Sustainability Management Organization



Material Issues



Strategic Direction



Key Performance Indicators

Category	2011	2012	2013	2014(Plan)
Deposits market share in Daegu/Gyeongbuk	34.8	35.1	36.2	37.0
Loans market share in Daegu/Gyeongbuk	29.4	29.4	29.0	30.0
SME Loans/Ratio (KRW in billions/%)	KRW 11,582.4 billion/62.4%	KRW 13,404.7 billion/61%	KRW 15,300.9 billion/63%	KRW 17,200.9 billion/64%
SRI product sales volume (KRW million)	KRW 9,620 million	KRW 11,807 million	KRW 7,790 million	KRW 11,000 million
BIS Capital Adequacy Ratio (%)	15.33	15.57	15.06	12.55
Customer Satisfaction (points)	92	93	94	94
FSS Civil Complaint Assessment Ratings	Grade 1	Grade 1	Grade 1	Grade 1

2013 Major Achievements

SME Loans Amount



KRW **15.3** trillion

Public funds for socially responsible investment



KRW **27** million

Sales of public welfare products



KRW **197,925** million

Recipients of financial/economic education classes



10,650 persons



CONTEXT & CHALLENGES

While contributing to social value through its financial services, DGB Financial Group also strives to enhance its financial and non-financial value. DGB's growth model for sustainable financing is developing and providing compassionate financing for the development of local communities and welfare of local residents.

OUR APPROACH

DGB Financial Group provides a number of financial products designed for mutual prosperity with local communities, while also offering diverse products for under-banked small business owners and low-credit individuals.

OUR PROGRESS

Micro-Finance

SME Loans Amount



KRW **15.3** trillion

Mortgage Loan Pre-Workout

Daegu Bank initiated a mortgage loan pre-workout on its own in March 2013 in order to help financially-distressed borrowers suffering from high interest rates and sagging housing prices. In a bid to alleviate customer financial burden, the bank extended the grace period, maturity and lump-sum redemption dues of installment repayment loans.

Industry-low Interest Rates on SME Competence-building Fund

Daegu Bank offered the industry-low interest rate of 3.5 percent on the Gyeongsangbuk-Do Business Start-up and Competence-Building Loans for the development of the local economy and SME competitiveness from January 2014. Bearing the lower margin, the bank determined an additional cut in interest rates in a bid to stimulate business start-up and investments and create jobs in the Daegu and Gyeongsangbuk-do region.

SME Extended to SMEs



Stakeholder Interview

Financial institutions thrive on regional economies. I think it is important that DGB remains unswayed by external fluctuations and steadfast to its business philosophy in its business planning and implementation. At the same time, it would be better if it can actively engage in activities to promote local economies, small businesses and traditional markets, thus contributing to the development of the regional economy.

Joon-woo Kim, secretary general of the Nakdong River Forest for Life

Microfinance Loans

(As of the end of December 2013)

Products	Total Account Number	Total Support Amount (KRW in billions)
Special Loans for Liquidity Support to Self-Employed	8,223	118.2
DGB Hope Sharing Special Loans	647	224.6
DGB Love Sharing Household Loans	3,001	223.8
DGB Seed for Hope Loans	1,504	9.6
DGB New Seed for Hope Loans	21,264	171.0
Special Guarantee Loans for Underbanked Self-Employed	2,224	22.5
DGB Smart Biz Loans	490	175.2
DGB Conversion Loans	1,396	13.9
DGB Hopeful Days Loans	682	7.0
Special Guarantee Loans for Alley Shop Owners	1,376	23.5
DGB Dream Loans for Young People	53	2.8
DGB Conversion Loans for Young People and University Students	115	0.8
DGB Hope Nurturing Special Guarantee Loans	61	1.9
DGB Conversion Loans for Small Business Owners	276	2.9
Special Guarantee Loans for SMEs and Small Business Owners in Gyeongbuk	471	11.1
DGB GREEN LOAN	29	6.6

Socially Responsible Finance



InnoBiz CSR Credit Cards

In April 2014, Daegu Bank signed a business alliance agreement with InnoBiz Association regarding the issuance of CSR cards in a bid to promote CSR awareness among InnoBiz members in the Daegu-Gyeongbuk region. Under the alliance, InnoBiz member companies are encouraged to replace their corporate credit cards with the CSR card, allowing them to donate to social contribution funds in proportion with their card use. The funds will be donated to local social causes twice a year.

Subcontractor Protection Account Service Launched

Daegu Bank entered into a business alliance with the Public Procurement Service (PPS) in 2013 to promote fair subcontracting practices in December 2013. Under the agreement, the bank launched the Subcontractor Protection Account Service. The service is dedicated to facilitating subcontractor management, such as settling bills for material, equipment and outsourcing services. The new service is expected to contribute to fairer and more efficient subcontracting practices, from contracting and track recording, to payment settling.

Campaign to Find Owners of Dormant Trust Accounts

In a bid to protect the rights of financial consumers, Daegu Bank has been jointly conducting the Campaign to Find Owners of Dormant Trust Accounts with the FSS since 2011. In 2013, the bank returned KRW 1,789,230,000 to the owners of 1,026 accounts. From 2011 up to the first quarter of 2014, a total of KRW 3,599,727,000 was returned to the rightful holders of 3,194 accounts, thus promoting the rights of financial consumers.

Campaign Performance Results

Category	2011	2012	2013	1Q 2014
Fixed Dividend Trust (A)				
Principal Preservation Trust (B)	18 accounts	2,031 accounts	1,026 accounts	119 accounts
Merit Allocation Trust (C)	3,356 (KRW 1,000)	1,475,364 (KRW 1,000)	1,789,230 (KRW 1,000)	331,787 (KRW 1,000)
Total Unspecified Trust Cash Fund (A)+(B)+(C)				

SRI Fund Sales

To fulfill its social responsibility through financial products, Daegu Bank has been offering a variety of socially responsible investment (SRI) funds. For instance, the 'Woori Frontier Sustainable Business SRI Equity Fund' contributes 10 percent of sales and operating profits to a public service fund, while the 'Mirae Asset Love Sharing ETF Equity Investment Trust' donates 0.5 percent of sales and front-end commissions. The bank donated KRW 27 million of funds raised from the Love Sharing account in 2013. All donations made through the account are managed individually, with donors benefitting from year-end tax exemptions. These products are highly recognized for promoting donation practices among the public.

Public Service Fund Products (as of the end of March 2014)

SRI Fund	DGB AUM (KRW in millions)		Rate of Return (%)		
	Initial	Balance	3 months	6 months	1 year
Woori Frontier Sustainable Business SRI Equity Investment Trust	21,215	2,530	-0.07	-6.09	1.4
Midas Responsible Investment Equity Investment Trust	1,157	448	3.62	-1.02	6.13
Mirae Asset Green Growth Equity Investment Trust	2,621	1,907	4.47	7.96	0.03
Mirae Asset Love Sharing ETF Equity Investment Trust	4,316	4,075	3.21	-0.92	7.96

Public funds for socially responsible investment



KRW 27 million

Contributions to the SRI Public Service Fund

구분	2011	2012	2013	2014 (Plan)
Service Fund (KRW 1,000)	17,000	26,000	27,000	30,000

Deposit Products (Jan. 2013 – Mar. 2014) (Unit: KRW million)

Product	Description	Sales Amount
Children Love Savings	A product that offers prime interest rate to customers that receive birth grant and/or child support aid	16
DGB National Pension Safety Deposit Account	A special product for the National Pension deposits that is exempt from seizure	104
Young Plus Account	A special unlimited deposit and withdrawal account offering fee-exemption to university students	13,596
I Zoa (Child Love) Deposit Account	Unlimited deposit and withdrawal account for families with more than two children	980
I Zoa (Child Love) Savings	A savings deposit that offers prime interest rate to families with more than two children	59
Child Love Savings	A product that offers prime interest rate to customers who receive child support aid through business alliance with local governments	78
DGB Property Accumulation Savings	A product that offers prime interest rates and tax benefits for office workers and business owners in accordance with the special tax treatment control law	62,800
Preferential Installment Savings for Soldiers	A tailored savings deposit that offers preferential interest rates to soldiers	98
Living Expense Deposit Account	An unlimited deposit withdrawal account specifically for living expense deposits that offer fee-exemption and alliance discount benefits	78,838
DGB Fixed-rate Property Accumulation Savings	A product that offers prime interest rates and tax benefits for office workers and business owners in accordance with the special tax treatment control law	747
Samsung Lions Victory Deposit	A product linked with sports that offers additional interest rates in tandem with the season records of local baseball team	22,221
Samsung Lions Victory Savings Deposit	A product linked with sports that offer additional interest rates in tandem with the season records of local baseball team	3,770
Dokdo Deposit	A public service product that offers prime interest rates to accountholders who attend education sessions about Dokdo and have visited the islet, and contributes 1 percent of interest paid after tax to Dokdo Fund	53,234
Dokdo Deposit	A public service product that offers prime interest rates to accountholders who attend education sessions about Dokdo and have visited the islet, and contributes 1 percent of the interests paid after tax to Dokdo Fund	13,232

DGB Free Installment Savings Deposit	A free installment savings deposit coming with benefits of preferential rates in proportion to the transaction records	54,207
Dream Tree Plus Deposit	A special unlimited deposit and withdrawal account exclusively offering fee-exempt to the underaged	667
DGB Happy Partner Deposit	A time deposit that pays the principal and interest on installment like an annuity	4,524
Biz-Starter Preferential Deposit	An unlimited deposit and withdrawal account offering free-exempt to self-employed, corporate, or an organization who have Certificate of Business Registration	37,581
New Business Owner Prime Rate Deposit	A product that offers prime interest rates to business owners, corporations, and organizations with business registration certificates according to their transaction records with the bank	513
New Business Owner Prime Rate Savings	A product that offers prime interest rates to business owners, corporations, and organizations with business registration certificates according to their transaction records with the bank	43
DGB Plus Hope Savings	A high-interest rate installment savings designed to help the underprivileged stand on their own feet	537
Exemplary Taxpayer Deposits and Savings	An exclusive product for exemplary taxpayers and excellent tax paying enterprises	262
2014 Power Samsung Deposit	A product linked with sports that offers additional interest rates in tandem with the season record of local based baseball team	795
2014 Power Samsung Savings	A product linked with sports that offers additional interest rates in tandem with the season record of local based baseball team	39

Loan Products (Jan. 2013 – Mar. 2014) (Unit: KRW in millions)

Product	Description	Sales Amount
DGB PRIDE LOAN	Preferential credit lines and interest rates to regional SMEs and household borrowers	1,590,284
Hwasin Win-Win Partnership Loan	A win-win partnership financing to a regional large corporation and its SMEs with good credit records	3,500
BOK's Aggregate Credit Ceiling System for Technology-driven Business Start-ups	Financing technology-competitive new SMEs at low interest rates	26,705
DGB Preferential Loans to Manufacturers	Preferential credit lines and interest rates to regional SME manufacturers	302,352
INNOBIZ LOAN	Preferential credit lines and interest rates to regional InnoBiz certified SMEs with competitive technologies	9,280
DGB Garion Special Loan	Preferential credit lines and interest rates to regional SMEs and household borrowers	267,409
DGB Greenbe Special Loan	Preferential credit lines and interest rates to SMEs located in Busan, Ulsan and Gyeongsangnam-do region	22,164
R&D SME Financing Loans	Enhanced financing to regional SMEs and household borrowers	49,456

Public Service Tailored Products (Unit: KRW in millions)

Product	Description	No. of Accounts	Sales Amount
DGB Seed for New Hope Loan	A loan product for under-banked individuals to protect them from usurers	21,109	169,678
DGB Didimdol Soho (self-employed support) loan	An exclusive loan offered to low-income self-employed business owners	559	2,781
DGB Conversion Loan	A conversion loan for borrowers to alleviate high interest burdens of more than 20 percent per annum	1,389	13,831
DGB Hopeful Days Loan	A credit loan for small business owners with a daily amortization schedule	679	6,991
DGB Conversion Loan for Small Business Owners	A conversion loan for small business owners that offer protection from loan sharks	275	2,884
DGB Conversion Loan for Young People and University Students	A conversion loan for young people and university students that offer protection from loan sharks	115	777
Disaster Damage Loan	A loan product for emergency liquidity assistance to small business owners affected by disasters	37	982

Sales of public welfare products



KRW
197,925
million



Sustainable Performance Creation

CONTEXT & CHALLENGES

DGB Financial Group's sustainable growth and revenue stream can economically benefit its employees, investors, business partners and local communities. Furthermore, its sustainable performance results can have a significant impact on its own business expansion, organizational restructuring and reinvestment in local communities.

OUR APPROACH

DGB Financial Group strives to provide globally competitive financial services through group-wide synergies. By preemptively managing risks, the Group timely responds to the fluctuating financial market, as well as developing new products and making socially responsible investments.

OUR PROGRESS

Preparing for Globalization and Financial Crisis

Spurring Group-wide Synergies

Leveraging synergy with its subsidiaries, DGB Financial Group has been striving to provide unique products that meet global standards. The Group's Synergy Promotion Department arranges cross-selling between Daegu Bank and DGB Capital, as well as joint marketing between Daegu Bank and U-Payment for a transport card and other promotions.

Change Innovation Promotion Group

Daegu Bank embraces change and innovation, preemptively responding to the changing financial environment and generating new growth engines. To that end, the Change Innovation Promotion Group was created under the supervision of a Divisional Director. Furthermore, the 2014 management goal for change innovation was set as 'powerful marketing, ethical management and a solid bank', along with three key tasks of 'cheer-up, go back to basics, and embrace change', as well as the slogan, 'changes starts with me! Innovation begins with practice'.

Co-Sponsor of the Daegu/Gyeongbuk Financial/Economic Condition Review Council Meeting



In August 2013, Daegu Bank held the 2nd Daegu/Gyeongbuk Financial/Economic Condition Review Council meeting. The meeting allowed related organizations to exchange information and review the region's financial and economic conditions in order to deliberate on countermeasures to meet diverse risk factors. Participants included Daegu Bank, Daegu City, Gyeongsangbuk-do, The Bank of Korea Daegu-Gyeongbuk Regional Headquarters, the Financial Supervisory Service's Daegu Branch, the Daegu Chamber of Commerce and Industries, and the Gyeongbuk Chamber of Commerce and Industries. The main agenda of such meetings is to review and give an outlook on the region's economy, financial support plans and performances regarding local SMEs, company complaints and local residents' complaints related to financial services.

MOU signed with Qingdao Bank and Ningbo Bank



Daegu Bank signed an MOU with Qingdao Bank and Ningbo Bank in June 2013 regarding financial alliance and mutual cooperation, including credit lines and foreign exchange transactions. The agreement will pave the way for Daegu Bank to expand into Shanghai and other major Chinese cities, as well as induce foreign investment from China.



Daegu Bank's Shanghai Branch

Daegu Bank became the first Korean regional bank to open a branch in Shanghai in December 2012. Our ardent staff and competitive financial services have won the hearts and minds of local customers. As a result, the branch had accumulated total assets of USD 100 million as of November 2013. Having introduced a computer system designed to enhance efficiency in its international financing services, Daegu Bank is actively expanding its presence in the market based on a network of Korean companies operating in China and its human network with local communities.



Global F/X ATM

Starting September 2013, Daegu Bank operates global F/X ATMs at its branches in Korea, allowing customers to exchange currencies or overseas remittance using their debit cards or bankbooks, thus eliminating the need to wait in line in branches. As part of a promotion, the service comes with a 30 percent discount on foreign exchange fees and an exemption from the overseas remittance commission.

Social Responsibility to Financial Liabilities

Recipients of financial/ economic education classes



10,650 persons



Fostering Professional Financial Instructors

To meet the growing demand for financial & economic classes in local communities, Daegu Bank trains 30 professional instructors in youth financial education and investment techniques, who then give financial/economic lectures at local business partners, schools, government offices and welfare centers. The instructors continue to improve their knowledge by participating in special training courses. In 2013, a total of 122 classes were attended by 10,650 participants.

Financial/Economic Education

Type	2011	2012	2013	2014(Plan)
No. of sessions	113	159	122	130
No. of trainees	6,251	9,174	10,650	11,000

Prime Loans for Manufacturers

Daegu Bank launched the Prime Loans for Manufacturers in July 2013, in order to solidify further growth and in response to the government's SME support policy. With credit lines set at KRW 300 billion, a single borrower can take out loans totaling up to KRW 5 billion with advantageous interest rates. As a result, the burden placed on regional companies has eased, thus contributing to their increased competitiveness.

Condonation of Delay Penalties for Delinquent Short-term Member Loans

From April to June 2014, Daegu Bank announced the "Condonation of Penalties for Delinquent Short-term Member Loans" in an effort to shoulder customers' financial burdens. For delinquent borrowers less than 3 months behind in their payments for the first time in 2014, the bank wrote off all delay penalties and charged only the original interest on the condition that all dues were paid back in full by the end of June.



Love & Share

Local Community Involvement & Development

Committed to the development of local communities, DGB Financial Group actively participates in community engagement programs so as to serve society as a reliable and respected financial partner.

2013 Major Achievements

Social contribution expenses ratio to net income



9.0%

DGB Volunteer Corps enrollment rate



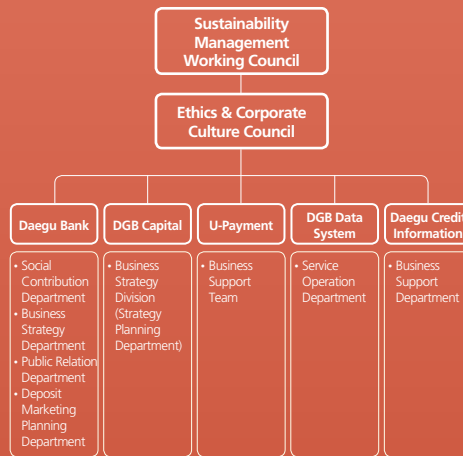
93.1%

No. of volunteers

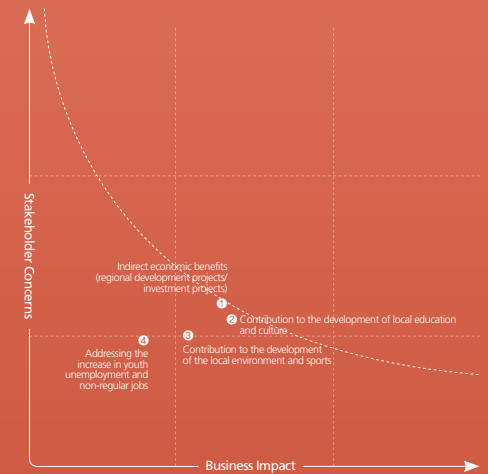


22,001 people

Sustainability Management Organization



Material Issues



Strategic Direction

① Indirect economic benefits (regional development projects/investment projects)

④ Increased youth unemployment and non-regular jobs

Contribution to the development of the local economy

② Contribution to the development of local education and culture

③ Contribution to the development of the local environment and sports

Giving back to society

Key Performance Indicators

Category	2011	2012	2013	2014 (Plan)
Rate of social contributions to net income (%)	7.8	8.3	9.0	9.0
DGB Volunteer Corps enrollment rate (%)	96.3	96.5	93.1	93.8
No. of volunteers (persons)	22,198	21,578	22,001	23,000
No. of jobs created (new banker recruitment) (persons)	177	179	176	150
Beneficiaries of business consulting service (companies)	82	63	67	70
Daegu Bank labor union's social contribution expenses (KRW in millions)	260	217	233	230
Scholarship Culture Foundation's scholarship contributions	KRW 453 million (213 persons)	KRW 447 million (213 persons)	KRW 428 million (213 persons)	KRW 448 million (215 persons)



Contribution to the Development of Local Economies

CONTEXT & CHALLENGES

The regional economy recently showed signs of recovery thanks to the booming machinery & automobile components industries and recovering housing prices, yet per capital gross regional domestic product (GRDP) still remains bottom among local governments. Growth in the productivity of regional businesses and job creation are critical to the growth of DGB Financial Group. Therefore, the Group commits its resources and energies to promoting the local economy and its self-sufficiency as a compassionate, regional financial service provider.

OUR APPROACH

DGB Financial Group engages in a number of mutual win-win partnership activities through such programs as the Group synergy promotion initiative, SME support and prime loans for technology-driven ventures, as well as business consulting services. Additionally, the Group increased the recruitment of new bankers, runs a University Student Supporters' Group and Green Press Corps, as well as internships for university students in a bid to address youth unemployment and the growing trend for non-regular jobs.

OUR PROGRESS

Community Engagement Programs

Quarterly Regional Industry Forecast Model and Economic Forecast

The DGB Economic Research Institute completed a regional industry forecast model in 2014, and released its economic forecast for 14 industries and the regional economy of Daegu and Gyeongbuk for the second quarter of the year. The Institute will continue upgrading its forecast model in order to support regional companies, keep up with market trends and measure and prepare for potential short-term risks based on its economic outlook on the region's economy and industry.

CEO Forum

In partnership with the regional Chamber of Commerce and Industries, DGB Financial Group holds annual CEO Forums in Daegu, Gimcheon, Gumi and Pohang in order to stimulate the regional economy and strengthen the competitiveness of regional companies. Inviting prominent instructors from fields such as business management and finance, the Forum provides participants with up-to-date information and knowledge, as well as a venue for CEOs from various areas to exchange information and opinions.

Customer Satisfaction (CS) Education

Daegu Bank provides free customer satisfaction education to various regional organizations, including companies, public organizations, hospitals, military and universities. With the aim of promoting a CS mind-set among regional institutions, the classes look at promoting a customer-oriented mindset, service call etiquette, image-making skills, business manners, customer complaint response tips, work ethics and communication skills. In 2013, a total of 3,253 people from 42 organizations attended the classes. Since the launch of the program in 2010, the bank has hosted CS sessions at a total of 178 institutions, significantly helping them reinforce their competitiveness.

CS education sessions



247 sessions

CS Education Performance

Program		2011	2012	2013	2014 (Plan)
In-house	Visiting lectures (sessions)	136	173	177	37
	Off-the-job education (sessions)	11	20	28	8
Outside	Outside educational courses (sessions)	33	50	42	6
	(No. of trainees (persons))	(2,153)	(8,864)	(3,253)	(841)

Pre-Workout for Self-Employed

In alliance with the Daegu Credit Guarantee Foundation and Gyeongbuk Credit Guarantee Foundation, Daegu Bank held a signing ceremony for the 'Happy Dream Agreement on the Pre-Workout for Self-Employed' program in April 2013. In fulfillment of the bank's social responsibilities, the program is designed to support self-employed customers who are facing difficulties paying back their debts due to temporary financial problems by offering debt restructuring and credit recovery schemes.

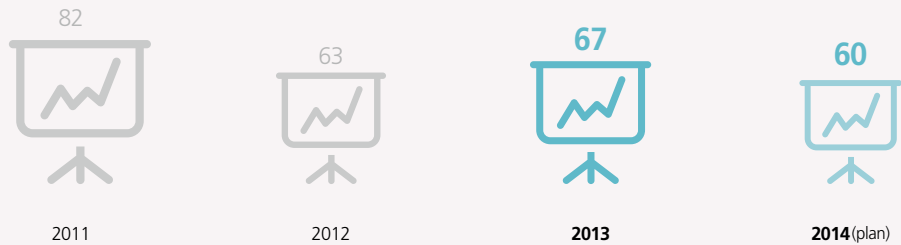
SME Support Program

Business Consulting Services to Regional Companies

Since 2005, Daegu Bank has been providing local companies with various consulting services, such as strategy-building, human resources management, organizational structure, finance/accounting, marketing and quality control. For example, the bank helped regional companies advance into new growth engine areas through technology transfer and commercialization in collaboration with the Daegu Research & Development Special District and Daegu Techno Park. It also provides free business consulting to 30 social enterprises and community businesses in order to help them reinforce their competitiveness and management innovation.



No. of beneficiaries of its business consulting services



Prime Rate F/X Fees for Yen-denominated Borrowers



In a bid to alleviate financial expenses and foreign exchange risks arising from the fluctuating foreign exchange, Daegu Bank introduced a prime F/X fee service for yen-denominated SME borrowers in 2013. The beneficiaries of the service include ordinary borrowers and those on a special agreement for currency exchange, offering financial benefits to the SME borrowers wanting to convert their yen-denominated loans to won-denominated loans amid the appreciating Yen.

Emergency Loans to Households and Self-Employed Suffering Heavy Snow Damage

Daegu Bank offered emergency restoration loans to households and the self-employed who suffered damage as a result of the large snowfall in North Gyeongbuk and East coast areas in February 2014. It was an expansion of the existing Disaster Relive Loans for Businesses to include households as beneficiaries. When proven to have suffered damage due to a disaster, applicants can receive up to KRW 20 million per case and/or up to KRW 50 million per person in working capital or living security funds. When taking unsecured loans, the bank offers up to a 1.0 percentage point cut in interest rate.



Stakeholder Interview

Daegu/Gyeongbuk region's businesses are mostly small and medium-sized enterprises (SME), who account for 99 percent of all businesses operating in the region. Therefore, it is imperative that DGB stimulates the creative activities of SMEs and listens to the demands of local communities for mutual growth in the practice of its business ethics and to maximize profits.

Tae-mun Suk, Chief researcher at Daegu-Gyeongbuk Research Institute

Job Creation and Internships

Continuous Recruitment of New Employees

Despite the challenging financial market environment and economic recession, Daegu Bank continues to recruit new employees in a bid to stimulate regional youth employment and create jobs. Its recruitment procedures focus on the personality and adaptability of applicants, regardless of academic background or age. In particular, the bank dropped TOEIC scores from its application requirements, thus broadening opportunities for applicants. In 2013, a total of 176 new employees were hired. As being a regional bank, Daegu Bank gives advantages to local residents applying. All of its high school graduate new employees were from the region, while 90 percent of university graduate new employees were either born in or living in the Daegu and Gyeongbuk area.

New banker recruitment



University Student Supporters Group and Green Press Corps



DGB Financial Group provides local university students with opportunities to experience society through its University Student Supporters Group and Green Press Corps. The fifth DGB University Student Supporters Group was launched in April 2014 to enhance public recognition of the bank as a responsible and energetic bank and promote its brand value through various social contribution activities. The Green Press Corps reports DGB Financial Group's environmental activities to local communities and raises public awareness of environmental issues such as climate change.

Internship Programs for University Students

In conjunction with the Youth Job Experience Program organized by the Ministry of Labor, DGB Financial Group has been operating the 'Job Experience Program for University Students' since 2007. The program offers local university students with opportunities to gain hands-on experience of working at a bank, as well as a chance to explore career paths and develop work experience.





Sharing with Local Communities

CONTEXT & CHALLENGES

In supporting socially vulnerable groups, such as the underprivileged through reinvestment and donations, DGB Financial Group strives to return part of its business gains to local communities.

OUR APPROACH

DGB Financial Group engages in diverse community engagement programs, such as those that provide assistance to minority groups. The Group also sponsors various educational, cultural, artistic and sports activities in the region for local residents.

OUR PROGRESS

Supporting Socially Vulnerable and Underprivileged Groups

DGB Home Repair Campaign

DGB Social Contribution Foundation visited multi-family households in Daegu in May 2014. The volunteers repaired windows, ceilings, wallpaper and exterior walls, as well as donated various living necessities, such as mats, rice and noodles. Also in 2014, the DGB Volunteer Corps aims to repair an additional 15 houses of underprivileged families through the Community Chest of Daegu.



Free Glasses for Multi-cultural Families

In partnership with the Department of Ophthalmic Optics of Daegu Health College, DGB Social Contribution Foundation donated glasses to 130 multi-cultural families in Daegu in May 2014. Marking its second event since 2013, the campaign aims to assist visually-challenged multi-cultural families by providing them with lenses and frames, as well as free eyesight tests.



With-You Health Check-up Service for Children Living with Grandparents

DGB Social Contribution Foundation has been supporting a health check-up service for children and teenagers living with their grandparents in the Daegu and Gyeongbuk region since 2012. As part of the DGB Total Care Program for the Children Living with Grandparents, the health check-up service was conducted with the help of Semyeong Hospital and Hyoseong Hospital. The recipients received a check-up covering 24 health conditions, including nutritional balance, kidney function and blood sugar level.



DGB University Student Supporters Group Donates Audio books

DGB University Student Supporters Group visited the Daegu Welfare Center for the Visually-Impaired and the Braille Library of Daegu University and donated audio books they themselves had produced. The books, featuring warm-hearted stories, were recorded voluntarily by six members of the group.

Sponsoring Educational/Cultural/Artistic/Sports Programs



Hosted the 1st Korean Classic Song Festival

DGB Financial Group hosted the first Korean Classic Song Festival in alliance with Keimyung University in order to revitalize beautiful Korean classic songs that had been relatively neglected and create a venue for local residents to gather and enjoy the music. Featuring world famous Korean singers, choirs, and the Daegu International Opera Orchestra, the festival also featured an amateur song contest, music/poetry concert, and academic forums, with the festival garnering good responses from local residents.

Held the 3rd DGB Dokdo Love Golden Bell Quiz Show

Daegu Bank held the 3rd DGB Dokdo Love Golden Bell Quiz Show in Daegu Civic Gymnasium in August 2013. With the aim of reminding people of the significance of Dokdo and historic awareness, the contest featured 500 student participants and 600 of their supporters from high schools in the Daegu and Gyeongbuk region. The questions focused mainly on Dokdo, Korean history, and regional traditions, as well as basic financial/economic knowledge. The winners were rewarded with scholarships and tickets to visit Dokdo.

Held 2013 Anti-Terrorism Drill Photograph Exhibition

In commemoration of the Anti-Terrorism Drill, Daegu Bank held a photograph exhibition on the subject in the lobby of its main office building in August 2013. Sponsored by the Daegu Branch of the Korea War Dead Soldiers and Policemen Bereaved Family Association (KWBFA), approximately 60 photos were exhibited to remind younger generations of the brutality of the 1950 Korean War.

Sponsoring Athletic Competition for International Workers

Daegu Bank participated in the "International Workers Athletic Competition" hosted by the Daegu Support Center for Foreign Workers in September 2013; helping international workers with financial transactions and providing free giveaways. Approximately 1,000 international workers from 12 countries, including China and Indonesia, attended the event, which featured talent shows and athletic competitions. The bank assisted participants with various financial services, such as opening bank accounts and sending overseas remittance, as well as provided prizes for the events. The bank also offered privileged benefits and quick and convenient financial services to international workers and multi-cultural families through the Ae-in Marketing in 2013.

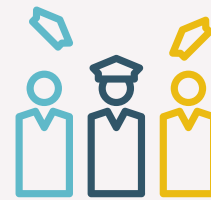
Scholarship Culture Foundation Scholarship Granted (persons/KRW in millions)

high school students



116 persons / KRW 177 million

university students



97 persons / KRW 251 million

DGB Financial Group Volunteer Corps



No. of volunteers



22,001 people

DGB Financial Group Launches Emergency Disaster Relief Corps

DGB Financial Group launched the Disaster First Aid Corps in March 2014 in order to extend a helping hand to damaged areas promptly and efficiently. The Corps consists of 40 members who will provide aid to any local areas suffering damage from natural disasters such as flooding, typhoons, heavy snow, and mountain fires. To that end, all Corps members have received systematic training by the Korea Red Cross on how to respond in the event of a disaster.

DGB Labor Union's Social Contribution Activities

Daegu Bank Labor Union attended the 7th Santa Crew launching ceremony by the Green Umbrella Children's Foundation in December 2013, and donated KRW 46 million to help the children of low-income families. The Union has sponsored the event every year since its launch in 2007. The money donated is used to purchase gifts and heating fuel for 650 local children, including those from local community childcare centers and low-income families.

Daegu Bank's Social Contribution Activities in 2013

Category	Program	Contribution (KRW million)	Volunteers (persons)
Local communities/ public welfare	<ul style="list-style-type: none"> DGB Volunteer Corps operational expenses Sharing Kimchi and Coal Briquettes Photo-shoot for elderly citizens 	10,166	13,250
Academic/education	<ul style="list-style-type: none"> DGB Scholarship Foundation operational expenses DGB Dokdo Love Golden Bell Quiz Show 	2,855	299
Environment	<ul style="list-style-type: none"> Sponsoring lighthouse operations on Dokdo Islet Patronage of Citizens Meeting for Green Daegu Planting 	15	6,400
Culture/Sports/Art	<ul style="list-style-type: none"> Sponsorship of Les Miserable musical Sponsorship of New Year's First Sunrise Event by Munkyeong City Kusama Yayoi Works Exhibition Participation in Daegu International Marathon 	5,296	2,052
Global Social Contribution	<ul style="list-style-type: none"> Overseas medical services in Cambodia Hands-on foreign cultural experience (Child Fund) Sponsorship of International Worker Cultural Festival 	40	-
Microcredit	<ul style="list-style-type: none"> Sponsorship of Healing Fund for Hope 	3,529	-
Total		21,901	22,001

DGB Labor Union's social contribution activities

Description	2011	2012	2013	2014 (Plan)
Helping children with incurable diseases, sponsoring children from low-income families	260	217	233	230



Stakeholder Interview

I think Daegu Bank can realize sustainable growth when it keeps its eye on the development of social issues, such as low birth-rate, aging society, non-regular jobs and youth unemployment and seeks ways for mutual prosperity. The bank also needs to pay attention to underprivileged children and multi-cultural families, seeking cooperation with public organizations in order to help create a healthier and happier society for all.

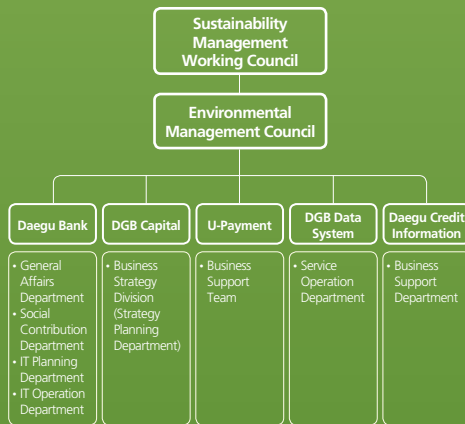
Sang-im Cho, head of Bluebird Dream Community Childcare Center



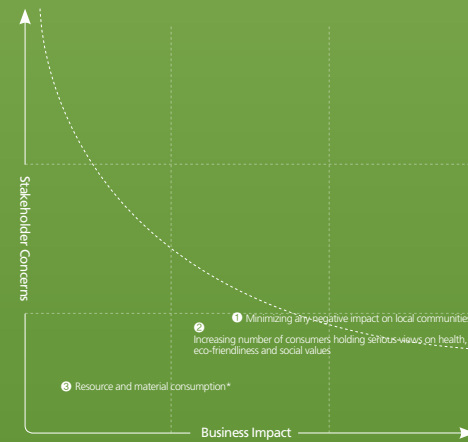
Environmental Management

DGB Financial Group is strengthening its competencies in carbon management and creating a new business model that will enable it to lead the way as an eco-friendly financial group.

Sustainability Management Organization



Material Issues



Strategic Direction



Key Performance Indicators

Category	2011	2012	2013	2014 (Plan)
GHG emissions (Scope 1, 2) (tCO ₂)	34,326	30,152	30,147	30,100
Water Use Amount (m ³)	119,266	108,626	174,518	173,500
Paper Use Amount (tons)	116.3	110.3	119.3	118.0
Percentage of e-mail billing (%)	17.4	24.1	27.2	28.0

2013 Major Achievements

Green financial products sales



KRW **157.2** billion

Application rate of environmental management checklist



95.4%

CO₂ reduction benefits of Green Touch programs



14.9 tons

GHG emissions declined



8.0% (compared to 2010)



CONTEXT & CHALLENGES

In step with growing global concerns regarding environmental issues, DGB Financial Group, like many leading domestic and international financial institutions, are making efforts to foster green companies and develop green products and technologies.

OUR APPROACH

DGB Financial Group is developing a number of green financial products and operating environmentally-specialized stores, while also continuing efforts to spread green management practices through its entire supply chain.

OUR PROGRESS

Green Financial Products

Daegu Bank lends its financial acumen to addressing climate change and minimizing any environmental impact through its green financial products. The bank is consistently introducing green products in the areas of deposits, loans, funds and credit card products in order to raise local awareness of green financing.

Green Financial products sales

Green financial products sales



Category	2013		2014 (Plan)		
	No. of accounts	Total Amount (KRW in millions)	No. of accounts	Total Amount (KRW in millions)	
Installment Savings	Eco-friendly Green Installment Savings	13,526	77,485	751	4,252
	Green Health Installment Savings	1,319	4,829	1,166	4,644
	e-Convenient Installment Savings	3,725	10,185	4,302	12,437
Financial Technique Deposits	Eco-friendly Green Deposits	786	10,496	230	2,494
	e-Convenient Time Savings	5,273	53,512	5,230	58,454
Offshore Funds	KB Global Warming Thematic Trust Investment-Type A	166	578	171	611
	Global Warming Thematic Trust Investment-Type C	34	167	34	171



Stakeholder Interview

Daegu Bank has grown into Daegu's 'our bank', one that is trusted and supported by Daegu citizens. I hope the bank can continue its efforts to build competencies that will make it a competitive global financial institution.

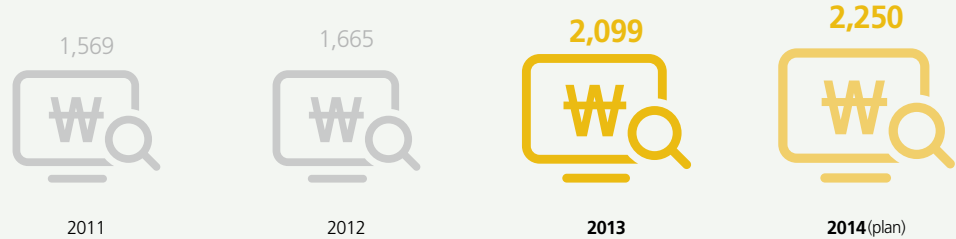
Cheol-soo, Jung (Chegim Tech Tool)

DGB Cyber Green Branch

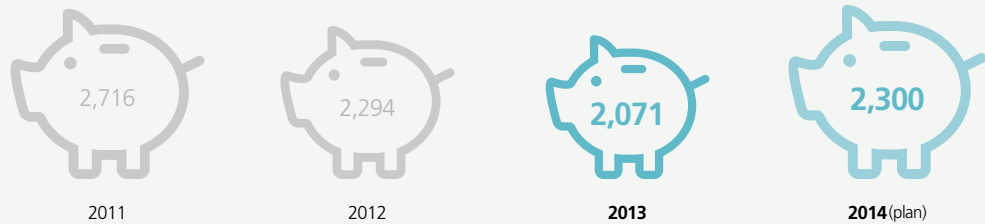
In 2010, Daegu Bank became the first Korean bank to open an Internet-based, environmentally-friendly branch designed to promote green financing in Korea. The branch only offers green financial products covering deposits, loans, funds and credit card products, and donates a percentage of the profits to supporting regional environmental preservation activities.

DGB Cyber Green Branch Sales

No. of accounts sold (accounts)



Total Value (KRW in millions)



Promoting Green Management Practices

Daegu Bank has been evaluating the environmental management practices of its partner companies by means of the Treasury Credit Risk Management System (TCRMS) since 2006. Designed to promote green businesses and environmental negative screening, the evaluation uses the credit rating system to review business loans and rewards those with high scores with various benefits. The checklist was applied to a total of 13,992 companies in 2013, accounting for 95.35 percent of the companies that applied for loans. The bank plans to further expand the evaluation in the future.

Application rate of environmental management checklist



Companies Applicable to Environmental Management Checklist

Type	2011	2012	2013	2014(Plan)
No. of checklist-applied companies (companies)	11,223	12,388	13,992	15,391
No. of checklist-exempt companies (companies)	174	115	682	730
Rate of checklist-applied companies (%)	98.47	99.08	95.35	95.47

Addressing Climate Change



CONTEXT & CHALLENGES

Climate change stemming from global warming has become an ongoing controversy in the global community. Climate change poses risks, both financial and regulatory, to businesses around the world, yet also poses as an opportunity for those ready with differentiated business practices.

OUR APPROACH

At DGB Financial Group, we engage in diverse activities under the notion that environmental consciousness and the behavioral change of present and future generations are imperative to addressing climate change.

OUR PROGRESS

Fighting Desertification

5th DGB Anti-Desertification Forest Project in Mongolia

DGB Financial Group held the 5th DGB Anti-Desertification Forest event in Mungun Morit, Mongolia in June 2013. Present at the event were approximately 100 people, including the governor of Mungun Morit and local residents and DGB Financial Group employees, with participants planting 3,000 trees on a site spanning 3 ha. Most of the trees planted during the event were Sea Buckthorn, a tree that can contribute to the earnings of local residents. The bank also delivered scholarships four local students aiming to become forestry experts as part of the company's efforts to fight desertification in the region. In 2013, the Group received an appreciation plaque from the Tuv Aimag governor of Mongolia for its contribution to fighting desertification over the past five years.

DGB Anti-Desertification Forest Project in Mongolia

Type	2009	2010	2011	2012	2013
No. of Trees Planted (trees)	60,000	60,000	60,000	2,100	3,000

* Beginning 2012, all trees planted were Sea Buckthorn so as to provide financial assistance to local residents.

Anti-Desertification White Paper

In April 2014, DGB Financial Group published the Mongolian Anti-Desertification White Paper; a report on its five-year performance in fighting desertification in Mongolia from 2009 to 2013. The publication provided the Group with an opportunity to look back on its performance and think about future directions.



Protecting Biodiversity

Sponsoring Visits to Dokdo

Since 2001, Daegu Bank has sponsored 30 people to visit Dokdo and participated in various environmental preservation activities. In June 2014, the 13th event was held, with participants consisting of customers of DGB's green branch and Dokdo Care Golden Bell Quiz Show winners. During the visit, participants weeded the Seom-mal Nari hill and donated 500 Giant Abalones, an indigenous species of Dokdo, that were bred at the Gyeongbuk Fishery Resources Development Institute.



Green Education Programs

The 5th NIE Energy Diary Contest Awarding Ceremony

DGB Financial Group hosted the 5th NIE Energy Diary Contest awards ceremony in November 2013. Co-hosted by the Group and Doctor Ahn's Institute for Nature Care, and co-sponsored by the Ministry of Environment, the Daegu Office of Education and the Korea Standards Association, the contest selected 34 prize-winners from 1,200 applicants.



No. of Participants and Award-winners at NIE Energy Diary Contest

Category	1 st	2 nd	3 rd	4 th	5 th
No. of applicants	2,510	3,200	3,500	3,750	2,200
No. of prize-winners	62	55	53	68	34



The 5th DGB University Student Green Press Corps

DGB Financial Group has been operating the DGB Green Press Corps, comprised of local university students, since 2010. The Corps promotes various environmental programs in order to raise public awareness via social media. They also provide environmental education to local students and community childcare centers so as to awaken our future generations to the importance of actively addressing environmental issues such as climate change.

DGB Green Press Corps Performance (sessions)

Type	Completing Environmental Trainings	Promotion of Branches	Environmental Clean-up	Distribution of Green Products	Participation in Regional Environmental Events	Educational Classes at Local Schools
1 st Corps (7 persons)	3	2	1	1	1	2
2 nd Corps (8 persons)	3	1	1	1	2	1
3 rd Corps (8 persons)	3	2	1	1	2	1
4 th Corps (8 persons)	3	2	1	2	2	0
5 th Corps (8 persons)	3	2 (plan)	1	1	2	2 (plan)

Raising Public Environmental Awareness

Participation in the 2013 Korea Climate & Environment Network National Convention

DGB Financial Group attended the 2013 Korea Climate & Environment Network National Convention held at the Daegu Exco Exhibition Hall from November 15 to 16, 2013, at which it operated a pavilion promoting its environmental activities. Celebrating its fourth anniversary, the event is a nationwide festival for environmentalists in Korea determined to preserve our green planet by encouraging national practices to reduce greenhouse gas emissions.



On-street Campaign Wishing the Success of the 2013 Daegu World Energy Congress

In October 2013, Daegu Bank held an street campaign for the success of the 2013 Daegu World Energy Congress. Approximately 600 DGB employees walked approximately 30 kilometers from the bank's main office to Yongdu Bridge and Paldal Bridge, during which they held up their mobile phones which featured the message "I ♥ World Energy Congress" on the screens.





Environmental Performance Management

CONTEXT & CHALLENGES

Growing business domain and size inevitably accompanies an increase in the use of resources. The efficient usage and management of natural resources and use of alternative resources help minimize our environmental impact and contribute to our financial performance. Consequently, a stable system that manages these issues is an indispensable part of good sustainability management practices.

OUR APPROACH

DGB Financial Group has instituted green management policies and guidelines as its bylaws, and put in place a number of action plans designed to promote green management activities on a Group-wide level. Having set up the Green Finance Group, which oversees Group-wide environmental management practices, we are also implementing and expanding practices throughout our subsidiaries and supply chain.

OUR PROGRESS

Environmental Management Implementation Schemes

Environmental Management Implementation System



Environmental Management Practices

Daegu Bank earned the environmental management system certification (ISO14001) in 2011 and was the first Korean bank to obtain the Green Management System Korea Standards (GMS: KSI 7001/7002) the same year. In April 2014, the bank undertook a renewal inspection for the ISO14001 and GMS: KSI 7001/7002 certificates, and was recommended to review two of its practices, including the possibility of developing unit cost-based goals for green management.

Corrective and Preventive Measures (cases)

	Type	Non-conformities	Actions Taken	Progress Rate (%)	Remarks
2011	Internal Audit	4	4	100	Approval of green management policies and 3 other cases
	Compliance Evaluation	-	-	-	
2012	Internal Audit	2	2	100	Evaluation of green impact of supplies/ Training on green management policies
	Compliance Evaluation	-	-	-	
2013	Internal Audit	0	0	100	Review of improvements of green procurement rate and 7 recommendations for improvements
	Compliance Evaluation	-	-	-	
2014	Internal Audit	0	0	100	Review of possibilities of setting unit cost-based goals for green management practices and 3 other cases
	Compliance Evaluation	-	-	-	

First Korean bank to receive Presidential Commendation at 2013 Korea Green Management Awards

DGB Financial Group became the first Korean financial institution to win the Presidential Commendation at the 2013 Korea Green Management Awards co-hosted by the Ministry of Trade, Industry & Energy and Ministry of Environment in July 2013. The Group was singled out for its excellent performance in leading green management and green finance efforts, with special mention of its well-established green management and sustainability management roadmap.

Ranked 2nd at 2013 Green Ranking Awards

DGB Financial Group ranked second among the top 200 listed companies in Korea at the 2013 Green Ranking Awards, organized by SUSTINVEST-Fn Guide. Since 2012, the Green Ranking has been evaluating Korea's top 200 listed companies, in terms of sales (consolidated) and market capitalization, for their performance in three areas; commitment to green management, pollutant emissions volume, and disclosure of environmental information.

Practicing Green Habits



CO₂ emissions saved through Green Touch Program



14.9 tons

Raising employees' environmental awareness

DGB Financial Group has been providing environmental education to its employees in order to raise their environmental awareness, while at the same time creating an eco-friendly working environment that encourages individual employees to put into action a green lifestyle. Courses on environmental management and green finance are mandatory for employees. Furthermore, greenhouse gas inventory system users' training and internal auditors' green management system training are conducted intermittently to further enhance our employees' environmental awareness.

Employee Environmental Education Performance

Type	2011	2012	2013	2014 (Plan)
No. of employees (persons)	2,561	2,626	2,772	2,850
Annual training hours on green management (hours)	277	300	350	400
Training hours (person-hours)	0.11	0.11	0.13	0.14

Green Touch Program

DGB Financial Group adopted the Green Touch Program in September 2012. Installed on 3,980 computers at its head office and branches, the program shows the amount of CO₂ emissions saved while a computer was idle. The program has been a great success, resulting in the reduction of 14.9 tons of CO₂ emissions in 2013.

Green Touch Program Benefits

Type	Saved Electricity (kWh)	Saved Hours of Electricity (hours)	Amount of CO ₂ emissions reduced	Equivalent to Planting Trees (trees)
2013 (Jan.-Dec. 2013)	97,655	41,406	14,948	962,367
2014 (Jan.-Mar. 2014)	12,946	5,489	1,982	128,107

Installing LED Lights on Happy Gallery Stairs

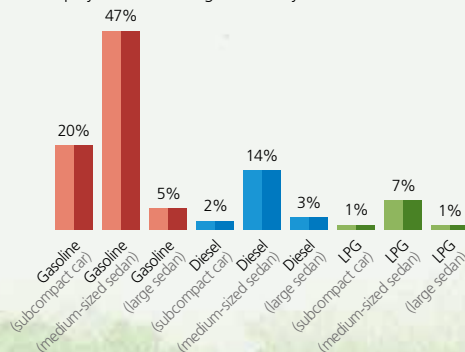
Daegu Bank reformed the emergency stairs at its main office building in 2013 so as to encourage employees' to take the stairs in order to save electricity. In 2013, we planted a total of 56 LED lights on the 17 floors of the main building, thus enhancing energy efficiency and preserving the environment.

BMW Commuting Day

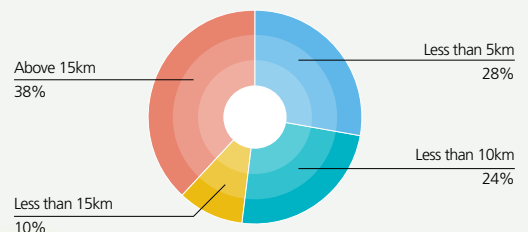
Daegu Bank has set the 9th of every month as BMW Commuting Day, during which employees commute by bus, metro or walk. Through the campaign, the bank encourages employees to use public transportation when attending outside events and downtown business meetings. The bank also runs regular employee surveys for related promotional ideas.

DGB Mass Transportation Use Performance

DGB Employee's Commuting Method by Car



DGB Employees' Commuting Distance



Voluntary Agreement on Green Procurement

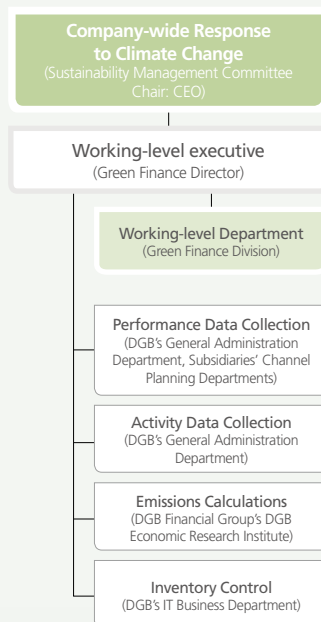
Daegu Bank has not only expanded its green procurement under its Green Procurement Guidelines, but also signed a voluntary agreement on green procurement with the government.

Green Purchase Amount (KRW in millions)

Type	Total Purchase Amount (KRW in millions)	Green Purchase Amount (KRW in millions)	Green Procurement Ratio (%)
2011	8,465	6,902	81.54
2012	7,432	5,817	78.23
2013	7,922	6,597	83.27
2014 (plan)	8,000	6,700	83.75

Energy Conservation & GHG Reduction

GHG Inventory Management Scheme



Management and Verification of GHG Emissions by Third-Party

DGB Financial Group monitors its energy consumption and GHG emissions on a monthly basis. The organizational boundaries of its GHG emissions include Daegu Bank, U-Payment, Daegu Credit Information and Daegu Data System. The credibility of the energy conservation GHG emissions data is verified by a third party agency. In particular, GHG emissions generated from DGB employees' commuting to work are calculated in Scope 3 (other indirect emissions)

Category	Remarks
Organizational boundaries	DGB Financial Group, Includes DGB's Information Center and Training Center
Main office building	DGB Financial Group's subsidiary DGB Data System
Branches	All branches
Vehicles	Includes company-owned and leased vehicles
DGB In-house Daycare Center	Includes inventory report target as an in-house daycare center
Daegu Credit Information	Includes inventory report target as a group subsidiary
U-Payment	Includes inventory report target as a group subsidiary

Reporting Scopes

Type	Emissions Source	Fuels (substance)
Direct emissions (Scope 1)	Stationary combustion emissions	Kerosene, diesel, LNG, propane gas
	Mobile Combustion Emissions	Company-owned vehicles and leased (long-term lease) vehicles
	Fugitive emissions	Air-conditioning facilities within business premises
Indirect emissions (Scope 2)	Purchased electricity	Electricity facilities
Other indirect emissions (Scope 3)	Mobile (business trips, commuting)	Transportation for business trips out of town and overseas
		Railway (out-of-town business trips), airway (business trips to Jeju Island and overseas), cars/buses/subway (commuting)

Energy Consumption and GHG Emissions

DGB Financial Group manages its energy consumption and GHG emissions by means of the GHG Inventory System. In 2013, the focus was on quantifying its Scope 3 emissions, and calculating the distance travelled by employees on business trips in and outside Korea, and commuting to work.



Energy Consumption (TJ)

Type	2011	2012	2013	2014 (Plan)
Total	283.47	249.26	248.76	245.50
Direct	46.88	39.42	35.46	34.50
Indirect	236.59	209.84	213.30	211.0

GHG Emissions

Type	2011	2012	2013	2014 (Plan)
GHG Emissions (tCO ₂ e)				
Scope1+2	34,326	30,152	30,146	30,080
Scope1	3,196	2,662	2,095	2,080
Scope2	31,130	27,490	28,051	28,000
Scope3	715	1,317	2,414	2,400

GHG Indirect Emissions (Scope 2) Performance (tCO₂e)

Type	2011	2012	2013	2014 (Plan)
Branches	20,373	19,874	20,344.15	20,200.00
ATM	6,122	3,555	3,479.91	3,400.00
Head Office (including DGB Financial Group and DGB Data System)	4,500	3,931	4,118.90	4,100.00
Daegu Credit Information	50	50	42.46	40.00
U-Payment	85	80	65.79	60.00

Reducing GHG Emissions with Renewable Energy

Starting in 2008, Daegu Bank has been operating solar power generators (15 kW) at its Banyawol Branch and Gyeongju Branch, each of which are capable of generating 1,042 kW (fixed-parabolic type) and 1,381 kW (fixed-rectangular type) of renewable energy on a monthly basis, respectively.

Renewable Energy Use Rate (%)

Type	2011	2012	2013	
Banyawol Branch	12.10		12.20	12.15
Gyeongju Branch	12.45		12.50	12.40

Resource Use and Waste Management

Paper Use

The main usage of paper at Daegu Bank is associated with business activities, such as slips, receipts, proposals and reports. In order to reduce paper use, the bank has replaced paper notifications to customers with an e-mail service.

Paper Use

Type	2011	2012	2013	2014 (Plan)
Use (boxes)	9,940	9,425	10,193	10,000

*Paper use at office: 1 box= 2,500 sheets of A4

Electronic Bills

Category	2011	2012	2013	2014 (Plan)
No. of total sent	5,958,626	6,518,209	6,687,336	6,781,680
No. of Electronic Bills	1,042,176	1,573,239	1,820,640	1,898,883
Rate of Electronic Bills (%)	17.4%	24.1%	27.2%	28.0%

Waste Management and Recycling

Waste Disposal

Type	Papers		Electronics Ribbons		Printer Toners	
	Amount Disposed	Recycling Rate	Amount Disposed	Recycling Rate	Amount Disposed	Recycling Rate
2011	116.3 tons	100%	729KG	15.7%	2.6 tons	13%
2012	110.3 tons	100%	710KG	14.8%	2.5 tons	12%
2013	119.3 tons	100%	745KG	16.1%	2.8 tons	13%

Water Use and Precipitation Recycling

Daegu Bank installed a rainwater collector with an annual storage capacity of 360 tons on the rooftop of its main office building in 2009. The collected rainwater is used for cleaning cars and building floors. In 2013, the scope of water use control was expanded to its 240 branches.

Water use

Water Use Amount (tons)

Category	2011	2012	2013	2014 (Plan)
Total Amount	119,266	108,626	174,518	170,000
Amount used per Branch	805.0	734.0	727.2	708.00
Scope of Water Use Data Collection	Main office building and 148 branch offices		Main office building and 240 branch offices	



DGB FINANCIAL GROUP



Park, In-gyu CEO & Chairman of the Board



Lee, Jeong-do Outside Director



Cho, Hae-nyoung Outside Director



Kim, Ssang-su Outside Director

Lee, Ji-eun Outside Director

Chang, Ik-hyun Outside Director

Park, Dong-gowan Vice president



DAEGU BANK



Park, In-gyu CEO & Chairman of the Board

Jung, Chang-mo Standing Auditor of Daegu Bank

Lee, Chan-hee Standing Director



Lee, Mahn-hee Standing Director

Hong, Jang-hee Outside Director

Suh, In-duk Outside Director

Sung, Nak-in Outside Director

Kim, Jin-tak Outside Director

Suk, Wang-ki Outside Director

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DGB Financial Group

DGB Financial Group envisions becoming a community-engaged total financial group. To that end, the Group is strategically diversifying its business portfolio and strengthening cross-selling among subsidiaries. Furthermore, the Group is creating a balance between profitability and growth, as well as tightening up risk management practices under the business strategies of new growth engines, group synergy and stability enhancement.

Since its launch in May 2011 through the share swap acquisition of Daegu Bank, Daegu Credit Information and U-Payment, the Group has added two more subsidiaries, DGB Capital and Metro Asia Capital, through a share purchase agreement in January 2012. With the foundation of DGB Data System in April 2012, the total number of subsidiaries now stands at five.

(In billions of won)

	DGB Group	Daegu Bank	DGB Capital	U-payment	DGB Data System	Daegu Credit Info	Other(*)
Gross Operating Income	987.2	964.3	21.9	4.6	1.0	1.2	(5.8)
Interest Income	941.7	923.2	21.6	0.0	0.1	0.2	(3.4)
Non-Interest Income (Loss)	45.5	41.1	0.3	4.6	0.9	1.0	(2.4)
General and Administrative Expenses	507.9	491.3	6.1	3.6	0.6	1.0	5.3
Provisioning Expenses	140.3	136.4	4.2	0.0	0.0	0.0	(0.3)
Operating Income	339.0	336.6	11.6	1.0	0.4	0.2	(10.8)
Net Income	244.6	248.9	8.9	(1.0)	0.3	0.1	(12.6)
Total Assets	41,742.5	41,085.6	643.6	45.7	6.9	4.5	(43.8)

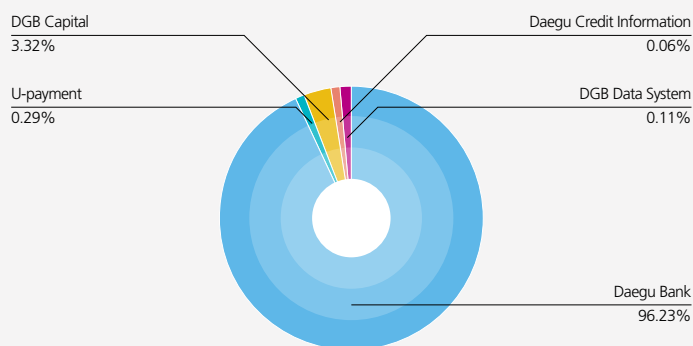
* Consolidation adjustments and trust assets

In 2013, DGB Financial Group's total assets grew by KRW 3.9 trillion from 2012 to reach KRW 41.7 trillion, with its operating income and net income totaling KRW 339 billion and KRW 244.6 billion, respectively. Daegu Bank contributed 96.23 percent of the Group's overall operating income, posting KRW 336.6 billion (after excluding intercompany transactions) for the year. DGB Capital saw its contribution edge up by 3.10 percentage point year-on-year to 3.32 percent. The return on assets (ROA) and return on equity (ROE) of DGB Financial Group for 2013 stood at 0.65 percent and 8.63 percent, respectively, slightly lower than the previous year.

DGB Financial Group's asset quality indicators have been consistently improving over the past three years thanks to its preemptive risk management and proactive response to crises, while its BIS capital adequacy ratio has also stabilized, hovering above the industrial average.

The dividend payout ratio for 2013 stood at 15.8 percent, which is in the box range of between 15 percent and 16 percent achieved over the last three years. As for credit ratings, the Group maintains the highest grade AAA by Korean raters and A2 by Moody's.

Operating income Contribution



Indicator	Account	(%)
Profitability	ROA	0.65
	ROE	8.63
Asset Quality	CIR	51.45
	NPL Ratio	1.03
Capital Adequacy	Delinquency rate	0.57
	Capital adequacy ratio	15.06
Dividend Payout	Tier I CAR	11.50
	Denomination Dividend Rate	5.60
Credit Ratings	Dividend Payout Ratio	15.80
	Nice Investors Service, Korea Ratings	AAA
	Moody's	A2
	S&P (DGB, as of Apr. 2013)	BBB+

* International credit ratings are only given to Daegu Bank.



Daegu Bank

I. Operating Results

Net Interest Income & Net Interest Margin (NIM)

(in billions of KRW)

	2013	2012	YoY Change	
			Amount	(%)
Interest revenue	1,645.6	1,698.8	-53.2	-3.1%
Cash & due from banks	2.8	16.4	-13.6	-82.9%
Securities	270.7	265.6	5.1	1.9%
Loans	1,219.3	1,246.8	-27.5	-2.2%
Others	152.8	170.0	-17.2	-10.1%
Interest expenses	722.4	780.5	-58.1	-7.4%
Deposits	530.6	572.9	-42.3	-7.4%
Borrowings	62.0	79.4	-17.4	-21.9%
Bonds	118.3	116.6	1.7	1.5%
Others	11.5	11.6	-0.1	-0.9%
Net interest income	923.2	918.3	4.9	0.5%
Net interest margin (%)	2.54	2.78	-	-0.24%p
Net interest spread in Won(%)	3.05	3.33	-	-0.28%p

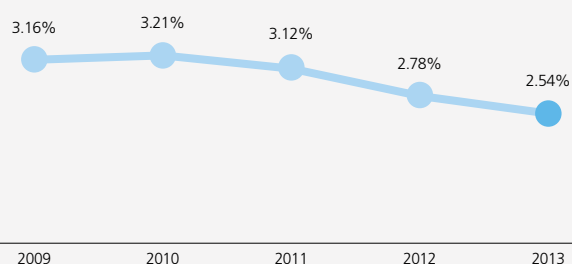
(in billions of KRW)

	2013	2012	YoY Change	
			Amount	(%)
Interest bearing asset	31,733	29,004	2,729	9.4%
Interest expense liabilities	30,765	28,230	2,535	9.0%
Net Interest bearing asset	968	774	194	25.1%

	2013	2012	YoY Change	
				(%)
Net Interest Spread in Won	3.05%	3.33%		-0.28%p
Average Lending Rate	5.29%	6.00%		-0.71%p
Average Deposit Rate	2.24%	2.67%		-0.43%p

In 2013, Daegu Bank saw its net interest income inch up by 0.5 percent from the previous year to KRW 923.2 billion. The bank's net interest margin and net interest spread slightly drew down by 0.24 percentage points and 0.28 percentage points, respectively from 2012 due to prolonged low-interest rate trends. The 9.4 percent year-on-year growth in net interest bearing asset propped up the KRW 4.9 billion year-on-year increase in net interest income for 2013.

NIM for 5 years



Bank's net interest margin is on a downward trend due to conservative investor sentiment amid the slowing economic recovery and the government's adherence to a low-interest policy.

Non-interest Income

(in billions of KRW)

	2013	2012	YoY Change	
			Amount	(%)
Non-interest Income	41.1	50.7	-9.6	-18.9%
Commission income	72.1	73.4	-1.3	-1.8%
Gain on securities	31.2	17.4	13.8	79.3%
Gain on foreign currency transactions & derivatives products	15.1	24.6	-9.5	-38.6%
Gain(Loss) on disposition of loans	8.2	14.7	-6.5	-44.2%
Other operating expenses	-85.5	-79.4	-6.1	-7.7%

In 2013, Daegu Bank's non-interest income dropped by 18.9 percent, or KRW 9.6 billion, from the previous year to KRW 41.1 billion. This was due to a KRW 9.5 billion and KRW 6.5 billion year-on-year decline, respectively, in the gain on foreign currency transactions & derivatives and disposition of loans, which undermined the KRW 13.8 billion year-on-year growth in the gain on securities. Another reason was the KRW 6.1 billion growth in other operating expenses as a result of the increased contributions to Credit Guarantee Funds and Deposit Insurance premiums.

General & Administrative Expenses

(in billions of KRW)

	2013	2012	YoY Change	
			Amount	(%)
General and administrative expenses	491.3	479.3	12.0	2.5%
Salaries and employee benefits	245.7	244.0	1.7	0.7%
Taxes and dues & depreciation	62.6	61.8	0.8	1.3%
Retirement allowances	38.9	33.7	5.2	15.4%
Other G&A expenses	144.1	139.8	4.3	3.1%
Cost-income ratio (%)	50.9%	49.5%	-	1.4%

General and administrative expenses in 2013 stood at KRW 491.3 billion, up KRW 12.0 billion from 2012. Although the net interest income gained 0.5 percent from the previous year, general and administrative expenses edged up 2.5 percent from 2012, resulting in a 1.4 percentage point year-on-year increase in the cost-income ratio at 50.9 percent. This growth can be explained mainly by KRW 5.2 billion paid in severance allowances and KRW 4.3 billion growth in general administrative expenses. In 2013, Daegu Bank added six new branch offices, reinforcing its branch network, and reshuffled its organization in order to enhance work efficiency and productivity.

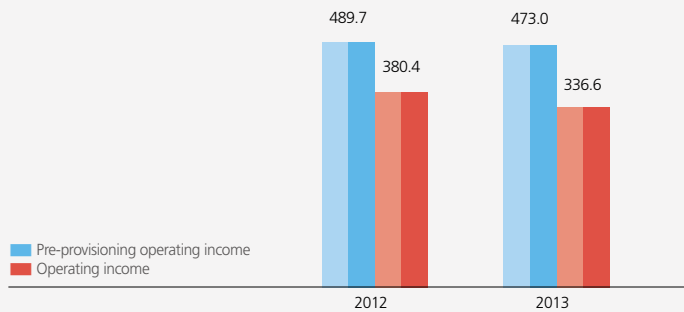


Provisioning Expenses

(in billions of KRW)

	2013	2012	YoY Change	
			Amount	(%)
Pre-provisioning operating income	473.0	489.7	-16.7	-3.4%
Operating income	336.6	380.4	-43.8	-11.5%
Total provision	136.4	109.3	27.1	24.8%
Provision for loan losses	147.3	154.1	-6.8	-4.4%
Others	-10.9	-44.8	33.9	75.7%

Pre-provision Income & Operating Income



Daegu Bank's pre-provisioning operating income totaled KRW 473.0 billion, down 3.4 percent year-on-year, as the slight increase in net interest income was offset by the declined non-interest income and increased general & administrative expenses as a result of layouts and branch expansions. Operating income stood at KRW 336.6 billion, down 11.5 percent from 2012, stemming from the KRW 27.1 billion year-on-year growth in total provision.

II. Financial Position

Assets

(in billions of KRW)

	2013	2012	YoY Change	
			Amount	(%)
Assets	36,921.0	34,131.1	2,789.9	8.2%
Cash and due from banks	1,491.5	1,183.8	307.7	26.0%
Securities	7,355.6	6,807.3	548.3	8.1%
Loans	25,991.1	24,162.4	1,828.7	7.6%
Fixed assets	311.2	307.6	3.6	1.2%
Other assets	1,771.6	1,670.0	101.6	6.1%

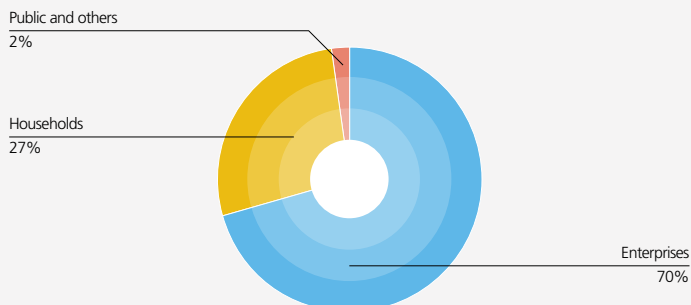
In 2013, Daegu Bank's total assets amounted to KRW 36,921 billion, an 8.2 percent increase from 2012. Despite the prolonged economic slowdown and uncertainties abounding in international markets, the bank was able to sustain an approximate eight percent growth in its asset size for the second consecutive year. This can be attributed to its aggressive customer-oriented marketing through branch network expansion.

Loans

(in billions of KRW)

	2013	2012	YoY Change	
			Amount	(%)
Total loans	24,844.9	22,632.9	2,212.0	9.8%
Loans in KRW	24,280.0	21,969.0	2,311.0	10.5%
Loans to enterprises	17,110.8	15,137.5	1,973.3	13.0%
Loans to households	6,643.5	6,327.0	316.5	5.0%
Loans to public and others	525.7	504.5	21.2	4.2%

Loans in KRW Composition



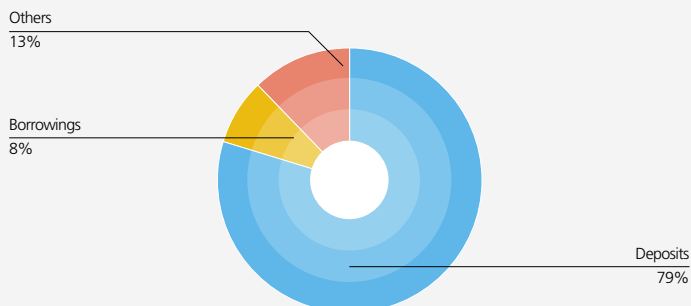
Thanks to growing regional exports and the falling delinquency rate of corporate borrowers, the bank's loans extended to businesses rose by 13.0 percent from 2012 to reach KRW 17,110.8 billion in 2013. Household loans also rose 5 percent from the previous year to KRW 6,643.5 billion backed by the stabilizing real estate market. In the meantime, loans to the public sector, which have a relatively low credit risk, advanced only 4.2 percent year-on-year to reach KRW 525.7 billion in 2013.

Funding Structure

(in billions of KRW)

	2013	2012	YoY Change	
			Amount	(%)
Total liabilities	34,000.9	31,673.2	2,327.7	7.3%
Deposits	26,877.1	24,891.7	1,985.4	8.0%
Borrowings	2,728.2	2,899.8	-171.6	-5.9%
Others	4,395.6	3,881.7	513.9	13.2%

Funding Composition



Total liabilities in 2013 stood at KRW 34,000.9 billion, up 7.3 percent year-on-year. While high interest-rated borrowing fell 5.9 percent from 2012, the low interest-rated deposits increased 8.0 percent for the same period as the number of depository customers grew by 90,000.

(in billions of KRW)

	2013	2012	YoY Change	
			Amount	(%)
Core deposits(A) (balance)	9,162.6	8,543.3	619.3	7.2%
Total deposits (in KRW)(B)	24,950.2	22,380.4	2,569.8	11.5%
% of core deposits(A/B)	36.7%	38.2%		-1.5%p
Total deposits(C)	30,208.9	27,177.1	3,031.8	11.2%
% of core deposits(A/C)	30.3%	31.4%		-1.1%p

In 2013, core deposits totaled KRW 9,162.6 billion, up 7.2 percent from 2012, backed by the bank's aggressive marketing to induce core deposits and public deposits. Nonetheless, the growth in total deposits drew down the core deposits' contribution to total deposits by 1.1 percentage points from the previous year to 30.3 percent for 2013.



Asset Quality

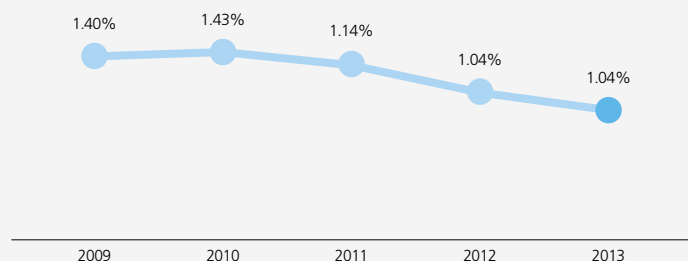
(in billions of KRW)

	2013	2012	YoY Change	
			Amount	(%)
Total credits	25,856.0	23,786.9	2,069.1	8.7%
Normal	25,289.9	23,252.0	2,037.9	8.8%
Precautionary	298.4	287.0	11.4	4.0%
Substandard	199.7	160.7	39.0	24.3%
Doubtful	49.0	63.3	-14.3	-22.6%
Estimated loss	19.0	23.9	-4.9	-20.5%
NPL ratio (%)	1.04	1.04	0.00	-
Loan loss coverage ratio (%)	135.6	141.8	-	-6.2%p
Delinquency rate (%)	0.52	0.70	-	-0.18%p

In 2013, non-performing loans (NPL) amounted to KRW 267.7 billion, up KRW 19.8 billion from the previous year, but the 8.7 percent year-on-year growth in total loan balance leveled the NPL ratio to the same level as the previous year.

NPL Ratio for 5 years

● NPL Ratio



NPL ratio, which had kept exacerbating to 1.43 percent up until 2010 due to the sagging domestic economy and project financing solvencies amid the freezing apartment housing market, turned around in 2011 thanks to the bank's preemptive risk management effort, reaching to 1.04 percent by 2012. The figure has remained the same, leading the industry ever since, for many years now.

Capital Adequacy

(in billions of KRW)

	2013	2012	YoY Change	
			Amount	(%)
BIS capital	3,951.7	3,500.0	451.7	12.9%
Tier I capital	3,018.0	2,607.3	410.7	15.8%
Tier II capital	933.7	892.7	41.0	4.6%
Risk-weighted assets	25,976.8	23,940.0	2,036.8	8.5%
BIS ratio	15.21%	14.62%	-	0.59%p
Tier I CAR (%)	11.62%	10.89%	-	0.73%p
Tier II CAR (%)	3.59%	3.73%	-	-0.14%p

In 2013, total capital saw a 12.9 percent year-on-year growth to KRW 3,951.7 billion thanks to increased Tier I capital. Risk-weighted assets gained 8.5 percent from 2012 due to asset growth, but the total capital increase pushed the BIS ratio by 0.59 percentage point to 15.21 percent. This outperforms the industry average and hovers above the recommended 8 percent guideline of the Bank of International Settlement (BIS).



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The Board of Directors and Shareholders DGB Financial Group Co., LTD.

We have audited the accompanying consolidated statements of financial position of DGB Financial Group Co., LTD. and its subsidiaries (the "Group") as of December 31, 2013, 2012 and January 1 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2013, 2012 and January 1 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with Korean International Financial Reporting Standards.

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

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

As described in note 2-(e) to the consolidated financial statements, the Group adopted the amendments to K-IFRS No. 1110, 'Consolidated Financial Statements', etc. for the year ended December 31, 2013. The Group applied this change in accounting policies retrospectively, and accordingly restated the comparative information of the consolidated statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2012 and the consolidated statements of financial position as of December 31, 2012 and January 1, 2012. Accordingly, comparative information of the consolidated financial statements as of and for the year ended December 31, 2012 and the consolidated statement of financial position as of January 1, 2012 differ from those attached in our reports dated February 25, 2013 and February 28, 2012, respectively.

Seoul, Korea
March 6, 2014

KPMG Samjong Accounting Corp.

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This report is effective as of March 6, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.



Consolidated Statements of Financial Position

As of December 31, 2013, 2012, and January 1, 2012

(In millions of won)

	Note		2013	December 31, 2012 (Restated)	January 1, 2012 (Restated)
Assets					
Cash and due from banks	5,27,44,48	₩	1,496,884	1,183,977	1,427,705
Financial assets held for trading	6,17,48		292,919	292,450	313,776
Financial assets designated at fair value through profit or loss	7,11,27,48		142,154	147,614	215,554
Available-for-sale financial assets	8,11,17,27,48		2,588,348	1,994,272	1,743,557
Held-to-maturity financial assets	9,10,48		4,385,242	4,428,522	4,015,267
Loans and receivables	13,14,15,16,27,48		28,134,131	25,887,549	23,292,295
Derivative assets - hedging	17,48		18,687	24,435	24,862
Investment in associates	12		233	230	264
Property and equipment, net	18		317,857	311,363	299,123
Investment property, net	20		85,811	88,066	87,640
Intangible assets, net	19		91,438	73,726	80,380
Other assets	21		24,118	30,502	39,043
Total assets		₩	37,577,822	34,462,706	31,539,466
Liabilities					
Depository liabilities	22,27,48	₩	26,784,399	24,762,700	22,184,993
Financial liabilities held for trading	17,48		37,895	30,826	67,363
Derivative liabilities - hedging	17,48		10,455	1,097	704
Borrowings	23,27,48		2,728,154	2,899,804	3,328,764
Debentures	23,27,48		2,763,315	2,415,739	2,206,765
Defined benefit obligations	25		16,764	17,199	16,524
Provisions	24		36,294	30,655	31,997
Deferred income tax liabilities	42		41,721	52,298	42,565
Other liabilities	26,27,48		2,160,288	1,721,023	1,360,377
Total liabilities			34,579,285	31,931,341	29,240,052
Equity					
Capital stock	1,28	₩	670,266	670,266	670,266
Capital surplus	28		1,423,483	1,423,535	1,423,535
Capital adjustment	28		(720)	-	(10)
Accumulated other comprehensive income (loss), net of tax	30		(3,704)	11,933	7,172
Retained earnings	29		619,647	425,631	198,451
Equity attributable to owners of the Company			2,708,972	2,531,365	2,299,414
Non-controlling interests	28		289,565	-	-
Total equity			2,998,537	2,531,365	2,299,414
Total liabilities and equity		₩	37,577,822	34,462,706	31,539,466

Consolidated Statements of Comprehensive Income



For the years ended December 31, 2013 and 2012

(In millions of won, except earnings per share)

	Note	2013	2012 (Restated)
Net interest income	4,31	₩ 941,670	926,464
Interest income		1,682,568	1,716,152
Interest expense		740,898	789,688
Net fee and commission income	4,32	72,741	73,506
Fee and commission income		124,033	124,568
Commission expense		51,292	51,062
Net gain on financial instruments held for trading	33	22,228	36,587
Net gain on financial instruments designated at fair value through profit or loss	34	2,075	13,634
Net gain on available-for-sale financial assets	35	34,540	14,183
Net gain (loss) on derivative hedging instruments		(9,553)	7,541
Impairment losses on financial assets	4,36	154,764	163,914
Net gain on foreign currency transactions	27	10,116	21,881
General and administrative expenses	37,38	507,926	492,708
Other operating loss, net	39	(72,122)	(64,195)
Operating income	40	339,005	372,979
Non-operating loss, net	41	(9,691)	(9,990)
Profit before income tax expenses		329,314	362,989
Income tax expenses	42	84,799	88,891
Profit for the year		244,515	274,098
Reclassifiable to profit or loss subsequently:			
Net unrealized change in fair value of available-for-sale financial assets, net of tax		(11,084)	5,493
Loss on translation of foreign operations		(308)	(89)
Remeasurement of defined benefit plan		(4,245)	(643)
Other comprehensive income (loss) for the year, net of tax	30	(15,637)	4,761
Total comprehensive income for the year		₩ 228,877	278,859
Profit attributable to:			
Owners of the Group		₩ 238,254	274,098
Non-controlling interest		6,261	-
Profit for the year		₩ 244,515	274,098
Total comprehensive income attributable to:			
Owners of the Group		₩ 222,616	278,859
Non-controlling interest		6,261	-
Total comprehensive income for the year		₩ 228,877	278,859
Earnings per share (in won)	43	₩ 1,777	2,045



Consolidated Statements of Changes in Equity

For the years ended December 31, 2013 and 2012

(In millions of won)

	Capital stock	Capital surplus	Capital adjustment	Accumulated other comprehensive income(loss)	Retained earnings	Equity attributable to owners of the Company	Noncontrolling interest	Restated Total equity
Balance at January 1, 2012	₩ 670,266	1,423,535	(10)	23,040	174,570	2,291,401	-	2,291,401
Cumulative effect on change of accounting policies	-	-	-	(15,868)	23,881	8,013	-	8,013
Balance at January 1, 2012 (Restated)	670,266	1,423,535	(10)	7,172	198,451	2,299,414	-	2,299,414
Profit for the year	-	-	-	-	274,098	274,098	-	274,098
Year-end dividends	-	-	-	-	(46,918)	(46,918)	-	(46,918)
Disposal of treasury stock	-	-	10	-	-	10	-	10
Net unrealized change in fair value of available-for-sale financial assets, net of tax	-	-	-	5,493	-	5,493	-	5,493
Loss on translation of foreign operations	-	-	-	(89)	-	(89)	-	(89)
Remeasurement of defined benefit plan	-	-	-	(643)	-	(643)	-	(643)
Balance at December 31, 2012 (Restated)	₩ 670,266	1,423,535	-	11,933	425,631	2,531,365	-	2,531,365
Balance at January 1, 2013	₩ 670,266	1,423,535	-	28,444	401,013	2,523,258	-	2,523,258
Cumulative effect on change of accounting policies	-	-	-	(16,511)	24,618	8,107	-	8,107
Balance at January 1, 2013 (Restated)	670,266	1,423,535	-	11,933	425,631	2,531,365	-	2,531,365
Issuance of hybrid bonds	-	-	-	-	-	-	289,565	289,565
Hybrid bonds dividends	-	-	-	-	-	-	(6,261)	(6,261)
Profit for the year	-	-	-	-	238,254	238,254	6,261	244,515
Year-end dividends	-	-	-	-	(44,238)	(44,238)	-	(44,238)
Net unrealized change in fair value of available-for-sale financial assets, net of tax	-	-	-	(11,084)	-	(11,084)	-	(11,084)
Loss on translation of foreign operations	-	-	-	(308)	-	(308)	-	(308)
Remeasurement of defined benefit plan	-	-	-	(4,245)	-	(4,245)	-	(4,245)
Changes in other capital surplus	-	(52)	-	-	-	(52)	-	(52)
Changes in other capital adjustments	-	-	(720)	-	-	(720)	-	(720)
Balance at December 31, 2013	₩ 670,266	1,423,483	(720)	(3,704)	619,647	2,708,972	289,565	2,998,537

Consolidated Statements of Cash Flows



For the years ended December 31, 2013 and 2012

(In millions of won)

	Note	2013	2012 (Restated)
Cash flows provided by(used in) operating activities	₩	(45,984)	490,006
Profit for the year		244,515	274,098
Adjustments for:		(693,868)	(750,758)
Income tax expenses		84,799	88,891
Interest expense		740,898	789,688
Loss on valuation of financial assets held for trading		5,092	3,360
Loss on valuation of trading derivative instruments		37,024	28,025
Loss on valuation of financial assets designated at fair value through profit or loss		5,472	-
Loss on sale of available-for-sale financial assets		676	11,423
Impairment loss of available-for-sale financial assets		682	9,760
Loss on valuation of hedged assets		3,788	6,745
Loss on valuation of hedging derivative instruments		14,115	1,732
Reserve for credit risk adjustment of hedging derivative instruments		57	21
Bad debt expenses		154,082	154,119
Depreciation and amortization		53,268	50,654
Loss on disposal of property and equipment		60	17
Impairment loss on intangible assets		2,744	13
Provision for others		10,175	2,461
Retirement benefit		19,838	19,110
Loss on foreign currency transactions		83,023	113,938
Other operating expense		4,337	4,308
Loss from equity method investment securities		-	34
Interest income		(1,682,568)	(1,716,152)
Dividend income		(18,376)	(22,237)
Gain on valuation of financial assets held for trading		(1,159)	(2,840)
Gain on valuation of trading derivative instruments		(57,405)	(75,311)
Reversal of reserve for credit risk adjustment of trading derivative instruments		(19,731)	(41,791)
Gain on valuation of financial assets designated at fair value through profit or loss		(167)	(7,516)
Gain on sale of available-for-sale financial assets		(21,789)	(20,486)
Gain on valuation of hedged asset		(6,576)	(192)
Gain on valuation of hedging derivative instruments		(164)	(8,317)
Reversal of reserve for credit risk adjustment of hedging derivative instruments		(7)	-
Gain on disposal of property and equipment		(59)	(146)
Reversal of provisions		(4,276)	(3,798)
Gain on foreign currency transactions		(93,139)	(135,818)
Recovery of expense on stock options		(23)	(28)
Other operating income		(8,556)	(425)
Gain from equity method investment securities		(3)	-
Changes in assets and liabilities:		(351,218)	115,617
Increase in restricted due from banks		(255,398)	(108,205)
Decrease (increase) in trading securities		(7,573)	2,013
Decrease in trading derivative assets		79,150	136,377
Decrease in financial assets designated at fair value through profit or loss		-	74,679
Increase in loans and receivables		(2,457,407)	(2,838,124)
Increase in deferred loan origination costs		(34,006)	(28,563)



Consolidated Statements of Cash Flows

(In millions of won)

	Note	2013	2012 (Restated)
Increase in deferred loan origination fees		4,382	1,134
Collection of loans previously written-off		33,143	48,350
Decrease (increase) in hedging derivative assets		(8,174)	4,085
Increase in other assets		(7,683)	(11,402)
Increase in depository liabilities		2,036,002	2,524,753
Decrease in trading derivative liabilities		(28,224)	(64,455)
Increase in hedging derivative liabilities		9,279	3,298
Decrease in defined benefit obligations		(5,534)	(1,859)
Contributions to defined benefit plan assets		(20,672)	(17,318)
Increase in other liabilities		311,497	390,854
Interest paid		(798,651)	(735,391)
Interest received		1,607,085	1,710,755
Dividends received		18,394	25,437
Income taxes paid		(72,241)	(149,752)
Cash flows used in investing activities		(550,852)	(700,742)
Increase in available-for-sale financial assets		(2,963,886)	(2,579,058)
Decrease in available-for-sale financial assets		2,376,170	2,326,790
Increase in held-to-maturity financial assets		(553,262)	(1,132,743)
Decrease in held-to-maturity financial assets		644,755	719,488
Purchase of property and equipment		(28,205)	(22,292)
Disposal of property and equipment		72	117
Purchase of investment property		-	(1,068)
Disposal of investment property		348	-
Purchase of intangible assets		(28,003)	(17,759)
Disposal of non-current assets held for sale		-	1,300
Decrease in guarantee deposits		1,159	4,483
Cash flows provided by(used in) financing activities		656,358	(154,573)
Increase in borrowings, net		(159,780)	(373,102)
Issuance of debentures		820,299	798,897
Repayments of debentures		(450,000)	(590,000)
Increase in deposits for letter of guarantees, net		24,457	4,570
Increase in borrowings from trust accounts, net		188,107	48,639
Increase in foreign exchange settlement credit, net		179	2,814
Increase (decrease) in domestic exchange settlement credit, net		(179)	659
Issuance of hybrid bonds		289,565	-
Stock issue costs paid		(720)	-
Dividends paid		(48,770)	(46,919)
Increase in government subsidy		-	168
Decrease in government subsidy		-	(299)
Additional acquisition of investments in associates		(6,800)	-
Increase (decrease) in cash and cash equivalents		59,522	(365,309)
Cash and cash equivalents at beginning of year		524,618	876,552
Effect of exchange rate in cash and cash equivalents		(4,509)	(6,955)
Increase in cash and cash equivalents from change of consolidation scope		984	20,330
Cash and cash equivalents at end of year	44	₩ 580,615	524,618

Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012



1. Reporting Entity

(a) Controlling company

DGB Financial Group Co., Ltd. (the "Company") was incorporated on May 17, 2011 through a business combination involving the exchange of the Company's common stock with the former shareholders of Daegu Bank, Kardnet Inc. and Daegu Credit Information Co., Ltd. The Company's principal business includes ownership and management of subsidiaries and associated companies that are engaged in financial services or activities and fund-lending to its operating subsidiaries. The Company's shares were listed on the Korea Exchange on June 7, 2011 and its outstanding common stock as of December 31, 2013 is ₩670,266 million.

The consolidated financial statements of the Company comprise the company and its subsidiaries (together referred to as the "Group").

(b) Subsidiaries

Consolidated subsidiaries as of December 31, 2013 are as follows

(In millions of won, except share information)

Classification	Number of shares	Ownership	Acquisition cost	Net asset value	Book value
Daegu Bank	132,125,000	100%	₩ 2,081,249	2,920,087	2,081,249
DGB Capital Co., Ltd.	22,200,000	100%	115,713	122,268	115,713
U Payment (*1)	2,511,415	100%	15,458	14,376	12,815
Daegu Credit Information Co., Ltd.	600,000	100%	5,109	4,23	2 5,109
DGB Data System	1,200,000	100%	6,000	6,400	6,000
Total			₩ 2,223,529	3,067,363	2,220,886

(In millions of won)

Classification	Revenue	Profit for the year	Location	Reporting date
Daegu Bank	₩ 2,372,814	248,902	Daegu	December 31
DGB Capital Co., Ltd.	41,073	8,921	Seoul	December 31
U Payment (*1)	13,453	(1,081)	Daegu	December 31
Daegu Credit Information Co., Ltd.	2,124	119	Daegu	December 31
DGB Data System	2,348	311	Daegu	December 31
Total	₩ 2,431,812	257,172		

(*1) KARDNET, which was a related company of the Group as of December 31, 2012, was merged into U Payment. On March 8, 2013 U Payment became a subsidiary of the company.

Daegu Bank's consolidated subsidiaries as of December 31, 2013 and 2012 are as follows:

Trust accounts guaranteed of principal and interest	Interest Location	Reporting date	Ownership (%)
Principal guaranteed trusts	Daegu	December 31	-

Financial information of Daegubank's subsidiaries as of and for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			
	Assets	Liabilities	Revenue	Net income
Principal guaranteed trusts	₩ 290,194	282,074	12,717	13

(In millions of won)

	2012			
	Assets	Liabilities	Revenue	Net income
Principal guaranteed trusts	₩ 267,051	258,944	13,242	93

(c) Business combinations of subsidiaries

On March 8, 2013, Kardnet, a subsidiary of the Company, merged with U Payment, a subsidiary of BC Card, by stock exchange method. As a result, the Group maintained control of the merged entity by obtaining 56.2% of the shares. On March 28, 2013, the Group additionally acquired the remaining 43.8% of the shares with ₩6,800 million in cash. The business combination is a reverse acquisition in accounting, thus the legal surviving entity after the merger is U Payment.



Notes to the Consolidated Financial Statements

Identifiable assets and liabilities of U Payment as of the merger date are as follows:

(In millions of won)

Description	Amount
Current assets	₩ 3,221
Property and equipment	2,055
Intangible assets	8,103
Other non-current assets	2,022
Current liabilities	(19,045)
Non-current liabilities	(920)
Net assets	₩ (4,564)

The Group incurred business combination related costs of ₩258 million relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in commission expenses in the Group's consolidated statement of comprehensive income.

The goodwill recognized in the business combination is as follows:

(In millions of won)

Description	Amount
Total transfer cost	₩ 6,748
Fair value of net assets	(4,564)
Good will	₩ 11,312

(d) Interests in unconsolidated structured entities

The Group has been involved in structured entities through investments in the asset-backed securities, project financing, beneficiary certificates, etc., and the main characteristics of those structured entities are as follows:

	Description
Assets-backed securitization	Securitization vehicles are established to buy the assets from the originators and issue the asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing the assetbacked securities issued, or providing credit enhancement.
Project financing	Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (Mergers and Acquisitions), BTL (Build-Transfer-Lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement.
Beneficiary certificates	Beneficiary certificate is a type of financial instrument where investment funds raise funds from the general public to invest in a group of assets such as stocks or bonds and distribute their income and capital gains to their investors. The Group is involved in beneficiary certificates by investing in various investment funds.

(i) Nature and scope of interests in unconsolidated structured entities

The size of the interests in unconsolidated structured entities as of December 31, 2013 is as follows:

(In millions of won)

	2013			
	Assets-backed securitization	Project financing	Beneficiary certificates	Total
Assets	₩ 16,319,780	1,523,186	4,173,134	22,016,100

The revenue of the non interests in unconsolidated structured entities for the year ended December 31, 2013 is as follows:

(In millions of won)

	2013			
	Assets-backed securitization	Project financing	Beneficiary certificates	Total
Interest income	₩ 45,405	7,489	–	52,894
Fee and commission income	2,679	1,493	304	4,476
Dividend income	–	–	12,054	12,054
Total	₩ 48,084	8,982	12,358	69,424

(ii) Nature of associated risk

The book values recognized in the financial statements for the interests in unconsolidated structured entities as of December 31, 2013 are as follows:

(In millions of won)

	2013			
	Assets-backed securitization	Project financing	Beneficiary certificates	Total
Assets in statement of financial position Loans	₩ 973,912	181,920	-	1,155,832
Derivatives instrument assets	2,946	-	-	2,946
Available-for-sale financial assets	30,674	-	300,827	331,501
Total	₩ 1,007,532	181,920	300,827	1,490,279

The Group's maximum loss exposure to unconsolidated structured entities as of December 31, 2013 is as follows:

(In millions of won)

	2013			
	Assets-backed securitization	Project financing	Beneficiary certificates	Total
Investment assets	₩ 1,007,532	181,920	300,827	1,490,279
Purchase commitments	15,000	-	-	15,000
Credit granting	195,241	6,384	56,486	258,111
Total	₩ 1,217,773	188,304	357,313	1,763,390

2. Basis of Preparation

(a) Statement of compliance

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

The consolidated financial statements were authorized for issuance by the Board of Directors on February 6, 2014, which will be submitted for approval to the shareholders at a meeting to be held on March 21, 2014.

(b) Basis of measurement

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

- √ derivative financial instruments measured at fair value
- √ financial instruments at fair value through profit or loss measured at fair value
- √ available-for-sale financial assets measured at fair value
- √ contingent consideration payable at the acquisition date measured at fair value
- √ liabilities for cash-settled share-based payment arrangements measured at fair value
- √ liabilities for defined benefit plans recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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



(i) Uncertainties of assumptions and estimation

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

- √ Note 14 – Allowance for loan losses
- √ Note 24 – Provisions
- √ Note 25 – Defined benefit obligations
- √ Note 46 – Commitments and contingencies

(ii) Measurement of fair value

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group reports significant valuation issues to the audit committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- √ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- √ Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- √ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(e) Changes in accounting policy

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements. The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- √ K-IFRS No. 1110, 'Consolidated Financial Statements'
- √ K-IFRS No.1112, 'Disclosure of Interests in Other Entities'
- √ K-IFRS No. 1113, 'Fair Value Measurement'
- √ K-IFRS No. 1019, 'Employee Benefits'
- √ Presentation of Items of Other Comprehensive Income (Amendments to K-IFRS No.1001)
- √ Disclosures offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS No.1107)

The nature of the changes is explained below and the effects of the changes are explained in Note 2(f).

(i) Subsidiaries

As a result of K-IFRS No.1110, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. K-IFRS No.1110 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

The Group re-assessed the control conclusion for its investees at January 1, 2013. As a consequence, the Group changed its control relationship with its investee as below.

	Company
Newly included subsidiaries	Household Money Trust, Old-age Living Pension Trust, Corporation Money Trust, Installment Money Trust of Purpose, Retirement Trust, New Personal Pension Trust, Personal Pension Trust, New Old-age Living Pension Trust, Pension Trust

(ii) Disclosure of interest in other entities

As a result of K-IFRS No.1112, the Group has expanded its disclosures about its interests in subsidiaries, equity-accounted investees and interests in unconsolidated structured entities (see Note 1.(b), 1.(c), 1.(d) & 12).

(iii) Fair value measurement

K-IFRS No.1113 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other K-IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other K-IFRSs, including KIFRS No.1107. As a result, the Group has included additional disclosures in this regard (see Notes 7, 8, and 17).

In accordance with the transitional provisions of K-IFRS No.1113, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

(iv) Post-employment defined benefit plans

As a result of K-IFRS No.1019, the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit plans. Under K-IFRS No.1019, the Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling. Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

(v) Presentation of items of other comprehensive income (OCI)

As a result of the amendments to K-IFRS No.1001, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

(vi) Offsetting of financial assets and financial liabilities

As a result of the amendments to K-IFRS No.1107, the Group has expanded its disclosures about the offsetting of financial assets and financial liabilities (see Note 48.(c)).

(f) Impact of changes in accounting policy

(i) K-IFRS No.1110, 'Consolidated Financial Statements'

In accordance with the transitional provisions of K-IFRS No.1110, the Group assessed the control conclusion for its investees at January 1, 2013. The change was applied retrospectively, and the Group restated prior period financial statements accordingly. The following table summarizes the adjustments made to the Group's financial statements.

① Effects on the statements of financial position

(In millions of won)

	December 31, 2012			January 1, 2012		
	As previously reported(*1)	Amendments	As restated	As previously reported(*1)	Amendments	As restated
Financial assets held for trading	₩ 85,627	206,824	292,451	81,116	232,661	313,777
Loans and receivables	25,849,460	38,089	25,887,549	23,279,493	12,802	23,292,295
Overall impact on total assets	34,217,793	244,913	34,462,706	31,294,003	245,463	31,539,466
Depository liabilities	24,520,854	241,846	24,762,700	21,943,410	241,583	22,184,993
Other liabilities	1,726,062	(5,041)	1,721,021	1,364,511	(4,134)	1,360,377
Overall impact on total liabilities	31,694,536	236,805	31,931,341	29,002,603	237,449	29,240,052
Retained earnings	417,523	8,108	425,631	190,437	8,014	198,451
Overall impact on total equity	2,523,257	8,108	2,531,365	2,291,400	8,014	2,299,414

(*1) Changes in the other accounting policies are reflected.



② Effects on the statements of comprehensive income

(In millions of won)

	2012		
	As previously reported(*1)	Amendments	As restated
Net interest income	₩ 924,398	2,066	926,464
Net fee and commission income	72,919	587	73,506
Net gain (loss) on financial instruments held for trading	38,417	(1,830)	36,587
Other operating loss, net	(63,707)	(488)	(64,195)
Non-operating loss, net	(9,748)	(242)	(9,990)
Net income for the year	274,005	93	274,098
Earnings per share (in won)(*2)	2,044	1	2,045

(*1) Changes in the other accounting policies are reflected.

(*2) Diluted earnings per share are equal to the basic earnings per share because the Group has no issued dilutive securities.

③ Effects on the statements of comprehensive cash flows

(In millions of won)

	2012		
	As previously reported(*1)	Amendments	As restated
Net cash flows from operating activities	₩ 488,279	1,727	490,006
Net cash flows from financing activities	(152,846)	(1,727)	(154,573)

(ii) Amendments to K-IFRS No. 1019, 'Employee Benefits'

The amendments to K-IFRS No. 1019 are applied retrospectively, and the Group restated its prior period financial statements accordingly. The following table summarizes the financial effects on the financial statements.

① Effects on the statements of financial position

(In millions of won)

	December 31, 2012			January 1, 2012		
	As previously reported(*1)	Amendments	As restated	As previously reported(*1)	Amendments	As restated
Accumulated other comprehensive income	₩ 28,444	(16,511)	11,933	23,040	(15,868)	7,172
Retained earnings	409,120	16,511	425,631	182,583	15,868	198,451

(*1) Changes in the other accounting policies are reflected.

② Effects on the statements of comprehensive income

(In millions of won)

	2012		
	As previously reported(*1)	Amendments	As restated
General and administrative expenses	₩ 491,860	848	492,708
Operating income(*2)	372,131	848	372,979
Income tax expenses	89,096	(205)	88,891
Profit for the year	273,455	643	274,098
Earnings per share (in won)(*3)	2,040	5	2,045

(*1) Changes in the other accounting policies are reflected.

(*2) Amendments to K-IFRS No. 1001 'Presentation of Financial Statements' applied retrospectively.

(*3) Diluted earnings per share are equal to the basic earnings per share because the Group has no issued dilutive securities.

(iii) Amendments to K-IFRS No. 1001, 'Presentation of Financial Statements'

The Group applied the amendments to K-IFRS No. 1001, 'Presentation of Financial Statements' since December 31, 2012. The Group's operating profit is calculated as revenue less: (1) operating expenses, and (2) general and administrative expenses, and is presented separately in the statement of comprehensive income.

The following table summarizes the financial effects on the statement of comprehensive income for the year ended December 31, 2012. The Group applied the changes of accounting policy retrospectively and restated its comparative financial statements.

(In millions of won)

	2012	
Operating profit before adoption of the amendment(*1)	₩	360,377
Changes :		
Non operating income		(6,471)
Rental income	1,398	
Gain on disposition of tangible assets	63	
Others	5,010	
Non operating expense		19,073
Collecting expenses for written-off loans	311	
Donations	14,268	
Others	4,494	
Operating profit after adoption of the amendment		372,979

(*1) Changes in the other accounting policies are reflected.

3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the changes in accounting policies as explained in note 2.(e).

Certain comparative amounts in the statement of comprehensive income have been reclassified or rerepresented as a result of a change in the accounting policy regarding the presentation of items of OCI, retrospectively, and the Group restated prior period financial statements accordingly. The following table summarizes the adjustments made to the Group's financial statements.

(a) Operating segment

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

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

(b) Basis of consolidation

(i) Business combinations

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or business under common control.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No.1032, 'Financial Instruments: Presentation' and K-IFRS No.1039, 'Financial Instruments: Recognition and Measurement'.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.



(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iii) Transactions eliminated on consolidation

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

(iv) Non-controlling interests (NCIs)

NCIs are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(v) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(vi) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

(c) Cash and cash equivalents

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

(d) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

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

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

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

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

(v) De-recognition of financial assets

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

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

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

(e) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(i) Hedge accounting

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

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Fair value hedge

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

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

Cash flow hedge

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

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



(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments

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

(f) Deferred recognition of day-one profit or loss

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. If the valuation technique incorporates significant inputs that are not based on observable market data, the difference between the transaction price and the fair value based on the valuation technique (day-one profit or loss) is not recognized in profit or loss upon initial recognition but deferred. Deferred day-one profit or loss is recognized over the period between the trade date and the date when the variables are expected to become observable in the market, or over the life of the trade (whichever is shorter).

(g) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

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

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

(i) Financial assets measured at amortized cost

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

(ii) Financial assets carried at cost

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

(iii) Available-for-sale financial assets

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

(h) Property and equipment

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

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

Subsequent costs are recognized in the carrying amount of property and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property and equipment, except for land, are depreciated on a straight-line basis or a declining-balance basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

A component that is significant compared to the total cost of property and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss.

Depreciation method and the estimated useful lives of the Group's assets are as follows:

	Depreciation method	Useful lives (years)
Buildings	Straight-line method	40
Leasehold improvements	Straight-line method	5
Furniture, equipment and vehicles	Declining-balance method	4

(i) Intangible assets

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

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

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

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

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

(i) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(ii) Subsequent expenditures

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

(j) Investment property

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

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.



Investment property except for land, are depreciated on a straight-line basis over 40 years as estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(k) Impairment of non-financial assets

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

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

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

(l) Leases

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

(i) Finance leases

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

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

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

(ii) Operating leases

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

(iii) Determining whether an arrangement contains a lease

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

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

(m) Non-current assets held for sale

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

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

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

(n) Non-derivative financial liabilities

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

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

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

(ii) Other financial liabilities

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

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

(o) Fair value of financial instruments

(i) Determination of fair value of financial instruments that are measured at fair value

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

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

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

(ii) Classification and level of disclosure for fair value

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

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



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

Deposits, loans and receivables

The estimated fair values of money market deposits and deposits with a residual maturity of less than 6 months are the carrying amounts. The estimated fair values of non impaired deposits, loans and receivables are the present value of contractual cash flows discounted at current market rates by factoring in the default rates and credit spreads. The estimated fair values of individually assessed impaired deposits, loans and receivable are the present value of estimated future cash flows discounted at the original effective interest rate. The estimated fair values of collectively assessed impaired deposits, loans and receivables are the carrying amounts less allowances for loan losses.

Held-to-maturity financial assets

The fair values are the quoted prices in the market or fair values evaluated by a credible evaluator. If there is no such information, their fair values are estimated by using observable market prices of financial assets with similar credit level, maturity and profit rate.

Depository liabilities

The carrying amounts of non-interest bearing deposits and deposits with no stated maturity or a residual maturity less than 6 months are assumed to be fair values. The estimated fair value of an interest bearing deposit is the present value of future cash flows discounted at the interest rate (market rate) of a recently issued deposit with the similar maturity.

Borrowings

The carrying amounts of borrowings with readjustable term for floating rate or a contract maturity less than 6 months are assumed to be fair values. The estimated fair value of borrowings not quoted in an active market is the present value of future cash flows discounted at the interest rate (market rate) of a recently issued borrowing with the similar maturity.

(p) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits are employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and include the cost of training overseas which the Group grants to long-serving employees. The calculation method of the Group's obligation is consistent with defined benefit plans.

(iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(iv) Retirement benefits: defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(v) Termination benefits

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

(q) Provisions

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

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

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

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

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

Financial guarantee contracts are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period ; and
- the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period.

(r) Foreign currencies

(i) Foreign currency transactions

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

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

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

(s) Equity capital

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



When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(t) Share-based payment transactions

The Group has granted shares or share options to its employees and other parties. For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group 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.

(u) Finance income and finance costs

(i) Interest

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

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

(ii) Fees and commission

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

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

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

(iii) Dividends

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

(v) Income taxes

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

(i) Current tax

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

(ii) Deferred tax

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

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

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

(w) Accounting for trust accounts

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

(x) Earnings per share

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

(y) New standards and interpretation not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2013, and the Group has not early adopted them. Management believes the impact of the amendments on the Group's consolidated financial statements is not significant.

(i) Amendments to K-IFRS No. 1032, 'Financial Instruments: Presentation'

The amendments clarified the application guidance related to 'offsetting a financial asset and a financial liability'. The amendment is mandatorily effective for periods beginning on or after January 1, 2014 with earlier application permitted.

4. Operating Segments

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

An operating segment has been identified as a component of the Group on the basis of revenues and expenses, segment performance evaluations and resource allocation decisions made by the chief operation decision maker.

Reportable segments are based on economic characteristics of the services provided. The five reportable segments are as follows:

Description	Business area
Corporate	Procurement and financial services for corporate
Individuals	Procurement and financial services for individuals
Public	Procurement and financial services for public
Money market center	Securities (including stocks) investment and operation, business acquisitions and sales of public debt, derivatives design and operation, work related to foreign exchange
Others	Segments other than the above including trust segment and head office supporting segments



Notes to the Consolidated Financial Statements

Information about reportable segments as of and for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013							
	Corporate	Individuals	Public	Money market center	Others	Subtotal	Adjustments	Consolidated amount
Net interest income	₩ 343,844	294,75	85,300	190,668	12,898	927,460	14,210	941,670
Interest income	1,015,199	782,039	253,135	1,328,548	98,302	3,477,223	(1,794,655)	1,682,568
(Interest income from external customers)	857,341	406,311	88,416	266,496	79,068	1,697,632	(15,064)	1,682,568
Interest expense	671,355	487,289	167,835	1,137,880	85,404	2,549,763	(1,808,865)	740,898
(Interest expense to external customers)	199,069	282,755	107,672	118,568	47,893	755,957	(15,059)	740,898
Fee & commission Income, net	6,878	51,294	6,878	6,472	1,032	72,554	187	72,741
Other financial Income, net (*1)	2,810	5,648	2,810	40,490	11,678	63,436	4,448	67,884
Bad debt expense	-	-	-	-	-	-	(154,764)	(154,764)
Other operating loss, net	(41,294)	(267,935)	(41,294)	(44,971)	(2,237)	(397,731)	(190,795)	(588,526)
Operating Income	₩ 312,238	83,757	53,694	192,659	23,371	665,719	(326,714)	339,005
Total assets	₩ 17,219,081	8,981,271	1,713,740	6,810,485	5,543,975	40,268,552	(2,690,730)	37,577,822
Total liabilities	₩ 11,855,564	12,169,540	4,396,799	5,117,414	1,510,436	35,049,753	(470,468)	34,579,285

(In millions of won)

	2012							
	Corporate	Individuals	Public	Money market center	Others	Subtotal	Adjustments	Consolidated amount
Net interest income (loss)	₩ 360,082	307,720	98,290	172,190	(9,054)	929,228	(2,764)	926,464
Interest income	1,184,312	885,426	289,001	1,765,768	50,799	4,175,306	(2,459,154)	1,716,152
(Interest income from external customers)	848,850	419,698	110,279	305,294	40,779	1,724,900	(8,748)	1,716,152
Interest expense	824,230	577,706	190,711	1,593,578	59,853	3,246,078	(2,456,390)	789,688
(Interest expense to external customers)	231,788	291,701	113,978	132,400	28,569	798,436	(8,748)	789,688
Fee & commission Income, net	37,854	66,150	11,245	2,310	3,737	121,296	(47,790)	73,506
Other financial Income, net (*1)	21,160	2,867	890	43,854	19,634	88,405	20,594	108,999
Bad debt expense	-	-	-	-	-	-	163,914	163,914
Other operating loss, net	(181,905)	(302,198)	(81,764)	(31,668)	(14,660)	(612,195)	(287,709)	(899,904)
Operating Income (loss)	₩ 237,191	74,539	28,661	186,686	(343)	526,734	(153,755)	372,979
Total assets	₩ 16,453,332	8,880,754	1,651,177	6,178,472	3,969,038	37,132,773	(2,670,067)	34,462,706
Total liabilities	₩ 11,127,048	11,827,842	3,928,870	4,427,281	1,125,961	32,437,002	(505,661)	31,931,341

(*1) Other financial income, net, (excluding interest income/expense) includes net income on financial assets held-fortrading, net income on financial assets designated at fair value through profit or loss, net income on available-for-sale financial assets, net income on held-to-maturity financial assets, net income on hedging derivative instruments, net income on hedged assets, impairment losses and reversal of impairment loss on financial assets, net income on foreign exchange and net disposal income on loans and receivables.

(*2) Adjustments are mainly comprised of internal transactions between the operating segments such as interest income and expense that are adjusted by headquarter, and common expenses incurred which are not allocable for performance evaluation purpose such as bad debt expenses.

5. Cash and due from Banks

(a) Cash and due from banks

Cash and due from banks as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013		2012	
	Book value	Fair value	Book value	Fair value
Cash and cash equivalents	₩ 364,008	364,008	394,877	394,877
Due from banks in won	The Bank of Korea	964,761	657,510	657,510
	Commercial banks	7,681	1,200	1,200
	Non-monetary financial institutions	90,000	50,000	50,000
	Others	3,939	6,681	6,681
	Subtotal	1,066,381	1,066,381	715,391
Due from banks in foreign currencies	The Bank of Korea	18,127	21,681	21,681
	Commercial banks	9,452	12,770	12,770
	Overseas banks countries	38,916	39,258	39,258
	Subtotal	66,495	66,495	73,709
Total	₩ 1,496,884	1,496,884	1,183,977	1,183,977

All due from banks amounts mature within 12 months.

(b) Restricted due from banks

Restricted due from banks as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013		2012	
Reserve deposits in won	The Bank of Korea	₩ 884,761	627,510		
Reserve deposits in foreign currencies	The Bank of Korea		18,127		21,681
	Overseas banks		10,781		10,168
Total		₩ 913,669	659,359		

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

(a) Financial assets held for trading

Financial assets held for trading as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			2012		
	Book value	Fair value	Loss on valuation	Book value	Fair value	Loss on valuation
Equity securities	₩ 19,400	15,914	(3,486)	35,438	34,936	(502)
		225,302	(446)	201,637	201,619	(18)
Debt securities	₩ 244,702	240,770	(3,932)	237,075	236,555	(520)

The amounts of financial assets held for trading except for listed equity securities which mature within 12 months are ₩204,223 million and ₩145,254 million as of December 31, 2013 and 2012, respectively. The amounts of financial assets held for trading except for listed equity securities which mature after 12 months are ₩20,633 million and ₩56,365 million as of December 31, 2013 and 2012, respectively.

**(b) Classification and fair value hierarchy financial assets held for trading**

Classification and fair value hierarchy of financial assets held for trading as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			
	Level 1	Level 2	Level 3	Total
Equity securities	₩ 15,914	-	-	15,914
Debt securities	-	224,856	-	224,856
	₩ 15,914	224,856	-	240,770

(In millions of won)

	2012			
	Level 1	Level 2	Level 3	Total
Equity securities	₩ 34,936	-	-	34,936
Debt securities	-	201,619	-	201,619
	₩ 34,936	201,619	-	236,555

7. Financial Assets Designated at Fair Value through Profit or Loss**(a) Financial assets designated at fair value through profit or loss**

(In millions of won)

		2013			2012		
		Book value before valuation	Fair Value	Gain (loss) on valuation	Book value before valuation	Fair Value	Gain on valuation
Equity securities	Redeemable preferred stocks	₩ 137,093	131,621	(5,472)	129,972	137,093	7,121
Debt securities	Credit linked securities	10,366	10,533	167	10,126	10,521	395
		₩ 147,459	142,154	(5,305)	140,098	147,614	7,516

All financial assets designated at fair value through profit or loss as of December 31, 2013 except for equity securities mature within 12 months. All financial assets designated at fair value through profit or loss as of December 31, 2012 except for equity securities which mature after 12 months.

(b) Classification and fair value hierarchy of financial assets designated at fair value through profit or loss

The classification and the fair value hierarchy of financial assets designated at fair value through profit or loss as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			
	Level 1	Level 2	Level 3	Total
Equity securities	₩ -	-	131,621	131,621
Debt securities	-	-	10,533	10,533
	₩ -	-	142,154	142,154

(In millions of won)

	2012			
	Level 1	Level 2	Level 3	Total
Equity securities	₩ -	-	137,093	137,093
Debt securities	-	-	10,521	10,521
	₩ -	-	147,614	147,614

(c) Changes in level 3

Changes in level 3 of financial assets designated at fair value through profit or loss for the year ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013		
	Equity securities	Debt securities	Total
Beginning balance	₩ 137,093	10,521	147,614
Gain (loss) on valuation	(5,472)	167	(5,305)
Effect of exchange rate	-	(155)	(155)
Ending balance	₩ 131,621	10,533	142,154

(In millions of won)

	2012		
	Equity securities	Debt securities	Total
Beginning balance	₩ 204,650	10,903	215,553
Gain on valuation	7,121	395	7,516
Effect of exchange rate	-	(777)	(777)
Disposal	(74,678)	-	(74,678)
Ending balance	₩ 137,093	10,521	147,614

(d) Quantitative information of level 3

Valuation method and significant unobservable inputs used in measuring level 3 fair values of financial assets designated at fair value through profit or loss as of December 31, 2013 are as follows:

	Valuation method	Unobservable inputs	Range
Equity securities	DCF method	Discount rate	2.98% ~ 8.47%

(e) Sensitivity analysis of level 3

Sensitivity analysis of financial instruments is performed by dividing the value changes of financial instruments affected by the changes of unobservable inputs into advantageous and disadvantageous changes. If fair values are affected by two or more inputs, changes are calculated by assuming the most advantageous or the most disadvantageous situation.

Sensitivity to changes in inputs of financial assets designated at fair value through profit or loss as of December 31, 2013 are as follows:

(In millions of won)

	Profit or loss		Other comprehensive income or loss	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
Equity securities	₩ 6,104	(3,161)	-	-

(f) Deferred recognition of day-one profit or loss

There is no deferred day-one profit or loss as of December 31, 2013 and 2012.



8. Available-for-sale Financial Assets

(a) Available-for-sale financial assets

Available-for-sale financial assets as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			2012		
	Book value before valuation	Fair Value	Gain (loss) on valuation	Book value before valuation	Fair Value	Gain on valuation
Listed equity securities	₩ 73,379	59,712	(13,667)	63,767	48,836	(14,931)
Unlisted equity securities	227,988	257,267	29,279	221,013	253,395	32,382
Subtotal	301,367	316,979	15,612	284,780	302,231	17,451
Debt securities Government bonds	391,915	387,886	(4,029)	91,053	90,973	(80)
Financial debentures	300,173	299,683	(490)	300,082	302,326	2,244
Corporate bonds	330,030	330,010	(20)	300,449	301,514	1,065
Available-for-sale securities in foreign currencies	114,938	119,120	4,182	73,028	76,687	3,659
Others	844,193	840,654	(3,539)	753,283	758,061	4,778
Subtotal	1,981,249	1,977,353	(3,896)	1,517,895	1,529,561	11,666
Beneficiary certificate	292,574	294,016	1,442	166,604	162,480	(4,124)
Total	₩ 2,575,190	2,588,348	13,158	1,969,279	1,994,272	24,993

The amounts of available-for-sale financial assets except for equity securities which mature within 12 months are ₩479,737 million and ₩310,959 million as of December 31, 2013 and 2012, respectively. The amounts of available-for-sale financial assets except for equity securities which mature after 12 months are ₩1,791,632 million and ₩1,381,082 million as of December 31, 2013 and 2012, respectively.

The gain or loss on valuation includes accumulated loss on valuation of fair value hedged items amounting to ₩9,862 million as of December 31, 2013 and accumulated loss on valuation of fair value hedged items amounting to ₩12,649 million as of December 31, 2012, respectively.

(b) Classification and fair value hierarchy of available-for-sale financial assets

The classification and the fair value hierarchy of available-for-sale financial assets as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			
	Level 1	Level 2	Level 3	Total
Equity securities	₩ 60,075	-	256,904	316,979
Debt securities	413,681	1,549,531	14,141	1,977,353
Beneficiary certificates	121,177	172,839	-	294,016
	₩ 594,933	1,722,370	271,045	2,588,348

(In millions of won)

	2012			
	Level 1	Level 2	Level 3	Total
Equity securities	₩ 47,192	-	255,039	302,231
Debt securities	121,221	1,394,737	13,603	1,529,561
Beneficiary certificates	28,512	133,968	-	162,480
	₩ 196,925	1,528,705	268,642	1,994,272

(c) Changes in level 3

Changes in level 3 of available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013		
	Equity securities	Debt securities	Total
Beginning balance	₩ 255,039	13,603	268,642
Realized loss (impairment loss)	(682)	-	(682)
Unrealized gain (loss)	(2,956)	750	(2,206)
Acquisition	22,125	-	22,125
Disposal	(14,636)	-	(14,636)
Transfer	(1,986)	-	(1,986)
Effect of exchange rate	-	(212)	(212)
Ending balance	₩ 256,904	14,141	271,045

(In millions of won)

	2012		
	Equity securities	Debt securities	Total
Beginning balance	₩ 252,978	9,803	262,781
Realized loss (impairment loss)	(13,231)	-	(13,231)
Unrealized gain (loss)	(1,366)	4,622	3,256
Acquisition	28,810	-	28,810
Disposal	(11,473)	-	(11,473)
Transfer	(679)	-	(679)
Effect of exchange rate	-	(822)	(822)
Ending balance	₩ 255,039	13,603	268,642

(d) Quantitative information of level 3

Valuation method and significant unobservable inputs used in measuring level 3 fair values of available-for-sale financial assets as of December 31, 2013 are as follows:

	Valuation method	Unobservable inputs	Range
Equity securities	DCF method, etc	Discount rate	4.03% ~ 26.61%
		Growth rate	0%
		Liquidating value	0%

(e) Sensitivity analysis of level 3

Sensitivity analysis of financial instruments is performed by dividing the value changes of financial instruments affected by the changes of unobservable inputs into advantageous and disadvantageous changes. If fair values are affected by two or more inputs, changes are calculated by assuming the most advantageous or the most disadvantageous situation.

Sensitivity to changes in inputs of available-for-sale financial assets as of December 31, 2013 are as follows:

(In millions of won)

	Profit or loss		Other comprehensive income or loss	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
Equity securities(*1)	₩ -	-	25,470	(8,946)

(*1) Fair values of certain equity securities such as PEF are measured by the asset approach method. Fair value changes of such equity securities are excluded as sensitivity calculation by changes in inputs is practically impossible.



(f) Deferred recognition of day-one profit or loss

There is no deferred day-one profit or loss as of December 31, 2013 and 2012.

(g) Unrealized gain (loss)

Unrealized gain (loss) on available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			
	Equity securities	Debt securities	Beneficiary certificates	Total
Beginning balance	₩ 30,260	11,506	(4,124)	37,642
Realized gains disposition of securities	(1,073)	(6,690)	(418)	(8,181)
Unrealized loss	(3,642)	(8,783)	5,984	(6,441)
Ending balance	25,545	(3,967)	1,442	23,020
Deferred income tax assets (liabilities)	(6,182)	960	(349)	(5,571)
Net balance	₩ 19,363	(3,007)	1,093	17,449

(In millions of won)

	2012			
	Equity securities	Debt securities	Beneficiary certificates	Total
Beginning balance	₩ 35,809	4,882	(10,297)	30,394
Realized losses(gains) on disposition of securities	(3,473)	(5,453)	12,044	3,118
Unrealized gain (loss)	(2,076)	12,077	(5,871)	4,130
Ending balance	30,260	11,506	(4,124)	37,642
Deferred income tax assets (liabilities)	(7,323)	(2,784)	998	(9,109)
Net balance	₩ 22,937	8,722	(3,126)	28,533

(h) Impairment losses

Impairment losses on available-for-sale financial assets as of December 31, 2013, and 2012 are as follows:

(In millions of won)

	2013			2012		
	Amount before impairment	Amount after impairment	Impairment loss	Amount before impairment	Amount after impairment	Impairment loss
Equity securities	₩ 2,172	1,490	682	11,746	1,986	9,760

(i) Available-for-sale securities carried at cost

Available-for-sale securities carried at cost as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Megabowlcity	₩ -	1,800
Korea Asset Management Corp.	-	1,570
Daegu Dream Education	999	999
Korea Enterprise Data Co., Ltd.	785	785
Chungjung Sangju Co.,Ltd.	706	706
Evergreenkeanggi Co., Ltd.	692	692
Evergreencampus Co., Ltd.	674	674
Green Jang Ryang Co., Ltd.	648	648
Daegu Exhibition&Convention Center Ltd.	615	615
A Jin Paper Co., Ltd.	563	563
Nam Yang Kwang-Jin C&G., Co., Ltd.	520	520
Yeongdeok Enviro	516	516
Others	5,270	6,105
	₩ 11,988	16,193

Gain on disposal of available-for-sale securities carried at cost for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013		2012	
	Book value	Gain on disposal	Book value	Gain on disposal
Badbank Harmony	₩ 10	141	17	336
A Jin Paper Co., Ltd.	-	-	188	13
	₩ 10	141	205	349

Impairment loss on available-for-sale securities carried at cost for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013		2012	
	Book value	Gain on disposal	Book value	Gain on disposal
Gyeongju Culture and Arts Center	₩ -	-	-	105
Union ARK Development Co., Ltd.	-	-	-	1,815
	₩ -	-	-	1,920

9. Held-to-maturity Financial Assets

(a) Held-to-maturity financial assets

Held-to-maturity financial assets as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013			
		Face value	Acquisition cost	Amortized cost	Fair value
Debt securities	Government bonds	₩ 2,698,142	2,552,955	2,642,175	2,703,080
	Financial debentures	150,000	150,121	150,015	151,450
	Corporate bonds	20,000	20,000	20,000	20,373
	Others	1,569,839	1,577,113	1,573,052	1,591,713
		₩ 4,437,981	4,300,189	4,385,242	4,466,616

(In millions of won)

		2012			
		Face value	Acquisition cost	Amortized cost	Fair value
Debt securities	Government bonds	₩ 2,519,860	2,415,918	2,444,492	2,539,941
	Financial debentures	250,000	250,031	250,129	255,283
	Corporate bonds	20,000	20,000	20,000	20,545
	Others	1,709,574	1,714,094	1,713,901	1,748,618
		₩ 4,499,434	4,400,043	4,428,522	4,564,387

The amounts of held-to-maturity financial assets, which mature within 12 months are ₩942,220 million and ₩623,995 million as of December 31, 2013 and 2012, respectively. The amounts of held-to-maturity financial assets, which mature after 12 months are ₩3,443,022 million and ₩3,804,527 million as of December 31, 2013 and 2012, respectively.

(b) Transferred held-to-maturity financial assets that are not derecognized in their entirety

Transferred held to maturity financial assets that are not derecognized in their entirety as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013				
	Held-to-maturity financial assets		Related liabilities		Net position
	Book value	Fair value	Book value	Fair value	
Securities sold under repurchase agreement	₩ 538,694	551,656	481,227	482,418	69,238

**10. Collateralized Securities**

Investment securities pledged to various institutions as of December 31, 2013 are as follows:

(In millions of won)

Purpose	Collateralized value	Book value of held-to-maturity securities	Total
Bank of Korea settlements	₩ 130,000	128,737	The Bank of Korea, Korea Securities Depository
Bank of Korea daylight overdraft	255,000	249,403	The Bank of Korea, Korea Securities Depository
Bank of Korea borrowings	700,000	682,675	The Bank of Korea
Borrowings in foreign currencies	80,000	80,170	Industrial Bank of Korea
Derivatives transactions	49,879	48,128	Samsung Futures Inc., KB Futures Co., Ltd.
Repurchase agreement	538,000	538,694	Korea Securities Depository
Others	235	245	Korea Securities Depository
	₩ 1,753,114	1,728,052	

11. Structured Securities

Structured securities as of December 31, 2013 are as follows:

(In thousands of US dollar)

Type	Structured form	Face amount	Book value	Inherent risk
Financial assets at fair value through profit or loss	Credit linked securities	\$ 10,000	9,981	Interests may not be paid in the case that operating performance declines, but the principal is guaranteed.
Available for sale financial assets	Collateral bond for loan	10,000	13,400	Interests may not be paid in the case that operating performance declines.
		\$ 20,000	23,381	

12. Investments in Associates**(a) Ownership**

Ownership on associates as of December 31, 2013 and 2012 are as follows:

(In millions of won)

2013							
Associate (*2)	Relation	Reporting date	Number of shares owned	Ownership	Acquisition cost(*1)	Net asset value	Book value
Daegu FC (*3)	Associate	2013.12.31	300,000	9.20 %	₩ 516	233	233
2012							
Associate (*2)	Relation	Reporting date	Number of shares owned	Ownership	Acquisition cost(*1)	Net asset value	Book value
Daegu FC (*3)	Associate	2012.12.31	300,000	9.20 %	₩ 516	230	230

(In millions of won)

(*1) Associate's acquisition cost and book value are the carrying amount under previous K-GAAP on the date of transition to K-IFRS.

(*2) Interests in Consus BTL Private Special Asset Fund 1 is more than 20%(29.9%), but it was not classified as an associate as the Group cannot exercise significant influence over the investment advisory committee of Consus BTL Private Special Asset Fund 1 by an agreement.

(*3) Interests in Daegu FC is less than 20%, but it was classified as an associate as the Group can exercise significant influence over Daegu FC through sharing of management.

(b) Equity method

(In millions of won)

		2013		
		Book Value as of January 1, 2013	Gain on equity method accounting	Book Value as of December 31, 2013
Daegu FC	₩	230	3	233

(In millions of won)

		2012		
		Book Value as of January 1, 2013	Gain on equity method accounting	Book Value as of December 31, 2013
Daegu FC	₩	264	(34)	230

(c) Summarized financial information

Summarized financial information of associates as of and for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013			
		Assets	Liabilities	Gross revenue	Net income
Daegu FC	₩	5,254	2,720	9,319	35

(In millions of won)

		2012			
		Assets	Liabilities	Gross revenue	Net income
Daegu FC	₩	5,533	3,034	9,126	(373)



13. Loans and Receivables

(a) Loans and receivables

Loans and receivables as of December 31, 2013 and 2012 are as follows:

(In millions of won)

			2013		2012		
			Book value	Fair value (*1)	Amortized cost	Fair value (*1)	
Loans	Loans in won	Loans to enterprises	₩ 17,300,745	17,385,906	15,241,345	15,326,612	
		Loans to households	6,686,571	6,695,149	6,369,296	6,378,386	
		Loans to public sectors and others	439,696	440,875	405,280	406,020	
		Subtotal	24,427,012	24,521,930	22,015,921	22,111,018	
	Loans in foreign currencies	Loans to enterprises	533,111	532,944	628,551	628,125	
		Loans to other banks	86,082	86,082	99,317	99,317	
	Finance lease receivables		316,424	315,186	182,106	182,161	
	Others	Bill bought	19,167	19,167	27,533	27,533	
		Bill bought in foreign currencies	117,158	117,158	104,685	104,685	
		Payments on guarantees	405	405	911	902	
		Credit card accounts	397,991	397,616	423,067	422,699	
		Bonds purchased under resale agreements	100,000	100,000	206,235	206,235	
		Call loans	370,811	375,032	498,062	498,062	
		Privately placed debentures	153,402	156,298	275,839	279,555	
		Privately placed public loan	256,864	256,867	277,624	283,294	
		Other loans	41,632	41,251	17,936	17,841	
		Subtotal	1,457,430	1,463,794	1,831,892	1,840,806	
	Subtotal		26,820,059	26,919,936	24,757,787	24,861,427	
	Receivables	Guaranty money		131,063	127,714	132,134	129,258
		Accounts receivable		1,096,985	1,096,985	898,547	898,547
		Accrued income		299,773	299,773	257,224	257,224
		Other receivables		62,932	62,932	127,586	127,586
Subtotal			1,590,753	1,587,404	1,415,491	1,412,615	
Allowance for loan losses		(293,424)	(293,424)	(294,956)	(294,956)		
Present value discount		(5,737)	(5,737)	(4,825)	(4,825)		
Deferred loan origination fees		(6,335)	(6,335)	(5,915)	(5,915)		
Deferred loan origination costs		28,815	28,815	19,967	19,967		
Total		₩ 28,134,131	28,230,659	25,887,549	25,988,313		

(*1) Fair values are classified as level 3.

The amounts of loans and receivables, which mature within 12 months are ₩15,976,898 million and ₩16,557,566 million as of December 31, 2013 and 2012, respectively. The amounts of loans and receivables, which mature after 12 months are ₩12,433,914 million and ₩9,615,712 million as of December 31, 2013 and 2012, respectively.

(b) Loans in won

Loans in won as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Loans to enterprises	Operation loans	₩ 10,192,871	9,397,199
	Facility loans	7,107,874	5,844,146
	Subtotal	17,300,745	15,241,345
Loans to households	Loans to households Operation loans	4,080,096	3,880,885
	Housing loans	2,606,475	2,488,411
	Subtotal	6,686,571	6,369,296
Loans to public sectors and others	Operation loans	131,359	163,519
	Facility loans	308,337	241,761
	Subtotal	439,696	405,280
Total	₩	24,427,012	22,015,921

(c) Loans in foreign currencies

Loans in foreign currencies as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Loans to enterprises	Operation loans	₩ 119,780	89,715
	Facility loans	177,211	276,427
	Domestic import usance	236,120	262,409
	Subtotal	₩ 533,111	628,551

(d) Finance lease receivables

Finance lease receivables as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			
	Total investment in a lease			Net investment in a lease
	Minimum lease payments	Unguaranteed residual value	Unearned Interest	
Within 1 year	₩ 128,364	-	15,261	113,103
Exceed 1 year and within 5 years	213,557	-	13,543	200,014
Exceed 5 years	32	-	2	30
Total	₩ 341,953	-	28,806	313,147

(In millions of won)

	2012			
	Total investment in a lease			Net investment in a lease
	Minimum lease payments	Unguaranteed residual value	Unearned Interest	
Within 1 year	₩ 76,065	-	9,484	66,581
Exceed 1 year and within 5 years	123,792	-	8,442	115,350
Exceed 5 years	-	-	-	-
Total	₩ 199,857	-	17,926	181,931

**(e) Transferred loans that are derecognized in their entirety with continuing involvement**

Transferred loans that are derecognized in their entirety with continuing involvement as of December 31, 2013 are as follows:

(In millions of won)

Type of continuing involvement	2013		
	Cash outflows to repurchase transferred (derecognized) assets	Carrying amount of continuing involvement(Provision)	Maximum exposure to loss
Collateral endorsement	₩ 129	-	129

The maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognized financial assets or other amounts payable to the transferee in respect of the transferred assets is as follows:

(In millions of won)

Type of continuing involvement	Maturity of continuing involvement	
	Less than 1 month	
Collateral endorsement	₩	129

14. Allowance for Loan Losses

Changes in allowance for loan losses for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Beginning balance	₩ 294,956	314,336
Provision for losses	154,082	154,119
Collection of loans written-off	33,253	48,350
Disposal of loans	(3,913)	(4,286)
Write-offs	(163,242)	(192,520)
Unwinding effect	(16,746)	(20,366)
Effect of exchange rate	(250)	(689)
Others	(4,716)	(3,988)
Ending balance	₩ 293,424	294,956

15. Deferred Loan Origination Fees and Costs**(a) Deferred loan origination fees**

Changes in deferred loan origination fees for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Beginning balance	₩ 5,915	6,334
Increase	4,382	1,193
Decrease	(3,962)	(1,612)
Ending balance	₩ 6,335	5,915

(b) Deferred loan origination costs

Changes in deferred loan origination costs for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Beginning balance	₩ 19,967	12,375
Increase	34,006	29,373
Decrease	(25,158)	(21,781)
Ending balance	₩ 28,815	19,967

16. Restructured Loans

Restructured loans under workout plans or other similar restructuring programs as of December 31, 2013 and 2012 are as follows:

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

	2013			
	The number of companies	Balance before restructuring	Allowance	Balance after restructuring
Workout	9	₩ 138,329	(30,179)	108,150
Restructuring, industrial rationalization	19	28,568	(3,100)	25,468
	28	₩ 166,897	(33,279)	133,618

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

	2012			
	The number of companies	Balance before restructuring	Allowance	Balance after restructuring
Workout	7	₩ 85,530	(26,195)	59,335
Restructuring, industrial rationalization	18	20,272	(3,169)	17,103
	25	₩ 105,802	(29,364)	76,438

17. Derivative Instruments

(a) Notional amounts of unsettled derivative instruments

Notional amounts of unsettled derivative instruments as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013			2012		
		Trading	Hedging	Total	Trading	Hedging	Total
Currency related	Forward	₩ 4,871,757	-	4,871,757	5,422,209	-	5,422,209
	Swap	-	-	-	6,087	-	6,087
	Subtotal	4,871,757	-	4,871,757	5,428,296	-	5,428,296
Interest rate related	Swap	-	342,973	342,973	-	5,356	5,356
Stock related	Option bought	158,456	61,313	219,769	141,059	67,616	208,675
	Option sold	145,754	29,891	175,645	114,998	36,194	151,192
	Subtotal	304,210	91,204	395,414	256,057	103,810	359,867
Total		₩ 5,175,967	434,177	5,610,144	5,684,353	109,166	5,793,519

(b) Valuation on trading and hedging derivative instruments

Valuation on trading and hedging derivative instruments as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013						
		Valuation gains (losses)			Fair value (trading)		Fair value (hedging)	
		Trading (through profit and loss)	Hedging (through profit and loss)	Total	Assets	Liabilities	Assets	Liabilities
<Currency related>								
Forward	₩ 20,689	-	20,689	56,437	35,637	-	-	
<Interest rate related>								
Swap	-	(8,054)	(8,054)	-	-	44	7,945	
<Stock related>								
Option	(307)	(5,897)	(6,204)	6,089	2,297	18,826	2,517	
Reserve for credit risk adjustment	19,731	(50)	19,681	(10,376)	(39)	(183)	(7)	
Total	₩ 40,113	(14,001)	26,112	52,150	37,895	18,687	10,455	



(In millions of won)

	2012						
	Valuation gains (losses)			Fair value (trading)		Fair value (hedging)	
	Trading (through profit and loss)	Hedging (through profit and loss)	Total	Assets	Liabilities	Assets	Liabilities
<Currency related>							
Forward	₩ 46,695	-	46,695	73,941	27,407	-	-
Swap	19	-	19	237	237	-	-
Subtotal	46,714	-	46,714	74,178	27,644	-	-
<Interest rate related>							
Swap	-	(161)	(161)	-	-	-	164
<Stock related>							
Option	570	6,746	7,316	11,786	3,182	24,561	933
Reserve for credit risk adjustment	41,791	(21)	41,770	(30,068)	-	(126)	-
Total	₩ 89,075	6,564	95,639	55,896	30,826	24,435	1,097

(c) Gain (loss) on valuation of hedged assets

Gain (loss) on valuation of hedged assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013		2012	
	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation
Available-for-sale financial assets	₩ 6,575	3,788	192	6,745
Debentures	8,344	-	-	-
Total	₩ 14,919	3,788	192	6,745

(d) Classification and fair value hierarchy of derivatives

The classification and the fair value hierarchy of derivatives for fair value measurement as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			
	Level 1	Level 2	Level 3	Total
Trading derivatives instrument assets(*1)	₩ -	56,437	6,089	62,526
Trading derivatives instrument liabilities(*1)	-	35,637	2,297	37,934
Hedging derivatives instrument assets(*1)	-	43	18,827	18,870
Hedging derivatives instrument liabilities(*1)	-	7,945	2,517	10,462

(*1) Credit-risk adjustments are not reflected.

(In millions of won)

	2012			
	Level 1	Level 2	Level 3	Total
Trading derivatives instrument assets(*1)	₩ -	74,178	11,786	85,964
Trading derivatives instrument liabilities	-	27,644	3,182	30,826
Hedging derivatives instrument assets(*1)	-	-	24,561	24,561
Hedging derivatives instrument liabilities	-	164	933	1,097

(*1) Credit-risk adjustments are not reflected.

(e) Changes in level 3

Changes in level 3 for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			
	Trading derivatives instrument assets(*1)	Trading derivatives instrument liabilities(*1)	Hedging derivatives instrument assets(*1)	Hedging derivatives instrument liabilities(*1)
Beginning balance	₩ 11,786	3,182	24,561	933
Gain (loss)	(623)	(316)	(5,771)	126
Acquisition	4,765	-	2,826	-
Disposal	-	2,613	-	2,391
Settlement	(9,839)	(3,182)	(2,789)	(933)
Ending balance	₩ 6,089	2,297	18,827	2,517

(In millions of won)

	2012			
	Trading derivatives instrument assets(*1)	Trading derivatives instrument liabilities(*1)	Hedging derivatives instrument assets(*1)	Hedging derivatives instrument liabilities(*1)
Beginning balance	₩ 11,365	3,157	24,967	704
Gain (loss)	875	305	3,680	(3,066)
Acquisition	2,931	-	4,361	-
Disposal	-	2,877	-	3,999
Settlement	(3,385)	(3,157)	(8,447)	(704)
Ending balance	₩ 11,786	3,182	24,561	933

(*1) Credit-risk adjustments are not reflected.

(f) Quantitative information of level 3

Valuation method and significant unobservable inputs used in measuring level 3 fair values of derivative instruments as of December 31, 2013 are as follows:

	Valuation method	Unobservable inputs	Range
Trading derivatives instrument	Binomial model, etc.	Stock price volatility	6.80% ~ 32.45%
Hedging derivatives instrument	Binomial model, etc.	Stock price volatility	17.58% ~ 23.20%

(g) Sensitivity analysis of level 3

Sensitivity analysis of financial instruments is performed by dividing the value changes of financial instruments affected by the changes of unobservable inputs into advantageous and disadvantageous changes. If fair values are affected by two or more inputs, changes are calculated by assuming the most advantageous or the most disadvantageous situation.

(In millions of won)

	Profit or loss		Other comprehensive income or loss	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
Trading derivatives instrument	₩ 178	(118)	-	-
Hedging derivatives instrument	1,493	(1,507)	-	-

(h) Deferred recognition of day-one profit or loss

There is no deferred day-one profit or loss for the years ended December 31, 2013 and 2012.



18. Property and Equipment

(a) Property and equipment

Property and equipment as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			2012		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Land	₩ 146,744	-	146,744	146,132	-	146,132
Buildings	183,853	(55,038)	128,815	179,903	(50,395)	129,508
Leasehold improvement	37,321	(30,083)	7,238	35,393	(27,279)	8,114
Furniture, equipment and vehicles	180,093	(151,884)	28,209	177,662	(150,840)	26,822
Construction-inprogress	6,851	-	6,851	787	-	787
	₩ 554,862	(237,005)	317,857	539,877	(228,514)	311,363

(b) Changes in property and equipment

Changes in property and equipment for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013					
	Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩ 146,132	-	-	-	612	146,744
Buildings	129,508	3,730	-	(4,514)	91	128,815
Leasehold improvement	8,114	1,727	-	(2,807)	204	7,238
Furniture, equipment and vehicles	26,822	16,214	(75)	(17,248)	2,496	28,209
Construction-inprogress	787	6,902	-	-	(838)	6,851
	₩ 311,363	28,573	(75)	(24,569)	2,565	317,857

(In millions of won)

	2012					
	Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩ 130,567	-	-	-	15,565	146,132
Buildings	131,240	3,225	-	(4,438)	(519)	129,508
Leasehold improvement	7,256	4,037	-	(3,204)	25	8,114
Furniture, equipment and vehicles	29,743	14,501	(67)	(17,355)	-	26,822
Construction-inprogress	317	529	-	-	(59)	787
	₩ 299,123	22,292	(67)	(24,997)	15,012	311,363

(c) Assets insured

Assets insured as of December 31, 2013 are as follows:

(In millions of won)

	Type	Insurance amount	Insurance period	Insurance company
Buildings	Package insurance	₩ 165,983	2013.01.01 ~ 2013.12.31	Samsung Fire & Marine Insurance Co., Ltd.
Leasehold improvement	Package insurance	9,040	2013.01.01 ~ 2013.12.31	Samsung Fire & Marine Insurance Co., Ltd.
Leasehold improvement	Fire insurance	83	2013.05.24 ~ 2014.05.24	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	Package insurance	26,778	2013.01.01 ~ 2013.12.31	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	Package insurance	3	2013.05.24 ~ 2014.05.24	Samsung Fire & Marine Insurance Co., Ltd.
		₩ 201,887		

(d) Operating leases

Operating leases revenues and expenses for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013		2012	
	Operating lease revenues	Operating lease expenses	Operating lease revenues	Operating lease expenses
Within 1 year	₩ 540	3,200	429	3,810
Exceed 1 year and within 5 years	827	4,518	837	5,845
	₩ 1,367	7,718	1,266	9,655

19. Intangible Assets

Changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013					
	Beginning balance	Additions	Amortization	Impairment loss	Others (*1)(*2)	Ending balance
Goodwill	₩ -	-	-	(2,728)	11,312	8,584
Software(*3)	39,884	16,774	(18,897)	-	3,619	41,380
Contributed acceptance assets	8,931	-	(845)	-	-	8,086
Membership	6,015	518	-	(16)	15	6,532
Others(*4)	18,896	10,711	(7,753)	-	5,002	26,856
	₩ 73,726	28,003	(27,495)	(2,744)	19,948	91,438

(*1) The Group recognized goodwill of ₩11,312 million and other intangible assets of ₩1,776 million, as a result of merger between Kardnet and U Payment.

(*2) Software of ₩3,102 million and other intangible assets of ₩3,226 million that are succeeded as a result of merger between Kardnet and U Payment, and gain on translation of foreign operations of ₩15 million are included.

(*3) Software of ₩517 million was transferred from construction-in-progress.

(*4) Others consist of usable and profitable donation assets of ₩24,885 million.

(In millions of won)

	2012					
	Beginning balance	Additions	Amortization	Impairment loss	Others	Ending balance
Software(*1)	₩ 47,212	9,222	(16,609)	-	59	39,884
Contributed acceptance assets	9,776	-	(845)	-	-	8,931
Membership(*2)	4,551	1,477	-	(13)	-	6,015
Others(*3)	18,841	7,061	(7,006)	-	-	18,896
	₩ 80,380	17,760	(24,460)	(13)	59	73,726

(*1) Software of ₩59 million was transferred from construction-in-progress.

(*2) Impairment loss of ₩13 million was recognized for the year ended December 31, 2012 respectively, due to a significant decline in its fair value.

(*3) Others consist of usable and profitable donation assets of ₩18,417 million.

**20. Investment Property****(a) Investment property**

Changes in investment property for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013				
	Beginning balance	Disposal	Transfer	Depreciation	Ending balance
Land	₩ 55,470	-	(612)	-	54,858
Buildings	32,596	(348)	(91)	(1,204)	30,953
	₩ 88,066	(348)	(703)	(1,204)	85,811

(In millions of won)

	2012				
	Beginning balance	Disposal	Transfer	Depreciation	Ending balance
Land	₩ 55,434	-	36	-	55,470
Buildings	32,206	1,068	519	(1,197)	32,596
	₩ 87,640	1,068	555	(1,197)	88,066

(b) Book value and fair value of investment property

Book value and fair value of investment property as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			2012		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Land	₩ 54,858	67,155	12,297	55,470	66,895	11,425
Buildings	30,953	30,261	(692)	32,596	31,609	(987)
	₩ 85,811	97,416	11,605	88,066	98,504	10,438

The fair value of investment property is determined by factoring in the price of similar real estate transactions by independent real estate appraisal experts.

(c) Rental income and expenses of investment property

Rental income and expenses of investment property for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			2012		
	Incomes	Expenses		Incomes	Expenses	
Property with rental income	₩ 723	157		802	152	
Property without rental income	-	291		-	298	
	₩ 723	448		802	450	

21. Other Assets

Other assets as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Prepayments	₩ 4,692	9,752
Prepaid expenses	11,697	13,985
Others	7,729	6,765
	₩ 24,118	30,502

22. Depository Liabilities

(a) Depository liabilities

Depository liabilities as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013		2012	
	Book value	Fair value(*1)	Book value	Fair value(*1)
Demand deposits	₩ 10,024,010	10,024,010	8,993,520	8,993,263
Time deposits	16,049,359	16,008,903	15,013,516	15,023,665
Negotiable certificates of deposit	711,030	711,207	755,664	756,577
	₩ 26,784,399	26,744,120	24,762,700	24,773,505

(*1) Fair values are classified as level 3.

The amounts of depository liabilities, which mature within 12 months are ₩17,428,715 million and ₩16,187,803 million as of December 31, 2013 and 2012, respectively. The amounts of depository liabilities, which mature after 12 months are ₩9,355,684 million and ₩8,574,897 million as of December 31, 2013 and 2012, respectively.

(b) Demand deposits

Demand deposits as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013		2012	
Deposits in won	Passbook deposits	₩	995,420		968,368
	Savings deposits		5,596,140		4,966,320
	Corporate free savings deposits		2,587,139		2,236,663
	Others		654,790		654,518
	Subtotal		9,833,489		8,825,869
Deposits in foreign currencies	Current deposits		371		346
	Passbook deposits		190,143		167,295
	Temporary deposits		7		10
	Subtotal		190,521		167,651
Total		₩ 10,024,010		8,993,520	

(c) Time deposits

Time deposits as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013		2012	
Deposits in won	Time deposits	₩	14,433,745		13,131,165
	Installment savings deposits		1,064,344		929,300
	Long term housing saving deposits		197,609		227,095
	Mutual installment deposits		11,301		137,256
	Others		301,382		247,692
	Subtotal		16,008,381		14,672,508
Deposits in foreign currencies	Time deposits		33,873		337,217
	Installment savings deposits		7,105		3,791
	Subtotal		40,978		341,008
Total		₩ 16,049,359		15,013,516	



23. Borrowings and Debentures

(a) Borrowings and debentures

Borrowings and debentures as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		Average interest rate (%)	December 31, 2013		December 31, 2012			
			Book value	Fair value(*1)	Book value	Fair value(*1)		
Borrowings	Borrowings in won	The Bank of Korea	₩ 622,135	622,135	366,394	366,394		
		Others	1,092,712	1,098,198	1,268,485	1,268,485		
		Subtotal	1,714,847	1,720,333	1,634,879	1,634,879		
	Borrowings in foreign currencies	Borrowings from banks	1.07	439,302	437,433	677,194	676,961	
		Bonds sold under repurchase agreements	Non-bank	3.33	446,064	447,221	353,341	355,342
			RP in foreign currencies	0.94	35,163	35,197	99,800	99,779
		Subtotal		481,227	482,418	453,141	455,121	
	Call money	Borrowings in won	2.54	50,000	50,000	100,000	100,000	
			Bills sold	2.77	42,778	42,792	34,590	34,604
	Total			2,728,154	2,732,976	2,899,804	2,901,565	
Debentures	Debentures in won	4.34	2,059,000	2,136,565	2,019,000	2,098,083		
	Debentures in foreign currencies	2.25	308,246	308,246	-	-		
	Less discount on debentures	-	(3,930)	(3,930)	(3,261)	(3,261)		
	Others (hybrid bond)	8.60	400,000	417,054	400,000	426,390		
	Total		2,763,316	2,857,935	2,415,739	2,521,212		
Borrowings and Debentures			₩ 5,491,470	5,590,911	5,315,543	5,422,777		

(*1) Fair values are classified as level 3.

The amounts of borrowings and debentures, which mature within 12 months are ₩2,547,109 million and ₩2,151,739 million as of December 31, 2013 and 2012, respectively. The amounts of borrowings and debentures, which mature after 12 months are ₩2,948,291 million and ₩3,167,065 million as of December 31, 2013 and 2012, respectively.

(b) Debentures

Debentures as of December 31, 2013 and 2012 are as follows:

(In millions of won)

Issuance date	Maturity date	Interest rate (%)		2013	2012
2007-02-06	2013-01-06	5.53	₩	-	50,000
2007-02-06	2013-01-06	5.53		-	20,000
2007-02-26	2013-01-26	5.53		-	16,400
2007-02-26	2013-01-26	5.53		-	13,600
2008-01-25	2014-01-25	6.76		110,000	110,000
2008-02-28	2014-02-28	6.02		90,000	90,000
2008-11-19	2015-02-19	8.00		28,772	28,800
2008-11-19	2015-02-19	8.00		17,026	17,000
2008-11-21	2015-02-21	8.00		30,867	30,800
2008-11-21	2015-02-21	8.00		16,660	16,700
2008-11-25	2015-02-25	8.00		31,556	31,600
2008-11-25	2015-02-25	8.00		24,119	24,100
2009-01-19	2039-01-19	8.60		270,000	270,000
2009-01-29	2039-01-29	8.60		130,000	130,000
2010-08-31	2016-12-31	5.05		120,000	120,000
2010-08-31	2016-12-31	5.05		80,000	80,000
2011-02-16	2013-08-16	4.24		-	20,000
2011-02-21	2014-11-21	4.55		50,000	50,000
2011-04-15	2016-04-15	4.46		100,000	100,000
2011-05-02	2014-05-02	4.17		40,000	40,000
2011-05-06	2016-05-06	4.43		20,000	20,000
2011-08-03	2013-08-03	4.17		-	50,000
2011-09-06	2013-09-06	3.82		-	60,000
2011-10-20	2018-01-20	4.49		120,000	120,000
2011-10-20	2018-01-20	4.49		10,000	10,000
2011-11-24	2013-05-24	3.61		-	10,000
2011-11-24	2013-11-24	3.71		-	20,000
2012-01-27	2014-07-27	3.75		60,000	60,000
2012-03-08	2019-01-08	4.37		150,000	150,000
2012-04-19	2013-04-19	3.53		-	60,000
2012-04-25	2013-10-25	3.60		-	70,000
2012-05-14	2013-11-14	3.53		-	60,000
2012-10-09	2022-10-09	3.35		100,000	100,000
2013-01-25	2015-07-25	2.85		60,000	-
2013-02-20	2014-08-20	2.78		50,000	-
2013-05-16	2023-05-16	3.21		100,000	-
2013-09-06	2023-09-06	4.01		100,000	-
2011-10-20	2016-10-20	4.25		70,000	70,000
2012-01-17	2017-01-17	3.98		100,000	100,000
2012-06-21	2017-06-21	3.75		100,000	100,000
2012-11-23	2015-11-23	3.07		100,000	100,000
2013-04-19	2018-04-19	2.90		50,000	-
2013-06-13	2015-06-13	3.52		40,000	-
2013-08-12	2015-08-12	3.50		50,000	-
2013-11-21	2015-11-21	3.73		40,000	-
2013-04-29	2018-04-29	2.25		308,246	-
Subtotal				2,767,246	2,419,000
Less discount on debentures				(3,930)	(3,261)
Total			₩	2,763,316	2,415,739

**24. Provisions**

Changes in provisions for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013			
		Beginning balance	Increase	Decrease	Ending balance
Allowance (*1)	Provision for financial guarantee	₩ 2,666	-	(2,509)	157
	Non-financial guarantee contract	6,240	-	(388)	5,852
	Subtotal	8,906	-	(2,897)	6,009
Unused commitment(*2)		13,495	2	(846)	12,651
Allowance for restoration(*3)		3,539	263	(280)	3,522
Other allowance	Mileage on credit cards	1,707	-	(256)	1,451
	Fraudulent usage of credit card	1	1	-	2
	Dormant deposits repayment(*4)	840	1,867	-	2,707
	Welfare for retired employees	1,643	68	-	1,711
	Litigation	-	462	-	462
	Others	524	7,689	(434)	7,779
Subtotal		4,715	10,087	(690)	14,112
Total		₩ 30,655	10,352	(4,713)	36,294

(In millions of won)

		2012			
		Beginning balance	Increase	Decrease	Ending balance
Allowance (*1)	Provision for financial guarantee	₩ 2,642	24	-	2,666
	Non-financial guarantee contract	4,632	1,608	-	6,240
	Subtotal	7,274	1,632	-	8,906
Unused commitment(*2)		13,349	146	-	13,495
Allowance for restoration(*3)		3,420	320	(201)	3,539
Other allowance	Mileage on credit cards	1,698	9	-	1,707
	Fraudulent usage of credit card	1	-	-	1
	Dormant deposits repayment(*4)	4,389	-	(3,549)	840
	Welfare for retired employees	1,866	-	(223)	1,643
	Others	-	524	-	524
	Subtotal	7,954	533	(3,772)	4,715
Total		₩ 31,997	2,631	(3,973)	30,655

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

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

(*3) Allowance for restoration is calculated as the present value of the restoration expense estimated and calculated at a discount rate as of December 31, 2013 and 2012.

(*4) The best estimate of repayments on dormant deposits is recognized as provision.

25. Defined Benefit Obligations

(a) Major assumptions of actuarial valuation

Major assumptions of actuarial valuation as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			2012		
	DGB Financial Group Co., Ltd.	Daegu Bank	DGB Capital Co., Ltd.	DGB Financial Group Co., Ltd.	Daegu Bank	DGB Capital Co., Ltd.
Discount rate	3.49%	4.70%	4.28%	3.11%	4.75%	3.91%
Salary increases	5.08%	3.83%	5.08%	5.18%	3.89%	5.18%

The weighted-average duration of the defined benefit obligation is 9.44 years as of December 31, 2013 and assumptions regarding future mortality is based on published statistics and mortality tables.

(b) The gains and losses related to defined benefit plans

The gains and losses related to defined benefit plans for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Current service cost	₩ 19,374	18,369
Interest expense	3,527	3,139
Interest income on plan assets	(3,063)	(2,398)
	₩ 19,838	19,110

(c) Defined benefit obligations

Defined benefit obligations as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Present value of retirement benefit obligations	₩ 100,061	77,156
Fair value of plan assets	(83,297)	(59,957)
Net liabilities occurred from retirement benefit obligation	₩ 16,764	17,199

(d) Changes in present value of retirement benefit obligations

Changes in present value of retirement benefit obligation for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Defined benefit obligations at beginning of the year	₩ 77,156	57,247
Current service cost	19,374	18,369
Interest expense	3,527	3,139
Remeasurement	4,564	(55)
Benefit paid	(4,754)	(1,803)
Transfer to related companies	194	259
Defined benefit obligations at end of the year	₩ 100,061	77,156

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

Changes in fair value of plan assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Fair value of plan assets at beginning of the year	₩	59,957	40,723
Interest income on plan assets		3,063	2,060
Remeasurement		(1,014)	(425)
Contribution of employer		22,699	18,868
Benefit paid		(1,420)	(1,515)
Transfer to related companies		12	246
Fair value of plan assets at end of the year	₩	83,297	59,957

The Group is expected to contribute ₩22,681 million for plan asset next year.

(f) Sensitivity analysis

Effects to the defined benefit obligation from reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, as of December 31, 2013 are as follows:

(In millions of won)

		Increase (1%)	Decrease (1%)
Discount rate	Increase (decrease) in defined benefit obligation	(8,711)	10,112
	Percentage change in defined benefit obligation	(-)9%	10%
Salary increases	Increase (decrease) in defined benefit obligation	10,042	(8,817)
	Percentage change in defined benefit obligation	10%	(-)9%

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

(g) Fair value of plan assets by category

The Group's management policy to plan assets is to invest in stable products regardless of the rate of return. Accordingly, the Group is investing the plan assets in principal and interest guaranteed products such as fixed interest rate products and floating rate products.

Fair value of plan assets by category as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Due from banks(*1)	₩	83,296	59,956
Contribution to National Pension Plan		1	1
Total	₩	83,297	59,957

(*1) Due from banks comprise retirement pensions of Samsung Life Insurance, Kyongnam Bank and Busan Bank. These include principal guaranteed products and the annual rate of return is 3.43%

(h) Expected future retirement benefits

Expected future retirement benefits as of December 31, 2013 are as follows:

(In millions of won)

		Amount
Less than 1 year	₩	6,228
1 ~ 2 years		7,395
2 ~ 3 years		9,132
3 ~ 4 years		8,725
4 ~ 5 years		10,983
More than 5 years		80,514
Total	₩	122,977

26. Other Liabilities

Other liabilities as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013		2012	
	Book value	Fair value(*1)	Book value	Fair value(*1)
Suspense receipts	₩ 409	409	544	544
Accounts payable	1,059,654	1,068,077	857,928	857,928
Accrued expenses	425,830	447,340	441,265	441,265
Domestic exchange settlements credits	534	534	713	713
Prepaid cards	5,477	5,477	4,959	4,959
Debit cards	351	351	367	367
Guarantee deposit for securities subscription	506	506	1,189	1,189
Other financial liabilities				
Liabilities incurred by agency relationship	63,565	63,565	45,204	45,204
Deposit for credit control	74	74	993	993
Withholding taxes	11,407	11,407	11,398	11,398
Deposits for letter of guarantees and other	110,441	102,843	82,483	82,317
Account for agency business	126,082	126,082	127,987	127,987
Financial guarantee contract	208	208	797	797
Others	307,432	292,269	115,103	115,103
Subtotal	2,111,970	2,119,142	1,690,930	1,690,764
Other non-financial liabilities				
Unearned revenue	24,366	24,366	22,918	22,918
Income tax payable	26,926	26,926	4,343	4,343
Others	4,968	4,968	8,293	8,293
Subtotal	56,260	56,260	35,554	35,554
Discount present value	(7,941)	(7,941)	(5,463)	(5,461)
Total	₩ 2,160,289	2,167,461	1,721,021	1,720,857

(*1) Fair values are classified as level 3.

The amounts of other liabilities, which mature within 12 months are ₩2,082,359 million and ₩1,723,164 million as of December 31, 2013 and 2012, respectively. The amounts of other liabilities, which mature after 12 months are ₩85,871 million and ₩3,320 million as of December 31, 2013 and 2012, respectively.



27. Assets and Liabilities Denominated in Foreign Currencies

(a) Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2013 and 2012 are as follows:

(In millions of won / thousands of US dollars)

	2013		2012			
	Foreign currency (*)	Translation into won	Foreign currency (*)	Translation into won		
Cash in foreign currencies	\$ 56,182	₩ 59,289	\$ 53,581	₩ 57,390		
Due from banks in foreign currencies	63,011	66,495	68,817	73,709		
Financial assets designated at fair value through profit or loss	9,981	10,533	9,823	10,521		
Available-for-sale financial assets	112,877	119,120	71,596	76,687		
Assets	Loans in foreign currencies	505,175	533,111	586,828	628,551	
	Bills bought in foreign currencies	111,019	117,158	97,736	104,685	
	Loans and receivables	Advances for customers in foreign currencies	384	405	255	273
		Credit card accounts in foreign currencies	2,036	2,149	1,790	1,917
		Call loans in foreign currencies	304,000	320,811	465,000	498,062
	Subtotal	922,614	973,634	1,151,609	1,233,488	
	Total foreign currency denominated assets	\$ 1,164,665	₩ 1,229,071	\$ 1,355,426	₩ 1,451,795	
Deposits in foreign currencies	\$ 219,369	₩ 231,500	\$ 474,894	₩ 508,659		
Borrowings	Borrowings in foreign currencies	416,282	439,302	632,242	677,194	
	Bonds sold under repurchase agreements in foreign currencies	33,320	35,163	93,175	99,800	
	Subtotal	449,602	474,465	725,417	776,994	
Liabilities	Debentures in foreign currencies	292,093	308,246	-	-	
	Less discount on debentures	(2,498)	(2,636)	-	-	
	Subtotal	289,595	305,610	-	-	
Other liabilities	Financial guarantee in foreign currencies	41	44	488	523	
	Foreign exchanges payable	5,299	5,592	5,451	5,838	
	Import deposit money in foreign currencies	6,800	7,176	9,629	10,314	
	Subtotal	12,140	12,812	15,568	16,675	
Total foreign currency denominated liabilities	\$ 970,706	₩ 1,024,387	\$ 1,215,879	₩ 1,302,328		

(*) Foreign currencies other than U.S. dollars are translated into U.S. dollars at the appropriate exchange rates at end of the reporting period.

(b) Gain and loss on foreign currency transactions

Gain and loss of foreign currency transactions for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Gain on foreign currency transactions	₩ 93,139	135,819
Loss on foreign currency transactions	83,023	113,938
Net gain on foreign currency transactions	₩ 10,116	21,881

28. Capital Stock, Capital Surplus, Capital Adjustment and Non-Controlling Interests

(a) Capital stock, capital surplus and capital adjustment as of December 31, 2013 are as follows:

- (i) Authorized shares 500,000,000 shares
- (ii) Number of shares issued 134,053,154 shares
- (iii) Par price 5,000 won
- (iv) Capital stock 670,265,770,000 won
- (v) Capital surplus (*1) 1,423,484,159,107 won
- (vi) Capital adjustment (720,209,000) won

(*1) Capital surplus consist of additional paid-in capital of ₩1,421,835 million and other capital surplus of ₩1,649 million.

(b) Hybrid bonds

Hybrid bonds issued by subsidiaries are classified as non-controlling interests and hybrid bonds dividends are accounted for as profit attributable to non-controlling interests in the consolidated statement of comprehensive income.

Hybrid bonds classified as equity as of December 31, 2013 are as follows:

(In millions of won)

Description	Issuance date	Maturity date	2013	Interest rate(%)
Hybrid bonds (*1)	2013-05-28	2043-05-28	₩ 199,700	4.53
	2013-10-25	2043-10-25	59,911	5.55
	2013-11-01	2043-11-01	29,954	5.55
Total			₩ 289,565	
Hybrid bonds dividends			₩ 6,261	

(*1) Hybrid bonds may be redeemed earlier after 10 years from the date of issuance and the Group may extend the maturity with the same conditions at maturity. If the Group decides not to pay dividends on common stock, hybrid bonds dividends are not paid either.

29. Retained Earnings

(a) Retained earnings

Retained earnings as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Legal reserve (*1)	₩ 10,604	5,248
Regulatory reserves for loan losses (*2)	967	-
Unappropriated retained earnings(*3)	608,076	420,383
	₩ 619,647	425,631

(*1) The Financial Holding Company Act requires a financial holding company to appropriate at least 10% of its net income after income taxes as legal reserve until such reserve equals 100% of its paid-in capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce the Company's deficit or be transferred to capital.

(*2) The Company calculates and discloses its regulatory reserves for loan losses in the separate financial statements in accordance with Article 27-1 and 27-2 of the Supervisory Regulations on Financial Holding Companies.

(*3) Unappropriated retained earnings includes reserve for trust of ₩8,107 million and ₩8,014 million as of December 31, 2013 and 2012, respectively.

**(b) Statements of appropriation of retained earnings**

Statements of appropriation of retained earnings for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won, except for dividend per share)

		2013	2012
I. Unappropriated retained earnings	₩	48,072	53,561
Unappropriated retained earning carried over from prior years		3,000	317
Cumulative effect on change of accounting policies		288	-
Profit for the year		44,784	53,244
II. Appropriations of retained earnings		42,108	50,561
Legal reserve		4,478	5,356
Regulatory reserve for loan losses		95	967
Dividends		37,535	44,238
III. Unappropriated retained earnings to be carried over to subsequent year	₩	5,964	3,000

These statements of appropriation of retained earnings are based on the separate financial statements of the Company.

30. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2013 and 2012 as follows:

(In millions of won)

	2013			
	Gain on valuation of available-for-sale financial assets	Loss on translation of foreign operations	Remeasurement of defined benefit plan	Total
Beginning balance	₩ 28,533	(89)	(16,511)	11,933
Net decrease due to valuation of available-for-sale financial assets	(3,507)	-	-	(3,507)
Realized loss on disposition of available-for-sale securities	(8,181)	-	-	(8,181)
Loss on the fair value hedge accounting	(2,934)	-	-	(2,934)
Loss on translation of foreign operations	-	(435)	-	(435)
Remeasurements of employee benefits	-	-	(5,578)	(5,578)
Effect of income taxes	3,538	127	1,333	4,998
Net balance at end of year	₩ 17,449	(397)	(20,756)	(3,704)

(In millions of won)

	2012			
	Gain (loss) on valuation of available-for-sale financial assets	Loss on translation of foreign operations	Remeasurement of defined benefit plan	Total
Beginning balance	₩ 23,040	-	(15,868)	7,172
Net decrease due to valuation of available-for-sale financial assets	(2,423)	-	-	(2,423)
Realized gain on disposition of available-for-sale securities	3,117	-	-	3,117
Gain on the fair value hedge accounting	6,553	-	-	6,553
Loss on translation of foreign operations	-	(89)	-	(89)
Remeasurements of employee benefits	-	-	(643)	(643)
Effect of income taxes	(1,754)	-	-	(1,754)
Net balance at end of year	₩ 28,533	(89)	(16,511)	11,933

31. Interest Income and Interest Expense

(a) Interest income

Interest income for the year ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Interest on due from banks	₩	3,866	17,837
Interest on financial assets held for trading		9,284	10,231
Interest on available-for-sale financial assets		64,762	63,493
Interest on held-to-maturity financial assets		196,560	191,827
Interest on loans		1,399,512	1,425,078
Others		8,584	7,686
	₩	1,682,568	1,716,152

(b) Interest expense

Interest expense for the year ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Interest on deposits	₩	528,478	570,932
Interest on borrowings		62,033	79,431
Interest on debentures		134,983	125,757
Interest on borrowings from trust account		3,843	1,312
Others		11,561	12,256
	₩	740,898	789,688

32. Fee and Commission Income / Commission Expense

(a) Fee and commission income

Fee and commission income for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Commissions received	₩	112,158	113,778
Guarantee fees		4,097	4,115
Commissions received related to trust account		7,778	6,675
	₩	124,033	124,568

(b) Commission expense

Commission expenses for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Commissions paid	₩	13,530	10,111
Commissions on credit cards		37,744	40,930
Commissions paid related to trust account		18	21
	₩	51,292	51,062

**33. Net Gain on Financial Instruments Held for trading**

Net gain on financial instruments held for trading for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		Description	2013	2012	
Gain	Gain on securities held for trading	Dividend income	₩ 357	90	
		Gain on disposal	9,665	10,126	
		Gain on valuation	1,159	2,840	
		Subtotal	11,181	13,056	
	Gain on derivatives instrument held for trading	Gain on transaction	334,739	265,095	
		Gain on valuation	57,405	75,311	
		Reversal of reserve for credit risk adjustment	19,731	41,791	
		Subtotal	411,875	382,197	
	Gain on financial instruments held for trading			₩ 423,056	395,253
	Loss	Loss on securities held for trading	Commission expenses (acquisition expenses)	₩ 217	288
Loss on disposal			9,724	9,796	
Loss on redemption			48	173	
Loss on valuation			5,092	3,360	
		Subtotal	15,081	13,617	
Loss on derivatives instrument held for trading		Commission expenses (acquisition expenses)	276	177	
		Loss on transaction	348,447	316,847	
		Loss on valuation	37,024	28,025	
		Subtotal	385,747	345,049	
Loss on financial instruments held for trading			₩ 400,828	358,666	
Net gain on financial instruments held for trading			₩ 22,228	36,587	

Net gain on financial assets held for trading contains interest income, interest expense, dividend income, net income on valuation and net income on disposal which is accrued on financial assets held for trading.

34. Net Gain on Financial Assets Designated at Fair Value through Profit or Loss

Net gain on financial assets designated at fair value through profit or loss for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		Description	2013	2012
Gain on financial assets designated at fair value through profit or loss		Dividend income	₩ 7,380	10,474
		Gain on valuation	167	7,516
		Total	₩ 7,547	17,990
Loss on financial assets designated at fair value through profit or loss		Loss on valuation	₩ 5,472	-
		Loss on disposal	-	4,356
		Total	₩ 5,472	4,356
Net gain on financial assets designated at fair value through profit or loss			₩ 2,075	13,634

Net gain on financial assets designated at fair value through profit or loss contains dividend income, net income on valuation and net income on disposal which is accrued on financial assets designated at fair value through profit or loss.

35. Net Gain on Available-for-sale Financial Assets

Net gain on available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Gain on available-for-sale financial assets	Dividend income	₩ 10,639	11,673
	Gain on disposal	21,789	20,486
	Gain on valuation of fair value hedged items	6,576	192
	Total	₩ 39,004	32,351
Loss on available-for-sale financial assets	Loss on disposal	₩ 676	11,423
	Loss on valuation of fair value hedged items	3,788	6,745
	Total	₩ 4,464	18,168
Net gain on available-for-sale financial assets		₩ 34,540	14,183

36. Impairment Loss on Financial Assets

Impairment losses on financial assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Impairment loss on available-for-sale financial assets	₩	682	9,760
Bad debt expenses		154,082	154,154
	₩	154,764	163,914

37. General and Administrative Expenses

General and administrative expense for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Employee benefits	₩	330,505	319,917
Rent		14,384	14,423
Depreciation		25,047	26,194
Amortization		27,495	24,460
Tax and dues		13,255	12,900
Advertising expense		9,117	9,765
Physical training expense		1,880	1,179
Service expense		30,194	27,937
Others		56,049	55,933
Total	₩	507,926	492,708



38. Share-based Payment Transactions

(a) Stock options

(i) Stock options as of December 31, 2013 are as follows:

	9th
Shares to be issued	14,030 shares
Grant date	2008.3.12
Exercise method	Cash settlement
Conditions	Service conditions/Performance conditions
Exercise price per share in won	13,099 won
Exercise period	2011.3.13 ~ 2014.3.12

(ii) Changes in cash-settled share appreciation rights for the years ended December 31, 2013 and 2012 are as follows:

(In won)

	2013		2012	
	Shares	Weighted average exercise price per share	Shares	Weighted average exercise price per share
At beginning of period	56,038 shares	₩ 14,198	178,060 shares	₩ 15,066
Options exercised	42,008 shares	14,564	122,022 shares	15,465
At end of period	14,030 shares	₩ 13,099	56,038 shares	₩ 14,198

(iii) Major factors of measuring fair value by using the Black-Scholes option pricing model as of December 31, 2013 are as follows:

(In won)

	Option pricing model	Stock price	Option price	Expected variance	Expected life	Risk free rate	Fair value
9th	Black-Scholes option pricing model	₩ 16,500	₩ 13,099	23.67%	0.19 years	2.55%	₩ 3,401

(iv) Expense (revenue) of stock option for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Commission expense (income)	₩ 50	26
General and administrative expense (reversal)	(23)	(28)
Expense (revenue) of stock option	₩ 27	(2)

(v) Liability for stock option as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Long-term accrued expenses	₩ 48	101

(b) Equity-linked special incentive (Long-term performance share plan)

(i) The group granted equity-linked special incentive for the purpose of motivating long-term performance. Equity-linked special incentive as of December 31, 2013 are as follows:

	5th	6th	7th	8th
Shares to be granted	5,223 shares	40,607 shares	10,291 shares	11,456 shares
Grant date	2011.03.18	2011.12.28	2012.3.22	2012.12.27
Exercise method	Cash settlement	Cash settlement	Cash settlement	Cash settlement
Conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions
Exercise price per share in won	16,323 won	-	-	-
Vesting period	3 years	3 years	3 years	3 years

(ii) Changes in long-term performance share plan for the years ended December 31, 2013 and 2012 are as follows:

(In won)

	2013		2012	
	Shares	Weighted average exercise price per share	Shares	Weighted average exercise price per share
At beginning of year	72,608 shares	₩ 2,200	60,103 shares	₩ 11,283
Shares granted	11,456 shares	-	62,500 shares	-
Shares exercised	16,487 shares	-	49,995 shares	10,374
At end of year	67,577 shares	1,262	72,608 shares	2,200

(iii) Major factors of measuring fair value of long-term performance share plan by using the Black-Scholes option pricing model as of December 31, 2013 are as follows:

(In won)

	Option pricing model	Stock price	Option price	Expected variance	Expected life	Risk free rate	Fair value
5th	Black-Scholes option pricing model	₩ 16,500	₩ 16,323	23.16%	0.21 Years	2.55%	₩ 784
6th	Black-Scholes option pricing model	16,500	-	25.59%	0.99 Years	2.67%	16,129
7th	Black-Scholes option pricing model	16,500	-	25.43%	1.22 Years	2.70%	16,043
8th	Black-Scholes option pricing model	16,500	-	26.43%	1.99 Years	2.79%	15,763

(iv) Expense of equity linked special incentive for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Expense of equity-linked special incentive General and administrative expense	₩ 697	823

(v) Liability of equity-linked special incentive as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Long-term accrued expenses	₩ 1,170	664

39. Other Operating Loss, net

Other operating loss, net for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	Description	2013	2012
Other operating income	Gain on sale of loans	₩ 14,844	18,258
	Gain on valuation of financial debentures	8,344	-
	Reversal of provision for financial guarantee liabilities	2,509	-
	Reversal of provision for dormant deposits repayment	366	-
	Others	13,913	10,456
	Total	₩ 39,976	28,714
Other operating loss	Loss on sale of loans	₩ 6,366	6,194
	Fees for credit guarantee fund	48,535	44,886
	Deposit insurance premiums	37,059	33,773
	Reserve for other provisions	10,155	623
	Others	9,983	7,433
	Total	₩ 112,098	92,909
Other operating loss, net	₩ (72,122)	(64,195)	

**40. Operating Revenue and Expense**

Operating revenue and expense for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Operating revenue	₩	2,413,942	2,460,180
Interest Income		1,682,568	1,716,152
Fee and commission income		124,033	124,568
Gain on financial assets held for trading		423,056	395,253
Gain on financial assets designated at fair value through profit or loss		7,547	17,990
Gain on available-for-sale financial assets		39,004	32,351
Income on hedging derivative instruments		4,619	9,333
Gain on foreign currency transactions		93,139	135,819
Others		39,976	28,714
Operating expense		(2,074,937)	2,087,201
Interest expense		(740,898)	(789,688)
Commission expense		(51,292)	(51,062)
Loss on financial assets held for trading		(400,828)	(358,666)
Loss on financial assets designated at fair value through profit or loss		(5,472)	(4,356)
Loss on available-for-sale financial assets		(4,464)	(18,168)
Loss on hedging derivative instruments		(14,172)	(1,792)
Loss on foreign currency transactions		(83,023)	(113,938)
Impairment loss on financial assets		(154,764)	(163,914)
General and administrative expenses		(507,926)	(492,708)
Others		(112,098)	(92,909)
Net operating income	₩	339,005	372,979

41. Non-Operating Loss, Net

Non-operating loss, net for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Non-operating income	Gain on disposition of tangible asset	₩ 59	146
	Rental income	1,293	1,398
	Others	9,341	7,573
	Total	₩ 10,693	9,117
Non-operating loss	Collecting expenses for written-off loans	₩ 980	311
	Donations	12,089	14,268
	Others	7,315	4,528
	Total	₩ 20,384	19,107
Non-operating loss, net	₩	(9,691)	(9,990)

42. Income Tax Expenses

(a) Income tax expenses

Income tax expenses for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Current income tax	₩	88,840	80,646
Changes in temporary differences		(10,577)	9,796
Income tax expenses directly charged to equity		4,993	(1,551)
Effects of consolidated taxation		1,543	-
Income tax expenses	₩	84,799	88,891

(b) The reconciliation of effective tax rate

The reconciliation of effective tax rate for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Profit before income tax expenses	₩	329,314	362,989
Income tax calculated at the statutory tax rate		72,029	87,382
Adjustments:			
Income not assessable for tax purposes		(2,802)	(909)
Expense not deductible for tax purposes		12,031	3,080
Tax credit		(71)	-
Additional payment of income taxes		4,650	158
Others		(1,038)	(820)
Income tax expenses	₩	84,799	88,891
Effective tax rate		25.75%	24.49%

Statutory tax rate for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

Tax base	Rate
Up to ₩200 million	10%
More than ₩200 million ~ Up to ₩20,000 million	20%
More than ₩20,000 million	22%



(c) Changes in deferred tax assets (liabilities)

Changes in deferred tax assets (liabilities) for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013							
	Temporary differences to be deducted from (added to) taxable income				Deferred income tax assets (liabilities)			
	Corporate	Individuals	Public	Money market center	Others	Subtotal	Adjustments	Consolidated amount
<Temporary differences>								
Accrued income	₩ (163,478)	(206,153)	(158,706)	(210,925)	(39,562)	(49,889)	(38,407)	(51,044)
Present value discount on securities	(68,508)	(81,221)	(68,508)	(81,221)	(16,579)	(19,656)	(16,580)	(19,655)
Loss on valuation of securities	52,443	(12,587)	(15,333)	55,189	12,693	(3,048)	(3,712)	13,357
Gain on valuation of derivatives	(55,176)	(26,203)	(55,231)	(26,148)	(13,353)	(6,341)	(13,366)	(6,328)
Other provisions, etc.	27,116	32,970	27,116	32,970	6,562	7,974	6,562	7,974
Unused annual/monthly leave	27,839	27,186	27,839	27,186	6,737	6,578	6,737	6,578
Dormant deposit	4,644	772	626	4,790	1,123	187	152	1,158
Others	(1,975)	69,495	19,243	48,277	(811)	15,584	3,090	11,683
Subtotal	(177,095)	(195,741)	(222,954)	(149,882)	(43,190)	(48,611)	(55,524)	(36,277)
<Accumulated other comprehensive income> (*1)								
Gain on valuation of AFS financial assets	(37,643)	(23,020)	(37,643)	(23,020)	(9,108)	(5,572)	(9,109)	(5,571)
Loss on translation of foreign operations	-	524	-	524	-	127	-	127
Subtotal	(37,643)	(22,496)	(37,643)	(22,496)	(9,108)	(5,445)	(9,109)	(5,444)
Total	₩ (214,738)	(218,237)	(260,597)	(172,378)	(52,298)	(54,056)	(64,633)	(41,721)

(In millions of won)

	2012							
	Temporary differences to be deducted from (added to) taxable income				Deferred income tax assets (liabilities)			
	Corporate	Individuals	Public	Money market center	Others	Subtotal	Adjustments	Consolidated amount
<Temporary differences>								
Accrued income	₩ (154,369)	(163,164)	(154,055)	(163,478)	(37,357)	(39,486)	(37,281)	(39,562)
Present value discount on securities	(52,464)	(26,900)	(10,856)	(68,508)	(12,696)	(6,510)	(2,627)	(16,579)
Loss on valuation of Securities	47,598	(11,191)	(16,036)	52,443	11,520	(2,708)	(3,881)	12,693
Gain on valuation of derivatives	(14,086)	(63,250)	(22,160)	(55,176)	(3,409)	(15,307)	(5,363)	(13,353)
Allowance for loan losses	(29,388)	-	(29,388)	-	(7,112)	-	(7,112)	-
Other provisions, etc.	28,556	27,137	28,577	27,116	6,910	6,567	6,915	6,562
Unused annual/ monthly leave	26,244	27,793	26,198	27,839	6,351	6,726	6,340	6,737
Dormant deposit	5,420	-	776	4,644	1,311	-	188	1,123
Others	(1,496)	17,908	18,387	(1,975)	(666)	4,305	4,450	(811)
Subtotal	(143,985)	(191,667)	(158,557)	(177,095)	(35,148)	(46,413)	(38,371)	(43,190)
<Accumulated other comprehensive income> (*1)								
Gain on valuation of AFS financial assets	(30,394)	(37,643)	(30,394)	(37,643)	(7,354)	(9,109)	(7,355)	(9,108)
Total	₩ (174,379)	(229,310)	(188,951)	(214,738)	(42,502)	(55,522)	(45,726)	(52,298)

(*1) Deferred tax assets (liabilities) arising from accumulated other comprehensive income were subtracted or added directly to accumulated other comprehensive income.

(d) Deferred tax assets (liabilities) before offset

Deferred tax assets (liabilities) before offset as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Deferred tax assets	₩	40,877	44,469
Deferred tax liabilities		(82,598)	(96,767)
Deferred tax liabilities, net	₩	(41,721)	(52,298)

The Group sets off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

(e) Income tax payable and prepaid income tax before offset

Income tax payable and prepaid income tax before offset as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Income tax payable	₩	75,428	74,160
Prepaid income tax		(48,502)	(69,817)
Income tax payable, net	₩	26,926	4,343

43. Earnings per Share

(a) Basic earnings per share

(In won, except share information)

		2013	2012
Net income of common stock	₩	238,253,799,359	274,098,190,628
Weighted average number of common shares outstanding		134,053,154	134,052,970
Basic earnings per share	₩	1,777	2,045

b) Weighted average number of common shares outstanding

(In shares)

		2013	2012
Number of shares issued	₩	134,053,154	134,053,154
Weighted average number of treasury stock		-	(184)
Weighted average number of common shares outstanding	₩	134,053,154	134,052,970

(c) Diluted earnings per share

Diluted earnings per share are equal to the basic earnings per share because the Group has no issued dilutive securities.

44. Cash and Cash Equivalents

Cash and cash equivalents on statements of cash flows as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Cash and due from banks	₩	1,496,884	1,183,977
Restricted cash and deposits		(913,669)	(659,359)
Due from banks with original maturities of more than three months.		(2,600)	-
Cash and cash equivalents	₩	580,615	524,618

**45. Significant Non-cash Transactions**

Significant non-cash transactions for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Decrease in loans due to writing-off	₩ 163,242	192,520
Decrease in allowances for loan losses due to disposal	3,913	4,286
Decrease in losses due to restructuring	3,497	5,231
Transferred to land from non-current assets held for sale	-	15,601

46. Commitments and Contingencies**(a) Pending litigation**

As of December 31, 2013, there are 10 pending lawsuits brought to court by the Group, as a plaintiff, amounting to ₩1,170 million and 39 pending lawsuits against the Group amounting to ₩6,425 million. The material lawsuit case is as follows:

A lawsuit amounting to ₩2,036 million has been filed against the Group in which misselling of special money in trust is claimed for by the plaintiff. The Group is in a action together with SAMIL LAW, P.C. as the legal counsel.

The Group recognized provision amounting to ₩462 million in respect to the above lawsuits as of December 31, 2013.

(b) Non-financial guarantee contracts

Non-financial guarantee contracts as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Acceptances and guarantees outstanding	₩ 223,154	197,013
Acceptances and guarantees outstanding in foreign currencies	58,962	57,648
Contingent acceptances and guarantees	278,896	303,277
Loan commitments	6,817,113	6,585,787
Purchasing commitments for securities	106,284	106,284
	₩ 7,484,409	7,250,009

(c) Financial guarantee contracts

Financial guarantee contracts as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013	2012
Financial guarantee contract	₩ 17,926	18,827
Financial guarantee contract in foreign currencies	8,794	22,964
Purchasing commitments for ABCP	15,000	60,000
	₩ 41,720	101,791

47. Transactions with Related Parties**(a) Related parties except for subsidiaries**

Details of related parties except for subsidiaries as of December 31, 2013 are as follows:

(In millions of won)

Name	Relation	Ownership	Capital stock
Daegu FC (*1)	Other	9.20%	16,310

(*1) Daegu FC is an associate company of Daegu Bank which is wholly owned by the Company.

(b) Transactions with subsidiaries

Transactions with subsidiaries which are eliminated in preparing the consolidated financial statements are not included in the consolidated financial statements.

(c) Transactions between subsidiaries

Transactions between subsidiaries which are eliminated in preparing the consolidated financial statements are not included in the consolidated financial statements.

(d) Transactions with associates

(i) Significant balances between the Group and the related parties except for subsidiaries as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013		2012	
		Daegu FC		Daegu FC	
Liabilities	Deposits	₩	90		641
	Others		610		609
		₩	700		1,250

(ii) Significant transactions between the Group and the related parties except subsidiaries for years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013		2012	
		Daegu FC		Daegu FC	
Expenses	Interest on deposits	₩	52		69

(e) Guarantees and collaterals given or received between the Group and the related parties

There are no guarantees and collaterals that the Group provides for funding of related parties or are provided by related parties as of December 31, 2013.

(f) Compensation for key management personnel

Compensation for key management personnel in total and for each of the following categories for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

Classification	2013		2012	
Short-term employee benefits	₩	4,737		4,660
Other long-term benefits		820		1,088
Post-employment benefits		2,621		2,377
Share-based payment		(23)		87
Total	₩	8,155		8,212

48. Financial Risk Management

(a) Purpose of risk management

The Group has exposure to credit risk, liquidity risk, market risk and operational risk from financial instruments. The Group's risk management system aims at maintaining capital adequacy and managing stability through the comprehensive appraisal and management of significant risks that arise in management activities. By optimizing risk and return balance, the risk management system realizes the stable growth of the Group, while maximizing company value and maintaining an adequate equity capital level as well as achieving business strategies, policies and plans. Compensation for key management personnel in total and for each of the following categories for the years ended December 31, 2013 and 2012 are as follows:

(b) Risk management organization

The Group's risk management organization consists of a risk management committee, risk management council, risk management working group, risk management department and sub-risk management departments. The risk management committee (the Committee) is the top decisionmaking body chaired by an outside director. It sets up risk management strategy, maintains the adequacy of capital level and manages risk tolerance. Commissioned by the Committee, the risk management council (the Council) deliberates and resolves issues on the agenda, develops and controls risk management strategies and policies and oversees interest rates, capital supply and management risks involving new products and businesses. The risk management 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 measure as well as analyze risks at the division level. The Group sets up sub-risk management departments for credit



risk, liquidity risk, market risk and operational risk and each department is responsible for compliance with risk management strategy and policy. Through the step-by-step loss management (MAT), the Group built a step-by-step reporting system which prevents additional loss and controls risk efficiently for the excessive loss on trade and valuation of the loss limited portfolio.

(c) Credit risk

(i) Purposes of credit risk management

Credit risk is the risk of financial loss to The Group, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's balance accounts and off balance accounts such as loans and receivables, payment guarantee, securities, derivatives from customers and investment securities. The purposes of credit risk management are to maintain the asset quality by controlling loss possibility for the counterparty in falling to meet its contractual obligations and to manage industry type and borrower type concentration risk by controlling a loan portfolio and the credit share limit.

(ii) Credit risk management organization

Credit risk management is conducted by the Committee, the Council, the Working Group, the Department, credit risk team and sub risk management departments. The Department conducts recognizing, measuring, controlling and checking the adequacy of the Group-wide, departmental or organizational credit risk. It also conducts analyzing and reporting credit risk, developing and improving credit risk management skill, reporting the result of credit risk check-up and providing the information. Credit risk team conducts installing and operating the credit risk management system.

Loan review department conducts check-up of loan quality classification through regular credit review. Sub-risk management departments establish and implement credit risk management plans, recognize, measure, analyze and report credit risk, manage loan portfolio considering risk and return, analyze credit risk and conduct follow-up management resulted from new product launching, implement the resolutions from the Committee and Council, supervise countries' credit risk considering credit level of international credit appraisal institutes and submit other credit risk reporting documents. Internal audit inspects the adequacy of recognizing, measuring and evaluating credit risk, credit risk control organization and managing process.

(iii) Method of credit risk management

① Loans

- Credit line

The Group manages the concentration risk by considering the economic conditions and environmental factors, and sets credit line for each individual, industry and type of loan. The Group evaluates the concentration ratio of the borrower with large exposure and uses the concentration ratio as a parameter for credit risk management.

- Credit approval system

Enterprises' Credit Scoring System is operated through sophisticated, common or unsophisticated credit rating models according to the amount of enterprises' loans and financial conditions. Households' Credit Scoring System is operated through the ASS (Application Scoring System) or BSS (Behavioral Scoring System).

- Evaluation

The Group systematically evaluates clients' qualifications for a loan by the professional in charge of credit assessment and SRM (Senior Relationship Management) and reevaluates the clients' capability to redeem according to the change of credit conditions. Evaluation is performed on a regular basis. If there is a specific circumstance regarding clients, evaluation may be performed when necessary. In the case of households, the length of extension, renewal or revolving of loans is determined according to the Behavioral Scoring System.

② Debt securities

The Group manages the credit risk for debt securities through their credit rating or the similar external credit rating. In the case of using the external credit rating, it is converted to internal rating and its credit line is managed in accordance with the credit line regulations on internal rating.

③ Risk mitigation policy

If there is a circumstance or evidence that can increase the credit risk, the Group takes action to mitigate credit risk such as reducing amounts outstanding (in discussion with the clients or counterparties if appropriate).

- Collateral

The Group has various policies and guidance regarding the mitigation of credit risk. Generally, the Group obtains collateral for loans and operates guidance related to acquisition, valuation, and limits related to collateral management. In the case of collateral for real estate, settlement of mortgage is required for acquisition. For movable assets, securities and deposit receivables and establishing the right of pledge is required. Other receivables are required to be obtained through transfer. Obtained collateral are revalued through appraisal after a certain amount of time. Collaterals for loans are, for instance, house, equipment, factories, land, deposit, debt securities and equity securities.

- Guarantee and derivatives

The Group enters into guarantee and derivative contracts to transfer the credit risk of its loans and receivables to third parties. The above contracts require third parties to make payments to reimburse the Group for a loss incurred by debtor's default.

- Master netting agreements

In many cases, even though master netting agreements are in place, the lack of an intention to settle on a net basis results in the related assets and liabilities being presented gross on the statement of financial position. In the case of counterparty's default, the Group may reduce some of the losses from the credit risk when all transactions with counterparty are offset.

(iv) Maximum exposure of credit risk

(In millions of won)

	2013	2012
On balance accounts(*1)		
Due from banks(*2)	₩ 149,988	109,909
Financial assets held for trading(*3)	277,006	257,515
Financial assets designated at fair value through profit or loss(*3)	10,533	10,521
Available-for-sale financial assets(*3)	1,977,353	1,529,561
Held-to-maturity financial assets	4,385,242	4,428,522
Loans	26,614,868	24,543,156
Receivables	1,519,263	1,344,393
Derivative assets - hedge accounting	18,687	24,435
Total	₩ 34,952,940	32,248,012
Off-balance accounts Financial guarantee	₩ 41,720	101,791
Contracts	6,923,397	6,692,071
Total	₩ 6,965,117	6,793,862

(*1) After impairment and setting off (*2) Except for due from Bank of Korea (*3) Except for equity securities and beneficiary securities

Degree of credit risk exposure is based on the net book value of financial position. In the case of financial guarantee, it is measured as the maximum amount to be paid for the debtor and in the case of loan contract which can not be cancelled or can be cancelled if critical changes occur, it is measured as the entire amount of the contract.

(v) Degree of industrial risk concentration of financial assets which have credit risk

Degree of industrial risk concentration of financial assets which have credit risk as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013								
	Balance account						Deferred income tax assets (liabilities)		
	Financial assets held for trading	Financial assets designated at FVTPL	Available-for-sale financial assets	Held-to-maturity financial assets	Loans	Derivative assetshedge accounting	Financial guarantee contracts	Other commitments	Total
Manufacturing	₩ 3,716	-	222,633	-	8,621,575	-	13,288	2,021,206	10,882,418
Construction	6,228	-	-	-	735,491	-	15,975	311,889	1,069,583
Wholesale and retail	-	-	29,756	-	2,391,500	-	3,011	525,731	2,949,998
Financial services and insurance	56,570	-	381,768	150,015	989,381	-	-	224,515	1,802,249
Others	158,342	10,533	104,389	20,000	6,296,568	-	9,446	255,701	6,854,979
Subtotal	224,856	10,533	738,546	170,015	19,034,515	-	41,720	3,339,042	23,559,227
Households	-	-	-	-	6,690,994	-	-	1,061,279	7,752,273
Government and public institutions	-	-	1,238,807	4,215,227	696,560	-	-	12,943	6,163,537
Credit card	-	-	-	-	397,991	-	-	2,510,133	2,908,124
Derivatives	62,526	-	-	-	-	18,870	-	-	81,396
Reserve for credit risk adjustment	(10,376)	-	-	-	-	(183)	-	-	(10,559)
Allowance	-	-	-	-	(225,215)	-	-	-	(225,215)
Present value discount	-	-	-	-	(2,456)	-	-	-	(2,456)
Deferred loan originated cost and fee	-	-	-	-	22,479	-	-	-	22,479
Total	₩ 277,006	10,533	1,977,353	4,385,242	26,614,868	18,687	41,720	6,923,397	40,248,806



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(In millions of won)

	2012									
	Balance account					Deferred income tax assets (liabilities)				
	Financial assets held for trading	Financial assets designated at FVTPL	Available-for-sale financial assets	Held-maturity financial assets	Loans	Derivative asset/hedge accounting	Financial guarantee contracts	Other commitments	Total	
Manufacturing	₩	-	-	190,940	-	7,419,877	-	85,909	1,899,816	9,596,542
Construction	-	-	-	-	-	750,461	-	-	220,433	970,894
Wholesale and retail	-	-	-	19,608	-	2,207,737	-	5,042	477,286	2,709,673
Financial services and insurance	33,727	-	-	325,520	280,129	1,196,265	-	72	312,318	2,148,031
Others	167,892	10,521	-	80,859	-	5,708,180	-	10,768	241,591	6,219,811
Subtotal	201,619	10,521	616,927	280,129	17,282,520	-	101,791	3,151,444	21,644,951	
Households	-	-	-	-	-	6,369,296	-	-	1,053,243	7,422,539
Government and public institutions	-	-	-	912,634	4,148,393	682,904	-	-	10,263	5,754,194
Credit card	-	-	-	-	-	423,067	-	-	2,477,121	2,900,188
Derivatives	85,964	-	-	-	-	-	24,561	-	-	110,525
Reserve for credit risk adjustment	(30,068)	-	-	-	-	-	(126)	-	-	(30,194)
Allowance	-	-	-	-	-	(227,053)	-	-	-	(227,053)
Present value discount	-	-	-	-	-	(1,630)	-	-	-	(1,630)
Deferred loan originated cost and fee	-	-	-	-	-	14,052	-	-	-	14,052
Total	₩	257,515	10,521	1,529,561	4,428,522	24,543,156	24,435	101,791	6,692,071	37,587,572

(vi) Loans

Loans as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013					
	Enterprises	Households	Public sectors and others	Credit card	Total	
Neither overdue nor impaired loans	₩	18,670,874	6,618,467	695,342	392,826	26,377,509
Not impaired but overdue loans	-	78,472	49,364	904	149	128,889
Impaired loans	-	285,169	23,163	314	5,016	313,662
Total	₩	19,034,515	6,690,994	696,560	397,991	26,820,060
Allowance for loan losses	-	(185,815)	(28,481)	(1,850)	(9,349)	(225,495)
Present value discount	-	(2,456)	-	-	-	(2,456)
Deferred loan origination cost and fee	-	11,144	10,903	432	-	22,479
Net book value	₩	18,857,388	6,673,416	695,142	388,642	26,614,588

(In millions of won)

	2012					
	Enterprises	Households	Public sectors and others	Credit card	Total	
Neither overdue nor impaired loans	₩	16,916,083	6,309,459	682,704	416,814	24,325,060
Not impaired but overdue loans	-	42,322	36,322	-	136	78,780
Impaired loans	-	324,115	23,515	200	6,117	353,947
Total	₩	17,282,520	6,369,296	682,904	423,067	24,757,787
Allowance for loan losses	-	(187,434)	(27,151)	(2,086)	(10,382)	(227,053)
Present value discount	-	(353)	(1,277)	-	-	(1,630)
Deferred loan origination cost and fee	-	8,492	5,294	266	-	14,052
Net book value	₩	17,103,225	6,346,162	681,084	412,685	24,543,156

Overdue occurs when the counterparty of the contract is not able to pay the principal and interest on the date of contract. Impairment is the case when there is objective evidence of impairment and the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets and a reliable estimate of the loss amount can be made. The evidences of impairment are such as: past due more than 90 days, bad credit information according to credit information management regulation, restructuring of receivables and debt in overdue condition and revolving of bad exposure.

(vii) Loans that are neither overdue nor impaired (*1)

Credit qualities of loans as of December 31, 2013 and 2012 that are neither overdue nor impaired refer to the Group's internal credit appraisal system and are as follows:

(In millions of won)

	2013				
	Enterprises	Households	Public sectors and others	Credit card	Total
1~6	₩ 17,912,067	5,929,695	693,062	287,036	24,821,860
7	279,959	289,046	1,920	39,131	610,056
8(*2)	25,876	127,615	-	29,591	183,082
9(*2)	14,428	73,021	-	16,247	103,696
10(*2)	9,734	36,331	-	10,680	56,745
Not rated(*3)	428,810	162,759	360	10,141	602,070
Total	₩ 18,670,874	6,618,467	695,342	392,826	26,377,509

(In millions of won)

	2012				
	Enterprises	Households	Public sectors and others	Credit card	Total
1~6	₩ 16,032,180	5,598,493	650,628	252,513	22,533,814
7	228,796	302,694	1,093	50,453	583,036
8(*2)	34,846	132,144	183	59,098	226,271
9(*2)	14,903	67,636	-	37,982	120,521
10(*2)	12,058	40,160	-	13,084	65,302
Not rated(*3)	593,300	168,332	30,800	3,684	796,116
Total	₩ 16,916,083	6,309,459	682,704	416,814	24,325,060

(*1) The Group assesses and manages credit rating of loans classifying loans into enterprises (external audit, non-external audit, individual business, financial institute, public sector and special finance) and loans to households. Combined evaluation model of financial model and non-financial model is used for loans to enterprises other than loans to financial institute, public sector and special finance. Regular check for adequacy is conducted to guarantee the adequacy of credit rating.

(*2) The definition of bankruptcy in Basel II is based on overdue criteria and default criteria and is applied to the definition of impairment of the Group. Impairment unit is borrower criteria thus there might be loans under 8th degree which are neither overdue nor impaired.

(*3) Amount of non-rated loan is ₩602,070 million (₩796,116 million as of December 31, 2012) and arises from inter-bank transactions such as call loans, purchase of RP, and inter-bank loans and loans related with sound collateral (deposits and warranty) and sound bills (discounted bills and electronic factoring). Amount of not rated loans from inter-bank transactions and sound loan borrowers is ₩86,082 million (₩99,317 million as of December 31, 2012) and ₩515,988 million and (₩696,799 million as of December 31, 2012), respectively.

Relationship between internal credit rating and external credit rating are as follows:

(In millions of won)

Classification of rating	Internal credit rating	External credit rating
Current	1~6	AAA~BB
Precautionary	7	B
Substandard	8	CCC
Doubtful	9	CC, C
Estimated loss	10	D



Notes to the Consolidated Financial Statements

(viii) Loans that are past due but not impaired

① Age analysis of loans that are overdue but not impaired

(In millions of won)

	2013				
	Enterprises	Households	Public sectors and others	Credit card	Total
Less than 30 days	₩ 67,781	47,094	904	147	115,926
More than 30 days ~ less than 60 days	8,445	1,970	-	2	10,417
More than 60 days ~ less than 90 days	2,246	300	-	-	2,546
Total	₩ 78,472	49,364	904	149	128,889

(In millions of won)

	2012			
	Enterprises	Households	Credit card	Total
Less than 30 days	₩ 28,020	35,114	111	63,245
More than 30 days ~ less than 60 days	8,152	1,073	25	9,250
More than 60 days ~ less than 90 days	6,150	135	-	6,285
Total	₩ 42,322	36,322	136	78,780

② Estimated fair value of collateral for the loans that are overdue but not impaired is as follows:

(In millions of won)

	2013			
	Enterprises	Households	Credit card	Total
Real estate	₩ 19,970	26,138	550	46,658
Movable property	5,988	821	-	6,809
Securities and debentures	3,165	126	-	3,291
Warranty	14,257	2,305	-	16,562
Others	2,303	15	-	2,318
Total	₩ 45,683	29,405	550	75,638

(In millions of won)

	2012		
	Enterprises	Households	Total
Real estate	₩ 7,063	20,112	27,175
Movable property	2,548	550	3,098
Securities and debentures	352	84	436
Warranty	11,025	1,838	12,863
Others	917	82	999
Total	₩ 21,905	22,666	44,571

(ix) Impaired loans

Loans which have evidence of impairment are measured either individually or collectively according to material criteria of the loan. Loans either individually or collectively measured for impairment, collateral and estimated fair value of other credit reinforcement are as follows:

① Categories of impaired loans

(In millions of won)

		2013				
		Enterprises	Households	Public sectors and others	Credit card	Total
Individual assessment	Impaired loans	₩ 240,970	652	-	397	242,019
	Allowance for doubtful accounts	55,869	27	-	353	56,249
Collective assessment	Impaired loans	44,199	22,511	314	4,619	71,643
	Allowance for doubtful accounts	11,095	7,545	54	3,027	21,721
Total	Impaired loans	285,169	23,163	314	5,016	313,662
	Allowance for doubtful accounts	₩ 66,964	7,572	54	3,380	77,970

(In millions of won)

		2012				
		Enterprises	Households	Public sectors and others	Credit card	Total
Individual assessment	Impaired loans	₩ 268,697	800	-	233	269,730
	Allowance for doubtful accounts	79,260	-	-	214	79,474
Collective assessment	Impaired loans	55,418	22,715	200	5,884	84,217
	Allowance for doubtful accounts	14,032	6,874	123	3,466	24,495
Total	Impaired loans	324,115	23,515	200	6,117	353,947
	Allowance for doubtful accounts	₩ 93,292	6,874	123	3,680	103,969

② Estimated fair value of collateral for impaired loans

(In millions of won)

		2013			
		Enterprises	Households	Credit card	Total
Real estate	₩	64,458	8,964	238	73,660
Movable asset		1,162	45	-	1,207
Securities and debentures		5,254	60	-	5,314
Warranty		6,893	1,054	-	7,947
Other		97	-	-	97
Total	₩	77,864	10,123	238	88,225

(In millions of won)

		2012			
		Enterprises	Households	Credit card	Total
Real estate	₩	71,830	10,669	2	82,501
Movable asset		193	-	-	193
Securities and debentures		21,215	-	-	21,215
Warranty		10,239	1,071	6	11,316
Other		-	-	-	-
Total	₩	103,477	11,740	8	115,225

(x) Restructuring loans and receivables

Restructuring loans and receivables is an activity to maximize the collection of loans and receivables by changing the condition of a financially troubled borrower and includes extension of maturity, postponement of payment and relief of interest rate. Restructured loans and receivables as of December 31, 2013 and 2012 are ₩166,897 million and ₩105,802 million, respectively.

(xi) External credit rating of debt securities

The Group manages debt securities using external credit rating and debt securities classified by external credit rating and categories are as follows: The relationships between external credit rating and internal credit rate are described in note 7 'Loans that are neither overdue nor impaired.

① Debt securities in won



Notes to the Consolidated Financial Statements

(In millions of won)

	2013			
	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity financial assets	Total
<Long term credit rating>				
AAA	₩ -	781,505	1,329,766	2,111,271
AA+ ~ AA-	17,382	220,124	252,590	490,096
A+ ~ A-	17,199	130,329	-	147,528
BBB+ ~ BBB-	-	29,937	-	29,937
Not rated	80,523	696,338	2,802,886	3,579,747
Subtotal	115,104	1,858,233	4,385,242	6,358,579
<Short term credit rating>				
A2 ~ A3	109,752	-	-	109,752
Total	₩ 224,856	1,858,233	4,385,242	6,468,331

(In millions of won)

	2012			
	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity financial assets	Total
<Long term credit rating>				
AAA	₩ -	626,143	1,451,187	2,077,330
AA+ ~ AA-	17,379	403,345	452,572	873,296
A+ ~ A-	34,577	231,162	-	265,739
BBB+ ~ BBB-	-	10,250	-	10,250
Not rated	575	181,974	2,524,763	2,707,312
Subtotal	52,531	1,452,874	4,428,522	5,933,927
<Short term credit rating>				
A1	3,754	-	-	3,754
A2 ~ A3	145,334	-	-	145,334
Subtotal	149,088	-	-	149,088
Total	₩ 201,619	1,452,874	4,428,522	6,083,015

Not rated amount is ₩3,579,747 million (₩2,707,312 million as of December 31, 2012) and domestic credit appraisal companies do not assess the credit rating of government and some public entities. Among not rated amount, government and public entity bond is ₩1,982,506 million (₩1,310,952 million as of December 31, 2012), monetary stabilization bond is ₩50,006 million (₩49,997 million as of December 31, 2012) and other bond is ₩1,547,235 million (₩1,346,363 million as of December 31, 2012).

② Debt securities in foreign currencies

(In millions of won)

	2013			2012		
	Financial assets designated at fair value through profit & loss	Available-for-sale financial assets	Total	Financial assets designated at fair value through profit & loss	Available-for-sale financial assets	Total
AAA	₩ 10,533	-	10,533	10,521	-	10,521
AA+ ~ AA-	-	6,441	6,441	-	-	-
A+ ~ A-	-	95,503	95,503	-	76,687	76,687
BBB+ ~ BBB-	-	17,176	17,176	-	-	-
Total	₩ 10,533	119,120	129,653	10,521	76,687	87,208

(xii) Offsets of financial assets and financial liabilities

The Group has financial instruments which subject to an enforceable master netting arrangement or similar agreement. The similar agreements include derivative clearing agreements, repurchase agreements, securities lending agreements, etc.

Some of derivative instruments are subject to an enforceable master netting arrangement. In accordance with this agreement, all the derivatives transactions are terminated in the credit event such as bankruptcy of any of the counterparties and the net amounts offset in each transaction will be paid from one party to another at the time of termination. The Group's repurchase agreement transactions, and securities lending transactions, etc., are also subject to an agreement similar to ISDA (International Derivatives Swaps and Dealers Association) offsetting agreements.

Financial assets and liabilities are not offset in the statement of financial position because ISDA offsetting agreements and similar agreements are exercisable only in the credit event and the parties to transactions have no intention to either settle on a net basis, or realize the asset and settle the liability simultaneously.

① Offsetting financial assets

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013						Net amount
	Gross amounts of recognized financial assets	Gross offset amounts of recognized financial liabilities	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position			
				Financial instruments	Collateral received Securities		
Bonds purchased under resale agreements	₩ 100,000	-	100,000	-	95,359	4,641	
Accrued balance spot exchange	583,485	-	583,485	583,447	-	38	
Trading derivatives assets	53,225	-	53,225	4,718	1,031	47,476	
Hedging derivatives assets	43	-	43	-	-	43	
Total	₩ 736,753	-	736,753	588,165	96,390	52,198	

(In millions of won)

	2012						Net amount
	Gross amounts of recognized financial assets	Gross offset amounts of recognized financial liabilities	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position			
				Financial instruments	Collateral received Securities		
Bonds purchased under resale agreements	₩ 206,235	-	206,235	-	186,851	19,384	
Accrued balance spot exchange	510,568	-	510,568	510,210	-	358	
Trading derivatives assets	74,985	-	74,985	4,664	-	70,321	
Hedging derivatives assets	2,790	-	2,790	933	-	1,857	
Total	₩ 794,578	-	794,578	515,807	186,851	91,920	

② Offsetting financial liabilities

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013						Net amount
	Gross amounts of recognized financial assets	Gross offset amounts of recognized financial liabilities	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position			
				Financial instruments	Collateral received		
Bonds sold under repurchase agreements	₩ 481,227	-	481,227	481,227	-	-	
Accrued balance spot exchange	336,467	-	336,467	336,320	-	147	
Trading derivatives liabilities	29,334	-	29,334	4,217	-	25,117	
Hedging derivatives liabilities	10,462	-	10,462	718	-	9,744	
Total	₩ 857,490	-	857,490	822,482	-	35,008	

(In millions of won)

	2012						Net amount
	Gross amounts of recognized financial assets	Gross offset amounts of recognized financial liabilities	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position			
				Financial instruments	Collateral received		
Bonds sold under repurchase agreements	₩ 453,141	-	453,141	453,141	-	-	
Accrued balance spot exchange	197,315	-	197,315	197,268	-	47	
Trading derivatives liabilities	17,921	-	17,921	1,016	-	16,905	
Hedging derivatives liabilities	164	-	164	-	-	164	
Total	₩ 668,541	-	668,541	651,425	-	17,116	

**(d) Liquidity risk**

(i) Purposes of liquidity risk management

The purposes of liquidity risk management is to manage the risk which occurs when there are not enough financial resources and liquidity for principal and interest, not due to the problem of payment ability but due to the situation such as maturity inconsistency of assets and liabilities. Additional reasons for liquidity risk include abnormal disposal of assets or fund raising through liabilities.

(ii) Method of liquidity risk management

Liquidity risk management covers all the monetary transactions of assets and liabilities. The methods of measuring, evaluating and managing liquidity risk are as follows:

- Establish liquidity ratio of supervising organization and periodic liquidity gap limit for the maturity differences of assets and liabilities and report the results to the Committee and the Council
- Promote the precaution of liquidity risk considering fund raising time
- Possess sufficient current assets as provision for liquidity shortage
- Establish and implement a liquidity risk dealing

(iii) Maturity analysis of financial liabilities

Contractual maturity analysis for financial liabilities is as follows:

Financial liabilities held for trading and demand deposits are recognized as fair value and included in the 'On demand' section.

① Non-derivative financial liabilities

(In millions of won)

	2013								
	On demand	Less than 1 month	1 ~ 3 months	4 ~ 6 months	7 ~ 12 months	13 ~ 36 months	37 ~ 60 months	More than 60 months	Total
<On balance accounts>									
Depository liabilities	₩ 10,029,932	2,344,711	3,854,406	3,713,098	5,744,747	684,493	165,664	556,513	27,093,564
Demand deposits	10,090,456	-	-	-	-	-	-	-	10,090,456
Time deposits	5,922	2,276,050	3,637,746	3,496,671	5,531,553	680,287	165,664	556,513	16,350,406
Negotiable certificates of deposits	-	68,661	216,660	216,427	213,194	4,206	-	-	719,148
Borrowings	50,000	754,555	398,987	263,537	300,713	570,514	312,543	167,140	2,817,989
Borrowings in won	-	629,667	60,421	65,366	130,273	328,988	127,543	167,140	1,794,398
Borrowings in foreign currency	-	54,163	108,594	108,010	97,694	74,891	-	-	443,352
Bonds sold under repurchase agreements	-	60,522	212,813	74,518	72,731	66,635	-	-	487,219
Call money	50,000	-	-	-	-	-	-	-	50,000
Other borrowings	-	10,203	17,159	15,643	15	-	-	-	43,020
Debentures	-	115,875	98,190	77,091	404,181	833,450	824,100	1,595,705	3,948,592
Debentures in won	-	113,778	98,190	65,047	383,372	750,309	428,025	498,563	2,337,284
Debentures in foreign currency	-	-	-	3,562	3,562	14,247	327,275	-	348,646
Hybrid capital securities	-	2,097	-	8,482	17,247	68,894	68,800	1,097,142	1,262,662
Other financial liabilities	-	1,574,605	3,642	7,992	14,709	62,376	16,664	3	1,679,991
Total	₩ 10,079,932	4,789,746	4,355,225	4,061,718	6,464,350	2,050,833	1,133,971	2,319,361	35,540,136
<Off balance accounts>									
Financial guarantee contract	₩ 41,720	-	-	-	-	-	-	-	41,720
Commitments	6,923,397	-	-	-	-	-	-	-	6,923,397
Total	₩ 6,965,117	-	-	-	-	-	-	-	6,965,117

(In millions of won)

	2012									
	On demand	Less than 1 month	1 ~ 3 months	4 ~ 6 months	7 ~ 12 months	13 ~ 36 months	37 ~ 60 months	More than 60 months	Total	
<On balance accounts>										
Depository liabilities	₩	8,996,911	2,684,060	3,692,296	3,469,194	5,438,360	651,688	150,083	364,794	25,447,386
Demand deposits		8,993,120	-	-	-	-	-	-	-	8,993,120
Time deposits		3,791	2,587,244	3,439,241	3,271,385	5,235,522	626,098	150,083	364,794	15,678,158
Negotiable certificates of deposits		-	96,816	253,055	197,809	202,838	25,590	-	-	776,108
Borrowings		100,000	534,934	268,474	349,331	468,727	781,875	320,055	193,530	3,016,926
Borrowings in won		-	372,802	71,610	79,080	153,361	530,686	320,055	193,530	1,721,124
Borrowings in foreign currency		-	75,415	120,540	118,081	207,057	165,896	-	-	686,989
Bonds sold under repurchase agreements		-	74,925	58,268	147,063	108,257	85,293	-	-	473,806
Call money		100,000	-	-	-	-	-	-	-	100,000
Other borrowings		-	11,792	18,056	5,107	52	-	-	-	35,007
Debentures		-	105,569	6,845	105,235	739,078	649,815	446,061	1,540,398	3,593,001
Debentures in won		-	103,472	6,845	96,753	721,831	581,015	377,167	408,856	2,295,939
Hybrid capital securities		-	2,097	-	8,482	17,247	68,800	68,894	1,131,542	1,297,062
Other financial liabilities		-	1,180,022	8,393	2,257	658	3,156	20	15	1,194,521
Total	₩	9,096,911	4,504,585	3,976,008	3,926,017	6,646,823	2,086,534	916,219	2,098,737	33,251,834
<Off balance accounts>										
Financial guarantee contract	₩	101,791	-	-	-	-	-	-	-	101,791
Commitments		6,692,071	-	-	-	-	-	-	-	6,692,071
Total	₩	6,793,862	-	-	-	-	-	-	-	6,793,862

② Derivative financial liabilities

(In millions of won)

	2013						
	Less than 1 month	1 ~ 3 months	4 ~ 6 months	7 ~ 12 months	13 ~ 36 months	37 ~ 60 months	Total
<Trading derivatives>							
Currency related	₩	9,320	13,257	8,873	4,187	-	35,637
Stock related		269	589	500	939	-	2,297
Subtotal		9,589	13,846	9,373	5,126	-	37,934
<Hedging derivatives>							
Interest rate related		-	-	-	-	7,945	7,945
Stock related		-	-	1,049	1,468	-	2,517
Subtotal		-	-	1,049	1,468	-	10,462
Total	₩	9,589	13,846	10,422	6,594	-	48,396



(In millions of won)

	2012						
	Less than 1 month	1 ~ 3 months	4 ~ 6 months	7 ~ 12 months	13 ~ 36 months	37 ~ 60 months	Total
<Trading derivatives>							
Currency related	₩ 10,378	11,716	1,206	4,316	28	-	27,644
Stock related	115	273	625	1,924	245	-	3,182
Subtotal	10,493	11,989	1,831	6,240	273	-	30,826
<Hedging derivatives>							
Interest rate related	-	-	-	-	-	164	164
Stock related	-	-	460	473	-	-	933
Subtotal	-	-	460	473	-	164	1,097
Total	₩ 10,493	11,989	2,291	6,713	273	164	31,923

Available assets to fulfill the payment obligations of liabilities and to carry out the unpaid loan contracts are cash, due from The Bank of Korea, loans, equity securities and debt securities. The Group is able to deal with unexpected cash flows through the disposal of securities and by additional fund raising resources such as the asset securitization market.

(e) Market risk

Market risk is the risk that the fair value of financial instruments or future cash flows is affected by the volatility of market rates or prices such as interest rates, stock prices and foreign exchange rates.

(i) Purposes of market risk management

Purposes of market risk management are to secure the profitability and stability by controlling the losses generated from managed assets and liabilities due to volatility of market risk factors such as interest rates, stock prices and foreign exchange rates. Those subject to market risk management are securities held for trading, foreign currency net open positions, derivatives, off balance transactions and other market risk inherent assets and liabilities.

(ii) Market risk management organization

The Group divides exposures to market risk into trading position and non-trading position. To promote the classification and management of trading position, the Group operates its accounting and computer system according to the classification. The Group also classifies and operates a trading desk and non-trading desk separately. Market risk management of the Group is conducted by the Committee, the Council, the Working Group, the Department and sub-risk management departments. The Department is distinctly separated from operating departments and controls entire market risks. The main tasks of the Department are to establish and implement a market risk management policy, to review the adequacy of market risk management criteria, to establish and implement the market risk tolerance management system, to distribute market risk tolerance, to monitor the observance of market risk tolerance, to assess, analyze and report total market risk and to establish and implement the market risk management system. Front office is distinctly separated from the assisting department and the Department. The main tasks of the front office are to establish and implement investing policy, process and strategy, to set out and operate the limit of the Group's market risk tolerance, to record transaction history and to submit related documents to the assisting department. The assisting department is supposed to secure the restrict separation of work and mutual control function between middle office and back office. The main tasks of assisting departments are to review the compliance of limits, transactions, profit and loss evaluation, to conduct follow up works such as exchanging transaction confirmation documents based on operating department's transaction documents, accounting, money and to submit market risk reports.

(iii) Trading position

Trading position is the interest rate, equity positions, derivatives, foreign exchange positions, among others that pursue profit from short-term changes in market factor price rather than pursue profit from interest income. Specifically, it includes short-term trading and the financial instruments for arbitrage trading of stock, interest rates, foreign exchange, commodity, among others, which are acquired by a professional dealer or operational departments within a predetermined limit, things acquired for hedging risk, derivative that does not apply hedge accounting, etc.

① Risk management method

The tolerance limit (including the limit of VaR, investment limit, loss limit) to manage the market risk on trading positions is required to be set principally at least once a year, and approved by the Committee. Compliance of the tolerance limit is monitored daily and the changes of the risk are simultaneously reported to the management, the Council and the Committee on a regular basis (daily, monthly, and annually). Plans for dealing with the market risk are established and operated for each level of the risk.

② Risk assessment method

- Value at Risk (VaR)

The main method to measure and manage exposure to market risk for trading position is VaR. The VaR measures the potential loss in value of a risky asset or portfolio over a defined period for a given confidence interval. The VaR is calculated by applying 99% confidence level at a 10-day.

- Analysis of crisis situations

The Group conducts crisis situation analysis to determine changes in market price of the portfolio under extreme market volatility that can not be considered in the VaR model. Crisis situation analysis is conducted every business day for all the assets, or if necessary, can be performed by constructing a portfolio. Implementations are reported to the Council one or more times a month. For analysis of crisis situation, changes in the Group's assets and liabilities are measured under integrated scenario which assumes decline in stock prices by 30.8%, rise in interest rates by 20% and change in exchange rate by 25%.

- Verification

Adequacy of the VaR model is continuously monitored through follow-up verification. Verification is conducted for the latest 250 business days. If a real loss exceeds a virtual loss (1-day VaR) of the previous day significantly, the Group verifies assumptions and modifies the model, if necessary. Verification is conducted every business day and implementations are reported to the Council once or more times a month.

- VaR by risk types (trading position)

VaR by risk types as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013			
	Period end	Average	Minimum	Maximum
Interest rate risk	₩ 44	230	26	857
Foreign exchange risk	975	171	25	1,117
Stock risk	837	2,334	341	3,296
Diversification effect	(341)	(391)	(19)	(1,707)
Total risk	₩ 1,515	2,344	373	3,563

(In millions of won)

	2012			
	Period end	Average	Minimum	Maximum
Interest rate risk	₩ 83	239	47	767
Foreign exchange risk	641	339	62	1,420
Stock risk	2,092	3,468	688	5,607
Diversification effect	(285)	(485)	(117)	(1,443)
Total risk	₩ 2,531	3,561	680	6,351

The sum of VaR for each risk type does not match the total VaR due to correlation between risk factors and the diversification effect. The correlation between risk factors and the volatility are calculated using the simple moving average method.

(iv) Non-trading position

The Group manages interest rate risk for non-trading position. Interest rate risk of non-trading position is the risk that the net asset value or net interest income might decrease due to the inconsistency of interest rate maturity and the unfavorable change of market interest rate. The Group measures interest rate risk for interest assets such as loans, dues from banks and bonds, for interest rate liabilities such as deposits and borrowings and for hedge derivatives. Among non-trading positions, marketable available-for-sale financial assets (stocks) are managed through VaR.

① Method of interest rate risk management

The tolerance limit to manage the interest rate risk on trading positions is required to be set in principle at least once a year, and approved by the Committee. To verify complying with the tolerance limit, the interest risk is measured and managed at least once a month, and reported to the management, the Council and the Committee.

② Assessment methods for interest rate risk

- Value at Risk (VaR)

Interest rate VaR measures potential losses in value of a net asset over a defined period for a given confidence interval. The Group calculates interest rate VaR by the gap of interest rate and the modified duration.

**- Earning at Risk (EaR)**

EaR is the quantity by which net income is projected to decline in the event of an adverse change in prevailing interest rates.

- Others

The Group evaluates interest rates risk by using the rate of interest gap, and conducts the interest risk analysis of crisis situations under abnormal market conditions at least twice a year. Also, the department verifies the accuracy, completeness and suitability one or more times a year regularly and observes measurement-related data constantly and independently.

- Interest rate VaR (non-trading position)

Interest rate VaR as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		End	Average	Minimum	Maximum
2013(*1)	₩	30,645	20,518	3,705	41,854
2012(*1)		46,415	64,741	32,125	95,115

(*1) Simple sum of Daegubank's interest rate VaR and DGB Capital Co.,Ltd's interest rate VaR.

(v) Foreign exchange bias

Foreign exchange risk is the risk that the fair value of financial instruments or future cash flows are affected by the volatility of foreign exchange rate. The Group does not divide foreign exchange position into trading position and non-trading position but manages it on the whole.

Exposures to foreign exchange risk as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		USD	JPY	EUR	Others
2013	Foreign currency financial assets	₩ 1,482,943	174,610	26,446	26,748
	Foreign currency financial liabilities	1,376,575	151,741	14,114	12,788
2012	Foreign currency financial assets	1,495,997	408,616	22,527	23,295
	Foreign currency financial liabilities	1,453,388	399,761	16,544	6,611

(f) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors. The Group designates a related department to identify operational risk and other departments are responsible for recognition of loss data and computer system management. The Department is responsible for establishing and implementing operational risk strategy, policy and process. It is also responsible for establishment, operation and improvement of operational risk management system and management of the Group's loss data. The Group applies operational standardized approach and calculates required capital with the average amount for three years by mapping its business lines into eight lines and aggregating the amounts obtained by multiplying gross income for each business line by the corresponding rate(12~18%). Tolerable limit for operational risk is set at least once a year and gets an approval from the Committee. Operational risk is measured and is reported to the management, the Council and the Committee on a regular basis.

(g) Capital management

The Group is required to maintain more than 8% of minimum capital compared to risk-weighted assets ("BIS ratio") on a consolidated basis according to the Banking Act.

BIS ratio is defined by the 'International Convergence of Capital Measurement and Capital Standard' of Basel Committee on Banking Supervision within the Bank of International Settlement. BIS ratio is a international standard regarding the capital adequacy ratio regulation to cope with risk increase of financial companies and is calculated as '(common stock capital + other core capital + supplementary capital - deductions) ÷ risk weighted assets'.

Common stock capital is the permanent capital comprised of capital, capital surplus, retained earnings, etc., other core capital is comprised of hybrid securities which meet the requirements of Basel III, and supplementary capital is comprised of allowances for credit losses accumulated for assets classified as 'normal' or 'precautionary' and hybrid securities which meet the requirements of Basel III. Deductions are assets (e.g. deferred tax assets) which don't have the nature of capital for the purpose of capital adequacy regulation and are deducted from equity capital.

Regulated capital and BIS ratio (neither audited nor reviewed by the external auditor) of the Group as of December 31, 2013 and 2012 are as follows. The Group has complied with all the external capital maintenance restriction conditions for the past two years.

BIS Ratio is calculated on a consolidated basis.

(In millions of won)

		2013	2012
Total capital (A)	₩	3,981,064	3,519,734
Basic capital (B)		3,041,727	2,634,392
Common stock (C)		2,421,384	-
Supplementary capital (D)		939,337	885,342
Risk weighted asset (E)	₩	26,440,572	22,606,493
Ratio of total capital (A/E)		15.06%	15.57%
Ratio of basic capital (B/E)		11.50%	11.65%
Ratio of common stock capital (C/E)		9.16%	-

The purpose of a capital policy is to maintain the adequacy of capital and stability of management. Evaluation and management of capital adequacy is conducted for all of the potentially important risks and based on consolidation level. (However, if subsidiary's ratio of total asset is under 5%, that subsidiary can be exempted). The Group sets the policy of risk capital management and risk tolerable limit to evaluate and manage the capital adequacy. The Group reviews the adequacy regularly and reports the results to the Committee and management. Capital management of the Group meets both external and internal criteria and the results of capital adequacy evaluation is used through the management. The Group constantly pursues improvement in risk recognition and evaluation.

49. Regulatory Reserves for Loan Losses

Regulatory reserves for loan losses for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

		2013	2012
Regulatory reserves for loan losses	₩	137,927	125,484
Estimated transfer to regulatory reserves for loan losses		20,642	12,443
Regulatory reserves for loan losses at end of year	₩	158,569	137,927
For owner of the Group		158,569	137,927
For non-controlling interests		-	-

Adjusted profit after regulatory reserves for loan losses for the years ended December 31, 2013 and December 31, 2012 are as follows:

(In millions of won, except earnings per share)

		2013	2012
Required transfer to regulatory reserves for loan losses	₩	20,642	12,443
Adjusted profit after regulatory reserves for loan losses		217,612	261,655
Earnings per share after regulatory reserves for loan losses in won		1,623	1,952

Appendix



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ISO 26000 / UN GLOBAL COMPACT INDEX	174
Survey of Reader's Opinions	175

DGB Financial Group Awards



2013-2014 CSR Recognition and Awards		
Date	Awards	Organization
Jan. 7, 2013	Earned the highest 'AAA' rating in the 2012 Corporate Sustainability Management Performance Evaluation	The Institute for Industrial Policy Studies (IPS)
Feb. 18, 2013	Awarded the Micro-financing prize in the banking sector at the 2nd Korea Best Banker Awards	Financial Service Commission, Financial Supervisory Service, Korea Federation of Banks and Seoul Economic Daily
Feb. 18, 2013	Earned the highest AAA rating in the 2012 Corporate Sustainability Assessment for the second year in a row	Eco Frontier
June 10, 2013	Earned the highest AAA rating in the 2013 Korean Listed Companies Sustainability Performance Evaluation for the first half of the year	SUSTINVEST
June 26, 2013	Listed on the FTSE4Good Index for 3rd consecutive year	Financial Times Stock & Exchange
July 2, 2013	Awarded the Presidential Commendation at the 2013 Korea Green Management Awards	Ministry of Environment, Ministry of Knowledge Economy, Maeil Business Daily
Sep. 11, 2013	Singled out as a leading bank at the 2013 CSR Management for Co-prosperity	JoongAng Daily, JTBC, Ministry of Trade, Industry and Energy, Ministry of Environment
Oct. 14, 2013	Earned the highest AA rating in the 2013 ESG Annual Evaluation	SUSTINVEST
Oct. 16, 2013	Received the KSI Index Prize in the regional banking sector at the 2013 Korea Sustainability Convention	Korea Standards Association
Oct. 30, 2013	Listed on the DJSI Sustainability Index Korea for fifth straight year and Asia-Pacific for 4th consecutive year	Dow Jones & RobecoSam and Korea Productivity Center
Oct. 31, 2013	Named one of Korea's Top 30 by the 2013 CSR Best East Asia 30	Hankyoreh Daily/Hankyoreh Economic Research Institute
Nov. 28, 2013	Prime Minister's commendation at the 7th Anti-Money Laundry Day Awards	Financial Service Commission (Financial Intelligence Unit)
Dec. 19, 2013	Awarded the Ministerial Prize at the 2013 Green Ranking	Ministry of Trade, Industry and Energy, Ministry of Environment/SUSTINVEST
Feb. 14, 2014	Became the only Korean financial institution to earn the highest 'S' rating at the 2013 2H Sustainability Evaluation	Eco Frontier
Mar. 4, 2014	Earned the highest AAA grade at the 2013 Corporate Sustainability Management Performance Evaluation for the second year in a row	Institute for Industrial Policy Studies (IPS)
June 3, 2014	Awarded the Grand Prize in the Great Workplace category at the 2014 Korea Great Workplace Awards	Dong-A Daily/ Ministry of Trade, Industry and Energy, Ministry of Security and Public Administration, Ministry of Health & Welfare, Ministry of Employment & Labor, Ministry of Gender Equality & Family
July 3, 2014	Became the only Korean financial institution to earn the 'Excellent' grade in the 2014 ESG Evaluation	Korea Corporate governance Service, Korea Exchange/Financial Service Commission

External Assurance & Certifications

Date	Awards	Organization
Apr. 30, 2007	Obtained third-party assurance on Daegu Bank's 2006 Sustainability Report	GRI(Global Reporting Initiative)
June 16, 2010	Became the first Korean financial institution to have its GHG inventory verified by a third party	Korea Standards Association (KSA)
May 30, 2011	Acquired the KS I 14001 Environmental Management System Certification	Approved by Korea Accreditation Board (KAB)/Certified by KSA
Nov. 20, 2011	Became the first Korean financial institution to obtain the Green Management System Certificate (KS I 7001/7002)	Administered by the Ministry of Knowledge Economy Approved by KAB/Certified by KSA
June 3, 2013	Obtained the utility model patents on DGB's donation methods and means by the name of investors	Korea Intellectual Property Office (KIPO)



Third-party Assurance Statement

Dear DGB Financial Group Management and Stakeholders

The Korean Standards Association (“KSA”) was commissioned by DGB Financial Group to perform a third-party Assurance Engagement of ‘2013/14 DGB Financial Group Sustainability Report’ (the “Report”). KSA presents independent opinions as follows as a result of feasibility of the data contained in this Report. DGB Financial Group has sole responsibility for content and performance contained in this Report.

■ Independence

As an independent assurance agency, KSA does not have any kinds of commercial interest in businesses of DGB Financial Group apart from undertaking a third-party assurance on the Report. We have no other contract with DGB Financial Group that may undermine credibility and integrity as an independent assurance agency.

■ Assurance Standards and Level

This Assurance Engagement followed the AA1000AS (2008) assurance standards to provide Moderate Level assurance. We checked the three principles of inclusivity, materiality, and responsiveness in combination with information credibility of the Report. We also verified whether the Report content was created in accordance with the GRI G4 Guidelines and ISO 26000.

■ Assurance Type and Scope

We performed a Type 2 Assurance Engagement in accordance with AA1000AS. This implies that we verified the accuracy and quality of the statements made by DGB Financial Group and the sustainability performance data included in this Report. This Assurance Engagement covered data from the calendar year 2013. Information from the first half of 2014 was also included depending on content. The scope of this Assurance Engagement primarily includes the systems and initiatives undertaken by DGB Financial Group including its sustainability management policies, goals, projects, standards and performance during the reporting period defined in the Report. While the company’s environmental and social data as well as financial data was verified, the scope of review concerning stakeholder engagement was limited to the materiality test process.

■ Assurance Methodology

We used the following methods to gather information, documents and evidence with respect to the assurance scope.

- Analyses of articles related to DGB Financial Group’s sustainability management published by domestic media outlets over the last three years
- Analyses of issues reported in the sustainability reports published by domestic and overseas industry peers
- Visit DGB Financial Group headquarter/Interview with employees in charge of sustainability management and managers of respective issues

- Verification of management system and process to improve achievement in sustainability management and to prepare the Report
- Review of the consistency between the financial performance data and the company’s audit report/publicly announced data
- Examination of internal documents and basic materials

■ Assurance Results and Opinions [On an assurance principle/process level]

KSA reviewed the draft version of this Report to present our opinions as an assurance provider. Modifications were made of the Report content if deemed necessary. We were not aware of any significant errors or inappropriate descriptions in this Report as a result of our Assurance Engagement. As such, we present our opinions of the 2013/14 DGB Financial Group Sustainability Report as follows.

• Inclusivity

Has DGB Financial Group engaged its stakeholders in strategically responding to sustainability?

We believe that DGB Financial Group is making an all-out effort for major stakeholders’ participation in promoting sustainability management, and we assured procurement and operation of diverse stakeholder communication channel of DGB Financial Group. We were not aware of any omission of significant stakeholder group. However, we recommend that DGB Financial Group reflect stakeholders’ needs into the company’s sustainability management strategy and performance through regular operation of sustainability management committee. We also recommend disclosing specific examples on how opinions were gathered and decisions were made on management level.

• Materiality

Has DGB Financial Group included material information in the Report to help stakeholders make informed decisions?

We are not aware of any significant omissions or exclusions of data that is material to stakeholders. We verified that DGB Financial Group conducted materiality test with issues identified from analyses of internal and external environments and reported according to the result. We believe DGB Financial Group would further improve by increasing compatibility between material issues and related sustainability management strategy, and reflect it to manage and to improve achievement in sustainability management.

• Responsiveness

Has DGB Financial Group appropriately responded to stakeholder requirements and interest in this Report?

We verified that DGB Financial Group responded stakeholders’ needs and interests through reflecting stakeholders’ opinions in the Report. We are not

aware of any evidence that DGB Financial Group's response to significant issues of stakeholders was reported inappropriately. We suggest DGB Financial Group diversifies KPIs for managing material issues of respective stakeholder and performances, intensifies system for carrying out sustainability management strategies and tasks systematically.

■ **Verification of Material GRI G4 Indicators**

We confirmed that this Report was prepared in accordance with GRI G4 Comprehensive Option. Based on data DGB Financial Group provided, we also confirmed a validity of the contents related to General Standard Disclosure and Specific Standard Disclosure indicators.

• **General Standard Disclosures**

We verified that this Report is in compliance with requirements for General Standard Disclosures of Comprehensive Option. We examined indicators below. G4-1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58

• **Specific Standard Disclosures**

We checked DMAs with respect to Material Aspects identified from a decision making process on which content to be disclosed. We examined indicators below.

G4-EC1, EC2, EC3, EC4, EC7, EC8, EN3, EN8, EN15, EN16, EN27, EN28, LA1, LA2, LA3, LA9, LA10, LA11, LA12, HR1, HR2, HR3, SO1, SO2, SO3, SO4, SO5, PR3, PR4, PR5, PR8, PR9, FS1, FS2, FS3, FS4, FS5, FS6, FS7, FS8, FS13, FS14, FS15, FS16

■ **Opinions and Recommendations by Sector** [On a performance/issue level]

We present the following recommendations to help DGB Financial Group establish a company-wide sustainability management strategy and respond to continuous issues of sustainability.

• **Economic**

Financial service industry is expected to undergo rapid changes due to following variables: changes in market condition such as opening, liberalization, and internalization of the financial market; changes in population structure such as low birthrate and aging population; intensifying competition; changes in government regulation and so on. During the rapid economic, environmental,

social change, stakeholders take a higher interest in sustainable finance that they can trust long term, remain stable, and contribute to economic development of community. We suggest that DGB Financial Group discloses specific information on performances and efforts for solidifying sustainability governance structure by considering how sustainability in financial service sector is propelled from ESG perspective.

• **Environmental**

DGB Financial Group was the first in the nation's financial sector to receive Green Management System (GMS) and it has been promoting systematic green management based on plan-do-check-act (PDCA). It is important to identify risks related to climate change and environment at micro level, and to analyze its impact on organization's business activity to come up with comprehensive countermeasures. We recommend extending the areas of sustainability management through continuous development of green financial products and green management activities considering organization's value chain.

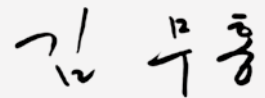
• **Social**

DGB Financial Group is performing various social contribution activities to solve the issues our society faces such as low birthrate and aging population, increasing number of multicultural families, and youth unemployment. We would like to suggest that the company continue to promote social contribution which could reflect characteristics of financial sector: job creation programs for retirees, training programs to cultivate management specialists and financial specialists, which enable technological development and stimulation of regional economy. Also, we recommend the company to continue to measure and improve influences and ripple effect of those programs.

July 2014

Kim, Moo-Hong

Acting KSA Chairman & CEO



AA1000
Licensed Assurance Provider
000-2



Korean Standards Association (KSA), established as a special corporation in accordance with the Law for Industrial Standardization in 1962, is serving as a knowledge service provider who distributes and disseminates such services as industrial standardization, quality management, sustainability management, KS certification and ISO certification. KSA is committed to the sustainable development of Korean society as an ISO 26000 national secretary, certified GRI training partner, AA1000 assurance provider, KSI(Korea Sustainability Index) operator, UN CDM DOE(development operational entity), and assurance provider of the Korean government's greenhouse gas energy target management system



GENERAL STANDARD DISCLOSURES				
General Standard Disclosures		Page	Omissions	External Assurance
Strategy and Analysis				
G4-1	Provide a statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	5		168-169
G4-2	Provide a description of key impacts, risks, and opportunities.	28-29		168-169
Organizational Profile				
G4-3	Report the name of the organization.	15-21		168-169
G4-4	Report the primary brands, products, and services.	15-21		168-169
G4-5	Report the location of the organization's headquarters.	15-21		168-169
G4-6	Report the number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	15-21		168-169
G4-7	Report the nature of ownership and legal form.	15-21		168-169
G4-8	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	15-21		168-169
G4-9	Report the scale of the organization, including: - Total number of employees - Total number of operations - Net sales (for private sector organizations) or net revenues (for public sector organizations) - Total capitalization broken down in terms of debt and equity (for private sector organizations) - Quantity of products or services provided	15-21		168-169
G4-10	A. Report the total number of employees by employment contract and gender. B. Report the total number of permanent employees by employment type and gender. C. Report the total workforce by employees and supervised workers and by gender. D. Report the total workforce by region and gender. E. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors. F. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).	15-21		168-169
G4-11	Report the percentage of total employees covered by collective bargaining agreements.	52		168-169
G4-12	Describe the organization's supply chain.	53		168-169
G4-13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain, including: - Changes in the location of, or changes in, operations, including facility openings, closings, and expansions - Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations) - Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination	22-23		168-169
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization.	14		168-169
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	13		168-169
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization:	13		168-169
G4-17	A. List all entities included in the organization's consolidated financial statements or equivalent documents. B. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.	15-21		168-169
Identified Material Aspects and Boundaries				
G4-18	A. Explain the process for defining the report content and the Aspect Boundaries. B. Explain how the organization has implemented the Reporting Principles for Defining Report Content.	27		168-169
G4-19	List all the material Aspects identified in the process for defining report content.	28-29		168-169
G4-20	For each material Aspect, report the Aspect Boundary within the organization, as follows: - Report whether the Aspect is material within the organization - If the Aspect is not material for all entities within the organization (as described in G4-17), select one of the following two approaches and report either: a. The list of entities or groups of entities included in G4-17 for which the Aspect is not material or b. The list of entities or groups of entities included in G4-17 for which the Aspects is material - Report any specific limitation regarding the Aspect Boundary within the organization	30-31		168-169
G4-21	For each material Aspect, report the Aspect Boundary outside the organization, as follows: - Report whether the Aspect is material outside of the organization - If the Aspect is material outside of the organization, identify the entities, groups of entities or elements for which the Aspect is material. In addition, describe the geographical location where the Aspect is material for the entities identified - Report any specific limitation regarding the Aspect Boundary outside the organization	30-31		168-169
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	About This Report		168-169
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	About This Report		168-169

General Standard Disclosures		Page	Omissions	External Assurance
Stakeholder Engagement				
G4-24	Provide a list of stakeholder groups engaged by the organization.	26		168-169
G4-25	Report the basis for identification and selection of stakeholders with whom to engage.	26		168-169
G4-26	Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	27		168-169
G4-27	Report 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. Report the stakeholder groups that raised each of the key topics and concerns.	27		168-169
Report Profile				
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	About This Report		168-169
G4-29	Date of most recent previous report (if any).	About This Report		168-169
G4-30	Reporting cycle (such as annual, biennial).	About This Report		168-169
G4-31	Provide the contact point for questions regarding the report or its contents.	About This Report		168-169
G4-32	A. Report the 'in accordance' option the organization has chosen.	About This Report		168-169
	B. Report the GRI Content Index for the chosen option (see tables below).			
	C. Report the reference to the External Assurance Report, if the report has been externally assured. GRI recommends the use of external assurance but it is not a requirement to be 'in accordance' with the Guidelines.			
G4-33	A. Report the organization's policy and current practice with regard to seeking external assurance for the report.	About This Report		168-169
	B. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided.			
	C. Report the relationship between the organization and the assurance providers.			
	D. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report.			
Governance				
G4-34	Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	13		168-169
G4-35	Report the process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.	13		168-169
G4-36	Report whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.	13		168-169
G4-37	Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body.	13		168-169
G4-38	Report the composition of the highest governance body and its committees by:	10-11		168-169
	- Executive or non-executive			
	- Independence			
	- Tenure on the governance body			
G4-39	- Number of each individual's other significant positions and commitments, and the nature of the commitments	10		168-169
	- Gender			
	- Membership of under-represented social groups			
	- Competences relating to economic, environmental and social impacts			
G4-40	- Stakeholder representation	10-11		168-169
	Report whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organization's management and the reasons for this arrangement).			
	Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members, including:			
	- Whether and how diversity is considered			
G4-41	- Whether and how independence is considered	10-11		168-169
	- Whether and how expertise and experience relating to economic, environmental and social topics are considered			
	- Whether and how stakeholders (including shareholders) are involved			
	Report processes for the highest governance body to ensure conflicts of interest are avoided and managed. Report whether conflicts of interest are disclosed to stakeholders, including, as a minimum:			
G4-42	- Cross-board membership	10-11		168-169
	- Cross-shareholding with suppliers and other stakeholders			
	- Existence of controlling shareholder			
	- Related party disclosures			
G4-43	Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.	13		168-169
G4-44	Report the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.	13		168-169
G4-45	a. Report the processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Report whether such evaluation is independent or not, and its frequency. Report whether such evaluation is a self-assessment.	13		168-169
	b. Report actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics, including, as a minimum, changes in membership and organizational practice.			
G4-45	a. Report the highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes.	13		168-169
	b. Report whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental and social impacts, risks, and opportunities.			



General Standard Disclosures		Page	Omissions	External Assurance
G4-46	Report the highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics.	13		168-169
G4-47	Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.	13		168-169
G4-48	Report the highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material aspects are covered.	13		168-169
G4-49	Report the process for communicating critical concerns to the highest governance body.	10-12		168-169
G4-50	Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.	10-12		168-169
	A. Report the remuneration policies for the highest governance body and senior executives for the below types of remuneration:			
	- Fixed pay and variable pay:			
	a. Performance-based pay			
	b. Equity-based pay			
	c. Bonuses			
	d. Deferred or vested shares			
G4-51	- Sign-on bonuses or recruitment incentive payments	12		168-169
	- Termination payments			
	- Clawbacks			
	- Retirement benefits, including the difference between benefit schemes and contribution rates for the highest governance body, senior executives, and all other employees			
	B. Report how performance criteria in the remuneration policy relate to the highest governance body's and senior executives' economic, environmental and social objectives.			
G4-52	Report the process for determining remuneration. Report whether remuneration consultants are involved in determining remuneration and whether they are independent of management. Report any other relationships which the remuneration consultants have with the organization.	12		168-169
G4-53	Report how stakeholders' views are sought and taken into account regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable.	12		168-169
G4-54	Report the ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country.	12		168-169
G4-55	Report the ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country.	12		168-169
Ethics and Integrity				
G4-56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	37		168-169
G4-57	Report the internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines.	37		168-169
G4-58	Report the internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	37		86-87

SPECIFIC STANDARD DISCLOSURES				
Specific Standard Disclosures		Page	Omissions	External Assurance
Category: Economic				
Economic Performance	G4-EC1	Direct economic value generated and distributed	17	168-169
	G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	71-72	168-169
	G4-EC3	Coverage of the organization's defined benefit plan obligations	51	168-169
	G4-EC4	Financial assistance received from government	-	Not Applicable
Indirect Economic Impacts	G4-EC7	Development and impact of infrastructure investments and services supported	59-67	168-169
	G4-EC8	Significant indirect economic impacts, including the extent of impacts	59-67	168-169
Category: Environmental				
Products and Services	G4-EN27	Extent of impact mitigation of environmental impacts of products and services	69-70	168-169
	G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category	-	Not Applicable
Category: Social				
Sub-Category: Labor Practice and Decent Work				
Employment	G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	48, 64	168-169
	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	49-51	168-169
	G4-LA3	Return to work and retention rates after parental leave, by gender	49	168-169

Specific Standard Disclosures			Page	Omissions	External Assurance
Training and Education	G4-LA9	Average hours of training per year per employee by gender, and by employee category	47		168-169
	G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	–	Plans to adopt such program by the end of 2014	168-169
	G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	47		168-169
Diversity and Equal Opportunity	G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	48		168-169
Sub-Category: Human Rights					
Investment	G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	37		168-169
	G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	37		168-169
Non-discrimination	G4-HR3	Total number of incidents of discrimination and corrective actions taken	–	No such incidents	168-169
Sub-Category: Society					
Local Communities	G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	62		168-169
	G4-SO2	Operations with significant actual and potential negative impacts on local communities	–	No such operations	168-169
Anti-corruption	G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	37		168-169
	G4-SO4	Communication and training on anti-corruption policies and procedures	37		168-169
	G4-SO5	Confirmed incidents of corruption and actions taken	37		168-169
Sub-Category: Product Responsibility					
Product and Service Labeling	G4-PR3	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements	39		168-169
	G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	39		168-169
Customer Privacy	G4-PR5	Results of surveys measuring customer satisfaction	39		168-169
	G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	34-35		168-169
Compliance	G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	39		168-169
Financial Services Sector Supplement					
Product portfolio	FS1	Policies with specific environmental and social components applied to business lines	13		168-169
	FS2	Procedures for assessing and screening environmental and social risks in business lines	13		168-169
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APPENDIX

ISO 26000 INDEX

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APPENDIX

UN GLOBAL COMPACT INDEX

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	Principle 2 make sure that they are not complicit in human rights abuses.	36-37
Labour Standards		
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We joined the UN Global Compact, the UN International convention on corporate social responsibility in July, 2006 and complies with the 10 principles in the 4 areas (human rights/labor/environment/anti-corruption)

Survey of Reader's Opinions



Post Card

From : _____

Address : _____

□ □ □ - □ □ □

우편요금
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발송유효기간
2014.8.1~2015.7.31
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DGB Financial Group welcomes your feedback on this report. We will carefully review your opinions and suggestions and do our best to reflect them in our future planning. Please fill out the form below and send it to us via fax or mail. Thank you for your interest and time.

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1. To which group do you belong?

- ① DGB Financial Group Customers
- ② DGB Financial Group Employees
- ③ Business Partners
- ④ Local residents
- ⑤ NGOs
- ⑥ Academia
- ⑦ Government
- ⑧ Others ()

2. Where did you learn about this report?

- ① DGB Financial Group /Daegu Bank websites
- ② DGB Financial Group's IR activities
- ③ Other websites
- ④ Forums/Seminars
- ⑤ Others ()

3. Which part of this report did you find most interesting?

- ① ISO 26000 responsiveness
- ② Responsible management
- ③ Sustainable finance
- ④ Community engagement and development
- ⑤ Green management
- ⑥ IMPACT AREAS

4. Do you think this report transparently reflected the Group's management performance results?

- ① Perfectly reflected
- ② Well reflected
- ③ Enough
- ④ Not enough
- ⑤ To be improved

5. Which area of sustainability management do you find DGB is most active in?

- ① Sustainable finance (socially responsible investments, etc.)
- ② Environmental management (energy saving and ecosystem restoration, etc.)
- ③ Social contribution activities (volunteer activities, etc.)
- ④ Corporate culture (ethical management and sharing activities, etc.)

6. Please state any areas you believe we need to further improve in this report.

Contact Information

If you have any inquiries regarding our sustainability management practices or any information/data contained in this report, please contact us at;

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