



찾아가는 금융 **점포! 투게더**
함께하는 돈업



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

Introduction

DGB Financial Group has been reporting its material sustainability issues affecting stakeholders and relevant performances in the aspects of economy, society, and environment in a transparent and truthful manner since 2006. This is DGB Financial Group's ninth sustainability report and it was prepared to connect the Group's strategies in sustainability management in order to help stakeholders understand action plans, performance indices, and future plans.

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

Reporting Period, Scope, and Boundary

The reporting period covers January 1, 2014 through December 31, 2014, and important management initiatives include data that extend into the first half of 2015. This report also includes activities and performances of Daegu Bank, DGB Life Insurance, DGB Capital, U-Payment, DGB Data System, and Daegu Credit Information. The reporting boundary of each material issue is separately presented on page 96-97.

Reporting Guidelines

This report was mainly written in accordance with the Comprehensive Option of the GRI (Global Reporting Initiative) G4 guideline. We also adopted GRI Financial Service Sector Supplement, ISO26000, UNGC's 10 Principles, UN SDGs, and IR Framework provided by IIRC (International Integrated Reporting Council) to this report.

Assurance

The objectivity and reliability of this report was verified by an independent and objective assurance institution based on the AA1000AS (2008). The assurance report can be found on pages 183-194 of this report.



Contact Information

This report was published in both Korean and English and is available on the official websites of DGB Financial Group. We also launched interactive and mobile version of this report for better access. Inquires or suggestions can be directed to the following contact points:

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

Contents

DGB FINANCIAL GROUP PROFILE

CEO's Message	06
DGB Financial Group Overview	08
DGB At a Glance	10
Business Model	12
10 Highlights in 2014-2015	14

SUSTAINABILITY MANAGEMENT SYSTEM

DGB Financial Group's Stakeholders	16
Materiality Analysis Process and Results	18
Sustainability Management Strategy	21
Sustainability Management Implementation System	22

IMPACT AREAS: Zoom-in DGB

ISSUE 1 Launch of DGB Life Insurance	25
ISSUE 2 Customer Privacy Protection	26
ISSUE 3 Future Finance	28

STRATEGY & PERFORMANCE

01 Future Strategic Management	32
Sustainable Performance	33
Sound Governance	36
02 Customer Satisfaction Management	40
Customer Value Creation	41
Sustainable Finance	46
03 Enhancement of Organizational Competence	52
Talent Cultivation and Support	53
Employee Happiness	57
04 Risk Management	62
Management of Risk and Change	63
Enhancement of Environmental Management	67
05 Creation of Shared Value	74
Co-prosperity with Business Partners	75
Contribution to the Development of Local Communities	77

BOARD OF DIRECTORS

	84
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FINANCIAL SECTION

Management's Discussion & Analysis	88
Independent Auditors' Report	94
Consolidated Statements of Financial Position	95
Consolidated Statements of Comprehensive Income	96
Consolidated Statements of Changes in Equity	97
Consolidated Statements of Cash Flows	98
Notes to the Consolidated Financial Statements	101

APPENDIX

DGB Financial Group Awards	190
Third-party Assurance Statement	191
GHG Emissions Verification Statement	193
GRI G4/ISO26000 Index	194
UNGC/SDGs Index	198
Questionnaire of Stakeholders' Opinions	199



찾아가는 금융
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CEO's Message

“Sharing Dream
for Richer Life with
Local Communities”



Dear respected stakeholders,

Amid the tough financial environment last year, employees at DGB Financial Group pulled together to lay the groundwork for new growth engines by putting the values of 'workplace and practice' at the front. We have undertaken a comprehensive restructuring of our mainstay affiliate Daegu Bank while enhancing marketing campaign that targeted corporates relocating to Innovation City, raising customer loyalty and consumer base. With Shanghai branch, opening Ho Chi Minh office have allowed us to provide differentiated and convenient financial services to our customers based in the region. We are the first local financial holding company to enter into insurance industry by establishing DGB Life Insurance, which contributed to diversifying growth engines and creating synergy. Meanwhile, DGB Capital has expanded its branch network and asset management portfolio while U-Payment has achieved a remarkable development as it grew electronic payment business and introduced nation-wide transportation card system. DGB Data System has expanded the joint project of the integrated IT operation of affiliated companies. Daegu Credit Information has upgraded affiliates' services and streamlined organizational structure, thereby greatly contributing to the increase in the group-wide synergy.

With those efforts, we demonstrated a robust growth with total assets reaching KRW 41.0097 trillion, up 9.13% from the previous year, and net income recording KRW 243.8 billion. The Group won the President's Prize in the 'Sustainable Management' category at Korea National Quality Award in 2014 for the first time in Korea. We saw our reputation as an excellent business for sustainable management further solidified in 2014: the Group was included in DJSI Asia-Pacific/Korea for fifth and sixth consecutive years respectively. We were also the only business in the domestic financial sector to be selected as the 'Excellent Performer in Corporate Governance 2014.'

DGB Financial Group has set the management goal for 2015 as 'Substantial Takeoff'. We seek to rise as the 'best partner for future'. To achieve this goal, the Group devoted to implement the following principles to pursue sustainable growth of the group as well as the local communities.

First, we will achieve 'smart growth'. The Group will continue to diversify its business areas and to create new sources of profits. Not only an appropriate rate of growth but a qualitative improvement will be secured through a proactive risk management and profit boost of our core business.

Second, we pledge to maximize management efficiency. To that end, the Group commits to unleashing its changing and innovating DNA while overhauling the cost structure through organizational restructuring. The key goals of each affiliate shall be clearly recognized and shared among the members involved, and a detailed strategy shall be set up to achieve such goals.

Last, we will reinforce synergy among the Group members. DGB Life Insurance, launched as the sixth subsidiary of DGB Financial Group, will allow the Group to take the synergy level to the next level. In addition, in order to turn barriers we face as a latecomer into opportunities we will invest a significant amount of time and energy creating synergy among existing affiliates including banking and capital business to strengthen sales outcome. We also pledge to inspire our brand-new life insurance business to boost synergy with the rest of the Group.

The year 2015 marks a meaningful milestone for DGB Financial Group. 10 years ago, the Group promulgated its corporate vision, goal, and strategy for sustainable growth at the 'Sustainability Management Declaration Ceremony'. The Group also demonstrated its commitment to sustainability management as it joined the UN Global Compact and signed the United Nations Environment Program Financial Initiative (UNEP FI). DGB Financial Group will take stock of the sustainability management system to date in order to identify correctional issues, thereby expediting the win-win growth with stakeholders.

Going forward, DGB Financial Group's overarching corporate goal is 'Sharing Dreams for Richer Life with Local Communities'. To that end, we pledge to take heed to stakeholders' valued inputs and keep being inspired by sustainable management that is ever relevant to the communities we serve. Your unwavering support and interest would be greatly appreciated.

Thank you.

CEO of DGB Financial Group
Park, In-gyu

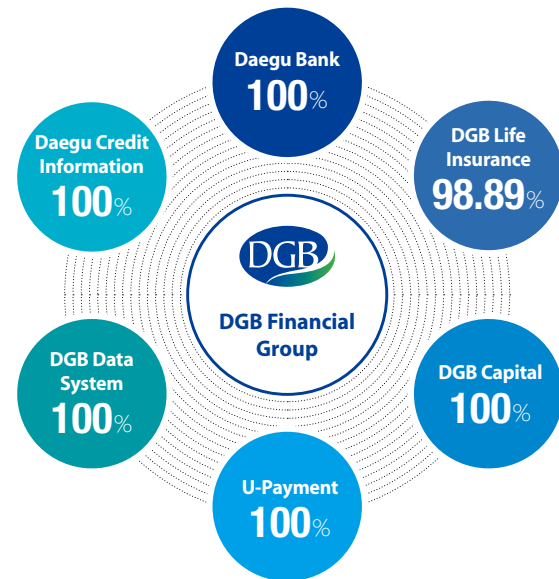
Park In-gyu

DGB Financial Group Overview

Introduction

DGB Financial Group was launched in 2011 in an attempt to secure the foothold for another takeoff as well as better financial services. With Daegu Bank (DGB), the first local bank in Korea, at the center, four other affiliates, DGB Capital, U-Payment, DGB Data System, and Daegu Credit Information joined the Group enhancing the group's capability. The Group acquired a life insurance company- which is now DGB Life Insurance- to have a total of 6 subsidiaries. DGB Financial Group is now making another round of growth to emerge as a premium player in the financial market based on its diversified sources of profit, synergy among affiliates, and an expanded global network.

DGB Financial Group's Subsidiaries and Ownership



DGB Financial Group's Business Status

Category	Daegu Bank	DGB Life Insurance	DGB Capital	U-Payment	DGB Data System	Daegu Credit Information
No. of branches	257	39	6	1	1	1
No. of employees	3,118	250	94	28	65	28
Total assets (KRW in billions)	40,071.2	5,086.5	958.3	40.0	7.5	4.8
Net income (KRW in billions)	250.2	6.1	8.5	-0.1	0.5	0.3

* As of the end of December 2014

** As of the end of March 2015 for DGB Life Insurance

Major Performances in Sustainability Management for the Past 10 Years

2006~2007

- 2006**
 - Joined the UN Global Compact
 - Joined the UNEP Finance Initiative
 - Proclaimed the sustainability management
 - Published an annual sustainability report
 - Implemented the TCRMS (Treasury Credit Risk Management System)
- 2007**
 - Participated in the CDP as a signatory institution
 - Opened Daegu Finance Museum

2008~2009

- 2008**
 - Established and promoted the 'DGB STOP CO₂ Plan' to reduce carbon emissions
 - Certified for ISO27001, a global standard for information protection
- 2009**
 - Operated the DGB Happy Family Center
 - Won the Prime Minister Prize at the '2009 Daegu Volunteer Service Award'
 - Held the NIE Energy Diary Contest

2010

- Verified for GHG emissions for the first time in the industry
- Opened the 'DGB Cyber Green Branch, Korea's first environment-friendly branch
- Contributed to creating forest to prevent desertification in Mongolia

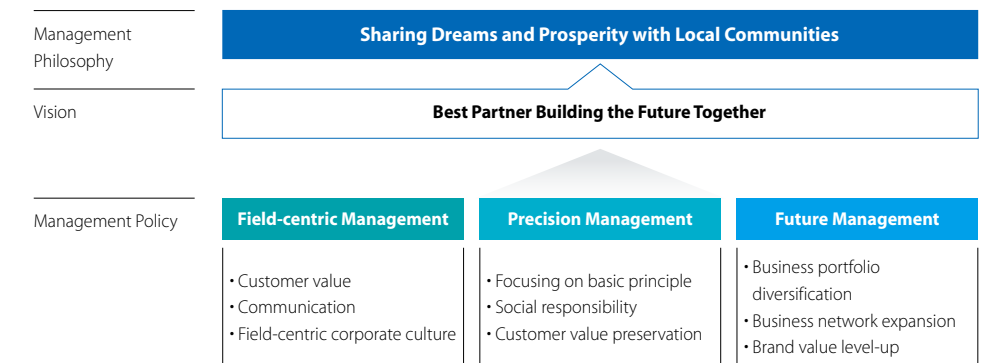
2011

- Certified for the Green Management System (KSI7001/7002) and Environmental Management System (ISO14001)
- First qualified for the FTSE4Good Korea Index
- Established the DGB Social Contribution Foundation
- Started business as DGB Financial Group
- Selected as the No.1 bank in the sustainability index for three consecutive years
- Won the grand prize in the private company sector at the '6th Sustainability Management Award'

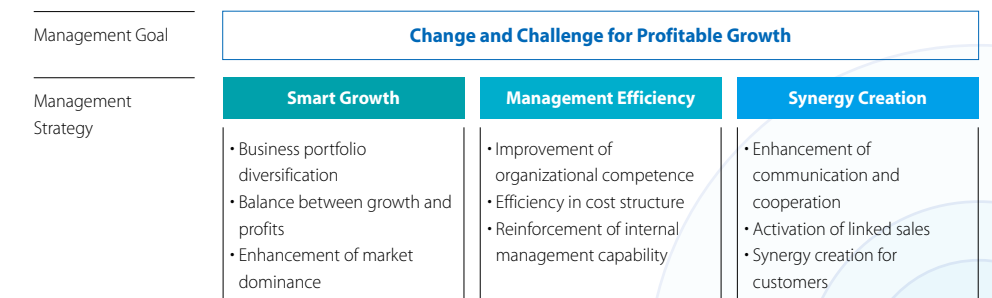
Vision and Strategy

DGB Financial Group declared "Sharing Dream and Prosperity with Local Communities" as the management philosophy, reflecting its enthusiasm for growth in tandem with local people as a regionally-engaged company. We are eager to achieve the corporate vision of being "The Best Partner for the Future," with three management policies: field-oriented management catering to customers; ethical management trusted by customers; and future-oriented management for another giant leap of the Group.

Management Philosophy and Policies



Management Goal and Strategy in 2015



2012

- Selected as an excellent company to respond to CDP and climate change for 4 consecutive years (CDP Korea)
- Opened the 'Bluebird Senior Happy Workplace' to support job creation for senior citizens
- Established the Bluebird Dream Childcare Center
- Acted as a member of Korean working group of the CDSB (Climate Disclosure Standard Board)
- Established DGB Data System
- Incorporated DGB Capital as a subsidiary

2013

- Merged Kardnet and U-Payment
- Won the Presidential Prize at the '2013 Korea Green Management Award' for the first time in the industry (Ministry of Trade, Industry & Energy, Ministry of Environment)
- Opened the 'DGB Bluebird Multi-Culture Welfare Center'
- Daegu Bank's 'Donation Method and Device under the Name of Investors' acquired a patent on a new device
- Won the Minister Prize of Trade, Industry & Energy at the '2013 Green Ranking' (2nd in overall ranking)

2014

- Acquired the highest grade AAA at the 'KoBEX 2013' for 4 consecutive years
- Published a white book to introduce DGB's efforts to create forest for preventing desertification in Mongolia
- Future Generation Education Project Group was certified as a social enterprise for the first time in the financial industry.
- Selected as a unique excellent company in the financial industry at the 'ESG Evaluation on Corporate Governance in 2014' (Korea Governance Service and KRX)
- Won the Presidential Prize in the sustainability management sector at the '40th National Quality Award'
- Qualified for the 'DJSI Asia Pacific' for 5 consecutive years and the 'DJSI Korea' for 6 consecutive years, respectively
- Qualified for the 'FTSE4Good Index' for 4 consecutive years
- Achieved No.1 grade in FSS' Civil Complaint Assessment for 8 consecutive years (only in the financial industry)

DGB At a Glance

(As of December 31, 2014)

Total revenue Number of employee Net income

Total assets

Daegu Bank KRW **40,071.2** billion

- Deposit, loan, and foreign exchange
- Financial product sale (fund, bancassurance, etc.)
- Asset management service
- Internet banking



Total assets

DGB Life Insurance KRW **5,086.5** billion

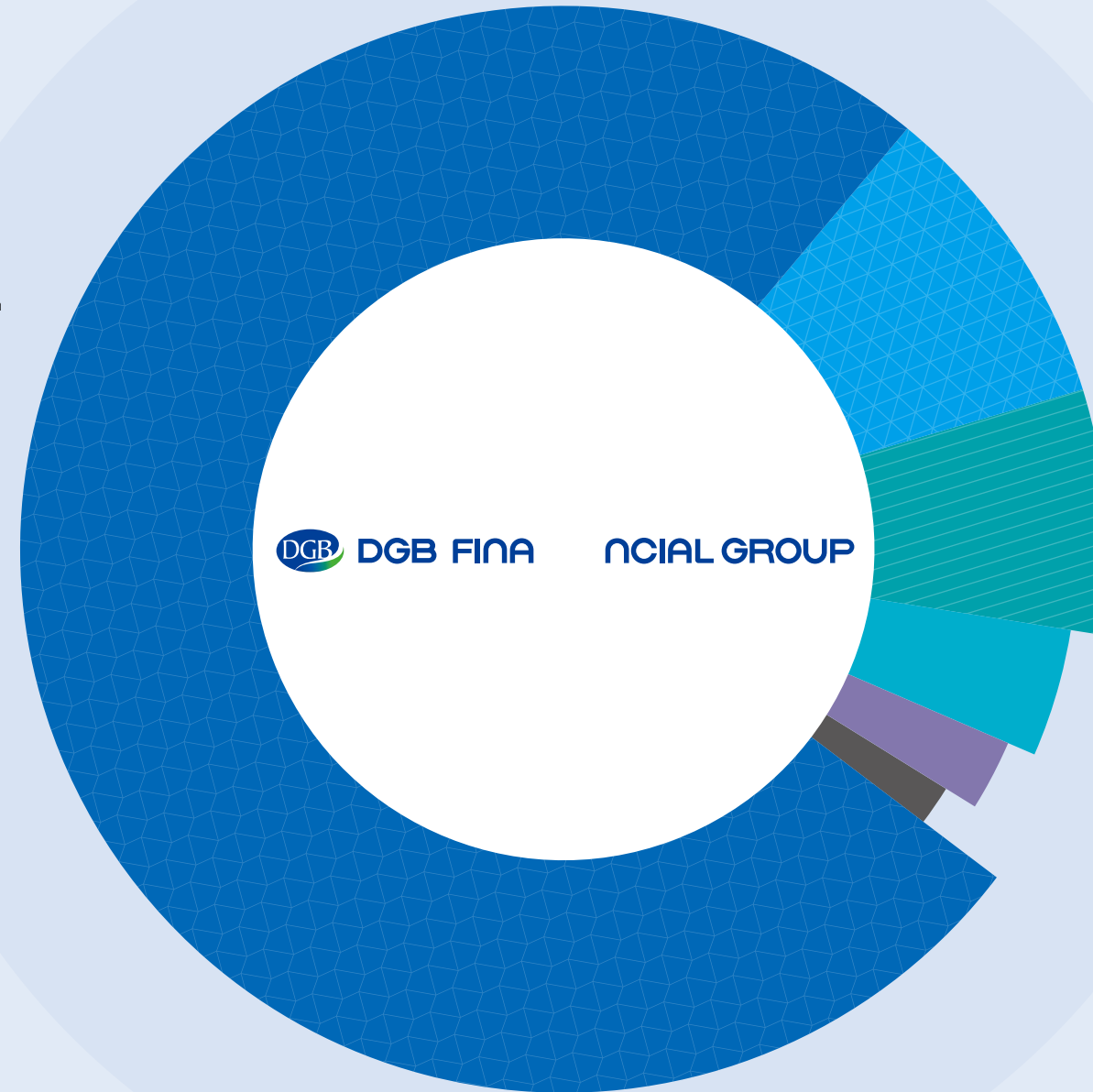
- Insurance product sale (term, saving, pension, variable, etc.)
- Asset management service
- Insurance-based loan



Total assets

DGB Capital KRW **958.3** billion

- Private loan and corporate loan
- New technology project financing
- Lease and installment financing



Total revenue Number of employee Net income

Total assets

U-Payment KRW **40.0** billion

- Issue and management of electronic pre-payment systems
- Electronic payment settlement agency service



Total assets

DGB Data System KRW **7.5** billion

- Development, operation, and maintenance of information system
- Integration and operation of information system
- Sale, lease, and maintenance of information devices and software
- IT consulting and IT-related education
- E-Commerce, internet-related businesses



Total assets

Daegu Credit Information KRW **4.8** billion

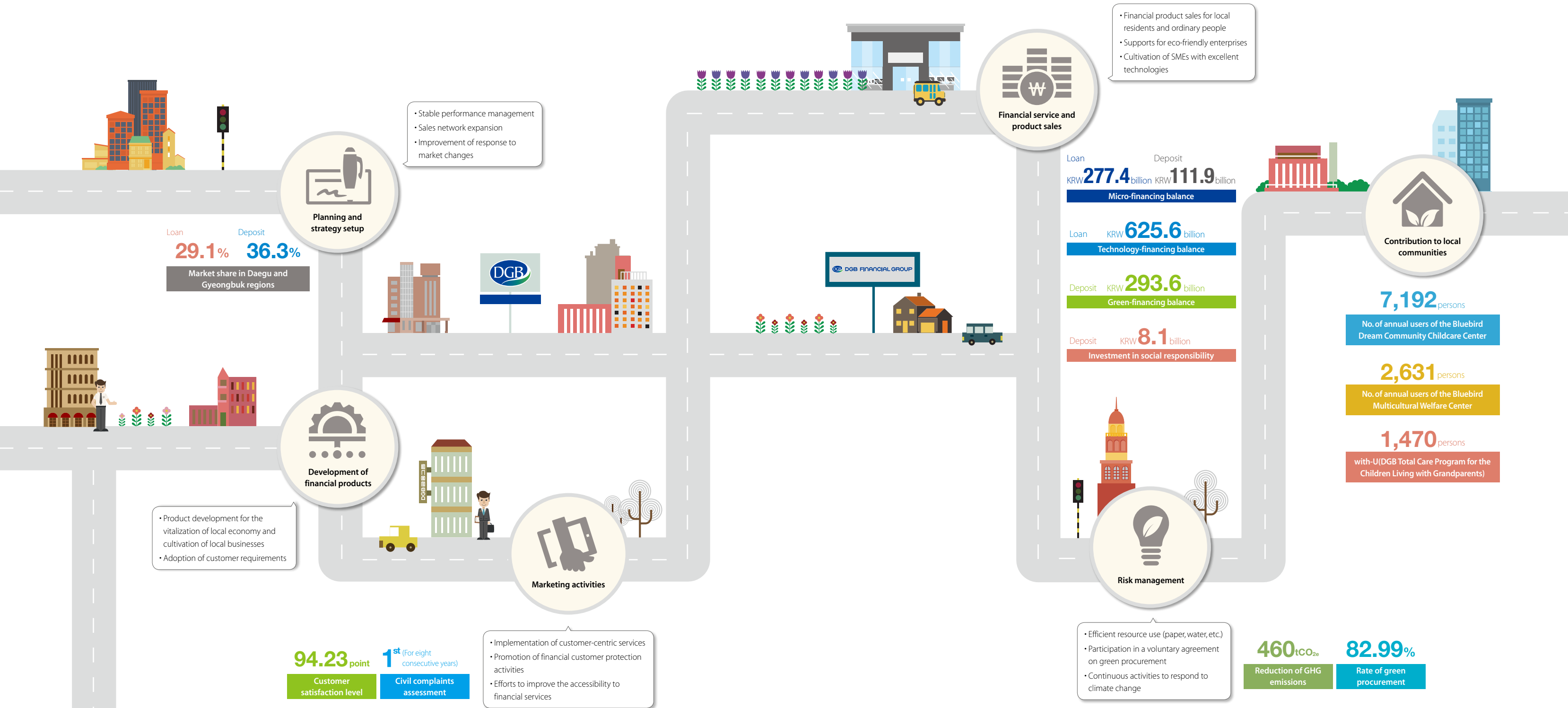
- Debt collection
- Credit investigation
- Lease investigation
- Civil affairs agency service



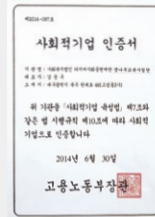
Business Model

Sustainable Value Chain of DGB Financial Group

DGB Financial Group's business models are interconnected through an impact value chain, which generates added value from management activities. This value chain spans from planning, strategy building, financial product development, marketing, and sales. These activities are closely correlated, thus generating direct and indirect values for the stakeholders of the Group.



10 Highlights in 2014-2015



First to obtain the social enterprise certification (Jun. 2014)

The Future Generation Education Project Group, established by DGB Social Contribution Foundation, obtained the social enterprise certification(No. 2014-097) from the Ministry of Employment and Labor for the first time in the banking industry.



Started the "New Smart Banking" service to lead the Fin Tech era (Dec. 2014)

Daegu Bank independently developed and launched the "New Smart Banking" service which helps customers use financial services more easily and comfortably on the basis of smart devices such as smart phone and tablet.



Signed an agreement on activating micro-finance with Daegu Credit Guarantee Foundation (Jul. 2014)

DGB Capital signed an agreement on activating micro-finance with Daegu Credit Guarantee Foundation with the aim of pursuing the development of local economy as well as solving financial difficulties of local SMEs and micro-enterprises.



Held the DGB Happiness Concert for senior citizens (Sep. 2014)

Daegu Bank held the '2014 DGB Happiness Concert' to provide elderly customers with supports for their post-retirement plans, which was one of various services under the 'DGB Happiness Partner.' DGB Happiness Partner is a social contribution brand launched by the bank in pursuit of becoming a companion to help its customers prepare for their elderly lives.



Executed capital increase in 15 years (Jan. 2015)

DGB Financial Group executed capital increase in 15 years to lay the foundation for sustainable growth and improve corporate value in the long term on the basis of stable financial structure. A total of 35 million shares were newly issued, through which KRW 315.4 billion was raised.



DGB Life Insurance started business. (Jan. 2015)

DGB Financial Group officially launched DGB Life Insurance in order to enhance its non-banking sector. DGB Life Insurance will play a role in diversifying profit sources of the Group, creating synergy among subsidiaries, and consequently helping the Group evolve into a comprehensive financial group.



Won the Presidential Citation in the sustainability management sector for the first time in Korea (Nov. 2014)

DGB Financial Group won the presidential citation in the sustainability management sector of the national quality innovation award which was newly set up in 2014 for the first time in Korea at the "40th National Quality Management Competition" ceremony.



Signed an agreement to organize and operate the Daegu/Gyeongbuk Local Council for Financial Education (Feb. 2015)

Daegu Bank signed an agreement to organize and operate the Daegu/Gyeongbuk Local Council for Financial Education in which 11 local administrative agencies and financial institutes including Daegu Metropolitan City, Daegu Metropolitan Office of Education, and Daegu Branch of Financial Supervisory Service.



Opens Ho Chi Minh Office in Vietnam (Dec. 2014)

Daegu Bank opened its Ho Chi Minh Office to proactively provide financial services to Korean companies in Vietnam, which was its second overseas office following Shanghai Office in China.



DGB Chairman Park, In-kyu was appointed as the director of Global Compact Network Korea (Mar. 2015)

Park In-kyu, Chairman of DGB Financial Group, was appointed as the director of the Global Compact Korea Network (GCKN) at the board meeting of the GCKN, first of its kind in domestic financial industry.

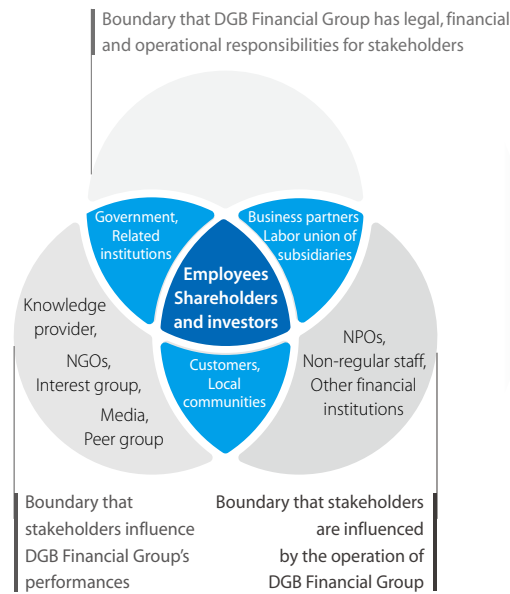
DGB Financial Group's Stakeholders

Stakeholder Engagement

Selection and Classification of Stakeholders

We selected our stakeholders in accordance with the criteria presented by the ISO26000 and then classified them into three major groups of core stakeholders, strategic stakeholders, and other stakeholders based on the levels of legal, financial, and operational responsibilities and those influences.

Stakeholder Group Mapping



Stakeholder Grouping



Stakeholder Communication Channel

DGB Financial Group always listens to stakeholders' opinions through diverse communication channels. Collected opinions are first reviewed by each responsible department. Critical issues that have tremendous influences on our Group are reported to the Board of Directors and the CEO in order to proactively reflect them in management activities.

Employees

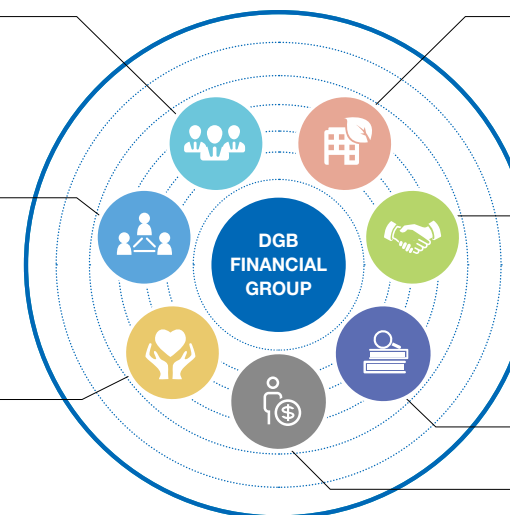
- Intranet
 - Help Page, Makeover Page
 - Letters for Hope from employees
- Employee satisfaction surveys
- Labor-management council meetings and conferences

Shareholders & Investors

- DGB Financial Group Website (DGB IR page)
- General Shareholders' Meeting
- Board of Directors Meeting
- IR activities
 - Corporate presentations
 - Conference calls

Customers

- DGB Financial Group affiliates' websites
- CEO Forums (Daegu, Gumi, Pohang and Gimcheon)
- Meetings with honorary branch managers
- Meetings with the CEOs from outstanding SME customers
- Business consulting services



Local Communities

- DGB Financial Group affiliates' websites
 - DGB's social contribution
- Daegu Bank's corporate citizenship report
- DGB Volunteer Corps
- Love Your Hometown Campaign
- DGB University Student Green Press Corps

Business Partner

- DGB Financial Group affiliates' websites
 - Internet civil petitions
 - Financial incidents
 - Report on irregular financial activities
- Meetings with business partners

NGOs, Interest Groups, Media

Other Financial Institutions, Non-regular Workers, NPOs

Major Stakeholder Opinions and Our Responses in 2014

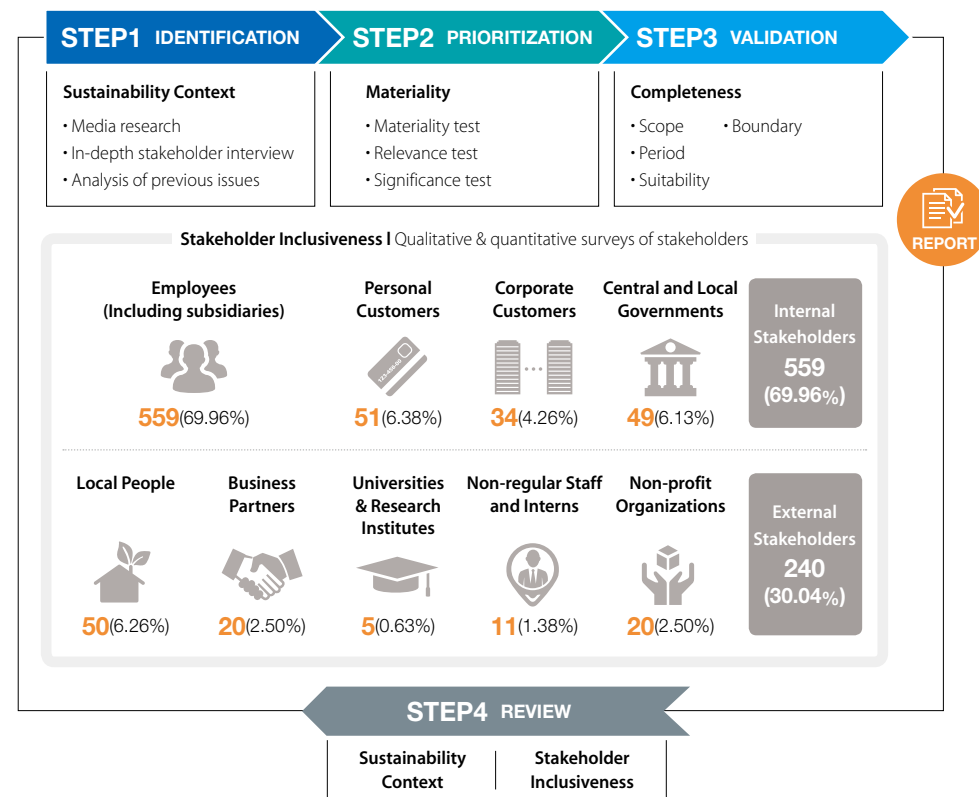
	Issues raised	Our response
Employees	<ul style="list-style-type: none"> • Group-wide strategy and proactive market expansion • Enhancement of product and service competitiveness • Improvement of employees' competency and satisfaction 	<ul style="list-style-type: none"> • Entrance into the southeast of Korea and Gyeonggi-do • Securing future competitiveness by launching the Future Finance HQ • Independent operation and capability enhancement of the HR Development Division
Subsidiaries	<ul style="list-style-type: none"> • Raising the awareness of life insurance inside and outside the Group • Establishing and practicing nationwide customer differentiation strategies 	<ul style="list-style-type: none"> • Win-win strategy through creating synergy among subsidiaries • Expansion of strategic target areas by building on DGB's existing networks and brand loyalty
Customers	<ul style="list-style-type: none"> • Improvement of communication • Measures to invigorate SMEs in Daegu • Expansion of social contribution activities 	<ul style="list-style-type: none"> • Collection of customer opinions through the 'DGB Good Opinion Advisory Panel' • Development and sale of financial products for SMEs and ordinary people
Business partners	<ul style="list-style-type: none"> • Securing financial technology infrastructure and capability to cope with external risks • Laying the foundation for shared growth with business partners 	<ul style="list-style-type: none"> • Establishment of non-financial risk management plans • Collection of business partners' opinions and deduction of improvements • CSR educations for business partners to enhance their competitiveness
Knowledge providers	<ul style="list-style-type: none"> • Promotion of strategies for business growth • Implementation of social contribution activities that capitalize on our business characteristics 	<ul style="list-style-type: none"> • Profitable growth by business diversification, new profit source development, and synergy creation among subsidiaries • Operation of the Finance Museum and financial education programs and provision of free legal services to local SMEs
Local communities	<ul style="list-style-type: none"> • Cultivation of local talents through diverse educations • Investment in local communities and more supports for financially disadvantaged groups • Shared growth with local communities 	<ul style="list-style-type: none"> • Operation of financial education programs, a volunteer group of university students 'With-U,' and a green press corps, and supports for local talent cultivation and educational progress including the opening of 'DGB LAB' at Luntebin middle school in Vietnam • Job creation and supports for financial independence by operating the 'Future Generation Education Project Group,' and 'Bluebird Senior Happy Workplace' • Employees' talent donation, scholarships, donations to the underprivileged, and environment preservation activities

Materiality Analysis Process and Results

DGB Financial Group identified material issues with respect to sustainability management in accordance with materiality test procedures recommended by the ISO26000, GRI G4 Guidelines and IIRC. The report content was structured based on selected material issues, with a particular focus on issues of high concern to our stakeholders and those with a high impact on the Group's management strategies and goals.

Materiality Analysis Process

We conducted analysis on internal and external environment and materiality of issues based on the four principles of sustainability context, materiality, completeness and stakeholder inclusiveness.



Identification of sustainability management issues through internal and external environmental analysis

- Media Analysis:** Analyzed 10,881 valid articles released from 2011 through 2014 in order to figure out the public recognition of the Group.
- In-depth stakeholder interview:** Carried out in-depth interviews with 7 stakeholders representing each stakeholder group in order to identify detailed sustainability issues
- Benchmarking:** Checked material issues that domestic and foreign peer groups had reported
- Compliance with ISO26000:** Conducted diagnosis of the compliance with ISO26000 to draw issues which was unsatisfactory for the guideline

Step 1

Prioritization of material issues through materiality analysis

- Relevance test:** Drew a total of 61 issues by evaluating the relevance among sustainability issues identified through internal and external environment analysis and in-depth stakeholder interviews
- Significance test:** Implemented an online survey of 799 stakeholders for 8 days from February 6 to 8, 2015 and selected 30 material issues by prioritization process

Step 2

Verification of the effectiveness

Holding a TFT workshop to verify the significance of the selected 30 material issues, we determined the reporting level of core issues in terms of scope, boundary, and period, and established a reporting plan.

Step 3

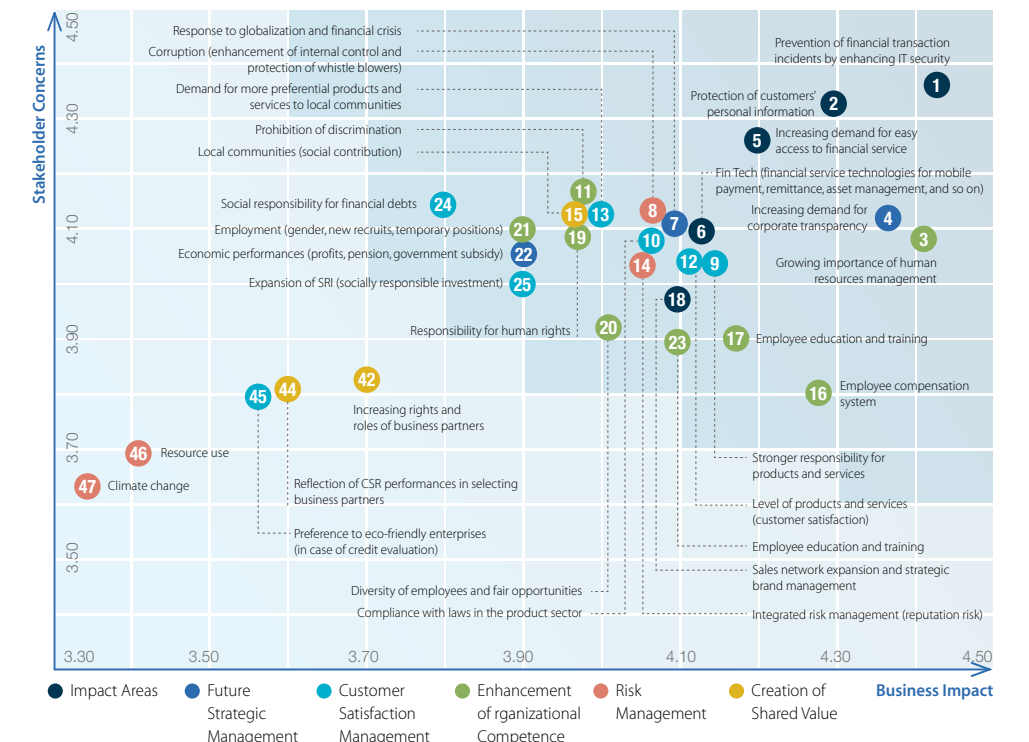
Review

We collected stakeholder feedbacks on the previous year's sustainability report and external institutions' recommendation based on the ESG evaluation. Those were reflected in this report.

Step 4

Materiality Analysis Results

We selected a total of 30 material issues consisting of 25 issues that scored an average of 3.97 points or higher through the materiality analysis and additional five issues related to 'Co-prosperity with Business Partners' and 'Enhancement of Environmental Management' which are strategically managed at the Group level. Those material issues were mainly addressed in this report. Meanwhile, our employees and stakeholders showed a lot of interest in 'Protection of Private Information,' 'Sound Governance,' and 'Creation of Customer Value' through the analysis in 2014.



Changes of Material Issues

Issue	2013	2014	Rank
Increasing demand for corporate transparency (transparency/ethical management)	3	4	▼1
Growing importance of human resources management	4	3	▲1
Stronger responsibility for products and services	5	9	▼4
Increasing demand for easy access to financial service (internet bank and integrated branches)	New issues		
Fin Tech (financial service technologies for mobile payment, remittance, asset management, and so on)	New issues		
Local communities (social contribution)	6	15	▼9
Expansion of SRI (socially responsible investment)	9	25	▼16
Demand for more preferential products and services to local communities (interest rate and counter service, etc.)	New issues		
Integrated risk management (reputation risk)	New issues		
Employee education and training	16	23	▼7
Prohibition of discrimination	28	11	▲17
Responsibility for human rights	29	19	▲10
Reflection of CSR performances in selecting business partners	31	27	▲4

Materiality Analysis Process and Results

Key Sustainability Issues in 2014

We structured the content of the report on the basis of 30 material issues in line with the Group's CSR strategies and drew reporting themes through mapping familiar issues. The following table shows the priority of material issues and their relevance.

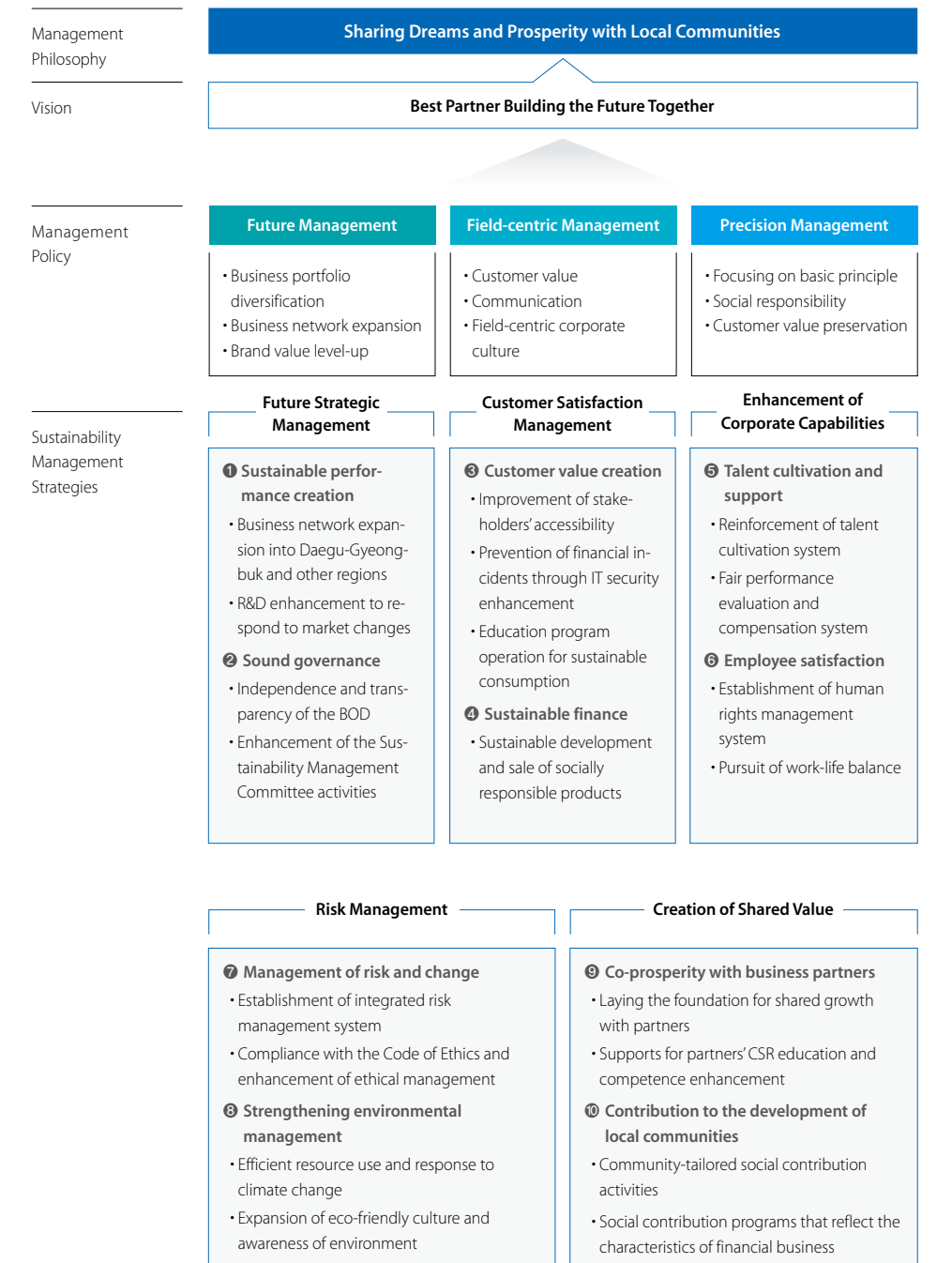
Priority of Material Issues and Reporting Contents

Category	Strategy	Material issues	Rank	Page
Impact Areas: Zoom-In DGB	Launch of DGB Life Insurance	Sales network expansion and strategic brand management	18	25
	Customer Privacy Protection	Prevention of financial transaction incidents by enhancing IT security	1	26
		Protection of customers' personal information	2	26
	Future Finance	Increasing demand for easy access to financial service	5	28
Fin Tech (financial service technologies for mobile payment, remittance, asset management, and so on)		6	28	
Future Strategic Management	Creation of Sustainable Performances	Economic performances (profits, pension, government subsidy)	22	33
		Response to globalization and financial crisis	7	34-35
	Sound Governance	Increasing demand for corporate transparency	4	36
Customer Satisfaction Management	Creation of Customer Value	Level of products and services (customer satisfaction)	12	41
		Compliance with laws in the product sector	10	42
	Sustainable Finance	Stronger responsibility for products and services	9	46
		Expansion of SRI (socially responsible investment)	25	47
		Demand for more preferential products and services to local communities	13	47
		Social responsibility for financial debts	24	47
Enhancement of Organizational Competence	Talent Cultivation and Support	Preference to eco-friendly enterprises (in case of credit evaluation)	45	49
		Growing importance of human resources management	3	53
		Employment (gender, new recruits, temporary positions)	21	54
	Employee Satisfaction	Employee compensation system	16	56
		Employee education and training	23	55
		Improvement of employee satisfaction (GWP)	17	59
Risk Management	Management of Risk and Change	Diversity of employees and fair opportunities	20	56
		Corruption (enhancement of internal control and protection of whistle blowers)	8	66
	Enhancement of Environmental Management	Responsibility for human rights	19	60
Climate change		47	70	
Creation of Shared Value	Co-prosperity with Business Partners	Prohibition of discrimination	11	58
		Resource use	46	71
	Contribution to the Development of Local Communities	Integrated risk management (reputation risk)	14	63
		Local communities (social contribution)	15	77

Sustainability Management Strategy

In order to realize the management philosophy of "Sharing Dream and Prosperity with Local Communities" and the vision of being "The Best Partner for the Future", DGB Financial Group set up five strategic directions and 10 strategic initiatives that are linked to the group-wide direction and the sustainability management strategy. In an effort to carry out the initiatives, the Group has drawn up specific sub-plans to be implemented and is managing the status of implementation with the systemic achievement indicators from the stage of setting objectives.

Strategic Direction of DGB Financial Group's Sustainability Management








Sustainability Management Implementation System

In commemorating the 10th anniversary of the Sustainability Management Proclamation, DGB Financial Group aims to re-evaluate its sustainability management system and action plans that have been implemented so far and add further improvements

Based on the issues brought up in the due course of the Significance Evaluation, 10 strategic tasks and 20 specific action plans were drafted to better cope with major potential risks, capitalize on opportunities, and bolster the executive power.

Implementation System of DGB Financial Group's Sustainability Management

CSR Strategic Direction	Strategic Tasks	Action Plans	KPI	Achievement Status				Risk & Opportunity	
				2013	2014	Achievement Rate (%)	2015 (P)	R Risk	O Opportunity
 Future Strategic Management	Sustainable Performance Creation	Business network expansion into Daegu-Gyeongbuk and other regions	Market share in Daegu-Gyeongbuk (Loan/Deposit) (%)	29.0/36.2	29.1/36.3	97.0/98.1	29.5/36.5	R • Requirements on stable value creation under the changes in business environment • Response to globalization and financial crisis O • Securing new growth engines through business diversification • Expanding business network by entering the global market R • Increasing requirements on corporate transparency • Requirements on promoting sustainability management with sincerity O • Laying the foundation for sustainable growth by securing sound governance • Securing capabilities to promote sustainability management at the group level	
		R&D enhancement to respond to market changes	NEW No. of domestic and overseas branches	253	257	100	259		
	Sound Governance	Independence and transparency of the BOD	BIS capital adequacy ratio (%)	15.06	12.92	102.5	13.38		
			NEW No. of research reports published	28	35	100	38		
		Enhancement of the Sustainability Management Committee activities	Percentage of outside directors (%)	71.4	71.4	100	71.4		
			BOD attendance rate (%)	100	100	100	100		
 Customer Satisfaction Management	Customer Value Creation	Improvement of stakeholders' accessibility to services	No. of VOC handlings	135	86	100	70	R • Increasing personal information leakage risk • Increasing requirements on financial customer protection O • Ensuring safe transactions and mutual trust • Increasing customer trust and reputation through preventing financial accidents R • Losing capabilities to respond to requirements on enhancing socially responsible finance • Laying the groundwork for creating new profit sources in line with tightening socially responsible finance R • Weakening employee satisfaction and increasing turnover rate of talents • Decreasing job efficiency and productivity O • Improving employee satisfaction by enhancing personal career development • Strengthening corporate competency by establishing a culture of fair competition R • Causing vulnerability of human rights and social risks • Weakening loyalty to the company by the decline of employee satisfaction O • Increasing corporate reputation by conducting management based on human rights • Improving productivity through enhancing employee satisfaction R • Bringing about business risks by unsuitable risk management system • Exposing to overall risks due to the impossibility of efficient management O • Laying the foundation for comprehensive asset quality improvement • Driving sustainable growth with the establishment of a culture of business ethics R • Increasing costs due to the exposure to environmental risks and inefficient resource use • Exposing to environmental risks due to resource waste and a rise of carbon emissions O • Raising corporate image by efficient resource management and preemptive response to climate change • Building a corporate image that pursues efficient resource control and environmental management R • Increasing demands for shared growth with business partners • Undermining the foundation for cooperative partnerships O • Strengthening corporate image through pursuing shared growth with business partners • Preparing a new foundation for co-prosperity with business partners R • Increasing demands from the local communities • Unsatisfactory performances compared to costs due to general contribution activities O • Building a solid fiduciary relationship for co-prosperity with the local communities • Preparing new profit sources through creating shared value by capitalizing on business nature	
		Prevention of financial transaction incidents by enhancing IT security	No. of personal information leakages	0	0	100	0		
		Education program operation for sustainable consumption	Civil complaint evaluation level	1	1	100	1		
	Sustainable Finance	Sustainable development and sale of socially responsible products	NEW Publication of the customer protection report (times)	4	4	100	4		
			NEW Operation of financial education program (times/hours)	122/10,650	139/7,513	106.9	140/7,900		
			Percentage of loans to SMEs (%)	63.0	63.5	99.2	65		
 Enhancement of Organizational Competence	Talent Cultivation and Support	Reinforcement of talent cultivation system	Small loans (KRW in billions)	1,979/511	2,774/1,119	92.5/74.6	3,400/2,000		
		Fair performance evaluation and compensation system	NEW Supports for technology financing (KRW in billions)	-	625.6	-	700		
	Employee Happiness	Establishment of human rights management system	NEW Education on human rights per capita (times)	52	52	100	52		
			Pursuit of work-life balance	Employee satisfaction (points)	90	90	98.9	92	
		Rate of occupational accidents (%)	0	0	100	0			
			 Risk Management	Management of Risk and Change	Establishment of integrated risk management system	NEW Holding the Risk Management Committee (times)	8	6	100
Compliance with the Code of Ethics and enhancement of ethical management	Average ethics education per capita (times)	65			69	100	69		
Enhancement of Environmental Management	Efficient resource use and response to climate change	No. of corruptions and law violations (cases)		0	0	100	0		
		Water consumption (m ³)	174,518	166,938	103.9	165,000			
		Paper consumption (tons)	119.3	126	99.2	129			
		GHG emissions (Scope 1+2) (tCO ₂ e)	17,991	18,167	-	17,986			
		NEW Rate of green procurement (%)	83.27	82.99	99.1	84.0			
 Creating Shared Value	Co-prosperity with business partners	Expansion of eco-friendly culture and awareness of environment	NEW No. of participants in environmental education (persons)	2,926	2,852	99.9	2,860		
		Supports for partners' CSR education and competence enhancement	NEW Green Press Corps (persons)	8	8	100	8		
		NEW Business Partners Council (times)	1	1	100	1			
	Contribution to the development of local communities	Community-tailored social contribution activities	NEW Handling of business partners' grievances (%)	100	100	100	100		
			NEW Business partners' satisfaction (points)	92	95	101	94		
			NEW Educations for business partners (times)	1	1	100	1		
Social contribution programs that reflect the characteristics of financial business	Social contribution programs that reflect the characteristics of financial business	Social contribution expense to net income (%)	9.7	11.3	116.5	9.0			
		No. of participants in volunteer services	22,208	22,182	100.8	22,300			
		No. of firms that received management consulting services from DGB Financial Group	67	74	105.7	75			

IMPACT AREAS

Zoom-in DGB

ISSUE 1 Launch of DGB Life Insurance

ISSUE 2 Customer Privacy Protection

ISSUE 3 Future Financing



ISSUE 1

Launch of DGB Life Insurance

Material Issues of 2014

- Sales Network Expansion and Strategic Brand Management

Q Why was the launch of DGB Life Insurance singled out as a major issue, and how will DGB Life Insurance affect DGB Financial Group as a whole?

A In Nov. 2014, DGB Financial Group acquired the stakes of NongHyup (NH) Financial Group in Woori Aviva Life Insurance and renamed it DGB Life Insurance, proclaiming the official launch of its 6th subsidiary after appointing a new CEO. It was significant to the Group as the new subsidiary enabled the operation of a nation-wide branch network by a region-based bank for the first time in Korea; and it was also the first entry into insurance business for the Group. About 95% of the group revenue used to come from Daegu Bank, but, with DGB Life Insurance up and running, up to 12% of the revenue is now being generated from the non-banking sector. We have been able to diversify the sources of income and create new synergy among affiliates. All this will serve as a foothold for another round of take-off as a truly comprehensive financial group.



Q Please tell me more about the status and sales activities of DGB Life Insurance.

A We should say the business of DGB Life Insurance was launched back in 1988, then with the name of Busan Life Insurance. Later on, the company had to change its name from Hansung to Lucky, and to LIG whenever it had new owners. Now, with its long business history for more than 27 years, DGB Life Insurance has begun to make a renewed growth to become a life insurance company loved by all, regardless of regions or generations, as part of DGB Financial Group; it was incorporated into the Group as of Jan. 2015. DGB has KRW 5.0865 trillion in assets with 38 branches in 14 regions nationwide, employing a total of 250 workforces and 1,000 insurance planners. The corporate vision of DGB Life Insurance is to be a "Life Partner Trusted by Customers". To come closer to the vision, we are pushing 3 major missions selected for this year: choosing, focusing, and securing strategically important regions; developing customer-tailored products and providing superior services; and pursuing sustainable growth through smart management control.

Management Philosophy

- Corporate Philosophy: Sharing Dream and Prosperity with Local Communities
- Vision: Life Partner Trusted by Customers
- Mission: To promote customers' financial, physical, and psychological security
- Core Value: Service, Integrity, and Passion

Q What are the key strategies and plans of DGB Life Insurance for 2015?

A We will take Daegu and Gyeongbuk as key posts since the brand "DGB" has a better awareness in the two areas with a loyal customer base. Thanks to bancassurance (the selling of insurance products by a bank to its customers), we aim to earn KRW 1.9 billion in net profit. The Group will create a win-win strategy to maximize synergy, and will focus more on developing the next key posts to raise DGB brand awareness.

Interview



Regional financing leads to a generation of new income source and a new round of donation. In other words, it contributes to the economic, social, and environmental development of the region, either directly or indirectly. To become a sound financial institution enhancing the quality of life of all the residents in Korea, it should improve the organizational culture to better respond to changes outside; it should maximize synergy among affiliates, and should keep focusing on developing more competitive strategies and products. I expect DGB Financial Group to emerge as a key player to financially support each and every person in Korea.

Park, Jae-seok, Dept. Head / DGB Life Insurance

ISSUE 2

Customer Privacy Protection

Material Issues of 2014

- IT Security Enhancement / Financial Transaction Fraud Prevention
- Privacy Protection



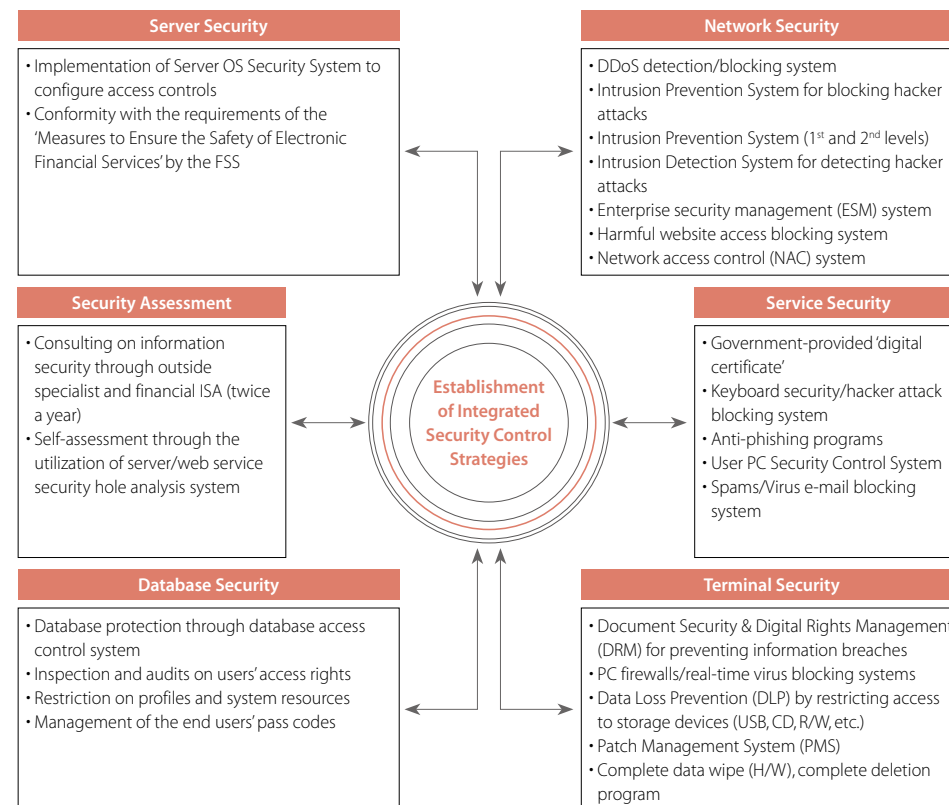
Q Why was it singled out as a material issue?

A It's hard to think of our daily lives these days without online or mobile financial services. With the development of IT-based services, financial fraud evolved to be more sophisticated, and as a result, more people are now being exposed to the experiences of various financial frauds such as phishing, smishing and pharming and so on. Now, we know the hard fact that every financial service user is inevitably exposed to the risk of financial fraud; it is extremely stressful as we might lose our money unwittingly. Financial service providers are supposed to control private information thoroughly as they usually store a great deal of personal/credit information. In a nutshell, privacy protection should be the top priority of financial companies, and only doing so will relieve online/mobile financial customers.

Q What are the things that DGB Financial Group does to prevent identity theft and financial fraud?

A DGB has implemented a diverse range of actions to protect personal information and the rights of customers. We obtained BS7799 in 2003 and ISO27001- a certification with stricter requirements- in 2006. We also appointed Chief Information Security Officer (CISO) in 2011; CISO has been responsible for any security issues since. Cyber security has been tightened up to prevent electronic financial fraud, which is growing smarter day by day. In 2014, we streamlined the conventional ID number-based system and turned it into a next-generation one in the revision of the Personal Information Protect Act. In terms of mobile banking, we enabled the customers to designate a picture as a security image and have it displayed on the front page of the Bank; this is to distinguish the real Bank's page from the fake ones- a protection against malicious apps misleading customers into the fraud page. And, by improving the Certificate Center, the certificates can be stored inside the apps, not under a shared folder (NPKI), to prevent identity theft and to enhance the security level.

Daegu Bank Information Security System



Q Did the Group ever experience financial fraud due to personal information leaks last year?

A. We have had ZERO identity theft cases since 2006. In order to tightly control personal information, we periodically check the system and monitor it 24/7 in collaboration with the Korea Financial Telecommunications and Clearings Institute. We nip any financial fraud in the bud by improving PC-based programs, computer vaccines, and other document security solutions.

Q Tell me about your plans for offering a more convenient and safer financial service and for promoting the rights and interests of financial consumers?

A. DGB is now in the stage of developing the Fraud Detection System (FDS), which can be used to detect and analyze any suspicious transactions such as illegal money transfer and wrongful use of credit cards. The FDS will be finalized and implemented by the first half of 2015. We will continue to make the conventional information protection system more sophisticated and raise its operational efficiency, and ultimately build the most optimized system for banks. With such a system in service, customers will be relieved and be able to use financial services safely.

Leakage of Customers' Person Information

Category	2006~2011	2012	2013	2014	2015 (P)
No. of leakages	0	0	0	0	0

Interview



In order to outperform other players in an ever-more competitive environment, the bank should give special care to local communities. By improving customer access such as the teller's services, they can build a solid customer base. What matters most, however, is to let people know of the efforts of DGB Financial Group to secure the safety of its financial transactions and keep trying to communicate with the stakeholders. I hope DGB Financial Group can be an exemplary case of local banking business, carrying out various sustainability management missions such as a strategic brand management and the support for the financially-alienated.

Kim, Jong-gu, CEO / Finetech Co., Ltd. / Customer

ISSUE 3

Future Finance

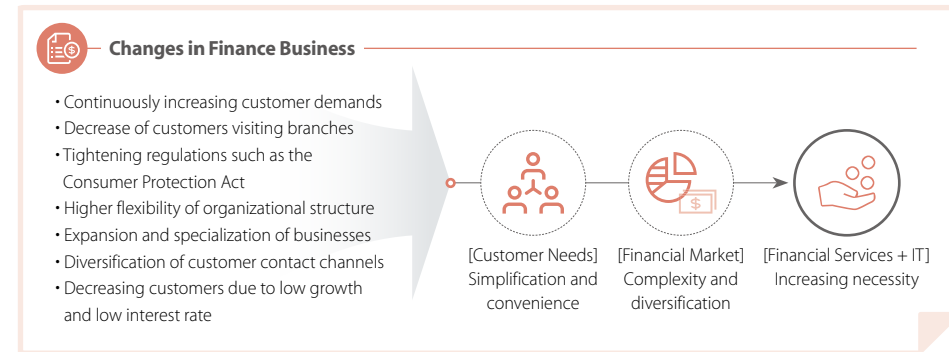
Material Issues of 2014

- Mounting demand for Better Access to Financial Services
- FinTech

Q What makes “future finance” one of the material issues?

A FinTech* and smart financing with advanced ITs are the next big thing in the world of future-banking business. A growing number of people use mobile financial services, while the number of customers visiting branches keeps declining. As a result, we see new forms of services, such as mobile branches to reach customers, wherever they are. In order to secure the corporate competitiveness, we should preemptively respond to new waves of trend in the financial world and try harder to develop a new growth engine for DGB Financial Group.

* FinTech: Coined with “financial” and “technology.” It indicates new waves of IT-based financial services such as mobile payment/transfer, mobile personal asset management, and crowdfunding.



Q What are the strategic approaches that you have prepared to respond to the rapidly changing financial environment?

A In Dec. 2014, DGB Financial Group set up “Future Banking Business Unit” in a proactive effort i) to better respond to Fintech needs including the mobile payment services that have gained the market attention as a next-generation cash cow, and ii) to reinforce sales via distance selling channels. The unit was later united with another loan-related dept. to form “Loan Business Unit” whose main mission is to find new sources of income for the future. In addition to this, a new TFT named “Future Finance Response Council” was formed at the group level to continue to develop ideas on the future finance; the TFT consists of 12 professionals from different internal departments (e.g. Banking Strategy, Marketing, and IT) and other affiliates such as DGB Data System and U-payment.



Q Please tell me briefly about the future-oriented financial services pushed by DGB recently?

A To promote field-oriented sales further, DGB is expanding its tablet-based branch network, in addition to existing mobile banks and portable branches. It’s easy to carry and use. You can go and see your customers simply with a tablet branch. DGB has 14 main branches in the local area currently. With the field-tested tablet branches, the Bank plans to increase its sales. Sales through distance selling channels such as Smart Bank, Loan Centers, and BankWalletKakao will rise as well.

Channels	Description
Tablet Branch	<ul style="list-style-type: none"> • Go and see the customers with tablet PCs and consult them about (installment) savings, and loans. • We should improve its sales support function to reinforce outbound marketing.
BankWalletKakao (Simple version)	<ul style="list-style-type: none"> • This added various payment services (e.g. exchanging BankMoney between friends, sending Kakaotalk gift) to the existing BankWallet service. • We should increase its customer base by preempting smart-phone payment service market.
Smart Bank Service	<ul style="list-style-type: none"> • Web-based hybrid service that can be used across IT gadgets including Android-based smart phones and tablet PCs, and iPhones/iPads. • Two kinds of mobile apps of DGB are available: one for individuals and the other for businesses. This first-ever two-track service as a local bank was designed to better support the needs of businesses.
Loan Center	<ul style="list-style-type: none"> • Via Loan Center, customers who can hardly visit branches may take out the internet loans.

Q Tell me about your plans to deliver a more convenient service to customers by adopting advanced financial techniques?

A Under the strategy called “Smart Fast Follower (2F)” set for 2015, we are concentrating our capability into developing new business models at the group level by benchmarking success/failure stories of other financial service companies. To enhance the customer value, we have also reviewed multiple ways such as introducing Beacon (short-distance wireless) system, establishing a consulting knowledge management system of the customer center, and building specialized sales branches. With a specific strategy set for each phase, we are going to fulfill our role as a fast follower of the future financing.

Interview



Now, any business in the non-financial sector may start financial services and the overall financial market environment is rapidly changing recently. That results in fiercer competition, more complex ways of business, and more diversified financial products. In order to respond to such shifts, I believe the Group should make itself distinctive, on a basis of relationship banking, with newly-developed regionally-engaged services and products. And, it should also take Smart Finance as a new opportunity to aggressively expand its market and customer base beyond the local area. To that end, small-but-strong businesses should be further nurtured, and fair practice in lending loans should be promoted. Financial products contributing to the public good and environment should be developed and launched. With all this in the background, the Group should fulfill its social responsibility as a financial institution (e.g. privacy protection); then, it will secure the customer trust and competitiveness of the Group. I have much expectation over the diversification strategy and synergy with DGB Life Insurance. But it will only be possible when it unfolds based on sustainable finance. I hope DGB Financial Group will stand firm as a truly glocal (global+local) institution as well as a leading company contributing to the local community.

Lee, Jong-oh, Secretary General / Korea Sustainability Investing Forum (KOSIF)

STRATEGY & PERFORMANCE

01

Future Strategic Management

Sustainable Performance 33
Sound Governance 36



02

Customer Satisfaction Management

Customer Value Creation 41
Sustainable Finance 46



03

Enhancement of Organizational Competence

Talent Cultivation and Support 53
Employee Happiness 57



04

Risk Management

Management of Risk and Change 63
Enhancement of Environmental Management 67



05

Creation of Shared Value

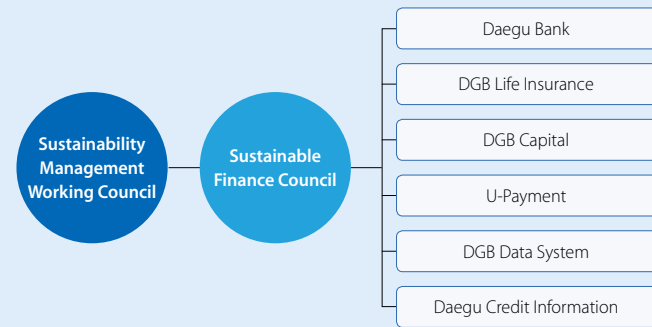
Co-prosperity with Business Partners 75
Contribution to the Development of Local Communities 77



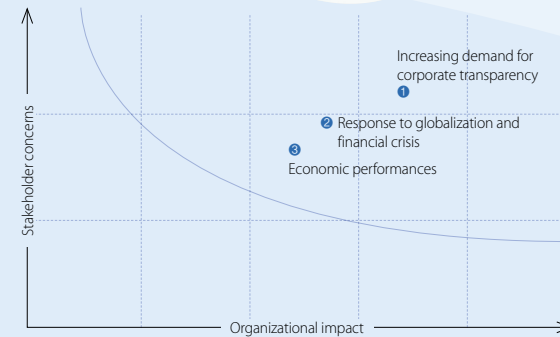
01 Future Strategic Management



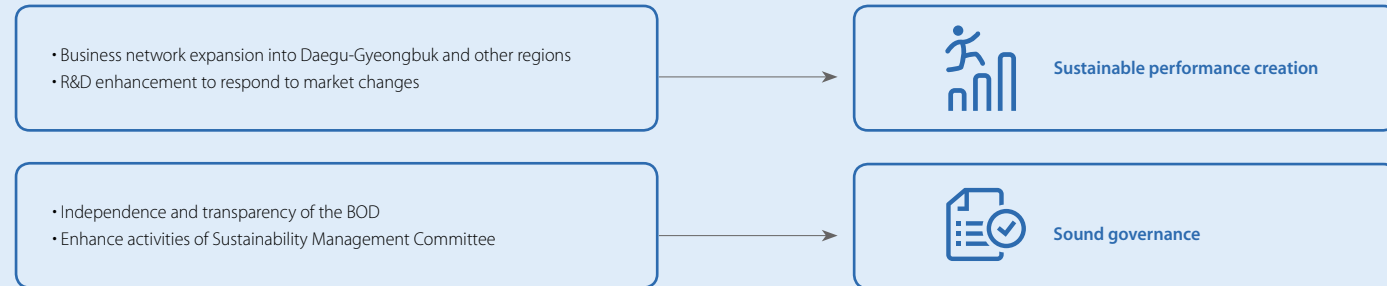
Implementation System



Material Issues



Strategic Direction



Major Performances

Category	Key Tasks	KPIs	Activities				
			2012	2013	2014	2015 (P)	
Sustainable Performance Creation	Business network expansion into Daegu-Gyeongbuk and other regions	Market share in Daegu-Gyeongbuk (%) (Loan)	29.2	29.0	29.1	29.5	
		(Deposit)	35.2	36.2	36.3	36.5	
		No. of domestic and overseas branches (Domestic)	246	252	256	258	
		(Overseas)	1	1	1	1	
Sound Governance	Independence and transparency of the BOD	BIS capital adequacy ratio (%)	15.57	15.06	12.92	13.38	
		Percentage of outside directors (%)	83.3	71.4	71.4	71.4	
		BOD attendance rate (%)	95	100	100	100	
		Enhancement of the Sustainability Management Committee activities	No. of the working-level committee operations	4	4	4	5
			No. of agendas voted by the Committee	4	4	5	6

Sustainable Performance



CONTEXT & CHALLENGES



Sustainable growth and profit generation allows DGB Financial Group to deliver better financial benefits to our stakeholders. It also helps us to expand our business areas and corporate infrastructure, and to make investments in local communities. We have continued to achieve quantitative and qualitative growth through solid financial performance and expansion of the network internally and externally. This enabled us to share the profits from it with shareholders, investors, our employees, business partners, local communities and other DGB stakeholders.

OUR PROGRESS

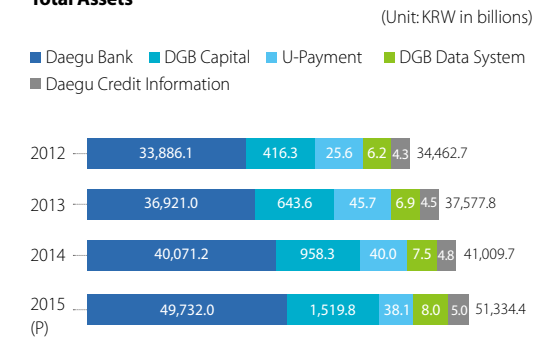


Solid Financial Performance

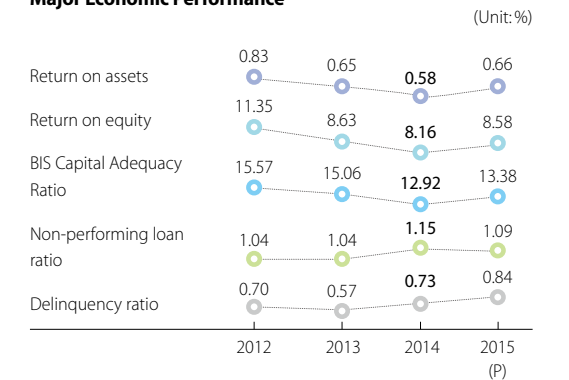
Key Achievements in 2014

Facing challenges such as low growth & low interest rates, and internal & external uncertainties, we could not see tangible signs of recovery in our growth and profitability. However, our mortgage and small-and medium-sized enterprises (SMEs) lending increased relatively high thanks to the gradual economic recovery, the efforts of the banking sector to offer mid-term loans to those with good credit histories, the government's support programs for SMEs and the improvement in the housing sector. These enabled us to generate secure financial performances with 0.58% of ROA, 8.16% of ROE, KRW 41.0097 trillion of total asset size, and KRW 243.8 billion of net income in 2014.

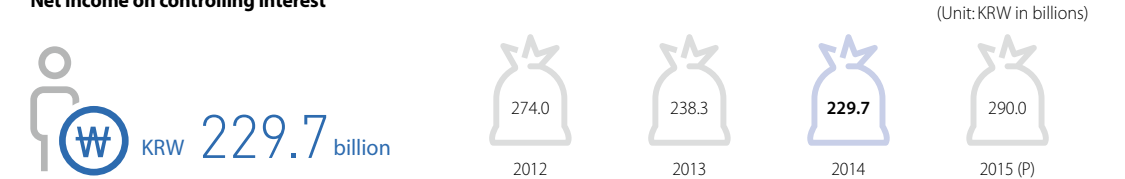
Total Assets



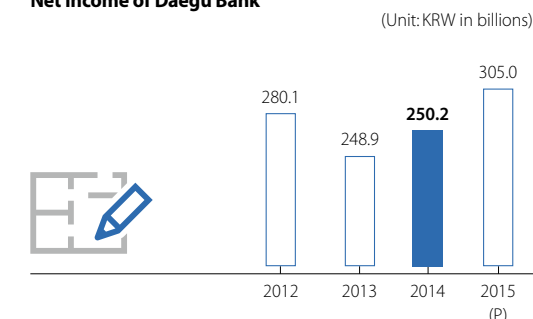
Major Economic Performance



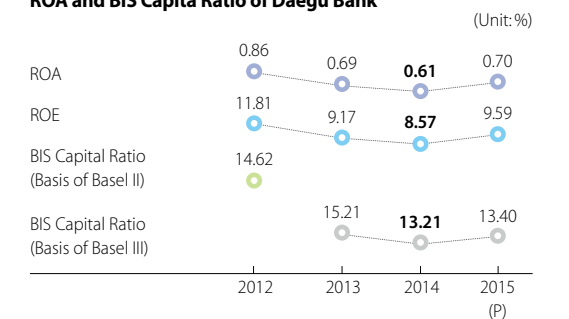
Net income on controlling interest



Net Income of Daegu Bank

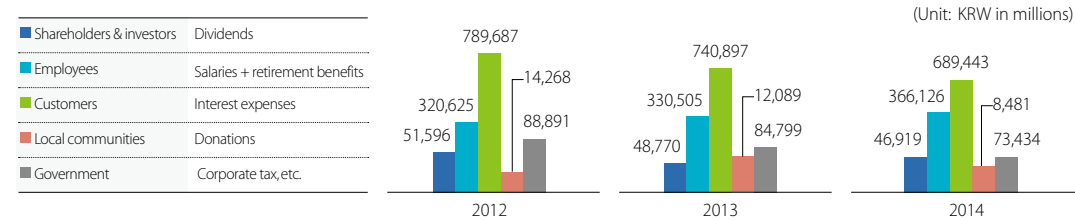


ROA and BIS Capita Ratio of Daegu Bank



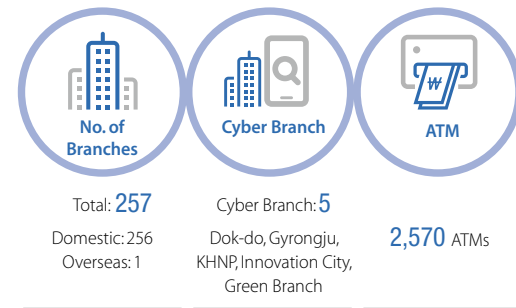
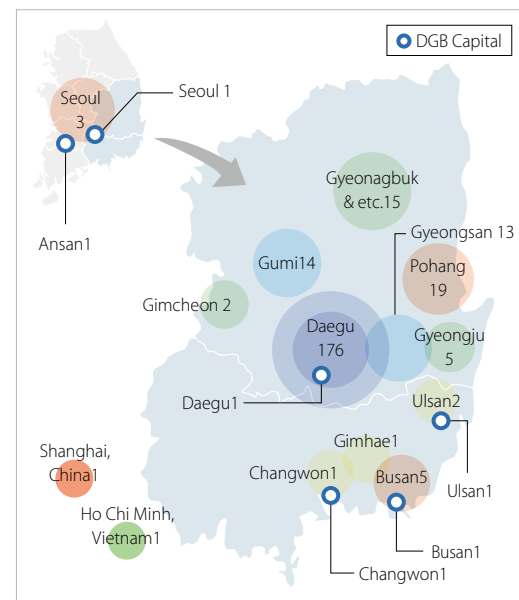
Distribution of Economic Value to Stakeholders

DGB Financial Group distributes its economic value created from business activities to various stakeholders including shareholders, investors, employees, business partners, and local communities.



Expansion of Business Network

DGB Financial Group has continued to expand the network by opening new branches in Daegu & Gyeongbuk area, other domestic cities & provinces, and overseas countries to make our financial services more accessible. We are also producing stronger business synergy among DGB Capital and our other affiliates. As part of our efforts to broaden the business network, we established a Shanghai branch in December 2012, which went into black after the first 21 months of operation. Following the good news, another overseas branch was opened in Ho Chi Minh City (HCMC), Vietnam December 2014. The HCMC office is poised to provide Korean residents in the country with convenient high-level financial services.



- Branch: 256 in Korea/1 in Shanghai
- Overseas Office: Ho Chi Minh in Vietnam (launched in 2014)
- Cyber Branch: 5 (Dok-do, Gyeongju, KHNP, Innovation City, Green Branch)

Market Share in Daegu-Gyeongbuk (Unit: %)

Category	2012	2013	2014	2015 (P)
Loan	29.4	29.0	29.1	29.5
Deposit	35.1	36.2	36.3	36.5

Expansion of 'Financial Belt' in Southeastern Area

DGB Financial Group is working aggressively on luring potential customers in Southeastern part of Korea by opening new branches in Gimhae and Changwon, the cities in South Gyeongsang Province. Daegu Bank, for instance, set up its second Gyeongnam branch in Gimhae on July 9, 2014, while DGB Capital opened a new branch in Changwon on the same day. Now, Daegu Bank has total nine branches in Southeastern area with five in Busan, two in Ulsan, and the others in Gyeongnam area. DGB Capital is also expected to meet various financial needs in Gyeongnam area through its newly established Changwon branch as well as the ones in Daegu, Busan, and Ansan.

Launch of a HCMC Representative Office

On December 3, 2014, Daegu Bank had an opening ceremony for its HCMC representative office with around 100 guests from the local communities. HCMC is the largest city in Vietnam with a population of approximately 9 million. Among them, nearly 90,000 are Koreans. The City is considered to be one of the most



promising markets in Asia thanks to its high growth potential. It is natural that the Korea-Vietnam FTA has been concluded. Compared to other Southeast Asian countries, Vietnam has the highest number of Korean regional companies. The Southeast Asian country is expected to be the largest trading partner for Korea following China in terms of export and direct investment from Korea's regional companies. Daegu Bank launched its HCMC office to make sure individual customers and corporate clients in Vietnam enjoy convenient and high-level financial services that are up to the standards in Korea. It is planning to use it as a platform to enter the Southeast Asian markets, thereby establishing a global network, expanding its market presence and launching new businesses.

Responses to Market Changes

Established Future Finance Department

DGB Financial Group established "Future Finance Department" in December 2014. The department is intended to respond preemptively to "FinTech," an emerging mobile payment technology and also viewed as a next growth engine in the financial sector, thereby increasing the sales through non-face-to-face channels. In addition, we integrated the future finance department and lending-related teams into a loan department to explore new sources of revenue. We also have a task force team known as "Future Finance Response Conference." The team consists of 12 professionals from the future finance department, our bank strategy, marketing and IT departments, and affiliates including DGB Data System and U-Payment. They are missioned to identify emerging financial services and trends in the future and draft response strategies.

R&D Activities

Under rapidly changing financial conditions, the DGB Economic Research Institute, an affiliate of DGB Financial Group, has been playing a role as a think tank for sustainable growth of our group and local economic progress. To achieve its goals, the institute has conducted researches and studies for future strategies; carried out studies on financial industry, financial market and regional finance; provided analysis and outlook on local economies and industries; and promoted sustainable management and green finance. In 2014, the Institute published a variety of reports including analysis on the causes of drop in oil prices and its impact on local economies, study on the kinds of SOHO (Small Office/Home Office) business and its prospects, regional responses to growing China risk with an aim to find out what directions we should take. Furthermore, the institute shared information not only with our affiliates but also with CEOs of local SMEs and local residents to help them respond preemptively to market changes.

Interview



DGB Financial Group acquired Woori Aviva Life Insurance (today's DGB Life Insurance) in 2015 and opened overseas branches to diversify its businesses and make inroads into new markets. This is a clear indication that the financial group has a strong will for sustainable growth. While taking strategies focusing on growth to sharpen its competitive edge in the financial field, the group also should not forget to carry out various social contribution activities by making financial products and services available to the vulnerable. I hope the Group grows into a financial leader which can detect even the macroscopic changes coming up, and thus taking advantage of its capacities and experiences built through the regionally-based operations.

Lee Jonghyeok, Research and PR director of Daegu Chamber of Commerce and Industry

Next Step



DGB Financial Group aims to continue to expand its sales network by conducting market research and find out which part of Daegu/Gyeongbuk area has high growth potential, thereby strategically breaking into the selected markets. We also plan to enhance DGB brand value. To this end, we are going to lay the foundation for growth in metropolitan areas by expanding our market presence in Southeast area and other provinces. Building a group network among our affiliates including DGB Life Insurance and DGB Capital would be another way to achieve the goal. Furthermore, we would conduct more studies to detect and respond preemptively to changes and trends in the rapidly changing financial market. At the same time, we are going to reinforce cooperation among our affiliates, related departments, and relevant institutions.

Sound Governance



CONTEXT & CHALLENGES



Corporate governance is a critical factor affecting a company's competitiveness and overall management activities such as investment, strategic decision-making, and performance creation. DGB Financial Group is operating the Board of Directors (BOD) consisting of directors who demonstrate a wealth of knowledge and experiences in financial business, which ensures higher professionalism. The transparency and soundness of the BOD are also ensured by organizing independent subcommittees and fair outside director appointment processes.

OUR PROGRESS



DGB Financial Group's Corporate Governance

BOD Composition

The BOD consists of two inside and five outside directors and is chaired by the CEO. In order to independently monitor and give advice to management activities, outside directors make up the majority of the BOD members. Outside directors are appointed at a general shareholders' meeting following recommendations by the Outside Director Nomination Committee.

DGB Financial Group BOD Profile

Category	Name	Gender	Age	Term	Duties	Remarks
Inside Director	Park, In-gyu	Male	61	3 years	• Chairman of the Board • Chair of Outside Director Nomination Committee	• Chairman of DGB Financial Group • CEO of Daegu Bank
	Park, Dong-gowan	Male	62	3 years	• Member of Risk Management Committee	• Vice President of DGB Financial Group
Outside Director	Lee, Jeong-do	Male	73	1 year	• 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	72	2 years	• 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	71	2 years	• 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
	Ha, Jong-hwa	Male	61	1 year	• Member of Management Development & Compensation Committee • Member of Audit Committee • Member of Outside Director Nomination Committee • Member of Auditor Nomination Committee	• Former Director of Daegu Regional Tax Office
	Lee, Ji-eun	Male	53	1 year	• Member of Management Development & Compensation Committee • Chair of Risk Management Committee • Member of Auditor Nomination Committee	• Senior Researcher, Korea Institute of Finance

Director Appointment Process

DGB Financial Group appoints directors meeting the requirements stipulated in the Financial Holding Companies Act, Commercial Law, DGB Financial Group's Articles of Incorporation, and the Standards of Bank's Outside Directors. Also, the Chairman and 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 nomination by the Chairman Candidate Nomination Committee comprised of one representative shareholder and five outside directors
Inside Director	Candidate nomination by the Board of Directors
Outside Director	Candidate nomination by the Outside Director Nomination Committee comprised of one standing and two outside directors

Operation of the BOD

The BOD 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 Group. The BOD meetings are held on a regular and frequent basis and the resolution is made by the majority. There are five subcommittees of Management Development & Compensation Committee, Risk Management Committee, Audit Committee and Outside Director Nomination Committee under the BOD. The subcommittees are comprised of professionals in each field of expertise including management and laws, and are operated transparently and independently.

Committee	Members	Functions
Management Development & Compensation Committee	Five outside directors	Determining and evaluating each committee's operational plans
Risk Management Committee	One inside director and two outside directors	Checking the appropriateness of risk management for the soundness and stability of management activities
Audit Committee	Three outside directors	Developing and implementing audit plans, reviewing results, and presenting follow-ups and improvement suggestions
Outside Director Nomination Committee	One inside director and two outside directors	Nominating outside director candidates
Auditor Nomination Committee	Five outside directors	Nominating the Audit Committee member candidates

BOD Meetings

Category	2012	2013	2014	2015 (P)
No. of BOD meetings	10	12	14	9
Percentage of outside directors (%)	83.3	71.4	71.4	71.4
Outside directors' attendance rate (%)	95	100	100	100

Major Agendas in 2014

Meeting	Date	Agenda	No. of outside directors attended (total)
1	Feb.06	Nine agendas including the approval of the 3rd term financial statements, business report, notes, and consolidated financial statements	5 (5)
2	Feb.06	Seven agendas including the approval of holding the 3rd general shareholders' meeting	5 (5)
3	Mar.21	Appointment of directors' positions	5 (5)
4	Mar.21	Nine agendas including the appointment of the BOD Chairman	5 (5)
5	Apr.30	Seven agendas including bond issuance and financial support plans to subsidiaries	5 (5)
6	May 20	Submission of preliminary bid proposals for KDB Life Insurance and pledge for confidentiality obligation	5 (5)
7	Jul.09	Two agendas including the submission of final bid proposals for KDB Life Insurance	5 (5)
8	Aug.01	Six agendas including the agreement on transactions between the holding company and subsidiaries	5 (5)
9	Sep.05	Signing an MOU on acquiring Woori Aviva Life Insurance	5 (5)
10	Oct.29	Five agendas including the agreement on transactions between the holding company and subsidiaries	5 (5)
11	Nov.10	Two agendas including signing an agreement on acquiring shares of Woori Aviva Life Insurance	5 (5)
12	Nov.14	Appointment of subsidiaries' CEO Candidate Nomination Committee members	5 (5)
13	Dec.22	Seven agendas including the approval of DGB Financial Group's business plan in 2015	5 (5)
14	Dec.26	Appointment of the Compliance Officer	5 (5)

Evaluation on the BOD and Compensation

Compensation to directors is made in the form of a basic salary and performance-based pay (short-term incentives, long-term incentives coupled with cash compensation) within the limits approved at the general shareholders' meeting. Short-term incentives are determined by the BOD based on performance evaluation and compensation guidelines, while long-term incentives are paid in a fixed amount based on long-term performance evaluation and directors' service terms. Remuneration of the concurrent position (chairman) is first paid by his/her original company and it is calculated later in accordance with the percentage of duty performances. In 2014, the highest amount of remuneration was 2.17 times of the average employee payment. Annual remuneration increased 3.5% from the previous year.

Remuneration of Directors

(As of December 2014, Unit: KRW in millions)

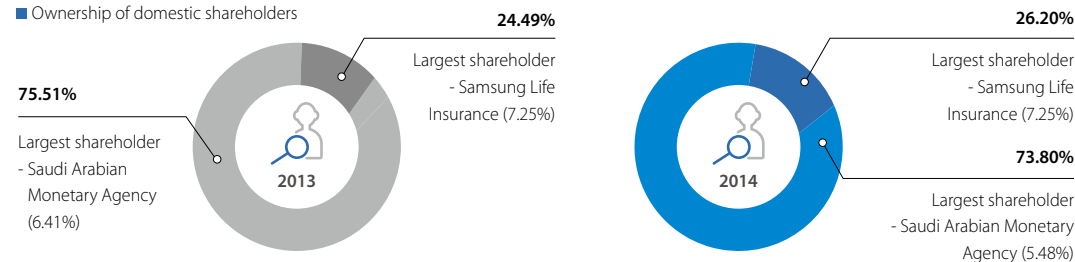
Category	No. of Directors	Total Remuneration	Average Amount per Capita	Remarks
Inside Directors	2	462	231	Including the concurrent position (chairman)
Outside Directors				
Members of the Risk Management Committee	2	72	36	
Auditor/Members of the Audit Committee	3	121	40	
Total	7	655	94	

Ownership

The number of DGB Financial Groups shares issued was 134,053,154 at the end of 2014, of which Samsung Life Insurance, the largest shareholder, owned 7.25%, and Saudi Arabian Monetary Agency held 5.48%, the largest among foreign shareholders.

Ownership Structure

- Ownership of foreign shareholders
- Ownership of domestic shareholders



DGB Financial Group's Sustainability Management Committee

We are operating the Sustainability Management Committee at the Group level with the aim of continuously monitoring and evaluating sustainability management activities throughout the Group and giving feedbacks.

Sustainability Management Framework

(As of March 2015)



Structure and Operation of Sustainability Management Committee

DGB Financial Group established the Sustainability Working Council under the Sustainability Management Committee. The Council is in charge of evaluating risks and opportunities arising from economic, environmental and social conditions as well as their impact on the Group's business. It also develops and upgrades the group's objectives, values, policies and goals. The Council comes up with sustainable management strategies and action plans, and then monitors actions and achievements. Any material issues over sustainable management discussed at the four sub-councils are reviewed by, the Chair of the Council (Director of the DGB Economic Research Institute), before being submitted to the Sustainability Management Committee, the highest governance body. These issues are finally reviewed and approved by the Chair of the Committee (President of DGB Financial Group).

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



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



The CEO Water Mandate

CEO Water Mandate
 • Reported on water resource management practices, including rainwater recycling



Carbon Disclosure Project
 • Annual signatory since 2007



Climate Disclosure Standards Board
 • Member of the CDSB Korean Working Group in 2012

Financial Initiatives



DJSI (Dow Jones Sustainability Indexes)
 • Qualified for the DJSI Asia Pacific for the fifth time in succession
 • Qualified the DJSI Korea for the sixth time in succession
 • 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
 • Qualified for the FTSE4Good Index for the fourth time in succession since 2011

Next Step

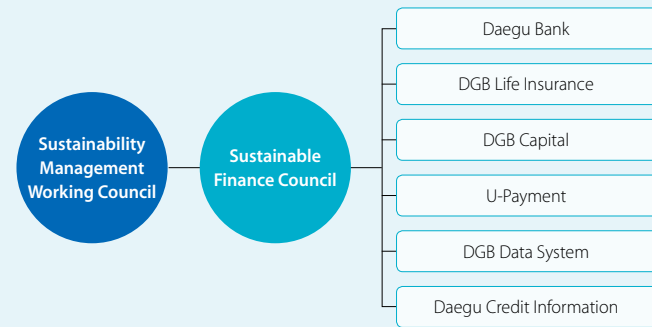


DGB Financial Group will continue to work on enhancing efficiency and transparency of the board of directors. As part of our efforts, we are going to compare our governance structure and business operation practices with exemplary cases in the financial sector and would revise the rules and regulations of the board if necessary. In addition, we will hold the Sustainability Working Council regularly and improve the reporting process to the Sustainability Management Committee. By doing so, we shall make a better evaluation on our sustainable management strategies and enhance our feedback process.

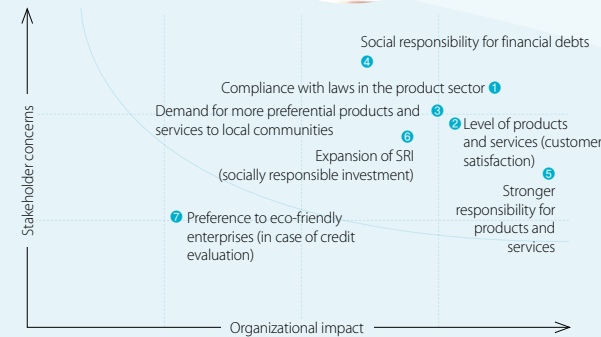
02 Customer Satisfaction Management



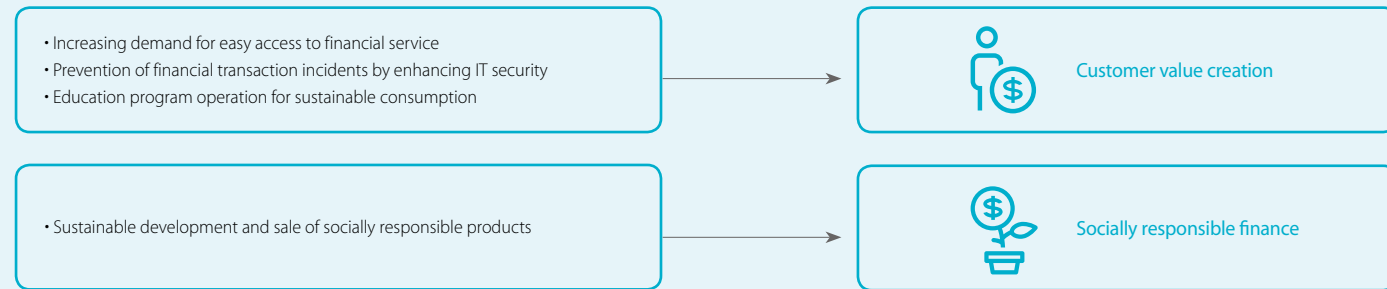
Implementation System



Material Issues



Strategic Direction



Major Performances

Category	Key Tasks	KPIs	Activities			
			2012	2013	2014	2015 (P)
Customer Value Creation	Improvement of stakeholders' accessibility to services	No. of VOC handlings	83	135	86	70
		Customer satisfaction (points)	92.73	93.99	94.23	94.50
	Prevention of financial transaction incidents by enhancing IT security	No. of personal information leakages	0	0	0	0
		Civil complaint evaluation level	1	1	1	1
	Education program operation for sustainable consumption	Publication of the customer protection report (times)	4	4	4	4
		Operation of financial education program (times)	159	122	139	140
Sustainable Finance	Sustainable development and sale of socially responsible products	Operation of financial education program (persons)	9,174	10,650	7,513	7,900
		Percentage of loans to SMEs (%)	62.4	63.0	63.5	65.0
		Small loans (KRW in billions) (Deposit)	1.5	51.1	111.9	200.0
		(Loan)	127.5	197.9	277.4	340.0
		Supports for technology financing (KRW in billions)	-	-	625.6	700.0
		Sales of green finance products (deposit) (KRW in billions)	327.7	218.1	294.4	300.0
		Socially responsible investment (KRW in millions)	11,807	7,790	8,117	8,500

Customer Value Creation



CONTEXT & CHALLENGES



DGB Financial Group is well aware that it can offer more value to the customers when focusing on the true nature as a financial institute. We believe our job as a financial service provider is to exceed the expectation of our customers. To this end, we have been working hard to deliver superior products and services by listening to what customers want and reflecting market changes.

OUR PROGRESS



Customer-oriented Management

Service Management Goals and Strategy

In order to make a better future for all, Daegu Bank has been adhering to three working principles: offering customer-oriented services; gaining trust from customers and local communities; and building a win-win relationship with our customers, shareholders and employees. For instance, it takes into consideration how much customers are satisfied with the services when evaluating performances of its branches and departments of the headquarters. Moreover, it chooses branches, departments of the headquarters, and staff members who are recognized to provide impressive services to their customers and makes sure that they receive the appropriate level of compensation and reward. By doing so, it aims to encourage its employees to participate in the efforts to stick to the working principles.

CS Leading Bank

- Earn the reputation as a CS leading bank with services that satisfies customers' needs
- Deliver exceptional services reflecting customer needs
- Build customer loyalty by offering superiors CS
- Smart services to strengthen customer protection and gain their trust

DGB Chamsory Customer Advisory Group

Daegu Bank has "DGB Customer Advisory Group" to carry out customer-oriented strategies and reinforce financial customer protection. It was launched in October 2014 with ten customer advisors. The advisory group pledged to point out problems of the bank's services and suggest ideas or solutions to address them for the next six months. As a member of the group, they identify inconvenient, irrational or outdated banking practices and systems in customer's perspective. Their job, however, is not limited to that. They also express their opinions when new financial products are being developed, suggest ideas about new services, and monitors if branches of the bank are doing well.

VOC Handling

(Unit: cases)

Category	2012	2013	2014
Dissatisfied	83	135	86
Normal	348	248	259
Praiseworthy	509	512	523
Others	763	140	272
Total	1,703	1,035	1,140



Customer Satisfaction Survey

Daegu Bank conducts an annual customer satisfaction survey through NICE R&C, which is a research & consulting company widely recognized by many financial institutions for their objective and reliable services. The research & consulting company carries out a monthly phone-based survey on all branches to find out the level of satisfaction of the bank customers, while conducting on-site monitoring every two months. The bank's endless efforts to fulfill customer satisfaction have been rewarded in the form of higher scores in the survey.

Customer Satisfaction Results

(Unit: points)

Category	2012	2013	2014	2015 (P)
Customer satisfaction (points)	92.73	93.99	94.23	94.50

Financial Customer Protection

Financial Customer Protection System

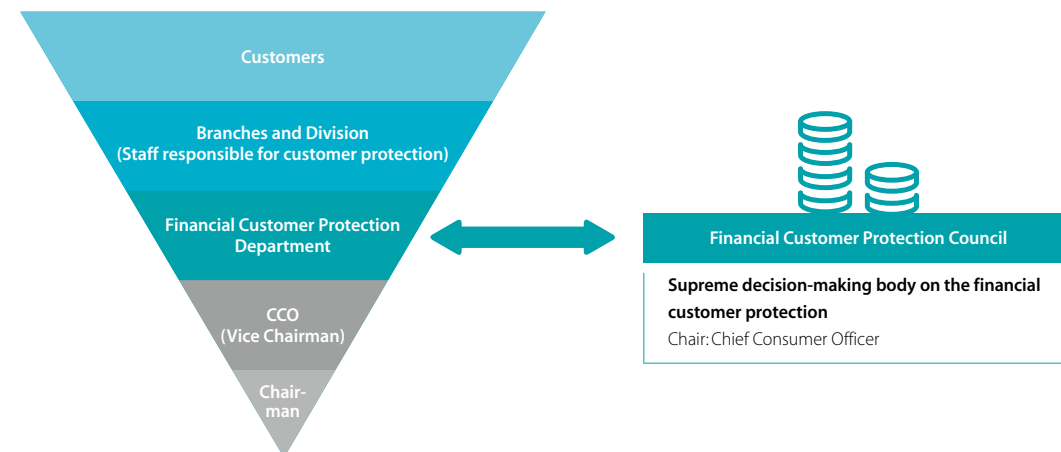
Daegu Bank has developed a stage-by-stage customer protection system to protect its customers. Specifically, the bank's product development rules should be applied in the product development stage, while its sales rules should be observed in the sales stage. In 2013, the Financial Customer Protection Department was established and Chief Consumer Officer (CCO) was appointed. In addition, the Financial Customer Protection Charter was announced to lay a firm systematic foundation to safeguard customer rights and to minimize the number of financial crime victims.



Daegu Bank Financial Consumer Protection Charter

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

Organization for Financial Customer Protection



Financial Customer Protection Programs

Daegu Bank runs diverse customer protection programs to offer financial education and prevent financial crimes. Since "Financial Customer Protection Day" was established on every fourth Thursday, the employees of the Financial Customer Protection Department have visited their customers to help them deepen financial knowledge. Moreover, a notice has been sent to the employees every quarter to share customer complaint cases and instructions they should bear in mind. By doing so, the bank wants to make sure no such complaints are repeated in the future. Furthermore, the bank calls staff members in charge of customer protection from each branch to come and have a group training (more than once a year), and sometimes send instructors to the branches to discuss complaint cases and ways to minimize them.

Daegu Bank's Operation of Financial Education Programs in 2014

Category	No. of Operations	No. of Participants	Remarks
Financial Education for Teenagers	54	3,038	• Target: Elementary, middle, and high school students • Offering right information on finance and economy
Financial Education for University Students	7	310	• Target: University students • Strengthening financial competence
Financial Education for the Public	7	2,179	• Target: Soldiers, policemen, public officials, company workers, ordinary people, and senior citizens, etc. • Better understanding of finance such as financial technology and financial incident prevention
Education on Financial Fraud Prevention	Daily	-	• Announcement to prevent financial fraud during working hours • Notice of precautions in terms of financial fraud on the website

Customer Protection Report "Let's Go Together"

In order to prevent evolving financial crimes and make sure of the security of its financial services, Daegu Bank has published its customer report, "Let's go together". The quarterly published report contains types of financial crime, the ways to prevent them, useful financial information, and any changes in the finance-related laws. The report, which is designed to fulfill the "right to know" of its customers, is available both online and at its branches.



On-street Campaign to Prevent Damage from Financial Crimes

In July, Daegu Bank held a one-month On-street Campaign targeting local residents to prevent them from falling victims to highly organized and sophisticated financial crimes such as voice phishing and pharming. The campaign, conducted by all of its branches in Daegu/Gyeongbuk area, involved more than 800 employees and they handed out brochures about the ways of preventing financial crimes, put up campaign posters on their branches, and provided information services to their customers. In June 2014, a month before the campaign, approximately 150 employees came out onto a street and promoted how to avoid being a victim of a financial crime to the citizens on their way to work.



Privacy Training by Daegu Credit Information for Employees

In the aftermath of the recent leakage of personal information, Daegu Credit Information conducted a privacy program for all of our employees. It offered our employees an opportunity to remind our privacy policy to protect personal information and enhance awareness of the necessity to minimize collection of personal information, prohibit the use of it for commercial purposes and discard it without delay after fulfilling the purpose of collection and use.

Key Achievements in 2014

Listed as a Best Bank in the Financial Customer Protection Category

Daegu Bank was chosen by the Financial Supervisory Service (FCC) as one of the best financial institutions for its outstanding financial customer protection services. As a recipient of the title, Daegu Bank delivered a presentation about what they had been doing to protect financial customers before representatives from financial institutions, consumer groups, academia and the media at a business presentation meeting held by the FCC in March 2014.



Certified for an Excellent Financial Institute for Customer Protection

Daegu Bank received the top grade by the FSS in resolving customer complaints in 2014. It became the first financial institution to be given the highest grade for eight consecutive years (from 2006 to 2013), which set a new record not only in the banking but also in the overall financial sector. The achievement earned the bank a title of an "Excellent Financial Institute for Customer Protection".



Category	2012	2013	2014	2015 (P)
Civil Complaint Evaluation Level	1 st Grade	1 st Grade	1 st Grade	1 st Grade

Enhanced Accessibility to Financial Services

Operation of the "DGB Moving Bank"

Marking Chuseok holidays (or Harvest Moon Festival), Daegu Bank ran a temporary bank called "DGB Moving Bank" at the Dongdaegu (meaning East Daegu) station square from 5th to 7th September 2014. The project was to deliver banking services to those who may need to use them during the holidays and the square was an ideal spot to offer the services given that tens of thousands of people use the station per day during the holidays. The moving bank offered the same services available on weekdays including cash deposits & withdrawals, remittance, reissuing lost or damaged card & bankbook for customer convenience.

Services for Female Customers

After the news of Gumi City setting a goal to become Korea's most female-friendly city, Daegu Bank signed an MOU with it as part of the efforts to promote women rights and interests, and offer more women-oriented services. Now, 13 Daegu Bank branches in the city have women-only lounges and assistants for female clients. The central branch in Gumi is equipped with nursery room and women-only parking spaces. Daegu Bank's considerate services for women are going to be gradually introduced in other branches as well.



Launch of New Application Features for Senior Citizens, Non-Koreans, and the Disabled

Daegu Bank has developed mobile applications for senior citizens, non-Koreans and the disabled to meet the different needs of its customers. Frequently used services such as checking bank balance, transferring money, and paying utility bills are being offered in English for foreign customers. Furthermore, the bank has developed new functions for those with disabilities including visually impaired people. Accordingly, the app obtained four quality certification marks from the Korea Federation of Organizations of the Disabled and the Korea Web Accessibility Certification Center.

Inclusive Financial Services for Visually Impaired People

Daegu Bank continues to work on providing inclusive banking services to make sure those with visual disabilities have no difficulties in conducting their banking transactions. Now 96.2 percent of its ATMs are equipped with Braille labels and keypads as well as voice-guided instructions, and the ones for those with poor vision can be seen in all of its branches. The bank's another goal is to place more than one ATM designed for wheelchair users at each branch. In addition, the DGB Open Bank, and voice recognition & keyboard-based internet banking services for the visually impaired have been updated on a regular basis since 2013. Also credit cards and check cards with key information in Braille are helping the visually impaired people conduct banking transactions easier than ever.

Interview



The influence of DGB Financial Group on the local communities is great. As a financial institute expanding its market in Daegu and beyond, it now has more roles to play such as preemptively responding to macroscopic issues in our society, and extending its support to address them. Importantly, it would be great if it could provide systematic financial services reflecting different needs of corporate clients and individual customers. I hope the group would grow into a small but competitive financial institution exceeding customer satisfaction.

Yu Sanghee, CEO of HouseElec, the Bank' Corporate Clie

Next Step



Daegu Bank will keep developing and upgrading its customer protection programs to guarantee the security of its banking and financial services while minimizing customer complaints. Moreover, a "customer protection" category will be included in its customer satisfactory survey and its scores will be reflected in the employee performance review. The bank will also continue to commit itself to listening to what customers have to say in the product development & sales stages. This will allow us to provide better services exceeding customers' expectations.

Sustainable Finance



CONTEXT & CHALLENGES



DGB Financial Group pledges to faithfully carry out social responsibilities by taking heed to the demands of our customers and devising financial products and services considering economic, social, and environmental issues. In addition, we aim to achieve sustainable finance through various products for mutual prosperity with local communities, support of SMEs with competitive technologies, ease of financial burden on the low-income families, and promotion of greener technologies and corporations.

OUR PROGRESS



Micro and Regionally-Based Financing

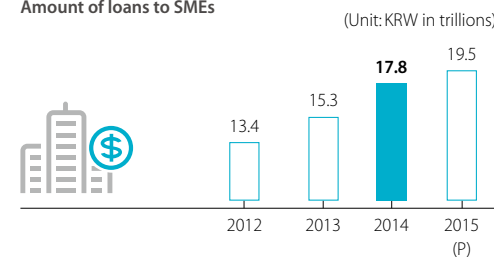
DGB Financial Group offers comprehensive financial services in local cities and provinces. We have built a firm, reliable relationship not only with local residents, but also with regional SMEs. In addition, we have offered essential supports and advantages to the low-income households to shape a win-win partnership with local communities.

Extended Loan Repayment Period for SMEs

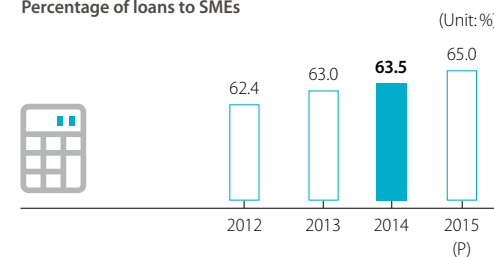
In a bid to alleviate financial burden caused by growing exchange rate volatility, Daegu Bank extended loan repayment period for SMEs between July to December 2014. The SMEs with export performance within the last 12 months were entitled to apply for the late repayment service. The SMEs, whose applications were finally accepted, were allowed to pay principles later than due date up to one year. In addition, Daegu Bank simplified the application screening process to extend practical help to regionally-based SMEs.

Loans to SMEs

Amount of loans to SMEs



Percentage of loans to SMEs



DGB Credit Recovery Program

Daegu Bank launched "DGB Happy Dream" program for financially excluded people for three months from September to November 2014. The program was designed to offer opportunities for those in financial difficulties to recover their credit by readjusting debt to a payable level. For the program, relatively high debt reduction rate was applied.

"DGB Happy Partner" for Senior Citizens

Daegu Bank sensed that there would be growing demand for financial services from the elderly people. Since then, it has equipped itself with comprehensive and systematic market strategies to respond to the needs of senior citizens. For instance, it nurtured professionals to provide tailored services to seniors. With such an effort, its new brand "DGB Happy Partner" was finally launched aiming to devise plans for its silver customers' happy retirement life. Meanwhile, the bank's private banking professionals and VIP managers are planning to hire more than one professional to nurture qualified life planners for senior citizens. The bank tries to catch customers' investment style before recommending financial products from its DGB Happy Partner Package, a pack of financial portfolios based on the customer's asset value. The bank also became the first regionally-based bank to publish a magazine for the elderly, "DGB Happy Partner," and held seminars on how to plan for their later years. The list of its efforts to offer good products and services to its silver customers is endless.

Opened a Cyber Dok-do Branch

Daegu Bank opened its cyber Dok-do branch on the national liberation day (August 15), in 2001 with an aim to help the world understand that the Dok-do islets are the territory Korea. As the first branch on Dok-do, it has 39,000 customers with KRW 380 billion of deposits. Some of its revenue from the deposits goes to the funds for construction of Dok-do museum and restoration of abalone, an indigenous species of Dok-do.

MOU between DGB Capital and Daegu Credit Guarantee Foundation

DGB Capital and Daegu Credit Guarantee Foundation signed an agreement in July 2014 to relieve the financial stress of small business owners and boost the regional economy.

Major Products for Small Finance

(As of the end of December 2014, balance)

Category	No. of Accounts	Total Amount (KRW in millions)
DGB Hope Sharing Special Loans	25,028	206,322
DGB Seed for Hope Loans	1,503	9,574
DGB Conversion Loans	1,496	15,111
DGB Conversion Loans for Small Business Owners	311	3,239
DGB Dream Loans for Young People	54	2,875
DGB Conversion Loans for Young People and University Students	141	964
Special Guarantee Loans for SMEs and Small Business Owners in Gyeongbuk	470	11,119
Special Guarantee Loans for Underbanked Self-Employed	842	13,171
DGB Hope Nurturing Special Guarantee Loans	61	1,903
Loans for Self-employed Disaster Victims and Household	93	2,959
DGB Stepping Stone Loans for SOHO	559	2,781
DGB Hopeful Days Loans	704	7,381

Key Achievements in 2014

Daegu Bank Won the Grand Prize at the 2014 Customers' Most Trusted Brand Award

Daegu Bank received the grand prize in the retirement asset management category at the 2014 Customers' Most Trusted Brand Award in September 2014. Its asset management solution for senior citizens "DGB Happy Partner" earned the bank this precious award. The event, which was held by Korea Brand Management Association and sponsored by Ministry of Trade, Industry & Energy, was designed to select the most reliable and trusted brands so that customers can make rational and informed decisions when they spend while letting other companies follow suit.



Technology Finance

Daegu Bank is focusing on developing various technology financing products to save SMEs. One of the supports is to lend money with low-interest rates to those which went through a technology evaluation and are proven to have outstanding technologies.

'Technology Finance MOU' to Boost Regional Investment in Technologies

In order to encourage more investment in technologies and to turn such technologies into reality, Daegu Bank concluded an MOU in November 2014 with INNOPOLIS Foundation, Daegu INNOPOLIS, and Daegu Technopark. The three parties agreed to exchange for shaping an environment for technology finance and creative eco-system; work together to attract investments for promising enterprises in Daegu & Gyeongbuk area; find and nurture startups or enterprises with excellent technologies; develop technologies together, transfer them, and turn them into reality as well as attracting investments.

'MOU on Creative Finance' with Daegu City and CCEI

Believing seamless financial services and a tight cooperative network are essential for a creative economy, Daegu Bank signed a business agreement with Daegu City and Daegu Creative Center for Economic Innovation. They discussed various ways to support enterprises with promising technologies, which include supports of finance, management, and consulting as well as manpower exchange. They also agreed to support Daegu so that it could become a Mecca of the creative economy. In turn, Daegu Bank, as a representative regional bank, pledged to offer a wide range of financial supports for the realization of creative economy.



Major Products for Technology Financing

(As of the end of December 2014, balance)

Category	Products and Services	Case	Sales (KRW in millions)
INNOBIZ LOAN	Preferential credit lines and interest rates to regional SMEs with competitive technologies	68	43,133
R&D SME Financing Loans	Enhanced financing to regional SMEs and household borrowers	1,476	523,375
INNOBIZ LOAN	Preferential loan limit and interest rate to local SMEs with technological competitiveness	24	10,530
BOK's aggregate credit ceiling system for technology-driven business start-ups	Financing SMEs with excellent technologies within 7 years of founding at low interest rates	195	48,610

Green Finance

DGB Cyber Green Branch

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

Sales at DGB Cyber Green Branch

Classification	2012	2013	2014	2015 (P)
No. of accounts sold	1,665	2,099	2,564	3,054
Amount (KRW in millions)	2,294	2,071	2,094	2,100

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. The evaluation system, designed for the promotion of green businesses and environmental negative screening, 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 15,894 companies in 2014, which accounts for 95.61 percent of the target companies. The bank plans to expand the evaluation further.

Application of Environmental Impact Evaluation

Category	2012	2013	2014	2015 (P)
No. of companies responsible for environmental impact evaluation	12,388	13,992	15,894	18,000
No. of companies excluded from environmental impact evaluation	115	682	729	800
Percentage of responsible companies	99.08	95.35	95.61	95.70

Green Financial Products

Daegu Bank aims to address climate change and minimize environmental impact through its green finance products. The bank will continue to develop and sale new deposit, loan, fund and credit card products in order to raise local awareness of green financing.

Green Financial Product Sales

Category		2013		2014	
		No. of Accounts	Amount (KRW in millions)	No. of Accounts	Amount (KRW in millions)
Installment Savings	Eco-friendly Green Installment Savings	13,526	77,485	6,904	9,523
	Green Health Installment Savings	1,319	4,829	907	4,212
	e-Convenient Installment Savings	3,725	10,185	5,448	19,367
	Dokdo Savings	8,965	6,842	1,506	5,233
Financial Technique Deposits	Eco-friendly Green Deposits	786	10,496	11,439	188,756
	e-Convenient Time Savings	5,273	53,512	4,860	61,803
	Dokdo Deposits	4,243	54,797	474	4,746
Offshore Funds	KB Global Warming Thematic Trust Investment-Type A	166	578	174	634
	Global Warming Thematic Trust Investment-Type C	34	167	34	171

Investment in Environmental Project Financing

Project Name	Investment Period	Amount of Investment (KRW in millions)	
		contracted	2014 paid
Wind Power Generation Project in Gasi-ri, Seoguipo, Jeju-do	2014.08~2027.08	15,000	8,133
Private-invested Wastewater Treatment Facilities in Jangryang, Pohang	2007.11~2024.02	3,400	3,720
Private-invested Resource Recovery Facilities in Ulsan	2009.06~2024.03	20,250	17,306
Eden Valley Onshore Wind Power Generation Project in Yangsan, Gyeongnam	2013.05~2009.03	6,885	6,670
Food Waste and Sewage Sludge Recovery Facilities in Yongyeon, Ulsan	2013.12~2017.12	6,000	4,500

Financing for Public Good

Socially Responsible Investment (SRI)

To fulfill social responsibilities 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. When it comes to the patented "Mirae Asset Love Sharing ETF Equity Investment Trust," 0.5 percent of the front-end loads charged to customers go to "Love Sharing" accounts. The accumulated fees form a public fund and can be donated in the name of the account holders. The total donation made from the Love Sharing account reached KRW 17,600 thousand in 2014. All donations raised through such accounts are managed individually, with donors benefitting from year-end tax exemptions. These products are highly effective in promoting donation.

Public Service Fund Products

(As of the end of December 2014)

SRI Fund	AUM (KRW in millions)		Rate of Return (%)		
	Maximum	Balance	3 months	6 months	1 year
Woori Frontier Sustainable Business SRI Equity Investment Trust	21,215	2,178	-6.93	-4.25	-7.31
Midas Responsible Investment Equity Investment Trust	1,157	303	-5.64	-3.25	-4.30
Mirae Asset Green Growth Equity Investment Trust	2,621	1,403	-2.19	-0.72	7.09
Mirae Asset Love Sharing ETF Equality Investment Trust	4,528	4,233	-4.48	-4.87	-5.80

Contributions to the SRI Public Service Fund

Service Fund

(Unit: KRW in thousands)



Campaign to Find Owners of Dormant Trust Accounts

In a bid to protect the rights of financial customers, Daegu Bank has been jointly conducting a "Find Owners of Dormant Trust Accounts" campaign in cooperation with the FSS since 2011. In 2014 alone, the bank returned KRW 193,872 thousand to the owners of 953 accounts. From 2011 up to late 2014, a total of KRW 389,631 thousand was returned to the rightful holders, which are total 3,306 accounts.

Results of the Campaign

(Unit: accounts/KRW in thousands)

Category	2012	2013	2014	2015(p)
Fixed Dividend Trust (A)				
Principal Preservation Trust (B)	1,274/	1,061/	953/	1,000/
Merit Allocation Trust (C)	134,255	58,148	193,872	150,000
Total Unspecified Trust Cash Fund (A)+(B)+(C)				

Daegu Bank will continue to commit itself to carrying out social responsibilities by developing financial products and services considering social and environmental conditions, while building a creating shared value (CSV) model to contribute to business performances. In addition, it will define what "socially responsible financial products (including micro financing, technology financing, and green financing)" mean, setting a goal to increase development and sales of related products.

Next Step



Customer Value Creation

No. of VOC handlings



86

Customer satisfaction



94.23points

No. of personal information leakages



0

Civil complaint evaluation level



1st Grade

Publication of the customer protection report



4times

Operation of financial education program



139times
7,513persons

Sustainable Finance

Percentage of loans to SMEs



63.5%

Supports for technology financing



KRW
625.6billion

Small loans



Deposit
KRW111.9billion

Loan
KRW277.4billion

Sales of green finance products (deposit)



KRW
294.4billion

Socially responsible investment

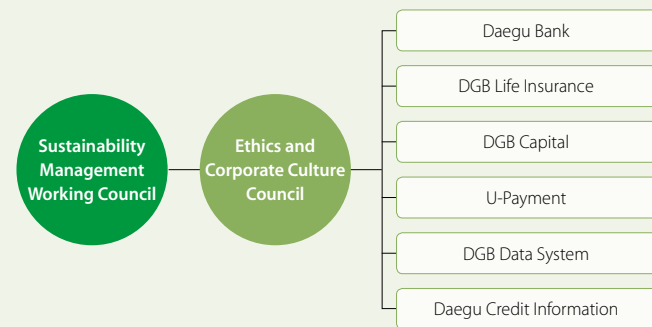


KRW
8,117million

03 Enhancement of Organizational Competence



Implementation System



Material Issues



Strategic Direction



Major Performances

Category	Key Tasks	KPIs	Activities			
			2012	2013	2014	2015 (P)
Talent Cultivation and Support	Reinforcement of talent cultivation system	Education expenses per capita (KRW in thousands)	921	874	987	1,070
	Fair performance evaluation and compensation system	Total incentives (KRW in thousands)	3,599,999	-	4,788,993	5,140,000
		Education expenses for the retiree per capita (KRW in thousands)	-	3,000	3,000	3,000
		(hours)	-	22	22	22
Employee Happiness	Establishment of human rights management system	Education on human rights per capita (times)	52	52	52	52
	Pursuit of work-life balance	Employee satisfaction (points)	91	90	90	92
		Rate of occupational accidents (%)	0	0	0	0

Talent Cultivation and Support



CONTEXT & CHALLENGES



Talented employees play a pivotal role in strengthening business performance and maintaining market share. DGB Financial Group recruits talented employees in a fair manner and nurtures them through a systematic training so that it can ensure employees to perform practically and effectively work in their business fields.

OUR PROGRESS



Talent Management

Right Talent for DGB Financial Group

DGB Financial Group seeks those who respect people and serve their community and customers; think creatively and proactively rise to a challenge; and show their honesty along with responsibility and credibility.

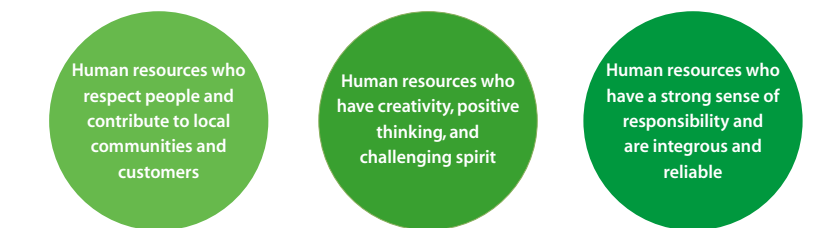
01 Core Value

Respect	Passion	Integrity
Customer-centered Respect for employees Communication Social responsibility	Passion Ownership mind Change and innovation	Business ethics

02 Competence

Service mind Professionalism Sense of duty Teamwork Strong will to achieve goals	Pride Perspective Creativity Open mind	Understanding of principles Integrity and trust Sense of vocation
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03 DGB Ideal



04 Statement

"Human resources who can create new value based on respect and integrity"

Employee Status

The number of employees of Daegu Bank is 3,118, as of the end of 2014. As a way to create more jobs for the local economy and young adults, the Bank fills 100% and 90% job openings for high school graduates and college graduates, respectively, with local residents. Also, it hires and evaluates capability and performance of new employees in fair and just ways, while not being affected by gender. Furthermore, it is continuously working on turning temporary job positions into permanent ones, to tackle job insecurity and strengthen job stability of those who work temporarily.

Employee Status at Daegu Bank

(Unit: persons, %)

Category	2012	2013	2014
Total No. of employees	3,009	3,062	3,118
New employees	179	176	184
Unemployed and retired employees	112	117	136
Turnover and retirement rate (%)	3.70%	3.80%	4.30%
Employment type			
Regular employees	2,621	2,821	2,846
Contract employees	388	241	272
Position			
Staff	1,587	1,620	1,676
Manager-level	1,379	1,397	1,402
Executives	48	45	40
Age			
Under 20s	52	27	33
20s	498	543	597
30s	1,038	1,027	1,021
40s	1,075	1,073	1,043
50s and above	346	392	424
Gender (%)			
Male	57	56	55
Female	43	44	45
Others			
Foreigners	13	11	13

Female Employees

(Unit: %)

Category	2012	2013	2014
Position			
Female employees to all employees	72.5	74.5	74.4
Female managers to all managers	13.6	15.7	16.8
Employment type			
Female employees to all regular employees	41.2	44.9	45.3
Female employees to all contract employees	54.5	32.8	38.8

Change of Contract Positions to Regular Positions

No. of employees reemployed as regular staff

(Unit: persons)



* Reemployed non-regular tellers as regular employees in 2013

Enhancing Employee Capabilities

Daegu Bank gives its employees systemic learning programs designed to enhance their capability, including building support systems for continued learning courses and running career development programs. In 2014, the Bank span off its academy for it to become the resources center, so the space is more productively used, increasing employee's ability.

Daegu Bank's Capability-based Training System

Category	Core Capability	Leadership Capability	Job Capability
Managers	"Creating synergy through mutual communication and cooperation"	"Cultivating leaders by enhancing individual capabilities by position"	"Securing higher professionalism by strengthening job-specific capabilities"
Tellers	<ul style="list-style-type: none"> Sharing and expansion of core values Activation of organizations Embedding DGB DNA 	<ul style="list-style-type: none"> Basic leadership training by position for promoted employees Enhancement of capabilities by position Preliminary leader training 	<ul style="list-style-type: none"> Job certification system Cultivation of experts in major jobs Capability upgrade training for employees at the head office Change management training

Mentoring Program for the Newly Hired

Daegu Bank runs a mentoring program for the newly hired to help them soft land in their new position and learn systemic ways of conducting jobs. Regular meetings held to generate a bond between mentors and mentees allow new staff members to meet and get help from colleagues, which helps new comers strengthen their job capability and get along with their peers.

Fostering Experts

Daegu Bank operates a systematic career development program (CDP) to foster experts. A variety of training courses are available in the areas of foreign exchange (F/X), 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.

Job Accreditation System in Place

Daegu Bank has introduced Job Accreditation System for employees, in charge of loan, F/X and PB, in aims of accrediting jobs and nurturing experts through training programs and on-sites experiences. Specifically, the Bank set up goals of making all employees at any branches reach levels of those accredited and 20 to 30% of those working at specified jobs become an expert.

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.

Employee Education

Category	2012	2013	2014	2015 (P)
Average education hours per capita (hours)	33.8	39	41.5	43
Average education expenses per capita (KRW in thousands)	921	874	987	1,070

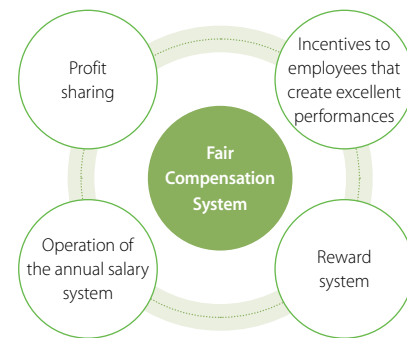
Fair Evaluation and Reward

Rational Performance Evaluation

Daegu Bank runs a rational evaluation system that largely takes into account of performance and capability so as to strengthen motives and pride among its employees. It put in place strategic performance evaluation that factors in key performance indicator (KPI) and management by objective (MBO) to reflect characteristics of departments and branches. Feedbacks of the assessment clearly show strong and weak points of each executive or employee, thereby contributing to long-term self-development and better achievement outcome. The Bank adopts multidimensional evaluation to ensure fairness and objectiveness in the process and comprehensively considers its report when determining on promotion, pay, profit sharing and job placement.

Fair Compensation

Daegu Bank has a remuneration system that fairly and objectively works for management target and performance improvement. It shares part of its profits with employees according to criteria drawn up beforehand when it achieves certain levels of goals. In addition, it offers those who outperform diverse incentives, including special promotion, an advantage in evaluation and training opportunity, all of which are designed to increase their satisfaction.



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.

"CS Young Star" Program

Daegu Bank runs "CS Young Star," a scheme developed to identify outstanding employees in terms of customer satisfaction. Those who show better performance with less than two years on the payroll will be invited to a recognizing party where CEO of the Bank and young competitive employees can build empathy and communication among themselves. The program is taking root as an institution that helps nurturing and encouraging outcompeting employees.



Daegu Bank plans to raise talents who are with on-site oriented management and practical management, by continuously improving and strengthening its talent nurturing system. The Bank will uplift employees' mindsets, job efficiency and employees' capability, with the introduction of programs and upgraded training systems and facilities, that can develop better challenging spirit and a higher self-esteem.

Next Step



Employee Happiness



CONTEXT & CHALLENGES



Building a workplace where employees can actively perform their jobs with pleasure is in the responsibility and duty of DGB Financial Group. Indeed, the Group provides non-discriminatory organizational culture and diversified programs that can work for a higher living quality and a better performance.

OUR PROGRESS



Open Corporate Culture and Improved Communication

Engaging Employees in Management Improvement

Daegu Bank selected 20 younger employees who are qualified in terms of ownership and activity through in-house competition to form "DGB Youth Frontier." The scheme launched in April 2014 aimed to collect fresh new ideas from young workers and nurture talents who can become an organization leader in the future. Specifically, it is aggressively participating in management improvement activities, either regularly or on-demand, by encouraging creative ideas for change and innovation, discussion and possible solution for issues at hand and suggestions for better on-site management of departments in headquarters and branches.

Launching "Middle Group Empathy Meeting"

Daegu Bank holds "Middle Group Empathy Meeting" to strengthen a management mindset and draw changes and innovations from mid-level managers twice a year, one in the first and the other in the second half. Under the concepts of "Empathy, Passion and Company," the meeting becomes a venue where senior employees from branches and working-level planners from headquarters share information about general situations of business management, major issues, and voices from fields and training programs for change.

Enhanced Communication with CEO

Daegu Bank operates a number of channels for communication among top management and executives/employees. The 'Help CEO,' 'Answer Me DGB' and 'Mr. Jump' is an anonymous/registered intranet channel that provides employees direct access to the CEO.

Culture Day in DGB Data System

DGB Data System is making a sound organizational culture as well as employees' satisfaction through 'Culture Day,' through which diverse activities, including Cinema Day, Modern Alley Tour, Company Athletic Competition. The program was launched in 2014 to increase solidarity and unity among employees and improve its organizational culture.



Balance between Work and Life

Better Health Condition and Stress Management for Employees

Daegu Bank provides employees with diverse health programs. For example, it operates Healthcare Call that offers tailored health service, putting health a major concern in the corporate culture, and educates them on stress management on a regular basis. It also provides psychotherapy to employees in partnership with in-house and out-sourced counselors hoping to care their health conditions in systemic and comprehensive ways.

Health Management Program

Metabolic Syndrome	Immunity Enhancement	Healthcare Call Service
<p>• Targets Employees with high blood pressure, blood sugar, and neutral lipid at the same time</p> <p>• Contents Body fat controlling and diet</p>	<p>• Targets Employees with below-standard leukocyte levels</p> <p>• Contents Various immunity enhancement programs</p>	<p>• Targets Branches that require health counseling and monthly target branches</p> <p>• Contents - Checking blood pressure, blood sugar, and body mass - Testing the sympathetic nerves and parasympathetic nerves - Health management counseling for employees and their families</p>

Sick Leave Absentees and Lost Hours Due to Illness

Category	2012	2013	2014
Sick leave absentees (persons)	21	16	13
Lost hours due to illness (hours)	3,742	2,826	2,288
Lost hours from overwork (hours)	0	0	0

Rate of Occupational Accidents

(Unit: %)



DGB Happy Family Center

As part of the Employee Assistance Program, Daegu Bank operates the DGB Happy Family Center where 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 children and parents, in order to better promote a happy work-life balance for our employees.

Family-Friendly Workplace

Daegu Bank promotes maternity protection system and other family friendly programs, in order to support female employees with pregnancy, labor, and childcare. The Bank has been running an in-house daycare center, the first of its kind in the Korean financial industry, and offers one-year paid leave to infertile couples as well as fertility clinic subsidies and leave for fertility treatment.

Family-friendly Programs

Program	Contents
Smart Vacation Program	<ul style="list-style-type: none"> Employees can use regular 5-day and special 3-day vacations consecutively to refresh themselves and enhance work efficiency Providing vacation expenses
Shutdown System on the Family Day	<ul style="list-style-type: none"> Automatically shutting down PCs at 18:30 on every Wednesday, "the Family Day" Announcement to encourage employees to early come back to their home
9 to 6 Program	<ul style="list-style-type: none"> Reducing working hours to improve the quality of life and promote self-development Reflecting the operation of regular working hours in KPI
Culture Program	<ul style="list-style-type: none"> DGB Healing Culture events (musical, play, etc.)
Child Support Program	<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 CSATs

Operation of the DGB Children's Dream Nursery

Category	2012	2013	2014	2015(p)
No. of children registered at the DGB Children's Dream Nursery	104	117	113	117

Maternity Leave & Return to Work

Category	2012	2013	2014
No. of employees on maternity leave (persons)	102	104	104
No. of employees who have returned from maternity leave (persons)	90	47	69
Rate of return to work (%)	88.2	45.2	66.3
No. of employees who retired after maternity leave (persons)	12	4	4

Employee Satisfaction Enhancement

Daegu Bank is all ears to the voices of employees with regard to satisfaction, grievance, and other issues through annual surveys and puts measures in place to create a better quality of life.

Employee Satisfaction

(Unit: points)



Retirement Pension Memberships

Category	2012	2013	2014	2015 (P)
Defined Benefit Pension Plans	3,204	3,256	3,308	3,324
Total employees (persons)	3,204	3,256	3,308	3,324
No. of employees enrolled (persons)	2,835	2,899	2,932	2,996
Enrollment rate (%)	88.4	89.0	88.63	90.13

* All target employees enrolled in the defined benefit retirement pension plan in accordance with the agreement between the labor and management of Daegu Bank.

Education about Human Rights

Category	2012	2013	2014	2015 (P)
Average education sessions per capita (times)	52	52	52	52

Cooperative Labor-Management Relationship

Grievance Handling

Senior union managers go to branches and talk with as many employees as possible to understand their difficulty and listen to job-related grievances and requests via regular meetings. Some of them are addressed on the spot, while others, particularly major issues get discussed, tackled and reported through regular labor-management conferences. As seen below, management and union are building a win-win relation.

Employee Grievance Handling

Category	2012	2013	2014	2015 (P)
No. of grievances received (cases)	8	8	20	-
Rate of grievance resolution (%)	100	100	100	100

Daegu Bank Labor Union Membership

Category	2012	2013	2014	2015 (P)
Total No. of employees (persons)	2,618	926	2,852	-
No. of employees eligible for union membership (persons)	1,931	2,253	2,131	-
Labor union members to total employees (%)	73.7	77	74.72	75
Labor union members to those eligible (%)	100	100	100	100

* Employees eligible for union membership: All employees who are level 4 position and below (excluding staff working at security office and HR department)

Key Achievements in 2014



2014 Minister's Prize as Family-Friendly Business

Daegu Bank was awarded a prize of the Minister of Gender Equality and Family, together with the accreditation of family friendly company in 2014. This was due to the recognition on the communication management of the CEO and the efforts to make employees strike a balance between work and family. All these show the Bank's commitment to providing maternal programs, pursuing hope and happiness and becoming a good example in sharing activities.

Grand Prize in the Great Workplace category at the 2014 Korea Great Workplace Awards

In June 2014, Daegu Bank was awarded the Grand Prize in the Great Workplace category at the 2014 Korea Great Workplace Awards. The prize, designed to drive the development of businesses and the society through spreading exemplary cases of renowned corporate cultures, acknowledged the Bank's diverse family-friendly policies, CEO's communication management and new corporate culture system.

Next Step



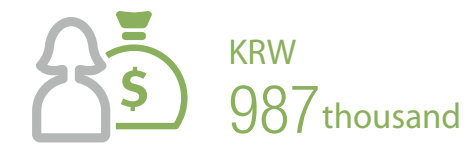
DGB Financial Group is developing "DGB Corporate Culture Index" in a bid to understand employees' perception on organizations. In addition, the Group is working to come up with a desirable solution for a better corporate culture and GWP, by studying the corporate cultures of its six different affiliates. The Group will enhance its corporate competitiveness, by advancing activities of communication, change, and innovation through the development, exploitation and management of the Index.



Talent Cultivation and Support



Education expenses per capita



Total incentives



KRW 4,788,993 thousand

Education expenses for the retiree per capita



Employee Happiness

Education on human rights per capita



52 times

Employee satisfaction

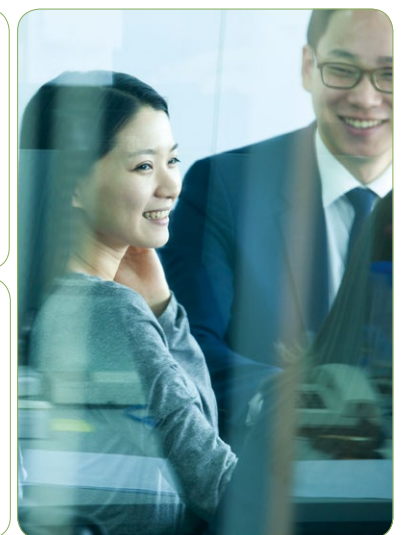


90 points

Rate of occupational accidents



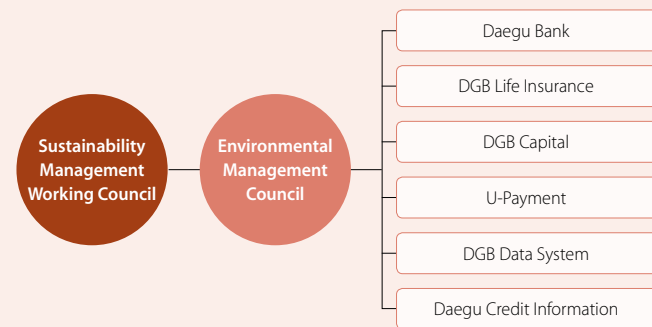
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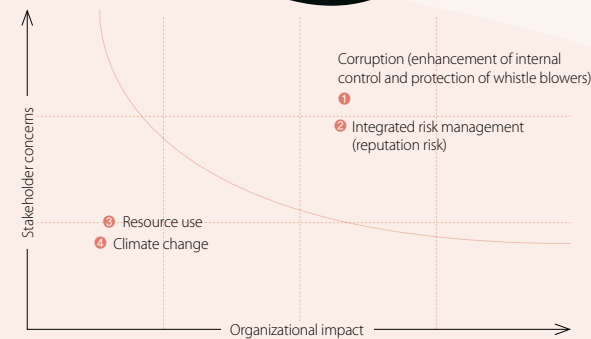
04 Risk Management



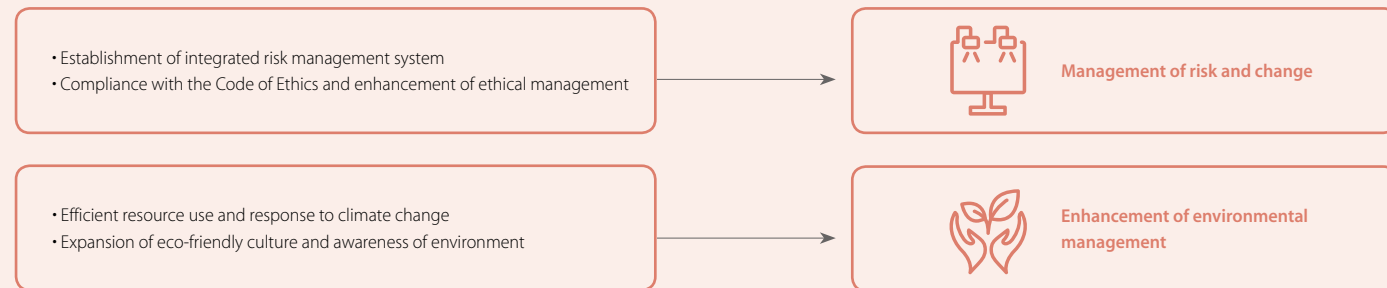
Implementation System



Material Issues



Strategic Direction



Major Performances

Category	Key Tasks	KPIs	Activities			
			2012	2013	2014	2015 (P)
Management of Risk and Change	Establishment of integrated risk management system	Holding the Risk Management Committee (times)	9	8	6	6
	Compliance with the Code of Ethics and enhancement of ethical management	Average ethics education per capita (times)	60	65	69	69
		No. of corruptions and law violations (cases)	0	0	0	0
Enhancement of Environmental Management	Efficient resource use and response to climate change	Water consumption (m ³)	108,626	174,518	166,938	165,000
		Paper consumption (tons)	110.3	119.3	123.6	129
		GHG emissions (Scope 1+2) (tCO ₂ e)	18,400.64	17,991.30	18,166.80	17,986.00
	Expansion of eco-friendly culture and awareness of environment	Rate of green procurement (%)	83.28	83.27	82.99	84
		No. of participants in environmental education (persons)	300	350	402	450
	Green Press Corps (persons)	8	8	8	8	

Management of Risk and Change



CONTEXT & CHALLENGES



Businesses are exposed to diverse risks and environmental changes, including of politics, economy and society. This is why businesses have to identify risk factors and control them in an active manner, for example, by strengthening capabilities in systemic risk management and change management. The group uncovers and manages financial and non-financial risks in all areas of business in a rigid and systematic way.

OUR PROGRESS



Risk Management

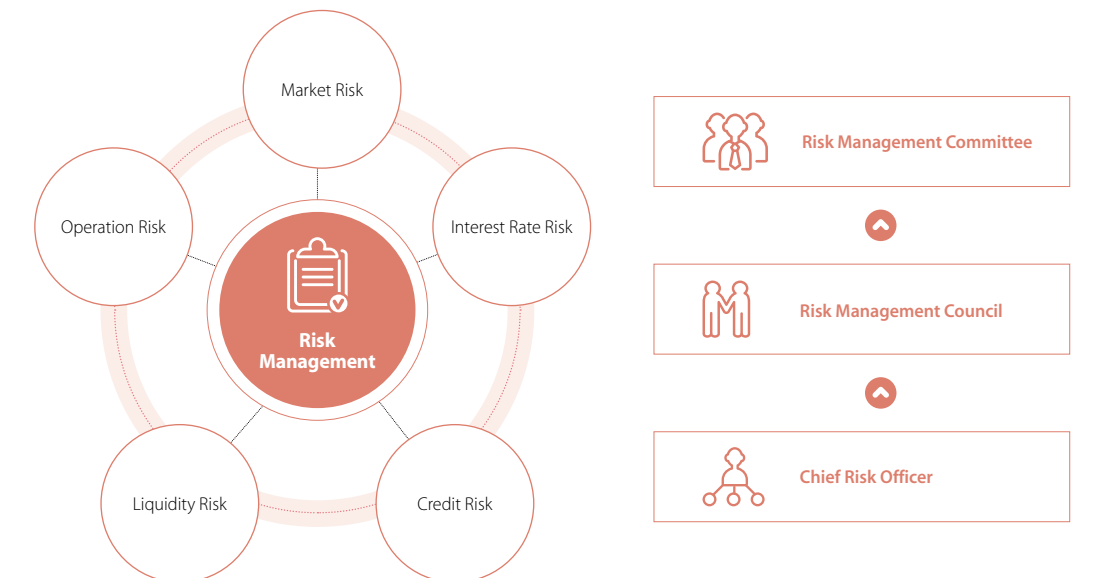
DGB Financial Group's risk management philosophy is to balance risk and profit in all business activities in order to achieve sustainable growth within the Group's risk appetite. The way of managing risk at the Group is such a scheme that the supervision of a holding company checks and balances with the risk management function of a subsidiary.

Risk Management Policy

DGB Financial Group formed Risk Management Committee under the Board of Directors to develop and monitor risk management-related policies. The Committee, the highest decision-making body with regard to risk management, convenes at least once a year to review various issues, including levels of ceiling by risk factor. It also determines risk management principles and policies and monitors related activities. The committee regularly submits its meeting reports to the BoD.

Operation of Risk Management Council

In order to align risk management policies and strategy of the Group with those of subsidiaries and to manage other issues with regard to risk, DGB Financial Group runs the Risk Management Council under the Committee. The Council consists of executives who decide on risk control; managers who deal with agreed-upon issues; and working-level staff in charge of subsidiaries. All of them reviews the details of each risks and determines to solve accordingly.



Major Activities of the Risk Management Committee in 2014

- Appointment of Chairman of the Committee
- Report on Group-wide risk management practices
- Report on the Group's BIS ratio
- Report on resolutions and deliberations of the Risk Management Council
- Report on subsidiaries' Risk Management Committee meetings
- Submission of final bid proposals for acquiring KDB Life Insurance
- Review of proposals to change permissible risk limit of the Group in 2014
- Submission of an MOU to acquire Woori Aviva Life Insurance
- Review of a contract to acquire shares of Woori Aviva Life Insurance
- Approval of the 1st capital increase
- Review of proposals to set up permissible risk limit of the Group in 2015
- Establishment of DGB Financial Group's business plans in 2015
- Report on Group-wide integrated stress test results

Operation of the Risk Management Committee

(Unit: times)

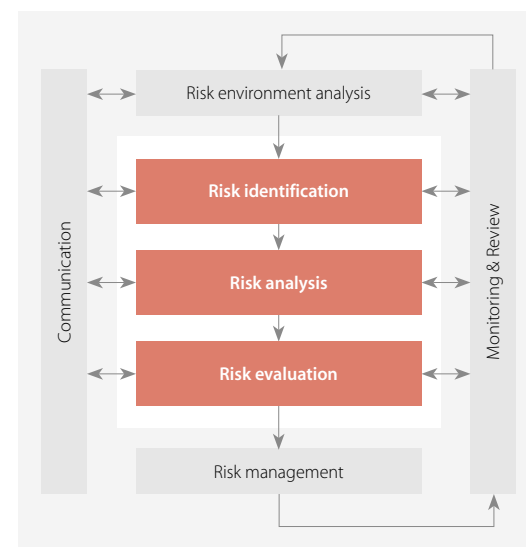


Financial Risk Management

DGB Financial Group identifies risks and analyzes them for categorization, including market, interest rate, credit, liquidity and operation, so that it can make decisions on risk limit and risk control ways that possibly prevent a risk from materializing. Risk management policies and system are under regular review so that the Group can reflect changes in market situation and business activity. It puts in efforts to build a strict and structural control environment where all employees are disciplined to understand their role and responsibility through relevant training, procedure, and management standard.

Non-financial Risk Management

DGB Financial Group acts to stave off any risk that can affect its business, by managing and responding to non-financial risks, including climate change, labor, ethics, safety-health, governance and reputation. To that end, the Group will draw up risk management procedure to ISO31000, to identify internal and external risks and come up with key risk indicator (KRI).



Ethical Management

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, and the performance of an invested company. The 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 as well as ethical programs.

Code of Conduct of Daegu Bank



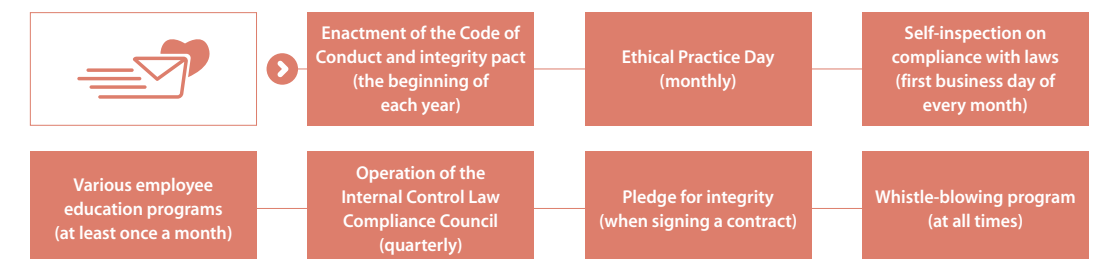
Fundamental Principle

- Do our best all the time to deliver satisfaction to our customers by providing unmatched goods and services and caring for them.
- Offer long-term stable profits to our shareholders by maximizing our corporate value through rational investment and sound management.
- Make efforts to enhance employees' living quality by conducting fair HR policies and giving them more chances in consideration of dignity and value of each employee.
- Contribute to the advancement of the local and national economy by respecting the right and just social values, observing diverse rules and laws and establishing fair financial order.

Ethical Management System

Daegu Bank announced its Code of Conduct in December 2000 to provide a reference for employees to respect laws and ethics and to act on the basics and principles. In 2002, it revised the code in a way that could adopt global standards. The Bank now practices ethical management via diversified efforts. For example, employees shall pledge to comply with ethical standards on New Year's Day and participate in voluntary ethical programs by theme during a year.

Ethical Practice Programs



Ethical Education Program

Daegu Bank offers multiple education courses to create an organization culture that focuses on ethical management. Each department/branch provides education sessions on compliance and code of conduct, at least once a month. Different job training programs, be it elective or mandatory, offers learning opportunity on those topics. The Bank runs a monthly event of "Ethical Practice Day", to provide a standard for ethical decision making and judgment, so that employees understand more of related laws and regulations in order for them to proceed their works in a rightful manner.

Education on Business Ethics

Category	2012	2013	2014	2015(P)
Education sessions per capita (times)	60	65	69	69

Whistle-blowing Center

Daegu Bank operates a whistle-blowing center where an employee can report unethical practices of his or her colleague. This policy helps to implement ethical practices, through careful and balanced attitudes between employees, which overall results ethical management and goods of the many. Mail, designated call number and email, computer system, web page, however, DGB mobile office are channels for the reporting, and the information about a whistle blower will be kept in secret.

Whistle-blowing Channels

- Registered mail
- Hot line and e-mail
- Online system
- Reporting center for employees (website)
- DGB Mobile Office

Internal Control System

DGB Financial Group reinforces credibility and transparency in financial transactions through building a systemic and consistent internal control system and exhaustive auditing (routine, general, ad hoc, and ordinary auditing.)

Internal Control System Operation

(Unit: cases)

Category	2012	2013	2014
Routine Audit	1,487	1,393	1,478
General Audit	285	298	258
Special Audit	11	12	22
Ordinary Audit	354,399	913,677	853,551

Violations of Ethical Management Related Laws

(Unit: cases)

Category	2012	2013	2014	2015 (P)
No. of law violations	0	0	0	0

Key Achievements in 2014

Selected as a Company with Outstanding Internal Audit

Daegu Bank was awarded 2014 Best Internal Audit Agency by 2014 International Seminar on Internal Audit Quality Innovation, hosted by the Institute of Internal Auditors and sponsored by the Korean Institute of Certified Public Accountants. This is due to the recognition that the Bank led the industry as a company with no financial trouble. The Bank is said to have built very strong internal control system. For example, independently professional operation of an audit committee that built an internal and external control system joined by inside and outside auditors; constant sophisticated monitoring system that can spot any abnormal transaction in real-time; management of a sub-audit committee comprised of capable auditors; spreading internal control practices; and focus on ethical management.



Next Step



DGB Financial Group will categorize types of non-financial risks on all phases of its business in order to build risk management system useful for efficient control. Then, the Group will identify risks and put them into priority so that it can administer them as key risk indicator, or KRI. In addition, it will continuously improve ethical management programs in place, in a bid to fight corruption and bolster internal control, and embed ethical culture, by applying appropriate topics to promotional activities.

Enhancement of Environmental Management



CONTEXT & CHALLENGES



Efficient use and management of resources as well as the use of alternative resources are directly linked to a company's financial performance, while minimizing impact on the environment. In this regard, securing a reliable management system is a must for sustainable development. DGB Financial Group instituted green management policies and guidelines as its bylaw but also it is in pursuit of environmental management on the institutional foundation. For instance, the Group set up the Green Finance Group that oversees group-wide environmental management practices. Furthermore, it has been putting in efforts so that its business partners and local communities think of ideas that are environmentally orientated.

OUR PROGRESS



Environmental Management Implementation System

Environmental Management

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) in the same year. Since then, it has sustained the position through regular post-certification review and re-certification process. In 2015, the bank undertook a renewal inspection for the ISO14001 and GMS: KSI 7001/7002 certificates, and was recommended to review 11 practices, including environmental education enhancement in the internal training programs.

Environmental Management Implementation System



Corrective and Preventive Measures

(Unit: cases)

Category	Incongruity	Actions Taken	Progress Rate (%)	Remarks	
2012	Internal Audit	2	2	100	Evaluation on green impact of supplies and training about green management policy
	Compliance Evaluation	-	-	-	
2013	Internal Audit	0	0	100	7 recommendations for improvement including the review of criteria for increasing green procurement
	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	-	-	-	
2015	Internal Audit	0	0	100	11 recommendations for environmental education enhancement in the internal training programs(periodical).
	Compliance Evaluation	-	-	-	

Practicing Green Habits

Raising employees' environmental awareness

Daegu Bank has been waging "Together one more", a campaign designed to increase employees' environmental awareness and interest. Through this effort, the Bank eliminates wasteful spending and saves expenditure as General Administration Department that became the only office supplies sourcing channel puts requests from other departments and branches under its scrutiny to bring efficiency.

'Together One More' Campaign

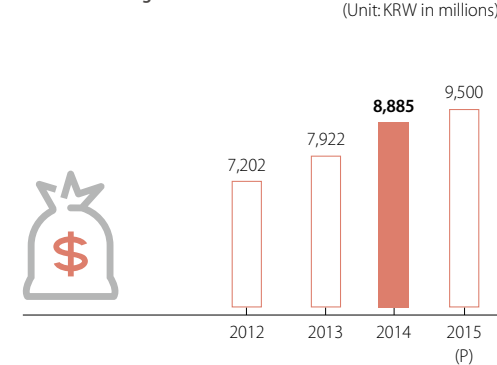
Saving materials	<ul style="list-style-type: none"> Materials to be recycled: Appliances and expendables Recycling process: <ul style="list-style-type: none"> - Transporting unnecessary expendables at branches to General Affairs Department - Picking up unnecessary appliances at branches by outsourcing or maintenance partners - Requesting necessary materials at branches to General Affairs Department → Transporting those materials
Saving costs	<ul style="list-style-type: none"> Limiting the use of disposable goods: Paper cup, copying paper, and envelopes, etc. Saving costs by limiting non-essential expenses and efficient budget control Minimum request on supplies by regularly checking product stock Limiting the use of color-printing and printing multipage documents on a paper Using recycled goods and enhancing inventory management
Saving energy	<ul style="list-style-type: none"> Limiting the use of non-essential lightings and maximizing the use of natural lights Limiting the use of individual heating and cooling devices Wearing underwear in winter and no-tie shirts in summer Setting power saving mode on PC monitors and shutting down the power when not using for over 5 minutes Turning off lights in rest room, tea-making room, and fitting room after using

Encouragement on Green Procurement

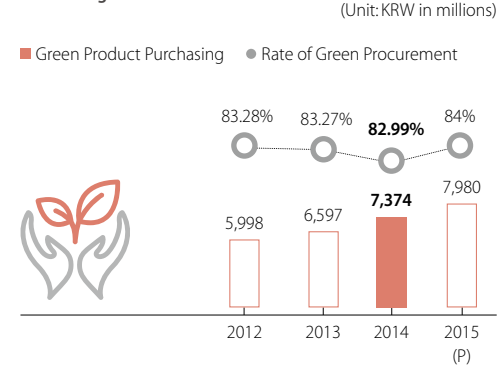
As a way to encourage production and consumption of environmentally friendly products, DGB Financial Group participates in the voluntary green procurement agreement between the industry and the government. The Group has not only expanded its green procurement under its Green Procurement Guidelines, but also raised employees' awareness through green procurement education.

Green Product Purchasing

Total Purchasing



Purchasing and Ratio of Green Product



Efficient Use of Resources

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 and employs different ways, including multiple pages on a single page and use of back of the a printed paper.

Paper Use (A4 size paper)



Electronic Bills

Category	2012	2013	2014	2015 (P)
No. of total bills sent	6,296,090	6,754,332	6,797,831	6,820,000
No. of electronic bills	1,512,410	1,822,831	1,964,321	2,114,200
Rate of electronic bills (%)	24.0%	27.0%	28.9%	31%

Waste Management and Recycling

Wastes of DGB Financial Group are largely used paper, including for reports and documents, and used office equipments, such as personal computers. Daegu Bank made an agreement with a contractor for it to collect and process all of its wastes according to relevant guidelines. In addition, the Bank has replaced several computer consumables with recycled products, to save costs.

Waste Discharge at Daegu Bank

Category	Papers		Electronics Ribbons		Printer Toners	
	Discharged	Recycling Rate	Discharged	Recycling Rate	Discharged	Recycling Rate
2012	110.3tons	100%	710KG	14.8%	2.5tons	12.0%
2013	119.3tons	100%	745KG	16.1%	2.8tons	13.0%
2014	126.0tons	100%	758KG	15.6%	3.0tons	14.2%

Water Resource Management and Recycling

Daegu Bank measures and controls amount of water usage in headquarters and branches to save on water resource. To that end, the Bank installed a rainwater collector with an annual storage capacity of 360 tons on the rooftop of its main office building so that the collected water can be used for watering gardens, cleaning cars and building floors. In 2014, the total amount of water used in the headquarters and 240 branches were 166,938 tons, down by 4.8% compared with the previous year. The average amount of water usage in a branch was 695.6 tons, down by 4.3%, year on year.

Water Use

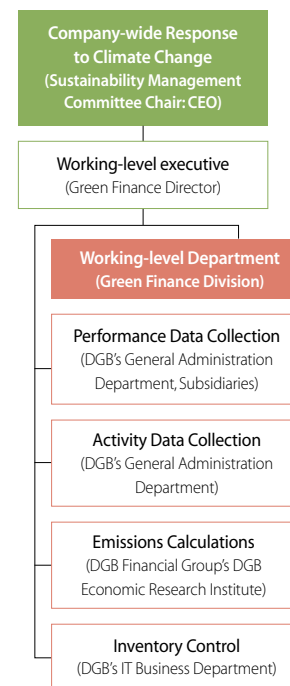
Category	2012	2013	2014	2015 (P)
Total use	108,626	174,518	166,938	165,000
Amount used per branch	734.0	727.2	695.6	687.5
Scope of water use data collection	Head Office and 148 branches		Head Office and 240 branches	

Addressing Climate Change

Energy and GHG Emissions Management System

DGB Financial Group built the GHG Inventory System to manage its energy consumption and GHG emissions in a systemic manner. Every year, the Group secures objectiveness and reliability, supported by independent inspections, in reports of energy usage reduction and GHG emissions.

GHG Inventory Management Scheme



GHG Emissions Control and Reporting Scope

Category	Remarks
Head Office	Main building, detached building (IT center), and training center of DGB Financial Group
Branches	All branch offices
Vehicles	Company-owned and leased vehicles
DGB in-house Daycare Center	In-house Daycare Center at Daegu Bank
Daegu Credit Information	Subsidiary of DGB Financial Group
U-Payment	Subsidiary of DGB Financial Group
DGB Data System	Subsidiary of DGB Financial Group

Category	Emission Sources	Fuels (Substance)
Direct emissions (Scope 1)	Stationary combustion emissions	Facilities within the scope of Daegu Bank's administration that uses fossil fuels; boilers, restaurants, emergency power generators, etc.
	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
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's main energy source is electricity, which has to do with the operations of branches and different facilities, including ATM. Against this backdrop, the Group has made efforts to reduce energy consumption and GHG emissions. For example, it chose building materials, lightings and other appliances with high energy-efficiency when renovating branches. Also, the Group launched "Together one more," an in-house campaign designed to encourage employees to lower energy consumption. The total amount of the Group's energy consumption in 2014 was 164.78TJ, increased by 4.160%, year on year, while that of GHG emissions being 18,167tCO₂e, increased by 0.97% compared with the previous year.

Energy Use



* The increase of direct energy use resulted from offering vehicles for business use to all of 256 Daegu Bank branches for the reinforcement of sales capacity.

GHG Emissions

(Unit: tCO₂e)

Category	2012	2013	2014	2015 (P)
Scope 1	2,662	2,095	3,069	2,866
Scope 2*	15,738	15,896	15,098	15,120
Total emissions (Scope 1+2)	18,400	17,991	18,167	17,986
Scope 3	1,317	2,414	1,620	1,650

* The Scope 2 data were recalculated by adopting the estimation method that the banking industry guided by the GHG and Energy Target Management System (2014) generally uses. (The energy intensity is equally applied to both our own branch offices and leased branch offices.)

Indirect Emissions of GHG

(Unit: tCO₂e)

Category	2012	2013	2014	2015 (P)
Branches	8,123	8,276	8,215	8,315
ATM	3,477	3,440	2,729	2,700
Head Office of Daegu Bank (including DGB Financial Group and DGB Data System)	3,931	4,072	4,046	4,000
Daegu Credit Information	50	42	42	40
U-Payment	80	66	66	65

GHG Emissions Reduction Activity

Green Touch Program | DGB Financial Group has adopted the Green Touch Program since September 2012, after being selected as a leading Green Touch company. Installation of the program on computers at its head office and branches, respectively, enabled the Group to cut carbon emissions by 9,600 kg in 2014.

* Green Touch Program is a computer system that reduces electricity consumption when a computer is idle.

Green Touch Program Benefits

Category	Saved Electricity (kWh)	Saved Hours of Electricity	Amount of CO ₂ emissions reduced (Kg)	Equivalent to Planting Trees (trees)
2013	97,655	41,406	14,948	962,367
2014	62,719	26,592	9,600	620,093

BMW Commuting Day | Since 2012, 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. It also runs regular employee surveys for related promotional ideas.

The Second Head Office of Daegu Bank, a local environmental landmark | Since its ground-breaking in December 2013, the construction of the second head office of Daegu Bank is going smooth as planned. The new building was designed to cut 45% of energy consumption, more than 30% of carbon emission and over 40% of water use, all of which are remarkable facts, enough to receive the Gold rating from Leadership in Energy and Environmental Design. This US green certification is planned to give the second head office an edge as an environmental landmark in Daegu, upon its completion.



Green Education Programs

Employee Green Education

DGB Financial Group has been providing environmental education to its employees in order to encourage individual employees to adopt a green lifestyle. Courses on environmental management and green finance are mandatory for employees. Furthermore, GHG inventory system users' training and internal auditors' green management system training are conducted intermittently to further enhance our employees' environmental awareness.

Implementation of Environmental Education

Category	2012	2013	2014	2015 (P)
No. of employees (persons)	2,618	2,926	2,852	2,860
Annual training hours on green management (hours)	300	350	402	450

Provision of Environment Class to Those on K-12 Education by DGB University Student Green Press Corps

The 5th DGB University Student Green Press Corps, an environment program of DGB Financial Group, provided an environment class to four different local schools (Seobu and Daegu High School, Wolseo Middle School and Jongno Primary School) during November. Under the theme of "Rediscovery of Environment; the Planet Earth", the group offered constructive lectures, sharing the seriousness of environmental contamination and green activities in everyday life. The program was delivered in two different approaches. For primary school students, the lecture focused on the importance of environmental protection, using pictures and video clips that come easy to understand. For older students in junior high and high school, the group's experiences and actual cases were employed to shed light on practical ways of that protection. This education method brought a big response from them.

The 6th NIE Energy Diary Contest Awarding Ceremony

DGB Financial Group hosted the 6th NIE Energy Diary Contest awards ceremony in November 2014. Since April last year, for six months, approximately 1,200 applicants from primary, middle and high schools contested. Outside expert judges selected 58 winners from the participants.



Applicants and Winners of NIE Energy Diary Contest

(Unit: persons)

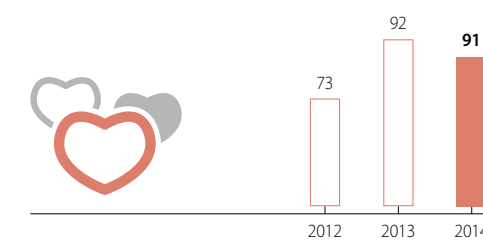
Category	1 st	2 nd	3 rd	4 th	5 th	6 th
Applicants	2,510	3,200	3,500	3,750	2,200	1,200
Winners	62	55	53	68	34	58

Environment Protection Activity in Local Community

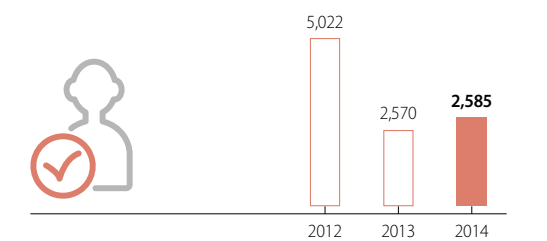
DGB Financial Group practices diverse environment protection activities, in a bid to take the lead in environment conservation in local communities. As a result, a total of 2,585 employees partook in them in 2014. For example, Environment Care that includes tree planting and invasive foreign species elimination that disturb the ecological system, Shincheon Cleaning under the policy of 'One Company, One Stream', banner posting that urge trailers not to set on wildfire, events in commemoration of World Water Day, Dok-do (Island) Love, including support to Dok-do abalone project and consolation events for Dok-do Guard.

Environmental Preservation Activities in 2014

No. of activities

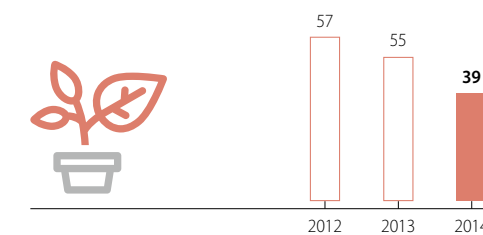


No. of participants



Investment in environmental preservation

(Unit: KRW in millions)



Next Step

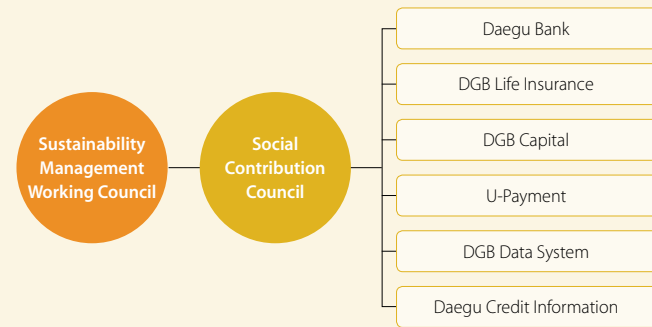


To practice environment management more aggressively, DGB Financial Group will set up mid- and long term targets and create specific action plans for efficient control of energy, GHG, water and paper consumption. In addition, the Group will expand the scope of this effort, and take this approach for other five subsidiaries within the Group.

05 Creation of Shared Value



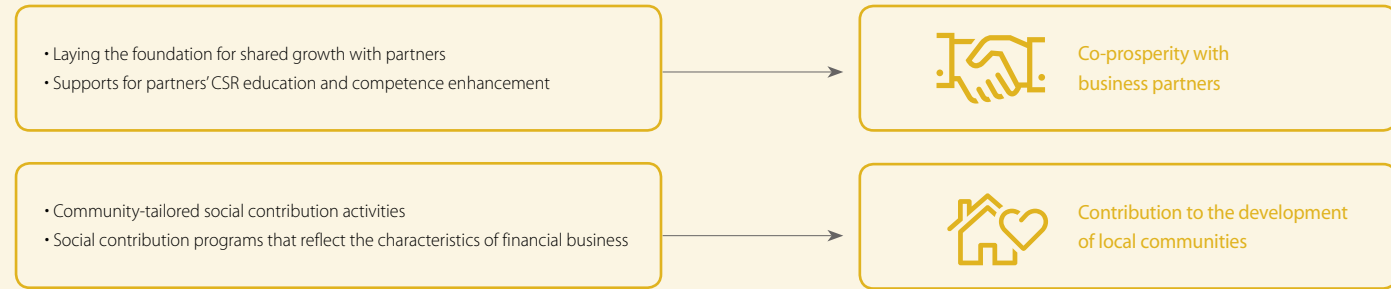
Implementation System



Material Issues



Strategic Direction



Major Performances

Category	Key Tasks	KPIs	Activities			
			2012	2013	2014	2015 (P)
Co-prosperity with business partners	Laying the foundation for shared growth with partners	Business Partners Council (times)	1	1	1	1
		Handling of business partners' grievances (%)	100	100	100	100
		Business partners' satisfaction (points)	90	92	95	94
Contribution to the development of local communities	Supports for partners' CSR education and competence enhancement	Educations for business partners (times)	1	1	1	1
		Community-tailored social contribution activities	Social contribution expense to net income (%)	8.7	9.7	11.3
Contribution to the development of local communities	Social contribution programs that reflect the characteristics of financial business	No. of participants in volunteer services	21,723	22,208	22,182	22,300
		No. of firms that received management consulting services from DGB Financial Group	63	67	74	75

Co-prosperity with Business Partners



CONTEXT & CHALLENGES



DGB Financial Group works in partnership with outside specialized companies for its procurement, IT security, credit ratings and accounting audits, as well as the organization's legal compliance. Committed to co-prosperity, DGB Financial Group helps partner companies maintain stable operation through fair and transparent transactions, and holds annual Co-prosperity Council meetings. The Group helps partner companies and listens to the suggestions/complaints of partner companies. The Group has in place a variety of education and training programs that assist in building the competencies of partners so as to help business partners promote awareness on the Group's sustainability management in the value chain.

OUR PROGRESS



Establishment Fundamental Principles for Co-prosperity

DGB Financial Group has established 'five principles for co-prosperity' that include principles like Enhancing partnership, Securing transparency in transaction, Guaranteeing proper prices, Eliminating unfair practices and Strengthening environmental management activities. These principles are expected to give business partners appropriate and substantial help they need.



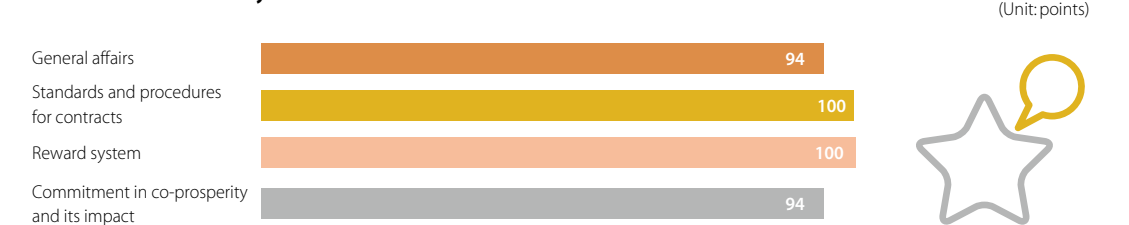
Basic Principles for Mutual Cooperation with Business Partners

01. Enhancing partnership: Supports for CSR activities of business partners and joint promotion
02. Securing transparency in transaction: Establishment of a culture of transparent transaction based on ethical management
03. Guaranteeing proper prices: Payment of fair and reasonable costs
04. Eliminating unfair practices: Rapid payment and improvement of unreasonable transaction practices
05. Strengthening environmental management activities: Expansion of environmental product use and environmental protection activities for local communities

Partner Satisfaction Survey

The Group ran a partner satisfaction survey to have better relations with partner companies and listen to their voices in 2015. The survey questionnaires included general information; standards and procedures for contracts (written contracts, delivery charges, methods of settlement, date of payment); reward system; the Group's commitment in co-prosperity and its impact felt by the partners. The survey showed that the Group earned 94 points in general affairs, and 100 points in contract standards and procedures.

Partner Satisfaction Survey Result in 2015



Meetings with Business Partners

DGB Financial Group holds regular meetings regarding co-prosperity with business partners and listens to the suggestions/complaints of partner companies in order to better reflect their voices in our following business plans. Held in March 2015, the Group's meetings with business partners presented a venue for sharing the previous year's performance and future plans regarding its Sustainability Management practices. As well as discussing ways to resolve issues faced by business partners and offer support measures to them.

Meetings with Business Partners

Category	2013	2014	2015
Suggestions by business partners	One suggestion • Selecting local business partners preferentially	Two suggestions • Expanding educations for business partners (safety, ethics, sustainability, etc.) • Providing reasonable compensation for weekend and work after hours	One suggestion • Reflection of inflation rate in budget allocation
Proposals by DGB Financial Group	One proposal • Building guidelines for green procurement	One proposal • Reviewing the improvement of business partner management system	One proposal • Collecting business partners' suggestions and enhancing management channels
Handling results	Execution of one suggestion	Execution of one suggestion	Execution of one suggestion

Education on the DGB Sustainability Management

We have provided education programs on sustainability management in order to help business partners raise awareness on sustainability management and improve their competencies. This program aims to share information and knowledge about sustainability management trends and discuss future directions with partner companies.

Interview



DGB Financial Group stands as a company dedicated to Corporate Social Responsibility (CSR) practices. But we firmly believe that without gaining financial outcomes it is impossible for financial institutions to secure sustainable future. In order for the Group to grow together with the local communities, it is imperative that DGB Financial Group strive to improve its business performances by making efforts in expanding its presence into overseas market; developing financial technology infrastructure; and building risk response capabilities. As the business partner's awareness on fulfilling corporate's social responsibilities enhances, the Group needs to take into account companies' CSR performances when it makes a decision on selecting a partner. I hope that DGB Financial Group grows into a company that could maintain win-win partnerships by making these endeavors.

Director Jin-ki Sung, Hwa-sung Industrial Co.

Next Step



DGB Financial Group plans to hold the annual satisfaction survey so that the group can carefully listen to what business partners have to say and find better ways to maintain win-win partnerships. In line with these efforts, the Group will strive to help business partners reinforce their competitiveness through educations programs on sustainability management, which is the response to the increasing demand by business partners.

Contribution to the Development of Local Communities



CONTEXT & CHALLENGES



Increase in productivity and growth of job creation in Daegu/Gyeongbuk region are critical to the growth of DGB Financial Group. Therefore as a regional financial service provider, the Group commits its resources and energies to promote the local economy and its self-sufficiency.

OUR PROGRESS



Social Contribution Activities

Museum of Daegu Bank and Financial Education Program

Daegu Bank runs a financial museum to provide a venue for sharing the regional financial history and teaching financial literacy and economic knowledge to students in the region. It offers as many as 20 tour programs designed for grades K-12 every month. Highlights include a replica of bank window in actual size, history of Daegu bank, and "Kids bank" which allows schoolchildren to enhance their financial knowledge. Also, the museum features each nation's currency, and a venue where local residents can improve financial knowledge through hands-on experience of financial history and take a picture as well.

Employee Talent Donation

Daegu Bank employees engage in talent donation program designed for enhancing financial literacy of local schoolchildren. With aims of encouraging students to better understand financial knowledge and reinforcing financial literacy programs for youth, employees such as in-house finance instructors, branch managers and finance counselors visit schools to give lectures after scheduling the appointment. Up until 2014, the program has reached out to around 10,000 students in 87 schools. The group actively encourages middle and high school students to learn about the career opportunities by jointly operating "Job Shadowing Program" with Gyeongsangbuk-do Office of Education, and signing an MOU with Daegu Education Training Institute on reinforcing economic and financial literacy courses.



“DGB Happy Concert” for Senior Customers

Daegu Bank hosted “2014 DGB Happy Concert - Retirement Story for Seniors” in October 2014. To meet the demands of senior customers who are interested in topics of asset management after retirement, investment strategies and health, the event covered various topics: ‘the recent government policies concerning the real estate and outlook for the real estate market in the Daegu/Gyeongbuk region,’ ‘tips for health care’ and ‘life plan based on physiognomy’. On the sideline, the event offered a music concert of saxophone and set up a separate booth for diagnosing brain functions among participants.

Pro Bono Legal Services for Local SMEs

Daegu Bank signed an MOU with Woorihanalaw on offering free legal consulting service to local SMEs. The growing numbers of local companies have experienced difficulties in dealing with not only issues of intellectual property rights such as patent infringement cases, prosecution of industrial property rights and relevant litigations but also legal issues of M&A and corporate rehabilitation proceedings. The partnership is expected to provide regional businesses with consulting and legal advisory services to help them cope with difficulties in management and legal area.

Provision of Management Consulting Service

Category	2012	2013	2014	2015 (P)
No. of firms that received management consulting services from DGB Financial Group	63	67	74	75

Promoting Job Creation and Self-sufficiency in Local Communities

Future Generation Education Project Group

Established by DGB’s Social Contribution Foundation, “Future Generation Education Project Group” met the requirements of Social Enterprise Standard in June 2014 and earned the certification of Social Enterprise (no. 2014-097). For its goal to bring dreams and hopes into the life of every child and young individuals living in the region and support their healthy development, the Project provides them with education welfare services: counseling services, career exploration, mentorship programs, and camping programs. Also professionals working at the center receive broad training programs to enhance their expertise.

“DGB Bluebird Senior Happy Workplace Project

To preemptively address the growing social need for workplaces, “DGB Bluebird Senior Happy Workplace” was launched as a social project to help local senior residents seek decent jobs which allow them to enjoy their time in workplace. Senior citizens working for the center are cleaning and sterilizing toys at as many as 130 local childcare centers, including kindergartens and daycare centers. They are reaching out further to help those who are socially vulnerable like multicultural families and unmarried mother at social facilities. Of particular note was that in June 2014 senior residents sterilized about 10 homes of the elderly living alone in the region of Dalseo-gu, Daegu.



DGB Social Contribution Foundation’s Major Activities

Category		2012	2013	2014	2015 (P)
Future Generation Education	Job creation (persons)	6	6	6	8
Project Group	Proceeds (KRW in millions)	37	101	119	125
Bluebird Senior Happy	Job creation (persons)	8	10	13	13
Workplace	Proceeds (KRW in millions)	14	25	34	40

Community Engagement Programs for Social Minority Groups

Support for Multicultural Families

Under the slogan of “Cheering for the brighter dreams and future of multicultural families”, DGB’s Social Contribution Foundation had an opportunity to report the results of projects conducted for supporting the families in 2014. The Foundation offered Korean language classes which served as a stepping stone in adapting to the Korean society and vocational training programs designed to help the families become financially independent in 2014. As we have operated Korean language classes once a week for a year to help them improve the language abilities and also courses for certificate of proficiency in Korean, over 85% of applicants obtained grades in TOPIK, the Korean proficiency test. In an attempt to support foreign spouses stand on their own feet, the Foundation provided foreign spouses with various professional training courses. As a result, one foreign spouse earned a care staff certification (level 1) and three of them obtained level 2 certificates in nail treatments. It was clear that the community engagement programs were beneficial for multicultural families who want to become financially independent.



“With-U” University Students Tutoring Group

Since 2012, the social contribution foundation has been promoting ‘DGB Total-Care for the Children Living with Grandparents’ to support the children and young persons who live in a household headed by grandparents in the region. As a part of the project, ‘the 3rd With-U University Students Tutoring Group’ was launched in December 2014 attended by student volunteers and children/youth participating as a mentee totaling 30 persons respectively. On that day, they came up with plans for academic mentorship, while engaging in recreation and education programs on mentorship.

What is DGB Total-Care for the Children Living with Grandparents?

About the project

The Project enabled employees (mentor) from DGB Financial Group and its affiliated companies to look after and support children and young person (mentee) raised by a grandparent with no parents living in the home through building a sisterhood relations.

Our progress

- As of March 2015, we have built a one-on-one sisterhood relations with 118 children from 87 households.
- Support the children and young persons by giving pocket money, tutoring programs and general medical examination services
- Provide continuous support from primary to high school



MOU for Children and Youth from Multicultural Families

“Bluebird Multi-cultural Welfare Center” and “Bluebird Dream Community Center for Children” entered into an MOU with Korea Transactional Analysis Association to build a partnership on promoting the welfare of multicultural families through specialized counseling services for foreign spouses married to Korean citizen and their children. By signing another MOU with Seongmyeong and Hyomyeong elementary schools, the centers forged a cooperative partnership for foreign spouses and their children who are in need of continuous counseling sessions and education programs.

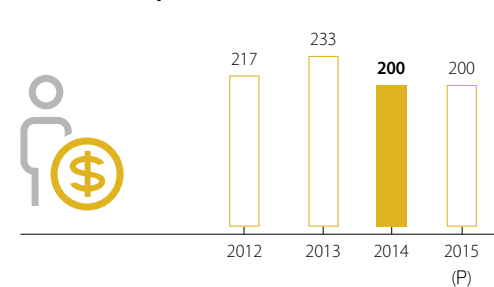
Book Donations for Inmates

As a part of correction program, DGB's Financial Group's Social Contribution Foundation delivered 300 books and donated KRW 10 million to Northern Gyeongbuk 2nd prison located in Cheongson, Gyeongbuk province in April 2014. The foundation's sponsorship program goes back to the year 2012 and continues until today.

Daegu Bank Labor Union's Social Contribution Activities

In an effort to carry out social contribution activities, the labor union established a social contribution foundation and engaged in various social activities including sponsoring the children from low-income families by chipping in 1% of each employee' income since 2007. With delivering donation to the Green Umbrella Children's Foundation in August 2014, the union helped the foundation carry out supporting program allowing the students of low-income and multi-cultural families to take a cultural travel abroad. The union also conducted a broad range of activities such as covering the costs for ancestral memorial rites for Korean Thanksgiving Day or Chuseok and sending books to regional community center for children.

DGB Bank Labor Union's Social Contribution Expenses



Support for Educational, Cultural, and Sports Activities

Opened “DGB LAB” in Reungtemin Middle School, Vietnam

The bank, as a part of global CSR effort, opened “DGB LAB” (for educational purpose) by renovating the classroom for about two months and donating facilities for education including air conditioners, electric fans and computers. We donated scholarships to 20 students with financial difficulties, enabling them to learn in a decent environment. DGB's Financial Group will strengthen its competencies in not only fulfilling its responsibilities of CSR in the region but also carrying out social contribution activities abroad as a leading global bank.

The 4th DGB Dok-do Love Golden Bell Quiz Show

To inherit the spirit of defending Dok-do and remind people of the significance of Dok-do and historic awareness, Daegu Bank hosted ‘the 4th DGB Dok-do Love Golden Bell Quiz Show’ attended by about 500 students selected from high schools in Daegu/Gyeonbuk region. It took place before the National Liberation Day, marking the fourth event since 2011. The event served as an opportunity for regional students to think of the nation's history. The questions mainly focused on Dok-do, Korean history, local language, and history as well as basic financial/economic knowledge.

The 6th Sharing of Hope Music Concert

Daegu Bank held ‘the 6th Happy Sharing of Hope Music Concert’ in the underground auditorium of the head office building, inviting as many as 200 youths in the region in December 2014. The music charity concert entertained the audience with Christmas carol medley in the spirit of Christmas.

Art Contest for Kids and Essay Contest for Women

The Bank hosts the annual ‘Art Contest for Kids and Essay Contest for Women’ which serves as a platform for children and women across the region to engage in various cultural activities. The contest is open to all children and women in Daegu and Gyeonbuk region. This year, 8,173 artworks and 306 writings were registered in the 13th contest. The works of kid artists and female writers were selected through a panel of judges’ rigorous evaluation with a fierce competition rate of 10:1. Outstanding entries received prizes, certificates and scholarships.



DGB's Scholarship Cultural Foundation

In 1990, DGB's Financial Group announced the establishment of DGB Scholarship Cultural Foundation to identify and nurture outstanding community students through shaping a better environment for local students and sponsoring them. In 2014 the Bank provided more than KRW 417 million in scholarship funds to 210 community students in total, encouraging them to grow into members of the society based on self-discipline and innovative minds who could take the nation and the society to the next level.

Category		2012	2013	2014
High School	No. of beneficiaries	116	116	114
	Amount of scholarships (KRW in millions)	188	177	174
University	No. of beneficiaries	97	97	96
	Amount of scholarships (KRW in millions)	250	230	243

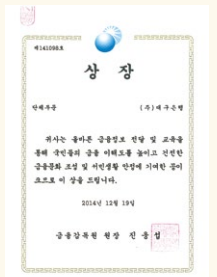
Daegu Bank's Major Social Contribution Activities in 2014

Area	Major Programs	Contribution (KRW in millions)	No. of Volunteers
Local communities and public welfare	<ul style="list-style-type: none"> Operating DGB Volunteer Corps Sharing Kimchi and briquette Photo-shoot for elderly citizens Improving living environment for needy people Holding the DGB Happiness Concert for senior customers 	16,176	13,440
Culture, art, and sports	<ul style="list-style-type: none"> Operating the Lovely Homerun Zone at a baseball park Sponsoring cultural activities for prisoners Holding art contests for children and essay contests for women 	4,377	2,099
Education and scholarship	<ul style="list-style-type: none"> Operating DGB Scholarship Foundation Delivering Wink-Talk scholarships Holding the DGB Dokdo Love Golden Bell Quiz Show 	2,650	211
Micro-credit, dormant deposit, Youth Startup Foundation, and Credit Counseling & Recovery System	<ul style="list-style-type: none"> Participating in a joint start-up academy in universities Implementing credit recovery support programs 	2,670	0
Environment and global	<ul style="list-style-type: none"> Sponsoring lighthouse operation and recovery of hanson lilly in Dok-do Carrying out campaigns to prevent forest fire 	39	6,432
Total		25,912	22,182

Key Achievements in 2014

Received Financial Supervisory Service Governor Prize at the 9th Kyunghyang Financial Education Awards

DGB's Financial Group was awarded Financial Supervisory Service Governor Prize at the 9th Kyunghyang Financial Education Awards co-hosted by Financial Supervisory Service (FSS) and Credit Counseling and Recovery Service in December 2014. As a regional based institution, the Bank was awarded the prized for its achievements in enhancing financial literacy in a broad way: giving finance lectures to local students and residents, operating Museum of Daegu Bank and hosting Dok-do Love Golden bell Quiz Show.



Interview



In order to become a sustainable institution, DGB Financial Group needs to secure outstanding human resources and be ready with differentiated business practices. Not just satisfied with recruiting talented workers, the bank is required to come up with a mid-to long-term human resource development program where HR managers could discover an excellent personnel and provide them with customized career development plan. The Bank also needs to pay attention to the local community and carry out tailored support measures targeting SMEs based on up-to-date studies on local enterprises.

Director Hyeong-chul Kim, Sangyoek Community Welfare Center

Next Step



DGB Financial Group will commit itself to reinforcing social contribution programs to enhance both corporate and social values by carrying out community service programs such as the Museum of Daegu Bank for Youth. We also plan to engage in mutual growth activities for local economies through an evaluation system to assess how much impact the Bank's CSR activities have on both the Group itself and the local community by taking quantitative and qualitative approaches.

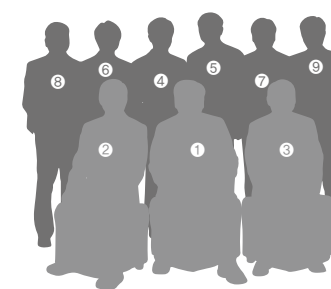
DGB Financial Group Board of Directors



- ① **Park, In-gyu** CEO & Chairman of the Board
- ③ **Cho, Hae-nyoung** Outside Director
- ⑤ **Ha, Jong-hwa** Outside Director
- ⑦ **Park, Dong-gowan** Vice President

- ② **Lee, Jeong-do** Outside Director
- ④ **Kim, Ssang-su** Outside Director
- ⑥ **Lee, Ji-eun** Outside Director

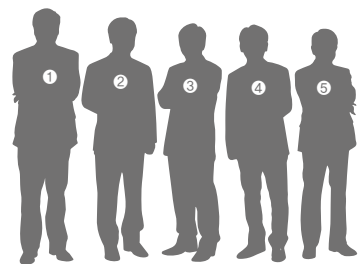
Daegu Bank Board of Directors



- ① **Park, In-gyu** CEO & Chairman of the Board
- ③ **Hong, Jang-hee** Outside Director
- ⑤ **Suh, In-duk** Outside Director
- ⑦ **Park, Nam-kyoo** Standing Auditor
- ⑨ **Lee, Seung-yong** Vice President

- ② **Kim, Jin-tak** Outside Director
- ④ **Koo, Wook-seo** Outside Director
- ⑥ **Suk, Wang-ki** Outside Director
- ⑧ **Roh, Seong-seok** Vice President

CEOs of DGB Financial Group Subsidiaries



- | | | | |
|-----------------|--------------------------|------------------|-----------------|
| ① Oh, Ik-whan | CEO | ② Park, Chang-ho | CEO |
| | DGB Life Insurance | | DGB Capital |
| ③ Lee, Mahn-hee | CEO | ④ Lee, Geun-gyu | CEO |
| | U-Payment | | DGB Data System |
| ⑤ Son, Soon-ho | CEO | | |
| | Daegu Credit Information | | |

FINANCIAL SECTION

Management's Discussion & Analysis	88
Independent Auditors' Report	94
Consolidated Statements of Financial Position	95
Consolidated Statements of Comprehensive Income	96
Consolidated Statements of Changes in Equity	97
Consolidated Statements of Cash Flows	98
Notes to the Consolidated Financial Statements	101

Management's Discussion & Analysis

DGB Financial Group

As a community-based comprehensive financial group, DGB Financial Group pursues co-prosperity with local communities. It was established 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, and Daegu Credit Information in order to overcome adverse business circumstances and create new growth engines specialized for a regional bank. Since then, the Company has incorporated DGB Capital and DGB Data System in 2012 and DGB Life Insurance by acquiring 98.9 percent ownership in January 2015 into its subsidiaries. Our fundamental 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 the number of outstanding common shares were 169,053,154 as of January 21, 2015.

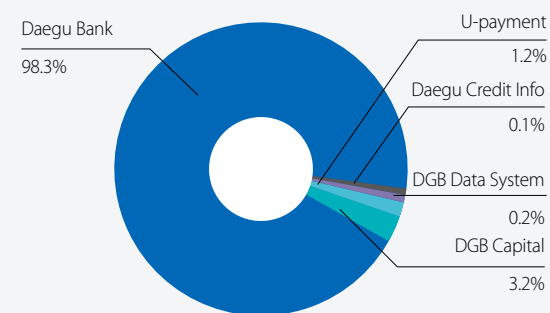
(In billions of won)

	DGB Group	Daegu Bank	DGB Capital	U-payment	DGB Data System	Daegu Credit Info	Other(*)
Gross Operating Income	1,039.1	1,010.5	30.4	7.1	1.5	1.3	(11.8)
Interest Income	1,021.9	994.5	30.8	0.1	0.1	0.1	(3.7)
Non-Interest Income (Loss)	17.2	16.0	(0.4)	7.0	1.4	1.2	(8.1)
General and Administrative Expenses	544.0	526.7	8.6	3.1	0.8	0.9	3.8
Provisioning Expenses	171.2	160.1	10.9	0.0	0.0	0.0	0.2
Operating Income	323.9	323.7	10.9	4.0	0.7	0.4	(15.8)
Net Income	243.8	250.2	8.5	-0.1	0.5	0.3	(15.6)
Total Assets	45,980.9	45,042.0	958.3	40.0	7.5	4.8	(71.7)

* Consolidation adjustments and trust assets

DGB Financial Group's total assets at the end of 2014 increased 10.2 percent, or KRW 4,238.4 billion, from the previous year to KRW 45,980.9 billion, which was mainly attributable to 9.6 percent rise in total assets of its major subsidiary Daegu Bank. By item, loans and receivables significantly affected asset growth with an increase of 12.1 percent or KRW 3,781.6 billion, year-on-year. Meanwhile, the Group's operating income and net income in 2014 decreased 4.5 percent and 0.3 percent compared with the previous year to KRW 323.9 billion and KRW 243.8 billion, respectively, due mainly to the decline of interest rates and intense competition. Daegu Bank accounted for 95.3 percent of total operating income by achieving KRW 323.7 billion (after excluding intercompany transactions) for the year.

Operating Income Contribution in 2014



Indicator	Account	Percentage
Profitability	ROA	0.58%
	ROE	8.16%
	CIR	52.36%
Asset Quality	NPL ratio	1.15%
	Delinquency ratio	0.73%
Capital Adequacy	Capital adequacy ratio	12.92%
	Tier I CAR	9.99%
Dividend Payout	Dividend yield (par value)	6.40%
	Dividend payout ratio	18.70%
Credit Ratings	Nice Investors Service, Korea Ratings	AAA
	Moody's	A2
	S&P (DGB, as of Apr. 2013)	BBB+

DGB Financial Group's financial indicators are as follows: Return on assets (ROA) and return on equity (ROE) recorded 0.58 percent and 8.16 percent, respectively, slightly lower than the previous year. BIS ratio decreased 2.14 percent point year-on-year due to the increase of risk weighted assets, however, still remained above the market average. In the aspect of asset quality, both NPL ratio and delinquency ratio slightly rose compared to the last year. Dividend payout ratio in 2014 increased 2.9 percent point year-on-year to 18.7 percent. As for credit ratings, the Group has maintained the highest AAA grade by Korean credit rating agencies, A2 grade by Moody's, and BBB+ grade by S&P. DGB Financial Group is focusing on creating synergy among subsidiaries, diversifying business portfolio, and developing new profit sources in order to secure differentiated competitive edge, through which it will continue to improve profitability and financial soundness.

Daegu Bank

I. Operating Results

Net Interest Income & Net Interest Margin (NIM)

(in billions of KRW)

	2014	2013	YoY Change	
			Amount	Percentage
Interest revenue	1,654.4	1,645.6	8.8	0.5%
Cash & due from banks	5.1	2.8	2.3	82.1%
Securities	254.4	270.7	-16.3	-6.0%
Loans	1,249.1	1,219.3	29.8	2.4%
Others	145.8	152.8	-7.0	-4.6%
Interest expenses	659.9	722.4	-62.5	-8.7%
Deposits	515.8	530.6	-14.8	-2.8%
Borrowings	55.5	62.0	-6.5	-10.5%
Bonds	77.1	118.3	-41.2	-34.8%
Others	11.5	11.5	0.0	0.0%
Net interest income	994.5	923.2	71.3	7.7%
Net interest margin (%)	2.54	2.54	-	-
Net interest spread in Won (%)	2.89	3.05	-	-0.16%p

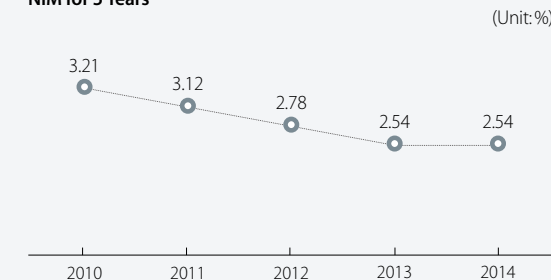
(in billions of KRW)

	2014	2013	YoY Change	
			Amount	Percentage
Interest bearing asset	34,478.6	31,732.7	2,745.9	8.7%
Interest expense liabilities	33,482.2	30,764.9	2,717.3	8.8%
Net Interest bearing asset	996.4	967.8	28.6	3.0%

(in billions of KRW)

	2014	2013	YoY Change
Net interest spread in Won	2.89%	3.05%	-0.16%p
Interest rate on loans in Won	4.87%	5.29%	-0.42%p
Interest rate paid on deposits in Won	1.98%	2.24%	-0.26%p

NIM for 5 Years



Net interest income of Daegu Bank rose by 7.7 percent from the previous year to KRW 994.5 billion in 2014, which was mainly attributable to the decrease of interest expenses by 8.7 percent. Net interest margin was 2.54 percent, the same level as the year before and net interest spread stood at 2.89 percent, a 0.16 percent point slide year-on-year. The stagnation of interest margin and spread resulted mainly from prolonged low-interest rate trend during the year. As shown in the table, net interest spread decreased from 3.05 percent in 2013 to 2.89 percent in 2014. Meanwhile, Daegu Bank's net interest bearing asset grew by 3.0 percent, or KRW 28.6 billion, from the previous year.

The domestic banks have been facing a downward trend in net income margin for recent years due to the sluggish domestic economy and the government's policy to maintain low interest rate as part of solving the household debt problem. However, in 2014, Daegu Bank retained its net income margin to the same level from the previous year. It intends to attract more interest bearing assets and effectively manage bad debt expenses in order to offset declining net interest margin trend.

Management's Discussion & Analysis

Non-interest Income

(in billions of KRW)

	2014	2013	YoY Change	
			Amount	Percentage
Non-interest Income	16.0	41.1	-25.1	-61.1%
Fees and commission income	70.4	72.1	-1.7	-2.4%
Gain on financial instruments held for trading	15.9	31.2	-15.3	-49.0%
Gain on foreign currency transactions & derivatives products	17.6	15.1	2.5	16.6%
Gain on disposition of loans	2.0	8.2	-6.2	-75.6%
Other operating expenses	-89.9	-85.5	-4.4	-5.1%

Daegu Bank's non-interest income in 2014 fell 61.1 percent, or KRW 25.1 billion, year-on-year to KRW 16.0 billion, mainly due to significant decreases in gain on financial instruments held for trading and gain on disposition of loans by 49.0 percent and 75.6 percent from the year before, respectively. Meanwhile, Daegu Bank saw an increase of KRW 2.5 billion, or 16.6 percent, in gain on foreign currency transactions & derivatives products. Other operating expenses rose by 5.1 percent, or KRW 4.4 billion, to KRW 89.9 billion, of which Credit Guarantee Fee and Deposit Insurance Fee were KRW 49.1 billion and KRW 40.6 billion, respectively.

General and Administrative Expenses

(in billions of KRW)

	2014	2013	YoY Change	
			Amount	Percentage
General and administrative expenses	526.7	491.3	35.4	7.2%
Salaries and employee benefits	263.9	245.7	18.2	7.4%
Depreciation & taxes	66.0	62.6	3.4	5.4%
Accrued retirement benefits	47.6	38.9	8.7	22.4%
Other G&A expenses	149.1	144.1	5.0	3.5%
Cost-income ratio (%)	52.1%	50.9%	1.2%p	

General and administrative expenses in 2014 grew by 7.2 percent, or KRW 35.4 billion, from the year before, of which salaries and employee benefits accounted for the largest share and followed by other expenses including the purchase of IT facilities and equipment, depreciation & taxes, and accrued retirement benefits. Daegu Bank has focused on enhancing field-centric sale activities, expanding marketing promotion, and making comfortable branch environment to attract valuable customers during the year, which resulted in the increases of salaries and employee benefits and other administrative expenses. As a result, the cost-income ratio rose from 50.9 percent in 2013 to 52.1 percent in 2014.

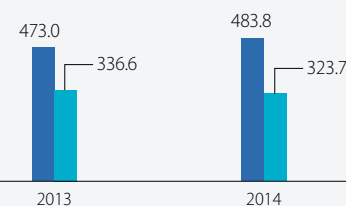
Provisioning Expenses

(in billions of KRW)

	2014	2013	YoY Change	
			Amount	Percentage
Pre-provisioning operating income	483.8	473.0	10.8	2.3%
Operating income	323.7	336.6	-12.9	-3.8%
Total provision	160.1	136.4	23.7	17.4%
Provision for loan losses	164.3	147.3	17.0	11.5%
Others	-4.2	-10.9	6.7	61.5%

Pre-provision Income & Operating Income

■ Pre-provisioning operating income
■ Operating income



Daegu Bank's pre-provisioning operating income recorded KRW 483.8 billion in 2014, an increase of KRW 10.8 billion, or 2.3 percent, year-on-year. Consequently, the decrease of 3.8 percent in operating income came from a sharp increase of 11.5 percent in provision for loan losses. The bank reserved additional provision for loan losses in accordance with the insolvency of Pantech and a change of provision criteria in the first quarter, which led to the increase of provision. Meanwhile, net income for the year slightly increased 0.5 percent year-on-year to KRW 250.2 billion backed by declines of net non-operating losses and income tax expenses.

II. Financial Position

Assets

(in billions of KRW)

	2014	2013	YoY Change	
			Amount	Percentage
Assets	40,071.2	36,921.0	3,150.2	8.5%
Cash and due from banks	1,745.5	1,491.5	254.0	17.0%
Securities	7,338.7	7,355.6	-16.9	-0.2%
Loans	29,709.2	25,991.1	3,718.1	14.3%
Fixed assets	330.0	311.2	18.8	6.0%
Other assets	947.8	1,771.6	-823.8	-46.5%

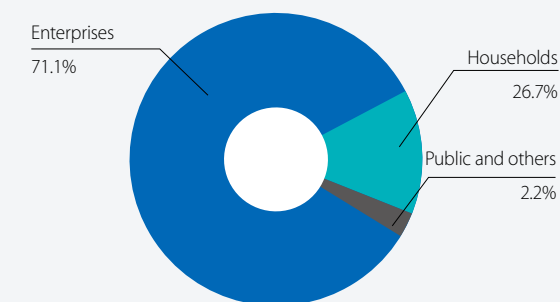
In 2014, Daegu Bank's total assets were KRW 40,071.2 billion, up 8.5 percent, or KRW 3,150.2 billion, from the year before. Despite the prolonged economic slowdown and uncertainties abounding in international markets, the bank was able to sustain an approximate eight percent growth in total assets for three consecutive year. This can be attributed to its aggressive field-centric and customer-oriented marketing activities. Cash and due soared 17.0 percent year-on-year to KRW 1,745.5 billion and loans also saw an increase of 14.3 percent thanks to recent low interest rate trend.

Loans

(in billions of KRW)

	2014	2013	YoY Change	
			Amount	Percentage
Total loans	28,650.1	24,844.9	3,805.2	15.3%
Loans in KRW	28,070.8	24,280.0	3,790.8	15.6%
Loans to enterprises	19,971.2	17,110.8	2,860.4	16.7%
Loans to households	7,483.6	6,643.5	840.1	12.6%
Loans to public and others	616.0	525.7	90.3	17.2%

Breakdown of Loans in KRW in 2014



Total loans Korean Won at the end of 2014 increased 15.6 percent, or KRW 3,790.8 billion, from the previous year to KRW 28,070.8 billion, of which loans to enterprises represented the largest share with 71.1 percent and followed by households with 26.7 percent and public and others with 2.2 percent. Loans to all of three kinds of borrowers showed double-digit year-on-year growth thanks to a slight recovery of regional economy, invigoration of the real estate market, and the bank's proactive marketing activities.

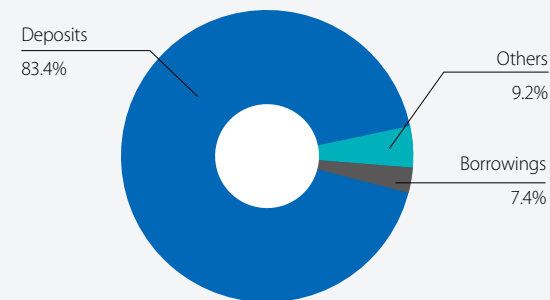
Funding Structure

(in billions of KRW)

	2014	2013	YoY Change	
			Amount	Percentage
Total liabilities	36,954.0	34,000.9	2,953.1	8.7%
Deposits	30,820.4	26,877.1	3,943.3	14.7%
Borrowings	2,718.6	2,728.2	-9.6	-0.4%
Others	3,415.0	4,395.6	-980.6	-22.3%

Management's Discussion & Analysis

Breakdown of Funding Sources in 2014



Total liabilities at the end of 2014 stood at KRW 36,954.0 billion, up 8.7 percent, or KRW 2,953.1 billion, from the year before. Deposits sharply increased 14.7 percent to KRW 30,820.4 billion, while borrowings and other liabilities fell 0.4 percent and 22.3 percent year-on-year, respectively. Deposits accounted for 83.4 percent of total liabilities and remaining 7.4 percent and 9.2 percent were raised from borrowings and others, respectively.

(in billions of KRW)

	2014	2013	YoY Change	
			Amount	Percentage
Core deposits (A) (balance)	10,084.0	9,162.6	921.4	10.1%
Total deposits (in KRW) (B)	27,678.7	24,950.2	2,728.5	10.9%
% of core deposits (A/B)	36.4%	36.7%		-0.3%p
Total deposits (C)	33,037.3	30,208.9	2,828.4	8.6%
% of core deposits (A/C)	30.5%	30.3%		0.2%p

In 2014, the bank's core deposits increased 10.1 percent compared with the previous year to KRW 10,084.0 billion, which accounted for 30.5 percent of total deposits. Core deposits consist of demand deposits, public savings, and corporate savings which require low funding costs. The double-digit growth of core deposits was mainly attributable to the bank's proactive marketing activities for securing stable deposit structure at low funding costs.

Asset Quality

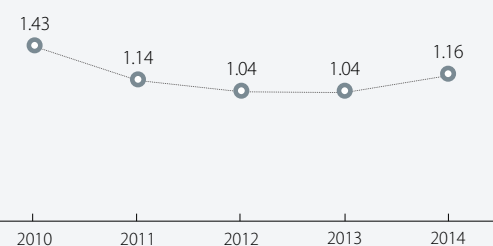
(in billions of KRW)

	2014	2013	YoY Change	
			Amount	Percentage
Total credits	29,608.8	25,856.0	3,752.8	14.5%
Normal	28,898.2	25,289.9	3,608.3	14.3%
Precautionary	367.0	298.4	68.6	23.0%
Substandard	253.4	199.7	53.7	26.9%
Doubtful	60.7	49.0	11.7	23.9%
Estimated loss	29.5	19.0	10.5	55.3%
NPL ratio (%)	1.16	1.04		0.12%p
NPL coverage ratio (%)	120.4	135.6		-15.2%p
Delinquency ratio (%)	0.68	0.52		0.16%p

Daegu Bank's total credits at the end of 2014 amounted to KRW 29,608.8 billion, an increase of 14.5 percent, or KRW 3,752.8 billion, from the year before, of which non-performing loans (NPL) was KRW 343.6 billion, 1.16 percent of total credits. The bank's NPL ratio increased 0.2 percent point year-on-year and NPL coverage ratio marked 120.4 percent.

NPL Ratio for 5 Years

(Unit: %)



Recoding the highest level with 1.43 percent in 2010 for the recent five years, NPL ratio had shown downward trend for two consecutive years and remained the same level in the previous year thanks to the bank's preemptive risk management effort and ensuing decrease of bad debts. However, it slightly increased 0.12 percent point in 2014 and delinquency ratio also rose by 0.16 percent point year-on-year. Daegu Bank will continue to make a concerted effort to effectively manage non-performing loans to maintain the ratio at a stable level.

Capital Adequacy

(in billions of KRW)

	2014	2013	YoY Change	
			Amount	Percentage
BIS capital	3,725.3	3,951.7	226.4	-5.7%
Tier I capital	2,859.8	3,018.0	158.2	-5.2%
Tier II capital	865.6	933.7	68.1	-7.3%
Risk-weighted assets	28,195.1	25,976.8	2,218.3	8.5%
BIS ratio	13.2%	15.2%		-2.0%p
Tier I CAR (%)	10.1%	11.6%		-1.5%p
Tier II CAR (%)	3.1%	3.6%		-0.5%p

Daegu Bank's BIS capital at the end of 2014 decreased 5.7 percent from the previous year to KRW 3,725.3 billion due to the decreases of both Tier I capital and Tier II capital. BIS ratio also fell from 15.2 percent in 2013 to 13.2 percent in 2014. However, it outperformed the industry average and above the recommended 8 percent guideline of the Bank of International Settlement (BIS). Risk-weighted assets increased 8.5 percent year-on-year to KRW 28,195.1 billion.

Independent Auditors' Report



KPMG Samjong Accounting Corp.

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Seoul 135 - 984, Republic of Korea
Tel 82-2-2112-0100 Fax 82-2-2112-0101 www.kr.kpmg.com

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

We have audited the accompanying consolidated financial statements of DGB Financial Group Co., LTD. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2014 and 2013 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Other Matter

The accompanying consolidated statement of financial position of the Group as of December 31, 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, were audited by us in accordance with the previous auditing standards generally accepted in the Republic of Korea.

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.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 26, 2015

This report is effective as of February 26, 2015, 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, 2014 and 2013

(In millions of won)

	Note	2014	2013
Assets			
Cash and due from banks	5,26,43,47,48 ₩	1,760,231	1,496,884
Financial assets held for trading	6,16,47	297,994	292,919
Financial assets designated at fair value through profit or loss	7,26,47	136,011	142,154
Available-for-sale financial assets	8,26,47	2,424,301	2,588,348
Held-to-maturity financial assets	9,10,47,48	4,519,990	4,385,242
Loans and receivables	12,13,14,15,26,47,48	31,304,109	28,134,131
Derivative assets - hedging	16,47	16,641	18,687
Investment in associates	11	456	233
Property and equipment, net	17	336,024	317,857
Investment property, net	19	82,002	85,811
Intangible assets, net	18	90,629	91,438
Other assets	20	41,319	24,118
Total assets	₩	41,009,707	37,577,822
Liabilities			
Depository liabilities	21,26,47,48 ₩	30,747,015	26,784,399
Financial liabilities held for trading	16,47	38,345	37,895
Derivative liabilities - hedging	16,47	5,584	10,455
Borrowings	22,26,47,48	2,796,584	2,728,154
Debentures	22,26,47,48	2,849,391	2,763,315
Defined benefit obligations	24	20,790	16,764
Provisions	23,45	38,616	36,294
Deferred income tax liabilities	41	47,024	41,721
Other liabilities	25,26,47,48	1,254,808	2,160,288
Total liabilities		37,798,157	34,579,285
Equity			
Capital stock	1,27	670,266	670,266
Capital surplus	27	1,423,484	1,423,484
Capital adjustment	27	(720)	(720)
Accumulated other comprehensive income (loss), net of tax	29	17,110	(3,704)
Retained earnings	28	811,845	619,646
Equity attributable to owners of the Company		2,921,985	2,708,972
Non-controlling interests	27	289,565	289,565
Total equity		3,211,550	2,998,537
Total liabilities and equity	₩	41,009,707	37,577,822

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2014 and 2013

(In millions of won, except earnings per share)

	Note	2014	2013
Interest income		1,711,332	1,682,568
Interest expense		(689,443)	(740,898)
Net interest income	4,30 ₩	1,021,889	941,670
Fee and commission income		125,141	124,033
Commission expense		(58,024)	(51,292)
Net fee and commission income	4,31,37	67,117	72,741
Net gain on financial instruments held for trading	32	18,005	22,228
Net gain on financial assets designated at fair value through profit or loss	33	9,991	2,075
Net gain on available-for-sale financial assets	16,34	31,432	34,540
Net gain (loss) on derivative hedging instruments		9,030	(9,553)
Impairment losses on financial assets	4,35	(204,166)	(154,764)
Net gain on foreign currency transactions	26	2,812	10,116
General and administrative expenses	36,37	(544,033)	(507,926)
Other operating loss, net	16,38	(88,158)	(72,122)
Operating income	39	323,919	339,005
Non-operating loss, net	40	(6,700)	(9,691)
Profit before income tax expenses		317,219	329,314
Income tax expenses	41	(73,435)	(84,799)
Profit for the year	₩	243,784	244,515
Net unrealized change in fair value of available-for-sale financial assets, net of tax	₩	28,048	(11,084)
Gain (loss) on translation of foreign operations		3,147	(308)
Items that are or may be reclassified to profit or loss		31,195	(11,392)
Remeasurement of defined benefit plan		(10,381)	(4,159)
Items that will never be reclassified to profit or loss		(10,381)	(4,159)
Other comprehensive income (loss) for the year, net of tax	29 ₩	20,814	(15,551)
Total comprehensive income for the year	₩	264,598	228,878
Profit attributable to:			
Owners of the Group	₩	229,733	238,254
Non-controlling interest		14,051	6,261
Profit for the year	₩	243,784	244,515
Total comprehensive income attributable to:			
Owners of the Group	₩	250,547	222,617
Non-controlling interest		14,051	6,261
Total comprehensive income for the year	₩	264,598	228,878
Earnings per share (in won)	42 ₩	1,714	1,777

Consolidated Statements of Changes in Equity

For the years ended December 31, 2014 and 2013

(In millions of won)

	Capital stock	Capital surplus	Capital adjustment	Accumulated other comprehensive income(loss)	Retained earnings	Equity attributable to owners of the Company	Non-controlling interest	Total equity
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	-	-	-	-	(44,239)	(44,239)	-	(44,239)
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	-	(51)	-	-	-	(51)	-	(51)
Changes in other capital adjustments	-	-	(720)	-	-	(720)	-	(720)
Balance at December 31, 2013	₩ 670,266	1,423,484	(720)	(3,704)	619,646	2,708,972	289,565	2,998,537
Balance at January 1, 2014	₩ 670,266	1,423,484	(720)	(3,704)	619,646	2,708,972	289,565	2,998,537
Hybrid bonds dividends	-	-	-	-	-	-	(14,051)	(14,051)
Profit for the year	-	-	-	-	229,733	229,733	14,051	243,784
Year-end dividends	-	-	-	-	(37,534)	(37,534)	-	(37,534)
Net unrealized change in fair value of available-for-sale financial assets, net of tax	-	-	-	28,048	-	28,048	-	28,048
Gain on translation of foreign operations	-	-	-	3,147	-	3,147	-	3,147
Remeasurement of defined benefit plan	-	-	-	(10,381)	-	(10,381)	-	(10,381)
Balance at December 31, 2014	₩ 670,266	1,423,484	(720)	17,110	811,845	2,921,985	289,565	3,211,550

Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013

(In millions of won)

	Note	2014	2013
Cash flows from operating activities			
Profit for the year	₩	243,784	244,515
Adjustments for:			
Income tax expenses		73,435	84,799
Interest expense		689,443	740,898
Loss on valuation of financial assets held for trading		1,787	5,092
Loss on valuation of trading derivative instruments		37,498	37,024
Reserve for loss on valuation of trading derivative instruments		31	-
Loss on valuation of financial assets designated at fair value through profit or loss		-	5,472
Loss on disposal of available-for-sale financial assets		5,491	676
Impairment loss on available-for-sale financial assets		25,535	682
Loss on valuation of fair value hedged assets		3,056	3,788
Loss on valuation of hedging derivative instruments		84	14,115
Reserve for credit risk adjustment of hedging derivative instruments		6	57
Bad debt expenses		178,631	154,082
Depreciation and amortization		57,777	53,268
Loss on disposal of property and equipment		10	60
Impairment loss on intangible assets		3,477	2,744
Provision for others		6,122	10,175
Retirement benefit		20,928	19,838
Loss on foreign currency transactions		68,708	83,023
Loss on valuation of financial debentures		2,081	-
Other operating expense		4,572	4,337
Interest income		(1,711,332)	(1,682,568)
Dividend income		(15,487)	(18,376)
Gain on valuation of financial assets held for trading		(673)	(1,159)
Gain on valuation of trading derivative instruments		(39,096)	(57,405)
Reversal of reserve for credit risk adjustment of trading derivative instruments		(9,834)	(19,731)
Gain on valuation of financial assets designated at fair value through profit or loss		(4,390)	(167)
Gain on disposal of available-for-sale financial assets		(30,157)	(21,789)
Gain on valuation of fair value hedged asset		(71)	(6,576)
Gain on valuation of hedging derivative instruments		(6,498)	(164)
Reversal of reserve for credit risk adjustment of hedging derivative instruments		(45)	(7)
Gain on disposal of property and equipment		(21)	(59)
Reversal of provisions		(3,800)	(4,276)
Gain on foreign currency transactions		(71,520)	(93,139)
Recovery of expense on stock options		-	(23)
Gain on valuation of financial debentures		-	(8,344)
Other operating income		(202)	(212)
Gain from equity method investment securities		(223)	(3)
		(714,677)	(693,868)

(In millions of won)

	Note	2014	2013
Changes in assets and liabilities:			
Increase in restricted due from banks	₩	(260,136)	(255,398)
Increase in trading securities		(18,817)	(7,573)
Decrease in trading derivative assets		60,088	79,150
Decrease in financial assets designated at fair value through profit or loss		10,668	-
Increase in loans and receivables		(3,377,676)	(2,457,407)
Increase in deferred loan origination costs		(40,060)	(34,006)
Increase in deferred loan origination fees		3,525	4,382
Collection of loans previously written-off		36,921	33,143
Decrease (increase) in hedging derivative assets		6,188	(8,174)
Increase in other assets		(28,743)	(7,683)
Increase in depository liabilities		3,984,451	2,036,002
Decrease in trading derivative liabilities		(35,607)	(28,224)
Increase (decrease) in hedging derivative liabilities		(2,562)	9,279
Decrease in defined benefit obligations		(3,830)	(5,534)
Contributions to defined benefit plan assets		(27,015)	(20,672)
Increase (decrease) in other liabilities		(856,386)	311,497
		(548,991)	(351,218)
Interest paid		(655,336)	(798,651)
Interest received		1,645,624	1,607,085
Dividends received		15,487	18,394
Income taxes paid		(76,244)	(72,241)
Net cash used in operating activities		(90,353)	(45,984)
Cash flows from investing activities			
Increase in available-for-sale financial assets		(3,298,575)	(2,963,886)
Decrease in available-for-sale financial assets		3,499,387	2,376,170
Increase in held-to-maturity financial assets		(1,025,851)	(553,262)
Decrease in held-to-maturity financial assets		922,128	644,755
Purchase of property and equipment		(47,129)	(28,205)
Disposal of property and equipment		114	72
Disposal of investment property		-	348
Purchase of intangible assets		(27,587)	(28,003)
Acquisition of investment in subsidiaries (increase in prepayments)		(7,000)	-
Decrease in guarantee deposits		1,091	1,159
Net cash from (used in) investing activities		16,578	(550,852)

Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013

(In millions of won)

	Note	2014	2013
Cash flows from financing activities			
Increase (decrease) in borrowings, net	₩	100,606	(159,780)
Issuance of debentures		867,812	820,299
Repayments of debentures		(799,994)	(450,000)
Increase in deposits for letter of guarantees, net		58,574	24,457
Increase (decrease) in borrowings from trust accounts, net		(112,902)	188,107
Increase in foreign exchange settlement credit, net		1,029	179
Increase (decrease) in domestic exchange settlement credit, net		150	(179)
Issuance of hybrid bonds		-	289,565
Stock issue costs paid		-	(720)
Dividends paid		(51,596)	(48,770)
Additional acquisition of investments in associates		-	(6,800)
Net cash from financing activities		63,679	656,358
Increase (decrease) in cash and cash equivalents		(10,096)	59,522
Cash and cash equivalents at beginning of year		580,615	524,618
Effect of exchange rate in cash and cash equivalents		545	(4,509)
Increase in cash and cash equivalents from change of consolidation scope		-	984
Cash and cash equivalents at end of the year	43 ₩	571,064	580,615

Notes to the Consolidated Financial Statements

As of December 31, 2014

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, 2014 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, 2014 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	3,117,243	2,081,249
DGB Capital Co., Ltd.	22,200,000	100%	115,713	126,681	115,713
U Payment (*1)	2,511,415	100%	15,458	14,226	12,815
Daegu Credit Information Co., Ltd.	600,000	100%	5,109	4,545	5,109
DGB Data System	1,200,000	100%	6,000	6,907	6,000
			₩ 2,223,529	3,269,602	2,220,886

(In millions of won)

Classification	Revenue	Profit for the year	Location	Reporting date
Daegu Bank	₩ 2,183,371	250,182	Daegu	December 31
DGB Capital Co., Ltd.	61,330	8,528	Seoul	December 31
U Payment (*1)	16,438	(354)	Daegu	December 31
Daegu Credit Information Co., Ltd.	2,184	314	Daegu	December 31
DGB Data System	3,283	507	Daegu	December 31
	₩ 2,266,606	259,177		

Daegu Bank's consolidated subsidiaries as of December 31, 2014 and 2013 are as follows:

Trust accounts guaranteed of principal and interest	Location	Reporting date	Ownership (%)	Business type
Principal guaranteed trusts	Republic of Korea	December 31	-	Trust business
Money market trusts	Republic of Korea	December 31	100%	Trust business

Notes to the Consolidated Financial Statements

Financial information of Daegubank's subsidiaries as of and for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014			
	Assets	Liabilities	Revenue	Net income
Principal guaranteed trusts	₩ 298,245	289,820	12,199	306
Money market trusts	30,000	-	206	206

(In millions of won)

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

(c) 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 asset-backed 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, 2014 and 2013 are as follows:

(In millions of won)

	2014			
	Assets-backed securitization	Project financing	Beneficiary certificates	Total
Assets	₩ 23,290,385	1,279,143	3,033,304	27,602,832

(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, 2014 and 2013 are as follows:

(In millions of won)

	2014			
	Assets-backed securitization	Project financing	Beneficiary certificates	Total
Interest income	₩ 28,726	8,786	-	37,512
Fee and commission income	1,278	672	-	1,950
Dividend income	-	-	10,634	10,634
	₩ 30,004	9,458	10,634	50,096

(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
	₩ 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, 2014 and 2013 are as follows:

(In millions of won)

	2014			
	Assets-backed securitization	Project financing	Beneficiary certificates	Total
Loans	₩ 1,114,569	205,517	-	1,320,086
Available-for-sale financial assets	30,556	-	304,682	335,238
	₩ 1,145,125	205,517	304,682	1,655,324

(In millions of won)

	2013			
	Assets-backed securitization	Project financing	Beneficiary certificates	Total
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
	₩ 1,007,532	181,920	300,827	1,490,279

The Group's maximum loss exposure to unconsolidated structured entities as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014			
	Assets-backed securitization	Project financing	Beneficiary certificates	Total
Investment assets	₩ 1,145,125	205,517	304,682	1,655,324
Purchase commitments	15,000	-	-	15,000
Credit granting	82,510	45,363	50,899	178,772
	₩ 1,242,635	250,880	355,581	1,849,096

Notes to the Consolidated Financial Statements

(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
Purchasing commitments	15,000	-	-	15,000
Credit granting	195,241	6,384	56,486	258,111
	₩ 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 4, 2015, which will be submitted for approval to the shareholders at a meeting to be held on March 20, 2015.

(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
- ✓ 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 categorized 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 categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized 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 as described 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 applied the following amendments to standards and interpretation, with a date of initial application of January 1, 2014.

- ✓ Offsetting financial assets and financial liabilities (Amendments to K-IFRS No. 1032)
- ✓ Recoverable amount disclosures for non-financial assets (Amendments to K-IFRS No. 1036)
- ✓ K-IFRS 2121 'Levies'

The nature of the changes are explained below. The change had no significant impact on the measurements of the Group's assets and liabilities.

(i) Offsetting financial assets and financial liabilities (Amendments to K-IFRS No. 1032)

The Group has adopted amendments to K-IFRS 1032, 'Offsetting Financial Assets and Financial Liabilities' since January 1, 2014. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'. According to the amendments, the right to set off should not be contingent on a future event, and legally enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendments also state that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.

(ii) Recoverable amount disclosures for non-financial assets (Amendments to K-IFRS No. 1036)

The Group has adopted amendments to K-IFRS 1036 'Impairment of Assets' since January 1, 2014. The amendments require the disclosure of information about the recoverable amount of impaired assets, if that amount is based on fair value less costs of disposal. They also require the disclosure of additional information about that fair value measurement. In addition, if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique, the amendments also require the disclosure of the discount rates that have been used in the current and previous measurements.

(iii) K-IFRS No. 2121, 'Levies'

The Group has adopted K-IFRS No. 2121, 'Levies' since January 1, 2014. K-IFRS No. 2121 is an Interpretation of K-IFRS No. 1037 Provisions, Contingent Liabilities and Contingent Assets, on the accounting for levies imposed by governments. K-IFRS 1037 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (or 'obligating event'). K-IFRS 2121 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The interpretation does not provide guidance on the accounting for the costs arising from recognizing the liability to pay a levy. Other K-IFRSs should be applied to determine whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

Notes to the Consolidated Financial Statements

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).

(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.

Notes to the Consolidated Financial Statements

(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. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss 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

Notes to the Consolidated Financial Statements

(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) Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

(k) 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.

(l) 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.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets ("CGUs"). 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.

(m) 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.

(n) 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).

Notes to the Consolidated Financial Statements

(o) 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).

(p) 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.

(q) 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.

Notes to the Consolidated Financial Statements

(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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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 non-deductible items from the accounting profit.

Notes to the Consolidated Financial Statements

(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.

(x) 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.

(y) 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.

(z) 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) K-IFRS 1019, 'Employee Benefit' - Employee contributions

Amendments to K-IFRS 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits. This amendment is effective for annual periods beginning on or after July 1, 2014.

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

Information about reportable segments as of and for the years ended December 31, 2014 and 2013 are as follows:

	2014								Consolidated amount
	Corporate	Individuals	Public	Money market center	Others	Subtotal	Adjustments		
Net interest income	₩ 416,777	386,647	98,482	135,806	124,089	1,161,801	(139,912)	1,021,889	
Interest income	1,158,332	1,087,178	255,494	1,699,367	167,550	4,367,921	(2,656,589)	1,711,332	
(Interest income from external customers)	831,342	434,968	92,855	274,857	167,550	1,801,572	(90,240)	1,711,332	
Interest expense	741,555	700,531	157,012	1,563,561	43,461	3,206,120	(2,516,677)	689,443	
(Interest expense to external customers)	128,006	266,405	95,461	145,305	43,461	678,638	10,805	689,443	
Fee & commission Income, net	7,089	52,434	6,104	1,261	(1,486)	65,402	1,715	67,117	
Other financial Income, net (*1)	5,506	4,477	772	32,604	65,489	108,848	(62,733)	46,115	
Bad debt expense	-	-	-	-	-	-	(178,631)	(178,631)	
Other operating loss, net	(133,869)	(370,032)	(68,832)	(42,176)	58,841	(556,068)	(76,503)	(632,571)	
Operating Income	₩ 295,503	73,526	36,526	127,495	246,933	779,983	(456,064)	323,919	
Total assets	₩ 18,702,437	9,580,329	1,877,294	7,369,491	6,206,155	43,735,706	(2,726,000)	41,009,706	
Total liabilities	₩ 12,617,626	12,778,703	5,124,500	5,701,848	2,081,031	38,303,708	(505,551)	37,798,157	

Notes to the Consolidated Financial Statements

(In millions of won)

	2013							
	Corporate	Individuals	Public	Money market center	Others	Subtotal	Adjustments	Consolidated amount
Net interest income (loss)	₩ 343,844	294,750	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 (loss)	₩ 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

(*1) Other financial income, net, (excluding interest income/expense) includes net income on financial assets held-for-trading, net income on financial assets designated at fair value through profit or loss, net income on available-for-sale financial assets, net income on held-to-maturity financial assets, net income on 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, 2014 and 2013 are as follows:

	2014		2013	
	Book value	Fair value	Book value	Fair value
Cash and cash equivalents	₩ 399,128	399,128	364,008	364,008
Due from banks in won	The Bank of Korea	1,181,410	964,761	964,761
	Commercial banks	16,968	7,681	7,681
	Non-monetary financial institutions	-	90,000	90,000
	Others	32,957	3,939	3,939
	Subtotal	1,231,335	1,066,381	1,066,381
Due from banks in foreign currencies	The Bank of Korea	43,495	18,127	18,127
	Commercial banks	17,158	9,452	9,452
	Overseas banks countries	69,115	38,916	38,916
	Subtotal	129,768	66,495	66,495
Total	₩ 1,760,231	1,760,231	1,496,884	1,496,884

The amounts of due from bank which mature within 12 months are ₩1,759,431 million and ₩1,496,884 million as of December 31, 2014 and 2013, respectively. The amounts of due from bank which mature after 12 months are ₩800 million as of December 31, 2014 respectively.

(b) Restricted due from banks

Restricted due from banks as of December 31, 2014 and 2013 are as follows:

	2014		2013	
	Book value	Fair value	Book value	Fair value
Reserve deposits in won	₩ 1,111,410	884,761		
Reserve deposits in foreign currencies			43,495	18,127
			21,662	10,781
	₩ 1,176,567	913,669		

Notes to the Consolidated Financial Statements

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, 2014 and 2013 are as follows:

	(In millions of won)					
	2014			2013		
	Book Value before valuation	Fair Value (book value)	Loss on valuation	Book Value before valuation	Fair value (book value)	Loss on valuation
Equity securities	₩ 8,191	7,384	(807)	19,400	15,914	(3,486)
Debt securities	251,396	251,089	(307)	225,302	224,856	(446)
	₩ 259,587	258,473	(1,114)	244,702	240,770	(3,932)

The amounts of financial assets held for trading except for listed equity securities which mature within 12 months are ₩218,436 million and ₩204,223 million as of December 31, 2014 and 2013, respectively. The amounts of financial assets held for trading except for listed equity securities which mature after 12 months are ₩32,653 million and ₩ 20,633 million as of December 31, 2014 and 2013, 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, 2014 and 2013 are as follows:

	(In millions of won)				
	2014				Total
	Level 1	Level 2	Level 3		
Equity securities	₩ 7,162	-	222		7,384
Debt securities	10,073	241,016	-		251,089
	₩ 17,235	241,016	222		258,473

	(In millions of won)				
	2013				Total
	Level 1	Level 2	Level 3		
Equity securities	₩ 15,914	-	-		15,914
Debt securities	-	224,856	-		224,856
	₩ 15,914	224,856	-		240,770

(c) Valuation method and level 2 inputs

Valuation method and inputs used in measuring fair values of financial assets held for trading using level 2 inputs as of December 31, 2014 and 2013 are as follows:

	Valuation method	Inputs
Debt securities	DCF method	Discount rate

(d) Changes in fair value measurement using level 3 inputs

Changes in fair value measurements using level 3 inputs of financial assets held for trading for the years ended December 31, 2014 and 2013 are as follows:

	(In millions of won)	
	2014	2013
Beginning balance	₩ 1,084	4,390
Loss on valuation	(862)	(105)
Disposal	-	(3,201)
Ending balance	₩ 222	1,084

(e) Valuation method and level 3 inputs

Valuation method and significant unobservable inputs used in measuring fair values of financial assets held for trading using level 3 inputs as of December 31, 2014 and 2013 are as follows:

	Valuation method	Unobservable inputs	Range	
			2014	2013
Equity securities	DCF method	Discount rate	9.83%	9.23%
		Growth rate	0%	0%

(f) Sensitivity analysis of level 3 inputs

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 held for trading as of December 31, 2014 and 2013 are as follows:

	(In millions of won)			
	2014		2013	
	Profit or loss		Profit or loss	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
Equity securities (*)	₩ 386	(165)	1,451	(595)

(*) Fair value changes are calculated by increasing or decreasing growth rate (0%p ~ 1%p) and discount rate (-1%p~1%p).

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

There is no deferred day-one profit or loss for the years ended December 31, 2014 and 2013.

Notes to the Consolidated Financial Statements

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

(a) Financial assets designated at fair value through profit or loss

The Group designated hybrid securities containing embedded derivatives as financial assets at fair value through profit or loss.

Financial assets designated at fair value through profit or loss as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014			2013		
		Book value before valuation	Fair Value (book value)	Gain on valuation	Book value before valuation	Fair Value (book value)	Gain (loss) on valuation
Equity securities	Redeemable preferred stocks	₩ 131,621	136,011	4,390	137,093	131,621	(5,472)
Debt securities	Credit linked securities	-	-	-	10,366	10,533	167
		₩ 131,621	136,011	4,390	147,459	142,154	(5,305)

All financial assets designated at fair value through profit or loss amounts except for equity securities as of December 31, 2013 mature within 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, 2014 and 2013 are as follows:

(In millions of won)

		2014			
		Level 1	Level 2	Level 3	Total
Equity securities	₩	-	-	136,011	136,011

(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

(c) Changes in fair value measurement using level 3 inputs

Changes in fair value measurements using level 3 inputs of financial assets designated at fair value through profit or loss for the years ended December, 31, 2014 and 2013 are as follows:

(In millions of won)

		2014		
		Equity securities	Debt securities	Total
Beginning balance	₩	131,621	10,533	142,154
Gain on valuation		4,390	-	4,390
Disposal		-	(10,533)	(10,533)
Ending balance	₩	136,011	10,533	136,011

(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

(d) Valuation method and level 3 inputs

Valuation method and significant unobservable inputs used in measuring fair values of financial assets designated at fair value through profit or loss using level 3 inputs as of December 31, 2014 and 2013 are as follows:

		Valuation method	Unobservable inputs	Range	
				2014	2013
Equity securities		Binomial model, etc.	Discount rate 2.42% ~ 6.02%	2.98% ~ 8.47%	
			Stock price volatility 25.90%	-	

(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, 2014 and 2013 are as follows:

(In millions of won)

		2014		2013	
		Profit or loss		Profit or loss	
		Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
Equity securities (*)	₩	3,509	(3,243)	6,104	(3,161)

(*) Fair value changes are calculated by increasing or decreasing discount rate (-1%p~1%p) and stock price volatility (-10%~10%).

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

There is no deferred day-one profit or loss for the years ended December 31, 2014 and 2013.

Notes to the Consolidated Financial Statements

8. Available-for-sale Financial Assets

(a) Available-for-sale financial assets

Available-for-sale financial assets as of December 31, 2014 and 2013 are as follows:

		2014			2013		
		Cost	Fair value (book value)	Accumulated gain (loss) on valuation	Cost	Fair value (book value)	Accumulated gain (loss) on valuation
Equity securities	Listed equity securities	₩ 26,237	27,250	1,013	73,379	59,712	(13,667)
	Unlisted equity securities	213,184	257,999	44,815	227,988	257,267	29,279
	Subtotal	239,421	285,249	45,828	301,367	316,979	15,612
Debt securities	Government bonds	410,174	417,635	7,461	391,915	387,886	(4,029)
	Financial debentures	319,382	319,972	590	300,173	299,683	(490)
	Corporate bonds	309,996	311,324	1,328	330,030	330,010	(20)
	Available-for-sale securities in foreign currencies	115,082	116,394	1,312	114,938	119,120	4,182
	Others	712,957	717,439	4,482	844,193	840,654	(3,539)
Subtotal	1,867,591	1,882,764	15,173	1,981,249	1,977,353	(3,896)	
Beneficiary certificate	257,312	256,288	(1,024)	292,574	294,016	1,442	
Total	₩ 2,364,324	2,424,301	59,977	2,575,190	2,588,348	13,158	

The amounts of available-for-sale financial assets except for equity securities which mature within 12 months are ₩888,052 million and ₩479,737 million as of December 31, 2014 and 2013, respectively. The amounts of available-for-sale financial assets except for equity securities which mature after 12 months are ₩1,251,000 million and ₩1,791,632 million as of December 31, 2014 and 2013, respectively.

The gain or loss on valuation includes accumulated loss on valuation of fair value hedged items amounting to ₩46 million as of December 31, 2014 and accumulated loss on valuation of fair value hedged items amounting to ₩9,862 million as of December 31, 2013, 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, 2014 and 2013 are as follows:

		2014			
		Level 1	Level 2	Level 3	Total
Equity securities	₩	14,341	-	270,908	285,249
Debt securities		423,007	1,459,757	-	1,882,764
Beneficiary certificates		64,122	192,166	-	256,288
	₩	501,470	1,651,923	270,908	2,424,301

		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

(c) Valuation method and level 2 inputs

Valuation method and inputs used in measuring level 2 fair values of available-for-sale financial assets as of December 31, 2014 and 2013 are as follows:

	Valuation method	Inputs
Debt securities	DCF method	Discount rate
Beneficiary certificates	NAV method	Underlying asset (stock, bond, etc.) price

(d) Changes in fair value measurements using level 3 inputs

Changes in fair value measurements using level 3 inputs of available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows:

		2014		
		Equity securities	Debt securities	Total
Beginning balance	₩	256,904	14,141	271,045
Realized loss (impairment loss)		(10,933)	-	(10,933)
Unrealized gain (loss)		9,068	-	9,068
Acquisition		24,141	-	24,141
Disposal		(10,322)	(14,141)	(24,463)
Transfer (*)		2,050	-	2,050
Ending balance	₩	270,908	-	270,908

(*) Transfer from level 1 to level 3 due to change in valuation method, which changed from market price to external valuation price.

		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

(*) Transfer from level 3 to level 1 due to change in valuation method, which changed from external valuation price to market price.

(e) Valuation method and level 3 inputs

Valuation method and significant unobservable inputs used in measuring fair values of available-for-sale financial assets using level 3 inputs as of December 31, 2014 and 2013 are as follows:

	Valuation method	Unobservable inputs	Range	
			2014	2013
Equity securities	DCF method, etc.	Discount rate	4.14% ~ 19.40%	4.03% ~ 26.61%
		Growth rate	0%	0%

Notes to the Consolidated Financial Statements

(f) Sensitivity analysis of level 3 inputs

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, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013		
	Other comprehensive income or loss		Other comprehensive income or loss		
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change	
Equity securities (*1) (*2)	₩	31,968	(11,048)	25,470	(8,946)

(*1) Fair value changes are calculated by increasing or decreasing growth rate (0%p~1%p) and discount rate (-1%p~1%p) or increasing or decreasing liquidating value (-1%~1%) and discount rate (-1%p~1%p).

(*2) 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.

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

There is no deferred day-one profit or loss for the years ended December 31, 2014 and 2013.

(h) Unrealized gain (loss)

Unrealized gain (loss) on available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014				
	Equity securities	Debt securities	Beneficiary certificates	Total	
Beginning balance	₩	25,545	(3,967)	1,442	23,020
Realized loss on disposition of securities		8,432	(126)	(1,127)	7,179
Unrealized gain (loss)		12,005	19,158	(1,339)	29,824
Ending balance		45,982	15,065	(1,024)	60,023
Deferred income tax assets (liabilities)		(11,128)	(3,646)	248	(14,526)
Net balance	₩	34,854	11,419	(776)	45,497

(In millions of won)

	2013				
	Equity securities	Debt securities	Beneficiary certificates	Total	
Beginning balance	₩	30,260	11,506	(4,124)	37,642
Realized loss on disposition of securities		(1,073)	(6,690)	(418)	(8,181)
Unrealized gain (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

(i) Impairment losses

Impairment losses on available-for-sale financial assets as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014			2013			
	Amount before impairment	Amount after impairment	Impairment loss	Amount before impairment	Amount after impairment	Impairment loss	
Equity securities	₩	78,868	53,333	25,535	2,172	1,490	682

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

Available-for-sale securities carried at cost as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013	
Korea Asset Management Corp.	₩	1,570	1,570
Daegu Dream Education		999	999
Kangaroo Republic		900	-
Pan tech		823	-
Korea Enterprise Data Co., Ltd.		-	785
Chungjung Sangju Co., Ltd.		-	706
Evergreenkeanggi Co., Ltd.		692	692
Evergreencampus Co., Ltd.		674	674
Green Jang Ryang Co., Ltd.		-	648
Daegu Exhibition&Convention Center Ltd.		-	615
A Jin Paper Co., Ltd.		-	563
Nam Yang Kwang-Jin C&G., Co., Ltd.		520	520
Yeongdeok Enviro		516	516
Others		4,107	5,270
	₩	10,801	13,558

Gain on disposal of available-for-sale securities carried at cost for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013		
	Book value	Gain on disposal	Book value	Gain on disposal	
Badbank Harmony	₩	3	129	10	141
A Jin Paper Co., Ltd.		70	2	-	-
	₩	73	131	10	141

There is no impairment loss of available-for-sale securities carried at cost for the years ended December 31, 2014 and 2013.

Notes to the Consolidated Financial Statements

9. Held-to-maturity Financial Assets

(a) Held-to-maturity financial assets

Held-to-maturity financial assets as of December 31, 2014 and 2013 are as follows:

(In millions of won)					
2014					
	Face value	Acquisition cost	Amortized cost (book value)	Fair value	
Government bonds	₩ 3,065,741	3,065,741	3,007,265	3,097,322	
Financial debentures	50,000	50,224	50,167	51,948	
Corporate bonds	10,000	10,000	10,000	10,365	
Others	1,449,408	1,455,865	1,452,558	1,482,185	
	₩ 4,575,149	4,581,830	4,519,990	4,641,820	
(In millions of won)					
2013					
	Face value	Acquisition cost	Amortized cost (book value)	Fair value	
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	

The amounts of held-to-maturity financial assets, which mature within 12 months are ₩1,457,524 million and ₩942,220 million as of December 31, 2014 and 2013, respectively. The amounts of held-to-maturity financial assets, which mature after 12 months are ₩3,062,466 million and ₩3,443,022 million as of December 31, 2014 and 2013, 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, 2014 are as follows:

(In millions of won)						
2014						
	Held-to-maturity financial assets		Related liabilities		Net position	
	Book value	Fair value	Book value	Fair value		
Securities sold under repurchase agreement	₩ 670,646	689,006	561,538	562,082	126,924	

10. Collateralized Securities

Investment securities pledged to various institutions as of December 31, 2014 are as follows:

(In millions of won)						
Purpose	Collateralized value	Book value of held-to-maturity securities		Guarantees		
Bank of Korea settlements	₩ 130,000	128,136	The Bank of Korea, Korea Securities Depository			
Bank of Korea daylight overdraft	235,000	232,708	The Bank of Korea, Korea Securities Depository			
Bank of Korea borrowings	600,000	590,813	The Bank of Korea			
Borrowings in foreign currencies	80,000	80,113	Industrial Bank of Korea			
Derivatives transactions	26,686	25,826	Samsung Futures Inc., KB Futures Co., Ltd., etc.			
Repurchase agreement	628,016	628,218	Korea Securities Depository			
Other repurchase agreement	40,913	42,428	Korea Securities Depository			
Others	440	449	Korea Securities Depository			
	₩ 1,741,055	1,728,691				

11. Investments in Associates

(a) Ownership

Ownership on associates as of December 31, 2014 and 2013 are as follows:

(In millions of won)						
2014						
Associates(*2)	Relation	Number of shares owned	Owner-ship	Acquisition cost(*1)	Net asset value	Book value
Daegu FC(*3)	Associate	300,000	9.20%	516	456	456
(In millions of won)						
2013						
Associates(*2)	Relation	Number of shares owned	Owner-ship	Acquisition cost(*1)	Net asset value	Book value
Daegu FC(*3)	Associate	300,000	9.20%	516	233	233

(*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 and KB Shin Pyeongtaek Power Private Specific Trusts are more than 20% (28.6% and 25.0%, respectively), but it was not classified as an associate as the Bank cannot exercise significant influence over the investment advisory committee of Consus BTL Private Special Asset Fund 1 and KB Shin Pyeongtaek Power Private Specific Trusts 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.

Notes to the Consolidated Financial Statements

(b) Equity method

Gain on equity method accounting and changes of investments in associates for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014		
	Book value as of January 1, 2014	Gain on equity method accounting	Book value as of December 31, 2014
Daegu FC	₩ 233	223	456

(In millions of won)

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

(c) Summarized financial information

Summarized financial information of associates as of and for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014			
	Assets	Liabilities	Gross revenue	Net income
Daegu FC	₩ 7,892	2,931	4,609	2,425

(In millions of won)

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

12. Loans and Receivables

(a) Loans and receivables

Loans and receivables as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		2013		2012			
		Book value	Fair value	Book value	Fair value		
Loans	Loans in won	Loans to enterprises	₩ 20,260,184	20,369,505	17,300,745	17,385,906	
		Loans to households	7,524,941	7,564,293	6,686,571	6,695,149	
		Loans to public sectors and others	517,005	519,111	439,696	440,875	
		Subtotal	28,302,130	28,452,909	24,427,012	24,521,930	
	Loans in foreign currencies	Loans to enterprises	553,366	550,015	533,111	532,944	
		Loans to other banks	99,048	99,048	86,082	86,082	
		Finance lease receivables	491,991	493,685	316,424	315,186	
		Others	Bill bought	17,390	17,390	19,167	19,167
			Bill bought in foreign currencies	84,610	84,610	117,158	117,158
		Payments on guarantees	739	739	405	405	
		Credit card accounts	406,933	406,528	397,991	397,616	
		Bonds purchased under resale agreements	211,363	211,363	100,000	100,000	
		Call loans	287,963	287,963	370,811	375,032	
		Privately placed debentures	108,311	111,220	153,402	156,298	
Privately placed public loan	226,279	236,275	256,864	256,867			
Other loans	92,133	87,805	41,632	41,251			
Subtotal	1,435,721	1,443,893	1,457,430	1,463,794			
Loans subtotal		30,882,256	31,039,550	26,820,059	26,919,936		
Receivables	Guaranty money	129,972	127,926	131,063	127,714		
	Accounts receivable	190,652	190,652	1,096,985	1,096,985		
	Accrued income	341,112	341,112	299,773	299,773		
	Other receivables	53,710	53,710	62,932	62,932		
	Receivables subtotal	715,446	713,400	1,590,753	1,587,404		
Allowance for loan losses		(324,062)	(324,062)	(293,424)	(293,424)		
Present value discount		(3,854)	(3,854)	(5,737)	(5,737)		
Present value premium		922	922	-	-		
Deferred loan origination fees		(5,460)	(5,460)	(6,335)	(6,335)		
Deferred loan origination costs		38,861	38,861	28,815	28,815		
Total		₩ 31,304,109	31,459,357	28,134,131	28,230,659		

The amounts of loans and receivables, which mature within 12 months are ₩16,181,714 million and ₩15,976,898 million as of December 31, 2014 and 2013, respectively. The amounts of loans and receivables, which mature after 12 months are ₩15,415,988 million and ₩12,433,914 million as of December 31, 2014 and 2013, respectively.

Notes to the Consolidated Financial Statements

(b) Loans in won

Loans in won as of December 31, 2014 and 2013 are as follows:

		(In millions of won)	
		2014	2013
Loans to enterprises	Operation loans	₩ 11,273,057	10,192,871
	Facility loans	8,987,127	7,107,874
	Subtotal	20,260,184	17,300,745
Loans to households	Operation loans	4,588,100	4,080,096
	Housing loans	2,936,841	2,606,475
	Subtotal	7,524,941	6,686,571
Loans to public sectors and others	Operation loans	159,586	131,359
	Facility loans	357,419	308,337
	Subtotal	517,005	439,696
Total	₩	28,302,130	22,015,921

(c) Loans in foreign currencies

Loans in foreign currencies as of December 31, 2014 and 2013 are as follows:

		(In millions of won)	
		2014	2013
Loans to enterprises	Operation loans	₩ 152,854	119,780
	Facility loans	156,336	177,211
	Domestic import usance	244,176	236,120
	₩	553,366	628,551

(d) Finance lease receivables

Finance lease receivables as of December 31, 2014 and 2013 are as follows:

		(In millions of won)		
		2014		Net investment in a lease
		Minimum lease payments	Unguaranteed residual value	
Within 1 year	₩	209,324	-	186,161
Exceed 1 year and within 5 years		319,713	-	300,244
Exceed 5 years		984	-	977
	₩	530,021	-	487,382

		(In millions of won)		
		2013		Net investment in a lease
		Minimum lease payments	Unguaranteed residual value	
Within 1 year	₩	128,364	-	113,103
Exceed 1 year and within 5 years		213,557	-	200,014
Exceed 5 years		32	-	30
	₩	341,953	-	313,147

(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, 2014 are as follows:

		(In millions of won)		
		2014		Maximum exposure to loss
Type of continuing involvement		Cash outflows to repurchase transferred (derecognized) assets	Carrying amount of continuing involvement(Provision)	
Collateral endorsement	₩	225	-	225

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)	
		2014	
Type of continuing involvement		Maturity of continuing involvement	
		Less than 1 month	
Collateral endorsement	₩		225

13. Allowance for Loan Losses

Changes in allowance for loan losses for the years ended December 31, 2014 and 2013 are as follows:

		(In millions of won)	
		2014	2013
Beginning balance	₩	293,424	294,956
Provision for losses		178,631	154,082
Collection of loans written-off		36,921	33,253
Disposal of loans		(5,302)	(3,913)
Write-offs		(165,094)	(163,242)
Unwinding effect		(14,653)	(16,746)
Effect of exchange rate		149	(250)
Others		(14)	(4,716)
Ending balance	₩	324,062	293,424

14. Deferred Loan Origination Fees and Costs

(a) Deferred loan origination fees

Changes in deferred loan origination fees for the years ended December 31, 2014 and 2013 are as follows:

		(In millions of won)	
		2014	2013
Beginning balance	₩	6,335	5,915
Increase		3,526	4,382
Decrease		(4,401)	(3,962)
Ending balance	₩	5,460	6,335

Notes to the Consolidated Financial Statements

(b) Deferred loan origination costs

Changes in deferred loan origination costs for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014	2013
Beginning balance	₩	28,815	19,967
Increase		40,060	34,006
Decrease		(30,014)	(25,158)
Ending balance	₩	38,861	28,815

15. Restructured Loans

Restructured loans under workout plans or other similar restructuring programs as of December 31, 2014 and 2013 are as follows:

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

	2014			
	The number of companies	Balance before restructuring	Allowance	Balance after restructuring
Workout	11	₩ 153,242	(23,996)	129,246
Restructuring, industrial rationalization	19	24,753	(1,631)	23,122
	30	₩ 177,995	(25,627)	152,368

(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

16. Derivative Instruments

(a) Notional amounts of unsettled derivative instruments

Notional amounts of unsettled derivative instruments as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014			2013		
		Trading	Hedging	Total	Trading	Hedging	Total
Currency related	Forward	₩ 3,768,946	-	3,768,946	4,871,757	-	4,871,757
Interest rate related	Swap	-	357,240	357,240	-	342,973	342,973
Stock related	Option bought	100,244	21,996	122,240	158,456	61,313	219,769
	Option sold	103,340	-	103,340	145,754	29,891	175,645
	Subtotal	203,584	21,996	225,580	304,210	91,204	395,414
Total		3,972,530	379,236	4,351,766	5,175,967	434,177	5,610,144

(b) Valuation on trading and hedging derivative instruments

Valuation on trading and hedging derivative instruments as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014						
		Valuation gain (loss)			Fair value (trading)		Fair value (hedging)	
		Trading (through profit and loss)	Hedging (through profit and loss)	Total	Assets	Liabilities	Assets	Liabilities
<Currency related>								
Forward	₩	2,310	-	2,310	38,703	36,393	-	-
<Interest rate related>								
Swap		-	2,309	2,309	-	-	-	5,585
<Stock related>								
Option		(712)	4,105	3,393	1,360	1,960	16,781	-
Reserve for credit risk adjustment		9,803	39	9,842	(542)	(8)	(140)	(1)
	₩	11,401	6,453	17,854	39,521	38,345	16,641	5,584

(In millions of won)

		2013						
		Valuation gain (loss)			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)	-	-	43	7,945
<Stock related>								
Option		(307)	(5,897)	(6,204)	6,089	2,297	18,827	2,517
Reserve for credit risk adjustment		19,731	(50)	19,681	(10,376)	(39)	(183)	(7)
	₩	40,113	(14,001)	26,112	52,150	37,895	18,687	10,455

Notes to the Consolidated Financial Statements

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

Gain (loss) on valuation of hedged assets for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013	
	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation
Available-for-sale financial assets	₩ 71	3,056	6,575	3,788
Debentures	-	2,081	8,344	-
	₩ 71	5,137	14,919	3,788

(d) Classification and fair value hierarchy of derivatives

The classification and the fair value hierarchy of derivatives as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014			
	Level 1	Level 2	Level 3	Total
Trading derivatives instrument assets(*)	₩ -	38,703	1,360	40,063
Trading derivatives instrument liabilities(*)	-	36,393	1,960	38,353
Hedging derivatives instrument assets(*)	-	-	16,781	16,781
Hedging derivatives instrument liabilities(*)	-	5,585	-	5,585

(*) Credit-risk adjustments are not reflected.

(In millions of won)

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

(*) Credit-risk adjustments are not reflected.

(e) Valuation method and level 2 inputs

Valuation method and inputs used in measuring fair values of derivative instruments using level 2 inputs as of December 31, 2014 and 2013 are as follows:

	Valuation method	Inputs
Trading derivative instruments	DCF method, etc.	Discount rate, exchange rate, etc.
Hedging derivative instruments	DCF method, etc.	Discount rate, exchange rate, etc.

(f) Changes in fair value measurement using level 3 inputs

Changes in fair value measurements using level 3 inputs of derivative instruments for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014			
	Trading derivatives instrument assets(*)	Trading derivatives instrument liabilities(*)	Hedging derivatives instrument assets(*)	Hedging derivatives instrument liabilities(*)
Beginning balance	₩ 6,089	2,297	18,827	2,517
Gain (loss)	(1,048)	(336)	4,105	-
Acquisition	1,798	-	-	-
Disposal	-	2,296	-	-
Settlement	(5,479)	(2,297)	(6,151)	(2,517)
Ending balance	₩ 1,360	1,960	16,781	-

(In millions of won)

	2013			
	Trading derivatives instrument assets(*)	Trading derivatives instrument liabilities(*)	Hedging derivatives instrument assets(*)	Hedging derivatives instrument liabilities(*)
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

(*) Credit-risk adjustments are not reflected.

(g) Valuation method and level 3 inputs

Valuation method and significant unobservable inputs used in measuring fair values of derivative instruments using level 3 inputs as of December 31, 2014 and 2013 are as follows:

	Valuation method	Unobservable inputs	Range	
			2014	2013
Trading derivative instruments	Binomial model, etc.	Stock price volatility	3.36% ~ 9.75%	6.80% ~ 32.45%
Hedging derivative instruments	Binomial model, etc.	Stock price volatility	19.10%	17.58% ~ 23.20%

(h) Sensitivity analysis of level 3 inputs

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 derivative instruments as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013	
	Profit or loss		Profit or loss	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
Trading derivative instruments (*)	₩ 382	(120)	178	(118)
Hedging derivative instruments (*)	758	(758)	4,852	(4,759)

(*) Fair value changes are calculated by increasing or decreasing stock price volatility by 10%.

Notes to the Consolidated Financial Statements

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

There is no deferred day-one profit or loss for the years ended December 31, 2014 and 2013.

17. Property and Equipment

(a) Property and equipment

Property and equipment as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014			2013		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Land	₩ 148,853	-	148,853	146,744	-	146,744
Buildings	187,538	(59,706)	127,832	183,853	(55,038)	128,815
Leasehold improvement	40,086	(32,839)	7,247	37,321	(30,083)	7,238
Furniture, equipment and vehicles	186,280	(156,342)	29,938	180,093	(151,884)	28,209
Construction-in-progress	22,154	-	22,154	6,851	-	6,851
	₩ 584,911	(248,887)	336,024	554,862	(237,005)	317,857

(b) Changes in property and equipment

Changes in property and equipment for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014					
	Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩ 146,744	-	-	-	2,109	148,853
Buildings	128,815	3,131	-	(4,614)	500	127,832
Leasehold improvement	7,238	2,736	(69)	(2,755)	97	7,247
Furniture, equipment and vehicles	28,209	19,690	(34)	(18,219)	292	29,938
Construction-in-progress	6,851	21,622	-	-	(6,319)	22,154
	₩ 317,857	47,179	(103)	(25,588)	(3,321)	336,024

(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-in-progress	787	6,902	-	-	(838)	6,851
	₩ 311,363	28,573	(75)	(24,569)	2,565	317,857

(c) Assets insured

Assets insured as of December 31, 2014 are as follows:

(In millions of won)

	Type	Insurance amount	Insurance period	Insurance company
Buildings	Package insurance	₩ 162,898	2014.01.01 ~ 2014.12.31	Hyundai Marine & Fire Insurance Co., Ltd.
Leasehold improvement	Package insurance	8,883	2014.01.01 ~ 2014.12.31	Hyundai Marine & Fire Insurance Co., Ltd.
Leasehold improvement	Fire insurance	65	2014.05.24 ~ 2015.05.24	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	Package insurance	29,166	2014.01.01 ~ 2014.12.31	Hyundai Marine & Fire Insurance Co., Ltd.
Furniture, equipment and vehicles	Package insurance	2	2014.05.24 ~ 2015.05.24	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	Package insurance	68	2014.06.27 ~ 2015.06.26	Samsung Fire & Marine Insurance Co., Ltd.
		₩ 201,082		

(d) Operating leases

Operating leases revenues and expenses for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013	
	Operating lease revenues	Operating lease expenses	Operating lease revenues	Operating lease expenses
Within 1 year	₩ 540	4,059	540	3,200
Exceed 1 year and within 5 years	301	4,340	827	4,518
Exceed 5 year	-	263	-	-
	₩ 841	8,662	1,367	7,718

Notes to the Consolidated Financial Statements

18. Intangible Assets

Changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014					
	Beginning balance	Additions	Amortization	Impairment loss	Others	Ending balance
Goodwill	₩ 8,584	-	-	(3,477)	-	5,107
Software(*1)	41,380	8,515	(20,878)	-	1,736	30,753
Contributed acceptance assets(*1)	8,086	-	(916)	-	4,300	11,470
Membership	6,532	-	-	-	21	6,553
Others(*2)	26,856	19,086	(9,197)	-	-	36,745
	₩ 91,438	27,601	(30,991)	(3,477)	6,057	90,628

(*1) Software and contributed acceptance assets were transferred from construction-in-progress.

(*2) Others consist of usable and profitable donation assets of ₩36,499 million.

(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.

19. Investment Property

(a) Investment property

Changes in investment property for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014			
	Beginning balance	Transfer	Depreciation	Ending balance
Land	₩ 54,858	(2,109)	-	52,749
Buildings	30,953	(500)	(1,200)	29,253
	₩ 85,811	(2,609)	(1,200)	82,002

(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

(b) Book value and fair value of investment property

Book value and fair value of investment property as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014			2013		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Land	₩ 52,749	64,010	11,261	54,858	67,155	12,297
Buildings	29,253	29,353	100	30,953	30,261	(692)
	₩ 82,002	93,363	11,361	85,811	97,416	11,605

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, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013	
	Incomes	Expenses	Incomes	Expenses
Property with rental income	₩ 709	145	723	157
Property without rental income	-	199	-	291
	₩ 709	344	723	448

Notes to the Consolidated Financial Statements

20. Other Assets

Other assets as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013	
Prepayments	₩	23,585		4,692
Prepaid expenses		10,788		11,697
Others		6,946		7,729
	₩	41,319		24,118

21. Depository Liabilities

(a) Depository liabilities

Depository liabilities as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013	
	Book value	Fair value	Book value	Fair value
Demand deposits	₩	11,157,907	11,157,907	10,024,010
Time deposits		18,827,014	18,828,636	16,049,359
Negotiable certificates of deposit		762,094	761,460	711,030
	₩	30,747,015	30,748,003	26,784,399

The amounts of depository liabilities, which mature within 12 months are ₩19,933,292 million and ₩17,428,715 million as of December 31, 2014 and 2013, respectively. The amounts of depository liabilities, which mature after 12 months are ₩10,813,723 million and ₩9,355,684 million as of December 31, 2014 and 2013, respectively.

(b) Demand deposits

Demand deposits as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013	
Deposits in won	Passbook deposits	₩	1,129,460	995,420
	Savings deposits		6,238,993	5,596,140
	Corporate free savings deposits		2,868,639	2,587,139
	Others		724,016	654,790
	Subtotal		10,961,108	9,833,489
Deposits in foreign currencies	Current deposits		382	371
	Passbook deposits		196,413	190,143
	Temporary deposits		4	7
	Subtotal		196,799	190,521
Total	₩	11,157,907	10,024,010	

(c) Time deposits

Time deposits as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013	
Deposits in won	Time deposits	₩	17,044,870	14,433,745
	Installment savings deposits		1,119,820	1,064,344
	Long term housing saving deposits		183,106	197,609
	Mutual installment deposits		9,853	11,301
	Others		372,990	301,382
			18,730,639	16,008,381
Deposits in foreign currencies	Time deposits		90,012	33,873
	Installment savings deposits		6,363	7,105
	Subtotal		96,375	40,978
Total	₩	18,827,014	16,049,359	

Notes to the Consolidated Financial Statements

22. Borrowings and Debentures

(a) Borrowings and debentures

Borrowings and debentures as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		December 31, 2014			December 31, 2013		
		Average interest rate (%)	Book value	Fair value	Book value	Fair value	
Borrowings	Borrowings in won	The Bank of Korea	0.98	₩ 522,252	522,252	622,135	622,135
		Others	2.48	1,130,376	1,130,611	1,092,712	1,098,198
		Subtotal		1,652,628	1,652,863	1,714,847	1,720,333
	Borrowings in foreign currencies	Borrowings from banks	0.84	443,867	443,632	439,302	437,433
		Bonds sold under repurchase agreements					
		Non-bank	2.93	529,333	529,874	446,064	447,221
		RP in foreign currencies	0.78	32,205	32,208	35,163	35,197
		Subtotal		561,538	562,082	481,227	482,418
	Call money	Borrowings in won	2.33	110,000	110,000	50,000	50,000
	Others	Bills sold	2.49	28,551	28,682	42,778	42,792
	Total		2,796,584	2,797,259	2,728,154	2,732,976	
Debentures	Debentures in won	3.76	2,529,000	2,666,343	2,059,000	2,136,565	
	Debentures in foreign currencies	2.25	323,497	323,497	308,246	308,246	
	Less discount on debentures	-	(3,106)	(3,106)	(3,930)	(3,930)	
	Others (hybrid bond)		-	-	400,000	417,054	
	Total		2,849,391	2,986,734	2,763,316	2,857,935	
Borrowings and Debentures			₩ 5,645,975	5,783,993	5,491,470	5,590,911	

The amounts of borrowings and debentures, which mature within 12 months are ₩2,159,452 million and ₩2,547,109 million as of December 31, 2014 and 2013, respectively. The amounts of borrowings and debentures, which mature after 12 months are ₩3,489,629 million and ₩2,948,291 million as of December 31, 2014 and 2013, respectively.

(b) Debentures

Debentures as of December 31, 2014 and 2013 are as follows:

(In millions of won)

Issuance date	Maturity date	Interest rate (%)	2014	2013
2008-01-25	2014-01-25	6.76	₩ -	110,000
2008-02-28	2014-02-28	6.02	-	90,000
2008-11-19	2015-02-19	8.00	28,772	28,772
2008-11-19	2015-02-19	8.00	17,026	17,026
2008-11-21	2015-02-21	8.00	30,867	30,867
2008-11-21	2015-02-21	8.00	16,660	16,660
2008-11-25	2015-02-25	8.00	31,556	31,556
2008-11-25	2015-02-25	8.00	24,119	24,119
2009-01-19	2039-01-19	8.60	-	30,000
2009-01-19	2039-01-19	8.60	-	240,000
2009-01-29	2039-01-29	8.60	-	130,000
2010-08-31	2016-12-31	5.05	120,000	120,000

Issuance date	Maturity date	Interest rate (%)	2014	2013
2010-08-31	2016-12-31	5.05	₩ 80,000	80,000
2011-02-21	2014-11-21	4.55	-	50,000
2011-04-15	2016-04-15	4.46	100,000	100,000
2011-05-02	2014-05-02	4.17	-	40,000
2011-05-06	2016-05-06	4.43	20,000	20,000
2011-10-20	2018-01-20	4.49	120,000	120,000
2011-10-20	2018-01-20	4.49	10,000	10,000
2012-01-27	2014-07-27	3.75	-	60,000
2012-03-08	2019-01-08	4.37	150,000	150,000
2012-10-09	2022-10-09	3.35	100,000	100,000
2013-01-25	2015-07-25	2.85	60,000	60,000
2013-02-20	2014-08-20	2.78	-	50,000
2013-05-16	2023-05-16	3.21	100,000	100,000
2013-09-06	2023-09-06	4.01	100,000	100,000
2014-01-17	2015-01-17	2.76	50,000	-
2014-01-17	2015-07-17	2.83	50,000	-
2014-04-23	2017-04-23	3.07	100,000	-
2014-05-14	2017-05-14	3.03	100,000	-
2014-08-04	2016-02-04	2.47	50,000	-
2014-08-22	2017-08-22	2.74	50,000	-
2014-11-18	2017-11-18	2.32	180,000	-
2014-11-26	2018-02-26	2.26	110,000	-
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	50,000
2014-05-29	2019-05-29	3.25	50,000	-
2013-06-13	2015-06-13	3.52	40,000	40,000
2013-08-12	2015-08-12	3.50	50,000	50,000
2013-11-21	2015-11-21	3.73	40,000	40,000
2014-03-17	2017-03-17	3.91	30,000	-
2014-07-28	2016-07-28	3.12	30,000	-
2014-12-24	2016-12-23	2.75	40,000	-
2014-12-30	2016-12-30	2.75	30,000	-
2013-04-29	2018-04-29	2.25	323,497	308,246
Subtotal			2,852,497	2,767,246
Less discount on debentures			(3,106)	(3,930)
Total			₩ 2,849,391	2,763,316

Notes to the Consolidated Financial Statements

23. Provisions

Changes in provisions for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014			
		Beginning balance	Increase	Decrease	Ending balance
Allowance (*1)	Provision for financial guarantee	₩ 157	-	(133)	24
	Non-financial guarantee contract	5,852	-	(3,251)	2,601
	Subtotal	6,009	-	(3,384)	2,625
Unused commitment (*2)		12,651	2,160	-	14,811
Allowance for restoration (*3)		3,522	197	(210)	3,509
Other allowance	Mileage on credit cards	1,451	-	(304)	1,147
	Fraudulent usage of credit card	2	12	-	14
	Dormant deposits repayment(*4)	2,707	731	-	3,438
	Welfare for retired employees	1,711	223	-	1,934
	Litigation	462	1,153	-	1,615
	Others	7,779	1,744	-	9,523
	Subtotal	14,112	3,863	(304)	17,671
Total		₩ 36,294	6,220	(3,898)	38,616

(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
	Others	-	462	-	462
		Subtotal	524	7,689	(434)
Total		₩ 30,655	10,352	(4,713)	36,294

(*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, 2014 and 2013.

(*4) The best estimate of repayments on dormant deposits is recognized as provision.

24. Defined Benefit Obligations

(a) Major assumptions of actuarial valuation

Major assumptions of actuarial valuation as of December 31, 2014 and 2013 are as follows:

	2014			2013		
	DGB Financial Group Co., Ltd.	Daegu Bank	DGB Capital Co., Ltd.	DGB Financial Group Co., Ltd.	Daegu Bank	DGB Capital Co., Ltd.
Discount rate	2.53%	3.70%	3.24%	3.49%	4.70%	4.28%
Salary increases	Application of salary increase rate of each job group and age group according to experience statistics					

The weighted-average duration of the defined benefit obligation is 12.18 years and 9.44 years as of December 31, 2014 and 2013, respectively, 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, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013
Current service cost	₩ 20,668	19,374
Interest expense	4,530	3,527
Interest income on plan assets	(4,270)	(3,063)
	₩ 20,928	19,838

(c) Defined benefit obligations

Defined benefit obligations as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013
Present value of retirement benefit obligations	₩ 131,194	100,061
Fair value of plan assets	(110,404)	(83,297)
Net liabilities occurred from retirement benefit obligation	₩ 20,790	16,764

(d) Changes in present value of retirement benefit obligations

Changes in present value of retirement benefit obligation for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013
Defined benefit obligations at beginning of the year	₩ 100,061	77,156
Current service cost	20,668	19,374
Interest expense	4,530	3,527
Remeasurement	11,691	4,564
Benefit paid	(5,756)	(4,754)
Transfer to related companies	-	194
Defined benefit obligations at end of the year	₩ 131,194	100,061

Notes to the Consolidated Financial Statements

(e) Changes in fair value of plan assets

Changes in fair value of plan assets for the years ended December 31, 2014 and 2013 are as follows:

		(In millions of won)	
		2014	2013
Fair value of plan assets at beginning of the year	₩	83,297	59,957
Interest income on plan assets		4,270	3,063
Remeasurement		(1,999)	(1,014)
Contribution of employer		27,015	22,699
Benefit paid		(2,179)	(1,420)
Transfer to related companies		-	12
Fair value of plan assets at end of the year	₩	110,404	83,297

The Group expects to pay ₩27,015 million in contributions to its defined benefit plans in 2015.

(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, 2014 are as follows:

		(In millions of won)	
		Increase (1%p)	Decrease (1%p)
Discount rate	Increase (decrease) in defined benefit obligation	₩ (12,159)	14,193
Future salary growth	Increase (decrease) in defined benefit obligation	₩ 14,374	(12,517)

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, 2014 and 2013 are as follows:

		(In millions of won)	
		2014	2013
Due from banks(*)	₩	110,403	83,296
Contribution to National Pension Plan		1	1
	₩	110,404	83,297

(*) 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 2.38%

25. Other Liabilities

Other liabilities as of December 31, 2014 and 2013 are as follows:

		(In millions of won)			
		2014		2013	
		Book value	Fair value	Book value	Fair value
Other financial liabilities	Suspense receipts	₩ 1,452	1,452	409	409
	Accounts payable	160,831	160,831	1,059,654	1,068,077
	Accrued expenses	470,131	470,131	425,830	447,340
	Domestic exchange settlements credits	684	684	534	534
	Prepaid cards	6,013	6,013	5,477	5,477
	Debit cards	360	360	351	351
	Guarantee deposit for securities subscription	3,433	3,433	506	506
	Liabilities incurred by agency relationship	62,649	62,649	63,565	63,565
	Deposit for credit control	5,609	5,609	74	74
	Withholding taxes	9,849	9,849	11,407	11,407
	Deposits for letter of guarantees and other	167,844	158,764	110,441	102,843
	Account for agency business	122,581	122,581	126,082	126,082
	Financial guarantee contract	215	215	208	208
	Others	196,924	196,924	307,432	292,269
	Subtotal		1,208,575	1,199,495	2,111,970
Other non-financial liabilities	Unearned revenue	26,859	26,859	24,366	24,366
	Income tax payable	24,648	24,648	26,926	26,926
	Others	5,319	5,319	4,968	4,968
Subtotal		56,826	56,826	56,260	56,260
Discount present value		(10,593)	(10,593)	(7,941)	(7,941)
Total	₩	1,254,808	1,245,728	2,160,289	2,167,461

The amounts of other liabilities, which mature within 12 months are ₩1,129,826 million and ₩2,082,359 million as of December 31, 2014 and 2013, respectively. The amounts of other liabilities, which mature after 12 months are ₩135,575 million and ₩85,871 million as of December 31, 2014 and 2013, respectively.

Notes to the Consolidated Financial Statements

26. 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, 2014 and 2013 are as follows:

(In millions of won / thousands of US dollars)

	2014		2013	
	Foreign currency (*)	Translation into won	Foreign currency (*)	Translation into won
Cash in foreign currencies	\$ 58,456	₩ 64,255	\$ 56,182	₩ 59,289
Due from banks in foreign currencies	118,056	129,768	63,011	66,495
Financial assets designated at fair value through profit or loss	-	-	9,981	10,533
Available-for-sale financial assets	105,890	116,394	112,877	119,120
Loans in foreign currencies	503,426	553,366	505,175	533,111
Bills bought in foreign currencies	76,974	84,610	111,019	117,158
Loans and receivables	503	553	384	405
Credit card accounts in foreign currencies	2,259	2,483	2,036	2,149
Call loans in foreign currencies	171,000	187,963	304,000	320,811
Subtotal	754,162	828,975	922,614	973,634
Total foreign currency denominated assets	\$ 1,036,564	₩ 1,139,392	\$ 1,164,665	₩ 1,229,071
Deposits in foreign currencies	\$ 266,716	₩ 293,174	\$ 219,369	₩ 231,500
Borrowings	403,809	443,867	416,282	439,302
Bonds sold under repurchase agreements in foreign currencies	29,299	32,205	33,320	35,163
Subtotal	433,108	476,072	449,602	474,465
Debentures in foreign currencies	294,302	323,497	292,093	308,246
Less discount on debentures	(1,045)	(1,149)	(2,498)	(2,636)
Subtotal	293,257	322,348	289,595	305,610
Financial guarantee in foreign currencies	32	35	41	44
Other liabilities	5,628	6,186	5,299	5,592
Import deposit money in foreign currencies	14,305	15,724	6,800	7,176
Subtotal	19,965	21,945	12,140	12,812
Total foreign currency denominated liabilities	\$ 1,013,046	₩ 1,113,539	\$ 970,706	₩ 1,024,387

(*) 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, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013
Gain on foreign currency transactions	₩ 71,520	93,139
Loss on foreign currency transactions	68,708	83,023
Net gain on foreign currency transactions	₩ 2,812	10,116

27. Capital Stock, Capital Surplus, Capital Adjustment and Non-Controlling Interests

(a) Capital stock, capital surplus and capital adjustment as of December 31, 2014 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 (*) 1,423,484,159,107 won
- (vi) Capital adjustment (720,209,000) won

(*) 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, 2014 and 2013 are as follows:

(In millions of won)

Type	Issuance date	Maturity date	2014	2013	Interest rate(%)
Hybrid bonds 1 (*1)	2013-05-28	2043-05-28	₩ 199,700	199,700	4.53
Hybrid bonds 2 (*1)	2013-10-25	2043-10-25	59,911	59,911	5.55
Hybrid bonds 3 (*1)	2013-11-01	2043-11-01	29,954	29,954	5.55
			₩ 289,565	289,565	
Hybrid bonds dividends (*2)			₩ 14,051	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.

(*2) If the Group decides not to pay dividends on common stock, hybrid bonds dividends are not paid either.

Notes to the Consolidated Financial Statements

28. Retained Earnings

(a) Retained earnings

Retained earnings as of December 31, 2014 and 2013 are as follows:

	(In millions of won)	
	2014	2013
Legal reserve (*1)	₩ 101,178	10,604
Regulatory reserves for loan losses (*2)	1,062	967
Unappropriated retained earnings (*3)	709,605	608,075
	₩ 811,845	619,646

(*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 ₩8,120 million and ₩8,107 million as of December 31, 2014 and 2013, respectively.

(b) Statements of appropriation of retained earnings

Statements of appropriation of retained earnings for the years ended December 31, 2014 and 2013 are as follows:

	(In millions of won, except for dividend per share)	
	2014	2013
I. Unappropriated retained earnings		
Unappropriated retained earnings carried over from prior years	₩ 5,964	3,000
Cumulative effect on change of accounting policies	-	288
Profit for the year	48,566	44,784
	54,530	48,072
II. Appropriations of retained earnings		
Legal reserve	4,870	4,478
Regulatory reserve for loan losses	93	95
Dividends	42,897	37,535
	47,860	42,108
III. Unappropriated retained earnings to be carried over to subsequent year	₩ 6,670	5,964

These statements of appropriation of retained earnings are based on the separate financial statements of the Company.

29. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2014 and 2013 are as follows:

	(In millions of won)			
	2014			
	Gain on valuation of available-for-sale financial assets	Gain (loss) on translation of foreign operations	Remeasure-ment of defined benefit plan	Total
Beginning balance	₩ 17,449	(397)	(20,756)	(3,704)
Net increase due to valuation of available-for-sale financial assets	26,839	-	-	26,839
Realized loss on disposition of available-for-sale securities	7,179	-	-	7,179
Net loss on the fair value hedge accounting	2,985	-	-	2,985
Gain on translation of foreign operations	-	4,152	-	4,152
Remeasurements of employee benefits	-	-	(13,690)	(13,690)
Effect of income taxes	(8,955)	(1,005)	3,309	(6,651)
Net balance at end of year	₩ 45,497	2,750	(31,137)	17,110

	(In millions of won)			
	2013			
	Gain on valuation of available-for-sale financial assets	Loss on translation of foreign operations	Remeasure-ment 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 gain on disposition of available-for-sale securities	(8,181)	-	-	(8,181)
Net gain 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)

Notes to the Consolidated Financial Statements

30. Interest Income and Interest Expense

(a) Interest income

Interest income for the year ended December 31, 2014 and 2013 are as follows:

(In millions of won)			
		2014	2013
Interest on due from banks	₩	5,382	3,866
Interest on financial assets held for trading		10,834	9,284
Interest on available-for-sale financial assets		60,832	64,762
Interest on held-to-maturity financial assets		182,762	196,560
Interest on loans		1,440,382	1,399,512
Others		11,140	8,584
	₩	1,711,332	1,682,568

(b) Interest expense

Interest expense for the year ended December 31, 2014 and 2013 are as follows:

(In millions of won)			
		2014	2013
Interest on deposits	₩	521,978	528,478
Interest on borrowings		57,019	62,033
Interest on debentures		99,791	134,983
Interest on borrowings from trust account		4,064	3,843
Others		6,591	11,561
	₩	689,443	740,898

31. Fee and Commission Income / Commission Expense

(a) Fee and commission income

Fee and commission income for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)			
		2014	2013
Commissions received	₩	112,492	112,158
Guarantee fees		3,933	4,097
Commissions received related to trust account		8,716	7,778
	₩	125,141	124,033

(b) Commission expense

Commission expenses for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)			
		2014	2013
Commissions paid	₩	16,046	13,530
Commissions on credit cards		41,485	37,744
Commissions paid related to trust account		493	18
	₩	58,024	51,292

32. Net Gain on Financial Instruments Held for trading

Net gain on financial instruments held for trading for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)				
Description			2014	2013
	Dividend income	₩	156	357
Gain on securities held for trading	Gain on disposal		10,362	9,665
	Gain on valuation		673	1,159
			11,191	11,181
Gain on derivatives instrument held for trading	Gain on transaction		193,446	334,739
	Gain on valuation		39,096	57,405
	Reversal of reserve for credit risk adjustment		9,834	19,731
			242,376	411,875
	Gain on financial instruments held for trading	₩	253,567	423,056
Loss on securities held for trading	Commission expenses (acquisition expenses)	₩	194	217
	Loss on disposal		8,781	9,772
	Loss on valuation		1,787	5,092
			10,762	15,081
Loss on derivatives instrument held for trading	Commission expenses (acquisition expenses)		188	276
	Loss on transaction		187,083	348,447
	Loss on valuation		37,498	37,024
	Reserve for credit risk adjustment		31	-
			224,800	385,747
	Loss on financial instruments held for trading	₩	235,562	400,828
	Net gain on financial instruments held for trading	₩	18,005	22,228

Net gain on financial assets held for trading contains interest income, interest expense, dividend income, net income on valuation and net income on disposal of financial assets held for trading.

33. 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, 2014 and 2013 are as follows:

(In millions of won)				
			2014	2013
Gain on financial assets designated at fair value through profit or loss	Dividend income	₩	5,580	7,380
	Gain on valuation		4,390	167
	Gain on disposal		21	-
		₩	9,991	7,547
Loss on financial assets designated at fair value through profit or loss	Loss on valuation	₩	-	5,472
		₩	9,991	2,075

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 of financial assets designated at fair value through profit or loss.

Notes to the Consolidated Financial Statements

34. Net Gain on Available-for-sale Financial Assets

Net gain on available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014	2013
Gain on available-for-sale financial assets	Dividend income	₩ 9,751	10,640
	Gain on disposal	30,157	21,789
	Gain on valuation of fair value hedged items	71	6,575
		₩ 39,979	39,004
Loss on available-for-sale financial assets	Loss on disposal	₩ 5,491	676
	Loss on valuation of fair value hedged items	3,056	3,788
		₩ 8,547	4,464
Net gain on available-for-sale financial assets		₩ 31,432	34,540

35. Impairment Loss on Financial Assets

Impairment losses on financial assets for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014	2013
Impairment loss on available-for-sale financial assets	₩	25,535	682
Bad debt expenses		178,631	154,082
		₩ 204,166	154,764

36. General and Administrative Expenses

General and administrative expense for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014	2013
Employee benefits	₩	366,126	330,505
Rent		4,119	14,384
Depreciation		25,635	25,047
Amortization		30,991	27,495
Tax and dues		13,318	13,255
Advertising expense		7,815	9,117
Physical training expense		1,219	1,880
Service expense		34,174	30,194
Others		60,636	56,049
		₩ 544,033	507,926

37. Share-based Payment Transactions

(a) Stock options

(i) Changes in cash-settled share appreciation rights for the years ended December 31, 2014 and 2013 are as follows:

(In won)

	2014		2013	
	Shares	Weighted average exercise price per share	Shares	Weighted average exercise price per share
At beginning of year	14,030 shares	₩ 13,099	56,038 shares	₩ 14,198
Options exercised	14,030 shares	13,099	42,008 shares	14,564
At end of year	-	-	14,030 shares	13,099

There is no stock option as of December 31, 2014.

(ii) Expense (revenue) of stock option for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014	2013
Commission expense	₩	(4)	50
General and administrative expense reversal		-	(23)
Expense (revenue) of stock option		₩ (4)	27

(iii) Liability of stock option as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014	2013
Long-term accrued expenses	₩	-	48

(b) Equity-linked special incentive (Long-term performance share plan)

(i) The Group granted equity linked special incentive for the purpose of motivation to improve long-term performance. Equity linked special incentive as of December 31, 2014 are as follows:

	8 th	9 th	10 th
Shares to be granted	11,456 shares	18,400 shares	16,458 shares
Grant date	2012.12.27	2013.12.26	2014.3.21
Exercise method	Cash settlement	Cash settlement	Cash settlement
Conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions
Exercise price per share in won	-	-	-
Vesting period	3 years	3 years	3 years

Notes to the Consolidated Financial Statements

(ii) Changes in long-term performance share plan for the years ended December 31, 2014 and 2013 are as follows:

(In won)

	2014		2013	
	Shares	Weighted average exercise price per share	Shares	Weighted average exercise price per share
At beginning of year	67,577 shares	₩ 1,262	72,608 shares	₩ 2,200
Shares granted	34,858 shares	-	11,456 shares	-
Shares exercised	56,121 shares	1,520	16,487 shares	-
At end of year	46,314 shares	-	67,577 shares	1,262

The exercise price per share and weighted average exercise price per share are 0 won and 1.81 years, respectively.

(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, 2014 are as follows:

(In won)

	Option pricing model	Stock price	Option price	Expected variance	Expected life	Risk free rate	Fair value
8 th	Black-Scholes option pricing model	₩ 11,300	₩ -	28.93%	0.99 years	2.07%	₩ 11,053
9 th	Black-Scholes option pricing model	11,300	-	27.38%	1.99 years	2.09%	10,810
10 th	Black-Scholes option pricing model	11,300	-	27.13%	2.22 years	2.10%	10,754

(iv) Expense of equity linked special incentive for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013
General and administrative expense	₩ 247	697

(v) Liability of equity linked special incentive as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013
Long-term accrued expenses	₩ 867	1,170

38. Other Operating Loss, net

Other operating loss, net for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

Description		2014	2013
Other operating income	Gain on sale of loans	₩ 8,449	14,844
	Gain on valuation of financial debentures	-	8,344
	Reversal of provision for financial guarantee liabilities	134	2,509
	Reversal of provision for dormant deposits repayment	3,241	366
	Others	16,702	13,913
	₩ 28,526	39,976	
Other operating loss	Loss on sale of loans	₩ 5,988	6,366
	Fees for credit guarantee fund	49,090	48,535
	Deposit insurance premiums	41,270	37,059
	Reserve for other provisions	3,960	10,155
	Others	16,376	9,983
	₩ 116,684	112,098	
Other operating loss, net	₩ (88,158)	(72,122)	

Notes to the Consolidated Financial Statements

39. Operating Revenue and Expense

Operating revenue and expense for the years ended December 31, 2014 and 2013 are as follows:

	(In millions of won)	
	2014	2013
Operating revenue		
Interest Income	₩ 1,711,332	1,682,568
Fee and commission income	125,141	124,033
Gain on financial assets held for trading	253,567	423,056
Gain on financial assets designated at fair value through profit or loss	9,991	7,547
Gain on available-for-sale financial assets	39,979	39,004
Income on hedging derivative instruments	9,344	4,619
Gain on foreign currency transactions	71,520	93,139
Others	28,526	39,976
	2,249,400	2,413,942
Operating expense		
Interest expense	689,443	(740,898)
Commission expense	58,024	(51,292)
Loss on financial assets held for trading	235,562	(400,828)
Loss on financial assets designated at fair value through profit or loss	-	(5,472)
Loss on available-for-sale financial assets	8,547	(4,464)
Loss on hedging derivative instruments	314	(14,172)
Loss on foreign currency transactions	68,708	(83,023)
Impairment loss on financial assets	204,166	(154,764)
General and administrative expenses	544,033	(507,926)
Others	116,684	(112,098)
	1,925,481	(2,074,937)
Operating income	₩ 323,919	339,005

40. Non-Operating Loss, Net

Non-operating loss, net for the years ended December 31, 2014 and 2013 are as follows:

	(In millions of won)	
	2014	2013
Non-operating income		
Gain on disposition of tangible asset	₩ 21	59
Rental income	1,249	1,293
Others	8,845	9,341
	₩ 10,115	10,693
Non-operating loss		
Collecting expenses for written-off loans	₩ 203	980
Donations	8,481	12,089
Others	8,131	7,315
	₩ 16,815	20,384
Non-operating loss, net	₩ (6,700)	(9,691)

41. Income Tax Expenses

(a) Income tax expenses

Income tax expenses for the years ended December 31, 2014 and 2013 are as follows:

	(In millions of won)	
	2014	2013
Current income tax	₩ 74,781	88,840
Changes in temporary differences	5,303	(10,577)
Income tax expenses directly charged to equity	(6,650)	4,993
Effects of consolidated taxation	-	1,543
Income tax expenses	₩ 73,434	84,799

(b) The reconciliation of effective tax rate

The reconciliation of effective tax rate for the years ended December 31, 2014 and 2013 are as follows:

	(In millions of won)	
	2014	2013
Profit before income tax expenses	₩ 317,219	329,314
Income tax calculated at the statutory tax rate	76,305	72,029
Adjustments:		
Income not assessable for tax purposes	(5,905)	(2,802)
Expense not deductible for tax purposes	2,187	12,031
Tax credit	-	(71)
Additional payment of income taxes	6	4,650
Others	841	(1,038)
Income tax expenses	₩ 73,434	84,799
Effective tax rate	23.15%	25.75%

Notes to the Consolidated Financial Statements

Statutory tax rate for the years ended December 31, 2014 and 2013 are as follows:

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, 2014 and 2013 are as follows:

(In millions of won)

	2014							
	Temporary differences to be deducted from (added to) taxable income				Deferred income tax assets (liabilities)			
	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance
<Temporary differences>								
Accrued income	₩ (210,925)	(247,075)	(210,926)	(247,074)	(51,044)	(59,792)	(51,044)	(59,792)
Present value discount on securities	(81,221)	(79,190)	(81,261)	(79,150)	(19,655)	(19,164)	(19,665)	(19,154)
Loss on valuation of securities	55,189	53,853	35,523	73,519	13,357	13,032	8,597	17,792
Gain on valuation of derivatives	(26,148)	(3,657)	(23,298)	(6,507)	(6,328)	(885)	(5,638)	(1,575)
Other provisions, etc.	32,970	35,341	32,970	35,341	7,974	8,547	7,974	8,547
Unused annual/monthly leave	27,186	26,398	27,186	26,398	6,578	6,387	6,578	6,387
Dormant deposit	4,790	310	581	4,519	1,158	76	140	1,094
Others	48,277	37,831	23,790	62,318	11,683	9,193	5,794	15,082
Subtotal	(149,882)	(176,189)	(195,435)	(130,636)	(36,277)	(42,606)	(47,264)	(31,619)
<Accumulated other comprehensive income> (*)								
Gain on valuation of AFS financial assets	(23,020)	(60,023)	(23,020)	(60,023)	(5,571)	(14,526)	(5,571)	(14,526)
Loss (gain) on translation of foreign operations	524	(3,628)	524	(3,628)	127	(879)	127	(879)
Subtotal	(22,496)	(63,651)	(22,496)	(63,651)	(5,444)	(15,405)	(5,444)	(15,405)
Total	₩ (172,378)	(239,840)	(217,931)	(194,287)	(41,721)	(58,011)	(52,708)	(47,024)

(*) Deferred tax assets (liabilities) arising from accumulated other comprehensive income were subtracted or added directly to accumulated other comprehensive income.

(In millions of won)

	2013							
	Temporary differences to be deducted from (added to) taxable income				Deferred income tax assets (liabilities)			
	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance
<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> (*)								
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)

(*) 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, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013
Deferred tax assets	₩ 48,023	40,877
Deferred tax liabilities	(95,047)	(82,598)
Deferred tax liabilities, net	₩ (47,024)	(41,721)

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.

Notes to the Consolidated Financial Statements

(e) Income tax payable and prepaid income tax before offset

Income tax payable and prepaid income tax before offset as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014	2013
Income tax payable	₩	71,489	75,428
Prepaid income tax		(46,841)	(48,502)
Income tax payable, net	₩	24,648	26,926

42. Earnings per Share

(a) Basic earnings per share

(In won, except share information)

		2014	2013
Net income of common stock	₩	229,732,835,859	238,253,799,359
Weighted average number of common shares outstanding		134,053,154	134,053,154
Basic earnings per share	₩	1,714	1,777

(b) Diluted earnings per share

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

43. Cash and Cash Equivalents

Cash and cash equivalents on statements of cash flows as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014	2013
Cash and due from banks	₩	1,760,231	1,496,884
Restricted due from banks		(1,176,567)	(913,669)
Due from banks with original maturities of more than three months.		(12,600)	(2,600)
Cash and cash equivalents	₩	571,064	580,615

44. Significant Non-cash Transactions

Significant non-cash transactions for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014	2013
Decrease in loans due to writing-off	₩	165,094	163,242
Decrease in loans due to disposal		5,302	3,913
Decrease in loans due to restructuring		9	3,497

45. Commitments and Contingencies

(a) Pending litigation

As of December 31, 2014, there are 15 pending lawsuits brought to court by the Group, as a plaintiff, amounting to ₩2,658 million and 26 pending lawsuits against the Group amounting to ₩6,808 million. The material lawsuit case is as follows:

A lawsuit amounting to ₩1,154 million has been filed against the Group in which misselling of special money in trust is claimed for by the plaintiff. The Group which lost the first trial on September 14, 2014 is in action together with BKL LLC as the legal counsel.

The Group recognized provision of ₩1,615 million in respect to the above lawsuits as of December 31, 2014.

(b) Non-financial guarantee contracts

Non-financial guarantee contracts as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014	2013
Acceptances and guarantees outstanding	₩	231,937	223,154
Acceptances and guarantees outstanding in foreign currencies		56,641	58,962
Contingent acceptances and guarantees		272,423	278,896
Loan commitments		6,928,198	6,817,113
Purchasing commitments for securities		106,284	106,284
	₩	7,595,483	7,484,409

(c) Financial guarantee contracts

Financial guarantee contracts as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014	2013
Financial guarantee contract	₩	14,651	17,926
Financial guarantee contract in foreign currencies		8,790	8,794
Purchasing commitments for ABCP		15,000	15,000
	₩	38,441	41,720

46. Transactions with Related Parties

(a) Related parties except for subsidiaries

Details of related parties except for subsidiaries as of December 31, 2014 are as follows:

(In millions of won)

Name	Relation	Ownership	Capital stock
Daegu FC (*)	Other	9.20%	16,310

(*) Daegu FC is an associate company of Daegu Bank which is wholly owned by the Company.

Notes to the Consolidated Financial Statements

(b) Transactions between the Group and the related parties except for subsidiaries

(i) Significant balances between the Group and the related parties except for subsidiaries as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014		December 31, 2013	
		Daegu FC		Daegu FC
Liabilities	Deposits	₩ 4,523		90
	Others		19	610
		₩ 4,542		700

(ii) Significant transactions between the Group and the related parties except for subsidiaries for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014		December 31, 2013	
		Daegu FC		Daegu FC
Expenses	Interest on deposits	₩ 34		52

(c) 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, 2014.

(d) 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, 2014 and 2013 are as follows:

(In millions of won)

Classification	2014		2013	
Short-term employee benefits	₩	3,908		4,737
Other long-term benefits		790		820
Post-employment benefits		1,313		2,621
Share-based payment		(4)		(23)
	₩	6,007		8,155

47. 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.

(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 decision-making body chaired by an outside director. It sets up risk management strategy, maintains the adequacy of capital level and manages risk tolerance. Commissioned by the Committee, the risk management council (the Council) deliberates and resolves issues on the agenda, develops and controls risk management strategies and policies and oversees interest rates, capital supply and management risks involving new products and businesses. The risk management 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.

Notes to the Consolidated Financial Statements

- 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.

(vi) Maximum exposure of credit risk

Maximum exposure of credit risk as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013
On balance accounts(*1)		
Due from banks(*2)	₩ 136,198	149,988
Financial assets held for trading(*3)	290,610	277,006
Financial assets designated at fair value through profit or loss(*3)	-	10,533
Available-for-sale financial assets(*3)	1,882,764	1,977,353
Held-to-maturity financial assets	4,519,990	4,385,242
Loans	30,655,719	26,614,868
Receivables	648,390	1,519,263
Derivative assets - hedge accounting	16,641	18,687
	₩ 38,150,312	34,952,940
Off-balance accounts		
Financial guarantee	₩ 38,441	41,720
Contracts	7,034,482	6,923,397
	₩ 7,072,923	6,965,117

(*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 cannot 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, 2014 and 2013 are as follows:

(In millions of won)

	2014							Total
	Balance account				Off-balance account			
	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity financial assets	Loans	Derivative assets- hedge accounting	Financial guarantee contracts	Other commitments	
Enterprises								
Manufacturing	₩ -	170,612	-	9,964,126	-	11,230	2,138,114	12,284,082
Construction	-	-	-	948,366	-	15,000	324,044	1,287,410
Wholesale and retail	-	30,071	-	2,789,151	-	110	535,789	3,355,121
Financial services and insurance	18,114	319,972	50,167	1,118,810	-	-	202,698	1,709,761
Others	222,902	227,034	10,000	7,383,779	-	12,101	368,027	8,223,843
Subtotal	241,016	747,689	60,167	22,204,232	-	38,441	3,568,672	26,860,217
Households	-	-	-	7,527,807	-	-	1,110,170	8,637,977
Government and public institutions	10,073	1,135,075	4,459,823	743,284	-	-	10,701	6,358,956
Credit card	-	-	-	406,933	-	-	2,344,939	2,751,872
Derivatives	40,063	-	-	-	16,781	-	-	56,844
Reserve for credit risk adjustment	(542)	-	-	-	(140)	-	-	(682)
Allowance	-	-	-	(259,435)	-	-	-	(259,435)
Present value discount	-	-	-	(1,425)	-	-	-	(1,425)
Present value premium	-	-	-	922	-	-	-	922
Deferred loan originated cost and fee	-	-	-	33,401	-	-	-	33,401
Total	₩ 290,610	1,882,764	4,519,990	30,655,719	16,641	38,441	7,034,482	44,438,647

Notes to the Consolidated Financial Statements

(In millions of won)

	2013								
	Balance account				Off-balance account				Total
	Financial assets held for trading	Financial assets designated at FVTPL	Available-for-sale financial assets	Held-to-maturity financial assets	Loans	Derivative assets-hedge accounting	Financial guarantee contracts	Other commitments	
Enterprises									
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

(vi) Loans

Loans as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014				
	Enterprises	Households	Public sectors and others	Credit card	Total
Neither overdue nor impaired loans	₩ 21,703,653	7,457,668	743,137	402,188	30,306,646
Not impaired but overdue loans	109,162	46,474	147	125	155,908
Impaired loans	391,417	23,665	-	4,620	419,702
	22,204,232	7,527,807	743,284	406,933	30,882,256
Allowance for loan losses	(225,148)	(23,749)	(1,679)	(8,859)	(259,435)
Present value discount	(1,425)	-	-	-	(1,425)
Present value premium	922	-	-	-	922
Deferred loan origination cost and fee	14,373	18,510	518	-	33,401
Net book value	₩ 21,992,954	7,522,568	742,123	398,074	30,655,719

(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
	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

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.

Notes to the Consolidated Financial Statements

(vii) Loans that are neither overdue nor impaired (*1)

Credit qualities of loans as of December 31, 2014 and 2013 that are neither overdue nor impaired refer to the Group's internal credit appraisal system and are as follows:

(In millions of won)

	2014				
	Enterprises	Households	Public sectors and others	Credit card	Total
1~6	₩ 20,908,866	6,740,351	738,493	300,586	28,688,296
7	317,104	284,337	4,644	37,197	643,282
8(*2)	23,660	128,853	-	27,125	179,638
9(*2)	13,625	65,983	-	14,082	93,690
10(*2)	8,581	30,610	-	9,211	48,402
Not rated(*3)	431,817	207,534	-	13,987	653,338
	₩ 21,703,653	7,457,668	743,137	402,188	30,306,646

(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
	₩ 18,670,874	6,618,467	695,342	392,826	26,377,509

(*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 ₩653,338 million (₩602,070 million as of December 31, 2013) 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 ₩99,048 million (₩86,082 million as of December 31, 2013) and ₩554,290 million and ₩515,988 million as of December 31, 2013), respectively.

Relationship between internal credit rating and external credit rating are as follows:

Classification of rating	Internal credit rating	External credit rating
Current	1~6	AAA~BB-
Precautionary	7	B
Substandard	8	CCC
Doubtful	9	CC, C
Estimated loss	10	D

(viii) Loans that are past due but not impaired

① Age analysis of loans that are overdue but not impaired

(In millions of won)

	2014				
	Enterprises	Households	Public sectors and others	Credit card	Total
Less than 30 days	₩ 88,893	42,193	147	107	131,340
More than 30 days ~ less than 60 days	14,820	3,858	-	18	18,696
More than 60 days ~ less than 90 days	5,449	423	-	-	5,872
	₩ 109,162	46,474	147	125	155,908

(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
	₩ 78,472	49,364	904	149	128,889

② Estimated fair value of collateral for the loans that are overdue but not impaired is as follows:

(In millions of won)

	2014			
	Enterprises	Households	Public sectors and others	Total
Real estate	₩ 37,190	26,777	129	64,096
Movable property	5,258	1,120	-	6,378
Securities and debentures	113	269	-	382
Warranty	16,250	1,212	-	17,462
Others	42	166	-	208
	₩ 58,853	29,544	129	88,526

(In millions of won)

	2013			
	Enterprises	Households	Public sectors and others	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
	₩ 45,683	29,405	550	75,638

Notes to the Consolidated Financial Statements

(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)

		2014			
		Enterprises	Households	Credit card	Total
Individual assessment	Impaired loans	₩ 326,815	919	602	328,336
	Allowance for doubtful accounts	65,206	144	511	65,861
Collective assessment	Impaired loans	64,602	22,746	4,018	91,366
	Allowance for doubtful accounts	22,369	10,220	3,094	35,683
Impaired loans		₩ 391,417	23,665	4,620	419,702
Allowance for doubtful accounts		₩ 87,575	10,364	3,605	101,544

(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
Impaired loans		₩ 285,169	23,163	314	5,016	313,662
Allowance for doubtful accounts		₩ 66,964	7,572	54	3,380	77,970

② Estimated fair value of collateral for impaired loans

(In millions of won)

		2014		
		Enterprises	Households	Total
Real estate	₩	109,144	7,546	116,690
Movable asset		6,217	223	6,440
Securities and debentures		3,170	5	3,175
Warranty		10,419	642	11,061
Others		2,794	-	2,794
Total		₩ 131,744	8,416	140,160

(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

(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, 2014 and 2013 are ₩177,995 million and ₩166,897 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

(In millions of won)

	2014			
	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity financial assets	Total
<Long term credit rating>				
AAA	₩ -	749,430	1,038,897	1,788,327
AA+ ~ AA-	18,972	297,123	273,418	589,513
A+ ~ A-	10,035	100,423	-	110,458
BBB+ ~ BBB-	-	19,748	-	19,748
Not rated	35,186	599,645	3,207,675	3,842,506
Subtotal	64,193	1,766,369	4,519,990	6,350,552
<Short term credit rating>				
A1	63,042	-	-	63,042
A2 ~ A3	123,854	-	-	123,854
Subtotal	186,896	-	-	186,896
Total	₩ 251,089	1,766,369	4,519,990	6,537,448

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

Not rated amount is ₩3,842,506 million (₩3,579,747 million as of December 31, 2013) 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 ₩3,424,900 million (₩1,982,506 million as of December 31, 2013), monetary stabilization bond is ₩69,955 million (₩50,006 million as of December 31, 2013) and other bond is ₩347,651 million (₩1,547,235 million as of December 31, 2013).

② Debt securities in foreign currencies

(In millions of won)

	2014		2013	
	Available-for-sale financial assets	Financial assets designated at fair value through profit & loss	Available-for-sale financial assets	Total
AAA	₩ -	10,533	-	10,533
AA+ ~ AA-	19,996	-	6,441	6,441
A+ ~ A-	85,384	-	95,503	95,503
BBB+ ~ BBB-	11,015	-	17,176	17,176
Total	₩ 116,395	10,533	119,120	129,653

(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, 2014 and 2013 are as follows:

(In millions of won)

	2014					
	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		Net amount
				Financial instruments	Collateral received Securities	
Bonds purchased under resale agreements	₩ 211,363	-	211,363	-	196,972	14,391
Accrued balance spot exchange	86,604	-	86,604	86,543	-	61
Trading derivatives assets	31,300	-	31,300	6,518	460	24,322
Total	₩ 329,267	-	329,267	93,061	197,432	38,774

(In millions of won)

	2013					
	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		Net amount
				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

Notes to the Consolidated Financial Statements

② Offsetting financial liabilities

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014						Net amount
	Gross amounts of recognized financial liabilities	Gross offset amounts of recognized financial assets	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position			
				Financial instruments	Collateral provided		
Bonds sold under repurchase agreements	₩ 561,538	-	561,538	561,538	-	-	
Accrued balance spot exchange	18,746	-	18,746	18,742	-	4	
Trading derivatives liabilities	29,517	-	29,517	3,572	-	25,945	
Hedging derivatives liabilities	5,585	-	5,585	-	-	5,585	
	₩ 615,386	-	615,386	583,852	-	31,534	

(In millions of won)

	2013						Net amount
	Gross amounts of recognized financial liabilities	Gross offset amounts of recognized financial assets	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position			
				Financial instruments	Collateral provided		
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	
	₩ 857,490	-	857,490	822,482	-	35,008	

(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)

	2014									Total
	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		
<On-balance accounts>										
Depository liabilities	₩ 11,138,169	3,012,722	4,167,103	3,804,753	7,056,827	1,223,493	211,590	549,646	31,164,303	
Demand deposits	11,131,806	-	-	-	-	-	-	-	11,131,806	
Time deposits	6,363	2,834,993	3,995,764	3,571,868	6,923,053	1,161,563	211,590	549,646	19,254,840	
Negotiable certificates of deposits	-	177,729	171,339	232,885	133,774	61,930	-	-	777,657	
Borrowings	110,000	720,681	439,549	289,269	454,252	420,330	345,006	195,244	2,974,331	
Borrowings in won	-	580,100	46,378	118,451	110,990	412,603	345,006	195,244	1,808,772	
Borrowings in foreign currency	-	67,480	117,001	126,338	127,036	7,727	-	-	445,582	
Bonds sold under repurchase agreements	-	65,615	257,835	41,739	216,122	-	-	-	581,311	
Call money	110,000	-	-	-	-	-	-	-	110,000	
Other borrowings	-	7,486	18,335	2,741	104	-	-	-	28,666	
Debentures	-	53,546	159,152	58,798	345,097	1,326,143	859,423	336,341	3,138,500	
Debentures in won	-	53,546	159,152	55,088	341,387	1,311,304	525,953	336,341	2,782,771	
Debentures in foreign currency	-	-	-	3,710	3,710	14,839	333,470	-	355,729	
Other financial liabilities	-	646,089	24,796	7,812	20,024	96,927	25,284	43	820,975	
	₩ 11,248,169	4,433,038	4,790,600	4,160,632	7,876,200	3,066,893	1,441,303	1,081,274	38,098,109	
<Off-balance accounts>										
Financial guarantee contract	₩ 38,441	-	-	-	-	-	-	-	38,441	
Commitments	7,034,482	-	-	-	-	-	-	-	7,034,482	
	₩ 7,072,923	-	-	-	-	-	-	-	7,072,923	

Notes to the Consolidated Financial Statements

(In millions of won)

		2013								Total
		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	
<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
	₩	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
	₩	6,965,117	-	-	-	-	-	-	-	6,965,117

② Derivative financial liabilities

(In millions of won)

		2014							Total	
		Less than 1 month	1 ~ 3 months	4 ~ 6 months	7 ~ 12 months	13 ~ 36 months	37 ~ 60 months			
<Trading derivatives>										
Currency related	₩	14,318	7,134	4,370	10,571	-	-	-	-	36,393
Stock related		46	366	410	467	13	658	-	-	1,960
Subtotal		14,364	7,500	4,780	11,038	13	658	-	-	38,353
<Hedging derivatives>										
Interest rate related		-	-	-	-	54	5,531	-	-	5,585
Stock related		-	-	-	-	-	-	-	-	-
Subtotal		-	-	-	-	54	5,531	-	-	5,585
Total	₩	14,364	7,500	4,780	11,038	67	6,189	6,189	6,189	43,938

(In millions of won)

		2013							Total	
		Less than 1 month	1 ~ 3 months	4 ~ 6 months	7 ~ 12 months	13 ~ 36 months	37 ~ 60 months			
<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	-	7,945	-	-	10,462
Total	₩	9,589	13,846	10,422	6,594	6,594	7,945	7,945	7,945	48,396

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.

Notes to the Consolidated Financial Statements

(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 200bps 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, 2014 and 2013 are as follows:

(In millions of won)					
	2014				
	Period end	Average	Minimum	Maximum	
Interest rate risk	₩	29	188	29	535
Foreign exchange risk		708	64	15	709
Stock risk		323	2,289	322	3,438
Diversification effect		(221)	(269)	(13)	(1,266)
Total risk	₩	839	2,272	353	3,416

(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

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, 2014 and 2013 are as follows:

(In millions of won)					
	End	Average	Minimum	Maximum	
2014(*)	₩	56,439	53,985	33,601	72,599
2013(*)		30,645	20,518	3,705	41,854

(*) Simple sum of Daegubank's interest rate VaR and DGB Capital Co.,Ltd's interest rate VaR.

Notes to the Consolidated Financial Statements

(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, 2014 and 2013 are as follows:

		(In millions of won)			
		USD	JPY	EUR	Others
2014	Foreign currency financial assets	₩ 1,011,851	121,006	29,735	29,565
	Foreign currency financial liabilities	1,028,157	135,685	27,791	12,162
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

(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, 2014 and 2013 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)

	2014	2013
Total capital (A)	₩ 3,734,088	3,981,064
Basic capital (B)	2,887,906	3,041,727
Common stock (C)	2,607,721	2,421,384
Supplementary capital (D)	846,182	939,337
Risk weighted asset (E)	₩ 28,911,642	26,440,572
Ratio of total capital (A/E)	12.92%	15.06%
Ratio of basic capital (B/E)	9.99%	11.50%
Ratio of common stock capital (C/E)	9.02%	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.

48. Disclosures for Fair Value

(a) Valuation method of fair value for financial instruments measured at amortized cost

Valuation method of disclosed fair value for assets and liabilities that are not measured at fair value are as follows:

	Valuation method
Cash and due from banks	The estimated fair values of cash and due from banks are the carrying amounts.
Held-to-maturity financial assets	The fair values of held-to-maturity financial assets are determined using prices evaluated by credible evaluators.
Loans	The fair values of loans are the present value of contractual cash flows discounted at market rates by factoring in the default rates and credit spreads.
Depository liabilities	The estimated fair values of demand deposits are the carrying amounts. The estimated fair values of time deposits are the present value of future cash flows discounted at the interest rate.
Borrowings	The estimated fair values of call money and borrowings in won are the carrying amounts. The fair values of other borrowings are the present value of future cash flows discounted at the interest rate.
Debentures	The fair values of debentures are the present value of future cash flows discounted at the interest rate.

Notes to the Consolidated Financial Statements

(b) Classification and fair value hierarchy of financial instruments measured at amortized cost

The classification and the fair value hierarchy of financial instruments measured at amortized cost as of December 31, 2014 and 2013 are as follows:

(In millions of won)

Type		2014			Total
		Level 1	Level 2	Level 3	
Financial assets	Cash and due from banks	₩ 1,760,231	-	-	1,760,231
	Held-to-maturity financial assets	1,717,956	2,923,864	-	4,641,820
	Loans	-	-	30,813,013	30,813,013
	Receivables	-	-	646,344	646,344
		₩ 3,478,187	2,923,864	31,459,357	37,861,408
Financial liabilities	Depository liabilities	₩ 11,157,907	-	19,590,096	30,748,003
	Borrowings	110,000	-	2,687,259	2,797,259
	Debentures	-	-	2,986,734	2,986,734
	Other financial liabilities	-	-	1,188,902	1,188,902
		₩ 11,267,907	-	26,452,991	37,720,898

(In millions of won)

Type		2013			Total
		Level 1	Level 2	Level 3	
Financial assets	Cash and due from banks	₩ 1,496,884	-	-	1,496,884
	Held-to-maturity financial assets	1,665,685	2,800,931	-	4,466,616
	Loans	-	-	26,716,367	26,716,367
	Receivables	-	-	1,514,292	1,514,292
		₩ 3,162,569	2,800,931	28,230,659	34,194,159
Financial liabilities	Depository liabilities	₩ 10,024,010	-	16,720,110	26,744,120
	Borrowings	50,000	-	2,682,976	2,732,976
	Debentures	-	-	2,857,935	2,857,935
	Other financial liabilities	-	-	2,111,201	2,111,201
		₩ 10,074,010	-	24,372,222	34,446,232

(c) Valuation method and level 2 inputs

Valuation method and inputs used in measuring fair values of financial instruments measured at amortized cost using level 2 inputs as of December 31, 2014 and 2013 are as follows:

Type	Valuation method (*)	Inputs (*)
Financial assets	Held-to-maturity financial assets	DCF method
		Discount rate

(*) Valuation methods and inputs of items which carrying amounts are assumed to be fair values are not disclosed.

(d) Valuation method and level 3 inputs

Valuation method and significant unobservable inputs used in measuring fair values of financial instruments measured at amortized cost using level 3 inputs as of December 31, 2014 and 2013 are as follows:

Type	Valuation method (*)	Unobservable inputs (*)
Financial assets	Loans	DCF method
	Receivables	DCF method
Financial liabilities	Depository liabilities	DCF method
	Borrowings	DCF method
	Debentures	DCF method
	Other financial liabilities	DCF method

(*) Valuation methods and inputs of items which carrying amounts are assumed to be fair values are not disclosed.

49. Regulatory Reserves for Loan Losses

Regulatory reserves for loan losses for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013
Regulatory reserves for loan losses	₩ 158,569	137,927
Estimated transfer to regulatory reserves for loan losses	21,762	20,642
Regulatory reserves for loan losses at end of year	₩ 180,331	158,569
For owner of the Group	₩ 180,331	158,569
For non-controlling interests	-	-

Adjusted profit after regulatory reserves for loan losses for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won, except earnings per share)

	2014	2013
Required transfer to regulatory reserves for loan losses	₩ 21,762	20,642
Adjusted profit after regulatory reserves for loan losses	207,971	217,612
Earnings per share after regulatory reserves for loan losses in won	1,551	1,623

Notes to the Consolidated Financial Statements

50. Subsequent Events

(a) Paid-in capital increase

The Group increased its capital by issuing new stocks according to the resolution of the Board of Directors meeting held on November 10, 2014. The number of shares issued and issuing price per share are 35 million shares and ₩9,010, respectively, and the pay-up day was January 20, 2015.

(b) Purchase of investment in subsidiary

After the approval of Financial Service Commission on December 24, 2014, the Group completed the payment and acquired Woori Aviva Life Insurance Co., Ltd. on January 29, 2015. As a result of the acquisition, Woori Aviva Life Insurance Co., Ltd. will be newly included as a consolidated subsidiary. The Group changed the name of Woori Aviva Life Insurance Co., Ltd. into DGB Life Insurance Co., Ltd. according to the resolution of the extraordinary meeting of shareholders held on January 29, 2015.

(c) Paid-in capital increase of consolidated subsidiaries

(i) Daegu Bank

The Daegu Bank, consolidated subsidiary of the Group, increased its capital by issuing new stocks according to the resolution of its Board of Directors meeting held on February 4, 2015. The number of shares issued and issuing price per share are 4 million shares and ₩50,000, respectively, and the pay-up day was February 11, 2015.

(ii) DGB Capital

The DGB Capital, consolidated subsidiary of the Group, increased its capital by issuing new stocks according to the resolution of its Board of Directors meeting held on February 3, 2015. The number of shares issued and issuing price per share are 2 million shares and ₩50,000, respectively, and the pay-up day was February 11, 2015.

APPENDIX

DGB Financial Group Awards	190
Third-party Assurance Statement	191
GHG Emissions Verification Statement	193
GRI G4/ISO26000 Index	194
UNGC/SDGs Index	198
Questionnaire of Stakeholders' Opinions	199

DGB Financial Group Awards

2014-2015 CSR Recognition and Awards

Date	Award	Organization
Feb. 14, 2014	Obtained the highest S rating in the sustainability evaluation for the second half of 2013 (only in the financial industry)	Eco Frontier
Mar. 4, 2014	Selected as the best company (AAA rating) in the 2013 Sustainability Management Evaluation for four consecutive years	Institute for Industrial Policy Studies (IPS)
Jun. 3, 2014	Won the Grand Prize in the GWP sector of 2014 Korea's Top 100 Happy Company Award	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
Jul. 3, 2014	Won the Excellent Company award in the ESG evaluation	Korea Corporate Governance Service, Korea Exchange, Financial Service Commission
Oct. 7, 2014	Won the KSI and KRCA prize at the Korean Sustainability Award	Korean Standards Association
Oct. 14, 2014	Won the KSA Director's Prize at the Korea's Most Loved Company Award	Ministry of Trade, Industry and Energy, Small and Medium Business Administration, Korea Chamber of Commerce & Industry, IPS
Oct. 16, 2014	Certified for the DJSI Korea for six consecutive years and DJSI Asia Pacific for five consecutive years	Dow Jones, RobecoSAM, Korea Productivity Center
Nov. 19, 2014	Won the Presidential Citation in the sustainability management sector at the 40 th National Quality Management Competition	Ministry of Trade, Industry and Energy (Korean Agency for Technology and Standards)
Dec. 19, 2014	Won the Director's Prize of the Financial Supervisory Service at the 9th Kyunghyang Financial Education Award (Daegu Bank)	Kyunghyang Daily, Financial Service Commission, Credit Counseling & Recovery Service
Jan. 5, 2015	Won the Dasan Finance Award	Korea Economic Daily, Financial Services Commission
Feb. 25, 2015	Won the Grand Prize at the 2015 Korea Best Banker Award	Seoul Economic Daily

External Assurance & Certifications

Date	Award	Organization
Apr. 30, 2007	Obtained third-party assurance on Daegu Bank's 2006 Sustainability Report	GRI (Global Reporting Initiative)
Jun. 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 KSI 14001 Environmental Management System Certification	Approved by Korea Accreditation Board (KAB) and certified by KSA
Nov. 20, 2011	Became the first Korean financial institution to obtain the Green Management System Certificate (KSI 7001/7002)	Administered by the Ministry of Knowledge Economy, approved by KAB, and certified by KSA
Jun. 3, 2013	Obtained the utility model patents on DGB's donation methods and means by the name of investors	Korea Intellectual Property Office (KIPO)



Certification of 2014-2015 DJSI Asia-Pacific and DJSI Korea



The KSI and KRCA prize at the Korean Sustainability Award



The Presidential Citation in the sustainability management sector at the 40th National Quality Management Competition



The Excellent Company award in the ESG evaluation of the Korea Corporate Governance Service

Third-party Assurance Statement

Dear DGB Financial Group Management and Stakeholders

Introduction

The Korean Standards Association ("KSA") was commissioned by DGB Financial Group to perform a third-party Assurance Engagement of '2014-2015 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 2014. Information from the first half of 2015 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 2014 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. We recommend that the DGB Financial Group have its management activities reflect the values of various stakeholders in a balanced manner by strengthening such activities in relation to the working group meeting for sustainable management to manage, evaluate, and provide feedback on issues related to the economy, environment, and society and by regularly operating a sustainable management committee that is responsible for the overall management of the working group meeting.

■ 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 recommend that the Group consistently expand the operation and district boundaries in order to identify issues at the group and national levels and include material information in the report. We also recommend further elaborating on the processes of managing material issues such as preparing measures to resolve potential conflicts of interests or dilemmas among the stakeholders in the future.

Third-party Assurance Statement

■ 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 recommend that the DGB Financial Group regularly review the congruence between the material issues of interest to the stakeholders and the group's strategy for sustainable management and improve upon the integration with and the appropriateness of the sustainable management strategy, execution tasks, and KPI so as to establish an operating system that adequately meets the requirements and expectations of the stakeholders.

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, EN1, EN2, LA1, LA2, LA3, LA9, LA10, LA11, LA12, LA16, HR3, HR12, 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

The DGB Financial Group is actively leading the changes within the rapidly

changing external environment in areas such as global and local financial regulations, fin-tech, etc. With the establishment of DGB Life Insurance in 2015, the DGB Financial Group has expanded its sales network, extending beyond the regional districts and growing into a financial group with operations nationwide. We believe that reporting about the core competency of the DGB Financial Group -- which enables the group to maintain its market competency in the ever-changing finance industry -- and citing the group's activities with regard to responding to both financial and non-financial risks would help explain the stability and sustainability of the company.

■ Environmental

It is noteworthy to see how a finance service company -- which is relatively less influenced by environmental impact -- established an advanced environmental management system that is in constant operation. Recently, the environmental management paradigm, which centered on taking actions post hoc through the environmental protection policy, shifted to preventive measures through products and items. We recommend that the DGB Financial Group also take part in actively responding to such environmental trend, thereby fulfilling its corporate environmental responsibilities, through the development and sales of green financial product, at the same time enable various stakeholders to realize sustainable consumption through better understanding of the green financial products.

■ Social

As a bank that started out in the regional community, the DGB Financial Group has expanded its operations nationwide, carrying out various activities to address social problems at the macro level. To this end, the group is providing sustainable finance programs such as prevention of financial fraud, protection of customers' personal information, strengthening of access for the socially disadvantaged class, etc., which can be felt by the customers. We recommend that the DGB Financial Group work to have its customers perceive the group as a leading company for sustainable management through differentiated strategy to promote sustainable finance actively so as to expand the customer domain.

June 2015

Baek, Soo-Hyun
KSA Chairman & CEO

Baek, Soo Hyun



AA1000
Licensed Assurance Provider
000-70



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.

GHG Emissions Verification Statement

DGB FINANCIAL GROUP and STAKEHOLDERS

Introduction

KSA has been commissioned by DGB FINANCIAL GROUP to independently verify Greenhouse Gas (Scope 1,2,3) Inventory Report for the calendar year 2014 (aka "the report"). KSA independently proposes verification opinion based on the review of date and data management system on the report written by DGB FINANCIAL GROUP. Any liability or responsibility for acquisition of data, organization, and opinion is on DGB FINANCIAL GROUP. KSA holds responsibility for verifying the data on the report is written and assessed in accordance with the standards and proposing verification opinions.

Independence

KSA has no stake in DGB FINANCIAL GROUP's business other than third-party verification on the report. Moreover, KSA has no biased or prejudiced opinion on any DGB FINANCIAL GROUP's stakeholders or persons concerned.

Verification Object and Level of Assurance

Verification objects are Greenhouse Gas (Scope 1,2,3) Inventory Report for the calendar year 2014 of head office and domestic sites of Daegu Bank and DGB FINANCIAL GROUP's subsidiaries. During this process, KSA verified that the risks associated with error, omission, or inappropriate information on emissions and energy consumption are based upon a reasonable level of assurance.

Verification Criteria

- The verification has been performed in accordance with the verification principles and tasks outlined in IPCC Guideline : 1996/2006, KS A ISO 14064-1, 3 and Emission Target Management system : 2014-186.
- In case of Scope 3, Domestic/Overseas trips and commuting travel of Daegu Bank's associates have been assessed autonomously based on internal activity data and following the standards suggested by associated agency. KSA assures that this method of assessment is constant and precise.

Verification Procedures and Limitations

The verification procedures included document examination, on-site evaluation, interviews, applying of modification, and report publication based on the report submitted by DGB FINANCIAL GROUP.

The assessment techniques are Risk-based Approach and Sampling Techniques, and there are possibilities of the errors, omissions, and false statements that are not found by verifier.

Verification Opinions and Overall Opinions

Verifier was able to secure objective evidence needed to assess Greenhouse Gas emission and energy consumption reported by DGB FINANCIAL GROUP through Greenhouse Gas (Scope 1,2,3) Inventory Report for the calendar year 2014.

The submitted report was assessed in accordance with the standards. Parts were inconsistent, but were asked to modify through indication, and verified the modification as appropriate afterward.

Therefore, verifier has confidence in Greenhouse Gas emission and consumption reported by DGB FINANCIAL GROUP during the reported period (2014.1.1 ~ 2014.12.31), and thus assess verification opinion as 'reasonable' on the reported emission.

May 27, 2015

KOREAN STANDARDS ASSOCIATION
PRESIDENT OF KSA

Baek, Soo Hyun

GRI G4/ISO26000 Index

General Standard Disclosures				
Indicator	G4 Contents	ISO26000	Page	External Assurance
Strategy and Analysis				
G4-1	A general strategic view of the organizations's sustainability, in order to provide context for subsequent, more detailed reporting against other sections of the Guidelines.	4.7/6.2/7.4.2	6~7	91~92
G4-2	A description of key impacts, risks, and opportunities		22~23	91~92
Organizational Profile				
G4-3	Name of the organization		8	91~92
G4-4	Primary brands, products, and services		10~11	91~92
G4-5	Location of the organization's headquarters		About This Report	91~92
G4-6	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		34	91~92
G4-7	Nature of ownership and legal form		8	91~92
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	6.3.10/	28	91~92
G4-9	Scale of the organization	6.4.1-6.4.2/6.4.3/	8	91~92
G4-10	Total number of employees by employment contract, gender, region, work scope of non-permanent employees, significant changes in number of employees	6.4.4/6.4.5/6.8.5/7.8	54	91~92
G4-11	Percentage of total employees covered by collective bargaining agreements		60	91~92
G4-12	The organization's supply chain		12~13	91~92
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership or supply chain		12~13	91~92
G4-14	Reporting whether and how the precautionary approach or principle is addressed by the organization		63~64	91~92
G4-15	Externally developed economic, environmental and social charters, or other initiatives to which the organization subscribes or which it endorses		39	91~92
G4-16	Memberships of association and national or international advocacy organizations		39, Appendix	91~92
Identified Material Aspects and Boundaries				
G4-17	Entities included in the organization's consolidated financial statements or equivalent documents		About This Report	91~92
G4-18	Process for defining the report content and the Aspect Boundaries and how they are implemented		18~19	91~92
G4-19	All the material Aspects identified in the process for defining report content		19~20	91~92
G4-20	Report on whether the Aspect is material within the organization	5.2/7.3.2/	96~97	91~92
G4-21	Report on whether the Aspect is material outside of the organization	7.3.3/7.3.4	96~97	91~92
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements		About This Report	91~92
G4-23	Significant changes in the Aspect Boundaries and the Aspect in post-reporting period		About This Report	91~92
Stakeholder Engagement				
G4-24	List of stakeholder groups engaged by the organization		16	91~92
G4-25	Basis for identification and selection of stakeholders with whom to engage		16	91~92
G4-26	The organization's approach to stakeholder engagement	5.3	16	91~92
G4-27	Key topics and concerns that have been raised through stakeholder engagement and how the organization has responded to those key topics and concerns		17	91~92
Report Profile				
G4-28	Reporting period for information provided		About This Report	91~92
G4-29	Date of most recent previous report	7.5.3/7.6.2	About This Report	91~92
G4-30	Reporting cycle		About This Report	91~92
G4-31	Contact point for questions regarding the report for its contents		About This Report	91~92
G4-32	Report on 'in accordance' option the organization has chosen, the GRI Content Index for the chosen option, the reference to the External Assurance Report, if the report has been externally assured	7.5.3/7.6.2	About This Report	91~92
G4-33	Report on the organization's policy and current practice with regard to seeking external assurance for the report, the relationship between the organization and the assurance providers, and whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report	7.5.3/7.6.2	About This Report	91~92

General Standard Disclosures				
Indicator	G4 Contents	ISO26000	Page	External Assurance
Governance				
G4-34	The governance structure of the organization, including committees of the highest governance body		36~38	91~92
G4-35	The process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees		38~39	91~92
G4-36	<ul style="list-style-type: none"> Report on 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 System that enable responsible executives directly report to governance organization 		38~39	91~92
G4-37	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		38~39	91~92
G4-38	Composition of the highest governance body and its committees		36~38	91~92
G4-39	Report on whether the Chair of the highest governance body is also an executive officer		36	91~92
G4-40	Report on 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		36~37	91~92
G4-41	Report on processes for the highest governance body to ensure conflicts of interest are avoided and managed		37	91~92
G4-42	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		38~39	91~92
G4-43	The measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics		38~39	91~92
G4-44	<ul style="list-style-type: none"> The processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics 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 		38~39	91~92
G4-45	<ul style="list-style-type: none"> The highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities 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 	6.2/7.4.3/7.7.5	38~39	91~92
G4-46	The highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics		38~39	91~92
G4-47	The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities		38~39	91~92
G4-48	The highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered		38~39	91~92
G4-49	The process for communicating critical concerns to the highest governance body		37	91~92
G4-50	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		37	91~92
G4-51	<ul style="list-style-type: none"> The remuneration policies for the highest governance body and senior executives for the below types of remuneration How performance criteria in the remuneration policy relate to the highest governance body's and senior executives' economic, environmental and social objectives 		38	91~92
G4-52	Report on the process for determining remuneration and relationship which the remuneration consultants have with the organization		38	91~92
G4-53	How stakeholders' views are sought and taken into account regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable		38	91~92
G4-54	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		38	91~92
G4-55	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		38	91~92
G4-56	The Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics		65	91~92
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as advice lines	4.4/6.6.3	65~66	91~92
G4-58	Internal and external mechanisms for seeking advice on unethical and unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines		65~66	91~92

GRI G4/ISO26000 Index

Specific Standard Disclosures						
category	Indicator	G4 Contents	ISO26000	Page	Omissions	Reporting Boundary External Assurance
1 Economic						
Economic Performance	G4-EC1	Direct economic value generated and distributed	6.8. 1-6.8.2/6.8.3/ 6.8.7/6.8.9	33,34		91~92
	G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	6.5.5	70~71		Internal 91~92
	G4-EC3	Coverage of the organization's defined benefit plan obligations	6.8.7	59		91~92
	G4-EC4	Significant indirect economic impacts, including the extent of impacts	-	-	Not Applicable	91~92
1 Environmental						
Material	G4-EN1	Materials used by weight or volume	6.5.4	69		Internal 91~92
	G4-EN2	Percentage of materials used that are recycled input materials		69		91~92
1 Social						
2 Labor Practice and Decent Work						
3 Employment	G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	6.4.3	54		91~92
	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	6.4.4/6.8.7	58~59		Internal 91~92
	G4-LA3	Return to work and retention rates after parental leave, by gender	6.4.4	59		91~92
3 Training and Education	G4-LA9	Average hours of training per year per employee by gender, and by employee category	6.4.7	55		91~92
	G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	6.4.7/6.8.5	52,55~56		Internal 91~92
	G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	6.4.7	55~56		91~92
3 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	6.2.3/6.3.7/ 6.3.10/6.4.3	54		Internal 91~92
3 Labor Practices and Grievance Mechanisms	G4-LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	6.3.6	60		Internal 91~92
2 Human Rights						
3 Non-discrimination	G4-HR3	Total number of incidents of discrimination and corrective actions taken	6.3.6/6.3.7/ 6.3.10/6.4.3	-	There have been no violations	Internal 91~92
3 Human Rights Grievance Mechanisms	G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	6.3.6	60		Internal 91~92
2 Society						
3 Local Communities	G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	6.3.9/6.5.1- 6.5.2/6.5.3/6.8	82		External 91~92
	G4-SO2	Operations with significant actual and potential negative impacts on local communities	6.3.9/6.5.3/ 6.8		No such operations	91~92
3 Anti-corruption	G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	6.6.1- 6.6.2/6.6.3	66		91~92
	G4-SO4	Communication and training on anti-corruption policies and procedures		65~66		Internal 91~92
	G4-SO5	Confirmed incidents of corruption and actions taken		66		91~92

Specific Standard Disclosures						
category	Indicator	G4 Contents	ISO26000	Page	Omissions	Reporting Boundary External Assurance
2 Product Responsibility						
3 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	6.7.1- 6.7.2/6.7.3/ 6.7.4/ 6.7.5/6.7.9	46~50		91~92
	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	46/6.7.1-6.7.2/ 6.7.3/6.7.4/ 6.7.5/6.7.9	-	There have been no violations	Internal 91~92
	G4-PR5	Results of surveys measuring customer satisfaction	6.7.1- 6.7.2/6.7.6	42		91~92
3 Customer Privacy	G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	6.7.1- 6.7.2/6.7.7	27		Internal 91~92
3 Compliance	G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	46/6.7.1- 6.7.2/6.7.6	-	There have been no violations	Internal 91~92
2 Financial Services Sector Supplement						
3 Product portfolio	FS1	Policies with specific environmental and social components applied to business lines		38~39		91~92
	FS2	Procedures for assessing and screening environmental and social risks in business lines		63~64		91~92
	FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions		63~64		91~92
	FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines		65,72		91~92
	FS5	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities		46~50		Internal 91~92
	FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector		46~50		91~92
	FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose		46~50		91~92
	FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose		46~50		91~92
3 Local communities	FS13	Access points in low-populated or economically disadvantaged areas by type		44~45		External 91~92
	FS14	Initiatives to improve access to financial services for disadvantaged people		44~45		91~92
3 Product and Service Labeling	FS15	Policies for the fair design and sale of financial products and services		46~50		Internal 91~92
	FS16	Initiatives to enhance financial literacy by type of beneficiary		43		91~92

UNGC/SDGs Index

UN GLOBAL COMPACT INDEX

UN Global Compact principles compliance	Principle	Page	
 <p>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)</p>	Human Right		
	Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights;	7
	Principle 2	make sure that they are not complicit in human rights abuses.	-
	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	60
	Labour Standards		
	Principle 4	the elimination of all forms of forced and compulsory labour;	58~59
	Principle 5	the effective abolition of child labour; and	-
	Principle 6	the elimination of discrimination in respect of employment and occupation.	56
	Environment		
	Principle 7	Businesses should support a precautionary approach to environmental challenges;	64,67
Principle 8	undertake initiatives to promote greater environmental responsibility; and	-	
Principle 9	encourage the development and diffusion of environmentally friendly technologies.	48~49	
Anti-Corruption			
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	65~66	

Sustainable Development Goals (SDGs)

The SDGs are assigned mission that the whole world has to achieve for sustainable development in the aspects of economy, society, and environment. DGB Financial Group makes a concerted effort not only to fulfill its role as a corporate citizen who lead economic growth and end poverty but also to develop new business models pursuing corporate growth and social profits at the same time.

Goal	Details	Page
Goal 1	End poverty in all its forms everywhere	78~83
Goal 2	End hunger, achieve food security and improved nutrition, and promote sustainable agriculture	-
Goal 3	Ensure healthy lives and promote wellbeing for all at all ages	58
Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	55,77~83
Goal 5	Achieve gender equality and empower all women and girls	54
Goal 6	Ensure availability and sustainable management of water and sanitation for all	-
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all	70~71
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all	57~60
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation	75~83
Goal 10	Reduce inequality within and among countries	75~83
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable	-
Goal 12	Ensure sustainable consumption and production patterns	46~50
Goal 13	Take urgent action to combat climate change and its impacts	70~71
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development	-
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reverse land degradation, and halt biodiversity loss	67~73
Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	-
Goal 17	Strengthen the means of implementation and revitalize the global partnership for sustainable development	-

Questionnaire of Stakeholders' Opinions



From _____

Address _____

□ □ □ - □ □ □

Post Card

우편요금
수취인 후납부담

발송유효기간
2015.7.1~2016.6.30
대구수성우체국
승인 제40118호

 DGB FINANCIAL GROUP

CSR Department
DGB Economic Research Institute
15th floor, Daegu Bank headquarters
2310 Dalgubeoldae-ro, Suseong-gu, Daegu, Korea

7 0 6 - 7 1 2

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.

DGB Financial Group
DGB Economic Research Institute

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Fax 82-53-740-7997
E-mail sustainability@dgbfn.com
Address 2310 Dalgubeoldaero, Suseong-gu, Daegu, Korea

1. To which group do you belong?

- ① DGB Financial Group Customers ② DGB Financial Group Employee 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 Future Strategic Management ② Customer Satisfaction Management ③ Enhancement of Organizational Competence
- ④ Risk Management ⑤ Creation of Shared Value 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.

DGB FINANCIAL GROUP
2014-2015 INTEGRATED SUSTAINABILITY REPORT

Contact Information

Inquires or suggestions on our sustainability management or this report can be directed to the following contact points:

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DGB Capital	www.dgbfncapital.co.kr
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DGB Data System	www.dgbds.co.kr
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