



10<sup>th</sup> Anniversary

Do  
Global  
Best

더 가까이,  
더 큰 혜택





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

## Report Overview

DGB Financial Group published its first sustainability report back in 2006. Since then, the Group has been honestly and transparently reporting on our sustainability management efforts, our economic, social, and environmental performance results, and material issues that have a great impact on stakeholders and our business. Marking the tenth anniversary of our declaration of commitment to sustainability management in 2016, DGB Financial Group published a corporate history book that looks back on the sustainability management efforts of the past decade. The publication of this book also reaffirms our commitment to sustainability management and shared growth alongside our stakeholders. The contents of the report are well organized to help readers get a clear picture of what DGB Financial Group is doing to achieve our sustainability goals, detailing strategies regarding support for specific strategic tasks, performance indicators, and future plans to better reflect our commitment to establishing sustainability management practices within the organization.

\*The first four editions of the sustainability report from 2006 to 2009 were published by DGB Daegu Bank.

## Reporting Period & Scope

The reporting period covers January 1 to December 31 of 2015, and includes some significant data from the first quarter of 2016. The report scope covers the activities and performance of DGB Financial Group and its six subsidiaries including DGB Daegu Bank, DGB Life, DGB Capital, DGB U-Pay, DGB Data System, and DGB Credit Information. The reporting scope of the material issues is presented separately on pages 166 and 167.

## Reporting Guidelines

The report was compiled in conformity with the “comprehensive” option of the G4 Guidelines of the GRI (Global Reporting Initiative), the GRI Financial Service Sector Supplement, ISO26000, the UN Global Compact’s 10 principles, and the UN’s 17 Sustainable Development Goals. The report also adheres to the IR Framework provided by the International Integrated Reporting Council (IIRC).

## Assurance

The objectivity and credibility of the contents of this report have been independently assured by an external third party assurance provider in accordance with the AA 1000AS (2008) Assurance Standards. The assurance report is provided in the appendix on pages 161 and 162 of this report.

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## 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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### ● DGB Financial Group Website

Daegu Financial Group	www.dgbfg.co.kr
DGB Daegu Bank	www.dgb.co.kr
DGB Life	www.dgbfnlife.com
DGB Capital	www.dgbfncapital.co.kr
DGB U-Pay	www.dgbupay.com
DGB Data System	www.dgbds.co.kr
DGB Credit Information	www.daegucredit.co.kr



## Do Global Best Closer, Greater

Under the umbrella of DGB Financial Group, led by DGB Daegu Bank (Korea's first regional bank), DGB Life, DGB Capital, DGB U-Pay, DGB Data System and DGB Credit Information work together closely to generate synergies under the shared goal of taking business to the next level with enhanced comprehensive financial services. The Group is well poised to grow into a global total financial group based on our strengths of diversified revenue sources, cross-subsidiary synergies, and our extensive global network.





## CEO's Message

“

Sharing with  
Community  
in Dreams and  
Prosperity

”



## Dear stakeholders,

In the face of a challenging business environment with ongoing low-growth and low-interest trends, everyone at DGB Financial Group has made a sincere effort to lay the foundation to become a regionally-based total financial group. The Group's flagship subsidiary, DGB Daegu Bank, became the first regional bank to launch a mobile banking service, "iM Bank", and Loan Center as a preemptive response to the new FinTech era, and made significant progress in its national branch network-building plan with the opening of a branch office in Gyeonggi-do. In its first year of incorporation, DGB Life achieved significant performance results with enhanced profitability on the back of increased sales of protection-type insurance while significantly improving its marketing brand image. Guided by a new mid-term vision, DGB Capital launched an Auto Loan service, aggressively expanding its business portfolio. In this way, all of our subsidiaries played a strong role in contributing to group synergy over the past year.

These efforts earned us wide recognition through external awards and listings. To name a few, DGB Financial Group was listed on the 2015 Dow Jones Sustainability Index (DJSI) Asia-Pacific and DJSI Korea for the sixth and seventh straight years, respectively; It became the first and only Korean bank to become one of the 2015 East Asia's CSR Top 30; and it was named the leading group of the financial sector in mitigating climate change by the 2015 Carbon Disclosure Project (CDP) Korea. Our financial performance also improved over the previous year, with a 0.61 percent return on assets (ROA) and an 8.85 percent return on equity (ROE), while total assets surged by 39.1 percent over the previous year to reach KRW 57.1 trillion in 2015. This was thanks to the purchase of DGB Life. The Group earned a total of KRW 294.1 billion in net income for 2015.

Looking ahead to the new year, DGB Financial Group set the management goal for 2016 of "Practical, Substantial and Competitive Finance" and will put into action three tasks; reinforcing group competitiveness, expanding new business lines, and enhancing synergy and management efficiency.

**First, we will devote ourselves to reinforcing the Group's competitiveness. To that end, we will efficiently select where to concentrate our corporate resources to support the strengths of each subsidiary while developing new sources of income to enhance our competitiveness. At the same time, we will support aggressive marketing campaigns by our non-bank subsidiaries to raise national recognition of the DGB brand, while continuing systematic risk management practices to enhance asset quality and to achieve qualitative growth and fundamental reform.**

**Second, we will secure growth engines by expanding into new lines of business. While increasing our business domains in the non-banking sector, we will optimize our business portfolio to build up our global competencies by creating global expansion plans for the mid-to long-term. We will also develop new business models that utilize advanced technologies, such as FinTech, and increase the number of branch-in-branch offices in order to swiftly adapt to the new market trends of the financial sector.**

**Finally, we will concentrate on enhancing synergies and management efficiency through close communication and group-wide collaboration. Based on a shared sense of unity under the single overarching roof of DGB, we will strive to heighten the sense of belonging and pride among members of the Group while expanding our base of mutual understanding and collaboration. We will also develop various cross-selling products between and among the bank, insurance and capital subsidiaries to take advantage of Group synergy. With the top priority on reinforcing the competencies of individual subsidiaries, we will concentrate on improving productivity and eliminating losses in the work process through active group-wide sharing of personnel management and other corporate resources.**

The year 2016 will be the starting year of taking our decade of endeavors towards sustainability management to the next phase. Humbly looking back on our past accomplishments, DGB Financial Group will fill our shortcomings and revamp our systems to make further progress in our sustainability management efforts in the coming years as a leader in sustainability management practices.

Going forward, DGB Financial Group will continue embracing change and challenge ourselves to become a regionally-based total financial group while giving back the trust and support we have received from our stakeholders. We will listen to our stakeholders and put our sustainability management plans into practice. Throughout these endeavors, I ask for your continued support and encouragement.

Thank you.

**Park, In-gyu**

CEO of DGB Financial Group

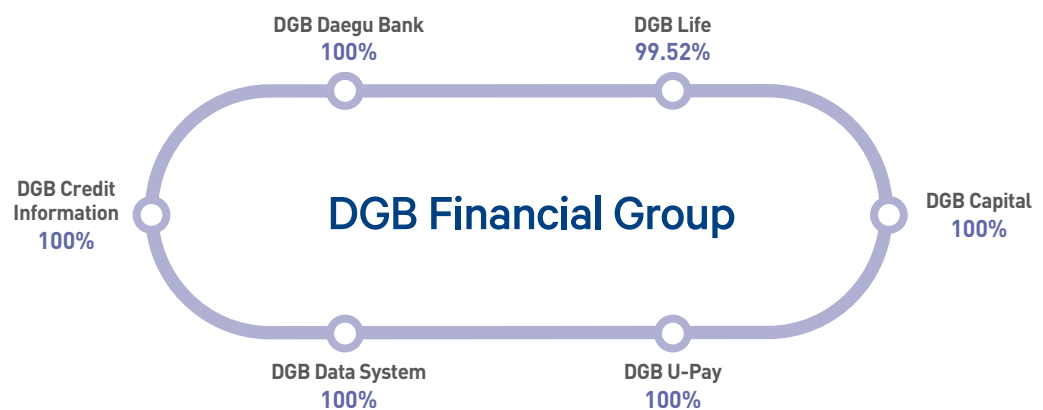


# DGB Financial Group Overview

## DGB Financial Group Overview

Led by DGB Daegu Bank—Korea’s first regional bank—DGB Capital, DGB U-Pay, DGB Data System and DGB Credit Information came together to launch DGB Financial Group in 2011 with the aim of bringing our Group to the next level through the provision of enhanced comprehensive financial services. With the acquisition of DGB Life in January 2015, the Group now has six subsidiaries under our umbrella, laying the groundwork for becoming a global total financial group with diversified revenue sources, cross-subsidiary synergies, and a strong global network.

### DGB Financial Group: Subsidiaries & Ownership



### DGB Financial Group Business Performance Results

	DGB Daegu Bank	DGB Life	DGB Capital	DGB U-Pay	DGB Data System	DGB Credit Information
No. of branches	255	44	6	1	1	1
No. of employees (persons)	3,100	262	133	29	80	25
Total assets (KRW billion)	44,523.0	5,334.7	1,258.3	36.8	8.3	4.7
Net income (KRW billion)	261.8	19.0	5.4	-2.4	0.7	0.0

\* As of December 2015



## DGB Financial Group Vision and Strategy

Under the management philosophy of sharing with community in dreams and prosperity as a regionally-based financial company, DGB Financial Group strategically implements three management policies—field-centric management based on the principle of customer-engagement; precision management practices that earn customer trust; and future management practices to launch the Group towards a greater vision. We envision ourselves as the best partner for a brighter future.

### Management Philosophy and Policy



### 2016 Group Management Goals and Strategies

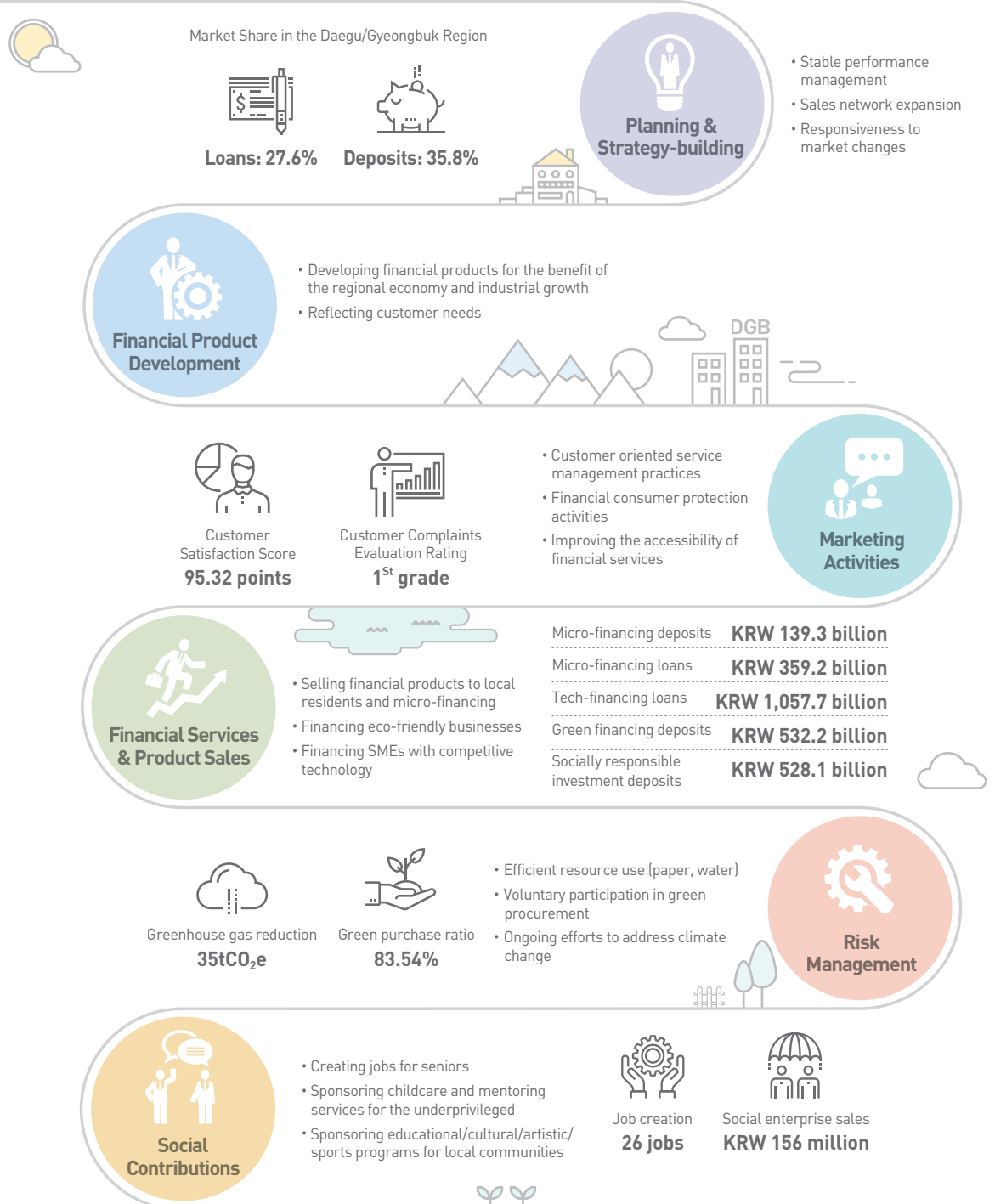


# DGB Financial Group's Business Model

## DGB Financial Group's Sustainable Value Chain

The business model of DGB Financial Group is related to the impact value chain that generates added value from management activities, from planning and strategy-building to the development, marketing and sale of financial products. Closely correlated, these activities generate both direct and indirect value for the stakeholders of DGB Financial Group.

\* As of the end of December 2015



DGB  
FINANCIAL  
GROUP  
SUSTAINABLE  
MANAGEMENT

*A Decade-long Devotion to  
Sustainability Management*



th

# The Decade-long Sustainability Management Footprint of DGB Financial Group

## Sustainability Management Progress of DGB Financial Group

DGB Financial Group was the first of any Korean business to explicitly declare its commitment to sustainability management practices on September 27, 2006. It was the first year that the Group publicized its roles and responsibilities as a financial institution. Every year since then, we have brushed up on our devotion to sustainability management practices and reminded our employees of their key roles in the implementation of these practices. We have phased in steps for establishing sustainability management practices over the past ten years. Since completing three out of total four steps, we have made significant progress in our sustainability management practices and thereby created sustainable value for our stakeholders through growth.

### Sustainability Management Strategy & Organization Building

(Sustainable finance, environmental management, social contributions, business ethics and corporate culture)

### Phase 2. Settlement (2008~2010)

- Environmental management activities
- Socially responsible finance

#### 2008

- Development of Eco-friendly Financial Products
- Developed and Implemented the DGB STOP CO<sub>2</sub> Plan
- Developed the Total Asset Management System (TAMS)

#### 2009

- Completion of the NEXPIA (next-generation system)
- Company-wide initiative to address the issue of climate change
- Listed on the Dow Jones Sustainability Index (DJSI) Korea
- Selected to the leading group of the financial sector in addressing climate change by CDP Korea

#### 2010

- Opening of the Cyber Green Branch
- Reforestation project in Mongolia
- Launch of the DGB Family Volunteer Group
- Korea's first bank to receive third-party assurance on greenhouse gas inventory

### Growth through Performance Results and Distribution

Future oriented Performance (Economic), Customer satisfaction, organizational competency-building, creation of shared value (Social), Environmental risk management (environment)

### Phase 3. Take-off (2011~2015)

- Stakeholder satisfaction activities
- Upgrading our fair and green financing

#### 2011

- First Korean bank to be listed on the FTSE 4 Good Index
- First Korean bank to establish a comprehensive CSR foundation
- Acquisition of Green Management Labeling and ISO14001 certification
- Launch of DGB Financial Group
- Customer Delight Dream Team
- Enactment of personal information protection rules
- Adoption of DGB Private Bank special offers

#### 2012

- Opening of the Bluebird Senior Happy Workplace
- Adoption of the DGB Open Bank service for visually impaired customers

#### 2013

- Opening of the Bluebird Multi-cultural Welfare Center
- Commencement of the Information System upgrade project
- Appointment of the chief information security officer (CISO)
- Customer Emotion Management
- Work-Life Balance Program
- Acquisition of utility models on the system and method of donation

#### 2014-15

- Acquisition of a social enterprise certification by the CSR Foundation's educational program
- Launch of the new multi-platform smart bank app service

### Preparing for Another 10 years

### Phase 4. Maturity (2016~)

- Accountable management along the entire value chain
- Best partner to local communities for growth into global markets

### NEXT

- DGB Financial Group's inner competency & value creation (Review of internal data)
- Expectations of the Group's outside stakeholders (interviews & survey results)

### Results of the past decade's sustainability management performance

### Goals for the next ten years

### Declaration of Sustainability Management

### Phase 1. Introduction (2006~2007)

- Setup of sustainability management strategies and organization (Sustainability Management Committee with the CEO as the chairman of the committee, establishment of a Sustainability Management Working Group)

#### 2006

- Proclamation ceremony of Sustainability Management
- Signed on to the United Nations Global Compact (UNGC)
- Signed on to the United Nations Environment Programme (UNEP) Finance Initiative
- Sold socially responsible investment (SRI) funds
- Introduction of the Knowledge Management System (SKY)
- Setup of the Sustainability Management Committee

#### 2007

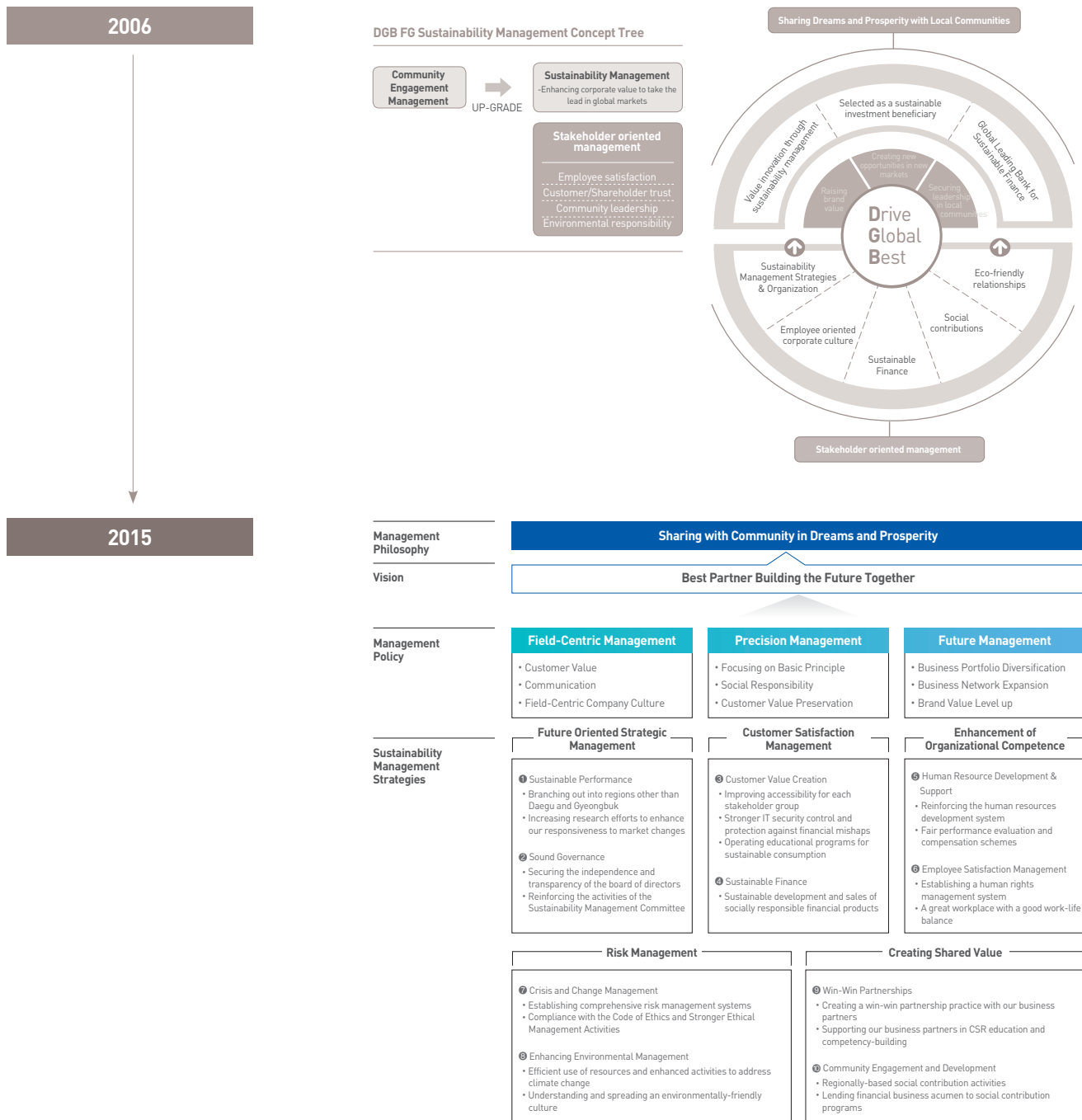
- Extension of special loans to environmentally friendly businesses
- Signed on to the Carbon Disclosure Project (CDP)
- Strengthened our internal control system
- Completion of the E-HR system
- Opening of the Daegu Finance Museum

DGB Financial Group is determined to generate economic, environmental, and social influence and value along the entire value chain to become the "best partner for a better future."



## Initiating Sustainability Management at DGB Financial Group

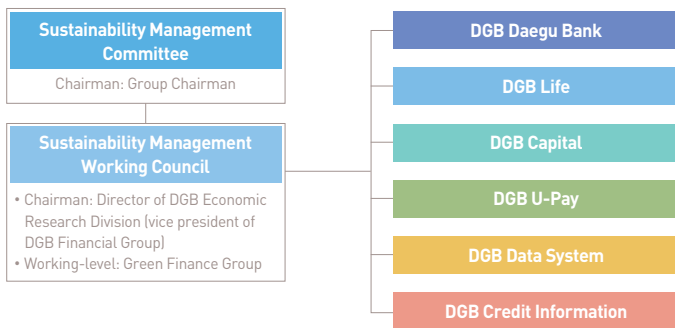
Since declaring our commitment to sustainability management in 2006, DGB Financial Group has devoted the past ten years to developing and establishing the systems, strategies and organizations required to enact sustainability management. We have developed five sustainability strategies and ten strategic missions in line with our management policies, together with more detailed action plans, based on the notion that this will solidify our growth platform by building upon our relationship with stakeholders by providing enhanced satisfaction. In addition, our target setting and key performance indicators allow us to manage our performance results in order to facilitate sustainability management practices.



## Sustainability Management Committee

DGB Financial Group has the Sustainability Management Committee monitor and assess group-wide sustainability management activities in order to further improve our sustainability management practices. The committee was led by the CEO of DGB until 2015, when the Group's chairman took over the position since then. The Sustainability Management Committee serves as the decision-making body regarding the Group's sustainability management, adjusting our future direction based on the evaluation results of our sustainability management performance. The committee also monitors the economic, environmental, and social aspects of our sustainability management and provides feedback to the management board.

### Sustainability Management Organization



## Sustainability Management Working Council Roles & Performance

The Sustainability Management Committee, and the working council under it, was established in 2009 for more systematic practices of sustainability management, keeping tabs on risks and opportunities arising through economic, environmental and social issues and their impact on the Group's business. This working council has developed and upgraded the Group's objectives, values, policies and goals in accordance with these changes. Comprised of four working groups in charge of four areas—sustainable finance, business ethics & corporate culture, social contributions, and environmental management—the working council convenes at least twice a year to review and respond to key sustainability issues defined by these four working groups and to develop and implement strategies and action plans. Any material issues related to Group-wide sustainability management practices or sustainability reporting are reviewed by the chair of the council (Director of the DGB Economic Research Institute), before being submitted to the Sustainability Management Committee for approval.

Dedicated to the sustainable development of DGB Financial Group and to becoming a leader in sustainability management, we will augment the roles and responsibilities of the Sustainability Management Committee within our organizational governance so that it is able to function as an effective channel for active communication with stakeholders.

## CSR INITIATIVE

### Financial Initiatives



- Listed on the DJSI Asia-Pacific for sixth straight year
- Listed on the DJSI Korea for seventh straight year



- Named leading group for four consecutive years since 2009



Listed on the FTSE4Good Korea Index for fifth straight year since 2011

### Commitment to External Voluntary Agreements



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



#### The CEO Water Mandate

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



UNEP Finance Initiative  
Innovative financing for sustainability

#### UNEP Financial Initiative

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



Carbon Disclosure Project  
Annual signatory since 2007



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

### Sustainability Management Performance Results



2006  
Signed on to the Carbon Disclosure Project (CDP)



2011  
Setup of the Green Finance Group, adoption of the environmental management system, and launch of DGB Social Contribution Foundation



2007  
Publication of the first sustainability report



2012  
Opening the Bluebird Senior Happy Workplace, joined the Climate Disclosure Standards Board CDSB



2008  
Promotion of the 'DGB STOP CO<sub>2</sub> Plan', signing of the 'CEO Water Mandate'



2013  
Opening of the DGB Bluebird Multi-Culture Welfare Center, all employees join the Carbon Points system



2009  
Reforestation project in Mongolia



2014  
Operation of the Future Generation Education Project Group, joined as a director member of the UN Global Compact Network Korea



2010  
Opening of the online green branch office "DGB Cyber Green Branch"



2015  
Official sponsor of the 7<sup>th</sup> World Water Forum 2015, signed on to the Business Ethics and Sustainability Management (BEST) CEO Integrity Pact

### Working Council Performance Results

Sustainable Finance Working Group	Introduces socially responsible investment (SRI) funds, improving environmental management performance evaluation criteria to corporate borrowers, plans a variety of green financial products, financing green projects, improves financial inclusion for the underbanked, and signs MOUs for the promotion of creative financing
Business Ethics & Corporate Culture Working Group	Promotes openness and communication within the organization, encourages health & stress management for employees, runs the DGB Happy Family Center, adopts family-friendly programs, develops employee competencies and fair evaluation/compensation schemes, upgrades human rights training
Social Contribution Working Group	Launch and operation of DGB Financial Group Volunteer Corps, talent donation from employees, job creation and support of financial independence for local communities, first Korean bank to run a certified social enterprise, runs a university volunteer group With-U, undertakes special projects by DGB Social Contribution Foundation
Environmental Management Working Group	Resource/Energy saving campaign (S-Edge Line), completion & operation of the greenhouse gas inventory system, hosts the NIE Energy Diary contest, DGB University Student Green Press Corps, MOUs for financing eco-friendly companies, Win-Win Partnership Council meetings with business partners, and an MOU for a campaign for reducing GHG emissions by one ton

# Disclosure on Management Approach of Sustainability Management of DGB Financial Group

## Sustainability Management System

At DGB Financial Group, which originated from DGB Daegu Bank, Korea's first regional bank, we have committed ourselves to community engagement management over the past decade since declaring a commitment to sustainability management in 2006, and have also served as the artery of local economies. We have been devoted to sustainable development while generating balanced results in the economy, environment and society. Through our sustainability management practices along with its stakeholders, the Group aims to attain our management goal of sharing dreams and prosperity with local communities.

## Background

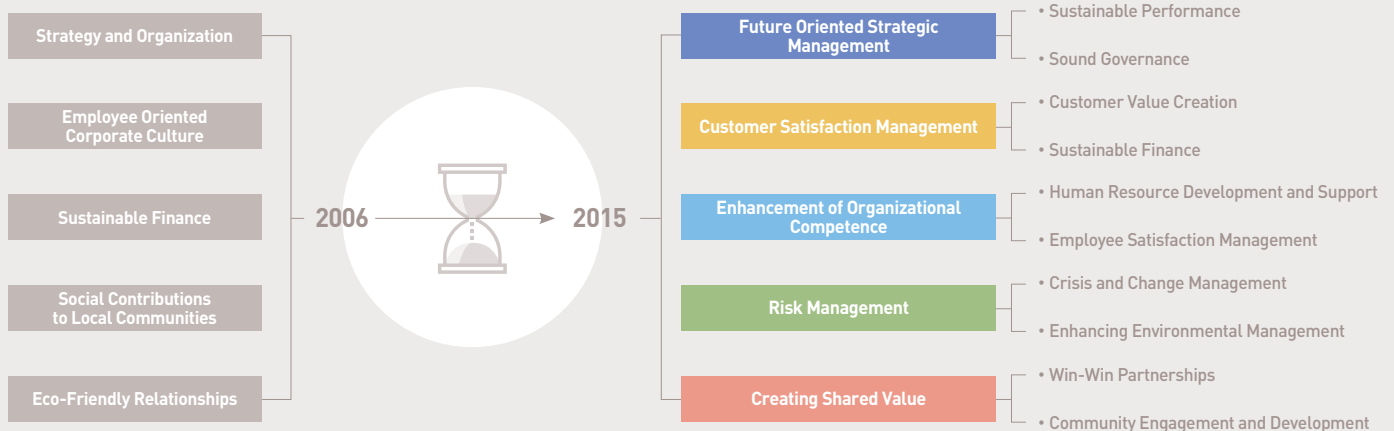
In the beginning, our primary goal of sustainability management was to consolidate our foundation for growth by building up our relationships with stakeholders through achieving higher stakeholder satisfaction. Ten years later, DGB still aims to remain a sustainable partner to our stakeholders with the goal of becoming a leading bank in sustainable finance backed by sustainable management strategies that align with our corporate management principles, vision, and management policies. Headed by the Group chairman, the Sustainability Management Working Council serves as

the top decision-making body regarding corporate sustainability management governance. Under the committee, the Sustainability Management Working Council manages and controls the company-wide sustainability management performance through four working groups that are in charge of sustainable finance, business ethics & corporate culture, social contributions, and environmental management, as mentioned above.

## Strategic Direction

In 2006, DGB Financial Group established five core values for sustainability management: 1) strategy and organization; 2) an employee oriented corporate culture; 3) sustainable finance; 4) social contributions to local communities and 5) eco-friendly relationships. Today, these core values have evolved into 1) future oriented strategic management (sustainable performance, sound governance); 2) customer satisfaction management (customer value creation and sustainable finance); 3) enhancement of organizational competence (human resource development and employee satisfaction management); 4) risk management (crisis & change and environmental management); and 5) creating shared value (win-win partnerships and community engagement and development), respectively, with the goal of becoming the best partner for a better future. These set the framework for developing and implementing practical strategies to facilitate sustainability management activities.

### ● Strategic Direction



## Key Sustainability Issues

Since 2006, DGB Financial Group has been identifying and monitoring sustainability issues with a significant impact on our business that are of high concern to our stakeholders, and we have been reporting on our performance regarding these issues. This page overviews the 11 most important issues

among those that have been monitored and reported on over the past ten years. The table below explains our management approach to each issue, describes the reasons why the issues are important, and explains what actions we are taking as well as the performance indicators we used.

In the future, we will continue to focus on identifying and managing material issues in effective ways to provide transparent disclosure of our performance results to our stakeholders.

Issue	Why is it important?	What are we doing about it?
<b>Dealing with Globalization and the Financial Crisis</b>	The global trend of universal banking and financial crises demand all financial institutions be able to cope with rapid changes in the financial landscape in order to survive. In dealing with these changes, DGB Financial Group is keenly aware that competitiveness is the key to survive.	DGB Financial Group is actively expanding our domestic and overseas sales network and controls our internal organization while offering total financial services. We are proactively responding to the changing financial environment to achieve qualitative growth.
<b>Sound Governance</b>	Governance dictates the hierarchy of decision-making in an organization. Therefore, it may be instrumental in understanding a company. In addition, a transparent and independent board of directors is a key factor in corporate competitiveness.	DGB Financial Group guarantees transparency and independence in our operation of the board of directors (BOD) through a fair process of selecting directors and independent committee operations that enhance the level of expertise in BOD operations.
<b>Financial Consumer Protection Systems</b> (IT security to prevent financial mishaps/protect customer information)	As personal information plays a key role in the financial business, preventing information leaks and other financial mishaps are a key responsibility of any financial institution, particularly because personal information is susceptible to felonies.	As a financial institution that has access to personal information, including the credit information of customers, DGB Financial Group makes every effort to protect this information. To that effect, we have assigned a chief information security officer, who is in charge of IT security and financial mishap prevention, in addition to our rigorous information security system.
<b>Customer Satisfaction</b>	The primary goal of DGB Financial Group is to generate higher customer value. As customer satisfaction has a direct influence on our business results, the Group considers every aspect to protect customer rights by assisting customers in fair and sensible financial transactions based on informed decisions.	At DGB Financial Group, customer satisfaction is the best policy. We always consider the best way to serve our customers, while constantly improving our services for advanced financial inclusion. We also work hard to protect consumer rights and reduce losses in our daily business activities so that we can minimize customer complaints and damages to enhance our customer satisfaction level.
<b>Sustainable Financing</b> (Increasing sustainable financial products & services/socially responsible investments)	When developing new financial products, DGB Financial Group takes into account the economic, social and environmental impact of new products so that we can offer higher value to our stakeholders.	As a leading regional financial group, DGB Financial Group offers public cause financial products for co-prosperity alongside the local community, microfinancing products to help increase the financial independence of proprietary business owners and low-credit individuals, and green financial products as a leader in green financing. We are also active in developing innovative financial products, socially responsible investments, and financial/economic education programs.
<b>Human Resource Development &amp; Training</b>	Human resources development schemes determine the future of a company. Therefore, DGB Financial Group recruits talented people through a fair process, helps them build their competencies through systematic education programs, and strives to ensure a work-life balance for our employees. These are the key factors in our sustainable growth.	DGB Financial Group develops various education programs to help the professional development of our employees and to cope with changes in customer needs and financial environments.
<b>Employee Satisfaction</b>	Business ethics and integrity in management activities are a determinant of the reliability of any financial institution. These are not the only factors that determine the sustainable growth of a business; product liability and legal compliance can also play a pivotal role in business success.	DGB Financial Group strives to maximize employee satisfaction through work-life balance programs to enhance the quality of life of our employees and make DGB a great place to work.
<b>Business Ethics &amp; Anti-corruption</b>	Business ethics and integrity in management activities are a determinant of the reliability of any financial institution. These are not the only factors that determine the sustainable growth of a business; product liability and legal compliance can also play a pivotal role in business success.	DGB Financial Group has established the frameworks to incorporate ethical management practices within our corporate culture, such as the Code of Conduct for Employees and the Guiding Principles for Each Job Position, Compliance Officer position, and the Jeong-do (right way) Management Program.
<b>Addressing Climate Change</b>	Global concerns are escalating over global warming and the resultant climate change issues. Present and future generations must realize the significance of environmental issues and take immediate action to mitigate climate change. Additionally, we should seek new opportunities to realize financial results through the minimization of our environmental impacts.	DGB Financial Group clearly understands that the environmental awareness and behavioral change of present and future generations are an integral part of addressing climate change. By internalizing green management policies and guidelines, we are working hard to practice green management activities while fulfilling our daily duties and promoting green management practices along our entire value chain.
<b>Enhancing the Rights and Roles of Suppliers within the Supply Chain</b>	DGB Financial Group has a vast supply chain, where we engage in transactions with diverse suppliers to comply with legal requirements and outsource non-financial activities to focus on our financial services. Fair and transparent transactions with our suppliers facilitate co-prosperity and win-win partnerships.	DGB Financial Group holds annual meetings with the Win-Win Partnership Council to reflect the voices of suppliers in our business management activities, while striving to address their grievances.
<b>Social Contributions</b> (local community development)	DGB Financial Group shares our growth with the local community. We devote our resources to economic development and the financial independence of Daegu and the Gyeongbuk region. We give back to the local community through reinvestments and donations for community development.	DGB Financial Group is involved in a variety of social contribution activities to generate economic and social value assisting in achieving financial independence for the local community, such as job creation. A number of community engagement programs and specialized programs to sponsor education, cultural, artistic and sports activities are also under way to promote a higher quality of life for local residents as well as co-prosperity programs alongside the local community.

Performance Indicators												
Direction	Tasks	Key Performance Indicators	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Future Oriented Strategic Management	Sustainable Performance	Daegu/Gyeongbuk market share (loans) (%)	25.5	25.9	26.0	28.5	29.0	29.4	29.2	29.0	29.1	27.6
		Daegu/Gyeongbuk market share (deposits) (%)	34.4	34.3	33.7	33.8	34.3	34.8	35.2	36.2	36.3	35.8
		BIS capital adequacy ratio (%)	11.32	11.25	13.12	15.40	14.76	15.33	15.57	15.06	12.92	12.89
		ROA/ROE (%)	1.20/19.71	1.16/19.20	1.01/17.37	0.61/10.06	0.75/11.77	0.97/13.95	0.83/11.35	0.65/8.63	0.58/8.16	0.61/8.85
	Sound Governance	Director participation rate (%)	100.0	100.0	100.0	87.4	91.2	98.4	95.0	100.0	100.0	98.0
		Percentage of outside directors (%)	83.0	83.0	83.0	71.0	63.0	83.0	83.3	71.4	71.4	83.3
Sustainability Management Committee resolutions (cases)		1	2	2	3	2	3	4	4	5	5	
Customer Satisfaction Management	Customer Value Creation	Civil petition assessment ratings (grade)	1	1	1	1	1	1	1	1	1	1
		Personal information leaks (cases)	0	0	0	0	0	0	0	0	0	0
		No. of VOC complaints handled (cases)	98	21	142	144	153	197	83	135	86	159
		Customer satisfaction (points)	85.0	85.0	89.0	89.0	91.0	92.0	92.7	93.9	94.2	95.3
	Sustainable Finance	Socially responsible investment product sales (KRW million)	-	28,997	26,360	17,060	8,806	9,620	11,807	7,790	8,117	5,281
		Micro-financing/Tech-financing balance (KRW billion)	-	-	-	744.9	382.1	747.9	370.9	197.9	277.4/625.6	359.2/1,057.7
		Green finance product sales balance (KRW billion)	-	-	-	232.8	229.2	85.3	327.7	218.1	294.4	532.2
Enhancement of Organizational Competence	Human Resource Development and Support	Per-employee average education hours	-	-	-	-	-	1,100	1,100	874	987	1,060
		Ratio of female managers to total managers (%)	-	4.0	8.2	9.0	10.2	12.9	13.6	15.7	16.8	19.7
		Retirement life preparation education expenses (KRW million)	-	-	-	-	-	-	-	3	3	-
	Employee Satisfaction Management	Employee satisfaction (points)	63.3	64.1	80.0	86.0	88.0	89.0	91.0	90.0	90.0	90.0
		Percentage of employees taking childcare leave and rate of return from childcare leave (%)	-	-	-	-	-	92.5	88.2	45.2	66.3	47.8
Risk Management	Crisis and Change Management	No. of anti-corruption breaches and legal violations (cases)	0	0	0	0	0	0	0	0	0	0
		Per-employee business ethics & human rights education sessions (sessions)	-	-	16	17	18	19	60	65	69	66
		Internal control system operations (times) (ordinary + regular + special + random)	-	-	-	-	-	148,113	356,182	915,380	855,309	519,205
	Enhancing Environmental Management	Greenhouse gas emissions (tCO <sub>2</sub> e)	-	-	-	31,461	32,759	34,326	18,400	17,991	18,167	18,132
		Green purchasing ratio (%)	-	-	-	-	84.5	81.5	83.3	83.3	83.0	83.5
		Environmental protection activities (times)	106	106	106	120	60	61	73	92	91	95
Creating Shared Value	Win-Win Partnerships	Supplier satisfaction survey results (points)	-	-	-	-	-	-	90	92	95	94
		Supplier meetings (sessions)	-	-	-	-	-	1	1	1	1	1
		Addressing supplier grievances (%)	-	-	-	-	-	-	100	100	100	100
	Community Engagement and Development	Social contribution expenses-to-net income ratio* (%)	4.0	3.5	5.1	8.9	8.3	7.8	8.7	9.7	11.3	14.6
		No. of volunteer participants (persons)	19,627	17,560	18,574	19,608	21,966	22,198	21,723	22,208	22,182	19,791
		No. of business consulting service beneficiaries (companies)	33	55	60	91	85	82	63	67	74	77
		Job creation through the Social Contribution Foundation projects (persons)	-	-	-	-	-	-	14	16	19	26

\*Net Income after Reserve for Credit Losses



# Special Theme 1

## *Establishment of DGB Financial Group*

(A regionally-based comprehensive financial group)



“

A regional bank-turned-total financial group  
offering comprehensive financial services

”



In a bid to proactively respond to uncertainties in the financial environments at home and abroad, DGB Financial Group has been diversifying our business portfolio and consolidating our fundamentals. These efforts culminated in 2011 when DGB Financial Group was launched with three subsidiaries—DGB Daegu Bank, DGB Credit Information and DGB U-Pay—under its arms. DGB Capital and DGB Data System joined the Group's fleet, bringing the total of our subsidiaries to five by the end of the year. Four years later, the launch of DGB Life in 2015 made DGB Financial Group the first regional bank to have a life insurer under its umbrella. Today, DGB Financial Group's diversified business portfolio spans all financial services, from banking and life insurance to capital services. The resultant synergies not only allow for the provision of one-stop service, but also local financial services while securing more diversified revenue streams for the group.

As the flagship company of the Group, DGB Daegu Bank has reinforced its internal control system and reformed its organization by adding new

business divisions for more effective responses to market changes. While developing new business models based on financial technology (FinTech\*) services, the bank is augmenting its regional marketing in Daegu and Gyeongbuk area in order to further enhance consumer trust.

Marking the fourth anniversary of the financial group in 2015, DGB Financial Group established Vision 2020 and our Four Management Strategies—diversification of group business portfolio, reinforcement in foundation for bank growth, improvement in non bank subsidiaries competitiveness, and preparation of future financial environment. To that effect, the Group is reviewing new effective sources of revenue such as acquiring an asset management business or securities firm. At the same time, we are determined to grow into a regionally-based total financial group that achieves sustainable growth as a responsible corporate citizen.

### Major Activities

- Reorganization of DGB Financial Group and DGB Daegu Bank for substantial management
- Areal marketing activities along with the launch of DGB Life and the branch-out of DGB Daegu Bank
- Unifying the brand name of subsidiaries to start with DGB (DGB U-Pay and DGB Credit Information)
- Spurring areal marketing activities in response to the advance of competitors into local markets of Daegu and the Gyeongbuk region
- Diversifying our business portfolio with the launch of DGB Life

### Future Plans

- Expanding the contribution of non-banking subsidiaries to our overall sales to reach 20 percent of total sales by 2020
- Increasing the size of total assets to KRW 100 trillion by 2020

#### \* FinTech



FinTech is a portmanteau formed from the words 'financial technology' that describes an emerging financial services sector, including IT-based future oriented financial technology such as mobile payment and money transfers, personal asset management and crowdfunding. Fintech-based smart financing businesses are quickly emerging as the new future of finance.

As we see a growing need for FinTech in the future amidst the rapidly changing financial environment characterized by expanded regulations and organization as well as diversified business areas, channels and customer needs for greater convenience, we are working hard to develop new and differentiated growth engines for the Group. DGB Financial Group is reshuffling our organization to prepare for the FinTech era, while developing future oriented financial product ideas and marketing through indirect channels.



# Special Theme 2

## DGB Cyber Green Branch

(Green Finance Group)

Since 2008, DGB Financial Group has been implementing our own carbon reduction plan called the DGB STOP CO<sub>2</sub> Plan. In 2010, two DGB Daegu Bank branches installed solar power generators as a supplementary source of power. In alignment with the government's low-carbon green-growth initiative and in a bid to take the initiative in the environmental management of the financial sector, the Group opened the nation's first Internet-based green branch office, DGB Cyber Green Branch, raising low-carbon awareness within the local community. DGB Cyber Green Branch can only provide green financial products, such as eco-friendly loans, funds and credit cards, and uses part of the proceeds from these product sales to sponsor local environmental protection activities. As a result, the DGB Cyber Green Branch has seen its number of accounts and sales balance continue to grow.



Leading the financial sector's initiative to mitigate climate change



● No. of Accounts Sold (accounts)



● Sales Balance (KRW million)





### ● Green Financial Products

Credit Card	Green Card	A credit card that offers eco-friendly mileage points for spontaneous green consumption habits
	Dandi Green Debit Card	A debit card that offers eco-friendly mileage points for spontaneous green consumption habits
Savings Deposit	Eco-friendly Green Deposit	A time deposit that offers premium interest rates for eco-friendly habits
	Eco-friendly Green Installment Deposit	An installment savings deposit that offer premium interest rates for eco-friendly habits
Mutual Funds	Mirae Asset Green Growth Securities Investment Trust	An investment trust that invests in the stocks of green businesses, such as energy efficiency, environmental improvement, alternative energy, and nuclear power plants
	MIDAS Responsible Investing Securities Investment Trust	An investment trust that invests in the beneficiary companies of the green business growth initiative, companies with outstanding performance in sustainability management, and other undervalued stocks
	Kium Frontier Sustainable Business SRI Securities Investment Trust	An investment trust that focuses on socially responsible investment (SRI) funds to invest in businesses with good performance in sustainable management practices

Additionally, DGB Financial Group runs the DGB Green Press Corps\*, comprised of local university students, to build social consensus on environmental protection. These efforts received wide recognition when the Group was selected by CDP Korea to join the leading group of the financial sector in addressing climate change at the 2015 Carbon Disclosure Project Climate Change Excellent Performer Awards. The Group also became the first Korean financial institution to be listed on the CSR Best East Asian Excellent Performers at the 2015 CSR Best East Asia 30 Awards\*\* by Hankyoreh Daily.

#### \* DGB Green Press Corps



Launched in 2010, DGB Green Press Corps serves as the window for communication between the Group and the local community on topics such as the Group's environmental management practices and raising environmental awareness. Selecting eight students from universities located in Daegu and Gyeongbuk region, the corps serves at least twice a month to provide environmental education and report on the environmental management and sustainability management activities of DGB Financial Group. Six groups have participated in the program since 2010, with the cumulative number of reporters reaching 48 to date. Their activities have included environmental campaigns, online promotions, eco-friendly field trips, participation in environmental contests, and environmental education at local schools and community centers for children.

Going forward, DGB Financial Group will continue to develop and sell green financial products—deposits and loans, mutual funds and credit cards—and engage in a variety of environmental protection programs. DGB Financial Group will continue to lead the way in green management practices by lending our business acumen to proactively address climate change and minimize our impact on the environment.

#### Major Activities

- Development and implementation of the DGB STOP CO<sub>2</sub> Plans
- Operation of the DGB Cyber Green Branch
- Operation of the DGB Green Press Corps
- Selected by CDP Korea as the leading group of the financial sector in addressing climate change at the 2015 Carbon Disclosure Project Climate Change Excellent Performer Awards
- Selected as one of the 2015 CSR Best East Asia 30

#### Future Plans

- Increasing the development and sales of green financial products
- Getting involved in environmental protection campaigns

#### \*\* 2015 CSR Best East Asia 30 Awards

DGB Financial Group became the first Korean bank to be named one of the CSR best East Asian companies at the 2015 CSR Best East Asia 30 Awards by Hankyoreh Daily in 2015. The Awards select the top 30 CSR performers among businesses from Korea, China and Japan and ten Korean companies, including DGB Financial Group as the only Korean financial institution, were listed this year. DGB Financial Group became the only Korean financial institution to be listed in recognition of its consistent endeavors in stakeholder communication and the promotion of a low-carbon society based on the sustainability management frameworks it has been building since 2006.

# Special Theme 3

## *A Certificated Social Enterprise, DGB Future Generation Education Project Group*

(DGB Social Contribution Foundation)

“ DGB Future Generation Education Project Group, A Financial Partner  
that Shares Dreams and Prosperity with the Local Community ”



DGB Financial Group runs DGB Social Contribution Foundation, which spearheads the Group-wide CSR programs, including scholarships, cultural activities, sports, the arts, and global CSR programs. In particular, DGB Future Generation Education Project Group became the first in the Korean financial sector to obtain a social enterprise certificate. Guided by the management philosophy of DGB Financial Group—sharing with community in dreams and prosperity, DGB Future Generation Education Project Group puts stakeholder value oriented management into action while engaging in social value oriented business activities. In particular, it focuses on special programs, such as educational and welfare services for local underprivileged children and youth, while simultaneously enhancing both its financial and non-financial corporate value.

DGB Future Generation Education Project Group offers education/welfare services, including a project that has aimed towards helping youth in identifying their life goals through MOUs with local elementary/middle/high schools since 2012. At the end of 2015, it ran a career development program for the youth of local residents in partnerships with related organizations.

### Major Activities

- Certificate of social enterprise (No. 2014-097)
- MOU with the WeeCafe with Friends to help school dropouts
- Delivery of monetary donation for books and signing ceremony of educational donation agreement
- MOU with Daegu Southern District Office of Education on the Sowing the Seeds of Your Dream Project
- Ppomppora Vacation School

### Future Plans

- To engage in practical social contribution activities through special programs and services

As part of the Job Experience Dream Day (Giving Wings to My Dream) Program, it holds a project called Sowing the Seeds of Your Dream, which inspires underprivileged elementary and middle school students in Daegu to realize their potential by offering various job experience and job planning events. Participant responses have reflected a high level of satisfaction with these programs. Other programs to inspire dreams and hopes in the young minds of the local community include a group counseling program for soul searching, family therapy services, camps to build stronger family bonds, and vocational aptitude tests.

Going forward, DGB Future Generation Education Project Group will run a variety of educational and welfare services and programs and reinvest the proceeds from these programs into social services for underprivileged children and youth.

#### ● Milestones of DGB Future Generation Education Project Group

- **2012. 02. 10**  
Established as the DGB Children's Welfare Project Group
- **2012. 08. 27**  
Designated as a preliminary social enterprise (1<sup>st</sup> year)
- **2012. 10. 08**  
Designated as a job-creating organization
- **2013. 08. 01**  
Designated as a preliminary social enterprise (2<sup>nd</sup> year)
- **2014. 06. 08**  
Renamed DGB Future Generation Education Project Group
- **2014. 06. 30**  
Certified as a social enterprise



# DGB Financial Group's Effort to Cope with Changes in the Financial Environment

## Enhancing Financial Inclusion



Over the past ten years, DGB Financial Group has adopted and implemented various programs and services to enhance accessibility to our financial services with a focus on strengthening our channel networks.

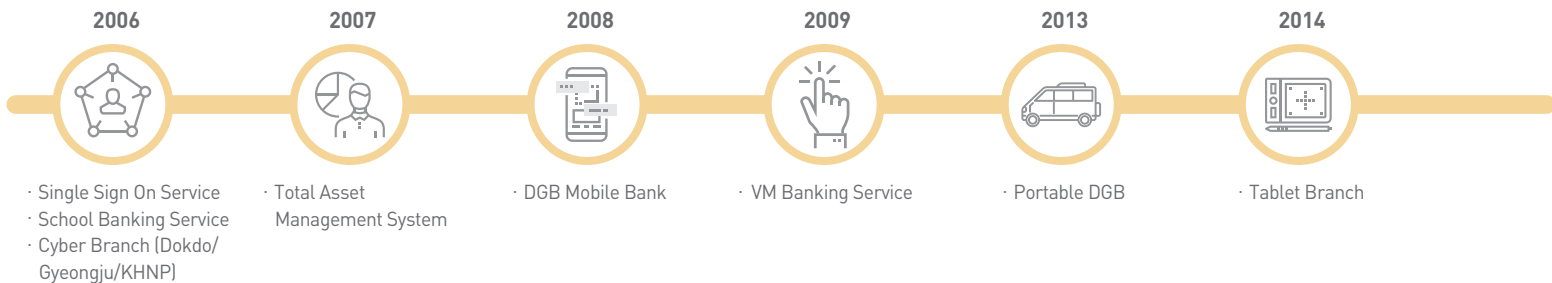
We introduced Internet banking services as early as 2000, adopting the single sign on (SSO) service that significantly enhanced user convenience. Starting in 2006, we offered school banking services, thereby improving convenience for students and parents while streamlining administrative procedures for schools. DGB Financial Group also opened the nation's first cyber bank branch, Dokdo Cyber Branch, which performed a key role in protecting the ecosystem of the islet that lies on the far end of Korean territory. Afterwards, the Group opened additional cyber branches, including the Cyber Gyeongju Branch and the Cyber KHNP Branch.

The completion of our customer oriented total asset management system (TAMS) in 2007 maximized our efficiency in managing relationships with loyal customers. In July 2008, the Group launched DGB Mobile Bank, which goes to wherever customers are 365 days a year. DGB Daegu Bank's online mutual funds shopping mall opened on the Group website, offering information regarding diverse fund products as well as product searches and a simulation service that offers product comparisons.

With the aim of offering customer oriented differentiated total financial services, DGB Financial Group is expanding diverse channels that are suitable for the ubiquitous era. The Group also offers financial services tailored to different customer segments. The Call Center tellers provide customers with

phone-banking deposit services, where customers can purchase new deposit products on the phone, and a virtual machine (VM) banking service that allows customers to take care of their banking on the go. Starting in January 2013, the Portable DGB Team took charge of providing services for customers who lack access to branch offices during regular office hours due to distance or time constraints, serving their needs for basic banking services and financial consulting services. Other products and services that provide greater accessibility to our financial services include: DGB Private Bank Service for communication with ultra-high net worth (UHNW) individual customers; DGB Open Bank and Braille-printed credit/debit cards for visually impaired customers; and microfinancing for the underbanked.

In December 2014, we revamped the organization adding a Future Finance Division in preparation for FinTech, the emerging future of finance. We also launched a Tablet Branch service, which visits customers with tablet PCs for banking services, in a bid to adapt to the rapidly changing financial environment that has a growing customer need for easier and more convenient financial services. Positioning ourselves as a fast follower of future financial strategies, we will channel our Group-wide resources into achieving that goal while enhancing customer value through a variety of initiatives.



## Financial Security



As we have access to personal customer information, DGB Financial Group mobilizes all of our available resources to protect this information while complying with the Consumer Protection Act, which is getting tougher each year.

In 2006, we enacted the 10 Golden Rules for Electronic Financial Transactions and conducted security training on how to prevent online fraud and identity theft. Since then, we have applied various solutions and systems to ensure information security, such as public key infrastructure security technology and an Internet protocol encryption system, automatic detection and shutdown of malware installations through personal firewall programs, an information security program that applies end-to-end encryption techniques to prevent personal information leaks on the Internet banking platform at the source, appointing a chief information security officer (CISO), and developing our information security system, monitoring the online financial transactions of our customers and applying mobile device management (MDM) solutions. In preparation for the revised Personal Data Protection Act, we revamped our customer numbering system, which had previously used the resident registration numbers of customers, to adopt a next-generation system. Furthermore, we strengthened the personalized security interface and security of the certificate digital signature center in order to detect malware on the mobile banking system.

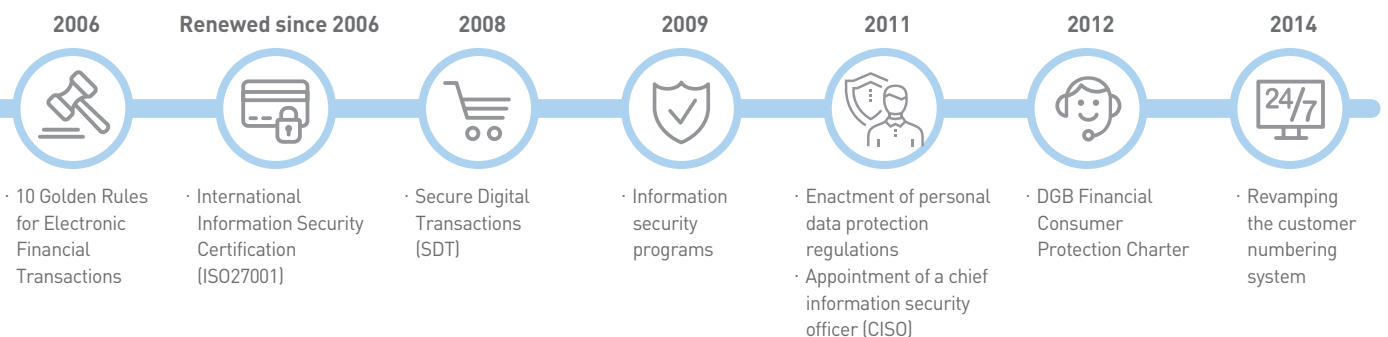
DGB Financial Group continues to renew our ISO27001 certificate (the international certificate of information security systems) while preparing for any risk factors through various measures. For instance, we developed a security plans for our financial information network in 2006, under which we

operate an infringement response team and a disaster recovery system (DRS) to detect and counter DDoS hacker attacks.

Since October 13, 2008, DGB Daegu Bank has offered Pop-banking and Hello-pay services—a real-time secure debit transaction (SDT) service that reduces potential information leaks for customers who use online or phone credit transfer services and when making purchases on home shopping channels. The bank also reduces the exposure of our customers to phishing sites based on the whitelist, where 90 percent of all Korean financial institutions are listed, and the blacklist that is updated on a real-time basis by the Anti-phishing Working Group (APWG).

DGB Daegu Bank's PB Center, which is located at their headquarters, and 23 branches offer a DGB Secret Account Service, a PB-exclusive service that allows only the primary accountholder to have access to their bank account.

Following the enactment of the Personal Information Protection Act in March 2012, we have put personal data protection regulations in place, designating our Compliance Office as the control tower of Group-wide personal data protection and as the chief personal data protection officer. Additionally, privacy protection guidelines are provided on the websites of all subsidiaries. In 2012, DGB Daegu Bank also enacted the Financial Consumer Protection Charter based on its notion that protecting financial consumer rights is a core value for achieving sustainable growth.



# Looking Forward to Another Ten Years of Partnerships with our Stakeholders

## Our Stakeholders: Definition and Communication

At DGB Financial Group, we classify our stakeholders into three groups according to their impact on our business or their concerns—the core group, the strategic group and the other group. Of these, our employees, shareholders/investors, customers, local communities and suppliers/business partners fall into the core and strategic stakeholder groups, and we maintain diverse communication channels to receive active feedback on our business activities. All feedback undergoes a preliminary review at the working departmental level and is reported to higher management according to the significance of the message, particularly when the feedback requires the attention and decisions of the board or top management for future management planning and strategies.

### Stakeholder & Communication Channel

- Core stakeholders
- Strategic stakeholders
- Other stakeholders

#### ● Employees

- Intranet (Employees' suggestion notes for help or change)
- Employee satisfaction surveys
- Labor-management councils

#### ● Shareholders and Investors

- DGB Financial Group website (IR page)
- General Shareholders Meeting
- Board of Directors
- IR activities

#### ● Customers

- Website
- Customer Panels "DGB Advisory Group"
- Customer Satisfaction Survey
- Financial Consumer Protection education
- Consumer rights protection report "Compassionate Partnership"
- CEO Forum (Daegu, Gumi, Pohang, and Gimcheon)
- Meetings with honorary branch managers
- Meetings with SME customers
- Business consulting services

#### ● Government

- DGB Financial Group Website

#### ● Local Communities

- DGB Financial Group website (social contribution page)
- DGB Social Contribution Report
- DGB Support Group
- I Love My Hometown Campaign
- DGB University student Promoters/ Green Press Corps

#### ● Suppliers

- DGB Financial Group website (e-grievances, financial mishaps and financial fraud reporting)
- Meetings with suppliers

#### ● NGOs, Interest Groups, Mass Media

#### ● Other Financial Institutions, Irregular Workers, and NPOs



## Stakeholder Surveys

DGB Financial Group conducts regular surveys of our stakeholders in order to determine our direction and find room for improvements in our sustainability management practices. Over the past ten years, we have learned what our stakeholders think of our sustainability management activities through the Sustainability Management Awareness Survey and Sustainability Management Issues Materiality Test, identifying the material issues concerning our business impact and stakeholder interests.

989 surveys were conducted, and the survey targets were mainly our core stakeholder group, including employees, customers, suppliers and local communities. We listened to the voices of different stakeholder groups through the intranet and questionnaires.

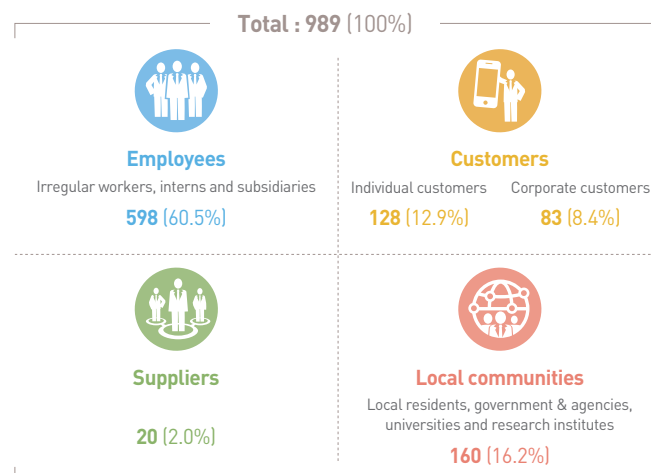
## Stakeholder Awareness by Stakeholder Group

The average stakeholder awareness of DGB Financial Group's sustainability management totaled 71.2 points on a scale of 100 points, scoring 78.5 points from customers, 85.7 points from suppliers, 77.8 points from employees and 42.7 points from local communities. As the results show, local communities group turned out to be the least aware of the Group's sustainability management activities.

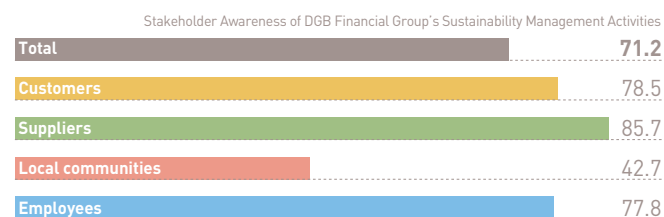
## Stakeholder Awareness of DGB Financial Group's Sustainability Management Practice Framework

Out of the five strategic CSR directions of DGB Financial Group's sustainability management, stakeholders showed the highest recognition of our Customer Satisfaction Management, with an average score of 86.2 points, while Enhancement of Organizational Competence ranked the lowest with 65.9 points. Of our strategic tasks, Customer Value Creation scored 90.1 points, followed by the Sustainable Finance (82.3 points) and Win-Win Partnerships (79.6 points). Employee Satisfaction Management (66.9 points), Human Resource Development (64.8 points) and Environmental Management (60.3 points) failed to attract the attention of our stakeholders.

### Stakeholder Survey Overview (Unit : persons)



### Stakeholder Awareness Survey Results (Unit : Point, on a scale of 100 points)



### Stakeholder Recognition of DGB Financial Group's Sustainability Management Framework (Unit : Point, on a scale of 100 points)



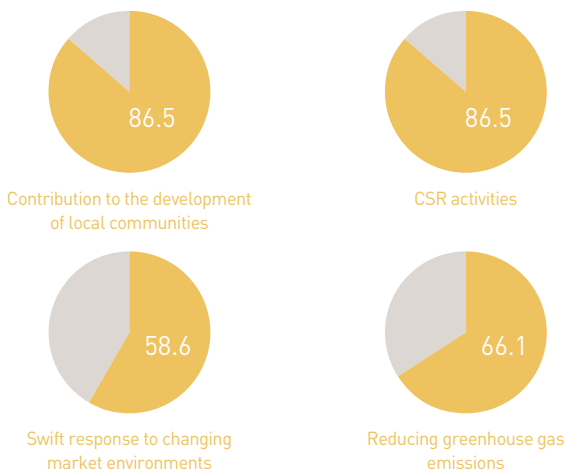
According to the survey results, stakeholders highly recognized the Group's endeavors to contribute to the development of local communities, our CSR and sustainability management activities, customer information protection and IT security, and financial mishap prevention. At the same time, they also demanded the Group redouble our hard work to swiftly respond to changing market environments, maintain active communication with stakeholders, promote ethical management practices, cut down on GHG emissions, and establish an open corporate culture.

Over the past decade, DGB Financial Group has worked hard to understand the needs and interests of our stakeholders, and to reflect these concerns in

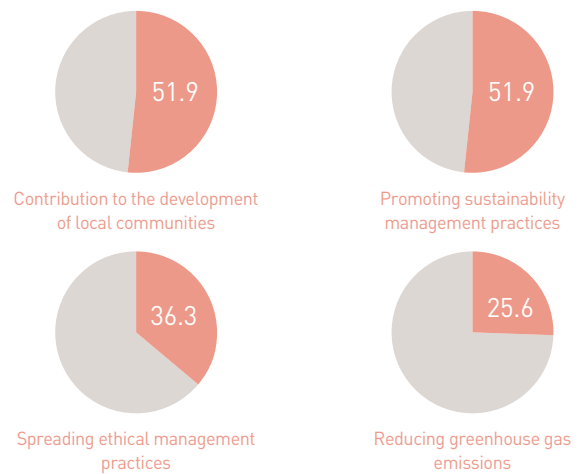
our business plans for sustainable growth. Going forward, we will continue to listen to the voices of our stakeholders and make ongoing improvements.

In particular, the stakeholder awareness survey results will provide us with the guidelines for our endeavors to swiftly respond to changing market environments, reduce greenhouse gas emissions, and promote an ethical and open corporate culture while achieving a higher level of employee satisfaction.

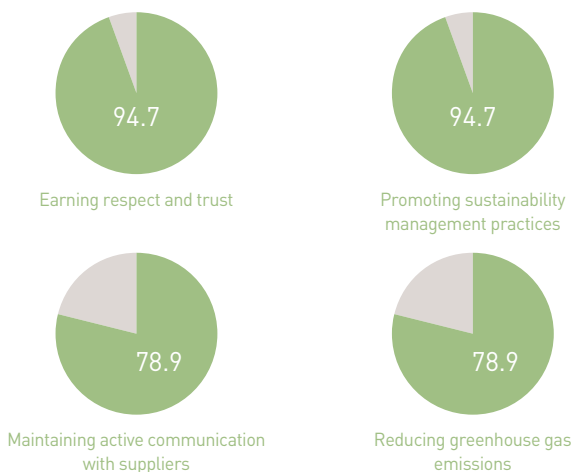
● **Customers** (Unit : Point, on a scale of 100 points)



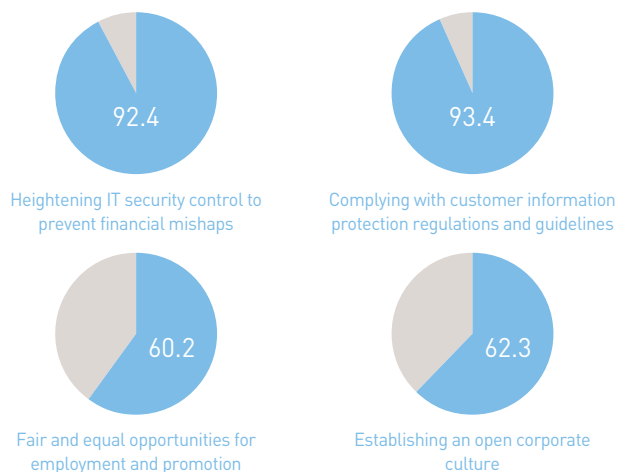
● **Local Communities** (Unit : Point, on a scale of 100 points)



● **Suppliers** (Unit : Point, on a scale of 100 points)



● **Employees** (Unit : Point, on a scale of 100 points)





## We Listen to Stakeholders' Voice

DGB Financial Group interviewed representatives of each stakeholder group of individual clients, corporate clients, business partners, employees and local communities.

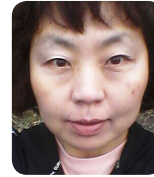
“Suppliers will join hands with DGB Financial Group in its endeavors toward sustainable growth through diverse CSR activities and work to address climate change.”



I believe DGB Financial Group has set a good example of sustainability management and contributed to the development of local communities throughout the 10 years of its commitment to sustainability management. In particular, I think its dynamic and diverse CSR programs distinguish it from its competitors. Going forward, I think now it is the suppliers' turn to join hands with the Group in raising public recognition of the urgency of addressing climate change.

Lee Jae-kyu,  
Director of division at Daekyoung TMS  
(Business partner)

“I recommend that DGB Daegu Bank offer customized information and services and engage in more proactive promotion of its business activities.”



I think DGB Daegu Bank is like a multiplex of the financial sector, as it offers total financial services at all times, in all places, and through all personnel resources. Employees offer products and services tailored to customer needs based on accurate information, while keeping their ears open to the voices of customers. I was also touched by the bank's sincere devotion to enhancing customer convenience as part of the local community. In the future, I wish the bank would continue with these efforts while proactively publicize its competitiveness.

Kim Mi-hyang  
(Individual client)

“I think substantial growth is as important as effective management of a people oriented corporate culture and relationships.”



I know DGB Financial Group has grown along with local communities as a community-friendly regional bank. It is not only swift in the management of customer relationships and provision of information, but also in handling their needs. I also think the Group effectively maintains mutually beneficial and trustworthy relationship with its corporate clients. Going forward, I hope the Group's growth can equal its high degree of personal relationships and corporate culture.

Park Eun-kyung,  
Team manager  
(A corporate client)

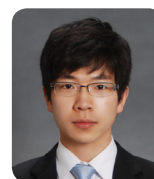
“We hope we can tap into the human and physical resources of DGB Financial Group to deal with the issues of our local communities.”



DGB Future Generation Education Project Group was organized as a means of community engagement under the supervision of DGB Financial Group's Social Contribution Foundation. Its main activities are concentrated on supporting underprivileged children and youth through job experience programs, group counseling programs, education programs, and camp sponsorships. DGB Financial Group offers not only financial support but also Group-wide resources to facilitate the construction of the job experience center, the dispatch of volunteer groups, and provision of legal and accounting counseling services. As DGB Future Generation Education Project Group contributes social value as a social enterprise to achieve mutual growth, I hope DGB Financial Group can help solve the issues of local communities by developing special products for underprivileged children.

Kim Do-youn,  
Vice president of DGB Future Generation Education Project Group  
(Local communities)

“We hope the Group can continue with its commitment to sustainability management in a constant and balanced way to inspire everyone at the Group with the vision that individual growth constitutes the growth of the organization.”



Led by the CEO's strong commitment to sustainability management, DGB Financial Group has been persistently pushing forward with sustainability management practices over the past decade, and its management policies have distinguished the Group from its competitors. Therefore, we must raise awareness among our employees regarding sustainability management practices while inspiring employees with the vision that individual growth constitutes organizational growth. This should be done through such activities as customer oriented marketing, performance oriented programs, and retirement planning programs.

Cho Bong-youn,  
Assistant Manager at DGB Daegu Bank  
(Employee)

## We Listen to the Experts' Opinions



Kim Jae-ku,  
Professor at Myeongji University

**“It is necessary to develop practical CSR programs based on continued efforts to seek co-prosperity with local communities. In the process, cooperation with diverse stakeholder groups is imperative.”**

DGB Financial Group needs to conduct in-depth, systematic research on local community development and local conditions while it continues its specialized CSR programs. In this process, the Group should reinforce the passage for win-win partnerships with social cooperative associations and local proprietary business owners, while participating in community engagement activities and services, such as capital-related risk management, and increase social financing to lay the foundation for co-prosperity with local communities.

### Answer

DGB Financial Group envisions itself as a regionally-based comprehensive financial group. To that end, the DGB Economic Research Institute conducts regular analyses on the present and future outlook of regional industries. DGB Financial Group maintains a collaboration network with various organizations and local residents, such as regional chambers of commerce and industries, employer associations, and the social enterprises promotion agency. But we still see room for improvements in our endeavors towards realizing co-prosperity with local communities and finding activities that utilize our business specialties. In the future, our improvements will focus on solutions for co-prosperity and differentiated and special community engagement activities.

**“A sustainable form of organization is required for the systematic support and performance of social enterprises.”**

Social enterprises contribute to the revival of the local economy. Therefore, I think the Group should cooperate with government agencies and other organizations to support the systematic growth of social enterprises. Plus, a sustainable form of organization is required for a systematic implementation of projects so that the Group can play a pivotal role in rekindling the local economy.

### Answer

DGB Financial Group established DGB Social Contribution Foundation in 2011 and has committed itself to fostering local social enterprises. Since then, the Group has worked hard to develop more social enterprises that can address various social issues. Today, we anticipate the success story of the first social enterprise in Korean financial sector, DGB Future Generation Education Project Group, will be able to spark a wider range of support for social enterprises. Going forward, we will continue with our diverse efforts to supplement and improve these ventures.

Marking our tenth anniversary of commitment to sustainability management in 2015, DGB Financial Group listened to the advice of economic, environmental, and social experts. Not only that, we ensured that their opinions are reflected in our management policies and in the development of action plans at working departmental levels as well as the Group-wide level.



Lim Hyun-jeong,  
Manager at Korea Environmental Industry & Technology Institute

**“Constant implementation of environmental management and a social consensus on environmental protection requires active communication with customers through diverse channels regarding the CEO’s commitment, as well as the implementation of related policies and education programs”**

Like any business that has direct contact with its customers, DGB Financial Group has a significant impact on society. Therefore, environmental management practices require established systems and policies for implementation, as well as the CEO’s strong will and systematic education for internal/external stakeholders. Furthermore, DGB Financial Group has to get involved in community engagement programs and introduce eco-friendly financial products to raise customers’ awareness of environmental protection, by, for example, conducting evaluations on the environmental management performance of local businesses and delivering messages about eco-friendly activities to customers when they use banking services.

#### Answer

DGB Financial Group has implemented diverse environmental management activities, including the sales of environmental financial products in consideration of their environmental impact on local communities. In the beginning of 2016, the Group also participated in the GHG Reduction Campaign held by the Ministry of the Environment. As such, DGB Financial Group takes into consideration its impact on stakeholders, including local communities, from various perspectives before it takes environmental management action. Going forward, we will pursue activities that address environmental issues along with local residents while encouraging local companies to practice environmental management.

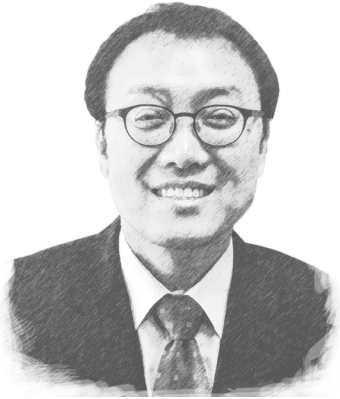
**“Environmental management activities and performance measurements should evolve beyond just collecting environmental data”**

The environmental management activities of DGB Financial Group should go beyond just measuring the numeric performance to closely track the key performance indicators of each employee to capture the potential effects. Moreover, we expect the Group to identify the factors to recover the short-term economic losses arising from environmental issues and to measure quantitative and qualitative performance results to further propel environmental management practices.

#### Answer

DGB Financial Group keeps identifying qualitative measures to use in gauging environmental performance results against key performance indicators. Due to the unclear boundaries between the organization and the individual as a financial institution, additional effort is required to build consensus among the entire workforce and achieve best practices benchmarks. In the future, the Group will continue its efforts to improve environmental performance and raise its corporate value by fulfilling its social responsibility as a leading financial group committed to realizing low-carbon local communities.

## We Listen to the Experts' Opinions



Jung Jae-kyu,  
Senior researcher of the Korea Corporate Governance Service

**“Systematic approaches are required for thorough risk management and enhanced corporate governance, as well as interest in global issues, including diversity within the board of directors”**

If DGB Financial Group plans on going nationwide and diversifying its business portfolios, thorough risk management is imperative. While ensuring the stability of regional markets, the Group has to review product/service R&D plans and business portfolio diversification plans. When an electronic vote system is adopted to protect the rights of minority shareholders and new systems are adopted, including a corporate governance charter, to improve corporate governance, the Group also needs human resources and infrastructure to take full advantage of the established systems. Adequate regulations and supervision are also necessary to ensure that the right persons are appointed to the right positions in the top management and board of directors. At the same time, the composition of the board should be diversified to strengthen its ability to check and monitor management activities.

### Answer

DGB Financial Group enacted internal regulations in 2015 in a reflection of the Corporate Governance Code. Keenly aware of the fact that thorough risk management and advanced corporate governance are the critical factors to the success of a financial business, we place the priority of our system development on establishing ethical management and environmental management practices within the organization. Our qualification for new director members has no tolerance for discrimination in any form. Rather, it offers advantageous points to female to promote diversity within the composition of the board.

**“Active communication with stakeholders through the Sustainability Management Committee and accurate information disclosure are as integral to sustainable growth as they are to sizeable growth.”**

The definition of a sustainable business may be a company that seeks sustainable growth or a good enterprise that possesses sound fundamentals or one that is respected by customers. Therefore, customer loyalty and supplier loyalty are as determinant to growth as a sustainable company as the discovery of new growth engines. In this context, I hope DGB Financial Group maintains active communication with shareholders, employees and local communities by disclosing its information via diverse channels, such as its corporate website and business reports, while systematically responding to different stakeholder needs through the Sustainability Management Committee.

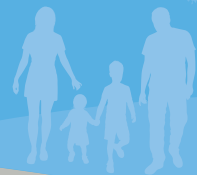
### Answer

DGB Financial Group runs the Sustainability Management Committee, chaired by the Group's CEO, and is reinforcing the committee functions by installing a Sustainability Management Working Council. As of 2016, the committee came under the control of the board of directors, further promoting communication with stakeholders. At the same time, our sustainability management performance results are disclosed via diverse channels, such as the website and electronic disclosure system as part of our efforts to communicate with our stakeholders.

# DGB Financial Group

## 2015-2016 Highlights

DGB at a Glance	32
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# DGB at a Glance

\*As of the end of December 2015, Total assets do not include trust assets

## DGB Daegu Bank

- Deposits, loans and foreign exchange
- Financial product sales (funds and bancassurance)
- Wealth management services
- Internet banking services

**Total assets: KRW 44,523.0 billion**

**Revenue: KRW 2,304.1 billion**

**No. of employees: 3,100 persons**

**Net income: KRW 261.8 billion**

## DGB Life

- Insurance product sales (protection, savings, pension and variables)
- Wealth management services
- Policy loans

**Total assets: KRW 5,334.7 billion**

**Sales: KRW 1,165.2 billion**

**No. of employees: 262 persons**

**Net income: KRW 19.0 billion**

## DGB Capital

- Personal Loans and Corporate Loans
- New technology financing
- Lease and lease-purchase financing
- Auto financing

**Total assets: KRW 1,258.3 billion**

**Sales: KRW 73.9 billion**

**No. of employees: 133 persons**

**Net income: KRW 5.4 billion**



DGB



The infographic features a large blue arrow pointing right, containing the text 'DGB'. Three circular icons are connected to the arrow: a piggy bank with a dollar sign (top), a heart with a pulse line (middle), and a hand holding a dollar sign (bottom). Dashed lines connect these icons to their respective sections on the left.

# Financial Group



## DGB U-Pay

- Issuance and management of electronic prepayment
- Payment gateway

**Total assets: KRW 36.8 billion**  
**Sales: KRW 13.3 billion**  
**No. of employees: 29 persons**  
**Net income: KRW -2.4 billion**



## DGB Data System

- Development, operation and maintenance of information system
- System integration (SI) and operation of information system
- Sales, lending and maintenance of information devices and software
- IT consulting and training
- E-commerce and Internet-based businesses

**Total assets: KRW 8.3 billion**  
**Sales: KRW 5.6 billion**  
**No. of employees: 80 persons**  
**Net income: KRW 0.7 billion**



## DGB Credit Information

- Debt collection
- Credit inquiries
- Rent/Lease investigations
- Credit civil agency

**Total assets: KRW 4.7 billion**  
**Sales: KRW 1.7 billion**  
**No. of employees: 25 persons**  
**Net income: KRW 0**



## 2015 10 Key Events



### March 21, 2015 DGB Hosts the First Rally to Build Team Unity Among Employees

Launched in January 2015, DGB Life held its first rally to build team unity and raise employee morale under our shared vision in March of 2015. Having declared our commitment to honest business practices, the company will develop systems and training programs to protect consumer rights by eliminating misselling practices.



### April 29, 2015 DGB Daegu Bank, First Korean Bank to Earn Top Grade in the Financial Company Civil Complaint Assessment Ratings for 9<sup>th</sup> Straight Year in 2015

DGB Daegu Bank earned the top grade at the 2014 Financial Company Civil Complaint Assessment Rating by the Financial Supervisory Service (FSS) on April 29, 2015. The bank became the first Korean financial company to earn a 1<sup>st</sup> grade rating for nine consecutive years since 2006—proving its excellent performance in protecting consumer rights.



### May 8, 2015 DGB Daegu Bank Launches DGB FinTech Center (Fium)

DGB Daegu Bank opened Fium, which will serve as the hub of the bank's FinTech services, in May 2015. Fium—a word that combines the first letters of the words FinTech and Innovation—will provide comprehensive support for FinTech service to startups in the region.



### July 10, 2015 DGB Social Contribution Foundation Hosts Social Contribution Idea Contest

DGB Financial Group's DGB Social Contribution Foundation held an idea contest for university students with the theme "Sharing Dreams and Prosperity with Local Communities: DGB Financial Group Cares About You!" The contest focused on social welfare programs in local communities, and placed a high value on practical ideas that were tied deeply to local community needs that could contribute meaningfully to local communities.



### August 21, 2015 DGB Social Contribution Foundation Opens a Work Simulation Hall

DGB Social Contribution Foundation opened the Work Simulation Hall in August 2015. This exhibition provides local youth with opportunities to experience working as a barista and patissier, as well as financial jobs, allowing local youth to get an idea of what these jobs are actually like for the first time.





06

August 21, 2015

### Group-wide Rebranding to Raise Team Unity and Morale

DGB Financial Group unified its brand name by adding the abbreviation 'DGB' to all of its subsidiaries, such as DGB U-Pay, DGB Credit Information, etc. Now, all subsidiaries, including DGB Daegu Bank, DGB Life, DGB Capital, DGB U-Pay, DGB Credit Information and DGB Data System will share the same initial "DGB", promoting unity as one group and enhancing the convenience of their financial services for local customers.



September 15, 2015

### DGB U-Pay Sponsors Underprivileged Local Children

DGB U-Pay delivered transportation subsidies and transportation cards to the Daegu Social Welfare Association at DGB U-Pay transportation subsidies delivery ceremony. The company made the monetary donation to underprivileged local children to subsidize their traffic expenses.



October 5, 2015

### DGB Daegu Bank Sells Funds for to Create Hope for Youth

DGB Daegu Bank started selling public-cause fund products to finance job creation for youth. Called the Fund to Create Hope for Youth, the funds raised through the sales of these products will be donated to the Youth for Hope Foundation that will be established by the Korean government in the near future. The Group's management board will make monthly donations to the fund, and other employees are invited to make their own individual contributions as well.



November 3, 2015

### DGB Daegu Bank Runs the Happy Retirement Planning Center

DGB Daegu Bank has started providing differentiated financial planning for retirement at the Happy Retirement Planning Center located at 179 branch offices nationwide. To this end, the bank has prepared a one-stop financial planning system that can help our customers plan out their retirement finances and suggest portfolios. These services will be offered by 271 financial gerontologists to whom we have provided comprehensive training over the past three years.



December 8, 2015

### DGB Social Contribution Foundation Signs an MOU for Social Enterprise and Public-Cause Education

DGB Social Contribution signed an MOU with Daegu Office of Employment and Labor for the promotion of social enterprises in educational and cultural services industries and public-cause education in December 2015. The agreement calls for developing and providing quality educational content to local youth as well as cultural experiences and opportunities for quality education. The proceeds from the social enterprises and these programs will be contributed to job creation and social welfare programs.

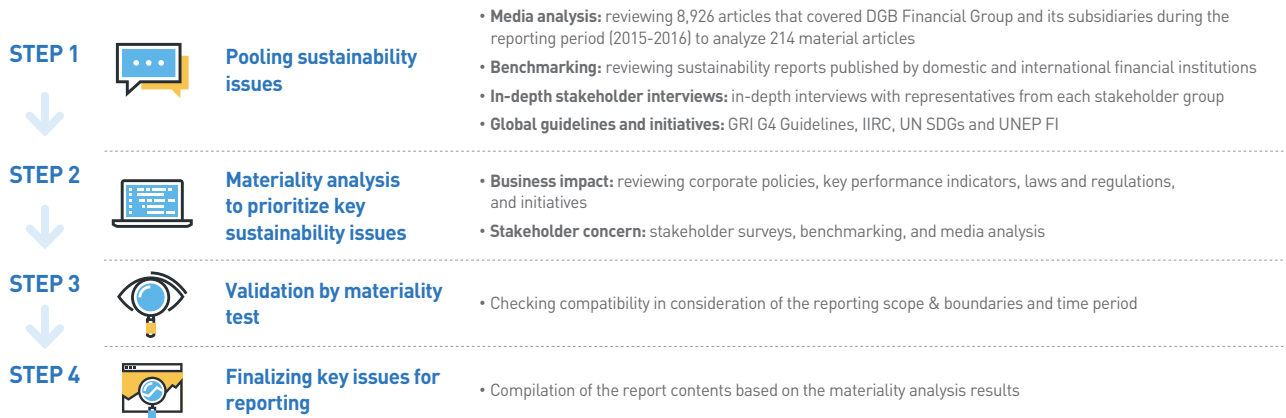
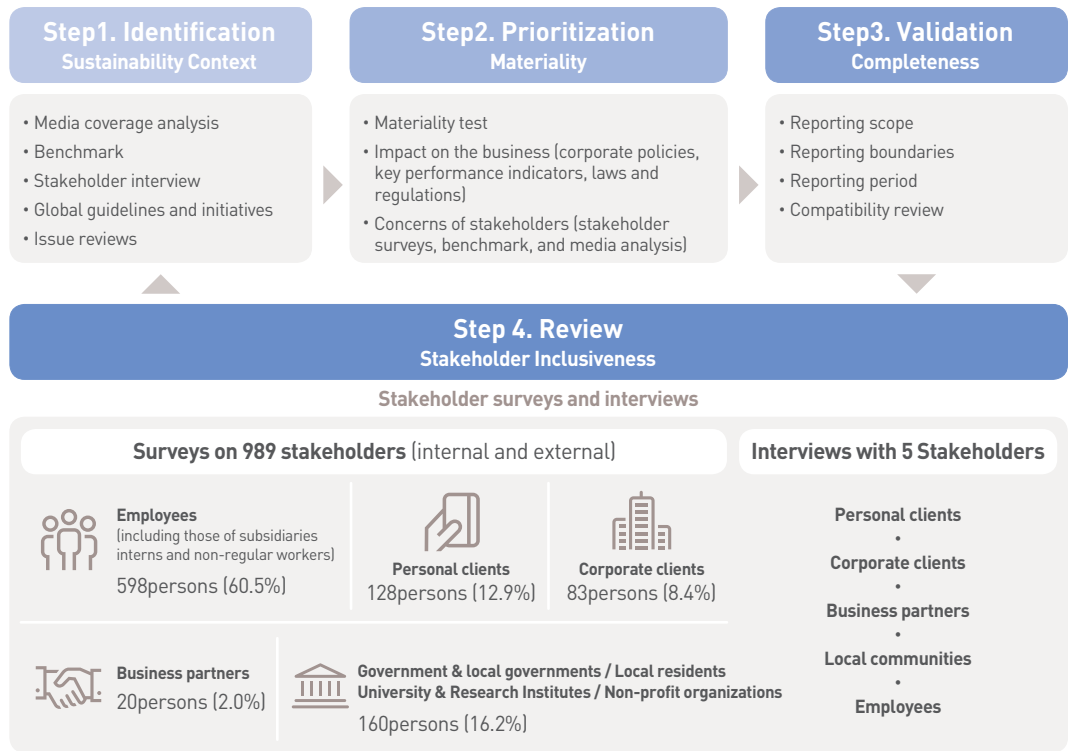
# Material Issues

## Materiality Analysis Process & Results

DGB Financial Group ensured the credibility in the process of selecting the report content issues through the materiality analysis as recommended by the ISO26000, GRI G4 Guidelines and International Integrated Reporting Council (IIRC). Additionally, we selected the sustainability issues of high concerns to our stakeholders and of high impact on our business activities to compile the report content for transparent disclosure on significant issues to all our stakeholders.

### Materiality Analysis Process

DGB Financial Group ran our materiality analysis process based on the four principles of sustainability context, materiality, completeness, and stakeholder inclusiveness through the procedures of identifying, prioritizing, validating and reviewing material issues to finalize the key issues for this report.



## Materiality Analysis Results

In consideration of stakeholder concerns and business impacts, we finalized 50 material issues in 12 areas, upon which compiled the report contents while also covering the performance results concerning related issues.

The materiality analysis results concluded that the material issues for 2015 were enhancing IT security and preventing financial mishaps, compliance with product-related regulations, FinTech, rising demand for transparent management practices, and preparedness for globalization and financial crises. It is particularly notable that branch network expansion and strategic brand management, social responsibility with regards to financial debts, and addressing climate change have emerged as significant issues compared to the previous year. This can be explained by the fact that the year 2015 was the year when DGB Life's success in our branching-out strategy was tested, and also the year that the public became more aware of social issues regarding financial debts and global issues regarding the fight against climate change, such as greenhouse gas emissions schemes and the Paris Agreement.

DGB Financial Group will continue to transparently disclose our sustainability issues that are of high concern to our stakeholders and that may impact our business, as well as potential risk management issues.

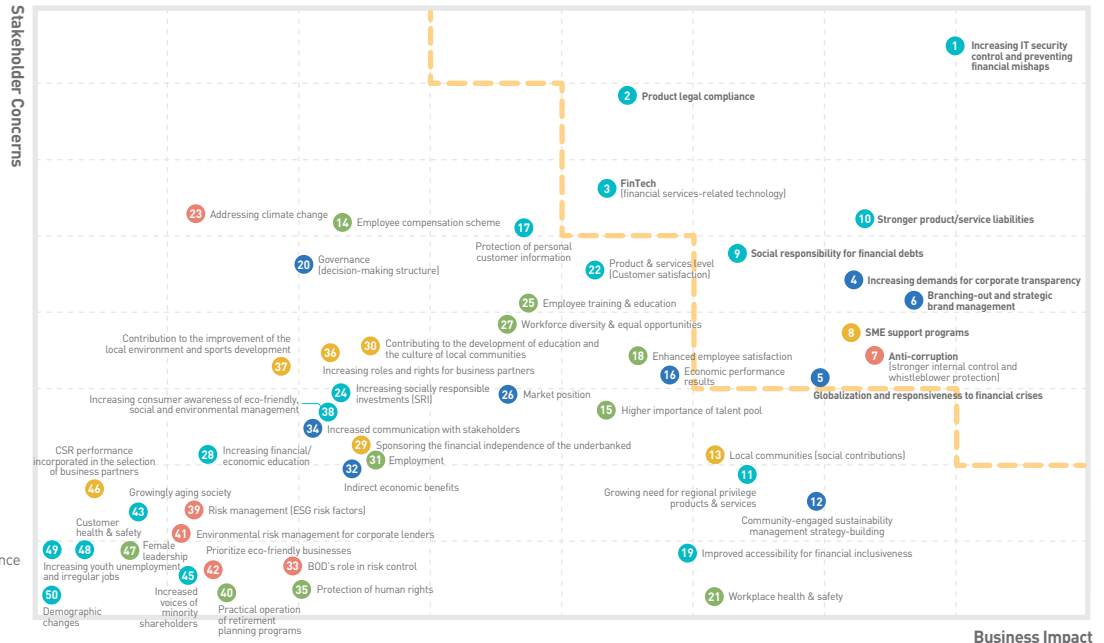
### ● DGB Financial Group 10 Major Issue Trends (2013–2015)

Issue	2013	2014	2015	Report Pages
 <b>Enhancing IT security control and preventing financial mishaps</b>	1	1	1 –	48-49
 <b>Product legal compliance</b>	7	10	2 ▲	48
 <b>FinTech</b> (financial service-related technology)	New	6	3 ▲	43, 50-52
 <b>Rising demand for corporate transparency</b> (transparency/business ethics)	3	4	4 –	66-67
 <b>Globalization and responsiveness to financial crises</b>	8	7	5 ▲	42-43
 <b>Branching out and strategic brand management</b> (Launch of DGB Life)	New	18	6 ▲	42-43
 <b>Anti-corruption</b> (Enhancing internal controls and protecting whistleblowers)	10	8	7 ▲	67
 <b>SME support programs</b>	New	-	8 ▲	53-57
 <b>Social responsibility for financial debts</b>	24	24	9 ▲	56-57
 <b>Enhancing accountability in products and services</b> (relationship finance)	5	9	10 ▼	53-57

● 2015-2016  
Material Issues of  
DGB Financial Group

Sustainability management strategy	Issue	Materiality Order	Aspect	
Future Oriented Management	Globalization & Responsiveness to financial crises	5	Material Issues	
	Branching-out & Strategic brand management	6	Indirect economic benefits	
	Sustainable Performance	Community-engaged sustainability management strategy-building	12	Strategy & Analysis
	Economic performance results	16	Economic performance results	
	Increasing communication with stakeholders	34	Stakeholder engagement	
	Sound Governance	Increasing demands for corporate transparency	4	Ethics & Integrity
Customer Satisfaction Management	Governance (decision-making structure)	20	Corporate governance	
	Customer Value Creation	Increasing IT security control and preventing financial mishaps	1	Material Issues
	FinTech (financial services-related technology)	3	Material Issues	
	Growing need for more regional-privilege products and services	11	Local communities	
	Protection of personal customer information	17	Personal information protection	
	Improved accessibility for financial inclusiveness	19	Material Issues	
Enhancement of Organizational Competence	Sustainable Finance	Product legal compliance	2	Compliance
	Social responsibility for financial debts	9	Material Issues	
	Stronger product/service liabilities	10	Product & Service labeling	
	Human Resource Development and Support	Employee compensation scheme	14	Fair compensation
	Higher importance of talent pool	15	Training & Education	
	Female leadership	47	Diversity & Equal Opportunities	
Risk Management	Employee Satisfaction Management	Enhanced employee satisfaction	18	Material Issues
	Practical operation of retirement planning programs	40	New issues	
	Risk and Crisis Management	Anti-corruption (Stronger internal control and whistleblower protection)	7	Anti-corruption
	Risk management (ESG risk factors)	39	Organizational profile	
	Enhancing Environmental Management	Addressing climate change	23	Raw materials, emissions
	Creating Shared Value	Win-Win Partnership	Increased roles and rights for business partners	36
Community Engagement and Development		Local communities (social contributions)	13	Local communities
SME support programs		8	Local communities	

● Material Issues Matrix



## Sustainability Management Strategy

### DGB Financial Group's Sustainability Management Strategic Direction

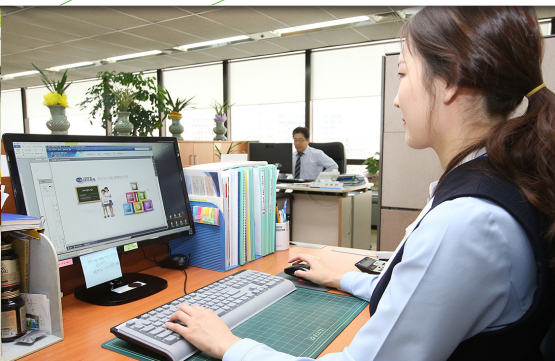
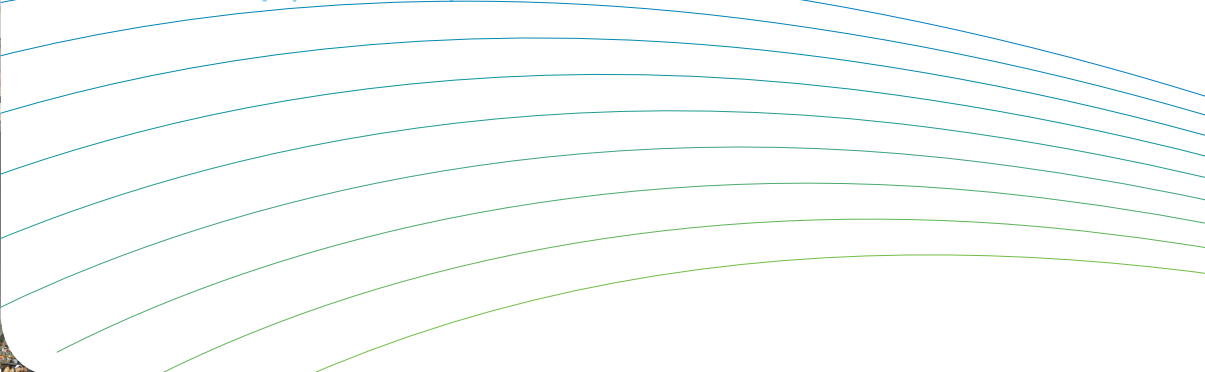
In line with our management philosophy of sharing with community in dreams and prosperity our corporate vision of best partner building the future together, we have developed five strategic directions and 10 missions. By developing practical action plans for each of the 10 missions, we are reinforcing our sustainability management practices by setting goals and systematically managing our performance against the selected performance indicators.







# DGB Financial Group Strategy & Performance



## 금융기관 온실가스 줄이기 업무협약

일시 : '16.1.5(화), 16:00~16:40 장소 : 전국은행연합회(2층 국제회의실)  
KEB 하나은행, m2v 환경부, 한국기후·환경네트워크, DGB 금융그룹 대구은행



우리모두가 노력하겠습니다!





### Future Oriented Strategic Management

Sustainable Performance .....	042
Sound Governance .....	045

### Customer Satisfaction Management

Customer Value Creation .....	048
Sustainable Finance .....	053

### Enhancement of Organizational Competence

Human Resource Development and Support .....	058
Employee Satisfaction Management .....	061

### Risk Management

Crisis and Change Management .....	065
Enhancing Environmental Management .....	068

### Creating Shared Value

Win-Win Partnerships .....	073
Community Engagement and Development .....	074



# Future Oriented Strategic Management

DISCLOSURES ON MANAGEMENT APPROACH

## Major Activities in 2015

Establishing a branch in the Southeastern area and Ho Chi Minh office in Vietnam, DGB Financial Group reinforced its business network and made efforts to improve its market competitiveness by strengthening competitiveness of the affiliates. In a bid to swiftly respond to the recent market changes and trend of globalization, the Group also set up 'DGB FinTech Center (Fium)' which was designed to act as a hub to boost FinTech services.

## Major Issues and Achievements



**Sustainable Performance**

- Response to globalization and financial economic crisis
- Expansion of business network and strategic brand management
- Establishment of sustainable management strategies specific to local communities
- Economic performance



**Sound Governance**

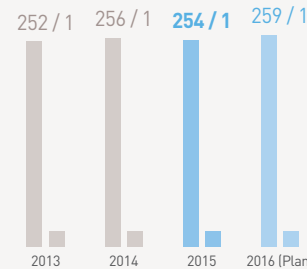
- Increased demand for corporate transparency
- Governance (decision-making structure)

## Next Step

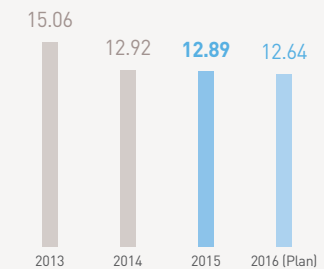
Reinforcing sales with its well-established network in Daegu and Gyeongbuk area, DGB Financial Group will continue to solidify the foundation for growth through further expansion in the Southeastern area, metropolitan area and other countries and enhance brand value under one integrated brand of the financial group. The Company will also continuously strive to enhance efficiency and transparency of the board of directors by complying with best practices of financial institutions in governance and facilitate activities of the committee and the task force team for sustainable management.

## Major Achievements

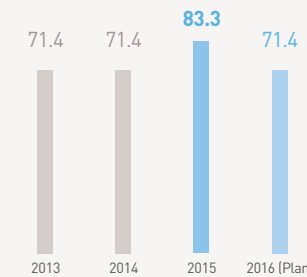
Number of local/ overseas branches



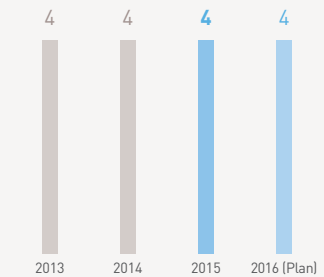
BIS Capital ratio (%)



Percentage of outside directors (%)



CSR working committee (No. of meetings)



## Sustainable Performance

DGB Financial Group endeavors to distribute its economic value created from business activities to various stakeholders and achieve sustainable performance while concentrating on qualitative growth by proactively responding to changes in the financial environment through expansion of the network at home and abroad and provision of comprehensive financial services.

### Response to the Market Environment

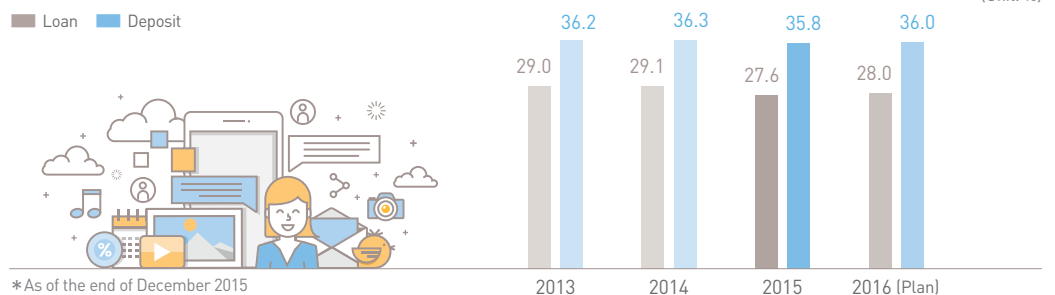
#### Enhancement of Business Competencies

##### Expansion of Business Network

Facing uncertainties of the global financial environment, DGB Financial Group has focused on expansion of business ground in 2016 under its annual management goal of 'Finance based on action, substance, ability'. Since the launch of DGB Life in 2015, DGB Financial Group has been strengthening business synergy with other affiliates. Its domestic and overseas 'Financial Belt' has been expanded with, for example, establishment of new DGB branches in Southeastern area including Gimhae and Changwon and another branch in Ho Chi Minh City(HCMC), Vietnam, and also new DGB Capital branches in Busan, Ansan, Changwon and more.

##### Market Share in Daegu-Gyeongbuk

■ Loan ■ Deposit





## Reinforcement of Market Competitiveness

DGB Financial Group is pushing ahead with its strong initiative to enhance competitiveness of the three financial institutions that are DGB Daegu Bank, DGB Life and DGB Capital and broaden its line-up of financial businesses. DGB Daegu Bank will continue to enhance soundness of its business by achieving target-based growth with launch of Wealth Management(WM) Department. DGB Life will broaden profit base of the insurance business through continuous network expansion in Daegu-Gyeongbuk area and increase of Financial Consultants. DGB Capital will also focus on increase of asset volume by strengthening sales base. Furthermore, DGB Financial Group will do its utmost to solidify growth base to actively deal with changes in the market environment by continuously identifying and exploring new opportunities in FinTech-related business models including mobile payment and in overseas markets.

## Responses to FinTech

### Establishment of 'Fium', a FinTech center



Under 'BEST 2F(Fast Follower)' strategy, DGB Daegu Bank strives to enhance non-face-to-face channels and secure new customer base. In an effort to respond preemptively to trends of FinTech and online-only bank, the Bank established "Future Finance Response Conference" where 15 professionals gather and discuss on a weekly basis. The Bank became the first regional bank to establish a FinTech center, "Fium(FinTech+Innovation+um)". Fium will serve as a FinTech hub of DGB Financial Group where all the affiliates concentrate related competencies through cooperation and, also, related companies and start-ups in the local communities can be provided with comprehensive consulting and support in relation to FinTech.

### 2015 FinTech Seminar in Daegu-Gyeongbuk

DGB Daegu Bank hosted a seminar on May 12, 2015, where it invited experts in emerging technologies of FinTech and IoT and shared up-to-date IT information with local ICT firms through discussion of case studies, current situations and prospects of FinTech and IoT. In addition, the Bank provided a forum for local firms to receive tangible help by arranging a booth where competent local SMEs in IT field can consult about loan.

### New Smart Banking Service in Response to FinTech Trend

In a bid to preemptively respond to the recent FinTech trend and enhance financial services based on smart devices, DGB Daegu Bank independently launched the "New Smart Banking" service in March 10, 2015. Implemented in a web-based hybrid format, the New Smart Banking service can be easily and comfortably used on different platforms providing various convenient functions such as personalized menu, easy fund transfer and smart asset inquiry. Also, the service is equipped with significantly improved security function to prevent possible financial accidents and a feature to display text at a bigger size for users with weak eye-sight for which the Bank acquired 'mobile app quality mark' from Korea Federation of Organizations of the Disabled. With the technological prowess and distinctiveness, DGB Daegu Bank was awarded the grand prize in regional bank sector at the 'Mobile Award Korea 2015'.

## R&D Activities in Response to Market

### Future Strategy and Research Activities

As a think tank for sustainable growth of DGB Financial Group, DGB Economic Institute draws future strategies based on thorough analysis on financial industry, financial market and regional finance to continuously create competitiveness. In 2015, in particular, the Institute carried out studies on repercussions of a drop in oil prices on regional economy and industry of Daegu-Gyeongbuk province and takeaways from the studies were reflected on the managerial activities of the Group and shared with local SMEs and local community. The institute will continue to provide support through its continued research so that the affiliates of the Group and the local community can proactively respond to market changes together.

### ● Roles of Fium



#### 1. Guide for Partnership

Provide guidance for legal, administrative procedures with regard to partnership with KDG Financial Group



#### 2. Business Consulting

Review feasibility and marketability of ideas and suggest direction of cooperation with DGB Financial Group



#### 3. Guide for Legal and Regulatory Requirements

Provide information and education on laws and regulations relating to FinTech technology



#### 4. Link to Related Business Division

If needed, assign a related business division of DGB Financial Group for further consultation



#### 5. Fund Support

Companies or start-ups that require fund support will be guided for related loan products and will be reviewed for necessary fund support by a separate review process of Creative Technology Finance Team.

## Management Performance

### DGB Financial Group Total Assets in 2015



**51** trillion  
**144.4** billion

## Creation and Distribution of Economic Value

### Key Financial Results of 2015

Despite many challenges from the business environment such as the prolonged low-growth, low-interest rate trends, DGB Financial Group achieved diversification of revenue and increase of synergy among the affiliates. Such achievement enabled the financial group to set its mid-term vision for 2020, 'KRW100 trillion in total asset, KRW 1 trillion in net income, higher than 1% of ROA', and it showed stable financial performance with 0.61% of ROA, 8.85% of ROE, KRW 51,144.4 billion in total asset and KRW 294.1 billion in net income as of the end of 2015.

#### ● Total Assets

(Unit: KRW billion)

	2013	2014	2015	2016 (Plan)
DGB Daegu Bank	36,921.0	40,071.2	44,523.0	55,069.8
DGB Life	-	-	5,334.7	5,825.1
DGB Capital	643.6	958.3	1,258.3	1,374.0
DGB U-Pay	45.7	40.0	36.8	40.2
DGB Data System	6.9	7.5	8.3	9.1
DGB Credit Information	4.5	4.8	4.7	5.1
<b>Total</b>	<b>37,577.8</b>	<b>41,009.7</b>	<b>51,144.4</b>	<b>62,323.1</b>

\* As of the end of December 2015, Total assets do not include trust assets

#### ● Major Financial Results

(Unit: KRW billion, %)

	2013	2014	2015	2016 (Plan)
Return on Assets (ROA)	0.65	0.58	0.61	0.60
Return on Equity (ROE)	8.63	8.16	8.85	8.74
BIS Ratio	15.06	12.92	12.89	12.64
NPL Ratio	1.04	1.15	1.29	1.13
Delinquency Ratio	0.57	0.73	0.85	0.89
Controlling Interest	238.3	229.7	294.1	320.0

\* As of the end of December 2015

### Distribution of Economic Value to Stakeholders

DGB Financial Group seeks sustainable growth by distributing its economic value created from business activities to various stakeholders including shareholders, investors, employees, business partners, and local communities and also through job creation, fair trade, investment in local communities, tax payment and etc.

#### ● Distribution of Economic Value to Stakeholders

(Unit: KRW million)

Category	2013	2014	2015	Description
Stakeholders and Investors	48,770	46,919	47,334	Sum of interest expense and dividend
Employees and Executives	330,505	366,126	385,879	Sum of salary, retirement allowance and other employee benefits
Customers	740,897	689,443	616,240	Interest expense
Local Communities	12,089	8,481	8,529	Total donations
Government	84,799	73,434	35,092	Total income tax expenses

\* As of the end of December 2015



## Sound Governance

### Corporate Governance

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.

#### Board of Directors

##### The BOD Members

The BOD consists of one representative director and five outside directors and is chaired by the CEO. In order to independently monitor and give advice to the management, outside directors make up the majority of the BOD members (five out of six directors (83.3%) are outside directors as of the end of 2015). Outside directors are appointed at a general shareholders' meeting following recommendations by the Outside Director Nomination Committee.

##### • The BOD Members

Category	Name	Duties	Experience	Date of Initial Appointment	Expiry Date
Standing Director	Park, In-gyu	· Chairman of the board · Chair of Outside Director Nomination Committee	· Chairman of DGB Financial Group · Chairman of DGB Daegu Bank	Mar. 21, 2014	Mar. 21, 2017
	Cho, Hae-nyoung	· Member of Management Development & Compensation Committee · Chair of Risk Management Committee · Member of Auditor Nomination Committee	· Former President of the Community Chest of Daegu · Former Mayor of Daegu City	Mar. 21, 2014	Mar. 25, 2017
Outside Directors	Kim, Ssang-su	· Member of Management Development & Compensation Committee · Member of Audit Committee · Member of Auditor Nomination Committee	· Former President of LG Electronics · Former President of Korea Electric Power Corporation	Mar. 22, 2013	Mar. 25, 2017
	Ha, Jong-hwa	· Member of Management Development & Compensation Committee · Member of Audit Committee · Member of Auditor Nomination Committee	· Former Director of Daegu Regional Tax Office · Chairman of Duri Tax Service	Mar. 20, 2015	Mar. 20, 2017
	Lee, Jae-dong	· Member of Management Development & Compensation Committee · Member of Audit Committee · Member of Outside Director Nomination Committee · Member of Auditor Nomination Committee	· Chairman of Daegu District Bar Association	Mar. 25, 2016	Mar. 25, 2018
	Gu, Bon-sung	· Member of Management Development & Compensation Committee · Chair of Member of Risk Management Committee · Member of Outside Director Nomination Committee · Member of Auditor Nomination Committee	· Senior Researcher of Korea Institute of Finance	Mar. 25, 2016	Mar. 25, 2018

\* As of March 2016

#### Appointment Process of Directors

After the Outside Director Nomination Committee and Auditor Nomination Committee select candidates for outside directors and inside directors respectively, DGB Financial Group reviews whether the candidates meet requirements stipulated in the Financial Holding Companies Act, Commercial Law, DGB Financial Group's Articles of Incorporation. 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 and the appointment process is open to the public.

### 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 ad hoc basis and the resolution is made by the majority. Under the BOD are five subcommittees Management Development & Compensation Committee, Risk Management Committee, Audit Committee, Auditor Nomination Committee and Outside Director Nomination Committee. Following the revision of internal policy that reflected best practices of financial institutions in governance, the Outside Director Nomination Committee operates regularly whereas it used to be ad-hoc based. The Group Executive Nomination Committee that decides a nominee for CEO is composed of the representative director and all outside directors and, if necessary, two more external experts the BOD recommends can be added to the Committee so as to complement shortcomings of the management succession system and enhance fairness and efficiency.

#### Percentage of Outside Directors in 2015



83.3%

#### • BOD Meetings

	2013	2014	2015	2016 (Plan)
No. of BOD meetings	12	14	9	9
Percentage of outside directors [%]	71.4	71.4	83.3	71.4
Outside directors' attendance rate [%]	100	100	98	100

\* As of the end of December 2015

#### • Major Agendas in 2015

Meeting	Date	Agenda	No. of outside directors attended (total)
1	Feb. 4	Approval of the 4 <sup>th</sup> term financial statements, business report, notes, and consolidated financial statements and 5 other agendas	7(7)
2	Feb. 26	Approval of the 4 <sup>th</sup> general shareholders' meeting and 6 other agendas	7(7)
3	Mar. 20	Appointment of the BOD chairman and 3 other agendas	7(7)
4	May 8	Approval of mid-term management plan of DGB Financial Group and 2 other agendas	7(7)
5	Aug. 5	Approval of changes in 2015 annual financial plan of DGB Financial Group	7(7)
6	Nov. 6	Approval of bond issuance and financial support to subsidiaries(DGB capital) / investment(to DGB Life) plan and 2 other agendas	7(7)
7	Dec. 22	Approval of 2016 business plan of DGB Financial Group	6(7)
8	Dec. 24	Appointment of Compliance Officer and 4 other agendas	7(7)
9	Dec. 30	Submission of final bid proposals for Consus Asset Management Co.,Ltd	7(7)

### Director Evaluation and Remuneration

Compensation to directors is made in the form of a basic salary and profit sharing (short-term incentives, longterm performance cash) within the limits approved at the general shareholders' meeting. Short-term incentives are determined by BOD meetings based on management performance evaluation and the resultant compensation guidelines, while long-term performance cash is paid in a fixed amount based on long-term evaluation of management performance and directors' service terms. Remuneration to the concurrent post-holder (chairman) is first paid by his/her original company, with the remaining being settled after they have left the post according to the percentage of duty performance. In 2015, the highest amount of remuneration paid to a single person was 2.7 times higher than the median of payments made to the entire workforce. Annual remuneration increased by 2.4% from 2014.

### ● Evaluation of BOD

Category	Description
Appraisee	All outside directors
Method	360 degree evaluation : Self-assessment(10%), Evaluation by BOD(40%), Peer review(20%), Review of activities(30%)
Grade	Grade on absolute standard : S(excellent), A(good), B(average), C(unsatisfactory), D(poor)
Frequency	annual

### ● Remuneration to Board of Directors as of 2015

(Unit: KRW million)

Category	No. of Directors	Total Remuneration Paid	Mean of Remuneration Paid per Person	Remarks
Director of the board	2	560	280	Including the double-hatting standing director(chairman)
Outside Director	2	80	40	Excluding members of the Audit Committee
Member of the Audit Committee or Auditor	3	120	40	Outside directors who are members of the Audit Committee
<b>Total</b>	<b>7</b>	<b>760</b>	<b>109</b>	

\* As of the end of December 2015

## Ownership Structure

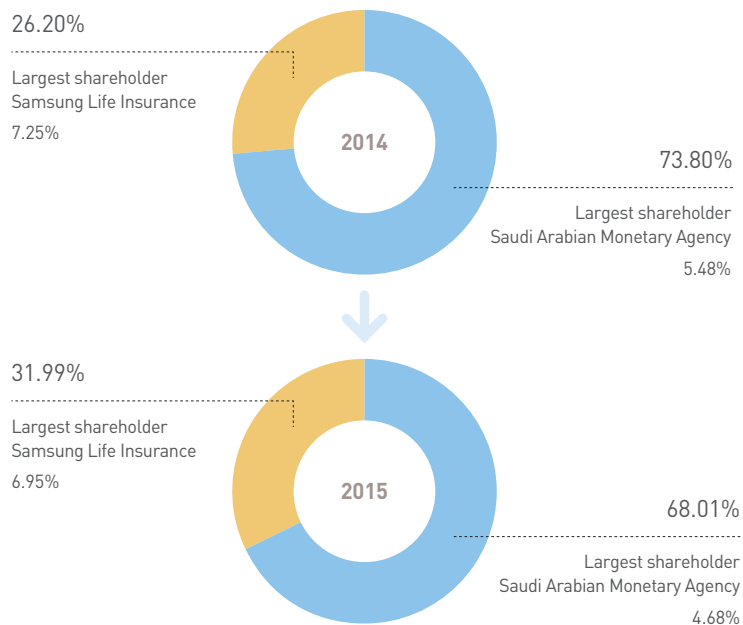
### Ownership

At the end of 2015, the number of DGB Financial Group shares issued was 169,053,154 with the largest shareholder of DGB Financial Group, Samsung Life Insurance, holding a 6.95 percent share of the company and the largest overseas shareholder, Saudi Arabian Monetary Agency, holding 4.68 percent.

### ● Ownership Structure

■ Ownership of domestic shareholders ■ Ownership of foreign shareholders

\* As of the end of December 2015



# Customer Satisfaction Management

DISCLOSURES ON MANAGEMENT APPROACH

## Major Activities in 2015

DGB Financial Group earned the top grade at the 2015 Financial Company Civil Complaint Assessment Rating and selected as an excellent small finance institution by the Financial Supervisory Service(FSS). By doing so, it became the first financial institution to be rated highest for nine consecutive years. To continue this trend, the Group set up an integrated system for consumer protection and 'iNexpia', a sophisticated next generation IT system, and also launched an online-only loan product and 'iMbank', a mobile banking service.

## Major Issues and Achievements



### Customer Value Creation

- Reinforcement of IT security and prevention of accidents in financial transactions
- FinTech(financial service technology)
- Growing demand to enhance products and services beneficial to local communities
- Protection of customer information
- Increased accessibility to financial services



### Sustainable Finance

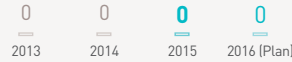
- Legal compliance for products
- Social responsibility for financial liabilities
- More responsibility for products and services

## Next Step

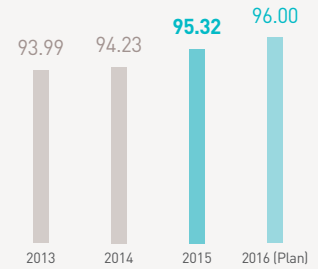
Facing increasing security threats and stronger emphasis on protection of information, DGB Financial Group will continue its efforts to reinforce consumer protection programs and IT security measures for safe financial transactions. The Group will also continue to develop differentiated services that meet customer needs by increasing accessibility and convenience. Furthermore, the Group is committed to strengthening development and sales of socially responsible finance products and reflects the related outcome in performance evaluation so as to keep creating shared values through finance.

## Major Achievements

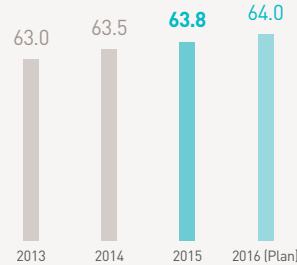
Personal data leakage (cases)



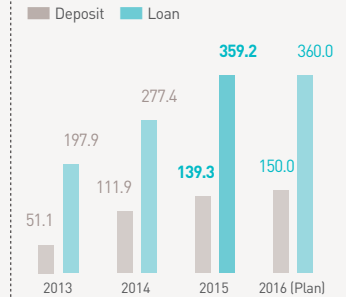
Customer satisfaction (point)



Percentage of Loan to SMEs (%)



Amount of support for small finance (KRW billion)



## Customer Value Creation

DGB Financial Group is endeavoring to provide world-class comprehensive financial services and thereby fostering regional economy and industry. Meanwhile, the Group is also stepping up its efforts to develop and provide financial products that can guarantee its sustainable growth.

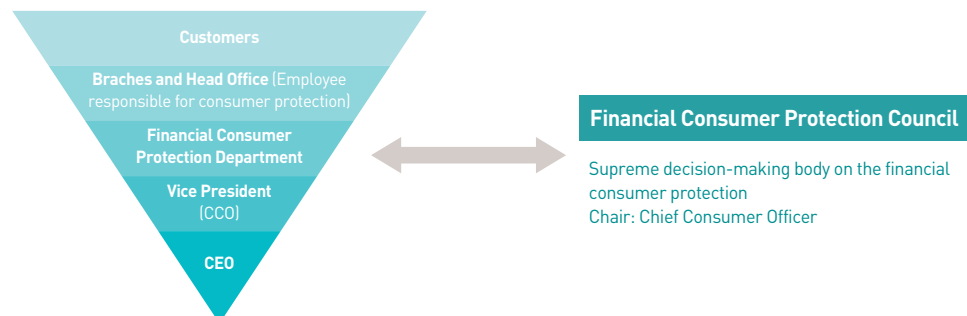
## Promotion of Financial Consumer Protection

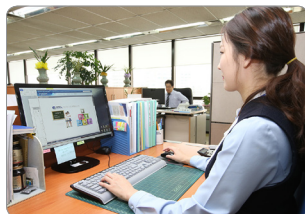
### Financial Consumer Protection System and Activities

#### Financial Consumer Protection System

DGB Daegu Bank has enhanced its consumer protection system in each phase of financial product cycle. For instance, the Bank implemented product development guidelines and sales guidelines to be used on product development and sales stages respectively. In addition, DGB Daegu Bank appointed a chief consumer officer (CCO) in July 2013 to increase consumer engagement in each phase of a financial product throughout planning, development, sales and post-sales management and improve existing policies and also enacted the Financial Consumer Protection Charter to strengthen an institutional base for protection of consumer rights and prevention of damage.

#### Organization for Financial Consumer Protection





### One-Stop Service for Financial Consumer Protection Feature

DGB Daegu Bank integrated existing systems that involve consumer complaints and created an 'integrated system for financial consumers' designed to handle diverse functions for financial consumer protection at one single source. The system allows employees to view at a single view different channels of customer service situations such as early alerts of each branch, customer complaints and customer opinion and therefore easily get a sense of the overall situation relating to financial consumer protection. Beyond simply registering customer complaints, the system has increased efficiency of financial consumer protection activities including product development and post-sales customer management thereby improving customer satisfaction.

### Financial Consumer Protection Programs

In order to help financial consumers to raise awareness, DGB Daegu Bank offers diverse programs for financial consumer protection. Designated every fourth Thursday of a month as "Financial Consumer Protection Day", the employees of the Financial Consumer Protection Department have visited customers to provide educational programs. Also, employees have been notified of cases of customer complaints and matters requiring their attention on a quarterly basis and staff members designated for consumer protection from each branch are given a group training more than once a year. The Bank also conducts financial trainings for diverse groups of people including teenagers and university students for better protection of financial consumers.

#### ● Financial Education Programs in 2015



#### Financial Education for Teenagers

- Purpose: Offering right information on finance and economy
- Target: Elementary, middle, high school student (Number of participants: 18,351)
- Number of program runs: 192



#### Financial Education for University Students

- Purpose: Strengthen financial competence
- Target: University students (Number of participants: 30)
- Number of program runs: 1



#### Financial Education for the Public

- Purpose: Provide better understanding of finance such as financial technique and prevention of financial incidents
- Target: Soldiers, policemen, public officials, company workers, ordinary people and senior citizens (Number of participants: 984)
- Number of program runs: 14



#### Education on Financial Fraud Prevention

- Announcement to prevent financial fraud during working hours
- Notice of precautions in terms of financial fraud on the website

### Reinforcement of Customer Information Protection

In January 2014, DGB Daegu Bank appointed the Chief Information Protection Officer as a division head, junior branch managers as Personal Information Protection Managers, and one of managers of grade 4 or above as the Personal Information Protection Officer to ensure protection of personal information on the branch or HO department level. Furthermore, the Bank strictly controls customer database access and network access through firewall and intrusion prevention system, prevents hacking and data leakage through separation of intranet and internet, and reinforces security through regular monitoring of system vulnerabilities.

### Reinforcement of Personal Information Protection

To be prepared against possible risks incurring from customer information leakage, DGB Daegu Bank has taken different actions such as streamlining of organization related to customer data access and strengthening of internal control and customer data security. For instance, the role of the Information Protection Department has been expanded to work as a control tower of information protection encompassing all types of customer data including credit data and personal information and the department has been given more capacity for preemptive response and independence thereby fulfilling its responsibilities with efficiency.





### Consumer Protection Report “Let’s Go Together”

In an effort to prevent financial crimes and help consumers use financial products in a secure way, since 2013, DGB 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.

## Customer Satisfaction

### Activities to Improve Customer Satisfaction

#### Next Generation IT System, ‘iNexpia’

As part of its effort to facilitate smart finance with robust IT infrastructure, DGB Daegu Bank successfully established ‘iNexpia’ on June 5, 2015. With the system, the Bank plans to reinforce its customized sales and services for local communities and individuals by implementing customer-centric features such as customized product information, analysis of customer behavior patterns and simple financial planning based on integrated data, systematic campaign process and big data.



#### DGB Chamsory Customer Advisory Group

From 2014, DGB Daegu Bank has run DGB Customer Advisory Panel to carry out customer oriented strategies and reinforce financial consumer protection. The panel identifies inconvenient practices and in customer’s perspective and deliver them to the Bank as well as conveying suggestions about new products. For instance, reflecting the panel’s opinion, the Bank launched a new women oriented term-deposit product, ‘Yeorubun’ in 2015, which is optimized for the life cycle of women with preferential interest rates for women.

### Customer Satisfaction Survey

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

#### ● Customer Satisfaction Scores

(Unit: point, on a scale of 100 points)



\* As of the end of December 2015

## Education for Quality Service

DGB Daegu Bank conducts a monthly training on a topic that it selects regarding manner or etiquette against all employees, helping them to promote their CS mindset to enhance quality of the Bank's service.

### ● VOC Handling

(Unit: cases)

Category	2013	2014	2015
Dissatisfied	135	86	159
Normal	248	259	169
Praiseworthy	512	523	565
Others	140	272	779
<b>Total</b>	<b>1,035</b>	<b>1,140</b>	<b>1,672</b>

\* As of the end of December 2015



## MOU with Daegu District Police Agency for Customer Satisfaction Service

DGB Daegu Bank signed an MOU with the Daegu District Police Agency on March 17, 2015 to share know-hows of the Bank with regard to specialized customer service planning, evaluation, education and etc. and to cooperate with the agency for handling customer complaints. In particular, the two parties agreed to closely work together to prevent financial crimes such as voice phishing and smishing. By doing so, the Bank continues to solidify its image of a safe bank and improve customer satisfaction.

## DGB Daegu Bank wins Grand Prize in the bank category at 9<sup>th</sup> Korea Service Awards

DGB Daegu Bank was awarded the grand prize in the financial services bank category at the 9<sup>th</sup> Korea Service Satisfaction Awards in March 2015 for the 2<sup>nd</sup> consecutive year. As the only prize winner in the banking sector, DGB Daegu Bank has spurred its customer satisfaction service under the vision, 'the Best Partner for the Future' and the slogan, 'Better Future with Happy Finance, OK DGB'. The Bank continued its efforts to improve customer service skills of employees by reflecting both customer complaints and complements on education programs including visiting lectures to branches, trainings as per position, guards and one-on-one CS OJT.

## DGB, First Earn Top Grade in Financial Company Civil Complaint Assessment Ratings for 9<sup>th</sup> Straight Year

DGB Daegu Bank earned the top grade in the banking sector at the 2015 Financial Company Civil Complaint Assessment Rating by the Financial Supervisory Service (FSS) in April 2015. The bank became the first Korean financial institution to be rated 1<sup>st</sup> grade for nine consecutive years; proving its excellent performance in protecting consumer rights.

### ● Civil Complaint Assessment Ratings of DGB Financial Group

Category	2013	2014	2015	2016 (Plan)
Civil Complaint Assessment Ratings	grade 1	grade 1	grade 1	grade 1

### Civil Complaint Assessment Ratings in 2015



grade 1

### DGB Life, 'DGB Ansim Care Service'

In line with the customer-centric management strategy, DGB Life started from March 2016 to visit its customers and explain again the coverage of the policy he/she has and help them to receive the respective benefits after confirming occurrence of an accident or disease. The insurance company provides such service to the loyal customers who have maintained a contract with the company for more than two years along with financial consulting service for after-retirement plan and asset management thereby promoting customer satisfaction.

### Initiative to Improve Financial Accessibility

#### 'DGB Moving Bank' and 'Portable DGB Team'



In order to improve convenience of customers, DGB Daegu Bank provides 'DGB Moving Bank', a moving branch service, and 'Portable DGB', a device-based service for visiting sales to deliver banking services to those who need them.

#### Online-only Loan Products



DGB Daegu Bank launched a range of online-only loan products on September 1, 2015, to allow customers to take out a loan with preferential interest rates through online or mobile transaction without visiting a branch and therefore enhanced convenience of service for customers. Such online-only loan products are handled by a non-face-to-face loan consulting channel, 'the Loan Center'. As such, DGB Daegu Bank is exerting its efforts to promote financial accessibility by providing both face-to-face and non-face-to-face channels to customers.

#### First bank to Provide Beacon-based Mobile Banking Service

DGB Daegu Bank became the first in the industry to provide a beacon-based service using its mobile branch vehicles on August 25, 2015. The Bluetooth-based technology allows a smart phone approaching a beacon to receive information including facility guide, mobile coupons and other financial tips, promoting customer convenience. As seen in the example, the Bank has taken various actions to enhance customer satisfaction by innovating regional financial services often in partnership with ICT and IT companies. Starting from DGB Mobile Bank, the Bank plans to expand the beacon-based service coverage to VIP lounge of Daegu International Airport, the branch at DGB Daegu Bank HO, DGB Financial Museum, and the Rich Road at the Open Square of its head office by installing more beacons.

#### First Regional Bank to Launch a Mobile Bank, 'iMBank'



In a bid to promote service competitiveness, DGB Daegu Bank launched 'iMBank', a mobile bank service in December 2015, reinforcing non-face-to-face sales channel. Using 'iMBank', a mobile banking platform to operate a mobile branch, a customer can register the branch he/she mainly visits on the application to use both online and offline banking services and therefore receive services differentiated by the respective mobile branch. Also, the service allows customers to process diverse banking transactions through authentication, including opening of term deposit, loan and credit card thereby increasing accessibility of financial products. After opening its first 'Dokdo' mobile branch, the Bank has continued to expand the service coverage by adding more branches.

## Sustainable Finance

**Committed to sustainable development, DGB Financial Group considers economic, social and environmental values in developing financial products and services. Also, the Group aims to prosper and grow together with local communities through a number of products for public interests, SMEs with competitive technologies and financially-distressed people.**

### Sustainable and Specialized Finance

#### Small and Local Finance

##### Recognized as an Excellent Small Finance Provider

Recognized for its active financial support for the local residents, DGB Daegu Bank was chosen by the FSS as a great small finance provider at the 'Awards for eradication of five worst financial evils and innovation of twenty financial practices felt by the people' in 2015. The Bank raised the limit amount for 'DGB Seed for Hope Loan' from KRW 20million to KRW 25million and provided urgent financial assistance of up to KRW 5million for the livelihood of loyal customers of 'DGB Seed for Hope Loan' suffering lack of liquidity. In addition, DGB Bridge Loan that offers special interest rates and limits is available for the loyal customers of four major small loans (Seed for Hope Loans, Conversion Loans, Sun Shine Loans, Smile Loans).



##### Launch of Women-only Installment-type Deposit

Reflecting the idea of Chamsory Advisory Panel, DGB Daegu Bank launched 'DGB Yeorubun Installment Savings', a women-only product, on March 26, 2015, which offers special rates to female customers aged over 18. The Bank is offering additional 0.2%p of interest rate to the female customers who have gone through a special occasion such as marriage, childbirth, learning for self-development, voluntary work or donation during the deposit period. Also, if more than two women open the installment savings account together at the same time or the customer shares the product information with others, additional 0.1%p of interest rate is offered.

##### MOU between DGB Daegu Bank and Daegu Credit Guarantee Foundation to Boost Small Businesses

DGB Daegu Bank signed an MOU with Daegu Credit Guarantee Foundation on February 12, 2015, to provide financial support to local small business owners which have difficulty in financing and thereby reinvigorating small businesses.

##### MOU between DGB Daegu Bank and Daegu Credit Guarantee Foundation to Financially Support Low-income and Small Business Owners

Based on an MOU signed on May 29, 2015, DGB Daegu Bank and Daegu Credit Guarantee Foundation have worked together to provide financial support to small business owners who are also the disadvantaged including physically-disabled, North Korean defectors, single parents and women financially responsible for the family as well as owners who are from multi-cultural or multiple child family and at the same time whose business was registered more than 3months ago.



##### Launch of Hope Fund for Young People

DGB Daegu Bank launched 'Hope Fund for Young People', a trust for public benefit, on October 5, 2015, to fulfill the social responsibility as a major regional financial institution. Also, the management of the affiliates including the Group chairman returned part of their annual salary in 2015 for alleviation of youth unemployment issue and 50% of the amount will be donated to Hope Fund for Young People each month, which shows the fact that the Bank is taking various actions to create more jobs in the local communities and resolve high youth unemployment rate.

● Major Small Loans

Category	No. of accounts	Total Amount (Unit: KRW billion)
1. DGB Seed for Hope Loans	4,083	259.5
2. DGB Sunshine Loans for University Students	459	1.7
3. DGB Conversion Loans	2,018	20.8
4. DGB Hopeful Days Loans	714	7.5
5. DGB Stepping Stone Loans for SOHO	564	2.8
6. Special Guarantee Loans for SMEs and Small Business Owners in Gyeongbuk	2,032	34.0
7. Special Guarantee Loans for Underbanked Self-Employed	1,376	23.5
8. DGB Dream Loans for Young People	58	3.1
<b>Total</b>	<b>11,304</b>	<b>352.9</b>

\* Balance at the end of December 2015

**Technology Finance**

**Reinforcement of Technology Finance**

Based on its smooth support of financial products and systematic framework of cooperation much needed for a creative economy, DGB Daegu Bank earned the top score among regional banks in the volume of technological finance supply at the 1<sup>st</sup> Bank Innovation Assessment in 2015 by Financial Innovation Committee. The Bank also established the 'Creative Finance Technology Team' and 'Creative Finance Review Team' to systematically promote and manage technology finance, and reflects technology grade in the loan application review process for companies with technological competencies.

**Agreement to Foster Technology Start-ups and Strengthen Competitiveness**

DGB Daegu Bank concluded an agreement with Global Entrepreneurship Graduate School of KeiMyung University and Daegu branch of Korea Technology Finance Corporation to provide support for establishment and growth of SMEs. Based on the agreement, the Bank plans to provide both financial and non-financial supports including consulting to competent SMEs and seek ways to financially help commercialization of superior technologies and boost technology-based finance.

● Major Products for Technology Financing



Category	Product and Service	Sales (Unit: KRW million)
DGB Tech BIZ Loan	Preferential loan for SMEs with technological prowess based on TCB technology review document	723,502
Loan for Manufacturing Company	Preferential loan to support manufacturing SMEs equipped with technological edges	461,619
INNOBIZ LOAN	Preferential credit lines and interest rates to regional SMEs with competitive technologies	11,321
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	58,645

\* As of the end of December 2015



## Green Finance

### Foster Green Companies

DGB Daegu Bank has been evaluating the environmental management practices of its partner companies by means of the Treasury Credit Risk Management System (TCRMS) since 2006. Designed to promote green businesses and environmental negative screening, the evaluation uses the credit rating system to review business loans and rewards those with high scores with various benefits. The checklist was applied to a total of 19,244 companies in 2015, accounting for 95.67percent of the companies that applied for loans. The bank plans to further expand the evaluation in the future.

#### ● Companies Applicable to Environmental Management Checklist

Type	2013	2014	2015	2016 (Plan)
No. of checklist-applied companies (companies)	13,992	15,894	19,244	21,100
No. of checklist-exempt companies (companies)	682	729	872	950
Rate of checklist-applied companies (%)	95.35	95.61	95.67	95.7

\* As of the end of December 2015

Application rate of environmental management checklist



95.67%

### Green Financial Products

To celebrate '2015 World Water Forum' and encourage eco-friendly activities of the citizens, DGB Daegu Bank launched 'Special Green Term/Installment Deposit'. The Bank provided special rates in celebration of '2015 World Water Forum' and preferential rates for eco-friendly activities such as participation in weekly car-free day system and carbon credit scheme to promote environmentally-friendly lifestyles.

#### ● Green Financial Product Sales

Category	2014		2015		
	No. of Accounts	Total Amount (Unit: KRW million)	No. of Accounts	Total Amount (Unit: KRW million)	
Installment Savings	Eco-friendly Green Installment Savings	6,904	9,523	2,685	11,100
	Green Health Installment Savings	907	4,212	726	4,115
	e-Convenient Installment Savings (End of sales on July 22, 2015)	5,448	19,367	5,640	32,886
	Dokdo Installment Savings	1,506	5,233	11,107	12,920
	Installment Savings in My Hand (Start of sales from July 23, 2015)			1,577	1,721
	e-U installment Savings (Start of sales from July 23, 2015)			1,985	2,769
Financial Technique Deposits	Eco-friendly Deposit	11,439	188,756	3,967	68,557
	e-Convenient Time Savings (End of Sales on July 22, 2015)	4,860	61,803	2,862	43,312
	Dokdo Savings	474	4,746	16,100	286,929
	Savings in My Hand (Start of sales from July 23, 2015)			1,771	28,032
	e-U Savings (Start of sales from July 23, 2015)			2,569	36,435
Offshore Fund	KB Global Warming Thematic Trust Investment-Type A	174	634	25	76
	KB Global Warming Thematic Trust Investment-Type C	34	171	3	11

\* As of the end of December 2015

## Socially Responsible Finance

### Responsible Finance

#### Socially Responsible Investment

DGB Daegu Bank has introduced socially responsible investment (SRI) funds to the market since 2006 with the aim of strengthening its social responsibilities through financial products. Ten percent of sales and operating profits of “Woori Frontier Sustainable Business SRI Equity Investment Trust” and an upfront fee of 0.5% charged to customers for opening “Mirae Asset Love Sharing ETF Securities Investment Trust” accounts are contributed to a public service fund. “Mirae Asset Sharing Love ETF Securities Investment Trust,” in particular, obtained a patent for allowing customers to open a “Love Sharing” donation account at the Bank through which they can donate in their names the upfront fee of 0.5% that they have been exempted from paying. A total of KRW 52,540 thousand was raised through the “Love Sharing” accounts in 2014. By managing the contributions on an individual customer basis and granting a tax deduction benefit, the Bank is leading a donation culture of bank customers through financial products.

#### Public Service Fund Products

SRI Fund	Pledged Amount (KRW million)		Rate of Return (%)		
	Maximum	Outstanding Balance	3 Months	6 Months	1 Year
Woori Frontier Sustainable Business SRI Equity Investment Trust	21,215	1,679	2.22	-5.86	4.10
Midas Responsible Investment Equity Investment Trust	1,157	182	3.21	-6.13	10.33
Mirae Asset Green Growth Equity Investment Trust	2,621	1,541	-1.22	-8.64	33.93
Mirae Asset Love Sharing ETF Equality Investment Trust	4,528	1,879	2.66	-4.78	4.24

\* As of the end of December 2015

#### Contributions to the SRI Public Service Fund

(Unit: KRW thousand)

Category	2013	2014	2015	2016 (Plan)
Service Fund	27,000	22,000	5,400	10,000

\* As of the end of December 2015



#### DGB Hope Sharing Credit Recovery Support

DGB Daegu Bank has launched the “Hope Sharing Credit Recovery Support Program” during a period of three months from May to July 2015 to support the customers with long-delinquent loans to engage in normal financial transactions with the Bank in case they make a partial repayment of such overdue loans, and thereby providing opportunities of rehabilitation through debt restructuring to financially underprivileged people in local areas who are economically distressed.



#### DGB's Grace Period Service for SME loans

In order to lessen the burden of financial costs borne by local SMEs due to a drop in F/X rate, DGB Daegu Bank has introduced a “grace period service for SME loans” on February 15, 2016. In case an SME with export performance of at least within two years applies for the service to extend the repayment of an amortized loan, the Bank grants a grace period up to one year. The Bank is carrying out diverse support services including the aforementioned service to enhance F/X risk management of local SMEs. In addition, the Bank has set up a “F/X risk management support team” to provide F/X risk related consulting services and management skills and also offers real-time F/X rate consulting services and transactions based on F/X market trends and F/X rate information.

### DGB Provides SMEs Damaged by MERS with Financial Supports

DGB Daegu Bank offered financial supports such as loan extensions and prime lending rates to SMEs and micro-enterprises located in the Daegu-Gyeongbuk region whose businesses – tourism, entertainment, accommodation and other services – have been directly affected by MERS (Middle East Respiratory Syndrome).



### DGB Signed an Agreement on Credit Guarantee to Support Social Enterprises

On November 5, 2015, DGB Daegu Bank signed an agreement on credit guarantee with Daegu Credit Guarantee Foundation to support social enterprises. Under the agreement, the Bank provided an eligible social enterprise with a fixed rate loan up to KRW 50 million with maturity of less than five years, thus alleviating the financial burden on social enterprises. As a result, the Bank has contributed to revitalization of the local economy by fostering social enterprises as well as offering social services to underprivileged people and creating more job opportunities.

#### ● Status of Lending to SMEs

Category	2013	2014	2015	2016 (Plan)
Amount of loans to SMEs (KRW trillions)	15.3	17.8	19.3	21.4
Percentage of loans to SMEs (%)	63.0	63.5	63.8	64.0

\* As of the end of December 2015

### Campaign to Find Owners of Dormant Trust Accounts

DGB Daegu Bank has launched a joint campaign with the Financial Supervisory Service(FSS) named "Campaign to Find Owners of Dormant Trust Accounts" since 2011, thus contributing to the protection of the rights of financial customers. In 2015, the Bank helped 426 account holders find their account balance which amounted to a total of KRW 58,888 thousand. The total outstanding balance of 3,732 accounts reached KRW 448,519 thousand from 2011 through the end of 2015.

#### ● Results of the Campaign

(Unit: Unit: accounts/KRW thousand)

Category	2013	2014	2015	2016 (Plan)
Fixed Dividend Trust (A)				
Principal Preservation Trust (B)				
Merit Allocation Trust (C)	1,061 / 58,148	953 / 193,872	426 / 58,888	800 / 100,000
Total Unspecified Trust Cash Fund (A)+(B)+(C)				

\* As of the end of December 2015

#### Results of Finding Owners of Dormant Trust Accounts in 2015



KRW  
**58,888**  
thousand

# Enhancement of Organizational Competence

DISCLOSURES ON MANAGEMENT APPROACH

## ● Major Activities in 2015

DGB Financial Group is making all-out efforts to further foster experts and core talents while ensuring not only fair compensations and open HR practices but also creating a family-friendly working environment. In order to improve the gender imbalance among employees and put a greater focus on diversity, in particular, the Bank has increased the ratio of female managers and developed DGB Daegu Bank Corporate Culture Index (DCI) that is expected to be used in establishing a corporate culture specific to the Bank which in result will lay the foundation for sustainability management.

## ● Major Issues and Achievements

 <b>Human Resource Development and Support</b>	<ul style="list-style-type: none"> <li>• Performance evaluation and compensation schemes</li> <li>• Increased importance of securing talents</li> </ul>
 <b>Employee Satisfaction Management</b>	<ul style="list-style-type: none"> <li>• Improvement of employee satisfaction</li> </ul>

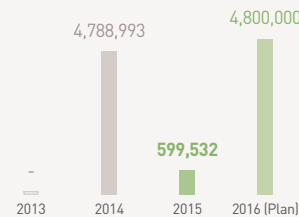
## ● Next Step

With the adoption and enhanced management of DCI at the Group level which enables to perform an accurate monitoring of employees' views on the Bank and reflect the monitoring results in management practices, DGB Daegu Bank plans to secure the basis for strengthening the corporate competitiveness by driving the innovation of the DGB Financial Group's corporate culture. The Bank will make ongoing efforts to offer a higher level of financial services through fair evaluation and compensation system and strengthening of the professionalism of employees.

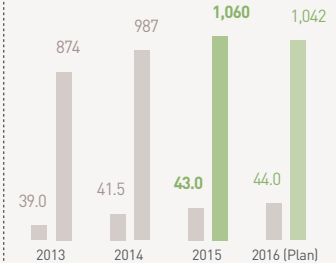
## ● Major Achievements

### Total Incentives (KRW thousand)

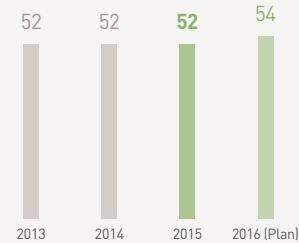
\* Since the business goal was unmet in 2015, incentives were only given to the branches with good business performance.



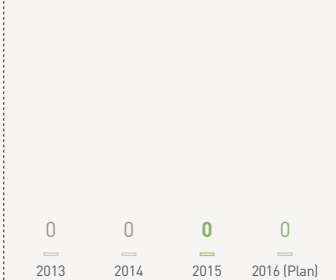
### Per-employee education hours and costs (hours/KRW thousand)



### Per-employee average human rights training session (times)



### Industrial Accident Rate (%)



## Human Resource Development and Support

Having an ability to attract talented and qualified people who will lead DGB Financial Group serves as a key factor in strengthening business performance and maintaining the Bank's leading market position. Therefore, DGB Financial Group recruits talented people through a fair process, supports them build their competencies through systematic education programs, thus fostering the Bank's own talented employees who are equipped with both on-site and practical experiences.

## Importance of Securing Talented People

### Employee Overview

#### Talented Workforce of DGB Financial Group

DGB Financial Group is looking for undiscovered talents who respect people and serve their community and customers; think creatively and take proactive actions when encountered with challenges; and who are honest, reliable and trustworthy.

#### ● Human Resources of DGB Financial Group

	Respect	Passion	Integrity
<b>1 Core-value</b>	Customer oriented, Respect with Employees, Communication, Social Responsibility	Passion, Sense of Ownership, Change and Innovation	Business Ethics
<b>2 Competency</b>	Service Mind, Professionalism, Sense of Duty, Team Work, Willingness to Achieve Goals	Pride, Insight, Creativity, Open mind	Understanding of Principles, Integrity and Trust, Sense of Vocation
<b>3 DGB's Human Resources</b>	Human resources with a deep sense of humanity with respect towards people and commitment to serving local communities and customers.	Human resources who think creatively, act decisively and address challenges.	Human resources who are reliable, trustworthy and honest.
<b>4 Statement</b>	"Human resources who create new values based on a servant mindset and integrity"		

## Employee Status

The number of employees of DGB Daegu Bank reached 3,100, as of the end of 2015. As an effort 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, the Bank hires and evaluates the candidates' capabilities and performance in a fair manner without discrimination against gender. Furthermore, the Bank 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 DGB Daegu Bank

Category		2013	2014	2015
Total No. of employees (persons)		3,062	3,118	3,100
New employees (persons)		176	184	180
Unemployed and retired employees (persons)		117	136	197
Turnover and retirement rate (%)		3.80	4.30	6.3
Employment type (persons)	Regular employees	2,821	2,846	2,946
	Contract employees	241	272	154
	Staff	1,620	1,676	1,689
Title/Positon (persons)	Manager-level	1,397	1,402	1,371
	Executive	45	40	40
	Under 20s	27	33	27
Age (persons)	20s	543	597	611
	30s	1,027	1,021	1,019
	40s	1,073	1,043	1,045
	50s and above	392	424	398
Gender (%)	Male	56	55	54
	Female	44	45	46
Others (persons)	Foreigners	11	13	15

\* As of the end of December 2015

## Efforts to Secure Talented People

### Realization of Gender Equality and Strengthening of Female Leadership

In order to cope with social issues related to gender imbalance in financial institutions, DGB promotes hiring open to all applicants regardless of gender and has introduced a performance-based evaluation system. There has been a steady increase in the ratio of female to male managers over the last three years and the ratio of female employees to all regular employees has jumped as well.

### Employment Status of Female Employees

(Unit: %)

Category		2013	2014	2015
Title/Position	Female employees to all employees	74.5	74.4	74.0
	Female managers to all managers	15.7	16.8	19.7
Employment type	Female employees to all regular employees	44.9	45.3	46.7
	Female employees to all contract employees	32.8	38.8	33.1

\* As of the end of December 2015

## Change of Contract Positions to Regular Positions in 2015



16 persons

## Improvement of Job Security

DGB has hired all new employees on a full-time basis and also reemployed non-regular staffs as regular employees with the aim of improving job security. The Bank will make continuous efforts to solve job instability while inspiring employees with vision and pride in their works.

### Change of Contract Positions to Regular Positions

Category	2013	2014	2015
No. of employees reemployed as regular staff (persons)	156	12	16

\* Re-employed all non-regular tellers as regular employees in 2013, As of the end of December 2015



## HR System



### Education and Training

#### Mentoring Program for the Newly Hired

DGB Daegu Bank runs a mentoring program to offer a stable onboarding environment for new people joining the Bank and to help them learn how to handle works through processes systematically. Regular meetings are held to provide an opportunity to build a close relationship between mentors and mentees through which the newly hired employees can obtain know-how from senior workers while adopting themselves to the organization smoothly and improving their work capability.

#### Fostering Experts

DGB Daegu Bank operates a systematic Career Development Program (CDP) to foster experts. The Bank, in particular, provides diverse training courses covering loan extension, foreign exchange (F/X) and Private Banking (PB), etc. Additionally, employees working in equity, bond and derivatives operations are posted at other investment companies for on-site training through which they can obtain advanced investment techniques, thus, in turn, contributing to the stable management of funds.

#### Cultivating Core Talents

DGB Daegu Bank operates various training programs to secure and retain the next generation's core talents. These programs include an MBA course at KAIST (Korea Advanced Institute of Science and Technology), international specialist training in China and Vietnam, and a pre-CEO course and advance finance course at Seoul National University through which employees can grow as core talents who are equipped with both theoretical and practical knowledge.

Per-employee Average Education Hours in 2015



43 hours

#### ● Employee Education

Category	2013	2014	2015	2016 (Plan)
Per-employee average education hours (hours)	39.0	41.5	43.0	44.0
Per-employee average education expenses (KRW thousand)	874	987	1,060	1,042

\* As of the end of December 2015

#### ● Human Rights Education Status

Category	2013	2014	2015	2016 (Plan)
Per-employee human rights education session (times)	52	52	52	54

\* As of the end of December 2015

### Fair Evaluation and Compensation

#### Rational Performance Evaluation

To strengthen motives and pride among employees, DGB Daegu Bank runs a rational evaluation system with a focus on performance and competencies. The Bank performs strategic performance evaluation by linking the Management By Objective (MBO) which reflects the characteristics of each department and branch to the Key Performance Indicators (KPI). By giving clear feedback on an employee's strengths and weaknesses based on the evaluation result, the Bank expects the employee to further develop a long-term career path and contribute to producing business results. The Bank adopts multidimensional evaluation to ensure fairness and objectiveness in the process and comprehensively considers its report when determining promotion, annual salary, profit sharing and job placement.

### Fair Compensation

DGB Daegu Bank does not take a differentiated approach in determining the average salary of male and female employees by level. In addition, the Bank has an objective and fair remuneration system which fits the Bank's management targets and performance improvement scheme. The Bank shares part of its profits with employees according to the criteria drawn up beforehand when the pre-established goal is met. In addition, the Bank offers diverse incentives, including special promotion, an advantage in evaluation and training opportunity to the employees who show outstanding performance, all of which are designed to increase their satisfaction.

### Open HR Practices

Under the slogan "Open HR Practices," DGB Daegu Bank has strengthened its communication with employees. By helping employees better understand the HR system and reflecting the employees' feedback in the HR policy, the Bank aims to establish a creative HR culture. Additionally, the Bank has launched "Idea Leader" comprised of top performers selected from different departments of the headquarters office, thus promoting active communication between the Bank and employees.



### "CS Young Star" Program (Customer Satisfaction)

DGB Daegu Bank runs "CS Young Star", a scheme developed to foster young and energetic employees. Among the newly hired employees with less than 2 years of service who received the best CS scores are invited to an award ceremony party filled with young enthusiasm where they can meet with the CEO and strengthen their communication network. The program has positioned itself as a tool to foster and encourage good performers.

## Employee Satisfaction Management

### Improvement of Employee Satisfaction (GWP)

**DGB Daegu Bank has introduced various programs in order to create a working environment where all employees can feel good and perform well. The Bank provides supports in every way to improve the employees' satisfaction, thus enabling them to enjoy a higher living quality and better performance. In this regard, the Bank puts a focus on improving organizational culture, and providing work and life balance and income security of retired employees.**

### Efforts to Create a Good Corporate Culture

#### DGB Culture Index

DGB Financial Group developed "DGB Culture Index" in a bid to understand employees' perception on the organization. In addition, the Group expects DCI to serve as a basis for realizing GWP and sustainability management, all of which could be used in establishing DGB corporate culture, thus contributing to achieve greater employee and customer satisfaction. Among the surveyed areas of the DGB Culture Index in 2015, employees gave the highest score in a sense of pride of working at the Bank (81.68 points) followed by cooperation (69.31 points) and fun (67.66 points). Based upon the survey results, the Group plans to further strengthen the unique corporate culture of DGB by improving employee satisfaction with internal problem solving procedures.

### Family-Friendly Workplace

#### Family-Friendly Corporate Culture

DGB Daegu Bank promotes various family friendly programs including maternity protection system in order to support female employees with pregnancy, birthing and childrearing. The Bank offers one-year paid fertility leave to infertile couples together with an infertility treatment allowance. With having a total of 134 employees using parental leave in 2015 which represents a 28.84% increase compared to the previous year, the Bank is leading the creation of a family-friendly corporate culture.

● **Maternity Leave & Return to Work**

Category	2013	2014	2015
No. of employees taking childcare leave (persons)	104	104	134
No. of employees who have returned from maternity leave (persons)	47	69	64
Rate of return from childcare leave (%)	45.2	66.3	47.8
No. of employees who retired after maternity leave (persons)	4	4	6

\* As of the end of December 2015



No. of Children Registered at the DGB Children's Dream Nursery in 2015



**127** children

**DGB Children's Dream Nursery**

The Bank has opened the DGB Children's Dream Nursery since 2008 with an attempt to help double income families reduce the burden of birth and childcare. The number of children registered at the DGB Children's Dream Nursery reached 127 in 2015 which represents a significant jump compared to 60 children at the time of its opening. The Bank aims to enhance the quality of education by operating the nursery with more teachers than required by the law.

● **Operation of the DGB Children's Dream Nursery**

(Unit: persons)

Category	2013	2014	2015	2016 (Plan)
No. of Children Registered at the DGB Children's Dream Nursery	117	113	127	130

\* As of the end of December 2015

**Family Day**

Having designated every Wednesday as family day encouraging employees to leave the office on time, DGB aims to ensure a work-life balance for employees. The Bank has launched a PC shutdown scheme to ensure that all office computers are totally shutdown at 6:30 PM on every Wednesday. Through this policy, the Bank expects to form a culture of leaving the office on time, thus improving the quality of life of employees.

**DGB Happy Family Center**

Based on the Employee Assistance Program which DGB Daegu Bank has introduced for the first time in the region in September 2009, the Bank is currently operating DGB Happy Family Center in order to provide total care services through which employees can create a better workplace and enjoy a happy life from anywhere at anytime by receiving counseling services on various issues including personal, family and work related issues from experts of each relevant area.



**SMART Rest Management Campaign**

DGB Daegu Bank has designated the mandatory leave days that an employee is required to take and introduced "SMART Rest Management Based on Three Unconditional Principles (unconditional leave request, unconditional leave approval, unconditional fun)", thus creating a culture where employees can freely take leaves from work. Through this campaign, the Bank expects to encourage employees to maintain stable family life backed by a high quality of life and better relationships between the members of the family which in turn leads to even greater employee satisfaction and enhanced morale in the organization.

**Employee Satisfaction Enhancement**

DGB Daegu Bank is conducting an annual survey on employee satisfaction to understand how much employees are satisfied with their works as well as to receive their opinions and grievances. In addition, the Bank has adopted Defined Benefit Pension plan to support bank retirees on their twilight years.

### ● Employee Satisfaction

(Unit: points)

Category	2013	2014	2015	2016 (Plan)
Employee Satisfaction	90	90	90	95

\* As of the end of December 2015

### ● Retirement Pension Memberships

Category	2013	2014	2015	2016 (Plan)
Defined Benefit Pension Plans	3,256	3,308	3,348	3,350
Total employees (persons)	3,256	3,308	3,348	3,350
No. of employees enrolled (persons)	2,899	2,932	2,980	3,015
Enrollment rate (%)	89.0	88.63	89.0	90.0

\*All employees are enrolled in the defined benefit retirement pension plan in accordance with the agreement between the labor and management of DGB Daegu Bank / Non-enrolled employees: Employees with less than one year of service, outside directors and peak timers. As of the end of December 2015.

## Communication with Employees



### “DGB BE ONE” Training to Make a Unified and Happy Branch

DGB Daegu Bank has introduced “DGB BE ONE” training course with the aim of encouraging employees to proactively and aggressively respond to changes and innovations, thus creating a happy workplace. The training program is designed in a way to help employees enjoy and have fun rather than just simply being taught, and thereby driving a more innovative organizational culture based on mutual understanding and in-depth communication.



### DGB Youth Frontier, DGB Smart Challenger

DGB Daegu Bank runs various programs to boost the morale of young employees and to reflect their creative ideas and views in the business based on active communications. Multiple programs of the same kind serve as a channel for not only communication between employees but also two-way communication between employees and the management.

#### ● Communication Programs within the Organization



#### DGB Youth Frontier

Targeting the employees in their 20s and 30s (2030 generation), the Bank selects DGB Youth Frontier members through an internal posting. The selected employees are eligible to participate in various activities ranging from discovering work smart tasks to presenting practical suggestions for a better corporate culture, all of which support them to grow as leaders to drive future growth.



#### DGB Smart Challenger

DGB Smart Challengers play the most significant role in so-called young marketing of DGB Daegu Bank. DGB Smart Challengers are involved in diverse activities such as running an official blog of the Bank, using social media for marketing and presenting ideas for Smart Bank, etc.

## Occupational Health and Safety

### Better Health Condition and Stress Management for Employees

DGB Daegu Bank offers diverse health programs to employees to ensure that they enjoy a healthy life. For example, the Bank has launched Healthcare Call service to establish a healthy corporate culture by delivering health care services tailored to the needs of employees and conducts a stress examination (sympathetic nerve/parasympathetic nerve) on a regular basis to improve the mental health of employees. In addition, the Bank promotes a systemic and comprehensive health management by offering psychotherapy to employees in partnership with in-house and outsourced counselors so that employees can work healthy.

● **Health Management Program**

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

**Cooperative Labor-Management Relationship**

**Grievance Handling**

Union members of DGB Daegu Bank are making an annual visit to all branches to meet with all employees and listen to their difficulties and problems while holding regular meetings to receive job-related grievances and other suggestions. Some of the issues raised by employees are addressed immediately on the spot while other major issues are reported to the labor-management committee meeting held on a regular basis for further discussions or improvements, thus establishing a win-win relationship between the union and the management.

● **Employee Grievance Handling**

Category	2013	2014	2015	2016 (Plan)
No. of grievances received (cases)	8	20	21	25
Rate of resolved grievances (%)	100	100	100	100

\* As of the end of December 2015

**DGB Daegu Bank Labor Union Membership**

DGB Daegu Bank acknowledges the labor union as the employee’s representative who protects the rights of employees, and guarantees the right of employees to organize and bargain collectively. As of the end of December 2015, the percentage of eligible employees belonging to the labor union reached 100% showing that their rights are being protected through freedom of expression. In addition, besides the achievement of an improved business performance, a win-win relationship between the union and the management has been built based on mutual cooperation.

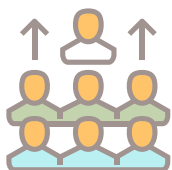
● **Status of DGB Daegu Bank Labor Union Membership**

Category	2013	2014	2015	2016 (Plan)
Total No. of employees (persons)	2,926	2,852	3,348	3,350
No. of employees eligible for union membership (persons)	2,253	2,131	2,145	2,150
Labor union members to total employees (%)	77.00	74.72	64.06	64.17
Labor union members to those eligible (%)	100	100	100	100

\* Employees eligible for union membership: All employees who are level 4 and below (excluding staffs working at secretary office and HR department)

\* As of the end of December 2015

Labor Union Members to Those Eligible in 2015



100%



### Major Activities in 2015

DGB Financial Group has taken preemptive and strict measures against financial and non-financial risks, thus strengthening capabilities in risk management. The Bank proclaimed the pledge of "Fair Play Anti-Corruption" in 2015 in order to step up its efforts for ethical management and is also making persistent efforts in environmental risk management by launching a range of activities to respond to climate change.

### Major Issues and Achievements



**Crisis and Change Management**

- Corruption (enhancement of internal control and protection of whistle blowers)
- Risk Management (including ESG risk factors, etc.)



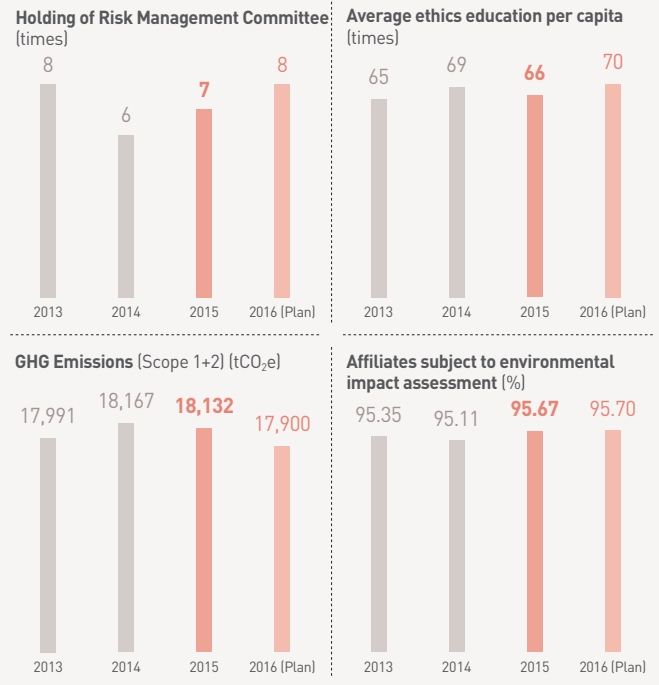
**Enhancing Environmental Management**

- Response to climate change

### Next Step

With the adoption of a sophisticated assessment system, DGB Financial Group plans to implement measures to strengthen the Bank's environmental management activities by developing and expanding sales of environmental financial products, thus reinforcing the Bank's commitment to enhancing sustainability management practices of local communities. Going forward, the Bank will expand the scope of environmental management while encouraging affiliates to also practice a systematic environmental management.

### Major Achievements



## Crisis and Change Management

DGB Financial Group understands the importance of a proactive management of financial and non-financial risks including political, economic and social issues that could potentially affect a company's business. Therefore, the Bank implements systematic management of crisis and changes to promote sustainability management activities.

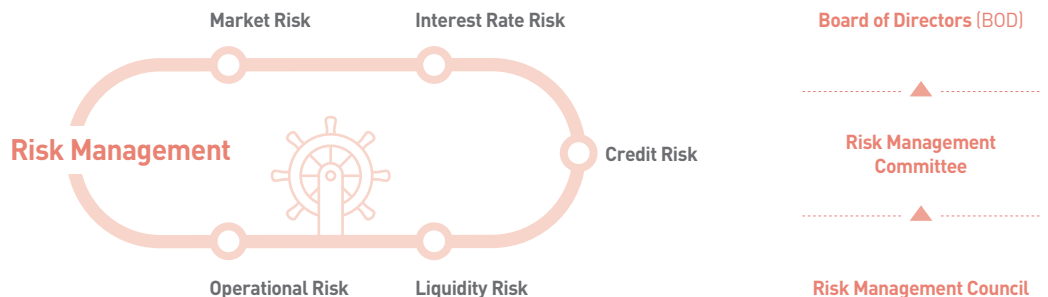
### Risk Management

### Risk Management

#### Risk Management Policy

DGB Financial Group has classified the risks that could arise from the ongoing business activities into five areas – credit risk, interest rate risk, operational risk, liquidity risk and market risk – to ensure a thorough risk management on each area. The Bank's philosophy towards risk management is "to achieve a balance between risks and profits in all business areas to realize sustainable growth and to maintain risks within the Group's risk appetite." The supervision function of a holding company allows to maintain checks and balances over the risk management functions of affiliates.

#### Risk Management Principles



No. of Risk Management Committee Meetings Held in 2015



7 times

### Risk Management Organization

DGB Financial Group established the Risk Management Committee under the Board of Directors to develop and oversee risk management policies. As the Bank's top decision-making body for risk management, the Risk Management Committee meetings are held at least once a quarter to periodically review the status and limits set for each risk. The Committee is also responsible for approving basic guidelines and policies related to risk management as well as carrying out monitoring activities. The Committee is required to submit meeting minutes to the BOD on a regular basis. In addition, in order to maintain consistency between the Group's risk policies and strategies and that of its affiliates as well as to manage the details of the underlying risks of the Group, the Bank is running the Risk Committee Council under the Committee. Comprised of executives, department heads and responsible staffs in charge of three areas - risk management, consultations and risk management of affiliates - the Council reviews and determines the details associated with each of the aforementioned risks.

#### ● No. of Risk Management Committee Meetings Held Per Year

Category	2013	2014	2015	2016 (Plan)
No. of Risk Management Committee meetings held per year (times)	8	6	7	8

\*As of the end of December 2015

## Ethical Management

### Ethical Management System

#### Codes of Ethics

Based on the acknowledgment that ethical and prudent business activities could significantly impact the Group's reputation, and its efforts in attracting and retaining customers, securing human resources and producing profits from investee affiliates, thus serving as key factors in enhancing the Group's reliability, DGB Daegu Bank has put into action the Jeong-do (right way) management based on basics and principles by introducing the Code of Conduct, the Guiding Principles and ethical education programs for employees.

#### ● Code of Conduct of DGB Daegu Bank

##### Fundamental Principles



- Make every effort to always think and behave from a customer's perspective, thus delivering unmatched products and services to satisfy customer demands and benefits.
- Offer long-term stable profits to our shareholders by maximizing the corporate value through reasonable investments and sound management.
- Make every effort to improve employees' living quality through fair HR policies and provisioning of opportunities which always reflect the Bank's respect towards the dignity and value of each and every employee.
- Take the lead in bringing advancements to both local and national economies by respecting upright social values, observing diverse rules and laws and establishing fair financial order.

DGB Daegu Bank carries out diverse ethical education programs based on the Code of Conduct and the Guiding Principles for Employees, thus constantly strengthening the Bank's Jeong-do (right way) Management program with focus on basics and principles. At the beginning of every year, New Year's Day is held where all employees are gathered to make a vow to practice the Code of Conduct showing clear consensus on willingness to fulfill the stated values. In addition, the Bank launches various campaigns by selecting ethical themes for the year concerned, thus building an effective ethical management system.

## Ethical Education Program

DGB Daegu Bank offers multiple education courses to create a transparent and ethical corporate culture. Each branch is required to invite all employees to an education session on compliance and Code of Conduct at least once a month, and the Bank provides ethical education programs for PB staffs on a constant basis. Sessions on compliance and ethical management are included in various vocational and mandatory training programs and the "Ethical Practice Day" is held every month to provide standards on which ethical decision and judgment could be made and thereby allowing employees to handle their works in an appropriate and lawful manner by taking into consideration relevant legal requirements.

### ● Education on Business Ethics

Category	2013	2014	2015	2016 (Plan)
Per-employee education sessions (times)	65	69	66	70

\* As of the end of December 2015

## Efforts to Achieve Ethical Management

### Internal Control System

DGB Financial Group reinforces credibility and transparency in financial transactions by building a systemic and on-going internal control system and conducting thorough audits (BAU audit, regular audit, special audit and on-going audit). Not a single breach case with regard to ethical management related policies occurred over the last three years.

### ● Internal Control System Operation

(Unit: cases)

Category	2013	2014	2015
BAU (Business as Usual) Audit	1,393	1,478	1,551
Regular Audit	298	258	242
Special Audit	12	22	20
On-going Audit	913,677	853,551	517,392

\* As of the end of December 2015

### ● Violations of Ethical Management Related Laws

(Unit: cases)

Category	2013	2014	2015	2016 (Plan)
No. of law violation	0	0	0	0

\* As of the end of December 2015

### Whistle-blowing Center

DGB Daegu Bank operates a whistle-blowing center to put into action its ethical management practices supported by checks and balances between employees. Employees can report unethical behaviors of other employees to the Center via various internal reporting channels including mail, direct phone call, email, IT system, website, and DGB mobile office, and the Bank investigates such reporting by ensuring that all information related to the reporting including contents and personal information of a whistle blower are kept confidential. Through this, the Bank strives to correct misconducts and establish transparency and reliability in the Bank's financial activities.

### Signing a Pledge to Fair Play Anti-Corruption

DGB Financial Group announced its commitment to taking the lead in expanding the public-private cooperative project on Fair Play and Anti-Corruption together with 7 local industrial associations, and 70 companies and governmental agencies during a declaration ceremony of the "Fair Play Anti-Corruption Pledges" hosted by Global Compact Network Korea (GCNK), and sponsored by Ministry of Trade, Industry and Energy (MOTIE), Ministry of Land, Infrastructure, and Transport (MOLIT), Ministry of Oceans and Fisheries (MOF), Anti-Corruption & Civil Rights Commission (ACRC) and Financial Services Commission (FSC). DGB Financial Group will continue its efforts to support this project vigorously to spread a compliance and an anti-corruption business culture by eliminating unlawful conduct and corruption.

## Violations of Ethical Management Related Laws



None



## Enhancing Environmental Management

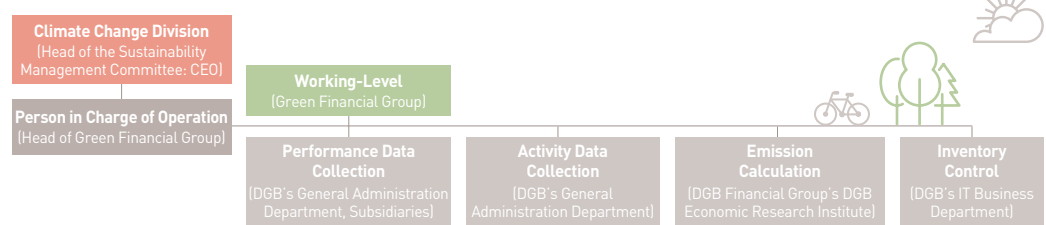
DGB Financial Group clearly understands that a systematic environmental management is directly linked to the Bank's financial performance, thus the Bank is making efforts to minimize environmental impact while addressing climate change through an effective use and management of resources and an environmental protection education and campaign. By internalizing green management policies and guidelines, DGB Financial Group promotes environmental management practices backed by stable and well-established institutional foundation including Green Finance Group, an organization that oversees group-wide environmental management practices. The Bank aims to raise and spread environment awareness not only across the Group but across partners and local communities.

### Addressing Climate Change

#### Energy and GHG Emissions Management System

DGB Financial Group built the GHG Inventory System to manage its energy consumption and greenhouse gas (GHG) emissions in a systematic manner. By outsourcing testing and investigation activities to a third party person (or agency), the Group is able to secure objectiveness and reliability in its reports on energy conservation and GHG emissions.

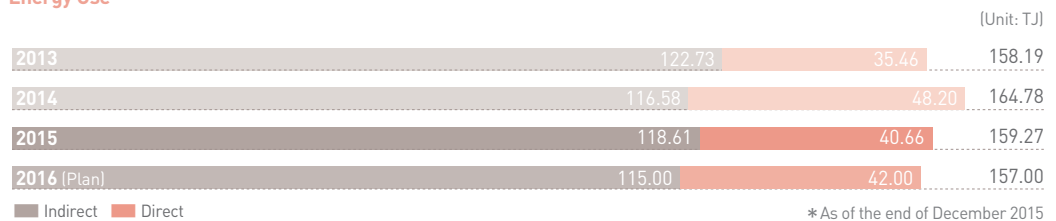
##### ● GHG Inventory Management Scheme



#### Energy Consumption and GHG Emissions

DGB Financial Group's main energy source is electricity which allows the Bank to operate and use branches and various facilities (e.g., ATM, etc.). As such is the case, the Group has implemented measures to systematically reduce GHG emissions through environmental management system and green management practices besides using the GHG Inventory System for monitoring, thus expecting to reduce energy consumption and GHG emissions. In 2015, the Group's total amount of energy consumption stood at 159.27TJ, down by 1.41% compared with the previous year while the total amount of GHG emissions decreased by 0.19% year-on-year and recorded 18,132tCO<sub>2</sub>e.

##### ● Energy Use



##### ● GHG Emission

(Unit: tCO<sub>2</sub>e)

Category	2013	2014	2015	2016 (Plan)
Scope 1	2,095	3,069	2,770	2,800
Scope 2	15,896	15,098	15,362	15,100
Total emission (Scope 1+2)	17,991	18,167	18,132	17,900
Scope 3	2,414	1,620	2,382	2,200

\* As of the end of December 2015

### ● Details on Indirect GHG Emission

(Unit: tCO<sub>2</sub>e)

Category	2013	2014	2015	2016 (Plan)
Branches	8,276	8,215	7,922	7,900
ATM	3,440	2,729	2,710	2,600
Head Office of DGB Daegu Bank (including DGB Financial Group and DGB Data System)	4,072	4,046	4,619	4,500
DGB Credit Information	42	42	43	43
DGB U-Pay	66	66	69	67

\* As of the end of December 2015

## Efforts to Address Climate Change

### Green Touch Program

DGB Financial Group adopted the Green Touch Program at the Group level in September 2012 through which employees can practice living a low-carbon lifestyle with minimum CO<sub>2</sub> emissions by reducing power consumption when they are not using computers. Thanks to the program, the Group was able to save a total of 51,488kwh and 7,881kg of energy and carbon emissions respectively in 2015.

### ● Effectiveness of Green Touch Program

Category	Saved Electricity (kwh)	Saved Hours of Electricity (hours)	Amount of CO <sub>2</sub> 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
2015	51,488	21,831	7,881	509,138

\* As of the end of December 2015



### Green Building – Second Head Office of DGB Daegu Bank

As an LEED (Leadership in Energy and Environmental Design) certified gold building, the second head office of DGB Daegu Bank is expected to serve as a landmark green building in Daegu which has 45% lower energy consumption, consumes 30% less CO<sub>2</sub> emissions and 40% percent less water. In addition, the Bank plans to use only 40% of the land to construct the building and form a park with green grass and walkway on the remaining 60% of the land, and with having indoor gymnasium, gallery, book café and 423 seat assembly hall in the building, the Bank will run the building as a financial-cultural complex building opened to all local youth and residents.



### Joint Campaign Launched by Financial Institutions to Reduce GHG Emissions

As a way to take preemptive measures against climate change, DGB Daegu Bank signed an agreement with the Ministry of Environment to reduce GHG emissions in the financial sector in January 2016. The Bank has developed green financial products and actively carried out marketing activities to actually reduce GHG emissions. In addition, the Bank plans to introduce a consulting service for reducing GHG emissions aided by the Korea Climate and Environment Network to encourage branches consume less energy.



### Environmental Education for the 6<sup>th</sup> DGB University Student Green Press Corps

DGB Financial Group selects local university students to run the DGB University Student Green Press Corps every year since its establishment in 2010. The DGB University Student Green Press Corps plays a crucial role in introducing diverse eco-friendly activities to local residents, thus raising people's awareness of environmental challenges. In 2015, in particular, the Green Press Corps launched an environmental education based on the grade-level of around 600 students from 8 different schools (elementary, middle school and high school). Participant responses have reflected a high level of satisfaction with these programs.





### The 7<sup>th</sup> NIE Energy Diary Contest Awarding Ceremony

DGB Financial Group hosts a nation-wide NIE Energy Diary Contest every year since 2009 for elementary, middle and high students with an expectation to encourage students practice an eco-friendly lifestyle by writing an energy diary. Approximately 1,700 applicants from elementary, middle and high schools have participated in the 7<sup>th</sup> NIE Energy Diary Contest 2015 creating a fierce competition, and a total of 60 students were awarded based on a strict assessment.

#### ● Applicants and Winners of NIE Energy Diary Contest

(Unit: persons)

Category	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>	7 <sup>th</sup>
Applicants	2,510	3,200	3,500	3,750	2,200	1,200	1,700
Winners	62	55	53	68	34	58	60

### Environment Protection Activity in Local Community

DGB Financial Group promotes diverse environmental protection activities in a bid to take the lead in environmental conservation in local communities. A total of 2,120 employees partook in 95 activities held in 2015 which include sponsoring of the World Water Forum and launching of relevant special financial products, Friendship Day to use public transportation and environmental protection campaigns.

#### ● Environmental Preservation Activities in 2015

Category	2013	2014	2015	2016 (Plan)
No. of activities (times)	92	91	95	98
No. of participants (persons)	2,570	2,585	2,120	2,200
Investment in environmental preservation (KRW million)	55	39	9	20

\* As of the end of December 2015



### Dok-do (Island) Love Visit Event

In commemoration of the 70<sup>th</sup> anniversary of Independence of Korea, DGB Daegu Bank carried out various activities from October 20 to October 22, 2015 through the Dok-do Love Visit Event such as protection of rare species and abalone release projects. The Group also opened the first mobile bank branch, iM Bank in Dok-do, thus making continuous efforts in informing people of the beautiful nature of Dok-do as well as the importance of protecting the environment.

### Green Education Programs

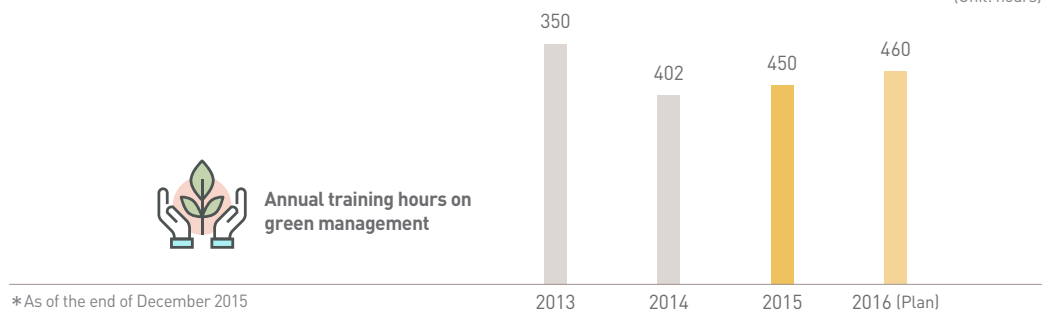
DGB Financial Group conducts environmental education programs for everyone at the Group, thus creating an atmosphere to encourage each individual employee in practicing a green lifestyle. By expanding the courses related to green management and green financing in level-based job training programs every year, the Bank aims to further enhance employees' environmental awareness through various educational programs including education on how to use GHG inventory system and training of internal reviewers of green management system.

#### ● Implementation of Environmental Education

(Unit: hours)



Annual training hours on green management



\* As of the end of December 2015

## Implementation of Environmental Management

### Implementation Status of Environmental Management

#### Environmental Management System

DGB 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, the Bank has maintained environmental management system in compliance with international standards based on a regular post-certification review and re-certification process. In 2016, the Bank was recommended to revisit 11 practices while none of its practices was raised as an issue (non-compliance) during the renewal inspection held in March 2016.

#### Environmental Management Implementation System



#### Environmental Management Actions

##### Corrective and Preventive Measures

(Unit: case, %)

Year	Category	No. of non-compliance cases	Actions Taken	Progress Rate (%)	Remarks
2012	Internal Audit	2	2	100	Evaluation on green impact of supplies and education on green management policy
	Compliance Evaluation	-	-	-	
2013	Internal Audit	0	0	100	7 recommendations for improving review on criteria for increasing green procurement, etc.
	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 strengthening environmental education in regular internal training programs
	Compliance Evaluation	-	-	-	
2016	Internal Audit	0	0	100	11 recommendations for regular review on revisions of relevant laws and to reflect them accordingly.
	Compliance Evaluation	-	-	-	

\* As of the end of December 2015

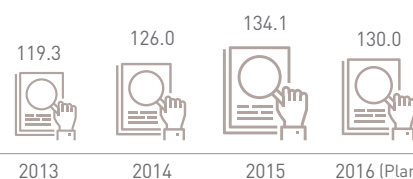
### Efficient Use of Resources

#### Paper Use

The main usage of paper at DGB 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 sent to customers with an e-mail service and employs various paper saving practices such as printing multiple pages on a single page and re-using the backside of printed paper.

##### Paper Use

(Unit: tons)



\* As of the end of December

##### Electronic Bills

Category	2013	2014	2015	2016 (Plan)
No. of total bills sent	6,754,332	6,797,831	6,714,903	6,720,000
No. of electronic bills	1,822,831	1,964,321	2,167,446	2,352,000
Rate of electronic bills (%)	27.0	28.9	32.3	35.0

\* As of the end of December

### Waste Management and Recycling

Wastes of DGB Financial Group are largely used papers such as reports and documents, and used office supplies and equipment such as personal computers. DGB Daegu Bank has outsourced the waste management to a contractor in accordance with relevant guidelines on waste treatment and paper disposal process. In addition, the Bank is carrying out various energy saving measures such as replacing several computer consumables with recyclable products.

#### ● Waste Discharge at DGB Daegu Bank

Category	Papers		Electronics Ribbons		Printer Toners	
	Discharged Volume (ton)	Recycling Rate (%)	Discharged Volume (kg)	Recycling Rate (%)	Discharged Volume (ton)	Recycling Rate (%)
2013	119.3	100	745	16.1	2.8	13.0
2014	126.0	100	758	15.6	3.0	14.2
2015	134.1	100	805	15.8	3.2	13.7

\* As of the end of December 2015

### Water Resource Management and Recycling

DGB Daegu Bank measures and controls amount of water usage in headquarters office and branches to save on water resources. To that end, the Bank installed a rainwater collector 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 2015, the total amount of water used in the headquarters and branches were 167,584 tons, down by 0.39% compared with the previous year while the average amount of water usage per branch was 659.8 tons, down by 5.15% year-on-year.

#### ● Water Use Volume

(Unit: tons)

Category	2013	2014	2015	2016 (Plan)
Total amount of water used	174,518	166,938	167,584	165,000
Amount used per branch	727.2	695.6	659.8	650.0
Scope of water use data collection	Head Office and 148 branches	Head Office and 240 branches	Head Office and 254 branches	

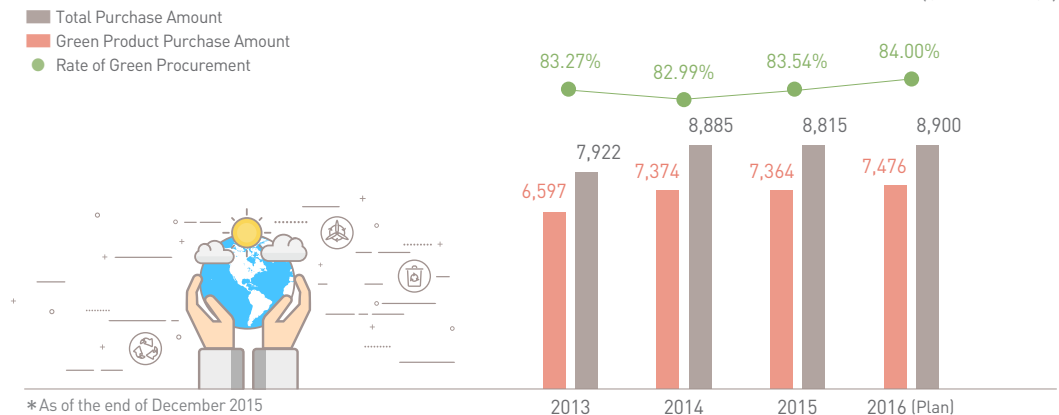
\* As of the end of December 2015

### Promotion of Green Procurement

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

#### ● Green Product Purchase Amount

(Unit: KRW million)



### Major Activities in 2015

DGB Financial Group is making efforts to present win-win solutions for the issues raised during Co-prosperity Counsel meetings with business partners. In addition, the Group holds "DGB Happiness Concert" to provide local residents with supports for their post-retirement plans (e.g., consulting, information sharing and concert, etc.) and opened DGB Financial and Economic Education Institute at the DGB Job Experience Dream Tree Center which serves as the first regional institute to provide financial education and job experience opportunities. DGB Social Contribution Foundation signed an MOU to cooperate in providing supports to teenage dropouts with the participation of the "WeeCafe with Friends" and DGB Future Generation Education Project Group.

### Key Issues and Achievements



**Win-Win Partnerships**

- Increasing rights and roles of business partners



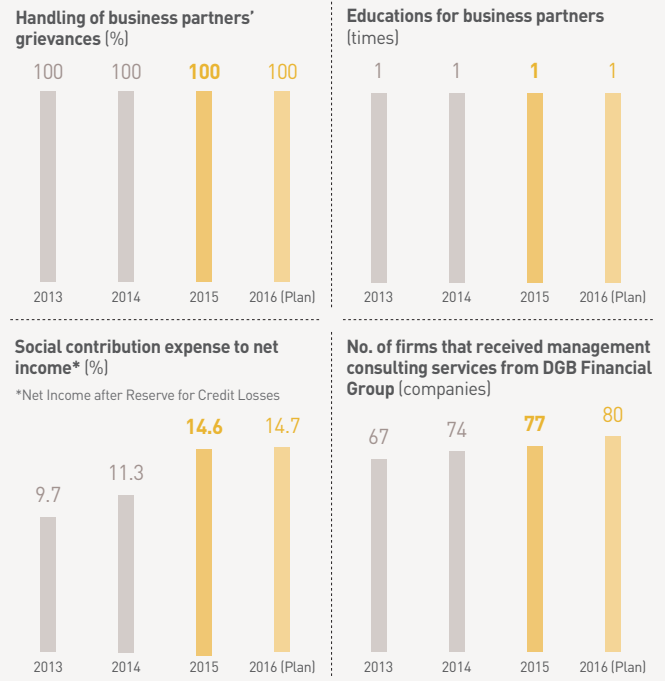
**Community Engagement and Development**

- Local community (social contribution)
- Measures to support SMEs

### Next Step

Being backed financial infrastructure, DGB Financial Group will continue with efforts to create shared values by constantly developing social contribution programs that reflect the characteristics of financial industry. In addition, the Bank aims to lay the foundation on which a genuine co-prosperity with local community can be created by presenting practical solutions to social issues based on a performance assessment on social contribution business.

### Key Achievements



## Win-Win Partnerships

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 regular Co-prosperity Council meetings through which the Group can constantly receive the suggestions/complaints of partner companies. The Group has in place a variety of education and training programs including CSR 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.

### Win-Win Growth with Business Partners

#### Increasing Rights and Roles of Business Partners

##### Meetings with Business Partners

DGB Financial Group organizes co-prosperity meetings with business partners every year on a regular basis to listen to the suggestions/complaints of partner companies in order to better reflect their voices in the Bank's business. At the Group's meetings with business partners in 2015, the Bank was able to share with partner companies the issues related to budget allocation, and discussed ways to actively reflect their suggestions and strengthen management of business partners.

##### Meetings with Business Partners

(Unit: suggestions/proposals)

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 · Establishing guidelines for green procurement	One proposal · Reviewing the improvement of business partner management system	One proposal · Collecting business partners' suggestions and enhancing management channels
Measures Taken	Addition of one suggestion	Execution of one suggestion	Execution of one suggestion

\*As of the end of December 2015

### Co-prosperity with Business Partners

With the aim of creating a genuine co-prosperity with business partners, DGB Financial Group conducts businesses focusing on enhanced partnership, transparent transactions, appropriate compensation, prohibition against unfair practices and enhanced eco-friendly management practices.

#### ● Partner Satisfaction Survey

(Unit: points out of 100 points)

Category	2014	2015
General affairs	94	95
Standards and procedures for contracts	100	100
Reward system	100	98
Commitment in co-prosperity and its impact	94	98

## Community Engagement and Development

### Social Contribution System



The economic development of Daegu/Gyeongbuk region supported by an increase in productivity and employment is directly linked to the growth of DGB Financial Group. Therefore, the Group is making an all-out effort to offer comprehensive financial services that are adherent to the expectation of local residents, and aims to share the growth of the Group with the local community by carrying out diverse social contribution activities jointly with all its affiliates.

#### Strategic Social Contribution Activities

##### Held "DGB Happiness Concert" for Retired Customers

DGB Daegu Bank held the "DGB Happiness Concert" under the theme of "ensemble of autumn delights for Ggot Jung Nyeone (flower middle-aged)" along with other concurrent events to meet the demands of senior customers who are interest in retirement planning by providing them with various information including wealth management and healthcare that could aid the customers to enjoy a quality of life after retirement. In addition, the Bank set up a separate booth during the events to offer comprehensive life management services of the "DGB Happiness Partner" consisted of retirement planning experts through a one-on-one counselling.

##### DGB Happy Retirement Planning Center



DGB Daegu Bank opened the "DGB Happy Retirement Planning Center" in November 2015, a specialized center which offers differentiated management solutions for retirement assets. Customers can directly consult with a DGB Happy Partner specialist from the Center to identify which of the DGB Happy Partner's retirement planning products that were developed based on each different retirement age best meet their demands. Through this, the Bank plans to respond to the needs of senior markets systematically by taking into consideration the retirement planning of local residents and financial demands of aging population.

#### ● Service Information





## Measures to Support SMEs

### Provision of Management Consulting Service to Business Partners

DGB Financial Group implements various measures to support SMEs which form the backbone of the regional economy, thus ensuring that they do business with a strong business foothold. Ever since the opening of "DGB Business Consulting Center" in 2005, the Bank has offered consulting services covering a wide range of areas ranging from marketing strategies to human resource management, etc. A total of 77 companies have received the Bank's business consulting services in 2015, and under the cooperation with the INNOPOLIS Daegu (Foundation), the Bank mediated transfer of public technology to local SMEs and helped the companies to successfully adopt them to their businesses by providing engineering consulting services, thus aims to contribute to further enhance the added value of local SMEs.

#### ● No. of Firms that Received Management Consulting Services from DGB Financial Group

(Unit: companies)

Category	2013	2014	2015	2016 (Plan)
No. of firms that received management consulting services from DGB Financial Group	67	74	77	80

\* As of the end of December 2015

No. of Firms that Received Management Consulting Services from DGB Financial Group in 2015



77 companies

### Efforts to Promote Social Enterprise Activities

DGB Social Contribution Foundation signed an MOU on promoting activities of social enterprises in the areas of educational and cultural services and expanding philanthropic education with 16 institutions including 8 local companies, Daegu Metropolitan City Government and Daegu Regional Employment and Labor Office, and made a donation of KRW 10 million to offer educational opportunities to local teenagers. Going forward, the Foundation will cooperate with both local SMEs and governments to help social enterprises develop high quality educational contents by providing supports for management stability and soundness while contributing to the provision of cultural experiences and educational opportunities to local teenagers.

## Sharing and Volunteering



### Supports to Help Financially Disadvantaged Groups Achieve Economic Independence

#### Opening of DGB Financial and Economic Education Center

DGB Financial Group opened the DGB Financial and Economic Education Center in March 2016 at the "Dream Tree Career and Job Experience Center", the region's first financial and job experience education center which adopts a free learning semester system, and formed a volunteer group - DGB Financial and Economic Education Volunteer Group - through which the Group expects to take to lead in providing financial and economic education services to the local community. The programs of DGB Financial and Economic Education Center focus on providing an experience-based economic education that could be applied in daily life through play type economic and financial education. The DGB Financial and Economic Education Volunteer Group consisted of employees of DGB Daegu Bank and With-U university volunteers plans to carry out talent-based volunteering works or skill sharing activities in a more systematic way by not only utilizing the Bank's experience center for a job experience but also making on-site visits to schools to offer economic education.

#### "DGB Bluebird Senior Happy Workplace" Center

In order to address the challenges of an aging population, "DGB Bluebird Senior Happy Workplace," with the focus on job creation and welfare improvement for local senior residents, provides places and job opportunities to local senior residents to help them happily engage at work. Each year, 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 have constantly carried out volunteer activities to help those who are socially vulnerable like multicultural families and unmarried mothers at social facilities.

● DGB Social Contribution Foundation's Major Achievements

Category		2013	2014	2015	2016 (Plan)
DGB Future Generation	Job creation (persons)	6	6	8	8
Education Project Group	Proceeds (KRW million)	101	119	109	173
Bluebird Senior Happy	Job creation (persons)	10	13	14	14
Workplace	Proceeds (KRW million)	25	34	47	50

\* As of the end of December 2015

Contribution to Local Education and Cultural Development

DGB Social Contribution Foundation

-WeeCafe with Frineds, MOU on Cooperation in Providing Supports to School Dropouts

DGB Social Contribution Foundation signed an "MOU on cooperation in providing supports to school dropouts" with the WeeCafe with Friends and DGB Dream Tree Education Group in December 2015 with the aim of helping the dropouts who are willing to continue with their study to concentrate on studying by providing studying expenses for school qualification exams. In addition to this, the Foundation carries out various programs to support local children and youth such as childcare service for local underprivileged families by operating the Bluebird Dream Local Children Center and With-U Foster Family Total-Care Mentoring program.



DGB's Scholarship Cultural Foundation

DGB Daegu Bank has been operating the DGB Scholarship Cultural Foundation ever since its foundation in 1990 to identify and nurture outstanding community students through shaping a better educational environment for local students and sponsoring them. In 2015, the Bank provided a total of KRW 403 million in scholarship funds to 200 community students, encouraging them to grow as a well-rounded professional who could contribute to the nation's development by nourishing themselves with consistent self-development and innovation.



● DGB's Scholarship Cultural Foundation

Category		2013	2014	2015
High School	No. of beneficiaries	116	114	107
	Amount of scholarships (KRW million)	177	174	167
University	No. of beneficiaries	97	96	93
	Amount of scholarships (KRW million)	230	243	236

\* As of the end of December 2015

● DGB Daegu Bank's Major Social Contribution Activities in 2015

Area	Major Programs	Contribution (KRW million)	No. of Volunteers (persons)
Local community and public service	· Operating DGB Volunteer Corps	13,569	12,280
	· Sharing Kimchi and briquette		
	· Improving living environment for needy people		
	· Giving Onnuri gift voucher to low-income families		
Culture, art and sports	· Launching Love Neighbor Movement (in May and October)	5,736	1,860
	· Operation of the Lovely Homerun Zone at a baseball park		
	· Sponsoring cultural activities for prisoners		
Education and scholarship	· Holding art contests for children and essay contests for women	2,163	296
	· Operating DGB Scholarship Foundation		
	· Holding Hope Sharing Concert for teenagers		
Micro-credit/dormant deposit Youth Startup Foundation Credit Recovery Committee	· Holding DGB Dokdo Love Golden Bell Quiz Show	1,450	0
	· Implementing credit recovery support programs		
Environment and Global	· Spring tree planting and road cleanup	91	5,355
	· Forest fire prevention campaign		
	· Supports for overseas medical volunteer works		
Total		23,009	19,791

\* As of the end of December 2015

No. of Volunteers in 2015



19,791 persons

## Contribution to Regional Environmental Improvement and Physical Education Development

### Book Donations for Inmates

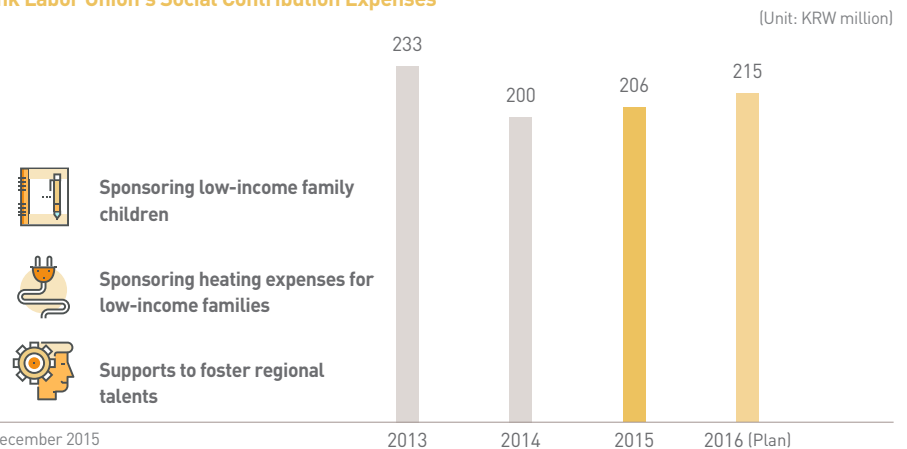
DGB Social Contribution Foundation is constantly carrying out various sponsoring activities including the donation provided to Northern Gyeongbuk 2<sup>nd</sup> prison located in Cheongson, Gyeongbuk province in 2012. As a part of correction program, the Foundation visited the aforementioned prison in April 2015 and donated KRW 10 million to sponsor the purchasing of materials needed for cultural and cooking programs, and seasonal necessities.



### DGB Daegu Bank Labor Union's Social Contribution Activities

In an effort to carry out social contribution activities, DGB Daegu Bank's labor union established a social contribution foundation based on funds raised by the entire employees who have been contributing 1% of their salary since 2007, to perform various social activities including sponsoring the children from low-income families in the Daegu-Gyeongbuk region. The union is making efforts in providing supports to help low-income families as well as to foster talented people in the region. Such supporting efforts include forming a sponsorship relationship with the Green Umbrella Children's Foundation by donating KRW 40 million to help the Foundation provide cultural experience to help children find a vision, launch projects for the prevention of violence against children and foster talented children.

### ● DGB Daegu Bank Labor Union's Social Contribution Expenses



### DGB Life's Supports to Help Underprivileged People

DGB Life is taking the lead in offering improved living conditions for underprivileged senior citizens in the local area by carrying out various volunteer activities including Briquettes Delivery and Samgyetang (Ginseng Chicken Soup) Sharing activities to help those senior citizens keep their bodies healthy during extremely hot and cold periods of year. DGB Life visited four welfare centers in the nation including its visit to the Seoul's Seodaemun Senior Welfare Center in August 2015 to invite low-income elderly to an event – Samgyetang Sharing on Malbok Day (the last of three annual “dog days”). In addition, DGB Life donated a total of 6,700 briquettes with participation of around 40 volunteers through the “2015 Briquette Delivery with Love” event held in Sanggye-dong, Nowon-gu in December 2015, and also visited the homes of five low-income families to deliver briquettes.

### DGB Life's PC Sharing with Love

DGB Life held an event to deliver PCs to the information poor (information have-nots) at the Seoul headquarters office on June 9, 2015. Through this PC sharing event, a total of 1,158 repaired electronics including PCs, laptops and printers were provided for free to the information poor facing economic difficulties including people with disabilities and low income, and social welfare facilities.

# DGB Financial Group



**Park, In-gyu**  
CEO & Chairman of the Board



**Cho, Hae-nyoung**  
Outside Director



**Kim, Ssang-su**  
Outside Director



**Ha, Jong-hwa**  
Outside Director



**Lee, Jae-dong**  
Outside Director



**Gu, Bon-sung**  
Outside Director



**Roh, Seong-seok**  
Vice President



# DGB Daegu Bank



**Park, In-gyu**  
CEO & Chairman of the Board



**Kim, Jin-tak**  
Outside Director



**Hong, Jang-hee**  
Outside Director



**Suh, In-duk**  
Outside Director



**Koo, Wook-seo**  
Outside Director



**Kim, Yong-sin**  
Outside Director



**Park, Nam-kyoo**  
Standing Auditor



**Lee, Seoung-yong**  
Vice President



**Lim, Hawon-ou**  
Vice President



## CEOs of DGB Financial Group Subsidiaries



**Oh, Ik-whan**  
CEO, DGB Life



**Lee, Jae Yung**  
CEO, DGB Capital



**Park, Dong-gowan**  
CEO, DGB U-Pay



**Lee, Geun-gyu**  
CEO, DGB Data System



**Jung, Chan-woo**  
CEO, DGB Credit Information

# Financial Section

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# Management's Discussion & Analysis

## DGB Financial Group

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

Since our launch in May 2011 through the share swap acquisition of DGB Daegu Bank, DGB Credit Information, and DGB U-Pay, the Group has added DGB Capital (former Metro Asia Capital) through a share purchase agreement in January 2012. The foundation of DGB Data System in April 2012 and subsequent incorporation of DGB Life (renamed after the acquisition of Woori Aviva Life Insurance) in January 2015 brings our total number of subsidiaries to six as of the end of 2015.

(in billions of KRW)

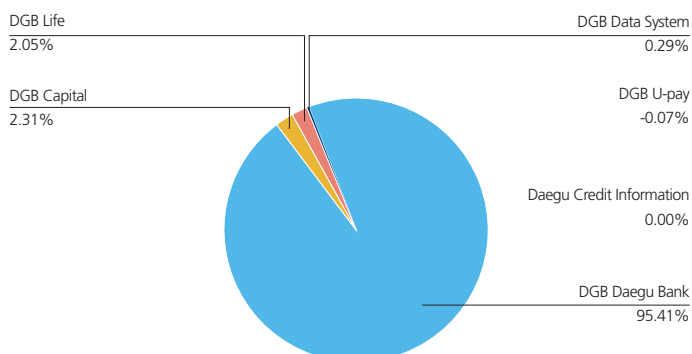
	DGB Group	Daegu Bank	DGB Life	DGB Capital	DGB U-pay	DGB Data System	Daegu Credit Info	Other(*)
Gross Operating Income	1,193.5	1,032.7	73.6	39.1	3.1	1.6	1.0	42.4
Interest Income	1,160.5	984.0	167.3	41.4	0.1	0.1	0.1	(32.5)
Non-Interest Income	33.0	48.7	(93.7)	(2.3)	3.0	1.5	0.9	74.9
Administrative Expenses	627.2	545.1	60.9	12.3	3.3	0.7	1.0	3.9
Provisions	223.3	194.8	6.4	19.7	0.0	0.0	0.0	2.4
Operating Income	343.0	292.8	6.3	7.1	(0.2)	0.9	0.0	36.1
Net Income	308.3	261.8	19.0	5.4	(2.4)	0.7	0.0	23.8
Total Assets	<b>57,055.6</b>	<b>50,434.0</b>	<b>5,334.7</b>	<b>1,258.3</b>	<b>36.8</b>	<b>8.3</b>	<b>4.7</b>	<b>(21.2)</b>

\* Consolidation adjustments and trust assets

At the end of 2015, DGB Financial Group's total assets stood at KRW 57.1 trillion, up KRW 11.1 trillion from 2014, with our operating income and net income at KRW 343 billion and KRW 308.3 billion respectively. DGB Daegu Bank contributed 95.41 percent of the Group's overall operating income, as it posted operating profits of KRW 292.8 billion for the year. DGB Life and DGB Capital contributed 2.31 percent and 2.05 percent, respectively, to the overall Group operating income with KRW 6.3 billion and KRW 7.1 billion each.

In 2015, the ROA of DGB Financial Group was 0.61 percent, and our ROE was 8.85 percent, showing a mild improvement over the previous year.

### Operating income Contribution



Indicator	Account	(%)
Profitability	ROA	0.61
	ROE	8.85
	CIR	52.56
Asset Quality	NPL Ratio	1.29
	Delinquency rate	0.85
Capital Adequacy	Capital adequacy ratio	12.89
	Tier I CAR	10.21
Dividend Payout	Denomination Dividend Rate	5.60
	Dividend Payout Ratio	16.10
Credit Ratings	Nice Investors Service, Korea Ratings	AAA
	Moody's	A2

\* International credit ratings are given only to DGB Daegu Bank

Despite the economic slowdown and abundance of ongoing corporate restructuring in the industry, DGB Financial Group's asset quality indicators remained as stable as the past year thanks to our preemptive risk management and proactive response to crises. Our BIS capital adequacy ratio, the barometer of capital adequacy, remained constant at slightly above the industrial average.

The dividend payout ratio for 2015 was 16.10 percent, remaining in the box range between 15 percent and 18 percent as it has for the last three years. The Group continues to post high credit ratings as well, maintaining the highest grade of AAA from Korean rating agencies and ratings of A2 from Moody's and BBB+ from S&P.

## DGB Daegu Bank

## I. Operating Results

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

(in billions of KRW)

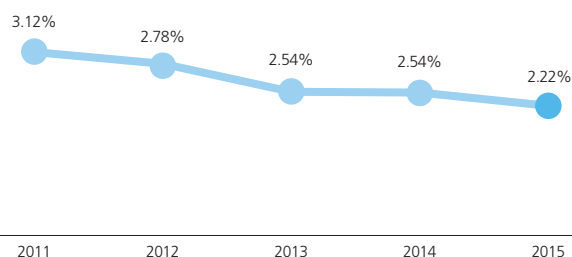
(in billions of KRW)

	2015	2014	YoY Change	
			Amount	(%)
<b>Interest revenue</b>	<b>1,561.8</b>	<b>1,654.4</b>	<b>-92.6</b>	<b>-5.6%</b>
Cash & due from banks	3.4	5.1	-1.7	-33.3%
Securities	222.8	254.4	-31.6	-12.4%
Loans	1,196.0	1,249.1	-53.1	-4.3%
Others	139.6	145.8	-6.2	-4.3%
<b>Interest expenses</b>	<b>577.8</b>	<b>659.9</b>	<b>-82.1</b>	<b>-12.4%</b>
Deposits	454.9	515.8	-60.9	-11.8%
Borrowings	47.4	55.5	-8.1	-14.6%
Bonds	67.2	77.1	-9.9	-12.8%
Others	8.3	11.5	-3.2	-27.8%
<b>Net interest income</b>	<b>984.0</b>	<b>994.5</b>	<b>-10.5</b>	<b>-1.1%</b>
Net interest margin (%)	2.22%	2.54%	-0.3%	-
Net interest spread in Won(%)	2.49%	2.89%	-0.4%	-

	2015	2014	YoY Change	
			Amount	(%)
Net Interest Spread in Won	2.49%	2.89%	-0.40%	-
Average Lending Rate	4.08%	4.87%	-0.79%	-
Average Deposit Rate	1.59%	1.98%	-0.39%	-
Net Interest-bearing assets	38,719.0	34,478.6	4,240	10.95%

In 2015, net interest income inched down from 2014 by 1.1 percent, or KRW 10.5 billion, to reach KRW 984 billion. Despite the 10.95 percent year-on-year growth in net interest-bearing assets, the net interest income decline was the result of the 0.3 percent year-on-year decline in the net interest margin and 0.4 percent year-on-year decline in the net interest spread in won amidst the prolonged low-interest trend.

## NIM for 5 years



The net interest margin of the bank has been trending downward since 2011 due to conservative investor sentiment amidst the slowing economic recovery and the government's adherence to a low-interest policy.

## Non-interest Income

(in billions of KRW)

	2015	2014	YoY Change	
			Amount	(%)
<b>Non-interest Income</b>	<b>48.7</b>	<b>16.0</b>	<b>32.7</b>	<b>204.4%</b>
Commission income	75.9	70.4	5.5	7.8%
Gain on securities	62.8	15.9	46.9	295.0%
Gain on foreign currency transactions & derivatives products	3.6	17.6	-14.0	-79.5%
Gain(Loss) on disposition of loans	7.2	2.0	5.2	260.0%
Other operating expenses	-100.8	-89.9	-10.9	12.1%

Non-interest income for 2015 surged by 204.4 percent, or KRW 32.7 billion, over the previous year to reach KRW 48.7 billion. This remarkable growth can be attributed to the KRW 46.9 billion increase in gains on securities, KRW 5.2 billion growth in gains on disposition of loans, and improvements of KRW 5.5 billion in commission income over the period. This growth offset the KRW 14 billion drop in gains on foreign currency transactions & derivatives and the KRW 10.9 billion growth in other operating expenses, including contributions to Credit Guarantee Funds and Deposit Insurance premiums over the same period.

# Management's Discussion & Analysis

## General & Administrative Expenses

(in billions of KRW)

	2015	2014	YoY Change	
			Amount	(%)
<b>General and administrative expenses</b>	<b>545.1</b>	<b>526.6</b>	<b>18.5</b>	<b>3.5%</b>
Salaries and employee benefits	273.7	263.9	9.8	3.7%
Taxes and dues	74.2	66.0	8.2	12.4%
Retirement allowances	44.5	47.6	-3.1	-6.5%
Other G&A expenses	152.7	149.1	3.6	2.4%
Cost-income ratio (%)	52.8%	52.1%	0.7%	-

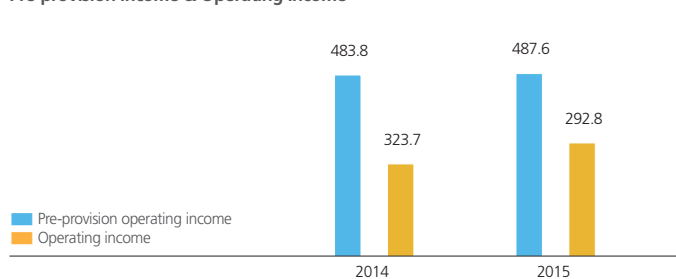
General and administrative expenses in 2015 stood at KRW 545.1 billion, up KRW 18.5 billion from 2014. Despite the 2.2 percent year-on-year growth in operating income, the 3.5 percent increase in general and administrative expenses for the same period resulted in a 0.7 percent year-on-year growth in the cost-income ratio, which was 52.8 percent in 2015. The growth in general and administrative expenses can be explained primarily by the KRW 9.8 billion paid in severance allowances, KRW 8.2 billion increase in taxes and dues, and a growth of KRW 3.6 billion in general administrative expenses. In 2015, DGB Daegu Bank continued its efforts to bolster its branch network and reshuffled the organization in order to enhance work efficiency and productivity.

## Provisioning

(in billions of KRW)

	2015	2014	YoY Change	
			Amount	(%)
<b>Pre-provisioning operating income</b>	<b>487.6</b>	<b>483.8</b>	<b>3.8</b>	<b>0.8%</b>
Operating income	292.8	323.7	-30.9	-9.5%
Total provision	194.8	160.1	34.7	21.7%
Provision for loan losses	195.7	164.3	31.4	19.1%
Others	-0.9	-4.2	3.3	-78.6%

### Pre-provision Income & Operating Income



The pre-provision operating income of DGB Daegu Bank totaled KRW 487.6 billion, up 0.8 percent year on year, as the slight drop in net interest income was offset by growth in non-interest income and increased efficiency in branch office operations. Operating income stood at KRW 292.8 billion, down 9.5 percent from 2014, as a result of the KRW 34.7 billion year-on-year growth in total provisions.

## II. Financial Position

### Assets

(in billions of KRW)

	2015	2014	YoY Change	
			Amount	(%)
<b>Assets</b>	<b>44,523.0</b>	<b>40,071.2</b>	<b>4,451.8</b>	<b>11.1%</b>
Cash and due from banks	1,795.3	1,745.5	49.8	2.9%
Securities	7,738.8	7,338.7	400.1	5.5%
Loans	32,758.0	29,709.2	3,048.8	10.3%
Fixed assets	354.7	330.0	24.7	7.5%
Other assets	1,876.2	947.8	928.4	98.0%

In 2015, the total assets of DGB Daegu Bank amounted to KRW 44.5 trillion, an 11.1 percent increase over 2014. Despite the prolonged economic slowdown and prevailing uncertainties in the international markets, the bank was able to sustain a double-digit percentage growth in its asset size for the second consecutive year by reinforcing its branch network and customer base as well as engaging in aggressive marketing.

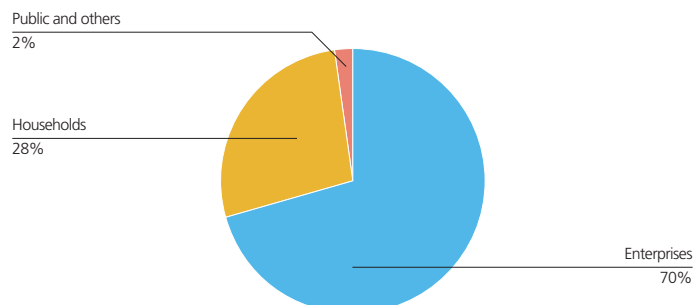


## Loans

(in billions of KRW)

	2015	2014	YoY Change	
			Amount	(%)
<b>Total loans</b>	<b>32,758.0</b>	<b>29,709.2</b>	<b>3,048.8</b>	<b>10.3%</b>
Loans in KRW	31,013.6	28,070.8	2,942.8	10.5%
Loans to enterprises	21,833.3	19,971.2	1,862.1	9.3%
Loans to households	8,581.0	7,483.6	1,097.4	14.7%
Loans to public and others	599.3	616.0	-16.7	-2.7%

## Loan Composition



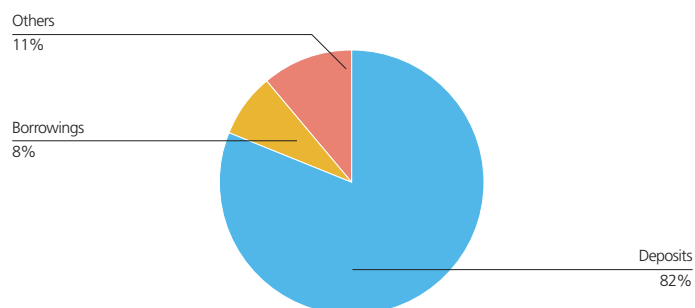
Thanks to stable regional exports and a recovering regional economy, the bank increased the number of loans it extended to businesses by 9.3 percent from 2014 to reach a total of KRW 21.8 trillion in 2015. Growing real estate-backed loans propped up household loans with the help of the stabilizing real estate market, increasing by 14.7 percent from the previous year to KRW 8.6 trillion. In the meantime, loans to the public sector, which carry a relatively low credit risk, edged down by 2.7 percent year on year to reach KRW 599.3 billion in 2015.

## Funding Structure

(in billions of KRW)

	2015	2014	YoY Change	
			Amount	(%)
<b>Total liabilities</b>	<b>41,047.4</b>	<b>36,954.0</b>	<b>4,093.4</b>	<b>11.1%</b>
Deposits	33,533.0	30,820.4	2,712.6	8.8%
Debentures	2,146.2	2,121.6	24.6	1.2%
Others	5,368.2	4,012.0	1,356.2	33.8%

## Funding Composition



Total liabilities grew by 11.1 percent from 2014 to reach KRW 41.5 trillion in 2015. While the high-cost debentures rose by 1.2 percent over the previous year, low-cost deposits grew by 8.8 percent over the same period.

(in billions of KRW)

	2015	2014	YoY Change	
			Amount	(%)
Core deposits (A)	11,904.7	10,084.0	1,820.7	18.1%
<b>Total deposits (in KRW)(B)</b>	<b>31,345.6</b>	<b>27,678.7</b>	<b>3,666.9</b>	<b>13.2%</b>
% of core deposits (A/B)	38.0%	36.4%	1.5%	-
<b>(*)Total deposits (C)</b>	<b>37,592.4</b>	<b>33,037.3</b>	<b>4,555.1</b>	<b>13.8%</b>
% of core deposits (A/C)	31.7%	30.5%	1.1%	-

\* Total deposits = won-denominated deposits + CD + RP + notes receivable + financial bonds + money trusts

In 2015, core deposits expanded by 18.1 percent from the previous year to reach KRW 11.9 trillion in 2015, backed by the bank's aggressive marketing to attract core and public deposits. Despite the expanded size of total deposits, however, the contribution rate of core deposits to total deposits edged up by 1.1 percentage points to 31.7 percent for the year.

# Management's Discussion & Analysis

## Asset Quality

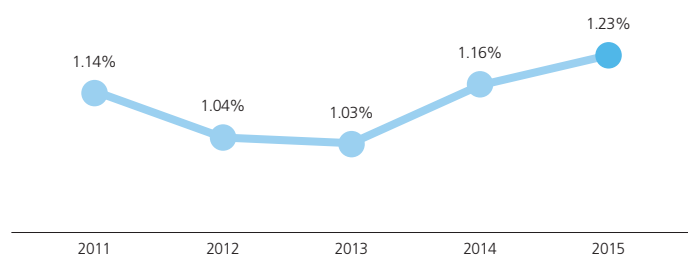
(in billions of KRW)

	2015	2014	YoY Change	
			Amount	(%)
<b>Total credit</b>	<b>32,419.0</b>	<b>29,608.8</b>	<b>2,810.2</b>	<b>9.5%</b>
Normal	31,682.5	28,898.2	2,784.3	9.6%
Precautionary	336.7	367.0	-30.3	-8.3%
Substandard	317.5	253.4	64.1	25.3%
Doubtful	43.6	60.7	-17.1	-28.2%
Estimated loss	38.7	29.5	9.2	31.2%
NPL ratio (%)	1.23	1.16	0.07	-
Loan loss coverage ratio (%)	129.6	120.4	9.2	-
Delinquency rate (%)	0.78	0.68	0.10	-

In 2015, substandard and below loans amounted to KRW 399.8 billion, up KRW 56.2 billion from the previous year. Consequently, the NPL ratio also rose slightly by 0.07 percent compared to 2014. The NPL coverage ratio rose by 9.2 percent year on year to reach 129.6 percent in 2015 due to the disposition and amortization of bad debts.

### NPL Ratio for 5 years

● NPL Ratio



The NPL ratio had been decreasing since 2011 owing to preemptive risk management and proactive crisis management until 2013, when back-to-back corporate restructuring in the construction and shipbuilding industries caused the NPL ratio of corporate loans to increase slightly. Consequently, the bank's overall NPL ratio has also risen.

## Capital Adequacy

(in billions of KRW)

	2015	2014	YoY Change	
			Amount	(%)
<b>Total capital</b>	<b>3,720.6</b>	<b>3,725.3</b>	<b>-4.7</b>	<b>-0.1%</b>
Tier I capital	3,102.0	2,859.8	242.2	8.5%
Tier II capital	618.6	865.5	-246.9	-28.5%
<b>Risk-weighted assets</b>	<b>27,469.7</b>	<b>28,195.1</b>	<b>-725.4</b>	<b>-2.6%</b>
<b>Capital adequacy ratio (%)</b>	<b>13.54%</b>	<b>13.21%</b>	<b>0.33%</b>	<b>-</b>
Tier I CAR (%)	11.29%	10.14%	1.15%	-
Tier II CAR (%)	2.25%	3.07%	-0.82%	-

The amount of Tier II capital fell as outstanding subordinate bonds reached maturity in 2015. However, the rights offering of KRW 200 billion, together with the introduction of an internal rating-based approach (IRBA) in 2015, propped up the size of the Tier I CAR. These rises can be interpreted as indicating improved capital adequacy, meaning that the bank has a sufficient pool of capital in the event of a crisis. The BIS ratio also rose by 0.33 percent over the previous year to reach KRW 13.54 percent in 2015. This figure outpaces the industry average, far exceeding the 8 percent ratio recommended by the Bank of International Settlement (BIS) guidelines.

# Independent Auditors' Report



KPMG Samjong Accounting Corp.  
152, Teheran-ro, Gangnam-gu,  
(Gangnam Finance Center 27<sup>th</sup> Fl., Yeoksam-dong)  
Seoul 06236, 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, 2015 and 2014, 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, 2015 and 2014 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 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.  
Seoul, Korea  
March 9, 2016

.....  
This report is effective as of March 9, 2016, 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

For the years ended December 31, 2015 and 2014

(In millions of won)

	Note	2015	2014
<b>Assets</b>			
Cash and due from banks	5,27,45,49,50	₩ 2,092,477	1,760,231
Financial assets held for trading	6,16,49	294,159	297,994
Financial assets designated at fair value through profit or loss	7,49	258,861	136,011
Available-for-sale financial assets	8,16,27,49	4,065,489	2,424,301
Held-to-maturity financial assets	9,10,49,50	7,618,459	4,519,990
Loans and receivables	12,13,14,15,27,49,50	36,052,597	31,304,109
Derivative assets - hedging	16,49	50	16,641
Investment in associates	11	453	456
Property and equipment, net	17	376,672	336,024
Investment property, net	19	106,635	82,002
Intangible assets, net	18	102,221	90,628
Deferred income tax assets	43	19,520	-
Other assets	20	156,853	41,320
<b>Total assets</b>		<b>₩ 51,144,446</b>	<b>41,009,707</b>
<b>Liabilities</b>			
Depository liabilities	21,27,48,49,50	₩ 33,493,377	30,747,015
Financial liabilities held for trading	16,49	33,520	38,345
Derivative liabilities - hedging	16,49	3,149	5,584
Borrowings	22,27,49,50	3,329,394	2,796,584
Debentures	16,22,27,49,50	3,145,917	2,849,391
Defined benefit obligations	24	18,075	20,790
Provisions	23,47	36,765	38,616
Deferred income tax liabilities	43	-	47,024
Insurance contract liabilities	25	4,940,470	-
Other liabilities	26,27,48,49,50	2,366,627	1,254,808
<b>Total liabilities</b>		<b>47,367,294</b>	<b>37,798,157</b>
<b>Equity</b>			
Capital stock	1,28	845,266	670,266
Capital surplus	28	1,560,455	1,423,484
Capital adjustment	28	-	(720)
Accumulated other comprehensive income, net of tax	30	17,869	17,110
Retained earnings	29	1,063,046	811,845
<b>Equity attributable to owners of the Company</b>		<b>3,486,636</b>	<b>2,921,985</b>
<b>Non-controlling interests</b>	28	<b>290,516</b>	<b>289,565</b>
<b>Total equity</b>		<b>3,777,152</b>	<b>3,211,550</b>
<b>Total liabilities and equity</b>		<b>₩ 51,144,446</b>	<b>41,009,707</b>

# Consolidated Statements of Comprehensive Income

For the years ended December 31, 2015 and 2014

(In millions of won, except earnings per share)

	Note		2015	2014
Interest income	4,31	₩	1,776,731	1,711,332
Interest expense	4,31,48		616,240	689,443
Net interest income	4		1,160,491	1,021,889
Fee and commission income	32		141,086	125,141
Commission expense	32		63,015	58,024
Net fee and commission income	4		78,071	67,117
Insurance income	33		960,315	-
Insurance expenses	33		988,244	-
Net Insurance loss	4		(27,929)	-
Net gain on financial assets held for trading	34		5,954	18,005
Net gain on financial assets designated at fair value through profit or loss	35		3,352	9,991
Net gain on available-for-sale financial assets	36		75,600	31,432
Net gain on derivative hedging instruments			650	9,030
Impairment losses on financial assets	4,37		228,742)	(204,166)
Net gain (loss) on foreign exchange	27		(362)	2,812
General and administrative expenses	38,39		(627,205)	(544,033)
Other operating loss, net	40		(96,902)	(88,158)
<b>Operating income</b>	41		<b>342,978</b>	<b>323,919</b>
Non-operating gain (loss), net	42		432	(6,700)
<b>Profit before income tax expenses</b>			<b>343,410</b>	<b>317,219</b>
Income tax expenses	43		(35,092)	(73,435)
<b>Profit for the year</b>	44	₩	<b>308,318</b>	<b>243,784</b>
Net unrealized change in fair value of available-for-sale financial assets, net of tax		₩	7,091	28,048
Gain on translation of foreign operations, net of tax			1,654	3,147
Items that are or may be reclassified to profit or loss			8,745	31,195
Remeasurement of defined benefit plan, net of tax			(7,907)	(10,381)
Items that are or may be reclassified to profit or loss			(7,907)	(10,381)
<b>Total other comprehensive income for the year, net of tax</b>	30	₩	<b>838</b>	<b>20,814</b>
<b>Total comprehensive income for the year</b>		₩	<b>309,156</b>	<b>264,598</b>
<b>Profit attributable to:</b>				
Owners of the Group		₩	294,098	28,048
Non-controlling interest			14,220	3,147
<b>Profit for the year</b>		₩	<b>308,318</b>	<b>31,195</b>
<b>Total comprehensive income attributable to:</b>				
Owners of the Group		₩	294,857	250,547
Non-controlling interest			14,299	14,051
<b>Total comprehensive income for the year</b>		₩	<b>309,156</b>	<b>264,598</b>
<b>Earnings per share (in won)</b>	44	₩	<b>1,759</b>	<b>1,714</b>



# Consolidated Statements of Changes in Equity

For the years ended December 31, 2015 and 2014

(In millions of won)

	Capital stock	Capital surplus	Capital adjustment	Accumulated other comprehensive income(loss)	Retained earnings	Equity attributable to owners of the Company	Noncontrolling interest	Total equity
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
Loss on translation of foreign operations, net of tax	-	-	-	3,147	-	3,147	-	3,147
Remeasurement of defined benefit plan, net of tax	-	-	-	(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
Balance at January 1, 2015	₩ 670,266	1,423,484	(720)	17,110	811,845	2,921,985	289,565	3,211,550
Hybrid bonds dividends	-	-	-	-	-	-	(14,061)	(14,061)
Profit for the period	-	-	-	-	294,098	294,098	14,220	308,318
Paid-in capital increase	175,000	138,356	-	-	-	313,356	-	313,356
Year-end dividends	-	-	-	-	(42,897)	(42,897)	-	(42,897)
Net unrealized change in fair value of available-for-sale financial assets, net of tax	-	-	-	7,013	-	7,013	79	7,092
Gain on translation of foreign operations, net of tax	-	-	-	1,653	-	1,653	-	1,653
Remeasurement of defined benefit plan, net of tax	-	-	-	(7,907)	-	(7,907)	-	(7,907)
Changes in scope of consolidation	-	-	-	-	-	-	806	806
Others	-	(1,385)	720	-	-	(665)	(93)	(758)
Balance at December 31, 2015	₩ 845,266	1,560,455	-	17,869	1,063,046	3,486,636	290,516	3,777,152

# Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(In millions of won)

	2015	2014
<b>Cash flows from operating activities</b>		
Profit for the year	₩ 308,318	243,784
Adjustments for:		
Income tax expenses	35,092	73,435
Interest expense	616,240	689,443
Loss on valuation of financial assets held for trading	3,077	1,787
Loss on valuation of trading derivatives instrument	32,706	37,498
Reserve for credit risk adjustment of trading derivatives instrument	-	31
Loss on valuation of financial assets designated at fair value through profit or loss	4,920	-
Loss on disposal of available-for-sale financial assets	11,062	5,491
Impairment loss on available-for-sale financial assets	5,554	25,535
Loss on valuation of hedged items	206	3,056
Loss on valuation of hedging derivatives instrument	66	84
Transaction loss of hedging derivatives instrument	2,211	223
Reserve for credit risk adjustment of hedging derivatives instrument	-	6
Bad debt expenses	223,188	178,631
Depreciation and amortization	69,801	57,777
Loss on disposal of property and equipment	289	10
Loss on disposal of intangible assets	12	-
Impairment loss on intangible assets	2,548	3,477
Provision for others	5,175	6,122
Retirement benefit	28,874	20,928
Loss on foreign currency transactions	123,001	68,708
Loss on valuation of financial debentures	2,458	2,081
Other operating expense	3,681	4,572
Loss from equity method investment securities	3	-
Amortization expenses on deferred acquisition costs of new or renewal insurance contracts	5,671	-
Increase of insurance reserve	251,120	-
Interest income	(1,776,731)	(1,711,332)
Dividend income	(18,132)	(15,487)
Gain on valuation of financial assets held for trading	(857)	(673)
Gain on valuation of trading derivatives instrument	(40,020)	(39,096)
Reversal of reserve for credit risk adjustment of trading derivatives instrument	(117)	(9,834)
Gain on valuation of financial assets designated at fair value through profit or loss	(1,576)	(4,390)
Gain on disposal of available-for-sale financial assets	(75,427)	(30,157)
Gain on valuation of hedged items	(58)	(71)
Transaction gain of hedging derivatives instrument	-	(2,802)
Gain on valuation of hedging derivatives instrument	(2,788)	(6,498)
Reversal of reserve for credit risk adjustment of hedging derivatives instrument	(139)	(45)
Gain on disposal of property and equipment	(75)	(21)
Gain on disposal of intangible assets	(82)	-
Reversal of negative goodwill	(1,602)	(3,800)
Reversal of provisions	(5,076)	-
Gain on foreign currency transactions	(122,639)	(71,520)
Other operating income	(201)	(202)
Gain from equity method investment securities	-	(223)
Other non-operating income	(51)	-
	<b>(618,616)</b>	<b>(717,256)</b>
Changes in assets and liabilities:		
Decrease (increase) in restricted due from banks	289,250	(260,136)
Decrease (increase) in trading securities	6,176	(18,817)
Decrease in trading derivative assets	34,770	60,088
Increase (decrease) in financial assets designated at fair value through profit or loss	(47,120)	10,668

# Consolidated Statements of Cash Flows

(In millions of won)

	2015	2014
Increase in loans and receivables	₩ 4,645,188	(3,377,676)
Increase in deferred loan origination costs	(49,350)	(40,060)
Increase in deferred loan origination fees	6,141	3,525
Collection of loans previously written-off	37,870	36,921
Increase in other assets	(19,206)	(28,743)
Increase in unamortized deferred acquisition costs of new or renewal insurance contracts	(35,355)	-
Increase in separate account assets	(14,538)	-
Increase in depository liabilities	2,772,229	3,984,451
Decrease in trading derivative liabilities	(34,031)	(35,607)
Decrease in defined benefit obligations	(4,316)	(3,830)
Contributions to defined benefit plan assets	(39,806)	(27,015)
Increase (decrease) in other liabilities	959,930	(856,386)
Increase in separate account liabilities	14,302	-
	(768,242)	(552,617)
Interest paid	(578,949)	(655,336)
Interest received	1,821,286	1,645,624
Dividends received	18,132	15,487
Income taxes paid	(81,284)	(76,244)
<b>Net cash provided by (used in) operating activities</b>	<b>100,645</b>	<b>(96,558)</b>
<b>Cash flows from investing activities</b>		
Acquisition of available-for-sale financial assets	(7,367,691)	(3,298,575)
Proceeds from disposition of available-for-sale financial assets	6,756,757	3,499,387
Acquisition of held-to-maturity financial assets	(2,014,080)	(1,025,851)
Proceeds from disposition of held-to-maturity financial assets	1,865,336	922,128
Acquisition of property and equipment	(65,465)	(47,129)
Proceeds from disposition of property and equipment	376	114
Acquisition of investment property	(1,729)	-
Acquisition of stocks of subsidiaries	(63,000)	(7,000)
Acquisition of intangible assets	(41,103)	(27,587)
Proceeds from disposition of intangible assets	747	-
Decrease (increase) in guarantee deposits, net	(537)	1,091
Decrease in hedging derivative instruments, net	14,605	6,297
Decrease (increase) in hedging derivative liabilities, net	203	(92)
<b>Net cash provided by (used in) investing activities</b>	<b>(915,581)</b>	<b>22,783</b>
<b>Cash flows from financing activities</b>		
Increase in borrowings, net	570,308	100,606
Issuance of debentures	778,655	867,812
Repayment of debentures	(563,587)	(799,994)
Increase in deposits for letter of guarantees, net	17,398	58,574
Decrease in borrowings from trust accounts, net	(45,394)	(112,902)
Increase in borrowings from fund, net	125	-
Increase (decrease) in foreign exchange settlement credit, net	(2,679)	1,029
Increase in domestic exchange settlement credit, net	92,597	150
Paid-in capital increase	313,356	-
Stock issue costs paid	(758)	-
Dividends paid	(42,897)	(37,535)
Hybrid bonds dividends paid	(14,061)	(14,061)
<b>Net cash provided by financing activities</b>	<b>1,103,063</b>	<b>63,679</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>288,127</b>	<b>(10,096)</b>
Cash and cash equivalents at beginning of year	571,064	580,615
Effect of exchange rate in cash and cash equivalents	8,335	545
Increase in cash and cash equivalents from change of consolidation scope	42,216	-
<b>Cash and cash equivalents at end of the year</b>	<b>₩ 909,742</b>	<b>571,064</b>

# Notes to the Consolidated Financial Statements

As of December 31, 2015

## 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, 2015 is ₩845,266 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, 2015 are as follows:

(In millions of won, except share information)

Classification	Number of shares	Ownership	Net asset value	Revenue	Profit for the year	Location	Reporting date
Daegu Bank	136,125,000	100%	₩ 3,475,558	2,304,135	261,841	Daegu	31-Dec
DGB Life	34,573,773	99.52%	285,568	1,165,197	18,959	Busan	31-Dec
DGB Capital	24,200,000	100%	227,791	73,898	5,379	Seoul	31-Dec
DGB U-pay	2,511,415	100%	11,809	13,347	(2,417)	Daegu	31-Dec
DGB Credit Information	600,000	100%	4,536	1,775	(9)	Daegu	31-Dec
DGB Data System	1,200,000	100%	7,636	5,657	729	Daegu	31-Dec
			₩ 4,012,898	3,564,009	284,482		

Daegu Bank's consolidated subsidiaries as of December 31, 2015 is as follows:

(In millions of won, except share information)

Classification	Ownership	Net asset value	Revenue	Profit for the year	Location	Reporting date
Principal guaranteed trusts / Principal and interest guaranteed trusts	-	₩ 9,737	9,922	311	Daegu	31-Dec

### (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
Asset-backed securitization	Securitization vehicles are established to buy the assets from the originators and issue the asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing the assetbacked securities issued, or providing credit enhancement.
Project financing	Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (Mergers and Acquisitions), BTL (Build-Transfer-Lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement.
Investment trust and private equity fund	The structure of investment trust and private equity fund is to invest funds in equity securities and distribute income among investors on the basis of a trust agreement. The Group is an investor of the investment trust and private equity fund, and recognizes gain or loss on valuation and dividend income in proportion to the percentage of shareholding. The Group may recognize a loss in principal when the values of relevant trust and fund are decreased.

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

The size of the interests in unconsolidated structured entities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Assets	₩ 133,236	33,113,788	4,489,153	37,736,177

(In millions of won)

	2014			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Assets	₩ 131,926	24,437,602	3,033,304	27,602,832

# Notes to the Consolidated Financial Statements

The revenue of the non-interests in unconsolidated structured entities for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015				
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total	
Interest income	₩	-	45,516	-	45,516
Fee and commission income		45	6,688	-	6,733
Dividend income		-	992	6,555	7,547
Total	₩	45	53,196	6,555	59,796

(In millions of won)

	2014				
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total	
Interest income	₩	-	37,512	-	37,512
Fee and commission income		143	1,807	-	1,950
Dividend income		-	-	10,634	10,634
Total	₩	143	39,319	10,634	50,096

(ii) Nature of associated risk

The book values recognized in the financial statements for the interests in unconsolidated structured entities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015				
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total	
Loans	₩	-	1,466,184	-	1,466,184
Available-for-sale financial assets		-	31,863	369,650	401,513
	₩	-	1,498,047	369,650	1,867,697

(In millions of won)

	2014				
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total	
Loans	₩	-	1,320,086	-	1,320,086
Available-for-sale financial assets		-	30,556	304,682	335,238
	₩	-	1,350,642	304,682	1,655,324

The Group's maximum loss exposure to unconsolidated structured entities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015				
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total	
Investment assets	₩	-	1,498,047	369,650	1,867,697
Purchase commitments		15,000	-	-	15,000
Credit granting		-	38,927	53,233	92,160
	₩	15,000	1,536,974	422,883	1,974,857

(In millions of won)

	2014				
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total	
Investment assets	₩	-	1,350,642	304,682	1,655,324
Purchasing commitments		15,000	-	-	15,000
Credit granting		-	127,728	51,044	178,772
	₩	15,000	1,478,370	355,726	1,849,096



**(d) Business combinations**

The Group acquired 14,573,773 common shares (98.89%) of Wooriaviva Life Insurance Co., Ltd. at ₩70,000 million from NH Financial Group Inc. on January 29, 2015 in order to maximize management efficiency and synergy effect between its subsidiaries, and the Group obtained control over Wooriaviva Life Insurance Co., Ltd. Upon consummation of the transaction Wooriaviva Life Insurance Co., Ltd. was changed to DGB Life Insurance Co., Ltd. according to the resolution of the extraordinary meeting of shareholders held on January 29, 2015.

The fair value of identifiable assets and liabilities at the time of acquisition are as follows:

(In millions of won)

		Amount
Total assets	₩	4,890,446
Total liabilities		4,818,039
Net assets	₩	72,407

The Group incurred expense of ₩930 million (₩330 million for the year ended December 31, 2015) on due diligence and legal consulting related with the business combination. The legal consulting and due diligence fee are accounted for as commission expense in the Group's statements of comprehensive income.

The Group recognized all of bargain purchase generated from the business combination as a non-operating income.

(In millions of won)

		Amount
Total transfer consideration	₩	70,000
Non-controlling interests		806
Fair value of net assets		(72,407)
Negative goodwill	₩	1,601

**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, 2016, which will be submitted for approval to the shareholders at a meeting to be held on March 25, 2016.

**(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 13 – Allowance for loan losses

# Notes to the Consolidated Financial Statements

- √ Note 23 – Provisions
- √ Note 24 – Defined benefit obligations
- √ Note 47 – Commitments and contingencies

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

The Group reports significant valuation issues to the audit committee.

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

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

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

## (e) Changes in accounting policy

Except as described below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these separate financial statements.

- √ Employee contribution (Amendments to K-IFRS No. 1019)

The Group has applied the following amendments to standards and interpretation, with a date of initial application of January 1, 2015. The change had no significant impact on the measurements and disclosures of the Group's assets and liabilities.

- (i) 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.

## 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 four operating segments which consist of Marketing, Money Market Center, Life Insurance, 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

# Notes to the Consolidated Financial Statements

to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

## (v) De-recognition of financial assets

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

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

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

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

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

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

### (i) Hedge accounting

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

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

#### *Fair value hedge*

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

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

#### *Cash flow hedge*

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

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

### (ii) Separable embedded derivatives

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

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

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

### (iii) Other derivative financial instruments

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

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

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

**(g) Impairment of financial assets**

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

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

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

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. 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

**(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.



# Notes to the Consolidated Financial Statements

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).

**(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.

# Notes to the Consolidated Financial Statements

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.

#### (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.

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## (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 shareholders' 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.

### (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) Acquisition costs**

In accordance with Article 31 of the Regulation on Accounting of Insurance Business and Article 3 of the Addendum to the Regulation, the Group amortizes actual policy acquisition costs (excluding the amount exceeding expected costs), which arose from a long-term contract entered into on or before March 31, 2004, over the life of the contract (up to seven years) using the straight-line method. If the difference is immaterial, the Group calculates amortization by subtracting the difference between premium reserves based on a net premium method and premium reserves based on a surrender value method from acquisition costs arose in the current year and deferred unamortized acquisition costs.

On the other hand, the lesser of the actual or expected costs for a new contract entered into after April 1, 2004, is amortized over the life of the contract (up to seven years). The Group additionally amortizes the excess amount if unamortized acquisition costs are more than the difference between premium reserves based on a net premium method and premium reserves based on a surrender value method as of December 31, 2015.

**(aa) Insurance and investment contracts-classification**

The Group classifies a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder as an insurance contract. The Group assesses the significance of insurance risk contract by contract, considering the amounts payable if an insured event occurs, and the amounts payable if no insured event occurs.

The Group classifies a contract that exposes the issuer to financial risk without significant insurance risk as an investment contract. Depending on whether an investment contract contains a discretionary participation feature or not, the accounting treatments of the investment contract is different. If there is the discretionary participation feature in the investment contract, it is treated as the same as insurance contracts, but if not, K-IFRS 1039 Financial Instruments: Recognition and Measurement is applied.

A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expired. If the insurance risk is not significant in the period of insurance contract, it will not be reclassified as an investment contract. But in the case of the investment contract, the Group reclassifies as an insurance contract if insurance risk turns significant after the first recognition.

**(ab) Insurance contract liabilities(Policy reserves)**

In accordance with the Supervision Regulation and related rules, the Group is required to maintain policy reserves for payment on future claims or refunds, and on dividends to participating policyholders. Such policy reserves are to be provided based on calculation methods approved by the Insurance Business Act of Korea, related laws and rules, and the Minister of Strategy and Finance of the Republic of Korea.

**(i) Premium reserve**

Premium reserve refers to an amount calculated by the net premium method for payment on future claims, which is the bigger amount between the one calculated based on standard interest rate and standard risk rate issued by the Financial Supervisory Service and the one calculated based on standard rates applied to premium calculation. If premium reserve results in an amount below zero, the Group records the premium reserve as zero.

**(ii) Reserve for unearned premium**

Reserve for unearned premium refers to the amount of premium at the collection date as of or prior to the statement of financial position date, which will be realized in the subsequent periods.

**(iii) Guarantee reserve**

In accordance with the Insurance Business Act and the Regulation on Supervision of Insurance Business, guarantee reserve refers to an amount calculated based on the standard method of measuring the guarantee reserve, which is the guarantee amount for payment on future claims up to a reasonable level in consideration of future estimated loss.

**(iv) Reserve for outstanding claims**

Reserve for outstanding claims is an estimate of loss for insured events that have occurred prior to the dates of consolidated statements of financial position, but for which a fixed value cannot be determined. In estimating the reserve for outstanding claims, the expenses to be incurred in the course of settlement of the insured events, such as expenses for lawsuit or arbitration, are added, and the claims to be reimbursed through sale of security assets, which could be acquired in the course of settlement of the insured events or exercise of rights, such as right of reimbursement, are deducted.

**(v) Reserve for participating policyholders' dividends**

Reserve for participating policyholders' dividends is provided for future dividends to be paid to participating policyholders to compensate for the difference in actual investment yields, mortality rates or morbidity rates, and operating expense rates from the initial rates in each policy. In addition, it includes reserve for long-term maintenance dividends to discourage cancellations; reserve for revaluation dividends, which are policyholders' share of earnings arising from asset revaluations; and reserve for excess crediting rate to provide compensation should the expected interest rates fall below the average interest rates of one-year maturity time deposits in the current year.



# Notes to the Consolidated Financial Statements

## (vi) Dividend reserve for policyholders' income participation

Dividend reserve for policyholders' income participation refers to the amount to be reserved, in lump sum, depending on the business performance for the purpose of appropriating it for future dividends to policyholders or for additional accumulation as part of policy reserve other than the reserve for participating policyholders' dividends that is based on the contract terms and conditions. In accordance with the Supervisory Regulation, it is used for reserve for participating policyholders' dividends and is required to be used within five years from the end of the year of occurrence.

## (ac) Liability adequacy test

The Group assesses, at the end of each reporting period, whether its recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognized in net income.

In accordance with K-IFRS 1104 Insurance Contract, the Group applies a liability adequacy test that meets specified minimum requirements. The minimum requirements are the following:

- (i) The test considers current estimates of all contractual cash flows and related cash flows, such as claims handling costs, as well as cash flows resulting from embedded options and guarantees.
- (ii) If the test shows that the liability is inadequate, the entire deficiency is recognized in net income.

## (ad) Reinsurance contracts

The Group entered into reinsurance contracts with reinsurers to compensate them for losses on one or more contracts issued by the Group and shall not offset reinsurance assets against the related insurance liabilities or income or expense from reinsurance contracts against the expense or income from the related insurance contracts. Reinsurance assets are tested for impairment at least annually. If a reinsurance asset is impaired, the Group shall reduce its carrying amount accordingly and recognize that impairment loss in net income. A reinsurance asset is impaired if, and only if:

- (i) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract; and
- (ii) the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

## (ae) Policyholders' equity adjustment

Policyholders' equity adjustments consist of reserve for stabilization of participating policyholders' dividends, reserve for social contributions, net gain (loss) from valuation of AFS securities, and (negative) changes in equity arising from application of the equity method. The reserve for stabilization of participating policyholders' dividends and the reserve for social contributions are the amounts reserved for future dividends to participating policyholders and future social contributions through surplus from asset revaluations, respectively. Gain (loss) on valuation of AFS securities and (negative) changes in equity arising from application of the equity method represent the policyholders' portion of gain (loss) on valuation of AFS securities and (negative) changes in equity arising from application of the equity method, respectively.

## (af) Valuation of separate account assets and liabilities

In accordance with Article 108 of the Insurance Business Act and the Supervision Regulation of Insurance Business, all assets and liabilities related to retirement benefit insurance contracts are managed and accounted for separately as separate account assets and liabilities in the consolidated statements of financial position. According to the amended Article 4-1 of Supervision Regulation of Insurance Business, the Group presents receivables from and payables to the separate account as deduction from the separate account liabilities and the separate account assets, respectively. Income and expenses of variable insurance contracts are not presented in the consolidated statements of comprehensive income. However, income and expenses of severance insurance contracts, as shown above, are aggregated and presented as a one-line item in the consolidated statements of comprehensive income as separate account income and separate account expenses, respectively, in accordance with Article 6-23 of the Regulation on Supervision of Insurance Business.

## (ag) 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, 2015, and the Group has not early adopted them.

Impact of the amendments on the following standards and interpretations cannot be estimated as of December 31, 2015.

### (i) K-IFRS No.1109, Financial Instruments

K-IFRS 1109, published in December 2015, replaces the existing guidance in K-IFRS No. 1039, Financial Instruments: Recognition and Measurement. K-IFRS 1109 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from K-IFRS No. 1039. K-IFRS 1109 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

### (ii) K-IFRS No.1115, Revenue from Contracts with Customers

K-IFRS 1115, published in January 2016, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including K-IFRS No. 1018, Revenue, K-IFRS No. 1011, Construction Contracts and K-IFRS No. 2113, Customer Loyalty Programmes. K-IFRS 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

#### 4. Operating Segments

The Group has a Marketing Division, Money market center Division, Life insurance Division, Others, 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 four reportable segments are as follows:

Description	Business area
Marketing	Procurement and financial services for marketing
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
Life insurance	Procurement and financial services for life insurance
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, 2015 and 2014 are as follows:

(In millions of won)

	2015						
	Marketing	Money Market Center	Life Insurance	Others	Subtotal	Adjustment	Consolidated amount
Net interest income	₩ 811,146	86,013	167,288	121,073	1,185,520	(25,029)	1,160,491
Interest income	1,221,504	237,963	170,207	182,906	1,812,580	(35,849)	1,776,731
Interest expense	410,358	151,950	2,919	61,833	627,060	(10,820)	616,240
Fee & commission income, net	62,964	521	4,360	12,178	80,023	(1,952)	78,071
Insurance loss, net	-	-	(117,777)	-	(117,777)	89,848	(27,929)
Other financial income (loss), net (*)	9,181	60,263	19,220	82,366	171,030	(85,996)	85,034
Bad debt expense	-	-	-	-	-	(223,188)	(223,188)
Other operating Income (loss), net	(628,752)	(133,976)	(66,887)	(123,982)	(953,597)	224,096	(729,501)
Operating income	₩ 254,539	12,821	6,204	91,635	365,199	(22,221)	342,978
Total assets	₩ 33,555,361	8,580,456	5,334,713	6,777,737	54,248,267	(3,103,821)	51,144,446
Total liabilities	₩ 33,635,490	6,884,644	5,049,145	2,175,611	47,744,890	(377,596)	47,367,294

(In millions of won)

	2014					
	Marketing	Money Market Center	Others	Subtotal	Adjustment	Consolidated amount
Net interest income	₩ 869,293	129,552	124,089	1,122,934	(101,045)	1,021,889
Interest income	1,359,165	274,857	167,550	1,801,572	(90,240)	1,711,332
Interest expense	489,872	145,305	43,461	678,638	10,805	689,443
Fee & commission income, net	65,627	1,261	(1,486)	65,402	1,715	67,117
Other financial income (loss), net (*)	10,755	32,604	64,240	107,599	(61,484)	46,115
Bad debt expense	-	-	-	-	(178,631)	(178,631)
Other operating loss, net	(615,934)	(123,178)	153,081	(586,031)	(46,540)	(632,571)
Operating income	₩ 329,741	40,239	339,924	709,904	(385,985)	323,919
Total assets	₩ 30,160,060	7,369,491	6,206,155	43,735,706	(2,726,000)	41,009,706
Total liabilities	₩ 30,520,829	5,701,848	2,081,031	38,303,708	(505,551)	37,798,157

(\*) Other financial income (loss), 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.

# Notes to the Consolidated Financial Statements

## 5. Cash and Due from Banks

### (a) Cash and due from banks

Cash and due from banks as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		2014	
		Book value	Fair value	Book value	Fair value
Cash and cash equivalents	₩	420,158	420,158	399,128	399,128
Due from banks in won	The Bank of Korea	1,065,036	1,065,036	1,181,410	1,181,410
	Commercial banks	308,612	308,612	16,968	16,968
	Others	12,862	12,862	32,957	32,957
	Subtotal	1,386,510	1,386,510	1,231,335	1,231,335
Due from banks in foreign currencies	The Bank of Korea	41,289	41,289	43,495	43,495
	Commercial banks	19,408	19,408	17,158	17,158
	Overseas banks	225,112	225,112	69,115	69,115
	Subtotal	285,809	285,809	129,768	129,768
Total	₩	2,092,477	2,092,477	1,760,231	1,760,231

The amounts of due from bank which mature within 12 months are ₩1,854,989 million and ₩1,759,431 million as of December 31, 2015 and 2014, respectively. The amounts of due from bank which mature after 12 months are ₩237,488 million and ₩800 million as of December 31, 2015 and 2014, respectively.

### (b) Restricted due from banks

Restricted due from banks as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		2014	
		Book value	Fair value	Book value	Fair value
Reserve deposits in won	The Bank of Korea	₩	865,036		1,111,410
Reserve deposits in foreign currencies	The Bank of Korea		41,289		43,495
	Overseas banks		41,410		21,662
Total	₩		947,735		1,176,567

## 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, 2015 and 2014 are as follows:

(In millions of won)

		2015			2014			
		Book value before valuation	Fair Value (book value)	Gain (loss) on valuation	Book value before valuation	Fair Value (book value)	Gain (loss) on valuation	
Equity securities	Listed	₩	20,786	21,345	559	6,824	7,162	338
	Unlisted		222	2	(220)	1,367	222	(1,145)
	Subtotal		21,008	21,347	339	8,191	7,384	(807)
Debt securities	Financial bonds		25,369	25,517	148	10,047	10,073	26
	Corporate bond		31,611	31,524	(87)	31,598	31,047	(551)
	Others		170,676	168,510	(2,166)	209,751	209,969	218
	Subtotal		227,656	225,551	(2,105)	251,396	251,089	(307)
Beneficiary certificate		3,632	3,178	(454)	-	-	-	
Total	₩	252,296	250,076	(2,220)	259,587	258,473	(1,114)	

The amounts of financial assets held for trading except for listed equity securities which mature within 12 months are ₩170,119 million and ₩218,436 million as of December 31, 2015 and 2014, respectively. The amounts of financial assets held for trading except for listed equity securities which mature after 12 months are ₩58,610 million and ₩32,653 million as of December 31, 2015 and 2014, 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, 2015 and 2014 are as follows:

(In millions of won)

	2015			
	Level 1	Level 2	Level 3	Total
Equity securities	₩ 21,345	-	2	21,347
Debt securities	-	225,551	-	225,551
Beneficiary certificate	3,178	-	-	3,178
	₩ 24,523	225,551	2	250,076

(In millions of won)

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

**(c) Valuation method and inputs of level 2**

Valuation method and inputs used in measuring level 2 fair values of financial assets held for trading as of December 31, 2015 and 2014 are as follows:

	Valuation method	Inputs
Debt securities	DCF method	Discount rate

**(d) Changes in level 3**

Changes in level 3 of financial assets held for trading for the years ended December, 31, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 222	1,084
Loss on valuation	(220)	(862)
Ending balance	₩ 2	222

**(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, 2015 and 2014 are as follows:

Valuation method	Unobservable inputs	Range	
		2015	2014
DCF method	Discount rate	8.71%	9.83%
	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, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
	Profit or loss (*)		Profit or loss (*)	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
₩	317	(2)	386	(165)

(\*) 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, 2015 and 2014.

# 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, 2015 and 2014 are as follows:

(In millions of won)

Type	2015			2014			
	Book value before valuation	Fair Value (book value)	Gain (loss) on valuation	Book value before valuation	Fair Value (book value)	Gain on valuation	
Equity securities	₩	157,942	153,203	(4,739)	131,621	136,011	4,390
Other securities		104,263	105,658	1,395	-	-	-
	₩	262,205	258,861	(3,344)	131,621	136,011	4,390

The amounts of financial assets designated at fair value through profit and loss, which mature after 12 months are ₩105,658 million as of December 31, 2015.

### (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, 2015 and 2014 are as follows:

(In millions of won)

	2015				
	Level 1	Level 2	Level 3	Total	
Equity securities	₩	-	-	153,203	153,203
Other securities		-	75,299	30,359	105,658
	₩	-	75,299	183,562	258,861

(In millions of won)

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

### (c) Changes in level 3

Changes in level 3 of financial assets designated at fair value through profit or loss for the years ended December, 31, 2015 and 2014 are as follows:

(In millions of won)

	2015			
	Equity securities	Other securities	Total	
Beginning balance	₩	136,011	-	136,011
Changes due to business combinations		21,931	-	21,931
Gain(loss) on valuation		(4,739)	359	(4,380)
Acquisition		-	30,000	30,000
Ending balance	₩	153,203	30,359	183,562

(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	-	136,011

**(d) Valuation method and inputs of level 3**

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, 2015 and 2014 are as follows:

Valuation method	Unobservable inputs	Range	
		2015	2014
Binomial model, etc.	Discount rate	0.92% ~ 7.33%	2.42% ~ 6.02%
	Volatility	23.45% ~ 48.34%	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, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
	Profit or loss (*)		Profit or loss (*)	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
₩	3,907	(1,647)	3,509	(3,243)

(\*) Fair value changes are calculated by increasing or decreasing discount rate (-1%p~1%p) and 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, 2015 and 2014.

**8. Available-for-sale Financial Assets****(a) Available-for-sale financial assets**

Available-for-sale financial assets as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015			2014		
		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	₩ 4,312	5,373	1,061	26,237	27,250	1,013
	Unlisted equity securities	208,627	254,290	45,663	213,184	257,999	44,815
	Others	10,600	10,533	(67)	-	-	-
	Subtotal	223,539	270,196	46,657	239,421	285,249	45,828
Debt securities	Government bonds	1,244,765	1,253,127	8,362	410,174	417,635	7,461
	Financial debentures	1,115,493	1,113,181	(2,312)	319,382	319,972	590
	Corporate bonds	213,387	212,716	(671)	309,996	311,324	1,328
	Available-for-sale securities in foreign currencies	143,721	143,904	183	115,082	116,394	1,312
	Others	788,570	788,751	181	712,957	717,439	4,482
	Subtotal	3,505,936	3,511,679	5,743	1,867,591	1,882,764	15,173
Beneficiary certificate		285,871	283,614	(2,257)	257,312	256,288	(1,024)
	₩	4,015,346	4,065,489	50,143	2,364,324	2,424,301	59,977

The amounts of available-for-sale financial assets except for equity securities which mature within 12 months are ₩437,496 million and ₩888,052 million as of December 31, 2015 and 2014, respectively. The amounts of available-for-sale financial assets except for equity securities which mature after 12 months are ₩3,357,797 million and ₩1,251,000 million as of December 31, 2015 and 2014, respectively.

The gain or loss on valuation includes accumulated loss on valuation of fair value hedged items amounting to ₩38 million and ₩46 million as of December 31, 2015 and 2014, respectively.



# Notes to the Consolidated Financial Statements

## (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, 2015 and 2014 are as follows:

(In millions of won)

		2015			Total
		Level 1	Level 2	Level 3	
Equity securities	₩	5,683	-	264,513	270,196
Debt securities		1,103,004	2,408,675	-	3,511,679
Beneficiary certificates		41,014	242,600	-	283,614
	₩	1,149,701	2,651,275	264,513	4,065,489

(In millions of won)

		2014			Total
		Level 1	Level 2	Level 3	
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

## (c) Valuation method and inputs of level 2

Valuation method and inputs used in measuring fair values of available-for-sale financial assets using level 2 inputs as of December 31, 2015 and 2014 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 level 3

Changes in level 3 of available-for-sale financial assets for the years ended December, 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		2014	
		Equity securities	Equity securities	Debt securities	Total
Beginning balance	₩	270,908	256,904	14,141	271,045
Changes due to business combinations		6,991	-	-	-
Realized loss (impairment loss)		(3,348)	(10,933)	-	(10,933)
Unrealized gain		23,076	9,068	-	9,068
Acquisition		15,646	24,141	-	24,141
Disposal		(46,711)	(10,322)	(14,141)	(24,463)
Transfer (*)		(2,049)	2,050	-	2,050
Ending balance	₩	264,513	270,908	-	270,908

(\*) 2015: Transfer from level 3 to level 1 due to change in valuation method, which changed from external valuation price to market price caused by trading suspension of certain equity securities. 2014: Transfer from level 1 to level 3 due to change in valuation method, which changed from market price to external valuation price caused by disposal restriction resolution of certain equity securities.

## (e) Valuation method and inputs of level 3

Valuation method and inputs used in measuring fair values of available-for-sale financial assets using level 2 inputs as of December 31, 2015 and 2014 are as follows:

Valuation method	Unobservable inputs	Range	
		2015	2014
DCF method, etc.	Discount rate	6.67% ~ 20.65%	4.14% ~ 19.40%
	Growth rate	0% ~ 1%	0%

**(f) Sensitivity analysis of level 3**

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

Sensitivity to changes in inputs of available-for-sale financial assets as of December 31, 2015 and 2014 are as follows:

	2015		2014	
	Other comprehensive income or loss (*1)(*2)		Other comprehensive income or loss (*1)(*2)	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
₩	7,556	(4,429)	31,968	(11,048)

(\*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, 2015 and 2014.

**(h) Unrealized gain (loss)**

Unrealized gain (loss) on available-for-sale financial assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015			
	Equity securities	Equity securities	Debt securities	Total
Beginning balance	₩ 45,982	15,065	(1,024)	₩ 60,023
Realized loss on disposition of securities	(22,848)	(18,471)	2,922	(38,397)
Changes due to reclassification	-	(20,650)	-	(20,650)
Unrealized gain (loss)	23,523	29,837	(4,155)	49,205
Ending balance	₩ 46,657	5,781	(2,257)	₩ 50,181
Policyholders equity adjustment				(4,186)
Deferred income tax assets (liabilities)				(8,310)
Net balance				₩ 37,685

(In millions of won)

	2014			
	Equity securities	Equity securities	Debt securities	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)				(14,526)
Net balance				₩ 45,497

**(i) Impairment losses**

Impairment losses on available-for-sale financial assets as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015			2014		
	Amount before impairment	Amount after impairment	Impairment loss	Amount before impairment	Amount after impairment	Impairment loss
Equity securities	₩ 9,578	4,542	5,036	78,868	53,333	25,535
Beneficiary securities	32,000	31,482	518	-	-	-
	₩ 41,578	36,024	5,554	78,868	53,333	25,535

# Notes to the Consolidated Financial Statements

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

Available-for-sale securities carried at cost as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
Korea Asset Management Corp.(*1)	₩	1,570		1,570
Daegu Dream Education		999		999
Kangaroo Republic		900		900
Pan tech(*3)		-		823
Evergreenkeangi Co., Ltd.		692		692
Evergreencampus Co., Ltd.		674		674
The INNOPOLIS Job Creation Fund (*2)		-		800
Nam Yang Kwang-Jin C&G., Co., Ltd.		520		520
Yeongdeok Enviro		516		516
Others		5,181		3,307
	₩	11,052		10,801

(\*1) Measured at cost because it is not possible to measure fair value reliably.

(\*2) Excluded from the securities measured at cost because value from external valuation agency is applied. It was measured at cost in the previous year.

(\*3) Excluded from the securities measured at cost because market price is applied. It was measured at cost in the previous year.

Gain on disposal of available-for-sale securities carried at cost for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		2014	
		Book value (*)	Gain on disposal	Book value (*)	Gain on disposal
Badbank Harmony	₩	3	108	3	129
A Jin Paper Co., Ltd.		-	-	70	2
	₩	3	108	73	131

(\*) Beginning carrying amount before disposal

There are no impairment losses of available-for-sale securities carried at cost for the years ended December 31, 2015 and 2014.

## 9. Held-to-maturity Financial Assets

### (a) Held-to-maturity financial assets

Available-for-sale securities carried at cost as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015			
		Face value	Acquisition cost	Amortized cost (book value)	Fair value
Government bonds	₩	4,601,888	4,694,545	4,749,518	4,900,205
Financial debentures		400,000	404,057	402,866	405,761
Corporate bonds		580,000	613,829	616,664	600,481
Others		1,832,437	1,849,882	1,849,411	1,906,457
	₩	7,414,325	7,562,313	7,618,459	7,812,904

(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

The amounts of held-to-maturity financial assets, which mature within 12 months are ₩1,018,735 million and ₩1,457,524 million as of December 31, 2015 and 2014, respectively. The amounts of held-to-maturity financial assets, which mature after 12 months are ₩6,599,724 million and ₩3,062,466 million as of December 31, 2015 and 2014, 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, 2015 are as follows:

(In millions of won)

	2015					Net position
	Held-to-maturity financial assets		Related liabilities			
	Book value	Fair value	Book value	Fair value		
Securities sold under repurchase agreement(*)	₩	911,539	934,752	812,795	812,975	121,777

### 10. Collateralized Securities

Investment securities pledged to various institutions as of December 31, 2015 are as follows:

(In millions of won)

Purpose	Collateralized value	Book value of held-to-maturity securities	Guarantees
Bank of Korea settlements	₩ 220,000	217,422	The Bank of Korea, Korea Securities Depository
Bank of Korea daylight overdraft	230,000	226,538	The Bank of Korea, Korea Securities Depository
Bank of Korea borrowings	570,000	565,138	The Bank of Korea
Borrowings in foreign currencies	50,000	52,709	Sumitomo Mitsui Bank, Seoul branch
Derivatives transactions	24,569	24,009	Samsung Futures Inc., KB Futures Co., Ltd., etc.
Repurchase agreement	908,336	911,539	Korea Securities Depository
Others	1,405	1,109	Korea Securities Depository, DGB Life Insurance Co., Ltd., Etc.
	₩ 2,004,310	1,998,464	

### 11. Investments in Associates

#### (a) Ownership

Ownership on associates as of December 31, 2015 and 2014 are as follows:

(In millions of won)

Associates(*2)	Relation	Number of shares owned	Ownership	2015			Impairment loss
				Acquisition cost(*1)	Net asset value		
Daegu FC(*3)	Associate	300,000	9.20%	₩ 516	453	453	

(In millions of won)

Associates(*2)	Relation	Number of shares owned	Ownership	2014			Impairment loss
				Acquisition cost(*1)	Net asset value		
Daegu FC(*3)	Associate	300,000	9.20%	₩ 516	456	456	

(\*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.

#### (b) Equity method

Gain on equity method accounting and changes of investments in associates for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015			Book value as of December 31, 2015
	Book value as of January 1, 2015	Loss on equity method accounting		
Daegu FC	₩	456	(3)	453

## Notes to the Consolidated Financial Statements

(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

**(c) Summarized financial information**

Summarized financial information of associates as of and for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015			
	Assets	Liabilities	Gross revenue	Net income
Daegu FC (*)	₩ 7,204	2,280	2,904	(38)

(\*) Associate's summarized financial information as of December 31, 2015 is from unaudited financial statements. The difference between unaudited financial statements and the final financial statements as of December 31, 2014 is added to Daegu FC's gross revenue and net income of the current year.

(In millions of won)

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

**12. Loans and Receivables****(a) Loans and receivables**

Loans and receivables as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		2014		
		Book value	Fair value	Book value	Fair value	
Loans	Loans in won	Loans to enterprises	₩ 22,221,950	22,300,239	20,260,184	20,369,505
		Loans to households	9,048,210	9,101,403	7,524,941	7,564,293
		Loans to public sectors and others	525,206	526,434	517,005	519,111
		Subtotal	31,795,366	31,928,076	28,302,130	28,452,909
	Loans in foreign currencies	Loans to enterprises	541,392	541,499	553,366	550,015
	Loans to other banks	164,291	164,291	99,048	99,048	
	Finance lease receivables	579,696	581,390	491,991	493,685	
	Others	Bill bought	14,731	14,731	17,390	17,390
		Bill bought in foreign currencies	88,697	88,697	84,610	84,610
		Payments on guarantees	1,342	1,342	739	739
		Credit card accounts	377,322	377,064	406,933	406,528
		Bonds purchased under resale agreements	231,710	231,710	211,363	211,363
		Call loans	390,260	390,260	287,963	287,963
		Privately placed debentures	112,266	114,492	108,311	111,220
		Privately placed public loan	181,821	187,781	226,279	236,275
	Other loans	167,699	167,699	92,133	87,805	
		Subtotal	1,565,848	1,573,776	1,435,721	1,443,893
	Loans subtotal	34,646,593	34,789,032	30,882,256	31,039,550	
Receivables	Guaranty money	139,088	137,340	129,972	127,926	
	Accounts receivable	1,205,527	1,205,527	190,652	190,652	
	Accrued income	323,109	323,109	341,112	341,112	
	Other receivables	61,251	61,251	53,710	53,710	
	Receivables subtotal	1,728,975	1,727,227	715,446	713,400	
Allowance for loan losses		(360,335)	(360,335)	(324,062)	(324,062)	
Present value discount		(2,169)	(2,169)	(3,854)	(3,854)	
Present value premium		98	98	922	922	
Deferred loan origination fees		(5,062)	(5,062)	(5,460)	(5,460)	
Deferred loan origination costs		44,497	44,497	38,861	38,861	
Total	₩	36,052,597	36,193,288	31,304,109	31,459,357	

The amounts of loans and receivables, which mature within 12 months are ₩18,237,305 million and ₩16,181,714 million as of December 31, 2015 and 2014, respectively. The amounts of loans and receivables, which mature after 12 months are ₩18,138,263 million and ₩15,415,988 million as of December 31, 2015 and 2014, respectively.

**(b) Loans in won**

Loans in won as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Loans to enterprises	Operation loans	₩ 11,950,018	11,273,057
	Facility loans	10,271,932	8,987,127
	Subtotal	22,221,950	20,260,184
Loans to households	Operation loans	5,524,532	4,588,100
	Housing loans	3,523,678	2,936,841
	Subtotal	9,048,210	7,524,941
Loans to public sectors and others	Operation loans	191,778	159,586
	Facility loans	333,428	357,419
	Subtotal	525,206	517,005
Total	₩	31,795,366	28,302,130

**(c) Loans in foreign currencies**

Loans in foreign currencies as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Loans to enterprises	Operation loans	₩ 161,542	152,854
	Facility loans	130,512	156,336
	Domestic import usance	249,338	244,176
Total	₩	541,392	553,366

**(d) Finance lease receivables**

Finance lease receivables as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015				
	Total investment in a lease		Unearned Interest	Net investment in a lease	
	Minimum lease payments	Unguaranteed residual value			
Within 1 year	₩ 245,878	-	25,146	220,732	
Exceed 1 year and within 5 years	368,024	-	23,525	344,499	
Exceed 5 years	404	-	64	340	
	₩	614,306	-	48,735	565,571

(In millions of won)

	2014				
	Total investment in a lease		Unearned Interest	Net investment in a lease	
	Minimum lease payments	Unguaranteed residual value			
Within 1 year	₩ 209,324	-	23,163	186,161	
Exceed 1 year and within 5 years	319,713	-	19,469	300,244	
Exceed 5 years	984	-	7	977	
	₩	530,021	-	42,639	487,382



# Notes to the Consolidated Financial Statements

## 13. Allowance for Loan Losses

Changes in allowance for loan losses for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Beginning balance	₩	324,062	293,424
Changes due to business combinations		15,109	-
Provision for losses		223,188	178,631
Collection of loans written-off		37,870	36,921
Disposal of loans		(34,771)	(5,302)
Write-offs		(193,713)	(165,094)
Unwinding effect		(11,710)	(14,653)
Effect of exchange rate		312	149
Others		(12)	(14)
Ending balance	₩	360,335	324,062

## 14. Deferred Loan Origination Fees and Costs

### (a) Deferred loan origination fees

Changes in deferred loan origination fees for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Beginning balance	₩	5,460	6,335
Increase		4,835	3,526
Decrease		(5,233)	(4,401)
Ending balance	₩	5,062	5,460

### (b) Deferred loan origination costs

Changes in deferred loan origination costs for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Beginning balance	₩	38,861	28,815
Increase		48,357	40,060
Decrease		(42,721)	(30,014)
Ending balance	₩	44,497	38,861

## 15. Restructured Loans

Restructured loans under workout plans or other similar restructuring programs as of December 31, 2015 and 2014 are as follows:

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

	2015			
	The number of companies	Balance before restructuring	Allowance	Balance after restructuring
Workout	9	₩ 103,556	(21,291)	82,265
Restructuring, industrial rationalization	22	15,641	(1,643)	13,998
	31	₩ 119,197	(22,934)	96,263

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

	2015			
	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

## 16. Derivative Instruments

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

Notional amounts of unsettled derivative instruments as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015			2014			
			Trading	Hedging	Total	Trading	Hedging	Total
Currency related	Forward	₩	5,425,041	-	5,425,041	3,768,946	-	3,768,946
Interest rate related	Swap		-	420,748	420,748	-	357,240	357,240
Stock related	Option bought		341,972	-	341,972	100,244	21,996	122,240
	Option sold		323,106	-	323,106	103,340	-	103,340
	Subtotal		665,078	-	665,078	203,584	21,996	225,580
Total		₩	6,090,119	420,748	6,510,867	3,972,530	379,236	4,351,766

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

Valuation on trading and hedging derivative instruments as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015						
		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	₩	8,099	-	8,099	38,619	30,519	-	-
<Interest rate related>								
Swap		-	2,722	2,722	-	-	50	3,150
<Stock related>								
Option		(785)	-	(785)	5,892	3,011	-	-
Reserve for credit risk adjustment		117	139	256	(428)	(10)	-	(1)
	₩	7,431	2,861	10,292	44,083	33,520	50	3,149

(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

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

Gain (loss) on valuation of hedged assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		2014	
		Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation
Available-for-sale financial assets	₩	58	206	71	3,056
Debentures		-	2,458	-	2,081
	₩	58	2,664	71	5,137

# Notes to the Consolidated Financial Statements

## (d) Classification and fair value hierarchy of derivatives

The classification and the fair value hierarchy of derivatives as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015				
	Level 1	Level 2	Level 3	Total	
Trading derivatives instrument assets(*)	₩	-	38,619	5,892	44,511
Trading derivatives instrument liabilities(*)		-	30,519	3,011	33,530
Hedging derivatives instrument assets(*)		-	50	-	50
Hedging derivatives instrument liabilities(*)		-	3,150	-	3,150

(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.

## (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, 2015 and 2014 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 level 3

Changes in level 3 of derivatives for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015			
	Trading derivatives instrument assets(*)	Trading derivatives instrument liabilities(*)	Hedging derivatives instrument assets(*)	
Beginning balance	₩	1,360	1,960	16,781
Gain (loss)		(1,522)	(1,314)	-
Acquisition		7,414	-	-
Disposal		-	3,667	-
Settlement		(1,360)	(1,302)	(16,781)
Ending balance	₩	5,892	3,011	-

(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	-

**(g) Valuation method and level 3 inputs**

Valuation method and significant unobservable inputs used in measuring fair values of derivatives level 3 inputs as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	Valuation method	Unobservable inputs	Range	
			2015	2014
Trading derivatives instrument	Binomial model, etc.	Stock price volatility	9.90% ~ 48.34%	3.36% ~ 9.75%
Hedging derivatives instrument	Binomial model, etc.	Stock price volatility	-	19.10%

**(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, 2015 and 2014 are as follows:

(In millions of won)

	2015				2014	
	Profit or loss		Profit or loss		Profit or loss	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
Trading derivative instruments (*)	₩	322	(128)	382	(120)	(120)
Hedging derivative instruments (*)	₩	-	-	758	(758)	(758)

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

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

In the case that the fair value of financial instrument is measured through a valuation technique with observable market data, the fair value of financial instrument is a transaction price if the transaction price differs from the fair value through a valuation technique. 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. If the variables become observable, the deferred remaining amount is recognized in profit or loss immediately.

The details of deferred day-one profit or loss as of December 31, 2015. There is no deferred day-one profit or loss as of December 31, 2014.

(In millions of won)

	2015	
	Trading derivatives instrument assets	
Beginning balance	₩	-
Acquisition		1,624
Gain (loss)		(86)
Ending balance		1,538

**(j) Hedges of net investment in foreign operations**

The Group applied hedge accounting on some of the investments in foreign operations, and gain or loss on translation of foreign operations as a result of hedge is as below.

(In millions of won)

	2015	
Borrowings in foreign currency	₩	(2,429)

# Notes to the Consolidated Financial Statements

## 17. Property and Equipment

### (a) Property and equipment

Property and equipment as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015			2014		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Land	₩ 152,386	-	152,386	148,853	-	148,853
Buildings	199,889	(74,743)	125,146	187,538	(59,706)	127,832
Leasehold improvement	44,657	(36,273)	8,384	40,086	(32,839)	7,247
Furniture, equipment and vehicles	204,232	(171,708)	32,524	186,280	(156,342)	29,938
Construction-inprogress	58,232	-	58,232	22,154	-	22,154
	₩ 659,396	(282,724)	376,672	584,911	(248,887)	336,024

### (b) Changes in property and equipment

Changes in property and equipment for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015						
	Beginning balance	Changes due to business combination	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩ 148,853	-	5,307	-	-	(1,774)	152,386
Buildings	127,832	-	8,760	3,425	-	(13,431)	125,146
Leasehold improvement	7,247	-	128	3,970	(112)	704	8,384
Furniture, equipment and vehicles	29,938	-	3,735	19,586	(496)	915	32,524
Construction-inprogress	22,154	-	-	38,444	-	(2,366)	58,232
	₩ 336,024	-	17,930	65,425	(608)	(38,138)	376,672

(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-inprogress	6,851	21,622	-	-	(6,319)	22,154
	₩ 317,857	47,179	(103)	(25,588)	(3,321)	336,024

### (c) Assets insured

Assets insured as of December 31, 2015 are as follows:

(In millions of won)

	Type	Insurance amount	Insurance period	Insurance company
Buildings	Package insurance	₩ 161,427	2015.01.01 ~ 2015.12.31	Hyundai Marine & Fire Insurance Co., Ltd.
Buildings	Package insurance	24,930	2015.01.30 ~ 2016.01.29	Samsung Fire & Marine Insurance Co., Ltd.
Leasehold improvement	Package insurance	10,855	2015.01.01 ~ 2015.12.31	Hyundai Marine & Fire Insurance Co., Ltd.
Leasehold improvement	Fire insurance	35	2015.05.24 ~ 2016.05.24	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	Package insurance	29,213	2015.01.01 ~ 2015.12.31	Hyundai Marine & Fire Insurance Co., Ltd.
Furniture, equipment and vehicles	Package insurance	7	2015.05.24 ~ 2016.05.24	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	Package insurance	55	2015.06.26 ~ 2016.06.26	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	Fire insurance	81	2015.09.11 ~ 2016.09.11	Hyundai Marine & Fire Insurance Co., Ltd.
		₩ 226,603		

**(d) Operating leases**

Operating leases revenues and expenses for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		2014	
		Operating lease revenues	Operating lease expenses	Operating lease revenues	Operating lease expenses
Within 1 year	₩	508	4,252	540	4,059
Exceed 1 year and within 5 years		150	4,321	301	4,340
Exceed 5 years		-	265	-	263
	₩	658	8,838	841	8,662

**18. Intangible Assets**

Changes in intangible assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015							Ending balance
		Beginning balance	Changes due to business combination	Additions (*3)	Disposal	Amortization	Impairment loss	Others (*1)	
Goodwill	₩	5,107	-	-	-	-	(2,525)	-	2,582
Software		30,753	705	27,819	-	(18,034)	-	855	42,098
Contributed acceptance assets		11,470	-	-	-	(1,006)	-	-	10,464
Membership		6,553	1,317	625	(826)	-	(23)	35	7,681
Others(*2)		36,745	-	12,660	-	(10,631)	-	622	39,396
	₩	90,628	2,022	41,104	(826)	(29,671)	(2,552)	1,512	102,221

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

(\*2) Others consist of usable and profitable donation assets of ₩37,781 million.

(\*3) Payables related acquisition of intangible assets amount to ₩14 million.

(In millions of won)

		2014					Ending balance
		Beginning balance	Acquisition	Disposal	Depreciation	Others	
Goodwill	₩	8,584	-	-	(3,477)	-	5,107
Software		41,380	8,515	(20,878)	-	1,736	30,753
Contributed acceptance assets		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.

(\*3) Payables related acquisition of intangible assets amount to ₩13 million.

**19. Investment Property****(a) Investment property**

Changes in investment property for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015					Ending balance
		Beginning balance	Changes due to business combination	Acquisition	Transfer	Depreciation	
Land	₩	52,749	8,005	-	1,774	-	62,528
Buildings		29,253	13,676	1,730	1,440	(1,992)	44,107
	₩	82,002	21,681	1,730	3,214	(1,992)	106,635



## Notes to the Consolidated Financial Statements

(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

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

Book value and fair value of investment property as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015			2014		
		Book value	Fair value	Difference	Book value	Fair value	Difference
Land	₩	62,528	78,771	16,243	52,749	64,010	11,261
Buildings		44,107	43,866	(241)	29,253	29,353	100
	₩	106,635	122,637	16,002	82,002	93,363	11,361

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, 2015 and 2014 are as follows:

(In millions of won)

		2015		2014	
		Incomes	Expenses	Incomes	Expenses
Property with rental income	₩	2,661	849	709	145
Property without rental income		-	221	-	199
	₩	2,661	1,070	709	344

**20. Other Assets**

Other assets as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		2014	
Prepayments	₩		26,019		23,585
Prepaid expenses			12,023		10,788
Unamortized deferred acquisition costs of new or renewal insurance contracts			29,683		-
Separate account assets			55,831		-
Reinsurance assets			10,066		-
Others			23,231		6,947
	₩		156,853		41,320

**21. Depository Liabilities****(a) Depository liabilities**

Depository liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		2014	
		Book value	Fair value	Book value	Fair value
Demand deposits	₩	13,162,503	13,162,503	11,157,907	11,157,907
Time deposits		19,574,668	19,566,506	18,827,014	18,828,636
Negotiable certificates of deposit		756,206	756,674	762,094	761,460
	₩	33,493,377	33,485,683	30,747,015	30,748,003

The amounts of depository liabilities, which mature within 12 months are ₩21,441,455 million and ₩19,933,292 million as of December 31, 2015 and 2014, respectively. The amounts of depository liabilities, which mature after 12 months are ₩12,051,922 million and ₩10,813,723 million as of December 31, 2015 and 2014, respectively.

**(b) Demand deposits**

Demand deposits as of December 31, 2015 and 2014 are as follows:

(In millions of won)

			2015	2014
Deposits in won	Passbook deposits	₩	1,167,708	1,129,460
	Savings deposits		7,249,397	6,238,993
	Corporate free savings deposits		3,642,276	2,868,639
	Others		830,717	724,016
	Subtotal		12,890,098	10,961,108
Deposits in foreign currencies	Current deposits		177	382
	Passbook deposits		272,222	196,413
	Temporary deposits		6	4
	Subtotal		272,405	196,799
Total	₩	13,162,503	11,157,907	

**(c) Time deposits**

Time deposits as of December 31, 2015 and 2014 are as follows:

(In millions of won)

			2015	2014
Deposits in won	Time deposits	₩	17,787,633	17,044,870
	Installment savings deposits		1,092,207	1,119,820
	Long term housing saving deposits		165,621	183,106
	Mutual installment deposits		7,775	9,853
	Others		467,492	372,990
	Subtotal		19,520,728	18,730,639
Deposits in foreign currencies	Time deposits		48,158	90,012
	Installment savings deposits		5,782	6,363
	Subtotal		53,940	96,375
Total	₩	19,574,668	18,827,014	

**22. Borrowings and Debentures****(a) Borrowings and debentures**

Borrowings and debentures as of December 31, 2015 and 2014 are as follows:

(In millions of won)

			Average interest rate (%)	December 31, 2015		December 31, 2014	
				Book value	Fair value	Book value	Fair value
Borrowings	Borrowings in won	The Bank of Korea	0.79	₩ 531,243	531,243	522,252	522,252
		Others	2.07	1,346,859	1,346,910	1,130,376	1,130,611
		Subtotal		1,878,102	1,878,153	1,652,628	1,652,863
	Borrowings in foreign currencies	Borrowings from banks	0.59	511,681	511,199	443,867	443,632
		Bonds sold under repurchase agreements	2.07	Non-bank	812,795	812,975	529,333
	RP in foreign currencies	-			-	32,205	32,208
	Call money	Subtotal		812,795	812,975	561,538	562,082
		Borrowings in won	1.58	100,000	100,000	110,000	110,000
		Borrowings in foreign currencies	3.95	17,848	17,848	-	-
	Others	Subtotal		117,848	117,848	110,000	110,000
		Bills sold	1.89	8,968	8,989	28,551	28,682
	Total			3,329,394	3,329,164	2,796,584	2,797,259
Debentures	Debentures in won	3.24	2,801,346	2,908,222	2,529,000	2,666,343	
	Debentures in foreign currencies	2.25	347,795	347,795	323,497	323,497	
	Less discount on debentures	-	(3,224)	(3,224)	(3,106)	(3,106)	
	Total		3,145,917	3,252,793	2,849,391	2,986,734	
Borrowings and Debentures		₩	6,475,311	6,581,957	5,645,975	5,783,993	

# Notes to the Consolidated Financial Statements

The amounts of borrowings and debentures, which mature within 12 months are ₩2,876,714 million and ₩2,159,452 million as of December 31, 2015 and 2014, respectively. The amounts of borrowings and debentures, which mature after 12 months are ₩3,601,821 million and ₩3,489,629 million as of December 31, 2015 and 2014, respectively.

## (b) Debentures

Debentures as of December 31, 2015 and 2014 are as follows:

(In millions of won)						
Issuance date	Maturity date	Interest rate (%)		2015	2014	
2008-11-19	2015-02-19	8.00	₩	-	28,772	
2008-11-19	2015-02-19	8.00		-	17,026	
2008-11-21	2015-02-21	8.00		-	30,867	
2008-11-21	2015-02-21	8.00		-	16,660	
2008-11-25	2015-02-25	8.00		-	31,556	
2008-11-25	2015-02-25	8.00		-	24,119	
2010-08-31	2016-12-31	5.05		120,000	120,000	
2010-08-31	2016-12-31	5.05		80,000	80,000	
2011-04-15	2016-04-15	4.46		100,000	100,000	
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	
2012-03-08	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	
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	100,000	
2014-05-14	2017-05-14	3.03		100,000	100,000	
2014-08-04	2016-02-04	2.47		50,000	50,000	
2014-08-22	2017-08-22	2.74		50,000	50,000	
2014-11-18	2017-11-18	2.32		180,000	180,000	
2014-11-26	2018-02-26	2.26		110,000	110,000	
2015-02-04	2018-08-04	2.10		80,000	-	
2015-04-15	2018-10-15	1.84		60,000	-	
2015-09-04	2025-09-04	3.03		100,000	-	
2015-10-08	2018-10-08	1.72		30,000	-	
2015-10-14	2018-10-14	1.78		40,000	-	
2013-11-19	2019-05-19	5.00		10,413	-	
2013-12-27	2019-06-27	5.60		20,886	-	
2014-12-30	2020-06-30	5.00		10,023	-	
2014-12-31	2019-12-31	5.00		10,024	-	
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	
2013-04-19	2018-04-19	2.90		50,000	50,000	
2014-05-29	2019-05-29	3.25		50,000	50,000	
2015-11-23	2020-11-23	2.29		100,000	-	
2015-11-23	2018-11-23	2.05		50,000	-	
2013-06-13	2015-06-13	-		-	40,000	
2013-08-12	2015-08-12	-		-	50,000	
2013-11-21	2015-11-21	-		-	40,000	
2014-03-17	2017-03-17	3.91		30,000	30,000	
2014-07-28	2016-07-28	3.12		30,000	30,000	
2014-12-24	2016-12-23	2.75		40,000	40,000	
2014-12-30	2016-12-30	2.75		30,000	30,000	
2015-05-28	2017-05-28	2.26		50,000	-	
2015-05-28	2018-05-28	2.60		30,000	-	
2015-06-15	2017-07-15	2.21		10,000	-	

(In millions of won)

Issuance date	Maturity date	Interest rate (%)	2015	2014
2015-06-15	2018-06-15	2.51	30,000	-
2015-08-12	2017-08-12	2.02	30,000	-
2015-08-12	2018-08-12	2.29	30,000	-
2015-09-01	2018-03-02	2.05	30,000	-
2015-09-01	2019-03-04	2.35	20,000	-
2015-09-16	2018-09-16	2.35	20,000	-
2015-09-30	2017-09-30	2.19	20,000	-
2015-10-14	2017-04-14	2.18	30,000	-
2013-04-29	2018-04-29	2.25	347,795	323,497
Subtotal			3,149,141	2,852,497
Less discount on debentures			(3,224)	(3,106)
Total			₩ 3,145,917	2,849,391

### 23. Provisions

Changes in provisions for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015				
		Beginning balance	Changes due to business combinations	Increase	Decrease	Ending balance
Allowance (*1)	Provision for financial guarantee	₩ 24	-	1	-	25
	Non-financial guarantee contract	2,601	-	-	(1,199)	1,402
	Subtotal	2,625	-	1	(1,199)	1,427
Unused commitment (*2)		14,811	-	60	(1,615)	13,256
Allowance for restoration (*3)		3,509	480	795	(721)	4,063
Other allowance	Mileage on credit cards	1,147	-	-	(229)	918
	Fraudulent usage of credit card	14	-	12	-	26
	Dormant deposits repayment (*4)	3,438	-	-	(1,642)	1,796
	Welfare for retired employees	1,934	-	983	-	2,917
	Litigation	1,615	-	267	(1,615)	267
	Others	9,523	2,517	3,825	(3,770)	12,095
	Subtotal	17,671	2,517	5,087	(7,256)	18,019
Total	₩ 38,616	2,997	5,943	(10,791)	36,765	

(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	

(\*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, 2015 and 2014.

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

# Notes to the Consolidated Financial Statements

## 24. Defined Benefit Obligations

### (a) Major assumptions of actuarial valuation

Major assumptions of actuarial valuation as of December 31, 2015 and 2014 are as follows:

	2015				2014		
	DGB Financial Group Co., Ltd.	Daegu Bank	DGB Life insurance Co., Ltd.	DGB Capital Co., Ltd.	DGB Financial Group Co., Ltd.	Daegu Bank	DGB Capital Co., Ltd.
Discount rate	2.03%	3.34%	2.93%	2.95%	2.53%	3.70%	3.24%
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 are 13.13 years and 12.18 years as of December 31, 2015 and 2014, respectively. Assumptions regarding future mortality are 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, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Current service cost	₩ 27,894	20,668
Interest expense	4,819	4,530
Interest income on plan assets	(3,839)	(4,270)
	₩ 28,874	20,928

### (c) Defined benefit obligations

Defined benefit obligations as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Present value of retirement benefit obligations	₩ 169,276	131,194
Fair value of plan assets	(151,201)	(110,404)
Net liabilities occurred from retirement benefit obligation	₩ 18,075	20,790

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

Changes in present value of retirement benefit obligation for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Defined benefit obligations at beginning of the year	₩ 131,194	100,061
Current service cost	27,894	20,668
Interest expense	4,819	4,530
Remeasurement	8,857	11,691
Benefit paid	(8,928)	(5,756)
Transfer to related companies	5,440	-
Defined benefit obligations at end of the year	₩ 169,276	131,194

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

Changes in fair value of plan assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Fair value of plan assets at beginning of the year	₩ 110,404	83,297
Interest income on plan assets	3,839	4,270
Remeasurement	(1,564)	(1,999)
Contribution of employer	39,806	27,015
Benefit paid	(4,616)	(2,179)
Changes due to business combinations	3,332	-
Fair value of plan assets at end of the year	₩ 151,201	110,404

The Group expects to pay ₩39,806 million in contributions to its defined benefit plans in 2016.

**(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, 2015 and 2014 are as follows:

(In millions of won)

Type		2015		2014		
		Increase (1%p)	Decrease (1%p)	Increase (1%p)	Decrease (1%p)	
Discount rate	Increase (decrease) in defined benefit obligation	₩	(15,482)	20,826	(12,159)	14,193
Future salary growth	Increase (decrease) in defined benefit obligation	₩	20,956	(15,881)	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, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
Due from banks(*)	₩	145,051		109,600
Debt securities		6,149		803
Contribution to National Pension Plan		1		1
	₩	151,201		110,404

(\*) 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 1.74%

**25. Insurance Contract Liabilities**

Insurance Contract liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
Premium reserve	₩	4,770,432		-
Reserves for unearned premium		4,532		-
Minimum guarantee reserve		4,578		-
Reserve for outstanding claims		97,992		-
Reserve for participating policyholders' dividends		3,323		-
Reserve for policyholders' profit dividends		1,340		-
Loss preservation reserve for participating insurance		837		-
Policy reserve adjustment		4,186		-
Others		53,250		-
	₩	4,940,470		-



# Notes to the Consolidated Financial Statements

## 26. Other Liabilities

Other liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Other financial liabilities (*)	Suspense receipts	₩ 19,014	1,452
	Accounts payable	1,180,624	160,831
	Accrued expenses	418,149	470,131
	Domestic exchange settlements credits	93,281	684
	Prepaid cards	7,266	6,013
	Debit cards	363	360
	Guarantee deposit for securities subscription	63	3,433
	Liabilities incurred by agency relationship	44,725	62,649
	Deposit for credit control	2,812	5,609
	Withholding taxes	8,967	9,849
	Deposits for letter of guarantees and other	191,823	167,844
	Account for agency business	124,083	122,581
	Financial guarantee contract	222	215
	Insurance claims payable	10,488	-
	Others	149,327	196,924
Subtotal	2,251,207	1,208,575	
Other non-financial liabilities	Separate account liabilities	56,693	-
	Unearned revenue	23,879	26,859
	Income tax payable	20,796	24,648
	Prepaid insurance	3,177	-
	Others	21,669	5,319
Subtotal	126,214	56,826	
Discount present value		(10,794)	(10,593)
Total	₩	2,366,627	1,254,808

(\*) The fair value of other financial liabilities is ₩2,251,722 million and ₩1,210,702 million as of December 31, 2015 and 2014, respectively.

The amounts of other liabilities, which mature within 12 months are ₩2,108,376 million and ₩1,073,000 million as of December 31, 2015 and 2014, respectively. The amounts of other liabilities, which mature after 12 months are ₩142,831 million and ₩135,575 million as of December 31, 2015 and 2014, respectively.

**27. Assets and Liabilities Denominated in Foreign Currencies****(a) Assets and liabilities denominated in foreign currencies**

Assets and liabilities denominated in foreign currencies as of December 31, 2015 and 2014 are as follows:

(In millions of won / thousands of US dollars)

		2015		2014	
		Foreign currency (*)	Translation into won	Foreign currency (*)	Translation into won
Assets	Cash in foreign currencies	\$ 58,407	₩ 68,453	\$ 58,456	₩ 64,255
	Due from banks in foreign currencies	243,864	285,809	118,056	129,768
	Available-for-sale financial assets	122,785	143,904	105,890	116,394
Loans and receivables	Loans in foreign currencies	461,938	541,392	503,426	553,366
	Loans to other banks in foreign currencies	55,000	64,459	-	-
	Bills bought in foreign currencies	75,680	88,697	76,974	84,610
	Advances for customers in foreign currencies	1,024	1,200	503	553
	Credit card accounts in foreign currencies	2,531	2,966	2,259	2,483
	Call loans in foreign currencies	205,000	240,260	171,000	187,963
	Subtotal	801,173	938,974	754,162	828,975
	Total foreign currency denominated assets	\$ 1,226,229	₩ 1,437,140	\$ 1,036,564	₩ 1,139,392
Liabilities	Deposits in foreign currencies	\$ 278,453	₩ 326,345	\$ 266,716	₩ 293,174
Borrowings	Borrowings in foreign currencies	436,590	511,681	403,809	443,867
	Call money in foreign currencies	15,230	17,848	-	-
	Bonds sold under repurchase agreements in foreign currencies	-	-	29,299	32,205
	Subtotal	451,820	529,529	433,108	476,072
Debentures	Debentures in foreign currencies	296,014	347,795	294,302	323,497
	Less discount on debentures	(740)	(867)	(1,045)	(1,149)
	Subtotal	295,274	346,928	293,257	322,348
Other liabilities	Financial guarantee in foreign currencies	49	58	32	35
	Foreign exchanges payable	2,752	3,225	5,628	6,186
	Import deposit money in foreign currencies	8,161	9,565	14,305	15,724
	Accounts payables in foreign currencies	340	290	-	-
	Subtotal	11,302	13,138	19,965	21,945
	Total foreign currency denominated liabilities	\$ 1,036,849	₩ 1,215,940	\$ 1,013,046	₩ 1,113,539

(\*) 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, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Gain on foreign currency transactions	₩ 122,639	71,520
Loss on foreign currency transactions	(123,001)	(68,708)
Net gain on foreign currency transactions	₩ (362)	2,812

**28. Capital Stock, Capital Surplus, Capital Adjustment and Non-Controlling Interests****(a) Capital stock, capital surplus and capital adjustment as of December 31, 2015 are as follows:**

(i) Authorized shares	500,000,000 shares
(ii) Number of shares issued	169,053,154 shares
(iii) Par price	5,000 won
(iv) Capital stock	845,265,770,000 won
(v) Capital surplus (*)	1,560,454,863,590 won
(vi) Capital adjustment	-

# Notes to the Consolidated Financial Statements

## (b) Non-controlling interests

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.

Non-controlling interests as of December 31, 2015 and 2014 are as follows:

(In millions of won)

Description	Issuance date	Maturity date	Interest rate (%)		2015	2014
Hybrid bonds1 (*1)	2013-05-28	2043-05-28	4.53	₩	199,700	199,700
Hybrid bonds2 (*1)	2013-10-25	2043-10-25	5.55		59,911	59,911
Hybrid bonds3 (*1)	2013-11-01	2043-11-01	5.55		29,954	29,954
Subtotal					289,565	289,565
Others (*2)					951	-
Total					290,516	289,565
Hybrid bonds dividends				₩	14,061	14,051

(\*1) Hybrid bonds may be redeemed earlier after 10 years from the date of issuance and the Group may extend the maturity with the same conditions at maturity. If the Group decides not to pay dividends on common stock, hybrid bonds dividends are not paid either.

(\*2) Others are non-controlling interests in DGB life insurance, the subsidiaries acquired for the year ended December 31, 2015.

## 29. Retained Earnings

### (a) Retained earnings

Retained earnings as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Legal reserve (*1)	₩	131,401	101,178
Regulatory reserves for loan losses (*2)		1,155	1,062
Unappropriated retained earnings(*3)		930,490	709,605
	₩	1,063,046	811,845

(\*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 ₩8,426 million and ₩8,120 million as of December 31, 2015 and 2014, respectively.

### (b) Statements of appropriation of retained earnings

Statements of appropriation of retained earnings for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won, except for dividend per share)

		2015	2014
I. Unappropriated retained earnings			
Unappropriated retained earning carried over from prior years	₩	6,683	5,964
Profit for the year		57,944	48,566
		64,627	54,530
II. Transfer from voluntary reserves			
Regulatory reserves for loan losses		112	-
III. Appropriations of retained earnings			
Legal reserve		5,795	4,857
Regulatory reserve for loan losses		-	93
Dividends		47,335	42,897
Reserve of compensation for damage		2,000	-
		55,130	47,847
IV. Unappropriated retained earnings to be carried over to subsequent year	₩	9,609	6,683

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

**30. Accumulated Other Comprehensive Income (Loss)**

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2015 and 2014 as follows:

(In millions of won)

	2015					Total
	Net gain on valuation of available-for-sale financial assets	Net gain on valuation of held to maturity financial assets	Net gain on translation of foreign operations	Remeasurement of defined benefit plan		
Beginning balance	₩	45,497	-	2,750	(31,137)	17,110
Net decrease due to valuation of available-for-sale financial assets		49,057	-	-	-	49,057
Changes due to reclassification		(20,650)	20,650	-	-	-
Realized gain on disposition of available-for-sale securities		(38,397)	(1,644)	-	-	(40,041)
Net loss on the fair value hedge accounting		148	-	-	-	148
Effect of hedge of net investment		-	-	(2,429)	-	(2,429)
Gain on translation of foreign operations		-	-	4,610	-	4,610
Remeasurements of employee benefits		-	-	-	(10,421)	(10,421)
Fluctuation of policy reserve adjustment		(386)	-	-	-	(386)
Effect of income taxes		2,416	(4,181)	(528)	2,514	221
Net balance at end of period	₩	37,685	14,825	4,403	(39,044)	17,869

(In millions of won)

	2014				Total
	Net gain on valuation of available-for-sale financial assets	Net gain on translation of foreign operations	Remeasurement of defined benefit plan		
Beginning balance	₩	17,449	(397)	(20,756)	(3,704)
Net decrease due to valuation of available-for-sale financial assets		26,839	-	-	26,839
Realized gain on disposition of available-for-sale securities		7,179	-	-	7,179
Net gain on the fair value hedge accounting		2,985	-	-	2,985
Loss 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

**31. Interest Income and Interest Expense****(a) Interest income**

Interest income for the year ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
Interest on due from banks	₩	16,362		5,382
Interest on financial assets held for trading		8,850		10,834
Interest on financial assets designated at fair value through profit or loss		37		-
Interest on available-for-sale financial assets		79,389		60,832
Interest on held-to-maturity financial assets		245,623		182,762
Interest on loans		1,414,930		1,440,382
Others		11,540		11,140
	₩	1,776,731		1,711,332

# Notes to the Consolidated Financial Statements

## (b) Interest expense

Interest expense for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Interest on deposits	₩	462,076	521,978
Interest on borrowings		49,663	57,019
Interest on debentures		97,003	99,791
Interest on borrowings from trust account		3,273	4,064
Others		4,225	6,591
	₩	616,240	689,443

## 32. Fee and Commission Income / Commission Expense

### (a) Fee and commission income

Fee and commission income for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Commissions received	₩	127,700	112,492
Guarantee fees		4,027	3,933
Commissions received related to trust account		9,359	8,716
	₩	141,086	125,141

### (b) Commission expense

Commission expenses for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Commissions paid	₩	20,574	16,046
Commissions on credit cards		42,095	41,485
Commissions paid related to trust account		346	493
	₩	63,015	58,024

## 33. Insurance Income and Insurance Expenses

### (a) Insurance income

Insurance income for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Insurance revenue	₩	921,788	-
Reinsurance revenue		36,579	-
Fees on reinsurance revenue		1,943	-
Separate account revenue		5	-
	₩	960,315	-

**(b) Insurance expenses**

Insurance expense for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Insurance expense	₩	96,829	-
Refunds expense		576,942	-
Policyholder dividends		337	-
Reinsurance premium		40,528	-
Deferred acquisition costs of new or renewal insurance contracts		(35,355)	-
Expenses on acquisition costs of new or renewal insurance contracts		52,167	-
Contribution to insurance reserve		251,120	-
Separate account expense		5	-
Amortization expenses on deferred acquisition costs of new or renewal insurance contracts		5,671	-
	₩	988,244	-

**34. Net Gain on Financial Instruments Held for Trading**

Net gain on financial instruments held for trading for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

			2015	2014
Gain	Gain on securities held for trading	Dividend income	₩ 53	156
		Gain on disposal	14,780	10,362
		Gain on valuation	857	673
			15,690	11,191
Gain	Gain on derivatives instrument held for trading	Gain on transaction	314,107	193,446
		Gain on valuation	40,020	39,096
		Reversal of reserve for credit risk adjustment	117	9,834
			354,244	242,376
	Gain on financial instruments held for trading	₩	369,934	253,567
Loss	Loss on securities held for trading	Commission expenses (acquisition expenses)	₩ 300	194
		Loss on disposal	11,708	8,781
		Loss on valuation	3,077	1,787
			15,085	10,762
Loss	Loss on derivatives instrument held for trading	Commission expenses (acquisition expenses)	319	188
		Loss on transaction	315,870	187,083
		Loss on valuation	32,706	37,498
		Reserve for credit risk adjustment	-	31
			348,895	224,800
	Loss on financial instruments held for trading	₩	363,980	235,562
	Net gain on financial instruments held for trading	₩	5,954	18,005

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.



# Notes to the Consolidated Financial Statements

## 35. 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, 2015 and 2014 are as follows:

(In millions of won)

			2015	2014
Gain on financial assets designated at fair value through profit or loss	Dividend income	₩	6,696	5,580
	Gain on valuation		1,576	4,390
	Gain on disposal		-	21
		₩	8,272	9,991
Loss on financial assets designated at fair value through profit or loss	Loss on valuation	₩	4,920	-
Net gain on financial assets designated at fair value through profit or loss		₩	3,352	9,991

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.

## 36. Net Gain on Available-for-sale Financial Assets

Net gain on available-for-sale financial assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

			2015	2014
Gain on available-for-sale financial assets	Dividend income	₩	11,383	9,751
	Gain on disposal		75,427	30,157
	Gain on valuation of fair value hedged items		58	71
		₩	86,868	39,979
Loss on available-for-sale financial assets	Loss on disposal	₩	11,062	5,491
	Loss on valuation of fair value hedged items		206	3,056
		₩	11,268	8,547
Net gain on available-for-sale financial assets		₩	75,600	31,432

## 37. Impairment Loss on Financial Assets

Impairment losses on financial assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

			2015	2014
Impairment loss on available-for-sale financial assets	₩		5,554	25,535
Bad debt expenses			223,188	178,631
	₩		228,742	204,166

## 38. General and Administrative Expenses

General and administrative expense for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

			2015	2014
Employee benefits	₩		385,879	366,126
Rent			19,608	4,119
Depreciation			39,077	25,635
Amortization			29,651	30,991
Tax and dues			24,111	13,318
Advertising expense			12,332	7,815
Physical training expense			1,273	1,219
Service expense			35,194	34,174
Others			80,080	60,636
	₩		627,205	544,033

### 39. Share-based Payment Transactions

The Group grants equity linked special incentives to executives and employees and measures compensation expenses at fair value. The maximum number of stocks to grant are determined at the time when the agreement is made, and cash compensation is awarded if the pre-determined conditions are met.

#### (a) 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, 2015 are as follows:

	9th	10th	11th	12th
Shares to be granted	9,200 shares	19,596 shares	17,226 shares	8,380 shares
Grant date	2013.12.26	2014.3.21	2014.12.26	2015.3.19
Exercise method	Cash settlement	Cash settlement	Cash settlement	Cash settlement
Conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions
Exercise price per share in won	-	-	-	-
Vesting period	3 years	3 years	3 years	3 years

(ii) Changes in long-term performance share plan for the years ended December 31, 2015 and 2014 are as follows:

(In won)

	2015		2014	
	Shares	Weighted average exercise price per share	Shares	Weighted average exercise price per share
At beginning of year	67,085 shares	₩	73,950 shares	₩ 1,262
Shares granted	25,606 shares	-	49,256 shares	-
Shares exercised	38,289 shares	-	56,121 shares	1,520
At end of year	54,402 shares	-	67,085 shares	-

The exercise price per share and weighted average exercise price per share are 0 won and 1.58 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, 2015 are as follows:

(In won)

	Option pricing model	Stock price	Option price	Expected variance	Expected life	Risk free rate	Fair value
9th	Black-Scholes option pricing model	10,050	-	23.50%	0.99 years	1.63%	9,826
10th	Black-Scholes option pricing model	10,050	-	27.99%	1.22 years	1.64%	9,775
11th	Black-Scholes option pricing model	10,050	-	26.37%	1.99 years	1.65%	9,606
12th	Black-Scholes option pricing model	10,050	-	25.91%	2.22 years	1.65%	9,556

(iv) Expense of equity linked special incentive for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
General and administrative expense	₩ 415	581

(v) Liability of equity linked special incentive as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Long-term accrued expenses	₩ 1,322	1,274

# Notes to the Consolidated Financial Statements

## 40. Other Operating Loss, Net

Other operating loss, net for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Other operating income	Gain on sale of loans	₩ 18,763	8,449
	Reversal of provision for financial guarantee liabilities	-	134
	Reversal of provision for dormant deposits repayment	1,207	3,241
	Reversal of provision for undrawn commitment	1,615	-
	Reversal of other provision	2,254	425
	Merchandise sold	1,411	5,552
	Service revenue	12,072	10,343
	Others	1,629	382
		₩ 38,951	28,526
Other operating loss	Fees for credit guarantee fund	₩ 54,007	49,090
	Deposit insurance premiums	47,466	41,270
	Loss on sale of loans	10,911	5,988
	Loss on valuation of financial debentures	2,458	2,081
	Provision for dormant deposits repayment	-	3
	Provision for undrawn commitment	57	2,159
	Provision for others	5,117	3,960
	Cost of goods sold	12,746	10,183
	Others	3,091	1,950
		₩ 135,853	116,684
Other operating loss, net		₩ (96,902)	(88,158)

## 41. Operating Revenue and Expense

Operating revenue and expense for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Operating revenue	₩		
Interest income		1,776,731	1,711,332
Fee and commission income		141,086	125,141
Gain on financial assets held for trading		369,934	253,567
Gain on financial assets designated at fair value through profit or loss		8,272	9,991
Gain on available-for-sale financial assets		86,868	39,979
Income on hedging derivatives instrument		2,927	9,344
Gain on foreign currency transactions		122,639	71,520
Insurance income		960,315	-
Others		38,951	28,526
		3,507,723	2,249,400
Operating expense			
Interest expense		616,240	689,443
Commission expense		63,015	58,024
Loss on financial assets held for trading		363,980	235,562
Loss on financial assets designated at fair value through profit or loss		4,920	-
Loss on available-for-sale financial assets		11,268	8,547
Loss on hedging derivatives instrument		2,277	314
Loss on foreign currency transactions		123,001	68,708
Insurance expense		988,244	-
Impairment loss on financial assets		228,742	204,166
General and administrative expenses		627,205	544,033
Others		135,853	116,684
		3,164,745	1,925,481
Operating income	₩	342,978	323,919

**42. Non-Operating Loss, Net**

Non-operating loss, net for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Non-operating income	Gain on disposal of property and equipment	₩ 75	21
	Gains on disposition of intangible assets	82	-
	Rental income	3,205	1,249
	Others	12,754	8,845
	₩	16,116	10,115
Non-operating loss	Collecting expenses for written-off loans	₩ 90	203
	Donations	8,529	8,481
	Others	7,065	8,131
	₩	15,684	16,815
Non-operating loss, net	₩	432	(6,700)

**43. Income Tax Expenses****(a) Income tax expenses**

Income tax expenses for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Current income tax	₩	79,385	74,782
Changes in temporary differences		(44,719)	5,303
Income tax expenses directly charged to equity		337	(6,650)
Effects of consolidated taxation		89	-
Income tax expenses	₩	35,092	73,435

**(b) The reconciliation of effective tax rate**

The reconciliation of effective tax rate for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Profit before income tax expenses	₩	343,411	317,219
Income tax calculated at the statutory tax rate		82,643	76,305
Adjustments:			
Income not assessable for tax purposes		(24,044)	(5,905)
Expense not deductible for tax purposes		3,764	2,187
Additional payment (refund) of income taxes		(3,621)	6
Effect of a subsidiary		13,954	-
Effect of recognition of deferred income taxes unrecognized in previous years		(43,509)	-
Corporate income tax on capital gains from the transfer of land etc.		19	-
Others		5,886	842
Income tax expenses		35,092	73,435
Effective tax rate	₩	10.22%	23.15%

Statutory tax rate for the years ended December 31, 2015 and 2014 are as follows:

Tax base	Rate
Up to ₩200 million	10%
More than ₩200 million ~ Up to ₩20 billion	20%
More than ₩20 billion	22%

# Notes to the Consolidated Financial Statements

## 43. Income Tax Expenses, Continued

### (c) Changes in deferred tax assets (liabilities)

Changes in deferred tax assets (liabilities) for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015									
	Temporary differences to be deducted from (added to) taxable income					Deferred income tax assets (liabilities)				
	Beginning balance	Changes due to business combination	Increase	Decrease	Ending balance	Beginning balance	Changes due to business combination	Increase	Decrease	Ending balance
<Temporary differences>										
Accrued income	₩ (247,074)	(42,330)	(137,521)	(195,473)	(231,452)	(59,792)	(9,313)	(34,210)	(48,440)	(54,875)
Present value discount on securities	(79,150)	-	(40,425)	(79,150)	(40,425)	(19,154)	-	(9,783)	(19,154)	(9,783)
Gain on valuation of securities	73,519	(131,097)	33,157	45,951	(70,372)	17,792	(31,687)	7,985	11,084	(16,994)
Gain on valuation of derivatives	(6,507)	-	(3,831)	(6,507)	(3,831)	(1,575)	-	(927)	(1,575)	(927)
Other provisions, etc.	35,341	-	30,616	35,341	30,616	8,547	-	7,403	8,547	7,403
Unused annual/ monthly leave	26,398	-	29,969	26,098	30,269	6,387	-	7,244	6,315	7,316
Dormant deposit	4,519	-	929	243	5,205	1,094	-	225	59	1,260
Unamortized deferred acquisition costs of new or renewal insurance contracts	-	183,410	-	79,000	104,410	-	44,385	-	19,118	25,267
Others	62,318	139,355	327,605	161,456	367,822	15,082	32,066	79,762	37,897	89,013
Subtotal	(130,636)	149,338	240,499	66,959	192,242	(31,619)	35,451	57,699	13,851	47,680
<Accumulated other comprehensive income> (*)										
Loss on valuation of AFS financial assets	(60,023)	(61,943)	12,867	7,734	(116,833)	(14,526)	(13,627)	1,781	381	(26,753)
Gain on translation of foreign operations	(3,628)	-	(5,809)	(3,628)	(5,809)	(879)	-	(1,406)	(878)	(1,407)
Subtotal	(63,651)	(61,943)	7,058	4,106	(122,642)	(15,405)	(13,627)	375	(497)	(28,160)
Total	₩ (194,287)	87,395	247,557	71,065	69,600	(47,024)	21,824	58,074	13,354	19,520

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

(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)
Gain 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> (*)								
Loss on valuation of AFS financial assets	(23,020)	(60,023)	(23,020)	(60,023)	(5,571)	(14,526)	(5,571)	(14,526)
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.

**(d) Deferred tax assets (liabilities) before offset**

Deferred tax assets (liabilities) before offset as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Deferred tax assets	₩	130,260	48,023
Deferred tax liabilities		(110,740)	(95,047)
Deferred tax liabilities, net	₩	19,520	(47,024)

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.

**44. Earnings per Share****(a) Basic earnings per share**

(In won, except share information)

		2015	2014
Net income of common stock	₩	294,097,767,140	229,732,835,859
Weighted average number of common shares outstanding		167,231,236	134,053,154
Basic earnings per share	₩	1,759	1,714

**(b) Weighted average number of common shares**

Weighted average number of common shares as of December 31, 2015 and 2014 are as follows:

(In shares)

	2015			
	Date	Shares	Weight	Weighted average number of common shares
At beginning of period	2015.01.01	134,053,154	365/365	134,053,154
Paid-in capital increase	2015.01.20	35,000,000	346/365	33,178,082
At end of period		169,053,154		167,231,236

(In shares)

	2014			
	Date	Shares	Weight	Weighted average number of common shares
At beginning of period	2014.01.01	134,053,154	365/365	134,053,154

**(c) Diluted earnings per share**

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

**45. Cash and Cash Equivalents**

Cash and cash equivalents on statements of cash flows as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Cash and due from banks	₩	2,092,477	1,760,231
Restricted due from banks		(947,735)	(1,176,567)
Due from banks with original maturities of more than three months		(235,000)	(12,600)
Cash and cash equivalents	₩	909,742	571,064



# Notes to the Consolidated Financial Statements

## 46. Significant Non-cash Transactions

Significant non-cash transactions for the years ended December 31, 2015 and 2014 are as follows:

	2015		2014	
Decrease in loans due to writing-off	₩	193,713		165,094
Decrease in loans due to disposal		34,771		5,302
Transferred to loans from available-for-sale financial assets		10,000		-

(In millions of won)

## 47. Commitments and Contingencies

### (a) Pending litigation

As of December 31, 2015, there are 33 pending lawsuits brought to court by the Group, as a plaintiff, amounting to ₩12,187 million and 26 pending lawsuits against the Group amounting to ₩3,261 million. The material lawsuit case is as follows:

A lawsuit amounting to ₩267 million has been filed against the Group in which damages due to the embezzlement by a judicial scriveners staff is claimed for by the plaintiff. The Group which lost the first trial on October 22, 2015 is in action together with Samil Law, P.C. as the legal counsel.

The Group recognized provision of ₩267 million in respect to the above lawsuits as of December 31, 2015.

(b) There is a collateral of ₩8,167 million related with a lease deposit in regard to the Group's land and buildings as of December 31, 2015.

### (c) Non-financial guarantee contracts

Non-financial guarantee contracts as of December 31, 2015 and 2014 are as follows:

	2015		2014	
Acceptances and guarantees outstanding	₩	239,323		231,937
Acceptances and guarantees outstanding in foreign currencies		35,000		56,641
Contingent acceptances and guarantees		201,365		272,423
Loan commitments		6,929,260		6,928,198
Purchasing commitments for securities		106,284		106,284
	₩	7,511,232		7,595,483

(In millions of won)

### (d) Financial guarantee contracts

Financial guarantee contracts as of December 31, 2015 and 2014 are as follows:

	2015		2014	
Financial guarantee contract	₩	13,031		14,651
Financial guarantee contract in foreign currencies		8,846		8,790
Purchasing commitments for ABCP		15,000		15,000
	₩	36,877		38,441

(In millions of won)

### (e) Insurance commitment

The Group's general and special account derived from insurance contracts with clients as of December 31, 2015 are as follows.

(In millions of won / thousand cases)

	2015			
	Numbers		Contract amount	
General account	1,185	₩	18,963,236	
Separate account	-		177	
	1,185	₩	18,963,413	

**(f) Reinsurance agreement**

The details of the Group's ceding agreement as of December 31, 2015 are as follows.

Ceding method	Reinsurance company	Ceding amount/ratio	Product type
More than Proportion	General Re Corporation	₩55million	Life insurance
	Korean Re	₩20~80million	Life, disability, cancer insurance
	Korean Re	50%	Accident insurance
	Korean Re	50%	CI insurance
	Korean Re	30%	Cancer insurance
Proportion	Korean Re	30% ~ 50%	Dangerous job
	Korean Re	17.5%	All products (New after financial year 2009)
	Korean Re	50%	Child insurance(2013 codeveloped product)
	Korean Re	80%	Financial year 2002~2006 Collateral and non-ceding products among selling products
	Munich Reinsurance	5~40%	All products
	Munich Reinsurance	50%	Silver cancer insurance

**(g) Commitments with financial institutions that the Group makes about the issuance of letters of credit.**

Commitments with financial institutions that the Group contracts in relation to issuance of letters of credit as of December 31, 2015 and 2014.

(In millions of won / thousands of US dollar)

Financial Institutions	2015		2014	
	In foreign currency	In won	In foreign currency	In won
KOOKMIN BANK	\$ -	₩ 20,000	\$ -	₩ 20,000
THE JEONBUK BANK LTD	10,000	-	10,000	-
KDB Bank	20,000	-	20,000	-
Total	\$ 30,000	₩ 20,000	\$ 30,000	₩ 20,000

**48. Transactions with Related Parties****(a) Related parties except for subsidiaries**

Details of related parties except for subsidiaries as of December 31, 2015 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.

**(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, 2015 and 2014 are as follows:

(In millions of won)

		December 31, 2015		December 31, 2014	
		Daegu FC		Daegu FC	
Liabilities	Deposits	₩	4,673		4,523
	Others		26		19
		₩	4,699		4,542

(ii) Significant transactions between the Group and the related parties except for subsidiaries for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		December 31, 2015		December 31, 2014	
		Daegu FC		Daegu FC	
Expenses	Interest on deposits	₩	55		34

# Notes to the Consolidated Financial Statements

## (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, 2015.

## (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, 2015 and 2014 are as follows:

(In millions of won)

Classification		2015	2014
Short-term employee benefits	₩	6,073	3,908
Other long-term benefits		415	790
Post-employment benefits		1,413	1,313
Share-based payment		-	(4)
	₩	7,901	6,007

## 49. 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 failing to meet its contractual obligations and to manage industry type and borrower type concentration risk by controlling a loan portfolio and the credit share limit.

#### (ii) Credit risk management organization

Credit risk management is conducted by the Committee, the Council, the Working Group, the Department, credit risk team and sub risk management departments. The Department conducts recognizing, measuring, controlling and checking the adequacy of the Group-wide, departmental or organizational credit risk. It also conducts analyzing and reporting credit risk, developing and improving credit risk management skill, reporting the result of credit risk check-up and providing the information. Credit risk team conducts installing and operating the credit risk management system.

Loan review department conducts check-up of loan quality classification through regular credit review. Sub-risk management departments establish and implement credit risk management plans, recognize, measure, analyze and report credit risk, manage loan portfolio considering risk and return, analyze credit risk and conduct follow-up management resulted from new product launching, implement the resolutions from the Committee and Council, supervise countries' credit risk considering credit level of international credit appraisal institutes and submit other credit risk reporting documents. Internal audit inspects the adequacy of recognizing, measuring and evaluating credit risk, credit risk control organization and managing process.

#### (iii) Method of credit risk management

##### ① Loans

##### - Credit line

The Group manages the concentration risk by considering the economic conditions and environmental factors, and sets credit line for each individual, industry and type of loan. The Group evaluates the concentration ratio of the borrower with large exposure and uses the concentration ratio as a parameter for credit risk management.

- Credit approval system

Enterprises' Credit Scoring System is operated through sophisticated, common or unsophisticated credit rating models according to the amount of enterprises' loans and financial conditions. Households' Credit Scoring System is operated through the ASS (Application Scoring System) or BSS (Behavioral Scoring System).

- Evaluation

The Group systematically evaluates clients' qualifications for a loan by the professional in charge of credit assessment and SRM (Senior Relationship Management) and reevaluates the clients' capability to redeem according to the change of credit conditions. Evaluation is performed on a regular basis. If there is a specific circumstance regarding clients, evaluation may be performed when necessary. In the case of households, the length of extension, renewal or revolving of loans is determined according to the Behavioral Scoring System.

② Debt securities

The Group manages the credit risk for debt securities through their credit rating or the similar external credit rating. In the case of using the external credit rating, it is converted to internal rating and its credit line is managed in accordance with the credit line regulations on internal rating.

③ Risk mitigation policy

If there is a circumstance or evidence that can increase the credit risk, the Group takes action to mitigate credit risk such as reducing amounts outstanding (in discussion with the clients or counterparties if appropriate).

- Collateral

The Group has various policies and guidance regarding the mitigation of credit risk. Generally, the Group obtains collateral for loans and operates guidance related to acquisition, valuation, and limits related to collateral management. In the case of collateral for real estate, settlement of mortgage is required for acquisition. For movable assets, securities and deposit receivables and establishing the right of pledge is required. Other receivables are required to be obtained through transfer. Obtained collateral are revalued through appraisal after a certain amount of time. Collaterals for loans are, for instance, house, equipment, factories, land, deposit, debt securities and equity securities.

- Guarantee and derivatives

The Group enters into guarantee and derivative contracts to transfer the credit risk of its loans and receivables to third parties. The above contracts require third parties to make payments to reimburse the Group for a loss incurred by debtor's default.

- Master netting agreements

In many cases, even though master netting agreements are in place, the lack of an intention to settle on a net basis results in the related assets and liabilities being presented gross on the statement of financial position. In the case of counterparty's default, the Group may reduce some of the losses from the credit risk when all transactions with counterparty are offset.

(vi) Maximum exposure of credit risk

Maximum exposure of credit risk as of December 31, 2015 and 2014 are as follows:

(In millions of won)

Classification		2015	2014
On balance accounts(*1)			
Due from banks(*2)	₩	565,994	136,198
Financial assets held for trading(*3)		269,634	290,610
Financial assets designated at fair value through profit or loss(*3)		105,658	-
Available-for-sale financial assets(*3)		3,511,679	1,882,764
Held-to-maturity financial assets		7,618,459	4,519,990
Loans		34,399,965	30,655,719
Receivables		1,652,632	648,390
Derivative assets - hedge accounting		50	16,641
Reinsurance assets		10,016	-
	₩	48,134,087	38,150,312
Off-balance accounts			
Financial guarantee	₩	36,877	38,441
Contracts		7,035,544	7,034,482
	₩	7,072,421	7,072,923

(\*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.

## Notes to the Consolidated Financial Statements

(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, 2015 and 2014 are as follows:

In millions of won

	2015									
	Balance account (*1)					Off-balance account (*1)			Total	
	Financial assets held for trading (*2)	Financial assets designated at fair value through profit or loss (*2)	Available-for-sale financial assets (*2)	Held-to-Maturity financial assets	Loans	Derivative assets-hedge accounting	Financial guarantee contracts	Other commitments		
Enterprises										
Manufacturing	₩	-	-	99,787	30,031	10,860,228	-	6,368	1,983,562	12,979,976
Construction		-	-	74,151	101,516	1,059,997	-	15,000	340,762	1,591,426
Wholesale and retail		-	-	-	20,014	3,167,186	-	46	556,835	3,744,081
Financial services and insurance		41,698	20,004	1,306,751	664,058	1,235,556	-	-	197,821	3,465,888
Others		183,853	70,694	270,846	719,264	8,242,579	-	15,463	361,906	9,864,605
Subtotal		225,551	90,698	1,751,535	1,534,883	24,565,546	-	36,877	3,440,886	31,645,976
Households		-	-	-	-	9,048,210	-	-	1,174,285	10,222,495
Government and public institutions		-	14,960	1,760,144	6,083,576	655,515	-	-	13,800	8,527,995
Credit card		-	-	-	-	377,322	-	-	2,406,573	2,783,895
Derivatives		44,511	-	-	-	-	50	-	-	44,561
Reserve for credit risk adjustment		(428)	-	-	-	-	-	-	-	(428)
Allowance		-	-	-	-	(286,122)	-	-	-	(286,122)
Present value discount		-	-	-	-	(39)	-	-	-	(39)
Present value premium		-	-	-	-	98	-	-	-	98
Deferred loan originated cost and fee		-	-	-	-	39,435	-	-	-	39,435
Total	₩	269,634	105,658	3,511,679	7,618,459	34,399,965	50	36,877	7,035,544	52,977,866

(\*1) After impairment and setting off

(\*2) Except for equity securities and beneficiary securities

(In millions of won)

	2014								
	Balance account (*1)					Off-balance account (*1)			Total
	Financial assets held for trading (*2)	Available-for-sale financial assets (*2)	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

(\*1) After impairment and offset

(\*2) Except for equity securities and beneficiary securities

## (vi) Loans

Loans as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015				
		Enterprises	Households	Public sectors and others	Credit card	Total
Neither overdue nor impaired loans	₩	24,018,124	8,990,714	654,938	373,014	34,036,790
Not impaired but overdue loans		120,363	38,963	577	172	160,075
Impaired loans		427,059	18,533	-	4,136	449,728
		24,565,546	9,048,210	655,515	377,322	34,646,593
Allowance for loan losses		(254,052)	(22,708)	(1,625)	(7,737)	(286,122)
Present value discount		(39)	-	-	-	(39)
Present value premium		98	-	-	-	98
Deferred loan origination cost and fee		20,583	18,390	462	-	39,435
Net book value	₩	24,332,136	9,043,892	654,352	369,585	34,399,965

(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)
		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

Overdue occurs when the counterparty of the contract is not able to pay the principal and interest on the date of contract. Impairment is the case when there is objective evidence of impairment and the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets and a reliable estimate of the loss amount can be made. The evidences of impairment are such as: past due more than 90 days, bad credit information according to credit information management regulation, restructuring of receivables and debt in overdue condition and revolving of bad exposure.

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

Credit qualities of loans as of December 31, 2015 and 2014 that are neither overdue nor impaired refer to the Group's internal credit appraisal system and are as follows:

(In millions of won)

		2015				
		Enterprises	Households	Public sectors and others	Credit card	Total
1~6	₩	23,198,937	8,240,981	652,369	275,136	32,367,423
7		271,433	315,506	2,168	34,890	623,997
8(*2)		100,745	113,873	401	24,910	239,929
9(*2)		11,463	62,258	-	13,171	86,892
10(*2)		8,458	23,930	-	8,103	40,491
Not rated(*3)		427,088	234,166	-	16,804	678,058
	₩	24,018,124	8,990,714	654,938	373,014	34,036,790

(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



# Notes to the Consolidated Financial Statements

(\*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 ₩678,058 million (₩653,338 million as of December 31, 2014) 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 ₩164,291 million (₩99,048 million as of December 31, 2014) and ₩513,767 million and (₩554,290 million as of December 31, 2014), 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)

2015					
	Enterprises	Households	Public sectors and others	Credit card	Total
Less than 30 days	₩ 101,108	37,585	577	158	139,428
More than 30 days ~ less than 60 days	14,156	1,197	-	14	15,367
More than 60 days ~ less than 90 days	5,099	181	-	-	5,280
	₩ 120,363	38,963	577	172	160,075

(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

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

(In millions of won)

2015				
	Enterprises	Households	Public sectors and others	Total
Real estate	₩ 44,530	23,478	311	68,319
Movable property	7,235	1,295	-	8,530
Securities and debentures	1	272	-	273
Warranty	16,284	1,398	-	17,682
Others	44	-	-	44
	₩ 68,094	26,443	311	94,848

(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

## (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)

		2015			
		Enterprises	Households	Credit card	Total
Individual assessment	Impaired loans	₩ 361,136	123	422	361,681
	Allowance for doubtful accounts	88,855	123	389	89,367
Collective assessment	Impaired loans	65,923	18,410	3,714	88,047
	Allowance for doubtful accounts	24,547	9,139	2,732	36,418
		₩ 427,059	18,533	4,136	449,728
		₩ 113,402	9,262	3,121	125,785

(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
		₩ 391,417	23,665	4,620	419,702
		₩ 87,575	10,364	3,605	101,544

## ② Estimated fair value of collateral for impaired loans

(In millions of won)

		2015			
		Enterprises	Households	Total	
Real estate	₩	144,126		4,914	149,040
Movable asset		2,715		345	3,060
Securities and debentures		65		29	94
Warranty		13,189		218	13,407
Others		1,238		-	1,238
		₩ 161,333		5,506	166,839

(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
		₩ 131,744		8,416	140,160

## (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, 2015 and 2014 are ₩119,197 million and ₩177,995 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 49.(c) (vii) *Loans that are neither overdue nor impaired.*

## Notes to the Consolidated Financial Statements

## ① Debt securities in won

(In millions of won)

	2015					
	Financial assets held for trading	Financial assets designated at fair value through profit or Loss	Available-for-sale financial assets	Held-to-maturity financial assets	Total	
<Long term credit rating>						
AAA	₩	6,484	40,335	1,266,105	2,207,036	3,519,960
AA+ ~ AA-		3,129	20,004	655,761	355,845	1,034,739
A+ ~ A-		27,457	-	111,500	61,961	200,918
BBB+ ~ BBB-		19,971	-	-	-	19,971
Not rated		-	45,319	1,334,409	4,993,617	6,373,345
Subtotal		57,041	105,658	3,367,775	7,618,459	11,148,933
<Short term credit rating>						
A1		62,616	-	-	-	62,616
A2 ~ A3		105,894	-	-	-	105,894
Subtotal		168,510	-	-	-	168,510
Total	₩	225,551	105,658	3,367,775	7,618,459	11,317,443

(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

Not rated amount is ₩6,373,345 million (₩3,842,506 million as of December 31, 2014) 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 ₩4,228,770 million (₩3,424,900 million as of December 31, 2014), monetary stabilization bond is ₩49,977 million (₩69,955 million as of December 31, 2014) and other bond is ₩2,094,598 million (₩347,651 million as of December 31, 2014).

## ② Debt securities in foreign currencies

(In millions of won)

	2015		2014	
	Available-for-sale financial assets	Available-for-sale financial assets	Available-for-sale financial assets	Available-for-sale financial assets
AAA	₩	69,434	-	-
AA+ ~ AA-		-	-	19,996
A+ ~ A-		74,470	-	85,384
BBB+ ~ BBB-		-	-	11,015
Total	₩	143,904	-	116,395

## (xii) Offsets of financial assets and financial liabilities

The Group has financial instruments which are 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 the 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, 2015 and 2014 are as follows:

(In millions of won)

	2015							Net amount
	Gross amounts of recognized financial assets	Gross offset amounts of recognized financial liabilities	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position				
				Financial instruments	Collateral received			
				Securities	Cash			
Bonds purchased under resale agreements	₩	231,710	-	231,710	-	200,202	-	31,508
Accrued balance spot exchange		954,669	-	954,669	954,057	-	-	612
Trading derivatives assets		31,657	-	31,657	7,297	-	3,692	20,668
Hedging derivative instrument assets		50	-	50	-	-	-	50
<b>Total</b>	<b>₩</b>	<b>1,218,086</b>	<b>-</b>	<b>1,218,086</b>	<b>961,354</b>	<b>200,202</b>	<b>3,692</b>	<b>52,838</b>

(In millions of won)

	2014							Net amount
	Gross amounts of recognized financial assets	Gross offset amounts of recognized financial liabilities	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position				
				Financial instruments	Collateral received			
				Securities				
Bonds purchased under resale agreements	₩	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
<b>Total</b>	<b>₩</b>	<b>329,267</b>	<b>-</b>	<b>329,267</b>	<b>93,061</b>	<b>197,432</b>	<b>-</b>	<b>38,774</b>

② Offsetting financial liabilities

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015							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	₩	812,795	-	812,795	812,795	-	-	-
Accrued balance spot exchange		135,963	-	135,963	135,829	-	-	134
Trading derivatives liabilities		22,951	-	22,951	6,201	-	-	16,750
Hedging derivatives liabilities		3,150	-	3,150	-	-	-	3,150
<b>Total</b>	<b>₩</b>	<b>974,859</b>	<b>-</b>	<b>974,859</b>	<b>954,825</b>	<b>-</b>	<b>-</b>	<b>20,034</b>

(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
<b>Total</b>	<b>₩</b>	<b>615,386</b>	<b>-</b>	<b>615,386</b>	<b>583,852</b>	<b>-</b>	<b>-</b>	<b>31,534</b>

# Notes to the Consolidated Financial Statements

## (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)

		2015							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	₩	13,222,359	2,839,036	4,275,437	4,802,254	6,813,695	1,197,833	195,255	390,281	33,736,150
Demand deposits		13,162,503	-	-	-	-	-	-	-	13,162,503
Time deposits		59,856	2,764,755	4,143,135	4,633,592	6,459,531	1,155,578	195,255	390,281	19,801,983
Negotiable certificates of deposits		-	74,281	132,302	168,662	354,164	42,255	-	-	771,664
Borrowings		-	889,399	567,260	248,094	542,101	581,910	407,369	174,237	3,410,370
Borrowings in won		-	560,305	115,306	100,153	156,538	468,844	368,182	174,237	1,943,565
Borrowings in foreign currency		-	53,505	139,838	52,099	118,788	112,944	39,187	-	516,361
Bonds sold under repurchase agreements		-	154,840	307,325	94,603	266,719	122	-	-	823,609
Call money		-	117,848	-	-	-	-	-	-	117,848
Other borrowings		-	2,901	4,791	1,239	56	-	-	-	8,987
Debentures		-	4,490	59,558	223,198	338,267	1,943,477	404,399	440,145	3,413,534
Debentures in won		-	4,490	59,558	219,242	334,311	1,580,010	404,399	440,145	3,042,155
Debentures in foreign currency		-	-	-	3,956	3,956	363,467	-	-	371,379
Other financial liabilities		-	1,590,954	31,236	35,910	34,544	105,353	35,018	43	1,833,058
	₩	13,222,359	5,323,879	4,933,491	5,309,456	7,728,607	3,828,573	1,042,041	1,004,706	42,393,112
<Off-balance accounts>										
Financial guarantee contract	₩	36,877	-	-	-	-	-	-	-	36,877
Commitments		7,035,544	-	-	-	-	-	-	-	7,035,544
	₩	7,072,421	-	-	-	-	-	-	-	7,072,421

(In millions of won)

	2014									
	On demand	Less than 1 month	1 ~ 3 months	4 ~ 6 months	7 ~ 12 months	13 ~ 36 months	37 ~ 60 months	More than 60 months	Total	
<On-balance accounts>										
Depository liabilities	₩	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
Debtentures		-	53,546	159,152	58,798	345,097	1,326,143	859,423	336,341	3,138,500
Debtentures in won		-	53,546	159,152	55,088	341,387	1,311,304	525,953	336,341	2,782,771
Debtentures 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

## ② Derivative financial liabilities

(In millions of won)

	2015						
	Less than 1 month	1 ~ 3 months	4 ~ 6 months	7 ~ 12 months	13 ~ 36 months	37 ~ 60 months	Total
<Trading derivatives>							
Currency related	₩	10,843	8,900	5,420	5,356	-	30,519
Stock related		75	374	1,004	843	-	3,011
Subtotal		10,918	9,274	6,424	6,199	-	33,530
<Hedging derivatives>							
Interest rate related		-	-	-	-	3,061	3,150
Total	₩	10,918	9,274	6,424	6,199	3,061	36,680

(In millions of won)

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

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.



# Notes to the Consolidated Financial Statements

## (e) Market risk

Market risk is the risk that the fair value of financial instruments or future cash flows is affected by the volatility of market rates or prices such as interest rates, stock prices and foreign exchange rates.

### (i) Purposes of market risk management

Purposes of market risk management are to secure the profitability and stability by controlling the losses generated from managed assets and liabilities due to volatility of market risk factors such as interest rates, stock prices and foreign exchange rates. Those subject to market risk management are securities held for trading, foreign currency net open positions, derivatives, off balance transactions and other market risk inherent assets and liabilities.

### (ii) Market risk management organization

The Group divides exposures to market risk into trading position and non-trading position. To promote the classification and management of trading position, the Group operates its accounting and computer system according to the classification. The Group also classifies and operates a trading desk and nontrading 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 cannot 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, 2015 and 2014 are as follows:

(In millions of won)

	2015			
	Period end	Average	Minimum	Maximum
Interest rate risk	₩ 132	215	35	532
Foreign exchange risk	1,383	124	27	1,383
Stock risk	1,912	1,885	369	3,417
Diversification effect	(1,489)	(455)	(17)	(2,266)
Total risk	₩ 1,938	1,769	414	3,066

(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		(220)	(269)	(13)	(1,266)
Total risk	₩	840	2,272	353	3,416

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.

- The interest rate risk of DGB Life Insurance Co.,Ltd.

The interest rate exposure is the volume of the interest-bearing asset and liability that their values are changed based on interest rate fluctuations. The duration provided by an asset management firm, bond rating agency or trust company must be applied to the interest-rate sensitivity of the interest-bearing asset. If the duration is unavailable, the maturity method from the Financial Supervisory Services is applied. For the interest rate sensitivity of interest-bearing liability, different variables are applied on the basis of the insurance categorization and the way of interest rate separation.

DGB Life Insurance Co.,Ltd. calculates interest rate risks reflecting the interest rate backspread amount due to the difference between the market rate and the accumulated rate because of the revision of the way of interest rate risk amount calculation.

(In millions of won)

		2015		
		Exposure	Interest rate sensitivity (%)	Interest rate sensitivity amount
I. Interest-bearing liability	₩	4,645,314	5.94	₩ 27,572,038
1. Interest rates fixed		1,416,132	11.06	15,659,561
2. Interest rates linked		3,229,182	3.69	11,912,477
II. Interest-bearing asset		4,960,900	6.45	31,992,712
1. Due from banks		273,391	0.23	61,950.00
2. Financial assets designated at fair value through profit or loss		96,649	2.60	251,152
3. Available-for-sale financial assets		1,275,736	5.06	6,456,801
4. Held-to-maturity		2,955,402	7.71	22,778,957
5. Loans		359,722	6.79	2,443,852
III. The minimum interest rate amount				105,697
IV. The interest rate backspread amount				14,366
V. The interest rate risk amount (III + IV)				₩ 120,063

- Other price risks of DGB Life Insurance Co.,Ltd.

Other price risks of DGB Life Insurance Co.,Ltd. are the risks that financial instrument's cash flow or fair value is changed due to the change of market price other than an exchange risk or interest risk.

The price risk is an analysis about KOSPI 200 index changes, and 10% increase and decrease are used for reasonable and possible fluctuations. This shows a management's evaluation about the reasonable and possible fluctuations of the stock index.

(In millions of won)

		2015	
		The effect of profit or loss	Capital effect
Beneficiary certificate	10% increase	₩	-
	10% decrease	₩	(79)

## (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.

# Notes to the Consolidated Financial Statements

## ㉔ 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, 2015 and 2014 are as follows:

(In millions of won)

		End	Average	Minimum	Maximum
2015(*)	₩	65,732	43,207	8,365	73,233
2014(*)		56,439	53,985	33,601	72,599

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

## (v) Foreign exchange bias

Foreign exchange risk is the risk that the fair value of financial instruments or future cash flows are affected by the volatility of foreign exchange rate. The Group does not divide foreign exchange position into trading position and non-trading position but manages it on the whole.

Exposures to foreign exchange risk as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		USD	JPY	EUR	Others
2015	Foreign currency financial assets	₩ 1,922,285	82,077	35,835	64,371
	Foreign currency financial liabilities	1,561,696	104,621	22,704	48,367
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

## (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) Insurance risk

The Group calculates an insurance price risk amount on the basis of risk based on capital requirements (RBC). The insurance price risk is the possibility of a loss from the difference between the actual insurance payment and benefit payments from policyholders.

The details of the insurance risk exposure as of December 31, 2015 are as follows.

(In millions of won)

	2015
Death	₩ 14,728
Hazard	4,335
Hospitalization	3,400
Surgery diagnosis	11,643
Medical indemnity	3,051
Others	2,332
Total	39,489

The Group uses reinsurance for the purpose of building financial stability and easing the concentration of the insurance risk. The reinsurance strategy is managed by the reinsurance management standard that the risk committee sets up. The Group determines reinsurance ceded in the consideration of the risk tendency of the contract, the Group's payment ability, and mortality profit and loss.

**(h) 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 Financial Holding Company 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 an 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, 2015 and 2014 are as follows. The Group has complied with all the external capital maintenance restriction conditions for the past two years.

(In millions of won)

		2015	2014
Total capital (A)	₩	4,098,912	3,734,088
Basic capital (B)		3,245,220	2,887,906
Common stock (C)		2,975,309	2,607,721
Supplementary capital (D)		853,692	846,182
Risk weighted asset (E)	₩	31,787,501	28,911,642
Ratio of total capital (A/E)		12.89%	12.92%
Ratio of basic capital (B/E)		10.21%	9.99%
Ratio of common stock capital (C/E)		9.36%	9.02%

**50. 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.

**(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, 2015 and 2014 are as follows:

(In millions of won)

	Type		2015			Total
			Level 1	Level 2	Level 3	
Financial assets	Cash and due from banks	₩	2,092,477	-	-	2,092,477
	Held-to-maturity financial assets		3,232,561	4,580,343	-	7,812,904
	Loans		-	-	34,548,997	34,548,997
	Receivables		-	-	1,644,291	1,644,291
		₩	5,325,038	4,580,343	36,193,288	46,098,669
Financial liabilities	Depository liabilities	₩	13,162,503	-	20,323,180	33,485,683
	Borrowings		117,848	-	3,211,316	3,329,164
	Debentures		-	-	3,252,793	3,252,793
	Other financial liabilities		-	-	2,240,928	2,240,928
		₩	13,280,351	-	29,028,217	42,308,568

## Notes to the Consolidated Financial Statements

(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		-	-	1,200,109	1,200,109
		₩	11,267,907	-	26,464,198	37,732,105

## (c) Valuation method and inputs of level 2

Valuation method and inputs used in measuring fair values of financial instruments measured at amortized cost using level 2 inputs as of December 31, 2015 and 2014 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 inputs of level 3

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, 2015 and 2014 are as follows:

Type	Valuation method (*)	Inputs (*)
Financial assets	Loans	DCF method
	Receivables	DCF method
Financial liabilities	Depository liabilities	Discount rate, credit spreads, prepayment rate
	Borrowings	Discount rate
	Debentures	Discount rate
	Other financial liabilities	Discount rate

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

## 51. Regulatory Reserves for Loan Losses

Regulatory reserves for loan losses for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014	
Regulatory reserves for loan losses	₩	180,331	158,569
Changes due to business combinations		2,931	-
Estimated transfer to regulatory reserves for loan losses		105,040	21,762
Regulatory reserves for loan losses at end of year	₩	288,302	180,331
For owner of the Group	₩	288,287	180,331
For non-controlling interests		15	-

Adjusted profit after regulatory reserves for loan losses for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won, except earnings per share)

	2015	2014	
Required transfer to regulatory reserves for loan losses	₩	105,040	21,762
Adjusted profit after regulatory reserves for loan losses		189,058	207,971
Earnings per share after regulatory reserves for loan losses in won		1,131	1,551

# Appendix

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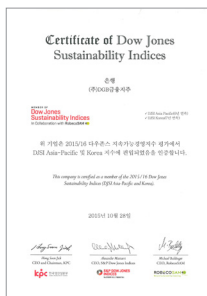
# DGB Financial Group Awards

## 2015-2016 Sustainability Management Awards & Accolades

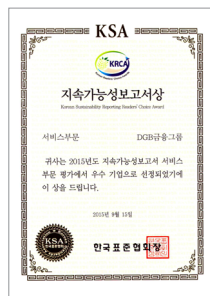
Date	Awards	Organizations
Jan. 5, 2015	Gold prize-winner in the institutional category at the 24 <sup>th</sup> Dasan Financial Awards	Financial Service Commission and Korea Economic Daily
July 16, 2015	Grand prize-winner in the regional bank category at the 2015 Korea Sustainability Index Awards	News Tomato Tomato CSR Research Institute, Korea CSR Network
Aug. 4, 2015	Awarded the highest grade of AAA of the 2014 Korea Business Ethics Index (KoBEX) for the fifth straight year	Ministry of Trade, Industry and Energy, The Institute for Industrial Policy Studies (IPS)
Sep. 2, 2015	Listed on the FTSE4 Good Index for the fifth consecutive year	FTSE-EIRIS
Sep. 15, 2015	Won both the Korea Sustainability Index and the Korea Readers' Choice Awards for the second year in a row	Korea Standard Association (KSA)
Oct. 7, 2015	Korea's only bank to be among the 2015 Asia's Sustainability Management Ranking for the second year in a row	CSR Asia-Channel NewsAsia Sustainalytics
Oct. 28, 2015	Listed on the DJSI in Korea for the seventh year and in the Asia-Pacific for the sixth year in a row	S&P Dow Jones Indices-RobecoSAM Korea Productivity Center
Oct. 29, 2015	Korea's first bank to be listed on the 2015 East Asia's CSR Top 30 list	Hankyoreh Daily
Nov. 6, 2015	Selected for an excellent performance in addressing climate change at the 2015 CDP Korea Awards	CDP Korea-CDP
Feb. 25, 2016	Grand prize-winner of the individual category at the 2016 Korea Best Bankers Awards	Seoul Economic Daily, Seoul Economic TV SEN

## External Assurance & Certifications

Date	Certification	Accreditation Authority
Apr. 30, 2007	Third-party assurance on DGB Daegu Bank's 2006 Sustainability Report	GRI (Global Reporting Initiative)
Jun. 16, 2010	First Korean financial institution to have its GHG inventory verified by a third party	Korea Standards Association (KSA)
May 30, 2011	Environmental Management System (KS I 14001) certification	Approved by the Korea Accreditation Board (KAB) Certified by KSA
Nov. 20, 2011	Korea's first financial institution to obtain the Green Management System Certificate (KS I 7001/7002)	Administered by the Ministry of Knowledge Economy Approved by KAB Certified by KSA
Jun. 3, 2013	Acquisition of utility model patents on DGB's donation methods and equipment by the name of investors	Korea Intellectual Property Office (KIPO)



2015-2016 DJSI Asia-Pacific, certificate of DJSI Korea



Won both the Korea Sustainability Index and the Korea Readers' Choice Awards for the second year in a row



Korea's first bank to be listed on the 2015 East Asia's CSR Top 30 list



Selected for an excellent performance in addressing climate change at the 2015 CDP Korea Awards

# Third-party Assurance Statement

## To the Management of the "2015-2016 Sustainability Report by the DGB Financial Group,"

The Institute for Industrial Policy Studies (the Auditor) was engaged by the DGB Financial Group to provide independent third-party assurance statement on the contents of its "2015-2016 Sustainability Management Report (the Report)", and hereby presents the following third party statement of assurance.

### Responsibility and Objective

DGB Financial Group is responsible for all information and claims contained in the Report regarding the establishment of its sustainability management goals, performance management etc. The responsibility of the Auditor is to deliver the findings from its assurance undertaking to the management of DGB Financial Group. The key objective of the assurance is to check whether there are any material bias or errors present in the Report; assess whether the underlying data collection system is in proper working order; while undertaking in an overall review of the Company's process for identifying issues of material importance to sustainability management as well as the produced results so that the Auditor may deliver recommendations that can help improve the quality of future reporting.

### Assurance Type and Level

The Report was reviewed against the following criteria and guidelines:

- (1) AA1000 Assurance Standards (2008)<sup>1</sup> ;
- (2) Global Reporting Initiative's (GRI) G4 Sustainability Reporting Guidelines<sup>2</sup>; and
- (3) B.E.S.T Sustainability Reporting Guidelines<sup>3</sup>

Assurance Scope	Contents of the "2015-16 Sustainability Report" by DGB Financial Group
Assurance Type & Level	Type II, Moderate level
Assurance Criteria	"IPS Assurance Manual" to verify compliance against AA1000AS (2008) standard's three core principles "IPS Performance Indicators Assurance Criteria" to assess the reliability of performance indicators GRI Guideline's "in accordance" options B.E.S.T Guideline's "reporting level"

### Work Undertaken and Scope

The Auditor confirmed 1) the inclusivity, materiality, and responsiveness of the reported content; 2) the reliability of the reported performance data; 3) the Report's level of compliance against GRI's G4 Sustainability Reporting Guidelines; and 4) the level of compliance relative to the B.E.S.T Reporting Guidelines through the process outlined below.

- Review of the Company's processes for identifying material issues and outcomes
- Review of the Company's stakeholder engagement processes
- Interviews with persons responsible for each performance dimension and the collection of performance data to determine the adequacy of the reported content
- On-site review to assess systems and processes in place for the collection and reporting of raw performance data(DGB Financial Group's Head Office)
- Review of underlying reference data on key economic, social, and environmental performance
- Sample testing of materiality issues to ascertain the completeness and accuracy of information contained in the Report
- Review of the Report's compliance against GRI/ B.E.S.T reporting guidelines

### Limitations

The scope of this undertaking was limited to:

- Interviews with individuals responsible for different performance dimensions and the collection of performance data; review of the adequacy of the reported data
- On-site review of DGB Financial Group 's Head Office
- Assurance based on relevant data and information available for the relevant reporting period
- Review of the reliability of reported performance data
- This undertaking does not include data on green-house gas emissions, which is subject to a separate review

### Assurance Findings

The Auditor does not find the Report to contain any material misstatements or bias.

#### • Inclusivity

Does the Company have adequate stakeholder engagement strategy setting and related processes in place?

It is the Auditor's view that the DGB Financial Group has put various processes for stakeholder engagement in place to better reflect relevant findings in its business management activities, in recognition of the importance of stakeholder participation in achieving its sustainability management objectives. Notably, the Company has defined its stakeholders into three groups depending on their level of potential impact on performance outcomes - core, strategic, and others - while providing communication channels specific to each group to better collect stakeholder-specific requirements and views. The Company also carried out stakeholder awareness surveys to assess factors that may potentially impact the Company's sustainability management while reflecting survey findings in its sustainability management program and initiatives - all in line with the principle of inclusivity.

#### • Materiality

**Does the Report contain information of the highest material importance to DGB Financial Group stakeholders across the economic, social, and environmental dimensions?**

It is the Auditor's view that the Report does not omit or exclude any issues of material importance to the sustainability management activities of the DGB Financial Group. The Auditor took note of efforts by the Company to provide a full well-balanced account not only of the core-most issues of stakeholder concern but other non-core issues as well, including related activities and achieved outcomes, by establishing a process for identifying major issues impacting sustainability management based on findings from internal and external environmental analysis; defining priorities based on materiality testing results; verifying the validity of findings by analyzing the level of importance to the Company in terms of organizational impact and stakeholder interest; defining the top ten core issues and top 20 focused reporting items via a process of identifying core-most issues of stakeholder concern as well as top priority issues subject to focused reporting, etc. The Auditor noted that the top 20 focused reporting items were highlighted adequately throughout the Report as a central part of its overall layout - all in line with materiality principles.

<sup>1</sup> AA1000AS is a sustainability assurance standard developed by the UK-based Institute of Social and Ethical Accountability (AccountAbility) in November 1999 to assure organization-wide sustainability performance and accountability by improving the quality of accounting, auditing and reporting practices in the social and business ethics domain. The revised 2008 version has been in effect since 2010.

<sup>2</sup> The GRI G4 Guideline was established by the GRI, convened by the Coalition for Environmentally Responsible Economies (CERES) and UNEP in 1997. After the first universal GRI sustainability reporting guidelines for multinationals was released in 2000, the latest G4 version was introduced in May 2013, with enhancements in supply chain, governance, ethics & integrity, anti-corruption, GHG emissions & energy disclosures.

<sup>3</sup> The B.E.S.T Guideline was jointly developed by the Ministry of Commerce, Industry, and Energy (MOCIE), the Korea Chamber of Commerce and Industry (KCCCI), and the Institute for Industrial Policy Studies (IPS) in 2006 as a sustainability reporting and assurance guideline, and provides for five levels of reporting rigor (Level 1 - 5).

● **Responsiveness**

**Does the Report provide an adequate response to stakeholder demands and interests?**

The Auditor found the DGB Financial Group to be providing an adequate response to issues of concern and interest to Company stakeholders. It has established diverse channels of communication for different stakeholder groups, while working to reflect the Company's response to those communication findings in its Report. The Auditor took note of efforts by the DGB Financial Group to keep track of and manage expectations and issues identified via its two-way communication channels with respective stakeholders. Moreover, efforts by the Company were noted in many areas - assessing the level of stakeholder awareness toward sustainability management through surveys; carrying out surveys to identify issues of material importance to sustainability management; analysis on views and recommendations from stakeholder representatives and experts; and incorporating the Company's position and planned response into its sustainability Report, etc. - all consistent with the principle of responsiveness.

● **GRI "In Accordance" Criteria**

The Auditor confirmed that the Report is "in accordance" with GRI G4 guidelines under the "comprehensive option", as it reports on General Standard Disclosures and Additional Disclosures (materiality aspects, DMA, performance indicators) as indicated in the G4 Guidelines.

● **Reliability of Performance Indicators**

Pursuant to a review of the performance data stated in the Report, the Auditor found the underlying data collection system to be adequate and failed to find any material errors that can either bias the Company's judgment or compromise the reliability of the data. The following performance indicators were reviewed for the purpose of this assurance.

Strategic Direction	Strategic Challenge	Core Issue	Performance Indicator	
Future Strategic Management	Creating sustainable performance	Responding to globalization and financial/economic crisis	Publication of research reports	31 reports
	Sound corporate governance	Governance (decision making structure)	Proportion of outside directors	83.3%
Customer Satisfaction Management	Creating customer values	Strengthening IT security and prevention of financial transactions	Leakage of personal information	zero
	Sustainable finance	Strengthening product and service accountability	Financial support for low income households	139 bn won
Strengthening Organizational Competency	Human resource promotion and support	Greater priority on securing human talent	Average training expenses per person	1,060,000 won
	Management for happiness of executives and employees	Improving satisfaction of executives and employees	Satisfaction level of executives and employees	90 points
Risk Management	Risk and change management	Corruption	Anti-corruption/number of unlawful violations	zero
	Strengthening environmental management	Response to climate change	GHG emissions	18,132tCO <sub>2</sub> e
Creating Shared Values	Win-win management with business partners	Enhancing vendor rights and roles	Percentage of vendor grievances processed	100%
	Local community engagement and advancement	Local community (social contributions)	Social contribution expenditure/net income	8.8%

\*Although all top 20 issues and KPI's most relevant to the DGB Financial Group were validated, only a partial sub-set of indicators most relevant to sustainability management has been noted above.

● **Level of B.E.S.T Guideline Application**

In view of the coverage and reliability of the information provided, the Auditor finds the Report to qualify for a Level 4 Report (Levels 1 to 5) relative to the B.E.S.T Guidelines, which is indicative of a level of sustainability consistent with the "anchoring" phase.

**Recommendations**

The Auditor found the "2015-2016 Sustainability Report" by the DGB Financial Group commendable in the following respects. The Report (1) outlines Company plans for sustainability management in the future, based on a review and analysis of all related activities, achievements, and key issues addressed over the last ten years since the Company first declared the launch of its sustainability management initiatives; (2) identifies areas for improvement based on stakeholder survey outcomes and expert advice as well as the Company's response reflecting its recognition of the importance of stakeholder engagement; and (3) reflects its interest and active engagement in global issues along side efforts to deliver value to its customers as a financial group centered around the local community while also working to expand its operations nationwide.

**For future reports, the Auditor recommends considering the following.**

- Provide analysis and disclosure on stakeholder-specific or economic, environmental, social values delivered across DGB Financial Group's value chain;
- Strengthen reporting on the Company's mid-to-long term sustainability management roadmap while also identifying actionable tasks and reporting achieved outcomes relative to stated goals;
- Strengthen the responsibilities, roles, and activities of the Company's sustainability management committee, as the highest decision making body responsible for sustained integrated management of sustainability;
- Outline plans for providing specialized products and services for sustainable financing and propose values for sustainable consumption; and
- Examine ways to further refine channels of communication as well as analytical methodologies to better identify the needs of respective stakeholders more accurately.

**Independence**

Apart from this independent assurance undertaking, the Auditor was not involved in the preparation of any part of the Report, and has no commercial affiliation with DGB Financial Group that might compromise our independence.

**Qualifications of the Auditor**

Commissioned by DGB Financial Group as the Auditor for this assurance undertaking, the Institute for Industrial Policy Studies(IPS) was established in 1993 and has since developed into a specialized institution with broad expertise in the areas of business ethics, CSR, and sustainability management since 2002.



June 2016

Lee, Yoon-Cheol  
Chairman, The Institute for Industrial Policy Studies



# Verification Statement of Greenhouse Gas Emission

## 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 2015(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 2015 of head office and domestic sites of DGB 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, KSA ISO 14064-1, 3 and Emission Target Management system : 2014-186.

-In case of Scope 3, Domestic/Overseas trips and commuting travel of DGB 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 2015.

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 (2015.1.1 ~ 2015.12.31), and thus assess verification opinion as 'reasonable' on the reported emission.

June 13, 2016

**KOREAN STANDARDS ASSOCIATION**  
**PRESIDENT OF KSA**

*Baek, Soo Hyun*

# GRI G4/ISO26000 Index

1. General Standard Disclosures						
GRI G4 index	G4 Contents	Page	BEST 2.0	ISO26000	UNGC Index	Audit
<b>a. Strategy &amp; Analysis</b>						
G4-1	Statement from the most senior decision-maker of the organization	4-5	A_1	4.7/6.2/7.4.2		●
G4-2	Description of key impacts, risks, and opportunities	65-66	A_2			●
<b>b. Organizational Profile</b>						
G4-3	Name of the organization	6	A_3			●
G4-4	Primary brands, products, and/or services	32-33	A_4			●
G4-5	Location of organization's headquarters	2	A_7			●
G4-6	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	42-43	A_7			●
G4-7	Nature of ownership and legal form	6, 47	A_8			●
G4-8	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries)	6, 32-33	A_9			●
G4-9	Scale of the reporting organization	32-33	A_10	6.3.10/6.4.1-6.4.2/ 6.4.3/6.4.4/6.4.5/ 6.8.5/7.8		●
G4-10	a. Total number of employees by employment contract and gender b. Total number of permanent employees by employment type and gender c. Total workforce by employees and supervised workers and by gender d. Total workforce by region and gender e. Whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors f. Any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries)	59	EM1			●
G4-11	Percentage of employees covered by collective bargaining agreements	64	EM12		Principle 3	●
G4-12	Describe the organization's supply chain	8, 24	-			●
G4-13	Significant changes during the reporting period relating to size, structure, or ownership or its supply chain	About This Report	B_8			●
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organization	65-66	GR11	6.3.10/6.4.1-6.4.2/ 6.4.3/6.4.4/6.4.5/ 6.8.5/7.8		●
G4-15	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	12	GR10			●
G4-16	Memberships in associations	160	A_11			●
<b>c. Identified Material Aspects &amp; Boundaries</b>						
G4-17	a. List all entities included in the organization's consolidated financial statements or equivalent documents b. Whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report	88-158	A_5, A_6			●
G4-18	a. Explain the process for defining the report content and the Aspect Boundaries b. Explain how the organization has implemented the Reporting Principles for Defining Report Content	36-38	-	5.2/7.3.2/ 7.3.3/7.3.4		●
G4-19	List all the material Aspects identified in the process for defining report content	36-38	-			●
G4-20	The Aspect Boundary within the organization	36-38	B_1, B_2			●
G4-21	The Aspect Boundary outside the organization	36-38	B_1, B_2			●
G4-22	Explanation of the effect of any re-statements	About This Report	-			●
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	About This Report	B_5			●
<b>d. Stakeholder Engagement</b>						
G4-24	List of stakeholder groups engaged by the organization	24	C_1			●
G4-25	Basis for identification and selection of stakeholders with whom to engage	24	C_1			●
G4-26	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	24-25	C_2	5.3		●
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, including through its reporting	25-30	C_3			●
<b>e. Report Profile</b>						
G4-28	Reporting period	About This Report	B_3			●
G4-29	Date of most recent previous report	About This Report	-	7.5.3/7.6.2		●
G4-30	Reporting cycle	About This Report	B_6			●
G4-31	Contact point for questions regarding the report or its contents	About This Report	B_9			●

**1. General Standard Disclosures**

GRI G4 index	G4 Contents	Page	BEST 2.0	ISO26000	UNGC Index	Audit
G4-32	a. 'In accordance' option the organization has chosen b. GRI Content Index for the chosen option (see tables below) c. Reference to the External Assurance Report, if the report has been externally assured. GRI recommends the use of external assurance but it is not a requirement to be 'in accordance' with the Guidelines	161-167	B_10			●
G4-33	a. Organization's policy and current practice with regard to seeking external assurance for the report b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided c. Relationship between the organization and the assurance providers d. Whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report	About This Report	B_7	7.5.3/7.6.2		●
<b>f. Governance</b>						
G4-34	Governance structure of the organization	12, 45-46	GR1			●
G4-35	Process for delegating authority for economic, environmental and social topics	11-12	-			●
G4-36	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	12	-			●
G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics (to whom, any feedback)	12	GR12			●
G4-38	The composition of the highest governance body and its committees	12, 45-46	GR1	6.2/7.4.3/7.7.5		●
G4-39	Indicate whether the Chair of the highest governance body is also an executive officer	45-46	-			●
G4-40	Process for determining the qualifications and expertise of the members of the highest governance body	45-46	-			●
G4-41	Processes in place for the highest governance body to ensure, that conflicts of interest are avoided	45-46	GR12			●
G4-42	Roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals	12, 45-46	GR2, GR3			●
G4-43	The measures taken to develop and enhance the highest governance body's collective knowledge	12	GR1			●
G4-44	Processes for evaluating the highest governance body's own performance	45-46	GR4			●
G4-45	Procedures of the highest governance body for overseeing the organization's identification and management of performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles	45-46	GR13			●
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	12	GR6			●
G4-47	The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	12	-			●
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	12	GR5			●
G4-49	The process for communicating critical concerns to the highest governance body	46-47	GR8			●
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	46-47	GR8			●
G4-51	Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organization's performance	46-47	GR8			●
G4-52	The process for determining remuneration	46-47	-			●
G4-53	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	46-47	GR12			●
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 in the same country	46	-			●
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 in the same country	46	GR7			●
<b>g. Ethics &amp; Integrity</b>						
G4-56	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	66	EM26	4.4/6.6.3		●
G4-57	The internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines	67	-			●
G4-58	The internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines	67	-			●



# GRI G4/ISO26000 Index

2. Specific Standard Disclosures									
Category	GRI G4 index	G4 Contents	Page	BEST 2.0	ISO26000	UNGC Index	Reporting boundary	Audit	
a. Disclosures on management approach (DMA)	G4-DMA	a. Why the Aspect is material. Report the impacts that make this Aspect material b. How the organization manages the material Aspect or its impacts c. Evaluation of the management approach	42, 48, 58, 65, 73	DMA					●
<b>b. Indicators on issue</b>									
<b>Economic</b>									
Economic Performance	G4-EC1	Direct economic value generated and distributed, including revenues, operating costs, employee wages and benefits, payments to providers of capital, payments to government	44	EC1	6.8.1- 6.8.2 /6.8.3/6.8.7/ 6.8.9				●
	G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	68-69	EC2			Internal		●
	G4-EC3	Coverage of the organization's defined-benefit plan obligations	63	EC3					●
	G4-EC4	Significant financial assistance received from government	Not Applicable	EC5					●
<b>Environmental</b>									
Material	G4-EN1	Materials used by weight or volume	71-72	EV10					●
	G4-EN2	Percentage of materials used that are recycled input materials	72	EV11	6.5.4		Internal		●
Emissions	G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	68-69	EV12	6.5.3, 6.5.5				●
	G4-EN16	Indirect greenhouse gas (GHG) emissions (Scope 2)	68-69	EV12					●
	G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	68-69	EV13			Internal		●
	G4-EN19	Emissions of ozone-depleting substances (ODS)	68-69	EV4			Principle 9		●
Environmental Grievance Mechanisms	G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	64, 73	-			Principle 8		●
<b>Social</b>									
<b>Labor Practice and Decent Work</b>									
Employment	G4-LA1	Total workforce by employment type, employment contract and region	59	EM5	6.4.3				●
	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	61-64	EM20	6.4.4/6.8.7		Internal		●
	G4-LA3	Return to work and retention rates after parental leave, by gender	62	-	6.4.4				●
Training & Education	G4-LA9	Average hours of training per year per employee by gender, and by employee category	60	EM27	6.4.7/6.8.5				●
	G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	60	EM28			Internal		●
	G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	60	EM29					●
	Diversity	G4-LA12	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity	59	EM2	6.2.3/6.3.7 /6.3.10/6.4.3	Principle 6	Internal	
Equal Pay for Women & Men	G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	61	EM3	6.3.7/6.3.10/ 6.4.3/6.4.4		Internal		●
Labor Practices and Grievance Mechanisms	G4-LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	64	PN5		Principle 4	Internal		●
<b>Human Rights</b>									
Non-discrimination	G4-HR3	Total number of incidents of discrimination and corrective actions taken	59	EM7					●
Human Rights Grievance Mechanisms	G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	64	-		Principle 1, 2	Internal		●

## 2. Specific Standard Disclosures

Category	GRI G4 index	G4 Contents	Page	BEST 2.0	ISO26000	UNGC Index	Reporting boundary	Audit
<b>Society</b>								
Local Communities	G4-S01	Percentage of operations with implemented local community engagement, impact assessments, and development programs	76	CO1, CO2			External	●
	G4-S02	Operations with significant actual or potential negative impacts on local communities	Non Operation	-				●
Anti-corruption	G4-S03	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Non Operation	CO5		Principle 10	Internal	●
	G4-S04	Communication and training on anti-corruption policies and procedures	66-67	CO5				●
	G4-S05	Confirmed incidents of corruption and actions taken	67	CO5				●
Grievance Mechanisms for Impacts on Society	G4-S011	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	64	-			Internal	●
<b>Product Responsibility</b>								
Product & Service Labeling	G4-PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	53-57	CS5			Internal	●
	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	Not Applicable	CS13				●
	G4-PR5	Results of surveys measuring customer satisfaction	50	CS6, CS9				●
Customer Privacy	G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	48	CS10, CS15			Internal	●
Compliance	G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Not Applicable	CS12			Internal	●

## Financial Services Sector Supplement

Category	GRI G4 index		Page
Product Portfolio	FS1	Policies with specific environmental and social components applied to business lines	12
	FS2	Procedures for assessing and screening environmental and social risks in business lines	65-66
	FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions	65-66
	FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines	66, 68
	FS5	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities	53-57
	FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector	53-57
	FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	53-57
	FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	53-57
	FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures	85-87
	FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues	55-57
	FS11	Percentage of assets subject to positive and negative environmental or social screening	55
	FS12	Voting policy(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting	Post Reporting to shareholders
Local communities	FS13	Access points in low-populated or economically disadvantaged areas by type	52
	FS14	Initiatives to improve access to financial services for disadvantaged people	52
Product and Service Labeling	FS15	Policies for the fair design and sale of financial products and services	53-57
	FS16	Initiatives to enhance financial literacy by type of beneficiary	49

# UNGC / SDGs Index

## UN GLOBAL COMPACT INDEX



We joined the UN Global Compact, the UN International convention on corporate social responsibility in July, 2006 and complies with the 10 principles in the 4 areas (human rights/labor/environment/anti-corruption)

UN Global Compact principles compliance	Principle	Page
<b>Human Right</b>		
	Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights;	59, 64
	Principle 2 make sure that they are not complicit in human rights abuses.	59, 64
<b>Labour Standards</b>		
	Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	64
	Principle 4 the elimination of all forms of forced and compulsory labour;	64
	Principle 5 the effective abolition of child labour; and	-
	Principle 6 the elimination of discrimination in respect of employment and occupation.	59
<b>Environment</b>		
	Principle 7 Businesses should support a precautionary approach to environmental challenges;	67-70
	Principle 8 undertake initiatives to promote greater environmental responsibility; and	64, 73
	Principle 9 encourage the development and diffusion of environmentally friendly technologies.	68-69
<b>Anti-Corruption</b>		
	Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.	66-67

## DGB Financial Group SDGs | SUSTAINABLE DEVELOPMENT GOALS

<p><b>1 NO POVERTY</b></p> <ul style="list-style-type: none"> <li>Supporting financial independence for the financially underprivileged through such projects as the Bluebird Senior Happy Workplace</li> <li>Developing regional talent through local youth/children support programs by the DGB Social Contribution Foundation and the DGB Daegu Bank Scholarship Cultural Foundation</li> <li>Supporting the underprivileged through social contribution funds raised annually by the DGB Daegu Bank labor union</li> </ul>	<p><b>3 GOOD HEALTH AND WELL-BEING</b></p> <ul style="list-style-type: none"> <li>Various health promotion programs such as the On-site Health Care program, employee stress testing, and psychological therapy</li> </ul>	<p><b>4 QUALITY EDUCATION</b></p> <ul style="list-style-type: none"> <li>Supporting competency-building and skill development for employees through a mentoring program and core talent training programs</li> <li>Economics education program for local residents through the DGB Finance &amp; Economics Education Center</li> </ul>
<p><b>5 GENDER EQUALITY</b></p> <ul style="list-style-type: none"> <li>Merit-based and performance-based employment and performance evaluations with no gender-based discrimination</li> </ul>	<p><b>7 AFFORDABLE AND CLEAN ENERGY</b></p> <ul style="list-style-type: none"> <li>Establishing and operating an environmental management system, including the GHG Inventory Management System</li> <li>Introducing the Green Touch Program to incorporate a Group-wide low-carbon lifestyle</li> <li>Constructing a new head office building of DGB Daegu Bank that is highly energy efficient and eco-friendly</li> </ul>	<p><b>8 DECENT WORK AND ECONOMIC GROWTH</b></p> <ul style="list-style-type: none"> <li>Employ satisfaction programs such as DGB Children's Dream Support, DGB Happy Family Center, and the SM ART Work-Life Balance Campaign</li> <li>Increasing across-the-board communication programs within DGB Daegu Bank such as DGB Youth Frontier and Customer Satisfaction Young Stars</li> <li>Monitoring grievances of DGB Daegu Bank employees and regularly holding Labor-Management Council meetings to collect feedback</li> </ul>
<p><b>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</b></p> <ul style="list-style-type: none"> <li>Improving the housing conditions for single-parented families and/or elderly citizens living alone through the DGB Life Build for Hope project</li> </ul>	<p><b>10 REDUCED INEQUALITIES</b></p> <ul style="list-style-type: none"> <li>Special services for senior customers such as the DGB Happy Concert and the DGB Happy Retirement Life Planning Center for our retiree clients</li> <li>Offering business consulting services to local SMEs through the DGB Business Consulting Center</li> <li>Promoting social enterprises through the DGB Social Contribution Foundation in collaboration with 16 related organizations including the Daegu municipal government and Daegu Office of Employment and Labor, as well as eight local companies</li> </ul>	<p><b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b></p> <ul style="list-style-type: none"> <li>Launching special financial products for the underbanked, such as DGB Installment Savings for women, DGB New Hope Seed Loan, and the Hope for Youth Fund</li> <li>Financial services for new-tech startups, eco-friendly businesses, SME exporters, and social economy enterprises</li> <li>DGB Sharing Hope and Credit Recovery Support program for local financially excluded people</li> </ul>
<p><b>13 CLIMATE ACTION</b></p> <ul style="list-style-type: none"> <li>Sponsoring the 2015 World Water Forum and launching special souvenirs, "Walk to Work" Day, and employee participation in environmental protection programs</li> </ul>	<p><b>15 LIFE ON LAND</b></p> <ul style="list-style-type: none"> <li>Hosting the 14<sup>th</sup> Dokdo Expedition event, with activities to restore the ecosystem of Dokdo such as releasing abalone back into the wild</li> </ul>	

Survey of  
Reader's  
Opinions

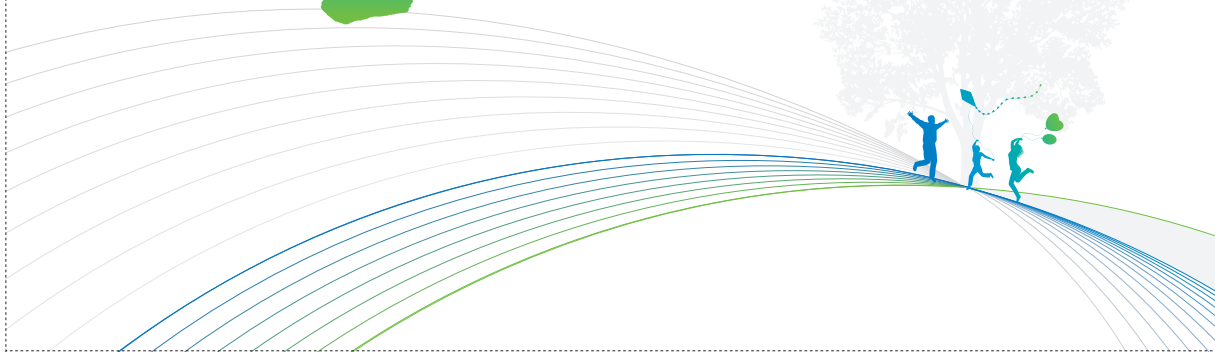


DGB FINANCIAL GROUP  
2015-2016 INTEGRATED SUSTAINABILITY REPORT

10<sup>th</sup> Anniversary

Do  
Global  
Best

더 가까이,  
더 큰 혜택



Post Card

From : \_\_\_\_\_

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

□ □ □ □ □

우편요금  
수취인 후납부담

발송유효기간  
2016.7.1~2017.6.30  
대구수성우체국  
승인 제40118호

DGB Financial Group

CSR Department  
DGB Economic Research Institute  
15<sup>th</sup> floor, DGB Daegu Bank head office  
2310 Dalgubeoldaero, Suseong-gu, Daegu, Korea

4 2 1 2 3

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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**1. To which group do you belong?**

- ① DGB Financial Group Customers
- ② DGB Financial Group Employees
- ③ Business Partners
- ④ Local Residents
- ⑤ NGOs
- ⑥ Academia
- ⑦ Government
- ⑧ Others (            )

**2. Where did you learn about this report?**

- ① DGB Financial Group /DGB 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 A Decade-long Devotion to Sustainability Management
- ② Future Oriented Strategic Management
- ③ Customer Satisfaction Management
- ④ Enhancement of Organizational Competence
- ⑤ Risk Management
- ⑥ Creating Shared Value

**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.**

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## **DGB FINANCIAL GROUP**

2015-2016 INTEGRATED SUSTAINABILITY REPORT

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### **Contact Information**

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

<b>Daegu Financial Group</b>	<a href="http://www.dgbfg.co.kr">www.dgbfg.co.kr</a>
<b>DGB Daegu Bank</b>	<a href="http://www.dgb.co.kr">www.dgb.co.kr</a>
<b>DGB Life</b>	<a href="http://www.dgbfnlife.com">www.dgbfnlife.com</a>
<b>DGB Capital</b>	<a href="http://www.dgbfncapital.co.kr">www.dgbfncapital.co.kr</a>
<b>DGB U-Pay</b>	<a href="http://www.dgbupay.com">www.dgbupay.com</a>
<b>DGB Data System</b>	<a href="http://www.dgbds.co.kr">www.dgbds.co.kr</a>
<b>DGB Credit Information</b>	<a href="http://www.daegucredit.co.kr">www.daegucredit.co.kr</a>

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# DGB Financial Group