

DGB NEW START

for The Next Half Century

www.dgbfg.co.kr



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 means ethical corporate culture that dreams toward the sky. Through the balance of life and work, DGB Financial Group will create a great work place where both employees and stakeholders get happiness.



A seed means sustainable finance that develops with the locality. We will make our best efforts to provide warm and good finance with the heart of sowing for the local economy.



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.



DGB FINANCIAL GROUP
2016-2017 INTEGRATED SUSTAINABILITY REPORT
ABOUT THIS REPORT

2016-2017 INTEGRATED SUSTAINABILITY REPORT

DGB FINANCIAL GROUP

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DGB Financial Group will continue to create sustainable values and will leap forward into the future together with stakeholders.

OVERVIEW OF THIS REPORT

Since the publication of the 1st sustainability report in 2006, DGB Financial Group has been reporting its material sustainability issues which affect the stakeholders as well as relevant performances on economy, society and environment in a transparent and truthful manner. This is the eleventh sustainability report written by DGB Financial Group, which was prepared by connecting the group's sustainable management strategies with the report's contents to assist the stakeholders to comprehend our action plans, performance indices and future plans in detail, reflecting DGB Financial Group's commitment to strengthen our operations.

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

PERIOD, SCOPE & BOUNDARY

This report covers DGB Financial Group's performances from January 1, 2016 through December 31, 2016, and some contents include the data for the first half of 2017. This report contains activities and performances of DGB Financial Group Inc., and its seven subsidiaries, that is, DGB Daegu Bank, DGB Life Insurance, DGB Capital, DGB Asset Management**, DGB U-Pay, DGB Data System and DGB Credit Information. The reporting boundary of each material issue is separately presented on page 71.

**Newly enlisted in 2016

GUIDELINE

This report was mainly written according to the Comprehensive Option of the GRI (Global Reporting Initiative) G4 Guideline. It also adopted the GRI Financial Service Sector Supplement, ISO26000, UNGC's 10 principles and SDGs 17 goals.

ASSURANCE

This report's objectivity and reliability were verified by an independent institution based on the AA1000AS (2008). The results are contained on page 161-162.

DGB Financial Group 2016-2017 integrated sustainability report is available in both Korean and English versions, and is published on both PC and mobile web sites to enhance information accessibility for stakeholders.

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CEO MESSAGE



‘DGB New Start for The Next Half Century’

At the start of the next 50 years
Through change and innovation
We will leap forward into the future
together with stakeholders

It is my great pleasure to convey my sincere gratitude to all stakeholders for the support and encouragement you have given us. I am delighted to say that you are at the heart of DGB Financial Group’s enduring prosperity, even in the midst of numerous obstacles.

DGB Financial Group aspires to share dreams and prosperity through three core values, such as respect, passion and integrity. With this management philosophy, DGB Financial Group has been driving its corporate sustainable management. The continuing fruits of such efforts have been published in our group’s Integrated Sustainability Report, and I hope this report will function as a meaningful communication channel.

The financial future that DGB Financial Group envisions is not mere affluence achieved by an expanding profit. It is a future where we grow together with all of our stakeholders by means of the balanced integration of financial profitability, environmental soundness and corporate social responsibility. This is why DGB Financial Group is pressing on to become a world-leading financial group, which stands firmly on our sustainable core competencies such as: customer satisfaction, maintenance of ethical standards, a sound corporate culture, and transparent business practices.

The year 2016 has been another rewarding year for DGB Financial Group in its various service sectors.

As for the group as a whole, its seventh subsidiary ‘DGB Asset Management’ was established, together with its first overseas subsidiary ‘DGB Lao Leasing Company’, which marks a turning point in the group’s history as well as a leap forward to becoming a global financial group. Also, DGB Financial Group became the first local financial holding company to join the other stakeholders of the Internet-only ‘K-Bank’, which further substantiates the group’s capabilities as a leader in the digital finance services. DGB Daegu Bank has expanded its business network into Korea’s capital region; while DGB Life has raised its profitability and reinforced its brand awareness. Additionally, ‘DGB Capital’, ‘DGB Asset Management’, ‘DGB U-Pay’, ‘DGB Data System’ and ‘DGB Credit Information’ have further contributed to the group’s synergy in leaps and bounds with their steady business performances.

These achievements and efforts were recognized from outside DGB Financial Group, with awards that were received on several occasions from esteemed institutions. In particular, in Dow Jones Sustainability Indices 2016, DGB Financial Group was concurrently included in the listings for Asia/Pacific

Index and Korea Index for seven and eight consecutive years, respectively. In addition, DGB Financial Group was selected for 2016 CDP (Carbon Disclosure Project) Korea Awards in the category of climate change subsequent to the previous year’s selection. The sustainability that DGB Financial Group has demonstrated over the years has indeed significantly raised the group’s standings in the market, and all DGB members are proud to have taken part in such accomplishments.

The year 2017 marks the fiftieth anniversary of DGB Daegu Bank, the main affiliate. With aspirations to make an even greater leap forward into the future, DGB Financial Group has set the new managerial objective of the ‘DGB New Start For Another 50 Years Forward’. Based on the achievements of the past half-century, DGB Financial Group is ready to strive even harder to create new social-environmental values through our financial activities.

In light of this new objective, DGB Financial Group aims to strengthen our core business areas by innovating the products and services provided by our affiliates, to improve the service quality, and to build up its capacity for asset and risk management. Moreover, our pursuit of growth and opportunities in future industries will never stop. DGB will pioneer the future by the enhancement of FinTech and big data-based marketing, the expansion of our business network and the continuous diversification of our non-banking business portfolio.

In addition, DGB Financial Group will align its corporate interests with those of its stakeholders, and is always open to cooperation and eager to share with the community. DGB will create unique values by providing innovative services to customers and clients, and such DGB values will be handed back to the company. To create shared values with the local community according to the current era demanding responsible financial corporations, DGB Financial Group will also continue to carry out DGB social initiatives over diverse areas including: supports of various local drives, specialized education programs and a wide range of activities in culture, the arts, and sports.

Overall, DGB Financial Group will become a creator of sustainable values, and together with all of our stakeholders we will leap forward into the future. I am looking forward to increasing the newly found hopes and the happiness within our society.

Thank you.

Park, In-gyu
CEO of DGB Financial Group

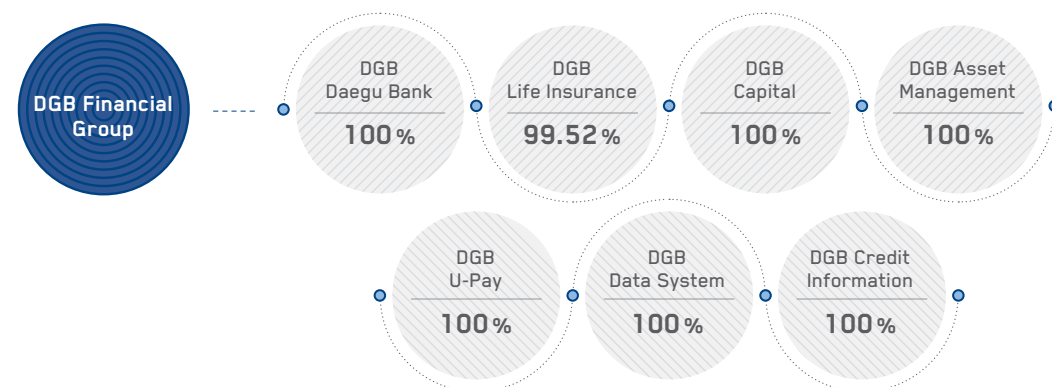
OVERVIEW

Introduction

DGB Financial Group was launched in 2011 for better financial service and in an attempt to secure the foothold for another takeoff. Based on Daegu Bank, which is the first local bank in Korea, four affiliates, that is, DGB U-Pay, DGB Data System and DGB Credit Information, joined the group for the enhancement of the group's capability. Afterwards, the group acquired a credit finance corporation, a life insurance company and an asset management firm, which became DGB Capital, DGB Life Insurance and DGB Asset Management, respectively, making a total of seven subsidiaries. Now, DGB Financial Group is making another leap forward to emerge as a premium financial group based on diversifying the sources of profits, creating synergy among the affiliates and expanding global network.

DGB Financial Group's Subsidiaries and Shares

* As of the end of Dec. 2016



DGB Daegu Bank

Based on the management philosophy of "Share dreams and prosperity with the local community," DGB Daegu Bank has been providing the best financial service to local residents for the past 49 years, and has laid the foundation for further development of the region.

DGB Life

DGB Life is a trustworthy life partner with 30 years of history and tradition for life insurance, and took another leap forward by being incorporated into DGB Financial Group in January 2015.

DGB Capital

DGB Capital is a credit finance corporation that joined DGB Financial Group in January 2012. All employees are pouring their best efforts to establish a 'premium capital company' with the management philosophy of 'substantial leap forward'.

DGB Asset Management

Joining DGB Financial Group in October 2016, DGB Asset Management began to take a new leap forward as an "premium asset management company" with the management philosophy of "creating greater value based on reliability and trust."

DGB U Pay

DGB U-Pay has established an electronic payment system for our daily lives, which provides safe and convenient services in various fields, such as small payment, access control and security, based on transportation infrastructure including bus, subway and taxi.

DGB Data System

DGB Data System is an information technology company that was established to provide customers with high-quality IT services, such as the development of information system, the integration and operation of information system, IT consulting and IT-related education. dation for further development of the region.

DGB Credit Information

DGB Credit Information is a credit information company that has been established for the local development and quick settlement of a credit society. It provides diverse asset management services, including credit investigation, credit collection and civil affairs agency service.

Business Status

* As of the end of Dec. 2016

	Number of Branches	Number of Employees	Total Asset (Hundred Millions (KRW))	Net Income (Hundred Millions (KRW))
DGB Daegu Bank*	259	3,121	459,452	2,650
DGB Life Insurance	49	280	55,751	149
DGB Capital*	12***	161	18,511	141
DGB Asset Management**	1	32	185	18
DGB U-Pay	1	31	352	-9
DGB Data System	1	96	96	9
DGB Credit Information	1	25	47	-1

* For DGB Daegu Bank and DGB Capital, the total asset is based on the consolidated financial statement, and the net income is for controlling shareholders.

** For DGB Asset Management, the accounting period is from Apr. 1, 2016 to Dec. 31, 2016.

*** 11 domestic, 1 overseas (Laos Corporation)



Number of Branches

DGB Daegu Bank	259
DGB Life Insurance	49
DGB Capital	12
DGB Asset Management	1
DGB U-Pay	1
DGB Data System	1
DGB Credit Information	1



Number of Employees

DGB Daegu Bank	3,121
DGB Life Insurance	280
DGB Capital	161
DGB Asset Management	32
DGB U-Pay	31
DGB Data System	96
DGB Credit Information	25



Total Asset (Hundred Millions (KRW))

DGB Daegu Bank	459,452
DGB Life Insurance	55,751
DGB Capital	18,511
DGB Asset Management	185
DGB U-Pay	352
DGB Data System	96
DGB Credit Information	47



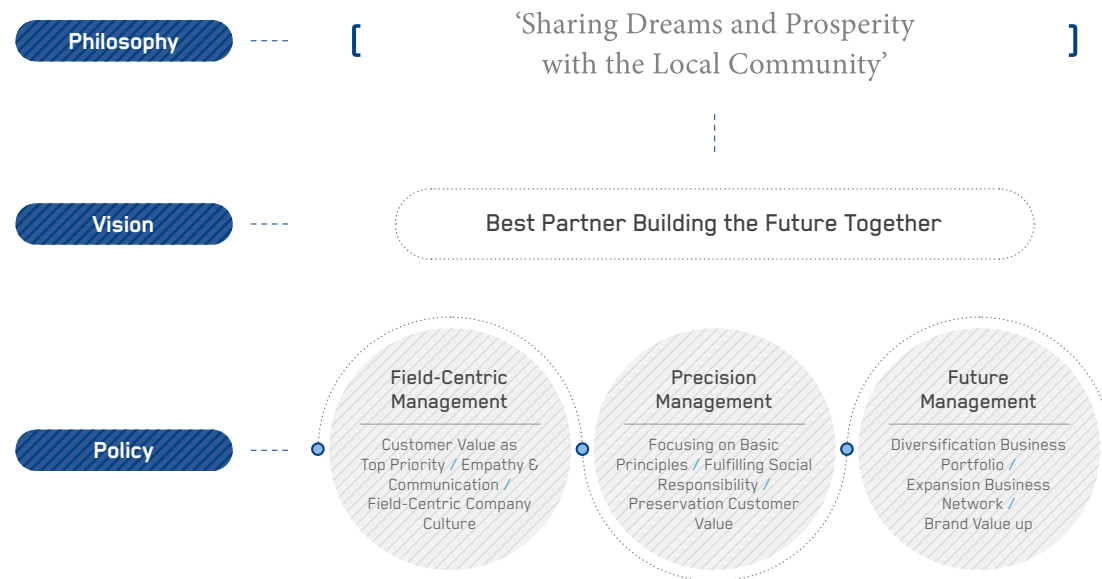
Net Income (Hundred Millions (KRW))

DGB Daegu Bank	2,650
DGB Life Insurance	149
DGB Capital	141
DGB Asset Management	18
DGB U-Pay	-9
DGB Data System	9
DGB Credit Information	-1

Vision & Strategy

With the management philosophy of "Sharing Dreams and Prosperity with the Local Community", DGB Financial Group will achieve our corporate vision of being "best partner building the future together", based on the management policies: field-centric management which visits customers; precision management which is trusted by customers; and future management for another leap forward.

Philosophy & Policy



2017 Goal & Strategy



2016 CSR HIGHLIGHTS

DGB 5 MAJOR STRATEGIES	FUTURE ORIENTED STRATEGIC MANAGEMENT	CUSTOMER SATISFACTION MANAGEMENT	ENHANCEMENT OF ORGANIZATIONAL COMPETENCE	RISK MANAGEMENT	CREATING SHARED VALUE
2016 HIGHLIGHTS	<ul style="list-style-type: none"> Acquired an asset management firm Established DGB Capital's LLaoian branch (DLLC) Pioneered the Internet bank for the first time among local banks 	<ul style="list-style-type: none"> Developed products targeting for senior customers 	<ul style="list-style-type: none"> Extended selective training courses for each position, and reformed the cyber training system 	<ul style="list-style-type: none"> Entered into an agreement for establishing and operating local green finance preferential fund 	<ul style="list-style-type: none"> Provided client-centered financial education Developed financial products and supported for the restoration of Seomun Market from fire damage
MAJOR PERFORMANCE	<ul style="list-style-type: none"> Net Income KRW287.7 billion* <p>* Group (Consolidated Net Income to Controlling Shareholders' Equity)</p>	<ul style="list-style-type: none"> FSS Financial Consumer Protection Assessment*: Best Bank for 10 consecutive years <p>10 Years</p> <p>* 2006-2014 Complaint Assessment: 1st Grade, Financial Consumer Protection Evaluation: All Items "Good"</p>	<ul style="list-style-type: none"> DGB Daegu Bank employees' financial certification acquisition rate 88.5% 	<ul style="list-style-type: none"> CDP KOREA superior company in climate change response for 2 consecutive years <p>2 Years</p>	<ul style="list-style-type: none"> The financial economic education volunteer corps provided 430 financial education for 24,000 people <p>24,000 people</p>
KEY ISSUE	<ul style="list-style-type: none"> Reinforcement of Fin-Tech Expansion of financial infrastructure & assets to provide financial service Enhancement of trust between DGB and stakeholders Reinforcement of capacities related to ethical management, risk management & governance 	<ul style="list-style-type: none"> Increase in demands for strengthening IT security & preventing financial accidents Establishment of infrastructure for financial service Protection for customer information Enhancement of reputation & brand value Increase in customer focus on environment, society & health Environmental impact assessment for goods & services Development of environment-related financial products 	<ul style="list-style-type: none"> Reinforcement of stakeholder communication Loyalty & motivation for improving performance (Leadership, management and cooperation) 	<ul style="list-style-type: none"> Enhancement of trust between DGB and stakeholders Reinforcement of capacities related to ethical management, risk management & governance Increase in customer focus on environment, society & health Enhancement in utilization of natural resources Operation of eco-friendly system Environmental impact assessment for goods & services 	<ul style="list-style-type: none"> Trust from stakeholders Reinforcement of stakeholder communication Enhancement of reputation & brand value
SDGS					

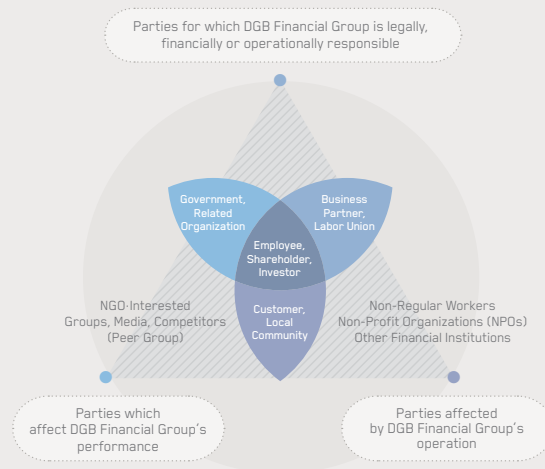
STAKEHOLDER ENGAGEMENT

Selection & Classification of Stakeholders

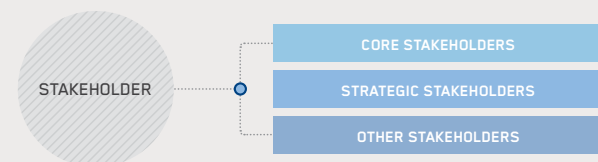
DGB Financial Group has selected stakeholders in accordance with the criteria provided by the ISO26000(International Standard for Social Responsibility) and based on legal, financial and operational responsibilities and their influence, we have conducted the mapping and grouping of stakeholders. Then we have classified them into three major groups, which is, core, strategic and other stakeholders, and have defined employee, shareholder and investor, customer, local community, business partner, government and related organization as core and strategic stakeholder groups.

Sincere communication with stakeholders and their participation are the key to DGB Financial Group's sustainable management practice. DGB Financial Group is recognizing the needs of each stakeholder group, and is actively addressing the needs, thereby establishing sound and reliable relationships with the stakeholders.

MAPPING OF STAKEHOLDERS

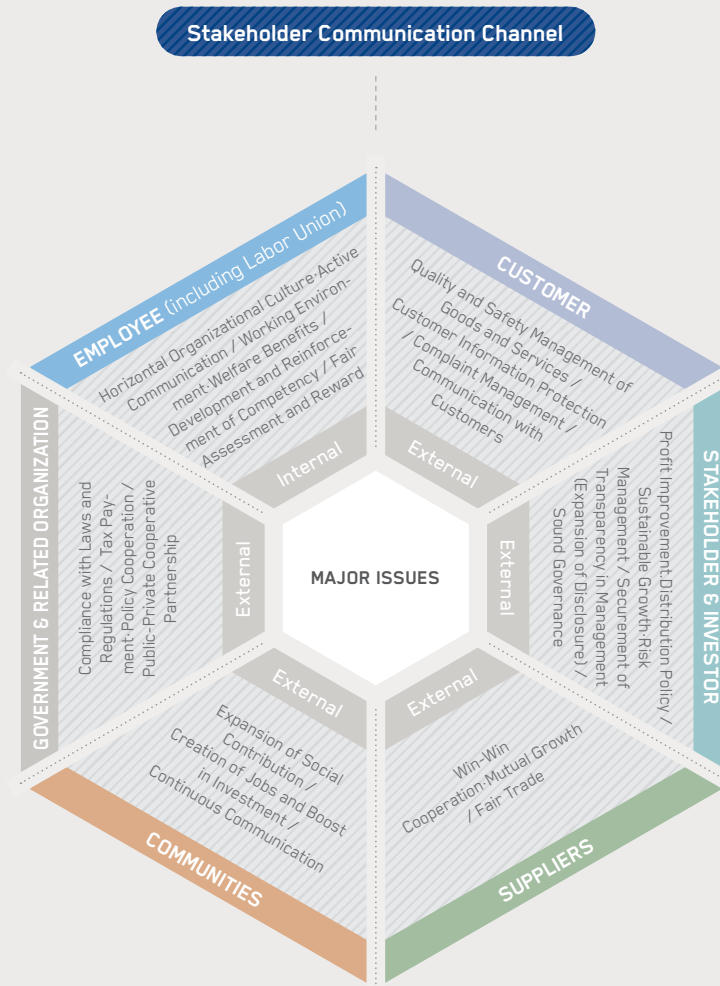


GROUPING OF STAKEHOLDERS



Stakeholder Communication Channel

DGB Financial Group always listens to stakeholder opinions through diverse communication channels to establish a consensus on sustainable management activities and issues that we are promoting in earnest. Their opinions are reviewed by each responsible department first, and critical issues are reported to the Board of Directors and CEO to proactively take proper actions to management activities and strategies, and are disclosed in a transparent manner.



COMMUNICATION CHANNEL



- Employee (Including Labor Union)**
- Intranet (Please Help, Please Change/ Employees' Wish Letters) (Standing)
 - Employee Satisfaction Survey (Standing)
 - Labor-Management Meeting and Conference (Standing)



- Customer**
- Website (Standing)
 - 'DGB Chamsori Advisory Panel' (Standing)
 - Customer Satisfaction Survey (Standing)
 - Financial Service Customer Protection Education (Standing)
 - Customer Protection Report, 'Caring Companion' (Standing)
 - CEO Forums (Daegu, Gumi, Pohang, Gimcheon) (Standing)
 - Honorary Branch Manager Meeting (Standing)
 - Superior Small & Medium Business CEO Meeting (Standing)
 - Business Consulting Service (Standing)



- Shareholder & Investor**
- DGB Financial Group Website (DGB IR) (Standing)
 - General Shareholders' Meeting (Standing)
 - Board Meeting (Standing)
 - IR Activities (Standing)



- Business Partner**
- Website (Online Civil Petition, Financial Accident & Irrationality Report) (Standing)
 - Business Partners' Win-Win Meeting (Standing)



- Local Community**
- Website (DGB Social Contribution to Local Community) (Standing)
 - DGB Daegu Bank Social Contribution Activity Report (Standing)
 - DGB Volunteer Corps (Standing)
 - Love Your Hometown Campaign, '1 Corporation 1 Village' (Standing)
 - DGB University Student Ambassador, 'With-U Volunteer Corps'/Green Press Corps (Standing)



- Government & Related Organization**
- Website (Standing)
 - Government-Funded Research Project (Standing)
 - Hearing & Conference (Standing)
 - Survey (Standing)

Stakeholder Opinion & DGB's Response

STAKEHOLDER OPINION

Customer	<ul style="list-style-type: none"> · Provision of and enhancement of accessibility to information on goods and services · Improvement of safety and quality of goods and services · Improvement of satisfaction for customer communication
Employee	<ul style="list-style-type: none"> · Diversification of education programs to enhance the competence of global financial experts · Creation of work environment with the sound balance of work and life · Activation of communication / expansion of communication channels / open communication
Shareholder/ Investor	<ul style="list-style-type: none"> · Stable revenue generation, discovery of new growth engine, higher dividend · Enhancement of transparency in management, expansion of information disclosure
Local Community	<ul style="list-style-type: none"> · Increase in Investment to local community and support for the financially-underprivileged · Expansion of social contribution activities required by local community · Investigation to boost the local economy, including the creation of jobs
Business Partner	<ul style="list-style-type: none"> · Expansion of the cooperation with business partners for the growth and improvement of capacity · Reinforcement of two-way communication channels for business partners
Government / Local Government / Related Organization	<ul style="list-style-type: none"> · Fulfillment of social responsibility as a financial company · Compliance with financial laws and regulations

STAKEHOLDER OPINION

Customer	<ul style="list-style-type: none"> · DGB Chamsori Advisory Panel · One CS manager per branch · Opening on weekends and holidays
Employee	<ul style="list-style-type: none"> · DGB Youth Frontier · Live talk with the president of bank · Smart Leisure-Tech Campaign
Shareholder/ Investor	<ul style="list-style-type: none"> · Opening up of a global market (DGB Capital's overseas corporation in Laos) · Disclosure of transparent management / presentation of performances and provision of IR data
Local Community	<ul style="list-style-type: none"> · DGB Accompanying Volunteer Corps · Bluebird Senior's Happy Workplace Program · NIE Energy Diary Contest · Dream Tree Education Project
Business Partner	<ul style="list-style-type: none"> · Business partners' win-win meeting · Provision of management consulting service to business partners
Government / Local Government / Related Organization	<ul style="list-style-type: none"> · Compliance with the Codes of Conduct · Education on the Improper Solicitation and Graft Act

Stakeholder Survey

OVERVIEW

With regards to the sustainable management, DGB Financial Group has been conducting annual stakeholder surveys since 2006 to identify issues of interest among the major stakeholder groups and to check their priority. The questionnaire consists of questions in three different categories; Trend, Impact, and Internal Competency (5-point scale). The categories are designed to identify the importance of the sustainable management-related issues that DGB Financial Group should primarily address in order to fulfill its social responsibilities and grow into a sustainable business.

SURVEY RESULTS

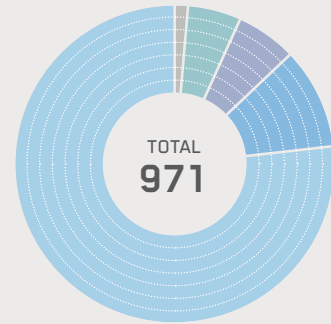
Analysis by Trend, Impact and Internal Competency

The survey results showed that the most critical 'Trend' issue, which significantly affects the group's sustainable management practice, was the 'Provision of Secure Financial Transaction Service.' As for the 'Impact' issue which indicates the influence of the group's sustainable management activities on the society, the 'Protection of Personal Information of Customers' was ranked first. Lastly, in the 'Internal Competency' category where the group-wise efforts are highly required to set it apart from other competitors, 'Loyalty and motivation to improve performance' was selected as the most important issue.

Analysis by Stakeholder Group

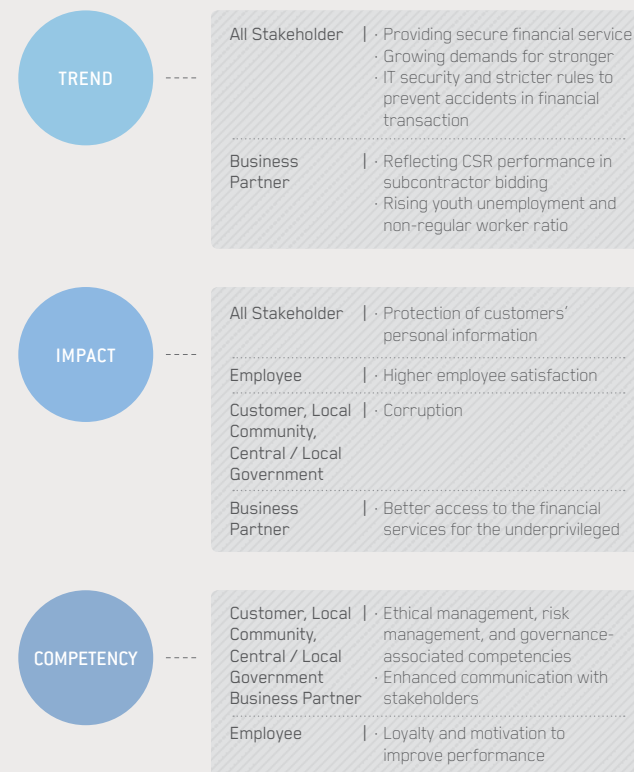
By stakeholder group, all stakeholder groups chose 'Providing secure financial service' and 'Growing demands for stronger IT security and stricter rules to prevent accidents in financial transaction' as the most important issues in 'Trend'. The business partners of the group selected 'Reflecting CSR performance in subcontractor bidding' and 'Rising youth unemployment and non-regular worker ratio' as the important issues, although those two are not included in the top 10 issues of the stakeholders. As for the 'Impact' issues, all stakeholders selected 'Protection of customers' personal information' as the most important issue. By group, the employee group selected 'Higher employee satisfaction', the customers, local communities, and government/related organizations groups chose 'Corruption', and the business partners group gave the highest scores for 'Better access to the financial services for the underprivileged.' With regards to the 'Internal Competency' issues, the customers, government/local governments, local communities, and business partner groups all selected 'Ethical management, risk management, and governance-associated competencies' as well as 'Enhanced communication with stakeholders' as important issues, whereas the employees group chose 'Loyalty and motivation to improve performance'

TARGET OF THE SURVEY



● Employee (including non-regular worker/internship)	763	78.6%
● Customer (corporate/individual)	92	9.5%
● Local Community	56	5.8%
● Central / Local Government	51	5.3%
● Shareholder / Business Partner / Media	9	0.8%

SURVEY RESULTS (Material Issues)



Stakeholder Interviews

DGB Financial Group conducted interviews with individual / corporate customers, business partners, employees and local community by inviting their representatives.

“

Predictions and Preparations for the Future

“DGB Financial Group needs to discover and grow future value, and predictions, preparedness, and preemptive responses to the future society must be made in each area. Then, DGB Financial Group will be able to achieve enhanced economic performance and sustainable development in society and the environment at the same time.”

JAE-EUI PARK

School Inspector, Daegu Metropolitan Office of Education (Local Community)

“

Investment in Human Resources

“If we raise our employees' self-esteem, our corporate values will increase naturally. To that end, investment in human resources is necessary. I hope DGB Financial Group will be able to respond to changing trends by expanding education and investment in sustainable management.”

IN-JOON JUNG

Environmental Policy Division, Daegu Metropolitan City (Public Institution)

“

Reinforcement in Transparency

“Communication is critical for sustainable management. In order for DGB Financial Group to be better prepared for good sustainable management, not only shareholders but also local residents and stakeholders should be able to obtain quality information. Furthermore, diverse needs and opinions of stakeholders should be considered in the group's decision-making process.”

YONG-SEOK OH

Secretary General, Local Council for Sustainable Development (NGO)

“

DGB Design Management

“I think DGB Group, a long standing partner of the local community in Daegu, needs differentiated design management conveying its own unique historical identity. The background of the group's affiliates, including DGB Daegu Bank, which have shared their history with local customers, will be the sound basis of this design management.”

YOON-HEE NA

CEO, Hongik Forum (Business Partner)

“

Expansion of Business Scope

“I think it is necessary for the group to improve its competitiveness to move out of its comfort zone towards the world. I hope that overseas Koreans will be able to use the Bank soon.”

MYEONG-WOOK MOON

(Customer)

“

Reliable and Comfortable Bank

“I hope that DGB Financial Group will be trusted by the local community with its unique strategy, and become a comfortable bank by being a friendly place for citizens, owners and businesses in Daegu.”

SANG-SU KIM

CEO, ISIS (Ddangdalim Sangmyeongsalim), (Corporate Client)

“

Development of Local Economy

“I think that DGB Financial Group should carry out diverse and comprehensive financial support programs, profit return, and distinctive CSR activities for the region. Then, DGB Financial Group will be able to achieve shared growth with the local community.”

KYOUNG-RYONG KIM

Vice President, DGB Financial Group (Employee)

Expert Meeting

DGB Financial Group held an Expert Meeting for the publication of the 2017 DGB Financial Group Integrated Sustainability Report, with prominent experts from economic, social and environmental fields. At the meeting, the participants verified the validity of the materiality analysis results, provided feedback on the previous issue of the report, and shared with one another diverse opinions on the directions of sustainable management policy that the group should follow.

Time	Feb 3, 2017, 2 p.m.
Location	DGB Life Insurance Headquarters (Seoul)

COMMUNICATION WITH STAKEHOLDERS

YEONG-JAE RYU |

I wish the communication with stakeholders is not conducted just for this integrated sustainability report, but to serve as a genuine starting point towards the sustainable management. To this end, it is important to fully understand what the stakeholders are thinking, and holding a meeting with them on a regular basis, at least every quarter, will be a great opportunity to have meaningful conversation with them. The more times they meet, the greater the understanding and expertise the stakeholders have of DGB Financial Group. Continued monitoring will help DGB Financial Group to have more helpful and meaningful communication with its stakeholders.

KWON JUNG |

Stakeholders, such as customers, expect sincerity from a company, and the most efficient channel to deliver the sincerity is a message from senior management of the company. Like the CEO's message provided in the introduction of the integrated sustainability report, there is strong emphasis on its willingness to pursue the sustainable management. I hope it will deliver DGB Financial Group's sincerity and commitment towards the sustainable management to its stakeholders.

JOO-HYUN KANG |

It is important to specify proper corrective action plans against the negative aspects of the company via communication with stakeholders. The sincere and detailed in-



formation as to what the company is doing to prevent such negative elements from being realized delivers a sense of trust to the stakeholders. It would be even more ideal if the reporting range is expanded to its business partners, covering the group's plans to support sustainable management activities in the partner companies.

RAN-HEE PARK |

A corporate report should contain, if any, negative aspects of the company along with positive performances. Regarding the negative part, the report should provide detailed description as to how those negative elements are created and how they can be prevented in a transparent manner. For example, if there is a huge difference observed between this year's report and the last year's report as to a performance-related index such as a return rate from the maternity leave, then this year's report should explain to its stakeholders why the difference has occurred.



Joo-hyun Kang |
CEO, Global Competitiveness Empowerment Forum



Ji-Seok Kim |
Energy Innovation Manager, British Embassy Seoul

* ESG: Non-financial performance related to environment, society and governance

** UN SDGs: Sustainable development goals which is designated by the UN

PERFORMANCE MONITORING & REPORT

YEONG-JAE RYU |

From the investors' standpoint, ESG performance is an important indicator to assess the management efficiency of a company. A company should be able to show its investors positive progress and improvement in performance on a regular basis. In this context, DGB Financial Group should report to its customers and investors how the ESG affects the management activities of the group in terms of profitability and growth.

JOO-HYUN KANG |

It was very impressive and meaningful that DGB Financial Group compiled its achievements in the past 10 years in the previous sustainability report. To provide its stakeholders with even more meaningful information, it would be a good idea to describe how the ESG performances of the group are creating shared values in its management activities in a sustainability report. With the growing importance of the UN SDGs and constantly changing business trends in global market, it would be worth trying to connect the materiality issues in DGB Financial Group and the SDGs.

RAN-HEE PARK |

Many global businesses are presenting excellence achievements in sustainable management about the company are delivered through their sustainability report. This is because the ESG performances are reported in connection with the management activities of the company in the report as integrated goals and numerical figures. If DGB Financial Group can integrate its ESG targets, figures, and corrective plans in its sustainability report, it would also be possible to have a fairly accurate glance at the group by reading the report.

KWON JUNG |

DGB Financial Group carries out stakeholder surveys on large-sized sample groups annually, and also conducts a materiality analysis utilizing the survey results. Meanwhile, the group can utilize the survey results in a more useful way if they develop a more quantifiable performance assessment model using the survey results, thereby reflecting those in its management fields in a more comprehensive way.

DIRECTIONS OF SUSTAINABLE GROWTH GOING FORWARD

Ji-Seok Kim |

In order for DGB Financial Group to continue to be a sustainable business in the future, it is important to consider the roles that financial companies can play in the environmental sector. In the case of Norway, the national pension service defined the coal industry as harmful, and this movement became a good precedent and many followed suit. I hope that DGB Financial Group will also become a leading company in the market by setting a good precedent through bold and exemplary actions such as proactive investment in the solar energy sector and preferential lending for the environmental industry.

RAN-HEE PARK |

Since DGB Financial Group started as a local bank, it has promoted numerous social contribution projects and activities for the local community. I hope that the new corporate branding project will serve as another great opportunity to integrate various CSR (corporate social responsibility) activities conducted by the group in different regions to create one unified and symbolic movement. I also hope that the DGB's CSR activities are not only assessed by quantitative criteria, such as the number of activities and the amount of monetary support provided, but also by qualitative measures taking into account long-term influences and outcomes that can be carried out going forward.



Yeong-Jae Ryu |
CEO, Sustinvest



Ran-hee Park |
Editor in chief, 'Better Future,' Chosun Ilbo



Kwon Jung |
Professor, KDI School of Public Policy and Management

BUSINESS MODEL

INPUTS

Financial Capital		Manufactured Capital		Human Capital	
Total Asset	KRW 53462.4 billion	Branches	324	Employees	3,746
Sales	KRW 3655 billion	Business Districts	3	Per Capita Education Expense	KRW 600 thousand
Net Profit*	KRW 287.7 billion	Customers	3.29 million	Turnover Rate	4.1%

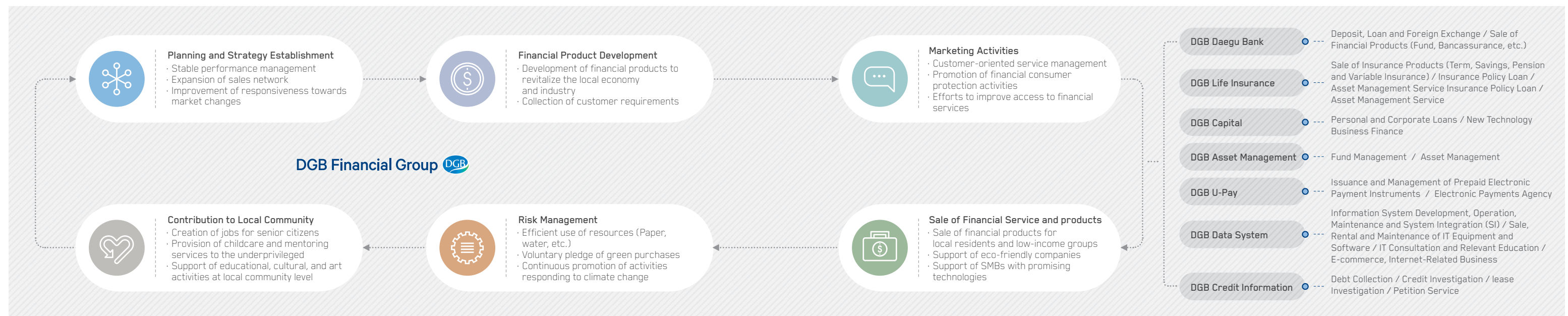
* Consolidated Net Income to Controlling Shareholders' Equity

Intellectual Capital		Natural Capital		Social & Relationship Capital	
Investment in FinTech (IT)*	KRW 2,174 million	Water Use	168,753 ton	Social Contribution Expense/Net Income*	7.7%
Online Customers	219 million	Green Purchase	KRW 7,048 million	Volunteer Workers	19,294
Patent Registrations	8(Application 10, Issue 8)	GHG Emission	17,730 tCO2e	Customer Satisfaction	94.9

* 2nd development of smart e iM Bank, Establishment of non-face-to-face business (O2O) system
Establishment of FIDO bio certification system
Renewal of website

* Net income basis: Net income after deducting DGB Daegu Bank's bad debt reserve

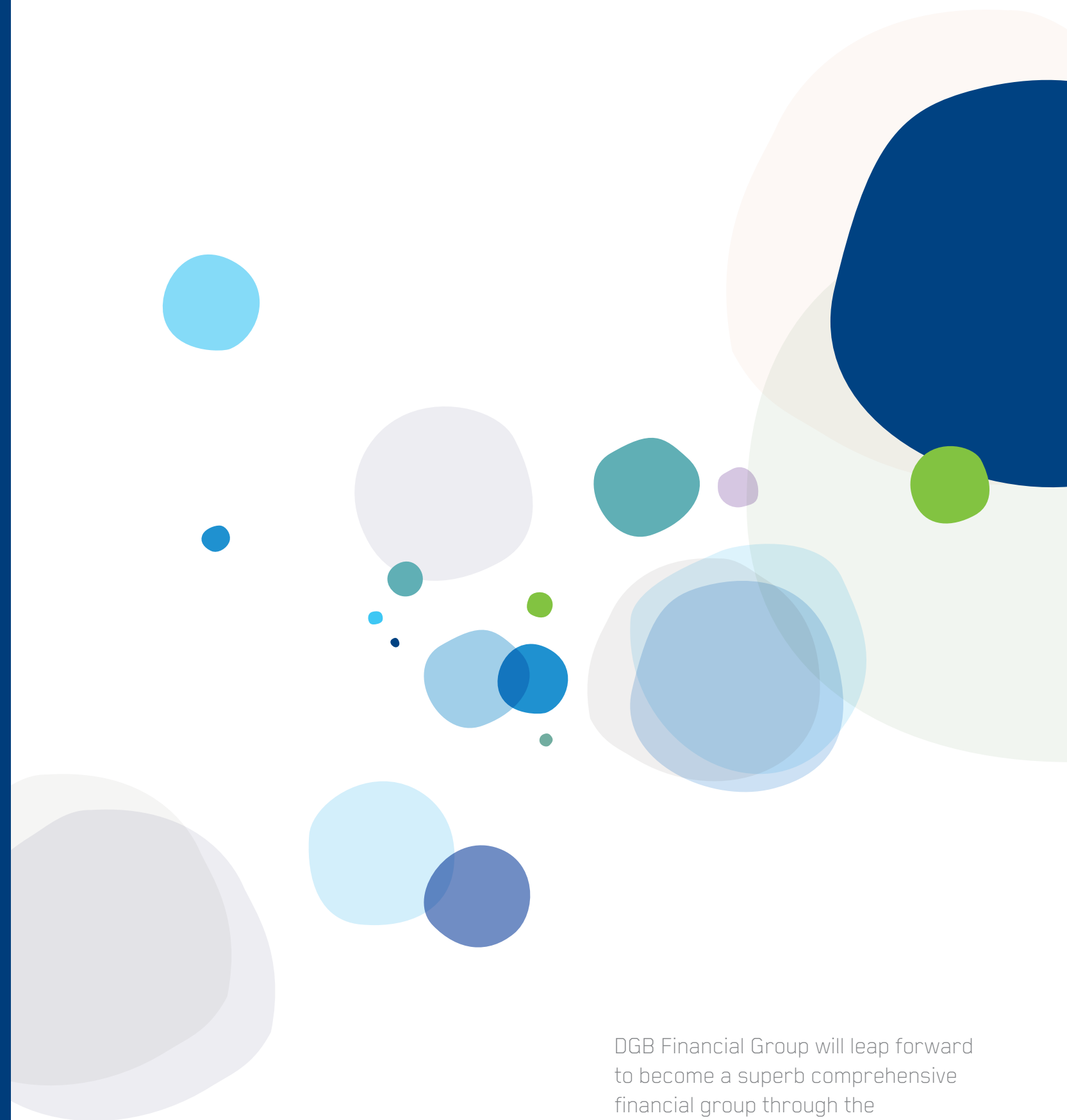
OUR BUSINESS & VALUE CHAIN



OUTPUTS

FINANCIAL CAPITAL	MANUFACTURED CAPITAL	HUMAN CAPITAL	INTELLECTUAL CAPITAL	NATURAL CAPITAL	SOCIAL & RELATIONSHIP CAPITAL
<p>With the launch of DGB Asset Management, total assets increased by KRW 318 billion compared to the previous year, and sales and net income also increased by 1%.</p> <p>Market Shares in Daegu & Gyeongbuk Area 36.8% 1% ↑ (relative to the previous year)</p>	<p>The number of branches for providing financial services is 324 increased by 16 compared to the previous year, and the number of overseas business districts increased by 1 with the launch of DGB Lao Leasing Company.</p> <p>Branches 324 16 ↑ (relative to the previous year)</p>	<p>Due to the reinforcement of support for strengthening the capacity of employees, the expansion of selective training courses for each position and the reformation of the cyber training system, the number of certificates has increased by 292 relative to the previous year.</p> <p>New Certifications 1,340 28% ↑ (relative to the previous year)</p>	<p>We invested KRW 2.174 billion in finance services using IT technology such as FinTech. The number of online customers has increased by 3.7% to 2.19 million relative to the previous year.</p> <p>Online Customers 2.19 million 3.7% ↑ (relative to the previous year)</p>	<p>The greenhouse gas emission has been reduced by 402.14tCO2e after constructing the eco-friendly 2nd headquarters and each branch's water use was reduced by 1.25 tons.</p> <p>Water Use Per Branch 8.24ton 1.25% ↓ (relative to the previous year)</p>	<p>Over 19,000 employees have participated in volunteer service each year, and we have continuously achieved a high level of customer satisfaction that reaches approximately 95 point.</p> <p>Customer Satisfaction Level 94.9% 0.4% ↓ (relative to the previous year)</p>

DGB
FINANCIAL
GROUP
SUSTAINABLE
MANAGEMENT
FOCUS



DGB Financial Group will leap forward to become a superb comprehensive financial group through the diversification of our revenue sources, the creation of synergies among our affiliates and the expansion of our global network.

FOCUS ISSUE #1

DGB Daegu Bank's 50th Anniversary

•

Powerful challenge for
a centennial bank

With local
community,
DGB
Daegu Bank

50

“
DGB Daegu Bank
is creating a
new history as
a regional bank
representing
Korea, with vision
and a passion for a
'Centennial Bank',
a bank that last
100 years.
”

● ● DGB Daegu Bank was established in 1967, as the first local bank in Korea, seeking to be a pioneer of regional development in Daegu. Despite many grueling challenges, including the oil crisis, the Asian financial crisis, and economic downturn, DGB Daegu Bank has made continuous efforts for the last 50 years to fulfill the dreams of local residents, by making robust business innovation, establishing more advanced management infrastructure, and preemptively responding to the new finance environment in the future.

Launched in 1967 and aiming to provide the best financial services to its customers, DGB Daegu Bank is a major affiliate of DGB Financial Group. With about 70% of the residents in Daegu and Gyeongbuk using DGB Daegu Bank, DGB Daegu Bank has been the most beloved and trusted financial partner to its customers in the region, boasting the soundest financial ratios among the banks in Korea. Pursuing 'Passionate Finance', 'Reliable Finance', and 'Caring Finance' as its crowning management policies, and based on its vision and passion to be a centennial bank, DGB Daegu Bank strives to write a new history by becoming a prominent local bank representing Korea's financial industry.

From the First to the Best

Dedicated to providing fair and sound finance services to local residents to help them realize their dreams, DGB Daegu Bank has been reborn with various new features in commemoration of its 50th anniversary. With Head Office renovation and corporate brand renewal, DGB Daegu Bank is now preparing for the future to become a 'centennial bank', building on the dreams and prosperity that it shared with customers for the last 50 years. The 2nd Head Office of DGB Financial Group opened in Chilseong-dong, Buk-gu, Daegu in return for the love of local people, which has become a landmark in the city as a cultural complex accompanied by a beautiful little park nestling at the heart of the downtown area. In addition, the group plans to maximize the synergies among its affiliates by establishing a unique and comprehensive brand identity through brand renewal to integrate and symbolize the value of DGB Financial Group. In celebration of the brand renewal and 50th anniversary of the group, DGB Daegu Bank has also renovated its website to secure design unity of the brand and to better embrace fin-tech finance environment.



Trusted and Honest Finance

As its top priority, DGB Daegu Bank strives to meet the financial needs of local people and businesses, and is committed to job creation and economic development in the region. The group listens to the voices of both high-flying local companies and SMBs, and is eager to create effective supportive measures for them. The group is recognized for taking the initiative in revitalizing small loan finances and providing financial support for the underprivileged.

Passionate Financial Service

Starting with establishing the next-generation financial system for the first time among local-based banks, DGB Daegu Bank has been at the forefront in responding to the future-centric finance environment by establishing the new and independent DGB smart banking system, opening 'Fium' (fin-tech center) for the first time among local banks, and launching the DGB portable system. As a result, DGB Daegu Bank has been named in the Asia & Pacific Index of the Dow Jones Sustainability Index for 7 consecutive years, received the presidential certificate, and has been selected as the Best Bank for Financial Consumer Protection for 10 consecutive years for the first time in the financial industry. All of these achievements were made possible because of DGB Daegu Bank's efforts to put customers as the top priority.

Caring Financial Service

In its efforts to become a 'caring' bank for the local people, all employees at DGB Daegu Bank join in sharing warmth with the community, wherever loving and caring hands are needed. DGB Daegu Bank believes in future where finance industry fulfills their corporate social responsibilities and coexists with the community in harmony.



DGB Daegu Bank's 50th Anniversary Emblem

Our emblem is designed with the motif of the Bluebird, the mascot of our company, expressing the feeling that the bluebird is now leaping to the higher mountains with strong wings as it has grown with the Daegu-Gyeongbuk area for the last half a century.



Brand CI Renewal

- ✓ **Cubic Effect** The logo type and balance were improved
- ✓ **Visibility** The font of 'DGB' in the symbol was improved
- ✓ **Blue Up** The modern and sophisticated identity

New Start for Another 50 Years Forward

Commemorating the 50th anniversary of its opening, DGB Daegu Bank held the '2017 DGB Daegu Bank Deputy Branch Chief Meeting' where all employees gathered together to reaffirm their commitment to achieving new management goals for 2017. Under the slogan of 'DGB New Start for Another 50 Years Forward', the management strategies centering on 'field' to preemptively respond to the emergence of new competitors and to overcome limitations through innovation were announced in this meeting. By realizing sustainable and practical management where customer values are handled as top priority, DGB Daegu Bank seeks to grow and develop hand-in-hand with local community for better and more prosperous future for all.

HISTORY

➔ **1960's - 1990's**

- 1967. 10 | Established as the first local-based bank in Korea
- 1975. 01 | Launched the Daegu city safe deposit agency service
- 1983. 02 | Started the online business operation which integrates all branch offices
- 1985. 06 | Started the credit card operation
- 1991. 09 | Launched the comprehensive online service
- 1995. 01 | Launched the Bluebird phone-banking service for the first time among domestic banks
- 1996. 11 | Launched the cyber banking system

➔ **2000's**

- 2000. 05 | Started the Internet banking service
- 2001. 06 | Implemented the Corporate Credit Rating Management System (CRMS)
- 2001. 08 | Opened the cyber 'Dokdo' branch
- 2001. 09 | Started the 'Plus Firm Banking' service (Internet banking service for corporate clients)
- 2003. 09 | Launched the insurance agency business
- 2006. 07 | Joined the UNGC
- 2006. 09 | Joined the UNEP FI, and held the proclamation ceremony on sustainable management
- 2007. 05 | Published the first 'Sustainable Management Report'
- 2008. 06 | Opened the Shanghai office in China
- 2009. 10 | Joined the DJSI Korea

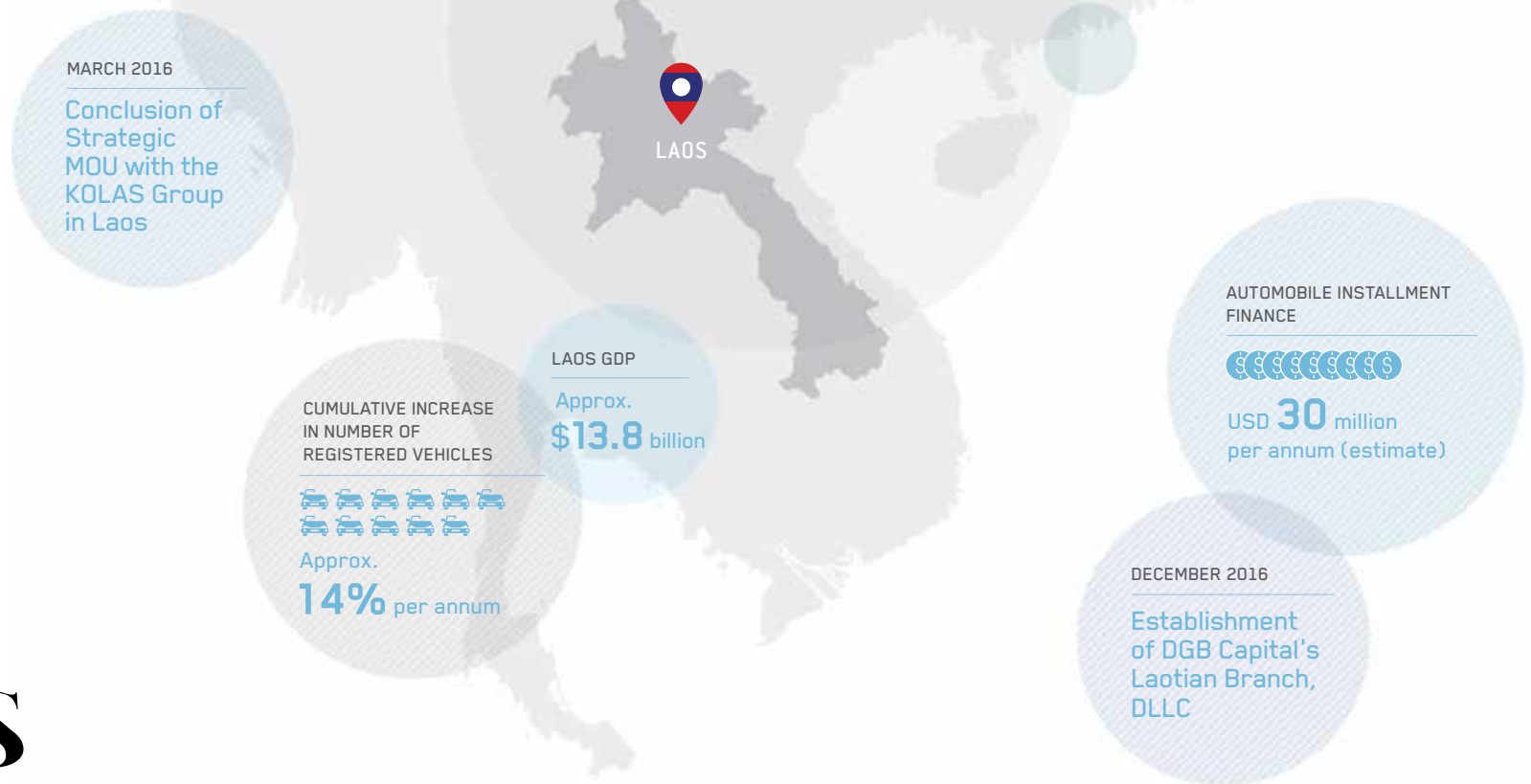
➔ **2010's**

- 2010. 05 | Opened the "DGB Cyber Green Branch" which is the first environment-specific store in Korea
- 2010. 06 | Entered into a MOU with Golomt Bank in Mongolia
- 2010. 10 | Joined the DJSI Asia&Pacific
- 2011. 03 | Joined the 'FTSE 4Good Index' for the first time in Korea
- 2011. 05 | Established DGB Financial Group Ltd.
- 2012. 11 | Opened the cyber innovation city branch
- 2012. 12 | Opened the Shanghai branch in China (for the first time as regional bank in Korea)
- 2014. 12 | Opened the Ho Chi Minh Office in Vietnam
- 2016. 10 | Opened DGB Daegu Bank's 2nd Headquarters in Chilseong-dong, Daegu

FOCUS ISSUE #2

DGB Capital's Overseas Corporation
in Laos

With another leap forward to the future market,
DGB secured new growth engine in
LAOS



●● The world economy has stepped into a long and boring stage of sluggish growth since the global financial crisis in 2008. Worse yet, the advent of the 4th Industrial Revolution, accompanied by the Brexit and Trumpnomics, is amplifying the uncertainties of the already-fragile business environment. Amidst this fast-changing and volatile business environment, it is crucial to develop and secure new growth engines for a company to sharpen its competitive edges. By doing so, it can be better prepared to respond to the changing market conditions for sustainable growth.

Against this backdrop, DGB Financial Group is seeking to find new growth engines in global markets, with 'Your Best Partner for the Future' as its principal slogan. Following the opening of the Shanghai branch of DGB Daegu Bank in China and the Ho Chi Minh office in Vietnam, DGB Capital established a local corporate office in Laos in Dec, 2016, advancing earnestly into the auto lease-purchase financing market in the country.

Fascinating financial market in Indochina Peninsula, Laos

Let's look more closely on the automobile market in Laos where DGB Financial Group has advanced into recently. The demands and penetration rate

of automobiles in the Laotian market is among the highest in emerging countries in the Indo-China peninsula, thanks to its high GDP growth of annual average 7%. Thanks to the positive perception towards wealth spreading among the public, coupled with the government sanction on used car import that in turn increases the popularity of new cars, the robust growth rate of the Laotian auto market is expected to continue at least for the time being.

In Vientiane, the capital of Laos having promising potential of continued growth and profitability, DGB Financial Group's second overseas branch seeks to take another leap forward as a full-fledged global financial business in Laos.

Tapping into the global markets by forging solid partnership

Business expansion into new markets is an opportunity for companies in terms of securing new growth engines, but it can also be a concern for the business due to the risks that may arise from differences in language, culture, institutions, and laws. Especially in emerging economies such as Laos, uncertainty can be even more amplified in various aspects of business, including economic situation, exchange rate, oil prices, and other areas. Therefore, preventing and minimizing such

business risks that may arise when entering new markets is an essential part for successful and profitable business execution.

With this in mind, DGB Financial Group has signed a MOU in March 2016 with the Kolao Group, a Korean business operating in Laos known for its wide-ranging and successful business areas and excellent and sustainable growth. DGB Financial Group hopes that the Kolao Group will be a reliable partner for its advancement into the Laotian market.

The business alliance with the Kolao Group, the largest private company in Laos, is aimed at establishing a comprehensive support system to promote business partnerships in the Indo-China Peninsula and ASEAN region. DGB Financial Group has pledged to diversify its ASEAN business portfolio as a global financial company and to share its accumulated know-how and infrastructure with the Kolao Group. Accordingly, Kolao Group will support DGB's financial product development and overseas network expansion so that DGB Financial Group's overseas entry strategy will be successful. In addition to regular human resource exchanges and the introduction of a global human resource development program, the Kolao Group also pledged to join in efforts to create local jobs in Laos.

Securing a beachhead in Laos to open up the Asian market

The growth of the domestic capital industry has slowed down and competition has been intensifying due to easier access to the industry by banks, card companies, and insurance businesses. In order to create new revenue sources, advancement into overseas market



DGB Lao Leasing Grand Opening Ceremony

was not a choice but a prerequisite for a capital company to secure corporate sustainability. In line with an effort to tap into the future growth industry, Laos, an attractive emerging market among the countries in the Indochina Peninsula thanks to the continued increase in demands in financial industry, was selected as the beachhead for the Group's advancement into the Asian financial markets.

As the demand for automobile installment finance is expected to increase steadily amid the steady growth of the automobile business in Laos with the increase rate for cumulative registered cars of an annual average of approximately 14%, DGB Lao Leasing Company (DLLC), a subsidiary of DGB Capital in Laos, was officially launched in Vientiane in Dec 2016 after a thorough preliminary review of the overall business. DLLC is expected to carry out the auto lease financing business worth 30 million USD per annum in Vientiane.

Building on DLLC's successful launch, DGB Financial Group plans to expand into other financial markets including the banking sector in the ASEAN region, thereby seeking to be one of the most prominent global finance businesses in the world.



FOCUS ISSUE #3

Eco-Friendly Financial & Cultural Complex _
DGB Daegu Bank's 2nd Headquarters

•

Open space for
the communication with
neighbors and colleagues
in nature

DGB
Culture Platform
in

DGB

● ● 'DGB Culture Platform Project', which aimed to build an 'open financial & cultural complex' in the city of Daegu, was completed after four years of a long journey in Oct. 2016. Now, it started a new challenge to become the most prominent cultural space for Daegu citizens as well as an eco-friendly landmark in Daegu.

DGB Daegu Bank's 2nd Headquarters consist of four independent buildings supporting one large structure above. When illuminated at night, the upper floors of the building seem to float like a full moon rising in the middle of the city.

In the lower part of the building, there is a cultural complex where a gym, banks, galleries, book cafe, auditorium and cultural centers are located, enriching the lives of local residents. The upper floors are office areas and there is also a rooftop garden on the 10th floor where the users and visitors can take a rest.

Picture by Wan-Soon Park



Green space where architectural
structure and nature coexist in
harmony

As a company pursuing a philosophy of sustainable management, DGB Culture Platform project began with a slogan of "Realizing world-class green buildings", and from planning and design to actual construction stage, environmental protection and energy saving strategies served as a foundation for the entire project. In order to realize the goal of 'True eco-revolution' beyond just acquiring eco certificates, 'Integrated green design process' where all the stakeholders gathered from the beginning of the project to discuss directions of design and decision making was adopted.

One of the features adopted to realize eco-friendly structure resembling nature is an atrium design. The atrium structure is an effective and eco-friendly design; it allows the residents to feel the nature inside the building by maximizing the effects of natural ventilation and lighting, while contributing greatly to energy-saving.

Another unique design feature employed in the Complex is Okatech application, which breaks away from general perception of a glass building. In line with an effort to suggest a new prototype of future bank buildings, Okatech, known for its excellent thermal performance and sun careening function, was used in the exterior of DGB Culture Platform. Thanks to

“

'DGB Culture Platform Project', has been completed after 4 years of a long preparatory stage in Oct 2016. Now, it started a new journey to become the most prominent cultural space for local residents as an eco-friendly landmark in Daegu.

”



LEED for NC: GOLD



Green Building Certification:
BEST,
Efficiency Grade Certificate:
Class 1



2016 Korea Green Architecture
Competition: Grand Prize



Gold Medal at the 25th Daegu
Architectural Award

this bold attempt, the Platform could reduce its energy use by almost 50%.

The last, but not least, feature of DGB Culture Platform is a small park designed to realize the 'Healthy Construction' and the 'Sustainable Communication with Nature'. This park is decked by beautiful tree lawn, pine trees, and a reflective pool, all of which can be enjoyed by strolling down a small footpath. The part serves as a little peaceful shelter lurking in the hustle and bustle of the city.

Cultural place which enhances communication within local community

The lower floor of the building, designed with the keywords of 'Communication' and 'Transparency', has four structures featuring independent functions divided by 'Communication Road'. The four masses represent an open space for local residents and a community that has been the cornerstone of DGB's



“
DGB Culture Platform has a book café, gallery, auditorium and gym, and there are plenty of hidden areas where you can breathe and relax with nature. I hope that DGB Culture Platform will be an open cultural space that enriches the lives of Daegu citizens and an eco-friendly landmark in Daegu.

Park, In-gyu
CEO of DGB Daegu Bank

”



growth. The DGB lounge is a central space of the lower floor and is designed to make visitors experience various senses at the same time. With a grand piano lying in one corner, the Lounge gives an illusion to the visitors as if the space is filled with a beautiful melody.

Across the public space, there is an open gallery where citizens and residents can always come in to enjoy the works of various artists, as well as a city gallery for citizens. The book café, which is linked to the outside ecological park, is a contemplative space created by merging an open library and cafeteria where the visitors can read books, drink coffee, and relax. In the lawn plaza behind the book café, there are events for local communities such as small concerts and ad hoc cultural events.

Located in the center of the building, the Auditorium (grand auditorium), looking as if floating above the DGB lounge, boasts a magnificent curvature that embodies the sound box of stringed instruments. It is a multifunctional performance hall where local residents can enjoy various performances and can also hold large forums. The Auditorium is a key space that shows DGB's corporate philosophy of 'Communicating with the community through culture'. It is also a place where the outside scenery extends to the inside of the performance hall; visitors can vividly feel the efforts made to create a space where the inside and outside of the building communicate with each other.



In addition, there is an indoor gymnasium on floor B1 for the local residents and employees. There is also a rooftop garden called 'Aulmadang' which is linked to the second floor of the auditorium above the gymnasium. On the fourth floor there is a Multi-hall and DGB cultural space for multi-purpose events and meetings.

House for work; Office for Communication

While the lower level of DGB Culture Platform is about communication with the local residents, the design concept of 'Exchange and Communication' has been consistently applied to the inner courtyard and the office space. Jungjeong (courtyard), a space created by the eco-friendly atrium, is an inner yard where you can feel the outside and see the sky thanks to the open ceiling. It also is a space for communication and relaxation for employees.



The high-level floors are a work space; it introduces a design that emphasizes efficient team work and mutual exchange of opinions by implementing Void Office, which enables communication and exchange between employees, teams, and departments. In order to emphasize the communication function of the space facing the courtyard, the space is divided by movable walls so that small meetings can be held.

The meeting room is designed to be hanged from each floor and protruded towards the courtyard so that it can be used for a large-scale meeting.

On the 10th Floor of DGB Culture Platform, there is a Rooftop Garden, named Sky Garden, where busy employees can take a break, enjoy a walk, and interact with colleagues. Sky Garden is an eco-friendly green shelter in harmony with nature, allowing employees to rest and relax.



DGB FINANCIAL GROUP CSR STRATEGY

DGB Financial Group will leap forward to become a superb comprehensive financial group and will do its best to become your best partner for the better future.

Sustainable Performance

In recognition that it can create sustainable performance through offering diverse services to its customers and reaching more customers, DGB Financial Group is striving to strengthen its business competencies.

Enhancement of Business Competencies

In October 2016, DGB Financial Group acquired DGB Asset Management, making a grand entry into the asset management industry. This is DGB Financial Group's efforts to respond to the accelerated movement of financial assets towards the non-banking sectors due to the prolonged low interest rates as well as to changes in demand by customers who are seeking moderate risks and moderate profits.

As a result, in 2011 DGB Financial Group launched itself as a full-fledged merchant bank, with seven subsidiaries, including DGB Daegu Bank, DGB Life Insurance, DGB Capital, DGB U-Pay, DGB Data System, DGB Credit Information and DGB Asset Management. DGB Financial Group plans to expand its external operations by leveraging synergies among its affiliates and to strengthen its marketing prowess via bank window marketing. Going further, it will diversify and reinforce its portfolio by discovering new sources of profits, thereby creating sustainable achievements on a continuous basis.

In November 2016, DGB Capital established a subsidiary in Laos (DGB LAO Leasing Co., Ltd.), making it the first non-bank group affiliate to enter the overseas market. DGB Daegu Bank has established a Global Operation Team to promote diverse projects to enhance its global competitiveness. In addition to that, DGB Daegu Bank is also planning to convert its office in Ho Chi Minh, Vietnam into a local branch. By tapping into overseas networks in countries such as Cambodia and Myanmar, DGB Financial Group plans to secure new growth engines for the future.

Response to Changing Markets

The domestic financial sector is experiencing difficulties due to stagnant growth, deteriorating profit base, and ever-intensifying competition. Against this backdrop, DGB Financial Group is preemptively responding to the market changes in order to find new growth engines in areas such as mobile banking and fin-tech sectors to create sustainable achievements.

DGB Financial Group has been operating the "Future Financial Response Council (FFRC)" TFT since 2015 in order to unify the response

and communication channels for future finances. A total of seven departments including DGB Daegu Bank, DGB Life Insurance, DGB Capital, DGB U-Pay, DGB Data system and DGB Financial as well as DGB Financial Group are participating in this FFRC TFT. Moreover, DGB Daegu Bank has newly established an IT New Business Division and changed its Smart Customer Center to Digital Financial Center to cope with changes in both domestic and international digital financial markets.

'iM Bank' launched by DGB Daegu Bank at the end of 2015 is a personalized mobile banking service that aims to be a 'bank within the bank', offering differentiated services via a number of 'mobile branches'. In particular, it is providing even more conveniences to the users by directly linking its services with a popular fin-tech start-up service, 'TOSS', through partnership. As a result, iM Bank surpassed the number of new Internet banking receipts accumulated for the past 15 years in just six months after its launch. In 2016, it saved about 1.1 billion won by boosting business efficiency through non-face-to-face services.

The platform of 'iM Bank' was developed by DGB Daegu Bank, for which it filed a patent. Commemorating its 1st anniversary, the platform was expanded in 2016 to enable the introduction of more fin-tech services. Going forward, the platform will continue to be developed to accommodate more fin-tech technologies such as biometrics recognition (fingerprint and iris recognition), speech recognition, Dutch treat, congratulatory/condolences money, and mobile home mortgage.

In addition, DGB Daegu Bank has agreed to promote the block chain technology* and demonstration projects with IBM Korea. The two parties will cooperate with each other for the development of business application using block chain technology, and will pursue various business through continuous information-sharing and mutual mentoring.

DGB Daegu Bank has established a Future Strategy TFT in 2016 to analyze the internal and external environment and perform benchmarking both at home and abroad. By analyzing the key success factors in other businesses, the TFT is expected to contribute to the sustainable growth of the company in the long run.

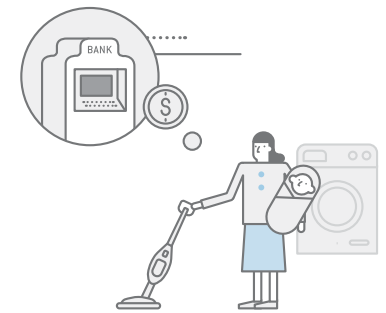
DGB affiliates in overseas markets



IMPACT STORY. #1

Smart finance service available without visiting actual branches

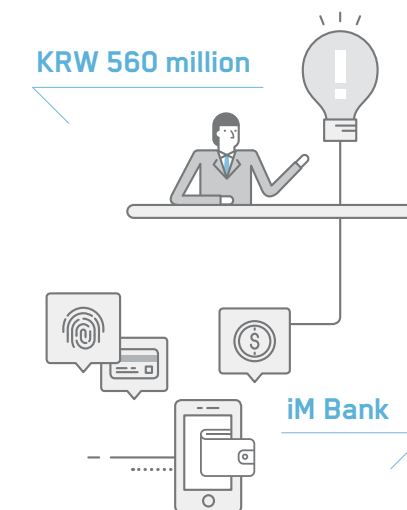
1 We heard stories of office workers who could not find time to visit the bank during work hours, owner-operators who could not leave their stores even for a while to make ends meet, and housewives who were too busy to visit banks due to endless house chores and child rearing time.



2 DGB started to think of financial services that can be used at your work, at your stores, and at your home any time anywhere, without having to visit a branch and pick up a number ticket and wait.

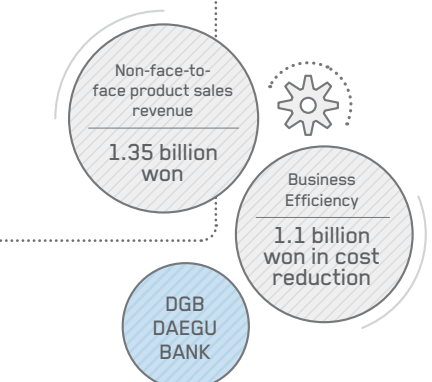
3 The Smart Finance Department decided to develop a general-purpose platform in which a multi-purpose app can be used for various functions. Thanks to its efforts, the Department invested KRW 560 million to build 'iM Bank', a smart phone app in which a user can handle the same tasks as visiting a bank branch on the go.

KRW 560 million



4 DGB Daegu Bank applied for a patent for its 'Mobile Branch', a new and innovative service technology in which multiple branches can be opened on one application. This new development is equipped with various fin-techs such as biometrics, mobile wallet, transportation card, mobile ATM withdrawal function, etc.

5 Thanks to the iM Bank service, DGB Daegu Bank achieved KRW 1.13 billion in non-face-to-face sales and KRW 1.1 billion in cost savings from business efficiency.



*Block Chain Technology: A trading system in which the transaction information is not stored in a central server of the third party institution, is jointly recorded and managed by all trading participants with the dispersal network database technology.

Creating Customer Value

DGB Financial Group is striving to strengthen financial consumer protection, improve customer satisfaction, and enhance accessibility in order to provide comprehensive financial services that create more value for our customers.

Financial Consumer Protection

DGB Financial Group is working hard to protect financial consumers. DGB Financial Group is working hard to protect its financial consumers. DGB Daegu Bank's Consumer Protection Report, 'Your Caring Partner', published since 2013, provides various consumer protection information in 'DGB', which is published every other month since 2016. The main contents include financial crime cases and preventive methods, financial tips from DGB, financial regulation changes, and other matters that consumers should pay attention to in financial transactions, and the information is delivered to customers through DGB website and branches. In addition, in order to act more proactively to protect consumers, DGB Daegu Bank operates consumer protection centers at all branches and provides various financial education programs to consumers. Through education, DGB Daegu Bank is helping diverse consumer groups such as youth, college students, and the general public so that they are equipped with the right financial knowledge to avoid potential financial damages in the future.

DGB Daegu Bank established a consumer protection system for each financial product and each stage in order to protect its financial consumers. The Group established product development rules and sales practices for financial product development and sales stages, respectively, to protect its customers from financial fraud or damage.

As a result of its efforts to implement financial consumer protection systems, DGB Daegu Bank received 'Good', the highest rating, in

all 10 evaluation items of a factual survey on financial consumer protection conducted by the Financial Supervisory Service in 2015. In addition to that,

DGB Daegu Bank was selected as the 'Best Bank' for Financial Consumer Protection sector for 10 consecutive years for the first time in the financial industry. In December 2016, it was also awarded 'Citation of Excellent Financial Company' in financial consumer protection sector by the Financial Supervisory Service.

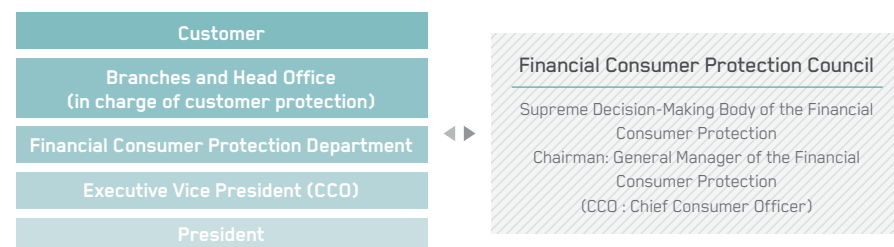
Going forward, DGB Daegu Bank plans to continue its efforts to protect consumers by managing relevant complaints in a flexible and organic manner using the integrated financial consumer protection system established in October 2015.

Customer Satisfaction Activity

DGB Financial Group listens to customers' opinions, offers a variety of services for better customer experiences, and implements customer satisfaction management through various CS programs and activities.

DGB Daegu Bank operates the 'DGB Cham-sori Advisory Panel' to improve its operational processes by listening to customers' opinions. The 'DGB Good Opinion Advisory Panel', which started in 2014, has played a variety of roles, including providing opinions to the bank, formulating new service ideas, branch monitoring, etc., in order to find out old practices and systems that would seem unreasonable or inconvenient from the viewpoint of financial consumers.

Organizations for Financial Consumer Protection



Education for Financial Consumer Protection

CS Education Courses	Description	CS Education in 2016
On-site Branch Education	1: 1 coaching at branch offices, satisfaction enhancement through analysis of poor items by branch	On-site Education in 74 branches
Headquarters Departmental Education	Mindset and telephone correspondence training for improved internal customer satisfaction	Head Office Education in 7 departments 3 training courses for employees at the headquarters
New Employee Training	CS standard manual, Role-playing, Workplace manner, Situation-specific response drills	15 times
Integrated Training	CS manager training, Refresh training by position, Security guard training, etc	10 times
Security Guard Training	CS training for new security guards Refresh training for the existing security guards	104 branches



Received Citation of 'Outstanding Financial Company' in Financial Consumer Protection



One-day Cooking Class

DGB Financial Group has also collected opinions from customer panels when taking the promotional video clip featuring famous actor Seo-Jin Lee. In addition to that, a new system has been set where the representatives of each division directly listen to the opinions of the site workers at the panel meeting, and opinions of the advisory groups can immediately be reflected in the work process. Going forward, DGB Financial Group continues to operate the channels through which it can directly listen to the voice of our customers.

DGB Life Insurance provides a variety of customer satisfaction services. In April 2016, DGB Life Insurance began 'DGB Total Care' service where DGB employees are visiting customers to provide detailed explanation of the insurance policy and financial planning services. When you subscribe to the 'DGB Total Care' service, a FC (Financial Consultant) visits their client to help them understand the coverage details of their policies and receive insurance money if applicable. Moreover, the FCs can also help the customers with customer information renewal, life savings planning for retirement, and other financial consulting services, playing an important role in enhancing customer satisfaction. DGB Life Insurance is doing its best in customer satisfaction management by holding diverse customer-centric events such as a 'One Day Cooking Class' and 'How to make our kids go to a prestigious university (lecture)' for its premium customers.

DGB Financial Group puts various campaigns and systems in place to improve the level of internal customer satisfaction about its services. One of the campaigns is 'DGB Attitude', designed to improve the quality of service DGB employees with proper standards for appearance and dress codes coupled with training programs on customer reception skills. In order to improve internal employees' customer service skills, DGB Financial Group is actively carrying out CS education, such as customized training and a one-on-one coaching program based on the weaknesses found out through branch-specific analysis.

In addition, DGB Daegu Bank finds and motivates young CS talent by holding the "CS Young Star" program for new employees with less than two years of experience in DGB Daegu Bank. In line with such efforts, each branch selects a dedicated CS manager to promote and spread proper CS culture across the Group.

As a result of its diverse efforts to satisfy customers, DGB Daegu Bank ranked first among the regional banks in Korea in the KSSI (Sales Service Satisfaction Survey) in 2016. DGB Financial Group will continue to operate



'DGB Smart & Secure Midrange Interest Rate Loan'

Meaning a loan serving as 'Secure' support for 'Smart' financial Consumers, 'DGB Smart & Secure Mid-range Interest Rate Loan' is a loan where the borrower can take out a loan up to KRW 20 million within his/her annual income range for up to 60 months (extended by 12 month intervals, annual interest rate: 6 to 11%)

* Launched in June, 2016



New Hope & Seed Loan

A dedicated loan product for those who are using loans on relatively high interest rates due to low income and low credit rating (annual interest rates: 5.63 to 8.83%).

* Launched in July, 2016

its channels to listen to and communicate with customers while providing diverse services and strengthening internal competencies to create greater customer values and satisfaction.

Enhanced Accessibility

As part of its efforts to create more customer values, DGB Financial Group is striving to enhance customer accessibility to its service areas. First, DGB Daegu Bank is enhancing customers' access to financial services by increasing the benefits of Internet banking, mobile banking, iM bank, and other non-face-to-face channel products and enhancing the conveniences of such programs. In February 2016, the Group expanded the limits of the e-loan service for workers; In March, it also improved customer accessibility to its services by mitigating loan restrictions on non-face-to-face products. The Group launched two new products, 'DGB Smart & Secure Mid-range Interest Rate Loan' and 'New Hope & Seed Loan' in June and July, 2016, respectively. It is also in the process of introducing a scraping solution to simplify the processes to improve convenience of customers for non-face-to-face lending. Based on these efforts, the Group achieved more than 2.5-fold year-on-year increases in loan product sales through the non-face-to-face channels.

DGB Daegu Bank started to open on weekends to improve customer accessibility, even off-line. DGB Daegu Bank Seongseo Homeplus Branch has started Saturday operations since January 9, 2016, providing the same

financial services as the weekdays from 1:00 pm to 6:00 pm on Saturdays. The Seongseo branch near the Seongseo Industrial Complex, resided by many foreign workers who are hard to visit banks on weekdays in general, provides money exchange and money transfer services every Sunday from 10:00 am to 4:00 pm.

The Daegu Shinsegae Branch, opened in Dec 2016 in Daegu Shinsegae Department Store, employs flexible business hours from 10:30 am to 8:00 pm. The branch provides financial services to the customers both on weekends and holidays except for one closing day per month according to the department store's closing schedule.

Providing comprehensive financial services that customers can easily reach and find is an important value for DGB Financial Group, which employs customer satisfaction as its best sales strategy. It will continue to work hard to provide more convenient and comfortable financial services to the customers.

*Scraping Solution: It is a system that helps streamline the complicated process that a customer should take when applying for a loan by automatically collecting and submitting various evidential documents for identification, etc., for convenience of customers.

IMPACT STORY. #2

Fostering and Supporting Local Small Hidden Champions

Credit Rating 7+

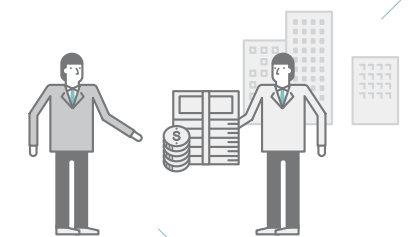


1 Company A is professional local business manufacturing self-car washing equipment located in Seongseo Industrial Complex in Dalseo-gu, Daegu. It is one of the representative businesses in Daegu, exporting its quality products to various countries including the US, Germany, and Japan.

2 Company A wanted to take out a loan of KRW 2.47 billion to build new facilities for its new product with a patent pending. Yet, the application was rejected due to its poor financial history and relatively low credit rating.

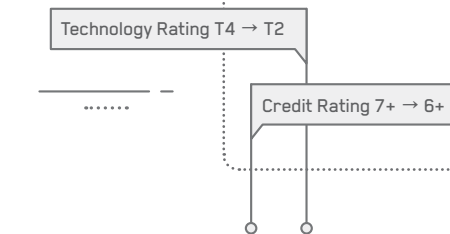
3 DGB Daegu Bank, however, decided to help them in cooperation with Korea Technology Finance Corporation. A technology assessment was carried out on the Company's technology portfolio, and the results showed that Company A held a promising, market-friendly technology with which it already signed an export deal with overseas businesses.

Technology Rating T4 (Good)



4 DGB Daegu Bank decided to actively support Company A for its high technology grade. The Bank provided Company A the requested loan in the full amount, and an additional KRW 100 million of working capital to prevent possible disruption in production due to the new facility construction.

KRW 2.47 billion + KRW 100 million



5 With the financial support of DGB Daegu Bank, Company A started to grow both qualitatively and quantitatively. It has spurred its R&D sector for new technologies, and has applied for 2 domestic patents, 7 domestic/overseas patents, 6 utility model patents, and 4 design patents thus far. The sales amounted to KRW 660 million prior to DGB's financial support, and have increased to 2.2 billion in 2014, and 3.1 billion in 2015. Along with its steady growth, the company's technology rating and credit rating have also risen significantly.

Change in Sales (Unit: KRW in billion)



Sustainable Finance

DGB Financial Group is pursuing mutual growth with local communities through public interest products, technology-based products for supporting companies with technological prowess, and supportive products for the financially underprivileged.



Go to DGB Cyber Green branch

DGB Daegu Bank has operated 'DGB Cyber Green branch' an environment-themed branch of DGB Group.

Inclusive Finance

DGB Financial Group is pursuing sustainable finance with mutual benefit and growth by fulfilling its social responsibilities providing necessary support and benefits to the common people as demonstrated in its management philosophy, "Sharing Dreams and Prosperity with Local Community". For the first time in the financial sector, DGB Daegu Bank has launched 'New Hope and Seed Loan', a financial product for common people, through non-face-to-face channel. The Bank allocated as much as 370 billion to major loan products designed to support the low income class, such as 'New Hope and Seed Loan' and 'Dream Change Loan.' DGB Daegu Bank received the "Best Financial Institution for Financial Support for Common People" award from the Financial Supervisory Service (FSS) in 2016 in recognition of its active engagement in supporting the low income class with financial products. In addition, DGB Daegu Bank was awarded the Presidential Citation at the 21st SME Financing Award ceremony in recognition of its efforts to support corporate loans focused on local SMEs and to revitalize lending to the ordinary people.

Technology-oriented Finance

Utilizing its own technology evaluation, DGB Daegu Bank supports SMEs through technical financial products where the SMEs having outstanding technology can use low-interest rate loans. We provide the 'DGB Tech Biz Loan' which reduces the loan limit and interest rate to SMEs with excellent technology in order to revitalize the financial industry and the regional economy. In addition, there are '1+1 Loan for Excellent Technology and Enterprise Agreement Loan with Intellectual Property (IP)' to help smooth financing for high-tech companies and to increase profitable assets through finding new customers. DGB Financial Group is making diligent efforts to improve its competitiveness through constant improvement and renewal of its products.

DGB Daegu Bank was selected by the Ministry of Trade, Industry and Energy in March 2016 as the first 'Professional financial institution for technology commercialization' which provides consulting services for technology matching and technology transfer to various businesses.

In addition to the direct financial benefits coming from consulting services, DGB Daegu Bank was able to improve its non-price competitiveness thanks to its expertise in technology. As a result, the Bank's performance in the tech-financial sector in 2016 increased by approximately KRW 903 billion compared to that of 2015.

Green Finance

DGB Financial Group provides financial services and products taking into consideration its environmental impact. In January 2017, DGB Daegu Bank signed a business agreement with Daegu Metropolitan City to promote the use of electric vehicles. Through this agreement, DGB Daegu Bank will provide low interest rate loans (3%) to electric vehicle purchasers, install charging stations at certain branches, and purchase electric vehicles for the Group's business vehicles.

In particular, DGB Daegu Bank has been operating 'DGB Cyber Green Branch', an environment-specific branch since 2010. The 'DGB Cyber Green Branch' is designed to enhance customers' awareness of the environment by handling various environment-oriented deposits and loan products such as Green Deposits, Green Health Installment Savings, DGB Green Loan, and DGB Green Card. Taking it one step further, DGB Daegu Bank plans to expand the green card (providing eco mileage) and green savings program (with preferential interest rates as a reward of eco-friendly activities) while supporting local environmental conservation activities by raising funds with a portion of the profits generated from those products.

DGB Financial Group offers a variety of benefits to environmentally conscious companies to encourage local companies to practice environmentally sustainable management.



Mirae Asset Love Sharing ETFs

Mirae Asset Love Sharing ETF is a financial product where a 0.5% of front-end fee is exempted and collected as public funds through the Love Sharing Account, a dedicated account for donation so that customers can donate money in their name.

In line with such efforts, DGB Daegu Bank provides interest support for companies with excellent environmental performance on the basis of the agreement signed with the Korea Environmental Industry and Technology Institute. By utilizing the enVinance (Green Management Enterprise Financial Support System) operated by the Ministry of Environment, the Group will identify and provide benefits to environmentally conscious companies equipped with eco-friendly systems such as pollutant reduction programs and environmental accident prevention systems.

DGB Daegu Bank provides premium interest rates (1-2%) to 10 eligible green companies within the limit of 300 million won, by supporting 2.4 billion in total. Not being compliant with its previous endeavors, DGB Financial Group will never halt its efforts to raise awareness of the environment by continuously promoting environmentally conscious companies with various financial supports.

Financing for Social Responsibilities

DGB Financial Group has been offering various financial products dedicated to fulfilling its social responsibility by sharing dreams and wealth with local communities and strengthening financial companies' awareness towards CSR. In line with that, the Group has launched a wide range of financial products related to social responsibility designed to promote public interests, shared growth with local communities, growth of SMEs, and the welfare of the underprivileged.

'Woori Frontier Sustainable Business SRI Equity Fund' reserves 10% of its sales profits and operating profits for the public interest funds while 'Mirae Asset Love Sharing ETFs' accumulates 0.5% front-end fees in the public funds. In particular, Mirae Asset Love Sharing ETF is DGB's patented financial product where a 0.5% of front-end fee is exempted and collected as public funds through the Love Sharing Account, a dedicated account for donation so that customers can donate money in their name. The total amount of donation made through the Love Sharing account was 0.511 billion won in 2016; the donation can be managed

by the customers so that they can receive income deduction benefit. This in turn will encourage donation culture through financial products among customers. In addition, DGB Daegu Bank offered various public-interest type products such as DGB primary account preferential deposits, sponsorship deposits, Daegu City Hope Center bank accounts and lifetime savings (dream-tree type) to make a donation for a total of 60.76 million won to the disadvantaged.

DGB Daegu Bank is committed to fulfilling its social responsibilities through financial assistance where it is needed most. In order to support the companies devastated by the shutdown of the Gaesong Industrial Complex in 2016, the Bank reduced interest rates for the companies and their partner companies, and allowed the existing loan to be suspended or extended.

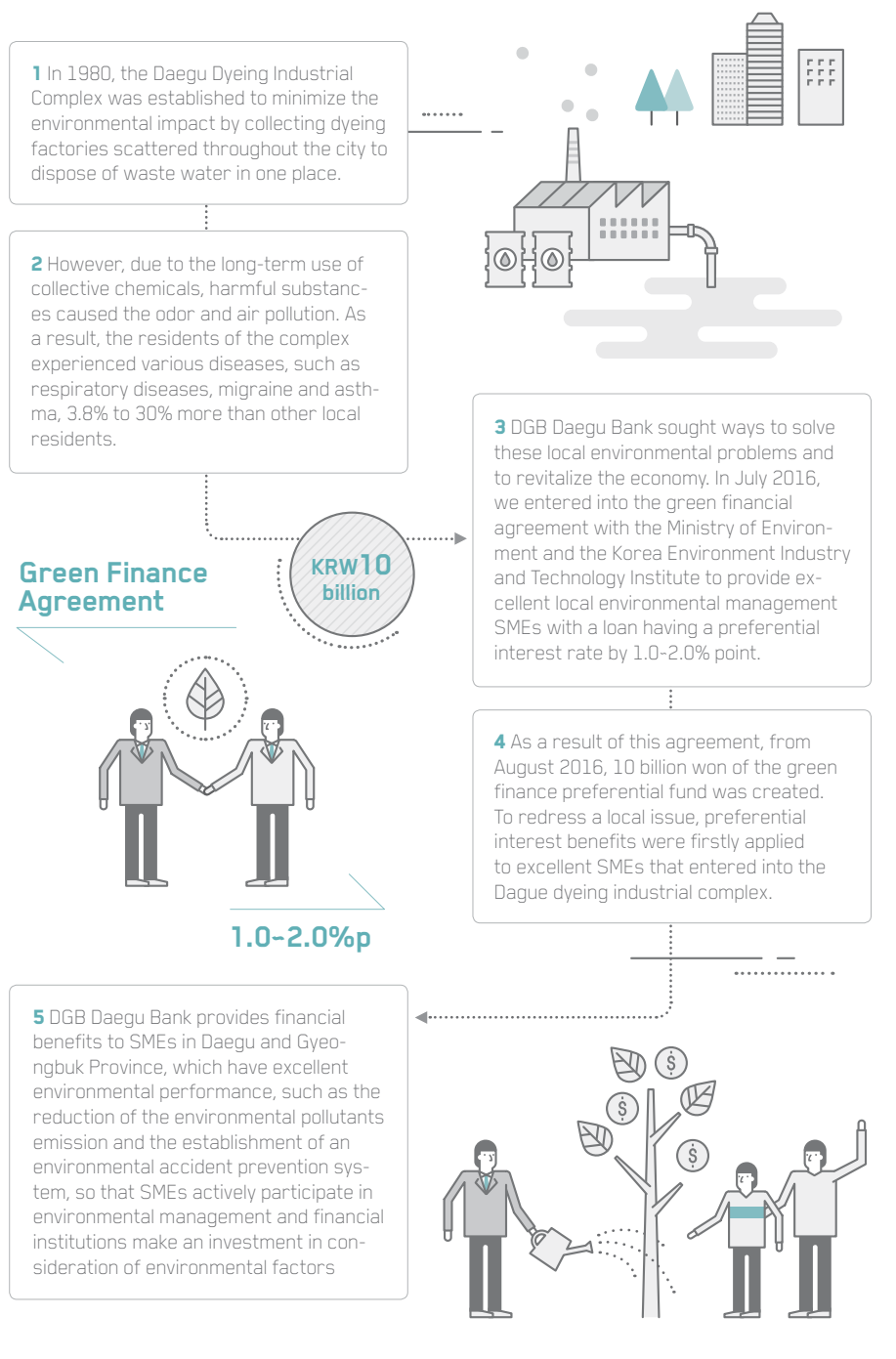
The Bank also helped to mitigate damage through financial support for partner companies and couriers devastated by Hanjin Shipping's corporate rehabilitation proceeding. In particular, it has provided restoration funds for the damage caused by the recent earthquake in Gyeongju in 2016 and the fire damage in the Paldal New Market and the Seomun Market in order to help them get back to normal operation as early as possible.

Furthermore, DGB Daegu Bank is committed to solving social problems and promoting the development of local communities through various financial support such as a special guarantee loan scheme for social enterprises and companies contributing to job-creation as well as financial support for enterprises creating jobs and small businesses run by young entrepreneurs.

DGB Financial Group will continue to develop and sell financial products and services that take into account the social and environmental realm to build shared value-creating models that will not only contribute to corporate performance but also fulfill corporate social responsibilities.

IMPACT STORY. #3

Green Finance Preferential Fund to Save Business and Local Environment



Human Resource Development and Support

DGB Financial Group is making every effort to provide global financial services to revitalize the local economy and foster local industries while continuing to develop and provide financial products that ensure sustainable growth.

Strengthening Employee Competencies

DGB Financial Group is committed to strengthening its employees' competencies through education and support. For instance, DGB Daegu Bank is strengthening its on-site training programs and the mentorship system for new employees in addition to the Career Development Program (CDP). In the past, the Korea Banking Institute provided education for DGB employees with a theory-oriented class. That system has changed into a program where practical training is carried out in each relevant department. Through field-oriented practical training, the Group aims to improve competencies of the employees and establish a foundation for continued growth.

DGB Daegu Bank is also making efforts to improve the accessibility of its employees to education. It is expanding the selective courses for position-specific education programs to meet individual needs. In 2016, the Bank revised the "Cyber Training Support System" based on employee demand surveys. Thanks to the revamped system, DGB employees can now learn not only the financial courses but also IT and foreign language courses (TOEIC, HSK, JPT, etc.) at all times.

Right Talent for DGB Financial Group

DGB Financial Group seeks those who respect people and serve their community and

customers; think creatively and proactively rise to a challenge; and show their honesty along with responsibility and credibility.

DGB Daegu Bank employs all new workers as regular employees in its efforts to improve employment stability, while continuing the transition of the existing non-regular employees to full-time employees. Going forward, DGB Daegu Bank plans to resolve job instability issues and strive to improve the affection and pride of the workers to their jobs.

DGB Financial Group pursues employment free of gender discrimination in response to gender imbalance in financial institutions and other relevant issues while striving to conduct fair and performance-based appraisal. The Group conducts strategic performance evaluations in conjunction with MBO (Management by Objective) and KPI (Key Performance Indicator), which reflects the characteristics of each department and branch. The Group also provides feedback on the strengths and weaknesses of each individual employee based on the results of evaluation to ensure long-term self-improvement and achievement in the organization. In addition, the Group is making efforts to diversify appraisal channels through a multi-faceted assessment to ensure the fairness and objectivity of HR management. It also reflects the assessment results on promotion, salary, performance-based pay and job placement in a comprehensive manner.

Right Talent for DGB Financial Group

1 Core-value	Respect Customer-centered/ Respect for employees/ Communication/Social responsibility	Passion Passion/Ownership mind/Change and innovation	Integrity Business ethics
2 Competency	Service mind/ Professionalism/Sense of duty/Teamwork/Strong will to achieve goals	Pride/Insight/ Creativity (Open mind)	Understanding of principles/Integrity and trust/Sense of vocation
3 DGB Ideal	Human resources who respect people and contribute to local communities and customers	Human resources who have creativity, positive thinking, and a challenging spirit	Human resources who have a strong sense of responsibility and are integral and reliable
4 Statement	"Human resources who can create new value based on respect and integrity"		

IMPACT STORY. #4

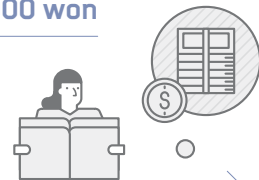
We Root for 'Smarter' DGB people.

1 Upon the inauguration of CEO Park, In-kyu in 2014, DGB Financial Group has striven to create a pleasant work environment for employees, keeping in mind that human resource management is a long term and far-sighted project, therefore should be on the top priority of the Group.

2 DGB Financial Group has provided diverse lectures for those who want to take refresher courses or to acquire finance-related certificate/qualifications, along with tuition fees/test fees support.

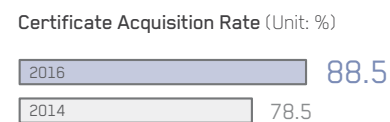
3 In order to foster key financial performers, the Group also offered various training programs, including the Long-term Dispatch Program at Korea Banking Institute, the Global Regional Expert Dispatch Program (overseas), and the FMBA Program at KAIST.

Monetary support for cost of obtaining license
157,831,000 won



Number of certificates (licenses) acquired in 2016
1,340
* Increased by 292 compared to 2015

4 Thanks to DGB's employees' passion for self-development, coupled with robust supports from the Group, the acquisition rate of mandatory certificates for the banking sector has reached 88.5% in 2016, which is a 10% increase from 2014. The overall self-worth and occupational satisfaction among the employees has also increased dramatically.



* Fund Investment Solicitor License (Fund General, Derivatives Fund, Real Estate Fund), Insurance agency certificate (Life Insurance Agency, Property Insurance Agency, Third Insurance Agency)

"Although I had only one qualification when I first entered DGB Daegu Bank, now I have earned various financial certificates and qualifications, including Certified Foreign Exchange Specialist (CFES), Certified Credit Analyst (CCA), Certified Loan Officer (CRO), Certified Derivatives Investment Advisor (CDIA), Certified Securities Investment Advisor (CSIA) along with three major certificates in insurance and fund investment, respectively. I feel that I have finally become a 'Banking Specialist.'"

DGB Employee A (7 years in DGB Daegu Bank)



- Pre-CEO Course: 6
- Korea Banking Institute's Long-term Dispatch: 16
- KAIST Financial MBA Dispatch: 1
- Expert Overseas Dispatch: 2 (China 1, Vietnam 1)

Employee Satisfaction Management

DGB Financial Group has created various programs to create a pleasant and energetic work place for all of its employees.

Stronger Synergies Among Employees

DGB Financial Group is providing various programs for employees to maximize synergies among affiliates so as to achieve more efficient communication and a stronger sense of unity.

In line with such endeavors, executives of DGB Daegu Bank, DGB Life Insurance, DGB U-Pay, and other DGB affiliates have gathered together twice a year to form a sense of solidarity and organization. In 2016, they visited diverse cultural sites in Andong, including the new Gyeongbuk Provincial Government building, and learned about the spirit of Seonbi, Korean traditional scholars who followed Confucianism. They also experienced boat races from athletes of the DGIST (Daegu Gyeongbuk Institute of Science and Technology), cultivating the sense of cooperation and unity.

DGB Financial Group runs the 'Field Synergy Council' for communication and boosting synergies among employees. This Council is a regular meeting for communication where employees from various affiliated companies gather to communicate and enjoy the opportunities to know each other. Started in early 2016, the Field Synergy Council is a great venue where positive synergies are encouraged. Exceptional synergy cases discussed in the Council are shared among affiliates of the Group.

Commemorating its 5th anniversary, DGB Financial Group designated May 7 (Sat) as "DGB Fellow's Day" for encouraging unity among employees across all affiliates of the Group, along with the "DGB Fellow Week" designated from May 9 (Mon) to May 23 (Mon). The Group will mark the "DGB Fellow's Day" on May 7 every year, and encourage employees to unite and reinforce synergy by designating May as a time for unity and solidarity.

In addition, DGB Financial Group has various programs for communication and sense of unity, such as "Live Talk with CEO" for easier communication among employees and the CEO, and "DGB Be One Middle Group Sharing Meeting", which is the time for communication in the middle group that plays a pivotal role in the organization, and 'DGB Be One Eo-

ullim Program to encourage communication and sense of unity among different departments and branches.

DGB Financial Group will continue to emphasize positive changes through communication and empathy, actively gather opinions from employees, strengthen synergy within the Group, and further expand "happiness management" for employees.

Employee Satisfaction Improvement

In recognition that internal employee satisfaction is highly associated with work efficiency and is a prerequisite for sustainable management of a company, DGB Financial Group strives to continuously change its corporate culture, bring innovations, and improve employee welfare.

By operating "Change and Innovation Department" within Management Planning Division at the Head Office, DGB Daegu Bank is engaged in various programs to enhance the positive mindset of employees and implement creative innovation to its operation.

For a sound corporate culture, DGB Daegu Bank is promoting the 'Sound 'Day' Culture project. 'Creating Sound Culture Day' is designed to reduce the burden on employees by not giving gifts to each other on 'special' days such as Pepero day, Valentine day, and White day. In addition to that, the Group sets the limits for congratulatory and condolence money to 50,000won, and discourages empty formalities such as printed wedding invitations and thank you notes (for congratulatory and condolence money), thereby promoting real changes in corporate cultures.

DGB Daegu Bank has provided long-term service workers of 20 years or more with a domestic or foreign training program for approximately two weeks, whose cost limit is KRW 4 million. Due to the increased employee satisfaction, the loyalty of employees has been raised so as to lower their turnover rate, and the long-term services have enhanced the continuity of work.



DGB Fellow Day



Live Talk with CEO

03 ENHANCEMENT OF ORGANIZATIONAL COMPETENCE



College Tour



DGB Youth Frontier

In order to make real changes to unreasonable procedures and contradictory situations which have been accepted as usual business until now, DGB Daegu Bank is actively promoting 'Discernible Innovation', where employees provide comments on the areas that need to be changed and, after going through rigorous review and screening process, provide intensive support to the areas.

DGB Daegu Bank is continuing its efforts to create an efficient and energetic workplace through the 'DGB Youth Frontier'. The DGB Youth Frontier is an opinion group where young employees in their 20s and 30s present their ideas for organizational change and innovation, driving change through practical suggestions for improving corporate culture.

In recognition of his efforts in management innovation of DGB Financial Group, CEO Park In-kyu received the Innovation Grand Prize and the '2017 Korea CEO Leadership Grand Prize', for the company's innovative programs that led to positive changes among its employees and resulted in inevitable employee communication with the CEO.

DGB Daegu Bank provides 'DGB Health-Care', a personalized health care service for employees' healthy life, as well as stress diagnosis for the employees on a regular basis. In particular, it is helping its employees to work healthy with a health promotion program where the employees can set certain health-related goals and donate certain amounts of money when they reach their goals.

DGB Financial Group is raising the level of satisfaction among its employees through various welfare programs for not only the employees but also for their families. In line with this effort, DGB Daegu Bank designated

a 'Smart Relaxation Campaign' along with "Family Day", which allows the employees to leave early from work every Wednesday to spend time with their families. This Campaign adopts Three 'No's ('No reason' for day-off, 'No rejection' to day off applications, and enjoy the day off with 'No conditions attached') to create more flexible day-off culture and encourage the employees to spend more quality time with their family.

DGB Daegu Bank also operates the 'DGB Family Happiness Center' as part of its employee support program, 'Employee Assistance Program (EAP)'. The Bank selects excellent employees with professional qualifications and operates a professional counseling program to consult on job coaching, job-related difficulties, health, law, tax, and investment techniques. It is also helping its employees to lead a happy life at home and at work by running a specialized program to consult various problems in family life such as couples' clinic, child care, parental support, etc.

DGB Daegu Bank provided various events and activities that its employees can do with their families for a happy family life. In 2016, the Bank offered college tours, job shadowing, and farming experiences in which the employees can enjoy with their children. Moreover, it also provided employees opportunities for family travel, family musicals, and filial tours for some quality time with family.

Despite the ever-fluctuating financial environment, DGB Financial Group will strive to enhance employee satisfaction, customer happiness, and sustainable growth by maximizing synergy among the affiliates

Health Care Programs

Category	Beneficiary	Content
Metabolic syndrome	Employees with high blood pressure, high blood sugar and triglyceride levels	Body Fat Management, Dietary therapy
Enhancement of immunity	Employees whose leukocyte count is below the reference level	Immunity Enhancement Program
DGB Health-Care Serv	Branches requested for the service and target branches for each month	Blood pressure, blood sugar, and body composition measurement service Sympathetic and parasympathetic (serotonin) test Health consulting for DGB employees and their family



Positive DGB

Live Talk with the CEO (Sep, 2016)

DGB Be One Eoullim (Standing, 2016)



Confident DGB

Educational Forum with Celebrities (Oct, 2016)

The largest working-level forum in Korea for expertise and leadership (monthly)



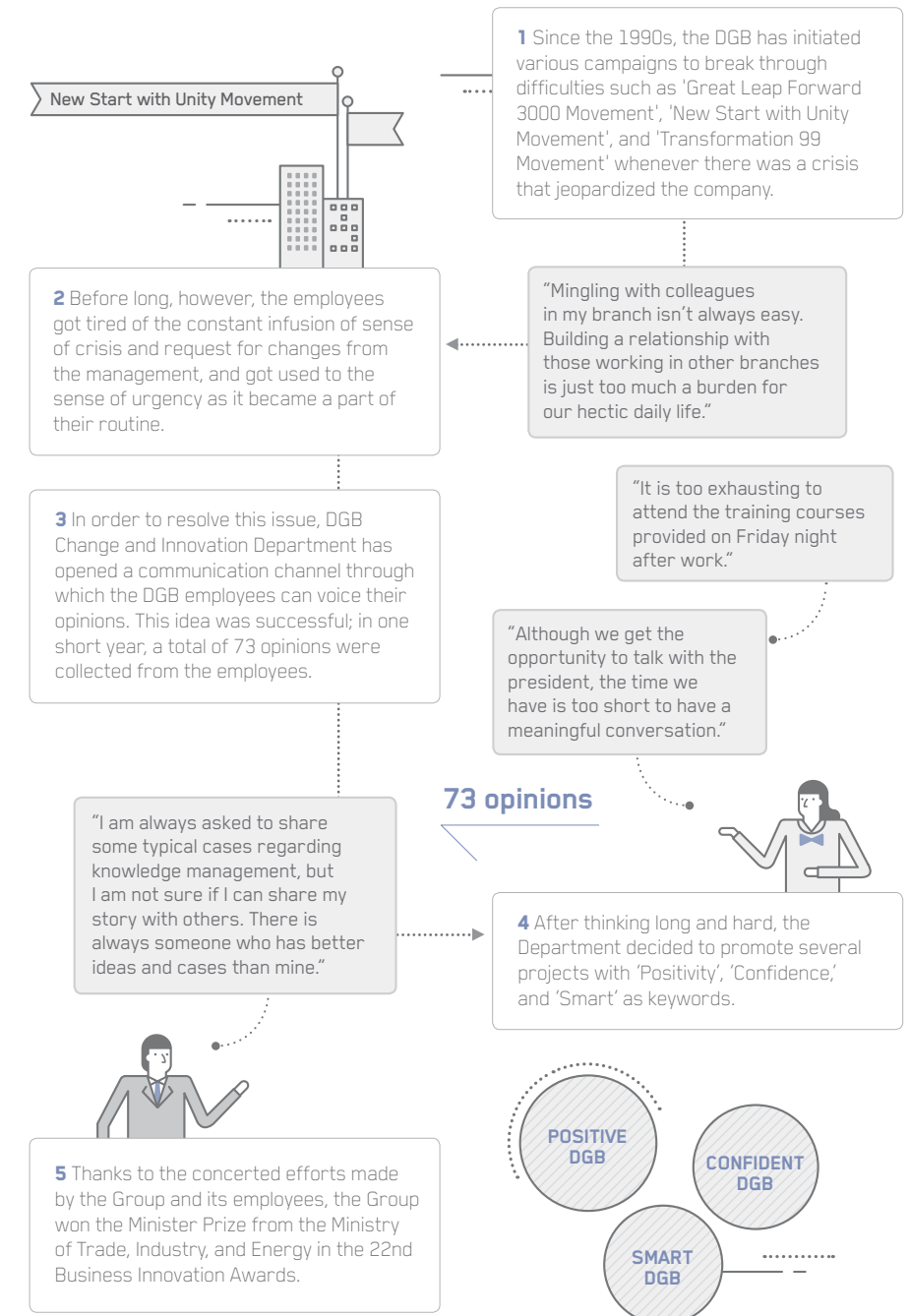
Smart DGB

DGB Be One TED (2016. 6-7)

Branch operation manual (2016 Standing) E-document streamlining (Since March, 2016)

IMPACT STORY. #5

A small yet meaningful movement for weary DGB people working for change and innovation



Crisis and Change Management

DGB Financial Group recognizes the importance of a preemptive response to financial and non-financial risks such as political, economic and social issues surrounding the corporate environment. Therefore, the Group conducts systematic risk management and change management to promote sustainable management activities.

Risk Management

DGB Financial Group is exposed to various environmental changes and risks arising from political, economic and social issues. Therefore, it is necessary to identify and actively manage potential risks that can adversely affect corporate management activities through systematic risk management and strengthened change management capabilities. To that end, DGB Financial Group actively identifies financial and non-financial risks lurking in its business activities and manages them in a systematic and strategic manner.

DGB Financial Group divides management risks into two categories for proper management; major risks (credit, market, operation, credit concentration, interest rate and insurance) and other risks (liquidity, strategy, reputation, and tax). DGB Financial Group's risk management ensures that the supervisory function of the Group is balanced against the risk management function of its subsidiaries.

For checks and balances within the Group, DGB Financial Group has established Risk Management Committee in the Board to develop and oversee risk management policies. As the highest decision-making body related to risk management, the Risk Management Committee is convened at least once a quarter to set limits on various risks and periodically review the status of risks. The Committee also conducts resolution on basic risk management principles and policies, along with strict monitoring activities. The contents

and results of the meetings are regularly reported to the Board of Directors.

Under the Risk Management Committee, the Risk Management Council is in charge of deliberating and deciding risk-related details. The Council consists of executives who decide on risk management issues; managers who deal with agreed-upon issues; and working-level staff in charge of subsidiaries to ensure that the Group's and subsidiaries' risk policies and strategies maintain consistency.

DGB Financial Group has established the 'Risk Management Emergency Action Plan' to run apart from routine risk management activities such as information protection and cyber security. It is a contingency plan for emergency scenarios designed to respond to the risks efficiently with proper actions and procedures by identifying indicators and situations that increase or might increase the risk level. DGB Financial Group's Emergency Action Plan establishes responding procedures for capital adequacy, credit and liquidity risks with three steps based on the severity of the risk. As such, DGB Financial Group is making vigorous efforts to maintain its operation as stably as possible by putting systemic contingency plans in place.

Risk Management Principles



Major activities of the risk Management committee in 2016

01 Submission of the Final Bidding Proposal for the Phnom Penh Commercial Bank of Cambodia (Proposal)	07 Approval for the Conclusion of the Stock Purchase Agreement
02 Report on the Risk Management Council Review and Resolution	08 Revision of the Risk Management Regulations According to the Act on the Governance of Financial Companies (Proposal)
03 Report on the Resolution Implementation Results	09 Setting of 2016 Lios Country Exposure Limit (Proposal)
04 Report on the Subsidiary Company's Risk Management Committee Meeting Results	10 Setting of 2017 Group Risk Tolerance Limit (Proposal)
05 Appointment of the Chairman of the Risk Management Committee	11 Report on the Integrated Crisis Analysis Results
06 Establishment and Incorporation of the Affiliated Company	12 Report on the Internal Capital Adequacy Assessment

* According to the Act on the Governance of Financial Companies, the name was changed into the Risk Management Committee (Oct. 27, 2016)



Ethical Management

DGB Financial Group recognizes that ethical and honest management activities are essential to the Group's credibility and can have a significant impact on the reputation of the Group, customer attraction and retention, talent hunt, and the performance of the invested companies. Based on this understanding, DGB Financial Group is practicing ethical and righteous management that is faithful to the basic principles by adhering to its Codes of Conduct, Guidelines for Employee Practice, and Ethics Practice Program.

DGB Daegu Bank has various education programs to establish an organizational culture centering on ethical management. Each branch provides training programs for all employees at least once a month about law observance and Codes of Conduct, as well as training on compliance and ethics management through various job training and compulsory training courses. In addition, the Bank marks "Ethics Compliance Day" once a month to establish ethical decision-making and judg-



Violation of Ethical Management-related laws and regulations

0



Risk Management Committee Operations

7

DGB Daegu Bank Codes of Conduct

Fundamental principle

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

Ethical Practice Programs

- Enactment of the Codes of Conduct and integrity pact (the beginning of each year)
- Ethical Practice Day (monthly)
- Self-inspection on compliance with laws (first business day of every month)
- Various employee education programs (at least once a month)
- Operation of the Internal Control Law Compliance Council (quarterly)
- Pledge for integrity (when signing a contract)



2016 Fair Play and Anti-Corruption Pledging Ceremony

ment criteria, and to make the employees acquire all the relevant laws and regulations so that they can handle their work in a fair and legitimate manner.

In addition to various education programs, DGB Daegu Bank is strengthening its credibility and transparency in financial affairs by establishing a systematic and regular internal control system as well as conducting thorough audits (daily audits, general audits, special audits and regular audits). Moreover, it also encourages ethical management through checks and balances among employees by operating an internal whistle-blower system. It has various reporting channels such as mail, dedicated phone number and e-mails, computerized system, website, DGB mobile office, etc., and the confidentiality of the report and whistle-blower is strictly guaranteed.

Whistle-blower Reporting Channel

- Mail
- Dedicated Contact Number and E-mail
- Computerized System
- Whistle-blower Reporting Center (DGB website and etc.)
- DGB Mobile Office

In addition to the daily ethical management system, DGB Daegu Bank implements the righteous management in response to changes in laws and systems at home and abroad and is making vigorous efforts to raise ethical awareness among its employees.

In 2016, education and campaigns on the Improper Solicitation and Graft Act were started in DGB Financial Group. Through the guidelines and training on revised Banking Act and subordinate laws and regulations, the Group raised awareness on compliance among employees and promoted sound business practices. As part of the efforts,

the Group provided employee training, broadcasting education, and self-tests, while collecting and spreading cases of exemplary ethical practices in order to establish ethical business practices.

DGB Financial Group participated in the "Fair Play Anti-Corruption Declaration" ceremony hosted by the UN Global Compact Korea and sponsored by the Ministry of Trade, Industry and Energy, the Ministry of Land, Infrastructure, and Transport, the Ministry of Oceans and Fisheries, the Anti-Corruption & Civil Rights Commission, and the Financial Services Commission. At this event, DGB Financial Group announced its commitment to expand exchanges and communication with seven domestic industry associations, 70 anti-corruption companies and governmental organizations in terms of compliance and ethics management through close public-private partnership. With this in mind, DGB Financial Group will continue to play a leading role in strengthening compliance and ethical management by promoting anti-corruption capabilities to combat corruption.

Ethical management is directly linked to the reliability of a business; it not only affects growth but also survival of the group. Therefore, it will do its utmost to establish ethical corporate cultures and to create a proper business environment where various ethical practice promoting programs can play their parts in order to realize sustainable growth of DGB Financial Group. As part of the efforts, the Group provided employee training, broadcasting education, and self-tests, while collecting and spreading cases of exemplary ethical practice in order to establish ethical business practices.

Enhancement of Environmental Management

In recognition that systematic environmental management is linked to financial performance, DGB Financial Group is making every effort to minimize its environmental footprint and properly respond to climate change by promoting effective management of resources and by conducting education campaigns on environmental protection.

Minimizing Environmental Footprint

DGB Financial Group is actively engaged in various activities to minimize the environmental impact caused by its management activities and is continuously striving to provide sustainable environment to future generations through thorough and organized business practices.

In September 2012, DGB Financial Group introduced the 'Green Touch Program' to the entire group. The 'Green Touch Program' is software that helps users to save power on their computers by reducing the stand-by power of computers which are not in use, thereby minimizing CO2 emissions. In 2016, this program was resulted in a total of 25,183 kwh of power savings, and 10,677 kg of carbon dioxide reduction.

DGB Daegu Bank is transitioning to e-bills in order to reduce the amount of paper use. In addition to that, various paper-saving activities are being implemented such as the use of reusable paper or double-sided printing.

DGB Daegu Bank's second Head Office received a Gold rating in LEED (Leadership in Energy and Environmental Design), a US environment-friendly building certification system. It reduced energy costs by 45% compared to ordinary buildings reduced carbon emissions by more than 30%, and water consumption was also reduced by more than 40%.

DGB Financial Group encourages the purchase of eco-friendly goods. In accordance with the Green Purchasing Guidelines, it is expanding green procurement and encouraging employee participation through green procurement training.

In addition to activities and programs to minimize its environmental impact, DGB Financial Group has also established an efficient management system for continuously monitoring and improvement of its environmental footprint.

DGB Daegu Bank received certificate of the Environmental Management System (ISO 14001) in 2011. Since receiving the Green Management System (GMS: KS | 7001/7002) certification for the first time in the financial sector, DGB Daegu Bank has maintained an effective environmental management system that complies with international regulations by conducting regular post reviews and re-certification reviews. The 2015 March Post-Screening To Maintain Certification Of Environmental Management System and Green Management System suggested 11 recommendations on 5 environmental and 6 green issues, while no non-conformity issue was found, so as to pass the investigation.

DGB Daegu Bank has operated an inventory system for energy consumption and greenhouse gas emissions for efficient and systematic management. The Bank secures objectivity and credibility for the energy-saving

Environmental Management Policy

DGB Financial Group and its subsidiaries (the "Group") shall give priority to the environmental management in the course of all management activities. To fulfill our social responsibilities and contribute to the preservation of the global environment by continuously making improvements to minimize the impacts on the environment, resources, energy, greenhouse gas and environment-related social responsibilities, the Group shall perform the following.

- 1 The Group shall identify how environmental management relates to its business, and shall continuously develop products and services taking environmental management into account.
- 2 The Group shall use resources and energy in an efficient manner, shall minimize the emissions of greenhouse gas and pollutants, and shall recognize and fulfill its social responsibilities.
- 3 The Group shall comply with the legal requirements applicable to the Group, and shall actively fulfill all the promises that the Group has made to comply.
- 4 The Group shall recognize the importance of environmental management through education and training that encourage all Group employees to change their perspective on environmental management and to actively participate in environmental management.
- 5 The Group shall establish and implement goals and detailed targets of environmental management to achieve the environmental management policy, and shall continuously improve its environmental management performance through periodic inspections.

All Group employees shall fully comprehend this environmental policy, and shall strive to achieve goals of environmental management and to improve environmental management performance.

* DGB Financial Group's green management regulations and guidelines can be found in the web report (<http://www.dgbfg.co.kr>)



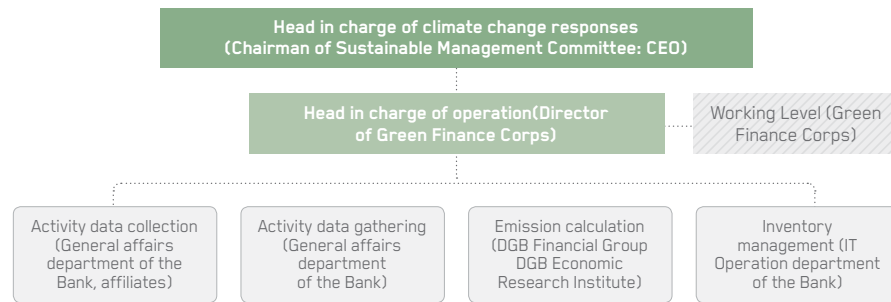
DGB Green Press Corps

DGB Green Press Corps is promoting the activities of DGB Financial Group to the local community and raising the awareness of the local people about climate change and environmental issues.

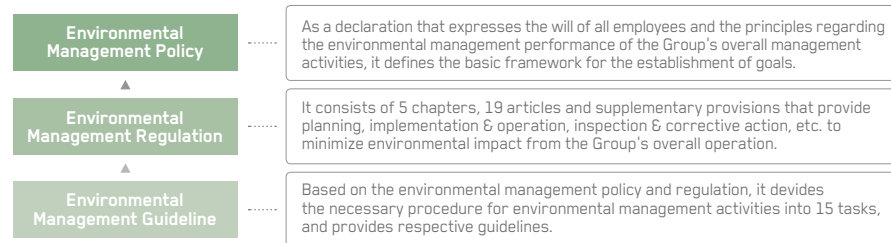


NIE Energy Journal Contest

GHG Inventory Control System



GHG Inventory Control System



and emission reporting through third party verification which is conducted annually.

In line with those efforts, DGB Financial Group also plans to expand its reach of environmental impact management from DGB Daegu Bank to other affiliates to further mitigate the environmental impacts and maintain a sustainable environment.

Raising Environmental Awareness

DGB Financial Group is providing various programs and education courses to raise environmental awareness among the general public. In particular, in recognition that the awareness of climate change and environmental issues should be further emphasized in order to provide a sustainable environment for future generations, the Group has been vigilant to spread and raise environmental awareness among our employees, partners, and local communities.

Since 2010, DGB Financial Group has operated 'DGB Green Press Corps' consisting of university students in the region. DGB Green Press Corps is actively promoting the environmentally-friendly activities of DGB Financial Group to the local community and raising the awareness of local residents about climate change and environmental issues. The 7th

DGB Green Press Corps was in operation in 2016; they provided environmental education to about 600 students in a total of 8 elementary, middle, and high schools in the region.

DGB Financial Group holds the "NIE Energy Journal Contest" for elementary, middle, and high school students in Korea every year with an aim to promote eco-friendly practices by keeping 'Green' journals. The Contest, The Contest, which has been annually held since 2009, was attended by approximately 2,000 students in 2016, and 60 students won awards at the contest. DGB Financial Group is expanding its education courses on green management and green financing for its employees. It also provides training courses on the GHG inventory system and green management system for the system users and internal auditors. In addition to these efforts, DGB employees are actively participating in local environmental protection activities. In 2016, a total of 2,385 employees participated in environmental protection activities, such as Spring Tree Planting, Alley Tending and Restoration of Hanson Lily Garden at Dokdo Island.

As described above, DGB Financial Group will continue its efforts to raise awareness of the environment while expanding awareness of green finance and environment-friendly financing related to the business area of the Group.

Win-Win Partnerships

DGB Financial Group strives to provide comprehensive financial services at a global level to foster local economies and local industries while continuing to strengthen its efforts to develop and provide financial products that ensure sustainable growth.

Shared Development with Partners

DGB Financial Group is working with various partners to comply with legal obligations in various areas such as procurement, IT security, credit evaluation, and auditing, and to ensure highly professional services through outsourcing. DGB Financial Group supports stable operation of and coexistence with partner companies through fair and transparent transactions and listens to their opinions through regular meetings. In addition, it is carrying out various activities to strengthen the competencies of its partners by providing them training courses on sustainable management in line with its efforts to encourage sustainable management within the value chain.

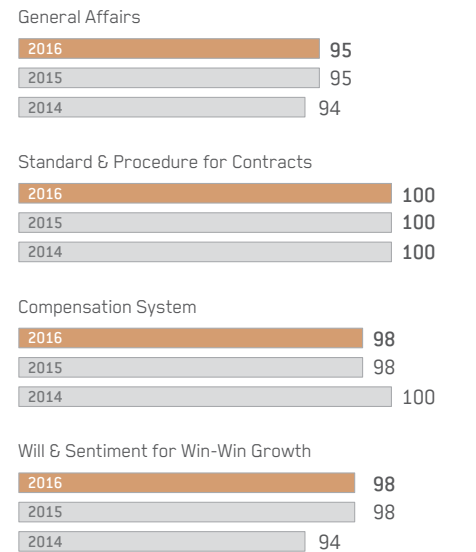
DGB Financial Group's Basic Principles for Shared Growth with Partners

- 1 Stronger Win-Win Partnership
- 2 Transparent Transactions
- 3 Fair price compensation
- 4 Zero Unfair Practice in Trade
- 5 Stronger Eco-friendly Activities

The Group convenes meetings with key partner companies every year to listen to their opinions and suggestions. In the "DGB Financial Group & Partners Meeting for Shared Growth" held in 2016, major issues and changes related to partners were shared, and proper actions were taken based on the opinions of the partner businesses. The partners made diverse suggestions about fair compensation and payment, and DGB Financial Group made a promise for transparent disclosure on relevant budgeting and payment standards.

DGB Financial Group conducts partner satisfaction surveys to actively collect opinions from its partner companies and improve business relations. The items of the survey consisted of General Matters, Contract Criteria and Procedures (written contract, delivery payment means, and delivery payment date), Reward System, and the Will and Sentiment of DGB Financial Group for Shared Growth. In the 2016 survey, the satisfaction level by sector was 95 point for General Matters, 100 point for Contract Criteria and Procedures, 98 point for Reward System, and 98 point for the Will and Sentiment for Shared Growth.

Business Partner Satisfaction for Each Part (Unit: Point)



In 2016, education on 'Recent CSR Trends and Major Issues Related to Partners' was provided for the partner companies to raise their awareness on sustainable management and to foster relevant competencies.

Going forward, DGB Financial Group will continue to strengthen communication with its partners as well as to promote sustainable co-prosperity with them through efforts to encourage awareness of sustainable management within the value chain.

Community Engagement and Development

DGB Financial Group is carrying out various social contribution activities to be reborn as a company that grows with the local community.

Support for Local Communities

DGB Financial Group recognizes that the sustainable growth of Daegu and Gyeongbuk regions is closely linked to the growth of DGB Financial Group. Thus, it is making every effort to contribute to the economic development of Daegu and Gyeongbuk regions in the form of higher productivity and employment rate, and to grow into a company that develops with the region through strenuous support for the local community.

In line with these efforts, DGB Financial Group has supported SMEs that have contributed greatly to the vitalization of the local economy. For example, it provides financial consulting to the SMEs so that they could secure solid ground for business, while making every effort to aid them with easier and more accessible financial supports. 'Corporate Business Consulting Center' at DGB Daegu Bank provides consulting services on corporate management including marketing strategy, human resources management and environmental management. In 2016, the Center provided consulting services to a total of 94 companies.

In addition to SMEs, DGB Financial Group is actively promoting local economies by supporting traditional markets and micro enterprises. In 2016, the DGB Volunteer Corps from DGB Financial Group visited traditional markets in Daegu and Gyeongbuk provinces before the Chuseok holiday for grocery shopping event to promote traditional markets and local economy. Apart from these promotional events, DGB Financial Group employees voluntarily purchased Onnuri gift certificates worth KRW 500 million, contributing to revitalization of local traditional markets. Furthermore, it also dispatched DGB volunteers to help victims in Seomun Market which experienced a devastating fire in Nov 2016; and they promoted the financial support of 50 billion won and donations of 300 million won for the distressed merchants.

DGB Financial Group has implemented various programs to provide more opportunities for cultural experiences in the local community and to help local residents enjoy the culture. DGB Daegu Bank's second Head Office located in Buk-gu, Daegu invites famous people from diverse fields such as management, hu-

manities, society and arts at 7 pm on the 2nd and 4th Wednesdays of each month. In 2016, the Group invited former Samsung Lions baseball player Yang Jun-hyuk, Yoon Jong-rok, Director of the National IT Industry Promotion Agency (former Vice Minister of the Ministry of Science, ICT and Future Planning.), and Lee Si-hyung, the Director of Serotonin Cultural Center for a special lecture session. There is a dedicated cultural space in DGB Daegu Bank's 2nd Headquarters. Serving as a small gallery (1F), this is a place where local artists can display their work and communicate with the local residents. In addition, DGB Financial Group is sponsoring local professional soccer teams and sports events such as the DGB Love Home Run Zone, and is actively supporting various local events such as the Colorful Daegu Festival and Sharing Festival.

DGB Financial Group is encouraging sustainable growth in the community through scholarship and support programs for students, who hold the future of our community. DGB Daegu Bank's Scholarship Foundation provides scholarships to high school and first-year university students in order to cultivate local talent. In addition, it offers local schools with development funds to help each school create more opportunities for seminars, conferences, and cultural events for its students.

In recognition of its vigorous efforts for development of local communities, DGB Daegu Bank received a 'Gold' medal in '2016 Gyeongbuk Good Business Award'. The Bank also won the presidential citation by 'The 21st SME Financial Support Reward Ceremony' for its efforts to support local SMEs.

Going forward, DGB Financial Group will not be complacent and will do everything within its reach to be the company that promotes development of and shares its prosperity with the region through various support programs for the local community.

Supports for the Financially-disadvantaged

DGB Financial Group continues to support the financially-underprivileged such as children from single-parent families, beneficiaries of national basic livelihood scheme, and the elderly neglected in our ever-aging society.



DGB Financial Education



DGB Wednesday Lecture

The 'Bluebird Dream Community Children's Center', operated by the DGB Social Contribution Foundation, is the first child welfare facility established by a financial institution. It is a professional child welfare facility designed to prevent children from low income households from being left unattended after school and supports the healthy development of those children. In particular, the Center provides self-directed learning opportunities to the children in need of care for the healthy development and growth, while making vigorous efforts to provide them a place for a healthy playing field and entertainment so that they can grow into healthy and upstanding members of society. 'With-U DGB Total Care Project for Foster Family' is a welfare program where the employees of DGB Financial Group and children and teenagers belong to Daegu Foster Care Center and Social Welfare Centers in Daegu are linked as apprentices and mentors, providing total care services to the beneficiaries until they grow into adulthood. Starting in 2013, the 5th Learning Mentoring Volunteer Corps carried out various activities in 2016, including learning mentoring and cultural experience programs. The Corps also provided allowance to the apprentices so that they can build sound financial knowledge.

For the first time as a financial institution, DGB Financial Group established 'Bluebird Senior Happy Workplace', a career center creating jobs and promoting welfare for the elderly, which are the two most serious issues in the aging society. The jobs provided to the seniors include sterilizing, cleaning, and disinfecting toys for children's facilities such as kindergartens and daycare centers in the area (the service is free of charge for the facilities). In this way, jobs for the elderly can be created and clean and healthy environments can be enjoyed by children. In 2016 alone, a total of 15 jobs were created and 118 institutions were benefited from free toy cleaning services.

Supporting the financially-underprivileged is a part of corporate social responsibilities, closely linked to healthy financial activities and economic revitalization. Keeping in mind, DGB Financial Group will continue to support the economically disadvantaged who are left neglected in our society.

Educational Projects

DGB Financial Group is carrying out various educational programs in the region to share its dreams and abundance with the community. The Dream Tree Educational Foundation, which supports children and young people to grow up healthy with dreams and hopes for the future, supports children and youth through various programs such as career education, experiential learning and counseling. In addition, 'Dream Career Job Experience Hall' is a program that helps young people in the region find their talents and make career choices on their own. This program provides the students opportunities to search for and experience multiple jobs, including bankers, baristas, patissier, announcers, and flight attendants.

DGB Financial Group conducts various educational activities related to the financial sector and shares its expertise in finance and economy with the community to provide sound economic opportunity to the public. In line with such efforts, the 'DGB Financial and Economic Education Center' educates children and young people, who will become future financial consumers of the country, about financial knowledge and healthy consumption habits. Through 'One Branch One School' financial education program, each branch DGB Daegu Bank establishes an alliance with a school located in adjacent area, and provides the students with the basics as to financial transaction and sound financial habits and attitudes. In addition, the Group is also dedicated to educating college students and the general public about financial techniques to share financial know-how that DGB Financial Group has accumulated over the years.

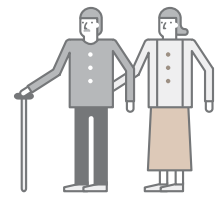
In the years to come, DGB Financial Group will seek to grow hand-in-hand with future generation by sharing its knowledge in finance with them.

IMPACT STORY. #6

DGB Striving to Address Aging Population Issues

1 With the retirement of baby-boomers, the aging population is increasing rapidly. In particular, Daegu and Gyeongbuk areas are one of the fastest 'aging' regions in Korea. In 2030, the proportion of the population aged 65 or older is expected to increase to 25.4% in Daegu and 31.1% in Gyeongbuk. It seems that Korea is now pacing towards the super aging society.

Daegu: 25.4%



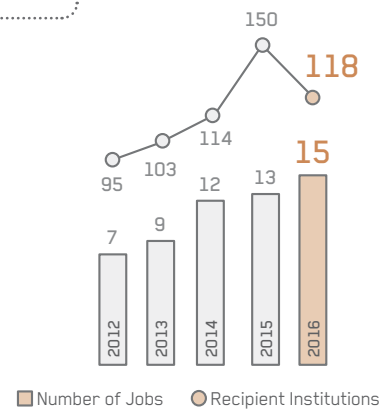
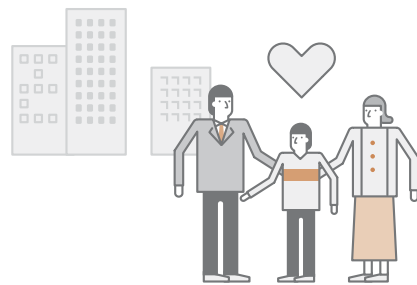
Gyeongbuk: 31.1%



2 In response to problems derived from aging population such as elderly, poverty, depression and other economic and social issues due to the decrease in working age population, DGB Financial Group has started an ambitious project to create jobs for the senior citizens.

3 The DGB Social Contribution Foundation, together with the Dalseo Senior Club, established 'Bluebird Work Center for Happy Seniors' in 2012. Thanks to the Center's program, seniors who have been educated on how to clean toys now visit various welfare institutions such as kindergartens, daycare centers, unmarried mothers' shelters, and multicultural centers to clean toys for children.

4 This program has been successful for the past five years, and 15 elderly citizens were provided with jobs in 2016 alone. Thanks to their endeavors, a total of 118 institutions received professional toy cleaning service so that they can create cleaner and safer environments for the children to play.



CSR PERFORMANCE

DGB Financial Group Sustainable Management Strategy

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

Strategic Direction of DGB Financial Group Sustainable Management

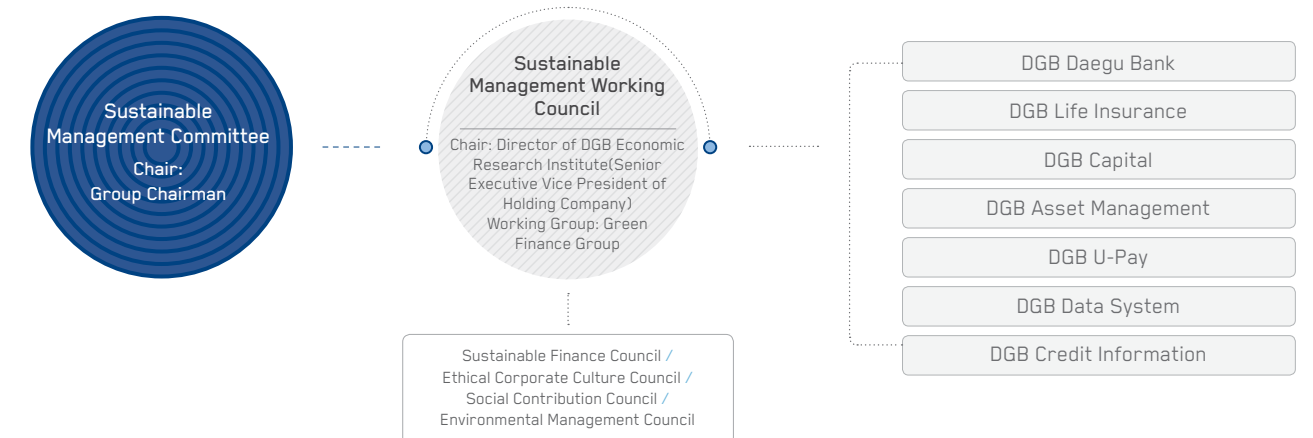


DGB Financial Group Sustainable Management Committee

DGB Financial Group is operating Sustainable Management Committee chaired by the CEO of DGB Group. The Sustainable Management Committee is responsible for the Group's major sustainable management decisions. It is working to develop and improve the sustainable management of the Group through monitoring the impacts and performance of the Group's economic, environmental, and social activities.

DGB Financial Group established the Sustainability Working Council led by Vice President of DGB Financial Group (Director of DGB Economic Research Institute) under the Sustainable Management Committee. The Sustainability Working Council holds more than two meetings each year, exploring the impacts, opportunities, and risks associated with the economic, social and environmental issues of DGB Financial Group, with four of the sub-councils planning and promoting detailed sustainability strategies and actions plans. Any material issues over sustainable management discussed at the four sub-councils are reviewed by, the Chair of the Council, before being submitted to the Sustainable Management Committee, the highest governance body for final review and approval.

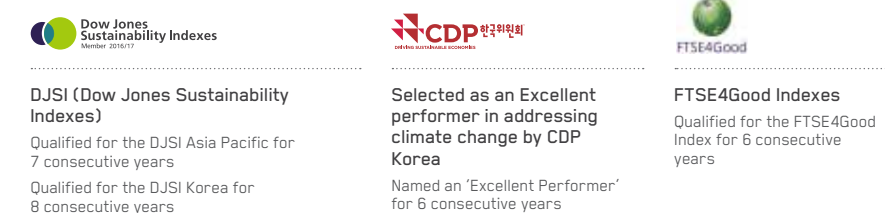
Sustainable Management Framework



Commitment to External Voluntary Agreements



Financial initiatives





FUTURE-ORIENTED STRATEGIC MANAGEMENT

| Disclosure on Management Approach

Sustainable Performance

→ Significance

Preparing for and responding to changes amidst key internal and external market changes and financial crises is critical for securing sustainable performance of DGB Financial Group.

→ How to Manage

DGB Financial Group focuses on quality growth by actively and dramatically responding to the changing financial environment by expanding domestic and overseas business networks, providing comprehensive financial services, and innovating internal organizations.

→ Key Performance Index (2006-2016)

Performance Index	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Market Share in Daegu Gyeongbuk	25.5	25.9	26.0	28.5	29.0	29.4	29.2	29.0	29.1	27.6	26.9
Market Share (Loan, %)											
Market Share in Daegu Gyeongbuk	34.0	34.3	33.7	33.8	34.3	34.8	35.2	36.2	36.3	35.8	36.8
Market Share (Deposit, %)											
ROE, BIS (%)	11.32	11.25	13.12	15.40	14.76	15.33	15.57	15.06	12.92	12.89	12.90
ROA/ROE(%)	1.20	1.16	1.01	0.61	0.75	0.97	0.83	0.65	0.58	0.61	0.55
	/19.71	/19.20	/17.37	/10.06	/11.77	/13.95	/11.35	/8.63	/8.16	/8.85	/7.95

→ Next Step

DGB Financial Group will strengthen its sales activities using the business network in Daegu-Gyeongbuk region, while also laying the foundations for growth in the Southeastern part of the country, metropolitan areas, and overseas markets, and raising its brand value through an integrated branding for all of its affiliates. In addition, we will make efforts to become a comprehensive financial group that leads the future financial market by rapidly responding to next-generation financial services, such as FinTech and Internet Banking.

Sound Governance

→ Significance

Governance can be the most effective means of understanding a company because it represents the decision-making structure of the enterprise. The transparent and independent organization and operation of BOD can be a key factor in the company's overall competitiveness.

→ How to Manage

DGB Financial Group intends to strengthen the BOD's expertise, establish independent committees and select board members in a fair way to operate BOD as transparent and sound as possible.

→ Key Performance Index (2006-2016)

Performance Index	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
BOD Attendance rate (%)	100.0	100.0	100.0	87.4	91.2	98.4	95.0	100.0	100.0	98.4	97.9
Percentage of Independent directors (%)	83.0	83.0	83.0	71.0	63.0	83.0	83.3	71.4	71.4	83.3	71.4
No. of agendas voted by the Committee	1	2	2	3	2	3	4	4	5	5	5

→ Next Step

DGB Financial Group will continue to make efforts to improve the efficiency and transparency of the BOD by faithfully implementing the exemplary financial institution governance structure standard. It will also continue to strengthen the activities of the Sustainable Management Committee and Sustainability Working Council.

Sustainable Performance

Total asset

(Unit: KRW 100 million) *Trust assets excluded, As of end of Dec, 2016

	2014	2015	2016	2017(estimate)
DGB Daegu Bank	400,712	445,230	459,452	500,000
DGB Life Insurance	-	53,347	55,751	59,430
DGB Capital	9,583	12,583	18,511	24,780
DGB Asset Management	-	-	185	220
DGB U-Pay	400	368	352	350
DGB Data System	75	83	96	100
DGB Credit Information	48	47	47	50
Total	410,097	511,444	534,624	585,400

Key Economic Performance

(Unit: %, KRW 100 million) * As of the end of Dec, 2016

	2014	2015	2016	2017(estimate)
ROA	0.58	0.61	0.55	0.60
ROE	8.16	8.85	7.95	8.80
BIS Ratio	12.92	12.89	12.93	12.90
Sub-standard loan ratio	1.15	1.29	1.20	1.10
Delinquency rate	0.73	0.85	0.76	0.70
Net Income in Controlling Interest	2,297	2,941	2,877	3,200

Economic performance distribution for stakeholders

(Unit: KRW 1 million) * As of the end of Dec, 2016

	2014	2015	2016	Note
Shareholders and Investors	46,919	47,334	50,716	Dividend
Employees	366,126	385,879	398,816	All salaries, retirement allowance & welfare benefits
Customers	689,443	616,240	536,883	Interest expense
Community	8,481	8,529	6,307	All donations
Government	73,434	35,092	65,929	All corporate taxes

Sound Governance

BOD Operation Performance

	2014	2015	2016
No. of Meetings	14	9	14
Independent Directors Ratio (%)	71.4	83.3	71.4
BOD Attendance Rate (%)	100.0	98.4	97.9

Remuneration of Directors

(Unit: KRW 1 million)

	2014	2015	2016	Note
Registered Director	462	560	354	Including the concurrent
Independent Director (Except Audit Committee Member)	72	80	82	
Independent Director (Audit Committee Member)	121	120	122	
Total	655	760	558	

Share

(Unit: %) **As of the end of Dec, 2016

	2014	2015	2016
Ownership of foreign shareholders	73.80	68.01	59.86
Largest shareholders	Saudi Arabia Central Bank 5.48	Saudi Arabia Central Bank 4.68	The Oakmark International Small Cap Fund 4.52
Ownership of domestic shareholders	26.20	31.99	40.14
Largest shareholders	Samsung Life Insurance 7.25	Samsung Life Insurance 6.95	National Pension Service 8.87

 **CUSTOMER SATISFACTION MANAGEMENT** | Disclosure on Management Approach

Creating Customer Value

➔ **Significance**

DGB Financial Group is committed to providing better value to our customers. Customer satisfaction management has a direct impact on corporate performance. With this in mind, DGB Financial Group is doing its best to promote reasonable and fair financial transaction activities for our customers by providing them sufficient and accurate data so that they can make informed decisions in their financial lives.

➔ **How to Manage**

DGB Financial Group is pursuing customer satisfaction as its best business strategy and looking for ways to get closer to our customers. To that end, the Group is continuously providing improved services and better financial accessibility to its customers. The Group is also striving to enhance the level of customer satisfaction by protecting consumers' interests, improving improper practices, and minimizing consumer complaints and damage.

➔ **Key Performance Index (2006-2016)**

Performance Index	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Civil Complaint Evaluation Level (Replaced by the Financial Consumer Protection Activity Assessment in 2015)	1	1	1	1	1	1	1	1	1		
Financial Consumer Protection Activity Assessment										'Good' in all	
Leak of personal information	0	0	0	0	0	0	0	0	0	0	0
No. of VOC handlings	98	21	142	144	153	197	83	135	84	159	47
Customer satisfaction (points)	85.0	85.0	89.0	89.0	91.0	92.0	92.7	93.9	94.2	95.3	94.9

➔ **Next Step**

As security risks increase and the importance of information protection becomes more important, DGB Financial Group will continue to strengthen its consumer protection programs and IT security for safe financial transactions for our customers. In addition, DGB Financial Group will continue to develop differentiated services that meet customer needs by enhancing accessibility and convenience for financial services. Through this, we will strive to increase our customer satisfaction rating of 94.9 point to 97 or more until 2020.

Sustainable Finance

➔ **Significance**

DGB Financial Group seeks to provide stakeholders better benefits through product development that takes into account the economic, social and environmental dimensions for sustainable growth and generating profits.

➔ **How to Manage**

DGB Financial Group develops and sells public finance products for co-prosperity with local communities, small loan products for stable business operation of small and medium-sized merchants and those who have low credit rating, and green financial products for outstanding eco-friendly management. In addition, DGB Financial Group is pursuing a variety of activities, including socially responsible investment (SRI) and financial and economic education programs.

➔ **Key Performance Index (2006-2016)**

Performance Index	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
SRI products sales balance (deposit, KRW in million)	-	28,997	26,360	17,060	8,806	9,620	11,807	7,790	8,117	5,281	1,645
Amount of small loans / tech loans (Loan, KRW in hundred million)	-	-	-	7,449	3,821	7,479	3,709	1,979	2,774	3,592	5,242
Sales of green financial products (deposit, KRW in hundred million)	-	-	-	2,328	2,292	853	3,227	2,181	2,944	5,322	8,183

➔ **Next Step**

DGB Financial Group intends to expand the shared-value financial products by strengthening the development and sales of socially responsible financial products and reflecting them in its performance evaluation. In addition, we will increase the support for Inclusive Finance from KRW 542.5 billion to 1 trillion, and will increase the loan for SMEs from KRW 21 trillion to 30 trillion to achieve mutual growth with the local community, including local residents and businesses.

Creating Customer Value

No. of VOC Handling

(Unit: cases)

	2014	2015	2016
Complaint	84	159	47
Current Issues	260	169	378
Praiseworthy	523	565	789
Other	578	779	703
Other	1,445	1,672	1,917

Customer Satisfaction Survey Result

	2014	2015	2016	2017(estimate)
Customer satisfaction (points)	94.23	95.32	94.85	95.00

Sustainable Finance

Lending to SMEs

	2014	2015	2016	2017(estimate)
Amount of loans to SMEs (KRW 1 trillion)	17.8	19.3	21.0	22.8
Percentage of loans to SMEs (%)	63.5	63.8	64.9	65.0

Major Products for Inclusive Finance

*As of the end of December 2016

	2014		2015		2016	
	Total Accounts	Total Accounts Amount (KRW in hundred million)	Total Accounts	Total Accounts Amount (KRW in hundred million)	Total Accounts	Total Accounts Amount (KRW in hundred million)
DGB Seed for Hope Loans	25,028	2,063	4,083	2,595	20,695	1,335
DGB Conversion Loans	1,496	151	2,018	208	1,108	68
Special Guarantee Loans for SMEs	470	111	2,032	340	1,786	192
Sunshine Loans for University Students	-	-	459	17	60	6
DGB Hopeful Days Loans	704	74	714	75	80	6
DGB Stepping Stone Loans for SOHO	559	28	564	28	103	1
Special Guarantee Loans for Small Alley	-	-	1,376	235	779	36
DGB Dream Loans for Young People	54	29	58	31	32	18

Major Products for Tech Loans (Amount)

*As of the end of December 2016, balance (Unit: KRW in millions)

	2014	2015	2016
DGB Tech Biz Loans	43,133	723,502	1,023,922
Preferential Loans for Manufacturing	523,375	461,619	274,520
BOK's aggregate credit ceiling system for technology-driven business start-ups	48,610	58,645	73,714

DGB CyberGreen Branch Sales Performance

	2014	2015	2016	2017(estimate)
No. of Accounts Sold	2,564	3,047	2,905	3,000
Amount (KRW in millions)	2,094	2,450	2,258	2,500

Application of Environmental Impact Evaluation

	2014	2015	2016	2017(estimate)
No. of companies subject to environmental impact evaluation	15,894	19,244	18,021	19,000
No. of companies excluded from environmental impact evaluation	729	872	358	380
Percentage of applicable companies	95.61	95.67	98.05	98.03

Green Financial product Sales

		2015		2016	
		No. of Accounts	Amount (KRW in millions)	No. of Accounts	Amount (KRW in millions)
Installment Savings	Eco-friendly Green	2,685	11,100	66	97
	Green Health	726	4,115	627	4,041
	e-Convenient Installment Savings (sales ended in Jul 22, 2015)	5,640	32,886	2,015	21,130
	Dokdo Savings	11,107	12,920	8,929	9,340
	In My Hands	1,577	1,721	15,555	44,607
Financial Technique Deposits	e-U Savings	1,985	2,769	8,617	26,724
	Eco-friendly Green	3,967	68,557	96	1,855
	e-Convenient Time Savings (sales ended in Jul 22, 2015)	2,862	43,312	347	4,987
	Dokdo Deposits	16,100	286,929	16,392	303,870
	In My Hands	1,771	28,032	14,459	282,745
	e-U Deposits	2,569	36,435	7,292	118,986

Public Service Fund Products

* As of the end of Dec, 2016 (KRW in million)

	2014 Balance	2015 Balance	2016 Balance
Midas Responsible Investment Equity Investment Trust	303	182	94
Mirae Asset Love Sharing ETF Equality Investment Trust	4,233	1,879	1,551
Allianz Active SRI Equity Investment Trust	-	-	80

Contributions to the SRI Public Service Fund

(Unit: KRW in thousand)

	2014	2015	2016	2017(estimate)
Service Amount	22,000	5,400	1,750	4,000



ENHANCEMENT OF ORGANIZATIONAL COMPETENCE | Disclosure on Management Approach

Human Resource Development and Support

→ Significance

The future of DGB Financial Group depends on excellent human resources and their competencies. Therefore, securing excellent talent through fair recruitment procedures, employee capacity-building through systematic education programs, and striking work and life for employees are key elements in sustainable management of DGB Financial Group.

→ How to Manage

DGB Financial Group is strengthening the competencies of its employees and developing various educational programs reflecting changes and needs of the environment.

→ Key Performance Index (2006-2016)

Performance Index	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Average education expenses per capita (KRW in thousands)	-	-	-	-	-	1,100	1,100	1,100	987	1,060	600
Female managers to all managers (%)	-	4.0	8.2	9.0	10.2	12.9	13.6	15.7	13.6	19.7	21.5
Expenses for re-employment of retired employees (KRW in millions)	-	-	-	-	-	-	-	3	3	-	-

→ Next Step

DGB Financial Group plans to accurately monitor the perceptions of its employees and reflect them in its management. By properly managing those opinions, the Group will lay the foundations for strengthened competitiveness so as to revitalize the corporate culture of DGB Financial Group.

Employee Satisfaction Management

→ Significance

It is the DGB employees who provide the best value and service to our external stakeholders. The happy working environment for the employees is the basis for improving the productivity and efficiency of the work, and the happiness of employees is translated into development of DGB Financial Group.

→ How to Manage

DGB Financial Group is striving to maximize employee satisfaction by improving the quality of life based on the work and life balance of its employees and pursuing a happy corporate culture for employees.

→ Key Performance Index (2006-2016)

Performance Index	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Employee satisfaction (points)	63.3	64.1	80.0	86.0	88.0	89.0	91.0	90.0	90.0	90.0	90.0
Maternity leave & return to Work (%)	-	-	-	-	-	92.5	88.2	45.2	66.3	47.8	54.0

→ Next Step

DGB Financial Group will strive to provide a higher level of financial services to the customers by establishing a fair compensation system for our employees and nurturing professionalism. For the satisfaction of employees, we will strive to increase our employee satisfaction rating of 90 point to 95 or more until 2020.

Human Resource Development and Support

Employee Status at DGB Daegu Bank

	2014	2015	2016
Total No. of employees	3,118	3,100	3,138
New employees	184	180	178
Unemployed and retired employees	136	197	127
Turnover and retirement rate (%)	4.3	6.3	4.1
Employment type			
Regular employees	2,846	2,946	3,006
Contract employees	272	154	132
Position			
Staff	1,676	1,689	1,755
Manager (Class 4 or more)	1,402	1,371	1,340
Executives	40	40	43
Age			
Under 20s	33	27	6
20s	597	611	549
30s	1,021	1,019	954
40s	1,043	1,045	1,097
50s and above	424	398	532
Gender (%)			
Male	55	54	53
Female	45	46	47
Others			
Foreigners	13	15	17

Female Employees

(Unit: %)

	2014	2015	2016
Position			
Female employees to all employees	74.4	74.0	73.6
High-Rank Administrator (Female)*	2.7	2.9	4.3
Low-Rank Administrator (Female)**	20	23	25
Employment type			
Regular female employees to all regular employees	45.3	46.7	47.8
Contract female employees to all contract employees	38.8	33.1	34.9

* High-Rank Administrator : Director or higher

** Low-Rank Administrator : From Manager to lower than Director

Change of contract positions to regular positions

(Unit: person)

	2014	2015	2016
No. of employees reemployed as regular	12	16	18

Employee Education

	2014	2015	2016
Average education hours per capita (hours)	41.5	43	70*
Average education expenses per capita (KRW in thousands)	987	1,060	600**

* Increasing training time by diversifying educational programs

** Reducing paid training curriculum by changing education standards for required certifications

Education on Human rights

(Unit: times)

	2014	2015	2016	2017(estimate)
Average education sessions per capita (times)	52	52	52	60

OHS

	2014	2015	2016
Rate of occupational accidents (%)	0	0	0
Rate of Absenteeism (Day, %)	2,288 (0.3%)	1,936 (0.3%)	2,578 (0.3%)

Employee Satisfaction Management

Operation of the DGB Children's Dream Nursery

(Unit: person)

	2014	2015	2016	2017(estimate)
No. of children registered at the DGB Children's Dream Nursery	113	127	115	121

Maternity Leave & Return to Work Rate

	2014	2015	2016
No. of employees on maternity leave (persons)	104	134	215
No. of employees who have returned from maternity leave (persons)	69	64	116
Rate of return to work (%)	66.3	47.8	54.0
No. of employees who retired after maternity leave (persons)	4	6	12

Employee Satisfaction

(Unit: points)

	2014	2015	2016	2017(estimate)
Employee Satisfaction	90	90	90	91

* All target employees enrolled in the defined benefit(DB) retirement pension plan in accordance with the agreement between the labor and management of DGB Daegu Bank (employees with less than 1 year experience in DGB, Independent Directors, part-time employees excluded)

Retirement Pension Memberships

	2014	2015	2016	2017(estimate)
Defined Benefit Pension Plans (persons)	3,308	3,348	3,387	3,389
Total employees (persons)	3,308	3,348	3,387	3,389
No. of employees enrolled (persons)	2,932	2,980	3,004	3,036
Enrollment rate (%)	88.6	89.0	88.7	89.6

Employee Grievance Handling

	2014	2015	2016	2017(estimate)
No. of grievances received (cases)	20	21	19	22
Rate of grievance resolution (%)	100	100	100	100

DGB Daegu Bank Labor Union Membership

	2014	2015	2016	2017(estimate)
Total No. of employees (persons)	2,852	3,348	3,387	3,389
No. of employees eligible for union membership (persons)*	2,131	2,145	2,208	2,171
Labor union members to total employees (%)	74.7	64.1	65.2	64.1
Labor union members to those eligible (%)	100	100	100	100

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

 **RISK MANAGEMENT** | Disclosure on Management Approach

Crisis and Change Management

➔ **Significance**

Identifying and responding to factors that may pose risks to the management activities of DGB Financial Group is important, not only for the growth of the company, but also for the survival of it. Ethical management, product liability and law compliance also have a significant impact on the reliability of DGB Financial Group.

➔ **How to Manage**

DGB Financial Group is taking preventive measures against risks through thorough and systematic risk management. In order to establish a corporate culture that places ethical management as the top priority of its value, the Group is actively promoting ethical codes of conduct for employees, establishing standards for job-specific ethical behavior, implementing compliance monitoring systems, and righteous management programs.

➔ **Key Performance Index (2006-2016)**

Performance Index	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
No. of corruptions and violation of law (cases)	0	0	0	0	0	0	0	0	0	0	0
Education sessions for business ethics per capita (times)	-	-	16	17	18	19	60	65	69	66	68
Internal Control System Operation Status (times) (Routine, General, Special, Ordinary)	-	-	-	-	-	148,113	356,182	915,380	855,309	519,205	332,956

➔ **Next Step**

DGB Financial Group will continue to strive to preemptively respond to financial and non-financial risks arising from political, economic and social issues surrounding the corporate environment, and will continue systematic risk and change management to promote sustainable management activities throughout the Group.

Enhancement of Environmental Management

➔ **Significance**

Climate change due to global warming is becoming a serious issue, so environmental awareness and change of behaviors of current and future generations should be given top priority in order to properly deal with climate change. Furthermore, DGB Financial Group will have to look for new opportunities to generate financial performance by minimizing the environmental impacts.

➔ **How to Manage**

Under the recognition that environmental awareness and change in behavior of the current and future generations should be the top priority for dealing with climate change, DGB Financial Group has sought various action plans to strengthen green management activities by adopting green management policies and guidelines. In addition, it is expanding the scope of its green management activities by taking into consideration its subsidiaries and supply chains.

➔ **Key Performance Index (2006-2016)**

Performance Index	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GHG Emissions (tCO2e)	-	-	-	31,461	32,759	34,326	18,400	17,991	18,167	18,132	17,730
Green Purchasing Rate (%)	-	-	-	-	84.5	81.5	83.3	83.3	83.0	83.5	83.7
No. of Environment Protection Activity (cases)	106	106	106	120	60	61	73	92	91	95	97

➔ **Next Step**

To strengthen environmental management, DGB Financial Group will expand the development and sales of eco-friendly products and introduce more sophisticated evaluation systems for eco-friendly companies. Furthermore, it will continue to strengthen its activities to raise the sustainability awareness in local communities through financial business. We will further strengthen our environmental management as a member of the local community with the goal of achieving the green purchasing rate of 85%, reducing the greenhouse gas emission by 10% and accomplishing 120 environmental protection activities until 2020.

Crisis and Change Management

No. of Risk Management Committee meetings

	2014	2015	2016	2017(estimate)
No. of Risk Management Committee	6	7	7	7

Business Ethics Education Operation

	2014	2015	2016	2017(estimate)
Average education sessions on business ethics per capita (times)	69	66	68	69

Internal Control System Operation

(Unit: cases)

	2014	2015	2016
Routine Audit	1,487	1,551	1,471
General Audit	258	242	240
Special Audit	22	20	14
Ordinary Audit	852,551	517,392	331,231

Violations of Ethical Management related laws

(Unit: cases)

	2014	2015	2016	2017(estimate)
No. of law violations	0	0	0	0

Environmental Management System Corrective and Preventive Measures

* As of the end of Dec, 2016

		Non-conformance	Action Taken	Progress (%)	Remark
2014	Internal Audit	0	0	100	Review of possibilities of setting unit cost-based goals for green management practices and 3 other cases
	Compliance Evaluation	-	-	-	
2015	Internal Audit	0	0	100	11 recommendations for environmental education enhancement in the internal training programs (periodical).
	Compliance Evaluation	-	-	-	
2016	Internal Audit	0	0	100	11 recommendations for environmental education enhancement in the internal training programs (periodical).
	Compliance Evaluation	-	-	-	

Enhancement of Environmental Management

Green product purchasing

(Unit: KRW in millions)

	2014	2015	2016	2017(estimate)
Total Purchasing	8,885	8,815	8,425	8,525
Green Product Purchasing	7,374	7,364	7,048	7,161
Green Purchasing Rate (%)	82.99	83.54	83.66	84.00

MAJOR ACHIEVEMENT OF SUSTAINABLE MANAGEMENT

Paper Use

(Unit: ton)

	2014	2015	2016	2017(estimate)
Paper Use	126.0	134.1	139.7	135

Electronic Bills

	2014	2015	2016	2017(estimate)
No. of total bills sent	6,797,831	6,714,903	7,094,699	7,203,533
No. of electronic bills	1,964,321	2,167,446	2,336,020	2,476,020
Rate of electronic bills (%)	28.90%	32.30%	32.93%	34.37%

DGB Daegu Bank Waste Discharge

	Papers		Electronics, Ribbons		Print Toners	
	Amount Generated (ton)	Recycling rate (%)	Amount Generated (kg)	Recycling rate (%)	Amount Generated (ton)	Recycling rate (%)
2014	126.0	100%	745	16.10%	2.8	13%
2015	134.1	100%	758	15.60%	3.0	14%
2016	139.7	100%	705	15.87%	3.1	14%

Water Use

(Unit: ton)

	2014	2015	2016	2017(estimate)
Total Use	166,938	167,584	168,753	165,000
Amount used per branch	695.6	659.8	651.56	637
Scope of water use data collection	Head Office and 240 branches	Head Office and 254 branches	Headquarter, 2nd Headquarter and 259 branches	Headquarter, 2nd Headquarter and 259 branches

GHG Emissions Reporting Scope

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

GHG Emissions control

		Emission Sources	Fuels (Substance)
Direct emissions (Scope 1)	Stationary combustion emissions	Facilities within the scope of DGB Daegu Bank's administration that uses fossil fuels: boilers, restaurants, emergency power generators, etc.	Kerosene, diesel, LNG, and propane gas
	Mobile combustion emissions	Company-owned vehicles and leased (long-term lease) vehicles	Diesel, gasoline, and LPG
	Fugitive emissions	Air-conditioning facilities within business premises	R-410a, R407c
Indirect emissions (Scope 2)	Purchased electricity	Electricity facilities	Electricity
Other indirect emissions (Scope 3)	Mobile (business trips, commuting)	Transportation for business trips out of town and overseas	Railway (out-of-town business trips), airway (business trips to Jeju Island and overseas), cars/buses/subway (commuting)

Energy Consumption

(Unit: TJ)

	2014	2015	2016	2017(estimate)
Direct	48.20	40.66	39.43	38
Indirect	116.58	118.61	116.17	115
Total Energy Use	164.78	159.27	155.60	153

GHG Emissions

(Unit: tCO₂e)

	2014	2015	2016	2017(estimate)
Scope 1	3,069	2,770	2,684	2,600
Scope 2	15,098	15,362	15,046	15,000
Total emissions (Scope 1+2)	18,167	18,132	17,730	17,600
Scope 3	1,620	2,382	2,334	2,300

Indirect Emissions of GHG in Detail

(Unit: tCO₂e)

	2014	2015	2016	2017(estimate)
Branches	8,215	7,922	7,603	7,500
ATM	2,729	2,710	2,552	2,400
DGB Daegu Bank's Headquarters (including DGB Financial Group and DGB Data System)	4,026	4,619	4,773	4,500
DGB Credit Information	42	43	44	40
DGB U-Pay	66	69	75	70

Green Touch program Benefits

	Saved Electricity (kWh)	Saved Hours of Electricity	Amount of CO ₂	Equivalent to Planting Trees
2014	62,719	572,953	26,593	9,600
2015	51,488	509,138	21,831	7,881
2016	25,183	249,002	10,677	3,855

Implementation of Environmental Education

	2014	2015	2016	2017(estimate)
Annual training hours on green	402	450	450	480

Environmental Preservation Activities

	2014	2015	2016
No. of activities	91	95	97
No. of participants	2,585	2,120	2,385
Investment in environmental preservation (KRW in millions)	39	9	35



CREATING SHARED VALUE | Disclosure on Management Approach

Win-Win Partnerships

➔ Significance

DGB Financial Group has relationships with a variety of partners for legal compliance and expert outsourcing. For this reason, it is necessary to establish fair and transparent trade relations with partner companies, and to seek ways to enjoy co-prosperity with them through coexistence and win-win.

➔ How to Manage

DGB Financial Group holds conferences and meetings every year for mutual growth with partner companies, and reflects the concerns and interests of them in its management. The Group also carefully listens to and responds to the difficulties of its partners.

➔ Key Performance Index (2006-2016)

Performance Index	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Partner Satisfaction Survey Result (points)	-	-	-	-	-	-	90	92	95	94	95
Meetings with Business Partners (times)	-	-	-	-	-	1	1	1	1	1	1
Handling of business partners' grievances (%)	-	-	-	-	-	-	100	100	100	100	100

* As the issues, such as the win-win growth of business partners and the support for supply chain and corporate sustainable management, became significant, it was selected as a key performance indicator in 2011

➔ Next Step

Through our fair and transparent transactions, DGB Financial Group will continue to support the stable operation and co-prosperity with its partners, while actively listening to their opinions through regular meetings to maintain a sound foundation for mutual growth.

Community Engagement and Development

➔ Significance

DGB Financial Group is a company that grows with the local community. Therefore, the Group should strive to promote economic development and self-sustenance in the Daegu-Gyeongbuk area and contribute to regional development by re-investing in and returning its achievements to the local community.

➔ How to Manage

DGB Financial Group is promoting social contribution activities that promote economic and social value creation, such as creating jobs and promoting local self-sustainability. Through various local-centric campaigns and specialized activities in education, culture, arts and sports, the Group will provide a better environment for residents to live in. It is also promoting diverse activities to grow together with local communities through various co-prosperity programs for the Group and the local communities.

➔ Key Performance Index (2006-2016)

Performance Index	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Social Contribution Expenses/ Net Income* (%)	4.0	3.5	5.1	8.9	8.3	7.8	8.7	9.7	11.3	14.6	7.7**
Participants in voluntary activities (persons)	19,627	17,560	18,574	19,608	21,966	22,198	21,723	22,208	22,182	19,791	19,294
No. of firms that received management consulting services from DGB Financial Group	33	55	60	91	85	82	63	67	74	77	94
No. of jobs created by DGB Social Contribution Foundation (persons)	-	-	-	-	-	-	14	16	19	26	27

* Net Income: DGB Daegu Bank's net income after deducting a bad debt reserve

** Deducting the social contribution expenditure and bad debt reserve due to special domestic circumstances

➔ Next Step

DGB Financial Group will strive to create shared value by reflecting the characteristics of the financial industry and continuously developing social contribution programs that utilize financial infrastructure. In addition, by measuring the performance of its social contribution projects, the Group will pursue meaningful solutions to social problems and establish a solid foundation for mutual growth with the local community. In addition, we are planning to increase the number of management consulting service providers by 30% or more until 2020 to support stable growth of local SMEs.

Win-Win Partnerships

No. of meeting with business partners

	2014	2015	2016
Suggestions by business partners	2 - Expanding educations for business partners (safety, ethics, sustainability, etc.) - Providing reasonable compensation for weekend and work after hours	1 - Reflecting inflation rate in budget allocation	1 - Applying consistent criteria for selecting suppliers and calculating costs
Proposals by DGB Financial Group	1 - Reviewing the improvement of business partner management system	1 - Collecting business partners' suggestions and enhancing management channels	1 - Consistent efforts for co-prosperity with business partners
Actions Taken	Execution of one suggestion	Execution of one suggestion	Execution of one suggestion

DGB Financial Group's Business Consulting Service Operation

	2014	2015	2016	2017(estimate)
No. of firms received DGB Financial Group's Business Consulting Service	74	77	94	100

Community Engagement and Development

DGB Social Contribution Foundation's Major Activities

		2014	2015	2016	2017(estimate)
Future Generation Education Project Group	Job creation (persons)	6	8	8	10
	Proceeds (KRW in million)	119	109	145	150
Bluebird Senior Happy Workplace	Job creation (persons)	13	14	15	15
	Proceeds (KRW in million)	34	47	50	52

DGB Daegu Bank labor union's Social contribution Expenses

(Unit: KRW in millions)

	2014	2015	2016	2017(estimate)
Sponsoring low-income family children, Providing heating costs for low income families, Supporting local talent	200	206	223	225

DGB's Scholarship cultural Foundation

		2014	2015	2016
High Schools	No. of beneficiaries	114	107	101
	Amount of scholarships (KRW in millions)	174	167	159
University	No. of beneficiaries	96	93	92
	Amount of scholarships (KRW in millions)	243	236	229

Daegu Bank's Major Social Contribution Activities

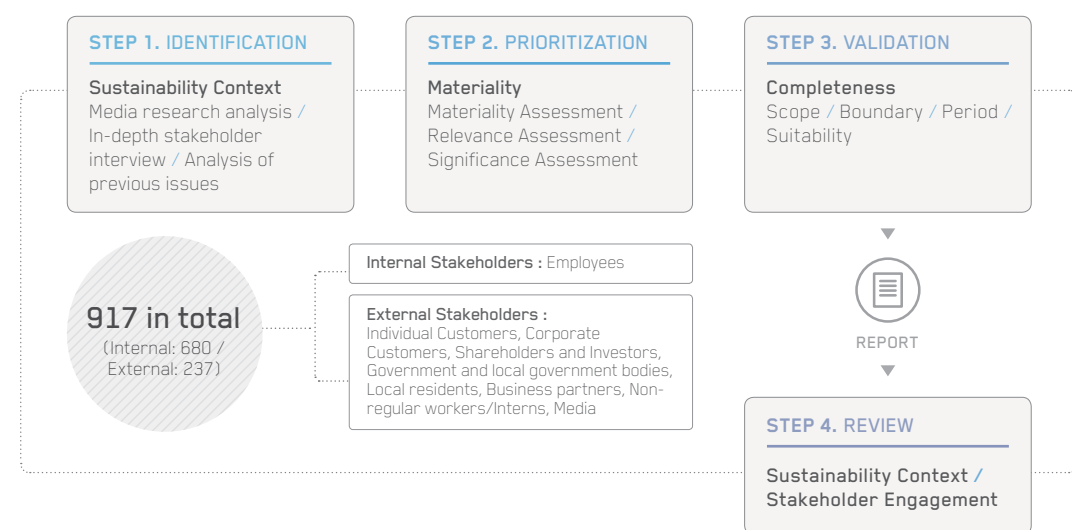
	2014		2015		2016	
	Supporting Amount (KRW in million)	Volunteers	Supporting Amount (KRW in million)	Volunteers	Supporting Amount (KRW in million)	Volunteers
Local communities and public welfare	16,176	13,440	13,569	12,280	12,278	12,057
Culture, art, and sports	4,377	2,099	5,736	1,860	5,140	1,648
Education and scholarship	2,650	211	2,163	296	1,393	230
Micro-credit, dormant deposit, Youth Startup Foundation, and Credit	2,670	0	1,450	0	462	-
Environment and global	39	6,432	91	5,355	238	5,359
Total	25,912	22,182	23,009	19,791	19,511	19,294

MATERIALITY ANALYSIS PROCESS AND RESULTS

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

Materiality Analysis Process

DGB Financial Group conducted analysis on internal and external environment and materiality of issues based on the four principles: Sustainability Context, Materiality, Completeness and Stakeholder Inclusiveness.



STEP 1 Identification of sustainable management issues through internal and external environmental analysis

- Media Analysis | Analyzed 7,330 valid articles released in last three years (from 2014 through 2016) in order to figure out the public recognition of the Group to identify relevant issues
- In-depth stakeholder interview | Carried out in-depth interviews with 7 stakeholders representing each stakeholder group in order to identify detailed sustainability issues
- Benchmarking | Checked material issues that domestic and foreign peer groups had reported
- Compliance with ISO26000 | Conducted diagnosis of the compliance with ISO26000 to draw issues which showed unsatisfactory status

STEP 2 Prioritization of material issues through materiality analysis

- Relevance Assessment | Drew a total of 71 issues by evaluating the relevance of sustainability issues identified through internal and external environment analysis and in-depth stakeholder interviews
- Significance Assessment | Implemented an online survey of 971 stakeholders for 12 days from Jan 9 to 20, 2017 and selected 15 material issues by prioritization process

STEP 3 Verification of the effectiveness

- Holding a TFT meeting and Expert workshop to verify the significance of the selected 15 material issues
- Determined the reporting level of core issues in terms of scope, boundary, and period, and established a reporting plan

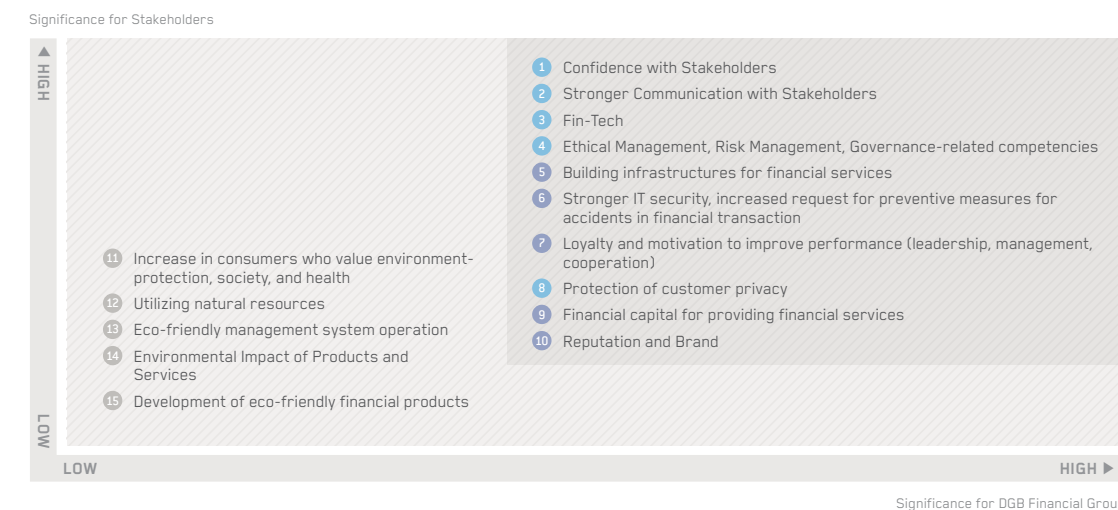
STEP 4 Review

- Collected stakeholder feedbacks on the previous year's sustainability report and external institutions' recommendation based on the ESG evaluation to reflect them in this year's report

Materiality Analysis Results

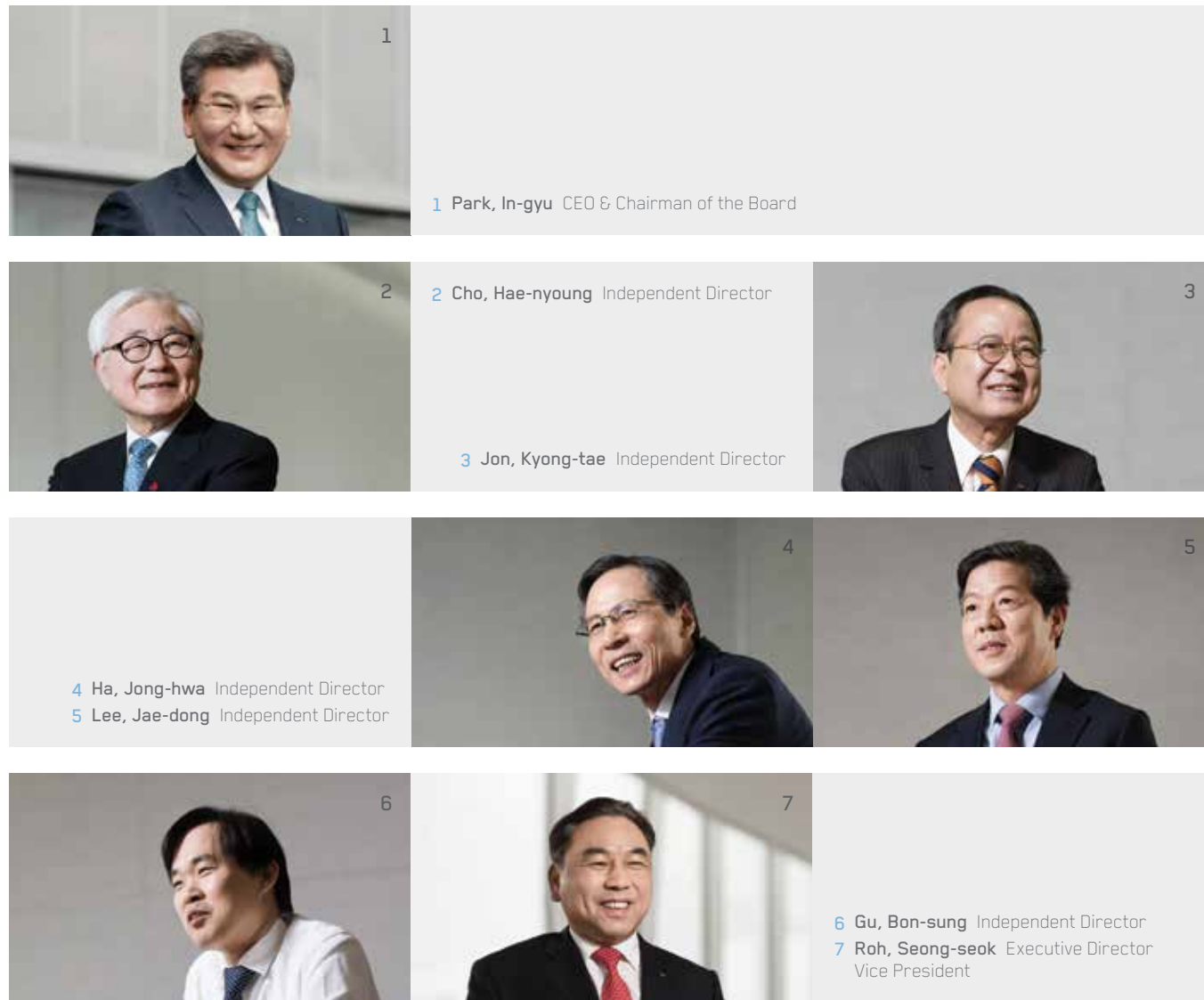
DGB Financial Group selected 15 issues from three categories such as society, environment and governance, five for each group with high importance, for the balanced Materiality Report. Issues that the Group employees and stakeholders were most interested in 2016/17 were 'Stakeholder Confidence', 'Stakeholder Communication', and 'FinTech' related issues.

Material Issues Matrix

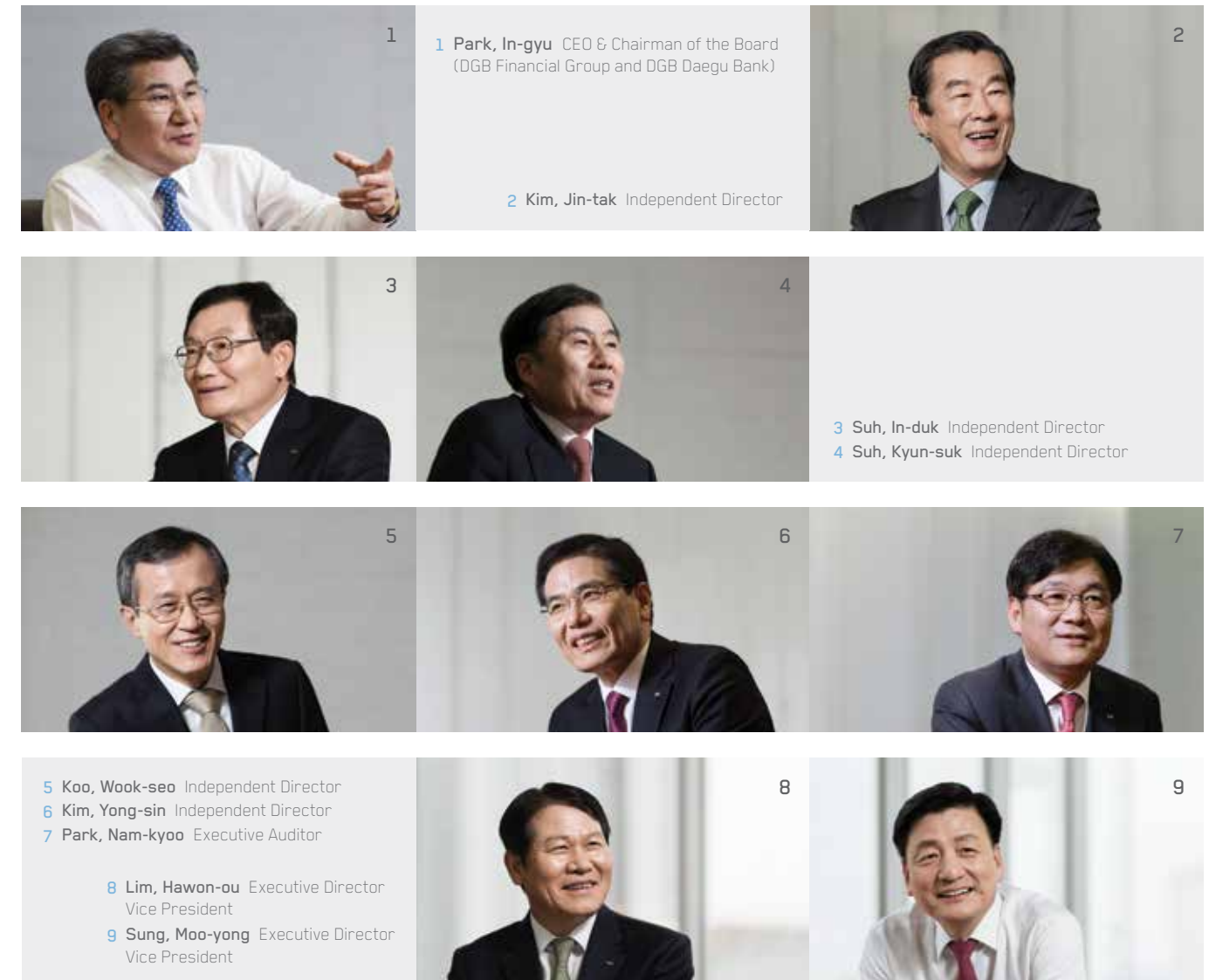


Category	Strategy	Material Issues	Page	Boundary
Sustainable Management Focus	DGB Daegu Bank's 50th anniversary	• Confidence with stakeholders • reputation and brand	18	Internal
	Overseas Corporation in Laos	• Financial capital for providing financial services • reputation and brand	20	Internal
	DGB Daegu Bank's 2nd Headquarters	• Stronger Communication with Stakeholders • Increase in consumers who value environment-protection, society, and health • Eco-friendly system operation	22	Internal
Future-Oriented Strategic Management	Sustainable Performance	• Fin-Tech • Building infrastructures for financial services	28	Internal
	Sound Governance	• Confidence with Stakeholders • Ethical Management, Risk Management, Governance-related competencies	30	Internal
Customer Satisfaction Management	Creating Customer Value	• Stronger Communication with Stakeholders • Stronger IT security, Increased request for preventive measures for accidents in financial transaction • Building infrastructures for financial services • Financial capital for providing financial services • Protection of customer privacy	32	External
	Sustainable Finance	• Reputation and Brand • Increase in consumers who value environment-protection, society, and health • Environmental Impact of Products and Services • Development of eco-friendly financial products	35	External
Enhancement of Organizational Competence	Human Resource Development and Support	• Stronger Communication with Stakeholders	39	External
	Employee Satisfaction Management	• Confidence with Stakeholders • Loyalty and motivation to improve performance	41	External
Risk Management	Crisis and Change Management	• Confidence with Stakeholders • Ethical Management, Risk Management, Governance-related competencies	44	External
	Enhancement of Environmental Management	• Increase in consumers who value environment-protection, society, and health • Utilizing natural resources • Eco-friendly system operation • Environmental Impact of Products and Services	47	External
Creating Shared Value	Win-Win Partnerships	• Confidence with Stakeholders • Stronger Communication with Stakeholders • Reputation and Brand	49	External
	Community Engagement and Development	• Confidence with Stakeholders • Stronger Communication with Stakeholders • Reputation and Brand	50	External

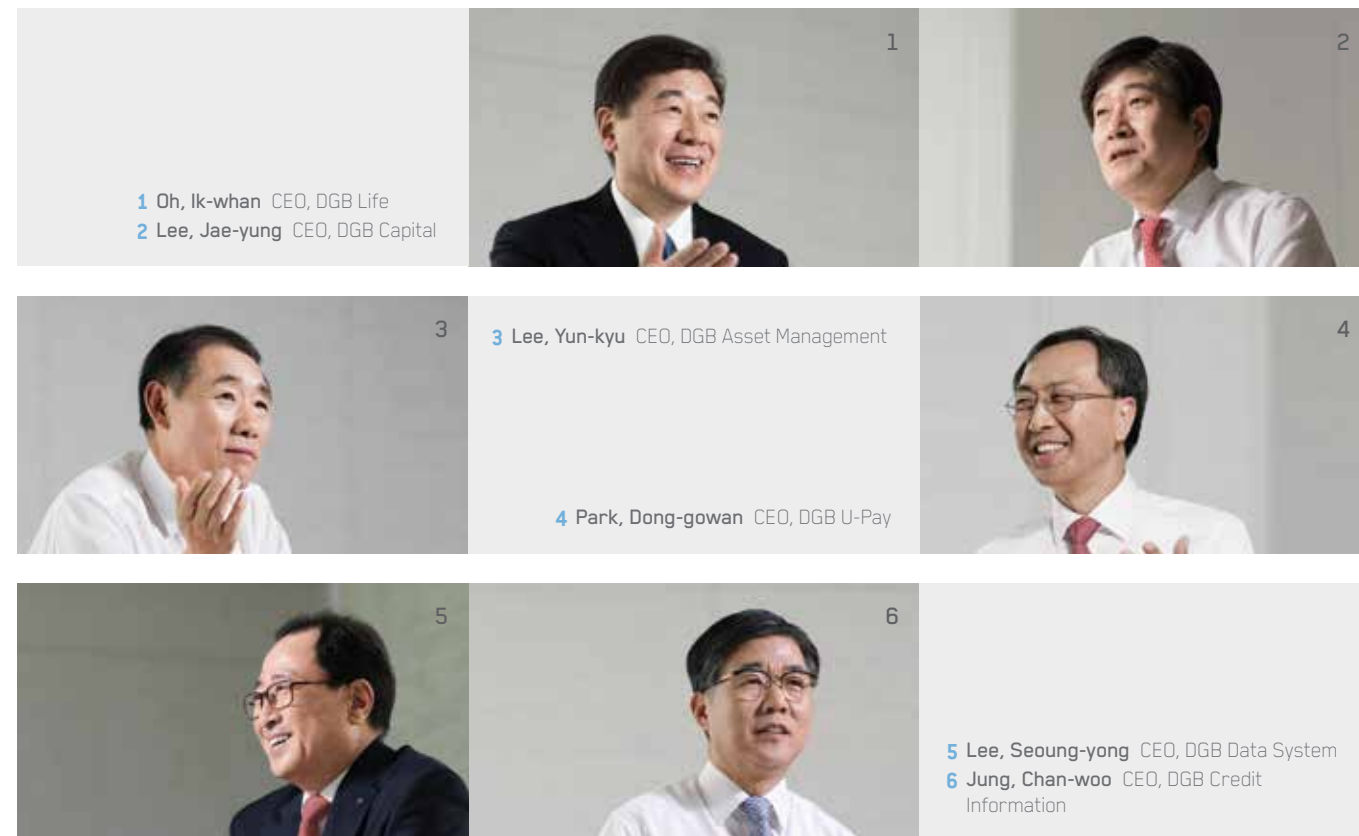
DGB Financial Group Board of Directors



DGB Daegu Bank Board of Directors



CEOs of DGB Financial Group Subsidiaries



FINANCIAL SECTION

Management's Discussion & Analysis

DGB FINANCIAL GROUP

DGB Financial Group is a financial holding company headquartered in Suseong-gu, Daegu with capital stock of KRW 670.3 billion as of May 17, 2011, through a business combination involving the exchange of the Company's common stock with the former shareholders of Daegu Bank, Kardnet, and Daegu Credit Information. The Group was listed on the Korea Exchange on June 7, 2011. Since then, the Company has incorporated DGB Capital in Jan, 2012 and DGB Data System in Apr, 2012. In Mar, 2013, Kardnet was withdrawn from the Group and U-Payment was incorporated into the Group. The Group also incorporated DGB Life Insurance in Jan, 2015 and DGB Asset Management in Oct, 2016. As of the end of Dec, 2016, DGB Financial Group has grown into a financial holding company with total assets of KRW 62 trillion, with seven subsidiaries. Along with this quantitative growth, DGB Financial Group is making qualitative advancements based on its management vision of growing into a global standard bank practicing sustainable management and promoting development, profitability, and shared growth.

(In billions of KRW)

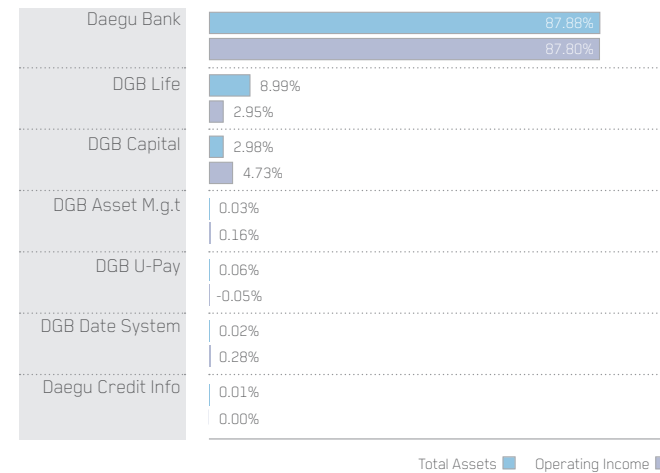
	DGB Group	Daegu Bank	DGB Life	DGB Capital	DGB Asset M.g.t	DGB U-Pay	DGB Date System	Daegu Credit Info	Other(*)
Gross Operating Income	1,221.8	1,069.0	72.8	53.9	2.3	3.6	1.9	0.9	17.4
Interest Income	1,202.1	1,015.5	163.7	53.9	-	0.1	-	0.1	(31.2)
Non-Interest Income	19.7	53.5	(90.0)	-	2.3	3.5	1.9	0.8	48.6
Administrative Expenses	639.0	551.0	60.3	17.2	1.7	3.8	0.8	0.8	3.4
Provisions	195.9	178.3	1.1	18.4	-	-	-	0.1	(2.0)
Operating Income	386.9	339.7	11.4	18.3	0.6	(0.2)	1.1	-	16.0
Net Income	301.9	265.0	14.9	14.1	0.5	(0.9)	0.9	(0.1)	7.5
Total Assets	62,014.7	54,497.4	5,575.0	1,851.1	18.5	35.3	9.6	4.7	23.1

Despite many challenges due to sluggish economic growth and prolonged low interest rate in 2016, DGB Financial Group has steadily expanded its growth base for the future.

Since the end of 2016, DGB Financial Group's total assets increased by 8.7% year-on-year to KRW 62 trillion, and operating profit and net profit reached KRW 386 billion and KRW 301 billion, respectively. Daegu Bank's total assets and operating profits are KRW 54 trillion and KRW 339 billion, taking up 87.88% and 87.80%, respectively, of DGB Financial Group's total assets and operating profit. DGB Life Insurance's total assets and operating profit stood at KRW 5,575 billion and KRW 11 billion, respectively, while DGB Capital's total assets and operating profit have grown to KRW 181 billion and KRW 18 billion, respectively.

Indicator	Account	(%)
Profitability	ROA	0.55
	ROE	7.95
	CIR	52.33
Asset Quality	NPL Ratio	1.20
	Delinquency rate	0.76
Capital Adequacy	Capital adequacy ratio	14.33
	Tier I CAR	12.14
Dividend Payout	Denomination Dividend Rate	6.0
	Dividend Payout Ratio	17.60
Credit Ratings	Nice Investor Service, Korea Ratings	AAA
	Moody's	A2

* International credit ratings are given only to DGB Daegu Bank



In 2016, ROE and ROE of DGB Financial Group were 0.55% and 7.95%, respectively, which was slightly down from the previous year. However, the NPL Ratio improved to 1.20% due to preemptive and aggressive risk management of DGB Financial Group, even in the midst of the ongoing recession and restructuring of the shipbuilding and shipping industries. The credit ratings are also maintained at AAA from Korea's credit rating agencies and A2 from Moody's., showing stable conditions. The BIS capital adequacy ratio is also higher than the industry average. The dividend payout ratio in 2016 is 17.6%, which is within the recent dividend payout ratio range of 15% to 18%.

DGB DAEGU BANK

I. OPERATING RESULTS

Net Interest Income & Net Interest Margin (NIM)

(In billions of KRW)

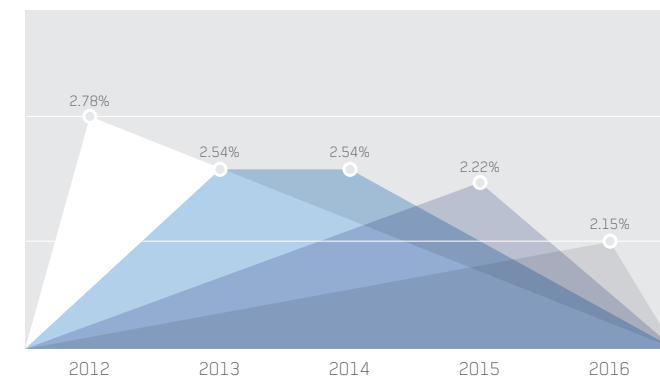
	2016	2015	YoY Change	
			Amount	(%)
Interest revenue	1,503.2	1,561.8	141.4	9.1%
Cash & due from banks	4.8	3.4	1.4	41.2%
Securities	48.3	22.8	25.5	111.8%
Loans	1,311.2	1,196.0	115.2	9.6%
Others	138.9	139.6	-0.7	-0.5%
Interest expenses	487.7	577.8	-90.1	-15.6%
Deposits	372.8	454.9	-82.1	-18.0%
Borrowings	42.3	47.4	-5.1	-10.8%
Bonds	68.7	67.2	1.5	2.2%
Others	3.9	8.3	-4.4	-53.0%
Net interest income	1,015.4	984.0	31.4	3.2%
Net interest margin (%)	2.15%	2.22%	-0.07%	-
Net interest spread in won (%)	2.46%	2.49%	-0.03%	-

(In billions of KRW)

	2016	2015	YoY Change	
			Amount	(%)
Net Interest Spread in Won	2.46%	2.49%	-0.03%	-
Average Lending Rate	3.72%	4.08%	-0.36%	-
Average Deposit Rate	1.26%	1.59%	-0.33%	-
Net interest-bearing assets	41,114.5	38,719.0	2,395.5	6.2%

Daegu Bank's Interest revenue increased by 9.1% to KRW 1,503 billion, and net interest income increased by 3.2% to KRW 1,015 billion. However, net interest margin declined by 0.07% year-on-year due to the low interest rate trend, which has been maintained at 2.15%. Net interest-bearing assets increased by 6.2% to KRW 41 trillion, but Net Interest Spread in Won decreased by 0.03% year-on-year.

NIM for 5 years



Daegu Bank's net interest margin in 2016 was 2.15%, which is down 0.07% from 2.22% in the previous year. The net interest margin has been on a downward trend since 2012 due to the ongoing recession and global low interest rate policies.

Net-interest Income

(In billions of KRW)

	2016	2015	YoY Change	
			Amount	(%)
Non-interest Income	53.5	48.7	4.8	9.9%
Commission income	72.5	75.9	-3.4	-4.5%
Gain on securities	43.5	62.8	-19.3	-30.7%
Gain on foreign currency transaction & derivatives products	13.4	3.6	9.8	272.2%
Gain(Loss) on disposition of loans	29.3	7.2	22.1	306.9%
Other operating expenses	-105.2	-100.8	-4.4	4.4%

In 2016, non-interest income grew to 9.9% to KRW 53.5 billion. gain (loss) on disposition of loans and gain on foreign currency transaction & derivatives products increased by KRW 22.1 billion and KRW 9.8 billion, respectively. However, gain on securities, other operating expenses and commission income decreased by KRW19.3 billion, KRW 4.4 billion, and KRW 3.4 billion, respectively, partially offsetting the increase in non-interest income.

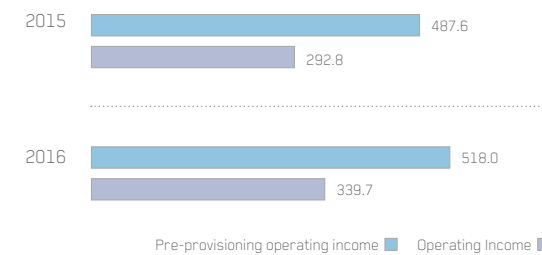
General & Administrative Expenses

	(In billions of KRW)			
	2016	2015	YoY Change	
			Amount	(%)
General and administrative expenses	551.0	545.1	5.9	1.1%
Salaries and employee benefits	280.0	273.7	6.3	2.3%
Taxes and dues	65.6	74.2	-8.6	-11.6%
Retirement allowances	39.3	44.5	-5.2	-11.7%
Other G&A expenses	166.1	152.7	13.4	8.8%
Cost-income ratio (%)	51.5%	52.8%	-1.3%	-

In 2016, general and administrative expenses increased by 1.1% to KRW 551 billion. The cost-income ratio decreased from 52.8% in the previous year to 51.5% in the current year. This decrease can be regarded as an increase in management efficiency of the company. As a result of this improvement in profitability, operating profit has grown by 16% from the previous year. Specifically, other G&A expenses, and salaries and employee benefits increased by 13.4% and 6.3%, respectively. Yet, taxes and dues and retirement allowances decreased by 8.6% and 5.2%, respectively year-on-year. Daegu Bank is striving to strengthen its network and revitalize its operating organization to improve work efficiency and productivity.

Provisioning

	(In billions of KRW)			
	2016	2015	YoY Change	
			Amount	(%)
Pre-provisioning operating income	518.0	487.6	30.4	6.2%
Operating income	339.7	292.8	46.9	16.0%
Total provision	178.3	194.8	-16.5	-8.5%
Provision for loan losses	179.3	195.7	-16.4	-8.4%
Others	-1.0	-0.9	-0.1	11.1%



DGB Daegu Bank's pre-provision operating income in 2016 was KRW 518 billion, an increase of 6.2% from the previous year's KRW 487.6 billion due to the growth of non-interest income and the increase in net interest income driven by enhanced branch operation efficiency. The provision for loan losses decreased by KRW 1.64 billion while the operating income in 2016 increased by KRW 46.9 billion to KRW 339.7 billion.

II. FINANCIAL POSITION

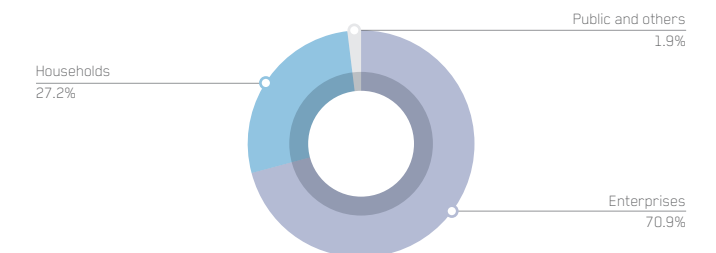
Assets

Assets	(In billions of KRW)			
	2016	2015	YoY Change	
			Amount	(%)
Assets	45,945.2	44,523.0	1,422.2	3.2%
Cash and due from banks	2,231.0	1,795.3	435.7	24.3%
Securities	7,830.0	7,738.8	91.2	1.2%
Loans	32,983.8	32,758.0	225.8	0.7%
Fixed assets	404.2	354.7	49.5	14.0%
Other assets	2,496.2	1,876.2	620.0	33.0%

In 2016, Daegu Bank's assets increased by KRW 1,422 billion from KRW 44,523 billion in the previous year to KRW 46,945 billion. Despite the prolonged economic downturn and growing uncertainty in domestic and overseas financial markets, Daegu Bank has achieved asset growth for three consecutive years thanks to its strong local sales network and aggressive marketing success with customer value as its top priority.

Loans

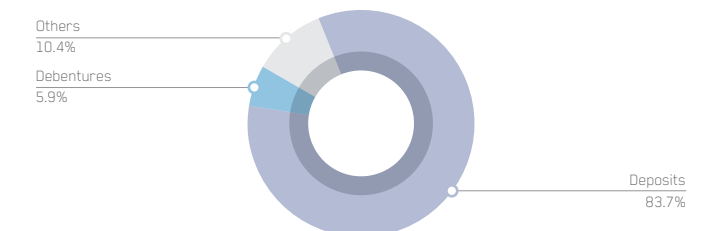
	(In billions of KRW)			
	2016	2015	YoY Change	
			Amount	(%)
Total loans	32,983.8	32,758.0	225.8	0.7%
Loans in KRW	32,410.5	31,013.6	1,396.9	4.5%
Loans to enterprises	22,968.8	21,833.3	1,135.5	5.2%
Loans to households	8,820.2	8,581.0	239.2	2.8%
Loans to public and others	621.5	599.3	22.2	3.7%



Due to the effect of loans to enterprises, which grew 5.2% from the previous year, Daegu Bank's total loans amounted to KRW 32,983 billion in 2016, up KRW 225.8 billion from the previous year. In line with its management philosophy of pursuing mutual growth with the local community, the increase in loans to enterprises to KRW 22,968 billion has contributed to stable export for local businesses and the development of local economy. The loans to enterprises account for majority of the total loans at 70.9%. In addition, loans to households, which accounts for 27.2% of total loans, recently increased by KRW 239.2 billion to KRW 8,820 billion due to the increase in domestic mortgage loans. Also, loans to the public sector, which have relatively low credit risk, increased by 3.7% year-on-year to KRW 621 billion.

Funding Structure

	(In billions of KRW)			
	2016	2015	YoY Change	
			Amount	(%)
Total liabilities	42,325.1	41,047.4	1,277.7	3.1%
Deposits	35,435.4	33,533.0	1,902.4	5.7%
Debentures	2,488.4	2,146.2	342.2	15.9%
Others	4,401.3	5,368.2	-966.9	-18.0%



Daegu Bank's total liabilities were KRW 41,047 billion in 2015 and increased by KRW 1,277 billion or 3.1% to KRW 42,325 billion in 2016. Low-cost deposits increased by 5.7% year-on-year to KRW 35,435 billion, while high-cost debentures increased by 15.9% year-on-year to KRW 2,488 billion. As for the funding structure of Daegu Bank, the low-cost deposits have increased from 82% to 83.7% in 2016.

	(In billions of KRW)			
	2016	2015	YoY Change	
			Amount	(%)
Core deposits (A)	13,452.0	11,904.7	1,547.3	13.0%
Total deposits (in KRW) (B)	33,168.6	31,345.6	1,823.0	5.8%
% of core deposits (A/B)	40.6%	38.0%	2.6%	-
(*) Total deposits (C)	40,263.9	37,592.4	2,671.5	7.1%
% of core deposits (A/C)	33.4%	31.7%	1.7%	-

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

Core deposits grew by 13.0% year-on-year from KRW 11,904 billion in 2015 to KRW 13,452 billion in 2016 due to aggressive marketing and increased customer confidence in Daegu Bank. The contribution rate of core deposits to total deposits reached 33.4%, an increase of 1.7% from the previous year, showing a steady upward trend after reaching 30.5% in 2014 and 31.7% in 2015.

Independent Auditors' Report

Based on a report originally issued in Korean



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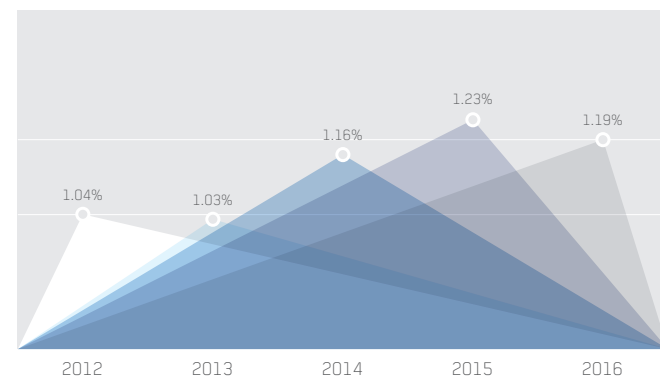
Asset Quality

(In billions of KRW)

	2016	2015	YoY Change	
			Amount	(%)
Total credit	34,064.9	32,419.0	1,645.9	5.1%
Normal	33,324.2	31,682.5	1,641.7	5.2%
Precautionary	335.3	336.7	-1.4	-0.4%
Substandard	314.9	317.5	-2.6	-0.8%
Doubtful	31.3	43.6	-12.3	-28.2%
Estimated loss	59.2	38.7	20.5	53.05
NPL ratio (%)	1.19	1.23	-0.04	-
Loan loss coverage ratio (%)	127.8	129.6	-1.8	-
Delinquency rate (%)	0.68	0.78	-0.10	-

Daegu Bank's loans which are substandard or below amounted to KRW 405.4 billion in 2016, up by KRW 5.6 billion since 2015. However, the NPL ratio is 1.19%, down by 0.04% from 1.23% of the previous year. Daegu Bank maintains the NPL ratio below the appropriate level with preventive risk control through ongoing write-offs and disposal of bad debts.

NPL ratio for 5 years



The increase in household debt, the ongoing economic downturn, and the broad-scale restructuring in shipbuilding and shipping industry have had a negative impact on domestic banking systems in general. However, Daegu Bank has successfully reduced its NPL ratio from 1.23% to 1.19% year-on-year through preemptive risk asset management and robust crisis management strategies.

Capital Adequacy

(In billions of KRW)

	2016	2015	YoY Change	
			Amount	(%)
Total capital	3,914.5	3,720.6	193.9	5.2%
Tier I capital	3,316.5	3,102.0	214.5	6.9%
Tier II capital	598.0	618.6	-20.6	-3.3%
Risk-weighted assets	27,322.5	27,469.7	-147.2	-0.5%
Capital adequacy ratio (%)	14.33%	13.54%	0.79%	-
Tier I CAR (%)	12.14%	11.29%	0.85%	-
Tier II CAR (%)	2.19%	2.25%	-0.06%	-

The total capital of Daegu Bank increased by KRW 193.9 billion from KRW 3,720 billion to KRW 3,914 billion in 2016. Despite a decrease in Tier II capital of KRW 20.6 billion, Tier I capital increased by KRW 213.5 billion to KRW 3,316 billion, driving an increase in total capital. Daegu Bank's Tier I capital has increased due to the expansion of sales prowess and improvement of profitability made possible by enhanced management efficiency. As a result, the capital adequacy ratio of Tier I capital has increased by 0.85% from 11.29% in the previous year to 12.14% in 2016. This increase means an improvement in capital adequacy, which also means that the Bank has enough capital to manage a crisis. In 2016, the BIS ratio also increased by 0.85% year-on-year from 13.54% to 14.33%, well above the 8% stipulated in the Bank of International Settlement (BIS) guidelines.

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, 2016 and 2015, 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, 2016 and 2015 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.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 15, 2017

This report is effective as of March 15, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Consolidated Statements of Financial Position

As of December 31, 2016 and 2015

	Note	2016	2015
(In millions of won)			
Assets			
Cash and due from banks	5,27,45,49,50	2,547,299	2,092,477
Financial assets held for trading	6,16,49	402,482	294,159
Financial assets designated at fair value through profit or loss	7,49	82,255	258,861
Available-for-sale financial assets	8,16,27,49	4,199,694	4,065,489
Held-to-maturity financial assets	9,10,27,49,50	7,890,515	7,618,459
Loans and receivables	12,13,14,15,27,48,49,50	37,454,619	36,052,597
Derivative assets - hedging	16,49	95	50
Investment in associates	11	403	453
Property and equipment, net	17	428,987	376,672
Investment property, net	19	99,615	106,635
Intangible assets, net	18	133,097	102,221
Deferred income tax assets	43	25,991	19,520
Other assets	20,49	197,349	156,853
Total assets	W	53,462,401	51,144,446
Liabilities			
Depository liabilities	21,27,48,49,50	35,385,469	33,493,377
Financial liabilities held for trading	16,49	125,975	33,520
Derivative liabilities - hedging	16,49	12,518	3,149
Borrowings	22,27,49,50	3,174,782	3,329,394
Debentures	16,22,27,49,50	4,107,517	3,145,917
Defined benefit obligations	24	8,773	18,075
Provisions	23,47	28,861	36,765
Insurance contract liabilities	25	5,121,200	4,940,470
Other liabilities	26,27,48,49,50	1,524,973	2,366,627
Total liabilities		49,490,068	47,367,294
Equity			
Capital stock	1,28	845,266	845,266
Capital surplus	28	1,560,455	1,560,455
Capital adjustment	28	(997)	-
Accumulated other comprehensive income or loss, net of tax	30	(27,385)	17,869
Retained earnings	29	1,303,374	1,063,046
Equity attributable to owners of the Group		3,680,713	3,486,636
Non-controlling interests	28	291,620	290,516
Total equity		3,972,333	3,777,152
Total liabilities and equity	W	53,462,401	51,144,446

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

	Note	2016	2015
(In millions of won, except earnings per share)			
Interest income	4,31	1,738,969	1,776,731
Interest expense	4,31,48	536,883	616,240
Net interest income	4	1,202,086	1,160,491
Fee and commission income	32	137,751	141,086
Commission expense	32	68,104	63,015
Net fee and commission income	4	69,647	78,071
Insurance income	33	894,558	960,315
Insurance expenses	33	949,472	988,244
Net insurance loss	4	(54,914)	(27,929)
Net gain on financial assets held for trading	34	13,168	5,954
Net gain on financial assets designated at fair value through profit or loss	35	1,552	3,352
Net gain on available-for-sale financial assets	36	74,691	75,600
Net gain (loss) on hedging derivative instruments		(9,240)	650
Impairment losses on financial assets	4,37	(202,443)	(228,742)
Net gain (loss) on foreign exchange	27	4,174	(362)
General and administrative expenses	38,39	(638,998)	(627,205)
Other operating loss, net	40	(72,794)	(96,902)
Operating income	41	386,929	342,978
Non-operating income, net	42	855	432
Profit before income tax expenses		387,784	343,410
Income tax expenses	43	(85,929)	(35,092)
Profit for the year	44	301,855	308,318
Net unrealized change in fair value of available-for-sale financial assets, net of tax	W	(35,181)	7,091
Gain on translation of foreign operations, net of tax		1,163	1,654
Items that are or may be reclassified to profit or loss		(34,018)	8,745
Remeasurement of defined benefit plan, net of tax		(11,349)	(7,907)
Items that will never be reclassified to profit or loss		(11,349)	(7,907)
Total other comprehensive income (loss) for the year, net of tax	30	(45,367)	838
Total comprehensive income for the year	W	256,488	309,156
Profit attributable to:			
Owners of the Group	W	287,677	294,098
Non-controlling interest		14,178	14,220
Profit for the year	W	301,855	308,318
Total comprehensive income attributable to:			
Owners of the Group	W	242,361	294,857
Non-controlling interest		14,127	14,299
Total comprehensive income for the year	W	256,488	309,156
Earnings per share (in won)	44	1,702	1,759

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(In millions of won, except earnings per share)

	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, 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
Balance at January 1, 2016	₩ 845,266	1,560,455	-	17,869	1,063,046	3,486,636	290,516	3,777,152
Hybrid bonds dividends	-	-	-	-	-	-	(14,061)	(14,061)
Profit for the period	-	-	-	-	287,677	287,677	14,178	301,855
Year-end dividends	-	-	-	-	(47,335)	(47,335)	-	(47,335)
Net unrealized change in fair value of available-for-sale financial assets, net of tax	-	-	-	(35,068)	-	(35,068)	(113)	(35,181)
Gain on translation of foreign operations, net of tax	-	-	-	1,163	-	1,163	60	1,223
Remeasurement of defined benefit plan, net of tax	-	-	-	(11,349)	-	(11,349)	1	(11,348)
Changes in scope of consolidation	-	-	-	-	-	-	1,889	1,889
Purchase of investments in associates	-	-	(997)	-	-	(997)	(850)	(1,847)
Others	-	-	-	-	(14)	(14)	-	(14)
Balance at December 31, 2016	₩ 845,266	1,560,455	(997)	(27,385)	1,303,374	3,680,713	291,620	3,972,333

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(In millions of won, except earnings per share)

	Note	2016	2015
Cash flows from operating activities			
Profit for the year	₩	301,855	308,318
Adjustments for:			
Income tax expenses		85,929	35,092
Interest expense		536,883	616,240
Loss on valuation of financial assets held for trading		2,176	3,077
Loss on valuation of trading derivatives instrument		124,068	32,706
Reserve for credit risk adjustment of trading derivative instrument		739	-
Loss on valuation of financial assets designated at fair value through profit or loss		456	4,920
Loss on disposal of available-for-sale financial assets		5,259	11,062
Impairment loss on available-for-sale financial assets		4,622	5,554
Loss on valuation of hedged items		151	206
Loss on valuation of hedging derivative instrument		10,482	66
Transaction loss of hedging derivative instrument		105	2,211
Bad debt expenses		197,821	223,188
Depreciation and amortization		59,899	69,801
Loss on disposal of property and equipment		501	289
Loss on disposal of intangible assets		750	12
Impairment loss on intangible assets		252	2,548
Provision for others		1,936	5,175
Retirement benefit		29,995	28,874
Loss on foreign currency transactions		200,805	123,001
Loss on valuation of financial debentures		1,104	2,458
Other operating expense		3,311	3,681
Loss from equity method investment securities		50	3
Amortization expenses on deferred acquisition costs of new or renewal insurance contracts		18,190	5,671
Contribution to insurance reserve		182,782	251,120
Interest income		(1,738,969)	(1,776,731)
Dividend income		(39,821)	(18,132)
Gain on valuation of financial assets held for trading		(603)	(857)
Gain on valuation of trading derivative instrument		(118,676)	(40,020)
Reversal of reserve for credit risk adjustment of trading derivative instrument		(12)	(117)
Gain on valuation of financial assets designated at fair value through profit or loss		(1,128)	(1,576)
Gain on disposal of available-for-sale financial assets		(49,351)	(75,427)
Gain on valuation of hedged items		(5)	(58)
Gain on valuation of hedging derivative instrument		(1,347)	(2,788)
Reversal of reserve for credit risk adjustment of hedging derivative instrument		-	(139)
Gain on disposal of property and equipment		(47)	(75)
Gain on disposal of intangible assets		(1)	(82)
Reversal of negative goodwill		-	(1,602)
Reversal of provisions		(4,629)	(5,076)
Gain on disposal of intangible assets		(1)	(82)
Reversal of negative goodwill		-	(1,602)
Reversal of provisions		(4,629)	(5,076)
Gain on foreign currency transactions	₩	(204,979)	(122,639)
Other operating income		(416)	(201)
Other non-operating income		(81)	(51)
		(691,799)	(618,616)
Changes in assets and liabilities:			
Decrease (increase) in restricted due from banks		(431,902)	289,250
Decrease (increase) in trading securities		(23,805)	6,176
Decrease in trading derivative assets		38,409	34,770
Decrease in financial assets designated at fair value through profit or loss		177,461	(47,120)

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

	Note	2016	2015
(In millions of won, except earnings per share)			
Changes in assets and liabilities:			
Increase in loans and receivables		1,422,445	(4,645,188)
Increase in deferred loan origination costs		(36,365)	(49,350)
Increase in deferred loan origination fees		8,525	6,141
Collection of loans written-off		45,438	37,870
Increase in other assets		124	(19,206)
Increase in unamortized deferred acquisition costs of new or renewal insurance contracts		(50,519)	(35,355)
Increase in separate account assets		(18,823)	(14,538)
Increase in depository liabilities		1,817,977	2,772,229
Decrease in trading derivative liabilities		(30,924)	(34,031)
Decrease in defined benefit obligations		(7,765)	(4,316)
Contributions to defined benefit plan assets		(46,532)	(39,806)
Increase (decrease) in other liabilities		(779,519)	959,930
Increase in separate account liabilities		19,933	14,302
Interest paid		(740,732)	(768,242)
Interest received		(531,180)	(578,949)
Dividends received		1,716,140	1,821,286
Income taxes paid		39,821	18,132
Income taxes paid		(61,471)	(81,284)
Net cash provided by operating activities		32,634	100,645
Cash flows from investing activities			
Acquisition of available-for-sale financial assets		(7,027,947)	(7,367,691)
Proceeds from disposition of available-for-sale financial assets		6,507,986	6,756,757
Acquisition of held-to-maturity financial assets		(1,042,660)	(2,014,080)
Proceeds from disposition of held-to-maturity financial assets		1,172,191	1,865,336
Acquisition of property and equipment		(92,637)	(65,465)
Proceeds from disposition of property and equipment		16,282	376
Acquisition of investment property		(1,065)	(1,729)
Acquisition of stocks of subsidiaries		(33,999)	(63,000)
Acquisition of intangible assets		(41,429)	(41,103)
Proceeds from disposition of intangible assets		1,086	747
Increase in guarantee deposits, net		(3,119)	(537)
Decrease in hedging derivative assets, net		-	14,605
Increase (decrease) in hedging derivative liabilities, net		(117)	203
Net cash used in investing activities		(545,428)	(915,581)
Cash flows from financing activities			
Increase (decrease) in borrowings, net	₩	(240,059)	570,308
Issuance of debentures		1,339,788	778,655
Repayment of debentures		(391,320)	(563,587)
Increase in deposits for letter of guarantees, net		6,556	17,398
Decrease in borrowings from trust accounts, net		(39,213)	(45,394)
Increase in borrowings from fund accounts, net		41	125
Increase (decrease) in foreign exchange settlement credit, net		6,010	(2,679)
Increase (decrease) in domestic exchange settlement credit, net		(93,258)	92,597
Paid-in capital increase		-	313,356
Stock issue costs paid		-	(758)
Dividends paid		(47,335)	(42,897)
Hybrid bonds dividends paid		(14,061)	(14,061)
Decrease in non-controlling interests		(1,861)	-
Net cash provided by financing activities		525,288	1,103,063
Increase in cash and cash equivalents		12,494	288,127
Cash and cash equivalents at beginning of year		909,742	571,064
Effect of exchange rate in cash and cash equivalents		134	8,335
Increase in cash and cash equivalents from change of consolidation scope		7,836	42,216
Cash and cash equivalents at end of the year	45	₩ 930,206	909,742

Notes to the Consolidated Financial Statements

As of December 31, 2016

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, 2016 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, 2016 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%	₩ 3,620,109	2,473,209	264,977	Daegu	31-Dec
DGB Life Insurance	34,573,773	99.52%	276,637	1,106,600	14,888	Busan	31-Dec
DGB Capital	24,200,000	100%	237,759	97,042	14,051	Seoul	31-Dec
DGB Asset Management	2,000,000	100%	17,238	2,681	458	Seoul	31-Dec
DGB U-pay	2,511,415	100%	10,901	13,683	(908)	Daegu	31-Dec
DGB Credit Information	600,000	100%	4,480	1,528	(56)	Daegu	31-Dec
DGB Data System	1,200,000	100%	8,571	8,612	934	Daegu	31-Dec
			₩ 4,175,695	3,703,355	294,344		

Daegu Bank's consolidated subsidiaries as of December 31, 2016 are as follows:

(In millions of won)

Classification	Ownership	Net asset value	Revenue	Profit for the year	Location	Reporting date
Principal guaranteed trusts / Principal and interest guaranteed trusts	-	₩ 8,709	8,714	422	Daegu	31-Dec
DGB long-lived corporation focus security investment trust	52.75%	18,908	2	(48)	Seoul	31-Dec

Daegu Bank's consolidated subsidiaries as of December 31, 2016 are as follows:

(In millions of won)

Classification	Ownership	Net asset value	Revenue	Profit for the year	Location	Reporting date
Specified Money Trust	-	₩ 24,886	952	(11)	Korea	31-Dec
DGB Lao Leasing Co., Ltd	90%	11,468	-	(495)	Laos	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 asset-backed securities issued, or providing credit enhancement.
Project financing	Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (Mergers and Acquisitions), BTL (Build-Transfer-Lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement.
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, 2016 and 2015 are as follows:

	2016			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Assets	3,597,038	14,839,210	8,641,573	27,077,821

(In millions of won)

	2015			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Assets	3,786,058	11,999,402	6,190,452	21,975,912

(In millions of won)

The revenue of the non-interests in unconsolidated structured entities for the years ended December 31, 2016 and 2015 are as follows:

	2016			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Interest income	2,119	53,016	-	55,135
Fee and commission income	200	11,203	-	11,403
Dividend income	-	921	28,801	29,722
Total	2,319	65,140	28,801	96,260

(In millions of won)

	2015			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Interest income	643	38,741	-	39,384
Fee and commission income	45	3,705	-	3,750
Dividend income	-	992	6,552	7,544
Total	688	43,438	6,552	50,678

(In millions of won)

(ii) Nature of associated risk

The book values recognized in the financial statements for the interests in unconsolidated structured entities as of December 31, 2016 and 2015 are as follows:

	2016			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Financial assets held for trading	₩ 188,221	1,883	-	190,104
Loans	66,648	1,431,968	-	1,498,616
Available-for-sale financial assets	-	52,855	459,418	512,273
	₩ 254,869	1,486,706	459,418	2,200,993

(In millions of won)

	2015			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Financial assets held for trading	₩ 161,166	-	-	161,166
Loans	-	1,177,798	-	1,177,798
Available-for-sale financial assets	-	47,966	403,247	451,213
	₩ 161,166	1,225,764	403,247	1,790,177

(In millions of won)

The Group's maximum loss exposure to unconsolidated structured entities as of December 31, 2016 and 2015 are as follows:

	2016			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Investment assets	₩ 254,869	1,486,706	459,418	2,200,993
Purchase commitments	84,402	-	35,504	119,906
Credit granting	-	61,327	-	61,327
	₩ 339,271	1,548,033	494,922	2,382,226

(In millions of won)

	2015			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Investment assets	₩ 161,166	1,225,764	403,247	1,790,177
Purchase commitments	15,000	-	19,515	34,515
Credit granting	-	34,982	-	34,982
	₩ 176,166	1,260,746	422,762	1,859,674

(In millions of won)

(d) Business combinations

The Group acquired 1,774,842 common shares (88.74%) of LS Asset Management Co., Ltd. at ₩33,999 million from existing stockholders on October 6, 2016 in order to maximize management efficiency and synergy effect between its subsidiaries, and the Group obtained control over LS Asset Management Co., Ltd. Upon consummation of the transaction LS Asset Management Co., Ltd. was changed to DGB Asset Management Co., Ltd. according to the resolution of the extraordinary meeting of shareholders held on October 6, 2016. Subsequently, the Group acquired the remaining 225,158 shares additionally at ₩2,988 million and holds all of the shares as of December 31, 2016.

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

	Amount
Total assets	₩ 17,581
Total liabilities	801
Net assets	₩ 16,780

(In millions of won)

The Group incurred expense of ₩751 million 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 the goodwill generated from the business combination as an intangible asset.

	Amount
Total transfer consideration	₩ 33,999
Non-controlling interests	1,889
Fair value of net assets	16,780
Goodwill	₩ 19,108

(In millions of won)

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 8, 2017, which will be submitted for approval to the shareholders at a meeting to be held on March 24, 2017.

(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) Assumptions and estimation uncertainties

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

In preparing these consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty except as described below were the same as those applied to the consolidated financial statements as of and for the year ended December 31, 2015.

① The change of the depreciation method and expected useful lives of furniture, equipment and vehicles

The Group changed the depreciation method of furniture, equipment and vehicles to a straight-line method from the declining balance method of depreciation and expected useful lives to five years from four years. The change of estimation is to reflect revenue and expense more appropriately and the substance of transaction and economic facts more accurately in the financial statements. Depreciation expense for the period ended December 31, 2016 decreased ₩9,269 million due to this change, and it is not possible to estimate the effect of change for following financial years as of December 31, 2016.

The change of the depreciation method and expected useful lives of assets for business purpose and operating leased assets

The Group changed the depreciation method of furniture, equipment and vehicles and operating leased assets to a straight-line method from the declining balance method of depreciation and expected useful lives to five years from four years. The change of estimation is to reflect revenue and expense more appropriately and the substance of transaction and economic facts more accurately in the financial statements. As a result, the depreciation expense decreased ₩9,269 million, and it is not possible to estimate the effect of change for the next financial year as of December 31, 2016.

(ii) Measurement of fair value

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

The Group reports significant valuation issues to the audit committee.

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

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

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

(e) Changes in accounting policy

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

- K-IFRS No.1001, 'Presentation of Financial Statements'

The Group has applied the following amendments to standards and interpretation, with a date of initial application of January 1, 2016. The change had no significant impact on the measurements of the Group's assets and liabilities.

(i) K-IFRS No.1001, 'Presentation of Financial Statements'

Amendments K-IFRS No.1001, 'Presentation of Financial Statements' clarifies the criteria for consolidating or segmenting financial statements and notes according to materiality, a criterion to specify what to keep in mind when presenting additional subtotal information in the financial statements. According to things mentioned above, the Group can select the order and way to write notes to the financial statements based on systematic standards which considers possibility of understanding and comparison of financial statement.

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.(d) and 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 recognized 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 recognized 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 recognized 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 involve-

ment 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 derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized 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 recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

(c) Cash and cash equivalents

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

(d) Non-derivative financial assets

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

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

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

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

(ii) Held-to-maturity investments

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

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

(v) De-recognition of financial assets

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

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

(vi) Offsetting between financial assets and financial liabilities

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

(e) Derivative financial instruments, including hedge accounting

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

(i) Hedge accounting

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

(ii) Separable embedded derivatives

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

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

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

(iii) Other derivative financial instruments

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

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

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

(g) Impairment of financial assets

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

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

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

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized 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 recognized, then the previously recognized 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 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	Straight-line method	5

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

(i) Intangible assets

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

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

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

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

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

(i) Research and development

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

(ii) Subsequent expenditures

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

(j) Borrowing costs

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

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

(k) Investment property

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

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

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

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

(l) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, deferred income 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. 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 recognized 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 recognized 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 recognized 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 recognized immediately in profit or loss. The Group recognizes 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.

(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.

(iv) Insurance income

Revenues from premium income are recognized at the time when such premium payments become due. If premium income is received before the nominated collection date, the Group records unearned insurance premium based on calendar-period calculation.

(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 income 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 income 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 income 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 income 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 NO.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.

(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 No.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, 2016, 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, 2016.

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

K-IFRS No.1109, published on September 25, 2015, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. It replaces existing guidance in K-IFRS No.1039, 'Financial Instruments: Recognition and Measurement'. The Group plans to adopt K-IFRS NO.1109 for the year beginning after January 1, 2018.

K-IFRS No.1109 will generally be applied retrospectively; however the Group plans to take advantage of the exemption allowing it not to restate the comparative information for prior periods with respect to classification and measurement including impairment changes. New hedge accounting requirements will generally be applied prospectively except for certain exemptions including the accounting for the time value of options.

Key features of the new standard, K-IFRS NO.1109, are 1) classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics, 2) impairment methodology that reflects 'expected credit loss' (ECL) model for financial assets, and 3) expanded scope of hedged items and hedging instruments which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

K-IFRS NO.1109 will require the Group to assess the financial impact from application of K-IFRS NO.1109 and revise its accounting processes and internal controls related to financial instruments. Actual impact of adopting K-IFRS NO.1109 will be dependent on the financial instruments the Group holds and economic conditions at that time as well as accounting policy elections and judgment that it will make in the future.

The Group has not initiated any changes in internal controls processes or accounting processing systems, and has not performed an assessment of the impact resulting from the application of K-IFRS NO.1109. The Group is currently performing a detailed assessment of the impact resulting from the application of K-IFRS NO.1109, and expects to disclose additional quantitative information in the notes to the financial statements for the year ending December 31, 2017 after completion of its assessment by September 30, 2017. Expected impacts on the consolidated financial statements are generally categorized as follows:

① Classification and measurement of financial assets

Under K-IFRS NO.1109, financial assets are classified into three principal categories; measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) based on the business model in which assets are managed and their cash flow characteristics, as detailed in the below table.

Under K-IFRS NO.1109, derivatives embedded in hybrid contracts where the host is a financial asset are not bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model	Contractual cash flows are solely payments of principal and interests	All other cases
To collect contractual cash flows	At amortized cost(*1)	FVTPL(*2)
Both to collect contractual cash flows and sell financial assets	At FVOCI	FVTPL(*2)
For trading, and others	At FVOCI	FVTPL(*2)

(*1) The Group may irrevocably designate as at FVTPL to eliminate or significantly reduce an accounting mismatch.

(*2) The Group may irrevocably designate equity investments that is not held for trading as at FVOCI.

As there are additional requirements for a financial asset to be classified as measured at amortized costs or FVOCI under K-IFRS NO.1109 compared to the existing guidance in K-IFRS NO.1039, the adoption of K-IFRS NO.1109 would potentially increase the proportion of financial assets that are measured at FVTPL, increasing volatility in the Group's profit or loss.

As of December 31, 2016, the Group has loans and receivables amounting to ₩37,454,619 million, held- to-maturity financial assets amounting to ₩7,890,515 million, available-for-sale financial assets amounting to ₩4,199,694 million, financial assets held for trading amounting to ₩402,482 million, and financial assets at fair value through profit or loss amounting to ₩82,255 million.

Under K-IFRS NO.1109, a financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: 1) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and 2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. As of December 31, 2016, the Group has loans and receivables which amount to ₩37,454,619 million, and held-to-maturity financial assets which amount to ₩7,890,515 million, and measured them at amortized costs.

Under K-IFRS NO.1109, a financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: 1) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and 2) the contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding. As of December 31, 2016, the Group has debt instruments and beneficiary certificates classified as available-for-sale which amount to ₩3,538,198 million, ₩388,373 million, respectively.

Under K-IFRS NO.1109, on initial recognition of equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI, and will not reclassify (recycle) those items in OCI to profit or loss subsequently. As of December 31, 2016, the Group has equity investment that is classified as available-for-sale which amounts to ₩273,123 million.

Under K-IFRS NO.1109, a financial asset is measured at FVTPL if the contractual terms of the financial asset give rise to specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding, the debt instrument is held within a business model whose objective is to sell the asset, or the equity instruments that are not elected to be designated as measured at FVOCI.

As of December 31, 2016, the Group has equity instruments and trading derivative instruments measured at FVTPL which amount to ₩43,685 million, and ₩122,751 million, respectively.

② Classification and measurement of financial liabilities

Under K-IFRS NO.1109, the amount of change in the fair value attributable to the changes in the credit risk of the financial liabilities is presented in OCI, not recognized in profit or loss, and the OCI amount will not be reclassified (recycled) to profit or loss. However, if doing so creates or increase an accounting mismatch, the amount of change in the fair value is recognized in profit or loss.

As a portion of fair value change which was recognized in profit or loss under the existing standard, K-IFRS NO.1039, will be presented in OCI under K-IFRS NO.1109, profit or loss related to valuation of financial liabilities is likely to decrease.

③ Impairment: Financial assets and contract assets

K-IFRS NO.1109 replaces the 'incurred loss' model in the existing standard with a forward-looking 'expected credit loss' (ECL) model for debt instruments, lease receivables, contractual assets, loan commitments, financial guarantee contracts.

Under K-IFRS NO.1109, impairment losses are likely to be recognized earlier than using the incurred loss model under the existing guidance in K-IFRS NO.1039 as loss allowances will be measured on either of the 12-month or lifetime ECL based on the extent of increase in credit risk since inception as shown in the below table.

Stage	Classification	Loss allowances
Stage 1	Credit risk has not increased significantly since the initial recognition	12-month ECL: ECLs that resulted from possible default events within the 12 months after the reporting date
Stage 2	Credit risk has increase significantly since the initial recognition	Lifetime ECL: ECL that resulted from all possible default events over the expected life of a financial instrument
Stage 3	Credit-impaired	Lifetime ECL: ECL that resulted from all possible default events over the expected life of a financial instrument

Under K-IFRS NO.1109, financial assets of which the credit was impaired at the initial recognition, cumulative changes in lifetime ECL since the initial recognition are recognized as loss allowances.

As of December 31, 2016, the Group has debt instruments measured at amortized cost amounting to ₩45,345,134 million (loans and receivables ₩37,454,619 million, held-to-maturity financial assets ₩7,890,515 million), debt instruments measured at FVOCI as they are classified as available-for-sale amounting to ₩3,538,198 million and has recognized loss allowances for ₩281,758 million.

④ Hedge accounting

K-IFRS NO.1109 retains the mechanics of hedge accounting (fair value hedge, cash flow hedge, hedging on net investment in a foreign operation) which was defined in the existing guidance in K-IFRS NO.1039, but provides principle-based and less complex guidance in hedging which focuses on the risk management activities. More hedged items and hedging instruments would qualify for hedge accounting, more qualitative and forward-looking approach will be taken to assessing hedge effectiveness, and qualitative threshold (80-125%) is removed under K-IFRS NO.1109.

Certain transactions which were not qualified for hedge accounting under the existing standard will be likely to qualify for hedge accounting under K-IFRS NO.1109, decreasing volatility in the Group's profits or loss.

As of December 31, 2016, the Group has hedged items such as asset and liability which amount to

₩270,792 million and ₩359,849 million. During the year ended December 31, 2016, changes in the fair value of hedged items and hedging instruments which amount to ₩9,195 million and ₩(9,135) million, respectively, are recognized in profit or loss.

When initially applying K-IFRS NO.1109, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of K-IFRS NO.1039.

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

K-IFRS No. 1115, 'Revenue from contracts with customers' is a single guidance applied to all contracts with customers, and it provides five-stage analysis for recognizing revenue and replaces existing revenue recognition model which is based on risk and compensation. An existing risk and compensation model is changed to a kind of index which shows time of implementing performance duty. K-IFRS No. 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

	2016						Adjustment (*2)	Consolidated amount
	Marketing	Money Market Center	Life Insurance	Others	Subtotal			
Net interest income	₩ 837,478	88,805	163,733	134,096	1,224,112	(22,026)	1,202,086	
Interest income	1,176,013	229,101	166,869	197,986	1,769,969	(31,000)	1,738,969	
Interest expense	338,535	140,296	3,136	63,890	545,857	(8,974)	536,883	
Fee & commission income, net	60,743	503	922	11,471	73,639	(3,992)	69,647	
Insurance loss, net	-	-	(115,815)	-	(115,815)	60,901	(54,914)	
Other financial income (loss), net (*1)	10,500	68,924	23,944	91,552	194,920	(85,738)	109,182	
Bad debt expense	-	-	-	-	-	(197,821)	(197,821)	
Other operating income (loss), net	(624,193)	(133,005)	(61,324)	(122,314)	(940,836)	199,585	(741,251)	
Operating income	₩ 284,528	25,227	11,460	114,805	436,020	(49,091)	386,929	
Total assets	₩ 34,647,029	8,859,607	5,575,058	7,510,179	56,591,873	(3,129,472)	53,462,401	
Total liabilities	₩ 34,646,357	7,091,552	5,298,421	2,869,955	49,906,285	(416,217)	49,490,068	

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

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

	2015						Adjustment (*2)	Consolidated amount
	Marketing	Money Market Center	Life Insurance	Others	Subtotal			
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 (*1)	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	

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

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

5. CASH AND DUE FROM BANKS

(a) Cash and due from banks

Cash and due from banks as of December 31, 2016 and 2015 are as follows:

	(In millions of won)			
	2016		2015	
	Book value	Fair value	Book value	Fair value
Cash and cash equivalents	₩ 432,976	432,976	420,158	420,158
Due from banks in won				
The Bank of Korea	1,458,323	1,458,323	1,065,036	1,065,036
Commercial banks	353,356	353,356	308,612	308,612
Others	17,000	17,000	12,862	12,862
Subtotal	1,828,679	1,828,679	1,386,510	1,386,510
Due from banks in foreign currencies				
The Bank of Korea	26,774	26,774	41,289	41,289
Commercial banks	135,750	135,750	19,408	19,408
Overseas banks	123,120	123,120	225,112	225,112
Subtotal	285,644	285,644	285,809	285,809
Total	₩ 2,547,299	2,547,299	2,092,477	2,092,477

The amounts of due from bank which mature within 12 months are ₩2,302,299 million and ₩1,854,989 million as of December 31, 2016 and 2015, respectively. The amounts of due from banks which mature after 12 months are ₩245,000 million and ₩237,488 million as of December 31, 2016 and 2015, respectively.

(b) Restricted due from banks

Restricted due from banks as of December 31, 2016 and 2015 are as follows:

	(In millions of won)		
	2016		2015
	Book value	Fair value	Book value
Reserve deposits in won	₩ 1,308,324	1,308,324	865,036
Reserve deposits in foreign currencies			
The Bank of Korea	26,774	26,774	41,289
Overseas banks	36,995	36,995	41,410
Total	1,372,093	1,372,093	947,735

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, 2016 and 2015 are as follows:

		(In millions of won)					
		2016			2015		
		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	Stocks	16,454	16,789	335	21,008	21,347	339
Debt securities	Financial bonds	32,468	32,391	(77)	25,369	25,517	148
	Corporate bond	22,493	22,357	(136)	31,611	31,524	(87)
	Others	188,392	186,734	(1,658)	170,676	168,510	(2,166)
	Subtotal	243,353	241,482	(1,871)	227,656	225,551	(2,105)
Beneficiary certificate		21,497	21,460	(37)	3,632	3,178	(454)
Total		₩ 281,304	279,731	(1,573)	252,296	250,076	(2,220)

The amounts of financial assets held for trading except for equity securities which mature within 12 months are ₩241,662 million and ₩170,119 million as of December 31, 2016 and 2015, respectively. The amounts of financial assets held for trading except for equity securities which mature after 12 months are ₩21,280 million and ₩58,610 million as of December 31, 2016 and 2015, 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, 2016 and 2015 are as follows:

	(In millions of won)			
	2016			Total
	Level 1	Level 2	Level 3	
Equity securities	₩ 16,789	-	-	16,789
Debt securities	-	241,482	-	241,482
Beneficiary certificate	2,553	18,907	-	21,460
	₩ 19,342	260,389	-	279,731

	(In millions of won)			
	2015			Total
	Level 1	Level 2	Level 3	
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

(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, 2016 and 2015 are as follows:

	Valuation method	Inputs
Debt securities	DCF method	Discount rate

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

There is no deferred day-one profit or loss for the years ended December 31, 2016 and 2015.

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, 2016 and 2015 are as follows:

Type		(In millions of won)					
		2016			2015		
		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	Redeemable preferred stocks	₩ 26,104	26,896	792	157,942	153,203	(4,739)
Other securities	Derivatives-linked securities	55,478	55,359	(119)	104,263	105,658	1,395
		₩ 81,582	82,255	673	262,205	258,861	(3,344)

There is no financial asset except for equity securities which mature within 12 months as of December 31, 2016 and 2015. The amounts of financial assets designated at fair value through profit and loss, which mature after 12 months are ₩55,359 million and ₩105,658 million as of December 31, 2016 and 2015, respectively.

(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, 2016 and 2015 are as follows:

(In millions of won)				
2016				
	Level 1	Level 2	Level 3	Total
Equity securities	₩ -	-	26,896	26,896
Other securities	-	55,359	-	55,359
	₩ -	55,359	26,896	82,255

(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

(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, 2016 and 2015 are as follows:

(In millions of won)				
2016				
	Equity securities	Other securities	Total	
Beginning balance	₩ 153,203	30,359	183,562	
Changes due to business combinations	792	-	792	
Gain on valuation	1,000	-	1,000	
Acquisition	(128,099)	(30,359)	(158,458)	
Ending balance	₩ 26,896	-	26,896	

(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 on valuation	(4,739)	359	(4,380)	
Acquisition	-	30,000	30,000	
Ending balance	₩ 153,203	30,359	183,562	

(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, 2016 and 2015 are as follows:

Valuation method	Unobservable inputs	Range	
		2016	2015
Binomial model, etc.	Discount rate	7.68% - 12.74%	0.92% - 7.33%
	Volatility	-	23.45% - 48.34%
	Growth rate	0%	0%

(e) Sensitivity analysis of level 3

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

Sensitivity to changes in inputs of financial assets designated at fair value through profit or loss as of December 31, 2016 and 2015 are as follows:

(In millions of won)				
	2016		2015	
	Profit or loss (*)		Profit or loss (*)	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
₩	1,211	(1,513)	3,907	(1,647)

(*) 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, 2016 and 2015.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(a) Available-for-sale financial assets

Available-for-sale financial assets as of December 31, 2016 and 2015 are as follows:

(In millions of won)							
		2016			2015		
		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	₩ 2,247	2,661	414	4,312	5,373	1,061
	Unlisted equity securities	192,327	244,785	52,458	208,627	254,290	45,663
	Others	25,587	25,677	90	10,600	10,533	(67)
	Subtotal	220,161	273,123	52,962	223,539	270,196	46,657
Debt securities	Government bonds	883,986	864,146	(19,840)	1,244,765	1,253,127	8,362
	Financial debentures	1,106,603	1,097,704	(8,899)	1,115,493	1,113,181	(2,312)
	Corporate bonds	382,466	375,679	(6,787)	213,387	212,716	(671)
	Available-for-sale securities in foreign currencies	358,969	352,182	(6,787)	143,721	143,904	183
	Others	856,391	848,487	(7,904)	788,570	788,751	181
	Subtotal	3,588,415	3,538,198	(50,217)	3,505,936	3,511,679	5,743
Beneficiary certificate		389,994	388,373	(1,621)	285,871	283,614	(2,257)
	₩	4,198,570	4,199,694	1,124	4,015,346	4,065,489	50,143

The amounts of available-for-sale financial assets except for equity securities which mature within 12 months are ₩745,074 million and ₩437,496 million as of December 31, 2016 and 2015, respectively. The amounts of available-for-sale financial assets except for equity securities which mature after 12 months are ₩3,181,497 million and ₩3,357,797 million as of December 31, 2016 and 2015, respectively.

The gain or loss on valuation includes accumulated loss on valuation of fair value hedged items amounting to ₩257 million and ₩38 million as of December 31, 2016 and 2015, respectively.

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

The classification and the fair value hierarchy of available-for-sale financial assets as of December 31, 2016 and 2015 are as follows:

(In millions of won)				
2016				
	Level 1	Level 2	Level 3	Total
Equity securities	₩ 2,979	-	270,144	273,123
Debt securities	829,629	2,708,569	-	3,538,198
Beneficiary certificates	52,398	329,419	6,556	388,373
	₩ 885,006	3,037,988	276,700	4,199,694

(In millions of won)

	2015			
	Level 1	Level 2	Level 3	Total
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

(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, 2016 and 2015 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, 2016 and 2015 are as follows:

(In millions of won)

	2016			2015	
	Equity securities	Beneficiary certificate	Total	Equity securities	
Beginning balance	₩ 264,513	-	264,513	270,908	
Changes due to business combinations	250	-	250	6,991	
Realized loss (impairment loss)	(657)	-	(657)	(3,348)	
Unrealized gain	8,009	66	8,075	23,076	
Acquisition	34,870	6,490	41,360	15,646	
Disposal	(36,841)	-	(36,841)	(46,711)	
Transfer (*)	-	-	-	(2,049)	
Ending balance	₩ 270,144	6,556	276,700	264,513	

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

(e) Valuation method and inputs of level 3

Valuation method and significant unobservable inputs used in measuring fair values of available-for-sale financial assets using level 3 inputs as of December 31, 2016 and 2015 are as follows:

Valuation method	Unobservable inputs	Range	
		2016	2015
DCF method, etc.	Discount rate	4.42% - 20.16%	6.67% - 20.65%
	Growth rate	0%	0% - 1%

(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, 2016 and 2015 are as follows:

(In millions of won)

	2016		2015	
	Other comprehensive income or loss (*1)(*2)		Other comprehensive income or loss (*1)(*2)	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
₩	7,145	(4,248)	7,556	(4,429)

(*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, 2016 and 2015.

(h) Unrealized gain (loss)

Unrealized gain (loss) on available-for-sale financial assets for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016			
	Equity securities	Securities	Debt certificates	Total
Beginning balance	₩ 46,657	5,781	(2,257)	₩ 50,181
Realized loss on disposition of securities	(2,015)	(10,691)	1,573	(11,133)
Changes due to reclassification	-	(3,117)	-	(3,117)
Unrealized gain (loss)	8,320	(41,933)	(937)	(34,550)
Ending balance	₩ 52,962	(49,960)	(1,621)	1,381
Policyholders equity adjustment				(2,251)
Deferred income tax assets (liabilities)				2,477
Net balance				₩ 1,607

(In millions of won)

	2015			
	Equity securities	Securities	Debt certificates	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

(i) Impairment losses

Impairment losses on available-for-sale financial assets as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016			2015		
	Amount before impairment	Amount after impairment	Impairment	Amount before impairment	Amount after impairment	Impairment
Equity securities	₩ 16,335	12,507	3,828	9,578	4,542	5,036
Debt securities	-	-	-	32,000	31,482	518
Beneficiary securities	5,000	4,206	794	-	-	-
	₩ 21,335	16,713	4,622	41,578	36,024	5,554

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

Available-for-sale securities carried at cost as of December 31, 2016 and 2015 are as follows:

		(In millions of won)	
		2016	2015
Korea Asset Management Corp.(*1)	₩	1,570	1,570
Daegu Dream Education		999	999
Kangaroo Republic		900	900
Evergreenkeanggi Co., Ltd.		692	692
Evergreencampus Co., Ltd.		674	674
Nam Yang Kwang-Jin C&G., Co., Ltd.		520	520
Yeongdeok Enviro		516	516
K-Bank (*1)		9,000	-
Athena Private Equity Fund (investment) (*1)		3,000	-
SongHyun Young Entrepreneur No.1 (investment in capital) (*2)		-	800
2014 SongHyun Growth Ladder No.2 start-up (investment in capital) (*2)		-	1,200
Others		3,287	3,181
	₩	21,158	11,052

(*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.

Gain on disposal of available-for-sale securities carried at cost for the years ended December 31, 2016 and 2015 are as follows:

		(In millions of won)			
		2016		2015	
		Book value (*)	Gain on disposal	Book value (*)	Gain on disposal
Badbank Harmony	₩	2	56	3	108
Busan Future Education		42	-	-	-
	₩	44	56	3	108

(*1) Beginning carrying amount before disposal

There are no impairment losses of available-for-sale securities carried at cost for the years ended December 31, 2016 and 2015.

9. HELD-TO-MATURITY FINANCIAL ASSETS

(a) Held-to-maturity financial assets

Held-to-maturity financial assets as of December 31, 2016 and 2015 are as follows:

		(In millions of won)			
		2016			
		Face value	Acquisition cost	Amortized cost(book value)	Fair value
Government bonds	₩	4,910,239	5,025,548	5,055,346	5,160,580
Financial debentures		360,000	363,479	362,561	355,056
Corporate bonds		540,000	572,448	569,338	550,683
Foreign currency bonds		60,425	57,202	60,425	57,970
Others		1,828,590	1,929,424	1,842,845	1,874,120
	₩	7,699,254	7,948,101	7,890,515	7,998,409

		(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	7,812,90

The amounts of held-to-maturity financial assets, which mature within 12 months are ₩1,168,867 million and ₩1,018,735 million as of December 31, 2016 and 2015, respectively. The amounts of held-to-maturity financial assets, which mature after 12 months are ₩6,721,648 million and ₩6,599,724 million as of December 31, 2016 and 2015, 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, 2016 are as follows:

		(In millions of won)				
		2016				
		Held-to-maturity financial assets		Related liabilities		
		Book value	Fair value	Book value	Fair value	Net position
Securities sold under repurchase agreement(*)	₩	884,715	897,540	734,981	735,079	162,461

(*) The Group transfers a contractual right which allows to take cash from transferred held-to-maturity bonds, but makes the agreement to repurchase of the transferred assets with a preselected price after sale or the amount of selling price plus fixed return.

10. COLLATERALIZED SECURITIES

Investment securities pledged to various institutions as of December 31, 2016 are as follows:

Purpose	Collateralized value	Book value of held-to-maturity securities	Guarantees
Bank of Korea settlements	₩ 260,000	258,025	The Bank of Korea, Korea Securities Depository
Bank of Korea daylight overdraft	210,000	209,024	The Bank of Korea, Korea Securities Depository
Bank of Korea borrowings	643,200	641,306	The Bank of Korea
Borrowings in foreign currencies	50,000	52,327	Sumitomo Mitsui Bank, Seoul branch
Derivatives transactions	47,988	47,040	Samsung Futures Inc., KB Futures Co., Ltd., etc.
Repurchase agreement	880,435	884,715	Korea Securities Depository
Others	13,154	13,280	Korea Securities Depository
	₩ 2,104,777	2,105,717	

11. INVESTMENT IN ASSOCIATES

(a) Ownership

Ownership on associates as of December 31, 2016 and 2015 are as follows:

		(In millions of won)					
		2016					
Associates(*2)	Relation	Number of shares owned	Ownership	Acquisition cost(*1)	Net asset value	Book value	
Daegu FC(*3)	Associate	300,000	9.20%	₩ 516	403	403	

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

(*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, KB Shin Pyeongtaek Power Private Specific Trusts and Kiwoom Pohang Pure Water Private Specific Trust are more than 20% (28.6%, 25.0% and 28.6%, 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, KB Shin Pyeongtaek Power Private Specific Trusts and Kiwoom Pohang Pure Water Private Specific Trust 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

Loss on equity method accounting and changes of investments in associates for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016		
		Book value as of January 1, 2016	Loss on equity method accounting	Book value as of December 31, 2016
Daegu FC	₩	453	(50)	403

(In millions of won)

		2015		
		Book value as of January 1, 2016	Loss on equity method accounting	Book value as of December 31, 2016
Daegu FC	₩	456	(3)	453

(c) Summarized financial information

Summarized financial information of associates as of and for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016			
		Assets	Liabilities	Gross revenue	Net loss
Daegu FC	₩	6,886	2,506	5,180	(543)

(In millions of won)

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

12. LOANS AND RECEIVABLES

(a) Loans and receivables

Loans and receivables as of December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016		2015	
		Book value	Fair value	Book value	Fair value
Loans	Loans in won	₩ 23,568,694	23,653,696	22,221,950	22,300,239
	Loans to enterprises	9,482,315	9,523,422	9,048,210	9,101,403
	Loans to households	527,878	528,691	525,206	526,434
	Loans to public sectors and others	33,578,887	33,705,809	31,795,366	31,928,076
	Subtotal	543,862	544,057	541,392	541,499
	Loans in foreign currencies	313,118	313,118	164,291	164,291
	Loans to enterprises	633,246	633,600	579,696	581,390
	Loans to other banks	15,094	15,094	14,731	14,731
	Finance lease receivables	134,301	134,301	88,697	88,697
	Others	4,121	4,121	1,342	1,342
Receivables	Bill bought in foreign currencies	398,636	398,440	377,322	377,064
	Payments on guarantees	312,300	312,300	231,710	231,710
	Credit card accounts	95,157	95,157	390,260	390,260
	Bonds purchased under resale agreements	245,026	245,515	112,266	114,492
	Call loans	222,471	222,605	181,821	187,781
	Privately placed debentures	114,251	114,251	167,699	167,699
	Privately placed public loan	1,541,357	1,541,784	1,565,848	1,573,776
	Other loans	36,610,470	36,738,368	34,646,593	34,789,032
	Subtotal	142,378	141,012	139,088	137,340
	Loans subtotal	430,866	430,866	1,205,527	1,205,527
	Guaranty money	323,700	323,700	323,109	323,109
	Accounts receivable	195,667	195,667	61,251	61,251
	Accrued income	1,092,611	1,091,245	1,728,975	1,727,227
	Other receivables	(281,758)	(281,758)	(360,335)	(360,335)
	Receivables subtotal	(3,093)	(3,093)	(2,169)	(2,169)
	Allowance for loan losses	-	-	98	98
	Present value discount	(7,350)	(7,350)	(5,062)	(5,062)
	Present value premium	43,739	43,739	44,497	44,497
	Deferred loan origination fees				
	Deferred loan origination costs				
	Total	₩ 37,454,619	37,581,151	36,052,597	36,193,288

The amounts of loans and receivables, which mature within 12 months are ₩18,842,129 million and ₩18,237,305 million as of December 31, 2016 and 2015, respectively. The amounts of loans and receivables, which mature after 12 months are ₩18,860,952 million and ₩18,138,263 million as of December 31, 2016 and 2015, respectively.

(b) Loans in won

Loans in won as of December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016		2015	
Loans to enterprises	Operation loans	₩ 12,539,550	11,950,018		
	Facility loans	11,029,144	10,271,932		
	Subtotal	23,568,694	22,221,950		
Loans to households	Operation loans	5,838,943	5,524,532		
	Housing loans	3,643,372	3,523,678		
	Subtotal	9,482,315	9,048,210		
Loans to public sectors and others	Operation loans	126,405	191,778		
	Facility loans	401,473	333,428		
	Subtotal	527,878	525,206		
Total		₩ 33,578,887	31,795,366		

(c) Loans in foreign currencies

Loans in foreign currencies as of December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016		2015	
Loans to enterprises	Operation loans	₩ 184,242	161,542		
	Facility loans	99,235	130,512		
	Domestic import usance	260,385	249,338		
Total		₩ 543,862	541,392		

(d) Finance lease receivables

Finance lease receivables as of December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016			
		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		419,297	-	23,525	395,772
Exceed 5 years		404	-	64	340
	₩	665,579	-	48,735	616,844

(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

13. ALLOWANCE FOR LOAN LOSSES

(a) Loans and receivables

Changes in allowance for loan losses for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
Beginning balance	₩	360,335		324,062
Changes due to business combinations		7		15,109
Provision for losses		197,821		223,188
Collection of loans written-off		45,408		37,870
Disposal of loans		(41,032)		(34,771)
Write-offs		(264,295)		(193,713)
Unwinding effect		(16,787)		(11,710)
Effect of exchange rate		(224)		312
Others		525		(12)
Ending balance	₩	281,758		360,335

14. DEFERRED LOAN ORIGINATION FEES AND COSTS

(a) Deferred loan origination fees

Changes in deferred loan origination fees for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
Beginning balance	₩	5,062		5,460
Increase		6,553		4,835
Decrease		(4,265)		(5,233)
Ending balance	₩	7,350		5,062

(b) Deferred loan origination costs

Changes in deferred loan origination costs for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
Beginning balance	₩	44,497		38,861
Increase		25,624		48,357
Decrease		(26,382)		(42,721)
Ending balance	₩	43,739		44,497

15. RESTRUCTURED LOANS

Restructured loans under workout plans or other similar restructuring programs as of December 31, 2016 and 2015 are as follows:

	2016				Balance after restructuring
	The number of companies	Balance before restructuring	Allowance		
Workout	7	₩ 68,003	(12,864)		55,139
Restructuring, industrial rationalization	26	18,693	(1,274)		17,41
	33	₩ 86,696	(14,138)		72,558

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

	The number of companies	2015		
		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

16. DERIVATIVE INSTRUMENTS

(a) Notional amounts of unsettled derivative instruments

Notional amounts of unsettled derivative instruments as of December 31, 2016 and 2015 are as follows:

		2016			2015		
		Trading	Hedging	Total	Trading	Hedging	Total
Currency	Forward	₩ 6,493,828	214,215	6,708,043	5,425,041	-	5,425,041
Interest rate	Swap related	-	419,350	419,350	-	420,748	420,748
Stock	Option bought related	209,521	-	209,521	341,972	-	341,972
	Option sold	191,655	-	191,655	323,106	-	323,106
	Subtotal	401,176	-	401,176	665,078	-	665,078
Total		₩ 6,895,004	633,565	7,528,569	6,090,119	420,748	6,510,867

(b) Valuation on trading and hedging derivative instruments

Valuation on trading and hedging derivative instruments as of December 31, 2016 and 2015 are as follows:

	2016						
	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	₩ (4,917)	(10,477)	(15,394)	118,543	123,461	-	10,477
<Interest rate related> Swap	-	1,342	1,342	-	-	95	2,042
<Stock related> Option	(475)	-	(475)	5,375	2,535	-	-
Reserve for credit risk adjustment	(727)	-	(727)	(1,167)	(21)	-	(1)
	₩ (6,119)	(9,135)	(15,254)	122,751	125,975	95	12,518

	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

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

Gain (loss) on valuation of hedged assets for the years ended December 31, 2016 and 2015 are as follows:

		(In millions of won)		(In millions of won)	
		Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation
Available-for-sale financial assets (net gain on available-for-sale financial assets)	₩	5	151	58	206
Available-for-sale financial assets (net gain (loss) on foreign exchange)		6,361	-	-	-
Loans (net gain (loss) on foreign exchange)		4,084	-	-	-
Debentures (other operating loss, net)		-	1,104	-	2,458
	₩	10,450	1,255	58	2,664

(d) Classification and fair value hierarchy of derivatives

The classification and the fair value hierarchy of derivatives as of December 31, 2016 and 2015 are as follows:

		(In millions of won)			
		Level 1	Level 2	Level 3	Total
2016					
Trading derivative assets (*)	₩	-	118,543	5,375	123,918
Trading derivative liabilities (*)		-	123,461	2,535	125,996
Hedging derivative assets (*)		-	95	-	95
Hedging derivative liabilities (*)		-	12,519	-	12,519
2015					
Trading derivative assets (*)	₩	-	38,619	5,892	44,511
Trading derivative liabilities (*)		-	30,519	3,011	33,530
Hedging derivative assets (*)		-	50	-	50
Hedging derivative liabilities (*)		-	3,150	-	3,150

(*) 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, 2016 and 2015 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, 2016 and 2015 are as follows:

		(In millions of won)		
		Trading derivative assets (*)	Trading derivative liabilities (*)	Hedging derivative assets (*)
2016				
Beginning balance	₩	5,892	3,011	16,781
Valuation loss		(475)	(83)	-
Acquisition		3,327	-	-
Disposal		-	-	1,903
Settlement		(3,369)	(2,296)	-
Ending balance	₩	5,375	2,535	16,781
2015				
Beginning balance	₩	1,360	1,960	16,781
Valuation loss		(1,522)	(1,314)	-
Acquisition		7,414	-	-
Disposal		-	3,667	-
Settlement		(1,360)	(1,302)	(16,781)
Ending balance	₩	5,892	3,011	16,781

(*) Credit-risk adjustments are not reflected.

(g) Valuation method and level 3 inputs

Valuation method and significant unobservable inputs used in measuring fair values of derivatives level 3 inputs as of December 31, 2016 and 2015 are as follows:

	Valuation method	Unobservable inputs	Range	
			2016	2015
Trading derivative instrument	Binomial model, etc.	Volatility Correlation coefficient	5.35% - 36.08%	9.90% - 48.34%
Hedging derivative instrument	Binomial model, etc.	Volatility Correlation coefficient	5.35% - 36.08%	9.90% - 48.34%

(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, 2016 and 2015 are as follows:

		2016		2015	
		Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
Trading derivative instruments (*)	₩	143	(144)	322	(128)

(*) Fair value changes are calculated by increasing or decreasing 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, 2016 and 2015 are as follows:

		2016		2015	
		Trading derivative assets	Trading derivative liabilities	Trading derivative assets	Trading derivative liabilities
Beginning balance	₩	(1,538)	-	(1,538)	-
Increase		-	(1,624)	-	(1,624)
Decrease		226	86	226	86
Ending balance	₩	(1,312)	(1,538)	(1,312)	(1,538)

(j) Hedges of net investment in foreign operations

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

		2016		2015	
		Trading derivative assets	Trading derivative liabilities	Trading derivative assets	Trading derivative liabilities
Borrowings in foreign currency	₩	(2,383)	(2,429)	(2,383)	(2,429)

17. PROPERTY AND EQUIPMENT

(a) Property and equipment

Property and equipment as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016			2015		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Land	₩ 170,026	-	170,026	152,386	-	152,386
Buildings	292,060	(90,393)	201,667	199,889	(74,743)	125,146
Leasehold improvement	48,137	(39,520)	8,617	44,657	(36,273)	8,384
Furniture, equipment and vehicles	194,687	(152,697)	41,990	204,232	(171,708)	32,524
Construction-in progress	6,687	-	6,687	58,232	-	58,232
	₩ 711,597	(282,610)	428,987	659,396	(282,724)	376,672

(b) Changes in property and equipment

Changes in property and equipment for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016						
	Beginning balance	Changes due to business combination	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩ 152,386	-	29,528	(15,600)	-	3,712	170,026
Buildings	125,146	-	6,293	-	(14,324)	84,552	201,667
Leasehold improvement	8,384	-	3,390	(539)	(3,422)	804	8,617
Furniture, equipment and vehicles	32,524	18	19,882	(597)	(11,130)	1,293	41,990
Construction-in progress	58,232	-	33,184	-	-	(84,729)	6,687
	₩ 376,672	18	92,277	(16,736)	(28,876)	5,632	428,987

(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)	(1,440)	125,146
Leasehold improvement	7,247	128	3,970	(112)	(3,553)	704	8,384
Furniture, equipment and vehicles	29,938	3,735	19,586	(496)	(21,154)	915	32,524
Construction-in progress	22,154	-	38,444	-	-	(2,366)	58,232
	₩ 336,024	17,930	65,425	(608)	(38,138)	(3,961)	376,672

(c) Assets insured

Assets insured as of December 31, 2016 are as follows:

(In millions of won)

Type	Insurance amount	Insurance period	Insurance company
Buildings	₩ 237,336	2016.01.01 - 2016.12.31	Hyundai Marine & Fire Insurance Co., Ltd.
Buildings	23,331	2016.01.30 - 2017.01.29	Samsung Fire & Marine Insurance Co., Ltd.
Leasehold improvement	10,465	2016.01.01 - 2016.12.31	Hyundai Marine & Fire Insurance Co., Ltd.
Leasehold improvement	7	2016.05.24 - 2017.05.23	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	29,130	2016.01.01 - 2016.12.31	Hyundai Marine & Fire Insurance Co., Ltd.
Furniture, equipment and vehicles	9	2016.05.24 - 2017.05.23	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	48	2016.06.26 - 2017.06.25	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	68	2016.09.11 - 2017.09.10	Hyundai Marine & Fire Insurance Co., Ltd.
	₩ 300,394		

(d) Operating leases

Operating leases revenues and expenses for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016		2015	
	Operating lease revenues	Operating lease expenses	Operating lease revenues	Operating lease expenses
Within 1 year	₩ 494	5,246	508	4,252
Exceed 1 year and within 5 years	141	6,231	150	4,321
Exceed 5 years	-	185	-	265
	₩ 635	11,662	658	8,838

18. INTANGIBLE ASSETS

Changes in intangible assets for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016							
	Beginning balance	Changes due to business combination	Additions	Disposal	Amortization	Impairment loss	Others (*1)	Ending balance
Goodwill	₩ 2,582	19,108	-	-	-	-	-	21,690
Software	42,098	-	18,809	(728)	(18,340)	-	49	41,888
Contributed acceptance assets	10,464	-	18	-	(1,071)	-	1,282	10,693
Membership	7,681	355	1,131	(1,023)	-	(252)	18	7,910
Others(*2)	39,396	-	21,471	(84)	(10,817)	-	950	50,916
	₩ 102,221	19,463	41,429	(1,835)	(30,228)	(252)	2,299	133,097

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

(*2) Others consist of usable and profitable donation assets of ₩50,123 million.

(In millions of won)

	2015							
	Beginning balance	Changes due to business combination	Additions(*3)	Disposal	Amortization	Impairment loss	Others (*1)	Ending balance
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)	(2,548)	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) Accounts payables related acquisition of intangible assets amount to ₩14 million.

19. INVESTMENT PROPERTY

(a) Investment property

Changes in investment property for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)						
	Beginning balance	Acquisition	Transfer	Depreciation	Ending balance	
Land	₩ 62,528	-	(3,712)	-	58,816	
Buildings	44,107	1,065	(2,439)	(1,934)	40,799	
	₩ 106,635	1,065	(6,151)	(1,934)	99,615	

(In millions of won)						
	Beginning balance	Changes due to business combination	Acquisition	Transfer	Depreciation	Ending balance
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

(b) Book value and fair value of investment property

Book value and fair value of investment property as of December 31, 2016 and 2015 are as follows:

(In millions of won)						
	2016			2015		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Land	₩ 58,816	74,645	15,829	62,528	78,771	16,243
Buildings	40,799	45,556	4,757	44,107	43,866	(241)
	₩ 99,615	120,201	20,586	106,635	122,637	16,002

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, 2016 and 2015 are as follows:

(In millions of won)				
	2016		2015	
	Incomes	Expenses	Incomes	Expenses
Property with rental income	₩ 2,974	863	2,661	849
Property without rental income	-	187	-	221
	₩ 2,974	1,050	2,661	1,070

20. OTHER ASSETS

Other assets as of December 31, 2016 and 2015 are as follows:

(In millions of won)				
	2016		2015	
Prepayments	₩	14,955	26,019	
Prepaid expenses		10,951	12,023	
Unamortized deferred acquisition costs of new or renewal insurance contracts		62,012	29,683	
Separate account assets		74,654	55,831	
Reinsurance assets		9,949	10,066	
Others		24,828	23,231	
	₩	197,349	156,853	

21. DEPOSITORY LIABILITIES

(a) Depository liabilities

Depository liabilities as of December 31, 2016 and 2015 are as follows:

	2016		2015	
	Book value	Fair value	Book value	Fair value
Demand deposits	₩ 14,883,589	14,883,589	13,162,503	13,162,503
Time deposits	20,070,388	20,039,256	19,574,668	19,566,506
Negotiable certificates of deposit	431,492	431,518	756,206	756,674
	₩ 35,385,469	35,354,363	33,493,377	33,485,683

The amounts of depository liabilities, which mature within 12 months are ₩21,722,334 million and ₩21,441,455 million as of December 31, 2016 and 2015, respectively. The amounts of depository liabilities, which mature after 12 months are ₩13,663,135 million and ₩12,051,922 million as of December 31, 2016 and 2015, respectively.

(b) Demand deposits

Demand deposits as of December 31, 2016 and 2015 are as follows:

(In millions of won)					
		2016		2015	
		Book value	Fair value	Book value	Fair value
Deposits in won	Passbook deposits	₩ 1,208,456	1,167,708		
	Savings deposits	7,842,505	7,249,397		
	Corporate free savings deposits	4,413,811	3,642,276		
	Others	1,058,638	830,717		
	Subtotal	14,523,410	12,890,098		
Deposits in foreign currencies	Current deposits	926	177		
	Passbook deposits	359,246	272,222		
	Temporary deposits	7	6		
	Subtotal	360,179	272,405		
Total	₩	14,883,589	13,162,503		

(c) Time deposits

Time deposits as of December 31, 2016 and 2015 are as follows:

(In millions of won)					
		2016		2015	
		Book value	Fair value	Book value	Fair value
Deposits in won	Time deposits	₩ 18,117,833	17,787,633		
	Installment savings deposits	1,089,344	1,092,207		
	Long term housing saving deposits	122,950	165,621		
	Mutual installment deposits	6,029	7,775		
	Others	563,791	467,492		
	Subtotal	19,899,947	19,520,728		
Deposits in foreign currencies	Time deposits	165,106	48,158		
	Installment savings deposits	5,335	5,782		
	Subtotal	170,441	53,940		
Total	₩	20,070,388	19,574,668		

22. BORROWINGS AND DEBENTURES

(a) Borrowings and debentures

Borrowings and debentures as of December 31, 2016 and 2015 are as follows:

(In millions of won)

			2016		2015	
			Book value	Fair value	Book value	Fair value
Borrowings	Borrowings in won	The Bank of Korea	₩ 622,903	622,903	531,243	531,243
		Others	1,167,035	1,165,406	1,346,859	1,346,910
	Subtotal		1,789,938	1,788,309	1,878,102	1,878,153
	Borrowings in foreign currencies	Borrowings from banks	562,188	561,706	511,681	511,199
		Bonds sold under repurchase agreements	734,981	735,079	812,795	812,975
	Call money	Borrowings in won	72,000	72,000	100,000	100,000
		Borrowings in foreign	8,710	8,710	17,848	17,848
	Subtotal		80,710	80,710	117,848	117,848
	Others	Bills sold	6,965	6,983	8,968	8,989
	Total		3,174,782	3,172,787	3,329,394	3,329,164
Debentures	Debentures in won	2.81	3,750,958	3,832,544	2,801,346	2,908,222
	Debentures in foreign currencies	2.25	359,849	359,849	347,795	347,795
	Less discount on debentures		(3,290)	(3,224)		
	Total			4,107,517	4,189,103	3,145,917
Borrowings and Debentures			₩ 7,282,299	7,361,890	6,475,311	6,581,957

The amounts of borrowings and debentures, which mature within 12 months are ₩3,609,232 million and ₩2,876,714 million as of December 31, 2016 and 2015, respectively. The amounts of borrowings and debentures, which mature after 12 months are ₩3,676,357 million and ₩3,601,821 million as of December 31, 2016 and 2015, respectively.

(b) Debentures

Debentures as of December 31, 2016 and 2015 are as follows:

(In millions of won)

Issuance date	Maturity date	Interestrate (%)	2016	2015
2011-10-20	2016-10-20	4.25	₩ -	70,000
2012-01-17	2017-01-17	3.99	100,000	100,000
2012-06-21	2017-06-21	3.75	100,000	100,000
2013-04-19	2018-04-19	2.90	50,000	50,000
2014-05-29	2019-05-29	3.25	50,000	50,000
2015-11-23	2020-11-23	2.29	100,000	100,000
2015-11-23	2018-11-23	2.05	50,000	50,000
2016-09-30	2019-09-30	1.56	50,000	-
2016-09-30	2021-09-30	1.68	60,000	-
2010-08-31	2016-12-31	5.05	120,000	120,000
2010-08-31	2016-12-31	5.05	80,000	80,000
2011-04-15	2016-04-15	4.46	-	100,000
2011-05-06	2016-05-06	4.43	-	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
2013-05-16	2023-05-16	3.21	100,000	100,000
2013-09-06	2023-09-06	4.01	100,000	100,000
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
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	80,000
2015-04-15	2018-10-15	1.84	60,000	60,000

Issuance date	Maturity date	Interestrate (%)	2016	2015
2015-09-04	2025-09-04	3.03	₩ 100,000	100,000
2015-10-08	2018-10-08	1.72	30,000	30,000
2015-10-14	2018-10-14	1.78	40,000	40,000
2016-01-26	2019-01-26	1.77	100,000	-
2016-04-07	2019-04-07	1.60	100,000	-
2016-06-03	2026-06-03	3.10	100,000	-
2016-08-26	2019-08-26	1.37	30,000	-
2016-09-23	2017-09-23	1.42	30,000	-
2016-10-13	2017-10-13	1.52	80,000	-
2016-10-19	2018-10-19	1.58	60,000	-
2013-04-29	2018-04-29	2.25	359,849	347,795
2013-11-19	2019-05-19	5.00	10,291	10,413
2013-12-27	2019-06-27	5.60	20,631	20,886
2014-12-30	2020-06-30	5.00	10,018	10,023
2014-12-31	2019-12-31	5.00	10,018	10,024
2016-09-30	2022-09-30	4.40	20,000	-
2014-03-17	2017-03-17	3.91	30,000	30,000
2014-07-28	2016-07-28	3.12	-	30,000
2014-12-24	2016-12-23	2.75	-	40,000
2014-12-30	2016-12-30	2.75	-	30,000
2015-05-28	2017-05-28	2.26	50,000	50,000
2015-05-28	2018-05-28	2.60	30,000	30,000
2015-06-15	2017-07-15	2.21	10,000	10,000
2015-06-15	2018-06-15	2.51	30,000	30,000
2015-08-12	2017-08-12	2.02	30,000	30,000
2015-08-12	2018-08-12	2.29	30,000	30,000
2015-09-01	2018-03-02	2.05	30,000	30,000
2015-09-01	2019-03-04	2.35	20,000	20,000
2015-09-16	2018-09-16	2.35	20,000	20,000
2015-09-30	2017-09-30	2.19	20,000	20,000
2015-10-14	2017-04-14	2.18	30,000	30,000
2016-01-27	2017-01-26	2.38	40,000	-
2016-01-27	2019-01-25	2.72	10,000	-
2016-02-22	2017-05-22	2.26	35,000	-
2016-02-22	2019-02-22	2.59	10,000	-
2016-03-31	2017-03-31	2.31	50,000	-
2016-03-31	2017-09-30	2.39	10,000	-
2016-04-19	2018-04-19	2.38	20,000	-
2016-04-19	2019-04-19	2.64	20,000	-
2016-05-31	2018-05-31	2.33	40,000	-
2016-06-21	2018-12-21	2.27	25,000	-
2016-06-21	2019-06-21	2.47	40,000	-
2016-07-19	2018-01-19	2.01	30,000	-
2016-07-19	2018-07-19	2.07	30,000	-
2016-07-19	2019-07-19	2.34	40,000	-
2016-09-02	2018-08-31	2.15	30,000	-
2016-09-02	2019-09-02	2.41	30,000	-
2016-10-06	2018-04-06	2.21	20,000	-
2016-10-26	2018-04-26	2.38	10,000	-
2016-10-26	2018-10-26	2.46	40,000	-
2016-11-11	2018-02-09	2.36	30,000	-
2016-12-22	2018-06-22	2.61	40,000	-
2016-10-07	2017-01-04	1.87	20,000	-
2016-12-21	2017-02-21	2.31	20,000	-
2016-12-27	2017-02-28	2.31	10,000	-
2016-12-28	2017-02-28	2.31	10,000	-
Subtotal			4,110,807	3,149,141
Less discount on debentures			(3,290)	(3,224)
Total		₩	4,107,517	3,145,917

23. PROVISIONS

(a) Borrowings and debentures

Changes in provisions for the years ended December 31, 2016 and 2015 are as follows:

		2016			
		Beginning balance	Increase	Decrease	Ending balance
Allowance (*1)	Provision for financial guarantee	₩ 25	123	-	148
	Non-financial guarantee contract	1,402	796	-	2,198
	Subtotal	1,427	919	-	2,346
	Unused commitment (*2)	13,256	-	(1,995)	11,261
Allowance for restoration (*3)	4,063	1,080	(106)	5,037	
Other allowance	Mileage on credit cards	918	-	(3)	915
	Fraudulent usage of credit card	26	-	(22)	4
	Dormant deposits repayment (*4)	1,796	38	-	1,834
	Welfare for retired employees	2,917	-	(503)	2,414
	Litigation	267	106	(120)	253
	Others	12,095	313	(7,611)	4,797
	Subtotal	18,019	457	(8,259)	10,217
Total		36,765	2,456	(10,360)	28,861

(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)	14,911	-	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)

(*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, 2016 and 2015.

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

24. DEFINED BENEFIT OBLIGATIONS

(a) Major assumptions of actuarial valuation

Major assumptions of actuarial valuation as of December 31, 2016 and 2015 are as follows:

	2016				2015			
	DGB Financial Group Co., Ltd.	Daegu Bank	DGB Life Insurance Co., Ltd.	DGB Capital Co., Ltd.	DGB Financial Group Co., Ltd.	Daegu Bank	DGB Life Insurance Co., Ltd.	DGB Capital Co., Ltd.
Discount rate	2.02%	3.41%	2.58%	3.02%	2.03%	3.34%	2.93%	2.95%
Salary increases	Application of salary increase rate of each job group and age group according to experience statistics							

(In millions of won)

The weighted-average duration of the defined benefit obligation are 13.18 years and 13.13 years as of December 31, 2016 and 2015, 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, 2016 and 2015 are as follows:

	2016		2015	
Current service cost	₩	29,201		27,894
Interest expense		5,382		4,819
Interest income on plan assets		(4,588)		(3,839)
	₩	29,995		28,874

(In millions of won)

(c) Defined benefit obligations

Defined benefit obligations as of December 31, 2016 and 2015 are as follows:

	2016		2015	
Present value of retirement benefit obligations	₩	204,291		169,276
Fair value of plan assets		(195,518)		(151,201)
Net liabilities occurred from retirement benefit obligation	₩	8,773		18,075

(In millions of won)

(d) Changes in present value of retirement benefit obligations

Changes in present value of retirement benefit obligation for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
Defined benefit obligations at beginning of the year	₩	169,276		131,194
Current service cost		29,201		27,894
Interest expense		5,382		4,819
Remeasurement		12,609		8,857
Benefit paid		(12,593)		(8,928)
Changes due to business combinations		416		5,440
Defined benefit obligations at end of the year	₩	204,291		169,276

(In millions of won)

(e) Changes in fair value of plan assets

Changes in fair value of plan assets for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
Fair value of plan assets at beginning of the year	₩	151,201		110,404
Interest income on plan assets		4,588		3,839
Remeasurement		(2,391)		(1,564)
Contribution of employer		46,532		39,806
Benefit paid		(4,828)		(4,616)
Changes due to business combinations		416		3,332
Fair value of plan assets at end of the year	₩	195,518		151,201

(In millions of won)

The Group expects to pay ₩46,532 million in contributions to its defined benefit plans in 2017.

(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, 2016 and 2015 are as follows:

Type		2016		2015	
		Increase (1%p)	Decrease (1%p)	Increase (1%p)	Decrease (1%p)
Discount rate	Increase (decrease) in defined benefit obligation	₩ (19,904)	23,369	(15,482)	20,826
Future salary growth	Increase (decrease) in defined benefit obligation	₩ 23,483	(20,348)	20,956	(15,881)

(In millions of won)

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 fixed interest rate products and floating interest rate products which guarantee principal and interests.

Fair value of plan assets by category as of December 31, 2016 and 2015 are as follows:

	2016		2015	
Due from banks(*)	₩	188,832		145,051
Debt securities		6,685		6,149
Contribution to National Pension Plan		1		1
		195,518		151,201

(*) Due from banks comprise retirement pensions of Samsung Life Insurance, Kyongnam Bank, Busan Bank and and Shinhan Life Insurance. These include principal guaranteed products and the annual rate of return is 1.28%

25. INSURANCE CONTRACT LIABILITIES

Insurance Contract liabilities as of December 31, 2016 and 2015 are as follows:

	2016		2015	
Premium reserve	₩	4,952,584		4,770,432
Reserves for unearned premium		4,608		4,532
Minimum guarantee reserve		13,690		4,578
Reserve for outstanding claims		97,743		97,992
Reserve for participating policyholders' dividends		4,099		3,323
Reserve for policyholders' profit dividends		1,117		1,340
Loss preservation reserve for participating insurance		698		837
Policyholders' equity adjustment		2,251		4,186
Others		44,410		53,250
	₩	5,121,200		4,940,470

26. OTHER LIABILITIES

Other liabilities as of December 31, 2016 and 2015 are as follows:

	2016		2015	
Other financial liabilities (*)	₩	493,302		1,180,624
Accounts payable		382,521		418,149
Accrued expenses		23		93,281
Domestic exchange settlements credits		7,460		7,266
Prepaid cards		362		363
Debit cards		633		63
Guarantee deposit for securities subscription		52,564		44,725
Liabilities incurred by agency relationship		410		2,812
Deposit for credit control		9,012		8,967
Withholding taxes		199,358		191,823
Deposits for letter of guarantees and other		78,112		124,083
Account for agency business		388		222
Financial guarantee contract		10,375		10,488
Insurance claims payable		124,512		168,341
Others		1,359,032		2,251,207
Subtotal		76,626		56,693
Other non-financial liabilities		25,238		23,879
Separate account liabilities		33,012		20,796
Unearned revenue		7,165		3,177
Income tax payable		34,826		21,669
Prepaid insurance		176,867		126,214
Others		(10,926)		(10,794)
Subtotal		1,524,973		2,366,627
Discount present value				
Total	₩			

(*) The fair value of other financial liabilities is ₩1,358,724million and ₩2,251,722million as of December 31, 2016 and 2015, respectively.

The amounts of other liabilities, which mature within 12 months are ₩1,202,608 million and ₩2,108,376 million as of December 31, 2016 and 2015, respectively. The amounts of other liabilities, which mature after 12 months are ₩156,424 million and ₩142,831 million as of December 31, 2016 and 2015, 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, 2016 and 2015 are as follows:

		2016		2015	
		Foreign currency(*)	Translation into won	Foreign currency(*)	Translation into won
Assets	Cash in foreign currencies	\$ 57,294	₩ 69,240	\$ 58,407	₩ 68,453
	Due from banks in foreign currencies	236,362	285,644	243,864	285,809
	Available-for-sale financial assets	291,421	352,182	122,785	143,904
	Held-to-maturity financial assets	50,000	60,425	-	-
Loans	Loans in foreign currencies	449,609	543,862	461,938	541,392
and	Loans to other banks in foreign currencies	174,000	210,279	55,000	64,459
receivables	Bills bought in foreign currencies	111,134	134,301	75,680	88,697
	Advances for customers in foreign currencies	2,865	3,462	1,024	1,200
	Credit card accounts in foreign currencies	2,649	3,201	2,531	2,966
	Call loans in foreign currencies	78,642	95,157	205,000	240,260
	Privately placed debentures in foreign currencies	21,316	25,760	-	-
	Deposits in foreign currencies	21	26	-	-
	Subtotal	840,236	1,016,048	801,173	938,974
	Total foreign currency denominated assets	\$ 1,475,313	₩ 1,783,539	\$ 1,226,229	₩ 1,437,140
Liabilities	Deposits in foreign currencies	\$ 439,073	₩ 530,620	\$ 278,453	₩ 326,345
Borrowings	Borrowings in foreign currencies	465,195	562,188	436,590	511,681
	Call money in foreign currencies	7,208	8,711	15,230	17,848
	Subtotal	472,403	570,899	451,820	529,529
Debentures	Debentures in foreign currencies	297,765	359,849	296,014	347,795
	Less discount on debentures	(427)	(516)	(740)	(867)
	Subtotal	297,338	359,333	295,274	346,928
Other liabilities	Financial guarantee in foreign currencies	234	283	49	58
	Foreign exchanges payable	8,895	10,750	2,752	3,225
	Import deposit money in foreign currencies	5,912	7,144	8,161	9,565
	Accounts payables in foreign currencies	723	874	340	290
	Subtotal	15,764	19,051	11,302	13,138
	Total foreign currency denominated liabilities	\$ 1,224,578	₩ 1,479,903	\$ 1,036,849	₩ 1,215,940

(*) 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, 2016 and 2015 are as follows:

	2016		2015	
Gain on foreign currency transactions	₩	204,979		122,639
Loss on foreign currency transactions		(200,805)		(123,001)
Net gain (loss) on foreign currency transactions	₩	4,174		(362)

28. CAPITAL STOCK, CAPITAL SURPLUS, CAPITAL ADJUSTMENT AND NON-CONTROLLING INTERESTS

(a) Capital stock, capital surplus and capital adjustment as of December 31, 2016 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	(-)996,675,400 won

(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, 2016 and 2015 are as follows:

Description	Issuance date	Maturity date	Interest rate (%)	(In millions of won)	
				2016	2015
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)				2,055	951
Total				₩ 291,620	290,516
Hybrid bonds dividends				₩ 14,061	14,061

(*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 and DGB Lao Leasing Co., Ltd

29. RETAINED EARNINGS

(a) Retained earnings

Retained earnings as of December 31, 2016 and 2015 are as follows:

	(In millions of won)	
	2016	2015
Legal reserve (*1)	₩ 163,749	131,401
Discretionary appropriated reserve (*2)	1,043	1,155
Unappropriated retained earnings (*3)	1,138,582	930,490
	₩ 1,303,374	1,063,046

(*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 ₩8,737 million and ₩8,426 million as of December 31, 2016 and 2015, respectively.

(b) Regulatory reserves for loan losses

In accordance with the Supervisory Regulations on Financial Holding Companies, the Group reserves the difference between allowance for credit losses by K-IFRS and the Supervisory Regulations on Financial Holding Companies in the account of regulatory reserves for loan losses. Regulatory reserves for loan losses as of December 31, 2016 and 2015 are summarized as follows:

	(In millions of won)	
	2016	2015
Regulatory reserves for loan losses	₩ 288,302	180,331
Changes due to business combinations	-	2,931
Estimated transfer to regulatory reserves for loan losses	15,689	105,040
Regulatory reserves for loan losses at end of the year	₩ 303,991	288,302

Details of profits after adjusting for regulatory reserves for loan losses for the years ended December 31, 2016 and 2015 are as follows:

	(In millions of won)	
	2016	2015
Regulatory reserves for loan losses	₩ 15,689	105,040
Adjusted profits after reserves for credit losses	271,968	189,058
Earnings per share after adjusting regulatory reserves for loan losses (in won)	₩ 1,609	1,131

30. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2016 and 2015 are as follows:

	(In millions of won)				
	2016				
	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	Total
Beginning balance	₩ 37,685	14,825	4,403	(39,044)	17,869
Net decrease due to valuation	(28,335)	3,306	-	-	(25,029)
Changes due to reclassification	(3,117)	3,117	-	-	-
Realized gain on disposition	(11,133)	(5,125)	-	-	(16,258)
Net gain on the fair value hedge accounting	(6,215)	-	-	-	(6,215)
Effect of hedge of net investment	-	-	(2,383)	-	(2,383)
Gain on translation of foreign operations	-	-	3,895	-	3,895
Remeasurements of employee benefits	-	-	-	(14,969)	(14,969)
Fluctuation of policy reserve adjustment	1,935	-	-	-	1,935
Effect of income taxes	10,787	(286)	(350)	3,619	13,770
Net balance at end of period	₩ 1,607	15,837	5,565	(50,394)	(27,385)

	(In millions of won)				
	2015				
	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	Total
Beginning balance	₩ 45,497	-	2,750	(31,137)	17,110
Net decrease due to valuation	49,057	-	-	-	49,057
Changes due to reclassification	(20,650)	20,650	-	-	-
Realized gain on disposition	(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

31. INTEREST INCOME AND INTEREST EXPENSE

(a) Interest income

Interest income for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
Interest on due from banks	₩	15,209		16,362
Interest on financial assets held for trading		-		8,850
Interest on financial assets designated at fair value through profit or loss		8,037		37
Interest on available-for-sale financial assets		74,308		79,389
Interest on held-to-maturity financial assets		215,727		245,623
Interest on loans		1,422,640		1,414,930
Others		3,048		11,540
	₩	1,738,969		1,776,731

(b) Interest expense

Interest expense for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
Interest on deposits	₩	376,645		462,076
Interest on borrowings		46,481		49,663
Interest on debentures		107,062		97,003
Interest on borrowings from trust account		3,231		3,273
Others		3,464		4,225
	₩	536,883		616,240

32. FEE AND COMMISSION INCOME / COMMISSION EXPENSE

(a) Fee and commission income

Fee and commission income for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
Commissions received	₩	122,382		127,700
Guarantee fees		4,090		4,027
Commissions received related to trust account		11,279		9,359
	₩	137,751		141,086

(b) Commission expense

Commission expenses for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
Commissions paid	₩	22,259		20,574
Commissions on credit cards		45,609		42,095
Commissions paid related to trust account		236		346
	₩	68,104		63,015

33. INSURANCE INCOME AND INSURANCE EXPENSES

(a) Insurance income

Insurance income for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
Insurance revenue	₩	854,695		921,788
Reinsurance revenue		34,593		36,579
Fees on reinsurance revenue		5,265		1,943
Separate account revenue		5		5
	₩	894,558		960,315

(b) Insurance expenses

Insurance expense for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
Insurance expense	₩	110,772		96,829
Refunds expense		574,449		576,942
Policyholder dividends		315		337
Reinsurance premium		42,342		40,528
Deferred acquisition costs of new or renewal insurance contracts		(50,519)		(35,355)
Expenses on acquisition costs of new or renewal insurance contracts		71,136		52,167
Contribution to insurance reserve		182,782		251,120
Separate account expense		5		5
Amortization expenses on deferred acquisition costs of new or renewal insurance contracts		18,190		5,671
	₩	949,472		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, 2016 and 2015 are as follows:

Description	2016		2015	
Gain				
Gain on securities held for trading	₩	344		53
Gain on disposal		6,414		14,780
Gain on valuation		603		857
		7,361		15,690
Gain on derivatives instrument held for trading		401,782		314,107
Gain on transaction		118,676		40,020
Gain on valuation		12		117
Reversal of reserve for credit risk adjustment		520,470		354,244
Gain on financial instruments held for trading	₩	527,831		369,934
Loss				
Loss on securities held for trading		237		300
Commission expenses (acquisition expenses)		10,113		11,708
Loss on disposal		2,176		3,077
Loss on valuation		12,526		15,085
		236		319
Loss on derivatives instrument held for trading		377,094		315,870
Commission expenses (acquisition expenses)		124,068		32,706
Loss on transaction		739		-
Loss on valuation		502,137		348,895
Reserve for credit risk adjustment		514,663		363,980
Loss on financial instruments held for trading	₩	13,168		5,954
Net gain on financial instruments held for trading	₩	13,168		5,954

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.

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, 2016 and 2015 are as follows:

		(In millions of won)	
		2016	2015
Gain on financial assets designated at fair value through profit or loss	Dividend income	₩ 8,732	6,696
	Gain on valuation	1,128	1,576
	Gain on disposal	250	-
		₩ 10,110	8,272
Loss on financial assets designated at fair value through profit or loss	Loss on valuation	₩ 456	4,920
	Loss on disposal	8,102	-
		₩ 8,558	4,920
Net gain on financial assets designated at fair value through profit or loss	₩ 1,552	3,352	

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, 2016 and 2015 are as follows:

		(In millions of won)	
		2016	2015
Gain on available-for-sale financial assets	Dividend income	₩ 30,745	11,383
	Gain on disposal	49,351	75,427
	Gain on valuation of fair value hedged items	5	58
		₩ 80,101	86,868
Loss on available-for-sale financial assets	Loss on disposal	₩ 5,259	11,062
	Loss on valuation of fair value hedged items	151	206
		₩ 5,410	11,268
Net gain on available-for-sale financial assets	₩ 74,691	75,600	

37. IMPAIRMENT LOSS ON FINANCIAL ASSETS

Impairment losses on financial assets for the years ended December 31, 2016 and 2015 are as follows:

		(In millions of won)	
		2016	2015
Impairment loss on available-for-sale financial assets	₩ 4,622	5,554	
Bad debt expenses	197,821	223,188	
	₩ 202,443	228,742	

38. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expense for the years ended December 31, 2016 and 2015 are as follows:

		(In millions of won)	
		2016	2015
Employee benefits	₩ 398,816	385,879	
Rent	20,517	19,608	
Depreciation	29,788	39,077	
Amortization	30,111	29,651	
Tax and dues	23,339	24,111	
Advertising expense	14,879	12,332	
Physical training expense	1,303	1,273	
Service expense	39,053	35,194	
Others	81,192	80,080	
	₩ 638,998	627,205	

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, 2016 are as follows:

	10th	11th	12th	13th
Shares to be granted	19,596 shares	11,484 shares	8,380 shares	30,095 shares
Grant date	2014.3.21	2014.12.26	2015.3.19	2016.2.1
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	Nil	Nil	Nil	Nil
Vesting period	3 years	3 years	3 years	3 years

(ii) Changes in long-term performance share plan for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
	Shares	Weighted average exercise price per share	Shares	Weighted average exercise price per share
At beginning of year	54,402 shares	₩ -	67,085 shares	₩ -
Shares granted	45,665 shares	-	25,606 shares	-
Shares exercised	30,512 shares	-	38,289 shares	-
At end of year	69,555 shares	-	54,402 shares	-

The exercise price per share and weighted average expected life are nil and 1.23 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, 2016 are as follows:

		(In won)					
	Option pricing model	Stock price	Option price	Expected variance	Expected life	Risk free rate	Fair value
10th	Black-Scholes option pricing model	9,770	-	15.64%	0.22 years	1.31%	9,719
11th	Black-Scholes option pricing model	9,770	-	23.45%	0.98 years	1.56%	9,545
12th	Black-Scholes option pricing model	9,770	-	22.81%	1.21 years	1.58%	9,494
13th	Black-Scholes option pricing model	9,770	-	23.23%	1.98 years	1.63%	9,321

(iv) Expense of equity linked special incentive for the years ended December 31, 2016 and 2015 are as follows:

		(In millions of won)	
		2016	2015
General and administrative expense	₩ 171	171	140

(v) Liability of equity linked special incentive as of December 31, 2016 and 2015 are as follows:

		(In millions of won)	
		2016	2015
Long-term accrued expenses	₩ 300	300	213

40. OTHER OPERATING LOSS, NET

Other operating loss, net for the years ended December 31, 2016 and 2015 are as follows:

		(In millions of won)	
		2016	2015
Other operating income	Gain on sale of loans	₩ 37,140	18,763
	Reversal of provision for financial guarantee liabilities	-	1,207
	Reversal of provision for unused commitment	1,995	1,615
	Reversal of other provision	2,632	2,254
	Merchandise sold	1,609	1,411
	Service revenue	13,782	12,072
	Others	2,167	1,629
		₩ 59,325	38,951
Other operating loss	Fees for credit guarantee fund	₩ 55,090	54,007
	Deposit insurance premiums	50,835	47,466
	Loss on sale of loans	6,577	10,911
	Loss on valuation of financial debentures	1,104	2,458
	Provision for financial guarantee liabilities	123	-
	Provision for dormant deposits repayment	796	-
	Provision for undrawn commitment	-	57
	Provision for others	1,020	5,117
	Cost of goods sold	15,118	12,746
	Others	1,456	3,091
		₩ 132,119	135,853
Other operating loss, net		₩ (72,794)	(96,902)

41. OPERATING REVENUE AND EXPENSE

Operating revenue and expense for the years ended December 31, 2016 and 2015 are as follows:

		(In millions of won)	
		2016	2015
Operating revenue			
Interest income	₩	1,738,969	1,776,731
Fee and commission income		137,751	141,086
Insurance income		894,558	960,315
Gain on financial assets held for trading		527,831	369,934
Gain on financial assets designated at fair value through profit or loss		10,110	8,272
Gain on available-for-sale financial assets		80,101	86,868
Gain on hedging derivative instruments		1,347	2,927
Gain on foreign currency transactions		204,979	122,639
Others		59,325	38,951
		3,654,971	3,507,723
Operating expense			
Interest expense		536,883	616,240
Commission expense		68,104	63,015
Insurance expense		949,472	988,244
Loss on financial assets held for trading		514,663	363,980
Loss on financial assets designated at fair value through profit or loss		8,558	4,920
Loss on available-for-sale financial assets		5,410	11,268
Loss on hedging derivative instruments		10,587	2,277
Loss on foreign currency transactions		200,805	123,001
Impairment loss on financial assets		202,443	228,742
General and administrative expenses		638,998	627,205
Others		132,119	135,853
		3,268,042	3,164,745
Operating income	₩	386,929	342,978

42. NON-OPERATING INCOME, NET

Non-operating income and loss for the years ended December 31, 2016 and 2015 are as follows:

		(In millions of won)	
		2016	2015
Non-operating income	Gain on disposal of property and equipment	₩ 47	75
	Gain on disposal of intangible assets	1	82
	Rental income	3,491	3,205
	Others	9,632	12,754
		₩ 13,171	16,116
Non-operating loss	Collecting expenses for written-off loans	₩ 130	90
	Donations	6,307	8,529
	Others	5,879	7,065
		₩ 12,316	15,684
Non-operating gain, net		₩ 855	432

43. INCOME TAX EXPENSES

(a) Income tax expenses

Income tax expenses for the years ended December 31, 2016 and 2015 are as follows:

		(In millions of won)	
		2016	2015
Current income tax	₩	78,630	79,385
Changes in temporary differences		(6,471)	(44,719)
Income tax expenses directly charged to equity		13,770	337
Others		-	89
Income tax expenses	₩	85,929	35,092

(b) The reconciliation of effective tax rate

The reconciliation of effective tax rate for the years ended December 31, 2016 and 2015 are as follows:

		(In millions of won)	
		2016	2015
Profit before income tax expenses	₩	387,784	343,411
Income tax calculated at the statutory tax rate		93,382	82,643
Adjustments:			
Income not assessable for tax purposes		(26,098)	(24,044)
Expense not deductible for tax purposes		2,682	3,764
Refund of income taxes		(2,872)	(3,621)
Effect of a subsidiary		8,975	13,954
Others		9,860	(37,604)
Income tax expenses	₩	85,929	35,092
Effective tax rate		22.16%	10.22%

Statutory tax rate for the years ended December 31, 2016 and 2015 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%

(c) Changes in deferred income tax assets (liabilities)

Changes in deferred income tax assets (liabilities) for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016					2015				
	Temporary differences to be deducted from (added to) taxable income					Deferred income tax assets (liabilities)				
	Beginning balance	Changes due to business combination	Beginning	Decrease	Ending balance	Beginning balance	Changes due to business combination	Beginning	Decrease	Ending balance
<Temporary differences>										
Accrued income	₩ (231,452)	-	(220,960)	(231,565)	(220,847)	(54,875)	-	(52,617)	(54,900)	(52,592)
Present value discount on securities	(40,425)	-	(28,659)	(40,425)	(28,659)	(9,783)	-	(6,935)	(9,783)	(6,935)
Gain on valuation of securities	(70,372)	-	32,827	13,750	(51,295)	(16,994)	-	7,955	3,363	(12,402)
Gain on valuation of derivatives	(3,831)	-	7,710	(4,431)	8,310	(927)	-	1,866	(1,072)	2,011
Other provisions, etc.	30,616	-	24,163	30,616	24,163	7,403	-	5,826	7,403	5,826
Unused annual/ monthly leave	30,269	-	32,726	30,792	32,203	7,316	-	7,764	7,298	7,782
Dormant deposit	5,205	-	1,871	482	6,594	1,260	-	453	117	1,596
Unamortized deferred acquisition costs of new or renewal insurance contracts	104,410	-	-	50,103	54,307	25,267	-	12,125	13,142	
Others	245,180	143	174,627	128,755	291,195	60,853	31	36,951	30,272	67,563
Total	₩ 69,600	143	24,305	(21,923)	115,971	19,520	31	1,263	(5,177)	25,991

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

(In millions of won)

	2016					2015				
	Temporary differences to be deducted from (added to) taxable income					Deferred income tax assets (liabilities)				
	Beginning balance	Changes due to business combination	Beginning	Decrease	Ending balance	Beginning balance	Changes due to business combination	Beginning	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	(1,333)	77,412	334,663	165,562	245,180	(323)	18,439	80,137	37,400	60,853
Total	₩ (194,287)	87,395	247,557	71,065	69,600	(47,024)	21,824	58,074	13,354	19,520

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

(d) Deferred income tax assets (liabilities) before offset

Deferred income tax assets (liabilities) before offset as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Deferred income tax assets	₩ 113,855	130,260
Deferred tax liabilities	(87,864)	(110,740)
Deferred tax liabilities, net	₩ 25,991	19,520

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

Income tax expenses for the years ended December 31, 2016 and 2015 are as follows:

(In won, except share information)

	2016	2015
Profit attributable to owners of the Group	₩ 287,676,590,811	294,097,767,140
Weighted average number of common shares outstanding	169,053,154	167,231,236
Basic earnings per share	₩ 1,702	1,759

(b) Weighted average number of common shares outstanding

Weighted average number of common shares outstanding as of December 31, 2016 and 2015 are as follows:

(In shares)

	2016			Weighted average of number common shares outstanding
	Date	Shares	Weight	
At beginning of period	2016.01.01	169,053,154	366/366	169,053,154
(In shares)				
	2015			Weighted average of number common shares outstanding
	Date	Shares	Weight	
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

(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, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Cash and due from banks	₩ 2,547,299	2,092,477
Restricted due from banks	(1,372,093)	(947,735)
Due from banks with original maturities of more than three months.	(245,000)	(235,000)
Cash and cash equivalents	₩ 930,206	909,742

46. SIGNIFICANT NON-CASH TRANSACTIONS

Significant non-cash transactions for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Decrease in loans due to write-offs	₩ 264,295	193,713
Decrease in loans due to disposal	41,032	34,771
Transferred to loans from available-for-sale financial assets	-	10,000

47. COMMITMENTS AND CONTINGENCIES

(a) Pending litigation

As of December 31, 2016, there are 45 pending lawsuits brought to court by the Group, as a plaintiff, amounting to ₩14,772 million and 29 pending lawsuits against the Group amounting to ₩4,823 million. The major lawsuit case is as follows:

A lawsuit amounting to ₩333 million has been filed against the Group due to a severance package cut and the first trial is in progress. The Group recognized provisions of ₩401 million in respect to the above and other lawsuits as of December 31, 2016.

(b) There is a collateral of ₩8,143 million related with a lease deposit in regard to the Group's land and buildings as of December 31, 2016.

(c) Non-financial guarantee contracts

Non-financial guarantee contracts as of December 31, 2016 and 2015 are as follows:

	2016		2015	
		(In millions of won)		(In millions of won)
Acceptances and guarantees outstanding in won	₩	372,278		239,323
Acceptances and guarantees outstanding in foreign currencies		29,846		35,000
Contingent acceptances and guarantees		209,255		201,365
Loan commitments		6,880,023		6,929,260
Purchasing commitments for securities		141,788		106,284
	₩	7,633,190		7,511,232

(d) Financial guarantee contracts

Financial guarantee contracts as of December 31, 2016 and 2015 are as follows:

	2016		2015	
		(In millions of won)		(In millions of won)
Financial guarantee contract in won	₩	8,863		13,031
Financial guarantee contract in foreign currencies		20,679		8,846
Purchasing commitments for ABCP		84,000		15,000
	₩	113,542		36,877

(e) Insurance commitment

The Group's general and special account derived from insurance contracts with clients as of December 31, 2016 and 2015 are as follows:

	2016				2015			
	Numbers		Contract amount		Numbers		Contract amount	
General account	1,284	₩	20,929,097	1,185	₩	18,963,236		
Separate account	-		177	-		177		
	1,284	₩	20,929,274	1,185	₩	18,963,413		

(f) Reinsurance agreement

The details of the Group's ceding agreements as of December 31, 2016 are as follows:

Ceding method	Reinsurance company	Ceding amount/ratio	Product type
More than proportion	General Re Corporation	₩ 55 million	Life insurance
	Korean Re	₩20 million - ₩80 million	Life, disability, cancer insurance
Proportion	Korean Re	50%	Accident insurance
	Korean Re	50%	CI insurance
	Korean Re	30%	Cancer insurance
	Korean Re	30% - 50%	Dangerous job
	Korean Re	17.5%	All products (new after financial year 2009)
	Korean Re	50%	Child insurance (2013 co-developed product)
	Korean Re	80%	Collateral and non-ceding products sold among financial year 2002 - 2006
	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 makes as of December 31, 2016 and 2015 are as follows:

(i) Commitments related to letters of credit

Financial Institutions	2016		2015	
	In foreign currency	In won	In foreign currency	In won
KOOKMIN BANK	\$ -	₩ 15,000	\$ -	₩ 20,000
JEONBUK BANK	-	-	10,000	-
KDB Bank	-	-	20,000	-
Total	\$ -	₩ 15,000	\$ 30,000	₩ 20,000

Financial Institutions	2016		2015	
	Limit	Usage	Limit	Usage
JEONBUK BANK	₩ 10,000	5,000	10,000	-
BUSAN BANK	20,000	-	20,000	-
KDB Bank	60,000	39,797	30,000	15,000
Woori Investment Bank	20,000	-	-	-
Total	₩ 110,000	44,797	60,000	15,000

48. TRANSACTIONS WITH RELATED PARTIES

(a) Related parties except for subsidiaries

Details of related parties except for subsidiaries as of December 31, 2016 are as follows:

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 Group.

(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, 2016 and 2015 are as follows:

Financial Institutions	2016		2015	
	Daegu FC		Daegu FC	
Assets	Loans	₩ 9		-
Liabilities	Deposits	₩ 2,304		4,673
	Others	17		26
		₩ 2,321		4,699

(ii) Significant transactions between the Group and the related parties except for subsidiaries for the years ended December 31, 2016 and 2015 are as follows:

Financial Institutions	2016		2015	
	Daegu FC		Daegu FC	
Expenses	Interest on deposits	₩ 43		55

(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, 2016.

(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, 2016 and 2015 are as follows:

Classification	2016		2015	
	Daegu FC		Daegu FC	
Short-term employee benefits	₩	7,490		6,073
Other long-term benefits	₩	742		415
Post-employment benefits		1,368		1,413
	₩	9,600		7,901

(In millions of won)

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 falling to meet its contractual obligations and to manage industry type and borrower type concentration risk by controlling a loan portfolio and the credit share limit.

(ii) Credit risk management organization

Credit risk management is conducted by the Committee, the Council, the Working Group, the Department, credit risk team and sub risk management departments. The Department conducts recognizing, measuring, controlling and checking the adequacy of the Group-wide, departmental or organizational credit risk. It also conducts analyzing and reporting credit risk, developing and improving credit risk management skill, reporting the result of credit risk check-up and providing the information.

Credit risk team conducts installing and operating the credit risk management system. Loan review department conducts check-up of loan quality classification through regular credit review. Sub-risk management departments establish and implement credit risk management plans, recognize, measure, analyze and report credit risk, manage loan portfolio considering risk and return, analyze credit risk and conduct follow-up management resulted from new product launching, implement the resolutions from the Committee and Council, supervise countries' credit risk considering credit level of international credit appraisal institutes and submit other credit risk reporting documents. Internal audit inspects the adequacy of recognizing, measuring and evaluating credit risk, credit risk control organization and managing process.

(iii) Method of credit risk management

① Loans

- Credit line

The Group manages the concentration risk by considering the economic conditions and environmental factors, and sets credit line for each individual, industry and type of loan. The Group evaluates the concentration ratio of the borrower with large exposure and uses the concentration ratio as a parameter for credit risk management.

- Credit approval system

Enterprises' Credit Scoring System is operated through sophisticated, common or unsophisticated credit rating models according to the amount of enterprises' loans and financial conditions. Households' Credit Scoring System is operated through the ASS (Application Scoring System) or BSS (Behavioral Scoring System).

- Evaluation

The Group systematically evaluates clients' qualifications for a loan by the professional in charge of credit assessment and SRM (Senior Relationship Management) and reevaluates the clients' capability to redeem according to the change of credit conditions. Evaluation is performed on a regular basis. If there is a specific circumstance regarding clients, evaluation may be performed when necessary. In the case of households, the length of extension, renewal or revolving of loans is determined according to the Behavioral Scoring System.

② Debt securities

The Group manages the credit risk for debt securities through their credit rating or the similar external credit rating. In the case of using the external credit rating, it is converted to internal rating and its credit line is managed in accordance with the credit line regulations on internal rating.

③ Risk mitigation policy

If there is a circumstance or evidence that can increase the credit risk, the Group takes action to mitigate credit risk such as reducing amounts outstanding (in discussion with the clients or counterparties if appropriate).

- Collateral

The Group has various policies and guidance regarding the mitigation of credit risk. Generally, the Group obtains collateral for loans and operates guidance related to acquisition, valuation, and limits related to collateral management. In the case of collateral for real estate, settlement of mortgage is required for acquisition. For movable assets, securities and deposit receivables and establishing the right of pledge is required. Other receivables are required to be obtained through transfer. Obtained collateral are revalued through appraisal after a certain amount of time. Collaterals for loans are, for instance, house, equipment, factories, land, deposit, debt securities and equity securities.

- Guarantee and derivatives

The Group enters into guarantee and derivative contracts to transfer the credit risk of its loans and receivables to third parties. The above contracts require third parties to make payments to reimburse the Group for a loss incurred by debtor's default.

- Master netting agreements

In many cases, even though master netting agreements are in place, the lack of an intention to settle on a net basis results in the related assets and liabilities being presented gross on the statement of financial position. In the case of counterparty's default, the Group may reduce some of the losses from the credit risk when all transactions with counterparty are offset.

(iv) Maximum exposure of credit risk

Maximum exposure of credit risk as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016		2015	
On balance accounts(*1)				
Due from banks(*2)	₩	629,226		565,994
Financial assets held for trading(*3)		364,233		269,634
Financial assets designated at fair value through profit or loss(*3)		55,359		105,658
Available-for-sale financial assets(*3)		3,538,198		3,511,679
Held-to-maturity financial assets		7,890,515		7,618,459
Loans		36,373,478		34,399,965
Receivables		1,081,141		1,652,632
Derivative assets-hedging		95		50
Reinsurance assets		9,949		10,066
	₩	49,942,194		48,134,137
Off-balance accounts				
Financial guarantee contracts	₩	113,542		36,877
Commitments		7,021,811		7,035,544
Non-financial guarantee contracts		611,379		475,688
	₩	7,746,732		7,548,109

(*1) After impairment and setting off / (*2) Except for due from Bank of Korea / (*3) Except for equity securities and beneficiary securities

Degree of credit risk exposure is based on the net book value of financial position. In the case of financial guarantee, it is measured as the maximum amount to be paid for the debtor and in the case of loan contract which cannot be cancelled or can be cancelled if critical changes occur, it is measured as the entire amount of the contract.

(v) Degree of industrial risk concentration of financial assets which have credit risk

Degree of industrial risk concentration of financial assets which have credit risk as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016										
	Balance account (*1)						Off-balance account (*1)				
	Financial assets held for trading (*2)	Financial assets designated at fair value through profit or loss (*2)	Available - sale financial assets (*2)	Held-to-maturity financial assets	Loans	Derivative assets hedging	Total	Financial guarantee contracts	Nonfinancial guarantee contracts	Commitments	Total
Enterprises											
Manufacturing	W -	-	59,098	50,021	10,936,122	-	11,045,241	16,408	219,262	1,936,638	2,172,308
Construction	-	-	21,129	153,306	1,003,481	-	1,177,916	54,000	19,044	298,095	371,139
Wholesale and retail	-	-	20,008	3,410,312	3,430,320	-	3,430,320	3,518	204,777	556,885	765,180
Financial services and insurance	32,390	14,912	1,484,280	814,349	1,329,939	-	3,675,870	-	1,566	232,690	234,256
Others	209,092	40,447	447,450	744,935	9,299,316	-	10,741,240	99,616	166,730	385,691	592,037
Subtotal	241,482	55,359	2,011,957	1,782,619	25,979,170	-	30,070,587	113,542	611,379	3,409,999	4,134,920
Households	-	-	-	-	9,482,315	-	9,482,315	-	-	1,203,781	1,203,781
Government and public institutions	-	-	1,526,241	6,107,896	750,349	-	8,384,486	-	-	67,209	67,209
Credit card	-	-	-	-	398,636	-	398,636	-	-	2,340,822	2,340,822
Derivatives	123,918	-	-	-	-	95	124,013	-	-	-	-
Reserve for credit risk adjustment	(1,167)	-	-	-	-	-	(1,167)	-	-	-	-
Allowance	-	-	-	-	(271,916)	-	(271,916)	-	-	-	-
Present value discount	-	-	-	-	(1,465)	-	(1,465)	-	-	-	-
Deferred loan originated cost and fee	-	-	-	-	36,389	-	36,389	-	-	-	-
Total	W 364,233	55,359	3,538,198	7,890,515	36,373,478	95	48,221,878	113,542	611,379	7,021,811	7,746,732

(*1) After impairment and setting off / (*2) Except for equity securities and beneficiary securities

(In millions of won)

	2015										
	Balance account (*1)						Off-balance account (*1)				
	Financial assets held for trading (*2)	Financial assets designated at fair value through profit or loss (*2)	Available - sale financial assets (*2)	Held-to-maturity financial assets	Loans	Derivative assets hedging	Total	Financial guarantee contracts	Nonfinancial guarantee contracts	Commitments	Total
Enterprises											
Manufacturing	W -	-	99,787	30,031	10,860,228	-	10,990,046	6,368	1,983,562	238,468	2,228,398
Construction	-	-	74,151	101,516	1,059,997	-	1,235,664	15,000	340,762	15,523	371,285
Wholesale and retail	-	-	20,014	3,167,186	3,187,200	-	3,187,200	46	556,835	178,826	735,707
Financial services and insurance	41,698	20,004	1,306,751	664,058	1,235,556	-	3,268,067	-	197,821	2,652	200,473
Others	183,853	70,694	270,846	719,264	8,242,579	-	9,487,236	15,463	361,906	40,219	417,588
Subtotal	225,551	90,698	1,751,535	1,534,883	24,565,546	-	28,168,213	36,877	3,440,886	475,688	3,953,451
Households	-	-	-	-	9,048,210	-	9,048,210	-	1,174,285	-	1,174,285
Government and public institutions	-	14,960	1,760,144	6,083,576	655,515	-	8,514,195	-	13,800	-	13,800
Credit card	-	-	-	-	377,322	-	377,322	-	2,406,573	-	2,406,573
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	W 269,634	105,658	3,511,679	7,618,459	34,399,965	50	45,905,445	36,877	7,035,544	475,688	7,548,109

(*1) After impairment and setting off / (*2) Except for equity securities and beneficiary securities

(vi) Loans

Loans as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016				
	Enterprises	Households	Public sectors and others	Credit card	Total
Neither overdue nor impaired loans	W 25,523,158	9,425,349	747,839	393,873	36,090,219
Not impaired but overdue loans	97,519	32,433	623	149	130,724
Impaired loans	358,493	24,533	1,887	4,614	389,527
	25,979,170	9,482,315	750,349	398,636	36,610,470
Allowance for loan losses	(239,572)	(22,907)	(2,191)	(7,246)	(271,916)
Present value discount	(1,465)	-	-	-	(1,465)
Deferred loan origination cost and fee	15,645	20,261	483	-	36,389
Net book value	W 25,753,778	9,479,669	748,641	391,390	36,373,478

(In millions of won)

	2015				
	Enterprises	Households	Public sectors and others	Credit card	Total
Neither overdue nor impaired loans	W 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	W 24,332,136	9,043,892	654,352	369,585	34,399,965

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, 2016 and 2015 that are neither overdue nor impaired refer to the Group's internal credit appraisal system and are as follows:

(In millions of won)

	2016				
	Enterprises	Households	Public sectors and others	Credit card	Total
1-6	W 24,479,901	8,760,730	743,886	298,140	34,282,657
7	320,489	308,642	2,774	34,100	666,005
8(*2)	144,308	121,675	365	25,312	291,660
9(*2)	12,357	61,361	-	13,182	86,900
10(*2)	8,585	26,258	-	7,579	42,422
Not rated(*3)	557,518	146,683	814	15,560	720,575
Total	W 25,523,158	9,425,349	747,839	393,873	36,090,219

(In millions of won)

	2015				
	Enterprises	Households	Public sectors and others	Credit card	Total
1-6	W 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
Total	W 24,018,124	8,990,714	654,938	373,014	34,036,790

(*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 ₩20,575million (₩678,058million as of December 31, 2015) 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 ₩313,118 million (₩164,291 million as of December 31, 2015) and ₩407,457 million and (₩513,767 million as of December 31, 2015), respectively.

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)

	2016				
	Enterprises	Households	Public sectors and others	Credit card	Total
Less than 30 days	₩ 81,310	29,002	400	140	110,852
More than 30 days - less than 60 days	13,065	2,768	223	9	16,065
More than 60 days - less than 90 days	3,144	663	-	-	3,807
	₩ 97,519	32,433	623	149	130,724

(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

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

(In millions of won)

	2016				
	Enterprises	Households	Public sectors and others	Credit cards	Total
Real estate	₩ 27,962	17,859	214	4	46,039
Movable property	8,500	2,566	-	-	11,066
Securities and debentures	45	11	-	-	56
Warranty	15,153	2,164	-	-	17,317
Others	78	52	-	-	130
	₩ 51,738	22,652	214	4	74,608

(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

(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)

	2016				
	Enterprises	Households	Public sectors and others	Credit card	Total
Individual assessment Impaired loans	₩ 267,699	124	1,326	627	269,776
Allowance for doubtful accounts	58,599	37	67	577	59,280
Collective assessment Impaired loans	90,794	24,409	561	3,987	119,751
Allowance for doubtful accounts	35,127	9,952	230	2,656	47,965
Impaired loans	₩ 358,493	24,533	1,887	4,614	389,527
Allowance for doubtful accounts	₩ 93,726	9,989	297	3,233	107,245

(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	
Impaired loans	₩ 427,059	18,533	4,136	449,728	
Allowance for doubtful accounts	₩ 113,402	9,262	3,121	125,785	

② Estimated fair value of collateral for impaired loans

(In millions of won)

	2016			
	Enterprises	Households	Public sectors and others	Total
Real estate	₩ 122,513	7,961	1,612	132,086
Movable asset	7,665	95	-	7,760
Securities and debentures	16	105	-	121
Warranty	13,445	686	-	14,131
Others	1,764	-	-	1,764
	₩ 145,403	8,847	1,612	155,862

(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

(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, 2016 and 2015 are ₩86,696 million and ₩119,197million, 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.

① Debt securities in won

(In millions of won)					
2016					
	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	₩ 7,913	40,447	1,673,059	2,236,464	3,957,883
AA+ - AA-	6,523	14,912	486,775	336,643	844,853
A+ - A-	29,492	-	110,206	40,558	180,256
BBB+ - BBB-	10,820	-	24,722	-	35,542
Others	2,805	-	-	-	2,805
Not rated	-	-	1,010,264	5,276,850	6,287,114
Subtotal	57,553	55,359	3,305,026	7,890,515	11,308,453
<Short term credit rating>					
A1	52,671	-	-	-	52,671
A2 - A3	131,258	-	-	-	131,258
Subtotal	183,929	-	-	-	183,929
Total	₩ 241,482	55,359	3,305,026	7,890,515	11,492,382

(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

Not rated amount is ₩6,287,114 million (₩6,373,345 million as of December 31, 2015) 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 ₩5,919,492 million (₩4,228,770 million as of December 31, 2015), monetary stabilization bond is ₩49,920 million (₩49,977 million as of December 31, 2015) and other bond is ₩317,702 million (₩2,094,598 million as of December 31, 2015).

② Debt securities in foreign currencies

(In millions of won)				
	2016		2015	
	Available-for-sale financial assets		Available-for-sale financial assets	
AAA	₩	-	-	69,434
AA+ - AA-		17,516	-	-
A+ - A-		146,267	-	74,470
BBB+ - BBB-		69,389	-	-
Total	₩	233,172	-	143,904

(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, 2016 and 2015 are as follows:

(In millions of won)								
2016								
		Gross amounts of recognized financial assets	Gross offset amounts of recognized financial liabilities	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position			Net amount
					Financial instruments	Collateral received Securities	Cash	
Bonds purchased under resale agreements	₩	312,300	-	312,300	-	298,883	-	13,417
Accrued balance spot exchange		210,072	-	210,072	209,923	-	-	149
Trading derivative assets		71,411	-	71,411	5,125	3,600	167	62,519
Hedging derivative assets		95	-	95	-	-	-	95
Total	₩	593,878	-	593,878	215,048	302,483	167	76,180

(In millions of won)								
2015								
		Gross amounts of recognized financial assets	Gross offset amounts of recognized financial liabilities	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position			Net amount
					Financial instruments	Collateral received Securities	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 derivative assets		31,657	-	31,657	7,297	-	3,692	20,668
Hedging derivative assets		50	-	50	-	-	-	50
Total	₩	1,218,086	-	1,218,086	961,354	200,202	3,692	52,838

② Offsetting financial liabilities

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2016 and 2015 are as follows:

(In millions of won)							
2016							
		Gross amounts of recognized financial liabilities	Gross offset amounts of recognized financial assets	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
					Financial instruments	Collateral provided	
Bonds purchased under resale agreements	₩	734,981	-	734,981	734,981	-	-
Accrued balance spot exchange		185,039	-	185,039	184,958	-	81
Trading derivative liabilities		117,712	-	117,712	44,412	-	73,300
Hedging derivative liabilities		12,519	-	12,519	-	-	12,519
Total	₩	1,050,251	-	1,050,251	964,351	-	85,900

(In millions of won)

	2015					
	Gross amounts of recognized financial liabilities	Gross offset amounts of recognized financial assets	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Collateral provided	
Bonds purchased under resale agreements	₩ 812,795	-	812,795	812,795	-	-
Accrued balance spot exchange	135,963	-	135,963	135,829	-	134
Trading derivative liabilities	22,951	-	22,951	6,201	-	16,750
Hedging derivative liabilities	3,150	-	3,150	-	-	3,150
	₩ 974,859	-	974,859	954,825	-	20,034

(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.

A. Non-derivative financial liabilities

(In millions of won)

	2016								
	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>									
Demand deposits	₩ 14,883,589	-	-	-	-	-	-	-	14,883,589
Time deposits	59,438	2,747,139	4,407,914	4,727,622	6,494,827	1,324,173	104,623	310,392	20,176,128
Negotiable certificates of deposits	-	130,099	99,804	41,022	153,751	14,665	-	-	439,341
Subtotal	14,943,027	2,877,238	4,507,718	4,768,644	6,648,578	1,338,838	104,623	310,392	35,499,058
Borrowings in won	-	632,018	53,829	198,265	179,029	510,939	355,323	155,508	2,084,911
Borrowings in foreign	-	72,864	123,561	113,746	215,087	42,039	-	-	567,297
Bonds sold under repurchase agreements	-	132,942	320,299	93,088	187,867	9,710	-	-	743,906
Call money	-	80,710	-	-	-	-	-	-	80,710
Other borrowings	-	2,300	3,850	772	56	-	-	-	6,978
Subtotal	-	920,834	501,539	405,871	582,039	562,688	355,323	155,508	3,483,802
Debentures in won	-	364,451	130,484	437,554	446,720	1,797,188	252,130	561,157	3,989,684
Debentures in foreign currency	-	-	-	4,079	4,079	366,629	-	-	374,787
Subtotal	-	364,451	130,484	441,633	450,799	2,163,817	252,130	561,157	4,364,471
Other financial liabilities	-	755,058	11,226	65,265	34,253	75,365	35,301	43	976,511
Total	₩14,943,027	4,917,581	5,150,967	5,681,413	7,715,669	4,140,708	747,377	1,027,100	44,323,842
<Off-balance accounts>									
Financial guarantee	₩ 113,542	-	-	-	-	-	-	-	113,542
Commitments	7,021,811	-	-	-	-	-	-	-	7,021,811
Payments on guarantees	611,379	-	-	-	-	-	-	-	611,379
Total	₩ 7,746,732	-	-	-	-	-	-	-	7,746,732

(In millions of won)

	2015								
	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>									
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
Subtotal	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
Borrowings in won	-	560,305	115,306	100,153	156,538	468,844	368,182	174,237	1,943,565
Borrowings in foreign	-	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
Subtotal	-	889,399	567,260	248,094	542,101	581,910	407,369	174,237	3,410,370
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
Subtotal	-	4,490	59,558	223,198	338,267	1,943,477	404,399	440,145	3,413,534
Other financial liabilities	-	1,590,954	31,236	35,910	34,544	105,353	35,018	43	1,833,058
Total	₩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	₩ 36,877	-	-	-	-	-	-	-	36,877
Commitments	7,035,544	-	-	-	-	-	-	-	7,035,544
Payments on guarantees	475,688	-	-	-	-	-	-	-	475,688
Total	₩ 7,548,109	-	-	-	-	-	-	-	7,548,109

③ Derivative financial liabilities

(In millions of won)

	2016							Total
	Less than 1 month	1 - 3 months	4 - 6 months	7 - 12 months	13 - 36 months	37 - 60 months	More than 60 months	
<Trading derivatives>								
Currency related	₩ 36,105	33,719	21,466	32,171	-	-	-	123,461
Stock related	316	398	407	769	-	-	645	2,535
Subtotal	36,421	34,117	21,873	32,940	-	-	645	125,996
<Hedging derivatives>								
Currency related	933	-	2,789	6,755	-	-	-	10,477
Interest rate related	-	-	2	-	2,032	8	-	2,042
Subtotal	933	-	2,791	6,755	2,032	8	-	12,519
Total	₩ 37,354	34,117	24,664	39,695	2,032	8	645	138,515

(In millions of won)

	2015							Total
	Less than 1 month	1 - 3 months	4 - 6 months	7 - 12 months	13 - 36 months	37 - 60 months	More than 60 months	
<Trading derivatives>								
Currency related	₩ 10,843	8,900	5,420	5,356	-	-	-	30,519
Stock related	75	374	1,004	843	-	-	715	3,011
Subtotal	10,918	9,274	6,424	6,199	-	-	715	33,530
<Hedging derivatives>								
Interest rate related	-	-	-	-	3,061	89	-	3,150
Total	₩ 10,918	9,274	6,424	6,199	3,061	804	-	36,680

Available assets to fulfill the payment obligations of liabilities and to carry out the unpaid loan contracts are cash, due from The Bank of Korea, loans, equity securities and debt securities. The Group is able to deal with unexpected cash flows through the disposal of securities and by additional fund raising resources such as the asset securitization market.

(e) Market risk

Market risk is the risk that the fair value of financial instruments or future cash flows is affected by the volatility of market rates or prices such as interest rates, stock prices and foreign exchange rates.

(i) Purposes of market risk management

Purposes of market risk management are to secure the profitability and stability by controlling the losses generated from managed assets and liabilities due to volatility of market risk factors such as interest rates, stock prices and foreign exchange rates. Those subject to market risk management are securities held for trading, foreign currency net open positions, derivatives, off balance transactions and other market risk inherent assets and liabilities.

(ii) Market risk management organization

The Group divides exposures to market risk into trading position and non-trading position. To promote the classification and management of trading position, the Group operates its accounting and computer system according to the classification. The Group also classifies and operates a trading desk and 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, 2016 and 2015 are as follows:

	2016				
	Period end	Average	Minimum	Maximum	
Interest rate risk	₩ -	164	-	1,804	
Foreign exchange risk	264	636	37	2,482	
Stock risk	902	2,312	825	2,832	
Diversification effect	(257)	(1,018)	(228)	(3,672)	
Total risk	₩ 909	2,094	634	3,446	

(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

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 method of calculation of interest rate risk amount.

	2016			2015		
	Exposure	Interest rate sensitivity(%)	Interest rate sensitivity amount	Exposure	Interest rate sensitivity(%)	Interest rate sensitivity amount
I. Interest-bearing liability						
1. Interest rates fixed	₩ 1,532,132	11.05	₩ 16,925,358	₩ 1,416,132	11.06	₩ 15,659,561
2. Interest rates linked	3,318,585	5.60	18,575,013	3,229,182	3.69	11,912,477
Subtotal	4,850,717	7.32	35,500,371	4,645,314	5.94	27,572,038
II. Interest bearing assets						
1. Due from banks	278,896	2.67	745,450	273,391	0.23	61,950.00
2. Financial Assets designated at fair value through profit or loss	55,359	3.19	176,561	96,649	2.60	251,152
3. Available-for-sale financial assets	1,302,398	4.18	5,444,084	1,275,736	5.06	6,456,801
4. Held-to-maturity	3,210,153	7.91	25,383,289	2,955,402	7.71	22,778,957
5. Loans	352,660	8.04	2,835,806	359,722	6.79	2,443,852
Subtotal	₩ 5,199,466	6.65	₩ 34,585,190	₩ 4,960,900	6.45	₩ 31,992,712
III. The minimum interest rate amount			120,699			105,697
IV. The interest rate backspread amount			23,334			14,366
V. The interest rate risk amount (III+ IV)			₩ 144,033			₩ 120,063

(In millions of won)

- 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 management's evaluation about the reasonable and possible fluctuations of the stock index.

		2016		2015	
		Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
Beneficiary certificate	10% increase	₩ -	116	-	79
	10% decrease	-	(116)	-	(79)

(In millions of won)

(iv) Non-trading position

The Group manages interest rate risk for non-trading position. Interest rate risk of non-trading position is the risk that the net asset value or net interest income might decrease due to the inconsistency of interest rate maturity and the unfavorable change of market interest rate. The Group measures interest rate risk for interest assets such as loans, dues from banks and bonds, for interest rate liabilities such as deposits and borrowings and for hedge derivatives. Among non-trading positions, marketable available-for-sale financial assets (stocks) are managed through VaR.

① Method of interest rate risk management

The tolerance limit to manage the interest rate risk on trading positions is required to be set in principle at least once a year, and approved by the Committee. To verify complying with the tolerance limit, the interest risk is measured and managed at least once a month, and reported to the management, the Council and the Committee.

② Assessment methods for interest rate risk

- Value at Risk (VaR)

Interest rate VaR measures potential losses in value of a net asset over a defined period for a given confidence interval. The Group calculates interest rate VaR by the gap of interest rate and the modified duration.

- Earning at Risk (EaR)

EaR is the quantity by which net income is projected to decline in the event of an adverse change in prevailing interest rates.

- Others

The Group evaluates interest rates risk by using the rate of interest gap, and conducts the interest risk analysis of crisis situations under abnormal market conditions one or more times a quarter. 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, 2016 and 2015 are as follows:

		(In millions of won)			
		End	Average	Minimum	Maximum
2016 (*)	₩	46,362	35,387	8,320	78,216
2015 (*)		65,732	43,207	8,365	73,233

(*) 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, 2016 and 2015 are as follows:

		(In millions of won)			
		USD	JPY	EUR	Others
2016	Foreign currency financial assets	₩ 1,545,048	189,882	55,797	205,148
	Foreign currency financial liabilities	1,429,171	132,776	22,481	138,030
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

(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, 2016 and 2015 are as follows:

		(In millions of won)	
		2016	2015
Death	₩	15,733	14,728
Hazard		4,585	4,335
Hospitalization		3,277	3,400
Surgery diagnosis		11,931	11,643
Medical indemnity		3,301	3,051
Others		2,411	2,332
Total	₩	41,238	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 8.625%(Minimum 8%, conservation buffer 0.625%) 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 income 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, 2016 and 2015 are as follows. The Group has complied with all the external capital maintenance restriction conditions for the past two years.

		2016		2015	
		(In millions of won)			
Total capital (A)	₩	4,302,306		4,098,912	
Basic capital (B)		3,639,639		3,245,220	
Common stock (C)		3,392,398		2,975,309	
Supplementary capital (D)		662,667		853,692	
Risk weighted asset (E)	₩	33,273,379		31,787,501	
Ratio of total capital (A/E)		12.93%		12.89%	
Ratio of basic capital (B/E)		10.94%		10.21%	
Ratio of common stock capital (C/E)		10.20%		9.36%	

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, 2016 and 2015 are as follows:

		(In millions of won)			
		2016		2015	
Type		Level 1	Level 2	Level 3	Total
Financial assets	Cash and due from banks	₩ 2,547,299	-	-	2,547,299
	Held-to-maturity financial assets	3,045,299	4,953,110	-	7,998,409
	Loans	-	-	36,501,376	36,501,376
	Receivables	-	-	1,079,775	1,079,775
		₩ 5,592,598	4,953,110	37,581,151	48,126,859
Financial liabilities	Depository liabilities	₩ 14,883,589	-	20,470,774	35,354,363
	Borrowings	80,710	-	3,092,077	3,172,787
	Debentures	-	-	4,189,103	4,189,103
	Other financial liabilities	-	-	1,347,798	1,347,798
		₩ 14,964,299	-	29,099,752	44,064,051

(In millions of won)

Type	2015				Total
	Level 1	Level 2	Level 3		
Financial assets	Cash and due from banks	W 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
Financial liabilities	Depository liabilities	W 5,325,038	4,580,343	36,193,288	46,098,669
	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
		W 13,280,351	-	29,028,217	42,308,568

(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, 2016 and 2015 are as follows:

Type	Valuation method (*)	Inputs (*)
Financial assets Held-to-maturity	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, 2016 and 2015 are as follows:

Type	Valuation method (*)	Unobservable inputs (*)
Financial assets Loans	DCF method	Discount rate, credit spreads, prepayment rate
Financial liabilities Receivables	DCF method	Discount rate
Depository liabilities	DCF method	Discount rate
Borrowings	DCF method	Discount rate
Debentures	DCF method	Discount rate
Other financial liabilities	DCF method	Discount rate

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

APPENDIX

DGB Financial Group Awards

2016-2017 Sustainable Management Awards & Accolades

Date	Awards	Organizations
2016.02.25	Awarded the grand prize for the Individual category in the "2016 Korea Best Banker Award"	Seoul Economic Daily / Seoul Economic Network
2016.08.29	DGB Daegu Bank was selected as the best bank in the "Evaluation of Financial Consumer Protection"	Financial Supervisory Service
2016.09.16	Listed in the "FTSE4Good Indices" for 6 consecutive years	EIRIS
2016.09.28	Jointly awarded KSI and KRCA in the "Korea Sustainability Conference" for 3 consecutive years	Korea Standards Association
2016.10.11	Listed in the "2016 Asia Sustainability Ranking 100" for 3 consecutive years	Sustainalytics
2016.10.19	Listed in the "Dow Jones Sustainability Indices" for 8 consecutive years for the Korea category and 7 consecutive years for the Asia-Pacific category	S&P Dow Jones Indices / RobecoSAM / Korea Productivity Center
2016.11.01	Selected as an excellent company in response to climate change in the "CDP Korea" for 2 consecutive years	CDP Korea / CDP
2016.11.14	Awarded the KCCI Chairman Award in the "4th Korea Governmental Award to Beloved Enterprises"	Ministry of Trade, Industry and Energy / Small and Medium Business Administration / Korea Chamber of Commerce and Industry
2016.11.17	DGB Social Contribution Foundation won the blue ribbon in the "Korean Red Cross Order," and the "Korean Red Cross Presidential Citation for Excellent Social Contribution"	Korean Red Cross
2016.12.05	DGB Daegu Bank won the presidential citation for the Corporation category in the "2016 National Volunteer Contest to Celebrate 11th Volunteer Day"	Ministry of the Interior / Korea Volunteer Center
2016.12.08	DGB Daegu Bank won the presidential citation for the Organization category in the "21st SME Financial Support Award"	Small and Medium Business Administration
2016.12.13	DGB Daegu Bank won the grand prize for the Bank category in the "2016 Korea Finance Award"	Maeil Business Newspaper / MBN

External Assurance & Certifications

Date	Awards	Organizations
2007. 04. 30	Third-party assurance on DGB Daegu Bank's 2006 Sustainability Report	GRI (Global Reporting Initiative)
2010. 06. 16	First Korean financial institution to have its GHG inventory verified by a third party	Korea Standards Association (KSA)
2011. 05. 30	Environmental Management System (ISO 14001) certification	Approved by the Korea Accreditation Board (KAB) Certified by KSA
2011. 11. 20	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
2013. 06. 03	Acquisition of utility model patents on DGB's donation methods and equipment by the name of investors	Korea Intellectual Property Office (KIPO)



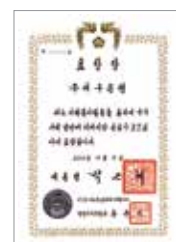
'2016 Korea Sustainability Conference'
Korean Readers' Choice Awards



'2016-2017 Dow Jones Sustainability Indices (DJSI)'
Certificate of Asia-Pacific & DJSI Korea



Selected as an excellent company in response to climate change in the '2016 CDP Korea'



Awarded the presidential citation for the Corporation category in the "2016 National Volunteer Contest to Celebrate 11th Volunteer Day"



Awarded the grand prize for the Bank category in the "2016 Korea Finance Award"

Third-party Assurance Statement

Dear DGB Financial Group Management and Stakeholders

INTRODUCTION

The Korean Standards Association ("KSA") was commissioned by DGB Financial Group to perform a third-party Assurance Engagement of 'DGB Financial Group 2016-2017 Integrated Sustainability Report' (the "Report"). KSA presents independent opinions as follows as a result of feasibility of the data contained in this Report. DGB Financial Group has sole responsibility for content and performance contained in this Report.

INDEPENDENCE

As an independent assurance agency, KSA does not have any kinds of commercial interest in businesses of DGB Financial Group apart from undertaking a third-party assurance on the Report. We have no other contract with DGB Financial Group that may undermine credibility and integrity as an independent assurance agency.

Assurance Standards and Level

This Assurance Engagement followed the AA1000AS (2008) assurance standards to provide Moderate Level assurance. We checked the three principles of inclusivity, materiality, and responsiveness in combination with information credibility of the Report. We also verified whether the Report content was created in accordance with the GRI G4 Guidelines and ISO 26000.

ASSURANCE TYPE, SCOPE AND LIMITATIONS

We performed a Type 2 Assurance Engagement in accordance with AA1000AS. This implies that we verified the accuracy and quality of the statements made by DGB Financial Group and the sustainability performance data included in this Report. The scope of verification is a period from Jan 1, 2016 to Dec 31, 2016, and depending on the content, includes some information for the first half of 2017. The results and reporting practices of DGB Financial Group's related companies, overseas branches, suppliers, partners, and third parties, excluding DGB Financial Group and its seven subsidiaries (Daegu Bank, DGB Life Insurance, DGB Capital, DGB Asset Management, U-Pay, DGB Data System, DGB Credit Information) stated in the report, are not included in the scope of this verification. The scope of this Assurance Engagement primarily includes the systems and initiatives undertaken by DGB Financial Group including its sustainable management policies, goals, projects, standards and performance during the reporting period defined in the Report. While the company's environmental and social data as well as financial data was verified, the scope of review concerning stakeholder engagement was limited to the materiality test process.

ASSURANCE METHODOLOGY

We used the following methods to gather information, documents and evidence with respect to the assurance scope.

- Analyses of articles related to DGB Financial Group's sustainable management published by domestic media outlets over the last three years
- Analyses of issues reported in the sustainability reports published by domestic and overseas industry peers
- Visit DGB Financial Group headquarter/Interview with employees in charge of sustainable management and managers of respective issues
- Verification of management system and process to improve achievement in sustainable management and to prepare the Report
- Review of the consistency between the financial performance data and the company's audit report/publicly announced data
- Examination of internal documents and basic materials

ASSURANCE RESULTS AND OPINIONS (ON AN ASSURANCE PRINCIPLE/PROCESS LEVEL)

KSA reviewed the draft version of this Report to present our opinions as an assurance provider. Modifications were made of the Report content if deemed necessary. We were not aware of any significant errors or inappropriate descriptions in this Report as a result of our Assurance Engagement. As such, we present our opinions of the 2016-2017 DGB Financial Group Integrated Sustainability Report as follows.

Inclusivity

We believe that DGB Financial Group is making an all-out effort for major stakeholders' participation in promoting sustainable management, and we assured procurement and operation of diverse stakeholder communication channel of DGB Financial Group. We were not aware of any omission of significant stakeholder group. DGB Financial Group selected representatives from stakeholder groups including individual and corporate customers, partner companies, employees, and local communities and conducted interviews with them. Furthermore, the Group invited experts from various fields including economic, social and environmental to the 'Expert Meeting for DGB Financial Group's Integrated Sustainability Report' to reflect the values of various stakeholders in its management activities and sustainability report.

Materiality

We are not aware of any significant omissions or exclusions of data that is material to stakeholders. We verified that DGB Financial Group conducted materiality test with issues identified from analyses of internal and external environments and reported according to the result. This year we expanded our operational boundaries to include DGB Asset Management to identify group-wise issues and included key information in the Report. In order to cover a wider range of operational boundaries, we would like to recommend that the procedure for identifying material issues should be further developed so that the material issues for stakeholders of Daegu Bank and the seven other affiliates can be identified in a more meticulous and thorough manner.

Responsiveness

We verified that DGB Financial Group responded stakeholders' needs and interests through reflecting stakeholders' opinions in the Report. We are not aware of any evidence that DGB Financial Group's response to significant issues of stakeholders was reported inappropriately. We recommend that the Group establish a primary operating system in which the opinions of stakeholders of Daegu Bank and its seven affiliates included in the operating boundary of this Report are linked with the group-wise sustainability strategies, action plans, and KPI as well.

Findings On Specific Performance Information

The data provided in the report was gathered by a responsible team of DGB Financial Group members from each of its department and subsidiaries and then processed and presented for different purposes. We verified the energy usage, water usage, greenhouse gas emissions, employees' business trips, employee training hours, data on industrial accidents, and data generation processes of DGB Financial Group. After closely verifying, we have confirmed that the information and data disclosed are the result of stable and consistent activities, and recommend that the Group expand the verification level and scope by ensuring accuracy of the data collected from each subsidiary.

VERIFICATION OF MATERIAL GRI G4 INDICATORS

We confirmed that this Report was prepared in accordance with GRI G4 Core Option. Based on data DGB Financial Group provided, we also confirmed a validity of the contents related to General Standard Disclosure and Specific Standard Disclosure indicators.

General Standard Disclosures

We verified that this Report is in compliance with requirements for General Standard Disclosures of Core Option. We examined indicators below.

G4-1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58

Specific Standard Disclosures

We checked DMAs with respect to Material Aspects identified from a decision making process on which content to be disclosed. We examined indicators below.

G4-EC1, EC2, EC3, EC4, EC7, EC8, EN1, EN2, EN3, EN4, EN6, EN7, EN8, EN15, EN16, EN17, EN19, EN29, EN30, EN34, LA2, LA3, LA4, LA9, LA10, LA12, LA13, LA16, HR3, HR12, SO1, SO3, SO4, SO5, SO11, PR5, PR6, PR7, PR8, PR9, FS1, FS2, FS3, FS4, FS5, FS6, FS13, FS14, FS15, FS16

OPINIONS AND RECOMMENDATIONS BY SECTOR (ON A PERFORMANCE/ISSUE LEVEL)

We present the following recommendations to help DGB Financial Group establish a company-wide sustainable management strategy and respond to continuous issues of sustainability.

Economic

DGB Financial Group, seeking to become the best financial partner for a better future, pursues top-class financial companies that grow together with all of its stakeholders. It focuses on customer satisfaction as the center of all business activities and seeks to be a company that fulfills its social responsibilities for its customers, shareholders, employees, local communities, and the country as a whole. In order to achieve sustainable management, risk management is required in order to balance economic profitability and social responsibility and grow together with stakeholders. Under this unfavorable and uncertain economic environment, the Group must create new profit models to improve profitability and continue to manage financial risk accordingly. In addition, continuous efforts are needed to develop financial products and services for a more advanced local community through finance, thereby achieving higher economic performance and social responsibility.

Environmental

In order to encourage environmentally-conscious management, DGB Financial Group provides financial support to environmentally responsible local businesses in the form of interest in cooperation with Korea Environmental Industry and Technology Institute (KEITI). This is truly an exemplary case of sustainable management. Currently, many global financial companies and institutions are pursuing socially responsible investment and are actively considering or promoting environmentally sound investment deliberation processes. In line with these movements, DGB Financial Group is also leading the way to add results of an environmentally sound evaluation process conducted by external parties to be included in its internal incentive system.

In this context, we recommend that DGB Financial Group do everything within its reach to incorporate an environmentally sound evaluation process in decision-making with stakeholders as a priority.

Social

DGB Financial Group is a community-based group that promotes diverse social activities centered on the local community and shares its values with local residents. Not being complacent about its location, however, DGB Financial Group is making its way into overseas markets such as Laos, Vietnam, Cambodia and Myanmar as a leading global financial institution. Therefore, we recommend that DGB Financial Group further expand its scope to global financial markets, reorganize its sustainable finance strategy, develop differentiated green financial products and social contribution activities, thereby striving to create new shared value as a global leading financial institution going forward.

May 2017

Baek, Soo-Hyun
KSA Chairman & CEO

Baek, Soo Hyun



Korean Standards Association (KSA), established as a special corporation in accordance with the Law for Industrial Standardization in 1962, is serving as a knowledge service provider who distributes and disseminates such services as industrial standardization, quality management, sustainable management, KS certification and ISO certification. KSA is committed to the sustainable development of Korean society as an ISO 26000 national secretary, certified GRI training partner, AA1000 assurance provider, KSI(Korea Sustainability Index) operator, UN CDM DOE(development operational entity), and assurance provider of the Korean government's greenhouse gas energy target management system.

GHG emissions Verification Statement

Independent GHG Verification Statement

INTRODUCTION

The Korea Standards Association("KSA") has conducted independent and reasonable GHG emissions verification based on Report of GHG emissions and energy usage("GHG report") provided by DGB Financial Group("DGB"). DGB is liable for the emissions data covered by GHG report and verification team is responsible for the verification statement provided. KSA reviewed the data management systems of DGB and examined the emissions data in accordance with the verification standards.

INDEPENDENCY

In addition to providing independent verification to the GHG report, verification team does not have any interest in for-profit financial activities throughout the business activities of DGB. There is also no bias for any stakeholder in DGB Financial Group.

SCOPE OF ASSURANCE

The verification scope is GHG report, 2016 including the head Office of DGB(including the second head office), domestic branches and affiliates of DGB. As a result of verification activities, verification team has found no omission or significant error and assures a reasonable level of assurance.

VERIFICATION STANDARDS

To conduct verification activities, verification team applied verification standards and guidelines. The standards and guidelines are as follows.

- GHG&Energy Target Scheme Guidelines(2016-255) provided by Ministry of Environment, Republic of Korea
- Verification guideline for management of GHG emissions trading scheme (2016-015) provided by Ministry of Strategy and Finance, Republic of Korea
- KS Q ISO 14064-1,2,3 : 2006
- IPCC Guideline

In case of Scope3(domestic/overseas business trips for work and commuting travel), verification team assures the consistency and the accuracy in accordance with the estimating method. The estimating methods are applied to activity data internally collected and standards provided by related organizations.

VERIFICATION PROCEDURES AND LIMITS

Verification team conducted document review, onsite assessment, corrective action, and verification report by the verification procedures. We applied risk-based approaches and sampling method, and that may contain errors, omissions and false statements that verification team has not found.

VERIFICATION CONCLUSION

As a result of verification activities, verification team has found no significant error. Therefore, Korean Standards Association confirms emissions data covered by GHG report, 2016 by DGB Financial Group is adequately quantified.

May 19, 2017

Baek, Soo Hyun

GRI G4/ISO26000 Contents Index

General Standard Disclosures

Caterogy	G4 Contets Index	Page	ISO26000	Assurance	
Strategy and Analysis	G4-1 Provide a statement from the most senior decision-maker of the organization	3	4.7/6.2/7.4.2	●	
	G4-2 Provide a description of key impacts, risks, and opportunities.	6,14-15, 44		●	
Organizational Profile	G4-3 Report the name of the organization	4		●	
	G4-4 Report the primary brands, products, and services.	4	6.3.10/6.4.1- 6.4.2/	●	
	G4-5 Report the location of the organization's headquarters.	88	6.4.3/6.4.4/6.4.5/ 6.8.5/7.8	●	
	G4-6 Number and names of countries where the organization manages operating sites or which are related to sustainable topics	5		●	
	G4-7 Report the nature of ownership and legal form.	4		●	
	G4-8 Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	5		●	
	G4-9 Report the scale of the organization	57, 62		●	
	G4-10 Employment type, contract, and regional labor force status	62		●	
	G4-11 Report the percentage of total employees covered by collective bargaining agreements.	63		●	
	G4-12 Describe the organization's supply chain.	14-15	6.3.10/6.4.1- 6.4.2/ 6.4.3/6.4.4/6.4.5/ 6.8.5/7.8	●	
	G4-13 Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	4, 14-15		●	
	G4-14 Report whether and how the precautionary approach or principle is addressed by the organization	44-45		●	
	G4-15 List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	About This Report		●	
	G4-16 List memberships of associations (such as industry associations)	78		●	
Identified Material Aspects and Boundaries	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	76-77	5.2/7.3.2/ 7.3.3/7.3.4	●	
	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	About This Report		●	
	G4-19 List all the material Aspects identified in the process for defining report content.	70-71		●	
	G4-20 The Aspect Boundary within the organization	70-71		●	
	G4-21 The Aspect Boundary outside the organization	70-71		●	
	G4-22 Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	N/A		●	
	G4-23 Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	About This Report		●	
	Stakeholder Engagement	G4-24 Provide a list of stakeholder groups engaged by the organization.	8		●
		G4-25 Report the basis for identification and selection of stakeholders with whom to engage.	8	5.3	●
		G4-26 Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	9		●
G4-27 Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.		8		●	
Report Profile		G4-28 Reporting period (such as fiscal or calendar year) for information provided.	About This Report	7.5.3/7.6.2	●
	G4-29 Date of most recent previous report (if any).	About This Report		●	
	G4-30 Reporting cycle (such as annual, biennial).	About This Report		●	
	G4-31 Provide the contact point for questions regarding the report or its contents.	88		●	
	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	82-83		●	
	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	79	7.5.3/7.6.2	●	

Caterogy	G4 Contets Index	Page	ISO26000	Assurance	
Governance	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			●	
	G4-34 Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	30-31		●	
	G4-35 Report the process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.	30-31		●	
	G4-36 Report whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.	30-31		●	
	G4-37 Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body.	30-31		●	
	G4-38 Report the composition of the highest governance body and its committees	30-31	6.2/7.4.3/7.7.5	●	
	G4-39 Report whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organization's management and the reasons for this arrangement).	30-31		●	
	G4-40 Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body member	30-31		●	
	G4-41 Report processes for the highest governance body to ensure conflicts of interest are avoided and managed. Report whether conflicts of interest are disclosed to stakeholder	30-31		●	
	G4-42 Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.	54-55		●	
	G4-43 Report the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.	54-55		●	
	G4-44 Processes for evaluating the highest governance body's own performance	54-55		●	
	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	54-55		●	
	G4-46 Report the highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics.	54-55		●	
	G4-47 Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.	54-55		●	
	G4-48 Report the highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered.	54-55		●	
	G4-49 Report the process for communicating critical concerns to the highest governance body.	30-31		●	
	G4-50 Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.	30-31		●	
	G4-51 Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organization's performance	30-31		●	
	G4-52 The process for determining remuneration	30-31		●	
	G4-53 Report how stakeholders' views are sought and taken into account regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable.	30-31		●	
	G4-54 Report the ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country.	31		●	
	G4-55 Report the ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country.	31		●	
	Ethics and Integrity	G4-56 Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	45-46	4.4/6.6.3	●
		G4-57 Report the internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines.	45-46		●
		G4-58 Report the internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	45-46		●

Specific Standard Disclosures _ Economic

Caterogy	G4 Contets Index	Page	ISO26000	Assurance	
Ethics and Integrity	G4-EC1	Direct Economic Value Generated And Distributed	14-15	6.8.1- 6.8.2	●
	G4-EC2	Financial Implications And Other Risks And Opportunities For The Organization'S Activiti Due To Climate Change	14-15	/6.8.3/6.8.7/6.8.9	●
	G4-EC3	Coverage Of The Organization'S Defined Benefit Plan Obligations	63		●
	G4-EC4	Financial Assistance Received From Government	N/A		●
Indirect Economic Impacts	G4-EC7	Development And Impact Of Infrastructure Investments And Services Supported	50-52, 68-69		●
	G4-EC8	Significant Indirect Economic Impacts, Including The Extent Of Impacts	68-69		●

Specific Standard Disclosures _ Environmental

Caterogy	G4 Contets Index	Page	ISO26000	Assurance	
Materials	G4-EN1	Materials Used By Weight Or Volume	65	6.5.4	●
	G4-EN2	Percentage Of Materials Used That Are Recycled Input Materials	66		●
Energy	G4-EN3	Energy Consumption Within The Organization	67	6.5.3, 6.5.5	●
	G4-EN4	Energy Consumption Outside Of The Organization	67		●
	G4-EN6	Reduction Of Energy Consumption	67		●
	G4-EN7	Reductions In Energy Requirements Of Products And Services	67		●
	G4-EN8	Total Water Withdrawal By Source	66		●
Emissions	G4-EN15	Direct Greenhouse Gas (Ghg) Emissions (Scope 1)	67		●
	G4-EN16	Energy Indirect Greenhouse Gas (Ghg) Emissions (Scope 2)	67		●
	G4-EN17	Other Indirect Greenhouse Gas (Ghg) Emissions (Scope 3)	67		●
	G4-EN19	Reduction Of Greenhouse Gas (Ghg) Emissions	67		●
Compliance	G4-EN29	Monetary Value Of Significant Fines And Total Number Of Non-Monetary Sanctions For Non-Compliance With Environmental Laws And Regulations	N/A		●
Transport	G4-EN30	Significant Environmental Impacts Of Transporting Products And Other Goods And Materials For The Organization'S Operations, And Transporting Members Of The Workforce	66-67		●
Environmental Grievance Mechanisms	G4-EN34	Number Of Grievances About Environmental Impacts Filed, Addressed, And Resolved Through Formal Grievance Mechanisms	N/A		●

Specific Standard Disclosures _ Labor Practice and Decent Work

Caterogy	G4 Contets Index	Page	ISO26000	Assurance	
Employment	G4-LA2	Benefits Provided To Full-Time Employees That Are Not Provided To Temporary Or Part-Time Employees, By Significant Locations Of Operation	40-43, 63	6.4.4/6.8.7	●
	G4-LA3	Return To Work And Retention Rates After Parental Leave, By Gender	63	6.4.4	●
Labor/Management Relations	G4-LA4	Minimum Notice Periods Regarding Operational Changes, Including Whether These Are Specified In Collective Agreements	Notify before 30 days		●
Training and Education	G4-LA9	Average Hours Of Training Per Year Per Employee By Gender, And By Employee Category	62	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	61		●
Diversity and Equal Opportunity	G4-LA12	Composition Of Governance Bodies And Breakdown Of Employees Per Employee Category According To Gender, Age Group, Minority Group Membership, And Other Indicators Of Diversity	62	6.2.3/6.3.7 /6.3.10/6.4.3	●
Equal Remuneration for Women and Men	G4-LA13	Ratio Of Basic Salary And Remuneration Of Women To Men By Employee Category, By Significant Locations Of Operation	Equal salary and remuneration	6.3.7/6.3.10/6.4.3/6.4.4	●
Labor Practices Grievance Mechanisms	G4-LA16	Number Of Grievances About Labor Practices Filed, Addressed, And Resolved Through Formal Grievance Mechanisms	No cases		●

Specific Standard Disclosures_Human Rights

Caterogy	G4 Contets Index	Page	ISO26000	Assurance
Non-discrimination	G4-HR3	Total Number Of Incidents Of Discrimination And Corrective Actions Taken	No cases	●
Human Rights Grievance Mechanisms	G4-HR12	Number Of Grievances About Human Rights Impacts Filed, Addressed, And Resolved Through Formal Grievance Mechanisms	No cases	●

Specific Standard Disclosures_Society

Caterogy	G4 Contets Index	Page	ISO26000	Assurance
Local Communities	G4-S01	Percentage Of Operations With Implemented Local Community Engagement, Impact Assessments, And Development Programs	68-69	●
Anti-corruption	G4-S03	Operations With Significant Actual And Potential Negative Impacts On Local Communities	65	●
	G4-S04	Communication And Training On Anti-Corruption Policies And Procedures	65	●
	G4-S05	Confirmed Incidents Of Corruption And Actions Taken	65	●
Grievance Mechanisms for Impacts on Society	G4-S011	Number Of Grievances About Impacts On Society Filed, Addressed, And Resolved Through Formal Grievance Mechanisms	No cases	●

Specific Standard Disclosures_ Product Responsibility

Caterogy	G4 Contets Index	Page	ISO26000	Assurance
Product and Service Labeling	G4-PR5	Results Of Surveys Measuring Customer Satisfaction	59	●
Marketing Communications	G4-PR6	Sale Of Banned Or Disputed Products	No cases	●
	G4-PR7	Total Number Of Incidents Of Non-Compliance With Regulations And Voluntary Codes Concerning Marketing Communications, Including Advertising, Promotion, And Sponsorship, By Type Of Outcomes	No cases	●
Customer Privacy	G4-PR8	Total Number Of Substantiated Complaints Regarding Breaches Of Customer Privacy And Losses Of Customer Data	No cases	●
Compliance	G4-PR9	Monetary Value Of Significant Fines For Non-Compliance With Laws And Regulations Concerning The Provision And Use Of Products And Services	No cases	●

Financial Services Sector Supplemnet

Caterogy	G4 Contets Index	Page	Assurance	
Product Portfolio	FS1	Policies with specific environmental and social components applied to business lines	36-37	●
	FS2	Procedures for assessing and screening environmental and social risks in business lines	44, 60	●
	FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions	32	●
	FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines	33, 38	●
	FS5	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities	32-33, 38	●
	FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/ large) and by sector	56	●
Local Communities	FS13	Access points in low-populated or economically disadvantaged areas by type	34	●
	FS14	Initiatives to improve access to financial services for disadvantaged people	34, 51	●
Product and Service Labeling	FS15	Policies for the fair design and sale of financial products and services	32-33	●
	FS16	Initiatives to enhance financial literacy by type of beneficiary	32-33, 51	●

UN Global Compact / SDGs Index

UN GLOBAL COMPACT INDEX



DGB Financial Group 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	10 Principles	Page
	Human Right	
Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and	60, 62
Principle 2	make sure that they are not complicit in human rights abuses.	60, 62
	Labour Standards	
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	61, 62
Principle 4	the elimination of all forms of forced and compulsory labour;	63
Principle 5	the effective abolition of child labour; and	-
Principle 6	the elimination of discrimination in respect of employment and occupation.	39, 62
	Environment	
Principle 7	Businesses should support a precautionary approach to environmental challenges;	64, 65
Principle 8	undertake initiatives to promote greater environmental responsibility; and	64-67
Principle 9	encourage the development and diffusion of environmentally friendly technologies.	59-60
	Anti-Corruption	
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	64-65

DGB Financial Group SDGs



☑ Monitored ☑ Target Set

NO POVERTY	ZERO HUNGER	GOOD HEALTH AND WELL-BEING	QUALITY EDUCATION	GENDER EQUALITY
CLEAN WATER AND SANITATION	AFFORDABLE AND CLEAN ENERGY	DECENT WORK AND ECONOMIC GROWTH	INDUSTRY, INNOVATION AND INFRASTRUCTURE	REDUCED INEQUALITY
SUSTAINABLE CITIES AND COMMUNITIES	RESPONSIBLE CONSUMPTION AND PRODUCTION	CLIMATE ACTION	LIFE BELOW WATER	LIFE ON LAND
PEACE, JUSTICE AND STRONG INSTITUTIONS	PARTNERSHIPS FOR THE GOALS			

DGB Financial Group 2016-2017 Integrated Sustainability Report

Contact Information

If you have any questions about our sustainable management or this Report, please contact us using the following methods:

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DGB Financial Group



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