



2017 18

DO GLOBAL BEST.

DGB Financial Group
Integrated Sustainability Report
2017 - 2018





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.

ABOUT THIS REPORT

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 twelfth sustainability report written by DGB Financial Group, which was prepared engaging the group's sustainable management strategies and the index of the report. In addition, diverse opinions collected through communications with internal and external stakeholders as well as detailed reports for sustainable management strategies and its outcomes and plans are included in this report to share the vision of sustainable management our company pursues and reflect our willing to strengthen our operation.

* 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, 2017 through December 31, 2017, and some contents include the data for the first half of 2018. 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 21.

GUIDELINE

This report was mainly written according to the Core Option of the GRI (Global Reporting Initiative) Standards. It also adopted the Integrated Reporting Framework of IIRC (International Integrated Reporting Council), ISO 26000, UNGC's 10 principles and SDG's 17 goals.

ASSURANCE

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

INQUIRY

This report is available in both Korean and English versions and published on both PC and mobile web sites to enhance information accessibility for stakeholders. Please contact us if you have any questions or comments about the report.

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2017-2018

DGB FINANCIAL
GROUP

2017-2018
Integrated Sustainability
Report

CONTENTS

DGB FINANCIAL GROUP PROFILE

Message from the CEO	02
Group Profile	06
2017 CSR Highlights	09
Our Business Model	10
Sustainable Management Promotion System	12
Stakeholder Engagement	14
Materiality Assessment 2017	20

FOCUS ON SUSTAINABILITY

FOCUS ISSUE 1: Becoming a Global Corporation	24
FOCUS ISSUE 2: SDG's Story of DGB Financial Group	26
FOCUS ISSUE 3: Strengthening Human Rights Protection Responsibility	30

DELIVERING ON OUR STRATEGY

Future-Oriented Strategic Management	32
Customer Satisfaction Management	38
Enhancement of Organizational Competence	46
CSR Risk Management	52
Creating Shared Value	59

BOARD OF DIRECTORS

	68
--	----

FINANCIAL SECTION

Management's Discussion & Analysis - Financial	72
Management's Discussion & Analysis - Non-Financial	77
Independent Auditors' Report	84
Consolidated Statements of Financial Position	85
Consolidated Statements of Comprehensive Income	86
Consolidated Statements of Changes in Equity	87
Consolidated Statements of Cash Flows	88
Notes to the Consolidated Financial Statements	91

APPENDIX

Third-party Assurance Statement	172
GHG Verification Statement	174
Major Awards Performance and External Verification Certification Status	175
GRI Standards Index	176
UN Global Compact/SDGs Index	178

MESSAGE FROM THE CEO



Dear Stakeholders,

Newly appointed as CEO of DGB Financial Group, I, Kim Tae-oh will do my best to transform our Group's governance as a sound and more efficient. And we will establish a strong foundation of sustainable growth that generate social and environmental values with balance initiatives.

Over the half century, DGB Financial Group has grown into a financial institution that represents the region of Daegu-Gyeongbuk, DGB Daegu Bank, the matrix of DGB Financial Group celebrated the 50th anniversary last year. Daegu Bank started with new slogan "DGB's New Start for the Next 50 years" to be a reliable tree for 100 years growth vision.

The year 2017 was a year that brought significant amount of internal and external success to DGB Financial Group. DGB Financial Group's primary subsidiary DGB Daegu Bank focused on maximizing the synergistic effect among the Group's subsidiaries and as a result, DGB Financial Group generated consolidated net income of KRW 302.2 billion with a stable 5.0% year-on-year increase.

With the continued support of the stakeholders, DGB Financial Group has been able to publish its sustainable management report every year. After publishing the first report in 2006, DGB is already publishing its 12th report this year. Under our management philosophy, 'Dreams and Prosperity for Our Community', we are striving to become the 'Best Partner for Your Future'. To become this reliable partner of yours, we will continue marching ahead with 'passion', 'service' and 'honesty' as our core values and, work to become an example of what a great, sustainable financial corporation should be.

However the year of 2017 was also the year that we experienced a crisis due to our wrong business practices and governance inherited of the past. It was the biggest challenge we've ever faced since the establishment of the Group but we recognized this period as a growth period and we will continue to work on establishing transparent management system and sound corporate culture that the society demands.

Learning from this experience, DGB Financial Group will mark the year 2018 as the starting year for restoring the trust and prestige. DGB Financial Group's new vision is to become a small but strong financial group, a group with transparent governance and a group that has a high level of employee satisfaction. To realize this vision, we will make [Communication], [Performance], [Human Resources] our three core management principles and implement effective strategies for each principle.

DGB Financial Group will support the core principles of the UN Global Compact (UNGC) such as human rights, labor, environment and anti-corruption and establish a foundation for sustainable growth for all subsidiaries can share and endeavor to earning the community's trust. We would like to express our deepest gratitude for the trust and support our stakeholders have shown over the years and promise that we will do our utmost to become the best partner that brings a brighter future.

Thank you.

Kim, Tae-oh
CEO of DGB Financial Group

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

DGB FINANCIAL GROUP PROFILE

Group Profile	06
2017 CSR Highlights	09
Our Business Model	10
Sustainable Management Promotion System	12
Stakeholder Engagement	14
Materiality Assessment 2017	20

GROUP PROFILE

INTRODUCTION

DGB Financial Group was launched in 2011 for better financial service and secure the foothold for another evolutionary step. Based on Daegu Bank, which is the first local bank in Korea, four affiliates, 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 global financial group based on diversifying the sources of profits, creating synergy among the affiliates and expanding global network. As of the end of December 2017, DGB Financial Group owns 100% of stakes of seven subsidiaries.

* As of December 2017

NUMBER OF EMPLOYEES



NUMBER OF CUSTOMERS (million)



NUMBER OF BRANCHES IN KOREA AND OVERSEAS*

312 / 3

CREDIT RATING DOMESTIC (Korea Ratings Corporation) / OVERSEAS

AAA / A2



TOTAL ASSET (KRW in hundred million)	SALES (KRW in hundred million)	BUSINESS PROFITS (KRW in hundred million)	NET PROFITS DURING THE TERM (KRW in hundred million)
567,509	36,193	4,092	3,022**

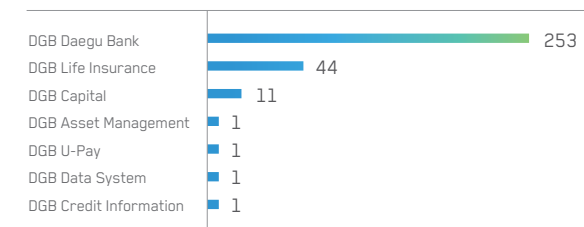
* Included 1 of overseas corporation and 1 of overseas offices ** Group consolidation basis, majority shareholder's net income

DGB FINANCIAL GROUP'S SUBSIDIARIES

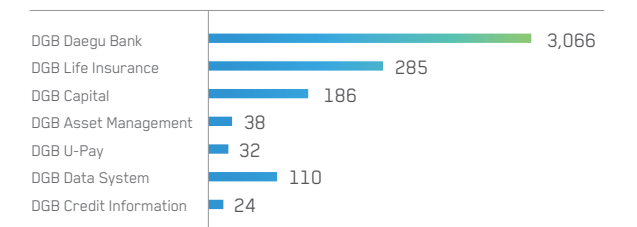


BUSINESS STATUS

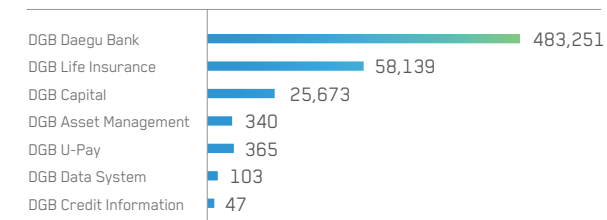
NUMBER OF BRANCHES



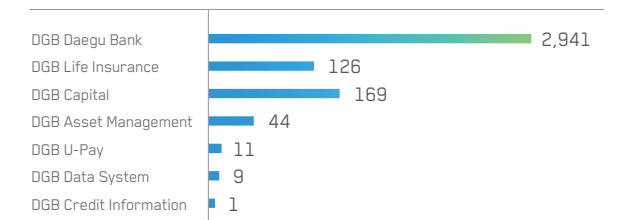
NUMBER OF EMPLOYEES



TOTAL ASSET (KRW in HUNDRED MILLIONS)



NET INCOME (KRW in HUNDRED MILLIONS)



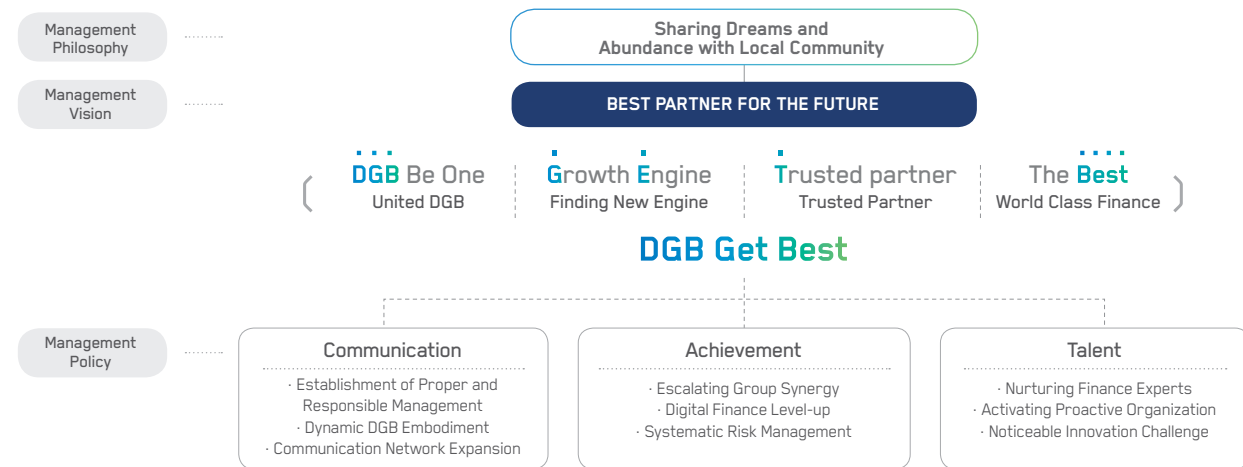
* As of the end of Dec. 2017

** 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

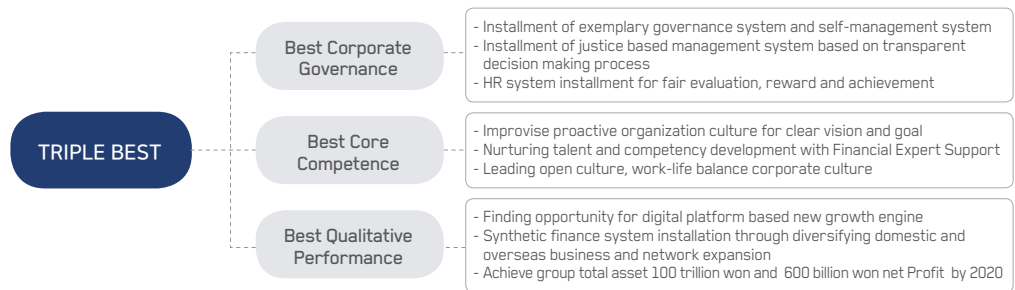
MANAGEMENT POLICY AND FUTURE

DGB Financial Group has declared "Best Partner Building the Future Together" as management vision to become a first-class financial group as a trusted partner in creating a new growth engine and we made communication, performance, and human resources the three main management policies, establishing responsible management, creating synergies and fostering financial experts.

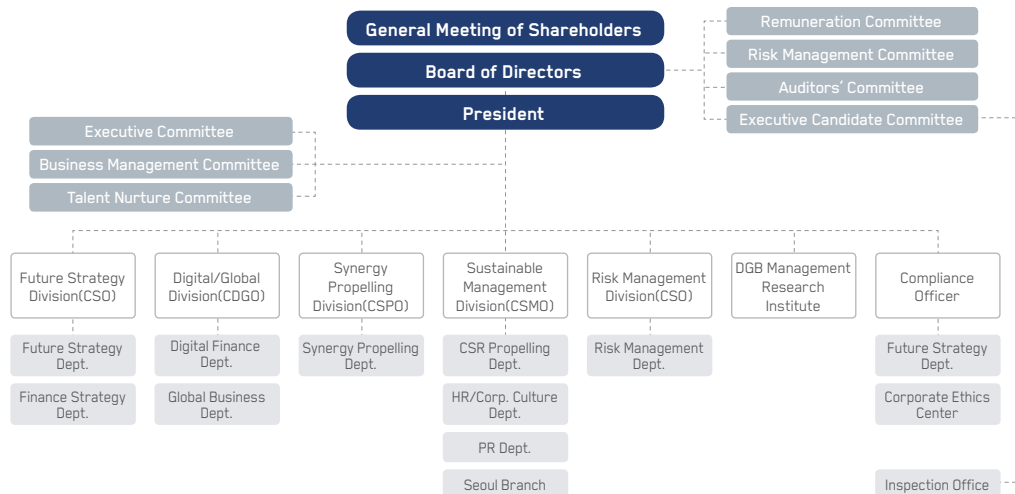
Management Policy



DGB in 2020



Organization Chart



2017 CSR HIGHLIGHTS

<p>FUTURE-ORIENTED STRATEGIC MANAGEMENT</p> <ul style="list-style-type: none"> Take over Cam Capital Bank, Cambodia Open Asset Consulting System applied Big Data Listed in the FTSE4Good Index for 7 consecutive years Listed in DJSI Asia-pacific / Korea for 8/9 consecutive years 	<p>Net Income (KRW in billions)</p> <p>302.2 *</p> <p>* Group Consolidation Basis Majority Shareholders' Equity Net Income</p>	<p>Ranked 1st in the local bank sector of KSI</p> <p>No.1</p>
<p>CUSTOMER SATISFACTION MANAGEMENT</p> <ul style="list-style-type: none"> FSS Financial Consumer Protection Assessment: Best Bank for 11 consecutive years Launch I-M Bank 2.0 Open Smart Deposit/Fund Center Contributions to the SRI Public Service Fund 22 trillions 	<p>Customer Satisfaction (Points)</p> <p>95.7</p>	<p>Exposure of Customer Information</p> <p>0</p>
<p>ENHANCEMENT OF ORGANIZATIONAL COMPETENCE</p> <ul style="list-style-type: none"> Average training time per hours: 68 hours Operate 2017 'DGB Month for Colleague' (BM) Patent Registration 8 (apply for 10) 	<p>Employees Satisfaction (Points)</p> <p>95</p>	<p>Acquisition of certification (unit: number)</p> <p>1,068</p>
<p>RISK MANAGEMENT</p> <ul style="list-style-type: none"> Improvement of Risk Management System respond to Basel Pila 3 Establish DGB Human Rights Management Center Operate internal control system 286,672 cases Operate Green Touch Program Carbon and Emissions Reductions 5,979kg 	<p>Violation of Laws and Regulations</p> <p>0</p>	<p>Sales of Green Financial Products (KRW in millions)</p> <p>564,170</p>
<p>CREATING SHARED VALUE</p> <ul style="list-style-type: none"> Operate 'Bluebird 100 Senior Happy Workspace' Partner Satisfaction score 98 Jobs created by DGB Social Contribution Foundation 31 Participants in Voluntary Service 18,515 	<p>Number of Companies Received Management Consulting Service</p> <p>92</p>	<p>Subject to Financial Education (Persons)</p> <p>35,681</p>

* Group (Consolidated Net Income to Controlling Shareholders' Equity)

OUR BUSINESS MODEL

Financial products and services developed and provided by DGB Financial Group affect society. As a financial corporation, which provides financial products and services, and as an employer of 3,700 employees, DGB Financial Group affects many people's life directly and indirectly in the community.

The business model of DGB Financial Group is linked to the Impact Value Chain, which can create added value throughout the entire management process, providing direct and indirect value to stakeholders of DGB Financial Group.

INPUTS

FINANCIAL CAPITAL

Total Asset (KRW in hundred million)	534,624
Net Equity (KRW in hundred million)	42,128
Market Capitalization (KRW in hundred million)	17,845
Deposit (KRW in hundred million)	17,891

MANUFACTURED CAPITAL

Number of Branches	312
Number of Business Countries	3
Number of ATM	2,211

HUMAN CAPITAL

Number of Employees	3,797
Training Cost per Capita (KRW in thousand)	925
Labor Cost & Benefits (KRW in million)	457,186

INTELLECTUAL CAPITAL

Fintech(IT) Investment (KRW in million)	2,712
Number of Online Customers (ten thousand)	229
(BM) Number of Patent Registration	8 registered (apply 10)

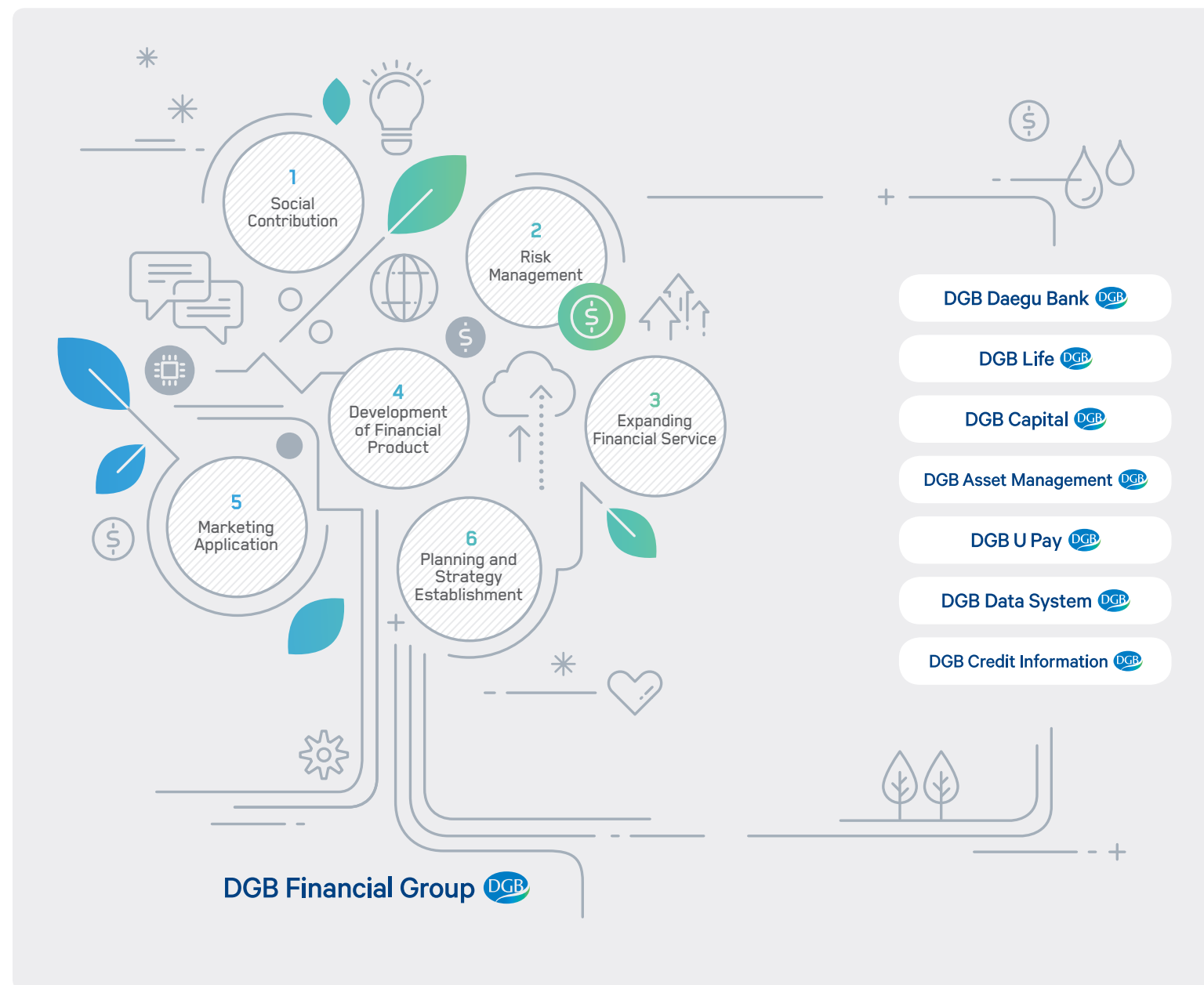
NATURAL CAPITAL

Water Usage (ton)	141,045
Green Purchase (KRW in million)	6,075
Energy Consumption (TJ)	160.0
Number of Green Financial Products	13

SOCIAL AND RELATIONSHIP CAPITAL

Social Contribution Expense/ Net Profit (%)	10.5
Number of Volunteers	18,515
Number of Customers (ten thousand)	345

VALUE CREATION ACTIVITIES & VALUE CHAIN



OUTPUTS

FINANCIAL CAPITAL

Total Asset (hundred million KRW)	567,509
Sales (hundred million KRW)	36,193
Net Profit (hundred million KRW)*	3,022
Sales Profit (hundred million KRW)	4,110

* Group (Connecting Controlling Shareholders Net Profit)

MANUFACTURED CAPITAL

Number of Branches	312
Number of Business Districts	3
Number of ATM	2,211

HUMAN CAPITAL

Number of Employees	3,797
Number of Female High-Rank Administrator	303
Turnover & Retirement Rate (%)	3.8
Employee Satisfactory (points)	95

INTELLECTUAL CAPITAL

Number of I-M Bank Customers (ten thousand)	25
Number of Online Customers (ten thousand)	229
(BM) Number of Patent Registration	8 registered (apply 10)

NATURAL CAPITAL

Green Financial Product Sales (KRW in millions)	564,170
Green House Gas Emission (tCO2e)	20,450
Energy Reduction	-2.8%

SOCIAL AND RELATIONSHIP CAPITAL

Customer Satisfaction (Points)	95.66
Partner Company Satisfactory (Points)	98
Low-income Class Finance (Loan) (KRW hundred million)	2,386
Number of Companies Received Management Consulting Service	92

OUTCOMES(IMPACT)

Shareholder & Investor

- Secure stable income and growth through diversification of portfolio.
- Enhance stockholder's right and profit
- Financial performance fair distribution

Customer

- Increase customer satisfaction and number of main banking customer by providing products and services that consider customer's needs

Employee

- Create opportunity to recruit new employees
- Invest to the development of competency, gender equality and human rights, enhance satisfaction and recruit talents through supporting work-life balance

Local Community

- Provide products and services for SMEs and neglected class, contribute to the development of society through participation in local community and social contribution

Environment and Future Generation

- Contribute to sustainability of the mankind and the environment through minimizing environmental impact, responding to climate changes and environmental preservation activities

SUSTAINABLE MANAGEMENT PROMOTION SYSTEM

SUSTAINABLE MANAGEMENT STRATEGY OF DGB FINANCIAL GROUP

DGB Financial Group established 5 strategic directions and 10 strategic challenges in connection with Group's management policy and sustainable management strategy to realize its management philosophy of 'Sharing Dreams and Prosperity with the Local Community' and Group's vision of 'Best Partner Building with the Future Together'. DGB Financial Group is strengthening executional aspects continuously by deriving concrete implementation tasks for each 10 strategic challenges and establishing its goal and performance indicator.

Sustainable Management Strategy Direction of DGB

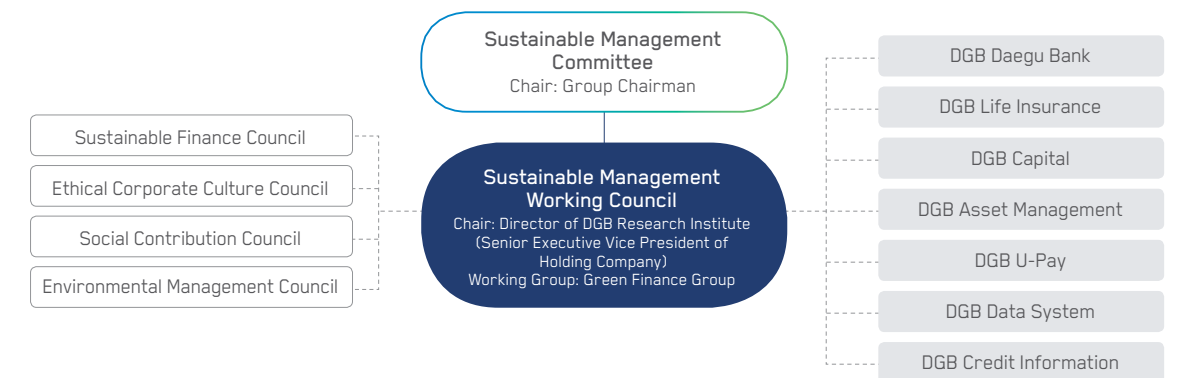


DGB FINANCIAL GROUP SUSTAINABLE MANAGEMENT COMMITTEE

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 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 (sustainable finance, ethics corporate culture, social contribution, environmental management council) planning and promoting detailed sustainability strategies and actions plans. Any material issues over sustainable management discussed at the 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



COMMITMENT TO EXTERNAL VOLUNTARY AGREEMENTS



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



The CEO Water Mandate
CEO Water Mandate resource management practices, including rainwater recycling



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



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



UN SDGs
Distinguish SDGs that are comprehensible to DGB Finance Group



Carbon Disclosure Project
Annual signatory since 2007 Progress

FINANCIAL INITIATIVES



DJSI, Dow Jones Sustainability Indexes
Qualified for the DJSI Asia Pacific for 8 consecutive years
Qualified for the DJSI Korea for 9 consecutive years



Carbon Disclosure Project
Named an 'Excellent Performer' for 6 consecutive years in responds of CDP weather changes



FTSE4Good Indexes
Qualified for the FTSE4Good Index for 7 consecutive years

STAKEHOLDER ENGAGEMENT

SELECTION & CLASSIFICATION OF STAKEHOLDERS

DGB Financial Group has categorized its' stakeholders into three major groups, which is, core, strategic and other stakeholders according to the legal, financial and operational responsibility and their influence of the criteria provided by the ISO26000, 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.

Stakeholder Communication Channel

CORE Employee (including Labor Union)

· Intranet (Please Help, Please Change/ Employees' Wish Letters)	Regular
· Employee Satisfaction Survey	Regular
· Labor - Management Meeting and Conference	Regular
· Vice-manager Meeting	Regular
· CEO Meeting	Regular

CORE Customer

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

STRATEGY Stakeholder & Investor

· DGB Financial Group Website (DGB IR)	Regular
· General Shareholders' Meeting	Regular
· Board Meeting	Regular
· IR Activities	Regular

STRATEGY Suppliers

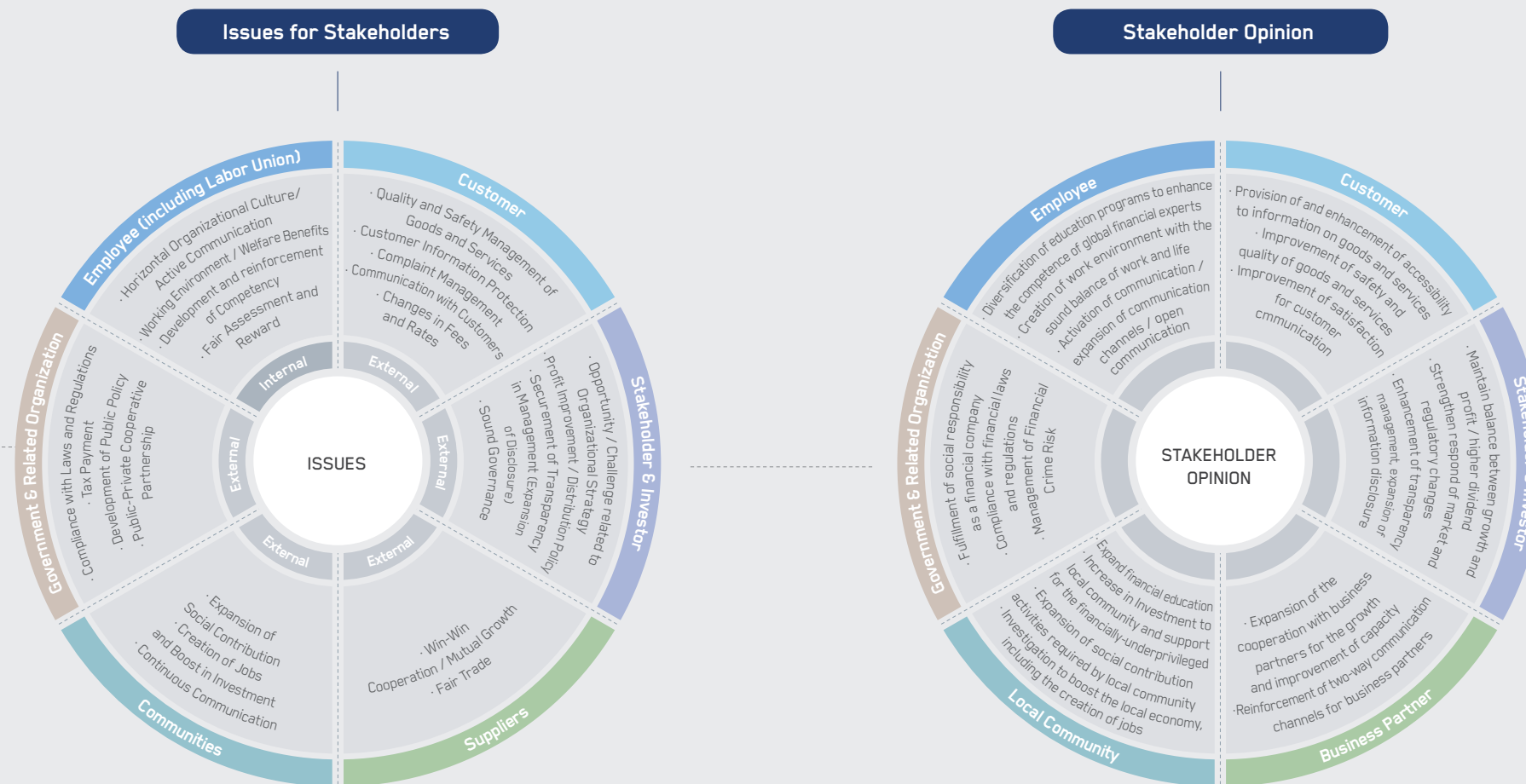
· Website (Online Civil Petition, Financial Accident & Irrationality Report)	Regular
· Business Partners' Meeting	Regular

OTHERS Communities

· Website (DGB Social Contribution to Local Community)	Regular
· DGB Daegu Bank Social Contribution Activity Report	Regular
· DGB Companion Corps/DGB Economic Education Corps	Regular
· Love Your Hometown Campaign	Regular
· Dream Education Project	Regular
· DGB University Student Supporters	Regular
· DGB Wednesday Lecture	Regular

OTHERS Government & Related Organization

· Website	Regular
· Government-Funded Research Project	Regular
· Hearing & Conference	Regular
· Interview and Survey	Regular



STAKEHOLDER COMMUNICATION CHANNEL

Financial products and services developed and provided by DGB Financial Group affect society. In addition, as a financial corporation, which provides financial products and services, and as an owner of 3,700 employees, DGB Financial Group affects many people's life and communities directly and indirectly. DGB Financial Group always listens to stakeholder opinions through

diverse communication channels that reflect characteristics of each group. 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.

DGB's Response

CORE Employee

- Big Data Case Study Seminar
- Operate 'DGB Fellow Month'
- DGB Youth Frontier
- Live talk with the president of bank
- Smart Leisure-Tech Campaign

CORE Customer

- Strengthen non-facing service (Launch I-M Bank 2.0)
- Safety Disk Service
- 'Open Banking Service'
- DGB Chamsori Advisory Panel
- Operating CS manager per branch
- Operating branches with 'Flexible Operating Hours'

STRATEGY Stakeholder, investor

- Opening up of a global market (Take over Cam Capital in Cambodia, concluded MOU with Bank of Baroda, India)
- Seminar on investment overseas market
- Disclosure of transparent management / presentation of performances and provision of IR data

STRATEGY Business Partner

- Business partners' win-win meeting
- Provision of management consulting service to business partners

OTHERS → STRATEGY Local Community

- Establish 'Bluebird 100 Green Project'
- 'Financial JOB GO Finance Camp'
- DGB 'GaNaDa Finance Class'
- Financial support for corporations damaged by AI
- Financial support for corporations damaged by earthquakes in Pohang, Gyeongsangnam-do

OTHERS Government /Local Government/ Related Organization

- Compliance with the Code of Ethics
- Establishment and implementation of tax strategies for tax compliance in accordance with the national tax system
- Education on the Improper Solicitation and Graft Act
- Respond of queries and consultation of government, parliament and regulatory agencies

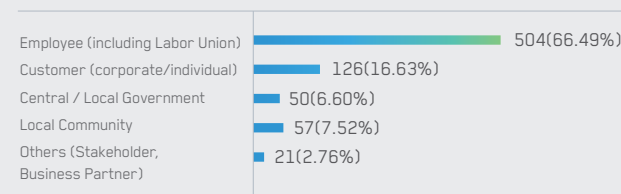
STAKEHOLDER SURVEY

OVERVIEW

For 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 manage in order to fulfill its social responsibilities and grow into a sustainable business.

TARGET OF THE SURVEY (PERSONS)

758



SURVEY ITEM

TREND	External economic, social and environmental trends influenced by DGB Financial Group (source: global CSR agenda)
IMPACT	Impact: Economic, social and environmental impacts of DGB Financial Group (source: GRI Standards)
INTERNAL COMPETENCY	Issues of Internal Competency: Internal competency issue by each financial and non-financial performance of DGB Financial Group (source: IIRC (IR))

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 'Enhance IT security, increased demands for financial accidents / crime prevention.' 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 as same as last year. Lastly, in the 'Internal Competency' category where the group-wide 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 | We analyzed each of trend, impact and internal competency by stakeholders. Most of stakeholders chose 'Growing demands for stronger IT security and stricter rules to prevent accidents in financial transaction' as the most important issues in 'Trend', and employees and business partners responded 'Growing demands for transparency and ethics' and stockholders, investors and community responded 'Increases access to financial service' as the issue to be addressed actively. As for the 'Impact' issues, all stakeholders selected 'Protection of customers' personal information' as the most important issue. Concerning the 'Internal Competency' issues, the employees, individual customer and business partner chose 'Management of reputation and brand' and corporate customer, stockholders and investors chose 'Loyalty and motivation to improve performance' as important issues.

SURVEY RESULTS



Stakeholder Interviews

DGB Financial Group selected representatives for each stakeholder group such as individual and corporate customers, business partners, employees and communities and collected their opinions through interviews to realize sustainable management that will create a better future.

▶ Diversification of Financial Products and Strengthening Customer Satisfaction

"The portion of deposit is decreasing with the recent changes in the financial market. General services will be decreased more than now and financial institutions will be sustainable based on the customer service customer response services through loan service or various financial products. I expect that DGB Financial Group will maintain customer satisfaction by developing various financial products and enhance the professionalism of its internal staffs."

Woo Hyun, Cho (Individual Customer)

▶ Loyalty and Motivation to Improve Performances

"It is necessary to raise corporate value and stockholder value to improve profitability of DGB Financial Group, and increase loyalty and motivation of employees through suggestion of long-term growth roadmap. I think that it is necessary to have a process to think and improve about how to cooperate with the members to achieve the best outcomes for giving loyalty and motivation for improvement of performances."

Bong Yeol, Kim, Section Chief of DGB Financial Group (Employee)

▶ Social Contribution for Nurturing Future Generation

"Social contribution activities of DGB Financial Group have helped to spread awareness of environmental protection within Daegu and Gyeongbuk areas. In particular, the 'NIE Energy Journal Contest' of DGB Financial Group helped children to get a habit to read newspapers and to raise interest in environmental issues such as global warming. I wish DGB provide various social contribution activities that will help children to grow into a social worker who can have interest in social issues and solve those together in the future."

Hyeon Ju, Im, Teacher in Yigok Middle School (Community)

▶ Comfortable Bank, Financial Institutions Anyone can Visit

"I think healthy community makes healthy corporation. I hope that DGB can become a corporation for local residents with cultural events or social contribution activities. I hope that DGB can be a comfortable bank that can be visited even with small amount of money and a financial institution that anyone can visit. I also look forward DGB to play an active role in supporting young entrepreneurs on local stat-up and small business owners as the bank's VIPs. I hope that DGB Financial Group precedes their thoughts globally having interests in global changes and practices locally."

Gyeong Sook, Ahn, Manager of Dr. Ahn Natural Love Research Institute (NGO)

▶ DGB Financial Group, Fast Walker in Financial Industry

"Fast movement is needed in preparation for the 4th Industrial Revolution. Financial industry is undergoing various changes such as diversification of financial fund portfolio, establishing strategy through Big Data analysis, start-up/venture, non-face-to-face financial digital banking and mobile banking. I expect that DGB Financial Group becomes a fast walker who discovers new issues that other financial companies do not know and act than a bench marker in rich market, in response to the changes we face. I think that it is necessary to check whether talented people who will actively respond such changes are in DGB and measure the efforts to strengthen the competency of the internal talents."

Hyon Geun, Jung, Executive director of Samwoo (Corporate Customer)

▶ From a Company that Want to Work For to Company that Want to Work With

"Local business and industries that represent Daegu district are gradually disappearing. It is believed that this phenomenon will lead to the renunciation of young people in Daegu and will eventually have a great impact on economy of Daegu, Gyeongsanbuk-do in the future. I expect that they will prepare the foundation where young people can work in the community by supporting SMEs, young start-ups and small businesses. As a result, this will contribute to the economical development of Daegu district, and an increasing number of corporations will be a great support for the sustainable management of DGB Financial Group."

Seong Soo, Kim, Vice-captain of DGB Dream Tree Educational Foundation (Business Partner)

▶ Creating Future Profits of Corporation by Solving Social Issues

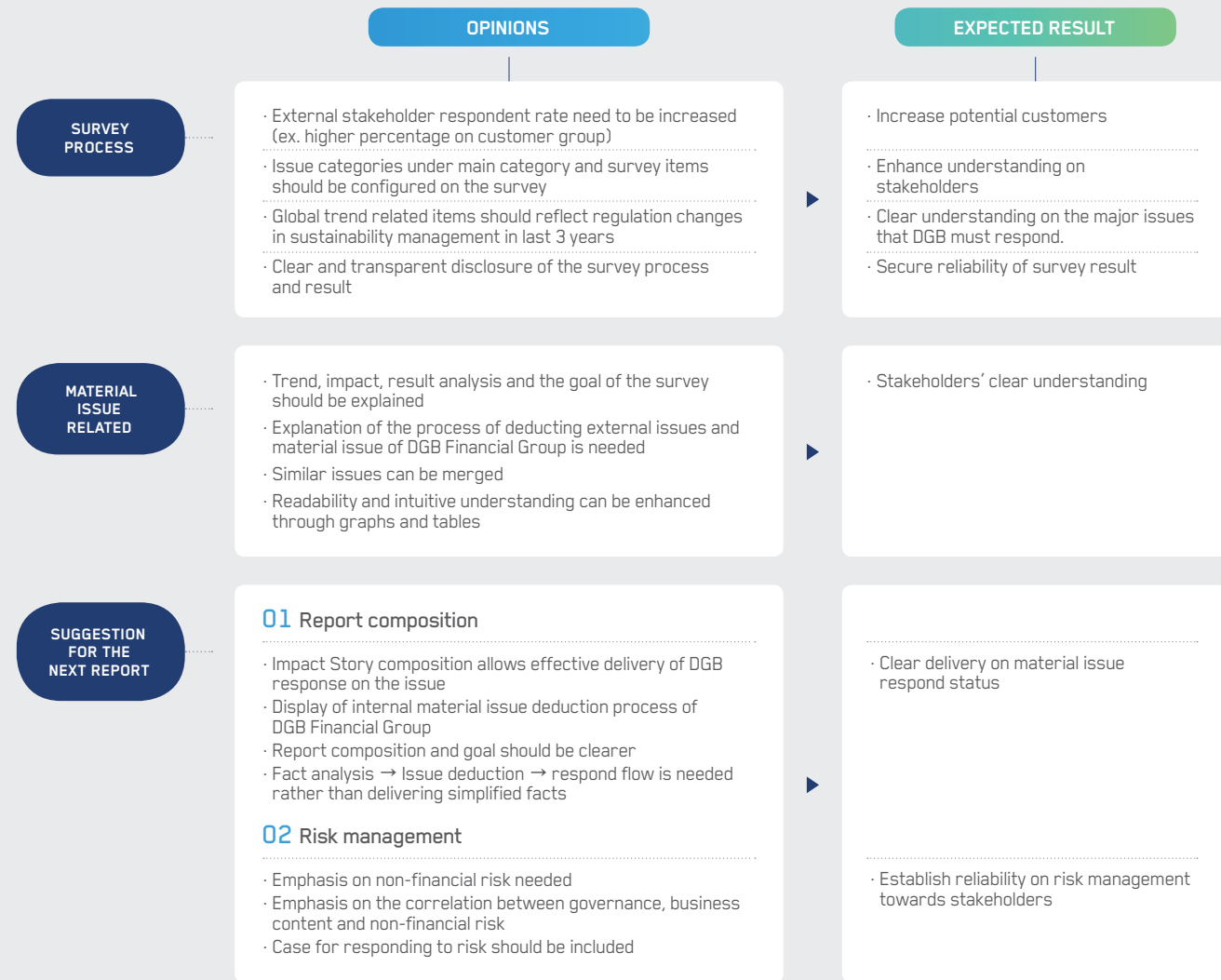
"The problem of social polarization is becoming serious and this will have negative impact on corporate management activities. It is necessary to solve social problems and establish strategies that enable corporations to become sustainable in order for corporations to survive. DGB Financial Group actually needs to support start-ups and SMEs. In particular, I think it is necessary to support socially vulnerable classes, SMEs and start-ups in cooperation with local governments and credit guarantee institutions. In the end, activities will become a new growth engine for DGB Financial Group and will help to improve corporate reputation."

Min Gyu, Park, Vice-director of Daegu Gyeongbuk Development Institute (Public Institution)

Expert Meeting

DGB Financial Group held an Expert Meeting of 2018 DGB Financial Group Integrated Sustainability Report, with prominent experts from economic, social and environmental fields.

Opinions on Report Writing



Angela Joo-Hyun Kang /
President of Global Competitiveness Empowerment Forum

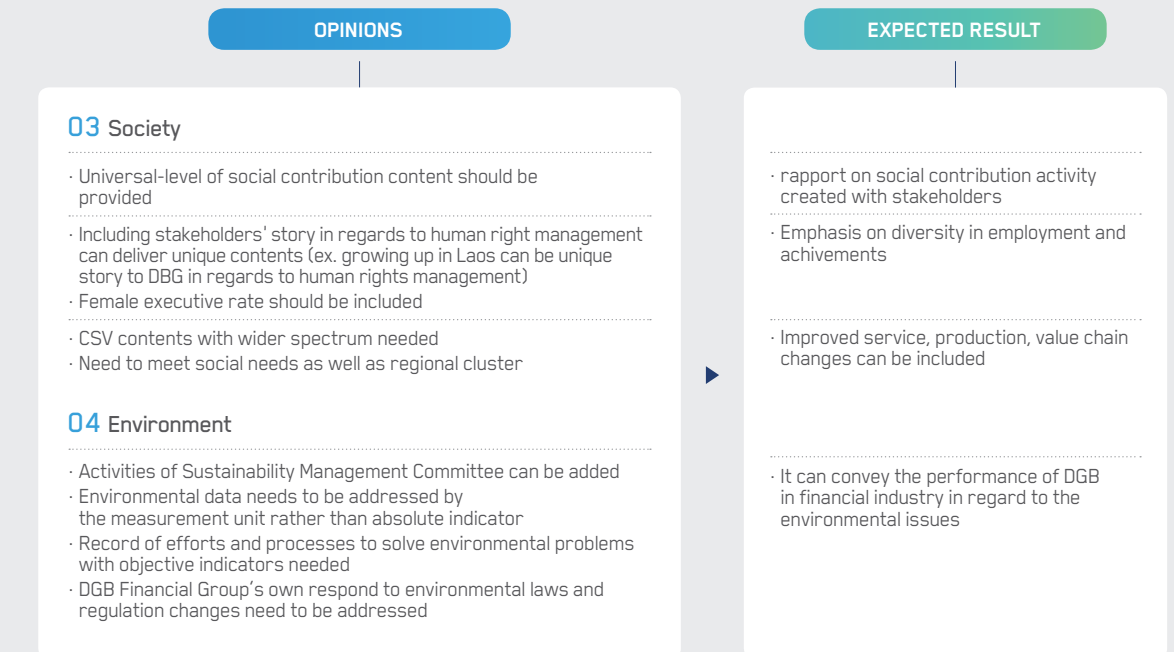


Kim Jae-Eun /
Research Fellow of the Institute for Industrial Policy Studies



Joo-Won, Park /
Chife of Sustainability Management Foundation CSR Center

Opinions received from the meeting were reviewed internally. Of these, we tried to incorporate immediately applicable opinions into this report, and we will focus on the future direction of the DGB financial group in the mid to long term.



Experts' Opinions apart from Report Writing

Opinion	Background Information
<ol style="list-style-type: none"> Needs portfolio improvement expanding investment in environment-related companies Becoming a member of Korean Stewardship Code recommend Socially responsible investment in asset management should be increased 	<p>Global</p> <ul style="list-style-type: none"> Active debate on business activities and climate change Non-financial information will be required to be provided in EU S&P (US based financial service company) will count climate change factor in their evaluation Bank for International Settlements (BIS) will reflect climate change into the regulation formula. <p>Domestic</p> <ul style="list-style-type: none"> Accordance to the current administration which value social responsibility National Pension has newly formed social response investment committee, which will reflect in the investment decisions as a forecast.



Lee Jong-O /
Executive Director of Korea Sustainability Investing Forum



Im Dae-Woong /
President of Eco & Partners



Jung Yoo-Jin /
Editor-in-Chief Vice Editor of Chosun Ilbo Better Future

MATERIALITY ASSESSMENT 2017

MATERIALITY ANALYSIS PROCESS

DGB Financial Group selected important issues of sustainable management to be considered in management activities by conducting materiality assessment based on sustainability context, materiality, completeness and stakeholder inclusiveness that is recommended by ISO 26000 and GRI Standards.

The report content was structured based on selected ma-

terial issues, with a focus on issues of high concern to our stakeholders and those with a high impact on the Group's management strategies and goals. In addition, opinions of external experts were collected and materiality for each issue and its impact were discussed internally to enhance completeness and validation of materiality assessment.

STEP 1

IDENTIFICATION: Identification of sustainable management issues through internal and external environmental analysis

Global Standard Analysis: Review report requirements of relevant standards such as GRI Standards, ISO 26000, UNGC and DJSI

Media Analysis: Analyzed 8,489 valid articles released in last three years (from 2015 through 2017) to figure out the public perception of the Group to identify relevant issues (Comparative analysis with media survey results of other financial institutions)

In-depth Stakeholder Interview: Carried out in-depth interviews with 7 stakeholders representing each stakeholder group in order to identify detailed sustainability issues

Benchmarking: Studied 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: Prioritization of material issues through materiality analysis

Relevance Assessment: Drew a total of 56 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 758 stakeholders from Jan 11 to 23, 2018 and selected 20 material issues by prioritization process

STEP 3

VALIDATION: Verification of the effectiveness

- Holding a TFT meeting and Expert Meeting to review whether the selected 20 material issues are significant or not
- Determined the reporting level of core issues in terms of scope, boundary, and period, and established a reporting plan

STEP 4

REVIEW: Overall review to reflect in the report

- 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 assessed the materiality of various sustainable issues of the Group to internal and external stakeholders according to the degree of risk, opportunity and impact. Issues that the Group employees and stakeholders were most

interested in 2017/18 were "Strengthening IT Security (Protection of Personal Information)", "Prevention of Financial Accident/Crime", "Transparency and Ethics Management" and "Securing Talents and Strengthening Competency".

MATERIALITY MATRIX

- Future-oriented Strategic Management
- Customer Satisfaction Management
- Enhancement of Organizational Competence
- CSR Risk Management
- Creating Shared Value



STRATEGY	TASKS	IMPORTANT ISSUE	STAKEHOLDERS	RANKING INCREASES	REPORT
FUTURE-ORIENTED STRATEGIC MANAGEMENT	Sustainable Performance	Digitalization of Finance (Utilization of FinTech and Big Data)	Employees, Customers	↑ 1	33
		Responding to Continuing Global Low-Growth and Financial Crisis	Employees, Stockholders, Investors	NEW	34
	Sound Governance	Non-financial Competitors appeared (Mobile Competitors)	Employees	NEW	33,34
		Economical Performances	Employees, Stockholders, Investors	↓ 3	32
CUSTOMER SATISFACTION MANAGEMENT	Sustainable Performance	Growing Demands for Transparency and Ethic Management of Corporation	All Stakeholders	↑ 3	54,55
		Protection of Customer Privacy	Employees, Customers	↑ 3	39
	Sound Governance	Strengthening IT Security, Growing Demands for Financial Accident / Crime Prevention	Employees, Customers	↑ 1	55
		Responding to Diverse Customer's Demand (Customer Satisfaction, Strengthening Communication)	Employees, Customers	NEW	39,40
ENHANCEMENT OF ORGANIZATIONAL COMPETENCE	Human Resource Development and Support	Growing Demand for Accessibility to Financial Services	Employees, Customers	↓ 2	41
		Strengthening Responsibility for Financial Products and Services (Responsible Investment and its Operation, Proper Product Sales, Clear Explanation, etc.)	Employees, Customers, Partners, Local Community	-	43,44
	Employee Satisfaction Management	Increasing Importance of Securing Talents and Competency Building	Employees	↓ 1	47
		Respect for Employee's Diversity and Provide Equal Opportunities Employment (Gender, New, Temporary, Turnover)	Employees	↓ 2	48,77
RISK MANAGEMENT	Crisis and Change Management	Improvement of Employee's Satisfaction (GWP), Stakeholder Engagement (Expanding communication channels, responding concerns)	Government, Local Government, Employees, Local Community	↑ 2	77
		Respond to Changes in Financial Regulation	Employees, Government, Local Government	NEW	52,53
	Win-win Partnerships Community Engagement and Development	Compliance with Laws and Prohibition of Competition Inhibition	Employees, Government, Local Government, Competitors	-	54
		Anti-corruption (Strengthening internal control and protecting whistle blower)	Employees	↑ 14	54
CREATING SHARED VALUE	Participation of Stakeholders (Expand communication channel, respond to concern)	Management and Evaluation of Human Right Protection Responsibility and its impact	Employees, Local Community	↑ 13	30,54
		Participation of Stakeholders (Expand communication channel, respond to concern)	All Stakeholders	NEW	60
		Specialized Community Social Contribution Activities (Participation, development and investment of the local community)	Employees, Local Community	↑ 3	61-63
		Participation of stakeholders (Expand communication channel, respond to concern)	All Stakeholders	NEW	64-67

DGB FINANCIAL GROUP SUSTAINABILITY FOCUS

DGB FINANCIAL GROUP FOCUS ON SUSTAINABILITY

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.

Becoming a Global Corporation	24
SDG's Story of DGB Financial Group	26
Strengthening Human Rights Protection Responsibility	30

DGB Financial Group will leap forward to become the best-run comprehensive financial group



FOCUS ISSUE 01

Becoming a Global Corporation

DGB Financial Group is constantly working to strengthen our competitiveness as a sustainable corporation by responding to the uncertain global economic situations and rapidly changing financial market trends and securing new growth engines. This is efforts and outcomes of DGB Financial Group, which is taking a leap for global corporation by challenging new possibilities.



1 — C A M B O D I A

DGB Daegu Bank acquires Cam Capital Specialized Bank of Cambodia to establish foundation to become Global in South-East Asia region.

DGB Daegu Bank, acquires DGB Specialized Bank (Cam Capital Specialized Bank) in Cambodia

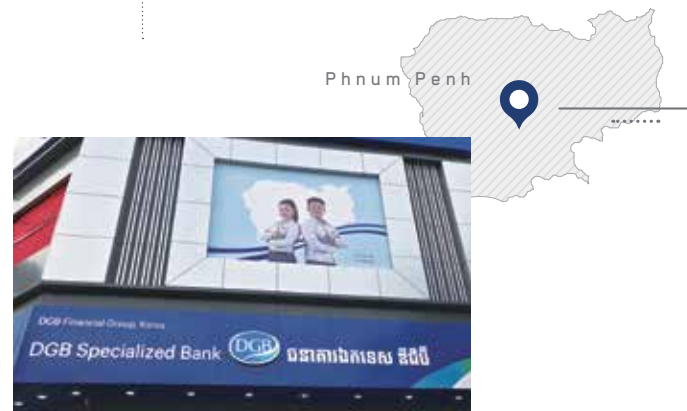
Cambodia, located in the Southwestern part of Indochina Peninsula, shows a similar growth path to the early stages of Korea's economic development in the mid-1970s as an emerging market with more than 7% of growth rate over the last 20 years. In addition, they use US dollar as a key currency, which has low entry barriers for exchange risk and foreign capital, and have attention as the most attractive market for financial business among the Asian countries. As a result of analyzing future growth possibility based on these advantages, Cambodia became the third global nation DGB Daegu Bank entered into followed by China and Vietnam.

DGB Daegu Bank concluded SPA (Stock Purchase Agreement) to acquire Cam Capital Specialized Bank, a specialized bank for loan in Cambodia in October 2017, and received approval from the central bank (NBC) of Cambodia in Decem-

ber. In January 2018, they completed the registration process at the Cambodia Ministry of Commerce (MOC), completing acquisition of Cam Capital Specialized Bank, and finished to prepare for entry into the Cambodian financial business.

Cam Capital Specialized Bank of Cambodia, acquired by DGB Daegu Bank, was established in 2009 and has about 300 employees, operating five branches in Phnum Penh, Cambodia. Based on the asset growth potential of more than 45% since its foundation, it is recognized as the most profitable bank in Cambodia with a net profit of USD 3,395,000 (as of the end of 2016). The name of acquired Cam Capital Specialized Bank was changed to 'DGB Specialized Bank' since DGB Daegu Bank took over 100% stake, and it was launched as the first overseas subsidiary since the foundation of DGB Daegu Bank.

DGB Financial Group will strengthen growth base in Southeast Asia with its entry into Cambodia following China, Vietnam and Laos by spurring entry of global market continuously and will expand global network by finding new markets and new businesses.



Cam Capital Specialized Bank in Cambodia is recognized as competent bank, achieving 45% of asset growth rate.

45%



2 — L A O S

DGB Finance Group has proven our confident in global market by achieving profit surplus in Lao Leasing.

Securing Growth Potential in Laos

DLLC(DGB Lao Leasing Company), Laos subsidiary of DGB Capital, was launched in December 2016 as another bridgehead for entering into ASEAN region. DGB Lao Leasing, Laos subsidiary of DGB Capital, was able to turn its net profit into a surplus in November 2017, a year after its foundation. DGB Capital aimed to turn net profit into surplus within three years at the time of its foundation, but it achieved the goal within a year with stable growth.

Profits of DGB Lao Leasing, which was KRW9.3 million at the end of the 1st quarter, increased to KRW 538 million at the end of the 2nd quarter and KRW 1,250 million at the end of the 3rd quarter. This is the result of securing stable profits through systematic risk management rather than focusing only on initial asset growth.

Active support of Kolao Group from the preparation of establishment to the stabilization of the business has helped localization of DGB Lao Leasing. In addition, securing stable operating funds by borrowing it from loan specialized corporation, which has no receivable function, through DGB Daegu Bank has been played a significant role in achieving the performance in Laos market.

Early performance of DGB Lao Leasing has demonstrated the possibility that DGB Financial Group will secure stable growth in the future by entering global market. DGB Financial Group will collaborate with diverse partners and strengthen core competencies of the Group to prepare for future business by exploring new market and new business.

3 — I N D I A

DGB Daegu Bank shares Korean FinTech technology through MOU with Bank of Baroda, India

Concluded 'MOU' with Bank of Baroda, India

DGB Daegu Bank concluded an MOU with the Bank of Baroda, India in November 11 to exchange corporate information, exchange employee training and share FinTech technology. As the nation's fourth-largest government-run bank (government share 59%), Bank of Baroda has a long history of 109 years with about 5,400 branches and over 55,000 employees, including overseas branches and subsidiaries in 15 countries.

Through this MOU, which was concluded with the visit of President of the bank and employees, the Group will hand down FinTech related technologies such as Smart ATM of Daegu Bank, dispatch employees and exchange training program to cooperate with them throughout the financial industry in the future.

Korea and India have been kept friendly and close relationship since its establishment of diplomatic relations in 1973. In particular, it is expected that more close cooperation will be maintained based on the establishment of Smart City infrastructure discussed in Economic Cooperation Council between Korea and India held in 2017 in New Delhi, India. This relationship between two countries is expected to have a positive impact for DGB Daegu Bank to maximize synergy effect that can be obtained by concluding MOU with government-run bank, which has significant sales force and influence within India.



FOCUS ISSUE 02

SDG's Story of DGB Financial Group

In September 2015, 193 nations around the world adopted 17 new goals for the prosperity of all humanity for next 15 years including universal issues of humanity such as poverty, disease and education, global environmental issues such as climate changes, energy and water resources, and economic and social issues. SDG (Sustainable Development Goals) includes specific goals that governments, civil society and corporations around the world can achieve together.

Achievement of SDG is the global goal of sustainability of DGB Financial Group and implementation of social responsibility. DGB Financial Group supports the goals pursued by SDGs and is continuously reviewing ways to contribute to the realization of SDGs as a financial institutions. DGB Financial Group will continue to make efforts and report our outcomes to find new business opportunity and to realize sustainable society in connection with five strategies of sustainable management and SDGs.

SUSTAINABLE DEVELOPMENT GOALS



CSR STRATEGY	MATERIAL ISSUES	RELEVANT UN SDGS
<p>FUTURE ORIENTED STRATEGIC MANAGEMENT</p> <ul style="list-style-type: none"> Digitalization of Finance Continuing Low Global Growth and Responding Financial Crisis Non-financial Competitors appeared Economical Performances Growing Demands for Transparency and Ethic Management of Corporation 	<ul style="list-style-type: none"> 3 Good Health and Well-being 4 Quality Education 5 Gender Equality 8 Decent Work and Economic Growth 9 Industry, Innovation and Infrastructure 10 Reduced Inequalities 	
<p>CUSTOMER SATISFACTION MANAGEMENT</p> <ul style="list-style-type: none"> Protection of Customer Privacy Strengthening IT Security, Growing Demands for Financial Accident / Crime Prevention Responding to Diverse Customer's Demand Improvement of Accessibility to Financial Services Strengthening Responsibility for Financial Products and Services 	<ul style="list-style-type: none"> 3 Good Health and Well-being 10 Reduced Inequalities 	
<p>ENHANCEMENT OF ORGANIZATIONAL COMPETENCE</p> <ul style="list-style-type: none"> Increasing Importance of Securing Talents and Competency Building Respect for Employee's Diversity and Provide Equal Opportunities Employment Improvement of Employee Satisfaction 	<ul style="list-style-type: none"> 4 Quality Education 5 Gender Equality 8 Decent Work and Economic Growth 10 Reduced Inequalities 	
<p>RISK MANAGEMENT</p> <ul style="list-style-type: none"> Respond to Changes in Financial Regulation Compliance with Laws and Prohibition of Competition Inhibition Anti-corruption Management and Evaluation of Human Right Protection Responsibility and its Impact 	<ul style="list-style-type: none"> 7 Affordable and Clean Energy 13 Climate Action 15 Life on Land 17 Sustainable Cities and Communities 	
<p>CREATING SHARED VALUE</p> <ul style="list-style-type: none"> Specialized Community Social Contribution Activities Participation of Stakeholders 	<ul style="list-style-type: none"> 4 Quality Education 10 Reduced Inequalities 17 Sustainable Cities and Communities 	

Goal 4: High Quality Education

Aims 'To Ensure Inclusive and Fair High Quality Education for All and to Promote Lifelong Learning Opportunity'

Operate Various Financial Education Program

OUR APPROACH TO SDG 4

As a key element of individual development and basic living, education is a core driving force for local and social development such as social equality and economic growth as well as changes of individual life. DGB Financial Group has selected and promoted one of main themes of social contribution projects as educational and scholarship projects since 2003. In addition, the Group launched 'DGB Social Contribution Foundation', the first comprehensive welfare foundation, in 2011, to provide actual support to the local communities by expanding existing social contribution activities to more systematic activities.

The DGB Social Contribution Foundation opened 'DGB Financial Education Center' in 2016 to provide high quality financial education targeted to under-privileged children and adolescents. 'With-U Financial Education Volunteer Group' in the center is consist of employees and local college students and is carrying out financial and economic education for local residents every year. As a mentor of children in low income families, they provide pocket money academic support and opportunities for cultural experiences.



Number of participants in With-U Financial Education Volunteer Corp

20



WITH-U

The Group promotes various projects such as lifestyle/health support, education support and culture support for total 118 grandparent raising grand children in 93 foster families.

- Lifestyle / Health Support**

Support side dishes and daily supplies (twice a year) / Employees mentoring (Support pocket money once a month) / Support health checkup (once a year)
- Education Support**

Scholarship for students with excellent academic talents in art, music and physical education / 1:1 partnership with students in the local universities and children and adolescents for academic mentoring (four times a month regularly)
- Culture Support**

Provide opportunities for cultural events with employees, local college students and children (once every quarter)

In addition, DGB Financial Economics Education Group is composed of lecturers specialized in finance, and operates various programs such as finance education, finance camp, finance academy and weekend finance class for local students.

OUR IMPACT

DGB Financial Group is making its efforts to provide opportunity of high-quality education to future generations of the community including elementary, middle and high school students and college students as well as under-privileged classes such as disabled and multicultural families. Furthermore, the Group contributes to nurture human resources that can benefit the local community and development of local economy and providing education through systematic finance, economic education program and field training.

Goal 10: Easing Inequality

Aims to 'Ease Inequality within and between Countries'

Operate Programs for Supporting Multicultural Families in the Community

OUR APPROACH TO SDG 10

Multicultural families in Korea account for about 4% (900,000) of the total population, and the numbers are expected to increase to 1 million by 2020. In Korean society, they are recognized as social minorities. To show how much we care local community, DGB Financial Group is operating 'DGB GaNaDa Finance Class' to help immigrant families to become part of the society without reserve and overcome cultural and language difference. 'DGB GaNaDa Finance Class' shares value of DGB Financial Group, providing financial and economy education and variety of hands-on programs to encourage spontaneous involvement in the society and create foundation for independent economic activity which will contribute to social integration. The program also includes variety of cultural activities such as family photo shoot, aquarium visit and market trip.

OUR IMPACT

DGB Financial Group supports the future and bright dreams of multicultural families in the local community. Vocational training, counseling and education programs operated by 'DGB GaNaDa Finance Class' help all members in multicultural families can adapt to Korean society and become financially independent, contributing to improve of inequality in the local community.

Number of Multicultural Families Supported by the Center ('16-'17)

45

Number of Participants in educational programs Operated by the Center ('16-'17)

153



Amount of Green Finance Prime Fund (KRW in hundred million)

100

Number of Corporations Receiving Green Finance Prime Fund ('16-'17)

18



Goal 12: Responsible Consumption and Production

Aims to 'Ensure Sustainable Consumption and Production Style'

Operate Green Finance Prime Fund to Save Corporations and Local Environment

OUR APPROACH TO SDG 12

Daegu Dyeing Industrial Cluster has caused odor and air pollution problems with harmful substances the long-term collective chemical use since its opening in 1980. The Group has been sought to ways to solve local environmental problems and boost local economy. We concluded a green finance agreement with the Ministry of Environment and Korea Environmental Industry Technology Institute in July 2016 and created green finance prime fund that offers 1.0-2.0% lending rate to excellent SMEs of environmental management in the region.

We have created KRW 10 billion green finance prime fund since August 2016. This was applied to corporations with excellent environmental management such as reduction of environmental pollutants emission and establishment of preventive system among corporations in Daegu Dyeing Industrial Cluster so that local

corporations can actively participate in environmental management. As such, DGB Financial Group is continuously promoting investment activities that consider environment for sustainable consumption and production.

OUR IMPACT

Green finance prime fund of DGB Financial Group is encouraging responsible production as one of the goal of SDGs by supporting local corporations that strive to minimize negative impact on the environment. We will pass healthy life and environment to future generations through production and consumption activities that guarantee a better life.

Goal 15: Protection of Land Ecosystem

Aims for 'protection/restoring land ecosystem, sustainability of forest, prevention of desertification and prevention of biodiversity loss'



Outcomes of Mongolia Desertification Prevention Activity (Number of trees planted)

205,000

Community Environmental Preservation Activities

OUR APPROACH TO SDG 15

Human beings live on land. However, the land we live in is seriously damaged by convenience and desire of human. Destruction of land ecosystem can lead to climate changes and ultimately endanger human's life. In other words, all environmental problems that caused from land ecosystem such as forest damage, desertification and loss of biodiversity are closely related and can ultimately challenge sustainability of humankind.

DGB Financial Group recognizes the importance of environmental protection and conducts various activities to preserve environment

in the local community. Total 4,292 employees participated in environmental preservation activities in 2017 including planting trees in spring and decorating alleys, eradication campaign of introduced species that destroy ecosystem and arrangement of Shincheon, a river loved by local people. In particular, programs such as restoration of Hanson Lily Hill of Ulleungdo for protection of endangered species and environmental preservation of Ulleungdo, which located in Daegu and Gyeongbuk area is actively conducted by employees and local residents.

In addition, we have created and managed forest for prevention of desertification in the Mungeunmurit area of Mongol since 2009. We have planted over 60,000 plants of pine trees, larch and beech trees every year since 2009, and planted over 5,000 vitamin trees to improve the income of local residents since 2012.

OUR IMPACT

Environmental Cleaning Project, restoration project of Ulleungdo Hanson Lily and creation of forest for desertification in Mongol of DGB Financial Group is contributing to the 15th goal of SDGs, which pursues the continuity of all living things and human life. We are planning to develop products that can contribute to the ecosystem and nature preservation, make partnership with civilian experts and operate various environmental preservation program so that all stakeholders including employees, customers and local communities can be involve in the realization of SDGs.

Our employees and local residents are taking part in restoration project of Ulleungdo Hanson Lily to preserve the natural environment.



Number of Employees Participating in Environmental Preservation Activities

4,292

FOCUS ISSUE 03

Strengthening Human Rights Protection Responsibility

In 2017, there were unethical behavior toward female non-regular employees in DGB Daegu Bank, a subsidiary of DGB Financial Group. DGB Financial Group fully understand in regards to great harm caused and shock to not only the victims but also the internal staffs and the community, and the responsibility for not preventing it the incidence in advance. Therefore, the group devised ways to substantially protect the human rights of our employees to break down the wrong practices in the group and prevent from happening again.

Establishment of Human Rights Center and Reorganization

DGB Financial Group conducted investigation about the sexual harassment by forming internal team and actively cooperated with the investigation of related institutions. As a result, assailant received heavy disciplinary action to be discharged. In addition, DGB Human Rights Center was newly established in July 2017, directly linked to the president of the bank to strengthen human rights. DGB is the first general corporation who established the human right center, excluding the centers in government organizations. The Center conducts preventive activities such as consultation and investigation of sexual harassment and human rights violation, protection and relief of victims and education for realizing gender equality.



MAIN ACTIVITIES

- Operation of human rights and sexual harassment/abuse counseling
- Head of each branch office is responsible for human rights related tasks
- Human rights counseling staff appointed (Female)
- Human rights related task (Constant monitoring, prevention activities, report and counseling)
- Human rights violation report, consulting, relief etc.

Division	Name	Obligation
Organizational renewal (2017. 7)	Monitoring sector newly organized under Compliance Department	· Expand monitoring function · Enhance independency and transparency of compliance in ethical management
Regulatory renewal (2017. 8)	Major renewal on work place sexual harassment	· Definition and signs of sexual harassment · Victim protection and relief · Detail regulation and code for the assaulter
Internal training (2017. 9)	Sexual harassment prevention session	· Target: Employees from the Headquarters and finance teamleaders in Daegu area · Schedule: 5 sessions in 2 weeks

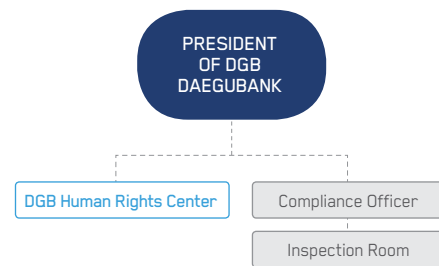
STATUS OF HUMAN RIGHTS EDUCATION

Division	2015	2016	2017
Average number of human rights education per person	52	52	62



Lee, Yoon-kyoung / DGB Human Rights Center

ORGANIZATION



DGB HUMAN RIGHTS CENTER REGULATIONS

DGB인권센터규정

제정 2017.08.30.

제1장 총칙

제1조(목적)이 규정은 대구은행 임직원 등의 인권을 보호하고 권익을 향상하기 위하여 DGB인권센터의 조직과 운영 등에 필요한 사항을 정함을 목적으로 한다.

제2조(정의)이 규정에서 사용하는 용어의 정의는 다음과 같다.

1. "인권"이란 헌법 및 법률에서 보장하거나 대한민국이 가입·비준한 국제인권조약 또는 국제관습법에서 인정하는 인간으로서의 존엄과 가치 및 자유와 권리(명동권 침해의 차별행위·폭언·폭력을 당하지 않을 권리를 포함한다)를 말한다.
2. "인권침해 등"이란 성희롱·성폭력, 그 밖의 인권 또는 권익침해를 가하는 행위를 말한다.
3. "직장 내 성희롱"이란 상급자 또는 근로자가 직장 내의 지위를 이용하거나 업무 등과 관련하여 다른 근로자에게 성적 언동 등으로 성적 굴욕감 또는 혐오감을 느끼게 하거나 성적 언동 또는 그 밖의 요구 등에 따르지 아니하였다는 이유로 고용에서 불이익을 주는 것을 말한다.
4. "성폭력"이란 "성폭력 범죄의 처벌 등에 따른 특례법"에 따른 성폭력에 해당하는 행위를 말한다.
5. "신고인"이란 인권침해 등을 신고한 사람을 말한다.
6. "피해자"란 인권침해 등을 당한 사람을 말한다.
7. "행위자"란 인권침해 등을 가한 사람을 말한다.
8. "당사자"란 피해자, 행위자를 말한다.

제3조(적용범위)이 규정은 은행에 근무하는 전 임직원, 파견 및 용역 직원, 모집 및 채용과정에서의 구직자에 대하여 적용한다.

DGB FINANCIAL GROUP SUSTAINABILITY STRATEGY

DGB FINANCIAL GROUP DELIVERING ON OUR 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.

Future-Oriented Strategic Management	32
Customer Satisfaction Management	38
Enhancement of Organizational Competence	46
CSR Risk Management	52
Creating Shared Value	59

01 FUTURE-ORIENTED STRATEGIC MANAGEMENT

MANAGEMENT APPROACH

Significance

The financial market has changed dramatically in recent years. Finding new growth engines while responding to next-generation technologies such as Big Data is an important factor for sustainable growth that is strategically prepared for the future.

In addition it is an important factor for sustainable management of DGB Financial Group that Strengthening the trust of stakeholders through the establishment of exemplary corporate governance structure in line with changes in the paradigm of the capital market that requires 'social responsibility' and 'transparency enhancement'.

Major Issues in 2017

- Digitalization of finance (Utilization of FinTech and Big Data)
- Responding to continuing global low-growth and financial crisis
- Non-financial competitors appearance (Mobile Competitors)
- Economical performances
- Growing demands for transparency and ethical management of corporation

How to Manage

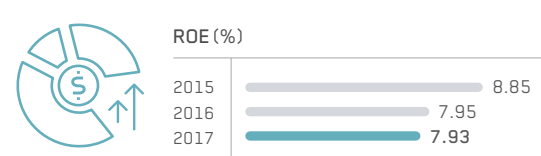
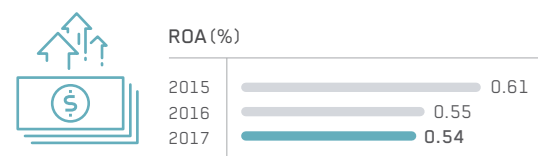
DGB Financial Group operates Task Force for preparing the group's future 50 years and has established an advanced management system for the holding organization, established an autonomous management system, and established a board-based management system etc. In order to ensure transparency, we have established the Sustainability Management Committee within the BOD to manage future strategic management.

Next Step

DGB Financial Group will lead the future financial market by responding quickly to the next-generation of financial services. In the meantime we will endeavor to become an exemplary comprehensive financial group by establishing a Sustainability Management Committee within the BOD during this year. In the meantime we will endeavor to become an exemplary comprehensive financial group by establishing a Sustainability Management Committee within the BOD during this year.

Key Performance Index

Performance Index	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Market Share in Daegu Gyeongbuk (Loan, %)	26.0	28.5	29.0	29.4	29.2	29.0	29.1	27.6	26.9	26.9
Market Share in Daegu Gyeongbuk (Deposit, %)	33.7	33.8	34.3	34.8	35.2	36.2	36.3	35.8	36.8	36.4
BIS Ratio (%)	13.12	15.40	14.76	15.33	15.57	15.06	12.92	12.89	12.90	12.59
ROA/ROE (%)	1.01 / 17.37	0.61 / 10.06	0.75 / 11.77	0.97 / 13.95	0.83 / 11.35	0.65 / 8.63	0.58 / 8.16	0.61 / 8.85	0.55 / 7.95	0.54 / 7.93



Relevant SDGs



Sustainable Performance

By offering diverse financial services to its customers with reasonable cost and ensuring universal access for more customers, DGB Financial Group is striving to strengthen its business competencies to create sustainable performance.

Response to Changing Markets

New digital financial environment that breaks down the existing ideas and experiences such as FinTech, artificial intelligence, Big Data based marketing and emergence of internet bank has been started in the domestic financial industry. These environmental changes indicate a tremendous change in the financial industry such as banks, insurance and securities, which has been more conservative than other industries. And they are also fiercely competing to meet needs of customers, who are demanding more sophisticated customized services. Against this backdrop, DGB Financial Group is preemptively responding to the market changes in order to find new growth engines such as the 4th Industrial Revolution.

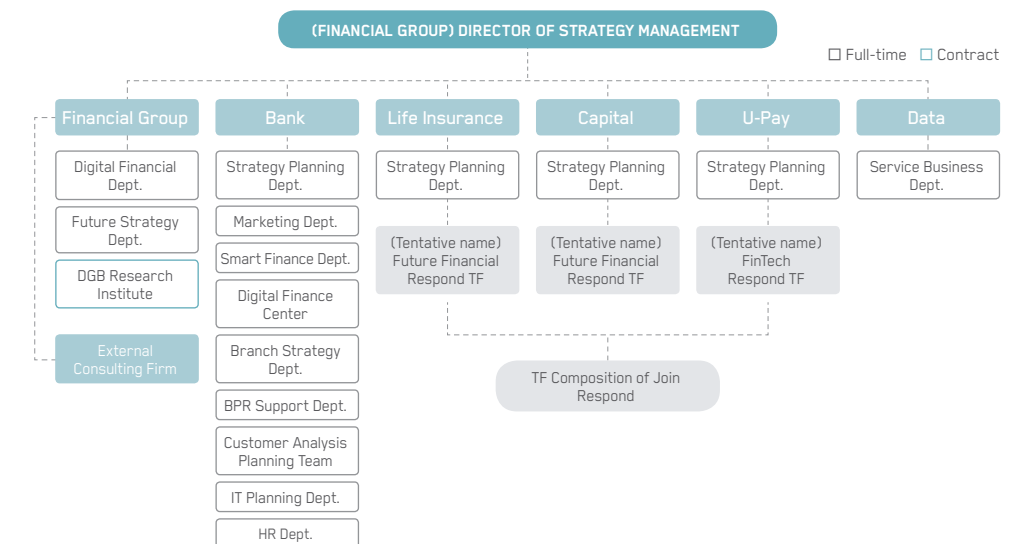
Response to the 4th Industrial Revolution

DGB Financial Group is participating as a shareholder of K-Bank, which is an internet bank, for the first time as local financial corporation through DGB Capital. The Group has supported the full range of business development based on management know-how of loan specialized financial business in K-Bank, preparing the foundation for new performances. In addition, we are operating digital IT R&D Center to enhance future competence and IT competitiveness by strengthening constant R&D activities. We are engaged in various activities such as acquiring knowledge through survey and research on new IT technol-

ogies and trends, strengthening human capacity, discovering new growth idea and business and regular communication and exchanging opinions with other community groups.

The Group opened assurance asset consulting system on June 1, 2017 by applying Big Data, which is the core of the 4th Industrial Revolution technology. Big Data technology for predicting disease was applied in this system based on 2.6 billion medical records managed by National Health Insurance Service, and it is characterized with possibility to design customized assurance asset based on customer-specific data with advanced analytical technology and prediction model. 'Big Data' is regarded as a technology with infinite utilization value that can provide customized information by collecting and analyzing massive data. However, it is difficult to apply these technologies to the financial industry as a whole due to the internal and external realities of the increasingly stringent regulation of personal information protection. To solve this, we are making various efforts such as hosting Big Data seminars. We reorganized Customer Analysis Planning Team into Big Data Planning Department in July, 2017 to establish omni channel and targeting marketing and conduct other related business.

ORGANIZATION



01 FUTURE-ORIENTED STRATEGIC MANAGEMENT

PROGRESS DIRECTION

DEFENSE OF 'PRESENT' BUSINESS CONTINUITY BASE AND SECURING READINESS OF 'FUTURE'



DGB Digitalization, Operates TF for Establishment of Strategy

DGB Financial Group has been operating TFT for establishment of digitalization strategy to jointly respond to expansion of digital finance and opening internet bank, and to establish a differentiated strategy for the Group's next 50 years.

Enhancement of Business Competencies

As a comprehensive financial group, DGB Financial Group is having seven subsidiaries, including DGB Daegu Bank, DGB Life Insurance, DGB Capital, DGB U-Pay, DGB Data System, DGB Credit Information, DGB Asset Management and Hi Investment & Securities. The 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.

Acquisition of Hi Investment & Securities

DGB Financial Group confirmed the acquisition of Hi Investment & Securities, which is a subsidiary of Hyundai Heavy Industries Group, through

the board of director in November 2017. It was a long-wished field of business that the Group have had heart's desired and the Group plans to expand corporate investment banking services such as IPO, corporate bond issuance and leading acquisition through Hi Investment & Securities.

Enter into Global Market

DGB Financial Group is focusing on expanding its sales network to strengthen business competencies following the expansion of its business scope. Following the opening the first overseas branch in Shanghai in 2012, the Group established local subsidiary in Laos (DGB LAO Leasing Co., Ltd.) of DGB Capital in 2016 and acquired Cam Capital Specialized Bank, which is a loan specialized bank in Cambodia, in 2017. With the entry of Cambodia, the group is making its effort to strengthen its growth base in Southeast Asia, establish global network, open new markets and enter new business.

Sound Governance

DGB Financial Group formed the Board of Directors equipped with ample experience and knowledge in finance. Through independent committee composition and fair Independent director selection process, the Group seeks to strengthen the expertise of the Board and to ensure transparent and sound operation of it.

Governance Structure

DGB Financial Group practices transparent management by establishing sound governance, protects investor's rights and makes effort for reasonable decision-making. Especially, based on the issues that have been raised in DGB Financial Group, we made this into an opportunity to change and grow for sound governance and strengthening management transparency through separating the Group Chairman and the President of the bank, operating future election open to public.

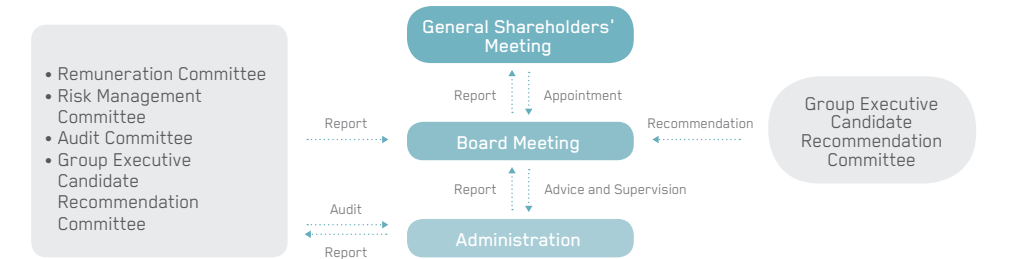
Composition of Board of Directors

The board of directors consists of one CEO and five independent directors, and CEO and Chairman of the board of directors are separated to maintain the independence and transparency of the board. The number of independent directors shall be more than half of all directors on the board, as a rule.

Independent directors are composed of experts who can help DGB Financial Group's management performance and corporate competitiveness of the DGB Financial Group based on diversity without discrimination based on gender, race, nationality, etc. through the Group Executive Candidate Recommendation Committee. The Independent Director Candidate Recommendation Committee consists mostly of independent directors, appointed after deliberation in accordance with relevant laws and regulations such as the Act on Financial Companies, Commercial Law, and the Articles of Incorporation.

Status of Board of Directors

There are regular and ad hoc BOD meetings, and the determination of the Board can be adopted if a majority of all directors agree with it. In addition,



STATUS OF BOARD OF DIRECTORS

* As of May 31st 2018

Division	Name	Obligation	Note
Executive Director	Kim, Tae-Oh	CEO of DGB Financial Group	Former Vice President of Hana Financial Group
Independent Director	Cho, Hae-nyoung	Chairman of the Board Chairman of Risk Management Committee Member of Auditor Nomination Committee	Former 63rd Secretary of Interior, former 19th Minister of Government Administration Former Mayor of Daegu City (30th) Former President of the Community Chest of Daegu
	Seo, In-Deok	Member of Compensation Committee Member of Risk Management Committee Member of Auditor Nomination Committee	Former Dean of Bachelor of Commerce and MBA in Yeungnam University Public Interest Member of Gyeongbuk National Labor Relations Commission Honorary Professor of Yeungnam University
	Ha, Jong-hwa	Chairman of Remuneration Committee Member of Audit Committee Member of Auditor Nomination Committee	Former Director of Seoul Regional Tax Office 4 Former Director of Daegu Local Tax Office President of Tax Firm Doori
	Jon, Kyong-tae	Member of Compensation Committee Member of Audit Committee Member of Auditor Nomination Committee	Former Professor in Commerce Department of Keimyung University Former Dean of Economics and Commerce Honorary Professor in Social and Science Department of Keimyung University
	Lee, Dam	Member of Audit Committee Member of Auditor Nomination Committee	Former Judge of Daegu District Court Representative Lawyers in A&K Partners President of Daegu Bar Association

KEY RESOLUTIONS BY BOARD OF DIRECTORS

* As of 2017.12.31

No	Date	Contents of the Resolution
1	2017.2.8	Approval for BOD operation plan and evaluation standard Approval for plans and evaluation standards for outside directors Approval of CEO succession plan
2	2017.2.24	Approval for amendment of articles of association
8	2017.11.8	Approval for partial amendment of major management related regulations
9	2017.12.19	Approval for partial amendment of major management related regulations

four internal committees (Remuneration Committee, Risk Management Committee, Audit Committee, Group Executive Candidate Recommendation Committee) consisting of experts in management, finance, accounting, and various other fields are run in an independent and transparent manner.

Evaluation & Compensation for the Board of Directors

Compensation to directors is made in the form of a basic salary and performance-based pay (short-term incentives, long-term incentives coupled with cash compensation). Short-term incentives are determined by the BOD based on performance evaluation and compensation guidelines, while long-term incentives are paid in a fixed amount based on long-term performance evaluation and directors' service terms. In addition, we are preparing policies that allow you to recover the performance and remunerations in case of personal business affairs or management performance deterioration. Remuneration of the concurrent position (chairman) is first paid by his/her original company and it is cal-

culated later in accordance with the percentage of duty performances. In 2017, the highest remuneration amount was 2.9 times of the average employee payment. Annual remuneration increased 2.5% relative to the previous year. The average term of the board is 2.84 years.

Ownership

As of the end of 2017, the issued shares of DGB Financial Group are 169,145,833 shares. The largest shareholder is the Samsung Life Insurance, which owns 6.95% of the shares. The foreign largest shareholder is The Oakmark International Small Cap Fund, which holds 4.83% of the shares.

BOD OPERATION PERFORMANCE

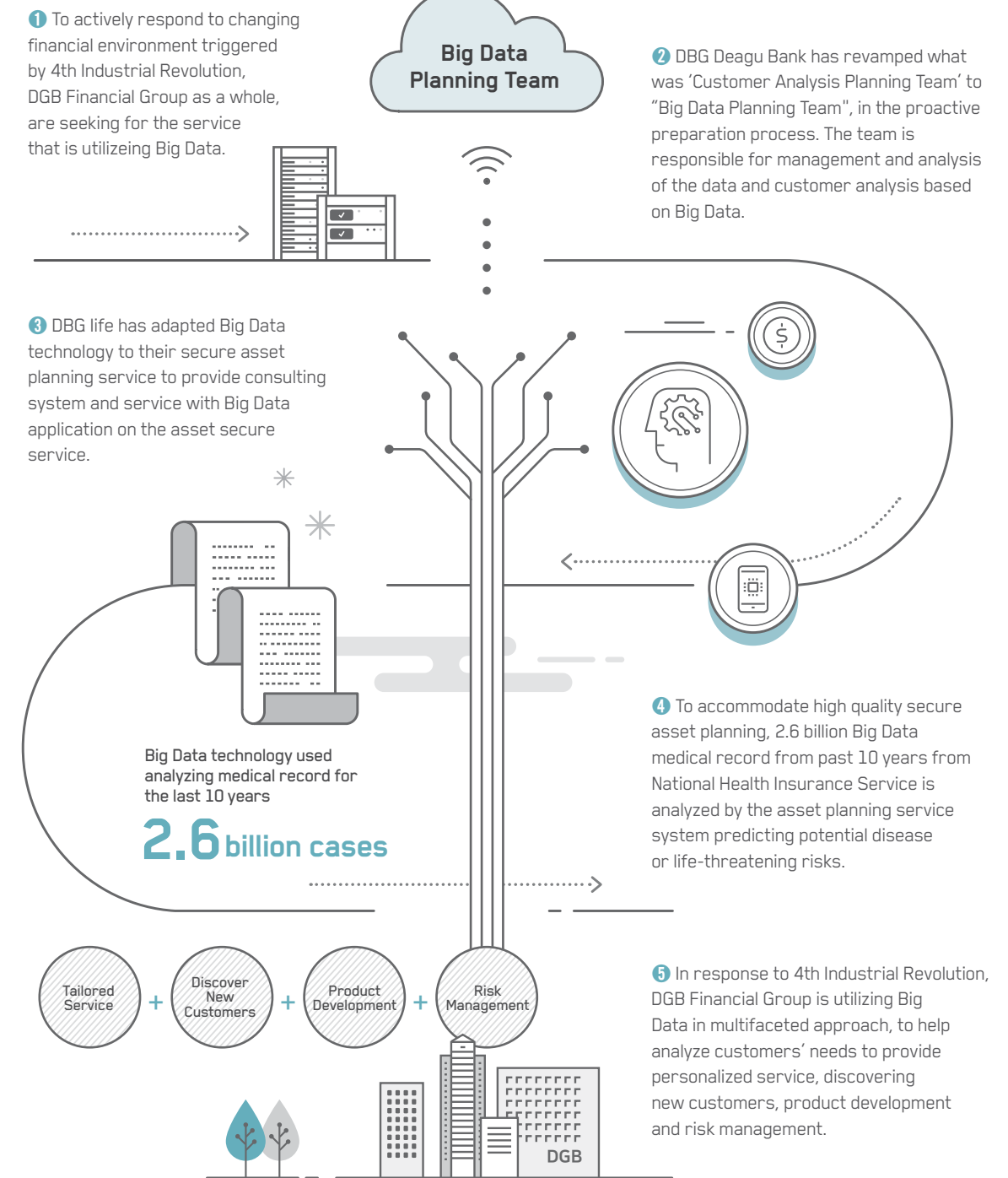
Division	2015	2016	2017
Number of Meetings	9	14	10
Independent Directors Ratio(%)	83.3	71.4	71.4
BOD Attendance Rate (%)	98.4	97.9	100

SHARE

Division	2015	2016	2017
Ownership of Foreign Shareholders	68.01	59.86	60.80
Largest Shareholders	4.68 Saudi Arabia Central Bank	4.52 Saudi Arabia Central Bank	4.83 The Oakmark International Small Cap Fund
Ownership of Domestic Shareholders	31.99	40.14	39.2
Largest Shareholders	6.95 Samsung Life Insurance	8.87 National Pension Service	6.95 Samsung Life Insurance

IMPACT STORY 1

Changes in Financial Environment and Big Data Utilization



MANAGEMENT APPROACH

Significance

DGB Financial Group regards customer satisfaction and trust as top priority. Customer satisfaction management is an important factor for sustainable management as it directly affects corporate outcomes.

Major Issues in 2017

- Protection of Customer Privacy
- Strengthening IT Security, Growing Demands for Financial Accident / Crime Prevention
- Responding to Diverse Customer's Demand (Customer Satisfaction, Strengthening Communication)
- Growing Demand for Accessibility to Financial Services
- Strengthening Responsibility for Financial Products and Services (Responsible Investment and its Operation, Proper Product Sales, Clear Explanation, etc.)

How to Manage

DGB Financial Group is managing according to 'Financial Consumer Protection Guideline' to protect consumer's interests and to minimize their complaints and damages. The Group is strengthening customer satisfaction management by actively responding to customer's demand such as customer information protection through the establishment of financial consumer protection system and integrated system.

Next Step

As security risks increase and the importance of information protection becomes more important, DGB Financial Group will continue to strengthen our 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 and in accordance with the 'Guidelines for Financial Consumer Protection', the Financial Consumer Protection Council and the Financial Consumer Protection Working Council are operated to improve the financial consumer protection system. Through this, we will strive to increase our customer satisfaction rating of 95.7 point to 97 or more until 2020.

Key Performance Index

Performance Index	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Financial Consumer Protection Activity Assessment*	1	1	1	1	1	1	1	'Good' in all	'Good' in all	'Good' in all
Leak of Personal Information	0	0	0	0	0	0	0	0	0	0
Number of VOC handlings	142	144	153	197	83	135	84	159	47	76
Customer Satisfaction (points)	89.0	89.0	91.0	92.0	92.7	93.9	94.2	95.3	94.9	95.7

* Since 2015, the assessment of civil complaints (grades) was replaced by the evaluation of financial consumer protection status



Relevant SDGs



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 making various efforts to provide financial information and establish financial consumer protection system so that consumers do not have unnecessary damages.

The DGB

DGB Financial Group is conveying consumer protection information through 'The DGB' which is published every two months. The main contents include financial crime cases and preventive methods, tips on finance 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 the consumers. DGB Daegu Bank is helping diverse consumer groups such as youth, college students, and the general public so that they are equipped with the correct financial knowledge to avoid potential financial damages in the future.

Financial Consumer Protection System

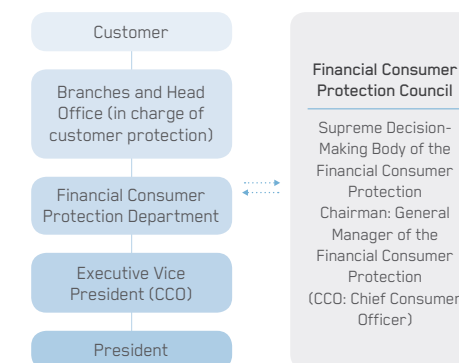
DGB Daegu Bank established a consumer protection system for each financial product and each stage in order to protect our consumers. The Group established product development rules and sales practices for financial product development and sales stages, respectively, to protect its customers from financial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

In addition, the company operates 'VOC (Voice of Customer)' and 'DGB Chamsori Advisory Panel' to discover and improve old practices and systems that are unreasonable and inconvenient from the customer point of view. Through this, the Group is making practical effort for consumer's protection by establishing and operating various systems, including conducting internal campaigns such as employee's idea contest to strengthen consumer protection, designating consumer protection section at all branches and operating consumer protection day every month and complaint handling support.

Integrated Financial Consumer Protection System

DGB Daegu Bank has established and operated an 'Integrated Financial Consumer Protection System' to protect the interests of financial consumers. Integrated financial consumer protection system is built and operated separately from company intranet, and it can handle various functions related to financial consumer protection one-stop service base. In particular, it can prevent civil complaints and provide active customer satisfaction service with early warning function. As a result of its efforts, DGB Daegu Bank received 'Good', the highest rating, in all evaluation criteria of a survey on financial consumer protection conducted by the Financial Supervisory Service in 2017. In addition, DGB Daegu Bank was selected as the 'Best Bank' for Financial Consumer Protection sector for 11 consecutive years for the first time in the financial industry.

ORGANIZATIONS FOR FINANCIAL CONSUMER PROTECTION



Customer Satisfaction Activity

DGB Financial Group recognizes that customer satisfaction is our top business strategy and priority, and make best effort for customer satisfaction. The Group listens to customers' opinions, offers a variety of services customers want, and implements customer satisfaction management through various CS programs and activities.

DGB Chamsori Advisory Panel

DGB Daegu Bank operates the 'DGB Chamsori 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

02 CUSTOMER SATISFACTION MANAGEMENT

providing opinions to the bank, formulating new service ideas, branch monitoring, etc., in order to find out old practices and systems that seem unreasonable or inconvenient from the viewpoint of financial consumers.

CS Education

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 provided by DGB employees with standards for appearance and dress codes coupled with training programs on customer reception skills. To improve employees' customer service skills, DGB Financial Group

STATUS OF CS EDUCATION

- 1 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)
- 2 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)
- 3 New Employee Training**
 CS standard manual, Role-playing, Workplace manner, Situation-specific response drills (15 times)
- 4 Integrated Training**
 CS manager training, Refresh training by position, Security guard training, etc. (10 times)
- 5 Security Guard Training**
 CS training for new security guards Refresh training for the existing security guards (104 branches)

PROCESSING STATUS OF VOC

Division	2015	2016	2017
Dissatisfaction	159	47	76
Pending Issues	169	378	318
Compliment	565	789	748
Others	779	703	689
Total	1,672	1,917	1,831

(Unit: Case)

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 employees who joined DGB Daegu Bank within two years or less. In line with such efforts, each branch selects a dedicated CS manager to promote and spread appropriate CS culture across the Group.

DGB Total Care Service

DGB Life Insurance began 'DGB Total Care' service where DGB employees visit customers in person to provide detailed explanation of the insurance policy and financial planning services. When customers subscribe to the 'DGB Total Care' service, a FC (Financial Consultant) visits their client to help them understand the coverage details of the policies and receive insurance money if applicable. Moreover, the FCs can also provide service to the customers with customer information renewal, life savings planning for retirement, and other financial consulting services, so that FC can improve 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.

Customer Satisfaction Survey

The Group conducts customer satisfaction survey through NICE R&C to enhance customer satisfaction through service quality improvement every year. Telephone satisfaction survey is conducted every month for all branches, and on-site monitor is targeted for all branches every

two months. The Group has recorded 95.66 points in 2017 with the continuous efforts to practice customer's satisfaction.

CUSTOMER SATISFACTION SCORE



DGB Financial Group will continue to strive to provide a variety of services by continuing to listen to and communicate with customers. In addition, we plan to strengthen internal competencies to create greater customer values and achieve customer satisfaction management.

Enhanced Accessibility

As our effort to create better 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, I-M Bank 2.0, and other non-face-to-face channel products and enhancing the conveniences of such programs.

Deposit and Fund Center

DGB Daegu Bank has established I-M Bank to enhance competitiveness of non-face-to-face channel as well as Omni Channel infrastructure for face-to-face and non-face-to-face mutual contract marketing. In the process of building Omni Channel, the Group established a deposit and fund center of chatting and video counseling service, followed by non-face-to-face loan center and opened deposit and fund center, which is counseling center Omni Channel in February 2017. Deposit and fund center is non-face-to-face counseling center where customers can receive professional counseling about deposit or fund products by using chatting and video at the same time without visiting branches. Major tasks include professional counseling of deposits, savings and funds through chatting and video, support for new subscription of account or electronic banking through non-face-to-face real name confirmation, and contact marketing with branches.

I-M Bank 2.0

DGB Daegu Bank launched I-M Bank version 2.0 with 'DGB Non-Visit Mortgage Loan' following the opening deposit and fund center. DGB Non-Visit Mortgage Loan' is a non-face-to-face loan, and it is possible to complete within 2 to 3 days from application, submission of necessary documents and signing a contract through smartphone without visiting a branch. It is the first service in the financial industry that shows the charging function of transportation card on smartphone. With this, it is possible to charge plastic transportation card with smartphone and balance inquiry is also possible. Especially smart phone with biometric authentication of fingerprint and iris through complex biometric authentication improves the convenience of banking by making it possible to transfer only one time without any certificate and secure media. In addition, it provides functions such as mobile phone easy wire, barcode payment in the store, Dutch Pay and congratulatory money. It also improves the convenience of financial transactions through overseas simple wire and smart fund advisor. Furthermore, security was improved through one-touch transaction lock function, and mobile branches of I-M Bank was expanded to more than 250 branches to strengthen sales between non-face channel and branch offices (O2O).

Following the launch of I-M Bank 2.0 and Non-visit Mortgage Loans, the Group launched a "no-transaction customer loan application service," which allows customers nationwide, who don't use services in DGB Daegu Bank, can apply for loan through online automatic document submission (scraping) 24 hours for 365 days, and conducted non-face-to-face operations nationwide in March 2017.

Holiday Operation

DGB Daegu Bank started to open on weekends to improve customer accessibility, even off-line. DGB Daegu Bank Seongseo Homeplus Branch has started to provide 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.

In addition, the Group operated a portable branch for the 2017 Chuseok holiday new bill exchange event, and is supporting various events and services through portable branch for customers who are in the blind spot.

Sustainable Finance

DGB Financial Group pursue 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.

Inclusive Finance

DGB Financial Group is pursuing sustainable finance with mutual benefit and win-win growth by fulfilling its social responsibilities providing necessary support and benefits to the common people in order to 'dream and abundance together with the community' as our management philosophy. DGB Daegu Bank allocated as much as 239 billion to major loan products designed to support the low income class, such as 'New Hope and Seed Loan' and 'Dream Change Loan.'

Technology-oriented Finance

DGB Daegu Bank supports low-interest rate loans to SMEs which have outstanding technology through technical financial products. 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.

Specialized Institution of Technical Commercialization

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.

MAJOR PRODUCTS FOR INCLUSIVE FINANCE

Division	2015		2016		2017	
	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	18,618	1,245	20,556	1,335	21,180	1,305
DGB Conversion Loans	1,251	79	1,127	68	827	42
Special Guarantee Loans for SMEs	1,691	218	1,799	193	1,660	157
Sunshine Loans for University Students	414	15	852	266	1,254	33
Agreement Warranty of Jointly Support Startups	12	37	14	35	15	38
Special Guarantee for Restarting after Startup Failure	0	0	0	0	2	1
Special Guarantee for Restructuring and Job Support	0	0	1,330	332	1,260	303
Special Guarantee for Stabilization of Small Business (New)	1,935	459	1,700	374	1,466	284
Special Guarantee for Hope Share of Small Business (New)	1,100	244	925	203	788	170
DGB Bridge Loan with Mid-Interest (New)	0	0	61	6	234	24
DGB Smart & Secure Mid-range Interest Rate Loan (New)	0	0	256	17	555	24
Workers e-Start Loan (New)	62	3	290	11	518	17

MAJOR PRODUCTS FOR TECH LOANS

Division	2015		2016		2017	
	Total Accounts	Total Accounts Amount (KRW in million)	Total Accounts	Total Accounts Amount (KRW in million)	Total Accounts	Total Accounts Amount (KRW in million)
DGB Tech Biz Loans	723,502	1,023,922	1,023,922	1,311,744	1,311,744	1,311,744
Preferential Loans for Manufacturing	461,619	274,520	274,520	207,459	207,459	207,459
BOK's aggregate credit ceiling system for technology-driven business start-ups	58,645	73,714	73,714	63,058	63,058	63,058

(Unit: KRW in millions)

Business Agreement for Win-Win Partnership

DGB Daegu Bank concluded 'Business Agreement for WinWin Partnership for Activation of Regional Economy' with Korea Appraisal Board in January 2017. Korea Appraisal Board deposited KRW 5 billion in the WinWin Fund of DGB Daegu Bank to support promising SMEs in the Daegu area, and the promising SMEs selected by DGB Daegu Bank and Korea Securities Depository could receive loans at a favorable interest rate.

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 the electric car buyers, install charging stations at certain branches, and purchase electric vehicles for the Group's business vehicles.

DGB Cyber Green Branch

DGB Daegu Bank has been operating 'DGB Cyber Green Branch', an environment-specific branch. 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 is expanding 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 CYBERGREEN BRANCH(NO. OF ACCOUNTS SOLD)



DGB CYBERGREEN BRANCH AMOUNT(KRW in millions)



* Recalculate performances by each year based on changes in product changes or termination of CyberGreen Branch

Support Eco Friendly Corporation

DGB Financial Group offers a variety of benefits to environmentally conscious companies to encourage local companies to practice environmentally sustainable management. 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 green companies within the limit of 300 million won. Not being complacent 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.

GREEN FINANCIAL PRODUCT SALES

Division		2015		2016		2017	
		No. of Accounts	Amount (KRW in millions)	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	34	42
	Green Health	726	4,115	627	4,041	440	3,103
	e-Convenient Installment Savings (sales ended in Jul 22, 2015)	5,640	32,886	2,015	21,130	955	13,923
	Dokdo Savings	11,107	12,920	8,929	9,340	171	590
	In My Hands	1,577	1,721	15,555	44,607	16,317	64,389
	e-U Savings	1,985	2,769	8,617	26,724	10,427	47,248
	I-M Savings(Launched Aug. 2, 2017)					2,503	3,276
Financial Technique Deposits	Eco-friendly Green	3,967	68,557	96	1,855	31	355
	e-Convenient Time Savings (sales ended in Jul 22, 2015)	2,862	43,312	347	4,987	39	659
	Dokdo Deposits	16,100	286,929	16,392	303,870	282	3,694
	In My Hands	1,771	28,032	14,459	282,745	14,345	286,146
	e-U Deposits	2,569	36,435	7,292	118,986	6,077	110,925
	I-M Deposits(Launched Aug. 2, 2017)					2,419	29,820

Financing for Social Responsibilities

DGB Financial Group has been offering various financial products such as social responsibility investment fund to strengthen social responsibility through finance. '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.

DGB Daegu Bank is committed to fulfilling its social responsibilities through financial assistance where it is needed most. And 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.

Included in FTSE4Good Index

DGB Financial Group has been included in the 'FTSE4Good Index' for the 7th consecutive year, which is one of indicators of international social responsibility investment published by UK Financial Times Stock Exchange (FTSE) in 2017. 'FTSE4Good Index' is a social responsibility index developed by FTSE International, jointly owned by Financial Times (FT), UK

economic daily, and London Stock Exchange (LSE), and it is one of the global sustainability evaluation indexes introduced to promote investment for corporations that fulfill their social responsibilities. Corporations to be included in the index is selected by evaluating sustainable management of corporation and their social responsibility and environmental management performance, and it is the target for benchmark of Social Responsible Investment Funds worldwide.

1st place in relational type small and medium-sized bank in 2017

DGB Daegu Bank ranked 1st among small and medium-sized banks (including 10 local banks) in the "Domestic bank relational financial performance of domestic banks in the second half of 2017" announced by the Financial Supervisory Service. Relational finance refers to the way in which a financial institution steadily provides financial support for a financial company based on non-quantitative information such as CEO's management ability, technology, and competitiveness even if the company has low creditworthiness or insufficient collateral. Daegu Bank actively supports various types of relational financing such as long-term credit support, free management diagnosis service, and equity investment for small and medium-sized corporations selected as targets since the implementation of the relational financial system in 2014.

AMOUNT OF LOANS TO SMES (KRW 1 trillion)



PERCENTAGE OF LOANS TO SMES (%)



CONTRIBUTIONS TO THE SRI PUBLIC SERVICE FUND

Division	2015	2016	2017
Service Amount (KRW ten thousand)	540	175	29

PUBLIC SERVICE FUND PRODUCTS

Division	2015	2016	2017
Midas Responsible Investment Equity Investment Trust (KRW 10 thousand)	182	94	69
Mirae Asset Love Sharing ETF Equality Investment Trust (KRW 10 thousand)	1,879	1,551	558
Allianz Active SRI Equity Investment Trust (KRW 10 thousand)	-	80	47

IMPACT STORY 2

Financial Customer Protection One-stop Service

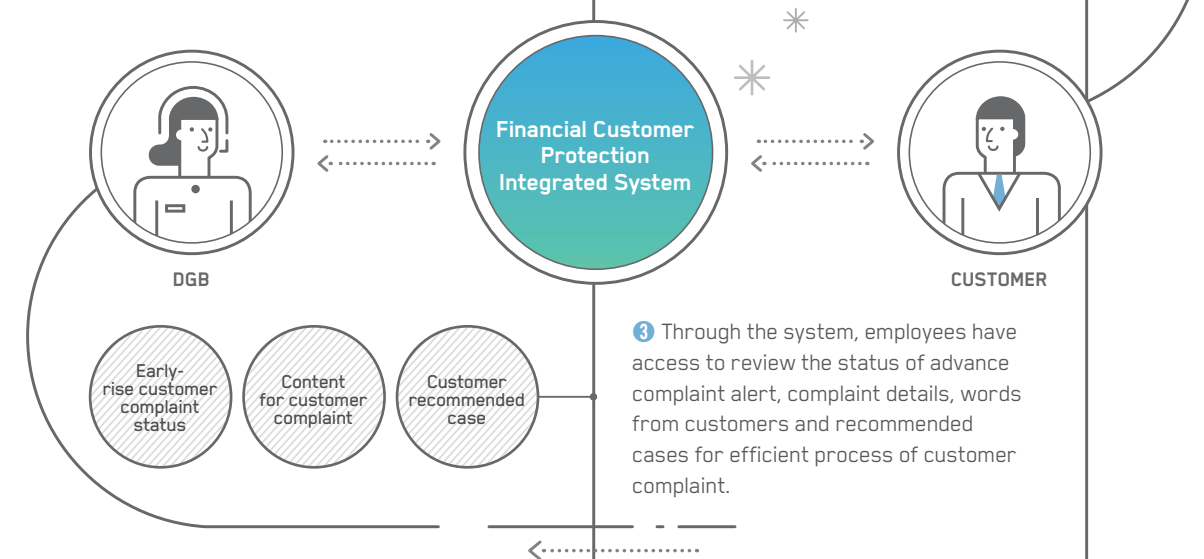
1 Financial Supervisory Service has implemented Financial Customer Protection Status Evaluation since 2015, for voluntary improvement on the weaknesses of financial companies and enhance consumer protection.

2 To reinforce protection and benefits for financial customers, DGB Financial Group has implemented 'Financial Customer Protection Integrated System' integrated complaint system organically to process various complaint related service via one-stop process.

***Financial Customer Protection Status Evaluation**

Yearly evaluation released in regards to the customer protection competency of financial companies in 10 categories

- ① Number of complaint cases
- ② Duration for complaints
- ③ Number of lawsuits
- ④ Business sustainability
- ⑤ Financial Accident / Crime
- ⑥ Customer protection organizations
- ⑦ Establishment in operation of customer protection system in product development
- ⑧ Consumer protection system in product sales process construction and operation
- ⑨ Construction and operation of complaint in management system
- ⑩ Customer information disclosure



3 Through the system, employees have access to review the status of advance complaint alert, complaint details, words from customers and recommended cases for efficient process of customer complaint.

5 Since the implementation of Financial Customer Protection Integrated System, and the financial consumer protection evaluation conducted by Financial Supervisory Service to receive 'Good' in all field.

4 'Financial Customer Protection' plays significant role as it includes the entire process, reflecting customers opinion on the financial product development, financial product information sharing and the support after the purchase.

DGB Daegu Bank Financial Consumer Protection Actual Evaluation

"Good" in All Field

03 ENHANCEMENT OF ORGANIZATIONAL COMPETENCE

MANAGEMENT APPROACH

Significance

The future of DGB Financial Group depends on human resources and their competencies. Therefore, securing excellent talent through fair recruitment procedures, employee capacity-building through systematic education programs, improvement of employee's satisfaction and strengthening loyalty are important elements in sustainable management of DGB Financial Group.

Major Issues in 2017

- Increasing importance of securing talents and competency building
- Respect for employee's diversity and provide equal opportunities
- Employment (gender, new, temporary, turnover)
- Improvement of employee's satisfaction (GWP)
- Stakeholder engagement (Expanding communication channel, responding concerns)

How to Manage

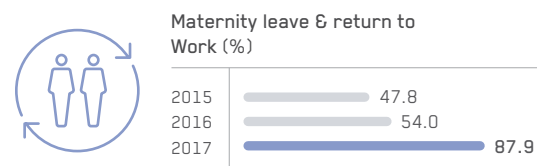
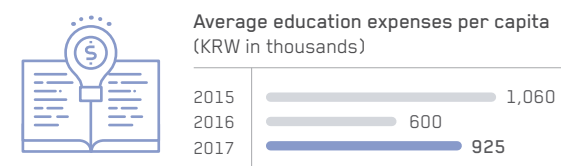
DGB Financial Group hires excellent talents through fair recruitment procedures and makes our efforts to strengthen competencies and employment stability providing a variety of educational conditions. At the same time, we are increasing motivation through fair assessment and compensation based on abilities. We pursue happy corporate culture with employees and to this end, we are promoting shorter working hours and vacation use. Also DGB Financial Group is making efforts to promote programs and expand the welfare system to promote group morale.

Next Step

DGB Financial Group selected three major tasks to foster organizational capabilities: nurturing financial experts, activating active organizations, and challenging innovation. We will do our best to achieve this goal.

Key Performance Index

Performance Index	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average education expenses per capita (KRW in thousands)	-	-	-	1,100	1,100	874	987	1,060	600	925
Employee's satisfaction (Point)	80.0	86.0	88.0	89.0	91.0	90.0	90.0	90.0	90.0	95.0
Maternity leave & return to Work (%)	-	-	-	92.5	88.2	45.2	66.3	47.8	54.0	87.9



Relevant SDGs



Human Resource Development and Support

DGB Financial Group is fostering and supporting enthusiastic talents that create new value based on service and honesty.

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 on-site training is carried out in each relevant department. Through field-oriented practical on-site 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. 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.

Recruitment of Talents

Securing talents who will lead DGB Financial Group is an essential element for sustainable development. The Group will employ DGB type excellent talents through fair recruitment procedures.

Right Talent for DGB Financial Group

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

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

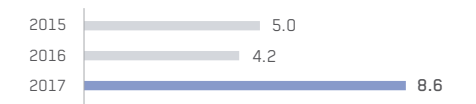
Employment Stability

DGB Daegu Bank employs all new workers as regular employees in its efforts to improve employment stability, and promotes 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.

Fair Evaluation

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

NON-REGULAR EMPLOYEES RATIO(%)



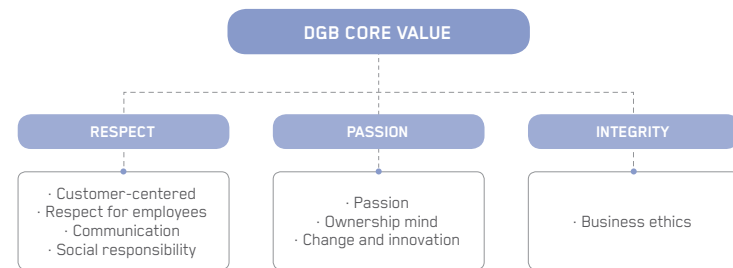
DGB CHILD DREAMER CHILDCARE PERSONNEL

Division	2015	2016	2017
Nursery personnel (persons)	127	115	108

03 ENHANCEMENT OF ORGANIZATIONAL COMPETENCE

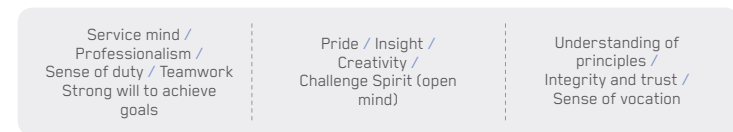
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CORE VALUE



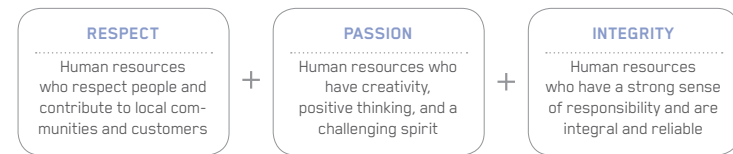
02

COMPETENCY



03

인재상



04

STATEMENT

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

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.

DIVISION

Division	Contents
General Staffs	<ul style="list-style-type: none"> • Anyone can apply regardless of academic background, age, or majors with open recruitment. • Staffs may conduct product development, fund operation and management tasks in headquarters or various banking tasks by doing marketing, sales and customer management in the branches.
Professional Staffs	<ul style="list-style-type: none"> • Those who have knowledge, skills and experience in a specific field can be hired and will conduct specific tasks that require expertise. • Separate qualifications such as academic background, careers or certification can be required depending on the job applying for, and employment contract can be concluded for certain period of time.
Support Staffs	<ul style="list-style-type: none"> • Anyone can apply regardless of academic background, age, or majors with open recruitment or occasional recruitment. • Staffs may support work for smooth progress of works in headquarter or branch offices.
Others	<ul style="list-style-type: none"> • Peak Timer: It refers to part time worker who works on the date specified by the branch office with less than 60 hours.

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 selected six sections (corporate culture, joint venture, IT integration, social contribution, familization of employees, joint resource utilization) to promote Group's unification and is making efforts to realize 'DGB BE One'. We established cooperative relations between subsidiaries by conducting joint marketing with joint product invitations, and raised brand synergy by expanding entrustment of business affairs between subsidiaries as well as through joint entry with DGB Life, Capital and Bank. In addition, the Group CI was renewed to expand and unify images of DGB Financial Group, which was focused on Daegu Bank, to all subsidiaries, and joint recruitment and the Group education was conducted to promote unification of corporate culture through integration of training, education and events.

DGB Corporate Culture

DGB Financial Group has collected 181 opinions from each branches and established guidelines for company dinner culture to create sound corporate culture. Employees need to read and understand the guidelines and write and keep the its checklist attached before company dinner. Through these efforts, everyone is creating pleasant DGB get-together culture. In addition to this, the Group is making sound DGB corporate culture through various campaigns such as 'Treats for promotion & personnel transfer! Let's do this', 'No flowers and messages for congratulation' and 'Seniors change first'.

Field Synergy Council

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. It consists of 17 councils in Daegu and Gyeongbuk area and 5 councils in whole country, and is performing through cross sales among the Group companies, mutual cooperation for activation of customers and analysis services using DGB Data System. In addition, exceptional synergy cases discussed in the Council are shared among affiliates of the Group.

DGB Financial Group also has various programs for communication and unification, such as "Live Talk with CEO" for easier communication among employees and the CEO, "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 Eoullim Program" to encourage communication and sense of integration 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

DGB Financial Group operates various programs to improve employee satisfaction, job satisfaction and the quality of life based on a balance of work and life. We are making various efforts to pursue happy life of employees and to improve work efficiency through improvement of organization culture, long-term incentive system and health management.

DGB CORPORATE CULTURE CAMPAIGN

Communication	<ol style="list-style-type: none"> 1 Company dinner is determined by employee's opinions 2 Company dinner must be informed a week before the day. 3 Check with feedback after get-together.
Sound	<ol style="list-style-type: none"> 1 Company dinner must be finished at the first round. (No karaoke) 2 Must keep 119 and 112. 3 Never do drunk driving. 4 Conduct 3 free company dinner. (3: mixed liquor, force to drinking)
Consideration	<ol style="list-style-type: none"> 1 Do not force to attend company dinner and do not disadvantage for not attending. 2 Do not force to drink. 3 Select a manager (drinking keeper) to help employees get back to their home safely

03 ENHANCEMENT OF ORGANIZATIONAL COMPETENCE

DGB Family Happiness Center

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. In addition, we expand campaign for having hobby for the employees as a part of culture and art program that incorporates hobbies for boosting confidence as well as family participation program such as unmarried men and women crossing meeting, activation of hobby club support and finding DGB roots (Homecoming Day) to expand family-friendly management.

Sound Corporate Culture

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, the Group sets the limits for congratulatory and condolence amount 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 Youth Frontier

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 in-

novation, driving change through practical suggestions for improving corporate culture.

Health Care of Employees

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.

The 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.

Long-term incentive system

The DGB Financial Group has been providing long-term service for over 20 years to domestic and overseas experiential training programs.

In addition, we pay incentives when we achieve our profit goals and achievements, thereby contributing to motivating employees' achievement and raising their loyalty to lower the turnover rate.

Continuity of work through long-term work is helping to improve employee's satisfaction by increasing work efficiency.

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	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

IMPACT STORY 3

'DGB Family Happiness Center', Making Workplace Happy

1 Healthy organization is based on healthy employees and their families. DGB Daegu Bank is making effort to encouraging individual employee's achievements in addition to enhance organizational competency through helping employees to become happier.



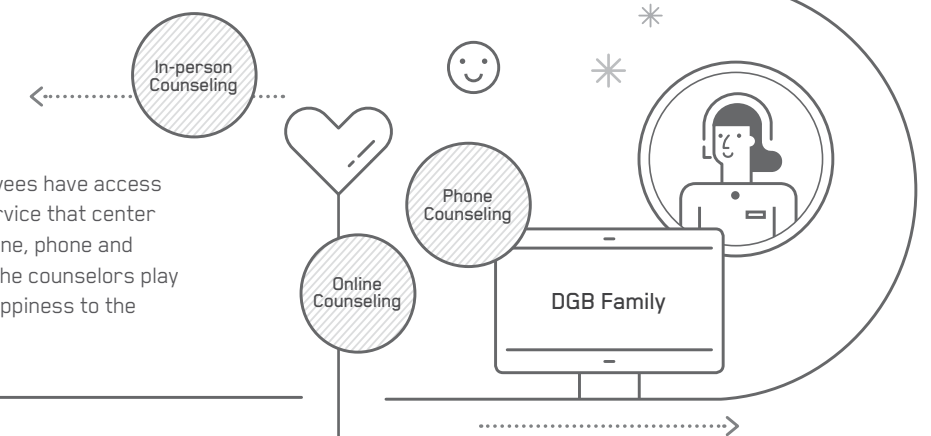
Number of Participants of the Programs DGB Family Happiness Center in 2017

800



2 As part of the effort, DGB Daegu Bank operates the 'DGB Family Happiness Center' as part of its employee support program, 'Employee Assistance Program (EAP)' which helps employees and their direct family members in regard to various types of issues such as personal, family, work, stress and financial crisis to help and solve the problems they face.

3 Entire DGB employees have access to the counselling service that center provides through online, phone and in person channels. The counselors play a roll of spreading happiness to the employees.



4 DGB Family Happiness Center is contributing to make workplace happy by sharing workplace issues such as general inconvenience, workplace relationship, work related stress and family issues.

Number of DGB Happiness Center Hands-on Programs conducted in 2017

9

5 With the DGB's effort for making workplace happy, The DGB Family Happiness Center has participated in 9 programs and has reached 800 people.



MANAGEMENT APPROACH

Significance

To identify and prevent various risk factors that may arise from management activities in a rapidly changing market environment is an important factor for DGB Financial Group's sustainable management.

Major Issues in 2017

- Respond to changes in financial regulation
- Compliance with laws and prohibition of competition inhibition
- Anti-corruption (Strengthening internal control and protecting whistle blower)
- Management and evaluation of human right protection responsibility and its impact (Included in Focus Issue 3, p30 at this report)

How to Manage

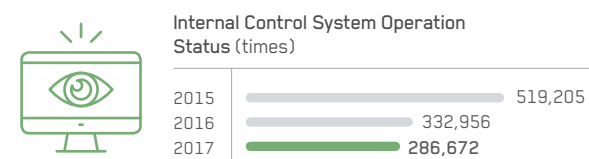
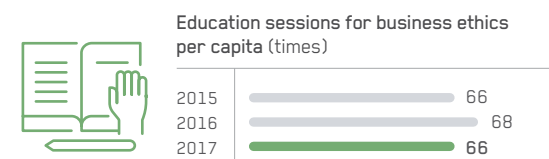
DGB Financial Group is systemically managing risks through the Risk Management Committee. In order to establish a corporate culture that places ethical management as the top priority of its value, the Group is actively promoting ethical codes of conduct for employees, establishing standards for job-specific ethical behavior, implementing compliance monitoring systems, and righteous management programs. In addition, DGB Financial Group have implemented a green management system (ISO14001 / KS I 7001 / KS I 7002) to implement social responsibility for the environment.

Next Step

DGB Financial Group is pursuing ethical management at the international level in preparation of ISO ISO37001 certification. At the same time, we will continue to observe the 'Green Management Regulations' to strive for preemptive response to non-financial risks and focus on various risk management and change management for sustainability management.

Key Performance Index

Performance Index	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of Corruptions and Violation of Law (cases)	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	66
Internal Control System Operation Status (times) (Routine, General, Special, Ordinary)	-	-	-	148,113	356,182	915,380	855,309	519,205	332,956	286,672



Relevant SDGs



Crisis and Change Management

DGB Financial Group recognizes the importance of a preemptive response to financial and non-financial risks such as economic social and environmental 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 taking systematic risk management to minimize damages by preemptively responding to various environmental changes such as economy, politics, social and climate change issues as well as financial and non-financial risks.

Risk Management System and Organization

DGB Financial Group categories risks into major (credit, market, operation, credit bias, interest rate, insurance risk) and minor (liquidity, strategic, reputation, tax) risks. In addition, risk management system 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, the 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 to deliver and decide 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.

RISK MANAGEMENT



Integrated Risk Management System

DGB Financial Group has established an integrated risk management system for efficiency and sustainable growth of risk management of each subsidiary. The Group secured subsidiary data management system by establishing Risk Data Mart to build data-based system, and established risk management module in preparation for regulations of FSS (Financial Supervisory Service). The Group also provided a basis for analysis and monitoring within the group by securing accessibility with person in charge of subsidiary risk management, secured analysis foundation for basic data loading and step-by-step output of the group and subsidiaries, and is providing risk analysis and monitoring tool of risk status with various perspectives. As a result, risk management and monitoring of subsidiary was possible by unifying subsidiary's data and securing its accessibility.

MAJOR ACTIVITIES OF THE RISK MANAGEMENT COMMITTEE IN 2017

Division	Contents
The 1st (2.8)	Approved concurrent operation of Group credit risk by internal grade Approved some revision of risk management regulations
The 2nd (3.24)	Appointed chairman of the risk management committee
The 4th (7.18)	Approved business diversification
The 6th (10.17)	Approved conclusion of SPA (stock purchase agreement)

DGB ETHICS CHARTER

DGB Financial Group practices sustainable management and contributes to the development of local communities and national economy based on the management philosophy of 'Sharing Dreams and Prosperity with the Local Community'. To this end, we, as an employee of the Group, will establish ethics charter and pledge to act on it by putting ethical value of integrity, fairness, consideration and respect in priority.

One. We do our best for interest and satisfaction of customers by providing the best product and services.

One. We maximize Group value through transparent and sound management to increase shareholder interests.

One. We do our best to improve the quality of employee's life by respecting individual dignity and value.

One. We contribute to the development of the local community and the national economy by complying with laws and practice precision management upon principles of truth and honesty.

One. We create a corporate culture of integrity as an exemplary finance man based on moral and honesty.

Ethical Management

In Preparation of Adopting Anti-corruption Management System (ISO37001)

DGB Finance Group is in preparation to adopt Anti-corruption Management System to systematically manage corruption risk and enhance the competency through recovering stakeholders' trust. As for this, we are strategically conveying ethical management system based on globally recognized anti-corruption system, ISO37001. Main goals are to establish, maintain, practice and improve anti-corruption system.

Guidelines for Ethics Carter of Employee

As a practical guideline to practice and comply ethics of employees set in ethical carter of DGB Financial Group, employee ethical carter guidelines such as fair job performance, prohibition of unfair advantages such as money and entertainment, protection of working hours and assets of financial holding companies, investments such as securities, management of important information and creating sound workplace culture were prepared and complied. Employees must immediately report to the compliance officer in

ETHICS PRACTICE PROGRAM

Establishment of Ethical Carter and Conduct Practice Vow of Ethics	We established ethical carter to comply with laws and ethics and to have the standard of employee's patterns of behavior upon the basic principles of truth and honesty. We also conduct practice vow for complying ethics at the opening ceremony at the beginning of every year to form a common consensus and show will to practice as well as autonomous campaign by designating ethical practice themes throughout the year.
Operation of Ethics Practice Day	We conduct ethic practice day once a month to prepare standards for ethical decision-making and judgment, and are trying to handle fair and legal business by acquiring legal regulations related to the job performance.
Self-Inspection System for Compliance of Laws	To cultivate ethics and compliance awareness of employees, we conduct self-inspection for compliance of laws before commencement of work on the first business day of each month and check whether we comply with the ethical carter and related laws when conducting business.
Various Employee Training	We conduct training on compliance with laws and ethical carter for all employees at least once a month for each branch office, and are operating various job training and compulsory training including education related to laws and ethical management.
Operation of Related Council for Internal Control and Compliance of Laws	We hold an internal control meeting in which employees and vice-president attend every quarter to increase the awareness of the importance of ethical management. At the meeting, we review the operation of internal control system and derive its improvement method, and convey CEO's will for ethical management to headquarters and branches to prevent financial accident and realize Clean Bank by strengthening authority and responsibility.
Operation of Integrity Contract System	Employees in charge of contract work pledge for integrity contract with the contents in which providing of money, entertainment, gifts and any convenience are prohibited in the process of concluding or conducting contract with partners and they are making effort to make fair contract with their own strict standards.
Operation of Internal Reporting System	We operate internal reporting system to practice ethical management through checks and balance among employees when they recognize any information about actions against corporate ethics and public interests. (Reporting channel: mail, dedicated phone and email, computerized system, homepage, DGB mobile office)

case of any violation of these guidelines and need to consult with compliance officer in advance if there is any unclear case in relation to the violation on the guideline.

Ethics Practice Program

DGB Financial Group operates various programs to practice ethical work place. We will take the initiative and set an example to establish fair financial orders by respecting right social values in compliance with various laws.



Financial Accidents/ Crime Prevention Program

DGB Financial Group operates various policies in effort to prevent financial accidents and crimes, in addition to periodic employee training.



FINANCIAL ACCIDENTS/ CRIME PREVENTION PROGRAM

Identification Conformation Procedure	For newly joining customers or customers that requires identification confirmation, DGB Financial Group validates identification in the procedure consist of CDD, WLF, RA, EDD and report any suspicious incidence.
Money Laundry Prevention	It is required for to operate training and education for Money Laundry Prevention. For employees, policy standard self assessment is performed in order to distance themselves from financial accidents or crimes directly and indirectly. In addition, accidents or crimes happens in similar industry, the contents are shared real-time base.

OPERATION STATUS OF INTERNAL CONTROL SYSTEM*

	2015	2016	2017
Normal Audit	1,551	1,471	1,541
General Audit	242	240	221
Special Audit	20	14	18
Regular Audit	517,392	331,231	284,892

* Since the regular audit items are determined by reflecting concerns about accidents and changes in regulations, there are difference in the number of cases by year.

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.

04 CSR RISK MANAGEMENT

Minimizing Environmental Footprint

DGB Financial Group actively engages in various activities to minimize the environmental impact caused by its management and continuously strives to provide sustainable environment to future generations.

As climate change is becoming serious problem due to global warming, current generation and future generations are needed to aware the importance of environment and change their behaviors.

DGB Financial Group detects institutional changes and physical changes caused by climate changes and establishes corporate management strategies.

GHG management and reporting

DGB Financial Group has managed GHG emissions by establishing GHG Inventory Control System. By reporting the energy saving and emission, DGB has secured the objectivity and reliability through third party verification every year.

Activities and Outcomes related to Minimizing Environmental Footprint

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. Green Touch Program was installed in 7,059 computers of headquarters and branches

and has resulted in a total of 14,102 kwh of power savings, and 5,979 kg of carbon dioxide reduction in 2017.

DGB Daegu Bank has installed photovoltaic power generation facilities at Banyawol branch and Gyeongju branch since 2008, and we have installed a geothermal system together with photovoltaic power generation facilities at our second head office in 2016.

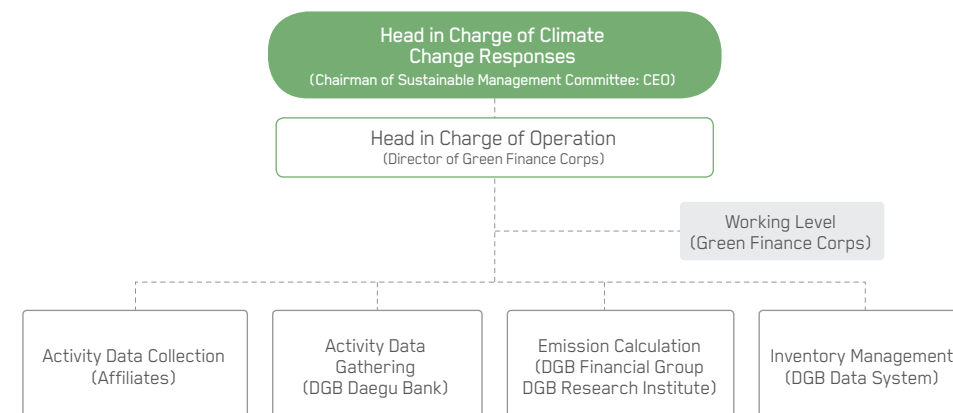
DGB Daegu Bank is transitioning to e-bills in order to reduce the amount of paper use. In addition, various paper-saving activities are being implemented such as the use of reusable paper or double-sided printing. The Group also encourages the purchase of eco-friendly goods. In accordance with the Green Purchasing Guidelines, it is expanding green procurement and encouraging employee participation by enhancing green procurement training.

Establish paperless office environment

DGB Daegu Bank launched a paperless office environment settlement project in preparation for the digitization of the rapidly changing financial industry in April 2018.

This is accomplished through the construction of a counter electronic document system and development of a tablet branch, it will be developed in stages starting from the beginning of 2019 at all branches. We anticipate that this will improve customer convenience and improve the customer response process.

GHG INVENTORY CONTROL SYSTEM



Status of Certificate of the Environmental Management System

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 2017 March Post-Screening To Maintain Certification Of Environmental Management System and Green Management System suggested 24 recommendations on strengthen preventive sector when finding improvement activities for environmental outcomes, while no non-conformity issue was found.

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 to 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.

Operating the 8th DGB Green Press Corps

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 8th DGB Green Press Corps was in operation in 2017; they provided environmental education to students in a total of 8 elementary, middle, and high schools in the region for about 1 month from November 9.

Holding the 9th NIE Energy Journal Contest

DGB Financial Group holds the "NIE Energy Journal Contest" for elementary, middle, and high school stu-



NIE Energy Journal Contest

dents 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 3,000 students in 2017, and 60 students was awarded at the contest.

Environment Education for Employees

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, 4,000 employees participated in environmental protection activities, such as 'Be a Friend with a Park' and 'Cleaning Up Around'.

ANNUAL TRAINING HOURS ON GREEN (hour)



IMPACT STORY 4

DGB's Effort to Raise Environmental Awareness Targeted for Teenagers

1 If the opportunity is given to the teenagers who are to be leading the future to think about environmental issues and ways to take active role, it would be an effective way to engage and raise awareness.

2 Since 2006 DGB Financial Group has held contest for Newspaper in Education (NIE): Energy Journals (essay writing based on the newspaper articles on environmental issues), which helps the teenagers to internalize environmental issues.

3 This contest is to inspire younger generation for integrative thinking and creativity as well as raising awareness on the environmental issues to practice in their lives.

4 The contest started for Deagu, Gyeongbuk region, has expanded to the nationwide since it's 4th contest in 2012.

NIE Energy Diary Contest Entry (1 - 9)

32,200

NIE (NEWSPAPER IN EDUCATION) ENERGY JOURNAL CONTEST

Number of Journals Awarded in NIE Energy Journal Contest (9 contests in total)

473

5 In 2018, 10th contest for NIE: Energy Journal was held, accumulating 32,200 journals has been received and 473 been awarded, establishing the contest as one of the representing environmental contest in the country.

- FUTURE-ORIENTED STRATEGIC MANAGEMENT
- CUSTOMER SATISFACTION MANAGEMENT
- ENHANCEMENT OF ORGANIZATIONAL COMPETENCE
- CSR RISK MANAGEMENT
- CREATING SHARED VALUE

05 CREATING SHARED VALUE

MANAGEMENT APPROACH

Significance

DGB Financial Group has relationship with various partners. Communicating and cooperating with partners is an important issue to create shared value. In addition, Financial Group is a corporation that grows with the local community. It is an important factor in sustainable management to contribute the development of the local community, getting continuous love from them.

Major Issues in 2017

- Participation of stakeholders (Expand communication channel, respond to concern)
- Specialized community social contribution activities (participation, development and investment of the local community)

How to Manage

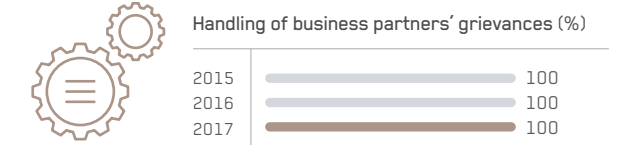
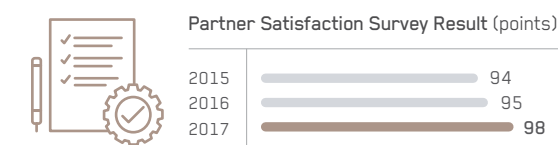
DGB Financial Group holds win-win cooperation meetings every year for mutual growth with partner companies and we conduct customer satisfaction surveys and actively listen and improve any difficulties. In addition, the Group operates various programs for the community through DGB Social Contribution Foundation.

Next Step

DGB Financial Group will continue to support the stable operation of our partners through fair and transparent transactions with partner companies while we will continue to pursue win-win growth by gathering opinions through win-win cooperation meetings. In addition, the Group will make efforts to find various social contribution projects for the elderly, the disabled, multicultural families, etc to satisfy the local people through the DGB Social Contribution Foundation.

Key Performance Index

Performance Index	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Partner Satisfaction Survey Result (points)	-	-	-	-	90	92	95	94	95	98
Management consulting service performance (case)	60	91	85	82	63	67	74	77	94	92
Social Contribution Foundation -specialized business Creation of job (persons)	-	-	-	-	14	16	19	26	27	31



Relevant SDGs



Win-Win Partnerships

As an important economic partner of the DGB Financial Group, our partners are developing the local economy together through win-win partnerships.

05 CREATING SHARED VALUE

Shared Development with Partners

DGB Financial Group is working with various partners to strengthen its professionalism and operate efficiently. The 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.

Partner Satisfaction Survey

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

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

- 01 Stronger Win-Win Partnership
- 02 Transparent Transactions
- 03 Fair Price Compensation
- 04 Zero Unfair Practice in Trade
- 05 Stronger Eco-friendly Activities Comply with Legal Obligations in Various Areas such as Procurement, IT

BUSINESS PARTNER SATISFACTION FOR EACH PART

Division	2015	2016	2017
General Affairs	95	95	98
Standard & Procedure for Contracts	100	100	95
Compensation System	98	98	95
Will & Sentiment for Win-Win Growth	98	98	100

NUMBER OF MEETING WITH BUSINESS PARTNERS

Division	2015	2016	2017
Suggestions by business partners	1 - Reflecting inflation rate in budget allocation	1 - Applying consistent criteria for selecting suppliers and calculating costs	1 - Strengthening communication by more frequent opportunity for sharing information such as meetings
Proposals by DGB Financial Group	1 - Collecting business partners' suggestions and enhancing management channels	1 - Consistent efforts for co-prosperity with business partners	1 - Making efforts to provide various information that can help in partner's management
Actions Taken	Execution of one suggestion	Execution of one suggestion	Execution of one suggestion



DGB Financial Group & Partners Meeting for Shared Growth

Sentiment of DGB Financial Group for Shared Growth. In the 2017 survey, the satisfaction level by sector was 98 point for General Matters, 95 point for Contract Criteria and Procedures, 95 point for Reward System, and 100 point for the Will and Sentiment for Shared Growth.

Communication with Partners

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 2017, importance of partner sustainable management and its countermeasures were shared along with a training to raise the awareness on ethical management, and partners' opinions were addressed actively to make appropriate actions. We suggested that we should strengthen communication by having mutual information sharing sessions more often such as meetings, and we promised to prepare various opportunity to provide information that can be helpful in management.

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.



Meal Service



Sharing Briquette

Local Communities Contribution

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

DGB Companion Volunteer Corps

DGB Financial Group formed DGB Companion Volunteer Corps to be developed with the local community and to practice corporate social responsibility of 'Sharing Dreams and Prosperity with the Local Community'. The Group organized various community voluntary activities that were conducted by each branch or individual to practice management philosophy to advance with the local community as a local bank. This was due to the recognition that it is important to establish management strategy that can coexist with the local community after the foreign exchange crisis. As of 2017, we are leading the way to create bright and healthy society by leading volunteer activities of participation and 'DGB Companion Volunteer Corps' composed of total 52 volunteer groups, including 49 volunteer groups in the region and headquarters, has been practicing with active social contribution activities Emergency Relief Volunteer Group, DGB Family Volunteer Group,

DGB COMPANION VOLUNTEER CORP HISTORY

- February 02, 2002
Starting Ceremony of DGB Volunteer Corp for the First Time in Financial Field
- January 28, 2012
Expanded as 'DGB Companion Volunteer Corp'
- March 06, 2014
Starting Ceremony of Emergency Relief Volunteer Corp
- March 28, 2015
Starting Ceremony of DGB Family Volunteer Corp
- March 19, 2016
Starting Ceremony of DGB Economy Educational Volunteer Corp
- February 16, 2017
Reorganized as total 52 volunteer corps

05 CREATING SHARED VALUE



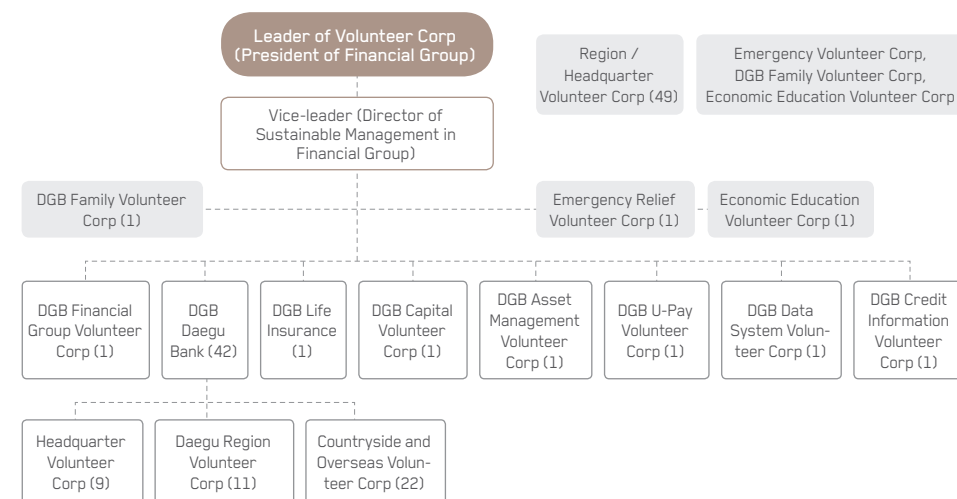
Voluntary Works in Gyeongsan Gamyeong Park

and 3 DGB Financial Economic Education Volunteer Group. We are operating various campaigns that care local community and sharing activities including donation of books, sharing rice campaign, '1 company 1 village' hometown love campaign, neighborhood love campaign through 1% of salary sharing, sharing briquette and Kimchi, participation of free lunch, donation of children with incurable diseases and operation of sharing market, helping underfed children, blood donation and blood donation cards, support welfare facility and volunteer service, Shicheon love campaign, feeding migratory birds and adhering business of banner for prevent forest fires.

Support SMEs

DGB Financial Group is carrying out professional management consulting service in various fields

ORGANIZATION CHART OF DGB COMPANION VOLUNTEER CORP



such as management strategies, personnel & organization, finance & accounting, marketing & sales, BPR & IT, production & quality and R&D by establishing corporate management consulting center to support SMEs, which play an important role in the local economy. In 2017, we provided professional management consulting service to 92 companies. In addition, we regularly conduct various educational programs such as SNS marketing and taxation business.

DGB Daegu Bank helps SMEs, which have difficulty raising funds, to manage their business stably by providing financial supports with Korea Appraisal Board even though the bank has technological competitiveness. Korea Appraisal Board deposited KRW 5 billion in win-win funds to support promising SMEs in Daegu area, and SMEs that have been recommended by Daegu Bank or Korea Depository Center can receive loans at a prime rate.

NUMBER OF FIRMS RECEIVED CORPORATE MANAGEMENT CONSULTING SERVICE



DGB Wednesday Lecture



DGB CEO Forum

Mécénat Activity

DGB Wednesday Lecture

DGB Financial Group has implemented and supported various programs to provide more opportunities for cultural experiences in the local community and to make cultural events more accessible to the local residents. DGB Daegu Bank's second Head Office located in Buk-gu, Daegu invites famous people from diverse fields such as management, humanities society and arts to have Wednesday Lecture. In addition, we are making efforts to revitalize local culture through various cultural and artistic events such as free theatrical performances.

DGB CEO Forum

DGB Financial Group holds the CEO Forum to provide local CEOs and local stakeholders with information on the new management environment.

In 2017, we held three sessions since the first forum in February, and in July we held the DGB Daegu Bank 50th Anniversary Forum.

DGB Culture and Art

The gallery space, which is located on the first floor at the DGB Daegu Bank 2nd Head Office, is being used as a cultural experience space where local artists can exhibit their works and communicate with local residents.

DGB CEO FORUM

Sessions	Contents
1st 2.14 Breakfast Seminar	4th Industrial Revolution and Socio-economic Impact [Science & Technology Policy Institute, Deputy Director, Jung-Won Lee]
2nd 4.18 Breakfast Seminar	Leadership of King Sejeong [Kwangwoon University, Prof. Hong Lee]
3rd 5.23 Breakfast Seminar	Virtue of CEO, Anger Management [Kwangwoon University, Prof. Hong Lee]
4th 7.11 DGB Daegu Bank 50th Anniversary Breakfast Seminar	The Art of War ver. 3.0 [Seoul National University Prof. Byung-Nak Song]
5th 11.7 Breakfast Seminar	'CEO's Dining Table - A Meal that Changed the World' [Food & Culture Critic Yoon, Duk-Noh]

DGB WEDNESDAY LECTURE AND CEO FORUM STATUS (NUMBER OF SESSIONS)

Session Name	2015	2016	2017
DGB Wednesday Lecture	-	5	19
CEO Forum	Daegu	3	5
	Gumi	2	2
	Pohang	1	1
	Gimcheon	1	-
Total	6	11	27



Launched Green Project Team of Bluebird 100



Experiencing Overseas Culture for Finding Vision



Healing Concert of With-U Hope



Global Volunteer Fellowship

Supports for the Financially Disadvantaged

DGB Financial Group continues to support the financially underprivileged such as children from low-income single-parent families, beneficiaries of national basic livelihood scheme, and the growing number of neglected elderly population. Financial support for the underprivileged is a corporate social responsibility and to contribute in healthy financial activities and economic revitalization. Therefore, DGB Financial Group will continue to provide financial support to the underprivileged.

DGB Social Contribution Foundation

DGB Financial Group launched the 'DGB Social Contribution Foundation', the first comprehensive welfare foundation in the financial field, in 2011 to strengthen the roles of companion of local residents and to promote warm financial practices with local communities. Through this, we are continuing professional and systematic community-focused social contribution activities. Businesses of the foundation is operated largely with support business including social welfare, culture-art-physical education, environment & global, education & scholarship, and social enterprise promotion and direct operated business including the facility operation of Dream Tree Educational Foundation, Bluebird Dream Community Children's Center and Bluebird Multicultural Welfare Center, and business operation including DGB Foster Home Total-Care and Bluebird Senior Happy Workplace.

Bluebird Dream Community Children's Center

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 established on

March 21, 2012. 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. Major projects include 'Child Protection Project' to prevent underfed children and neglected children, 'Emotional Support Project' to cultivate empathy ability and form correct ego, 'Education Support Project' for supporting holistic growth, 'Cultural Support Project' for enhancing cultural sensitivity, and 'Community-based Project' for building local community network. All of these projects are to support children grow up right.

Bluebird Senior Happy Workplace

'Bluebird Senior Happy Workplace' is established to create jobs for elderly. It is first time in financial industry and promoting various projects to create jobs for elderly and to promote welfare, which are 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 2017 alone, a total of 15 jobs were conducted.

With-U

DGB Social Contribution Foundation had launching ceremony of 'With-U College Student Volunteer Corps' to provide learning support to children and youth, carrying out 'With-U' business that provides Total-Care for foster children. Staffs of DGB Financial Group and children and adolescents of foster family in Daegu Foster Family Support Center and each welfare center in Daegu set up a one-to-one partnership with college student volunteers to continuously support to the children in need until they become the adult throughout the field of life, health, education and culture. Major projects include 'Learning Mentoring' which helps children and adolescents to improve their study by supplementing the lack of study beyond school after making 1:1 partnership with college students and children and adolescents as well as 'Pocket Money Support', 'Supporting Medical Check-Up', 'Supporting Cultural Experience', 'Supporting Scholarship' and 'Supporting Side Dishes and Daily Necessities'.

Educational Projects

DGB Financial Group conducts various educational programs in the local community.

Dream Tree Educational Foundation

'Dream Tree Educational Foundation was established as 'DGB Children's Welfare Foundation' in February 2012 under full support of DGB Financial Group and DGB Daegu Bank, and received social enterprise certification for the first time in the financial field in June 2014. It supports children and young people to grow up healthy with dreams and hopes for the future through various programs such as career education, experiential learning and counseling. In addition, 'Dream Career Job Experience Hall' is a program that

DGB SOCIAL CONTRIBUTION FOUNDATION'S MAJOR ACTIVITIES

Division		2015	2016	2017
Dream Tree Educational Foundation	Job creation (persons) *	8	8	9
	Proceeds (KRW in million)	109	145	210
Bluebird Senior Happy Workplace	Job creation (persons)	14	15	15
	Proceeds (KRW in million)	47	50	51

* It means job creation through social enterprise nurturing.

DGB DAEGU BANK LABOR UNION'S SOCIAL CONTRIBUTION EXPENSES

Division	2015	2016	2017
- Sponsoring low-income family children (KRW in millions)			
- Providing heating costs for low income families (KRW in millions)	206	223	235
- Supporting local talent (KRW in millions)			

05 CREATING SHARED VALUE



JOB GO Financial Camp of Dream Tree Educational Foundation

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 to allow them to form sound view of occupation.

DGB Financial Education Center

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

DGB's Scholarship cultural Foundation

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 freshmen 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.

DGB'S SCHOLARSHIP CULTURAL FOUNDATION

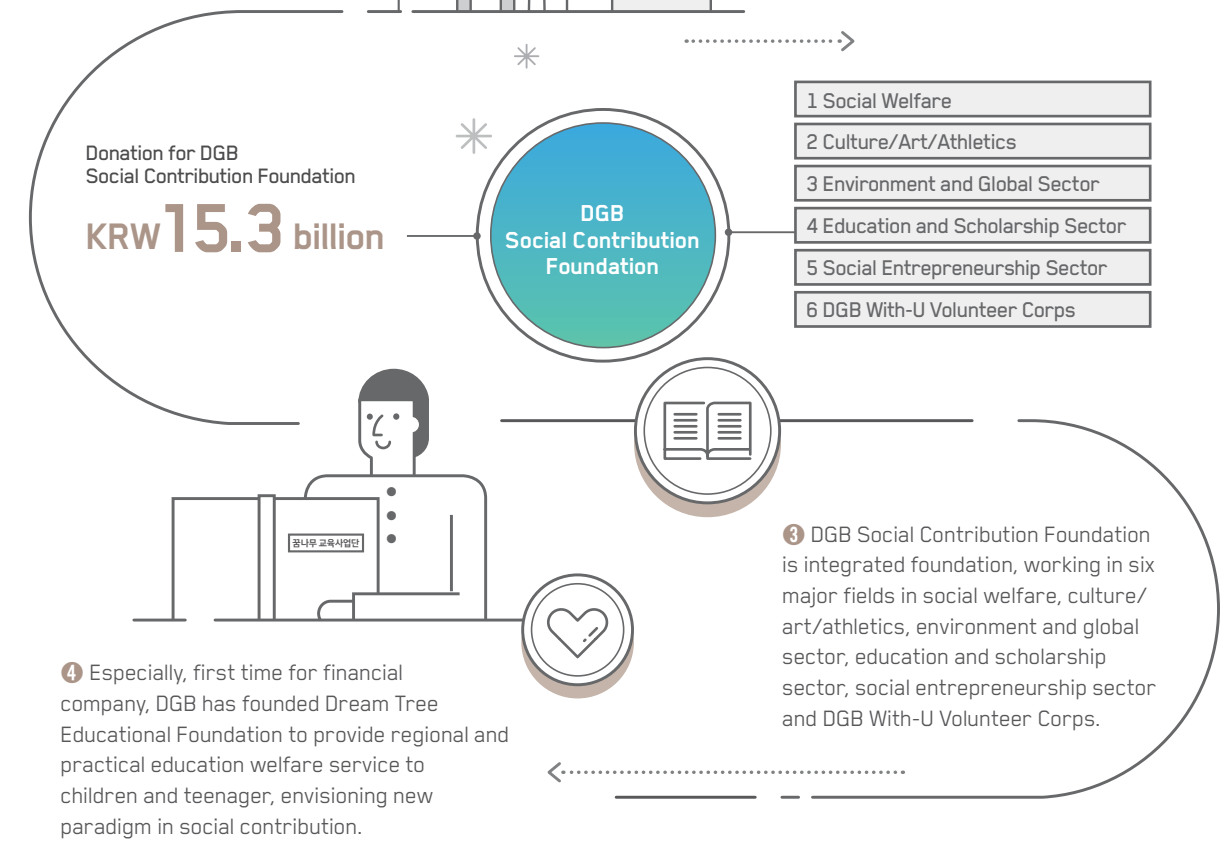
Division		2015	2016	2017
High Schools	No. of beneficiaries	107	101	94
	Amount of scholarships (KRW in millions)	167	159	147
University	No. of beneficiaries	93	92	88
	Amount of scholarships (KRW in millions)	236	229	215

IMPACT STORY 5

DGB Integrated Social Contribution Foundation

1 As an active response to the increasing demand on Corporates' social contributions, DGB has been put many efforts to find ways to solve social issues in multifaceted approach.

2 We have established the first comprehensive social welfare foundation in the financial sector, which operates with 1% of group resources and employee salaries in 2011. The foundation works beyond simple fund donation, carrying out social contribution activities regularly on the level that locals can be engaged, focusing on the actions that works closely with local people.



4 Especially, first time for financial company, DGB has founded Dream Tree Educational Foundation to provide regional and practical education welfare service to children and teenager, envisioning new paradigm in social contribution.

3 DGB Social Contribution Foundation is integrated foundation, working in six major fields in social welfare, culture/art/athletics, environment and global sector, education and scholarship sector, social entrepreneurship sector and DGB With-U Volunteer Corps.

Percentage of employees with social worker's permit

75%



5 For the professional level of social contribution, over 75% of employees have social worker's permit. In 2017 DGB has been awarded in Sustainable Finance from UNGC Value Awards in recognition of the achievements and contributions made to the local community.

BOARD OF DIRECTORS

DGB Financial Group Board of Directors



(As of May 31st, 2018)



Kim, Tae-oh Executive Director(CEO)



Cho, Hae-nyoung
Independent Director(Chairman of the Board)



Suh, In-duk Independent Director



Jon, Kyong-tae Independent Director



Ha, Jong-hwa Independent Director



Lee, Dam Independent Director

DGB Daegu Bank Board of Directors



Park, Myeong-heum
Executive Director(The acting president of a bank)



Kim, Jin-tak
Independent Director(Chairman of the Board)



Suh, Kyun-suk Independent Director



Koo, Wook-seo Independent Director



Kim, Yong-sin Independent Director



Lee, Jae-dong Independent Director



Byun, Dae-suk Executive Auditor

CEOS OF DGB FINANCIAL GROUP SUBSIDIARIES

(As of 2018. 6. 30)



Kim, Kyung-hwan CEO, DGB Life



Lee, Jae-yung CEO, DGB Capital



Lee, Yun-kyu CEO, DGB Asset Management



Park, Dong-gowan CEO, DGB U-Pay



Lee, Seung-yong CEO, DGB Data System



Jung, Chan-woo CEO, DGB Credit Information

FINANCIAL SECTION

Management's Discussion & Analysis - Financial	72
Management's Discussion & Analysis - Non-Financial	77
Independent Auditors' Report	84
Consolidated Statements of Financial Position	85
Consolidated Statements of Comprehensive Income	86
Consolidated Statements of Changes in Equity	87
Consolidated Statements of Cash Flows	88
Notes to the Consolidated Financial Statements	91

MANAGEMENT'S DISCUSSION & ANALYSIS

Diagnosis and Analysis of Financial Management Performance

DGB Financial Group

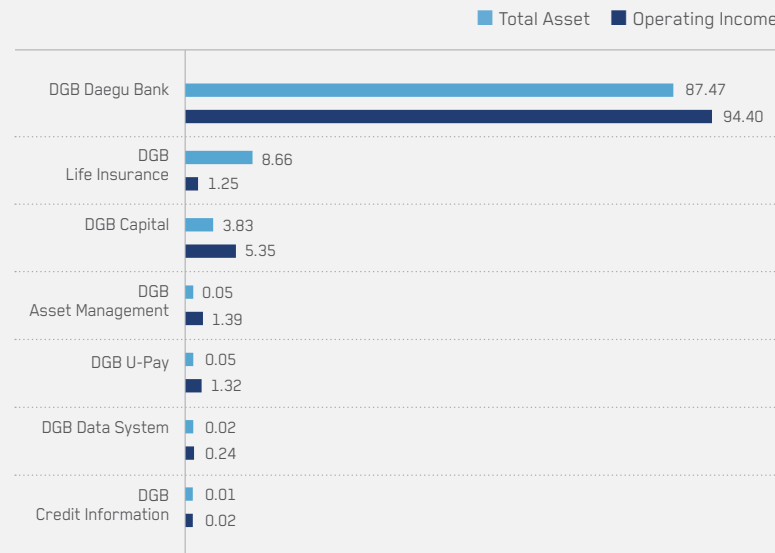
DGB Financial Group was established on May 17, 2011, located in Suseong-gu, Daegu city, as a financial holding company with the capital of KRW 670.3 billion by transferring stocks of Daegu Bank, CardNet and DGB Credit Information, and was listed on the Korea Exchange on June 07, 2011. Since then, the group has incorporated subsidiary of DGB Capital in January 2012, established DGB Data System and incorporated its subsidiary in April 2012, withdrew subsidiary of CardNet and incorporated subsidiary of DGB U-Pay in March 2013, and incorporated subsidiary of DGB Life Insurance in January 2015 and DGB Asset Management in October 2016. AS of December 2017, the group has grown into a financial holding company with total assets of KRW 67 trillion including 7 subsidiaries. In particular, the group is building a leading position in 2017, ranking first place among local banks based on net income. DGB Financial Group is achieving qualitative growth with our management vision to become a global standard bank that practices sustainable management and the management philosophy of growth development, expansion of profitability and accompanied growth with the local community as well as such quantitative growth.

(in billions of KRW)

	DGB Financial Group	DGB Daegu Bank	DGB Life Insurance	DGB Capital	DGB Asset Management	DGB U-Pay	DGB Data System	DGB Credit Information	Others (*)
Gross Operating Income	1,267.3	1,119.0	69.5	68.8	11.5	5	1.9	1.0	-9.4
Interest Income	1,291.3	1,095.4	153.0	67.7	0.3	0.1	0.0	0.1	-25.3
Non-Interest Income	-24.0	23.6	-83.5	1.1	11.2	4.9	1.9	0.9	15.9
Administrative Expenses	676.9	577.4	63.0	22.3	5.8	3.7	0.9	0.9	2.9
Provisions	181.2	155.3	1.4	24.6	0.0	0.0	0.0	0.0	-0.1
Operating Income	409.2	386.3	5.1	21.9	5.7	1.3	1.0	0.1	-12.2
Net Income	316.3	294.1	12.6	16.9	4.4	1.1	0.9	0.1	-13.8
Total Assets	67,105.5	58,696.8	5,813.9	2,567.3	34.0	36.5	10.3	4.7	-58.0

*Consolidation adjustments and trust assets

As of the end of 2017, total assets of DGB Financial Group recorded KRW 67 trillion increased by 8.2% from the previous year, achieving KRW 409 billion and KRW 316 billion of operating income and net income respectively. Total assets and operating incomes of DGB Daegu Bank are KRW 59 trillion and KRW 386 billion respectively, contributing 87.47% and 94.40% of total assets and operating incomes of DGB Financial Group. Total assets and operating incomes of DGB Life are KRW 5,814 billion and KRW 5 billion, and Total assets and operating incomes of DGB Capital are KRW 2,567 billion and KRW 22 billion, showing continuous growth.



ROA and ROE of DGB Financial Group in 2017 were 0.54% and 7.94% respectively, down slightly from the previous year.

NPL Ratio was 0.86%, largely improved by 0.34% from the previous year due to the preemptive and aggressive risk management of DGB Financial Group. Credit ratings are also maintained stably by getting AAA from Korea Credit Rating Agency and A2 from Moody's. In addition, BIS owner's capital, an indicator of capital quality, is also showing higher than the industry average. Propensity to dividend in 2017 was 19.0%, showing higher than 15%-18% which is the range of recent propensity to dividend.

Indicator	Account	(%)
Profitability	ROA	0.54
	ROE	7.94
	CIR	53.41
Asset Quality	NPL Ratio	0.86
	Delinquency rate	0.62
Capital Adequacy	Capital adequacy ratio	12.59
	Tier I CAR	10.88
Dividend Payout)	Denomination Dividend Rate	6.80
	Dividend Payout Ratio	19.0
Credit Ratings	Nice Investor Service, Korea Ratings*	AAA
	Moody's	A2

* Domestic credit rating corresponds to DGB Daegu Bank

DGB Daegu Bank

I. Operating Results

Interest income of DGB Daegu Bank was KRW 1,563.9 billion increased by 4.0% from the previous year, and net interest income was KRW 1,095.4 billion, increased by 7.9% from the previous year. In addition, the net interest margin was 2.24%, increased by 0.096% from the previous year by getting out of the impact of low interest rate. Net interest asset was KRW 43 trillion increased by 5.7% from the previous year, and net interest spreading increased by 0.11% from the previous year. Net interest margin of DGB Daegu Bank is sensitive to changes in market interest rates due to relatively high proportion of short-term loans, and net interest margin increased due to recent interest rate movements.

Net Interest Income & Net Interest Margin

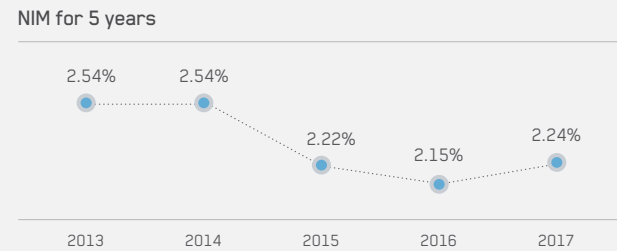
(in billions of KRW)

	2017	2016	Amount	YoY Change (%)
Interest revenue	1,563.9	1,503.2	60.7	4.0%
Cash & due from banks	4.8	4.8	-	0.0%
Securities	172.6	184.3	-11.75	-6.3 11.8%
Loans	1,383.9	1,311.2	72.7	5.5%
Others	2.7	2.8	-0.1	-3.6-12.7%
Interest expenses	468.6	487.7	-19.1	-3.9%
Deposits	360.6	372.8	-12.2	-3.3%
Borrowings	43.5	42.3	1.2	2.8%
Bonds	60.7	68.7	-8	-11.6%
Others	3.8	3.9	-0.1	-2.6%
Net interest income	1,095.4	1,015.4	80.0	7.9%
Net interest (%)	2.24%	2.15%	0.09%p	-
Net interest spread in won (%)	2.57%	2.46%	0.11%p	-

(in billions of KRW)

	2017	2016	Amount	(%)
Net Interest Spread in Won	2.57%	2.46%	0.11% p	4.5%
Average Lending Rate	3.72%	3.72%	0.00% p	0.0%
Average Deposit Rate	1.15%	1.26%	-0.11% p	-8.7%
Net interest-bearing assets	43,442.4	41,115.7	2,326.70	5.7%

Net interest of DGB Daegu Bank was 2.24%, increased by 0.09% p from 2.15% of the previous year. The reason for this rebound is the improvement in NIM by occurrence of loan repricing at higher interest rates and the increase of interest rates of bank debentures, which are linked with 70% of KRW loans. This is a result of increase in loans according to aggressive loan sales in line with the increase of interest rates in 2017. Based on high level of loan growth with changes in the local community and high sensitivity to increases of interest rates, NIM is expected to gradually improve in the future.



Non-interest income in 2017 was KRW 23.7 billion, down 55.7% from the previous year. Items of commission income, gains on securities and gains on foreign currency transaction and derivatives products increased compared with the previous year, but gains on loss on sales of loans decreased by KRW 39.2 billion and entire non-interest income decreased by KRW 29.8 billion from the previous year.

(in billions of KRW)

			YoY Change	
	2017	2016	Amount	(%)
on-interest Income	23.7	53.5	-29.8	-55.7%
Commission income	74.7	72.5	2.2	3.0%
Gain on securities	48.0	43.5	4.5	10.3%
Gain on foreign currency transaction & derivatives products	18.3	13.4	4.9	36.6%
Gain on disposition of loans	-9.9	29.3	-39.2	-133.8%
Other operating expenses	-107.5	-105.2	-2.3	2.2%

Sales Fee and Administrative Expenses in 2017 was KRW 577.4 billion increased by 4.8% from the previous year, resulting slight increase in the selling and administrative expenses ratio from 51.5% to 51.6%. This increase is due to the occurrence of voluntary retirement and transferred allowance for bad debts. The management efficiency of the company seems to be improving gradually except these temporary factors. Specifically, provision for severance indemnities and labor cost increased by 35.6% and 5.2% respectively from the previous year, and taxes and dues decreased by 4.0%. DGB Daegu Bank is making effort to strengthen its network in each branch and renovate its operations to improve work efficiency and productivity.

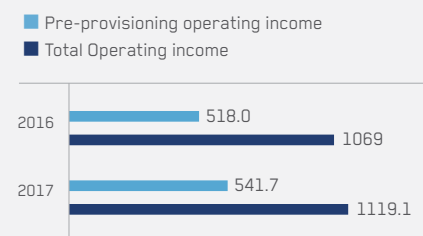
(Unit:in billions of KRW)

			YoY Change	
	2017	2016	Amount	(%)
Sales fee and administrative expenses	577.4	551.0	26.40	4.8%
Salaries and employee benefits	294.6	280.0	14.60	5.2%
Taxes and dues	63.0	65.6	-2.60	-4.0%
Retirement allowances	53.3	39.3	14.00	35.6%
Other G&A expenses	166.5	166.1	0.40	0.2%
Cost-income ratio (%)	51.6%	51.5%	0.1%p	0.2%

Pre-provisioning operating income of DGB Daegu Bank in 2017 was KRW 541.7 billion, increased by KRW 23.7 billion from the previous year, growing 4.6%. Non-interest income decreased from the previous year, but total operating income increased by 4.7% from the previous year's KRW 1,069 billion due to the increase of loan and interest rate increase. Although the increase in total operating income partially offset the increase in general and administrative expenses, pre-provisioning operating income is continuously improving. KRW 23.6 billion decreased in allowance for bad debts, and operating income in 2017 was KRW 386.3 billion, increased by KRW 46.6 billion from the previous year.

(in billions of KRW)

			YoY Change	
	2017	2016	Amount	(%)
Pre-provisioning operating income	541.7	518.0	23.7	4.6%
Total Operating income	1,119.1	1,069.0	50.1	4.7%
G&A expenses	577.4	551.0	26.4	4.8%
Total provision	155.4	178.3	-22.9	-12.8%
Provision for loan losses	155.7	179.3	-23.6	-13.2%
Operating income	386.3	339.7	46.6	13.7%



II. Financial Position

Assets of DGB Daegu Bank in 2017 were KRW 48,325.1 billion, increased by KRW 2,379.9 billion from the previous income of KRW 45,945.2 billion. DGB Daegu Bank is rapidly responding to changes in local economies such as the creation of national industrial complexes, and recorded high loan growth in 2017 with aggressive marketing by strengthening community-based sales network and putting customer's value as top priority. The bank achieved the top position in local banks for the fourth consecutive year in terms of asset size and net income.

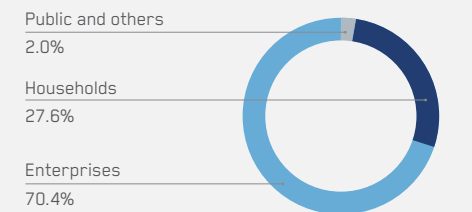
(in billions of KRW)

Asset			YoY Change	
	2017	2016	Amount	(%)
Assets	48,325.1	45,945.2	2,379.9	5.2%
Cash and due from banks	1,981.0	2,231.0	-250.0	-11.2%
Securities	8,193.8	7,855.4	338.4	4.3%
Loans	37,442.1	35,240.7	2,201.4	6.2%
Fixed assets	451.4	404.2	47.2	11.7%
Other assets	256.8	213.9	42.9	20.1%

Loans of DGB Daegu Bank in 2017 was KRW 35,106.9 billion, increased by KRW 2,123.1 billion compared with previous year's KRW 32,983.8 billion. Loans to enterprises increased by 5.8% compared with the previous year due to the regional economic growth with creation of national industrial complexes. Loans to enterprises contributed to stable export support for local enterprises and development of local economy, achieving KRW 24,304.3 billion in 2017. Loans to enterprises account for 70.4% of the total loans, showing the largest portion. In addition, loans to households, which accounts for 2.76% of total loans, recorded KRW 9,535.6 billion increased by KRW 715.4 billion from the previous year due to the recent increase of domestic mortgage loans. In addition to these, public loan sector, which has relatively low credit risk, recorded KRW 673.2 billion, up 8.3% from the previous year. As incomes of loans in KRW increased sharply compared to deposits in KRW, 2017 profitability of DGB Daegu Bank increased.

(in billions of KRW)

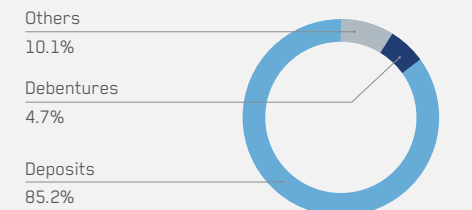
Loans			YoY Change	
	2017	2016	Amount	(%)
Total loans	35,106.9	32,983.8	2,123.1	6.4%
Loans in KRW	34,513.1	32,410.5	2,102.6	6.5%
Loans to enterprises	24,304.3	22,968.8	1,335.5	5.8%
Loans to households	9,535.6	8,820.2	715.4	8.1%
Loans to public and others	673.2	621.5	51.7	8.3%



Total liabilities of DGB Daegu Bank was KRW 43,325.1 billion in 2016, but recorded KRW 44,546.1 billion in 2017, increased KRW 2,221 billion (5.2%) from 2016. A Low-cost deposit was KRW 37,967.2 billion, up 7.1%, but high-cost debentures decreased 15.3% from the previous year, recording KRW 2,108.9 billion. As a result, the portion of low-cost deposits in DGB Daegu Bank's funding structure increased from 83.7% in 2016 to 85.2% in 2017. DGB Daegu Bank has increased low-cost deposits even in a market environment where funding costs are rising due to an increase in interest rates. Therefore, average funding expenses have decreased compared to 2016.

(in billions of KRW)

Funding Structure			YoY Change	
	2017	2016	Amount	(%)
Total liabilities	44,546.1	42,325.1	2,221.0	5.2%
Deposits	37,967.2	35,435.4	2,531.8	7.1%
Debentures	2,108.9	2,488.4	-379.5	-15.3%
Others	4,470.0	4,401.3	68.7	1.6%



Core deposits increased from KRW 13,452 billion in 2016 to KRW 14,444.3 billion in 2017, up 7.4% due to aggressive marketing and increased customer trusts of DGB Daegu Bank. Contribution rate of % of core deposits compare to total deposit recorded 34.2%, increased by 0.8%, and it is gradually increasing followed by 30.5% in 2014, 31.7% in 2015 and 33.4% in 2016.

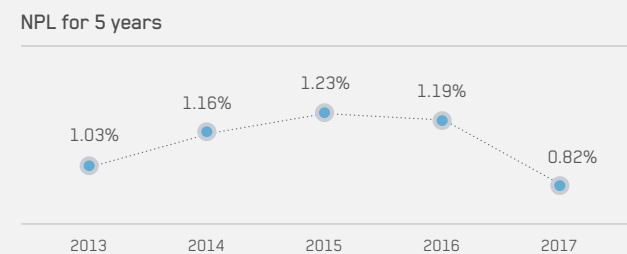
(in billions of KRW)				
	YoY Change			
	2017	2016	Amount	(%)
Core deposits (A)	14,444.3	13,452.0	992.3	7.4%
Total deposits (in KRW) (B)	35,193.4	33,168.6	2,024.8	6.1%
% of core deposits(A/B)	41.00%	40.60%	0.4%p	-
(*) Total deposits (C)	42,249.0	40,263.9	1,985.1	4.9%
% of core deposits (A/C)	34.20%	33.40%	0.8%p	-

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

The loan size below standard of DGB Daegu Bank in 2017 was KRW 294.5 billion, down by KRW 110.9 from 2016, and NPL ratio is 0.82%, down 0.37 from 1.19% of 2016. DGB Daegu Bank manages its NPL ratio below appropriate level with preemptive risk management through continuous refunding and selling of distressed debts.

(in billions of KRW)				
	YoY Change			
	2017	2016	Amount	(%)
Total credit	36,036.9	34,064.9	1,972.0	5.8%
Normal	35,410.7	33,324.2	2,086.5	6.3%
Precautionary	331.7	335.3	-3.6	-1.1%
Substandard	198.1	314.9	-116.8	-37.1%
Doubtful	63.7	31.3	32.4	103.5%
Estimated loss	32.7	59.2	-26.5	-44.8%
NPL Ratio (%)	0.82%	1.19%	-0.37%p	-
Delinquency rate (%)	0.51%	0.68%	-0.17%p	-

DGB Daegu Bank changed NPL ratio to 1.19% decline in 2016 through preemptive risk asset management and active risk management. In addition, the bank recorded 0.82% of NPL ratio in 2017, down 0.37% from 2016 despite of increase in household debt and industrial restructuring, keeping less than 1%. The bank is focusing a lot on risk management.



Capital of DGB Daegu Bank recorded KRW 4,004.5 billion in 2017, up KRW 90 billion from 2016's KRW 3,914.5 billion. Although the amount of capital in tier 2 decreased by KRW 74.9 billion from 2016, the tier 1 capital recorded KRW 3,481.4 billion, up KRW 164.9 billion from 2016, leading to increase in total capital. Tier 1 capital of DGB Daegu Bank increased due to the expansion of its sales force and improvement of its profitability through management efficiency. As a result, the capital adequacy ratio in the tier 1 also recorded 12.53% in 2017, up 0.39% from 2016's 12.14%. This increase means an improvement in capital adequacy, which means that the bank has enough capital in a crisis situation. BIS ratio in 2017 recorded 14.41%, up 0.08% from 2016's 14.33% due to the growth of good assets and increase in net income, showing stable ratio with much higher figure of 8% proposed by the international bank.

(in billions of KRW)				
	YoY Change			
	2017	2016	Amount	(%)
Total capital	4,004.5	3,914.5	90.0	2.3%
Tier I capital	3,481.4	3,316.5	164.9	5.0%
Tier II capital	523.1	598.0	-74.9	-12.5%
Risk-weighted assets	27,785.2	27,322.5	462.7	1.7%
Capital adequacy ratio (%)	14.41%	14.33%	0.08%p	-
Tier I CAR (%)	12.53%	12.14%	0.39%p	-
Tier II CAR (%)	1.88%	2.19%	-0.31%p	-

MANAGEMENT'S DISCUSSION & ANALYSIS

Diagnosis and Analysis of Non-Financial Management Performance

Human Capital

As of the end of 2017, total 3,186 employees work in DGB Daegu Bank of DGB Financial Group. There are 1,686 males and 1,500 females, 2,911 regular employees and 275 contract employees, and 2 employees under 20s, 583 employees in 20s, 936 in 30s, 1,102 in 40s and 563 over 50s. We applied additional point for vulnerable social group and 819 employees with high school graduate, 37 disabled employees and 208 national security employees are working.

DGB Daegu Bank Employee Status

(Unit: person)			
Division	2015	2016	2017
Total No. of Employees	3,100	3,138	3,186
Employees			
Executives	40	43	48
Staffs	3,060	3,095	3,138
Gender			
Male	1,673	1,670	1,686
Female	1,427	1,468	1,500
Employment Type			
Regular Employees	2,946	3,006	2,911
Contract Employees	154	132	275
Age			
Under 20s	27	6	2
20s	611	549	583
30s	1,019	954	936
40s	1,045	1,097	1,102
50s and above	398	532	563
Others			
High School Graduate	857	849	819
Disabled	33	33	37
National Security	212	209	208

DGB Daegu Bank Diversity Index

(Unit: %)			
Division	2015	2016	2017
Percentage of female employees (%)	46.7	47.8	48.3
Percentage of total female managers (%)	19.7	21.5	22.6
Percentage of women in lower management positions* (%)	23	25	30.8
Percentage of women in senior management positions** (%)	2.9	4.3	5.5
Other Human Diversity Ratios	-	-	-
			- Age : 1954-1999 - Nationality: Korean 3,186, Others 18 - Disabled 37 (Severely disabled 3)

* Lower management positions: more than manager less than general manager ** Senior management positions: more than general manager

DGB Financial Group has been making efforts to attract talented people to create jobs and strengthen our organizational competencies. We hired 180 in 2015, 178 in 2016 and 223 employees in 2017.

DGB Daegu Bank New Employment

(Unit: person, %)			
Division	2015	2016	2017
New Employment			
Male	103	82	145
Female	77	96	78
Total	180	178	223
Ratio	5.8%	5.7%	7.0%

DGB Daegu Bank Health & Safety

(unit: %)			
Division	2014	2015	2016
Industrial accident rate	0	0	0
Absence rate	0.3	0.3	0.3

197 employees retired in 2015, 127 employees retired in 2016, down 70 employees from the previous year, and 176 employees retired in 2017, up 49 employees. The number of retired employees increased due to the voluntary retirement system in 2017.

DGB Daegu Bank Retirement

(Unit: person, %)

Division		2015	2016	2017
Retirement	Male	161	80	129
	Female	36	47	47
	Total	197	127	176
	Ratio	6.33%	4.54%	5.58%

DGB Financial Group is making efforts to prevent female employees from cutting their careers by pregnancy, childbirth and childcare. We strongly encourage female employees to use maternity leave and childcare leave, and total 141 employees in 2017 used childcare leave and 124 employees returned the company to continue their careers.

DGB Daegu Bank Maternity Leave & Return to Work Rate

(Unit: person, %)

Division	2015	2016	2017
No. of employees on maternity leave (persons)	134	215	141
No. of employees who have returned from maternity leave (persons)	64	116	124
Rate of return to work (%)	47.8	54.0	87.9
No. of employees who retired after maternity leave (persons)	6	12	13

* Ratio of returning after parental leave to Prepared for childcare leave

DGB Financial Group is making our efforts for the satisfaction of internal employees. As a part of our efforts, we are strengthening communication between labors and management and promoting labor union activities. As a result, 2,190 out of 2,190 employees who are subject for DGB Daegu Bank labor union joined the labor union and registered a labor union membership rate of 100%. We are planning to grow by maintaining positive management performance and employment security through coexistence of labor and management

DGB Daegu Bank Labor-Management Relations

(Unit: person, %)

Division	2015	2016	2017	2018(expect)
Subjects for Labor Union Membership (People)	3,348	3,387	3,254	3,390
Joint Labor Union (People)	2,145	2,208	2,190	2,204
The union participation rate (%)	64.1	65.2	67.3	65
Rate of Joining Labor Union (%)	100	100	100	100

DGB Financial Group considers that the competence of our internal employees is the competitiveness of the company, and invests in employee education. The average education hour per capita was 68 hours in 2017, and the average expenses per capita were KRW 925,000, up KRW 325,000 from the previous year.

DGB Daegu Bank Employee Education

Division	2015	2016	2017
Average education hours per capita (hours)	43	70	68
Average education expenses per capita (KRW in thousands)	1,060	600	925

DGB Financial Group has started to listen to frank opinions of employees by preparing various communication channels and we solved 21 cases in 2015 and 19 cases in 2016 out of received 19 cases. 84 grievances handling were received in 2017 and this is the result of opening various communication channel such as 1:1 interview after visiting DGB Human Rights Center.

Employee Grievance Handling

Division	2015	2016	2017
No. of grievances received (cases)	21	19	84
Rate of grievance resolution (%)	100	100	79

Manufactured Capital

DGB Financial Group operates 312 branches as of the end of 2017. Each subsidiary operates their branches including 253 for DGB Daegu Bank, 44 for DGB Life Insurance, 11 for DGB Capital, 1 for DGB Asset Management, DGB U-Pay, DGB Data System and DGB Credit Information. We will continue to make effort to provide financial services that allow customers to access easily.

No. of Branches

(Unit: branch)

Division	2015	2016	2017	
No. of Branches	DGB Daegu Bank	255	259	253
	DGB Life Insurance	44	49	44
	DGB Capital	6	12(Including 1 DLLC)	11(Including 1 DLLC)
	DGB Asset Management	0	1	1
	DGB U-Pay	1	1	1
	DGB Data System	1	1	1
	DGB Credit Information	1	1	1
	Total	308	324	312

Financial instrument such as CD and ATM installed in Korea are continuously decreasing since its peak in 2013. This is the result of the expansion of mobile financial services. In this trend, DGB Daegu Bank has also decreased its instrument to 2,471 in 2015, 2,380 in 2016 and 2,211 in 2017.

Instrument Status

(Unit: Instrument)

Division	2015	2016	2017	
Instrument Status	CD	367	166	-
	ATM	1,645	1,761	1,783
	Pass Book Printer	176	171	163
	Unmanned Payment Machine	283	282	265
	Total	2,471	2,380	2,211

The number of customers in DGB Financial Group is 3.45 million as of 2017, similar to the previous year. Due to the spread of online banking, people in the age group between 21 to 30 decreased by 30,000, and the each group of under 20's, 31 to 40, 41 to 50 and 51 to 60 increased by 10,000 each.

Number of Customers

Division		2015	2016	2017
No. of Customers	Under 20	37	58	62
	21 to 30	100	126	120
	31 to 40	48	55	55
	41 to 50	31	36	36
	51 to 60	22	22	23
	61 to 70	13	14	14
	Over 71	32	36	35
	Total	283	347	345

(Unit: in millions of customer)

Intellectual Capital

DGB Financial Group is investing FinTech project such as I-M Bank 2.0 to respond to rapidly changing financial markets and to create sustainable outcomes by finding new growth engines. The group is actively responding to FinTech project by investing KRW 2,817 million in 2015, KRW 2,174 million in 2016 and KRW 2,712 million in 2017.

Investment in FinTech

Division	2015	2016	2017
Investment in FinTech	2,817	2,174	2,712

(Unit: in millions of KRW)

Number of online customers in DGB Financial Group is 1.88 million, same level as offline. With the spread of online banks such as Kakao Bank, the number of customer aged 21 to 30 decreased by 30,000, and the group is making efforts to cope with these decreases.

No. of Online Customer

Division		2015	2016	2017
No. of Online Customer (Based on Internet Banking Customer)	Under 20	12	17	19
	21 to 30	68	83	80
	31 to 40	41	47	48
	41 to 50	20	21	22
	51 to 60	10	9	10
	61 to 70	5	4	4
	Over 71	7	8	6
	Total	163	188	188

(Unit: in millions of customer)

DGB Financial Group has registered 8 patents through continuous development activities and applied 10 patents. The group conducted various projects such as building non-face-to-face business enhancement system and 'love sharing bankbook' project, which is donation system with investor's name.

Patent Registration

Division		2015	2016	2017
Patent	Registration	8	8	8
	Application	10	10	10

(Unit: Case)

Natural Capital

Headquarter and 2nd headquarter of DGB Financial Group practiced various activities to reduce water use. As a result, the group saved 27,708 tons of water, 8.4% from the previous year.

Water Usage

Division		2015	2016	2017	2018(Target)
Total Usage		167,584	168,753	141,045	136,240
Usage per Branch		659.8	651.56	538.34	520
Data Collection Range	Headquarter and 254 branches		Headquarter, 2nd headquarter and 259 branches	Headquarter, 2nd headquarter and 262 branches	-

(Unit: ton)

DGB Financial Group conducts environmental education for waste disposal and handling staff every year to properly dispose waste. As a result, the amount of papers generated by the end of 2017 recorded 138.4 tons, down 0.7 tons from the previous year, and amount of print toner recorded 2.99 tons, down 0.1 tons.

Waste Management

Division		2015	2016	2017
Waste	Paper Use (ton)	134.1	139.7	138.4
	Recycling Rate of Paper	100	100	100
	Terminal Ribbon (Kg)	758	705	698
	Recycling Rate of Terminal Ribbon	15.60	15.87	16.01
	Print Toner (ton)	3.0	3.1	2.99
	Recycling Rate of Print Toner	14	14	14
	Total (ton)	144.7	149.9	142.1

DGB Financial Group is making efforts to increase the purchase rate of green products. As a result, it increased 83.5% in 2015, 83.37% in 2016 and 83.9% in 2017.

Green product purchasing

Division		2015	2016	2017
Total Purchasing		8,815	8,425	7,242
Green Product Purchasing		7,364	7,048	6,075
Green Purchasing Rate (%)		83.5%	83.7%	83.9%

(Unit: KRW in millions, %)

DGB Financial Group introduced 'Green Touch Program' to reduce energy, converting paper bills to e-mail, increasing green purchasing and educating employee's environment. As a result, the group obtained ISO14001 certificate of environmental management system.

Energy Reduction

Division		2015	2016	2017	2018(Target)
Energy	Direct	40.66	39.43	41.30	40.0
	Indirect	118.61	116.17	118.67	116.0
	Total	159.27	155.6	160.0	156.0
Renewable Energy Usage		0.10	0.11	0.13	0.14
Reduction Rate of Energy		-	2.3%	-2.8%	-

(Unit: TJ)

DGB Financial Group has systematically managed GHG emissions by building a GHG inventory system. In addition, the group secured objectivity and reliability of the disclosure data of GHG emissions through external verification.

Division	2014	2015	2016	2017	2018(plan)
GHG Emissions					
Scope 1	3,069	2,770	2,684	2,674	2,650
Scope 2	15,098	15,364	15,046	15,369	15,100
Scope 3	1,620	2,382	2,334	2,407	2,380
Total	19,787	20,514	20,064	20,450	20,130
Reduction Rate of GHG	-	- 3.7%	2.2%	-1.9%	-

Indirect greenhouse gas emissions details	2015	2016	2017	2018(plan)
Branches	7,922	7,603	7,594	7,500
ATM	2,710	2,552	2,420	2,400
DGB Daegu Bank Head Office (Including DGB Financial Group, data system)	4,619	4,773	5,261	5,200
DGB Credit Information	43	44	34	34
DGB U-Pay	69	75	59	55

Environmental Protection Activity Status	2015	2016	2017
Number of activities (times)	95	97	118
Participants (persons)	2,120	2,385	4,292
Environmental protection investment cost (KRW million)	9	35	38

Status of companies applying environmental impact assessment	2015	2016	2017	2018(plan)
No. of firms applied environmental management assessment	19,244	18,021	20,429	20,926
No. of firms excluded from environmental management assessment	872	358	432	443
Percentage of applied environmental management assessment	95.67	98.05	97.93	97.93

Division	2015	2016	2017
Total Billing (number)	6,714,903	7,094,699	6,686,930
Number of email billing (cases)	2,167,446	2,336,020	4,089,050
Email billing rate (%)	32.30	32.93	61.15

* All of the electronic media invoices including e-mail, mobile, and kakao talk (excluding mailing) will be aggregated and inserted into the table at the bottom of the table.

Project	Investment period	Commitment amount	2017(Expenditure)
Ulsan city resource recovery utility private investment project	2009.06-2024.03	20,250	12,126
Jeju Seogwipo Gashiri Wind Power Project	2017.08-2025.08	10,000	10,000
Daegu Waste Energy Facility Private Investment Project	2015.09-2029.06	15,000	13,574
Pohang Jangyang sewage treatment facility private investment project → Conversion of Fund Investment	2014.11-2031.06	8,230	5,174
Pohang Clean Water Love Private Investment Trust*			

* Existing loans are only invested in repayment funds

Social & Relationship Capital

DGB Financial Group pursues continuous communication with the local community based on its management philosophy of 'Sharing Dreams and Prosperity with the Local Community' as well as continuous growth with the member of community by providing benefits received from the local community through sharing. In particular, the group is planning and carrying out strategic social contribution activities by considering characteristics of financial corporations, and 18,515 employees with support of KRW 31,548 million are carrying out voluntary activities as of the end of 2017.

Major Social Contribution Activities	Supporting Amount	Volunteers	Supporting Amount	Volunteers	Supporting Amount	Volunteers
Local communities and public welfare	13,569	12,280	12,278	12,057	12,025	11,118
Culture, art, and sports	5,736	1,860	5,140	1,648	7,039	2,461
Education and scholarship	2,163	296	1,393	230	5,209	644
Micro-credit, dormant deposit / Youth Startup Foundation / Credit	1,450	-	462	-	7,136	-
Environment and global	91	5,355	238	5,359	139	4,292
Total	23,009	19,791	19,511	19,294	31,548	18,515

DGB Financial Group makes efforts to build sound corporate ecosystem and to strengthening industrial competitiveness through win-win growth with its partners. As part of that, the group provided management consulting support to 92 partners as of the end of 2017.

Division	2015	2016	2017
Management Consulting Support	77	94	92
Activities	World Class 300 : 10 Management Diagnosis of Economic Promotion Agency : 5 Comprehensive Diagnosis of Start Corporation : 10 Comprehensive Diagnosis of Pre-Star Corporation : 22 Others : 30	Energy Material Parts Business of Gyeongbuk Region : 18 World Star : 4 World Class 300 : 6 Pohang Small hidden Champions : 15 Relational and Free: 17	Pohang Small hidden Champions : 12 Comprehensive Diagnosis of Pre-Star Corporation: 6 Global Small hidden Champions : 3 Comprehensive Diagnosis of Start Corporation: 8 World Class 300: 9 Robot Corporation Management Consulting : 9 Participate Corporation of Sililian : 10 Relational and Free: 17 Others : 18

DGB Financial Group is making its efforts for customer satisfaction with the belief that customer satisfaction is the best sales strategy. As a result, the satisfaction recorded 95.7 points, increased by 0.8 points from the previous year.

Division	2015	2016	2017
Customer Satisfaction	95.3	94.9	95.7

DGB Financial Group is making its effort to listen to customer's voice. The group handled 1,672 cases in 2015, 1,917 in 2016 and 1,831 in 2017.

Division	2015	2016	2017
Dissatisfaction	159	47	76
Pending Issues	169	378	318
Compliment	565	789	748
Others	779	709	689
Total	1,672	1,917	1,831

INDEPENDENT AUDITORS' REPORT

Based on a report originally issued in Korean



KPMG Samjong Accounting Corp.
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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, 2017 and 2016, 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, 2017 and 2016 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Other Matter

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 14, 2018

This report is effective as of March 14, 2018, 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, 2017 and 2016

	Note	2017	2016
(In millions of won)			
Assets			
Cash and due from banks	5,27,45,48,49	₩ 2,254,811	₩ 2,547,299
Financial assets held for trading	6,16,48	610,349	402,482
Financial assets designated at fair value through profit or loss	7,48	79,917	82,255
Available-for-sale financial assets	8,16,27,48	4,498,996	4,199,694
Held-to-maturity financial assets	9,10,27,48,49	7,951,189	7,890,515
Loans and receivables	12,13,14,15,27,47,48,49	40,278,163	37,454,619
Derivative assets - hedging	16,48	20,395	95
Investment in associates	11	10,356	403
Property and equipment, net	17	475,481	428,987
Investment property, net	19	93,591	99,615
Intangible assets, net	18	147,954	133,097
Deferred income tax assets	43	43,148	25,991
Other assets	20,48	269,487	197,349
Total assets		₩ 56,733,837	₩ 53,462,401
Liabilities			
Depository liabilities	21,27,47,48,49	₩ 37,839,750	₩ 35,385,469
Financial liabilities held for trading	16,48	97,470	125,975
Derivative liabilities - hedging	16,48	1,107	12,518
Borrowings	22,27,48,49	3,394,370	3,174,782
Debentures	16,22,27,48,49	4,356,652	4,107,517
Defined benefit obligations	24	14,225	8,773
Provisions	23,46	29,191	28,861
Insurance contract liabilities	25	5,275,308	5,121,200
Other liabilities	26,27,47,48,49	1,529,973	1,524,973
Total liabilities		52,538,046	49,490,068
Equity			
Capital stock	1,28	845,729	845,266
Capital surplus	28	1,560,891	1,560,455
Capital adjustment	28	(991)	(997)
Accumulated other comprehensive loss, net of tax	30	(55,258)	(27,385)
Retained earnings	29	1,554,830	1,303,374
Equity attributable to owners of the Group		3,905,201	3,680,713
Non-controlling interests	28	290,590	291,620
Total equity		4,195,791	3,972,333
Total liabilities and equity		₩ 56,733,837	₩ 53,462,401

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2017 and 2016

(In millions of won, except earnings per share)

	Note	2017	2016
Interest income		₩ 1,823,853	₩ 1,738,969
Interest expense		(532,504)	(536,883)
Net interest income	4,31,47	1,291,349	1,202,086
Fee and commission income		154,016	137,751
Commission expense		(73,606)	(68,104)
Net fee and commission income	4,32	80,410	69,647
Insurance income		843,014	894,558
Insurance expenses		(906,128)	(949,472)
Net Insurance loss	4,33	(63,114)	(54,914)
Net gain (loss) on financial assets held for trading	34	(9,700)	13,168
Net gain (loss) on financial assets designated at fair value through profit or loss	35	(2,338)	1,552
Net gain on available-for-sale financial assets	36	57,571	74,691
Net gain (loss) on hedging derivative instruments		30,993	(9,240)
Impairment losses on financial assets	4,37	(188,841)	(202,443)
Net gain on foreign currency transactions	27	9,320	4,174
General and administrative expenses	38,39	676,859	(638,998)
Other operating loss, net	40	(119,548)	(72,794)
Operating profit	41	409,243	386,929
Non-operating income, net	42	1,059	855
Profit before income tax expenses		410,302	387,784
Income tax expenses	43	(94,031)	(85,929)
Profit for the year		₩ 316,271	₩ 301,855
Net unrealized change in fair value of available-for-sale financial assets, net of tax		₩ (20,654)	₩ (35,181)
Gain (loss) on translation of foreign operations, net of tax		(2,961)	1,163
Items that are or may be reclassified to profit or loss		(23,615)	(34,018)
Remeasurement of defined benefit plan, net of tax		(4,382)	(11,349)
Items that will never be reclassified to profit or loss		(4,382)	(11,349)
Total other comprehensive loss for the year, net of tax	30	₩ (27,997)	₩ (45,367)
Total comprehensive income for the year		₩ 288,274	₩ 256,488
Profit attributable to:			
Owners of the Group		₩ 302,208	₩ 287,677
Non-controlling interest		14,063	14,178
Profit for the year		₩ 316,271	₩ 301,855
Total comprehensive income attributable to:			
Owners of the Group		₩ 274,335	₩ 242,361
Non-controlling interest		13,939	14,127
Total comprehensive income for the year		₩ 288,274	₩ 256,488
Earnings per share (in won)	44	₩ 1,787	₩ 1,702

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2017 and 2016

(In millions of won)

	Capital stock	Capital surplus	Capital adjustment	Accumulated other comprehensive income (loss)	Retained earnings	Equity attributable to owners of the Group	Non-controlling interest	Total equity
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 year	-	-	-	-	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
Balance at January 1, 2017	₩ 845,266	1,560,455	(997)	(27,385)	1,303,374	3,680,713	291,620	3,972,333
Hybrid bonds dividends	-	-	-	-	-	-	(14,061)	(14,061)
Profit for the year	-	-	-	-	302,208	302,208	14,063	316,271
Paid-in capital increase	463	436	-	-	-	899	-	899
Year-end dividends	-	-	-	-	(50,716)	(50,716)	-	(50,716)
Net unrealized change in fair value of available-for-sale financial assets, net of tax	-	-	-	(20,654)	-	(20,654)	-	(20,654)
Loss on translation of foreign operations, net of tax	-	-	-	(2,837)	-	(2,837)	(124)	(2,961)
Remeasurement of defined benefit plan, net of tax	-	-	-	(4,382)	-	(4,382)	-	(4,382)
Purchase of treasury stock	-	-	(6)	-	-	(6)	-	(6)
Disposal of treasury stock	-	-	6	-	-	6	-	6
Purchase of investments in associates	-	-	-	-	-	-	(908)	(908)
Others	-	-	6	-	(36)	(30)	-	(30)
Balance at December 31, 2017	₩ 845,729	1,560,891	(991)	(55,258)	1,554,830	3,905,201	290,590	4,195,791

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

(In millions of won)

	2017		2016	
Cash flows from operating activities				
Profit for the year	₩	316,271	₩	301,855
Adjustments for:				
Income tax expenses		94,031		85,929
Interest expense		532,504		536,883
Loss on valuation of financial assets held for trading		506		2,176
Loss on valuation of trading derivatives instrument		97,766		124,068
Reserve for credit risk adjustment of trading derivative instrument		5		739
Loss on valuation of financial assets designated at fair value through profit or loss		3,247		456
Loss on disposal of available-for-sale financial assets		230		5,259
Impairment loss on available-for-sale financial assets		6,855		4,622
Loss on valuation of hedged items		68		151
Loss on valuation of hedging derivative instrument		-		10,482
Transaction loss of hedging derivative instrument		6,441		105
Impairment loss on loan losses		181,987		197,821
Depreciation and amortization		59,229		59,899
Loss on disposal of property and equipment		1,134		501
Loss on disposal of intangible assets		21		750
Impairment loss on intangible assets		34		252
Loss on disposal of investment property		11		-
Provision for others		2,529		1,936
Retirement benefit		31,853		29,995
Loss on foreign currency transactions		207,330		200,805
Loss on valuation of financial debentures		1,105		1,104
Other operating expense		1,469		3,311
Loss from equity method investment securities		46		50
Amortization expenses on deferred acquisition costs of new or renewal insurance contracts		20,122		18,190
Contribution to insurance reserve		162,990		182,782
Interest income		(1,823,853)		(1,738,969)
Dividend income		(20,196)		(39,821)
Gain on valuation of financial assets held for trading		(2,256)		(603)
Gain on valuation of trading derivative instrument		(98,464)		(118,676)
Reversal of reserve for credit risk adjustment of trading derivative instrument		(905)		(12)
Gain on valuation of financial assets designated at fair value through profit or loss		(327)		(1,128)
Gain on disposal of available-for-sale financial assets		(38,032)		(49,351)
Gain on valuation of hedged items		-		(5)
Gain on valuation of hedging derivative instrument		(22,367)		(1,347)
Gain on disposal of hedging derivative instrument		(15,067)		-
Gain on disposal of investment in associates		(4,988)		-
Gain on disposal of property and equipment		(8,294)		(47)
Gain on disposal of intangible assets		(19)		(1)
Gain on disposal of investment property		(148)		-
Reversal of provisions		(2,408)		(4,629)
Gain on foreign currency transactions		(216,650)		(204,979)
Other operating income		(85)		(416)

(In millions of won)

	2017		2016	
Other non-operating income	₩	-	₩	(81)
		(842,546)		(691,799)
Changes in operating assets and liabilities:				
Decrease (increase) in restricted due from banks		309,298		(431,902)
Increase in trading securities		(230,749)		(23,805)
Decrease in trading derivative assets		120,989		38,409
Decrease in financial assets designated at fair value through profit or loss		434		177,461
Increase in loans and receivables		(3,159,166)		(1,422,445)
Increase in deferred loan origination costs		(37,512)		(36,365)
Increase in deferred loan origination fees		6,866		8,525
Collection of loans written-off		34,719		45,438
Decrease in hedging derivative assets		1,367		-
Decrease in other assets		106,272		124
Increase in unamortized deferred acquisition costs of new or renewal insurance contracts		(47,151)		(50,519)
Increase in separate account assets		(34,200)		(18,823)
Increase in depository liabilities		2,543,971		1,817,977
Decrease in trading derivative liabilities		(125,195)		(30,924)
Decrease in hedging derivative liabilities		(2,171)		-
Decrease in defined benefit obligations		(11,608)		(7,765)
Contributions to defined benefit plan assets		(20,537)		(46,532)
Decrease in other liabilities		(185,171)		(779,519)
Increase in separate account liabilities		34,559		19,933
		(694,985)		(740,732)
Interest paid		(535,900)		(531,180)
Interest received		1,812,042		1,716,140
Dividends received		20,196		39,821
Income taxes paid		(73,465)		(61,471)
Net cash provided by operating activities		1,613		32,634
Cash flows from investing activities				
Purchase of available-for-sale financial assets		(3,260,904)		(7,027,947)
Proceeds from sale of available-for-sale financial assets		2,829,694		6,507,986
Purchase of held-to-maturity financial assets		(1,114,433)		(1,042,660)
Proceeds from sale of held-to-maturity financial assets		1,126,271		1,172,191
Purchase of property and equipment		(83,068)		(92,637)
Disposal of property and equipment		22,065		16,282
Purchase of investment in associates		(230,000)		-
Disposal of investment in associates		214,988		-
Purchase of investment property		-		(1,065)
Disposal of investment property		3,500		-
Purchase of stocks of subsidiaries		-		(33,999)
Purchase of intangible assets		(50,438)		(41,429)
Disposal of intangible assets		685		1,086
Decrease in guarantee deposits, net		(5,347)		(3,119)
Decrease in hedging derivative assets, net		1,033		-
Decrease in hedging derivative liabilities, net		(948)		(117)
Net cash used in investing activities		(546,902)		(545,428)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

(In millions of won)

	Note	2017	2016
Cash flows from financing activities			
Proceeds from (payment of) borrowings, net	₩	318,400	₩ (240,059)
Issuance of debentures		1,292,982	1,339,788
Repayment of debentures		(1,005,780)	(391,320)
Increase in deposits for letter of guarantees, net		7,758	6,556
Increase (decrease) in borrowings from trust accounts, net		43,113	(39,213)
Increase in borrowings from fund accounts, net		78	41
Increase (decrease) in foreign exchange settlement credit, net		(6,103)	6,010
Increase (decrease) in domestic exchange settlement credit, net		72	(93,258)
Paid-in capital increase		903	-
Stock issue costs paid		(3)	-
Purchase of treasury stock		(6)	-
Disposal of treasury stock		6	-
Dividends paid		(50,716)	(47,335)
Hybrid bonds dividends paid		(14,061)	(14,061)
Decrease in non-controlling interests		-	(1,861)
Net cash provided by financing activities		586,643	525,288
Increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		930,206	909,742
Effect of exchange rate in cash and cash equivalents		(17,443)	134
Increase in cash and cash equivalents from change of consolidation scope		-	7,836
Cash and cash equivalents at end of the year	45	₩ 954,117	₩ 930,206

See accompanying notes to the consolidated financial statements.

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, 2017 is ₩845,729 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, 2017 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%	₩ 3,779,026	2,462,206	294,133	Daegu	31-Dec
DGB Life Insurance	34,741,343	100%	271,132	1,071,847	12,624	Busan	31-Dec
DGB Capital	25,200,000	100%	295,618	129,413	16,865	Seoul	31-Dec
DGB Asset Management	2,200,000	100%	31,658	12,318	4,418	Seoul	31-Dec
DGB U-pay	2,511,415	100%	11,995	15,338	1,093	Daegu	31-Dec
DGB Credit Information	600,000	100%	4,542	1,722	61	Daegu	31-Dec
DGB Data System	1,200,000	100%	9,509	12,495	938	Daegu	31-Dec
			₩ 4,403,480	3,705,339	330,132		

Daegu Bank's consolidated subsidiaries as of December 31, 2017 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	-	₩ 9,618	8,269	459	Daegu	31-Dec
DGB long-lived corporation focus security investment trust	64.45%	14,443	1,405	1,405	Seoul	30-Sep
DGB ttok-ttok short-term bond securities	53.13%	18,913	373	369	Seoul	23-Feb
DGB ttok-ttok dividend securities feeder	71.10%	13,891	530	529	Seoul	18-Jun
DGB ttok-ttok small cap security investment trust	97.14%	10,296	2	2	Seoul	12-Nov

DGB Capital's consolidated subsidiaries as of December 31, 2017 are as follows:

(In millions of won)

Classification	Ownership	Net asset value	Revenue	Profit for the year	Location	Reporting date
JB Woori Capital Money Receivable Trust	-	₩ -	6,597	32	Korea	31-Dec
DGB Lao Leasing Co.,Ltd	90%	10,053	2,041	25	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), project financing for companies in shipping industry, 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, 2017 and 2016 are as follows:

(In millions of won)

	2017			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Assets	₩ 5,412,987	18,913,719	8,404,717	32,731,423

(In millions of won)

	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

The revenue of the interests in unconsolidated structured entities for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Interest income	₩ 6,736	85,895	-	92,631
Fee and commission income	3	13,756	-	13,759
Dividend income	-	225	21,271	21,496
Total	₩ 6,739	99,876	21,271	127,886

((In millions of won)

	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

(ii) Nature of associated risk

The book values recognized in the financial statements for the interests in unconsolidated structured entities as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Financial assets held for trading	₩ 197,365	1,320	-	198,685
Loans	104,224	1,470,769	-	1,574,993
Available-for-sale financial assets	-	23,324	614,315	637,639
	₩ 301,589	1,495,413	614,315	2,411,317

(In millions of won)

	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

The Group's maximum loss exposure to unconsolidated structured entities as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Investment assets	₩ 301,589	1,495,413	614,315	2,411,317
Purchase commitments	134,000	-	86,812	220,812
Credit granting	-	72,589	-	72,589
	₩ 435,589	1,568,002	701,127	2,704,718

(In millions of won)

	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
Purchasing commitments	84,402	-	35,504	119,906
Credit granting	-	61,327	-	61,327
	₩ 339,271	1,548,033	494,922	2,382,226

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, 2018, which will be submitted for approval to the shareholders at a meeting to be held on March 23, 2018.

(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 46 – 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 were the same as those applied to the consolidated financial statements as of and for the year ended 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.1007, 'Statement of Cash Flows'
- K-IFRS No.1012, 'Income Taxes'

The Group has applied the following amendments to standards and interpretation, with a date of initial application of January 1, 2017. The change had no significant impact on the measurements of the Group's assets and liabilities.

(i) K-IFRS No.1007, 'Statement of Cash Flows'

Amendments K-IFRS No.1007 require changes in liability arising from the financing activities of the Group to be disclosed as follows; fluctuations in financing cash flows, changes in the acquisition or loss of control of subsidiaries or other business, the effect of exchange rate changes, changes in fair value and other changes. The Group has made such disclosures in note 45 (c).

(ii) K-IFRS No.1012, 'Income Taxes'

Amendments to K-IFRS No.1012 clarify that temporary differences exist when there is a difference between the carrying amount and tax based amount of the debt instruments which are measured at fair value, regardless of the expected recovery method (sale or retention). In assessing future taxable income, the Group shall include assets to be recovered in excess of its carrying amount and exclude the tax deductions resulting from those deductible temporary differences. The adoption of the amendments to K-IFRS 1012 did not have any impact on the consolidated financial statements.

3. Significant Accounting Policies**(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 involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases

(iii) Transactions eliminated on consolidation

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

(iv) Non-controlling interests(NCIs)

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

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

(v) Loss of control

When the Group loses control over a subsidiary, it 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.

(iv) Available-for-sale financial assets, continued

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 pres-

ent 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	2 - 20
Usable and profitable donation assets	2 - 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 deposits, loans and receivables which are not impaired 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 contractual 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.

(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, 2017.

(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 re-funds, 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, 2017, and the Group has not early adopted them.

(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 on 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.

To assess financial impacts from application of K-IFRS No.1109, the Group performed a preliminary assessment of the impacts on the 2017 consolidated financial statements based on the status and available information as of December 31, 2017. Expected financial impacts on the Group's consolidated financial statements by the main topics of K-IFRS No.1109 were summarized as follows:

① Classification and measurement of financial assets

When K-IFRS No.1109 is applied, the Group will classify financial assets to be measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVPL") on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. If a hybrid contract contains a host that is a financial asset, the embedded derivatives shall not be separated from the host, and the hybrid contract as a whole shall be classified as a financial asset.

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(*1)	Contractual cash flows are solely payments of principal and interests	All other cases
For collecting contractual cash flows	At amortized cost(*2)	FVPL(*3)
For both collecting contractual cash flows and selling financial assets	At FVOCI(*2)	FVPL(*3)
For trading, and others	At FVPL	FVPL(*3)

(*1) Business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

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

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

As there are more stringent 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 portion of financial assets that are measured at FVPL, which would also increase the volatility in the Group's profit or loss.

Expected impacts on the classification and measurements of the non-derivative financial instruments as of December 31, 2017, based on the information from the updated accounting system for adoption of K-IFRS No.1109 were as follows:

(In millions of won)				
Classification under K-IFRS No.1039	Classification under K-IFRS No.1109	Amounts under K-IFRS No.1039	Amounts under K-IFRS No.1109	Differences
Due from banks	Amortized cost	₩ 1,654,116	1,654,116	-
Due from banks(*1)	FVPL(*1)	135,000	128,977	(6,023)
Loans and receivables(*2)	Amortized cost(*2)	40,228,627	40,205,001	(23,626)
Loans and receivables(*2)(*3)	FVPL(*2)(*3)	49,536	49,887	351
Financial assets held for trading (financial instruments held for trading)	FVPL	510,935	510,935	-
Financial assets held for trading (trading derivative instruments)	FVPL	99,414	98,524	(890)
Financial assets designated at fair value through profit or loss	FVPL	79,917	79,917	-
Available-for-sale financial assets (equity securities)(*3)	FVPL(*3)	248,408	247,632	(776)
Available-for-sale financial assets (equity securities)	FVOCI	55,050	55,050	-
Available-for-sale financial assets (debt securities)	FVOCI	3,746,059	3,746,059	-
Available-for-sale financial assets (beneficiary certificates)	FVPL	449,480	449,480	-
Held-to-maturity financial assets(*2)	Amortized cost(*2)	7,630,556	7,623,163	(7,393)
Held-to-maturity financial assets(*1)(*2)	FVPL(*1)(*2)	320,633	308,460	(12,173)
Derivative assets-hedging	Derivative assets-hedging	20,395	20,395	-
		₩ 55,228,126	55,177,596	(50,530)

(*1) The difference relates to some of the financial assets which was measured at amortized cost under K-IFRS No.1039 being measured at FVPL under K-IFRS No.1109

(*2) The difference relates to the measurement of loss provision based on the expected credit loss model under K-IFRS No.1109 rather than using the incurred loss model under K-IFRS No.1039

(*3) The difference relates to derivatives embedded in hybrid contracts not being bifurcated under K-IFRS No.1109

(*4) The Group has elected to apply the overlay approach for the designated financial assets associated with the insurance contracts(₩114,422 million of due from banks, ₩127,085 million of available-for-sale, ₩308,460 million of held-to-maturity) as permitted under K-IFRS No.1104. For those designated financial assets measured at FVPL, the Group will reclassify between profit or loss and OCI the difference between the amounts recognized in profit or loss under K-IFRS No.1109 and those that would have been reported under K-IFRS No.1039.

Based on the management's impact assessment to date, as of December 31, 2017, ₩128,977 million of due from banks, ₩49,887 million of loans and receivables and ₩308,460 million of held-to-maturity financial assets measured at amortized cost, available-for-sale financial assets amounted to ₩697,112 million are expected to be classified as financial assets measured at FVPL upon adoption of K-IFRS No.1109 as of January 1, 2018. As a result, the portion of financial assets measured at FVPL is expected to increase from 1.25% under K-IFRS No.1039 as of December 31, 2017 to 3.40% under K-IFRS No.1109 as of January 1, 2018, which would increase the volatility in the Group's profit or loss.

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 increases 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.

Based on the management's impact assessment to date, as of December 31, 2017, financial liability amount to ₩97,470 million under K-IFRS No.1039 are expected to be accounted for as FVTPL under K-IFRS No. 1109

As a result of the analysis of the financial impact of applying K-IFRS No.1109 to the financial liabilities measured at FVPL as of December 31, 2017, there is no fair value change in the corresponding financial liabilities. The fair value of such financial liabilities is net of the deduction of ₩17 million from the credit risk adjustment amount.

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.

	Classification(*1)	Loss allowances
Stage 1	Credit risk has not increased significantly since the initial recognition(*2)	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

(*1) In case of trade receivables or contract assets included in the scope of application of K-IFRS No.1115 ‘Revenue from Contract with Customers’, If there is a significant financial component, it is mandatory for the Group to measure lifetime ECL as loss allowances. If not it is optional for The Company to measure 12-month or lifetime ECL as loss allowances.

(*2) The Group may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the credit risk is low at the reporting date.

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, 2017, the Group has debt instruments measured at amortized cost amounting to ₩47,828,164 million (loans and receivables ₩40,205,001 million, held-to-maturity financial assets ₩7,623,163 million), debt instruments measured at FVOCI as they are classified as available-for-sale amounting to ₩3,746,057 million and has recognized loss allowances for ₩305,071 million.

Based on the management’s impact assessment to date, as of December 31, 2017, expected impacts on the loss allowance of consolidated financial statements based on information from the revised accounting system were as follows:

Classification under K-IFRS No.1039	Classification under K-IFRS No.1109	Loss allowances under K-IFRS No.1039	Loss allowances under K-IFRS No.1109
Loans and receivables			
Loan	Amortized cost	₩ 283,879	303,742
Available-for-sale financial assets			
Debt securities	FVOCI	-	1,131
Held-to-maturity financial assets			
Debt securities	Amortized cost	-	198
Total allowance for loan losses		₩ 283,879	305,071
Financial guarantee contract	Financial guarantee contract	₩ 1,939	2,225
Provision for unused commitment	Provision for unused commitment	12,881	25,750
Total Provisions		₩ 14,820	27,975

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.

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.

The Group plans to apply hedge accounting for the transactions that meet the requirements for hedge accounting under K-IFRS No.1109. As of December 31, 2017, there was no applicable transaction for hedge accounting under K-IFRS No.1109 which do not meet the requirements for hedge accounting under the existing standard K-IFRS No.1039.

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

K-IFRS No.1115 Revenue from Contracts with Customers, published on November 6, 2015, is effective for annual periods beginning on or after January 1, 2018. It replaces existing revenue recognition guidance, including K-IFRS No.1018 Revenue, K-IFRS No.1011 Construction Contracts, K-IFRS No.2031 Revenue- Barter transactions involving advertising services, K-IFRS No.2113 Customer Loyalty Programs, K-IFRS No.2115 Agreements for the construction of real estate, K-IFRS No.2118 Transfers of assets from customers.

The Group plans to apply K-IFRS No.1115 from the annual period beginning on January 1, 2018. The Group will apply K-IFRS No.1115 retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application, which is January 1, 2018. The Group plans to use the practical expedients and not reassess the contracts that were completed as of the date of initial application, which is January 1, 2018.

Existing K-IFRS standards and interpretations including K-IFRS No.1018 provide revenue recognition guidance by transaction types such as sales of goods, rendering of services, interest income, royalty income, dividend income and construction revenue; however, under the new standard, K-IFRS No.1115, the five-step approach (Step 1: Identify the contract(s) with a customer, Step 2: Identify the performance obligations in the contract, Step 3: Determine the transaction price, Step 4: Allocate the transaction price to the performance obligations in the contract, Step 5: Recognize revenue when the entity satisfied a performance obligation) is applied for all types of contracts or agreements.

As a result of the analysis on the financial impact based on the situation and the available information as of December 31, 2017, the Group does not expect the application of K-IFRS No.1115 will have a material impact on the consolidated financial statements.

(iii) K-IFRS No.1116, ‘Leases’

K-IFRS No.1116 replaces existing standards, including K-IFRS No.1017 Leases, K-IFRS No.2104, Determining whether an Arrangement contains a Lease. It is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for a Group which has adopted to the K-IFRS No.1115.

K-IFRS No.1116 suggests a single accounting model that requires a lessee to recognize lease related asset and liability in the financial statements. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease of which has a term of 12 months or less at the commencement date and low value assets. Accounting treatment for lessor is similar to the existing standard which classifies lease into finance and operating lease. The Group is in the process of evaluating whether there will be a significant impact on the Group’s consolidated financial statements due to the adoption of K-IFRS No.1116.

(iv) K-IFRS No.1102, ‘Share-based payment’

The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments. The amendments also clarify that share-based payment transactions with a net settlement feature for withholding tax obligation shall be classified as an equity-settled share-based payment transaction. The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The amendments are not expected to have a significant impact on the Group’s consolidated financial statements.

(v) K-IFRS No.1040, ‘Investment property’

The amendments clarify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use. The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The amendments are not expected to have a significant impact on the Group’s consolidated financial statements.

4. Operating Segments

The Group has marketing division, money market center division, life insurance division, others as operating segments, and conducts performance evaluations by operating segments as well as by divisions within those operating segments.

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, acquisition and sales of government bonds, derivatives design and operation, and foreign exchange services
Life insurance	Procurement and financial services for life insurance
Others	Segments other than the above including trust segment and head office supporting segments

Information about reportable segments as of and for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017						
	Marketing	Money Market Center	Life Insurance	Others	Subtotal	Adjustment (*2)	Consolidated amount
Net interest income	₩ 709,654	58,884	153,024	101,177	1,022,739	268,610	1,291,349
Interest income	937,908	92,552	159,236	257,560	1,447,256	376,597	1,823,853
Interest expense	228,254	33,668	6,212	156,383	424,517	107,987	532,504
Fee & commission income, net	62,273	516	1,946	18,636	83,371	(2,961)	80,410
Insurance loss, net	-	-	(103,520)	-	(103,520)	40,406	(63,114)
Other financial income (loss), net (*1)	322	10,828	18,250	160,071	189,471	(121,455)	68,016
Impairment on loan losses	-	-	-	-	-	(181,986)	(181,986)
Other operating Income (loss), net	(447,274)	(23,889)	(64,604)	(175,427)	(711,194)	(74,238)	(785,432)
Operating income	₩ 301,059	54,112	5,096	104,457	464,724	(55,481)	409,243
Total assets	₩ 34,429,959	10,109,056	5,813,948	11,014,200	61,367,163	(4,633,326)	56,733,837
Total liabilities	₩ 33,167,520	6,407,343	5,542,817	9,200,391	54,318,071	(1,780,025)	52,538,046

(*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.

(In millions of won)

	2016						
	Marketing	Money Market Center	Life Insurance	Others	Subtotal	Adjustment (*2)	Consolidated amount
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
Impairment on loan losses	-	-	-	-	-	(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.

5. Cash and Due from Banks

(a) Cash and due from banks

Cash and due from banks as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017		2016	
	Book value	Fair value	Book value	Fair value
Cash and cash equivalents	₩ 465,695	465,695	432,976	432,976
Due from banks in won	The Bank of Korea	1,083,224	1,083,224	1,458,323
	Commercial banks	268,339	268,339	353,356
	Others	6,203	6,203	17,000
	Subtotal	1,357,766	1,357,766	1,828,679
Due from banks in foreign currencies	The Bank of Korea	64,038	64,038	26,774
	Commercial banks	93,000	93,000	135,750
	Overseas banks	273,060	273,060	123,120
	Others	1,252	1,252	-
	Subtotal	431,350	431,350	285,644
Total	₩ 2,254,811	2,254,811	2,547,299	2,547,299

The amounts of due from bank which mature within 12 months are ₩2,045,043 million and ₩2,302,299 million as of December 31, 2017 and 2016, respectively. The amounts of due from banks which mature after 12 months are ₩209,768 million and ₩245,000 million as of December 31, 2017 and 2016, respectively.

(b) Restricted due from banks

Restricted due from banks as of December 31, 2017 and 2016 are as follows:

(In millions of won)

		2017		2016	
		Book value	Fair value	Book value	Fair value
Reserve deposits in won	The Bank of Korea	₩ 953,224	953,224	1,308,324	1,308,324
Reserve deposits in foreign currencies	The Bank of Korea	64,038	64,038	26,774	26,774
	Overseas banks	63,280	63,280	36,995	36,995
Total		₩ 1,080,542	1,080,542	1,372,093	1,372,093

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, 2017 and 2016 are as follows:

(In millions of won)

		2017			2016		
		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	₩ 27,320	18,326	(8,994)	16,454	16,789	335
	Government bonds	14,852	24,627	9,775	-	-	-
	Financial debentures	177,789	178,027	238	32,468	32,391	(77)
Debt securities	Corporate bond	15,729	15,729	-	22,493	22,357	(136)
	Others	210,540	210,747	207	188,392	186,734	(1,658)
	Subtotal	418,910	429,130	10,220	243,353	241,482	(1,871)
Beneficiary certificate		62,956	63,479	523	21,497	21,460	(37)
Total		₩ 509,186	510,935	(1,749)	281,304	279,731	(1,573)

The amounts of financial assets held for trading except for equity securities which mature within 12 months are ₩286,024 million and ₩241,662 million as of December 31, 2017 and 2016, respectively. The amounts of financial assets held for trading except for equity securities which mature after 12 months are ₩206,585 million and ₩21,280 million as of December 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

(In millions of won)

	2017				
		Level 1	Level 2	Level 3	Total
Equity securities	₩	18,326	-	-	18,326
Debt securities		34,582	394,548	-	429,130
Beneficiary certificate		10,166	53,313	-	63,479
	₩	63,074	447,861	-	510,935

(In millions of won)

	2016				
		Level 1	Level 2	Level 3	Total
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

(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, 2017 and 2016 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, 2017 and 2016.

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, 2017 and 2016 are as follows:

(In millions of won)

		2017			2016		
		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	₩ 26,896	25,300	(1,596)	26,104	26,896	792
Other securities	Derivatives-linked securities	55,359	54,617	(742)	55,478	55,359	(119)
		₩ 82,255	79,917	(2,338)	81,582	82,255	673

The amounts of financial asset except for equity securities which mature within 12 months are

₩20,213 million and ₩0 million as of December 31, 2017 and 2016. The amounts of financial assets designated at fair value through profit and loss, which mature after 12 months are ₩34,404 million and ₩55,359 million as of December 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

(In millions of won)

	2017				
		Level 1	Level 2	Level 3	Total
Equity securities	₩	820	-	24,480	25,300
Other securities		-	54,617	-	54,617
	₩	820	54,617	24,480	79,917

(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

(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, 2017 and 2016 are as follows:

(In millions of won)

	2017		
	Equity securities	Other securities	Total
Beginning balance	₩ 26,896	-	26,896
Gain on valuation	(1,596)	-	(1,596)
Transfer (*)	(820)	-	(820)
Ending balance	₩ 24,480	-	24,480

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

(In millions of won)

	2016		
	Equity securities	Other securities	Total
Beginning balance	₩ 153,203	30,359	183,562
Gain on valuation	792	-	792
Acquisition	1,000	-	1,000
Disposition	(128,099)	(30,359)	(158,458)
Ending balance	₩ 26,896	-	26,896

(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, 2017 and 2016 are as follows:

Valuation method	Unobservable inputs	Range	
		2017	2016
Binomial option pricing model, etc.	Discount rate	8.34% - 13.26%	7.68% - 12.74%
	Volatility	-	-
	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, 2017 and 2016 are as follows:

(In millions of won)

	2017		2016	
	Profit or loss (*)		Profit or loss (*)	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
₩	1,614	(1,485)	1,211	(1,513)

(*) 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, 2017 and 2016.

8. Available-for-sale Financial Assets

(a) Available-for-sale financial assets

Available-for-sale financial assets as of December 31, 2017 and 2016 are as follows:

(In millions of won)

		2017			2016		
		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	3,490	1,243	2,247	2,661	414
	Unlisted equity securities	208,655	259,287	50,632	192,327	244,785	52,458
	Others	40,427	40,682	255	25,587	25,677	90
	Subtotal	251,329	303,459	52,130	220,161	273,123	52,962
Debt securities	Government bonds	1,408,451	1,378,504	(29,947)	883,986	864,146	(19,840)
	Financial debentures	1,143,048	1,130,753	(12,295)	1,106,603	1,097,704	(8,899)
	Corporate bonds	313,410	306,673	(6,737)	382,466	375,679	(6,787)
	Available-for-sale securities in foreign currencies	418,113	402,815	(15,298)	358,969	352,182	(6,787)
	Others	538,740	527,312	(11,428)	856,391	848,487	(7,904)
	Subtotal	3,821,762	3,746,057	(75,705)	3,588,415	3,538,198	(50,217)
Beneficiary certificate	449,673	449,480	(193)	389,994	388,373	(1,621)	
	₩	4,522,764	4,498,996	(23,768)	4,198,570	4,199,694	1,124

The amounts of available-for-sale financial assets except for equity securities which mature within 12 months are ₩844,492 million and ₩745,074 million as of December 31, 2017 and 2016, respectively. The amounts of available-for-sale financial assets except for equity securities which mature after 12 months are ₩3,351,045 million and ₩3,181,497 million as of December 31, 2017 and 2016, respectively.

The gain or loss on valuation includes accumulated loss on valuation of fair value hedged items amounting to ₩9,741 million and ₩257 million as of December 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

(In millions of won)

	2017				
	Level 1	Level 2	Level 3	Total	
	Equity securities	₩ 3,893	209	299,357	303,459
Debt securities	1,511,585	2,234,472	-	3,746,057	
Beneficiary certificates	4,479	280,548	164,453	449,480	
	₩	1,519,957	2,515,229	463,810	4,498,996

(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	174,326	161,649	388,373	
	₩	885,006	2,882,895	431,793	4,199,694

(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, 2017 and 2016 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, 2017 and 2016 are as follows:

(In millions of won)

	2017			2016		
	Equity securities	Beneficiary certificate	Total	Equity securities	Beneficiary certificate	Total
Beginning balance	₩ 270,144	161,649	431,793	264,513	147,413	411,926
Changes due to business combinations	-	-	-	250	-	250
Realized loss (impairment loss)	(4,493)	-	(4,493)	(657)	-	(657)
Unrealized gain	6,863	533	7,396	8,009	418	8,427
Acquisition	56,747	9,779	66,526	34,870	22,083	56,953
Disposal	(29,904)	(7,508)	(37,412)	(36,841)	(8,265)	(45,106)
Ending balance	₩ 299,357	164,453	463,810	270,144	161,649	431,793

(e) Valuation method and level 3 inputs

Valuation method and significant unobservable inputs used in measuring fair values of available-for-sale financial assets using level 3 inputs as of December 31, 2017 and 2016 are as follows:

Valuation method	Unobservable inputs	Range	
		2017	2016
DCF method, etc.	Discount rate	4.34% - 21.67%	4.42% - 20.16%
	Growth rate	0%	0%

(f) Sensitivity analysis of level 3 inputs

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

Sensitivity to changes in inputs of available-for-sale financial assets as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017		2016	
	Other comprehensive income or loss (*1)(*2)		Other comprehensive income or loss (*1)(*2)	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
₩	4,798	(3,139)	7,145	(4,248)

(*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, 2017 and 2016.

(h) Unrealized gain (loss)

Unrealized gain (loss) on available-for-sale financial assets for the years ended December 31, 2017 and 2016 are as follows:

	2017			
	Equity securities	Debt securities	Beneficiary certificates	Total
Beginning balance	₩ 52,962	(49,960)	(1,621)	1,381
Realized loss on disposition of securities	(10,321)	(2,548)	(320)	(13,189)
Changes due to reclassification	-	7,436	-	7,436
Unrealized gain (loss)	7,751	(21,680)	1,748	(12,181)
Ending balance	₩ 50,392	(66,752)	(193)	(16,553)
Policyholders equity adjustment			₩ 5,848	
Deferred income tax assets (liabilities)				7,801
Net balance			₩ (2,904)	

(In millions of won)

	2016			
	Equity securities	Debt securities	Beneficiary 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)

(i) Impairment losses

Impairment losses on available-for-sale financial assets as of December 31, 2017 and 2016 are as follows:

	2017			2016		
	Amount before impairment	Amount after impairment	Impairment loss	Amount before impairment	Amount after impairment	Impairment loss
Equity securities	₩ 11,937	6,017	5,920	16,335	12,507	3,828
Beneficiary securities	10,128	9,193	935	5,000	4,206	794
	₩ 22,065	15,210	6,855	21,335	16,713	4,622

(In millions of won)

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

Available-for-sale securities carried at cost as of December 31, 2017 and 2016 are as follows:

	2017	2016
Korea Asset Management Corp.(*1)	₩ 1,570	1,570
Daegu Dream Education	599	999
Kangaroo Republic	-	900

(In millions of won)

(In millions of won)

	2017	2016
Evergreenkeanggi Co., Ltd.	692	692
Evergreencampus Co., Ltd.	674	674
Chamsaram Co., Ltd	607	607
Nam Yang Kwang-Jin C&G., Co., Ltd.	520	520
Yeongdeok Enviro	516	516
Cheongramhakkdang	226	488
Busan Mirae Education co.,Ltd	164	501
Green Yeosu Enviro	470	470
JinCheonWaterResource co.Ltd.	303	303
Gyeong Buk Corporation	300	300
Namsanedu	295	295
K-Bank (*1)	12,200	9,000
Athena Private Equity Fund (investment) (*2)	-	3,000
Kamur Private Equity Fund No.7	1,700	-
Centroid Buy-Out Private Equity Fund II	2,000	-
Others	657	323
	₩ 23,493	21,158

(*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, 2017 and 2016 are as follows:

	2017		2016	
	Book value (*)	Gain on disposal	Book value (*)	Gain on disposal
Badbank Harmony	₩ 1	29	2	56
Busan Future Education	20	-	42	-
Kangaroo Republic	900	228	-	-
	₩ 921	257	44	56

(*) Beginning carrying amount before disposal

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

Impairment losses of available-for-sale securities carried at cost for the years ended December 31, 2017 are as follows:

	2017		
	Before impairment	After impairment	Impairment loss
Daegu Dream Education	₩ 999	599	400
Cheongramhakkdang	488	226	262
Busan Mirae Education co.,Ltd	481	164	317
	₩ 1,968	989	979

(In millions of won)

9. Held-to-maturity Financial Assets**(a) Held-to-maturity financial assets**

Held-to-maturity financial assets as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017			
	Face value	Acquisition cost	Amortized cost (book value)	Fair value
Government bonds	₩ 4,846,589	4,962,011	4,969,270	4,967,528
Financial debentures	410,000	413,461	411,955	398,842
Corporate bonds	410,000	442,294	419,076	410,284
Foreign currency bonds	311,113	326,357	310,703	317,463
Others	1,814,507	1,830,678	1,840,185	1,820,960
	₩ 7,792,209	7,974,801	7,951,189	7,915,077

(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

The amounts of held-to-maturity financial assets, which mature within 12 months are ₩884,749 million and ₩1,168,867 million as of December 31, 2017 and 2016, respectively. The amounts of held-to-maturity financial assets, which mature after 12 months are ₩7,066,440 million and ₩6,721,648 million as of December 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

(In millions of won)

	2017				
	Held-to-maturity financial assets		Related liabilities		Net position
	Book value	Fair value	Book value	Fair value	
Securities sold under repurchase agreement(*)	₩ 921,398	912,245	815,553	815,497	96,748

(*) 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 pre-determined price after sale or the amount of selling price plus fixed return.

(In millions of won)

	2016				
	Held-to-maturity financial assets		Related liabilities		Net position
	Book value	Fair value	Book value	Fair value	
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 pre-determined 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, 2017 are as follows:

Purpose	Collateralized value	Book value of held-to-maturity securities	Guarantees
Bank of Korea settlements	₩ 270,000	268,182	The Bank of Korea, Korea Securities Depository
Bank of Korea daylight overdraft	220,000	219,290	The Bank of Korea, Korea Securities Depository
Bank of Korea borrowings	527,800	527,235	The Bank of Korea
Borrowings in foreign currencies	50,000	51,938	Sumitomo Mitsui Bank, Seoul branch
Derivatives transactions	15,733	15,546	Samsung Futures Inc., KB Futures Co., Ltd., etc.
Bonds sold under repurchase agreements	919,968	921,398	Korea Securities Depository
Others	235	157	Korea Securities Depository
	₩ 2,003,736	2,003,746	

11. Investments in Associates

(a) Ownership

Ownership on associates as of December 31, 2017 and 2016 are as follows:

(In millions of won)

Associates(*2)	Relation	Number of shares owned	Ownership	2017		
				Acquisition cost	Net asset value	Book value
Daegu FC(*1)(*3)	Associate	300,000	9.20%	₩ 516	278	278
DGB Index Plus Securities Feeder No.1	Associate	75,300,000	33.42%	10,000	10,078	10,078
Total				₩ 10,516	10,356	10,356

(In millions of won)

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

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

(*2) Interests in Consus BTL Private Special Asset Fund 1 is more than 20% (28.6%), 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 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, 2017 and 2016 are as follows:

(In millions of won)

	2017		
	Book value as of January 1, 2017	Loss on equity method accounting	Book value as of December 31, 2017
Daegu FC	₩ 403	(125)	278
DGB Index Plus Securities Feeder No.1	10,000	78	10,078

(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

(c) Summarized financial information

Summarized financial information of associates as of and for the years ended December 31, 2017 and 2016 are as follows:

	(In millions of won)				
	2017				
	Assets	Liabilities	Gross revenue	Net profit(loss)	
Daegu FC (*)	₩	5,287	2,260	3,726	(1,197)
DGB Index Plus Securities Feeder No.1		30,181	25	2,477	2,423
	(In millions of won)				
	2016				
	Assets	Liabilities	Gross revenue	Net loss	
	₩	6,886	2,506	5,180	(543)

(*) Associate's summarized financial information as of December 31, 2017 is from unaudited financial statements. The difference between unaudited financial statements and the final financial statements as of December 31, 2016 is added to Daegu FC's gross revenue and net income of the current year.

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

Loans and receivables as of December 31, 2017 and 2016 are as follows:

	(In millions of won)				
	2017		2016		
	Book value	Fair value	Book value	Fair value	
Loans in won	Loans to enterprises	₩ 25,174,243	25,247,707	23,568,694	23,653,696
	Loans to households	10,540,175	10,558,724	9,482,315	9,523,422
	Loans to public sectors and others	561,627	563,366	527,878	528,691
	Subtotal	36,276,045	36,369,797	33,578,887	33,705,809
	Loans in foreign currencies	Loans to enterprises	547,631	547,616	543,862
Loans to other banks	345,313	345,313	313,118	313,118	
Finance lease receivables	703,642	703,642	633,246	633,600	
Loans	Bill bought	12,848	12,848	15,094	15,094
	Bill bought in foreign currencies	151,051	151,051	134,301	134,301
	Payments on guarantees	1,502	1,502	4,121	4,121
	Credit card accounts	396,976	396,716	398,636	398,440
	Bonds purchased under resale agreements	478,000	478,000	312,300	312,300
	Call loans	142,561	142,561	95,157	95,157
	Privately placed debentures	169,116	169,193	245,026	245,515
	Privately placed public loan	250,275	242,882	222,471	222,605
	Other loans	90,524	90,524	114,251	114,251
	Subtotal	1,692,853	1,685,277	1,541,357	1,541,784
Loans subtotal	₩	39,565,484	39,651,645	36,610,470	36,738,368
Guaranty money	₩	148,889	147,014	142,378	141,012
Accounts receivable		282,142	282,142	430,866	430,866
Receivables	Accrued income	335,300	335,300	323,700	323,700
Other receivables	190,873	190,873	195,667	195,667	
Receivables subtotal	957,204	955,329	1,092,611	1,091,245	
Allowance for loan losses	(283,879)	(283,879)	(281,758)	(281,758)	
Present value discount	(3,256)	(3,256)	(3,093)	(3,093)	

(In millions of won)

	2017		2016	
	Book value	Fair value	Book value	Fair value
Present value premium	337	337	-	-
Deferred loan origination fees	(6,841)	(6,841)	(7,350)	(7,350)
Deferred loan origination costs	49,114	49,114	43,739	43,739
Total	₩ 40,278,163	40,362,449	37,454,619	37,581,151

The amounts of loans and receivables, which mature within 12 months are ₩22,137,342 million and ₩18,842,129 million as of December 31, 2017 and 2016, respectively. The amounts of loans and receivables, which mature after 12 months are ₩18,385,346 million and ₩18,860,952 million as of December 31, 2017 and 2016, respectively.

(b) Loans in won

Loans in won as of December 31, 2017 and 2016 are as follows:

	(In millions of won)		
	2017	2016	
Loans to enterprises	Operation loans	₩ 13,413,517	12,539,550
	Facility loans	11,760,726	11,029,144
	Subtotal	25,174,243	23,568,694
Loans to households	Operation loans	6,097,994	5,838,943
	Housing loans	4,442,181	3,643,372
	Subtotal	10,540,175	9,482,315
Loans to public sectors and others	Operation loans	117,163	126,405
	Facility loans	444,464	401,473
	Subtotal	561,627	527,878
Total	₩	36,276,045	33,578,887

(c) Loans in foreign currencies

Loans in foreign currencies as of December 31, 2017 and 2016 are as follows:

	(In millions of won)		
	2017	2016	
Loans to enterprises	Operation loans	₩ 253,288	184,242
	Facility loans	46,883	99,235
	Domestic import usance	247,460	260,385
	Subtotal	₩ 547,631	543,862

(d) Finance lease receivables

Finance lease receivables as of December 31, 2017 and 2016 are as follows:

	(In millions of won)			
	2017			
	Minimum lease payments	Unguaranteed residual value	Unearned Interest	Net investment in a lease
Within 1 year	₩ 290,134	-	25,538	264,596
Exceed 1 year and within 5 years	429,229	-	21,922	407,307
Exceed 5 years	13,800	-	2	13,798
Total	₩ 733,163	-	47,462	685,701

(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

13. Allowance for Loan Losses

Changes in allowance for loan losses for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016	
Beginning balance	₩	281,758	360,335
Changes due to business combinations		-	7
Impairment on loan losses		181,986	197,821
Collection of loans written-off		35,012	45,408
Disposal of loans		(7,464)	(41,032)
Write-offs		(187,199)	(264,295)
Unwinding effect		(19,611)	(16,787)
Effect of exchange rate		(419)	(224)
Others		(184)	525
Ending balance	₩	283,879	281,758

14. Deferred Loan Origination Fees and Costs

(a) Deferred loan origination fees

Changes in deferred loan origination fees for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016	
Beginning balance	₩	7,350	5,062
Increase		6,865	6,553
Decrease		(7,374)	(4,265)
Ending balance	₩	6,841	7,350

(b) Deferred loan origination costs

Changes in deferred loan origination costs for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016	
Beginning balance	₩	43,739	44,497
Increase		45,601	25,624
Decrease		(40,226)	(26,382)
Ending balance	₩	49,114	43,739

15. Restructured Loans

Restructured loans under workout plans or other similar restructuring programs as of December 31, 2017 and 2016 are as follows:

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

	2017			
	The number of companies	Balance before restructuring	Allowance	Balance after restructuring
Workout	7	₩ 54,591	(24,943)	29,648
Restructuring, industrial rationalization	23	14,546	(827)	13,719
	30	₩ 69,137	(25,770)	43,367

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

	2016			
	The number of companies	Balance before restructuring	Allowance	Balance after restructuring
Workout	7	₩ 68,003	(12,864)	55,139
Restructuring, industrial rationalization	26	18,693	(1,274)	17,419
	33	₩ 86,696	(14,138)	72,558

16. Derivative Instruments

(a) Notional amounts of unsettled derivative instruments

Notional amounts of unsettled derivative instruments as of December 31, 2017 and 2016 are as follows:

(In millions of won)

		2017			2016		
		Trading	Hedging	Total	Trading	Hedging	Total
Currency related	Forward	₩ 6,621,346	532,472	7,153,818	6,493,828	214,215	6,708,043
Interest rate related	Swap	-	336,420	336,420	-	419,350	419,350
	Option bought	85,225	-	85,225	209,521	-	209,521
Stock related	Option sold	68,359	-	68,359	191,655	-	191,655
	Subtotal	153,584	-	153,584	401,176	-	401,176
Total		₩ 6,774,930	868,892	7,643,822	6,895,004	633,565	7,528,569

(b) Valuation on trading and hedging derivative instruments

Valuation on trading and hedging derivative instruments as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017						
	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	₩ 1,205	20,232	21,437	97,764	96,560	20,232	-
<Interest rate related> Swap	-	1,202	1,202	-	-	163	1,108
<Stock related> Option	(507)	-	(507)	1,912	927	-	-
Reserve for credit risk adjustment	900	-	900	(262)	(17)	-	(1)
	₩ 1,598	21,434	23,032	99,414	97,470	20,395	1,107

(In millions of won)

	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

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

Gain (loss) on valuation of hedged assets for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017		2016	
	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)	₩ -	68	5	151
Available-for-sale financial assets (net gain (loss) on foreign exchange)	307	15,203	6,361	-
Held-to-maturity financial assets (net gain (loss) on foreign exchange)	3	16,036	3,223	-
Debentures (other operating loss, net)	-	1,105	-	1,104
	₩ 310	32,412	9,589	1,255

(d) Classification and fair value hierarchy of derivatives

The classification and the fair value hierarchy of derivatives as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017			
	Level 1	Level 2	Level 3	Total
Trading derivative instrument assets (*)	₩ -	97,764	1,912	99,676
Trading derivative instrument liabilities (*)	-	96,560	927	97,487
Hedging derivative instrument assets (*)	-	20,395	-	20,395
Hedging derivative instrument liabilities (*)	-	1,108	-	1,108

(In millions of won)

	2016			
	Level 1	Level 2	Level 3	Total
Trading derivative instrument assets (*)	₩ -	118,543	5,375	123,918
Trading derivative instrument liabilities (*)	-	123,461	2,535	125,996
Hedging derivative instrument assets (*)	-	95	-	95
Hedging derivative instrument liabilities (*)	-	12,519	-	12,519

(*) 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, 2017 and 2016 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, 2017 and 2016 are as follows:

(In millions of won)

	2017	
	Trading derivative assets (*)	Trading derivative liabilities (*)
Beginning balance	₩ 5,375	2,535
Loss on valuation	(1,670)	(349)
Buy	631	-
Sell	(534)	631
Settlement	(1,890)	(1,890)
Ending balance	₩ 1,912	927

(In millions of won)

	2016	
	Trading derivative assets (*)	Trading derivative liabilities (*)
Beginning balance	₩ 5,892	3,011
Loss on valuation	(475)	(83)
Buy	3,327	-
Sell	-	1,903
Settlement	(3,369)	(2,296)
Ending balance	₩ 5,375	2,535

(*) 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, 2017 and 2016 are as follows:

	Valuation method	Unobservable inputs	Range	
			2017	2016
Trading derivative instruments	Binomial model, etc.	Volatility	5.68% - 26.98%	5.35% - 36.08%
		Correlation coefficient	9.33% - 81.57%	30.74% - 90.67%

(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, 2017 and 2016 are as follows:

(In millions of won)

	2017		2016	
	Profit or loss		Profit or loss	
	Advantageous change	Disadvantageous change	Advantageous change	Disadvantageous change
Trading derivative instruments (*)	₩ 115	(88)	143	(144)

(*) 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, 2017 and 2016 are as follows:

(In millions of won)

	2017		2016	
		Trading derivative assets		Trading derivative assets
Beginning balance	₩	(1,312)		(1,538)
Increase		-		-
Decrease		232		226
Ending balance	₩	(1,080)		(1,312)

(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.

(In millions of won)

		2017	2016
Borrowings in foreign currency	₩	4,814	(2,383)
Debentures in foreign currency		3,979	-
Total		8,793	(2,383)

17. Property and Equipment

(a) Property and equipment

Property and equipment as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017			2016		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Land	₩ 170,303	-	170,303	170,026	-	170,026
Buildings	270,572	(74,977)	195,595	292,060	(90,393)	201,667
Leasehold improvement	52,985	(42,761)	10,224	48,137	(39,520)	8,617
Furniture, equipment and vehicles	195,800	(148,986)	46,814	194,687	(152,697)	41,990
Construction-in-progress	52,545	-	52,545	6,687	-	6,687
	₩ 742,205	(266,724)	475,481	711,597	(282,610)	428,987

(b) Changes in property and equipment

Changes in property and equipment for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017					
	Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩ 170,026	8,137	(8,659)	-	799	170,303
Buildings	201,667	6,537	(5,738)	(6,855)	(16)	195,595
Leasehold improvement	8,617	4,418	(54)	(3,392)	635	10,224
Furniture, equipment and vehicles	41,990	18,250	(38)	(13,334)	(54)	46,814
Construction-in-progress	6,687	46,533	-	-	(675)	52,545
	₩ 428,987	83,875	(14,489)	(23,581)	689	475,481

(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

(c) Assets insured

Assets insured as of December 31, 2017 are as follows:

(In millions of won)

	Type	Insurance amount	Insurance company
Buildings	Package insurance	₩ 195,714	Hyundai Marine & Fire Insurance Co., Ltd.
Buildings	Package insurance	22,756	Samsung Fire & Marine Insurance Co., Ltd.
Leasehold improvement	Package insurance	9,894	Hyundai Marine & Fire Insurance Co., Ltd.
Leasehold improvement	Fire insurance	79	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	Package insurance	31,285	Hyundai Marine & Fire Insurance Co., Ltd.
Furniture, equipment and vehicles	Package insurance	38	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	Package insurance	43	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	Fire insurance	53	Hyundai Marine & Fire Insurance Co., Ltd.
		₩ 259,862	

(d) Operating leases

Operating leases revenues and expenses for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017		2016	
	Operating lease revenues	Operating lease expenses	Operating lease revenues	Operating lease expenses
Within 1 year	₩ 445	6,491	494	5,246
Exceed 1 year and within 5 years	120	6,964	141	6,231
Exceed 5 years	-	375	-	185
	₩ 565	13,830	635	11,662

18. Intangible Assets

Changes in intangible assets for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017						
	Beginning balance	Additions	Disposal	Amortization	Impairment loss	Others (*1)	Ending balance
Goodwill	₩ 21,690	-	-	-	-	-	21,690
Software	41,888	20,953	-	(19,162)	-	642	44,321
Contributed acceptance assets	10,693	-	-	(1,034)	-	-	9,659
Membership	7,910	200	(888)	-	(34)	(67)	7,121
Others(*2)	50,916	27,880	-	(13,633)	-	-	65,163
	₩ 133,097	49,033	(888)	(33,829)	(34)	575	147,954

(*1) Software was transferred from construction-in-progress.

(*2) Others consist of usable and profitable donation assets of ₩64,615 million.

(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.

19. Investment Property

(a) Investment property

Changes in investment property for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017				
	Beginning balance	Disposal	Transfer	Depreciation	Ending balance
Land	₩ 58,816	(1,734)	(799)	-	56,283
Buildings	40,799	(1,629)	16	(1,878)	37,308
	₩ 99,615	(3,363)	(783)	(1,878)	93,591

(In millions of won)

	2016				
	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

(b) Book value and fair value of investment property

Book value and fair value of investment property as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017			2016		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Land	₩ 56,283	78,288	22,005	58,816	74,645	15,829
Buildings	37,308	40,810	3,502	40,799	45,556	4,757
	₩ 93,591	119,098	25,507	99,615	120,201	20,586

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, 2017 and 2016 are as follows:

(In millions of won)

	2017		2016	
	Incomes	Expenses	Incomes	Expenses
Property with rental income	₩ 2,662	843	2,974	863
Property without rental income	-	197	-	187
	₩ 2,662	1,040	2,974	1,050

20. Other Assets

Other assets as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Prepayments	₩ 35,584	14,955
Prepaid expenses	11,986	10,951
Unamortized deferred acquisition costs of new or renewal insurance contracts	81,621	62,012
Separate account assets	108,855	74,654
Reinsurance assets	10,536	9,949
Others	20,905	24,828
	₩ 269,487	197,349

21. Depository Liabilities

(a) Depository liabilities

Depository liabilities as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017		2016	
	Book value	Fair value	Book value	Fair value
Demand deposits	₩ 15,235,717	15,235,717	14,883,589	14,883,589
Time deposits	21,949,455	21,914,223	20,070,388	20,039,256
Negotiable certificates of deposit	654,578	654,689	431,492	431,518
	₩ 37,839,750	37,804,629	35,385,469	35,354,363

The amounts of depository liabilities, which mature within 12 months are ₩23,945,813 million and ₩21,722,334 million as of December 31, 2017 and 2016, respectively. The amounts of depository liabilities, which mature after 12 months are ₩13,893,937 million and ₩13,663,135 million as of December 31, 2017 and 2016, respectively.

(b) Demand deposits

Demand deposits as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Passbook deposits	₩ 1,356,031	1,208,456
Savings deposits	8,137,356	7,842,505
Corporate free savings deposits	4,114,896	4,413,811
Others	1,138,436	1,058,638
Subtotal	₩ 14,746,719	14,523,410

		(In millions of won)	
		2017	2016
Deposits in foreign currencies	Current deposits	₩ 1,829	926
	Passbook deposits	487,166	359,246
	Temporary deposits	3	7
	Subtotal	488,998	360,179
Total	₩	15,235,717	14,883,589

(c) Time deposits

Time deposits as of December 31, 2017 and 2016 are as follows:

		(In millions of won)	
		2017	2016
Deposits in won	Time deposits	₩ 19,864,989	18,117,833
	Installment savings deposits	1,036,590	1,089,344
	Long term housing saving deposits	103,584	122,950
	Mutual installment deposits	5,725	6,029
	Others	643,291	563,791
	Subtotal	21,654,179	19,899,947
Deposits in foreign currencies	Time deposits	109,359	165,106
	Installment savings deposits	185,917	5,335
	Subtotal	295,276	170,441
Total	₩	21,949,455	20,070,388

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

Borrowings and debentures as of December 31, 2017 and 2016 are as follows:

		(In millions of won)					
		2017			2016		
		Average interest rate (%)	Book value	Fair value	Average interest rate (%)	Book value	Fair value
Borrowings in won	The Bank of Korea	0.71	₩ 495,794	495,794	0.71	₩ 622,903	622,903
	Others	1.64	1,362,459	1,360,178	1.79	1,167,035	1,165,406
	Subtotal		1,858,253	1,855,972		1,789,938	1,788,309
Borrowings in foreign currencies	Borrowings from banks	1.22	586,310	585,647	0.67	562,188	561,706
	Bonds sold under repurchase agreements	1.60	815,553	815,497	1.67	734,981	735,079
	Borrowing in won	1.21	50,000	50,000	1.33	72,000	72,000
Call money	Borrowings in foreign currencies	1.02	74,998	74,998	1.45	8,710	8,710
	Subtotal		124,998	124,998		80,710	80,710
Others	Bills sold	1.27	9,256	9,282	1.32	6,965	6,983
Total			3,394,370	3,391,396		3,174,782	3,172,787
Debentures	Debentures in won	2.49	4,040,572	4,054,435	2.81	3,750,958	3,832,544
	Debentures in foreign currencies	2.25	319,823	319,823	2.25	359,849	359,849
	Less discount on debentures		(3,743)	(3,743)		(3,290)	(3,290)
	Total		4,356,652	4,370,515		4,107,517	4,189,103
Borrowings and Debentures		₩	7,751,022	7,761,911	₩	7,282,299	7,361,890

The amounts of borrowings and debentures, which mature within 12 months are ₩3,820,114 million and ₩3,609,232 million as of December 31, 2017 and 2016, respectively. The amounts of borrowings and debentures, which mature after 12 months are ₩3,934,651 million and ₩3,676,357 million as of December 31, 2017 and 2016, respectively.

(b) Debentures

Debentures as of December 31, 2017 and 2016 are as follows:

		(In millions of won)		
Issuance date	Maturity date	Interest rate (%)	2017	2016
2012-01-17	2017-01-17	3.98	₩ -	100,000
2012-06-21	2017-06-21	3.75	-	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	50,000
2016-09-30	2021-09-30	1.68	60,000	60,000
2017-01-17	2020-01-17	1.96	50,000	-
2017-01-17	2022-01-17	2.23	50,000	-
2017-06-20	2022-06-20	2.35	50,000	-
2017-06-10	2024-06-20	2.54	50,000	-
2010-08-31	2016-12-31	5.05	-	120,000
2010-08-31	2016-12-31	5.05	-	80,000
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
2014-05-14	2017-05-14	3.03	-	100,000
2014-08-22	2017-08-22	2.74	-	50,000
2014-11-18	2017-11-18	2.32	-	180,000
2014-11-26	2018-02-26	2.26	110,000	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
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	100,000
2016-04-07	2019-04-07	1.60	100,000	100,000
2016-06-03	2026-06-03	3.10	100,000	100,000
2016-08-26	2019-08-26	1.37	30,000	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	60,000
2017-02-09	2019-08-09	1.75	50,000	-
2017-02-23	2019-02-23	1.72	40,000	-
2017-04-11	2019-04-11	1.75	30,000	-
2017-05-11	2019-05-11	1.76	30,000	-
2017-05-12	2020-05-12	1.94	50,000	-
2017-05-31	2020-05-31	1.89	30,000	-

(In millions of won)

Issuance date	Maturity date	Interest rate (%)		2017	2016
2017-09-19	2018-09-19	1.70	₩	60,000	-
2017-09-14	2020-09-14	2.03		60,000	-
2017-12-13	2020-12-13	2.36		50,000	-
2013-04-29	2018-04-29	2.25		319,823	359,849
2013-11-19	2019-05-19	5.00		10,169	10,291
2013-12-27	2019-06-27	5.60		20,377	20,631
2014-12-30	2020-06-30	5.00		10,013	10,018
2014-12-31	2019-12-31	5.00		10,013	10,018
2016-09-30	2022-09-30	4.40		20,000	20,000
2017-01-23	2022-07-23	4.90		40,000	-
2017-04-07	2022-04-07	4.99		15,000	-
2014-03-17	2017-03-17	3.91		-	30,000
2015-05-28	2017-05-28	2.26		-	50,000
2015-05-28	2018-05-28	2.60		30,000	30,000
2015-06-15	2017-07-15	2.21		-	10,000
2015-06-15	2018-06-15	2.51		30,000	30,000
2015-08-12	2017-08-12	2.02		-	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
2015-10-14	2017-04-14	2.18		-	30,000
2016-01-27	2017-01-26	2.38		-	40,000
2016-01-27	2019-01-25	2.72		10,000	10,000
2016-02-22	2017-05-22	2.26		-	35,000
2016-02-22	2019-02-22	2.59		10,000	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	20,000
2016-04-19	2019-04-19	2.64		20,000	20,000
2016-05-31	2018-05-31	2.33		40,000	40,000
2016-06-21	2018-12-21	2.27		25,000	25,000
2016-06-21	2019-06-21	2.47		40,000	40,000
2016-07-19	2018-01-19	2.01		30,000	30,000
2016-07-19	2018-07-19	2.07		30,000	30,000
2016-07-19	2019-07-19	2.34		40,000	40,000
2016-09-02	2018-08-31	2.15		30,000	30,000
2016-09-02	2019-09-02	2.41		30,000	30,000
2016-10-06	2018-04-06	2.21		20,000	20,000
2016-10-26	2018-04-26	2.38		10,000	10,000
2016-10-26	2018-10-26	2.46		40,000	40,000
2016-11-11	2018-02-09	2.36		30,000	30,000
2016-12-22	2018-06-22	2.61		40,000	40,000
2017-01-19	2018-07-19	2.45		20,000	-
2017-01-19	2018-03-19	2.41		30,000	-
2017-01-19	2018-04-19	2.42		20,000	-
2017-01-19	2019-01-18	2.62		10,000	-

(In millions of won)

Issuance date	Maturity date	Interest rate (%)		2017	2016
2017-03-14	2018-09-14	2.41	₩	30,000	-
2017-03-14	2019-03-14	2.63		40,000	-
2017-03-14	2020-03-13	3.01		10,000	-
2017-03-21	2018-08-21	2.38		30,000	-
2017-03-21	2018-10-19	2.43		30,000	-
2017-03-21	2019-02-21	2.55		10,000	-
2017-03-21	2020-03-20	2.92		10,000	-
2017-04-18	2018-07-18	2.31		30,000	-
2017-04-18	2019-04-18	2.58		40,000	-
2017-04-18	2020-04-17	2.93		20,000	-
2017-05-23	2018-09-21	2.27		30,000	-
2017-05-23	2019-05-23	2.56		50,000	-
2017-05-23	2020-05-22	2.91		30,000	-
2017-05-29	2018-11-29	2.31		20,000	-
2017-05-29	2019-04-29	2.51		20,000	-
2017-05-29	2020-05-29	2.91		20,000	-
2017-06-20	2019-02-20	2.34		30,000	-
2017-06-20	2019-06-20	2.51		40,000	-
2017-06-20	2019-08-20	2.54		40,000	-
2017-06-20	2020-06-19	2.88		30,000	-
2017-07-24	2019-07-24	2.43		20,000	-
2017-07-24	2020-07-24	2.87		40,000	-
2017-07-24	2021-07-23	3.04		20,000	-
2017-09-18	2019-09-18	2.38		30,000	-
2017-09-18	2020-09-18	2.85		40,000	-
2017-10-23	2019-10-23	2.63		30,000	-
2017-10-23	2020-10-23	3.13		20,000	-
2017-11-07	2018-11-07	2.38		10,000	-
2017-11-07	2019-11-07	2.89		20,000	-
2017-11-23	2019-11-22	2.90		40,000	-
2017-12-15	2020-02-14	2.75		30,000	-
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				4,360,395	4,110,807
Less discount on debentures				(3,743)	(3,290)
Total			₩	4,356,652	4,107,517

23. Provisions

Changes in provisions for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

		2017			
		Beginning balance	Increase	Decrease	Ending balance
Allowance (*1)	Provision for financial guarantee	₩ 148	75	-	223
	Non-financial guarantee contract	2,198	-	(482)	1,716
	Subtotal	₩ 2,346	75	(482)	1,939

(In millions of won)

	2017			
	Beginning balance	Increase	Decrease	Ending balance
Unused commitment (*2)	₩ 11,261	1,711	(91)	12,881
Allowance for restoration (*3)	5,037	1,045	(350)	5,732
	Mileage on credit cards	915	-	691
	Fraudulent usage of credit card	4	-	1
	Dormant deposits repayment (*4)	1,834	-	379
Other allowance	Welfare for retired employees	2,414	357	2,771
	Litigation	253	-	-
	Others	4,797	-	4,797
	Subtotal	10,217	357	8,639
Total	₩ 28,861	3,188	(2,858)	29,191

(In millions of won)

	2016			
	Beginning balance	Increase	Decrease	Ending balance
Allowance (*1)	₩ 25	123	-	148
	Provision for financial guarantee	1,402	796	2,198
	Non-financial guarantee contract	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
	Mileage on credit cards	918	-	915
	Fraudulent usage of credit card	26	-	4
	Dormant deposits repayment (*4)	1,796	38	1,834
Other allowance	Welfare for retired employees	2,917	-	2,414
	Litigation	267	106	253
	Others	12,095	313	4,797
	Subtotal	18,019	457	10,217
Total	₩ 36,765	2,456	(10,360)	28,861

(*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 provide 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, 2017 and 2016.

(*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, 2017 and 2016 are as follows:

	2017				2016			
	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	2.42%	3.72%	2.93%	3.35%	2.02%	3.41%	2.58%	3.02%
Salary increases	Application of salary increase rate of each job group and age group according to experience statistics							

The weighted-average duration of the defined benefit obligation are 13.19 years and 13.18 years as of December 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Current service cost	₩ 31,220	29,201
Interest expense	6,643	5,382
Interest income on plan assets	(6,086)	(4,588)
	₩ 31,777	29,995

(c) Defined benefit obligations

Defined benefit obligations as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Present value of retirement benefit obligations	₩ 226,235	204,291
Fair value on plan assets	(212,010)	(195,518)
Net liabilities for benefit obligation	₩ 14,225	8,773

(d) Changes in present value of retirement benefit obligations

Changes in present value of retirement benefit obligation for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Defined benefit obligations at beginning of the year	₩ 204,291	169,276
Current service cost	31,220	29,201
Interest expense	6,643	5,382
Remeasurement	1,766	12,609
Benefit paid	(17,685)	(12,593)
Changes due to business combinations	-	416
Defined benefit obligations at end of the year	₩ 226,235	204,291

(e) Changes in fair value of plan assets

Changes in fair value of plan assets for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Fair value of plan assets at beginning of the year	₩ 195,518	151,201
Interest income on plan assets	6,086	4,588
Remeasurement	(4,146)	(2,391)
Contribution of employer	22,119	46,532
Benefit paid	(7,567)	(4,828)
Changes due to business combinations	-	416
Fair value of plan assets at end of the year	₩ 212,010	195,518

The Group expects to pay ₩22,119 million in contributions to its defined benefit plans in 2018.

(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, 2017 and 2016 are as follows:

		(In millions of won)			
Type		2017		2016	
		Increase (1%p)	Decrease (1%p)	Increase (1%p)	Decrease (1%p)
Discount rate	Increase (decrease) in defined benefit obligation	₩ (18,247)	21,548	(19,904)	23,369
Future salary growth	Increase (decrease) in defined benefit obligation	21,473	(18,525)	23,483	(20,348)

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, 2017 and 2016 are as follows:

		(In millions of won)	
		2017	2016
Due from banks(*)	₩	202,712	188,832
Debt securities		9,297	6,685
Contribution to National Pension Plan		1	1
	₩	212,010	195,518

(*) Due from banks comprise retirement pensions of Samsung Life Insurance, Kyongnam Bank, Busan Bank and Shinhan Life Insurance. These include principal guaranteed products.

25. Insurance Contract Liabilities

Insurance Contract liabilities as of December 31, 2017 and 2016 are as follows:

		(In millions of won)	
		2017	2016
Premium reserve	₩	5,108,513	4,952,584
Reserves for unearned premium		4,850	4,608
Minimum guarantee reserve		16,518	13,690
Reserve for outstanding claims		101,843	97,743
Reserve for participating policyholders' dividends		4,616	4,099
Reserve for policyholders' profit dividends		924	1,117
Loss preservation reserve for participating insurance		852	698
Policyholders' equity adjustment		202	2,251
Others		36,990	44,410
	₩	5,275,308	5,121,200

26. Other Liabilities

Other liabilities as of December 31, 2017 and 2016 are as follows:

		(In millions of won)	
		2017	2016
Other financial liabilities (*)	Accounts payable	₩ 374,991	493,302
	Accrued expenses	373,331	382,521
	Domestic exchange settlements credits	95	23
	Prepaid cards	6,741	7,460

		(In millions of won)		
		2017	2016	
Other financial liabilities (*)	Debit cards	360	362	
	Guarantee deposit for securities subscription	1,884	633	
	Liabilities incurred by agency relationship	62,524	52,564	
	Deposit for credit control	1,500	410	
	Withholding taxes	15,772	9,012	
	Deposits for letter of guarantees and other	220,143	199,358	
	Account for agency business	86,414	78,112	
	Financial guarantee contract	328	388	
	Insurance claims payable	11,692	10,375	
	Others	148,769	124,512	
	Subtotal	1,304,544	1,359,032	
	Other non-financial liabilities	Separate account liabilities	111,185	76,626
		Unearned revenue	27,033	25,238
		Income tax payable	48,229	33,012
Prepaid insurance		15,802	7,165	
Others		35,144	34,826	
Subtotal	237,393	176,867		
Discount present value		(11,964)	(10,926)	
Total	₩	1,529,973	1,524,973	

(*) The fair value of other financial liabilities is ₩1,304,421million and ₩1,358,724million as of December 31, 2017 and 2016, respectively.

The amounts of other liabilities, which mature within 12 months are ₩1,138,395 million and ₩1,202,608 million as of December 31, 2017 and 2016, respectively. The amounts of other liabilities, which mature after 12 months are ₩166,149 million and ₩156,424 million as of December 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

		(In millions of won / thousands of US dollars)				
		2017		2016		
		Foreign currency(*)	Translation into won	Foreign currency(*)	Translation into won	
Assets	Cash in foreign currencies	\$ 62,446	₩ 66,922	\$ 57,294	₩ 69,240	
	Due from banks in foreign currencies	402,604	431,350	236,362	285,644	
	Available-for-sale financial assets	365,840	402,815	291,421	352,182	
	Held-to-maturity financial assets	276,848	317,462	50,000	60,425	
	Loans in foreign currencies	Loans in foreign currencies	511,137	547,631	449,609	543,862
		Loans to other banks in foreign currencies	209,927	224,916	174,000	210,279
		Bills bought in foreign currencies	140,985	151,051	111,134	134,301
	Loans and receivables	Advances for customers in foreign currencies	1,305	1,398	2,865	3,462
		Credit card accounts in foreign currencies	2,877	3,082	2,649	3,201
		Call loans in foreign currencies	\$ 133,061	₩ 142,561	\$ 78,642	₩ 95,157

(In millions of won / thousands of US dollars)

	2017		2016				
	Foreign currency(*)	Translation into won	Foreign currency(*)	Translation into won			
Assets	Loans and receivables	Privately placed debentures in foreign currencies	\$ 31,648	₩ 33,908	\$ 21,316	₩ 25,760	
		Deposits in foreign currencies	122	130	21	26	
		Subtotal	1,031,062	1,104,677	840,236	1,016,048	
		Total foreign currency denominated assets	\$ 2,138,800	₩ 2,323,226	\$ 1,475,313	₩ 1,783,539	
Liabilities	Deposits in foreign currencies		\$ 732,009	₩ 784,275	\$ 439,073	₩ 530,620	
		Borrowings	Borrowings in foreign currencies	547,237	586,310	465,195	562,188
			Call money in foreign currencies	70,000	74,998	7,208	8,711
			Subtotal	617,237	661,308	472,403	570,899
		Debentures	Debentures in foreign currencies	298,509	319,823	297,765	359,849
			Less discount on debentures	(107)	(115)	(427)	(516)
			Subtotal	298,402	319,708	297,338	359,333
		Other liabilities	Financial guarantee in foreign currencies	161	172	234	283
			Foreign exchanges payable	3,885	4,162	8,895	10,750
			Import deposit money in foreign currencies	13,300	14,248	5,912	7,144
Accounts payables in foreign currencies	684		732	723	874		
	Subtotal	18,030	19,314	15,764	19,051		
	Total foreign currency denominated liabilities	\$ 1,665,678	₩ 1,784,605	\$ 1,224,578	₩ 1,479,903		

(*) 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, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Gain on foreign currency transactions	₩ 216,650	204,979
Loss on foreign currency transactions	(207,330)	(200,805)
Net gain on foreign currency transactions	₩ 9,320	4,174

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

(a) Capital stock, capital surplus and capital adjustment as of December 31, 2017 are as follows:

(i) Authorized shares	500,000,000 shares
(ii) Number of shares issued	169,145,833 shares
(iii) Par price	5,000 won
(iv) Capital stock	845,729,165,000 won
(v) Capital surplus	1,560,891,140,004 won
(vi) Capital adjustment	(-)991,303,299 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, 2017 and 2016 are as follows:

(In millions of won)

Description	Issuance date	Maturity date	Interest rate (%)		2017	2016
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)					1,025	2,055
Total				₩	290,590	291,620
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. The Group cannot pay dividends to common stock if it does not pay dividends to hybrid bond holders.

(*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, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Legal reserve (*1)	₩ 197,328	163,749
Discretionary appropriated reserve (*2)	1,181	1,043
Unappropriated retained earnings (*3)	1,356,321	1,138,582
	₩ 1,554,830	1,303,374

(*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 ₩9,159 million and ₩8,737 million as of December 31, 2017 and 2016, 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, 2017 and 2016 are summarized as follows:

(In millions of won)

	2017	2016
Regulatory reserves for loan losses	₩ 303,391	288,302
Estimated transfer to regulatory reserves for loan losses	(6,061)	15,689
Regulatory reserves for loan losses at end of the year	₩ 297,930	303,991

Details of profits after adjusting for regulatory reserves for loan losses for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Required transfer to regulatory reserves for loan losses	₩ (6,061)	15,689
Adjusted profit after regulatory reserves for loan losses	308,269	271,968
Earnings per share after adjusting regulatory reserves for loan losses (in won)	₩ 1,823	1,609

30. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2017 and 2016 as follows:

(In millions of won)

	2017				
	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	₩ 1,607	15,837	5,565	(50,394)	(27,385)
Net decrease due to valuation	(12,249)	-	-	-	(12,249)
Changes due to reclassification	7,436	(7,436)	-	-	-
Realized gain on disposition	(13,189)	(7,475)	-	-	(20,664)
Net gain on the fair value hedge accounting	68	-	-	-	68
Effect of hedge of net investment	-	-	8,793	-	8,793
Gain on translation of foreign operations	-	-	(12,825)	-	(12,825)
Remeasurements of employee benefits	-	-	-	(5,790)	(5,790)
Fluctuation of policy reserve adjustment	4,299	-	-	-	4,299
Effect of income taxes	9,124	(1,232)	1,195	1,408	10,495
Net balance at end of period	₩ (2,904)	(306)	2,728	(54,776)	(55,258)

(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 increase(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 loss 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)

31. Interest Income and Interest Expense**(a) Interest income**

Interest income for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Interest on due from banks	₩ 13,007	15,209
Interest on financial assets held for trading	7,956	7,526
Interest on financial assets designated at fair value through profit or loss	382	511
Interest on available-for-sale financial assets	71,889	74,308
Interest on held-to-maturity financial assets	205,005	215,727

(In millions of won)

	2017	2016
Interest on loans	1,522,741	1,422,640
Others	2,873	3,048
	₩ 1,823,853	1,738,969

(b) Interest expense

Interest expense for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Interest on deposits	₩ 362,556	376,645
Interest on borrowings	49,983	46,481
Interest on debentures	111,957	107,062
Interest on borrowings from trust accounts	3,061	3,231
Others	4,947	3,464
	₩ 532,504	536,883

32. Fee and Commission Income / Commission Expense**(a) Fee and commission income**

Fee and commission income for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Commissions received	₩ 136,911	122,382
Guarantee fees	4,620	4,090
Commissions received related to trust accounts	12,485	11,279
	₩ 154,016	137,751

(b) Commission expense

Commission expenses for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Commissions paid	₩ 26,578	22,259
Commissions on credit cards	46,759	45,609
Commissions paid related to trust accounts	269	236
	₩ 73,606	68,104

33. Insurance Income and Insurance Expenses**(a) Insurance income**

Insurance income for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Insurance revenue	₩ 800,236	854,695
Reinsurance revenue	38,056	34,593
Fees on reinsurance revenue	4,716	5,265
Separate account revenue	6	5
	₩ 843,014	894,558

(b) Insurance expenses

Insurance expense for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
			(In millions of won)
Insurance expense	₩	90,457	110,772
Refunds expense		570,185	574,449
Policyholder dividends		454	315
Reinsurance premium		44,979	42,342
Deferred acquisition costs of new or renewal insurance contracts		(47,151)	(50,519)
Expenses on acquisition costs of new or renewal insurance contracts		64,087	71,136
Contribution to insurance reserve		155,570	182,782
Separate account expense		5	5
Amortization expenses on deferred acquisition costs of new or renewal insurance contracts		27,542	18,190
	₩	906,128	949,472

34. Net Gain (Loss) on Financial Instruments Held for Trading

Net gain (loss) on financial instruments held for trading for the years ended December 31, 2017 and 2016 are as follows:

Description		2017	2016		
			(In millions of won)		
Gain	Dividend income	₩ 359	344		
	Gain on securities held for trading	Gain on disposal	14,937	6,414	
		Gain on valuation	2,255	603	
			17,551	7,361	
	Gain on derivatives instruments held for trading	Gain on transaction	354,505	401,782	
		Gain on valuation	98,696	118,676	
		Reversal of reserve for credit risk adjustment	905	12	
	Gain on financial instruments held for trading	₩	471,657	520,470	
	Loss	Commission expenses (acquisition expenses)	₩	143	237
				3,973	10,113
Loss on securities held for trading		Loss on disposal	506	2,176	
		Loss on valuation	4,622	12,526	
Loss on derivatives instruments held for trading		Commission expenses (acquisition expenses)	248	236	
	Loss on transaction	377,901	377,094		
	Loss on valuation	98,581	124,068		
	Reserve for allowance of credit risk adjustment	5	739		
		476,735	502,137		
Loss on financial instruments held for trading	₩	481,357	514,663		
Net gain (loss) on financial instruments held for trading	₩	(9,700)	13,168		

Net gain (loss) 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 (loss) on Financial Assets Designated at Fair Value through Profit or Loss

Net gain (loss) on financial assets designated at fair value through profit or loss for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
			(In millions of won)
Gain on financial assets designated at fair value through profit or loss	Dividend income	₩ -	8,732
	Gain on valuation	95	1,128
	Gain on disposal	-	250
		95	10,110
Loss on financial assets designated at fair value	Loss on valuation	2,433	456
	Loss on disposal	-	8,102
		2,433	8,558
Net gain (loss) on financial assets designated at fair value through profit or loss	₩	(2,338)	1,552

Net gain (loss) 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, 2017 and 2016 are as follows:

		2017	2016
			(In millions of won)
Gain on available-for-sale financial assets	Dividend income	₩ 19,837	30,745
	Gain on disposal	38,032	49,351
	Gain on valuation of fair value hedged items	-	5
		57,869	80,101
Loss on available-for-sale financial assets	Loss on disposal	230	5,259
	Loss on valuation of fair value hedged items	68	151
		298	5,410
Net gain on available-for-sale financial assets	₩	57,571	74,691

37. Impairment Loss on Financial Assets

Impairment losses on financial assets for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
			(In millions of won)
Impairment loss on available-for-sale financial assets	₩	6,855	4,622
Impairment on loan losses		181,986	197,821
	₩	188,841	202,443

38. General and Administrative Expenses

General and administrative expense for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
			(In millions of won)
Employee benefits	₩	423,988	398,816
Rent		22,250	20,517
Depreciation		24,693	29,788

(In millions of won)			
	2017	2016	
Amortization	33,606	30,111	
Tax and dues	24,395	23,339	
Advertising expense	14,613	14,879	
Physical training expense	1,540	1,303	
Service expense	41,048	39,053	
Others	90,726	81,192	
	₩	676,859	638,998

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, 2017 are as follows:

	12th	13th	16th	17th
Shares to be granted	8,380 shares	22,834 shares	23,658 shares	14,601 shares
Grant date	2015.3.19	2016.2.1	2017.3.10	2017.3.21
Exercise method	Cash settlement	Cash settlement	Cash settlement	Cash settlement
Conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions
Exercise price per share in won	-	-	-	-
Vesting period	3 years	3 years	3 years	3 years

(ii) Changes in long-term performance share plan for the years ended December 31, 2017 and 2016 are as follows:

	2017		2016	
	Shares	Weighted average exercise price per share	Shares	Weighted average exercise price per share
At beginning of year	69,555 shares	₩ -	54,402 shares	₩ -
Shares to be granted	72,097 shares	-	45,665 shares	-
Shares exercised	72,179 shares	-	30,512 shares	-
At end of year	69,473 shares	-	69,555 shares	-

The exercise price per share and weighted average expected term are nil and 1.60 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, 2017 are as follows:

(In won)							
	Option pricing model	Stock price	Option price	Expected variance	Expected life	Risk free Rate	Fair value
12th	Black-Scholes option pricing model	₩ 10,550	-	30.18%	0.21 years	1.51%	₩ 10,487
13th	Black-Scholes option pricing model	10,550	-	26.09%	0.98 years	1.85%	10,264
16th	Black-Scholes option pricing model	10,550	-	24.75%	1.99 years	2.08%	9,977
17th	Black-Scholes option pricing model	10,550	-	24.03%	2.22 years	2.11%	9,913

(iv) Expense of equity linked special incentive for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)			
	2017	2016	
General and administrative expense	₩	222	171

(v) Liability of equity linked special incentive as of December 31, 2017 and 2016 are as follows:

(In millions of won)			
	2017	2016	
Long-term accrued expenses	₩	362	300

40. Other Operating Loss, Net

Other operating loss, net for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)			
	2017	2016	
Gain on sale of loans	₩	13,992	37,140
Reversal of provision for financial guarantee liabilities		482	-
Reversal of provision for unused commitment		-	1,995
Reversal of other provision		1,934	2,632
Merchandise sold		4,675	1,609
Service revenue		14,826	13,782
Others		1,272	2,167
		37,181	59,325
Fees for credit guarantee fund		56,414	55,090
Deposit insurance premiums		51,773	50,835
Loss on sale of loans		23,862	6,577
Loss on valuation of debentures		1,105	1,104
Provision for financial guarantee liabilities		75	123
Provision for dormant deposits repayment		-	796
Provision for undrawn commitment		1,711	-
Provision for others		806	1,020
Cost of goods sold		20,026	15,118
Others		957	1,456
		156,729	132,119
Other operating loss, net	₩	(119,548)	(72,794)

41. Operating Revenue and Expense

Operating revenue and expense for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)			
	2017	2016	
Operating revenue			
Interest income	₩	1,823,853	1,738,969
Fee and commission income		154,016	137,751
Insurance income		843,014	894,558
Gain on financial assets held for trading		471,657	527,831

			(In millions of won)	
	2017	2016		
Gain on financial assets designated at fair value through profit or loss	95	10,110		
Gain on available-for-sale financial assets	57,869	80,101		
Gain on hedging derivative instruments	37,434	1,347		
Income on foreign currency transactions	216,650	204,979		
Others	37,181	59,325		
	3,641,769	3,654,971		
Operating expense				
Interest expense	532,504	536,883		
Commission expense	73,606	68,104		
Insurance expense	906,128	949,472		
Loss on financial assets held for trading	481,357	514,663		
Loss on financial assets designated at fair value through profit or loss	2,433	8,558		
Loss on available-for-sale financial assets	298	5,410		
Loss on hedging derivative instruments	6,441	10,587		
Loss on foreign currency transactions	207,330	200,805		
Impairment loss on financial assets	188,841	202,443		
General and administrative expenses	676,859	638,998		
Others	156,729	132,119		
	3,232,526	3,268,042		
Operating income	₩	409,243		386,929

42. Non-Operating Income, Net

Non-operating income and expenses for the years ended December 31, 2017 and 2016 are as follows:

			(In millions of won)	
	2017	2016		
Non-operating income	Gain on disposal of property and equipment	₩ 8,294		47
	Gain on disposal of investment property	148		-
	Gain on disposal of intangible assets	19		1
	Rental income	3,364		3,491
	Others	7,529		9,632
	19,354		13,171	
Non-operating expenses	Loss on disposal of property and equipment	1,134		501
	Loss on disposal of investment property	11		-
	Loss on disposal of intangible assets	21		750
	Collecting expenses for written-off loans	161		130
	Donations	6,301		6,307
Others	10,667		4,628	
	18,295		12,316	
Non-operating income, net	₩	1,059		855

43. Income Tax Expenses

(a) Income tax expenses

Income tax expenses for the years ended December 31, 2017 and 2016 are as follows:

			(In millions of won)	
	2017	2016		
Current income tax	₩	103,386		78,630
Changes in temporary differences		(17,157)		(6,471)
Income tax expenses directly recorded to equity		7,802		13,770
Income tax expenses	₩	94,031		85,929

(b) The reconciliation of effective tax rate

The reconciliation of effective tax rate for the years ended December 31, 2017 and 2016 are as follows:

			(In millions of won)	
	2017	2016		
Profit before income tax expenses	₩	410,303		387,784
Income tax calculated at the statutory tax rate		98,831		93,382
Adjustments:				
Non-taxable income		(29,205)		(26,098)
Non-deductible expenses		4,707		2,682
Additional payment of income taxes for prior year (refund of income taxes)		1,778		(2,872)
Effect of a subsidiary		2,194		8,975
Others		15,726		9,860
Income tax expenses	₩	94,031		85,929
Effective tax rate		22.92%		22.16%

Statutory tax rate for the years ended December 31, 2017 and 2016 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%

(*) As a result of the revision of the tax law during the current year, the corporate tax rate of 25% is applied to the tax base exceeding ₩300 billion over the fiscal year after January 1, 2018, and deferred income tax is adjusted to reflect this rate change at the end of the period.

(c) Changes in deferred income tax assets (liabilities)

Changes in deferred income tax assets (liabilities) for the years ended December 31, 2017 and 2016 are as follows:

			(In millions of won)						
			2017				2016		
	Temporary differences to be deducted from (added to) taxable income				Deferred income tax assets (liabilities)			Changes due to tax rate	Ending balance
	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease		
<Temporary differences>									
Accrued income	₩ (220,847)	(219,671)	(220,787)	(219,731)	(52,592)	(53,424)	(52,586)	(8)	(53,438)
Present value discount on securities	(28,659)	(23,167)	(28,659)	(23,167)	(6,935)	(5,634)	(6,935)	-	(5,634)
Gain on valuation of securities	(51,295)	40,750	20,444	(30,989)	(12,402)	9,910	4,958	(87)	(7,537)
Loss on valuation of derivatives	8,310	372	8,310	372	2,011	90	2,011	-	90
Other provisions, etc.	24,163	23,738	24,058	23,843	5,826	5,773	5,814	14	5,799
Unused annual/monthly leave	32,203	32,776	31,663	33,316	7,782	7,971	7,651	-	8,102

(In millions of won)

	2017									
	Temporary differences to be deducted from (added to) taxable income				Deferred income tax assets (liabilities)					
	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Changes due to tax rate	Ending balance	
Dormant deposit	6,594	2,790	1,093	8,291	1,596	679	266	7	2,016	
Unamortized deferred acquisition costs of new or renewal insurance contracts	54,307	-	30,069	24,238	13,142	-	7,276	29	5,895	
Others	291,195	211,217	141,166	361,246	67,563	51,369	31,765	688	87,855	
Total	₩ 115,971	68,805	7,357	177,419	25,991	16,734	220	643	43,148	

(*) 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									
	Temporary differences to be deducted from (added to) taxable income					Deferred income tax assets (liabilities)				
	Beginning balance	Changes due to business combination	Increase	Decrease	Ending balance	Beginning balance	Changes due to business combination	Increase	Decrease	Ending balance
<Temporary differences>										
Accrued income	₩ (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)
Loss (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.

(d) Deferred income tax assets (liabilities) before offset

Deferred income tax assets (liabilities) before offset as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Deferred tax assets	₩ 115,220	113,855
Deferred tax liabilities	(72,072)	(87,864)
Deferred tax liabilities, net	₩ 43,148	25,991

The Group sets off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

44. Earnings per Share**(a) Basic earnings per share**

(In won, except share information)

	2017	2016
Profit attributable to owners of the Group	₩ 302,207,988,217	287,676,590,811
Weighted average number of common shares	169,144,817	169,053,154
Basic earnings per share	₩ 1,787	1,702

(b) Weighted average number of common shares outstanding

Weighted average number of common shares outstanding as of December 31, 2017 and 2016 are as follows:

(In shares)

	2017			
	Date	Shares	Weight	Weighted average number of common shares outstanding
Beginning common shares	2017.01.01	169,053,154	365/365	169,053,154
Paid-in capital increase	2017.01.05	92,679	361/365	91,663
Ending common shares		169,145,833		169,144,817

(In shares)

	2016			
	Date	Shares	Weight	Weighted average number of common shares outstanding
Beginning common shares	2016.01.01	169,053,154	366/366	169,053,154

(c) Diluted earnings per share

Diluted earnings per share are equal to the basic earnings per share because the Group has not issued dilutive securities.

45. Cash and Cash Equivalents**(a) Cash and Cash Equivalents**

Cash and cash equivalents on statements of cash flows as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Cash and due from banks	₩ 2,254,811	2,547,299
Restricted cash and deposits	(1,080,542)	(1,372,093)
Due from banks with original maturities of more than three months.	(220,152)	(245,000)
Cash and cash equivalents	₩ 954,117	930,206

(b) Significant Non-Cash Transactions

Significant non-cash transactions for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Decrease in loans due to writing-off	₩ 187,199	264,295
Decrease in loans due to disposing	7,464	41,032
Transferred to loans from available-for-sale financial assets	-	-

(c) Changes of liabilities from financing activities

① Changes of debentures

Changes of debentures from financing activities for the year ended December 31, 2017 are as follows:

		(In millions of won)	
		2017	
	Beginning balance	₩	4,107,517
	Issuance		1,292,982
	Repayment		(1,005,780)
	Amortization		2,389
Debentures	Loss on valuation		1,105
	Gain on foreign currency transactions		(36,317)
	Hedges of net investment in foreign operations		(4,814)
	Others		(430)
	Ending balance	₩	4,356,652

② Changes of borrowings and other liabilities

Changes of borrowings and other liabilities from financing activities for the year ended December 31, 2017 are as follows:

		(In millions of won)				
		2017				
	Beginning balance	Increase (decrease)	Gain or loss Foreign currency transactions	Gain or loss on translation of foreign operations	Hedges of net investment in foreign operations	Ending balance
Borrowings	₩ 3,174,782	295,728	(43,470)	(28,691)	(3,979)	3,394,370
Borrowings from trust accounts	82,670	24,286	-	-	-	106,956
Borrowings from fund accounts	166	78	-	-	-	244
Foreign exchange settlement credit	10,750	(6,103)	(458)	(27)	-	4,162
Deposits for letter of guarantees	199,358	22,123	(1,338)	-	-	220,143
Domestic exchange settlement credit	23	72	-	-	-	95
	₩ 3,467,749	336,184	(45,266)	(28,718)	(3,979)	3,725,970

46. Commitments and Contingencies**(a) Pending litigation**

As of December 31, 2017, there are 48 pending lawsuits brought to court by the Group, as a plaintiff, amounting to ₩11,236 million and 23 pending lawsuits against the Group amounting to ₩1,437 million. The major lawsuit case is as follows:

A lawsuit amounting to ₩2,173 million has been brought to court by the Group due to a affirmation of non-existence of debt. As of December 31, 2017, the Group partially has won some cases in the first trial.

The Group recognized no provision in respect to the lawsuit as of December 31, 2017.

(b) There is a collateral of ₩7,853 million related with a lease deposit in regard to the Group's land and buildings as of December 31, 2017.**(c) Non-financial guarantee contracts**

Non-financial guarantee contracts as of December 31, 2017 and 2016 are as follows:

		(In millions of won)	
		2017	2016
Acceptances and guarantees outstanding in won	₩	266,341	372,278
Acceptances and guarantees outstanding in foreign currencies		30,928	29,846
Contingent acceptances and guarantees		214,921	209,255
Loan commitments		6,508,843	6,880,023
Purchasing commitments for securities		209,720	141,788
	₩	7,230,753	7,633,190

(d) Financial guarantee contracts

Financial guarantee contracts as of December 31, 2017 and 2016 are as follows:

		(In millions of won)	
		2017	2016
Financial guarantee contract in won	₩	10,302	8,863
Financial guarantee contract in foreign currencies		19,707	20,679
Purchasing commitments for ABCP		134,000	84,000
	₩	164,009	113,542

(e) Insurance commitment

The Group's general and special account derived from insurance contracts with clients as of December 31, 2017 and 2016 are as follows:

		(In millions of won / thousand cases)			
		2017		2016	
		Numbers	Contract amount	Numbers	Contract amount
General account		1,487	₩ 21,354,223	1,284	₩ 20,929,097
Separate account		-	176	-	177
		1,487	₩ 21,354,399	1,284	₩ 20,929,274

(f) Reinsurance agreement

The details of the Group's ceding agreements as of December 31, 2017 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	Products before financial year 2000
	Korean Re	30% - 50%	Life, disability, cancer insurance
	Korean Re	22.5% - 37.5%	All products (new after financial year 2009)
	Korean Re	50%	Child insurance (2013 co-developed product)
Proportion	Korean Re	80%	Living benefit insurance (among year 2002-2006)
	Korean Re	50% - 60%	Lifetime cancer insurance
	Munich Reinsurance	50%	Silver cancer insurance
	Scor Reinsurance	50%	Cancer insurance giving living expenses monthly
	Korean Re	80%	Long-term care insurance
	Korean Re	50%	Health insurance
	General Re Corporation	30%	Health 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, 2017 and 2016 are as follows:

(i) Commitments related to letters of credit

		(In millions of won / thousands of US dollar)			
		2017		2016	
Financial Institutions		In foreign currency	In won	In foreign currency	In won
KOOKMIN BANK	\$	-	₩ 15,000	\$	₩ 15,000

(ii) Commitments related to the borrowings

(In millions of won)

Financial Institutions	2017		2016	
	Limit	Usage	Limit	Usage
KOOKMIN BANK	₩ 10,000	10,000	10,000	5,000
JEONBUK BANK	20,000	20,000	20,000	-
Korea Development Bank	60,000	37,214	60,000	39,797
Woori Investment Bank	20,000	-	20,000	-
Total	₩ 110,000	67,214	110,000	44,797

47. Transactions with Related Parties

(a) Related parties except for subsidiaries

Details of related parties except for subsidiaries as of December 31, 2017 are as follows:

(In millions of won)

Name	Relation	Ownership	Capital stock
Daegu FC (*)	Other	9.20%	16,310
DGB Index Plus Securities Feeder No.1(*)	Other	33.42%	22,530

(*) 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, 2017 and 2016 are as follows:

(In millions of won)

		2017		2016	
			Daegu FC		Daegu FC
Assets	Loans	₩	16		9
	Deposits		3,393		2,304
Liabilities	Others		15		17
		₩	3,408		2,321

(ii) Significant transactions between the Group and the related parties except for subsidiaries for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

		2017		2016	
			Daegu FC		Daegu FC
Expenses	Interest on deposits	₩	28		43
	Others		3,000		2,000
			3,028		2,043

(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, 2017.

(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, 2017 and 2016 are as follows:

(In millions of won)

Classification		2017	2016
Short-term employee benefits	₩	8,370	7,490
Other long-term benefits		1,010	742
Post-employment benefits		1,414	1,368
	₩	10,794	9,600

48. Financial Risk Management

(a) Purpose of risk management

The Group has exposure to credit risk, liquidity risk, market risk and operational risk from financial instruments. The Group's risk management system aims at maintaining capital adequacy and managing stability through the comprehensive appraisal and management of significant risks that arise in management activities. By optimizing risk and return balance, the risk management system realizes the stable growth of the Group, while maximizing company value and maintaining an adequate equity capital level as well as achieving business strategies, policies and plans.

(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, 2017 and 2016 are as follows:

(In millions of won)

		2017	2016
On balance accounts(*1)			
Due from banks(*2)	₩	641,854	629,226
Financial assets held for trading(*3)		528,544	364,233
Financial assets designated at fair value through profit or loss(*3)		54,617	55,359
Available-for-sale financial assets(*3)		3,746,057	3,538,198
Held-to-maturity financial assets		7,951,189	7,890,515
Loans		39,340,414	36,373,478
Receivables		937,749	1,081,141
Derivative assets - hedge accounting		20,395	95
Reinsurance assets		10,536	9,949
	₩	53,231,355	49,942,194
Off-balance accounts			
Financial guarantee	₩	164,009	113,542
Commitments		6,718,563	7,021,811
Non-financial guarantee		512,190	611,379
	₩	7,394,762	7,746,732

(*1) After impairment and setting off

(*2) Excluding due from Bank of Korea

(*3) Excluding 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, 2017 and 2016 are as follows:

(In millions of won)

	2017										
	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-for-sale financial assets (*2)	Held-to-maturity financial assets	Loans	Derivative assets hedging	Total	Financial guarantee contracts	Non-financial guarantee contracts	Commitments	Total
Enterprises											
Manufacturing	₩	-	58,744	50,011	11,099,498	-	11,208,253	15,132	273,646	1,711,111	1,999,889
Construction		-	10,405	131,880	1,157,231	-	1,299,516	104,000	4,532	217,858	326,390
Wholesale and retail		-	-	-	3,549,129	-	3,549,129	4,257	203,544	544,267	752,068
Financial services and insurance		178,027	14,364	1,426,493	1,065,074	1,932,456	4,616,414	30,000	783	414,393	445,176
Others		221,475	40,253	378,466	716,345	10,078,052	11,434,591	10,620	29,685	268,821	309,126
Subtotal		399,502	54,617	1,874,108	1,963,310	27,816,366	32,107,903	164,009	512,190	3,156,450	3,832,649
Households		-	-	-	-	10,540,175	10,540,175	-	-	1,180,775	1,180,775
Government and public institutions		24,627	-	1,871,949	5,987,879	811,902	8,696,357	-	-	29,942	29,942
Credit card		-	-	-	-	396,976	396,976	-	-	2,351,396	2,351,396
Derivatives		99,677	-	-	-	20,395	120,072	-	-	-	-
Reserve for credit risk adjustment		(262)	-	-	-	-	(262)	-	-	-	-
Allowance		-	-	-	-	(266,249)	(266,249)	-	-	-	-
Present value discount		-	-	-	-	(1,431)	(1,431)	-	-	-	-
Present value premium		-	-	-	-	402.00	402	-	-	-	-
Deferred loan originated cost and fee		-	-	-	-	42,273	42,273	-	-	-	-
Total	₩	523,544	54,617	3,746,057	7,951,189	39,340,414	51,636,216	164,009	512,190	6,718,563	7,394,762

(*1) After impairment and setting off

(*2) Except for equity securities and beneficiary securities

(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-for-sale financial assets (*2)	Held-to-maturity financial assets	Loans	Derivative assets hedging	Total	Financial guarantee contracts	Non-financial guarantee contracts	Commitments	Total
Enterprises											
Manufacturing	₩	-	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	3,518	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	39,616	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	-	-	-	-

(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-for-sale financial assets (*2)	Held-to-maturity financial assets	Loans	Derivative assets hedging	Total	Financial guarantee contracts	Non-financial guarantee contracts	Commitments	Total
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	₩ 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

(vi) Loans

Loans as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017				
	Enterprises	Households	Public sectors and others	Credit card	Total
Neither overdue nor impaired loans	₩ 27,368,886	10,477,298	807,527	391,698	39,045,409
Not impaired but overdue loans	100,926	38,508	14	290	139,738
Impaired loans	346,554	24,369	4,361	4,988	380,272
	27,816,366	10,540,175	811,902	396,976	39,565,419
Allowance for loan losses	(231,147)	(24,037)	(3,336)	(7,729)	(266,249)
Present value discount	(1,431)	-	-	-	(1,431)
Present value premium	402	-	-	-	402
Deferred loan origination cost and fee	22,470	19,415	388	-	42,273
Net book value	₩ 27,606,660	10,535,553	808,954	389,247	39,340,414

(In millions of won)

	2016				
	Enterprises	Households	Public sectors and others	Credit card	Total
Neither overdue nor impaired loans	₩ 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	₩ 25,753,778	9,479,669	748,641	391,390	36,373,478

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, 2017 and 2016 that are neither overdue nor impaired refer to the Group's internal credit appraisal system and are as follows:

(In millions of won)

	2017				
	Enterprises	Households	Public sectors and others	Credit card	Total
1-6	₩ 26,417,686	9,852,266	805,366	292,590	37,367,908
7	344,558	305,765	2,161	32,732	685,216
8(*2)	35,563	117,861	-	24,580	178,004
9(*2)	14,354	62,746	-	12,852	89,952
10(*2)	8,681	27,392	-	7,490	43,563
Not rated(*3)	548,044	111,268	-	21,454	680,766
	₩ 27,368,886	10,477,298	807,527	391,698	39,045,409

(In millions of won)

	2016				
	Enterprises	Households	Public sectors and others	Credit card	Total
1-6	₩ 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
	₩ 25,523,158	9,425,349	747,839	393,873	36,090,219

(*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 ₩680,766 million (₩720,575 million as of December 31, 2016) 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 ₩345,313 million (₩313,118 million as of December 31, 2016) and ₩335,453 million and (₩407,457 million as of December 31, 2016), respectively.

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

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

(viii) Loans that are past due but not impaired

① Age analysis of loans that are overdue but not impaired

(In millions of won)

	2017				
	Enterprises	Households	Public sectors and others	Credit card	Total
Less than 30 days	₩ 79,733	35,428	14	254	115,429
More than 30 days - less than 60 days	16,047	2,662	-	36	18,745
More than 60 days - less than 90 days	5,146	418	-	-	5,564
	₩ 100,926	38,508	14	290	139,738

(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

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

(In millions of won)

	2017				
	Enterprises	Households	Public sectors and others	Credit card	Total
Real estate	₩ 25,246	27,162	162	-	52,570
Movable property	15,728	5,632	-	-	21,360
Securities and debentures	70	80	-	-	150
Guarantee	16,657	1,802	-	-	18,459
Others	-	156	-	-	156
	₩ 57,701	34,832	162	-	92,695

(In millions of won)

	2016				
	Enterprises	Households	Public sectors and others	Credit card	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
Guarantee	15,153	2,164	-	-	17,317
Others	78	52	-	-	130
	₩ 51,738	22,652	214	4	74,608

(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)

		2017				
		Enterprises	Households	Public sectors and others	Credit card	Total
Individual assessment	Impaired loans	₩ 264,787	1,013	4,351	476	270,627
	Allowance for doubtful accounts	76,418	34	273	335	77,060
Collective assessment	Impaired loans	81,767	23,356	10	4,512	109,645
	Allowance for doubtful accounts	26,758	9,098	7	3,045	38,908
	Impaired loans	₩ 346,554	24,369	4,361	4,988	380,272
	Allowance for doubtful accounts	₩ 103,176	9,132	280	3,380	115,968

(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

② Estimated fair value of collateral for impaired loans

(In millions of won)

	2017				
	Enterprises	Households	Public sectors and others	Credit card	Total
Real estate	₩ 106,313	7,603	3,970	-	117,886
Movable asset	11,880	266	-	-	12,146
Securities and debentures	-	2	-	-	2
Guarantee	11,528	534	-	-	12,062
Others	301	-	-	-	301
	₩ 130,022	8,405	3,970	-	142,397

(In millions of won)

	2016				
	Enterprises	Households	Public sectors and others	Credit card	Total
Real estate	₩ 122,513	7,961	1,612	-	132,086
Movable asset	7,665	95	-	-	7,760
Securities and debentures	16	105	-	-	121
Guarantee	13,445	686	-	-	14,131
Others	1,764	-	-	-	1,764
	₩ 145,403	8,847	1,612	-	155,862

(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, 2017 and 2016 are ₩69,137 million and ₩86,696 million, respectively.

(xi) External credit rating of debt securities

The Group manages debt securities using external credit rating and debt securities classified by external credit rating and categories are as follows:

The relationships between external credit rating and internal credit rate are described in note 49.(c)

(vii) Loans that are neither overdue nor impaired.

① Debt securities in won

(In millions of won)

	2017				
	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	₩ 179,197	7,654	1,287,159	2,422,375	3,896,385
AA+ - AA-	14,364	9,487	483,704	328,071	835,626
A+ - A-	26,233	-	90,583	-	116,816
BBB+ - BBB-	4,786	-	-	-	4,786
Others	4,461	-	-	-	4,461
Not rated	9,827	37,476	1,647,077	5,200,743	6,895,123
Subtotal	238,868	54,617	3,508,523	7,951,189	11,753,197
<Short term credit rating>					
A1	53,935	-	-	-	53,935
A2 - A3	131,326	-	-	-	131,326
Subtotal	185,261	-	-	-	185,261
Total	₩ 424,129	54,617	3,508,523	7,951,189	11,938,458

(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

Not rated amount is ₩6,895,123 million (₩6,287,114 million as of December 31, 2016) 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 ₩6,512,275 million (₩5,919,492 million as of December 31, 2016), monetary stabilization bond is 258,995 million (₩49,920 million as of December 31, 2016) and other bond is ₩123,853 million (₩317,702 million as of December 31, 2016).

② Debt securities in foreign currencies

(In millions of won)

	2017		2016	
		Available-for-sale financial assets		Available-for-sale financial assets
AAA	₩	20,864	-	-
AA+ - AA-		138,844	17,516	17,516
A+ - A-		77,826	146,267	146,267
BBB+ - BBB-		-	69,389	69,389
Total	₩	237,534	233,172	233,172

(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, 2017 and 2016 are as follows:

(In millions of won)

	2017						
	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	Cash	
Bonds purchased under resale agreements	₩ 478,000	-	478,000	-	478,000	-	-
Accrued balance spot exchange	89,273	-	89,273	89,036	-	-	237
Trading derivative assets	87,607	-	87,607	27,282	-	190	60,135
Hedging derivative assets	269	-	269	106	-	-	163
Total	₩ 655,149	-	655,149	116,424	478,000	190	60,535

(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	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

② Offsetting financial liabilities

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017					
	Gross amounts of recognized financial liabilities	Gross offset amounts of recognized financial assets	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Collateral provided	
Bonds sold under repurchase agreements	₩ 815,553	-	815,553	815,553	-	-
Accrued balance spot exchange	155,341	-	155,341	155,100	-	241
Trading derivative liabilities	58,105	-	58,105	3,175	900	54,030
Hedging derivative liabilities	1,108	-	1,108	-	-	1,108
	₩ 1,030,107	-	1,030,107	973,828	900	55,379

(In millions of won)

	2016					
	Gross amounts of recognized financial liabilities	Gross offset amounts of recognized financial assets	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Collateral provided	
Bonds sold under repurchase 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
	₩ 1,050,251	-	1,050,251	964,351	-	85,900

(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 to mitigate liquidity shortage
- Establish and implement a liquidity risk mitigation plan

(iii) Maturity analysis of financial liabilities

Contractual maturity analysis for financial liabilities is as follows:

Financial liabilities held for trading and demand deposits are recognized as fair value and included in the 'On demand' section.

① Non-derivative financial liabilities

(In millions of won)

	2017								
	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	₩ 15,235,717	-	-	-	-	-	-	-	15,235,717
Time deposits	238,188	3,191,279	5,125,018	5,742,084	6,644,607	964,526	213,231	288,262	22,407,195
Negotiable certificates of deposits	-	93,052	139,432	193,349	220,748	18,149	-	-	664,730
Subtotal	15,473,905	3,284,331	5,264,450	5,935,433	6,865,355	982,675	213,231	288,262	38,307,642
Borrowings in won	-	521,164	86,346	142,450	248,778	473,067	367,871	201,907	2,041,583
Borrowings in foreign currency	-	78,583	117,762	95,300	257,748	38,181	-	-	587,574
Bonds sold under repurchase agreements	-	195,388	268,804	122,950	239,608	-	-	-	826,750
Call money	-	124,998	74,998	-	-	-	-	-	199,996
Other borrowings	-	2,591	6,141	33,387	437	4,662	5,409	-	52,627
Subtotal	-	922,724	554,051	394,087	746,571	515,910	373,280	201,907	3,708,530
Debentures in won	-	161,927	206,242	272,990	779,816	1,869,412	319,852	475,704	4,085,943
Debentures in foreign currency	-	-	-	325,036	-	-	-	-	325,036
Subtotal	-	161,927	206,242	598,026	779,816	1,869,412	319,852	475,704	4,410,979
Other financial liabilities	-	731,898	19,543	8,831	28,825	141,289	100	727	931,213
Total	₩ 15,473,905	5,100,880	6,044,286	6,936,377	8,420,567	3,509,286	906,463	966,600	47,358,364
<Off-balance accounts>									
Financial guarantee contract	₩ 164,009	-	-	-	-	-	-	-	164,009
Commitments	6,718,563	-	-	-	-	-	-	-	6,718,563
Payments on guarantees	512,190	-	-	-	-	-	-	-	512,190
Total	₩ 7,394,762	-	-	-	-	-	-	-	7,394,762

(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 currency	-	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

(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
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 contract	₩ 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

② Derivative financial liabilities

(In millions of won)

	2017							
	Less than 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total
<Trading derivatives>								
Currency related	₩ 40,081	26,315	18,212	11,949	3	-	-	96,560
Stock related	6	21	78	47	-	-	775	927
Subtotal	40,087	26,336	18,290	11,996	3	-	775	97,487
<Hedging derivatives>								
Interest rate related	-	-	1,108	-	-	-	-	1,108
Total	₩ 40,087	26,336	19,398	11,996	3	-	775	98,595

(In millions of won)

	2016							
	Less than 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total
<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

Available assets to fulfill the payment obligations of liabilities and to carry out the unpaid loan contracts are cash, due from The Bank of Korea, loans, equity securities and debt securities. The Group is able to deal with unexpected cash flows through the disposal of securities and by additional fund raising resources such as the asset securitization market.

(e) Market risk

Market risk is the risk that the fair value of financial instruments or future cash flows is affected by the volatility of market rates or prices such as interest rates, stock prices and foreign exchange rates.

(i) Purposes of market risk management

Purposes of market risk management are to secure the profitability and stability by controlling the losses generated from managed assets and liabilities due to volatility of market risk factors such as interest rates, stock prices and foreign exchange rates. Those subject to market risk management are securities held for trading, foreign currency net open positions, derivatives, off balance transactions and other market risk inherent assets and liabilities.

(ii) Market risk management organization

The Group divides exposures to market risk into trading position and non-trading position. To promote the classification and management of trading position, the Group operates its accounting and computer system according to the classification. The Group also classifies and operates a trading desk and non-trading desk separately. Market risk management of the Group is conducted by the Committee, the Council, the Working Group, the Department and sub-risk management departments. The Department is distinctly separated from operating departments and controls entire market risks. The main tasks of the Department are to establish and implement a market risk management policy, to review the adequacy of market risk management criteria, to establish and implement the market risk tolerance management system, to distribute market risk tolerance, to monitor the observance of market risk tolerance, to assess, analyze and report total market risk and to establish and implement the market risk management system. Front office is distinctly separated from the assisting department and the Department. The main tasks of the front office are to establish and implement investing policy, process and strategy, to set out and operate the limit of the Group's market risk tolerance, to record transaction history and to submit related documents to the assisting department. The assisting department is supposed to secure the restrict separation of work and mutual control function between middle office and back office. The main tasks of assisting departments are to review the compliance of limits, transactions, profit and loss evaluation, to conduct follow up works such as exchanging transaction confirmation documents based on operating department's transaction documents, accounting, money and to submit market risk reports.

(iii) Trading position

Trading position is the interest rate, equity positions, derivatives, foreign exchange positions, among others that pursue profit from short-term changes in market factor price rather than pursue profit from interest income. Specifically, it includes short-term trading and the financial instruments for arbitrage trading of stock, interest rates, foreign exchange, commodity, among others, which are acquired by a professional dealer or operational departments within a predetermined limit, things acquired for hedging risk, derivative that does not apply hedge accounting, etc.

① Risk management method

The tolerance limit (including the limit of VaR, investment limit, loss limit) to manage the market risk on trading positions is required to be set principally at least once a year, and approved by the Committee. Compliance of the tolerance limit is monitored daily and the changes of the risk are simultaneously reported to the management, the Council and the Committee on a regular basis (daily, monthly, and annually). Plans for dealing with the market risk are established and operated for each level of the risk.

② Risk assessment method

- Value at Risk (VaR)

The main method to measure and manage exposure to market risk for trading position is VaR. The VaR measures the potential loss in value of a risky asset or portfolio over a defined period for a given confidence interval. The VaR is calculated by applying 99% confidence level at a 10-day.

- Analysis of crisis situations

The Group conducts crisis situation analysis to determine changes in market price of the portfolio under extreme market volatility that 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, 2017 and 2016 are as follows:

(In millions of won)

	2017			
	Period end	Average	Minimum	Maximum
Interest rate risk	₩ 345	592	278	1,102
Foreign exchange risk	486	674	310	1,336
Stock risk	988	953	338	1,960
Diversification effect	(621)	(1,042)	(263)	(2,159)
Total risk	₩ 1,198	1,177	663	2,239

(In millions of won)

	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

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.

(In millions of won)

	2017			2016		
	Exposure	Interest rate sensitivity (%)	Interest rate sensitivity amount	Exposure	Interest rate sensitivity (%)	Interest rate sensitivity amount
I. Interest-bearing liability						
1. Interest rates fixed	₩ 1,641,554	12.33	₩ 20,236,806	₩ 1,532,132	11.05	₩ 16,925,358
2. Interest rates linked	3,375,727	5.51	18,595,588	3,318,585	5.60	18,575,013
Subtotal	5,017,281	7.74	38,832,394	4,850,717	7.32	35,500,371
II. Interest bearing assets						
1. Due from banks	245,714	0.21	52,100	278,896	2.67	745,450
2. Financial Assets designated at fair value through profit or loss	54,617	2.19	119,774	55,359	3.19	176,561
3. Available-for-sale financial assets	1,028,408	4.93	5,069,368	1,302,398	4.18	5,444,084
4. Held-to-maturity	3,506,824	8.94	31,358,901	3,210,153	7.91	25,383,289
5. Loans	368,104	8.71	3,207,635	352,660	8.04	2,835,806
Subtotal	₩ 5,203,667	7.65	₩ 39,807,778	₩ 5,199,466	6.65	₩ 34,585,190
III. The maturity mismatch amount			14,631			16,990
IV. The minimum interest rate amount			118,935			120,699
V. The interest rate backspread amount			6,480			23,334
VI. The interest rate risk amount=[max(III,IV)+V]			₩ 125,415			₩ 144,033

- 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.

(In millions of won)

		2017		2016	
		Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
Beneficiary certificate	10% increase	₩ -	115	-	116
	10% decrease	-	(115)	-	(116)

(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, 2017 and 2016 are as follows:

(In millions of won)

	End	Average	Minimum	Maximum
2017 (*)	₩ 29,431	29,248	11,395	71,999
2016 (*)	46,362	35,387	8,320	78,216

(*) 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, 2017 and 2016 are as follows:

(In millions of won)

		USD	JPY	EUR	Others
2017	Foreign currency financial assets	₩ 2,133,701	147,526	191,645	356,307
	Foreign currency financial liabilities	1,612,108	134,505	28,411	196,262
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

(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, 2017 and 2016 are as follows:

(In millions of won)

		2017	2016
Death	₩	16,848	15,733
Hazard		4,197	4,585
Hospitalization		3,247	3,277
Surgery-diagnosis		13,912	11,931
Medical indemnity		2,042	3,301
Others		1,762	2,411
Total	₩	42,008	41,238

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 9.25%(Minimum 8%, conservation buffer 1.25%) 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, 2017 and 2016 are as follows. The Group has complied with all the external capital maintenance restriction conditions for the past two years.

(In millions of won)

		2017	2016
Total capital (A)	₩	4,414,109	4,302,306
Basic capital (B)		3,814,530	3,639,639
Common stock (C)		3,581,258	3,392,398
Supplementary capital (D)		599,579	662,667
Risk weighted asset (E)	₩	35,063,409	33,273,379
Ratio of total capital (A/E)		12.59%	12.93%
Ratio of basic capital (B/E)		10.88%	10.94%
Ratio of common stock capital (C/E)		10.21%	10.20%

49. 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, 2017 and 2016 are as follows:

(In millions of won)

	Type	2017			
		Level 1	Level 2	Level 3	Total
Financial assets	Cash and due from banks	₩ 2,254,811	-	-	2,254,811
	Held-to-maturity financial assets	3,097,911	4,817,166	-	7,915,077
	Loans	-	-	39,426,575	39,426,575
	Receivables	-	-	935,874	935,874
		₩ 5,352,722	4,817,166	40,362,449	50,532,337
Financial liabilities	Depository liabilities	₩ 15,235,717	-	22,568,912	37,804,629
	Borrowings	124,998	-	3,266,398	3,391,396
	Debentures	-	-	4,370,515	4,370,515
	Other financial liabilities	-	-	1,292,457	1,292,457
		₩ 15,360,715	-	31,498,282	46,858,997

(In millions of won)

	Type	2016			
		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

(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, 2017 and 2016 are as follows:

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

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

(d) Valuation method and inputs of level 3

Valuation method and significant unobservable inputs used in measuring fair values of financial instruments measured at amortized cost using level 3 inputs as of December 31, 2017 and 2016 are as follows:

Type	Valuation method (*)	Unobservable inputs (*)
Financial assets Loans	DCF method	Discount rate, credit spreads, prepayment rate
Receivables	DCF method	Discount rate
Financial liabilities 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 whose carrying amounts are considered to be reasonable approximation of fair values are not disclosed.

50. Events after the reporting period

Daegu Bank, a wholly-owned subsidiary of the Company, entered into agreement with Cam Capital Specialized Bank PLC, which is engaged in financial services business in Cambodia to acquire 100% of its shares in the amount of USD 63,500,000 on October 19, 2017. On January 26, 2018, the Bank made the payment to selling shareholders and was reported to the Financial Services Commission on February 6, 2018. Cam Capital Specialized Bank PLC's net book value at the end of 2016 was USD 28,501,610, and the fair value of assets acquired and liabilities assumed is under process. The acquisition is expected to be completed in the first half of 2018.

APPENDIX

Third-party Assurance Statement	172
GHG Verification Statement	174
Major Awards Performance and External Verification Certification Status	175
GRI Standards Index	176
UN Global Compact/SDGs Index	178

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 2017-2018 Integrated Sustainability Report’ (the “Report”). KSA presents independent opinions to the result of feasibility of the data contained in this Report. DGB Financial Group has sole responsibility for contents and performance contained in this Report.

INDEPENDENCE

As an independent assurance agency, KSA does not have any kind 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 standard.

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, 2017 to Dec 31, 2017, and depending on the content, includes some information for the first half of 2018. 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.

METHODOLOGY

The Assurers collected data, information, and evidence via following method.

- Written interview with sustainability managers in DGB Financial Group
- Analysis on Report draft data of DGB Financial Group
- Crosscheck between financial performance data in the Report and the data in the Assurers’ report on the Company’s financial statements and disclosures
- Track and examine internal documents and basic data
- DGB Financial Group in-person assurance

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. Assurers were not aware of any significant errors or inappropriate descriptions in this Report during the Assurance Engagement. As such, we present our opinions of the 2017-2018 DGB Financial Group Integrated Sustainability Report as follows.

Inclusivity

The Assurers 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

The Assurers 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 interviews engaging major stakeholders. We have found that material issues were prioritized based on relevance and material evaluation and 20 issues were confirmed from related TF meeting and expert meeting, which was included in this Report.

Responsiveness

- Did DGB Financial Group response in accordingly to the demand and interest of the stakeholders?

The Assurers have verified DGB Financial Group reflect and respond to various opinions collected through the stakeholders’ communication channels such as CSR experts’ meeting and partner meetings. The Assurers have found no evidence DGB Financial Group responses to material issues involving stakeholders were misrepresented or misstated in the Report.

Responsiveness

The Assurers have verified 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.

GRI STANDARDS STANDARD APPLICATION

The Assurers have verified that the Report was prepared in accordance with the Core Option of GRI Standards. Based on the data provided by DGB Financial Group, contents in relation to Universal Standards and Topic-specific Standards are confirmed facts.

Universal Standards

The Assurers have verified that the Report complied with the requirements of Core Option of GRI Standard and the following indices 102-1 to 102-13 (Organizational profile), 102-14 (Strategy), 102-16 (Ethics and integrity), 102-18 (Governance), 102-40 to 102-44 (Stakeholder engagement), 102-45 to 102-56 (Report practice), 103 (Management Approach).

Topic-specific Standards

The Assurers have verified that specified disclosure list on Material Aspect that was deduced disclosure list determination process, and the following indices.

- Economic: 201-1-3, 202-2, 203-1-2, 204-1, 205-1-3, 206-1,
- Environmental: 301-1, 302-1, 302-3-5, 303-1, 304-2, 307-1
- Social: 401-1, 402-1, 403-1-2, 404-1-2, 405-1-2, 412-1-2, 413-1, 417-1, 418-1, 419-1

In addition, the Assurers has verified in compliance to the following indices of financial service sector

- Financial Accessibility: FS-13

OPINIONS AND RECOMMENDATIONS [Performance/Issues]

The Assurers offer the following proposal to implement strategies in sustainability management in response to the issues with coherence at an organizational level in DGB Financial Group.

• Economic performance

DGB Financial Group founded as a regional bank, now expanding globally to Cambodia, Laos and India. On the other hand, the wrongful practices existed in contrast to the global development. To become a global finance group, thorough self-reflection is needed. With new CEO’s leadership and governance, I wish DGB Financial Group to become the group with global corporate level ethical standard and finally become the responsible finance group suit to the scale of the corporation.

• Environmental performance

DGB Financial Group has made continuous effort in environmental field to become a responsible finance institution. Internally, periodic renewal audit for environmental system certificate ISO14001, in addition to the endeavor to make paperless office environment. Outside the corporation, nurturing DGB Green Journalists Corps consist of college students and hosting NIE Energy Journal Contest, organizing these outstanding events to raise the awareness of environmental issues for the future generation.

• Social performance

Efforts such as stablishing human rights centers, organization restructuring, renewal of sexual harassment prevention guidelines and internal trainings are recognized as to overcome shameful past and DGB Financial Group’s willingness to change. To be understood as sincere gesture to change rather than temporary risk management to the stakeholders, these efforts should be continuously made and practiced. In addition, I hope DGB Financial Group to be the forerunner of social contribution in local community with strategic social contribution activities.



AA1000
Licensed Assurance Provider
000-70

June 2018

Sang-Jin Lee, KSA Chairman & CEO.

GHG VERIFICATION STATEMENT

DGB FINANCIAL GROUP and STAKEHOLDERS

INTRODUCTION

KSA has been commissioned by DGB FINANCIAL GROUP to independently verify Greenhouse Gas (Scope 1,2,3) Inventory Report for the calendar year 2017(aka "the report"). KSA independently proposes verification opinion based on the review of date and data management system on the report written by DGB FINANCIAL GROUP. Any liability or responsibility for acquisition of data, organization, and opinion is on DGB FINANCIAL GROUP. KSA holds responsibility for verifying the data on the report is written and assessed in accordance with the standards and proposing verification opinions.

INDEPENDENCE

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

VERIFICATION OBJECT AND LEVEL OF ASSURANCE

Verification objects are Greenhouse Gas (Scope 1,2,3) Inventory Report for the calendar year 2017 of head office and domestic sites of Daegu Bank and DGB FINANCIAL GROUP's subsidiaries. During this process, KSA verified that the risks associated with error, omission, or inappropriate information on emissions and energy consumption are based upon a reasonable level of assurance.

VERIFICATION CRITERIA

-The verification has been performed in accordance with the verification principles and tasks outlined in IPCC Guideline : 1996/2006, KSA ISO 14064-1,2,3 and Emission Target Management system : 2016-255.

-In case of Scope 3, Domestic/Overseas trips and commuting travel of Daegu Bank's associates have been assessed autonomously based on internal activity data and following the standards suggested by associated agency. KSA assures that this method of assessment is constant and precise.

VERIFICATION PROCEDURES AND LIMITATIONS

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

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

VERIFICATION OPINIONS AND OVERALL OPINIONS

Verifier was able to secure objective evidence needed to assess Greenhouse Gas emission and energy consumption reported by DGB FINANCIAL GROUP through Greenhouse Gas (Scope 1,2,3) Inventory Report for the calendar year 2017.

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

Therefore, verifier has confidence in Greenhouse Gas emission and consumption reported by DGB FINANCIAL GROUP during the reported period (2017.1.1 - 2017.12.31), and thus assess verification opinion as 'reasonable' on the reported emission.

April 20, 2018
KOREAN STANDARDS ASSOCIATION
PRESIDENT OF KSA



MAJOR AWARDS PERFORMANCE AND EXTERNAL VERIFICATION CERTIFICATION STATUS

2017-2018 SUSTAINABLE MANAGEMENT AWARDS & ACCOLADES

Date	Awards	Organizations
2017. 02. 14	DGB Daegu Bank Wins Gold Prize in "2016 Gyeongbuk Good Company Award"	Gyeongbuk Community Chest of Korea
2017. 02. 23	"2016 Survey on Survey of Sustainability of Major Enterprises (KoBEX)" Selected as "AAA" for the 7th consecutive year	The Institute for Industrial Policy Studies
2017. 08. 28	DGB Daegu Bank Selected as "Best Bank for 11th Consecutive Year"	Financial Supervisory Service
2017. 08. 28	"Global Socially Responsible Investment Index FTSE4Good Index" transferred for 7 consecutive years	FTSE International/EIRIS
2017. 09. 11	"2017 UNGC Value Awards" Sustainable Finance Award	UN Global Compact Network Korea
2017. 11. 01	Dow Jones Sustainability Index (DJSI) Korea 9 years and Asia-Pacific 8 consecutive years	S&P Dow Jones Indices/RobecoSAM/Korea Productivity Center
2017. 11. 14	Korean Sustainability Index (KSI) and Korean Readers' Choice Awards (KRCA) Concurrent 4th consecutive year	KSA (Korean Standards Association)
2018. 02. 27	DGB Daegu Bank receives "Excellent Institution Award" in 2017 Best Practice in Financial Education for 1 Company	Financial Supervisory Service

STATUS OF 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)

GRI STANDARDS INDEX

GRI Standard		Disclosure Title		
Universal Standards				
GRI 102: General Disclosure		Page	Assurance	
Organizational Profile	102-1	Name of the organization	6 ●	
	102-2	Activities, brands, products, and services	6-7 ●	
	102-3	Location of headquarters	6 ●	
	102-4	Location of operations	6 ●	
	102-5	Ownership and legal form	36 ●	
	102-6	Markets served	6,7,24,25 ●	
	102-7	Scale of the organization	6 ●	
	102-8	Information on employees and other workers	77 ●	
	102-9	Supply chain	60,81 ●	
	102-10	Significant changes to the organization and its supply chain	35 ●	
	102-11	Precautionary Principle or approach	53 ●	
	102-12	External initiatives	13 ●	
	102-13	Membership of associations	13 ●	
Strategy	102-14	Statement from senior decision-maker	2-3 ●	
	102-15	Key impacts, risks, and opportunities	53 ●	
Ethics and Integrity	102-16	Values, principles, standards, and norms of behavior	12,54 ●	
	102-17	Mechanisms for advice and concerns about ethics	30,78 ●	
Governance	102-18	Governance structure	35 ●	
	102-19	Delegating authority	29 ●	
	102-20	Executive-level responsibility for economic, environmental, and social topics	13 ●	
	102-21	Consulting stakeholders on economic, environmental, and social topics	14,15 ●	
	102-22	Composition of the highest governance body and its committees	35 ●	
	102-23	Chair of the highest governance body	35 ●	
	102-24	Nominating and selecting the highest governance body	35 ●	
	102-25	Conflicts of interest	35 ●	
	102-26	Role of highest governance body in setting purpose, values, and strategy	13 ●	
	102-27	Collective knowledge of highest governance body	13 ●	
	102-28	Evaluating the highest governance body's performance	36 ●	
	102-29	Identifying and managing economic, environmental, and social impacts	13 ●	
	102-30	Effectiveness of risk management processes	53 ●	
	102-31	Review of economic, environmental, and social topics	13 ●	
	102-32	Highest governance body's role in sustainability reporting	13 ●	
	102-33	Communicating critical concerns	13, 35 ●	
	102-34	Nature and total number of critical concerns	36 ●	
	102-35	Remuneration policies	36 ●	
	102-36	Process for determining remuneration	36 ●	
	102-37	Stakeholders' involvement in remuneration	36 ●	
	102-38	Annual total compensation ratio	36 ●	
	102-39	Percentage increase in annual total compensation ratio	36 ●	
	Stakeholder Engagement	102-40	List of stakeholder groups	14-15 ●
		102-41	Collective bargaining agreements	78 ●
		102-42	Identifying and selecting stakeholders	14 ●
		102-43	Approach to stakeholder engagement	14-15 ●
		102-44	Key topics and concerns raised	14-15 ●
102-45		Entities included in the consolidated financial statements	82 ●	
Report Profile	102-46	Defining report content and topic Boundaries	About This Report, 21 ●	
	102-47	List of material topics	21 ●	
	102-48	Restatements of information	24 ●	
	102-49	Changes in reporting	21 ●	
	102-50	Reporting Period	About This Report ●	
	102-51	Date of most recent report	About This Report ●	
	102-52	Reporting cycle	About This Report ●	
	102-53	Contact point for questions regarding the report	About This Report ●	
	102-54	Claims of reporting in accordance with the GRI Standards	About This Report ●	
	102-55	GRI content index	174-175 ●	
	102-56	External assurance	170-171 ●	

GRI Standard		Disclosure Title	
Topic-specific Standards			
GRI 200: Economic		Page	Assurance
Management Approach	103	Explanation of the material topic and its Boundary	32 ●
Economic Performance			
Economic Performance	201-1	Direct economic value generated and distributed	10,11 ●
Anti-corruption			
Anti-corruption	205-1	Operations assessed for risks related to corruption	30 ●
	205-2	Communication and training about anti-corruption policies and procedures	30 ●
	205-3	Confirmed incidents of corruption and actions taken	30 ●
GRI 300: Environment			
Management Approach	103	Explanation of the material topic and its Boundary	59 ●
Materials			
Materials	301-1	Materials used by weight or volume	80 ●
Energy			
Energy	302-1	Energy consumption within the organization	80 ●
	302-4	Reduction of energy consumption	80 ●
Water			
Water	303-1	Water withdrawal by source	80 ●
Emissions			
GHG Emissions	305-1	Direct (Scope 1) GHG emissions	81 ●
	305-2	Energy indirect (Scope 2) GHG emissions	81 ●
	305-3	Other indirect (Scope 3) GHG emissions	81 ●
Effluents and Waste			
Effluents and Waste	306-2	Waste by type and disposal method	80 ●
GRI 400: Society			
Management Approach	103	Explanation of the material topic and its Boundary	59 ●
Employment			
Employment	401-1	New employee hires and employee turnover	77 ●
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	49-50 ●
	401-3	Parental leave	78 ●
Labor/Management Relations			
Labor/Management Relations	402-1	Minimum notice periods regarding operational changes	30 days ●
Occupational Health and Safety			
Occupational Health and Safety	403-1	Workers representation in formal joint management-worker health and safety committees	78 ●
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	77 ●
Training and Education			
Training and Education	404-1	Average hours of training per year per employee	78 ●
	404-2	Programs for upgrading employee skills and transition assistance programs	47 ●
	404-3	Percentage of employees receiving regular performance and career development reviews	100% ●
Diversity and Equal Opportunity			
Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	77 ●
	405-2	Ratio of basic salary and remuneration of women to men	36 ●
Human Rights Assessment			
Human Rights Assessment	412-1	Operations that have been subject to human rights reviews or impact assessments	30 ●
	412-2	Employee training on human rights policies or procedures	30 ●
Local Communities			
Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	61-66 ●
	413-2	Operations with significant actual and potential negative impacts on local communities	Non applicable ●
Marketing and Labeling			
Marketing and Labeling	417-1	Requirements for product and service information and labeling	39 ●
	417-2	Incidents of non-compliance concerning product and service information and labeling	39 ●
	417-3	Incidents of non-compliance concerning marketing communications	None, 175 ●
Customer privacy			
Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	38 ●
Socioeconomic Compliance			
Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area	30 ●
Financial Assessability			
Financial Assessability	FS13	Access points in low-populated or economically disadvantaged areas by type	64-65 ●

UN GLOBAL COMPACT/SDGS INDEX

UN GLOBAL COMPACT INDEX

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	30, 46, 78, 79
Principle 2	make sure that they are not complicit in human rights abuses.	30, 46, 78, 79
	Labour Standards	
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	78
Principle 4	the elimination of all forms of forced and compulsory labour;	77
Principle 5	the effective abolition of child labour; and	-
Principle 6	the elimination of discrimination in respect of employment and occupation.	47, 48, 77, 78
	Environment	
Principle 7	Businesses should support a precautionary approach to environmental challenges;	56, 57, 81, 82
Principle 8	undertake initiatives to promote greater environmental responsibility; and	56-58
Principle 9	encourage the development and diffusion of environmentally friendly technologies.	56, 81, 82
	Anti-Corruption	
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	52, 54, 55



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).

DGB FINANCIAL GROUP SDGS



☑ Monitored ☑ Target Set

<p>1 NO POVERTY</p> <p>☑</p>	<p>2 ZERO HUNGER</p> <p>☑</p>	<p>3 GOOD HEALTH AND WELL-BEING</p> <p>☑</p>	<p>4 QUALITY EDUCATION</p> <p>☑</p>	<p>5 GENDER EQUALITY</p> <p>☑</p>
<p>6 CLEAN WATER AND SANITATION</p> <p>☑</p>	<p>7 AFFORDABLE AND CLEAN ENERGY</p> <p>☑</p>	<p>8 DECENT WORK AND ECONOMIC GROWTH</p> <p>☑</p>	<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> <p>☑</p>	<p>10 REDUCED INEQUALITY</p> <p>☑</p>
<p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> <p>☑</p>	<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p> <p>☑</p>	<p>13 CLIMATE ACTION</p> <p>☑</p>	<p>14 LIFE BELOW WATER</p> <p>☑</p>	<p>15 LIFE ON LAND</p> <p>☑</p>
<p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</p> <p>☑</p>	<p>17 PARTNERSHIPS FOR THE GOALS</p> <p>☑</p>			

DGB Financial Group 2017-2018 Integrated Sustainability Report

HOME PAGES

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