

THE GREAT VALUE

DGB SEEKS SUSTAINABLE VALUE OF FINANCE.

2018-2019 DGB FINANCIAL GROUP SUSTAINABILITY REPORT



The symbol of DGB Financial Group's sustainability report is a four-leaf clover, each leaf representing one of four core values: ethics and corporate culture, sustainable finance, social contribution and environmental management. This represents DGB Financial Group's goal of building a happier and healthier future through balanced growth.



The blue bird symbolizes an ethical corporate culture taking flight. DGB Financial Group strives to create a workplace where all employees and stakeholders can find happiness through a balance of work and life.



The seed stands for sustainable finance developed together with local communities. We do our best to offer finance that is caring, like planting the seeds of a local economy that will grow and be nurtured.



The flower signifies our pledge to contribute by serving and sharing. DGB Financial Group promotes the blooming of local culture, the arts, education and sports.



The budding sprout signifies the emphasis we place on conservation and environmental management. Caring for the environment will ensure that future generations can enjoy a cleaner and greener world.

ABOUT THIS REPORT

Overview

First published in 2006 by Daegu Bank, this sustainability report has been issued at the group level since the founding of DGB Financial Group in 2011, making this the 13th report. Published every year, these reports cover the main issues affecting our stakeholders and the results of DGB Financial Group's sustainability efforts. The main issues, as confirmed through communication with internal and external stakeholders, are presented in the table of contents. The subject matter carries over from last year's report to enable consistent management of the issues.

Reporting Period

This report covers DGB Financial Group's performance from January 1 to December 31, 2018. These quantitative results include more than three years of data to enable the identification of trends. Partial qualitative results are also included through the first half of 2019.

Reporting Scope

This report covers the sustainable management activities and achievements of DGB Financial Group and our eight subsidiaries*, including Hi Investment & Securities, which joined the Group in 2018. Some of these areas are presented in the report under separate headings.

*DGB Daegu Bank, Hi Investment & Securities, DGB Life Insurance, DGB Capital, DGB Asset Management, DGB U-Pay, DGB Data System, DGB Credit Information

Reporting Guidelines and Assurance

This report was written in accordance with the Core Option of the Standards issued by the Global Reporting Initiative (GRI), the accepted framework for sustainability reporting. It follows the comprehensive reporting framework of the International Integrated Reporting Council (IIRC), ISO 26000 (Guidance on social responsibility), the Ten Principles of the UN Global Compact (UNGC) and the UN Sustainable Development Goals (SDGs). As an additional assurance, third-party verification has been obtained from the Korea Productivity Center. The results of this verification can be found on The Third Party Assurance.

Questions and Comments

This report is published in both Korean and English and can be downloaded from the DGB Financial Group homepage (www.dgbfg.co.kr). Questions and comments about the report can be submitted using the contact information below.

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DGB Financial Group Homepage

DGB Financial Group	www.dgbfg.co.kr
DGB Daegu Bank	www.dgb.co.kr
Hi Investment & Securities	www.hi-ib.com
DGB Life Insurance	www.dgbfnlife.com
DGB Capital	www.dgbcap.co.kr
DGB Asset Management	www.dgbam.com
DGB U-Pay	www.dgbupay.com
DGB Data System	www.dgbds.co.kr
DGB Credit Information	www.dgbci.co.kr

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CEO MESSAGE



Thank you, DGB Financial Group stakeholders, for your steadfast interest and support.

Last year, DGB Financial Group faced rising interest rates, stricter financial regulation, uncertainty in the global economy and a changing financial paradigm. Despite this, as Korea's representative regional financial institution, we achieved outstanding results in 2018 with the interest and support of our stakeholders. Also, we successfully entered the Southeast Asian financial market and acquired the Hi Investment & Securities, which created the basis for our leap forward as a comprehensive financial group.

Since our commitment to sustainable management in 2006, we have been dedicated to fulfilling finance-related social responsibilities as a member of the local community and have exerted efforts to respond to climate change such as reducing green house gas emissions. In 2018, our anti-corruption system received international certification as a world-class mechanism for ethical management.

With devotion and trust at the foundation of our management goals, we will strive to create sustainable value in 2019 by doing the following:

First, focus our management on the customers.

By focusing on the customers, the bedrock of finance, we plan to offer value that is unique to DGB, thereby raising our brand value. At the same time, by expanding the "ALL-Bareun" ethical management campaign we initiated last year to all our affiliates, we will lead the financial industry with the trust of our customers.

Second, strengthen our financial competitiveness by maximizing synergy.

Based on strength in the core businesses of each affiliate, we will increase the effectiveness of three areas of synergy – Branch in Branch, business connectivity and joint marketing. By providing a stable profit base, we will secure the profit competitiveness of our non-banking affiliates.

Third, prepare for the future by innovating.

As a leader in the digital ecosystem, we will build a new future for our Group through innovative thinking and fast execution. On the basis of mutual respect and communication as we will continue changing the way we work and encourage innovation in the way we think.

Fourth, lay the groundwork for sustainable management to integrate the Group.

We will work to integrate our affiliates by building a mature culture of open-minded communication, and through organizational vitality, forge a new, integrated identity. As we bring the whole Group together in system that fosters talent, and thereby nurtures finance professionals, we will lead the way to sustainable growth.

We are committed to the 10 Principles of the UN Global Compact, starting with human rights. Going forward, on the basis of Group synergy, achieved through wide-ranging and active communication, we will reach out beyond our local community to become a financial group for the world.

Stakeholders, thank you again for your trust and support. To you we pledge our utmost efforts to the opening of a new era.

Thank you.

Kim Tae-oh
Chairman, DGB Financial Group



FOCUS ON THE BASIC



STURDY GROWTH

DGB FINANCIAL GROUP BUSINESS OVERVIEW

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BRAND VALUE CREATION

DGB FINANCIAL GROUP OVERVIEW

Introduction

DGB Financial Group was founded in 2011 to provide better financial services and to prepare for a new leap forward. With Daegu Bank at our core, we combined the capabilities of DGB U-Pay, and DGB Credit Information and launched DGB Financial Group. We established DGB Data System and added DGB Life Insurance, DGB Capital and DGB Asset Management. And in 2018 we acquired Hi Investment & Securities, becoming as a comprehensive financial group. Going forward, by maximizing inter-affiliate synergy and leading the way in digital finance, the Group will go beyond regional markets and reach out to the world as a global comprehensive financial group.

Global Network



*Two overseas corporation, one overseas office

DGB Financial Group Business Performance

No. of Employees	No. of Customers / Online Customers*	Total Assets (KRW bil.)	No. of Branches / Countries
4,606	3.77 / 2.23 million million	64,917.6	336 / 4 (Two overseas corporation, one overseas office)
Net Income (KRW bil.)	Operating Profit (KRW bil.)	Current Net Profit (KRW bil.)**	Credit Rating*
4,160.7	336.6	383.5	Domestic (Korea Ratings Corporation) AAA International (Moody's) A2

*For Daegu Bank

**For controlling shareholders of the Group

History



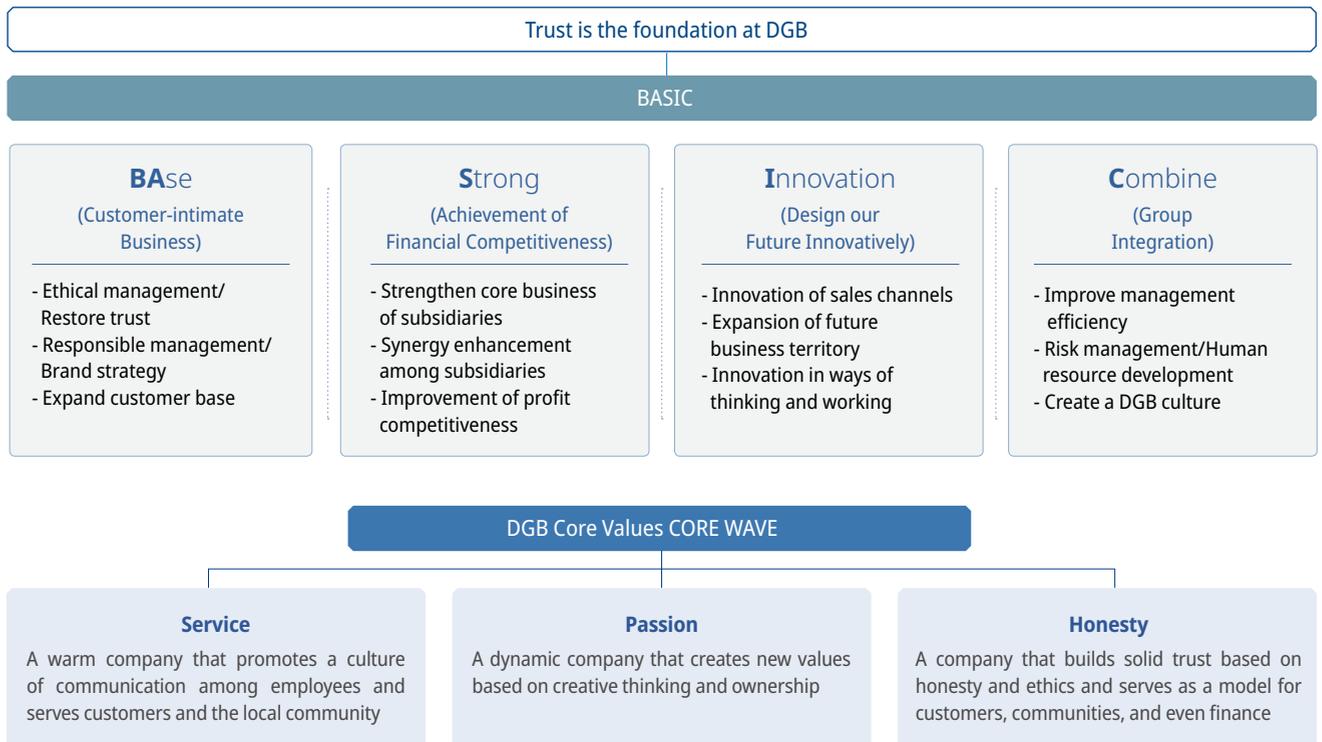
Vision & Strategy

Under our corporate vision of being the “Best Partner for the Future,” DGB Financial Group has laid out three management principles – communication, accomplishment and talent. In 2019, the Group aims to build trust by listening to the voices of our customers, who are the basis of finance, and to completely integrate the Group on a foundation of balanced and stable growth. To achieve this effectively, the Group has set up new offices for Digital Innovation, Management Innovation and Corporate Ethics Innovation. With new ways of thinking, we aim to be a first-class financial group.

Vision



2019 Management Goals & Strategies



BOARD OF DIRECTORS

DGB Financial Group Board of Directors



Kim Tae-oh Executive Director (CEO)

- CEO, DGB Financial Group (Current)
- CEO, Hana HSBC Life Insurance
- Executive Vice President, Hana Bank (Customer Support Group)
- Vice President, Hana Financial Group



Suh In-duk Independent Director

- Professor Emeritus, Yeungnam University (Current)
- Public Interest Member, Gyeongbuk Regional Labor Relations Commission (Current)
- Vice Chairman, The Korean Academy of Business History
- Dean, College of Business & Economics and Graduate School of Business Administration, Yeungnam University



Lee Yong-do Independent Director

- Professor Emeritus, Daegu University (Current)
- Director, Korea Foundation for Cultures and Ethics
- President, The Korean Studies Institute
- Director, Yeonggwang Educational Foundation
- Director, Daegu Gyeongbuk Development Institute



Cho Sun-ho Independent Director

- Auditor, Shinhung Co., Ltd. (Current)
- Standing Auditor and Advisor, Hana Bank
- Vice President, Credit Counseling & Recovery Service, Financial Supervisory Service
- Director, Securities Inspection Department 2, Financial Supervisory Service



Lee Dam Independent Director

- Attorney, A&K Partners (Current)
- President, Daegu District Bar Association
- Judge, Daegu District Court
- Judge, Ulsan Branch, Busan District Court



Lee Sang-yeop Independent Director

- Executive Director and Country HR Lead, CBRE Korea
- HR Director, Hewlett Packard Enterprise Korea
- Head of Human Resources, RBS Korea (fmr. ABN AMRO Korea)
- HR Director, Motorola Korea



Kim Taek-dong Independent Director (Group/Bank)

- CEO, Lake Investment Advisors Co., Ltd. (Current)
- Kosdaq Listings Committee Member, Korea Exchange
- Fund Evaluation Advisor, Korea Venture Investment Corporation
- Director of Asset Management, Hyundai Securities



Lee Jin-bok Independent Director

- Vice President, Korean Accounting Association (Current)
- President, The Korean Institute of Certified Public Accountants, Daegu Branch (Current)
- Independent Director, Daeho AL Inc.
- Expert Advisor, National Court Administration
- Advisor, Korea Customs Service

DGB Daegu Bank Board of Directors



Kim Tae-oh Executive Director (CEO)

- CEO, DGB Financial Group (Current)
- CEO, Hana HSBC Life Insurance
- Executive Vice President, Hana Bank (Customer Support Group)
- Vice President, Hana Financial Group



Kim Yong-sin Independent Director

- CEO, Offices of Kim Yong-sin, Certified Public Accountant (Current)
- Government-Appointed Deputy, Tax Tribunal
- Auditor, Yeungnam Educational Foundation
- President, The Korean Institute of Certified Public Accountants, Daegu Branch



Byun Dae-suk Executive Auditor

- Standing Member, Daegu Bank Audit Committee (Current)
- Standing Advisor on Finance, Doosan Infracore
- Vice President of Management Support, Taihan Electric Wire
- Advisor to Jeju Provincial Office, Financial Supervisory Service
- Head of Beijing Office, Financial Supervisory Service
- Director of Special Bank Service, Financial Supervisory Service



Jon Kyong-tae Independent Director

- Professor Emeritus, Keimyung University (Current)
- Director, Kyungchon Educational Foundation (Current)
- Auditor, Kumbokju Scholarship Foundation (Current)
- Professor of Commerce, Dean of College of Economics and Commerce



Lee Jae-Dong Independent Director

- Attorney, Daegu Law Offices (Current)
- President, Daegu District Bar Association
- CEO, DG Lifeline
- Adjunct Professor, Kyungpook National University, Graduate Department of Law (Current)



Kim Yoon-guk Executive Director (Bank Vice President)

- Bank Vice President (Director of Management Planning Division)
- Risk Management Division
- Director (Daegu Headquarters)
- Branch Manager, Dongseong-ro Branch
- Branch Manager, Siji Branch



Suh Kyun-suk Independent Director

- Professor Emeritus, Andong National University School of Business Administration & Accounting (Current)
- Advisor, Gyeongbuk Future Strategy Planning Committee (Current)
- Andong National University: Professor of Business Management, Dean of College of Social Science, Dean of Graduate School of Administration and Management, Head of Business Administration Research Center



Kim Taek-dong Independent Director (Group/Bank)

- CEO, Lake Investment Advisors Co., Ltd. (Current)
- Kosdaq Listings Committee Member, Korea Exchange
- Fund Evaluation Advisor, Korea Venture Investment Corporation
- Director of Asset Management, Hyundai Securities

AFFILIATES

DGB Financial Group, with our eight subsidiaries, is sound and resilient. In October 2018, with the acquisition of Hi Investment & Securities, DGB set the stage for a leap forward as a comprehensive financial group. By boosting inter-affiliate synergy, the Group will strengthen our competitiveness.



INTRODUCTION OF DGB FINANCIAL GROUP

DGB Credit Information

DGB Data System

DGB U-Pay

DGB Asset Management

DGB Capital

DGB Life Insurance

Hi Investment & Securities

DGB Daegu Bank

01 DGB Daegu Bank

Closer to you with Larger Benefits, DGB Daegu Bank

DGB Daegu Bank aims to contribute to and fulfill our responsibility for regional development

Under the management philosophy of “sharing dreams and prosperity with the local community,” DGB Daegu Bank has provided local residents with the best financial services for over 50 years, and has served as a foundation for regional development. To be the world’s greatest sustainably managed regional bank, Daegu Bank not only looks after our financial performance, but always strives to lead the way ethically, environmentally and socially.

Moreover, we will strive to actively carry out touching management with the local community, value management for our shareholders and communication management with our staff.

Founded	Oct. 7, 1967
Address	2310, Dalgubeol-daero, Suseong-gu, Daegu, Republic of Korea
Phone No.	1566-5050, 1588-5050
Website	www.dgb.co.kr
Services	Deposits, loans, foreign exchange, financial products (investment funds, bancassurance), asset management, online banking



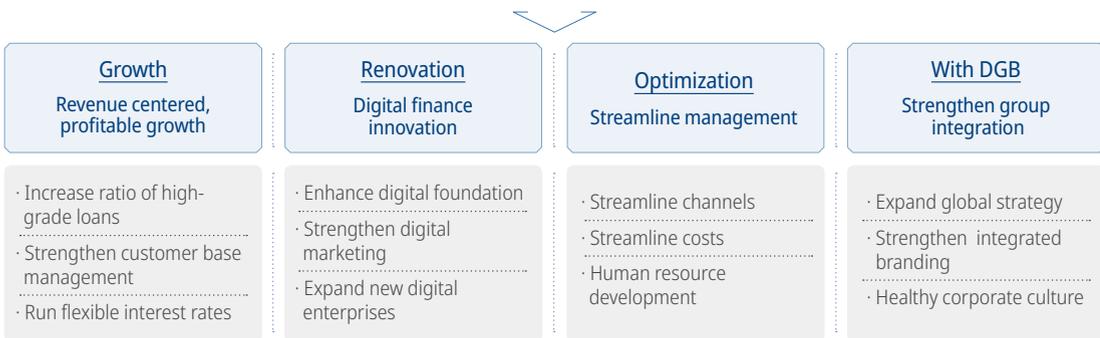
DGB Daegu Bank CEO
Kim Tae-oh

DGB Daegu Bank's Business Performance (2018)

No. of Branches	249
Total Assets (KRW bil.)	49,785.3
Current Net Profit (KRW bil.)	234.8

2019 Objectives and Implementation Strategies

“Taking steps towards a 100-year future” - We are GROWING!



02 Hi Investment & Securities

Trusted Investment Partner, Hi Investment & Securities

Hi Investment & Securities provides competitive investment solutions, striving for socially responsible banking.

Hi Investment & Securities began as Jeil Investment Trust and grew as a trusted financial investment company.

Based on a foundation of solid growth in the investment banking sector and diversification in the bond management sector, we have been continuously improving our performance. And with over 30 years of experience in the asset management sector, we work to provide our customers with the best investment solutions.

In October 2018, Hi Investment & Securities began a new journey by becoming a member of DGB Financial Group. Using this synergy from subsidiaries and the expansion of capital, we are striving to become a mid-to-large securities firm, increase our market share, and venture into new enterprises, all as part of our strategy for becoming a top 10 financial investment firm.

Founded	Oct. 28, 1989
Address	Seoul office] 61, Yeouinaru-ro, Yeongdeungpo-gu, Seoul, Republic of Korea Busan office] 121, Oncheonjang-ro, Dongnae-gu, Busan, Republic of Korea
Phone No.	1588-7171
Website	www.hi-ib.com
Services	Investment trading, investment brokerage, discretionary investment, investment advisory



CEO of Hi Investment & Securities
Kim Kyung-kyu

Hi Investment & Securities' Business Performance (2018)

No. of Branches	29
Total Assets (KRW bil.)	6,088
Current Net Profit (KRW bil.)	43.3

2019 Objectives and Implementation Strategies



03 DGB Life 

A Trusted Life Partner, DGB Life Insurance

DGB Life Insurance contributes to the local community through a wide variety of philanthropic activities for the socially vulnerable group to fulfill our philosophy of sharing.

DGB Life Insurance has developed and grown with the Korean life insurance industry over the past 30 years. After we joined DGB Financial Group in January 2015, we have continued to grow steadily. In the spirit of the group's management philosophy of "sharing dreams and prosperity with the local community," all employees practice 'FC-ship' which is a unique action plan of DGB Life Insurance. We offer the true value of insurance and customer care, and through sharing and innovation, we are striving to become a trusted Life Partner.

Founded	Feb. 22, 1988
Address	Seoul office] 125, Namdaemun-ro, Jung-gu, Seoul, Republic of Korea Busan office] 14, Jungang-daero 361beon-gil, Dong-gu, Busan, Republic of Korea
Phone No.	1588-4770
Website	www.dgbfnlife.com
Services	Insurance product sales (guarantee, endowment, pension, variable), asset management services, insurance policy loans, etc.

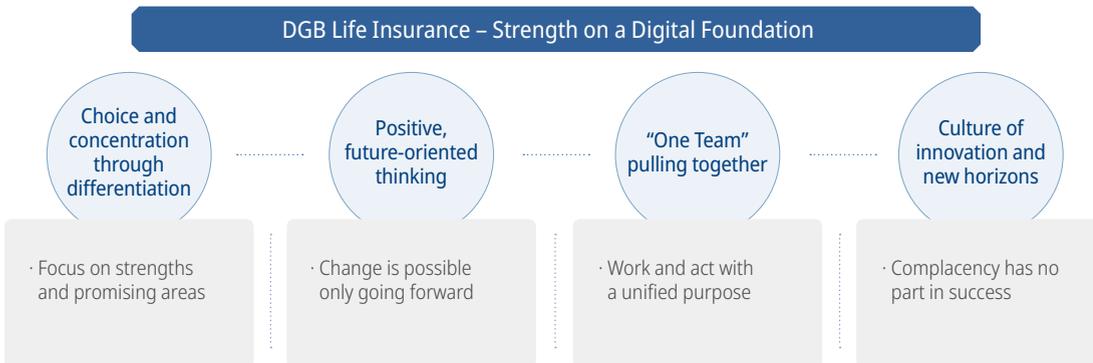


DGB Life CEO
Min Ki-sik

**DGB Life Insurance
Business Performance (2018)**

No. of Branches	42
Total Assets (KRW bil.)	6,152
Current Net Profit (KRW bil.)	0.02

2019 Objectives and Implementation Strategies



04 DGB Capital

Growing Together with the Customer, DGB Capital

DGB Capital is leading the way to the future based on the love and trust of our customers.

DGB Capital joined DGB Financial Group family in January 2012 as a specialized credit finance business. We are the top financial company that customers can trust.

Through secure financing and thorough risk management, we pursue growth that balances profitability and stability. And by harnessing synergy with our affiliates, we provide top-notch credit finance services that match the diverse needs of our customers.

Founded	Sep. 14, 2009
Address	125, Namdaemun-ro, Jung-gu, Seoul, Republic of Korea
Phone No.	1566-0050
Website	www.dgbcap.co.kr
Services	Lease, Installment finance, Automobile finance, Corporate loans, Personal loans, New technology business finance



DGB Capital CEO
Lee Jae-young

DGB Capital Business Performance (2018)

No. of Branches
..... 12

Total Assets (KRW bil.)
..... 2,762.1

Current Net Profit (KRW bil.)
..... 22.4

2019 Objectives and Implementation Strategies

Responsive and Dynamic DGB Capital

Strengthen business competitiveness

<Improve competitiveness by business sector>

- Differentiated business competitiveness
- Increase financial capacity
- Strengthen risk management capabilities
- Explore new businesses

Respond to change

<Active/Innovative change>

- Regulate portfolio
- Expand affiliate synergy
- Digital transformation
- Modernize corporate culture

05 DGB Asset Management

The Company that Works Together with the Customer, DGB Asset Management

DGB Asset Management will become an asset management company that earns customers' trust through the ethical awareness of employees and the highest levels of competence.

DGB Asset Management joined DGB Financial Group in October 2016. Since then, we have taken a major leap forward under our management philosophy of "creating greater value through faith and trust" to become the top comprehensive asset management company for customers who seek better value.

DGB Asset Management does our utmost to provide the best asset management tools to our valued customers to make sure their assets are carefully looked after. We understand deeply that our company's future lies in successful and safe investment for our customers. Through a strong ethical code and the unmatched capabilities of our staff, we will earn and keep our customers' trust.

Founded	March 3, 2000
Address	97, Uisadang-daero, Yeongdeungpo-gu, Seoul, Republic of Korea
Phone No.	02-707-4200
Website	www.dgbam.com
Services	Collective investment, discretionary investment, investment advisory

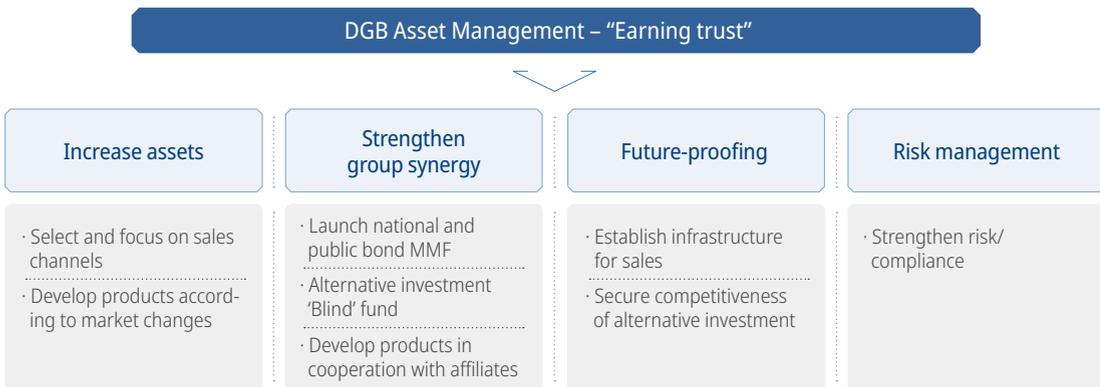


DGB Asset Management CEO
Lee Yoon-kyu

DGB Asset Management Business Performance (2018)

Total Assets (KRW bil.)	39
Current Net Profit (KRW bil.)	6.4

2019 Objectives and Implementation Strategies



06 **DGB U Pay** 

Anytime, Anywhere Be With Onepass, DGB U Pay

DGB U Pay strives for the convenient use of all citizens and fulfills our social responsibilities.

DGB U-Pay has created an electronic payment system for everyday life. We provide a safe and convenient service for micro payments, access control and security based on transportation infrastructure like buses, metros and taxis.

DGB U Pay will keep providing convenient services to all customers using our electronic payment system, and as a socially responsible company, we will do our best to bring more joy to local communities.

Founded	Dec. 27, 1999
Address	2503, Dalgubeol-daero, Suseong-gu, Daegu, Republic of Korea
Phone No.	080-427-2342
Website	www.dgbupay.com
Services	Issuing and managing electronic payment services, electronic payment settlement agency services



DGB U Pay CEO
Soh Keun

DGB U Pay Business Performance (2018)

Total Assets (KRW bil.) **36.4**

Current Net Profit (KRW bil.) **0.2**

2019 Objectives and Implementation Strategies



07 DGB Data System

Smart Work, Smart IT! DGB Data System

DGB Data System creates a dream and a new future values of the customer with IT which leads the 4th industrial revolution.

DGB Data System is an IT-specialist company established to provide our customers with the highest quality IT services, such as data system development, IT consolidation management, IT consulting and IT training.

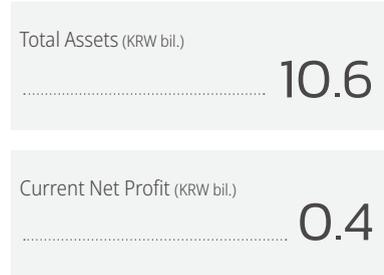
Through dedication and creativity, DGB Data System promises to reward our customers by developing the best IT solutions, and we promise to contribute to the development of the IT industry community.

Founded	April 9, 2012
Address	70, Palgong-ro 53-gil, Dong-gu, Daegu, Republic of Korea
Phone No.	053-718-1400
Website	www.dgbds.co.kr
Services	Data system development, management, maintenance, IT consulting



DGB Data System
CEO Kim Hyeong-sig

DGB Data System Business Performance (2018)



2019 Objectives and Implementation Strategies



08 DGB Credit Information

Building a credit society with a winning partner, DGB Credit Information

DGB Credit Information strive to be a business trusted by customers and the market.

DGB Credit Information specializes in the collection of non-performing loans, including financial institution bonds, commercial bonds and civil debts. We also conduct credit investigations and provide civil affairs agency.

Under DGB Financial Group’s management philosophy of “Sharing Dreams and Prosperity with the Local Community,” everyone at DGB Credit Information is doing their best for the customer’s fortunes and future, and to establish a credit society. We promise to provide the best service, to put customer satisfaction and fairness first, and to take the lead in the development of the local community.

Founded	July 5, 2000
Address	183, Dalseo-ro, Seo-gu, Daegu, Republic of Korea
Phone No.	053-573-7700
Website	www.dgbc.co.kr
Services	Claim collection, credit check, lease inspection, civil affairs agency



DGB Credit Information
CEO Min Gu-sik

DGB Credit Information Business Performance (2018)

Total Assets (KRW bil.) **5**

Current Net Profit (KRW bil.) **0.2**

2019 Objectives and Implementation Strategies



DGB Financial
Group's Subsidiary
Ownership*

1
DGB Daegu Bank

100 %

2
Hi Investment & Securities

85.32 %

3
DGB Life Insurance

100 %

4
DGB Capital

100 %

5
DGB Asset Management

100 %

6
DGB U-Pay

100 %

7
DGB Data System

100 %

8
DGB Credit Information

100 %

*As of the end of Dec. 2018
Hi Investment & Securities acquired in 2018

DGB FINANCIAL GROUP 2018 HIGHLIGHTS



Highlight .1

Acquisition of Hi Investment & Securities

Through the acquisition of Hi Investment & Securities in October 2018, DGB Financial Group became the Korea's first regional financial group to build a foundation for a comprehensive financial group, with a solid profit base and a balanced business lineup covering banking, insurance, securities, asset management, etc.

DGB Financial Group is planning to enhance the group's competitiveness by maximizing our sales capability and strengthening synergy among affiliates. By utilizing Hi Investment&Securities' customer base in capital and south-east area and DGB's own customer base in Daegu and Gyeongbuk area, DGB has started a combined branch in the BWB(Bank+Securities) form.

Highlight .2

Anti-corruption Management System Certification

DGB Financial Group is the first Korean financial holding company to obtain certification (ISO37001) for our anti-corruption management system. The International Organization for Standardization (ISO) grants the ISO37001 certification validates an organization's ethical management, corruption prevention, internal controls, regulatory compliance, etc. By obtaining this certification, DGB Financial Group elevated the ground-work of ethical management required for financial organizations, and strengthened our ability to prevent corruption risks through the establishment of anti-corruption management system which is consistent with the international standards.



Highlight .3

DGB Innovation Center Established

To respond actively to the fast-changing financial environment, DGB Financial Group has established the DGB Innovation Center (DIC). By moving all the computer systems of the Group and our affiliates to the financial industry's best IT center, DGB has made our IT services even more reliable. Through the resulting improvement in intra-Group synergy, we will establish a foundation for the move to digital global banking.



Highlight .4

Dow Jones Sustainability Index: 10 Straight Years

DGB Financial Group was listed on the Dow Jones Sustainability Index (DJSI) for 10 consecutive years. The DJSI is compiled jointly by the S&P and Dow Jones indices in the United States and RobecoSAM of Switzerland, which evaluate sustainable management. Uniquely among Korea's regional banks, DGB Financial Group is also listed on the DJSI Asia-Pacific with 600 of the region's biggest companies, and the DJSI Korea with Korea's top 200 firms. We have been listed on both indices for 9 and 10 years, respectively, confirming that DGB upholds the world's highest standards of sustainable management.





Highlight .5

CDP Award for Excellence in Climate Change Response

In 2018, DGB Financial Group was recognized by the Carbon Disclosure Project (CDP Korea) with an award for excellence for our response to climate change. In 2006, in the pursuit of environmental management, DGB established the Green Finance Group, and since 2008 has been carrying out the “DGB STOP CO2 Plan.” Going forward, DGB will continue to be a leader of low-carbon local communities and a model for environmental management in the financial sector.

HIGHLIGHT .6

Principles of Responsible Banking

DGB Financial Group promised to uphold the Principles of Responsible Banking (PRB) established by the United Nations Environment Programme Finance Initiative (UNEP FI) and fulfill its responsibility through finance.

The PRB is an international framework establishing the roles and responsibilities of the financial industry in implementing the Paris Climate Accords and the UN Sustainable Development Goals (SDGs). DGB Financial Group will continue to devote our efforts to sustainable social development and a future of common prosperity by expanding our positive influence on society through active implementation of the PRB 6 Principles*.

* UNEP FI PRB 6 Principles :

- 1. Alignment 2. Impact 3. Clients & Customers 4. Stakeholder 5. Governance & Target setting 6. Transparency & Accountability



HIGHLIGHT .7

Task Force on Climate-related Financial Disclosures

Since 2018, DGB Financial Group has been a member of the Task Force on Climate-related Financial Disclosure (TCFD) in support of its recommendations. The TCFD, established by the Financial Stability Board at the request of the G20, analyzes the financial impact of climate change scenarios. It makes recommendations for transparent disclosure related to corporate governance, strategy, risk management, indicators, targets, etc. We will continue our active compliance by forming a TCFD implementation roadmap and by strengthening our climate change corporate governance, strategy and risk management.

HIGHLIGHT .8

Science Based Targets (SBTi)

In 2018, DGB Financial Group became the first Korean signatory to the Science Based Targets initiative (SBTi). SBTi establishes the science-based greenhouse gas reduction targets needed to limit global warming to well below 2°C above pre-industrial levels. It is a joint initiative of the Carbon Disclosure Project (CDP), the UN Global Compact (UNGC), the World Resources Institute (WRI) and the World Wildlife Fund (WWF). We aim to lead the building of a low-carbon society by establishing and implementing science-based emissions reduction goals in line with the 2°C limit.



Based on materiality tests considering business impact and stakeholder interest, we have laid out six issues that are expected to have a material effect on the Group.

In the “General Issues”, these six issues are divided into four main topics in which we explain the ways we are responding and our future strategies.

BUSINESS EXPANSION



CUSTOMER TRUSTED

DGB FINANCIAL GROUP CORE ISSUES

PIONEERING FUTURE FINANCE	26
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RESPONSIBLE BANKING

01

PIONEERING FUTURE FINANCE

— A recent financial paradigm shift is quickly changing the financial environment. We believe that it is important to implement big data and other new technologies to keep business growing while uncovering new growth engines to actively prepare for the future.



» Management Approaches

DGB Financial Group has stepped up as an international company by entering the markets of Cambodia and Laos. The Group has also been making efforts to actively prepare for the Fourth Industrial Revolution through steps such as building the DGB Innovation Center to consolidate IT management and expanding non-face-to-face channels.

» Future Direction

By expanding our business in Cambodia and entering the new market in Myanmar, DGB Financial Group is planning to build a Southeast Asian Financial hub. Meanwhile in Korea, the Group plans to expand the scope of our business throughout the country by establishing combined branch services and implementing a diverse range of digital strategies utilizing the synergy between our affiliates.



Cam Capital Specialized Bank
Net Profit

\$3,395,000

Preparation to launch
the Myanmar business

NBFI

NON-BANK
FINANCIAL INSTITUTE

KPIs	2018 Performance	2019 Target
Market Share in Daegu Gyeongbuk (Loan, %)	24.8%	25%
Market Share in Daegu Gyeongbuk (Deposit, %)	36.5%	38%
BIS Ratio (%)	12.82%	12.9%
ROA/ROE	0.64%/9.27%	0.65%/9.30%

Leap Forward as a Comprehensive Financial Group

With the acquisition of Hi Investment & Securities in 2018, DGB Financial Group now comprises eight affiliates. By maximizing the synergy effect among the affiliates, the Group will be able to strengthen our sales channels by expanding external business and marketing at the bank teller window. By securing new sources of revenue, we will diversify our internal portfolio, which we plan to use to achieve sustainable results.

Entering the Global Market

Global Entry Strategy

As a sustainable business, DGB Financial Group continuously strives to strengthen our competitiveness. Therefore, we have established a global entry strategy of Glocalization (globalization while promoting local characteristics) and Digital Transformation (digitizing existing offline networks). We strive to rise from a regional to a global business. By enhancing the independence of foreign branches and implementing a specialized digital finance service to match the needs of local customers, DGB Financial Group will implement a unique strategy to grow into a company that leads the global market.



CAMBODIA
PHNOM PENH



Acquiring the Cam Capital Specialized Bank

In October 2017, DGB Daegu Bank signed the SPA to take over the Cambodian financial firm Cam Capital Specialized Bank, and in December received approval from the National Bank of Cambodia to trade stocks. By January 2018, registration with Cambodia's Ministry of Commerce was finalized and the acquisition of Cam Capital Specialized Bank was complete, officially allowing entry into the Cambodian financial market.

After acquiring a 100% stake in Cam Capital, DGB Daegu Bank changed the business name to DGB Specialized Bank, and DGB Daegu Bank's first overseas corporation was established.

DGB Financial Group has continued to expand into the global market, and by adding Cambodia to the Group's presence in China, Vietnam and Laos, we have further solidified the basis for growth in the Southeast Asian region. By exploring new markets and starting new businesses, DGB Financial Group will continue to expand our global network.

DGB Specialized Bank

MYANMAR
NON-BANKING FINANCIAL INSTITUTIONS

Entering the Myanmar NBFi by Opening a Local Office

On the back of DGB Capital's successful market entry experience with Laos DLLC (DGB Lao Leasing Co., Ltd.), we are preparing to enter the Myanmar NBFi (Non-Banking Financial Institutions). Located in a strategically well-placed position in Southeast Asia bordering China and India, and with the growing buying power with a population of 5.4 million, Myanmar is seen as a new "land of opportunity." But the NBFi has not yet opened to foreign capital, being a non-bank financial group. By establishing an overseas office in Myanmar, DGB Capital will be the first to react to a change in policy and preemptively secure opportunities in the NBFi market. To this end, in March 2019, we completed the acceptance report with the financial supervisory authorities to set up an overseas office in Myanmar and we have relocated employees to proceed with its establishment. This is a preemptive measure knowing that the Myanmar policy-making authorities usually take more than 200 days to reach a decision on the establishment of overseas offices. Through that office, DGB Capital will thoroughly prepare for the approval of a NBFi license in Myanmar and be ready to take this business opportunity. The drive to enter the Myanmar NBFi is for DGB Capital to secure future growth engines by expanding our overseas network, and we are sure this will contribute to the development of DGB Financial Group's "Indochina Financial Belt," which extends into Cambodia, Laos and Vietnam.



LAOS
DGB LAO LEASING CO.,LTD.



DLLC, DGB Lao Leasing Co.,Ltd.

Securing the Competitiveness of DGB Lao Leasing Co. (DLLC)

DGB Lao Leasing Co.,Ltd. (DLLC), which was established in Laos by DGB Capital in December 2016, returned a positive net profit within one year of establishment. In 2018, net profit totaled US \$499,000, making it the first Korean financial leasing company to make a cumulative gain in Laos. With total assets of around US \$41 million as of March 2019, DLLC has become a leading foreign financial leasing company in Laos.

DLLC is currently strengthening the core competencies of its financial businesses, credit screening and bond management. By gathering and analyzing the types of transactions made, and using the basic data of existing customers, we are currently developing a screening system exclusively for Laos. Through cooperation with local bond management companies we have also been sending employees of the DLLC to those companies to acquire necessary skills for local bond management. We trust that our active efforts in localization, taken to strengthen our core capabilities, will raise DLLC's continuous growth potential.

Aside from this, DLLC also believes the finding of new profitable businesses to diversify its portfolio will become an important aspect of securing business growth in the future. To this end, a company-wide workshop was held in December 2018 under the theme of preparing for business expansion and strengthening work capabilities. Moreover, in order to inspire a sense of belonging with the local employees, in April 2018 we launched the "DLLC Loyalty Program," which provided the select staff with opportunities for training in Korea, and we plan to expand this program in the future.

With the synergy of parent companies DGB Capital and DGB Daegu Bank, DLLC will focus on its core competencies, cooperate with diverse partners, discover new markets and new businesses, and do everything we can to prepare for future growth.



Expanding Fields of Business

Acquiring Hi Investment & Securities

In October 2018, DGB Financial Group acquired Hi Investment & Securities, and through this became the Korea's first regional financial group to have a balanced business line consisting of banking, insurance, stocks and asset management, and a stable profit base, which jumped to some 70 trillion won.

By entering the securities business, DGB Financial Group expects to expand the Corporate Investment Banking business, including IPOs, corporate bond issuance, underwriting and securities brokerage. Moreover, by utilizing the existing Group's customer base in the Daegu/North Gyeongsang province and Hi Securities & Investment's customer base in Seoul and Southeast Asia, we believe we can establish a combined bank in the form of BWB (banking + securities) system, maximizing our sales capacity. Additionally, not only will we be able to expand our existing strength in the Investment Banking (IB) sector through the synergy of selling combined securities products and services via our Group affiliates, we expect to become a securities firm that is also competitive in the retail and Principal Investment (PI) sectors.



Launch Ceremony of Hi Securities & Investment

DGB Daegu Bank and Hi Securities & Investment's Combined branch

Opening of **1** branch in **Seoul**

Opening of **2** branch in **Daegu**

Expanding Synergy between banks and securities

Strengthening Group Synergy

To build practical cooperative relationships between the affiliates, DGB Financial Group has produced a joint product guide and has been carrying out joint marketing. Moreover, through a CI renewal, the Group's previously Daegu Bank-centered image has expanded to include all the affiliates.

In 2018, DGB Financial Group acquired Hi Investment & Securities, and became the first regional bank to operate in all sectors of the financial business line, including banking, securities and insurance. With 2019 as its first year as a comprehensive financial group, DGB Financial Group has established a DGB Synergy Strategy Office to help create synergy between the affiliates. DGB Financial Group established 3 BIBs (Branch-In Branch) of DGB Daegu Bank and Hi Investment & Securities (2 in Daegu, 1 in Seoul) in 2019. Through this, we will expand the synergy between banking and securities.

Expanding Business Networks in the Capital

To overcome the limitations of regionalism and become a pioneering national bank, DGB Financial Group is moving forward to expand its business networks in the Seoul metropolitan area. To achieve this objective, we purchased the Daewoo Shipbuilding and Marine Engineering building, into which DGB Life Insurance and DGB Capital have moved. By 2020, DGB Financial Group aims to gather all the affiliates scattered throughout Seoul to one location to strengthen the Group's competitiveness.

To expand the Group's business foundation and in the metropolitan area, and to vitalize business, a Seoul business innovation office has been established. DGB Financial Group has hired the former branch manager of a commercial bank, and by launching a two-in-one mobile business (mobile branches) - the first of its kind for a financial organization - we will expand our business to the capital.



Strengthening Competitiveness in Digital Finance

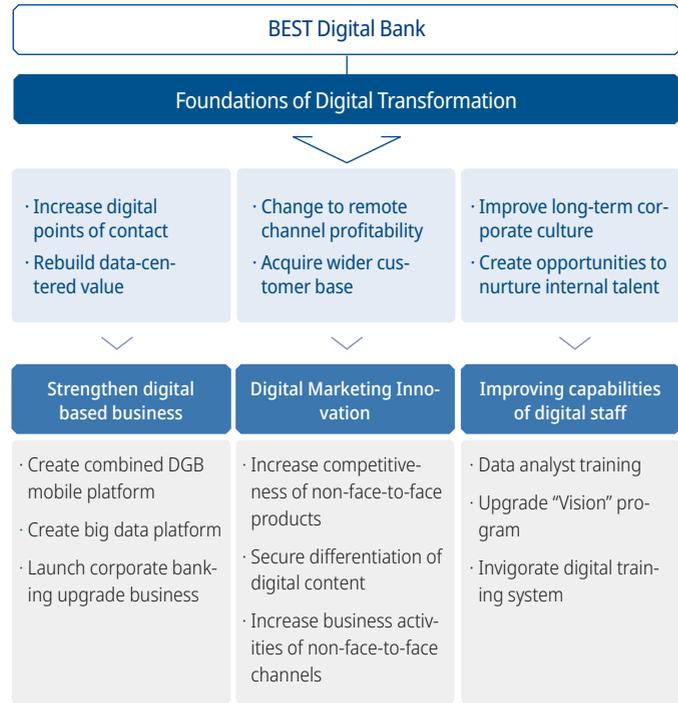
To allow greater convenience in financial transactions and greater rewards, there has been a relaxation and opening up of regulations for digital finance laws. This has inevitably led to competition in the digital banking sector with fintech companies and internet-only banks. Therefore, we are pursuing a Digital Transformation to re-center our business structure on digital, and to modernize our organization, processes, business models and our business culture.

Preparing for the Fourth Industrial Revolution

Fintech, artificial intelligence and big data-based marketing, and other new technologies are creating a new digital financial environment for businesses in Korea. This change heralds a great upheaval in the financial world.

To stay ahead of these market changes, DGB Financial Group has established a digital innovation office. Marking 2019 as the first year of the Digital Transformation, we plan to lay the foundation for the next 10 years to come.

Digitalization Strategy



* Specialists of non-face-to-face products



Relocating and Building the DGB Innovation Center

To actively prepare for the digital financial environment that is prompted by the Fourth Industrial Revolution, DGB Financial Group has completed the new DGB Innovation Center(DIC). The new IT center has 9 above-ground floors and 1 below-ground floor. It has been built to withstand a magnitude 9.0 earthquake, has the highest quality information and communication equipment, and has been certified as environmentally friendly. Computer equipment from all of the DGB Financial Group affiliates have been moved to the DGB Innovation Center. Not only does the DGB Innovation Center provide more secure and efficient IT services, it will contribute to synergy among the affiliates by consolidating the Group's IT management.

Digital IT R&D Center

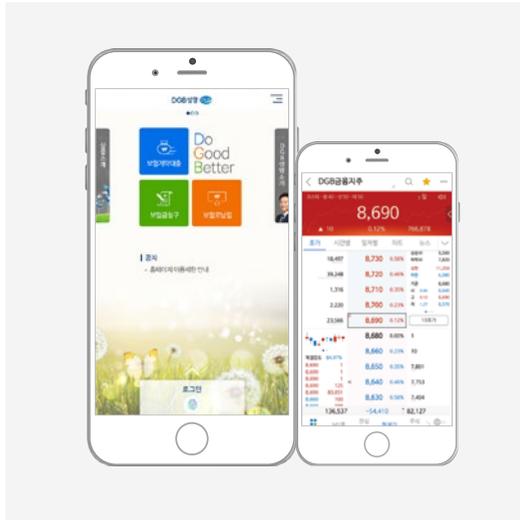
DGB Daegu Bank is responding to the Fourth Industrial Revolution by consistently conducting R&D in the central areas of IT and new technology. To raise our competitiveness, we have been operating the Digital R&D Center since 2016.

In 2018, the second IT R&D Center examined ideas such as the utilization of map APIs and vitalizing local culture. For example, 16 teams from 6 universities in Daegu and North Gyeongsang Province formed a joint lab to study QR code payments for traditional markets and street vendors. In 2019, we intend to strengthen the capabilities of our staff by holding monthly IT seminars. We expect such cooperation with businesses and universities in the region will help grow the local economy. As competition intensifies in digital banking, we will continue to lay the foundation for innovation in digital finance through R&D into IT and new technologies.

Industry-Academia
joint lab in Daegu and North
Gyeongsang Province



16 teams from
6 universities



DGB Life Insurance's mobile platform service /
Hi Investment & Securities' mobile trading system, Hi-M

Launching Mobile Services

DGB Financial Group is enhancing customer accessibility by launching various mobile services. After 8 months in development, DGB Life Insurance unveiled its mobile platform service last year. The service consists of a mobile business system (M-Smart), a mobile counter for customers, electronic document delivery, and monitoring for completion of sales. Unlike traditional electronic subscription methods, the DGB Life Insurance mobile platform was developed exclusively for smartphones, so the process is 100% paper-free, from registration to payment.

In January 2019, Hi Investment & Securities launched a new-concept mobile trading system (MTS) called Hi-M. It is designed for customers to harness their power as investors with a focus on convenience. Hi-M enables remote account set-up, fingerprint authentication, simplified log-in and simplified transfers without the need for a digital certificate, all with an easy-to-use, minimalist design.

DGB Digital Fashionista

In April 2018, DGB Financial Group launched Digital Fashionista, which will pioneer the development of digital finance by leading the digital culture of the Group. Digital Fashionista is a group of staff who study digital technologies and other trends to nurture group-wide staff capabilities. By pushing ideas from inside and outside the organization, they attempt to discover new, unique business models for DGB Financial Group. Its 22 young members come from across our affiliates, bringing with them an interest in all things digital and an adventurous spirit. While in the group, they manage and participate in the DGB Platform-Fintech competition, propose new digital products and services, and grow our digital culture.



Digital Fashionista



Platform-Fintech Competition

97 teams **107** proposals

Platform-Fintech Competition

To respond quickly to the Fourth Industrial Revolution and thereby become a global financial group, we held the first DGB Financial Group Platform and Fintech Competition in June 2018, targeting smart companies in the platform/fintech sector, ordinary citizens and university students. Divided into two areas, the Technology category accepted submissions of websites, applications, prototypes and so on. Those with just an idea or a proposal competed in the Idea category. In total, 97 teams took part, submitting 107 proposals to great fanfare. By partnering with the winners, DGB Financial Group will strengthen its digitalization, and by forming connections with the participants in general, we will discover new business models and talent.

02

FINANCE FOR HAPPINESS OF CUSTOMERS

— The top priority at DGB Financial Group is customer satisfaction and trust. Having a direct effect on business results, Customer Satisfaction Management is an important element of sustainable management. In 2018, with a focus on protecting consumer rights, we implemented Finance for Happiness of Customers.



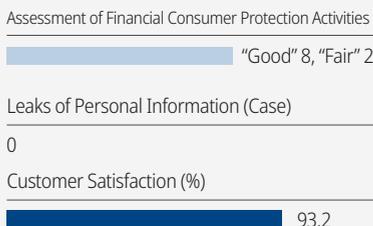
» Management Approaches

We are responding to the diversification of consumer demands through our customer satisfaction efforts, such as strengthening communications, and are thereby preempting complaints. Moreover, when damages to the customers occur, we are consistently quick to respond. In this way, we are striving to raise our competitiveness and win the trust of consumers, boosting our value as a financial company.

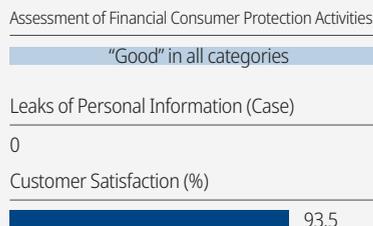
» Future Direction

As our digital business grows, so does the importance of security and the protection of personal information. We are therefore putting a wide range of efforts into consumer protection, including, for example, expanding the financial education and consulting services we provide for those disadvantaged by digitalization.

2018 Performance



2019 Target



2019 Target
Assessment of Financial Consumer Protection Activities

GOOD
IN ALL CATEGORIES

Leaks of Personal Information (Case)

ZERO

Improving Customer Satisfaction

DGB Financial Group recognizes customer satisfaction as a top business strategy and is striving to raise it. By listening to the voices of our customers, we are able to provide the many kinds of services they want. We aim to implement customer satisfaction management through a diverse range of systems and initiatives.



Customer Satisfaction Initiatives

DGB Chamsori Advisory Panel

To better listen to our customers and improve our management processes, DGB Daegu Bank has set up a customer group called the DGB Chamsori Advisory Panel. They seek out and inform the company about practices and systems that are illogical, cumbersome or outdated from the customer's point of view. Customers on the Chamsori Advisory Panel express their opinions about new financial products in development, suggest ideas for new services and help monitor our branches, among other roles.

Customer Satisfaction Training

DGB Daegu Bank conducts an array of on-going training activities such as on-site training, group training for customer satisfaction.

DGB Total Care Service

DGB Life Insurance is managed with customers at the core. Under the DGB Total Care Service, our Financial Consultants take responsibility for their customers by explaining policies to them and guiding them through financial planning. Financial Consultants visit their customers to explain their coverage and in the event of an accident or illness help them receive their claims. On these visits, they also help customers update their information, plan for retirement and old age, provide consulting and a range of other services, which all help raise customer satisfaction.

Higher Returns for Customers

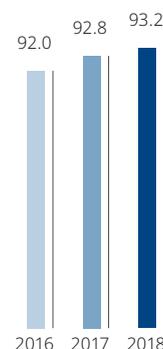
The highest customer satisfaction comes from a return on investment. Hi Investment & Securities reflects those returns in quarterly evaluations of its branches. Our focus going forward will be on raising value for the customer, not only through evaluations of customer ROI, but through constant development of new products, research, analysis and employee training.

Customer Satisfaction Survey

Through NICE D&R, we conduct a phone survey and do on-site monitoring every month to raise customer satisfaction and improve the quality of our services. By sympathizing with our customers, we scored 93.2% in 2018.



Customer Satisfaction (Satisfied Customer)(%)



Consumer Protection

To prevent harm to consumers in the financial industry, DGB Financial Group is making a wide range of efforts, including the provision of financial information and the establishment of systems for consumer protection. To minimize harm and grievances, and to protect consumers' rights and interests, DGB Financial Group is managed according to the "Guidelines for Financial Consumer Protection." Through the establishment of a consumer protection system and integrated system, we are strengthening our consumer satisfaction management by actively responding to consumer demands for customer information protection.

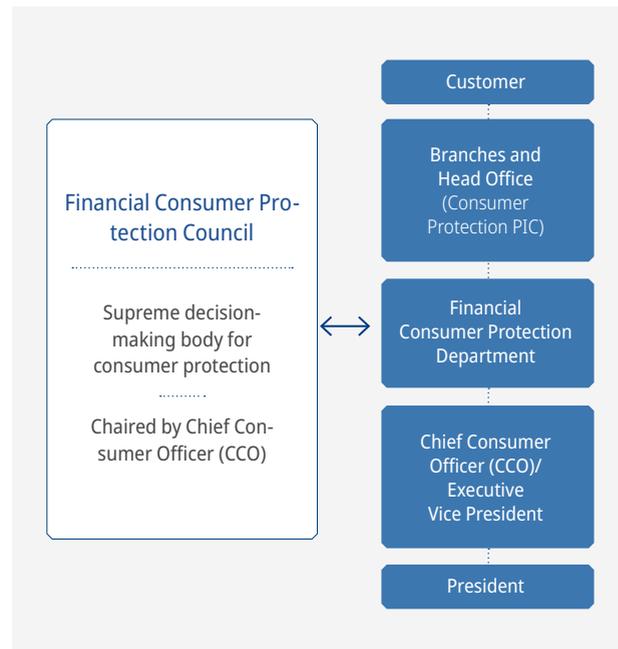
Consumer Protection System and Strategy

Internally, DGB Daegu Bank protects consumers through a stage-by-stage consumer protection system for each financial product. Our system protects consumers by following rules and regulations from the product development stage to sales.

Also, to rectify practices seen as illogical or cumbersome, we are implementing an improvement system called VOC (Voice of the Customer). Our other efforts include operating the Chamsori Advisory Panel, a group made up of our customers, holding internal campaigns and soliciting ideas from our employees, designating a counter for consumer protection, organizing a Consumer Protection Day each month, and initiating support groups for civil complaints. These are some of the practical ways in which we protect our consumers.

To protect the rights and interests of financial consumers, the Compliance Team at Hi Investment & Securities, led by the Chief Consumer Officer, operates a section devoted to consumer protection. The related processes and standards are established by the CCO, who is also responsible for managing and supervising consumer protection systems in each step of the financial product sales process, and overseeing consumer protection training. When consumer protection issues arise, the Financial Consumer Protection Council convenes a meeting with the responsible department(s) to resolve the issue in the most effective way possible.

Consumer Protection Structure



Consumer Protection ABC News Letter

DGB Daegu Bank publishes a monthly magazine with information for financial consumers called Consumer Protection ABC News Letter. It provides updates on finance-related law, financial tips, and cases of financial crimes and ways to prevent them. Through each branch, we are helping to prevent financial loss by providing knowledge suited to all groups, including youth, students, and adults.

Integrated System for Consumer Protection

DGB Daegu Bank has established and is running an "Integrated System for Consumer Protection" to protect consumers' rights and interests. It enables one-stop handling of consumer protection-related issues by reflecting consumer voices in the development of financial products, ensuring that sufficient explanation is given in the sales process, and providing follow-up customer service. Through alerts, the system prevents situations that could lead to civil complaints, which enables us to make sure our customers are satisfied.

Preventing Telecommunications Fraud

To prevent fraud committed on the pretext of lending, we send text messages to our customers about ways to protect themselves, and distribute guidelines to prevent loss due to voice phishing at traditional markets before the holidays. We diligently update our manuals on phone fraud, inform our branches of cases of fraud and fraud prevention, and reward staff who have excelled in preventing such cases.

Expanding Customer Accessibility

As part of efforts to improve convenience for our customers, DGB Financial Group strives to strengthen accessibility, which we are doing in conjunction with company-wide digital innovation. We are expanding the features of our products through non-face-to-face channels such as internet banking, mobile banking and iMBank 2.0. At the same time, we are improving accessibility by offering services on holidays, opening self-service kiosks and providing services after hours.

Accessibility Expansion Program

DGB Self-Service Kiosks

To improve convenience, DGB Daegu Bank has set up the first DGB Self-Service Kiosk at Dongdaegu Station. As a Branch-in-Branch, it offers both self-service and teller services. Video consultation, using bio-authentication, enables customers to conduct 90% of banking transactions without the need for staff assistance.

The Self-Service Kiosks are open 365 days a year. Customer can access the ATM from 10 AM to 7 AM using Bio (palm verification) and can also using kiosks during non-operating hours (weekdays after 9 PM, weekends and holidays 12 PM to 6 PM), which greatly improves convenience for office workers and others who cannot visit during business hours. Five additional Self-Service Kiosks opened in 2017 and eight in 2018. In 2019, we plan to add more kiosks that are tailored to each branch, to make them even more efficient and specialized.



DGB Self-Service Kiosks

Branch Office at
HomePlus Seongseo

Saturdays from 1 PM to 6 PM



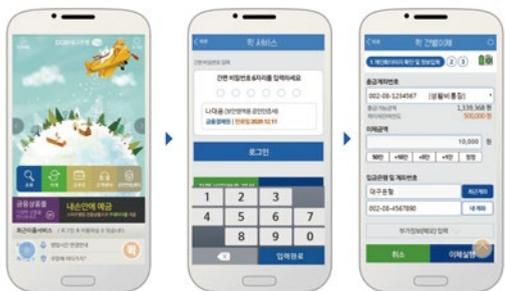
Seongseo Operating Office

Sundays from 10 AM to 4 PM

Holiday Operations

DGB Daegu Bank is strengthening accessibility for customers unable to visit on weekdays. Our branch office at HomePlus Seongseo is open on non-business days (1PM – 6PM) with the same services as weekdays. The Seongseo Operating Office, near the Seongseo Industrial Complex, provides exchange and remittance services on Sundays (10 AM – 4PM) for foreign workers at the complex who cannot visit the bank on weekdays. We are making the holidays more convenient through mobile branches at highway rest areas. Also, when millions of Koreans travel across the country for the holidays, a range of events will make the journey more enjoyable.

DGB대구은행



DGB Quick Service

DGB Quick Service enables customers to make and receive payments using a simple six-digit password. This is Korea's first transfer service to accept simple passwords as digital signatures. Customers signed up for digital finance services can use the service by downloading the iMBank or DGB SmartBank applications on a smartphone registered in their own name. DGB Financial Group will continue to strengthen accessibility through a wide range of electronic services.

03

SUSTAINABLE AND RESPONSIBLE FINANCING

—In line with the social atmosphere that emphasizes corporate social responsibility, the DGB Financial Group, as a financial group, aims to achieve positive social impacts while fulfilling corporate social responsibility through sustainable responsible finance.



» Management Approaches

DGB Financial Group is pursuing synergy and mutual growth with regional communities by introducing various financial products to promote the public interest, support promising small and medium-sized businesses and provide assistance to marginalized income groups.

» Future Direction

DGB Financial Group prioritizes mutual growth with regional communities. We will provide socially responsible financial services by expanding our support for local citizens and small businesses in the region.

KPIs	2018 Performance	2019 Target
DGB Cyber Green Branch (No. of Accounts)	3,242	3,566
DGB Cyber Green Branch (Sales Amount)	KRW 3.186 bil.	KRW 3.504 bil.
SME Loan Amount	KRW 22 tril.	KRW 23 tril.
SME Loan Ratio	63%	63%

DGB NEW BEGINNING
CREDIT RECOVERY PROGRAM

DGB TECH BIZ LOAN

Inclusive Finance

DGB Financial Group is taking a socially responsible stance in providing sustainable financial products that promote harmony and mutual growth. For this purpose, we are offering products and support tailored to the common people and putting into practice our mission of sharing dreams and prosperity with the local community.

Inclusive Finance

In 2019, DGB Daegu Bank introduced the DGB New Beginning credit recovery program for the financially vulnerable. The program was launched in March, and in the four months through June, it helped marginalized income earners in the region by restructuring loans using the industry's highest loan reduction rate. A flexible reduction rate of between 40% and 90% was applied for clients with long-term loans, depending on their various needs, and refinancing measures were also offered, including 5-year installment programs and incentives for on-time payments. We will continue to support the common people and small and medium-sized enterprises in the future through an array of credit recovery programs.

Technology Financing

DGB Daegu Bank offers low-interest technology financing loans for small and medium-sized enterprises with high growth potential and competitive technology. DGB Tech Biz Loans offer low-interest, high-limit credit lines to outstanding SMEs and maintain close mutual cooperation with these firms. DGB Financial Group continues to verify and renew these technology financing products to ensure that they stay competitive.



Specialized Institution for Technology Commercialization

DGB Daegu Bank has been designated as a specialized institution for technology commercialization by the Ministry of Trade, Industry and Energy. As the first financial company to be designated as such, DGB Daegu Bank offers tech-related consulting services for business clients, who use them to attain specialized technology and market competitiveness.

Major Products for Inclusive Finance

Division	2016		2017		2018	
	No. of Accounts	Total Amount (KRW 100 mil.)	No. of Accounts	Total Amount (KRW 100 mil.)	No. of Accounts	Total Amount (KRW 100 mil.)
DGB Seeds of New Hope Loans	20,556	1,335	21,180	1,305	22,428	1,328
DGB Conversion Loans	1,127	68	827	42	510	38
Special Guarantee Loans for SMEs in North Gyeong-sang Province	1,799	193	1,660	157	1,491	135
Sunshine Loans for University Students	852	266	1,254	33	1,593	40
Agreement Warranty of Jointly Support Startups	14	35	15	38	15	37
Special Guarantee for Restarting after Startup Failure	0	0	2	1	9	3
Special Guarantee Restructuring and Job Support	1,330	332	1,260	303	1,102	221
Special Guarantee for Stabilization of Small Business	1,700	374	1,466	284	1,273	209
Special Guarantee for Hope Share of Small Business	925	203	788	170	678	144
DGB Bridge Loan with Mid-Interest	61	6	234	24	343	31
DGB Smart & Secure Mid-range Interest Rate Loan	256	17	555	29	1,280	94
Workers e-Start Loan	290	11	518	17	528	17

Major Products for Tech Loans (KRW mil.)

Division	2016	2017	2018
DGB Tech Biz Loans	1,023,922	1,311,744	1,371,079
Technology Start-up Loans	73,714	63,058	44,491

Green Finance

DGB Financial Group offers financial services and products that take into account their environmental impact. DGB Daegu Bank has signed an agreement with the Daegu city government to support an initiative to widen the distribution of electric cars by providing low-interest loans in the 3% range for electric vehicle buyers, installing charging stations at bank branches, and purchasing electric cars for company use.

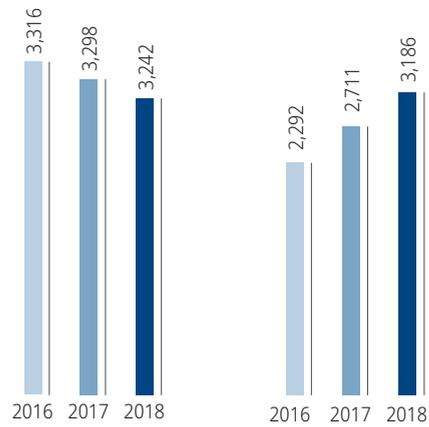
DGB Cyber Green Branches

The DGB Cyber Green branches of DGB Daegu Bank specialize in environmental protection. DGB Cyber Green offers eco-friendly financial products, such as Green Deposits, Green Health Installment Savings, DGB Green Loans and DGB Green Cards, all of which raise environmental awareness among customers. DGB Daegu Bank's Green Card accrues eco-friendly mileage, and its Green Deposits offer prime rates for account holders who engage in eco-friendly activities. Some revenues from these products are allocated to a fund that supports environmental protection efforts in the region.



DGB Cyber Green Branches: No. of Accounts

DGB Cyber Green Branches: Amount of Sales (KRW mil.)



*Annual performance recalculated based on changes and terminations of Cyber Green products

Supporting Eco-Friendly Companies

DGB Financial Group offers a variety of benefits and incentives for eco-friendly companies. DGB Daegu Bank offers special, low-interest loans to environmentally sustainable firms in cooperation with the Korea Environmental Industry & Technology Institute. It utilizes the enViance system (financial support for green management) operated by the Ministry of Environment to identify eco-friendly companies that have reduced pollutant emissions and taken preventative measures against environmental damage. DGB Daegu Bank provides 1 ~ 2% interest rate benefits within the limit of KRW 300 million to eco-friendly companies. DGB Financial Group will continue to promote eco-friendly management of local companies through the discovery of eco-friendly companies and the preferential treatment with financial support.

Green Financial Product Sales

Division		2016		2017		2018	
		No. of Accounts	Total Amount (KRW mil.)	No. of Accounts	Total Amount (KRW mil.)	No. of Accounts	Total Amount (KRW mil.)
Installment	Eco-friendly Green	66	97	34	42	24	30
	Green Health	627	4,041	440	3,103	428	2,889
	Dokdo Savings	8,929	9,340	171	590	27,663	19,767
	In My Hands	15,555	44,607	16,317	64,389	18,481	70,962
	e-U Savings	8,617	26,724	10,427	47,248	14,922	72,318
	I-M Savings (Launched Aug. 2, 2017)	-	-	2,503	3,276	7,502	25,564
Financial Technique	Eco-friendly Green	96	1,855	31	355	18	250
	Dokdo Savings	16,392	303,870	282	3,694	26,471	492,409
	In My Hands	14,459	282,745	14,345	286,146	14,766	261,012
	e-U Deposits	7,292	118,986	6,077	110,925	8,379	147,973
	I-M Deposits (Launched Aug. 2, 2017)	-	-	2,419	29,820	8,754	172,562

Financing for Social Responsibility

DGB Financial Group offers a variety of financial products to promote socially responsible finance, such as Social Responsible Investment (SRI) funds. DGB Daegu Bank offers the Woori Frontier Sustainable Business SRI Equity Fund and the Mirae Asset Love Sharing ETF Fund, which set aside 10% of their profits and their 0.5% management fees for donations made in the client's name. DGB Daegu Bank also provides special guarantees for pro bono businesses, supports job-creating firms and young entrepreneurs, and provides special guarantee loans to help create new jobs. Through such endeavors, DGB Daegu Bank is working to address social issues and aid the development of regional communities. We will continue to build a model that creates shared value to induce positive social changes and enhance our business performance as a socially responsible financial company.

DGB Daegu Bank Public Service Fund Products (KRW mil.)

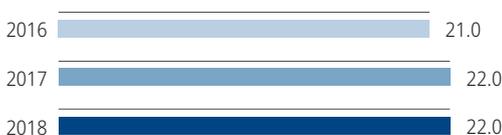
Division	2016	2017	2018
Midas Responsible Investment Equity Investment Trust	94	69	84
Mirae Asset Love Sharing ETF Equity Investment Trust	1,551	558	450
Allianz Active SRI Securities Investment Trust	80	47	53

Included in FTSE4Good Index for 8th Straight Year

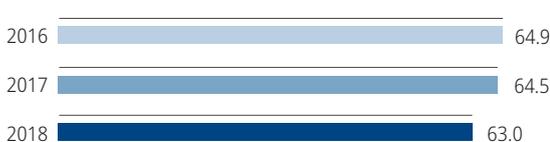
In 2018, DGB Financial Group was included in the FTSE4Good Index for an eighth consecutive year. The index was created to encourage more investment in firms with an outstanding record in corporate social responsibility. The FTSE4Good Index is an important global barometer of social responsibility released by the Financial Times Stock Exchange (FTSE), and DGB Financial Group's inclusion is a recognition of its efforts to fulfill its social responsibility obligations.



SME Loans (KRW tril.)



SME Loan Ratio (%)



Support for SMEs

Cooperation Agreement: DGB Daegu Bank – Korea Credit Guarantee Fund – Korea Technology Finance Corporation

DGB Daegu Bank signed an agreement with the Korea Credit Guarantee Fund (KODIT) and the Korea Technology Finance Corporation (KOTEC) in March 2019 to provide guarantees for small businesses including those that create jobs. DGB Daegu Bank will allocate KRW 2.6 billion to these two institutions and support loans based on the KRW 36 billion worth of guarantees issued by them. In accordance with KODIT and KOTEC standards, guaranteed loans will be extended to job-creating firms, pro bono businesses and the self-employed recommended by DGB Daegu Bank. On the basis of this agreement, DGB Daegu Bank plans to further extend its financial support for these businesses as a part of building friendly finance.

Ranked 1st Again for SME Support in 2018

At the 2018 Financial Consumer Protection Awards, DGB Daegu Bank was ranked 1st in the category of SMEs. This was in recognition of DGB Daegu Bank's contributions to relationship-based finance through which it identifies regional businesses with high growth potential and offers long-term financing. We are working to build long-term, trust-based relationships with companies, through which we can provide long-term loans, equity investment and consulting services, and share successful business strategies.

04

ALL-BAREUN DGB

—— A company's ethical management standards are an important criterion that determines its reputation. In recent years, many local firms have faced intense demands from society that they meet global ethical management standards. DGB Financial Group must take a proactive stance in order to build a relationship of trust with its clients.



» Management Approaches

DGB Financial Group has launched the ALL-Bareun DGB ethical management brand and engaged in system reforms to establish ethical management practices across the entire organization. It has set up a globally-standardized process to block and prevent corruption risks, becoming the first Korean financial company to receive the ISO37001 certification for its anti-corruption management systems as it pioneers ethical management practices in the financial industry.

» Future Direction

DGB Financial Group is working to widen the adoption of the ISO37001 certification, obtained in 2018, to all of our affiliated entities. DGB employees and executives will strive to continue these reform efforts in order to become a more trusted firm.



Verification of the
ISO37001
certification

**ALL-
BAREUN
DGB**

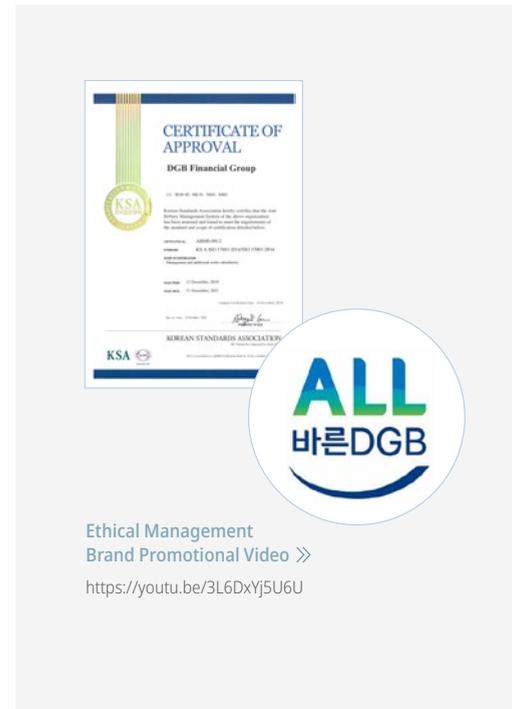
KPIs	2018 Performance	2019 Target
Number of corruption cases and legal violations	0	0
Average number of ethics classes taken per person	56	58

Promoting Ethical Management

DGB Financial Group is building a company culture that values ethical management above all, to fulfill its stated goal of being a trusted, sustainably managed and upright business. In 2018, the Group established an ethical management brand and was internationally certified (ISO37001) for its anti-corruption management system, both of which are firsts for a Korean financial company. In 2019, the Group plans to widen the adoption of its anti-corruption management systems to all affiliated entities.

Launch of the "ALL-Bareun DGB" Ethical Management Brand

DGB Financial Group has embarked on a systematic reform drive to rectify the organizational practices of the past and establish a transparent and ethical management process. As part of these efforts, we launched the industry's first ethical management brand, "ALL-Bareun DGB." The brand reflects the company's determination to take an honorable path with the cooperation of all employees and executives, and will be the focal point in the company's drive to establish ethical management practices. The brand was unveiled at a meeting of company presidents at the start of 2019. Going forward, the ALL-Bareun DGB movement will be extended to all affiliated entities to promote ethical, righteous and sustainable management practices.



Timeline of the Promting Ethical Management

2018. 10. 04

Announcement of plan to advance ethical management (Group ethical management master plan)

2018. 10. 12

Public idea contest for DGB Financial Group's ethical management

2018. 11. 28

Announcement of new employment contracts for executives outlining ethical job responsibilities [Setting of Group's ethical management vision]

2018. 12. 28

Electronic signature of the Group's 2019 ethics charter

2018. 12. 27

Announcement of ethical management brand "ALL-Bareun DGB" Manufacture and installation of banners promoting the ethical management brand

2018. 12. 26

Launched a campaign to implement ethical management practices within the Group in 2019

2018. 12. 18

Received industry's first certification (ISO37001) for anti-corruption management

2019. 01. 03

Announcement of ethical management brand promotion video

2019. 01. 04

Announcement of distribution of promotional plaques for being a brand of ethical management

2019. 01. 18

Announcement of Group's advancement of ethical management leadership program Start of ethical management brand usage on employee business cards

2019. 01. 29

Announcement of Group's advancement of ethical management target program

Ethical Management System

DGB Financial Group has announced its determination to establish ethical management practices through the drafting of a relevant charter and code of conduct. Also, we provided and shared guidelines on the code of conduct, including specific action measures that employees and executives can take to do their jobs ethically. The guidelines stipulate that any violations must be reported to legal monitors, who must also be consulted regarding any action where legality is uncertain.



DGB Ethics Charter

<http://www.dgbfg.co.kr/ad1001.fg>



DGB Ethics Code of Conduct

<http://www.dgbfg.co.kr/ad1002.fg#none>



Ethical Management in Practice

DGB Financial Group promotes ethical management practices from all of its employees and executives. We will take the initiative in respecting social values, abiding by laws and regulations, and establishing a fair financial order.

Internal Reporting System

We operate an internal reporting system to prevent or resolve illegal and unjustified actions in an expedient manner, and minimize any losses stemming from such incidents. All employees and board members are obligated to report any information they have related to actions that violate corporate ethics and harm the public interest. DGB Financial Group practices ethical management by protecting the identity of the internal whistleblower and ensuring confidentiality.

*Reporting channels: postal service, hotline, e-mail, electronic system, homepage, DGB mobile office

Ethical Employment Contracts for Executives

The new employment contracts with our executives obligate them to perform their jobs ethically to ensure that the top management sets a good example for others. All executives at DGB Financial Group are required to sign a contract prohibiting them from engaging in acts of corruption such as bribe-taking, influence-peddling, and subjects them to severe punishment in case of violations.

Training on Money Laundry Prevention

Mandatory education and training are provided for money-laundering prevention. Self-monitoring with respect to corporate policy compliance is carried out monthly on all employees and executives to prevent these persons from being involved in any financial crimes or accidents, either directly or indirectly. The firm also shares real-time information on all financial crimes and accidents that occur within the industry.



Internal Control System (Number of Audits Performed)

Classification	2016	2017	2018
Normal Audit	1,471	1,541	1,707
General Audit	240	221	218
Special Audit	14	18	14
Regular Audit*	331,231	284,892	292,850

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

INTERNATIONALLY CERTIFIED ANTI-CORRUPTION MANAGEMENT SYSTEMS

Internationally Certified Anti-corruption Management Systems

In December 2018, DGB Financial Group became the first South Korean financial company to earn ISO37001 certification for its anti-corruption management systems. ISO37001 is a global standard established by the International Organization for Standardization (ISO) governing an organization's ethical management, corruption prevention, internal control and legal compliance. DGB Financial Group created a task force and consulted with experts to analyze its corruption risk, draft regulations and adopt monitoring and improvement measures, and underwent strict evaluations for the ISO37001 certification. It is the culmination of DGB Financial Group's organizational reform efforts, signifying its adoption of a globally-recognized process to minimize corruption risk.

The program will be widened to all affiliated entities so that they can be equipped with systems that meet ISO37001 standards, and they will serve as a foundation for the Group's industry leadership in terms of ethical management.



Major Programs

Campaign to Adopt Ethical Management within 2019

Each affiliate is taking specific actions in line with the overarching goal of 'promoting clear ethical awareness, strong ethical execution, and confidently transparent DGB.'

Leaders in Ethical Management

Ethical management role models help lead the group and its affiliates' ethical management policies, promoting their implementation and reporting on their progress. They are expected to play a central role in the Group's establishment of ethical management practices.

Ethical Management Education and Training

Ethical management education is mandatory for all employees and executives. Training is provided not only in traditional forms, but also online and through specialized courses.

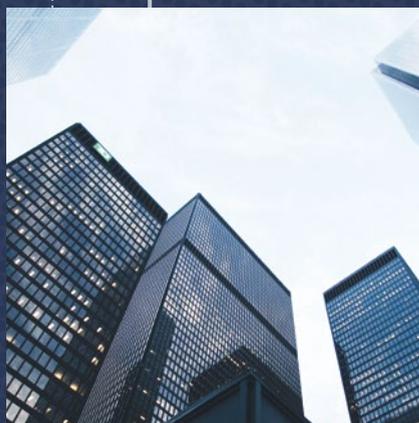
Ethical Management Awards

Starting in 2019, DGB Financial Group plans to present annual awards in ethical management after evaluating the Group's various affiliates. Through such recognition, the Group plans to encourage more ethical management practices from its affiliates and promote better ethics and legal compliance from its executives.

Based on materiality tests considering business impact and stakeholder interest, we have laid out six issues that are expected to have a material effect on the Group.

In the “General Issues” section, we have laid out the main issues of the previous year, but we also report on issues not selected for this year. This section covers our efforts to manage important issues in a continuous manner.

BUSINESS EXPANSION



CUSTOMER TRUSTED

DGB FINANCIAL GROUP

GENERAL ISSUES

ROBUST ORGANIZATIONAL STRUCTURE	46
COMMUNITY ENGAGEMENT	50

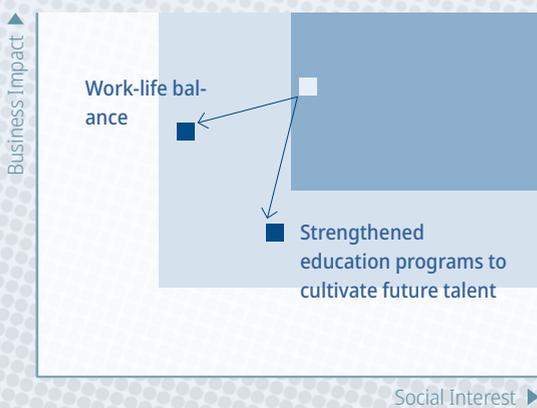


RESPONSIBLE BANKING

01 ROBUST ORGANIZATIONAL STRUCTURE

It has become more important than ever, for sustainable growth, to improve competitiveness through the acquisition and cultivation of superior talent. There is also growing social demand for recruitment based on capabilities and creation of jobs, as well as the promotion of a family-oriented organizational culture. DGB Financial Group is staying on top of these changes through the reorganization of our policies and the creation of new programs.

Materiality matrix



Direction of Sustainable Management

DGB Financial Group is making efforts to work together with our employees to ensure a sustainable future. We will establish a corporate culture that employees want to be a part of by undertaking organizational reform and expanding our program to promote a better work-life balance.

KPIs	2018 Performance	2019 Target
Training hours per person (Hour)	80	82
Employee satisfaction (Point)	95	96
Rate of parental leave uptake and return (%)	95.5%	100%

Human Resource Management

DGB Financial Group understands that the acquisition of a talented workforce leads directly to higher competitiveness. We are making efforts to bolster the competence of each employee and executive, to hire new employees best suited to DGB's requirements through a fair recruitment process and to carry out various education programs to cultivate a talented workforce.

Securing Talent

Right Talent for DGB Financial Group

DGB Financial Group is looking for employees who can create new value based on devotion and honesty. We are looking for talent with humility to respect others and serve our clients and our community, honest employees with a strong sense of responsibility and inspire trust, as well as those who are willing and able to think creatively and independently.

Fair Recruitment Procedures

DGB Financial Group aims to establish a fair recruitment procedure. DGB Daegu Bank comprehensively revamped our recruitment process in the second half of 2018. The final interviews are accompanied by an external interviewer and the entire interview is also monitored internally by the Group's legal affairs department, guaranteeing transparency.

Employment Stability

DGB Financial Group is making efforts to bolster employment stability in line with ongoing social concerns such as the vulnerability of irregular workers. DGB Daegu Bank understands that addressing employment stability is necessary to encourage employees' motivation and raise pride to their jobs. To this end, the bank has hired all new employees as full-time, regular employees and is working to convert our irregular workers into regular workers.

Fair Evaluation and Compensation

DGB Financial Group conducts performance evaluations based on individual competence, using a range of appraisals to ensure fairness and objectivity. Performance evaluations are based on MBO and KPI that reflect the unique characteristics of different departments and branches, and the results are used to determine promotions, remuneration, bonus payments and job assignments. Also, the individual strengths and weaknesses of employees are identified and shared through feedback, assisting in long-term self-improvement measures and future performance achievements.

Human Resource Development

Strengthening Employee Competencies

DGB Financial Group provides education and training programs to maximize each individual's specialized talents. DGB Daegu Bank operates a mentor program for new employees and a CDP (Career Development Program) for specialized personnel. We are also strengthening on-the-job training as it looks to shift away from traditional, theory-based education. We have appointed professors and lecturers in the bank in accordance with the Knowledge Sharing Program to conduct practical training and improve practical business skills for the training of the Universal Banker.

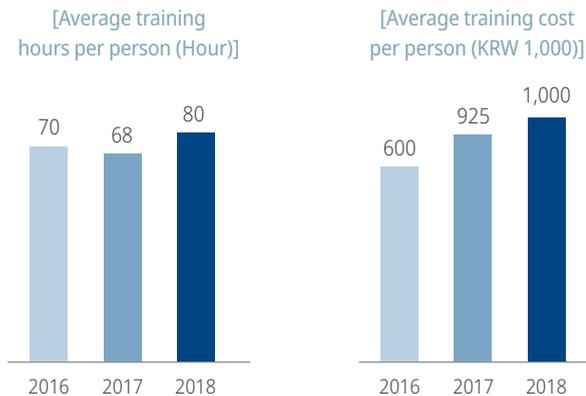
DGB Daegu Bank is also working to improve accessibility to education. Based on LMS (Learning Management System), we are developing a self-directed learning culture. In line with the latest education trends, we are operating an online-based learning platform that integrates financial processes such as job training and certification preparation as well as non-financial processes such as IT and foreign language courses.

DGB HIPO Program

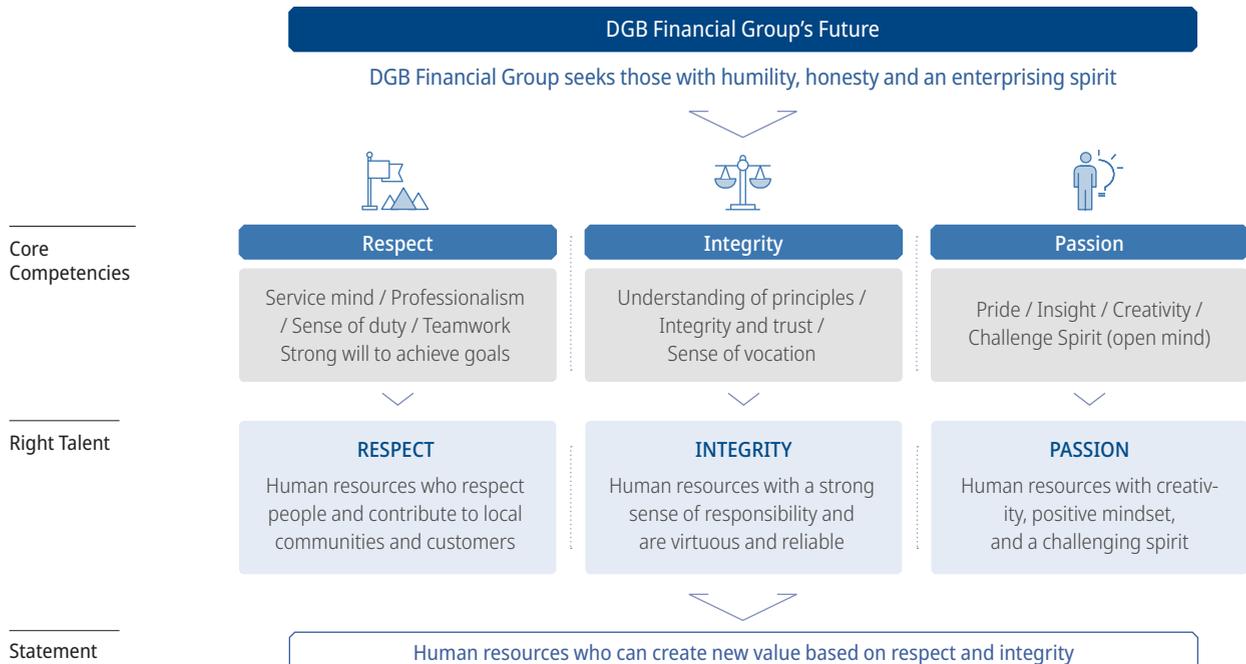
To achieve our long-term vision and successfully execute our business strategy, DGB Financial Group understands the need to form a leadership pipeline centered on core talent. For this purpose, we have established the DGB HIPO Program. HIPO is an abbreviation of "High Potential," and is intended to recruit and cultivate employees that will form the Group's core talent. The main idea of the HIPO Program is recruiting employees in four categories, depending on the organizational level, who are then managed collectively by the Group. Selected employees are developed into industry-leading talent through a systematic cultivation process, including management of the CDP (Career Development Program), performance in challenging assignments and projects, and various training programs. Future DGB Financial Group employees will be selected from this HIPO talent pool through a rigorous evaluation process.

The HIPO Program is part of DGB Financial Group's efforts to employ human resources in a fair and transparent manner, and it is expected that the program will boost employee performance and morale for wider competitive benefits to the Group overall.

DGB Daegu Bank training hours



Right Talent for DGB Financial Group



A Corporate Culture Employees Want to Join

DGB Financial Group is working to nurture self-confidence in our employees along with an enthusiasm for work by expanding the kind of world-class culture they want to be a part of. To do this, we are pursuing innovation in work culture and providing a range of programs to enable employees to achieve work-life balance and do their jobs with joy and vigor.

Reform of Corporate Culture

Sound Corporate Culture

DGB Financial Group aims to establish a sound corporate culture by engaging in reform campaigns and ending outdated practices.

Organizational Culture Reform Programs

Division	Details
Redesign Company Dinners	6 guidelines for company dinners - 119 Principle (1 type of drink at 1 venue until 9 PM) - Themed dinners (leisure, culture, trending etc.) - No coercion (no mandatory attendance, short notices or pressure to drink) - 1-night, 2-day excursions prohibited - Driving under the influence strictly prohibited - Employee suggestions reflected in company dinners
Ease Formality	Reducing formality to improve labor productivity - Reducing MS PowerPoint use by HQ and better use of MS Word - Banning the drafting of speeches for manager-level employees by subordinates during corporate events - Banning gift-giving customs for anniversaries and other dates
Promote Split Pay	Discouraging the use of wire transfers - Use of IM Bank bill-splitting functions
Disband Internal Alumni	Eliminating nepotism based on academic and regional ties

Flexible Corporate Culture

DGB Financial Group has a Casual Friday dress code policy, which is observed every week to boost work efficiency. DGB Daegu Bank adopted Casual Friday in 2006, as did Hi Investment & Securities in November 2018.

DGB Daegu Bank also adopted a No-Tie policy in 2018. This was also extended to employees at headquarters who do not attend client meetings. In loosening the dress code, the executives are leading by example, and are creating a more comfortable and flexible work environment.

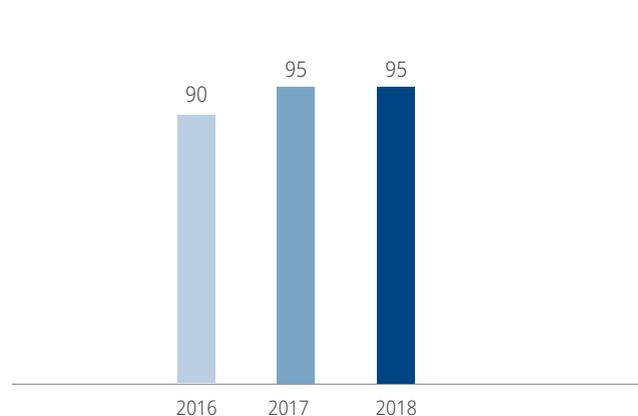
DGB Youth Frontier

DGB Financial Group aims to fulfill our motto of creating a “New DGB” based on creative ideas and on-the-spot feedback through DGB Youth Frontier, made up of employees in their 20s and 30s. In its 5th iteration from February to December 2018, the opinion group led many efforts to reform the organizational culture through practical proposals. We have also promoted a culture of leading by example through various campaigns and programs.

Stronger Synergy Among Employees

DGB Financial Group aims to strengthen internal synergy by establishing an organizational culture that emphasizes the value of communication. DGB Financial Group’s “DGB Be One” initiative has identified six components that must be consolidated in this regard, including organizational culture, joint enterprises, IT integration, social contributions, treating of employees like family, and sharing a common pool of resources. DGB Financial Group hopes to induce positive changes in the future through communication and understanding, and to reflect employee opinions to strengthen internal synergy and boost job satisfaction.

DGB Daegu Bank Employee Satisfaction (Point)



Employee Satisfaction Management

DGB Family Happiness Center

DGB Daegu Bank operates the DGB Family Happiness Center to support that employees are happy both at home and work. This is part of the firm's wider EAP (Employee Assistance Program) framework, which allows employees and their families to consult with experts on various issues. All DGB employees can access the services of the center through the DGB Family website, a telephone hotline and face-to-face meetings. The experts work with the objective of boosting employees' overall life satisfaction.

The firm also operates many employee-oriented programs, such as concerts, which improve job satisfaction. As part of our efforts to create happiness in the workplace, the DGB Family Happiness Center has held five employee engagement events in which a total of 337 employees participated in 2018.

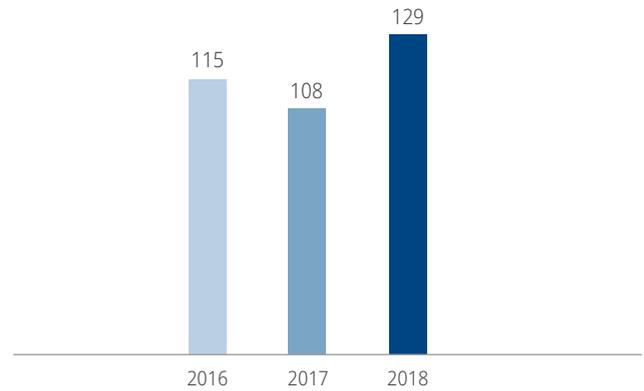
Expansion of Family-Oriented Culture

DGB Financial Group has adopted a variety of programs to promote better work-life balance, revitalize the Group's operations and establish a family-oriented culture.

DGB Daegu Bank's Family-Oriented Programs

Division	Details
Family Day	- Promote better family relationships by expanding time at home - Employees encouraged not to work overtime at least twice a week (Wednesday, Friday)
SMART Relaxation Campaign	- Establish a culture where employees are free to take vacations at any time - 3 unconditional principles (Unconditional application for leave, approval of leave and enjoyment of leave)
10 AM Clock-in Times for Parents	- Improvement of job satisfaction for working parents - For 10 days in March, 10 AM clock-in times for parents with children in elementary school
Automatic PC Shutdown	- Flexible work-hour adjustments (Log-ins possible only after 8:40 AM / Workstations automatically shut down after 6 PM)
Childcare Center in workplace	- Operating DGB Child Dream daycare centers – Suseong (Center #1)/ Dalseo (Center #2)
Flexible Work Hours for Pregnant Workers	- Pregnant workers prohibited from working overtime - Workers 12 to 36 weeks pregnant can apply for 2-hour daily work reductions

No. of childcare personnel (Person)



Healthcare of Employees

DGB Daegu Bank provides employee healthcare services to ensure that our workers are healthy. We provide diagnoses and individual health consultations through our 'On-Demand Healthcare' program and also conduct tests on their stress levels. We are promoting better employee health through programs that set metabolic and immune system health goals, where donations are triggered when they are met.

Employee Healthcare Programs

Division	Beneficiary	Details
Metabolic Syndrome	Employees with high blood pressure, high blood sugar and triglyceride levels	Body fat management and diet therapy
Enhancement of Immunity	Employees with a low level of white blood cells	Immunity Enhancement Program
On-Demand 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

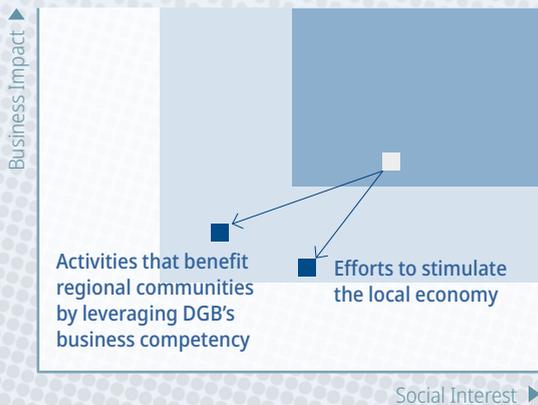
Long-term incentive system

DGB Financial Group understands that long-term employment improves job satisfaction, which has the added benefit of ensuring work continuity and increased efficiency. With this in mind, long-term employment incentives are being provided to help employees stay motivated and remain with the firm. Engagement programs both at home and abroad are being offered to employees who have worked for more than 20 years, and bonus payments are being provided to employees who meet sales and other targets to instill a sense of accomplishment and company loyalty. This has allowed the Group to maintain a high employee retention rate.

02 COMMUNITY ENGAGEMENT

In recent years, corporate entities have been expected to create social value, in addition to profits, by tackling various issues in support of regional communities. DGB Financial Group understands the importance of forging a close bond of trust with the regional community by participating in activities to promote mutual prosperity.

Materiality matrix



Sustainable Management Direction

DGB Financial Group aims to deliver consistent and long-term support for the regional community through the creation of a foundation. Rather than simply providing donations, we will expand our social contributions from the community level to countries abroad to tackle a range of social issues and create social value.

KPIs	2018 Performance	2019 Target
Management consulting(No. of Company)	99	100
Contribution to Local Communities	KRW 30.8 bil.	KRW 31.0 bil.

Supporting Regional Communities

DGB Financial Group understands that our future growth prospects are directly linked to the realization of sustainable growth in the Daegu/Gyeongbuk region. We are making efforts to promote mutual growth alongside the local community and to contribute to economic development by actively supporting the region in boosting productivity and job creation.

DGB Companion Volunteer Corps

DGB Financial Group has been supporting the activities of the DGB Volunteer Corps, which was first established by DGB Daegu Bank in 2002 in an effort to promote mutual prosperity with the regional community. It was renamed the DGB Companion Volunteer Corps in 2012.

Various community engagement actions that had been conducted separately by individual departments, branches and employees was organized as the DGB Companion Volunteer Corps and is continuing the CSR activities. As of 2019, the DGB Companion Volunteer Corps includes 54 groups (51 regional and HQ teams, 3 specialized teams), including the newest group from Hi Investment & Securities incorporated in February 2019. They are working to share value and build healthy regional communities.

Main Activities of the DGB Companion Volunteer Corps

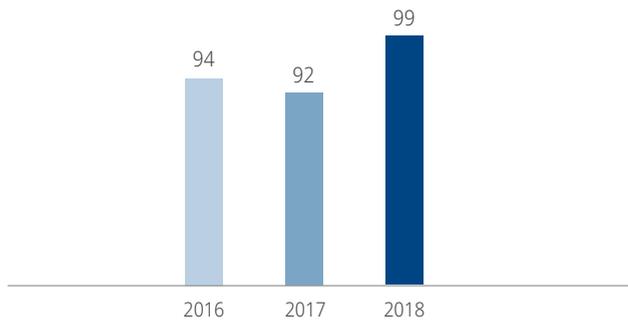


Corporate Management Consulting Center

DGB Financial Group provides free, specialized consulting services for SMEs and the self-employed, that form the backbone of the regional economy. DGB's Corporate Management Consulting Center is made up of specialists, who pass on valuable knowledge from many disciplines, including management consulting, strategy, human resource planning and production. Around 900 companies have been provided with consulting services over a 10-year period.

In 2018, the services of DGB's Corporate Management Consulting Center were used by 10 out of the 30 firms selected as leading design innovation firms by Korea's Ministry of Trade, Industry and Energy.

Number of Companies Received Management Consulting Services



DGB CEO Forum

DGB Financial Group hosts the "DGB CEO Forum" on a regular basis in order to promote mutual growth between regional businesses and the financial sector. The forum invites regional business leaders and related parties to share market information and enhance local firms' competitiveness. We hope the forum will continue to serve as a platform for regional businesses to overcome challenging market environments and find new sources of growth. We will continue to engage in further activities to benefit local businesses to co-prosper with the financial sector.

Number of CEO Forums Held

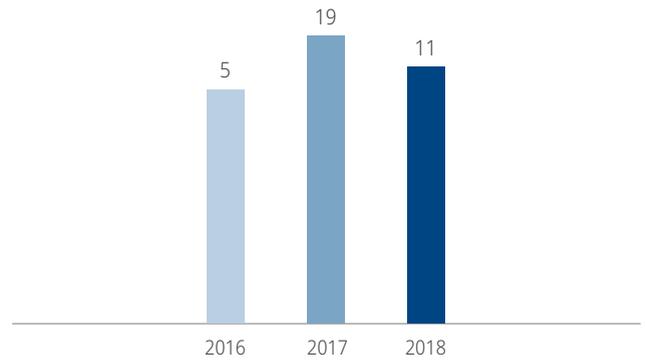
Division		2016	2017	2018
DGB CEO Forum	Daegu	3	3	1
	Gumi	2	2	2
	Pohang	1	1	1
	Gimcheon	-	-	1
	Total	6	6	5

Mecenat Activities

DGB Wednesday Lectures

DGB Financial Group has provided free Wednesday lectures for local citizens since 2016 to provide them with culture experiences. The Wednesday lectures cover many disciplines including management, the arts, humanities and sociology, and include guest speakers as well as various performances. These provide local citizens with diverse, high-quality cultural experiences. We will continue to provide various programs in the future to allow those in the community to enjoy more culture in their lives.

Number of DGB Wednesday Lectures Held



DGB Culture and Art

DGB Financial Group is making efforts to create a thriving cultural scene in the region by providing experience centers and organizing various arts and culture events. DGB Financial Group has opened an art gallery on the 1st floor of the DGB Daegu Bank 2nd Head Office, which displays the works of regional artists and holds various events such as free theater performances.



DGB Social Contribution Foundation

To promote friendly finance with local communities and to strengthen the role of our partners in those communities, in 2011 DGB Financial Group set up the financial sector's first comprehensive social contribution foundation. Using 1% of Group resources and employee compensation, we continue to carry out these specialized and systematized community-based social contribution activities.

DGB Social Contribution Foundation Projects

- ① Social Welfare
- ② Culture/Arts/Athletics
- ③ Environment/Global Projects
- ④ Education and Scholarships
- ⑤ Social Entrepreneurship
- ⑥ DGB With-U Volunteer Corps



Contributions
by DGB Financial
Group in 2018

KRW
30.8 BILLION

Bluebird Dream Community Children's Center

The DGB Social Contribution Foundation established the Bluebird Dream Community Children's Center on March 21, 2012, making it the first child welfare center set up and run by a financial institution. The Center prevents local children from low-income households from being neglected after school and helps ensure their healthy development.



Bluebird Senior Happy Workplace

As Korean society rapidly ages and the elderly population grows, their welfare is becoming a social issue. To create jobs for senior citizens, the DGB Social Contribution Foundation established the Bluebird Senior Happy Workplace, a first in the financial sector. This has enabled senior citizens to put themselves to work through a range of projects like providing toys, free disinfectants and sanitizers to area kindergartens and daycares, while at the same time making a clean and healthy environment for children.

With-U Foster Home Total-Care

Through the With-U Foster Home Total-Care, which provides total care for foster children and adolescents, the DGB Social Contribution Foundation is practicing friendly finance by sharing dreams and happiness. The With-U Foster Home Total-Care, founded at the one-year mark of the DGB Social Contribution Foundation in 2012, involves all the employees and executives of DGB Financial Group, who form one-to-one mentoring relationships with children and young people to support their development in terms of life, health, education culture and more.

With-U Foster Home Total-Care

Division	Details
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)
Educational 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)
Cultural Support	- Provide opportunities for cultural events with employees, local college students and children (once every quarter)

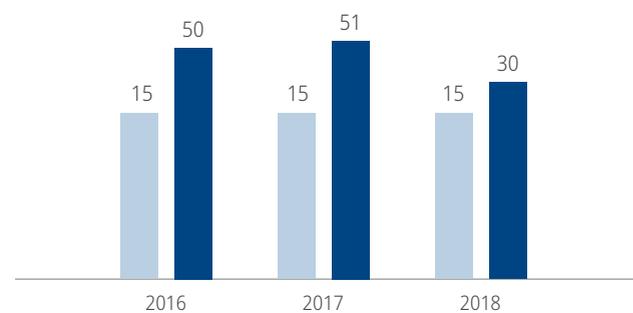
DGB Social Contribution Foundation: Special Project Performance

■ No. of Jobs Created*
■ Proceeds (KRW mil.)

[Dream Tree Educational Foundation]



[Bluebird Senior Happy Workplace]



*Jobs created through nurturing by social enterprises

Educational Projects

For the sustainable growth of local communities, DGB Financial Group understands the need to work for the development of the young people of these communities. To be a pillar for the local youth, we continue to operate and develop a range of programs to support them. At the core of the Group's social contribution projects is financial education, focused on the consumer.

Dream Tree Educational Foundation

The Dream Tree Educational Foundation got its start in February 2012 with the establishment of the DGB Child Welfare Agency, funded entirely by DGB Financial Group and DGB Daegu Bank, and which was recognized in June 2014 as the financial industry's first social enterprise. The goal of the Dream Tree Educational Foundation is to enable children and young people to grow up with dreams and hope by providing community-based educational services. To do this, the Foundation provides a comprehensive education service that includes career education, hands-on experience and counseling. Furthermore, at the Dream Tree Career Experience Center, kids get a chance to explore by experiencing a range of jobs in finance and beyond, which enables them to form a sound understanding and approach to the idea of a career.

In 2018, the scope of support was expanded to help young people not in school participate in society through the DGB Growing Dreams Project. Together with local social organizations, the Project's participatory programs help unenrolled children develop through cultural and social activities, work and entrepreneurship.



DGB Financial Education Center

DGB Financial Group carries out educational programs related to the financial industry, sharing know-how related to sound personal finance and the economy. At the DGB Financial Education Center, children and youth, as the consumers of the future, gain financial knowledge and learn about healthy consumer habits. The "One Branch, One School," which is a joint project between DGB Daegu Bank and a near-by school, provides education to students on common financial sense and healthy personal finance.

Also, the With-U Financial Education Volunteer Corps, made up of staff from the Center and local university students, provide financial and economic education to local residents. In particular, local middle and high school student groups developed their own program to be used for financial education called "Let's Play Finance," which can also be used to make lesson plans. In recognition for their efforts, the program was given an Excellence Award in 2018 by the Financial Supervisory Service.



DGB Scholarship Cultural Foundation

To find and nurture local talent, DGB Financial Group founded the Scholarship Cultural Foundation in 1990, through which we have supported excellent students in local communities through scholarships and other assistance. The foundation has funded the development of local schools, putting on seminars, conferences, cultural events and so on to create more opportunities.

DGB Daegu Bank Scholarship Cultural Foundation

Division		2016	2017	2018
High Schools	No. of Beneficiaries	101	94	94
	Scholarship Amount (KRW mil.)	159	147	146
Universities	No. of Beneficiaries	92	88	87
	Scholarship Amount (KRW mil.)	229	215	206

DGB GLOBAL VOLUNTEER CORPS



DGB Financial Group is taking our sustainable management from the local to the global level by engaging in social contribution activities overseas. In 2017, we launched the DGB Global Volunteer Corps, composed of some 50 members. It includes DGB employees and students from the DGB University Student Supporters (With-U Volunteer Corps, Student PR Ambassadors, Green University Press Corps).

In August 2018, the DGB Global Volunteer Corps carried out volunteer work for a second consecutive year in Vietnam and Laos. In these two countries, the volunteers helped the underprivileged through activities such as building homes and cleaning up elementary school grounds so that children can study in a pleasant environment. Other projects ranged from educational programs to K-Pop performances.

Furthermore, DGB Financial Group donated KRW 50 for the Laos dam collapse in 2018. Through our continued sharing work around the world, DGB Financial Group will practice sustainable management for a hundred years to come.

DGB FINANCIAL GROUP
**SUSTAINABILITY
GOVERNANCE**

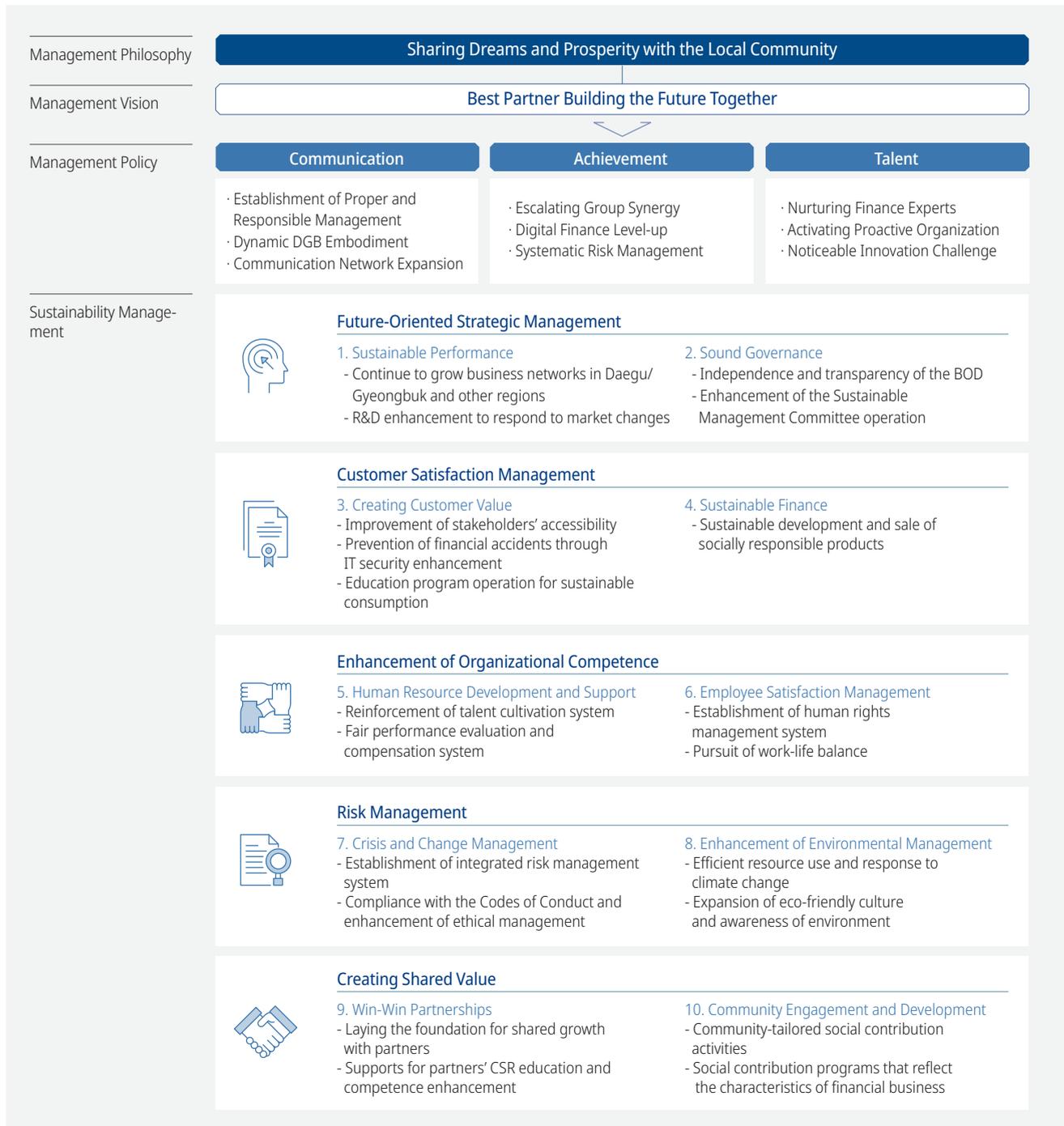
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SUSTAINABILITY MANAGEMENT OF DGB FINANCIAL GROUP

Sustainability Management Strategy

For “Sharing Dreams and Prosperity with the Local Community”, which is the Group’s management philosophy, DGB Financial Group established a corporate sustainability management strategy by incorporating management policy. In order to execute the management vision of “Building the Future Together with the Best Partner,” five strategic directions have been drawn up, along with 10 strategic tasks and corresponding action plans, which we plan to carry out through clearly defined goals and reliable performance indicators.

Sustainability Management Strategy Directions



Sustainability Management Initiatives

In order to monitor and improve DGB Financial Group's progress on sustainability management, a Sustainable Management Committee was established. The chairman of the Group serves as the chair of the committee and is responsible for making the primary decisions related to sustainable management activities. And through the committee's Working Council, the committee establishes strategies and programs to achieve sustainable management.

The Working Council is scheduled to convene at least twice a year to identify any sustainable management issues or related effects, opportunities or risks, and through the council's four sub-councils (Sustainable Finance Council, Ethical Corporate Culture Council, Social Contribution Council, Environmental Management Council) to pursue more detailed strategies and action plans. After the council chair reviews the status of the sustainable management strategies drawn up by the Working Council, reports are submitted to the Sustainable Management Committee, where the committee chair makes the final review and approvals.

DGB Financial Group Sustainable Management Committee



Sustainable Management Achievements

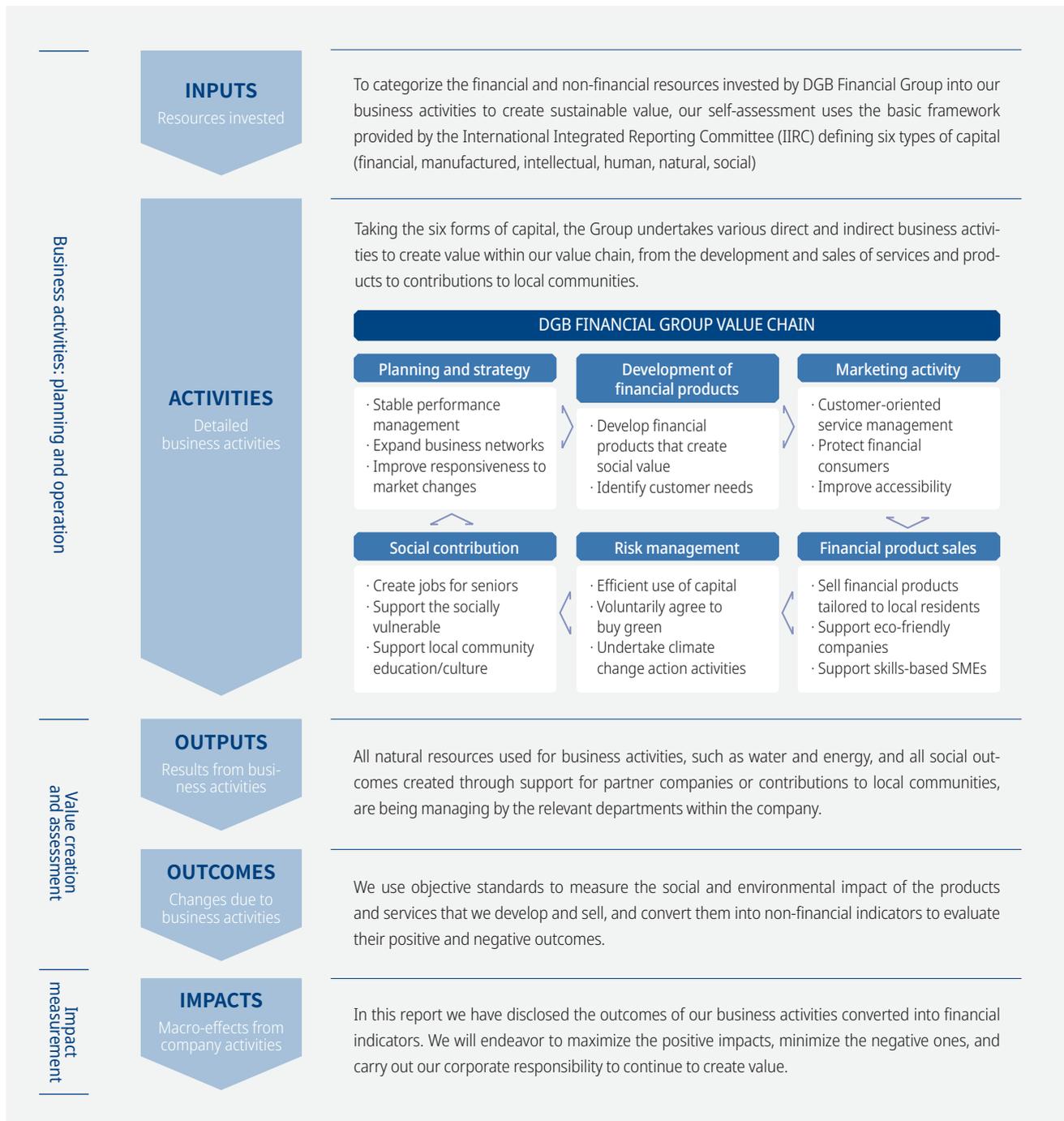
Date	Details	Organization
2018.02.27	Daegu Bank, 2017 award for outstanding finance education for "One Branch, One School" program	Financial Supervisory Service
2018.02.28	2017 Korean Business Ethics Index (KoBEX) - highest 'AAA' rating for 8 consecutive years	Institute for Industrial Policy Studies
2018.09.10	Included in the global social investment index FTSE4Good for 8 consecutive years	FTSE International/EIRIS
2018.10.17	Included in the Dow Jones Sustainability Indices (DJSI) Korea list for 10 consecutive years and the Asia-Pacific list for 9 consecutive years	S&P Dow Jones Indices/RobecoSAM/ Korea Productivity Center
2018.11.22	Awarded the Korean Sustainability Conference's "Korean Reader's Choice Award (KRCA)" for 5 consecutive years	Korean Standards Association
2018.12.13	Daegu Bank, 1st place in SME sector for 2 consecutive years at the 2018 Financial Consumer Protection Sector Merit Awards	Financial Supervisory Service
2019.04.24	Chosen as an "exceptional business" by the 2018 Carbon Disclosure Project (CDP)	CDP Korea

IMPACT VALUATION MANAGEMENT

Sustainability Management Impact Valuation

DGB Financial Group not only considers the economic value we gain through our business activities, we also measure the possible positive and negative external effects we might have on the community and the environment. We continue to comprehensively analyze the actual impact of our business activities. Through self-assessments and examinations that meet domestically and internationally recognized regulations and standards of objectivity, we have measured and calculated the actual impact value, and we are transparently revealing those findings in this report.

Impact Measurement Framework

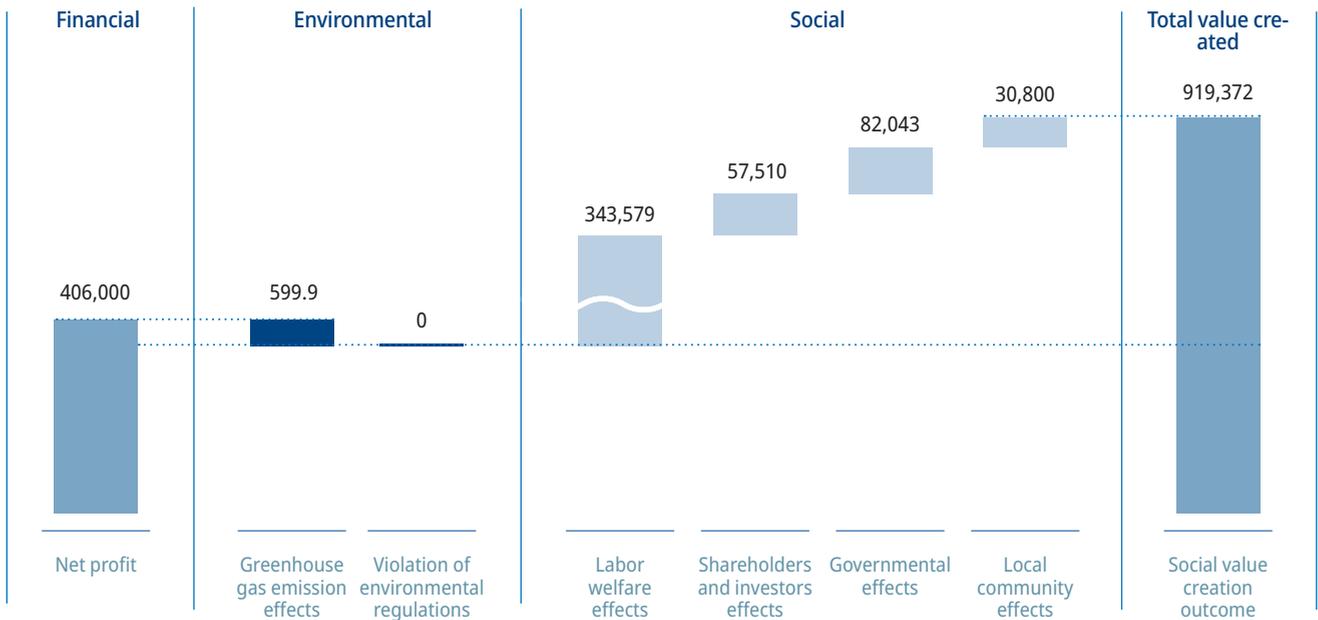


Consolidated Value Assessment

To continue developing sustainable management, DGB Financial Group is analyzing and presenting the quantitative value of related activities. Using formulas based on international standards and legal criteria, we have calculated the positive and negative outcomes of our businesses activities and submitted it with related evidence. In areas where there is not yet a social consensus or outcomes cannot be measured due to technical limitations, we will view it as a long-term assignment and continue to find a way to present the information in objective figures.

Value Created by Resource

(Period: 2018 Jan-Dec, Unit: KRW mil.)



Index and Calculation Methods

	Greenhouse gas emission effects	Other social costs related to greenhouse gas emissions (Volume of greenhouse gas emissions x price of emissions trading permit)
	Violation of environmental regulations	Other social costs related to violation of environmental regulations (Penalties for violation of environmental regulations)
	Labor welfare effects	Effects of improving quality of life for employees (Wage costs - minimum earned income (annual) x number of employees)
	Shareholders and investors effects	Shareholders and investors income increase effect (Cash dividend per share x number of shares issued)
	Governmental effects	Performance of responsibilities as a corporate citizen through fair tax payment (Corporate tax costs)
	Local community effects	Contribution to local communities through social investment (Total social contribution investment*)

*Daegu Bank criteria

STAKEHOLDER ENGAGEMENT

Stakeholder Classification and Communication

Using the framework provided by ISO 26000, DGB Financial Group has categorized our stakeholders into three major groups of core, strategic and other stakeholders. Through annual surveys and communication channels tailored to each stakeholder group, we gather the views of our stakeholders. Relevant departments carry out initial reviews of the collected information, and important issues are raised and reported to the board of directors and senior management. Business action plans are then formed and actively circulated, which we share in a transparent manner.

Stakeholder Survey

DGB Financial Group has been carrying out a stakeholder survey every year since 2006, and based on the issues that stakeholders identify the Group has been pursuing sustainable management. The results of the stakeholder survey are shared in the materiality assessment and sustainable management strategies.



Survey results

Division		Sustainability Management Issues
● Stakeholders		Develop eco-friendly financial products and services
● Employees	516(68.62%)	Create a corporate culture that respects work-life balance
● Customers	126(16.76%)	Strengthen competitiveness in digital finance
● Local Communities	47(6.25%)	Expand anti-corruption activities and responses
● Central/local government and related organizations	44(5.85%)	Increase financial investment and activities to protect the environment
● Other (Stakeholders/business partners, etc.)	19(2.53%)	Achieve stable business performance centered on profitability and integrity Improve efficiency in operational and organizational culture

Communication Channels

Division	Stakeholders	Communication channels (regular)	Issues of interest	DGB's response
Core stakeholders	Employees (incl. labor union)	<ul style="list-style-type: none"> Intranet (Please Help, Please Change/ Employees' Wish Letters) Employee Satisfaction Survey Labor - Management Meeting and Conference Vice-manager Meeting / CEO Meeting 	<ul style="list-style-type: none"> Encourage horizontal corporate culture/communication Working environment/welfare benefits Develop and strengthen capabilities Fair assessment and compensation 	<ul style="list-style-type: none"> Operate DGB Youth Frontier Hold Face-to-face talks with president of the bank Execute "SMART Leisure-Tech" campaign
	Customers	<ul style="list-style-type: none"> Website / 'DGB Chamsori Advisory Panel' Customer Satisfaction Survey Financial Service Customer Protection Education Customer Protection Report, 'Caring Companion' CEO Forums (Daegu, Gumi, Pohang, Gimcheon) Honorary Branch Manager Meeting Superior Small & Medium Business CEO Meeting Business Consulting Service 	<ul style="list-style-type: none"> Quality and safety management of products and services Customer information protection Resolve complaints Strengthen communication with customers 	<ul style="list-style-type: none"> Operate DGB Chamsori Advisory Panel Appoint one CS manager per branch Operate during weekends/holidays
Strategic stakeholders	Stakeholders and investors	<ul style="list-style-type: none"> DGB Financial Group Website (DGB IR) General Shareholders' Meeting Board Meeting IR Activities 	<ul style="list-style-type: none"> Improve profitability/dividend policy Sustainable growth/risk management Secure management transparency (greater disclosure) Practice sound governance 	<ul style="list-style-type: none"> Expand entry into global markets Provide management transparency, assessment results and IR data
	Local communities	<ul style="list-style-type: none"> Website (Online Civil Petition, Financial Accident & Irrationality Report) Business Partners' Meeting 	<ul style="list-style-type: none"> Win-win cooperation/mutual growth Fair trade 	<ul style="list-style-type: none"> Hold DGB Financial Group business partners' win-win meeting Provide management consulting service for business partners
Other stakeholders	Partner Companies	<ul style="list-style-type: none"> Website (DGB Social Contribution to Local Community) DGB Daegu Bank Social Contribution Activity Report DGB Companion Corps/DGB Economic Education Corps / Love Your Hometown Campaign Dream Education Project / DGB University Student Supporters / DGB Wednesday Lecture 	<ul style="list-style-type: none"> Expand social contribution Create jobs and boost investment Continuous communication 	<ul style="list-style-type: none"> Operate DGB Companion Volunteer Corps Operate Bluebird Senior Happy Work program Hold NIE Energy Diary Contest Operate Dream Tree Educational Foundation
	Central/local government and related organizations	<ul style="list-style-type: none"> Website Government-Funded Research Project Hearing & Conference / Interview and Survey 	<ul style="list-style-type: none"> Compliance with laws and regulations Tax payments / policy cooperation Public-private cooperative partnership 	<ul style="list-style-type: none"> Compliance with code of ethics Improper Solicitation and Graft Act education

Stakeholder Interviews

As part of practicing sustainable management, we have conducted interviews to gather the opinions of our stakeholders, including customers, employees, partner companies, NGOs and others. The stakeholders' opinions identified through the interview are used to establish a sustainable management strategy for the DGB Financial Group.

CUSTOMER

As a local customer, I think DGB Financial Group is doing a lot for its customers and the local community. For one thing, a lot of people I know use the rest areas DGB sets up in the summer to escape the heat. They also go to the Wednesday Lectures, the cultural performances and so on, which of course people are very satisfied with. In addition to customer satisfaction, I would like to see DGB do more as a member of the community to be a role model for local business. One of the biggest issues right now is balancing work and family, so I would like to see DGB become known as a family-friendly company by, for example, providing childcare leave for its male employees. I do look forward to their efforts to make sustainable management a bigger part of our community.

- LEE Jung-hyun

EMPLOYEE

Right now, DGB Financial Group is collecting ideas from all across the company about things like work efficiency, benefits and so on, and these ideas are being implemented. The process is not top-down but bottom-up, and I think this will lead to great improvements in terms of employee needs. DGB employees include a high proportion of women. I think it's important to find solutions to the difficulties faced by some of them, like the worry that childbirth and childcare could become competitive disadvantages. In addition to child care facilities and its family-friendly culture, I think things can get even better if we find innovative ways to manage human resources together. The company offers the kind of jobs employees want to do, so I think DGB Financial Group has a happy future.

- Assistant Manager LEE Sang-jun, DGB Financial Group

NGO

The Daegu Council for Sustainable Management is working with DGB Financial Group to build a network to activate corporate social responsibility in the local community. In terms of sustainable management, the most important issue right now globally is climate change. The government is creating a coal-free and nuclear-free policy framework, but many domestic and international financial institutions have a great deal of money invested in coal power. There is a need for a financial group to lead the way by shifting its investments into sustainable businesses. Furthermore, sustainability efforts to benefit employees internally are just as important as efforts directed externally. My hope is that DGB Financial Group, with a work culture that is good for its employees, will stand tall as a leader of sustainable management inside and out.

- Chairman OH Yong-Seok, Daegu Council for Sustainable Management

LOCAL COMMUNITY

The Bluebird Dream Community Children's Center cares for underprivileged local children by providing a safe place for afterschool study and other activities. The DGB Social Contribution Foundation supports the center in a variety of ways, including in its operations and through the efforts of the With-U Volunteer Corps. This enables us to provide a high level of service to the children of our community. I would like to thank the DGB Social Contribution Foundation for their active contributions to an area of public service that is often overlooked. We ask for your continued support for the local community, and we hope that your systematic approach to environmental pollution will contribute to the good of the world as a whole for the next hundred, or even two-hundred years.

- Director LEE Sung-hye, Bluebird Dream Community Children's Center

CSR EXPERT MEETING

We hold discussions aimed at moving toward sustainable management by bringing together experts in economics, society and the environment in the 2019 DGB Financial Group Sustainable Management Expert Meeting. Through the meeting, we gather opinions that help develop our sustainable management activities and reporting. The opinions expressed in the forum are studied and reflected in our sustainable management strategies and operations, and will be reflected in the current year's report where possible.

DGB FINANCIAL GROUP SUSTAINABLE MANAGEMENT SPECIALIST MEETING

Date & Time March 14, 2019 (Thursday) 15:00

Location DGB Seoul Headquarters, 5FL Board Room

01

Kang Joo-Hyun

Global Competitiveness Empowerment Forum, Executive President



Q. DGB Financial Group has engaged in a range of ethical management efforts, which include securing ISO37001 certification. In what direction do you think DGB needs to go in terms of ethical management?

A. First of all, in terms of ethical management I respect the path DGB has taken in publishing its 13th annual sustainable management report and receiving the ISO37001 certification. Going forward to achieve ethical management, and in terms of putting this certification to practical work, I think it is important to continue managing anti-corruption risk. As it relates to the human rights of DGB employees and those of its business partners, I think efforts are needed to make sure their voices are heard in the workplace.

02

Park Ju-won

Sustainable Management Foundation, Head of CSR Management Center



Q. What do you think of DGB Financial Group's reporting and efforts for sustainable management?

A. I think the stakeholders reading your sustainable management reports want to see content about DGB's status quo and future direction. There need to be quantitative sustainable management targets and, at the same time, efforts to track and achieve these. Reports should also contain information on past difficulties and what is being done to prevent them from recurring.

Attendees

Kang Joo-Hyun	Global Competitiveness Empowerment Forum, Executive President	Human Rights / Ethical Management
Park Ju-won	Sustainable Management Foundation, Head of CSR Management Center	ESG Evaluation
Lee Jong-oh	KoSIF, Executive Secretary	Climate Change / Energy
Kwon Dong-Hyeok	Eco & Partners, Group Manager	Green Finance
Lee Eunkyung	UN Global Compact Network Korea, Chief Researcher	CSR / SDGs

03
Lee Jong-oh
 KoSIF, Executive Secretary



Q. We are actively reporting our activities related to climate change, such as our participation in the Carbon Disclosure Project (CDP) and the Task Force on Climate-related Financial Disclosures (TCFD). What are your thoughts on our future direction

A. There are growing calls from society to consider ESG (Environmental, Social and Governance) in business activities. The plans laid in reports, of course, and actual business endeavors need to reflect ESG. Especially when it comes to climate change, it is not merely about responding to evaluations, but also finding ways to analyze climate change-related risk financially.

04
Kwon Dong-Hyeok
 Eco & Partners, Group Manager



Q. How would you propose that DGB Financial Group should move forward with green finance?

A. As a financial group, there is a need not just for one-off reporting on GHG emissions but on the business activities the Group is investing in. Long term, I think responsible, sustainable finance is built on continuous management and analysis of the impact activities like investing and lending have on climate change.

05
Lee Eunkyung
 UN Global Compact Network Korea, Chief Researcher



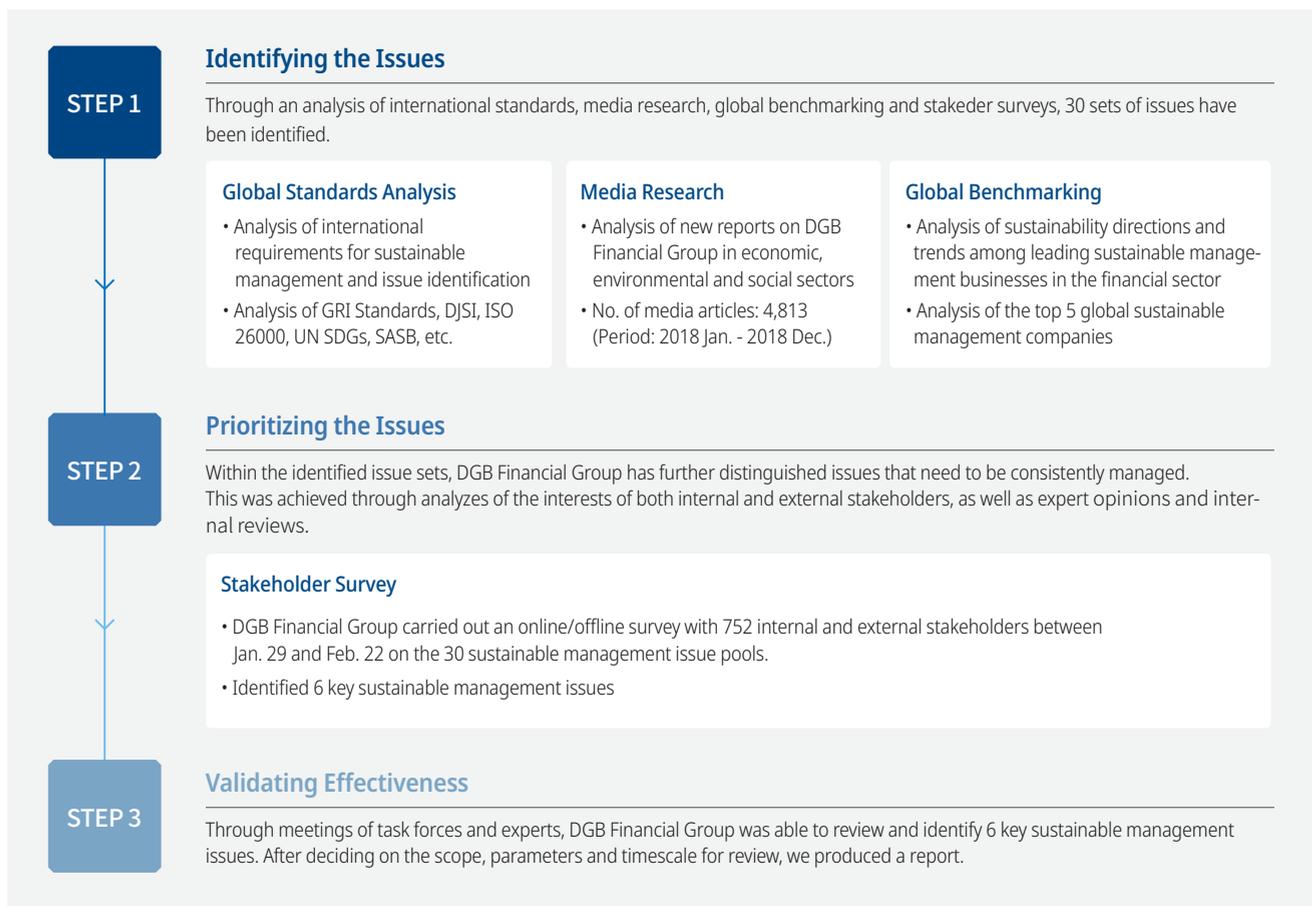
Q. What should DGB pursue in terms of Sustainable Development Goals (SDGs)?

A. As far as SDG activity is concerned, simply put, the social contributions in reports should be managed according to quantitative indicators. I would like to see DGB report data in which targets are set and stakeholders are informed of where you stand now and what changes could come in the future.

MATERIALITY ASSESSMENT

Materiality Analysis Process

DGB Financial Group has conducted a materiality assessment taking into consideration factors recommended by ISO 26000 and GRI Standards, which include sustainability context, materiality, stakeholder participation and completion. To identify the Group's key sustainable management issues, we have carried out a range of research, such as an analysis of international standards, benchmarking of leading companies in sustainable management, media research, and stakeholder surveys. We have also done a complete assessment of our stakeholder interests and business impacts. Our report on that basis has been organized by issue in order of importance, followed by a final review.



Report Topics

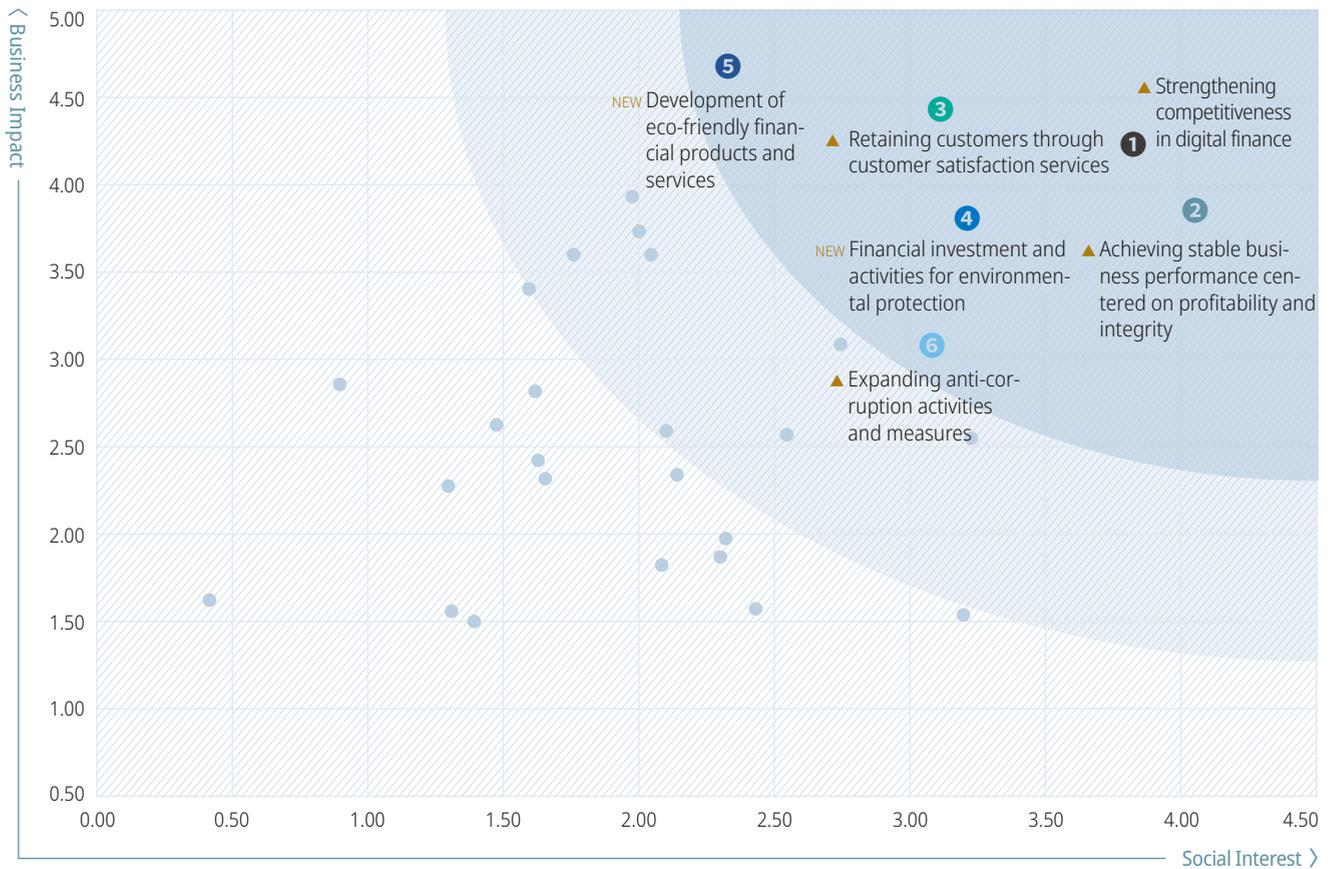
No.	Material Issue ¹⁾	Impact on Stakeholders					
		Customers	Employees	Partners	Shareholders /Investors	Local Community	Government
1	Strengthening competitiveness in digital finance	●					●
2	Achieving stable business performance centered on profitability and integrity	●	●		●		
3	Retaining customers through customer satisfaction services	●	●		●		
4	Financial investment and activities for environmental protection					●	●
5	Development of eco-friendly financial products and services	●				●	●
6	Expand anti-corruption activities and measures		●	●	●	●	●

1) 6 main topics chosen among 30 sustainable management issues

Materiality Assessment Results

After a comprehensive consideration of social interests and business impacts, a total of 6 main issues were chosen. The chosen issues have been addressed in 4 main report topics, and last year's issues have been addressed in a separate chapter. In this way, DGB Financial Group's sustainable management activities and results are shown transparently throughout the report.

Materiality Assessment Matrix



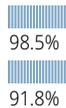
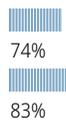
Impact Characteristics ²⁾			Material Topic	GRI Topic ³⁾	Report Location
Cost	Revenue	Risk			
●●	●●●●	●	① Pioneering Future Finance (Strengthening competitiveness in digital finance)	Economic Performance	27-29
●●	●●●●	●	② Pioneering Future Finance (Leap forward as a comprehensive financial group)	Economic Performance	30-31
●●	●●●●	●	③ Finance for happiness of customers	Stakeholder Engagement	32-35
●●●●	●●	●	④ Sustainable and responsible financing	Financial Services Standard	36-39
●●●●	●●	●	⑤ Sustainable and responsible financing	Financial Services Standard	36-39
●	●●	●●●●	⑥ ALL-Bareun DGB	Anti-corruption	40-43

2) Latent business impact of issues, categorized into cost, revenue and risk/ The impact characteristics of the issue are divided into three levels

3) GRI Standards Topic

DGB SDGs COMMITMENT

In September 2015, 193 nations around the world adopted the Sustainable Development Goals (SDG) to eradicate global poverty and develop the world's economy by the year 2030. The SDGs comprise 17 goals, including universal humanitarian issues such as poverty, disease and education, as well as global environmental issues such as climate change, energy and water resources. There are also other economic and social goals. By setting targets in line with the SDGs and implementing them, DGB Financial Group is working to help realize a sustainable society. Therefore, through this implementation report on related targets, we plan to carry forward the Sustainable Management Goals.

SDGs	Description	DGB's CSR Strategy	2020 DGB Implementation Plan	2018 DGB Implementation Performance	Progress	DGB Mid- to Long-term Strategy (2025)
 Quality education	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Strengthen organizational capabilities	Expand education and scholarship support	4,106 mil. KRW	 89%	4,600 mil. KRW
 Gender equality	Achieve gender equality and empower all women and girls	Strengthen organizational capabilities	1. Increase percentage of female staff 2. Increase percentage of female managers	48.3% 24.8%	 98.5% 91.8%	49% 27%
 Affordable and Clean Energy	Ensure access to affordable, reliable, sustainable and modern energy for all	Risk management	Increase use of renewable energy to 0.2TJ	0.13TJ	 32.5%	0.4TJ
 Decent work and economic growth	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Future-Oriented Strategic Management	1. Reduce percentage of non-regular workers to 3.9% 2. Create 25 positions through the DGB Social Contribution Foundation	4.3% 24 positions	 74% 83%	3.2% 29 positions
 Industry, innovation and infrastructure	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	Creating shared value	1. Technology financial support of 1,590bil. KRW 2. Provide management consulting to 102 companies	1,559.2 bil. KRW 99 companies	 92% 91%	1,700 bil. KRW 109 companies
 Reduced inequalities	Reduce inequality within and among countries	Creating shared value	1. Expand finance and economic education to 37,000 people 2. Pre-consultation rate of human rights center to 28.4%	36,227 persons 27.87%	 95% 91%	38,000 persons 30.7%
 Responsible production and consumption	Ensure sustainable consumption and production patterns	Customer satisfaction management	Financial support for the socially vulnerable of 250 bil. KRW	229.7 bil. KRW	 82%	280.0 bil. KRW
 Climate action	Take urgent action to combat climate change and its impacts	Risk management	Reduce carbon emissions by 8.83% (compared to 2015)	Carbon emissions reduced by 2.13% (compared to 2015)	 14%	Carbon emissions reduced by 15% (compared to 2018)
 Life on land	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	Risk management	Carry out 120 environmental conservation projects	115 projects carried out	 85%	135 projects carried out

DGB SDGs Story



GOAL 4: Quality Education
-Scholarship programs

Education is the main factor in self-development and in building a career. It not only changes lives, but encourages social equality and economic growth, which are key driving factors behind regional and social development. Therefore, as one of our main social contribution projects, DGB Financial Group has been running an education scholarship program since 2003. Moreover, in order to operate existing social contribution projects in a more organized and systematic manner, and to provide more substantive help to the local community, since 2011 the Group has been running a social welfare foundation called the DGB Social Contribution Foundation, the first of its kind in the finance sector.



GOAL 10: Reduced Inequalities
- Finance and economic education programs

DGB Financial Group is running a variety of finance and economic education programs to help consumers live healthy financial lives. To support the fostering of financially capable individuals, education programs have been provided to students from elementary to higher education, the future generation of local communities. We provide finance and economic education programs to the financially vulnerable, such as the disabled, multicultural families and the elderly. Through these activities, the Group has helped prevent financial isolation in the community and contributed to the reduction of inequality.



GOAL 12: Responsible Consumption and Production
- Green Finance Prime Fund

DGB Financial Group has been looking for ways to resolve regional environmental issues and to boost the local economy. In July 2016, a green financial agreement was signed with the Ministry of Environment and the Korea Environmental Industry and Technology Institute to create the Green Finance Prime Fund, which offers lending rates of 1.0% to 2.0% to regional SMEs with the best environmental management practices. This fund was applied to businesses in the Daegu Dyeing Industrial Cluster. Furthermore, firms that have reduced pollution emissions, established environmental accident prevention systems, etc. have been recognized for excellence in environmental management. In this way, local businesses have begun actively participating in environmental management. As a financial institution concerned with sustainable consumption and production, DGB Financial Group is continuously promoting investment activities that consider the environment.

GOVERNANCE STRUCTURE

DGB Financial Group cultivates sound governance by practicing transparent management and working towards rational decision-making. To this end, the Group has increased the number of our independent directors from 5 to 7 to strengthen their supervisory function. They consist of experts from a variety of fields, such as financial regulation, the public sector, other areas of the financial sector and IT companies.

Composition of Board of Directors

The board of directors is DGB Financial Group's highest decision-making body, and is made up of 1 executive director and 7 independent directors. In order to ensure the smooth operation of the board and the fulfillment of our legal and regulatory responsibilities, the chairman of the board has been appointed from among the independent directors every year since 2016. Also, 87.5% of the Board comprises independent directors.

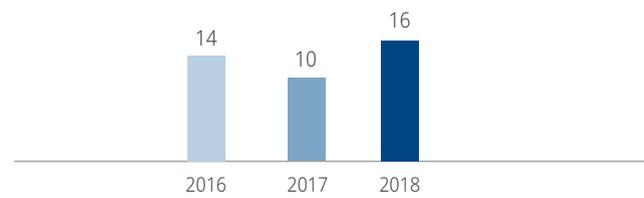
*As of March 28, 2019

Division	Name	Tenure	Background
Executive Director	Kim, Tae-Oh	2018.05.31- 2021 (regular shareholders' meeting)	· CEO, DGB Financial Group · Fmr. Vice President, Hana Financial Group
	Suh, In-deok (Chairman)	2018.03.23- 2020.03.23	· Public Interest Member, Gyeongbuk National Labour Relations Commission · Honorary Professor, Yeungnam University · Fmr. Dean, College of Commerce and Graduate School of Business at Yeungnam University
	Lee, Yong-doo	2019.3.28- 2021. 3.28	· Honorary Professor, Daegu University · Fmr. President, Daegu University
	Cho, Sun-ho	2019.3.28- 2021. 3.28	· Auditor, Shinhung Co. Ltd. · Fmr. Statutory Auditor and Advisory Committee Member, Hana Bank · Fmr. Secretary-General of Credit Counseling and Recovery Service, Financial Supervisory Service
Independent Director	Lee, Dam	2018.03.23- 2020.03.23	· Representative Lawyer, A&K Partners · Fmr. Judge, Daegu District Court · Fmr. President, Daegu Bar Association
	Lee, Sang-yeop	2019.3.28- 2021. 3.28	· Fmr. Director of Human Resources, CBRE Korea · Fmr. Director of Human Resources (Vice President), Hewlett-Packard Korea
	Kim, Taek-dong	2019.3.28- 2021. 3.28	· CEO, Lake Investment Advisors · Fmr. Review Member of KOSDAQ Listings Committee, Korea Exchange · Fmr. Review Member of Investment Funds, Korea Venture Investment Corporation
	Lee, Jin-bok	2019.3.28- 2021. 3.28	· Vice President, Korean Accounting Association · Chairman, Daegu Regional Institute of Certified Public Accountants · Fmr. Professional Standards Committee Member, National Court Administration

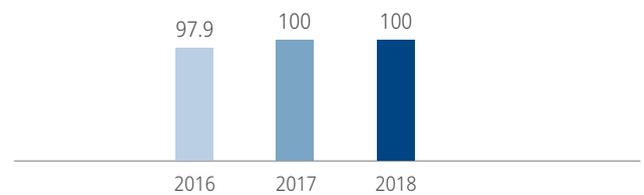
Diversity and Expertise of the Board of Directors

To ensure the expertise and independence of our board members, DGB Financial Group runs the Group Executive Candidate Recommendation Committee, which is made up of 4 independent directors. The Group also runs a Preliminary Non-executive Director Recommendation System, giving voting rights at the shareholders' general meeting to shareholders who have held at least one share. Moreover, to ensure the expertise and diversity of the board, the members have been chosen from a number of fields, such as finance, accounting/financial, legal, IT/digital, HR/risk, etc., so as not to be too heavily concentrated in one specialist background or profession. When a independent director is chosen, the Group Executive Candidate Recommendation Committee conducts a review that takes into account the Act on Corporate Governance of Financial Companies, commercial law, and regulations concerning articles of association. The candidate is then appointed based on their business experience or professional expertise in their field, without discrimination in regard to gender, ethnicity, nationality or cultural background.

Number of Board meetings held (Times)



Board Meeting Attendance (%)



Operation of Board Meetings and Internal Committees

Board meetings are divided into regular and non-regular meetings, and majority attendance and majority approval of the attending directors are needed to pass board resolutions. Below the board level, there are also seven committees, which are being operated independently and transparently.

Board Operations & Appointment of Independent Directors

- Remuneration Committee
- Risk Management Committee
- Audit Committee
- Group Executive Candidate Recommendation Committee
- CEO Candidate Recommendation Committee
- Independent Director Candidate Recommendation Committee
- Audit Committee Member Candidate Recommendation Committee



Internal Committees

Committee Name	Composition	Primary Roles
Remuneration Committee	Chair: Lee Dam Members: Suh In-deok, Lee Jin-bok	Decisions related to compensation changes, employee pay, etc.
Risk Management Committee	Chair: Kim Taek-dong Members: Suh In-deok, Lee Yong-doo, Lee Sang-yeop, Kim Tae-oh	Establish base risk management policy and strategy to maintain Group's management soundness and stability
Audit Committee	Chair: Cho Sun-ho Members: Lee Dam, Lee Jin-bok	Carry out audits of company and affiliates' business and assets, and subsequent review and resolution
Group Executive Candidate Recommendation Committee	Chair: Suh In-deok Members: Lee Yong-doo, Lee Sang-yeop, Kim Tae-oh	Tasks related to affiliate CEO candidate recommendations
CEO Candidate Recommendation Committee	Chair: Suh In-deok Members: Lee Yong-doo, Cho Sun-ho, Lee Dam, Lee Sang-yeop, Kim Taek-dong, Lee Jin-bok	Tasks related to CEO candidate recommendations
Independent Director Candidate Recommendation Committee	Chair: Suh In-deok Members: Cho Sun-ho, Lee Dam, Lee Sang-yeop	Tasks related to independent directors candidate recommendations
Audit Committee Member Recommendation Committee	Chair: Lee Yong-doo Members: Suh In-deok, Cho Sun-ho, Lee Dam, Lee Sang-yeop, Kim Taek-dong, Lee Jin-bok	Tasks related to audit committee member recommendations

Decisions related to remuneration changes, employee pay, etc.

Remuneration to directors is made in the form of a basic salary and performance-based bonuses (short-term incentives, long-term incentives coupled with cash compensation). Short-term incentives are decided by the Board of Directors based on management performance evaluations and remuneration guidelines, while long-term incentives are paid in a fixed amount based on long-term performance evaluations and directors' service terms.

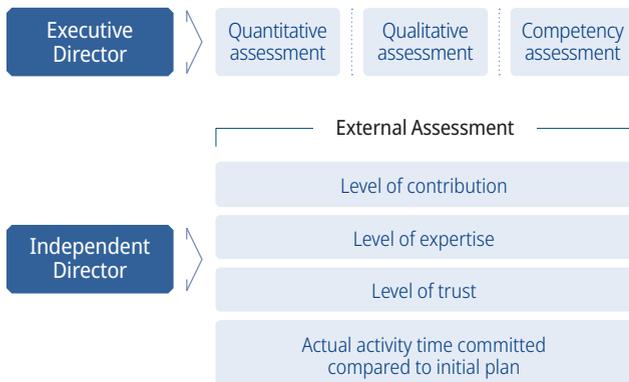
40% of long-term incentives will be paid in cash, while the rest will be converted into shares to be paid after 3 years according to the price of the shares. In addition, we have implemented policies that allow reclamation of bonuses in case of personal business negligence or deterioration in management performance, which strengthens transparency in remuneration. Executive directors who hold additional positions (President) are first paid

by their original company and then compensated according to the proportion of duties performed. In 2018, the highest salary remuneration was 5.4 times of the total employee average.

Shareholder Composition

As of December 31, 2018, DGB Financial Group had issued 169,145,833 shares. The largest shareholder is Samsung Life Insurance with 6.95% of total shares. The largest foreign shareholder is the Oakmark International Small Cap Fund with 2.48% of total shares

Board of Directors Evaluation and Criteria



Share

Division	2016	2017	2018
Foreign shareholders (%)	59.86	60.8	65.01
Largest shareholders in Overseas (%)	4.52 The Oakmark International Small Cap Fund	4.83 The Oakmark International Small Cap Fund	2.48 The Oakmark International Small Cap Fund
Domestic shareholders (%)	40.14	39.2	34.99
Largest shareholders in Domestic (%)	8.87 National Pension Service	6.95 Samsung Life Insurance	6.95 Samsung Life Insurance

RISK MANAGEMENT

DGB Financial Group is take systematic risk management to minimize damages by preemptively managing a wide range of environmental, financial and non-financial risks, including the economy, climate change and social issues.

Categories and Definitions of Risk

We distinguish between primary risk (capital adequacy, credit, market, operations, credit concentration) and general risk (liquidity, strategic, reputational, etc.).

Primary Risk	Credit Risk	The risk that a counterparty to a transaction fails to meet its contractual obligations, including residual risk, liquidity risk and credit risk originating in other countries
	Market Risk	Disadvantageous changes in market prices, e.g. to interest rates, shares and exchange rates
	Operation Risk	The risk of loss caused by internal processes, employees and systems or outside events, including legal risk
	Credit Concentration Risk	The possibility of losses that could undermine a firm's soundness due to overexposure to one or too few counterparties, sectors or other categories; risk stemming from factors shared with a borrower (business, collateral, region, etc.) that raise the borrower's overall risk of default
	Interest Rate Risk	Risk of a fall in asset value or net interest margin caused by an unfavorable discrepancy between maturity and market rates
	Insurance Risk	Risk stemming from a rise in damage claims; insurance price risk from claims exceeding insurance premiums, or reinsurance risk arising from disadvantageous reinsurance premium calculations or reinsurer insolvency, etc.
General Risk	Liquidity Risk	Funding Liquidity Risk due to an inability to repay present or future liabilities, or Market Liquidity Risk, i.e. risk of loss occurring in the process of liquidating assets because of insufficient transactions or market collapse, etc.
	Strategic Risk	Risk of loss from unsound management decision-making or failure to respond to market changes.
	Reputational Risk	Risk of losses due to negative public sentiment caused by social criticism, financial mistakes and/or misdeeds or poor management
	Other Risk	The possibility of losses occurring due to residual or transaction risk

Emerging Risk

Risk potentially affecting DGB Financial Group in the long term is categorized as emerging risk, which we are actively working to manage. The main emerging risks are digital risk, and information-sharing based on TCFD recommendations.

Category	Risk Explanation	Impact on Business	Risk Mitigation Methods
Digital Risk	The digitalization of finance and the use of sophisticated IT presents a high level of complex risks to financial companies	<ul style="list-style-type: none"> - Non-face to face channels: Elevated risk from Know-Your-Customer (KYC) and Anti-Money Laundering (AML) measures - Open API: Difficulty in information management and financial incident prevention - Products/services: Increased possibility of unsafe or unlawful sales, intended or otherwise 	<ul style="list-style-type: none"> - Supplementary risk governance: Enhance internal notification system and decision-making/reporting system - Product/service safety: Invest in technology and assign trained personnel
Information-disclosure requirement based on TCFD recommendations	TCFD recommendations require to disclose financial information related to climate change and to set strategies	<ul style="list-style-type: none"> - Stronger calls to implement the recommendations of foreign investors and regulators 	<ul style="list-style-type: none"> - Set strategies to respond to climate change and establish risk management processes - Establish and systematically manage climate change indicators

Risk Management System and Organization

As part of efforts to achieve sustainable growth, DGB Financial Group pursues a balance of risk and profitability, part of which means keeping risk at a tolerable level. To do this, we operate the Risk Management Committee, the Group's highest level entity tasked with supervising risk management in all areas, including risk perception, evaluation and management. The Risk Management Committee meets every quarter to decide on risk management measures and strategies. It also sets risk guidelines and limits, and carries out regular checks on the overall risk situation. To improve work efficiency, the Risk Management Committee operates the Risk Management Council. The Council handles the details of risk within the Group by measuring and managing risk to inform the Group's strategic decision-making.

Major Activities of the Risk Management Committee in 2018

Division	Date	Contents
1st	2018.2.8	Categorize asset quality and revise rules on appropriations for bad assets
2nd	2018.2.13	Revise goals for fundraising through contingent convertible capital bonds (draft)
3rd	2018.3.23	Appoint Risk Management Committee Chairman
4th	2018.05.03	Assessment of the Group's integrated crisis situation for December 2018
5th	2018.08.09	Partial revision of risk management regulations
6th	2018.11.12	Set risk limits for new affiliates Assessment of the Group's integrated crisis situation for the 2nd half of 2018
7th	2018.12.19	Approve basic plan for Group's risk management in 2019

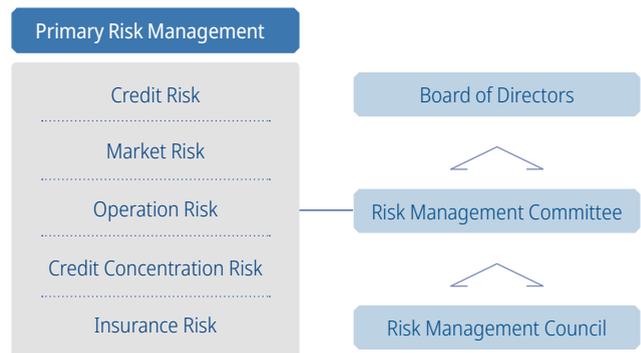
Risk Management Council

DGB Financial Group operates an integrated risk management system to enable effective management of risk by our affiliates and comprehensive risk management on the group level. Through the system, we have integrated the data of our affiliates, which facilitates the analysis of risk from a range of perspectives. At the same time, we have approved accessibility for risk-related employees, thereby supporting our affiliates' efforts to manage and monitor risk across the board.

Credit Risk Management System Development

DGB Daegu Bank spent 9 months, through May 2019, developing a credit risk management system. The goal was to enhance credit risk management in terms of business/retail credit evaluations, gauging risk factors, improving calculations for credit risk-weighted assets, retail lending limits, etc. Daegu Bank has used a credit risk management system since 2013. The development of this new credit risk management system will reflect recent portfolio and regulatory changes, improving overall systematization.

Risk Management Process



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.

Identification Confirmation Procedure	For newly joining customers or customers that requires identification confirmation, DGC 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.

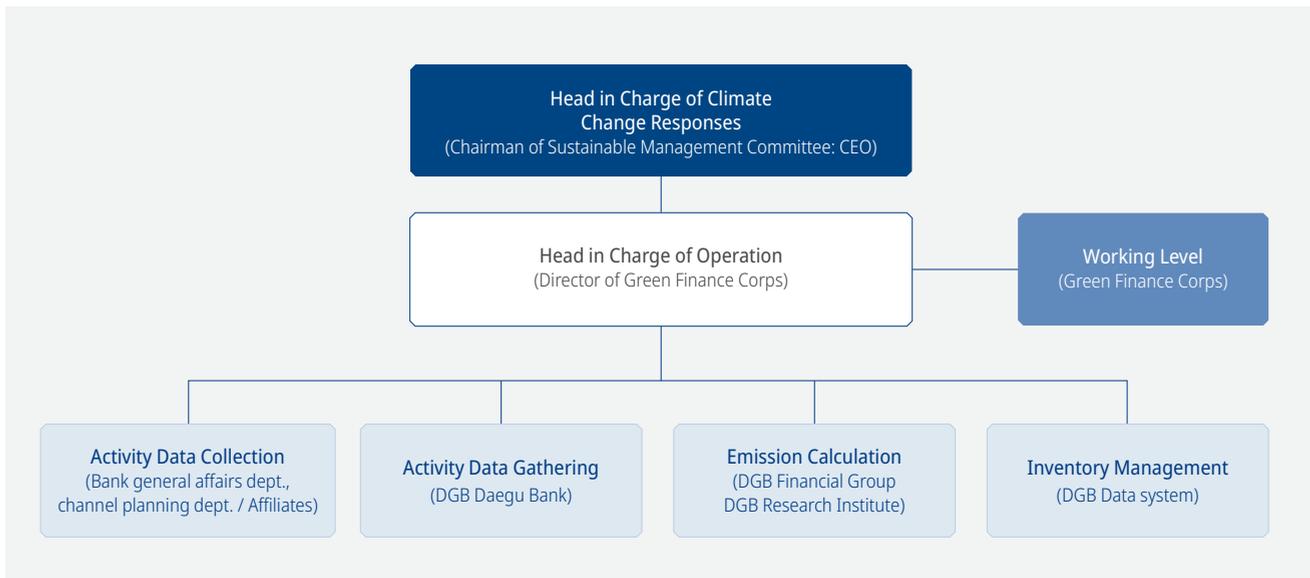
GREEN MANAGEMENT

To tackle the increasingly serious issue of climate change caused by global warming, there is a need for current and future generations to improve environmental awareness and change their actions. DGB Financial Group has established corporate management strategies that take into account the risks and opportunities that arise from institutional and physical effects of environmental change. Furthermore, the Group is putting into practice a range of initiatives to minimize the environmental effects of business activities.

Greenhouse Gas Management and Reporting

To systematically track our greenhouse gas emissions, DGB Financial Group has created a greenhouse gas inventory system. The objectivity and reliability of our energy reduction and emissions reports are secured through the third party verification every year.

Greenhouse Gas Inventory Control System



Environmental Management System

DGB Financial Group considers green management first in all of our management processes. In 2011, DGB Daegu Bank obtained certification for our environmental management system (ISO14001), and was the first financial institution to be certified for our green management system (GMS: KS I 7001 /7002). Since then, we have upheld the international standards of environmental management systems through regular follow-up reviews and re-certification reviews. In March 2018, a review of the bank's environmental management system and green management system found that there were no areas of non-conformity, but 24 recommendations were given in areas such as environmental performance, development activities, effects review and strengthening prevention.

Green Management Activities and Performance

The Green Touch Program is software that minimizes CO₂ emissions by reducing the power consumption of computers when they are not in use. It is installed on 7,059 computers at our head office and branches. DGB

Daegu Bank has been operating solar energy equipment at the Banyawol and Gyeongju branches since 2008, and the second head office has been running a combined solar and geothermal energy system since 2016. In addition, for business purchases, we have encouraged the buying of eco-friendly products. Green-buying has been expanded according to the Green Purchasing Guidelines, and we are raising the rate of staff participation in green-buying training.

Building a Paperless Office Environment

DGB Financial Group is making efforts to reduce paper usage, such as replacing our customers' paper bills with e-mails. Also, to prepare for the digitization of the fast-changing financial industry, DGB Daegu Bank is in the process of establishing a paperless office culture. From early 2019, it will be applied to all branches in a phased manner. Paper documents, such as application forms filled in by customers at teller windows, will become electronic documents as part of a digital teller system. A tablet-branch system has also been established where bank employees visit customers in per-

son to provide one-on-one consultations on financial products using tablets equipped to carry out financial transactions. Through this, DGB Daegu Bank is improving customer convenience as well as reducing the environmental impact of business activities.

A Culture of Environmental Awareness

To pass on a sustainable environment to future generations, DGB Financial Group understands that there is a need to boost awareness of climate change and environmental issues, and to change behaviors. We therefore provide a range education programs to foster a culture of environmental awareness.

The 9th DGB Student Green Press Corps

DGB Financial Group is sharing the Group's green management activities with local communities. To raise local awareness of climate change and environmental issues, the DGB Student Green Press Corps has been in operation since 2010, made up of university students from the Daegu and Gyeongbuk regions. The DGB Student Green Press Corps has been consistently reporting on eco-friendly activities and local environment-related events, and they have also provided education programs for young people to promote a culture of environmental awareness. In 2018, the 9th DGB Student Green Press Corps provided environmental education programs for elementary, middle and high school students at four local schools.



The NIE Energy Journal Contest

To help young people incorporate eco-friendly practices into their everyday lives, every year DGB Financial Group presents the nationwide NIE (Newspaper in Education) Energy Journal Contest for elementary, middle and high school students.

The NIE Energy Journal Contest has students gather newspaper clippings on environmental stories and write their thoughts and opinions in a journal format. It has been running since 2009 and is now in its 10th year. Some 2,500 students have taken part, and competition among the entries is strong.

Environmental Education for Employees

DGB Financial Group is expanding employee education on green management and green finance. The Group is providing various training courses in areas such as the greenhouse gas inventory system and our internal audits of the green management system.

Annual Training Hours on Green (Hour)



Environmental Conservation in Local Communities

DGB Financial Group has launched a variety of engagement activities for environmental conservation in local communities. In 2018, a total of 3,795 employees took part in various environmental conservation activities, such as tree-planting and side-street gardening in spring, eradicating alien species that damage the ecosystem, and refurbishing the popular Sincheon river. Moreover, a group composed of employees and local residents make an annual visit to Dokdo Island to help restore the ecosystem of one of the world's rarest plant species, the Ulleungdo turk's cap lily. In addition, the Group has worked to prevent desertification in the Mongomorit area of Mongolia by planting and managing forests since 2009. More than 60,000 pine, larch and beech trees have been planted each year since 2012, and more than 5,000 seaberry trees have been planted to help provide income for local residents. In 2014, we published the white paper "DGB Forest Creation for Desertification Prevention." In addition to follow-up management for the region, we have carried out a range of initiatives such as providing scholarships to local students, donating winter clothes, and providing wells for drinking water.

WIN-WIN PARTNERSHIPS

Through win-win management with our partners, DGB Financial Group is helping to develop the local economy. Through an annual satisfaction survey and suggestions collected at partner meetings, we are building relationships. In addition, the Group is working to grow with our partners through training programs to strengthen partner capabilities and improve sustainable management.

Meetings with Business Partners

DGB Financial Group holds regular business partner meetings every year to listen to proposals and suggestions from our partners.

Number of Meeting with Business Partners

Division	2016	2017	2018
Suggestions by business partners	1 / To apply consistent standards when it comes to selecting partners and calculating costs	1 / Strengthening communication by providing platforms for mutual information exchanges such as round-table meetings	1 / Sustainability management training for partners
Proposals by DGB Financial Group	1 / Continue efforts towards partner win-win management	1 / Efforts to provide a wide range of information that will help partner management	1 / Efforts to organize meetings to actually helpful for partners
Actions taken	Execution of one suggestion	Execution of one suggestion	Execution of one suggestion



Partners Satisfaction Survey

Based on the results of the annual partner satisfaction survey, DGB Financial Group strives to improve relations with our business partners. Dividing the satisfaction levels of the partners by category, in 2018 a score of 98 points was given for "general matters," 98 points for "contract criteria and procedures," 95 points for "rewards system," and 100 points for "determination for win-win growth."

Business Partner Satisfaction by Category (Point)

Division	2016	2017	2018
General matters	95	98	98
Contract criteria and procedures	100	95	98
Rewards system	98	95	95
Determination for win-win growth	98	100	100

Principles of DGB Financial Group's Win-Win Partner Management



- 01 Stronger win-win partnerships
- 02 Transparent transactions
- 03 Fair price compensation
- 04 Zero Unfair Practice in Trade
- 05 Stronger Eco-friendly Activities

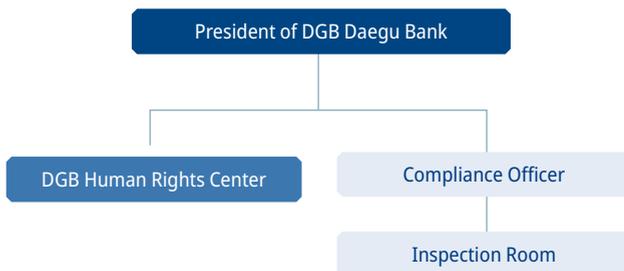
HUMAN RIGHTS MANAGEMENT

DGB Financial Group supports global human rights protection standards, such as the United Nations Universal Declaration of Human Rights, and the convention banning child labor established by the International Labour Organization (ILO). We also signed up to the UN Global Compact and declared that we would faithfully implement social responsibilities related to human rights and labor. Moreover, to take more practical steps, we established the DGB Human Rights Center, the first human rights center among general companies, and have been carrying out activities to protect the rights of our workers.

DGB Human Rights Center

DGB Financial Group deeply regrets a human rights violation that occurred in 2017 at a DGB Financial Group affiliate, DGB Daegu Bank. Wrongful practices have been abolished, and to prevent a recurrence of such an incident, the DGB Human Rights Center was established under the direct responsibility of the bank President. The DGB Human Rights Center is the first of its kind to be established by a general company as opposed to a national institution, and has been working in practical ways to protect the rights of the Group's employees.

Human Rights Center Organizational Chart



Main Activities of Human Rights Center



Traveling Counselor System

The DGB Human Rights Center operates a “traveling counselor” system under which the director of the Human Rights Center personally visits office branches around the country to provide counseling for any employees facing difficulties. This makes the reporting of violations more accessible, and through one-on-one, face-to-face discussions, it protects the anonymity of the informants. The DGB Human Rights Center is analyzing the outcomes of these consultations and incorporating them into action plans to protect human rights.

Traveling Counselor System (Education courses)

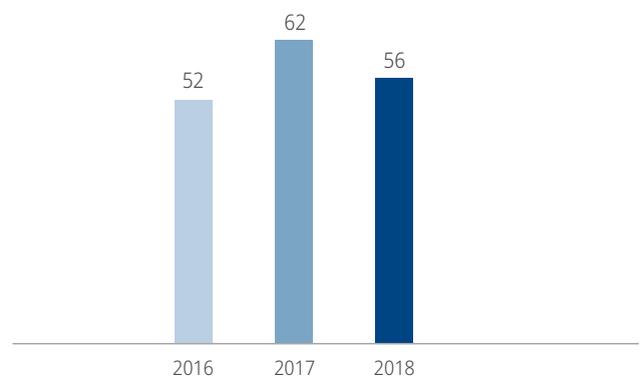
Period	2017*	2018
No. of Branches	23	83
Staff reached(Person)	196	821

*Aug. to Dec.

Strengthening Expertise of Human Rights Managers

DGB Financial Group is working to strengthen human rights expertise within the company in order to better systematize counseling and human rights-related tasks. Our Human Rights Managers have earned teaching licenses on sexual harassment prevention, and have strengthened their capabilities through training courses with specialist organizations such as the Korea Management Association. The Group plans to continue sending managers to specialist training courses and to expand such training to other directors and administrators as part of our continuing efforts to strengthen human rights management within the company.

Annual human rights training (Hour)



LABOR-MANAGEMENT RELATIONS

DGB Financial Group is pursuing mutual growth based on sound relations between management and labor. We will use a range of communication channels to listen to the voices of our members, and through firm ties of trust, continue to maintain win-win labor management relations.

Strengthening Labor-Management Communications

DGB Financial Group is building cooperative labor-management relations on the basis of harmonious communication. DGB Daegu Bank holds regular labor-management meetings, prior to which any important business-related changes are shared with our labor union so that our members can examine and understand the issues. At the same time, the bank holds quarterly briefings on the state of our business in which we explain the company's current status and main direction and invites feedback.



Social Contributions of Union Members

Employees of DGB Daegu Bank have been participating in voluntary sharing activities since 2006. In 2013, they instituted a program for union members to share 1% of their pay, which is used to help our neighbors in need through projects like the Green Umbrella Child Fund.

In 2018, these activities were expanded to provide KRW 50 million worth of air purifiers for disabled people and to fund excursions for them. The union also provided KRW 30 million in donations to help 5 fellow employees who had suffered accidents, illnesses or other misfortunes. DGB employees look forward to their generosity sparking a sharing movement in the local community, and will strive to grow this movement in 2019.

Social Contribution Expenses from DGB Daegu Bank Labor Union (KRW mil.)

Division	2016	2017	2018
- Sponsoring children from low-income families			
- Heating costs for low-income households	223	235	250
- Developing human resources in local communities			



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INFORMATION SECURITY

The expansion of digital, non-face to face services is raising concerns about information security. DGB Financial Group recognizes that information security is an important factor in securing the trust of its customers. Therefore, all affiliates are engaged in continuous efforts to keep information secure.

Information Security Governance

DGB Financial Group is taking information security management of all our affiliates to prevent the risk of information security throughout the group. A working consultative group establishes cooperative systems to share information security-related issues and discuss solutions. It also manages internal and external information-related risk factors and devises response strategies. In this way, we are building a solid information security culture.

We are doing our utmost to make our security stronger. Our data resources and information undergo regular security inspections by the DGB Innovation Center, which was established in 2018 to ensure the highest security standards. We monitor and manage compliance with regulations in the sharing and use of customer information by our affiliates. These efforts include analyses and evaluations carried out every year to identify weaknesses related to our homepages and electronic financial infrastructure.

DGB Daegu Bank's Information Security Systems and Strategy

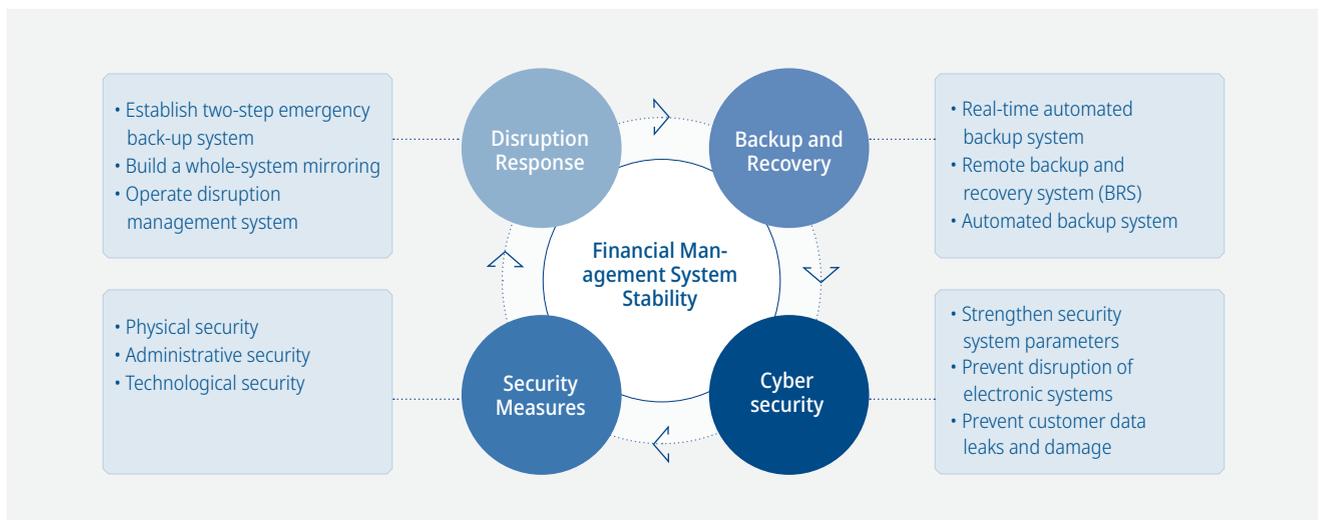
DGB Daegu Bank has clearly defined roles and responsibilities when it comes to information security. By improving systems for preventing thefts and leaks of customer data and internal data, we are able to provide our customers with services that are secure. We respond quickly to changes in the finance industry brought about by digital finance, and we strive ceaselessly to strengthen security while also supporting financial innovation.

In terms of information security, we are not simply protecting information from electronic theft and misuse; we have built an organization that serves as a control tower for the comprehensive protection of credit information and customer data, thereby strengthening our information protection systems. Through these efforts, we are expanding our work-related expertise, objectivity and independence. We have assigned an executive responsible for the protection of information and personal data. All branch managers have been designated managers of personal information protection, and one level-4 responsible manager has been put in charge of personal data protection. All departments at headquarters and all branches are fully engaged in protecting information.

Information Security Efforts

We are taking a wide range of approaches to the security of our customers' information. Internally, we systematically check to ensure that our employees are abiding by laws and internal rules related to personal information. We have also improved training in many ways, and we have minimized interactions with customer data so that it is accessed only when necessary. The use of portable storage devices is restricted, and there is an approval process when sending e-mails to external recipients. Printed materials containing personal data are redacted, and there is an inspection process for faxes as well. There are systems in place restricting access to databases and our networks, and our internal office network is separated from the Internet, which prevents hacking and information leaks. Regular checks of these systems are also performed to find weaknesses.

Data Security System Management and Operation



DGB FINANCIAL GROUP

MANAGEMENT'S DISCUSSION & ANALYSIS

DIAGNOSIS AND ANALYSIS OF FINANCIAL MANAGEMENT PERFORMANCE	79
DIAGNOSIS AND ANALYSIS OF NON-FINANCIAL MANAGEMENT PERFORMANCE	84
HI INVESTMENT & SECURITIES NON-FINANCIAL MANAGEMENT PERFORMANCE	92

* DGB Financial Group acquired Hi Investment & Securities at the end of October 2018. Hi Investment & Securities reported a separate non-financial management performance due to the short reporting period.

DIAGNOSIS AND ANALYSIS OF FINANCIAL MANAGEMENT PERFORMANCE

DGB Financial Group

DGB Financial Group was established on May 17, 2011, in Suseong-gu, Daegu city, as a financial holding company, with capital of KRW 670.3 billion transferred through stocks in Daegu Bank, Kardnet Corporation, and DGB Credit Information Corporation. DGB Financial Group was listed on the Korea Exchange on June 7, 2011. Since then, the Group has incorporated subsidiaries including DGB Capital in January 2012, DGB Data System in April 2012. Kardnet later withdrew as a subsidiary, at which point DGB U-Pay was incorporated in March 2013. DGB Life Insurance was incorporated in January 2015, followed in October 2016 by the acquisition of DGB Asset Management and Hi Investment & Securities in October 2018. These latter acquisitions helped strengthen the Group's non-banking business and diversify revenue sources. By December 2018, DGB Financial Group had grown into a comprehensive financial group with eight subsidiaries. We are achieving quantitative growth, but also qualitative growth under the philosophy of "Sharing Dreams and Prosperity with the Local Community," and the vision of "Best Partner for the Future."

As of the end of 2018, the total assets of DGB Financial Group recorded KRW 64.9176 trillion, an increase of 14.4% from the previous year due to the acquisition of Hi Investment & Securities. The Group recorded a net income of KRW 383.5 billion backed by Negative Goodwill following the acquisition of Hi Investment & Securities. This is despite the harsh financial environment contributed to by the downturn of the local economy, the intensified competition in the financial market due to the emergence of internet banking, and the trade war between the U.S. and China.

(Unit: KRW bil.)

	Group Total	DGB Financial Group	DGB Daegu Bank	Hi Investment & Securities	DGB Life Insurance	DGB Capital	DGB Asset Management	DGB U-Pay	DGB Data System	DGB Credit Information	Consolidation adjustments
Gross Operating Income(A)	1,340.6	114.2	1,141.4	57.8	58.5	80.2	14.7	4.0	1.6	1.1	-132.9
Interest Income	1,382.6	-7.7	1,162.9	16.7	155.7	81.1	0.4	0.1	0.1	0.1	-26.8
Non-interest Income	-42.0	121.9	-21.5	41.1	-97.2	-0.9	14.3	3.9	1.5	1.0	-106.1
Administrative Expenses(B)	817.0	15.6	659.5	38.7	64.5	27.6	6.5	3.8	1.0	0.8	-1.0
Provisions(C)	187.0	-0.2	160.3	5.0	-0.7	22.7	-	-	-	-	-0.1
Operating Income (A-B-C)	336.6	98.8	321.6	14.1	-5.3	29.9	8.2	0.2	0.6	0.3	-131.8
Non-operating Income	151.4	0.2	-12.8	0.5	0.4	-0.7	-	-	-	-	163.8
Total Net Income	406.0	99.1	234.8	11.3	0	22.4	6.4	0.2	0.4	0.2	31.2
Non-controlling interests	22.5										
Controlling net interests	383.5										

※ The above financial information was prepared in accordance with the consolidated financial statements classification of the holding company.
(*As of October 2018, Hi Investment & Securities was incorporated as a subsidiary of the Group.
Only the net income of November and December of 2018 were included in the group performance.)

The ROA and ROE of DGB Financial Group in 2018 were 0.64% and 9.27% respectively, up slightly from the previous year, but asset quality indicators were slightly down from the previous year. NPL Ratio was 1.05%, an improvement of 0.19%p from the previous year. The delinquency rate was 0.73%, an increase of 0.11% due to a rise in bad debts caused by a slowing local economy. In addition, BIS owner's capital, an indicator of capital quality, also largely increased as risk-weighted assets rose dramatically following the growth of total assets and the acquisition of Hi Investment & Securities. However, BIS owner's capital rose 0.23%p from the previous year to 12.82% owing to the issue of hybrid bonds and satisfactory performance. Dividend Payout in 2018 was 15.88%, down by 3.12%p.

(Unit: %)

Indicator	Account	(%)
Profitability	ROA	0.64
	ROE	9.27
	CIR	60.94
Asset Quality	NPL Ratio	1.05
	Delinquency Rate	0.73
Capital Adequacy	Capital Adequacy Ratio (Basel III)	12.82
	Tier I CAR	11.36
Dividend Payout	Denomination Dividend Rate	7.2
	Dividend Payout	15.88
Credit Ratings	NICE Investor Service, Korea Ratings*	AAA
	Moody's**	A2

*Consolidated basis **Overseas credit rating corresponds to DGB Daegu Bank

DIAGNOSIS AND ANALYSIS OF FINANCIAL MANAGEMENT PERFORMANCE

DGB Daegu Bank

I. Operating Results (Management Performance)

The interest income of DGB Daegu Bank was KRW 1,716.5 billion, an increase of 9.8% from the previous year. Net interest income was KRW 1,162.9 billion increased by 6.2% from the previous year due to stabilized deposit cost ratio and loan yield. In addition, the net interest margin was 2.26%, up by 0.05%p from the previous year by getting out of the impact of low interest rates. Net interest assets were KRW 44 trillion, a rise of 3.1% from the previous year, and net interest spread increased by 0.10%p from the previous year. The net interest margin of DGB Daegu Bank is sensitive to changes in market interest rates due to the relatively high proportion of short-term loans. The net interest margin increased due to recent interest rate movements.

Net Interest Income & Net Interest Margin (NIM)

(Unit: KRW bil.)

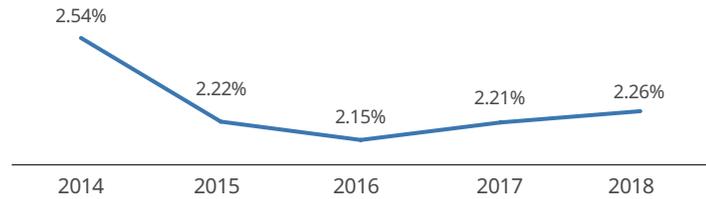
	2018	2017	Amount	YoY Change (%, %p)
Interest revenue	1,716.5	1,563.9	152.6	9.8%
Cash & due from banks	5.2	4.8	0.4	8.3%
Securities	165.9	172.6	-6.7	-3.9%
Loans	1,541.2	1,383.9	157.3	11.4%
Others	4.2	2.7	1.5	55.6%
Interest expenses	553.6	468.6	85	18.1%
Deposits	430.1	360.6	69.5	19.3%
Borrowings	57.1	43.5	13.6	31.3%
Bonds	58.2	60.7	-2.5	-4.1%
Others	8.2	3.8	4.4	115.8%
Net interest income	1,162.9	1,095.4	67.5	6.2%
Net interest Margin	2.26%	2.21%	-	0.05%p
NIS	2.67%	2.57%	-	0.10%p

(Unit: KRW bil.)

	2018	2017	Amount	YoY Change (%, %p)
Average lending rate	3.97%	3.72%	-	0.25%p
Average deposit rate	1.30%	1.15%	-	0.15%p
Net interest-bearing assets	44,778.8	43,442.4	1,336.4	3.1%

DGB Daegu Bank's Net interest margin posted an increase of 2.26% in 2018, marking a 0.05%p rise from 2.21% of the previous year. Net interest margins are projected to rise steadily, given the high level of loan growth and interest rate hikes driven by changes in the local economy. In 2019, DGB Daegu Bank plans to avoid deterioration in profitability caused by unreasonable competition and maintain stability through aggressive spread management.

Net Interest Income Over 5 Years



Non-interest income in 2018 decreased by 191% from the previous year to KRW -21.5 billion. By item, commission income increased slightly due to various factors, including an increase in beneficiary interest sales commission fees due to a strong stock market. Because of a decrease in interest income from securities, foreign exchange transactions and derivatives, total non-interest income declined to KRW 45.2 billion.

(Unit: KRW bil.)

Non-Interest Income

	2018	2017	Amount	YoY Change (%)
Non-interest income	-21.5	23.7	-45.2	-190.7%
Commission income	76.3	74.7	1.6	2.1%
Gain on securities	8.8	48	-39.2	-81.7%
Gain on foreign currency transactions & derivatives products	16	18.3	-2.3	-12.6%
Gain on disposition of loans	-11.9	-9.9	-2.0	20.2%
Other operating expenses	-110.7	-107.5	-3.2	3.0%

In 2018, sales and administrative expenses stood at KRW 659.6 billion, up 14% year-on-year, resulting in the sales and administrative expenses ratio to jump from 51.6% to 57.8%. Voluntary retirement and the transfer of allowance for bad debts contributed to the growth, however management efficiency can be seen as gradually improving. In particular, retirement benefits and personnel expenses increased 61% and 8%, respectively. DGB Daegu Bank continuously strives to strengthen its network and reform organizational operations to improve business efficiency and productivity.

(Unit: KRW bil.)

Selling and Administrative Expenses

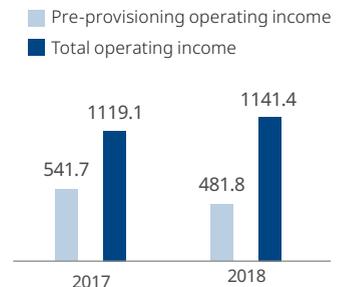
	2018	2017	Amount	YoY Change (% , %p)
Sales and administrative expenses	659.6	577.4	82.2	14.2%
Salaries and employee benefits	319.3	294.6	24.7	8.4%
Taxes and dues	70.3	63.0	7.3	11.6%
Retirement allowances	85.8	53.3	32.5	61.0%
Other G&A expenses	184.2	166.5	17.7	10.6%
Cost-income ratio	57.8%	51.6%	-	6.2%p

DGB Daegu Bank's operating income in 2018, before provisioning, was KRW 481.8 billion, down 11% year-on-year. Although non-interest income decreased, total operating income increased by 2% compared to KRW 1,119.1 billion of the previous year. This resulted from a higher net interest income due to growth in loans and interest rates. On top of general and management expenses, an increase in allowance for possible loan losses offset the increase in total operating income. As a result, operating income in 2018 fell to KRW 321.6 billion, down KRW 64.7 billion from a year earlier.

(Unit: KRW bil.)

Operating income

	2018	2017	Amount	YoY Change (%)
Pre-provisioning operating income	481.8	541.7	-59.9	-11.1%
Total operating income	1,141.4	1,119.1	22.3	2.0%
G&A expenses	659.6	577.4	82.2	14.2%
Total provision	160.2	155.4	4.8	3.1%
Operating income	321.6	386.3	-64.7	-16.7%



DIAGNOSIS AND ANALYSIS OF FINANCIAL MANAGEMENT PERFORMANCE

II. Financial Status

As of the end of 2018, total assets stood at over KRW 49.7853 trillion, up 3.02% from the previous year. Asset growth was driven by an increase in won-denominated loans (up 2.62% to nearly KRW 35.4165 trillion) and balanced growth between corporate and household loans.

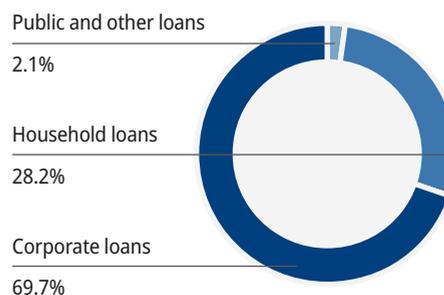
(Unit: KRW bil.)

			YoY Change	
	2018	2017	Amount	(%)
Assets	49,785.3	48,325.1	1,460.2	3.0%
Cash and due from banks	1,969.5	1,981.0	-11.5	-0.6%
Securities	8,325.8	8,106.5	219.3	2.7%
Estimated fair value of loans	36.4	-	36.4	-
Amortized cost of loans	37,210.1	36,604.6	605.5	1.7%
Fixed assets	679.3	527.7	151.6	28.7%
Other assets	1,564.2	1,105.3	458.9	41.5%

DGB Daegu Bank's loan amounted to KRW 35,466.0 billion in 2018, marking an increase of KRW 952.9 billion from a year earlier. Corporate loans in 2018 amounted to KRW 24,727.6 billion, contributing to stable export support for local businesses and the development of the domestic economy, and accounted for the biggest portion of total loan receivable interest at 69.7%. In addition, household loans, which accounted for 28.2% of total loans receivable, increased by KRW 455.7 billion year-on-year to reach KRW 9,991.3 billion. Public loans and others with relatively low credit risk amounted to KRW 747.1 billion, up 11% from the previous year.

(Unit: KRW bil.)

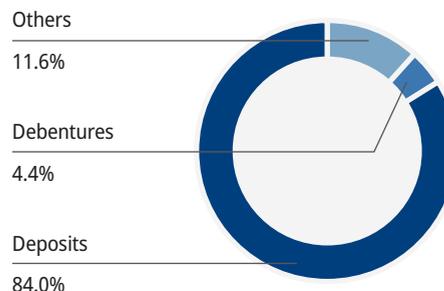
			YoY Change	
	2018	2017	Amount	(%)
Loans in KRW	35,466.0	34,513.1	952.9	2.8%
Corporate loans	24,727.6	24,304.3	423.3	1.7%
Household loans	9,991.3	9,535.6	455.7	4.8%
Public and other loans	747.1	673.2	73.9	11.0%



DGB Daegu Bank's total liabilities in 2018 amounted to KRW 45,625.3 billion, up 2% from the KRW 44,546.1 billion recorded in 2017. Low-cost deposits increased 1% from the previous year to KRW 38,345.4 billion, however, high-cost debentures decreased 5% from the previous year to KRW 2,001.5 billion. DGB Daegu Bank's debt growth, due to a rise in low-cost deposits and others, resulted in an adjustment in asset growth in 2018.

(Unit: KRW bil.)

			YoY Change	
	2018	2017	Amount	(%)
Total liabilities	45,625.3	44,546.1	1,079.2	2.4%
Deposits	38,345.4	37,967.2	378.2	1.0%
Debentures	2,001.5	2,108.9	-107.4	-5.1%
Others	5,278.4	4,470.0	808.4	18.1%



Core deposits free to deposit and withdraw increased from KRW 14,444.3 billion in 2017 to KRW 14,757.1 billion in 2018, up 2.2% due to DGB Daegu Bank's aggressive marketing and increase in customer trust. Total deposits also reached KRW 43,680.2 billion, an increase of 3.4% from the previous year. In addition, the contribution rate of core deposits compared to total deposits recorded 33.8%, a decrease of 0.4%p.

(Unit: KRW bil.)

Core deposits

	2018	2017	Amount	YoY Change
				(%, %p)
Core deposits (A)	14,757.1	14,444.3	312.8	2.2%
Total deposits (in KRW) ((B))	36,540.8	35,193.4	1,347.4	3.8%
% of core deposits (A/B)	40.4%	41.0%	-	-0.6%p
(*)Total deposits (C)	43,680.2	42,249.0	1,431.2	3.4%
Ratio of core deposits (A/C)	33.8%	34.2%	-	-0.4%p

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

The loan size below standard of DGB Daegu Bank in 2018 was KRW 333.5 billion, up by KRW 39 billion from the previous year, and the NPL ratio was 0.90%, up 0.08%p from the 0.82% recorded in 2017. DGB Daegu Bank keeps its NPL ratio below optimum level by using preemptive risk management through the continuous refunding and selling of distressed debts.

(Unit: KRW bil.)

Asset Quality

	2018	2017	Amount	YoY Change
				(%, %p)
Total credit	36,948.9	36,036.9	912.0	2.5%
Normal	36,316.7	35,410.7	906.0	2.6%
Precautionary	298.7	331.7	-33.0	-9.9%
Substandard	223.5	198.1	25.4	12.8%
Doubtful	52.1	63.7	-11.6	-18.2%
Estimated loss	57.9	32.7	25.2	77.1%
NPL Ratio (%)	0.90%	0.82%	-	0.08%p
Delinquency rate (%)	0.60%	0.51%	-	0.09%p

DGB Daegu Bank's NPL ratio began to decline in 2016 thanks to preemptive risk management. The ratio fell from 1.23% in 2015 to 1.19% in 2016. In addition, thanks to a focus on risk management, the bank kept the NPL ratio under 1% for a second consecutive year in 2018 despite an increase in household debt and industrial restructuring.

NPL Ratio over 5 Years



In 2018, DGB Daegu Bank recorded KRW 4,308.0 billion in capital, up KRW 303.5 billion from 2017. Although the amount of capital in Tier 2 decreased by KRW 83.6 billion from 2017, Tier 1 capital recorded KRW 3,481.4 billion, up KRW 164.9 billion from the previous year, leading to an increase in total capital. DGB Daegu Bank's Tier 1 capital increased due to an expansion of its sales force and improvement of its profitability through management efficiency. As a result, the capital adequacy ratio in Tier 1 also recorded 13.54% in 2018, up 1.01%p from 2017. This increase means an improvement in capital adequacy, which in turn means that the bank has enough capital to weather a crisis. The BIS ratio in 2018 recorded 15.08%, up 0.67%p from the previous year, showing stability with a much higher figure than the 9.875% proposed in the BIS guidelines.

(Unit: KRW bil.)

Capital Adequacy

	2018	2017	Amount	YoY Change
				(%)
Total Capital	4,308.0	4,004.5	303.5	7.6%
Tier I Capital	3,868.5	3,481.4	387.1	11.1%
Tier II Capital	439.5	523.1	-83.6	-16.0%
Risk-weighted Assets	28,571.8	27,785.2	786.6	2.8%
Capital Adequacy Ratio (%)	15.08%	14.41%	-	0.67%p
Tier I CAR (%)	13.54%	12.53%	-	1.01%p
Tier II CAR (%)	1.54%	1.88%	-	-0.34%p

DIAGNOSIS AND ANALYSIS OF NON-FINANCIAL MANAGEMENT PERFORMANCE

Human Capital

As of the end of 2018, DGB Daegu Bank has a total of 3,091 employees. There are 1,597 males and 1,494 females, 21 employees aged under 20s, 575 employees in 20s, 931 in 30s, 1,087 in 40s and 477 over 50s. What we value is individual ability when it comes to both recruitment and promotion. We do not discriminate with respect to gender or race. The ratio of female workers compared to their male counterparts was 48.3% in 2018, and there is no difference in pay between men and women.(GRI 405-2)

DGB Daegu Bank Employees (GRI 102-8)

		Unit	2016	2017	2018
Total No. of Employees		person	3,138	3,186	3,091
Employees	Executives*	person	43	48	49
	Staff	person	3,095	3,138	3,042
Gender	Male	person	1,670	1,686	1,597
	Female	person	1,468	1,500	1,494
Employment Type	Regular employees	person	3,006	2,911	2,964
	Contract employees	person	132	275	127
	Ratio of contract employees	%	4.2	8.6	4.3
Age	Under 20	person	6	2	21
	20s	person	549	583	575
	30s	person	954	936	931
	40s	person	1,097	1,102	1,087
	50s and above	person	532	563	477
Others	High School Graduate	person	849	819	768
	National Patriots	person	209	208	196
	Disabled	person	33	37	35
	Migrant worker	person	17	18	17

*Executive: Grade 1 or higher

DGB Financial Group has fair recruitment criteria for everyone based only on ability. DGB Daegu Bank improved its recruitment process in 2018 for better transparency and hired 23 new employees.

127 employees retired in 2016, 176 employees retired in 2017, and 198 employees retired in 2018. The rise in the number of retirements, however, is seen as the temporary result of the introduction of a voluntary retirement system.

DGB Daegu Bank New Employment (GRI 401-1)

	Unit	2016	2017	2018
Male	person	82	145	20
Female	person	96	78	3
Total	person	178	223	23
Ratio (%)	%	5.70	7.00	0.70

DGB Daegu Bank Retirement (GRI 401-1)

	Unit	2016	2017	2018
Male	person	80	129	165
Female	person	47	47	33
Total	person	127	176	198
Ratio (%)	%	4.54	5.6	6.4

DGB Daegu Bank Health & Safety (OHS) (GRI 403-2)

	Unit	2015	2016	2017	2018
Industrial accident rate	%	-	-	0.01	-
Absence rate	%	0.3	0.3	0.3	-

DGB Daegu Bank Female Employees Index (GRI 405-1)

	Unit	2016	2017	2018
Percentage of female employees	%	47.8	48.3	48.3
Percentage of female managers	%	21.5	22.6	24.8
Percentage of women in lower Management positions*	%	35.9	38.8	42.5
Percentage of women in senior management positions**	%	6.2	7.6	9.1

*Lower management: higher than manager, lower than branch sub-manager ** Senior management: branch sub-manager and above

DGB Financial Group is working to encourage female employees not to cut their careers short because of pregnancy, childbirth and childcare through the increase an quota of DGB Child Dream-Site, an in-house daycare center of DGB Daegu Bank. We strongly encourage female employees to use maternity leave and childcare leave. In 2018, childcare leave was used by a total of 123 employees, and 112 employees returned the company to continue their careers. The ratio of employees returning after childcare leave in 2018 was 95.5%, up by 7.6%p from 2017.

DGB Daegu Bank Maternity Leave & Return to Work Rate

	Unit	2016	2017	2018
No. of employees on maternity leave	person	215	141	123
No. of employees who have returned from maternity leave	person	116	124	112
Rate of return to work*	%	54.0	87.9	95.5
No. of employees who retired after maternity leave	person	12	13	5

* Ratio of those returning after parental leave to those who initiated childcare leave

DGB Financial Group strives to ensure employee satisfaction. As a part of our efforts, we are strengthening communication between labor and management and promoting labor union activities. As a result, 2,095 out of the 2,095 employees eligible for membership in the DGB Daegu Bank labor union had joined, resulting in a membership rate of 100%. DGB Financial Group notifies employees of all managerial changes at least 30 days in advance. We are plan to grow by maintaining positive management performance and employment security through the coexistence of labor and management.

DGB Daegu Bank Labor-Management Relations (GRI 102-41)

	Unit	2016	2017	2018
Total number of employees	person	3,387	3,254	3,091
No. of union-eligible employees	person	2,208	2,190	2,095
No. of labor union members	person	2,208	2,190	2,095
Total union participation rate	%	65.2	67.3	67.8
Participation rate among eligible employees	%	100	100	100

DGB Financial Group considers the competence of our internal employees to be the competitiveness of the company, and invests in employee education. The average time spent in education in 2018 was 80 hours per employee, which marked a 12-hour increase from the previous year. The average educational expense per capita was KRW 1,000,000, up KRW 75,000 from the previous year.

DGB Daegu Bank Employee Education (GRI 404-1)

	Unit	2016	2017	2018
Average education hours per capita	hour	70	68	80
Average education expenses per capita	KRW 1,000	600	925	1,000

DGB Financial Group is listening to the opinions of its employees through various communication channels. In particular, following the establishment of the DGB Human Rights Center, we actively try to listen to any difficulties that our employees face through 1:1 consultations.

DGB Bank Employee Grievance Handling (GRI 102-17)

	Unit	2016	2017	2018
No. of grievances received	case	19	84	56
Rate of grievance resolution	%	100	79	70

DIAGNOSIS AND ANALYSIS OF NON-FINANCIAL MANAGEMENT PERFORMANCE

Manufactured Capital

DGB Financial Group operates 336 branches as of the end of 2018, with 249 branches under DGB Daegu Bank, 29 under Hi Investment & Securities, 44 under DGB Life Insurance, 12 operated by DGB Capital and one branch each for DGB Asset Management, DGB U-Pay and DGB Credit Information. The Group will continue efforts to provide customers easy access to financial services.

DGB Financial Group No. of Branches (GRI 102-7)

	Unit	2016	2017	2018
DGB Daegu Bank	branch	259	253	249
Hi Investment & Securities	branch	-	-	29
DGB Life Insurance	branch	49	44	42
DGB Capital	branch	12 (Including 1 DLLC)	11 (Including 1 DLLC)	12
DGB Asset Management	branch	1	1	1
DGB U-Pay	branch	1	1	1
DGB Data System	branch	1	1	1
DGB Credit Information	branch	1	1	1
Total	branch	324	312	336

*DGB Financial Group acquired Hi Investment & Securities in 2018 and data is accumulated from 2018

DGB Daegu Bank Instrument Status (GRI 102-7)

	Unit	2016	2017	2018
CD	instrument	166	-	-
ATM	instrument	1,761	1,783	1,720
Passbook printer	instrument	171	163	161
Unmanned payment machine	instrument	282	265	262
Total	instrument	2,380	2,211	2,143

DGB Financial Group's customer base is consistently growing, serving 3.68 million customers in 2016, 3.73 million in 2017 and 3.77 million in 2018. With the proliferation of online banks and the declining population, customers under the age of 40 decreased by 30,000. However, the number of customers aged 51 to 60 increased by 20,000 while those aged 61 to 70 rose by 30,000, and clients aged 61 and older jumped by 50,000 for a total on-year increase of 40,000.

DGB Daegu Bank Customer Numbers

	Unit	2016	2017	2018
20 and under	10,000 people	33	31	30
21 to 30	10,000 people	63	63	62
31 to 40	10,000 people	69	69	68
41 to 50	10,000 people	75	75	75
51 to 60	10,000 people	64	66	68
61 to 70	10,000 people	35	38	41
71 and over	10,000 people	29	31	33
Total	10,000 people	368	373	377

* Change in standard calculation of no. of customers

Intellectual Capital

DGB Financial Group is responding proactively to the Fourth Industrial Revolution while also promoting Digital Transformation to redefine the existing business structure to create sustainable outcomes. Accordingly, the Group invested KRW 2,346 million in Fintech projects in 2018 in response to the rapidly changing financial markets, and continues to promote digital innovation.

Fintech Investment

	Unit	2016	2017	2018
Investment in Fintech	KRW million	2,174	2,712	2,346

DGB Financial Group has more than 2 million online customers with numbers steadily growing from 2.06 million in 2016 to 2.15 million in 2017 and to 2.23 million in 2018. The increase is a result of enhancements to online services for greater convenience, which led to a rise in middle-aged and elderly online customers.

No. of Online Customers (Based on Internet Banking Customers)

	Unit	2016	2017	2018
20 and under	10,000 people	6	6	6
21 to 30	10,000 people	44	44	44
31 to 40	10,000 people	55	56	56
41 to 50	10,000 people	50	51	52
51 to 60	10,000 people	33	36	40
61 to 70	10,000 people	13	16	18
71 and over	10,000 people	5	6	7
Total	10,000 people	206	215	223

* Change in standard calculation of no. of online customers

DGB Financial Group has registered 8 patents and applied 10 patents. Through continuous development activities, the Group will lead innovation in products and services and actively respond to the fast-changing financial environment.

Patent Registration (Accumulated)

	Unit	2016	2017	2018
Patent registration	case	8	8	8
Patent application	case	10	10	10

Natural Capital

DGB Daegu Bank Water Usage (GRI 303-5)

	Unit	2015	2016	2017	2018	2019(Target)	2020(Target)
Total usage	ton	167,584	168,753	141,045	154,858	154,000	153,000
Usage per branch	ton	659.8	651.6	538.3	612.1	608.7	604.7
Data collection range	ton	Headquarters and 254 Branches	Headquarters, 2nd Headquarters and 259 Branches	Headquarter, 2nd Headquarters and 262 Branches	Headquarters, 2nd Headquarters and 253 Branches	Headquarters, 2nd Headquarters and all Branches	Headquarters, 2nd Headquarters and all Branches

DIAGNOSIS AND ANALYSIS OF NON-FINANCIAL MANAGEMENT PERFORMANCE

To pass on a sustainable environment to future generations, DGB Financial Group is working to reduce its consumption of resources and to dispose of waste properly. By instituting a paperless office, our consumption of resources like A4 paper has been reduced. Also, to encourage proper waste disposal, we are providing environmental education to suppliers and waste producers alike. As of the end of 2018, our recycling rate for paper, terminal ribbon and print toner stood at 97.2%.

DGB Daegu Bank Waste Management (GRI 306-2)

	Unit	2015	2016	2017	2018	2019(Target)	2020(Target)
A4 paper use	ton	134	140	138.4	118.9	118	115
A4 paper recycling rate	%	100	100	100	100	100	100
Terminal ribbon	kg	758	705	698	805	700	680
Terminal ribbon recycling rate	%	16	16	16	16	16	17
Print toner	ton	3	3	2.99	3.2	3	2.9
Print toner recycling rate	%	14	14	14	14	14	15
Total	ton	138	144	142	122.9	122	119
Total recycling rate	%	97.6	97.7	97.7	97.2	97.3	97.3

DGB Financial Group is making efforts to increase the percentage of green products that are purchased. As a result, the Group's green product purchasing rate was 83.5% in 2015, 83.7% in 2016, 83.9% in 2017 and 88.8% in 2018, and continues to steadily rise. The green purchasing rate jumped temporarily in 2018 due to building projects, including renovations at Group headquarters and construction of the DIC Center.

DGB Daegu Bank Green Product Purchasing

	Unit	2015	2016	2017	2018
Total purchasing	KRW mil.	8,815	8,425	7,242	16,320
Green product purchasing	KRW mil.	7,364	7,048	6,075	14,490
Green purchasing rate	%	83.5	83.7	83.9	88.8

GHG Reporting Range

	Notes		Notes
1. Headquarters	DGB Financial Holding, Headquarters Annex (Computer Center), Training Center	5. DGB Credit Information	DGB Financial Group Subsidiary
2. Branches	Including all branches	6. DGB U-Pay	DGB Financial Group Subsidiary
3. Vehicles	Company-owned and leased vehicles	7. DGB Data System	DGB Financial Group Subsidiary
4. DGB Child Dreamer Center	Daegu Bank Employee Childcare Facilities		

DGB Financial Group is making a variety of efforts to minimize the environmental footprint of its business activities. The Group introduced the Green Touch Program to promote low-carbon practices that minimize carbon dioxide emissions by reducing power consumption when computers are not in use. Further energy-saving activities were promoted with the installation of a geothermal system and photovoltaic power generation facilities at the Group's second headquarters in 2016. These efforts enabled the Group to obtain the ISO 14001 Environmental Management System Certification.

Energy Reduction (GRI 302-1~4)

	Unit	2015	2016	2017	2018	2019(Target)	2020(Target)
Energy usage	Direct	TJ	40.7	39.4	41.3	40.9	41.0
	Indirect	TJ	118.6	116.2	118.7	123.9	123.0
	Total	TJ	159.3	155.6	160.0	164.7	164.0
Energy intensity	Current (Sales)	KRW 100 mil.	22,954	24,639	24,487	25,606	26,000
	Intensity rate	TJ/KRW 100 mil.	0.7%	0.6%	0.7%	0.6%	0.6%
Renewable energy usage	TJ	0.10	0.11	0.13	0.19	0.20	0.21
Energy intensity	%	-	2.3	-2.8	-3.0	0.4	0.6

* Fuel: Including gasoline, oil, kerosene, LNG, LPG

DGB Financial Group established a greenhouse gas (GHG) inventory system to systematically manage greenhouse gas emissions. Third-party verification is conducted annually to ensure objectivity and reliability in energy saving and emissions reporting. We strive to continuously reduce GHG emissions through the establishment of greenhouse gas-related targets and active reduction activities every year.

Greenhouse Gas Emissions (GRI 305-1~5)

		Unit	2015	2016	2017	2018	2019(Target)	2020(Target)	
GHG Emissions	Scope 1	tCO ₂ e	2,770	2,684	2,674	2,625	2,600	2,580	
	Scope 2	tCO ₂ e	15,364	15,046	15,369	16,041	15,800	15,600	
	Scope 3	Business trips	tCO ₂ e	571	602	650	684	680	680
		Commuting	tCO ₂ e	1,811	1,732	1,757	3,047	3,020	3,020
		Total	tCO ₂ e	2,382	2,334	2,407	3,731	3,700	3,700
	Total	tCO ₂ e	20,514	20,064	20,450	22,396	22,100	22,000	
GHG Emissions Intensity	Base (Sales)	KRW 100 mil.	22,954	24,639	24,487	25,606	26,000	27,000	
	Scope 1	tCO ₂ e/ KRW 100 mil.	12.1%	10.9%	10.9%	10.3%	10.0%	9.6%	
	Scope 2	tCO ₂ e/ KRW 100 mil.	66.9%	61.1%	62.8%	62.6%	60.8%	57.8%	
	Scope 3	tCO ₂ e/ KRW 100 mil.	10.4%	9.5%	9.8%	14.6%	14.2%	13.7%	
GHG emissions reduction rate		%	-3.7	2.2	-1.9	-9.5	1.3	0.5	

Details of Indirect GHG Emissions (GRI 305-2)

	Unit	2015	2016	2017	2018	2019(Target)	2020(Target)
Branches	tCO ₂ e	7,922	7,603	7,594	7,388	7,277	7,185
ATM	tCO ₂ e	2,710	2,552	2,420	2,227	514	514
Daegu Bank Headquarters*	tCO ₂ e	4,731	4,892	5,354	6,426	8,853	8,813

* Includes DGB Financial Group, Data System, Credit Information

Environmental Protection Activities

	Unit	2015	2016	2017	2018
Number of activities	times	95	97	118	115
Participants	person	2,120	2,385	4,292	3,795
Environmental protection investment cost	KRW mil.	9	35	38	115

Since 2006, DGB Daegu Bank has utilized a corporate credit support system (TCRMS) to reflect the environmental management standards of firms in credit assessments. Evaluations are conducted for all firms that use credit rating systems to encourage the proliferation of eco-friendly companies and environmental negative screening in such a way that those with higher scores earn extra credit rating points.

Environmental Management Assessment (GRI 308-2)

	Units	2015	2016	2017	2018	2019(Target)	2020(Target)
No. of firms subject to environmental management assessment	number	19,244	18,021	20,429	20,560	22,010	22,853
No. of firms excluded from environmental management assessment	number	872	358	432	427	457	474
Rate of environmental management assessment	%	95.7	98.1	97.9	98.0	98.0	98.0

DIAGNOSIS AND ANALYSIS OF NON-FINANCIAL MANAGEMENT PERFORMANCE

DGB Daegu Bank converts paper bills to e-mail and other electronic media to reduce paper usage. As a result of the introduction of smart statements and Kakao statements in 2017, the electronic billing rate reached 40.21% in 2018.

DGB Daegu Bank Electronic Billing Status*

	Unit	2015	2016	2017	2018
Total bills sent	number	6,896,196	7,095,802	7,605,211	7,568,157
No. of e-mail bills sent	case	2,086,803	2,245,081	2,298,864	2,069,332
No. of mobile bills sent	case	80,643	90,939	92,813	85,379
No. of Smart bills sent	case	-	-	214,125	740,964
No. of Kakao bills sent	case	-	-	16,256	147,388
Electronic billing rate	%	31.4	32.9	34.5	40.2

* Change of status to electronic billing

Status Of Eco-Friendly Project Financing

Project	Unit	Investment Period	Commitment Amount	2018 (Expenditure)
Ulsan Resource Recovery Utility Private Investment project	KRW mil.	2009.06~2024.03	20,171	13,465
Jeju Seogwipo Gashiri Wind Power Project	KRW mil.	2017.08~2025.08	10,000	8,227
Daegu Waste Energy Facility Private Investment Project	KRW mil.	2015.09~2029.06	15,000	13,460
Pohang Clean Water Love Private Investment Trust	KRW mil.	2014.11~2031.06	8,230	5,210
Daegu Innocity Steam Supply and Power Generation Project	KRW mil.	2015.09~2029.06	30,000	27,993

Social Capital

DGB Financial Group works actively to create social value as a member of the local community based on its management philosophy of "Sharing Dreams and Prosperity with the Local Community." In particular, the Group is planning and conducting strategic social contribution activities, taking into account the characteristics of financial corporations. DGB Financial Group will go beyond simple donation activities as it endeavors to solve social issues and create social value.

Social Contribution (GRI 413-1)

	2016		2017		2018	
	Funding (KRW mil.)	No. of Volunteers	Funding (KRW mil.)	No. of Volunteers	Funding (KRW mil.)	No. of Volunteers
Local Communities and Public Welfare	12,278	12,057	12,025	11,118	17,412	10,017
Culture, Arts and Sports	5,140	1,648	7,039	2,461	4,069	2,341
Education and Scholarship	1,393	230	5,209	644	4,106	547
Microcredit / Dormant Deposits Youth Startup Foundation / Credit Counseling and Recovery Service	462	-	7,136	-	5,098	-
Environment and Global	238	5,359	139	4,292	115	3,795
Total	19,511	19,294	31,548	18,515	30,800	16,700

DGB Financial Group is working to build a sound corporate ecosystem and strengthen its industrial competitiveness through mutual growth with its partners. As part of this, the Group provided management consulting support to 99 partners as of the end of 2018.

Win-Win Growth

	Unit	2016	2017	2018
Management Consulting Support	case	94	92	99
		Energy Material Parts Business of Gyeongbuk Region: 18	Pohang Small Hidden Champions: 12	Pohang Small Hidden Champions: 11
		World Star: 4	Comprehensive Diagnosis of Pre-Star Corporation: 6	Design Innovation Corporation: 17
		World Class 300: 6	Global Small Hidden Champions: 3	Pre-Star Corporation: 3
Activities	case	Pohang Small Hidden Champions: 15	Comprehensive Diagnosis of Star Corporation: 8	Star Corporation: 5
		Relational and Free: 17	World Star 300: 9	Global Small Hidden Champions: 4
		Others: 34	Robot Corporation Management Consulting: 9	Relational and Free: 14
			Participating Firms of Sillarian: 10	Others: 45
			Relational and Free: 17	
			Others: 18	

DGB Financial Group strives to ensure customer satisfaction in the belief that satisfying customers is the best sales strategy. The Group actively responds to customer demands through consumer protection systems, including CS training and advisory group activities. As a result, satisfaction rate was recorded at 93.2% in 2018.

Customer Satisfaction (GRI 102-43)

	Unit	2016	2017	2018
Customer Satisfaction (Satisfied Customers)	%	92	92.8	93.2

DGB Financial Group communicates with customers through various channels and improves practices and systems that are unreasonable or inconvenient from the customer's point of view. The Group listens to the voice of the customer through the VOC channel, and has handled 1,917 cases in 2016, 1,831 cases in 2017, and 1,966 cases in 2018.

Voice of the Customer (GRI 102-43)

	Unit	2016	2017	2018
Dissatisfaction	case	47	76	62
Pending issues	case	378	318	317
Compliment	case	789	748	818
Others	case	709	689	769
Total	case	1,917	1,831	1,966

Customer Privacy (GRI 418-1)

	Unit	2016	2017	2018
Complaints by outside parties proven by organization	case	-	-	-
Complaints filed by regulatory agencies	case	1	4	3
Customer data leaks, theft or loss	case	-	-	-

Legal and Regulatory Violations (GRI 419-1)

	Unit	2016	2017	2018
Violations of major economic, social laws and regulations of the organization	case	-	-	-

* Based on cases of ongoing litigation

HI INVESTMENT & SECURITIES NON-FINANCIAL MANAGEMENT PERFORMANCE

Economy

Instrument Status (GRI 102-7)

	Unit	2017	2018
CD	instrument	-	-
ATM	instrument	9	9
Passbook printer	instrument	-	-
Unmanned payment machine	instrument	-	-
Total	instrument	9	9

Number of Customers

	Unit	2017	2018
20 and under	person	7,843	7,322
21 to 30	person	19,316	19,143
31 to 40	person	54,049	56,897
41 to 50	person	85,042	88,070
51 to 60	person	93,606	95,985
61 to 70	person	64,367	70,310
71 and over	person	46,937	52,070
Total	person	371,160	389,797

No. Of Online Customers (Based on HTS Internet Banking Customer)

	Unit	2017	2018
20 and under	person	2,609	2,448
21 to 30	person	12,333	11,977
31 to 40	person	39,539	42,858
41 to 50	person	49,525	54,101
51 to 60	person	42,525	45,836
61 to 70	person	19,163	22,314
71 and over	person	6,013	6,906
Total	person	171,707	186,440

Environment

Waste Management (GRI 306-2)

	Unit	2017	2018
A4 Paper Use	ton	179.4	182.6
Recycling rate of terminal ribbon	kg	137	113
Print toner	ton	0.71	0.66
Recycling rate of print toner	%	83.7	83.2

E-mail Billing*

	Unit	2017	2018
Total number of bills sent	case	576,392	549,896
No. of e-mail bills sent	case	188,907	198,636
E-mail Billing Rate (%)	%	33	36

Social

Customer Privacy (GRI 418-1)

	Unit	2017	2018
Complaints by outside parties proven by organization	case	-	-
Complaints filed by regulatory agencies	case	-	-
Customer data leaks,, theft, loss	case	47	-

Legal And Regulatory Violations (GRI 419-1)

	Unit	2017	2018
Major fines	case	-	-
Non-monetary sanctions	case	Employee Cases: 2	Employee Cases: 2, Executive Cases: 2, Agency Cases: 6
Lawsuits (Year-end)	case	5	3

Mutual Growth

	Unit	2017	2018
Management Consulting Support	case	3	2
Activities	case	Hyundai Heavy Industries Partners: 2	Hyundai Heavy Industries Partners: 1
		Hyundai Motor Partners: 1	Hyundai Motor Partners: 1

Operation Status Of Internal Control System

	Unit	2017	2018
Normal audit ¹⁾	case	2,743	3,009
General audit	case	21	31
Special audit ²⁾	case	16	10
Running audit ³⁾	case	4,735	5,395

1) Audits for business areas (Management, IT, Finance, Business, Compliance, etc.)

2) Audits for complaints, accidents and individual matters or audits for executives, board, regulators

3) Continuous monitoring, online auditing to prevent financial accidents

Public Interest Fund Products

	Unit	2017	2018
ABL Active SRI Securities Investment Trust [Stocks]	KRW mil.	430	319
Hi Socially Responsible Securities Investment Trust [Stocks]	KRW mil.	11,928	8,510

* Based on evaluation amount at the end of the year

Employees (GRI 102-8)

		Unit	2017	2018
Total No. of Employees		person	786	781
Employees	Executives	person	20	17
	Staff	person	766	764
Gender	Male	person	550	535
	Female	person	236	246
Employment Type	Regular employees	person	553	572
	Contract employees	person	233	209
	Ratio of contract employees	%	29.6	26.8
Age	Under 20	person	-	-
	20s (Male/Female)	person	23/42	29/39
	30s (Male/Female)	person	143/97	135/103
	40s (Male/Female)	person	208/94	192/100
	50s and above (Male/Female)	person	176/3	179/4
Others	High School Graduate	person	52	50
	National Patriots	person	-	-
	Disabled	person	7	8
	Migrant Worker	person	1	-

Female Talent Promotion (GRI 405-1)

	Unit	2017	2018
Percentage of female employees	%	33	34
Percentage of female managers	%	20	21
Percentage of women in lower management positions*	%	35	37
Percentage of women in senior management positions**	%	3	4

* Lower management: higher than manager but below general manager

** Senior management: higher than general manager

Retirement (GRI 401-1)

	Unit	2017	2018
Male	person	103	70
Female	person	38	33
Total	person	141	103
Ratio of women to men	%	18	13

Maternity Leave And Return to Work Rate

	Unit	2018
No. of employees on maternity leave	person	20
No. of employees who have returned from maternity leave	person	11
Rate of return to work*	%	84.6
No. of employees who retired after maternity leave	person	2

* Ratio of those returning after parental leave to those who initiated childcare leave

Labor Union Status (GRI 102-41)

	Unit	2017	2018
Total no. of employees	person	755	756
No. of union-eligible employees	person	669	668
No. of labor union members	person	431	426
Union participation rate	%	57	56
Participation rate among eligible employees	%	64	64

Education (GRI 404-1)

	Unit	2017	2018
Average education hours per capita	hour	10	8
Average education expenses per capita	KRW 1,000	317	229

HI INVESTMENT & SECURITIES NON-FINANCIAL MANAGEMENT PERFORMANCE

New Employment (GRI 401-1)

	Unit	2017	2018
Male	person	103	69
Female	person	30	45
Total	person	133	114
Ratio of women to men	%	17	15

Health And Safety (OHS) (GRI 403-2)

	Unit	2017	2018
Industrial Accident Rate	%	-	-
Absence Rate	%	-	-

Activities to Improve Customer Accessibility

	Session	Activity
Business site visits	1	Visit to Busan materials factory
	2	Visit to Busan materials factory
	3	Visit to Nano new materials factory
	4	Visit to Busan materials factory
	5	Visit to Gyeongnam regional industrial complex
Corporate day	1	Future outlook and growth engines for 20 firms in promising industries
	2	Future outlook and growth engines for 21 firms in promising industries
Investment presentations	1	Presentation on industrial technologies at Hyundai Heavy Industries

Human Rights Education For Employees (GRI 412-2)

	Unit	2017	2018
Average no. of sessions of human rights education per person	session	18	19

* Counted by subject (category)

Employee Grievance Handling (GRI 102-17)

	Unit	2017	2018
No. of grievances received	case	84	56
Rate of grievance resolution	%	79	70

	Session	Activity
Investment presentations	1	Presentation at Mokdong branch on small-scale investing (ISA tax benefits)
	2	Presentation at Daegu branch on H2 stocks
	3	Presentation on stocks at Apgujeong branch
	4	Presentation at Gupo branch on small-scale investing
	5	Presentation at Mokdong branch for Kosqag investors

DGB FINANCIAL GROUP
**INDEPENDENT
AUDITORS' REPORT**

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INDEPENDENT AUDITORS' REPORT

Based on a report originally issued in Korean

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

Opinion

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, 2018 and 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing (KSAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Impairment of Loan Receivables

As of December 31, 2018, the Group recognized KRW 40,826,951 million as loans and receivables measured at amortized costs and KRW 338,825 million as allowance for credit loss. The allowances for loan losses under collective assessment is KRW 223,048 million and the allowances for loan losses under individual assessment is KRW 115,777 million (refer to note 15 to the consolidated financial statements, Loans at amortised cost, note 16 to the consolidated financial statements, Allowance).

The carrying amount of the loan receivable measured at amortized costs can be significantly distorted if the impairment is not properly identified and estimated.

To perform the collective assessment of the allowances for loan losses, the Group groups the loans together with similar risk characteristics, and estimates the possibility of default based on default information (i.e. delinquency status, or settlement history etc.). These estimates are inherently uncertain since it depends on historical and unpredictable data, and the methodology of categorizing loan receivables with similar risk characteristics. In addition, in order to determine the default rate and the recovery rate, it is necessary to make a significant judgment by the management, such as reflecting forward-looking information and setting statistical assumptions.

The allowance under individual assessment is subject to significant management's judgment in identifying impaired loan, estimate of the future cash flows and valuation of collateral.

We have identified the impairment on loan receivables as a key audit matter, considering the possibility of errors, the level of involvement of management judgment, and the impact of risks.

The primary procedures we performed to address this key audit matter included:

- Manual and automated control of individual and collective provisions: We have tested the credit rating process and key controls on monitoring process to assess whether the counterpart's credit rating were appropriately given in accordance with the policy of the Group and whether the impaired loans were managed on a timely basis.
- Assessment of adequacy of credit rating, feasibility of cash flow and appropriateness of collateral valuation by inspecting credit evaluation documentation: In order to test the accuracy of credit ratings and likelihood of loan being recovered, we inspected credit evaluation for control and substantive purposes. Based on the estimation of repayment of cash flows, likelihood of realization, valuation of collateral and other possible repayment measures, we assessed the adequacy of the credit rating granted by the Group using external evidence such as our understanding of the

client's financial condition, related industry and business environment and real estate valuation etc.

- Evaluation of appropriateness of valuation allowance calculation model and completeness and accuracy of key inputs: We reviewed the accounting policies of the Group to determine the conformity of K-IFRS and to understand key assumptions for calculation (default rate and recovery rate). We confirmed the completeness and accuracy of the key input variables of the collective assessment allowance model (loan receivable balance, overdue records, credit ratings, etc.), assessed the accuracy of the default rate and recovery rate of corporate and household loans and applied the above factors for recalculation of amount of reserves.
- Estimation of future cash flows for individually assessed loan receivable: We assessed the appropriateness of the amount of collateral valuation assessed by the Group if the recoverable amount of the individually assessed loan receivable was the collateral value. We assessed the feasibility of and fairness of the cash flow projections presented by the Group and the adequacy of the discount rate when the recoverable amount of the individually assessed loan receivable is an operating cash flow.

(2) Premium reserves among insurance contract liabilities

The Group has to reserve premium reserves for the payment of future insurance claims related to insurance contracts, and reserves the net level premium reserve in accordance with the Regulation on Supervision of Insurance Business. The reserve for premiums is the liability arising from operation of the Group's insurance segment, and since the impact on financial statements is significant and valuation methodology is complex, we have identified the assessment of premium reserves as a key audit matter.

We tested the completeness of the premium deposit subject to premium reserve, system logic etc. with our actuarial experts and our audit procedures to address the key audit matter include followings:

- We tested the effectiveness of the design and implementation of the internal control related to premium reserves. These internal controls include review and approval procedures for calculating premium reserves and the review of senior actuaries.
- We assessed the completeness of the premium reserve. The completeness assessment includes comparing the number of insurance agreements and the amount of premium reserves between the information system and the actuarial system to confirm whether they agree.
- We evaluated the adequacy of the Group's premium reserve calculation logic and the accuracy of the calculation by performing sample test per each insurance product categories. We also evaluated whether the assumptions and valuation methodologies used to assess the adequacy of insurance contract liability comply with the supervisory regulations.
- We analyzed the difference between the estimated premium reserves and the actual reserves based on the actual cash flow.

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.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with K-IFRS, 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. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

-
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
 - Evaluate the appropriateness of accounting policies used in the preparation of the consolidated financial statements and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of and for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Jae-Jun Shin.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 18, 2019

This report is effective as of March 18, 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the timing 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, 2018 and 2017

(In millions of won)

	Note	December 31, 2018	December 31, 2017
Assets			
Cash and due from banks	5,29,48,51,52	₩ 2,601,499	2,254,811
Financial assets at fair value through profit or loss	8,13,18,29,51,52	6,277,966	-
Trading assets	6,51,52	-	510,935
Financial assets designated at fair value through profit or loss	7,51,52	-	79,917
Derivative assets	18,51,52	55,256	119,809
Financial securities at fair value through other comprehensive income	10,13,16,29,51,52	4,032,620	-
Available-for-sale financial assets	9,29,51,52	-	4,498,996
Securities at amortized cost	12,13,16,29,51,52	7,846,106	-
Held-to-maturity financial assets	11,29,51,52	-	7,951,189
Loans at amortized cost	15,16,17,29,50,51,52	40,826,952	-
Loans	15,16,17,29,50,51,52	-	39,335,708
Investments in associates	14	27,178	10,357
Property and equipment	19	741,912	475,481
Investment property	21	214,858	93,591
Intangible assets	20	199,753	147,954
Current tax receivable	46	12,961	-
Deferred tax assets	46	65,244	43,148
Other assets	16,22,29,51,52	2,015,295	1,211,942
Total assets		₩ 64,917,600	56,733,838
Liabilities			
Deposits	23,29,50,51,52	₩ 38,729,457	37,839,750
Financial liabilities at fair value through profit or loss	8,51,52	551,451	-
Financial liabilities designated at fair value through profit or loss	7,51,52	517,794	-
Derivative liabilities	18,51,52	109,501	98,577
Borrowings	24,29,48,51,52	6,442,359	3,394,370
Debt securities issued	24,29,48,51,52	5,303,840	4,356,652
Retirement benefit liabilities	26	35,061	14,225
Provisions	25,49	49,075	29,191
Liabilities under insurance contracts	27	5,549,382	5,275,308
Current tax payable	46	4,693	48,229
Deferred tax liabilities	46	2,032	-
Other liabilities	28,29,48,50,51,52	2,559,877	1,481,745
Total assets		₩ 59,854,522	52,538,047
Equity			
Total equity attributable to equity holders of DGB Financial Group Co., Ltd.		₩ 4,344,351	3,905,201
Capital stock	1,30	845,729	845,729
Hybrid bonds	30	149,401	-
Capital surplus	30	1,560,909	1,560,891
Capital adjustments	30	(991)	(991)
Accumulated other comprehensive loss	32	(79,372)	(55,258)
Retained earnings	31	1,868,675	1,554,830
Non-controlling interests		718,727	290,590
Total equity		₩ 5,063,078	4,195,791
Total liabilities and equity		₩ 64,917,600	56,733,838

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017

(In millions of won, except earnings per share)

	Note	2018	2017
Interest Income	₩	2,029,315	1,823,853
Interest income on financial instruments at fair value through profit or loss		38,861	-
Interest income on held-for-trading financial instruments		-	8,338
Interest income on financial assets at fair value through other comprehensive income and at amortized cost		1,990,454	-
Interest income on loans and receivables and investment instruments		-	1,815,515
Interest expense	4,33,50	646,681	532,504
Net Interest Income	4,33	1,382,634	1,291,349
Fees and commission income	50	207,681	154,016
Fees and commission expense		77,061	73,606
Net fees and commission income	4,34	130,620	80,410
Insurance income		999,624	843,013
Insurance expenses		1,093,245	906,128
Net insurance loss	4,35	(93,621)	(63,115)
Profit before adjustment for overlay approach		58,368	-
Loss on adjustment for overlay approach		(6,078)	-
Net gain on financial assets at fair value through profit	37	52,290	-
Net loss on financial instruments held for trading	36	-	(9,700)
Net gain on financial instruments designated at fair value through profit or loss	38	8,130	-
Net loss on financial instruments designated at fair value through profit or loss	38	-	(2,338)
Net gain on financial assets at fair value through other comprehensive income	40	9,862	-
Net gain on available-for-sale financial assets	39	-	57,571
Provision for credit loss	4,42	187,063	-
Impairment loss on financial assets	4,41	-	188,841
Net gain/loss on foreign currency transactions	29	(13,494)	9,320
General and administrative expenses	4,43	816,969	676,859
Other operating loss, net	44	(135,759)	(88,554)
Operating income		336,630	409,243
Non-operating net income	45	151,439	1,060
Net income before income tax expense		488,069	410,303
Income tax expense	46	82,043	94,031
Net income attributable to Equity holders of DGB Financial Group Co., Ltd.		383,535	302,208
Net income attributable to non-controlling interest		22,491	14,063
Consolidated net income	₩	406,026	316,271
Items that are or may be reclassified subsequently to profit or loss			
Gain on valuation of financial assets at fair value through other comprehensive income		32,363	-
Expected credit loss on financial assets at fair value through other comprehensive income		(213)	-
Loss on valuation of available-for-sale financial assets		-	(20,654)
Equity in other comprehensive income (loss) of associates		-	-
Foreign currency translation adjustments for foreign operations		7,934	(9,621)
Gain (loss) on valuation of hedges of net investment in foreign operations		(7,149)	6,660
Adjustments for overlay approach		4,632	-
Gain (loss) on valuation of cash flow hedges		306	-
		37,873	(23,615)

See accompanying notes to the consolidated financial statements.

(In millions of won, except earnings per share)

	Note	2018	2017
Items that will never be reclassified to profit or loss			
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	₩	1,304	-
Credit risk adjustments on financial assets at fair value through profit or loss		23	-
Factors for remeasurement of defined benefit obligation		(27,575)	(4,382)
		(26,248)	(4,382)
Consolidated other comprehensive income (loss)	32 ₩	11,625	(27,997)
Comprehensive income attributable to Equity holders of DGB Financial Group Co., Ltd.		395,292	274,335
Comprehensive income attributable to on-controlling interests		22,359	13,939
Total consolidated comprehensive income	₩	417,651	288,274
Basic and diluted earnings per share in won	47 ₩	2,233	1,787

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2018 and 2017

(In millions of won)

	Capital stock	Hybrid bond	capital surplus	capital adjustments	Accumulated other comprehensive income	retained earnings	Non- controlling interest	Total equity
Balance at January 1, 2017	₩ 845,266	-	1,560,455	(997)	(27,385)	1,303,374	291,620	3,972,333
Hybrid bonds dividends	-	-	-	-	-	-	(14,061)	(14,061)
Consolidated net income	-	-	-	-	-	302,208	14,063	316,271
Increase in paid-in-capital	463	-	436	-	-	-	-	899
Annual dividend	-	-	-	-	-	(50,716)	-	(50,716)
Loss on valuation of available-for-sale financial assets	-	-	-	-	(20,654)	-	-	(20,654)
Profit on translation of overseas business	-	-	-	-	(2,837)	-	(124)	(2,961)
Factors for remeasurements of defined benefit obligation	-	-	-	-	(4,382)	-	-	(4,382)
Acquisition of treasury stock	-	-	-	(6)	-	-	-	(6)
Disposition of treasury stock	-	-	-	6	-	-	-	6
Additional investment in subsidiaries	-	-	-	-	-	-	(908)	(908)
Others	-	-	-	6	-	(36)	-	(30)
Balance at December 31, 2017	₩ 845,729	-	1,560,891	(991)	(55,258)	1,554,830	290,590	4,195,791
Initial application adjustment on K-IFRS No.1109	-	-	-	-	(35,871)	(6,648)	-	(42,519)
Balance at January 1, 2018	₩ 845,729	-	1,560,891	(991)	(91,129)	1,548,182	290,590	4,153,272
Issue of hybrid capital securities	-	149,401	-	-	-	-	299,002	448,403
Hybrid bonds dividends	-	-	-	-	-	(5,774)	(20,917)	(26,691)
Consolidated net income	-	-	-	-	-	383,535	22,491	406,026
Annual dividend	-	-	-	-	-	(57,510)	-	(57,510)
Acquisition of treasury stock	-	-	-	-	-	-	-	-
Disposition of treasury stock	-	-	-	-	-	-	-	-
Gain (loss) on valuation of financial assets at FVOCI	-	-	-	-	33,545	-	122	33,667
Gain (loss) on disposal of financial assets at FVOCI	-	-	-	-	-	582	-	582
Gain (loss) from cash flow hedging	-	-	-	-	306	-	-	306
Profit on translation of overseas business	-	-	-	-	7,923	-	11	7,934
Net investment hedge in foreign operations	-	-	-	-	(7,149)	-	-	(7,149)
Factors for remeasurement defined benefit obligation	-	-	-	-	(27,307)	-	(268)	(27,575)
Changes in credit risk on financial liabilities at FVTPL	-	-	-	-	19	-	3	22
Loss on expected credit of financial assets at FVOCI	-	-	-	-	(212)	-	(1)	(213)
Changes in equity through equity method	-	-	-	-	-	-	-	-
Effect of profit and loss adjustment approach	-	-	-	-	4,632	-	-	4,632
Changes in scope of consolidation	-	-	18	-	-	(340)	(56)	(378)
Changes due to business combination	-	-	-	-	-	-	127,748	127,748
Others	-	-	-	-	-	-	2	2
Balance at December 31, 2018	₩ 845,729	149,401	1,560,909	(991)	(79,372)	1,868,675	718,727	5,063,078

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Consolidated Statements of Cash Flows For the years ended December 31, 2018 and 2017

(In millions of won)

		2018	2017
Cash flows from operating activities			
(1) Consolidated net Income	₩	406,027	316,271
(2) Adjustment of profit and loss		(860,856)	(842,546)
Income tax expense		82,043	94,031
Interest expense		646,681	532,504
Loss on financial assets at fair value through profit or loss		44,039	-
Loss on valuation of financial instruments designated at fair value through profit or loss		6,982	-
Profit or loss approach - Adjusted amount		6,078	-
Loss on valuation of financial assets held for trading		-	506
Loss on valuation of derivatives instruments held for trading		53,296	97,766
Recovery of credit risk adjustment allowance on available-for-sale derivatives		138	5
Loss on financial assets designated at fair value through profit or loss		-	3,248
Loss on disposal of financial assets at fair value through other comprehensive income		441	-
Loss on disposal of available-for-sale financial assets		-	230
Impairment loss on available-for-sale financial assets		-	6,855
Loss on fair value hedges		31	68
Loss on valuation of derivatives on hedge		6,931	-
Loss on transaction of derivatives on hedge		28,158	6,441
Recovery of allowance for credit loss		187,063	-
Provision for losses		-	181,987
Depreciation and amortization cost		69,804	59,229
Loss on disposal of property, plant and equipment		2,121	1,134
Loss on disposal of intangible assets		14	21
Impairment loss on intangible assets		13	34
Loss on investment property		1,183	11
Transfer of other provision		556	2,529
Defined benefit plans		34,163	31,853
Loss on foreign exchange transactions		288,079	207,330
Loss on valuation of issued bank debenture		-	1,105
Loss on repayment of issued bank debenture		1,597	-
Other operating expenses		2,959	1,469
Loss related to equity method		4,414	46
Amortization expenses on deferred acquisition cost of new or renewal insurance contract		46,105	20,122
Contribution to insurance reserve		272,544	162,990
Interest income		(2,029,315)	(1,823,853)
Dividend income		(3,788)	(20,196)
Gain on financial assets at fair value through profit or loss		(72,213)	-
Gain on valuation of financial instrument designated at fair value through profit or loss		(16,235)	-
Gain on the valuation of financial assets held for trading		-	(2,256)
Gain on valuation of derivatives instruments held for trading		(44,633)	(98,464)
Recovery of credit risk adjustment allowance for available-for-sale derivatives		-	(905)
Gain on valuation of financial assets designated at fair value through profit or loss		-	(327)
Gain on disposal of financial assets at fair value through other comprehensive income		(7,154)	-
Gain on disposal of available-for-sale financial assets		-	(38,032)
Gain on valuation of derivatives on hedge		(10,720)	(22,367)
Gain on transaction of derivatives on hedge		(16,220)	(15,067)
Gain on disposal of tangible assets		(463)	(8,294)

See accompanying notes to the consolidated financial statements.

(In millions of won, except earnings per share)

	2018	2017
Gain on disposal of intangible assets	(332)	(19)
Gain on disposal of investment property	(509)	(148)
Recovery of provision	(752)	(2,408)
Gain on foreign exchange transaction	(274,585)	(216,650)
Gain on financial assets at amortized cost	(4)	-
Earnings related to equity method	(818)	(4,988)
Other operating income	(7,209)	(86)
Gain from bargain purchase	(161,344)	-
(3) Changes in assets and liabilities	(591,766)	(694,985)
Decrease in deposits	206,463	309,298
Decrease in financial assets at fair value through profit or loss	536,847	-
Increase in financial assets held for trading	-	(230,749)
Decrease in available-for-sale derivative financial assets	97,484	120,989
Decrease in financial assets designated at fair value through profit or loss	-	434
Increase in loan receivables at amortised cost	(689,223)	-
Increase in loans and receivables	-	(3,159,166)
Increase in deferred loans incidental expenses	(54,796)	(37,512)
Increase in deferred loan incidental income	5,829	6,866
Recovery of amortized loan	39,622	34,719
Decrease in other assets	146,839	106,272
Decrease in derivative financial assets on hedge	-	1,367
Increase in deferred acquisition cost	(60,839)	(47,151)
Increase in special account assets	(23,319)	(34,200)
Increase(decrease) in depository liabilities	(102,142)	2,543,971
Decrease in derivatives financial liabilities held for trading	(91,380)	(125,195)
Decrease in financial liabilities at fair value through profit or loss	(480,291)	-
Increase in financial liabilities designated at fair value through profit or loss	4,205	-
Decrease in post-employment benefit liabilities	(3,099)	(11,608)
Decrease in derivatives financial liabilities on hedging	-	(2,171)
Increase in plan assets	(50,565)	(20,537)
Decrease in other liabilities	(96,436)	(185,172)
Decrease in provisions	(344)	-
Increase in special account liabilities	23,379	34,560
(4) Interest paid	(612,309)	(535,900)
(5) Interest received	2,103,773	1,812,042
(6) Dividend received	3,769	20,196
(7) Income tax paid	(79,975)	(73,465)
Net cash provided by operating activities	₩ 368,663	1,613

See accompanying notes to the consolidated financial statement

(In millions of won, except earnings per share)

	2018	2017
Cash flows from investing activities		
Increase in financial assets measured at fair value through profit or loss	₩ (528,262)	-
Decrease in financial assets measured at fair value through profit or loss	466,716	-
Increase in financial assets measured at fair value through other comprehensive income	(2,827,858)	-
Increase in available-for-sale financial assets	-	(3,260,904)
Decrease in financial assets measured at fair value through other comprehensive income are reduced	2,851,966	-
Decrease in available-for-sale financial assets	-	2,829,694
Increase in securities measured at amortised cost	(1,168,347)	-
Increase in held-to-maturity financial assets	-	(1,114,433)
Decrease in securities measured at amortised cost	941,343	-
Decrease in held-to-maturity financial assets	-	1,126,271
Acquisition of property, plant and equipment	(255,227)	(83,068)
Disposal of property, plant and equipment	4,267	22,065
Acquisition of intangible Assets	(30,414)	(50,438)
Disposal of intangible assets	3,065	685
Acquisition of investment property	(146,331)	-
Disposal of investment property	1,805	3,500
Cash inflows from hedging activities	3,764	86
Decrease in deposit (increase)	784	(5,347)
Decrease in other assets (increase)	(923)	-
Acquisition of subsidiary Investment Equity	(529,404)	-
Acquisition of investment equity in associates	(11,000)	(230,000)
Allotment of investment equity shares in associates	106	-
Disposal of investment equity in associates	12,275	214,988
Net cash used in investing activities	(1,211,675)	(546,901)
Cash flows from financing activities		
Increase (decrease) in borrowings	(621,861)	318,400
Issuance of debentures	2,484,272	1,292,982
Repayment of debentures	(1,747,860)	(1,005,780)
Increase (decrease) in import deposit	(216)	7,758
Increase in trust account payable	2,484	43,113
Increase in fund account payable	169	78
Increase (decrease) in foreign exchange payable	24,281	(6,103)
Increase in domestic exchange payable	95,591	72
Issuance of hybrid bonds	448,403	-
Paid-in-capital increase	-	903
Cost of issuance of stocks	-	(3)
Acquisition of treasury stocks	-	(6)
Disposition of treasury stocks	-	6
Dividends paid to hybrid bonds holders	(23,590)	(14,061)
Annual dividends paid	(57,510)	(50,716)
Net cash provided by financing activities	604,163	586,643
Net increase (decrease) in cash and cash equivalents	(238,849)	41,355
Beginning balance of cash and cash equivalents	954,118	930,206
Effects of changes in the exchange rate on cash and cash equivalents	4,030	(17,443)
Increase in cash and cash equivalents due to the changes in consolidated scope	103,753	-
Ending balance of cash and cash equivalents (note 48)	₩ 823,052	954,118

See accompanying notes to the consolidated financial statement

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2018 and 2017

1. Reporting Entity

The DGB Financial Group Co., Ltd., the controlling company, and its subsidiaries (collectively the "Group") are as follows.

(1-1) Overview of the Group

The Group was established on May 17, 2011 by transferring shares from shareholders of Daegu Bank, Daegu Credit Information Corporation, and Cardnet Corporation for the purpose of controlling, managing, and providing financial services to subsidiaries or subsidiaries closely related to the financial business through ownership of stocks. As of the end of the current term, the capital is ₩845,729 million and was listed on the Korea Exchange on June 7, 2011.

(1-2) Subsidiaries

As of December 31 2018, the consolidated financial information and shareholding status for the Group are as follows.

(In millions of won, except share information)

Classification	Number of shares	Ownership	Assets	Liabilities	Revenue	Net income (loss)	Location	Reporting date
Daegu Bank	136,125,000	100%	₩ 49,785,346	45,625,353	2,572,202	234,825	Daegu	31-Dec
Hi Investment & Securities	342,437,628	85.32%	6,087,981	5,331,555	213,291	11,223	Busan	31-Dec
DGB Life Insurance	34,741,343	100%	6,152,002	5,906,445	1,241,724	21	Busan	31-Dec
DGB Capital	25,200,000	100%	2,762,148	2,454,863	155,845	22,392	Seoul	31-Dec
DGB Asset Management	2,200,000	100%	38,992	5,433	15,109	6,431	Seoul	31-Dec
DGB U-pay	2,511,415	100%	36,395	24,212	15,491	189	Daegu	31-Dec
DGB Credit Information	600,000	100%	4,976	239	1,845	196	Daegu	31-Dec
DGB Data System	1,200,000	100%	10,619	710	14,464	388	Daegu	31-Dec
DGB special investment in private property No.11	102,000 million	100%	₩ 222,867	123,329	6,858	(722)	Seoul	30-Apr /31-Oct

Daegu Bank's consolidated subsidiaries as of December 31, 2018 are as follows:

(In millions of won)

Classification	Ownership	Assets	Liabilities	Revenue	Net income (loss)	Location	Reporting date	Business Type
Principal guaranteed trusts/ principal and interest guaranteed trusts	-	₩ 311,095	301,544	9,431	(67)	South Korea	31-Dec	Trust
DGB Long-lived Corporation Focus Securities Investment Trust	73.74%	11,342	-	1,002	(2,354)	South Korea	30-Sep	Collective investment
DGB ttok-ttok Short-term Bond Securities	66.87%	14,893	-	28	27	South Korea	23-Feb	Collective investment
DGB ttok-ttok Dividend Securities Feeder	75.72%	10,785	7	295	(2,437)	South Korea	18-Jun	Collective investment
DGB ttok-ttok Small-mid Cap Securities Feeder	53.85%	6,084	1	211	208	South Korea	12-Nov	Collective investment
DGB Myungpum KRX 300 Index Securities	62.25%	96,205	15,404	355	322	South Korea	30-Apr	Collective investment
DGB Specialized Bank Plc	100%	157,496	51,795	20,887	7,430	Cambodia	31-Dec	Specialised Bank
Best DGB 1 st co, Ltd	-	39,345	39,413	834	21	South Korea	Quarterly	SPC
Best DGB 2 nd co, Ltd	-	11,084	11,159	11	(74)	South Korea	Jan/Apr/Jul/Oct	SPC

Hi investment and securities as of December 31, 2018 are as follows:

(In millions of won)

Classification	Ownership	Assets	Liabilities	Revenue	Net income (loss)	Location	Reporting date	Business Type
High Asset Management Co., Ltd	92.42%	₩ 50,859	4,126	3,682	180	Seoul	31-Dec	Collective Investment
High Investment Futures	65.22%	192,905	149,157	4,663	(181)	Seoul	31-Dec	Gift Brokerage
High Himsen Multi Strategy Private Investment Trust 1	54.91%	4,266	321	2,608	(252)	Seoul	31-Dec	Collective investment & Securities Co
Hyundai Ship Special Asset Investment Trust No. 2	100.00%	14,227	3	107	106	Seoul	31-Dec	Collective investment & Securities Co
Hi KOSDAQ Venture Securities Trust	71.76%	6,566	-	1,300	378	Seoul	31-Dec	Collective investment & Securities Co
Supreme Misa 1 st Co, Ltd	-	11,146	11,146	1,749	-	Seoul	31-Dec	Asset-Backed securitization
Ivy global 17 th co, Ltd	-	10,502	10,447	1,185	(45)	Seoul	31-Dec	Asset-Backed securitization
Air First The 1 st Co, Ltd	-	20,356	20,400	1,039	(44)	Seoul	31-Dec	Asset-Backed securitization
New Hi Ramada Co, Ltd	-	27,468	27,468	1,895	-	Seoul	31-Dec	Asset-Backed securitization
New Hi Chungju The Sharp Co, Ltd	-	5,443	5,443	1,147	-	Seoul	31-Dec	Asset-Backed securitization
New Hi Ansan Terrace 1 st Co, Ltd	-	28,362	28,362	674	-	Seoul	31-Dec	Asset-Backed securitization
GWIMS Co, Ltd	-	15,592	15,541	943	35	Seoul	31-Dec	Asset-Backed securitization
Hi Defender 14 th Co, Ltd	-	7,451	7,453	21	(2)	Seoul	31-Dec	Asset-Backed securitization
New Hi Samsan Medical	-	13,293	13,293	594	-	Seoul	31-Dec	Asset-Backed securitization
New Hi Sachun Industry	-	12,729	13,022	1,624	60	Seoul	31-Dec	Asset-Backed securitization
New Hi Baegot 1 st Co, Ltd	-	15,215	15,215	600	151	Seoul	31-Dec	Asset-Backed securitization
Jini Forever 1 st Co, Ltd	-	40,187	40,510	2,076	(31)	Seoul	31-Dec	Asset-Backed securitization

Hi investment and securities as of December 31, 2018 are as follows:

(In millions of won)

Classification	Ownership	Assets	Liabilities	Revenue	Net income (loss)	Location	Reporting date
JB Woori Capital Money Receivable Trust	100%	₩ 55,015	55,015	3,758	-	Seoul	31-Dec
DGB Lao Leasing Co.,Ltd	90%	48,271	37,521	3,829	549	Laos	31-Dec

(1-3) Interests in unconsolidated structured entities

The Group has been involved in structured entities through investments in 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. As a method of financing large scale risk projects, investments are made in the business on the basis of economic feasibility of a particular project, not the credit or material collateral of the project implementer, and investors take profits from the project. Although there are entities that provide financial support such as funding, joint guarantees, and senior contributions prior to the consolidation entity's uncertainty for structured financing, the group may be exposed to loss of principal or loan due to falling value of its investment stake in the event of failure to collect funds or suspension of the project due to planned schedule.
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.

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

As of December 31, 2018 and 2017, the carrying amount of assets recognized by the Group in its consolidated financial statements is as follows

(In millions of won)

Classification	2018			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Amortized cost measurement loan	₩ 171,054	1,858,351	-	2,029,405
Profit or Loss - Financial assets measured at fair value	225,729	23,054	808,395	1,057,178
Total	₩ 396,783	1,881,405	808,395	3,086,583

(In millions of won)

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

The Group's maximum loss exposure to unconsolidated structured entitiesAs of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification	2018			
	Asset-backed securitization	Project financing	Investment trust and private equity fund	Total
Investment assets	₩ 396,783	1,881,405	808,395	3,086,583
Purchase commitments	616,400	60,000	130,257	806,657
Credit granting	-	305,784	-	305,784
Total	₩ 1,013,183	2,247,189	938,652	4,199,024

(In millions of won)

Classification	2017				Total
	Asset-backed securitization	Project financing	Investment trust and private equity fund		
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
Total	₩ 435,589	1,568,002	701,127		2,704,718

(1-4) Acquisition of Subsidiaries

(A) Acquisition of Hi Investment & Securities

(1) General Details

On October 30, 2018, the Group acquired 85.32% stake in Hi investments & Securities Co. and gained control.

During the two months since the acquisition date, the Group recognized an operating profit of ₩ 13,992 million and a net profit of ₩ 11,223 million through Hi Investment & Securities Co.. The management estimates that if the acquisition of Hi Investment & Securities Co. took place on 1 January 2018, the opening date of the annual reporting period, operating profit would have been ₩ 57,598 million and net profit be ₩ 43,108 million.

(2) Consideration transferred

As of the acquisition date, the fair value of the consideration transferred is as follows.

(In millions of won)

Classification	Amount
Cash	₩ 471,988

(3) Identifiable acquired assets and liabilities

As of the acquisition date, the acquired assets and liabilities are as follows.

(In millions of won)

Classification	Amount
Acquired asset	
Cash and deposits	₩ 920,212
Financial assets measured at fair value through profit or loss	4,955,879
Financial assets measure at fair value through other comprehensive income	192,596
Securities measured as amortized cost	9,807
Equity method investment interest	21,799
Asset Derivatives	3,963
Loan at amortized cost	755,607
Tangible assets	20,992
Intangible assets	31,387
Other assets	935,541
Acquired liabilities	
Yielded liabilities	894,222
Financial liabilities measure at fair value through profit or loss	1,031,743
Financial liabilities designated at fair value through profit or loss	522,262
Lent liabilities	3,666,710
Derivatives liabilities	54,404
Other derivatives	917,362
Fair value of identifiable assets	761,080

The valuation methodologies used to measure the fair value of important assets and liabilities acquired are as follows

Acquired Assets and Liabilities	Methodologies used for Valuation
Tangible assets	Market approach or cost approach: The fair value was determined by reflecting not only functional and economic obsolescence but also physical deterioration as a replacement cost that was generated from market transactions of similar assets available, or considering appropriate depreciation.
Intangible assets	Loyalty exemption and multiperiod exceeded returns approach: The loyalty exemption was determined by considering the discount of the loyalty expected to be avoided due to the direct possession of the brand. The multi-term exceeded returns approach was determined by considering the present value of the net cash flows expected to arise from customer relationships.

The total contractual amount of amortized cost loan receivables is ₩ 769,992 million, of which ₩ 7,385 million expected to be non-recoverable as of the acquisition date.

The details of intangible assets recognized as a result of a business combination are as follows.

(In millions of won)

Classification	Amount
Intangible assets related to customer deposits (*1)	₩ 2,596
Brand-related intangible assets (*2)	5,738
Total	₩ 8,334

(*1) The multi-period excess profit method was used to assess the fair value of intangible assets related to customer deposits.

(*2) The Loyalty exemption method was used to assess the fair value of brand-related intangible assets.

(4) Earnings from bargain purchase profit

Earnings from bargain purchases in a business combination are as follows

(In millions of won)

Classification	Amount
Transfer cost (A)	₩ 471,988
Non-controlling interest (B)	127,748
Fair value of net identifiable assets (C)	761,080
Book value of net assets	746,569
Fair value adjustment	14,511
Profit from bargain purchase (C-B-A)	₩ 161,344

(5) Costs related to business combination

The consolidation entity incurred ₩ 1,426 million in legal fees and due diligence fees in connection with the business combination. The applicable legal fees and due diligence fees were recognized as general administrative expenses. In addition, the acquisition tax of the oligopolistic shareholder was ₩ 45 million, which was added to the carrying amount of the subsidiary's investment shares.

(B) Acquisition of DGB Specialized Bank Plc.

(1) General Details

On January 26, 2018, the Group acquired a 100% stake in DGB specialized Bank Plc. and gained control. During the 12 months since the acquisition date with the deemed acquisition date of January 1, 2018, the Group has recognized an operating profit of KRW 9,401 million and a net income of KRW 7,426 million through DGB specialized Bank Plc.

(2) Transfer cost

As of the acquisition date, the fair value of the consideration transferred is as follows.

(In millions of won)

Classification	Amount
Cash	₩ 68,034

(3) Identifiable assets acquired and liabilities assumed

As of the acquisition date, the acquired assets and liabilities are as follows.

(In millions of won)

Classification	Amount
Acquired Assets	₩ 6
Cash and deposits	1,710
Loans at amortized cost	115,639
Tangible assets	573
Intangible assets	107
Other assets	1,192
Acquired liabilities	
Borrowing liabilities	77,462
Other liabilities	2,816
Fair value of net identifiable assets	38,943

The valuation methodologies used to measure the fair value of important assets and liabilities are as follows.

Acquired Assets and Liabilities	Methodologies used for Valuation
Loan at amortized cost	DCF : In case of loan receivables, the credit risk of the borrower is reflected in the allowance of bad debts, so the change in the fair value of the loan due to changes in market interest rate was evaluated. In order to carry out the process, the present value of the contractual cash flows of the loans and receivables was discounted at the discounted rate calculated by adding the initial residual spread at the time of execution of the loan to the risk-free interest rate on the evaluation date.

Loans at amortized cost is ₩ 116,815 million, of which ₩ 1,176 million is not expected to be recoverable as of the acquisition date. There are no intangible assets other than goodwill recognized as a result of the business combination.

(4) Goodwill

Goodwill recognized by the result of the business combination is as follows.

(In millions of won)

Classification	Amount
Transfer cost (A)	68,034
Fair value of net identifiable assets (B)	38,943
Net asset book value	35,123
Fair value adjustment	3,820
Goodwill (A-B)	29,091

(5) Costs Related to business combinations

The Group incurred a cost of ₩ 574 million, including legal fees and due diligence fees in connection with the business combination. The legal fees and due diligence fees were recognized as general administrative expenses.

2. Basis of Preparation**(2-1) 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 11, 2019, which will be submitted for approval to the shareholders at a meeting to be held on March 28, 2019.

The consolidated financial statements of the Group were initially prepared using K-IFRS No. 1115 'Revenue from Contracts with Customers' and K-IFRS No. 1109 'Financial Instruments'. Significant changes in accounting policies are described in Note II-v.

(2-2) 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
- financial instruments at fair value through profit or loss measured at other comprehensive income 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

(2-3) Functional and presentation currency

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

(2-4) 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.

(1) 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 1 – Reporting Entity
- Note 16 – Allowance
- Note 25 – Provisions
- Note 26 – Defined Benefit Obligations
- Note 27 – Insurance Contract Liabilities
- Note 49 – 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 are the same as those applied to the consolidated financial statements as of and for the year ended December 31, 2017 except newly significant judgement and estimation uncertainties related to K-IFRS No. 1109 and No. 1109, which are explained in Note (II-v).

(2) Measurement of fair value

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

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.

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

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

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

(2-5) Changes in accounting policy

The Group has applied K-IFRS No. 1109 'Financial Instruments' and K-IFRS No. 1115 'Revenue from Contracts with Customers' with a date of initial application of January 1, 2018. Other standards applied initially from January 1, 2018 had no significant impact on the consolidated financial statements of the Group.

Due to the transition method chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of new standards, except for certain hedging requirements and separately presenting impairment loss on loans and receivables.

Major impacts of initial application of these standards are as follows:

K-IFRS 1109 : Financial Instruments

K-IFRS No. 1109 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces K-IFRS No. 1039 'Financial Instruments: Recognition and Measurement'.

Additionally, the Group has adopted consequential amendments to K-IFRS No.1107 'Financial Instruments: Disclosure' that are applied to disclosures about 2018, but have not been applied to the comparative information.

The following table summarizes the effect of applying K-IFRS No. 1109 on accumulated other comprehensive income and retained earnings.

Classification	(In millions of won)	
	Accumulation of other comprehensive income	Retained earnings
December 31, 2017 (Before reflecting K-IFRS No.1109)	₩ (55,258)	1,554,830
Recognition of expected credit losses on debt instruments measured at fair value through other comprehensive income	1,131	(1,131)
Changes in measurement category from available-for-sale financial assets to financial assets measured at fair value through profit or loss	(17,441)	18,462
Changes in measurement category from loans receivables to financial assets measured at fair value through profit or loss	-	383
Changes in measurement category from structured deposits to financial assets measured at fair value through profit or loss	704	(1,416)
Changes to the measurement category for financial assets measured at amortized cost of available-for-sale securities	(6,611)	8,886
Changes due to the profit or loss adjustment approach	(13,654)	(5,028)
Adjustment of the current value discount on private bonds	-	22
Recognition of expected credit losses	-	(26,829)
Cancellation of credit risk adjustment allowance by account reclassification	-	2
January 1, 2018 (after reflecting K-IFRS No.1109)	(91,129)	1,548,181

Classification and measurement of financial assets and liabilities

K-IFRS No. 1109 contains three categories of classification for financial assets: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, and financial assets measured at fair value through profit or loss. The classification of financial assets in accordance with K-IFRS No. 1109 is generally based on the business model in which the financial assets are managed and the contractual cash flow characteristics of the financial assets. K-IFRS No. 1109 eliminated the categories of held-to-maturity financial assets, loans and receivables and available-for-sale financial assets in No. 1039. Under K-IFRS No. 1109, derivatives embedded in contracts where main contract is a financial asset within the scope of this standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

K-IFRS No.1109 largely retained the existing requirements for the classification and measurement of existing financial liabilities in accordance with No. 1039.

The application of K-IFRS No. 1109 has no significant impact on the accounting policies of the Group related to financial liabilities and derivative financial instruments (derivatives used as hedging instruments)

The following table describes the initial measurement category in K-IFRS No. 1039 and the new measurement category in accordance with K-IFRS No. 1109 for each distinction between financial assets and financial liabilities of the group as of January 1, 2018.

The impact of applying K-IFRS No. 1109 on the carrying amount of a financial asset on January 1, 2018 relates only to the new impairment requirements.

Changes to the measurement category of financial assets

(In millions of won)

Classification in accordance with K-IFRS No. 1039	Classification in accordance with K-IFRS No. 1109	Book value (K-IFRS No. 1039)(*1)	Book value (K-IFRS No.1109)(*1)
Cash and deposit	Financial assets measured at amortized cost	₩ 2,119,811	2,119,811
Cash and deposit	Financial assets measured at fair value through profit or loss (*2)	135,000	128,977
Trading financial assets	Financial assets measured at fair value through profit or loss	510,935	511,803
Trading financial assets (Derivative financial instruments for trading)	Financial assets measured at fair value through profit or loss	99,414	97,656
Financial assets designated at fair value through profit or loss	Financial assets measured at fair value through profit or loss	79,917	79,917
Available-for-sale financial assets (equity securities)	Financial assets measured at fair value through other comprehensive income (*3)	303,459	55,052
Available-for-sale financial assets (equity securities)	Financial assets measured at fair value through profit or loss (*2)	-	246,857
Available-for-sale financial assets (debt securities)	Financial assets measured at fair value through other comprehensive income	3,746,057	3,746,057
Available-for-sale financial assets (beneficiary securities)	Financial assets measured at fair value through other comprehensive income	449,480	-
Available-for-sale financial assets (beneficiary securities)	Financial assets measured at fair value through profit or loss (*2)	-	449,480
Held for maturity financial assets	Financial assets measured at amortized cost	7,951,189	7,623,163
Held for maturity financial assets	Financial assets measured at fair value through profit or loss (*2)	-	308,441
Loans and receivables	Financial assets measured at amortized cost	40,278,163	40,206,885
Loans and receivables	Financial assets measured at fair value through profit or loss	-	49,906
Derivative financial instruments for hedging purposes	Derivative financial instruments for hedging purposes"	20,395	20,395

(*1) The amount was prepared after deducting the provision.

(*2) In accordance with K-IFRS No.1104, the Group was designated to apply the Overlay approach to financial assets related to insurance contracts (deposit ₩114,422 million, available-for-sale financial assets ₩127,085 million, and held-to-maturity financial assets ₩308,460 million). For financial assets measured at fair value through profit or loss, the Group reclassifies the amounts reported in profit or loss under K-IFRS No. 1109 to amounts that would have been reported in profit or loss if K-IFRS 1039 had been applied).

(*3) An equity instrument is an investment by the Group for long-term purposes. The Group classified these investments as fair value through other comprehensive income at the date of initial application.

Changes in the measurement category of financial liabilities

(In millions of won)

Classification in accordance with K-IFRS No. 1039	Classification in accordance with K-IFRS No. 1109	Book value (K-IFRS No. 1039)(*1)	Book value (K-IFRS No.1109)(*1)
Trading financial liabilities (Derivatives financial instruments for sale)	Financial assets measured at fair value through profit or loss	₩ -	775
Trading financial liabilities (Derivatives financial instruments for sale)	Financial liabilities measured at fair value through profit or loss	97,470	96,695

Impairment of a financial asset

K-IFRS No. 1109 replaced the 'incurred loss' model in K-IFRS No. 1039 into 'Expected credit loss(ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income, but not to investments in equity instruments. Under K-IFRS No. 1109, credit losses are recognised earlier than under K-IFRS No. 1039.

For assets in the scope of the K-IFRS No. 1109 impairment model, Impairment losses are generally expected to increase and become more volatile. On January 1, 2018, the Group decided that applying the impairment requirements in K-IFRS No. 1109 would result in additional impairment losses as follows.

(In millions of won)

Classification	Financial statements based on K-IFRS No.1039	Reclassification	Remeasurement	Financial statements based on K-IFRS No.1109
Loans and receivables under K-IFRS No. 1039 measured at amortised cost in accordance to K-IFRS No. 1109				
Loan receivable	₩39,565,484	(52,766)	-	39,512,718
LOC/F, etc.	41,179	1,431	-	42,610
Loan-loss reserves	(270,955)	-	(19,970)	(290,925)
Other receivables	957,204	(80)	-	957,124
Current value discount, etc.	(1,825)	-	-	(1,825)
Other financial asset loss allowance	(12,923)	-	106	(12,817)
Held-to-maturity financial assets under K-IFRS No. 1039 measured at amortised cost in accordance to K-IFRS No. 1109				
Securities	7,951,189	(320,633)	(7,195)	7,623,361
Bad Debt allowance	-	-	(198)	(198)
Securities	4,498,996	(697,887)	-	3,801,109
Bad Debt allowance	-	-	(1,131)	(1,131)
Available-for-sale financial assets under K-IFRS No. 1039 measured at fair value through other comprehensive income in accordance to K-IFRS No. 1109				
Provision for financial guarantee	(223)	-	-	(223)
Payment guarantee	(1,716)	-	(285)	(2,001)
Unused credit commitment	(12,880)	-	(13,135)	(26,015)
Total	₩52,713,530	(1,069,935)	(41,808)	51,601,787

Hedge accounting

The Group decided to apply the new general hedge accounting model in K-IFRS No. 1109. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

With respect to the application of the new general hedge accounting model in K-IFRS No. 1109, the financial impact of the group's accounting policies and financial statements based on current circumstances and information available as of the beginning of the current term is not significant.

The application of the new general hedge accounting model in K-IFRS No. 1109 has no significant financial impact on the Group's accounting policies and their consolidated financial statements based on analysis performed with circumstantive and available information as of January 1, 2018.

Transitional Provisions

Due to the policy, changes in accounting policies resulting from the adoption of K-IFRS No. 1109 shall be applied retrospectively, except as the following.

- The Group has applied an exception not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. The difference in carrying amount of financial assets and financial liabilities under the application of K-IFRS No. 1109 was recognised in retained earnings on January 1, 2018. Consequently, the information presented for 2017 did not reflect the requirements of K-IFRS No. 1109 but reflected the requirements of K-IFRS No. 1039.
- The following assessments have been made based on the facts and circumstances existing at the date of initial application.
 - The determination of a business model within which a financial asset is held
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL
 - The designation of certain investments in equity instruments not held for trading as at FVOCI
- If an investment in debt securities had low credit risk at the date of initial application of K-IFRS No. 1109, the Group has assumed that the credit risk on the asset had not increased significantly since the date of initial recognition.
- Changes to hedge accounting policies were applied prospectively, except for hedge cost accounting for forward points related to designated hedging relationships, which existed on or were designated after January 1, 2017.
- All hedging relationships designated in accordance with K-IFRS No. 1039 on December 31, 2017 met the hedging requirements in accordance with K-IFRS No.1109 on January 1, 2018. Therefore, the hedging relationship is considered to continue.

K-IFRS No.1115 'Revenue from Contracts with Customers'

K-IFRS No.1115 is comprehensive framework for determining when and how much revenue is recognised. This standard replaces K-IFRS No.1018 'Revenue', K-IFRS No.1011 'Construction Contracts', K-IFRS No.2031 'Revenue', K-IFRS No.2113 'Customer Loyalty Program', K-IFRS No.2115 'Property Construction Contracts' and K-IFRS No.2118 'Transfers of Assets from Customers'.

The Group applied K-IFRS No.1115 for annual periods beginning on or after January 1, 2018 and applied retrospectively to recognize the cumulative effect of initial application at the date of first day in accordance with K-IFRS No. 1008 'Accounting Policies, Changes in Accounting Estimates and Errors'.

When applying K-IFRS No. 1115, the important impacts on the Group's statement of comprehensive income ending December 31, 2018 are as follows. As of December 31, 2018, the impact on the consolidated statement of financial positions and cash flows is not significant.

Classification	(In millions of won)		
	Financial statements before application of K-IFRS No. 1115	Adjustment	Disclosure Amount
Interest Income Credit card income Interest (*1)	₩ 97,650	(9,788)	87,862
Commission fees Credit card payment fee (*2)	47,169	(9,788)	37,381

(*1) Before applying K-IFRS No. 1115, the Group recognized unearned revenue for deferred revenue allocated to card points and recognized them as revenue when the points were used and the Group fulfilled the obligations under the customer's use of the points. However, Under K-IFRS No. 1115, the points granted were estimated at fair value, such as financial benefits provided in consideration of the expected recovery rate and recognised as a deduction from the credit card interest income.

(*2) The Group has changed the credit card membership service expense paid to credit card customers, which was previously recognized as fee expense, to be recognized as a deduction from credit card interest income in exchange for payment to customers in accordance with application of K-IFRS No. 1115.

3. Significant Accounting Policies

Except for the changes explained in Note 2-5, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(3-1) Operating segment

The Group divides the segments based on internal reporting data periodically reviewed by the CEO to make decisions about resources to be allocated to the segment and to evaluate the performance of the segment. As described in Note 4, there are six reportable segments, of which each is

the strategic units of the group. Strategic sales units provide different services and are operated separately because each unit has different skills and marketing strategies.

(3-2) Basis of consolidation

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

(1) Business combinations

(A) 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. Also, the Group measures the non-controlling interest in the acquiree as of the acquisition date as a proportionate share of the non-controlling interest among the acquiree's identifiable net assets.

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, and 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. Acquisition related costs are accounted for as expenses in the period in which the costs are incurred and the services are received, except 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 is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and 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.

(B) Goodwill

In the case of the sum of a consideration transferred at the date of acquisition and a non-controlling interest in the acquiree or, in the case of a staged business combination, the total fair value of the acquiree's share of the acquiree held by the Group exceeds the identifiable net assets of the subsidiary acquired, the excess amount is recognized as goodwill.

The additional acquisition of non-controlling interests is accounted for as a transaction between the shareholders and, as a result, no related goodwill is recognized.

(2) 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.

(3) Removal of internal transaction

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.

(4) 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.

(5) 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 compo-

nents 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.

(6) Equity on investee under equity method

The Group's equity on investee under equity method 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.

(3-3) 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.

(3-4) Non-derivative financial assets

(1) Recognition and initial measurements

Financial instruments and liabilities are recognized only when the Group becomes a party to the financial instrument. Upon initial recognition, a financial asset or financial liability is measured at fair value, and where it is not an FVTPL financial asset or FVTPL financial liability, any transaction costs directly attributable to the acquisition of that financial asset or the issuance of that financial liability is deducted from the fair value.

(2)-1 Financial asset: Subsequent measurement and classification of applicable accounting policy from January 1, 2018

At initial recognition, financial assets are classified as measured at amortized cost, FVOCI debt instruments, FVOCI equity instruments or FVTPL. Financial assets are not reclassified after initial recognition, unless the Group modifies the financial asset management model, in which case all of the financial assets impacted are reclassified on the first day of the first reporting period after the change in the business model.

Financial assets are measured at amortised cost if they meet the following conditions and are not designated at fair value through profit or loss:

- If held under a business model whose objective is to collect contractual cash flows.
- The terms and conditions of the financial asset result in cash flows that are solely principal payments and balances on a specific date.

If the debt instrument meets the following conditions and are not designated at fair value through profit or loss, it is measured at fair value through other comprehensive income:

- Financial assets are held under a business model that is aimed at both collecting contractual cash flows and selling financial assets.
- The terms of the financial asset result in cash flows that are solely payments of principal and interest on a particular date.

At initial recognition of equity instruments that are not held for short-term sale, the group may choose to present subsequent changes in the fair value of the investment in other comprehensive income. However, cancellation is not available once selected. These choices are made by investment.

Any financial asset not measured at amortised cost or fair value through other comprehensive income describe above is measured at fair value through profit or loss. These financial assets include all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The group assesses the objective of the business model in which an asset is held at a portfolio level because it best reflects how the business is managed and how information is provided to the management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. It focuses on acquiring contractual interest, maintaining a certain level of interest rates, aligning the duration of the debt with the duration of the financial asset and the duration of the financial asset, or leasing or realizing the expected cash flow through the sale of the asset and also includes executive strategy.
- How the performance of the financial assets held by the business model is evaluated and reported to the Group's management
- The risks that affect the performance of the business model (and the financial assets held in the business model) and the way in which they are managed
- How managers of the business are compensated (e.g. whether compensation based on the fair value of the assets managed or contractual cash

flows collected)

· The frequency, amount, timing and reasons for the sale of financial assets in the past and the forecasts of future selling activities

For the purpose, a transaction that transfers a financial asset from a transaction that does not meet the removal requirements to a third party is not considered a sale. A financial asset portfolio that meets the definition of short-term trading or whose portfolio performance is measured on a fair value basis should be measured by FVTPL.

Assessment of whether Contractual Cash Flows are Solely Consisted of Principal and Interest

The principal is defined as the fair value of the financial asset at initial recognition. Interest consists of profit as well as consideration for the time value of money, consideration for credit risk associated with principal balances in a given period, and consideration from other basic lending risks and costs (e.g. Liquidity risk and operating costs).

In assessing whether the contractual cash flows consist solely of payments of principal and interest, the Group considers the contractual terms and conditions of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers the following:

- contingent events that would change the amount and timing of cash flows
- provisions to adjust contractual nominal interest rate, including variable interest rate
- prepayment and extension terms
- terms of the contract that limit the Group's claims to cash flows from specified assets (e.g. non-recourse loans)

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Subsequent measurement and gains or losses

Financial assets at fair value through profit or loss	These assets are subsequently measured at fair value. Net gain (loss) including any interest or dividend income, are recognized in profit or loss. Refer Note III-v for derivatives designated as hedging instruments.
Securities at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Financial debt instruments at fair value through other comprehensive income	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
Financial equity instruments at fair value through other comprehensive income	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

(2)-2 Financial Assets : Classification and Subsequent measurements – Policy applicable as of December 31, 2017

The group classifies financial assets as loans and receivables, held-to-maturity securities, available-for-sale securities and financial assets at fair value through profit or loss, and financial assets at fair value through profit or loss consist of financial assets designated as held for trading, derivatives and financial instruments at fair value through profit or loss.

Financial assets measured at fair value	These assets are subsequently measured at fair value, and changes are recognized in profit or loss, including interest or dividend income. Refer Note III-v for derivatives designated as hedging instruments.
Financial assets at maturity	These assets are measured at amortised cost using the effective interest rate method.
Loan and receivables	These assets are measured at amortised cost using the effective interest rate method.
Available-for-sale financial assets	Changes in fair value, excluding impairment losses on debt instruments, interest income and foreign currency translation differences are recognized in other comprehensive income. When these assets are derecognized, the gains and losses accumulated in equity are reclassified to profit or loss.

(3) De-recognition

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.

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.

(4) Offsetting

The Group is only offsetting financial assets and liabilities in the consolidated statement of financial position if it currently has a legally enforceable right to the assets and liabilities recognized by the Group and intends to settle the liabilities at a net price or at the same time as the assets are realized.

(3-5) Derivative financial instruments, including hedge accounting**(1) Derivative and Hedge accounting – policy applicable from January 1, 2018**

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

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).

At inception of designated hedging relationships, 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, and the change in the fair value of the hedged item due to the hedged risk is also recognized in profit or loss. Fair value hedge accounting is discontinued when the group no longer designates the hedging relationship, when hedging instrument expires, sells, liquidates, exercised, or when the accounting requirements are no longer met. The carrying amount of the hedged item attributable to the hedged risk is amortised to profit or loss from the date where the hedge accounting is discontinued. The ineffective part in the change of the fair value of a derivative is recognized immediately in profit or loss.

Cash flow hedge

When a derivative is designated as a cash flow hedge, the effective part of the change in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedge reserve. The effective part of the change in the fair value of the derivative recognized in other comprehensive income is limited to the cumulative change in hedged item determined on the basis of its present value from the inception of the hedge. The ineffective part in the change of the fair value of a derivative is recognized immediately in profit or loss.

The Group designates only changes in the fair value of the spot component of the forward exchange transaction as a hedging instrument in a cash flow hedge relationship. The 'forward point' of the component of forward exchange contracts is accounted separately as the hedge cost and recognized in the cost of hedging the equity.

If the hedged transaction is subsequently recognized in non-financial assets, the accumulated hedge reserve and the cost of hedge are included directly in the initial cost of the non-financial asset when recognized. For other hedged transactions, the cumulative amount and the costs of hedges are reclassified to profit or loss in the same period or in the period in which the hedged expected future cash flows affect the profit or loss.

If the hedge no longer meets the accounting requirements or the hedging instrument is sold, extinguished, terminated or exercised, hedge accounting is phased out. If a non-financial item is a recognised hedge transaction, the cumulative amount of the hedge reserve and the cost of the hedge are left in the equity item until the non-financial item is initially recognised and included in the cost of the non-financial item. For cash flow hedges that are not eligible, the cash flow hedge reserve and the cost of the hedge are reclassified to profit or loss as a reclassification adjustment in the period in which the hedged future expected cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, the accumulated cash flow hedge reserve and the cost of the hedge are reclassified immediately to profit or loss.

Net Investment Hedge

If a derivative or non-derivative financial liability is designated as a hedging instrument for a net investment in a foreign operation, the effective portion of the change in the fair value of the hedging instrument is recognised in other comprehensive income in the case of a non-derivative instrument and foreign currency translation gain or loss is recognised in equity. The ineffective portions are recognised immediately in profit or loss. The

amounts recognised in other comprehensive income shall be reclassified to profit or loss as reclassification adjustment when disposing of foreign operations.

Embedded Derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

(2) Derivative and Hedge accounting - Policy applicable as of December 31, 2017

The accounting policies applied in the financial statements of the prior period presented are similar to those applied on 1 January 2018. However, for all cash flow hedge accounting, including hedges of transactions that result in the recognition of non-financial items, the accumulated cash flow hedge reserve is reclassified to profit or loss during the same period or in which the hedged future expected cash flows affect profit or loss.

(3-6) 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).

(3-7) Impairment of financial assets

(1) Policies applicable from January 1, 2018

The Group recognizes a loss allowance for expected credit losses in three phases for financial assets

· Stage 1: 12-month Expected credit losses

Financial assets that have not experienced significant increases in credit risk since initial recognition and that are determined to have low credit risk at the end of the reporting period are recognized by measuring and recognizing expected credit losses due to default events on financial instruments that may occur within 12 months after the end of the reporting period.

· Stage 2 : Lifetime expected credit losses

The lifetime expected credit losses are measured and recognized for financial assets that have not been credit-impaired but have significantly increased since initial recognition.

· Stage 3: Lifetime expected credit losses

If one or more impairment incidents have affected the estimated future cash flows of a financial asset, the financial asset is assessed to be credit-impaired. The Group measures and recognizes lifetime expected credit losses for credit-impaired financial assets and interest income by applying the effective interest rate to amortized cost.

Measurement of expected credit losses

Expected credit losses are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e., the difference between all contractual cash flows payable under the contract and cash flows expected to be received). Expected credit losses are discounted at the effective interest rate of the financial asset.

Applicable timeline of expected credit losses

Lifetime expected credit losses are resulting from all default events that may occur during the expected life of the financial instrument. The 12-month expected credit loss is the portion of expected credit loss that result from default events on a financial instrument that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The longest period to consider when measuring expected credit losses is the longest contractual term for which the Group is exposed to credit risk.

Evaluation of credit risk

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and estimating expected credit losses, the group considers information that is available, reasonable and supported without undue cost or effort. This includes quantitative and qualitative information and analysis based on the group's past experience, credit ratings, and forward-looking information, including forward-looking information.

The Group uses internal and external credit, with past due dates to determine whether credit risk has increased significantly.

The Group assumes that the credit risk of a financial asset increases significantly when the past due date exceeds 30 days.

The Group considers credit risk to be low if the credit risk rating of a financial asset is at a level that is internationally understood as a 'investment grade'.

Default and impairment

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- The financial asset is more than 90 days past due.

At the end of each reporting period, the Group assesses whether the financial asset is credit-impaired. If there is more than one event that adversely affects the estimated future cash flows of a financial asset, it is impaired.

Evidence of impaired credit for financial assets includes the following observable information

- Significant financial difficulties of the issuer or borrower;
- Breach of contract, such as default or more than 90 days overdue
- Inevitable mitigation of the original borrowing conditions for economic or contractual reasons related to the borrower's financial difficulties;
- The likelihood of a borrower's bankruptcy or other increases in financial restructuring
- Expiration of an active market for a financial asset due to financial difficulties

Presentation of credit loss allowance

The loss allowance for financial assets measured at amortized cost is deducted from the carrying amount of those assets.

For debt instruments measured at fair value through other comprehensive income, the loss allowance is included in profit or loss and recognized in other comprehensive income.

Write-off

If there is no reasonable expectation of a full or partial recovery of the contractual cash flows of the financial asset, then the asset should be removed. This is usually the case when the group determines that the creditor does not have an income source or asset that will generate enough cash flows to repay the amount to which it is subject. However, financial assets that are derecognized may be subject to the collection of maturing amounts of the Group.

(2) Policy applicable as of December 31, 2017

Since initial recognition, if there is objective evidence that a financial asset is impaired as a result of one or more impairment events affecting the estimated future cash flows of the financial asset, the financial asset is judged to be impaired.

In the event that the issuer of a financial asset goes bankrupt or does not pay principal or interest, the entity determines that there is objective evidence of asset impairment, such as when the borrower's financial difficulties mitigate the borrowing conditions or when the active market for the financial asset expires. For equity instruments classified as available-for-sale financial assets, the entity determines that there is objective evidence of asset impairment if the fair value of the equity instruments falls below cost (more than 30%) or below cost for a long period of time (more than 6 months). For a particular class of financial assets, we are subsequently conducting a collective impairment test with respect to assets that are individually assessed to be unimpaired.

The impairment loss on a financial asset measured at amortized cost is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the original effective interest rate, deducted or directly deducted from the carrying amount of the asset using a provision account. In the event that an increase in the fair value of a financial asset is objectively related to an event that occurred after the impairment loss was recognized in subsequent periods, the impairment loss is reversed and recognized in profit or loss.

An impairment loss on a financial asset measured at cost is measured as the difference between the present value and carrying amount of the estimated future cash flows discounted at the current market rate of similar financial assets and is recognized in profit or loss. These impairments are not reversed.

If there is objective evidence of impairment for available-for-sale financial assets that recognize a reduction in fair value in other comprehensive income, the cumulative losses recognized in other comprehensive income are reclassified from equity to profit or loss. For available-for-sale equity instruments, impairment losses recognized in profit or loss are not reversed.

Loans and Receivable

The group first determines whether loans and receivables are individually important, then evaluates individually or collectively to establish loan-loss reserves.

· Individual assessment on provision

The individual assessment on provisions are based on management's estimation of the present value of cash flows expected to be recovered from the bonds being assessed. In estimating such cash flows, the group determines all possible information, which includes the financial circumstances of the other party's operating cash flows and the net realizable value of the related collateral.

· Collective assessment on provision

For collective assessment on provisions, the financial assets are classified on the basis of the credit rating evaluation of the group taking into characteristics of account credit risks, such as types of assets, industry, geographical location, type of collateral, past due status and other related factors. The future cash flows of a group's financial assets that are collectively assessed for loan-loss reserves are estimated on the basis of the past experience of losses for assets with credit risk, similar to the cash flows of the group. The historical impairment loss experience is adjusted, based on the current observable data to reflect the effect of the current situation that did not affect the period of the past experience and excludes the effect of a situation that occurred in past, but not currently exist.

Estimates of changes in future cash flows consistently apply changes in observable data (e.g., unemployment, asset prices, commodity prices, payment status or other variables that represent impairment losses and their magnitude in group of assets). The methodology and assumptions used to estimate future cash flows are reviewed regularly to reduce the gap between the estimation and the actual impairment loss.

Impairment losses on loans and receivables are deducted using the provision account and amortized from the reserves if the financial asset is considered unrecoverable. If loans and receivables that were previously measured at amortized cost are subsequently recovered, then the provision are increased, and changes in the provision are recognized in profit or loss.

Available-for-sale financial assets

An available-for-sale financial asset that recognizes a reduction in fair value in other comprehensive income is reclassified from other comprehensive income to profit or loss, from less than its acquisition cost to less impairment losses on that financial asset already recognized in profit or loss in the previous period. Impairment losses on available-for-sale financial assets are recognized in profit or loss and are deducted directly from their carrying amount.

If the fair value of available-for-sale financial assets increases in subsequent periods and the increase is objectively related to events that occurred after the impairment loss was recognized, the available-for-sale debt instrument is reversed to profit or loss and the available-for-sale equity instruments are reversed to other comprehensive income.

(3-8) 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 amendment is accounted for as a change in an accounting estimate.

(3-9) 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.

(3-10) 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.

(3-11) 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.

(3-12) Impairment of non-financial assets

All non-financial assets, apart from assets arising from employee benefits, deferred tax assets and non-current assets classified as held for sale are reviewed at end of each reporting period for indications of asset impairment, and estimates the recoverable amount. However, intangible assets with indefinite useful lives and not available are tested for impairment annually by comparing recoverable and carrying amounts, regardless of indications that the asset may be impaired.

The recoverable amount is estimated either by individual asset or by the cash-generating unit to which the asset belongs if the amount cannot be estimated. Recoverable amount is determined to be the larger of value in use and fair value less costs to sell. Value in use is estimated by discounting future cash flows that are expected to be generated by an asset or cash generating unit at an appropriate discount rate that reflects current market assessments of the time value of money and the risks of specialized assets that are not adjusted when estimating future cash flows.

If the recoverable amount of an asset or cash generating unit falls short of its carrying amount, the asset is reduced and recognized immediately as profit or loss.

The goodwill acquired in a business combination is allocated to each cash-generating unit that is expected to benefit from the synergies of the business combination. The impairment loss on the cash-generating unit first reduces the carrying amount of goodwill allocated to the cash-generating unit and then the asset in proportion to the carrying amount of each other asset in the cash-generating unit. Impairment losses recognized for goodwill cannot be reversed in a subsequent period.

At the end of each reporting period, the group will review whether there are any indications that the impairment losses recognized in the past other than goodwill are no longer present or are reduced, and will only be reversed if there is a change in the estimates used to determine recoverable amount after the recognition of the immediately preceding impairment loss. The carrying amount increased by the reversal of an impairment loss shall not exceed the balance after depreciation or amortization of the carrying amount before the impairment loss was recognized previously.

(3-13) 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.

(1) If the Group is the lessor

Financial Lease

Financial lease assets are recognized as receivables in the same amount as net investment in lease, and interest income is recognized using the effective interest method for non-recurring net investment in finance leases. Lease payments are accounted for separately by the principal amount of the bond and interest income.

The Group classifies as a financial lease or operating lease based on the substance of the transaction rather than on the form of the contract. One or more of the following is classified as a financial lease.

- When ownership of a leased asset is transferred to the lease user or before the end of the lease term
- The lease user has the option of a bargain purchase as of the date of the lease agreement and is sure to exercise
- The lease term accounts for a significant portion of the economic life of the leased asset, even if the ownership of the leased asset is not transferred.
- The present value of discounting the minimum lease fee at the intrinsic interest rate as of the inception of the lease accounts for most of the fair value of the leased asset.
- If the lease asset is used in a special purpose by the lessee without any significant changes.

Operating Lease

Operating lease assets are calculated on the basis of the acquisition cost as of the lease effective date, and the acquisition cost includes interest expense and other similar financing loans incurred by the date for the borrowings used to acquire the operating lease assets. The residual value of the lease contract and the asset is amortized to a straight-line method over the lease term for the acquisition cost of the asset.

The minimum lease payments are recognized as operating lease income, and the adjusted lease payments are recognized as gains and losses in the period in which the lease was incurred. In addition, direct costs incurred during the negotiation and contract phases of the operating lease are added to the carrying amount of the asset and recognized as expenses during the lease period in response to the return on lease payments.

Prepaid Lease Assets

Expenditure incurred in connection with a lease agreement that was entered into but not executed as of the end of the reporting period is recognized as a prepaid asset.

Adjusted Lease payment

Despite the amount has not been fixed, the portion of the lease payments that are determined on the basis of future generation of factors other than the period (e.g. a certain percentage of sales, usage, price index, and market interest rate) is recognized as a gain or loss in the period in which the lease occurs. However, if the recovery of the adjustment lease payments is not confirmed, the revenue is recognized at the time of recovery.

(2) If the Group is a lessee

Financial Lease

The Group recognizes the present value of the minimum lease payments measured and the fair value of the leased assets as financial lease assets and liabilities respectively at the inception of the lease. Initial direct costs are included in the financial lease assets.

Minimum lease payments are recognized by dividing them into financial costs and the repayment of lease liabilities, and financial costs are allocated during each reporting period of the lease to yield a fixed time interest rate on the liability balance. Adjusted lease payments are paid for the period in which they occur.

Depreciation of a financial lease asset is amortized on a systematic basis that is consistent with other depreciable assets owned by the group, and depreciation over a short period of the lease term and the useful life of the leased asset if it is not certain to acquire ownership of the asset by the end of the term. In addition, the Group is considering whether to impair its financial lease assets.

Operating Lease

Operating lease is recognized on a straight-line basis over the term. Incentives for operating leases are recognized by deducting the total benefit from the lease expense over the term.

(3) Determining whether an arrangement contains a lease

To determine whether an arrangement is a lease or contains a lease, the Group examines whether a particular asset can be used to fulfil the agreement or transfer the right to use the asset according to the agreement.

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.

(3-14) Non-current assets held for sale

If the carrying amount of a non-current asset or disposal group is expected to be recovered primarily through a sale transaction rather than through continuous use, the asset is classified as held for sale. These conditions are considered to be satisfied only when the asset (or disposal group) is immediately available for sale and is likely to be sold. The asset (or disposal group) is measured at the lower of its carrying amount and fair value less costs to sell immediately before the asset (or group of assets and liabilities) is initially classified as held for sale. If the fair value less costs to sell of an asset that has been recognized for impairment at the initial classification falls, the impairment loss is immediately recognized in profit or loss, and if the fair value less costs to sell increases, the accumulated impairment losses previously recognized are recognized in profit or loss.

Non-current assets are not amortized if they are classified as held for sale or are part of a disposal group classified as held for sale.

(3-15) Non-derivative financial liabilities

(1) Policies applicable from January 1, 2018

The Group classifies financial liabilities other than derivative financial liabilities and financial guarantee contract liabilities at fair value through profit or loss, financial liabilities measured at fair value through profit or loss and other financial liabilities (depository liabilities, borrowings, etc.) and recognizes in the statement of financial position.

Financial liabilities designated as fair value through profit or loss

The Group may designate a financial liability as at fair value through profit or loss at initial recognition if it is able to eliminate or significantly reduce any inconsistency in recognition or measurement resulting from measuring the asset or liability on different criteria, and if a group of financial instruments managed on a fair value basis are in accordance with a documented risk management or investment strategy and their performance is evaluated. However, cancellation is inevitable when specified. Changes in fair value due to changes in the own credit risk of the financial liability des-

ignated at fair value through profit or loss are recognized in other comprehensive income.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are measured after initial recognition, and changes in fair value are recognized in profit or loss on financial instruments measured at fair value through profit or loss.

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.

Derecognition of Financial Liabilities

Financial liabilities are derecognised in the statement of financial position only when they expire; contractual obligation is satisfied, cancelled or expired. The Group derecognises the existing liability and recognises the new financial liability at fair value on the basis of the new contract if the terms of the financial liability have changed and the cash flows have changed substantially.

When a financial liability is derecognised, the difference between the carrying amount and the paid amount (including transferred non-cash assets or liabilities assumed) are recognised in profit or loss.

(2) Policies applicable as of December 31, 2017

The Group classifies financial liabilities, other than derivative financial liabilities and financial guarantee contract liabilities as financial liabilities at fair value through profit or loss and other financial liabilities (depository liabilities, borrowing liabilities, etc.) and recognized in the statement of financial position when they become parties to the contract.

Financial liabilities at Fair value through profit or loss

Financial liabilities are classified as tradable items, derivatives, or as at fair value through profit or loss at initial recognition. Financial liabilities at fair value through profit or loss are measured after initial recognition and changes in fair value are recognized in profit or loss. On the other hand, transaction costs incurred in connection with the issue at initial recognition are recognized in profit or loss immediately when they occur.

Other Financial Liabilities

Non-derivative financial liabilities that are not classified as financial liabilities at fair value through profit or loss are classified as other financial liabilities. Other financial liabilities are measured by deducting the transaction costs directly related to the issue at initial recognition.. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method, which is recognized using the effective interest method.

Elimination of Financial Liabilities

Financial liabilities are derecognised in the statement of financial position only when they expire; when the contractual obligation is satisfied, cancelled or expired. The Group derecognizes the existing liability and recognizes the new financial liability at fair value on the basis of the new contract if the terms of the financial liability have changed and the cash flows have changed substantially.

When a financial liability is derecognized, the difference between the carrying amount and the paid amount (including transferred non-cash assets or liabilities assumed) are recognized in profit or loss.

(3-16) Fair value of financial instruments

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

Financial instruments that are carried at fair value includes financial instruments measured at fair value through profit or loss and through other comprehensive income. The fair value of the financial instrument in which an active market exists was determined using the quoted market price in the active market. The fair value of financial instruments that do not have an active market was determined through valuation techniques.

Evaluation techniques include how to use recent transactions between knowledgeable, willing parties, referring to current fair values of substantially the same other financial instruments, how to discount cash flows and an option pricing model. The valuation technique was used when market participants generally used to determine the price of a financial instrument and provided that the valuation technique provided were reliable estimates of the actual market transaction price.

When fair value is determined by valuation technique, it may be demonstrated by comparison with observable current market transactions of the same financial instrument or assessed on the basis of valuation techniques including only the variables. However, in determining fair value through valuation techniques, not all major inputs are always observable in the market and in such cases, fair value is determined using reasonable assumptions or estimates.

(2) Classification and level of disclosure for fair value

Fair value through profit or loss and other comprehensive income measurement financial instruments have different assessment methods, so the fair value level is defined according to the account subjects and attributes of the securities system and the fair value level is assigned to each product. The fair value level classification criteria for each product are as follows;

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).

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

Financial instruments that are not listed at fair value include deposits, amortized cost-measured loans, amortized cost-measuring financial assets, depository liabilities, borrowing liabilities, and other financial liabilities. These instruments are carried in the account at amortized acquisition cost. The fair value determination method for each product is as follows:

Deposits and Loan measured at amortized costs

The estimated fair value of deposits with maturity of six months or less is the carrying amount. The estimated fair value of non-impaired deposits and loan measured at amortized cost is the amount of the estimated future cash flows reflecting the credit risk discounted at the current market interest rate for individual assessments, and the collective valuation is the carrying amount of the loan receivable subtracted by the provision.

Financial assets measured at amortized costs

The fair value of financial assets measured at amortized cost uses either a market price or price disclosed by a broker/seller/public assessor. If the information is not available, estimates are made using the quoted market price for products with similar credit, maturity and yielded characteristics.

Deposit liabilities

The carrying amounts of non-interest bearing deposit liabilities and deposit liabilities 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 liability is the present value of future cash flows discounted at the interest rate (market rate) of a recently issued liability with the similar maturity.

Borrowings

The estimated fair value of the borrowings with a contractual maturity and a variable interest repayment period of less than six months is the carrying amount. The estimated process value of a borrower without a quoted market price in an active market is the amount of the future cash flows discounted to the present value using the interest rate on a new liability with a similar residual maturity. For borrowings, the won-dollar borrower will evaluate the carrying amount at estimated fair value and the carrying amount within six months of the foreign currency borrowings at estimated fair value. The total fair value of issued bonds is calculated based on the market price disclosed in the active market. For bonds that do not have a quoted market price in the active market, a DCF model is used based on the appropriate yield curve for the remaining period until maturity.

(3-17) Employee benefits**(1) 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.

(2) 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.

(3) 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.

(4) 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.

(5) 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.

(3-18) Provisions

Provisions are a present obligation (legal or constructive obligation) that exist as a result of a past event, and is recognized when resources with economic benefits are likely to be exposed to satisfy and the amount required are reliably estimated.

The amount recognized as a provision is the best estimate of the expenditure required to satisfy the present obligation at the end of the reporting period, taking into account the unavoidable risks and uncertainties about the events and circumstances involved. When the time value effect of currency is important, the provision is assessed as the present value of the expenditure to satisfy the obligation.

If a third party is expected to reimburse some or all of the expenses required to settle a provision, the entity recognizes the reimbursement amount and accounts for it as a separate asset only when it is almost certain that it will be reimbursed.

The Group reviews the balance of the provision at the end of each reporting period and adjusts it to reflect the best estimate as of the end of the reporting period. In case it is no longer probable that resources embodied in economic benefits will be leaked for the purpose of the obligation, the related provisions are reversed.

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

A financial guarantee contract is a contract where issuer has to pay a specified amount to compensate for losses incurred by the holder due to the failure of a particular creditor to pay at the date of payment in accordance with the initial or modified terms of the debt instrument. Such financial guarantees are provided to banks, financial institutions and other institutions on behalf of the customer in order to guarantee loan receivables and other credit limits. Financial guarantees are initially measured at fair value (when they are provided) and are counted as liabilities, and since financial guarantee contracts are not traded in active markets, fair value is calculated through valuation techniques, and the fair value of financial guarantee is calculated by combining the present value of the fees received and to be received in the future.

After initial recognition, the amount recognized is amortized to net income during the warranty period (recognized as a commission income amount) and measure at a large amount in each settlement period by comparing the following, and if the amount is large than the amount is added as a payment guarantee allowance.

- Provision loss determined in accordance with K-IFRS No. 1109 'Financial Instruments'
- Accumulated of amortized cost deducted by amortized cost recognized in accordance with K-IFRS No.1115 'Revenue from Contracts with Customers, in accordance with initial recognition amount (fair value)

The increase in all liabilities related to financial guarantee is recognized as current expense as an account of the transfer of provisions.

(3-19) Foreign currencies

(1) 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.

(2) 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.

(3) Conversion of net investment in Foreign operations

Among monetary items to be received from or paid to a foreign operation, items unplanned to be settled in the foreseeable future and are unlikely to be settled are considered part of the net investment in foreign operations and are recognized in other comprehensive income in the consolidated financial statements and are reclassified to profit or loss at the time of disposal of the related net investment.

(3-20) Equity capital

Ordinary shares are classified as equity and the incremental costs incurred directly related to capital transactions are deducted from equity in a net amount reflecting 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.

(3-21) 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.

(3-22) Recognition of revenue and expense

The Group recognizes revenue by applying the five step revenue recognition model as below.

1. Contract identification -> 2. Identification of performance obligations -> 3. Calculation of transaction price -> 4. Allocation of transaction price to performance obligation -> 5. Recognition of revenue when performance obligation is satisfied

(1) Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest method calculates the amortised cost of a financial asset or liability and allocates interest income or expense over the relevant period.

The effective interest rate exactly matches the present value of the future payment or receivable estimated during the expected life of the financial instrument with the total carrying amount of the financial asset or amortised cost of the financial liability. When calculating interest income or interest expense, the effective interest rate applies to the gross carrying amount of the asset (if the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that are subsequently credit-impaired since initial recognition, interest revenue is calculated using the effective interest rate at the amortised cost of the financial asset. If the asset is no longer considered as credit-impaired, the effective interest rate is applied to the gross carrying amount to calculate interest revenue.

(2) Fees and commission

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument.

Fees that are an integral part of the effective interest rate of a financial instrument

Such fees are generally treated as an adjustment to the effective interest rate. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, preparing and processing documents, closing the transaction and the origination fees received on issuing financial liabilities. However, when the financial instrument is measured at fair value with the change in fair value recognized in profit or loss, the fees are recognized as revenue when the instrument is initially recognized.

Fees earned as services are provided

Fees and commission income, including investment management fees, sales commission, and account servicing fees, are recognized as the related services are provided. In addition, if a certain loan commitment is unlikely to be contracted and the loan commitment is not within the scope of K-IFRS No. 1109, the commission fee is recognised as revenue over period of time.

Fees that are earned on the execution of a significant action

The fees that are earned on the execution of a significant act including commission on the allotment of shares or other securities to a client, placement fee for arranging a loan between a borrower and an investor and sales commission, are recognized as revenue when the significant act has been completed.

(3) Dividends

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

(4) Insurance income

The Group recognizes insurance income for the insurance premium paid of which the payment date arrived by the premium payment methods of the insurance contract; and recognizes advance receipts for the insurance premium paid of which the payment date has not arrived at the end of the reporting period.

(3-23) 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.

(3-24) Accounting for trust accounts

The Group accounts for trust accounts separately from its bank accounts under the Financial Investment Services and Capital Markets Act. In connection with this, the funds borrowed from the trust accounts are included in the trust accounts as borrowings from the trust accounts, and in accordance with the financial investment business regulations, the funds received from the trust accounts are managed with paying trust fees.

(3-25) 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.

(3-26) 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, 2018.

(3-27) 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.1109 'Financial Instruments' is applied.

If the group classifies as insurance contract, that contract maintains until all rights and obligations expire, and does not reclassify as an investment contract even if the insurance risk becomes immaterial during the term of the insurance contract. However, in the case of the investment contract,

the Group reclassifies as an insurance contract if insurance risk turns significant after the first recognition.

(3-28) Insurance contract liabilities (policy reserves)

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

(1) 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.

(2) 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.

(3) 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.

(4) Reserve for outstanding claims

As of the end of the reporting period, the Group reserves the following amount of payment that has yet to be paid, or is estimated for contracts for which the reason for payment has occurred as follows

- Individual estimated amount : The amount estimated by insurance accident reported to the group due to pending litigation (some payments are left after payment)
- Unreported Losses (IBNR, Incurred But Not Reported) : Estimated amount based on reasonable statistical methods considering the experience performance of the group
- Unclaimed expenses : Contracts that are not expired due to non-payment of insurance premiums, including the right to revive and reserve period
- Accrued insurance expenses : Amount that are not paid at fixed amount, such as insurance, refund, dividend, etc.

(5) Reserve for participating policyholders' dividends

Excess Crediting Rate Reserve

For dividend insurance (contract prior to October 1, 1997), if the scheduled interest rate is lower than the average interest rate of a one year time deposit in the current business year, the amount is reserved for the policyholder compensating for the difference.

Mortality Dividend Reserve

For valid dividend insurance contracts that have been maintained for more than one year, the amount is reserved for the compensation given for the difference between the planned death rate and the actual death rate applied to the insurance premium calculation standard.

Interest Dividend Reserve

The amount is reserved for the dividend covering the difference between the interest dividend base rate and scheduled interest rate for each insurance product for an insurance contract that has been maintained for more than one year. However, for contracts signed before October 1, 1997, the amount is reserved for the difference between the interest dividend base rate and the scheduled interest rate for each insurance product, including the interest rate guarantee rate as of the beginning of the business year.

Long-term Duration Dividend Reserve

The amount is reserved for dividend insurance contracts that have been maintained for more than six years, the amount of cancellation deducted by the net insurance premium reserve as of the end of previous term multiplied by the long-term duration dividend rate.

(6) Policyholders' profit dividend reserve

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.

(3-29) 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:

- 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.
- If the test shows that the liability is inadequate, the entire deficiency is recognized in net income.

(3-30) 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:

- 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
- The event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

(3-31) Policyholders' equity adjustment

At the end of the reporting period, the Group assess the face value of balance sheet of the gain or loss on valuation of available-for-sale securities, based on the investment balance distribution method, and the Group and its shareholders are classified as contractors and shareholders, accordingly. However, in the event of a loss in the evaluation of available-for-sale securities, the total amount of the contractor's profit dividend reserve and the contractor's dividend stabilization reserve are limited to the contractual equity adjustment.

(3-32) 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.

In addition, under Article 6-23 of Regulation on Supervision of Insurance, the Group does not present the income and expenses of the performance dividend special account (variable life insurance contract), and the income and expenses of the principal and interest guaranteed special account (retirement insurance contract) are totalized as subjects of special account income and expenses.

(3-33) New Standards and interpretation not yet adopted

The following new standards, interpretations and amendments to existing standards have been published but are not mandatory for the Group for annual periods beginning after January 1, 2018, and the Group has not early adopted them.

(1) K-IFRS No.1116, 'Lease'

K-IFRS No.1116, published on May 22, 2017, replaces existing standards including K-IFRS No.1017, 'Leases', K-IFRS No.2104, 'Determining whether an Arrangement contains a Lease', K-IFRS No.2015, 'Operating Leases - Incentives' and K-IFRS No.2027, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. However, as a practical expedient, for the contracts pre-

viously identified as leases or not, an entity is not required to reassess whether the contract is, or contains, a lease at the date of initial application.

For a contract that is, or contains, a lease, a lessee or a lessor shall account for each lease component within the contract as a lease separately from non-lease components of the contract.

A lessee shall recognize a right-of-use asset, which indicates an asset that represents a lessee's right to use an underlying asset for the lease term, and a lease liability, which indicates obligation to make lease payments. However, a lessee may elect not to apply the requirements to short-term leases and leases for which the underlying asset is of low value. Also, as a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

There has not been a material change in the accounting treatments for a lessor from the existing standard K-IFRS No.1017. K-IFRS No.1116 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

In connection with the sales-related lease, the entity (seller-lessee) first applies K-IFRS No. 1115, 'Revenue from Contract with Customer', to determine whether the asset transfer should be accounted for as sale of asset.

However, the Group does not re-evaluate sales-related leases made before the initial application date.

Accounting treatment as lessee

· Application method of K-IFRS No. 1116 'Lease'

The lessee is required to apply either retrospective application (full retrospective act) to each past reporting period presented in accordance with K-IFRS No. 1008, "Accounting Policies, Changes in Accounting Estimates and Errors" or recognize the cumulative effect of the initial application at the date of initial application (cumulative effect of batch reconciliation action).

The Group plans to apply CAS Statement No. 1116 for the first time by applying either cumulative effect or cumulative temporary adjustment measures as of January 1, 2019. Accordingly, the cumulative effect of applying K-IFRS No. 1116 is adjusted in the retained earnings (or, where appropriate, other components of equity) at the date of initial application and the comparative financial statements are not going to be restated.

· Financial effects of K-IFRS No.1116 'Lease'

The Group assessed the impact on the financial statements for the year 2019 based on the information and available information as of January 1, 2019, in order to assess the financial impact of the initial adoption of K-IFRS 1116.

The Group will account for each lease element and associated non-lease element as a single lease element, using the simplified method of accounting for contracts that include all or part of the lease or lease.

As a result of a detailed analysis of the effect on the financial statements, the group expects the right-to-use assets and lease liabilities to be pledged as of January 1, 2019 to increase by ₩ 44,450 million and ₩ 42,849 million, respectively.

Accounting treatment as lessor

· Application method and financial effect of K-IFRS No.1116 "Lease"

As a lessor, the Group expects that the present lease accounting will not have a significant effect on its financial statements, even if K-IFRS No. 1116 is applied.

(2) K-IFRS No.2123, 'Uncertainty over Income Tax Treatments'

The Standard shall examine the probable acceptability of the tax treatment carried out by the taxing authority and maintain its tax accounting treatment if probable. If it is not, the most important thing is to account for the highest possible amount or expected value as an accounting treatment. The standard is mandatory for annual periods beginning on or after January 1, 2019. The Group believes that the adoption of the standard does not have any significant effect on the financial statements.

(3) K-IFRS No.1019, 'Employee Benefits'

If the change in the defined benefit plan results in the revision, reduction or settlement of the plan, the assumptions used in remeasurement of the net defined benefit obligation (asset) to estimate the current service cost and net interest for the remaining period of the period after the adjustments in the plan. In addition, the decrease in excess of the amount of unrecognized actuarial gain or loss is reflected in profit or loss as a part of past service cost or settlement profit or loss. The amendments are applied prospectively to the amendment, reduction, and settlement of systems that have occurred since the fiscal year beginning on or after January 1, 2019. The Group believes that the adoption of the standard does not have any significant effect on the financial statements.

4. Operating Segments

The Group has operating segments which consist of banking division, life insurance division, loan division, asset management division, and others based on its services, and conducts performance evaluations by operating segments as well as by divisions within those operating segments.

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, whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segments and assess its performance and for which discrete financial information is available.

Its financial statements are consolidated based on similar economic characteristics of the service provided, and those are divided by six reportable segments by the importance of profit made. The six reportable segments are as follows:

Description	Business Area
Banking	Financial lending services to customers and depository services
Securities	Securities (including stocks) investment and operation
Life Insurance	Procurement and financial services for life insurance
Loan	Leasing, Installment loan, and FinTech
Asset Management	Trust Funds and Financial Investment Advisory
Others	Segments other than those above, including collection of bonds, and development and operation of software

(a) Information about reportable segments as of and for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018								
		Banking	Stock	Life Insurance	Loan	Asset Management	Subtotal	Adjustment	Consolidated Amount	
Interest	Interest Income	₩ 1,716,606	36,914	163,809	145,663	394	2,063,386	(34,071)	2,029,315	
	Interest Expense	553,717	13,947	8,137	64,528	-	640,329	6,352	646,681	
	Subtotal	1,162,889	22,967	155,672	81,135	394	1,423,057	(40,423)	1,382,634	
Fees and Commissions	Fees and Commission Income	142,295	48,015	6,821	4,139	14,078	215,348	(7,667)	207,681	
	Commissions Expense	65,976	9,298	2,599	6,629	330	84,832	(7,771)	77,061	
	Subtotal	76,319	38,717	4,222	(2,490)	13,748	130,516	104	130,620	
Other Operating	Other Operating Income	704,890	128,361	1,071,094	5,956	637	1,910,938	12,814	1,923,752	
	Gain on Life Insurance	-	-	999,624	-	-	999,624	-	999,624	
	Gain on Financial Assets at Fair Value through Profit or Loss	36,496	71,944	27,395	5,580	637	142,052	(537)	141,515	
	Gain on Held-for-trading Derivative Instruments	383,347	39,745	-	-	-	423,092	57	423,149	
	Gain on Financial Instruments at Fair Value through Profit or Loss	-	16,250	-	-	-	16,250	-	16,250	
	Gain (Loss) on Adjustments for Overlay Approach	-	-	(6,078)	-	-	(6,078)	-	(6,078)	
	Gain on Financial Assets at Fair Value through Other Comprehensive Income	6,109	-	6,176	-	-	12,285	(1,951)	10,334	
	Gain on Foreign Transactions	257,814	48	16,615	108	-	274,585	-	274,585	
	Reversal for Credit Losses	3,136	235	755	111	-	4,237	(26)	4,211	
	Other Operating Gain	17,988	139	26,607	157	-	44,891	15,271	60,162	
	Other Operating Expenses	1,622,527	176,054	1,236,282	54,668	6,517	3,096,048	4,328	3,100,376	
	Loss on Life Insurance	-	-	1,117,791	-	-	1,117,791	(24,546)	1,093,245	
	Loss on Financial Assets at Fair Value through Profit or Loss	33,736	42,951	8,342	3,046	54	88,129	(2,726)	85,403	
	Loss on Held-for-trading Derivatives	348,178	72,114	-	-	-	420,292	601	420,893	
	Gain(loss) on Financial Instruments at Fair Value through Profit or Loss	-	7,905	-	-	-	7,905	215	8,120	
	Loss on Financial Assets at Fair Value through Other Comprehensive Income	32	126	314	-	-	472	-	472	
	Loss on Foreign Transactions	276,436	2,116	9,388	140	-	288,080	(1)	288,079	
	Provisions for Credit Losses	163,462	5,205	71	22,842	5	191,585	(311)	191,274	
	General and Administrative Expense	659,559	45,619	64,544	27,591	6,458	803,771	13,198	816,969	
	Other Operating Loss	141,124	18	35,832	1,049	-	178,023	17,898	195,921	
Subtotal	(917,637)	(47,693)	(165,188)	(48,712)	(5,880)	(1,185,110)	8,486	(1,176,624)		
Operating Income	321,571	13,991	(5,294)	29,933	8,262	368,463	(31,833)	336,630		
Profit for the year	234,825	11,223	21	22,392	6,431	274,892	131,135	406,027		
Controlling Interest									383,535	
Non-controlling Interest									22,492	
Total Assets		49,785,346	6,087,981	6,152,002	2,762,148	38,992	64,826,469	91,131	64,917,600	
Total Liabilities		₩45,625,353	5,331,555	5,906,445	2,454,863	5,433	59,323,649	530,873	59,854,522	

(a) Information about reportable segments as of and for the years ended December 31, 2018 and 2017 are as follows: continued,

(In millions of won)

		2017							
		Banking	Life Insurance	Loan	Asset Management	Subtotal	Adjustment	Consolidated Amount	
Interest	Interest Income	₩ 1,563,920	159,236	120,062	316	1,843,534	(19,681)	1,823,853	
	Interest Expense	468,552	6,212	52,371	-	527,135	5,369	532,504	
	Subtotal	1,095,368	153,024	67,691	316	1,316,399	(25,050)	1,291,349	
Fees and Commissions	Fees and Commission Income	138,613	4,617	3,547	11,520	158,297	(4,281)	154,016	
	Commissions Expense	63,910	2,672	4,945	661	72,188	1,417	73,605	
	Subtotal	74,703	1,945	(1,398)	10,859	86,109	(5,698)	80,411	
Other Operating	Other Operating Income	746,174	902,844	5,624	480	1,655,122	8,777	1,663,899	
	Gain on Life Insurance	-	843,013	-	-	843,013	-	843,013	
	Gain on Financial Instruments Held-for-trading	14,090	2,236	745	480	17,551	(583)	16,968	
	Gain on Available-for-sale Derivative Instruments	453,386	-	487	-	453,873	1	453,874	
	Gain(loss) on Financial Instruments at Fair Value through Profit or Loss	-	232	95	-	327	583	910	
	Gain on Financial Instrument Available-for-sale	44,858	21,466	2,116	-	68,440	(10,571)	57,869	
	Gain on Foreign Transactions	216,240	310	100	-	216,650	-	216,650	
	Other Operating Gain	17,600	35,587	2,081	-	55,268	19,347	74,615	
	Other Operating Expense	1,529,909	1,052,718	49,927	5,884	2,638,438	(12,022)	2,626,416	
	Loss on Life Insurance	-	946,533	-	-	946,533	(40,405)	906,128	
	Loss on Financial Instruments Held-for-trading	2,654	1,857	3	108	4,622	-	4,622	
	Loss on Derivative Instruments Available-for-sale	475,324	-	597	-	475,921	(1)	475,920	
	Loss on Financial Assets at Fair Value through Profit or Loss	1,299	1,557	392	-	3,248	-	3,248	
	Loss on Financial Instruments Held-for-trading	91	207	-	-	298	-	298	
	Loss on Foreign Transactions	-	-	-	-	-	-	-	
	Provisions for Credit Gains	175,192	31,239	898	-	207,329	1	207,330	
	General and Administrative Expense	162,927	1,387	24,560	3	188,877	(36)	188,841	
	Other Operating Losses	577,400	62,977	22,255	5,773	668,405	8,454	676,859	
	Subtotal	135,022	6,961	1,222	-	143,205	19,965	163,170	
			(783,735)	(149,874)	(44,303)	(5,404)	(983,316)	20,799	(962,517)
Operating Income		386,336	5,095	21,990	5,771	419,192	(9,949)	409,243	
Profit for the year		294,133	12,624	16,865	4,418	328,040	(11,769)	316,271	
Controlling Interest								302,208	
Non-controlling Interest								14,063	
Total Assets		48,325,115	5,813,948	2,567,262	33,997	56,740,322	(6,485)	56,733,837	
Total Liabilities		₩ 44,546,091	5,542,817	2,271,644	2,339	52,362,891	175,156	52,538,047	

(b) Profit or loss on interest for each reporting segments from external customers and internal divisions as of and for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

2018								
	Banking	Stock	Life Insurance	Loan	Asset Management	Subtotal	Adjustment	Consolidated Amount
Profit/Loss on Interest From External	₩ 1,161,897	22,967	155,672	87,326	141	1,428,003	(45,369)	1,382,634
Profit/Loss on Interest From Internal	992	-	-	(6,191)	253	(4,946)	4,946	-
Total	₩ 1,162,889	22,967	155,672	81,135	394	1,423,057	(40,423)	1,382,634

(In millions of won)

2017								
	Banking	Life Insurance	Loan	Asset Management	Subtotal	Adjustment	Consolidated Amount	
Profit/Loss on Interest From External	₩ 1,095,621	153,024	74,418	189	1,323,252	(31,903)	1,291,349	
Profit/Loss on Interest From Internal	(253)	-	(6,727)	127	(6,853)	6,853	-	
Total	₩ 1,095,368	153,024	67,691	316	1,316,399	(25,050)	1,291,349	

(c) Profit or loss on fees and commissions for each reporting segments from external customers and internal divisions as of and for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

2018								
	Banking	Stock	Life Insurance	Loan	Asset Management	Subtotal	Adjustment	Consolidated Amount
Profit/Loss on Interest From External	₩ 72,209	38,717	4,424	(1,701)	10,916	124,565	6,055	130,620
Profit/Loss on Interest From Internal	4,110	-	(202)	(789)	2,832	5,591	(5,591)	-
Total	₩ 76,319	38,717	4,222	(2,490)	13,748	130,516	104	130,620

(In millions of won)

2017								
	Banking	Life Insurance	Loan	Asset Management	Subtotal	Adjustment	Consolidated Amount	
Profit/Loss on Interest From External	₩ 70,849	2,107	(432)	10,616	83,140	(2,729)	80,411	
Profit/Loss on Interest From Internal	3,854	(162)	(966)	243	2,969	(2,969)	-	
Total	₩ 74,703	1,945	(1,398)	10,859	86,109	(5,698)	80,411	

5. Cash and Due from Banks

(a) Cash and Due From Banks

Cash and due from banks as of December 31, 2018 and December 31, 2017 are as follows:

(In millions of won)

			December 31, 2018	December 31, 2017
Cash and Cash Equivalents		₩	424,761	465,695
Due from Banks in Won	The Bank of Korea		1,296,803	1,083,224
	Commercial Banks		274,431	268,339
	Others		358,340	6,203
	Subtotal		1,929,574	1,357,766
Due from Banks in Foreign Currencies	The Bank of Korea		24,702	64,038
	Commercial Banks		55,415	93,000
	Overseas Banks		160,691	273,060
	Others		6,356	1,252
	Subtotal		247,164	431,350
Total		₩	2,601,499	2,254,811

(b) Restricted Due From Banks

Restricted due from banks as of December 31, 2018 and December 31, 2017 are as follows:

(In millions of won)

		Depository	December 31, 2018	December 31, 2017	Restrictions
Reserve Deposits in Won	The Bank of Korea	₩	1,206,803	953,224	Reserve
	Commercial Banks		10,689	5,150	Collateral, Pledges, etc.
	Investor Deposit		132,344	-	Money Market and Compliance about Financial Investment, etc.
	Others		154,236	-	Securities Lending, etc.
	Subtotal		1,504,072	958,374	
Reserve Deposits in Foreign Currencies	The Bank of Korea		24,702	64,038	Reserve in Foreign Currencies
	Overseas Banks		79,978	63,280	Due from banks for legal fees and business
	Overseas stock Investment Deposit		1,678	-	Money Market and Compliance about Financial Investment, etc.
	Subtotal		106,358	127,318	
Total		₩	1,610,430	1,085,692	

6. Held-for-trading Financial Assets

Held-for-trading financial assets as of December 31, 2017 are as follows:

(In millions of won)

		December 31, 2017			
			Book Value Before Valuation	Fair Value (Book Value)	Gain (loss) on Valuation
Equity Securities	Stocks	₩	27,320	18,326	(8,994)
Debt Securities	Government Bonds		14,852	24,627	9,775
	Financial Bonds		177,789	178,027	238
	Corporate Bond		15,729	15,729	-
	Others		210,540	210,747	207
	Subtotal		418,910	429,130	10,220
Beneficiary Certificate			62,956	63,479	523
Total		₩	509,186	510,935	1,749

7. Financial Assets at Fair Value through Profit or Loss

(a) The hybrid securities that are not currently separated from the host contract and designated as financial assets at fair value through profit or loss as of December 31, 2017 are as follows:

(In millions of won)

		December 31, 2017			
			Book Value Before Valuation	Fair Value (Book Value)	Gain (loss) on Valuation
Equity Securities	Redeemable Preferred Stocks	₩	26,896	25,300	(1,596)
Other Securities	Derivatives-Linked Securities		55,359	54,617	(742)
Total		₩	82,255	79,917	(2,338)

(b) Financial liabilities at fair value through profit or loss as of December 31, 2017 are as follows:

(In millions of won)

		December 31, 2018			
			Book Value Before Valuation	Fair Value (Book Value)	Gain (loss) on Valuation
Equity-Linked Securities		₩	408,393	396,788	11,605
Derivative-Linked Securities			118,110	120,582	(2,472)
Day 1 Loss Adjustment for Derivative-Linked Securities			544	424	120
Total		₩	527,047	517,794	9,253

During the 2018, change in fair value of 30 million won (before tax) related to change in the entity's credit risk where a financial liability has been designated at fair value through profit or loss is recognized in other comprehensive income.

8. Financial Instruments at Fair Value through Profit or Loss

(a) Details of Financial Assets at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss as of December 31, 2018 are as follows:

(In millions of won)

Classification	December 31, 2017	
		Fair Value (Book Value)
Equity Securities	Stocks	₩ 16,218
	Others	45,994
	Subtotal	62,212
Debt Securities	Government Bonds	2,540,567
	Financial Bonds	853,572
	Corporate Bond	865,392
	International Bond	53,815
	Beneficiary Certificate	709,186
	Equity Investment	82,503
	Others	493,743
	Subtotal	5,598,778
Loans	Private Equity Investment	47,271
Deposits	Structured Deposit (*)	119,142
Others		450,563
Total	₩	6,277,966

(*) In accordance with K-IFRS No.1104, the Group designated to apply the overlay approach to financial assets related to insurance contracts (Deposit of 114,422 in millions of won, financial assets available for sale of 127,085 in millions of won, and financial assets held-to-maturity of 308,460 in millions of won). For those financial asset at fair value through profit or loss, the Group reclassified its profit or loss in accordance with K-IFRS No.1109 as it had been classified originally in accordance with K-IFRS No.1039.

(b) Details of Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss as of December 31, 2018 are as follows:

(In millions of won)

Classification	December 31, 2018	
		Fair Value (Book Value)
Available-for-sale securities	Stocks	₩ 32,154
	Government Bonds	380,879
	Special Bonds	138,418
Total	₩	551,451

(c) Application of Overlay Approach

The Group applies overlay approach in accordance with K-IFRS No.1104 when it first applies K-IFRS No.1109

Financial assets that overlay approach has been applied as of December 31, 2018 are as follows:

(In millions of won)

Classification	December 31, 2018	
Financial Assets at Fair Value through Profit or Loss		
Deposits	₩	104,410
Debt Securities		561,853
Total	₩	666,263

(c) Application of Overlay Approach, continued

Regarding financial assets that overlay approach has been applied, reported amounts in accordance with K-IFRS No.1109 and those in accordance with K-IFRS No.1039 as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

Classification		K-IFRS No.1109	K-IFRS No.1039
Operating Income			
Interest	₩	19,083	11,284
Dividend		-	7,827
Financial-Related Profit		13,327	409
Operating Expenses			
Financial-Related Loss		(7,758)	(946)
Profit Before Adjustment		24,652	18,574
Adjusted Profit		(6,078)	-
Profit After Adjustment	₩	18,574	18,574

Change in other comprehensive income resulting from reclassification of profit or loss and other comprehensive income as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

Classification		2018
Beginning Balance	₩	(13,654)
Reclassification due to acquisition and valuation		6,529
Reclassification due to disposition		(539)
Reclassification due to amortization		89
The effect of corporate tax		(1,446)
Ending Balance	₩	(9,021)

9. Available-for-sale Financial Assets

(a) Financial assets available-for-sale as of December 31, 2017 are as follows:

(In millions of won)

Classification	December 31, 2017	
		Fair Value (Book Value)
Equity Securities	Listed Equity Securities	₩ 3,490
	Unlisted Equity Securities	259,287
	Others	40,682
	Subtotal	303,459
Debts Securities	Government Bonds	1,378,504
	Financial Bonds	1,130,753
	Corporate bonds	306,673
	Available-for-sale Securities in Foreign Currencies	402,815
	Others	527,312
	Subtotal	3,746,057
Beneficiary securities		449,480
Total	₩	4,498,996

Accumulated losses on valuation of fair value include a loss on valuation of fair value related to hedged items of ₩ 9,741 million as of December 31, 2017.

(b) Changes in Unrealized Holding Gain or Loss

Changes in unrealized holding gain or loss of financial assets available-for-sale as of and for the year ended December, 2017 are as follows:

(In millions of won)

Classification	December 31, 2017				Total
	Equity Securities	Debt Securities	Beneficiary Securities		
Beginning Balance	₩ 52,962	(49,960)	(1,621)		1,381
Realized Loss (gain) on Disposition of Securities	(10,321)	(2,548)	(320)		(13,189)
Changes Due to Reclassification	-	7,436	-		7,436
Gain or Loss on Valuation	7,751	(21,680)	1,748		(12,181)
Ending Balance	50,392	(66,752)	(193)		(16,553)
Equity Adjustment					5,848
Deferred Income Tax Assets (liabilities)					7,801
Net balance				₩	(2,904)

(c) Impairment Loss

Available-for-sale financial assets that recognized impairment loss as of December 31, 2017 are as follows:

(In millions of won)

Classification	December 31, 2017			Impairment Loss
	Amount Before Impairment	Amount After Impairment		
Equity Securities	₩ 11,937	6,017		5,920
Beneficiary Certificates	10,128	9,193		935
Total	₩ 22,065	15,210		6,855

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

Lists of available-for-sale securities carried at cost

As of December 31, 2018, since there is no available market prices in current market and fair value cannot be estimated reliably, the consolidated group has classified equity securities as available-for-sale securities carried at cost. Those are as follows:

(In millions of won)

Classification	December 31, 2017	
Korea Asset Management Corp.(*)	₩	1,570
Daegu Dream Education		599
Evergreenkeanggi Co., Ltd.		692
Evergreencampus Co., Ltd.		674
CHAMSARAM Co., Ltd		607
Nam Yang Kwang-Jin C&G., Co., Ltd.		520
Yeongdeok Enviro		516
Cheongramhagdang		226
Busan Mirae Education Co., Ltd		164
Green Yeosu Enviro		470
JinCheonWaterResource Co., Ltd		303
Gyeongbook Commercial Intercourse		300
Namsanedu		295
KMA Consultants Inc.		150
ART VALEY Co., Ltd		150
Boseong Facilities		13
Dongyang Engineering & Construction		8
Microfinance & Badbank Harmony Co.,Ltd (preferred stock)		1
Dongsin Hydraulic		34
Dooray Metek		1
K-Bank		12,200
Kamur 7th Private Equity Fund No.7		1,700
Smilegate Green Growth Fund No.1		100
Korea Omega Growing Industry No.1 Association		200
Centroid Buy-out Private Equity Fund No.2		2,000
Total	₩	23,493

(*) Measured at cost since it is difficult to estimate cash flows for the financial instruments for the current year and there is no suitable comparison in similar industry and size which makes impossible to estimate reliable fair value.

Gain on disposal of securities carried at cost for the year ended December 31, 2017 are as follows:

(In millions of won)

Classification	2017	
	Book value (*)	Gain on disposal
Microfinance & Badbank Harmony Co., Ltd (preferred stock)	₩ 1	29
Busan Mirae Education Co., Ltd	20	-
Kangaroo Republic	900	228
Total	₩ 921	257

(*) Beginning Carrying Amount Before Disposal

Impairment losses on securities carried at cost as of and for the year ended December 31, 2017 are as follows:

(In millions of won)

Classification	2017			
		Amount Before Impairment	Amount After Impairment	Impairment Loss
Daegu Dream Education	₩	999	599	400
Cheongramhagdang		488	226	262
Busan Mirae Education Co., Ltd		481	164	317
Total	₩	1,968	989	979

(e) Securities Lending Transactions

When consolidated group lends their securities, ownership of the securities transfers to borrower, but the Group gets the security back upon the expiration. As a result, most of related risks and rewards of the ownership of those securities are held by the Group, and the Group keeps recognizing all the events that happen in those securities lending transactions. The details of securities lending of available-for-sale financial assets as of December 31, 2017 are as follows:

(In millions of won)

Classification	December 31, 2017		
		Fair Value of Transferred Assets	Fair Value of Related Liabilities
Available-for-sale financial assets	Government Bonds	₩ 19,693	-

10. Financial Assets at Fair Value through Other Comprehensive Income

(a) Financial Assets at Fair Value through Other Comprehensive Income

Financial assets at fair value through other comprehensive income as of December 31, 2018 are as follows:

(In millions of won)

Classification	December 31, 2018	
		Fair Value (Book Value)
Equity Securities	Listed Equity Securities	₩ 645
	Unlisted Equity Securities	68,429
	Subtotal	69,074
Debt Securities	Government Bonds	1,661,469
	Financial Bonds	1,123,754
	Corporate Bonds	719,189
	Available-for-sale Securities in Foreign Currencies	459,134
	Subtotal	3,963,546
Total	₩	4,032,620

(b) Equity securities of financial assets at fair value through other comprehensive income as of December 31, 2018 are as follows:

(In millions of won)

Classification		Book Value	Purpose of Acquisition	
Listed Equity Securities	Kumho Industrial Co., Ltd	₩ 645	Financing Conversion	
Others	Exco	2,878	Public Contribution	
	BC Card	11,430	Strategic Contribution	
	Korea Asset Management Corp.	1,570	Strategic Contribution	
	Daegyeong Investment Corp.	4,373	Public Contribution	
	Taurus Investment & Securities Co., Ltd.	1,085	Strategic Contribution	
	National Happiness Fund Co., Ltd. Redeemable preferred stocks	11,708	Retention Strategy	
	Korea Trust Co., Ltd	6,351	Strategic Contribution	
	K-Bank	12,200	Participation	
	Korea Financial Investment Association	249	Others	
	YesStock Inc.	291	Others	
	Korea Exchange	12,411	Others	
	Korea Securitities Financial Corporation	863	Others	
	Fund Online Korea Co., Ltd.	3,020	Others	
	Subtotal		68,429	
	Total	₩	69,074	

(c) Recognized dividend income from equity securities at fair value through other comprehensive income as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

Classification		Disposed Equity Securities	Retained Equity Securities
Listed Equity Securities	₩	465	24
Unlisted Equity Securities		-	2,691
Total	₩	465	2,715

(d) Lists of disposed financial assets at fair value through other comprehensive income as of and for the year ended December 31, 2018, and reasons of those are as follows:

(In millions of won)

Classification		Fair Value at Disposition	Accumulated Gain(loss) on Valuation(*)	Reason of Disposal
Microfinance & Badbank Harmony Co.,Ltd (preferred stock)				
Redemption	₩	86	-	Redemption
STX Engine		2,352	1,206	Sell
Total	₩	2,438	1,206	

(*) Accumulated gain on valuation is replaced by retained earnings.

(e) Securities Lending Transactions

When consolidated group lends their securities, ownership of the securities transfers to borrower, but the Group gets the security back upon the expiration. As a result, most of related risks and rewards of the ownership of those securities are held by the Group, and the Group keeps recognizing all the events that happen in those securities lending transactions. The details of securities lending of available-for-sale financial assets as of December 31, 2018 are as follows:

(In millions of won)

Classification	December 31, 2018		
		Fair Value of Transferred Assets	Fair Value of Related Liabilities
Financial Assets at Fair Value through OCI	Government bonds	₩ 20,752	-
	Foreign Currency Bonds	31,824	-
Total		₩ 52,576	-

(f) Changes in total book value of financial assets(debt securities) at fair value through other comprehensive income as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

Classification	12-month		Lifetime	Credit-Impaired	Total
	Expected Credit Loss	Expected Credit Loss	Expected Credit Loss		
Beginning Balance (*1)	₩ 3,746,057	-	-	-	3,746,057
Reclassification to 12-month Expected Credit Loss	-	-	-	-	-
Reclassification to Lifetime Expected Credit Loss	-	-	-	-	-
Reclassification to Impaired Lifetime Expected Credit Loss	-	-	-	-	-
Effect of Change in Scope of Consolidation	178,985	-	-	-	178,985
Acquisition of Financial Assets	2,827,858	-	-	-	2,827,858
Disposed Financial Assets	(2,772,315)	-	-	-	(2,772,315)
Others (*2)	(17,039)	-	-	-	(17,039)
Ending Balance	₩ 3,963,546	-	-	-	3,963,546

(*1) Reclassification and remeasurement effect of applying K-IFRS No. 1109

(*2) Include changes due to financing conversion, foreign exchange rate, etc.

11. Held-to-maturity Financial Assets

(a) Held-to-maturity Financial Assets

Held-to-maturity financial assets as of December 31, 2017 is as follows:

(In millions of won)

Classification	2017		
	Book Value	Acquisition Cost	Amortized Cost (Book Value)
Government Bonds	₩ 4,846,589	4,962,011	4,969,270
Financial Bonds	410,000	413,461	411,955
Corporate Bonds	410,000	442,294	419,076
Foreign Currency Bonds	311,113	326,357	310,703
Others	1,814,507	1,830,678	1,840,185
Total	₩ 7,792,209	7,974,801	7,951,189

(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 are as follows:

(In millions of won)

Classification	December 31, 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 the transferred assets with a pre-determined price after sale or the amount of selling price plus fixed return.

12. Securities at Amortized Cost

(a) Securities at Amortized Cost

Securities at amortized cost as of December 31, 2018 are as follows:

(In millions of won)

Classification	December 31, 2018			
	Face Value	Acquisition Cost	Amortized Cost (Book Value)	
Government Bonds	₩	4,838,410	4,925,703	4,932,173
Financial Bonds		590,000	593,632	591,829
Corporate Bonds		1,860,620	1,885,223	1,881,054
Foreign Currency Bonds		439,997	456,197	441,378
Allowance for Doubtful Account		-	-	(328)
Total	₩	7,729,027	7,860,755	7,846,106

(b) Transferred Securities at Amortized Cost that are not derecognized in their entirety

Transferred securities at amortized cost that are not derecognized in their entirety as of December 31, 2018 are as follows:

(In millions of won)

Classification	December 31, 2018						
	Securities at Amortized Cost			Related Liabilities		Net Position	
	Book Value	Fair Value	Allowance	Book Value	Fair Value		
Securities Sold Under Repurchase Agreement(*)	₩	929,648	931,131	(127)	759,473	759,552	171,579
Loaned Securities	₩	97,946	99,112	(5)	-	-	99,112

(*) The Group transfers a contractual right which allows to take cash from transferred securities at amortized cost, but makes the agreement to repurchase the transferred assets with a pre-selected price after sale or the amount of selling price plus fixed return.

(c) Profit (loss) from Disposal of Securities at Amortized Cost for the reporting period are as follows:

(In millions of won)

Classification	Face Value	Book Value	Loss on Disposal	
Corporate bonds, etc.	₩	27,024	27,028	4

During 2018, the consolidated group disposed of the securities at amortized costs by exercising the debt securities issuer's right of recourse.

(d) Changes in total book value of securities at amortized cost as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

Classification	Collective evaluation			Total
	12-month Expected Credit Loss	Lifetime Expected Credit Loss	Credit-Impaired	
Beginning Balance (*1)	₩ 7,623,361	-	-	7,623,361
Reclassification to 12-month Expected Credit Loss	9,807	-	-	9,807
Reclassification to Lifetime Expected Credit Loss	-	-	-	-
Reclassification to Impaired Lifetime Expected Credit Loss	-	-	-	-
Acquisition of Financial Assets	1,168,347	-	-	1,168,347
Disposed Financial Assets	(931,650)	-	-	(931,650)
Others (*2)	(23,431)	-	-	(23,431)
Ending Balance	₩ 7,846,434	-	-	7,846,434

(*1) The beginning balance for 2018 was restated in accordance with K-IFRS No.1109.

(*2) Include changes due to financing conversion, foreign exchange rate, etc.

13. Collateralized Securities

Investment securities pledged to various institutions as of December 31, 2018 are as follows:

(In millions of won)

		December 31, 2018		
Collateralized Assets	Reasons	Face Value (Collateralized Value)	Book Value	Guarantees
At Fair Value through	Bank of Korea Borrowings	₩ 50,000	50,408	Korea Securities Depository
Other Comprehensive	Margin Call	160,000	157,348	Korea Securities Depository
Income	Repurchase Agreements Transactions	55,501	55,501	Korea Securities Depository, etc.
	Securities Lending	12,411	12,411	Korea Securities Finance
	Subtotal	277,912	275,668	
At Amortization	Collateral on Bank of Korea Payments	270,000	271,387	The Bank of Korea, Korea Securities Depository
	Collateral on Bank of Korea Borrowings	398,000	397,727	The Bank of Korea, Korea Securities Depository
	Bank of Korea Dalylight Overdraft	220,000	219,828	The Bank of Korea, Korea Securities Depository
	Borrowings in Foreign Currencies	50,000	51,538	Sumitomo Mitsui Bank, Seoul Branch
	Derivatives Transactions	24,050	23,486	NH Futures, Samsung Futures Inc.
	Bonds Sold under Repurchase Agreements	929,880	929,648	The Bank of Korea, Korea Securities Depository
	Others	435	439	Korea Securities Depository
	Derivatives Transactions	1,391	1,330	KB Bank
	Derivatives Transactions	3,700	3,699	KDB Bank
	Derivatives Transactions	2,100	2,100	Shinhan Bank
	Subtotal	1,899,556	1,901,182	
At Fair Value through	ETF Lending Transactions and Derivative Transactions Margin	44,661	100,563	Korea Securities Depository
Profit or Loss	Debts Lending Transactions and Derivative Transactions Margin	3,398,967	3,536,299	Korea Securities Depository, etc.
	Subtotal	3,443,628	3,636,862	
Total		₩ 5,621,096	5,813,712	

14. Investments in Associates

(a) Ownership

Ownership on associates as of and for the year ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Associates(*1)	Relation	2018				
		Number of Shares Owned	Ownership	Acquisition Cost	Net Asset Value	Book Value
DGB Luxury Index Securities Investment Trust	Associate	5,000,000,000	30.08%	₩ 5,000	4,221	4,221
Daegu FC(*2)(*3)	Associate	300,000	9.20%	516	470	470
Korea Omega Project No.2 Association	Associate	10	20.00%	1,000	993	993
KoFC-Partners Pioneer Champ 2011-1st Investment Fund	Associate	36	21.21%	2,800	10,188	2,161
HI GOLD OCEAN KMARIN NO.8 SHIP INVESTMENT COMPANY	Associate	7,133,667	47.86%	15,431	32,560	7,792
Hi ROKI1 Global Robo-Advisor Securities Investment Trust H	Associate	2,042,970,380	39.65%	2,100	5,083	1,840
Hi Global Dynamic Property Distribution Investment Trust	Associate	5,006,647,974	31.96%	5,000	15,380	4,581
Hi Japan High-Dividends Focus Securities Investment Trust	Associate	2,884,653,839	48.87%	2,900	5,773	3,089
Hi Korea Reunification Renaissance Investment Trust	Associate	2,441,198,767	37.61%	2,400	5,970	2,031
Tribridge Capital Management	Associate	958,000	23.93%	6,930	-	-

(In millions of won)

Associates(*2)	Relation	2017				
		Number of Shares Owned	Ownership	Acquisition Cost	Net Asset Value	Book Value
Daegu FC(*2)(*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

(*1) Consus Nara Sarang BTL 1, which is not included in an associate, had a 29.9% ownership interest, but was not classified as an associate because the arrangement does not bind the Investment Advisory Committee, which provides advice on the determination of investment trusts and the sale, recovery and disposal of future investments.

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

(*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) Valuation about Investments in Associates

Changes in assets of investments in associates as of and for the year ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Associates	2018						
	Beginning Balance	Changes Due to Business Combination	Acquisition	Disposal	Equity Method Dividend	Gains or Losses on Equity Method	Ending Balance
DGB Luxury Index Securities Investment Trust	₩ 10,078	-	-	(10,000)	-	(78)	-
DGB KRX 300 Index	-	-	10,000	(5,000)	-	(779)	4,221
Daegu FC(*2)(*3)	278	-	-	-	-	192	470
Korea Omega Project No.2 Association	-	-	1,000	-	-	(7)	993
KoFC-Partners Pioneer Champ 2011-1st Investment Fund	-	2,210	-	-	-	(49)	2,161
HI GOLD OCEAN KMARIN NO.8 SHIP INVESTMENT COMPANY	-	8,097	-	-	(106)	(199)	7,792
Hi ROKI1 Global Robo-Advisor Securities Investment Trust H	-	1,830	-	-	-	10	1,840
Hi Global Dynamic Property Distribution Investment Trust	-	4,566	-	-	-	15	4,581
Hi Japan High-Dividends Focus Securities Investment Trust	-	3,076	-	-	-	13	3,089
Hi Korea Reunification Renaissance Investment Trust	-	2,020	-	-	-	11	2,031
Tribridge Capital Management	-	-	-	-	-	-	-
Total	₩ 10,356	21,799	11,000	(15,000)	(106)	(871)	27,178

(In millions of won)

Associates	2017				
	Beginning Balance	Acquisition	Disposal	Gains or Losses on Equity Method	Ending Balance
DGB Index Plus Securities Feeder No.1	₩ 403	-	-	(125)	278
Daegu FC(*2)(*3)	-	70,000	(60,000)	78	10,078
Total	₩ 403	70,000	(60,000)	(47)	10,356

(c) Summarized Financial Information

Summarized financial information of associates as of the year ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification	December 31, 2018				December 31, 2017			
	Assets	Liabilities	Gross revenue	Net loss	Assets	Liabilities	Gross revenue	Net loss
DGB Index Plus Securities Feeder No.1	₩ -	-	-	-	30,181	25	2,477	2,423
DGB KRX300 Index Securities Investment Trust	14,515	483	1,183	(2,883)	-	-	-	-
Daegu FC	7,351	2,245	8,066	2,079	5,287	2,260	3,726	(1,197)
Korea Omega Project No.2 Association	4,980	16	-	(36)	-	-	-	-
KoFC-Partners Pioneer Champ #2011-1 Investment Association	10,393	205	601	(233)	-	-	-	-
HI GOLD OCEAN KMARIN NO.8 SHIP INVESTMENT COMPANY	38,397	5,838	220	(1,491)	-	-	-	-
Hi ROKI1 Global Robo-Advisor Securities Investment Trust H	5,083	-	17	24	-	-	-	-
Hi Global Dynamic Asset Allocation Securities Investment Trust	15,487	107	318	47	-	-	-	-
Hi Japan High-Dividends Focus Securities Investment Trust	5,773	-	244	28	-	-	-	-
Hi Korea Unity Renaissance Securities Investment Trust	5,971	-	278	30	-	-	-	-
Tribridge Capital Management	-	-	-	-	-	-	-	-

(d) Standard Date of Financial Statement

Standard date of financial statements used to evaluate the investments' shares of subsidiaries and associates as of December 31, 2018 are as follows:

Corporation	Settlement Month	Standard date of evaluation
DGB Luxury Index Securities Investment Trust	February	2018-12-31
Daegu FC	December	2018-09-30
Korea Omega Project No.2 Association	December	2018-12-31
KoFC-Partners Pioneer Champ #2011-1 Investment Association	December	2018-12-31
HI GOLD OCEAN KMARIN NO.8 SHIP INVESTMENT COMPANY	December	2018-12-31
Hi ROKI1 Global Robo-Advisor Securities Investment Trust H	December	2018-12-31
Hi Global Dynamic Asset Allocation Securities Investment Trust	December	2018-12-31
Hi Japan High-Dividends Focus Securities Investment Trust	December	2018-12-31
Hi Korea Unity Renaissance Securities Investment Trust	December	2018-12-31

15. Loans at Amortized Cost

(a) Loans at Amortized Cost Balance

Loans at amortized cost as of December 31, 2018 and December 31, 2017 are as follows:

Classification			December 31, 2018	December 31, 2017
Loans at Amortized Costs	Loans in Won	Loans to Enterprises	₩ 25,824,490	25,174,243
		Loans to Households	11,187,847	10,540,175
		Loans to Public Sectors and Others	554,689	561,627
		Subtotal	37,567,026	36,276,045
	Loans in Foreign Currencies	Loans to Enterprises	523,238	547,631
		Loans to Households	152,533	-
		Subtotal	675,771	547,631
	Loans to Other Banks		252,972	345,313
	Financial Lease Bonds		716,036	703,642
	Others	Bill Bought	14,968	12,848
		Bill Bought in Foreign Currencies	132,632	151,051
		Payments on Guarantees	63,776	1,502
		Credit Card Accounts	419,345	396,976
		Bonds Purchased under Re-Sale Agreements	90,200	478,000
		Call Loans	214,977	142,561
		Privately Placed Debentures	121,533	169,116
		Privately Placed Public Loan	317,270	250,275
		Other Bonds	529,820	90,524
		Subtotal	1,904,521	1,692,853
	Loans Subtotal		41,116,326	39,565,484
	Allowance For Loan Losses		(338,825)	(270,955)
	Present Value Discount(-)		(101)	(1,431)
	Present Value Discount(+)		132	337
	Deferred Loan Origination Fees(-)		(6,114)	(6,841)
	Deferred Loan Origination Fees(+)		55,533	49,114
	Total		₩ 40,826,951	39,335,708

(b) Loans in Won

Loans in won as of December 31, 2018 and 2017 are as follows:

Classification			December 31, 2018	December 31, 2017
Loans to Enterprises	Operation Loans	₩	13,891,802	13,413,517
	Facility Loans		11,932,688	11,760,726
	Subtotal		25,824,490	25,174,243
Loans to Households	Operation Loans		5,961,925	6,097,994
	Housing Loans		5,225,922	4,442,181
	Subtotal		11,187,847	10,540,175
Loans to Public	Operation Loans		110,499	117,163
Sectors and Others	Housing Loans		444,190	444,464
	Subtotal		554,689	561,627
Total		₩	37,567,026	36,276,045

(c) Loans in Foreign Currencies

Loans in foreign currencies as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		December 31, 2018	December 31, 2017
Loans to Enterprises	Operation Loans	₩ 239,334	253,288
	Facility Loans	47,413	46,883
	Domestic Import Usance	236,491	247,460
	Subtotal	523,238	547,631
Loans to Households		152,533	-
Total	₩	675,771	547,631

(d) Deferred Subsidiary Expenses(Earnings) for Loan

Changes in Deferred Subsidiary Earnings for Loan

(In millions of won)

Classification		2018	2017
Beginning	₩	6,841	7,350
Increase		5,829	6,865
Decrease		(6,556)	(7,374)
Ending	₩	6,114	6,841

Changes in Deferred Subsidiary Expenses for Loan

(In millions of won)

Classification		2018	2017
Beginning	₩	49,114	43,739
Increase		54,796	45,601
Decrease		(48,377)	(40,226)
Ending	₩	55,533	49,114

(e) Financing Lease

The fair value of financing leases' total investments and minimum lease payments as of December 31, 2018 and 2017 are same

(In millions of won)

Classification	December 31, 2018				
		Total Investments in the Lease		Unearned Interest	Net Investment in the Lease
	Minimum Lease Payment	Unguaranteed Residual Value			
Within 1 year	₩	294,052	-	25,076	268,976
Exceed 1 year and within 5years		456,281	-	23,088	433,193
Total	₩	750,333	-	48,164	702,169

(In millions of won)

December 31, 2017

Classification	Total Investments in the Lease		Unearned Interest	Net Investment in the Lease	
	Minimum Lease Payment	Unguaranteed Residual Value			
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

(f) Changes in book value of loans at amortized cost as of and for the year ended 2018 are as follows:

(In millions of won)

Classification	Collective Assessment			Individual Assessment		Total
	12-month Expected Credit Loss	Lifetime Expected Credit Loss	Credit- Impaired	Lifetime Expected Credit Loss	Impaired Bonds	
Beginning Balance (*1)	₩ 36,979,581	2,180,915	115,738	-	236,484	39,512,718
Reclassification to 12-month Expected Credit Loss	542,502	(538,162)	(4,340)	-	-	-
Reclassification to Lifetime Expected Credit Loss (Collective Assessment)	(1,998,839)	2,025,236	(3,129)	-	(23,268)	-
Reclassification to Impaired Lifetime Expected Credit Loss (Collective Assessment)	(71,451)	(42,927)	114,378	-	-	-
Reclassification to Lifetime Expected Credit Loss (Individual Assessment)	(19,333)	(62,788)	-	83,177	(1,056)	-
Reclassification to Impaired Lifetime Expected Credit Loss (Individual Assessment)	(75,506)	(62,092)	(1,810)	-	139,408	-
Changes Due to Business Combinations	732,992	-	-	-	-	732,992
Execution & Acquisition	13,401,390	1,134,382	13,757	5,501	24,728	14,579,758
Dispositions (*2)	(12,801,107)	(825,457)	(80,332)	-	(14,491)	(13,721,387)
Sale of Non-Performing Loans	(95)	-	(16,392)	-	(135,468)	(151,955)
Others (*3)	162,558	-	-	-	1,642	164,200
Ending Balance	₩ 36,852,692	3,809,107	137,870	88,678	227,979	41,116,326

(*1) The beginning balance for 2018 was restated in accordance with K-IFRS No.1109.

(*2) Loans reduction due to amortization and repayment

(*3) Others are changes due to financing conversion, foreign exchange rate, etc.

16. Allowance

(a) Changes in allowance for financial assets at fair value through other comprehensive income as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

Classification	Collective Assessment			Total
	12-month Expected Credit Loss	Lifetime Expected Credit Loss	Credit-Impaired	
Beginning Balance (*)	₩ 1,131	-	-	1,131
Reclassification to 12-month Expected Credit Loss	-	-	-	-
Reclassification to Lifetime Expected Credit Loss	-	-	-	-
Reclassification to Impaired Lifetime Expected Credit Loss	-	-	-	-
Disposition	(56)	-	-	(56)
Reversal of Allowance for Doubtful Account	(246)	-	-	(246)
Execution & Acquisition	90	-	-	90
Ending Balance	₩ 919	-	-	919

(*) The beginning balance for 2018 was restated in accordance with K-IFRS No.1109.

(b) Changes in allowance for securities at amortized cost as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

Classification	Collective Assessment			Total
	12-month Expected Credit Loss	Lifetime Expected Credit Loss	Credit-Impaired	
Beginning Balance (*)	₩ 198	-	-	198
Reclassification to 12-month Expected Credit Loss	-	-	-	-
Reclassification to Lifetime Expected Credit Loss	-	-	-	-
Reclassification to Impaired Lifetime Expected Credit Loss	-	-	-	-
Disposition	(3)	-	-	(3)
Reversal of Allowance for Doubtful Account	22	-	-	22
Execution & Acquisition	111	-	-	111
Ending Balance	₩ 328	-	-	328

(*) The beginning balance for 2018 was restated in accordance with K-IFRS No.1109.

(c) Changes in allowance for loans at amortized cost and other financial assets as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

	Collective Assessment			Individual Assessment		Total
	12-month Expected Credit Loss	Lifetime Expected Credit Loss	Credit- Impaired	Lifetime Expected Credit Loss	Credit- Impaired	
Loans at Amortized Cost						
Beginning Balance (*)	₩ 121,421	51,569	42,572	-	75,363	290,925
Reclassification to 12-month Expected Credit Loss	9,531	(8,955)	(576)	-	-	-
Reclassification to Lifetime Expected Credit Loss (Collective assessment)	(15,044)	21,291	(1,211)	-	(5,036)	-
Reclassification to Impaired Lifetime Expected Credit Loss (Collective assessment)	(5,189)	(6,146)	11,393	-	(58)	-
Reclassification to Lifetime Expected Credit Loss (Individual assessment)	(117)	(2,140)	-	3,313	(1,056)	-
Reclassification to Impaired Lifetime Expected Credit Loss (Individual assessment)	(2,332)	(5,622)	(1,136)	-	9,090	-
Changes Due to Business Combinations	7,285	-	-	-	-	7,285
Provision for Losses	(42,551)	(5,986)	67,393	17,969	81,177	118,002
Execution & Acquisition	38,702	15,425	5,571	2,657	9,793	72,148
Bad Debt Expenses	(2,883)	(1,240)	(82,866)	-	(58,142)	(145,131)
Collection of Loans Written-off	-	-	39,238	-	384	39,622
Disposal of Loans	-	-	(2,668)	-	(19,656)	(22,324)
Effect of Exchange Rate, etc.	1,425	-	242	-	-	1,667
Gain on Interest of Impaired Debts	-	-	(23,348)	-	(21)	(23,369)
Ending Balance	₩ 110,248	58,196	54,604	23,939	91,838	338,825
Other Financial Assets at Amortized Costs						
Beginning Balance (*)	₩ 11,192	455	680	-	490	12,817
Reclassification to 12-month Expected Credit Loss	28	(27)	(1)	-	-	-
Reclassification to Lifetime Expected Credit Loss (Collective assessment)	(55)	65	(7)	-	(3)	-
Reclassification to Impaired Lifetime Expected Credit Loss (Collective assessment)	(38)	(62)	113	-	(13)	-
Reclassification to Lifetime Expected Credit Loss (Individual assessment)	-	(8)	-	8	-	-
Reclassification to Impaired Lifetime Expected Credit Loss (Individual assessment)	(4)	(8)	(43)	-	55	-
Changes due to Business Combination	2,974	-	-	-	-	2,974
Provision for Losses	(1,182)	(163)	101	61	35	(1,148)
Execution & Acquisition	178	114	52	27	46	417
Effect of Exchange Rate, etc.	276	-	-	-	-	276
Ending Balance	₩ 13,369	366	895	96	610	15,336

(*) The beginning balance for 2018 was restated in accordance with K-IFRS No.1109.

(d) Changes in allowance for loan and other financial assets as of and for the year ended December 31, 2017 are as follows:

(In millions of won)

Classification		December 31, 2017
Beginning Balance	₩	281,758
Provision for Losses		181,986
Collection of Loans Written-off		35,012
Disposal of Loans		(7,464)
Write-offs		(187,199)
Unwinding Effect		(19,611)
Effect of Exchange Rate		(419)
Others		(184)
Ending Balance	₩	283,879

(*) The beginning balance for 2018 was restated in accordance with K-IFRS No.1109.

17. Restructured Loans

Restructured loans under workout plans or other similar restructuring programs as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification	December 31, 2018			
	The Number of Companies	Balance Before Restructuring	Allowance	Balance After Restructuring
Workout	4	₩ 36,146	(13,872)	22,274
Restructuring, Industrial Rationalization	20	12,668	(1,366)	11,302
Total	24	₩ 48,814	(15,238)	33,576

(In millions of won)

Classification	December 31, 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
Total	30	₩ 69,137	(25,770)	43,367

18. Derivative Instruments

(a) Notional amounts of unsettled derivative instruments

Notional amounts of unsettled derivative instruments as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		December 31, 2018			December 31, 2017		
		Trading	Hedging	Total	Trading	Hedging	Total
Currency Related	Forward	₩ 6,966,442	550,806	7,517,248	6,621,346	532,472	7,153,818
	Swap	30,260	202,599	232,859	-	-	-
	Short Future	105,971	-	105,971	-	-	-
	Subtotal	7,102,673	753,405	7,856,078	6,621,346	532,472	7,153,818
Interest Rate Related	Swap	-	11,181	11,181	-	336,420	336,420
	Long Future	12,741	-	12,741	-	-	-
	Short Future	2,444,570	-	2,444,570	-	-	-
	Subtotal	2,457,311	11,181	2,468,492	-	336,420	336,420
Stock Related	Long options	34,156	-	34,156	85,225	-	85,225
	Short options	38,061	-	38,061	68,359	-	68,359
	Swap	270,597	-	270,597	-	-	-
	Future	201,904	-	201,904	-	-	-
	Long option	42,457	-	42,457	-	-	-
	Subtotal	587,175	-	587,175	153,584	-	153,584
Others	Commodity Future	2,949	-	2,949	-	-	-
	Other Derivatives	4,721	-	4,721	-	-	-
	Subtotal	7,670	-	7,670	-	-	-
Total		₩ 10,154,829	764,586	10,919,415	6,774,930	868,892	7,643,822

(b) Valuation on Trading and Hedging Transactions

Valuation on trading and hedging transactions as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		December 31, 2018						
		Valuation Gain (Loss)			Fair Value (Trading)		Fair Value (Hedging)	
		(Profit for Loss)	Hedging		Assets	Liabilities	Assets	Liabilities
Currency Related	Forward	₩ 3,692	2,580	-	36,774	35,144	9,934	4,253
	Swap	597	1,179	305	753	-	4,363	2,461
	Interest Related Swap	206	30	-	-	-	196	-
	Future	(1,493)	-	-	-	-	-	-
Stock Related	Option	163	-	-	220	213	-	-
	Future	3,676	-	-	1	48,196	-	-
	Swap	(7,251)	-	-	3,248	17,836	-	-
	Short Stock Index Option	(7,003)	-	-	-	577	-	-
Others	Commodity Future	28	-	-	90	8	-	-
	Other Derivatives	(899)	-	-	-	638	-	-
	Day 1 Profit Adjustments	(379)	-	-	68	184	-	-
	Reserve for Credit Risk Adjustment	(138)	(1)	-	(391)	(9)	-	-
Total		₩ (8,801)	3,788	305	40,763	102,787	14,493	6,714

(In millions of won)

Classification	December 31, 2017							
	Valuation Gain (Loss)			Fair Value (Trading)		Fair Value (Hedging)		
	(Profit for Loss) Trading	Hedging		Assets	Liabilities	Assets	Liabilities	
		Profit or Loss	OCI					
Currency Related Forward	₩	1,205	20,232	-	97,764	96,560	20,232	-
Interest Related Swap		-	1,202	-	-	-	163	1,108
Stock Related Option		(507)	-	-	1,912	927	-	-
Reserve For Credit Risk Adjustment		900	-	-	(262)	(17)	-	(1)
Total	₩	1,598	21,434	-	99,414	97,470	20,395	1,107

(c) Gain (Loss) on Valuation of Hedged Assets

Gain (loss) on valuation of hedged assets as of and for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification	2018		2017	
	Gain on Valuation	Loss on Valuation	Gain on Valuation	Loss on Valuation
Available-for-sale Financial Assets (Net Gain/loss on Available-for-sale Financial Assets)	₩	-	-	68
Available-for-sale Financial Assets (Net gain(loss) on Foreign Exchange)		-	307	15,203
Financial Assets at Fair Value through OCI		9	-	-
Held-to-maturity Financial Assets (Net gain(loss) on Foreign Exchange)		-	3	16,036
Debentures (Net Other Operating Profit/loss)		7,428	-	1,105
Securities at Amortized Cost		9,177	-	-
Total	₩	16,614	310	32,412

(d) Hedge of Net Investment in Foreign Operations

The Group applied hedge accounting on some of the investments in foreign operations, and profit/loss of foreign operations as a result of hedge as of and for the years ended December 31, 2018 and 2017 are as follow:

(In millions of won)

Classification	2018	2017	
Borrowings in Foreign Currency	₩	-	3,979
Debentures in Foreign Currency		(9,466)	4,814
Total	₩	(9,466)	8,793

19. Property and Equipment

(a) Net Book Value of Property and Equipment

Net book value of property and equipment as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification	December 31, 2018				December 31, 2017		
	Acquisition cost	Accumulated depreciation	Government Grants	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Land	₩ 260,262	-	-	260,262	170,303	-	170,303
Buildings	466,877	(84,665)	-	382,212	270,572	(74,977)	195,595
Leasehold Improvement	65,236	(52,461)	-	12,775	52,985	(42,761)	10,224
Furniture, Equipment and Vehicles	275,053	(188,194)	(259)	86,600	195,800	(148,986)	46,814
Construction-in-Progress	63	-	-	63	52,545	-	52,545
Total	₩ 1,067,491	(325,320)	(259)	741,912	742,205	(266,724)	475,481

(b) Changes in property and equipment as of and for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification	2018									
	Beginning Balance	Change Due to Business Combination	Acquisition	Real Estate Investment	Disposal	Depreciation	Account Transfer	Profit/Loss on Oversea Business	Provision for Restoration Costs	Ending Balance
Land	₩ 170,303	6,646	66,665	20,401	(3,753)	-	-	-	-	260,262
Buildings	195,595	1,912	19,686	1,584	(941)	(8,028)	172,404	-	-	382,212
Leasehold Improvement	10,224	1,069	4,948	-	(404)	(3,994)	-	29	903	12,775
Furniture, Equipment and Vehicles	46,814	11,937	43,498	-	(827)	(17,705)	2,852	31	-	86,600
Construction-in Progress (*)	52,545	-	122,774	-	-	-	(175,256)	-	-	63
Total	₩ 475,481	21,564	257,571	21,985	(5,925)	(29,727)	-	60	903	741,912

(*) The amount of construction in progress includes the interest payment amounting to 2,344 million won resulting from capitalized borrowing costs.

(In millions of won)

Classification	2017									
	Beginning Balance	Acquisition	Disposal	Depreciation	Real Estate Investment	Account Transfer	Profit/Loss on Oversea Business	Provision for Restoration Costs	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)	-	-	(9)	644	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	
Total	₩ 428,987	83,875	(14,489)	(23,581)	783	(675)	(63)	644	475,481	

(c) Operating Lease Payment

Due to non-refundable operating lease contracts, acquisition, minimum future lease payment, and total amount as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		December 31, 2018		December 31, 2017	
		Operating Lease Revenues	Operating Lease Expenses	Operating Lease Revenues	Operating Lease Expenses
Within 1 year	₩	493	15,404	445	6,491
Exceed 1 year and within 5 years		185	23,836	120	6,964
Exceed 5 years		-	501	-	375
Total	₩	678	39,741	565	13,830

In case of rental property, as it is included in operating lease, future expected rental income and expenses are considered as operating lease payments

20. Intangible Assets

Changes in intangible assets as of and for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018							Ending Balance
		Beginning Balance	Business Combinations	Additions	Disposal	Amortization	Impairment Loss	Profit or Loss on Oversea Business	
Goodwill	₩	21,690	29,091	-	-	-	-	1,267	52,048
Software		44,321	1,332	17,213	-	(21,393)	-	16	41,489
Contributed Acceptance Assets		9,659	-	-	-	(925)	-	-	8,734
Membership		7,121	6,230	2,936	(434)	-	(13)	30	15,870
Customer-Related Intangible Assets		-	2,596	-	-	(86)	-	-	2,510
Brand		-	5,738	-	-	-	-	-	5,738
Others(*)		65,163	15,597	10,265	(2,313)	(15,348)	-	-	73,364
Total	₩	147,954	60,584	30,414	(2,747)	(37,752)	(13)	1,313	199,753

(*) Others consist of usable and profitable donation assets of ₩57,387 million.

(In millions of won)

Classification		2017							Ending Balance
		Beginning Balance	Acquisition	Disposal	Amortization	Asset Transfer (*1)	Impairment Loss	Profit or Loss on overseas business	
Goodwill	₩	21,690	-	-	-	-	-	-	21,690
Software		41,888	20,953	-	(19,162)	675	-	(33)	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
Total	₩	133,097	49,033	(888)	(33,829)	675	(34)	(100)	147,954

(*1) Software of ₩675 million was transferred from construction-in-progress.

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

21. Investment Property

(a) Changes in Investment Property

Changes in investment property as of and for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification	2018						
	Beginning Balance	Change Due to Business Combination	Acquisitions	Disposal	Replacement to Tangible Property	Depreciation	Ending Balance
Land	₩ 56,283	1,311	127,770	(1,453)	(20,401)	-	163,510
Buildings	37,308	419	18,561	(1,031)	(1,584)	(2,325)	51,348
Total	₩ 93,591	1,730	146,331	(2,484)	(21,985)	(2,325)	214,858

(In millions of won)

Classification	2017				
	Beginning Balance	Disposal	Replacement from Tangible Property	Depreciation	Ending Balance
Land	₩ 58,816	(1,734)	(799)	-	56,283
Buildings	40,799	(1,629)	16	(1,878)	37,308
Total	₩ 99,615	(3,363)	(783)	(1,878)	93,591

(b) Book Value and Fair Value of Investment Property by Category

Book value and fair value of investment property as of December 31, 2018 and 2017 are as follows:

i. As of December 31, 2018

(In millions of won)

Classification	2018		
	Book Value	Fair Value	Difference
Land	₩ 163,510	182,481	18,971
Buildings	51,348	61,996	10,648
Total	₩ 214,858	244,477	29,619

ii. As of December 31, 2017

(In millions of won)

Classification	2017		
	Book Value	Fair Value	Difference
Land	₩ 56,283	78,288	22,005
Buildings	37,308	40,810	3,502
Total	₩ 93,591	119,098	25,507

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 as of and for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification	2018		2017	
	Incomes	Expenses	Incomes	Expenses
Property With Rental Income	₩ 9,976	1,609	2,662	843
Property Without Rental Income	-	247	-	197
Total	₩ 9,976	1,856	2,662	1,040

22. Other Assets

(a) Other assets as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification	2018		2017	
	Other Financial Assets	Receivable	₩ 933,618	₩ 282,142
	Accrued Income	397,594	335,300	
	Deposits	175,309	148,889	
	Non-collectable Domestic Bonds	135,417	155,014	
	Reinsurance Assets	11,709	10,536	
	Others	29,899	35,859	
	Allowance For Doubtful Account	(15,336)	(12,923)	
	Present Value Discount	(2,558)	(1,826)	
	Subtotal	1,665,652	952,991	
Other Non-Financial Assets	Pre-Payments	₩ 98,777	₩ 35,584	
	Prepaid Expenses	9,903	11,986	
	Deferred Acquisition Costs	96,355	81,621	
	Separate Account Assets	132,173	108,855	
	Others	12,435	20,905	
	Subtotal	349,643	258,951	
Total		₩ 2,015,295	₩ 1,211,942	

(b) Change in book value of other financial assets as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

Classification	Collective Assessment			Individual Assessment		Total
	12-month Expected Credit Loss	Lifetime Expected Credit Loss	Credit-Impaired	Lifetime Expected Credit Loss	Impaired Bonds	
Beginning Balance (*1)	₩ 957,290	6,480	1,992	-	1,898	967,660
Change in Business Combination	825,208	-	-	-	-	825,208
Reclassification to 12-month Expected Credit Loss	1,268	(1,260)	(8)	-	-	-
Reclassification to Lifetime Expected Credit Loss (Collective Assessment)	(4,350)	4,409	(19)	-	(40)	-
Reclassification to Impaired Lifetime Expected Credit Loss (Collective Assessment)	(259)	(254)	520	6	(13)	-
Reclassification to Lifetime Expected Credit Loss (Individual Assessment)	(55)	(202)	-	257	-	-
Reclassification to Impaired Lifetime Expected Credit Loss (Individual Assessment)	(178)	(165)	(101)	-	444	-
Execution & Acquisition	(115,118)	(348)	(30)	68	(288)	(115,716)
Others (*2)	6,794	-	-	(6)	(394)	6,394
Ending Balance	₩ 1,670,600	8,660	2,354	325	1,607	1,683,546

(*1) The beginning balance for 2018 was restated in accordance with K-IFRS No.1109.

(*2) Include changes due to financing conversion, foreign exchange rate, etc.

23. Depository Liabilities

(a) Depository Liabilities

Depository Liabilities as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification	December 31, 2018		December 31, 2017	
		Book Value		Book Value
Demand Deposits	₩	15,313,216		15,420,216
Time Deposits		22,235,907		21,764,956
Certificate of Deposits		693,808		654,578
Guarantee Deposits in Fiduciary Loans		4,957		-
Withholdings		481,569		-
Total	₩	38,729,457		37,839,750

(b) Demand Deposits

Demand deposits as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification			December 31, 2018	December 31, 2017
Deposits in Won	Checking Accounts	₩	1,374,662	1,356,031
	Saving Accounts		8,055,855	8,137,356
	Corporate Free Saving Account		4,397,157	4,114,896
	Others		1,074,023	1,138,436
	Subtotal	₩	14,901,697	14,746,719
Deposits in Foreign Currencies	Checking Accounts		387,311	487,166
	MMDA Accounts		23,453	184,499
	Others		755	1,832
	Subtotal		411,519	673,497
Total	₩	15,313,216	15,420,216	

(c) Time Deposits

Time deposits as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification			December 31, 2018	December 31, 2017
Deposits in Won	Time Deposits	₩	20,252,087	19,866,989
	Installment Savings Deposits		980,206	1,034,590
	Long-Term Housing Saving		91,945	103,584
	Mutual Installment Deposits		413,204	359,555
	Others		283,262	289,461
	Subtotal	₩	22,020,704	21,654,179
Deposits in Foreign	Time Deposits		208,493	109,359
	Notice Deposits		6,710	1,418
	Subtotal		215,203	110,777
Total	₩	22,235,907	21,764,956	

24. Borrowings and Debentures

(a) Borrowings and Debentures

Borrowings and debentures as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification			December 31, 2018		December 31, 2017	
			Average Interest Rate (%)	Book Value	Average Interest Rate (%)	Book Value
Borrowings	Borrowings in Won	The Bank of Korea	0.7	₩ 451,037	0.71	₩ 495,794
		Others	1.95	1,857,161	1.64	1,362,459
		Subtotal		2,308,198		1,858,253
	Borrowings in Foreign Currencies	Borrowings From Banks	1.97	706,586	1.22	586,310
		Bonds Sold under Repurchase Agreements	2.21	3,286,587	1.6	815,553
	Call Money	Borrowings in Won	1.69	120,000	1.21	50,000
		Borrowings in Foreign Currencies	2.13	14,662	1.02	74,998
		Subtotal		134,662		124,998
	Others	Bills Sold	1.39	6,387	1.27	9,256
	Less Discounts on Borrowings in Foreign Currencies		-	(61)	-	-
Total			₩ 6,442,359		₩ 3,394,370	
Debentures	Debentures in Won		2.65	4,976,184	2.49	4,040,572
	Debentures in Foreign Currencies		3.75	335,430	2.25	319,823
	Less Discount on Debentures		-	(7,774)	-	(3,743)
	Total			₩ 5,303,840		₩ 4,356,652
Borrowings and Debentures			₩ 11,746,199		₩ 7,751,022	

(b) Details of Debentures

Debentures as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification			December 31, 2018		December 31, 2017	
			Interest Rate (%)	Amount	Interest Rate (%)	Amount
Debentures in Won	General Debentures	1.56 ~ 3.53	₩	4,081,184	1.37~3.53	₩ 3,135,000
	Subordinated Debentures	3.03 ~ 5.60		895,000	3.03~5.60	905,572
	Discounted Bonds	-		(4,844)	-	(3,628)
	Subtotal			4,971,340		4,036,944
Debentures in Foreign Currencies	General Debentures	3.75		335,430	2.25	319,823
	Discounted Bonds	-		(2,930)	-	(115)
	Subtotal			332,500		319,708
Total			₩ 5,303,840		₩ 4,356,652	

25. Provisions

(a) Changes in provisions as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		December 31, 2018	December 31, 2017
Unused Commitment (*1)	₩	22,630	12,880
Allowance (*2)	Provision for financial guarantee	2,408	223
	Non-financial guarantee contract	2,412	1,716
Allowance for Restoration (*3)		7,225	5,732
Other Allowance		14,400	8,639
Total	₩	49,075	29,190

(*1) 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.

(*2) 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.

(*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, 2018 and 2017

(b) Changes in unused commitment and provision for financial guarantee contract as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

Classification	Unused Commitment			Financial Guarantee Contract			Total
	12-Month Expected Credit Loss	Lifetime Expected Credit Loss	Credit-Impaired	12-Month Expected Credit Loss	Lifetime Expected Credit Loss	Credit-Impaired	
Beginning (*)	₩ 18,519	3,750	3,746	223	-	-	26,238
Reclassification to 12-month Expected Credit Loss	1,603	(1,603)	-	-	-	-	-
Reclassification to Lifetime Expected Credit Loss (Collective Assessment)	(852)	1,466	(614)	-	-	-	-
Reclassification to Impaired Lifetime Expected Credit Loss	(32)	(81)	113	-	-	-	-
Reversal of Provision for Others	(5,156)	4,682	(2,619)	356	-	-	(2,738)
Changes in Foreign Exchange	-	-	16	-	-	-	17
Others	(308)	-	-	1,829	-	-	1,521
Ending Balance	₩ 13,774	8,214	642	2,408	-	-	25,038

(*) The beginning balance for 2018 was restated in accordance with K-IFRS No.1109.

26. Defined Benefit Obligations

(a) Major Assumptions of Actuarial Valuation

Major assumptions of actuarial valuation as of December 31, 2018 and 2017 are as follows:

Classification	December 31, 2018				
	DGB Financial Group Co., Ltd	Daegu Bank	HI Investment & Futures Corporation	DGB Life Insurance Co., Ltd	DGB Capital Co., Ltd
Discount Rate (%)	1.95	3.41	2.85	2.68	2.85
Salary Increases	Application of salary increase rates of each job group and age group based on experience statistics				

Classification	December 31, 2018			
	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
Salary Increases	Application of salary increase rates of each job group and age group based on experience statistics			

(b) The Profit and Loss of Defined Benefit Plans

The gain and loss of defined benefit plans as of and for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018	2017
Current Service Cost	₩	32,292	31,220
Interest Expense		7,959	6,643
New/Transfer		668	-
Interest Income on Plan Assets		(6,757)	(6,086)
Total	₩	34,162	31,777

(c) Retirement Benefit Obligation

Retirement benefit obligation as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018	2017
Present Value of Retirement Benefit Obligations with Accumulated Fund	₩	322,305	226,235
Fair Value on Plan Assets		(287,244)	(212,010)
Net Liabilities for Benefit Obligation	₩	35,061	14,225

(d) Changes in Present Value of Retirement Benefit Obligation

Changes in present value of retirement benefit obligation as of and for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018	2017
Defined Benefit Obligations at Beginning of the Year	₩	226,235	204,291
Current Service Cost		32,292	31,220
Interest Expense		7,959	6,643
New/Transfer		668	-
Re-measurement		37,723	1,766
Benefit Paid		(19,244)	(17,685)
Changes Due to Business Combinations		36,672	-
Defined Benefit Obligations at End of the Year	₩	322,305	226,235

(e) Changes in Fair Value of Plan Assets

Changes in fair value of plan assets as of and for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018	2017
Fair Value of Plan Assets at Beginning of the Year	₩	212,010	195,518
Interest Income on Plan Assets		6,757	6,086
Re-measurement		933	(4,146)
Contribution of Employer		50,565	22,119
Benefit Paid		(16,145)	(7,567)
Changes Due to Business Combinations		33,124	-
Fair Value of Plan Assets at End of the Year	₩	287,244	212,010

(f) Fair value of plan assets by category

i. In accordance with the Group's policy, it is preferred to invest in stable products rather than the products with high risk and high return. Accordingly, the Group is investing the plan assets in fixed interest rate products with guaranteed principal and in floating interest rate products with guaranteed interests.

ii. Fair value of plan assets by category as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		December 31, 2018	December 31, 2017
Due From Banks(*)	₩	287,243	202,712
Debt Securities		-	9,297
Contribution to National Pension Plan		1	1
Total	₩	287,244	212,010

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

27. Insurance Contract Liabilities

Insurance Contract Liabilities as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		December 31, 2018	December 31, 2017
Premium Reserve	₩	5,383,693	5,108,513
Reserves For Unearned Premium		5,358	4,850
Minimum Guarantee Reserve		13,088	16,518
Reserve For Outstanding Claims		109,593	101,843
Reserve For Participating Policyholders' Dividends		5,038	4,616
Reserve For Policyholders' Profit Dividends		532	924
Loss Preservation Reserve For Participating Insurance		980	852
Policyholders' Equity Adjustment		559	202
Others		30,541	36,990
Total	₩	5,549,382	5,275,308

28. Other Liabilities

Other liabilities as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		December 31, 2018	December 31, 2017
Other Financial Liabilities	Accounts Payable	₩ 1,024,909	374,991
	Accrued Expenses	534,611	373,331
	Domestic Exchange Settlement Credits	33,531	4,162
	Prepaid Cards	6,009	6,741
	Debit Cards	330	360
	Guarantee Deposit For Securities Subscription	711	1,884
	Liabilities Incurred By Agency Relationship	82,830	62,524
	Deposit For Credit Control	362	1,500
	Withholding Taxes	33,550	15,772
	Deposits For Letter Of Guarantees and Other	214,321	220,143
	Account For Agency Business	131,050	86,414
	Financial Guarantee Contract	214	328
	Insurance Claims Payable	12,097	11,692
	Others	206,799	144,702
	Subtotal	2,281,324	1,304,544
Other Non-Financial Liabilities	Separate Account Liabilities	134,564	111,185
	Unearned Revenue	37,108	27,033
	Prepaid Insurance	16,314	15,802
	Others	102,892	35,160
	Subtotal	290,878	189,180
Discount Present Value		(12,325)	(11,980)
Total	₩	2,559,877	1,481,744

29. 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, 2018 and 2017 are as follows:

(In thousands of dollars, In millions of won)

Classification	December 31, 2018		December 31, 2017		
	Foreign Currency (USD)	Translation into Won	Foreign Currency (USD)	Translation into Won	
Assets	Cash in Foreign Currencies	\$ 64,000	₩ 71,558	\$ 62,446	₩ 66,922
	Due From Banks in Foreign Currencies	221,057	247,164	402,604	431,350
	Financial Assets at Fair Value through Profit or Loss	48,131	53,815	-	-
	Financial Assets at Fair Value through OCI	410,638	459,134	-	-
	Available-for-sale financial assets	-	-	365,840	402,815
	Securities at Amortized Costs	394,758	441,378	-	-
	Held-to-maturity financial assets	-	-	276,848	317,462
	Loans in Foreign Currencies	604,393	675,771	511,137	547,631
	Loans to Other Banks in Foreign Currencies	98,440	110,066	209,927	224,916
	Bills Bought in Foreign Currencies	118,622	132,632	140,985	151,051
	Advances for Customers in Foreign Currencies	1,844	2,062	1,305	1,398
	Credit Card Accounts in Foreign Currencies	2,971	3,321	2,877	3,082
	Call Loans in Foreign Currencies	174,382	194,977	133,061	142,561
	Privately Placed Debentures in Foreign Currencies	39,725	44,417	31,648	33,908
	Subtotal	1,040,377	1,163,246	1,030,940	1,104,547
Others					
Deposits in Foreign Currencies	372	416	122	130	
Total	\$ 2,179,333	₩ 2,436,711	\$ 2,138,800	₩ 2,323,226	
Liabilities	Deposits in Foreign Currencies	\$ 560,524	₩ 626,722	\$ 732,009	₩ 784,275
	Borrowings				
	Borrowings in Foreign Currencies	631,898	706,525	547,237	586,310
	Call Money in Foreign Currencies	13,113	14,662	70,000	74,998
	Subtotal	645,011	721,187	617,237	661,308
	Debentures				
	Debentures in Foreign Currencies	300,000	335,430	298,509	319,823
	Less Discount on Debentures	(2,620)	(2,930)	(107)	(115)
	Subtotal	297,380	332,500	298,402	319,708
	Others				
	Financial Guarantees in Foreign Currencies	98	109	161	172
	Foreign Exchanges Payable	29,989	33,531	3,885	4,162
Import Deposit Money in Foreign Currencies	9,026	10,092	13,300	14,248	
Accounts Payable in Foreign Currencies	833	931	684	732	
Accrued Expenses in Foreign Currencies	10,079	11,270	3,380	3,621	
Subtotal	50,025	55,933	21,410	22,935	
Total	\$ 1,552,940	₩ 1,736,342	\$ 1,669,058	₩ 1,788,226	

(b) Gain and loss on foreign currency transactions

Gain and loss of foreign currency transactions for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification	2018	2017
Gain on Foreign Currency Transactions	₩ 274,585	216,650
Loss on Foreign Currency Transactions	(288,079)	(207,330)
Net Gain on Foreign Currency Transactions	₩ (13,494)	9,320

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

(a) Controlling Interest as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification	December 31, 2018		December 31, 2017	
Authorized Shares	500,000,000 shares		500,000,000 shares	
Number of Shares Issued	169,145,833 shares		169,145,833 shares	
Par Price	5,000 won		5,000 won	
Capital Stock	₩	845,729	₩	845,729
Hybrid Bonds	149,401		-	
Capital Surplus	1,560,909		1,560,891	
Capital Adjustment	(991)		(991)	

(b) Details of Hybrid Bonds

Hybrid bonds that are classified as an asset as of December 31, 2018 are as follows. Hybrid bonds that the consolidated group has an absolute right to avoid transfer of financial assets such as cash, etc. for payment obligation under contracts are classified as equity securities and shown as an asset on the statement.

(In millions of won)

Classification	Date of Issuance	Maturity	Interest Rate (%)	December 31, 2018
DGB Financial Group Capital (New-Permanent-5 Call)(*)	2018-02-21	Perpetual Bonds	4.47	149,401
Dividends for Hybrid Bonds				5,774

(*) Hybrid bonds can be redeemed earlier after 5 years from the date of issuance by the consolidated group.

(c) Non-Controlling Interests

Hybrid bonds issued by the DGB are classified as non-controlling interests and hybrid bonds dividends are accounted for as profits attributable to non-controlling interests in the consolidated statement of comprehensive income.

Non-controlling interests as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Description	Issuance Date	Maturity Date	Interest Rate (%)	December 31, 2018	December 31, 2017
DGB()34-05 120A-28 (*1)	2013-05-28	2043-05-28	4.53	₩ 199,700	199,700
DGB()34-10 120A-25 (*1)	2013-10-25	2043-10-25	5.55	59,911	59,911
DGB()34-11 120A-01 (*1)	2013-11-01	2043-11-01	5.55	29,954	29,954
DGB()39-01 A-30	2018-01-30	Perpetual Bonds	4.49	99,668	-
DGB()39-07 A-12	2018-07-12	Perpetual Bonds	4.53	99,667	-
DGB()39-11 5CallA-6	2018-11-06	Perpetual Bonds	4.09	99,667	-
Subtotal				588,567	289,565
Others (*2)				130,161	1,025
Total				₩ 718,728	290,590
Hybrid Bonds Dividends				20,917	14,061

(*1) Hybrid bonds may be redeemed earlier after 10 years from the date of issuance and the Group may extend the maturity(30 years from the date of issuance) 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 Hi Investment & Futures Corporation and DGB Capital Co., Ltd.

31. Retained Earnings

(a) Retained earnings as of December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018	2017
Legal reserve (*1)	₩	236,715	197,328
Discretionary appropriated reserve (*2)		1,235	1,181
Unappropriated retained earnings (*3)		1,630,725	1,356,321
	₩	1,868,675	1,554,830

(*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 09,618 million and 09,159 million as of June 30, 2018 and December 31, 2017, respectively.

(b) The statement of disposal of retained earnings as of December 31, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
		(Expected date of appropriation: March 28, 2019)		(Fixed date of appropriation: March 23, 2018)
Unappropriated retained earnings	₩	132,264		105,197
Unappropriated retained earnings carried forward		38,848		17,355
Effects of changes in accounting policies		(58)		-
Profit share of hybrid capital stock		(5,774)		-
Net income		99,248		87,842
Retained earnings disposal		70,846		66,349
Profit reserve		9,925		8,785
Reserve for bad debts		29		54
Dividend		60,892		57,510
Unappropriated retained earnings to be carried forward	₩	61,418		38,848

(c) 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, 2018 and 2017 are summarized as follows:

(In millions of won)

Classification		2018	2017
Regulatory reserves for loan losses	₩	296,042	303,991
Adjustment Effects of Changes in Accounting Policy		(20,224)	-
Estimated transfer to regulatory reserves for loan losses		(11,385)	(7,949)
Regulatory reserves for loan losses at end of the year	₩	264,433	296,042

Details of profits after adjusting for regulatory reserves for loan losses for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018	2017
Net profit attributable to controlling shareholders	₩	383,535	302,208
Shared profit for hybrid Capital Securities		(5,774)	-
Estimated transfer to regulatory reserves for loan losses		11,385	7,949
Adjusted profit after regulatory reserves for loan losses		389,146	310,157
Earnings per share after adjusting regulatory reserves for loan losses (in won)	₩	2,301	1,834

32. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2018 and 2017 as follows:

(In millions of won)

Classification	2018									
	W	Allowance for doubtful debts estimated at fair value through other comprehensive income	Net gain on securities at fair value through comprehensive income	Net gain on valuation of cash flow hedges	Net gain on translation of foreign operations	Net investment hedge accounting for foreign operations	Profit or loss adjustment approach	Remeasurement of defined benefit plan.	Changes in the credit risk of a financial liability at fair value through profit or loss	Total
Beginning balance(*)	₩	1,131	(26,559)	-	(284)	3,013	(13,654)	(54,776)	-	(91,129)
Net decrease due to valuation		(213)	-	-	-	-	-	-	-	(213)
Net increase due to valuation of financial assets at fair value through other comprehensive income		-	42,784	-	-	-	6,529	-	-	49,313
Classification due to equity securities as retained earnings at fair value through other comprehensive income		-	1,839	-	-	-	-	-	-	1,839
Classification due to debt securities valuation net gains at fair value through other comprehensive income		-	(1,206)	-	-	-	-	-	-	(1,206)
Net gain on the fair value hedge accounting		-	31	-	-	-	-	-	-	31
Classification as retained earnings of changes in the credit risk of financial liabilities at fair value through profit or loss		-	-	-	-	-	-	-	30	30
Net profit on valuation		-	-	-	-	-	(450)	-	-	(450)
Contractor's Equity Adjustment Distribution amount		-	(357)	-	-	-	-	-	-	(357)
Net increase due to derivative valuation		-	-	405	-	-	-	-	-	405
Net gain on Investment Hedge Accounting		-	-	-	-	(9,466)	-	-	-	(9,466)
Net loss on translation of foreign operations		-	-	-	10,520	-	-	-	-	10,520
Remeasurements of employee benefits		-	-	-	-	-	-	(36,790)	-	(36,790)
Effect of income taxes		-	(9,424)	(100)	(2,586)	2,317	(1,446)	9,215	(8)	(2,033)
Replacement of Non-controlling Equity		1	(122)	-	(11)	-	-	268	(3)	134
Net balance at end of period	₩	919	6,986	305	7,639	(4,136)	(9,021)	(82,083)	19	(79,372)

(*) Restated as of K-IFRS No. 1109.

(In millions of won)

Classification	2017					Total
	Net gain on valuation of available-for-sale financial assets	Net gain on valuation of held to maturity financial assets	Net gain on translation of foreign operations	Remeasure-ment of defined benefit plan		
Beginning balance	₩ 1,607	15,837	5,565	(50,394)		(27,385)
Net increase(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 loss 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)

33. Interest Income and Interest Expense

(a) Interest income

Interest income for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018	2017
Interest on due from banks	₩	10,072	13,007
Financial assets held for trading		-	8,338
Interest on financial assets at fair value through profit or loss		38,861	-
Interest on available-for-sale financial assets		-	71,889
Interest on financial assets at fair value through other comprehensive income		66,323	-
Interest on held-to-maturity financial assets		-	205,005
Interest on securities at amortized cost		195,837	-
Interest on loans		-	1,522,741
Interest on loans at amortised cost		1,713,653	-
Others		4,569	2,873
Total	₩	2,029,315	1,823,853

(b) Interest expense

Interest expense for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018	2017
Interest on deposits	₩	436,181	362,556
Interest on borrowings		74,562	49,983
Interest on debentures		128,312	111,957
Interest on borrowings from trust accounts		3,546	3,061
Others		4,080	4,947
Total	₩	646,681	532,504

34. Fee and Commission Income / Commission Expense

(a) Fee and commission income

Fee and commission income for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018	2017
Commissions received	₩	183,807	136,911
Guarantee fees		9,178	4,620
Commissions received related to trust accounts		14,696	12,485
Total	₩	207,681	154,016

(b) Fee and commission expense

Commission expenses for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018	2017
Commissions paid	₩	32,593	26,578
Commissions on credit cards		37,381	46,759
Commissions paid related to trust accounts		7,087	269
Total	₩	77,061	73,606

35. Insurance Income and Insurance Expenses

(a) Insurance income

Insurance income for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018	2017
Insurance revenue	₩	955,112	800,236
Reinsurance revenue		40,242	38,056
Fees on reinsurance revenue		4,265	4,716
Separate account revenue		5	6
Total	₩	999,624	843,014

(b) Insurance expenses

Insurance expense for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018	2017
Insurance expense	₩	123,146	90,457
Refunds expense		566,216	570,185
Policyholder dividends		498	454
Reinsurance premium		46,778	44,979
Deferred acquisition costs of new or renewal insurance contracts		(60,839)	(47,151)
Expenses on acquisition costs of new or renewal insurance contracts		98,792	64,087
Contribution to insurance reserve		272,544	155,570
Separate account expense		5	5
Amortization expenses on deferred acquisition costs of new or renewal insurance contracts		46,105	27,542
Total	₩	1,093,245	906,128

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

Net gain (loss) on financial instruments held for trading for the year ended December 31 2017 is as follows:

(In millions of won)

Description		2017
Gain on securities held for trading	Dividend income	₩ 359
	Gain on disposal	14,937
	Gain on valuation	2,255
	Subtotal	17,551
Gain on derivatives instruments held for trading	Gain on transaction	354,505
	Gain on valuation	98,696
	Reversal of reserve for credit risk adjustment	905
	Subtotal	454,106
Gain on financial instruments held for trading	₩	471,657
Loss on securities held for trading	Commission expenses (acquisition expenses)	143
	Loss on disposal	3,973
	Loss on valuation	506
	Subtotal	4,622
Loss on derivatives instruments held for trading	Commission expenses (acquisition expenses)	₩ 248
	Loss on transaction	377,901
	Loss on valuation	98,581
	Reserve for allowance of credit risk adjustment	5
	Subtotal	476,735
Loss on financial instruments held for trading		481,357
Net gain (loss) on financial instruments held for trading	₩	(9,700)

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.

37. Net Gain on Financial Assets at Fair Value through Profit or Loss

Net gain on financial assets at fair value through profit or loss for the years ended December 31, 2018 are as follows:

(In millions of won)

Classification		2018
Gain on financial assets at fair value through profit or loss	Dividend income	₩ 608
	Gain on disposal	67,258
	Gain on valuation	46,431
	Others	27,218
	Subtotal	141,515
Gain on derivative instruments held for trading	Gain on transaction	378,516
	Gain on valuation	44,633
	Subtotal	₩ 423,149
Adjustments for overlay approach		(6,078)
Gains on financial assets at fair value through profit or loss		558,586
Loss on financial assets at fair value through profit or loss	Commission expenses (acquisition expenses)	47
	Loss on disposal	46,341
	Loss on valuation	39,016
	Subtotal	₩ 85,404
Loss on derivative instruments held for trading	Commission expenses (acquisition expense)	335
	Loss on transaction	367,123
	Loss on valuation	53,296
	Reserve for credit value adjustment	138
Subtotal	₩ 420,892	
Loss on financial assets at fair value through profit or loss		506,296
Net gain on financial assets at fair value through profit or loss	₩	52,290

Net gain on financial assets at fair value through profit or loss contains dividend income, net income on valuation and net income on disposal of financial assets at fair value through profit or loss.

38. Net Gain (loss) on Financial Assets Designated at Fair Value through Profit or Loss

(a) Net gain(loss) on financial assets designated at fair value through profit or loss for the year ended December 31, 2018 is as follows:

(In millions of won)

Classification		2018
Gain on valuation	₩	16,235
Gain on disposal		15
Total profit on financial assets at designated at fair value through profit or loss		16,250
Loss on valuation		6,982
Loss of disposal		1,138
Total loss on financial assets at designated at fair value through profit or loss		8,120
Net gain(loss) on financial assets designated at fair value through profit or loss	₩	8,130

Net gain (loss) on financial assets designated at fair value through profit or loss contains net income on valuation and net income on disposal of financial assets designated at fair value through profit or loss.

(b) Net gain (loss) on financial assets designated at fair value through profit or loss for the year ended December 31, 2017 is as follows:

(In millions of won)

Classification		2017
Gain on valuation	₩	95
Total profit on financial assets at designated at fair value through profit or loss		95
Loss on valuation		2,433
Total loss on financial assets at designated at fair value through profit or loss		2,433
Net gain(loss) on financial assets designated at fair value through profit or loss	₩	(2,338)

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.

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

Net gain on available-for-sale financial assets for the years ended December 31, 2017 is as follows:

(In millions of won)

Classification		2017
Gain on available-for-sale financial assets	Dividend income	₩ 19,837
	Gain on disposal	38,032
	Gain on valuation of fair value hedged items	-
	Subtotal	57,869
Loss on available-for-sale financial assets	Loss on disposal	230
	Loss on valuation of fair value hedged items	68
	Subtotal	298
Net gain on available-for-sale financial assets	₩	57,571

40. Net Gain on Financial assets at fair value through other comprehensive income

Net gain on financial assets at fair value through other comprehensive income as of the year ended December 31, 2018 is as follows:

(In millions of won)

Classification		2018
Gain on disposal	₩	7,154
Dividend income		3,180
Total gain on financial assets at fair value through other comprehensive income		10,334
Loss on valuation of fair value hedged items		31
Loss on disposal		441
Total cost of financial assets at fair value through other comprehensive income		472
Net gain on financial assets at fair value through other comprehensive income	₩	9,862

41. Impairment Loss on Financial Assets

Impairment losses on financial assets for the year ended December 31, 2017 is as follows:

(In millions of won)

Classification		2017
Impairment loss on available-for-sale financial assets	₩	6,855
Impairment on loan losses		181,986
Total	₩	188,841

42. Provision for Credit Losses

Provision for credit losses for the year ended December 31, 2018 is as follows:

(In millions of won)

Classification		2018
Provision for credit losses	Loans at amortized cost and other financial assets	₩ 190,150
	Securities at amortized cost	133
	Provision for financial guarantee	356
	Provision for non-financial guarantee	635
	Subtotal	191,274
Reversal of provision for credit losses	Financial assets at fair value through other comprehensive income	730
	Securities at fair value through other comprehensive income	156
	Provision for non-financial guarantee	230
	Provision for unused commitment	3,095
	Subtotal	4,211
Total		₩ 187,063

43. General and Administrative Expenses

(a) General and administrative expenses

General and administrative expense for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

Classification		2018	2017
Employee benefits	Short-term employee benefits	₩ 430,564	365,884
	Retirement benefit	34,133	31,862
	Other long-term employee benefits	1,122	945
	Termination benefit	57,653	25,297
	Subtotal	523,472	423,988
Rent		26,510	22,250
Depreciation		30,625	24,693
Amortization		37,516	33,606
Tax and dues		28,447	24,395
Advertising expense		16,269	14,613
Physical training expense		1,461	1,540
Service expense		53,165	41,048
Others		99,504	90,726
Total		₩ 816,969	676,859

(b) Equity linked special incentives

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.

The performance compensation shall be paid immediately in cash for 40 percent of the amount calculated according to the results of the performance evaluation. The remainder is converted to shares and is deferred and paid equally in three years in relation to the share prices at the base dates.

1) Key characteristics and range

Short-term performance compensation

	Grant in 2016	Grant in 2017	Grant in 2018
Shares to be granted	90,716 shares	95,787 shares	127,110 shares
Shares outstanding	30,239 shares	63,858 shares	127,110 shares
Grant date	2016-03-25	2017-02-24	2018-02-23
Grant method	Cash settlement	Cash settlement	Cash settlement
	+	+	+
	Difference settlement	Difference settlement	Difference settlement
Exercise price per share in won	-	-	-
Conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions
Payment method	Cash settlement	Cash settlement	Cash settlement
Vesting period	1 year	1 year	1 year

Long-term performance compensation

- Initially granted

	6th	7th	8th(*)	9th(*)	10th
Shares to be granted	22,834 shares	15,772 shares	14,601 shares	22,512 shares	18,535 shares
Shares outstanding	6,051 shares	0 shares	4,867 shares	10,631 shares	18,535 shares
Shares extinguished	6,401 shares	10,514 shares	9,734 shares	11,881 shares	0 shares
Grant date	2015-12-24	2016-12-27	2017-03-21	2017-12-26	2018-05-31
Grant method	Cash settlement				
	+	+	+	+	+
	Difference settlement				
Exercise price per share in won	-	-	-	-	-
Conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions
Payment method	Cash settlement				
Vesting period	3 years				

	13th	16th	17th(*)	18th(*)	19th
Shares to be granted	14,522 shares	23,658 shares	14,601 shares	51,540 shares	7,879 shares
Shares outstanding	7,261 shares	7,886 shares	14,601 shares	47,196 shares	7,879 shares
Shares extinguished	0 shares	0 shares	0 shares	4,344 shares	0 shares
Grant date	2015-12-24	2016-12-27	2017-03-21	2017-12-26	2018-03-23
Grant method	Cash settlement				
	+	+	+	+	+
	Difference settlement				
Exercise price per share in won	-	-	-	-	-
Conditions	Service conditions/ Performance con- ditions				
Payment method	Cash settlement				
Vesting period	3 years				

(*) Employees of DGB Financial Holding Co., Ltd. and Daegu Bank who hold additional position are paid according to the standard of calculating the payment rate by each company and are compensated by the ratio of their employees holding additional position.

- Fixed deferred payments

	To be exercised in 2019	To be exercised in 2020	To be exercised in 2021
Shares outstanding(*)	26,938 shares	10,321 shares	10,321 shares
Grant method	Cash settlement	Cash settlement	Cash settlement
	+	+	+
	Difference settlement	Difference settlement	Difference settlement
Exercise price per share in won	-	-	-
Payment method	Cash settlement	Cash settlement	Cash settlement
Vesting conditions satisfaction status	Satisfied	Satisfied	Satisfied

(*) Fixed deferred payment is the quantity given after meeting the vesting conditions as of the end of the current term, minus the payment amount.

2) Changes in share-based compensation (quantity)

Short-term performance compensation

- Fixed deferred payments

	2018	2017
At beginning of year	175,961 shares	157,971 shares
Shares to be granted	127,110 shares	95,787 shares
Shares exercised	81,864 shares	77,797 shares
At end of the period	221,207 shares	175,961 shares

Long-term performance compensation

- Initially granted

	2018	2017
At beginning of year	165,387 shares	127,051 shares
Shares to be granted	26,414 shares	103,254 shares
Shares exercised	24,020 shares	64,918 shares
Extinction of shares	42,874 shares	0 shares
At end of the period	124,907 shares	165,387 shares

The weighted average term to maturity of long-term performance compensation as of December 31, 2018 is 1.69 years.

- Deferred payments

	2018	2017
At beginning of year	52,957 shares	25,374 shares
Shares to be granted	14,037 shares	30,380 shares
Shares exercised	19,414 shares	2,797 shares
At end of the period	47,580 shares	52,957 shares

3) Major factors of measuring fair value of long-term performance share plan in the Black-Scholes option pricing model as of December 31, 2018 are as follows:

(In won)

Classification		Option pricing model	Stock price	Exercise price	Expected variance	Expected life	Risk free rate	Fair value
DGB Financial Holding	8th	Black-Scholes option pricing model	₩ 8,310	-	23.92%	1.22 years	1.78%	₩ 8,015
	9th	Black-Scholes option pricing model	8,310	-	24.38%	1.99 years	1.83%	7,835
	10th	Black-Scholes option pricing model	8,310	-	23.73%	2.25 years	1.84%	7,775
Degu Bank	17th	Black-Scholes option pricing model	8,310	-	23.92%	1.22 years	1.78%	8,015
	18th	Black-Scholes option pricing model	8,310	-	24.38%	1.99 years	1.83%	7,835
	19th	Black-Scholes option pricing model	8,310	-	23.83%	2.23 years	1.84%	7,780
To be exercise in 2019		Black-Scholes option pricing model	8,310	-	15.61%	0.25 years	1.75%	8,249
To be exercise in 2020		Black-Scholes option pricing model	8,310	-	23.76%	1.25 years	1.78%	8,008
To be exercise in 2021		Black-Scholes option pricing model	8,310	-	23.73%	2.25 years	1.84%	7,775
Fixed in 2016		Black-Scholes option pricing model	8,310	-	15.61%	0.25 years	1.75%	8,249
Fixed in 2017		Black-Scholes option pricing model	8,310	-	23.76%	1.25 years	1.78%	8,008
Fixed in 2018		Black-Scholes option pricing model	8,310	-	23.73%	2.25 years	1.84%	7,775

4) Impact on management performance and financial position

Expense of special incentive for the periods ended December 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Short-term performance compensation expense	₩ 1,480	₩ 2,379
Long-term performance compensation expense	86	441

Liability of special incentive for periods ended December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018		2017
Short-term performance accrued expense	₩	3,573	₩	3,371
Long-term performance accrued expense		792		906

44. Other Operating Loss, Net

Other operating loss, net for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018		2017
Other operating income	Gain on sale of loans	₩ 16,384		13,992
	Reversal of other provision	752		2,416
	Earnings related to hedging derivatives	26,940		37,434
	Others	16,087		20,773
	Subtotal	60,163		74,615
Other operating loss	Fees for credit guarantee fund	58,544		56,414
	Deposit insurance premiums	52,433		51,773
	Loss on sale of loans	28,340		23,862
	Transfer of other provision	556		2,592
	Loss on valuation of debentures	-		1,105
	Costs related to hedging derivatives	35,090		6,441
	Others	20,958		20,983
	Subtotal	195,921		163,170
Other operating loss, net	₩	(135,758)		(88,555)

45. Non-Operating Income, Net

Non-operating income and expenses for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018	2017
Non-operating income	Gain on disposal of property and equipment	₩ 463	8,294
	Gain on disposal of investment property	509	148
	Gain on disposal of intangible assets	332	19
	Rental income	9,540	3,364
	Earnings related to equity method	818	4,988
	Return of negative goodwill	161,344	-
	Others	8,072	2,541
	Subtotal	181,078	19,354
Non-operating expenses	Loss on disposal of property and equipment	2,121	1,134
	Loss on disposal of investment property	1,188	11
	Loss on disposal of intangible assets	14	21
	Loss related to equity method	4,414	46
	Collecting expenses for written-off loans	172	161
	Donations	14,815	6,301
	Others	6,914	10,621
Subtotal	29,638	18,295	
Non-operating income, net	₩	151,440	1,059

46. Income Tax Expenses

(a) Income tax expenses

Income tax expenses for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018	2017
Current income tax	₩	74,002	103,386
Changes in temporary differences		9,157	(17,157)
Income tax expenses directly recorded to equity		(1,116)	7,802
Income tax expenses	₩	82,043	94,031

(b) The reconciliation of effective tax rate

The reconciliation of effective tax rate for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018	2017
Profit before income tax expenses	₩	488,069	410,303
Income tax calculated at the statutory tax rate		123,857	98,831
Adjustments:			
Non-taxable income		(40,148)	(29,205)
Non-deductible expenses		2,313	4,707
Additional payment of income taxes for prior year (refund of income taxes)		4,111	1,778
Effect of a subsidiary		615	2,194
Others		(8,705)	15,726
Income tax expenses	₩	8,2043	94,031
Effective tax rate		16.81%	22.92%

The corporate tax rate applicable to the years ended December 31, 2018 and 2017 are 10% of the corporate tax amount.

Tax base	2018	2017
Up to ₩200 million	10%	10%
More than ₩200 million ~ Up to ₩20 billion	20%	20%
More than ₩20 billion ~ Up to ₩300 billion	22%	22%
More than ₩300 billion(*)	25%	

(*) 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, 2018 and 2017 are as follows:

(In millions of won)

	2018				Deferred income tax assets (liabilities)
	Temporary differences to be deducted from (added to) taxable income				
	Beginning balance	Increase	Decrease	Ending balance	
Temporary differences					
Accrued income	₩ (219,731)	(289,412)	(238,084)	(271,059)	(66,653)
Present value discount on securities	(23,167)	(23,382)	(23,167)	(23,382)	(5,750)
Gain on valuation of securities	(30,989)	(7,311)	(16,157)	(22,143)	(5,445)
Loss on valuation of derivatives	372	59,092	21,035	38,429	9,450
Other provisions, etc.	23,843	64,748	44,134	44,457	10,932
Unused annual/ monthly leave	33,316	37,243	32,855	37,704	9,271
Dormant deposit	8,291	5,542	1,407	12,426	3,056
Unamortized deferred acquisition costs of new or renewal insurance contracts	24,238	-	(14,645)	38,883	9,561
Others	361,246	260,453	219,952	401,747	98,790
Total	₩ 177,419	106,973	27,330	257,062	63,212

(In millions of won)

	2017				Deferred income tax assets (liabilities)
	Temporary differences to be deducted from (added to) taxable income				
	Beginning balance	Increase	Decrease	Ending balance	
Temporary differences					
Accrued income	₩ (220,847)	(219,671)	(220,787)	(219,731)	(53,438)
Present value discount on securities	(28,659)	(23,167)	(28,659)	(23,167)	(5,634)
Gain on valuation of securities	(51,295)	40,750	20,444	(30,989)	(7,537)
Loss on valuation of derivatives	8,310	372	8,310	372	90
Other provisions, etc.	24,163	23,738	24,058	23,843	5,799
Unused annual/ monthly leave	32,203	32,776	31,663	33,316	8,102
Dormant deposit	6,594	2,790	1,093	8,291	2,016
Unamortized deferred acquisition costs of new or renewal insurance contracts	54,307	-	30,069	24,238	5,895
Others	291,195	211,217	141,166	361,246	87,855
Total	₩ 115,971	68,805	7,357	177,419	43,148

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

Deferred income tax assets (liabilities) before offset as of December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018	2017
Deferred tax assets	₩	144,649	115,220
Deferred tax liabilities		(79,405)	(72,072)
Deferred tax assets, net		65,244	43,148
Deferred tax liabilities, net (*)		(2,032)	-

(*) Deferred tax liabilities held by the group's overseas subsidiaries, DGB Specialized Bank and Hi Investment & Securities Co., are not offset by deferred tax assets because the taxation authorities are not the same.

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.

47. Earnings per Share

(a) Income tax expenses

Income tax expenses for the years ended December 31, 2018 and 2017 are as follows:

(In won, except share information)

		2018	2017
Profit attributable to equity holders of the Group	₩	383,535,407,978	302,207,988,217
Dividends to hybrid bond		(5,773,750,000)	-
Net profit available for common stock	₩	377,761,657,978	302,207,988,217
Weighted average number of common shares		169,145,833	169,144,817
Basic and diluted earnings per share in won		2,233	1,787

(b) DWeighted average number of common shares outstanding

Weighted average number of common shares outstanding as of December 31, 2018 and 2017 are as follows:

(In shares)

	2018			
	Date	Shares(*)	Weight	Weighted average number of common shares outstanding
Beginning common shares	2018.01.01	169,145,833	365/365	169,145,833

(*) 1 share of self-share acquired as of April 3, 2018 was excluded from the calculation as it had no effect on the number of common shares

(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

(b) Diluted earnings per share

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

48. Cash flow

(a) Cash and Cash Equivalents

Cash and cash equivalents on statements of cash flows as of December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018	2017
Cash and due from banks	₩	2,601,499	2,254,811
Restricted cash and deposits		(1,610,430)	(1,085,692)
Due from banks with original maturities of more than three months.		(168,017)	(215,002)
Cash and cash equivalents	₩	823,052	954,117

(b) Significant Non-Cash Transactions

Significant non-cash transactions for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018	2017
Decrease in loans due to writing-off	₩	171,941	187,199
Replacement of the main account of the asset		175,256	-
Substitution of advance payments related to investment in subsidiaries		10,000	-
Adjustment amount of profit or loss approach		6,078	-

(c) Changes of liabilities from financing activities

Changes of debentures

Changes of debentures from financing activities for the year ended December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018
Debentures	Beginning balance	₩ 4,356,652
	Issuance	2,484,271
	Repayment	(1,747,860)
	Amortization	2,454
	Loss on valuation	1,597
	Gain on foreign currency transactions	2,267
	Hedges of net investment in foreign operations	9,466
	Consolidated amount	194,993
	Ending balance	₩ 5,303,840

(In millions of won)

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

Changes of borrowings and other liabilities

Changes of borrowings and other liabilities from financing activities for the year ended December 31, 2018 and 2017 are as follows:

(In millions of won)

	2018						
	Beginning balance	Increase (decrease)	Gain or loss Foreign currency transactions	Gain or loss on translation of foreign operations	Others	Consolidated amount	Ending balance
Borrowings	₩ 3,394,370	(621,861)	110,321	10,350	-	3,549,179	6,442,359
Borrowings from trust accounts	106,956	2,484	-	-	-	-	109,440
Borrowings from fund accounts	244	169	-	-	-	-	413
Foreign exchange settlement credit	4,162	24,281	5,088	-	-	-	33,531
Deposits for letter of guarantees	220,143	(216)	1,275	-	(6,941)	60	214,321
Domestic exchange settlement credit	95	95,590	-	-	-	-	95,685
Total	₩ 3,725,970	(499,553)	116,684	10,350	(6,941)	3,549,239	6,895,749

(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 operation	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
Total	₩ 3,467,749	336,184	(45,266)	(28,718)	(3,979)	3,725,970

49. Commitments and Contingencies

(a) Pending litigation

As of December 31, 2018, there are 61 pending lawsuits brought to court by the Group, as a plaintiff, amounting to ₩15,215 million and 31 pending lawsuits against the Group amounting to ₩21,911 million. The major lawsuit case is as follows:

(In millions of won)

Defendant	Plaintiff	Legal details	Legal Value	Remarks
Korea Land and Housing Corporation	Daegu Bank et al 9	Checking the existence of debts related to the termination of PF project and claim for damages	₩ 2,173	First and second trials as winning cases partially
GM Capital	DGB Capital	Lawsuit (title of debt)	1,311	
DGB Capital et al 3	Technology Guarantee Fund	Revocation of fraudulent act	1,010	
SP Tank Terminal, Hi Investment & Securities Co.	NongHyup Bank	Diesel fund theft case	9,645	Third trial in progress
Republic of Korea	Hi Investment & Securities Co.	Dividend income tax mispayment Non-Payment Reaction Claims	1,192	

In addition to the above case, the group is in the process of a claim to confirm the senior bond holders of ₩16,571 million from the plaintiff (Hanwha Savings Bank), but ₩323 million in bonds related to the group has been fully amortized.

The group counts the best estimate as a provision as of December 31, 2018, for cases in which the provision criteria are met, and the Group recognized no provision in respect to the lawsuit as of December 31, 2018

(b) There is a collateral of ₩8,143 million related with a lease deposit in regard to the Group's land and buildings as of December 31, 2018.

(c) Non-financial guarantee contracts

Non-financial guarantee contracts as of December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018	2017
Acceptances and guarantees outstanding in won	₩	303,021	266,341
Acceptances and guarantees outstanding in foreign currencies		32,343	30,928
Contingent acceptances and guarantees		166,023	214,921
Loan commitments		10,438,018	6,508,843
Purchasing commitments for securities		213,160	209,720
Total	₩	11,152,565	7,230,753

(d) Financial guarantee contracts

Financial guarantee contracts as of December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018	2017
Financial guarantee contract in won	₩	516,546	10,302
Financial guarantee contract in foreign currencies		23,768	19,707
Purchasing commitments for ABCP		107,000	134,000
Total	₩	647,314	164,009

(e) Insurance commitment

The Group's general and special account derived from insurance contracts with clients as of December 31, 2018 and 2017 are as follows:

(In millions of won / thousand cases)

	2018		2017	
	Numbers	Contract amount	Numbers	Contract amount
General account	1,508	₩ 21,737,933	1,487	₩ 21,354,223
Separate account	-	167	-	176
Total	1,508	₩ 21,738,100	1,487	₩ 21,354,399

(f) Reinsurance agreement

The details of the Group's ceding agreements as of December 31, 2018 are as follows:

(In millions of won / thousand cases)

Method of Cession	Reinsurance company	Ceding amount/ratio	Product type
Non- proportional	General Re Corporation	₩ 55 million	Life insurance
	Korean Re	20 million ~80 million	Products before financial year 2000
Proportional	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)
	Korean Re	80%	Living benefit insurance (among year 2002~2006)
	Korean Re	50% ~ 60%	Lifetime cancer insurance
	Munich Reinsurance	50%	Silver cancer insurance
	Score Reinsurance	50%	Cancer insurance giving living expenses monthly
	Korean Re	80%	Long-term care insurance
	Korean Re	50%	Health insurance
	Korean Re	50%	VIP term 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, 2018 and 2017 are as follows:

Commitments related to letters of credit

(In millions of won)

Financial Institution	2018	2017
KOOKMIN BANK	₩ 15,000	₩ 15,000

Commitments related to the borrowings

(In millions of won)

Financial Institutions	2018		2017	
	Limit	Usage	Limit	Usage
Korea Development Bank	₩ 30,000	30,000	70,000	23,302
NH Nonghyup Bank	100,000	-	20,000	-
Woori Investment Bank	20,000	-	20,000	-
Shinhan Bank	20,000	20,000	-	-
Korea Development Bank	25,000	1,081	-	-
KEB Hana Bank	20,000	20,000	-	-
Busan Bank	30,000	-	-	-
Woori Bank	40,000	-	-	-
Kookmin Bank	20,000	10,000	-	-
Shinhan Bank	20,000	10,000	-	-
Korea Securities Finance	1,030,000	288,613	-	-
Kyongnam Bank	5,000	-	-	-
Meritz & Co., Ltd.	30,000	-	-	-
Korea Securities Finance	10,000	-	-	-
Total	₩ 1,400,000	379,694	110,000	23,302

(g) Product of immediate annuity at maturity

Due to the announcement of the application by the Financial Supervisory Service in July 2018 for underpayment of overdue pension products, the Group is likely to pay additional premiums. However, due to the need for legal judgment on the application of comprehensive remediation policy, it is not possible to estimate reliably the amount of payment and the timing of payment as of the December 31, 2018. Accordingly, the Group has not established a provision under Korean IFRS 1109.

50. Transactions with Related Parties

(a) Status of related parties

The status of related parties excluding subsidiaries as of December 31, 2018, are as follows:

Related parties	Relationship
Daegu FC(*1)	Affiliates
DGB Luxury KRX300 Index Investment Trust(*1)	Affiliates
Korea Omega Project No.2 Association(*2)	Affiliates
Hi Japan High-dividends Focus Securities Investment Trust(*3)	Affiliates
Tribridge Capital Management(*3)	Affiliates
KoFC-Partners Pioneer Champ No. 2011-1 Investment Fund(*3)	Affiliates
Hi ROKI1 Global Robo-advisor Securities Investment Trust H(*3)	Affiliates
Hi Global Dynamic Asset Allocation Securities Investment Trust(*3)	Affiliates
Hi Korea Unity Renaissance Securities Investment Trust(*3)	Affiliates
Hi Gold Ocean Kmarin No.8 Ship Investment Company(*3)	Affiliates

(*1) Related party of the Group's subsidiary, DGB Co.,

(*2) Related party of the Group's subsidiary, DGB Capital Co.,

(*3) Related party of the Group's subsidiary, Hi Investment & Securities Co.,

(b) Related party transactions with the Group

i) Details of bond and debt with the related parties

The details of bond and debt between the Group and the related parties as of December 31, 2018 and 2017, are as follows:

(In millions of won)

		2018					2017
		Daegu FC	Hi Japan High-dividends Focus Securities Investment Trust	Hi ROKI1 Global Robo- Advisor Securities Investment Trust H	Hi Global Dynamic Asset Allocation Securities Investment Trust	Hi Korea Unity Renaissance Securities Investment Trust	Daegu FC
Assets	Credit card bonds	₩ 11	-	-	-	-	16
	Accrued revenue	-	13	2	6	4	-
	Total	11	13	2	6	4	16
Liabilitie	Deposit from bank and customers	2,571	-	-	-	-	3,393
	Others	17	-	-	-	-	15
	Total	₩ 2,588	-	-	-	-	3,408

ii) The details of related party transactions

The details of related party transactions as of December 31, 2018 and 2017, are as follows:

(In millions of won)

		2018					2017
		Daegu FC	Hi Japan High-dividends Focus Securities Investment Trust	Hi ROKI1 Global Robo- Advisor Securities Investment Trust H	Hi Global Dynamic Asset Allocation Securities Investment Trust	Hi Korea Unity Renaissance Securities Investment Trust	Daegu FC
In- comes	Fee and commis- sion incom	₩ -	13	9	18	8	-
Ex- penses	Accrued revenue	32	-	-	-	-	28
	Interest expense on deposits	-	-	-	-	-	-
	Others	-	-	-	-	-	3,000
	Total	₩ 32	-	-	-	-	3,028

iii) Details of related party financial transactions

The details of financial transactions between the Group and the related parties as of December 31, 2018 and 2017, are as follows:

(In millions of won)

		2018			2017
		DGB Index Plus Securities Feeder No.1	DGB Luxury KRX300 Index Securities Investment Trust	Korea Omega Project No.2 Association	DGB Index Plus Securities Feeder No.
Cash contribution	₩	-	10,000	1,000	70,000
Return on contribution		9,247	5,000	-	60,000

(c) Details of payment guarantee and Collaterals with related parties

There are no collateral or payment guarantees provided by the Group for the purpose of financing the related parties, etc.

(d) Compensation for top managements

Details of compensation for top managements as of December 31, 2018 and 2017, are as follows:

(In millions of won)

		2018	2017
Short-term employee benefits	₩	12,208	8,370
Other long-term employee benefits		402	1,010
Severance pays		2,325	1,414
Total	₩	14,935	10,794

51. Financial 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.

51-1. Credit Risk

(a) Maximum exposure of credit risk

Maximum exposure of credit risk as of December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018	2017
On balance accounts(*1)			
Due from banks(*2)	₩	855,233	₩ 641,854
Financial assets held for trading(*4)		-	429,130
Financial assets designated at fair value through profit or loss (*4)		-	54,617
Financial assets at fair value through profit or loss(*3)		6,215,754	-
Available-for-sale financial assets(*4)		-	3,746,057
Financial assets at fair value through other comprehensive income		3,963,546	-
Held-to-maturity financial assets		-	7,951,189
Securities at amortized cost		7,846,106	-
Loans at amortized cost		40,826,951	-
Loans		-	39,340,414
Other financial assets at amortized cost		1,665,652	942,455
		40,763	99,414
Derivative assets – hedge accounting		14,493	20,395
Reinsurance assets		11,709	10,536
	₩	61,440,207	₩ 53,236,061
Off-balance accounts			
Financial guarantee	₩	647,314	₩ 164,009
Commitments		10,651,178	6,718,563
Non-financial guarantee		501,387	512,190
	₩	11,799,8794	₩ 7,394,762

(*1) After impairment and setting off

(*2) Excluding due from Bank of Korea

(*3) Excluding equity securities

(*4) Excluding equity securities, beneficiary securities and investment funds

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.

(b) 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, 2018 and 2017 are as follows:

(In millions of won)

		2018										
		Balance account (*1)					Off-balance account					
		Financial assets held for trading (*2)	Financial assets designated at fair value through profit or loss (*2)	Securities measured at amortized cost	Loans measured at amortized cost	Derivative assets-hedging	Total	Financial guarantee contracts	Non-financial guarantee contracts	Commitments	Total	
Enterprises	Manufacturing	₩ 73,636	16,257	19,998	10,592,011	-	10,701,902	16,021	1,715,314	232,958	1,964,293	
	Construction	30,987	20,056	110,017	1,020,540	-	1,181,600	77,000	316,298	1,466	394,764	
	Wholesale and retail	10,582	10,050	-	3,546,374	-	3,567,006	5,406	656,544	223,714	885,664	
	Financial services and insurance	1,348,643	1,719,458	2,036,688	1,468,275	-	6,573,064	30,000	652,313	4,982	687,295	
	Others	1,904,762	302,184	699,622	11,857,442	-	14,764,010	518,887	749,540	38,267	1,306,694	
	Subtotal	3,368,610	2,068,005	2,866,325	28,484,642	-	36,787,582	647,314	4,090,009	501,387	5,238,710	
Households		-	-	-	11,340,380	-	11,340,380	-	4,253,375	-	4,253,375	
Government and public institutions		2,847,144	1,895,541	4,980,109	871,959	-	10,594,753	-	71,624	-	71,624	
Credit card		-	-	-	419,345	-	419,345	-	2,236,170	-	2,236,170	
Derivatives		-	-	-	-	55,647	55,647	-	-	-	-	
Reserve for credit risk adjustment		-	-	-	-	(391)	(391)	-	-	-	-	
Allowance		-	-	(328)	(338,825)	-	(339,153)	-	-	-	-	
Present value discount		-	-	-	(101)	-	(101)	-	-	-	-	
Present value premium		-	-	-	132	-	132	-	-	-	-	
Deferred loan originated cost and fee		-	-	-	49,419	-	49,419	-	-	-	-	
Total		₩6,215,754	3,963,546	7,846,106	40,826,951	55,256	58,907,613	647,314	10,651,178	501,387	11,799,879	

(*1) After impairment and setting off

(*2) Except for equity securities and beneficiary securities

(In millions of won)

		2017										
		Balance account (*1)						Off-balance account				
		Financial assets held for trading (*2)	Financial assets designated at fair value through profit or loss (*2)	Securities measured at amortized cos	Loans measured at amortized cost	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	1,711,111	273,646	1,999,889
	Construction	-	-	10,405	131,880	1,157,231	-	1,299,516	104,000	217,858	4,532	326,390
	Wholesale and retail	-	-	-	-	3,549,129	-	3,549,129	4,257	544,267	203,544	752,068
	Financial services and insurance	178,027	14,364	1,426,493	1,065,074	1,932,456	-	4,616,414	30,000	414,393	783	445,176
	Others	221,475	40,253	378,466	716,345	10,078,052	-	11,434,591	10,620	268,821	29,685	309,126
	Subtotal	399,502	54,617	1,874,108	1,963,310	27,816,366	-	32,107,903	164,009	3,156,450	512,190	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	-	-	-	-	-	120,072	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	-	402	-	-	-	-
	Deferred loan originated cost and fee	-	-	-	-	42,273	-	42,273	-	-	-	-
	Total	₩424,129	54,617	3,746,057	7,951,189	39,340,414	119,810	51,636,216	164,009	6,718,563	512,190	7,394,762

(*1) After impairment and setting off

(*2) Except for equity securities and beneficiary securities

(c) Degree of credit risk concentration for each credit rating

Degree of credit risk concentration for each credit rating as of December 31, 2018 is as follows:

(In millions of won)

Credit rating(*1)	2018			
	12 Months Expected credit loss measurement	Total period Expected credit loss measurement	Loans impaired	Total
Enterprises				
1~6	₩ 24,438,947	2,993,402	-	27,432,349
7	11,388	349,101	-	360,489
8(*2)	5,760	44,113	46,010	95,883
9(*2)	3,099	10,972	73,102	87,173
10(*2)	2,432	8,667	190,318	201,417
Not rated(*3)	298,567	2,021	6,743	307,331
	24,760,193	3,408,276	316,173	28,484,642
Households				
1~6	10,154,737	43,692	-	10,198,429
7	136,280	205,381	-	341,661
8(*2)	34,704	86,885	4,096	125,685
9(*2)	18,664	55,602	6,516	80,782
10(*2)	5,108	31,114	26,466	62,688
Not rated(*3)	531,060	-	75	531,135
	10,880,553	422,674	37,153	11,340,380
Public sectors and others				
1~6	861,822	1,304	-	863,126
7	255	88	-	343
8(*2)	-	2,592	-	2,592
9(*2)	-	-	4,911	4,911
10(*2)	-	100	887	987
Not rated(*3)	-	-	-	-
	862,077	4,084	5,798	871,959
Credit card				
1~6	298,908	17,455	-	316,363
7	20,633	16,516	-	37,149
8(*2)	12,895	13,633	562	27,090
9(*2)	4,975	8,771	605	14,351
10(*2)	1,623	6,364	5,482	13,469
Not rated(*3)	10,835	12	76	10,923
	349,869	62,751	6,725	419,345
Total	₩ 36,852,692	3,897,785	365,849	41,116,326

(*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 ₩849,389 million as of December 31, 2018 and arises from inter-bank transactions such as 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 ₩252,972 million and ₩596,417 million and as of December 31, 2018 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

(d) Loans

Loans as of December 31, 2017 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
Subtotal	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

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.

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

Credit qualities of loans as of December 31, 2017 that are neither overdue nor impaired refer to the credit appraisal system and are as follows:

(In millions of won)

Credit rating(*1)	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

(*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 as of December 31, 2017 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 as of December 31, 2017 and ₩335,453 million as of December 31, 2017 respectively.

(e) Loans that are past due but not impaired

Age analysis of loans that are overdue but not impaired is as follows:

(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
Total	₩ 100,926	38,508	14	290	139,738

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

(In millions of won)

	2017			
	Enterprises	Households	Credit cards	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
Total	₩ 57,701	34,832	162	92,695

(f) 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:

(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
Total	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

(g) Estimated fair value of collateral for impaired loans

(In millions of won)

	2018			
	Enterprises	Households	Public sectors and others	Total
Real estate	₩ 121,500	14,051	1,894	137,445
Movable asset	22,578	1,932	-	24,510
Securities and debentures	-	5	-	5
Guarantee	17,752	1,600	-	19,352
Others	504	-	-	504
Total	₩ 162,334	17,588	1,894	181,816

(In millions of won)

	2017				
		Enterprises	Households	Public sectors and others	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
Total	₩	130,022	8,405	3,970	142,397

(h) 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, 2018 and 2017 are ₩48,814 million and ₩69,137 million, respectively.

(i) The amount of debt securities for each rating via the rating system of provision for credit losses as of December 31, 2018 is as follows:

(In millions of won)

	2018				
		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
Securities at amortized cost					
AAA	₩	2,898,399	-	-	2,898,399
AA+ ~ AA-		430,949	-	-	430,949
A+ ~ A-		63,226	-	-	63,226
Not rated		4,453,860	-	-	4,453,860
Subtotal		7,846,434	-	-	7,846,434
other financial assets at fair value through comprehensive income					
AAA		1,399,404	-	-	1,399,404
AA+ ~ AA-		437,971	-	-	437,971
A+ ~ A-		54,442	-	-	54,442
Not rated		2,071,729	-	-	2,071,729
Subtotal		3,963,546	-	-	3,963,546
Total	₩	11,809,980	-	-	11,809,980

(j) The Group manages debt securities using external credit rating and debt securities classified by external credit rating and categories are as follows:

i) Debt securities in won

(In millions of won)

	2017					Total
	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		
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

ii) Debt securities in foreign currencies

(In millions of won)

	2017	
		Available-for-sale financial assets
AAA	₩	20,864
AA+ ~ AA-		138,844
A+ ~ A-		77,826
BBB+ ~ BBB-		-
Total	₩	237,534

(k) 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.

i) Offsetting financial assets

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2018 and 2017 are as follows:

(In millions of won)

	2018						
	Gross amounts of recognized financial assets	Gross offset amounts of recognized financial liabilities	Net amounts of financial asset presented in the statement of financial position	Related amounts not set off in the statement of financial position			Net amount
				Financial instruments	Collateral received		
				Securities	Cash		
Bonds purchased under resale agreements	₩ 60,200	-	60,200	-	56,353	-	3,847
Accrued balance spot exchange	264,158	-	264,158	264,060	-	-	98
Trading derivative assets	26,824	-	26,824	7,299	1,185	58	18,282
Hedging derivative assets	14,494	-	14,494	4,090	961	-	9,443
Total	₩ 365,676	-	365,676	275,449	58,499	58	31,670

(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		
				Securities	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

ii) Offsetting financial liabilities

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2018 and 2017 are as follows:

(In millions of won)

	2018						
	Gross amounts of recognized financial assets	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	₩ 774,873	-	774,873	-	774,873	-	-
Accrued balance spot exchange	509,006	-	509,006	508,879	-	-	127
Trading derivative liabilities	28,026	-	28,026	10,163	1,306	-	16,557
Hedging derivative liabilities	6,714	-	6,714	4,090	2,624	-	-
Total	₩ 1,318,619	-	1,318,619	523,132	778,803	-	16,684

(In millions of won)

	2017						
	Gross amounts of recognized financial assets	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	
Total	₩ 1,030,107	-	1,030,107	973,828	900	55,379	

51-2. Liquidity Risk

Financial liabilities held for trading and demand deposits are recognized as fair value and included in the 'On demand' section.

i) Non-derivative financial liabilities

Contractual maturity analysis for financial liabilities for the years ended December 31, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018								
	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									
Deposits	₩ 15,371,153	3,660,781	5,134,795	5,212,613	7,949,758	1,392,778	205,753	262,03	39,189,661
Debts	-	3,943,678	370,610	508,234	471,164	635,020	314,733	284,693	6,528,132
Debentures	-	298,545	468,902	485,882	573,414	2,219,689	1,194,930	495,738	5,737,100
Financial liabilities at fair value through profit or loss	-	551,451	-	-	-	-	-	-	551,451
Fair value changes on financial liabilities designated at fair value	-	-	1,978	306	7,759	399,327	-	108,424	517,794
Other financial liabilities	-	1,433,551	27,854	37,068	47,967	139,586	10,863	12,804	1,709,693
Total	₩ 15,371,153	9,888,006	6,004,139	6,244,103	9,050,062	4,786,400	1,726,279	1,163,689	54,233,831
Off-balance accounts									
Financial guarantee contract	₩ 647,314	-	-	-	-	-	-	-	647,314
Commitments	10,651,178	-	-	-	-	-	-	-	10,651,178
Payments on guarantees	501,387	-	-	-	-	-	-	-	501,387
Total	₩11,799,879	-	-	-	-	-	-	-	11,799,879

(In millions of won)

	2017								Total
	On demand	Less than 1 month	1 ~ 3 months	4 ~ 6 months	7 ~ 12 months	13 ~ 36 months	37 ~ 60 months	More than 60 months	
On-balance accounts									
Deposits	₩ 15,473,905	3,284,331	5,264,450	5,935,433	6,865,355	982,675	213,231	288,262	38,307,642
Debts	-	922,724	554,051	394,087	746,571	515,910	373,280	373,280	3,708,530
Debentures	-	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

ii) Derivative financial liabilities

(In millions of won)

	2018							Total
	Less than 1 month	1 ~ 3 months	3 ~ 6 months	6 ~ 12 months	1~3 years	3~5 years		
Trading derivatives								
Currency related	₩ 12,380	5,367	13,979	3,254	164	-	-	35,144
Stock related	6	48,788	39	153	17,836	-	-	66,822
Others	-	8	-	-	638	-	-	646
Subtotal	12,386	54,163	14,018	3,407	18,638	-	-	102,612
Hedging derivatives								
Interest rate related	-	753	2,928	733	1,544	1,166	-	7,124
Total	₩ 12,386	54,916	16,946	4,140	20,182	1,166	-	109,736

(In millions of won)

	2017								Total
	Less than 1 month	1 ~ 3 months	3 ~ 6 months	6 ~ 12 months	1~3 years	3~5 years	More than 5 years		
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

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.

51-3. Market Risk

(a) Trading Position

i) VaR by risk types (trading position)

VaR by risk types as of December 31, 2018 and 2017 are as follows:

(In millions of won)

		2018			
		Period end	Average	Minimum	Maximum
Interest rate risk	₩	3,268	3,638	2,995	4,660
Foreign exchange risk		1,484	1,447	852	1,992
Stock risk		4,493	5,809	2,590	6,714
Diversification effect		(3,587)	(3,648)	(1,581)	(2,818)
Total risk	₩	5,658	7,246	4,856	10,548

(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

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.

(a) Trading Position, continued

ii) The interest rate risk of DGB Life Insurance Co., Ltd.

The interest rate risk of DGB Life Insurance Co., Ltd. as of December 31, 2017 and 2018 are as follows:

(In millions of won)

	2017						
		Exposure	Interest rate sensitivity (%)	Interest rate sensitivity amount	Exposure	Interest rate sensitivity(%)	Interest rate sensitivity amount
I. Interest-bearing liability							
1. Interest rates fixed	₩	1,753,643	14.72	25,822,370	1,641,554	12.33	20,236,806
2. Interest rates linked		3,545,743	6.54	23,192,852	3,375,727	5.51	18,595,588
Subtotal		5,299,386	9.25	49,015,222	5,017,281	7.74	38,832,394
II. Interest bearing assets							
1. Due from banks		264,980	0.19	50,900	245,714	0.21	52,100
2. Financial Assets designated at fair value through profit or loss		34,710	2.35	81,512	-	-	-
3. Financial assets at fair value through other comprehensive income		811,215	7.17	5,816,099	-	-	-
4. Securities at amortized cost		3,852,396	9.63	37,109,835	-	-	-
5. Loans at amortized cost		397,483	10.67	4,241,534	-	-	-
6. Financial assets at fair value through profit or loss		-	-	-	54,617	2.19	119,774
7. Available-for-sale financial assets		-	-	-	1,028,408	4.93	5,069,368
8. Held-to-maturity		-	-	-	3,506,824	8.94	31,358,901
9. Loans		-	-	-	368,104	8.71	3,207,635
Subtotal	₩	5,360,784	8.82	47,299,880	5,203,667	7.69	39,807,778
III. The maturity mismatch amount		-	-	25,730	-	-	14,631
IV. The minimum interest rate amount		-	-	129,227	-	-	118,935
V. The interest rate back spread amount		-	-	-	-	-	6,480
VI. The interest rate risk amount = [max(III,IV)+V]	₩	-	-	129,227	-	-	125,415

(a) Trading Position, continued

iii) 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)

			2018		2017	
			Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
Beneficiary certificate	10% increase	₩	5,378	-	-	115
	10% decrease		(5,378)	-	-	(115)

(b) 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..

i) 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.

ii) 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, 2018 and 2017 are as follows:

(In millions of won)

		End	Average	Minimum	Maximum
2018	₩	129,898	118,163	37,727	153,699
2017		29,431	29,248	11,395	71,999

(c) 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, 2018 and 2017 are as follows:

(In millions of won)

		USD	JPY	EUR	Others
2018	Foreign currency financial assets	2,224,863	111,981	113,110	491,012
	Foreign currency financial liabilities	1,851,381	110,571	37,616	189,082
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

51-4. Capital Management

Regulated capital and BIS ratio (neither audited nor reviewed by the external auditor) of the Group as of December 31, 2018 and 2017 are as follows. The Group has complied with all the external capital maintenance restriction conditions for the past two years.

(In millions of won)

		2018	2017
Total capital (A)	₩	5,014,663	4,414,109
Basic capital (B)		4,426,663	3,814,530
Common stock (C)		3,831,182	3,581,258
Supplementary capital (D)		588,000	599,579
Risk weighted asset (E)		39,109,962	35,063,409
Ratio of total capital (A/E)		12.82%	12.59%
Ratio of basic capital (B/E)		11.32%	10.88%
Ratio of common stock capital (C/E)		9.80%	10.21%

52. Disclosures for Fair Value

52-1. Account classification and fair value of financial instruments

Book value and fair value of each financial instrument as of December 31, 2018 and 2017, are as follows:

(In millions of won)

	2018	
	Book value	Fair value
Financial Assets		
Cash and deposits	₩ 2,601,499	2,601,499
Financial assets at fair value through profit or loss	6,277,966	6,277,966
Financial assets at fair value through other comprehensive income	4,032,620	4,032,620
Securities at amortized cost	7,846,434	8,007,644
Loan receivables at amortized cost	40,826,951	40,854,907
Derivative financial assets held for trading (*)	41,154	41,154
Derivative financial assets held for hedging (*)	14,493	14,493
Other financial assets	1,665,652	1,668,374
Total	₩ 63,306,769	63,498,657
Financial Liabilities		
Loan payables	₩ 38,729,457	38,456,845
Financial liabilities at fair value through profit or loss	551,451	551,451
Financial liabilities designated at fair value through profit or loss	517,794	517,794
Derivative financial liabilities held for trading (*)	102,796	102,796
Derivative financial liabilities held for hedging (*)	6,714	6,714
Borrowings	6,442,359	6,425,406
Debt securities issued	5,303,840	5,293,973
Other financial liabilities	2,281,324	2,282,695
Total	₩ 53,935,735	53,637,674

(*)Amounts before deducting provision for credit loss

(In millions of won)

	2017	
	Book value	Fair value
Financial Assets		
Cash and deposits	₩ 2,254,811	2,254,811
Financial assets held for trading	510,935	510,935
Financial assets designated at fair value through profit or loss	79,917	79,917
Available-for-sale financial assets	4,498,996	4,498,996
Held-to-maturity financial assets	7,951,189	7,915,077
Loans and receivables	40,278,163	40,362,449
Derivative financial assets held for trading (*)	99,676	99,676
Derivative financial assets held for hedging (*)	20,395	20,395
Total	₩ 55,694,082	55,742,256
Financial Liabilities		
Deposits from bank and customers	₩ 37,839,750	37,804,629
Derivative financial liabilities held for trading (*)	97,487	97,487
Derivative financial liabilities held for hedging (*)	1,108	1,108
Borrowings	3,394,370	3,391,396
Debt securities issued	4,356,652	4,370,515
Other financial liabilities	1,292,457	1,292,457
Total	₩ 46,981,824	46,957,592

(*)Amounts before deducting provision for credit loss

52-2. Hierarchy of financial assets and liabilities at fair value

(1) Hierarchy of financial assets and liabilities at fair value in the consolidated financial statements

(a) Hierarchy of financial assets and liabilities at fair value in the consolidated financial statements as of December 31, 2018 and 2017, are as follows:

(In millions of won)

	2018			
	Classification of levels			Total
	Level 1	Level 2	Level 3	
Financial Assets				
Financial Assets at fair value through profit or loss				
Equity securities	₩ 16,218	-	45,994	62,212
Debt securities	216,629	4,737,945	691,475	5,646,049
OthersTotal	-	386,450	183,255	569,705
Subtotal	232,847	5,124,395	920,724	6,277,966
Financial Assets at fair value through other comprehensive income				
Equity securities	1,047	-	68,027	69,074
Debt securities	1,323,171	2,640,375	-	3,963,546
Subtotal	1,324,218	2,640,375	68,027	4,032,620
Derivative financial assets				
Derivative financial assets held for trading(*)	90	37,742	3,322	41,154
Derivative financial assets held for hedging(*)	-	14,493	-	14,493
Subtotal	90	52,235	3,322	55,647
Total financial assets	1,557,155	7,817,005	992,073	10,366,233
Financial Liabilities				
Financial Liabilities at fair value through profit or loss				
Equity securities	32,154	-	-	32,154
Debt securities	-	519,297	-	519,297
Subtotal	32,154	519,297	-	551,451
Financial liabilities designated at fair value through profit or loss				
Others	-	-	517,794	517,794
Derivative financial liabilities				
Financial liabilities held for trading(*)	48,780	35,996	18,020	102,796
Derivative financial liabilities for hedging(*)	-	6,714 42	-	6,714
Subtotal	48,780	710	18,020	109,510
Total financial liabilities	80,934	562,007	535,814	1,178,755

(*)Amounts before deducting provision for credit loss

(a) Hierarchy of financial assets and liabilities at fair value in the consolidated financial statements as of December 31, 2018 and 2017, are as follows:

(In millions of won)

	2017			
	Classification of levels			Total
	Level 1	Level 2	Level 3	
Financial Assets				
Financial Assets held for trading				
Equity securities	₩ 18,326	-	-	18,326
Debt securities	34,582	394,548	-	429,130
Beneficiary certificate	10,166	53,313	-	63,479
Subtotal	63,074	447,861	-	510,935
Financial assets designated through profit or loss				
Equity securities	820	-	24,480	25,300
Other securities	-	54,617	-	54,617
Subtotal	820	54,617	24,480	79,917
Available-for-sale financial assets				
Equity securities	3,893	209	299,357	303,459
Debt securities	1,511,585	2,234,472	-	3,746,057
Beneficiary certificate	4,479	280,548	164,453	449,480
Subtotal	₩ 1,519,957	2,515,229	463,810	4,498,996
Derivative financial assets				
Derivative financial assets held for trading(*)	-	97,764	1,912	99,676
Derivative financial assets held for hedging(*)	-	20,395	-	20,395
Subtotal	-	118,159	1,912	120,071
Total financial assets	₩ 1,583,851	3,135,866	490,202	5,209,919
Financial Liabilities				
Derivative financial liabilities held for trading(*)	₩ -	96,560	927	97,487
Derivative financial assets held for hedging(*)	-	1,108	-	1,108
Total financial liabilities	₩ -	97,668	927	98,595

(*)Amounts before deducting provision for credit loss

(b) The variable inputs used to measure the valuation technique and fair value of financial assets and liabilities classified as Level 2 as of December 31, 2018 and 2017, are as follows:

(In millions of won)

		2018	
		Valuation method	Variable inputs
Financial Assets			
Financial assets at fair value through profit or loss	Debt securities	Discounted Cash Flow method	Discount rate
	Others	Discounted Cash Flow method, Net asset value, etc.	Discount rate
Financial assets at fair value through other comprehensive income	Debt securities	Discounted Cash Flow method	Discount rate
		DCF model	Discount rate
Derivative financial assets held for trading		Discounted Cash Flow method, Net asset value, etc.	Discount rate, currency rate, Stock price index and etc.
Derivative financial assets held for hedging		Discounted Cash Flow method, Embedded forward rate agreement, etc.	Discount rate, currency rate and etc.
Financial liabilities			
Financial liabilities at fair value through profit or loss	Debt securities	Discounted Cash Flow method	Discount rate, Stock price and etc.
		Discounted Cash Flow method and etc.	Discount rate, currency rate and etc.
Derivative financial liabilities held for trading		Embedded forward rate agreement and etc..	Discount rate

(In millions of won)

		2017	
		Valuation method	Variable inputs
Financial Assets			
Financial assets for trading	Debt securities	Discounted Cash Flow method	Discount rate
	Beneficiary certificates	Discounted Cash Flow method	Discount rate
Financial assets designated at fair value through profit or loss	Other securities	Binomial model and etc.	Discount rate, variability, and growth rate
Available-for-sale financial assets	Debt securities	Discounted Cash Flow method	Discount rate
	Beneficiary certificates, equity securities	DCF model	Discount rate
Derivative financial assets held for trading		Discounted Cash Flow method and etc.	Discount rate, currency rate and etc.
Derivative financial assets held for hedging		Discounted Cash Flow method and etc.	Discount rate, currency rate and etc.
Financial liabilities			
Derivative financial liabilities held for trading		Discounted Cash Flow method and etc.	Discount rate, currency rate and etc.
Derivative financial liabilities held for hedging		Embedded forward rate agreement calculating method and etc.	Discount rate

(c) The inputs used to measure the valuation technique and fair value of financial assets and financial liabilities classified as Level 2 as of the end of December 31, 2018 and 2017, are as follows:

(In millions of won)

		2018		
		Valuation method	Unobservable variable inputs	Range
Financial Assets				
Financial assets at fair value through profit or loss	Equity securities	Binomial method	Discount rate, Variability, Growth rate	8.87 ~ 9.71%, 18.30%, 0%
	Debt securities	Binomial method	Discount rate, Variability, Liquidating value	12.14 ~ 39.45%, 4.56 ~ 11.93%, 0%
		Discounted Cash Flow method	Discount rate	5.58%
	Others	Net Asset value and etc.	-	-
Financial assets at fair value through other comprehensive income	Equity securities	Discounted Cash Flow method	Discount rate, Variability, Liquidating value	12.13 ~ 21.18%, 0%, 0%
Derivative financial assets held for trading		Black-Scholes model, Hull-White model	Variability, Correlation coefficient	7.32 ~ 33.79%, -58.47% ~ 99.7%
Financial liabilities				
Financial liabilities at fair value through profit or loss	Others	Black-Scholes model, Hull-White model	Variability, Correlation coefficient	7.32 ~ 33.79%, -58.47% ~ 99.7%
Derivative financial liabilities held for trading				

(In millions of won)

		2017		
		Valuation method	Unobservable variable inputs	Range
Financial Assets				
Financial assets designated at fair value through profit or loss	Equity securities	Binomial method etc.	Discount rate	8.34%~13.26%
			Variability	-
			Growth rate	0%
Available-for-sale financial assets	Equity securities	Net asset value, etc.	Discount rate	4.34%~21.67%
	Beneficiary certificates		Growth rate	0%
Derived financial assets for trading		Binomial method etc.	Variability	5.68%~26.98%
			Correlation coefficient	9.33%~81.57%
Financial liabilities				
Derivative financial liabilities held for trading		Binomial method etc.	Variability	5.68%~26.98%
			Correlation coefficient	9.33%~81.57%

(d) Changes in financial assets and liabilities classified as Level 3 during the years ended December 31, 2018 are as follows:

(In millions of won)

	2018						
	Financial assets at fair value through profit or loss			Financial liabilities designated at fair value through profit and loss	Financial assets at fair value through other comprehensive income	Derivatives for trading	
	Equity securities	Debt Securities	Others	Others	Equity securities	Derivative assets	Derivative assets
Beginning(*)	₩ 37,011	556,874	-	-	51,157	152	927
Acquisition due to business combinations	85	72,247	179,829	522,263	13,611	3,089	10,262
Amount at fair value through profit or loss	9,048	7,379	3,426	9,253	-	233	7,758
Amount recognized in other comprehensive income	-	-	-	(30)	3,160	-	-
Purchase amount	-	147,122	-	-	100	-	-
Amount sold	(150)	(92,147)	-	(13,692)	(1)	-	-
Amount changed from level 3 to another level	-	-	-	-	-	(152)	(927)
Total	₩ 45,994	691,475	183,255	517,794	68,027	3,322	18,020

(*) Restated based on K-IFRS 1109.

(d) Changes in financial assets and liabilities classified as Level 3 during the years ended December 31, 2017 are as follows:

(In millions of won)

	2017				
	Financial assets designate at fair value through profit or loss	Available-for-sale financial assets		Derivatives for trading	
		Debt Securities	Profit securities	Derivative assets	Derivative liabilities
Beginning	₩ 26,896	270,144	161,649	5,375	2,535
Total profit					
Amount recognized in profit or loss	(1,596)	(4,493)	-	(1,670)	(349)
Amount recognized in other comprehensive income	-	6,863	533	-	-
Purchase amount	-	56,747	9,779	631	-
Amount sold	-	(29,904)	(7,508)	(534)	631
Amount issued	-	-	-	-	-
Paid amount	-	-	-	(1,890)	(1,890)
Amount changed from level 3 to another level	(820)	-	-	-	-
Total	₩ 24,280	299,357	164,453	1,912	927

(e) Sensitivity analysis of financial instruments classified as Level 3

Sensitivity analysis of financial instruments is divided into advantageous and disadvantageous changes based on changes in the value of financial instruments due to changes in unobservable input variables using statistical techniques. And when fair value is affected by more than one input variable, it is based on the most advantageous or most disadvantageous amount.

The sensitivity of financial instruments classified as Level 3 as of December 31, 2018 and December 31, 2017 is as follows:

(In millions of won)

	2018	
	Advantageous changes	Disadvantageous changes
Financial assets at fair value through profit or loss (*1)(*2)	₩ 9,279	(8,651)
Financial assets at fair value through other comprehensive income(*3)	3,282	(1,601)
Financial liabilities designated at fair value through profit or loss and Derivative financial instruments for trading(*4)	22,452	(22,296)

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

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

(*3) 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).

(*4) Financial liabilities designated at fair value through profit or loss and derivative financial instruments for trading are calculated by increasing or decreasing the volatility and correlation of the major unobservable input variables (10%).

(In millions of won)

	2017	
	Advantageous changes	Disadvantageous changes
Financial assets designated at fair value through profit or loss	₩ 1,614	(1,485)
Available-for-sale financial assets	4,798	(3,139)
Derivative instruments for trading(*)	115	(88)

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

(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).

The deferred day-one profit or loss for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Due from banks at fair value from profit or loss	Derivative financial assets for trading	Due from banks at fair value from profit or loss	Derivative financial assets for trading
Beginning balance	₩ (1,080)	(1,312)		
Increase	-	-		
Recognized loss	174	232		
Ending balance	(906)	(1,080)		

(2) A fair value hierarchy of financial assets and financial liabilities that are not measured at fair value but are disclosed at 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, 2018 and 2017 are as follows:

(In millions of won)

		2018				
	Type		Level 1	Level 2	Level 3	Total
Financial assets	Cash and due from banks	₩	2,601,499	-	-	2,601,499
	Held-to-maturity financial assets		2,315,013	5,692,63	-	8,007,644
	Loans		-	-	40,854,907	40,854,907
	Receivables		-	-	1,668,374	1,668,374
		₩	4,916,512	5,692,631	42,523,281	53,132,424
Financial liabilities	Depository liabilities	₩	15,338,640	-	23,118,205	38,456,845
	Borrowings		134,662	-	6,290,744	6,425,406
	Debentures		-	174,574	5,119,399	5,293,973
	Other financial liabilities		-	-	2,282,695	2,282,695
		₩	15,473,302	174,574	36,811,043	52,458,919

(In millions of won)

		2017				
	Type		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

(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, 2018 and 2017 are as follows:

		2018	
	Type	Valuation method (*)	Inputs (*)
Financial assets	Securities at amortized cost	DCF method	Discount rate

		2017	
	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, 2018 and 2017 are as follows:

		2018	
	Type	Valuation method (*)	Unobservable inputs (*)
Financial assets	Loans measured at amortized cost	DCF method	Discount rate, credit spreads, prepayment rate
	Others	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.

		2017	
	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.

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THIRD-PARTY ASSURANCE STATEMENT

To the Readers of DGB Financial Group Sustainability Report 2018-2019:

Foreword

Korea Management Registrar Inc. (hereinafter "KMR") has been requested by of DGB Financial Group to verify the contents of its 2018-2019 Sustainability Report (hereinafter "the Report"). DGB Financial Group is responsible for the collection and presentation of information included in the Report. KMR's responsibility is to carry out assurance engagement on specific data and information in the assurance scope stipulated below.

Scope and standard

DGB Financial Group describes its efforts and achievements of the corporate social responsibility activities in the Report. KMR performed a type2, moderate level of assurance using AA1000AS (2008) and SRV1000 from KMR Global Sustainability Committee as assurance standards. KMR's assurance team(hereinafter "the team") evaluated the adherence to Principles of Inclusivity, Materiality and Responsiveness, and the reliability of the selected GRI Standard indices as below, where professional judgment of the team was exercised as materiality criteria.

The team checked whether the Report has been prepared in accordance with the 'Core Option' of GRI Standards which covers the followings.

- GRI Reporting Principles
- Universal Standards
- Topic Specific Standards
- Management approach of Topic Specific Standards
- Economic Performance: 201-1
- Anti-corruption: 205-1, 205-2, 205-3
- Energy: 302-1, 302-2, 302-3, 302-4
- Water: 303-5
- Emissions: 305-1, 305-2, 305-3, 305-4, 305-5
- Effluents and Waste: 306-2
- Supplier Environmental Assessment: 308-2
- Employment: 401-1, 401-2, 401-3
- Labor/Management Relations: 402-1
- Occupational Health and Safety: 403-2
- Training and Education: 404-1, 404-2
- Diversity and Equal Opportunity: 405-1, 405-2
- Human Rights Assessment: 412-2
- Local Communities: 413-1, 413-2
- Customer Privacy: 418-1
- Socioeconomic Compliance: 419-1

This Report excludes a data sand information of joint corporate, contractor etc. which is outside of the organization, i.e. DGB Financial Group, among report boundaries.

Our approach

In order to verify the contents of the Report within an agreed scope of assurance in accordance with the assurance standard, the team has carried out an assurance engagement as follows:

- Reviewed overall report
- Reviewed materiality test process and methodology
- Reviewed sustainability management strategies and targets
- Reviewed stakeholder engagement activities
- Interviewed people in charge of preparing the Report

Our conclusion

Based on the results we have obtained from material reviews and interviews, we had several discussions with DGB Financial Group on the revision of the Report. We reviewed the Report's final version in order to confirm that our recommendations for improvement and our revisions have been reflected. When reviewing the results of the assurance, the assurance team could not find any inappropriate contents in the Report to the compliance with the principles stipulated below. Nothing has come to our attention that causes us to believe that the data included in the verification scope are not presented appropriately.

– Inclusivity

Inclusivity is the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability

- DGB Financial Group is developing and maintaining stakeholder communication channels in various forms and levels in order to make a commitment to be responsible for the stakeholders. The assurance team could not find any critical stakeholder DGB Financial Group left out during this procedure.

– Materiality

Materiality is determining the relevance and significance of an issue to an organization and its stakeholders. A material issue is an issue that will influence the decisions, actions, and performance of an organization or its stakeholders.

- DGB Financial Group is determining the materiality of issues found out through stakeholder communication channels through its own materiality evaluation process, and the assurance team could not find any critical issues left out in this process.

– Responsiveness

Responsiveness is an organization's response to stakeholder issues that affect its sustainability performance and is realized through decisions, actions, and performance, as well as communication with stakeholders.

- The assurance team could not find any evidence that DGB Financial Group's counter measures to critical stakeholder issues were inappropriately recorded in the Report.

We could not find any evidence the Report was not prepared in accordance with the 'Core Option' of GRI standards.

Recommendation for improvement

We hope the Report is actively used as a communication tool for stakeholders and recommendation for improvements.

- DGB Financial Group has published the performance indicator report on individual sustainability strategic initiatives with consistency, along with mid- to long-term goals. The organization is advised to expand the report scope to cover not just a small number of key affiliates but the entire group.

Our independence

With the exception of providing third party assurance services, KMR is not involved in any other DGB Financial Group's business operations that are aimed at making profit in order to avoid any conflicts of interest and to maintain independence.

June, 18th, 2019

CEO *E. J. Hwang*



THIRD-PARTY VERIFICATION STATEMENT OF GREENHOUSE GAS EMISSION

DGB FINANCIAL GROUP and STAKEHOLDERS

Introduction

KSA has been commissioned by DGB FINANCIAL GROUP to independently verify Greenhouse Gas (Scope 1,2,3) Inventory Report for the calendar year 2018(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 2018 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 2018.

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 (2018.1.1 ~ 2018.12.31), and thus assess verification opinion as 'reasonable' on the reported emission.

April 10, 2019

KOREAN STANDARDS ASSOCIATION

PRESIDENT OF KSA



SUSTAINABILITY MANAGEMENT INITIATIVES

Sustainability Management Initiative



UN Global Compact

- Signatory since 2006
- DGB Financial Group Chairman is a director of UNGC Korea



The CEO Water Mandate

CEO Water Mandate

- Reported on water resource management since 2010



UN Environment Programme Finance Initiative (UNEP FI)

- Participant in Korea group meetings



Climate Disclosure Standard Board (CDSB)

- Member of 2012 CDSB Korea working group



UN Sustainable Development Goals (SDGs)

- Selection of goals appropriate for DGB Financial Group



Carbon Disclosure Project

- Annual signatory since 2007
- Recognized for excellence 7 times, including 2018



Dow Jones Sustainability Indexes (DJSI)

- Listed for 9 consecutive years in Asia-Pacific
- Listed for 10 consecutive years in Korea



FTSE4Good Indexes

- Listed for 8 consecutive years



Science Based Targets

- Signatory to 2018 targets



Task Force On Climate-related Financial Disclosure (TCFD)

- Participated as a TCFD member in 2018



Principles for Responsible Banking (PRB)

- Participation as a support organization in 2018

UN Global Compact

We have been a signatory to the UN Global Compact since July 2006, and we comply with the Ten Principles covering four areas (human rights, labor standards, environment, anti-corruption).

Classification		Page
Human Rights		
Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and	75
Principle 2	make sure that they are not complicit in human rights abuses.	75
Labour Standards		
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	85, 93
Principle 4	the elimination of all forms of forced and compulsory labour;	75
Principle 5	the effective abolition of child labour; and	75
Principle 6	the elimination of discrimination in respect of employment and occupation.	46
Environment		
Principle 7	Businesses should support a precautionary approach to environmental challenges;	38, 72-73
Principle 8	undertake initiatives to promote greater environmental responsibility; and	38, 72-73
Principle 9	encourage the development and diffusion of environmentally friendly technologies.	72-73
Anti-Corruption		
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	40-43

DGB Financial Group