



Growing Towards the Better Together



The four leaf clover represents the four values (ethics and corporate culture, sustainable finance, environmental management, and social contributions) that are covered in DGB Financial Group's sustainability report. This icon symbolizes DGB Financial Group's goal of creating a happier and healthier future through balanced growth in all four areas.



The blue bird expresses our Ethical Beliefs and Corporate Culture of reaching for our dreams. Our emphasis on achieving a proper work-life balance will help create a workplace that satisfies and rewards all our employees.



The seed represents the Sustainable Finance that will help us grow with the local community. DGB Financial Group is committed to contributing to the local economy by providing it with active financial support to create a better regional financial base.



The flower shows our full-hearted commitment to Social Contributions. DGB Financial Group promotes the development of local culture and the arts, education, and sports as a means of helping local residents lead a more fulfilling life.



The new bud signifies our emphasis on nature and Environmental Management. Caring for our planet will leave future generations with a cleaner and greener environment.

ABOUT THIS REPORT

This report is the seventh sustainability report published by DGB Financial Group. This report covers our past performance record in fulfilling our economic, social, and environmental responsibilities and is to be used to enhance our stakeholders' understanding of DGB Financial Group's aims toward sustainability management. This report has been published every year since 2006.

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

Reporting Period

The reporting period covered herein is from January 1, 2012 to December 31, 2012, but some data up through June 30, 2013 is also included. The previous report was published in September of 2012, and the scope of reporting, the bounds of reporting, and the methods of data collection used in this report are the same as those of the previous year. The sections that have been changed or modified will be denoted.

Scope of Reporting

The report covers the activities and performance of DGB Financial Group, Daegu Bank, DGB Capital, U-Payment, Daegu Credit Information, and the DGB Data System.

Reporting Principles

The report adheres to the global guidelines on sustainability reporting that are announced each year. This report was written in compliance with the GRI G3.1 Guidelines, GRI Financial Service Sector Supplement, ISO 26000, and the UN Global Compact's 10 Principles.

* The economic performance data was collected in accordance with the International Accounting Standards, and consistent data collection methods were applied to the social and environmental performance data during the reporting period.

Verification

This report has been independently audited by Ernst & Young, an external third party assurance provider, and has been reviewed in accordance with the 2008 AA1000AS Assurance Standard. The report is confirmed to be in accordance with an A+ Application Level of the GRI Guidelines.

Contact Information

The report is published in both Korean and English and is available for viewing on the official websites of DGB Financial Group and Daegu Bank. If you have any inquiries or suggestions, please contact us via the contact information below.

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Websites of DGB Financial Group Companies

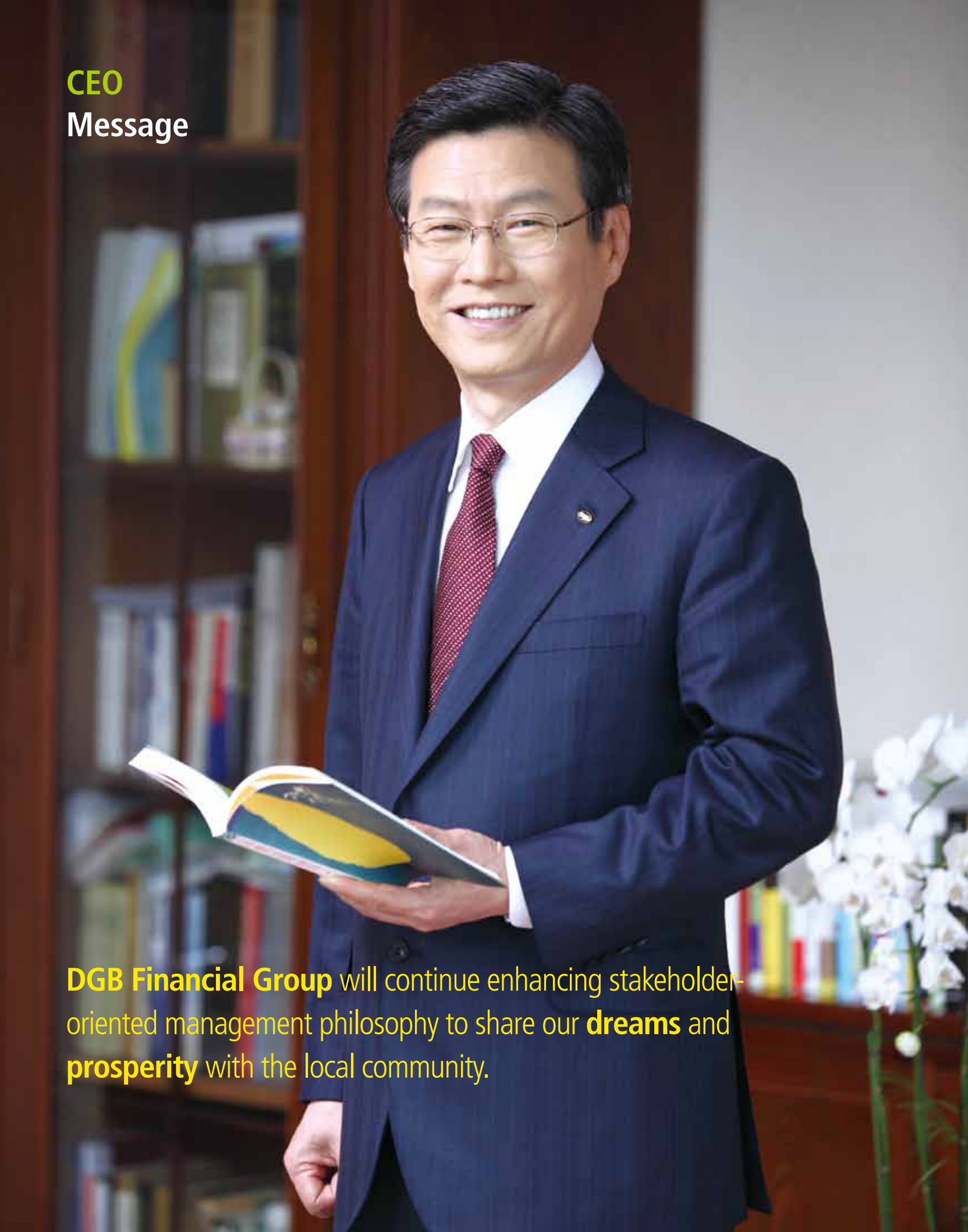
DGB Financial Group www.dgbfg.co.kr
Daegu Bank www.dgb.co.kr
DGB Capital www.dgbcapital.co.kr
U-Payment www.ubi-pay.com
Daegu Credit Information www.daegucredit.co.kr
DGB Data System www.dgbd.co.kr

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DGB Financial Group is committed to emerging as a regionally based comprehensive financial group. With Daegu Bank, Korea's first regional bank, at the core for leading its win-win cooperation efforts, DGB Financial Group has partnered up with various stakeholders, taking a step closer to transforming itself into a 'small, but strong and superior comprehensive financial group'.

CEO
Message

A man with dark hair and glasses, wearing a dark blue suit, white shirt, and red patterned tie, is smiling and holding an open book with a yellow and blue cover. He is standing in front of a wooden bookshelf filled with books. To the right, there are white orchids in a vase.

DGB Financial Group will continue enhancing stakeholder-oriented management philosophy to share our **dreams** and **prosperity** with the local community.

Dear valued stakeholders,

DGB Financial Group has an enduring commitment to be a regionally based comprehensive financial group. To that end, our group has been accumulating and integrating the competencies of our subsidiaries – DGB Capital, U-Payment, Daegu Credit Information, and the DGB Data System.

In the short span of two years after its founding on May 17, 2011 and amid the lingering uncertainties in both the domestic and global financial environments, DG Financial Group has continued its contributions to the vitalization of the local economy and small-loan financing, and has focused its resources on establishing the foundation for the group's synergy businesses. As a result, we have maintained a stable and steady growth, and recorded a 0.83% return on assets (ROA), a 11.35% return on equity (ROE), a 1.04% nonperforming loan ratio (NPL Ratio), and total assets of 37,865.1 billion won in 2012. Notably, in recognition of accomplishing solid financial performances and promoting sustainability management last year, we were listed on the 「2012 Dow Jones Sustainability Indexes - Asia Pacific (DJSI Asia Pacific) and Korea」 for 3 and 4 years in a row. In addition, we were selected as the leading financial company for climate change information disclosure in the 「2012 Carbon Information Disclosure Project (CDP Korea)」 for the 4th consecutive year, and also became the first in the financial sector to win the grand prize (Presidential Citation) at the 「2013 Korea Green Management Awards」. These accomplishments have raised the prestige and credential of our financial group a notch higher, which faithfully strives towards our company's social responsibility.

On a foundation based on this continuous growth, DGB Financial Group has set this year's management goal as, 'Yes we can! Pushing the boundaries and taking a step forward'. We will continue our commitment in growing hand-in-hand with various stakeholders, such as our customers and stakeholders, local communities, and employees. In this respect, the following initiatives have been put in place to support our commitment to becoming a comprehensive financial group.

First, we will endeavor to identify and develop new growth platforms in various fields, in a bid to secure the future competitiveness of our group. We will continuously look out for new product opportunities, as well as tapping into new markets and customers by making improvements to our financial service and reinforcing market dominance in the established local communities.

Second, we will implement a more sales-oriented structure to streamline and increase the flexibility of our sales branches against the changing business landscape. We will incorporate differentiated marketing strategies, and carry out direct sales to customers.

Third, we will further strengthen the group's synergy by expanding internal communication channels and taking on challenges together with our subsidiaries. We will forge collaboration to jointly develop new financial products and enhance sales activities among the subsidiaries. Our concerted efforts for the maximization of the group's synergy will continue into the future.

Fourth, we will reemphasize the importance of ethical management and put it into practice. Ethical management focuses on the protection of financial customers by establishing itself on legal principles and socially accepted moral codes. We regard this as the cornerstone for achieving sustainability management, and we will incorporate it as the beautiful corporate culture of DGB Financial Group.

The 2012/2013 Sustainability Report, published by DGB Financial Group, is created in accordance with the international standards of social responsibility (ISO26000) and the GRI G3.1 Guidelines. It reflects the opinions of various stakeholders, including shareholders, customers, local communities, partner companies, and employees. We strive to be transparent in disclosing our actions to fulfill the UN Global Compact's 10 Principles.

This year's report contains the initiative to fulfill our role and responsibilities to the economy, society, and environment. We are also determined to transparently disclose our visions, goals, major execution strategies, and activities for sustainability management, while faithfully implementing them. Going forward, we will continue to practice sustainability management that meets global standards, as well as listening to the voices of our stakeholders. In our endeavor to become a world class regional bank that shares its dreams and prosperity with the local community, I humbly ask all our stakeholders for your continued, unwavering support and encouragement.

Thank you.

CEO of DGB Financial Group

Ha, Chun-soo



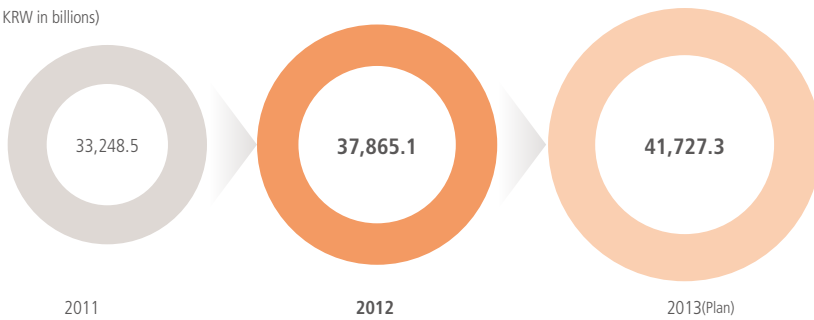
DGB Financial Group

Overview

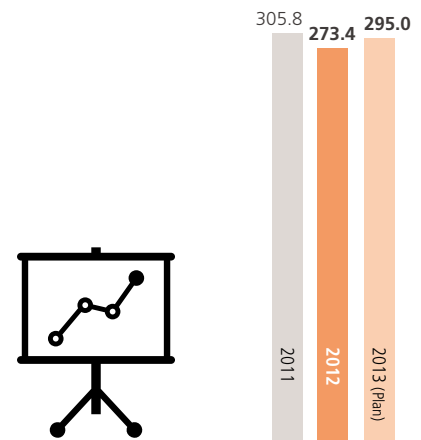
In order to meet customers' needs for comprehensive financial services and create new growth engines tailored to the specifics of local bank, DGB Financial Group has established a full-fledged parent holding company structure. With Daegu Bank at its core, two new subsidiaries – DGB Capital and DGB Data System – joined the group in 2012, in addition to Daegu Credit Information and U-Payment.

DGB Financial Group's Business Performance Results

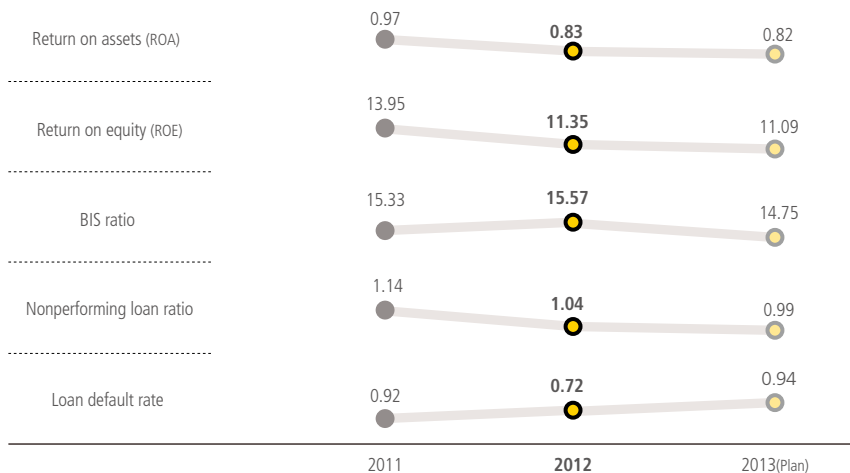
Total Assets
(Unit : KRW in billions)



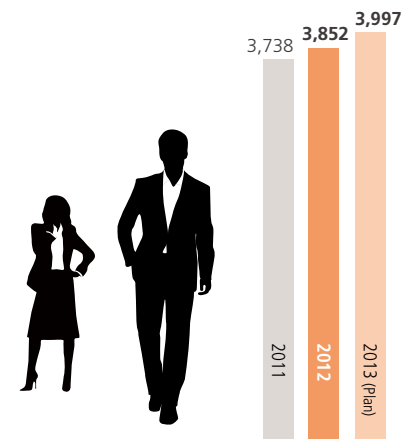
Net Income
(Unit : KRW in billions)



ROA & BIS CAR
(Unit : %)



Number of Employees
(Unit : Persons)



“Provision of Regionally Based Comprehensive Financial Service”

Daegu Bank

- Retail Banking and Corporate Banking
- Mobile Banking and Electronic Banking
- Asset Management Services for Individuals and Corporate Clients

U-Payment

- Transportation Card Service
- Electronic Money Payment Service
- Security Checkpoint System

DGB Data System

- System Integration
- Provision of Optimized IT System
- IT Outsourcing

DGB Capital

- Retail Banking and Corporate Banking
- New Technology Banking Solutions
- Lease Financing and Installment Financing

Daegu Credit Information

- Bond Collection
- Credit Research
- Agency for Addressing Civil Affairs



BUSINESS MODEL

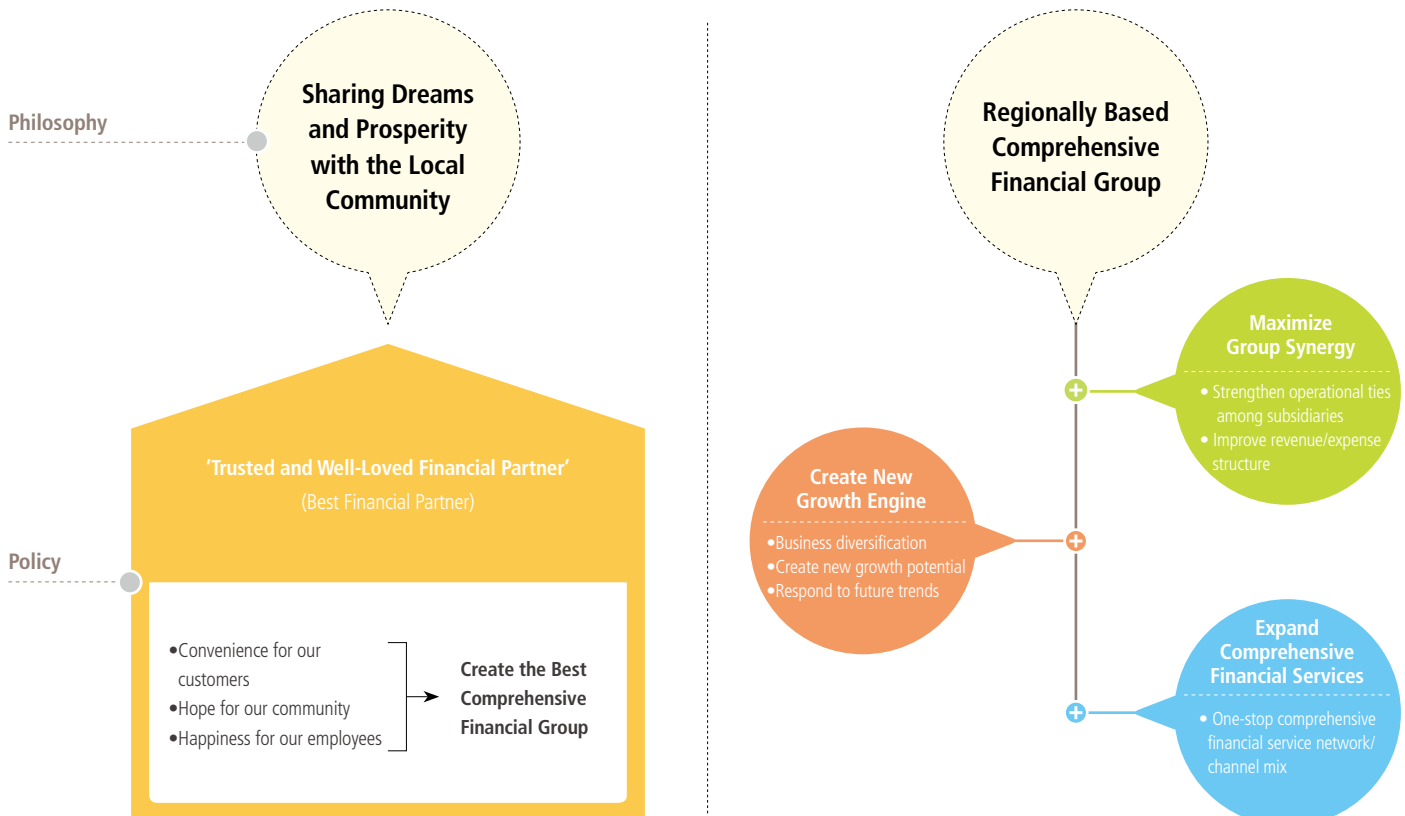
DGB Financial Group's Vision

DGB Financial Group is a regional financial company that has grown hand-in-hand with its customers. With a management philosophy of becoming a 'trusted and well-loved financial partner', the group practices management principles of 'sharing dreams and prosperity with the local community'. We envision to be the 'superior and comprehensive financial group' that render 'convenience to our customers, hope to our community, and happiness to our employees'.

● DGB Financial Group is set to leapfrog into a comprehensive financial group. In the short term, we will reinforce market dominance and enhance financial convenience for local customers with a focus on Daegu Bank and DGB Capital. We will continue to carry on our community-based management approach. In the medium and long term, we will strengthen our capabilities in providing comprehensive financial services so that we can maximize our synergy effect.

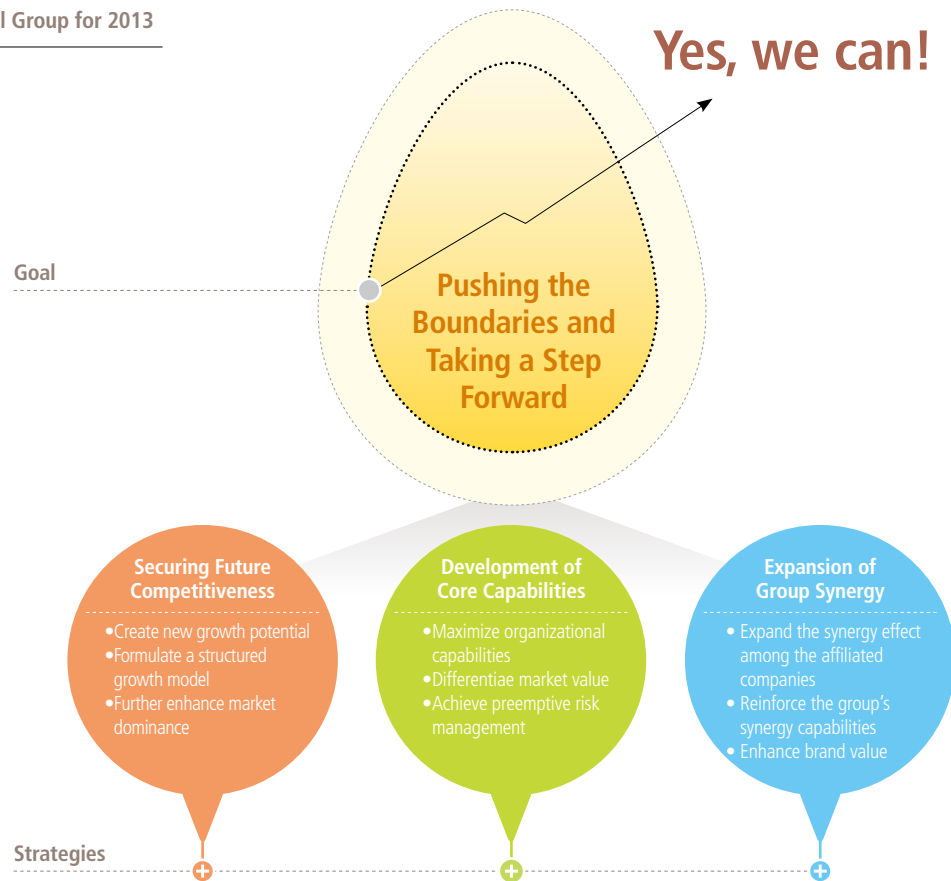
Our mid-term vision is to become a superior comprehensive group. To that end, we will maximize our group's synergy by strengthening operational ties among the group's subsidiaries, while realigning our revenue and expense structure. In addition, we will continue looking out for new opportunities and secure new growth engine businesses, along with cementing our position as a 'provider of one-stop comprehensive financial service' by connecting our subsidiaries' networks and channels to our customers and fulfilling a complementary network/channel mix strategy.

Management Philosophy and Policy



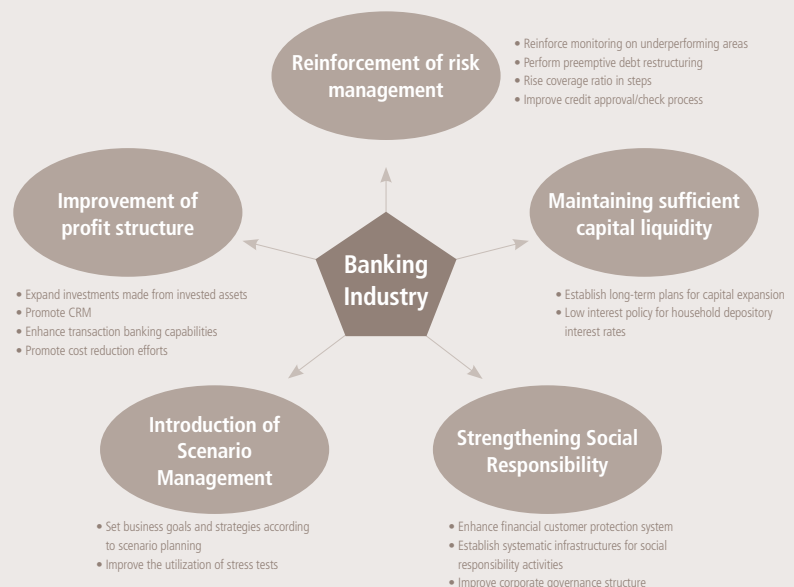
DGB Financial Group's Strategy

Management Goal and Strategies of DGB Financial Group for 2013



Top-Priority Agendas for the Financial Industry in 2013

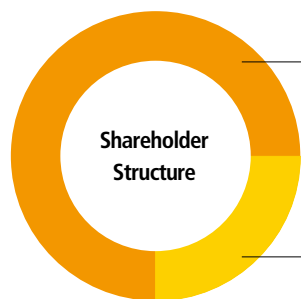
In the face of eroding profitability, the financial industry in 2013 will see more efforts for improving cost efficiency and higher competition among the players for attracting new customers to sustain growth momentum. Amid the continuing efforts to achieve asset soundness from the previous year, the countermeasures to eroding net interest margin and commission charge cuts are projected to be the key environmental variables for 2013.



DGB Financial Group's Governance System

Sound Corporate Governance

- As of December 2012, DGB Financial Group's paid-in capital stood at KRW 670.3 billion and the total number of outstanding shares amounted to 134,053,154. The largest shareholder, Saudi Arabian Monetary Agency, owns 9.09%, while the largest Korean shareholder, Samsung Life Insurance, claims 7.25%.



Percentage of foreign held shares 75.3%

Largest Shareholder - SAUDI ARABIAN MONETARY AGENCY - 9.09%

Percentage of Korean held shares 24.7%

Largest Shareholder - Samsung Life Insurance - 7.25%

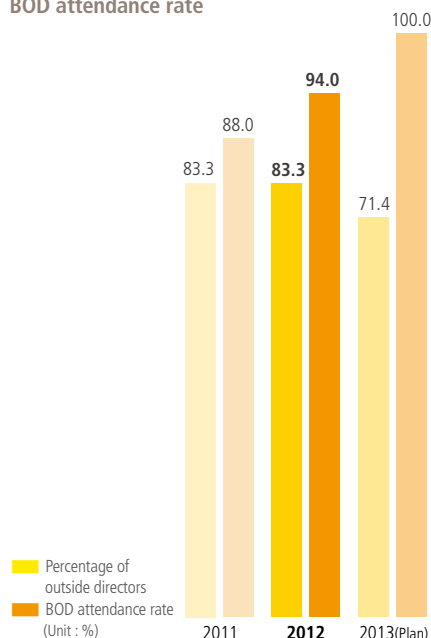
Shareholding Structure of Subsidiaries and Affiliated Companies	
Subsidiary	DGB Financial Group
Daegu Bank	100%
DGB Capital	100%
U-Payment	100%
Daegu Credit Information	100%
DGB Data System	100%

* As of the end of December 2012

Board of Directors

- The Board of Directors (BOD) of DGB Financial Group fully abides by the Articles of Incorporation, industrial regulations and the Outside Directors Guidelines established by the Korea Federation of Banks (KFB), in its activities to reinforce transparency and responsibility in management through efficient corporate governance. Consisting of 7 directors, 2 standing and 5 outside directors, the board is chaired by the CEO of the bank and is independently operated based on its expertise. The chairman of the board can convene regular or ad-hoc meetings of the BOD, at which they resolve agendas through majority voting, unless otherwise stipulated in the bylaws. The BOD approves and monitors the implementation of the group's management strategies and policies, and oversees the internal control system, including risk management.

Percentage of outside directors and BOD attendance rate



DGB Financial Group BOD Profile				
Type	Name	Term	Duties	Other Mandates
Standing Directors	Ha, Chun-soo	3 yrs	<ul style="list-style-type: none"> Chairman of the Board President of Outside Director Nomination Committee 	<ul style="list-style-type: none"> CEO, Daegu Bank
	Park, Dong-gowan	1 yr	<ul style="list-style-type: none"> Member of Risk Management Committee 	<ul style="list-style-type: none"> Vice President of DGB financial Group
Outside Directors	Ahn, Choong-yong	1 yr	<ul style="list-style-type: none"> Senior outside director President of Management Development & Compensation Committee President of Auditors' Committee Member of Auditor Nomination Committee Member of Outside Director Nomination Committee 	<ul style="list-style-type: none"> Endowed professor of International Graduate School, Chungang University KOTRA ombudsman for foreign investments
	Lee, Jeong-do	1 yr	<ul style="list-style-type: none"> President of Risk Management Committee Member of Management Development & Compensation Committee Member of Auditor Nomination Committee 	<ul style="list-style-type: none"> Professor emeritus, Kyungbuk National University
	Kim, Ssang-su	2 yrs	<ul style="list-style-type: none"> Member of Auditors' Committee Member of Management Development & Compensation Committee Member of Auditor Nomination Committee 	<ul style="list-style-type: none"> (Former) President of Korea Electric Power Corporation
	Chang, Ik-hyun	1 yr	<ul style="list-style-type: none"> Member of Auditors' Committee Member of Management Development & Compensation Committee Member of Outside Director Nomination Committee Member of Auditor Nomination Committee 	<ul style="list-style-type: none"> (Former) President of Daegu District Bar Association Attorney at Chang Ik-hyun Law Office
	Lee, Ji-eun	1 yr	<ul style="list-style-type: none"> Member of Management Development & Compensation Committee Member of Risk Management Committee Member of Auditor Nomination Committee 	<ul style="list-style-type: none"> Senior Researcher, Korea Institute of Finance

(As of the end of March 2013)

BOD-affiliated Committees

● Management Council

DGB Financial group operates the Management Council, which is composed of the holding company's CEO, the director of the management planning group of Daegu bank, and representatives from the subsidiaries. The Management Council holds at least one session each quarter to discuss matters that require the group's cooperation, such as the establishment and execution of the group's strategies, matters requiring group-wide discussion, including synergy creation and cost reduction, and other matters that have an important influence on the group, such as issues with the management of subsidiaries. In addition, DGB Financial Group operates the Executive Committee, which is made up of executives from the holding company to determine important matters regarding the management of the holding company.

Protection of Minority Shareholders' Rights

● Minority shareholders are invited to the general meetings of shareholders so that a wide range of opinions can be compiled. There were no suggestions made by minority shareholders at the general meetings during the reporting period.

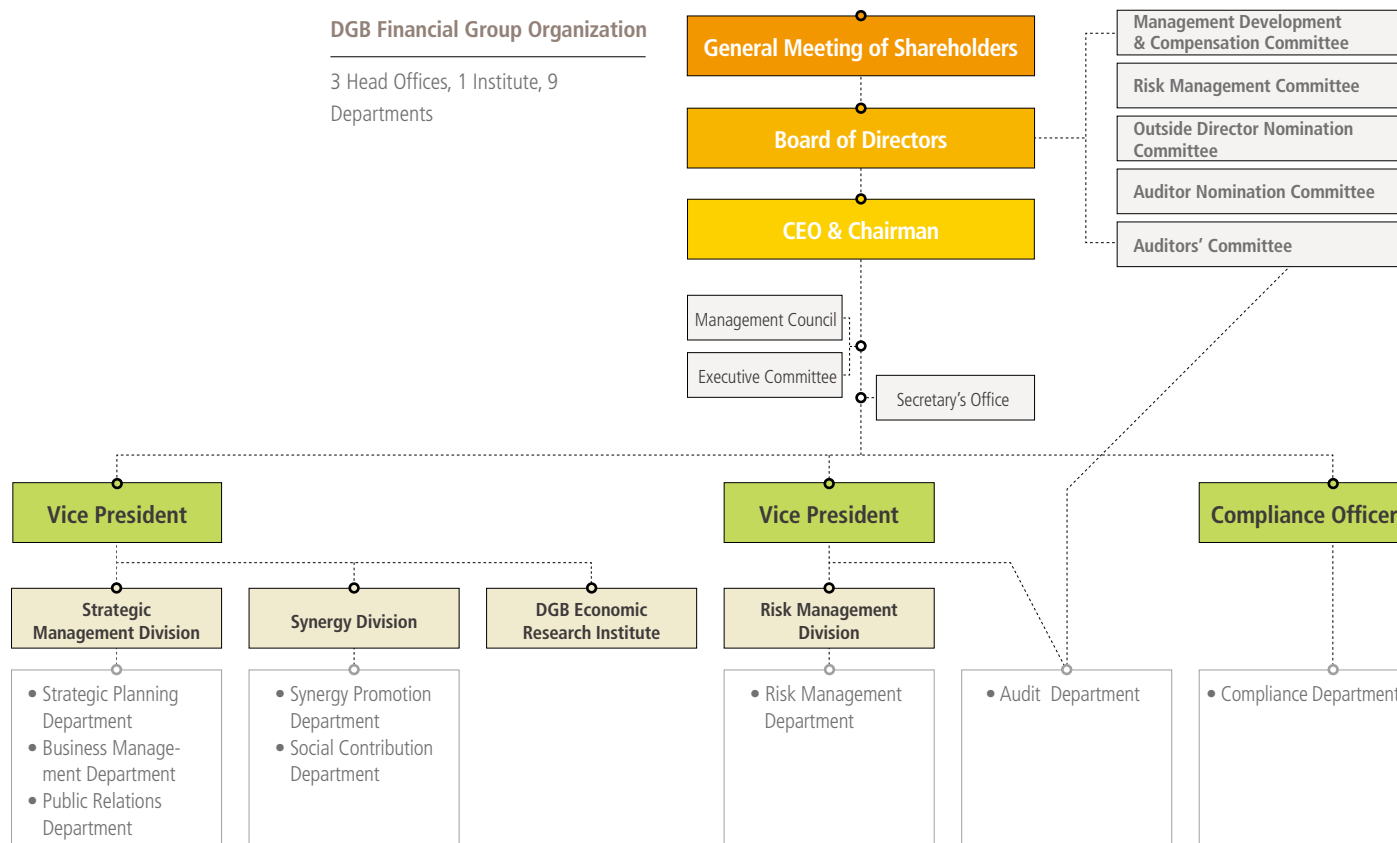
Director Remuneration

● Standing directors are offered a base pay and bonuses (short-term incentives and long-term performance based cash compensation) and outside directors are remunerated with a base pay. A director's base pay is determined by the board of directors.

Remuneration of Board of Directors

Type	No. of directors	Total Remuneration Paid (KRW in millions)	Average Remuneration Per Person (KRW in millions)
Standing Director	1	66	66
Outside Directors that are not members of the Auditor's Committee	2	27	14
Outside Directors that are members of the Auditor's Committee	3	58	19
Total	6	151	25

(As of the end of December 2012)

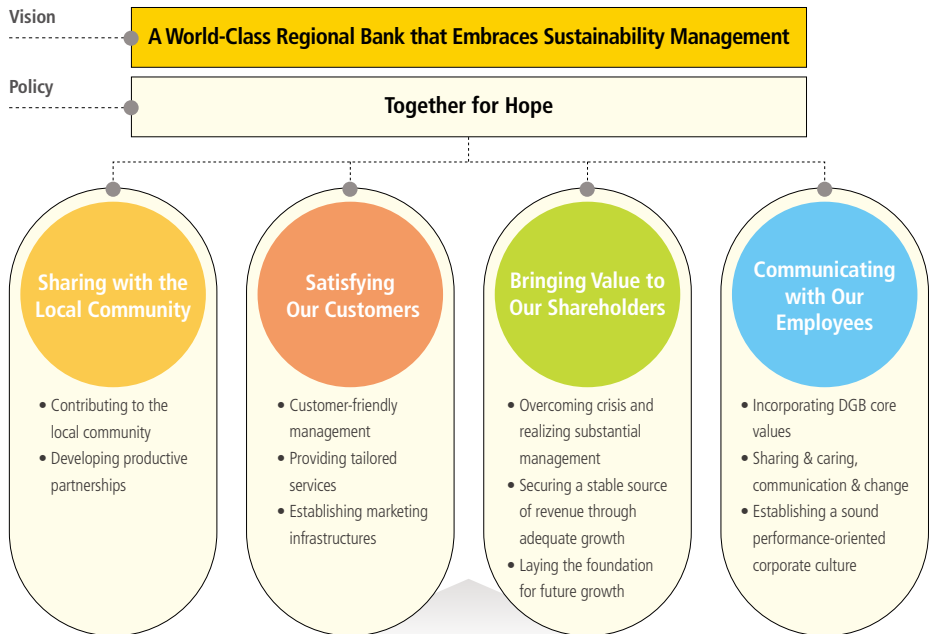


DGB Financial Group's Subsidiaries

Daegu Bank

Daegu Bank was established in 1967 as Korea's first regional bank. For 46 years, it has continued to grow in step with the local economy, revitalizing the local economy through the accumulation of local funds.

Daegu Bank's Vision and Core Values

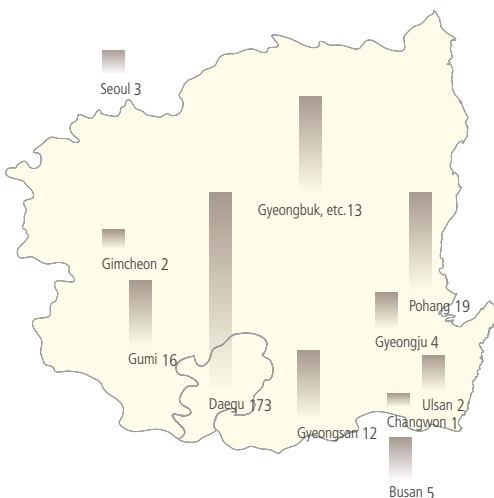


Core Values

Serving Everyone	• A warmhearted company that serves its customers and local communities, and strives for mutual communications among employees
Passion for Change	• A dynamic company that creates new value through creative thinking and with a sense of ownership
Honesty for Ourselves	• A respected company that builds lasting trust based on integrity and ethics, and set examples for customers, local communities, and the financial sector

Daegu Bank's Branches

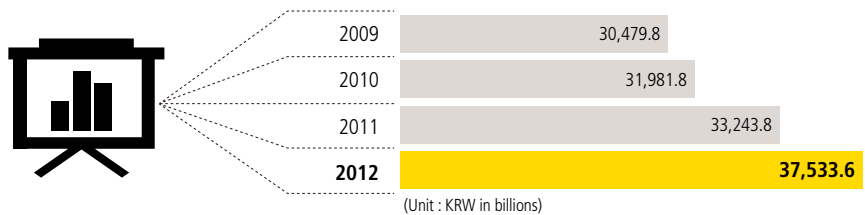
(As of the end of June 2013)



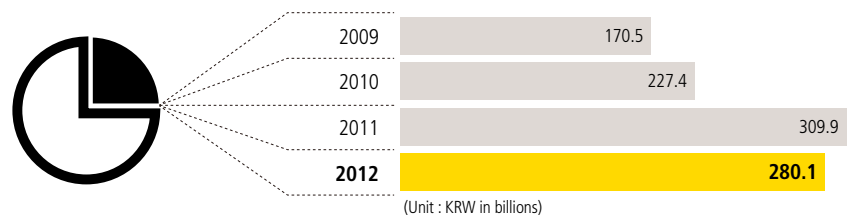
- Branch Network : 250 in Korea / 1 overseas (Shanghai Branch)
- No. of CDs/ATMs : 2,576 units
- Workforce : 2,926 employees

2012 Key Business Performance Results

Total Assets



Net Income



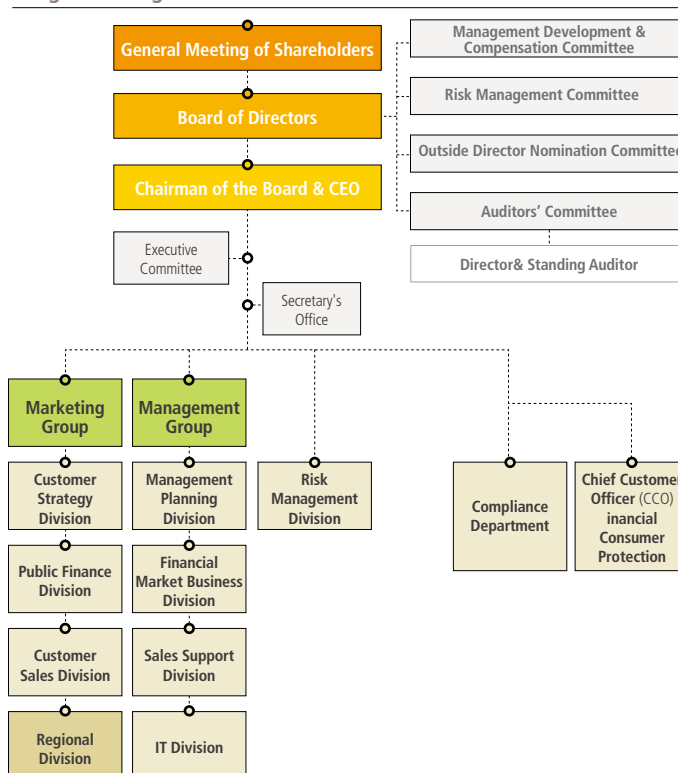
Daegu Bank's Board of Directors

The Board of Directors (BOD) of Daegu Bank fully abides by the Articles of Incorporation, industrial regulations, and the best practices of outside directors established by the Korea Federation of Banks (KFB), in its activities to reinforce transparency in management through efficient corporate governance. The board is chaired by the CEO of the bank and

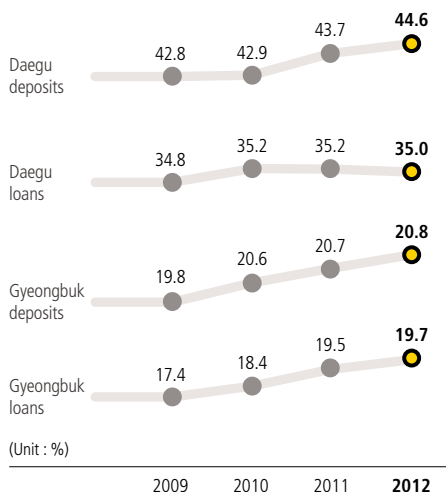
is made up of 9 directors, 4 standing and 5 outside directors. The BOD has independently established the Management Development & Compensation Committee, Auditors' Committee, Risk Management Committee, and the Outside Director Nomination Committee, whose purposes are to facilitate operations of the board and the deliberation process. All committee members, excluding those in the audit committee, are recommended by the Management Development & Compensation Committee and approved by the BOD.

Daegu Bank BOD Profile				
Type	Name	Term	Duties	Other Mandates
Standing Directors	Ha, Chun-soo	3 yrs	Chairman of the Board	CEO, Daegu Bank CEO, DGB Financial Group
	Jung, Chang-mo	3 yrs	Standing Auditor & Director	Operations Auditor
	Lee, Chan-hee	1 yr	Vice President	Head of Management Group and Management Planning Division
	Choi, Soo-won	1 yr	Vice President	Head of Marketing Group
Outside Directors	Ahn, Choong-yong	1 yr	Management Development & Compensation Committee Auditors' Committee Outside Director Nomination Committee	Endowed professor of International Graduate School, Chungang University KOTRA ombudsman for foreign investments
	Kim, Jin-tak	2 yrs	Management Development & Compensation Committee Risk Management Committee	Emeritus Professor, College of Business at Keimyung University Keimyung University President, Emeritus Professor Committee at Keimyung University
	Hong, Jang-hee	2 yrs	Management Development & Compensation Committee Risk Management Committee	Research Professor, College of Engineering at Seoul National University
	Kim, Jung-ki	2 yrs	Management Development & Compensation Committee Auditors' Committee Outside Director Nomination Committee	Principal Attorney, Bumu Corporation (Former) President of Daegu District Bar Association
	Sung, Nak-in	1 yr	Management Development & Compensation Committee Risk Management Committee	Chairman, Korean National Police Commission Professor of Law, Seoul National University

Daegu Bank Organization

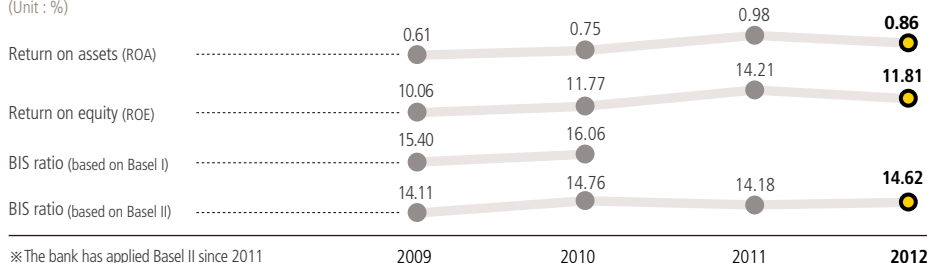


Regional Market Share



ROA & BIS CAR

(Unit : %)



Distribution of Economic Value (Unit : KRW in millions)

Type	2009	2010	2011	2012
Wages & Welfare Benefits	208,181	211,794	246,274	253,965
Capital Expenses	33,031	39,638	56,814	62,098
Dividends	744,413	683,976	726,695	772,724
Interest Expenses	64,852	72,304	108,686	87,403
Taxes	12,327	10,556	15,751	12,723
Donations				

DGB Capital



DGB Capital
CEO Kim, Ki-ju

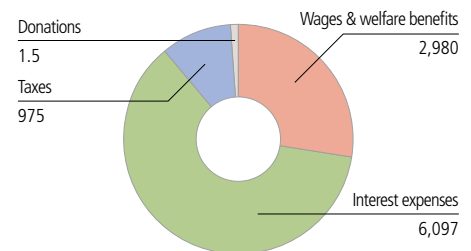
“Becoming part of DGB Financial Group in January 2012, DGB Capital has taken a systematic approach in preparation of new growth engine businesses. The company’s efforts include decisive restructuring of business structure, modifications to systems, along with providing financial supports for the group and creating synergies with other affiliated companies. In addition, the company is achieving continuous growth in terms of asset size, based on the diversification of product portfolio and expansion of its branch network. As a result, it is able to maintain asset soundness and profitability. In April 2013, the company raised KRW 50 billion through capital increase, with the proceeds strengthening the company’s equity basis and financial structure by reducing financial costs. The company continues to maintain high credit ratings. Constantly seeking changes and innovation, DGB Capital will prevail all challenges, and turn them into opportunities to continue our future growth momentum.”

- Founded in September 2009, DGB Capital is a specialized credit financial company with a comprehensive suite of financial services that range from corporate loans, equipments and facilities rental service, installment financing, and new technology financing. It came under the umbrella of DGB Financial Group in January 2012, and continues to upgrade its financial services to be a well-loved and trustworthy financial service provider for customers. The company’s sustainable efforts continued in 2012 – as the modifications and improvements were made onto the existing financial policies and systems, facilitating outward growth while ensuring internal stability. For 2013, the company has set its business goal as ‘Let’s Walk! Run! Fly!’ that aims for the expansion of asset size, improvement of asset soundness, and maximization of profitability. DGB Financial Group’s entire workforce is putting in concerted efforts to secure the foothold for sustainable growth.

CEO	Kim, Ki-ju
Date of foundation	September 14, 2009
Address	Sambu Building 19 th Fl., 237 Teheran-ro, Gangnam-gu, Seoul, Korea
Business region(s)	Nationwide
Shareholders	DGB Financial Group 100%
Workforce	64 persons (4 executives and 60 employees) (As of the end of June 2013)
Revenue	KRW 16.0 billion

(As of the end of December 2012)

Distribution of Economic Value (Unit : KRW in millions)



● Small-loan Finance Product _ Smile Loan

Starting from July 2012, DGB Capital has introduced a small-loan finance product, named ‘Smile Loan’, for microfinance customers, such as small business owners and office workers that suffer from high interest rates. The loan’s interest rate ranges from 7.9% to 19.5%, based on the credit rating of the applier. It is substantially lower than the maximum interest rate of 39% offered by other capital companies. In addition to this benefit, loan subscribers are exempt from monthly repayment for up to 8 months if they are laid off or become insolvent.

● Social Contribution Activities ①

DGB Capital is implementing a variety of social contribution activities that are designed to share its dream and prosperity with society. Joining the DGB Financial Group Volunteer Corps, its employees periodically visit welfare centers, voluntary organizations, and cultural assets to lend helping hands. In addition, in tune with the group’s efforts for sharing, all employees are participating in the ‘Employees’ 1% of Wage Sharing Campaign’.

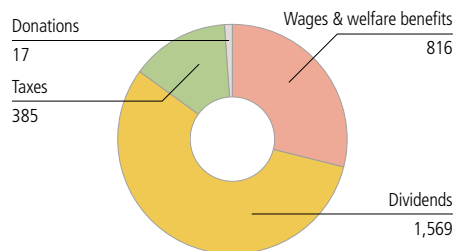
“U-Payment is the provider of electronic payment solutions, with businesses ranging from public transportation card service for transportation modes such as bus, subway, and taxi, as well as micro-payment transfers and security checkpoint systems that are both reliable and convenient. The company was established through a merger between the two regional transportation card service companies, Kardnet and U-Payment, in 2013, with a goal to lay the platform for future growth. Since the merger, ongoing efforts are made into the development of new technologies to stay attuned to rapidly changing business environment, while the synergies with subsidiaries are further enhanced to offer more convenient services to its customers. Looking ahead, U-Payment aims to evolve into a nationwide transportation card company by making further investments and R&D efforts, along with expanding its sales network based on the trust built upon customers’ trust.”

Established in December 1999, U-Payment has been offering various services for Daegu and the Gyeongbuk region over the last 13 years, such as prepaid transportation card service and security-related services. Starting with the establishment of Daekyung Transportation Card System in January 2000, the company has completed numerous transportation-related projects such as: the transportation card system for the Daegu Subway Line No.1, the public transportation transfer discount system for the city of Daegu, and a nationwide compatible transportation card service certified by the Ministry of Land, Infrastructure and Transport Certified. The company is also extending its reach to accommodate the needs for electronic ticketing service, electronic healthcare system, and electronic government. U-Payment is growing as the leader in the 21st century’s ubiquitous era.

CEO	Seo, Jung-won
Date of foundation	December 29, 1999 (Prev. Kardnet)
Address	223-5 Dongil Building 9 th Fl., Beomeo-2dong, Suseong-gu, Daegu
Business region(s)	Gyeongbuk region including Daegu, Gyeongsan, and Yeongcheon
Shareholders	DGB Financial Group 100%
Workforce	36 persons (4 executives and 32 employees) (As of the end of June 2013)
Revenue	KRW 11.231 billion

(As of the end of December 2012)

Distribution of Economic Value (Unit : KRW in millions)



U-Payment



U-Payment
CEO Seo, Jung-won

Social Contribution Activities

Recognizing its corporate social responsibility, U-Payment is conducting a variety of social contribution activities to achieve mutual growth with the local community. These activities include: supports for the Korean Red Cross’s Daegu branch, heating expenses assistance for elderly nursing homes, transportation expenses for low-income families, a scholarship program for the families in the transportation industry, and donations to World Vision’s electronic collection boxes. In September 2012, the company formed a partnership with the Daegu Metropolitan Office of Education to provide support for educational programs, sponsoring KRW 10,175,000 to middle and high school students from low-income families with total amount reaching KRW 17,709,000. The sponsorship is exemplary of the company’s consistent commitment for mutual growth with local residents.



Daegu Credit Information



Daegu Credit Information
CEO Son, Soon-ho

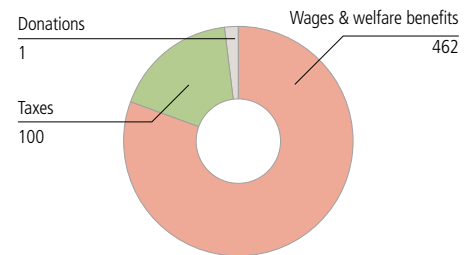
“Daegu Credit Information is a specialized company in bond collection services. It is primarily engaged in the recovery of nonperforming loans, credit research, and serves as an agency addressing civil affairs. The collection process for loans is anticipated to be more difficult in 2013, constrained by the rising uncertainties in external and internal business environments, accompanied by toughened regulations on privacy protection and unlawful collection practices. In response, the company plans to leverage its synergies with the group, while reducing dependency on Daegu Bank through the expansion of sales network, in a bid to strengthen its profit structure. It also plans to introduce an efficient bond collection system and cultivate professionals in this field.”

- Daegu Credit Information was jointly established by Daegu Bank and 7 regional SMEs on July 5, 2000 for the purpose of bond collection. The company is steadily reinforcing its collection services, by undertaking loan collection on behalf of Daegu bank; serving as an agency for the Financial Supervisory Service to address civil affairs; and concluding a contract with Nice Investors Service for credit information inquiries. The company became a member of DGB Financial Group in May 2011, and has established a platform for sustainable growth in 2012 by expanding synergies among affiliated companies and through the development of next-generation electronic data system. As a companion in the development of the local economy, Daegu Credit Information will continue emphasizing ethical management.

CEO	Son, Soon-ho
Date of foundation	July 5, 2000
Address	527-4 Bisan 6-dong, Seo-gu, Daegu
Business region(s)	Nationwide
Shareholders	DGB Financial Group 100%
Workforce	64 persons (4 executives and 60 employees) (As of the end of June 2013)
Revenue	KRW 2.272 billion

(As of the end of December 2012)

Distribution of Economic Value (Unit : KRW in millions)



● Social Contribution Activities ①②

Daegu Credit Information is conducting various social contribution activities that show its compassion to neighbors in need. In March 2013, the company's 16 employees participated in a volunteering session for the mountain path maintenance of Mt. Chorye, near Maeyeo-dong, Daegu. Other major activities included 'DGB Love Sharing House Maintenance' and 'Samgyetang Sharing Campaign on Malbok'. In addition, commemorating its second anniversary, the company handed out free promotional gifts to customers.



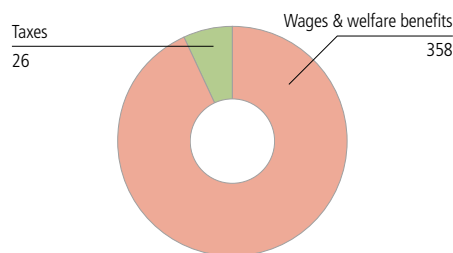
“DGB Data System’s primary businesses include information system development and integrated IT operations, targeting affiliated companies and SMEs in the local community. Under the slogan of ‘Regional IT Leader Company that Leads New Changes’, the primary objective of the company and its entire workforce is to be the regional IT leader that brings new changes. To that end, it is recruiting talented human resources and is venturing into new business areas. Moreover, the company is putting the group’s philosophy of ‘sharing dreams and prosperity with the local community’ into practice, and continues to seek strategic partnerships with SMEs for technological development. The company intends to create synergy influence on the local IT industry by providing supports for quality and Technology, and launching joint R&D efforts.”

● Founded in April 2012, DGB Data System is a specialized company engaged in a variety of IT services, including information system development, integrated IT operations, IT consulting, and IT educations. Committed to the development of the local IT industry and with its extensive know-how, the company continues to provide optimized IT services to customers. It also provides optimized solutions for corporate clients’ system needs, based on its professional human resource and expertise in the IT finance sector. Looking ahead, our entire workforce will continue to cope with various problems in the IT field related to systems, expenses, and workforce.

CEO	Cheon, Hae-kwang
Date of foundation	April 9, 2012
Address	2310 Dalgubeoldaero, Suseong-gu, Daegu, Korea
Business region(s)	Nationwide
Shareholders	DGB Financial Group 100%
Workforce	30 persons (4 executives and 26 employees) (As of the end of June 2013)
Revenue	KRW 0.606 billion

(As of the end of December 2012)

Distribution of Economic Value (Unit : KRW in millions)



DGB Data System



DGB Data System
CEO Cheon, Hae-kwang

● Increasing Supports for SMEs

Leveraging on its excellent workforce and IT systems, DGB Data System has established and is operating various supporting systems for the SMEs in the local community. These systems include – human resource evaluation system, ERP system, performance evaluation system, a groupware, and treasury settlement system – that are provided either for free or at low cost. DGB Data System will continue to provide supports for affiliated companies, while creating new growth momentum by supporting SMEs.

● Social Contribution Activities ①

In May 2013, DGB Data System launched its own volunteer team to systematically organize social contribution activities. Celebrating the family month of May, the volunteer team donated KRW 1,000,000 to the Namsan Christian Social Welfare Center for household good needs. It is also extending its volunteering activities to a group-wide level by participating in the ‘DGB Love Sharing House Maintenance Campaign’. DGB Data System will continue to participate in social contribution activities to fulfill its social responsibilities.



2012/2013 Highlights

2012 / 08

DGB Contribution Foundation's DGB Child Welfare Agency Selected as a Preliminary Social Organization for the First Time among Domestic Financial Institutions

Founded to support job creation for low-income families and youth of the local community, DGB Child Welfare Agency was honored in February 2012 with a selection as a preliminary social organization by the city of Daegu. A certification was awarded for the first time among domestic financial institutions.



2012 / 08

Voluntary Agreement for Green Industrial Purchases

DGB Financial Holdings and Daegu Bank concluded a voluntary agreement with the Ministry of Environment on green industrial purchases. They plan to engage in various activities that will stimulate green purchase behaviors, such as using environment-friendly products and hosting education on green purchases.



2012 / 12

First Regional Bank to Establish a Branch in Shanghai, China

After opening a representative office in Shanghai, China in June 2008, Daegu Bank acquired a final approval for branch upgrade in November 2012. It became the first regional bank in Korea to establish a branch in Shanghai. The branch will provide financial supports for local businesses.



2013 / 01

Daegu Bank's Publication of 'The 45 Years History of Beautiful Companionship'

Daegu Bank has published a book entitled 'The 45 Years History of Beautiful Companionship'. The book is devoted to the bank's 45 years of history (1967-2012) since its founding as the first regional bank in Korea. The book entails its mutual growth story with the local community.



2013 / 02

Received the Best Microfinance Award at the '2nd Korea Best Banker Awards'

Daegu Bank was recognized for playing an instrumental role in promoting its management philosophy of sharing with small businesses and financially-pressed people. It received the Best Microfinance Award at the '2nd Korea Best Banker Awards'.

2013 / 03

U-Payment Launched, a Newly Merged Transportation Card Company in Daegu

DGB Financial Holdings has completed the merger between Kardnet (issuer of Daekyung Transportation Card System) and U-payment (issuer of prepaid transportation card, Top Pass). U-Payment joined the DGB Financial Group as the fifth member.



2013 / 04

'DGB Open Bank' Launched for Visually Impaired

In accordance with the Korean Web Content Accessibility Guidelines, Daegu Bank created a special website for visually impaired, named 'DGB Open Bank' (<http://open.dgb.co.kr>), and partially opened it. The website provides a voice browser service and keyboard-based internet banking for visually impaired users.



2013 / 05

Daegu Bank, the Only Top-rating Banking Institution in the Financial Company Civil Compliant Assessment Rating for the 7th Consecutive Year in 2012

Daegu Bank was selected as the only top-rating banking institution for the 7th consecutive year in the 2012 Financial Company Civil Compliant Assessment Rating sponsored by the FSS. It has been awarded this rating since 2006.



2013 / 06

Appreciation Plaque Received for Planting 'DGB Anti-Desertification Forests' in Mongolia for 5 Years

DGB Financial Group received an appreciation plaque from Tuv Aimag, governor of Mongolia, for its contribution in planting anti-desertification forests in Mongolia. The forestation efforts continued for the last 5 years since 2009.



2013 / 07

Received the Grand Prize (Presidential Citation) at the '2013 Korea Green Management Awards'

DGB Financial Group received the Grand Prize (Presidential Citation) at the '2013 Korea Green Management Awards' for the first time among domestic financial institutions. The event was co-hosted by the Ministry of Trade, Industry & Energy and the Ministry of Environment, and recognized the group's excellence in leading green management and green finance efforts.

Sustainability Management Reporting Framework

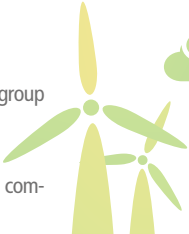


Local Community Involvement and Development

- Contribution in Economic Development of the Local Community (p.30~34)
- Sharing with the Local Community (p.35~37)

- Philosophy ▶ Sharing Dreams and Prosperity with the Local Community
- Policy ▶ Trusted and Well-Loved Financial Partner
- Goal ▶ Pushing the Boundaries and Taking a Step Forward
- Strategies ▶ Creation of New Growth Engine
 - ▶ Reinforcement of Core Capabilities
 - ▶ Expansion of Group Synergy

- Providing and improving financial transaction processes and financial product services
- Improving relationships with core stakeholders, including the local community
- Forming active relationships for group development, customer protection, and suppliers
- Intangible assets related to corporate reputation and brand
- Tangible assets for operating activities (stores, ATMs, and online banking, etc.)
- Ability to comprehend and implement human rights, ethical values, and group strategy
- Social value awareness and activities
- Intellectual property, including patents for financial products, copyrights, computer systems, etc.



Material Issue Storyline for Compiling the Report

- ✓ Recognition of Core Issues
 - Explanation on the impact of issues on external/internal environment and recognition of their importance
 - Explanation for DGB Financial Group's selection of core issues and their importance
- ✓ Strategies and Implementation System for Each Issue
 - Basic guidance for pursuing activities related to each issue
 - Implementation system for conducting each activity
- ✓ Quantitative Results and Activity Programs
 - Description about the activities performed for each issue
 - Targets and progress results for each issue expressed in quantitative terms
- ✓ Future Agenda
 - Stakeholders' perspective on the issues relevant to DGB Financial Group
 - Feedback on the voice of stakeholders
 - Reflection of 2013 business plans

Internal / Risk Management

- Protection of minor shareholders' rights
- Creation and distribution of economic performance
- Corporate credibility
- Increasing demand for transparency
- Anti-Corruption
- Anti-Discrimination
- Fair, appropriate consideration for the quality of working conditions (employee turnover rate)
- Increasing importance of employees' rights and roles
- Human resources development and on-the-job training (training hours and lifelong learning programs for employees)



Sustainable Finance

- Creation of Sustainable Performance (p.45)
- Fair Finance (p.46~48)
- Small-Loan Finance (p.49)



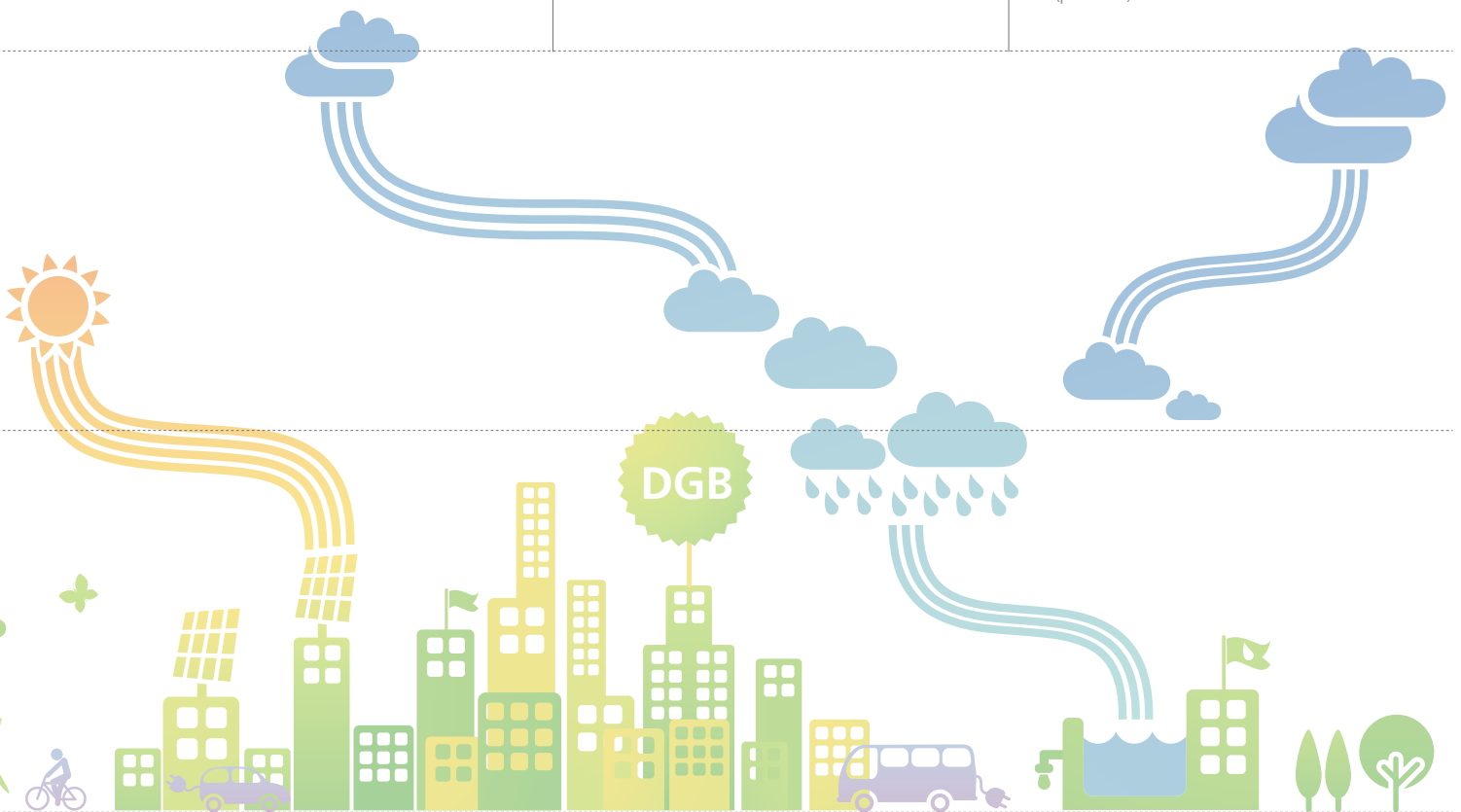
Responsible Management

- Customer Value Creation (p.54~57)
- Employee Value Creation (p.58~60)
- Win-Win Management (p.61)



Environmental Management

- Green Finance (p.64)
- Response to Climate Change (p.65~66)
- Environmental Performance Management (p.67~71)



Internal / Value Creation

- Intensifying competition in the finance industry
- Divergence and conglomeration of finance
- Expansion of responsibility for goods and services
- Environmental influence on goods and services
- Expansion of socially responsible investments (SRI)
- Increasing youth unemployment and non-regular workers
- Decreasing birth rate and population
- Expansion of an aging society

External / Value Creation

- Customer satisfaction activities and providing goods & services information
- Increasing number of customers concerned about health, environment, and society
- Increase of customer demands that are diverse and intensified
- Increasing need for business information gathering
- Consumer protection in advertisements and sales promotion (fair advertising)
- Customer data protection
- Safe financial transactions (personal information disclosure, etc.)

External / Risk Management

- Increasing importance of partner companies' rights and roles
- Participation in economic development of the local community
- Contributions to local education and cultural development
- Generation of local wealth and income (utilization of local workforce and products)
- Investments and support for local development projects
- Promotion of socially responsible activities
- Efforts to improve local healthcare
- Increasing globalization and mutual relevance
- Efforts to mitigate climate change (reduction of energy consumption and utilization of renewable energy)

DGB Financial Group's Stakeholders

Identification and Prioritization of Stakeholders

The DGB Financial Group has utilized 8 standards suggested in ISO 26000 to identify stakeholders. We classified stakeholders into three different groups and organized a stakeholder mapping: stakeholders who influence the performance of the organization, stakeholders who are influenced by the performance of the organization, and stakeholders who have legal, financial, or operational obligations. We also prioritized them according to their level of economic, social and environmental influence on our organization and vice versa, and their level of future influence.

Stakeholder Engagement

For stakeholder engagement, we gathered opinions by conducting interviews and surveys on experts who represent the stakeholder groups with the highest priorities.

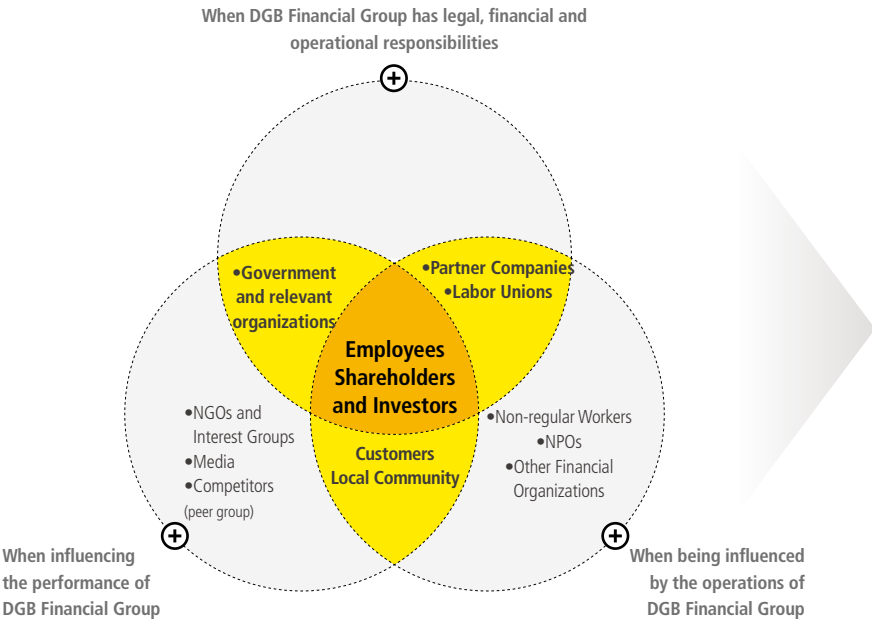
Interviews with Stakeholders

DGB Financial Group has conducted in-depth interviews with the representatives of key stakeholders, including subsidiaries, labor unions, partner companies, NGOs, and corporate and individual customers, to identify their expectations concerning DGB Financial Group. In addition, we have held separate meeting sessions with our partners to solidify our initiative for win-win cooperation.

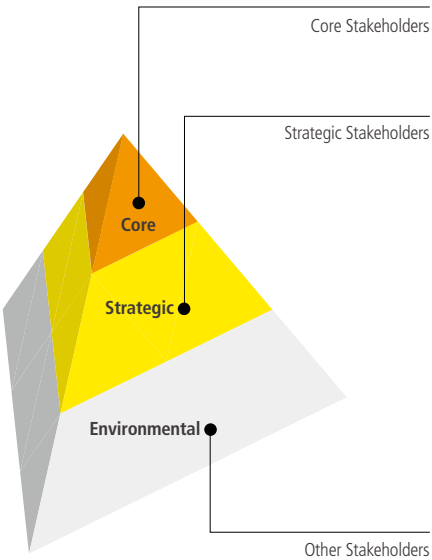
Survey on Stakeholders

We have conducted surveys on stakeholder groups about issues brought to our attention by an environmental analysis and the interviews with stakeholders. The results of the surveys were used to identify their interests and response to DGB Financial Group's sustainability issues.

Stakeholder Mapping

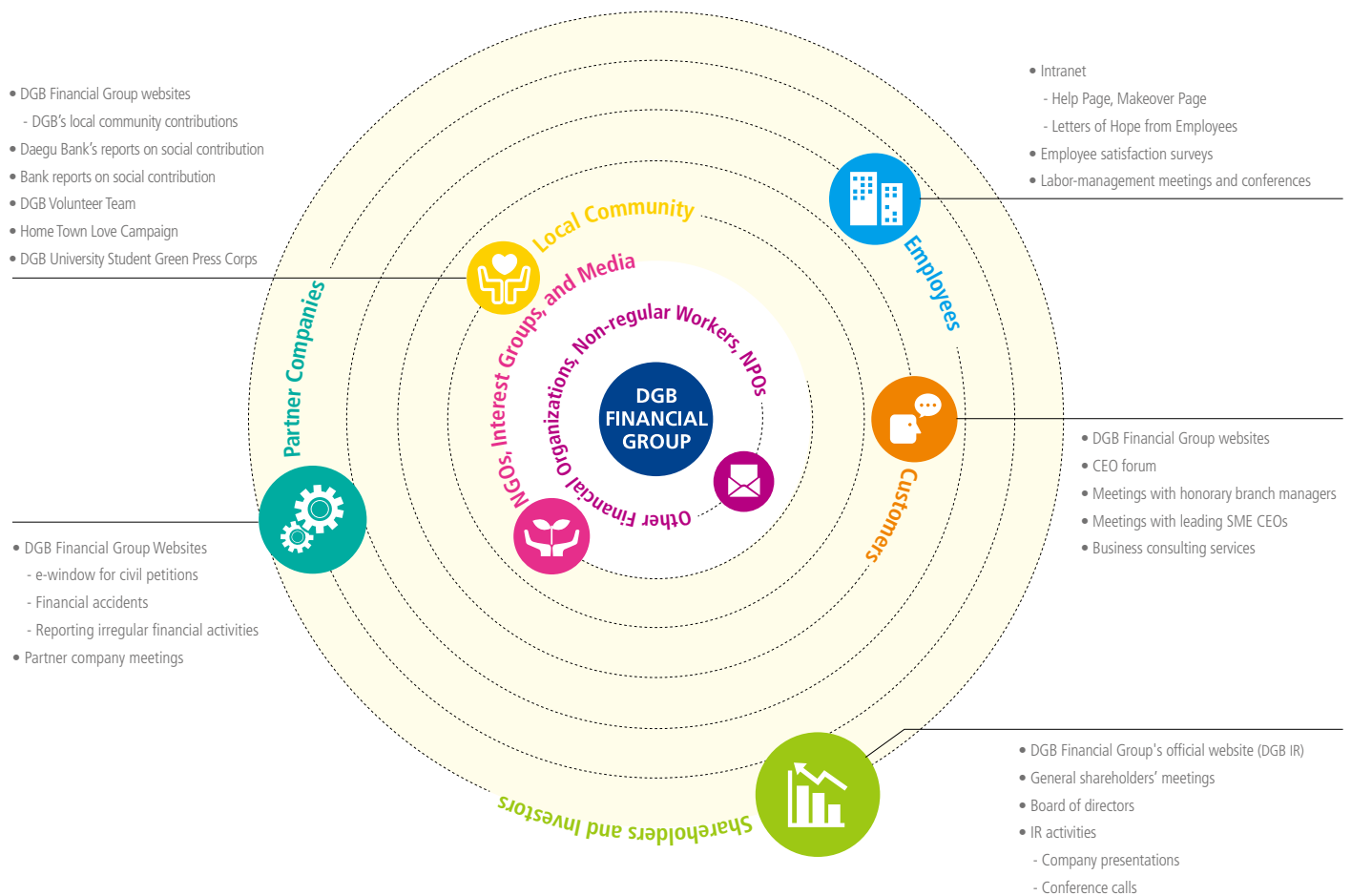


Stakeholder Grouping



DGB Financial Group listens to different stakeholders through the stakeholder engagement process, and has established various communication channels to strengthen our stakeholder-oriented sustainability management.

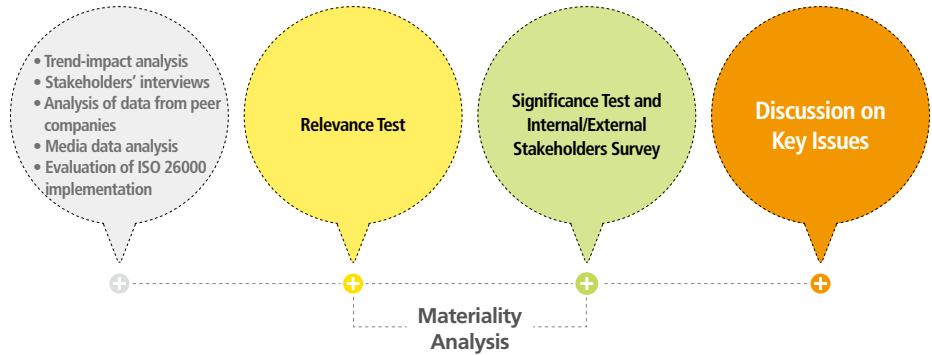
Communication Channels for Stakeholders



Materiality Analysis Process and Results

In order to examine the material issues generated in 2013 and to identify new issues, DGB Financial Group selected key material issues in compliance with the procedures set forth in the GRI Guidelines and ISO 26000 and determined the contents of this report.

Deduction Process for Material Issues



I. Internal and External Environmental Analysis

Internal and external environmental analyses were conducted with the help of stakeholders to search for sustainability issues that should be considered by DGB Financial Group's management when performing its operations, in addition to helping our group recognize its responsibilities to society.

● Media Analysis

Material issues have been gathered by analyzing 407 valid articles published in 2012 in order to analyze DGB Financial Group's sustainability management activities through the media.

● Analysis of Data from in the same line business

The reporting standards set by DGB Financial Group's sustainability management performance reports were comparatively analyzed against the reporting standard

indicators from 8 major financial companies in Korea. The reporting standard indicators that were relatively low according to analysis results were examined and supplemented to the appropriate standard.

● Evaluation of Corporate Social Responsibility Implementation Level (2013)

Using sustainability management standard evaluation indicators from ISO 26000, implementation levels were examined and issues were drawn from weak areas.

II. Materiality Analysis

The materiality analysis was conducted in two stages: a relevance test and a significance test.

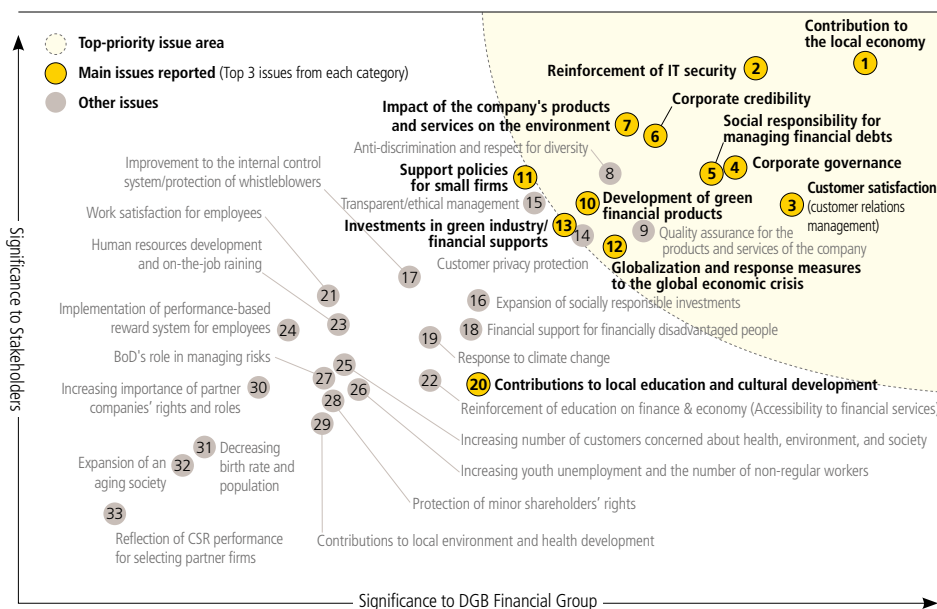
● Relevance Test (ISO 26000 7.3.2.1)

40 trends and influential issues were selected after the issues drawn from the internal and external environmental analyses and interviews with stakeholders passed through a relevance screening.

● Significance Test (ISO 26000 7.3.2.2)

A significance test was conducted with a stakeholder survey, which narrowed the trends and influential issues derived from the relevance test down to 33 material issues

DGB Financial Group's Material Issues



Changes in Material Issues from 2012

2012 → 2013	Rank
Contribution to the local economy (Investments and support for local development projects)	06 → 01
Expansion of socially responsible investments	23 → 06
Impact of the company's products and services on the environment	22 → 07
Anti-discrimination and respect for diversity	30 → 08
Response to climate change	32 → 19
Protection of minor shareholders' rights	31 → 28

Major New Issues in 2013

2013	Rank
Reinforcement of IT security (Prevention of financial transaction-related accidents)	02
Corporate governance	04
Social responsibility for managing financial debts	05
Support policies for small firms	11

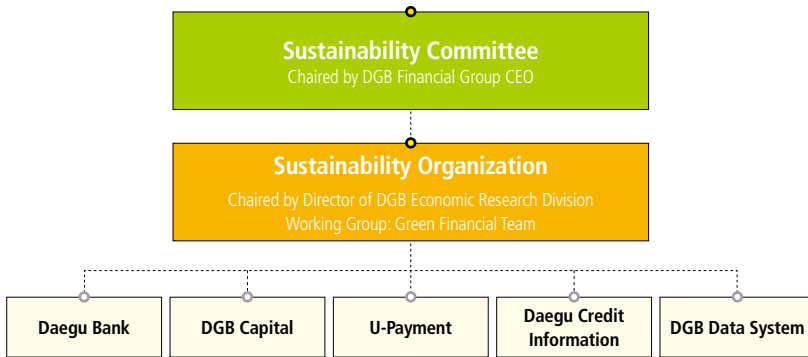
In addition to the 34 material issues reported in the 2011/2012 Sustainability Report after conducting a materiality analysis on our stakeholders, DGB Financial Group has derived additional 33 issues that reflect the feedbacks in regard to the original 34 issues and the issues related to the competitive landscape in the banking industry, along with the issues that are deemed to be significant by the G4 Guideline. The following table categorizes material issues by ranking and the relative importance of these issues by stakeholder group.

Ranking and Relative Importance of Material Issues by Stakeholder Group				
Category	No.	Material Issue	Rank	Reporting Page
 Local Community Involvement and Development	1	Contribution to the local economy (Investments and support for local development projects)	1	30, 31, 32
	2	Support policies for small firms	11	30, 47
	3	Increasing importance of partner companies' rights and roles	30	61
	4	Reflection of CSR performance for selecting partner firms	33	61
	5	Contributions to local education and cultural development	20	33, 44
	6	Contributions to local environment and health development	29	33
	7	Expansion of an aging society	32	36
	8	Decreasing birth rate and population	31	48
	9	Increasing youth unemployment and the number of non-regular workers	26	34
 Sustainable Finance	10	Globalization and response measures to the global economic crisis	12	44, 45
	11	Customer satisfaction (customer relations management)	3	43
	12	Financial support for financially disadvantaged people (Microfinance, etc.)	18	47, 48, 49
	13	Expansion of socially responsible investments	16	45
	14	Social responsibility for managing financial debts	5	44
 Green Management	15	Reinforcement of education on finance & economy (Accessibility to financial services)	22	44
	16	Response to climate change	19	65
	17	Investments in green industry/financial supports	13	64
	18	Impact of the company's products and services on the environment	7	64
	19	Development of green financial products	10	64
 Responsible Management	20	Increasing number of customers concerned about health, environment, and society	25	64
	21	Corporate governance	4	10, 11
	22	BoD's role in managing risks	27	10, 11, 13
	23	Transparent/ethical management	15	56, 57
	24	Quality assurance for the products and services of the company	9	54, 55
	25	Improvement to the internal control system/protection of whistleblowers	17	57
	26	Reinforcement of IT security (Prevention of financial transaction-related accidents)	2	54, 55
	27	Customer privacy protection	14	54, 55
	28	Protection of minor shareholders' rights	28	11
	29	Anti-discrimination and respect for diversity	8	57, 58
	30	Work satisfaction for employees (Great Work Place)	21	59
	31	Human resources development and on-the-job training	23	58
	32	Implementation of performance-based reward system for employees	24	11
	33	Corporate credibility	6	56

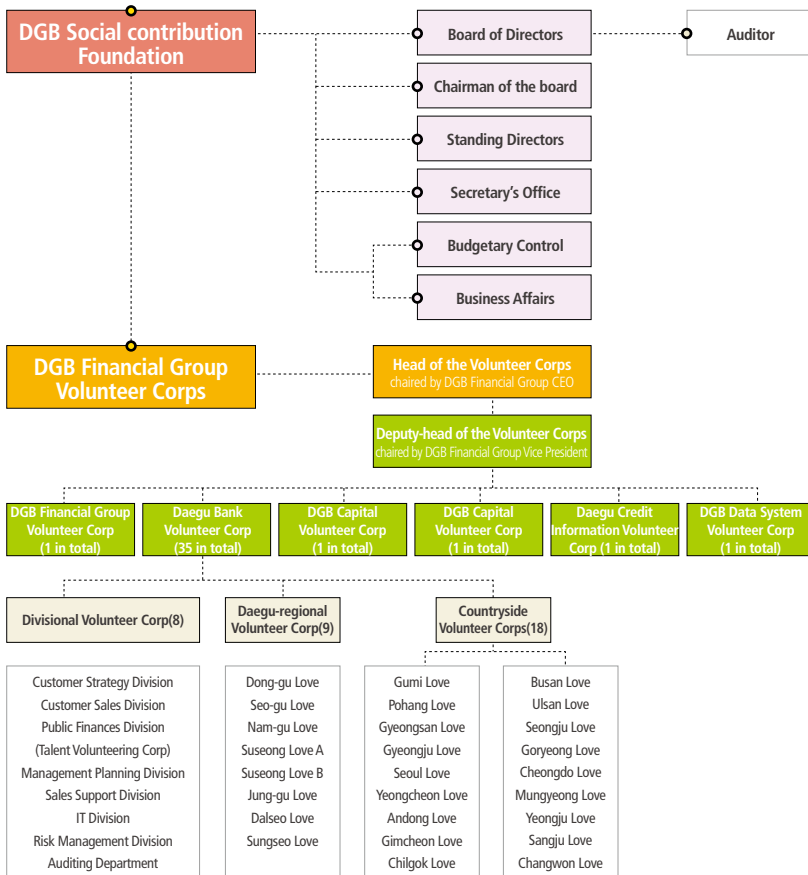
DGB Financial Group's Sustainability Management Implementation System

DGB Financial Group established the Sustainability Committee to promote its sustainability management. It evaluates sustainability management activities and guides banks in practicing integrated and systemic sustainability management strategies. The Sustainability Committee-affiliated Sustainability Organization establishes detailed strategies for different fields, which are then executed as concrete programs by four sub-groups.

Sustainability Management Organization



DGB Social Contribution Foundation



CSR INITIATIVE

Responsibilities Towards Voluntary External Agreements



UN Global Compact

- DGB Financial Group CEO acted as the director of the UNGC Korea Network
- Submitted Communications On Progress



The CEO Water Mandate

CEO Water Mandate

- Reported the status of water resources management, such as recycling rainwater



UNEP Finance Initiative

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

CARBON DISCLOSURE PROJECT

Carbon Disclosure Project

- Participated in the CDP every year since 2007



Climate Disclosure Standards Board

- Participated in the CDSB Korea Working Group Activities in 2012

Financial Initiative



Dow Jones Sustainability Indexes

Listed on the global sustainability management indexes, DJSI (Dow Jones Sustainability Indexes)

- Listed on the DJSI Asia-Pacific for the 3rd consecutive year
- Listed on the DJSI Korea for the 4th consecutive year
- Sold funds for DJSI Korea listed companies



Selected as the top company tackling climate change with the Carbon Disclosure Project (CDP Korea)

- Strengthened response activities to climate change through the CDP since 2009
- Selected as the best company for 4th consecutive year since 2009



FTSE4Good

Listed on Index for socially and ethically responsible companies (FTSE4Good Indexes)

- Listed on the FTSE4Good Korea Index for the 3rd consecutive year since 2011

Survey Results on the Stakeholder's Likelihood of Switching a Financial Service Provider based on Sustainable Management

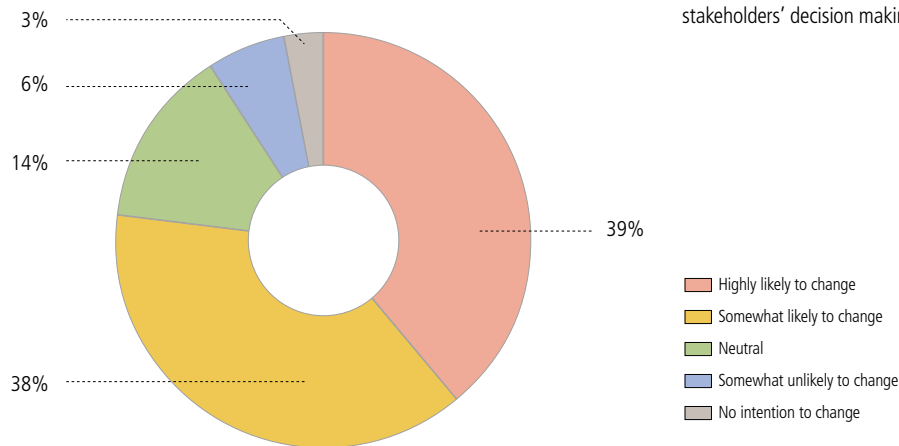
DGB Financial Group's stakeholder survey, conducted in April 2013, consisted of questionnaires that assessed stakeholders' preference for selecting a financial institution based on the level of sustainable management. The survey results demonstrate that our stakeholders tend to prefer a financial institution with excellent sustainable management practices.

Likelihood of switching to a financial institution with excellent sustainable management – under same financial terms

The survey results show that under the same financial transaction terms, 77% of stakeholders will convert their financial institution to the one that excels in sustainable management. The level of sustainable management influences stakeholders' decision making under the same conditions.

Likelihood of switching to a financial institution with excellent sustainable management

(Unit : %)

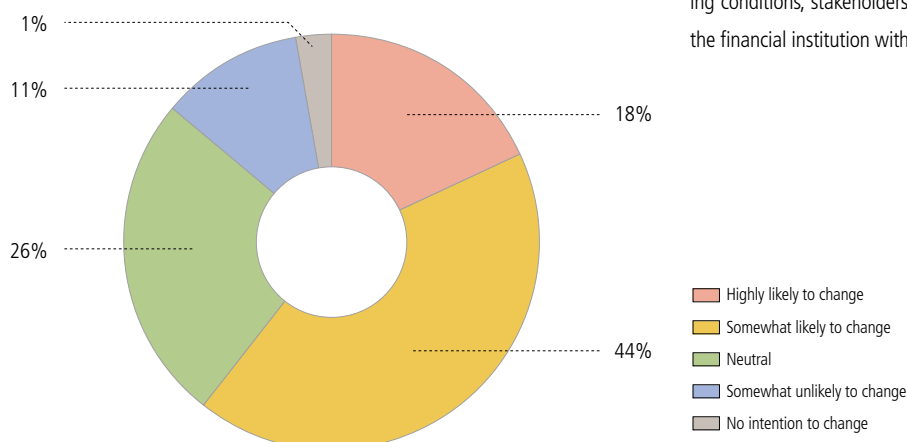


Likelihood of continuing to use a financial institution with excellent sustainable management – under varying financial terms

Under the assumption that varying financial transaction terms were provided, 62% of stakeholders still responded in favor of the financial institution with high level of sustainable management. The result shows that even under varying conditions, stakeholders hold high credibility and are likely to continue to use the financial institution with excellent sustainable management

Likelihood of continuing to use a financial institution with excellent sustainable management

(Unit : %)



LOVE AND SHARE

Local Community Involvement and Development

Which systems have been implemented to contribute to the development of the local economy?

p.36

What solutions does DGB Financial Group deliver to resolve youth unemployment and job creation issues?

p.34

What are the major contribution activities of sharing and coexisting with the local community?

p.35

“

Kang, Yun-gu (Director of DGB Child Welfare Agency)

In pursuing social contribution activities, corporations need to do more than mere sponsorship for show. They need to become genuinely involved in these activities. Understanding this responsibility, the DGB Contribution Foundation established the financial sector's first child welfare agency to fulfill its role as a socially responsible corporation, supporting financially disadvantaged people and contributing to job creation.

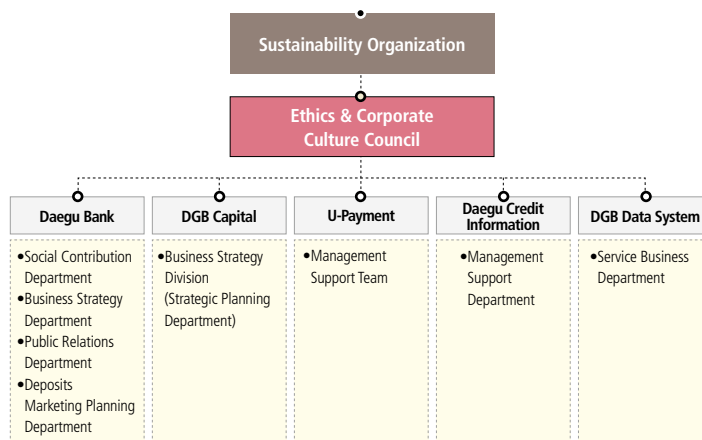
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DISCLOSURE ON MANAGEMENT APPROACH

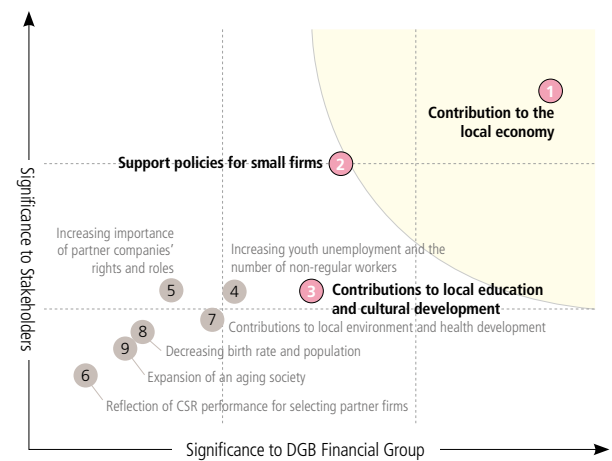
Vision

To contribute to the development of the local community, DGB Financial Group will actively promote its 'Together for Hope' campaign, and continue practicing its management philosophy of sharing. The group aims to become the 'trusted and well-loved financial partner' for the local community.

Implementation Organization



Material Issues



Strategic Direction

- 1. Contribution to the local economy
- 2. Support policies for small firms
- 3. Contributions to local education and cultural development
- 4. Increasing youth unemployment and the number of non-regular workers
- 5. Increasing importance of partner companies' rights and roles
- 6. Reflection of CSR performance for selecting partner firms

Mutual Growth

- 7. Contributions to local environment and health development
- 8. Decreasing birth rate and population
- 9. Expansion of an aging society

Social Contribution

Key Performance Indicators (KPI)

Type	2010	2011	2012	2013(Plan)
Percentage of social contributions out of net profit (%)	8.3	7.8	8.3	8.3
DGB Volunteer Team membership rate (%)	95.1	96.3	96.5	96.7
No. of volunteers (persons)	21,966	22,198	21,578	22,000
Job creation (recruitment of new bankers) (persons)	171	177	179	190
Business consulting service records (companies)	85	82	63	90
Daegu Bank Labor Union's social contributions (KRW in millions)	121	260	217	274
Scholarship Cultural Foundation's scholarship contributions (KRW in millions)	209(427)	213(445)	213(438)	220(450)

Local Economic Development Contributions

Win-win Programs for the Region



DGB Financial Group has been growing along with the local community for the past 46 years with Korea's first regional bank, Daegu Bank, at its core. Recognizing that its sustainable future depends on mutual growth with the local community, the group will continue making multilateral efforts to support the development of the local community.

Partnership between Daegu Bank and National Information Society Agency to Stimulate the Local Economy ①

● In October 2012, Daegu Bank entered into an agreement with the National Information Society Agency (Chairman Kim, Sung-tae) for the revitalization of the local economy and the promotion of social contribution activities in the local community. In collaboration with the National Information Society Agency, which will relocate its headquarters to the Shinseohyuk New Town in Daegu in 2014, the bank plans to take the lead in fulfilling social responsibility as a financial institution by making contributions to the development of the local information industry and improving information delivery services to disadvantaged social groups.



Proclamation Ceremony on SMEs Healing from the Thorn under the Nail ②

● In May 2013 Daegu Bank and about 30 CEOs from SMEs, including the president of the Small and Medium Business Administration's Daegu branch Lee-Sang, hoon, joined at the bank's business room in its headquarters. The participants conducted a 'Proclamation Ceremony on SMEs Healing from the Thorn under the Nail' to dispose business hurdles that plague smaller firms, including unlawful requests for collaterals or loan guarantees by larger firms. As a lasting companion for the local community, Daegu Bank will continue its commitment to the development of local SMEs and the revitalization of the local economy.

Partnership between Daegu Bank and Korea Credit Guarantee Fund to Develop the Local Economy and Promote Social Contribution Activities

● On July 4 2012, Daegu Bank signed an 'Agreement for the Development of the Local Economy and Promotion of Regional Social Contribution Activities' with the Korea Credit Guarantee Fund. This agreement is made to enhance financial transactions between the two companies, which will help financial supports for SMEs in the region and the development of the local economy. The agreement also spells out details for strengthening social contribution activities to disadvantaged social groups of the region. Notably, the two companies also raised special funds in 2009 and 2011 to support SMEs' new businesses.



Partnership between Daegu Bank and Gyeongbuk Credit Guarantee Foundation to Help Small Business Owners in the Gyeongbuk Region ③

● In December 2012, Daegu Bank signed an 'Agreement for Special Fund Raising to Support Small Business Owners' with the Gyeongbuk Credit Guarantee Foundation (Chairmen Kim, Jong-gyu). Through the agreement, Daegu Bank allocated KRW 1 billion, and beneficiary businesses will get support funds up to KRW 1 billion, along with offering prime interest rates. In addition, Daegu Bank and its Gyeongbuk branches will serve as an agency for the Gyeongbuk Credit Guarantee Foundation, addressing loan counseling and applications so that customers can conveniently access these services without visiting the foundation.



Providing KRW 2.6 trillion to Microfinance Funds in Celebration of the Group's 2nd Anniversary ①

● Celebrating the 2nd anniversary of its holding company, DGB Financial Group is planning to provide KRW 2.6 trillion into the microfinance funds for small business owners and local residents. The funds will be raised jointly by Daegu Bank and DGB Capital, and the funded amount is expected to be twice as much as the amount raised in 2012, showing the group's commitment to mutual growth with the local community. In addition to these efforts, the group is also putting utmost efforts to expand social contribution activities for disadvantaged social groups, along with job creation for local youths.

Prime Loan to Support Technology-Driven Venture Enterprises

● For the period of June to September 2012, Daegu Bank offered a prime loan program to support new technology-driven venture enterprises. With limit of KRW 100 billion, the loan is designed to help starting companies' operations and competitiveness. The loan is eligible for those that meet the requirements of – own invention patents or utility model certificates; hold technological certificates or passed official assessment from government-approved agencies; or technology-driven venture companies who lack collateral but less than 7 years have passed since its founding.

Daegu Bank's 'DongGo DongRak Campaign' to Stimulate the Local Economy

● On October 24, 2012, Daegu Bank teamed up with regional small businesses and community groups to co-host the 'DonGo DongRak Campaign'. The term 'DongGo DongRak' is a Korean idiom with definition of sharing one's joys and sorrows. About 200 employees participated in the campaign, handing out information and guide brochures. Major part of the campaign included – purchasing Onnuri gift coupons to help traditional markets; using nearby restaurants; or operating microfinance loan counters at regional branches – which are all contributing to the stimulation of the local economy.

Joint Marketing Partnership to Support Deulangil Restaurant District ②

● In September 2012, Daegu Bank entered into a joint marketing partnership to support the 'Deulangil Restaurant District'. Located in the vicinity of Suseong Pond in Daegu, the district has been selected by the Ministry of Agriculture, Food and Rural Affairs as one of the three best restaurant districts in Korea. During the partnership ceremony, Daegu Bank conducted various event marketing programs, such as offering a special 10% discount rate if Daegu Bank's credit card is used to pay for foods. Through these efforts, Daegu Bank is continuing its pivotal role in supporting the local economy and win-win partnership.



Enhancing Education on Customer Satisfaction (CS)

● In an effort to help spread a customer-oriented culture in the local community, Daegu Bank has been conducting free education on customer service for various local entities, including local enterprises, public institutions, hospitals, militaries, and universities. The education touches on many topics, such as a customer-oriented mindset, service call etiquettes, image-making skills, business manners, customer complaint response tips, and work ethics and communications that are designed to enhance the competitiveness of local enterprises. 3,253 participants from 42 entities benefited from the education in 2012, with total participants amounting to 14,270 from 125 entities since the education's initial launching in 2010.

Customer Satisfaction (CS) Training

Type	2010	2011	2012	2013(Plan)
Visiting Lectures (sessions)	136	173	177	180
Off-the-job Training (sessions)	11	20	28	30
Outside Educational Courses (sessions) (no. of participating employees)	33 (2,153)	50 (8,864)	42 (3,253)	45 (3,500)
Total	180	243	247	255

CEO Forum, a Place for Business Information Exchange ①

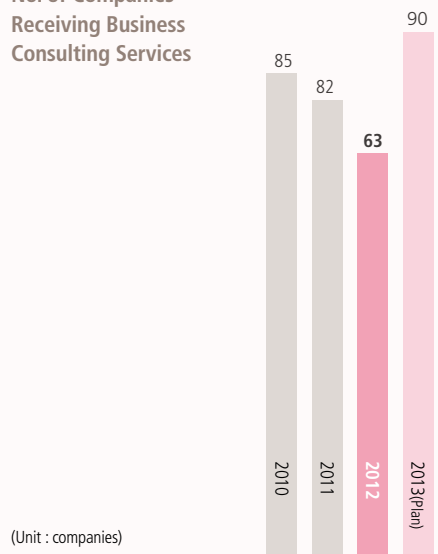
● DGB Financial Group has been holding an annual CEO Forum for the CEOs in the Daegu, Gumi, Gimcheon, and Pohang area to help strengthen the competitiveness of local companies. The group invites prominent instructors active in their respective fields, such as marketing, human resources, planning, strategy, and domestic & foreign financial environment, in order to provide CEOs with crucial knowledge and information. Since its beginning in 1995, the CEO Forum was held more than 7 times on an annual basis and has served approximately 1,000 CEOs to this day. It is becoming the place for the exchange of opinions from representative CEOs in the region.



Business Consulting Services ②

● Leveraging on its extensive know-how accumulated for the last 45 years, Daegu Bank has been providing consulting services for local enterprises to help them enhance their competitiveness. The consulting covers a variety of topics, such as personnel organization, management strategies, marketing, production management, green business, corporate innovation, employee training, starting a business, and marketing of socially responsible enterprises. By doing so, the bank is not only achieving win-win growth, but also is contributing to the competitiveness of local companies in domestic and overseas markets. From the period between 2006 and 2012, the bank has offered management consulting services to a total of 469 companies. For 2013, the bank plans to provide consulting services to 90 companies, of which 20 companies will benefit from its free consulting service.

No. of Companies Receiving Business Consulting Services



Sharing Management Information with Regional Enterprises

● The DGB Economic Research Institute shares its insights on today's rapidly changing business landscape with partner companies by sharing access to its 'DGB Economic Review' and 'CEO Information'. The 'DGB Economic Review' provides comprehensive analysis and outlooks on the local economy, whereas the 'CEO Information' offers timely and up-to-date information on recent issues. They are all contributing to the competitiveness of our partners.



Supports for Educational, Cultural, Artistic, and Sports Programs



DGB Total-Care (With-U) Program for the Children Raised by Grandparents

● Since June 2012, the DGB Social Contribution Foundation has been operating a care program for the children raised by their grandparents, 'DGB Total-Care Program', providing assistance in various aspects of living, education, health, and culture. 133 beneficiary children were selected from 107 families and formed a partnership with the foundation. Since the partnership, DGB Financial Group's employees, 133 in total, are serving as mentors for the children. The major activities of the program include – giving a monthly allowance; helping children with education; going to cultural events together, sponsoring scholarships; and supporting a periodic medical checkup by entering into a MOU with a local hospital.

'Geundaero Gapsi Day' to Support the Modern-Alley-Tour in Daegu ①

● Celebrating its 45th anniversary, Daegu Bank hosted the 'Geundaero Gapsi Day Event' in October 2012 to support the 'Modern-Alley-Tour Program' organized by the Jung-gu Office of Daegu. The modern alleys of the city have become a representative tourist attraction, through which modern history and culture are introduced. About 1,000 employees of Daegu Bank wholeheartedly participated in support of the event, showing their community spirit and pride as part of Daegu, and making contributions to the promotion of local tourism.

Business Partnership to Support the Healthy Growth of Local Youth

● In April 2013, the DGB Social Contribution Foundation's preliminary social organization, DGB Child Welfare Agency, signed a business agreement with the Daegu Youth Service Center (Chairman Kim Yeon-su) to support the healthy growth of local adolescents and youth. Through the agreement, the two institutions will collaborate on providing educational, advisory, and material supports for local youth to ensure their healthy growth.

Launching Ceremony of the With-You Education Tutor Volunteer Corp ②

● In March 2013, the DGB Social Contribution Foundation organized the launching ceremony of the 'With-You Education Tutor Volunteer Corps' to provide educational supports for children and youth. The volunteer corps is led by 40 university students from local universities, who are taking on the role of mentors for the children of the neighbors in need. 30 students with poor educational backgrounds were selected to be the mentees, and the mentors are helping them in their studies or attending cultural events together. Looking ahead, the DGB Social Contribution Foundation will make continuous and systematic improvements to the program, with the mentors planning to visit the mentees' houses to help them continue learning.

Donations to Support the Female North Korean Defectors' Cultural & Arts Center

● In April 2013, the DGB Social Contribution Foundation donated support funds of KRW 10 million to the SaeamNoori Unification Art Center (Director Bang, So-yeon) in Dalseo-gu, Daegu. A cultural & arts center for the female North Korean defectors living in the Gyeongbuk region, the center's members are consisting of 9 female North Korean refugees who regularly perform free performances for the elderly and disabled people in the local community. The DGB Social Contribution Foundation's support funds will assist them in settling down and making an independent living in Korea.

Supporting Athletic Competition for Foreign Workers

● In May 2013, Daegu Bank participated in the '2013 Colorful Foreign Workers Athletic Competition', held at Keimyung University in Daegu and hosted by the Daegu Support Center for Foreign Workers (Head of the Center, Kim Kyung-jo). Daegu Bank made numerous contributions for the event, such as assisting foreign works with opening bank accounts and sending overseas remittance; handing out free popcorns, and sponsoring prizes for the event, such as bicycles and household goods. Approximately 800 foreign works from 12 countries, including China, the Philippines, and Vietnam, participated in the competition and showed heritage and culture of their countries through a talent show. Daegu Bank's other major services for foreign works include: overseas remittance service on Sunday; offering prime exchange rates; and a full exemption on remittance charges.

Responses to Youth Unemployment and Non-Regular Worker Issues



In response to the rising youth unemployment and the number of non-regular workers in the local community, DGB Financial Group is engaging in various activities that help resolve these issues. Major activities include the introduction of youth employment academic programs, a job-experience program for university students, and the operation of DGB Employment Success Supporters. By doing so, the group continues to reinforce its social responsibility of promoting mutual growth with the local community.

Recruitment of More New Bankers ①

● In April 2013, Daegu Bank invited applicants for an official job interview. A total of 95 new bankers (grade 7) were hired, consisting of 23 high school graduates and 72 university graduates. Having hired a total of 155 high school graduates for the period between the post-IMF crisis of 2003 and 2012, Daegu Bank is assuming the leading role in eliminating the job discrimination based on education level. The bank has also hired a total of 1,019 university graduates since 2003, and supported local youth employment efforts, thus contributing to the revitalization of the local economy.

DGB University Student PR Corps and DGB University Student Green Press Corps ②

● In 2013, DGB Financial Group recruited 30 university students for the 4th 'DGB University Student PR Corps' and 8 university students for the 'DGB University Student Green Press Corps'. Since 2010, DGB Financial Group has been operating the two organizations to encourage the university students in the Gyeongbuk region to be involved in the regional environmental activities and volunteering programs, along with bolstering positive awareness on its financial products. The members are awarded with monthly activity expenses, and will get special preference in hiring to DGB Financial Group.

DGB Employment Success Supporters ③

● In September 2012, Daegu Bank and the 7 universities in the Gyeongbuk region, including Kyungpook National University, teamed up to support employment opportunities for local university students, by signing an 'Agreement for Joint Partnership to Pro-

mote the Employment of University Students'. As part of the agreement, Daegu Bank has established the 'DGB Employment Success Supporters', the 1st supporters of which are comprised of 81 employees from the bank. They are performing various activities to increase university students' employment rate, such as – conducting special lectures on applying for jobs; holding job briefing sessions and employment study groups; supporting circle activities; and organizing meetings with employment officers from universities. Daegu Bank also gives special incentives and rewards to outstanding mentors and the faculty members from the partnered universities that collaborate well with the bank.

Internship Programs and Youth Employment Academy

● DGB Financial Group has been conducting internship programs every year since 2010 to support youth employment of the local community, such as the 'Key-Man Training Course' and the 'Foreign Trade Training Course'. These programs offer tailored educational opportunities for university students.

Job Experience Program for University Students

● In collaboration with local universities, DGB Financial Group has been operating a 'Job Experience Program for University Students' since 2007. The 6-month program offers university students with the opportunity to have a hands-on experience of working in a bank, while earning 15 course credits towards their graduation. The group is giving them a chance to explore career paths and develop work experience to overcome the difficulties of youth employment.

Jobs Created in the Local Community

Type	2010	2011	2012
No. of interns recruited	150	50	50
: No. of persons selected into the Youth Employment Academy	-	120	60
Key-Man Training Course	-	-	40
Foreign Trade Training Course	-	-	-

DGB Financial Group is leading various neighborly love campaigns to promote social sharing and mutual growth with the local community.

Donating the 'DGB Van of Love' ①

● In December 2012, the DGB Social Contribution Foundation donated a van to the Daegu Blind Union (Chairman Ryu Sam-ki) to help blind citizens reaching their destination. DGB Financial Group's employees contributed 1% of their salaries every month to raise the funds for purchasing the van. It is to be operated by the affiliated support center of the Daegu Blind Union, helping blind people in going to and from their workplace or hospital.

DGB Financial Group Women's Association - Save the Newborn Hat Knitting Campaign ②

● In March 2013, the DGB Financial Group Women's Association participated in the 'Save the Newborn Hat Knitting Campaign', donating about 150 knitted hats through Save the Children's Daegu branch. The campaign is a global movement to provide knitted hats for the newborns in Africa, Bangladesh, and those countries with large daily temperature range. In addition, the association in April donated KRW 20 million to 42 middle and high school students from neighboring 8 provinces, including Pohang, Gyeongju, and Gyeongsan. Founded in 1975, the association today has grown to include about 300 active members, who are actively engaged in monthly volunteer services to make contributions to the group's management of sharing.

Sharing Coal of Love Campaign

● In November 2012, DGB Financial Group held its 'Sharing Coal of Love Campaign' for the neighbors of Bisan-dong, Seo-gu, in Daegu. The campaign was joined by the volunteers from the DGB Financial Group Volunteer Corps, the DGB University Student PR Corps, the DGB University Student Green Press Corps, and the Coal Briquettes for Neighbors in Korea Association. A total of about 120,000 coal briquettes, worth KRW 60 million, were given away to 600 households by the end of the year. Since the campaign's initial launching in 2006, nearly 1 million coal briquettes have been given away to disadvantaged social groups so that they would have a warm winter.

Support and Donations for Inmates in Correctional Facility

● Since July 2012, the DGB Social Contribution Foundation has been offering routine support and donations to the inmates of the 2nd correctional facility of the Korea Correctional Service, located in the northern part of the Gyeongbuk province. The foundation's donations include – winter underwear to keep inmates warm; cold water bottles to stay cool in hot summer days; a Samgyetang giveaway campaign; and sponsoring arts & cultural activities. Going forward, the foundation will continue its supporting activities for elevating the general welfare of inmates.



Volunteer Organizations

DGB Social Contribution Foundation

● In September 2011, DGB Financial Group established the DGB Social Contribution Foundation that covers the operations of DGB Volunteer Team, DGB Scholarship Foundation, as well as the establishment of culture-sports-arts and social organizations. Through the establishment, DGB Financial Group is able to perform various activities that strengthen its communication channels with the local community.

DGB Financial Group Volunteer Corps ①

● Since March 2012, DGB Financial Group has been operating a volunteering corps, named the DGB Financial Group Volunteer Corps, through the joint efforts of its 5 subsidiaries – Daegu Bank, DGB Capital, U-Payment, Daegu Credit Information, and DGB Data System. As of 2012, the volunteer corps is comprised of 40 sub-volunteer groups, 35 of which are operated by Daegu Bank. 96.5% of employees are lending their helping hands at the moment.

Bluebird Dream Center for Children ②

● In February 2012, the DGB Social Contribution Foundation established a preliminary social organization, the DGB Child Welfare Agency, to help job creation among youth. The agency operates the 'Bluebird Dream Center for Children', the first welfare facility for children and youths founded by a financial institution in Korea. The center operates day/night care programs for children from disadvantaged social groups, while offering study guidance and personality education. Having various facilities such as a library, cinema, and gym, as well as professional instructors and social workers, the center has become a safe and beneficial welfare facility for children.



DGB Social Contribution Foundation's Activities by Category in 2012

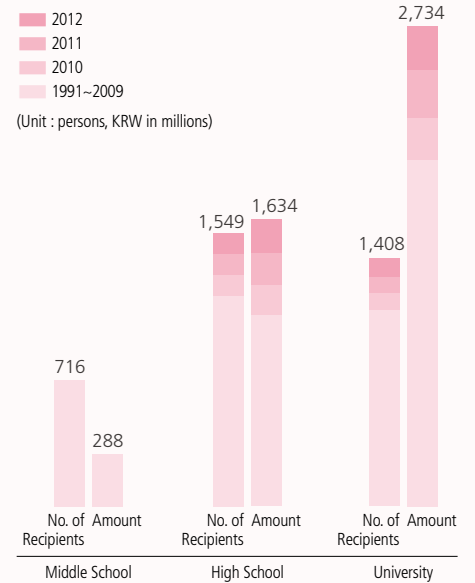
Category	Main Programs
Society	<ul style="list-style-type: none"> Sponsoring programs for inmates, donating charity fund for the poor Love Sharing Coal Donation Event DongGo DongRak house Maintenance Project Neighborhoodly love campaign on Family Month Visiting/Sponsoring welfare facilities on Chuseok Assisting hydrofluoric acid gas leak victims in Gumi Making Kimchi with Love Campaign Youth Dream Festival Love campaign for veteran families Children's Drawing Contest and Women's Essay Contest
Children/Adolescents	<ul style="list-style-type: none"> Total-Care(With-U) for those raising grandchildren on their own DGB Youth Volunteer Group Hope Sharing School's summer school program Children's Day events
Support for People with Disabilities	<ul style="list-style-type: none"> Vehicle donation for disabled people Supporting welfare facilities for disabled
Multicultural Families	<ul style="list-style-type: none"> Sponsoring the 'Rainbow World Newspaper' for multicultural community Supporting athletic competitions for foreign workers
Cultural Events	<ul style="list-style-type: none"> Sponsoring the discovery of cultural assets Sponsoring Family Love Festivals
Support for Senior Citizens	<ul style="list-style-type: none"> Establishing the Bluebird Senior Happy Workplace Donation of Onnuri gift coupons to nursing homes Samgyetang sharing campaign Free meals volunteering Longevity photo shoots for seniors
Support for Athletic Events	<ul style="list-style-type: none"> Professional soccer/baseball free invitation
Environment	<ul style="list-style-type: none"> Creation of the DGB Anti-desertification Forest in Mongolia Setting up forest fire warning banners
Others	<ul style="list-style-type: none"> Founding a preliminary social organization (DGB Child Welfare Agency) Establishing the Bluebird Dream Center for Children

Daegu Bank's Social Contribution Activities by Category in 2012

Category	Major Programs	Contribution Amount (KRW in millions)	No. of Volunteers (Persons)
Local Community- Public Interest	<ul style="list-style-type: none"> •Operation of the DGB Financial Group Volunteer Corps •'Making Kimchi with Love' and 'Free Coal Donation' campaigns •Longevity Photo Shoots for Seniors 	11,613 (1,906)	12,250 (100)
Academic- Education	<ul style="list-style-type: none"> •Daegu Bank Scholarship Cultural Foundation •DGB Dokdo Love Golden Bell Quiz •DGB Financial Economic Education Agency 	3,035 (15)	323 (5)
Environment	<ul style="list-style-type: none"> •Operation of the DGB Cyber Green Branch •Planting trees on Arbor day 	7(5)	7,287
Culture · Sports · Arts	<ul style="list-style-type: none"> •Professional soccer/baseball free invitation days •Cheering for National Sports Festival 	4,726	1,823
Global Social Contribution	<ul style="list-style-type: none"> •Delivering disaster relief aid funds to the victims of heavy rains in Philippines 	61(6)	40(40)
Micro Credit	<ul style="list-style-type: none"> •Dormant Savings and Smile Finance •DGB Seed for Hope Loan try-again 	5,841	
Total		25,283 (1,932)	21,723 (145)

※The Numbers enclosed in brackets () are the contributions made by DGB Financial Group

Scholarship Cultural Foundation's Scholarship Contributions



Daegu Bank Labor Union's Social Contribution Activities

Daegu Bank Labor Union's Contributions to the Children of Disadvantaged Social Groups

On June 3, 2013, the Daegu Bank Labor Union (Leader Kim Gi-man) donated KRW 60 million to the Daegu regional branch of the 'Green Umbrella Children's Foundation'. The funds will be used to provide hands-on foreign cultural experiences for the children from low-income families; for fostering gifted children; and for providing emergency aids to help financially challenged families in the region. Other contribution activities include, providing foreign cultural experiences to the children of families without parents; helping those children with incurable diseases; and support for scholarship funds. In doing so, the labor union is fulfilling its social responsibility as the representative labor union in the local business industry.

Daegu Bank Labor Union's Social Contribution Activities (KRW in millions)

Type of Activities	2010	2011	2012	2013.6
<ul style="list-style-type: none"> •Hands-on foreign cultural experiences for children of families without parents •Helping children with incurable diseases •Fostering gifted children •Donating books and supplies to regional child care center •Raising funds for child abuse prevention programs •Support for scholarship funds •Sponsoring winners from the National Skills Competition (cooking category) •Support for heating & school uniform expenses •Distribution of free cabbages for Kimchi making 	121	260	217	137



금



Financial sector's first **'DGB Cyber Dokdo Branch'** launched to bring the Dokdo islets into the heart of the Korean people!

Having launched the financial industry's first Cyber Dokdo Branch (dokdo.dgb.co.kr) in 2001, DGB Financial Group has continued conducting many activities to protect the Dokdo islets. The group's patriotic efforts are being recognized nationwide, garnering interests and support from the nation's people. As a socially responsible financial institution, the group will continue its contributions to the protection of Korea's sovereignty over Dokdo.



Type	Main Activities	Contributions (KRW in millions)
Dokdo Projects (2001~2012)	<ul style="list-style-type: none">• Sponsorship for the establishment of Dokdo Museum• Revival of Dokdo's indigenous abalone industry• Care package delivery for Dokdo Guards• Dokdo visit event for the customers with accounts• Essays on love for Dokdo• Ulleung-do's Seom-mal Nari Restoration Campaign	1,839

A Trip to the Beautiful Island, Ulleung-do, and the Even More Beautiful islets, Dokdo



As a representative of the Green Press Corps, I had an opportunity to go to Dokdo with the 12th Dokdo Love Visiting Group. This trip was my first time visiting both Ulleung-do and Dokdo, so I was very excited, full of expectation and hope to go to the places I had never been before.

On the first day, we traveled from Pohang to Ulleung-do, a three hours trip. The members of the visiting group were a bit worried about getting sea sickness, but it turned out that we were all fine, and had a great conversation together. Our journey on Ulleung-do started out at Dodong Harbor. We had a delicious puffer fish stew for lunch, then headed

out for a round-trip sightseeing tour of the island. Every moment of the trip was filled with breathtaking sights, as we traveled past the Geobuk Bawi (Turtle Rock), the Taeha Red Clay Cave, and the shore walkway. While listening to the introduction of the island from our cheerful tour guide, we soon arrived at the famous Yerimwon. It is the island's only botanical garden and also Korea's first inscription sculpture park, full of indigenous plants and trees, and sparsely located statues here and there. Then, our trip headed to the Seom-mal Nari situated in the inside of the Nari Basin. The members of the visiting group come to the place every year to remove weeds so that the indigenous plants have room to grow. It was a meaningful activity to end our first day.

On the second day, we headed to Sadong Harbor to take a cruise to Dokdo, to donate our care packages to the Dokdo Guards. About a two and half hours passed on the cruise when we could see the beautiful scenery of the Dokdo islets through the window. We were only given a permission for a 30 minutes stay on the islets, so it was a literally a battle against

time. Our trip on the islets came to an end after we took a group photo and finished a release event for abalones indigenous to Dokdo. Although the time was very limited, looking back, we realized what a great time we had. The trip deeply touched my heart, and I was proud to be on our country's land, Dokdo. On the last day, we visited the Dokdo Museum, and once again were reminded that 'Dokdo is Korean Land'. After that, we took a cable car to the Dokdo Observatory and enjoyed the beautiful scenery of the islets. Then we had a lunch and walked along the Haengnam Coastal Walk, and enjoyed the spectacular views of natural harmony between the coastal cliffs, the enchanting emerald-green sea, and the beautiful sky. I took some pictures, but it was too bad that my camera couldn't capture the beauty of the scenery.

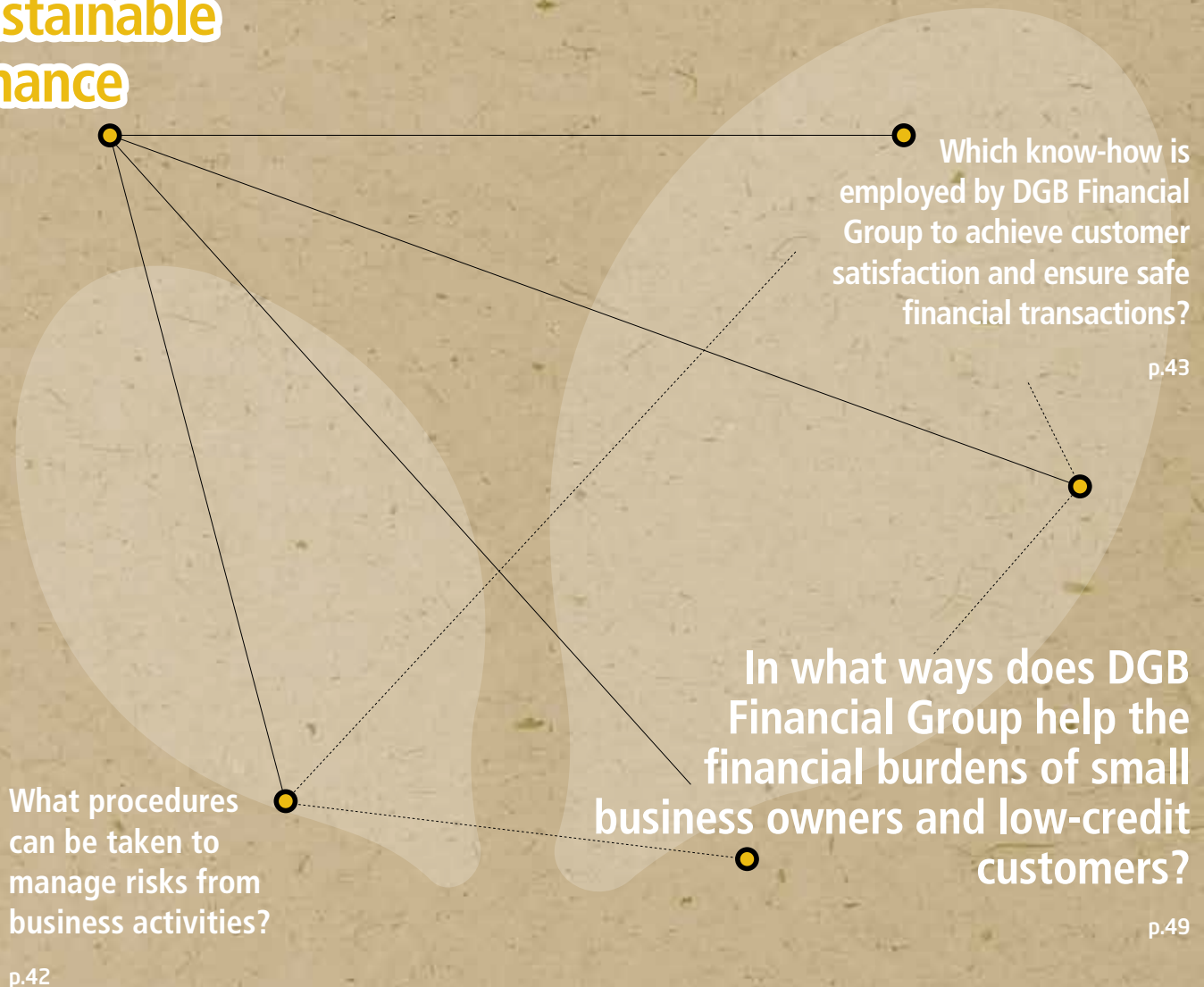
After our official trip came to an end, we took a cruise back to Pohang. It was a short trip and I missed the islets a lot, but again I was very proud to visit our country's beautiful lands, Ulleung-do and Dokdo. It was also a healing trip for me and the most meaningful trip I had in my life. Thank you.

**Kim, Se-hwan, a member of the 4th DGB
University Student Green Press Corps**



SUSTAINABLE FINANCE

Sustainable Finance



“

Lee, Hyeon-Jeong (Manager of Daegu Bank's Product Development Team)

Social finance, often called sustainable finance, is gaining momentum in society today as a proactive approach for solving social challenges. I believe that all financial institutions should devise financial services that stimulate local economy and foster local industries by investing in worthy causes. DGB Financial Group has also made many efforts into these causes, offering products and services that contribute positively to sustainable development. Now is the time to upgrade our financial products a notch higher. DGB Financial Group needs its own unique sustainable finance strategies, as well as excellent customer and risk management processes to attain sustainable performance.

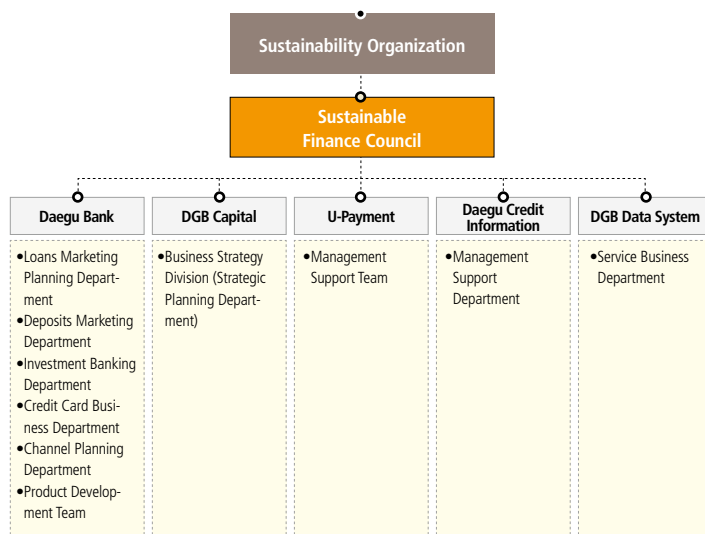
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DISCLOSURE ON MANAGEMENT APPROACH

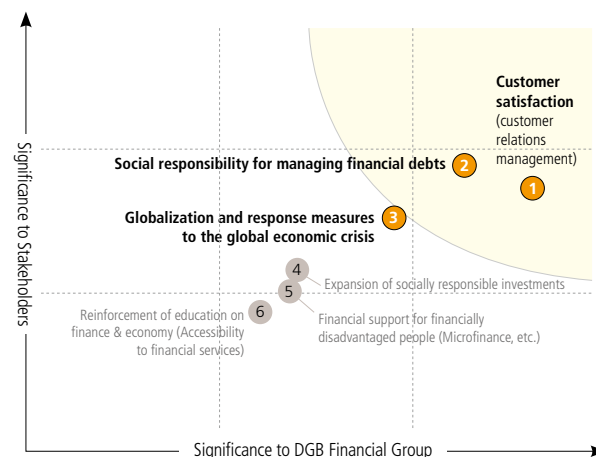
Vision

DGB Financial Group is committed to providing comprehensive financial services that reflect social value. The group strives to develop and make continuous improvements to its financial products in order to contribute to the revitalization of the local economy and the development of the local industry.

Implementation Organization



Material Issues



Strategic Direction

1. Customer satisfaction (customer relations management)
2. Social responsibility for managing financial debts
3. Globalization and response measures to the global economic crisis
4. Expansion of socially responsible investments
5. Financial support for financially disadvantaged people (Microfinance, etc.)
6. Reinforcement of education on finance & economy (Accessibility to financial services)

Sustainable Finance

Fair Finance

Key Performance Indicators (KPI)

Type	2010	2011	2012	2013(Plan)
Deposits (M/S in Daegu/Gyeongbuk) (%)	34.3	34.8	35.1	36.0
Loans (M/S in Daegu/Gyeongbuk) (%)	29.0	29.4	29.4	30.0
SME Loans (Ratio) (KRW billion)	11,499.3/63.4%	11,582.4/62.4%	13,404.7/61%	15,604.7/61.5%
SRI Products Sales Amount (KRW billion)	8.806	9.62	11.807	13
BIS Capital Adequacy Ratio (%)	14.76	14.18	14.62	14.00
Financial Support for Female Business Owners (no. of companies receiving support/amount in KRW billion)	13/3.5	17/6.5	23/7.9	30/9.5
Customer Satisfaction (score)	91	92	93	93
Provision of financial education (no. of companies receiving education/no. of beneficiary persons)	33/2,153	50/8,864	42/3,253	45/3,500
Financial Supervisory Service's Civil Complaint Assessment Rating	Level 1	Level 1	Level 1	Level 1

Sustainable Performance Creation

Risk Management



DGB Financial Group classifies the risks that can arise during the course of management activities into five categories of: credit, interest rate, operational, liquidity, and market.

Risk Management Philosophy

DGB Financial Group’s risk management philosophy is to ‘maintain a balance between risks and profits in all business matters to achieve sustainable growth, while setting the group’s operational risk boundaries within its risk appetite’.

Risk Management Principle

In accordance with the group’s risk management principle, holding company’s supervisory authority should have a check and balance system in overseeing the subsidiaries’ risk management operations.

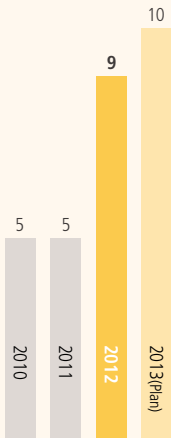
Risk Management Organization



Major Agendas from 2012 Risk Management Council Meetings

- Liquidity risk management plan for 2012 and report on the status of the overall risk management process
- Plan for managing interest rate and liquidity related risks following the issuance of subordinated bonds
- Application of credit risk factors for 2012
- Report on the results of the credit risk management system redevelopment contract
- Changes made to the risk tolerance limit
- Changes made to the credit lines of affiliates
- Proposals on the reconstruction of ALM System and establishment of Basel3 Liquidity System
- Proposals on the reconstruction of Early Warning Model

No. of Risk Management Committee Meetings



(Unit : sessions)

Employee Risk Management Training

DGB Financial Group periodically conducts training session for all employees as a preemptive measure to cope with changing business environment and also as part of efforts to raise the employees’ awareness on the risks that the group confronts. The group also plays a pivotal role in cooperating with its subsidiaries to discuss risk hedging options.

Customer Satisfaction

In an effort ensure a safe financial environment and enhance satisfaction, DGB Financial Group has established and is operating a department on financial consumer protection.

Enhancing Customer Satisfaction (CS)

Recognizing that customer satisfaction is the best sales strategy, Daegu Bank is putting firm efforts to improve customer satisfaction, on top of the improvements made to its financial services. Accordingly, the bank has chosen its CS vision to be a 'Service Leading Company', with a CS slogan of 'Customer Love, Community Love, and Daegu Bank Love'. In addition, the bank's recent 'Hi-CS Campaign' is a smile corporate culture campaign, encouraging employees to greet customers with a smile and provide high-quality services.

Strengthening Customer Satisfaction Management

Since January 2013, Daegu Bank has established and is operating the Emotional Marketing Department to deliver a high level of customer delight from its differentiated financial services. The department is responsible for improving customer policies and systems on customer satisfaction, as well as spreading sales skills to regional branches. Note to mention, the bank has also introduced a 'Sales Dream Program' (SDP), an on-site coaching program designed to enhance the sales skill and teamwork of its sales force.

Implementation of Ae-In Marketing ①

As part of its emotional management for achieving customer satisfaction, Daegu Bank, in 2013, presented a new marketing catch phrase, 'Ae-In Marketing'. Literally meaning a loved one marketing, the bank is encouraging its employees to treat customers as if they treat their loved ones, in order to enhance communications and increase customers' satisfaction. To spread the campaign throughout its organization, the bank has distributed posters to its entire branch networks and given away the campaign's logos to partner companies.

The Only Top-Rating Banking Institution in the Civil Compliant Assessment Rating for the 7th Consecutive Year

Daegu Bank was the only bank in Korea that has received the Level 1 rating for the 7th consecutive year in the Civil Compliant Assessment Rating, conducted by the Financial Supervisory Service (FSS). The Civil Compliant Assessment Rating was started in 2002 by the FSS to encourage financial companies to prevent complaints voluntarily. The bank was also selected as an exemplary company for reducing civil complaints on the '1st Civil Complaints Inspection Day', hosted by the FSS in May 2013.



Civil Complaint Assessment Rating				
Type	2006~2010	2011	2012	2013(Plan)
Civil Complaint Assessment Rating	Level 1	Level 1	Level 1	Level 1

VOC Handling (cases)			
Type	2010	2011	2012
Total	850	1,106	1,703
Complaints	153	197	83
Issues	96	292	348
Compliments	367	408	509
Others	234	209	763

Social Responsibility for Managing Financial Debts

Improving Financial Accessibility

● DGB Financial Group is committed to ensuring its accessibility to all customers. Accordingly, the group has been making improvements to the relevant policies, while coordinating efforts to develop new products and strengthen its financial education. In particular, the group has increased accessibility for small business owners and financially neglected groups by offering various products, such as loans, that help their management bottlenecks.

Enhancement of Financial & Economic Education

Cultivation of Professional Instructors

● In a bid to enhance financial & economic education for the local community, Daegu Bank has internally hired its employees and is operating professional instructors – 27 ‘Professional Instructors on Youth Financial Education’ and 6 ‘Professional Instructors on Investment Techniques’. While fulfilling their duty at branches, the instructors also conduct financial education when there are request from outside organizations, such as partner companies, schools, government offices, or welfare facilities. For those instructors who perform excellently in their duty, Daegu Bank awards an opportunity to enroll in the professional instructor training courses and relevant workshops. In addition, in accordance with its ‘Internal Standards on the Operation of Instructor Program’, Daegu Bank awards additional training points to the instructors and manages their career as instructors and internal faculty members. Going forward, Daegu Bank will continue to reinforce these programs to meet the growing needs for financial education, along with enhancing its competitiveness.

Globalization and Response measures to the Global Economic Crisis

Enhancing the Synergy among Subsidiaries

● To cope with the lingering difficulties in today’s rapidly changing financial environment, DGB Financial Group is continuing its endeavors to strengthen synergy among the subsidiaries. For the further expansion of synergy, the group has enacted and implemented relevant process guidelines, manuals, and new KPIs, in addition to introducing consignment fees, which all contributed greatly to the group’s profits. In

DGB Financial plays a critical role in creating sound financial environment by strengthening its financial education for the local community.

Contents of Financial & Economic Education

● To enhance financial education to society, Daegu Bank has been systematically responding to various requests from outside organizations, which include – financial education for model school arranged by the Financial Supervisory Service; the career path (bank) experience program hosted by the Gyeongsangbuk-do Office of Education; financial education for neglected groups (elderly/multicultural families/children raised by grandparents/North Korean defectors); and other financial and investment techniques for youth and the public.

Future Agenda

● Playing a pivotal role in bringing financial education to the local community, Daegu Bank continues to carry out and further step up its financial & economic education. Rather than passively responding to outside requests, the bank plans to actively seek out and extend its reach to all who desire to receive financial education, offering tailored financial education.

Financial & Economic Education				
Type	2010	2011	2012	2013(Plan)
Education on Investment Techniques (sessions)	63	113	159	170
Education on Investment Techniques (participants)	3,467	6,251	9,174	10,000

Leveraging synergy with its subsidiaries and offering unique products that meet global standards, DGB Financial Group continues to proactively respond to rapidly changing market environment, accompanied by conducting various activities to raise its competitiveness, such as the development of new product and expansion of socially responsible investments, along with contributing to the local community.

addition, Daegu Bank and DGB Capital teamed up and achieved joint sales of KRW 317.3 billion from 338 companies in 2012, with the expected sales to reach KRW 458.1 billion from 398 companies in 2013. The group’s other subsidiaries are also putting firm efforts to overcome today’s fast changing business environment through joint sales efforts, such as U-Payment’s collaborative card products, the establishment of Synergy-Linked System by DGB Data System, and Daegu Credit Information’s service as an agency for bond collection.

Development of New Deposits (2012. 1. 1 ~ 2013. 6. 30)

Products	Description	Sales Amount (KRW in millions)
Retirement Pension Deposits (Principal Guarantee Type)	A deposit account for retirement pension annuities (principal paid in installments)	451,011
(Special Offer) Eco-friendly Green Deposits - Savings	A special product designed to make contributions to the government's summer energy saving campaigns	333,546
Rich ELD (Equity Linked Deposit)	An equity linked deposit linked to stock market index	186,033
Mutual Aid Deposits - Savings	A special product that offers preferential funeral-related services	110,831
(Special Offer) Istanbul-Gyeongju World Culture Expo 2013 Savings	A special product offered in conjunction with the Istanbul-Gyeongju World Culture Expo 2013	28,481
Education Love Account - Deposits - Savings	A tailored product that targets teachers, faculty members, educational public service employees, and those who retired from such services	27,921
DGB Property Accumulation Savings	A product that offers prime interest rates and tax benefits for office workers and business owners in accordance with the special tax treatment control law	18,330
Daegu Fighting! Special Offer Fixed Deposits - Savings	A product offered in conjunction with Daegu FC professional football club in Daegu and the 93 rd National Sports Festival	15,131
14 other products including Happiness Together Savings	New products for the socially disadvantaged (registered people with disabilities and low-income households)	26,594

Development of New Loans (2012. 1. 1 ~ 2013. 6. 30)

Products	Description	Sales Amount (KRW in millions)
DGB Pride Loan	A loan for local SMEs with prime interest rates	942,672
Forever Together Corporate Loan	A loan for local SMEs with prime interest rates and borrowing limits	567,745
DGB Forever Together Door-to-Door Prime Loan	A real estate mortgage loan with prime interest rates	497,312
Special Loan for Attracting New Customers	A special loan for new loan applicants with prime interest rates and borrowing limits	151,654
DGB Steadfast Mortgage Loan	A long-term fixed rate home mortgage loan	144,135
My First Factory Purchase Loan	A special loan that offers prime interest rates to the SME that purchase its first factory	52,414
Special Guarantee Loan for Alley Shop Owners	A special guarantee loan designed to support alley shop owners; guarantee provided by the Daegu Credit Guarantee Foundation	23,514
Special Guarantee Loan for SMEs and Small Business Owners in Gyeongbuk	A special guarantee loan designed to support SMEs and small business owners in the Gyeongbuk region; guarantee provided by the Gyeongbuk Credit Guarantee Foundation	14,373
DGB Dream Loan for Young People and 11 other Loan Products	A special loan designed to support young entrepreneurs	68,554

Public Service Fund Product (As of the end of June, 2013)

Product	Description	Sales Amount (KRW in millions)
Mirae Asset Love Sharing ETF Equity Investment Trust	A fund that donates 0.5% of front-end commission charges on behalf of the investor	4,316

The 5th DGB Investment Fair ①

● In November 2012, Daegu Bank held the '5th DGB Investment Fair' with a theme, 'Happy Life & Money'. Distinguished speakers from various fields were invited to share their valuable knowledge with customers at no charge, on the topic covering the latest information on economy, health, and investment techniques, in addition to hosting cultural courses and mini concerts. In particular, this year's event not only provided information on asset management, but also on life management, as a platform for providing high-standard financial services that meets our customers' needs.

Introduction of the VM (VIP-Manager) System for VIP Customers

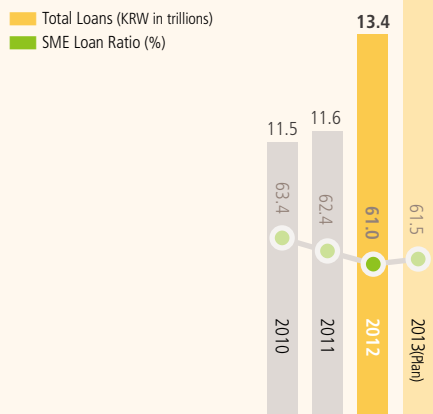
● Starting from July 2012, Daegu Bank has been operating the 'VM (VIP-Manager) System' to retain VIP customers. The system facilitates the efficient management of VIP customers, and ensures a seamless service experience for them, along with featuring a one-stop banking service and a dedicated consultation service. It was implemented as part of efforts to stay ahead of the rapidly changing financial environments, as well as to offer world-class financial services by securing competitive edge through differentiation strategy.

Strengthening VIP Customer Management

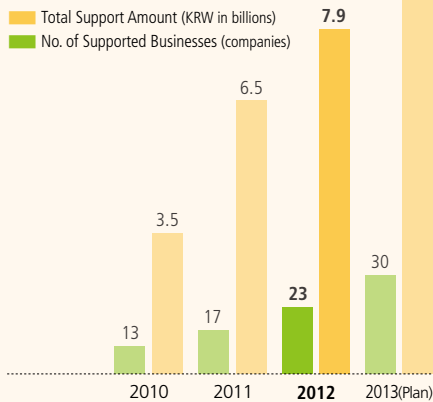
● Daegu Bank has established the 'VIP Customer Management System' to provide the highest quality financial services to its VIP customers, and relevant procedures have been implemented for the systematic management of VIP customers. As a result, VIP customers can conveniently access the bank's service at anytime and anywhere, such as at its PB centers, PB-specialized branches, general sales branches (operating VM System), and at small sales branches (offering dedicated customer service).

Fair Finance

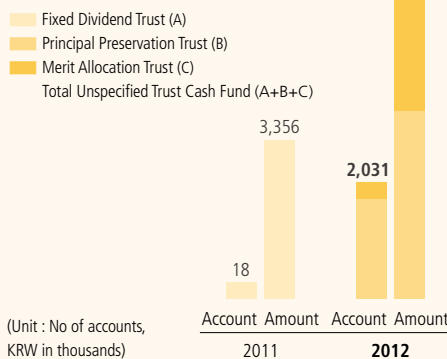
Loans Granted to SMEs



Financial Support for Female Business Owners



Results of the Campaign to Find Owners of Dormant Trust Accounts



Daegu Bank is reinforcing its social responsibilities as a corporate citizen and its roles as a partner of the local community by consistently developing and selling public service-oriented products.

Increasing Supports for the Revitalization of Local Economy

Devoted to the revitalization of local economy, Daegu Bank continues to extend its supports for local SMEs and small business owners. In 2012, the loans awarded to SMEs amounted to KRW 13.4047 trillion, exceeding the bank's initial expectation by KRW 1.7047 trillion, with the rate of loans made to SMEs reached approximately 89% of the total loans awarded in the year. For 2013, the bank plans to provide a total loan of KRW 15.6047 trillion, an increase of KRW 2.2 trillion from 2012, in order to reinforce its management philosophy of sharing and grow hands-in-hands with the local community.

Financial Support for Female Business Owners

In an effort to support local SMEs run by female entrepreneurs, Daegu Bank has introduced the 'Queen's Biz Loan', a special loan available to eligible female business owners in the local community. In 2012, a total loan amount of KRW 7.9 billion was granted to 23 local businesses. For 2013, the bank plans to grant around KRW 9.5 billion for 30 businesses to continue address the challenges facing female business owners.

Campaign to Find Owners of Dormant Trust Accounts

Since 2011, Daegu Bank and the Financial Supervisory Service have been jointly conducting the 'Campaign to Find Owners of Dormant Trust Account', in a bid to protect the rights of financial consumers. By the end of 2012, the bank discovered KRW 1,478,720,000 in a total of 2,031 dormant trust accounts and notified the rightful owners.

Love Sharing Accounts

Since September 2011, Daegu Bank has been selling the 'Love Sharing Accounts' to practice its management philosophy of sharing and to spread a culture of micro-donations among elementary, middle, and high school students in Daegu. As of June 2013, the total number of 'Love Sharing Accounts' amounted to 44,306 accounts, with total donation reaching KRW 291 million. One of the main benefits of these accounts is that, donors can designate how and to whom their contributions will be used, according to the donors' intents.

Happiness Together Installment Savings

Starting from January 2012, Daegu Bank has been selling the 'Happiness Together Installment Savings' to support various socially disadvantaged groups, including those on the poverty line and registered people with disabilities (1st to 3rd degree). With a subscription period of one year, subscribers can deposit anywhere in between KRW 10,000 and KRW 200,000 monthly, and only one account can be opened per person. In addition, the product also offers an additional prime interest rate of 2~3%, depending on the amount of monthly installment deposits. The bank operates this product without making any profits.



Preferential Installment Savings for Soldiers

- Selected to be a direct payroll deposit bank for soldiers, Daegu Bank, in June 2013, launched a preferential installment savings for soldiers, offering prime interest rates to support them after their service in the military. Particularly, soldiers can change the name of the installment savings to the name of the military base they belong to show their pride.

I Zoa (Child Love) Deposit Account and Installment Savings

- Since March 2013, Daegu Bank has been selling the 'I Zoa (Child Love)' deposit account and installment savings, in a bid to support the government's childbirth promotion campaign. The families with more than two children, where a new baby was born after 2013, can enroll in these products, both for the parents and the children. Depending on the amount of their deposits, the subscribers can enjoy a monthly benefit of up to 15 times exemption on various banking transaction charges, including – the remittance charges via internet banking, phone banking, and mobile banking; and non-business hour withdrawal and remittance charges from CDs/ATMs.

Preferential Financial Products for Exemplary Taxpayers and SMEs with Great Prices

- Starting from October 2012, Daegu Bank, in conjunction with the city of Daegu and the Daegu Regional Tax Office, has been offering preferential financial products for exemplary taxpayers and SMEs with great prices in recognition of their contribution to society. The benefits of the products include – preferential interest rates for subscribers; priority for loan applications; awarding additional 10 points when selecting promising SMEs; and giving the highest 'A' rating for credit evaluation.

DGB National Pension Safety Deposit Account

- Since January 2013, Daegu bank has been offering the 'DGB National Pension Safety Deposit Account', in an effort to contribute to the general livelihood and accommodation needs of pension subscribers. The product prohibits the seizure of pension deposits even when the account holder's property is under seizure, along with providing other benefits, such as exemption of e-banking transaction charges (remittances via internet banking, phone banking, and mobile banking); charges for using CDs/ATMs (non-business hour withdrawal and remittance charges); and offering preferential foreign exchange rates, that all contribute to the stable livelihood of pension subscribers.

Customized Public Service Products (Loans)

Products	Description	No. of accounts sold (accounts)	Sales Amount (KRW in millions)
DGB Seed for New Hope Loan	A low interest loan designed to be an alternative to high interest rate private loans	13,340	88,400
DGB Conversion Loan	A loan that converts interest rates for those with high annual interest rates of over 20%	917	7,900
DGB Seed for Hope Loan	A low interest loan designed to be an alternative to high interest rate private loans	638	3,400
DGB Love Sharing Household Loan	A low interest household loan to support those without jobs or those on the poverty line	338	23,900
DGB Didimdol Soho(Self-Employed Support) Loan	An exclusive loan offered to low-income and self-employed business owners	173	858
DGB Conversion Loan for Small Business Owners	A conversion loan for small business owners that offer protection from loan sharks	173	1,695
DGB Conversion Loan for Young People and University Students	A conversion loan for young people and university students that offer protection from loan sharks	77	516
DGB Hopeful Days Loan	A credit loan for small business owners with a daily amortization schedule	35	882

Customized Public Service Products (Deposits, Savings, Card)

Products	Description	No. of accounts sold (accounts)	Sales Amount (KRW in millions)
DGB Woori Dokdo Card	A credit card that raises funds for various Dokdo projects, such as the restoration of Seom-mal Nari in Ulleung-do	92,866	259,116
Love Sharing Account (Fund)	A product that spreads a culture of micro-donation among elementary, middle and high school students in Daegu	44,306	291
DGB Property Accumulation Savings	A product that offers prime interest rates and tax benefits for office workers and business owners in accordance with the special tax treatment control law	25,846	18,330
(Special Offer) Istanbul-Gyeongju World Culture Expo 2013 Savings	A special savings product dedicated to the success of the Istanbul-Gyeongju World Culture Expo 2013	24,858	28,481
Senior Citizen's Transportation Savings Account	A product that maximizes banking convenience for elderly customers who receive transportation subsidies	5,542	557
Happiness Protector Account	A product that prohibits seizure of government subsidies from those on the poverty line, exempting them from electronic banking fees, providing certificate issuance and limit-less reissuance of bankbooks	2,611	390
I Zoa (Child Love) Deposit Account	A child birth promotion product that provides benefits to families with more than two children since 2012	850	836
Happiness Together Savings	A tailored product for the socially disadvantaged (registered people with disabilities and low-income households)	614	481
2030 Self-Support Account	A product that supports the financially disadvantaged overcome poverty	161	549
DGB National Pension Safety Deposit Account	A special product for enrolling the National Pension deposits that prohibits seizure	102	25
Hope Dream Deposits - Savings Accounts	Products to assist the homeless become independent	68	8
Happiness Sharing Savings	A low-income family support product that helps children from low-income families become independent	60	393
Children Love Savings	A product that offers prime interest rate to the customers that receive child support aids	55	16
Exemplary Taxpayer Deposits and Savings	An exclusive product for exemplary taxpayers and excellent tax paying enterprises	12	725



(Certificate of a Patent for the Mirae Asset Love Sharing ETF Fund)

Sales of Socially Responsible Investment (SRI) Funds

● To fulfill its social responsibility through its financial products, Daegu Bank has been offering a variety of socially responsible investment (SRI) funds. For example, the 'Woori Frontier Sustainable Business SRI Equity Fund' contributes 10% of sales and operating profits to the public service fund, while the 'Mirae Asset Love Sharing ETF Equity Investment Trust' donates 0.5% of sales and front-end commissions. Particularly for the latter product, the bank exempts 0.5% front-end commission charges for customers and donates the amount under their own name. This is a new product that was granted a patent on June 3, 2013. The bank also sells a 'Love Sharing Account', an exclusive deposit account for making donations. The donated amount through the account is managed individually for each donor, who will benefit from the year-end tax exemption.

Public Service Fund Products (As of the end of June 2013)

SRI Fund	DGB AUM (KRW in millions)		Rate of Return (%)		
	Initial	Balance	3 months	6 months	1 year
Woori Frontier SustainableBusiness SRI Equity Fund	21,215	4,352	-7.74	-5.87	1.27
Midas Responsible Investment Equity Investment Trust	1,157	930	-8.56	-5.73	6.8
Midas Responsible Investment Equity Investment Trust	2,621	2,209	-11.69	-10.91	-0.86
Mirae Asset Love SharingETF Equity Investment Trust	4,316	4,316	-7.58	-6.76	2.19

Contributions to the SRI Public Service Fund

Type	2010	2011	2012	2013(Plan)
Service Fund (KRW in 10 thousands)	3,400	1,700	2,600	3,000

Daegu Bank offers a variety of small-loan products to support SMEs and alleviate the financial difficulty of those customers with low-credit scores.

Contributions to Small-Loan Finance ①

● In 2012, Daegu Bank has offered a total of 6 new small-loan finance products that are designed to support the management stability of SMEs and alleviate poverty of the customers with low-credit scores. Among the products are the 'DGB Dream Loan for Young People' and the 'DGB Hope Nurturing Special Guarantee Loan'. To date, the bank's small-loan products contributed a total of KRW 1,565.4 billion to 42,718 businesses. As of the end of June 2013, 26,883 businesses are enrolled in the bank's small-loan program with total amount of KRW 370.9 billion.

DGB Dream Loan for Young People

● Starting from May 31, 2012, Daegu Bank has been offering the 'DGB Dream Loan for Young People' to support young entrepreneurs based on the agreement with the Banks Foundation for Young Entrepreneurs. The loan is awarded to a small business owner that meets the requirements of – No more than 3 years have passed since the company's founding; CEO

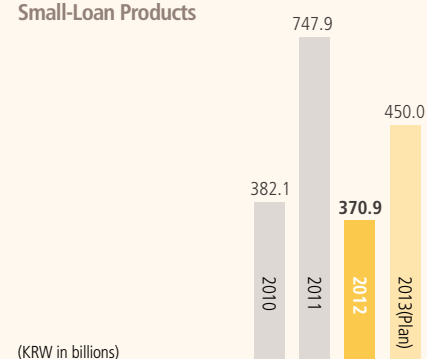
is a young entrepreneur 39 years old or less; and owns a credit guarantee certificate issued by the Banks Foundation for Young Entrepreneurs. Those that meet the requirements will be provided with the amount up to KRW 100 million, as well as an exemption on early redemption charges should the borrower decides to repay the mortgage in advance. Daegu Bank will continue its supports and put in various efforts to support young entrepreneurs in the local community.

DGB Forever Together Corporate Loan

● Since April 23, 2012, Daegu Bank has been offering the 'DGB Forever Together' loan to provide financial assistance to local businesses and uplift the entire local community by extension. The loan matches the bank's spirit of pursuing a hand-in-hand growth with local businesses by becoming one 'Forever Together'. The loan will be provided up to the amount of KRW 3 billion per borrower, with total amount of KRW 500 billion. The borrower will also benefit from the expansion of branch managers' authority to reduce interest rates, and the decision rights.



Total Amount of Small-Loan Products



Microfinance Loans (List of the products sold after 2012)

(As of the end of June 2013)

Products	Offering Period	Total Accounts (accounts)	Total Support Amount (KRW in billions)	No. of Current Accounts (accounts)	Balances (KRW in billions)
DGB Hopeful Days Loan	2012.05.17~Present	592	5.6	502	3.5
Special Guarantee Loan for Alley Shop Owners	2012.05.31~2013.06.30	1,376	23.5	1,356	23.2
DGB Dream Loan for Young People	2012.05.31~Present	47	2.3	46	2.3
DGB Conversion Loan for Young People and University Students	2012.16.18~Present	78	0.5	77	0.4
DGB Hope Nurturing Special Guarantee Loan	2012.07.10~Present	61	1.9	59	1.8
DGB Conversion Loan for Small Business Owners	2012.12.11~Present	179	1.8	173	1.6
Special Guarantee Loan for SMEs and Small Business Owners in Gyeongbuk	2012.12.17~Present	471	11.1	465	10.8
Total		2,804	46.7	2,678	43.6

Microfinance Loans (List of the products sold before 2012)

(As of the end of June 2013)

Products	Total Accounts (accounts)	Total Support Amount (KRW in billions)	Products	Total Accounts (accounts)	Total Support Amount (KRW in billions)
Special Loans for Liquidity Support to Self-Employed	8,223	118.2	Door-to-Door Prime Loan for Small Business Owners	1,534	31.5
DGB Hope Sharing Special Loan	653	225.9	Special Guarantee Loan for Companies Creating Jobs	259	457.4
DGB Love Sharing Household Loan	3,070	228.4	DGB Seed for New Hope Loan	16,231	125.5
SME Hope Sharing Loan	3,264	84.6	DGB Business Partner Loan	76	1.2
DGB Seed for Hope Loan	2,872	27.9	DGB Smart Biz Loan	509	185.8
Special Guarantee Loan for Financially Distressed Self-Employed	2,193	22.2	DGB Conversion Loan	1,030	10.1
Total	20,275	707.2	Total	19,639	811.5

Treating Customers as Loved Ones

CEO Worksite Marketing

Founded in May 2011, DGB Financial Group is setting exemplary standards in pursuing 'Win-Win Cooperation' as a financial institution. It has been providing consistent assistance to the regional SMEs, small business owners, and residents of the local community. Despite the lingering business difficulties, such as the ongoing financial crisis and economic slowdown, the group continues to enhance its regional-based management approach and provides financial assistance to local residents, garnering trust and support in doing so. With five subsidiaries under its umbrella – Daegu Bank, DGB Capital, U-Payment, Daegu Credit Information, and DGB Data System – the group practices the management philosophy of 'Sharing Dreams and Prosperity with the Local Community', by providing full-hearted support for local SMEs, small business owners, and female CEOs. DGB Financial Group's CEO, Ha, Chun-soo, said in a statement that the "mutual growth is the foundation to continuing DGB Financial Group's journey as the 'Bank with 100 Years of History' and the 'Financial Group with 100 Years of History' to attain our goal of becoming the 'Best Comprehensive Financial Group'". To that end, he has made a clear determination that the group will continue to set successful models for mutual growth.



Q1. Can you tell us some examples of how you are achieving mutual growth?

A) DGB Financial Group's management's management philosophy is about 'Sharing Dreams and Prosperity with the Local Community'. To that end, our company has been enhancing financial services provided to various local entities, including SMEs, small business owners, and residents who reside in our local community. In 2012, the rate of loans made to SMEs reached approximately 89% of the total loans issued by our group, along with promoting microcredit loans for small business owners in the Gyeongbuk region in Daegu and diversifying supportive programs for SMEs. These efforts all contributed to the revitalization of the local economy and to our win-win management.

Notably, we have developed and sold various special loans that are designed to prevent the liquidity-crunch from the financial crisis, and also continued conducting our 'CEO Worksite Marketing', in which our CEO visited the worksites of local SMEs to listen to their management difficulties and suggestions to come up with mutual solutions. Other major programs included the 'Financial Bottleneck Consultation Group' and the 'Special Loans for Self-Employed People's Liquidity Assistance', which continue to provide financial support for local SMEs and small business owners to this day.

Q2. Your company has been practicing the management approach of mutual growth. What accomplishments have been made or were there any sacrifices or difficulties doing so? Please explain.

A) Our 'Dream for Mutual Growth' with the local community is directly shown through our market share in the local market. As of the end of June 2013, our regional market share in Daegu came at deposits 45% and loans 35.2%, with the market share for the entire Gyeongbuk region reaching at deposits 20.9% and loans 20.3%. We are maintaining an almost impossible share in comparison to other financial sectors. Moreover, we were chosen as the only top-rating banking institution in the Financial Company Civil Compliant Assessment Rating, sponsored by the Financial Supervisory Service. I believe that these accomplishments were possible through the shared loved and efforts with the local residents. Other note to mention, we received a presidential citation at the '15th SME Awards Ceremony' in the category of financial institution in December 2011, as well as receiving the grand prize (presidential citation) at the '2013 Korea Green Management Awards' in July 2013, for the first time among domestic financial institutions, for our continued dedication in pursuing green management and green finance. All of the aforementioned accomplishments were the result of

So attaining 'Mutual Growth' is about sharing profits between large corporations and SMEs through joint cooperation and business collaborations.

To sum it up, large corporations should utilize its technical expertise and human resources in approaching business issues, whereas SMEs should focus on commercializing new and creative ideas that are discovered in niche markets. The government, on the other hand, should develop a system with a mechanism for the proper operation of sharing between large corporations and SMEs.

For this mechanism of mutual growth to work, I believe that 'Finance' will play the pivotal role.

Q4. What exactly is the concept of 'Mutual Growth'? We'd like to hear your opinion.

A) As I've outlined above, DGB Financial Group's management philosophy is about 'Sharing Dreams and Prosperity with the Local Community'. Other industries may follow the same path, but for a financial institution like us, the attainment of 'Mutual Growth' is essential for achieving future growth.

Despite the lingering business difficulties, such as the ongoing financial crisis and economic slowdown, DGB Financial Group intends to be the trusted and well-loved financial partner for local residents by providing financial assistance and based on its community-based management.

Other major policies for stimulating the local economy include the preferential financial support for female CEOs, such as providing a full support for female entrepreneurs who are looking to start their business, or the operation of the 'Female CEO Support Task Team', which consists of the loan officers and consultants from the headquarters, in order to give practical benefits and job creation for local female CEOs.

At the same time, we have also introduced the 'Queen's Biz Loan' since 2009, an exclusive loan on credit or guarantee for the SMEs run by female CEOs with adequate credit ratings, along with providing various financial services for small business owners and people with low credit ratings.

For the small business owners with not enough collateral in the Gyeongbuk region, we've issued the 'Door-to-Door Prime Loan for Small Business Owners' and the 'Special Guarantee Loan for Companies Creating Jobs', in conjunction with the regional credit guarantee foundations. For the people with low credit ratings and not enough income, we have agreed to make a total of KRW 6.5 billion donation, in collaboration with the Smile Microcredit Foundation. We are also offering the 'DGB Business Partner Loan' for small business owners with good credit ratings.

our 46 years of history in lending our helping hands to the financially challenged SMEs and people in the Gyeongbuk region of Daegu. We gave them hope that 'We Can Grow Together'.

Q3. What effort should be put in place by corporations, SMEs, or the government, to attain mutual growth?

A) As you may know, the driving force behind the astounding economic growth of Korea in 1970s was the government led export-oriented strategy. Today, the country is among the leading economic powers in the world, but the growth also came with a side-effect of the growing disparity between large corporations and SMEs. Therefore, I believe that our society should make an effort to restructure the balance between them, in order to resolve the greater dominance that large corporations exercise on smaller companies since the IMF financial crisis. The newer growth model based on mutual cooperation is 'Mutual Growth'.

Generally, small companies have expertise in niche areas, but are often hampered by lack of financial resources, business network, and experiences. In contrary, large corporations have abundant experiences, business channels, excellent technical competitiveness, and workforce. By collaborating with each other, I believe that they can attain a higher level of technological progress and innovation.

Financial industry coexists with local communities, its residents, customers, corporations and other industries. Without them, we cannot exist, and it is our destiny to grow together with them. So the value, 'Growth', has been added on top of 'Mutual Growth'.

You can think of 'Mutual Growth' as synonymous with the concept of sustainability growth or stakeholder-oriented management. Therefore, DGB Financial Group is continuing its dedication to practicing sustainability management, and we intend to develop successful models for mutual growth through the practice of sustainability management.

It is the foundation to continuing our journey as the 'Bank with 100 Years of History' and the 'Financial Group with 100 Years of History', and also the only pathway to achieving our goal of becoming the 'Best Comprehensive Financial Group'

(From the interview with Ha, Chun-soo, CEO of DGB Financial Group)

SERVICE, PASSION AND HONESTY

What efforts have been made to improve employees' life quality while maximizing their work performance?

p.58

Which differentiation strategies have been introduced by DGB Financial Group to offer higher quality financial services to customers?

p54

Responsible Management

Which win-win programs have been implemented with partner companies to facilitate sustainable growth?

p.61

“

Customer Choi, Bok-hyang (Owner of Bonjeong Kalguksu)

Few days ago, I had a trip to the DGB Gallery at the headquarters of Daegu Bank. The exhibition in the gallery showcased the paintings of many new upcoming artists, which I enjoyed. I also joined a presentation session on investment techniques and participated in a drawing contest, among other events and activities. As a loyal customer of Daegu Bank for the past 25 years, I'm very proud of its sponsorship for these cultural programs, on top of its active volunteering for the wellbeing of local residents. This was all possible through its boundless determination in practicing responsible management for the local community.

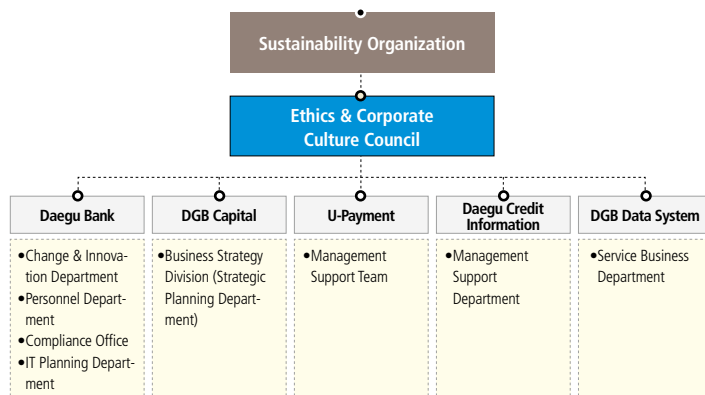
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DISCLOSURE ON MANAGEMENT APPROACH

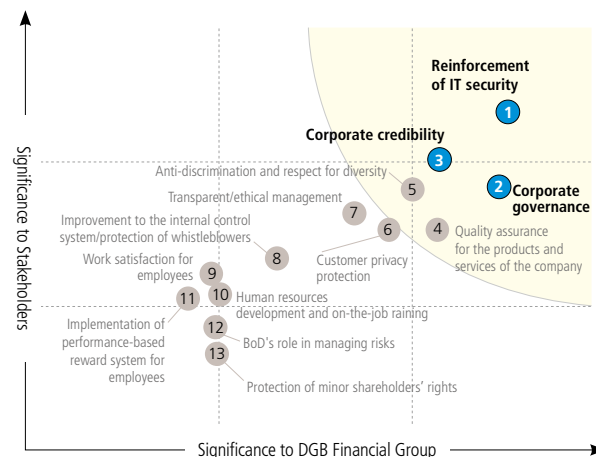
Vision

DGB Financial Group strives to improve customer value by delivering high quality financial services, while encouraging employees to make ethical management a way of life. We are also cultivating a family-friendly corporate culture to achieve work-life balance in our workplace.

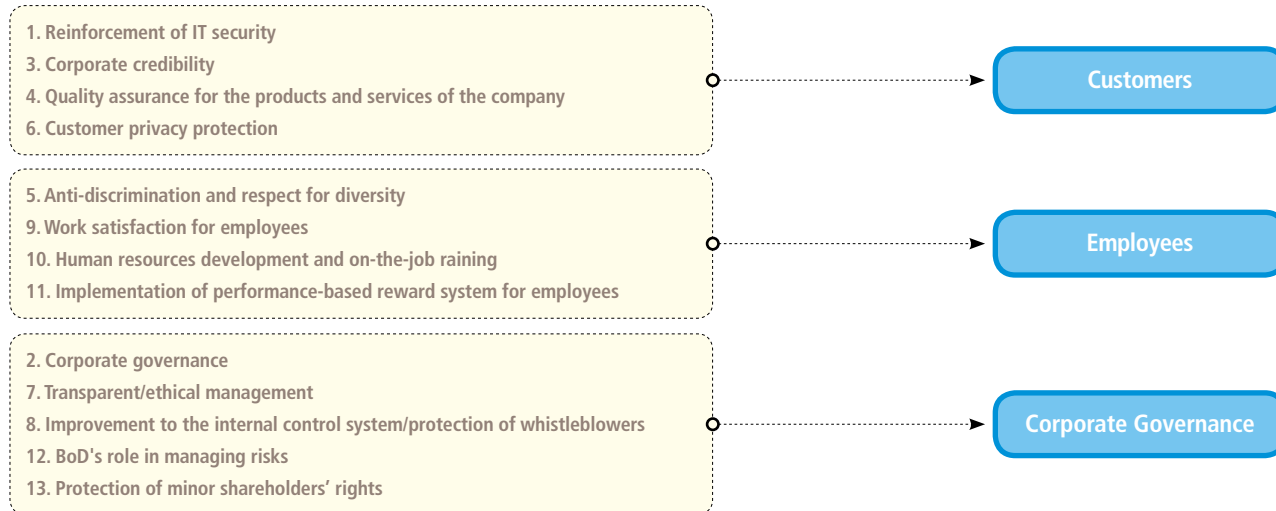
Implementation Organization



Material Issues



Strategic Direction



Key Performance Indicators (KPI)

Type	2010	2011	2012	2013(Plan)
Average ethics/human rights-related training per employee (sessions)	18/53	19/52	21/52	22/53
Average training hours per employee (hour)	40	46	33.8	46
Percentage of female employee in charge (%)	10.2	12.9	13.6	14.6
Sick leave absentees (including vacation) (persons)	31	20	21	20

Customer Value Creation

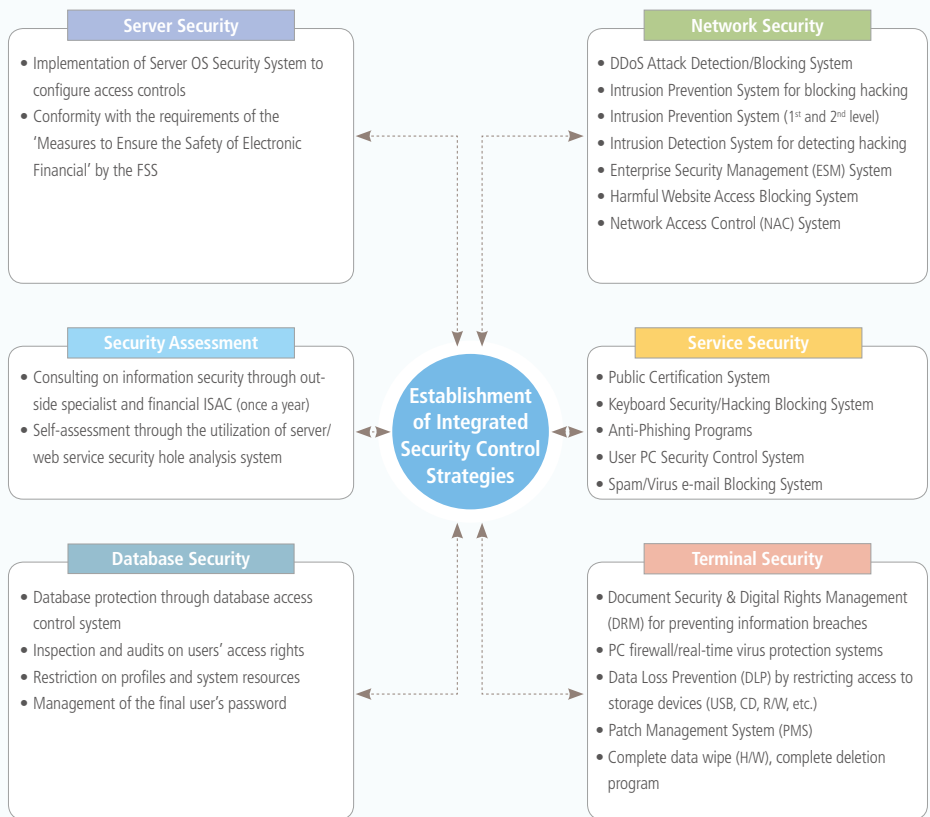
Improvement of IT Security

DGB Financial Group has enacted and implemented the Customer Information Protection Regulations to reinforce the protection of personal information, while offering the best customer information protection system in Korea that prevents information leaks on the internet.

Enhancement of the Protection of Personal Information

Following the government's enactment of the Personal Information Protection Act, DGB Financial Group has enacted and implemented the Customer Information Protection Regulations, and has designated the Compliance Department for overseeing the protection of personal information. In addition, the group offers the highest standards for protecting customers' privacy through the implementation of various security systems, including – an intrusion blocking system against hacking attempts, an intrusion prevention system, and a DDoS attack response system. Periodically maintained, these systems are linked to the monitoring system of the Korea Financial Telecommunications & Clearings Institute for a full 24-hour, 365-day monitoring. The bank also provides other security assistance, such as security programs for PCs, anti-virus software, and document security solutions.

Daegu Bank's Information Protection System



Daegu Bank's Financial Consumer Protection Charter

- We shall provide sufficient information and assist our consumers in making rational decisions.
- We shall refrain from conducting irrational business practices by listening to our consumers' requests.
- We shall promptly and fairly respond to our consumers' complaints and compensations.
- We shall not engage in any unethical sales practices, nor shall we make irrational discrimination that infringe our consumers' rights.
- We shall fulfill our responsibility as a member of the local community and provide assistance to financially disadvantaged populations.

Personal Information Leaks (cases)

Type	2006-2009	2010	2011	2012
Personal information leaks	0	0	0	0

Daegu Bank's Financial Consumer Protection Charter

In recognition that the protection of financial consumers is the core value in ensuring its sustainable growth, Daegu bank has been putting firm efforts to be the 'warm-hearted companion for consumers'. The bank will continue offering the best financial products and services to be the 'best bank selected by consumers'. To this end, the following charter has been initiated.

Provision of Anti-Phishing Services

● In order to ensure the protection of customers' financial assets and confidentiality, Daegu Bank has introduced a variety of anti-phishing solutions. For example, the bank's homepage address bar turns green to ensure visitors that the site is legitimate and safe. A phishing filtering service is also provided that marks a website either as a whitelist (safe websites; approximately 90% of the financial institutions' websites are registered) or a blacklist (reported phishing websites; database is updated in real-time by the Anti-Phishing Working Group), and blocks those marked to be unsafe. The bank also offers other security features, such as automatic searching and inquiries of criminals' bank account numbers and phone numbers that are registered within a year; blocking of malicious codes distributed via hacked websites by utilizing the database of the Korea Internet Security Agency (KISA); detection and blocking of DDoS attacks via the uses of botnets; and a system restore service for PCs.

Improvement of Homepage and Internet Banking System

● Since March 2012, Daegu Bank has been undertaking a series of improvements to its homepage and internet banking system, in order to provide better financial services to customers. The homepage is now compatible on various web browsers, such as internet explorer or Google chrome, along with providing a voice browser service for visually impaired users and a more accessible design on the interface of the internet banking system for the disabled. In addition, as part of the bank's globalization efforts, it also provides internet banking service in Chinese.

Establishment of Computing System for Overseas Branch

● In December 2012, Daegu Bank has set up a unified computing system for its Shanghai branch in China – the first overseas branch established by a regional bank in Korea. The computing system integrates various financial transactions associated with banking business, such as loans, deposits, and foreign currency transactions, along with providing supports for general business affairs and the SWIFT code management. As a result, the branch's business agility has been greatly increased. In addition, the bank also established an auditing system to the branch that facilitates the real-time monitoring of the risks that can arise from conducting overseas business activities.

Expansion of the DGB Secret Account Service

● Starting from April 2013, Daegu Bank has been expanding its 'DGB Secret Account' service, which offers the highest standards in maintaining customer's financial confidentiality and the protection of their bank accounts. Initially, the service was implemented on a trial basis at the bank's five branches, including the PB Center at the headquarters, but was eventually extended to 23 branches to meet the customers' increasing requests. Only the primary account holders have access to their bank accounts. The bank's employees do not have access to these accounts, except from the branches where the accounts were opened. An approval from a branch manager or higher authority is also required for accessing these accounts.



Corporate Credibility



DGB Financial Group is building a corporate culture that places the utmost value on ethical management. Accordingly, the group has adopted a code of ethics and guiding principles for each job position, accompanied by the establishment of the Compliance Department.

Reinforcement of Ethical Practices ①

- DGB Financial Group has enacted an employee code of ethics, which are aligned with the group's ethical management practices. All employees must adhere to the code and are asked to improve their ethics to ensure fulfilling their fiduciary duties. Accordingly, the group conducts a monthly compliance self-assessment and ethics training for each branch to enhance employees' work ethics and compliance to laws and regulations, along with developing ethical decision-making among employees.

Reinforcement of Ethical Management

- Aimed to grasp the spirit of ethical management, accompanied by instilling ethical and law-abiding behaviors among its employees, DGB Financial Group has been conducting the 'Ethical Management Development Day' on every first and second Monday of the month.

Our Guiding Principles for Practicing Ethical Management

In all our operations, we will adhere to applicable laws and the code of conduct of the company, and observe the basics and principle of ethical management based on the following guiding principles.

- We shall maintain our honor and dignity, and make ethical and law-abiding decisions based on our morality and integrity.
- We shall respect each other and avoid any forms of sexual harassment or discrimination against others based on their gender, age, educational background, origin, family, and/or religion.
- We shall maintain a lifestyle of integrity at all times and refrain from engaging in unethical activities or any forms of corruption, such as requesting for lavish entertainment or gifts.
- We shall faithfully abide by the laws and regulations on Real-Name Financial Transactions Act, and shall not reveal our customers' confidentiality, nor shall we respond to such inquiries.
- We shall not engage in money-laundering activities, both directly and indirectly. This includes any kind of activity which hides or intended to hide the fact that funds have been obtained illegally.
- We shall strict follow the sales procedure for each of our product, and make efforts to eliminate inappropriate sales practices, such as churning, excessive mark-ups, or any forms of warrant on profits or freedom from loss and risk.
- We shall immediately report any cases of unlawful or unjust behaviors, and put utmost efforts into solving problems.

Ethical Management Rediscovery Programs

- The primary objective for implementing the 'Ethical Management Development Day'
- Examples of the prevention of money laundering activities
- Examples of the prevention of financial accidents
- Real-Name Financial Transactions and Guarantee of Secrecy Act
- Examples of dispersed remittance and applications to the Foreign Exchange Control Law
- Credit card application requirements
- Compensatory deposit requirements
- Code of Conduct and preventive education on sexual harassment in the workplace

Establishment of the 'Internal Reporting Center'

● In a bid to expand its internal reporting channel, Daegu Bank, in February 2012, has established the 'Internal Reporting Center' on its website (www.dgb.co.kr) for the reporting of disclosures of corrupt conduct and to encourage employees' participation in ethical management. The system specifies that whistleblowers' privacy will be fully protected.



Ethics and Human Rights-related Training

● Daegu Bank conducts a regular training session on ethics, at least once a month, to establish a corporate culture of ethical business practices. The sessions cover various topics including fair performance of duties, transparent management, diversity, and anti-discrimination. The bank also runs periodic training sessions on human rights, at least once a week.

Daegu Bank's Ethics and Human Rights Training				
Type	2010	2011	2012	2013(Plan)
Ethics Training (sessions)	18	19	21	22
Human Rights Training (sessions)	53	52	52	53
No. of Participants (persons)	2,569	2,547	2,626	2,793

* Standards for calculating the no. of training sessions

- Each branch conducts ethical practice training once a month (12 sessions a year)
- The number of sessions includes trainings carried out by the Compliance Department and the number of ethical practice campaigns held
- The number of participants excludes non-regular workers. Only regular-workers are counted.

Operation of Internal Control System

● To maintain a high standard of transparency and reliability of its services, Daegu Bank has introduced an internal control system that is both systematic and permanent. The bank also performs a comprehensive audit process by conducting audits on a regular basis, such as daily, periodically or for special occasions.

Operation of Internal Control System (Cases)

Type		Daily audits	General audits	Special audits	Regular audits
Internal Control System	2011	1,454	273	217	171,149
	2012	1487	213	213	354,399

Anti-Corruption and Legal Violations

● Daegu Bank is making ongoing efforts to eradicate corrupt business practices, such as rebates from partner companies, embezzlement of the company's funds, or accepting bribery. However, despite the efforts, there were 3 cases of violations in 2012, of which fines were imposed. As a preventive measure, the bank will further strengthen education on internal control processes to ensure that there are no future violations of law.

Incidents of Corruption

Type	2010	2011	2012	2013(Plan)
Violations of Law (cases)	0	0	3	0

Violation of Compliance

Date of Violation	Subject	Ruled by	Penalty	Contents of violation
2012. 09. 28	Daegu Bank	Financial Services Commission	Fines imposed (KRW 50 million)	Unlawful operation of comprehensive lien and joint guarantees
			Fines imposed (KRW 37.5 million)	Unlawful receipt of compulsory financial products
			Fines imposed (KRW 37.5 million)	Violation of the obligation to inspect real-name under the Real-Name Financial Transaction Act; Violation of the obligation to disclose the information of the financial investment product under sale

Employee Value Creation

Building Job Competences

Employee Job Competency Programs

● Daegu Bank coordinates a variety of training programs that assist employees in building job skills and maximizing their individual abilities as professional financiers. Particularly, the Loan/FX Rookie course and cyber courses are offered to help employees building practical competences.

Enhancing Professional Training Programs

● Daegu Bank operates a tailored roadmap for fostering professionals and a systematic career development program (CDP). A variety of competence-building courses are also conducted in the areas of foreign exchange (FX), derivatives, FX investments, and bond operations. Mentoring and feedback are also an integral part of the bank to increase employees' competencies. In addition, those employees, who are in charge of equity, bond, and derivatives operations, are sent to other investment institutions for on-site training.

Improving New Employees' Competencies

● Daegu Bank operates a mentoring program, whereby new employees are matched with senior employees to assist them in adapting to their new organization.

Average Training Hours per Employee (hours)

Type	2010	2011	2012	2013(Plan)
Hours	40	46	33.8	46

Average Training Expenditure per Employee (KRW in thousands)

Type	2010	2011	2012	2013(Plan)
Amount	1,035	1,110	1,110	1,200

Cultivation of Core Talents

To recruit prospective talents for future leadership, Daegu Banks has been conducting various training programs for the employees who are considered as 'core talents'. These programs include – an MBA course at KAIST (Korea Advanced Institute of Science and Technology); an international specialist training in China; and a pre-executive training and advance finance course at Seoul National University – through which the core talents can nurture management theories and practices.

Human Rights Protection and Anti-Discrimination

● As a member of the UN Global Compact, DBG Financial Group adheres to the ten principles of the UN Global Compact around management of human rights, labour rights, the environment and anti-corruption. The group continues to increase the recruitment rate of female employees, while continuing efforts to prevent discrimination and unfair promotion practices at workplace.

Conversion of Non-regular Employees to Regular Status (persons)

Type	2010	2011	2012	2013(Plan)
No. of Conversion	14	47	87	152

* The conversion to regular status took place on February 1, 2013.

Employee Breakdown (persons, %)

Type	2010	2011	2012	2013(Plan)
Regular Employee	2,569	2,547	2,626	2,793
Contract Employee	357	374	376	258
Male Employee	40.2	42.1	57.0	56.2
Female Employee	59.8	57.9	43.0	43.8

Recruitment Rate of Female Employees (%)

Type	2010	2011	2012	2013(Plan)
Bank Employee (%)	73.4	72.4	72.5	74.0
Position				
Person in charge or Manager (%)	10.2	12.9	13.6	14.6
Contract Type				
Regular Employee (%)	39.6	40.0	41.2	44.9
Contract Employee (full-time) (%)	46.9	54.6	54.5	31.0



Work-Life Balance

DGB Financial Group maintains a positive work and life balance for employees by implementing various programs that improve employees' life quality while maximizing their work performance.

EAP (Employee Assistance Program)

- Daegu Bank operates an EAP (Employee Assistance Program) to help employees maintain healthy and productive lives at home and workplace. Professional counselors are hired to assist employees and their families in coping with physical or mental problems, so that they can enjoy greater happiness at home and work.

'The Health Up' Campaign

- Daegu Bank is promoting 'The Health Up' campaign to create greater happiness for employees at their homes and work. As part of the campaign, employees are given a health notebook in two different colors – either yellow or red – depending on their health conditions, receiving a periodic checkup and consultation to improve their well-being. One-on-one consultation service is also provided by a pharmacist and nurse at the bank's clinic room. Other health campaigns, such as non-smoking and best-body making campaigns, are also conducted annually to bring a healthy working environment for its employees.

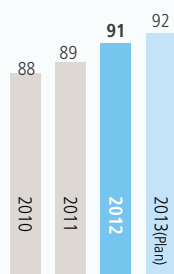
Sick Leave Absentees and Lost Hours Due to Illness

Type	2010	2011	2012	2013(Plan)
Sick leave absentees (persons)	31	20	21	20
Lost hours due to illness (hours)	4,768	4,321	3,742	3,700
Lost hours from overwork (hours)	0	0	0	0

* Calculation criteria: sick leave absentees and vacation time

Enhancing Employee Satisfaction

- On an annual basis, Daegu Bank conducts an employee satisfaction survey aimed at creating a better life quality for employees. The bank also offers an assortment of welfare policies, health campaigns, and cultural events that are designed to bring higher levels of satisfaction at workplace.



Employee Satisfaction Index

(Unit : points)

Welfare Pension Membership

Type	2010	2011	2012	2013(Plan)
No. of Employees Enrolled (persons)	2,045	2,705	2,755	3,030
Enrollment rate (%)	69.9	92.8	92.2	97.7

Support for Funeral Costs

Type	2010	2011	2013(Plan)
No. of Funerals Supported (funerals)	550	600	650
Total Amount (KRW in millions)	431	491	423

Enhancing Maternity Wellness Programs

- Daegu Bank continues to enhance its maternity wellness programs to lessen female employees' burden of childbirth and childrearing. For example, the 'DGB Children's Dream Nursery' was established in 2008 to accommodate childcare arrangements. Other major benefits include – economic aids for infertility treatment and kindergarten expenses; maternity leave bonuses; subsidy for the employees with disabled children; a right to maternity leave for up to 120 working days, childrearing leave for up to 2 years, and infertility leave for up to a year.

Number of Children Using the DGB Children's Dream Nursery

Type	2010	2011	2012	2013(Plan)
No. of Children (persons)	103	112	104	114

DGB Hope and Happiness Gallery Stairs

- In March 2013, the emergency stairs at Daegu Bank's headquarters and its annex building were reformed into the 'DGB Hope and Happiness Gallery Stairs', in an effort to raise employees' awareness on health and culture. Each step of the stairs showed burned calories and extended lifespan for employees as they stepped up the stairs, as well as various art works on health, environment, paintings, and poetry that were exhibited by theme at each floor.



(DGB Hope and Happiness Gallery Stairs)

Open Corporate Culture



Communication Hotline, 'Mr 4U'

- DGB Financial Group has been operating the 'HI-CS Room' program to facilitate a direct conversation between the group's CEO and employees from the group and its subsidiaries. To communicate freely with employees, the 'Mr 4U Corner' was also implemented into the group's intranet portal, through which employees can make anonymous or personal comments about their difficulties directly to the CEO.

2013 Complimentary Flower, 'Wink-talk Program'

- In an effort to create a new corporate culture of hope and optimism, Daegu Bank has introduced the 'Wink-talk Program' – a special corner on the bank's intranet portal, through which employees can send cheering or complimentary messages to each other, either anonymously or with their name.

Operation of the '2012 HR-Partners Program'

- Daegu Bank operates the 'HR-Partners' program to raise employees' understanding of its personnel system, along with seeking valuable suggestions from them to create a better human resource culture. The program selects employees with excellent track records from its headquarters and branches to be the HR partners, who will facilitate communication between the bank and its employees.

Win-win and Cooperative Labor-Management Relationship

- DGB Financial Group maintains a sound labor-management relationship based on mutual trust. Recognizing its labor union as a partner for achieving sustainable growth, the management strives to build cooperative labor-management relations by hosting transparent and rational discussions with the labor union. For example, regular labor-management meetings are held twice a year, while additional ad-hoc meetings are also held for special or urgent agendas.

Daegu Bank Labor Union Membership			
Type	2010	2011	2012
Entire workforce (persons)	2,569	2,547	2,618
Prospective labor union applicants (persons)	1,898	1,976	1,931
Percentage of labor union members among workforce (%)	73.8	77.6	73.7
Percentage of labor union members among prospective applicants (%)	100.0	100.0	100.0

* Executives, higher ranked employees (over level 3), or employees in the human resources department and secretary's office are prohibited from joining the labor union for effectual union operations.



Conference on Win-Win Cooperation with Partner Companies

In June 2013, DGB Financial Holdings invited CEOs from partner companies to join in a workshop on win-win cooperation. The workshop outlined DGB Financial Group's policies for attaining sustainable management, as well as the group's guidelines on green procurement. Attention was also given to the particular challenges facing partners and the ideas on corresponding support measures were exchanged. The workshop also discussed the group's objective to share its corporate ethics and socially responsible mindsets, including respect for human rights, with partner companies to promote their social responsibility and spread ethical corporate consciousness.

Win-Win Cooperation Conference Resolution

Type	2011	2012	2013
Proposals by partner companies	2 proposals <ul style="list-style-type: none"> • Introduction of limited open bid system (accepted) • Assurance on fair return on profits (accepted) 	0 proposal	1 proposal <ul style="list-style-type: none"> • Preference given to regional companies for partner firm selection
Suggestions by DGB Financial Group	1 suggestion <ul style="list-style-type: none"> • Setting standards for the introduction of sustainable management (in progress) 	1 suggestion <ul style="list-style-type: none"> • Introduction of green purchase standards (in progress) 	1 suggestion <ul style="list-style-type: none"> • Introduction of green purchase standards
Resolution	<ul style="list-style-type: none"> • 2 proposals accepted • 1 suggestion in progress 	<ul style="list-style-type: none"> • 1 suggestion in progress 	<ul style="list-style-type: none"> • Proposal under review



GREEN INITIATIVE

What efforts have been made to mitigate climate change and build a low-carbon society?

p.65

What measures have been implemented to efficiently reduce energy and resource consumption?

p.67

Which environmental programs are being promoted to create a green environment in the local community?

p.65

Environmental Management

“

In an effort to realize a low-carbon society, DGB Financial Group has acquired the financial sector's first Green Management System Certification, and is promoting various green management activities that mitigate the impacts of climate change. In doing so, the group has become a well-loved financial partner for local residents. However, I also feel that there are certain roles that the group can fulfill to differentiate itself from other companies in different industries. DGB Financial Group should continuously look out for its own environmental initiatives to be the leading financial group in green management.

Kim Jun-u (Director of Nakdong River Forest of Life Corp.)

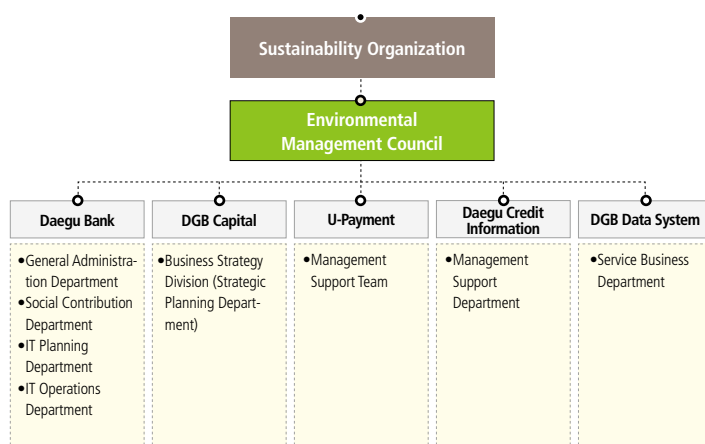
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DISCLOSURE ON MANAGEMENT APPROACH

Vision

DGB Financial Group is strengthening its capabilities in carbon management, while identifying new business opportunities to lead the low-carbon society of the future. These efforts are reflective of our focus on striving to be recognized as an exemplary financial group in the environmental management field.

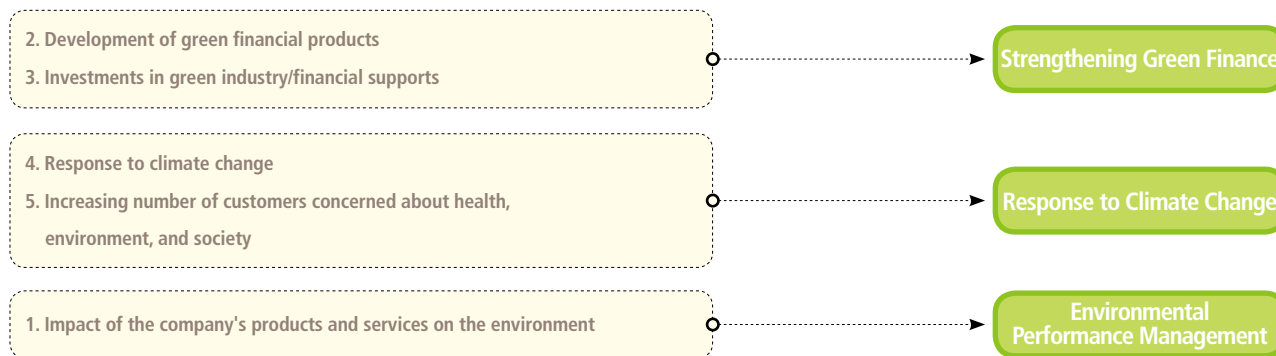
Implementation Organization



Material Issues



Strategic Direction



Key Performance Indicators (KPI)

Type	2010	2011	2012	2013(Plan)
Sales of green financial products (loans/deposits) (KRW million)	3,188/2,292	4,441/853	4,428/3,277	4,750/3,500
Amount of GHG emissions (Scope1, 2) (tCO ₂ e)	32,759	34,326	30,152.26	28,900.0
Amount of water consumption (m ³)	103,435	119,266	108,626	105,000
Amount of paper consumption (ton)	101.6	116.3	110.3	105.0
Rate of e-mail bills (%)	15.6	17.4	24.1	30.0

Green Finance

Environment-Oriented DGB Cyber Green Branch for the Promotion of Green Finance ①

● Daegu Bank has taken a leading role in promoting green finance in Korea through its 'DGB Cyber Green Branch' (green.dgb.co.kr), launched in May 2010. This branch offers exclusive financial products that are designed to contribute to the environment. The branch's customers are rewarded with various benefits, such as discounts on commission fees, preferential interest rates, and free SMS. In addition, the bank donates partial profits from the branch to support regional environmental preservation activities.

DGB Cyber Green Branch Performance

Type	2010	2011	2012	2013(Plan)
No. of accounts (accounts)	546	1,569	1,665	1,750
Amount (KRW in millions)	3,029	2,716	2,294	2,350



(Main Page of DGB Cyber Green Branch)

Efforts to Promote Environmental Management among Partner Companies

● Since 2006, Daegu Bank has been operating a CRMS (Credit Risk Management System) to perform environmental screening of its partner companies. The bank also applies an environmental management checklist to its credit evaluation process when processing loans for corporate clients. Those who score high on the assessment are rewarded with additional points. For 2012, the checklist was applied to a total of 12,388 companies, equivalent to 99.08% of the companies applying for loans.

Environmental Management Checklist (Applied Companies)

Type	2010	2011	2012	2013(Plan)
Checklist-applied companies (companies)	10,010	11,223	12,388	13,538
Checklist-exempted companies (companies)	139	174	115	120
Rate of checklist-applied companies (%)	98.63	98.47	99.08	99.20

* The checklist-exempted companies are public organizations.

DGB Green Finance Products

● Daegu Bank offers a variety of green financial products to strengthen its leading role as an environment-friendly bank that proactively responds to global climate change, as well as to spread environmental management among local companies. The bank's green finance products include deposits, loans, funds, and card-related products.

Green Finance Products (As of June 30, 2013)

Type	Green Finance Products	Sales Performance	
		TotalAccounts	TotalAmount (KRW in millions)
Installment Savings	Eco-friendly Green Installment Savings	77,567	289,219
	Green Health Installment Savings	9,157	30,048
	e-Convenient Installment Savings	22,116	80,133
Financial Technology Deposits	Eco-friendly Green Deposits	38,838	546,945
	e-Convenient Time Deposits	51,575	458,483
Offshore Funds	KB Global Warming Thematic Trust Investment (Equity)– Type A	160	496
	KB Global Warming Thematic Trust Investment (Equity)– Type C	95	206
Loans	DGB Green Loan	22	5,400
Cards	DGB Green Card	150,736	331,716

Green Deposits/Installment Savings to Encourage Energy-Saving

● Daegu Bank has been offering the financial industry's first environment-friendly green deposits and installment savings since July 23, 2012, in a bid to encourage energy-saving by customers, as well as in response to the government's national energy conservation campaign. These products offer prime interest rates of up to additional 0.4% to those customers participating in the weekly No-drive Day Campaign, operating low-emission vehicles or bicycles, or engaging in carbon reduction activities. The bank will also donate 0.2% of interest at maturity on these products, or equivalent to KRW 20 million at maximum, to assist needy groups with energy needs.

DGB Anti-Desertification Forest Project in Mongolia

DGB Financial Group has been working on the 'DGB Anti-Desertification Forest Project in Mongolia' since 2009 for the last 5 years. In particular, the 'Anti-Desertification Forest Event' in 2013 was attended by 16 employees from the group, the delegates from the Northeast Asian Forest Forum, the governor of Mungun Morit in Mongolia, and about 100 local residents, to spark the group's anti-desertification efforts. Moreover, about 2,100 vitamin trees were planted in the forest to help ease the financial burdens of local residents, with a total of 3,000 trees to be planted in 2013. Notably, in recognition of this 5-year-long effort, the group in 2013 was awarded an appreciation plaque from the provincial government of Mongolia. In addition, the group has been serving as a cultural diplomat by contributing to the cultural exchange with local residents.

Protection of Biological Diversity

Since the launch of its 'DGB Cyber Dokdo Branch' in 2001, Daegu Bank has been making consistent contributions to the environmental preservation of the islets, such as sending a visiting group every year to advocate the protection of the Dokdo islets' indigenous species. For 2013, about 40 participants from the DGB University Student Green Press Corps and the DGB University Student PR Corps, among other participants, joined in a visiting group and released 500 abalones indigenous to Dokdo. The released abalones were provided by the Gyeongbuk Fishery Resources Development Institute. Outside of Dokdo, the visiting group also took part in various bio-diversity preservation activities, including – making contributions to the restoration of Seom-mal Nari in Ulleung-do; conducting the '1 Company 1 River Restoration Campaign'; and holding a winter migratory bird feeding event at the Haepyeong Wetland in Gumi.

Green Education Program

The 5th NIE Energy Diary Contest Awards Ceremony

DGB Financial Group has been holding the 'NIE Energy Diary Contest' for the country's elementary, middle, and high school students since 2009. Held annually, the contest promotes environmental practices in daily life through the use of 'NIE (Newspaper in Education: Education using newspapers)', along with enhancing students' creativity and integrated thinking processes and encouraging them to write environmental diaries. Each contest hands out 10,000 copies of diaries, which are often used as a teaching material on environmental education. In addition, starting from the 4th contest in 2012, the environmental diary includes a special page on environmental preservation to promote energy conservation practices at home and reward those who achieve high energy conservation in electricity, water, or gas usage. Notably, the 2013 contest featured a new award, 'The First Prize Award of the Superintendent of the Daegu Metropolitan Office of Education' in addition to the existing grand prize awarded by the Ministry of Environment.

DGB Anti-Desertification Forest Project in Mongolia

Type	2009	2010	2011	2012	2013(Plan)
No. of Trees Planted (trees)	60,000	60,000	60,000	2,100	3,000

* Vitamin trees have been planted since 2012 to provide financial assistance.

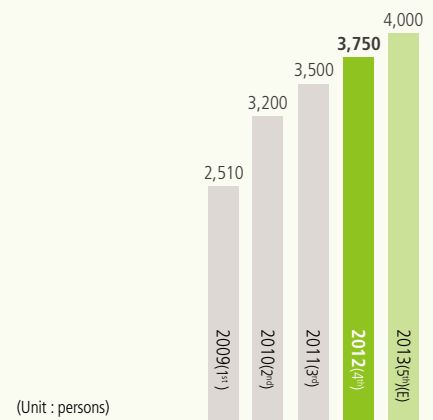


(Seom-mal Nari Restoration Project)



(Winter Migratory Bird Feeding Event)

No. of Participants in the NIE Energy Diary Contest



● **The 4th DGB University Student Green Press Corps** ①

Since 2010, DGB Financial Group has been operating the 'DGB University Student Green Press Corps', comprised of local university students, for the preservation of local environment and to raise awareness on environmental issues. The corps not only promotes the importance of the environment to the local community, but also conducts various activities for local elementary, middle, and high school students, such as delivering environmental education. Notably in 2012, it was awarded a prize at the 'CSR Strategy Proposal & Thesis Competition', hosted by the Global Compact Network Korea, for its excellence in organizing environmental activities.

DGB University Student Green Press Corps Activities (sessions)						
Type	Completion of Environmental Training	Activities in Branches	Environmental Clean-up Activities	Distribution of Environment-friendly Product Information	Collaborative Environmental Events with Local NGOs	Environment Education for Local Elementary Students
1 st Corps (7 persons)	3	2	1	1	1	2
2 nd Corps (8 persons)	3	1	1	1	2	1
3 rd Corps (8 persons)	3	2	1	1	2	1
4 th Corps (8 persons)	3	2	1	2	2 (Plan)	2 (Plan)

Spreading Awareness on Environmental Management

● **Membership in the CDSB's Korea Working Group** ②

DGB Financial Group has been serving as a member of the CDSB (Climate Disclosure Standards Board)'s Korea Working Group, which was established in July 2012. The group participated actively in the working group's activities to establish its own Climate Change Reporting Framework (CCRF) and develop climate change disclosure practices that meet global standards.

● **Participation in the Green Start National Network**

In October 2012, DGB Financial Group participated in the '3rd Green Start Contest', co-hosted by the Ministry of Environment and the Green Start National Network. Launched in October 2008, the 'Green Start' is a nationwide campaign for practicing GHG reduction in daily lives and realizing a low carbon society. At the contest, DGB Financial Group was presented with an excellence award from the Ministry of Environment in the category of private company, in recognition of its commitment in promoting various green activities, such as the enrollment of all employees into the carbon point system and the introduction of the 'Green Touch' into its organization. For 2013, the 'Green Start Contest' will be held in Daegu in November, where the group will present its various environmental activities to the public, including opening an exhibition booth.

● **Participation in Domestic and Overseas Environmental Exhibitions** ③④

DGB Financial Group has been participating in various environmental exhibitions at home and abroad. In October 2012, the group participated in the 'Low Carbon Green Growth Expo' held at COEX Convention in Seoul, hosted by the Ministry of Environment. The group opened an exhibition booth and shared its future direction as a green financial institution. Internationally, the group participated in the Biwako Environmental Business Messe in Japan and promoted its best practices in the green management field.



Environmental Performance Management

Environmental Management Implementation System

DGB Financial Group has enacted company-wide policies, regulations, and guidelines on green management to strengthen its green management activities. To that end, the group has organized the Green Finance Division, which is responsible for overseeing the green management activities pursued across the subsidiaries.

● Operation of Environmental Management System

In March 2013, Daegu Bank conducted an internal audit to evaluate the suitability, effectiveness, and efficiency of its green management system, in order to determine its compliance with applicable environmental regulations and other relevant requirements. In April, the bank conducted a third-party ex-post-facto review of its KS I ISO 14001 and KS I 7001/7002 certificates on the environmental and green management systems, which were acquired in May and November 2011 – there were zero cases of non-conformities, whereas 7 recommendations were made on increasing the rate of green purchases. Daegu Bank plans to conduct a careful review on the recommendations and adopt them accordingly.

Corrective and Preventive Measures				
Type	Non-conformities	Actions Taken	Progress Rate (%)	Notes
2011 Internal Audit	4	4	100	An approval of green management policies and 3 other cases
Compliance Evaluation	-	-	-	
2012 Internal Audit	2	2	100	Evaluation on the green impact of supplies Training on green management policies
Compliance Evaluation	-	-	-	
2013 Internal Audit	0	0	100	7 recommendations including a recommendation on the improvement of green purchase rate
Compliance Evaluation	-	-	-	

Energy Saving and GHG Emission Reduction

● Employee Environmental Training

DGB Financial Group is strengthening its green management to enhance employees' environmental awareness. Courses in green management and green financial processes are fundamental in the process of training employees for each position. Other courses, such as the greenhouse gas inventory system users' training and the internal auditors' GMS (green management system) training, are also conducted intermittently.

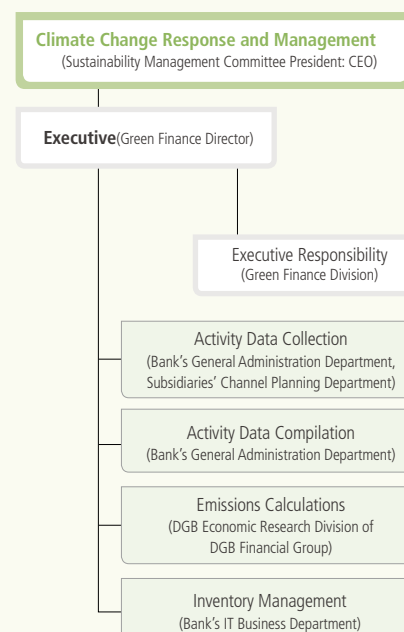
Employee Environmental Training				
Type	2010	2011	2012	2013 (Plan)
Total No. of Employees	2,567	2,561	2,626	2,700
Annual Training Hours on Green Management (hours)*	16,800	277	300	350
Training hours (hour/employee)	6.5	0.11	0.11	0.13

*The group's entire workforce received environmental training in 2010 with the introduction and implementation of the GHG Inventory System.

Environmental Management Implementation System



GHG Inventory Management System



Calculation and Verification of GHG Emissions by Third-Party Agency

DGB Financial Group's energy consumption and GHG emissions are controlled directly through the GHG Inventory System on a monthly real-time basis. Among the subsidiaries, Daegu Bank, U-Payment, Daegu Credit Information, and DGB Data System were selected for their GHG measurements, and the results were verified by an accredited third-party verification agency, including the identification of the potential reduction of GHG emissions.

Scope and Organization of GHG Reports

Reporting Scopes

Type	Emission Source	
SCOPE1	Stationary Combustion Emissions	Facilities within the scope of Daegu Bank's administration scope that use fossil fuels: boilers, restaurants, emergency electricity generators, etc.
	Mobile Combustion Emissions	Company-owned vehicles and leased (long-term lease) vehicles
SCOPE2	Purchased Electricity	Electricity Facilities
SCOPE3	Mobile (Business Trips)	Transportation methods for business trips to the countryside and overseas

Organizational Boundaries

Type	Emission Source
Head Office (including DGB Financial Holdings, DGB Data System)	Includes DGB Financial Holdings, the Information Center in the main branch annex building, and the Training Center
Branches	Includes branches in company-owned buildings and leased store branches
Vehicles	Includes company-owned and leased vehicles
Daegu Credit Information	Includes inventory report targets as a group subsidiary
U-Payment	Includes inventory report targets as a group subsidiary

Energy Consumption and GHG Emissions

DGB Financial Group manages its energy consumption and GHG emissions through the GHG Inventory System. Systematic and ongoing efforts are also put into the group's 'DGB STOP CO₂ Plan', launched in 2008, in an effort to further reduce its GHG emissions. Through these efforts, the group was able to reduce its GHG emissions in 2012 by 12.2% from the previous year, despite the expansion of its branch network.

Energy Consumption (TJ)

Type	2010	2011	2012	2013(Plan)
Total	264.90	283.47	249.26	238.00
Direct	34.63	46.88	39.42	36.00
Indirect	230.27	236.59	209.84	202.00

GHG Emissions

Type	2010	2011	2012	2013(Plan)	
Scope 1+2	32,759	34,326	30,152	29,483	
Amount of GHG emissions (tCO ₂ e)	Scope1	2,543	3,196	2,662	2,288
	Scope2	30,216	31,130	27,490	27,194
	Scope3	361	715	1,317	324

※ GHG emissions reduction goal by the end of 2013 : a 10% reduction from the GHG emissions in 2010



(GHG Emissions Verification Statement)

Indirect GHG Emissions (Scope2) (tCO₂e)

Type	2010	2011	2012	2013(Plan)
Branches	20,842	20,373	19,874	19,850
ATMs	4,751	6,122	3,555	3,500
Head Office (including DGB Financial Group and DGB Data System)	4,573	4,500	3,931	3,718
Daegu Credit Information	50	50	50	48
U-Payment	-	85	80	78

Recycling Waste and Reusing Paper

● Being a financial institution, most wastes generated by DGB Financial Group are general office wastes, such as paper, fixtures, or redundant IT equipment. Particularly for Daegu Bank, all wastes are collected by waste consignment companies. The bank also encourages its employees to reuse single-use electronic supplies at offices by replacing changeable parts.

Waste Disposal

Type	Paper		Electronics Ribbons		Printer Toner	
	Amount Disposed	Recycling Rate	Amount Disposed	Recycling Rate	Amount Disposed	Recycling Rate
2010	101.6 tons	100%	716KG	18.2%	2.4 tons	12%
2011	116.3 tons	100%	729KG	15.7%	2.6 tons	13%
2012	110.3 tons	100%	710KG	14.8%	2.5 tons	12%

Paper Consumption

● In spite of the growing number of its branches in 2012, Daegu Bank was able to reduce its paper consumption from the previous year by exerting consistent efforts for resource conservation. More paper was reused, while its customers were encouraged to shift from receiving printed paper bills to electronic e-mail bills for energy and resource conservation.

Paper Consumption (box)

Type	Amount Used
2010	8,690
2011	9,940
2012	9,425
2013(Plan)	9,300

* 1 box of paper = 500 sheets of A4 sized paper X 5 reams

E-mail Bills

Type	2010	2011	2012	2013(Plan)
No. of bills sent (total)	5,692,488	5,958,626	6,518,209	6,844,119
No. of e-mail bills sent (bills)	891,626	1,042,176	1,573,239	1,730,562
Rate of e-mail bills (%)	15.6%	17.4%	24.1%	25.3%



Reduction of CO₂ Emissions through Renewable Energy

● As part of efforts to increase the use of renewable energy, Daegu Bank has been operating solar power generators (15KW) at its Banyawol branch and Gyeongju branch since 2008, each capable of producing 1,042KW (fixed-parabolic type) and 1,381KW (fixed-rectangular type) of renewable energy on a monthly basis.

Renewable Energy (%)				
Type	2010	2011	2012	2013(Plan)
Banyawol branch	11.60	12.10	12.20	12.15
Gyeongju branch	12.10	12.45	12.50	12.40

※Electricity replacement rate at each branch

Water Resources Consumption

● In 2009, Daegu Bank has installed a rainwater collection system on the rooftop of its headquarters to preserve valuable water resources. The system can accumulate and store approximately 360 tons of rainwater every year, which can be used for various cleaning purposes, such as for car washing and cleaning restrooms and for general cleaning.

Water Consumption (tons)				
Type	2010	2011	2012	2013(Plan)
Total Amount	103,435	119,266	108,626	110,100
Amount per branch (tons)	698.8	805.0	734.0	740.0
Scope of water data collection	Headquarters and 147 branches			



Continuous Promotion of a Comprehensive GHG Reduction Plan

Continuous Promotion of Energy and Resource Conservation Campaigns

● Based on its employees' voluntary participation and mutual consensus, Daegu Bank has been conducting the 'S Line Campaign' since 2009, in a bid to achieve resource conservation. It is a bank-wide energy saving campaign, aiming to eliminate the unnecessary waste factors throughout the organization. With the goal of saving costs for energy, water, and supplies, the bank provides cash-back rewards to the departments with excellent results in reducing costs, promoting awareness on energy conservation among its employees

Savings from Energy & Resource Conservation Campaigns (KRW in thousands)			
Type	2010	2011	2012
Energy/Resource Conservation	1,793,000	940,000	1,340,000
Cash-Back	3,500	2,200	3,000

Green Touch Program

● In June 2012, DGB Financial Group was selected as the leading company in promoting the 'Green Touch Program' of the city of Daegu, and the program was implemented into the group in September. It is an electricity-saving computer program that reduces power consumption for idle computers. Since the introduction of the program, the group was able to reduce a total of 37.8 tons of carbon dioxide emissions within a span of 7 months, with active participation by its employees.

Savings from Energy & Resource Conservation Campaigns (KRW in thousands)			
Saved Electricity (kwh)	Saved Hours of Electricity (hours)	CO ₂ Reduction (KG)	Equivalent Trees Planted (trees)
89,173	877,034	37,809	13,650

* Electricity savings converted in monetary value : KRW 10,790,000 = 89,173 X KRW 121 (KRW 121/1kwh)

Green Purchase Guidelines

- A product that has earned the authentication of Environmental Mark as specified in Article 20, Section 1 of the 'Development of and Support for Environmental Technology Act'
- A product that meets the specification for recycled goods as specified in the Article 33 of the 'Act on the Promotion of Saving and Recycling of Resources' and Article 26 of the 'Industrial Development Act'
- A product bearing energy efficiency rating of 1 or 2 as specified in the 'Energy Use Rationalization Act'; A product bearing energy saving mark; A product certified as high-efficiency energy product
- A product that contributes to waste reduction
- A product acknowledged to be environment-friendly with overseas environmental certification

Promotion of Green Purchases

● DGB Financial Group practices green procurement for its needs in an effort to promote sustainable production and consumption of green products. A guideline on green procurement has been also drafted to continuously improve its green management performance. For 2012, the rate of green product purchases by the group declined 4% point to 78.2%. Accordingly, the group plans to reinforce and spread education on green procurement.

Green Product Purchases (KRW in millions)

Type	Total Product Purchase Amount	Green Purchases Amount	Green Purchase Rate (%)
2010	6,335	5,354	84.51
2011	8,465	6,902	81.54
2012	7,432	5,817	78.23

Type of Green Products Purchased (KRW in millions)

Type	2010		2011		2012	
	No. of Items	Amount	No. of Items	Amount	No. of Items	Amount
Government-approved Green Products (Authentication of Environmental Grade Mark)	11,697	4,927	12,556	5,526	11,990	5,097
Others (Bearing Energy Saving Mark)	1,135	791	1,027	802	981	720
Total Amount	12,832	5,718	13,583	6,328	12,971	5,817



DGB Financial Group creates the Green Oasis in the Heart of the Desert in Mongolia



DGB Anti-Desertification Forest Creation Project in Mongolia



DGB Financial Group Becomes an Oasis for Mongolia

Along with an increasing emphasis on corporate social responsibility, a new trend in sustainable management is emerging that places more responsibility on non-financial performance indicators, such as social, ethical, and environmental criteria. As a representative bank in Gyeongbuk, Daegu, DGB Financial Group's Daegu Bank is well recognized as an exemplary bank in sustainable management, both at home and abroad. This article introduces the bank's fulfillment of its social responsibility by creating the 'DGB Anti-Desertification Forest' in Mongolia.

Donation of the Well of Life to the Green Grassland in Mongolia

Daegu Bank's bond with Mongolia started out by lending its helping hands to Mungun Morit. Located approximately 160km far from the north-

east of Ulaanbaatar, the capital of the country, Mungun Morit is a 'Soum' – meaning district, it is an administrative subdivision of Mongolia equivalent to 'Kun' in Korea – and is a home for about 400 local residents. It is also the place where Daegu Bank donated the 'Korea-Mongolia Well of Friendship' in August 2007, in celebration of its 40th anniversary and to show its determination to be the bank with the history of 100 years. So the bond between Daegu Bank and Mongolia started out with the donation of the well to combat desertification for the residents of Mungun Morit.

Opening the Green Oasis in the Desert of Mongolia

In June 2009, Daegu Bank decided to help the local forestry community, Gurvan Naran (CEO Ajah) in creating forests and a new tree nursery, and subsequently signed an MOU with four other counterparts, including the Northeast Asian For-



『Nakdong River Magazine 1st Ed.』 p112~117 / Published in May 2012, by Nakdong River Forest of Life Corp., Maeil Newspaper

est Forum and the Mongolian Forest Forum, for conducting joint forestation efforts – this event marked the beginning of the ‘DGB Anti-Desertification Forest Project’ in Mongolia. In the middle of June 2011, about 30 employees of DGB Financial Group visited Mongolia to plant commemorative trees, in celebration of the launching of DGB Financial Holdings. The ‘DGB Anti-Desertification Forest Project’ was performed in three phases to bring a more stable livelihood of local residents. After the completion of the project, the group’s employees are attending the annual ‘Anti-Desertification Forest Event’ with local residents, promoting cross-cultural exchanges and sharing the importance of climate change and their love for mankind.

Catching Two Rabbits at Once, the Green Forest and Job Creation

Over the past three years, Daegu Bank has

planted approximately 180,000 larches on the area of 57,000m², and has consigned the maintenance of the forest to the local partner entity, Mongolian Forest Forum, for taking care of the trees in the dry climate of Mongolia. The bank is also providing full supports for the employment and maintenance expenses related to the forest, in consideration of the economic livelihood of the local residents. In addition, the bank has organized a 15,000m² tree nursery in Mungun Morit Soum, with an aim to catch two rabbits at once, the reforestation and job creation as a new source of income for the development of the local economy. All maintenance-related expenses for the nursery are fully covered by the bank, and as a result, the bank is winning overwhelming responses from the local residents.

The ‘DGB Mongolia Project’ for the Green Future

In an effort to enhance cultural exchanges and

mutual understanding with the local residents in Mongolia, Daegu Bank has donated about 2,500 summer and winter clothes, while awarding scholarship for the university students in Mungun Morit, who are studying in Ulaanbaatar. Presently, many members of the Korea Forest Service and the Korea International Cooperation Agency are helping Mongolia in its reforestation efforts. Although the country is very much different from Korea, the country holds a high regard for our country as ‘Solongos’, the country of rainbow. About 3,000 university students in Mongolia major in Korean language, and the country also boasts abundant underground resources. Looking ahead, DGB Financial Group will continue its journey as the guardian of the environment and pursue various conservation activities, such as the ‘Green Forest Project’, to bring the green future for Earth and its future generation.

BOARD OF DIRECTORS

DGB FINANCIAL GROUP

1. Ha, Chun-soo

Chairman & CEO

2. Ahn, Choong-yong

Outside Director

3. Lee, Jeong-do

Outside Director

4. Kim, Ssang-su

Outside Director

5. Chang, Ik-hyun

Outside Director

6. Lee, Ji-eun

Outside Director

7. Park, Dong-gowan

Vice President





BOARD OF DIRECTORS

DAEGU BANK

- 1. Ha, Chun-soo**
Chairman & CEO
- 2. Ahn, Choong-yong**
Outside Director
- 3. Kim, Jin-tak**
Outside Director
- 4. Hong, Jang-hee**
Outside Director
- 5. Kim, Jung-ki**
Outside Director
- 6. Sung, Nak-in**
Outside Director
- 7. Jung, Chang-mo**
Standing Auditor & Director
- 8. Lee, Chan-hee**
Vice President of Daegu Bank
- 9. Choi, Soo-won**
Vice President of Daegu Bank





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Management's Discussion & Analysis

DGB Financial Group

In May 2011, DGB Financial Holdings completed a share swap acquisition of Daegu Bank, Daegu Credit Information, and Kardnet(*), and established the financial group structure with three subsidiaries under its umbrella. In January 2012, the group acquired DGB Capital (formally Metro Asia Capital Co., Ltd.) through a share purchase agreement with the company's shareholders, and it became the group's 100-percent owned subsidiary. DGB Data System was subsequently established in April 2012, and the group currently has five subsidiaries as of the end of 2012. The group's mid-term vision is to achieve total assets of over KRW 100 trillion, a net income of above KRW 1 trillion, and a ROA of at least 1% through gradual business diversification and by becoming a superior regionally based comprehensive financial group.

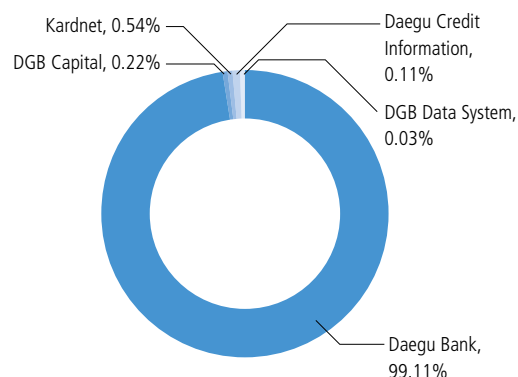
(*Kardnet was merged into U-Payment on March 7, 2013.

(KRW in billions)

	DGB Group	Daegu Bank	DGB Capital	Kardnet	Daegu Credit Info	DGB Data System	Other(*)
Gross Operating Income	964.0	956.7	7.1	3.1	1.3	0.4	(4.6)
Interest Income	924.4	916.0	9.7	0.8	0.1	0.1	(2.3)
Non-interest Income(Loss)	39.6	40.7	(2.6)	2.3	1.2	0.3	(2.3)
General and Administrative Expenses	493.6	479.9	4.6	1.1	0.9	0.3	6.8
Provisioning Expenses	111.0	109.3	1.7	0.0	0.0	0.0	0.0
Operating Income	359.4	367.5	0.8	2.0	0.4	0.1	(11.4)
Net Income	273.4	280.1	0.2	1.6	0.3	0.1	(8.9)
Total Assets	37,865.1	37,533.6	416.3	25.6	4.3	6.2	(120.9)

(*) Consolidation adjustments and trust assets

Operating Income Contribution



In 2012, DGB Financial Group's total assets amounted to KRW 37.9 trillion, a KRW 4.6 trillion increase from the previous year, while its operating income and net income reached KRW 359.4 billion and KRW 273.4 billion, respectively. Daegu Bank recorded an operating income of KRW 356.1 billion (after excluding intercompany transactions) and contributed to 99.11% of the entire group's operating income.

The ROA and ROE of DGB Financial Group in 2012 were 0.83% and 11.35%, declining by 0.12% and 2.4% year-on-year, and lower than those of Daegu Bank by 0.03% and 0.46%, respectively. This is due to the profits of non-banking subsidiaries being lower than the profits of Daegu Bank.

Type	Items	(%)
Profitability	ROA	0.83
	ROE	11.35
Asset Quality	NPL Ratio	1.04
	Loan Loss Coverage Ratio	141.8
	Delinquency Rate	0.7
Capital Adequacy	Capital Adequacy Ratio	14.62
	Tier I CAR	11.65

DGB Financial Group's asset quality index has been steadily improving for the past three years based on its preemptive risk management and proactive crisis management strategies. A sufficient BIS capital adequacy ratio has also been maintained, higher than the industry average.

Daegu Bank

I. Operating Results

Net Interest Income & Net Interest Margin (NIM)

(KRW in billions)

	2012	2011	YoY Change	
			Amount	(%)
Interest Income	1,688.2	1,673.6	14.6	0.9%
Cash & due from banks	16.4	27.5	-11.1	-40.4%
Securities	256.0	266.6	-10.6	-4.0%
Loans	1,410.0	1,373.7	36.3	2.6%
Others	5.8	5.8	0.0	0.0%
Interest Expenses	772.2	726.2	46.0	6.3%
Deposits	572.9	496.8	76.1	15.3%
Borrowings	79.4	101.1	-21.7	-21.5%
Bonds	116.6	125.8	-9.2	-7.3%
Others	3.3	2.5	0.8	32.0%
Net Interest Income	916.0	947.4	-31.4	-3.3%
Net interest margin (%)	2.78%	3.12%	-0.3%	-
Net interest spread in Won(%)	3.33%	3.79%	-0.5%	-

(KRW in billions)

	2012	2011	YoY Change	
			Amount	(%)
Interest Bearing Asset	29,004	27,046	1,958	7.2%
Interest Expense Liabilities	28,230	26,573	1,657	6.2%
Net Interest Bearing Asset	774	473	301	38.85%

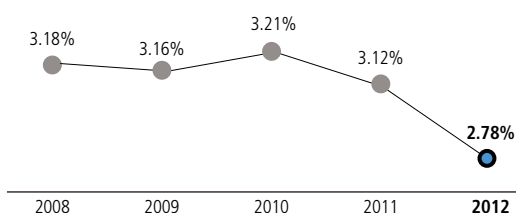
(KRW in billions)

	2012	2011	YoY Change	
			Amount	(%)
Net Interest Spread in Won	3.33%	3.79%	-0.46%	
Average Lending Rate	6.00%	6.39%	-0.39%	
Average Deposit Rate	2.67%	2.60%	0.07%	

In 2012, Daegu Bank recorded a net interest income of KRW 916.0 billion, a 3.3% decline from the previous year. Although the bank's net interest bearing assets increased by 38.85% compared to the previous year, the net interest margin declined by 0.34% on year due to the current low interest rate environment. The average lending rate decreased by 0.39% from the previous year, while the average deposit rate increased by 0.07% over the year. As a result, the net interest spread in won in 2012 was at 3.33%, a 0.46% decline from 3.79% in 2011.

Management's Discussion & Analysis

NIM for 5 years



In line with its continuous efforts to strengthen differential interest rates that reflect interbank rates and credit rating, Daegu Bank's net interest margin was maintained at a stable rate of 3.1% in the past four years. However, the net interest margin declined substantially in 2012, due to investors' preference for safer assets, fueled by the lingering Euro-zone crisis and the sluggish economic recovery at home and abroad, along with the current low interest rate environment from interest rate cuts to stimulate the economy.

Non-Interest Income

(KRW in billions)

	YoY Change			
	2012	2011	Amount	(%)
Non-Interest Income	40.7	76.9	-36.2	-47.1%
Commission income	111.4	113.2	-1.8	-1.6%
Gain on securities	26.3	51.9	-25.6	-49.3%
Gain on foreign currency transactions & derivatives products	16.5	15.1	1.4	9.3%
Gain(Loss) on disposition of loans	14.7	16.1	-1.4	-8.7%
Loss on credit card	-38.1	-37.7	-0.4	1.1%
Other operating expenses	-90.1	-68.4	-21.7	31.7%
Changes with application of K-IFRS	0.0	-13.3	13.3	-

In 2012, Daegu Bank's non-interest income amounted to KRW 40.7 billion, a 47.1% decline, or approximately KRW 36.2 billion decrease from the previous year. The decline in non-interest income is primarily attributable to a decrease in the gain on marketable securities by KRW 25.6 billion from 2011, which was coupled with an increase in other operating expenses by KRW 21.7 billion over the year, reflecting the contributions made to the trust guarantee funds and increases in deposit insurance fees.

General & Administrative Expenses

(KRW in billions)

	YoY Change			
	2012	2011	Amount	(%)
General and Administrative Expenses	479.9	461.2	18.7	4.1%
Salaries and employee benefits	243.8	233.5	10.3	4.4%
Taxes and dues & depreciation	61.8	62	-0.2	-0.3%
Retirement allowances	34.5	40.3	-5.8	-14.4%
Other G&A expenses	139.8	125.4	14.4	11.5%
Cost-income ratio (%)	49.8%	45.0%	4.8%	-

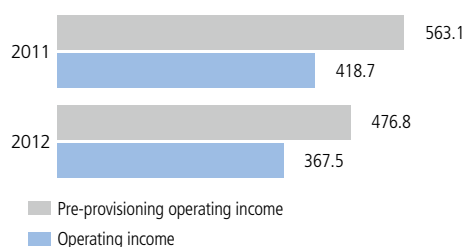
General and administrative expenses in 2012 amounted to KRW 479.9 billion, a 4.1% increase from the previous year. Due to a decrease in net interest income and an increase in general and administrative expenses, the cost-income ratio totaled 49.8%, a 4.8% increase from the previous year. As a result of the expansion of 8 additional branches and 1 cyber branch, salaries and employee benefits and other G&A expenses increased by KRW 10.3 billion and KRW 14.4 billion, respectively. The expansion of branches is expected to contribute to Daegu bank's future profits, while the increased number of employees will improve its productivity. Thus, the bank's cost-income ratio is expected to improve in 2013.

Provisioning Expenses

(KRW in billions)

	2012	2011	YoY Change	
			Amount	(%)
Pre-provisioning Operating Income	476.8	563.1	-86.3	-15.3%
Operating income	367.5	418.7	-51.2	-12.2%
Total provision	109.3	144.4	-35.1	-24.3%
Provision for loan losses	154.1	127.8	26.3	20.6%
Others	-44.8	16.6	-61.4	-369.9%

Pre-provision Income & Operating Income



Daegu Bank's pre-provisioning operating income in 2012 totaled KRW 476.8 billion, a decrease of 15.3% from the previous year. This was due to lower net interest income as a result of a decrease in net interest margin, coupled with a decrease in non-interest income following the expansion of its branches. Operating income also declined to KRW 367.5 billion, down 12.2% over the year, reflecting the decrease in accumulated provisions by KRW 35.1 billion from the previous year.

II. Financial Position

Assets

(KRW in billions)

	2012	2011	YoY Change	
			Amount	(%)
Assets	33,886.2	31,289.3	2,596.9	8.3%
Cash and due from banks	1,183.8	1,427.5	-243.7	-17.1%
Securities	6,877.5	6,214.3	663.2	10.7%
Loans	23,847.6	21,898.3	1,949.3	8.9%
Fixed assets	307.6	295.0	12.6	4.3%
Other assets	1,669.7	1,454.2	215.5	14.8%

Total assets in 2012 amounted to KRW 33,886.2 billion, an 8.3% increase from the previous year. Despite the ongoing economic recession and the uncertainties surrounding foreign economic conditions, the amount of total loans increased by 8.9% year-on-year, as a result of Daegu Bank's continued expansion of its branches and customer base, along with its active marketing approach.

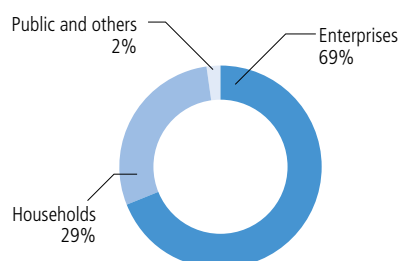
Management's Discussion & Analysis

Loans

(KRW in billions)

	2012	2011	YoY Change	
			Amount	(%)
Total Loans	23,847.6	21,898.3	1,949.3	8.9%
Loans in KRW	21,969.0	20,244.5	1,724.5	8.5%
Loans to enterprises	15,137.5	13,748.9	1,388.6	10.1%
Loans to households	6,327.0	6,070.5	256.5	4.2%
Loans to public and others	504.5	425.1	79.4	18.7%

Loan Composition



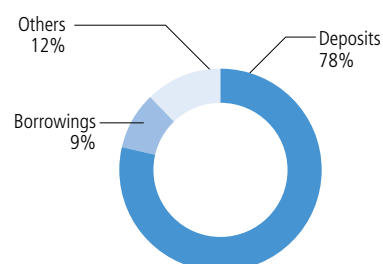
In spite of the continuing backdrop of economic recession, loans to enterprises amounted to KRW 15,137.5 billion, up 10.1% from the previous year, thanks to the improvement in local exports. However, loans to households amounted to KRW 6,327.0 billion, a slight increase from the previous year, due to the housing market recession and government regulations on loans to households. On the other hand, loans to public and others, with respectively low credit risk, amounted to KRW 504.5 billion, an 18.7% increase from the previous year.

Funding Structure

(KRW in billions)

	2012	2011	YoY Change	
			Amount	(%)
Total Liabilities	31,436.4	29,062.9	2,373.5	8.2%
Deposits	24,649.8	22,032.9	2,616.9	11.9%
Borrowings	2,899.8	3,328.8	-429.0	-12.9%
Others	3,886.8	3,701.2	185.6	5.0%

Funding Composition



Total liabilities in 2012 increased by KRW 2,373.5 billion, or an 8.2% increase from the previous year. Borrowings, with relatively high interest rates, decreased by 12.9% compared to the previous year. On the other hand, deposits, with relatively low interest rates, went up by 11.9% from the previous year, reflecting the new addition of 100,000 depositary customers.

(KRW in billions)

	2012	2011	YoY Change	
			Amount	(%)
Core deposits(A)	8,543.3	8,167.6	375.7	4.6%
Total Deposits (in KRW)(B)	22,380.4	19,336.0	3,044.4	15.7%
% of core deposits(A/B)	38.2%	42.2%	-4.1%	
Total Deposits(C)	27,177.1	25,234.6	1,942.5	7.7%
% of core deposits(A/C)	31.4%	32.4%	-0.9%	

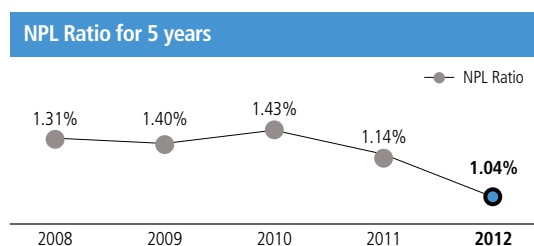
Based on the increasing attractiveness of core deposits and the strategic performance of strengthening the attractiveness of public deposits, core deposits in 2012 totaled KRW 8,543.3 billion, a 4.6% increase from the previous year. However, the percentage of core deposits among total deposits decreased slightly by 0.9% from the previous year due to the increase of total deposits.

Asset Quality

(KRW in billions)

	2012	2011	YoY Change	
			Amount	(%)
Total credits	23,786.9	22,150.1	1,636.8	7.4%
Normal	23,252.0	21,450.7	1,801.3	8.4%
Precautionary	287.0	447.6	-160.6	-35.9%
Substandard	160.7	193.7	-33.0	-17.0%
Doubtful	63.3	49.0	14.3	29.2%
Estimated loss	23.9	9.1	14.8	162.6%
NPL ratio (%)	1.04	1.14	-0.10	-
Loan loss coverage ratio (%)	141.8	154.7	-12.9	-
Delinquency rate (%)	0.70	0.92	-0.22	-

Nonperforming loans (NPL) in 2012 amounted to KRW 247.9 billion, a KRW 3.9 billion decrease from the previous year. This resulted in a NPL ratio of 1.04%, down 0.1% from the previous year. The NPL coverage ratio declined by 12.9% from the previous year, reflecting Daegu Bank's conservative approach in managing risks and for accumulating provisions.



Due to the insolvency of PF loans following the economic and apartment housing market recession in Korea caused by uncertain foreign economic conditions over the past 3 years, the NPL ratio has continuously increased by 1.31% to 1.43%. However, starting from 2011, Daegu Bank has been maintaining the industry's best NPL ratio based on its preemptive risk management and proactive crisis management. As a result, the NPL ratio in 2012 stood at 1.04%.

Capital Adequacy

(KRW in billions)

	2012	2011	YoY Change	
			Amount	(%)
Total capital	3,500.0	3,149.4	350.6	11.1%
Tier I capital	2,607.3	2,391.7	215.6	9.0%
Tier II capital	892.7	757.7	135.0	17.8%
Risk-weighted assets	23,940.0	22,210.2	1,729.8	7.8%
BIS ratio	14.62%	14.18%	0.44%	-
Tier I CAR (%)	10.89%	10.77%	0.12%	-
Tier II CAR (%)	3.73%	3.41%	0.32%	-

Total capital in 2012 amounted to KRW 3,500.0 billion, up 11.1% from the previous year, reflecting the increase of Tier I capital. Due to the increases in assets, including loans, the risk-weighted assets went up by 7.8% from the previous year. However, the BIS ratio in 2012 stood at 14.62%, up 0.44% from the previous year, reflecting the increase in total capital. This exceeds the industry average in Korea and the 8% guideline of the Bank of International Settlement (BIS).

Independent Auditors' Report

Based on a report originally issued in Korean



KPMG Samjong Accounting Corp.

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

We have audited the accompanying consolidated statements of financial position of DGB Financial Group Co., LTD. and its subsidiaries (the "Group") as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2012 and the two hundred-twenty-nine day period (the "period") ended December 31, 2011. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and 2011, and its financial performance and its cash flows for the year and period then ended in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

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. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

A handwritten signature in black ink that reads 'KPMG Samjong Accounting Corp.' The signature is written in a cursive, flowing style.

KPMG Samjong Accounting Corp.

Seoul, Korea

February 25, 2013

Notice to Readers

This report is effective as of February 25, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Consolidated Statements of Financial Position

As of December 31, 2012 and 2011

(In millions of won)	Note		2012	2011
Assets				
Cash and due from banks	5,27,43,47	₩	1,183,977	1,427,705
Financial assets held for trading	6,17,47		85,627	81,116
Financial assets designated at fair value through profit or loss fair value through profit or loss	7,11,27,47		147,614	215,553
Available-for-sale financial assets	8,11,17,27,47		1,994,272	1,743,557
Held-to-maturity financial assets	9,10,47		4,428,522	4,015,267
Loans and receivables	13,14,15,16,27,47		25,849,460	23,279,493
Derivative assets - hedging	17,47		24,435	24,862
Investments in associates	12		230	264
Property and equipment, net	18		311,363	299,123
Investment property, net	20		88,066	87,640
Intangible assets, net	19		73,726	80,380
Other assets	21		30,502	39,043
Total assets		₩	34,217,794	31,294,003
Liabilities				
Depository liabilities	22,27,47	₩	24,520,853	21,943,410
Financial liabilities held for trading	17,47		30,826	67,363
Derivative liabilities - hedging	17,47		1,097	704
Borrowings	23,27,47		2,899,804	3,328,764
Debentures	23,47		2,415,739	2,206,765
Defined benefit obligations	25		17,199	16,524
Provisions	24		30,656	31,997
Deferred income tax liabilities	41		52,299	42,565
Other liabilities	26,27		1,726,063	1,364,511
Total liabilities			31,694,536	29,002,603
Equity				
Capital stock	1,28		670,266	670,266
Capital surplus	28		1,423,536	1,423,535
Retained earnings	29,48		401,012	174,569
Accumulated other comprehensive income, net of taxes	30		28,444	23,040
Capital adjustment			-	(10)
Total equity			2,523,258	2,291,400
Total liabilities and equity		₩	34,217,794	31,294,003

Consolidated Statements of Comprehensive Income

For the year ended December 31, 2012 and the two hundred-twenty-nine day period ended December 31, 2011

(In millions of won, except earnings per share)	Note		2012	2011
Continuing operations				
Net interest income	4	₩	924,399	724,246
Interest income	4,31		1,705,678	1,284,486
Interest expense	4,31		(781,279)	(560,240)
Net fee and commission income	4		72,919	54,712
Fee and commission income	32		123,977	94,698
Commission expense	32		(51,058)	(39,986)
Net gain on financial instruments held for trading	33		38,416	11,212
Net gain on financial instruments designated at fair value through profit or loss	34		13,634	11,609
Net gain on available-for-sale financial assets	35		14,183	12,271
Net gain on derivative hedging instruments			7,541	16,192
Impairment losses on financial assets	36		(163,914)	(110,226)
Net gain (loss) on foreign currency transactions	27		21,881	(24,341)
General and administrative expenses	37,38		(493,555)	(371,745)
Other operating loss, net	39		(76,067)	(43,712)
Operating income	40		359,437	280,218
Loss on equity method accounting	12		(34)	(168)
Bargain purchase gain			2,645	-
Profit before income tax expenses			362,048	280,050
Income tax expenses	41		88,687	74,957
Profit for the year			273,361	205,093
Net unrealized change in fair value of available-for-sale financial assets, net of tax	30		5,494	(7,491)
Net unrealized change in fair value of derivative instruments for cash flow hedges, net of tax	30		-	7
Loss on translation of foreign operations	30		(89)	-
Other comprehensive income (loss) for the year, net			5,405	(7,484)
Total comprehensive income for the year		₩	278,766	197,609
Basic and diluted earnings per share (in won)	42	₩	2,039	1,542

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

For the year ended December 31, 2012 and the two hundred-twenty-nine day period ended December 31, 2011

(In millions of won)	Note	Capital stock	Capital surplus	Retained earnings	Capital adjustment	Accumulated other comprehensive income	Total equity
Balance at May 17, 2011	₩	670,266	1,421,835	-	(19,628)	-	2,072,473
Profit for the year	42	-	-	205,093	-	-	205,093
Disposal of treasury stock		-	1,700	-	19,618	-	21,318
Net unrealized change in fair value of available-for-sale financial assets	30	-	-	-	-	(7,491)	(7,491)
Net unrealized change in fair value of derivative instruments for cash flow hedges	30	-	-	-	-	7	7
Others		-	-	(30,524)	-	30,524	-
Balance at December 31, 2011	₩	670,266	1,423,535	174,569	(10)	23,040	2,291,400
Balance at January 1, 2012	₩	670,266	1,423,535	174,569	(10)	23,040	2,291,400
Year-end dividends		-	-	(46,919)	-	-	(46,919)
Profit for the year	42	-	-	273,361	-	-	273,361
Disposal of treasury stock		-	1	-	10	-	11
Net unrealized change in fair value of available-for-sale financial assets	30	-	-	-	-	5,494	5,494
Loss on translation of foreign operations	30	-	-	-	-	(89)	(89)
Balance at December 31, 2012	₩	670,266	1,423,536	401,011	-	28,445	2,523,258

Consolidated Statements of Cash Flows

For the year ended December 31, 2012 and the two hundred-twenty-nine day period ended December 31, 2011

(In millions of won)	Note	2012	2011
Cash flows from operating activities	₩	488,281	734,825
Profit for the year		273,361	205,093
Adjustments for:		(748,376)	(500,401)
Income tax expenses		88,687	74,957
Interest expense		781,279	560,240
Loss on valuation of financial assets held for trading		370	4,621
Loss on valuation of trading derivative instruments		28,025	933
Reserve for credit risk adjustment of trading derivative instruments		-	20,269
Loss on valuation of financial assets designated at fair value through profit or loss		-	1,143
Loss on sale of available-for-sale financial assets		11,424	3,143
Impairment loss of available-for-sale financial assets		9,760	8,892
Loss on valuation of hedged assets		6,745	17,125
Loss on valuation of hedging derivative instruments		1,732	965
Loss from equity method investment securities		34	168
Reserve for credit risk adjustment of hedging derivative instruments		21	-
Bad debt expenses		154,153	101,334
Provision for others		2,470	8,331
Depreciation and amortization		50,654	36,196
Retirement benefit		19,818	26,335
Loss on foreign currency transactions		113,937	515,649
Other operating expenses		4,339	1,030
Interest income		(1,705,678)	(1,284,486)
Dividend income		(22,237)	(11,672)
Gain on valuation of financial assets held for trading		(1,861)	(95)
Gain on valuation of trading derivative instruments		(75,311)	(38,782)
Reversal of reserve for credit risk adjustment of trading derivative instruments		(41,790)	-
Gain on valuation of financial assets designated at fair value through profit or loss		(7,516)	(10,219)
Gain on sale of available-for-sale financial assets		(18,707)	(23,468)
Gain on valuation of hedged asset		(192)	-
Reversal of reserve for credit risk adjustment of hedging derivative instruments		-	(78)
Gain on valuation of hedging derivative instruments		(8,317)	(17,079)
Recovery of expense on stock options		(28)	(609)
Reversal of provisions		(3,798)	(3,738)
Gain on foreign currency transactions		(135,818)	(491,308)
Other operating income		(571)	(198)
Changes in assets and liabilities:		114,311	274,537
Decrease (increase) in restricted due from banks		(108,205)	112,539
Decrease (increase) in trading securities		(21,813)	48,236
Decrease in trading derivative assets		136,377	85,897
Decrease (increase) in financial assets designated at fair value through profit or loss		74,679	(100,000)
Increase in loans and receivables		(2,812,838)	(693,600)
Increase in deferred loan origination costs		(28,563)	(8,754)

See accompanying notes to consolidated financial statements.

(In millions of won)	Note	2012	2011
Increase (decrease) in deferred loan origination fees		1,134	(1,929)
Collection of loans previously written-off		48,350	38,386
Decrease in hedging derivative assets		4,085	4,804
Decrease (increase) in other assets		(11,402)	30,258
Increase in depository liabilities		2,524,491	1,974,050
Decrease in trading derivative liabilities		(64,455)	(41,806)
Increase (decrease) in hedging derivative liabilities		3,298	(2,890)
Decrease in defined benefit obligations		(1,859)	(306)
Contributions to defined benefit plan assets		(17,318)	(15,865)
Decrease in provisions		-	(4,481)
Increase (decrease) in other liabilities		388,350	(1,150,002)
Interest paid		(726,982)	(499,649)
Interest received		1,700,281	1,246,013
Dividends received		25,437	11,672
Income taxes paid		(149,751)	(2,440)
Cash flows from investing activities		(680,412)	(148,920)
Decrease (increase) in available-for-sale financial assets, net		(252,268)	237,898
Increase in held-to-maturity financial assets, net		(413,255)	(330,130)
Decrease in investments in associates		-	(20)
Purchase of property and equipment		(22,292)	(20,890)
Disposal of property and equipment		117	253
Purchase of investment property		(1,068)	(64)
Purchase of intangible assets		(17,759)	(31,234)
Disposal of non-current assets held for sale		1,300	-
Decrease (increase) in guarantee deposits		4,483	(4,733)
Increase in cash and cash equivalents from change of consolidation scope		20,330	-
Cash flows from financing activities		(152,848)	(1,104,809)
Repayments of borrowings		(373,102)	(1,093,239)
Issuance of debentures		798,897	580,000
Repayments of debentures		(590,000)	(626,647)
Increase (decrease) in deposits for letter of guarantees, net		4,570	(4,089)
Increase in borrowings from trust accounts, net		50,364	21,393
Increase (decrease) in foreign exchange settlement credit, net		2,814	(3,576)
Increase (decrease) in domestic exchange settlement credit, net		659	(130)
Disposal of treasury stock		-	21,318
Increase in government subsidy		168	409
Decrease in government subsidy		(299)	(248)
Dividends paid		(46,919)	-
Decrease in cash and cash equivalents		(344,979)	(518,904)
Cash and cash equivalents at beginning of year		876,552	1,392,770
Effect of exchange rate in cash and cash equivalents		(6,955)	2,686
Cash and cash equivalents at end of year	43	₩ 524,618	876,552

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

1. Reporting Entity

(a) Controlling company

DGB Financial Group Co., Ltd. (the "Company") was incorporated on May 17, 2011 through a business combination involving the exchange of the Company's common stock with the former shareholders of Daegu Bank, Kardnet Inc. and Daegu Credit Information Co., Ltd. Accordingly, the comparative statements of comprehensive income, changes in equity and cash flows are for the two hundred-twenty-nine day period (the "period") ended December 31, 2011. The Company's principal business includes ownership and management of subsidiaries and associated companies that are engaged in financial services or activities and fund-lending to its operating subsidiaries. The Company's shares were listed on the Korea Exchange on June 7, 2011 and its outstanding common stock as of December 31, 2012 is ₩670,266 million.

The consolidated financial statements of the Company comprise the company and its subsidiaries (together referred to as the "Group").

(b) Subsidiaries

Consolidated subsidiaries as of December 31, 2012 are as follows

(In millions of won, except share information)

Classification	Number of shares	Ownership	Acquisition cost	Net asset value	Book value
Daegu Bank	132,125,000	100%	₩ 2,081,249	2,449,762	2,081,249
DGB Capital Co., Ltd.	12,200,000	100%	65,713	68,116	65,713
Kardnet Inc.	444,500	100%	7,243	8,674	7,243
Daegu Credit Information Co., Ltd.	600,000	100%	5,109	4,113	5,109
DGB Data System	1,200,000	100%	6,000	6,090	6,000
Total			₩ 2,165,314	2,536,755	2,165,314

(In millions of won)

Classification	Revenue	Profit for the period	Location	Reporting date
Daegu Bank	₩ 2,428,958	280,058	Daegu	December 31
DGB Capital Co., Ltd.	18,743	239	Seoul	December 31
Kardnet Inc.	8,040	1,580	Daegu	December 31
Daegu Credit Information Co., Ltd.	2,411	284	Daegu	December 31
DGB Data System	689	90	Daegu	December 31
Total	₩ 2,458,841	282,251		

(* 1) DGB Capital Co., Ltd. was consolidated using financial information as of and for the nine-month period ended December 31, 2012, as the deemed acquisition date is March 31, 2012.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(C) Changes in subsidiaries

The list of subsidiaries that were newly acquired or established during the year ended December 31, 2012 is as follows:

Company	Reason
DGB Capital Co., Ltd.	Newly acquired wholly-owned company
DGB Data System	Newly established company

① Newly acquired subsidiaries

On January 10, 2012, the Group purchased 100% of ownership interests in Metro Asia Capital, which provides credit financial services, for ₩65,713 million including capital gain taxes and security transaction taxes, and changed its name to DGB Capital Co., Ltd.

Identifiable assets and liabilities as of the deemed acquisition date, March 31, 2012 are as follows:

(In millions of won)

Description		Amount
Cash and due from banks	₩	20,330
Financial assets held for trading		590
Loans and receivables		73,989
Property and equipment		236
Intangible assets		1,177
Other asset		97,467
Borrowings		(85,000)
Deferred income tax liabilities		(72)
Defined benefit obligations		(332)
Other liabilities		(39,981)
Net assets	₩	68,494

Legal fees and due diligence fees of ₩155 million which were involved in the business combination are recognized as commission expenses in the consolidated comprehensive income statement for the year ended December 31, 2012.

② Newly established subsidiaries

On April 9, 2012, the Group newly established DGB Data System of which capital stock amounts to ₩6,000 million and became the wholly-owning parent company.

③ Other

A merger agreement was signed between Kardnet Inc. and U Payment Co., Ltd. which is a subsidiary of BC Card Co., Ltd. on March 26, 2012, and by the agreement the deal is scheduled to be closed during the quarter ended March 31, 2013.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

2. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audits of Corporations in the Republic of Korea.

The consolidated financial statements were authorized for issuance by the board of directors on February 6, 2013, which will be submitted for approval to the shareholders at a meeting to be held on March 22, 2013.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statements of financial position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 14 – Allowance for loan losses
- Note 20 – Investment property
- Note 36 – Impairment loss on financial assets

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Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 14 – Allowance for loan losses
- Note 24 – Provisions
- Note 25 – Defined Benefit Obligations
- Note 45 – Commitments and contingencies

(e) Changes in accounting policy

(i) Financial Instruments: Disclosures

The Group has applied the amendments to K-IFRS No. 1107 'Financial Instruments: Disclosures' since January 1, 2012. The amendments require disclosing the nature of transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are not derecognized in their entirety. If the Group derecognizes transferred financial assets but still retains their specific risks and rewards, the amendments require additional disclosures of their risks.

3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the changes in accounting policies as explained in Note 2 (e).

(a) Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group has four operating segments which consist of Corporate, Individuals, Public and Money Market Center, as described in Note 4.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

(ii) Special purpose entities

The Group has established a number of special purpose entities (SPEs) for trading and investment purposes. The Group does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

(iii) Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

(iv) Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interest balance below zero.

(c) Business combination

(i) Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No. 1012, 'Income Taxes'
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019, 'Employee Benefits'
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured on the basis of the remaining contractual terms of the related contract.
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No.1102, 'Share-based Payment'
- Assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No. 1105, 'Non-current Assets Held for Sale'

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

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The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No.1032, 'Financial Instruments: Presentation' and K-IFRS No.1039, 'Financial Instruments: Recognition and Measurement'.

(ii) Goodwill

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognized immediately in profit or loss.

(d) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and require unanimous consent for strategic financial and operating decisions.

The investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

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(e) 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.

(f) Non-derivative financial assets

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

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

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

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

(ii) Held-to-maturity investments

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

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

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(v) De-recognition of financial assets

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

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

(vi) Offsetting between financial assets and financial liabilities

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

(g) Derivative financial instruments, including hedge accounting

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

(i) Hedge accounting

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

(ii) Separable embedded derivatives

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

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

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

(iii) Other derivative financial instruments

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

(h) 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).

(i) Impairment of financial assets

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

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

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

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment

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was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

(j) Property and equipment

Property and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

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

Property and equipment, except for land, are depreciated on a straight-line basis or a declining-balance basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

A component that is significant compared to the total cost of property and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss.

Depreciation method and the estimated useful lives of the Group's assets are as follows:

	Description method	Useful lives (years)
Buildings	Straight-line method	40
Leasehold improvements	Straight-line method	5
Furniture, equipment and vehicles	Declining-balance method	4

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(k) Intangible assets

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

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

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

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

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

(i) Research and development

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

(ii) Subsequent expenditures

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

(l) 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.

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.

(m) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

(n) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) Finance leases

At the commencement of the lease term, the Group recognizes as financial assets and financial liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

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(iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest.

(o) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 'Impairment of Assets'.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(p) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

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(q) Fair value of financial instruments

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

Where the classification of a financial instrument requires it to be stated at fair value, fair value is determined by reference to a quoted market price for that instrument or by using a valuation model.

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, as reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument or based on any available observable market data.

Unobservable inputs are determined based on the best information available, for example by reference to similar assets, similar maturities or other analytical techniques.

(ii) Classification and level of disclosure for fair value

K-IFRSs No. 1107 'Financial Instruments: Disclosures' requires the Group to classify its financial instruments held at fair value according to a hierarchy that reflects the significance of observable market inputs. The classification of a financial instrument is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined below.

Level	Description
Level 1	Financial instruments are classified as Level 1 if their value is observable in an active market.
Level 2	If there are no quoted prices (unadjusted) in active markets, financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market.
Level 3	Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs).

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

Deposits, loans and receivables

The estimated fair values of money market deposits and deposits with a residual maturity of less than 6 months are the carrying amounts. The estimated fair values of non impaired deposits, loans and receivables are the present value of contractual cash flows discounted at current market rates by factoring in the default rates and credit spreads. The estimated fair values of individually assessed impaired deposits, loans and receivable are the present value of estimated future cash flows discounted at the original effective interest rate. The estimated fair values of collectively assessed impaired deposits, loans and receivables are the carrying amounts less allowances for loan losses.

Held-to-maturity financial assets

The fair values are the quoted prices in the market or fair values evaluated by a credible evaluator. If there is no such information, their fair values are estimated by using observable market prices of financial assets with similar credit level, maturity and profit rate.

Depository liabilities

The carrying amounts of non-interest bearing deposits and deposits with no stated maturity or a residual maturity less than 6 months are assumed to be fair values. The estimated fair value of an interest bearing deposit is the present value of future cash flows discounted at the interest rate (market rate) of a recently issued deposit with the similar maturity.

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Borrowings

The carrying amounts of borrowings with readjustable term for floating rate or a contract maturity less than 6 months are assumed to be fair values. The estimated fair value of borrowings not quoted in an active market is the present value of future cash flows discounted at the interest rate (market rate) of a recently issued borrowing with the similar maturity.

(r) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits are employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and include the cost of training overseas which the Group grants to long-serving employees. The calculation method of the Group's obligation is consistent with defined benefit plans.

(iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(iv) Retirement benefits: defined benefit plans

The Group's policy is a defined benefit plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

(v) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an

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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.

(s) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

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

Financial guarantee contracts are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period ; and
- the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period.

(t) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

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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.

(u) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(v) 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.

(w) Finance income and finance costs

(i) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(ii) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and

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syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Dividends

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

(x) 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

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets or deferred tax liabilities on investment properties measured at fair value, unless any contrary evidence exists, are measured using the assumption that the carrying amount of the property will be recovered entirely through sale.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

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Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(y) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(z) Accounting for trust accounts

The Group accounts for trust accounts separately from its bank accounts under the Financial Investment Services and Capital Markets Act. Funds transferred between a bank account and a trust account is recognized as borrowings from trust accounts in other liabilities with fees for managing the accounts recognized as non-interest income by the Group.

(aa) New standards and interpretation not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2012, and the Group has not early adopted them. Management believes the impact of the amendments on the Group's consolidated financial statements is not significant.

(i) K-IFRS No.1110, 'Consolidated Financial Statements'

The standard introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(ii) K-IFRS No.1112, 'Disclosure of Interests in Other Entities'

The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(iii) Amendments to K-IFRS No. 1019, 'Employee Benefits'

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Group's annual periods beginning on or after January 1, 2013.

(iv) K-IFRS No. 1113, 'Fair Value Measurement'

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Group's annual periods beginning on or after January 1, 2013.

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(v) Amendments to K-IFRS No. 1001, 'Presentation of Financial Statements'

The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment is mandatorily effective for annual periods beginning on or after July 1, 2012.

4. Segment Reporting

The Group has Procurement Division, Operational Division, Strategic Business Division, Management Support Division, Business Support Division, and conducts interdivisional and intradivisional performance evaluations.

An operating segment has been identified as a component of the Group on the basis of revenues and expenses, segment performance evaluations and resource allocation decisions made by the chief operation decision maker.

Reportable segments are based on economic characteristics of the services provided. The four reportable segments are as follows:

Description	Business area
Corporate	Procurement and financial services for corporate
Individuals	Procurement and financial services for individuals
Public	Procurement and financial services for public
Money market center	Securities (including stocks) investment and operation, business acquisitions and sales of public debt, derivatives design and operation, work related to foreign exchange

Segment reporting as of and for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:
(In millions of won)

		2012						Adjustment	Consolidated amount
		Corporate	Individuals	Public	Money market center	Other	Subtotal		
Net interest income (loss)	₩	360,082	307,720	98,290	172,190	(20,004)	918,278	6,121	924,399
Interest income		1,184,312	885,426	289,001	1,765,768	14,137	4,138,644	(2,432,966)	1,705,678
(Interest income from external customers)		848,850	419,698	110,279	305,294	4,117	1,688,238	17,440	1,705,678
Interest expense		(824,230)	(577,706)	(190,711)	(1,593,578)	(34,141)	(3,220,366)	2,439,087	(781,279)
(Interest expense to external customers)		(231,788)	(291,701)	(113,978)	(132,400)	(2,857)	(772,724)	(8,555)	(781,279)
Fee and commission income, net		37,854	66,150	11,245	2,310	2,710	120,269	(47,350)	72,919
Other financial income, net(*1)		21,160	2,867	890	67,838	1	92,756	21,158	113,914
Bad debt expense		-	-	-	-	-	-	(163,914)	(163,914)
Other operating loss, net		(181,905)	(302,198)	(81,764)	(31,668)	(7,369)	(604,904)	17,023	(587,881)
Operating income (loss) before tax expenses	₩	237,191	74,539	28,661	210,670	(24,662)	526,399	(166,962)	359,437
Total assets	₩	15,817,045	8,765,853	1,792,703	6,157,339	1,004,175	33,537,115	680,679	34,217,794

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(In millions of won)

		2011							
		Corporate	Individuals	Public	Money market center	Other	Subtotal	Adjustment	Consolidated amount
Net interest income (loss)	₩	274,152	240,895	77,315	150,767	(17,584)	725,545	(1,299)	724,246
Interest income		854,145	677,838	217,043	1,351,804	8,962	3,109,792	(1,825,306)	1,284,486
(Interest income from external customers)		630,865	319,938	84,025	255,579	1,510	1,291,917	(7,431)	1,284,486
Interest expense		(579,993)	(436,943)	(139,728)	(1,201,037)	(26,546)	(2,384,247)	1,824,007	(560,240)
(Interest expense to external customers)		(146,672)	(222,099)	(80,597)	(110,352)	(1,681)	(561,401)	1,161	(560,240)
Fee and commission income, net		27,594	50,308	9,507	1,595	1,608	90,612	(35,900)	54,712
Other financial Income, net(*1)		11,405	2,141	800	22,135	527	37,008	(19,147)	17,861
Bad debt expense		-	-	-	-	-	-	(101,312)	(101,312)
Other operating loss, net		(83,315)	(138,948)	(36,744)	(40,334)	(6,728)	(306,069)	(109,388)	(415,457)
Operating income (loss) before tax expenses	₩	229,836	154,396	50,878	134,163	(22,177)	547,096	(267,046)	280,050
Total assets	₩	14,791,834	8,459,039	1,863,349	6,065,938	109,103	31,289,263	4,740	31,294,003

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

5. Cash and due from Banks

(a) Cash and due from banks

Cash and due from banks as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012		2011	
		Book value	Fair value	Book value	Fair value
Cash and cash equivalents	₩	394,877	394,877	403,363	403,363
Due from banks in won	The Bank of Korea	657,510	657,510	521,235	521,235
	Commercial banks	1,200	1,200	330,000	330,000
	Non-monetary financial institutions	50,000	50,000	110,000	110,000
	Others	6,681	6,681	6,201	6,201
	Subtotal	715,391	715,195	967,436	967,436
Due from banks in foreign currencies	The Bank of Korea	21,681	21,681	29,918	29,918
	Commercial banks	12,770	12,770	12,008	12,008
	Overseas banks countries	39,258	39,258	14,980	14,980
	Subtotal	73,709	73,709	56,906	56,906
Total	₩	1,183,977	1,183,977	1,427,705	1,427,705

All due from banks balances mature within 12 months.

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(b) Restricted due from banks

Restricted due from banks as of December 31, 2012 and 2011 are as follows:

(In millions of won)

			2012	2011
Reserve deposits in won	The Bank of Korea	₩	627,510	521,235
Reserve deposits in foreign currencies	The Bank of Korea		21,681	29,918
	Overseas banks		10,168	-
			₩	659,359
				551,153

6. Financial Assets Held for Trading (except Trading Derivative Instruments)

(a) Financial assets held for trading

Financial assets held-for-trading as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012			2011		
		Book Value	Fair value	Gain on valuation	Book Value	Fair value	Loss on valuation
Listed equity securities	₩	28,240	29,731	1,491	10,364	5,838	(4,526)

(b) Fair value hierarchy financial assets held for trading

The fair value hierarchy of financial assets held-for-trading as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012			
		Level 1	Level 2	Level 3	Total
Equity securities	₩	29,731	-	-	29,731

(In millions of won)

		2011			
		Level 1	Level 2	Level 3	Total
Equity securities	₩	5,838	-	-	5,838

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

(a) Components of financial assets designated at fair value through profit or loss

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

Financial assets designated at fair value through profit or loss as of December 31, 2012 and 2011 are as follows:

(In millions of won)

Type	2012			2011		
	Book value before valuation	Fair Value (Book Value)	Gain on valuation	Fair Value (Book Value)	Fair Value (Book Value)	Gain on valuation
Equity securities	₩ 129,972	137,093	7,121	196,038	204,650	8,612
Debt securities	10,126	10,521	395	10,439	10,903	464
	₩ 140,098	147,614	7,516	206,477	215,553	9,076

All financial assets designated at fair value through profit or loss except for equity securities mature after 12 months.

(b) Classification and fair value hierarchy of financial assets designated at fair value through profit or loss

The classification and the fair value hierarchy of financial assets designated at fair value through profit or loss as of December 31, 2012 and 2011 are as follows:

(In millions of won)

Type	2012			
	Level 1	Level 2	Level 3	Total
Equity securities	₩ -	-	137,093	137,093
Debt securities	-	-	10,521	10,521
	₩ -	-	147,614	147,614

(In millions of won)

Type	2011			
	Level 1	Level 2	Level 3	Total
Equity securities	₩ -	-	204,650	204,650
Debt securities	-	-	10,903	10,903
	₩ -	-	215,553	215,553

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(c) Changes in level 3

Changes in level 3 of financial assets designated at fair value through profit or loss for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012		
		Equity securities	Debt securities	Total
Beginning balance	₩	204,650	10,903	215,553
Gain on valuation		7,121	395	7,516
Effect of exchange rate		-	(777)	(777)
Disposal		(74,678)	-	(74,678)
Ending balance	₩	137,093	10,521	147,614

(In millions of won)

		2011		
		Equity securities	Debt securities	Total
Beginning balance	₩	96,038	10,027	106,065
Gain on valuation		8,612	464	9,076
Effect of exchange rate		-	412	412
Purchase		100,000	-	100,000
Ending balance	₩	204,650	10,903	215,553

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

There is no deferred day-one profit or loss for the year ended December 31, 2012 and the period ended December 31, 2011.

8. Available-for-sale Financial Assets

(a) Available-for-sale financial assets

Available-for-sale financial assets as of December 31, 2012 and 2011 are as follows:

(In millions of won)

Type		2012			2011		
		Cost	Fair value (Book value)	Accumulated gain (loss) on valuation	Cost	Fair value (Book value)	Accumulated gain (loss) on valuation
Equity securities	Listed equity securities	₩ 63,767	48,836	(14,931)	66,458	59,847	(6,611)
	Unlisted equity securities	221,013	253,395	32,382	210,706	246,725	36,019
	Subtotal	284,780	302,231	17,451	277,164	306,572	29,408
Debt securities	Government bonds	91,053	90,973	(80)	57,653	58,436	783
	Financial debentures	300,082	302,326	2,244	500,192	501,303	1,111
	Corporate bonds	300,449	301,514	1,065	70,565	71,378	813
	Available-for-sale securities						
	In foreign currencies	73,028	76,687	3,659	11,533	9,803	(1,730)
	Other	753,283	758,061	4,778	601,156	605,061	3,905
	Subtotal	1,517,895	1,529,561	11,666	1,241,099	1,245,981	4,882
	Beneficiary certificates	166,604	162,480	(4,124)	201,301	191,004	(10,297)
	Total	₩ 1,969,279	1,994,272	24,993	1,719,564	1,743,557	23,993

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The amounts of available-for-sale financial assets except for equity securities which mature within 12 months are ₩310,959 million and ₩494,512 million as of December 31, 2012 and 2011. The amounts of available-for-sale financial assets except for equity securities which mature after 12 months are ₩1,381,082 million and ₩942,473 million as of December 31, 2012 and 2011.

The gain or loss on valuation includes accumulated loss on valuation of fair value hedged items amounting to ₩12,649 million, as of December 31, 2012 and accumulated loss on valuation of fair value hedged items amounting to ₩6,401 million, as of December 31, 2011.

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

The classification and the fair value hierarchy of available-for-sale financial assets as of December 31, 2012 and 2011 are as follows:
(In millions of won)

		2012			
Type		Level 1	Level 2	Level 3	Total
Equity securities	₩	47,192	-	255,039	302,231
Debt securities		121,221	1,394,737	13,603	1,529,561
Beneficiary certificates		28,512	133,968	-	162,480
	₩	196,925	1,528,705	268,642	1,994,272

(In millions of won)

		2011			
Type		Level 1	Level 2	Level 3	Total
Equity securities	₩	53,594	-	252,978	306,572
Debt securities		199,941	1,036,237	9,803	1,245,981
Beneficiary certificates		72,868	118,136	-	191,004
	₩	326,403	1,154,373	262,781	1,743,557

(c) Changes in level 3

Changes in level 3 of available-for-sale financial assets for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012		
		Equity securities	Debt securities	Total
Beginning balance	₩	252,978	9,803	262,781
Realized loss (impairment loss)		(13,231)	-	(13,231)
Unrealized gain (loss)		(1,366)	4,622	3,256
Acquisitions		28,810	-	28,810
Disposals		(11,473)	-	(11,473)
Transfers		(679)	-	(679)
Effect of exchange rate		-	(822)	(822)
Ending balance	₩	255,039	13,603	268,642

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(In millions of won)

		2011		
		Equity securities	Debt securities	Total
Beginning balance	₩	240,273	9,411	249,684
Realized loss (impairment loss)		(7,849)	-	(7,849)
Unrealized gain (loss)		11,770	248	12,018
Acquisitions		16,743	-	16,743
Disposals		(6,941)	-	(6,941)
Transfers		(1,018)	-	(1,018)
Effect of exchange rate		-	144	144
Ending balance	₩	252,978	9,803	262,781

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

There is no deferred day-one profit or loss for the year ended December 31, 2012 and the period ended December 31, 2011.

(e) Unrealized gain (loss)

Unrealized gain (loss) on available-for-sale financial assets for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012			
		Equity securities	Debt securities	Beneficiary certificates	Total
Beginning balance	₩	35,809	4,882	(10,297)	30,394
Realized gains on disposition of securities		(3,473)	(5,454)	12,044	3,117
Unrealized gain (loss)		(2,076)	12,077	(5,871)	4,130
Ending balance		30,260	11,505	(4,124)	37,641
Deferred income tax assets (liabilities)		(7,323)	(2,783)	998	(9,108)
Net balance	₩	22,937	8,722	(3,126)	28,533

(In millions of won)

		2011			
		Equity securities	Debt securities	Beneficiary certificates	Total
Beginning balance	₩	25,678	4,644	9,974	40,296
Realized gains on disposition of securities		520	(4,238)	(5,516)	(9,234)
Unrealized gain (loss)		9,611	4,476	(14,755)	(668)
Ending balance		35,809	4,882	(10,297)	30,394
Deferred income tax assets (liabilities)		(8,665)	(1,181)	2,492	(7,354)
Net balance	₩	27,144	3,701	(7,805)	23,040

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(f) Impairment losses

Impairment losses on available-for-sale financial assets for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

Type	2012			2011		
	Amount before impairment	Amount after impairment	Impairment loss	Amount before impairment	Amount after impairment	Impairment loss
Equity securities	₩ 11,746	1,986	9,760	16,883	8,030	8,853
Beneficiary certificate	-	-	-	82	43	39
	₩ 11,746	1,986	9,760	16,965	8,073	8,892

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

Available-for-sale securities carried at cost as of December 31, 2012 and 2011 are as follows:

(In millions of won)

	2012	2011
Korea BTL 1 st Investment Co., Ltd.	₩ -	41,831
Shinhan Infrastructure Portfolio Fund	-	34,964
Credit recovery fund callable stock	-	17,403
Pohang Techno Valley PFV	-	3,300
Union ARK Development Co., Ltd.	-	1,815
Megabowlcity	1,800	1,800
Ulsan green	-	1,732
Korea Asset Management Corp.	1,570	1,570
Kyung Ju SMC Co., Ltd.	-	1,488
Gyeongju Culture and Arts Center	-	105
Evergreencampus.Co., Ltd.	674	674
Daegu Dream Education	999	999
Green Jang Ryang Co., Ltd.	648	648
Chungjung Sangju Co.,Ltd.	706	706
Korea Enterprise Data Co., Ltd.	785	-
Evergreenkeanggi.Co., Ltd.	692	692
Daegu Exhibition&Convention Center Ltd.	615	615
A Jin Paper Co., Ltd.	563	750
Nam Yang Kwang-Jin C&G., Co., Ltd.	520	520
Yeongdeok Enviro	516	516
Others	6,105	10,134
	₩ 16,193	122,262

Notes to Consolidated Financial Statements

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Gain on disposal of securities for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012		2011	
		Book value	Gain on disposal	Book value	Gain on disposal
Badbank Harmony	₩	17	336	17	471
Korea BTL 1 st Investment Co., Ltd.		2,324	-	539	-
Shinhan Infrastructure Portfolio Fund		903	-	-	-
A Jin Paper Co., Ltd.		188	13	-	-
IL SUNG CORPORATION		-	-	1,043	-
Green Kimhae Enviro Co.,Ltd.		-	-	9	-
	₩	3,432	349	1,608	471

Impairment loss on available-for-sale securities carried at cost for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012		2011	
		Book value	Impairment loss	Book value	Impairment loss
Gyeongju Culture and Arts Center	₩	-	105	105	508
Union ARK Development Co., Ltd.		-	1,815	-	-
Sangmyung Co., Ltd		-	-	-	104
	₩	-	1,920	105	612

9. Held-to-maturity Financial Assets

(a) Held-to-maturity financial assets

Held-to-maturity financial assets as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012				
	Type	Par value	Acquisition cost	Amortized cost	Fair value	
Debt securities	Government bonds	₩ 2,519,860	2,415,918	2,444,492	2,539,941	
	Financial debentures	250,000	250,031	250,129	255,283	
	Corporate bonds	20,000	20,000	20,000	20,545	
	Other	1,709,574	1,714,094	1,713,901	1,748,618	
		₩ 4,499,434	4,400,043	4,428,522	4,564,387	

(In millions of won)

		2011				
	Type	Par value	Acquisition cost	Amortized cost	Fair value	
Debt securities	Government bonds	₩ 2,038,478	1,927,375	1,952,861	2,023,043	
	Financial debentures	290,000	289,955	290,031	295,447	
	Corporate bonds	160,000	160,000	160,000	160,616	
	Other	1,610,223	1,610,116	1,612,375	1,636,848	
		₩ 4,098,701	3,987,446	4,015,267	4,115,954	

Notes to Consolidated Financial Statements

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The amounts of held-to-maturity financial assets which mature within 12 months are ₩623,995 million and ₩719,488 million as of December 31, 2012 and 2011, respectively.

The amounts of held-to-maturity financial assets which mature after 12 months are ₩3,804,527 million and ₩3,295,779 million as of December 31, 2012 and 2011, respectively.

(b) Transferred held-to-maturity financial assets that are not derecognized in their entirety

(In millions of won)

	2012					Net position
	Held-to-maturity financial assets		Related liabilities			
	Book value	Fair value	Book value	Fair value		
Securities sold under repurchase agreement	₩	623,158	625,201	453,141	455,121	170,080

10. Collateral Securities

Investment securities pledged to various institutions as of December 31, 2012 are as follows:

(In millions of won)

Purpose	Collateralized value	Book value of Held-to-maturity securities	Guarantees
Bank of Korea borrowings	₩ 130,000	127,923	The Bank of Korea, Korea Securities Depository
Bank of Korea daylight overdraft	255,000	245,789	The Bank of Korea, Korea Securities Depository
Borrowings in foreign currencies	80,000	80,223	Industrial Bank of Korea
Derivatives transactions	71,511	67,503	Samsung Futures Inc., KB Futures Co., Ltd.
Repurchase Agreement	628,017	623,158	Korea Securities Depository
Other	235	246	Korea Securities Depository
	₩ 1,164,763	1,144,842	

11. Structured Securities

Structured securities as of December 31, 2012 are as follows:

(In thousands of US dollar)

Type	Structured form	Face amount	Book Value	Inherent risk
Financial assets designated at fair value through profit or loss	Credit linked securities	\$ 10,000	9,823	Interests may not be paid in the case that operating performance declines, but the principle will be guaranteed.
Available-for-sale financial assets	Collateral bond for loan	10,000	12,700	Interests may not be paid in the case that operating performance declines.
		\$ 20,000	22,523	

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

12. Investments in Associates

(a) Ownership

Ownership on associates as of December 31, 2012 and 2011 are as follows:

(In millions of won)

2012								
Associate(*2)	Relation	Reporting date	Number of shares owned	Owner-ship		Acquisition cost(*1)	Net asset value	Book value
Daegu FC(*3)	Associate	2012.12.31	300,000	9.20 %	₩	516	230	230

(In millions of won)

2011								
Associate(*2)	Relation	Reporting date	Number of shares owned	Owner-ship		Acquisition cost(*1)	Net asset value	Book value
Daegu FC(*3)	Associate	2011.12.31	300,000	9.20 %	₩	516	264	264

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

(*2) Interests in Consus BTL Private Special Asset Fund 1 is more than 20%(28.6%), but it was not classified as an associate as the Bank cannot exercise significant influence over the investment advisory committee of Consus BTL Private Special Asset Fund 1 by an agreement.

(*3) Interests in Daegu FC is less than 20%, but it was classified as an associate as the Group can exercise significant influence over Daegu FC through sharing of management.

(b) Equity method

(In millions of won)

2012					
			Book Value as of December 31, 2011	Loss on equity method accounting	Book Value as of December 31, 2012
Daegu FC	₩		264	(34)	230

(In millions of won)

2011					
			Book Value as of December 31, 2011	Loss on equity method accounting	Book Value as of December 31, 2012
Daegu FC	₩		432	(168)	264

(c) Summarized financial information

Summarized financial information of associates as of December 31, 2012 and 2011 are as follows:

(In millions of won)

2012						
			Assets	Liabilities	Gross revenue	Net income
Daegu FC	₩		5,533	3,034	9,126	(373)

(In millions of won)

2011						
			Assets	Liabilities	Gross revenue	Net income
Daegu FC	₩		5,613	2,741	6,938	(1,850)

Notes to Consolidated Financial Statements

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13. Loans and Receivables

(a) Loans and receivables

Loans and receivables as of December 31, 2012 and 2011 are as follows:

(In millions of won)

	Type	2012		2011		
		Book value	Fair value	Book value	Fair value	
Loans	Loans to enterprises	₩ 15,239,959	15,325,226	13,748,913	13,814,001	
	Loans to households	6,337,830	6,346,920	6,070,535	6,068,972	
	Loans to public sectors and others	405,279	406,019	346,733	347,238	
	Subtotal	21,983,068	22,078,165	20,166,181	20,230,211	
	Loans in foreign currencies	Loans to enterprises	628,551	628,125	643,358	642,680
	Loans to others banks	99,317	99,317	78,326	78,326	
	Finance lease receivables	182,106	182,161	-	-	
	Bills bought	27,533	27,533	34,714	34,714	
	Bills bought in foreign currencies	104,685	104,685	125,130	125,130	
	Payments on guarantees	911	902	96	96	
Others	Credit card accounts	423,067	422,699	443,594	443,292	
	Bonds purchased under resale agreements	200,000	200,000	290,000	290,000	
	Call loans	498,062	498,062	122,330	122,330	
	Privately placed debentures	275,839	279,555	303,663	302,457	
	Privately placed public loans	277,624	283,294	233,856	235,936	
	Other loans	17,936	17,841	-	-	
	Subtotal	1,825,657	1,834,571	1,553,383	1,553,955	
Subtotal	24,718,699	24,822,339	22,441,248	22,505,172		
Receivables	Security deposits	132,134	129,258	135,862	131,714	
	Accounts receivable	898,547	898,547	704,274	715,734	
	Accrued income	256,874	257,084	249,572	249,572	
	Other receivables	127,586	127,586	62,266	62,266	
	Subtotal	1,415,141	1,412,475	1,151,974	1,159,286	
Allowance for loan losses	(293,607)	(293,607)	(312,295)	(312,295)		
Present value discount	(4,825)	(4,825)	(7,475)	(7,475)		
Deferred loan origination fee	(5,915)	(5,915)	(6,334)	(6,334)		
Deferred loan origination cost	19,967	19,967	12,375	12,375		
Total	₩ 25,849,460	25,950,434	23,279,493	23,350,729		

The amounts of loans and receivables which mature within 12 months are ₩16,539,299 million and ₩15,968,209 million as of December 31, 2012 and 2011, respectively. The amounts of loans and receivables which mature after 12 months are ₩9,594,541 million and ₩7,625,013 million as of December 31, 2012 and 2011, respectively.

Notes to Consolidated Financial Statements

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(b) Loans in won

Loans in won as of December 31, 2012 and 2011 are as follows:

(In millions of won)

Type			2012	2011
Loans to enterprises	Operation loans	₩	9,395,813	8,911,794
	Facility loans		5,844,146	4,837,119
	Subtotal		15,239,959	13,748,913
Loans to households	Operation loans		3,849,419	4,000,736
	Housing loans		2,488,411	2,069,799
	Subtotal		6,337,830	6,070,535
Loans to public sectors and others	Operation loans		163,518	127,722
	Facility loans		241,761	219,011
	Subtotal		405,279	346,733
Total		₩	21,983,068	20,166,181

(C) Loans in foreign currencies

Loans in foreign currencies as of December 31, 2012 and 2011 are as follows:

(In millions of won)

Type			2012	2011
Loans to enterprises	Operation loans	₩	89,715	94,322
	Facility loans		276,427	331,979
	Domestic import usances		262,409	217,057
		₩	628,551	643,358

(d) Finance lease receivables

Finance lease receivables as of December 31, 2012 are as follows

(In millions of won)

		2012				
		Total investment in a lease		Unearned Interest	Net investment in a lease	
		Minimum lease payments	Unguaranteed residual value			
Within 1 year	₩	76,065	-	₩	9,484	66,581
Exceed 1 year and within 5 years		123,792	-		8,442	115,350
Total	₩	199,857	-	₩	17,926	181,931

(e) Loans transfer

Transfer of loans for the year ended December 31, 2012 is as follows:

(In millions of won)

	Transferee		Loans	The amount of disposal	Description
GD Co.,Ltd. PF loan disposal (*1)	Global City Corporation	₩	37,763	23,758	Defined disposal

(*1) Written off loans of ₩ 4,637 million are included.

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(f) Transferred loans that are derecognized in their entirety with continuing involvement

(In millions of won)

		2012		
Type of continuing involvement		Cash outflows to repurchase transferred (derecognized) assets	Carrying amount of continuing involvement (Provision)	Maximum exposure to loss
Collateral endorsement	₩	19	1	19

The maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognized financial assets or other amounts payable to the transferee in respect of the transferred assets is as follows:

(In millions of won)

		Maturity of continuing involvement	
Type of continuing involvement		Less than 1 month	
Collateral endorsement	₩	19	

14. Allowance for Loan Losses

Changes in allowance for loan losses for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012	2011
Beginning balance	₩	312,295	311,229
Bad debt expenses		154,153	101,334
Collection of written off loans		48,350	38,385
Disposal of loans		(4,286)	(13,673)
Write-offs		(192,520)	(101,534)
Unwinding effect		(20,366)	(23,446)
Effect of exchange rate		(689)	371
Others		(3,330)	(371)
Ending balance	₩	293,607	312,295

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15. Deferred Loan Origination Fees and Costs

(a) Deferred loan origination fees

Changes in deferred loan origination fees for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:
(In millions of won)

		2012	2011
Beginning balance	₩	6,334	6,080
Increase (*1)		1,193	3,386
Decrease (*1)		(1,612)	(3,132)
Ending balance	₩	5,915	6,334

(*1) Net increase of ₩66 million due to change of consolidation scope included.

(b) Deferred loan origination costs

Changes in deferred loan origination costs for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:
(In millions of won)

		2012	2011
Beginning balance	₩	12,375	3,622
Increase (*1)		29,373	14,286
Decrease (*1)		(21,781)	(5,533)
Ending balance	₩	19,967	12,375

(*1) Net increase of ₩2,241 million due to the change of consolidation scope included.

16. Restructured Loans

Restructured loans with workout plans or other similar restructuring programs as of December 31, 2012 and 2011 are as follows:
(In millions of won, except the number of companies)

Description	2012			
	The number of companies	Balance before restructuring	Allowance	Balance after restructuring
Workout	7	₩ 85,530	26,195	59,335
Restructuring, industrial rationalization	18	20,272	3,169	17,103
	25	₩ 105,802	29,364	76,438

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

Description	2011			
	The number of companies	Balance before restructuring	Allowance	Balance after restructuring
Workout	10	₩ 161,966	59,231	102,735
Restructuring, industrial rationalization	16	43,270	10,207	33,063
	26	₩ 205,236	69,438	135,798

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17. Derivative Instruments

(a) Notional amounts of unsettled derivative instruments

Notional amounts of unsettled derivative instruments as of December 31, 2012 and 2011 are as follows:

(In millions of won)

Type	2012			2011			
	Trading	Hedging	Total	Trading	Hedging	Total	
Currency related	Forward	₩ 5,422,209	-	5,422,209	3,743,599	-	3,743,599
	Swap	6,087	-	6,087	7,023	-	7,023
	Option bought	-	-	-	412,105	-	412,105
	Option sold	-	-	-	412,103	-	412,103
	Subtotal	5,428,296	-	5,428,296	4,574,830	-	4,574,830
Interest rate related	Swap	-	5,356	5,356	100,000	-	100,000
Stock related	Option bought	141,059	67,616	208,675	206,778	76,337	283,115
	Option sold	114,998	36,194	151,192	181,583	44,914	226,497
	Future sold	-	-	-	2,147	-	2,147
	Subtotal	256,057	103,810	359,867	390,508	121,251	511,759
Total	₩ 5,684,353	109,166	5,793,519	5,065,338	121,251	5,186,589	

(b) Valuation on trading and hedging derivative instruments

Valuation on trading and hedging derivative instruments as of December 31, 2012 and 2011 are as follows:

(In millions of won)

Type	2012						
	Valuation gains (losses)			Fair value (trading)		Fair value (hedging)	
	Trading (through profit or loss)	Hedging (through profit or loss)	Total	Assets	Liabilities	Assets	Liabilities
<Currency related>							
Forward	₩ 46,695	-	46,695	73,941	27,407	-	-
Swap	19	-	19	237	237	-	-
Subtotal	46,714	-	46,714	74,178	27,644	-	-
<Interest rate related>							
Swap	-	(161)	(161)	-	-	-	164
<Stock related>							
Option	570	6,746	7,316	11,786	3,182	24,561	933
Reserve for credit risk adjustment	41,791	(21)	41,770	(30,068)	-	(126)	-
Total	₩ 89,075	6,564	95,639	55,896	30,826	24,435	1,097

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(In millions of won)

Type	2011								
	Valuation gains (losses)			Total	Fair value (trading)		Fair value (hedging)		
	Trading	Hedging			Assets	Liabilities	Assets	Liabilities	
	Through profit or loss	Through profit or loss	Other Comprehensive income						
<Currency related>									
Forward	₩	41,659	-	-	41,659	86,902	34,143	-	-
Swap		17	(366)	9	(340)	257	257	-	-
Option		(5,960)	-	-	(5,960)	48,505	29,688	-	-
Subtotal		35,716	(366)	9	35,359	135,664	64,088	-	-
<Interest rate related>									
Swap		(307)	452	-	145	108	118	-	-
<Stock related>									
Option		3,109	16,029	-	19,138	11,365	3,157	24,967	704
Reserve for credit risk adjustment		(20,269)	78	-	(20,191)	(71,859)	-	(105)	-
Total	₩	18,249	16,193	9	34,451	75,278	67,363	24,862	704

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

Gain (loss) on valuation of hedged assets for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:
(In millions of won)

	2012		2011		
	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation	
Available-for-sale financial assets	₩	192	6,745	-	16,452

(d) Classification and level of derivatives

The classification and the fair value hierarchy of derivatives as of December 31, 2012 and 2011 are as follows:

Classification	2012				
	Level 1	Level 2	Level 3	Total	
Trading derivatives instrument assets(* 1)	₩	-	74,178	11,786	85,964
Trading derivatives instrument liabilities		-	27,644	3,182	30,826
Hedging derivatives instrument assets(* 1)		-	-	24,561	24,561
Hedging derivatives instrument liabilities		-	164	933	1,097

(* 1) Credit-risk adjustments are not reflected.

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(In millions of won)

Classification	2011			
	Level 1	Level 2	Level 3	Total
Trading derivatives instrument assets(*1)	₩ -	135,772	11,365	147,137
Trading derivatives instrument liabilities	-	64,206	3,157	67,363
Hedging derivatives instrument assets(*1)	-	-	24,967	24,967
Hedging derivatives instrument liabilities	-	-	704	704

(*1) Credit-risk adjustments are not reflected.

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

There is no deferred day-one profit or loss as of December 31, 2012 and 2011.

(f) Changes in level 3

Changes in level 3 for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

	2012			
	Trading derivatives instrument assets(*1)	Trading derivatives instrument liabilities	Hedging derivatives instrument assets(*1)	Hedging derivatives instrument liabilities
Beginning balance	₩ 11,365	3,157	24,967	704
Gain (loss)	875	305	3,680	(3,066)
Acquisition	2,931	-	4,361	-
Disposal	-	2,877	-	3,999
Settlement	(3,385)	(3,157)	(8,447)	(704)
Ending balance	₩ 11,786	3,182	24,561	933

(*1) Credit-risk adjustments are not reflected.

(In millions of won)

	2011			
	Trading derivatives instrument assets(*1)	Trading derivatives instrument liabilities	Hedging derivatives instrument assets(*1)	Hedging derivatives instrument liabilities
Beginning balance	₩ 7,883	117	14,841	4,083
Gain (loss)	(3,177)	(3,397)	10,881	(3,392)
Acquisition	4,252	(44)	4,671	-
Disposal	13,410	17,574	-	4,290
Settlement	(11,003)	(11,093)	(5,426)	(4,277)
Ending balance	₩ 11,365	3,157	24,967	704

(*1) Credit-risk adjustments are not reflected.

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18. Property and Equipment

(a) Property and equipment

Property and equipment as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012			2011		
		Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Land	₩	146,132	-	146,132	130,567	-	130,567
Buildings		179,903	50,395	129,508	177,349	46,109	131,240
Leasehold improvement		35,393	27,279	8,114	31,323	24,067	7,256
Furniture, equipment and vehicles		177,662	150,840	26,822	192,960	163,217	29,743
Construction-in-progress		787	-	787	317	-	317
	₩	539,877	228,514	311,363	532,516	233,393	299,123

(b) Changes in property and equipment

Changes in property and equipment for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012					
		Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩	130,567	-	-	-	15,565	146,132
Buildings		131,240	3,225	-	(4,438)	(519)	129,508
Leasehold improvement		7,256	4,037	-	(3,204)	25	8,114
Furniture, equipment and vehicles		29,743	14,501	(67)	(17,355)	-	26,822
Construction-in-progress		317	529	-	-	(59)	787
	₩	299,123	22,292	(67)	(24,997)	15,012	311,363

(In millions of won)

		2011					
		Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩	131,370	-	-	-	(803)	130,567
Buildings		134,255	2,105	-	(3,280)	(1,840)	131,240
Leasehold improvement		6,315	2,712	(46)	(2,328)	603	7,256
Furniture, equipment and vehicles		28,521	14,115	(33)	(14,355)	1,495	29,743
Construction-in-progress		283	1,958	(14)	-	(1,910)	317
	₩	300,744	20,890	(93)	(19,963)	(2,455)	299,123

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(c) Assets insured

Assets insured as of December 31, 2012 are as follows:

(In millions of won)

	Type	Insurance amount	Insurance period	Insurance company
Buildings	Package insurance	₩ 166,256	2012.01.01 ~ 2012.12.31	Samsung Fire & Marine Insurance Co., Ltd.
Leasehold improvement	Package insurance	9,941	2012.01.01 ~ 2012.12.31	Samsung Fire & Marine Insurance Co., Ltd.
Leasehold improvement	Package insurance	103	2012.05.24 ~ 2013.05.24	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	Package insurance	26,642	2012.01.01 ~ 2012.12.31	Samsung Fire & Marine Insurance Co., Ltd.
Furniture, equipment and vehicles	Package insurance	10	2012.05.24 ~ 2013.05.24	Samsung Fire & Marine Insurance Co., Ltd.
		₩ 202,952		

(d) Operating leases

Operating lease revenues and expenses for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012		2011	
		Operating lease revenues	Operating lease expenses	Operating lease revenues	Operating lease expenses
Within 1 year	₩	351	4,043	390	3,159
Exceed 1 year and within 5 years		134	5,845	98	4,730
	₩	485	9,888	488	7,889

19. Intangible Assets

Changes in intangible assets for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012					Ending balance
		Beginning balance	Additions	Amortization	Impairment loss	Transfer	
Software	₩	47,212	9,222	(16,609)	-	59	39,884
Contributed acceptance assets		9,776	-	(845)	-	-	8,931
Membership(*1)		4,551	1,477	-	(13)	-	6,015
Others(*2)		18,841	7,061	(7,006)	-	-	18,896
	₩	80,380	17,760	(24,460)	(13)	59	73,726

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(In millions of won)

		2011					Ending balance
		Beginning balance	Additions	Amortization	Impairment loss	Transfer	
Software	₩	13,382	28,772	(10,028)	-	15,086	47,212
Contributed acceptance assets		10,409	-	(633)	-	-	9,776
Membership(*1)		4,184	835	-	(155)	(313)	4,551
Others(*2)		21,908	1,627	(4,694)	-	-	18,841
	₩	49,883	31,234	(15,355)	(155)	14,773	80,380

(*1) Impairment loss of ₩13 million and ₩155 million was recognized for the year ended December 31, 2012 and the period ended December 31, 2011, respectively, due to a significant decline in its fair value.

(*2) Others consist of usable and profitable donation assets.

20. Investment Property

(a) Investment property

Changes in investment property for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012				Ending balance
		Beginning balance	Acquisition	Depreciation	Disposal and Transfer	
Land	₩	55,434	-	-	36	55,470
Buildings		32,206	1,068	(1,197)	519	32,596
	₩	87,640	1,068	(1,197)	555	88,066

(In millions of won)

		2011				Ending balance
		Beginning balance	Acquisition	Depreciation	Transfer	
Land	₩	54,631	-	-	803	55,434
Buildings		31,180	64	(878)	1,840	32,206
	₩	85,811	64	(878)	2,643	87,640

(b) Book value and fair value of investment property

The book value and fair value of investment property as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012			2011		
		Book value	Fair value	Difference	Book value	Fair value	Difference
Land	₩	55,470	66,895	11,425	55,434	65,444	10,010
Buildings		32,596	31,609	(987)	32,206	31,466	(740)
	₩	88,066	98,504	10,438	87,640	96,910	9,270

The fair value of investment property is determined by factoring in the price of similar real estate transactions by independent real estate appraisal experts.

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(c) Rental income and expenses of investment property

Rental incomes and expenses of investment property for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012		2011	
		Incomes	Expenses	Incomes	Expenses
Property with rental income	₩	802	152	588	128
Property without rental income		-	298	-	328
	₩	802	450	588	456

21. Other Assets

(a) Other assets

Other assets as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
Non-current assets held for sale	₩	-	16,807
Accumulated impairment losses		-	(188)
Prepaid expenses		13,985	19,095
Advance payments		9,752	2,021
Others		6,765	1,308
	₩	30,502	39,043

(b) Non-current assets held for sale

Non-current assets held for sale as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
Land	₩	-	16,619

22. Depository Liabilities

(a) Depository liabilities

Depository liabilities as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012		2011	
		Book value	Fair value	Book value	Fair value
Demand deposits	₩	8,993,520	8,993,263	8,554,301	8,554,301
Time deposits		14,771,669	14,761,520	12,492,841	12,464,812
Negotiable certificates of deposit		755,664	756,577	896,268	896,255
	₩	24,520,853	24,511,360	21,943,410	21,915,368

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The amounts of depository liabilities which mature within 12 months are ₩16,187,803 million and ₩14,165,691 million as of December 31, 2012 and 2011, respectively.

The amounts of depository liabilities which mature after 12 months are ₩8,333,050 million and ₩7,777,719 million as of December 31, 2012 and 2011, respectively.

(b) Demand deposits

Demand deposits as of December 31, 2012 and 2011 are as follows:

(In millions of won)

Description		2012	2011
Deposits in won	Passbook deposits	₩ 968,368	912,066
	Savings deposits	4,966,320	4,655,964
	Corporate free savings deposits	2,236,663	2,214,088
	Other	654,518	650,641
	Subtotal	8,825,869	8,432,759
Deposits in foreign currencies	Current deposits	346	726
	Passbook deposits	167,295	120,683
	Temporary deposits	10	133
	Subtotal	167,651	121,542
Total	₩ 8,993,520	8,554,301	

(c) Time deposits

Time deposits as of December 31, 2012 and 2011 are as follows:

(In millions of won)

Description		2012	2011
Deposits in won	Time deposits	₩ 13,131,165	11,334,179
	Installment savings deposits	1,047,721	750,975
	Long term housing saving deposits	227,095	234,668
	Mutual installment deposits	18,836	153,088
	Other	5,844	8,755
	Subtotal	14,430,661	12,481,665
Deposits in foreign currencies	Time deposits	337,217	10,706
	Installment savings deposits	3,791	470
	Subtotal	341,008	11,176
Total	₩ 14,771,669	12,492,841	

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23. Borrowings and Debentures

(a) Borrowings and debentures

Borrowings and debentures as of December 31, 2012 and 2011 are as follows:

(In millions of won)

Description	2012			2011				
	Average interest rate	Book value	Fair value	Average interest rate	Book value	Fair value		
Borrowings in won	The Bank of Korea	1.44%	₩ 366,394	366,394	1.45%	₩ 388,569	388,569	
	Others	2.92%	1,268,485	1,268,485	3.09%	1,642,269	1,642,269	
	Subtotal		1,634,879	1,634,879		2,030,838	2,030,838	
Borrowings in foreign currencies	Borrowings from banks	1.40%	677,194	676,961	1.36%	922,597	921,099	
Borrowings	Bonds sold under repurchase agreement	Non-bank financial institutions	3.87%	353,341	355,342	3.51%	211,959	213,652
		RP in foreign currencies	1.25%	99,800	99,779	1.32%	124,497	124,654
	Subtotal		453,141	455,121		336,456	338,306	
Call money	Borrowings in won	2.91%	100,000	100,000		-	-	
Others	Bills sold	3.55%	34,590	34,604	3.34%	38,873	38,890	
Total			2,899,804	2,901,565		3,328,764	3,329,133	
Debentures in won		4.82%	2,019,000	2,098,083	4.84%	1,809,000	1,855,111	
Others (hybrid bond)		8.60%	400,000	426,390	8.60%	400,000	437,463	
Debentures	Less discount on debentures		(3,261)	(3,261)		(2,235)	(2,235)	
Total			2,415,739	2,521,212		2,206,765	2,290,339	
Borrowings and debentures		₩	5,315,543	5,422,777	₩	5,535,529	5,619,472	

The amounts of borrowings and debentures which mature within 12 months are ₩2,151,739 million and ₩2,441,143 million as of December 31, 2012 and 2011, respectively. The amounts of borrowings and debentures which mature after 12 months are ₩3,167,065 million and ₩3,096,621 million as of December 31, 2012 and 2011, respectively.

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(b) Debentures

Debentures as of December 31, 2012 and 2011 are as follows: (In millions of won)

Issuance date	Maturity date	Interest rate (%)		2012	2011
2006-12-04	2012-01-04	5.32	₩	-	100,000
2007-02-06	2013-01-06	5.53		50,000	50,000
2007-02-06	2013-01-06	5.53		20,000	20,000
2007-02-26	2013-01-26	5.53		16,400	16,400
2007-02-26	2013-01-26	5.53		13,600	13,600
2008-01-25	2014-01-25	6.76		110,000	110,000
2008-02-28	2014-02-28	6.02		90,000	90,000
2008-11-19	2015-02-19	8.00		28,800	28,800
2008-11-19	2015-02-19	8.00		17,000	17,000
2008-11-21	2015-02-21	8.00		30,800	30,800
2008-11-21	2015-02-21	8.00		16,700	16,700
2008-11-25	2015-02-25	8.00		31,600	31,600
2008-11-25	2015-02-25	8.00		24,100	24,100
2008-12-31	2011-12-31	6.27		-	10,000
2009-01-19	2039-01-19	8.60		270,000	270,000
2009-01-29	2039-01-29	8.60		130,000	130,000
2010-07-26	2012-01-26	3.88		-	30,000
2010-07-30	2012-01-30	3.87		-	30,000
2010-08-06	2012-02-06	3.85		-	20,000
2010-08-20	2012-08-20	3.91		-	30,000
2010-08-31	2016-12-31	5.05		120,000	120,000
2010-08-31	2016-12-31	5.05		80,000	80,000
2010-10-14	2012-04-14	3.34		-	30,000
2010-10-15	2012-04-15	3.24		-	100,000
2010-10-26	2012-04-26	3.22		-	50,000
2010-11-05	2012-05-05	3.46		-	50,000
2011-02-16	2013-08-16	4.24		20,000	20,000
2011-02-21	2014-11-21	4.55		50,000	50,000
2011-02-24	2012-02-24	3.33		-	60,000
2011-04-15	2016-04-15	4.46		100,000	100,000
2011-05-02	2014-05-02	4.17		40,000	40,000
2011-05-06	2016-05-06	4.43		20,000	20,000
2011-05-16	2012-05-16	3.71		-	80,000
2011-08-03	2013-08-03	4.17		50,000	50,000
2011-09-06	2013-09-06	3.82		60,000	60,000
2011-10-20	2018-01-20	4.49		120,000	120,000
2011-10-20	2018-01-20	4.49		10,000	10,000
2011-11-24	2013-05-24	3.61		10,000	10,000
2011-11-24	2013-11-24	3.71		20,000	20,000
2012-01-27	2014-07-27	3.75		60,000	-
2012-03-08	2019-01-08	4.37		150,000	-
2012-04-19	2013-04-19	3.53		60,000	-
2012-04-25	2013-10-25	3.60		70,000	-
2012-05-14	2013-11-14	3.53		60,000	-
2012-10-09	2022-10-09	3.35		100,000	-
2011-10-20	2016-10-20	4.25		70,000	70,000
2012-01-17	2017-01-17	3.98		100,000	-
2012-06-21	2017-06-21	3.75		100,000	-
2012-11-23	2015-11-23	3.07		100,000	-
Subtotal				2,419,000	2,209,000
Less discount on debentures				(3,261)	(2,235)
Total				₩ 2,415,739	2,206,765

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24. Provisions

(a) Changes in provisions

Changes in provisions for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

Description	2012				
	Beginning balance	Increase	Decrease	Ending balance	
Allowance (*1)	₩	2,642	24	-	2,666
		4,632	1,608	-	6,240
		7,274	1,632	-	8,906
Unused commitments (*2)		13,349	146	-	13,495
Allowance for restoration (*3)		3,420	320	(201)	3,539
Other allowance		1,698	9	-	1,707
		1	-	-	1
		4,389	-	(3,549)	840
		1,866	-	(223)	1,643
		-	525	-	525
		7,954	534	(3,772)	4,716
Total	₩	31,997	2,632	(3,973)	30,656

(In millions of won)

Description	2011				
	Beginning balance	Increase	Decrease	Ending balance	
Allowance (*1)	₩	2,494	148	-	2,642
		8,598	1,071	(5,037)	4,632
		11,092	1,219	(5,037)	7,274
Unused commitments (*2)		9,015	4,334	-	13,349
Allowance for restoration (*3)		2,937	483	-	3,420
Other allowance		1,683	25	(10)	1,698
		5	4	(8)	1
		424	4,265	(300)	4,389
		2,019	64	(217)	1,866
		4,325	-	(4,325)	-
		8,456	4,358	(4,860)	7,954
Total	₩	31,500	10,394	(9,897)	31,997

(*1) Allowance is accounted for as the estimated amount that requires the Group to make specified payments to reimburse the holder for a loss which incurs because a specified debtor fails to make payment when due in accordance with the terms of a guarantee obligation.

(*2) In the case that there is the commitment to providing the credit line, allowance for unused commitment is recognized because the additional withdrawing amount and time for unused commitment is not certain and the Group is exposed to credit loss risk.

(*3) Allowance for restoration is calculated as the present value of the restoration expense estimated and calculated at a discount rate as of December 31, 2012 and 2011.

(*4) The best estimate of repayments on dormant deposits and the related contribution to Smile Microcredit Bank is recognized as provision.

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(b) Non-financial guarantee contracts

Non-financial guarantee contracts as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
Acceptances and guarantees outstanding	₩	197,013	185,394
Acceptances and guarantees outstanding in foreign currencies		57,648	82,313
Contingent acceptances and guarantees		303,277	337,995
Loan commitments		6,585,787	5,991,616
Purchasing commitments for securities		106,284	106,284
	₩	7,250,009	6,703,602

(C) Financial guarantee contracts

Financial guarantee contracts as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
Financial guarantee contract	₩	18,827	27,314
Financial guarantee contract in foreign currencies		22,964	20,035
Purchasing commitments for ABCP		60,000	60,000
	₩	101,791	107,349

25. Defined Benefit Obligations

(a) Major assumptions of actuarial valuation

Major assumptions of actuarial valuation as of December 31, 2012 and 2011 are as follows:

	2012	2011
Discount rate	4.75%	5.75%
Expected rate of return on plan assets	4.50%	4.50%
Salary increases	Application of salary increase rates of each job group and age group according to experience statistics	

(b) The gains and losses related to defined benefit plans

The gains and losses related to defined benefit plans for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012	2011
Current service cost	₩	18,369	9,349
Interest expense		3,139	1,331
Expected return on plan assets		(2,060)	(990)
Actuarial loss		370	16,790
	₩	19,818	26,480

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(c) Defined benefit obligations

Defined benefit obligations as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
Present value of retirement benefit obligations	₩	77,156	57,247
Fair value of plan assets		(59,957)	(40,723)
Net liabilities occurred from retirement benefit obligation	₩	17,199	16,524

(d) Changes in present value of retirement benefit obligations

Changes in present value of retirement benefit obligation for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012	2011
Defined benefit obligations at beginning of the year	₩	57,247	31,158
Current service cost		18,369	9,349
Interest expense		3,139	1,331
Actuarial gains and losses		(55)	17,364
Benefit paid		(1,803)	(1,955)
Transfer to related companies		259	-
Defined benefit obligations at end of the year	₩	77,156	57,247

(e) Changes in fair value of plan assets

Changes in fair value of plan assets for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012	2011
Fair value of plan assets at beginning of the year	₩	40,723	24,856
Expected return on plan assets		2,060	990
Actuarial gains and losses		(425)	574
Contribution of employer		18,868	15,212
Benefit paid		(1,515)	(909)
Transfer to related companies		246	-
Fair value of plan assets at end of the year	₩	59,957	40,723

(f) Expected rate of return on plan assets by category

Expected rate of return on plan assets by category as of December 31, 2012 and 2011 are as follows:

(In millions of won)

	2012		2011	
	Expected rate of return(*1)	Fair value on plan assets	Expected rate of return(*1)	Fair value on plan assets
Debt securities	4.50%	₩ 59,957	4.50%	₩ 40,723

(*1) Expected rate of return is the weighted average from expected return on plan assets. Management estimated expected rate of return based on historical return trends and market forecasting analysis.

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26. Other Liabilities

Other liabilities as of December 31, 2012 and 2011 are as follows:

(In millions of won)

Description	2012		2011	
	Book value	Fair value	Book value	Fair value
Suspense receipts	₩ 544	544	449	449
Accounts payable	857,881	857,881	682,269	682,269
Accrued expenses	426,072	426,072	382,621	382,621
Domestic exchange settlements credits	713	713	57	57
Prepaid cards	4,959	4,959	4,827	4,827
Debit cards	367	367	400	400
Other financial liabilities				
Guarantee deposit for securities subscription	1,189	1,189	450	450
Liabilities incurred by agency relationship	45,204	45,204	44,311	44,311
Deposit for credit control	993	993	800	800
Withholding taxes	11,398	11,398	13,361	13,361
Deposits for letter of guarantees and other	82,483	82,317	24,173	24,033
Account for agency business	127,987	127,987	31,145	31,145
Financial guarantee contract	797	797	744	744
Others	137,187	137,187	83,961	83,961
Subtotal	1,697,774	1,697,608	1,269,568	1,269,428
Other non-financial liabilities				
Unearned revenue	21,177	21,177	18,067	18,067
Income tax payable	4,343	4,343	73,490	73,490
Others	8,230	8,230	3,533	3,534
Subtotal	33,750	33,750	95,090	95,091
Discount present value (-)	(5,461)	(5,461)	(147)	(147)
Total	₩ 1,726,063	1,725,897	1,364,511	1,364,372

The amounts of other liabilities which mature within 12 months are ₩1,728,204 million and ₩727,236 million as of December 31, 2012 and 2011, respectively. The amounts of other liabilities which mature after 12 months are ₩3,320 million and ₩637,423 million as of December 31, 2012 and 2011, respectively.

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27. Assets and Liabilities Denominated in Foreign Currencies

(a) Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2012 and 2011 are as follows:

(In millions of won / thousands of US dollars)

Description		2012		2011		
		Foreign currency	Translation into won	Foreign currency	Translation into won	
	Cash in foreign currencies	\$ 53,581	₩ 57,390	\$ 41,831	₩ 48,244	
	Due from banks in foreign currencies	68,817	73,709	49,342	56,906	
	Financial assets designated at fair value through profit & loss	9,823	10,521	9,454	10,903	
	Available-for-sale financial assets	71,596	76,687	8,500	9,803	
Assets	Loans and receivables					
		Loans in foreign currencies	586,828	628,551	557,841	643,357
		Bills bought in foreign currencies	97,736	104,685	108,498	125,130
		Advances for customers in foreign currencies	255	273	83	96
		Credit card accounts in foreign currencies	1,790	1,917	1,336	1,541
		Call loans in foreign currencies	465,000	498,062	100,000	115,330
	Total foreign currency denominated assets	\$ 1,355,426	₩ 1,451,795	\$ 876,885	₩ 1,011,310	
	Deposits in foreign currencies	\$ 474,894	₩ 508,659	\$ 115,078	₩ 132,719	
Liabilities	Borrowings					
		Borrowings in foreign currencies	632,242	677,194	799,963	922,597
		Bonds sold under repurchase agreements in foreign currencies	93,175	99,800	107,948	124,497
	Provision	Financial guarantee in foreign currencies	488	523	357	412
	Other liabilities	Foreign exchanges payable	5,451	5,838	2,978	3,435
		Import deposit money in foreign currencies	9,629	10,314	7,027	8,104
	Total foreign currency denominated liabilities	\$ 1,215,879	₩ 1,302,328	\$ 1,033,351	₩ 1,191,764	

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(b) Gain and loss on foreign currency transactions

Profit and loss on foreign currency transactions for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012	2011
Gain on foreign currency transactions	₩	135,818	491,308
Loss on foreign currency transactions		(113,937)	(515,649)
Net gain (loss) on foreign currency transactions	₩	21,881	(24,341)

28. Capital Stock, Capital Surplus and Capital Adjustments

Capital stock, capital surplus and capital adjustments as of December 31, 2012 are as follows:

(a) Authorized shares	500,000,000 shares
(b) Number of shares issued	134,053,154 shares
(c) Par price	5,000 won
(d) Capital	670,265,770,000 won
(e) Capital surplus(*1)	1,423,535,920,913 won

(*1) Group's capital surplus is consists of capital in excess of par value amounting ₩1,421,835 million and gain on disposal of treasury shares amounting to ₩1,700 million.

29. Retained Earnings

(a) Retained earnings

The following table summarizes the details of retained earnings as of December 31, 2012 and 2011.

(In millions of won)

		2012	2011
Legal reserve (*1)	₩	5,248	-
Regulatory reserves for loan losses (*2)		967	-
Unappropriated retained earnings		394,797	174,569
	₩	401,012	174,569

(*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.

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(b) Statements of appropriation of retained earnings

Statements of appropriation of retained earnings for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won, except for dividend per share)

		2012	2011
I. Unappropriated retained earnings	₩	53,561	52,484
Unappropriated retained earning carried over from prior years		317	-
Profit for the year		53,244	52,484
II. Appropriations of retained earnings		50,561	52,167
Legal reserve		5,356	5,248
Regulatory reserve for loan losses		967	-
Dividends			
2012 - Dividend per share: ₩330 (6.6%)			
2011 - Dividend per share: ₩350 (7.0%)		44,238	46,919
III. Unappropriated retained earnings to be carried over to subsequent year	₩	3,000	317

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

30. Accumulated Other Comprehensive Income

Changes of accumulated other comprehensive income for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012		
		Gain (loss) on valuation of available-for-sale financial assets	Loss on translation of foreign operation	Total
Beginning balance	₩	23,040	-	23,040
Net decrease due to valuation of available-for-sale financial assets		(2,423)	-	(2,423)
Realized loss on disposition of available-for-sale securities		3,117	-	3,117
Loss on the fair value hedge accounting		6,553	-	6,553
Loss on translation of foreign operations		-	(89)	(89)
Effect of income taxes		(1,754)	-	(1,754)
Net balance at end of the year	₩	28,533	(89)	28,444

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(In millions of won)

	2011			
		Gain (loss) on valuation of available-for-sale financial assets	Gain (loss) on valuation of derivative instruments for cash flow hedge	Total
Beginning balance	₩	30,451	(7)	30,444
Net decrease due to valuation of available-for-sale financial assets		(11,862)	-	(11,862)
Realized loss on disposition of available-for-sale securities		(9,232)	-	(9,232)
Loss on the fair value hedge accounting		11,317	-	11,317
Loss on translation of foreign operations		-	9	9
Effect of income taxes		2,366	(2)	2,364
Net balance at end of the year	₩	23,040	-	23,040

31. Interest Income and Interest Expense

(a) Interest income

Interest income for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012	2011
Interest on deposits	₩	17,837	21,491
Interest on financial assets held for trading		694	144
Interest on available-for-sale financial assets		63,493	46,909
Interest on held-to-maturity financial assets		191,827	156,378
Interest on loans		1,425,078	1,055,262
Other	₩	6,749	4,302
		1,705,678	1,284,486

(b) Interest expense

Interest expense for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012	2011
Interest on deposits	₩	570,933	387,220
Interest on borrowings		79,431	77,697
Interest on debentures		125,757	93,710
Interest on borrowings from trust account		2,214	792
Other		2,944	821
	₩	781,279	560,240

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

32. Fee and Commission Income / Commission Expense

(a) Fee and commission income

Fee and commission income for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012	2011
Commissions received	₩	112,781	87,652
Guarantee fees		4,115	2,786
Commissions received related to trust account		7,081	4,260
	₩	123,977	94,698

(b) Commission expense

Commission expenses for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012	2011
Commissions paid	₩	10,106	8,853
Commissions on credit cards		40,931	31,111
Commissions paid related to trust account		21	22
	₩	51,058	39,986

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

33. Net Gain on Financial Instruments Held-for-trading

Net gain on financial instruments held-for-trading for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

Description		2012	2011
	Dividend income	₩ 90	68
Gain on securities held for trading	Gain on disposal	9,768	9,215
	Gain on valuation	1,861	95
	Subtotal	11,719	9,378
	Gain on transaction	265,095	276,363
Gain on derivatives instrument held for trading	Gain on valuation	75,311	38,782
	Reversal of reserve for credit risk adjustment	41,790	-
	Subtotal	382,196	315,145
Gain on financial instruments held for trading	₩	393,915	324,523
Loss on securities held for trading	Commission expenses (acquisition expenses)	₩ (288)	(194)
	Loss on disposal	(9,791)	(11,600)
	Loss on valuation	(370)	(4,621)
	Subtotal	(10,449)	(16,415)
Loss on derivatives instrument held for trading	Commission expenses (acquisition expenses)	(177)	(269)
	Loss on transaction	(316,848)	(275,425)
	Loss on valuation	(28,025)	(933)
	Reserve for credit risk adjustment	-	(20,269)
Subtotal	(345,050)	(296,896)	
Loss on financial instruments held for trading	₩	(355,499)	(313,311)
Net gain on financial instruments held for trading	₩	38,416	11,212

34. Net Gain on Financial Assets Designated at Fair Value through Profit or Loss

Net gain on financial assets designated at fair value through profit or loss for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

Description		2012	2011
Gain on financial assets designated at fair value through profit or loss	Dividend income	₩ 10,475	2,533
	Gain on valuation	7,516	10,219
	Total	₩ 17,991	12,752
Loss on financial assets designated at fair value through profit or loss	Loss on valuation	₩ -	(1,143)
	Loss on disposal	(4,357)	-
	Total	₩ (4,357)	(1,143)
Net gain on financial assets designated at fair value through profit or loss	₩	13,634	11,609

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December 31, 2012 and 2011

35. Net gain on Available-for-sale Financial Assets

Net gain on available-for-sale financial assets for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

	Description		2012	2011
Gain on available-for-sale financial assets	Dividend income	₩	11,673	9,070
	Gain on disposal		18,707	13,605
	Gain on redemption		1,780	9,863
	Gain on valuation of fair value hedged items		192	-
	Total	₩	32,352	32,538
Loss on available-for-sale financial assets	Loss on disposal	₩	(17)	(13)
	Loss on redemption		(11,407)	(3,130)
	Loss on fair value hedged items		(6,745)	(17,124)
	Total	₩	(18,169)	(20,267)
Net gain on available-for-sale financial assets		₩	14,183	12,271

36. Impairment Loss on Financial Assets

Impairment loss on financial assets for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012	2011
Impairment loss on available-for-sale financial assets	₩	9,760	8,892
Bad debt expenses		154,154	101,334
	₩	163,914	110,226

37. General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012	2011
Employee benefits	₩	320,625	246,285
Rent		14,423	11,103
Depreciation		26,194	20,841
Amortization		24,460	15,355
Tax and dues		12,900	9,731
Advertising expense		9,765	8,228
Physical training expense		1,179	1,354
Service expense		27,937	20,470
Others		56,072	38,378
Total	₩	493,555	371,745

Notes to Consolidated Financial Statements

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38. Share-based Payment Transactions

(a) Stock options

(i) Stock options as of December 31, 2012 are as follows:

		8 th	9 th
Shares to be issued		28,008 shares	28,030 shares
Grant date		2007.12.27	2008.03.12
Exercise method		Cash settlement	Cash settlement
Conditions		Service conditions/ Performance conditions	Service conditions/ Performance conditions
Exercise price per share in won	₩	15,297	13,099
Exercise period		2010.12.28 ~ 2013.12.27	2011.3.13 ~ 2014.3.12

(ii) Change in cash-settled share appreciation rights for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In won)

	2012			2011		
	Shares	Weighted average exercise price per share		Shares	Weighted average exercise price per share	
At beginning of year	178,060 shares	₩	15,066	256,991 shares	₩	15,523
Exercise	122,022 shares		15,465	78,931 shares		7,674
At end of year	56,038 shares		14,198	178,060 shares		15,066

(iii) Major factors of measuring fair value by using the Black-Scholes option pricing model as of the year ended December 31, 2012 are as follows:

(In won)

	Option pricing model	Stock price	Option price	Expected variance	Expected life	Risk free rate	Fair value
8 th	Black-Scholes option pricing model	₩ 14,550	15,297	27.19%	0.99years	2.78%	1,239
9 th	Black-Scholes option pricing model	14,550	13,099	26.44%	1.19years	2.79%	2,364

(iv) Expense (revenue) of stock option for the year ended December 31, 2012 and the period ended December 31, 2011 is as follows:

(In millions of won)

Description		2012	2011
Commission expense (income)	₩	26	(145)
General and administrative expense (reversal)		(28)	(166)
Expense (revenue) of stock option	₩	(2)	(311)

(v) Liability for stock option as of December 31, 2012 and 2011 are as follows:

(In millions of won)

Classification		2012	2011
Long-term accrued expenses	₩	101	125

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December 31, 2012 and 2011

38. Share-based Payment Transactions

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

(i) The group granted equity linked special incentive for the purpose of motivating long-term performance. Details of equity linked special incentive as of December 31, 2012 are as follows:

	4 th	5 th	6 th	7 th
Shares to be granted	4,885 shares	5,223 shares	52,209 shares	10,291 shares
Grant date	2010. 12. 28	2011. 03. 18	2011. 12. 28	2012. 03. 22
Exercise method	Cash settlement	Cash settlement	Cash settlement	Cash settlement
Conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions	Service conditions/ Performance conditions
Exercise price per share in won ₩	15,253	16,323	-	-
Vesting period	3 years	3 years	3 years	3 years

(ii) Changes in long-term performance share plan for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:
(In won)

	2012		2011	
	Shares	Weighted average exercise price per share	Shares	Weighted average exercise price per share
At beginning of year	60,103 shares	₩ 11,283	67,888 shares	₩ 11,770
Shares to be granted	62,500 shares	-	5,223 shares	16,323
Shares exercised	49,995 shares	10,374	13,008 shares	15,849
At end of year	72,608 shares	2,200	60,103 shares	11,283

(iii) Major factors of measuring fair value by using the Black-Scholes option pricing model as of December 31, 2012 are as follows:
(In won)

	Option pricing model	Stock price	Option price	Expected variance	Expected life	Risk free rate	Fair value
4 th	Black-Scholes option pricing model	₩ 14,550	15,253	27.19%	0.99 years	2.78%	1,306
5 th	Black-Scholes option pricing model	14,550	16,323	26.63%	1.21 years	2.79%	1,078
6 th	Black-Scholes option pricing model	14,550	-	31.06%	1.99 years	2.82%	14,029
7 th	Black-Scholes option pricing model	14,550	-	31.06%	2.22 years	2.82%	13,969

(iv) Expense of equity linked special incentive for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:
(In millions of won)

	2012	2011
Expense of equity linked special incentive General and administrative expense ₩	823	284

(iv) Liability of equity linked special incentive as of December 31, 2012 and 2011 are as follows:
(In millions of won)

	2012	2011
Long-term accrued expenses ₩	664	583

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39. Other Operating Loss, net

Other operating loss, net for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

Description		2012	2011
Other operating income	₩	35,094	30,523
Gain on sale of loans		18,258	19,491
Others		16,836	11,032
Other operating loss		(111,161)	(74,235)
Fees for credit guarantee fund		(44,878)	(30,577)
Deposit insurance premiums		(33,357)	(21,757)
Loss on sale of loans		(6,194)	(4,318)
Collecting expenses for written-off loans		(311)	(1,024)
Others		(26,421)	(16,559)
Other operating loss, net	₩	(76,067)	(43,712)

40. Operating Revenue and Expense

Operating revenue and expense for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012	2011
Operating revenue	₩	2,454,158	2,287,911
Interest Income		1,705,678	1,284,485
Fee and commission income		123,977	94,699
Gain on financial assets held-for-trading		393,916	324,523
Gain on financial assets designated at fair value through profit or loss		17,991	12,752
Gain on available-for-sale financial assets		32,352	32,538
Income on hedging derivative instruments		9,332	17,083
Income on foreign currency transactions		135,818	491,308
Others		35,094	30,523
Operating expense		(2,094,721)	(2,007,693)
Interest expense		(781,279)	(560,240)
Commission expense		(51,057)	(39,986)
Loss on financial assets held-for-trading		(355,499)	(313,311)
Loss on financial assets designated at fair value through profit or loss		(4,357)	(1,143)
Loss on available-for-sale financial assets		(18,169)	(20,267)
Loss on hedging derivative instruments		(1,793)	(891)
Loss on foreign currency transactions		(113,937)	(515,649)
Impairment loss on financial assets		(163,914)	(110,226)
General and administrative expenses		(493,555)	(371,745)
Others		(111,161)	(74,235)
Net operating income	₩	359,437	280,218

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

41. Income Taxes

(a) Income taxes

Income taxes for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

Classification		2012	2011
Current income tax	₩	80,645	80,772
Changes in temporary differences		9,796	(8,179)
Income tax expenses directly charged to equity		(1,754)	2,364
Income tax expenses	₩	88,687	74,957

(b) The reconciliation of effective tax rate

The reconciliation of effective tax rate for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

Classification		2012	2011
Profit before income tax expenses	₩	362,048	280,050
Income tax calculated at the statutory tax rate		87,154	69,257
Adjustments			
Income not taxable for tax purposes	₩	(909)	(25,748)
Expense not deductible for tax purposes		3,080	33,589
Tax credit		-	(33)
Additional payment of income taxes		158	2,553
Tax rate change effect		-	29
Others		(796)	(4,690)
Income tax expenses		88,687	74,957
Effective tax rate		24.50%	26.77%

Statutory tax rates for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

Tax base	2012	2011
Less than ₩200 million	11%	11%
More than ₩200 million ~ Less than ₩20,000 million	22%	24.2%
More than ₩20,000 million	24.2%	24.2%

Notes to Consolidated Financial Statements

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(c) Changes in deferred tax assets (liabilities)

Changes in deferred tax assets (liabilities) for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:
(In millions of won)

	2012							
	Temporary differences to be deducted from (added to) taxable income				Deferred income tax assets (liabilities)			
	Beginning Balance	Increase	Decrease	Ending Balance	Beginning Balance	Increase	Decrease	Ending Balance
<Temporary differences>								
Accrued income	₩ (154,369)	(163,164)	(154,055)	(163,478)	(37,357)	(39,486)	(37,281)	(39,562)
Present value discount on securities	(52,464)	(26,900)	(10,856)	(68,508)	(12,696)	(6,510)	(2,627)	(16,579)
Gain on valuation of securities	47,598	(11,191)	(16,036)	52,443	11,520	(2,708)	(3,881)	12,693
Gain on valuation of derivatives	(14,086)	(63,250)	(22,160)	(55,176)	(3,409)	(15,307)	(5,363)	(13,353)
Allowance for loan losses	(29,388)	-	(29,388)	-	(7,112)	-	(7,112)	-
Other provisions, etc.	28,556	27,137	28,577	27,116	6,910	6,567	6,915	6,562
Unused annual/ monthly leave	26,244	27,793	26,198	27,839	6,351	6,726	6,340	6,737
Dormant deposit	5,420	-	776	4,644	1,311	-	188	1,123
Others	(1,496)	17,908	18,387	(1,975)	(666)	4,305	4,450	(811)
Subtotal	(143,985)	(191,667)	(158,557)	(177,095)	(35,148)	(46,413)	(38,371)	(43,190)
<Accumulated other comprehensive income>								
Gain on valuation of AFS financial assets	(30,394)	(37,643)	(30,394)	(37,643)	(7,354)	(9,109)	(7,355)	(9,108)
Total	₩ (174,379)	(229,310)	(188,951)	(214,738)	(42,502)	(55,522)	(45,726)	(52,298)

Notes to Consolidated Financial Statements

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(In millions of won)

2011									
Temporary differences to be deducted from (added to) taxable income					Deferred income tax assets (liabilities)				
	Beginning Balance	Increase	Decrease	Ending Bal- ance	Beginning Balance	Increase	Decrease	Ending Balance	
<Temporary differences>									
Accrued income	₩ (128,933)	(25,702)	(266)	(154,369)	(29,754)	(7,667)	(64)	(37,357)	
Present value discount on securities	(50,997)	(21,125)	(19,658)	(52,464)	(11,529)	(5,790)	(4,623)	(12,696)	
Gain on valuation of securities	45,438	(3,313)	(5,473)	47,598	10,996	(581)	(1,105)	11,520	
Gain on valuation of derivatives	(36,771)	22,685	-	(14,086)	(8,899)	5,490	-	(3,409)	
Allowance for loan losses	(55,383)	(5,376)	(31,371)	(29,388)	(12,185)	(1,301)	(6,374)	(7,112)	
Other provisions, etc.	34,607	(6,051)	-	28,556	8,344	(1,434)	-	6,910	
Unused annual/ monthly leave	-	26,244	-	26,244	-	6,351	-	6,351	
Dormant deposit	10,559	(5,139)	-	5,420	2,555	(1,244)	-	1,311	
Others	(883)	11,478	12,091	(1,496)	(491)	2,754	2,929	(666)	
Subtotal	(182,363)	(6,299)	(44,677)	(143,985)	(40,963)	(3,422)	(9,237)	(35,148)	
<Accumulated other comprehensive income>									
Gain on valuation of AFS financial assets	(40,262)	9,902	34	(30,394)	(9,720)	2,374	8	(7,354)	
Loss on valuation of derivatives for cashflow hedge	8	(8)	-	-	2	(2)	-	-	
Subtotal	(40,254)	9,894	34	(30,394)	(9,718)	2,372	8	(7,354)	
Tota	₩ (222,617)	3,595	(44,643)	(174,379)	(50,681)	(1,050)	(9,229)	(42,502)	

(d) Deferred tax assets (liabilities) before offset

Deferred tax assets (liabilities) before offset as of December 31, 2012, 2011 are as follows:

(In millions of won)

Tax base	2012	2011
Deferred tax assets	₩ 44,469	26,156
Deferred tax liabilities	(96,767)	(68,658)
Deferred tax liabilities, net	₩ (52,298)	(42,502)

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.

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41. Income Taxes

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

Income tax payable and prepaid income tax before offset as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
Income tax payable	₩	74,160	108,661
Prepaid income tax		69,817	35,171
Income tax payable, net	₩	4,343	73,490

42. Earnings per Share

(a) Basic earnings per share

(In won, except share information)

		2012	2011
Net income of common stock	₩	273,361,356,855	205,093,265,732
Weighted average number of common shares outstanding		134,052,970	132,984,719
Basic earnings per share	₩	2,039	1,542

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

43. Cash and Cash Equivalents

Cash and cash equivalents on statements of cash flows as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
Cash and due from banks	₩	1,183,977	1,427,705
Restricted cash and deposits		(659,359)	(551,153)
	₩	524,618	876,552

44. Significant Non-cash Transactions

Significant non-cash transactions for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

Description		2012	2011
Decrease in loans due to writing-off	₩	192,520	101,534
Decrease in loans due to disposal		4,286	13,673
Decrease in loans due to restructuring		5,231	133
Transferred to land from non current assets Held for sale		15,061	-
Transferred to buildings from construction-in-progress		-	1,495
Transferred to leasehold improvement from construction-in-progress		-	293
Transferred to software from construction-in-progress		-	122

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45. Commitments and Contingencies

As of December 31, 2012, there are 7 pending lawsuits brought to court by the Group, as a plaintiff, amounting to ₩944 million and 32 pending lawsuits against the Group amounting to ₩3,677 million. The material lawsuit case is as follow:

A lawsuit amounting to ₩2,309 million has been filed against the Group in which the right of inheritance on the terminated deposit is claimed for by the plaintiff, the Group is in a joint action together with three other commercial banks and BAE, KIM & LEE LLC as the legal counsel. As of December 31, 2012 the first trial is underway, and the Group believes that it is unlikely to be decided in favor of the plaintiff since the deposit was legally terminated by a legal delegate or the dead.

The Group recognized no provision in respect to the lawsuits. The Group believes that the pending lawsuits will not have a material adverse effect on the Group's financial position, operating results and cash flows.

46. Transactions with Related Companies

(a) Related parties

Related parties with the Group as of December 31, 2012 are as follows:

(In millions of won)

Name	Relation	Ownership	Capital stock
Daegu FC (*1)	Associate company	9.20%	16,310

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

(b) Transactions between the Company and Subsidiaries

Intra-group balances and transactions with subsidiaries are eliminated in preparing the consolidated financial statements.

Major balances between the Company and subsidiaries as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012	2011
	Assets		
Daegu Bank	Deposits	₩ 7,623	64,519
	Receivables (Guarantee deposits received)	1,380	1,380
	Others	62,111	57,236
	Subtotal	₩ 71,114	123,135
DGB Capital Co., Ltd.	Loans	285,000	-
	Accrued interest	1,241	-
	Subtotal	286,241	-
	Total	₩ 357,355	123,135

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December 31, 2012 and 2011

Major transactions between the Company and subsidiaries for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

			2012	2011
Income				
Daegu Bank	Interests earned	₩	846	422
	Dividend		62,098	56,814
	Others		22	-
	Subtotal		62,966	57,236
DGB Capital Co., Ltd.	Interests earned		5,255	-
Kardnet Inc.	Dividend		1,569	-
Daegu Credit Information Co., Ltd.	Dividend		1,500	-
Total			₩ 71,290	57,236
Expense				
Daegu Bank	Others	₩	118	58

(c) Transactions between Daegu Bank and other subsidiaries or associates

Intra-group balances and transactions between Daegu Bank and other subsidiaries or associates are eliminated in preparing the consolidated financial statements.

Major balances between Daegu Bank and other subsidiaries or associates as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012					
		DGB Capital Co., Ltd.	Daegu Credit Information Co., Ltd.	Kardnet Inc.	DGB Data System	Daegu FC	Principal and interest guaranteed trusts
Assets	Other	₩	-	-	-	-	27
	Deposits	₩	92,618	3,794	20,891	3,964	641
	Certificate of deposit		-	-	-	132	-
Liabilities	Guarantee deposits received		1,336	140	150	1,867	-
	Other		116	235	1,135	73	609
	Total	₩	94,070	4,169	22,176	6,036	1,250

(In millions of won)

		2011				
		Daegu Credit Information Co., Ltd	Kardnet Inc.	Daegu FC	Principal and interest guaranteed trusts	
Assets	Other	₩	-	-	-	24
	Deposits	₩	3,567	20,993	2,836	-
Liabilities	Guarantee deposits received		140	150	-	-
	Other		251	1,030	-	30
	Total	₩	3,958	22,173	2,836	30

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Major transactions between Daegu Bank and other subsidiaries or associates for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012						
		DGB Capital Co., Ltd.	Daegu Credit Information Co., Ltd.	Kardnet Inc.	DGB Data System	Daegu FC	Principal and interest guaranteed trusts	
Income	Trust fee	₩	-	-	-	-	1,057	
	Other		-	1	629	14	-	
	Total	₩	-	1	629	14	1,057	
Expenses	Interest on deposits	₩	191	126	729	84	69	-
	Interest on trust accounts		-	-	-	-	-	933
	Other		6	1,944	761	581	-	-
	Total	₩	197	2,070	1,490	665	69	933

(In millions of won)

		2011				
		Daegu Credit Information Co., Ltd	Kardnet Inc.	Daegu FC	Principal and interest guaranteed trusts	
Income	Trust fee	₩	-	-	-	495
	Other		1	511	-	-
	Total	₩	1	511	-	495
Expenses	Interest on deposits	₩	130	679	139	-
	Interest on trust accounts		-	-	-	336
	Other		1,993	908	1,375	-
	Total	₩	2,123	1,587	1,514	336

(d) Compensation for key management personnel

Details of key management personnel compensation in total and for each of the following categories for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won)

		2012	2011
Short-term employee benefits	₩	4,660	3,093
Other long-term benefits		1,088	(187)
Post-employment benefits		2,377	569
Share-based payment		87	(166)
Total	₩	8,212	3,309

47. Financial Risk Management

(a) Purpose of risk management

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

(b) Risk management organization

The Group's risk management organization consists of a risk management committee, risk management council, risk management working group, risk management department and sub-risk management departments. The risk management committee (the Committee) is the top decision-making body chaired by an outside director. It sets up risk management strategy, maintains the adequacy of capital level and manages risk tolerance. Commissioned by the Committee, the risk management council (the Council) deliberates and resolves issues on the agenda, develops and controls risk management strategies and policies and oversees interest rates, capital supply and management risks involving new products and businesses. The risk management working group (the Working Group) monitors the operation and practical review of resolutions and deliberations of and by the Council. The risk management department (the Department) assists top management, the Committee, the Council and individual risk management department of each division fine-tune their risk management plans and measure as well as analyze risks at the division level. The Group sets up sub-risk management departments for credit risk, liquidity risk, market risk and operational risk and each department is responsible for compliance with risk management strategy and policy. Through the step-by-step loss management (MAT), the Group built a step-by-step reporting system which prevents additional loss and controls risk efficiently for the excessive loss on trade and valuation of the loss limited portfolio.

(c) Credit risk

Purposes of credit risk management

Credit risk is the risk of financial loss to The Group, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's balance accounts and off balance accounts such as loans and receivables, payment guarantee, securities, derivatives from customers and investment securities. The purposes of credit risk management are to maintain the asset quality by controlling loss possibility for the counterparty in falling to meet its contractual obligations and to manage industry type and borrower type concentration risk by controlling a loan portfolio and the credit share limit.

Credit risk management organization

Credit risk management is conducted by the Committee, the Council, the Working Group, the Department, loan review department and sub risk management departments. The Department conducts recognizing, measuring, controlling and checking the adequacy of the Group-wide, departmental or organizational credit risk. It also conducts analyzing and reporting credit risk, developing and improving credit risk management skill, reporting the result of credit risk check-up and providing the information, installing and operating the credit risk management system.

Loan review department conducts check-up of loan quality classification through regular credit review. Sub-risk management departments establish and implement credit risk management plans, recognize, measure, analyze and report credit risk, manage loan portfolio considering risk and return, analyze credit risk and conduct follow-up management resulted from new product launching, implement the resolutions from the Committee and Council, supervise countries' credit risk considering credit level of international credit appraisal institutes and submit other credit risk reporting documents. Internal audit inspects the adequacy of recognizing, measuring and evaluating credit risk, credit risk control organization and managing process.

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(c) Credit risk, continued

Method of credit risk management

① Loans

- Credit line

The Group manages the concentration risk by considering the economic conditions and environmental factors, and sets credit line for each individual, industry and type of loan. The Group evaluates the concentration ratio of the borrower with large exposure and uses the concentration ratio as a parameter for credit risk management.

- Credit approval system

Enterprises' Credit Scoring System is operated through sophisticated, common or unsophisticated credit rating models according to the amount of enterprises' loans and financial conditions. Households' Credit Scoring System is operated through the ASS (Application Scoring System) or BSS (Behavioral Scoring System).

- Evaluation

The Group systematically evaluates clients' qualifications for a loan by the professional in charge of credit assessment and SRM (Senior Relationship Management) and reevaluates the clients' capability to redeem according to the change of credit conditions. Evaluation is performed on a regular basis. If there is a specific circumstance regarding clients, evaluation may be performed when necessary. In the case of households, the length of extension, renewal or revolving of loans is determined according to the Behavioral Scoring System.

② Debt securities

The Group manages the credit risk for debt securities through their credit rating or the similar external credit rating. In the case of using the external credit rating, it is converted to internal rating and its credit line is managed in accordance with the credit line regulations on internal rating.

③ Risk mitigation policy

If there is a circumstance or evidence that can increase the credit risk, the Group takes action to mitigate credit risk such as reducing amounts outstanding (in discussion with the clients or counterparties if appropriate).

- Collateral

The Group has various policies and guidance regarding the mitigation of credit risk. Generally, the Group obtains collateral for loans and operates guidance related to acquisition, valuation, and limits related to collateral management. In the case of collateral for real estate, settlement of mortgage is required for acquisition. For movable assets, securities and deposit receivables and establishing the right of pledge is required. Other receivables are required to be obtained through transfer. Obtained collateral are revalued through appraisal after a certain amount of time. Collaterals for loans are, for instance, house, equipment, factories, land, deposit, debt securities and equity securities.

- Guarantee and derivatives

The Group enters into guarantee and derivative contracts to transfer the credit risk of its loans and receivables to third parties. The above contracts require third parties to make payments to reimburse the Group for a loss incurred by debtor's default.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

- Master netting agreements

In many cases, even though master netting agreements are in place, the lack of an intention to settle on a net basis results in the related assets and liabilities being presented gross on the statement of financial position. In the case of counterparty's default, the Group may reduce some of the losses from the credit risk when all transactions with counterparty are offset.

Maximum exposure of credit risk
(In millions of won)

		2012	2011
On balance accounts (*1)			
Due from banks(*2)	₩	139,908	473,189
Financial assets held for trading(*3)		55,896	75,278
Financial assets designated at fair value through profit or loss(*3)		10,521	10,903
Available-for-sale financial assets(*3)		1,529,561	1,245,981
Held-to-maturity financial assets		4,428,522	4,015,267
Loans		24,437,514	22,167,801
Receivables		1,411,946	1,111,692
Derivative assets - hedge accounting		24,435	24,862
Total	₩	32,038,303	29,124,973
Off-balance accounts (*1)			
Financial guarantee	₩	101,791	107,349
Contracts		6,692,071	6,097,900
Total	₩	6,793,862	6,205,249

(*1) After impairment and setting off

(*2) Except for the due from The Bank of Korea

(*3) Except for equity securities and beneficiary securities

Degree of credit risk exposure is based on the net book value of financial position. In the case of financial guarantee, it is measured as the maximum amount to be paid for the debtor and in the case of loan contract which can not be cancelled or can be cancelled if critical changes occur, it is measured as the entire amount of the contract.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Degree of industrial risk concentration of financial assets which have credit risk as of December 31, 2012 and 2011 are as follows:
(In millions of won)

		2012								
		Balance account					Off-balance account			
		Financial assets held for trading	Financial assets designated at FVTPL	Available-for-sale financial assets	Held-to-maturity financial assets	Loans	Derivative assets-hedge accounting	Financial guarantee contracts	Other Commitments	Total
Manufacturing	₩	-	-	190,940	-	7,419,877	-	85,909	1,899,816	9,596,542
Construction		-	-	-	-	750,275	-	-	220,433	970,708
Wholesale and retail		-	-	19,608	-	2,207,737	-	5,042	477,286	2,709,673
Financial services and insurance		-	-	325,520	280,129	1,190,030	-	72	312,318	2,108,069
Others		-	10,521	80,859	-	5,706,981	-	10,768	241,591	6,050,720
Subtotal		-	10,521	616,927	280,129	17,274,900	-	101,791	3,151,444	21,435,712
Households		-	-	-	-	6,337,829	-	-	1,053,243	7,391,072
Government and public institutions		-	-	912,634	4,148,393	682,903	-	-	10,263	5,754,193
Credit card		-	-	-	-	423,067	-	-	2,477,121	2,900,188
Derivatives		85,964	-	-	-	-	24,561	-	-	110,525
Allowance		(30,068)	-	-	-	(225,704)	(126)	-	-	(255,898)
Present value discount		-	-	-	-	(1,630)	-	-	-	(1,630)
Deferred loan originated cost and fee		-	-	-	-	14,052	-	-	-	14,052
Total	₩	55,896	10,521	1,529,561	4,428,522	24,505,417	24,435	101,791	6,692,071	37,348,214

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(In millions of won)

	2011									
	Balance account					Off-balance account				
	Financial assets held for trading	Financial assets designated at FVTPL	Available-for-sale financial assets	Held-to-maturity financial assets	Loans	Derivative assets-hedge accounting	Financial guarantee contracts	Other Commitments	Total	
Manufacturing	₩	-	-	51,089	80,000	6,631,756	-	31,230	1,651,601	8,445,676
Construction		-	-	-	-	803,021	-	60,383	192,272	1,055,676
Wholesale and retail		-	-	-	-	1,929,435	-	5,762	424,182	2,359,379
Financial services and insurance		-	-	321,650	310,031	933,865	-	72	234,416	1,800,034
Others		-	10,903	-	60,000	5,048,453	-	9,902	196,857	5,315,212
Subtotal		-	10,903	372,739	450,031	15,346,530	-	107,349	2,699,328	18,975,977
Households		-	-	-	-	6,070,535	-	-	1,026,250	7,096,785
Government and public institutions		-	-	873,242	3,565,236	580,589	-	-	5,524	5,035,494
Credit card		-	-	-	-	443,594	-	-	2,366,798	2,810,392
Derivatives		147,137	-	-	-	-	24,967	-	-	172,104
Allowance		(71,859)	-	-	-	(276,593)	(105)	-	-	(348,557)
Present value discount		-	-	-	-	(2,895)	-	-	-	(2,895)
Deferred loan originated cost and fee		-	-	-	-	6,041	-	-	-	6,041
Total	₩	75,278	10,903	1,245,981	4,015,267	22,167,801	24,862	107,349	6,097,900	33,745,341

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Loans

Loans as of December 31, 2012 and 2011 are as follows:

(In millions of won)

	2012					
		Enterprises	Households	Public sectors and others	Credit card	Total
Neither overdue nor impaired loan	₩	16,909,849	6,277,992	682,703	416,814	24,287,358
Not impaired but overdue loan		42,322	36,322	-	136	78,780
Impaired loan		322,729	23,515	200	6,117	352,561
Total		17,274,900	6,337,829	682,903	423,067	24,718,699
Allowance for loan losses		(186,788)	(26,448)	(2,086)	(10,382)	(225,704)
Present value discount		(353)	(1,277)	-	-	(1,630)
Deferred loan origination cost and fee		8,492	5,294	266	-	14,052
Net book value	₩	17,096,251	6,315,398	681,083	412,685	24,505,417

(In millions of won)

	2011					
		Enterprises	Households	Public sectors and others	Credit card	Total
Neither overdue nor impaired loan	₩	14,896,624	6,013,166	580,589	439,516	21,929,895
Not impaired but overdue loan		34,154	36,524	-	137	70,815
Impaired loan		415,752	20,845	-	3,941	440,538
Total		15,346,530	6,070,535	580,589	443,594	22,441,248
Allowance for loan losses		(236,839)	(27,133)	(1,624)	(10,997)	(276,593)
Present value discount		(1,866)	(1,029)	-	-	(2,895)
Deferred loan origination cost and fee		(87)	6,019	109	-	6,041
Net book value	₩	15,107,738	6,048,392	579,074	432,597	22,167,801

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.

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December 31, 2012 and 2011

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

Credit qualities of loans as of December 31, 2012 and 2011 that are neither overdue nor impaired refer to the Group's internal credit appraisal system and are as follows:

(In millions of won)

	2012					
		Enterprises	Households	Public sectors and others	Credit card	Total
1~6	₩	16,030,108	5,571,848	650,627	252,513	22,505,096
7		228,796	302,206	1,093	50,453	582,548
8 (*2)		34,846	131,674	183	59,098	225,801
9 (*2)		14,903	67,475	-	37,982	120,360
10 (*2)		12,058	40,142	-	13,084	65,284
Not rated (*3)		589,138	164,647	30,800	3,684	788,269
Total	₩	16,909,849	6,277,992	682,703	416,814	24,287,358

(In millions of won)

	2011					
		Enterprises	Households	Public sectors and others	Credit card	Total
1~6	₩	14,228,598	5,225,477	571,435	256,242	20,281,752
7		327,424	324,922	186	51,555	704,087
8 (*2)		44,065	153,566	207	65,482	263,320
9 (*2)		19,600	87,486	-	45,338	152,424
10 (*2)		20,238	41,583	-	16,439	78,260
Not rated (*3)		256,699	180,132	8,761	4,460	450,052
Total	₩	14,896,624	6,013,166	580,589	439,516	21,929,895

(*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 ₩788,269 million (₩450,052 million as of December 31, 2011) and arises from inter-bank transactions such as call loans, purchase of RP, and inter-bank loans and loans related with sound collateral (deposits and warranty) and sound bills (discounted bills and electronic factoring). Amount of not rated loans from inter-bank transactions and sound loan borrowers is ₩99,317 million (₩78,326 million as of December 31, 2011) and ₩688,952 million and ₩371,726 million as of December 31, 2011), respectively.

Notes to Consolidated Financial Statements

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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

Loans that are past due but not impaired

① Age analysis of loans that are overdue but not impaired

(In millions of won)

2012					
		Enterprises	Households	Credit card	Total
Less than 30 days	₩	28,020	35,114	111	63,245
More than 30 days ~ less than 60 days		8,152	1,073	25	9,250
More than 60 days ~ less than 90 days		6,150	135	-	6,285
Total	₩	42,322	36,322	136	78,780

(In millions of won)

2011					
		Enterprises	Households	Credit card	Total
Less than 30 days	₩	18,900	34,802	132	53,834
More than 30 days ~ less than 60 days		8,643	1,665	5	10,313
More than 60 days ~ less than 90 days		6,611	57	-	6,668
Total	₩	34,154	36,524	137	70,815

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

(In millions of won)

2012				
		Enterprises	Households	Total
Real estate	₩	7,063	20,112	27,175
Movable asset		2,548	550	3,098
Securities and debentures		352	84	436
Warranty		11,025	1,838	12,863
Others		917	82	999
Total	₩	21,905	22,666	44,571

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(In millions of won)

		2011			
		Enterprises	Households	Credit Card	Total
Real estate	₩	11,933	20,451	5	32,389
Movable asset		26	-	-	26
Securities and debentures		5	223	-	228
Warranty		9,836	1,666	-	11,502
Others		-	55	-	55
Total	₩	21,800	22,395	5	44,200

Impaired loans

Loans which have evidence of impairment are measured either individually or collectively according to material criteria of the loan. Loans either individually or collectively measured for impairment, collateral and estimated fair value of other credit reinforcement are as follows:

① Categories of impaired loans

(In millions of won)

		2012					
		Enterprises	Households	Public sectors and others	Credit card	Total	
Individual assessment	Impaired loans	₩	267,311	800	-	233	268,344
	Allowance for doubtful accounts		78,038	-	-	214	78,252
Collective assessment	Impaired loans		55,418	22,715	200	5,884	84,217
	Allowance for doubtful accounts		14,032	6,874	123	3,466	24,495
Total	Impaired loans	₩	322,729	23,515	200	6,117	352,561
	Allowance for doubtful accounts	₩	92,070	6,874	123	3,680	102,747

(In millions of won)

		2011				
		Enterprises	Households	Credit card	Total	
Individual assessment	Impaired loans	₩	377,038	800	359	378,197
	Allowance for doubtful accounts		115,122	-	334	115,456
Collective assessment	Impaired loans		38,714	20,045	3,582	62,341
	Allowance for doubtful accounts		8,504	6,162	2,251	16,917
Total	Impaired loans	₩	415,752	20,845	3,941	440,538
	Allowance for doubtful accounts	₩	123,626	6,162	2,585	132,373

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

② Estimated fair value of collateral for impaired loans

(In millions of won)

		2012			
		Enterprises	Households	Credit card	Total
Real estate	₩	71,830	10,669	2	82,501
Movable asset		193	-	-	193
Securities and debentures		21,215	-	-	21,215
Warranty		10,239	1,071	6	11,316
Other		-	-	-	-
Total	₩	103,477	11,740	8	115,225

(In millions of won)

		2011			
		Enterprises	Households	Credit card	Total
Real estate	₩	58,655	7,406	-	66,061
Movable asset		533	-	-	533
Securities and debentures		26,431	624	-	27,055
Warranty		5,130	562	-	5,692
Other		-	9	-	9
Total	₩	90,749	8,601	-	99,350

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, 2012 and 2011 are ₩105,802 million and ₩205,236 million, respectively.

External credit rating of debt securities

The Group manages debt securities using external credit rating and debt securities classified by external credit rating and categories are as follows:

The relationships between external credit rating and internal credit rate are described in note 'Loans that are neither overdue nor impaired'.

③ Debt securities in Korean won

(In millions of won)

		2012		
		Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩	626,143	1,451,187	2,077,330
AA+ ~ AA-		403,345	452,572	855,917
A+ ~ A-		231,162	-	231,162
BBB+ ~ BBB-		10,250	-	10,250
Not rated		181,974	2,524,763	2,706,737
Total	₩	1,452,874	4,428,522	5,881,396

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(In millions of won)

	2011		
	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩ 623,778	1,426,101	2,049,879
AA+ ~ AA-	261,788	426,341	688,129
A+ ~ A-	40,834	100,000	140,834
BBB+ ~ BBB-	30	20,000	20,030
Not rated	309,748	2,042,825	2,352,573
Total	₩ 1,236,178	4,015,267	5,251,445

Not rated amount is ₩2,706,737 million (₩2,352,573 million as of December 31, 2011) and domestic credit appraisal companies do not assess the credit rating of government and some public entities. Among not rated amount, government and public entity bond is ₩1,310,952 million (₩2,011,297 million as of December 31, 2011), monetary stabilization bond is ₩49,997 million (₩199,941 million as of December 31, 2011) and other bond is ₩1,345,788 million (₩141,335 million as of December 31, 2011).

④ Debt securities in foreign currencies

(In millions of won)

	2012			2011		
	Financial assets designated at fair value through profit & loss	Available-for-sale financial assets	Total	Financial assets designated at fair value through profit & loss	Available-for-sale financial assets	Total
AAA	₩ 10,521	-	10,521	10,903	-	10,903
AA+ ~ AA-	-	-	-	-	9,803	9,803
A+ ~ A-	-	76,687	76,687	-	-	-
Total	₩ 10,521	76,687	87,208	10,903	9,803	20,706

Acquired collateral

(In millions of won)

	2012	2011
Land / Ho-jung Housing Co., Ltd.	₩ -	1,206
Land / Wooshin Co., Ltd.	-	15,413
Total	₩ -	16,619

After being acquired, collateral is subject to public auction at least once every six months. The Group's rule is to complete the sell-off procedures within a year. Acquired collateral is classified as other assets. The Group has no acquired collateral as of December 31, 2012.

(d) Liquidity risk

Purposes of liquidity risk management

The purposes of liquidity risk management is to manage the risk which occurs when there are not enough financial resources and liquidity for principal and interest, not due to the problem of payment ability but due to the situation such as maturity inconsistency of assets and liabilities. Additional reasons for liquidity risk include abnormal disposal of assets or fund raising through liabilities.

Method of liquidity risk management

Liquidity risk management covers all the monetary transactions of assets and liabilities. The methods of measuring, evaluating and managing liquidity risk are as follows:

- Establish liquidity ratio of supervising organization and periodic liquidity gap limit for the maturity differences of assets and liabilities and report the results to the Committee and the Council
- Promote the precaution of liquidity risk considering fund raising time
- Possess sufficient current assets as provision for liquidity shortage
- Establish and implement a liquidity risk dealing

Notes to Consolidated Financial Statements

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② Derivative financial liabilities

(In millions of won)

		2012						
Classification		Less than 1 month	1 ~ 3 months	4 ~ 6 months	7 ~ 12 months	13 ~ 36 months	37 ~ 60 months	Total
Trading derivatives								
Currency related	₩	10,378	11,716	1,206	4,316	28	-	27,644
Stock related		115	273	625	1,924	245	-	3,182
Subtotal		10,493	11,989	1,831	6,240	273	-	30,826
Hedging derivatives								
Interest rate related		-	-	-	-	-	164	164
Stock related		-	-	460	473	-	-	933
Subtotal		-	-	460	473	-	164	1,097
Total	₩	10,493	11,989	2,291	6,713	273	164	31,923

(In millions of won)

		2011						
Classification		Less than 1 month	1 ~ 3 months	4 ~ 6 months	7 ~ 12 months	13 ~ 36 months	37 ~ 60 months	Total
Trading derivatives								
Currency related	₩	8,288	16,733	9,682	8,758	20,627	-	64,088
Interest rate related		-	118	-	-	-	-	118
Stock related		39	441	822	1,855	-	-	3,157
Subtotal		8,327	17,292	10,504	10,613	20,627	-	67,363
Hedging derivatives								
Stock related		-	-	314	390	-	-	704
Total	₩	8,327	17,292	10,818	11,003	20,627	-	68,067

Available assets to fulfill the payment obligations of liabilities and to carry out the unpaid loan contracts are cash, due from The Bank of Korea, loans, equity securities and debt securities. The Group is able to deal with unexpected cash flows through the disposal of securities and by additional fund raising resources such as the asset securitization market.

(e) Market risk

Market risk is the risk that the fair value of financial instruments or future cash flows is affected by the volatility of market rates or prices such as interest rates, stock prices and foreign exchange rates.

Purposes of market risk management

Purposes of market risk management are to secure the profitability and stability by controlling the losses generated from managed assets and liabilities due to volatility of market risk factors such as interest rates, stock prices and foreign exchange rates. Those subject to market risk management are securities held for trading, foreign currency net open positions, derivatives, off balance transactions and other market risk inherent assets and liabilities.

Market risk management organization

The Group divides the exposures to market risk into trading position and non-trading position. To promote the classification and management of trading position, the Group operates its accounting and computer system according to the classification. The Group also classifies and operates a trading desk and non-trading desk separately. Market risk management of the Group is conducted by the Committee, the Council, the Working Group, the Department and sub-risk management departments. The Department is distinctly separated from operating departments and controls entire market risk. The main tasks of the Department are to establish and implement a market risk management policy - to review the adequacy of market risk management criteria, to establish and implement the market risk tolerance management system - to distribute market risk tolerance, to monitor the observance of market risk tolerance, to assess, analyze and report total market risk and to establish and implement the market risk management system. Front office is distinctly separated from the assisting department and the Department. The main tasks of the Front office are to establish and implement investing policy, process and strategy, to set out and operate the limit of the Group's market risk tolerance, to record transaction history and to submit related documents to the assisting department. The assisting department is supposed to secure the restrict separation of work and mutual control function between Middle Office and Back Office. The main tasks of assisting departments are to review the compliance of limits, transactions, profit and loss evaluation, to conduct follow up works such as exchanging transaction confirmation documents based on operating department's transaction documents, accounting, money and to submit market risk reports.

Trading position

Trading position is the interest rate, equity positions, derivatives, foreign exchange positions, among others that pursue profit from short-term changes in market factor price rather than pursue profit from interest income. Specifically, it includes short-term trading and the financial instruments for arbitrage trading of stock, interest rates, foreign exchange, commodity, among others, which are acquired by a professional dealer or operational departments within a predetermined limit, things acquired for hedging risk, derivative that does not apply hedge accounting, etc.

① Risk management method

The tolerance limit (including the limit of VaR, investment limit, loss limit) to manage the market risk on trading positions is required to be set principally at least once a year, and approved by the Committee. Compliance of the tolerance limit is monitored daily and the changes of the risk are simultaneously reported to the management, the Council and the Committee on a regular basis (daily, monthly, and annually). Plans for dealing with the market risk are established and operated for each level of the risk.

② Risk assessment method

- Value at Risk (VaR)

The main method to measure and manage exposure to market risk for trading position is VaR. The VaR measures the potential loss in value of a risky asset or portfolio over a defined period for a given confidence interval. The VaR is calculated by applying 99% confidence level at a 10-day.

- Analysis of crisis situations

The Group conducts crisis situation analysis to determine changes in market price of the portfolio under extreme market volatility that can not be considered in the VaR model. Crisis situation analysis is conducted every business day for all the assets, or if necessary, can be performed by constructing a portfolio. Implementations are reported to the Council one or more times a month. For analysis of crisis situation, changes in the Group's assets and liabilities are measured under integrated scenario which assumes decline in stock prices by 30.8%, rise in interest rates by 20% and change in exchange rate by 25%.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

- Verification

Adequacy of the VaR model is continuously monitored through follow-up verification. Verification is conducted for the latest 250 business days. If a real loss exceeds a virtual loss (1-day VaR) of the previous day significantly, the Group verifies assumptions and modifies the model, if necessary. Verification is conducted every business day and implementations are reported to the Council once or more times a month.

- VaR by risk types (Trading position)

VaR by risk types as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012			
		Year end	Average	Minimum	Maximum
Interest rate risk	₩	-	192	-	895
Foreign exchange risk		641	339	62	1,420
Stock risk		2,086	3,431	638	5,544
Diversification effect		(165)	(395)	(41)	(1,519)
Total risk	₩	2,562	3,567	658	6,340

(In millions of won)

		2011			
		Year end	Average	Minimum	Maximum
Interest rate risk	₩	-	52	-	493
Foreign exchange risk		439	1,933	76	5,215
Stock risk		550	2,028	-	4,133
Diversification effect		(478)	(1,967)	16	(4,110)
Total risk	₩	511	2,046	92	5,731

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.

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 which is the same method for trading positions.

① Method of interest rate risk management

The tolerance limit to manage the interest rate risk on trading positions is required to be set in principle at least once a year, and approved by the Committee. To verify complying with the tolerance limit, the interest risk is measured and managed at least once a month, and reported to the management, the Council and the Committee.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

② Assessment methods for interest rate risk

- Value at Risk (VaR)

Interest rate VaR measures potential losses in value of a net asset over a defined period for a given confidence interval. The Group calculates interest rate VaR by the gap of interest rate and the modified duration.

- Earning at Risk (EaR)

The quantity by which net income is projected to decline in the event of an adverse change in prevailing interest rates. The Group calculates interest rates EaR by Net Interest Income (NII) simulation.

- Others

The Group evaluates interest rates risk by using the rate of interest gap, and conducts the interest risk analysis of crisis situations under abnormal market conditions at least twice a year. Also, the department verifies the accuracy, completeness and suitability one or more times a year regularly and observes measurement-related data constantly and independently.

- Interest rate risk

Interest rate VaR is calculated by the BIS standard method by considering the interval interest rate gap proposed from BIS, the standard modified duration of a defined period and the possibility of changes in interest rates.

Interest rate VaR as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		Year end	Average	Minimum	Maximum
2012	₩	46,415	64,741	32,125	95,115
2011		14,466	38,220	14,466	59,000

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.

Exposure to foreign exchange risk as of December 31, 2012 and 2011 are as follows:

(In millions of won)

			USD	JPY	EUR	Other
December 31, 2012	Foreign currency financial assets	₩	1,495,997	408,616	22,527	23,295
	Foreign currency financial liabilities	₩	1,453,388	399,761	16,544	6,611
December 31, 2011	Foreign currency financial assets	₩	1,351,467	359,948	190,849	23,532
	Foreign currency financial liabilities	₩	1,714,664	308,992	174,461	5,693

(f) Operational risk

Operational risk management purposes is regulatory compliance, spreading a culture of risk management, strengthening internal control, process improvement, management and employees to provide timely feedback. The Daegu Bank of subsidiary designates a related department to identify operational risk and other departments are responsible for recognition of loss data and computer system management. The Department is responsible for establishing and implementing operational risk strategy, policy and process. It is also responsible for establishment, operation and improvement of operational risk management system and management of the bank's loss data.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Our subsidiaries, Daegu Bank applying Basel II standard method, DGB Capital Co., Ltd. and another subsidiary applying Basel II basis of method calculate the require amount of capital and setup risk management committee have been authorized operational risk tolerance. Executives, risk management council and the commission on the status of limit compliance.

(g) Capital management

The Group manages internal capital, which is a basis for the group to maintain its business continuously with various risks. Internal capital can be defined as the scale of capital required to cover unexpected losses under a certain probability. The purpose of capital management is to provide measures of financial strength by comparing internal capital scale with available capital scale, and to provide basis of performance measurement reflecting the risk. The Committee determines risk appetite linked to the Group's business strategy and allocates risk capital to risks and to major subsidiaries, within which the subsidiaries effectively manage their businesses. The Department is responsible for monitoring the status of limit compliance of the Group's risk capital and reporting it to the management, the Working Group and the Committee. When an excess in risk capital is expected due to business expansion, the Group manages capital adequacy by taking proactive reviewing and approving processes performed by the Committee.

The Group, as a financial holding company established under the Financial Holding Company Act, is mandated to maintain its capital adequacy ratio higher than 8% compared to risk-weighted assets by adopting the recommendation of Financial Service Commission. The capital adequacy ratio is calculated in accordance with Basel I as required by the Supervisory Regulations on Financial Holding Companies. The Group maintained the regulatory capital adequacy ratio higher than 8% for the past two years.

Regulatory capital of the Group consists of the following capital:

- Basic capital : capital stock, capital surplus, hybrid capital securities, the Group's non-controlling interest
- Complementary capital : revaluation reserve, amount equivalent to 45% of unrealized gain on valuation of available-for-sale securities and gain on valuation of equity method, eligible allowance exceeding the expected loss, convertible preferred stock not included in hybrid capital securities, issued funds of usance subordinated bonds in the period (more than 10 years) and borrowed funds of usance subordinated bonds in the period (more than 10 years), issued funds of usance subordinated bonds in the period (more than 5 years) and borrowed funds of usance subordinated bonds in the period (more than 5 years), permanent subordinated bonds and cumulative preferred stock.

Regulated capital and BIS ratio of the Group as of December 31, 2012 and 2011 are as follows. The Group complied with all the external capital maintenance restriction conditions for the past two years.

BIS Ratio is calculated on a consolidated basis.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(In millions of won)

		2012	2011
Basic capital	₩	2,634,392	2,409,207
Capital stock		670,266	670,266
Capital surplus		1,423,536	1,423,535
Retained earnings		271,193	57,099
Hybrid capital securities		399,706	399,706
Deductions		(130,309)	(141,399)
Supplementary capital		885,342	736,606
Specific amounts of accumulated other comprehensive income		4,799	3,084
Allowance for doubtful accounts		282,581	256,579
Subordinated debt		597,962	476,943
Total capital	₩	3,519,734	3,145,813
Risk weighted asset	₩	22,606,493	20,526,281
Credit risk asset		22,475,985	20,477,288
Market risk asset		130,508	48,993
BIS ratio			
Ratio of capital		15.57%	15.33%
Ratio of basic capital		11.65%	11.74%
Ratio of supplementary capital		3.92%	3.59%

The purpose of a capital policy is to maintain the adequacy of capital and stability of management. Evaluation and management of capital adequacy is conducted for all of the potentially important risks and based on consolidation level (However, if subsidiary's ratio of total asset is under 5%, that subsidiary can be exempted). The Group sets the policy of risk capital management and risk tolerable limit to evaluate and manage the capital adequacy. The Group reviews the adequacy regularly and reports the results to the Committee and management. Capital management of the Group meets both external and internal criteria and the results of capital adequacy evaluation is used through the management. The Group constantly pursues improvement in risk recognition and evaluation.

48. Regulatory Reserves for Loan Losses

Changes in regulatory reserves for loan losses for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

		December 31, 2012	December 31, 2011
Regulatory reserves for loan losses at beginning of the year	₩	125,484	-
Regulatory reserves for loan losses to be provided		12,443	125,484
Regulatory reserves for loan losses at end of the year	₩	137,927	125,484

Adjusted profit after regulatory reserves for loan losses for the year ended December 31, 2012 and the period ended December 31, 2011 are as follows:

(In millions of won, except for earnings per share)

		2012	2011
Transfer to regulatory reserves for loan losses	₩	12,443	59,282
Adjusted profit reflecting regulatory reserves for loan losses		260,918	145,811
Adjusted earnings per share reflecting regulatory reserves for loan losses in won	₩	1,946	1,096

APPENDIX

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Summary of Sustainability Management Performance

CSR Strategy	2012 Key Tasks	2012 Goals	2012 Performance	Progress	2013 Goals	
LOCAL COMMUNITY INVOLVEMENT AND DEVELOPMENT (LOVE AND SHARE)	Business consulting service performance	65 clients	63 clients	96.9%	90 clients	
	Percentage of social contributions out of net profit (%)	8.0%	8.3%	103.8%p	8.5%	
	No. of volunteers	22,500 persons	21,723 persons	96.5%	22,000 persons	
SUSTAINABLE FINANCE	Market share in the Daegu-Gyeongbuk region (in loans/in deposits)	29.8%/35.2%	29.4%/35.1%	98.6%p/99.4%p	29.8%/35.5%	
	SME Loans Rate	63.0%	61.0%	96.8%p	61.5%	
	BIS Capital Adequacy Ratio	14.2%	14.62%	103.0%p	15.0%	
	Support expenses for small-loan finance	KRW 785.2 billion	KRW 747.9 billion	95.2%	KRW 785.2 billion	
	Socially responsible investment expenses	KRW 10 billion	KRW 11.87 billion	118.7%	KRW 13 billion	
	Companies utilizing the Environmental Management Checklist	11,922 companies	12,388 companies	103.9%	13,538 companies	
	Sales of green financial products (loans/deposits)	KRW 550 billion in loans/ KRW 120 billion in deposits	KRW 442.8 billion in loans/ KRW 327.7 billion in deposits	80.5%/273.0%	KRW 475 billion in loans/ KRW 350 billion in deposits	
	Percentage of outside directors	85.0%	83.3%	98.0%p	85.0%	
	Board of directors attendance rate	100.0%	94.0%	94.0%p	100.0%	
	Violations against anti-corruption or laws	0 case	3 cases	Not achieved	0 case	
RESPONSIBLE MANAGEMENT (SUSTAINABLE MANAGEMENT) SERVICE, PASSION AND HONESTY	The number of training sessions in ethics and human rights	22/55	Ethics 21/Human rights 52	95.5%/94.5%	22/53	
	Average training expenditure per employee	KRW 1.2 million	KRW 1.1 million	91.7%	KRW 1.2 million	
	Industrial Accident Rate	0%	0%	Achieved	0%	
	Employee Satisfaction Index	90.0%	91.0%	101.1%p	92.0%	
	VOC Handling	150 cases	83 cases	180.7%	80 cases	
	Customer Satisfaction Index	97 points	93 points	95.9%	93 points	
	Civil Complaint Assessment Rating	Level 1	Level 1	Achieved	Level 1	
GREEN MANAGEMENT (GREEN INITIATIVE)	Amount of water consumption	115,000m ³	108,626m ³	105.8%	105,000m ³	
	Amount of renewable energy consumption	30,000KW	29,076KW	96.9%	30,000KW	
	Amount of GHG emissions	SCOPE 1	3,090.53tCO ₂	2,662.53tCO ₂	116.07%	2,288.70tCO ₂
		SCOPE 2	30,102.71tCO ₂	27,489.73tCO ₂	109.50%	27,194.40tCO ₂
		SCOPE 3	691.40tCO ₂	1,317.00tCO ₂	52.49%	324.90tCO ₂
	Amount of paper consumption	110.0 ton	110.3 ton	99.7%	105 ton	

Key Performance Indicators from the Local Community Involvement and Development Section

Type	2010	2011	2012	2013(Plan)
Percentage of social contributions out of net profit (%)	8.3	7.8	8.3	8.3
No. of volunteers (persons)	21,966	22,198	21,578	22,000
DGB Volunteer Team membership rate (%)	95.1	96.3	96.5	96.7
Job creation (recruitment of new bankers) (persons)	171	177	179	190

Key Performance Indicators from the Sustainable Finance Section

Daegu Bank	2010	2011	2012	2013(Plan)
Deposits (M/S in Daegu/Gyeongbuk) (%)	34.3(-0.5%p)	34.8(1.5%p ↑)	35.1(3.4%p ↑)	36.5
Loans (M/S in Daegu/Gyeongbuk) (%)	29.0(-0.5%p)	29.4(1.4%p ↑)	29.4(2.0%p ↑)	31.0
SME Loans (Ratio) (KRW trillion)	11.4993(63.4%)	11.5824(62.4%)	13.4047(61%)	15.6047(61.5%)
SRI Products Sales Amount (KRW billion)	8.806	9.62	11.807	13
BIS Capital Adequacy Ratio (%)	14.76	14.18	14.62	14.0

Key Performance Indicators from the Responsible Management Section

Daegu Bank	2010	2011	2012	2013(Plan)
Percentage of outside directors (%)	63	83	83.3	71.4
Board of directors attendance rate (%)	91.2	88.0	94	100
Average training hours per employee (hour)	40	46	33.8	46
Average ethics/human training per employee (sessions)	18/53	19/52	21/52	22/53
Percentage of female employee in charge (%)	10.2	12.9	13.6	14.6
Sick leave absentees (including vacation) (persons)	31	20	21	20
Civil Complaint Assessment Rating	1	1	1	1

Key Performance Indicators from the Green Management Section

Type	2010	2011	2012	2013(Plan)
Sales of green financial products (loans/deposits) (KRW million)	3,188/2,292	4,441/853	4,428/3,277	4,750/3,500
Amount of GHG emissions (Scope1, 2)(tCO ₂ e)	32,759	34,326	30,153	27,194
Amount of water consumption (m ³)	103,435	119,266	108,626	105,000
Amount of paper consumption (ton)	101.6	116.3	110.3	105.0
Rate of e-mail bills (%)	15.6	17.4	24.1	25.3

Awards Received by DGB Financial Group

External CSR Assessment and Awards Received in 2012

Awarding Date	Awards & Nominations	Notes
2012. 01. 13	Earned the highest "AA" rating in the Korean Top 400 Listed Companies ESG (Environmental, Social, Governance) Evaluation	SUSTINVEST
2012. 03. 22	Listed on the FTSE4Good Index for the 2 nd consecutive year	Financial Times Stock & Exchange
2012. 04. 30	Selected as the Top Socially Responsible Company at the 2012 Society Business Conference	Chosun Ilbo
2012. 06. 23	Ranked No.1 at the 2012 Korea Industrial Sustainability Assessment in the financial holding company category	SUSTINVEST
2012. 10. 04	Received the Ministry of Environment Award at the 5 th Green Start Contest	Green Start Nationwide Network Recreation Headquarters/Ministry of Environment
2012. 10. 09	Listed on the DJSI Asia-pacific for the 3 rd consecutive year Listed on the DJSI Korea for the 4 th consecutive year	Dow Jones/SAM/Korea Productivity Center
2012. 10. 17	Received the 2012 East Asia 30 - Korea CSR Best 30 Award	Hankyoreh Economic Research Institute/Hankyoreh
2012. 10. 25	Received the Korean Readers' Choice Award (KRCA) at the 2012 Korea Sustainability Contest	Korean Standards Association (KSA)/GRI
2012. 10. 30	Received the 2012 Low Carbon & Green Growth Medal of Merit from the Ministry of Environment	Korea Environmental Industry & Technology Institute/Ministry of Environment
2012. 10. 31	Selected as the Leading Climate Change Response Company in the banking sector for the 4 th consecutive year by the CDP Korea	CDP Korea
2012. 11. 08	Ranked No.3 (Ministry of Knowledge Economy Prize) at the 2012 Green Ranking Awards	SUSTINVEST-Fn Guide/Joongang Ilbo
2012. 12. 31	Earned the highest "AAA" rating from the 2012 Corporate Sustainability Performance Evaluation	The Institute for Industrial Policy Studies (IPS)

External CSR Assessment and Awards Received in 2013

Awarding Date	Awards & Nominations	Notes
2013. 02. 18	Received the Best Microfinance Award at the 2 nd Korea Best Banker Awards	Financial Services Commission-Financial Supervisory Service-Korea Federation of Banks and others/Seoul Economic Times
2013. 02. 18	Earned the highest "AAA" rating from the 2012 Corporate Sustainability Assessment	Eco-Frontier
2013. 06. 30	Listed on the FTSE4Good Index for the 3 rd consecutive year	Financial Times Stock & Exchange
2013. 07. 02	Received the Grand Prize (Presidential Citation) at the 2013 Korea Green Management Awards	Ministry of Environment-Ministry of Knowledge Economy/Maeil Business Newspaper

External Assurance and Certification Acquisition

Awarding Date	Awards & Nominations	Notes
2007. 04. 30	Obtained a third-party assurance on Daegu Bank's 2006 Sustainability Report	Third-party assurance by GRI
2010. 06. 16	Became the first Korean financial institution to verify GHG inventory	Verification by Korean Standards Association (KSA)
2011. 05. 30	Acquired KS I 14001 Environmental Management System Certification	Approval by Korea Accreditation Board (KAB), Certification by Korean Standards Association (KSA)
2011. 06. 20	Became the first Korean financial institution to acquire the Green Management System Certification	Administered by the Ministry of Knowledge Economy Approval by Korea Accreditation Board (KAB)

Third-party Assurance Statement

To the management of DGB Financial Group

At DGB Financial Group's request, we have reviewed the information presented in the 2012-2013 sustainability report (the "Report"). The management of DGB Financial Group is responsible for preparing the report. Our responsibility is to carry out a limited assurance engagement on the report and to provide opinions on it based on our review.

■ Procedures performed

We conducted our engagement in accordance with ISAE 3000¹ and the requirements of a Type 2 assurance engagement as defined by AA1000AS(2008)².

We performed the following procedures to form our conclusion on the report:

- Evaluated DGB Financial Group's processes for stakeholder engagement.
- Reviewed DGB Financial Group's processes for determining material issues of stakeholder groups.
- Searched the media coverage of DGB Financial Group's sustainability issues during the applicable reporting period.
- Reviewed recently reported sustainability issues of the DGB Financial Group's global competitors.
- Interviewed a selection of people in charge to understand the current status of sustainability performance and the reporting process during the reporting period.
- Reviewed selected data regarding DGB Financial Group's sustainability performance, supporting evidence for assertions, and information from corporate-wide systems.
- Reviewed DGB Financial Group's process for collecting and consolidating sustainability performance data
- Reviewed whether financial performance data has been extracted properly from the DGB Financial Group's audited financial statements.

■ Level of assurance

We undertook a limited assurance engagement in accordance with ISAE 3000. A limited assurance is less in scope than a reasonable assurance engagement. Consequently, the nature, timing and the extent of procedures for gathering sufficient, appropriate evidence are deliberately limited relative to a reasonable assurance engagement. The limited assurance of ISAE 3000 is in accordance with the moderate level as defined by AA1000(2008).

■ The limitations of our review

We excluded GHG(Greenhouse Gas) emissions in our limited assurance engagement. And, we did not review environmental and social performance data prior to 2011. However, we reviewed financial performance data based on DGB Financial Group's 2012 audited financial statements.

■ Our conclusions

The result of our review is outlined below..

■ Inclusivity

Has DGB Financial Group been engaging with stakeholders across the business to develop and implement its approach to sustainability?

- We are not aware of any key stakeholder groups that have been excluded from the stakeholder engagement process outlined in the report.
- We are not aware of any matters that would lead us to conclude that DGB Financial Group has not applied the inclusivity principle in developing its approach to sustainability.

■ Materiality

Has DGB Financial Group provided a balanced representation of material issues concerning its sustainability performance?

- We are not aware of any material aspects concerning DGB Financial Group's sustainability performance which have been excluded from the report.
- Nothing has come to our attention that causes us to believe that DGB Financial Group's management has not applied its processes for determining material issues to be included in the report..

¹ International Standard on Assurance Engagement : Assurance Engagements other than Audits or Reviews of Historical Financial Information from the International Federation of the Accountants

² AA1000AS(2008)-The second edition of the AA1000 Assurance Standard from the Institute of Social and Ethical Accountability

■ Responsiveness

Has DGB Financial Group responded to the stakeholder concerns?

- We are not aware of any matters that would lead us to conclude that DGB Financial Group has not applied the responsiveness principle in considering the matters to be reported.

■ Completeness and accuracy of performance information

How complete and accurate is the economic, social, and environmental performance data in the report?

- We are not aware of any that have been excluded from the economic, social, and environmental performance data.
- Nothing has come to our attention that causes us to believe that the data relating to the above topics has not been collated properly from DGB Financial Group's reporting processes.

■ How plausible are the statements and claims within the report?

- We are not aware of any misstatements of information or explanation used to support statements and claims on DGB Financial Group's sustainability activities presented in the report.

■ Observations and areas for improvement

Without prejudice against our conclusions presented above, we believe the following matters require attention in order to improve DGB Financial Group's sustainability reporting.

- In order to maintain its capability as a leading sustainable company, both domestically and globally, DGB Financial Group needs to align sustainability with the overall corporate strategy and engage in a more substantial performance management, such as setting specific sustainability targets and managing/reporting its level of achievement in comparison to the original target.
- To facilitate external stakeholders' understanding of the issues presented in the sustainability report, DGB Financial Group needs to clearly stipulate the subject and period being reported.
- It is recommended that DGB Financial Group consider an option for a more compact report, which is comprised of key material issues as defined in the materiality test.

■ Independence

We comply with the Ethical Standard issued by IFAC (International Federation of Accountants).

■ Our assurance team

The assurance engagement was performed by the engagement team with a long history of experience and expertise in sustainability area.



Seung Wha Gweon
Country Managing Partner EY Han Young
Seoul, Korea
October 2013

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UN GLOBAL COMPACT INDEX



We joined the UN Global Compact, the UN International convention on corporate social responsibility in July, 2006 and complies with the 10 principles in the 4 areas (human rights/labor/environment/anti-corruption)

UN Global Compact Principles Compliance	Principle	Page	Related Activities
Human Rights			
	Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights;	26, 58	Fulfillment of CSR Leadership
	Principle 2 make sure that they are not complicit in human rights abuses.	57-58	Revision of human rights policies, operation of voluntary compliance programs
Labour Standards			
	Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	60	Construction of a win-win culture between labor and management
	Principle 4 the elimination of all forms of forced and compulsory labour;	58	Implementation of a people-orientated management philosophy
	Principle 5 the effective abolition of child labour; and	58	Implementation of a people-orientated management philosophy
	Principle 6 the elimination of discrimination in respect of employment and occupation	58	Provision of equal opportunities
Environment			
	Principle 7 Businesses should support a precautionary approach to environmental challenges;	62-73	EHS&Q Comprehensive Information System based on precautionary principles
	Principle 8 undertake initiatives to promote greater environmental responsibility; and	62-73	Application of rules that prioritize environmental regulations
	Principle 9 encourage the development and diffusion of environmentally friendly technologies.	71	New growth potential
Anti-Corruption			
	Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery	56-57	Fair business compliance programs

GRI G3.1/ISO 26000 INDEX

● Disclosed ● Disclosed Partially ○ Not Available N/A Not Applicable

GRI G3.1	Reporting level	Page	ISO 26000	ISO 26000 Major subject & issue
Principles of stakeholder engagement			6.8.2	Participation in local community
Border protocol			6.6.5	Promotion of social responsibility in value chain
Strategy and Analysis				
1.1 Statement from the most senior decision-maker of the company (e.g. CEO, chair, or equivalent senior position) on the importance of sustainability to the organization and its strategy	●	5	6.2	Organization governance
1.2 Description of key impacts, risks and opportunities Organizational Profile	●	8-9	6.2	
Organizational Profile				
2.1 Name of the organization	●	6-7		
2.2 Primary brands, products and / or services	●	6-7		
2.3 Operational structure of the organization, including main divisions, operating companies, subsidiaries and joint ventures	●	6-7	6.2	Organization governance
2.4 Location of organizations' headquarters	●	About this report, 95		
2.5 Number of countries where the organization operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	●	12, 14-17		
2.6 Nature of ownership and legal form	●	10		
2.7 Characteristics of markets (including geographic breakdown, sectors served and types of customers / beneficiaries)	●	7, 12, 14-17		
2.8 Scale of the reporting organization	●	6, 10, 12		
2.9 Significant changes during the reporting period regarding size, structure or ownership	●	6, 10, 12		
2.10 Awards received in the reporting period	●	83		

GRI G3.1		Reporting level	Page	ISO 26000	ISO 26000 Major subject & issue
Report Parameters					
3.1	Reporting period (e.g. fiscal / calendar year)	●	About this report		
3.2	Date of the latest report (if any)	●	About this report		
3.3	Reporting cycle (annual, biennial, etc.)	●	About this report		
3.4	Contact point for questions on report	●	About this report		
3.5	Process for defining report content	●	About this report		
3.6	Boundaries of the report (e.g. countries, divisions, subsidiaries, suppliers)	●	About this report		
3.7	State any specific limitations on the scope of the report	●	About this report		
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organizations	●	About this report		
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report	●	About this report		
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	●	About this report		
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report	●	About this report		
3.12	Table identifying the location of the Standard Disclosures in the report	●	86-91		
3.13	Policy and current practice with regards to seeking external assurance	●	About this report	7.5.3	Verification
Governance, Commitments and Engagement					
4.1	Governance structure of the organization	●	10, 11, 13	6.2	
4.2	Indication of whether the Chair of the highest governance body is also an executive officer	●	10	6.2	
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and / or nonexecutive members	●	10, 13	6.2	
4.4	Mechanisms enabling shareholders and employees to provide recommendations or direction to the highest governance body	●	10, 11, 13	6.2	
4.5	Link between the company's performance and compensation for members of the highest governance body, senior managers and executives	●	11	6.2	
4.6	Processes for the highest governance body to prevent conflicts of interest	●	10, 11, 13	6.2	
4.7	Process for determining the qualifications and expertise of the members of the highest governance body to guide the organization's strategy on economic, environmental, and social topics	●	10	6.2	
4.8	Internally developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation	●	20, 21, 54, 56, 71	6.2	Organization governance
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental and social performance, including relevant risks and opportunities and adherence or compliance with internationally agreed standards, codes of conduct and principles	●	29, 41, 53, 63	6.2	
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	●	10	6.2	
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	●	42, 54, 57	6.2	
4.12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or endorse	●	26	6.2	
4.13	Membership (Example: Industry Associations) in associations (such as industry associations) and / or national / international advocacy organizations	●	26	6.2	
4.14	List of stakeholder groups engaged by the organization	●	22-23	6.2	
4.15	Basis for identification and selection of stakeholders	●	22-23	6.2	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	●	22-23	6.2	
4.17	Key topics and concerns that have been raised through stakeholder engagement and how the organization has responded to those key topics and concerns, including through its reporting	●	22-23	6.2	
Economic Performance Approach					
EC1	Direct economic value generated and distributed (e.g.: profit, operating cost, employee compensation, donation, investment in local community, earned surplus, capital costs, tax, etc.)	●	13-17	6.8/6.8.3/ 6.8.7/6.8.9	Local community engagement and development/ Local community engagement/Generation of wealth and income/Social investment
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	●	62~73	6.5.5	Climate change mitigation and adaptation
EC3	Coverage of the organization's defined benefit plan obligations	●	58-59	6.4.4/6.8	
EC4	Significant financial assistance received from government	N/A	—		

GRI G3.1		Reporting level	Page	ISO 26000	ISO 26000 Major subject & issue
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	●	13-17, 58	6.4.4/6.8	Working conditions and social protection/Local community engagement and development
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	●	61, 71	6.6.6/6.8/ 6.8.5/6.8.7	Promotion of social responsibility in value chain/Local community engagement and development/Job creation and development of functions/Generation of wealth and income
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	●	34	6.8/ 6.8.5/ 6.8.7	Local community engagement and development/Job creation and development of functions/Generation of wealth and income
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	●	46-49	6.3.9/6.8/ 6.8.3/ 6.8.4/6.8.5/ 6.8.6/ 6.8.7/6.8.9	Economic, social and cultural rights/Local community engagement and development/Local community engagement/Education and culture/Technological development and access/Generation of wealth and income/Social investment
EC9	Understanding and describing significant indirect economic impacts including the extent of impacts	●	29~37	6.3.9/6.6.6/ 6.6.7/6.7.8/ 6.8/6.8.5/ 6.8.6/6.8.7/ 6.8.9	Economic, social and cultural rights/ Promotion of social responsibilities in value chain/ Respect for property rights/Access to necessary service/Local community engagement and development/Job creation and development of functions/Technological development and access/Generation of wealth and income/Social investment
Environment Performance Indicators			35		
EN1	Materials used by weight or volume	N/A	—		
EN2	Percentage of materials used that are recycled input materials	●	70		
EN3	Direct energy consumption by primary energy source	●	68, 69, 70		
EN4	Indirect energy consumption by primary source	●	68, 69, 70		
EN5	Energy saved due to conservation and efficiency improvements	●	70		
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services and reductions in energy requirements as a result of these initiatives	●	64-65	6.5/6.5.4	Environment/Sustainable resource use
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	●	64		
EN8	Total water withdrawal by source	●	70		
EN9	Water sources significantly affected by withdrawal of water	●	70		
EN10	Percentage and total volume of water recycled and reused	●	70		
EN11	Location and size of ecological protections reserves and areas with high-valued biodiversity or land in surrounding regions that is owned, leased, or managed	●	64, 72-73		
EN12	Effect on biodiversity from activities, products, and services in ecological protections reserves and areas with high-valued biodiversity	●	65		
EN13	Habitats protected or restored	●	65	6.5/6.5.6	Environment/Environmental protection, diversity and natural habitat restoration
EN14	Strategies, current actions and future plans for managing impacts on biodiversity	●	65		
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	●	65		
EN16	Total direct and indirect greenhouse gas emissions by weight	●	68-69		
EN17	Other relevant indirect greenhouse gas emissions by weight	●	68-69	6.5/6.5.5	Environment/Climate change mitigation and adaptation
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	●	68, 69, 70		
EN19	Emissions of ozone-depleting substances by weight	N/A	—		
EN20	NOx, SOx and other significant air emissions by type and weight	N/A	—		
EN21	Total weight discharge by quality and destination	●	70		
EN22	Total weight of waste by type and disposal method	●	69	6.5/6.5.3	Environment/Pollution prevention
EN23	Total number and volume of significant spills	N/A	—		
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII and percentage of transported waste shipped internationally	N/A	—		
EN25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff	N/A	—	6.5/6.5.4/ 6.5.6	Environment/Sustainable resource use/ Environmental protection, diversity and natural habitat restoration
EN26	Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation	●	64	6.5/6.5.4/ 6.6.6/6.7.5	Environment/Sustainable resource use/ Promotion of social responsibility in value chain/Sustainable consumption

GRI G3.1		Reporting level	Page	ISO 26000	ISO 26000 Major subject & issue
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	N/A	—	6.5/6.5.4/ 6.7.5	Environment/Sustainable resource use/ Sustainable consumption
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	N/A	—	6.5	Environment
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations and transporting members of the workforce	●	68	6.5/6.5.4 /6.6.6	Environment/Sustainable resource use/ Promotion of social responsibility in value chain
EN30	Total environmental protection expenditures and investments by type	●	37	6.5	Environment
Labor Practice & Decent Work Performance					
LA1	Employment patterns based on gender by employment type, employment contract and region	●	58	6.4/6.4.3	Custom of labor relations/Employment and employment relationship
LA2	Total number and rate of employee turnover by age group, gender and region	●	59		
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations (work-sites based on regional importance)	●	58	6.4/6.4.3/ 6.4.4	Custom of labor relations/Employment and employment relationship/Labor conditions and social protection
LA4	Percentage of employees covered by collective bargaining agreements	●	60	6.4/6.4.3/ 6.4.4/ 6.4.5/6.3.10	Custom of labor relations/Employment and employment relationship/Labor conditions and social protection/Social dialogue/Basic principles and rights in labor
LA5	Minimum notice period (s) regarding significant operational changes including whether it is specified in collective agreements	●	60	6.4/6.4.3/ 6.4.4/6.4.5	Custom of labor relations/Employment and employment relationship/Labor conditions and social protection/Social dialogue
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	●	60		
LA7	Rates of injury, occupational diseases, lost days and absenteeism and total number of work-related fatalities by region (categorized by region and gender)	●	59	6.4/6.4.6	Custom of labor relations/Health and safety in labor
LA8	Education, training, counseling, prevention and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	●	59	6.4/6.4.6 /6.8/ 6.8.3/6.8.4/ 6.8.8	Custom of labor relations/Health and safety in labor/Local community engagement and development/Local community engagement/ Education and culture/Health
LA9	Health and safety topics covered in formal agreements with trade unions	●	60	6.4/6.4.6	Custom of labor relations/Health and safety in labor
LA10	Average hours of training per year per employee by employee category	●	58	6.4/6.4.7	Custom of labor relations/Human development and training at work
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	●	58	6.4/6.4.7/ 6.8.5	Custom of labor relations/Human development and training at work/Job creation and development of functions
LA12	Percentage of employees receiving regular performance and career development reviews	●	58	6.4/6.4.7	Custom of labor relations/Human development and training at work
LA13	Current status by personnel categories within the board of directors and workforce (according to gender, age group, minority group membership and other indicators of diversity)	●	10, 13, 74-77	6.3.7/6.3.10/ 6.4/6.4.3	Discrimination and vulnerable group/Basic principles and rights in labor/Custom of labor relations/Employment and employment relationship
LA14	Ratio of basic salary of men to women by employee category	●	13	6.3.7/6.3.10/ 6.4/6.4.3/ 6.4.4	Discrimination and vulnerable group/Basic principles and rights in labor/Custom of labor relations/Employment and employment relationship/Labor conditions and social dialogue
LA15	Reinstatement and maintenance ratio by gender after parental leave	●	59		Prohibition on discrimination against vulnerable groups/Guarantee of company's and local member's economic, social and cultural rights
Human Rights Performance					
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	●	56, 58	6.3/6.33/ 6.3.5/6.6.6	Human rights/Due diligence/Evasion of conspiracy/ Promotion of social responsibility in value chain
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	●	61	6.3/6.3.3/ 6.3.5/ 6.4.3/6.6.6	Human rights/Due diligence/Evasion of conspiracy/ Employment and employment relationship/ Promotion of social responsibility in value chain
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	●	57	6.3/6.3.5	Human rights/Evasion of conspiracy
HR4	Total number of incidents of discrimination and actions taken	●	57	6.3/6.3.6/ 6.3.7 /6.3.10/6.4.3	Human rights/Grievance treatment/ Discrimination and vulnerable group/Basic principles and rights in labor/Employment and employment relationship
HR5	Actions to guarantee the rights of major suppliers and businesses that are judged to seriously infringe on or violate the freedom of association and collective bargaining	●	60	6.3/6.3.3 /6.3.4/6.3.5/ 6.3.8/6.3.10/ 6.4.3/6.4.5	Human rights/Due diligence/Human rights risk situation/Evasion of conspiracy/Civil rights and political rights/Basic principles and rights in labor/Employment and employment relationship/Social dialogue

GRI G3.1		Reporting level	Page	ISO 26000	ISO 26000 Major subject & issue
HR6	Operations identified as having significant risk for incidents of child labor and measures taken to contribute to the elimination of child labor	●	56-57	6.3/6.3.3/ 6.3.4/6.3.5/ 6.3.7/6.3.10	Human rights/Due diligence/Human rights risk situation/Evasion of conspiracy/Discrimination and vulnerable groups/Basic principles and rights in labor
HR7	Operations that are likely to have forced labor and measures taken	●	57		Human rights/Evasion of conspiracy evasion/ Employment and employment relationship/ Promotion of social responsibility in value chain
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	●	57	6.3/6.3.5/ 6.4.3/6.6.6	Human rights/Grievance treatment/ Discrimination and vulnerable groups/Basic principles and rights in labor/Employment and employment relationship
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	N/A	—	6.3/6.3.6/6.3.7/ 6.3.8/6.6.7	Human rights/Grievance treatment/ Discrimination and vulnerable groups/Civil rights and political rights/Respect for property rights
HR10	Total number and percentage of worksites receiving inspection and assessment of human rights	N/A	—		Due diligence /Human rights risk situation
HR11	Total number of complaints regarding human rights received and settled through official complaint settlement system	●	43, 57		Problem resolution
Society Performance					
S01	Ratio of projects which implement local community engagement, impact assessment and development programs	●	29, 37	6.3.9/6.8/ 6.8.5/ 6.8.7*/6.6.7	Economic, social and cultural rights/Local community engagement and development/ Job creation and development of function/ Generation of wealth and income/Respect for property rights
S02	Percentage and total number of business units analyzed for risks related to corruption	N/A	57		
S03	Percentage of employees trained in organization's anti-corruption policies and procedures	●	57-58	6.6/6.6.3	Fair operation practice/Anti-corruption
S04	Actions taken in response to incidents of corruption	●	57		
S05	Public policy positions and participation in public policy development and lobbying	●	29		
S06	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	●	37	6.6/6.6.4/ 6.8.3	Fair operation practices/Responsible political participation/Local community engagement
S07	Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes	N/A	—	6.6/6.6.5/	Fair operation practices/Fair competition/Respect for property rights
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	●	57	6.6.7	Fair operation practices/Respect for property rights/Generation of wealth and income
S09	Projects which has significant potential influence on local community or which has actual negative influence on the local community	N/A	—	6.6/6.6.7/6.8.7*	Local community engagement and development
S010	Measures to prevent or mitigate significant potential influence or actual negative influence of businesses on the local community	●	46-49, 64-66		Local community engagement and development
Product Responsibility Performance					
PR1	Last stage of the life cycle that evaluates the effect of improvement products and services on health and safety, rate of evaluations for major products and services	●	64	6.3.9/6.6.6/ 6.7/6.7.4 /6.7.5	Economic, social and cultural rights/Promotion of social responsibility in value chain/Consumer issue/Protection of consumer health and safety/ Sustainable consumption
PR2	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements	N/A	—		
PR3	Percentage of employees trained in organization's anti-corruption policies and procedures	●	45, 49, 64	6.7/6.7.3/ 6.7.4/ 6.7.5/6.7.6/ 6.7.9	Consumer issue/Fair marketing, realistic and balanced information and fair contraction practice/Protection of consumer health and safety/ Sustainable consumption/Consumer service, support and complaint and dispute handling/ Education and enhancement of awareness
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	N/A	—		
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	●	31, 41, 43	6.7/6.7.4/ 6.7.5/ 6.7.6/6.7.8/ 6.7.9	Consumer issue/Protection of consumer health and safety/Sustainable consumption/Consumer service, support and complaint and dispute handling/Access to necessary service/Education and enhancement of awareness
PR6	Programs for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	N/A	—	6.7/6.7.3/ 6.7.6/6.7.9	Consumer issue/Fair marketing, realistic and balanced information and fair contraction practice/Consumer service, support and complaint and dispute handling/Education and enhancement of awareness
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of outcomes	N/A	—		
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	●	54	6.7/6.7.7	Consumer issue/Customer information protection and privacy
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	●	57	6.7/6.7.6	Consumer issue/Consumer service, support and complaint and dispute handling

FINANCIAL SERVICES SECTOR SUPPLEMENT

● Disclosed ● Disclosed Partially ○ Not Available N/A Not Applicable

	Reporting level	Page	Note
Financial Services Sector Specific Disclosure on Management Approach			
FS1	○	29	
FS2	○	42	
FS3	○	71	
FS4	○	67	
FS5	●	53, 63	
Financial Services Sector Specific Performance Indicators			
FS6	●	13–17	
FS7	●	45–49	
FS8	○	64	
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FS10	○	64	
FS11	○	64	
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Financial Services Sector Specific on Product Responsibility Society Performance indicators			
FS13	○	49	
FS14	○	49	
Financial Services Sector Specific Disclosure on Management Approach			
FS15	●	46–49	
FS16	○	31, 32	

Self-Declaration of the GRI G3.1 Guideline Application Level

DGB Financial Group 2012/2013 Sustainability Report was prepared in accordance with the GRI G3.1 Guidelines. It fully satisfies the requirements of level “A” in the GRI G3.1 Application Level Table, out of the three levels of A, B, and C. DGB Financial Group’s self-declaration level is at “A+”, and this self-declaration has been verified as being appropriate by the third party.

GRI G3.1 Guideline Application Level

Report Application Level	C	C+	B	B+	A	A+	
Standard Disclosures	G3 Profile Disclosure	Report on: 1.1 2.1-2.10 3.1-3.8, 3.10-3.12 4.1-4.4, 4.14-4.15	Report on all criteria listed for Level C: 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17	Report on all criteria listed for Level C: 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17	Report on all criteria listed for Level C: 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17	Same as requirement for Level B	Report on all criteria listed for Level C: 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17
	G3 Management Approach Disclosures	Not Required	Management Approach Disclosures for each Indicator Category	Management Approach Disclosures for each Indicator Category	Management Approach Disclosures for each Indicator Category	Management Approach Disclosures for each Indicator Category	Management Approach Disclosures for each Indicator Category
	G3 Performance Indicators & Sector Supplement Performance Indicators	Report on a minimum of 10 performance Indicators, including at least one from each of: Economic, Social and Environmental.	Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility	Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility	Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility	Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility	Report on each core G3 and Sector Supplement* Indicator with due regard to the materiality Principle by either: a)reporting on the Indicator or b)explaining the reason for its omission

Survey of Reader's Opinions



DGB Financial Group 2012/2013 Sustainability Report

Growing Towards the Better Together



Post Card

From : _____

Address : _____

□ □ □ - □ □ □

우편요금
수취인 후납부담

발송유효기간
2013.9.1~2014.8.31
대구수성우체국
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7 0 6 - 7 1 2

DGB Financial Group (“DGB”) welcomes your feedback regarding our Sustainability Report. We will carefully review your opinions and suggestion to address or reflect them in future editions. Please complete the survey below and send it to us via fax or mail. Thank you.

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DGB Economic Research Institute

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1. To which group do you belong?

- ① DGB customer ② DGB employee ③ Partner firm ④ Local resident
⑤ NGOs ⑥ Academia ⑦ Government / local governmen ⑧ etc.()

2. How did you learn about our Sustainability Report?

- ① DGB / Daegu Bank websites ② DGB IR activities ③ Other website
④ Forum / seminar ⑤ etc.()

3. Which section of this report did you find most interesting?

- ① Materiality Analysis Process ② Local community involvement and development
③ Sustainable finance ④ Responsible management ⑤ Green management

4. Do you think this report transparently reflected DGB’s management performance?

- ① Perfectly reflected ② Well reflected ③ Average
④ Below average ⑤ To be improved

5. In which area of sustainability management do you think DGB is most active?

- ① Sustainable finance (socially responsible investments, etc.)
② Environmental management (energy saving and ecosystem restoration, etc.)
③ Contribution to the local community (volunteer services, etc.)
④ Corporate culture (ethical management and sharing activities, etc.)

6. Please state the areas where our Sustainability Report may be further improved.

Contact Information

If you have any inquiries about our sustainability management practices or regarding this report, please contact us through the following channels.

DGB Financial Group	www.dgbfg.co.kr
Daegu Bank	www.dgb.co.kr
DGB Capital	www.dgbcapital.co.kr
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Daegu Credit Information	www.daegucredit.co.kr
DGB Data System	www.dgbds.co.kr

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 **DGB FINANCIAL GROUP**