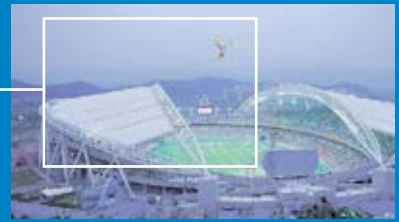
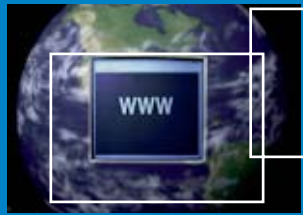




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Annual Report 2001

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“The best **leading** regional bank
creating value through
an exceptional **regional network.**”



Daegu Bank strengthened an already solid customer base by working closely with the local community in FY01. Bold and swift measures were taken to dispose of non-performing loans, setting the stage for a new growth surge as a clean bank.

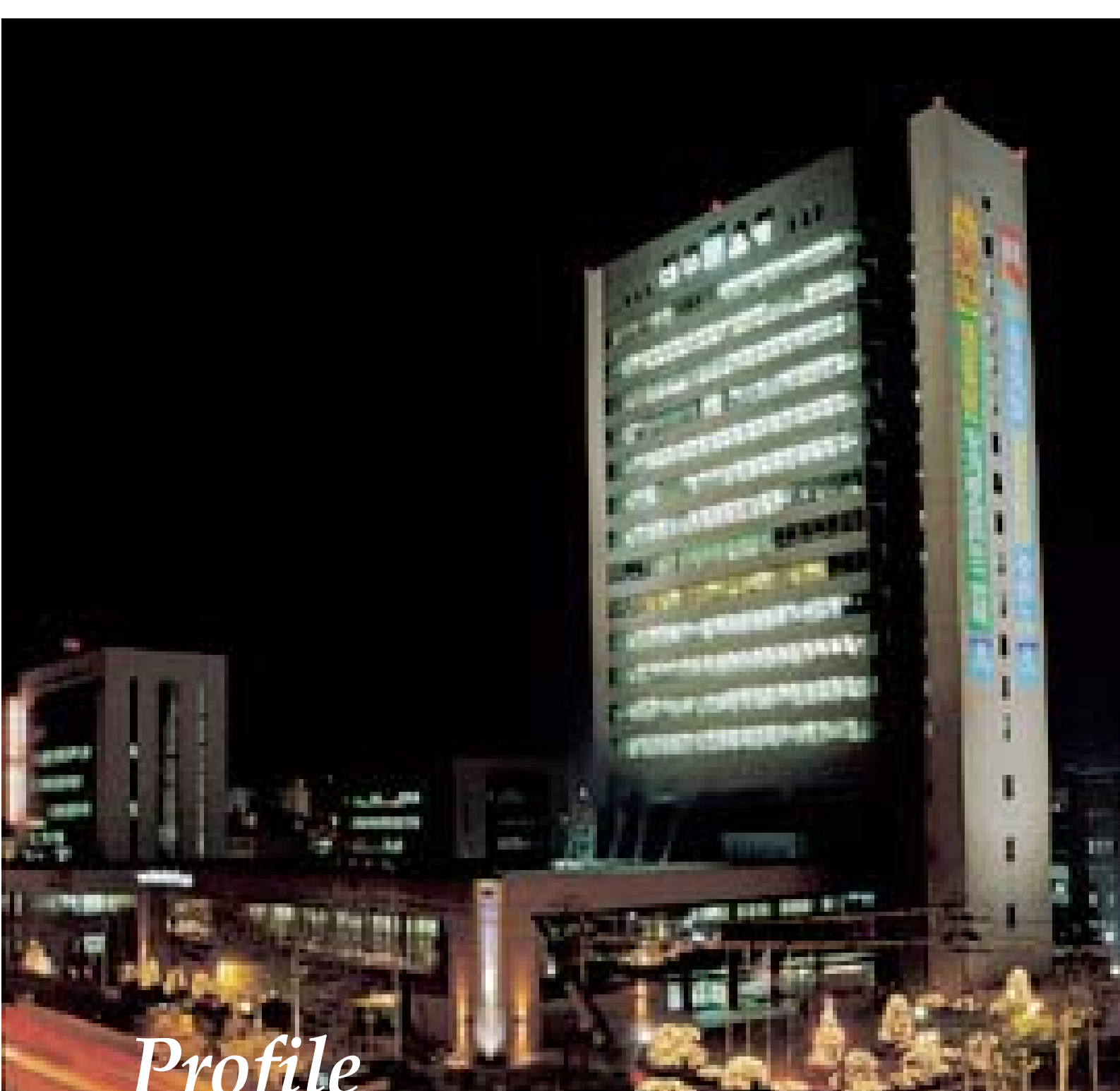
The issues of globalization, consolidation and going online in the international financial sector are being addressed quickly through change and innovation, building a sophisticated management system that embraces global standards.

Daegu Bank continues to bolster its base of regional operations to maximize shareholder value. Profitability remains the priority, while preparations continue for the future so that Daegu Bank remains a leader among Korean regional banks.



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Profile

Daegu Bank has played a key role in the economic and industrial development of Daegu and North Gyeongsang Province since 1967. The Bank today stands best among Korea's regional banks, with a 39.5% share of the Daegu market at the end of 2001, one of Korea's three largest economic zones.

DGB is committed to serving the local community in which it works. In return, the people of Daegu and its surrounding area are staunchly loyal to the Bank.

Financial Highlights

	In billions of KRW		In millions of US\$*	
	2001	2000	2001	2000
Bank Accounts				
For the Year				
Operating Revenues	1,144.1	1,136.3	862.8	856.9
(Interest Income)	(974.6)	(962.4)	(734.9)	(725.7)
(Commission Income)	(125.9)	(89.6)	(94.9)	(67.6)
Operating Expenses	988.7	1,071.4	745.6	807.9
(Interest Expenses)	(633.3)	(621.5)	(477.6)	(468.7)
(Commission Expenses)	(9.9)	(6.8)	(7.5)	(5.1)
(Provision for Loan Losses)	(81.7)	(179.5)	(61.6)	(135.4)
Operating Income	155.4	64.9	117.2	48.9
(Net Interest Income)	(341.3)	(340.9)	(257.4)	(257.1)
(Net Commission Income)	(116.0)	(82.8)	(87.5)	(62.4)
Non-Operating Income	58.7	58.4	44.3	44.0
Non-Operating Expenses	183.4	107.7	138.3	81.2
Net Income	30.7	15.6	23.2	11.8
At Year End				
Loans	8,144.9	6,593.4	6,142.0	4,972.0
Securities	4,129.1	3,231.8	3,113.7	2,437.1
Total Assets	14,551.5	13,028.8	10,973.2	9,824.9
Deposits	10,455.5	9,061.0	7,884.4	6,832.8
Borrowings	2,682.8	2,751.1	2,023.1	2,074.6
Total Liabilities	13,991.1	12,496.3	10,550.6	9,423.3
Capital Stock	602.1	602.1	454.0	454.0
Total Shareholders' Equity	560.4	532.4	422.6	401.5
Profitability				
ROA	0.23%	0.13%		
ROE	5.91%	2.94%		
BIS Capital Ratios**				
Tier 1	7.56%	7.65%		
Tier 2	3.46%	4.06%		
BIS Capital Ratio	11.01%	11.69%		
Trust Accounts				
For the Year				
Total Revenues	156.2	180.6	117.8	136.2
Trust Account Commission Fees	17.9	20.3	13.5	15.3
At Year End				
Money Trust	1,456.4	1,098.5	1,098.3	828.4
Total Assets***	1,544.7	1,189.4	1,164.8	896.9

* The financial statements are expressed in Korean Won and, solely for the convenience of the readers, have been converted into US Dollars at the rate of W1,326.10 to US\$1.00.

** Based on consolidated data under FSC guidelines.

*** Fund trusts excluded, based on the newly changed relevant regulations.

Letter to Shareholders



Corporate and financial restructuring continued in Korea during FY01, while the global economy slowed down. As a result, Korea's national and regional economies could not pull out of their slump, imposing unusual hardship for Daegu Bank.

At the same time, a number of Korean banks have merged and/or established financial holding companies, creating massive entities involved in a broad range of financial services. Korea's financial regulatory standards, to include regulations on equity capital and fiscal soundness, have been tightened steadily as well.

Despite the harsh environment, Daegu Bank reduced the NPA ratio from 8.69% at the end of FY00 to just 3.73% a year later. Total deposits also rose by W1.6098 trillion (14.2%) year on year to reach W12.9509 trillion in FY01. Our stated objective at the beginning of the year was to become a "clean bank," and we accomplished that task.

Moreover, our income for the year far exceeded original expectations, setting the stage for a renewed growth surge. Pre-provisioning income was W124.3 billion, while net income came to W30.7 billion after we put W81.2 billion more into the provision for loan loss and added W12.4 billion into the provision for severance and retirement benefits.

The Bank's BIS capital adequacy ratio stood at 11.01% at the end of FY01, keeping us among the best of the nation's banks. In FY01, ROA increased 0.23% and ROE went up 5.91% over the previous term.

Our robust performance in FY01 gave us the solid competitiveness and operational base to remain the undisputed leader in our regional market. We also are setting ambitious targets for the coming year, determined to meet international standards in every respect.

In FY02, we aim to maintain a BIS ratio of at least 10% while lowering the portion of credit substandard or below to no more than 2% of total loans. In the process, we will reduce the bad debt reserve burden and increase the net interest margin.

Considering the deep cuts in non-performing loans made in FY01, we expect ordinary income to average W28.1 billion in FY02. Therefore, pre-provisioning income is forecast to reach W294.6 billion, a 2.4-fold increase year on year. Importantly, our net income target has been set at W125 billion for the coming year, four times the figure in FY01. This performance would bring ROA up to 0.86%, close to the 1% standard of the leading banks, while ROE would be 19.19%, far exceeding the 15% standard.

Entering FY02, the Korean economy has started to rebound and financial markets are stable. Our projected

The DGB Service Corps, a volunteer organization made up of our employees, has also been inaugurated so that we can be more involved in the local community.

income would be reflected in Daegu Bank share prices, which most likely will surge. We now are looking forward to repaying you, the shareholders, with dividends and higher share prices for your support. The following measures will be taken to this end:

First, our identity has been established with Daegu and North Gyeongsang Province, and we will continue to support local projects to protect our business base. We will greatly expand the number of automated teller machines in service to bolster our bank network in the regional market. The percentage of online banking transactions will increase and banking hours will be flexible to increase customer access. New products will be developed to accommodate specific customer groups.

World Cup matches and other international events will be held in the Daegu area in FY02. We will utilize our strong human network to systematically promote these opportunities. The DGB Service Corps, a volunteer organization made up of our employees, has also been inaugurated so that we can be more involved in the local community.

Second, investment is being concentrated on business areas with added value and high profitability so that exceptional performance is assured. Special steps will be taken to attract more of the wealthiest customers and retain them for life.

Our core businesses are retail banking, corporate banking for small and medium-sized enterprises (SMEs) and our credit cards, with high potential for growth and profit. Now, our competencies are being focused on these areas. In addition, we are seeking out new areas for earning fees and commissions, thereby diversifying our revenue base in North Gyeongsang Province.

Finally, we are constantly managing changes in markets and customer demand, and we are upgrading management systems and infrastructure that support marketing, personnel and risk management. Laying the

groundwork for future business is an ongoing task as well.

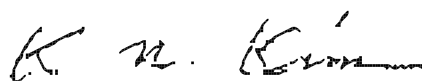
In FY02, our restructuring will continue around markets. Competition among various financial institutions for competitiveness will be severe, and we predict that consolidated domestic banks as well as large foreign banks will work hard to expand their presence in our market.

However, nothing indicates that these developments will impact our development and future. Local and national elections will be held this year, prompting action on existing proposals to promote regional economies and local government autonomy. This kind of legislation can create a more favorable climate for regional banks.

We have built up the trust and support of local customers over the past 35 years. Our human networks and service channels are being used to our advantage, and customers are attracted to our flexible organization and fast, distinctive services. Given these strengths, I believe we can continue to deepen our roots in our regional market no matter how the business environment may be.

In closing, I wish to thank you the shareholders for your exceptional support for and loyalty to Daegu Bank. You have been instrumental in allowing us to put the difficult past behind and be back on the road to solid growth this year. All 2,800 of our employees stand united in their commitment to make sure this happens.

May you and your families enjoy good health and prosperity in the coming year.



Kim Kuk-nyon
Chairman of the Board & CEO

Strategic Initiatives for Regional Network



Vision & Strategy

“DGB is the financially **soundest**
and **most profitable**
regional bank in Korea.”



Operational strategies for 2002 can be broken down into three areas.

First, ties with the local communities of Daegu and North Gyeongsang Province will be strengthened through “K-Project II,” which includes a variety of community service activities. The DGB Service Corps will be officially formed in February to provide a more organized and systematic approach to community service.

At the end of 2001, the Local Community Service Award was instituted to encourage employees to get more involved in volunteerism. The Bank will engage in various activities in conjunction with the World Cup matches and International Textile Fair being held in Daegu in 2002.

Second, profitability will be given the top priority in 2002. The customer-oriented business unit organization put in place during 2001 will be the platform for implementing an integrated profit management system, raising cost awareness throughout the organization. Management of customer and shareholder assets will be further tightened to ensure maximum safety.

Third, the groundwork will be laid for future business. The business environment is expected to grow more difficult and competitive in the days ahead. Therefore, Daegu Bank will proactively build the advanced systems needed to prevail under any circumstance.

DGB is the financially soundest and most profitable regional bank in Korea. The role of regional banks will continue to grow in importance as local governments gain greater autonomy, and Daegu Bank’s vision is to remain the nation’s leading regional bank by helping the local community to develop. To this end, various performance indices and systems have been set to meet the industry’s highest standards.

The Community and Daegu Bank



The "K-Project," named after Daegu Bank Chairman and CEO Kim Kuk-nyon, was introduced in 2000 to support community service in Daegu and North Gyeongsang Province, the Bank's operational base. The project promotes friendship and contact with the local community, strengthening a community-based marketing effort. The community service activities also enhance DGB's role as partner in developing the local community while building the Bank's image as a model for other Korean regional banks to emulate.

Support for the Local Government

The Bank automatically processed some 2.5 million payments of various local taxes and fees (192 types) in 2001. A credit card system, which raises funds for the community through subsidies from sales, was installed so that government workers have access to their bank accounts after regular work hours. In addition, the Bank provided courtesy service training to 1,870 people working in 15 different public institutions.

Support for the Local Economy

In 2001, Daegu Bank funded the startup of 1,456 small and medium-sized enterprises (SMEs) and provided financial assistance to an additional 763 SMEs in the region. The Bank participates in infrastructure projects and provides development loans for special regional projects each year.

Daegu Bank also provides SMEs with managerial guidance and information on foreign exchange rates, foreign exchange rate risk management techniques, and points of caution concerning the transformation to the Euro currency in Europe. In 2001, fifteen promising new businesses were uncovered and

supported. Meanwhile, drives were organized to help drought-stricken farmers and to encourage the purchase of locally produced rice.

Support for the Community

The Daegu Love Card program raised W100 million for the City of Daegu, while Bank employees visited social welfare facilities and helped raise scholarship money for teenaged orphans with younger siblings to support. Meanwhile, the Bank donated money to needy families and flood victims, and sponsored a program to build homes for needy families.

Local festivals, an arts & crafts fair and an international dance event were all supported by the Bank, which also provided space in its facilities to exhibit local art works. Employees volunteered to put identification tags on trees in local parks and feed wild birds. Cleanup drives of local streams and lakes were also carried out.

Daegu Bank raised funds for the local swimming team and for promoting athletics in Daegu and North Gyeongsang Province. The Bank is also helping to sell admission tickets to World Cup matches in Daegu in 2002.

Support for Education

Daegu Bank provided a total of W243 million to 390 students through the Scholarship & Culture Foundation. An additional W50 million was provided to purchase books and study materials.

The Bank supported programs that encourage students to save money, including the handing out of certificates to students and teachers on Saving Day. Banking services are now provided at



140 primary, middle and high schools, and opportunities for on-the-job training are arranged for students attending local universities.

Greater Convenience for Citizens

The Bank's parking lots are open to the public free of charge on Sundays and holidays. The Bank's head office conference room, training center and other facilities are made available for citizens to use for worthy causes. Daegu Bank is also expanding its online banking facilities and has increased the hours of operation for its automated teller machines.

The financial environment is changing in Korea, and large,



consolidated banks are encroaching on regional markets. Therefore, a more comprehensive community service initiative called "K-Project II" is being launched in 2002 to counter this advance by national banks. At the same time, DGB's competitiveness will be strengthened by taking full advantage of the Bank's reputation and network resources in the region. This initiative is also an effective response to local customers' sensitivity to falling interest rates and their changing sentiments toward banks in general.

In 2002, the DGB Service Corps is being formed to encourage even greater participation by Bank employees. The community service effort is linked with the Bank's marketing activities, and the Bank serves as a partner that helps to develop the community. PR materials have been produced on the community service activities, and a segment has been added to the Bank's homepage. The Bank's own magazine publishes quarterly results and reports on outstanding examples.

K-Project II

The Bank is building on the success of the K-Project to launch K-Project II. The platforms for community-based operations are being expanded, and customer contacts points are being multiplied and diversified. The online support system is being strengthened via online customer relations management, an EBPP system, an online Private Banking, an online Call Center, and B2B payment settlement system. More automated teller machines are also being installed, while banking hours are being made more flexible.

Relationship marketing is being strengthened, and new safety deposit services are being introduced. Transactions with institutions and organizations are being expanded by (1) issuing more membership co-branded cards and (2) customized cards.

Preferential treatment and support is given to regional enterprises, attracting more companies to join the DGB Plus Club. Better credit support services are being granted to outstanding corporate customers and more SMEs are being qualified for loans. Finally, a constant stream of customized services and products are being developed for the region.

Review of Operations



Regional Economy

Review of 2001

The Korean economy was more sluggish in 2001 than in the previous year. Economic growth slowed to 2.9%, while consumer prices increased 4.1% in 2001. The trade surplus reached US\$9.5 billion, falling short of the original US\$10 billion target set for the year by the Korean government. Growing domestic demand and/or increased exports boosted the wireless communications, shipbuilding, automobile, housing and retail sectors. On the other hand, semiconductors and computer equipment, both major export sectors, were slow, dragging down the economy as a whole.

However, the main economic indicators bottomed out in the second and third quarters and rose in the fourth quarter, indicating an economic recovery in the days ahead. Moreover, the continued trade surplus brought the nation's foreign exchange surplus to US\$102.8 billion at the end of FY01, ranking Korea fifth in this category behind Japan, China, Taiwan and Hong Kong. As a result, the nation's sovereign rating was also raised during the year.

The general economic slowdown inside and outside Korea affected Daegu negatively, reducing overall industrial activity from 2000 levels. On the other hand the North Gyeongsang economy was robust, with strong performances by manufacturers of monitors, TVs and communications equipment. Production and deliveries were down in Daegu 5.1% and 6.4%, respectively, but the North Gyeongsang region saw production rise 9.5% and deliveries increase 10.0% over the previous year.

Exports were slow for textiles, machinery and steel, with total exports at just US\$15.5 billion for Daegu and Gyeongsang Province through the first eleven months of 2001, a 9% drop year on year. The dishonored bill ratio for Daegu stood at 0.50%, which was actually 0.11 percentage points lower than in the previous year because of a reduction in demand for funds. The North Gyeongsang region, however, saw its dishonored bill ratio rise 0.07 percentage points from 0.31% in 2000 to 0.38% in 2001.

Construction for apartments and other residences increased in Daegu during 2001, with the number of construction permits up 49.9% year on year. However, housing construction was only slightly higher in North Gyeongsang Province, and industrial construction remained around the 2000 level.

Consumer prices were 4.0% higher year on year in the Daegu area, boosted mainly by increases in housing rents, and higher meat and farm produce prices. Rising prices for meat and farm produce as well as higher public service fees helped boost the consumer price index 3.5% in North Gyeongsang Province. However, prices were relatively stable in both Daegu and North Gyeongsang Province, considering that the consumer price index rose an average of 4.3% in Korea as a whole.

The business survey index (BSI) on capital funds averaged 71 for Daegu throughout 2001, indicating that funding access was difficult for companies. The BSI average for North Gyeongsang Province was also down sharply from 94 in 2000 to just 79 in 2001.



The region's synthetic textile industry struggled in FY01, with production, deliveries and exports all down 20-30% year on year. Parts suppliers for Hyundai and Kia Motor experienced better conditions during the year, with operations running at 90-95% of full capacity. On the other hand, Daewoo Motor suppliers only operated at 50% capacity, bringing the overall production and delivery figures for the automotive parts industry down 6% year on year.

The construction industry, the leading driver of economic growth, showed signs of recovery. Construction permits, particularly in the Daegu area, rose, and apartment purchasing heated up. A closer look reveals, however, that construction companies continued to suffer from excessive competition and difficulties in procuring construction materials.

More traditional retailing businesses such as supermarkets and convenience stores experienced sluggish sales, but department stores and large new discount stores (hypermarkets) enjoyed conspicuous sales growth, promoting economic polarization. Production at machinery manufacturers was somewhat slow because of the reduced domestic demand and exports stemming from the economic downturn overseas as well as the sluggishness of related industries at home. The excessive steel production worldwide increased price competition and quotas for regional steel producers. In addition, a slowdown in industries dependent upon steel reduced steel output. The electronics industry, which is centered on the Gumi area, experienced sluggish exports because of the slumping semiconductor industry internationally. However, the world semiconductor industry began to recover from the fourth quarter, sparking signs of a turnaround in Korea, too.

Outlook for 2002

The first half of 2002 is expected to be somewhat difficult because of slow exports and new investment. However, an economic rebound in advanced markets is forecast for the second half, which will improve export conditions and stimulate investment sentiment in Korea. Korean economic growth for the year is put between 3.9% and 4.5%.

Domestic demand, which has been propped up by consumer spending and construction investment, is anticipated to grow slowly in 2002. The downward trend in new facilities investment experienced in 2001 will cease, but conservatism on the part of large companies will result in only modest gains in this sector. The weak Yen notwithstanding, China's entry into the WTO and an economic rebound in advanced countries will spark growth in Korean exports, and analysts predict a \$6 billion surplus in the balance of trade for the year. Consumer prices are seen to rise 3.0%, lower than in 2001, and the overall economic picture is forecast to improve.

Daegu and North Gyeongsang Province are expected to experience a 5% year-on-year increase in exports, thanks to greater demand from China's WTO entry, among other factors. The dishonored bill ratio should be down in the 0.38-0.40% range as the regional economy recovers. Consumer prices are forecast to rise 3.0% in Daegu and 2.5% in North Gyeongsang Province, while unemployment is seen to be 4.0% in Daegu and just 2.0% in North Gyeongsang Province.

The regional textile industry is expected to rebound in the second half of 2002, boosted by special demand from the World Cup and new but growing International Textile Fair as well as lower tariffs in the EU.

Lower luxury taxes in Korea, GM's takeover of Daewoo Motors, increased exports by Hyundai and Kia Motors, special demand prompted by China's WTO entry, and better prospects for US economic recovery all bode well for automotive parts markets in Daegu and North Gyeongsang Province, as long as the Japanese Yen does not depreciate sharply against the US Dollar.

The region's construction companies are forecast to receive a boost from the spate of new infrastructure project orders created by the government's economic stimulus package in 2002, new projects stemming from the World Cup, improved liquidity and a real estate market revived by low interest rates. Meanwhile, the retail sector in general and department stores and large

discount stores in particular, should experience continued sales growth as the regional economy recovers.

Machinery manufacturers are predicted to have difficulties from a weak Yen and severe competition during the first half. Starting in the second half, a recovery should begin to take shape in this sector in concert with economic recovery in the region and in Korea generally.

The glut in the world information and communications sector should ease in 2002, helping the regional industry to rebound. Other factors contributing to a recovery include lower Korean luxury taxes, special demand from the World Cup and increased exports of digital consumer electronics, mobile phones and IMT-2000 hardware, driven by growing demand in China.

On the other hand, prospects for the regional steel industry are less positive. Production facilities will decrease in major companies because of excessive steel production worldwide. Korean steelmakers, too, will be forced to cut back on output, which means lackluster exports and heightened competition.

Retail Banking

e-Banking

The spread of online banking enables financial transactions to be conducted without the physical support of Bank branches, steadily decreasing the role they play. At the same time, the customers become more and more dispersed. Banks, meanwhile, will continue to add information services to their traditional function as transaction intermediary, and electronic money will increasingly be used to effect payment.

The information technology revolution is now strongly felt at Daegu Bank, where 79.1% of all financial transactions were conducted either by phone or online in FY01. On the other hand, offline teller services continued to fall, from 23.0% of total transactions in FY00 to 20.9% in FY01, and the figure is projected to drop to just 17.9% in FY02.

Commissions from e-banking soared W2.5 billion, from W6.6 billion in FY00 to W9.1 billion in FY01, which was W1.7 billion higher than the original target, and the number of Internet banking users more than quadrupled during FY01 to 200,000 at year's end. That figure is forecast to double in FY02 as well.

During FY01, Daegu Bank introduced numerous new services to accommodate changing retail and corporate customer needs. A mobile banking service was opened in cooperation with Shinsegi Telecom, which has merged with SK Telecom. E-banking hours were extended, and online access to personal credit data began to be offered. Nine new deposit/trust products were put online in FY01, and documents for settling accounts at year's end were made available via the Internet. "K-Cash," an integrated cyber financial system, was also launched to combine payment systems for public transportation, trade and other transactions.

The Bank's homepage opened Web mail accounts as well as a messaging service to accompany payment remittance. A cyber Dokdo branch was also opened via the homepage to raise public awareness of the need to preserve this remote island in the East Sea as part of Korea's national territory. By year's end, 26,827 accounts had been opened at this cyber branch, totaling W16.7 billion in deposits and W3.5 billion in loans.

In order to meet the needs of local community and universities for FY02, the Bank also plans to institute the "Electronic Bill Presentment and Payment (EBPP)" system for online remittance of local taxes and registration fees. This new system will further the Bank's position in local community.

Credit Card Business

The Credit Scoring System, developed to address the Korean business environment, has helped the Bank to retain the most creditworthy credit cardholders. As a result, the ratio of outstanding credit rated precautionary or below in the Bank's credit card business was just 3.1% at the end of FY01. Daegu Credit Information Co. the Bank's new collection agency, is also helping to steadily reduce the amount of non-performing loans.

Credit card transaction volume rose 65.8% year on year to surpass W2.32 trillion, while credit card income came to W75.7 billion, up 63.8% from the previous term. The surge is due to improved consumer sentiment and government policy encouraging credit card usage. At the same time, the Bank has expanded the range of special services provided to preferred cardholders.

The number of Daegu Bank credit cardholders grew 39.1% in FY01 to better than 521,000. Efforts were focused on securing

preferred cardholders by forming ties with associations for working professionals such as doctors, pharmacists and lawyers. The new ABC service, which rewards the best credit card customers, was launched to attract new people and make preferred cardholders the main target market.

In FY02, the government as well as non-government organizations are expected to apply pressure to steadily lower merchant commission rates. Credit card companies belonging to Korea's largest business conglomerates will continue to make inroads into new markets, heightening competition over services and new products. In response to the growing number of credit card delinquencies, the government regulatory agencies are also expected to tighten cardholder qualification requirements and reduce credit limits.

Credit cards will represent one of the Bank's mainstay businesses in FY02. Growth targets of 60.4% for total transaction volume and 39.4% for credit card income have been set, despite the increasingly severe competition.

To achieve these ambition goals, the Bank will employ solicitors and develop programs to attracting new cardholders, particularly those with high creditworthiness. Special events will be held cardholders' benefit, and new programs will be developed for preferred cardholders. Alliances will be forged with local information-related institutions, public organizations and large retailers to boost membership card sales. Co-branded cards targeting the local region will be issued to help boost business performance, while a computerized system for managing long-term delinquencies will be installed to maximize income and improve asset quality.

Over the mid- to long term, Daegu Bank will focus on business diversification by developing products and services for corporate customers and the wholesale market. An aggressive marketing campaign will be launched for niche markets and specifically targeted industries and occupations. Finally, an integrated credit card marketing system will be put in place to boost direct mailing, telemarketing and email marketing activities.

Deposit Taking

Deposit Taking and Beneficiary Certificates

	2000	2001	2002(E)
Total Deposits	₩10,4645 Tril	₩11,6874 Tril	₩13,2633 Tril
Low-interest	₩2.81 Tril	₩3.3539 Tril	₩3.9909 Tril
Deposits (In portfolio)	26.8%	28.7%	30.1%
Beneficiary	-	₩2.1 Bln	₩60 Bln
Certificates			

Key Results and Outlook

The steady growth in Daegu Bank deposits after the Korean financial crisis accelerated in 2001, with deposits (based on an average balance for the period) rising 11.7%. One factor contributing to this improved performance was bold restructuring, which included reclassifying all of the Bank's 180-plus branches as "retail banking branches" and allowing them to devote themselves to serving retail customers. Other success factors can be cited as well. Customers have enthusiastically received newly developed products such as the DGB "Smart" Time Deposit, and retail loan products focused on the local community, for example the Speed Daily Installment Loan, are selling well. At the same time, many self-employed people and household customers rely on Daegu Bank for all their financial transactions. In FY02, the Bank will extend its community-based marketing still further and increase the number of "royal" (very high net worth) customer, with the aim of boosting total deposits 13.5% (W13.26 trillion) year on year.

In addition, Daegu Bank will adhere to a funding policy that centers on profitability. The proportion of low-cost deposits in the portfolio stood at 26.8% in FY00 and rose to 28.7% in FY01. The target for FY02 is 30.1%

Bank policy in FY01 aimed to improve the deposit portfolio, increase funding loans to households, grow the credit card business, increase online business volume, and strengthen strategic alliances. Efforts toward these goals have laid the groundwork for steady profitability.



Numerous measures have been taken to attract capital flow. For example, new securities-related deposits have been developed; insurance company accounts are being drawn in and customized passbooks are being created for special customer classes or small organizations such as the associations for physicians and for pharmacists. Transaction volume with local public institutions such as the Family Support Center at the Daegu District Court has been increased, improving the deposit portfolio. A new loan advisory service, streamlined loan application procedures, and systematic risk management have also contributed to the growth in funding loans to households.

Finally, credit card operations have been boosted substantially through stronger target marketing, tie-ups with local women's groups, among others, and new products such as co-branded cards with retailers.

On-line business volume has been boosted by intensifying customer management through the use of electronic media such as the integrated Call Center. Launching Internet Plus Firm Banking and providing new revenue sources through other growing online services were main factors for the increase as well. Sales of Beneficiary Certificates and alliances with insurance companies are enabling Daegu Bank to offer one-stop services, the foundation for long-term revenue generation.

In FY02, efforts will continue to bring the Bank closer to the local community. Financial software programs will be upgraded and retention of "royal" customers will be enhanced. More credit will be extended to the retail banking sector as well as to SMEs, and fee businesses will be vigorously pursued. The Bank expects net income to reach W125 billion in FY02.

Customer access channels will be expanded as part of a strategy to enhance branch efficiency and profitability. Budget management contracts are being renewed with nine local government organizations, and four more will be newly contracted to buttress the Bank's operational base. Efforts will also continue to bring the Bank closer to the community. New products will be developed specifically to accommodate regional needs; more local business alliances will be pursued and the Bank will play a leading role in more local events.

Moreover, new Customer Relationship Management (CRM) systems will be deployed to improve competitiveness. Software upgrades will continue to improve modeling for retail customer credit qualification and bolster the foundation for one-stop services. As part of efforts to attract high-net-worth customers, the Bank will establish VIP clubs, open CRM offices, remodel branches to bolster the CRM system and fostering professional Financial Advisors.

Finally, systems will be improved to accelerate credit support, and branch general managers will be allowed to decide interest rates on loans to SMEs and households, helping to increase loan volume. Efforts will be focused on making the most of existing commission opportunities and developing new commission sources. Sales of beneficiary certificates will also be increased as part of efforts to bolster the fee business, enhancing the profitability of the non-interest revenue sector.

Consumer Lending

The Bank considers consumer lending to be a major revenue

source, and this sector was promoted aggressively during FY01. A variety of new loan plans were introduced, while loan application procedures were streamlined and credit was made more accessible to retail customers.

As a result, total household loans surged 63.9% (W614.8 billion) year on year to better than W1.57 trillion at the end of FY01. Despite the huge growth, outstanding household credit rated substandard or below dropped half a percentage point to just W7.3 billion, or 0.6% of the total. The proportion of NPLs came to W2.9 billion, or 0.2% of the total, as opposed to a 0.4% NPL ratio at the end of FY00.

The Credit Scoring System (CSS), which includes subsystems for scoring applications and behavior, was upgraded to improve household loan risk management. CSS data are used to help determine credit limits according to individual customers as well as changing market conditions.

In the future, the Bank will continue to seek business alliances to offer customized consumer lending products. Strategic partnerships are also being pursued with local housing construction firms.

Corporate Banking

Corporate Loans

At the end of FY00, the Bank's asset quality carried a very poor "4" rating, with credit substandard or below coming to W634.1 billion, or 8.69% of total outstanding credit. Major improvements were needed if the Bank were to rebound into the leading ranks of the industry. Therefore, achievement of "clean bank" status was made a priority for FY01, and the task was rigorously pursued. As a result, credit substandard or below stood at just 3.73% of total credit at the end of FY01, well below the 5.0% limit set by the Financial Supervisory Service, and earning the Bank a "2" rating. The foundation was in place for stable future growth.

Daegu Bank had been saddled with non-performing loans to companies under court receivership, including Woobang Co., Seohan Engineering & Construction, and Keumsung Dyeing & Weaving. Many of the NPLs were sold to Korea Asset Management Corp. (KAMCO) and other corporate restructuring companies, auctioned off by the Bank, disposed of through ABS issuance, or written off. The timely and efficient measures

eliminated over W700 billion in bad loans in FY01, greatly enhancing asset quality.

Companies placed under workout programs posed a major obstacle to stable growth. Therefore, the Bank carefully supervised the restructuring process at two Debec affiliates and Hwasung Industrial, turning around their operations and releasing them from the workout program ahead of schedule.

Seohan Engineering & Construction, referred to above, was sold to KAMCO immediately after going into court receivership, leaving the Bank with no more workout companies under its supervision. Daegu Bank held W142.7 billion in credit and W11.6 billion in guarantees related to fifteen companies, including Kohap, which were being managed by other banks. Most of these companies were classified as doubtful, and provisions for loan loss averaging 52.9% of the total were established. In the future, the Bank will thoroughly analyze the status of companies facing workout programs and promote self-rescue measures to more quickly recover outstanding debt. Moreover, the use of debt-equity swaps and timely write-offs will help improve the Bank's asset quality.

Economic recovery in Daegu and North Gyeongsang Province should result in a sharp reduction in new NPLs and credit rated substandard or below. The Bank will quickly implement restructuring programs at companies that are expected to default on their loans.

Daegu Credit Information Co. was established to systematically and efficiently recover non-performing loans that are managed as off balance sheet assets. In FY01, the Bank subsidiary retrieved over W29.2 billion worth of non-performing loans (this is not clear), boosting Bank revenues significantly.

The Bank aims to bring credit substandard or below to under 3% in FY02, using the highly successful methods employed during FY01.

Investments

Managed securities were W176.3 billion lower than originally planned in FY01. The shortfall can be attributed to unprecedented low interest rates, which prompted the Bank to sell bonds before maturity. Traded securities and Won-currency investment securities were also below the original target by W74.1 billion and W42.7 billion, respectively. Repurchase

agreement sales were also W450.1 billion higher than anticipated.

On the funding side, deposits surpassed the FY01 target by W348.4 billion (W304.8 in time accounts and W44.2 billion in accumulative accounts). Mutual installment deposits and CDs also exceeded the target by W69.3 billion and W92.5 billion, respectively.

The Korean government remained determined to lower interest rates during FY01, while financial institutions had abundant liquidity and credit remained tight. Funds, therefore, were over-concentrated in specific sectors and financial institutions were uneasy over long-term fund management.

Lingering concern over unstable prices for goods slowed the domestic economy in 2001, and the global economic stagnation worsened. At the same time, the US Federal Reserve repeatedly lowered interest rates. Thus, downward pressure remained in the overall interest rate environment during the year.

During the first half of 2002, interest rates are expected to remain steady, as expectations over Korean economic recovery mount and government policy towards interest rates remains unchanged. Full-fledged recovery in the second half should drive interest rates up, but access to capital is predicted to remain favorable.

Daegu Bank will raise funds flexibly in accordance with market interest rates. Branch general managers are also empowered with the authority to establish their own rates (within limits), helping to boost the marketing effort. Repurchase agreements, which have relatively low funding costs, will be the preferred means for raising new funds.

Investment strategy will focus on the short term, with temporary liquidity controls and funding adjustments being maintained. Securities-based savings accounts, CDs, RP sales and call loans will be the main vehicles for managing the Bank's investments in FY02.

As the economy recovers and interest rates go up, the limit on managed funds will be raised, and the market portfolio will center on major blue chip stocks. Traded bonds will be managed through short-term dealing as dictated by interest rate fluctuations, and the Bank will participate in international derivatives markets to diversify risk.

An optimal investment portfolio will be built around securities

that perform best in a rising interest rate environment. Diverse investment strategies will also be employed to maximize investment management revenue.

Trust Business

The Bank's original targets were just under W1.1 trillion in trust funding and almost W1.3 trillion in trust management. In fact, funds raised increased 8.08% (W88.8 billion) to better than W1.188 trillion, while trusts managed grew 9.39% (W106.1 billion) to exceed W1.23 trillion.

This better-than-expected performance was accomplished in part by moving trust accounts away from the low fixed rate products and into trust accounts with high prospective returns for liquidity. Second, the reliability of dividend paying products eroded in the wake of the Korean financial crisis. Confidence in trust products has been restored by improving transparency through public disclosure and by ensuring that new funds are clean.

Growth rates for bank trusts averaged just 4.64% growth at nationwide commercial banks in FY01, whereas the figure for regional banks was 27.88% for the same period.

In general, DGB trusts evaluated by book value accounting and based on performance dividends have performed as well as or better than the trusts at other banks, despite the continuously dropping market interest rates. The payout differs significantly, depending on the fund establishment date, making a direct comparison difficult with trusts evaluated by mark-to-market accounting.

Overall, lower interest rates in the second half of FY01 brought high returns on bond-invested trust funds. However, rapid growth occurred on expectations of economic recovery after interest rates bottomed out in mid-October. The payout for trust funds have been low throughout the banking sector ever since.

Most analysts forecast the Korean economy to be robust in 2002, which suggests lackluster dividends from bond-invested trust funds. On the other hand, a duration management strategy applied to new trust funds is expected to keep the payout at an appropriate level. Relatively high returns are predicted for stock-invested trust funds.

International Banking

In FY01, tangible results began to appear from Korea's ongoing restructuring effort since the foreign currency crisis in FY97. International trade and financial markets were rocked by the September 11 terrorist attacks in the US, yet the effect on the Korean economy was minimal, as exports and the domestic financial markets remained stable. The government authorities put the finishing touches on their ongoing corporate and financial reforms and focused on improving the nation's sovereign credit rating.

Amid this environment, Daegu Bank maintained a BIS capital adequacy ratio of 11.01%, among the highest in the domestic banking industry, at the end of FY01. Effective management of foreign-currency assets resulted in a liquidity ratio of 113.95% at year's end, higher than the 80% requirement set by external supervisory agencies and well above the 100% minimum mandated by the Bank's own risk management organization. The high liquidity facilitated foreign-currency funding and management, and a flexible approach was taken to replace high cost foreign-currency liabilities with lower costing ones.

Severe competition among banks and other financial institutions in the traditional businesses areas has continued to erode profitability, prompting the Bank to diversify. As part of revenue diversification efforts, the Bank stepped up involvement in international finance, foreign exchange & services, and derivative product management. Investment operations, which were suspended in the wake of the foreign currency crisis, were restarted, bringing in US\$20 million worth of foreign-currency bonds and promising to be an excellent income source. Unlike in the past, funding and managing now are better matched, eliminating liquidity and interest risks completely and stabilizing the spread.

The above international banking activities require the support of a foreign exchange risk management system. Therefore, the Bank formed the Exchange Risk Management Committee, which includes the participation of outside directors, to approve foreign exchange risk limits.

Importantly, Daegu Bank adopted a Value at Risk system in FY01 to address the uncertainty of VaR exposure to derivatives and foreign exchange and more effectively supervise risk management activities. The Bank's foreign exchange risk was managed through forward exchange, futures trading and other methods. Moreover the Bank supported corporate clients with

consulting on exchange risk management.

Client needs regarding foreign exchange services and international financial markets continue to become more sophisticated and diverse, representing opportunities for new revenue generation. Daegu Bank is well aware of the limitations on past revenue sources and is aggressively developing and offering new international banking products.

The economy of Daegu and the surrounding vicinity will be bolstered by the holding of World Cup matches in FY02, and a new surge in international banking activities is clearly in store. Revenues and foreign exchange risks are expected to return to pre-crisis levels and Daegu Bank will rank among the best in this sector.

As the local society continues to opening up to the world, Daegu Bank will offer clients standards for foreign exchange trading, foreign exchange retail services, project financing, foreign exchange risk management, derivatives management and other areas. The stable foreign asset portfolio and liquidity will be used fully to find new ways to generate revenue.

Risk Management

The risk management system ascertains the degree of various risks (credit, market, liquidity) inherent in Bank operations. These risks are measured by a uniform standard and managed efficiently to ensure asset quality and revenue stability. The independent Board Risk Management Committee (BRMC), comprised of four non-standing directors and one standing director, establishes risk limits and policies. The BRMC also reviews risk management performance during the regular monthly meetings or extraordinary meetings that may be called when necessary.

The Risk Management Committee (RMC) is made up of 14 general managers from risk-related divisions and chaired by the Head of the Planning & Coordination Division. The RMC, which meets monthly, is responsible for managing the policies and limits set by the BRMC.

The Executive Risk Management Committee (EMRC) meets each week to ensure that decisions by the BRMC and RMC are followed during the Bank's day-to-day operations.

Credit Risk Management

Credit risk management is concerned with potential losses stemming from a client's contractual non-compliance or financial failure during transactions involving loans, securities, capital or derivatives. Target portfolios are established to reflect economic trends and forecasts in an effort to prevent over-concentration in any particular industry. Credit limits are set to prevent overexposure to individual borrowers, and a limit is imposed on the proportion of total credit being extended to the Bank's top 60 clients to ensure the overall portfolio is properly balanced.

Monthly reviews of risk limits, periodic credit reviews and other measures are taken to prevent bad loans. Contingency plans are also in place for dealing with specific levels of risk exposure. The Bank has also established Corporate Banking Centers in ten locations, staffed by professional Risk Managers and Senior Relationship Managers.

The Credit Scoring System was introduced in April 2000 to enhance the management of risk related to individual loans, while the new Credit Risk Management System was launched in June 2001 to manage corporate loan risks.

Market Risk Management

Market risks stemming from fluctuations in interest rates, stock prices and foreign exchange rates can reduce earning asset value and interest revenue. To effectively counter this threat, the BRMC approves limits, and each related team submits monthly reports of performance results to the BRMC and RMC.

Earning at Risk (EaR) limits the possible fluctuation in net interest income resulting from changes in market interest rates and inconsistencies in dates when rates are adjusted for interest-earning assets and interest-bearing debt. Caps are placed on differences in asset and liability maturities, and net interest rate spread targets are established for funding and asset management.

Value at Risk (VaR) is applied to limit risk exposure to and investment in trading stocks and bonds as well as stock-related derivatives securities. The VaR method has also been

adopted for setting risk and investment limits on speculative foreign exchange position and foreign-exchange derivatives.

The Travis securities management system was implemented in May 2000 to more effectively handle investment and loss limits as well as to improve securities investment management. At the end of 2001, the new Market Risk Management system was completed, bolstering the Bank's capabilities related to VaR analysis, limit management and performance evaluation.

Liquidity Risk Management

Liquidity risks are associated with payments defaults from unexpected changes in capital, the borrowing of funds, the disposal of assets rated below normal, and potential losses from missed investment opportunities. Caps are established on the gaps between maturities of investments and the funds raised originally, and the Bank maintains its Won liquidity ratio as required by the Financial Supervisory Service. Daegu Bank always strives to maintain adequate liquid assets to deal with any unexpected development, and a contingency plan is in place to counter liquidity shortages.

An Asset & Liability Management system was introduced in 1996 to cover interest and liquidity risks. The ALM system will be rebuilt during 2002 to improve data processing capabilities and incorporate new financial risks that have recently appeared in the marketplace.

IT Risk Management

The Bank has constructed a Business Backup System in cooperation with IBM Korea. In addition, should the mainframe computer system go down for any reason, operations are immediately switched to backup computer systems. Important data are stored simultaneously in several locations, and measures are enforced to ensure data security and IT equipment integrity.

The Bank expects a steady increase in profitability during 2002. Performance should be boosted in part after all branches implement Fund Transfer Pricing (FTP0), part of the integrated profitability management system.

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Management's Discussion & Analysis

The Management's Discussion & Analysis is based on Non-consolidated date.

Overview

Operating revenues and net interest income were both up only slightly in FY01, but major gains were seen in ordinary operating income and net income. Indeed, the latter rose 96.8% (₩15.1 billion) to reach ₩30.7 billion. Such a jump in net income when operating revenues increased by so little can be attributed to improved income quality. ROA and ROE rose 0.10 and 2.97 percentage points, respectively, to 0.23% and 5.91%. Asset quality got better during the year, with the NPL ratio improving 4.96 percentage points to 3.73%.

Successful promotion of core revenue sources increased the proportion of low-cost deposits to 33.6% of total deposits, helping

to lower funding costs. Expansion of credit card operations boosted credit card income 62.9% year on year, while household loans, which carry relatively low risk, increased 55.9% for the year. Total credit increased ₩363.3 billion to surpass ₩7.66 billion, while total deposits surged over ₩1.6 trillion to near the ₩13 trillion mark. This growth in credit and deposits generated greater net income, but the gains in total assets brought the BIS capital adequacy ratio down 0.68 percentage points year on year to 11.01%.

Key Financial Data

(in billions of Won)

	2000	2001
Operating Results		
Operating Revenues	1,136.3	1,144.1
Net Interest Income	340.9	341.3
Operating Income	64.9	155.4
Ordinary Operating Income	242.6	309.7
Net Income	15.6	30.7
Per Share Data (Won)		
Earning Per Share	131	257
Profitability Ratios		
ROA	0.13	0.23
ROE	2.94	5.91
Net Interest Margin	3.53	3.14
Net Interest Spread	3.64	3.63
Balance Sheet Data at Year's End		
Total Assets	13,028.8	14,551.5
Total Credit*	7,298.1	7,661.4
Total Deposits*	11,341.1	12,950.9
Securities*	4,046.7	5,312.9
Shareholders' Equity	532.4	560.4
Asset Quality Ratios		
Provisions for Loan Loss to Credit Substandard or Below	46.63	55.27
Credit Substandard or Below to Total Credit	8.69	3.73
Capital Ratios at Year's End		
Total Capital Ratio	11.69	11.01
Tier 1 Capital	7.65	7.56
Tier 2 Capital	4.06	3.46

*Figures include trust accounts.

Profit & Loss

Operating revenues edged up 0.7% (₩7.8 billion) to surpass ₩1.144 trillion in FY01. Interest income was also up only slightly, but commission income shot up 44.3%. The trust revenues and other operating income categories were down 20.6% and 59.9%, respectively, however.

Operating expenses fell 7.7% (₩82.7 billion) year on year to ₩988.8 billion, but interest expenses were 1.9% (₩11.6 billion) higher to reach ₩633.2 billion in FY01. Commission expenses were ₩3.1 billion higher to ₩9.8 billion, while sales and administrative expenses fell 3.5% to ₩192.4 billion. By contrast, other operating expenses, in which bad debt expenses are

Profit & Loss Summary

(in billions of Won)

	2000	2001
Operating Revenues		
Interest Income	962.4	974.7
Commission Income	87.1	125.7
Trust Revenues	22.8	18.1
Other Operating Income	64.1	25.7
Operating Expenses	1,071.5	988.8
Interest Expenses	621.6	633.2
Commission Expenses	6.7	9.8
Losses from Trust Accounts	14.4	28.4
Other Operating Expenses	229.4	124.9
Sales and Administrative Expenses	199.4	192.4
Operating Income	64.9	155.4
Non-operating Income	58.4	58.7
Non-operating Expenses	107.7	183.4
Ordinary Income	15.6	30.7
Net Income	15.6	30.7

counted, plummeted 45.6% (₩105.5 billion) to just ₩124.9 billion.

Meanwhile, the slight rise in operating revenues and modest drop in operating expenses catapulted operating income 139.4% (₩90.5 billion) to ₩155.4 billion. Net income also soared 96.8% (₩15.1 billion) year on year to ₩30.7 billion.

Operations

Total assets, including the trust business, climbed 13.3% (over ₩1.86 trillion) to almost ₩15.9 trillion. Total loans, which are part of total assets and include trust accounts, edged up ₩363.3 billion to exceed ₩7.66 trillion. In addition, securities jumped 31.3% (more than ₩1.266 trillion) to over ₩5.31 trillion, while deposits, counting trust deposits as well, totaled more than ₩12.95 trillion, an impressive year on year increase in excess of ₩1.6 trillion.

Total Assets



Operational Scale

(in billions of Won)

	2000	2001
Total Assets	14,039.6	15,899.9
Bank Accounts	13,028.8	14,551.5
Trust Accounts	1,010.8	1,348.4
Total Deposits	11,341.1	12,950.9
Bank Accounts	10,242.6	11,494.5
Trust Accounts	1,098.5	1,456.4
Total Loans	7,298.1	7,661.4
Bank Accounts	7,070.9	7,336.2
Trust Accounts	227.2	325.2
Securities	4,046.7	5,312.9
Bank Accounts	3,231.8	4,129.0
Trust Accounts	814.9	1,183.9

Net Interest Income

Interest income inched up 0.2% (₩700 million) to total ₩341.5 billion in FY01. Interest revenue and interest expense respectively grew 1.3% and 1.9% year on year.

Income Portfolio

(in billions of Won)

	2000	2001
Interest Revenue (A)	340.8	341.5
Interest Income	962.4	974.7
Interest Expense	621.6	633.2
Non-interest Revenue (B)	70.9	87.5
Commissions & Fees	80.4	115.8
Won-Currency Commissions Received	28.2	34.8
Credit Card Income	46.4	75.6
Trust Income	8.4	-10.3
Other Operating Income	-17.9	-18.0
Other Operating Revenue	32.0	25.2
Other Operating Expense	49.9	43.2
Total Income (C+A+B)	411.7	429.0
Loan Loss Provision (net) (D)	147.4	81.2
Sales & Administrative Expenses (E)	199.4	192.4
Operating Income (C-D-E)	64.9	155.4

Interest Income



Net Interest Margin

Average interest received on loans dropped 0.67% year on year to 8.58%, while interest paid on deposits fell 0.66% to 4.95% in FY01. The net interest spread was 3.63%, about the same as in FY00, as market interest rates fell across the board in FY01.

The net interest margin fell 0.39 percentage points to 3.14% during FY01. The Won-currency net interest margin stood at

3.21%, while the foreign-currency interest margin was a mere 0.65%. The net interest margin is forecast to continue narrowing so long as market interest rates keep falling and financial institutions have ample liquidity.

Despite the falling market interest rates, the net interest spread in FY00 was maintained. The Bank's increase in low-interest deposits was one of the reasons that an optimum MIN was reached. Moreover, the same net interest spread was maintained from the previous year, despite falling market interest rates. The average balance of low-cost deposits increased 15% (₩528 billion) year on year to ₩3.926 trillion. Moreover, the proportion of low-cost deposits in total deposits rose 1.3 percentage points to 33.6% during FY01.

NIM & NIS

	(%)	
	2000	2001
Average Loan Interest Rate	9.25	8.58
Average Deposit Interest Rate	5.61	4.95
Net Interest Spread	3.64	3.63
Net Interest Margin	3.53	3.14

Low-cost Deposits: Average Balance

	(in billions of Won)	
	2000	2001
Demand Deposits	657.7	710.6
Savings Deposits	2,356.5	2,708.5
Corporate Free Savings Deposits	383.8	506.9
Total Low-cost Deposits	3,398.0	3,926.0
Won-currency Deposits	7,773.7	9,154.1
Low-cost Deposits to Won-currency Deposits	43.70	42.90
Total Deposits	10,505.9	11,695.8
Low-cost Deposits to Total Deposits	32.30	33.60

Note: "Total Deposits" refers to Won-currency deposits, CDs, RPs, bills sold, finance debentures issued and money trusts.

Net Commission Income

Commission revenues grew ₩38.6 billion year on year to ₩125.7 billion, while commission expenses were also up ₩3.2 billion to ₩9.9 billion in FY01. As a result, commission income jumped ₩35.4 billion to ₩115.8 billion for the year. Most of this increase was related to credit cards, as credit card service fees soared 64.2% (₩32.7 billion) to total ₩83.6 billion

Commission Income

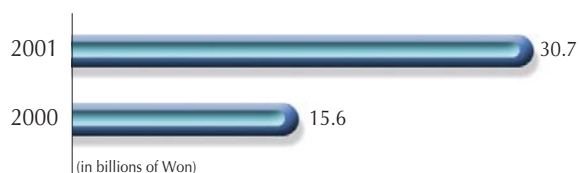
(in billions of Won)

	2000	2001
Commission Revenues	87.1	125.7
Won-currency Commissions Received	29.8	36.3
Foreign-currency Commissions Received	3.6	3.6
Credit Card Fees	50.9	83.6
Payment Guarantee Fees Received	2.8	2.2
Commission Expenses	6.7	9.9
Won-currency Commissions Paid	1.7	1.5
Foreign-currency Commissions Paid	0.6	0.6
Credit Card Commissions Paid	4.4	7.8
Commission Income	80.4	115.8

Ordinary Operating Income

Ordinary operating income rose 27.7% (₩67.1 billion) to ₩309.7 billion in FY01. However losses from credit sale and repurchase, which are extraordinary factors, also shot up ₩122.2 billion to reach ₩185.4 billion. Pre-provisioning income dropped 30.7% (₩55.1 billion) year on year to ₩124.3 billion. However, an ongoing effort to dispose of non-performing loans also resulted in greatly reduced bad debt expenses, which fell ₩66.2 billion to ₩81.2 billion in FY01. At the bottom line, net income surged 15.1 billion to ₩30.7 billion for the year.

Net Income



Ordinary Operating Income & Pre-provisioning Income

(in billions of Won)

	2000	2001
Ordinary Operating Income	242.6	309.7
Monthly Average	20.2	25.8
Extraordinary Factors	-63.2	-185.4
Pre-provisioning Income	179.4	124.3
Provisions	163.8	93.6
For Credit Losses	147.4	81.2
For Severance & Retirement Benefits	16.4	12.4
Income Taxes	0.0	0.0
Net Income	15.6	30.7

Asset Portfolio

Total assets exceeded ₩14.55 trillion at the end of FY01, up a healthy 11.7% (more than ₩1.52 trillion) from the previous year. Securities and loans account for most of total assets. The former jumped 27.8% (₩897.3 billion) to almost reach ₩4.13 trillion, while the latter climbed 23.5% (more than ₩1.55 trillion) to surpass ₩8.14 trillion. The proportions of securities and loans in the asset portfolio rose 3.6 and 5.4 percentage points, respectively, to 28.4% and 56.0%.

Asset Portfolio

(in billions of Won)

	End of 2000		End of 2001	
	Amt.	Pct.	Amt.	Pct.
Cash & Due from Banks	2,421.3	18.6	1,303.1	9.0
Securities	3,231.8	24.8	4,129.1	28.4
Loans	6,593.4	50.6	8,144.9	56.0
Other Assets	782.3	6.0	974.4	6.7
Total	13,028.8	100.0	14,551.5	100.0

Securities

The Bank's securities portfolio consists of stocks, government & public bonds, finance debentures, corporate bonds, and beneficiary certificates. The portfolio is subdivided into trading

and investment securities. The former category refers to those held for short-term profit taking, while the latter are for gains over the mid- to long term.

The balance of securities was close to ₩4.13 trillion at the end of FY01, with trading securities making up the largest share. Trading securities jumped 19.5% (₩438.9 billion) year on year to more than ₩2.69 trillion. Among trading securities, stocks rose ₩9.2 billion to total ₩52.2 billion, and beneficiary certificates were up 24.2% (₩84.2 billion) to ₩432.8 billion.

Securities Portfolio

(in billions of Won)

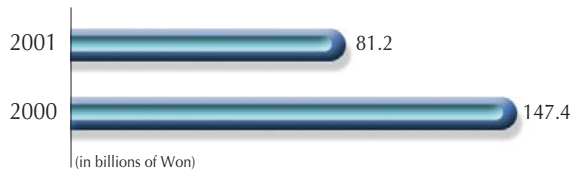
	2000	2001
Trading Securities	38.9	36.6
Stocks	0.6	7.2
Bonds	38.3	19.4
Beneficiary Certificates	0.0	10.0
Investment Securities	3,192.9	4,092.5
Stocks	43.0	52.2
Bonds	2,252.7	2,691.6
Beneficiary Certificates	348.6	432.8
Other	548.6	915.9
Total	3,231.8	4,129.1

Loans

The loan balance, composed both of Won- and foreign-currency loans as well as trusts, was up 6.4% (₩394.7 billion) year on year to over ₩6.6 trillion at the end of FY01. By borrower, loans to small and medium-sized enterprises (SMEs) were down slightly, while loans to large corporations plummeted and loans to households soared. On the other hand, SME loans still dominated the Bank's loan portfolio with a 64.5% share.

Loans to households rose 55.9% (₩599.8 billion) during FY01 to stand at more than ₩1.67 trillion at year's end. This growth lifted the proportion of household loans in the portfolio from 17.3% in FY00 to 25.3% in FY01. Meanwhile, loans to large corporations sank 46.2% (₩205.6 billion) to just ₩239.6 billion. This sharp drop brought the share of large corporate loans in the portfolio down 3.6 percentage points, from 7.2% in FY00 to just 3.6% the following year.

Loan Loss Provision (net)



Loan Portfolio by Borrower

(in billions of Won)

	End of 2000		End of 2001	
	Amt.	Pct.	Amt.	Pct.
Households	1,072.1	17.3	1,671.9	25.3
SMEs	4,323.9	69.6	4,258.6	64.5
Large Corporations	445.2	7.2	239.6	3.6
Other	371.8	6.0	437.6	6.6
Total	6,213.0	100.0	6,607.7	100.0

Loans break down as Won-currency (₩6.3489 trillion), foreign-currency (₩73.7 billion), trusts (₩166.6 billion), domestic import usance bill (₩8.8 billion), and customer advances (₩9.7 billion).

Wholesalers and retailers were the only borrowers besides households to increase their share of the loan portfolio. Loans to construction firms fell 29.7% (₩119.4 billion) year on year to ₩282.8 billion, and loans to manufacturers were down ₩76.8 billion to just more than ₩2.9 trillion, a 2.6% decrease from FY00. Textile companies, which make up the largest portion of manufacturers served by the Bank, was their loans sink 4.4% (₩41.3 billion) to ₩901.3 billion. These figures are the result of the Bank's efforts to restructure the loan portfolio, which had been too heavily weighted on textile makers.

Loan Portfolio by Industry

(in billions of Won)

	End of 2000		End of 2001	
	Amt.	Pct.	Amt.	Pct.
Households	1,072.2	17.3	1,671.9	25.3
Manufacturers	2,980.2	48.0	2,903.4	43.9
Textile Makers	942.6	15.2	901.3	13.6
Wholesalers & Retailers	623.9	10.0	636.0	9.6
Construction Firms	402.2	6.5	282.8	4.3
Other	1,134.5	18.3	1,113.6	16.9
Total	6,213.0	100.0	6,607.7	100.0

Asset Quality

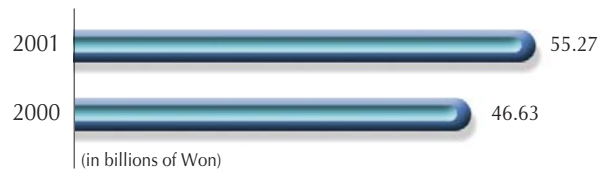
Total credit was 5.0% (₩363.3 billion) higher year on year to exceed ₩7.66 trillion at year's end. Importantly, outstanding credit rated substandard or below dropped was reduced ₩348.6 billion to just ₩285.5 billion at year's end. This constituted a drop of 4.96 percentage points year on year to just 3.73% of total credit. Although the provisions for loan loss were reduced ₩137.9 billion to ₩157.8 billion, the sharp drop in outstanding credit rated substandard or below boosted the loan loss coverage ratio 8.64 percentage points to 55.27% for FY01. The Bank's determined effort to dispose of non-performing loans resulted in the higher loan loss coverage ratio as both credit substandard and below and the provisions for loan loss decreased.

Substandard or Below Credit & Provisions for Loan Loss

(in billions of Won)

	2000	2001
Total Credit	7,298.1	7,661.4
Normal	6,246.0	7,067.0
Precautionary	418.0	308.9
Substandard	312.3	130.5
Doubtful	308.8	145.8
Estimated Loss	13.0	9.2
Substandard or Below	634.1	285.5
Ratio of Credit Substandard or Below	8.69	3.73
Provisions for Loan Loss	295.7	157.8
Loan Loss Coverage Ratio	46.63	55.27

Loan Loss Coverage Ratio



Liabilities Configuration

Total liabilities were just under ₩14 trillion at the end of FY01, up 12.0% (over ₩1.49 trillion) from the year before. Deposits made up 74.4% of liabilities, up 2.2 percentage points from FY00.

The deposit balance surpassed ₩10.45 trillion at year's end, a healthy 15.4% (more than ₩1.39 trillion) jump year on year. On the other hand, borrowings dropped ₩117.5 billion to under ₩2.25 trillion, while bonds grew 12.7% (₩168.5 billion) to reach ₩436.3 billion for the year.

Liabilities

(in billions of Won)

	End of 2000		End of 2001	
	Amt.	Pct.	Amt.	Pct.
Deposits	9,061.0	72.5	10,455.5	74.7
Borrowings	2,364.0	18.9	2,246.5	16.1
Bonds	387.1	3.1	436.3	3.1
Other	684.2	5.5	852.7	6.1
Total	12,496.3	100.0	13,991.0	100.0

Capital Adequacy

Core capital increased ₩31.5 billion during FY01 to total ₩580.9 billion at year's end, while supplementary capital dropped ₩25.5 billion to ₩266 billion. Therefore, total equity capital edged up a mere 0.7% (₩6 billion) year on year to reach ₩846.1 billion. However, the expansion in operations also drove risk-weighted assets up ₩499.7 billion to exceed ₩7.68 trillion. As a result, the BIS capital adequacy ratio dropped 0.68 percentage points to 11.01%, which was 5.85% lower than in FY00. However, this figure still far exceeded the 8% minimum rate mandated by the Financial Supervisory Service.

BIS Capital Adequacy Ratio

(in billions of Won)

	2000	2001
Core capital	549.4	580.9
Supplementary Capital	291.5	266.0
Total Equity Capital	840.1	846.1
Total Risk-weighted Assets	7,184.6	7,684.3
Tier 1 Capital	7.65	7.56
Tier 2 Capital	4.06	3.46
BIS Capital Adequacy Ratio	11.69	11.01

Trusts

The trust asset portfolio grew 29.9% (₩355.3 billion) year on year to better than ₩1.54 trillion, as the year-end balance of money in trust accounts, which had fallen sharply in FY00, surged back 32.6% (₩357.9 billion) to over ₩1.45 trillion. Most of the money in trust was managed as securities investments, which were up 45.3% (₩369 billion) to surpass ₩1.18 trillion at year's end. The greatest increases in the securities category were corporate bonds and bills bought.

A drop in other operating revenues brought total trust revenues down 13.5% (₩24.4 billion) to ₩156.2 billion. Growth in trust assets made up for falling interest rates, keeping FY01 interest revenues at about the same level as FY00.

Total expenses decreased 14% (₩22.7 billion) to ₩139.6 billion. Interest expenses plummeted year on year because of the falling interest rates during FY01, but other operating expenses increased ₩15.1 billion to reach ₩54.8 billion. Finally, total trust fees and commissions were down 9.3% (₩1.7 billion) to ₩16.6 billion for the year.

Trust Accounts

(in billions of Won)

	2000	2001
Total Revenues	180.6	156.2
Interest Revenues	101.6	103.5
Other Operating Revenues	79.0	52.7
Total Expenses	162.3	139.6
Interest Expenses	121.9	84.7
Commission Expenses	0.7	0.1
Other Operating Expenses	39.7	54.8
Trust Fees and Commissions	18.3	16.6
Total Trust Assets	1,189.4	1,544.7
Securities	814.9	1,183.9
Loans and Discounts	190.0	166.6
Money in Trust	1,098.5	1,456.4

INDEPENDENT AUDITORS' REPORT

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**Deloitte
Touch
Tohmatsu**

To the Stockholders and Board of Directors of
The Daegu Bank, Ltd.

We have audited the accompanying non-consolidated balance sheets of The Daegu Bank, Ltd. (the "Bank") as of December 31, 2001 and 2000, and the related non-consolidated statements of income, dispositions of deficit and cash flows for the years then ended (all expressed in Korean won). These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 our audits provide a reasonable basis for our opinion.

In our opinion, such non-consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2001 and 2000, and the results of its operations, the dispositions of its deficit and its cash flows for the years then ended, in conformity with financial accounting standards generally accepted in Korea

Our audits also comprehended the translation of Korean won amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea.

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

As explained in Note 31 to the accompanying financial statements, the Bank transferred loans with recourse to Korea Asset Management Corporation. On December 31, 2001, ₩150.2 billion of such transferred loans remains unsettled. Additional gains or losses will be recorded upon the final settlement of the loans with Korea Asset Management Corporation in accordance with the recourse provisions.

As explained in Note 36 to the accompanying financial statements, the operations of the Company have been affected, and may continue to be affected for the foreseeable future, by the general unstable economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these uncertainties on the financial position of the Company as of the balance sheet date cannot presently be determined.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

Ahn Kwon & Co.

January 18, 2002

NON-CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
ASSETS				
Cash and due from banks (Note3)	₩ 1,303,145	₩ 2,421,335	\$ 982,690	\$ 1,825,907
Trading securities (Notes 2and 4)	36,589	38,897	27,591	29,332
Investment securities (Notes 2and 5)	4,092,487	3,192,895	3,086,107	2,407,733
Loans (Notes 6, 7, 11 and 26)	8,144,939	6,593,438	6,142,025	4,972,052
Fixed assets (Note 12)	348,071	356,873	262,477	269,115
Other assets (Note 13)	626,239	425,330	472,242	320,737
Total assets	₩ 14,551,470	₩ 13,028,768	10,973,132	9,824,876
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Deposits (Note 14)	10,455,520	9,061,034	7,884,413	6,832,844
Borrowings (Note 15)	2,246,506	2,364,040	1,694,070	1,782,701
Debentures (Note 16)	436,276	387,067	328,992	291,884
Other liabilities (Note 17)	852,739	684,198	643,042	515,947
Total liabilities	13,991,041	12,496,339	10,550,517	9,423,376
Stockholders' Equity				
Common stock, par value ₩5,000				
Authorized - 300 million shares				
Issued and outstanding				
- 120.4 million shares (Note 18)	602,100	602,100	454,038	454,038
Undisposed accumulated deficit	(38,759)	(69,442)	(29,228)	(52,366)
Capital adjustments				
Loss on valuation of investment securities	(2,815)	3,431	(2,123)	2,587
Other	(97)	(3,660)	(72)	(2,759)
Total stockholders' equity	560,429	532,429	422,615	401,500
Total liabilities and stockholders' equity	₩ 14,551,470	₩ 13,028,768	\$ 10,973,132	\$ 9,824,876

NON-CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2001 AND 2000

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
OPERATING REVENUES				
Interest on due from banks	₩ 115,053	₩ 100,903	\$ 86,760	\$ 76,090
Interest on trading securities	7,172	23,971	5,408	18,076
Interest on investment securities	252,963	276,044	190,757	208,162
Interest on loans	581,787	543,279	438,720	409,682
Interest - other	17,647	18,219	13,309	13,739
Total interest income	974,622	962,416	734,954	725,749
Fees and commissions	125,925	89,586	94,959	67,556
Trading securities revenue	7,905	16,864	5,961	12,717
Investment securities revenue	657	136	495	103
Gain on foreign currency transaction	13,369	12,956	10,081	9,770
Trust account commission fees	17,851	20,256	13,461	15,275
Reversal of allowance for acceptance and guarantees	565	32,057	426	24,174
Other	3,230	1,978	2,437	1,491
Total operating revenue	1,144,124	1,136,249	862,774	856,835
OPERATING EXPENSES				
Interest on deposits	442,535	432,797	333,712	326,368
Interest on borrowings	126,442	142,023	95,349	107,098
Interest on debentures	35,569	32,455	26,822	24,474
Interest - other	28,733	14,284	21,667	10,772
Total interest expense	633,279	621,559	477,550	468,712
General and administrative expenses (Note 20)	173,368	182,230	130,735	137,418
Provision for loan losses	81,745	179,468	61,643	135,335
Commission charges	9,860	6,764	7,435	5,101
Depreciation and amortization	19,032	17,170	14,352	12,948
Trading securities expenses	10,077	26,729	7,599	20,156
Loss on foreign currency transactions	5,051	2,517	3,809	1,898
Other (Note 21)	56,302	34,928	42,457	26,339
Total operating expenses	(988,714)	(1,071,365)	(745,580)	(807,907)
Operating income	155,410	64,884	117,194	48,928
Non-operating income(expense)	(124,727)	(49,279)	(94,056)	(37,160)
Income before income taxes	30,683	15,605	23,138	11,768
Income tax expense (Note 23)	-	-	-	-
Net income	₩ 30,683	₩ 15,605	\$ 23,138	\$ 11,768
Basic net income per share (Note 22)	₩ 257	₩ 131	\$ 0.19	\$ 0.10
Diluted net income per share (Note 22)	₩ 257	₩ 131	\$ 0.19	\$ 0.10

NON-CONSOLIDATED STATEMENTS OF DISPOSITION OF DEFICIT

YEARS ENDED DECEMBER 31, 2001 AND 2000

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
ACCUMULATED DEFICIT BEFORE DISPOSITION				
Undisposed accumulated deficit				
carried over from prior years	(₩69,442)	(₩74,827)	(\$52,366)	(\$56,426)
Loss on prior period error corrections(Note 24)	-	(10,220)	-	(7,707)
Net income	30,863	15,605	23,274	11,768
Total	(38,579)	(69,442)	(29,092)	(52,366)
UNDISPOSED ACCUMULATED DEFICIT CARRIED OVER TO SUBSEQUENT YEAR	(₩38,579)	(₩69,442)	(\$29,092)	(\$52,366)

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

DECEMBER 31, 2001 AND 2000

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	₩ 30,683	₩ 15,605	\$ 23,138	\$ 11,768
Addition of expenses not involving cash outflows (Note 32)	171,894	270,606	129,624	204,061
Deduction of revenues not involving cash inflows (Note 32)	(140,489)	(212,591)	(105,941)	(160,313)
Changes in assets and liabilities resulting from operations (Note 32)	(255,626)	553,271	(192,766)	417,217
Total	(193,538)	626,891	(145,945)	472,733
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash inflows from investing activities				
Disposal of securities	1,069,443	3,155,092	806,457	2,379,226
Disposal of premises and equipment	2,477	2,690	1,868	2,029
Decrease in other assets	12,470,338	4,822,264	9,403,769	3,636,425
	13,542,258	7,980,046	10,212,094	6,017,680
Cash outflows for investing activities				
Acquisition of securities	1,249,299	3,255,069	942,085	2,454,618
Acquisition of premises and equipment	31,478	15,540	23,737	11,719
Increase in other assets	12,530,547	4,690,955	9,449,172	3,537,406
	13,811,324	7,961,564	10,414,994	6,003,743
Total	(269,066)	18,482	(202,900)	13,937
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash inflows from financing activities				
Increase in borrowings	12,220,800	10,554,710	9,215,595	7,959,211
Issuance of common stock	-	-	-	-
Increase in other liabilities	11,657,127	4,731,108	8,790,533	3,567,686
	23,877,927	15,285,818	18,006,128	11,526,897
Cash outflows for financing activities				
Repayment of borrowings	12,034,234	10,553,716	9,074,907	7,958,462
Decrease in other liabilities	12,393,195	4,571,097	9,345,595	3,447,023
	24,427,429	15,124,813	18,420,502	11,405,485
Total	(549,502)	161,005	(414,374)	121,412
NET INCREASE (DECREASE) IN CASH	(1,012,106)	806,377	(763,219)	608,082
CASH AT THE BEGINNING OF THE YEAR	2,133,242	1,326,865	1,608,658	1,000,577
CASH AT THE END OF THE YEAR (Note 32)	₩ 1,121,136	₩ 2,133,242	\$ 845,439	\$ 1,608,659

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

1. GENERAL

The Daegu Bank, Ltd. (the "Bank") was established on October 7, 1967 to engage in commercial banking and foreign exchange activities. The Bank's shares were listed on the Korea Stock Exchange on May 12, 1972.

The Bank's outstanding common stock (par value ₩5,000) totaled ₩602,100 million (authorized-300 million shares, issued and outstanding-120.4 million shares) as of December 31, 2001.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Financial Statement Preparation

The Bank maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been restructured and translated into English from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Bank's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

b. Allowance for Loan Losses

The Bank maintains an allowance for estimated losses on its loans based on Forward Looking Criteria considering the borrower's future estimated cash flows and loan collectibility. Additionally, the Bank provides allowances for outstanding guarantees and acceptances (see Note 7).

c. Valuation allowance for non-business use property

A valuation allowance for non-business use property is established for the expected loss on disposition of non-business use property.

d. Valuation of Trading Securities and Investment Securities

i) Trading Securities

- ① Trading securities are recorded at purchase cost plus incidental expenses, with cost determined by the moving average method.
- ② If the market value differs from the acquisition cost, trading securities are recorded at market value and the valuation gains or losses are reflected in current earning.

ii) Investment Securities

- ① Among investment securities, investments in marketable equity securities are stated at cost, plus incidental purchase expenses, with cost being determined by the moving average method. However, if the fair value of equity securities (excluding equity securities of affiliated companies) differs from the book value, investments in equity are recorded at fair value and any valuation gains and losses are reflected in the capital adjustments section of shareholders' equity.
- ② Investments in non-marketable equity securities are stated at acquisition cost. In valuing non-marketable equity

securities, if the net asset value declines significantly below acquisition cost and is not expected to recover, the acquisition cost is adjusted to net asset value. In these cases, the difference between the original acquisition cost and revalued amount is charged to current operations .

- ③ Notwithstanding the above, investments in equity securities in which the Bank has significant influence over the investee are stated using the equity method of accounting.
- ④ Bonds purchased with the intent to hold to maturity are stated at acquisition cost with any difference between the acquisition cost and face amount amortized over the related bond's maturity period.
- ⑤ Available-for sale bonds are stated at fair value and any valuation gains or losses are reflected in the capital adjustments section of shareholders' equity.

e. Fixed Assets

Premises and equipment are stated at cost or at their appraised values in accordance with the Asset Revaluation Law.

f. Translation of Foreign Currency Denominated Accounts

The Bank maintains its accounts in Korean won. Transactions conducted in foreign currencies have been recorded in Korean won based on the prevailing rates of exchange at the transaction dates. As allowed under financial accounting standards generally accepted in Korea, accounts with balances denominated in foreign currencies are translated in the accompanying financial statements at the Base Rates announced by the Korean government on the balance sheet dates which, for U.S dollars, were US\$ 1 to ₩1,326.10 and US\$ 1 to ₩1,259.70 as of December 31, 2001 and 2000, respectively.

g. Retirement and Severance Benefits

In accordance with the Bank's policy and the Korean Labor Standards Law, employees terminating their employment after one year of service are entitled to severance benefits based on the length of service (benefits are based on years of service; minimum of one month's pay for each year of service) and the rate of pay in effect on the date of termination.

As of December 31, 2001 and 2000, the estimated liability for severance and retirement benefits totaled ₩84,758 million and ₩101,600 million, respectively.

During the years ended December 31, 2001 and 2000, actual severance and retirement payments totaled ₩29,235 million and ₩11,613 million, respectively.

h. Restricted Loans

The restricted loans, whose terms, including principal, interest and /or maturity, are changed under certain proceedings, such as court receivership, work-out program and other, are recorded at a present value, and the difference between the nominal value and the present value is presented as a deduction (present value discounts) from the related loans, which is amortized into interest income using the effected interest rate method.

i. Translation of Korean won Statements to U.S Dollar Statements

The financial statements are stated in Korean won, the currency of the country in which the Bank is incorporated and operates. The translations of Korean won amounts into U.S dollar amounts are included solely for the convenience of readers outside of Korea and have been made at the rate of US\$ 1 to ₩1,326.1 the Base Rate announced by the Korean government at December 31, 2001. Such translations should not be construed as representations that the Korean won amounts could be converted into U.S dollar at that or any other rate.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

3. CASH AND DUE FROM BANKS

a. Cash and due from banks at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
Cash on hand	₩ 379,854	₩ 296,913	\$ 286,444	\$ 223,899
Due from banks in local currency	906,524	2,095,540	683,602	1,580,228
Due from banks in foreign currency	16,767	28,882	12,644	21,780
	₩ 1,303,145	₩ 2,421,335	\$ 982,690	\$ 1,825,907

b. Deposits restricted for use at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
Due from the Bank of Korea(Note 1)	₩ 182,099	₩ 238,593	\$ 137,251	\$ 179,921
Deposits for severance benefits(Note 2)	-	49,500	-	37,327
	₩ 182,099	₩ 288,093	\$ 137,251	\$ 217,248

(Note1) Due from the Bank of Korea is restricted due to the regulations in the Korean Banking Act and other regulations.

(Note2) Deposits for severance benefits are used only upon employees' termination.

4. TRADING SECURITIES

a. Trading securities at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
Stocks	₩ 7,144	₩ 640	\$ 5,387	\$ 483
Bonds	19,425	38,257	14,648	28,849
Beneficiary certificates	10,020	-	7,556	-
	₩ 36,589	₩ 38,897	\$ 27,591	\$ 29,332

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

b. Bonds

(December 31, 2001)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value	Book value	Fair value
Finance debentures	₩ 9,452	₩ 9,422	\$ 7,128	\$ 7,105
Beneficiary certificates	10,000	10,020	7,541	7,556
Other	10,068	10,003	7,592	7,543
	₩ 29,520	₩ 29,445	\$ 22,261	\$ 22,204

(December 31, 2000)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value	Book value	Fair value
Finance debentures	₩ 11,407	₩ 11,621	\$ 7,128	\$ 8,763
Other	24,580	26,636	18,535	20,086
	₩ 35,987	₩ 38,257	\$ 27,137	\$ 28,849

c. Stocks

(December 31, 2001)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value	Book value	Fair value
Listed companies	₩ 5,806	₩ 7,144	\$ 4,378	\$ 5,387
KOSDAQ-listed companies	-	-	-	-
	₩ 5,806	₩ 7,144	\$ 4,378	\$ 5,387

(December 31, 2000)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value	Book value	Fair value
Listed companies	₩ 513	₩ 473	\$ 387	\$ 357
KOSDAQ-listed companies	176	167	133	126
	₩ 689	₩ 640	\$ 520	\$ 483

d. Classification by issuer

	Korean won (millions)		U.S dollars (thousands) (Note 2)		Percentage(%)	
	2001	2000	2001	2000	2001	2000
Automobile	₩ 108	₩ -	\$ 81	\$ -	1.51%	-
Securities	104	-	78	-	1.46%	-
Communication	188	-	142	-	2.63%	-
Chemical	313	-	236	-	4.38%	-
Other	6,431	639	4,850	483	90.02%	100.00%
	₩ 7,144	₩ 639	\$ 5,387	\$ 483	100.00%	100.00%

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

5. INVESTMENT SECURITIES

a. Investment securities at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
Stocks	₩ 52,187	₩ 43,030	\$ 39,354	\$ 32,449
Government and public bonds	1,647,315	562,054	1,242,225	423,840
Finance debentures	585,158	725,332	441,262	546,966
Corporation bonds	459,151	1,368,908	346,242	1,032,281
Beneficiary certificates	432,754	348,571	326,336	262,854
Investment securities in foreign currency	44,928	28,930	33,880	21,816
Other	870,994	116,070	656,808	87,527
	₩ 4,092,487	₩ 3,192,895	\$ 3,086,107	\$ 2,407,733

b. Equity Securities

(December 31, 2001)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value (or net asset value)	Book value	Fair value (or net asset value)
(1) Equity method investees				
Insight ventures Corp	₩ 10,512	₩ 12,546	\$ 7,927	\$ 9,461
Korea Non-Bank Leasing Co., Ltd.	-	-	-	-
Daegu Credit Information Co., Ltd.	800	800	603	603
	11,312	13,346	8,530	10,064
(2) Listed companies	55,645	27,198	41,961	20,510
(3) Non-listed companies :				
Daegu Mutual Financial and Saving Co., Ltd	-	-	-	-
Daegu World Trade Center.	577	535	435	403
Daegu Bank Finance Co., Ltd.	-	-	-	-
BC Card Co., Ltd.	792	1,830	597	1,380
Kiwoom. Com Co., LTd.	1,500	1,271	1,131	958
National Information and Credit Evaluation, Inc	206	350	155	264
Korea Securities Finance. Corp.	10	12	8	9
Korea Housing Guarantee Co., Ltd.	1,804	2,240	1,360	1,689
SK Investment Trust Management Co., Ltd.	3,000	3,358	2,262	2,532
Other	3,754	3,442	2,832	2,597
	₩ 11,643	₩ 13,038	\$ 8,780	\$ 9,832

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(December 31, 2000)	Korean won (millions)			U.S dollars (thousands) (Note 2)		
	Book value	Fair value (or net asset value)		Book value	Fair value (or net asset value)	
(1) Equity method investees						
Insight ventures Corp	₩ 9,599	₩	13,201	\$ 7,239	\$	9,955
Korea Non-Bank Leasing Co., Ltd.	-		-	-		-
Daegu Credit Information Co., Ltd.	800		800	603		603
	10,399		14,001	7,842		10,558
(2) Listed companies	45,062		13,956	33,981		10,524
(3) Non-listed companies						
Daegu Mutual Financial and Saving Co., Ltd.	-		-	\$ -		\$ -
Daegu World Trade Center.	577		597	435		450
Daegu Bank Finance Co., Ltd.	-		-	-		-
BC Card Co., Ltd.	792		2,059	597		1,553
Kiwoom. Com Co., LTd.	1,500		1,4511	1,131		1,094
National Information and Credit Evaluation, Inc	206		260	155		196
Korea Securities Finance. Corp.	10		16	8		12
Korea Housing Guarantee Co., Ltd.	1,594		1,594	1,202		1,202
SK Investment Trust Management Co., Ltd.	3,000		3,155	2,262		2,379
Other	7,394		8,208	5,576		6,190
	₩ 15,073	₩	17,340	\$ 11,366	\$	13,076

c. Bonds

(December 31, 2000)	Korean won (millions)			U.S dollars (thousands) (Note 2)		
	Face value	Book value	Fair value	Face value	Book value	Fair value
(1) Available-for-sale Bonds :						
National Housing Bond	₩ 34,244	₩ 31,276	₩ 31,628	\$ 25,823	\$ 23,585	\$ 23,850
Monetary Stabilization Bond	143,096	139,983	140,229	107,907	105,560	105,745
Corporate Bond	112,931	111,905	111,741	85,160	84,387	84,263
Deposit Insurance Corp. Bond	228,600	214,870	222,413	172,385	162,032	167,720
Commercial papers	70,000	70,000	70,000	52,786	52,786	52,786
Other	809,573	821,822	835,117	610,493	619,728	629,755
	₩1,398,444	₩1,389,856	₩1,411,128	\$ 1,054,554	\$ 1,048,078	\$ 1,064,119
(2) Held-to-Maturity Bonds :						
National Housing Bond	₩ 433,620	₩ 393,011	₩ 393,011	\$ 326,989	\$ 296,366	\$ 296,366
Treasury Bond	207,850	211,130	211,130	156,738	159,211	159,211
Corporate Bond	383,549	367,430	367,430	289,231	277,076	277,076
Deposit Insurance Corp. Bond	128,174	134,987	134,987	96,655	101,792	101,792
Other	1,481,998	1,477,686	1,477,686	1,117,561	1,114,310	1,114,310
	2,635,191	2,584,244	2,584,244	1,987,174	1,948,755	1,948,755
	₩4,033,635	₩3,974,100	₩3,995,372	\$ 3,041,728	\$ 2,996,833	\$ 3,012,874

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(December 31, 2000)	Korean won (millions)			U.S dollars (thousands) (Note 2)		
	Face value	Book value	Fair value	Face value	Book value	Fair value
(1) Available-for-sale Bonds :						
National Housing Bond	₩ 92,080	₩ 85,864	₩ 89,048	\$ 69,437	\$ 64,749	\$ 67,150
Monetary Stabilization Bond	190,000	189,992	190,017	143,277	143,271	143,290
Corporate Bond	146,348	144,975	145,930	110,360	109,324	110,044
Deposit Insurance Corp. Bond	73,600	77,443	83,067	55,501	58,399	62,640
Other	657,009	654,447	680,093	495,444	493,513	512,853
	1,159,037	1,152,721	1,188,155	874,019	869,256	895,977
(2) Held-to-Maturity Bonds :						
National Housing Bond	8,110	7,275	7,275	6,116	5,486	5,486
Treasury Bond	135,800	134,900	134,900	102,406	101,727	101,727
Corporate Bond	422,861	422,117	422,117	318,876	318,315	318,315
Deposit Insurance Corp. Bond	17,774	20,220	20,220	13,403	15,248	15,248
Commercial papers	110,000	110,000	110,000	82,950	82,950	82,950
Other	1,258,297	1,238,268	1,238,268	948,870	933,766	933,766
	1,952,842	1,932,780	1,932,780	1,472,621	1,457,492	1,457,492
	₩3,111,879	₩3,085,501	₩3,120,935	\$ 2,346,640	\$ 2,326,748	\$ 2,353,469

d. Classification by issuer

	Korean won (millions)		U.S dollars (thousands) (Note 2)		Percentage(%)	
	2001	2000	2001	2000	2001	2000
Government and public agencies	₩ 2,631,310	₩ 1,829,731	\$ 1,984,247	\$ 1,379,784	73.31%	58.6%
Domestic company	479,172	588,047	361,339	443,441	11.65%	18.8%
Financial institutions	877,684	698,548	661,854	526,769	14.85%	22.4%
Other	7,206	4,609	5,434	3,475	0.19%	0.2%
	₩ 3,995,372	₩ 3,120,935	\$ 3,012,874	\$ 2,353,469	100.00%	100.0%

e. Changes in gain(loss) on valuation of investment securities

	Korean won (millions)			U.S dollars (thousands) (Note 2)		
	2000	Change	2001	2000	Change	2001
Equity method investees	₩ 2,069	₩ (599)	₩ 1,470	\$ 1,560	\$ (452)	\$ 1,109
Listed companies	(31,106)	2,659	(28,447)	(23,457)	2,005	(21,452)
Available-for-sale bonds	32,468	(8,306)	24,162	24,484	(6,263)	18,220
	₩ 3,431	₩ (6,243)	₩ (2,815)	\$ 2,587	\$ (4,710)	\$ (2,123)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

f. Valuation of investment securities in foreign currency

(December 31, 2001)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value	Book value	Fair value
(Off-shore)				
Sakura Capital Funding Ltd.	₩ 6,630	₩ 6,630	\$ 5,000	\$ 5,000
PT Pelaburan Indonesia	4,774	4,774	3,600	3,600
Shinhan Bank	4,042	4,002	3,048	3,018
United Communication (Foreign currency)	3,072	3,072	2,317	2,317
Hyundai Motor Company	6,629	6,591	4,999	4,970
Samsung America INC.	6,630	6,598	5,000	4,975
BNP Paribas	13,261	13,261	10,000	10,000
	₩ 45,038	₩ 44,928	\$ 33,964	\$ 33,880

(December 31, 2000)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value	Book value	Fair value
(Off-shore)				
Emerging Portfolio Investment	₩ 6,299	₩ 6,299	\$ 4,750	\$ 4,750
Sakura Capital Funding Ltd.	6,299	6,299	4,750	4,750
PT Pelaburan Indonesia	4,369	4,535	3,295	3,420
Shinhan Bank	3,779	3,732	2,850	2,814
United Communication (Foreign currency)	3,530	3,530	2,662	2,662
Samsung America INC.	3,779	4,535	2,850	3,420
	₩ 28,055	₩ 28,930	\$ 21,157	\$ 21,186

h. Classification by countries

	Korean won (millions)		U.S dollars (thousands) (Note 2)		Percentage(%)	
	2001	2000	2001	2000	2001	2000
Korea	₩ 17,190	₩ 14,565	\$ 12,963	\$ 10,983	38.3%	50.3%
Thailand	3,072	3,531	2,317	2,663	6.8%	12.2%
Indonesia	4,774	4,535	3,600	3,420	10.6%	15.7%
Japan	6,631	6,299	5,000	4,750	14.8%	21.8%
France	13,261	-	10,000	-	29.5%	-%
	₩ 44,928	₩ 28,930	\$ 33,880	\$ 21,816	100.0%	100.0%

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

i. Classification by issuer

	Korean won (millions)		U.S dollars (thousands) (Note 2)		Percentage(%)	
	2001	2000	2001	2000	2001	2000
Financial institutions	₩ 23,893	₩ 10,031	\$ 18,017	\$ 7,564	53.2%	34.6%
Domestic company	13,188	4,535	9,945	3,420	29.3%	15.7%
Foreign countries company	7,847	9,829	5,917	7,412	17.5%	34.0%
Off-shore fund	-	4,535	-	3,420	-%	15.7%
	₩ 44,928	₩ 28,930	\$ 33,879	\$ 21,816	100.0%	100.0%

6. LOANS

a. Loans as of December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
Loans in local currency :				
Loans to enterprises	₩ 4,425,949	₩ 4,604,994	\$ 3,337,568	\$ 3,472,584
Loans to households	1,577,286	962,470	1,189,417	725,790
Loans to public sectors and others	345,658	371,773	260,658	280,351
	6,348,893	5,939,237	4,787,643	4,478,725
Loans in foreign currency	94,788	86,313	71,479	65,088
Call loans	576,881	57,263	435,021	43,182
Bills bought	28,033	36,647	21,139	27,35
Foreign exchange bills purchased	98,715	255,059	74,440	192,338
Advances to customers	9,686	8,226	7,304	6,203
Accounts receivable-credit cards	450,626	251,763	339,813	189,852
Other	692,000	248,301	521,831	187,241
	1,950,729	943,572	1,471,027	711,539
Sub total	8,299,622	6,882,809	6,258,670	5,190,264
Allowance for loan losses	(141,028)	(266,009)	(106,348)	(200,595)
Present value discounts	(13,655)	(23,362)	(10,297)	(17,617)
Total	₩ 8,144,939	₩ 6,593,438	\$ 6,142,025	\$ 4,972,052

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

b. Classification by Industry

	Korean won (millions)		U.S dollars (thousands) (Note 2)		Percentage(%)	
	2001	2000	2001	2000	2001	2000
Manufacturing	₩ 28,820	₩ 29,562	\$ 21,733	\$ 22,292	45.39%	49.80%
Construction	2,702	3,843	2,038	2,898	4.26%	6.47%
Wholesale and retail	6,183	6,025	4,663	4,543	9.74%	10.14%
Financial services	1,596	2,219	1,204	1,673	2.51%	3.73%
Other	8,415	8,118	6,346	6,122	13.26%	13.66%
Loans to enterprises	47,716	49,767	35,984	37,528	75.16%	83.80%
Loans to households	15,773	9,625	11,894	7,258	24.84%	16.20%
	₩ 63,489	₩ 59,392	\$ 47,878	\$ 44,786	100.00%	100.00%

7. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses as of December 31, 2001 and 2000 are as follows :

a. Loan classification

(December 31, 2001) Description	Amount of loan			Allowance for loan losses	
	Korean won (millions)	U.S. dollars (thousands) (Note 2)	Percentage of allowance	Korean won (millions)	U.S. dollars (thousands) (Note 2)
Normal loan	₩ 6,500,480	\$ 4,901,953	0.50%	31,366	\$ 23,653
Precautionary loan	275,442	207,708	2.00%	5,509	4,154
Substandard loans	118,975	89,718	20.00%	23,795	17,944
Doubtful loans	126,827	95,639	56.35%	71,466	53,892
Estimated loans	8,892	6,705	100.00%	8,892	6,705
	₩ 7,030,616	\$ 5,301,723		₩ 141,028	\$ 106,348

(December 31, 2000) Description	Amount of loan			Allowance for loan losses	
	Korean won (millions)	U.S. dollars (thousands) (Note 2)	Percentage of allowance	Korean won (millions)	U.S. dollars (thousands) (Note 2)
Normal loan	₩ 5,712,281	\$ 4,307,579	0.50%	27,431	\$ 20,685
Precautionary loan	397,265	299,574	2.00%	7,946	5,992
Substandard loans	277,252	209,073	20.00%	55,450	41,814
Doubtful loans	280,355	211,413	58.20%	162,872	122,820
Estimated loans	12,310	9,283	100.00%	12,310	9,284
	₩ 6,679,463	\$ 5,036,922		₩ 266,099	\$ 200,595

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

b. Allowance for loan losses by type of loan

Loan type	Allowance for loan losses			
	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
Loans in local currency	₩ 88,790	₩ 173,567	\$ 66,956	\$ 130,885
Loans in foreign currency	5,536	7,039	4,175	5,308
Advances to customers	2,210	1,005	1,667	758
Foreign exchange bills purchased	24,483	11,534	18,462	8,698
Accounts receivable-credit cards	7,138	3,360	5,383	2,534
Other	12,871	69,504	9,705	52,412
	₩ 141,028	₩ 266,009	\$ 106,348	\$ 200,595

c. Loans vs. allowance for loan losses

Fiscal year	Amount of loan		Allowance for loan losses		Percentage of allowance
	Korean won (millions)	U.S. dollars (thousands)(Note2)	Korean won (millions)	U.S. dollars (thousands)(Note2)	
2001	₩ 7,116,136	\$ 5,366,214	₩ 141,028	\$ 106,348	2.0%
2000	6,757,832	5,096,020	266,009	200,595	2.9%
1999	5,570,572	4,200,718	206,639	155,825	3.7%

d. Change in allowance for loan losses

	Korean won (millions)	U.S. dollars (thousands)(Note 2)
December 31, 2000	₩ 266,009	\$ 200,595
Provision for losses	81,746	61,644
Other increase	37,708	28,435
Write-offs	(123,707)	(93,286)
Reversal	(14,3866)	(10,848)
Disposition to the Korea Assets Management Company	(106,342)	(80,192)
December 31, 2001	₩ 141,028	\$ 106,348

e. As of December 31, 2001, Written-off loans of which the statute of limitation did not expire amounted to ₩496,140 million.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

8. ALLOWANCES FOR OUTSTANDING GUARANTEES AND ACCEPTANCES

Allowances for outstanding guarantees and acceptances as of December 31, 2001 and 2000 are as follows :

Description	Guarantees and acceptances				Allowance for outstanding guarantees and acceptances			
	Korean won (billions)		U.S. dollars (millions)(Note 2)		Korean won (billions)		U.S. dollars (millions)(Note 2)	
	2001	2000	2001	2000	2001	2000	2001	2000
Normal	₩213,860	₩259,020	\$ 161,270	\$ 195,325	₩ -	₩ -	\$ -	\$ -
Substandard or below	21,689	22,546	16,355	17,002	9,098	9,663	6,861	7,287
	₩235,549	₩281,566	\$ 177,625	\$ 212,327	₩ 9,098	₩ 9,663	\$ 6,861	\$ 7,287

9. CLASSIFICATION OF ASSETS AND LIABILITIES BY MATURITY

Classifications of assets and liabilities by maturity as of December 31, 2001 and 2000 are as follows :

Description	Assets				Liabilities			
	Korean won (billions)		U.S. dollars (millions)(Note 2)		Korean won (billions)		U.S. dollars (millions)(Note 2)	
	2001	2000	2001	2000	2001	2000	2001	2000
Less than six months	₩ 7,086	₩ 6,245	\$ 5,343	\$ 4,709	₩ 6,263	₩ 4,996	\$ 4,723	\$ 3,767
Less than one year	2,214	2,807	1,670	2,117	1,424	1,866	1,074	1,407
Less than three years	1,596	883	1,204	666	1,173	918	885	692
Greater than three years	961	1,187	725	895	3,058	2,734	2,306	2,062
	₩ 11,857	₩ 11,122	\$ 8,942	\$ 8,387	₩ 11,918	₩ 10,514	\$ 8,988	\$ 7,928

10. TRANSACTIONS WITH OTHER FINANCIAL INSTITUTIONS

Transactions with other financial institutions for the years ended December 31, 2001 and 2000 are as follows :

Description	Deposits from				Loans to			
	Korean won (billions)		U.S. dollars (millions)(Note 2)		Korean won (billions)		U.S. dollars (millions)(Note 2)	
	2001	2000	2001	2000	2001	2000	2001	2000
Banks	₩ 559	₩ 540	\$ 422	\$ 407	₩ 495	₩ 136	\$ 373	\$ 103
Other	163	128	123	97	1,064	3	802	2
	₩ 722	₩ 668	\$ 545	\$ 504	₩ 1,559	₩ 139	\$ 1,175	\$ 105

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

11. OVERDUE LOANS

Details of overdue loans from customers as of December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Loans	₩ 175,787	₩ 329,618	\$ 132,559	\$ 248,562
Advances to customers	6,043	4,715	4,557	3,556
	₩ 181,830	₩ 334,333	\$ 137,116	\$ 252,118

The Bank did not record accrued interest income on its overdue loans due from customers.

12. FIXED ASSETS

Fixed assets at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Tangible assets	₩ 434,739	₩ 428,975	\$ 327,833	\$ 323,486
Intangible assets	9,369	7,647	7,065	5,767
Non-business use property	7,945	13,525	5,991	10,199
Sub total	452,053	450,147	340,889	339,452
Accumulated depreciation	(103,653)	(92,882)	(78,164)	(70,041)
Valuation allowance of non-business use property	(329)	(392)	(248)	(296)
Total	₩ 348,071	₩ 356,873	\$ 262,477	\$ 269,115

Land value announced by the Korean government for tax purposes(book value) at December 31, 2001 and 2000 are ₩124,007 million(176,493 million) and ₩129,437 million(₩180,222 million) respectively.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

13. OTHER ASSETS

Other assets at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Guarantee deposits	₩ 91,090	₩ 96,620	\$ 68,690	\$ 72,860
Accounts receivable	200,237	120,914	150,997	91,180
Accrued income	184,161	149,563	138,874	112,784
Prepaid expenses	523	7,320	394	5,520
Accounts receivable related to disposal of fixed assets	2,115	5,245	1,595	3,955
Other	148,610	46,799	112,066	35,291
Sub total	626,736	426,461	472,616	321,590
Present value discount account	(497)	(1,131)	(374)	(853)
Total	₩ 626,239	₩ 425,330	\$ 472,242	\$ 320,737

14. DEPOSITS

Deposits at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Deposits in local currency	₩ 10,182,091	₩ 8,873,045	\$ 7,678,223	\$ 6,691,082
Deposits in foreign currency	47,832	51,464	36,070	38,809
Negotiable certificates of deposit	225,597	136,525	170,120	102,953
Total	₩ 10,455,520	₩ 9,061,034	\$ 7,884,413	\$ 6,832,844

Savings deposits at December 31, 2001 and 2000 amounted to ₩8,288,604 million and ₩7,216,442 million, respectively.

15. BORROWINGS

Borrowings at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Borrowings in local currency	₩ 1,315,054	₩ 1,133,023	\$ 991,670	\$ 854,402
Borrowings in foreign currency	179,419	206,876	135,299	156,003
Securities sold under repurchase agreements	696,264	769,526	525,046	580,293
Bills sold	16,484	139,436	12,430	105,147
Due to the Bank of Korea in foreign currency	31,992	113,369	24,125	85,491
Call money	7,293	1,810	5,500	1,365
Total	₩ 2,246,506	₩ 2,364,040	\$ 1,694,070	\$ 1,782,701

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

16. DEBENTURES

a. Debentures at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Debentures in local currency	₩ 374,028	₩ 324,086	\$ 282,051	\$ 244,390
Premiums on debentures	3,914	5,046	2,952	3,805
Sub total	377,942	329,132	285,003	248,195
Debentures in foreign currency	58,525	58,525	44,133	44,133
Discounts on debentures	(191)	(590)	(144)	(444)
Sub total	58,334	57,935	43,989	43,689
Total	₩ 436,276	₩ 387,067	\$ 328,992	\$ 291,884

b. Debentures in local currency at December 31, 2001 are as follows :

	Issuance Date	Due Date	Interest Rate(%)	Korean won (millions)	U.S. dollars (thousands)(Note 2)
General debentures	1997.12 ~	2000.12 ~	7.30~11.95	₩ 28	\$ 21
1 st subordinated debentures	1997.12.26	2000.12.26	11.95	104,000	78,425
2 nd subordinated debentures	1999. 6.17	2004.12.31	floating rate	100,000	75,409
4 th subordinated debentures	2000. 4.26	2005. 7.26	10.20~10.50	120,000	90,491
5 th subordinated debentures	2001. 3.26	2007. 1.26	8.50	50,000	37,705
				374,028	282,051
Premium in debentures				3,914	2,952
				₩ 377,942	\$ 285,003

c. Convertible bonds in foreign currency at December 31, 2001 are as follows :

	Issuance Date	Due Date	Coupon Rate(%)	Korean won (millions)	U.S. dollars (thousands)(Note 2)
1 st convertible debentures	1999.6.17	2002.6.17	zero	₩ 58,525	\$ 44,133
Discounts on debentures				(191)	(144)
				₩ 58,334	\$ 43,989

Guaranteed interest rate	:	6.90% if not converted
Repayment	:	If not converted, a lump-sum payment at 112.16% of principal balance will be made on June 17, 2002
Conversion price	:	5,500 won
Exchange rate application	:	Exchange rate in conversion
Conversion period	:	1 month after the issuance date to 1 month prior to the due date.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

17. OTHER LIABILITIES

Other liabilities at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Reserve for severance and retirement benefits	₩ 84,759	₩ 101,600	\$ 63,916	\$ 76,616
Transfers to the National Pension Fund	(4,978)	(6,334)	(3,754)	(4,776)
Deposits for severance benefits	(67,051)	(20,000)	(50,563)	(15,082)
	156,788	127,934	118,233	96,474
Allowance for guarantees	9,098	9,663	6,861	7,287
Borrowings from trust accounts	160,545	147,899	121,066	111,529
Inbound foreign exchange remittances pending	888	1,683	670	1,269
Accounts payable	115,685	44,989	87,237	33,926
Accrued expenses	250,533	232,618	188,925	175,415
Unearned revenue	21,710	25,370	16,371	19,131
Guarantee money received	19,607	21,314	14,784	16,073
Other	117,885	72,728	88,895	54,843
	₩ 852,739	₩ 684,198	\$ 643,042	\$ 515,947

18. COMMON STOCK

The Bank's outstanding common stock is ₩602,100 million at December 31, 2001.

19. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES

Details of foreign currency denominated assets and liabilities as of December 31, 2001 and 2000 are as follows :

	U.S. dollars (thousands)		Korean won equivalent (millions)	
	2001	2000	2001	2000
(Assets)				
Cash in foreign currency	\$ 8,306	\$ 6,453	₩ 11,014	₩ 8,557
Due from banks	12,644	21,780	16,767	28,881
Investment securities	33,880	21,816	44,928	28,929
Loans	64,828	65,088	85,968	86,313
Call loans	1,446	3,800	1,918	5,039
Bills bought in foreign currency	74,440	192,338	98,715	255,060
Other	6,715	1,622	8,905	2,152
	\$ 202,259	\$ 312,897	₩ 268,215	₩ 414,931

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

	U.S. dollars (thousands)		Korean won equivalent (millions)	
	2001	2000	2001	2000
(Liabilities)				
Deposits	\$ 36,070	\$ 38,809	₩ 47,832	₩ 51,464
Due to the Bank of Korea in foreign currency	24,125	85,491	31,992	113,369
Borrowings	135,298	156,003	179,419	206,876
Call money	5,500	1,365	7,294	1,810
Debentures	44,133	44,133	58,525	58,525
Foreign exchange remittances pending	670	1,269	888	1,683
Deposits for letters of guarantees	4,548	4,090	6,031	5,424
Other	312	1,197	414	1,588
	\$ 250,656	\$ 332,357	₩ 332,395	₩ 440,739

20. GENERAL AND ADMINISTRATIVE EXPENSES

Details of general and administrative expenses for the years ended December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Salaries and employee benefits	₩ 86,825	₩ 96,413	\$ 65,474	\$ 72,704
Other expenses	86,543	85,817	65,261	64,714
	₩ 173,368	₩ 182,230	\$ 130,735	\$ 137,418

21. OTHER EXPENSES

Details of other expenses for the years ended December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Loss from guaranteed trust funds	₩ 28,389	₩ 14,375	\$ 21,408	\$ 10,840
Other	27,913	20,553	21,049	15,499
	₩ 56,302	₩ 34,928	\$ 42,457	\$ 26,339

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

22. BASIC AND DILUTED INCOME PER SHARE

The Bank's basic and diluted income per share for the years ended December 31, 2001 and 2000 are computed as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
(1) Basic income per share				
Net income	₩30,682,805,896	₩15,605,162,991	\$ 23,137,626	\$ 11,767,712
Weighted average number of common shares outstanding	119,351,729	119,269,797	119,351,729	119,269,797
Basic income per share	₩ 257	₩ 131	\$ 0.19	\$ 0.10
(2) Diluted income per share				
Net income	₩30,682,805,896	₩15,605,162,991	\$ 23,137,626	\$ 11,767,712
Weighted average number of common shares outstanding	119,351,729	119,269,797	119,351,729	119,269,797
Common stock equivalents (convertible debentures)	-	-	-	-
	119,351,729	119,269,797	119,351,729	119,269,797
Diluted income per share	₩ 257	₩ 131	\$ 0.19	\$ 0.10

In 2001 and 2000, the effect of convertible debentures is not considered in calculating income per share due to its anti-dilutive nature.

23. INCOME TAX EXPENSE

(1) The Bank recognized no income tax expense for the years ended December 31, 2001 and 2000, as its operating loss carryforwards exceeded its taxable income. In addition, there was no change in deferred income tax assets in 2001 and 2000 as no net deferred tax assets have been recorded as of December 31, 2001 and 2000, as realization of such assets is uncertain.

(2) Differences between taxable income accounting income

	Korean won (millions)				U.S. dollars (thousands)(Note 2)			
	Temporary Differences		Permanent Differences		Temporary Differences		Permanent Differences	
a) Additions	2001	2000	2001	2000	2001:	2000	2001	2000
Securities	₩ 54,317	₩ 29,809	₩ -	₩ 162	\$ 40,960	\$ 22,479	\$ -	\$ 122
Accrued revenues	137,743	94,606	-	-	103,871	71,342	-	-
Allowance for loan losses	8,053	-	-	-	6,073	-	-	-
Reserve for severance and retirement benefits	26,837	-	-	-	20,238	-	-	-
Fixed assets not used for business purpose	204	310	-	-	154	234	-	-
Other	6,211	6,355	2,271	2,776	4,684	4,792	1,713	2,093
	₩233,365	₩131,080	₩2,271	₩ 2,938	\$175,980	\$98,847	\$ 1,713	\$ 2,215

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

	Korean won (millions)				U.S. dollars (thousands)(Note 2)			
	Temporary Differences		Permanent Differences		Temporary Differences		Permanent Differences	
b) Deductions :	2001	2000	2001	2000	2001:	2000	2001	2000
Securities	₩ 16,403	₩32,366	₩ -	₩ -	\$12,369	\$24,407	\$ -	\$ -
Accrued revenues	60,100	77,491	-	-	45,321	58,435	-	-
Fixed assets not used for business purpose	267	1,506	-	-	201	1,136	-	-
Allowance for loan losses	22,912	-	-	-	17,278	-	-	-
Reserve for severance and retirement benefits	26,814	-	-	-	20,220	-	-	-
Other	15,336	36,001	615	654	11,565	27,148	464	493
	₩141,832	₩147,364	₩ 615	₩ 654	\$106,954	\$11,126	\$ 464	\$ 493

(3) Details of temporary differences

	Korean won (millions)				U.S. dollars (thousands)(Note 2)			
	Opening Balance (December 31, 2001)	Increase	Decrease	Ending balance	Opening balance	Increase	Decrease	Ending balance
a) Temporary differences to be deducted from taxable income								
Securities	₩ 11,086	₩ 54,317	₩ 16,403	₩ 49,000	\$ 8,360	\$40,960	\$12,369	\$ 36,950
Fixed assets not used for business purpose	392	204	267	329	296	154	201	248
Allowance for loan losses	29,084	8,053	22,912	4,225	21,932	6,073	17,278	10,727
Reserve for severance and retirement benefits	12,905	26,837	26,814	12,928	9,732	20,238	20,220	9,749
Other	51,196	3,831	15,336	39,691	38,606	2,889	11,565	29,931
	104,663	93,242	81,732	116,173	78,926	70,314	61,633	87,605
b) Temporary differences to be added to taxable income								
Accrued revenues	152,607	60,100	137,743	74,964	115,080	45,321	103,871	56,530
Other	28,974	-	2,380	26,594	21,849	-	1,795	20,054
	181,581	60,100	140,123	101,558	136,929	45,321	105,666	76,584
c) Income tax effects								
Deferred income tax assets	31,085	27,693	24,275	34,503	23,441	20,883	18,306	26,018
Deferred income tax liabilities	(53,930)	(17,850)	(41,617)	(30,163)	(40,668)	(13,461)	(31,383)	(22,746)
Deferred income tax assets for operating loss carryforwards	147,883	-	36,791	111,092	111,517	-	27,744	83,773
Deferred income tax assets	₩ 125,038	₩ 9,843	₩ 19,449	₩115,432	\$94,290	\$ 7,422	\$14,667	\$ 87,045

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(December 31, 2001)	Korean won (millions)				U.S. dollars (thousands)(Note 2)			
	Opening Balance	Increase	Decrease	Ending balance	Opening balance	Increase	Decrease	Ending balance
a) Temporary differences to be deducted from taxable income								
Fixed assets not used for business purpose	₩ 2,351	₩ 310	₩ 1,506	₩ 1,155	\$ 1,773	\$ 234	\$ 1,136	\$ 871
Securities	49,026	29,809	32,366	46,469	36,970	22,479	24,407	35,042
Other	85,184	6,355	36,001	55,538	64,236	4,792	27,148	41,881
	136,561	36,474	69,873	103,162	102,979	27,505	52,691	77,794
b) Temporary differences to be added from taxable income								
Tangible assets	28,984	-	-	28,984	21,857	-	-	21,857
Accrued revenues	188,786	77,491	94,606	171,671	142,362	58,435	71,342	129,456
	217,770	77,491	94,606	200,655	164,219	58,435	71,342	151,313
c) Income tax effects								
Deferred income tax assets	42,061	11,234	21,521	31,774	31,718	8,471	16,229	23,960
Deferred income tax liabilities	(67,073)	(23,867)	(29,139)	(61,801)	(50,579)	(17,998)	(21,973)	(46,604)
Deferred income tax assets for operating loss carryforwards	158,563	-	495	158,068	119,571	-	373	119,198
Deferred income tax assets	₩133,551	₩(12,633)	₩(7,123)	₩128,041	\$100,710	\$(9,527)	\$(5,371)	\$ 96,554

24. LOSS ON PRIOR PERIOD ERROR CORRECTIONS

The Bank recorded a valuation loss of ₩10,220 million on the Contribution to Non-Performing Assets Fund as a prior period error correction, which is reported as an increase of accumulated deficit as of January 1, 2000.

25. GUARANTEED TRUST FUNDS

Under certain trust agreements, the Bank guarantees a minimum level of income and/or principal on trust assets. If income from trust operations is insufficient to generate the guaranteed level of income and/or the payment of principal balance, such deficiency is funded by the Bank. Details of guaranteed trust funds at December 31, 2001 and 2000 are as follows :

(December 31, 2001)	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	Book value	Subsidy	Book value	Subsidy
General unspecified money trusts	₩ 125	₩ 12	\$ 94	\$ 9
Development trusts	59	(28,389)	44	(21,408)
Retirement trusts	33,065	241	24,934	182
Individual pension trusts	131,793	1,236	99,384	932
Other	379,160	2,075	285,921	1,565
	₩ 544,202	₩ (24,825)	\$ 410,377	\$ (18,720)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(December 31, 2000)	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	Book value	Subsidy	Book value	Subsidy
General unspecified money trusts	₩ 127	₩ 420	\$ 96	\$ 317
Development trusts	9,288	(14,375)	7,004	(10,840)
Individual pension trusts	117,397	1,345	88,528	1,014
Other	97,824	2,253	73,768	1,699
	₩ 224,636	₩ (10,357)	\$ 169,396	\$ (7,810)

26. RESTRICTED LOANS

The details of restructured loans at December 31, 2001 are as follows :

(1) Loans related to work-out plans

	Amount before restructuring		Amount after restructuring		Difference	
	Korean won (millions)	U.S. dollars (thousands)(Note 2)	Korean won (millions)	U.S. dollars (thousands)(Note 2)	Korean won (millions)	U.S. dollars (thousands)(Note 2)
December 31, 2000	₩ 79,296	\$ 59,796	₩ 66,929	\$ 50,471	₩ 12,367	\$ 9,326
Current period	37,262	28,099	32,582	24,570	4,680	3,529
Korea Housing Guarantee Co .Ltd.	24,120	18,189	22,080	16,650	2,040	1,538
December 31, 2001	₩ 140,678	\$ 106,084	₩ 121,591	\$ 91,691	₩ 19,087	\$ 14,393

(2) Loans related to court receivership and composition

	Amount before restructuring		Amount after restructuring		Difference	
	Korean won (millions)	U.S. dollars (thousands)(Note 2)	Korean won (millions)	U.S. dollars (thousands)(Note 2)	Korean won (millions)	U.S. dollars (thousands)(Note 2)
December 31, 2000	₩ 21,730	\$ 16,386	₩ 12,775	\$ 9,634	₩ 8,955	\$ 6,753
Current period	14,279	10,768	13,077	9,861	1,202	906
December 31, 2001	₩ 36,009	\$ 27,154	₩ 25,852	\$ 19,495	₩ 10,157	\$ 7,659

(3) Changes in present value discount account

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
December 31, 2000	₩	21,322	\$	16,079
Current period		7,922		5,974
Collections		(15,589)		(11,756)
December 31, 2001	₩	13,655	\$	33,809

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

27. TRANSACTIONS RELATED TO OFFICERS AND STOCKHOLDERS

The details of transactions related to officers and stockholders for the years ended December 31, 2001 and 2000 are as follows :

	Amount of loans and guarantees provided by the Bank			
	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Officers	₩ 115	₩ 100	\$ 87	\$ 75
Stockholders	95,626	130,992	72,111	98,780
	₩ 95,741	₩ 131,092	\$ 72,198	\$ 98,855

28. RELATED PARTY TRANSACTIONS

(1) Related parties at December 31, 2001 and 2000 are as follows:

Related party	Number of issued shares		Number of shares held		Bank ownership	
	2001	2000	2001	2000	2001	2000
① Daegu Credit Information Co., Ltd	300,000	300,000	1,600	1,600	53.32%	53.32%
② Insight Ventures Corp	40,000,000	40,000,000	123,925	123,925	30.98%	30.98%
③ Korea Non-Bank Leasing Co., Ltd	4,000,000	4,000,000	8,914	8,914	22.29%	22.29%

(2) The Bank's balances outstanding and transactions with its related parties as of and for the years ended December 31, 2001 and 2000 are as follows :

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
(Balances outstanding)				
Loans	₩ 33,037	₩ 51,148	\$ 24,913	\$ 38,570
Other assets	5,676	240	4,280	181
Deposits	27,803	23,777	20,966	17,930
Other liabilities	402	302	303	228
(Transactions)				
Interest on loans	1,487	3,188	1,121	2,404
Other income	45	25	34	19
Interest on deposits	1,528	2,183	1,152	1,646
Other expenses	2,215	-	1,670	-

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

29. INSURANCE COVERAGE

At December 31, 2001, the Bank's buildings, equipment and leasehold deposits were insured against fire losses of up to approximately ₩197,773 million (US\$149,139 thousand).

30. ACCEPTANCES AND GUARANTEES

Acceptances and guarantees at December 31, 2001 and 2000 are summarized as follows :

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Confirmed acceptances and guarantees				
Acceptances :				
Local currency	₩ -	₩ -	\$ -	\$ -
Foreign currencies	69,789	96,019	52,627	72,407
Guarantees :				
Local currency	113,650	140,626	85,702	106,045
Foreign currencies	52,110	44,921	39,296	33,875
Unconfirmed acceptances and guarantees	120,873	136,844	91,149	103,193

Assets pledged as collateral relating to the borrowings from the Bank of Korea by the bank at December 31, 2001 and 2000 are as follows:

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Note pledged as collateral	₩ 405,834	₩ 264,394	\$ 306,036	\$ 199,784

31. COMMITMENTS AND CONTINGENCIES

a. Commitments

The Bank has entered into various currency forward contracts and interest rate swaps in order to hedge foreign exchange and interest risks. Details of such contracts outstanding as of December 31, 2001 and 2000 are as follows :

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Interest rate swaps				
Buy	₩ 3,978	₩ 7,558	\$ 3,000	\$ 5,699
Sell	3,978	7,558	3,000	5,699
Currency forward contracts				
Buy	₩ 22,924	₩ 3,490	\$ 17,287	\$ 2,632
Sell	24,486	8,454	18,465	6,375
Currency future contracts				
Buy	₩ -	₩ -	\$ -	\$ -
Sell	8,620	-	6,500	-

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

b. The Bank transferred loans with recourse to Korea Asset Management Corporation. On December 31, 2001, ₩150.2 billion of such transferred loans remains unsettled. Additional gains or losses will be recorded upon final settlement of the loans with Korea Asset Management Corporation in accordance with the recourse provisions.

c. Bills endorsed under guarantee

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Bills endorsed under guarantee	₩ 2,933	₩ 3,769	\$ 2,212	\$ 2,842

d. Contributions to Guaranteed Income Trust funds

The Bank is contingently liable for the deficiency in income on certain guaranteed income trust funds. As a result of this, the financial position and operating results of the Bank may be affected on an ongoing basis by the results of such trust fund operations. Also, the accounting principles followed by these trust funds are different in certain respects from the accounting principles followed by the Bank.

e. Contingent liabilities

(1) As of December 31, 2001, lawsuits from pending litigation are as follows: 19 cases filed against the bank amounting to ₩1,296 million. Management believes that the results of the lawsuits will not have a significant effect on the financial statements of the bank.

(2) As of December 31, 2001, amounts of ₩1,903 million in commercial loans were rendered to those who applied for court receivership or composition, and those who are already placed under court receivership or composition, including those who are carrying out management improvement plans. However, since the collectibility of such loans solely depend upon whether they will return to normal operations in the future, it is currently not possible to predict the resulting outcomes.

32. STATEMENTS OF CASH FLOWS

a. The difference between cash in the statements of cash flows and cash and due from banks in the balance sheet is due to restricted cash and deposits

b. Addition of expenses not involving cash outflows for the years ended December 31, 2001 and 2000 consists of the following :

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Depreciation	₩ 16,520	₩ 15,646	\$ 12,458	\$ 11,799
Provision for loan losses	81,745	179,468	61,643	135,335
Reserve for severance and retirement benefits	12,394	16,377	9,346	12,350
Losses on securities	55,367	50,134	41,752	37,806
Loss from disposal of fixed assets	2,600	934	1,961	704
Amortization of other assets	2,511	1,524	1,894	1,149
Other	757	6,523	570	4,918
Total	₩ 171,894	₩ 270,606	\$ 129,624	\$ 204,061

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

c. Deduction of revenues not involving cash inflows for the years ended December 31, 2001 and 2000 consists of the following:

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Gain on securities	₩ 53,178	₩ 26,225	\$ 40,101	\$ 19,776
Gain on disposal of fixed assets	392	286	296	216
Bad debts	43,236	120,097	32,604	90,564
Transfer from allowance for guarantee	565	32,057	426	24,174
Payment of severance and retirement benefits	29,235	11,613	22,046	8,757
Amortization of present value discount	9,707	21,257	7,320	16,030
Other	4,176	1,056	3,148	796
Total	₩ 140,489	₩ 212,591	\$ 105,941	\$ 160,313

d. Changes in assets and liabilities resulting from operations for the years ended December 31, 2001 and 2000 consist of the following:

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Decrease(increase) in loans in local currency	₩ (409,656)	₩(1,044,713)	\$ (308,918)	\$ (787,809)
Decrease(increase) in other assets	(1,128,843)	16,909	(851,250)	12,751
Increase(decrease) in deposits in local currency	1,309,047	1,637,825	987,140	1,235,069
Increase(decrease) in other liabilities	(26,174)	(56,750)	(19,738)	(42,794)
Total	₩ (255,626)	₩ 553,271	\$ (192,766)	\$ 417,217

e. cash

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Cash and due from bank	₩ 1,303,145	₩ 2,421,335	\$ 982,690	\$ 1,825,907
Restricted deposits	(182,009)	(288,093)	(137,251)	(217,248)
	₩ 1,121,136	₩ 2,133,242	\$ 845,439	\$ 1,608,659

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

33. DISPOSITIONS OF DEFICIT

Dispositions of deficit within 2 years from January 1, 2001 are as follow :

	Korean won (millions)	U.S. dollars (thousands)(Note 2)	Approval date for general stockholder meeting
Reserve for separate	₩ 134,033	\$ 101,073	1999. 02. 26
Reserve for dividends	10,500	7,918	"
Reserve for business rationalization	13,550	10,218	"
Legal Reserve	45,825	34,556	"
Reserve for capital surplus	82,022	61,852	"
Reserve for revaluation surplus	196,766	148,379	"
	₩ 482,696	\$ 363,996	

34. VALUE-ADDED INFORMATION

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Salaries	₩ 74,431	80,036	\$ 56,128	\$ 60,354
Provision for severance benefits	12,394	16,505	9,346	12,446
Rent	1,928	1,829	1,454	1,379
Taxes	8,175	8,243	6,165	6,216
Depreciations	19,031	17,170	14,351	12,948
	₩ 115,959	123,783	\$ 87,444	\$ 93,343

35. AVERAGE ASSET BALANCE WITH INTEREST INCOME AND AVERAGE LIABILITY BALANCE WITH INTEREST EXPENSES

(December 31, 2001)	Korean won (millions)			
	Average assets with interest income	Interest income	Average liabilities with interest expense	Interest expense
Cash and due from banks	₩ 1,898,742	₩ 115,053	Deposits ₩ 9,363,366	₩ 442,534
Loans	7,209,259	599,815	Borrowings 2,397,328	126,443
Trading securities	106,886	7,225	Debentures 428,032	35,569
Investment securities	3,291,593	253,620		
	₩ 12,506,480	₩ 975,713	₩ 12,188,726	₩ 604,546

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

U.S. dollars (thousands)(Note 2)

(December 31, 2001)	Average assets with interest income	Interest income	Average liabilities with interest expense	Interest expense
Cash and due from banks	\$ 1,431,824	\$ 86,760	Deposits	\$ 7,060,830 \$ 333,711
Loans	5,436,437	452,315	Borrowings	1,807,803 95,350
Trading securities	80,602	5,448	Debentures	322,775 26,822
Investment securities	2,482,160	191,253		\$ 9,191,408 \$ 455,883
	\$ 9,431,023	\$ 735,776		

Korean won (millions)

(December 31, 2000)	Average assets with interest income	Interest income	Average liabilities with interest expense	Interest expense
Cash and due from banks	₩ 1,650,527	₩ 100,903	Deposits	₩ 8,019,211 ₩ 432,797
Loans	6,006,555	561,498	Borrowings	2,253,213 141,811
Trading securities	388,828	27,231	Debentures	356,582 32,455
Investment securities	3,058,727	274,240		₩ 10,629,006 ₩ 607,063
	₩ 11,104,637	₩ 963,872		

U.S. dollars (thousands)(Note 2)

(December 31, 2000)	Average assets with interest income	Interest income	Average liabilities with interest expense	Interest expense
Cash and due from banks	\$ 1,244,647	\$ 76,090	Deposits	\$ 6,047,214 \$ 326,368
Loans	4,529,489	423,421	Borrowings	1,699,128 106,938
Trading securities	293,212	20,535	Debentures	268,895 24,474
Investment securities	2,306,558	206,802		\$ 8,015,237 \$ 457,780
	\$ 8,373,906	\$ 726,848		

36. ECONOMIC UNCERTAINTIES

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

The Korean economy continues to experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidation and uncertainty exists with regard to the continued availability of financing. The Bank may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

INDEPENDENT AUDITORS' REPORT

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**Deloitte
Touch
Tohmatsu**

To the Stockholders and Board of Directors of
The Daegu Bank, Ltd.

We have audited the accompanying statements of trust assets and liabilities of The Daegu Bank, Ltd. (the Bank) as of December 31, 2001 and 2000, and the related statements of trust income and trust cash flows for the years then ended (all expressed in Korean won). These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Bank's trust as of December 31, 2001 and 2000, and the results of its trust operations and its cash flows for the years then ended, in conformity with financial accounting standards generally accepted in Korea and, where applicable, the accounting and reporting guidelines by Korean trust and banking regulatory authorities.

Our audits also comprehended the translation of Korean won amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S dollar amounts are presented solely for the convenience of readers outside of Korea.

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

As explained in Note 11 to the accompanying financial statements, the Bank transferred loans with recourse to Korea Asset Management Corporation. On December 31, 2001, ₩20.4 billion of such transferred loans remain unsettled. Additional gains or losses will be recorded upon the final settlement of the loans with Korea Asset Management Corporation in accordance with the recourse provisions.

As explained in Note 12 to the accompanying financial statements, the operations of the Bank's trust have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these significant uncertainties on the financial position of the Bank's trust as of the balance sheet dates cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements related to such uncertainties.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

Ahn Kwon & Co.

January 18, 2002

TRUST BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

	Korean won (millions)		U.S dollars (thousands) (Note 1)	
	2001	2000	2001	2000
ASSETS				
Cash on deposits at Daegu Bank (Note 3)	₩ 147,562	₩ 125,676	\$ 111,275	\$ 94,771
Loans (Notes 1, 4 and 7)	166,578	189,975	125,615	143,258
Allowance for loan losses (Note 1 and 6)	(7,733)	(20,007)	(5,831)	(15,087)
Investment securities (Notes 1 and 5)	1,183,917	814,900	892,781	614,509
Other assets	54,395	78,814	41,019	59,433
Total assets	₩ 1,544,719	₩ 1,189,358	\$ 1,164,859	\$ 896,884
LIABILITIES				
Money trusts (Notes 2 and 8)	₩ 1,456,414	₩ 1,098,549	\$ 1,098,269	\$ 828,406
Borrowings	48,700	52,800	36,724	39,816
Special reserve (Note 1 and 9)	2,798	3,795	2,110	2,862
Other liabilities	36,807	34,214	27,756	25,800
Total liabilities	₩ 1,544,719	₩ 1,189,358	\$ 1,164,859	\$ 896,884

STATEMENTS OF TRUST INCOME

YEARS ENDED DECEMBER 31, 2001 AND 2000

	Korean won (millions)		U.S dollars (thousands) (Note 1)	
	2001	2000	2001	2000
REVENUES				
Interest on loans	₩ 17,105	₩ 34,016	\$ 12,899	\$ 25,651
Interest on bonds purchased under resale agreements	747	535	563	403
Interest from investment securities	80,625	59,701	60,799	45,020
Gains on investment securities	13,937	26,762	10,510	20,181
Fees and commissions	488	103	368	78
Interest on deposits at Daegu Bank (Note 3)	5,037	7,362	3,798	5,552
Reversal of allowance for loan losses	3,743	36,977	2,822	27,884
Other revenues (Note 1)	34,504	15,097	26,019	11,384
Total revenues	₩ 156,186	₩ 180,553	\$ 117,778	\$ 136,153
EXPENSES				
Interest	₩ 84,694	₩ 121,892	\$ 63,867	\$ 91,918
Fees and commissions	82	712	62	537
Securities related	19,318	33,122	14,567	24,977
Provision for special reserves (Note 1)	959	762	723	574
Provision for loan losses (Note 1)	27,960	4,665	21,084	3,518
Contributions to the Credit Guarantee Fund	176	438	133	330
Taxes	50	489	38	369
Trust fees (Note 1)	16,564	18,263	12,491	13,772
Insurance on deposits	299	204	225	154
Other expenses	6,084	6	4,588	4
Total expenses	₩ 156,186	₩ 180,553	\$ 117,778	\$ 136,153

STATEMENTS OF TRUST CASH FLOWS

YEARS ENDED DECEMBER 31, 2001 AND 2000

	Korean won (millions)		U.S dollars (thousands) (Note 1)	
	2001	2000	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES				
Expenses not involving cash outflows (Note 10)	₩ 54,308	₩ 38,549	\$ 40,953	\$ 29,069
Revenues not involving cash inflows (Note 10)	(19,636)	(64,266)	(14,807)	(48,462)
Changes in assets and liabilities resulting from operations (Note 10)	(8,686)	(81,000)	(6,550)	(61,081)
Total	25,986	(106,717)	19,596	(80,474)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash inflows from financing activities	–	52,800	–	39,816
Cash outflows for financing activities	(4,100)	(–)	(3,092)	(–)
Total	(4,100)	52,800	(3,092)	39,816
NET INCREASE(DECREASE) IN CASH	21,886	(53,917)	16,504	(40,658)
CASH AT BEGINNING OF THE YEAR	125,676	179,593	94,771	135,429
CASH AT END OF THE YEAR	₩ 147,562	₩ 125,676	\$ 111,275	\$ 94,771

NOTES TO TRUST FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Financial Statement Preparation

The trust operations (the "Trust") of Daegu Bank, Ltd. (the "Bank") maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea and the accounting and reporting guidelines by Korean trust and banking regulatory authorities. Certain accounting principles applied by the Trust that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been restructured and translated into English from the Korean language financial statements.

b. Allowance for Loan Losses

The Trust maintains an allowance for estimated losses on its loans based on minimum specified percentages of outstanding loan balances. These minimum percentages are as follows:

(1) Normal loans	0.5%
(2) Precautionary loans	2%
(3) Substandard loans	20%
(4) Doubtful loans	50%
(5) Estimated loans	100%

c. Translation of Korean won Statements to U.S. Statements

The financial statements are stated in Korean won, the currency of the country in which the Trust operates. The translations of Korean won amounts in to U.S. dollar amounts are included solely for the convenience of readers outside of Korea and have been made at the rate of ₩1,326.10 to \$1 U.S., the Base rate announced by Korean government at December 31, 2001. Such translation should not be construed as representations that the Korean won amounts could be converted into U.S. dollars at that or any other rate.

d. Securities

Securities are carried at cost plus incidental expense, with cost determined using the moving average method. When the fair value differs from the acquisition cost, securities are recorded at fair value. Bonds in trust funds where operational strategies are not specifically designated by trustors, according to the transitional regulations of relevant laws, are stated at acquisition cost.

e. Trust Fees

The Bank receives trust fees for managing trust accounts. Such fees are determined based on remaining income after deduction of expenses and distribution of income to beneficiaries.

f. Special Reserves

A special reserve is set up each year, not to exceed 25% of total annual revenues, for possible future losses until the total reserve balance equals 5% of certain money trust amounts.

g. Subsidies from the Bank

Losses incurred from operations of money in trust which there are contracts is entered into that guarantee principal and a minimum level of income, are charged to loss from trust account in the Bank's accounts and credited to subsidies from the Bank in the Trust's accounts. Contributions made by the Bank amounted to 28,389 million won for the year ended December 31, 2001 (14,375 million won for the year ended December 31, 2000).

2. TRUST OPERATIONS

On May 2, 1983, the Bank obtained a license from the Ministry of Finance to operate a trust business in accordance with the related laws, enforcement decrees and working rules of the Trust Act and Trust Business Act.

(1) Unspecified Money Trusts

In unspecified money trusts, the beneficiaries receive their principal upon termination and operating income during the term of the trust (class B) or upon termination (class A). The operating strategy for the trusts is not specified, and various trusts are managed on a pooled basis. The yield is normally fixed in the trust contract.

(2) Reserving Objective Trusts

Under reserving objective trusts, a set amount is put aside each month for a specified purpose such as housing, marriage, education and other, and the principal and income earned are paid to the beneficiaries upon maturity of the trust term. The yield is normally

NOTES TO TRUST FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

fixed or variable based on the results of trust operations.

(3) Development Money Trusts

Development money trusts represent a form of monetary trust, the purpose of which is to supply funds for key construction and other mid to long-term development projects using long-term development savings obtained from the general public by means of issuing beneficiary certificates.

(4) Household Money Trusts

Household money trusts represent a form of money trust, the purpose of which is to promote national savings by means of special treatment of household savings. The operating strategy is not specified, and the yield rate is not fixed.

(5) Personal Pension Trusts

Personal pension trusts are primarily for saving money in preparation for one's retirement. The method of savings can be either the installment savings method or lump sum savings method. The beneficiaries can receive the principal and operating income by means of either a lump sum payment at maturity of the trust contract or installment pension payments beginning from trust maturity. The operating strategy is not specified, and the operating income is distributed based on the results of trust operations.

(6) Business Money Trusts

Business money trusts are primarily for the use of short term surplus funds of corporations. The operating strategy is not specified, and the yield is not fixed.

(7) Workers Retirement Installment Trusts

Workers retirement installment trusts are for the payment of a retirement allowance to employees at the maturity of employment contracts. The operating strategy is not specified, and the yield is not fixed.

(8) Specified Money Trusts

In specified money trusts, the beneficiaries receive in cash the principal upon termination and operating income during the term of the trust. The operating strategy for the trusts is specified, but the yield is not fixed.

(9) National Stock Trusts

National stock trusts represent money trusts, which invest funds entrusted by those who were allocated shares of government-owned companies as a part of a privatization program. The operation strategy is not specified, and the beneficiaries may receive distributions in proportion to the operating income.

3. CASH ON DEPOSITS AT DAEGU BANK

The interest rates earned on deposits at the Bank from money trusts and fund trusts during the years ended December 31, 2001 and 2000 are the Bank's three month repurchase agreement rate.

4. LOANS

(1) Loans at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 1)	
	2001	2000	2001	2000
Loans secured by :				
Securities	₩ 425	₩ -	\$ 320	\$ -
Real estate	128,321	104,978	96,766	79,163
Integrated property	45	-	34	-
Receivables	5,692	1,273	4,292	960
Trust benefits	15,274	23,671	11,518	17,850
Guaranteed loans	3,031	23,345	2,286	17,604
	152,788	153,267	115,216	115,577
Unsecured loans	13,790	36,708	10,399	27,681
Total	₩ 166,578	₩ 189,975	\$ 125,615	\$ 143,258

NOTES TO TRUST FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

(2) Overdue loans

	Korean won (millions)		U.S dollars (thousands) (Note 1)	
	2001	2000	2001	2000
Less than three months	₩ 546	₩ 3,284	\$ 412	\$ 2,477
Less than six months	2,602	10,609	1,962	8,000
Greater than six months	14,917	21,259	11,249	16,031
Total	₩ 18,065	₩ 35,152	\$ 13,623	\$ 26,508

5. SECURITIES

(1) Securities at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 1)	
	2001	2000	2001	2000
Government bonds	₩ 126,363	₩ 78,305	\$ 95,289	\$ 59,049
Finance debentures	68,498	92,103	51,654	69,454
Local government bonds	65,020	108,267	49,031	81,643
Corporate bonds	615,552	248,654	464,182	187,508
Stock	3,889	4,329	2,933	3,265
Bills discounted	168,598	60,669	127,138	45,750
Other	135,997	222,573	102,554	167,840
Total	₩ 1,183,917	₩ 814,900	\$ 892,781	\$ 614,509

(2) Equity securities

1) Valuation of equity securities at December 31, 2001 and 2000 are as follows :

December 31, 2001	Before valuation		Fair value		Gain(Loss) on valuation	
	Korean won (millions)	U.S. dollars (thousands) (Note1)	Korean won (millions)	U.S. dollars (thousands) (Note1)	Korean won (millions)	U.S. dollars (thousands)(Note1)
Description						
Listed securities	₩4,434	\$3,344	₩3,718	\$2,804	(₩716)	(\$540)
KOSDAQ-listed securities	171	129	171	129	-	-
Total	₩4,605	\$3,473	₩3,889	\$2,933	(₩716)	(\$540)

December 31, 2000	Before valuation		Fair value		Gain(Loss) on valuation	
	Korean won (millions)	U.S. dollars (thousands) (Note1)	Korean won (millions)	U.S. dollars (thousands) (Note1)	Korean won (millions)	U.S. dollars (thousands)(Note1)
Description						
Listed securities	₩4,066	\$3,066	₩2,652	\$2,000	(₩1,414)	(\$1,066)
KOSDAQ-listed securities	2,229	1,681	1,677	1,265	(552)	(416)
Total	₩6,295	\$4,747	₩4,329	\$3,265	(₩1,966)	(\$1,482)

2) Classification of security issuers

December 31, 2001	Amount		
	Korean won(millions)	U.S. dollars(thousands) (Note1)	Percentage
Description			
Financial services	₩398	\$300	10.23%
Securities	168	127	4.32%
Other	3,323	2,506	85.45%
Total	₩3,889	\$2,933	100.00%

NOTES TO TRUST FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

December 31, 2000		Amount		
Description	Korean won(millions)	U.S. dollars(thousands) (Note1)		Percentage
Financial business	₩229	\$173		5.29%
Securities business	70	53		1.62%
Other	4,030	3,039		93.09%
Total	₩4,329	\$3,265		100.00%

(3) Bonds

1) Valuation of bonds at December 31, 2001 and 2000 are as follows :

December 31, 2001	Before valuation		Fair value		Gain(Loss) on valuation	
	Korean won (millions)	U.S. dollars (thousands)(Note1)	Korean won (millions)	U.S. dollars (thousands)(Note1)	Korean won (millions)	U.S. dollars (thousands)(Note1)
Description						
Government bonds	₩ 127,158	\$ 95,889	₩ 126,363	\$ 95,289	(₩795)	(\$600)
Fianance debentures	68,828	51,903	68,498	51,654	(330)	(249)
Local government bonds	63,876	48,168	65,020	49,031	1,144	863
Corporate bonds	620,694	468,060	615,552	464,182	(5,142)	(3,878)
Bills bought	168,598	127,138	168,598	127,138	-	-
Other	135,776	102,387	135,997	102,554	221	167
Total	₩1,184,930	\$ 893,545	₩1,180,028	\$ 889,848	₩ 4,902	\$ 3,697

December 31, 2000	Before valuation		Fair value		Gain(Loss) on valuation	
	Korean won (millions)	U.S. dollars (thousands)(Note1)	Korean won (millions)	U.S. dollars (thousands)(Note1)	Korean won (millions)	U.S. dollars (thousands)(Note1)
Description						
Government bonds	₩ 78,355	\$ 59,087	₩ 78,305	\$ 59,049	(₩50)	(\$38)
Fianance debentures	93,078	70,189	92,103	69,454	(975)	(735)
Local government bonds	105,747	79,743	108,267	81,643	2,520	1,900
Corporate bonds	250,178	188,657	248,654	187,508	(1,524)	(1,149)
Bills bought	60,669	45,750	60,669	45,750	-	-
Other	221,253	166,845	222,573	167,840	(1,320)	995
Total	₩ 809,280	\$ 610,271	₩ 810,571	\$ 611,244	₩ 1,291	\$ 973

2) Classification of bonds by issuers

December 31, 2001		Amount		
Description	Korean won(millions)	U.S. dollars(thousands) (Note1)		Percentage
Government	₩ 126,363	\$ 95,289		10.71%
Public agencies	354,229	267,121		30.02%
Local government	65,020	49,031		5.51%
Financial services	214,451	161,715		18.17%
Other	419,965	316,692		35.59%
Total	₩ 1,180,028	\$ 889,848		100.00%

December 31, 2000		Amount		
Description	Korean won(millions)	U.S. dollars(thousands) (Note1)		Percentage
Government	₩ 78,305	\$ 59,049		9.66%
Public agencies	85,400	64,399		10.54%
Local government	108,268	81,644		13.36%
Financial services	338,274	255,089		41.73%
Other	200,324	151,063		24.71%
Total	₩ 810,571	\$ 611,244		100.00%

NOTES TO TRUST FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

3) Classification of bonds by maturity

(Unit : million wons)

December 31, 2001	Less than three months	Less than six months	Less than one year	Less than three years	More than three years	Total
Government bonds	₩ 10,005	₩ 2,067	₩ 5,526	₩ 56,795	₩ 51,970	₩ 126,363
Finance debentures	15,288	11,062	10,192	31,956	-	68,498
Local government bonds	20,948	5,729	7,892	29,132	1,319	65,020
Corporate bonds	64,344	53,698	22,893	402,650	71,967	615,552
Bills bought	36,774	76,744	43,000	-	12,080	168,598
Other	42,977	5,036	70,750	11,907	5,327	135,997
Total	₩ 190,336	₩ 154,336	₩ 160,253	₩ 532,440	₩ 142,663	₩1,180,028

(Unit : thousand dollars) (Note 1)

Government bonds	\$ 7,545	\$ 1,559	\$ 4,167	\$ 42,828	\$ 39,190	\$ 95,289
Finance debentures	11,528	8,342	7,686	24,098	-	51,654
Local government bonds	15,797	4,320	5,951	21,968	995	49,031
Corporate bonds	48,521	40,493	17,263	303,635	54,270	464,182
Bills bought	27,731	57,872	32,426	-	9,109	127,138
Other	32,409	3,797	53,352	8,979	4,017	102,554
Total	\$ 143,531	\$ 116,383	\$ 120,845	\$ 401,508	\$ 107,581	\$ 889,848

(Unit : millions wons)

December 31, 2001	Less than three months	Less than six months	Less than one year	Less than three years	More than three years	Total
Government bonds	₩ 17,310	₩ 16,595	₩ 5,043	₩ 39,357	₩ -	₩ 78,305
Finance debentures	40,716	22,598	1,035	27,754	-	92,103
Local government bonds	8,834	10,192	33,503	55,738	-	108,267
Corporate bonds	49,695	2,735	69,582	104,695	21,947	248,654
Bills bought	45,079	-	-	-	15,590	60,669
Other	84,664	54,862	67,743	-	15,304	222,573
Total	₩ 246,298	₩ 106,982	₩ 176,906	₩ 227,544	₩ 52,841	₩ 810,571

(Unit : thousand dollars) (Note 1)

Government bonds	\$ 13,053	\$ 12,514	\$ 3,803	\$ 29,679	\$ -	\$ 59,049
Finance debentures	30,704	17,040	781	20,929	-	69,454
Local government bonds	6,662	7,686	25,264	42,031	-	81,643
Corporate bonds	37,474	2,063	52,471	78,950	16,550	187,508
Bills bought	33,994	-	-	-	11,756	45,750
Other	63,844	41,371	51,084	-	11,541	167,840
Total	\$ 185,731	\$ 80,674	\$ 133,403	\$ 171,589	\$ 39,847	\$ 611,244

NOTES TO TRUST FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

6. ALLOWANCE FOR LOAN LOSSES

The allowance for loans as of December 31, 2001 and 2000 are as follows :

a. Loan classification

(December 31, 2001)

Description	Amount of Loans & other			Allowance for loan losses	
	Korean won (billions)	U.S. dollars (millions) (Note 1)	Percentage of allowance	Korean won (billions)	U.S. dollars (millions) (Note 1)
Normal	1,326	1,000	0.0%	–	–
Precautionary	11	8	8.9%	2	1
Substandard	8	6	29.3%	4	3
Doubtful	2	2	56.0%	1	1
Loss	–	–	100.0%	1	1
Total	1,347	1,016		8	6

(December 31, 2000)

Normal	929	701	0.0%	–	–
Precautionary	27	20	8.9%	2	1
Substandard	30	23	29.3%	9	7
Doubtful	15	11	56.0%	8	6
Loss	1	1	100.0%	1	1
Total	1,002	756		20	15

b. Change in allowance for loan losses

Description	Amount	
	Korean won (billions)	U.S. dollars (millions) (Note 1)
December 31, 2000	20	15
Provision for losses	1,436	1,083
Other increase	28,701	21,643
Write-offs	(2,372)	(1,789)
Disposition to the Korea Assets Management Company	(36,297)	(27,371)
Reversal	(3,743)	(2,823)
December 31, 2001	(12,255)	(9,242)

7. ADJUSTMENT OF LOANS

The details of adjusted loans December 31, 2001 and 2000 are as follows :

(Unit : millions won)

	Amount before adjustment		Amount after adjustment		Amount difference	
	U.S. dollars		U.S. dollars		U.S. dollars	
	Korean won (millions)	(thousands) (Note 1)	Korean won (millions)	(thousands) (Note 1)	Korean won (millions)	(thousands) (Note 1)
Court receivership and other(2001)	159	120	135	102	24	18
Court receivership and other(2000)	4,439	3,347	2,976	2,244	1,463	1,103

NOTES TO TRUST FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

8. MONEY TRUSTS

(1) Money trusts at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 1)	
	2001	2000	2001	2000
Unspecific money trusts	₩ 125	₩ 127	\$ 94	\$ 96
Reserving objective trusts	26,220	49,462	19,772	37,299
Household money trusts	129,743	189,151	97,838	142,637
Development money trusts	59	9,288	45	7,004
Pension trusts	12,711	14,188	9,585	10,699
Business money trusts	27,746	50,144	20,923	37,813
National stock trusts	469	863	354	651
Personal pension trusts	131,793	117,397	99,384	88,528
Long-term house trusts	171,732	223,328	129,502	168,410
Specified money trusts	211,335	187,934	159,366	141,719
Open type money trusts	226,167	44,126	170,550	33,275
New pension trusts	343,172	2,041	258,783	1,539
Other money trusts	175,142	210,500	132,073	158,736
Total	₩1,456,414	₩1,098,549	\$1,098,269	\$ 828,406

(2) Details of trust accounts for which the Bank guarantees principal and/or interest are as follows :

	Korean won (millions)				U.S dollars (thousands) (Note 1)			
	2001		2000		2001		2000	
	Book Value	Trust Fee	Book Value	Trust Fee	Book Value	Trust Fee	Book Value	Trust Fee
Unspecific money trusts	₩ 125	₩ 12	₩ 127	₩ 419	\$ 94	\$ 9	\$ 96	\$ 315
Development money trusts	59	(28,389)	9,288	(14,375)	44	(21,408)	7,004	(10,840)
Reserving objective trusts	940	50	8,033	293	709	38	6,058	221
Household money trusts	19,708	726	39,255	647	14,862	547	29,602	488
Pension trusts	12,711	115	14,188	178	9,585	87	10,699	134
Business money trusts	164	4	4,041	58	124	3	3,047	44
Personal pension trusts	131,793	1,236	117,397	1,345	99,384	932	88,528	1,014
Retirement trusts	33,065	241	29,741	25	20,934	182	22,427	19
New personal pension trusts	1,240	9	525	1	935	7	396	1
New pension trusts	343,173	1,168	2,041	6	258,784	881	1,539	5
Pension trusts	1,224	3	-	-	923	2	-	-
Total	₩ 544,202	₩(24,825)	₩ 224,636	₩ (11,403)	\$ 410,378	\$ (18,720)	\$ 169,396	\$ (8,599)

9. SPECIAL RESERVES

Special reserves at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 1)	
	2001	2000	2001	2000
Unspecific money trusts	₩ 5	₩ 4	\$ 4	\$ 3
Pension trusts	247	209	186	158
Household money trusts	985	1,962	743	1,479
Business money trusts	8	202	6	152
Reserving objective trusts	47	817	35	616
Personal pension trusts	1,003	591	756	446
Retirement trusts	88	8	66	6
New personal pension trusts	2	-	2	-
New pension trusts	412	2	311	2
Pension trusts	1	-	1	-
Total	₩ 2,798	₩ 3,795	\$ 2,110	\$ 2,862

NOTES TO TRUST FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

10. STATEMENTS OF TRUST CASH FLOWS

a. Cash in the statements of trust cash flows is cash on deposit at Daegu Bank in the balance sheets.

b. Addition of expenses not involving cash outflows :

	Korean won (millions)		U.S dollars (thousands) (Note 1)	
	2001	2000	2001	2000
Loss on disposal of securities	₩2,350	₩18,413	\$1,772	\$13,885
Loss on redemption of securities	8,269	5,844	6,235	4,407
Loss on valuation of securities	8,699	8,865	6,560	6,685
Provision for special reserve	960	762	724	574
Provision for allowance for loan losses	27,960	4,665	21,084	3,518
Loss on disposal of loans	6,071	-	4,578	-
Total	₩54,308	₩38,549	\$40,953	\$29,069

c. Deduction of revenues not involving cash inflows:

	Korean won (millions)		U.S dollars (thousands) (Note 1)	
	2001	2000	2001	2000
Gain on sales of securities	₩ 8,046	₩ 12,042	\$ 6,067	\$ 9,081
Gain on redemption of securities	2,810	6,531	2,119	4,925
Gain on valuation of securities	3,081	8,189	2,323	6,175
Gain on sales of receivables	-	35	-	26
Reversal of special reserve	1,956	492	1,475	371
Reversal of allowance for loan losses	3,743	36,977	2,823	27,884
Total	₩ 19,636	₩ 64,266	\$ 14,807	\$ 48,462

d. Changes in assets and liabilities resulting from operations :

	Korean won (millions)		U.S dollars (thousands) (Note 1)	
	2001	2000	2001	2000
Decrease in loans	₩ 17,325	₩ 257,232	\$ 13,065	\$ 193,976
Decrease (increase) in securities	(374,397)	609,499	(282,329)	459,618
Decrease in other assets	24,419	53,065	18,414	40,016
Decrease in allowance for loan losses	(36,492)	(27,447)	(27,518)	(20,698)
Increase (decrease) in money trust	357,866	(877,779)	269,863	(661,925)
Increase (decrease) in other liabilities	2,593	(95,570)	1,955	(72,068)
Total	₩ (8,686)	₩ (81,000)	\$ (6,550)	\$ (61,081)

11. DESCRIPTION AND AMOUNTS OF CONTINGENT LIABILITIES

(1) As of December 31, 2001, pending lawsuits are as follows : 2 cases filed by the Trust amounting to 9,808 million won. Management believes that the results of the lawsuits will not have a significant effect on the financial statements of the Trust.

(2) The Trust transferred loans with recourse to Korea Asset Management Corporation. On December 31, 2001, 20.4 billion won of such transferred loans remain unsettled. Additional gains or losses will be recored upon final settlement of the loans by Korea Asset Management Corporation in accordance with the recourse provisions.

12. ECONOMIC UNCERTAINTIES

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

The Korean economy continues to experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidation and uncertainty exists with regard to the continued availability of financing. The Trust may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Trust. Actual results may differ materially from management's current assessment.

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2001 AND 2000

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**Deloitte
Touch
Tohmatsu**

To the Stockholders and Board of Directors of
The Daegu Bank, Ltd.

We have audited the accompanying consolidated balance sheet of The Daegu Bank, Ltd. (the "Bank") and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended (all expressed in Korean won). These consolidated financial statements are the responsibility of the Bank's management. 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 Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Bank and subsidiaries as of December 31, 2001 and 2000, and the results of their operations, changes in their stockholders equity and their cash flows for the years then ended, in conformity with financial accounting standards generally accepted in Korea

Our audit also comprehended the translation of Korean won amounts into U.S dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea.

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

As explained in Note 29 to the accompanying consolidated financial statements, the Bank transferred loans with recourse to Korea Asset Management Corporation. On December 31, 2001, ₩150.2 billion of such transferred loans remains unsettled. Additional gains or losses may be recorded upon the final settlement of the loans with Korea Asset Management Corporation in accordance with the recourse provisions.

As explained in Note 33 to the accompanying consolidated financial statements, the operations of the Bank and subsidiaries have been affected, and may continue to be affected for the foreseeable future, by the general unstable economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these uncertainties on the financial position of the Company as of the balance sheet date cannot presently be determined.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use for those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

Ahn Kwon & Co.

March 4, 2002

CONSOLIDATED BALANCE SHEETS

YEARS ENDED DECEMBER 31, 2001 AND 2000

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
ASSETS				
Cash and due from banks (Note 3)	₩ 1,268,761	₩ 2,368,534	\$ 956,761	\$ 1,786,090
Trading securities (Notes 2 and 4)	399,236	229,939	301,060	173,395
Investment securities (Notes 2 and 5)	4,105,282	3,201,901	3,095,756	2,414,525
Loans (Notes 6, 7, 11 and 25)	8,315,301	6,645,142	6,270,493	5,011,041
Fixed assets (Note 12)	349,464	358,018	263,528	269,978
Other assets (Note 13)	636,370	444,811	479,881	335,428
Total assets	15,074,414	13,248,345	11,367,479	9,990,457
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Deposits (Note 14)	10,986,720	9,272,225	8,284,986	6,992,101
Borrowings (Note 15)	2,260,753	2,380,160	1,704,813	1,794,857
Debentures (Note 16)	436,276	387,067	328,992	291,884
Other liabilities (Note 17)	798,244	646,103	601,949	487,220
Total liabilities	14,481,993	12,685,555	10,920,740	9,566,062
Stockholders' Equity :				
Common stock, par value ₩5,000				
Authorized - 300,000 thousand shares (Note 18)				
Issued and outstanding - 120,420 thousand shares	602,100	602,100	454,038	454,038
Capital surplus	3,058	3,058	2,306	2,306
Accumulated deficit	(38,495)	(69,336)	(29,029)	(52,285)
Capital adjustments				
Treasury stock	-	(1,610)	-	(1,214)
Gain(loss) on valuation of investment securities	(4,091)	1,490	(3,085)	1,124
Other	(97)	(2,230)	(73)	(1,682)
Minority interest	29,946	29,318	22,582	22,108
Total stockholders' equity	592,421	562,790	446,739	424,395
Total liabilities and stockholders' equity	₩ 15,074,414	₩ 13,248,345	\$ 11,367,479	\$ 9,990,457

CONSOLIDATED STATEMENTS OF OPERATIONS

DECEMBER 31, 2001 AND 2000

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
OPERATING REVENUES				
Interest on due from banks	₩ 115,054	₩ 97,616	\$ 86,761	\$ 73,611
Interest on trading securities	26,480	9,289	19,968	7,005
Interest on investment securities	253,038	276,239	190,814	208,309
Interest on loans	591,641	556,793	446,151	419,873
Interest - other	17,648	18,219	13,308	13,739
Total interest income	1,003,861	958,156	757,002	722,537
Fees and commissions	126,178	89,588	95,150	67,557
Trading securities revenue	12,944	22,345	9,761	16,850
Investment securities revenue	895	277	675	209
Gain on foreign currency transaction	13,369	12,956	10,081	9,770
Trust account commission fees	14,286	16,239	10,773	12,246
Reversal of allowance for acceptances and guarantees	565	32,057	426	24,174
Other	3,379	1,999	2,548	1,507
Total operating revenue	1,175,477	1,133,617	886,416	854,850
OPERATING EXPENSES				
Interest on deposits	461,118	463,998	347,725	349,897
Interest on borrowings	130,570	143,024	98,462	107,853
Interest on debentures	35,569	32,455	26,822	24,474
Interest - other	27,672	12,872	20,867	9,707
Total interest expense	654,929	652,349	493,876	491,931
General & administrative expenses (Note 20)	174,473	183,497	131,568	138,373
Provision for loan losses	108,621	180,876	81,910	136,397
Commission expenses	9,944	6,949	7,499	5,240
Depreciation and amortization	19,069	17,214	14,380	12,981
Trading securities expenses	16,518	38,362	12,456	28,928
Loss on foreign currency transactions	5,051	2,518	3,809	1,899
Other (Note 21)	28,296	20,880	21,338	15,745
Total operating expenses	1,016,901	1,102,645	766,836	831,494
Operating income	158,576	30,972	119,580	23,356
Non-operating income (expense)	(125,726)	(10,600)	(94,809)	(7,993)
Income before income taxes	32,850	20,372	24,771	15,363
Income tax expense (Note 23)	558	780	421	588
Income before minority interest	32,292	19,592	24,350	14,775
Net income of minority interest	1,451	3,896	1,094	2,938
Net income	₩ 30,841	₩ 15,696	\$ 23,256	\$ 0
Basic net income per share (Note 22)	₩ 258	₩ 132	\$ 0.2	\$ 0.1
Diluted net income per share (Note 22)	₩ 258	₩ 132	\$ 0.2	\$ 0.1
(In Korean won and U.S. dollars)				

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

DECEMBER 31, 2001 AND 2000

	Korean won (millions)					
	Capital Stock	Capital Surplus	Retained Earnings	Capital Adjustments	Minority Interest	Total
I. JANUARY 1, 2000	₩ 602,100	₩ 3,064	₩ (74,873)	₩ (18,340)	₩ 35,548	₩ 547,499
Consolidated net income			15,696			15,696
Prior period error correction (Note 24)			(10,220)			(10,220)
Capital adjustments				15,990		15,990
Net income of minority interest					3,896	3,896
Dividends					(2,146)	(2,146)
Other		(6)	61		(7,980)	(7,925)
II. DECEMBER 31, 2000	₩ 602,100	₩ 3,058	₩ (69,336)	₩ (2,350)	₩ 29,318	₩ 562,790
JANUARY 1, 2001	₩ 602,100	₩ 3,058	₩ (69,336)	₩ (2,350)	₩ 29,318	₩ 562,790
Consolidated net income			30,841			30,841
Capital adjustments				(1,838)		(1,838)
Net income of minority interest					1,451	1,451
Dividends					(1,380)	(1,380)
Other					557	557
III. DECEMBER 31, 2001	₩ 602,100	₩ 3,058	₩ (38,495)	₩ (4,188)	₩ 29,946	₩ 592,421

	U.S. dollars (thousands)					
	Capital Stock	Capital Surplus	Retained Earnings	Capital Adjustments	Minority Interest	Total
I. JANUARY 1, 2000	\$ 454,038	\$ 2,311	\$ (56,461)	\$ (13,830)	\$ 26,806	\$ 412,864
Consolidated net income			11,837			11,836
Prior period error correction			(7,707)			(7,707)
Capital adjustments				12,059		12,058
Net income of minority interest					2,938	2,938
Dividends					(1,618)	(1,618)
Other		(5)	46		(6,018)	(5,976)
II. DECEMBER 31, 2000	\$ 454,038	\$ 2,306	\$ (52,285)	\$ (1,771)	\$ 22,108	\$ 424,395
III. JANUARY 1, 2001	\$ 454,038	\$ 2,306	\$ (52,285)	\$ (1,771)	\$ 22,108	\$ 424,395
Consolidated net income			23,256			23,256
Capital adjustments				(1,387)		(1,387)
Net income of minority interest					1,094	1,094
Dividends					(1,040)	(1,040)
Other					420	420
IV. DECEMBER 31, 2001	\$ 454,038	\$ 2,306	\$ (29,029)	\$ (3,158)	\$ 22,582	\$ 446,739

CONSOLIDATED STATEMENTS OF CASH FLOWS

DECEMBER 31, 2001 AND 2000

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	₩ 30,841	₩ 15,697	\$ 23,256	\$ 11,837
Addition of expenses not involving cash outflows (Note 30)	206,756	275,066	155,913	207,425
Deduction of revenues not involving cash inflows (Note 30)	(145,095)	(219,493)	(109,415)	(165,518)
Changes in assets and liabilities resulting from operations (Note 30)	(85,283)	329,601	(64,311)	248,549
Total	7,219	400,871	5,443	302,293
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash inflows from investing activities				
Disposal of securities	1,104,648	3,396,267	833,005	2,561,094
Disposal of premises and equipment	2,477	2,690	1,868	2,029
Decrease in other assets	12,470,490	4,822,263	9,403,884	3,636,425
	13,577,615	8,221,220	10,238,757	6,199,548
Cash outflows for investing activities				
Acquisition of securities	1,459,775	3,324,094	1,100,803	2,506,669
Acquisition of premises and equipment	31,478	15,613	23,737	11,774
Increase in other assets	12,530,617	4,691,283	9,449,225	3,537,654
	14,021,870	8,030,990	10,573,765	6,056,097
Total	(444,255)	190,230	(335,008)	143,451
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash inflows from financing activities				
Increase in borrowings	12,172,100	10,554,709	9,178,870	7,959,210
Increase in other liabilities	11,657,127	4,734,554	8,790,534	3,570,284
	23,829,227	15,289,263	17,969,404	11,529,494
Cash outflows for financing activities				
Repayment of borrowings	11,987,407	10,553,975	9,039,595	7,958,657
Cash Dividends	1,979	-	1,492	-
Decrease in other liabilities	12,396,495	4,572,814	9,348,085	3,448,318
	24,385,881	15,126,789	18,389,172	11,406,975
Total	(556,654)	162,474	(419,768)	122,519
NET INCREASE IN CASH AND DUE FROM BANKS	(993,690)	753,575	(749,333)	568,264
CASH AND DUE FROM BANKS AT BEGINNING OF THE YEAR	2,080,442	1,326,867	1,568,842	1,000,578
CASH AND DUE FROM BANKS AT END OF THE YEAR (Note30)	₩ 1,086,752	₩ 2,080,442	\$ 819,509	\$ 1,568,842

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

1. GENERAL

The Daegu Bank, Ltd. (the "Bank") was established on October 7, 1967 to engage in commercial banking and foreign exchange activities. The Bank's shares were listed on the Korean Stock Exchange on May 12, 1972.

The Bank's outstanding common stock (par value ₩5,000) totaled ₩602,100 million won as of December 31, 2001.

The Insight Ventures Corp., a subsidiary of the Bank, was founded in August 1987, the capital stock amounted to 20 billion won as of December 31, 2001 and the Banks' equity comprises 30.98% and 30.98% as of December 31, 2001 and 2000, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Consolidated Financial Statement Preparation

The Bank and subsidiaries its official accounting records in Korean won and prepares statutory consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Bank and subsidiaries that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been restructured and translated into English from the Korean language consolidated financial statements. Certain information included in the Korean language financial consolidated statements, but not required for a fair presentation of the Bank's consolidated financial position, results of operations or cash flows, is not presented in the accompanying consolidated financial statements.

b. Principles of Consolidation

i) The consolidated financial statements include the accounts of the Bank, trust accounts and subsidiary. Intercoms any accounts and transactions have been eliminated in consolidation.

ii) Subsidiaries and equity method investees

(December 31,2001)

	The Daegu Bank, Ltd. Ownership	Fiscal year-end	Remarks
Insight Ventures Corp	30.98%	March 31	Subsidiary

(December 31,2000)

	The Daegu Bank, Ltd. Ownership	Fiscal year-end	Remarks
Insight Ventures Corp	30.98%	March 31	Subsidiary

The Bank's ownership in the Daegu Mutual Financial Saving Co., Ltd. is less than 30%, as of December 31, 2000 and the Bank wrote off the investment because of its accumulated deficit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

As total assets of Daegu Credit Information Co., Ltd., for which the bank owns 53.32% equity, are less than 7,000 million won, the Bank did not include its accounts in the consolidated financial statements.

The Korea Non-Bank Leasing Co., Ltd., whose total liabilities exceed its net assets, is excluded from the application of the equity method.

iii) Certain trust accounts that require the Bank to guarantee minimum earnings were also consolidated in the accompanying consolidated financial statements.

b. Allowance for Loan Losses

The Bank and subsidiaries maintain an allowance for estimated losses on its loans based on Forward Looking Criteria including the borrower's future estimated cash flows and loan collectibility. Additionally, the Bank and subsidiaries provide an allowance for outstanding guarantees and acceptances for substandard or below classifications using the same method as the one used for its loans (see Note 8).

c. Valuation allowance for non-business use property

A valuation allowance for non-business use property is established for the expected loss on disposition of non-business use property.

d. Valuation of Trading Securities and Investment Securities

i) Trading Securities

- ① Trading securities are recorded at cost plus incidental expenses, determined by the moving average method. When the market value differs from the acquisition cost, trading securities are recorded at market value and valuation gains or losses are reported in current operations.

ii) Investment Securities

- ① Among investment securities, investments in equity securities with readily determined fair value are recorded at cost, plus incidental purchase expenses, cost being determined by the moving average method. However, if the fair value of equity securities (excluding equity securities of affiliated companies) differs from the book value, investments in equity securities are recorded at fair value and any valuation gains and losses are reflected as a capital adjustment in shareholders' equity.
- ② Investments in bonds are stated at acquisition cost with incidental purchase expenses, cost being determined by the moving average method. Bonds purchased with the intent to hold to maturity are stated at acquisition cost plus any difference between the acquisition cost and face amounts, amortized over the related bond's maturity period.
- ③ Available-for sale bonds are stated at market value and any valuation gains and losses are reflected as a capital adjustments in shareholders' equity.
- ④ Investments in equity securities without a readily determined fair value are stated at acquisition cost. If the fair value or net asset value declines significantly below acquisition cost and is not expected to recover, the acquisition cost is adjusted to the fair value or net asset value. In these cases, the difference between the original acquisition cost and revalued amount is charged to current operations.

e. Fixed Assets

Premises and equipment are stated at cost or at their appraised values in accordance with the Asset Revaluation Law.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

f. Translation of Foreign Currency Denominated Accounts

The Bank and its subsidiaries maintain its accounts in Korean won. Transactions conducted in foreign currencies have been recorded in Korean won based on the prevailing rates of exchange at the transaction dates. As allowed under financial accounting standards generally accepted in Korea, accounts with balances denominated in foreign currencies are translated in the accompanying financial statements at the Base Rate announced by the Korean government on the balance sheet dates which, for U.S dollars, were US\$ 1 to ₩1,326.1 and US\$ 1 to ₩1,259.7 as of December 31, 2001 and 2000, respectively.

g. Retirement and Severance Benefits

In accordance with the Bank and subsidiaries' policy and the Korean Labor Standards Law, employees terminating their employment after one year of service are entitled to severance benefits based on the length of service (benefits are based on years of service; minimum of one month's pay for each year of service) and the rate of payment in effect on the date of termination.

As of December 31, 2001 and 2000, the estimated liability for severance and retirement benefits totaled ₩85,138 million and ₩101,926 million, respectively.

h. Restricted Loans

Restricted loans, whose terms, including principal, interest and /or maturity, are changed under the reorganization proceedings, such as court receivership and work-out program, are recorded at their present value, and the difference between the nominal value and their present value is presented as a deduction (present value discount) from the related loans, and is amortized into interest income using the effected interest rate method.

i. Translation of Korean won Statements to U.S Dollar Statements

The financial statements are stated in Korean won, the currency of the country in which the Bank and subsidiaries are incorporated and operates. The translations of Korean won amounts into U.S dollar amounts are included solely for the convenience of readers outsiders of Korea and have been made at the rate of US\$ 1 to ₩1,326.1, the base rate announced by the Korean government at December 31, 2001. Such translations should not be construed as representations that the Korean won amounts could be converted into U.S dollar at that or any other rate.

3. CASH AND DUE FROM BANKS

a. Cash and due from banks at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
Cash on hand	₩ 380,591	₩ 296,913	\$ 287,000	\$ 223,899
Due in local currency	871,402	2,042,739	657,116	1,540,411
Due in foreign currency	16,768	28,882	12,645	21,780
	₩ 1,268,761	₩ 2,368,534	\$ 956,761	\$ 1,786,090

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

b. Deposits restricted for use at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
Due from the Bank of Korea	₩ 182,009	₩ 283,593	\$ 137,251	\$ 179,921
Deposits for severance benefits	-	49,500	-	37,327
	₩ 182,009	₩ 333,093	\$ 137,251	\$ 217,248

(*) Due from the Bank of Korea is restricted due to the regulations in the Korean Banking Act and other regulations.

(*) Deposits for severance benefits are used only upon employees' termination.

4. TRADING SECURITIES

a. Trading securities stated at fair value at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
Stocks	₩ 10,045	₩ 2,301	\$ 7,575	\$ 1,735
Bonds	338,999	42,065	255,636	167,812
Beneficiary certificates and other	50,192	185,573	37,849	3,848
	₩ 399,236	₩ 229,939	\$ 301,060	\$ 173,395

b. Bonds

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	(December 31, 2001)		Book value	Fair value
	Book value	Fair value	Book value	Fair value
Government and public bonds	₩ 78,079	₩ 77,531	\$ 58,879	\$ 58,465
Finance debentures	38,861	38,613	29,035	29,118
Corporation bonds	225,229	222,855	169,843	168,053
Beneficiary certificates	25,999	26,018	19,606	19,620
Other	24,185	24,174	18,238	18,229
	₩ 392,353	₩ 389,191	\$ 295,601	\$ 293,485

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

(December 31, 2000)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value	Book value	Fair value
Government and public bonds	₩ 66,357	₩ 68,702	\$ 50,039	\$ 51,807
Finance debentures	15,907	16,121	11,995	12,157
Other	139,441	142,815	105,151	107,696
	₩ 221,705	₩ 227,638	\$ 167,185	\$ 171,660

c. Stocks

(December 31, 2001)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value	Book value	Fair value
Listed companies	₩ 9,258	₩ 9,874	\$ 6,981	\$ 7,446
KOSDAQ-listed companies	171	171	129	129
	₩ 9,429	₩ 10,045	\$ 7,110	\$ 7,575

(December 31, 2000)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value	Book value	Fair value
Listed companies	₩ 3,294	₩ 1,964	\$ 2,484	\$ 1,481
KOSDAQ-listed companies	347	337	262	254
	₩ 3,641	₩ 2,301	\$ 2,746	\$ 1,735

5. INVESTMENT SECURITIES

a. Investment securities at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
Stocks	₩ 57,053	₩ 46,313	\$ 43,023	\$ 34,924
Government and public bonds	1,647,345	562,094	1,242,248	423,870
Finance debentures	585,158	725,332	441,262	546,967
Corporate bonds	465,659	1,372,931	351,149	1,035,315
Beneficiary certificates	432,755	348,571	326,337	262,854
Investment securities in foreign currency	44,928	28,930	33,880	21,816
Other	872,384	117,730	657,857	88,779
	₩ 4,105,282	₩ 3,201,901	\$ 3,095,756	\$ 2,414,525

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

b. Equity Securities :

(December 31, 2001)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value (or net asset value)	Book value	Fair value (or net asset value)
(1) Equity method investees				
Korea Non-Bank Leasing Co., Ltd.	₩ -	₩ -	\$ -	\$ -
Daegu Credit Information Co., Ltd.	800	800	603	603
	800	800	\$ 603	\$ 603
(2) Listed companies	₩ 60,019	₩ 32,200	\$ 45,260	\$ 24,282
(3) Non-listed companies				
Daegu Mutual Financial and Saving Co., Ltd.	₩ -	₩ -	\$ -	\$ -
Daegu World Trade Center.	577	535	435	403
Daegu Bank Finance Co., Ltd.	-	-	-	-
BC Card Co., Ltd.	792	1,830	597	1,380
Kiwoom. Com Co., Ltd.	1,500	1,271	1,131	958
National Information and Credit Evaluation, Inc	206	350	155	264
Korea Securities Finance. Corp.	10	12	8	9
Korea Housing Guarantee Co., Ltd.	1,804	2,240	1,360	1,689
SK Investment Trust Management Co., Ltd.	3,000	3,358	2,262	2,532
Other	16,164	10,388	12,189	7,834
	₩ 24,053	₩ 19,984	\$ 18,137	\$ 15,069

(December 31, 2000)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value (or net asset value)	Book value	Fair value (or net asset value)
(1) Equity method investees				
Korea Non-Bank Leasing Co., Ltd.	₩ -	₩ -	\$ -	\$ -
Daegu Credit Information Co., Ltd.	800	800	603	603
	₩ 800	₩ 800	\$ 603	\$ 603
(2) Listed companies	₩ 45,062	₩ 13,956	\$ 33,981	\$ 10,524
(3) Non-listed companies				
National Information and Credit Evaluation, Inc	₩ 206	₩ 260	\$ 155	\$ 196
Korea Housing Guarantee Co., Ltd.	1,594	1,594	1,202	1,202
BC Card Co., Ltd.	792	2,059	597	1,553
Korea Securities Finance. Corp.	10	16	8	12
Daegu Mutual Financial and Saving Co., Ltd.	-	-	-	-
Daegu Bank Finance Co., Ltd.	-	-	-	-
Kiwoom. Com Co., Ltd.	1,500	1,451	1,131	1,094
Daegu World Trade Center.	5,577	5,766	435	450
SK Investment Trust Management Co., Ltd.	3,000	3,155	2,262	2,379
Other	2,394	3,039	5,576	6,190
	₩ 15,073	₩ 17,340	\$ 11,366	\$ 13,076

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

c. Bonds :

(December 31, 2001)	Korean won (millions)			U.S dollars (thousands) (Note 2)		
	Face value	Book value	Fair value	Face value	Book value	Fair value
(1) Available-for-sale Bonds						
National Housing Bond	₩ 34,244	₩ 31,276	₩ 31,628	\$ 25,823	\$ 23,585	\$ 23,850
Monetary Stabilization Bond	143,096	139,983	140,229	107,907	105,560	105,745
Corporate Bond	112,931	111,905	111,741	85,160	84,387	84,263
Deposit Insurance Corp. Bond	228,600	214,870	222,413	172,385	162,032	167,720
Commercial papers	70,000	70,000	70,000	52,786	52,786	52,786
Other	809,573	818,822	835,117	610,493	617,466	629,755
	₩ 1,398,444	₩ 1,386,856	₩ 1,411,128	\$ 1,054,554	\$ 1,045,816	\$ 1,064,119
(2) Held-to-Maturity Bonds						
National Housing Bond	433,650	₩ 393,041	₩ 393,041	\$ 327,011	\$ 296,389	\$ 296,389
Treasury Bond	207,850	211,130	211,130	156,738	159,211	159,211
Corporate Bond	384,912	368,793	368,793	290,259	278,103	278,103
Deposit Insurance Corp. Bond	128,174	134,987	134,987	96,655	101,792	101,792
Other	1,488,388	1,484,221	1,484,221	1,122,380	1,119,238	1,119,238
	2,642,974	2,592,172	2,592,172	1,993,043	1,954,733	1,954,733
	₩ 4,041,418	₩ 3,979,028	₩ 4,003,300	\$ 3,047,597	\$ 3,000,549	\$ 3,018,852

(December 31, 2000)	Korean won (millions)			U.S dollars (thousands) (Note 2)		
	Face value	Book value	Fair value	Face value	Book value	Fair value
(1) Available-for-sale Bonds						
National Housing Bond	₩ 92,080	85,864	₩ 89,048	\$ 69,437	\$ 64,749	\$ 67,150
Monetary Stabilization Bond	190,000	189,992	190,017	143,277	143,271	143,290
Corporate Bond	146,348	144,975	145,930	110,360	109,324	110,045
Deposit Insurance Corp. Bond	73,600	77,443	83,067	55,501	58,399	62,640
Other	657,009	654,447	680,093	495,444	493,513	512,852
	₩ 1,159,037	₩ 1,152,721	₩ 1,188,155	\$ 874,019	\$ 869,256	\$ 895,977
(2) Held-to-Maturity Bonds						
National Housing Bond	₩ 8,110	₩ 7,275	₩ 7,275	\$ 6,116	\$ 5,486	\$ 5,486
Treasury Bond	113,800	235,340	134,900	102,406	101,727	101,727
Corporate Bond	424,071	424,071	424,071	319,788	319,788	319,788
Deposit Insurance Corp. Bond	17,774	20,220	20,220	13,403	15,248	15,248
Commercial papers	110,000	110,000	110,000	82,950	82,950	82,950
Other	1,261,998	1,242,037	1,242,037	951,661	936,609	936,609
	1,957,753	1,938,503	1,938,503	1,476,324	1,461,808	1,461,808
	₩ 3,116,790	₩ 3,091,224	₩ 3,126,658	\$ 2,350,343	\$ 2,331,064	\$ 2,357,785

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

d. Valuation of investment securities in foreign currency

(December 31, 2001)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value	Book value	Fair value
(Off-shore)				
Sakura Capital Funding Ltd.	₩ 6,630	₩ 6,630	\$ 5,000	\$ 5,000
PT Pelaburan Indonesia	4,774	4,774	3,600	3,600
Shinhan Bank	4,042	4,002	3,048	3,018
United Communication	3,072	3,072	2,317	2,317
(Foreign currency)				
Hyundai Motor Company	6,629	6,591	4,999	4,970
Samsung America INC.	6,630	6,598	5,000	4,975
BNP Paribas	13,261	13,261	10,000	10,000
	₩ 45,038	₩ 44,928	\$ 33,964	\$ 33,880

(December 31, 2000)	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	Book value	Fair value	Book value	Fair value
(Off-shore)				
Emerging Portfolio Investment	₩ 6,299	₩ 6,299	\$ 4,750	\$ 4,750
Sakura Capital Funding Ltd.	6,299	6,299	4,750	4,750
PT Pelaburan Indonesia	4,369	4,535	3,295	3,420
Shinhan Bank	3,779	3,732	2,850	2,814
United Communication	3,530	3,530	2,662	2,662
(Foreign currency)				
Samsung America INC.	3,779	4,535	2,850	3,420
	₩ 28,055	₩ 28,930	\$ 21,157	\$ 21,816

e. Classification by countries

	Korean won (millions)		U.S dollars (thousands) (Note 2)		Percentage(%)	
	2001	2000	2001	2000	2001	2000
Korea	₩ 17,190	₩ 14,565	\$ 12,963	\$ 10,983	38.3%	50.3%
Thailand	3,072	3,531	2,317	2,663	6.8%	12.2%
Indonesia	4,774	4,535	3,600	3,420	10.6%	15.7%
Japan	6,631	6,299	5,000	4,750	14.8%	21.8%
France	13,261	-	10,000	-	29.5%	-%
	₩ 44,928	₩ 28,930	\$ 33,880	\$ 21,816	100.0%	100.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

f. Classification by issuer

	Korean won (millions)		U.S dollars (thousands) (Note 2)		Percentage(%)	
	2001	2000	2001	2000	2001	2000
Financial institutions	₩ 23,893	₩ 10,031	\$ 18,018	\$ 7,564	53.2%	34.6%
General company	13,188	4,535	9,945	3,420	29.3%	15.7%
Foreign countries company	7,847	9,829	5,917	7,412	17.5%	34.0%
Off-shore fund	-	4,535	-	3,420	-%	15.7%
	₩ 44,928	₩ 28,930	\$ 33,880	\$ 21,816	100.0%	100.0%

6. LOANS

Loans as of December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S dollars (thousands) (Note 2)	
	2001	2000	2001	2000
Loans in local currency :				
Loans to enterprises	₩ 4,426,649	₩ 4,605,407	\$ 3,338,096	\$ 3,472,896
Loans to households	1,577,286	962,470	1,189,417	725,790
Loans to public sectors and others	519,924	436,139	392,070	328,888
	6,523,859	6,004,016	4,919,583	4,527,574
Loans in foreign currency	94,788	86,313	71,479	65,088
Call loans	576,881	57,263	435,021	43,182
Bills bought	28,033	36,647	21,139	27,635
Foreign exchange bills purchased	98,715	255,059	74,440	192,338
Advances to customers	9,686	8,226	7,304	6,203
Accounts receivable-credit cards	450,626	251,763	339,813	189,852
Other	692,000	248,301	521,831	187,241
	1,950,729	943,572	1,471,027	711,539
Sub total	8,474,588	6,947,588	6,390,610	5,239,113
Allowance for loan losses	(145,632)	(279,084)	(109,820)	(210,455)
Present value discounts	(13,655)	(23,362)	(10,297)	(17,617)
Total	₩ 8,315,301	₩ 6,645,142	\$ 6,270,493	\$ 5,011,041

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

7. ALLOWANCE FOR LOAN LOSSES

The allowances for loan losses as of December 31, 2001 and 2000 are as follows :

a. Loan classification

(December 31, 2001)

Description	Amount of loans		Allowance for loan losses	
	Korean won (millions)	U.S. dollars (thousands) (Note 2)	Korean won (millions)	U.S. dollars (thousands) (Note 2)
Normal loans	₩ 6,501,460	\$ 4,902,692	₩ 31,371	\$ 23,657
Precautionary loans	275,442	207,708	5,509	4,154
Substandard loans	118,975	89,718	23,795	17,944
Doubtful loans	128,827	97,147	71,466	53,892
Estimated loans	9,515	7,175	9,515	7,175
Trust account loans	174,266	131,413	3,976	2,998
Total	₩ 7,208,485	\$ 5,435,853	₩ 145,632	\$ 109,820

(December 31, 2000)

Description	Amount of loans		Allowance for loan losses	
	Korean won (millions)	U.S. dollars (thousands) (Note 2)	Korean won (millions)	U.S. dollars (thousands) (Note 2)
Normal loans	₩ 5,713,878	\$ 4,308,784	₩ 27,444	\$ 20,695
Precautionary loans	397,265	299,574	7,946	5,993
Substandard loans	277,252	209,073	55,450	41,815
Doubtful loans	280,737	211,701	163,158	123,036
Estimated loans	12,589	9,493	12,589	9,493
Trust account loans	64,366	48,538	12,497	9,424
Total	₩ 6,746,087	\$ 5,087,163	₩ 279,084	\$ 210,455

b. Allowance for loan losses by type of loan

Loan type	Allowance for loan losses			
	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Loans in local currency	₩ 93,394	₩ 181,327	\$ 70,428	\$ 136,737
Loans in foreign currency	5,536	7,039	4,175	5,308
Advances to customers	2,210	1,005	1,666	758
Foreign exchange bills purchased	24,483	11,534	18,462	8,698
Accounts receivable-credit cards	7,138	3,360	5,383	2,534
Other	12,871	74,819	9,706	56,420
	₩ 145,632	₩ 279,084	\$ 109,820	\$ 210,455

c. As of December 31, 2001, written-off which the statute of limitation did not expire amounted to ₩496,140 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

8. ALLOWANCES FOR OUTSTANDING GUARANTEES AND ACCEPTANCES

Allowances for outstanding guarantees and acceptances as of December 31, 2001 and 2000 are as follows :

Description	Guarantees and acceptances				Allowance for outstanding guarantees and acceptances			
	Korean won (billions)		U.S. dollars (millions)(Note 2)		Korean won (billions)		U.S. dollars (millions)(Note 2)	
	2001	2000	2001	2000	2001	2000	2001	2000
Normal	₩ 213,860	₩ 259,020	\$ 161,270	\$ 195,325	₩ -	₩ -	\$ -	\$ -
Substandard or below	21,689	22,546	16,355	17,002	9,098	9,663	6,861	7,287
	₩ 235,549	₩ 281,566	\$ 177,625	\$ 212,327	₩ 9,098	₩ 9,663	\$ 6,861	\$ 7,287

9. CLASSIFICATION OF ASSETS AND LIABILITIES BY MATURITY

Classifications of assets and liabilities by maturity as of December 31, 2001 and 2000 are as follows :

Description	Assets				Liabilities			
	Korean won (billions)		U.S. dollars (millions)(Note 2)		Korean won (billions)		U.S. dollars (millions)(Note 2)	
	2001	2000	2001	2000	2001	2000	2001	2000
Less than six months	₩ 7,260	₩ 6,386	\$ 5,475	\$ 4,816	₩ 6,285	₩ 5,079	\$ 4,739	\$ 3,830
Less than one year	2,356	2,790	1,777	2,104	1,424	1,871	1,074	1,411
Less than three years	1,808	969	1,363	731	1,186	931	894	702
Greater than three years	968	1,218	730	918	3,569	2,861	2,691	2,157
	₩ 12,392	₩ 11,363	\$ 9,345	\$ 8,569	₩ 12,464	₩ 10,742	\$ 9,398	\$ 8,100

10. TRANSACTIONS WITH OTHER FINANCIAL COMPANIES

Transactions with other financial institutions for the years ended December 31, 2001 and 2000 are as follows :

	Deposits from				Loan to			
	Korean won (billions)		U.S. dollars (millions)(Note 2)		Korean won (billions)		U.S. dollars (millions)(Note 2)	
	2001	2000	2001	2000	2001	2000	2001	2000
Banks	₩ 552	₩ 540	\$ 416	\$ 407	₩ 795	₩ 136	\$ 600	\$ 103
Other	170	128	128	97	764	3	576	2
	₩ 722	₩ 668	\$ 544	\$ 504	₩ 1,559	₩ 139	\$ 1,176	\$ 105

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

11. OVERDUE LOANS

Details of overdue loans from customers as of December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Loans	₩ 176,410	₩ 330,279	\$ 133,029	\$ 249,060
Advances to customers	6,043	4,715	4,557	3,556
	₩ 182,453	₩ 334,994	\$ 137,586	\$ 252,616

The Bank did not record accrued interest income on its overdue loans due from customers.

12. FIXED ASSETS

Fixed assets at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Tangible assets	₩ 435,180	₩ 429,416	\$ 328,165	\$ 323,819
Intangible assets	9,369	7,360	7,065	5,550
Non-business use property	9,248	14,828	6,974	11,182
Sub total	453,797	451,604	342,204	340,551
Accumulated depreciation	(104,004)	(93,194)	(78,428)	(70,277)
Valuation allowance of non-business use property	(329)	(392)	(248)	(296)
Total	₩ 349,464	₩ 358,018	\$ 263,528	\$ 269,978

Land value announced by the Korean government for tax purposes (book value) at December 31, 2001 and 2000 are ₩124,007 million (₩176,493 million) and ₩129,437 million (₩180,222 million) respectively

13. OTHER ASSETS

Other assets at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Guarantee deposits	₩ 91,291	₩ 96,851	\$ 68,842	\$ 73,035
Accounts receivable	201,041	121,871	151,603	91,902
Accrued income	193,317	167,252	145,779	126,123
Prepaid expenses	566	₩ 7,321	\$ 427	\$ 5,521
Accounts receivable related to disposal of fixed assets	2,115	5,245	1,595	3,955
Other	148,537	47,402	112,010	35,745
Sub total	636,867	445,941	480,256	336,280
Present value discount account	(497)	(1,131)	(375)	(853)
Total	₩ 636,370	₩ 444,811	\$ 479,881	\$ 335,428

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

14. DEPOSITS

Deposits at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Deposits in local currency	₩ 10,713,291	₩ 9,084,235	\$ 8,078,796	\$ 6,850,339
Deposits in foreign currency	47,832	51,464	36,070	38,809
Negotiable certificates of deposit	225,597	136,526	170,120	102,953
	₩ 10,986,720	₩ 9,272,225	\$ 8,284,986	\$ 6,992,101

Savings deposits at December 31, 2001 and 2000 amounted to ₩8,288,604 million and ₩7,216,442 million, respectively.

15. BORROWINGS

Borrowings at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Borrowings in local currency	₩ 1,329,301	₩ 1,149,143	\$ 1,002,414	\$ 866,558
Borrowings in foreign currency	179,419	206,876	135,298	156,003
Securities sold under repurchase agreements	696,264	769,526	525,046	580,293
Bills sold	16,484	139,436	12,430	105,147
Due to the Bank of Korea in foreign currency	31,992	113,369	24,125	85,491
Call money	7,293	1,810	5,500	1,365
	₩ 2,260,753	₩ 2,380,160	\$ 1,704,813	\$ 1,794,857

16. DEBENTURES

a. Debentures at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Debentures in local currency	₩ 374,028	₩ 324,086	\$ 282,051	\$ 244,390
Premiums on debentures	3,914	5,046	2,952	3,805
Sub total	377,942	329,132	285,003	248,195
Debentures in foreign currency	58,525	58,525	44,133	44,133
Discounts on debentures	(191)	(590)	(144)	(444)
Sub total	58,334	57,935	43,989	43,689
Total	₩ 436,276	₩ 387,067	\$ 328,992	\$ 291,884

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

b. Debentures in local currency at December 31, 2001 are as follows :

	Issuance Date	Due Date	Interest Rate(%)	Korean won (millions)	U.S. dollars (thousands)(Note 2)
General debentures	1997.12 ~	2000.12 ~	7.30~11.95	₩ 28	\$ 21
1 st subordinated debentures	1997.12.26	2000.12.26	11.95	104,000	78,425
2 nd subordinated debentures	1999. 6.17	2004.12.31	floating rate	100,000	75,409
4 th subordinated debentures	2000. 4.26	2005. 7.26	10.20~10.50	120,000	90,491
5 th subordinated debentures	2001 .3.26	2007. 1.26	8.50	50,000	37,705
				374,028	282,051
Premium in debentures				3,914	2,952
				₩ 377,942	\$ 285,003

c. Convertible bonds in foreign currency at December 31, 2001 are as follows :

	Issuance Date	Due Date	Interest Rate(%)	Korean won (millions)	U.S. dollars (thousands)(Note 2)
1 st convertible debentures	1999.6.17	2002.6.17	zero	₩ 58,525	\$ 44,133
Discounts on debentures				(191)	(144)
				₩ 58,334	\$ 43,989

Guaranteed interest rate	:	6.90%
Conversion price	:	5,500 won
Exchange rate application	:	Exchange rate in conversion
Conversion period	:	1 month after the issuance date to 1 month prior to the due date.
Repayment	:	If not converted, a lump-sum payment at 112.16% of principal balance will be made on June 17, 2002.

17. OTHER LIABILITIES

Other liabilities at December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Reserve for severance and retirement benefits	₩ 85,138	₩ 101,926	\$ 64,202	\$ 76,862
Transfers to the National Pension Fund	(4,992)	(6,347)	(3,764)	(4,786)
Due from Insurer severance benefits	(67,290)	(20,157)	(50,743)	(15,200)
	12,856	75,422	9,695	56,876
Allowance for guarantees	9,098	9,663	6,861	7,287
Inward foreign exchange remittance	888	1,683	670	1,269
Accounts payable	116,521	49,118	87,867	37,039
Accrued expenses payable	256,144	232,361	193,156	175,221
Unearned revenue	23,075	25,532	17,400	19,253
Guarantee money received	19,305	21,314	14,558	16,073
Other	360,357	231,010	271,742	174,202
	₩ 798,244	₩ 646,103	\$ 601,949	\$ 487,220

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

18. COMMON STOCK

The Bank's outstanding common stock is ₩602,100 million at December 31, 2001.

19. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES

Details of foreign currency denominated assets and liabilities as of December 31, 2001 and 2000 are as follows :

	U.S. dollars (thousands)		Korean won equivalent (millions)	
	2001	2000	2001	2000
(Assets)				
Cash in foreign currency	\$ 8,306	\$ 6,453	₩ 11,014	₩ 8,557
Due from banks	12,644	21,780	16,767	28,882
Investment securities	33,880	21,815	44,928	28,930
Loans	71,478	65,088	94,787	86,313
Call loans	1,446	3,800	1,918	5,039
Bills bought in foreign currency	74,440	192,338	98,715	255,060
Other	6,715	1,622	8,905	2,151
	\$ 208,909	\$ 312,896	₩ 277,034	₩ 414,932

	U.S. dollars (thousands)		Korean won equivalent (millions)	
	2001	2000	2001	2000
(Liabilities)				
Deposits	\$ 36,070	\$ 38,809	₩ 47,832	₩ 51,464
Due to the Bank of Korea in foreign currency	24,125	85,491	31,992	113,369
Borrowings	135,298	156,003	179,419	206,876
Call money	5,500	1,365	7,294	1,810
Debentures	44,133	44,133	58,525	58,525
Foreign exchange remittances pending	670	1,269	888	1,683
Deposits for letters of guarantees	4,548	4,090	6,031	5,424
Other	312	1,197	414	1,588
	\$ 250,656	\$ 332,357	₩ 332,395	₩ 440,739

20. GENERAL AND ADMINISTRATIVE EXPENSES

Details of general and administrative expenses for the years ended December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Salaries and employee benefits	₩ 87,443	₩ 97,100	\$ 65,940	\$ 73,222
Other expenses	87,030	86,397	65,628	65,151
	₩ 174,473	₩ 183,497	\$ 131,568	\$ 138,373

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

21. OTHER EXPENSES

Details of other expenses for the years ended December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Loss from guaranteed trust funds	₩ 12,972	₩ 12,299	\$ 9,782	\$ 9,274
Other	15,324	8,581	11,556	6,471
	₩ 28,296	₩ 20,880	\$ 21,338	\$ 15,745

22. BASIC AND DILUTED INCOME PER SHARE

The Bank's basic and diluted income per share for the years ended December 31, 2001 and 2000 are computed as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
(1) Basic income per share				
Net income	₩ 30,841,208,331	₩15,696,482,325	\$ 23,257,076	\$ 11,836,575
Weighted average number of common shares outstanding	119,351,729	119,269,797	119,351,729	119,269,797
Basic income per share	₩ 258	₩ 132	\$ 0.19	\$ 0.10
(2) Diluted income per share				
Net income	₩ 30,841,208,331	₩15,696,482,325	\$ 23,257,076	\$ 11,836,575
Weighted average number of common shares outstanding	119,351,729	119,269,797	119,351,729	119,269,797
Common stock equivalents (convertible debentures)	-	-	-	-
	119,351,729	119,269,797	119,351,729	119,269,797
Diluted income per share	₩ 258	₩ 132	\$ 0.2	\$ 0.1

In 2001 and 2000, the effect of convertible debentures is not considered in calculating income per share due to its anti-dilutive nature.

23. INCOME TAX EXPENSE

(1). The Bank recognized no income tax expense for the years ended December 31, 2001 and 2000, as its operating loss carry forwards exceeded its taxable income. In addition, there was no change in deferred income tax assets in 2001 and 2000 as no net deferred tax assets have been recorded as of December 31, 2001 and 2000, due to the unlikely realization of such assets is uncertain.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

(2) Differences between taxable income accounting income

	Korean won (millions)				U.S. dollars (thousands)(Note 2)			
	Temporary Differences		Permanent Differences		Temporary Differences		Permanent Differences	
	2001	2000	2001	2000	2001:	2000	2001	2000
a) Additions								
Securities	₩ 54,317	₩ 29,809	₩ -	162	\$ 40,960	\$ 22,479	\$ -	\$ 122
Accrued revenues	137,743	94,606	-	-	103,871	71,342	-	-
Allowance for loan losses	8,053	-	-	-	6,073	-	-	-
Reserve for severance and retirement benefits	26,837	-	-	-	20,238	-	-	-
Fixed assets not used for business purpose	204	310	-	-	154	234	-	-
Other	6,211	6,355	2,271	2,776	4,684	4,792	1,713	2,093
	₩233,365	₩131,080	₩ 2,271	2,938	\$175,980	\$ 98,847	\$ 1,713	\$ 2,215

	Korean won (millions)				U.S. dollars (thousands)(Note 2)			
	Temporary Differences		Permanent Differences		Temporary Differences		Permanent Differences	
	2001	2000	2001	2000	2001:	2000	2001	2000
b) Deductions :								
Securities	₩ 16,403	₩32,366	₩ -	₩ -	\$ 12,369	\$ 24,407	\$ -	\$ -
Accrued revenues	60,100	77,491	-	-	45,321	58,435	-	-
Fixed assets not used for business purpose	267	1,506	-	-	201	1,136	-	-
Allowance for loan losses	22,912	-	-	-	17,278	-	-	-
Reserve for severance and retirement benefits	26,814	-	-	-	20,220	-	-	-
Other	15,336	36,001	615	654	11,565	27,148	464	493
	₩141,832	₩147,364	₩ 615	₩ 654	\$106,954	\$111,126	\$ 464	\$ 493

(3) Details of temporary differences

	Korean won (millions)				U.S. dollars (thousands)(Note 2)			
	Opening Balance (December 31, 2001)	Increase	Decrease	Ending balance	Opening balance	Increase	Decrease	Ending balance
a) Temporary differences to be deducted from taxable income								
Securities	₩ 11,086	₩ 54,317	₩ 16,403	₩ 49,000	\$ 8,360	\$ 40,960	\$ 12,369	\$ 36,950
Fixed assets not used for business purpose	392	204	267	329	296	154	201	248
Allowance for loan losses	29,084	8,053	22,912	14,225	21,932	6,073	17,278	10,727
Reserve for severance and retirement benefits	12,905	26,837	26,814	12,928	9,732	20,238	20,220	9,749
Other	51,196	3,831	15,336	39,691	38,606	2,889	11,565	29,931
	104,663	93,242	81,732	116,173	78,926	70,314	61,633	87,605
b) Temporary differences to be added to taxable income								
Accrued revenues	152,607	60,100	137,743	74,964	115,080	45,321	103,871	56,530
Other	28,974	-	2,380	26,594	21,849	-	1,795	20,054
	181,581	60,100	140,123	101,558	136,929	45,321	105,666	76,584
c) Income tax effects								
Deferred income tax assets	31,085	27,693	24,275	34,503	23,441	20,883	18,306	26,018
Deferred income tax liabilities	(53,930)	(17,850)	(41,617)	(30,163)	(40,668)	(13,461)	(31,383)	(22,746)
Deferred income tax assets for operating loss carry forwards	147,883	-	36,791	111,092	111,517	-	27,744	83,773
Deferred income tax assets	₩ 125,038	₩ 9,843	₩ 19,449	₩115,432	\$ 94,290	\$ 7,422	\$ 14,667	\$ 87,045

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

(December 31, 2000)	Korean won (millions)				U.S. dollars (thousands)(Note 2)			
	Opening Balance	Increase	Decrease	Ending balance	Opening balance	Increase	Decrease	Ending balance
a) Temporary differences to be deducted from taxable income								
Fixed assets not used for business purpose	₩ 2,351	₩ 310	₩ 1,506	₩ 1,155	\$ 1,773	\$ 234	\$ 1,136	\$ 871
Securities	49,026	29,809	32,366	46,469	36,970	22,479	24,407	35,042
Other	85,184	6,355	36,001	55,538	64,236	4,792	27,148	41,881
	136,561	36,474	69,873	103,162	102,979	27,505	52,691	77,794
b) Temporary differences to be added from taxable income								
Tangible assets	28,984	-	-	28,984	21,857	-	-	21,857
Accrued revenues	188,786	77,491	94,606	171,671	142,362	58,435	71,342	129,456
	217,770	77,491	94,606	200,655	164,219	58,435	71,342	151,313
c) Income tax effects								
Deferred income tax assets	42,061	11,234	21,521	31,774	31,718	8,471	16,229	23,960
Deferred income tax liabilities	(67,073)	(23,867)	(29,139)	(61,801)	(50,579)	(17,998)	(21,973)	(46,604)
Deferred income tax assets for operating loss carry forwards	158,563	-	495	158,068	119,571	-	373	119,198
Deferred income tax assets	₩133,551	₩(12,633)	₩ (7,123)	₩128,041	\$ 100,710	\$(9,527)	\$(5,371)	\$ 96,554

24. LOSS ON PRIOR PERIOD ERROR CORRECTIONS

The Bank recorded a valuation loss of ₩10,220 million on the Contribution to Non-Performing Assets Fund as a prior period error correction, which is reported as an increase of accumulated deficit as of January 1, 2001.

25. RESTRUCTURED LOANS

The details of restructured loans at December 31, 2001 are as follows :

(1) Loans related to work-out plans

	Amount before restructuring		Amount after restructuring		Difference	
	Korean won (millions)	U.S. dollars (thousands)(Note 2)	Korean won (millions)	U.S. dollars (thousands)(Note 2)	Korean won (millions)	U.S. dollars (thousands)(Note 2)
December 31, 2000	₩ 79,296	\$ 59,796	₩ 66,929	\$ 50,471	₩ 12,367	\$ 9,326
Current period	37,262	28,099	32,582	24,570	4,680	3,529
Korea Housing Guarantee Co. Ltd.	24,120	18,189	22,080	16,650	2,040	1,538
December 31, 2001	₩ 140,678	\$ 106,084	₩ 121,591	\$ 91,691	₩ 19,087	\$ 14,393

(2) Loans related to court receivership and composition

	Amount before restructuring		Amount after restructuring		Difference	
	Korean won (millions)	U.S. dollars (thousands)(Note 2)	Korean won (millions)	U.S. dollars (thousands)(Note 2)	Korean won (millions)	U.S. dollars (thousands)(Note 2)
December 31, 2000	₩ 21,730	\$ 16,386	₩ 12,775	\$ 9,634	₩ 8,955	\$ 6,753
Current period	14,279	10,768	13,077	9,861	1,202	906
December 31, 2001	₩ 36,009	\$ 27,154	₩ 25,852	\$ 19,495	₩ 10,157	\$ 7,659

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

(3) Changes in present value discount account

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
December 31, 2000	₩	21,322	\$	16,079
Current period		7,922		5,974
Collections		(15,589)		(11,756)
December 31, 2001	₩	13,655	\$	10,297

26. TRANSACTIONS RELATED TO OFFICERS AND STOCKHOLDERS

The details of transactions related to officers and stockholders for the years ended December 31, 2001 and 2000 are as follows :

	Amount of loans and guarantees provided by the Bank			
	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Officers	₩ 225	₩ 120	\$ 170	\$ 90
Stockholders	95,626	130,992	72,110	98,780
	₩ 95,851	₩ 131,112	\$ 72,280	\$ 98,870

27. INSURANCE COVERAGE

At December 31, 2001, the Bank's buildings, equipment and leasehold deposits were insured against fire losses of up to approximately ₩197,773 million (US\$149,139 thousand).

28. ACCEPTANCES AND GUARANTEES

Acceptances and guarantees at December 31, 2001 and 2000 are summarized as follows :

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Confirmed acceptances and guarantees				
Acceptances :				
Local currency	₩ -	₩ -	\$ -	\$ -
Foreign currencies	69,789	96,019	52,627	72,407
Guarantees :				
Local currency	113,650	140,626	85,702	106,045
Foreign currencies	52,110	44,921	39,296	33,875
Unconfirmed acceptances and guarantees	120,873	136,844	91,149	103,193

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

Assets pledged as collateral relating to the borrowings from the Bank of Korea by the bank at December 31, 2001 and 2000 are as follows:

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Note pledged as collateral	₩ 405,834	₩ 264,394	\$ 306,036	\$ 197,784

29. COMMITMENTS AND CONTINGENCIES

a. Commitments

The Bank has entered into various currency forward contracts and interest rate swaps in order to hedge foreign exchange and interest risks. Details of such contracts outstanding as of December 31, 2001 and 2000 are as follows :

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Interest rate swaps				
Buy	₩ 3,978	₩ 7,558	\$ 3,000	\$ 5,699
Sell	3,978	7,558	3,000	5,699
Currency forward contracts				
Buy	₩ 22,924	₩ 3,490	\$ 17,287	\$ 2,632
Sell	24,486	8,454	18,465	6,375
Currency future contracts				
Buy	₩ -	₩ -	\$ -	\$ -
Sell	8,620	-	6,500	-

b. The Bank transferred loans with recourse to Korea Asset Management Corporation. On December 31, 2001, ₩150.2 billion of such transferred loans remains unsettled. Additional gains or losses will be recorded upon final settlement of the loans with Korea Asset Management Corporation in accordance with the recourse provisions.

c. Bills endorsed under guarantee

	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Bills endorsed under guarantee	₩ 2,933	₩ 3,769	\$ 2,212	\$ 2,842

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

d. Contributions to Guaranteed Income Trust funds

The Bank is contingently liable for the deficiency in income on certain guaranteed income trust funds. As a result of this, the financial position and operating results of the Bank may be affected on an ongoing basis by the results of such trust fund operations. Also, the accounting principles followed by these trust funds are different in certain respects from the accounting principles followed by the Bank.

e. Contingent liabilities

(1) As of December 31, 2001, lawsuits from pending litigation are as follows: 19 cases filed against the bank amounting to ₩1,296 million. Management believes that the results of the lawsuits will not have a significant effect on the financial statements of the bank.

(2) As of December 31, 2001, amounts of ₩1,903 million in commercial loans were rendered to those who applied for court receivership or composition, and those who are already placed under court receivership or composition, including those who are carrying out management improvement plans.

However, since the collectibility of such loans solely depend upon whether they will return to normal operations in the future, it is currently not possible to predict the resulting outcomes.

30. STATEMENTS OF CASH FLOWS

a. The difference between cash in the statements of cash flows and cash and due from banks in the balance sheets is due to restricted cash and deposits.

b. Addition of expenses not involving cash outflows for the years ended December 31, 2001 and 2000 consists of the following :

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Depreciation	₩ 16,558	₩ 15,688	\$ 12,486	\$ 11,830
Provision for loan losses	108,621	179,821	81,910	135,602
Reserve for severance and retirement benefits	12,450	16,545	9,388	12,476
Losses on securities	61,808	50,134	46,609	37,806
Loss from disposal of fixed assets	2,600	934	1,961	704
Amortization of other assets	2,511	1,524	1,894	1,149
Other	2,208	10,420	1,665	7,858
Total	₩ 206,756	₩ 275,066	\$ 155,913	\$ 207,425

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

c. Deduction of revenues not involving cash inflows for the years ended December 31, 2001 and 2000 consists of the following:

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Gain on securities	₩ 57,710	₩ 33,055	\$ 43,519	\$ 24,927
Gain on disposal of fixed assets	392	286	296	216
Bad debts	43,236	120,097	32,604	90,564
Transfer from allowance for guarantee	565	32,057	426	24,174
Payment of severance and retirement benefits	29,238	11,613	22,048	8,757
Amortization of present value discount	9,707	21,257	7,320	16,030
Other	4,247	1,128	3,202	850
Total	₩ 145,095	₩ 219,493	\$ 109,415	\$ 165,518

d. Changes in assets and liabilities resulting from operations for the years ended December 31, 2001 and 2000 consist of the following:

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Decrease(increase) in loans in local currency	₩(1,670,159)	₩ (938,940)	\$ (1,259,452)	\$ (708,046)
Decrease(increase) in other assets	(23,028)	45,783	(17,365)	34,524
Increase(decrease) in deposits in local currency	1,714,495	1,303,461	1,292,885	982,928
Increase(decrease) in other liabilities	(106,591)	(80,703)	(80,379)	(60,857)
Total	₩ (85,283)	₩ 329,601	\$ (64,311)	\$ 248,549

e. cash

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Cash and due from bank	₩ 1,268,760	₩ 2,368,535	\$ 956,760	\$ 1,786,090
Restricted due from bank	(182,009)	(288,093)	(137,251)	(217,248)
	₩ 1,086,751	₩ 2,080,442	\$ 819,509	\$ 1,568,842

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

31. DISPOSITIONS OF DEFICIT

Dispositions of deficit within 2 years from January 1, 2001 are as follow :

Description	Korean won (millions)		U.S. dollars (thousands) (Note 2)		Approval date for general stockholders meeting
Reserve for separate	₩	134,033	\$	101,073	1999. 02. 26
Reserve for dividends		10,500		7,918	"
Reserve for business rationalization		13,550		10,218	"
Reserve for legal		45,825		34,556	"
Reserve for capital surplus		82,022		61,852	"
Reserve for revaluation surplus		196,766		148,379	"
	₩	482,696	\$	363,996	

32. VALUE-ADDED INFORMATION

Description	Korean won (millions)		U.S. dollars (thousands)(Note 2)	
	2001	2000	2001	2000
Salaries	₩ 74,923	₩ 78,692	\$ 56,499	\$ 59,341
Provision for severance benefits	12,450	25,630	9,388	19,327
Rent	1,929	1,705	1,455	1,286
Taxes	8,222	8,108	6,200	6,114
Depreciations	19,069	17,592	14,380	13,266
	₩ 116,593	₩ 131,727	\$ 87,922	\$ 99,334

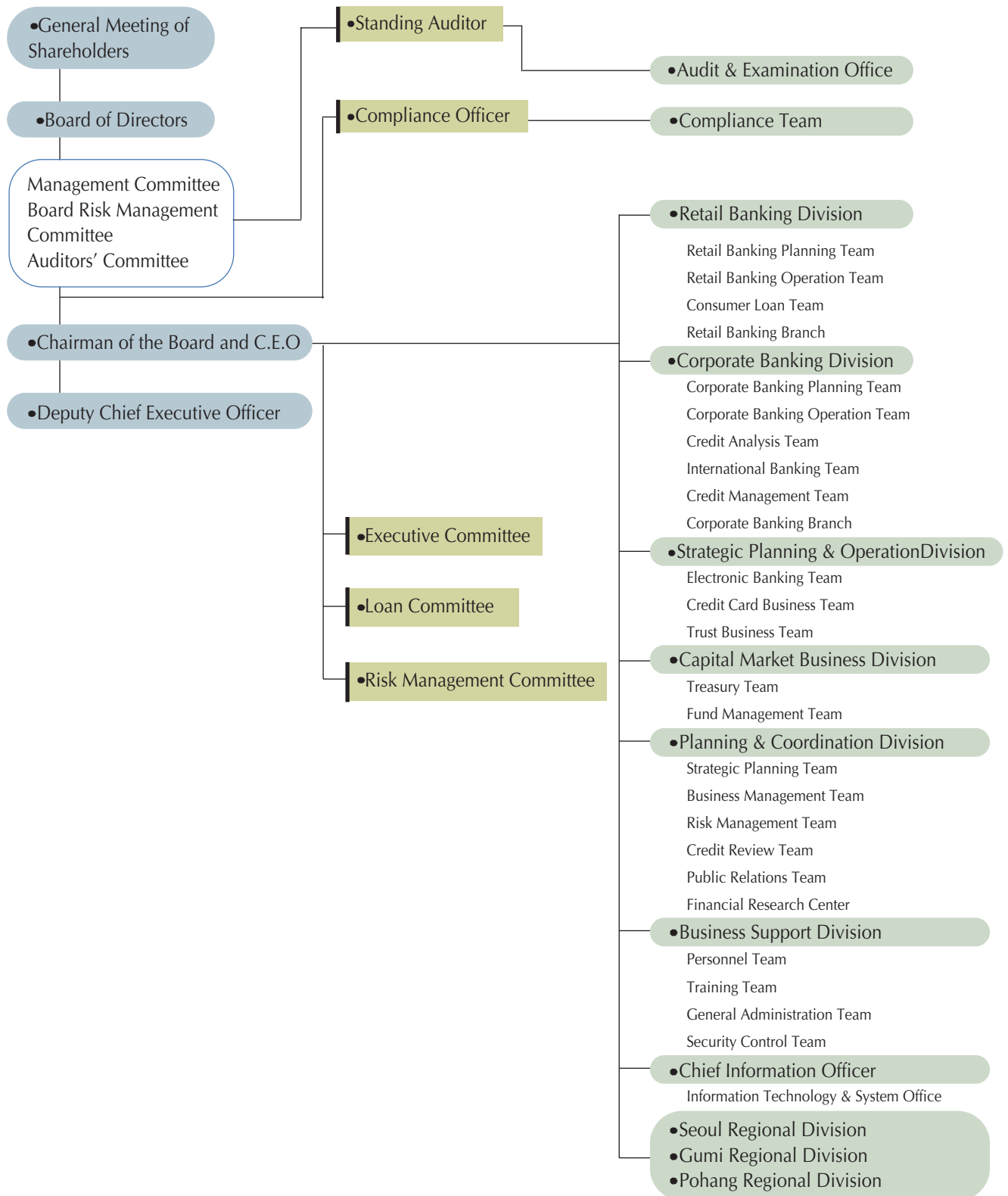
33. ECONOMIC UNCERTAINTIES

Beginning in 1997, Korea and other countries in the Asia pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

The Korean economy continues to experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidation and uncertainty exists with regard to the continued availability of financing. The Bank may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

Organization Chart

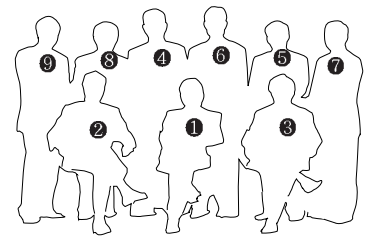


Board of Directors



Executive Committee (Officers)

- | | |
|---------------------------|---|
| 1. Kim Kuk-nyon | Chairman of the Board & Chief Executive Officer |
| 2. Lee Hwa-eon | Deputy Chief Executive Officer |
| 3. Park Young-bae | Standing Auditor |
| 4. Lim Sang-nyoung | Senior Executive Officer |
| 5. Back Young-tae | Senior Executive Officer |
| 6. Bae Dal-jo | Senior Executive Officer |
| 7. Park Sung-dong | Executive Officer |
| 8. Jo Seong-tae | Executive Officer |
| 9. Lee Sang-bae | Executive Officer |



Non-standing Directors

- | | |
|------------------------|---|
| Lee Kyung-jae | Senior Research Fellow / Korea Institute of Finance |
| Kwon Hyuk-zoo | Lawyer |
| Oh Soon-tack | President/Dongil Industries Co., Ltd. |
| Chung Kee-young | Professor/Keimyung Univ. |
| Huh No-mok | Lawyer |

Brief History

1960s

- October 7, 1967
- October 20, 1969

Commenced business with paid-in capital of W 106million
 Moved to a newly constructed headquarters building

1970s

- May 12, 1972
- October 1, 1973
- November 30, 1978
- October 23, 1979

Listed stock on the Korea Stock Exchange
 Commend "Class-A" foreign exchange business
 Began operation of the Daegu Bank Computer Center
 Established New York Representative Office

1980s

- February 7, 1983
- January 18, 1984
- May 28, 1985
- April 26, 1985
- October 22, 1985
- August 22, 1987
- September 19, 1987
- May 5, 1988
- June 27, 1989
- July 21, 1989
- October 11, 1989
- December 7, 1989

Began offering on-line banking services at all business units
 Acquired the Daegu Mutal Financial & Saving Company
 Increased paid-in capital to W35 billion
 Completed construction of new headquarters building
 Established a subsidiary, the Daegu Leasing Co., Ltd.
 Established a subsidiary, the Daegu Investment Corporation
 (Renamed as Insight Venture Corporation)
 Increased paid - in capital to W 50 billion
 Increased paid - in capital to W 100 billion
 Increased paid - in capital to W 150 billion
 Increased paid - in capital to W 165 billion by transferring W15 billion from the Bank's capital reserve
 Completed construction of new Computer Center Building
 Established Tokyo Representative Office

1990s

- September 9, 1991
- December 27, 1991
- May 2, 1994
- June 24, 1995
- July 21, 1995
- August 8, 1996
- February 27, 1997
- April 25, 1997
- July 19, 1997
- February 21, 1998
- June 30, 1998
- October 24, 1998
- November 30, 1998
- November 30, 1999
- December 31, 1998
- February 18, 1999
- June 17, 1999
- November 5, 1999
- November 20, 1999

Commenced operation of an integrated on-line service system
 Established the Dae-Eun Scholarship Foundation
 Established a subsidiary, Daegu Banking Institute
 Increased paid-in capital to W210 billion
 Established Hong Kong Representative Office
 Established a subsidiary Daegu Bank Finance Co.,Ltd.
 Increased paid-in capital to W220.5billion by stock-dividend
 Established a subsidiary, Mirae Futures Coporation
 Increased paid-in capital to W316.5billion
 Closed Hong Kong Representative Office
 Closed a subsidiary, Mirae Futures Coporation
 Increased paid-in capital to W482.1 billion
 Increased paid-in capital to W502.1 billion
 Closed Tokyo Representative Office
 Closed New York Representative Office
 Commenced operation of next generation integrated on-line system
 Issued overseas convertible bonds of USD50 million
 Closed a subsidiary, the Daegu Leasing Co., Ltd.
 Increased paid-in capital to W602.1 billion

2000s

- July 5, 2000
- June 23, 2001
- July 7, 2001
- July 8, 2001

Established a subsidiary, Daegu Credit Information Co., Ltd.
 Commenced operation of CRMS (Credit Risk Management System)
 Established a cyber Dokdo branch
 Commenced operation of Plus Firm Banking system

Corporate Information

Major Stockholders

Name	Stocks	Ownership
Samsung Insurance Co., Ltd.	9,724,715	8.07%
Atlantis Korean Smaller	3,325,000	2.76%
Stabilization Funds for Stock Market.	2,609,698	2.16%
Dongil Industry Co., Ltd	2,131,903	1.77%
Kyobo Investment Trust Management Co., Ltd.	1,224,120	1.01%

Subsidiaries

1. Insight Ventures Corporations

146-29, Gamsam-dong, Dalseo-gu, Daegu 704-150, Korea.

Tel : 82-53-551-7891, Fax : 82-53-551-7980

President : Kim Chang-hwan

The Bank's ownership : 30.98%

2. Daegu Credit Information Co., Ltd.

527-4, Bisan-dong, Seo-gu, Daegu 703-040, Korea

Tel : 82-53-573-7700, Fax : 82-53-608-1400

President : Roh Kyun

The Bank's ownership : 53.32%

3. Domestic Network

Area	Number of Network
Daegu	132
Gyeongbuk	45
Seoul	3
Busan	1
Ulsan	1

4. Number of total employees : 2,788

5. International Banking Team at Headquarters, Daegu

Mailing Address : 118, Suseong-dong, 2-ga, Suseong-gu, Daegu 706-712, Korea

Tel : 82-53-740-2544 Fax : 82-53-756-2095

SWIFT : DAEBKR22, Telex : K54334 DAEGUBK

Tel : General Manager : 82-53-740-2541

Correspondent Banking : 82-53-740-2544

Import : 82-53-740-2547

Export : 82-53-740-2551

Money Transfer & Check Collection : 82-53-740-2549

6. International Banking Team at Seoul

Mailing Address : 70, Sogong-dong, Jung-gu, Seoul 100-070, Korea

SWIFT : DAEBKR22SEL, Telex : D28306 DAEGUBK

Fax : 82-2-775-7484

Tel : Import & Export : 82-2-771-6100 (Ext.341)

Money Transfer & Check Collection : 82-2-771-6100 (Ext:344)