

Annual Report 2002

Relationships, the Power behind Regional Networks



PROFILE

Deposits totaled a mere ₩300 million at the end of 1967, the year Daegu Bank was established as Korea's first regional bank. At the end of 2002, total deposits exceeded ₩14.49 trillion, representing 40.6% of the Daegu and North Gyeongsang Province capital market.

In the first year, DGB had only 43 employees and just ₩150 million in capital stock but today stands as the nation's foremost regional bank. Twenty-five bonus issues and capital increases with consideration over thirty-five years have brought paid-in capital to ₩660.6 billion, while the Bank currently employs 2,845 people and operates a network that spans 60 corporate branches, 182 retail branches and 278 fully automated outlets.

At the end of 2002, DGB customers numbered some 3.2 million, or 60% of the 5.35 million people living in Daegu and North Gyeongsang Province. Total assets are ₩17.42 trillion as of December 31, 2002, more than any other regional bank in Korea. The Bank has achieved such dominance in its home market by remaining closely committed to the local community in order to provide maximum value.



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FINANCIAL HIGHLIGHTS

	In billions of Korean won		In millions of U.S. dollars*	
	2002	2001	2002	2001
Bank Accounts				
For the Year				
Operating Revenues	₩ 1,162.5	₩ 1,144.1	\$ 968.4	\$ 862.8
(Interest Income)	(984.3)	(974.6)	(819.9)	(734.9)
(Commission Income)	(116.4)	(125.9)	(96.9)	(94.9)
Operating Expenses	1,024.5	988.7	853.4	745.6
(Interest Expenses)	(545.0)	(633.3)	(454.0)	(477.6)
(Commission Expenses)	(15.7)	(9.9)	(13.0)	(7.5)
(Provision for Loan Losses)	(165.1)	(81.7)	(137.5)	(61.6)
Operating Income	138.0	155.4	114.9	117.2
(Net Interest Income)	(439.3)	(341.3)	(365.9)	(257.4)
(Net Commission Income)	(100.7)	(116.0)	(83.8)	(87.5)
Non-Operating Income	60.0	58.7	49.9	44.3
Non-Operating Expenses	66.8	183.4	55.6	138.3
Net Income	131.2	30.7	109.2	23.2
At Year's End				
Loans	₩ 8,867.0	₩ 8,144.9	\$ 7,386.7	\$ 6,142.0
Securities	4,660.9	4,129.1	3,882.7	3,113.7
Total Assets	16,020.5	14,551.5	13,345.9	10,973.2
Deposits	11,737.3	10,455.5	9,777.8	7,884.4
Borrowings	2,493.3	2,682.8	2,077.0	2,023.1
Total Liabilities	15,308.3	13,991.1	12,752.6	10,550.6
Capital Stock	660.6	602.1	550.3	454.0
Total Shareholders' Equity	712.2	560.4	593.3	422.6
Profitability				
ROA	0.88%	0.23%		
ROE	18.79%	5.91%		
BIS Capital Ratios **				
Tier 1	7.84%	7.56%		
Tier 2	3.02%	3.46%		
BIS Capital Ratio	10.85%	11.01%		
Trust Accounts				
For the Year				
Total Revenues	₩ 123.6	₩ 156.2	\$ 102.9	\$ 117.8
Trust Account Commission Fees	14.8	17.9	12.3	13.5
At Year's End				
Money Trust	₩ 1,445.0	₩ 1,456.4	\$ 1,203.7	\$ 1,098.3
Total Assets***	1,515.6	1,544.7	1,262.5	1,164.8

* The Korean won amounts are translated into U.S. dollars at the rate of ₩1,200.40 and ₩ 1,326.10 to US \$1.00, the prevailing exchange rate on December 31, 2002 and 2001, respectively.

** Based on consolidated data under FSC guidelines.

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

LETTER TO SHAREHOLDERS



We met our performance goals and maintained our **strong market position**, thanks to our **solid local market position** and our employees' hard work.

To the Shareholders

Conditions were challenging for Daegu Bank in 2002. The major players in Korea's finance industry continued to grow larger in 2002, with more banks merging and additional strategic alliances/joint ventures being formed among financial institutions. Moreover, Korea's financial regulatory standards governing equity capital and fiscal soundness were further tightened.

Fortunately, we met our performance goals and maintained our strong market position, thanks to our solid local market position and our employees' hard work. Our fiscal position has never been sounder. We maintained a BIS capital adequacy ratio of 10.85% and lowered our SBL ratio from 3.73% at the end of 2001 to under 3% during the following year. At the same time, we increased our loan loss reserve by providing an additional loan loss provision of ₩25.2 billion while reducing the delinquency ratio by 0.55 percentage points year on year to 1.90%.

Importantly, we achieved a record-breaking net income of more than ₩131 billion and enjoyed double-digit growth for total assets (10%), total credit (28%) and total deposits (12%). Earnings per share were also up 290% to ₩993. At year's end we had an ROA of 0.88%, ROE of 18.79% and NIM of 3.15%.

Our success is predicated on the loyal support of our customers and the local community in Daegu and North Gyeongsang Province. We earn their loyalty by offering the most convenient branch network in the region and taking full advantage of our personal networks locally. Credit card loans to households and SME (small and medium-sized enterprise) fee and commission income were major contributors to our outstanding 2002 business performance.

We have proudly demonstrated that, although small, DGB is a powerful bank. Our Bank Management Assessment by the Financial Supervisory Service (FSS) was raised to Grade 2 in 2002. The FSS also named us the "Best Bank" on its customer satisfaction index survey for the second straight year.



We are steadfast in
our commitment to remain
Korea's leading
regional bank



We continued to bolster our organization, workforce and information technology infrastructure to ensure future competitiveness. Importantly, we were able to offer you, our shareholders, a dividend for the first time in six years.

However, the sweeping changes in the financial industry environment can cause even the finest banks to fail if they are not careful. We will not become complacent by recent successes but will manage change and innovate to accommodate evolving customer needs and market conditions.

In 2003, our focus will be on high-net-worth customers. Our VIP Club program will be expanded and we will continue to develop tailored services offered through exclusive teller windows to this, our most profitable customer segment. This effort will be supported by our sophisticated new Customer Relationship Management system, and we will also upgrade our evaluation criteria to identify and attract more of these customers.

We expect growth in loans to households to be limited in 2003. To increase our loans, therefore, we will develop new loan products to attract prime SME and SOHO (small office/home office) customers. A new SOHO Team will be established for this purpose, and we will upgrade the credit scoring model for this segment.

We will counter the incursion of large national banks into our home market by strengthening our operational network and developing new products that target this region. Our community-focused marketing effort will be reinforced further and we will aggressively pursue low-cost deposits to meet our long-term target: secure 30% of the Daegu/North Gyeongsang market.

Of course, we will strictly manage delinquent payments and risk to minimize the NPL ratio and deal quickly with any NPLs that do occur. At the same time, Daegu Bank will expand into bancassurance by forming strategic alliances with outside firms and cultivating in-house professionals.

We are steadfast in our commitment to remain Korea's leading regional bank, constantly elevating our stature and image while maximizing value and returns for you, the shareholders. Specifically, our aim is to achieve ₩30 trillion in total assets, ₩330 billion in net income, at least 1.2% ROA, and 20% ROE by 2006. I thank you for your support in helping us reach this goal and wish you the best in 2003.

Kim Kuk-nyon
Chairman of the Board & CEO



[GLOBAL]

VISION
& STRATEGIES

“THE BEST LEADING REGIONAL BANK”

The first,

of three main strategies for 2003 is to further ties with Daegu and North Gyeongsang Province through community service activities. Daegu Bank will continue to expand the K-Project, which includes diverse volunteer programs for DGB employees.

Second,

is to improve operational soundness by raising both organizational and employee productivity. Cost consciousness and profitability will be the top priority for both branches and employees to ensure shareholder assets remain safe and sound.

Third,

is to create future value. The business environment continues to grow more difficult and competitive, and Daegu Bank is constantly preparing to stay ahead of change. New business development and performance-oriented organizational culture are the keys to achieving this year's targets, and all bank employees are committed to achieving the DGB vision of being "The Best Leading Regional Bank."

THE COMMUNITY

RELATIONSHIPS

Daegu Bank focuses solely on its home market to prevail over the large national and multinational banks in Daegu and North Gyeongsang Province. DGB continues to extend its human and material resource networks and diversify community service activities, while marketing is aimed squarely at the local community as well. These measures give DGB a competitive edge, and the majority of Daegu and North Gyeongsang Province consumers believe DGB delivers the most convenient services.

The "K-Project," named after Chairman & CEO Kim Kuk-nyon, is a strategy aimed at making DGB Korea's best regional bank and at growing the Bank hand in hand with the local community. A solid marketing platform is in place locally, including the promotion of cultural activities, athletics, scholarship programs and social welfare in Daegu and North Gyeongsang Province. The K-Project is an organized, systematic and ongoing effort to make social contributions and encourage DGB employees to volunteer for community service. In 2002, DGB organized a new team tasked specifically with promoting local ties by expanding community service activities and campaigns.

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Administrative Support

Each year, the Bank electronically processes some 2.5 million money transfers for 192 different local taxes and government fees such as automobile registration. Students attending 90 local middle schools, high schools and universities students can pay registration fees through the Bank. Throughout the year, DGB helps local organizations find missing children, and the Daegu Love Card program raised ₩170 million for community projects through sales subsidies in 2002. Finally, the Bank provides the use of its auditoriums and training center for various local cultural and business events.

Economic Support

Daegu Bank provided funds to start up or nurture 67 local small and medium-sized enterprises (SMEs) in 2002. SMEs also come to DGB for managerial guidance and information on exchange rates and exchange rate risk management. DGB invests in local infrastructure projects and offers low-cost loans for special regional projects and disaster relief. Cooperative relations are forged with local organizations to carry out projects aimed at invigorating the local economy. The Bank organized drives that raised ₩103 million for local flood victims, and DGB employee volunteers were dispatched to help with flood cleanup.

Local Art, Culture and Athletic Support

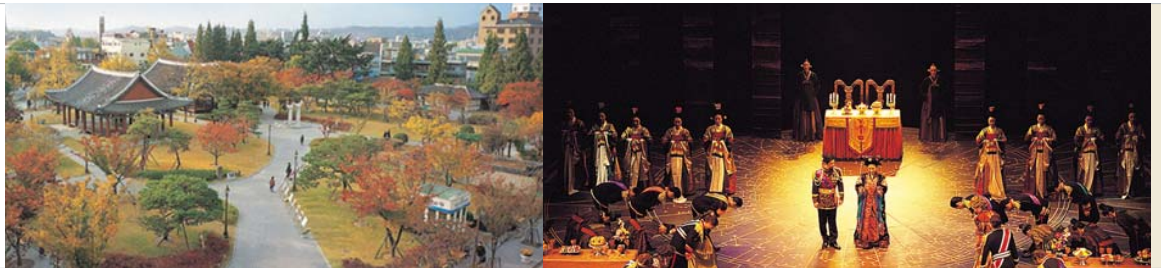
DGB supports the annual Dalgubeol Festival, held each fall and consisting of various traditional and contemporary events. The Bank also backs an arts & crafts fair and international dance festival. The Main Branch Gallery exhibits local arts and crafts, and the Bank raises funds in support of the Daegu

and North Gyeongsang Athletic Association.

DGB helped sell admission tickets to the World Cup and other international sporting events held in Daegu in 2002, and supported a marathon and children's essay contest. In August 2003, DGB will sponsor the 22nd Summer Universiade in Daegu and the World Culture Festival in Gyeongju, furthering the Bank's image as a supporter of the local community.

Educational Support

The Daegu Bank Scholarship & Culture Foundation provided a total of ₩227 million to 155 students, and an additional ₩35 million worth of books and study was donated to the local Board of Education in 2002. The Bank supports programs encouraging students to save money, handing out certificates of achievement to exemplary students and teachers. Banking services are now provided at 207 local schools, and the Bank arranges internships for students attending local universities. DGB has joined with local educational institutions to provide special programs such as computer training. The Bank also



issues student ID cards for new enrollees and provided a total of ₩22.8 billion in student loans to 9,578 local collegians in 2002. DGB operates a full-time office for helping corporate and retail customers with the computer. The Bank also holds fairs on overseas student exchange programs and gives briefings to local citizens who are planning to emigrate abroad.

Environmental Support

Daegu Bank is an active participant in the ongoing effort to preserve the natural environment in Daegu and North Gyeongsang Province. The Bank organizes bimonthly cleanup drives at local rivers, supports a program to release native species of fish into them. Street cleanups are regularly carried out in Daegu. Bank employees volunteer to put identification tags on trees along local hiking trails and help feed migratory birds along the Nak-dong River. The Bank also helps organize volunteer tree-planting drives.

Social Support

The DGB Service Corps was formed to provide systematic and ongoing volunteer help in such areas as flood relief and blood donation. Employee volunteers visit orphanages and facilities for the disabled, raise scholarship funds for teenaged orphans with younger siblings to support and help with elections. The Bank was also involved in a local Habitat for Humanity program. The Bank's parking lots are open to the public free of charge on Sundays and holidays. The Main Branch Conference Room, training center and other facilities are made available for citizens to use for worthy causes. Meanwhile, Daegu Bank continues to expand online banking facilities and has increased the hours of operation for automated teller machines to maximize user convenience.

TOP STORIES

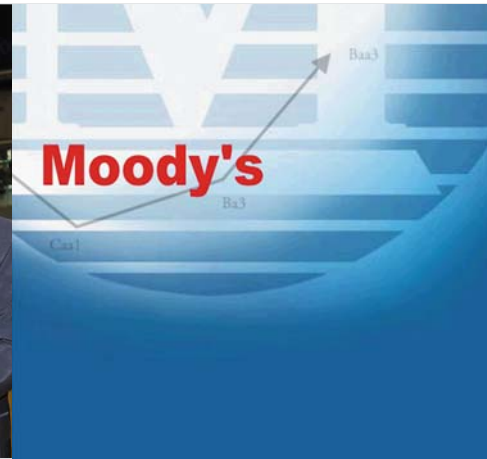
OF 2002



CRM System Complete



Model of Corporate Governance



Vastly Improved Credit Rating

CRM System Complete

Work on the Customer Relationship Management system began in December 2001 and was completed in 2002. The new system processes customer transactions while pointing out important issues on which to advise individual clients. One-on-one marketing support is provided. Data mining can be used to predict customer behavior such as account closure. The system helps target customers when carrying out marketing campaigns and analyzes customers according to various criteria.

Model of Corporate Governance

The Korea Stock Exchange named Daegu Bank a Model Company for Corporate Governance and Transparency in recognition of the Bank's efforts to protect investors. DGB increased IR briefings to 15 per year in 2002, and a new IR section has been posted on the DGB homepage. The Bank's online services received high marks for offering high quality investor information and answering questions submitted by users. Shareholders and investors also are given the standards by which the Bank designates "preferred customers," who are eligible for higher interest on deposits and exempt from paying various transaction fees.

Vastly Improved Credit Rating

Moody's Investors' Service elevated the long-term deposit rating of Daegu Bank three notches, from "Ba3" to "Baa3" in June 2002. This upgrade returned DGB to investment grade status for the first time since Korea's financial crisis of 1997.

Record Profit

Daegu Bank far exceeded its original net income target for FY02 to reach ₩131.2 billion, four times the ₩30.7 billion figure for FY01 and the highest ever recorded by the Bank. The figure could have been over ₩150 billion had it not been for the ₩25.2 billion loan loss provision made in the Fourth Quarter. The FSS tightened its reserve requirements for household loans and credit cards in 2002 and is expected to do the same for corporate loans in 2003.



Medal for SME Support



Computer Backup System



Highest Customer Satisfaction Again

Medal for SME Support

Daegu Bank Chairman & CEO Kim Kuk-nyon received the Bronze Tower Order of Industrial Service Merit Medal for supporting the cultivation and development of small and medium enterprises and stimulating regional economic growth. In 2001, the Bank also won a Prime Minister's Citation for providing exceptional support to SMEs.

Computer Backup System

A computer backup system based in the city of Miryang went online on December 11. The bank's main computers are linked to the Miryang facility by a fiber optic transmission network using Dense Wavelength Division Multiplexing (DWDM), and accounts are backed up in real time. Should the main computer system of either back go down, the backup system can replace it within three hours, a task that previously took 24 hours.

Highest Customer Satisfaction Again

Daegu Bank scored at the top of the Financial Supervisory Service's customer satisfaction index survey for both 2001 and 2002. The high rating reflects the Bank's ability to anticipate changing customer needs and maximize customer convenience through online and phone banking services as well as an extensive network of cash dispenser machines. Work processes are constantly being upgraded and employees receive training on professional courtesy, while customer complaints are addressed quickly and with understanding.

Bonds into Equity

On June 17m 1999, DGB issued US\$50 million worth of overseas convertible bonds with a 3-year maturity, and the entire amount was converted into equity capital in April and May 2002, increasing the Bank's paid-in capital by ₩58,525,000,000. The Bank's financial structure was adequate for maintaining a stable BIS capital adequacy ratio.



REVIEW OF OPERATIONS

DAEGU BANK 0088

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Investor Relations
Management Information

Management Indicators

	2009	2008	2007	Unit
Net Income	55.8	15.4	70.0	100 million KRW
Provision Income	171.4	179.4	124.3	100 million KRW
Net Interest Margin	3.24%	3.55%	3.14%	%
Net Interest Spread	4.27%	3.64%	3.85%	0.01%
Loan Ratio	9.25%	8.50%	7.88%	%
Deposit Ratio	5.81%	4.95%	3.88%	%
ROA	8.13%	6.25%	6.88%	%
	2.84%	5.81%	18.78%	%

Review of 2002

The Korean economy fared better in 2002 than it had in the previous year. Economic growth was a healthy 6.1% despite no major improvement in the US or Japanese economies. At the same time, the cost of goods and services rose a modest 2.7% year on year. The international balance of payments registered a US\$7 billion surplus as Korean exports of electronics, mobile phones, semiconductors and automobiles rebounded in 2002.

On the other hand, market indicators weakened in the second half as the threat of war appeared in Iraq and risk of household loan defaults rose domestically. The Korean stock market fell and consumer sentiment declined toward the end of the year. In the fourth quarter, weakening domestic demand offset the robust export performance.

The Daegu and North Gyeongsang economies followed the same pattern as the national as a whole. Most industries, including automotive parts, electronics, telecommunications, retail and construction, were strong through the first three quarters but consumer sentiment began to fall off at the end of the year.

Industrial output for 2002 was down 2.4% year on year in the Daegu metropolitan area, but up 12.9% in North Gyeongsang Province, bolstered by surging exports from the electronics sector. Overall exports from Daegu and North Gyeongsang Province totaled US\$20.1 billion on a Customs clearance basis in 2002, which was a 19% increase year on year. Export growth was most notable in electric/electronic products, machinery, precision devices, and textiles.

REGIONAL ECONOMY IN 2002

Export growth was most notable in electric/electronic products, machinery, precision devices, and textiles.



The regional economic upturn in 2002 meant fewer dishonored bills and better capital availability. Residential construction was flat in Daegu during 2002, with permits for new housing reaching 6.38 million m², down 2.8% from the previous year. Residential construction in North Gyeongsang Province was also sluggish, but other types of construction boomed and overall permits rose 17% year on year to 5.86 million m². Prices consumer goods, including agricultural and manufactured products, were relatively stable, rising 2.4% year on year in Daegu but just 1.7% in North Gyeongsang Province during 2002.

The region's synthetic textile industry struggled in 2001, with production, deliveries and exports all down 20-30% year on year. However, the overall economic recovery brought some relief in 2002. The rate of decline in synthetic textile production and deliveries slowed while exports were 4.6% higher than in the previous year.

The local automotive parts industry had been hit hard in previous years by the bankruptcy of Daewoo Motors and the sale of Samsung Motors to Renault. In 2002, GM-Daewoo was newly launched; North American exports of Hyundai and Kia cars rose substantially and domestic demand was stimulated by the government's lowering of luxury taxes on new automobiles. All these factors helped to turn around related industries in Daegu and North Gyeongsang Province, with automotive parts production up more than 20% from 2001.

Private sector housing construction increased in Daegu, and industrial and commercial construction grew in North Gyeongsang Province. However, many new builders from other regions moved into the market and local construction companies experienced difficulties in 2002. In the retail sector, too, many large, national discount stores enjoyed booming sales growth at the expense of smaller local merchants.

The Chinese increased their purchases of general-purpose machinery as well as machines for textiles and leather, boosting the Daegu/ North Gyeongsang machinery industry. Steel production, which is centered in the Pohang area, saw increased domestic demand but exports slowed with the growing protectionism in international markets. Year-on-year growth for the steel industry was marginal in 2002. Electronics, based mainly in Gumi, rebounded on increased exports of computers and telecommunications equipment and greater demand for semiconductors.

Outlook for 2003

Korean economic growth is expected to slow on fears of a war in Korea over its nuclear weapons program. Some analysts say the global economy will rebound in the second half as these issues are solved, and the Korean economy would rebound as well. Korean economic growth rate forecasts differ but the general consensus is 4-5.5%. Korea is expected to post a trade surplus of US\$1-3 billion, with exports rising 8.0-9.7% and imports growing 11.0-12.6%. Consumer prices in Korea are also predicted to rise 3-4% in 2003, while soaring household debt in Korea is forecast to keep growth in private sector consumption down to 3-4%.

Exports from Daegu and North Gyeongsang Province are expected to jump at least 10% on a Customs clearance basis in 2003, bolstered by strong demand in China for machinery and electronics products. On the other hand, the dishonored bill ratio is likely to be 0.40-0.50% in Daegu and 0.25-0.30% in North Gyeongsang Province as the overall economy slows and access to funds becomes more difficult. Consumer prices are forecast to rise 3.0-3.5% in Daegu and 2.0-3.0% in North Gyeongsang Province, while unemployment is seen to be 4.4% in Daegu and just 2.0% in the North Gyeongsang region.

Rising oil prices and the international issues cited above are expected to negatively affect the local synthetic textile industry in the first half of 2003. However, if these issues clear up, the industry should rebound on increased exports to the Middle East and China in the second half.

Exports from Daegu and North Gyeongsang Province are expected to **jump at least 10%** on a Customs clearance basis in 2003



Meanwhile, GM-Daewoo Motors is looking to sell more cars in 2003, and the automaker's subcontracted parts makers in the Daegu/North Gyeongsang region are optimistic about improving their performance. Meanwhile, Hyundai Motor is planning to change most of its 2004 lineup, and local module suppliers to Hyundai and Kia expected their orders to increase.

The Korean government is implementing measures to curb speculation in the construction industry and new home loans are being cut back, reducing demand for apartments and other residences. Competition among builders of new homes and apartments should intensify while profit margins dwindle.

Lotte Department Store is scheduled to open a branch near the Daegu train station in February or March 2003, which will heighten competition in the retail sector. The government will tighten regulations on household loans, reducing consumer purchasing power. As a result, the retail industry is expected to be slower in 2003 than in the previous year. However, sales at Home Plus, E-Mart and other large discount chains are likely to surge.

The US and China will be major export markets for machinery from Daegu and North Gyeongsang Province, and the industry is expected to see steady gains from the second half of 2003. The China business is particularly promising.

Exports of refrigerators, washing machines, air conditioners and microwave ovens to China are forecast to grow in 2003. Digital appliance sales are also expected to grow with the launching of digital broadcasting in many new markets. Replacement demand for PCs along with demand for higher PC memory capacity are predicted to boost semiconductor exports at least 10% year on year. The improving international brand image of Korean-made mobile phones and other telecommunications products as well as more aggressive marketing campaigns should result in increased exports, particularly to China. Finally, the region's steelmakers are forecasting greater demand in the US, EU and Eastern Europe in the second half as well as higher international prices.

Deposit Taking

Deposit Taking and Low-cost Deposit

(in billions of Korean won, avg.balance)

	2000	2001	2002
Low-cost Deposit	3,398.0	3,926.0	4,938.7
Deposits in Won	7,773.7	9,154.1	10,224.0
Low-cost Deposit (Deposit in Won)	43.7%	42.9%	48.3%
Total Deposits	10,509.9	11,695.8	13,479.3
Low-cost Deposit (Total Deposits)	32.3%	33.6%	36.6%

Growth in deposits, which had been slow since the Korean financial crisis of 1997-98, began to surge from 2001, thanks to a solid operational base and exceptional business performance. Total deposits (based on the average balance for the year) rose 15.3% year on year in 2002, substantially higher than the 11.7% growth recorded in 2001. The improved performance is due mainly to concerted efforts to retain and increase the number of

RETAIL BANKING

Total deposits (based on the average balance for the year) rose 15.3% year on year in 2002, the portion of low-cost deposits in the portfolio (based on average balance) has increased from 28.7% in 2001 to 32.5% in 2002.



preferred customers by building a business platform close to the local community.

Other important factors included the new Customer Relationship Management (CRM) system, providing a customer database for target marketing, and the "retail branch" concept, aimed at effective implementation of the CRM system.

Deposits have not only been increasing, but the deposit structure has become more profitable. The Bank has adhered to a fund-raising policy stressing profitability, and the portion of low-cost deposits in the portfolio (based on average balance) has increased from 28.7% in 2001 to 32.5% in 2002. This figure is expected to rise to 34% in 2003.

Meanwhile, the Bank has reduced emphasis on corporate loans and worked hard to increase loans to households. Customers with excellent credit histories have been given much easier loan access, and the number of borrowers doubled between 2001 and 2002. The total amount of retail credit (based on average balance) surged 32% year on year.

New retail products have been developed to target niche markets. These include the 7% Premium Passbook with special value-added features, the Lifetime Savings plan and the Dong-Ah Department Store Card Loan developed in cooperation with a local retailer. The barriers separating business domains of financial institutions continue to be broken down, and DGB has responded by forming strategic partnerships in bancassurance and beneficiary certificate sales. These new ventures represent new sources of fee and commission revenue.

Sales channel development is focused on the local market. The Bank opened the "Cyber Dokdo Branch" (serving a remote island in the East Sea), which has even been reported in the international Press. New branches have been opened in areas where commercial rights were recently granted, and the number of automated machines has been increased substantially to keep the bank access as close to customers as possible.

In 2003, the Bank will work hard to retain and increase its “preferred” customers and expand credit to small businesses, while an aggressive local marketing campaign will be conducted. A customer management system, focused on preferred customers, will be launched, to include the introduction of new wealth management packages. New channels for managing preferred customers will be developed as well.

The established CRM system will be utilized as a marketing tool that targets the best deposit and loan customers. Financial software programs will be upgraded to prevent non-performing loans through an early warning system other new models for assessing creditworthiness. Systems will continue to be improved to provide speedy credit support, and branch managers will be empowered to decide interest rates for retail loans. Credit to household and small/medium businesses will be expanded, new fees developed, and beneficiary certificate sales increased to bolster the Bank’s overall fee business and increase income from the non-interest sector.

Credit Cards

The Credit Scoring System (CSS), developed to accommodate the Korean business environment, has greatly helped Daegu Bank to identify and retain the most creditworthy credit cardholders. As a result, the Bank maintained a delinquency ratio of 8.64%, considerably better than most other Korean financial institutions involved in the credit card business in 2002. Daegu Credit Information Co., DGB’s subsidiary collection agency, is also working to steadily reduce the NPL ratio.

RETAIL BANKING

Fees and commissions from credit cards totaled ₩108.9 billion, up 29.8% from the previous year.



Credit cards represented one of the Bank’s main business lines in 2002. Credit card gross volume rose 43.7% year on year to reach ₩3.65 trillion, while fees and commissions from credit cards totaled ₩108.9 billion, up 29.8% from the previous year. The growth surge is attributable to improved consumer sentiment and government policy encouraging credit card use to increase transaction transparency for tax reasons. At the same time, the Bank’s expanded special services for credit cardholders have helped to grow this business.

The number of Daegu Bank credit cardholders grew 19% during 2002 to reach 618,000. Efforts were focused on offering differentiated credit card services that cater to professionals such as doctors, pharmacists and lawyers. The ABC service, which rewards the best credit cardholders, was expanded and upgraded to attract new customers and make preferred cardholders the main target market.

In 2002, the government and non-government consumer advocate organizations applied pressure to lower credit card fees and commissions. At the same time, new players entered the credit card business, heightening competition as well as marketing costs to secure greater market share. The growth in fee and commission income was not high enough to completely offset these rising costs.

Daegu Bank has long developed products and services for corporate customers and the wholesale market as part of efforts to diversify the credit card business. The Bank has aggressively pursued niche markets such as government and corporate procurement cards. The Customer Relationship Management (CRM) system, completed at year’s end to target specific credit card markets and specific occupations, will enable the Bank to step up its marketing blitz, which will also include direct marketing, telemarketing and email marketing efforts.

e-Banking

Online banking reduces the support role of bank branches while expanding customer access. Banks, meanwhile, continue to add information services to their traditional function as transaction intermediary, and electronic money is increasingly being used to effect payment for all kinds of transactions.

Daegu Bank had 100,000 customers using online services in 2000, but that number has increased 330-fold to 4.3 million as of the end of 2002. Eighty-three percent of all financial transactions involved an electronic means such as the phone (wired or wireless), computer or automated teller machine. Conversely, offline teller services fell to 17% of total transactions from 20.9% in 2001, reducing labor and administrative costs for the Bank. An average of 6.5 million online transactions and 5.8 million phone transactions were conducted each month during 2002.

As growth in online banking continues to surge, DGB continues to expand and upgrade its online banking system. An alliance has been formed with the Banktown, an electronic financial services and solutions company, to prevent system overload. During peak traffic times, some of the online transactions for DGB can be handled either by Banktown or by DGB's new backup system. "K-Cash," an integrated cyber financial system, was also launched in cooperation with the Korea Financial Telecommunications & Clearing Institute (KFTC) to combine payment systems for public transportation, trade and other transactions. Functions are being expanded to include a card for use on public transportation.

The Bank is also upgrading its homepage to include customized services, and the Call Center at the Main Branch will expand its reach to include calls to all other branches.

Eighty-three percent of all financial transactions involved an electronic means such as the phone (wired or wireless), computer or automated teller machine.



Meanwhile, offline services such as foreign exchange and loans will be developed to support online services. The Bank also plans to launch a campaign encouraging customers to take advantage of the online network.

Finally, Daegu Bank is developing a state-of-the-art security system for electronic financial transactions. Identification verification, data encoding, system breach detection and firewalls prevent the leakage of sensitive personal data and eliminate customer anxiety over transacting online.

The Bank is applying information technology to develop new markets and diversify services to accommodate changing needs and enhance customer satisfaction. Examples include integrated accounts, short message service that accompanies online transactions and banking by personal digital assistant (PDA), palmtop PC or mobile phone.

The Electronic Bill Presentation and Payment (EBPP) system was launched in 2002 for online remittance of local taxes and registration fees. In early January 2003, Daegu Bank is also scheduled to launch the Personal Finance Management System (PFMS), enabling users to view all their assets on-screen at the same time: savings deposits, loans, stock portfolio, insurance policies, credit card balances, current market price of real estate holdings, mileage program balances and so on. With the DGB PFMS, users can easily analyze their financial position and make short- or long-term plans for maximum returns and security.

Consumer Lending

Most Korean banks experienced difficulties from increased delinquency rates in their consumer lending business. Consumer lending to households and loans to SMEs are major business lines for Daegu Bank and have a profound effect on a bank's ability to maintain stable profitability. Therefore, a priority has been placed on ensuring that consumer lending continues to grow while the loans are mainly to preferred customers for higher profitability and lower delinquency rates.

Declining interest rates on home mortgage loans, incidental expenses being borne by the Bank, and sale of "instant loans" that do not require paperwork have combined to increase consumer lending tremendously over the past two year. This sector grew 13.8% more than the original target in 2002. Breaking consumer lending down by type, mortgage loans made up 64.2% of the portfolio (47.1% of which were home mortgage loans), and the remaining 35.8% consisted of loans on credit. The majority (64.3%) of loans were granted to persons between the ages of 30 and 50, and 81.1% of the Bank's total household loan borrowers were from the Daegu area.

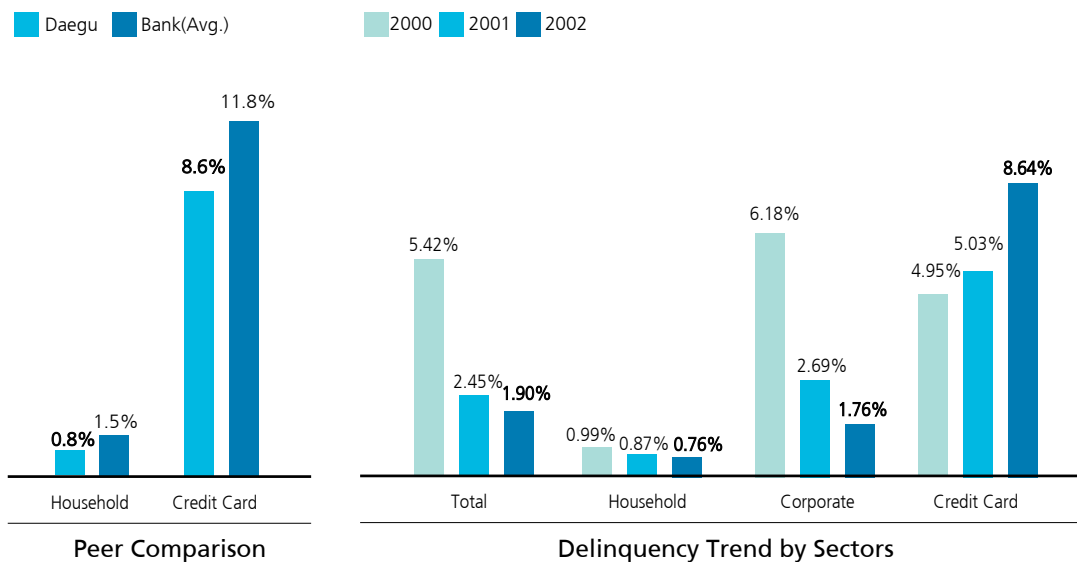
Worry over non-performing consumer loans is widespread in Korea, but Daegu Bank managed to keep its delinquency rate down to 0.76% as of the end of 2002. In addition, short-term delinquency data from the Credit Bureau and an early warning system serve to prevent the possibility of default in advance and enable the Bank to take counter measures early. Bank branches have also improved their follow-up procedures and processes have been upgraded by concentrating loan-related competencies on loan product sales.

Worry over non-performing consumer loans is widespread in Korea, but Daegu Bank managed to keep its **delinquency rate down to 0.76%** as of the end of 2002



In the future, short-term delinquencies will be rigorously managed to prevent them from turning into defaults as long-term delinquencies. Products will also be customized for niche markets, while special products and systems using the Credit Scoring and Deposit Scoring Systems as analysis tools will be developed to expand the loans to preferred customers, thereby improving overall asset soundness.

Asset Quality - Delinquencies (As of 2002 Year-end)



Textiles represent a major industry in the Daegu/North Gyeongsang region. These companies have steadily lost market share to competitors in China and other emerging economies, and they have not developed sufficient value-added items or strong enough brands of their own. As such, the textile manufacturers' contribution to economic growth is limited. The lackluster business performance has also reduced the amount of new facilities investments, narrowing the corporate loan market in 2002. Moreover, financial institutions in the region marketed aggressively to attract the best corporate borrowers. Competition over interest rates and services naturally intensified as well.

The Bank established clear priorities and strategies to cope with the corporate loan market situation. Asset soundness and profitability were improved by a concerted effort to prevent NPLs in the first place and to manage them most efficiently should they occur. The customer portfolio was improved by targeting marketing and services at the more creditworthy companies. New products were also developed and sales support given a high priority to increase DGB's share of the corporate loan market in Daegu and North Gyeongsang Province.

CORPORATE BANKING

Financial institution in the region by upgrading support systems and expanding loans to preferred SME customers to increase market share.



The Bank's strategies paid off in 2002. Corporate loans surpassed ₩8.45 trillion, up 27.7% from the ₩6.62 trillion figure for 2001. Of this total, loans to SMEs increased 17% year on year, from ₩4.21 trillion to more than ₩4.92 trillion.

At the same time, substandard or below loans (SBLs) dropped 23.8% from ₩285.5 billion in 2001 to ₩217.7 billion in 2002. The SBL portion of the total corporate loan portfolio dropped 1.45 percentage points, from 3.73% to 2.28% during the same period. The SBL coverage ratio, meanwhile, rose 15.8 percentage points from 55.3% at the end of 2001 to 71.1% a year later. The delinquency ratio improved 0.55 percentage points as well, from 2.45% to 1.90%, testimony to DGB's "clean bank" status.

This "clean bank" approach will be rigorously pursued in the future as well. Daegu Bank will fulfill its role as the leading financial institution in the region by upgrading support systems and expanding loans to preferred SME customers to increase market share.

Loan Portfolio by Industries

(in billions of Korean won)

	2000		2001		2002	
	Amt	%	Amt	%	Amt	%
Manufacturing	2,956.2	49.8%	2,882.0	45.4%	3,103.1	38.5%
Construction	384.3	6.5%	270.0	4.3%	324.8	4.0%
Distribution	602.5	10.2%	618.3	9.7%	758.3	9.4%
Finance & Insurance	221.9	3.7%	159.6	2.5%	153.3	1.9%
Real Estate & Leasing	103.2	1.7%	144.0	2.3%	283.8	3.5%
Other	708.7	11.9%	697.5	11.0%	769.8	9.5%
Household Loan	962.5	16.2%	1,577.3	24.8%	2,673.8	33.2%
Total Loan in Won	5,939.3	100.0%	6,348.9	100.0%	8,066.9	100.0%

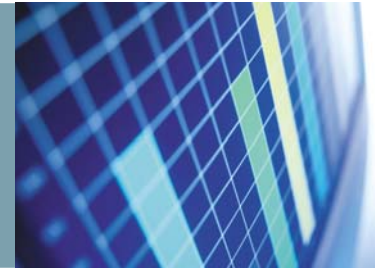
Delayed recovery of the regional economy cooled corporate demand for funds, and DGB amortized some NPLs, causing loans to fall ₩170.3 billion short of the Bank's original target for 2002. Investment in bonds was increased at the beginning of the year, when interest rates were still relatively high. However, the interest rate fell steadily to reach a record low, prompting the Bank to sell bonds before maturity to generate a profit. As a result, managed securities were ₩98.3 billion lower than originally planned. A plan is being followed to maintain the appropriate liquidity level and move funds into traded securities. However, the proper interest rate could not be secured and managed funds (Won-currency due from banks and repurchase agreements bought) exceeded the Bank's original plan by ₩412.3 billion. Mutual installment deposits were ₩183.7 billion lower than the original 2002 target, but customer CDs were ₩96.9 billion above target and repurchase agreement sales surpassed the target by ₩471 billion.

The global economy, led by the US, continued to be lackluster, while growth in Korean consumption, which had been propping up the domestic economy, shrank. Companies postponed their new facilities investments in response, and the real estate market slowed as the government clamped down on speculation. Movement in the short-term capital market slowed as a result, and interest rates for the short-term capital market remained low.

Greater regulation on household debt and real estate are expected to dampen consumption in 2003. Consumption could return on increased exports from a rebounding US economy in the second half.

INVESTMENTS

A balanced portfolio will be kept with respect to investment type and maturity, to ensure interest income is stable.



Daegu Bank will raise funds flexibly in accordance with market interest rates. Managed investments will be increased in the first half in anticipation of rising interest rates and then reduced in the second half. Investments will focus on trust-type securities savings accounts, CDs repurchase agreements, call loans and money market funds.

The business base will be stabilized and interest rate risk reduced by increasing long-term fund raising (accumulative deposits, flexible interest rates applied to long-term deposits, and financial bond issuances). The long-term management approach will remain fixed on securing a stable interest rate margin by expanding the volume of investment securities and preferred loans. A balanced portfolio will be kept with respect to investment type and maturity, to ensure interest income is stable.

Securities Investments

(in billions of Korean won)

Bank A/C	Total	Trading Securities	Investment Securities	Investment Securities	
				AFS	HTM
Bonds(in Won)	4,269.5	277.5	3,992.0	1,621.2	2,370.8
Bonds(in Fcy)	54.0	0	54.0	30.0	24.0
Stock	47.6	6.9	40.7	40.7	0
Beneficial Certificates	285.1	0	285.1	285.1	0
(Bond)	200.0	0	200.0	200.0	0
(Stock)	85.1	0	85.1	85.1	0
Others	4.7	0	4.7	0	4.7
Total	4,660.9	284.4	4,376.5	1,977.0	2,399.5

The Bank strove to strengthen the competitiveness of its trust products and increase trust funding during 2002. Funds raised surpassed the original ₩1.4 trillion target to reach ₩1.42 trillion, while managed assets were 2.19% higher than their original target of ₩1.4 trillion, totaling ₩1.45 trillion. The average balance in 2002 was ₩213.5 billion (18%) higher than in the previous year.

Trusts were down about 10% year on year for the Korean banking industry as a whole, but DGB exceeded its original trust target and maintained about the same balance as in 2001 for several reasons. First, the Bank maintained a higher payout than money market rates by not withdrawing from book value funds nearing maturity. Second, the trust total was increased significantly by the sale of special money trusts, preferred by customers as a short-term financial product. Third, derivatives were used to maintain a stable payout ratio for money market funds, raising their credibility. Therefore, the Bank increased involvement in money market funds, which helped to raise the trust total. Finally, tightened public disclosure rules restored customer confidence in trust funds.

DGB trust accounts paid out higher than the Bank's time deposit accounts did. The payout differs significantly depending on fund establishment date, making a direct comparison with the payout for other banks' trust difficult. However, the new open-type money trust account, one of the Bank's main products, maintained a stable and constant payout ratio at the top of the industry. The Bank's management strategy is based on optimizing the portfolio and duration. Derivatives are used to minimize interest rate variation risk and maximize returns.

TRUST BUSINESS

The Bank expects to achieve steady growth in its trust business and will use this growth to enhance the self-sufficiency of its trust operation.



Future trust fund management will also focus on minimizing risk from interest rate variation and offer a stable payout. Credit risk, will be minimized by targeting the most suitable companies for investment, and duration management will minimize market risks and keep an appropriate payout level.

Many market variables are forecast for 2003, given the uncertain economic picture in Korea and changes in the external environment. Overall interest rates are predicted to remain low and customers are likely to prefer trust products. Therefore, the Bank expects to achieve steady growth in its trust business and will use this growth to enhance the self-sufficiency of its trust operation.

Trust Accounts

(In billions of Korean won, %)

	2001	2002	Change YoY	Change(%)
Total revenues	156.2	123.5	-32.7	-20.9
Interest revenue	103.5	101.1	-2.4	-2.3
Other operating revenues	52.7	22.4	-30.3	-57.5
Total expenses	139.6	109.6	-30.0	-21.5
Interest expense	84.7	81.2	-3.5	-4.1
Commission expense	0.1	0.3	0.2	200.0
Other operating expenses	54.8	28.1	-26.7	-48.7
Trust fees & commissions	16.6	13.9	-2.7	-16.3
Total trust assets	1,544.7	1,515.6	-29.1	-1.9
Securities	1,183.9	1,199.0	15.1	1.3
Loans & discounts	166.6	165.3	-1.3	-0.8
Money in trust	1,456.4	1,445.0	-11.4	-0.8

The global economy was sluggish overall in 2002 as the US registered massive deficits and maintained an anti-terrorist fiscal policy, while the European and Japanese remained mired in a slump. On the other hand, Korean financial institutions completed their restructuring and consolidation, and foreign-currency fund raising as well as investments were very active in the domestic financial market.

In June 2002, Moody's Investors' Service raised the long-term credit rating for Daegu Bank to an investment-grade "Baa3." This international recognition of operational stability and the record profitability achieved 2002 enable the Bank to raise foreign capital under more favorable conditions than previously available.

DGB has a BIS capital adequacy ratio of 10.85% at the end of 2002, which was among the highest in the Korean banking industry. Effective management of foreign currency assets resulted in a liquidity ratio of 103.09% at year's end, satisfying the 80% requirement set by the government supervisory authorities as well as the 100% minimum mandated by the Bank's own risk management regulations.

Increased demand for low-interest foreign currency loans and stimulated foreign-currency investment activities drove demand for foreign-currency funds. Correspondent activities were stepped up to diversify fund-raising sources and improve fund availability.

INTERNATIONAL BANKING & FOREIGN EXCHANGE

Moody's Investors' Service raised the long-term credit rating for Daegu Bank to an investment-grade "Baa3."



Foreign currency is raised through currency swaps to lower expenses and convert liquid Won-currency into foreign currency, diversifying overall fund management and profitability. This type of foreign currency fundraising and management, tied with derivative products, is carefully and objectively analyzed in advance in meetings with the Risk Management Committee, which includes outside directors, as well as with the working-level specialists under the Committee. These bodies continue to monitor the risk after the transactions have been made.

Traditional services such as imports, exports, correspondent agreements, and currency exchange for corporate, institutional and retail customers were also improved in 2002. The following foreign exchange support is being offered in the retail finance sector, where competition is rapidly intensifying:

First, an exclusive foreign exchange window is now in operation at the Corporate Finance Center. Personnel handling foreign exchange are now more specialized to provide better service and offer a total service package that includes forward exchanges.

Second, new foreign exchange services such as fund transfers for Koreans studying or residing overseas have been developed to better meet customer needs. Interest rates and service fees are now adjusted according to individual customer credit rating and contribution level as part of efforts to keep new foreign exchange customers.

Third, database marketing (direct mail, telemarketing) activities have been stepped up for preferred customers, identified through End-User Computing (EUC), to raise foreign exchange service competitiveness. Low-cost foreign-currency deposits have been increased and fee-based businesses strengthened as part of the Bank's profit-oriented policy.

Finally, Daegu Bank will support the 2003 Summer Universiade in Daegu and the 2003 World Culture Festival in Gyeongju with a variety of foreign exchange services, as part of ongoing efforts to remain close to the local community.

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.

Permissible risk levels are set and approved by the independent Board Risk Management Committee (BRMC), chaired by an outside director and consisting of two more outside directors and one standing director from the Bank. The BRMC also reviews risk management policy, limits, and results 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 related divisions and chaired by the Head of the Planning & Coordination Division. The RMC, which meets monthly (extraordinary sessions are also possible), is responsible for managing the policies and limits set by the BRMC.

The 14-member 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.

RISK MANAGEMENT

Permissible risk levels are set and approved by the independent Board Risk Management Committee (BRMC), chaired by an outside director and consisting of two more outside directors and one standing director from the Bank.



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 also set to prevent overexposure to any particular borrower.

Monthly reviews of risk limits, periodic credit reviews and other measures are taken to prevent NPLs from occurring. Contingency plans are also in place for dealing with specific levels of risk exposure.

A specialized organization is tasked with minimizing the Bank's exposure to potential risk from over-concentrated credit. Targets are set for distributing credit and they are reviewed each month. Decisions on loans are made at meetings of department heads to ensure fairness and transparency. A Credit Review Team regularly examines the Bank's credit position and enforces restraint on sales divisions. The Bank has also established Corporate Banking Centers in ten locations, staffed by professional Risk Managers and Senior Relationship Managers.

The Credit Scoring System (CSS) was introduced in April 2000 to enhance the management of risk related to individual loans, while the new Credit Risk Management System (CRMS) 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. Contingency plans are made for each level of market risk exposure.

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. In February 2002, the new Market Risk Management system was completed, bolstering the Bank's capabilities to analyze VaR related to trading securities, derivatives and foreign exchange; manage risk limits and evaluate performance.

Daegu Bank strives to maintain **adequate liquid assets** to deal with any unexpected **development**, and **contingency plans** cover liquidity shortages.



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 FSS. Daegu Bank strives to maintain adequate liquid assets to deal with any unexpected development, and contingency plans cover liquidity shortages.

An Asset & Liability Management (ALM) system has been in place since 1996 to cover interest and liquidity risks. The ALM system was rebuilt during 2002 to improve data processing capabilities and incorporate new financial risks that have recently appeared in the marketplace.

Integrated Risk Management

The ALM, CSS, CRMS and other systems covering specific areas were all in place by the end of 2001. The Bank since then has applied its know-how to begin building an integrated risk management system that can uniformly measure the various risk types (according to VaR, etc.) to understand the Bank's overall risk exposure and manage it most effectively. Integration of credit, market, ALM/ interest rate, and liquidity risks will be completed between 2003 and 2004. The most advanced risk management system, covering risk-adjusted income (RAROC and RAPM), distributing risk limits and managing risk assets, will be ready in 2005.

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MANAGEMENT'S DISCUSSION & ANALYSIS

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

OVERVIEW

Net interest income and non-interest income were both much higher in 2002 than in the previous year. However, selling and administrative expenses and bad debt expenses were also up year on year, causing operating income to drop slightly. On the other hand, non-operating income improved greatly during 2002, taking net income to an all-time high for the Bank. The record income far exceeded the Financial Supervisory Service (FSS) requirement and was achieved despite the establishment of provisions. Net income would have reached at least ₩150 billion had additional funds not been provisioned.

The surge in income drove ROA up 0.65%P year on year to 0.88%, while ROE rose 12.88%P to 18.79%. Asset soundness improved as well, with the NPL ratio falling 1.45%P year on year to 2.28%. The Bank also advanced into new core businesses for revenue generation in 2002. Low-cost deposits increased to 36.6% of total deposits, helping to reduce the cost of raising funds. Loans to households, with a relatively low risk of default, increased 69.5% year on year. Total credit increased ₩1.89 trillion during 2002 to surpass ₩9.55 trillion, while total deposits rose ₩1.545 trillion to ₩14.496 trillion. This growth in credit and deposits drove up total assets, which caused the BIS capital adequacy ratio to decline 0.16%P to 10.85%, despite the record net income achieved in 2002.

KEY FINANCIAL DATA

(In billions of Korean won, %, %P)

	2001	2002	Change YoY
OPERATING RESULTS			
Operating revenue	1,144.1	1,162.5	18.4
Net interest income	341.3	439.3	98.0
Operating income	155.4	138.0	-17.4
Net income	30.7	131.2	100.5
PER SHARE DATA (won)			
Earning per common share	257	1,207	950
PROFITABILITY RATIOS			
ROA	0.23	0.88	0.65
ROE	5.91	18.79	12.88
Net interest margin	3.14	3.15	0.01
Net interest spread	3.84	4.14	0.30
BALANCE SHEET DATA AT YEAR END			
Total assets	14,551.5	16,020.5	1,469.0
Total credit*	7,661.4	9,551.8	1,890.4
Total deposits*	12,950.9	14,496.0	1,545.1
Securities*	5,312.9	5,860.0	547.1
Shareholder's equity	560.4	712.2	151.8
ASSET QUALITY RATIOS			
Loan Loss Provision to SBLs	55.3	71.1	15.80
SBLs to Total Credit	3.73	2.28	-1.45
CAPITAL RATIOS AT YEAR END			
Total capital ratio	11.01	10.85	-0.16
Tier 1 capital	7.56	7.84	0.28
Tier 2 capital	3.46	3.02	-0.44

* Figures include trust accounts.

MANAGEMENT'S DISCUSSION & ANALYSIS

PROFIT & LOSS

Total income rose 23.8% (₩102 billion) year on year to ₩531 billion in 2002. Of this total, interest income surged 28.7% (₩98 billion) to ₩439.3 billion. Non-interest income, too, rose ₩4 billion to ₩91.7 billion for the year. Meanwhile, SG&A expenses also increased 23.1% (₩44.4 billion) year on year to reach ₩236.8 billion and bad debt expenses were ₩75 billion higher to total ₩156.2 billion. As a result, operating income fell 11.2% (₩17.4 billion) to ₩138 billion, despite the growth in both interest and non-interest income during 2002.

On the other hand, net non-operating income, which was -₩124.7 billion in 2001, totaled only -₩6.8 billion in 2002. This ₩117.9 billion improvement in non-operating income was mainly due to the drop in losses incurred on the sale of non-performing loans, from ₩93.9 billion in 2001 to just ₩4.1 billion in 2002. As a result, net income surged 327.4% (₩100.5 billion) year on year to a record ₩131.2 billion.

PROFIT & LOSS SUMMARY

(In billions of Korean won, %)

	2001	2002	Change YoY	Change(%)
Interest income (a)	341.3	439.3	98.00	28.7
Non-interest income (b)	87.7	91.7	4.00	4.56
Total income (c = a+b)	429.0	531.0	102.0	23.8
SG & A (d)	192.4	236.8	44.4	23.1
LLP (e)	81.2	156.2	75.0	92.4
Operating income (f = c-d-e)	155.4	138.0	-17.4	-11.2
Non-operating income (g)	-124.7	-6.8	117.9	-94.5
Income before tax (h = f+g)	30.7	131.2	100.5	327.4
Income tax (i)	0.0	0.0	0.0	0.0
Net income (h-i)	30.7	131.2	100.5	327.4

NET INTEREST INCOME

Interest-related income increased 28.7% (₩98 billion) year on year to total ₩439.3 billion in 2002. Interest revenue edged up 0.1%, while interest expense fell 13.9% for the year. The interest revenue gains came from securities and loans, while interest revenue generated by dues from banks declined. The drop in interest on deposits was the main contributor to the lower interest expense.

NET INTEREST INCOME (In billions of Korean won)



PROFIT & LOSS SUMMARY

(In billions of Korean won, %)

	2001	2002	Change YoY	Change(%)
Interest revenue (a)	974.6	984.3	9.7	0.1
Dues	115.1	39.5	-75.6	-65.7
Securities	260.1	300.6	40.5	15.6
Loans*	581.8	628.3	46.5	8.0
Other interest revenue	17.6	15.9	-1.7	-9.7
Interest expense (b)	633.3	545.0	-88.3	-13.9
Deposits	442.5	364.4	-78.1	-17.6
Borrowings	126.4	123.8	-2.6	-2.1
Debentures	35.6	28.2	-7.4	-20.8
Other interest expenses	28.8	28.6	-0.2	-0.3
Net interest income (a-b)	341.3	439.3	98.0	28.7

*Incl. Interest earnings from credit card business

MANAGEMENT'S DISCUSSION & ANALYSIS

NET INTEREST MARGIN

The average interest rate received on loans dropped 1.2% year on year to 7.81% in 2002, while the average interest paid on deposits fell 1.5% to 3.67% during the same period. These changes caused the net interest spread to rise 0.30%P to 4.14%. Net interest margin also remained high, rising 0.01%P to 3.15% during 2002.

One important reason for the high NIM and increase in NIS in the face of falling market interest rates is the increase in low-cost deposits that the Bank managed to attract. The average balance in low-cost deposits rose 25.8% (over ₩1.01 trillion) during 2002 to nearly ₩4.94 trillion. Moreover, the portion of low-cost deposits in the deposit portfolio increased 3.0%P to 36.6% for the year. The reduction in NPLs can be cited as another factor contributing to the rise in NIS and NIM.

NIM & NIS

(%)

	2001	2002	Change YoY
NIS	3.84	4.14	0.30%P
Loan rate	9.01	7.81	-1.20%P
Deposit rate	5.17	3.67	-1.50%P
NIM	3.14	3.15	0.01%P

LOW-COST DEPOSITS (ON AN AVERAGE BALANCE BASIS)

(In billions of Korean won, %)

	2001	2002	Change YoY	Change(%)
Demand deposits	710.6	863.1	152.5	21.5
Savings deposits	2,708.5	3,354.5	646.0	23.9
Corporate free savings deposits	506.9	721.1	214.2	42.3
Total low-cost deposits	3,926.0	4,938.7	1,012.7	25.8
Won-currency deposits	9,154.1	10,224.0	1,069.9	11.7
Low-cost deposits				
to Won-currency deposits	42.9	48.3	5.4	12.6
Total deposits	11,695.8	13,479.3	1,783.5	15.2
Low-cost deposits to total deposits	33.6	36.6	3.0	8.9

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

NON-INTEREST INCOME

Non-interest income rose ₩36.3 billion in 2002 to reach ₩91.7 billion. Credit card fees, which represented the largest portion of non-interest income, increased 25.5% (₩11.1 billion) year on year to ₩54.6 billion. The next largest contributor to non-interest income was Won-currency commissions received, which also grew 18.4% (₩6.4 billion) to total ₩41.2 billion. Meanwhile, trust performance improved ₩19.6 billion, from ₩10.3 billion in the red in 2001 to ₩9.3 billion in the black for 2002.

NON-INTEREST INCOME

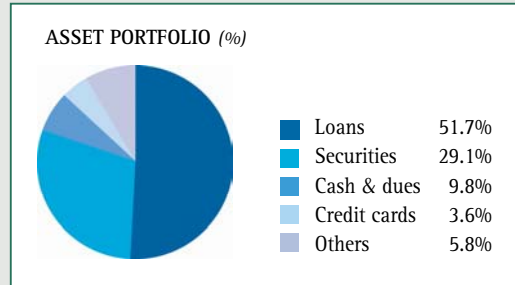
(In billions of Korean won, %)

	2001	2002	Change YoY	Change(%)
Fees in won	34.8	41.2	6.4	18.4
Fees in foreign currencies	11.3	12.7	1.4	12.4
Card fees	43.5	54.6	11.1	25.5
Guarantee	2.2	1.7	-0.5	-22.7
Gains on securities	-1.5	-2.4	-0.9	-60.0
Trust	-10.3	9.3	19.6	190.3
Other operating income	-24.6	-25.4	-0.8	-3.3
Total	55.4	91.7	36.3	65.5

MANAGEMENT'S DISCUSSION & ANALYSIS

ASSET PORTFOLIO

Total assets grew 10.1% (₩1.469 trillion) during 2002 to surpass ₩16.02 trillion at year's end. Loans and securities made up the majority of the asset portfolio. Securities rose 12.9% (₩531.8 billion) year on year to more than ₩4.66 trillion, while loans jumped 28.6% (over ₩1.84 trillion) to ₩8.286 trillion. Credit card assets also increased a robust 28.9% (₩130.4 billion) to account for 3.6% of the portfolio, up 0.5%P from 2001.



LOW-COST DEPOSITS (ON AN AVERAGE BALANCE BASIS)

(In billions of Korean won, %)

	2001		2002		Change YoY	
	Amt.	Pct.	Amt.	Pct.	Amt.	Pct.
Loans	6,443.7	44.3	8,286.0	51.7	1,842.3	28.6
Securities	4,129.1	28.4	4,660.9	29.1	531.8	12.9
Cash & dues	1,303.1	8.9	1,561.7	9.8	258.6	19.8
Credit cards	450.6	3.1	581.0	3.6	130.4	28.9
Others	2,225.0	15.3	930.9	5.8	-1,294.1	-58.16
Total	14,551.5	100.0	16,020.5	100.0	1,469.0	10.1

SECURITIES

The Bank's securities portfolio includes listed stocks, government and public bonds, finance debentures, corporate bonds, and beneficiary certificates. The portfolio is subdivided into trading and investment securities. The former category refers to those securities held for short-term profit taking, while the latter are for gains over the mid-/long term.

The Bank's securities balance was over ₩4.66 trillion at the end of 2002, with investment securities representing the largest share because of the ongoing slump in the stock market and falling market interest rates during the year. Investment securities at year's end totaled more than ₩3.22 trillion, up 19.8% (₩532.3 billion) from the previous year. On the other hand, the amount of stocks in the investment securities portfolio was down ₩22 billion year on year to 40.7 billion, while beneficiary certificates were also 34.1% lower (₩34.1 billion) to ₩285.1 billion.

SECURITIES PORTFOLIO

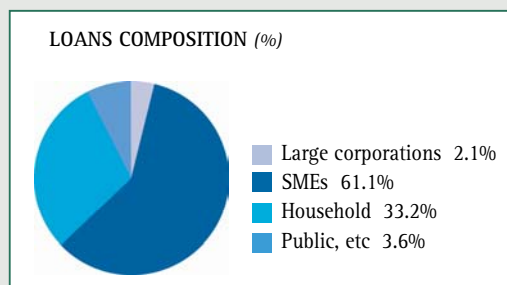
(In billions of Korean won, %)

	2001	2002	Change YoY	
			Amt.	Pct.
Trading securities	36.6	284.4	247.8	677.0
Stocks	7.2	6.9	-0.3	-4.2
Bonds	19.4	186.5	167.1	861.3
Beneficiary certificates	10.0	0.0	-10.0	-
Others	0.0	91.0	91.0	-
Investment securities	4,092.5	4,376.5	284	6.9
Stocks	52.2	40.7	-11.5	-22.0
Bonds	2,691.6	3,223.9	532.3	19.8
Beneficiary certificates	432.8	285.1	-147.7	-34.1
Others	915.9	826.8	-89.1	-9.7
Total	4,129.1	4,660.9	531.8	12.9

MANAGEMENT'S DISCUSSION & ANALYSIS

LOANS

The balance of Won-currency loans stood at more than ₩8.066 trillion at the end of 2002, up 27.1% (₩1.718 trillion) from a year earlier. Of this figure, household loans showed the highest year-on-year growth, soaring 69.5% (over ₩1.09 trillion) to exceed ₩2.67 trillion. Loans to small and medium-sized enterprises (SMEs) also increased 17.0% during the year to total more than ₩4.92 trillion at year's end. By contrast, loans to large corporations were down 19% for the year. SME loans remained the category in the loan portfolio, with a 61.1% share.



WON-CURRENCY LOANS BY SECTOR

(In billions of Korean won, %)

	2001	2002	Change YoY	Change(%)
Large corporations	214.6	172.0	-42.6	-19.9
SMEs	4,211.3	4,928.4	717.1	17.0
Household	1,577.3	2,673.8	1,096.5	69.5
Public, etc	345.7	292.7	-53.0	-15.3
Loans in Won	6,348.9	8,066.9	1,718.0	27.1

Breaking down the portfolio by industry, loans to wholesalers & retailers and construction firms increased significantly, while loans to other sectors changed little. Wholesalers & retailers received a total of ₩758.3 billion in loans, 22.6% (₩140 billion) higher than in 2002, while construction firms borrowed 20.2% (₩54.6 billion) more funds, which totaled ₩324.8 billion for the year. Loans to manufacturers also rose 7.7% (₩221.1 billion) to surpass ₩3.103 trillion. Textiles are the main manufacturing industry in the Daegu/North Gyeongsang region, and textile makers receive the most financial help from the Bank. In 2002, loans to these companies increased 2.2% (₩19.5 billion) to total ₩917.5 billion.

WON-CURRENCY LOANS BY BORROWER

(In billions of Korean won, %)

	2001		2002		Change YoY	
	Amt.	Pct.	Amt.	Pct.	Amt.	Pct.
Households	1,577.3	24.8	2,673.8	33.2	1,096.5	69.5
Manufacturing	2,882.0	45.4	3,103.1	38.5	221.1	7.7
(Textile makers)	(898.0)	(14.1)	(917.5)	(11.4)	(19.5)	(2.2)
Wholesalers & Retailers	618.3	9.7	758.3	9.4	140.0	22.6
Construction firms	270.2	4.3	324.8	4.0	54.6	20.2
Other	1,001.1	15.8	1,206.9	14.9	205.8	20.6
Total	6,348.9	100.0	8,066.9	100.0	1,718.0	27.1

Household loans saw the greatest growth year on year during 2002, with unsecured household loans increasing the most at 139.6% (₩602 billion) to more than ₩1.033 trillion. Collateralized loans, which represent the largest portion of the household loans granted by the Bank, also grew a robust 41.8% (₩476.2 billion) during 2002 to surpass ₩1.61 trillion.

On the other hand, the delinquency ratio for household loans fell 0.11%P to just 0.76%, and the NPL ratio was kept to a very low 0.69%. A provision of ₩40 billion for household loan losses was more than adequate for covering the ₩34.2 billion in household loans rated substandard or below.

MANAGEMENT'S DISCUSSION & ANALYSIS

HOUSEHOLD LOANS

(In billions of Korean won, %)

	2001	2002	Change YoY	Change(%)
Unsecured	431.3	1,033.3	602.0	139.6
Collateralized	1,138.7	1,614.9	476.2	41.8
Mortgage	896.1	1,259.4	363.3	40.5
(LTV Ratio)	(69.8)	(66.9)	(-2.9%P)	(-)
Guaranteed	7.3	25.6	18.3	250.7
Household loans	1,577.3	2,673.8	1,096.5	69.5

	Normal	Precautionary	Substandard	Doubtful	Estimated	Total
Household loans (A)	2,603.3	36.3	15.6	16.8	1.8	2,673.8
LLR (B)	19.5	2.9	3.1	12.7	1.8	40.0
(B)/(A)	0.75	8.0	20.0	75.0	100.0	1.49

CREDIT CARDS

The credit card business was strong in 2002, and the number of credit cardholders stood at 618,000 at year's end, up 97,000 from the year before. Also, 11,000 more merchants were honoring DGB credit cards at the end of 2002 than twelve months earlier.

Gross transaction volume jumped 46.8% (more than ₩1.16 trillion) year on year to surpass ₩3.65 trillion, while net fee income also grew 27.9% (₩21.1 billion) to total ₩96.8 billion). Credit card assets increased 28.9% (₩130.3 billion) to total ₩581 billion, and credit sales rose 27.5% (₩64.2 billion) to ₩297.3 billion. The delinquency ratio for the Bank's overall credit card business stood at 8.64% at the end of 2002, the lowest figure among the twelve BC Card member banks in Korea. This performance is the result of strict eligibility requirements when issuing new credit cards and a tightened Credit Scoring System to prevent poor credit risks from ever receiving one of the Bank's credit cards. The provision for credit card loan losses is set at ₩20.7 billion, more than the ₩20.1 billion in SBLs for the year.

CREDIT CARD TRANSACTIONS

(In billions of Korean won, %)

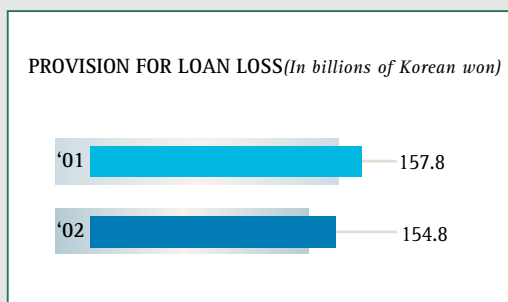
	2001	2002	Change YoY	Change(%)
Cardholders	521,000	618,000	97,000	18.6
Merchants	100,000	111,000	11,000	11.0
Gross volume	2,490.4	3,655.7	1,165.3	46.8
Net fee income	75.7	96.8	21.1	27.9
Credit card assets	450.7	581.0	130.3	28.9
Credit sales	233.1	297.3	64.2	27.5
Cash advances	160.1	218.0	57.9	36.2
Card loans	1.1	8.7	7.6	690.9
Affiliated cards, etc	56.4	57.0	0.6	1.1

	Normal	Precautionary	Substandard	Doubtful	Estimated	Total
Credit card assets (A)	537.4	23.5	0.2	18.5	1.4	581.0
LLR (B)	5.4	2.8		11.1	1.4	20.7
(B)/(A)	1.0	12.0	20.0	60.0	100.0	3.57

MANAGEMENT'S DISCUSSION & ANALYSIS

ASSET QUALITY & PROVISIONS

Total credit surpassed ₩9.55 trillion at the end of 2002, up 24.7% (more than ₩1.89 trillion) from the year before. At the same time, loans rated substandard and below dropped 23.7% (₩67.8 billion) year on year to ₩217.7 billion, lowering the SBL ratio fell 1.45%P to 2.28%. The provision for loan loss was set at ₩154.8 billion, ₩3 billion less than the 2001 figure, yet the sharp drop in SBLs improved the coverage ratio 15.8%P to 71.1%. The simultaneous reduction in SBLs and loan loss provision as well as higher coverage ratio was made possible by the Bank's aggressive approach to non-performing credit.



SBLs AND LOAN LOSS PROVISION

(In billions of Korean won, %)

	2001	2002	Change YoY	Change(%)
Total credit	7,661.4	9,551.8	1,890.4	24.7
Normal	7,066.8	9,085.9	2,019.1	28.6
Precautionary	309.1	248.2	-60.9	-19.7
Substandard	130.6	162.4	31.8	24.3
Doubtful	145.7	48.4	-97.3	-66.8
Estimated loss	9.2	6.9	-2.3	-25.0
PLBs	594.4	465.9	-128.5	-21.6
PBL ratio	7.76	4.88	-2.88%P	-
SBLs	285.5	217.7	-67.8	-23.7
SBL ratio	3.73	2.28	-1.45%P	-
Provision for loan loss	157.8	154.8	-3.0	-1.9
Coverage ratio	55.3	71.1	15.8%P	-

FUND-RAISING PORTFOLIO

Total liabilities surpassed ₩15.3 trillion at the end of 2002, which was 9.4% (more than ₩1.31 trillion) higher than a year earlier. Equity also rose 27.1% (₩151.8 billion) to reach ₩712.2 billion. Deposits represented 73.3% of all funds raised by the Bank, up 1.4%P year on year, and deposits surpassed ₩11.73 trillion by the end of 2002, a 12.3% increase (more than ₩1.28 trillion) for the year. Total borrowings exceeded ₩2.49 trillion, an increase of ₩246.8 billion year on year, while bonds fell 24.9% (₩108.6 billion) to ₩327.7 billion in 2002.

FUND-RAISING

(In billions of Korean won, %)

	2001		2002		Change YoY	
	Amt.	Pct.	Amt.	Pct.	Amt.	Pct.
Deposits	10,455.5	71.9	11,737.3	73.3	1,281.8	12.3
Borrowings	2,246.5	15.4	2,493.3	15.6	246.8	11.0
Bonds	436.3	3.0	327.7	2.1	-108.6	-24.9
Others	852.7	5.9	717.0	4.4	-135.7	-15.9
Total Liabilities	13,991.0	96.1	15,308.3	95.5	1,317.3	9.4
Equity	560.4	3.9	712.2	4.5	151.8	27.1
Total	14,551.4	100.0	16,020.5	100.0	1,469.1	10.1

MANAGEMENT'S DISCUSSION & ANALYSIS

CAPITAL ADEQUACY

Conversion of overseas CBs helped to boost core capital 21.4% (₩124.5 billion) to ₩705.4 billion at the end of 2002. However, supplementary capital was only up slightly year on year to reach ₩272 billion. Total equity capital rose 15.4% (₩130.2 billion) to ₩976.6 billion, but the expansion in the Bank's operational scale caused risk-weighted assets to surge more than ₩1.316 trillion to surpass ₩9 trillion. As a result, the BIS capital adequacy ratio dropped 0.16%P to 10.85%, but this figure was still among the highest of all Korean banks and far higher than the 8% requirement by the FSS.

BIS RATIO

(In billions of Korean won, %)

	2001	2002	Change YoY	
			Amt.	Pct.
Core capital	580.9	705.4	124.5	21.4
Supplementary capital	266.3	272.0	5.7	2.1
Total equity capital	846.4	976.6	130.2	15.4
Risk-weighted assets	7,684.3	9,001.0	1,316.7	17.1
Tier1 capital	7.56	7.84	0.28%P	-
Tier2 capital	3.47	3.02	-0.45%P	-
BIS capital ratio	11.01	10.85	-0.16%P	-
Equity-to-asset ratio	3.86	4.45	0.59%P	-

TRUST ACCOUNTS

The trust assets shrank 1.9% (₩29.1 billion) during 2002 to just over ₩1.515 trillion. Securities, which made up the largest share of the trust portfolio, actually increased 1.3% (₩15.1 billion) year on year to ₩1.199 trillion. Not much change was seen in fundraising activities, with money trusts edging down 0.8% (₩11.4 billion) to ₩1.445 trillion. Trust operating revenue fell 20.5% (₩32.7 billion) to ₩123.5 billion year on year, although interest revenue remained about the same as in 2001. Operating expenses also dropped 21.5% (₩30 billion) to ₩109.6 billion. Interest expenses in 2002 did not change from the previous year but other operating expenses fell ₩26.7 billion to ₩28.1 billion. As a result, trust fees and commissions were down 16.3% (₩2.7 billion) from 2001 to ₩13.9 billion.

TRUST ACCOUNTS

(In billions of Korean won, %)

	2001	2002	Change YoY	Change(%)
Total revenues	156.2	123.5	-32.7	-20.9
Interest revenue	103.5	101.1	-2.4	-2.3
Other operating revenues	52.7	22.4	-30.3	-57.5
Total expenses	139.6	109.6	-30.0	-21.5
Interest expense	84.7	81.2	-3.5	-4.1
Commission expense	0.1	0.3	0.2	200.0
Other operating expenses	54.8	28.1	-26.7	-48.7
Trust fees & commissions	16.6	13.9	-2.7	-16.3
Total trust assets	1,544.7	1,515.6	-29.1	-1.9
Securities	1,183.9	1,199.0	15.1	1.3
Loans & discounts	166.6	165.3	-1.3	-0.8
Money in trust	1,456.4	1,445.0	-11.4	-0.8

INDEPENDENT AUDITORS' REPORT

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

Ahn Kwon

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**Deloitte
Touch
Tohmatsu**

We have audited the accompanying non-consolidated balance sheets of The Daegu Bank, Ltd. (the "Bank") as of December 31, 2002 and 2001, and the related non-consolidated statements of income, appropriations of retained earnings (disposition 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 the Republic of 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, 2002 and 2001, 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 the Republic of Korea

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

As explained in Note 24 to the accompanying financial statements, the Bank transferred loans with recourse to Korea Asset Management Corporation. As of December 31, 2002, ₩45.3 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.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-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 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.



January 16, 2003

► Notice to Readers

This report is defective as of January 16, 2003, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

NON- CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

(In millions of Korean won)

	2002	2001
ASSETS		
Cash and due from banks (Note 3)	₩ 1,561,692	₩ 1,303,145
Trading securities (Notes 2 and 4)	284,408	36,589
Investment securities (Notes 2 and 5)	4,376,548	4,092,487
Loans (Note 6)	8,867,014	8,144,939
Fixed assets (Note 9)	348,484	348,071
Other assets	582,312	626,239
Total assets	16,020,458	14,551,470
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits (Note 11)	11,737,256	10,455,520
Borrowings (Note 12)	2,493,257	2,246,506
Debentures (Note 13)	327,700	436,276
Other liabilities	750,072	852,739
Total liabilities	15,308,285	13,991,041
Stockholders' Equity		
Common stock, par value ₩5,000		
Authorized - 300 million shares		
Issued and outstanding - 132.1 million shares	660,625	602,100
Capital surplus	12,328	-
Retained earning(Accumulated deficit)	59,030	(38,759)
Capital adjustments		
Stock options	447	282
Gain on valuation of investment securities	(20,257)	(2,815)
Other	-	(379)
Total stockholders' equity	712,173	560,429
Total liabilities and stockholders' equity	₩ 16,020,458	₩ 14,551,470

See notes to accompanying consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In millions of Korean won)

	2002	2001
OPERATING REVENUES		
Interest on due from banks	₩ 39,464	₩ 115,053
Interest on trading securities	12,189	7,172
Interest on investment securities	288,456	252,963
Interest on loans	628,283	581,787
Interest - other	15,906	17,647
Total interest income	984,298	974,622
Fees and commissions	116,392	125,925
Trading securities revenue	11,912	7,905
Investment securities revenue	325	657
Gain on foreign currency transaction	18,813	13,369
Trust account commission fees	14,870	17,851
Reversal of allowance for acceptance and guarantees	8,873	565
Other	6,991	3,230
Total operating revenue	1,162,474	1,144,124
OPERATING EXPENSES		
Interest on deposits	(364,427)	(442,535)
Interest on borrowings	(123,819)	(126,442)
Interest on debentures	(28,235)	(35,569)
Interest - other	(28,535)	(28,733)
Total interest expense	(545,016)	(633,279)
General and administrative expenses	(215,884)	(173,369)
Provision for loan losses	(165,105)	(81,745)
Commission charges	(15,668)	(9,860)
Depreciation and amortization	(20,933)	(19,032)
Trading securities expenses	(14,657)	(10,077)
Loss on foreign currency transaction	(9,216)	(5,051)
Other	(38,035)	(56,301)
Total operating expenses	(1,024,514)	(988,714)
Operating income	137,960	155,410
Non-operating expense	(6,760)	(124,727)
Income before income taxes	131,200	30,683
Income tax expense (Note18)	-	-
Net income	₩ 131,200	₩ 30,683
Basic net income per share (Note 19)	₩ 1,027	₩ 257
Diluted net income per share (Note 19) (In Korean won)	₩ 1,002	₩ 257

See notes to accompanying consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF DISPOSITION OF DEFICIT

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In millions of Korean won)

	2002	2001
Retained earnings retained earnings before appropriations (accumulated deficit before dispositions)		
Undisposed accumulated deficit carried over from prior years	₩ 38,759	₩ 69,442
Net income	131,200	30,683
Total	92,441	(38,759)
Appropriations of retained earnings		
Legal reserve	13,200	-
Reserve for business stabilization	747	-
Reserve for recapitalization	9,300	-
Other reserve	35,500	-
Losses on sale of treasury stock	379	-
Cash dividends (Note 27)	33,031	-
Total	92,157	-
Unappropriated retained earnings undisposed (Accumulated deficit)to be carried over to subsequent year	₩ 284	₩ (38,759)

See notes to accompanying consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In millions of Korean won)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	₩ 131,200	₩ 30,683
Addition of expenses not involving cash outflows	282,591	171,894
Deduction of revenues not involving cash inflows	(280,091)	(130,782)
Changes in assets and liabilities resulting from operations	53,826	(265,333)
Total	187,526	(193,538)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities :		
Disposal of securities	7,633,618	1,069,443
Disposal of premises and equipment	6,174	2,477
Decrease in other assets	11,604	12,470,338
	7,651,396	13,542,258
Cash outflows for investing activities :		
Acquisition of securities	(8,160,814)	(1,249,299)
Acquisition of premises and equipment	(36,410)	(31,478)
Increase in other assets	(7,015)	(12,530,547)
	(8,204,239)	(13,811,324)
Total	(552,843)	(269,066)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities		
Increase in borrowings	4,531,914	12,220,800
Increase in other liabilities	13,013,442	11,657,127
	17,545,356	23,877,927
Cash outflows for financing activities		
Repayment of borrowings	(4,631,692)	(12,034,234)
Decrease in other liabilities	(13,021,216)	(12,393,195)
	(17,652,908)	(24,427,429)
Total	(107,552)	(549,502)
NET INCREASE (DECREASE) IN CASH	(472,869)	(1,012,106)
CASH AT THE BEGINNING OF THE YEAR	1,121,135	2,133,242
CASH AT THE END OF THE YEAR (Note28)	₩ 648,266	₩ 1,121,136

See notes to accompanying consolidated financial statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

1. GENERAL

The Daegu Bank, Ltd. (the "Bank") was established on October 7, 1967 to engaged in commercial banking and foreign exchange activities. The Bank's head office is located in Daegu City and it has 146 branches and 31 mini-branches in Daegu and North Kyongsang Province and 5 other branches in other provinces including Seoul as of December 31, 2002. The Bank's shares were listed on Korea Stock Exchange on May 12, 1972. The Bank's outstanding common stock (par value 5,000 won) totaled ₩660 billion as of December 31, 2002. The Bank's total deposit was ₩14,496 billion as of December 31, 2002.

2. THE BASIS OF FINANCIAL STATEMENT PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank's financial statement were prepared in accordance with the financial accounting standards generally accepted in the Republic of Korea and the accounting for banking institutions. The significant accounting policies followed by the Bank in the preparation of its financial statements are summarized below.

a. Basis of Financial Statement Presentation

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 Company 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 restricted and translated into English from the Korean language financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

b. Translation of Foreign Currency Assets and Liabilities

Except for Swap and other futures transactions with the Bank of Korea where the exchange is predetermined, all other monetary assets and liabilities denominated in foreign currency are translated into Korean Won at the Base Rates announced by the Korean government on the balance sheet date, which were, for US dollars ₩1,200.4 : US\$1 and ₩1,326.1:US\$1 at December 31, 2002 and 2001, respectively. Gains or losses arising from the translation of foreign currency assets and liabilities are charged or credited to current operations.

c. Allowances 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.

i) Allowances are determined by applying at minimum the following rates to the outstanding balances of each credit risk classification.

Credit risk classification	Allowance rate
Normal	0.5~1.0%
Precautionary	2~12%
Sub-standard	20%
Doubtful	50~60%
Estimated loss	100%

ii) The Bank records allowances for losses on outstanding guarantees and acceptances according to future estimated losses.(see Note 14)

d. Valuation of Trading Securities and Investment Securities.

Marketable securities held for short-term capital gain purposes, which exclude stocks issued by affiliates, are classified as trading securities. Securities that are not classified as trading securities are classified as investment securities. Trading securities and investment securities are initially recorded at cost using the moving average method.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

Valuation methods used for the Bank's trading and investment securities are summarized as follows:

	Valuation method	Recognition of unrealized gains and losses
Trading securities	Fair value	Net income
Investment securities		
Stock Market Stabilization Fund and Bond Market Stabilization Fun	Fair value	Net income
Available-for-sale securities and marketable equity securities	Fair value	Capital adjustments
Held-to-maturity securities and non -marketable equity securities	Cost	N/A
Investment in affiliates	Equity method	Net income, retained earnings, or capital adjustment according to sources of the gain or loss

If the fair values of the investment securities are significantly below the book and are anticipated to be not recoverable, impairment losses are charged in current operations.

e. Restructured Loans

Restructured loans, whose terms, including principal, interest and 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 normal 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.

f. Accrued Severance Indemnities

In accordance with the Bank's policy and the Korean Labor Standards Law, all employees with more than one year of service are entitled to severance indemnity payments upon termination of their employment, based on their current rates of salary and length of service. The accrual for severance indemnities is computed as if all employees were to terminate at the balance sheet date.

Total accrued severance indemnities as of December 31, 2002 and 2001 were ₩82,536 million and ₩84,759 million, respectively. In accordance with the Korean National Pension Fund Law, the Bank transferred a portion of its accrued severance indemnities to the National Pension Fund through March 1999. Such transfers are deducted from accrued severance indemnities. During the years ended December 31, 2002 and 2001, actual severance and retirement payments totaled 24,561 million and ₩29,235 million, respectively.

Funding of severance indemnities is not required. However, the Bank has insured a portion of its obligations for are severance indemnities by making deposits with Samsung Life Insurance Co., Ltd. and Pusan Bank and these deposits presented as deductions from accrued severance indemnities.

g. Fixed Assets

Fixed assets are stated at acquisition cost. Major renewals and betterments, which prolong the useful life or enhance the value of assets, are capitalized, expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation is computed using the declining balance method(the straight-line method for building, structure and leasehold improvement) over the useful lives.

h. Fixed Assets Purchased and sold under Installment payment Arrangement

For fixed assets purchased under installment payment arrangements where the installment period is over 1 year, the Company records the related assets and liabilities at present value and difference between the nominal value and the present value of the related assets and liabilities are charged to current operations

i. Valuation Allowance for Non-business Use Property

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

j. Accrued Interest Income

Accrued interest income on loans with low probability of recovery such as delinquent loans (including domestic usance) receivables from customers who dishonored notes or checks, and advanced payments on acceptance and guarantees are not accounted for.

k. Deferred Income Tax

Deferred tax assets and liabilities are recorded for future tax consequences of operating loss carry forwards, tax credits and temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

3. DUE FROM BANKS

a. Cash and due from banks at December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
(Due from banks in Korean won)		
The Bank of Korea	₩ 913,426	₩ 182,009
Banks	148,000	455,285
Others	230,015	269,230
	₩ 1,291,441	₩ 906,524
(Due from banks in foreign currency)		
The Bank of Korea	₩ 2,910	₩ 2,286
Banks	2,007	1,308
Foreign banks	4,542	13,173
	₩ 9,459	₩ 16,767

b. Deposits restricted for use as of December 31, 2002 and 2001 are as follows :

(In millions of Korean won)

	2002	2001
Due from the Bank of Korea	₩ 913,426	₩ 182,009

4. TRADED SECURITIES

a. Traded securities as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

2002	Face value	Beginning balance amount (a)	Balance sheet amount (b)	Valuation gain (loss)
Stocks	₩ -	₩ 7,821	₩ 6,915	₩ (906)
Bonds issued by financial institutions	30,000	29,762	30,350	588
Corporate bonds	155,000	155,587	156,174	587
Beneficiary certificates	-	-	-	-
Other	90,000	91,867	90,969	(898)
	₩ 275,000	₩ 285,037	₩ 284,408	₩ (629)

(a) Beginning balance amounts are the ending balance sheet amounts in the prior year or acquisition costs.

(b) Bonds were valued using the basic-yield-ratio of the Korea Securities Dealers Association

2001	Face value	Beginning balance amount (a)	Balance sheet amount (b)	Valuation gain (loss)
Stocks	₩ -	₩ 5,806	₩ 7,144	₩ 1,338
Government Bonds	10,000	10,068	10,003	(65)
Bonds issued by Financial Institutions	10,000	9,452	9,422	(30)
Corporate Bonds	-	-	-	-
Beneficiary certificates	10,000	10,000	10,020	20
Other	-	-	-	-
	₩ 30,000	₩ 35,326	₩ 36,589	₩ 1,263

(a) Beginning balance amounts are the ending balance sheet amounts in the prior year or acquisition costs.

(b) Bonds were valued using the basic-yield-ratio of the Korea Securities Dealers Association

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

b. Classifications by issuers of trading securities as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

i) Bonds

	2002		2001	
	Amounts	Ratio (%)	Amounts	Ratio (%)
Government and public	₩ 90,968	32.78	₩ 10,003	33.97
Financial institution	30,350	10.94	19,442	66.03
Corporate	156,175	56.28	-	-
	₩ 277,493	100.00	₩ 29,445	100.00

ii) Stock

	2002		2001	
	Amounts	Ratio (%)	Amounts	Ratio (%)
Manufacture	₩ 5,397	78.05	₩ 2,237	31.32
Wholesale and retail	329	4.76	3,993	55.89
Other	1,189	17.19	914	12.79
	₩ 6,915	100.00	₩ 7,144	100.00

5. INVESTMENT SECURITIES

a. Investment securities as of December 31, 2002 and 2001 are as follows (in millions of Korean won)

2002	Number of shares	Ownership (%)	Beginning balance (a)	Fair value or net asset value	Balance sheet amount
(Un-listed Securities)					
Daegu Credit Information Co., Ltd.	159,970	53.32	₩800	₩1,262	₩800
Korea Lease Financing Co., Ltd.	891,411	22.29	-	-	-
Daegu Mutual Financial and Saving Co., Ltd.	210,000	14.69	-	-	-
SK Investment Trust Management Co., Ltd.	600,000	10.00	3,000	3,380	3,000
Kyong Buk Trading Corp	60,000	10.00	300	279	300
Ilsung Engineering	769,230	9.80	1,000	1,514	1,000
Tovis	200,000	4.50	600	265	600
KMA Consulting	30,000	3.75	150	216	150
Kiwoom. Com Co., Ltd.	300,000	3.00	1,500	1,544	1,500
Newcore Department	158,831	3.32	756	-	756
Daewoo Electronics Co., Ltd.	3,062,711	3.20	15,314	9,049	5,671
BC card Co., Ltd.	87,120	1.98	792	2,606	792
Daegu Bank Finance Co., Ltd.	279,920	1.25	-	-	-
TINC	10,000	1.25	50	49	50
National Information and Credit Evaluation, Inc	41,200	0.87	206	408	206
Korea Asset Management Corporation	152,000	0.54	760	934	760
Daegu World Trade Center	115,461	0.53	577	732	577
Korea Housing Guarantee Co., Ltd.	2,577,800	0.44	1,804	2,885	1,804
Korea Securities Depository	1,512	0.04	22	116	22
Woobang Co., Ltd.	55	-	-	-	-
Korea Securities Finance. Corp.	2,008	-	10	13	10
Daegu F.C.	300,000	11.70	1,500	1,500	1,500
Chung Gu Co., Ltd.	1,106,196	-	5,531	-	-
Kohap Co., Ltd.	1,722,600	-	-	-	-
Seoguang Co., Ltd.	20,951	-	-	-	-
Others	23,136	-	116	290	116
Sub total	12,882,112		34,788	27,042	19,614
(Listed Securities)					
Hyundai Engineering & Construction Co., Ltd. etc.	10,196,878	-	52,736	21,055	21,055
Total	23,078,990		₩87,524	₩48,097	₩40,669

(a) Beginning balance amounts are the ending balance sheet amounts in prior year or acquisition costs.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

2001	Number of shares	Ownership (%)	Beginning balance (a)	Fair value or net asset value	Balance sheet amount
(Affiliated Securities)					
Binext hitech Co.	12,392,460	30.98	₩ 10,512	₩ 12,546	₩12,546
Korea Lease Financing Co., Ltd.	891,411	22.29	-	-	-
Daegu Credit Information Co., Ltd.	159,970	53.32	800	800	800
Sub total	13,443,841		11,312	13,346	13,346
(Un-listed Securities)					
Daegu Mutual Financial and Saving Co., Ltd	210,000	14.68	-	-	-
Daegu Bank Finance Co., Ltd.	279,920	14.00	-	-	-
SK Investment Trust Management Co., Ltd.	600,000	10.00	3,000	3,358	3,000
Kyong Buk Trading Corp	60,000	100.00	300	248	300
Ilsung Engineering	76,923	9.83	1,000	1,354	1,000
Tovis	200,000	6.29	600	25	600
KMA Consulting	30,000	3.75	150	212	150
Kiwoom. Com Co., Ltd.	300,000	3.00	1,500	1,271	1,500
Newcore Department	158,831	2.56	756	389	756
BC card Co., Ltd.	87,120	1.98	792	1,830	792
TINC	10,000	1.25	50	28	50
National Information and Credit Evaluation, Inc	41,200	0.87	206	350	206
Korea Asset Management Corporation	152,000	0.54	760	836	760
Daegu World Trade Center	115,461	0.53	577	535	577
Korea Housing Guarantee Co., Ltd.	2,577,800	0.44	2,950	2,240	1,804
Korea Securities Depository	1,512	0.04	22	101	22
Korea Securities Finance. Corp.	2,008	-	10	12	10
Others	23,134	0.93	116	249	116
Sub total	4,925,909		12,789	13,038	11,643
(Listed Securities)					
Hyundai Engineering & Construction Co., Ltd. etc.	12,462,408	-	64,772	27,198	27,198
Total	30,832,158		₩ 88,873	₩ 53,582	₩52,187

(a) Beginning balance amounts are the ending balance sheet amounts in prior year or acquisition costs.

b. Investment bonds in Korean Won as of December 31, 2002 and 2001 are as follows (in million of Korean won) :

2002	Face value	Beginning balance(a)	Amount after adjusted by using interest rate	Balance sheet amount(b)
Available-for-sale bonds				
Government bonds	₩398,837	₩415,365	₩409,888	₩421,394
Bonds issued by financial institutions	680,000	647,481	648,062	647,486
Corporate bonds	223,836	204,670	204,233	204,816
Beneficiary certificates	304,187	304,187	304,187	285,115
Other	344,484	347,293	344,534	347,530
Sub total	1,951,344	1,918,996	1,910,904	1,906,341
Held-to-maturity bonds				
Government bonds	1,660,895	1,548,922	1,568,175	1,568,175
Bonds issued by financial institutions	107,850	107,548	107,684	107,684
Corporate bonds	274,668	274,932	274,332	274,332
Beneficiary certificates	-	-	-	-
Other	418,905	428,690	425,363	425,363
Sub total	2,462,318	2,360,092	2,375,554	2,375,554
Total	₩4,413,662	₩4,279,088	₩4,286,458	₩4,281,895

(a) Beginning balance amounts are the ending balance sheet amounts in prior year or acquisition costs.

(b) Bonds were valued using the basic-yield-ratio of the Korea Securities Dealers Association.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

2001	Face value	Beginning balance(a)	Amount after adjusted by using interest rate	Balance sheet amount(b)
Available-for-sale Bonds				
Government Bonds	₩ 558,610	₩ 566,762	₩ 566,484	₩ 582,515
Bonds issued by Financial Institutions	301,913	297,121	296,458	297,021
Corporate Bonds	92,931	91,828	91,759	91,721
Beneficiary certificates	15,315	15,315	15,315	15,255
Other	429,675	419,162	416,840	424,616
Sub total	1,398,444	1,390,188	1,386,856	1,411,128
Held-to-Maturity Bonds				
Government Bonds	1,107,782	1,059,046	1,064,799	1,064,799
Bonds issued by Financial Institutions	291,640	286,441	288,137	288,137
Corporate Bonds	383,549	367,241	367,430	367,430
Beneficiary certificates	417,500	417,500	417,500	417,500
Other	434,720	446,637	446,378	446,378
Sub total	2,635,191	2,576,865	2,584,244	2,584,244
Total	₩ 4,033,635	₩ 3,967,053	₩ 3,971,100	₩ 3,995,372

(a) Beginning balance amounts are the ending balance sheet amounts in prior year or acquisition costs.

(b) Bonds were valued using the basic-yield-ratio of the Korea Securities Dealers Association.

c. Investment securities in foreign currency as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

(2002)

	Face value	Beginning balance (a)	Balance sheet amount
Hyundai Motor Company	₩ 6,002	₩ 6,591	₩ 6,059
Samsung America Inc.	6,002	6,598	5,972
SK Chemicals	6,002	5,948	5,942
BNP Paribas (b)	12,004	13,261	12,004
LG Investment & Securities	12,004	12,255	12,004
SCB (C)	12,004	12,004	12,004
Total	₩ 54,018	₩ 56,657	₩ 53,985

(a) Beginning balance amount are the ending balance sheet amounts in prior year or acquisition costs.

(b) Issuer : BNP Paribas

Total Amount : US\$ 10,000,000

Contract date : December 6, 2001

Maturity date : December 6, 2004

Credit linked enterprise : Korea Electric Power Corporation, PO Steel Co., Ltd., Korea Telecom,

Samsung Electronic Co., Ltd.

Recorded as investment securities (foreign currency) and credit derivatives sold in off-balance sheet guarantee.

(c) Issuer : Standard Chartered Bank

Total Amount : US\$ 10,000,000

Contract date : October 25, 2002

Maturity date : October 25, 2005

Credit linked enterprise : SK Co., Ltd.

Recorded as investment securities (foreign currency) and credit derivatives sold in off-balance sheet guarantee.

(2001)

	Face value	Beginning balance (a)	Balance sheet amount
Sakura Capital Funding Ltd.	₩ 6,630	₩ 6,299	₩ 6,631
PT Peraburan Cindonesia	4,774	4,535	4,774
Shin Han Bank	4,042	3,732	4,002
United Communication	3,072	3,531	3,072
Hyundai Motor Company	6,629	6,513	6,591
Samsung America Inc.	6,630	6,480	6,597
BNP Paribas	13,261	12,710	13,261
Total	₩ 45,038	₩ 43,800	₩ 44,928

(a) Beginning balance amount are the ending balance sheets in amount in prior year or acquisition costs.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

d. Loss on investment securities impairment as of December 31, 2002 is as follows (in millions of Korean won)

	Amount before impairment	Amount after impairment	Loss on impairment
(Stock)			
Cheung Gu Co., Ltd.	₩ 5,531	₩ -	₩ 5,531
Daewoo Electronics Co., Ltd.	9,643	-	9,643
Ssangyong Engineering & Construction Co., Ltd.	2,071	51	2,020
Kia Steel Co., Ltd.	182	45	136
Shinbocapital Co., Ltd.	22	3	19
Kunyoung Co., Ltd.	234	83	152
Kabool Co., Ltd.	21,358	9,298	12,060
Shinwon Co., Ltd.	2,056	1,032	1,024
Korea Titanium Association	1,556	593	963
Miju Steel Co., Ltd.	1,028	247	781
Ishin Stone Co., Ltd.	618	256	362
Jindo Co., Ltd.	432	114	318
Koram Capital Co., Ltd.	332	56	276
Hanil Synthetic Fiber Co., Ltd.	475	197	278
Sub total	45,538	11,975	33,563
(Bonds)			
Daewoo Heavy Industrie & Machinery, Ltd.	400	320	80
Ssangyong Cement Industrial. Co., Ltd.	440	418	22
Hynix Semiconductor Co., Ltd.	41	10	31
Hyundai Engineering & Construction Co., Ltd.	1,048	996	52
Sub total	1,929	1,744	185
Total	₩ 47,467	₩ 13,719	₩ 33,748

e. Issuer of investment securities in Korean won as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002		2001	
	Amounts	Ratio (%)	Amounts	Ratio (%)
(Bonds)				
Government and public	₩ 2,757,732	64.40	₩ 2,631,310	65.86
Financial institution	755,170	17.64	877,684	21.97
Corporate	479,148	11.19	479,172	11.99
Others	289,844	6.77	7,206	0.18
Total	₩ 4,821,894	100.00	₩ 3,995,372	100.00
(Stock)				
Manufacture	₩ 26,889	66.12	₩ 22,441	43.00
Construction	888	2.18	4,990	9.56
Wholesale and retail	1,055	2.59	1,745	3.34
Others	11,837	29.11	23,011	44.10
Total	₩ 40,669	100.00	₩ 52,187	100.00

f. Investment securities in foreign currency as of December 31, 2002 and 2001 are as follows (in millions of Korean won or thousands of US dollars)

i) By issuer

	2002			2001		
	Amount in foreign currency	Amount in Korean won	Ratio (%)	Amount in foreign currency	Amount in Korean won	Ratio (%)
Financial institution	\$30,000	₩ 36,012	66.71	\$18,018	₩ 23,893	53.18
Corporate	14,973	17,973	33.29	15,862	21,035	46.82
Total	\$44,973	₩ 53,985	100.00	\$33,880	₩ 44,928	100.00

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

ii) By geography

	2002			2001		
	Amount in foreign currency	Amount in Korean won	Ratio (%)	Amount in foreign currency	Amount in Korean won	Ratio (%)
Korea	\$24,973	₩ 29,977	55.52	\$12,963	₩ 17,190	38.26
Tailand	-	-	-	2,317	3,072	6.84
Indonesia	-	-	-	3,600	4,774	10.63
Japan	-	-	-	5,000	6,631	14.76
France	10,000	12,004	22.24	10,000	13,261	29.51
England	10,000	12,004	22.24	-	-	-
Total	\$44,973	₩ 53,985	100.00	\$33,880	₩ 44,928	100.00

iii) By currency type

	2002			2001		
	Amount in foreign currency	Amount in Korean won	Ratio (%)	Amount in foreign currency	Amount in Korean won	Ratio (%)
USD	\$44,973	₩53,985	100.00	\$33,880	₩44,928	100.00

g. Investment securities pledged at various institutions as of December 31, 2002 are as follows (in millions of Korean won) :

	Pledged value	Balance sheet amount
Bank of Korea borrowings	₩ 129,300	₩ 126,602
Sale of non-performing loans	17,000	9,108
Foreign currency transactions	89,400	91,496
Sale of RP (Bonds under repurchase agreements)	-	-
Total	₩ 235,700	₩ 227,206

h. Gains (losses) on valuation of investment securities as of December 31, 2002 and 2001 are as follows (in millions of Korean won)

	2002	2001
Investment stock	₩ (15,795)	₩ (26,977)
Investment bond	(4,462)	24,162
Gains/losses on valuation of investment securities	₩ (20,257)	₩ (2,815)

6. LOANS

a. Loans in local currency as of December 31, 2002 and 2001 are as follows (in millions of Korean won)

Account	Detail account	2002	2001
Loans to enterprises	Operation loans	₩ 3,940,784	₩ 3,579,286
	Facility loans	1,159,586	846,663
	Sub total	5,100,370	4,425,949
Loans to households	General loans	2,593,526	1,537,417
	Housing loans	69,090	30,466
	Others	11,165	9,403
	Sub total	2,673,781	1,577,286
Loans to public sectors and others	Operation loans	80,802	121,424
	Facility loans	136,548	138,714
	Sub total	217,350	260,138
Loans to other banks		75,396	85,520
Total		₩ 8,066,897	₩ 6,348,893

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

b. Loan to financial institutions as of December 31, 2002 and 2001 are as follows (in millions of Won)

(2002)

	The Bank of Korea	Bank	Other financial institutions	Total
Loans in Korean won	₩ -	₩ 75,396	₩ 68,527	₩ 143,923
Loans in foreign currency	-	-	6,340	6,340
Call loan in Korean won	-	1,106	-	1,106
Call loan in foreign currency	-	1,722	-	1,722
Bonds purchased under repurchase agreements	-	-	10,000	10,000
Total	₩ -	₩ 78,224	₩ 84,867	₩ 163,091

(2001)

	The Bank of Korea	Bank	Other financial institutions	Total
Loans in Korean won	₩ 227,200	₩ 85,600	₩ 32,800	₩ 345,600
Loans in foreign currency	-	-	17,700	17,700
Call loan in Korean won	-	480,100	85,000	565,100
Call loan in foreign currency	-	1,900	-	1,900
Bonds purchased under repurchase agreements	-	-	629,000	629,000
Total	₩ 227,200	₩ 567,600	₩ 764,500	₩ 1,559,300

c. Loan risk concentrations by industry as of December 31, 2002 and 2001 are as follows (in millions of Korean won)

	2002		2001	
	Amounts	Ratio (%)	Amounts	Ratio (%)
Manufacture	₩ 31,031	38.47	₩ 28,820	45.39
Construction	3,248	4.03	2,702	4.26
Wholesale and retail	7,583	9.40	6,183	9.74
Financial services and insurance	1,533	1.90	1,596	2.51
Others	10,536	13.05	8,415	13.26
Sub total	53,931	66.85	47,716	75.16
Households	26,738	33.15	15,773	24.84
Total	₩ 80,669	100.00	₩ 63,489	100.00

7. ALLOWANCE FOR LOAN LOSSES

a. Allowances for loan losses and their respective credit risk classifications as of December 31, 2002 and 2001 are as follows (in millions of Korean won)

	2002			2001		
	Amount(b)	Allowance rate	Allowance for loan losses	Amount(b)	Allowance rate	Allowance for loan losses
Normal loans	₩ 8,501,385	0.75%	₩ 63,922	₩ 6,500,480	0.48%	₩ 31,366
Precautionary loans	243,642	6.16%	15,002	275,442	2.00%	5,509
Substandard loans	153,939	20.48%	31,521	118,975	20.00%	23,795
Doubtful loans	47,725	69.42%	33,133	126,827	56.35%	71,466
Uncollectible loans(a)	6,797	100.00%	6,797	8,892	100.00%	8,892
Total	₩ 8,953,488		₩ 150,375	₩ 7,030,616		₩ 141,028

(a) As of December 31, 2002 and 2001, written-off loans of which the statute of limitation did not expire amounted to ₩626,674 million and ₩496,140 million, respectively.

(b) This amount excludes loans given to other banks totaling ₩75,396 million and ₩85,520 million as of December 31, 2002 and 2001, respectively.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

b. Allowances for loan losses as of December 31, 2002 and 2001 are as follows (in millions of Korean won)

	2002	2001
Loans in Korean won	₩ 116,949	₩ 88,790
Loans in foreign currency	2,475	5,536
Advance payments on acceptances and guarantees	5,169	2,210
Bills bought in foreign currency	1,607	24,483
Credit card receivables	20,748	7,138
Privately placed bonds	925	11,819
Other bonds	2,502	1,052
Total	₩ 150,375	₩ 141,028

c. Allowance ratios for prior three years are as follows

Year	Total loans	Allowance for loan losses	Allowance ratio
2002	₩8,953,488	₩150,375	1.68%
2001	7,030,616	141,028	2.01%
2000	6,757,832	266,009	3.94%
Total	₩22,741,936	₩557,412	

d. Changes in allowance for loan losses are as follows (in millions of Korean won)

	2002	2001
January 1	₩ 141,028	₩ 266,009
Provision for losses	165,105	81,746
Repurchase of loans sold	21,511	11,348
Collection of written-off loans	27,798	26,460
Write-off	(173,899)	(123,707)
Sales of loans	(1,528)	(106,342)
Set-off from troubled debt restructuring	(29,640)	(14,386)
December 31	₩ 150,375	₩ 141,028

e. Overdue loans as of December 31, 2002 and 2001 are as follows (in millions of Korean won)

	2002	2001
Loans in Korean won	₩ 89,881	₩ 85,806
Loans in foreign currency	309	5,599
Advance payments on acceptances and guarantees	25,835	6,043
Others	56,478	66,317
Total	₩ 172,503	₩ 163,765

As of December 31, 2002 and 2001, loans under legal reorganizations are ₩93,751 million and ₩134,638 million, respectively.

8. RESTRUCTURED OF LOANS

a. Restructured loans due to the commencement of workout plans or other similar restructuring programs as of December 31, 2002 are as follows (in millions of Korean won)

	Balances before restructuring	Balances after restructuring	Present value discounts
Workout	₩ 45,476	₩ 31,950	₩ 13,526
Court receivership and mediation	46,787	32,801	13,986
Total	₩ 92,263	₩ 64,751	₩ 27,512

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

b. Change in present value discounts as of December 31, 2002 are as follows (in millions of Korean won) :

	Amount
Total amount	₩ 27,512
Amortization prior to 2002	(4,625)
Amortization in 2002	(4,213)
Balance sheet amount	₩ 18,674

9. TANGIBLE ASSETS

a. Tangible assets as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	Acquisition cost		Accumulated depreciation	
	2002	2001	2002	2001
Land	₩ 169,330	₩ 176,493	₩ -	₩ -
Buildings	154,226	151,965	18,038	14,372
Leasehold improvement	8,393	9,102	6,562	8,030
Operating movable properties	113,822	96,235	85,597	81,250
Construction in progress	589	944	-	-
Total	₩ 446,360	₩ 434,739	₩ 110,197	₩ 103,652

b. The total government-posted prices of land for tax imposition purpose as of December 31, 2002 and 2001 are as follows (in millions of Korean won)

	Size of land (m ²)		Book value		Appraisal value	
	2002	2001	2002	2001	2002	2001
Land	₩ 127,024	₩ 130,899	₩ 169,330	₩ 176,493	₩ 117,096	₩ 124,007

c. A assets insured as of December 31, 2002 are as follows (in millions of Korean won) :

Type	Account	Book value	Insurance amount	Coverage ratio
Fire Insurance	Building	₩ 136,188	₩ 138,235	101.50%
Fire Insurance	Movable property	28,225	27,158	96.22%
Fire Insurance	Leasehold improvement	1,831	1,847	100.87%
Fire Insurance	Leasehold deposits received	92,601	44,445	48.00%
	Total	₩ 258,845	₩ 211,685	81.78%

All vehicle are insured for comprehensive coverage (coverage ratio as of December 31, 2001 : 81.8%)

10. SUNDRY ASSETS AND LIABILITY

a. Sundry assets as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
Suspense receivable	₩ 3,317	₩ 1,745
Cash sent to other Banks	1,950	560
Expenditures	509	712
Deposit money to court	2,018	1,522
Derivatives instruments assets	315	171
Domestic exchange settlements debits	80,892	95,199
Loan to trust account	11,800	48,700
Other	-	1
Total	₩ 100,801	₩ 148,610

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

b. Sundry liabilities as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
Suspense receivable	₩ 4,934	₩ 116,641
Cash received from other banks	2,430	1,413
Deposit for credit control	5,409	4,450
Withholding taxes	8,998	7,799
Guarantee deposits for securities subscription	8,103	1,505
Account for agency businesses	44,317	39,527
Domestic exchange settlement credits	22,273	61,397
Derivatives instruments liabilities	1,146	223
Liability incurred by agency relationship	28,010	24,723
Lottery sold	11	36
Income tax payable	1,685	659
Others	154	159
Total	₩ 127,460	₩ 258,532

11. DEPOSITS

a. Deposits as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
(Deposits in local currency)		
Demand deposits	₩ 1,054,007	₩ 1,026,626
Savings deposits	9,247,405	8,288,604
Mutual installment savings	659,814	809,379
Mutual installment for housing	101,011	57,483
Sub total	11,062,237	10,182,092
(Deposits in foreign currency)		
Current deposits in foreign currency	501	2,043
Passbook deposits in foreign currency	56,992	35,849
Notice deposits in foreign currency	245	683
Time deposits in foreign currency	13,590	9,220
Temporary deposits in Foreign currency	29	36
Sub total	71,357	47,831
Certificate of deposit	603,662	225,597
Total	₩ 11,737,256	₩ 10,455,520

b. Deposits in local currency from other banks as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
Banks	₩ 2,968	₩ 500
Other financial institute	97,764	315,100
Total	₩ 100,732	₩ 315,600

12. BORROWINGS IN LOCAL CURRENCY

a. Borrowings in local currency as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
The Bank of Korea	₩ 277,544	₩ 387,596
Banks	201,400	278,448
Other financial institutions	501,000	50,000
Government and public	626,133	599,010
Total	₩ 1,155,077	₩ 1,315,054

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

b. Borrowing from other financial institutions as of December 31, 2002 and 2001 are as follows

2002	The Bank of Korea	Banks	Other financial institutions	Total
Borrowings in local currency	₩ 277,544	₩ 827,533	₩ 50,000	₩ 1,155,077
Borrowings in foreign currency	-	99,275	-	99,275
Due to Bank of Korea in foreign currency	11,020	-	-	11,020
Call money	-	-	-	-
Total	₩ 288,564	₩ 926,808	₩ 50,000	₩ 1,265,372

2001	The Bank of Korea	Banks	Other financial institutions	Total
Borrowings in local currency	₩ 379,800	₩500	₩ 50,000	₩ 430,300
Borrowings in foreign currency	-	109,900	-	109,900
Due to Bank of Korea in foreign currency	32,000	-	-	32,000
Call money	-	30,000	120,000	150,000
Total	₩ 411,800	₩ 140,400	₩ 170,000	₩ 722,200

13. DEBENTURES

Debentures as of December 31, 2002 are as follows (in millions of Korean won) :

	Issuance date	Maturity date	Coupon rate	Amount
2 nd subordinated debentures	1999. 6.17	2004.12.31	floating rate	₩ 100,000
4 th subordinated debentures	2000. 4.26	2005. 7.26	10.50%	93,172
4 th subordinated debentures	2000. 4.26	2005. 7.26	10.20%	26,828
5 th subordinated debentures	2001. 3.26	2007 .1.26	8.50%	50,000
6 th subordinated debentures	2002.11.26	2008. 2.26	6.50%	55,000
				325,000
Premium in debentures				2,700
				₩ 327,700

* Convertible debentures were all converted in this year.

14. ALLOWANCES FOR OUTSTANDING GUARANTEES AND ACCEPTANCES

Allowances for outstanding guarantees and acceptance as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002		2001	
	Guaranteed Amount	Allowances for guarantees and acceptance	Guaranteed Amount	Allowances for guarantees and acceptance
Normal guarantees	₩ 133,521	₩ -	₩ 213,860	₩ -
Doubtful guarantees	1,036	225	21,689	9,098
	₩ 134,557	₩ 225	₩ 235,549	₩ 9,098

Guarantee and acceptance are classified as either normal or doubtful ones. Doubtful guarantees are those that are assessed as substandard or below (precautionary if legal reorganization process is in progress) and the Bank applied the same allowance ratios as the loans.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

15. COMMON STOCK

Common stock as of December 31, 2002 are as follows

a. Authorized Shares	:	300,000,000 shares
b. Issued Shares	:	132,125,000 shares
c. Price per Shares	:	5,000 Won
d. Capital	:	660,625,000,000 Won
e. Details of change in capital during the year ended December 31, 2002 are as follows		

Date	Capital	Additional paid-in capital	Number of shares	
2002. 1. 1	₩ 602,100	₩ -	120,420,000	
2002. 4.30	24,581	5,116	4,916,100	Convertible bonds converted
2002. 5.31	33,944	7,212	6,788,900	Convertible bonds converted
2002.12.31	₩ 660,625	₩ 12,328	132,125,000	

16. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

Assets and liabilities in foreign currencies as of December 31, 2002 and 2001 are as follows (in millions of Korean won or thousands of Dollar) :

	2002		2001	
	Foreign currency	Local currency	Foreign currency	Local currency
(Assets)				
Foreign currency	\$7,830	₩ 9,399	\$8,306	₩ 11,014
Due from in foreign currency	7,880	9,459	12,644	16,767
Investment securities in foreign currency	44,973	53,985	33,880	44,928
Loans in foreign currency	161,319	193,647	71,479	94,788
Call loans in foreign currency	1,435	1,722	1,446	1,918
Bills bought in foreign currency	68,831	82,625	74,033	98,175
Total	\$292,268	₩ 350,837	\$201,788	₩ 267,950
(Liabilities)				
Deposits in foreign currency	\$59,444	₩ 71,357	\$36,070	₩ 47,832
Borrowings in foreign currency	199,615	239,618	135,298	179,419
Due to Bank of Korea in foreign currency	9,180	11,020	24,125	31,992
Call money in foreign currency	-	-	5,500	7,294
Debentures in foreign currency	-	-	50,000	58,525
Foreign exchanges payable	1,914	2,297	670	888
Deposits received in foreign currency	7,456	8,950	4,548	6,031
Total	\$277,609	₩ 333,242	\$256,211	₩ 331,981

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

17. CLASSIFICATION OF ASSETS AND LIABILITIES BY MATURITY

Classifications of assets and liabilities by maturity as of December 31, 2002 and 2001 are as follows (in hundred millions of Korean won) :

(2002)

	Less than six months	Less than one year	Less than three years	Greater than three years	Total
(Assets)					
Due from in Korean won(a)	₩ 2,950	₩ 830	₩ -	₩ -	₩ 3,780
Due from in foreign currency	94	-	-	-	94
Marketable securities in Korean won	39,084	102	2,137	4,747	46,070
Marketable securities in foreign currency	300	-	240	-	540
Advance payments on acceptances and guarantees	23	-	-	258	281
Loans in Korean won(b)	28,692	24,287	18,678	9,023	80,680
Loans in foreign currency (c)	947	259	480	195	1,881
Total	₩ 72,090	₩ 25,478	₩ 21,535	₩ 14,223	₩ 133,326
(Liabilities)					
Deposits in Korean won	₩ 49,949	₩ 20,211	₩ 6,645	₩ 33,818	110,623
Deposits in foreign currency	468	6	239	-	713
Borrowings in Korean won	3,330	1,110	2,936	4,175	11,551
Borrowings in foreign currency(d)	1,207	226	1,010	8	2,451
Certificate of deposit	5,790	231	15	-	6,036
Total	₩ 60,744	₩ 21,784	₩ 10,845	₩ 38,001	₩ 131,374

(2001)

	Less than six months	Less than one year	Less than three years	Greater than three years	Total
(Assets)					
Due from in Korean won(a)	₩ 5,289	₩ 1,956	₩ -	₩ -	₩ 7,245
Due from in foreign currency	157	-	-	-	157
Marketable securities in Korean won	33,815	972	4,294	1,760	40,841
Marketable securities in foreign currency	264	-	-	-	264
Advance payments on acceptances and guarantees	37	-	-	60	97
Loans in Korean won(b)	31,127	19,121	11,270	7,622	69,140
Loans in foreign currency (c)	169	88	395	173	825
Total	₩ 70,858	₩ 22,137	₩ 15,959	₩ 9,615	₩ 118,569
(Liabilities)					
Deposits in Korean won	₩ 54,422	₩ 13,237	₩ 7,791	₩ 26,370	₩ 101,820
Deposits in foreign currency	465	13	-	-	478
Borrowings in Korean won	4,651	888	3,422	4,190	13,151
Borrowings in foreign currency(d)	916	16	524	20	1,476
Certificate of deposit	2,175	81	-	-	2,256
Total	₩ 62,629	₩ 14,235	₩ 11,737	₩ 30,580	₩ 119,181

(a) Except for reserve deposits.

(b) Including call loan in won.

(c) Except for off-shore loans in foreign currency.

(d) Including due to bank of Korea in foreign currency and except for off-shore borrowing in foreign currency

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

18. INCOME TAX EXPENSE

Income tax expense and deferred income assets (liabilities) for the years ended December 31, 2002 and 2001 are as follows (in millions of Korean won) :

a. Differences between taxable income and accounting income for the years ended December 31, 2002 and 2001 are as follows (in millions of Korean won).

(2002)

	Temporary difference	Permanent difference	Total
a) additions			
Accrued revenues	₩ 42,654	₩ -	₩ 42,654
Allowance for doubtful accounts	31,783	-	31,783
Losses on valuation of trading securities	2,244	-	2,244
Impairment losses on investment securities	43,778	-	43,778
Losses on valuation of investment securities	5,931	-	5,931
Accrued for severance benefits	270	-	270
Accumulated depreciation	53	-	53
Gain on asset revaluation	-	173	173
Other allowance	2,000	-	2,000
Convertible bond interest	-	12,328	12,328
Imputed interest	-	1,624	1,624
Stock option	-	165	165
Others	-	1,481	1,481
Total	₩ 128,713	₩ 15,771	₩ 144,484
b) Deductions			
Accrued revenues	₩ (88,477)	₩ -	₩ (88,477)
Gains on valuation of marketable securities	(6,357)	-	(6,357)
Reversal of allowance for acceptances and guarantees	(8,873)	-	(8,873)
Present value discount	(4,455)	-	(4,455)
Allowance for doubtful accounts	(7,723)	-	(7,723)
Gains on valuation of investment securities	(2,455)	-	(2,455)
Impairment losses on investment securities	(15,915)	-	(15,915)
Loss on sales of assets not used for business purpose	(96)	-	(96)
Gains on valuation of stock market stabilization fund	(641)	-	(641)
Accrued for severance benefits	(850)	-	(850)
Receivables convertible to equity securities	(6,495)	-	(6,495)
Valuation allowance on real estate used for non-business purpose	(283)	-	(283)
Dividends income	-	(428)	(428)
Others	(3,932)	-	(3,932)
Total	₩ (146,552)	₩ (428)	₩ (146,980)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(2001)

	Temporary difference	Permanent difference	Total
a) additions			
Marketable securities	₩ 54,317	₩ -	₩ 54,317
Accrued revenues	137,743	-	137,743
Allowance for acceptances and guarantees	-	-	-
Allowance for doubtful accounts	8,053	-	8,053
Others allowance	3,412	-	3,412
Gain on asset revaluation	2,364	-	2,364
Accrued for severance benefits	26,837	-	26,837
Foreclosed and other properties	204	-	204
Imputed interest	-	1,005	1,005
Others	435	1,266	1,701
Total	₩ 233,365	₩ 2,271	₩ 235,636
b) Deductions			
Marketable securities	₩ (16,403)	₩ -	₩ (16,403)
Accrued revenues	(60,100)	-	(60,100)
Allowance for acceptances and guarantees	(565)	-	(565)
Foreclosed and other properties	(267)	-	(267)
Allowance for doubtful accounts	(22,912)	-	(22,912)
Stock market stabilization fund	(3,044)	-	(3,044)
Accrued for severance benefits	(26,814)	-	(26,814)
Present value discount	(10,909)	-	(10,909)
Dividends income	-	(615)	(615)
Others	(818)	-	(818)
Total	₩ (141,832)	₩ (615)	₩ (142,447)

b. Change in accumulated temporary difference as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

(2002)

	January 1, 2002	Increase	Decrease	December 31, 2002
a) Temporary differences to be deducted from taxable income				
Accrued for severance benefits	₩ 10,923	₩270	₩850	₩10,343
Valuation allowance on real estate used for non-business purpose	329	-	283	46
Allowance for acceptances and guarantees	9,098	-	8,873	225
Gains on valuation of stock market stabilization fund	3,107	-	641	2,466
Present value discount	13,179	-	4,455	8,724
Losses on valuation of trading securities	5,860	2,243	631	7,472
Losses on valuation of investment securities	44,948	49,608	18,269	76,287
Allowance for doubtful accounts	24,237	31,783	14,218	41,802
Loss on sales of assets not used for business purpose	98	-	96	2
Loss on valuation of beneficiary interest in restructuring fund	10,220	-	-	10,220
Other allowances	3,412	2,000	3,412	2,000
Other	1,306	-	520	786
Total	₩ 126,717	₩ 85,904	₩ 52,248	₩ 160,373
b) Temporary differences to be added to taxable income				
Accrued revenues	₩ 74,964	₩ 88,476	₩ 42,654	₩ 120,786
Gains on valuation of marketable securities	1,003	5,726	-	6,729
Accumulated depreciation	2,486	-	53	2,433
Total	₩ 78,453	₩ 94,202	₩ 42,707	₩ 129,948
Deferred income tax assets	₩ 145,639			₩ 117,139
Deferred income tax liabilities	(23,301)			(38,595)
Net deferred tax assets	₩ 122,338			₩ 78,544

The difference in deferred income tax assets between January 1, 2002 and December 31, 2001 is due to adjustment based on the tax return filed.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(2001)

	January 1, 2002	Increase	Decrease	December 31, 2001
a) Temporary differences to be deducted from taxable income				
Marketable securities	₩ 11,086	₩ 54,317	₩ 16,403	₩ 49,000
Foreclosed and other properties	392	204	267	329
Allowance for doubtful accounts	29,084	8,053	22,912	14,225
Allowance for acceptances and guarantees	9,663	-	565	9,098
Accrued for severance benefits	12,905	26,837	26,814	12,928
Stock market stabilization fund	6,151	-	3,044	3,107
Present value discount	23,362	-	10,900	12,453
Other allowances	-	3,412	-	3,412
Beneficiary interest in restructuring fund	10,220	-	-	10,220
Other	1,800	419	818	1,401
Total	₩ 104,663	₩ 93,242	₩ 81,732	₩ 116,173
b) Temporary differences to be added to taxable income				
Accrued revenues	₩ 152,607	₩ 60,100	₩ 137,743	₩ 74,964
Gains on asset revaluation	26,472	-	2,364	24,108
Other	2,502	-	16	2,486
Total	₩ 181,581	₩ 60,100	₩ 140,123	₩ 101,558
Deferred income tax assets	₩ 178,968			₩ 145,595
Deferred income tax liabilities	(53,930)			(30,163)
Net deferred tax assets	₩ 125,038			₩ 115,432

Net deferred tax as of December 31, 2002 and 2001 have not been recorded as realization of such assets is uncertain. Therefore, income tax expenses for the years ended December 31, 2002 and 2001 have been not recorded.

19. BASIC AND DILUTED INCOME PER SHARE

Basic and dilute income per share as of December 31, 2002 and 2001 are as follows (in Korean won).

a. Basic net income per share

	2002	2001
Net income and ordinary income	₩ 131,199,563,507	₩ 30,682,805,896
Weighted average number of common shares outstanding(a)	127,700,189	119,351,729
Basic net income and ordinary income per share	1,027	257

(a) Weighted average numbers of common shares outstanding are computed as follows :

(2002)

	Number of shares	Days outstanding	Weighted average number of shares
Beginning balance	120,420,000	365	120,420,000
Convertible bonds converted (April)	4,916,100	245	3,299,848
Convertible bonds converted (May)	6,788,900	214	3,980,341
			127,700,189

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(2001)

	Number of shares	Days outstanding	Weighted average number of shares
Beginning balance	120,420,000	365	120,420,000
Treasury stock	(1,150,203)	339	(1,068,271)
			119,351,729

b. Dilute net income and ordinary income (in Korean won).

	2002(a)	2001(b)
Ordinary income	₩ 131,199,563,507	₩ 30,682,805,896
Addition (After tax) :		
Interest of convertible bonds	1,140,642,721	-
Adjusted ordinary income	132,340,206,228	30,682,805,896
Net income	131,199,563,507	30,682,805,896
Addition (After tax) :		
Interest of convertible bonds	1,140,642,721	-
Adjusted net income	₩ 132,340,206,228	₩ 30,682,805,896
Weighted average number of common shares outstanding	132,125,000	119,351,729
Diluted net income per share	₩ 1,002	₩ 257
Diluted ordinary income per share	₩ 1,002	₩ 257

(a) The 1st, 2nd stock options were excluded because of anti dilution effect.

(b) Dilutive instruments were excluded for because of anti dilution effect.

c. Dilution Effect

(2002)

	Income	Number of shares	Income per shares	Dilution effect
Common stock	₩ 131,199,563,507	₩ 127,700,189	₩ 1,027.40	
Convertible bonds	1,140,642,721	4,424,811		
	132,340,206,228	132,125,000	1,001.63	0
1 st Stock option	53,634,760	46,010		
	132,393,840,988	132,171,010	1,001.69	X
2 nd Stock option	62,496,700	15,223		
	₩ 132,456,337,688	₩ 132,186,233	₩ 1,002.04	X

(2001)

	Income	Number of shares	Income per shares	Dilution effect
Common stock	₩ 30,682,805,896	₩ 119,351,729	₩ 257.08	
1 st Stock option	153,919,992	520,000		
	30,836,725,888	119,871,729	257.25	X
Convertible bonds	4,879,769,019	10,134,545		
	₩ 35,716,494,907	₩ 130,005,274	₩ 274.73	X

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

d. Common stock equivalents

(2002)

	Exercise period	Numbers of common shares to be issued	Exercise price
1 st Stock option	2003. 3. 1~2006. 2.28	423,139	5,000 Won per shares
2 nd Stock option	2005. 3. 9~2008. 3. 8	140,000	5,000 Won per shares

(2001)

	Exercise period	Numbers of common shares to be issued	Exercise price
Convertible bonds	Until 2002.5.17	11,705,000	1,170.5/1 US\$
1 st Stock option	2003. 3. 1~2006. 2.28	520,000	5,000 Won per shares

20. STOCK OPTIONS

a. Details of stock option costs calculated using the Black-Scholes option pricing method are as follow (in Korean won) :

	1 st Stock Option	2 nd Stock Option
Grant date	2000.02.09	2002.03.08
Exercise period	2003.03.01~2006.02.28	2005.03.09~2008.03.08
Exercise price per share	5,000	5,000
Shares to be issued	423,139	140,000
Number of exerciser (a)	5 persons	4 persons
Compensation cost per share	888	2,286
Total compensation cost	375,747,432	320,040,000
Compensation cost until 2002	358,480,763	88,900,000
Residual amount	17,266,669	231,140,000

(a) The 1st stock option's share was adjusted due to retirement of 3 persons.

b. Assumptions used in the Blank-Scholes option pricing method are as follow

	1 st Stock Option	2 nd Stock Option
Risk-free interest rate	8.91%	6.19%
Expected exercise period	3 years	3 years
Expected stock price volatility	78.40%	58.54%
Expected dividend yield ratio	%	%
Expected right disappearance ratio	%	%

21. RELATED PARTY TRANSACTIONS

a. Related parties as of December 31, 2002 are as follow :

	Issued Number of Shares	Capital Stock	Equity Ratio
Daegu Credit Information Co., Ltd.	300,000	1,500,000,000 Won	53.3%
Korea Lease Financing Co., Ltd.	4,000,000	20,000,000,000 Won	22.3%

Note : Binext Hitech's shares were sold in 2002. Therefore, this company was excluded from affiliates

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

b. Transactions and account balances with of related parties as of December 31, 2002 and 2001 are as follows (in millions of Korean won)

	Daegu Credit Information Co., Ltd.		Korea Lease Financing Co., Ltd.		Binext Hitech Co., Ltd.	
	2002	2001	2002	2001	2002	2001
Loans	-	-	24,792	32,587	-	450
Total Assets	-	-	24,792	32,587	-	450
Deposits	1,677	1,329	4,457	13,471	-	13,003
Deposits Received	100	100	-	-	-	302
Total Liabilities	1,777	1,429	4,457	13,471	-	13,305
Interest on Loans	-	-	588	1,309	-	-
Others	23	21	-	-	-	24
Total Revenues	23	21	588	1,309	-	24
Interest on Deposits	70	62	532	474	-	992
Others	2,549	2,215	-	-	-	-
Total Costs	2,619	2,277	532	474	-	992

22. TRANSACTIONS RELATED TO OFFICERS AND STOCKHOLDERS

Details of trusts, for which the Bank guarantees principal or yield, as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	Officers		Stockholders	
	2002	2001	2002	2001
Loans	₩ 28	₩ 115	₩ 63,967	₩ 79,318
Acceptances and guarantees	-	-	5,966	16,308
Total	₩ 28	₩ 115	₩ 69,933	₩ 95,626

23. TRUSTS WITH GUARANTEES

Details of trusts, for which the Bank guarantees principal or yield, as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	Book value	Trust fee	Book value	Trust fee	Remark
Unspecific money trusts	₩ 120	₩ -	₩ 125	₩ 12	Guarantees of Principal and yield
Development trusts	-	(5,579)	59	(28,389)	Guarantees of Principal and yield
Reserving objective trusts	791	14	940	50	Guarantees of Principal
Housing money trusts	17,194	263	19,708	726	Guarantees of Principal
Retirement pension trusts	11,988	127	12,711	115	Guarantees of Principal
Business money trusts	171	2	164	4	Guarantees of Principal
Personal pension money trusts	145,386	1,558	131,793	1,236	Guarantees of Principal
Retirement trusts	47,207	298	33,065	241	Guarantees of Principal
New personal pension trusts	1,951	17	1,240	9	Guarantees of Principal
New retirement pension trusts	241,772	29	343,173	1,168	Guarantees of Principal
Pension trusts	3,178	18	1,224	3	Guarantees of Principal
Total	₩ 469,758	₩(3,253)	₩ 544,202	₩ (24,825)	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

24. UNCERTAINTY AND CONTINGENCIES

Contingency liabilities as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
a. Acceptances and guarantees outstanding		
Acceptances and guarantees outstanding in Korean won		
Guarantees for bond-issuing	₩ -	₩ 16,779
Guarantees for loans	22,155	22,558
Other Acceptances and Guarantees in Won	68,149	74,313
Sub total	90,304	113,650
Acceptances and Guarantees Outstanding in Foreign Currency		
Acceptances	3,535	69,789
Acceptances for L/G	4,072	3,830
Acceptances for Foreign Loans	36,646	48,280
Sub total	44,253	121,899
Total	134,557	235,549
b. Acceptance and Guarantees		
On L/C	137,919	108,179
Others	18,498	12,694
Sub total	156,417	120,873
c. Bills Endorsed with Re	1,473	2,933
d. Derivative contracts		
Contracts on currency interest rates Swaps purchased	-	3,978
Contracts on currency interest rates Swaps sold	-	3,978
Contracts on currency futures sold	-	8,620
Contracts on currency forwards purchased	28,974	22,924
Contracts on currency forwards sold	30,234	24,486
Sub Total	59,208	63,986
e. Loans sold under repurchase agreements (a)	45,259	150,205
Total	₩ 396,914	₩ 575,546

(a) Additional losses may occur in settlement.

f. As of December 31, 2002, 38 pending legal actions against the Bank amounting to ₩10,089 million are filed against the Bank. Management believes that these actions are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

g. As of December 31, 2002, ₩89.6 billion in commercial loans were granted to those who applied for court receivable or workout, and those who are already placed under court receivership or workout, including those carrying out management improvement plans. Since the collectibility of such loans solely depends upon whether they will return to normal operations in the future, it is currently not possible to predict the ultimate outcomes.

h. As of December 31, 2002 and 2001, assets pledged as collateral relating to the borrowings from the Bank of Korea are ₩372,010 million and ₩405,834 million, respectively.

25. AVERAGE ASSET BALANCE WITH INTEREST INCOME AND AVERAGE LIABILITY BALANCE WITH INTEREST EXPENSES (in millions of Korean won)

	Average amount	Interest income/ Interest expense	Average interest ratio
(Assets)			
Cash and due from banks	₩ 1,180,406	₩ 39,463	3.34%
Loans	8,367,507	692,621	8.28%
Trading securities	229,390	12,569	5.48%
Investment securities	4,461,049	288,781	6.47%
Total	₩ 14,238,352	₩ 1,033,434	7.26%
(Liabilities)			
Deposits	₩ 10,520,823	₩ 364,427	3.46%
Borrowings	2,828,913	123,819	4.38%
Bonds	327,537	28,235	8.62%
Total	₩ 13,677,273	₩ 516,481	3.78%

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

26. DONATION

Donations to society for the years ended December 31, 2002 and 2001 are as follows (in million of Korean won)

	2002	2001
School	₩ 242	₩ 40
Sports	244	227
EXPO	10	10
Others	332	151
Total	₩ 828	₩ 428

27. DIVIDENDS

a. Dividends for the years ended December 31, 2002 and 2001 are follows (in Korean won) :

	2002	2001
Dividends per shares(dividend ratios)	250(5%)	-(-%)
Number of shares	132,125,000	-
Total dividends amount	33,031,250,000	-

b. Dividend payout ratios for the years ended December 31, 2001 and 2001 are as follows :

	2002	2001
Dividend amount	33,031,250,000	-
Net Income	131,199,563,507	-
Dividend propensity	25.18%	-%

c. Dividend yield ratios for the years ended December 31, 2001 and 2001 are as follows :

	2002	2001
Dividend per share	250	-
Fair value in balance sheet	4,760	-
Dividend yield ratio	5.25%	-%

28. STATEMENT 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 as follows. (in millions of Korean won)

	2002	2001
Cash and Due from banks	₩ 1,561,692	₩ 1,303,145
Restricted deposits	(913,426)	(182,009)
Total	₩ 648,266	₩ 1,121,136

b. Transaction not involving the inflows or outflows of cash for the years ended December 31, 2002 and 2001 are as follows. (in millions of Korean won)

	2002	2001
Increase in foreclosed and other properties	₩ -	₩ 172
Increase in accounts receivable on disposition of assets	579	135,050
Increase in capital stock in converted of convertible bonds	58,525	-
Increase in capital surplus in converted of convertible bonds	12,328	-
Increase in dividends payable	33,031	-
Decrease in losses on sale of treasury stock	379	-
Total	₩ 104,842	₩ 135,222

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

c. Addition of expenses not involving cash outflows for the years ended December 31, 2002 and 2001 consists of the follows.
(in millions of Korean won)

	2002	2001
Depreciation	₩ 18,257	₩ 16,520
Provision for loan losses	165,105	81,745
Reserve for severance and retirement benefits	22,338	12,394
Loss on securities	66,790	55,367
Loss from disposal of fixed assets	5,637	2,600
Amortization of other assets	2,676	2,511
Other	1,788	757
Total	₩ 282,591	₩ 171,894

d. Deduction of revenues not involving cash inflows for the years ended December 31, 2002 and 2001 consists of the follows.
(in millions of Korean won)

	2002	2001
Gain on securities	₩ 88,916	₩ 53,178
Gain on disposal of fixed assets	127	392
Bank debts	155,759	43,236
Transfer from allowance for guarantee	8,873	565
Payment of severance and retirement benefits	24,561	29,235
Other	1,855	4,176
Total	₩ 280,091	₩ 140,489

e. Changes in assets and liabilities resulting from operations for the years ended December 31, 2002 and 2001 consists of the follows. (in millions of Korean won)

	2002	2001
Decrease (increase) in loans in local currency	₩ 1,718,003	₩ (409,656)
Decrease (increase) in other assets	605,386	(1,128,843)
Increase (decrease) in deposits in local currency	880,146	1,309,047
Increase (decrease) in other liabilities	(3,149,709)	(26,174)
Total	₩ 53,826	₩ (265,333)

29. UNCERTAINTIES BUSINESS ENVIRONMENT

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, 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 Bank may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's 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

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

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**Deloitte
Touch
Tohmatsu**

We have audited the accompanying statements of trust balance sheets of The Daegu Bank, Ltd. (the iBanki) as of December 31, 2002 and 2001, 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 the Republic of 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, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea and, where applicable, the accounting and reporting guidelines by Korean trust and banking regulatory authorities.

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, 2002, ₩6.9 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.

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.



January 16, 2003

►Notice to Readers

This report is effective as of January 16, 2003, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

TRUST BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

	<i>In millions of Korean won</i>		<i>U.S.dollars (thousands) (Note1)</i>	
	2002	2001	2002	2001
ASSETS				
Cash and due from banks (Note 3)	₩ 103,762	₩ 147,562	\$86,440	\$122,928
Loans (Notes 1, 4 and 7)	165,261	166,578	137,672	138,769
Allowance for loan losses (Note 1 and 6)	(4,257)	(7,732)	(3,546)	(6,442)
Investment securities (Notes 1 and 5)	1,199,022	1,183,917	998,851	986,268
Other assets	51,826	54,394	43,175	45,314
Total assets	₩ 1,515,614	₩ 1,544,719	\$1,262,592	\$1,286,837
LIABILITIES				
Money trusts (Notes 2 and 8)	₩ 1,445,039	₩ 1,456,414	\$1,203,799	\$1,213,274
Borrowings	11,800	48,700	9,830	40,570
Special reserve (Note 1 and 9)	4,291	2,798	3,575	2,331
Other liabilities	54,484	36,807	45,388	30,662
Total liabilities	₩ 1,515,614	₩ 1,544,719	\$1,262,592	\$1,286,837

See accompanying notes to financial statements.

STATEMENTS OF TRUST INCOME

YEARS ENDED DECEMBER 31, 2002 AND 2001

	<i>In millions of Korean won</i>		<i>U.S.dollars (thousands) (Note 1)</i>	
	2002	2001	2002	2001
REVENUES				
Interest on loans	₩13,552	₩17,105	\$11,290	\$14,251
Interest on bonds purchased under resale agreements	447	747	372	622
Interest from investment securities	83,286	80,625	69,382	67,164
Gains on investment securities	12,156	13,937	10,127	11,610
Fees and commissions	506	488	422	406
Interest on deposits at Daegu Bank (Note 3)	3,768	5,037	3,139	4,196
Reversal of allowance for loan losses	1,550	3,743	1,291	3,118
Other revenues (Note 1)	8,239	34,504	6,863	28,744
Total revenues	₩123,504	₩156,186	\$102,886	\$130,111
EXPENSES				
Interest	₩(81,175)	₩(84,694)	\$(67,623)	\$(70,554)
Fees and commissions	(271)	(82)	(226)	(68)
Securities related	(16,876)	(19,318)	(14,059)	(16,093)
Provision for special reserves (Note 1)	(1,628)	(959)	(1,356)	(799)
Provision for loan losses (Note 1)	(7,079)	(27,960)	(5,897)	(23,292)
Contributions to the Credit Guarantee Fund	(228)	(176)	(190)	(147)
Taxes	(320)	(50)	(267)	(42)
Insurance on deposits	(489)	(299)	(407)	(249)
Other expenses	(1,512)	(6,084)	(1,259)	(5,068)
Total expenses	(109,577)	(139,622)	(91,284)	(116,312)
Trust fees (Note 1)	₩13,926	₩16,564	\$11,602	\$13,799

See accompanying notes to financial statements.

STATEMENTS OF TRUST CASH FLOWS

YEARS ENDED DECEMBER 31, 2002 AND 2001

	<i>In millions of Korean won</i>		<i>U.S.dollars (thousands) (Note1)</i>	
	2002	2001	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES				
Expenses not involving cash outflows (Note 10)	₩25,584	₩54,308	\$21,312	\$45,242
Revenues not involving cash inflows (Note 10)	(13,841)	(19,636)	(11,531)	(16,358)
Changes in assets and liabilities resulting from operations (Note 10)	(18,643)	(8,686)	(15,530)	(7,236)
Total	(6,900)	25,986	(5,749)	21,648
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash inflows from financing activities	-	-	-	-
Cash outflows for financing activities	(36,900)	(4,100)	(30,739)	(3,416)
Total	(36,900)	(4,100)	(30,739)	(3,416)
NET INCREASE(DECREASE) IN CASH	(43,800)	21,886	(36,488)	18,232
CASH AT BEGINNING OF THE YEAR	147,562	125,676	122,928	104,696
CASH AT END OF THE YEAR	₩103,762	₩147,562	\$86,440	\$122,928

See accompanying notes to financial statements.

NOTES TO TRUST FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Financial Statement Preparation

The trust operations (the "Trust") of the 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) Uncollectible loans	100%

c. Securities

Securities are carried at cost plus incidental expenses, 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.

d. Trust Fees

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

e. 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.

f. Subsidies from the Bank

Losses incurred from operations of money in trust where there are contracts 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 5,579 million won for the year ended December 31, 2002 (28,389 million won for the year ended December 31, 2001).

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.

NOTES TO TRUST FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(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 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, 2002 and 2001 equal to the Bank's three month repurchase agreement rate.

4. LOANS

(1) Loans as of December 31, 2002 and 2001 are as follows :

(millions of Korean Won)

	2002	2001
Loans secured by :		
Securities	₩ -	₩ 425
Real estates	132,970	128,321
Integrated properties	-	45
Receivables	7,256	5,692
Trust benefits	10,436	15,274
Guaranteed loans	1,265	3,031
	151,927	152,788
Unsecured loans	13,334	13,790
Total	₩165,261	₩166,578

NOTES TO TRUST FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(2) Classification by industry

(In millions of Korean won)

	2002		2001	
	Amounts	Ratio (%)	Amounts	Ratio (%)
Loans to households	₩103,172	62.43%	₩94,608	56.80%
Whole sale and retail	14,705	8.90%	17,752	10.65%
Manufacturing	32,653	19.76%	21,382	12.84%
Other	14,731	8.91%	32,835	19.71%
	₩165,261	100.00%	₩166,577	100.00%

(3) Classification by maturity

(In millions of Korean won)

	2002	2001
Less than three months	₩36,626	₩23,800
Less than six months	16,034	15,571
Less than one year	102,098	112,562
Less than three years	6,249	7,140
Greater than three years	4,254	7,504
	₩165,261	₩166,577

(4) Overdue loans

(In millions of Korean won)

	2002	2001
Less than three months	₩1,073	₩546
Less than six months	761	2,602
Greater than six months	4,838	14,917
Total	₩6,672	₩18,065

5. SECURITIES

(1) Securities as of December 31, 2002 and 2001 are as follows

(In millions of Korean won)

	2002	2001
Government bonds	₩87,116	₩126,363
Finance debentures	40,970	68,498
Local government bonds	29,822	65,020
Corporate bonds	610,563	615,552
Stocks	16,141	3,889
Bills discounted	317,180	168,598
Other	97,230	135,997
Total	₩1,199,022	₩1,183,917

(2) Equity securities

1) Valuation of equity securities as of December 31, 2002 and 2001 are as follows

(In millions of Korean won)

Description	Before valuation		Fair value		Gain (loss) on valuation	
	2002	2001	2002	2001	2002	2001
Listed securities	₩17,041	₩4,434	₩16,112	₩3,718	(₩929)	(₩716)
Unlisted securities	29	171	29	171	-	-
Total	₩17,070	₩4,605	₩16,141	₩3,889	(₩929)	(₩716)

NOTES TO TRUST FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

2) Classification of security issuers

Classification of security issuers as of December 31, 2002 and 2001 are as follows :

(In millions of Korean won)

Description	Amount		Percentage	
	2002	2001	2002	2001
Construction business	₩106	₩ -	0.66%	-0%
Financial business	1,763	398	10.92%	10.23%
Securities business	429	168	2.66%	4.32%
Other	13,843	3,323	85.76%	85.45%
Total	₩16,141	₩3,889	100.00%	100.00%

(3) Bonds

1) Valuation of bonds as of December 31, 2002 and 2001 are as follows

(In millions of Korean won)

Description	Before valuation		Fair value		Gain (loss) on valuation	
	2002	2001	2002	2001	2002	2001
Government bonds	₩87,283	₩127,158	₩87,116	₩126,363	(₩167)	(₩795)
Fiance debentures	40,927	68,828	40,970	68,498	43	(330)
Local government bonds	29,342	63,876	29,822	65,020	480	1,144
Corporate bonds	613,781	620,694	610,563	615,552	(3,218)	(5,142)
Bills bought	317,148	168,598	317,180	168,598	32	-
Other	97,495	135,776	97,230	135,997	(265)	221
Total	₩1,185,976	₩1,184,930	₩1,182,881	₩1,180,028	(₩3,095)	₩4,902

2) Classifications of bonds by issuers as of December 31, 2002 and 2001 are as follows :

(In millions of Korean won)

Description	Amount		Percentage	
	2002	2001	2002	2001
Government	₩87,116	₩126,363	7.37%	10.71%
Public agencies	166,216	354,229	14.05%	30.02%
Local government	29,822	65,020	2.52%	5.51%
Financial services	138,200	214,451	11.68%	18.17%
Other	761,527	419,965	64.38%	35.59%
Total	₩1,182,881	₩1,180,028	100.00%	100.00%

3) Classification of bonds by maturity as of December 31, 2002 and 2001 are as follows

(DECEMBER 31, 2002)

(In millions of Korean won)

Description	Less than	Less than	Less than	Less than	More than	Total
	three months	six months	one year	three years	three years	
Government bonds	₩11,184	₩815	₩331	₩40,661	₩34,125	₩87,116
Fiance debentures	9,483	9,466	22,021	-	-	40,970
Local government bonds	3,609	4,452	10,151	10,260	1,350	29,822
Corporate bonds	13,737	52,571	137,175	403,635	3,445	610,563
Bills bought	106,749	40,003	170,007	-	421	317,180
Other	36,040	49,457	7,941	-	3,792	97,230
Total	₩180,802	₩156,764	₩347,626	₩454,556	₩43,133	₩1,182,881

NOTES TO TRUST FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(DECEMBER 31, 2001)

(In millions of Korean won)

Description	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
Fianance 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

6. ALLOWANCE FOR LOAN LOSSES

The allowance for loans losses as of December 31, 2002 and 2001 are as follows :

(1) Loan classification

(DECEMBER 31, 2002)

(In millions of Korean won)

Description	Loans	Securities	Total	Allowance for loan losses	Percentage of allowance
Normal	₩155,100	₩1,182,285	₩1,337,385	₩5	-%
Precautionary	2,429	175	2,604	137	5.26%
Substandard	7,435	-	7,435	3,718	50.01%
Doubtful	242	421	663	342	51.58%
Loss	55	-	55	55	100.00%
Total	₩165,261	₩1,182,881	₩1,348,142	₩4,257	

(DECEMBER 31, 2001)

(In millions of Korean won)

Description	Loans	Securities	Total	Allowance for loan losses	Percentage of allowance
Normal	₩155,080	₩1,170,571	₩1,325,651	₩56	-%
Precautionary	1,120	9,457	10,577	2,230	21.08%
Substandard	8,086	-	8,086	4,136	51.15%
Doubtful	2,030	-	2,030	1,049	51.67%
Loss	261	-	261	261	100.00%
Total	₩166,577	₩1,180,028	₩1,346,605	₩7,732	

(2) Change in allowance for loan losses

(In millions of Korean won)

Description	2002	2001
December 31, 2001	₩7,732	₩20,007
Provision for losses	7,079	1,436
Other increase	2,910	28,701
Write-offs	(10,887)	(2,372)
Disposition to the Korea Assets Management Company	(1,028)	(36,297)
Reversal	(1,549)	(3,743)
Decemeber 31, 2001	₩(4,257)	₩(7,732)

7. ADJUSTMENT OF LOANS

The details of adjusted loans as of December 31, 2002 and 2001 are as follows :

(In millions of Korean won)

	Amount before adjustment	Amount after adjustment	Amount difference
Court receivership and other (2002)	1,167	679	488
Court receivership and other (2001)	159	135	24

NOTES TO TRUST FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

8. MONEY TRUSTS

(1) Money trusts as of December 31, 2002 and 2001 are as follows :

(In millions of Korean won)

Description	2002	2001
Unspecific money trusts	₩120	₩125
Reserving objective trusts	13,588	26,220
Household money trusts	106,331	129,743
Development money trusts	-	59
Old age living pension trusts	11,988	12,711
Business money trusts	15,988	27,746
National stock trusts	422	469
Personal pension trusts	145,387	131,793
Long-term house trusts	106,137	171,732
Specified money trusts	438,483	211,335
Open type money trusts	175,684	226,167
New old age living pension trusts	241,772	343,172
Other money trusts	189,139	175,142
Total	₩1,445,039	₩1,456,414

(2) Details of trust accounts for which the Bank guarantees principal and/or interest as of December 31, 2002 and 2001 are as follows :

(In millions of Korean won)

Description	2002		2001	
	Book Value	Trust Fee	Book Value	Trust Fee
Unspecific money trusts	₩120	₩1	₩125	₩12
Development money trusts	-	(5,579)	59	(28,389)
Reserving objective trusts	791	14	940	50
Household money trusts	17,194	263	19,708	726
Old age living pension trusts	11,988	127	12,711	115
Business money trusts	171	2	164	4
Personal pension trusts	145,386	1,558	131,793	1,236
Retirement trusts	47,207	298	33,065	241
New personal pension trusts	1,951	17	1,240	9
New old age living pension trusts	241,772	2,889	343,173	1,168
Pension trusts	3,178	18	1,224	3
Total	₩469,758	₩(392)	₩544,202	₩(24,825)

9. SPECIAL RESERVES

Special reserves as of December 31, 2002 and 2001 are as follows :

(In millions of Korean won)

Description	2002	2001
Unspecific money trusts	₩5	₩5
Old age living pension trusts	289	247
Household money trusts	859	985
Business money trusts	8	8
Reserving objective trusts	39	47
Personal pension trusts	1,522	1,003
Retirement trusts	186	88
New personal pension trusts	6	2
New old age living pension trusts	1,371	412
Pension trusts	6	1
Total	₩4,291	₩2,798

NOTES TO TRUST FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

10. STATEMENTS OF TRUST CASH FLOWS

- a. Cash in the statements of trust cash flows is equal to due from Bank account in the balance sheets.
 b. Additions of expenses not involving cash outflows for the years ended December 31, 2002 and 2001 are as follows :

(In millions of Korean won)

Description	2002	2001
Loss on disposal of securities	₩7,729	₩2,350
Loss on redemption of securities	799	8,269
Loss on valuation of securities	8,348	8,699
Depreciation of bad debt	1	-
Provision for special reserve	1,628	959
Provision for allowance for loan losses	7,079	27,960
Loss on disposal of loans	-	6,071
Total	₩25,584	₩54,308

- c. Deductions of revenues not involving cash inflows for the years ended December 31, 2002 and 2001 are as follows :

(In millions of Korean won)

Description	2002	2001
Gain on sales of securities	₩7,213	₩8,046
Gain on redemption of securities	620	2,810
Gain on valuation of securities	4,323	3,081
Reversal of special reserve	135	1,956
Reversal of allowance for loan losses	1,550	3,743
Total	₩13,841	₩19,636

- d. Changes in assets and liabilities resulting from operations for the years ended December 31, 2002 and 2001 are as follows

(In millions of Korean won)

Description	2002	2001
Decrease in loans	₩1,316	₩17,325
Increase in securities	(19,825)	(374,397)
Decrease in other assets	2,569	24,419
Decrease in allowance for loan losses	(9,005)	(36,492)
Increase (decrease) in money trust	(11,375)	357,866
Increase (decrease) in other liabilities	17,677	2,593
Total	₩(18,643)	₩(8,686)

11. DESCRIPTION AND AMOUNTS OF CONTINGENT LIABILITIES

- (1) As of December 31, 2002, pending lawsuits are as follows : 2 cases filed by the Trust amounting to ₩9,808 million. 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. A loss of ₩7.4 billion was recorded in 2002 as a result of the recourse for the loans sold prior to 2001, on December 31, 2002, ₩6.9 billion of such transferred loans remain unsettled. Additional gains or losses will be recorded upon final settlement of the loans by Korea Asset Management Corporation in accordance with the recourse provisions.

NOTES TO TRUST FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(3) Derivation Transactions

Derivation transactions as of December 31, 2002 are as follows :

(In millions of Korean won)

Description	Commitment amount	Gain (loss) on valuation	Fair value	Purpose
Stock index futures	₩397	₩ -	₩397	Trading
National treasury bond futures	4,281	(27)	4,308	"
Total	₩4,678	₩ (27)	₩4,705	

12. ECONOMIC UNCERTAINTIES

In response to general unstable economic conditions the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of those reform is progression slowly, 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 Truvest may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Truvest. Actual results may differ materially from management's current assessment.

INDEPENDENT AUDITORS' REPORT

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

Ahn Kwon

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**Deloitte
Touch
Tohmatsu**

We have audited the accompanying consolidated balance sheets of The Daegu Bank, Ltd. (the "Bank") and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, 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 the Republic of 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, 2002 and 2001, and the results of their operations, changes in stockholders' equity and their cash flows for the years then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea.

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

As explained in Note 24 to the accompanying consolidated financial statements, the Bank transferred loans with recourse to Korea Asset Management Corporation. As of December 31, 2002, ₩45.3 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.

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 practices utilized in the Republic of Korea to audit such financial statements may differ from 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.



March 3, 2003

► Notice to Readers

This report is defective as of March 3, 2003, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

(In millions of Korean won)

	2002	2001
ASSETS		
Cash and due from banks (Note 3)	₩1,561,692	₩1,268,761
Trading securities (Notes 2 and 4)	598,025	399,236
Investment securities (Notes 2 and 5)	4,376,548	4,105,282
Loans (Note 6)	8,993,129	8,315,301
Fixed assets (Note 9)	348,485	349,464
Other assets	580,841	636,370
Total assets	₩16,458,720	15,074,414
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits (Note 11)	12,207,015	10,986,720
Borrowings (Note 12)	2,493,257	2,260,753
Debentures (Note 13)	327,700	436,276
Other liabilities	718,575	798,244
Total liabilities	15,746,547	14,481,992
Stockholders' Equity		
Common stock, par value ₩5,000		
Authorized - 300 million shares		
Issued and outstanding - 132.1 million shares		
in 2002 and 120.4 million shares in 2001	660,625	602,100
Consolidated capital surplus	12,328	3,058
Consolidated retained earning (accumulated deficit)	59,030	(38,495)
Capital adjustments :		
Stock options	447	-
Loss on valuation of investment securities	(20,257)	(4,091)
Other	-	(97)
Minority interest	-	29,946
Total stockholders' equity	712,173	592,422
Total liabilities and stockholders' equity	₩16,458,720	₩15,074,414

See notes to accompanying consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In millions of Korean won, except for income per share)

	2002	2001
OPERATING REVENUES		
Interest on due from banks	₩39,464	₩115,054
Interest on trading securities	36,119	26,480
Interest on investment securities	288,456	253,038
Interest on loans	640,721	591,641
Interest - other	16,731	17,648
Total interest income	1,021,491	1,003,861
Fees and commissions	116,802	126,178
Trading securities revenue	17,837	12,944
Investment securities revenue	325	895
Gain on foreign currency transactions	18,813	13,369
Trust account commission fees	9,698	14,286
Reversal of allowance for acceptance and guarantees	8,873	565
Other	7,149	3,379
Total operating revenue	1,200,988	1,175,477
OPERATING EXPENSES		
Interest on deposits	(395,237)	(461,118)
Interest on borrowings	(123,819)	(130,570)
Interest on debentures	(28,235)	(35,569)
Interest - other	(28,535)	(27,672)
Total interest expense	(575,826)	(654,929)
General and administrative expenses	(215,969)	(174,472)
Provision for loan losses	(173,424)	(108,621)
Commission charges	(15,755)	(9,944)
Depreciation and amortization	(20,933)	(19,069)
Trading securities expenses	(19,397)	(16,518)
Loss on foreign currency transactions	(9,216)	(5,051)
Other	(33,244)	(28,297)
Total operating expenses	(1,063,764)	(1,016,901)
Operating income	137,224	158,576
Non-operating expenses	(6,024)	(125,726)
Income before income taxes	131,200	32,850
Income tax expense (Note 18)	-	558
Net income	131,200	32,292
Net income of minority	-	(1,451)
Consolidated income	₩131,200	₩30,841
Basic net income per share (Note 19) (in Korean won)	₩1,027	₩258
Diluted net income per share (Note 19) (in Korean won)	₩1,002	₩258

See notes to accompanying consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In millions of Korean won)

Description	Capital Stock	Capital Surplus	Retained Earnings	Capital Adjustment	Minority Interest	Total
JANUARY 1, 2001	₩602,100	₩3,059	₩(69,336)	₩(2,350)	₩29,318	₩562,790
Consolidated net income	-	-	30,841	-	-	30,841
Capital adjustment	-	-	-	(1,838)	-	(1,838)
Minority interest	-	-	-	-	-	-
Net income of minority interest	-	-	-	-	1,451	1,451
Dividends	-	-	-	-	(1,380)	(1,380)
Other	-	-	-	-	557	557
DECEMBER 31, 2001	₩602,100	₩3,059	₩(38,495)	₩(4,188)	₩29,946	₩592,421
JANUARY 1, 2002	₩602,100	₩3,059	₩(38,495)	₩(4,188)	₩29,946	₩592,421
Paid-in capital increase	58,525	12,328	-	-	-	70,853
Consolidated net income	-	-	131,199	-	-	131,199
Dividends	-	-	(33,031)	-	-	(33,031)
Losses on sale of treasury stock	-	-	(379)	379	-	-
Losses on valuation of investment securities	-	-	-	(17,442)	-	(17,442)
Stock options	-	-	-	165	-	165
Effect of change in the consolidated entities (Note 2)	-	(3,058)	(264)	1,275	(29,946)	(31,993)
DECEMBER 31, 2002	₩660,625	₩12,329	₩59,030	₩(19,811)	₩-	₩712,172

See notes to accompanying consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In millions of Korean won)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	₩131,200	₩30,841
Addition of expenses not involving cash outflows	293,658	206,756
Deduction of revenues not involving cash inflows	(282,966)	(145,095)
Changes in assets and liabilities resulting from operations	48,168	(85,283)
Net cash provided by operating activities	190,060	7,219
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities :		
Disposal of securities	7,679,641	1,104,647
Disposal of premises and equipment	6,174	2,477
Decrease in other assets	12,086	12,470,491
Sub-total	7,697,901	13,577,615
Cash outflows for investing activities :		
Acquisition of securities	(8,160,814)	(1,459,775)
Acquisition of premises and equipment	(36,410)	(31,478)
Increase in other assets	(7,015)	(12,530,617)
Sub-total	(8,204,239)	(14,021,870)
Net cash used in investing activities	(506,338)	(444,255)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities :		
Increase in borrowings	4,531,914	12,172,101
Increase in other liabilities	13,013,442	11,657,126
Sub-total	17,545,356	23,829,227
Cash outflows for financing activities :		
Repayment of borrowings	(4,631,692)	(11,987,407)
Decrease in other liabilities	(13,021,555)	(12,398,474)
Sub-total	(17,653,247)	(24,385,881)
Net cash used in financing activities	(107,891)	(556,654)
Cash outflows for change in the consolidated entities	(14,316)	-
NET DECREASE IN CASH	(438,485)	(993,690)
CASH AT THE BEGINNING OF THE YEAR	1,086,751	2,080,442
CASH AT THE END OF THE YEAR (Note 28)	₩648,266	₩1,086,752

See notes to accompanying consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

1. GENERAL

The Daegu Bank, Ltd. (DB) was established on October 7, 1967 to engaged in commercial banking and foreign exchange activities. The DB's head office is located in Daegu City and it has 146 branches and 31 mini-branches in Daegu and North Kyongsang Province and 5 other branches in other provinces including Seoul as of December 31, 2002. The DB's shares were listed on the Korea Stock Exchange on May 12, 1972. The Bank's outstanding common stock (par value ₩5,000 won) totaled ₩660 billion as of December 31, 2002. The DB's total deposit was ₩14,496 billion as of December 31, 2002.

2. THE BASIS OF FINANCIAL STATEMENT PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of the Daegu Bank, Ltd, and consolidated entities (the "Bank") were prepared in accordance with the financial accounting standards generally accepted in the Republic of Korea and the accounting for banking institutions. The significant accounting policies followed by the Bank in the preparation of its financial statements are summarized below.

a. Basis of Financial Statement Presentation

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 Company 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. Translation of Foreign Currency Assets and Liabilities

Except for swap and other futures transactions with the Bank of Korea where the exchange is predetermined, all other monetary assets and liabilities denominated in foreign currency are translated into Korean Won at the Base Rates announced by the Korean government on the balance sheet date, which were, for US dollars ₩1,200.4 : US\$1 and ₩1,326.1:US\$1 at December 31, 2002 and 2001, respectively. Gains or losses arising from the translation of foreign currency assets and liabilities are charged or credited to current operations.

c. Condensed financial information of the DB and consolidated entities as of December 31, 2002 and 2001 are as follows :

(DECEMBER 31, 2002)

(In millions of Korean won)

Company	Total assets	Operating revenue	Net income
The Daegu Bank, Ltd. (bank account)	₩16,020,458	₩1,162,474	₩131,200
The Daegu Bank, Ltd. (certain trust account)	499,169	44,401	-

(DECEMBER 31, 2001)

(In millions of Korean won)

Company	Total assets	Operating revenue	Net income
The Daegu Bank, Ltd. (bank account)	₩14,551,470	₩1,144,124	₩30,683
The Daegu Bank, Ltd. (certain trust account)	603,594	27,933	-
Insight Ventures Corp	58,759	4,721	2,102

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

d. Principles of Consolidation

- i) The consolidated financial statements include the accounts of the DB, trust accounts and a subsidiary. Certain accounts and transactions among the consolidated entities have been eliminated in consolidation.
- ii) Consolidated subsidiary is as follows :

(DECEMBER 31, 2001) None

(DECEMBER 31, 2002)

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

- iii) The entire investment in Insight Ventures Corp, a subsidiary of DB, was sold during 2002 and as a result, the DB has consolidated only the trust accounts with guarantee feature as of December 31, 2002.

e. Allowances 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.

- i) Allowances are determined by applying at minimum the following rates to the outstanding balances of each credit risk classification.

Credit risk classification	Allowance rate
Normal	0.5~1.0%
Precautionary	2~12%
Sub-standard	20%
Doubtful	50~60%
Estimated loss	100%

- ii) The Bank records allowances for losses on outstanding guarantees and acceptances according to future estimated losses. (see Note 14)

f. Valuation of Trading Securities and Investment Securities.

Marketable securities held for short-term capital gain purposes, which exclude stocks issued by affiliates, are classified as trading securities. Securities that are not classified as trading securities are classified as investment securities. Trading securities and investment securities are initially recorded at cost determined using the moving average method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

Valuation methods used for the Bank's trading and investment securities are summarized as follows :

	Valuation method	Recognition of unrealized gains and losses
Trading securities	Fair value	Net income
Investment securities		
Stock Market Stabilization Fund and Bond Market Stabilization Fund	Fair value	Net income
Available-for-sale securities and listed equity securities	Fair value	Capital adjustments
Held-to-maturity securities and unlisted equity securities	Cost	Net income (Note)
Investment in affiliates	Equity method	Net income, retained earnings, or capital adjustment according to sources of the gain or loss

(Note) If the fair values of the investment securities are significantly below the book and are anticipated to be not recoverable, impairment losses are charged in current operations.

g. Restructured Loans

Restructured loans, whose terms, including principal, interest and 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 normal 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.

h. Accrued Severance Indemnities

In accordance with the Bank's policy and the Korean Labor Standards Law, all employees with more than one year of service are entitled to severance indemnity payments upon termination of their employment, based on their current rates of salary and length of service. The accrual for severance indemnities is computed as if all employees were to terminate at the balance sheet date.

Total accrued severance indemnities as of December 31, 2002 and 2001 were ₩82,536 million and ₩84,759 million, respectively. In accordance with the Korean National Pension Fund Law, the Bank transferred a portion of its accrued severance indemnities to the National Pension Fund through March 1999. Such transfers are deducted from accrued severance indemnities. During the years ended December 31, 2002 and 2001, actual severance and retirement payments totaled ₩24,561 million and ₩29,235 million, respectively.

Funding of severance indemnities is not required. However, the Bank has insured a portion of its obligations for are severance indemnities by making deposits with Samsung Life Insurance Co.,Ltd. and Pusan Bank and these deposits are presented as deductions from accrued severance indemnities.

i. Fixed Assets

Fixed assets are stated at acquisition costs, and assets, which were revaluated by the Asset Revaluation Law, are stated at revaluated amount. Major renewals and betterments, which prolong the useful life or enhance the value of assets, are capitalized, expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the declining balance method (the straight-line method for building, structure and leasehold improvement) over the useful lives.

j. Fixed Assets Purchased or Sold under Installment Payment Arrangement

For fixed assets purchased or sold under installment payment arrangements where the installment period is over 1 year, the Company records the related assets or liabilities at present value and differences between the nominal value and the present value of the related assets and liabilities are deducted from the related asset or liability as present value discount, which is amortized into current operations using the effective interest method.

k. Valuation Allowance for Non-business Use Property.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

l. Accrued Interest Income

Accrued interest income on loans with low probability of recovery such as delinquent loans (including domestic usance), receivables from customers who dishonored notes or checks, and advanced payments on acceptance and guarantees are not recorded.

m. Deferred Income Tax

Deferred tax assets and liabilities are recorded for future tax consequences of operating loss carry forwards, tax credits and temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

3. DUE FROM BANKS

a. Cash and due from banks at December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
(Due from banks in Korean won)		
The Bank of Korea	₩913,426	₩182,009
Banks	148,000	420,163
Others	230,015	269,230
	₩1,291,441	₩871,402
(Due from banks in foreign currency)		
The Bank of Korea	₩2,910	₩2,286
Banks	2,007	1,308
Foreign banks	4,542	13,173
	₩9,459	₩16,767

b. Deposits restricted for use as of December 31, 2002 and 2001 are as follows :

(In millions of Korean won)

	2002	2001
Due from the Bank of Korea	₩913,426	₩182,009

4. TRADED SECURITIES

a. Traded securities as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

2002	Face value	Beginning balance amount (a)	Balance sheet amount (b)	Valuation gain (loss)
<DB>				
Stocks	₩ -	₩7,821	₩6,915	₩(906)
Bonds issued by financial institutions	30,000	29,762	30,350	588
Corporate bonds	155,000	155,587	156,174	587
Beneficiary certificates	-	-	-	-
Other	90,000	91,867	90,969	(898)
<Trust accounts>				
Stock	-	1,059	900	(159)
Government bonds	35,034	35,615	35,587	(28)
Bond issued by financial institutions	16,183	16,106	16,149	43
Corporate bonds	235,248	235,804	236,307	503
Beneficiary interest in investment funds	7,636	7,170	7,023	(147)
Other	19,193	17,745	17,651	(94)
	₩588,294	₩598,536	₩598,025	₩(511)

(a) Beginning balance amounts are the ending balance sheet amounts in the prior year or acquisition costs.

(b) Bonds were valued using the basic-yield-ratio of the Korea Securities Dealers Association

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

2001	Face value	Beginning balance amount (a)	Balance sheet amount (b)	Valuation gain (loss)
<DB>				
Stocks	₩ -	₩5,806	₩7,144	₩1,338
Government Bonds	10,000	10,068	10,003	(65)
Bonds issued by				
Financial Institutions	10,000	9,452	9,422	(30)
Corporate Bonds	-	-	-	-
Beneficiary certificates	10,000	10,000	10,020	20
Other	-	-	-	-
<Trust accounts>				
Stock	-	3,623	2,901	(772)
Government bonds	67,401	68,011	67,528	(483)
Bond issued by financial institutions	29,480	29,409	29,191	(218)
Corporate bonds	222,857	225,229	222,855	(2,374)
Beneficiary interest in investment funds	13,454	12,865	12,865	-
Other	23,861	24,185	24,174	(11)
<Subsidiary-insight Ventures Corp>				
Beneficiary interest in investment funds	-	3,130	3,134	4
	₩387,053	₩401,778	₩399,236	₩(2,542)

(a) Beginning balance amounts are the ending balance sheet amounts in the prior year or acquisition costs.

(b) Bonds were valued using the basic-yield-ratio of the Korea Securities Dealers Association

b. Classifications by issuers of trading securities as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

i) Bonds

	2002		2001	
	Amounts	Ratio (%)	Amounts	Ratio (%)
Government and public	₩126,555	21.44	₩77,531	19.92
Financial institution	71,173	12.06	88,805	22.82
Corporate	392,482	66.50	222,855	57.26
	₩590,210	100.00	₩389,191	100.00

ii) Stocks

	2002		2001	
	Amounts	Ratio (%)	Amounts	Ratio (%)
Manufacture	₩5,397	69.06	₩2,237	22.27
Wholesale and retail	329	4.21	3,993	39.75
Other	2,089	26.73	3,815	37.98
	₩7,815	100.00	₩10,045	100.00

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

5. INVESTMENT SECURITIES

a. Investment securities as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

2002	Number of shares	Ownership (%)	Beginning balance (a)	Fair value or net asset value	Balance sheet amount
(Un-listed Securities)					
Daegu Credit Information Co., Ltd.	159,970	53.32	₩800	₩1,262	₩800
Korea Lease Financing Co., Ltd.	891,411	22.29	-	-	-
Daegu Mutual Financial and Saving Co., Ltd.	210,000	14.69	-	-	-
SK Investment Trust Management Co., Ltd.	600,000	10.00	3,000	3,380	3,000
Kyong Buk Trading Corp	60,000	10.00	300	279	300
Il Sung Engineering	769,230	9.80	1,000	1,514	1,000
Tovis	200,000	4.50	600	265	600
KMA Consulting	30,000	3.75	150	216	150
Kiwoom. Com Co., Ltd.	300,000	3.00	1,500	1,544	1,500
Newcore Department	158,831	2.32	756	-	756
Daewoo Electronics Co., Ltd.	3,062,711	3.20	15,314	9,049	5,671
BC card Co., Ltd.	87,120	1.98	792	2,606	792
Daegu Bank Finance Co., Ltd.	279,920	1.25	-	-	-
TINC	10,000	1.25	50	49	50
National Information and Credit Evaluation, Inc	41,200	0.87	206	408	206
Korea Asset Management Corporation	152,000	0.54	760	934	760
Daegu World Trade Center	115,461	0.53	577	732	577
Korea Housing Guarantee Co., Ltd.	2,577,800	0.44	1,804	2,885	1,804
Korea Securities Depository	1,512	0.04	22	116	22
Woobang Co., Ltd.	55	-	-	-	-
Korea Securities Finance. Corp.	2,008	-	10	13	10
Daegu F.C.	300,000	11.70	1,500	1,500	1,500
Chung Gu Co., Ltd.	1,106,196	-	5,531	-	-
Kohap Co., Ltd.	1,722,600	-	-	-	-
Seoguang Co., Ltd.	20,951	-	-	-	-
Others	23,136	-	116	290	116
Sub total	12,882,112		34,788	27,042	19,614
(Listed Securities)					
Hyundai Engineering & Construction Co., Ltd. etc.	10,196,878	-	52,736	21,055	21,055
Total	23,078,990		₩87,524	₩48,097	₩40,669

(a) Beginning balance amounts are the ending balance sheet amounts in prior year or acquisition costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

2001	Number of shares	Ownership (%)	Beginning balance (a)	Fair value or net asset value	Balance sheet amount
(Affiliated Securities)					
Korea Lease Financing Co., Ltd.	891,411	22.29	-	-	-
Daegu Credit Information Co., Ltd.	159,970	53.32	800	800	800
Sub total	1,051,381		800	800	800
(Un-listed Securities)					
Daegu Mutual Financial and Saving Co., Ltd.	210,000	14.68	-	-	-
Daegu Bank Finance Co., Ltd.	279,920	14.00	-	-	-
SK Investment Trust Management Co., Ltd.	600,000	10.00	3,000	3,358	3,000
Kyong Buk Trading Corp	60,000	100.00	300	248	300
Ilsung Engineering	76,923	9.83	1,000	1,354	1,000
Tovis	200,000	6.29	600	25	600
KMA Consulting	30,000	3.75	150	212	150
Kiwoom. Com Co., Ltd.	300,000	3.00	1,500	1,271	1,500
Newcore Department	158,831	2.56	756	389	756
BC card Co., Ltd.	87,120	1.98	792	1,830	792
TINC	10,000	1.25	50	28	50
National Information and Credit Evaluation, Inc	41,200	0.87	206	350	206
Korea Asset Management Corporation	152,000	0.54	760	836	760
Daegu World Trade Center	115,461	0.53	577	535	577
Korea Housing Guarantee Co., Ltd.	2,577,800	0.44	2,950	2,240	1,804
Korea Securities Depository	1,512	0.04	22	101	22
Korea Securities Finance. Corp.	2,008	-	10	12	10
Others	2,814,634	0.93	12,526	7,195	12,526
Sub total	7,717,409		25,199	19,984	24,053
(Listed Securities)					
Hyundai Engineering & Construction Co., Ltd. etc.	13,741,227	-	60,019	32,200	32,200
Total	22,510,017		₩86,018	₩52,984	₩57,053

(a) Beginning balance amounts are the ending balance sheet amounts in prior year or acquisition costs.

b. Investment bonds in Korean Won as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

2002	Face value	Beginning balance(a)	Amount after adjusted by using interest rate	Balance sheet amount(b)
Available-for-sale bonds				
Government bonds	₩398,837	₩415,365	₩409,888	₩421,394
Bonds issued by financial Institutions	680,000	647,481	648,062	647,486
Corporate bonds	223,836	204,670	204,233	204,816
Beneficiary certificates	304,187	304,187	304,187	285,115
Other	344,484	347,293	344,534	347,530
Sub total	1,951,344	1,918,996	1,910,904	1,906,341
Held-to-maturity bonds				
Government bonds	1,660,895	1,548,922	1,568,175	1,568,175
Bonds issued by financial institutions	107,850	107,548	107,684	107,684
Corporate bonds	274,668	274,932	274,332	274,332
Beneficiary certificates	-	-	-	-
Other	418,905	428,690	425,363	425,363
Sub total	2,462,318	2,360,092	2,375,554	2,375,554
Total	₩4,413,662	₩4,279,088	₩4,286,458	₩4,281,895

(a) Beginning balance amounts are the ending balance sheet amounts in prior year or acquisition costs.

(b) Bonds were valued using the basic-yield-ratio of the Korea Securities Dealers Association.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

2001	Face value	Beginning balance(a)	Amount after adjusted by using interest rate	Balance sheet amount(b)
<u>Available-for-sale bonds</u>				
Government bonds	₩558,610	₩566,762	₩566,484	₩582,515
Bonds issued by financial institutions	301,913	297,121	296,458	297,021
Corporate bonds	92,931	91,828	91,759	91,721
Beneficiary certificates	15,315	15,315	15,315	15,255
Other	429,675	419,162	416,840	424,616
Sub total	1,398,444	1,390,188	1,386,856	1,411,128
<u>Held-to-maturity bonds</u>				
Government bonds	1,107,782	1,059,046	1,064,799	1,064,799
Bonds issued by financial institutions	298,003	286,441	288,137	288,137
Corporate bonds	389,912	373,749	373,938	373,938
Beneficiary certificates	417,500	417,500	417,500	417,500
Other	436,110	448,027	447,768	447,768
Sub total	2,649,337	2,584,793	2,592,172	2,592,172
Total	₩4,047,781	₩3,974,981	₩3,979,028	₩4,003,300

(a) Beginning balance amounts are the ending balance sheet amounts in prior year or acquisition costs.

(b) Bonds were valued using the basic-yield-ratio of the Korea Securities Dealers Association.

c. Investment securities in foreign currency as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

(2002)

	Face value	Beginning balance (a)	Balance sheet amount
Hyundai Motor Company	₩6,002	₩6,591	₩6,059
Samsung America Inc.	6,002	6,598	5,972
SK Chemicals	6,002	5,948	5,942
BNP Paribas (b)	12,004	13,261	12,004
LG Investment & Securities	12,004	12,255	12,004
SCB (C)	12,004	12,004	12,004
Total	₩54,018	₩56,657	₩53,985

(a) Beginning balance amount are the ending balance sheet amounts in prior year or acquisition costs.

(b) Details of credit linked notes are as follows :

Issuer : BNP Paribas

Total amount : US\$ 10,000,000

Contract date : December 6, 2001

Maturity date : December 6, 2004

Credit linked enterprise : Korea Electric Power Corporation, PO Steel Co., Ltd., Korea Telecom, Samsung Electronic Co., Ltd.

Recorded as investment securities (foreign currency) and credit derivatives sold in off-balance sheet guarantee.

(c) Details of credit linked notes are as follows :

Issuer : Standard Chartered Bank

Total Amount : US\$ 10,000,000

Contract date : October 25, 2002

Maturity date : October 25, 2005

Credit linked enterprise : SK Co., Ltd.

Recorded as investment securities (foreign currency) and credit derivatives sold in off-balance sheet guarantee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(2001)

	Face value	Beginning balance (a)	Balance sheet amount
Sakura Capital Funding Ltd.	₩6,630	₩6,299	₩6,631
PT Peraburan Cindonesia	4,774	4,535	4,774
Shin Han Bank	4,042	3,732	4,002
United Communication	3,072	3,531	3,072
Hyundai Motor Company	6,629	6,513	6,591
Samsung America Inc.	6,630	6,480	6,597
BNP Paribas	13,261	12,710	13,261
Total	₩45,038	₩43,800	₩44,928

(a) Beginning balance amount are the ending balance sheets in amount in prior year or acquisition costs.

d. Loss on investment securities impairment as of December 31, 2002 is as follows (in millions of Korean won) :

	Amount before impairment	Amount after impairment	Loss on impairment
(Stock)			
Cheung Gu Co., Ltd.	₩5,531	₩-	₩5,531
Daewoo Electronics Co., Ltd.	9,643	-	9,643
Ssangyong Engineering & Construction Co., Ltd.	2,071	51	2,020
Kia Steel Co., Ltd.	182	45	136
Shinbocapital Co., Ltd.	22	3	19
Kunyoung Co., Ltd.	234	83	152
Kabool Co., Ltd.	21,358	9,298	12,060
Shinwon Co., Ltd.	2,056	1,032	1,024
Korea Titanium Association	1,556	593	963
Miju Steel Co., Ltd.	1,028	247	781
Iishin Stone Co., Ltd.	618	256	362
Jindo Co., Ltd.	432	114	318
Koram Capital Co., Ltd.	332	56	276
Hanil Synthetic Fiber Co., Ltd.	475	197	278
Sub total	45,538	11,975	33,563
(Bonds)			
Daewoo Heavy Industrie & Machinery, Ltd.	400	320	80
Ssangyong Cement Industrial. Co., Ltd.	440	418	22
Hynicx Semiconductor Co., Ltd.	41	10	31
Hyundai Engineering & Construction Co., Ltd.	1,048	996	52
Sub total	1,929	1,744	185
Total	₩47,467	₩13,719	₩33,748

e. Issuer of investment securities in Korean won as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002		2001	
	Amounts	Ratio (%)	Amounts	Ratio (%)
(Bonds)				
Government and public	₩2,757,732	64.40	₩2,631,340	65.73
Financial institution	755,170	17.64	882,829	22.05
Corporate	479,148	11.19	480,535	12.00
Others	289,844	6.77	8,596	0.22
Total	₩4,821,894	100.00	₩4,003,300	100.00
(Stock)				
Manufacture	₩26,889	66.12	₩27,307	47.86
Construction	888	2.18	4,990	8.75
Wholesale and retail	1,055	2.59	1,745	3.06
Others	11,837	29.11	23,011	40.33
Total	₩40,669	100.00	₩57,053	100.00

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

f. Investment securities in foreign currency as of December 31, 2002 and 2001 are as follows (in millions of Korean won and thousands of US dollars) :

i) By issuer

	2002			2001		
	Amount in foreign currency	Amount in Korean won	Ratio (%)	Amount in foreign currency	Amount in Korean won	Ratio (%)
Financial institution	\$30,000	₩36,012	66.71	\$18,018	₩23,893	53.18
Corporate	14,973	17,973	33.29	15,862	21,035	46.82
Total	\$44,973	₩53,985	100.00	\$33,880	₩44,928	100.00

ii) By country

	2002			2001		
	Amount in foreign currency	Amount in Korean won	Ratio (%)	Amount in foreign currency	Amount in Korean won	Ratio (%)
Korea	\$24,973	₩29,977	55.52	\$12,963	₩17,190	38.26
Tailand	-	-	-	2,317	3,072	6.84
Indonesia	-	-	-	3,600	4,774	10.63
Japan	-	-	-	5,000	6,631	14.76
France	10,000	12,004	22.24	10,000	13,261	29.51
England	10,000	12,004	22.24	-	-	-
Total	\$44,973	₩53,985	100.00	\$33,880	₩44,928	100.00

iii) By currency type

	2002			2001		
	Amount in foreign currency	Amount in Korean won	Ratio (%)	Amount in foreign currency	Amount in Korean won	Ratio (%)
US\$	\$44,973	₩53,985	100.00	\$33,880	₩44,928	100.00

g. Investment securities pledged at various institutions as of December 31, 2002 are as follows (in millions of Korean won)

Pledged for	Lien value	Carrying amount
Bank of Korea borrowings	₩129,300	₩126,602
Sale of non-performing loans	17,000	9,108
Foreign currency transactions	89,400	91,496
Sale of RP (Bonds under repurchase agreements)	-	-
Total	₩235,700	₩227,206

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

h. Gains (losses) on valuation of investment securities as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
Investment stock	₩(15,795)	₩(20,071)
Investment bond	(4,462)	24,162
Gains/losses on valuation of investment securities	₩(20,257)	₩4,091

6. LOANS

a. Loans in local currency as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

Account	Detail account	2002	2001
Loans to enterprises	Operation loans	₩3,940,784	₩3,579,986
	Facility loans	1,159,586	846,663
	Sub total	5,100,370	4,425,949
Loans to households	General loans	2,593,526	1,537,417
	Housing loans	69,090	30,466
	Others	11,165	9,403
	Sub total	2,673,781	1,577,286
Loans to public sectors and others	Operation loans	80,802	121,424
	Facility loans	136,548	138,714
	Sub total	217,350	260,138
Loans to other banks		75,396	85,520
Loans in trust accounts	Real estate loans	101,361	174,266
Total		₩8,168,258	₩6,523,859

b. Loan to financial institutions as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

(2002)

	The Bank of Korea	Other banks	Other financial institutions	Total
Loans in Korean won	₩-	₩75,396	₩68,527	₩143,923
Loans in foreign currency	-	-	6,340	6,340
Call loans in Korean won	-	1,106	-	1,106
Call loans in foreign currency	-	1,722	-	1,722
Bonds purchased under repurchase agreements	-	-	10,000	10,000
Total	₩-	₩78,224	₩84,867	₩163,091

(2001)

	The Bank of Korea	Other banks	Other financial institutions	Total
Loans in Korean won	₩227,200	₩85,600	₩32,800	₩345,600
Loans in foreign currency	-	-	17,700	17,700
Call loans in Korean won	-	480,100	85,000	565,100
Call loans in foreign currency	-	1,900	-	1,900
Bonds purchased under repurchase agreements	-	-	629,000	629,000
Total	₩227,200	₩567,600	₩764,500	₩1,559,300

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

c. Loan risk concentrations by industry for Korean won loans as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002		2001	
	Amounts	Ratio (%)	Amounts	Ratio (%)
Manufacture	₩31,117	38.09	₩30,570	46.86
Construction	3,248	3.98	2,702	4.14
Wholesale and retail	7,688	9.41	6,183	9.48
Financial services and insurance	1,533	1.88	1,596	2.44
Others	10,533	13.15	8,415	12.90
Sub total	54,328	66.51	49,466	75.82
Households	27,355	33.49	15,773	24.18
Total	₩81,683	100.00	₩65,239	100.00

7. ALLOWANCE FOR LOAN LOSSES

a. Allowances for loan losses and their respective credit risk classifications as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002			2001		
	Amount(b)	Allowance rate	Allowance for loan losses	Amount(b)	Allowance rate	Allowance for loan losses
Normal loans	₩8,501,385	0.75%	₩63,922	₩6,500,480	0.48%	₩31,366
Precautionary loans	243,642	6.16%	15,002	275,442	2.00%	5,509
Substandard loans	153,939	20.48%	31,521	118,975	20.00%	23,795
Doubtful loans	47,725	69.42%	33,133	126,827	56.35%	71,466
Uncollectible loans(a)	6,797	100.00%	6,797	8,892	100.00%	8,892
Trust account loans	132,034	4.48%	5,918	174,266	2.28%	3,976
Total	₩9,085,522		₩156,293	₩7,208,485		₩145,632

(a) As of December 31, 2002 and 2001, written-off loans of which the statute of limitation did not expire amounted to ₩626,674 million and ₩496,140 million, respectively.

(b) This amount excludes loans given to other banks totaling ₩75,396 million and ₩85,520 million as of December 31, 2002 and 2001, respectively.

b. Allowances for loan losses as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
Loans in Korean won	₩122,653	₩93,934
Loans in foreign currency	2,475	5,536
Advance payments on acceptances and guarantees	5,169	2,210
Bills bought in foreign currency	1,607	24,483
Credit card receivables	20,748	7,138
Privately placed bonds	925	11,819
Other bonds	2,716	1,052
Total	₩156,293	₩145,632

c. Allowance ratios for prior three years are as follows (in millions of Korean won) :

Year	Total loans	Allowance for loan losses	Allowance ratio
2002	₩9,149,422	₩156,293	1.71%
2001	8,460,933	145,632	1.72%
2000	6,924,226	279,384	4.03%
Total	₩24,534,581	₩581,309	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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d. Overdue loans as of December 31, 2002 and 2001 are as follows (in millions of Korean won)

	2002	2001
Loans in Korean won	₩89,881	₩85,806
Loans in foreign currency	309	5,599
Advance payments on acceptances and guarantees	25,835	6,043
Others	56,478	66,317
Total	₩172,503	₩163,765

As of December 31, 2002 and 2001, loans under legal actions to collect are ₩93,751 million and ₩134,638 million, respectively.

8. RESTRUCTURED OF LOANS

a. Restructured loans due to the commencement of workout plans or other similar restructuring programs as of December 31, 2002 are as follows (in millions of Korean won) :

	Balances before restructuring	Balances after restructuring	Present value discounts
Workout	₩45,476	₩31,950	₩13,526
Court receivership and mediation	46,787	32,801	13,986
Total	₩92,263	₩64,751	₩27,512

b. Changes in present value discounts as of December 31, 2002 are as follows (in millions of Korean won) :

	Amount
Total amount	₩27,512
Amortization prior to 2002	(4,625)
Amortization in 2002	(4,213)
Balance sheet amount	₩18,674

9. TANGIBLE ASSETS

a. Tangible assets as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	Acquisition cost		Accumulated depreciation	
	2002	2001	2002	2001
Land	₩169,330	₩176,493	₩-	₩-
Buildings	154,226	151,965	18,038	14,372
Leasehold improvement	8,393	9,102	6,562	8,030
Operating movable properties	113,822	96,676	85,597	81,601
Construction in progress	589	944	-	-
Total	₩446,360	₩435,180	₩110,197	₩104,003

b. The total government-posted prices of land for tax imposition purpose as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	Size of land (m ²)		Book value		Appraisal value	
	2002	2001	2002	2001	2002	2001
Land	₩127,024	₩130,899	₩169,330	₩176,493	₩117,096	₩124,007

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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c. Assets insured as of December 31, 2002 are as follows (in millions of Korean won) :

Type	Account	Book value	Insurance amount	Coverage ratio
Fire insurance	Buildings	₩136,188	₩138,235	101.50%
Fire insurance	Movable properties	28,225	27,158	96.22%
Fire insurance	Leasehold improvements	1,831	1,847	100.87%
Fire insurance	Leasehold deposits received	92,601	44,445	48.00%
	Total	₩258,845	₩211,685	81.78%

All vehicle are insured for comprehensive coverage (coverage ratio as of December 31, 2001 : 81.8%)

10. SUNDRY ASSETS AND LIABILITIES

a. Sundry assets as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
Suspense receivables	₩3,317	₩1,745
Cash sent to other Banks	1,950	560
Expenditures	509	639
Deposit money to court	2,018	1,522
Derivatives instruments assets	315	171
Domestic exchange settlements debits	80,892	95,199
Loans to trust account	11,800	48,700
Other	-	1
Total	₩100,801	₩148,537

b. Sundry liabilities as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
Suspense payables	₩4,945	₩215,054
Cash received from other banks	2,430	1,413
Deposits for credit control	5,409	4,450
Withholding taxes	8,998	7,799
Guarantee deposits for securities subscription	8,103	1,505
Account for agency businesses	44,317	39,527
Domestic exchange settlement credits	22,273	61,397
Derivatives instruments liabilities	1,146	223
Liability incurred by agency relationship	28,010	24,723
Lottery sold	11	36
Income tax payable	1,685	659
Others	154	159
Total	₩127,460	₩258,532

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11. DEPOSITS

a. Deposits as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
(Deposits in local currency)		
Demand deposits	₩1,054,007	₩1,026,622
Savings deposits	9,247,405	8,288,604
Mutual installment savings	659,814	809,379
Mutual installment for housing	101,011	57,483
Trust accounts	469,759	531,203
Sub total	11,531,996	10,713,291
(Deposits in foreign currency)		
Current deposits in foreign currency	501	2,043
Passbook deposits in foreign currency	56,992	35,849
Notice deposits in foreign currency	245	683
Time deposits in foreign currency	13,590	9,220
Temporary deposits in foreign currency	29	36
Sub total	71,357	47,831
Certificate of deposit	603,662	225,597
Total	₩12,207,015	₩10,986,720

b. Deposits in Korean won from other banks as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
Banks	₩2,968	₩500
Other financial institute	97,764	315,100
Total	₩100,732	₩315,600

12. BORROWINGS IN KOREAN WON

a. Borrowings in Korean won as of December 31, 2002 and 2001 are as follows (in millions of Korean won)

	2002	2001
The Bank of Korea	₩277,544	₩387,596
Banks	201,400	277,573
Other financial institutions	501,000	50,000
Government and public	626,133	614,132
Total	₩1,155,077	₩1,329,301

b. Borrowing from other financial institutions as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

2002	The Bank of Korea	Other banks	Other financial institutions	Total
Borrowings in local currency	₩277,544	₩827,533	₩50,000	₩1,155,077
Borrowings in foreign currency	-	99,275	-	99,275
Due to Bank of Korea in foreign currency	11,020	-	-	11,020
Call money	-	-	-	-
Total	₩288,564	₩926,808	₩50,000	₩1,265,372

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2001	The Bank of Korea	Other banks	Other financial institutions	Total
Borrowings in local currency	₩387,596	₩277,573	₩50,000	₩715,169
Borrowings in foreign currency	-	109,900	-	109,900
Due to Bank of Korea in foreign currency	32,000	-	-	32,000
Call money	-	30,000	120,000	150,000
Total	₩419,596	₩417,473	₩170,000	₩1,007,069

13. DEBENTURES

Debentures as of December 31, 2002 are as follows (in millions of Korean won) :

	Issuance date	Maturity date	Coupon rate	Amount
2 nd subordinated debentures	1999. 6.17	2004.12.31	floating rate	₩100,000
4 th subordinated debentures	2000. 4.26	2005. 7.26	10.50%	93,172
4 th subordinated debentures	2000. 4.26	2005. 7.26	10.20%	26,828
5 th subordinated debentures	2001. 3.26	2007 .1.26	8.50%	50,000
6 th subordinated debentures	2002.11.26	2008. 2.26	6.50%	55,000
				325,000
Premium in debentures				2,700
				₩327,700

* Convertible debentures were all converted in 2002.

14. ALLOWANCES FOR OUTSTANDING GUARANTEES AND ACCEPTANCES

Allowances for outstanding guarantees and acceptance as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002		2001	
	Guaranteed Amount	Allowances for guarantees and acceptance	Guaranteed Amount	Allowances for guarantees and acceptance
Normal guarantees	₩133,521	₩-	₩213,860	₩-
Doubtful guarantees	1,036	225	21,689	9,098
	₩134,557	₩225	₩235,549	₩9,098

Guarantee and acceptance are classified as either normal or doubtful ones. Doubtful guarantees are those that are assessed as substandard or below (precautionary if legal reorganization process is in progress) and the Bank applied the same allowance ratios as the loans.

15. COMMON STOCK

Common stock as of December 31, 2002 are as follows.

a. Authorized shares	:	300,000,000 shares
b. Issued shares	:	132,125,000 shares
c. Price per shares	:	5,000 Won
d. Capital	:	660,625,000,000 Won

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

e. Details of change in capital during the year ended December 31, 2002 are as follows :

Date	Capital	Additional paid-in capital	Number of shares	
2002. 1. 1	₩602,100	₩-	120,420,000	
2002. 4.30	24,581	5,116	4,916,100	Convertible bonds converted
2002. 5.31	33,944	7,212	6,788,900	Convertible bonds converted
2002.12.31	₩660,625	₩12,328	132,125,000	

16. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

Monetary assets and liabilities in foreign currencies as of December 31, 2002 and 2001 are as follows (in millions of Korean won and thousands of US dollars) :

	2002		2001	
	Foreign currency	Local currency	Foreign currency	Local currency
(Assets)				
Foreign currency	\$7,830	₩9,399	\$8,306	₩11,014
Due from in foreign currency	7,880	9,459	12,644	16,767
Investment securities in foreign currency	44,973	53,985	33,880	44,928
Loans in foreign currency	161,319	193,647	71,479	94,788
Call loans in foreign currency	1,435	1,722	1,446	1,918
Bills bought in foreign currency	68,831	82,625	74,033	98,175
Total	\$292,268	₩350,837	\$201,788	₩267,950
(Liabilities)				
Deposits in foreign currency	\$59,444	₩71,357	\$36,070	₩47,832
Borrowings in foreign currency	199,615	239,618	135,298	179,419
Due to Bank of Korea in foreign currency	9,180	11,020	24,125	31,992
Call money in foreign currency	-	-	5,500	7,294
Debentures in foreign currency	-	-	50,000	58,525
Foreign exchanges payable	1,914	2,297	670	888
Deposits received in foreign currency	7,456	8,950	4,548	6,031
Total	\$277,609	₩333,242	\$256,211	₩331,981

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

17. CLASSIFICATION OF ASSETS AND LIABILITIES BY MATURITY

Classifications of assets and liabilities by maturity as of December 31, 2002 and 2001 are as follows (in hundred millions of Korean won) :

(2002)

	Less than six months	Less than one year	Less than three years	Greater than three years	Total
(Assets)					
Due from in Korean won(a)	₩2,950	₩830	₩-	₩-	₩3,780
Due from in foreign currency	94	-	-	-	94
Marketable securities in Korean won	39,780	745	4,072	4,893	49,490
Marketable securities in foreign currency	300	-	240	-	540
Advance payments on acceptances and guarantees	23	-	-	258	281
Loans in Korean won(b)	28,995	24,930	19,031	9,042	81,998
Loans in foreign currency (c)	947	259	480	195	1,881
Total	₩73,089	₩26,764	₩23,823	₩14,388	₩138,064
(Liabilities)					
Deposits in Korean won	₩51,165	₩20,481	₩6,998	₩36,676	₩115,320
Deposits in foreign currency	468	6	239	-	713
Borrowings in Korean won	3,330	1,110	2,936	4,175	11,551
Borrowings in foreign currency(d)	1,207	226	1,010	8	2,451
Certificate of deposit	5,790	231	15	-	6,036
Total	₩61,960	₩22,054	₩11,198	₩40,859	₩136,071

(2001)

	Less than six months	Less than one year	Less than three years	Greater than three years	Total
(Assets)					
Due from in Korean won(a)	₩6,705	₩2,009	₩-	₩-	₩8,714
Due from in foreign currency	167	-	-	-	167
Marketable securities in Korean won	34,754	1,394	6,355	1,795	44,298
Marketable securities in foreign currency	264	-	-	-	264
Advance payments on acceptances and guarantees	37	-	-	60	97
Loans in Korean won(b)	31,334	20,067	11,294	7,657	70,352
Loans in foreign currency (c)	169	88	395	173	825
Total	₩73,430	₩23,558	₩18,044	₩9,685	₩124,717
(Liabilities)					
Deposits in Korean won	₩54,638	₩13,244	₩7,782	₩31,468	₩107,132
Deposits in foreign currency	465	13	-	-	478
Borrowings in Korean won	4,653	890	3,553	4,197	13,293
Borrowings in foreign currency(d)	916	16	524	20	1,476
Certificate of deposit	2,175	81	-	-	2,256
Total	₩62,847	₩14,244	₩11,859	₩35,685	₩124,635

(a) Excluding reserve deposits.

(b) Including call loan in won.

(c) Excluding off-shore loans in foreign currency.

(d) Including due to Bank of Korea in foreign currency and excluding off-shore borrowing in foreign currency.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

18. INCOME TAX EXPENSE

Income tax expense and deferred income assets (liabilities) for the years ended December 31, 2002 and 2001 are as follows (in millions of Korean won) :

a. Differences between taxable income and accounting income for the years ended December 31, 2002 and 2001 are as follows (in millions of Korean won).

(2002)

	Temporary difference	Permanent difference	Total
a) Additions			
Accrued revenues	₩42,654	₩-	₩42,654
Allowance for doubtful accounts	31,783	-	31,783
Losses on valuation of trading securities	2,244	-	2,244
Impairment losses on investment securities	43,778	-	43,778
Losses on valuation of investment securities	5,931	-	5,931
Accrued for severance benefits	270	-	270
Accumulated depreciation	53	-	53
Gain on asset revaluation	-	173	173
Other allowance	2,000	-	2,000
Convertible bond interest	-	12,328	12,328
Imputed interest	-	1,624	1,624
Stock option	-	165	165
Others	-	1,481	1,481
Total	₩128,713	₩15,771	₩144,484
b) Deductions			
Accrued revenues	₩(88,477)	₩-	₩(88,477)
Gains on valuation of marketable securities	(6,357)	-	(6,357)
Reversal of allowance for acceptances and guarantees	(8,873)	-	(8,873)
Present value discount	(4,455)	-	(4,455)
Allowance for doubtful accounts	(7,723)	-	(7,723)
Gains on valuation of investment securities	(2,455)	-	(2,455)
Impairment losses on investment securities	(15,915)	-	(15,915)
Loss on sales of assets not used for business purpose	(96)	-	(96)
Gains on valuation of the Stock Market Stabilization Fund	(641)	-	(641)
Accrued for severance benefits	(850)	-	(850)
Receivables convertible to equity securities	(6,495)	-	(6,495)
Valuation allowance on real estate used for non-business purpose	(283)	-	(283)
Dividends income	-	(428)	(428)
Others	(3,932)	-	(3,932)
Total	₩(146,552)	₩(428)	₩(146,980)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(2001)

	Temporary difference	Permanent difference	Total
a) Additions			
Marketable securities	₩54,317	₩-	₩54,317
Accrued revenues	137,743	-	137,743
Allowance for acceptances and guarantees	-	-	-
Allowance for doubtful accounts	8,053	-	8,053
Others allowance	3,412	-	3,412
Gain on asset revaluation	2,364	-	2,364
Accrued for severance benefits	26,837	-	26,837
Foreclosed and other properties	204	-	204
Imputed interest	-	1,005	1,005
Others	435	1,266	1,701
Total	₩233,365	₩2,271	₩235,636
b) Deductions			
Marketable securities	₩(16,403)	₩-	₩(16,403)
Accrued revenues	(60,100)	-	(60,100)
Allowance for acceptances and guarantees	(565)	-	(565)
Foreclosed and other properties	(267)	-	(267)
Allowance for doubtful accounts	(22,912)	-	(22,912)
Stock Market Stabilization Fund	(3,044)	-	(3,044)
Accrued for severance benefits	(26,814)	-	(26,814)
Present value discount	(10,909)	-	(10,909)
Dividends income	-	(615)	(615)
Others	(818)	-	(818)
Total	₩(141,832)	₩(615)	₩(142,447)

b. Change in deferred tax assets (liabilities) for the years ended December 31, 2002 and 2001 are as follows (in millions of Korean won) :

(2002)

	January 1, 2002	Increase	Decrease	December 31, 2001
a) Temporary differences to be deducted from taxable income :				
Accrued for severance benefits	₩10,923	₩270	₩850	₩10,343
Valuation allowance on real estate used for non-business purpose	329	-	283	46
Allowance for acceptances and guarantees	9,098	-	8,873	225
Gains on valuation of the Stock Market Stabilization Fund	3,107	-	641	2,466
Present value discount	13,179	-	4,455	8,724
Losses on valuation of trading securities	5,860	2,243	631	7,472
Losses on valuation of investment securities	44,948	49,608	18,269	76,287
Allowance for doubtful accounts	24,237	31,783	14,218	41,802
Loss on sales of assets not used for business purpose	98	-	96	2
Loss on valuation of beneficiary interest in restructuring fund	10,220	-	-	10,220
Other allowances	3,412	2,000	3,412	2,000
Other	1,306	-	520	786
Total	₩126,717	₩85,904	₩52,248	₩160,373
b) Temporary differences to be added to taxable income :				
Accrued revenues	₩74,964	₩88,476	₩42,654	₩120,786
Gains on valuation of marketable securities	1,003	5,726	-	6,729
Accumulated depreciation	2,486	-	53	2,433
Total	₩78,453	₩94,202	₩42,707	₩129,948
Tax effect on temporary difference				
Deferred income tax assets	₩37,635			₩47,631
Deferred income tax liabilities	(23,301)			(38,595)
Operating losses carry forwards	363,649			234,032
Deferred income tax assets	108,004			69,508
Net deferred tax assets	₩122,338			₩78,544

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The difference in deferred income tax assets between January 1, 2002 and December 31, 2001 is due to adjustments based on the tax return filed.

(2001)

	January 1, 2002	Increase	Decrease	December 31, 2001
a)Temporary differences to be deducted from taxable income				
Marketable securities	₩11,086	₩54,317	₩16,403	₩49,000
Foreclosed and other properties	392	204	267	329
Allowance for doubtful accounts	29,084	8,053	22,912	14,225
Allowance for acceptances and guarantees	9,663	-	565	9,098
Accrued for severance benefits	12,905	26,837	26,814	12,928
Stock Market Stabilization Fund	6,151	-	3,044	3,107
Present value discount	23,362	-	10,900	12,453
Other allowances	-	3,412	-	3,412
Beneficiary interest in restructuring fund	10,220	-	-	10,220
Other	1,800	419	818	1,401
Total	₩104,663	₩93,242	₩81,732	₩116,173
b)Temporary differences to be added to taxable income:				
Accrued revenues	₩152,607	₩60,100	₩137,743	₩74,964
Gains on asset revaluation	26,472	-	2,364	24,108
Other	2,502	-	16	2,486
Total	₩181,581	₩60,100	₩140,123	₩101,558
Tax effect on temporary difference				
Deferred income tax assets	₩31,085			₩34,503
Deferred income tax liabilities	(53,930)			(30,163)
Operating losses carry forwards	497,923			374,046
Deferred income tax assets	147,883			111,092
Net deferred tax assets	₩125,038			₩115,432

Net deferred tax assets as of December 31, 2002 and 2001 have not been recorded as realization of such assets is uncertain. Therefore, income tax expenses for the years ended December 31, 2002 and 2001 have been not recorded.

19. BASIC AND DILUTED INCOME PER SHARE

Basic and dilute income per share as of December 31, 2002 and 2001 are as follows (in Korean won).

a. Basic net income per share

	2002	2001
Net income and ordinary income	₩131,199,563,507	₩30,841,208,331
Weighted average number of common shares outstanding(a)	127,700,189	119,351,729
Basic net income and ordinary income per share	1,027	258

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(a) Weighted average numbers of common shares outstanding are computed as follows :

(2002)

	Number of shares	Days outstanding	Weighted average number of shares
Beginning balance	120,420,000	365	120,420,000
Convertible bonds converted (April)	4,916,100	245	3,299,848
Convertible bonds converted (May)	6,788,900	214	3,980,341
			127,700,189

(2001)

	Number of shares	Days outstanding	Weighted average number of shares
Beginning balance	120,420,000	365	120,420,000
Treasury stock	(1,150,203)	339	(1,068,271)
			119,351,729

b. Dilute net income and ordinary income (In millions of Korean won).

	2002(a)	2001(b)
Ordinary income	₩131,199,563,507	₩30,841,208,331
Addition (After tax) :		
Interest of convertible bonds	1,140,642,721	-
Adjusted ordinary income	132,340,206,228	30,841,208,331
Net income	131,199,563,507	30,841,208,331
Addition (After tax) :		
Interest of convertible bonds	1,140,642,721	-
Adjusted net income	₩132,340,206,228	₩30,841,208,331
Weighted average number of common shares outstanding	132,125,000	119,351,729
Diluted net income per share	₩1,002	₩258
Diluted ordinary income per share	₩1,002	₩258

(a) The 1st and 2nd stock options were excluded because of anti dilution effect.

(b) Dilutive instruments were excluded for because of anti dilution effect.

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c. Dilution Effect

(2002)

	Income	Number of shares	Income per shares	Dilution effect
Common stock	₩131,199,563,507	₩127,700,189	₩1,027.40	
Convertible bonds	1,140,642,721	4,424,811		
	132,340,206,228	132,125,000	1,001.63	0
1 st Stock option	53,634,760	46,010		
	132,393,840,988	132,171,010	1,001.69	X
2 nd Stock option	62,496,700	15,223		
	₩132,456,337,688	₩132,186,233	₩1,002.04	X

(2001)

	Income	Number of shares	Income per shares	Dilution effect
Common stock	₩30,841,208,331	₩119,351,729	₩258.41	
1 st Stock option	153,919,992	520,000		
	30,995,128,323	119,871,729	258.57	X
Convertible bonds	4,879,769,019	10,134,545		
	₩35,874,897,342	₩130,005,274	₩275.95	X

d. Common stock equivalents

(2002)

	Exercise period	Numbers of common shares to be issued	Exercise price
1 st Stock option	2003. 3. 1~2006. 2.28	423,139	5,000 Won per shares
2 nd Stock option	2005. 3. 9~2008. 3. 8	140,000	5,000 Won per shares

(2001)

	Exercise period	Numbers of common shares to be issued	Exercise price
Convertible bonds	Until 2002.5.17	11,705,000	1,170.5/1 US\$
1 st Stock option	2003. 3. 1~2006. 2.28	520,000	5,000 Won per shares

20. STOCK OPTIONS

a. Details of stock option costs calculated using the Black-Scholes option pricing method are as follow (in Korean won) :

	1 st Stock Option	2 nd Stock Option
Grant date	2000.02.09	2002.03.08
Exercise period	2003.03.01~2006.02.28	2005.03.09~2008.03.08
Exercise price per share	5,000	5,000
Shares to be issued	423,139	140,000
Number of exerciser (a)	5 persons	4 persons
Compensation cost per share	888	2,286
Total compensation cost	375,747,432	320,040,000
Compensation cost until 2002	358,480,763	88,900,000
Residual amount	17,266,669	231,140,000

(a) The 1st stock option's share was adjusted due to retirement of 3 persons.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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b. Assumptions used in the Blank-Scholes option pricing method are as follow :

	1 st Stock Option	2 nd Stock Option
Risk-free interest rate	8.91%	6.19%
Expected exercise period	3 years	3 years
Expected stock price volatility	78.40%	58.54%
Expected dividend yield ratio	-%	-%
Expected right disappearance ratio	-%	-%

21. RELATED PARTY TRANSACTIONS

a. Related parties as of December 31, 2002 are as follow :

	Issued Number of Shares	Capital Stock	Equity Ratio
Daegu Credit Information Co., Ltd.	300,000	1,500,000,000 Won	53.3%
Korea Lease Financing Co., Ltd.	4,000,000	20,000,000,000 Won	22.3%

Note : Binext Hitech's shares were sold in 2002. Therefore, this company was excluded from affiliates.

b. Transactions and account balances with of related parties as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	Daegu Credit Information Co., Ltd.		Korea Lease Financing Co., Ltd.		Binext Hitech Co., Ltd.	
	2002	2001	2002	2001	2002	2001
Loans	-	-	24,792	32,587	-	450
Total assets	-	-	24,792	32,587	-	450
Deposits	1,677	1,329	4,457	13,471	-	13,003
Guarantee deposits received	100	100	-	-	-	302
Total liabilities	1,777	1,429	4,457	13,471	-	13,305
Interest on loans	-	-	588	1,309	-	-
Others	23	21	-	-	-	24
Total revenues	23	21	588	1,309	-	24
Interest on deposits	70	62	532	474	-	992
Others	2,549	2,215	-	-	-	-
Total expense	2,619	2,277	532	474	-	992

22. TRANSACTIONS RELATED TO OFFICERS AND STOCKHOLDERS

Transactions related to officers and stockholders as of December 31, 2002 and 2001 are as follow (in millions of Korean won) :

	Officers		Stockholders	
	2002	2001	2002	2001
Loans	w28	w115	w63,967	w79,318
Acceptances and guarantees	-	-	5,966	16,308
Total	w28	w115	w69,933	w95,626

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

23. TRUSTS WITH GUARANTEES

Details of trusts, for which the DB guarantees principal or yield, as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002		2001		Remark
	Book value	Trust fee	Book value	Trust fee	
Unspecific money trusts	₩120	₩-	₩125	₩12	Guarantees of principal and yield
Development trusts	-	(5,579)	59	(28,389)	Guarantees of principal and yield
Reserving objective trusts	791	14	940	50	Guarantees of principal
Housing money trusts	17,194	263	19,708	726	Guarantees of principal
Retirement pension trusts	11,988	127	12,711	115	Guarantees of principal
Business money trusts	171	2	164	4	Guarantees of principal
Personal pension money trusts	145,386	1,558	131,793	1,236	Guarantees of principal
Retirement trusts	47,207	298	33,065	241	Guarantees of principal
New personal pension trusts	1,951	17	1,240	9	Guarantees of principal
New retirement pension trusts	241,772	29	343,173	1,168	Guarantees of principal
Pension trusts	3,178	18	1,224	3	Guarantees of principal
Total	₩469,758	₩(3,253)	₩544,202	₩(24,825)	

24. UNCERTAINTY AND CONTINGENCIES

Contingency liabilities as of December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
a. Acceptances and guarantees outstanding		
Acceptances and guarantees outstanding in Korean won		
Guarantees for bonds issued	₩-	₩16,779
Guarantees for loans	22,155	22,558
Other acceptances and guarantees in Korean won	68,149	74,313
Sub total	90,304	113,650
Acceptances and guarantees outstanding in foreign currency		
Acceptances	3,535	69,789
Acceptances for letter of credit	4,072	3,830
Acceptances for foreign loans	36,646	48,280
Sub total	44,253	121,899
Total	134,557	235,549
b. Acceptance and guarantees		
On L/C	137,919	108,179
Others	18,498	12,694
Sub total	156,417	120,873
c. Bills endorsed with recourse	1,473	2,933
d. Derivative contracts		
Contracts on currency interest rates Swaps purchased	-	3,978
Contracts on currency interest rates Swaps sold	-	3,978
Contracts on currency futures sold	-	8,620
Contracts on currency forwards purchased	28,974	22,924
Contracts on currency forwards sold	30,234	24,486
Sub Total	59,208	63,986
e. Loans sold under repurchase agreements (a)	45,259	150,205
Total	₩396,914	₩575,546

(a) Additional losses may occur in settlement in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

f. As of December 31, 2002, 38 pending legal actions against the Bank amounting to ₩10,089 million are filed against the Bank. Management believes that these actions are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

g. As of December 31, 2002, ₩89.6 billion in commercial loans were granted to those who applied for court receivership or workout, and those who are already placed under court receivership or workout, including those carrying out management improvement plans. Since the collectibility of such loans solely depends upon whether they will return to normal operations in the future, it is currently not possible to predict the ultimate outcomes.

h. As of December 31, 2002 and 2001, assets pledged as collateral relating to the borrowings from the Bank of Korea are ₩372,010 million and ₩405,834 million, respectively.

25. AVERAGE ASSET BALANCE WITH INTEREST INCOME AND AVERAGE LIABILITY BALANCE WITH INTEREST EXPENSES (in millions of Korean won)

	Average amount	Interest income/ Interest expense	Average interest ratio
(Assets)			
Cash and due from banks	₩1,180,406	₩39,463	3.34%
Loans	8,489,698	701,428	8.26%
Trading securities	608,970	41,314	6.78%
Investment securities	4,461,049	288,781	6.47%
Total	₩14,740,123	₩1,070,986	7.27%
(Liabilities)			
Deposits	₩11,028,950	₩395,237	3.58%
Borrowings	2,843,095	124,534	4.38%
Bonds	327,537	28,235	8.62%
Total	₩14,199,582	₩548,006	3.86%

26. DONATION

Donations to society for the years ended December 31, 2002 and 2001 are as follows (in million of Korean won) :

	2002	2001
School	₩242	₩40
Sports	244	227
Expo support	10	10
Other	332	151
Total	₩828	₩428

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

27. DIVIDENDS

a. Dividends for the years ended December 31, 2002 and 2001 are follows (in Korean won) :

	2002	2001
Dividends per shares(dividend ratios)	250(5%)	-(-%)
Number of shares	132,125,000	-
Total dividends amount	33,031,250,000	

b. Dividend payout ratios for the years ended December 31, 2002 and 2001 are as follows :

	2002	2001
Dividend amount	33,031,250,000	-
Net Income	131,199,563,507	-
Dividend payout ratios	25.18%	- %

c. Dividend yield ratios for the years ended December 31, 2001 and 2001 are as follows

	2002	2001
Dividend per share	250	-
Fair value of the stock on the balance sheet date	4,760	-
Dividend yield ratios	5.25%	- %

28. STATEMENT 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 as follows (in millions of Korean won) :

	2002	2001
Cash and due from banks	₩1,561,692	₩1,268,760
Restricted deposits	(913,426)	(182,009)
Total	₩648,266	₩1,086,751

b. Transaction not involving the inflows or outflows of cash for the years ended December 31, 2002 and 2001 are as follows (in millions of Korean won) :

	2002	2001
Increase in foreclosed and other properties	₩-	₩172
Increase in accounts receivable on disposition of assets	579	135,050
Increase in capital stock in converted of convertible bonds	58,525	-
Increase in capital surplus in converted of convertible bonds	12,328	-
Increase in dividends payable	33,031	-
Decrease in losses on sale of treasury stock	379	-
Total	₩104,842	₩135,222

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

c. Addition of expenses not involving cash outflows for the years ended December 31, 2002 and 2001 consists of the follows (in millions of Korean won) :

	2002	2001
Depreciation	₩18,257	₩16,520
Provision for loan losses	165,105	81,745
Reserve for severance and retirement benefits	22,338	12,394
Loss on securities	66,790	55,367
Loss from disposal of fixed assets	5,637	2,600
Amortization of other assets	2,676	2,511
Other	1,788	757
Total	₩282,591	₩171,894

d. Deduction of revenues not involving cash inflows for the years ended December 31, 2002 and 2001 consists of the follows (in millions of Korean won) :

	2002	2001
Gain on securities	₩88,916	₩53,178
Gain on disposal of fixed assets	127	392
Bank debts	155,759	43,236
Transfer from allowance for guarantee	8,873	565
Payment of severance and retirement benefits	24,561	29,235
Other	1,855	4,176
Total	₩280,091	₩130,782

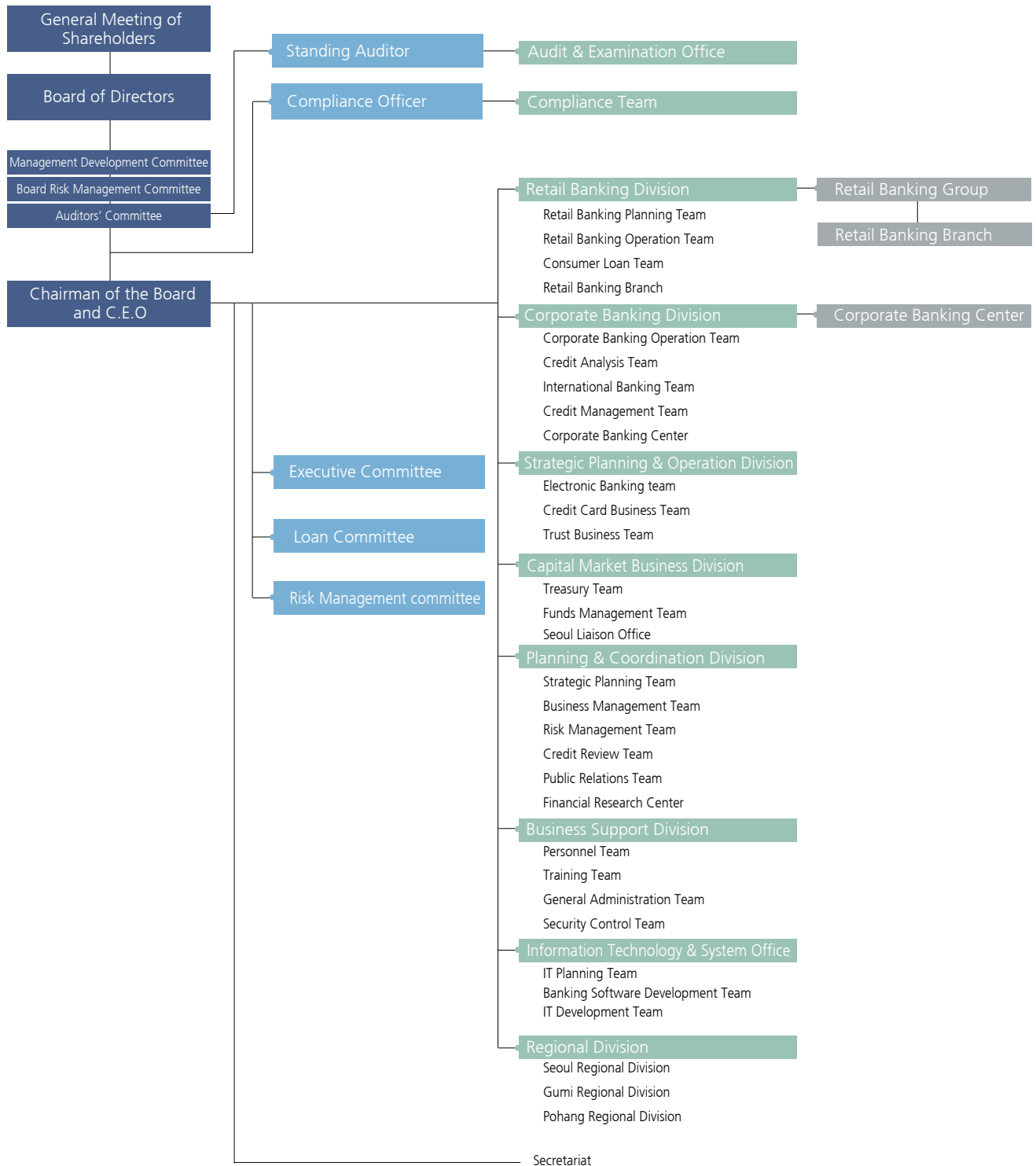
e. Changes in assets and liabilities resulting from operations for the years ended December 31, 2002 and 2001 consists of the follows (in millions of Korean won) :

	2002	2001
Decrease (increase) in loans in local currency	₩1,718,003	₩(409,656)
Decrease (increase) in other assets	605,386	(1,128,843)
Increase in deposits in local currency	880,146	1,309,047
Decrease in other liabilities	(3,149,709)	(26,174)
Total	₩ 53,826	₩(265,333)

29. UNCERTAINTIES BUSINESS ENVIRONMENT

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, 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 Bank may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's 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



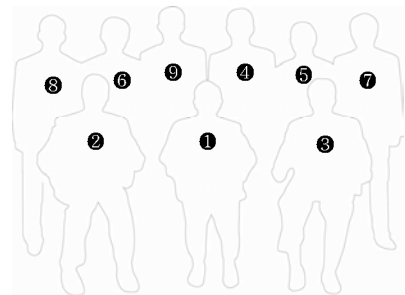
BOARD OF DIRECTORS

As of March 26, 2003



Members of Executive Committee

- | | |
|-------------------|---|
| ① Kim Kuk-nyon | Chairman of the Board & Chief Executive Officer |
| ② Lee Hwa-eon | Director & Deputy Chief Executive Officer |
| ③ Park Young-bae | Standing Auditor |
| ④ Lim Sang-nyoung | Senior Executive Vice President |
| ⑤ Park Sung-dong | Senior Executive Vice President |
| ⑥ Jo Seong-tae | Senior Executive Vice President |
| ⑦ Lee Sang-bae | Executive Vice President |
| ⑧ Lee Joong-ho | Executive Vice President |
| ⑨ Kim Chan-Soo | Executive Vice President |



Standing Directors

- | | |
|----------------|---|
| Kim Kuk-nyon | Chairman of the Board & Chief Executive Officer |
| Lee Hwa-eon | Director & Deputy Chief Executive Officer |
| Park Young-bae | Standing Auditor |

Non-standing Directors

- | | |
|----------------|--|
| Lee Kyung-jae | Senior Research Fellow / Korea Institute of Finance |
| Kwon Sang-jang | Keimyung Univ. Professor / Korea Futures Forum President |
| Kim In-soo | Attorney, Daegu Bar Association President |
| Lee Young-sae | Daegu Cyber University President |

BRIEF HISTORY

1960s

- October 07, 1967 Business begun with paid-in capital of ₩105 million.
- October 20, 1969 Main Branch moved to a newly constructed building.

1970s

- May 12, 1972 Bank listed on the Korea Stock Exchange.
- October 01, 1973 "Class-A" foreign exchange business begun.
- January 04, 1975 Bank enlisted to handle budgetary funds for the City of Daegu.
- November 30, 1978 Operation of the Daegu Bank Computer Center begun.
- October 23, 1979 New York Office established.

1980s

- February 07, 1983 On-line banking services opened at all business units.
- April 26, 1985 Paid-in capital increased to ₩35 billion.
- May 28, 1985 Construction of new Main Branch Building completed.
- October 22, 1985 Daegu Leasing Co. established as a subsidiary.
(Subsequently incorporated into Korea Lease Financing Co.)
- September 19, 1987 Paid-in capital increased to ₩50 billion.
- May 05, 1988 Paid-in capital increased to ₩100 billion.
- June 27, 1989 Paid-in capital increased to ₩150 billion.
- July 21, 1989 Paid-in capital increased to ₩165 billion by transferring ₩15 billion from capital reserve.
- October 11, 1989 Construction of new Computer Center Building completed.
- December 07, 1989 Tokyo Office established.

1990s

- September 09, 1991 Operation of an integrated on-line service begun.
- December 27, 1991 Dae-Eun Scholarship Foundation established.
- May 02, 1994 Daegu Banking Institute established as a subsidiary.
- June 24, 1995 Paid-in capital increased to ₩210 billion.
- July 21, 1995 Hong Kong Office established.
- August 08, 1996 Daegu Bank Finance Co. established as a subsidiary.
- February 27, 1997 Paid-in capital increased to ₩220.5 billion through stock dividends.
- July 19, 1997 Paid-in capital increased to ₩316.5 billion.
- February 21, 1998 Hong Kong Office closed.
- October 24, 1998 Paid-in capital increased to ₩482.1 billion.
- November 30, 1998 Paid-in capital increased to ₩502.1 billion.
- November 30, 1998 Tokyo Office closed.
- December 31, 1998 New York Office closed
- February 18, 1999 Operation of upgraded, integrated on-line system begun
- June 17, 1999 US\$50 million in overseas convertible bonds issued
- November 05, 1999 Daegu Leasing Co. closed
- November 20, 1999 Paid-in capital increased to ₩602.1 billion

2000s

- July 05, 2000 Daegu Credit Information Co. established as a subsidiary
- June 23, 2001 Operation of Credit Risk Management System begun
- July 07, 2001 Cyber Dokdo branch opened
- July 08, 2001 Operation of Plus Firm Banking system begun
- May 17, 2002 Conversion of US\$50 million in CBs to equity capital completed
- June 02, 2002 Bank designated "Model of Corporate Governance" by Korea Stock Exchange.
- August 29, 2002 Bank rated highest on FSS customer satisfaction survey for second straight time
- December 01, 2002 Computer backup system put online.

CORPORATE INFORMATION

As of December 31, 2003

Major Stockholders

Name	Stocks	Ownership
Samsung Insurance Co.,Ltd.	9,754,686	7.38%
Franklin Templeton	6,547,070	4.95%
SSB-SMALL CAP	5,177,540	3.92%
JPMLU-JPM FLM FD	4,073,000	3.08%
National Pension Corporation	2,164,000	1.64%
Dongil Industry Co.,Ltd.	2,033,683	1.54%
Lee Byoung-kul	1,900,000	1.44%
HKIT-JF KOREA TST	1,900,000	1.44%
Park Yeon-gu	1,677,520	1.27%

Subsidiaries

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: Cho Seung-woong

The Bank's ownership: 53.32%

Korea Non-Bank Lease Financing Co., Ltd

Seolin Bldg. 15th Fl., Seolin-dong 88, Jongro-gu, Seoul, Korea

Tel: 82-2-398-4113, Fax: 82-2-398-4198

President: Jae Chul-chang

The Bank's ownership: 22.29%

Domestic Network

Area	Number of Retail Branches	Number of Corporate Branches
Daegu	133	6
Gyeongbuk	45	3
Seoul	3	1
Busan	1	
Ulsan	1	

Number of Total Employees : 2,057

International Banking Team at Headquarters, Daegu

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

SWIFT: DAEBKR22, Telex: K54334 DAEGUBK, Fax: 82-53-756-2095

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

International Banking Team at Seoul

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

SWIFT: DAEBKR22SEL, Telex: K28306 DAEGUBK, Fax: 82-2-775-7484

Tel: Import: 82-2-771-6100(Ext.344), Export: 82-2-771-6100 (Ext.341)

Money Transfer & Check Collection: 82-2-771-6100 (Ext:342)

Funds Management Team

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

SWIFT: DAEBKR22SEL, Telex: K28306 DAEGUBK, Fax: 82-2-775-7484

Tel: Correspondent Banking: 82-2-754-2269, Offshore Investment: 82-2-318-0689

FX Trading: 82-2-752-2897



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