



# Commitment to the Local Community

We are the best leading  
regional bank dedicating to  
community growth



■ Business Philosophy

Community-Focused  
Management

Shareholder Value  
Management

Human-Centric  
Management



LONG-STANDING  
PARTNERSHIP



SOLID FOUNDATION

# Commitment to the Local Community



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ONE GOAL

Daegu Bank, the first Korean regional bank, is based on Daegu, the third largest city, and its vicinity North Gyeongsang Province. The Bank serves as many as 3.25 million customers, who account for approximately 60% of the population of the areas.





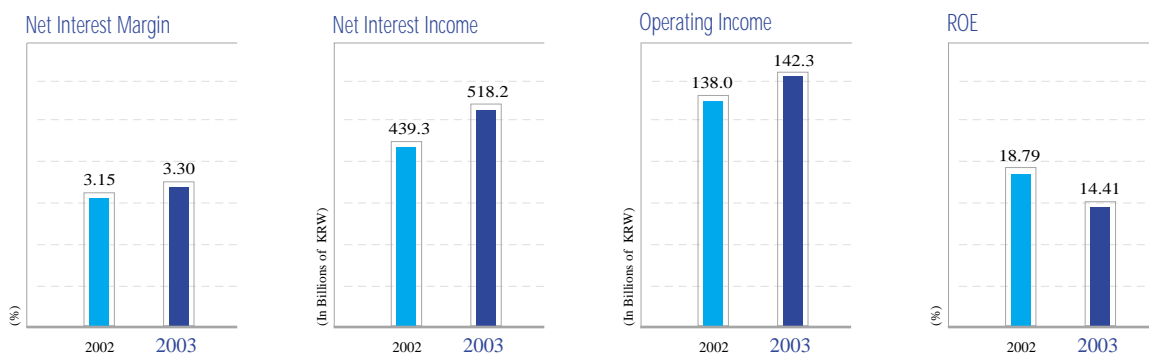
Daegu Bank (DGB) has played a pivotal role in the development of the regional economy and financial industry since its foundation in 1967. In the future, the bank will further devote its efforts to emerge as the best leading regional bank by overcoming the challenges of intensified competition created by the acceleration of globalization in the domestic financial industry.

Based on this determination, DGB aims to expand the horizons of growth for new high value-added businesses and core customers. At the same time, the bank will further enhance its brand value by developing its community-focused management, while reinforcing the relationship marketing of its business network.

DGB will also strive to strengthen its position as the best leading regional bank that shares its dreams and prosperity with the regional community. Furthermore, the bank will aim to play a leading role in the economic development and the promotion of financial industry in the Daegu and North Gyeongsang Province by forming a regional innovation system with companies, universities, research institutions and self-governing bodies in the region.

<b>CONTENTS</b>	Profile_03	Financial Highlights_04	Letter to Our Shareholders_05	Vision & Strategy_08
	Reaching into the Community_09	DGB's Core Competencies_14	2003 Highlights_15	
	Review of Operations_20	Financial Section_30	Organization Chart_57	Board of Directors_58
	Brief History_59	Corporate Information_60		

# FINANCIAL HIGHLIGHTS



	In billions of KRW		In millions of USD*	
	2003	2002**	2003	2002
Operating revenues	₩ 1,213.4	₩ 1,160.8	\$ 1,013.0	\$ 967.0
Net interest income	518.2	439.3	432.6	365.9
Operating income	142.3	138.0	118.8	114.9
Net income	110.8	131.2	92.5	109.2
Pre-provision income	342.2	311.8	285.7	259.7
Total assets	16,909.0	16,020.5	14,116.7	13,345.9
Total liabilities	16,071.3	15,275.3	13,417.3	12,725.2
Total shareholders' equity	837.7	745.2	699.4	620.8
Return on assets (ROA)	0.67%	0.88%		
Return on equity (ROE)	14.41%	18.79%		
Net interest margin (NIM)	3.30%	3.15%		
Cost income ratio	42.68%	44.60%		
BIS capital adequacy ratio***	10.58%	10.85%		
Substandard & below credits ratio	2.29%	2.28%		

\* The Korean Won amounts are translated into U.S. dollars at the rate of ₩1,197.80 and ₩1,200.40 per U.S. \$1.00, the prevailing exchange rate on December 31, 2003 and 2002, respectively.

\*\* 2002 financial data were adjusted due to changes in Korean GAAP.

\*\*\* Based on consolidated data under FSC guidelines.



# LETTER TO OUR SHAREHOLDERS



“We were able to overcome the ordeals posed by the unprecedented economic crisis and severe corporate and financial restructuring.”

## ■ Dear Fellow Shareholders,

In 2003, our region was hit by a series of ordeals including the Daegu subway tragedy and shocks from the war in Iraq. However, we have demonstrated to the outside world the strength of our region by overcoming the sorrows and adversities from such events with the successful hosting of the 2003 Daegu Summer Universiade and 2003 Gyeongju World Culture Expo. Furthermore, the past year has provided our region with an historical opportunity for development with the promulgation of three major special laws on balanced development by the central government to open a new era of regionalization in reviving the lagging local economies.

However, the past year has also posed an unfavorable economic and financial environment surrounding the banking industry. Moreover, the increase in credit delinquencies, reaching 3.7 million people, due to defaults on credit card and household loans has led to the instability of domestic financial markets,

slowdown of the economy and numerous social problems. In particular, the SK Global scandal and the following surge in household debt and credit card delinquencies have greatly weakened the soundness and profitability of domestic banks by incurring additional write-offs of substantial bad debt allowances.

Amidst such adverse business environment, all of us here at Daegu Bank (DGB) have worked around the clock to reinforce our delinquency management and operational capacity last year. We have also devoted our efforts to regional community services and community-focused management. As a result, DGB was able to post a net profit of KRW111 billion, while substantially improving the bank's asset soundness through write-offs of an annual bad debt allowance of KRW210 billion. The figure represents a modest business performance comparable to any bank in Korea, when considering that net earnings of domestic banks fell by half last year. Moreover, DGB prides itself on having lived up to its promise of a dividend payout of 5% for the second consecutive year.

In 2003, DGB has been acknowledged for its efforts and achievements in financial performance, community-focused management and advanced management system, being awarded Joongangilbo-Forbes Korea's Management Innovation Grand Prize. In addition, our DGB Service Corps was awarded the Prime Minister's Award. We have also once again demonstrated, both internally and externally, the prestige of our bank with the recent awarding of the Dasan Finance Grand Prize jointly supervised by the Ministry of Finance and Economy and the Korea Economic Daily.

In retrospect, I believe that we were able to accomplish such meaningful achievements and secure our position as a superior bank as a result of the undivided and unsparing support of our shareholders in the development of our bank. In this respect, I would like to take this opportunity to thank each and every one of you.



#### Fellow Investors,

This year, foreign financial institutions will firm up their presence in the domestic and regional markets amidst lingering problems of household debt and credit card delinquencies. In addition, competition among financial institutions is also expected to intensify with the expansion of traditional banking business into insurance, securities, investment trust and mobile banking sectors.

In order to actively cope with such challenges in the financial environment, we have set two primary business goals for the year 2004 - achievement of solid growth and earnings before tax of KRW170 billion. Accordingly, all of us here at DGB will devote our energy and wisdom to achieve this goal.

We will establish our business foundations through marketing activities based on risk-reward analysis, rather than pursuing a uniform strategy of growth. At the same time, we will

concentrate on reinforcing our future revenue stream, while building a solid competitive advantage over other banks in the regional market through community-focused management and community participation campaigns.

In line with universal banking trends in the banking industry, DGB also will strive to broaden the horizons for growth in high value-added businesses through strategic alliance with financial institutions with the highest customer perception and brand power. Furthermore, we will also reinforce our market control by utilizing our advanced management infrastructures and strong network in the regional markets.

Fortunately, there are optimistic views that credit card delinquencies will gradually be resolved and that the domestic economy will steadily recover as a result of the economic recovery in the U.S. and Japan this year. Moreover, it is also very encouraging that the status and role of regional banks in regional financial markets are expected to increase with implementation of the central government's policy of decentralization and balanced development.

By positioning our bank into the ranks of leading banks that possess global standards in business performance and management system, DGB will realize the vision of "not big but strong bank", "the best leading regional bank". This vision is in fact our efforts to share our dreams and prosperity with the local community in our capacity as the native bank of the Daegu and North Gyeongsang Province. It is also our promise to our shareholders in providing higher returns and value through high dividends and stock prices.

I ask that our shareholder scrutinize our resolution and determination towards the vision. In this respect, I also ask for your continued support.

In closing, I would like to take this opportunity to sincerely wish each and every one of you success in your businesses and good health and fortunes to your families. Thank you very much.

Kim Kuk-nyon  
Chairman of the Board & CEO

# LONG-STANDING PARTNERSHIP

We have built consistent and long-standing partnership with our local customers. In addition, we will further practice our community-focused management and continue to extend active community services.





■ Business Vision

## The Best Leading Regional Bank



■ 2004 Business Goals

**Profitable and Solid Growth**  
with pretax profit of KRW170 billion



■ 2004 Business Strategy Issues

» Promotion of Differentiated Businesses

- Reinforcement of Core Customer Marketing Functions
- Reinforcement of Asset Risk Management
- Development of New Businesses
- Development of Customer Relation Businesses

» Reinforcement of Community-focused Businesses

- Identification of Brand-related Businesses
- Reinforcement of Marketing-related Businesses
- Incorporation of Everyday Community-focused Activities
- Reinforcement of Network Functions

» Establishment of Future Infrastructure

- Improvement of Management Efficiency through Business Processing Re-engineering(BPR)
- Improvement of Financial System
- Improvement of Risk Management System
- Proliferation of Performance-based Corporate Culture

## "Sharing Dreams and Prosperity with the Local Community"

Community-focused management is DGB's fundamental management philosophy that aims to strengthen community relationships, contribute to the region's development and, ultimately, develop the bank in hand with the local community.

In its capacity as the first and largest regional bank in Korea, DGB is pursuing a master plan in its community-focused management through the "K-Project", named after Chairman & CEO Kim Kuk-nyon, with the goal to develop the bank into the best leading regional bank that shares its dreams and prosperity with the local community. Community-focused management is DGB's fundamental management philosophy that aims to strengthen community relationships, contribute to the region's development and, ultimately, develop the bank in hand with the local community.

DGB views the regional community as its customers. In this respect, DGB exalts customer satisfaction management with its community-focused management. By giving back the profits of the bank and providing community services to the regional society, the bank strives to fulfill its role as corporate citizen in sharing prosperity with the local community. As a means to achieve such goal, the bank conducts various organized and systematic activities.

DGB has established a separate community and social contribution organization and expanded its DGB Service Corps by administrative districts. In addition, DGB plans to systematically continue its social contribution activities, which to date have been conducted arbitrarily and sporadically. At the same time, the bank also plans to further reinforce its community services in social welfare, culture and arts, scholarship, athletics and environment conservation.



#### ■ ■ Social Support

DGB is incorporating its social services into its everyday business activities. In this respect, the bank has established a one-to-one relationship with social welfare facilities in which individual employees, departments and branches of the bank separately support a single facility. In addition, DGB Service Corps conducts volunteer services and various activities such as blood donation campaigns for kid with leukemia, flood relief and regular visits on social welfare facilities. DGB has always been in the forefront in providing support and relief for various disasters within local community.



#### ■ ■ Arts and Cultural Support

DGB is reinforcing its support for various culture and arts programs to stimulate the regional culture. DGB exhibits local arts and crafts in its head office gallery and conducts various events that instill dreams and hopes to children such as children's sketching contests since 2002. In particular, DGB supports the annual Dalgubeol Festival, held each fall and consisting of various traditional and contemporary events. Also, DGB provides cultural space for customers and citizens in its headquarters' plaza.

#### ■ ■ Educational Support

DGB operates various educational and scholarship programs through its Daegu Bank Scholarship & Culture Foundation. In addition, the Bank selects and awards teachers and students with high savings to promote healthy money management and savings. Furthermore, DGB provided economic education to 73,067 students in 137 schools in 2003 through its "Daegu Bank Finance Classroom" and supported school banking to 206 schools.

#### ■ ■ Athletic Support

DGB contributes every year to the Sports Promotion Fund to promote health and sports development of the regional community. In particular, the Bank also actively participated in supporting the 2002 FIFA Korea-Japan World Cup and sponsoring the 2003 Summer Universiad in Daegu and the World Culture Festival in Gyeongju.

#### ■ ■ Environmental Support

DGB conducts various regional environment conservation activities including monthly cleanup drives at local rivers, feeding of migratory birds along the Nakdong River, collection of illegal fishing gear, and environment cleanup programs. The Bank also conducts various campaigns such as tree planting drives to promote a clean urban environment.

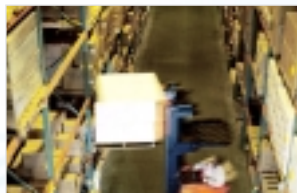


# REACHING INTO THE COMMUNITY

## DGB expanded support for technologically sound and high value-added companies with the potential to contribute to the advancement of industrial structure in the region.

DGB has played a pivotal role in the economic and financial development of the Daegu and North Gyeongsang Province region. As a native bank rooted in the region, DGB assume leadership in participating in regional development projects. At the same time, the Bank has developed hand-in-hand with the regional economy by providing capital and quality services to SMEs in the region. DGB recognizes that development of the regional economy is directly connected with the growth of the Bank. As such, DGB is committed to fulfilling its role as a reliable partner of SMEs in the region.

DGB is actively contributing to the stimulation of the economy and financial industry in the region. By providing 30% of total commercial bank loans in the Daegu region, the Bank plays a role as the single largest supplier of capital. In addition, DGB reinvests 95% of its total loans in supporting industries and stimulating the economy of the region. The Bank also plays a crucial role in fostering SMEs, which are the engines for regional economic growth, by supporting 67.3% of total loans to SMEs. At the same time, DGB actively participates in regional development projects, having invested a total of KRW55 billion in the construction of Western Expressway (KRW5 billion), Daegu East Beltway (KRW20 billion) and Daegu-Daedong Highway (KRW30 billion).



DGB provides capital needed by SMEs and small businesses of the region in a timely and amicable manner. In addition, the Bank offers firm support by providing useful information and diverse service to businessmen in the region amidst the rapidly changing business environment. In particular, DGB expanded support for technologically sound and high value-added companies with the potential to contribute to the advancement of industrial structure in the region. At the same time, the Bank also devotedly fulfills its role as the pivotal financial institution of the region by focusing its support for companies with future growth potential and high linkage with other industries.



As the only native bank of the region, DGB complements the region's finances by assuming depository services for public institutions in the Daegu Metropolitan City and North Gyeongsang region. In addition, the Bank contributed to the establishment of SME support institutions such as Daegu Credit Guarantee Foundation and Gyeongbuk Credit Guarantee Foundation, and, also, Total Information Network Center to promote informationalization in the region, while actively participating in the construction of infrastructure such as roads. Furthermore, the Bank also provides funds for regional development through 'I Love Daegu' campaign and supports research activities of regional institutes and organizations studying regional development schemes.

DGB has set aside an exceptional place in its heart for Dokdo, as reflected in the Bank's various support for the island located in the North Gyeongsang Province. The Bank conducts support activities for Dokdo through (1) development of products related to Dokdo, (2) financial contributions, (3) opening of cyber Dokdo branch, and (4) provision of consolatory gifts to Dokdo patrol guards. In particular, by donating the income generated through cyber Dokdo branch, opened in August 15, 2001 for the first time in Korea, to the 'I Love Dokdo' campaign, the Bank has taken the initiative in preserving the island.

DGB has placed regional economic development as the first priority in its business philosophy. In this respect, the Bank's efforts to date have received favorable appraisal from regulating authorities and external evaluation agencies, while, at the same time, gaining a deep trust from the regional community. In the future, DGB will reinforce its innate role as a financial intermediary providing diverse financial products and services. At the same time, DGB will devote its efforts to give back to the community the Bank's profits through social contribution programs, while actively conducting individual activities in community services.





# SOLID FOUNDATION

In an era of globalization, we rather place top priority in our business strategy on the local community. Our tailored financial services and close community relationships are unique competitive edges. We are not big, but strong.



We were able to overcome the ordeals posed by the unprecedented economic crisis and severe corporate and financial restructuring, and firmly uphold the position of our bank as a result of the support and devotion of our regional community.

Only corporations that pursue continuous change will be able to survive in this age of globalization and information, which calls for a new paradigm. Similarly, banks must also revitalize its organization as a financial firm equipped with entrepreneurship of creativity and innovation so as to fulfill its duties to shareholders and be guaranteed future survival and growth. As such, DGB's vision is to become 'The Best Leading Regional Bank.'

DGB has always coexisted with the regional community and is firmly rooted in the region. In this respect, DGB has secured strong customer loyalty, maintaining a market share of 40% in the Daegu region - its main business sphere. The Bank's competitive edges lie in such solid customer base. In turn, DGB has overcome its relative disadvantage in size by flexibly coping with the changes in customer needs and business environment through community-oriented management.

Another advantage possessed by DGB is its strong network in the regional financial markets. The Bank maintains the largest business network within the region, outrivaling other financial institutions in customer convenience. In addition, DGB's powerful human network is another important source of the Bank's competitiveness. In this respect, DGB employees, its families, shareholders, sound customers, in addition significant number of institutions including public, educational, financial, commerce & industry, and private institutions all have a favorable impression of the Bank.

DGB has reinforced its leadership as the pivotal financial institution in the region through voluntary restructuring and introduction of advanced systems a step ahead of other banks. DGB also improved its business performance indicators and financial structure to the level of advanced banks through institutional reforms. In addition, the Bank established a framework, second to international standards, for management infrastructure covering corporate governance, organization management, human resource management, risk management and IT systems. As a result, DGB has been able to significantly improve its appraisal from supervisory authorities and the market. As an example, DGB received the exemplary corporate governance award from the Korea Stock Exchange in 2002, given to companies with transparent management and rational corporate governance. The Bank also ranked No. 1 for two consecutive years by the Financial Supervisory Service in its civil appeals survey.

As such, DGB, while not big in size, has equipped itself with a financial structure and management system of international standards based on market principles and transparency. Moreover, the Bank has secured global competitiveness able to cope with the penetration of foreign and large commercial banks into the regional market. In this respect, DGB has commenced on its new challenge of achieving its vision as 'The Best Leading Regional Bank.'



# 2003 HIGHLIGHTS

## ■ Korea Management Innovation Grand Prize

DGB was awarded the 1st Korea Management Innovation Grand Prize in the leadership category, jointly hosted by the Korea Society for Quality Management and Forbes Korea. DGB was acknowledged for its distinguished achievement as a model case for regional bank development attained through its successful community-focused management.

## ■ DGB Service Corps awarded Prime Minister's Citation

DGB Service Corps was the only social service organization to be awarded Prime Minister's Citation at the 'Hope 2003 Community Service Merit Awards', jointly hosted by the Ministry of Health and Welfare and Community Chest of Korea. DGB Service Corps was established in 2002 through the voluntary participation of DGB's employees to put into practice DGB's foremost management philosophy of community-focused management.

## ■ Korea Association of Chief Financial Officer's Excellence Award

As the only financial institution selected, DGB's Deputy Chief Executive Officer, Lee Hwa-eon, was honored with the Excellence Award at the 2nd Korea Chief Financial Officer Awards. The Award was given by the Korea Association of Chief Financial Officer to five CFOs of top listed companies upon evaluation of business performance and efficiency.

## ■ DGB, Official Bank of the 2003 Universiade

As the official bank of the 2003 Universiade, DGB sold tickets to the opening and closing ceremonies. During the Universiade, DGB also provided various financial services for athletes and tourists by opening the 'Universiade Athletics' Village Branch Office' and installing 'Global ATMs' to allow foreigners to withdraw Korean Won currency with their overseas debit/credit cards.



■ Korea Management Innovation Grand Prize



■ DGB, Official Bank of the 2003 Universiade

#### ■ 'Cyber Dokdo Branch' Business Model

DGB applied and obtained a business model patent for its 'Cyber Dokdo Branch' with regard to the installation of a virtual Dokdo branch on the Internet and its financial transaction system. Moreover, DGB was awarded Special Prize at the '9th Maeil Business Newspaper Financial Product Awards' for its financial transaction system targeted at users in regions without DGB branches and nation-wide users by providing Dokdo cyber cash electronic settlement system.

#### ■ Marketing Frontier Grand Prize

DGB was selected as the Marketing Frontier Award's Grand Prize winner, hosted by the Korean Marketing Association. As an award given to companies or brands that have conducted model case marketing activities, it is recognized for its foremost prestige in the marketing field in Korea due to rigorous and professional selection procedures.

#### ■ DGB's Labor-management Declares Unity

DGB has declared for the first time in the banking industry labor-management unity in stimulating the regional economy and providing company-wide support for international events. DGB's CEO, Kim Kuk-nyon, and labor union chairman, Choi Jong-ha, adopted the 'Declaration of Labor-Management Unity' in July 23, 2003, which states that both parties shall collectively devote their efforts in placing priority on regional development over corporate profits.

#### ■ Bancassurance Business

In the face of an opening era in bancassurance, DGB began selling insurance products in its teller windows since September 3, 2003. In the future, DGB will provide comprehensive One-Stop financial services including insurances. In the near future, DGB plans to establish bancassurance business as a new major source of revenue.



■ 'Cyber Dokdo Branch' Business Mode



■ Bancassurance Business



# 2003 HIGHLIGHTS

## ■ Economic Education Class for Women

DGB opened an 'Economic Education Class for Women' in May 12 and 14, 2003 in its Palgongsan Training Center with the aim to resolve credit delinquency problem among the youth that have recently emerged as a social problem.

## ■ Financial Strength Rating raised by Moody's

DGB announced that Moody's, an international credit rating agency, upgraded its financial strength rating from E+ to D- in July 15, 2003. Moody's also gave DGB a rating forecast of 'stable' along with its ratings upgrade. DGB's current long-term deposits rating by Moody's stands at Baa3, while its short-term deposits obtained an investment-grade rating of Prime-3.

## ■ The Korea Corporate Governance Stock Price Index (KOGI)

DGB was acknowledged for its corporate governance with its inclusion in the Korea Corporate Governance Stock Price Index (KOGI), a stock investment indicator of corporate governance. Announced by the Korea Stock Exchange, the index aims to induce voluntary improvement in corporate governance and encourage investments in companies with low corporate governance risks.

## ■ BS7799 Accreditation for Internet Banking System

DGB's Internet banking system (www.dgb.co.kr) was accredited the globally recognized BS7799, an international standard for information security, on September 16, 2003. By obtaining an international accreditation for its Internet banking system, DGB was objectively recognized for its superior information security and management system.



■ Economic Education Class



■ BS7799 Accreditation for Internet Banking System

#### ■ 'Daegu-North Gyeongsang Province Council for Children's Financial Education'

DGB officially launched the 'Daegu-North Gyeongsang Province Council for Children's Financial Education' to promote financial and economic education for students in elementary, middle and high schools in the Daegu-North Gyeongsang Province. As the chairman of the council, DGB's CEO, Kim Kuk-nyon, stressed that financial and economic education for the youth helps them to grow into a sound participant in the economy and to live prosperous lives.

#### ■ Foreign Exchange & Interest Rate Automated Quotations

DGB received a business model patent from the Korean Intellectual Property Office for its 'foreign exchange & interest rate automated quotation method' in June 16. The patent involves real-time automated quotations and remote management of foreign exchanges and interest rates fluctuations in the domestic and international foreign exchange markets accrued in the bank system's database on the foreign exchange display boards in branches.

#### ■ Regional Finance Stimulation Planning Committee

6 Regional banks - Daegu, Busan, Gyeongnam, Gwangju, Jeonbuk and Jeju Bank - organized the 'Regional Finance Stimulation Planning Committee' on the 9th and commenced upon research work for government policy development and proposal to stimulate regional economies. At the same time, the 6 banks agreed to actively pursue attracting regional public funds including education depository and district court security deposits in competition with commercial banks.

#### ■ The Dasan Finance Awards' Gold Prize

DGB was awarded Gold Prize in the banking category of the 13th Dasan Finance Awards, jointly hosted by the Korea Economic Daily and Ministry of Finance and Economy. As the most prestigious award in the financial industry in Korea, the Dasan Finance Award is given to CEOs and financial institutions that have contributed to the development of financial industry in terms of financial services and business efficiency.



■ Daegu-North Gyeongsang Province Council



■ The Dasan Finance Awards' Gold Prize



# ONE GOAL

Our goal is set on positioning ourselves as the best leading regional bank in Korea. All of us here at DGB are committed to achieve our philosophy of 'Prospering with the Local Community' with a strong conviction and determination.





## REGIONAL ECONOMY IN 2003

We were able to overcome the ordeals posed by the unprecedented economic crisis and severe corporate and financial restructuring, and firmly uphold the position of our bank as a result of the support and devotion of our regional community.

### ■ ■ Review of 2003

The domestic economy in 2003 posted a mere 2.9% growth rate as a result of the sluggish domestic demands and depressed consumer confidence. Meanwhile, commodity price hike became imminent with consumer price index rising 3.6% YoY. The current account surplus in 2003 reached \$12 billion on the back of buoyant exports to China and industrialized countries.

Similarly, despite contraction of domestic demand, the economy of the Daegu and North Gyeongsang Province began to recover in the second half of 2003, propelled by increasing exports. The regional industrial production in 2003 of the Daegu metropolitan area edged up by 0.4% YoY compared to the previous year's because of the sluggish textile industry, whereas industrial production of the North Gyeongsang Province increased 11.1% YoY owing to improved business conditions in the electronic, steel and chemical industries.

Exports on a customs clearance basis in the Daegu and North Gyeongsang Province in 2003 soared 38.3% YoY to \$27.8 billion. In the Daegu metropolitan area, exports totaled \$2.7 billion, a 7.8% growth, due to increase in exports of machinery. Meanwhile, the North Gyeongsang Province posted an export of \$25.1 billion, a 42.8% increase over 2002, backed by solid export growth of electric, electronic, metal, machinery and precision instrument products.

The regional automotive parts industry recorded a big increase in production, shipments and exports as a result of strong exports by GM-Daewoo, Hyundai Motors and Kia Motors despite sluggish domestic demand. In particular, exports of the automotive parts industry in the Daegu region, which supplies one third of its productions to GM-Daewoo, jumped 24.1% YoY owing to the resumption of exports by GM-Daewoo.

The construction sector was benefited from the recovery of housing construction activities centering on the apartment market. Building construction permits (based on floor area) in the Daegu region increased 27.4% YoY to 8.13 million square meters; building construction permits in the North Gyeongsang Province also increased 11.6%, totaling 6.45 million square meters, due to the pickup in construction business of housing and commercial buildings.

The textile industry within the Daegu and North Gyeongsang Province showed a decrease in production, shipments and exports ranging from 10 to 20% over 2002. Separately, while department store sales in the Daegu metropolitan area increased 10.3% YoY on the back of the opening of Lotte Department Store, discount store sales grew 7.1% YoY in 2003 as a result of depressed consumer sentiments caused by the delay in regional economic recovery.

The machinery industry recovered with production and exports in the Daegu region increasing 21.1% and 32.7% respectively in 2003. The steel industry of the region showed healthy signs of upturn in both production and exports due to increasing exports to China and the recovery of related industries including construction.



# REVIEW OF OPERATIONS

[Exports on a customs clearance basis will grow over 10% and 24% in the Daegu and North Gyeongsang Province, respectively.](#)

## ■ Outlook for 2004

While the economy outlook for 2004 varies by individual forecasting agency, the general consensus falls within the range of 4.0~5.8%. The economic recovery of industrialized countries and increasing exports to China are attributable to the acceleration of economic growth. The current account surplus is projected to amount \$6.0 billion with export growth rate of 11~12% and import growth rate of 12~13%, while commodity prices are expected to increase 2.9% in 2004. Meanwhile, private consumption is expected to increase 3.2 percent in 2004 due to the recovery of consumer confidence, and facilities investment is predicted to increase 6.5%.

In line with the overall domestic economic recovery, the major economic indicators of the Daegu and North Gyeongsang Province are expected to improve in 2004. Exports on a customs clearance basis will grow over 10% and 24% in the Daegu and North Gyeongsang Province, respectively, on the back of strong exports of machinery and electronic products to China. Accordingly, the ratio of dishonored bills of the region is expected to improve substantially to 0.4~0.5% for the Daegu region and 0.2~0.3% for the North Gyeongsang Province, owing to improved financial status of local companies within the region.

Meanwhile, commodity prices in the Daegu and North Gyeongsang Province are forecasted to rise 2.9% and 2.6%, respectively, while unemployment rate will remain stable at 3.9% and 1.9% for the respective regions. In particular, the economy of the Daegu and North Gyeongsang Province is projected to be stimulated with the enactment of legislations by the central government to boost regional economies.

The automotive parts industry in the Daegu region is expected boom in 2004 with steady sales of GM-Daewoo's compact car models, Matiz and Lacetti, in China. In addition, the automotive parts sector in the North Gyeongsang Province is also expected to pick up on the back of domestic demand recovery and increasing exports.



The construction industry outlook appears to be mixed. On the one hand, the housing construction sector is expected to remain depressed due to the shrinkage in apartment construction and reconstruction projects and the deterioration of profitability from rising material costs and wages. On the other hand, the civil engineering segment is forecasted to recover, powered by increasing number of government construction orders and the recovery of the manufacturing industry.

The textile industry in the Daegu and North Gyeongsang Province is expected to vary by products with solid export growth in polyester and woven fabrics and sluggish exports in other synthetic fibers. The retail industry is expected to pick up owing to the recovery in the manufacturing sectors and consumer sentiments. However, with the opening of Lotte department store in the city of Daegu, competition will intensify between department stores and discount stores. In the process, sales of large retail stores are expected to grow at the expense of smaller local merchants.

The machinery industry in 2004 is expected to show a solid growth in both production and exports with steady increase in exports to the U.S. and China. In particular, the outlook for the machinery industry is favorable for a substantial period of time because the Korean won appreciation will save purchase cost of intermediary goods and major Korean companies is able to sustain technological competitive advantages over Chinese counterparts. The steel industry will benefit from stable demand growth in China, and the production and export of steel plate will continue to increase in 2004. Lastly, the electronics industry is expected to boom with export expansion of cellular phones, home appliances, semiconductors and computer peripheral equipments.

RETAIL BANKING

The market share of deposits of DGB in the Daegu and North Gyeongsang Province steadily increased from 15.0% in 2000 to 16.1% in 2001, 16.2% in 2002 and 17.3% in 2003.

■ Deposits

The market conditions surrounding the retail banking industry in 2003 was marked by an unprecedented intense competition as a result of (1) increased market risk caused by continued low interest rate and economic slowdown; (2) delinquencies due to slowdown in the growth of real estate market and increase in household debts; and (3) aggressive marketing activities of domestic financial institutions, characterized by bank consolidation and universal banking. In addition, with the emergence of bancassurance and small-biz industries as competitive markets, customer interests focused on hybrid financial instruments over traditional financial products.

The market share of deposits of DGB in the Daegu and North Gyeongsang Province steadily increased from 15.0% in 2000 to 16.1% in 2001, 16.2% in 2002 and 17.3% in 2003. Accordingly, DGB has solidified its position as the best leading local bank in the Daegu and North Gyeongsang Province, with total deposits increasing 10.7% from the previous year to KRW14,920 billion in 2003.

Deposit Taking and Low-cost Deposit	In Billions of KRW Average Balance		
	2001	2002	2003
Low-cost deposits	3,926.0	4,938.7	5,406.1
Deposits in Won	9,154.1	10,224.0	11,725.7
Percentage of low-cost deposits	42.9	48.3	46.1
Total deposits	11,695.8	13,479.3	14,920.0
Percentage of low-cost deposits	33.6	36.6	36.2

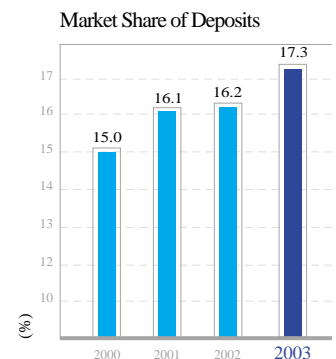
In addition, the Bank expanded the deposits of individual customers, institutions, corporations and various settlement accounts in its efforts to enhance profitability through low-cost financing. As a result, the Bank's low-cost deposits reached KRW5,406.1 billion, an increase of 9.5% over 2002. While the percentage of low-cost deposits over total deposits decreased slightly from 2002, the percentage share represents the highest figure in the banking industry. Furthermore, net

interest margins (NIM) exceeded the industry average with cumulative average interest rate of low-cost deposits falling 0.61 percentage points to 0.73% in 2003.

■ Bancassurance

DGB began its bancassurance operations in September 2003. In order to establish a new profit structure by generating new fee-based profit sources, the Bank concluded business partnership contracts with 10 leading insurance companies in Korea. In this respect, DGB has successfully established a business structure, which enables the bank to sell 29 insurance products that satisfy the needs of customers from a diverse range of social class, including pension, savings, car and casualty insurances. As a result, the Bank's initial insurance fee revenue reached KRW26.2 billion from over 6,700 insurance contracts in 2003.

The Bank's bancassurance business is expected to further expand and grow with the government's approval to sell additional insurance products. In particular, with sales of car insurances and guarantee life insurances in the second stage of the government's deregulation, the Bank, with its vast high net-worth customers, will be able to achieve an annual income of over KRW10 billion, as a result of its convenient branch and human networks in the Daegu-North Gyeongsang Province.





# REVIEW OF OPERATIONS



## ■ ■ Credit Card Business

2002 and 2003 have been the most difficult years for the credit card industry in Korea. In particular, the overall industry was shaken with a wave of mergers and acquisitions by parent banks or creditors due to huge delinquencies caused by the industry's excessive expansion policy of the past.

Accordingly, DGB's credit card business posted a sluggish performance vis-a-vis 2003 targets, with the number of cardholders remaining at 580,000, sales of KRW3,500 billion, fee income of KRW108.9 billion, contributions to provisions for bad debts of KRW101.6 billion and net loss of KRW31.3 billion. The increase in net loss of the credit card business was primarily due to (1) the substantial accumulation of allowances for bad debts as a result of increasing delinquencies subsequent to the second half of 2002; and (2) the decrease in sales owing to strengthened risk management such as reduction of credit card limit of high risk customers. The target for 2004 is set at achieving a profit turnaround with 600,000 card members, KRW3,200 billion in sales, KRW61.5 billion in contributions to

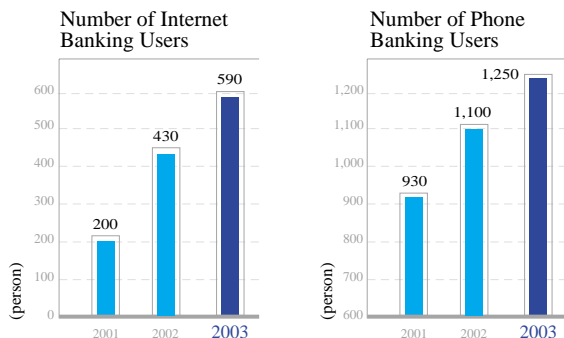
provisions for bad debts and KRW1.2 billion in net income. In particular, the increase in cardholders will focus on expanding the bank's Plus Card (check card or debit card) which has no credit limit. In the mid to long-term, DGB plans to focus on the prevention of delinquencies and the efficient recovery of overdue debts. The Bank also plans to strengthen new membership screening process so as to secure superior card members, while reinforcing its target marketing on high net worth members. Upon its profit turnaround in 2004, DGB is expected to easily achieve a net profit at the KRW10 billion level subsequent to 2005.

## ■ ■ Consumer Finance

In 2003, DGB's consumer finance business achieved a strong internal growth as a result of marketing activities that consider both asset soundness and credit risks in dealing with rising delinquencies of household loans subsequent to the second half of 2002. In addition, the Bank has also reinforced its consumer finance business operations capacity through the implementation of prime loan expansion policy. As a result, while the bank's growth rate in household loans slowed down to 10.0% YoY, totaling KRW2,942.0 billion in 2003, interest income increased 20.0% YoY to KRW218.1 billion. Furthermore, home mortgage loans also increased 2.8% YoY to KRW1,213.4 billion, accounting for 41.2% of total household loans.

The increase of contributions to provisions for bad debts in the banking sector was inevitable due to the rise in the overall delinquency rate of household debts. Accordingly, DGB also accumulated an allowance for bad debts of KRW69.5 billion in 2003, an increase of KRW29.5 billion from the previous year. However, in comparison to other banks, DGB maintained a fair level of household debt delinquency rate at 1.46% last year. In April 2003, the Bank established the





Credit Loan Management Team to stably increase consumer loans and improve the Bank's asset soundness, which minimized the conversion of short-term deferred payment to long-term delinquencies. The Bank also strived to prevent bad debts in advance through the reinforcement of feedback mechanisms including analysis of periodic and non-periodic delinquencies and delinquency rate of new products.

DGB has also completed the development of CSS strategic operation system in March 2003 aimed at improving the accuracy of its credit scoring system and at strengthening its monitoring of household debts. The Bank has further reinforced its credit risk management through the all-out redevelopment of its CSS model in 2003.

In 2004, DGB aims to secure stable long-term revenue sources and expand its customer base in consumer finance in overcoming its relative weakness in size as a local bank. At the same time, the Bank plans to minimize the incurrence of bad debts through an advanced bad debt forecasting function via the introduction of a customer-based household loan monitoring system. The Bank will also focus on improving its asset soundness through expansion of prime loans.

## ■ ■ e-Banking

In its efforts to cope with the diverse needs of customers, DGB has established an infrastructure to expand the use of electronic banking through client banking, PDA banking, Internet public tax automatic transfer service, expansion of telephone banking circuits and B2B electronic loans. DGB recognizes that the increase of electronic banking users is an essential means to reinforce the Bank's operation capacity and prevent customer desertions, while deepening customer relationships. In this respect, DGB has continued activities to expand its electronic banking infrastructure over the years. As a result, the number of Internet banking users

has notably increased from 100,000 in 2000 to 590,000 in 2003. In addition, the number of phone banking users has reached 1.25 million in 2003. Based on the growth in the number of users, such electronic banking transactions via Internet banking, phone banking and ATMs accounted for 83.6% of total banking transactions.

The monthly average of the number of electronic banking transactions in 2003 increased 2.47 million to total 33.74 million. Such increase has contributed to reducing financial transaction costs by allowing the Bank to effectively cope with increase in workload without increasing in branch personnel. In addition, DGB is also striving to promote electronic banking through the acquisition of BS779 (British Standard) certification, a prominent international standard for information security, so as to improve its safety.

DGB's Internet banking system ([www.dgb.co.kr](http://www.dgb.co.kr)) was accredited the globally recognized BS7799, an international standard for information security, on September 16, 2003. By obtaining an international accreditation for its Internet banking system, DGB was objectively recognized for its superior information security and management system. In particular, the accreditation has allow DGB to safe services for its Internet banking users.

# REVIEW OF OPERATIONS

## CORPORATE BANKING



DGB achieved a solid growth of 4.5% in total assets, with SME loans increasing 15.4% YoY in 2003 as a result of stable asset management centered on sound SMEs.

The domestic economy in 2003 posted a sluggish growth of 2.9%. Similarly, the economy of the Daegu and North Gyeongsang Province suffered from severe contraction in domestic demand. However, its economy showed signs of improvement towards the second half of 2003 due to the recovery in exports.

Amidst such economic background, DGB achieved a solid growth of 4.5% in total assets, with SME loans increasing 15.4% YoY in 2003 as a result of stable asset management centered on sound SMEs. DGB also secured a solid business foundation by expanding the transaction of companies that plays a pivotal role in the economic growth of the Daegu and North Gyeongsang Province. In addition, the Bank was able to secure high potential corporate customers by providing support to venture businesses with future growth potential based on technological capacity. In turn, DGB enhanced customer loyalty through service differentiation and relationship reinforcement of such corporate customers.

DGB's loans to the manufacturing sectors decreased due primarily to sluggish business activities in textile industry. However, total loans outstanding increased steadily on the back of the rise in demand for capital in the automobile, machinery & equipment, chemicals, and radio & television

equipment industries. In particular, loans to the construction, real estate and services sectors increased rapidly.

DGB was able to improve its asset soundness by strengthening preemptive delinquency prevention activities, while avoiding in advance the fixation of non-performing loans through the reinforced management of overdue loans. Moreover, DGB was also able to efficiently manage its assets by reflecting various risk factors including industry forecasts. As a result, delinquency rate of corporate loans fell from 1.76% in 2002 to 1.45% in 2003. At the same time, bad debt expenses also decreased rapidly to KRW63.9 billion in 2003 from KRW142.5 billion in 2002.

While the ratio of credit loans increased due to improvements in its credit evaluation techniques, DGB still maintains a conservative asset management strategy and, in turn, possesses the lowest level of credit loan ratio in the banking industry. The bank's stable and conservative asset management is reflected in its corporate credit loan ratio of 39.5% compared to 50.1% average of total banks and 42.2% average of regional banks.

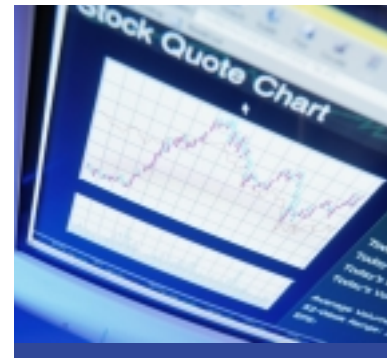
(In billions of KRW)

Loan Portfolio by Industries	2001		2002		2003		YOY
	Amount	%	Amount	%	Amount	%	
Manufacturing	2,882.0	45.4	3,103.1	38.5	3,224.6	35.3	3.9
Construction	270.2	4.3	324.8	4.0	392.2	4.3	20.8
Wholesales and retail	618.3	9.7	758.3	9.4	890.3	9.7	17.4
Finance & insurance	159.6	2.5	153.3	1.9	76.4	0.8	-50.2
Real estate & leasing	144.0	2.3	283.8	3.5	500.5	5.5	76.4
Others	697.5	11.0	769.8	9.5	1,115.7	12.2	44.9
Household	1,577.3	24.8	2,673.8	33.1	2,942.0	32.2	10.0
<b>Total loan in Korean won</b>	<b>6,348.9</b>	<b>100.0</b>	<b>8,066.9</b>	<b>100.0</b>	<b>9,141.7</b>	<b>100.0</b>	<b>13.3</b>



## CAPITAL MARKET BUSINESS

DGB safely managed its assets centering on matured bonds. In 2003, DGB invested a 95% of its securities investments in bonds, totaling 4,987.9 billion won.



In 2003, many financial institutions faced difficulties in asset management with increasing uncertainties in the capital markets caused by the massive redemption of money market funds (MMF) triggered by the SK Global's accounting fraud and pressures for the redemption of matured credit card bonds.

Amidst such adverse conditions, DGB safely managed its assets centering on matured bonds. In 2003, DGB invested a 95% of its securities investments in bonds, totaling KRW 4,987.9 billion, with investments in government-related bonds including public and local government bonds of KRW 2,928.5 billion, or 58.7% of total bond investments. The bank also allocated a total of KRW 1,973.0 billion, or 69.5% of its investment in matured bonds, to government related bonds so as to minimize risks during the holding period. Furthermore, the bank limited its investments in stock KRW 29.9 billion or 0.6% of total investments in marketable securities.

Despite increase in exports predicted with the recovery of the world economy, the bond market is expected to show a limited interest rate rise in the first half of 2004 as a result of the government's low interest rate policy due to the delay in

recovery of domestic demand. However, the market rate is anticipated to further rise with the increase in the government's interest rates, owing to continued recovery in domestic demand and strong overseas businesses. As a result, DGB plans focus its bond operations on investing in undervalued bonds, focusing on risk management by actively dealing with changes in the market.

With respect to the stock market, a bullish market is expected in the first half of 2004 as a result of steady recovery of the domestic economy and increased exports brought by the recovery of U.S. economy and continued high growth of China. However, coming into the second half of 2004, the bullish drive of the stock market is expected to slowdown with deteriorating export momentum caused by the adjustment in the growth rate of the Chinese economy. Accordingly, DGB plans to form its portfolio with blue chip stocks and turnaround company's issues, while adopting a mid-term trading strategy and short-term trading in the first and second half of 2004, respectively, in terms of portfolio operations.

(In billions of KRW)

Securities Investments	Total	Trading Securities	Investment Securities		
				AFS	HTM
Bonds(Won-denominated)	4,987.9	340.0	4,647.9	1,809.8	2,838.1
Government bonds	2,928.5	120.3	2,808.2	724.4	1,973.0
Finance debentures	964.8	130.1	834.7	607.2	227.5
Corporate bonds	678.7	89.6	589.1	357.3	231.8
Others	415.9	0.0	415.9	120.9	405.8
Bonds(in foreign currency)	67.1	0.0	67.1	43.1	24.0
Stocks	29.9	0.0	29.9	29.9	0.0
Beneficial certificates	40.3	0.0	40.3	4.3	36.0
Bonds	40.3	0.0	40.3	4.3	36.0
Stocks	0.0	0.0	0.0	0.0	0.0
Others	89.0	0.0	89.0	89.0	0.0
<b>Total</b>	<b>5,214.2</b>	<b>340.0</b>	<b>4,874.2</b>	<b>1,976.1</b>	<b>2,898.1</b>

# REVIEW OF OPERATIONS

## INTERNATIONAL BANKING & FOREIGN EXCHANGE

In 2003, DGB focused its international banking operations on increasing profits and developing new profit models through diverse business activities including marketable securities investment in foreign currencies, foreign currency loans, participation in consortium loans, foreign exchange dealing and derivatives.

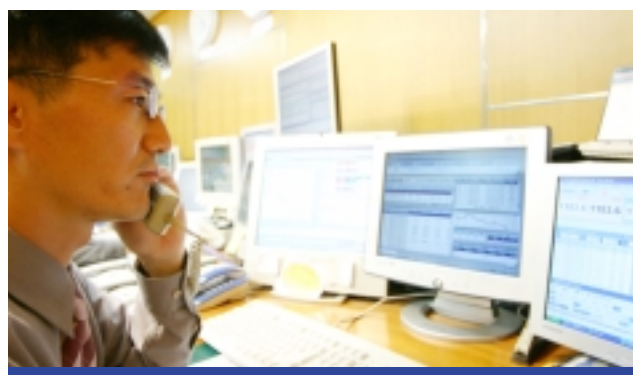
Recently, domestic banks in Korea have specialized and expanded its areas of business in line with global financial trends. In particular, they are searching for ways to generate diverse revenue streams in the international banking sector. In this respect, DGB's international banking business possesses future growth potential with foreign currency assets in 2003, totaling U\$4.22 million, when considering its total assets of U\$1,502.2 billion. Moreover, the Bank's foreign currency liquidity ratio at the end of 2003 recorded 105.4%, exceeding the 80% criteria set by financial supervisory authorities.

In 2003, DGB focused its international banking operations on increasing profits and developing new profit models through diverse business activities including marketable securities investment in foreign currencies, foreign currency loans, participation in consortium loans, foreign exchange dealing and derivatives. Further, the Bank also has continuously contributed to strengthening the support for foreign currency businesses of its branches such as import-exports and money transfers.

DGB has implemented a business concentration system as a means to enhance business profits. As such, the Bank's investment business sector was able to secure a stable source of revenue through continued new investments in foreign currency securities and steady attraction of investment funds. In the foreign exchange dealing area, the Bank has expanded its marketing activities on corporate customers as a means to increase revenues in its efforts to find new clients. With respect to revenues, the Bank secured asset operation margins based on DGB's credit rating in solid internal growth in the international financial market, while developing new revenue sources by expanding fee income through the improvement in operations of deferred payment credits.

Additionally, the Bank hosted a forum on foreign exchange risk management consulting for established import-exporters to provide support for foreign exchange business activities of the bank's branches. Since July 2003, DGB has established a real-time foreign exchange information system on its Internet website, which, in turn, has enabled the introduction of Internet foreign exchange trading system.

In 2004, DGB plans to strengthen its role in the international banking business, focusing on the deposits, loans and revenues related to the growing international banking and foreign exchange businesses. The Bank also plans to expand corporate service desks so as to expand foreign exchange transaction profits. Moreover, the bank will simultaneously optimize its foreign currency asset portfolio and examine foreign exchange risks by formulating financing and investment schemes based on asset-liability management strategy.



## TRUST BUSINESS

In 2003, the Bank's trust business posted an average balance of trust account at KRW1,390 billion and an average balance of managed assets at KRW1,510 billion, exceeding its 2003 target by KRW40 billion, respectively.

Trust accounts in the overall banking industry in 2003 decreased by 21% from the previous year as a result of deterioration in profitability and continued retreat of matured funds caused by prolonged underlying low interest rates, SK Global turmoil and LG Card crisis. Amidst such adverse conditions, DGB was successful in selling specified money trusts and open-end money trusts that targets customer's preference on short-term financial products. As a result, the Bank's trust business posted an average balance of trust account at KRW1,390 billion and an average balance of managed assets at KRW1,510 billion, exceeding its 2003 target by KRW40 billion, respectively.

In 2003, DGB pursued an operation strategy of minimizing credit and market risks through optimal portfolios and durations, while investing in investment grade companies so as to provide a stable dividend yield. In addition, the Bank generated maximum income by minimizing interest rate fluctuation risks through derivatives hedges. Furthermore, the Bank focused on achieving optimal operation performance by strengthening its compliance activities of the Investment Strategy Committee and invested companies.



While direct comparison with other banks is difficult due to discrepancies in fund establishment dates, DGB realized an overall high trust payout ratio compared to ordinary bank deposits. The payout ratio of the Bank's open-end money trusts stably and continuously remains at the 5% level (3 months).

In 2004, amidst forecasts of slight rise in interest rates due to increase in exports and recovery in domestic demand, DGB will continue to maintain the credibility of its customers by actively coping with the changes in market conditions including reinforcement of core customer marketing and risk management of operating assets so as to establish the foundations for a solid trust business.

(In billions of KRW)

	2001	2002	2003
Assets	1,544.7	1,515.6	1,391.8
Securities	(1,183.9)	(1,199.0)	(1,120.1)
Liabilities	1,544.7	1,515.6	1,391.8
Money in trust	(1,456.4)	(1,445.0)	(1,336.4)
Revenues	156.2	123.5	109.6
Interest revenues	(103.5)	(101.1)	(95.4)
Expenses	139.6	109.6	92.6
Interest expenses	(84.7)	(81.2)	(73.3)
Trust fees & commissions	16.6	13.9	17.0



## RISK MANAGEMENT

DGB's risk management system ensures the optimization of the risk-reward relationship inherent in the bank's operations by managing risks in advance.



DGB's risk management system ensures the optimization of the risk-reward relationship inherent in the bank's operations by managing risks in advance. These risks are measured by a uniform standard and managed efficiently to ensure asset soundness and revenue stability. Permissible risk levels are set by individual factors (credit risk, market risk, liquidity risk, etc.) and approved by the Board Risk Management Committee.

Credit risk management involves various activities related to the efficient management of potential losses from non-compliance of financial or contractual obligations involving loans, marketable securities, money transactions and derivatives. The Credit Scoring System (CSS) and Credit Risk Management System (CRMS) was introduced and put into operation to manage risks related to household and corporate debts, respectively.

Market risk management involves various activities related to the efficient management of risks that potentially reduces interest revenues and investment asset values due to fluctuations in market conditions including interest rates, stock prices and foreign exchange rates. In this respect, DGB systematically manages interest rate risks, stock price fluctuation risks and foreign exchange risks and has developed and implemented the Travis securities management and Market Risk Management (MRM) systems.

Meanwhile, liquidity risk management involves various activities related to the efficient management of risks arising from payment defaults and missed investment opportunities caused by unexpected changes in cash positions. To cope with such uncertainties, DGB has established an ALM system since 1996 and plans to redevelop the system in 2004-2005.

In particular, DGB identifies comprehensive risks inherent in the bank's overall operations and applies an efficient integrated risk management by measuring and controlling individual risks including credit, market, liquidity and operation risks in a consistent manner.





Universiade 2003 Official Bank

## FINANCIAL SECTION

Management's Discussion and Analysis	31
Independent Auditors' Report (Non-Consolidated)	39
Non-Consolidated Financial Statements	41
Independent Auditors' Report (Trust)	46
Trust Account of Financial Statements	47
Independent Auditors' Report (Consolidated)	50
Consolidated Financial Statements	51



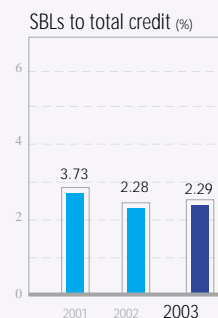
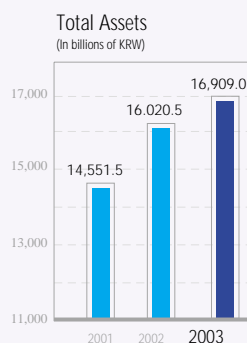
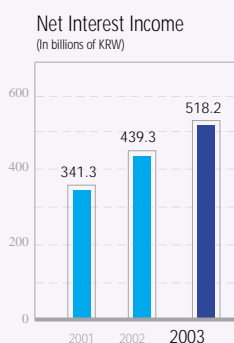
# Management's Discussion and Analysis

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## Selected Financial Information

(In billions of KRW, except per share data and ratios)

	1999	2000	2001	2002	2003	Change
Operating revenues	1,060.2	1,136.3	1,144.1	1,160.8	1,213.4	4.5%
Interest income	863.0	962.4	974.6	984.3	1,011.3	2.7%
Operating expenses	1,033.8	1,071.4	988.7	1,022.8	1,071.1	4.7%
Interest expenses	577.0	621.5	633.3	545.0	493.1	-9.5%
Provision for loan losses	158.9	179.5	81.7	165.1	210.3	27.4%
Net interest income	286.0	340.9	341.3	439.3	518.2	18.0%
Operating income	26.4	64.9	155.4	138.0	142.3	3.1%
Net income	30.8	15.6	30.7	131.2	110.8	-12.1%
Pre-provision income	171.4	179.4	124.3	311.8	342.2	9.7%
Total assets	11,289.8	13,028.8	14,551.5	16,020.5	16,909.0	5.5%
Loans	5,668.2	6,593.4	8,144.9	8,867.0	10,137.4	14.3%
Securities	3,309.2	3,231.8	4,129.1	4,660.9	5,214.1	11.9%
Total liabilities	10,779.2	12,496.3	13,991.1	15,275.3	16,071.3	5.2%
Deposits	7,531.7	9,061.0	10,455.5	11,737.3	12,648.7	7.8%
Borrowings	2,392.3	2,751.1	2,682.8	2,493.3	2,500.9	0.3%
Total shareholders' equity	510.7	532.4	560.4	745.2	837.7	12.4%
Capital stock	602.1	602.1	602.1	660.6	660.6	0.0%
Earnings per share (Won)	258	131	257	1,027	839	-18.3%
Return on assets (%)	0.29%	0.13%	0.23%	0.88%	0.67%	-0.21%p
Return on equity (%)	5.89%	2.94%	5.91%	18.79%	14.41%	-4.38%p
Net interest margin (%)	3.24%	3.53%	3.14%	3.15%	3.30%	0.15%p
Loan loss provision to SBLs (%)	42.66%	46.63%	55.27%	71.11%	74.97%	3.86%p
SBLs to total credit (%)	11.79%	8.69%	3.73%	2.28%	2.29%	0.01%p
BIS capital adequacy ratio (%)	12.12%	11.69%	11.01%	10.85%	10.58%	-0.27%p
Tier 1 ratio (%)	8.44%	7.65%	7.56%	7.84%	8.22%	0.38%p
Tier 2 ratio (%)	3.69%	4.06%	3.46%	3.02%	2.37%	-0.65%p
Cost income ratio (%)	58.90%	48.40%	44.80%	44.60%	42.68%	-1.92%p





The management's discussion and analysis of financial results may contain forward-looking statements provided to assist in the understanding of plans or objectives of the DGB's management for future operations, products or services, and forecasts of its revenues, earnings or other measures of economic performance. Forward-looking statements often include the words 'believe,' 'expect,' 'anticipate,' 'intend,' 'plan,' 'estimate' or words of similar meaning or future or conditional verbs such as 'will,' 'would,' 'should,' 'could' or 'may.'

Forward-looking statements, by their nature, are subject to risks and uncertainties. A number of factors - many of which are beyond the Bank's control - could cause actual conditions, events or results to differ significantly from those described in the forward-looking statements. Some of these factors include certain credit, market, operational, liquidity and interest rate risks associated with the DGB's business and operations.

Forward-looking statements speak only as of the date they are made. The Bank does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events.

### Overview

DGB is emerging into the best leading regional bank through its business philosophy of 'Small but Strong Bank' and 'Prospering with the Region'. As a means to become 'Small but Strong Bank', the Bank has improved its profitability comparable to leading banks in the world. DGB also has the highest BIS ratio in the banking industry and the lowest level of delinquency rate in Korea. In addition, DGB continues to restructure its organization in an efficient way. In order to achieve its philosophy of 'Prospering with the Region', DGB has reinforced its community-focused management and continues to extend active community services. The Bank also faithfully performs its role as the innovative information bank of the region and heightens its position as the regional community's bank.

### Analysis of Operating Results

#### Summary Income Statement

(In billions of KRW)

	2001	2002	2003	Change
Net interest income (a)	341.3	439.3	518.2	18.0%
Non-interest income (b)	88.2	100.6	96.3	-4.3%
<b>Total income (c=a+b)</b>	<b>429.6</b>	<b>539.9</b>	<b>614.4</b>	<b>13.8%</b>
General & administrative expenses (d)	192.4	236.8	261.9	10.6%
Provision expenses (e)	81.7	165.1	210.3	27.3%
<b>Operating income (f=c-d-e)</b>	<b>155.4</b>	<b>138.0</b>	<b>142.3</b>	<b>3.1%</b>
(Operating income before provisioning)	237.2	303.1	352.5	16.3%
Non-operating income (g)	-124.7	-6.8	-27.0	-
Income before taxes (h=f+g)	30.7	131.2	115.3	-12.2%
Income taxes (i)	0.0	0.0	4.4	-
<b>Net income (j=h-i)</b>	<b>30.7</b>	<b>131.2</b>	<b>110.8</b>	<b>-15.5%</b>

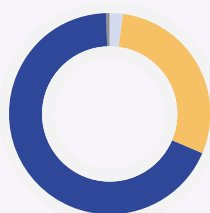
# Management's Discussion and Analysis

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DGB places top priority in its business strategy on the regional community in an age of globalization and conglomeratization in the financial industry. In tandem with the global trend of universal banking, the Bank concentrates its specialty on banking businesses and provides total financial services through strategic alliances with other financial institutions. In particular, DGB has steered its business emphasis on risk management and diversification of income sources during 2003.

In 2003, most of domestic banks reported net losses or severe deterioration in operating profitability due to huge loan loss provision expenses. It is noteworthy that DGB posted a 3.1% increase in operating income to KRW142.3 billion last year; operating income before provisioning jumped even 16.3% YoY to KRW352.5 billion. Solid customer relationship within its dedicated region and superior risk management capability have made this notable operating performance possible. Separately, net income dropped 15.5% YoY to KRW110.8 billion in 2003 from KRW131.2 billion in the previous year.

Sources of Interest Income (%)



■ Cash & due from banks	2.1
■ Securities	29.3
■ Loans	68.0
■ Others	0.6

## Net Interest Income

(In billions of KRW)

	2001	2002	2003	Change
Cash & due from banks	115.1	39.5	20.8	-47.2%
Securities	260.1	300.6	296.2	-1.5%
Loans	581.8	628.3	687.8	9.5%
Others	17.6	15.9	6.5	-58.9%
<b>Interest income (a)</b>	<b>974.6</b>	<b>984.3</b>	<b>1,011.3</b>	<b>2.7%</b>
Deposits	442.5	364.4	356.8	-2.1%
Borrowings	126.4	123.8	97.5	-21.2%
Debentures	35.6	28.2	26.9	-4.9%
Others	28.7	28.5	12.0	-57.9%
<b>Interest expenses (b)</b>	<b>633.3</b>	<b>545.0</b>	<b>493.2</b>	<b>-9.5%</b>
<b>Net interest income (c=a-b)</b>	<b>341.3</b>	<b>439.3</b>	<b>518.2</b>	<b>18.0%</b>

In 2003, net interest income jumped 18.0% YoY to KRW518.2 billion compared to KRW439.3 billion a year earlier, driven by combined effects of increasing interest income and falling interest expenses.

Interest income edged up to KRW1,011.3 billion in 2003, up 2.7% YoY from KRW984.7 billion in 2002. As the Bank reduced the balance of low interest-earning cash and due from banks, interest income from cash and due almost halved. In response to prolonged low interest rate environment, DGB extended corporate loans to local SMEs with solid growth potential. As a result, interest income from loans increased 9.5% YoY to KRW687.8 billion in 2003, accounting for 68.0% of total interest income.

On the other hand, interest expense fell 9.5% YoY to KRW493.2 billion in 2003 from KRW545.0 billion in the previous year. While deposits increased 7.8% YoY last year, interest on deposits rather nudged down 2.1% YoY to KRW356.8 billion in 2003 due to increases in low-cost deposits and low market interest rates. In addition, interest on borrowings sank down 21.2% YoY to KRW97.5 billion in 2003 mainly due to lower funding cost.

### Net Interest Margin and Net Interest Spread

	2001	2002	2003	(%) Change
NIM	3.14	3.15	3.30	0.15%p
NIS	3.84	4.14	4.07	-0.07%p
Loan rate	9.01	7.81	7.25	-0.56%p
Deposit rate	5.17	3.67	3.18	-0.49%p

Through low-cost financing and efficient asset allocation, DGB successfully managed net interest margin (NIM). DGB's NIM was considerably higher than the industry average. The Bank's NIM gained 15 basis points to 3.30% in 2003, whereas net interest spread (NIS) edged down 7 basis points to 4.07%.

### Non-Interest Income and Expenses

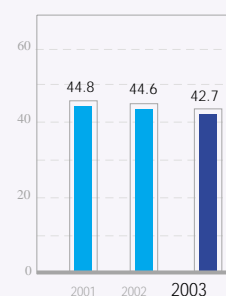
	2001	2002	2003	(In billions of KRW) Change
Fees and commissions	143.8	131.3	137.2	4.5%
Gain on securities	8.6	10.6	14.5	37.3%
Gain on derivative instruments	3.1	7.0	17.5	151.0%
Others	14.0	27.7	32.8	18.5%
Non-interest income	169.5	176.5	202.1	14.5%
Fees and commissions	9.9	15.7	17.0	8.2%
Loss on securities	10.1	13.0	12.6	-2.8%
Loss on derivative instruments	3.1	7.8	22.8	190.6%
Others	58.2	39.4	53.4	35.5%
Non-interest expenses	81.3	75.9	105.8	39.4%
Non-interest income, net	88.2	100.6	96.3	-4.3%
G&A expenses	192.4	236.8	261.9	10.6%
Provision expenses	81.7	165.1	210.3	27.3%

Upon the Bank's efforts to diversify income sources, non-interest income increased 14.5% YoY to KRW202.1 billion in 2003 compared to KRW176.5 billion in the previous year. Fees and commissions edged up backed by the introduction of bancassurance.

On the other hand, non-interest expenses soared 39.4% YoY to KRW105.8 billion last year due to increases in loss on derivative instruments and other miscellaneous expenses. Therefore, net non-interest income edged down to KRW96.3 billion in 2003, a 4.3% drop over KRW100.6 billion in 2002.

In addition, increases in troubled loan caused loan loss provision expenses to surge 27.3% YoY to KRW210.3 billion in 2003. In addition, G&A expenses increased 10.6% YoY to KRW261.9 billion due to hike in administration expenses. Separately, the Bank continued to improve its management efficiency and strengthen income-generating sources. Accordingly, the cost-income ratio went down 1.9%p to 42.7% in 2003.

Cost-Income Ratio (%)





# Management's Discussion and Analysis

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## Net Income

The Bank posted an operating income of KRW142.3 billion in 2003 compared to KRW138.0 billion the year before. DGB's non-operating income and expenses are not serious enough to affect overall operating performance. Nonetheless, along with the deterioration of net non-operating balance, pre-tax income decreased 12.2% YoY to KRW115.3 billion in 2003, whereas operating income increased.

Overall, DGB posted net income of KRW110.8 billion in 2003, down 15.5% YoY from KRW131.2 billion in the previous year. Taking into account that the banking industry suffered from substantial deterioration in profitability last year, DGB outperformed the industry average.

## Balance Sheet Analysis

In 2003, the Bank took actions relating to both the asset and liability sides of the balance sheet in order to defensively position itself for a low interest rate environment. While assets were reallocated, the Bank adjusted its funding structure to shorten maturities on liabilities.

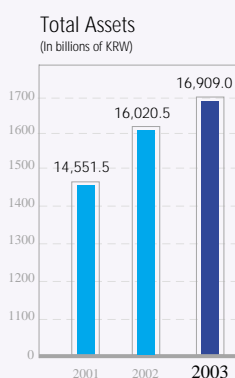
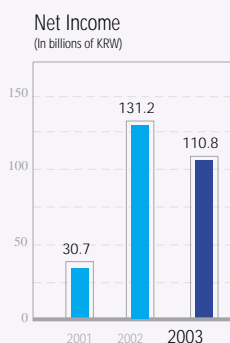
## Assets

As of December 31, 2003, the Bank's total assets grew 5.5% YoY to KRW16,909.0 billion. The primary reason for the increase was loan growth backed by deposit growth during the year.

## Loan Portfolio

(In billions of KRW)

	2001	2002	2003	% of total
By currency				
Loans in Korean Won	6,348.9	8,066.9	9,141.7	90.2%
Loans in foreign currency	1,796.0	800.1	995.7	9.8%
<b>Total loans outstanding</b>	<b>8,144.9</b>	<b>8,867.0</b>	<b>10,137.4</b>	<b>100.0%</b>
By industry				
Manufacturing	2,882.0	3,103.1	3,224.6	35.3%
Construction	270.2	324.8	392.2	4.3%
Wholesale and retail	618.3	758.3	890.3	9.7%
Finance & insurance	159.6	153.3	76.4	0.8%
Real estate & leasing	144.0	283.8	500.5	5.5%
Others	697.5	769.8	1,115.7	12.2%
Household	1,577.3	2,673.8	2,942.0	32.2%
<b>Total loans in Korean Won</b>	<b>6,348.9</b>	<b>8,066.9</b>	<b>9,141.7</b>	<b>100.0%</b>



Amidst adverse operating conditions, the Bank was able to secure high potential corporate customers with future growth potential. As a result, DGB actively extended loans to SMEs by 15.4% YoY in 2003. About 90% of total loans are denominated in Korean Won.

On the one hand, due to sluggish business activities in textile industry, DGB's loans to the manufacturing sectors decreased. On the other hand, however, total loans outstanding continued to rise on the back of rapid demand growth for capital in the construction, real estate and services sectors.

## ASSET ALLOCATION

(In billions of KRW)

	2001	2002	2003	Change
Cash & due from banks	1,303.1	1,561.7	660.5	-57.7%
Trading securities	36.6	284.4	340.0	19.5%
Investment securities	4,092.5	4,376.5	4,874.2	11.4%
Loans	8,144.9	8,867.0	10,137.4	14.3%
Other assets	974.3	930.8	897.0	-3.6%

In 2003, securities and loans are mainly attributable to steady asset growth, increasing 11.9% YoY to KRW5,214.2 billion and 14.3% YoY to KRW10,137.4 billion, respectively. Meanwhile, the balance of low income-generating cash and due from banks plunged to KRW660.5 billion in 2003. This fundamental changes in the Bank's asset portfolio is positive in terms of profitability.

## Funding Sources

(In billions of KRW)

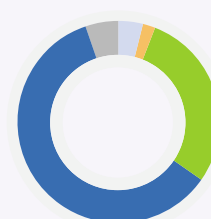
	2001	2002	2003	Change
Deposits	10,455.5	11,737.3	12,648.7	7.8%
Borrowings	2,246.5	2,493.3	2,500.9	0.3%
Debentures	436.3	327.7	285.0	-13.0%
Other liabilities	852.7	717.0	636.7	-11.2%

(In billions of KRW, avg. balance)

	2001	2002	2003
Low-cost deposits	3,926.0	4,938.7	5,406.1
Deposits in Won	9,154.1	10,224.0	11,725.7
% of low-cost deposits	42.9	48.3	46.1
Total deposits	11,695.8	13,479.3	14,920.0
% of low-cost deposits	33.6	36.6	36.2

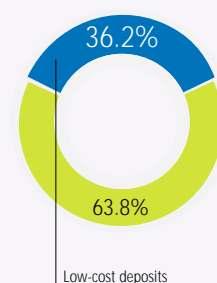
DGB's primary sources of funding are deposits and borrowings. Despite prolonged underlying low interest rates, deposits rose 7.8% YoY on the back of community-focused marketing activities. In addition, the Bank's low-cost deposits reached KRW5,406 billion, an increase of 9.5% over 2002. The percentage of low-cost deposits over total deposits edged down slightly in 2003, but the percentage share represents among the highest in the banking industry.

Asset Allocation (%)



■ Cash & due from banks	3.9
■ Trading securities	2.0
■ Investment securities	28.8
■ Loans	60.0
■ Other assets	5.3

Funding Source



# Management's Discussion and Analysis

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## Asset Quality

(In billions of KRW)

	2001	2002	2003
Total credits	7,661.4	9,551.8	10,352.8
Substandard or below loans	285.5	217.7	236.9
SBL ratio (%)	3.73	2.28	2.29
Loan loss coverage ratio (%)	55.3	71.1	74.9

Amidst such adverse events as SK Global turmoil, LG Card crisis and household delinquencies, DGB showed excellent asset quality, maintaining its SBL (substandard or below loans) ratio similar to the previous year level.

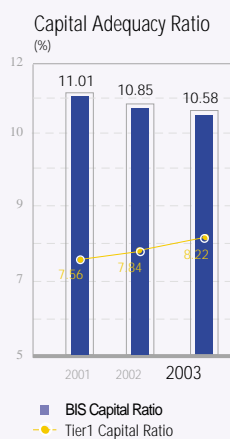
Total credit extended as of the end of 2003 amounted to KRW10,352.8 billion, an increase of 8.4% over 2002. Meanwhile, non-performing loans, classified as substandard and below, totaled KRW236.9 billion, accounting for 2.29% of total credit outstanding.

In addition, the provision for loan loss totaled KRW177.6 billion in 2003, up 14.7% YoY compared to KRW154.8 billion in 2002, and the resulting loan loss coverage ratio increased 3.8 percentage points to 74.9%. Overall, DGB's asset soundness remains excellent.

## Capital Adequacy

(In billions of KRW)

	2001	2002	2003	Change
Total equity capital	846.4	976.6	1,024.7	4.9%
Core capital	580.9	705.4	795.6	12.8%
Supplementary capital	266.3	272.0	230.0	-15.4%
Risk-weighted assets	7,684.3	9,001.0	9,683.1	7.6%
BIS capital ratio (%)	11.01	10.85	10.58	-
Tier 1 capital ratio	7.56	7.84	8.22	-
Tier 2 capital ratio	3.47	3.02	2.37	-



In 2003, while DGB's supplementary capital declined, total equity capital grew 4.9% YoY to KRW1,024.7 billion on the back of a 12.8% increase in core capital. On the back of expansion of core capital and effective management of risk-weighted assets, the Bank's tier 1 capital ratio edged up 38 basis points to 8.22% in 2003. Meanwhile, due to falling tier 2 capital ratio, BIS capital ratio nudged down to 10.58% last year.



## Analysis of Trust Accounts

Trust accounts in the overall banking industry in 2003 fell by 21% from the previous year as a result of deterioration in profitability and continued retreat of matured funds caused by prolonged underlying low interest rates. Amidst such adverse business environments, the Bank was successful in selling specified money trusts and open end money trusts that targets customer's preference on short-term financial products.

As a result, the Bank's trust business posted the year-end balance of trust account at KRW1,336 billion (an average balance of KRW1,390 billion) and the year-end balance of managed assets at KRW1,391 billion (an average balance of KRW1,510 billion).

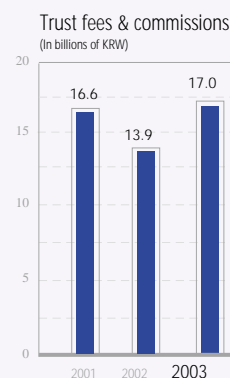
(In billions of KRW)

	2001	2002	2003
<b>Assets</b>			
Securities	1,183.9	1,199.0	1,120.1
Loans & discounts	166.6	165.3	149.9
Other assets	194.2	151.3	121.8
	1,544.7	1,515.6	1,391.8
<b>Liabilities</b>			
Money in trust	1,456.4	1,445.0	1,336.4
Other liabilities	88.3	70.6	55.4
	1,544.7	1,515.6	1,391.8

In 2003, DGB pursued an operation strategy of minimizing credit and market risks through optimal portfolio and durations, while investing in investment grade companies so as to provide a stable dividend yield. In addition, the Bank generated maximum income by minimizing interest rate fluctuation risks through derivatives hedges. Accordingly, despite shrinking revenues from trust accounts, trust fees and commissions rather increased 22.0% YoY to KRW17.0 billion in 2003 compared to KRW13.9 billion in 2002.

(In billions of KRW)

	2001	2002	2003
<b>Revenues</b>			
Interest revenues	103.5	101.1	95.4
Revenues on securities		12.2	6.4
Other revenues		10.3	7.8
	156.2	123.5	109.6
<b>Expenses</b>			
Interest expenses	84.7	81.2	73.3
Expenses on securities		16.9	13.0
Other expenses		11.5	6.3
	139.6	109.6	92.6
<b>Trust fees &amp; commissions</b>	16.6	13.9	17.0



# Independent Auditors' Report

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Touch  
Tohmatsu**

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

We have audited the accompanying non-consolidated balance sheets of Daegu Bank, Ltd. (the "Bank") as of December 31, 2003 and 2002, and the related non-consolidated statements of income, appropriations of retained earnings 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, 2003 and 2002, and the results of its operations, the appropriations of its retained earnings 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 discussed in Note 23 to the accompanying non-consolidated financial statements, the Bank transferred loans with recourse to Korea Asset Management Corporation. ₩39.7 billion and ₩45.3 billion of such transferred loans remain unsettled as of December 31, 2003 and 2002, respectively. Additional gains or losses may be recorded upon the final settlement of the loans with Korea Asset Management Corporation in accordance with the recourse provisions.

As discussed in Note 23 to the accompanying non-consolidated financial statements, the Bank has ₩90.3 billion in debt securities issued by LG Card as of December 31, 2003 and an impairment loss was recorded for ₩17.2 billion, or 19%, during the year ended December 31, 2003. Additional gains or may be recorded depending on the result corporate restructuring by LG Card.

As discussed in Note 2 to the accompanying non-consolidated financial statements, Korea Accounting Standards Board issued Statements of Korea Accounting Standards ("SKAS") No. 2 through No. 9, which are effective for fiscal year beginning after December 31, 2002. Accordingly, the accompanying non-consolidated financial statements of the Company have been prepared in accordance with SKAS No. 2 through No. 9.

In addition, in accordance with SKAS No. 6, appropriations of retained earnings, including dividends, are not reflected in the accompanying non-consolidated balance sheets until approved by shareholders. The effect of this accounting change is to decrease total liabilities and increase total stockholders' equity as of December 31, 2003 by ₩33,031 million. The balance sheet as of December 31, 2002, which are comparatively presented, is restated to reflect the effect of this accounting change retrospectively and, as a result, total liabilities as of December 31, 2002 decreased by ₩33,031 million and total stockholders' equity as of December 31, 2002 increased by the same amount. In connection with this accounting change, operating income, net income and net income per share for the years ended December 31, 2003 and 2002 were not affected.

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

*Ahn Kwon K Co.*

January 19, 2004

**Notice to Readers**

This report is effective as of January 19, 2004, 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, 2003 AND 2002

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(In millions of Korean won)

	2003	2002 (restated)
<b>ASSETS</b>		
Cash and due from banks (Note 3)	₩ 660,480	₩ 1,561,692
Securities (Notes 2 and 4)	5,214,171	4,660,956
Loans (Notes 5, 6 and 7)	10,137,408	8,867,014
Fixed assets (Note 8)	350,744	348,484
Other	546,217	582,312
<b>TOTAL ASSETS</b>	<b>₩ 16,909,020</b>	<b>₩ 16,020,458</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Deposits (Note 10)	₩ 12,648,704	₩ 11,737,256
Borrowings (Note 11)	2,500,867	2,493,257
Debentures (Note 12)	285,000	327,700
Other	636,704	717,041
<b>Total Liabilities</b>	<b>16,071,275</b>	<b>15,275,254</b>
<b>Stockholders' Equity</b>		
Common stock (par value ₩5,000) (Authorized : 300 million shares) (Issued and outstanding : 132.1 million shares)	660,625	660,625
Capital surplus	12,328	12,328
Retained earnings	169,858	92,440
Capital adjustments		
Stock options	628	447
Loss on valuation of available-for-sales securities	(5,694)	(20,257)
Other	-	(379)
<b>Total Stockholders' Equity</b>	<b>837,745</b>	<b>745,204</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>₩ 16,909,020</b>	<b>₩ 16,020,458</b>

See notes to accompanying consolidated financial statements.

# NON-CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2003 AND 2002

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(in millions of Korean won except for income per share)

	2003	2002
<b>OPERATING REVENUES</b>		
Interest on due from banks	₩ 20,850	₩ 39,464
Interest on trading securities	18,738	12,189
Interest on available-for-sale securities	88,114	106,759
Interest on held-to-maturity securities	189,316	181,697
Interest on loans	687,793	628,283
Interest - other	6,535	15,906
Total interest income	1,011,346	984,298
Fees and commissions	119,691	116,392
Gain on disposal of trading securities	13,858	9,849
Dividend on trading securities	199	380
Dividend on available-for-sale securities	433	325
Gain on foreign currency transactions	30,701	18,813
Trust account commission fees	17,508	14,870
Other	19,661	15,864
Total operating revenue	1,213,397	1,160,791
<b>OPERATING EXPENSES</b>		
Interest on deposits	(356,767)	(364,427)
Interest on borrowings	(97,541)	(123,819)
Interest on debentures	(26,860)	(28,235)
Interest - other	(12,024)	(28,535)
Total interest expense	(493,192)	(545,016)
Commission charges	(16,954)	(15,668)
Loss on disposal of trading securities	(11,395)	(12,345)
Loss on valuation of trading securities	(1,213)	(630)
Loss on foreign currency transactions	(17,093)	(9,216)
Provision for loan losses	(210,252)	(165,105)
Salaries	(107,455)	(97,320)
Depreciation	(24,723)	(18,257)
Amortization on intangible asset	(3,759)	(2,676)
Other general and administrative expenses	(125,967)	(118,564)
Other	(59,107)	(38,034)
Total operating expenses	(1,071,110)	(1,022,831)
OPERATING INCOME	142,287	137,960
NON-OPERATING EXPENSE	(27,030)	(6,760)
INCOME BEFORE INCOME TAXES	115,257	131,200
INCOME TAXES (Note 17)	4,429	-
NET INCOME	₩ 110,828	₩ 131,200
NET INCOME PER SHARE-BASIC (Note 18)	₩ 839	₩ 1,027
NET INCOME PER SHARE-DILUTED (Note 18)	₩ 839	₩ 1,002

See notes to accompanying non-consolidated financial statements.

# NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 2003 AND 2002

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	(In millions of Korean won)	
	2003	2002
<b>RETAINED EARNINGS BEFORE APPROPRIATIONS</b>		
Unappropriated retained earnings (undisposed accumulated deficit) carried over from prior year	₩ 284	₩ (38,759)
Net income	110,828	131,200
Total	111,112	92,441
<b>APPROPRIATIONS OF RETAINED EARNINGS</b>		
Legal reserve	(11,200)	(13,200)
Reserve for business stabilization	-	(747)
Reserve for recapitalization	(11,200)	(9,300)
Other reserve	(55,500)	(35,500)
Loss on sale of treasury stock	-	(379)
Cash dividends (Note 26)	(33,031)	(33,031)
Total	(110,931)	(92,157)
<b>UNAPPROPRIATED RETAINED EARNINGS CARRIED OVER TO THE SUBSEQUENT YEAR</b>		
	₩ 181	₩ 284

See notes to accompanying non-consolidated financial statements.

# NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2003 AND 2002

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(In millions of Korean won)

	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	₩ 110,828	₩ 131,200
Additions of expenses not involving cash outflows (Note 27)	325,228	282,591
Deductions of revenues not involving cash inflows (Note 27)	(322,431)	(280,091)
Changes in assets and liabilities resulting from operations (Note 27)	143,642	53,826
Net cash provided by operating activities	257,267	187,526
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash inflows from investing activities :		
Disposal of trading securities	4,514,242	3,507,302
Disposal of available-for-sale securities	1,765,917	-
Disposal of held-to-maturity securities	1,277,586	-
Disposal of investment securities	-	4,126,315
Disposal of property and equipment	3,693	6,174
Decrease in other receivable	74,438	5,549
Decrease in other assets	-	6,056
Sub-total	7,635,876	7,651,396
Cash outflows for investing activities :		
Acquisition of trading securities	(4,568,575)	(3,758,247)
Acquisition of available-for-sale securities	(1,781,142)	-
Acquisition of held-to-maturity securities	(1,768,337)	-
Acquisition of investment securities	-	(4,402,567)
Acquisition of property and equipment	(28,336)	(36,410)
Acquisition of intangible assets	(6,713)	(2,676)
Increase in other assets	(40,793)	(4,339)
Sub-total	(8,193,896)	(8,204,239)
Net cash used in investing activities	(558,020)	(552,843)

(Continued)



# NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2003 AND 2002

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	(In millions of Korean won)	
	2003	2002
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash inflows from financing activities :		
Increase in borrowings in Korean won	14,478	4,471,715
Increase in borrowings in foreign currency	112,087	60,199
Increase in debentures	6,000	58,080
Increase in other liabilities	-	12,955,362
Sub-total	132,565	17,545,356
Cash outflows for financing activities :		
Repayment of borrowings in Korean won	-	(4,631,692)
Repayment of debentures	(46,000)	(107,107)
Payment of cash dividends	(33,031)	-
Decrease in other liabilities	(72,292)	(12,914,110)
Sub-total	(151,323)	(17,652,909)
Net cash used in financing activities	(18,758)	(107,553)
<b>NET DECREASE IN CASH</b>	(319,511)	(472,870)
<b>CASH AT THE BEGINNING OF THE YEAR</b>	648,266	1,121,136
<b>CASH AT THE END OF THE YEAR (Note27)</b>	₩ 328,755	₩ 648,266

See notes to accompanying non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements are not enclosed intentionally. Therefore, investors, shareholders and other stakeholders should review notes to financial statements in order to properly understand the Bank's important accounting policies and details on operating performance and financial conditions. Notes to financial statements can be found on 'NON-CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT' ([www.dgb.co.kr](http://www.dgb.co.kr)).

# INDEPENDENT AUDITORS' REPORT

www.daegubank.co.kr

**Deloitte  
Touch  
Tohmatsu**

Ahn Kwon  
7th Fl., Daegu Chamber of Commerce Industry Bldg.  
107, Sinchon-3Dong, Dong-Gu, Taegu, Korea  
Mapo P.O.Box 124

Telephon : 82(53) 741-7711  
Facsimile : 82(53) 741-7715  
www.ahnkwong.co.kr

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

We have audited the accompanying balance sheets of trust account of Daegu Bank, Ltd. (the "Trust") as of December 31, 2003 and 2002, and the related statements of operations and cash flows for the years then ended (all expressed in Korean won). These financial statements are the responsibility of the Trust'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 Trust as of December 31, 2003 and 2002, 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.

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

*Ahn Kwon & Co.*

January 19, 2004

#### Notice to Readers

This report is effective as of January 19, 2004, 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 ACCOUNT OF BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

www.daegubank.co.kr

	(In millions of Korean won)	
	2003	2002
<b>ASSETS</b>		
Securities (Notes 2 and 3)	₩ 1,120,077	₩ 1,199,022
Loans (Notes 2, 4 and 7)	149,855	165,261
Allowance for loan losses (Notes 2 and 5)	(3,339)	(4,257)
Lending to bank accounts (Note 6)	96,105	103,762
Other assets	29,069	51,826
<b>TOTAL ASSETS</b>	<b>₩ 1,391,767</b>	<b>₩ 1,515,614</b>
<b>LIABILITIES</b>		
Money trusts (Notes 2 and 8)	1,336,381	1,445,039
Borrowings	785	11,800
Special reserve (Notes 2 and 9)	5,619	4,291
Other liabilities	48,982	54,484
<b>TOTAL LIABILITIES</b>	<b>₩ 1,391,767</b>	<b>₩ 1,515,614</b>

See notes to accompanying non-consolidated financial statements.

# TRUST ACCOUNT OF STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2003 AND 2002

www.daegubank.co.kr

(In millions of Korean won)

	2003	2002
<b>REVENUES :</b>		
Interest on securities	₩ 80,338	₩ 83,286
Interest on loans and bills discounted	12,086	13,552
Interest on due from bank account (Note 6)	2,863	3,768
Interest on bonds purchased under resale agreements	146	447
Revenues on securities	6,409	12,156
Gain on derivatives transaction	863	43
Commissions	222	506
Reversal of special reserve	129	135
Reversal of allowance for loan losses	4,445	1,550
Other revenues	2,116	8,060
Total revenues	₩ 109,617	₩ 123,503
<b>EXPENSES :</b>		
Expenses on money trust	(73,137)	(80,460)
Interest on borrowings	(188)	(715)
Commissions	(149)	(271)
Expenses on securities	(12,955)	(16,876)
Losses on derivatives transactions	(1,854)	(201)
Depreciation and amortization	-	-
Contributions to the Credit Guarantee Fund	(189)	(228)
Insurance fees on deposits	(876)	(489)
Taxes and dues	(86)	(320)
Provision for special reserve (Note 2)	(1,457)	(1,628)
Provision for loan losses (Note 2)	(1,684)	(7,079)
Trust fees and commissions (Note 2)	(16,988)	(13,926)
Other expenses	(54)	(1,310)
Total expenses	₩ (109,617)	₩ (123,503)

See notes to accompanying non-consolidated financial statements.



# TRUST ACCOUNT OF STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2003 AND 2002

www.daegubank.co.kr

	(In millions of Korean won)	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Expenses not involving cash outflows (Note 10)	₩ 16,125	₩ 25,584
Revenues not involving cash inflows (Note 10)	(10,982)	(13,841)
Changes in assets and liabilities resulting from operations (Note 10)	(1,785)	(18,643)
Total	3,358	(6,900)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash outflows for financing activities	(11,015)	(36,900)
Total	(11,015)	(36,900)
<b>NET DECREASE IN CASH</b>	(7,657)	(43,800)
<b>CASH AT BEGINNING OF THE YEAR</b>	103,762	147,562
<b>CASH AT END OF THE YEAR (Note 10)</b>	₩ 96,105	₩ 103,762

See notes to accompanying non-consolidated financial statements.

Notes to Trust account of Financial Statements are not enclosed intentionally. Therefore, investors, shareholders and other stakeholders should review notes to financial statements in order to properly understand the Bank's important accounting policies and details on operating performance and financial conditions. Notes to financial statements can be found on 'TRUST ACCOUNT OF FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT' (www.dgb.co.kr).

# INDEPENDENT AUDITORS' REPORT

www.daegubank.co.kr

**Deloitte  
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Ahn Kwon  
7th Fl., Daegu Chamber of Commerce Industry Bldg.  
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Telephone : 82(53) 741-7711  
Facsimile : 82(53) 741-7715  
www.ahnkwong.co.kr

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

We have audited the accompanying consolidated balance sheets of Daegu Bank, Ltd. (the "Bank") and subsidiaries as of December 31, 2003 and 2002, 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, 2003 and 2002, and the results of their operations 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 discussed in Note 23 to the accompanying consolidated financial statements, the Bank transferred loans with recourse to Korea Asset Management Corporation. ₩39.7 billion and ₩45.3 billion of such transferred loans remain unsettled as of December 31, 2003 and 2002, respectively. Additional gains or losses may be recorded upon the final settlement of the loans with Korea Asset Management Corporation in accordance with the recourse provisions.

As discussed in Notes 5 and 23 to the accompanying consolidated financial statements, the Bank has ₩90.3 billion in debt securities issued by LG Card as of December 31, 2003 and 19% thereof, or ₩17.2 billion was recognized as impairment loss during the year ended December 31, 2003. Additional gains or losses may be recorded depending on the actual results of corporate restructuring of LG Card.

As discussed in Note 2 to the accompanying consolidated financial statements, Korea Accounting Standards Board issued Statements of Korea Accounting Standards ("SKAS") No. 2 through No. 9, which are effective for fiscal years beginning after December 31, 2002. Accordingly, the accompanying consolidated financial statements of the Company have been prepared in accordance with SKAS No. 2 through No. 9.

# INDEPENDENT AUDITORS' REPORT

www.daegubank.co.kr

In addition, in accordance with SKAS No. 6, appropriations of retained earnings, including dividends, are not reflected in the accompanying consolidated balance sheets until approved by shareholders. The effect of this accounting change is to decrease total liabilities and increase total stockholders' equity as of December 31, 2003 by ₩33,031 million. The balance sheet as of December 31, 2002, which are comparatively presented, is restated to reflect the effect of this accounting change retrospectively and, as a result, total liabilities as of December 31, 2002 decreased by ₩33,031 million and total stockholders' equity as of December 31, 2002 increased by the same amount. In connection with this accounting change, operating income, net income and net income per share for the years ended December 31, 2003 and 2002 were not affected.

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

*Ahn Kwon K Co.*

March 12, 2004

#### Notice to Readers

This report is effective as of March 12, 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, 2003 AND 2002

www.daegubank.co.kr

(In millions of Korean won)

	2003	2002
<b>ASSETS</b>		
Cash and due from banks (note 3)	₩ 660,480	₩ 1,561,692
Securities (Notes 2 and 4)	5,582,772	4,974,573
Loans (Notes 5, 6 and 7)	10,215,431	8,993,129
Fixed assets (Note 8)	350,744	348,485
Other assets	555,196	580,841
<b>TOTAL ASSETS</b>	<b>17,364,623</b>	<b>16,458,720</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Deposits (Note 10)	13,113,748	12,207,015
Borrowings (Note 11)	2,500,867	2,493,257
Debentures (Note 12)	285,000	327,700
Other liabilities	627,263	685,544
<b>Total liabilities</b>	<b>16,526,878</b>	<b>15,713,516</b>
<b>Stockholder's equity</b>		
Common stock (par value ₩5,000) (Authorized - 300 million shares) (Issued and outstanding - 132.1 million shares)	660,625	660,625
Consolidated capital surplus	12,328	12,328
Consolidated retained earning	169,858	92,440
Consolidated Capital adjustments		
Stock options	628	447
Loss on valuation of available -for-sales securities	(5,694)	(20,257)
Other	-	(379)
<b>Total stockholders' equity</b>	<b>837,745</b>	<b>745,204</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>₩ 17,364,623</b>	<b>₩ 16,458,720</b>

See notes to accompanying consolidated financial statements.



# CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2003 AND 2002

www.daegubank.co.kr

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

	2003	2002
<b>OPERATING REVENUES</b>		
Interest on due from banks	₩ 20,850	₩ 39,464
Interest on trading securities	44,481	36,119
Interest on available-for-sale securities	88,114	106,759
Interest on held-to-maturity securities	189,316	181,697
Interest on loans	694,617	640,721
Interest - other	6,346	16,731
Total interest income	1,043,724	1,021,491
Fees and commissions	119,819	116,802
Gain on disposition of trading securities	14,577	12,837
Dividend on trading securities	216	442
Dividend on available-for sale securities	433	325
Gain on foreign currency transactions	30,701	18,813
Trust account commission fees	8,921	9,698
Other	20,817	16,021
Total operating revenue	1,239,208	1,196,429
<b>OPERATING EXPENSES</b>		
Interest on deposits	(378,164)	(395,237)
Interest on borrowings	(97,541)	(123,819)
Interest on debentures	(26,860)	(28,235)
Interest - other	(10,954)	(28,535)
Total interest expense	(513,519)	(575,826)
Commission charges	(16,991)	(15,755)
Loss on disposition of trading securities	(13,987)	(14,336)
Loss on valuation of trading securities	(3,941)	(503)
Loss on foreign currency transactions	(17,093)	(9,216)
Provision for loan losses	(207,429)	(173,424)
Salaries	(107,455)	(97,320)
Depreciation	(24,723)	(28,257)
Amortization on intangible asset	(3,759)	(2,676)
Other general and administrative expenses	(125,975)	(108,649)
Other	(62,049)	(33,243)
Total operating expenses	(1,096,921)	(1,059,205)
OPERATING INCOME	142,287	137,224
NON-OPERATING EXPENSE	(27,030)	(6,024)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	115,257	131,200
INCOME TAXES (Note 17)	4,429	-
INCOME BEFORE MINORITY INTEREST	₩ 110,828	₩ 131,200
MINORITY INTEREST	-	-
CONSOLIDATED NET INCOME	₩ 110,828	₩ 131,200
BASIC NET INCOME PER SHARE (Note 18)	₩ 839	₩ 1,027
DILUTED NET INCOME PER SHARE (Note 18)	₩ 839	₩ 1,002

See notes to accompanying consolidated financial statements.

# CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2003 AND 2002

www.daegubank.co.kr

(In millions of Korean won)

Description	Capital Stock	Capital Surplus	Retained Earnings	Capital Adjustment	Minority Interest	Total
.JANUARY 1, 2002	₩ 602,100	₩ 3,059	₩ (38,460)	₩ (4,187)	₩ 29,946	₩ 592,458
Paid-in capital increase	58,525	12,328	-	-	-	70,853
Consolidated net income	-	-	131,200	-	-	131,200
Losses on valuation of investment securities	-	-	-	(17,442)	-	(17,442)
Stock options	-	-	-	165	-	165
Effect of change in the consolidated entities	-	(3,059)	(300)	1,275	(29,946)	(32,030)
.DECEMBER 31, 2002 (restated)	₩ 660,625	₩ 12,328	₩ 92,440	₩ (20,189)	₩ -	₩ 745,204
.JANUARY 1, 2003	₩ 660,625	₩ 12,328	₩ 92,440	₩ (20,189)	₩ -	₩ 745,204
Consolidated net income	-	-	110,828	-	-	110,828
Dividends	-	-	(33,031)	-	-	(33,031)
Losses on sale of treasury stock	-	-	(379)	379	-	-
Losses on valuation of investment securities	-	-	-	14,564	-	14,564
Stock options	-	-	-	180	-	180
.DECEMBER 31, 2003	₩ 660,625	₩ 12,328	₩ 169,858	₩ (5,066)	₩ -	₩ 837,745

See notes to accompanying consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2003 AND 2002

www.daegubank.co.kr

(In millions of Korean won)

	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	₩ 110,828	₩ 131,200
Additions of expenses not involving cash outflows (Note 27)	328,283	293,658
Deductions of revenues not involving cash inflows (Note 27)	(325,130)	(282,966)
Changes in assets and liabilities resulting from operations (Note 27)	203,632	48,168
Net cash provided by operating activities	317,613	190,060
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash inflows from investing activities :		
Disposal of trading securities	4,514,242	3,553,326
Disposal of available-for sale securities	1,765,917	-
Disposal of held-to-maturity securities	1,277,586	-
Disposal of investment securities	-	4,126,315
Disposal of property and equipment	3,693	6,174
Decrease in other receivables	73,581	6,030
Decrease in other assets	-	6,056
Sub-total	7,635,019	7,697,901
Cash outflows for investing activities :		
Acquisition of trading securities	(4,628,160)	(3,758,247)
Acquisition of available-for sale securities	(1,781,142)	-
Acquisition of held-to-maturity securities	(1,768,337)	-
Acquisition of investment securities	-	(4,402,567)
Acquisition of property and equipment	(28,336)	(36,410)
Acquisition of intangible assets	(6,713)	(2,676)
Increase in other assets	(40,792)	(4,339)
Sub-total	(8,253,480)	(8,204,239)
Net cash used in investing activities	(618,461)	(506,338)

(Continued)

# CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2003 AND 2002

www.daegubank.co.kr

	(In millions of Korean won)	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash inflows from financing activities:		
Increase in borrowings in Korean won	14,478	4,471,715
Increase in borrowings in foreign currency	112,087	60,199
Increase in debentures	6,000	58,080
Increase in other liabilities	-	12,955,362
Sub-total	132,565	17,545,356
Cash outflows for financing activities:		
Repayment of borrowings in Korean won	-	(4,631,692)
Repayment of debentures	(46,000)	(107,108)
Payment of cash dividends	(33,031)	-
Decrease in other liabilities	(72,197)	(12,914,447)
Sub-total	(151,228)	(17,653,247)
Net cash used in financing activities	(18,663)	(107,891)
<b>DECREASE DUE TO CHANGE IN CONSOLIDATED ENTITIES</b>	-	(14,316)
<b>NET DECREASE IN CASH</b>	(319,511)	(438,485)
<b>CASH AT THE BEGINNING OF THE YEAR</b>	648,266	1,086,751
<b>CASH AT THE END OF THE YEAR (Note27)</b>	₩ 328,755	₩ 648,266

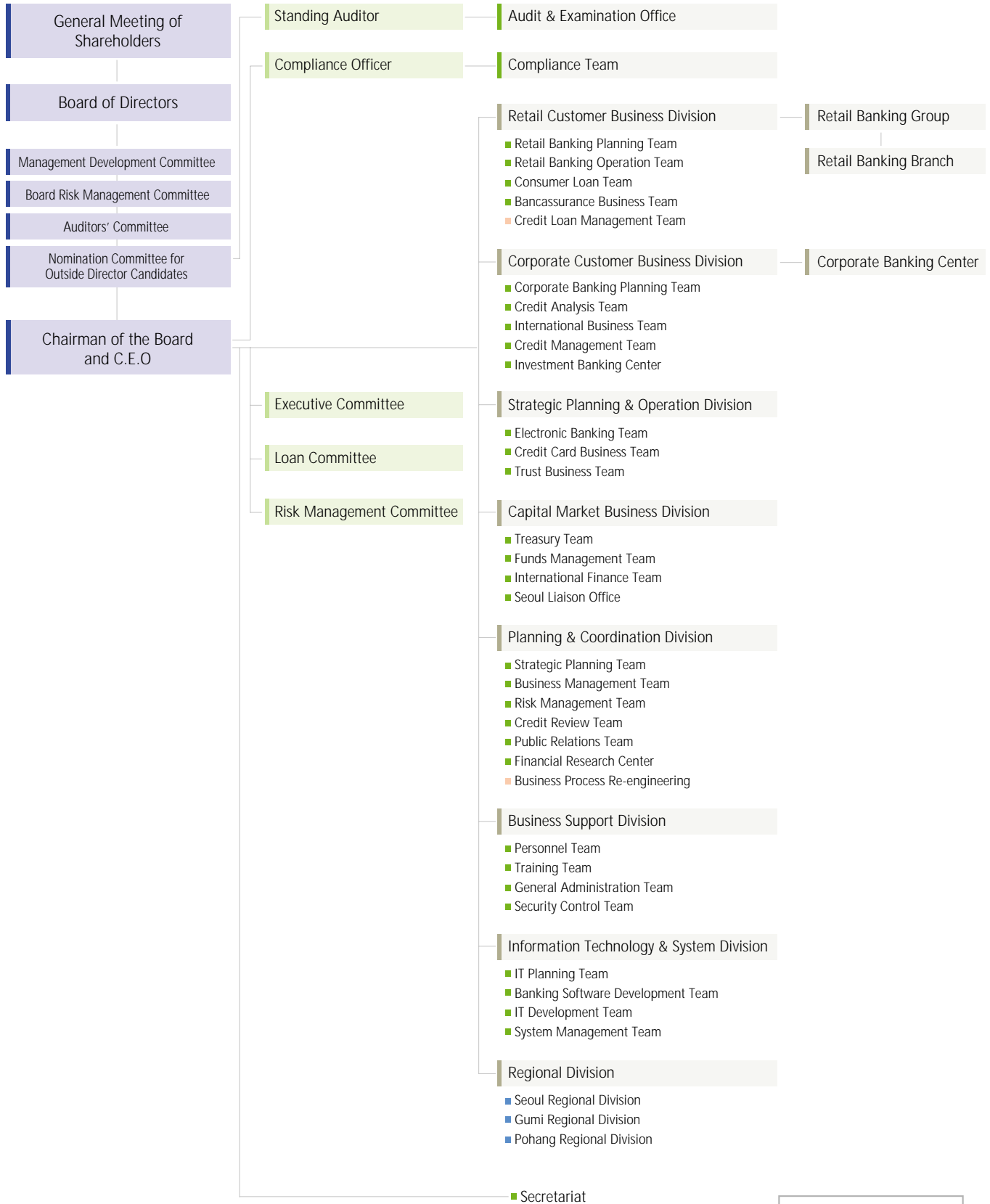
See notes to accompanying non-consolidated financial statements.

Notes to Consolidated Financial Statements are not enclosed intentionally. Therefore, investors, shareholders and other stakeholders should review notes to financial statements in order to properly understand the Bank's important accounting policies and details on operating performance and financial conditions. Notes to financial statements can be found on 'CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT' ([www.dgb.co.kr](http://www.dgb.co.kr)).



# ORGANIZATION CHART

As of January 14, 2004



- 7 Divisions
- 33 Offices & Teams
- 3 Regional Divisions
- 2 Temporary Teams

As of March 19, 2004

## ■ Members of Executive Committee



**Kim Kuk-nyon**  
Chairman of the Board &  
Chief Executive Officer



**Lee Hwa-eon**  
Director & Deputy Chief  
Executive Officer



**Park Young-bae**  
Standing Auditor



**Park Sung-dong**  
Senior Executive Vice President



**Lee Sang-bae**  
Senior Executive Vice President



**Kim Chan-soo**  
Executive Vice President



**Kim Geon-sik**  
Executive Vice President



**Ha Chun-soo**  
Executive Vice President



**Hong Woo-pyo**  
Executive Vice President

## ■ Standing Directors

Kim Kuk-nyon  
Lee Hwa-eon  
Park Young-bae

Chairman of the Board & Chief Executive Officer  
Director & Deputy Chief Executive Officer  
Standing Auditor

## ■ Non-standing Directors

Lee Kyung-jae  
Kwon Sang-jang  
Kim In-soo  
Lee Young-sae

Former Senior Research Fellow of Korea Institute of Finance  
Keimyung Univ. Professor / Korea Futures Forum President  
Attorney, Daegu Bar Association President  
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.
	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 (Subsequently incorporated into Korea Non-Bank Lease Financing Co.)
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.
	March 8,	2003	Awarded Korean Marketing Association's Marketing Frontier Grand Prize
	July 8,	2003	Awarded Prime Minister's Citation for DGB Service Corps' merits in community service
	September 16,	2003	Accredited BS7799 for Internet banking system
	October 18,	2003	Awarded Korea Management Innovation Association's Grand Prize in the leadership category
January 6,	2004	Awarded the Dasan Finance Awards' Gold Prize in the banking category	

## ■ Major Stockholders

(As of December 31, 2003)

Name	Stocks	Ownership
Samsung Life Insurance and Other Related Companies	9,724,681	7.36%
SSB-SMALL CAP	6,606,100	5.00%
Templeton Investment Trust Management Co., Ltd.	3,703,520	2.80%
Templeton Global Smaller	2,155,800	1.63%
Dongil Industry Co. Ltd. and Other Related Companies	2,133,683	1.61%
Hyundai Investment Trust Management Co., Ltd.	1,990,604	1.51%
Park Yeon-gu	1,878,750	1.42%
National Pension Corporation	1,502,250	1.14%
BBHK - ARISAIG KOR FD	1,500,000	1.14%
BONYL/BONYE - MERLLINCH IN	1,344,000	1.02%

Note) Preferred stocks owned by KDIC(Korea Deposit Insurance Corporation) are out of consideration.

## ■ 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: Back Young-tae  
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: 82-2-398-4114, Fax: 82-2-398-4198  
President: Chang Jae-chul  
The Bank's ownership: 22.29%

## ■ Domestic Network (As of December 31, 2003)

Area	Number of Retail Branches	Number of Corporate Branches
Daegu	135	3
Gyeongbuk	46	3
Seoul	3	1
Busan	1	
Ulsan	1	

Note) Headquarters included as a branch in the Daegu area.

■ Number of employees: 2,050 (As of December 31, 2003)

## ■ International Finance 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

## ■ International Business Team at Headquarters, Daegu

Mailing Address: 118, Suseong-dong, 2-ga, Suseong-gu, Daegu 706-712, Korea  
Tel: 82-53-740-2544, Fax: 82-53-756-2095 SWIFT: DAEBKR22, Telex: K54334 DAEGUBK  
Tel: General Manager: 82-53-740-2541  
Correspondent Banking: 82-53-740-2544  
Import: 82-53-740-2547 Export: 82-53-740-2551  
Money Transfer & Check Collection: 82-53-740-2549

## ■ International Business Team at Seoul

Mailing Address: 70, Sogong-dong, Jung-gu, Seoul 100-070, Korea  
SWIFT: DAEBKR22SEL, Telex: K28306 DAEGUBK Fax: 82-2-757-8695  
Tel: Import: 82-2-771-6100(Ext.341) Export: 82-2-771-6100 (Ext.344)  
Money Transfer & Check Collection: 82-2-771-6100 (Ext.342)



118, Suseong-dong 2-ga, Suseong-gu,  
Daegu Metro City, Korea  
Zip Code: 706-712  
Tel : 82-53-756-2001  
SWIFT Address : DAEBKR 22  
Telex : K54334 DAEGUBK  
Fax : 82-53-756-2095  
<http://www.daegubank.co.kr>

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