



## Setting New Goals & Breaking Old Records





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## Corporate Profile

Established in 1967, Pusan Bank has grown to become Korea's premier regional bank and full-service financial institution. With its headquarters in Busan, the nation's second largest city and one of Asia's busiest ports and logistics hubs, the bank enjoys a commanding position in the regional financial industry, with 211 branches and deposit & loan market shares of 31.5% and 20.8%, respectively.

From its traditional deposit-taking and lending activities to its wealth management, bancassurance, and mobile banking platforms, Pusan Bank is an innovator of financial products, services and delivery channels, as well as a leader in customer satisfaction and convenience.

After nearly four decades, Pusan Bank remains a reliable partner and contributor to the growth and prosperity of the people, the business community and the economy of Busan and the southeastern region of Korea.

# 33.16%

At Pusan Bank, we know it's the bottom line that matters most to any investor. That's why we reward our shareholders with the industry's most attractive figures, like a 33.16% dividend payout ratio of KRW 300 per share, in line with our 3rd straight year of over KRW 100 billion in net income.



# 6 years

Nothing better demonstrates our ability to achieve to management goals than our unbroken record of profitability for the past 6 straight years. Analysts praise Pusan Bank's industry-best asset quality and loan-loss provision position, while investors have bid up our share price as testament to our low PBR, sound management, and bright prospects.

PUSAN BANK





# Award Winning Customer Satisfaction

PUSAN BANK

Pusan Bank doesn't set out to win awards - it's just something that comes naturally when we're the best at what we do. In independent surveys and competitions, we consistently earn top scores and citations for customer satisfaction, product & service innovation, management expertise, and community service.

Social Activity

# “Leading Regional Bank”



PUSAN BANK

For Pusan Bank, charity begins at home, in the community that made us what we are today. We actively support the strategic industries of Busan, local SOC projects, and promising business startups. Fostering the cultural and educational growth of our community is another high priority, and our employees contribute and volunteer their time to many charitable activities and organizations in the Busan region.





## >> Message from the CEO

I wish to thank our shareholders for their unstinting support and encouragement and report the business results for Pusan Bank's 48th fiscal term.

Looking back at the year under review, financial institutions struggled amid difficult management conditions in 2004 as the domestic economic slump continued. Economic expansion at the global level proved favorable for exports, but excessive household debt and high oil prices dampened consumption and companies were reluctant to boost facilities investment. Moreover, from the second half of the year there were signs of deterioration in the construction sector and a decline in the overall economy. Due to economic stagnation, demand for funds shrank and interest rates were at an unprecedented low, while banks faced difficulties in the supply and utilization of capital.

In the midst of this challenging operating environment, the entire staff and management of Pusan Bank made the utmost efforts to achieve good results. These endeavors did not go unnoticed by industry observers or the media. Pusan Bank was named one of Korea's "30 Most Respected Companies" in a survey co-sponsored by Dong-A Ilbo and Korea IBM BCS, and "Most Respected Company of the Year" by the Korea CEO Association.

Looking at the business results of 2004 by sector, we reported net income of 132.7 billion won in 2004, up 9.4% YoY and the second highest annual earnings figure since the bank's establishment. We also recorded the highest asset quality level among the nation's banks as demonstrated by our low delinquency ratio.

In the area of deposits, we developed a series of specialized region-related products including the "Busan APEC Time Deposit", and increased sales of asset management deposit instruments in line with changing financial markets and customer needs. Meanwhile, in order to bolster our sales and marketing thrust, we reinforced our private banking (PB) activities and facilities aimed at prime customers, and worked to strengthen our core deposit-generating capabilities aimed at public institutional clients such as the Busan/Jinhae Free Economic Zone Authority. These efforts resulted in a 3.5% increase in total deposits to 14,568 billion won, allowing us to expand our leading market share in the region.



In our loan operations, Pusan Bank demonstrated its role as the region's foremost financial institution by greatly expanding loans to promising small and medium-sized companies in an effort to stimulate the regional economy. In order to foster the region's ten strategic industries, we supported special funds and actively participated in project financing for regional SOC programs. Thanks to these endeavors, total credits as of the end of 2004 stood at 10,921 billion won, up 17.5% over the previous year. As a result of this strong performance, Pusan Bank widened its share of the regional lending market.

Foreign exchange business was brisk in 2004, as the bank registered a 19.2% gain in export and import transactions which totaled US\$4,082 million. This robust increase can be attributed to Pusan Bank's active efforts to attract new business from promising export/import-oriented companies based in the region. To assist clients in coping with extreme fluctuations in exchange rates, we offered explanatory meetings and F/X risk management consulting services.

We made major strides in 2004 to facilitate greater customer service and convenience. Pusan Bank increased its branch network, focusing on the Noksan National Industrial Complex and locations around the city of Busan, bringing the total number of branches to 211. In addition, we installed 152 additional CDs, ATMs and other automated facilities, while initiating our new Mobile Banking service and upgrading our Internet Banking platform.

In terms of internal management, we implemented a system for centralizing and reducing back-office work at our branches for improved productivity. Moreover, in order to increase management accountability and enhance bank-wide performance, an MOU was concluded by each business unit and individual employee. This lays the foundation for a performance-based corporate culture.

As the only banking institution established right here in the Busan region, we take our responsibility to the local community very seriously. Since 2001, through Pusan Bank's "My Hometown Love 21 Program", we have strengthened our community service activities, particularly in cooperation with local government agencies. These charitable works did not go unnoticed in 2004, as Pusan Bank was chosen winner of the Social Contribution Corporate Award in recognition of our commitment to the community that we serve.

During the past year, our efforts to create a sound management basis have contributed to Pusan Bank's return on equity (ROE) of 13.60%, our BIS capital adequacy ratio of 10.84%, and loans termed "substandard or below" of 1.30%. Also, our bank's share price on the Korea Composite Stock Price Index rose 19.2% YoY last year, or 4.4 times the increase of the domestic bank sector, and our stock's foreign ownership ratio also showed significant expansion.

Lately, expectations of economic recovery have been rising amid stable and solid export growth and rebounding private consumption. However,



negative factors such as high oil prices and exchange rate instability persist. In the financial sector, foreign banks are making a full-fledged advance into the domestic market, and competition is only expected to intensify further.

To ensure that Pusan Bank copes successfully in this difficult business environment, we are implementing mid- and long-term management strategies over the next three years until 2007. The aim of these is to realize our vision of becoming Korea's "leading regional bank."

In 2005, the first year of our three-year plan, we will institute a policy of sound profitable growth. This involves strengthening risk management, achieving appropriate growth in loans and deposits, reducing administrative costs, and increasing fee income in an effort to build a firm foundation for profit-centered management. As we seek to realize a net income of 150.0 billion won for this year, we will pursue a strategy that enables Pusan Bank to maintain its market lead over the mid- and long-term future by expanding our business base.

All the employees and management of Pusan Bank will work tirelessly to achieve the aforementioned business targets, thereby enhancing corporate value. In the longer term, we take as our model for success Wachovia Bank of the United States, which also began as a small regional bank and has since grown in stature to rank as one of the world banking industry's leading names. To assist us in attaining these goals we have set for ourselves, I ask our shareholders for their continued interest and support.

Thank you.

**Shim, Hoon**

Chairman of the Board of Directors &  
President, Pusan Bank

## >> Busan Regional Economic Trends and Forecast



### Trends in 2004

In 2004, the Busan economy had to contend with employment uncertainties, household debt, and a depressed real estate market at home, in addition to rising raw materials prices, sharply higher fuel costs, and exchange rate fluctuations. These negative factors contributed to reducing consumption, construction investment and industrial output. However, strong export growth was recorded, and the business activity at Noksan National Industrial Complex, the factory utilization ratio among small & medium-sized enterprises, and container cargo volume handled by Busan Port were all up from the previous year. Accordingly, the economic slump is seen to have eased somewhat.

On the consumption side, stagnant domestic demand was evident in retail sales and automobile registrations, which contracted by 1.5% and 18.9%, respectively, over 2003. Due to the sluggish real estate market, construction orders and building permits as measured by land area plunged sharply, falling 38.2% and 52.6%, respectively, from the previous year. Influenced by anemic domestic demand, industrial production last year slipped 4.8% from the figure recorded for 2003.

Turning to exports, shipments of automobiles, ships, steel, machinery and other heavy-chemical products soared 34% in the first eleven months of the year over the same period of 2003. Moreover, factory utilization ratios at Noksan National Industrial Complex and among small & medium-sized firms increased by 4.0% and 0.2% respectively. Due to an increase in transshipment cargo to China, Busan Port handled 9.8% more container cargo volume in the January-November period of 2004 than in the corresponding period of 2003.

Marking its first-year anniversary on April 1, 2005, Korea's high-speed rail service, KTX, has revolutionized domestic transportation and fueled Busan's economic recovery and growth. The travel time to Seoul has been cut by two hours, making roundtrip journeys between Busan and the capital possible in a single day, a major boon for businesses and tourism alike. Growing benefits from KTX for the regional economy include construction of new stations and terminals, increased transport links with and inbound tourists from Japan, and the reinforcement of Busan's role as one of Northeast Asia's most dynamic logistics hubs.

Following a 1.5% decrease in retail sales last year, 2005 is likely to see a marked turnaround with 2.6% growth YoY, contributing to a modest improvement in both domestic demand and regional economic growth.



### Forecast for 2005

In 2005, while the region's main export engines of shipbuilding, machinery and automotive parts are expected to lead the economy, domestic demand is likely to recover moderately as the government implements a Korean-style "New Deal" policy and other efforts to revive flagging consumption. At the same time, potential challenges are seen in the form of slower growth by Korea's export targets, the strengthening of the Korean won, problems with household debt and credit delinquencies, which could inhibit economic recovery.

In 2005, most industries will seek to improve their operating incomes by actively pursuing strategies to cut costs, innovate technologies, and shift their production base overseas. Facilities investment by steel, automotive parts, shipbuilding and machinery manufacturers is expected to bring continued prosperity to those industries.

Following a 1.5% decrease in retail sales last year, 2005 is likely to see a marked turnaround with 2.6% growth YoY, contributing to a modest improvement in both domestic demand and regional economic growth.

A weakening of last year's explosive export growth rate to a level of around 6% is forecast for 2005, given higher oil and raw materials costs and the continued strength of the Korean won against the US dollar.

In the year ahead, a number of factors are projected to fuel the region's economic growth. Foremost among these are the city's hosting of this year's APEC Meeting, growing foreign investment in the region, the opening of the Korea Exchange in Busan, development of the Busan Science Industry Complex and other industry-related projects, and partial opening of Busan New Port.

## >> Financial Highlights

For the years ended on December 31.

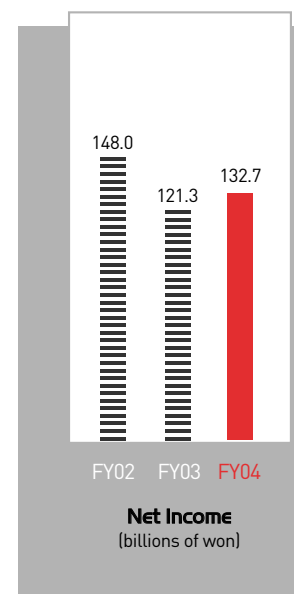
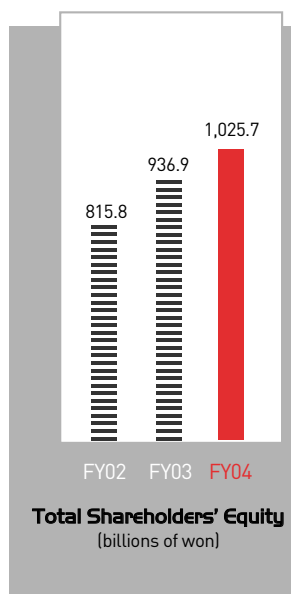
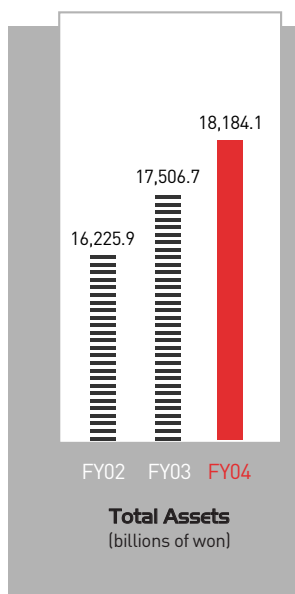
(In billions of won)

(In millions of US \$)

	2004	2003		2004	2003
<b>For the Fiscal Year</b>			<b>For the Fiscal Year</b>		
Total Revenues	₩ 1,235.2	₩ 1,136.0	Total Revenues	\$ 1,183.3	\$ 948.4
Total Expenses	1,102.5	1,014.7	Total Expenses	1,056.2	847.1
Net Income	132.7	121.3	Net Income	127.1	101.3
<b>At Year's End</b>			<b>At Year's End</b>		
Total Assets	18,184.1	17,506.7	Total Assets	17,421.0	14,615.7
Total Deposits	14,568.0	14,073.8	Total Deposits	13,956.7	11,749.7
Total Loans	10,921.1	9,296.0	Total Loans	10,462.8	7,760.9
Securities	5,062.6	5,727.5	Securities	4,850.1	4,781.7
Shareholders' Equity	1,025.7	936.9	Shareholders' Equity	982.6	782.2

1) FY2004 : ₩1,043.80, FY2003 : ₩1,197.80 per US\$ 1.00

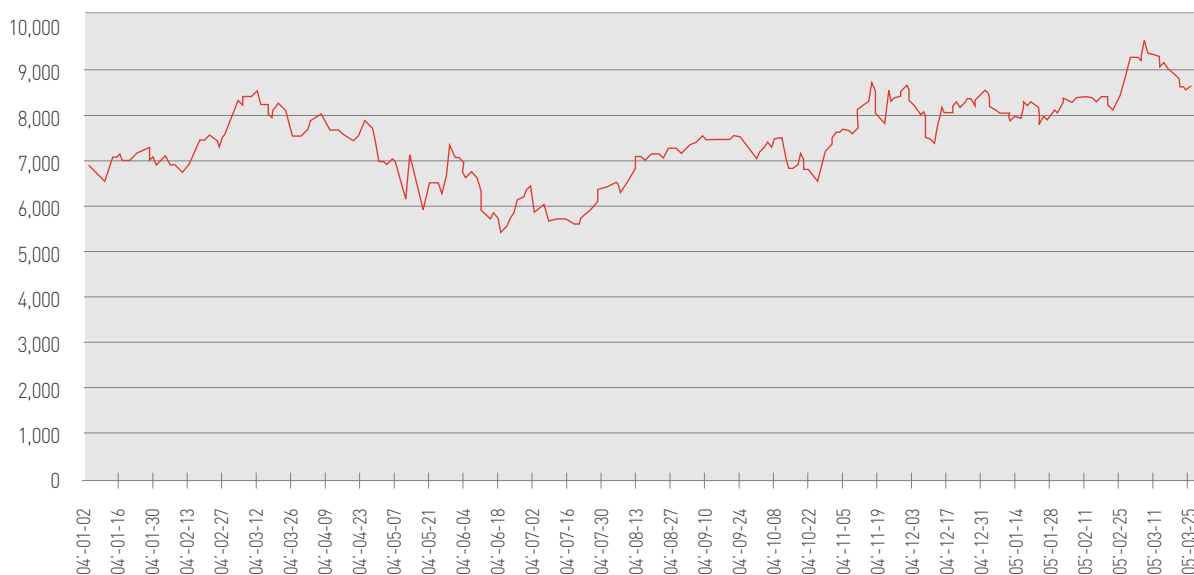
2) Total assets are the sum of bank and trust account, less intra-account and security investment trust.



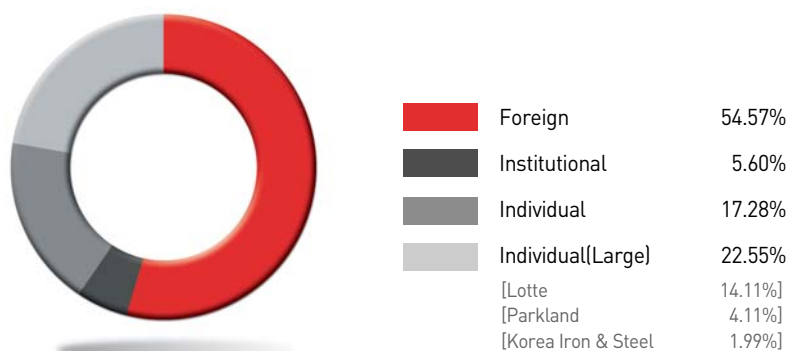


## >> Shareholder Information

### Stock Price



### Shareholding Structure (as of Dec. 31, 2004)



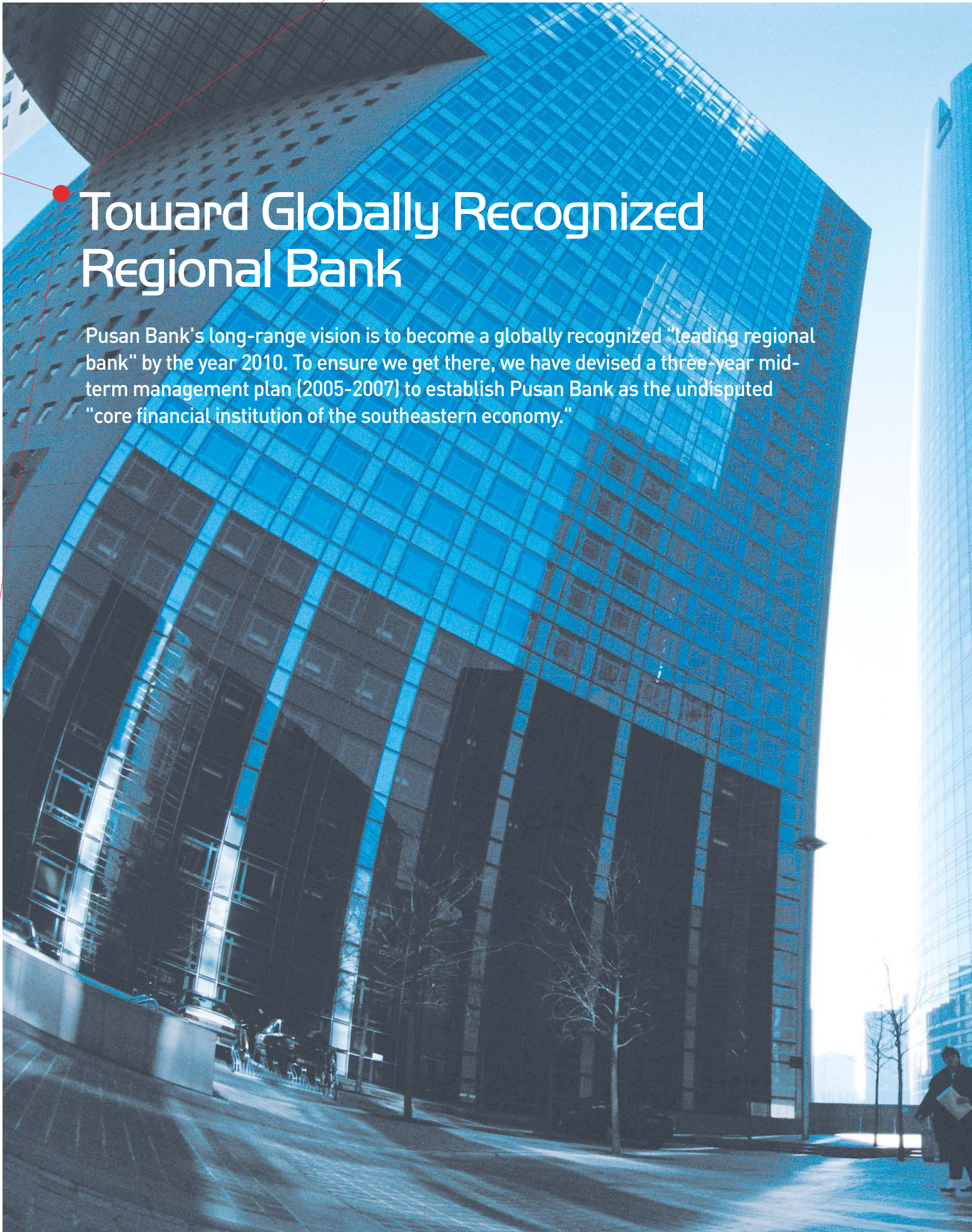
### Major Shareholders (as of December 31, 2004)

Lotte Group(Japan Lotte Inclusive)	14.11 %
Capital Research & Management Company	10.40 %
Schroder Investment Management Ltd.	7.08%
Templeton Investment Counsel LLC	6.05%
Aberdeen Asset Management Asia Limited	5.16%
Parkland Co., Ltd.	4.11 %
Korea Iron & Steel Co., Ltd.	1.99 %



# Toward Globally Recognized Regional Bank

Pusan Bank's long-range vision is to become a globally recognized "leading regional bank" by the year 2010. To ensure we get there, we have devised a three-year mid-term management plan (2005-2007) to establish Pusan Bank as the undisputed "core financial institution of the southeastern economy."

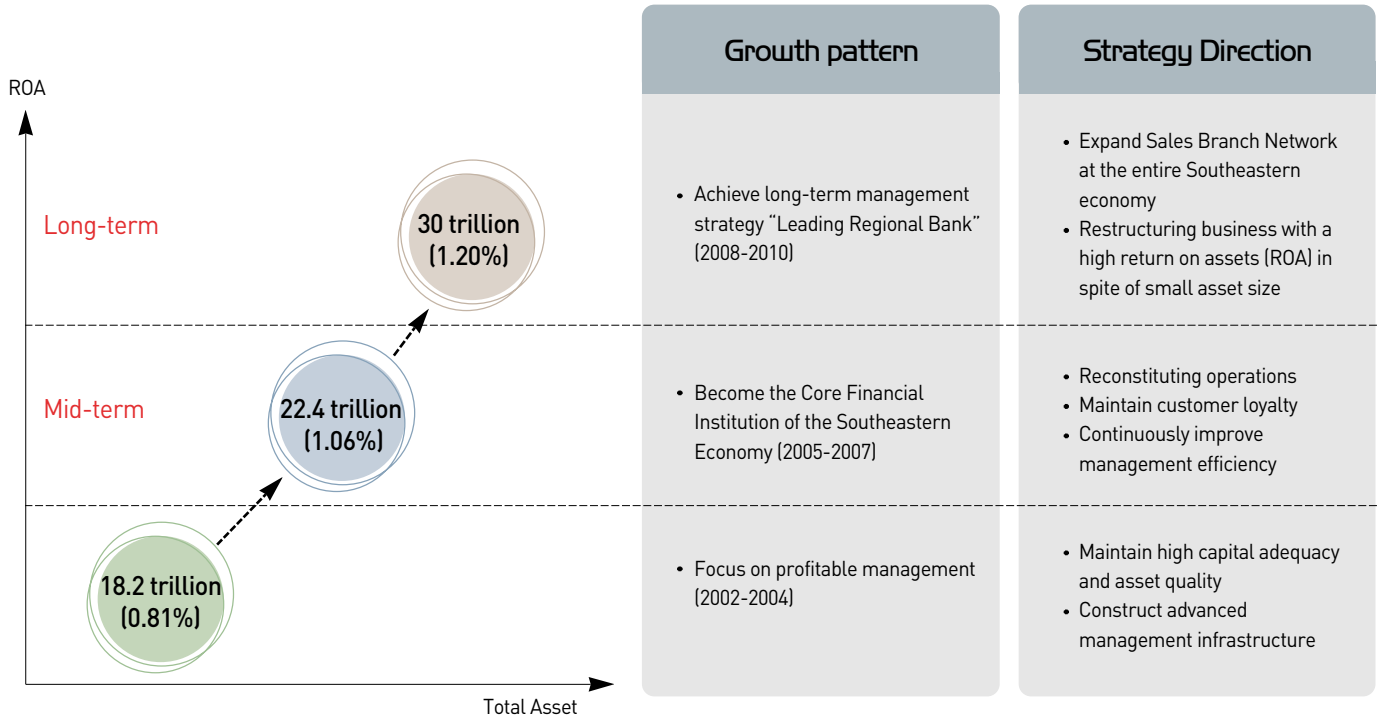








# >> “Leading Regional Bank” Long-term Vision Roadmap



## 2004 Highlight



January 14, 2004

IC chip-based Mobile Banking service launched.

January 16, 2004

Net income of 121.3 billion won reported for FY2003; cash dividend of W270 per share declared.



## >> Results of Major Initiatives in 2004



### Structural Reorganization

In line with rapid changes and rising competition in financial markets, Pusan Bank undertook a thorough reorganization of its operations to help us realize our mid-term vision to become the leading financial institution of Korea's Southeastern economy. To enhance sales capabilities and strengthen sales activities, we established the Consumer Banking Promotion Team. Meanwhile, the Channel Planning Unit was created to oversee the operations of our entire service channel network, which includes the opening, relocation and closing of branches, as well as the installation and management of ATMs and other unmanned channels the bank operates.

### Mid- to Long-range Master Plan for Broadening Branch Network

Together with our strategy to become the "Core Financial Institution of the Southeastern Economy" by 2007, Pusan Bank devised and launched a mid- to long-range master plan in 2004 aimed at increasing our economic ties to Busan and expanding our branch network throughout the fast-growing urban centers surrounding the metropolitan area. The major cities around Busan including Gimhae, Yangsan, and Ulsan constitute roughly 70% of the GRDP (gross regional domestic product) of South Gyeongsang Province. Not only do these cities represent a huge market today, but when combined with the Busan metropolitan area, they form the "Southeastern Industrial Belt" with vast potential for future growth.

## >> Strategies and Major Initiatives for 2005

### Management Objective and Tasks

With our 2005 management objective of sound and stable growth, we will strive to lay a firm base for income generation through strengthened risk management and greater reduction of bad-debt expenses and selling & administrative costs. At the same time, we will pursue strategies over the mid- and long-term that enable us to maintain a leading market share in our region.

February 26, 2004

#### Personal Finance Management Services Unveiled

To allow customers to review their entire financial status at a glance, Pusan Bank begins providing Personal Finance Management Services (PFMS).



March 16, 2004

#### Small-scale Credit Defaulter Rehabilitation Program

Pusan Bank implements credit recovery plan aimed at small-scale borrowers reestablish their good credit rating.

# >> 2005 ~ 2007 Mid-term Management Plan

## “Become the Core Financial Institution of the Southeastern Economy”



### Mid-term Vision & Targets

To help us realize our long-range vision to become Korea's "Leading Regional Bank" by 2010, we have established a three-year mid-term vision to position Pusan Bank as the core financial institution of Korea's southeastern economy by 2007, which we call "Vision 2007." For this purpose, we devised a mid- and long-term plan and created a special taskforce team in July 2004 to study banking trends at home and internationally for a five-month period. After forecasting changes in the competitive environment in our industry, we composed mid- and long-term goals and set accompanying targets, along with management strategies and strategic tasks.

### Business Scale & Targets

We have set our financial target at 7.7% average annual asset growth for the next three years, significantly higher than the 5.7% projected average for the entire banking sector, resulting in 22,400 billion won in total assets by the end of 2007. As we seek to expand equity capital through retained earnings, we expect to maintain a net income growth rate of around 20% to record 200 billion in 2007. We also intend to fortify our industry predominance by gradually increasing our shares of the regional deposit and loan markets to 33.3% and 23%, respectively, over the next three years.

Pusan Bank continues to maintain a high BIS capital adequacy ratio, while thoroughly preparing for the implementation of the New Basel Capital Accord expected in 2007. Our Tier 1 "core" capital ratio, the foremost indicator of capital adequacy and safety against risk, will be maintained at 9%, the highest level in the Korean market.

We also plan to keep the ratio of our credits classified as "Substandard or below" to 1.2%, a level unsurpassed by any domestic bank, while maintaining an ROA of 1% or better, similar to leading international banks. We seek to gradually reduce our cost to asset ratio to 1.65%. By optimizing performance growth and staff utilization, we plan to raise productivity per capita, continuing the trend of recent years.

By taking these steps, we will ensure that Pusan Bank retains a CAMEL rating, as designated by Korea's Financial Supervisory Service, of at least 2nd grade.

## 2004 Highlight

March 16, 2004

### Long-term Mortgage Loans Introduced

Pusan Bank begins sales of newly introduced long-term mortgage loans with 10- and 30-year maturities.



March 18, 2004

### 200 billion won Support for SMEs with Raw Materials Difficulties

In cooperation with Korea Credit Guarantee Fund, Pusan Bank creates 200-billion-won of credit guarantee to assist SMEs in Busan, Ulsan and South Gyeongsang Province struggling with raw materials price increases.



### Three Mid-term Management Strategies

To realize our vision of becoming the “Core Financial Institution of the Southeastern Economy” by 2007 and to achieve related business targets, Pusan Bank has established three strategies to reinforce areas of weakness in our operations. These are: (1) reconstituting operations to address weaknesses that tend to erode the bank’s unique strengths, (2) maintain customer loyalty in response to market encroachment by competitor banks, and (3) continuously improve management efficiency to recover price cost competitiveness. To facilitate these objectives, Pusan Bank has partially refocused its business operations, target customers, and target markets.

First, while our current business structure focuses on traditional deposit and loan operations, we are revamping our cross-over business lines, which need to be developed as future core businesses, and also plan to activate sales in the fields of foreign exchange and international banking.

Second, we are strengthening target-customer management aimed at prime customers and corporate clients with 4th & 5th level credit ratings, and we are increasing the overall weighting of prime customers by classifying potentially high revenue-generating customers as prime customers. Prime customers represent 11% of Pusan Bank’s customer base, though they account for a large share of the bank’s profits. Therefore, our first step is to focus on these customers with intensive customer service, while indentifying other potential prime customers in an effort to increase the pool of high revenue-generators.



**April 23, 2004**

KMA (Korea Management Association) names President of Pusan Bank, Shim Hoon “2004 CEO of the Year.”



**May 10, 2004**

**Samsung SDS Selected to Construct BPR (Business Process Reengineering) System**

Pusan Bank selects Samsung SDS to construct the bank’s back-office system platform.



For corporate customers with 4th & 5th level credit ratings, if they enjoy good growth prospects and are financially sound despite having weak profitability, we may expand additional transactions with them, supplementing the Bank's profitability, and include them as top-tier target customers so as to maintain their business with the bank. However, for small & medium-sized corporate clients with 6th level credit scores and which may carry some risk, if they can expand business with us and contribute to our profitability, we will conduct thorough credit risk management and selectively classify such companies as target customers to improve our rate of return on loans.

Lastly, we have expanded our target market to include the fast-growing areas surrounding Busan that have strong linkages with the Busan economy. This market is of growing strategic importance as we strive to realize our mid-term vision of making Pusan Bank the foremost financial services provider of the nation's Southeastern Economic Belt. Toward this end, branches with no growth prospects are being merged or closed, while we expand our branch network in nearby cities including Gimhae, Yangsan and Ulsan, maintaining the total number of outlets at about 220 in 2007. We plan to increase the portion of our branches in South Gyeongsang Province from the current 7.7% (excluding Seoul and Pohang) to 15.5% by 2007. Furthermore, we aim to expand our market share to 33.3% in deposits and 23% in loans.

With part of our branch network expansion efforts reaching maturity, we are now implementing Private Banking and Relationship Management operations at our outlets in the Yangsan and Gimhae regions, and are concentrating on raising branch-level productivity. We are also planning to open more branches in Ulsan and Changwon, which are expected to benefit from regional growth and see rising demand for financial services. Furthermore, we will establish a sales & marketing organization aimed at the entire Southeastern economy and a variety of initiatives over the mid- and long term to strengthen Pusan Bank's sales capabilities.

## 2004 Highlight



### June 22, 2004

Pusan Bank is ranked among the "30 Most Respected Korean Companies" jointly by Dong-A Ilbo and Korea IBM BCS.

### September 22, 2004

Financial Supervisory Service reports give Pusan Bank and Shinhan Bank "A" ratings for customer satisfaction.

### October 8, 2004

Pusan Bank launches Internet-based computerized documentation in cooperation with Korea Credit Guarantee Fund and Korea Technology Credit Guarantee Fund for facilitating SME loan credit guarantees.



## Strategic Tasks & Action Plan

Pusan Bank has identified strategic directions and 13 corresponding strategic tasks. Among these, six are core tasks and seven are capability-improvement tasks. Of the six core tasks, three relate to growth - improving our loan asset structure, strengthening our lending capabilities, and instituting systems in response to the new BIS capital requirements, while the remaining three relate to efficiency - diversifying earnings, improving cost structure and operational efficiency, and strengthening systems to prevent bad debts.

The seven capability-improvement strategies, which will enable us to implement the core strategies without fail, focus on the following key areas: marketing mix, CRM, human resources, organizational efficiency, differentiated compensation, performance management operations, and controlling IT expenses. For the smooth implementation of each of these tasks, we have devised an action plan that we will refer to each year as business plans are put into operation at the actual work site.



**October 15, 2004**

Open Management Research names Pusan Bank winner of the "Social Contribution Corporate Award" in the Regional Community Development category.



**December 1, 2004**

### Financial Aid for Region's SMEs

Pusan Bank provides 2 trillion won via special loans for rearing strategic regional industries of Busan city.

**December 21, 2004**

Korea CEO Association selects Pusan Bank as "Most Respected Company of the Year."

## >> Social Activities



### Economy & Industry

In support of the region's 10 strategic industries, Pusan Bank extended a total of 2 trillion won in special loans in 2004 to corporate clients in two categories: "core-strategic industries" - marine logistics, machine parts & materials, tourism/conventions and film/IT and "region-strategic industries" - financial futures, marine biology, "silver market" (retirees), footwear, textiles/fashion and fisheries/processing.

Pusan Bank also took extra steps to assist small and medium-sized enterprises (SMEs) in the region in 2004. SME borrowers accounted for over 60% of the bank's total new lending during the year. Moreover, we concluded a business agreement with the Korea Credit Guarantee Fund and Credit Guarantee Foundation to extend about 300 billion won in "SME Management Stabilization Loans" to SMEs struggling with soaring raw materials prices and the Asian bird flu epidemic. To help companies in the region facing financial difficulties caused by the prolonged slump, materials prices and exchange rate problems, the bank gave branch managers the discretion to delay repayment periods on loans under 100 million won.



In cooperation with the Korea Credit Guarantee Fund, Pusan Bank extended 200 billion won in special guarantee to SMEs in Busan, Ulsan and South Gyeongsang Province confronted with sharp increases in raw materials prices.

Together with domestic and foreign banks, Pusan Bank provided 35 billion won in a project financing-type loan for construction of Busan New Port facilities. The "New Port of Busan Private Investment" will solve the port's shortage of container quays to meet rising import/export container cargo volumes, while helping position Busan as the logistics hub of Korea and Northeast Asia. Construction of a total of nine new container berths is planned, with three beginning from January 2006 and the remaining six to be operational from 2009. Pusan Bank will also continue to support other regional SOC projects including Myungji Bridge and Sanseong Tunnel.

### Society & Welfare

Pusan Bank won the top prize in the "Regional Community Development" category of the "2004 Social Contribution Corporate Award" co-sponsored by Open Management Research Inc. and The Korea Economic Daily, and was also selected "The Most Respected Company of the Year" by the Korea CEO Association. Moreover, in conjunction with Pusan Bank's "My Hometown Love 21" Program which has been in operation since 2001, we created the "Pusan Bank Regional Volunteer Corps" to bolster our role as the leading financial institution of our region.

Since 2002, the men and women of the Pusan Bank Volunteer Corps have donated their time and energy one Saturday each month to charitable organizations and environmental cleanup programs in the region.

The bank also issued "Pusan Bank Education Love" cards through which contributions are made to a fund that supports school children who cannot afford lunch. In cooperation with the Busan Metropolitan Office of Education, the Office's symbol is printed on the bank's regionally specialized credit card "BUVIX card". A fixed rate of 0.2% of total credit card purchase amounts is paid into the fund, which is transferred to Busan's Metropolitan Education Office in mid-February each year.

The 2,000 employees who are members of the Pusan Bank Cosmos Club, a social welfare organization established by the bank in 1975, donate a portion of their salaries each month to a fund that provides cash contributions to senior citizens without dependents. Over the past 29 years, the Pusan Bank Cosmos Club has given generously to the tune of 560 million won to help less fortunate members of society.

### Culture & Tourism

To help the Busan Metropolitan Office of Education encourage a reading culture amongst the local community, Pusan Bank held the 2004 Busan Book Exchange. Promoting the theme, BBS (Busan Book Start) for "Citizens who read and a society that thinks," the event invited people to bring books they've read and no longer needed and swap them for new books or gift certificates.

In commemoration with the 37th anniversary of the founding of Pusan Bank, we once again organized the "Citizens' Subway Music Festival" in 2004. Audiences at last year's festival were treated to five piano duets, an ocarina performance, traditional Swiss yodeling songs, the Busan National University Pan flute Club, and folk guitar music.

### Environment, Green Areas & Amenities

Pusan Bank held the "10th Annual Children's Environmental Painting Contest" awards ceremony and exhibition last year. Serving to open children's eyes to the importance of preserving our environment, this event began in 1995. It is organized jointly with the Busan Federation of Environment Movement, while support also comes from the Ministry of Environment, Busan Metropolitan Government, and Busan Metropolitan Office of Education. The theme of the 10th annual exhibition was "Energy, love and humans." More than 1,000 primary school students from 147 schools in the Busan area took part, helping to make last year's event a big success.

### Pusan & The World

For the success of the Busan APEC Meeting scheduled for late 2005, Pusan Bank sold 200 billion won worth of "Busan APEC Time Deposit." The bank donated part of its interest earnings from the accounts to a fund that supports the hosting of the APEC event. To support citizens' awareness and interest in the APEC Meeting, the bank issued "2005 Busan APEC Cards." In addition, the official APEC insignia was printed on the bank's BUVIX and Hi Plus Check cards, and a portion of the credit purchase goes to the special APEC support fund.

Through our special "PIFF Accounts," Pusan Bank has provided 15 million won to the Pusan International Film Festival (PIFF) Development Fund. We have also developed an electronic ticket sales system, sell tickets at all bank branches, and created an Internet-based "PIFF Cash" system for making advance ticket reservations possible. The bank has installed and operates instant ticket machines at the four screening locations of downtown Busan, Haewoondae, Nampo-dong, and Busan Yachting Center at the Suyong Bay, provides a variety of automated machines free of charge, and renders other support for the success of the film festival.

### Educational Outreach

Pusan Bank provided financial and economic education to 1,400 students from 129 high schools in the Busan region, and we also supplied the basic subject matter on finance & economics, as well as rational consumerism for the Busan Educational Training Institute's high school "Leadership Program." Since July 2003, we have operated the "Financial Quotient Busan Council", whose aim is to enhance financial education among Busan's youth. In addition, we held our annual "Kids' Finance Camp" for elementary school children in the region.

In addition, the bank provided financial courses for 500 parents of elementary and middle school students in conjunction with the Busan Institute of Parents' Education and Training, covering such subjects as the need for children's financial education, money management for the young, and the importance of credit.

Pusan Bank will continue to offer financial education for students from elementary school right through college, creating a variety of programs aimed at enhancing their understanding of finance and economics, and fostering sound personal credit management.

Pusan Bank invited our top foreign exchange customers to an introductory seminar focusing on F/X prospects and F/X risk management. Through this event, we helped corporate clients explore effective means of hedging their foreign exchange risks. In addition, to provide a diversified range of services for our customers interested in new financial technology, we hosted the "Asset Management for a Low-interest, Aging Society" explanatory workshop.



## Profits Take Center Stage

The recording of KRW 132.7 billion in net income took center stage among the major highlights of results of 2004, as it represents Pusan Bank's 3rd consecutive year of over KRW 100 billion in net income and our solid and profit-based business expansion.





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비밀번호 재설정

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주요 서비스 3





In 2004, Pusan Bank placed strategic emphasis on expanding its solid sales base and its market presence in universal and diversified banking products.

## >> Corporate Banking

Pusan Bank's corporate lending in won rose 13.64% YoY in 2004 to KRW 6,350.5 billion, accounting for 63% of total loans in won currency. In addition, the bank maintained the highest market share for won-denominated corporate loans in the Busan region with 23.52%.

This brisk performance is attributable to a number of key factors, the first being enhanced precautions against credit risk and improvements made in November 2004 to the bank's Credit Scoring System (CSS). Adopting a newly developed Application Scoring System (ASS) and an Internet loan-type model, the new credit scoring system has greatly improved automatic loan approval rates while reducing loan delinquency ratios.

Second, we significantly strengthened our credit risk management function by means of a bankwide Credit Total Exposure (CTE) review completed in July of last year, enabling us to measure the overall risk exposure of each borrower at every Pusan Bank branch. By quantifying total credit risk (loans and securities, trust asset management, etc.), we can now create and manage appropriate limits for each corporate customer to avoid credit over-concentration, thereby furthering the bank's overall risk management and asset soundness objectives.

Third, in April 2004 we finalized improvements to our branch-based system for enhanced overall competitiveness. This system is aimed at increasing our market share by focusing on branch-based credit-related operations where we can respond more effectively to diverse customer needs and react more promptly to minimize difficulties or inconveniences. Through this system, we have differentiated our marketing activities toward target segments of our market, allowing us to reduce internal tasks and improve processes. The branch-based system has also enabled Pusan Bank to raise its region-oriented management to the next level.

Finally, in October 2004 we established an online framework linked with Korea Credit Guarantee Fund and Korea Technology Credit Guarantee Fund, thereby computerizing various tasks and procedures involved in the issuance of credit guarantees for our customers. The effect of this upgrade is significant in terms of both timesaving and expanding loan business with companies with good collateral. Also in October of last year, we migrated our batch registration of poor credit rating information to our headquarters. This move is expected to considerably reduce the workload and manpower burden on our branch offices, freeing up our staff to improve overall customer service.



## >> Retail Banking

In 2004, Pusan Bank placed strategic emphasis on expanding its solid sales base and its market presence in universal and diversified banking products. As a result of ongoing efforts to enhance customer service, Pusan Bank was cited as "Top Customer Service Bank with Fewest Customer Complaints" based on reports compiled semiannually by the Financial Supervisory Service. We had ranked second in this category since 2001, before claiming first place on March 1, 2005. Pusan Bank also earned Hankook Ilbo's "Customer Service Satisfaction Grand Prize for 2004." This followed a survey in which judges pretending to be customers evaluated the CS and courtesy levels of each bank both over the telephone and in person. Our Mobile Bank operations won "Best Practice" in the business innovation & process in the 2004 Korea Best Practice Contest organized by the Korea Management Association. In addition, Pusan Bank improved its retail Customer Satisfaction Index, surveyed twice a year by credit information and research specialists Nice Research & Consulting, by 3.9 points from the first half of 2004 to 79.0 points in the second half. Our corporate CSI was rated 92.3 points. This improvement reflects our ability to recognize customer needs and demand, and to identify and resolve areas of customer dissatisfaction.

### Deposits

We intensified efforts in 2004 to expand low-cost deposits, meaning those with low funding costs and relatively low sensitivity to interest rates. As a result, low-cost deposits on an average annual basis recorded KRW 5,369.7 billion, representing 41.24% of total deposits. In addition, sales of new regional products and investment-type deposits increased. In terms of "regionalized" products, to contribute to the success of the upcoming APEC Meeting later this year, the bank introduced limited sales of its "APEC Time Deposit" products, which netted KRW 200 billion. We also sought to promote new income streams with the sale of investment products. These included the launch of nine beneficiary certificate funds, which recorded a total of KRW 451.3 billion. In our bancassurance operations, we have set a target of 2.6% of total bank account sales, and we are focused on selling monthly-payment insurance products, improving our insurance products' entry and withdrawal flexibility, and strengthening relevant sales staff training.

### Lending

Seeking greater capital management efficiency and improved asset soundness, Pusan Bank registered a 31.0% YoY increase in household loans to KRW 3,432.3 billion during 2004, thereby expanding the share of households in total won lending from 30.58% in 2003 to 33.93% at year-end 2004. In response to changing market conditions, we focused our efforts during the past year on raising asset quality levels on a branch-by-branch basis, by continuing to reduce overdue loans, and by early settlement of delayed interest payments.

We also introduced group-loan products for the first time in 2004. We anticipated the slump in the new apartment market following the

government's designation of certain areas as the subject of anti-speculation regulations. In line with this expectation, we provided limited group loans to highly select construction companies and real buyers.

During the year, we efficiently bolstered the activities of our mobile branches, participated in various voluntary events, strengthened our business activities in financially neglected areas, and took advantage of seasonal demand to maximize our PR effect. As a result of these efforts, Pusan Bank's "Mobile Bank" earned the "Best Practice" award in the business innovation and process category at the 2004 Korean National Skill Competition organized by the Korea Management Association.

### Private Banking

To ensure we are offering our best customers the very highest quality of products and services possible, we conducted evaluations of the Private Banking (PB) operations of all our branches in 2004, and awarded incentives to those individuals and teams who distinguished themselves. These evaluations reflected our appraisals of several key criteria. For example, we assessed each PB client's performance, looked at the numbers of new and existing customers, and qualitatively evaluated customer management according to performance results at the branch and individual levels. The bank also expanded branch PB personnel training through both in-house and outside programs, and launched an exclusive, 24-hour PB Internet community.

### Credit Card

Amid ongoing economic sluggishness and depressed domestic consumption, the 1-day overdue rate on credit card receivables (including re-aged loans) fell from 11.22% in the first quarter to 4.60% in the fourth quarter of 2004. The rate for the entire year decreased 4.26 percentage-points from the figure for 2003. Moreover, the ratio of card-related credits classified as "substandard or below" showed a steady yearlong decline, falling 5.1 percentage-points YoY to 14.7%. This had a major positive effect on shoring up the bank's asset quality, and reduced our "reserve for doubtful account" burden by a hefty 40.1% to KRW 18.5 billion.

This achievement was the result of a number of steps we took throughout the year. First, we restructured our portfolio to emphasize individuals with superior credit ratings, we closely monitored accounts for signs of potential credit default, and we strengthened our card assets through management of credit card receivables (including re-aged loans). Second, to respond flexibly to systemic changes in the market, Pusan Bank expanded the rollout of new and alternative products, IC-integrated credit cards, and real overdue rate management. And finally, we redoubled our VIP customer-targeted marketing activities by encouraging VIP customers to make Pusan Bank their main bank, and by strengthening regionally oriented marketing.



We worked aggressively to expand our roster of F/X clients through strengthened marketing activities targeting select corporate customers.

## >> Investment and Global Banking

### FX Trading & Trade Finance

Owing to our determined efforts to boost results, upgrade systems, expand commissions and fee income, and establish an Internet portal for F/X transactions, Pusan Bank chalked up US\$4,082 million in export/import financing and US\$1,255 million in remittance and foreign exchange transactions in 2004. We worked aggressively to expand our roster of F/X clients through strengthened marketing activities targeting select corporate customers. Specifically, we succeeded in attracting 135 new prime export/import customers (those with combined export/import amounts of US\$100,000 per year). This represented a 9.6% increase in the number of such customers over 2003, bringing their total to 1,545 corporate clients. This group accounts for over 59% of all export-import transactions handled by the bank last year.

We also offered real-time overseas remittance services for the first time. On December 2, 2004, we concluded a business agreement with Western Union to provide "Real-Time Overseas Remittance" using their network of 180,000 member affiliates in 195 countries throughout the world. In addition, we commenced development of our new "e-Forex" foreign exchange system in June of last year, with completion expected by October 2005. This will replace our existing F/X system with a Web-based version that customers will find more convenient to use. The envisioned new system will provide a more diversified, content-rich F/X channel, with automated reports of transactions and stronger linkages to other systems.

### Securities Investment & Trading

Pusan Bank took steps throughout 2004 to improve the asset quality and profitability of its securities in won. We enhanced the asset quality of our

securities by including government bonds, Monetary Stabilization Bonds and prime corporate bonds. To maintain an appropriate rate of return, we continued to purchase undervalued bonds, gathered and analyzed market information to improve our ability to respond to actual market conditions, maintained an appropriate invested ratio in our portfolio of available-for-sale securities and held-to-maturity securities in line with market conditions and the bank's liquidity, and strengthened cooperation with investment management specialists.

We also strengthened our capital market risk management functions. This included tightening credit risk management measures on interest rates and borrowers, ensuring that we operated within strictly observed VaR limits and Credit Total Exposure limits, achieved a total BIS risk-weighted ratio of 17.9%, and imposed maximum limits on finance bonds and public bonds and corporate bonds by issuer. In the area of market risk management as well, with regard to products and services, Pusan Bank set VaR limits and adopted PVBP, duration and other approaches to managing our exposure to market risk. We managed the maturity and duration of securities on a daily or monthly basis, and reflected this data in the bank's investment strategies. Investor limits by type, industrial sector and business group were also set for securities investments.

Pusan Bank's key business objectives for 2005 will be to attain operating revenues exceeding the market rate of return and fund transfer price, strengthening risk management functions, and cultivating specialists in asset management. In addition, in preparation for introduction of the New Basel Capital Accords (Basel II), we plan to carefully analyze the impact on our BIS ratio and make necessary adjustments to our portfolio.

## >> Risk Management

### Contingency Plan and Credit Emergency Plan

Pusan Bank revised its Contingency Plan and Credit Emergency Plan in 2004. Through our Contingency Plan, we added credit risk (BIS capital adequacy ratio, etc.), market risk, and liquidity risk (liquidity ratio) components to our criterion for contingent situations. We also reinforced step-by-step emergency plan measures, adjusted CTE limits and industry-specific portfolio limits, and imposed tighter restrictions on loan officer discretion. In addition, in establishing the key contents of our Credit Emergency Plan, we have developed appropriate action plans against a composite index that encompasses a macroeconomic index, an economic index of the Busan region, and all types of credit events.

### Development of early warning model

Pusan Bank has developed two kinds of early-warning models. The first is a short-term forecasting model that monitors indications of delinquency and changes in asset quality over a one- to two-month horizon. Rather than focusing simply on risk factors, this model is one of the basic indices for analyzing the Bank's management environment. The second is a delinquency ratio-forecasting model, which predicts month-to-month delinquency for one or four months ahead. This early-warning model analyzes credit risk fluctuations, examining economic trends based on macroeconomic data, internal loan portfolio reports, default ratio trends and other relevant factors, and signals a warning as suspicious indications emerge.

We further strengthened loan asset monitoring by completing development of tools for analyzing default trends on a weekly basis, a major improvement in timeliness of analysis from the previous monthly basis.

Application of RAPM (risk-adjusted performance measures) at each branch has bolstered financial soundness via a better pricing policy,

making up for inherent weaknesses of a purely accounting-oriented profit & loss evaluation and improving credit risk management.

The bank upgraded its ALM system, enabling target-specific ALM trend analysis with the creation of a database for time-series data. This has strengthened data verification and reporting functions of the system. Also, to improve exposure analysis in line with exchange-rate fluctuations of various currencies, the system now allows for analysis on a full-time rather than month-by-month basis.

In June 2004, Pusan Bank launched its "PVBP (Price Value of a Basis Point) Calculation System" that calculates interest rate risk. This allows fluctuations in assets and liabilities to be separately calculated when market interest rates change by a single basis point due to a mismatching of bank account interest-payment dates.

To reinforce liquidity risk management and activate marketing, we established a "Customer Behavior Database" in December 2004. The new DB enables us to measure limit expiration rate, early payment rate, maturity extension rate, post-maturity payment rate, etc. on the asset side, as well as early redemption rate, post-maturity redemption rate, and installment rate on the liability side.

Lastly, in accordance with plans to streamline our existing market risk management systems, Pusan Bank finalized process upgrading in this area in March 2004. This project comprised the introduction of an integrated market risk management system called PMS (Panorama Management System) and an advanced reporting platform system called the "Knowledge Factory." With these enhancements, the bank can now measure and report risk at the time of transaction, perform more elaborate risk measurements of investment-related derivative products, and facilitate Web-Posting.







Establishment of our BPR system, which represents the final phase of our operational infrastructure upgrade, will dramatically strengthen our sales capabilities.

## >> Infrastructure for Management

### BPR

In December 2004, Pusan Bank commenced work on its BPR (Business Process Reengineering) project, and by January 2005 was the first regional bank in Korea to have implemented BPR throughout its entire branch network. The BPR system provides high-quality service for customer transactions and establishes an infrastructure that allows branch employees to concentrate more on their primary role of marketing and sales. BPR makes this possible by drawing together into one "operating center" the computerizing, automating and standardizing of a vast range of business processes, including personal CSS loans, post loan management, bill in custody, and slip management.

Pusan Bank has already upgraded management systems, including integrated profit management, risk management and CRM systems, in preparation for the introduction of our business-unit system. Moreover, establishment of our BPR system, which represents the final phase of our operational infrastructure upgrade, will dramatically strengthen our sales capabilities. In addition, we anticipate a major improvement in productivity, as branch staff reorganization will enable branch employees to provide more attentive and expeditious customer service at the teller window.

### IT

Owing to Pusan Bank's continued efforts to migrate customers to its low-cost service transaction channels, the utilization rate of automated channels has risen each year to 74.48% of all customer transactions in 2004. Internet banking accounted for 20.66% of this amount. This successful migration of customers to our electronic banking channels is the result Pusan Bank's efforts to expand the range of such options. These include our IC-chip-based Mobile Banking service launched in March 2004, Corporate Internet Banking from June 2004, and our B2B systems. In the area of e-Business, where we strive to adopt new business models in response to changes in the marketplace, Pusan Bank's partnerships and transactions with securities brokerages rose 75% and 50%, respectively, in 2004 over the previous year. Overall, the bank's partnerships and transactions with financial services providers grew by 8% and 10%, respectively. This was attributable to expanded service with the construction of systems for the Busan International Marine Product Exchange and development of new business models. In card business operations, the bank's region-focused products and services proved popular, with growing usage of our "MYbi" smart cards and debit cards, and an 11.87% YoY increase in the number of "MYbi" cards issued. We pursued a strategy of cultural marketing to help support the region's cultural infrastructure by developing an integrated entrance ticket system, and by supporting various film festivals and public performances. Related ticket sales increased 29.64% over the previous year.

# Focused on Efficiency

While Pusan Bank's prosperity depends on broad strategic plans and the shared determination to achieve them, banking is ultimately the business of sums and percentages. Those contained in the following pages are the best indicators of our success in sustaining sound and profitable growth.

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# MANAGEMENT'S DISCUSSION & ANALYSIS

(In billions of won, %)

Key Financial Data	2004	2003	2002
Operating Results			
Operating Revenues	1,194.3	1,093.6	1,093.4
Net Interest Income	497.8	478.0	435.8
Operating Income	180.1	136.2	200.6
Net Income	132.7	121.3	148.0
Per Share Data (won)			
Dividends Per Common Share	300	270	300
Earnings Per Common Share	905	827	1,187
Profitability Ratios			
ROA	0.81	0.79	1.09
ROE	13.60	13.91	20.09
Net Interest Margin	3.14	3.22	3.39
Net Interest Spread	3.79	3.87	4.05
Balance Sheet Data at Year-end			
Total Assets*	18,184.1	17,506.7	16,225.9
Total Credit*	10,921.1	9,296.0	8,014.2
Total Deposits*	14,568.0	14,073.8	13,023.7
Securities*	5,062.6	5,727.5	5,888.3
Shareholders' Equity	1,025.7	936.9	815.8
Asset Quality Ratios			
Loan Loss Provisions/SBLs	106.79	89.94	83.73
SBLs/Total Credit	1.30	1.63	2.22
Capital Ratios at Year-end			
Total Capital Ratio	10.83	11.66	11.69
Tier 1 Capital	8.98	9.32	9.21
Tier 2 Capital	1.88	2.39	3.06

\* Includes trust accounts

## Overview

Delayed recovery amid slack domestic demand, continued low interest rates and sluggish investment were the hallmarks of the Korean economy in 2004. Exports were once again the only bright light amid the otherwise depressed economic conditions overall. Increased exports notwithstanding, the economy of Busan remained very weak as household and credit card debt problems led to a sharp decline in consumption and manufacturing output fell. However, signs of recovery appeared from the second half of the year, fueled by the continued rise in exports. Overcoming anemic consumer spending and low interest rates, the bank's key business indicators in 2004 either improved or maintained the levels of the previous year. Operating revenue stood at 1.194.3 billion won as of the end of 2004, a rise of 100.7 billion won or 9.2% YoY, despite the prevailing low-interest rate environment. Lower interest expenses contributed to a 19.8 billion won increase in net interest income to 497.8 billion won.

Net income posted an 11.4 billion won rise to 132.7 billion won for a 9.4% YoY improvement, aided by reduced write-offs following a decline in bad debts and non-performing loans. Thanks to the increase in net income, the bank declared per-share dividends of 300 won for the year, up 30 won from 270 won in 2003. Meanwhile, the rise in net income helped to improve ROA by 0.2%P to 0.81%. Conversely, ROE fell 0.31%P from 2003 to 13.60% last year as a result of an increase in retained earnings. Nevertheless, ROE remains relatively high.

Net interest margin fell slightly to 3.14% last year, while net interest spread edged down 0.08%P to 3.79%. Total assets including trust accounts rose 3.9% YoY or 677.4 billion won to 18,184 billion won.



# MANAGEMENT'S DISCUSSION & ANALYSIS

Due to the high growth in business operations recorded last year, total credit expanded by 1,625 billion won to 10,921.1 billion won. Total deposits reached 14,568 billion won, a rise of 494.2 billion won YoY. Meanwhile, loans classified as Substandard or Below (SBLs) declined sharply over the previous year, their portion of total credit shrinking 0.33%P YoY to 1.30% in 2004. Despite the occurrence of net income, the expanded scale of business operations led to a similar expansion in risk-weighted assets. As a result, the bank's BIS capital ratio slipped 0.83%P from 2003 to 10.83%.

## Net Income

The bank recorded operating revenues at the end of 2004 of 1,194.3 billion won, up 9.2% YoY or 100.7 billion won, while operating expenses grew 5.9% or 56.8 billion won to 1,014.2 billion won. Consequently, operating income rose 43.9 billion won to 180.1 billion won. Non-operating income saw a marked improvement of 19.5 billion won YoY to register 9.6 billion won, as non-operating income was similar to the level posted for the previous year, while non-operating expenses including loss on valuation using equity method and impairment loss on trading securities were dramatically lower.

Income tax expenses posted a huge increase in 2004, rising from 5.0 billion won in the previous year to 57.0 billion won. This was due to a significant net income being reported while carryforwards on past years' losses had been exhausted, thus resulting in the occurrence of corporate income tax. As a result, net income for the year was 132.7 billion won in 2004, a gain of 9.4% or 11.4 billion won compared to the previous year. The increased net income was the summation of growth recorded in net interest income and commission & fee income, and declining credit card and household loan delinquency rates prompting reduced write-offs, as well as improved non-operating income amid reduced losses on valuation of securities. Conversely, the increase in income tax expenses offset the increase in net income.

(In billions of won)

Profit & Loss Summary	2004	2003	Change YoY	
			Amount	%
Operating Revenues	1,194.3	1,093.6	100.7	9.2%
Operating Expenses	1,014.2	957.4	56.8	5.9%
Operating Income	180.1	136.2	43.9	32.2%
Non-Operating Income	9.6	-9.9	19.5	N/A
Ordinary Income	189.7	126.3	63.4	50.2%
Extraordinary Gains	0.0	0.0	0.0	N/A
Income Tax Expenses	57.0	5.0	52.0	1040.0%
Net Income	132.7	121.3	11.4	9.4%

## Profit & Loss by Sector

The bank recorded 180.1 billion won in operating income for 2004, a 32.2% increase of 43.9 billion won YoY. Looking at this figure by sector, net interest income rose 19.8 billion won to 497.8 billion won for a YoY gain of 4.1%. In spite of lower market interest rates, the bank maintained interest revenues at the previous year's level amid sharply lower interest expenses. Net commission & fee income turned in a 5.4% YoY increase of 5.5 billion won to register 107.0 billion won in 2004. The trust sector posted positive numbers, with trust revenues rising 1.5 billion won to 16.0 billion won.

Other operating income, including games or losses on marketable securities and derivatives, and various bad debt expenses, recorded -146.2 billion won, reflecting a 45.5 billion won or 23.7% improvement over 2003. This was primarily due to a reduction in amount before loan losses provisions, which decreased 28.2% YoY or 49.6 billion won to 126.0 billion won. Selling, general and administrative expenses rose 10.7% YoY, up 28.4 billion won to 294.5 billion won, mostly owing to higher personnel expenses including salaries.

# MANAGEMENT'S DISCUSSION & ANALYSIS

((In billions of won, %))

Net Interest Income	2004	2003	Change YoY	
			Amount	%
Net Interest Income	497.8	478.0	19.8	4.1%
Interest Revenues	913.1	914.6	-1.5	-0.2%
Interest Expenses	415.3	436.6	-21.3	-4.9%
Net Commission & Fee Income	107.0	101.5	5.5	5.4%
Trust Revenues	16.0	14.5	1.5	10.3%
Trust Fees	16.0	14.4	1.6	11.1%
Other Operating Income	-146.2	-191.7	45.5	23.7%
Amount Before Loan Loss Provisions	-126.0	-175.6	49.6	-28.2%
SG&A	294.5	266.1	28.4	10.7%
Operating Income	180.1	136.2	43.9	32.2%

## Net Interest Income

Interest revenues in 2004 maintained the level recorded in 2003, inching down 1.5 billion won to 913.1 billion won. This similar performance with the previous year, despite the general decline in market interest rates, was possible due to expanded business operations. Interest expenses fell 4.9% YoY or 21.7 billion won to 415.3 billion won. This resulted in net interest income of 497.8 billion won, up 19.8 billion won or 4.1% YoY.

By type of interest revenue, the bank earned 683.3 billion won in interest charged on loans, a 9.0% YoY improvement of 56.7 billion won. Interest on securities tumbled 40.1 billion won to register 220.7 billion won, affected by falling market interest rates and reduced investment in interest-bearing securities. Meanwhile, interest on due from banks declined sharply by 14.0 billion won YoY to 4.7 billion won. In terms of interest expenses, interest paid on customers' deposits fell 5.5% YoY or 19.7 billion won to 337.2 billion won, while interest paid on borrowings and debentures rose 1.6 billion won to 71.2 billion won.

((In billions of won))

Interest Income Structure	2004	2003	Change YoY	
			Amount	%
Interest Revenues	913.1	914.6	-1.5	-0.2%
Interest on Loans	683.3	626.6	56.7	9.0%
Interest on Securities	220.7	260.8	-40.1	-15.4%
Interest on Due from Banks	4.7	18.7	-14.0	-74.9%
Other	4.4	8.5	-4.1	-48.2%
Interest Expenses	415.3	436.6	-21.3	-4.9%
Interest on Deposits	337.2	356.9	-19.7	-5.5%
Interest on Borrowings and Debentures	71.2	69.6	1.6	2.3%
Other	6.9	10.1	-3.2	-31.7%
Net Interest Income	497.8	478.0	19.8	4.1%

## Net Interest Margin & Net Interest Spread

Owing to reduce market interest rates, the bank's average loan interest rate in 2004 declined by 0.46%P YoY to 6.74%, while the average interest paid on won-currency deposits contracted 0.38%P to 2.95%. This led to a 0.08%P decrease in net interest spread to 3.79%. Interest-earning assets on an average-balance basis rose 1,113.5 billion won to record 14,694.3 billion won in 2004, and net interest margin slipped 0.08%P YoY to 3.14%.

Despite generally lower market interest rates, the bank's net interest spread and net interest market posted only minimal declines. This was achieved thanks to efforts to increase low-cost deposits, a significant increase in the loan-deposit ratio, and the relative increase in higher-interest household loans.

# MANAGEMENT'S DISCUSSION & ANALYSIS

(In billions of won, %, %P)

Net Interest Margin & Net Interest Spread	2004	2003	Change YoY	
			Amount	%
Interest-earning Assets (avg. balance basis)	14,694.3	13,580.8	1,113.5	8.2%
NIM	3.14	3.22	-0.08	-2.5%
Won-currency Loans	6.74	7.20	-0.46	-6.4%
Household Loans	6.83	7.46	-0.63	-8.4%
Corporate Loans	6.40	6.79	-0.39	-5.7%
Average Interest on Won-currency Deposits	2.95	3.33	-0.38	-11.4%
Net Interest Spread	3.79	3.87	-0.08	-2.1%

## Commission & Fee Income

Won-currency commissions and commissions on credit cards were the main contributors to commission revenues, with commissions on credit cards declining 4.2 billion won YoY to 56.5 billion won, and won-currency commissions rising 8.3 billion won to 56.3 billion won. As a result, commission revenues grew 6.1% YoY or 7.4 billion won to 127.9 billion won. Commission expenses posted a 10.0% increase of 1.9 billion won to register 20.9 billion won. Thus, net commission & fee income expanded by 5.5 billion won or 5.4% YoY to total 107.0 billion won. Won-currency commissions received were the principal contributor to the increase in net commission & fee income, with the decline in commissions on credit cards being offset by new fee income sources.

(In billions of won, %)

Commission & Fee Income	2004	2003	Change YoY	
			Amount	%
Commission Revenues	127.9	120.5	7.4	6.1%
Won-currency Commissions	56.3	48.0	8.3	17.3%
Foreign-currency Commissions	12.5	9.4	3.1	33.0%
Commissions on Credit Cards	56.5	60.7	-4.2	-6.9%
Guarantee Fees and Other	2.6	2.4	0.2	8.3%
Commission Expenses	20.9	19.0	1.9	10.0%
Commissions (won & foreign currency)	8.4	7.0	1.4	20.0%
Commission on Credit Cards	12.5	12.0	0.5	4.2%
Net Commission & Fee Income	107.0	101.5	5.5	5.4%

## Selling & Administrative Expenses

Selling & administrative expenses for the year 2004 were up 10.7% YoY or 28.4 billion won to 294.5 billion won. Of this total, salary payments rose 9.9 billion won to 103.1 billion won, up 10.6% YoY, while other administrative expenses grew 21.5 billion won to 126.7 billion won for a 20.4% YoY increase. Depreciation expenses increased 3.5 billion won over 2003 to 33.8 billion won at the end of last year.

Most selling & administrative expenses are fixed costs, such as salaries and administrative costs. Selling & administrative costs combined with net operating income and provision for loan losses constitute the "adjusted operating income." Selling & administrative costs divided by adjusted operating income gives us the "cost income ratio." The bank's cost income ratio in 2004 rose 3.55%P YoY from 45.46% to 49.00%. This reflects the fact that selling & administrative expenses grew faster than the increase in adjusted operating income last year, due to the aforementioned hikes in salary and other administrative expenses.

(In billions of won, %)

Cost Income Ratio	2004	2003	Change YoY	
			Amount	%
Adjusted Operating Income* (a)	601.0	585.4	15.6	2.7%
Administrative Expenses (b)	294.5	266.1	28.4	10.7%
Cost Income Ratio (b/a)	49.00	45.46	3.55	7.8%

\* Adjusted Operating Income:

Calculated by adding bad debt expenses and selling & administrative expenses to operating income.



# MANAGEMENT'S DISCUSSION & ANALYSIS

## Income Before Provisions

The bank's income before provisions for 2004 rose 3.1% YoY, up 10.3 billion won to record 341.1 billion won. Total provisions fell by 53.1 billion won to 151.4 billion won, with provisions for loan losses declining 49.7 billion won to 126.0 billion won. The sharp decrease in provisions for loan losses in 2004 over 2003 was due to the bank's aggressive provisioning against bad debts in past years. As a result, the bank's loan-loss provisioning requirement was significantly lower in 2004. In addition, in line with the bank's abolition of its progressive retirement allowance system, retirement allowances were lower than the previous year, contributing to the decrease in total provisions. However, income tax was up 52.0 billion won over 2003 to 57.0 billion, as net income increased 11.4 billion won YoY to 132.7 billion won.

(In billions of won, %)

Income Before Provisions	2004	2003	Change YoY	
			Amount	%
Income Before Provisions (a+b+c)	341.1	330.8	10.3	3.1%
Total Provisions (a)	151.4	204.5	-53.1	-26.0%
Provisions for Loan Losses	126.0	175.7	-49.7	-28.3%
Income Tax (b)	57.0	5.0	52.0	1040.0%
Net Income (c)	132.7	121.3	11.4	9.4%

## Asset Portfolio

Total assets as of the end of 2004 were 17,134.4 billion won, up 4.8% or 779.8 billion won over 2003. Loans and cash & due from banks both rose, while securities assets fell over the previous year. Loans were up 14.5% YoY, growing 1,400.3 billion won to 11,075.5 billion won, and the also accounted for the largest portion of total assets with 64.6%, up 5.4%P from 2003. Cash & due from banks increased by 118.8 billion won to record 1,040.7 billion won, while the portion of total assets climbed 0.5%P YoY to 6.1% in 2004. Meanwhile, securities contracted by 574.6 billion won to 4,059.6 billion won, with its share of total assets likewise slipping 4.6%P to 23.7%.

(In billions of won, %)

Asset Portfolio (Bank Account)	2004		2003		Change YoY	
	Amount	% of total	Amount	% of total	Amount	%
Cash & Due from Banks	1,040.7	6.1	921.9	5.6	118.8	12.9
Securities	4,059.6	23.7	4,634.2	28.3	-574.6	-12.4
Loans	11,075.5	64.6	9,675.2	59.2	1,400.3	14.5
Other Assets	958.6	5.6	1,123.3	6.9	-164.7	-14.7
Total	17,134.4	100.0	16,354.6	100.0	779.8	4.8

## Securities

The bank's securities portfolio is composed of won- and foreign-currency bonds, stocks beneficiary certificates, and other instruments. These are classified by objective and period as available-for-sale securities, held-to-maturity securities, and equity method securities.

Total securities as of the end of 2004 were 4,059.6 billion won, down 12.4% YoY or 574.6 billion won, owing to a decline in risk-weighted assets. Investment securities accounted for the bulk of total securities, though they showed a decrease of 12.1% YoY or 521.8 billion won in 2004 to end the year at 3,797.3 billion won. In terms of amount, government-financed bonds fell sharpest among all types of investment securities, contracting 253.0 billion won or 24.0% YoY to 800.0 billion won. Finance debentures, which recorded the most rapid growth in 2003, represented the largest portion of investment securities by type with 1,725.3 billion won as of the end of 2004, off 9.2% YoY or 174.5 billion won. Government bonds grew 19.1% YoY in 2004 to 685.3 billion won, up 110.1 billion won. Similar to won-currency bonds, bonds in foreign currency recorded a decline, falling 16.4 billion won or 38.1% YoY to 26.6 billion won, while stocks slipped 26.2 billion won to 54.5 billion won, and beneficiary certificates decreased 15.2 billion won to 151.7 billion won.

# MANAGEMENT'S DISCUSSION & ANALYSIS

(In billions of won, %)

Securities Portfolio (Bank Account)			Change YoY	
	2004	2003	Amount	%
Investment Securities	3,797.3	4,319.1	-521.8	-12.1%
Government Bonds	685.3	575.2	110.1	19.1%
Finance Debentures	1,725.3	1,899.8	-174.5	-9.2%
Local Government Bonds	251.3	359.6	-108.3	-30.1%
Government-financed Bonds	800.0	1,053.0	-253.0	-24.0%
Corporate Bonds	335.4	431.5	-96.1	-22.3%
Bonds in Foreign Currency	26.6	43.0	-16.4	-38.1%
Stocks	54.5	80.7	-26.2	-32.5%
Beneficiary Certificates	151.7	166.9	-15.2	-9.1%
Bond-type	130.4	166.9	-36.5	-21.9%
Stock-type	21.3	0.0	21.3	N/A
Other	29.5	24.5	5.0	20.4%
<b>Total</b>	<b>4,059.6</b>	<b>4,634.2</b>	<b>-574.6</b>	<b>-12.4%</b>

## Loans

The bank's total loans in won currency as of the end of 2004 registered 10,115.2 billion won for an increase of 1,548.9 billion won, or 18.1%, over a year earlier. By loan recipient, households and small and medium-sized enterprises (SMEs) saw a significant increase in loans, while loans to large corporations recorded only a moderate rise over 2003. Household loans grew by 33.9% YoY or 812.6 billion won to 3,432.3 billion won. Loans to SMEs posted a 14.1% gain, rising 736.0 billion won to 5,946.9 billion. The increase rate of loans going to SMEs was slightly lower last year than in 2003, resulting in a 2.0%P decline in the percentage of total loans received by SME borrowers in 2004. On the other hand, the portion of household loans out of total loans grew 3.3%P YoY to 33.9%. The increase in household loans was due to brisk activity in consumer financing, particularly an expansion in new apartment loans and mid-term home purchase loans. The bank's focus on attracting superior SME customers helped to increase their portion of overall won-currency loans. Loans to large corporations reached 403.6 billion won, up 7.0% YoY or 26.4 billion won.

(In billions of won, %)

Won-currency Loans	2004		2003		Change YoY	
	Amount	% of total	Amount	% of total	Amount	%
Households	3,432.3	33.9	2,619.7	30.6	812.6	31.0
SMEs	5,946.9	58.8	5,210.9	60.8	736.0	14.1
Large Corporations	403.6	4.0	377.2	4.4	26.4	7.0
Other	332.4	3.3	358.5	4.2	-26.1	-7.3
<b>Total</b>	<b>10,115.2</b>	<b>100.0</b>	<b>8,566.3</b>	<b>100.0</b>	<b>1,548.9</b>	<b>18.1</b>

## Asset Soundness & Loan Loss Provision

At the end of 2004, total loans amounted to 11,229.8 billion won, 15.2% or 1,481.9 billion won higher year on year. However, loans classified as substandard & below (SBLs) shrank 12.6 billion won to record 146.0 billion won, resulting in the SBL ratio contracting by 0.33%P YoY to 1.30%. Meanwhile, aggressive write-downs of non-performing loans led to higher provisions, which were up 13.2 billion won on the year to 155.8 billion won. As a result, with the reduction in SBLs and the increase in provisions, the NPL coverage ratio (Provisions/Substandard & Below Loans) rose 16.85%P YoY to 106.79%. Strengthened risk management as a precaution against loan delinquencies contributed to this reduction in bad loans and improved NPL coverage ratio. For instance, the bank made efforts to enhance loan asset quality by carrying out thorough credit evaluation in determining SME loans, and by reflecting quarterly loan reviews, industry forecasts, and economic trends.

# MANAGEMENT'S DISCUSSION & ANALYSIS

(In billions of won, %)

Classification of Asset Soundness	2004	2003	Change YoY	
			Amount	%
Total Loans	11,229.8	9,747.9	1,481.9	15.2%
Normal	10,811.2	9,379.1	1,432.1	15.3%
Precautionary	272.6	210.2	62.4	29.7%
Substandard	88.2	101.1	-12.9	-12.8%
Doubtful	36.7	43.0	-6.3	-14.7%
Estimated Loss	21.1	14.5	6.6	45.5%
Substandard & Below	146.0	158.6	-12.6	-7.9%
Precautionary & Below	418.6	368.8	49.8	13.5%
Substandard & Below Ratio	1.30	1.63	-0.33	-20.1%
Precautionary & Below Ratio	3.73	3.78	-0.06	-1.5%
Provisions	155.8	142.6	13.2	9.3%
Provisions/Substandard & Below (coverage ratio)	106.79	89.94	16.85	18.7%

## Liabilities

Total liabilities at the end of 2004 were 16,108.7 billion won, reflecting a 4.5% or 691.0 billion increase from 2003. Deposits accounted for the largest portion of the bank's liabilities with 79.5% of the total, though this figure was 0.6%P lower than in the previous year. Deposits rose by 3.7% YoY or 451.6 billion won to 12,803.5 billion at year-end 2004. Borrowings grew 8.9% YoY, rising 169.8 billion won to 2,075.5 billion, accounting for 12.9% of total liabilities or 0.5%P up from 2003.

(In billions of won, %)

Income Before Provisions	2004		2003		Change YoY	
	Amount	% of total	Amount	% of total	Amount	%
Deposits	12,803.5	79.5	12,351.9	80.1	451.6	3.7
Borrowings	2,075.5	12.9	1,905.7	12.4	169.8	8.9
Debentures Issued	392.7	2.4	200.0	1.3	192.7	96.4
Other	837.0	5.2	960.1	6.2	-123.1	-12.8
Total	16,108.7	100.0	15,417.7	100.0	691.0	4.5

## Capital Adequacy

As of the end of 2004, Pusan Bank's core capital stood at 959.4 billion, an increase of 82.9 billion won or 9.5% over the previous year. However, supplementary capital posted a 10.6% decline, down 23.8 billion won to end the year at 201.0 billion won. Due to these changes and a decrease in contributions to unsolicited subsidiaries, total equity capital rose 5.5% YoY or 60.0 billion won to 1,156 billion won. Risk-weighted assets grew by 13.5%, or 1,271.4 billion won to record 10,677.8 billion won amid an expansion in business. The bank's BIS capital ratio slipped from 11.66% in 2003 to 10.83% as the increase in total equity capital was dwarfed by a larger rise in loans and other risk-weighted assets. Nevertheless, the bank maintained its outstanding capital adequacy position, as the 10.83% figure still far exceeds the FSS ratio of 8% guide line by FSS or FSS requirement.

(In billions of won, %, %P)

BIS Capital Adequacy Ratio	2004	2003	Change YoY	
			Amount	%
Core Capital	959.4	876.5	82.9	9.5%
Supplementary Capital	201.0	224.8	-23.8	-10.6%
Contributions to Unconsolidated Subsidiaries	4.0	4.9	-0.9	-18.4%
Total Equity Capital	1,156.4	1,096.4	60.0	5.5%
Risk-weighted Assets	10,677.8	9,406.4	1,271.4	13.5%
Tier 1 Capital	8.98	9.32	-0.33	-3.6%
Tier 2 Capital	1.88	2.39	-0.51	-21.2%
BIS Capital Ratio	10.83	11.66	-0.83	-7.1%

# Independent Auditors' Report



## Young Wha Corporation

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## The Board of Directors and Stockholders Pusan Bank

We have audited the accompanying balance sheets of Pusan Bank ("the Bank") at December 31, 2004 and 2003, and the related statements of income, appropriations of unappropriated retained earnings, and cash flows for the years then ended. 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, the financial statements referred to above present fairly, in all material respects, the financial position of Pusan Bank as of December 31, 2004 and 2003, and the results of its operations, appropriations of unappropriated retained earnings, and cash flows for the years then ended in conformity with accounting principles 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 who are knowledgeable about Korean accounting principles and auditing standards and their application in practice.

January 14, 2005

This audit report is effective as of January 14, 2005, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.



# BALANCE SHEETS

Korean won in millions

	2004	2003
<b>ASSETS</b>		
Cash and due from banks (Notes 3, 18 and 19)	₩1,040,674	₩921,938
Securities (Notes 4, 18 and 19)	4,059,585	4,634,232
Loans including bills discounted and call loans, less allowance for loan losses (Notes 5, 13, 18 and 19)	11,075,500	9,675,193
Fixed assets, net (Note 6)	343,281	334,238
Other assets (Notes 7 and 18)	615,346	788,970
<b>Total assets</b>	<b>₩17,134,386</b>	<b>₩16,354,571</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits from customers (Notes 8, 18 and 19)	₩12,803,533	₩12,351,886
Borrowings (Notes 9, 18 and 19)	2,075,524	1,905,683
Debentures issued (Notes 10 and 19)	392,666	200,030
Other liabilities:		
Severance and retirement benefits	5,203	5,575
Due to Trust Accounts (Note 19)	204,434	511,624
Other liabilities (Notes 11 and 18)	627,340	442,870
	836,977	960,069
<b>Total liabilities</b>	<b>16,108,700</b>	<b>15,417,668</b>
Commitments and contingent liabilities (Note 20)		
Stockholders' equity (Note 12):		
Common stock, ₩5,000 par value (Korean won in units); Authorized - 400,000,000 shares Issued and outstanding - 146,683,650 shares as of December 31, 2004 and 2003	733,418	733,418
Retained earnings:		
Legal reserve	26,932	14,803
Voluntary reserve	122,189	52,634
Unappropriated retained earnings	132,709	121,289
<b>Total retained earnings</b>	<b>281,830</b>	<b>188,726</b>
Capital adjustment	10,438	14,759
<b>Total stockholders' equity</b>	<b>1,025,686</b>	<b>936,903</b>
<b>Total liabilities and stockholders equity</b>	<b>₩17,134,386</b>	<b>₩16,354,571</b>

See accompanying notes.

# STATEMENTS OF INCOME

Korean won in millions

	2004	2003
<b>I. Operating income:</b>		
1. Interest income (Note 19) :		
Due from banks	₩ 4,732	₩ 18,743
Trading securities	559	1,043
Available-for-sale securities	68,485	87,614
Held-to-maturity securities	151,669	172,141
Loans	683,270	626,622
Other interest income	4,367	8,411
	913,082	914,574
2. Fee and commission income	127,906	120,629
3. Other operating income:		
Trading and valuation gains on trading securities	3,560	2,394
Gains on dealing foreign exchange	25,131	20,710
Trading and valuation gains on derivative contracts	108,439	19,179
Trust management fees	15,995	14,366
Other	197	1,713
	153,322	58,362
Total operating income	1,194,310	1,093,565
<b>II. Operating expenses:</b>		
1. Interest expense (Note 19) :		
Deposits from customers	337,233	356,902
Borrowings	54,195	53,351
Debentures issued	17,041	16,257
Other interest expense	6,876	10,115
	415,345	436,625
2. Fee and commission expense	20,865	18,977
3. Other operating expenses:		
Trading and valuation losses on trading securities	1,494	1,423
Provision for loan losses	126,022	175,635
Trading and valuation losses on derivative contracts	107,254	21,671
Other	48,723	36,944
	283,493	235,673
4. General and administrative expenses:		
Personnel expenses	194,623	173,060
Depreciation and amortization	33,852	30,340
Other	65,991	62,718
	294,466	266,118
Total operating expenses	1,014,169	957,393

See accompanying notes.

# STATEMENTS OF INCOME

Korean won in millions

	2004	2003
<b>III. Net operating income</b>	180,141	136,172
<b>IV. Non-operating income:</b>		
1. Gains on disposal of and valuation on securities other than trading securities	24,141	26,316
2. Gains on disposal of loans	3,290	6,313
3. Other	13,444	9,750
	40,875	42,379
<b>V. Non-operating expenses:</b>		
1. Losses on disposal of and valuation on securities other than trading securities	1,166	24,986
2. Losses on disposal of loans	14,194	4,138
3. Other	15,928	23,099
	31,288	52,223
<b>VI. Income before income taxes</b>	189,728	126,328
<b>VII. Income tax expense (Note 14)</b>	57,019	5,040
<b>VIII. Net income</b>	₩132,709	₩121,288
Primary ordinary earnings per share (Notes 2 and 15) (Korean won in units)	₩905	₩827
Primary earnings per share (Notes 2 and 15) (Korean won in units)	₩905	₩827

See accompanying notes.

# STATEMENTS OF APPROPRIATION OF UNAPPROPRIATED RETAINED EARNINGS

Korean won in millions

	2004	2003
Unappropriated retained earnings carried forward from prior year	₩-	₩1
Net income for the year	132,709	121,288
Unappropriated retained earnings at end of year before appropriations	132,709	121,289
Proposed Appropriations:		
Legal reserve	13,271	12,129
Voluntary reserve	75,433	69,555
Cash dividends (Note 16)	44,005	39,605
	132,709	121,289
<b>Unappropriated retained earnings to be carried forward to next year</b>	<b>₩-</b>	<b>₩-</b>

See accompanying notes.



# STATEMENTS OF CASH FLOWS

Korean won in millions

	2004	2003
<b>Cash flows from operating activities:</b>		
Net income	₩132,709	₩121,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	126,022	175,635
Depreciation and amortization	33,852	30,340
Provision for severance and retirement benefits	22,825	29,965
Gain on disposal and valuation of trading securities , net	(2,066)	(971)
Gain on disposal of and valuation on securities other than trading securities , net	(22,975)	(1,330)
Loss (gain) on disposal of loans, net	10,904	(2,175)
Other, net	2,356	7,527 -1
Changes in operating assets and liabilities	78,714	(50,299)
Total adjustments	249,632	188,692
Net cash provided by operating activities	382,341	309,980
<b>Cash flows from investing activities:</b>		
Decrease (increase) in securities, net	592,840	(360,570)
Increase in loans	(1,535,541)	(1,409,489)
Decrease (increase) in domestic exchange settlement debits, net	266,844	(262,656)
Proceeds from disposal of fixed assets	5,282	3,094
Purchase of fixed assets	(48,349)	(39,336)
Other, net	(220,322)	(70,690)
Net cash used in investing activities	(939,246)	(2,139,647)
<b>Cash flows from financing activities:</b>		
Increase in deposits from customers	451,647	1,249,249
Increase in borrowings, net	169,841	386,183
Increase (decrease) in due to Trust Accounts	(307,190)	99,136
Increase in debentures issued	192,490	-
Payment of cash dividend	(39,605)	(44,005)
Other, net	208,458	21,205
Net cash provided by financing activities	675,641	1,711,768
Net increase (decrease) in cash and cash equivalents	118,736	(117,899)
Cash and cash equivalents at the beginning of the year (Note 2)	921,938	1,039,837
<b>Cash and cash equivalents at the end of the year (Note 2)</b>	<b>₩1,040,674</b>	<b>₩921,938</b>

See accompanying notes.

# NOTES TO FINANCIAL STATEMENTS

## 1. Organization and business

Pusan Bank (“the Bank”) was incorporated on October 10, 1967 as a regional bank, under the laws of the Republic of Korea, to engage in the commercial banking and trust business. The Bank became a publicly traded financial institution upon listing its common shares on the Korean Exchange in June 1972. The Bank’s issued and outstanding common stock as of December 31, 2004 amounted to ₩733,418 million.

The Bank’s head office is located in Busan and the Bank has 211 branches in Korea.

The Bank has been appointed as a manager of Busan City Government’s Budgetary Funds (General Account and several Special Accounts) since January 1, 2001.

## 2. Summary of significant accounting policies

### Basis of presenting financial statements

The Bank maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea (“Korean GAAP”) and Accounting Standards applicable to the Korean Banking Industry. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices.

The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Bank’s financial position, results of operations and cash flows, is not presented in the accompanying financial statements. Certain reclassifications, and changes in statement format and extent of disclosures have also been made to the prior year financial statements and footnotes to conform to the current year’s presentation. The preparation of financial statements in conformity with applicable regulations and financial accounting standards requires management to make estimates and assumption that affect the amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

### Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Korean won using the applicable exchange rate of ₩1,043.8 : US\$1, the exchange rate in effect as of December 31, 2004 (₩1,197.8 : US\$1 as of December 31, 2003). Foreign currency transactions are accounted for at the exchange rates prevailing on the dates of the transactions. Resulting foreign currency translation gains (losses) are credited (charged) to current operations.

### Allowance for loan losses

The Bank provides an allowance for loan losses based on overall consideration of the factors affecting a borrower’s ability to repay loans such as the period since default had occurred, the borrower’s business, insolvency status, financial status and future cash flows.

The provision is determined by applying the following minimum percentages to the loan classifications:

Loan classifications	Corporate loans	Household loans	Credit card accounts
Normal	0.7% or above	0.75% or above	1.0% or above
Precautionary	5% or above	8% or above	12% or above
Substandard	20% or above	20% or above	20% or above
Doubtful	75% or above	55% or above	60% or above
Estimated loss	100%	100%	100%

### Allowance for acceptances and guarantees

If the Bank has credit exposures in connection with payment guarantees it issued on behalf of its customers, for which a beneficiary of the payment guarantee has not yet claimed payment against the Bank, the Bank provides a minimum allowance percentage on confirmed guarantees of 20% for “Substandard”, 50% for “doubtful” and 100% for “estimated loss” and records the estimated losses as a provision for credit losses on payment guarantees in the statement of income and allowance for credit losses on payment guarantees (a liability account) in the balance sheet.

### Reserve for unused cash advance commitments on credit cards

The Bank records reserves for a certain portion of unused cash advance commitments on credit cards as a liability on the balance sheet. The Bank provides a minimum allowance percentage of 1.0% on a portion of unused cash advance commitments which have been used at least once in the last twelve months. The allowance for unused cash advance commitments on credit cards as of December 31, 2004 amounted to ₩1,176 million (₩ 816 million as of December 31, 2003).

### Reserve for unused mileages on credit cards

The Bank records reserve for unused mileages on credit cards which have been provided at a certain rate of amount paid for goods or services by credit cards. The allowance for unused mileages on credit cards as of December 31, 2004 amounted to ₩1,762 million.

# NOTES TO FINANCIAL STATEMENTS

## Interest income

Interest on loans and securities are recognized on the accrual basis, while interest income on overdue and dishonored loans or securities, except for those secured and guaranteed by other financial institutions, is recognized on a cash basis. Interest income on overdue and dishonored loans or securities, which is not recognized, amounted to ₩7,441 million as of December 31, 2004 (₩21,683 million as of December 31, 2003).

## Securities

Debt and equity securities traded actively and frequently that are bought and held for the purpose of generating profits on short-term differences in price are classified as trading securities and stated at fair value, with unrealized gains and losses recorded in income. Debt securities having fixed maturities and pre-determined redemption amounts for which an entity has a positive intent and ability to hold to maturity are classified as held to maturity securities and carried at cost, adjusted for the amortization of discounts or premiums (amortized cost) using the effective interest method. Investments in equity securities of companies over which the Bank exerts significant control or influence, are recorded using the equity method of accounting. Under the equity method, the Bank records changes in its proportionate ownership of the net book value of the investee as current operations, capital adjustments and or adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

Debt and equity securities not classified as either held - to maturity securities or trading securities are classified as available-for-sale securities and stated at fair value, with unrealized gains and losses accounted for in the capital adjustment account, a component of shareholder's equity. Non-marketable equity securities classified as available-for-sale securities and without measurable fair value are carried at cost.

If the net realizable value of held-to-maturity securities and available-for-sale securities is less than acquisition cost or carrying value, such securities are adjusted to net realizable value, with a valuation loss charged to current operations after eliminating any previous recorded capital adjustment for temporary changes. Subsequent recoveries are also recorded in current operations to the extent of previously recorded valuation losses if such recoveries are attributable to events occurring subsequent to the recognition of the valuation loss.

## Restructuring of loans

The present value discount which is difference between the face value and the present value of loans which have been restructured through court receivership, court mediation, workout program, etc. is accounted for as an allowance for loan losses, which is amortized using the effective interest method and recognized as interest income over the revised terms of the loans. The face value of these loans and net present value after amortization as of December 31, 2004 amounted to ₩49,216 million and ₩45,902 million (₩56,103 million and ₩51,858 million as of December 31, 2003), respectively. Out of the present value discount amounting to ₩8,692 million incurred until 2004, ₩5,378 million was amortized and the outstanding balance as of December 31, 2004 amounted to ₩3,314 million (see Note 5).

## Fixed assets used in operations

Fixed assets used in operations are stated at cost or revalued amounts as per the Korean Asset Revaluation Law. Routine maintenance and repairs are charged to expenses as incurred. Expenditures which enhance the value or extend the useful life of assets are capitalized.

Depreciation is provided using the straight-line method for buildings and leasehold improvements and the declining-balance method for furniture and equipment, over the following estimated useful lives of assets:

Intangible assets are amortized using the straight-line method over estimated useful lives.

	Years
Buildings	50
Leasehold improvements	5
Furniture and equipment	5

## Foreclosed property

Property foreclosed as a result of loan defaults is classified as fixed assets held for non-operating purposes and recorded at cost. The Bank does not depreciate those assets. When the market value of the foreclosed property declines below the book value, a reserve for foreclosed property is provided on an individual basis.

## Sales of foreclosed property on a long-term installment basis

When properties are sold on a long-term installment basis, the difference between the present value of the long-term receivable and the selling price is recorded as a discount on the long-term installment receivable and recognized as interest income.

## Severance and retirement benefits

In accordance with the Korean Labor Standards Law, employees terminating their employment with more than one year of service are entitled to severance and retirement benefits upon termination of their employment based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision for the years ended December 31, 2004 and 2003 is sufficient to state the liability at the estimated obligation arising from services performed to and at rates of pay in effect at December 31, 2004 and 2003. Funding of this liability is not required by Korean law.

Actual payments of severance and retirement benefits were ₩11,366 million for the year ended December 31, 2004 (₩165,494 million for the year ended December 31, 2003).

In accordance with the Korean National Pension Law, the Bank had prepaid a portion of its severance and retirement benefits obligation to the Korean National Pension Corporation at the rate of three percent (two percent through December 31, 1997) of payroll expense. Such prepayments amounting to ₩24 million as of December 31, 2004 (₩32 million as of December 31, 2003) have been offset against the Bank's liability for severance and retirement benefits. In accordance with a revision in the Korean National Pension Law, these prepayments are no longer required effective April 1, 1999.

In order to obtain tax benefits, the Bank has deposited a portion of its severance and retirement benefits obligation with insurance companies as deposits for severance and retirement benefits. Such deposits amounted to ₩16,523 million at December 31, 2004 (₩4,683 million at December 31, 2003). Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits in respect of what is due to them as of December 31, 2004, those amounts have been offset against the Bank's liability for severance and retirement benefits as of such date.

# NOTES TO FINANCIAL STATEMENTS

## Cash equivalents

Cash and cash equivalents used for preparation of the statement of cash flows are equal to cash and due from banks amounting to ₩1,040,674 million as of December 31, 2004 and ₩921,938 million as of December 31, 2003. Such balances include restricted cash and due from bank balances with maturities greater than 5 year (see Note 3)

## Due to Trust Accounts

Certain idle trust funds entrusted to the Bank have been transferred to the Bank Accounts. The Bank accounts for these as due to Trust Accounts. The Bank pays interest to the Trust Accounts (approximately 3.78 % in 2004 and 4.18% in 2003 per annum) based on predetermined interest rates.

## Trust management fees

The Bank receives trust commissions for managing the trusts, based on the net profit remaining after charging all expenses and provisions and after paying dividends to trust beneficiaries. For certain money trusts which incur losses, the Bank is obligated to reimburse such losses.

## Income taxes

Deferred income taxes are recognized for the tax consequences of differences between the tax and financial reporting amounts of assets and liabilities at each period-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense consists of income tax payable for the period and the change during the period in deferred tax assets and liabilities.

## Derivative financial instruments

Derivative financial instruments include futures, forwards, option contracts and swap contracts, and are principally linked to interest rates and foreign exchange rates.

Derivative financial instruments, regardless of whether they are entered for trading or hedging purposes, are valued at fair value. Derivative contracts not meeting the requirements for hedge accounting treatment are classified as trading contracts with gains and losses included in current operations. Derivative contracts qualifying for hedge accounting treatment have unrealized valuation gains and losses recorded as capital adjustments (cash-flow-hedge derivatives) or as other revenues and expenses in current operations in conjunction with recording unrealized gains and losses for underlying assets or liabilities (fair-value-hedge derivatives).

## Per share amounts

Earnings per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Ordinary earnings per share is computed by reversing the effect of extraordinary items (net of effect of income taxes), if any.

## Korean GAAP Revisions for 2005

The Korean Accounting Standards Board has issued new accounting standards with the intention to revise Korean GAAP and disclosure rules to meet international practices. The revised accounting standards include changes in the areas of discontinued operations, equity method of accounting for investments, income taxes, and provision, contingent liabilities and contingent assets. Korean companies should apply such revised accounting standards for the first fiscal year starting after December 31, 2004. Early adoption of the revised accounting standards is allowed, except accounting for discontinued operations which will be effective after December 31, 2005. The cumulative effect on prior years of the changes in accounting standards will be primarily charged or credited to opening retained earnings with disclosures made on the effect of the changes.

## 3. Cash and due from banks

Cash and due from banks as of December 31, 2004 and 2003 are summarized as follows:

	Korean won in millions	
	2004	2003
Cash on hand	₩ 265,992	₩ 275,714
Foreign currencies	16,232	19,718
Due from banks in Korean won	704,385	601,408
Due from banks in foreign currencies	54,065	25,098
	<b>₩ 1,040,674</b>	<b>₩ 921,938</b>

Due from banks in Korean won as of December 31, 2004 and 2003 are summarized as follows:

			Korean won in millions
Type	Interest rate(%)	Depository	Total
December 31, 2004			
Checking accounts	-	Bank of Korea	₩ 651,446
Time deposits	3.10~4.25	Post office, etc.	52,400
Other deposits	-	Korean Exchange, etc.	539
			<b>₩ 704,385</b>
December 31, 2003			
Checking accounts	-	Bank of Korea	₩ 422,490
CD	4.00~4.44	Korea First Bank, etc.	166,529
Other deposits	0.00~5.00	Korea Investment & Securities Co., Ltd., etc.	12,389
			<b>₩ 601,408</b>



# NOTES TO FINANCIAL STATEMENTS

Due from banks denominated in foreign currencies as of December 31, 2004 and 2003 are summarized as follows:

Korean won in millions

Type	Interest rate[%]	Depository	Total
<b>December 31, 2004</b>			
Demand deposits	-	Bank of Korea, etc.	₩50,390
Other deposits	-	Bank of America	3,675
			<u>₩54,065</u>
<b>December 31, 2003</b>			
Demand deposits	-	Bank of Korea, etc.	₩24,204
Other deposits	-	Bank of America	894
			<u>₩25,098</u>

Restricted balances in due from banks as of December 31, 2004 and 2003 are summarized as follows:

Korean won in millions

Type	Depository	Total	Restriction
<b>December 31, 2004</b>			
Reserve deposits	Bank of Korea	₩651,446	Reserve for payment of deposits
Demand deposits	Bank of Korea	35,924	Reserve for payment of deposits
Other deposits	Pueun Futures Co., Ltd., etc.	505	Key money deposits
		<u>₩687,875</u>	
<b>December 31, 2003</b>			
Reserve deposits	Bank of Korea	₩422,490	Reserve for payment of deposits
Demand deposits	Bank of Korea	6,856	Reserve for payment of deposits
Other deposits	Pueun Futures Co., Ltd., etc.	471	Key money deposits
		<u>₩429,817</u>	

Reserve deposits and demand deposits placed with the Bank of Korea represent reserves required under the Bank of Korea Law for the payment of deposits. The term structures of amounts due from banks as of December 31, 2004 and 2003 are as follows:

Korean won in millions

Maturity	2004		
	Due from banks in Korean won	Due from banks in foreign currencies	Total
Within 3 months	₩10,538	₩-	₩10,538
Over 3 months ~ 6 months	500	-	500
Over 6 months ~ 1 year	41,900	-	41,900
Over 1 year ~ 5 years	-	-	-
Over 5 years	651,447	54,065	705,512
	<u>₩704,385</u>	<u>₩54,065</u>	<u>₩758,450</u>
Maturity	2003		
	Due from banks in Korean won	Due from banks in foreign currencies	Total
Within 3 months	₩78,907	₩-	₩78,907
Over 3 months ~ 6 months	98,394	-	98,394
Over 6 months ~ 1 year	1,400	-	1,400
Over 1 year ~ 5 years	-	-	-
Over 5 years	422,707	25,098	447,805
	<u>₩601,408</u>	<u>₩25,098</u>	<u>₩626,506</u>

# NOTES TO FINANCIAL STATEMENTS

## 4. Securities

Securities as of December 31, 2004 and 2003 are comprised of the following:

Korean won in millions

	2004		2003	
	Interest rate (%)	Amount	Interest rate (%)	Amount
<b>Trading securities</b>				
Equity securities		₩-		₩2,189
Government and public bonds	3.5~4.25	41,124		-
Beneficiary certificates		-		2,461
		₩41,124		₩4,650
<b>Available-for-sale securities</b>				
Equity securities		₩34,088		₩60,593
Government and public bonds	3.0~9.83	291,119	2.5~10.73	370,075
Finance bonds	3.22~10.03	465,572	3.92~10.20	866,451
Corporate bonds	2.47~10.00	387,182	2.0~15.0	361,005
Beneficiary certificates		151,720		164,377
Others		28,185		20,330
Foreign currency denominated securities	-	-	2.72~3.46	19,054
		₩1,357,866		₩1,861,885
<b>Held-to-maturity securities</b>				
Government and public bonds	2.5~10.7	₩604,361	3.0~11.26	₩564,711
Finance bonds	3.04~10.05	1,259,752	3.85~9.06	1,033,419
Corporate bonds	2.0~15.0	748,174	4.09~10.15	1,123,538
Foreign currency denominated securities	3.21~4.20	26,563	0.0~5.60	23,956
		₩2,638,850		₩2,745,624
<b>Equity investments in affiliated companies</b>		₩21,745		₩22,073
		₩4,059,585		₩4,634,232

Valuation for trading securities as of December 2004 and 2003 is summarized as follows:

Korean won in millions

Account	Face value	Acquisition cost	Amortized cost	Valuation gain(loss)	Carrying value
<b>December 31, 2004</b>					
Government and Public bonds	₩40,000	₩41,094	₩41,090	₩34	₩41,124
<b>December 31, 2003</b>					
Equity securities	₩142	₩2,165	₩2,165	₩24	₩2,189
Others	6,455	6,455	2,483	[22]	2,461
	₩6,597	₩8,620	₩4,648	₩2	₩4,650

Valuation for available-for-sale securities as of December 31, 2004 and 2003 is summarized as follows :

Korean won in millions

Account	Face value	Acquisition cost	Amortized cost	Valuation gain(loss)	Capital adjustment	Carrying value
<b>December 31, 2004</b>						
Listed equity securities	₩10,361	₩17,550	₩15,461	₩(118)	₩(4,485)	₩10,858
Unlisted equity securities	28,664	35,538	34,299	(40)	(12,329)	21,930
Government and public bonds	285,000	285,588	286,274	-	4,845	291,119
Finance bonds	470,000	462,278	462,887	-	2,685	465,572
Corporate bonds	348,550	384,571	380,524	(1)	6,659	387,182
Others	181,595	179,695	179,692	-	1,513	181,205
Foreign currency denominated securities	-	-	-	-	-	-
	₩1,324,170	₩1,365,220	₩1,359,137	₩(159)	₩(1,112)	₩1,357,866

# NOTES TO FINANCIAL STATEMENTS

Account	Face value	Acquisition cost	Amortized cost	Valuation gain(loss)	Capital adjustment	Carrying value
<b>December 31, 2003</b>						
Listed equity securities	₩ 13,626	₩30,851	₩ 12,134	₩(1,355)	₩7,408	₩ 18,187
Unlisted equity securities	34,597	44,588	42,323	(875)	958	42,406
Government and public bonds	371,200	368,734	370,961	-	(886)	370,075
Finance bonds	900,000	866,888	867,678	-	(1,227)	866,451
Corporate bonds	362,703	366,425	365,454	(2,018)	(2,431)	361,005
Others	190,437	190,437	183,556	-	1,151	184,707
Foreign currency denominated securities	19,165	19,188	19,121	-	(67)	19,054
	<b>₩ 1,891,728</b>	<b>₩ 1,887,111</b>	<b>₩ 1,861,227</b>	<b>₩(4,248)</b>	<b>₩4,906</b>	<b>₩ 1,861,885</b>

Valuation for held-to-maturity securities as of December 31, 2004 and 2003 is summarized as follows:

Korean won in millions

Account	Face value	Acquisition cost	Amortized cost	Valuation gain(loss)	Carrying value
<b>December 31, 2004</b>					
Government and public bonds	₩ 615,381	₩598,296	₩ 604,361	₩ -	₩604,361
Finance bonds	1,290,724	1,262,137	1,259,752	-	1,259,752
Corporate bonds	747,813	752,476	748,174	-	748,174
Foreign currency denominated securities	26,617	26,553	26,563	-	26,563
	<b>₩ 2,680,535</b>	<b>₩ 2,639,462</b>	<b>₩ 2,638,850</b>	<b>₩ -</b>	<b>₩ 2,638,850</b>
<b>December 31, 2003</b>					
Government and public bonds	₩ 572,877	₩ 561,047	₩ 564,711	₩ -	₩ 564,711
Finance bonds	1,057,018	1,036,105	1,033,419	-	1,033,419
Corporate bonds	1,121,131	1,134,107	1,127,358	(3,820)	1,123,538
Foreign currency denominated securities	23,956	23,956	23,956	-	23,956
	<b>₩ 2,774,982</b>	<b>₩ 2,755,215</b>	<b>₩ 2,749,444</b>	<b>₩ (3,820)</b>	<b>₩ 2,745,624</b>

Equity investments in affiliated companies as of December 31, 2004 and 2003 are summarized as follows:

Korean won in millions

Company	Number of shares	Ownership(%)	Acquisition cost	Net asset value	Book value
<b>December 31, 2004</b>					
Pueun Futures Co., Ltd.	3,000,000	100.00	₩ 15,000	₩ 17,735	₩ 17,735
Busan Credit Information Ltd.	600,000	100.00	3,000	3,000	3,000
Mybi Co., Ltd.	420,000	14.17	2,100	1,010	1,010
Korea Non-Bank Lease Financing Co., Ltd.	695,064	17.38	3,475	-	-
			<b>₩ 23,575</b>	<b>₩ 21,745</b>	<b>₩ 21,745</b>
<b>December 31, 2003</b>					
Pueun Futures Co., Ltd.	3,000,000	100.00	₩ 15,000	₩ 17,181	₩ 17,181
Busan Credit Information Ltd.	600,000	100.00	3,000	3,000	3,000
Mybi Co., Ltd.	420,000	17.71	2,100	1,892	1,892
Korea Non-Bank Lease Financing Co., Ltd.	695,064	17.38	3,475	-	-
			<b>₩ 23,575</b>	<b>₩ 22,073</b>	<b>₩ 22,073</b>

# NOTES TO FINANCIAL STATEMENTS

Information about securities by geography, industry and character as of December 31, 2004 and 2003 is summarized as follows:

Korean won in millions

By Geography	Securities in Korean won	Securities in foreign currencies	Total	Percentage
<b>December 31, 2004</b>				
Korea	₩4,033,022	₩ 12,498	₩4,045,520	99.65
U. S. A	-	3,627	3,627	0.09
France	-	10,438	10,438	0.26
	<b>₩4,033,022</b>	<b>₩26,563</b>	<b>₩4,059,585</b>	<b>100.00</b>
<b>December 31, 2003</b>				
Korea	₩4,591,222	₩ 19,143	₩4,610,365	99.48
U. S. A	-	11,889	11,889	0.26
France	-	11,978	11,978	0.26
	<b>₩4,591,222</b>	<b>₩43,010</b>	<b>₩4,634,232</b>	<b>100.00</b>
By Industry	Securities in Korean won	Securities in foreign currencies	Total	Percentage
<b>December 31, 2004</b>				
Public	₩ 936,604	₩-	₩ 936,604	23.07
Financial business	2,520,472	15,636	2,536,108	62.47
Construction	104,811	-	104,811	2.58
Transportation, warehousing, post and telecommunications	312,522	-	312,522	7.70
Electricity, gas and water supply	80,707	-	80,707	1.99
Other	77,906	10,927	88,833	2.19
	<b>₩4,033,022</b>	<b>₩ 26,563</b>	<b>₩4,059,585</b>	<b>100.00</b>
<b>December 31, 2003</b>				
Public	₩ 934,786	₩-	₩ 934,786	20.17
Financial business	2,937,385	37,021	2,974,406	64.19
Real estate and rental	183,103	-	183,103	3.95
Transportation, warehousing, post and telecommunications	286,929	-	286,929	6.19
Electricity, gas and water supply	110,350	-	110,350	2.38
Other	138,669	5,989	144,658	3.12
	<b>₩4,591,222</b>	<b>₩ 43,010</b>	<b>₩4,634,232</b>	<b>100.00</b>

Information about securities by geography, industry and character as of December 31, 2004 and 2003 is summarized as follows:

By Character	Securities in Korean won	Securities in foreign currencies	Total	Percentage
<b>December 31, 2004</b>				
Stocks	₩ 55,833	₩-	₩ 55,833	1.38
Fixed rate bonds	3,553,835	-	3,553,835	87.54
Floating rate bonds	243,449	26,563	270,012	6.65
Beneficiary certificates	151,720	-	151,720	3.74
Other	28,185	-	28,185	0.69
	<b>₩4,033,022</b>	<b>₩26,563</b>	<b>₩4,059,585</b>	<b>100.00</b>
<b>December 31, 2003</b>				
Stocks	₩ 84,855	₩-	₩ 84,855	1.83
Fixed rate bonds	3,974,125	1,750	3,975,875	85.79
Floating rate bonds	345,074	29,371	374,445	8.08
Beneficiary certificates	166,838	11,889	178,727	3.86
Other	20,330	-	20,330	0.44
	<b>₩4,591,222</b>	<b>₩43,010</b>	<b>₩4,634,232</b>	<b>100.00</b>



# NOTES TO FINANCIAL STATEMENTS

The maturities of securities, except equity securities, as of December 31, 2004 are summarized as follows:

## Held-to-maturity securities

Korean won in millions

Maturity	Government and public bonds	Financial bonds	Corporate bonds	Others	Foreign currency securities denominated	Total
Within 3 months	₩ 20,272	₩ 366,027	₩ 55,102	₩ -	₩ -	₩ 441,401
Over 3 months ~ 6 months	25,704	214,959	65,813	-	10,438	316,914
Over 6 months ~ 1 year	61,740	438,351	117,000	-	-	617,091
Over 1 year ~ 2 years	236,505	230,301	290,412	-	7,300	764,518
Over 2 years ~ 3 years	70,071	10,114	20,196	-	8,825	109,206
Over 3 years ~ 4 years	103,781	-	132,365	-	-	236,146
Over 4 years ~ 5 years	66,288	-	67,286	-	-	133,574
Over 5 years ~ 10 years	20,000	-	-	-	-	20,000
Over 10 years	-	-	-	-	-	-
	₩ 604,361	₩ 1,259,752	₩ 748,174	₩ -	₩ 26,563	₩ 2,638,850

## Available-for-sale securities

Korean won in millions

Maturity	Government and public bonds	Financial bonds	Corporate bonds	Others	Foreign currency securities denominated	Total
Within 3 months	₩ 54,000	₩ 57,746	₩ 50,043	₩ 18,116	₩ -	₩ 179,905
Over 3 months ~ 6 months	-	40,171	40,318	140,692	-	221,181
Over 6 months ~ 1 year	11,172	97,757	48,425	20,799	-	178,153
Over 1 year ~ 2 years	133,191	258,443	110,940	-	-	502,574
Over 2 years ~ 3 years	62,558	11,455	126,798	-	-	200,811
Over 3 years ~ 4 years	19,738	-	-	-	-	19,738
Over 4 years ~ 5 years	10,460	-	10,658	-	-	21,118
Over 5 years ~ 10 years	-	-	-	-	-	-
Over 10 years	-	-	-	298	-	298
	₩ 291,119	₩ 465,572	₩ 387,182	₩ 179,905	₩ -	₩ 1,323,778

The maturities of securities, except equity securities, as of December 31, 2003 are summarized as follows:

## Held-to-maturity securities

Korean won in millions

Maturity	Government and public bonds	Financial bonds	Corporate bonds	Others	Foreign currency securities denominated	Total
Within 3 months	₩ 33,631	₩ 323,755	₩ 103,577	₩ -	₩ -	₩ 460,963
Over 3 months ~ 6 months	43,048	149,556	138,198	-	-	330,802
Over 6 months ~ 1 year	75,331	243,127	237,095	-	5,989	561,542
Over 1 year ~ 2 years	94,854	266,554	243,076	-	17,967	622,451
Over 2 years ~ 3 years	196,142	40,273	261,132	-	-	497,547
Over 3 years ~ 4 years	35,483	10,154	10,266	-	-	55,903
Over 4 years ~ 5 years	66,222	-	130,194	-	-	196,416
Over 5 years ~ 10 years	20,000	-	-	-	-	20,000
Over 10 years	-	-	-	-	-	-
	₩ 564,711	₩ 1,033,419	₩ 1,123,538	₩ -	₩ 23,956	₩ 2,745,624

# NOTES TO FINANCIAL STATEMENTS

## Available-for-sale securities

Korean won in millions

Maturity	Government and public bonds	Financial bonds	Corporate bonds	Others	Foreign currency securities denominated	Total
Within 3 months	₩ -	₩ 171,420	₩ 38,051	₩ 151,096	₩ -	₩ 360,567
Over 3 months ~ 6 months	3,267	163,551	11,058	30,079	-	207,955
Over 6 months ~ 1 year	53,217	373,429	99,455	-	11,889	537,990
Over 1 year ~ 2 years	185,087	147,018	115,595	-	-	447,700
Over 2 years ~ 3 years	80,080	-	67,753	-	-	147,833
Over 3 years ~ 4 years	21,022	11,033	29,093	-	5,415	66,563
Over 4 years ~ 5 years	27,402	-	-	-	1,750	29,152
Over 5 years ~ 10 years	-	-	-	-	-	-
Over 10 years	-	-	-	3,532	-	3,532
	₩ 370,075	₩ 866,451	₩ 361,005	₩ 184,707	₩ 19,054	₩ 1,801,292

As of December 31, 2004 and 2003, securities with face value of ₩ 742,400 million and ₩ 821,600 million have been pledged as collateral for certain borrowings and key money deposits, respectively.

## 5. Loans

Loans as of December 31, 2004 and 2003 consisted of the following:

	2004	
	Interest rate (%)	Korean won in millions
Loans in Korean won:		
Loans to companies	0.0~22.5	₩ 6,350,476
Loans to individuals	1.0~22.0	3,331,543
Other	5.45~9.8	433,195
		10,115,214
Loans in foreign currencies	1.0~7.0	308,172
Bills bought in Korean won	DBR + 4.05 or lower	3,579
Bills bought in foreign currencies	Libor + 2.9 or lower	154,878
Advances for customers		8,266
Credit card accounts		317,559
Bonds bought under resale agreements	3.35~4.0	100,000
Privately placed corporate bonds	1.0~10.5	4,380
Call loans		602
Domestic import usance bills		208,372
Others		12,797
		11,233,819
Less allowance for loan losses		(155,005)
Less present value discount account		(3,314)
		₩ 11,075,500

# NOTES TO FINANCIAL STATEMENTS

	2003	
	Interest rate (%)	Korean won in millions
Loans in Korean won:		
Loans to companies	6.55~21.0	₩5,588,127
Loans to individuals	7.4~21.0	2,533,598
Other	5.45~9.8	444,547
		8,566,272
Loans in foreign currencies	1.2~4.05	309,230
Bills bought in Korean won	DBR + 4.05 or lower	5,229
Bills bought in foreign currencies	Libor + 2.9 or lower	133,896
Advances for customers		12,286
Credit card accounts		447,436
Bonds bought under resale agreements	4.0~4.6	125,000
Privately placed corporate bonds	0.0~10.25	24,464
Call loans		23,474
Domestic import usance bills		173,787
Others		405
		9,821,479
Less allowance for loan losses		(142,042)
Less present value discount account		(4,244)
		₩9,675,193

The maturities of loans (excluding call loans and credit card accounts) as of December 31, 2004 and 2003 are as follows:

	2004			
	Within 3 months	Over 3 months ~ 6 months	Over 6 months ~ 1 year	Over 1 year ~ 2 years
	Over 2 years ~ 3 years	Over 3 years ~ 5 years	Over 5 years	Total
Loans in Korean won	₩2,347,054	₩1,906,490	₩2,627,565	₩1,211,396
Loans in foreign currencies	17,518	27,859	70,050	59,432
Domestic import usance bills	122,564	56,397	29,017	83
Bills bought in Korean won	3,579	-	-	-
Advances for customers	3,508	-	-	-
Bills bought in foreign currencies	120,204	30,586	4,088	-
Privately placed corporate bonds	400	500	-	2,895
Bonds bought under resale agreements	100,000	-	-	-
Other	-	-	10,438	-
	₩2,714,827	₩2,021,832	₩2,741,158	₩1,273,806
Loans in Korean won	₩710,919	₩672,847	₩638,943	₩10,115,214
Loans in foreign currencies	59,246	59,245	14,822	308,172
Domestic import usance bills	-	-	311	208,372
Bills bought in won	-	-	-	3,579
Advances for customers	-	-	4,758	8,266
Bills bought in foreign currencies	-	-	-	154,878
Privately placed corporate bonds	-	-	585	4,380
Bonds bought under resale agreements	-	-	-	100,000
Other	-	-	2,359	12,797
	₩770,165	₩732,092	₩661,778	₩10,915,658

# NOTES TO FINANCIAL STATEMENTS

2003

	Within 3 months	Over 3 months ~ 6 months	Over 6 months ~ 1 year	Over 1 year ~ 2 years
Loans in Korean won	₩ 2,133,204	₩ 1,400,638	₩ 2,057,211	₩ 1,187,905
Loans in foreign currencies	11,940	27,346	63,740	56,293
Domestic import usance bills	108,678	44,702	20,220	-
Bills bought in Korean won	5,229	-	-	-
Advances for customers	5,165	-	-	-
Bills bought in foreign currencies	99,728	29,273	4,895	-
Privately placed corporate bonds	485	1,724	11,042	2,818
Bonds bought under resale agreements	105,000	20,000	-	-
Other	-	-	-	-
	<b>₩ 2,469,429</b>	<b>₩ 1,523,683</b>	<b>₩ 2,157,108</b>	<b>₩ 1,247,016</b>
	Over 2 years ~ 3 years	Over 3 years ~ 5 years	Over 5 years	Total
Loans in Korean won	₩ 739,856	₩ 621,404	₩ 426,054	₩ 8,566,272
Loans in foreign currencies	55,187	66,706	28,018	309,230
Domestic import usance bills	-	-	187	173,787
Bills bought in won	-	-	-	5,229
Advances for customers	-	-	7,121	12,286
Bills bought in foreign currencies	-	-	-	133,896
Privately placed corporate bonds	2,895	5,000	500	24,464
Bonds bought under resale agreements	-	-	-	125,000
Other	-	-	405	405
	<b>₩ 797,938</b>	<b>₩ 693,110</b>	<b>₩ 462,285</b>	<b>₩ 9,350,569</b>

As of December 31, 2004 and 2003, loans (excluding call loans and credit card accounts) by geography, borrower type and industry are summarized as follows:

Korean won in millions

By Geography	Loans in Korean won	Loans in foreign currencies	Others	Total	Percentage
<b>December 31, 2004</b>					
Korea	₩ 10,103,982	₩ 294,612	₩ 492,272	₩ 10,890,866	99.77
Panama	-	5,243	-	5,243	0.05
Indonesia	-	3,131	-	3,131	0.03
Hong Kong	-	5,186	-	5,186	0.05
Others	11,232	-	-	11,232	0.10
	<b>₩ 10,115,214</b>	<b>₩ 308,172</b>	<b>₩ 492,272</b>	<b>₩ 10,915,658</b>	<b>100.00</b>
<b>December 31, 2003</b>					
Korea	₩ 8,558,351	₩ 289,147	₩ 475,067	₩ 9,322,565	99.70
Panama	-	10,109	-	10,109	0.11
Indonesia	-	4,072	-	4,072	0.04
Hong Kong	-	5,902	-	5,902	0.06
Others	7,921	-	-	7,921	0.09
	<b>₩ 8,566,272</b>	<b>₩ 309,230</b>	<b>₩ 475,067</b>	<b>₩ 9,350,569</b>	<b>100.00</b>

# NOTES TO FINANCIAL STATEMENTS

By Borrower type	Loans in Korean won	Loans in foreign currencies	Others	Total	Percentage
<b>December 31, 2004</b>					
Corporate	₩6,541,516	₩308,172	₩492,170	₩7,341,858	67.26
Household	3,432,269	-	102	3,432,371	31.44
Public and other	141,429	-	-	141,429	1.30
	<b>₩10,115,214</b>	<b>₩308,172</b>	<b>₩492,272</b>	<b>₩10,915,658</b>	<b>100.00</b>
<b>December 31, 2003</b>					
Corporate	₩5,762,756	₩309,230	₩474,924	₩6,546,910	70.02
Household	2,619,727	-	143	2,619,870	28.02
Public and other	183,789	-	-	183,789	1.96
	<b>₩8,566,272</b>	<b>₩309,230</b>	<b>₩475,067</b>	<b>₩9,350,569</b>	<b>100.00</b>
By Industry	Loans in Korean won	Loans in foreign currencies	Others	Total	Percentage
<b>December 31, 2004</b>					
Manufacturing	₩3,079,717	₩189,403	₩267,712	₩3,536,832	32.40
Wholesale and retail trade	896,714	42,098	110,369	1,049,181	9.61
Financial business	204,975	3,272	110,438	318,685	2.92
Real estate and rental	630,842	13,083	-	643,925	5.90
Household	3,432,269	-	102	3,432,371	31.45
Others	1,870,697	60,316	3,651	1,934,664	17.72
	<b>₩10,115,214</b>	<b>₩308,172</b>	<b>₩492,272</b>	<b>₩10,915,658</b>	<b>100.00</b>
<b>December 31, 2003</b>					
Manufacturing	₩2,680,694	₩182,645	₩239,121	₩3,102,460	33.18
Wholesale and retail trade	768,449	41,343	87,224	897,016	9.59
Financial business	324,481	5,600	125,000	455,081	4.87
Real estate and rental	553,176	11,138	-	564,314	6.03
Household	2,619,727	-	143	2,619,870	28.02
Others	1,619,745	68,504	23,579	1,711,828	18.31
	<b>₩8,566,272</b>	<b>₩309,230</b>	<b>₩475,067</b>	<b>₩9,350,569</b>	<b>100.00</b>



# NOTES TO FINANCIAL STATEMENTS

The classification and allowance for loan losses outstanding as of December 31, 2004 and 2003 are summarized as follows:

Korean won in millions

	2004						Allowance percentage
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	
Loans in Korean won	₩9,477,523	₩207,860	₩78,233	₩18,492	₩14,834	₩9,796,942	
(Allowance)	(68,026)	(11,799)	(15,647)	(12,681)	(14,834)	(122,987)	1.26
Loans in foreign currencies	281,904	20,709	2,130	3,326	103	308,172	
(Allowance)	(1,973)	(1,035)	(426)	(2,495)	(103)	(6,032)	1.96
Advances for customers	3,254	627	3,366	799	100	8,146	
(Allowance)	(23)	(32)	(673)	(600)	(100)	(1,428)	17.53
Bills bought in foreign currencies	153,426	1,137	13	302	-	154,878	
(Allowance)	(1,074)	(57)	(3)	(227)	-	(1,361)	0.88
Credit card accounts	270,821	29,732	349	11,200	5,457	317,559	
(Allowance)	(2,708)	(3,568)	(70)	(6,720)	(5,457)	(18,523)	5.83
Privately placed corporate bonds	3,296	-	464	-	121	3,881	
(Allowance)	(23)	-	(93)	-	(121)	(237)	6.11
Domestic import usance bills	203,257	4,804	-	311	-	208,372	
(Allowance)	(1,423)	(240)	-	(233)	-	(1,896)	0.91
Other	3,804	134	1,595	2,116	79	7,728	
(Allowance)	(28)	(8)	(319)	(2,107)	(79)	(2,541)	32.88
<b>Total (*1)</b>	<b>10,397,285</b>	<b>265,003</b>	<b>86,150</b>	<b>36,546</b>	<b>20,694</b>	<b>10,805,678</b>	
<b>(Allowance)</b>	<b>(75,278)</b>	<b>(16,739)</b>	<b>(17,231)</b>	<b>(25,063)</b>	<b>(20,694)</b>	<b>(155,005)</b>	<b>1.43</b>
Allowance Percentage	0.72	6.32	20.00	68.58	100.00	1.43	

(\*1) Present value discounts amounting to ₩3,314 million were deducted from loan balances.

## 2003

	2003						Allowance percentage
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	
Loans in Korean won	₩7,950,620	₩129,972	₩86,407	₩14,251	₩9,064	₩8,190,314	
(Allowance)	(56,991)	(7,867)	(17,281)	(9,517)	(9,064)	(100,720)	1.23
Loans in foreign currencies	302,288	894	5,938	-	110	309,230	
(Allowance)	(2,116)	(45)	(1,188)	-	(110)	(3,459)	1.12
Advances for customers	4,149	891	4,144	2,872	105	12,161	
(Allowance)	(29)	(45)	(829)	(2,154)	(105)	(3,162)	26.00
Bills bought in foreign currencies	133,674	222	-	-	-	133,896	
(Allowance)	(936)	(11)	-	-	-	(947)	0.71
Credit card accounts	358,924	57,439	620	25,360	5,093	447,436	
(Allowance)	(3,590)	(6,893)	(124)	(15,216)	(5,093)	(30,916)	6.91
Privately placed corporate bonds	18,624	4,128	500	-	-	23,252	
(Allowance)	(130)	(207)	(100)	-	-	(437)	1.88
Domestic import usance bills	165,226	8,416	47	-	98	173,787	
(Allowance)	(1,157)	(420)	(9)	-	(98)	(1,684)	0.97
Other	5,286	82	919	448	51	6,786	
(Allowance)	(38)	(6)	(185)	(437)	(51)	(717)	10.57
<b>Total (*1)</b>	<b>8,938,791</b>	<b>202,044</b>	<b>98,575</b>	<b>42,931</b>	<b>14,521</b>	<b>9,296,862</b>	
<b>(Allowance)</b>	<b>(64,987)</b>	<b>(15,494)</b>	<b>(19,716)</b>	<b>(27,324)</b>	<b>(14,521)</b>	<b>(142,042)</b>	<b>1.53</b>
Allowance Percentage	0.73	7.67	20.00	63.65	100.00	1.53	

(\*1) Present value discounts amounting to ₩4,244 million were deducted from loan balances.

# NOTES TO FINANCIAL STATEMENTS

Changes in the allowance for possible loan losses during the years ended December 31, 2004 and 2003 are as follows:

Korean won in millions

	2004	2003
Beginning balance	₩ 142,042	₩ 155,841
Collection of loans written off	18,761	19,489
Provision for loan losses	126,022	175,635
Write-off	(128,983)	(188,096)
Other changes	(2,837)	(20,827)
<b>Ending balance</b>	<b>₩ 155,005</b>	<b>₩ 142,042</b>

The amount of loans written off for which the Bank still has legal claims is ₩ 651,620 million and ₩ 553,206 million as of December 31, 2004 and 2003, respectively.

## 6. Fixed assets

Fixed assets as of December 31, 2004 and 2003 consisted of the following:

Korean won in millions

	2004	2003
<b>Fixed assets used for operations:</b>		
Land	₩ 171,407	₩ 169,292
Buildings	98,657	91,191
Leasehold improvements	17,319	15,825
Furniture and equipment	181,804	160,617
Construction in progress	19,322	20,846
	488,509	457,771
<b>Less accumulated depreciation</b>	<b>(153,311)</b>	<b>(138,012)</b>
	335,198	319,759
<b>Intangible assets</b>	<b>8,083</b>	<b>9,428</b>
<b>Fixed assets held for non-operating purposes</b>	<b>-</b>	<b>12,928</b>
<b>Less reserve for valuation losses</b>	<b>-</b>	<b>(7,877)</b>
	-	5,051
	<b>₩ 343,281</b>	<b>₩ 334,238</b>

At December 31, 2004 and 2003, the value of land as published by the government for tax administration purposes amounted to ₩ 134,003 million and ₩ 131,337 million, respectively.

As of December 31, 2004 and 2003, fixed assets used in operations were insured against losses up to approximately ₩ 144,812 million and ₩ 129,801 million, respectively.

## 7. Other assets

Other assets at December 31, 2004 and 2003 consisted of the following:

Korean won in millions

	2004	2003
Lease key money deposits	₩ 98,887	₩ 91,223
Accounts receivable - other	233,232	88,003
Accrued interest income	141,496	182,037
Domestic exchange settlement debits	87,818	354,662
Other	54,329	73,466
	615,762	789,391
<b>Less present value discount</b>	<b>(416)</b>	<b>(421)</b>
	<b>₩ 615,346</b>	<b>₩ 788,970</b>

# NOTES TO FINANCIAL STATEMENTS

## 8. Deposits from customers

Deposits from customers as of December 31, 2004 and 2003 consisted of the following:

	2004	
	Interest rate (%)	Korean won in millions
<b>Deposits in Korean won:</b>		
Demand deposits	0.00~2.00	₩ 1,174,191
Time and saving deposits	0.10~4.50	10,842,087
		12,016,278
<b>Deposits in foreign currencies</b>	0.00~6.55	158,078
<b>Negotiable certificates of deposits</b>	2.54~3.55	629,177
		<b>₩ 12,803,533</b>
	2003	
	Interest rate (%)	Korean won in millions
<b>Deposits in Korean won:</b>		
Demand deposits	0.00~2.00	₩ 1,124,940
Time and saving deposits	0.10~5.20	11,090,475
		12,215,415
<b>Deposits in foreign currencies</b>	0.00~1.11	93,434
<b>Negotiable certificates of deposits</b>	3.05~3.94	43,037
		<b>₩ 12,351,886</b>

The maturity of deposits from customers as of December 31, 2004 and 2003 are as follows:

	2004			
	Deposits in Korean won	Deposits in foreign currencies	Negotiable certificates of deposit	Total
Within 3 months	₩ 3,795,551	₩ 92,541	₩ 290,071	₩ 4,178,163
Over 3 months ~ 6 months	1,739,127	4,356	319,770	2,063,253
Over 6 months ~ 1 year	2,117,907	2,645	19,336	2,139,888
Over 1 year ~ 2 years	258,112	1,678	-	259,790
Over 2 years ~ 3 years	101,988	164	-	102,152
Over 3 years ~ 5 years	40,002	-	-	40,002
Over 5 years	3,963,591	56,694	-	4,020,285
	<b>₩ 12,016,278</b>	<b>₩ 158,078</b>	<b>₩ 629,177</b>	<b>₩ 12,803,533</b>
	2003			
	Deposits in Korean won	Deposits in foreign currencies	Negotiable certificates of deposit	Total
Within 3 months	₩ 5,099,431	₩ 24,470	₩ 35,742	₩ 5,159,643
Over 3 months ~ 6 months	1,131,929	3,014	5,054	1,139,997
Over 6 months ~ 1 year	1,864,116	3,609	2,241	1,869,966
Over 1 year ~ 2 years	420,524	886	-	421,410
Over 2 years ~ 3 years	136,448	327	-	136,775
Over 3 years ~ 5 years	47,251	-	-	47,251
Over 5 years	3,515,716	61,128	-	3,576,844
	<b>₩ 12,215,415</b>	<b>₩ 93,434</b>	<b>₩ 43,037</b>	<b>₩ 12,351,886</b>

# NOTES TO FINANCIAL STATEMENTS

## 9. Borrowings

Borrowings as of December 31, 2004 and 2003 are as follows:

Korean won in millions

	Interest rate (%)	2004	2003
<b>Borrowings in Korean won:</b>			
Borrowings from the Bank of Korea	2.0	₩292,216	₩308,991
Borrowings from governments	0.0~5.0	146,859	189,878
Small and medium industry development finance funds	2.0~4.90	322,295	229,783
Borrowings from other banks	1.84~8.55	96,784	102,305
Other	0.75~5.5	67,266	56,415
		925,420	887,372
<b>Borrowings in foreign currencies:</b>			
Borrowings from the Bank of Korea		-	-
Borrowings from other banks	Libor+(0.00~0.75)	676,875	586,461
		676,875	586,461
<b>Drafts and bills sold</b>		6,890	6,039
<b>Call money</b>		749	196
<b>Bonds sold under repurchase agreements</b>		465,590	425,615
		₩2,075,524	₩1,905,683

In connection with the above borrowings, securities with face value of ₩737,400 million have been placed with the Bank of Korea and the Bank of Nova Scotia, etc. as security as of December 31, 2004 (₩817,800 million as of December 31, 2003).

The repayment schedule of borrowings except call money as of December 31, 2004 and 2003 is as follows :

Korean won in millions

	2004				
	Borrowings in Korean won	Borrowings under in foreign currencies	Bonds sold repurchase agreements	Drafts and bills sold	Total
Within 3 months	₩344,549	₩168,316	₩229,566	₩4,839	₩747,270
Over 3 months ~ 6 months	19,885	161,433	91,645	1,842	274,805
Over 6 months ~ 1 year	57,148	179,608	144,379	209	381,344
Over 1 year ~ 2 years	86,087	61,570	-	-	147,657
Over 2 years ~ 3 years	139,807	93,942	-	-	233,749
Over 3 years ~ 5 years	161,254	-	-	-	161,254
Over 5 years	116,690	12,006	-	-	128,696
	₩925,420	₩676,875	₩465,590	₩6,890	₩2,074,775
	2003				
	Borrowings in Korean won	Borrowings under in foreign currencies	Bonds sold repurchase agreements	Drafts and bills sold	Total
Within 3 months	₩359,808	₩181,303	₩251,026	₩4,135	₩796,272
Over 3 months ~ 6 months	19,345	133,276	77,860	1,804	232,285
Over 6 months ~ 1 year	52,837	76,804	96,729	100	226,470
Over 1 year ~ 2 years	80,625	105,776	-	-	186,401
Over 2 years ~ 3 years	78,966	68,064	-	-	147,030
Over 3 years ~ 5 years	208,382	-	-	-	208,382
Over 5 years	87,409	21,238	-	-	108,647
	₩887,372	₩586,461	₩425,615	₩6,039	₩1,905,487

# NOTES TO FINANCIAL STATEMENTS

## 10. Debentures issued

Notes and debentures issued by the Bank as of December 31, 2004 and 2003 are as follows:

Description	Issue date	Due date	Korean won in millions	
			2004	2003
Subordinated debt	6. 15. 2001	1. 15. 2007	₩100,000	₩100,000
Subordinated debt	4. 26. 2002	1. 26. 2008	100,000	100,000
Discount debenture (Discount on debenture)	12.23. 2004	12.23. 2005	160,000 (5,323)	- -
Discount debenture (Discount on debenture)	12.23. 2004	6.23. 2006	40,000 (2,011)	- -
Other	9. 26. 1999	9. 26. 2004	-	30
			<b>₩392,666</b>	<b>₩200,030</b>

## 11. Other liabilities

Other liabilities at December 31, 2004 and 2003 consisted of the following:

	Korean won in millions	
	2004	2003
Accrued interest payable	₩195,507	₩179,954
Unremitted agency collections	23,086	47,338
Accounts payable-other	226,747	75,669
Domestic exchange settlement credits	20,421	29,029
Unearned income	18,096	17,959
Account for agency businesses	30,194	34,087
Others	113,289	58,834
	<b>₩627,340</b>	<b>₩442,870</b>

## 12. Stockholders' equity

### Common stock

The Bank has 400 million shares of authorized common stock of which 146,683,650 shares are issued and outstanding as of December 31, 2004. The par value of common stock is ₩5,000 and paid-in capital is ₩733,418 million as of December 31, 2004.

The Bank has granted stock options which will be settled by cash payments equal to the difference between market values and exercise prices. Details of outstanding stock options granted by the Bank as of December 31, 2004 are as follows.

Options granted and outstanding	Grant date	Exercise price	Exercise period
102,281 shares	March 25, 2000	₩5,000 per share	March 25, 2003~ March 24, 2006
89,863 shares	July 14, 2000	₩5,000 per share	July 14, 2003~ July 13, 2006
73,369 shares	March 10, 2001	₩5,000 per share	March 10, 2004~ March 9, 2007
46,849 shares	March 15, 2002	₩5,020 per share	March 15, 2004~March 14, 2007
201,698 shares	March 25, 2003	₩5,000 per share	March 25, 2005~March 24, 2008
110,000 shares	March 26, 2004	₩7,573 per share	March 26, 2006~March 25, 2009

For the representative director, the number of shares granted will be adjusted according to management performance. The cost of the stock-based employee compensation is measured at the difference between market values and exercise prices and is accounted for as an expense and a liability during the employee's service period using the straight-line method. The Bank recognized such cost amounting to ₩694 million in 2004(₩713 million in 2003) and will additionally recognize ₩243 million through 2007.

### Legal reserve

In accordance with the Korean Bank Law, an amount equal to at least 10% of net income is required to be appropriated as a legal reserve until the reserve equals 100% of paid-in capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.



# NOTES TO FINANCIAL STATEMENTS

## Capital adjustment account

At December 31, 2004 and 2003, the capital adjustment account consisted of the following:

	Korean won in millions	
	2004	2003
Gain on valuation of available-for-sale securities	₩8,849	₩13,170
Gain on valuation of investments in equity securities	1,589	1,589
	<b>₩10,438</b>	<b>₩14,759</b>

## 13. Disposal of loans

For past several years, the Bank sold its loans primarily to Korean Asset Management Corporation ("KAMCO"). In accordance with the KAMCO contract, the sales price set when the contract is done is preliminary and subject to final settlement. Accordingly, the gain (loss) on sale of loans will be adjusted based on the final sales value to be determined upon final settlement.

The long-term loans restructured through court receivership, court mediation, workout plans, etc. were sold under repurchase agreements under which the Bank should repurchase the loans sold even after the sales price is finally settled, if the debtor fails to meet the adjusted repayment schedules. The outstanding balance of loans sold under such repurchase agreements as of December 31, 2004 and 2003 amounted to ₩9,945 million and ₩10,127 million, respectively. The Bank may incur losses from the repurchase of these loans in the future.

## 14. Income taxes

The Bank is subject to corporate income taxes, including resident surtax, at aggregate rates of 16.5% on taxable income up to ₩100 million and 29.7% on taxable income in excess of ₩100 million. Effective from 2005, such tax rates will be reduced resulting in revised aggregate rates of 14.3% on taxable income up to ₩100 million and 27.5% on taxable income in excess of ₩100 million.

Reconciliations of income before income taxes for financial reporting purposes and taxable income for corporate income tax reporting purposes are summarized as follows :

	Korean won in millions	
	2004	2003
<b>Income before income taxes per the accompanying statements of income</b>	<b>₩189,728</b>	<b>₩126,328</b>
Permanent differences:		
Entertainment expense	2,777	2,975
Other, net	2,478	875
	5,255	3,850
Temporary differences (net):		
Accrued interest income on securities	34,404	(21,637)
Valuation gain on securities, net	(31,764)	1,536
Severance and retirement benefits	(1,459)	(1,584)
Loan restructuring	(2,043)	(19,217)
Other, net	(27,439)	(23,231)
	(28,301)	(64,133)
<b>Taxable income before utilization of tax loss carryforward</b>	<b>166,682</b>	<b>66,045</b>
<b>Utilization of tax loss carryforward</b>	<b>-</b>	<b>(66,045)</b>
<b>Taxable income after utilization of tax loss carryforward</b>	<b>₩166,682</b>	<b>₩-</b>

# NOTES TO FINANCIAL STATEMENTS

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant changes in cumulative (taxable) temporary differences for the years ended December 31, 2004 and 2003 are as follows:

Korean won in millions

Temporary differences	2004		
	Beginning balances	Net increase(decrease)	Ending balances
Valuation loss on securities, net	₩58,275	₩(31,764)	₩26,511
Accrued interest on securities	(126,728)	34,404	(92,324)
Loan restructuring	6,878	(2,043)	4,835
Allowance for loan losses	18,202	(18,202)	-
Other, net	25,035	(10,696)	14,339
Total	₩(18,338)	₩(28,301)	₩(46,639)
<b>Deferred income tax liability</b>	<b>₩5,040</b>	<b>₩7,786</b>	<b>₩12,826</b>

Temporary differences	2003		
	Beginning balances(*1)	Net increase(decrease)	Ending balances
Valuation loss on securities, net	₩56,739	₩1,536	₩58,275
Accrued interest on securities	(105,091)	(21,637)	(126,728)
Loan restructuring	26,095	(19,217)	6,878
Allowance for loan losses	39,410	(21,208)	18,202
Other, net	28,642	(3,607)	25,035
Tax loss carryforward	112,018	(112,018)(*2)	-
Total	₩157,813	₩(176,151)	₩(18,338)
<b>Deferred income tax liability</b>			<b>₩5,040</b>

(\*1) The amounts are different from those in the prior year's audit report to reflect the 2002 final tax return filed in March 2003.

(\*2) Tax loss carryforward expired in 2003 is included.

The income tax expense for the years ended December 31, 2004 and 2003 are comprised of the following:

Korean won in millions

	2004	2003
Income tax payable	₩49,233	₩-
Changes in deferred income taxes	7,786	5,040
<b>Income tax expenses</b>	<b>₩57,019</b>	<b>₩5,040</b>

## 15. Per share amounts

The Bank's primary and diluted earnings per share ("EPS") for the years ended December 31, 2004 and 2003 were calculated as follows:

Korean won in units

	2004	
	Ordinary income	Net income
Income after deducting related income tax expense	₩132,708,885,595	₩132,708,885,595
Weighted average number of shares of common stock outstanding	146,683,650	146,683,650
Primary EPS	₩905	₩905

	2003	
	Ordinary income	Net income
Income after deducting related income tax expense	₩121,288,318,300	₩121,288,318,300
Weighted average number of shares of common stock outstanding	146,683,650	146,683,650
Primary EPS	₩827	₩827

# NOTES TO FINANCIAL STATEMENTS

## 16. Cash dividends

Cash dividends for the years ended December 31, 2004 and 2003 are as follows:

	Number of shares outstanding	Dividends per share(rate of par value)	Korean won in millions
2004	146,683,850	₩ 300 (6.0%)	₩44,005
2003	146,683,850	₩ 270 (5.4%)	₩39,605

## 17. Related party transactions

Transactions in the years ended December 31, 2004 and 2003 and resulting outstanding balances as of December 31, 2004 and 2003 with Pueun Futures Co., Ltd. ("Pueun"), Mybi Co., Ltd. ("Mybi") and Busan Credit Information Ltd. ("Busan"), which are subsidiaries of the Bank as of December 31, 2004, are as follows:

	Korean won in millions					
	2004			2003		
	Pueun	Mybi	Busan	Pueun	Mybi	Busan
Loans	₩ -	₩ 1,200	₩ -	₩ -	₩ -	₩ -
Deposits	31	2,916	2,573	16	596	2,473
Borrowings	-	-	-	6,850	-	-
Other assets	-	3	-	-	-	-
Other liabilities	-	1	52	148	-	2
Interest on loans	2	38	-	3	-	-
Interest on deposits	227	25	76	234	28	37
Fee and Commission expense	-	-	2,922	-	-	944

In addition, the Bank has provided a payment guarantee to the extent of ₩909 million on behalf of Pueun as of December 31, 2004 and 2003.

## 18. Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies at December 31, 2004 and 2003 consisted of the following:

	2004	
	U. S. dollars in thousands	Korean won in millions
<b>Assets:</b>		
Cash on hand	\$ 15,551	₩ 16,232
Interest-bearing deposits with banks	51,796	54,065
Loans	653,877	682,517
(Allowance for loan losses)	(2,723)	(2,842)
Securities	25,449	26,563
Other assets	125,320	130,810
	<b>\$ 869,270</b>	<b>₩ 907,345</b>
<b>Liabilities:</b>		
Deposits from customers	\$ 151,445	₩158,078
Borrowings	648,957	677,382
Other liabilities	146,577	152,998
	<b>\$ 946,979</b>	<b>₩ 988,458</b>

# NOTES TO FINANCIAL STATEMENTS

2003

	U. S. dollars in thousands	Korean won in millions
<b>Assets:</b>		
Cash on hand	\$ 16,462	₩ 19,718
Interest-bearing deposits with banks	20,954	25,098
Loans	515,251	617,172
(Allowance for loan losses)	(2,723)	(3,261)
Securities	35,907	43,010
Other assets	43,151	51,686
	<b>\$ 629,002</b>	<b>₩ 753,423</b>
<b>Liabilities:</b>		
Deposits from customers	\$ 78,004	₩ 93,434
Borrowings	489,612	586,460
Other liabilities	45,523	54,528
	<b>\$ 613,139</b>	<b>₩ 734,422</b>

Currencies other than U. S. dollars are translated into U. S. dollars at the prevailing exchange rates as of the balance sheet date.

## 19. Interest bearing assets and liabilities

Interest bearing assets and liabilities as of December 31, 2004 and 2003 are as follows:

	2004		2003	
	Average amount	Interest revenue	Average amount	Interest revenue
Korean won in millions				
<b>Assets</b>				
Loans in Korean won	₩ 9,348,122	₩ 626,685	₩ 7,941,857	₩ 551,683
Loans in foreign currencies	314,707	9,803	260,034	8,335
Bills bought in foreign currencies	151,378	7,130	129,419	5,695
Call loans	80,123	2,436	68,555	2,434
Credit card accounts	143,937	28,496	255,270	50,150
Bonds bought under resale agreements	142,349	5,735	114,833	5,285
Other loans	41,013	2,744	58,964	2,889
Due from banks	115,521	4,732	386,278	18,743
Securities	4,179,435	220,713	4,417,982	260,799
Due from Trust Accounts	3,907	156	10,713	440
	<b>₩ 14,520,492</b>	<b>₩ 908,630</b>	<b>₩ 13,643,905</b>	<b>₩ 906,453</b>
<b>Liabilities</b>				
Deposits from customers	₩ 12,543,257	₩ 337,233	₩ 11,755,719	₩ 356,903
Borrowings	1,782,236	54,195	1,864,835	53,350
Debentures issued	204,758	17,041	200,030	16,257
Due to Trust Accounts	165,586	5,771	214,535	8,158
	<b>₩ 14,695,837</b>	<b>₩ 414,240</b>	<b>₩ 14,035,119</b>	<b>₩ 434,668</b>

# NOTES TO FINANCIAL STATEMENTS

## 20. Commitments and contingent liabilities

Commitments and contingent liabilities as of December 31, 2004 and 2003 consisted of the following:

Korean won in millions

	2004	2003
Confirmed acceptances and guarantees	₩ 251,195	₩ 208,011
Contingent acceptances and guarantees	258,425	228,955
Bills endorsed	438	288
Interest rate futures contracts - sold	45,312	-
Currency forward contracts - sold	647,219	192,404
Currency forward contracts - purchased	730,222	190,438
Currency futures contracts - sold	-	16,530
Currency futures contracts - purchased	104	-
Currency option contracts - sold	147,176	-
Currency option contract - purchased	147,176	-
Stock option contracts - sold	6,896	4,439
Stock option contracts - purchased	6,896	4,439
Disposal of loans under repurchase agreements	9,945	10,127

The Bank is a defendant to various lawsuits arising out of normal bank activities in the amount of ₩20,442 million as of December 31, 2004 (₩15,870 million as of December 31, 2003). In the opinion of the Bank's management, the final resolution of these matters will not have a material effect on the Bank's financial statements.

### Acceptances and guarantees

The classification and allowance for confirmed acceptances and guarantees outstanding as of December 31, 2004 and 2003 are as follows:

Korean won in millions

	2004						Allowance percentage
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	
Acceptances & guarantees in Korean won (Allowance)	₩ 205,566	₩ 5,067	₩ 260 (52)	₩ 183 (92)	₩ 284 (284)	₩ 211,360 (428)	0.20
Acceptances & guarantees in foreign currencies (Allowance)	39,619	216	-	-	-	39,835	-
Total (Allowance)	₩ 245,185	₩ 5,283	₩ 260 (52)	₩ 183 (92)	₩ 284 (284)	₩ 251,195 (428)	0.17
Allowance percentage	-	-	20	50	100	0.17	

	2003						Allowance percentage
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	
Acceptances & guarantees in Korean won (Allowance)	₩ 155,447	₩ 4,689	₩ -	₩ -	₩ -	₩ 160,136	-
Acceptances & guarantees in foreign currencies (Allowance)	47,379	496	-	-	-	47,875	-
Total (Allowance)	₩ 202,826	₩ 5,185	₩ -	₩ -	₩ -	₩ 208,011	-
Allowance percentage	-	-	-	-	-	-	

The ratio of allowance for confirmed acceptances and guarantees to total confirmed acceptances and guarantees as of December 31, 2003, 2002 and 2001 was 0.00%, 0.03% and 3.12%, respectively.



# NOTES TO FINANCIAL STATEMENTS

At December 31, 2004 and 2003, acceptances and guarantees outstanding by geography and concentration are summarized as follows:

Korean won in millions

By Concentration	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
<b>December 31, 2004</b>						
Korea	₩ 251,195	100.00%	₩ 258,425	100.00%	₩ 509,620	100.00%
Other	-	-	-	-	-	-
	<b>₩ 251,195</b>	<b>100.00%</b>	<b>₩ 258,425</b>	<b>100.00%</b>	<b>₩ 509,620</b>	<b>100.00%</b>
<b>December 31, 2003</b>						
Korea	₩ 208,011	100.00%	₩ 228,955	100.00%	₩ 436,966	100.00%
Other	-	-	-	-	-	-
	<b>₩ 208,011</b>	<b>100.00%</b>	<b>₩ 228,955</b>	<b>100.00%</b>	<b>₩ 436,966</b>	<b>100.00%</b>

By Concentration	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
<b>December 31, 2004</b>						
Manufacturing	₩ 128,555	51.18%	₩ 172,631	66.80%	₩ 301,186	59.10%
Wholesale and retail	58,250	23.19%	83,085	32.15%	141,335	27.73%
Construction	32,953	13.12%	1,179	0.46%	34,132	6.70%
Other	31,437	12.51%	1,530	0.59%	32,967	6.47%
	<b>₩ 251,195</b>	<b>100.00%</b>	<b>₩ 258,425</b>	<b>100.00%</b>	<b>₩ 509,620</b>	<b>100.00%</b>
<b>December 31, 2003</b>						
Manufacturing	₩ 106,822	51.35%	₩ 133,093	58.13%	₩ 239,915	54.90%
Wholesale and retail	50,721	24.38%	85,005	37.13%	135,726	31.06%
Construction	30,865	14.84%	10	-	30,875	7.07%
Other	19,603	9.43%	10,847	4.74%	30,450	6.97%
	<b>₩ 208,011</b>	<b>100.00%</b>	<b>₩ 228,955</b>	<b>100.00%</b>	<b>₩ 436,966</b>	<b>100.00%</b>

## Valuation of derivative contracts

₩30,070 million and ₩7,711 million of gains and ₩26,578 million and ₩7,420 million of losses, respectively, on valuation of derivative contracts for trading purposes as of December 31, 2004 and 2003 were recorded in other operating income and expenses as follows:

Korean won in millions

	Valuation gain	Valuation loss	Asset	Liability
<b>December 31, 2004</b>				
Currency forwards	₩ 30,449	₩ 26,957	₩ 30,449	₩ 26,957
Currency option	3,007	3,007	4,257	4,257
Stock index options	(3,386)	(3,386)	6,590	6,590
	<b>₩ 30,070</b>	<b>₩ 26,578</b>	<b>₩ 41,296</b>	<b>₩ 37,804</b>
<b>December 31, 2003</b>				
Currency forwards	₩ 2,899	₩ 2,608	₩ 2,899	₩ 2,608
Stock index options	4,812	4,812	9,251	9,251
	<b>₩ 7,711</b>	<b>₩ 7,420</b>	<b>₩ 12,150</b>	<b>₩ 11,859</b>

## Guaranteed trusts

Certain money trust agreements require the Bank (as trust manager) to guarantee a minimum trust profit or to reimburse trusts for the loss from impairment of principal balances of guaranteed trusts. Money trusts under such agreements amounted to ₩250,608 million and ₩222,408 million as of December 31, 2004 and 2003, respectively.

# NOTES TO FINANCIAL STATEMENTS

## Book value and fair value of Trust Account

Book value and fair value of principal and dividend guaranteed trust accounts as of December 31, 2004 and 2003 are summarized as follows:

Korean won in millions

	Book value	Charge on Bank Fair value	Account
<b>December 31, 2004</b>			
Principal guaranteed trust accounts	₩256,665	₩ 257,910	₩-
Principal and dividend guaranteed trust accounts	5,208	5,208	-
	<b>₩ 261,873</b>	<b>₩263,118</b>	<b>₩-</b>
<b>December 31, 2003</b>			
Principal guaranteed trust accounts	₩226,986	₩ 225,351	₩ 1,635
Principal and dividend guaranteed trust accounts	11,603	11,603	-
	<b>₩ 238,589</b>	<b>₩ 236,954</b>	<b>₩ 1,635</b>

## 21. Operating results for the 4th quarter of 2004 and 2003

During the 4th quarter of 2004, there was no change in accounting estimation policies. Major operating results for the 4th quarter of 2004 and 2003 are as follows:

Korean won in millions

	2004	2003
Operating income	₩ 344,998	₩287,716
Net income	35,518	33,694
Earnings per share (Korean Won in units)	242	230

## 22. Added value information

The accounts and amounts which are required to be disclosed in connection with the calculation of the added value of the Bank's operations for the years ended December 31, 2004 and 2003 are as follows:

Korean won in millions

	2004	2003
Salaries and wages	₩ 103,000	₩93,195
Severance and retirement benefits	22,825	29,965
Employee benefits	68,798	49,900
Rent	3,932	3,585
Taxes and dues	11,173	11,233
Depreciation and amortization	33,852	30,340
	<b>₩243,580</b>	<b>₩218,218</b>

# Independent Auditors' Report



## Young Wha Corporation

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## Chief Executive Officer and Trust Beneficiaries of Pusan Bank

We have audited the accompanying balance sheets of Pusan Bank's trust accounts ("the Trust") at December 31, 2004 and 2003, and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of Pusan 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust at December 31, 2004 and 2003 and the results of its operations and cash flows for the years then ended in conformity with the Korean Trust Business Act, related regulations and accounting principles 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 who are knowledgeable about Korean accounting principles and auditing standards and their application in practice.

A handwritten signature in black ink, appearing to read 'Young Wha', written in a cursive style.

January 14, 2005

This audit report is effective as of January 14, 2005, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

# BALANCE SHEETS

Korean won in millions

	2004	2003
<b>ASSETS</b>		
Marketable securities (Note 2)	₩ 1,003,051	₩ 1,093,219
Loans and bills discounted, less allowance for loan losses and present value discount (Note 4)	25,114	22,964
Other assets:		
Accrued interest receivable	20,955	42,028
Accounts receivable - other	603	1,311
	21,558	43,339
Due from Bank Account (Pusan Bank)	73,584	96,195
<b>Total assets</b>	<b>₩ 1,123,307</b>	<b>₩ 1,255,717</b>
<b>LIABILITIES</b>		
Money Trust Certificates (Note 3)	₩ 1,057,338	₩ 1,183,719
Borrowings (Pusan Bank)	-	7,387
Other liabilities:		
Due to Bank Account (Pusan Bank) - trust management fees payable	6,311	6,328
Undistributed trust income	52,159	50,839
Unearned income	2,673	2,036
Accounts payable - other	936	2,122
Special reserve	3,890	3,286
	65,969	64,611
<b>Total liabilities</b>	<b>₩ 1,123,307</b>	<b>₩ 1,255,717</b>

See accompanying notes.

# STATEMENTS OF OPERATIONS

Korean won in millions

	2004	2003
<b>Operating income:</b>		
Interest on deposits	₩ -	₩2
Interest on marketable securities	65,639	85,094
Interest on loans and bills discounted	1,903	2,307
Interest on call loans	602	939
Gain on disposal of marketable securities	9,412	7,924
Gain on disposal of loans	-	2,770
Interest on due from Bank Account (Pusan Bank)	2,766	3,792
Reversal of allowance for loan losses	3,598	3,574
Other	4,087	5,074
	88,034	111,476
<b>Operating expenses:</b>		
Trust management fees to Pusan Bank	14,761	12,596
Loss on disposal of marketable securities	870	9,896
Loss on valuation of marketable securities	506	3,729
Provision for loan losses	1,712	12,180
Other	2,335	4,976
	20,184	43,377
<b>Distribution to money trust certificate holders</b>	<b>₩ 67,850</b>	<b>₩ 68,099</b>

See accompanying notes.



# STATEMENTS OF CASH FLOWS

Korean won in millions

	2004	2003
<b>Cash flows from operating activities:</b>		
Items not affecting cash and cash equivalents:		
Gain on disposal of loans, net	₩-	₩(2,741)
Loss (gain) on disposal of marketable securities, net	(8,542)	1,972
Provision for loan losses, net of reversal	(1,886)	8,606
Valuation loss (gain) on marketable securities, net	(2,196)	2,976
Other, net	458	264
Changes in operating assets and liabilities:		
Decrease in accrued interest receivable	21,072	16,982
Increase (decrease) in undistributed trust income	1,320	(13,381)
Other, net	143	(2,433)
Total adjustments	10,369	12,245
Net cash provided by operating activities	10,369	12,245
<b>Cash flows from investing activities:</b>		
Decrease (increase) in loans	(119)	242
Decrease in marketable securities	100,906	511,249
Net cash provided by investing activities	100,787	511,491
<b>Cash flows from financing activities:</b>		
Decrease in borrowings	(7,387)	(2,449)
Decrease in Money Trust Certificates	(126,381)	(583,157)
Net cash used in financing activities	(133,768)	(585,606)
<b>Net decrease in cash and cash equivalents</b>	<b>(22,612)</b>	<b>(61,870)</b>
<b>Cash and cash equivalents at the beginning of the year (Note 1)</b>	<b>96,195</b>	<b>158,065</b>
<b>Cash and cash equivalents at the end of the year (Note 1)</b>	<b>₩73,583</b>	<b>₩96,195</b>

See accompanying notes.

# NOTES TO FINANCIAL STATEMENTS

## 1. Summary of significant accounting policies and basis of financial statements

The books of accounts and financial statements in connection with trust operations are maintained separately from those of the Bank Account according to the Korean Trust Business Act.

### Basis of financial statements

The Trust maintains its official accounting records in Korean won and prepares its statutory financial statements in the Korean language in conformity with the Korean Trust Business Act, related regulations and accounting principles generally accepted in the Republic of Korea ("Korea GAAP"). Certain accounting principles applied by the Trust that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices.

For the convenience of the reader, in preparing the accompanying financial statements, certain reclassifications and changes in statement format and extent of disclosures have been made to the financial statements issued in the Korean language for domestic statutory purposes.

The preparation of financial statements in conformity with applicable regulations and financial accounting standards requires management to make estimates and assumptions that affect the amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

### Allowance for loan losses

The Trust provides an allowance for loan losses based on overall consideration of the factors affecting a borrower's ability to repay loans such as the period since default had occurred, the borrower's business, insolvency status, financial status and future cash flows. The Trust applies different credit loss reserve ratios corresponding to the collectibility of loans outstanding at December 31, 2004 and 2003. The reserve percentages range from 0.5% to 100% based on collectibility.

### Recognition of interest income

Interest income on loans and securities is recognized on an accrual basis, while interest income on overdue and dishonored loans or securities, except for those secured and guaranteed by other financial institutions, is recognized on a cash basis. Interest income on overdue and dishonored loans or securities, which is not recognized, amounted to W18 million and W200 million as of December 31, 2004 and 2003, respectively.

### Securities valuation

Securities included in the Specified Investment Objective Trust are stated at cost; all other securities are stated at market value. However, bonds included in trusts other than the Specified Investment Objective Trust acquired prior to November 15, 1998 are stated at cost in accordance with the interim measures of the revised trust regulations.

### Due from Bank Account

Certain trust funds which are not invested in loans and securities have been transferred to the Bank. These deposits are accounted for as amounts due from Bank Account and the Trust receive interest (approximately 3.78% in 2004 and 4.18% in 2003 per annum) based on predetermined interest rates from the Bank.

### Subsidies from the Bank

Certain money trust agreements provide that the Bank guarantees a principal amount of trust deposits and/or a minimum rate of return. In relation to such guarantees, the Trust is required to set up a special reserve equal to 25% of trust fees until the total reserve equals 5% of the related money trust balance. If income from trust operations is insufficient to generate the guaranteed rate of return, the deficiency will be recovered from previously established special reserves and then compensated by the Bank if special reserves are insufficient.

### Calculation of trust profits

Trust profits are calculated under one of the two following methods depending on the trust agreement: yield calculation method and standard price method.

Under the yield calculation method, the trust profits are calculated using the following formulas:

#### Trust profits = Trust deposit balance x Average yield rate

$$\text{* Average yield rate} = \frac{\text{Accumulated daily yield rate}}{\text{Number of days}} \text{ for a calculation period}$$

$$\text{* Daily yield rate} = \frac{\text{Daily profit calculated}}{\text{Outstanding interest bearing assets balance}} - \text{Predetermined trust management fee rate}$$

$$\text{* Daily profit calculated} = \text{Interest revenue} \pm \text{Realized gain (loss) from securities transactions} - \text{Provision for loan and securities losses} - \text{Other expenses}$$

Trust profits, net of withholding taxes, are periodically (every six months or one year, or at termination) distributed to depositors by adding to the depositors' principal balance.

Under the standard price method, depositors are entitled to the standard price per share which is calculated daily as follows:

$$\text{Standard price} = \text{Net assets} \div \text{Total number of shares of each trust}$$

### Trust management fees (net operating income)

The Trust Account pays trust management fees for managing the trusts. The amount is determined in accordance with relevant laws and regulations applicable to trust operations.

# NOTES TO FINANCIAL STATEMENTS

## Securities investment trusts

The Bank acts as a custodian of assets and liabilities of securities investment trusts which are managed by securities investment trust companies. The Bank receives predetermined fees from the securities investment trust companies and does not bear any risk from results of operations of those securities investment trusts. According to the Korean Trust Business Supervisory Regulations, the securities investment trusts are excluded from the 2004 and 2003 financial statements of the Trust Account.

The amounts of the securities investment trusts are ₩4,248,372 million and ₩4,054,685 million as of December 31, 2004 and 2003, respectively.

## Cash and cash equivalents

Cash and cash equivalents used for preparation of the statement of cash flows are as follows:

	Korean won in millions	
	2004	2003
Cash and deposits	₩-	₩-
Due from Bank Account	73,583	96,195
<b>₩73,583</b>	<b>₩96,195</b>	

## 2. Marketable securities

Securities held by the Trust Account as of December 31, 2004 and 2003 are as follows:

		Korean won in millions	
	Interest rate (%)	2004	2003
Equity securities		₩2,265	₩9,195
Government and public bonds	3.00~9.56	122,120	103,475
Finance bonds	3.30~4.90	127,687	20,032
Corporate bonds	2.47~13.0	571,019	805,211
Other	3.40~18.0	179,960	155,306
		<b>₩ 1,003,051</b>	<b>₩ 1,093,219</b>

## 3. Money Trusts

Money Trusts outstanding at December 31, 2004 and 2003 are as follows:

	2004	
	Korean won in millions	Distribution rates per annum (%)
Non-specified Money Trust	₩117	6.50~8.86(*1)
Elderly Living Pension Trust	6,099	(*2)
Personal Pension Trust	157,931	(*2)
Installment Trust	7,489(*3)	(*4)
Household Trust	17,720(*3)	(*4)
Corporate Trust	1	(*4)
National Stock Trust	610	(*4)
Household Long-term Trust	40,199	(*4)
Employee Premium Trust	4,114	(*4)
New Installment Trust	45,266	(*4)
Unit Money Trust	32,437	(*4)
Specified Investment Objective Trust	293,244	(*4)
Open Type Money Trust	373,031	(*4)
Retirement Trust	67,994	(*2)
New Personal Pension Trust	1,382	(*2)
Pension Trust	9,704	(*2)
	<b>₩ 1,057,338</b>	

(\*1) For this trust, the Bank has guaranteed a minimum trust profit and to reimburse principal balance impairments.

(\*2) The Bank has guaranteed to reimburse principal balance impairments.

(\*3) ₩2,921 million of Installment Trust and ₩4,460 million of Household Trust are guaranteed against principal balance impairments.

(\*4) Based on actual operating results.

# NOTES TO FINANCIAL STATEMENTS

	2003	
	Korean won in millions	Distribution rates per annum (%)
Non-specified Money Trust	₩111	6.50~8.86 (*1)
Elderly Living Pension Trust	7,294	(*2)
Personal Pension Trust	148,641	(*2)
Installment Trust	10,649(*3)	(*4)
Household Trust	20,945(*3)	(*4)
Corporate Trust	1(*3)	(*4)
National Stock Trust	665	(*4)
Household Long-term Trust	67,951	(*4)
Employee Premium Trust	7,561	(*4)
New Installment Trust	67,700	(*4)
Unit Money Trust	37,868	(*4)
Specified Investment Objective Trust	405,807	(*4)
Open Type Money Trust	351,564	(*4)
Retirement Trust	50,175	(*2)
New Personal Pension Trust	1,216	(*2)
Pension Trust	5,571	(*2)
	<b>₩1,183,719</b>	

(\*1) For this trust, the Bank has guaranteed a minimum trust profit and to reimburse principal balance impairments.

(\*2) The Bank has guaranteed to reimburse principal balance impairments.

(\*3) ₩3,947 million of Installment Trust, ₩5,452 million of Household Trust and ₩1 million of Corporate Trust are guaranteed against principal balance impairments.

(\*4) Based on actual operating results.

## 4. Loans written off

The amount of loans written off for which the Trust Account still has legal claims is ₩64,733 million and ₩68,163 million as of December 31, 2004 and 2003, respectively.

## >> Board of Directors



**Shim, Hoon**  
Chairman of the Board of Directors & President



**Park, Chang-kyu**  
Standing Auditor  
Audit & Examination Team



**Lee, Jang-ho**  
Deputy President  
Retail Banking Division



**Lim, Chai-hyun**  
Deputy President  
Strategy & Finance Division



**Jung, Sung-tae**  
Senior Executive Vice President  
Capital Market Division





## Non-standing Directors

### Kim, Si-seung

Lawyer / Kim Si-seung Law-office

### Shin, Jung-taek

Chairman / Seun Steel Co.,Ltd.

### Eun, Soong-pyo

Professor / Silla University

### Lee, Chae-woong

Professor / SungKyunkwan University

### Chae, Jyung-byung

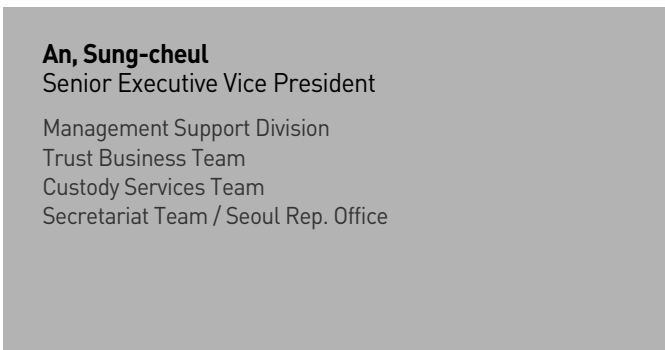
Executive Director / Lotte Hotel



### Bae, Tae-kyun

Senior Executive Vice President

Credit Management Division  
Business Support Center



### An, Sung-cheul

Senior Executive Vice President

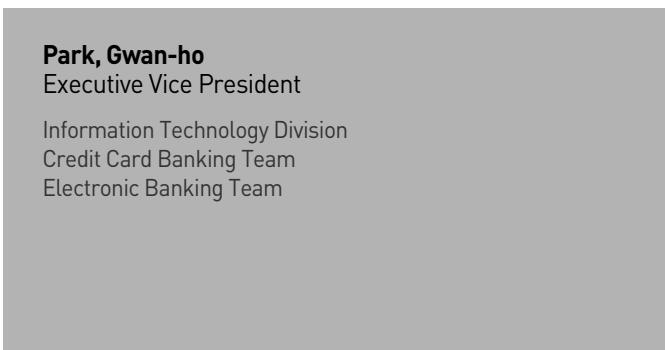
Management Support Division  
Trust Business Team  
Custody Services Team  
Secretariat Team / Seoul Rep. Office



### Jung, Won-jong

Executive Vice President

Corporate Banking Division



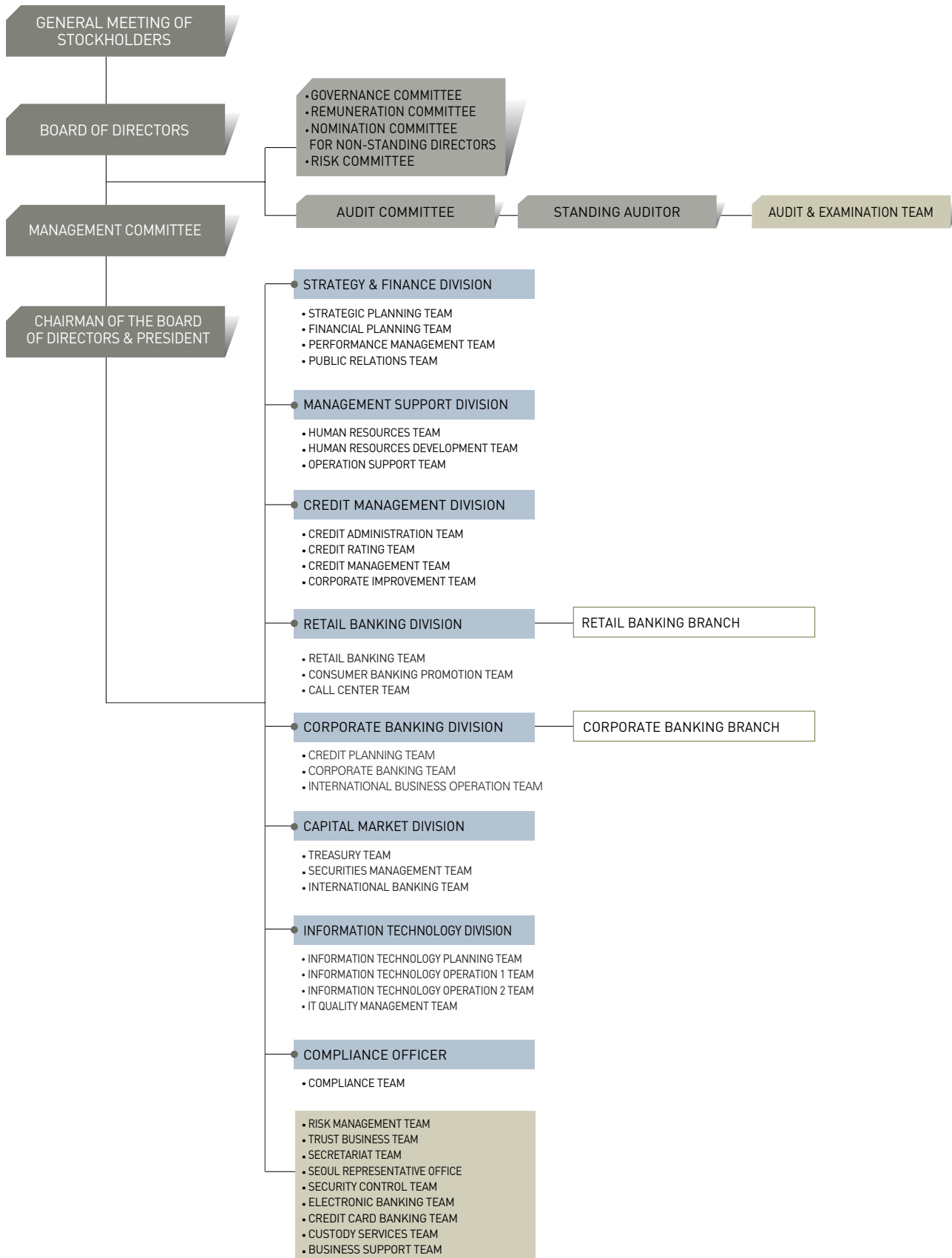
### Park, Gwan-ho

Executive Vice President

Information Technology Division  
Credit Card Banking Team  
Electronic Banking Team



# >> Organization Chart



## >> History of Pusan Bank

1967.	10.	10	Founded with a paid-capital of W300 million	2003.	5.	29	Concluded project financing agreement for Busan New Harbor construction. (Pusan Bank's participation : 40 billion won. Total financing by four institutions: 245 billion won.)
1967.	10.	25	Commenced business	2003.	6.	4	Entered agreement with Korea Export Insurance Corp. and began issuing export credit bank guarantees
1968.	2.	1	Commenced foreign exchange business	2003.	6.	10	Set up operations for handling business incorporation, bad loan collection, etc
1972.	6.	15	Listed on Korea Stock Exchange	2003.	6.	17	Established wholly owned subsidiary, Pusan Credit Information
1983.	5.	2	Began trust business	2003.	7.	1	Selected as 'Superior Public Corporation of 2003' by the Korea Stock Exchange
1985.	6.	1	Began credit card business	2003.	8.	22	Received loan of 6 billion yen (US\$50 million equivalent) from the Seoul branch of Sumitomo Mitsui Banking Corp. on August 22, reflecting global recognition of Pusan Bank outstanding management performance
1990.	1.	3	New corporate identity program(CIP)launched	2003.	12.	5	Concluded joint business agreement with LG Investment & Securities
1992.	11.	1	Home-banking service began	2003.	12.	9	Entered into agreement with Korea Land Corp. to provide real estate development loans
1993.	12.	1	EDI Service began	2003.	12.	15	Received an upgraded financial strength rating and a "table" outlook from Moody Profitability and capital adequacy were deemed outstanding," with net interest margin and asset soundness receiving the highest scores
1994.	12.	5	DDS-styled dealing system adopted	2003.	12.	18	Provided 9.8 billion won in project financing for Geoga Bridge
1995.	5.	2	Tele-banking service began	2004.	1.	13	Joined hands with KTF to offer IC chip-based mobile banking service
1997.	9.	18	Integrated on-line system opened	2004.	3.	16	Small-scale Credit Defaulter Rehabilitation Program Pusan Bank implements credit recovery plan aimed at small-scale borrowers reestablish their good credit rating.
1998.	12.	9	Established strategic business tie with Microsoft of the U.S.	2004.	4.	23	KMA (Korea Management Association) names President of Pusan Bank Shim Hoon "2004 CEO of the Year."
1999.	3.	31	Selected as a funds settlement bank by Korea Futures Exchange	2004.	6.	22	Pusan Bank is ranked among the "30 Most Respected Korean Companies" jointly by Dong-A Ilbo and Korea IBM BCS.
1999.	7.	28	Concluded a comprehensive consulting service pact with Pricewaterhouse Coopers	2004.	10.	15	Open Management Research names Pusan Bank winner of the "Social Contribution Corporate Award" in the Regional Community Development category.
2000.	3.	6	Cyber-banking service began	2004.	12.	21	Korea CEO Association selects Pusan Bank as "Most Respected Company of the Year."
2000.	3.	24	Selected to manage Digital Pusan Card				
2000.	11.	5	Selected to manage budgetary funds for Pusan				
2001.	2.	21	Pusan Bank Digital Pusan Card wins Advanced Card-Award 2001 in the U.K				
2001.	5.	29	Consultancy contract signed with Nemo Partners to build a performance management system				
2001.	8.	1	Integrated profit management system launched				
2002.	4.	11	World-class integrated risk management system completed				
2002.	5.	27	Call Center system launched				
2002.	8.	12	Buvix Card introduced				
2002.	8.	21	Total deposits break W13 trillion mark				
2002.	8.	28	Comprehensive Cooperation agreement concluded with Industry and Commerce Bank of China				
2002.	12.	13	President Sim, Hoon named 'Best CEO of the Year' by the Korea Economic Daily and Towers Perrin				
2003.	1.	6	Gold Prize won at the 12th annual Dasan Awards				
2003.	3.	31	Concluded an alliance for bancassurance with four life insurers (Samsung, Kyobo, Shinhan, AIG Life) and four nonlife insurers (Samsung, LG, Dongbu, Oriental Fire & Marine).				
2003.	5.	19	Launched stock investment services with Hanwha Securities				

# >> International Banking Directory

## International Banking Team

Address : Kumseki bldg., 4FL.,16, 1-Ga, Ulchi-Ro, Jung-Gu, Seoul, Korea  
Tel : (82)-(2)-758-6322, 6300  
Fax : (82)-(2)-758-6399  
Telex : K27650 PUSANBANK  
BIC : PUBBKR2PINT  
E-mail : pusbint@pusanbank.co.kr  
General Manager : J.H.Sohn



## International Business Operation Team

Address : 25-2, 4-Ga, Jungang-Dong, Jung-Gu, Busan 600-014  
Korea P.O Box 131 Busan  
Tel : (82)-(51)-469-0181, 0188  
Fax : (82)-(51)-464-2739  
Telex : K53392 PUSANBK  
BIC : PUBBKR2P  
E-mail : pusbkr@pusanbank.co.kr  
General Manager : Lee, Soon-hee



## Standard Settlement Instructions (BANK NAME A/C NO. SWIFT PLACE)

### USD

- Bank of America 655-00-94495 BOFAUS3N New York
- HSBC Bank USA 000-03030-9 MRMDUS33 New York
- Wachovia Bank 2000191022429 PNBUS3NNYC New York
- Standard Chartered Bank 3582-040960-001 SCBLUS33 New York
- Union Bank of California 96-107771-1121 BOFCUS33SFO San Francisco
- Bank of New York 890-0067-683 IRVTUS3N New York
- American Express Bank 120-246 AEIBUS33 New York

### JPY

- Standard Chartered Bank 2110371110 SCBLJPJT Tokyo
- Union Bank of California 16-107771-1121 BOFCJPJT Tokyo
- UFJ Bank 1026-1030/1-5 SANWJPJT Tokyo
- Sumitomo Mitsui Banking Corp. 3157 SMBCJPJT Tokyo
- Bank of Tokyo-Mitsubishi 653-0409766 BOTKJPJT Tokyo

### GBP

- Korea Exchange Bank 206078-GBP KOEXGB2L London
- HSBC Bank PLC 35435935 MIDLGB22 London

### EUR

- American Express Bank 18005506 AEIBDEFX Frankfurt
- Banca Nazionale del Lavoro 253227 BNLIITRR Rome
- Standard Chartered Bank 01708607596 SCBLGB2L London

### CHF

- UBS AG 0230-87106.05P UBSWCHZH80A Zurich

### DKK

- Danske Bank 3007536712 DABADKKK Copenhagen

### SEK

- Nordea Bank, SWD 3952907721 NDEASESS Stockholm

### HKD

- Standard Chartered Bank 411-094-0105-9 SCBLHKHH Hong Kong

### SGD

- Korea Exchange Bank 1-01778 KOEXSGSG Singapore

### IDR

- Standard Chartered Bank 0100055486 SCBLIDJX Jakarta

### CAD

- The Bank of Nova Scotia 0282111 NOSCCATT Toronto

### NZD

- ANZ Bank 835504.00001 ANZBNZ22 Wellington

### AUD

- National Australia Bank SKOR-14 NATAAU33033 Melbourne

### NOK

- Korea Exchange Bank 963-THR-108-14-1 KOEXKRSE Seoul

## >> Domestic Subsidiaries

### Pueun Futures Co., Ltd.

Address : 10th FL., Pusan Chamber of Commerce & Industry Bldg.,  
853-1 Bumcheon 1-dong, Busanjin-gu, Busan, Korea  
Tel : (82)-(51)-643-4900  
Paid-in capital : ₩15,000 million  
Holding share : 100%

### Busan Credit Information Co., Ltd.

Address : 378-11, Gaya1-Dong, Busanjin-gu, Busan, Korea  
Tel : (82)-(51)-895-5103  
Paid-in capital : ₩3,000 million  
Holding share : 100%

### Korea Lease Financing Co., Ltd.

Address : 6th FL., Yuwon Bldg., 75-95, Seosomun-dong, Jung-gu, Seoul, Korea  
Tel : (82)-(2)-778-5300  
Paid-in capital : ₩20,000 million  
Holding share : 17.38%



## >> Corporate Data

### Established

Oct. 25, 1967

### Total shareholders' equity

KRW 1,025.7 billion

### Paid-in capital

KRW 733.4 billion

### Common stock issued and outstanding

146,683,650

### Domestic network

211

### Employees

1,978

### Major shareholders

Lotte Group(Japan Lotte Inclusive)	14.11 %
Capital Research & Management Company	10.40 %
Schroder Investment Management Ltd.	7.08%
Templeton Investment Counsel LLC	6.05%
Aberdeen Asset Management Asia Limited	5.16%
Parkland Co., Ltd.	4.11 %
Korea Iron & Steel Co., Ltd.	1.99 %

[www.pusanbank.co.kr](http://www.pusanbank.co.kr)



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