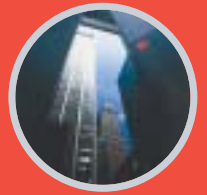


ANNUAL REPORT 2 0 0 3



Setting Global Banking Standards for
Stability, Profitability and Transparency



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Headquartered in Busan, Korea's second largest city and one of Asia's busiest ports, Pusan Bank is a full-service financial institution and Korea's premier regional bank.

With the largest share of deposits (30.31%) and loans (19.64%) in Busan and the surrounding Korean Southeast, the Bank's branch network spans 209 locations.

From its establishment in 1967 to the present day, Pusan Bank remains a central feature in the economic, commercial and cultural landscape of this vibrant region, and a guiding force in the quest for a brighter tomorrow.



Mid- & Long-Term Vision

Strengthen Pusan Bank's leadership as a
"World-class premier regional bank"





Mid- & Long-Term Strategies

Enhance core business specialization through a targeted market, product, service and delivery channel approach

Expand core capabilities through management organization and systems improvement

Develop advanced Private Banking services for a more diversified income structure, and cultivate a balanced Private Banking and SME Banking market profile





Message from the President

I am pleased to report the business results of Pusan Bank's 47th fiscal period, and also take this opportunity to thank you for the steadfast support and encouragement shown to us in 2003. In terms of operating environment, 2003 was the most challenging year our industry has faced since the end of the so-called "IMF crisis" of the late 1990s. At the same time, it was a defining moment for Pusan Bank with regard to our long-term goals of improving asset quality, expanding internal competencies and, ultimately, enhancing shareholder and corporate value.

The Korean economy encountered a series of obstacles and setbacks throughout 2003, the year which saw the outbreak of war in Iraq and a sudden hike in oil prices on the international front, coupled with such domestic challenges as ongoing nuclear tensions with North Korea, a resurgence of labor-management strife, and damage caused by Typhoon Maemi. The financial sector in particular was beset by growing instability stemming from corporate insolvencies including the SK Global case, as well as liquidity risk-related problems due to an increase in household loan and credit card delinquencies.

The banking industry was hardly immune to these factors, as the nation's large-scale banks registered losses or steep declines in profit levels over the previous year. Owing to the hard work of our management and staff, Pusan Bank managed to buck this trend, realizing generally satisfactory results across most key business performance indicators in 2003. Specifically, we devoted our energies to strengthening sales capabilities, while maintaining and upgrading risk management practices. We continued to reach out to our core client base, the community and companies in our service area of Busan, establishing and strengthening customer relationships on the retail and corporate banking fronts, and expanding our physical presence (branch, ATM & Internet banking networks) in order to be closer to more existing and potential Pusan Bank customers.

As mentioned, 2003 was an especially difficult period for all Korean banks, who saw their net income plunge by 63% on a combined average during the year, largely resulting from mounting household and consumer loan delinquencies. We are therefore reasonably satisfied with Pusan Bank's net income of 121.3 billion won, down just 18% YoY, which signifies a solid performance and demonstrates our earnings strength amid adversity when viewed against the performance of the industry as a whole. Similarly, recognition of Pusan Bank as a sound choice for any stock portfolio also grew, as investors bid our share price up an impressive 45% over the previous year by the market's close of 2003.

In terms of the Bank's key performance indicators, return on equity (ROE) posted a solid 13.91%, our BIS capital adequacy ratio rose to 11.66%, and credit categorized as "substandard or below" improved to a very manageable 1.63%.

The Bank's deposits at year-end 2003 stood at 14,739 billion won, up 8.1% YoY, reflecting the successful development and marketing of new deposit instruments tailored to meet our customers' diverse and ever-changing needs. This included the launch of bancassurance and equity-linked time deposits, as well as a broadening of our PB (Private Banking) facilities and strengthening our VIP Club business for high-transaction customers. We also extended our custody & trust account relationships with Busan Metropolitan City and Busan Board of Education.

Our lending activities in 2003 grew rapidly over the previous year, totaling 9,295.9 billion won in loans for a 16.0% increase

YoY. Contributing most to this rise were our active efforts to extend loans to promising small and medium-sized enterprises, which will help revitalize the local economy, as well as Pusan Bank's involvement in the financing for 10 strategic infrastructure projects in and around the city of Busan, including Geoga Grand Bridge and Shinsun Quay.

The Bank handled a total of \$3.424 billion in combined export and import transactions last year, up 6.0% from 2002. Increased sales activities focused on consignment of export credit guarantees and our ongoing drive to attract new small & medium-sized exporting/importing companies to our client roster were primarily responsible for the higher volume of trade transactions handled by Pusan Bank in 2003.

In the critical area of customer support, we expanded the number of bank branches by 10 to 209 as of the end of 2003, with new outlets strategically positioned at the Noksan National Industrial Complex and other prime locations in the vicinity of Busan. In addition, we installed 154 ATMs, while upgrading the quality and content of our online Internet banking portal for improved customer convenience.

We continued to reinforce our sales capabilities in 2003 by fostering recently-introduced CRM systems, and are currently preparing back office-centered systems that will enhance business rationalization through process innovation.

Honoring our mandate to serve the needs of citizens and companies in our community, Pusan Bank was the first financial institution to establish a local community service organization to conduct voluntary charitable works in the areas where we do business. This, along with our ongoing "Love My Neighborhood 21" Program, helps to reinforce the image of Pusan Bank as more than just a financial institution, but a true partner committed to the growth and development of the region.

As with any company, the true measure of our success lies not in figures or percentages alone, but also in the praise and accolades our achievements have garnered from within and outside our industry.

In 2003, Pusan Bank received the Gold Prize for banking in the "Dasan Financial Awards," co-sponsored by the Ministry of Finance & Economy and *The Maeil Economic Daily Newspaper* and was ranked 2nd among Korea's leading banks by the Financial Supervisory Service's CAEL (capital, assets, earnings &

liquidity) evaluation in recognition of our operational and service excellence.

Pusan Bank was also included in the KODI 50 (Korea Dividend Stock Price Index) as one of few representative financial stocks that consistently maintains high cash-dividend payout rates and, by so doing, promotes long-term stock ownership among Korean investors. We plan to further increase our per-share cash dividends in 2004 to 270 won, thus continuing to reward investors and underscore our shareholder-oriented management philosophy.

Looking to the year ahead, we anticipate continued sluggishness in domestic facilities investment and consumption, coupled with an intensification of competition in our sector from so-called "mega-banks" and financial holding companies, plus new challenges from major international institutions. As we respond to these external circumstances, we will seek to unlock growth potential through internal management initiatives, and have targeted our net income goal for 2004 at 150 billion won via expanded deposit-taking and lending activities.

We will continue to implement gradual steps in our long-term master plan to become a "global model of regional banking," while simultaneously pursuing both immediate and mid-term administrative goals and strategies as planned.

The entire staff and management of Pusan Bank, myself included, stand united and prepared to achieve the goals we have set for 2004, and to work harder than ever to maximize corporate value and earn your support and satisfaction as shareholders.

Let me offer, in closing, my heartfelt wishes for a healthy and prosperous new year.



Shim, Hoon
Chairman of the Board of Directors & President, Pusan Bank

Busan, the second largest city in the Republic of Korea, boasts a population of 3.6 million, or 7.7% of the country's GDP, and its trade volume of \$2.5 billion (based on 3Q 2003 results) constitutes 2.7% of Hong Kong, Singapore and Shanghai in container handling capacity (nearly 10 million TEUs). Busan Railroads.

Economic Conditions

Since 2001, the economy of Busan and its surrounding region has shown positive signs of renewed growth, particularly in the manufacturing areas of shipbuilding, automobiles, machinery and equipment. Normalized operations at Renault/Samsung Motors and Hyundai Motors' increased production have been two key factors contributing to Busan's improved economic outlook. During the foreign currency crisis of the late 1990s, the industrial structure of the Busan economy shifted rapidly towards the production of high-value manufactured items such as specialty steel and automobile parts.

The construction of the Noksan National Industrial Complex - one of Korea's largest - and the growing number of firms establishing operations there have also helped to drive Busan's economic recovery. Also fueling regional growth have been international events including the 2002 World Cup and the Busan Asian Games, which spurred new harbors and urban renewal projects. The recent selection of Busan as host-city for the 2005 ASEM Summit, among other factors, suggests this trend will continue.

Key Drivers of Busan's Economic Recovery

- Start of full-scale production at Renault/Samsung Motors (Sept. 2000) and improved business climate for Hyundai Motors
- Completion of Noksan National Industrial Complex and arrival of resident firms
- New harbor facilities, development of regional telecom complex (Centum City), expanded development due to Busan Asian Games, etc.
- Increase in international conventions (BEXCO)

- Opening of futures market and relocation of KOSPI 200 (due in 2004)
- Development of film industry (Pusan International Film Festival, etc.)
- Economic benefits from hosting of 2002 World Cup and Asian Games
- Designation as location for London Metal Exchange warehouse
- Designation of Busan Port as customs-free zone
- Opening of The Pusan Horse Racing Park.

Main Economic Indices for Busan

Change YoY (%)	2001	2002	2003
Manufacturing Production	7.6	11.3	-1.1
Container Handling	7.1	17.1	10.3
Construction Investment Volume	67.8	88.5	82.8
Exports	-5.6	5.9	0.1

Economic Forecast

During the first eleven months of 2003, in spite of increased exports, the Busan economy experienced a considerable downturn amid sluggish consumption and manufacturing production as a result of rising household debt and credit card default burdens, as well as labor-management friction. Conditions were eased, however, by continued construction investment centering on residential construction, and further growth in the transport storage industry, particularly container handling.

the national total. Its gross regional domestic product (GRDP) of \$29.2 billion represents 6.1% of the national total. One of Northeast Asia's major shipping ports, Busan ranks fourth behind only is also expected to serve as the starting point for the envisioned Trans-Siberian and Trans-Chinese

Despite the challenges facing the regional economy, Busan's GRDP growth managed to stay in positive territory, falling slightly short of Korea's GDP of 2.9% for the year. Commodity prices were moderately higher than the previous year owing to a temporary hike in international oil prices and supply disruptions caused by Typhoon Maemi. The unemployment rate also rose as a result of the overall slump in the broader economy.

Recovery in private consumption in 2004 is expected to be lackluster due to ongoing household debt and credit card delinquencies. However, strong economic growth rates among major trade partners will have a positive impact on local exports and facilities investment, which should further the ongoing recovery of Busan's manufacturing sector. Steady expansion is anticipated for container handling and transport/storage industries. New construction starts were down from the previous year, though projects already in progress will remain active for some time to come.

As a result of these factors, the projected growth rate of GRDP will be higher this year than last at 4.8%, although persistent slower consumption is expected to keep the Busan economy from matching the national projected GDP growth rate of 5.2%. A stabilized won/dollar exchange rate and a cooling of the real estate market should hold inflation to a moderate level, while ongoing recovery in the broader economy and new job creation from the second half of the year will have a positive effect on unemployment.

Manufacturing Production

Manufacturing production will likely remain weak in general, but a rebound in private consumption should help to alleviate the slump in light-industry goods, while stronger growth rates are expected in the production of heavy-industry goods led by ships, automobiles & parts and machinery. On the whole, the light-industry sector is forecast to see a repeat of last year's performance, with heavy industry posting a more robust improvement over 2003 levels.

Construction-related demand for steel and fabricated metals is expected to slow, but as the domestic economy continues its recovery and exports remain brisk, this industry is projected to register a steady overall increase in 2004. Recovering facilities investments by Korean companies and China-led export growth will buoy machinery and equipment production in 2004, though a repetition of last year's phenomenal increase (22.4% for January-October) appears unlikely.

In electronic components, A/V products & telecommunications equipment, including cellular phones, computers and other key items, the rebound in the global IT industry and steadily growing demand for parts is expected to lead to an overall expansion in production. The auto parts industry will likely enjoy a turnaround following last year's sharp drop in domestic demand, while rapid growth in the economies of Korea's major trade partners brightens prospects for a continued surge in export volumes. The Korean shipbuilding industry took in a record number of new orders in 2003, securing enough work to keep local shipyards busy for the next three years. Barring a recurrence of labor-management strife, this industry looks set for another year of solid growth.



Busan Port Container Handling

Following an upturn in global economic growth, the total volume of world trade in 2004 is projected to rise from 3~5% in 2003 to approximately 6~8%. In line with this upbeat forecast, Korea's favorable export and rebounding domestic business activities, the Port of Busan is expected to handle significantly higher export and import volumes this year over last.

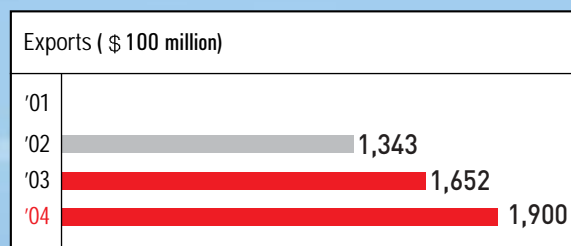
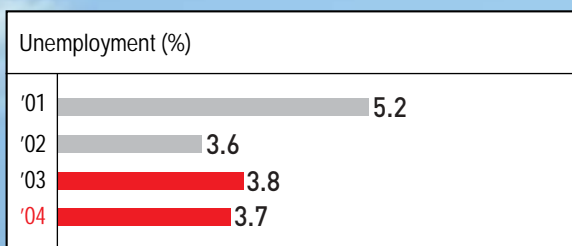
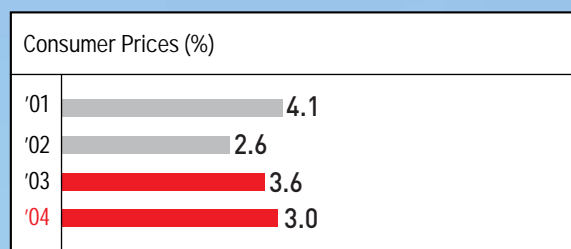
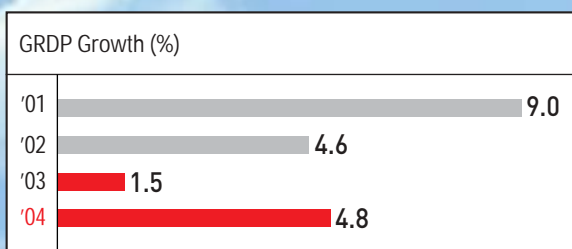
Construction Investment

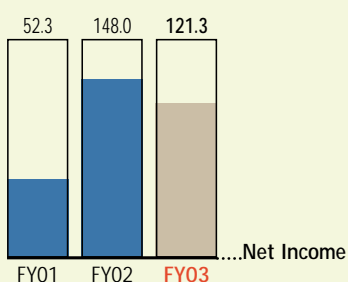
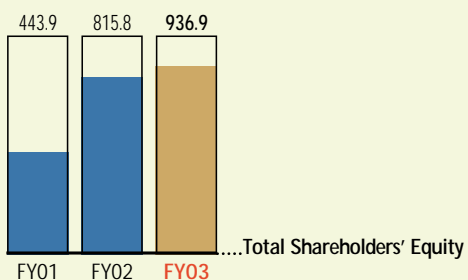
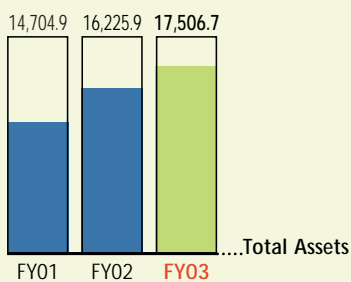
Effective from 2004, government policies aimed at cooling down Korea's overheated housing market include the designation of the city of Busan as a special district subject to limits on speculative construction investment. This designation, together with strengthened real estate-related tax rules and stricter regulatory controls on the housing redevelopment market, will dampen growth in new residential construction orders. Nevertheless, new harbor facilities at the Port of Busan and ancillary roads, the second phase of the Seoul-Busan Expressway, Busan Subway Line 3, and other construction and engineering projects will drive a steady increase in overall orders in 2004.

Main Economic Indices for Busan

Change YoY (%)	2001	2002	2003	2004
GRDP Growth (%)	9.0 (4.5)	4.6 (6.2)	1.5 (2.9)	4.8 (5.2)
Consumer Prices (%)	4.1 (4.1)	2.6 (2.7)	3.6 (3.6)	3.0 (2.9)
Unemployment (%)	5.2 (3.8)	3.6 (3.1)	3.8 (-)	3.7 (-)
Exports (Heavy & Chemical) (\$ 100 million)	-	1,343 (10.4)	1,652 (23.0)	1,900 (15.0)

Note : Figures in parentheses represent national levels; those for 2003 and 2004 are estimated / projected GRDP and GDP rates; export figures in parentheses represent increase over previous year.





For the years ended on December 31.

(In billions of won)

	2003	2002
For the Fiscal Year		
Total Revenues	₩ 1,136.0	₩ 1,115.0
Total Expenses	1,014.7	967
Net Income	121.3	148.0
At Year's End		
Total Assets	17,506.7	16,225.9
Total Deposits	14,073.8	13,023.7
Total Loans	9,296.0	8,014.2
Securities	5,727.5	5,888.3
Shareholders' Equity	936.9	815.8

For the years ended on December 31.

(In millions of US \$)

	2003	2002
For the Fiscal Year		
Total Revenues	\$ 948.4	\$ 928.9
Total Expenses	847.1	805.6
Net Income	101.3	123.3
At Year's End		
Total Assets	14,615.7	13,517.1
Total Deposits	11,749.7	10,849.5
Loan & Bill Discounted	7,760.9	6,676.3
Securities	4,781.7	4,905.3
Shareholders' Equity	782.2	679.6

1) FY2003 : ₩1,197.80, FY2002 : ₩1,200.40 per US\$ 1.00

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

●●●●●
Expanding Growth
Value-based Management

In 2004, Pusan Bank begins the fourth year since declaring its ultimate goal of becoming a "world-class premiere regional bank." This also represents the final year of mid- and long-term management plans that were established in 2002.

Risk factors, both internal and external, have increased from last year to the present. The trend among banks to compete in terms of size continues amid the growing number of post-merger "mega-banks," and the erosion of traditional boundaries between financial institutions is accelerating the pace of diversification of business lines. These ongoing trends indicate major changes in our operating environment this year.

In view of these circumstances, Pusan Bank's business plan for 2004 will be to expand growth potential through value-oriented management strategies, thereby allowing us to respond more flexibly to changes in market factors. In terms of business strategies, we will strengthen our risk management capabilities and aggressively reinforce our value-driven internal management structure. By pursuing the twin goals of profit maximization and expansion of our customer base, we will continue to strive to increase our market share over the mid- to long-term future.

Key strategies put in place to reach these goals include solidifying our revenue-generating base, pursuing sales expansion in tandem with rigorous risk management, building a stable regional sales base, and improving management systems and manpower efficiencies. We have also introduced integrated performance management systems based on the "Balanced Scorecard" concept that will enable the Bank to continuously improve strategic performance and results.

The strong management results recorded in 2002 and 2003 have already provided us with ample potential for the Bank's next stage of growth. During this year as well, we will strengthen sales capabilities and concentrate all core competencies on promoting Pusan Bank as the undisputed central financial institution in the entire Southeast region of Korea.

To do this, we will reassert our firm position in the regional market by strengthening sales activities in Gimhae, Yangsan, Changwon and other key cities with strong economic linkages to Busan and the fast-growing Southeastern Belt region. Specifically, the Bank will concentrate support measures on SMEs in the region to secure its market-leading position, while also greatly expanding export/import-related services in line with Busan and the surrounding area's emergence as Northeast Asia's physical distribution center, and with projected increases in export/import volumes.



Potential Through



Strategy 1 **SOLID BASE FOR REVENUE GENERATION**

Most Korean financial institutions experienced considerable difficulties in maintaining income levels last year, due primarily to mounting household loan and credit card debt problems. According to analysts, the Korean economy should see a modest turn for the better from the latter half of 2004, but certain factors - namely, household debts, credit card delinquencies and financial problems arising at credit card issuers - are expected to remain a burden on the financial sector.

In view of these circumstances, the Bank will continue to place top priority on revenue generation this year. In relation to this, key issues going forward are likely to include securing relevant net interest margins, increasing emphasis on asset management capabilities and quickening pace of business diversification of financial institutions.

We will take cost, profitability, risk, market factors and other determinants into consideration in optimum pricing, and actively manage interest income as a key revenue source.

Directly related to the task of expanding the Bank's revenue base, we will strive to increase capital funding through the marketing of low-cost core deposits aimed at customers with relatively lower sensitivity to interest rates.

To improve funding provision and operation efficiencies, the Bank will prudently expand household credit to qualified borrowers, deal aggressively with potential bad loan accounts, and upgrade credit card assets by growing our roster of high-quality card members. We will also participate in regional project financing to expand long-term, stable capital management.

In a shift from previous business patterns that focused entirely on net interest margins, we will diversify earnings sources from traditional deposit and loan operations into structured investment products, insurance, securities, mobile banking services and other areas in cooperation with our subsidiaries.

Additionally, we will reduce bad-debt depreciation and sales expenses, migrate customers to low-cost delivery channels, introduce cost-cutting back-office systems, and take other steps necessary to reduce our overhead, increase our efficiencies, and strengthen our income base in the year ahead.

01

SOLID BASE FOR REVENUE GENERATION





02



Strategy 2 SALES PROMOTION BASED ON SOUND RISK MANAGEMENT

Relatively high default rates in the consumer loan market are likely to persist throughout 2004, while concerns mount over the possible expansion of credit problems in the domestic demand-oriented SME sector. These trends underscore the importance of sound risk management more than ever before. Therefore, the Bank will place major emphasis this year on strengthening asset management and raising risk management and operational efficiencies.

Bank-wide countermeasures to reduce non-performing loans enabled us to bring our NPL ratio down to 1.35% as of the end of 2003, marking the third consecutive year of improvement in loan portfolio quality. Progress will continue in 2004, with the recently established Credit Restructuring Team spearheading efforts to curtail overdue credit card and household loan debt ratios.

As the economy recovers and plant & equipment investment and production increase, demand for corporate funding is expected to rebound. In response, the Bank will operate an early-warning system for loans to small & medium-sized

enterprises. This system will ensure careful surveillance of credit soundness, incorporating various non-financial information derived from long-term relationships with corporate clients in the loan screening process to prevent insolvencies.

We will improve prior risk detection capabilities by improving response time in identifying patterns related to credit delinquency. Credit risk surveillance and management will be strengthened through optimal operation of the Bank's loan portfolio with analysis based on specific industries and prevailing economic conditions, as well as rigorous verification of creditworthiness.

The Bank will implement a Total Credit Exposure (TCE) system for managing all types of credit, such as loans, securities and beneficiary certificates, extended to each individual borrower. This will alleviate credit risk over-concentration, increase operational efficiency of risk management systems, and enhance managers' and employees' understanding of risk management.



Strategy 3 **STABLE REGIONAL SALES BASE**

03

We will make qualitative changes in our sales strategy by systematically upgrading sales activities through the CRM system established in 2003, and aggressively pursue regional banking niche markets by developing and launching products, services and delivery channels specifically tailored to the needs of our customers in Busan and surrounding areas.

1) Expansion of Loan Market Share

No less important than establishing a solid regional sales base is our strategy to increase earnings by expanding the Bank's lending operations. To spearhead our various efforts aimed at growing the Bank's share of the regional loan market, we created the "Market Share Expansion Team" in January 2004.

companies. The introduction of centralized back-office operations will allow branch employees to focus more on customer relations.

2) Expansion of Regional Sales Network

In conjunction with Busan Metropolitan City's strategy for expansion, the Bank has prepared the "Mid- & Long-term Master Plan to Expand Regional Business Network," which will serve as our vision and roadmap for becoming a world-class regional bank.

Located near Busan are the major industrial and economic cities of Ulsan, Masan, Changwon, Gimhae and Yangsan. Accounting for roughly 70% of the total GRDP (gross regional domestic product) of Gyeongnam Province, these



STABLE REGIONAL SALES BASE

We will strategically allocate the tasks of enlarging the scale and market share of the Bank's loan business among various sections, including system reform, loan product development, and business promotion. At the same time, we will improve loan processes by making maximum use of information and opinions from branches - the direct point of contact with loan customers - and by increasing the authority of branch loan officers in determining individual loan amounts and interest rates. To coincide with the introduction of Western-style mortgage loans in Korea from March 2004, Pusan Bank is concentrating its energies on developing and marketing a new range of loan products and services, including our exclusive long-term mortgage loans. We will also strengthen our project financing business.

In the area of corporate lending, we will soon implement our RM (Relationship Manager) system to more effectively promote corporate banking business, actively participate in SOC project financing, and continue to target companies with excellent credit ratings in our new customer inducement strategies. In the household loan area, we will offer group loans focused on high-quality construction

five cities have large markets and high growth rates, and represent a key focus of the Bank's activities. Along with Busan, these urban centers together constitute the nation's "Southeastern Industry Belt" and enjoy very strong growth potential.

Pusan Bank will implement a phased, long-term plan to consolidate its leadership presence in this promising market, while aggressively monitoring and reducing the risks that can arise in the wake of increased investment.

In the near term, we will focus on building a foundation for market-penetration efforts by strengthening relationships with local government agencies, and through participation in and support for regional events in Yangsan, Gimhae and other cities. Over the mid- to long-term future, we will reinforce localization strategies in the targeted areas by expanding our retail banking infrastructure in the form of new branches and ATMs, and establish a unified business promotion organization directed toward to the entire Southeastern economy.

As management systems become more scientific and advanced with each passing day, the competitiveness of a bank increasingly depends on the caliber of its human resources and its effectiveness in evaluating the performance of all executives and employees.

Following the IMF crisis, Pusan Bank has made steady progress in implementing an advanced management infrastructure designed to strengthen core competencies. This has included improving the Bank's governance structure, introducing a new divisional organization, combining profit and risk management, and adopting performance management and CRM (customer relationship management) systems. We have also placed high priority on

effects, including reducing manpower, by establishing one or two centers to take charge of back-line tasks that do not require significant face-to-face interaction with customers, such as loan management, credit cards, and deposit-related business and logistics.

By centralizing back-office operations, the Bank expects not only considerable cost reductions, but also a major strengthening of sales capabilities, as front-line staff are freed up to concentrate on more value-added areas like customer relations, insurance and funds marketing.

2) Cultivating Human Resources & Promoting Performance-oriented Culture



IMPROVING CORE COMPETENCIES THROUGH EFFICIENT MANAGEMENT & HUMAN RESOURCES

sharpening our edge in the area of human resources by attracting and cultivating professionals with advanced expertise and know-how.

1) Core Management Infrastructure

Despite the relatively short time they have been in effect, changes to the Bank's core management infrastructure have played a pivotal role in improving profitability, portfolio quality and risk management capabilities. Hereafter, we will continue to carefully assess whether time and expense invested in infrastructure changes effectively create or supplement synergy effects. We will also identify any areas that would benefit from further infrastructure improvement. In particular, we are planning to raise sales efficiency by building back-office operations, anticipating dramatic changes in the way branch employees conduct their work. The purpose of back-office operations is to achieve synergy

We will strive to institutionalize a performance-oriented work culture throughout the Bank, enhance job expertise and encourage greater work efficiency through our CDP (Career Development Program), and continue to attract and foster the high caliber of professional manpower that will enable us to succeed in this fast-paced global era.

We are also preparing to launch a comprehensive set of programs including CDP that will motivate specialist employees to demonstrate their abilities and reward them based on their results.

In addition, more systematic divisional and individual performance targets, evaluations and incentives will be developed in order to further the spread of a new performance-oriented culture, and to enhance management efficiency by optimizing profit and risk.



Strategy 4 IMPROVING CORE COMPETENCIES THROUGH EFFICIENT MANAGEMENT & HUMAN RESOURCES



- Concluded an alliance for bancassurance with four life insurers (Samsung, Kyobo, Shinhan, AIG Life) and four nonlife insurers (Samsung, LG, Dongbu, Oriental Fire & Marine).
- Launched stock investment services with Hanwha Securities.
- Concluded project financing agreement for Busan New Harbor construction. (Pusan Bank's participation: 40 billion won. Total financing by four institutions: 245 billion won.)
- Set up operations for handling business incorporation, bad loan collection, etc.
- Selected as "Superior Public Corporation of 2003" by the Korea Stock Exchange.
- Received loan of 6 billion yen (US\$50 million) from the Seoul branch of Sumitomo Mitsui Banking Corp, reflecting global recognition of Pusan Bank's outstanding management ability.
- Entered agreement with Korea Export Insurance Corp. and began issuing export credit bank guarantees.

- Received an upgraded financial strength rating and a "stable" outlook from Moody's. Profitability and capital adequacy were deemed "outstanding," with net interest margin and asset soundness receiving the highest scores.
- Established wholly-owned subsidiary, Pusan Credit Information.
- Completed construction of integrated backup system.
- Concluded contract with Deloitte Consulting of the U.S.
- Concluded joint business agreement with LG Investment & Securities.
- Joined hands with KTF to offer IC chip-based mobile banking service.
- Provided 9.8 billion won in project financing for Geoga Bridge.
- Initiated new performance management system and profit sharing at the department and branch level.
- Entered into agreement with Korea Land Corp. to provide real estate development loans.

2003 at a Glance

Profitability

1. GROWTH

In 2003, the Bank once again increased its market presence in Busan and the surrounding region at the heart of Korea's "Southeastern Economic Belt." Total assets, deposits and credit grew 7.9%, 8.1% and 16%, respectively, year-on-year. Together with these solid increases, the Bank enjoyed the highest market shares of all banks operating in the Busan area in terms of total deposits and total loans with 30.7% and 19.4%, respectively.

2. PROFITABILITY

Pusan Bank recorded a 15.3% increase in income before provisions over 2002 to 330.8 billion won. However, due to the depressed domestic economy, the problem of overdue loans persisted in the consumer finance sector, leading to an 18% contraction in net income from 2002 to 121.3 billion won. ROE last year registered 13.91%, while dividends per share were 270 for a pay-out ratio of 32.7%.

3. FUNDS MANAGEMENT & OPERATING CAPABILITY

Busan Metropolitan City re-designated Pusan Bank to handle the city's budgetary funds for another three years following the expiration of a similar arrangement at the end of October 2003. This achievement was the result of Pusan Bank's external growth and internal financial soundness, as well as the management capabilities of the CEO. The trust that Busan Metropolitan City continues to bestow on the Bank is expected to greatly elevate Pusan Bank's profile in the international banking industry.

4. SHARE VALUE

Pusan Bank's share price at the end of 2003 stood at 6,670 won, up 45% from the 2002 year-end figure of 4,600 won, while foreign share ownership in the Bank rose 26.47%p over the same period from 12.04% to 38.51% of total shares. Behind this significant gain in share price was the common opinion of domestic and overseas investors regarding the Bank's long-term growth prospects, supported by the following factors:

- * Highest market share in the Busan area
- * 3.22% Net Interest Margin, unsurpassed by other commercial banks
- * Superior asset soundness and high capital adequacy



Transparency

Foreign investors owned over 38% of Pusan Bank stock at the end of 2003, reflecting the Bank's strong intrinsic value and high degree of management transparency. Following the IMF crisis, the Bank has devoted continuous efforts to enhancing transparency, putting in place systems to ensure responsible management, strengthening internal controls, and launching aggressive investor relations activities.

1. IMPROVED MANAGEMENT RESPONSIBILITY

The Bank has instituted performance evaluation standards that link rewards to results, with the entire staff from the president to individual managers being subject to performance evaluations. Moreover, to increase the efficiency of the Board of Directors' (BOD) activities and expand the responsibilities and roles of outside directors, evaluation standards specifically for the BOD have been created and evaluations are conducted annually.

The Compensation Committee, comprising all external directors, was established to assign goals for managers and determine results/rewards levels, thereby strengthening the Bank's internal control mechanisms. A stock option program has been introduced to encourage key members of management to focus on long-term results and share price. The level of stock options is geared to management performance, with low performance scores resulting in deferment or withdrawal of rights to exercise stock options. This incentive system has proven extremely effective in promoting stronger commitment to the success of the organization.

2. STRENGTHENED INTERNAL CONTROLS

The introduction of an audit committee system has greatly improved the Bank's overall auditing capabilities, with better internal controls and related policy-setting and surveillance, and greater ability to verify conformance of all types of control systems.

Also designed to bolster internal controls was the introduction and

operation of a comprehensive compliance system, comprising Compliance Officers and the Compliance Team created to support them. The newly implemented compliance system automatically verifies conformity of a given task with the Bank's laws and regulations before the staff carries out the work, thus simultaneously maintaining customer trust and sharpening management competitiveness.

3. DYNAMIC IR ACTIVITIES

To raise shareholder value, Pusan Bank's Investor Relations Team continued to expand the scope and upgrade the content of IR activities in 2003, seeking to provide the investment community at home and abroad with accurate, up-to-date management information quickly and transparently.

During 2003, Pusan Bank carried out a variety of IR activities, including four large-scale management discussion meetings for domestic and international securities analysts and institutional investors, 53 conference calls for foreign investors, and 35 brokerage analyst inquiries.

In 2002, the leading domestic securities finance journals *Edaily* and *Think Money* ranked Pusan Bank fifth among some 1,500 listed or registered companies for superior management transparency. In 2003 as well, the Korea Stock Exchange named Pusan Bank an "Excellent Public Corporation" for our disclosure transparency, and *Money Today* weekly awarded us top honors in the banking category for outstanding IR activities.

Stability

1. ASSET SOUNDNESS

The portion of Pusan Bank's loan portfolio rated "substandard or below" as of year-end 2003 was 1.63%, substantially lower than the 2.80% average for the commercial banking industry and a clear indication of the Bank's outstanding asset soundness. Pusan Bank's strong risk management capabilities and increasingly solid asset base are expected to have a continuing positive impact on share price movements in the future.

2. CAPITAL ADEQUACY

Due to the conversion of 258.2 billion won in bonds with equity warrants at the end of June 2002 and a sharp increase in net income, the Bank's BIS capital adequacy ratio for 2003 was a healthy 11.66%. In addition, our Tier 1 capital ratio of 9.32% was the highest among all Korean banks last year, giving Pusan Bank the soundest capital adequacy structure in the commercial banking industry.

Because of the Bank's optimal capital adequacy ratio, even without additional capital expansion over the next three years, the Bank will still have sufficient loan assets for normal operation. Even when the new, stricter BIS standards are introduced - in 2006 according to current estimates - the Bank is unlikely to experience any problems relating to capital adequacy.

3. IMPROVED MOODY'S RATINGS

In December 2003, Moody's raised its rating on Pusan Bank's financial strength from E+ to D- in view of the Bank's ongoing progress in improving the quality of its asset base. Regarding further upgrades of the Bank's financial ratings, the following factors are believed to exert a favorable influence on Moody's considerations going forward: Pusan Bank's ability to survive independently following the IMF crisis; restructured business network in the Busan area; higher profitability than industry average; and improved income-generating capabilities.

Pusan Bank in the Community

1) Building a Vibrant Busan (Economy & Industry)

The Bank is contributing a total of 160 million won in special aid to help revitalize Busan's 16 main traditional markets and help them overcome the current business slump and other difficulties. Pusan Bank plays an active part in the growth of the Busan economy. Each month, in-depth articles highlighting small & medium-sized firms are featured in the Bank's newsletter, which is distributed to some 200 branches and opinion-leaders. In addition, information on outstanding companies in the region is posted on Pusan Bank's Internet website and in branch lobbies.

2) Building a Busan for One & All (Society & Welfare)

In 2003, Bank management and staff donated nearly 55 million won in flood relief to victims of a typhoon in the Busan area, and also participated in the Christmas Seal drive in an effort to help eradicate tuberculosis, sending five million won in donations to the Busan branch of the Korean National Tuberculosis Association. At the end of last year, employees took part in "Hope 2004," a community support campaign, collecting donations for the Busan Chapter of the Korean Social Welfare Fund through the campaign's media sponsors.

The Busan Cosmos Club donated a total of 30 million won last year in the form of traditional holiday gift-money to 300 needy senior citizens via the Busan branch of the Korea Welfare Foundation. The Cosmos Club is an active social outreach organization that has collected 550 million won in donations from Pusan Bank management and staff over the past 28 years, distributing these funds to the poorer members of the community. Korea's Ministry of Health and Welfare awarded the club a special "group prize" for its valued efforts to improve the well-being of the community.

Pusan Bank was at the forefront of relief efforts directed toward the victims of Typhoon Maemi, which struck the southern half of the country last summer. Over 400 Bank employees worked many hours on the scene helping fellow citizens recover from the devastation wrought by the typhoon.

Seeking to support families headed by minors, the Bank is actively involved with the "True Love Children's Fund" movement, setting up scholarships for 133 such children and extending various assistance and encouragement. Through the "True Love" campaign, the Bank offers support in terms of living conditions, personal consultation and school supplies, assigning one employee from each Bank's branches to organize regular visits and arrange support activities for a total of 147 children.

As the area's largest commercial entity, Pusan Bank is aware of its social responsibility to the Busan region. Designating each second Saturday as "Regional Community Service Day," teams of Bank employees carry out cleanup activities focusing on hiking trails, riversides, swimming resorts, Busan Station, wharves, athletic grounds, historical sites and local museums.

Bank staff pay regular visits to welfare facilities in the community to perform a range of activities, including bathing handicapped children and feeding elderly citizens suffering from mental illness. As of the end of 2003, a total of 8,154 Pusan Bank employees had provided 18,500 hours of loving care and service to our less fortunate fellow citizens.

3) Building a Cultural Busan (Culture & Tourism)

In support of the Busan Board of Education's efforts to promote reading, the Bank sponsored the city's 2nd Annual Book Exchange. Some 10,000 citizens exchanged books they had read for 26,300 new books and 1,000 gift certificates.

We continued to foster civic pride among Busan's citizens through regular articles in the Bank's monthly in-house newsletter, highlighting the rich history and culture of Busan and its surrounding area. The newsletter looks back at Busan's history and its modern-day role as a city of tourism and cinema, while also providing news and updates on current events like theater, music, exhibitions, etc.

Pusan Bank sponsored the 3rd Annual "Subway Music Festival



for Citizens," putting on six performances during a three-week period at Busan Subway's Seo Myeon Transfer Station. Featuring classical Western, traditional Korean and Latin dance performances, the festival was enthusiastically received by the public, enriching the city's cultural life and livening up the daily commute for millions of people.

4) Building a Green Busan (Environment, Green Areas & Amenities)

As a leading institutional promoter of efforts to save the rivers of the Busan area, Pusan Bank launched pollution cleanup projects targeting rivers, mountain gorges and hiking trails in the region. The Bank held the 9th "Children's Environmental Painting Contest" in 2003. Organized with assistance from the Ministry of Environment, this annual event has helped to raise citizens' awareness of the importance of environmental protection since 1995. Last year, the contest drew the participation of 1,546 entrants from 132 schools, making the event a major success. The Bank's staff conducted cleanup efforts at five major beaches that attract countless tourists to Busan each summer, and also participated in similar projects with other community organizations to clean up debris following the devastating typhoon.

To help increase the city's green areas, Pusan Bank contributed to the tree-planting campaign of a local non-profit body by purchasing over 2,500 tree saplings. Employees of Pusan Bank's City Hall branch personally handed out the saplings to customers free of charge.

Together with regional service organizations and in separate programs staged by individual bank branches, Pusan Bank continued to operate traffic safety campaigns at major crosswalks around the city. The Bank also paid for the construction of signboards that will be erected at key intersections throughout the metropolis to encourage various traffic-related safety and conservation campaigns.

5) Building a Busan that Embraces the World (Global Exchange & Commerce)

In the four-nation youth goodwill tournament held to commemorate the first anniversary of the Korea-Japan 2002 World Cup, Pusan Bank took charge of organizing supporters and arranging activities for the Argentine national team. The Argentine players expressed their deep thanks to Pusan Bank for its efforts, which included a welcoming ceremony at the airport, cheerleading during the matches, and any other needed assistance. At the 2003 Busan International Athletic Tournament, held to commemorate the 2002 Busan Asian Games, about 1,000 employees of Pusan Bank and their family members turned out to cheer the participants and assist in the cleanup work afterwards.

Pusan Bank was designated the official bank of the Pusan International Film Festival (PIFF), one of Asia's largest, and a major tourist draw for the city of Busan. The Bank provided support for the development of PIFF's computerized ticket sales system and created other computer infrastructure work. To promote the event, the Bank also established PIFF ticket windows in every branch, set up temporary ticket booths, created special PIFF account books and, as of 2003, donated 55 million won to a fund promoting the development of domestic films.

6) Building a Financially Responsible Busan (Educational Outreach)

The Bank plays a leading role in the financial education of the region's youth. A team of 10 in-house experts is regularly dispatched to schools at all levels to lecture on topics designed to cultivate young students' credit and asset management skills. During summer vacation, Pusan Bank held its "Kids' Finance Camp" for about 100 primary school students, helping the next generation of Koreans better understand the value of money.



Review of Operations

Pursuing both growth and profit maximization, Pusan Bank continues to build a solid foundation for a bright future. With the Busan and regional economy serving as a viable business base, our improving asset soundness and operating results are garnering excellent evaluations from home and abroad.

Thanks to the dedicated efforts of our entire staff and management, as well as the steadfast support and encouragement rendered by our valued shareholders, Pusan Bank accomplished the goals and met the targets we set out for ourselves in 2003. In the year ahead, we shall work harder than ever to exceed these results and achieve ever-greater successes.



Strategy & Financial Planning

ASSESSMENT OF MAJOR INITIATIVES AND GOALS IN 2003

1. Responsive, Profit-Driven Management

In 2003, Pusan Bank monitored operational progress on a monthly basis, analyzing factors that had an impact on net earnings and other key indicators. While conducting monthly progress analysis, the Bank identified factors adversely affecting profits, took relevant action in those areas. To enhance profitability the Bank instituted training programs for branch employees and managers to help them better leverage changes in the Bank's interest rate rules and practices. The Profit Management Committee's report and problems concerning loan interest rate operation were promptly communicated to board members.

2. Sound Profit Structure

The Profit Management Committee was created and began operation last year as part of efforts to solidify the Bank's profit structure. As a result, low-cost deposits at the end of the year accounted for a relatively high 42.77%. Non-interest income represented 16.26% of total operating income for the year. At the same time, for more prompt collection of non-performing loans and to improve the Bank's asset soundness, Pusan Credit Information was established. It has been entrusted with the task of retrieving delinquent loans on behalf of the Bank. Extraordinary loss management, including losses relating to KAMCO repurchases, was strengthened in order to prevent the occurrence of additional extraordinary losses from the middle of this year. Moreover, we have adopted measures to reduce administrative & sales expenses and exercise budgetary discipline over non-compulsory expenditures.

3. Standardized Accounting System

The Bank strictly observes Korean corporate and financial accounting standards and relevant regulations, carrying out professional training for its accounting staff. We regularly verify all accounting-related laws and regulations through various institutional channels including the Korea Accounting Standards Board and the Financial Supervisory Service. We conduct quarterly accounting training events, like the "Corporate Standards Interpretation Seminar," and participated in the Korea Federation of Banks "Accounting Expert Association Workshop." In November of last year, the Bank produced and publicized its own in-house accounting rules, "Comprehensive Measures to Improve Accounting Transparency," which earned the praise of the Korea Stock Exchange.

4. Main Activities of the Strategic Planning Team

The Strategic Planning Team supports the executive management and each of the business divisions in developing, executing and realizing targets and objectives, playing the role of coordinator and controller in ensuring that Pusan Bank remains constantly focused, motivated and results-oriented. The Team is also responsible for devising the Bank's responses to changes in financial policy and market conditions at home and abroad, and supervises the outlining of management principles and special executive directives to ensure their successful execution.

KEY RESULTS OF 2003

1. Improved Corporate Culture

As Pusan Bank strives to consolidate its position as a leading specialized regional bank amid a fast-changing and often turbulent operating environment, great efforts are being made to foster a positive, dynamic corporate culture - one that encourages all employees and managers to realize his or her fullest potential. To achieve this objective, we have selected 30 specific areas for improvement in operations throughout the Bank, such as business strategy, organization, personnel, training, regional relationship-building and performance management, with mid- and long-term tasks that allow us to monitor our progress.

2. Organizational Reforms

Following implementation in March 2001 of a reorganization plan which realigned operations of the Bank's business divisions and included the creation of the Credit Planning Team, we have enjoyed the benefits of greater organizational efficiency and steady revenue creation.

The previous seven business divisions and 35 teams were replaced with a seven-division, 32-team arrangement. The Credit Planning Team was newly established to oversee individual and corporate credit policy, credit risk management and asset soundness, and to strengthen interest rate policy. Corporate and individual banking business, which had been performed jointly by the Planning and Marketing Teams, are now the respective responsibility of the Corporate Banking and Retail Banking Teams.

Furthermore, the recently established Customer Relations Management (CRM)/Private Banking (PB) Support Unit to promote the functions of the Bank's CRM system and branch-based PB network will enable Pusan Bank to more effectively utilize customer information and intensify direct, one-on-one product & service marketing efforts.

Investor Relation

MAJOR PLANS AND RESULTS

1. IR Activities in 2003

The primary focus of Pusan Bank's IR activities in 2003 was the fostering of closer ties with the Korean and foreign investment communities. Through increasingly active IR programs, we sought to highlight the Bank's key strengths, such as the executive capabilities of the CEO, our emphasis on advanced risk management, and the importance of our solid regional economic base as a platform for our ongoing profitability and growth.

* Share Price & Foreign Ownership Ratio

(In won, point, %)

	2002	2003				Change YoY	
	End of Dec.	End of March	End of June	End of Sept.	End of Dec.	Amount	%
Korea Composite Stock Price Index	627.55	535.70	669.93	697.52	810.71	183.16	29.19
Bank Stock Index	152.12	108.86	134.41	146.04	179.69	27.57	18.12
Pusan Bank	4,600	4,800	4,975	5,480	6,670	2,070	45.00
Foreign Ownership Ratio	12.04	20.54	21.07	28.67	38.51	26.47	119.85

IR POLICY & STRATEGY FOR 2004

1. Policy

Preparation and execution of overseas investor relations efforts is the focus of Pusan Bank's IR activities for 2004. We will convey to the market our corporate vision of "realizing growth potential based on strong management fundamentals," and strengthen our business strategies targeted on the city of Busan and Korea's "Southeastern Economic Belt."

By emphasizing the stability of the regional economy, our management's leadership ability and our intrinsic corporate value, we seek to achieve a share price that accurately and fairly reflects Pusan Bank's true strengths and internal competencies. This will require close and constant rapport with, and rapid feedback from the market, which will be utilized in management decision-making. Efforts will be devoted to constructing a richer, more versatile web-based platform for executing the Bank's IR activities over the Internet.

2. Strategy

Strengthen IR for Foreign Investors

The portion of Pusan Bank shares owned by foreign investors grew by 26.47 percentage points from the end of 2002 to the end of 2003, rising from 12.04% to 38.51% of total shares outstanding. In addition, the Bank's stock price has increased in tandem with the expanded ratio of foreign share ownership, demonstrated by a high correlation coefficient of 0.95. This fact underscores the need to maintain close relations with existing core foreign investors and to induce new foreign shareholders. In view of the growing diversity of investments made by an increasing variety of institutions, we will adopt a more proactive IR approach that will include the direct participation of both the Bank's CEO and CFO.

Overseas IR

In conjunction with major foreign brokerage firms, the IR Team plans to organize two or three investor road shows in Hong Kong/Singapore, Europe and the U.S.A. in 2004, hoping to spur interest in Pusan Bank's stock among overseas investors. In conducting our own overseas IR activities, we plan to specifically target potential shareholders preferring and/or already owning banking and financial industry stocks.

Domestic Investor Management

A targeted IR approach will also be used with respect to domestic investors as well, focusing on large and influential core investors, mid- and long-term investment institutions such as the National Pension Fund, Korea Teachers' Pension Fund, and the Korean Federation of Community Credit Cooperatives.



Risk Management

RESULTS FOR 2003

1 Strengthened Credit Risk Management

The Risk Management Team upgraded credit management capabilities in 2003 by analyzing risk/return levels for loan products on a monthly basis, conducting topical reviews and revamping post-loan management activities.

Interest rates applied to loan products have been improved through a new loan rate policy based on close analysis of market

conditions and interest rate trends. The Bank maintained won-based quarterly liquidity above 110% and monthly liquidity gap ratios above -10%. In addition to standard risk criteria applied to the loan decision-making process, loan officers are obligated to conduct liquidity risk evaluations prior to extending large-sum loans. From January 2003, risk factors are analyzed and managed on a monthly basis.



PLANS FOR 2004

1. Improve Pricing, Monitoring & Response

Appropriate calculations of anticipated losses in case of default will be made, with collateral being accurately priced. The branch performance evaluation system will be improved with RAR (risk-adjusted return) indices being applied in evaluating performance results. To enhance our ability to detect in advance potential insolvencies among corporate borrowers, the Bank will implement a "warning flag" index incorporating 45 variables relating to credit risk, while reducing the investigation period to one week.

To improve our loan asset monitoring capabilities, the Bank will revise its methodology for analyzing overdue loan trends and flows on a daily basis, reviewing the overdue loan situation by loan product and borrower and conducting Roll-Rate and Vintage analysis. We will also create forecasting models that will enable our clients to respond promptly and effectively to potential short-term changes in the global marketplace.

2. Enhance Risk Management through ALM

By upgrading the Bank's ALM (Asset/Liability Management) capabilities, we seek to strengthen various analyses, simulations and data management functions, reduce system operation times, and increase the timeliness of analysis.

With the increase in assets vulnerable to constantly fluctuating interest rates, the Bank will seek to strengthen its "mismatch" risk management (i.e., the difference between interest paid on deposits and that earned on loans) and its hedging capabilities.

3. Upgrade Risk Management Systems

In preparation for introducing capital adequacy rules outlined in the New Basel Capital Accord, the Bank will examine the capacity of its infrastructure, and devise an implementation plan based on analysis of a publicized draft plan.

We will also implement a number of measures to enhance market risk management processes. These will include the automation of daily market risk management tasks, raising the accuracy of derivative product evaluations, providing customers with market risk reports via the Internet, and improving our back-testing capabilities.



LOAN RESULTS OF 2003

(In billions of won, %)

	2002	2003 Target	2003 Result	Change YoY		% of Target
				Amount	%	
Loans (in KRW)	7,320.7	8,507.0	8,566.3	1,245.6	17.01	100.70
(Corporate)	(4,842.6)	5,526.0	(5,588.1)	745.5	15.39	101.12
(Household)	(2,123.2)	2,629.0	(2,619.7)	496.5	23.38	99.65
Total loans	7,764.9	9,045.0	9,087.9	1,323.0	17.04	100.47
Payment Guarantees	249.3	216.0	208.1	▲ 41.2	▲ 16.53	96.30
Total Credits	8,014.2	9,261.0	9,296.0	1,281.8	15.99	100.38

Note: Guarantee loans decreased YoY following a change in accounting methods effective December 9, 2002.

MAJOR DEVELOPMENTS IN 2003

1. Customer-oriented Lending

Rules governing Pusan Bank's lending transactions comply with consumer protection guidelines championed by relevant domestic social, industry and financial organizations such as the Korea Consumer Protection Board, Korea Federation of Small and Medium Business, Seoul YMCA, Fair Trade Commission and the Financial Supervisory Service. By ensuring fair and standardized loan transactions, the Bank is doing its part to promote the healthy development of Korea's financial markets.

Adopting these new lending guidelines entailed the enactment or revision of no fewer than 33 different lending provisions, as well as additional training for loan officers in every branch. The positive spillover effect of these new and revised lending procedures on all Bank operations has been considerable.

2. Interest Rate Repricing

As the credit ratings of corporate borrowers fluctuate, we reflect their changing risk levels in the interest we charge on loans. Each month the Bank checks for changes in the borrower's credit rating, enabling us to monitor credit rating upturns and downturns by branch.

3. Loan Review System

In conjunction with establishing the Bank's CRM system, a loan product review system has been created using on-line analytical processing (OLAP) software technology for analyzing customers. This allows bank analysts, managers and executives to quickly access data on individual borrowers classified according to type of customer, credit rating, industry, fund use, loan level, and branch.

4. Uncovering Promising SME Borrowers

As of the end of 2003, Pusan Bank had identified 389 promising small and medium-sized enterprises (SMEs), extending to them a combined total of 748.2 billion won in loans. The Bank will continue in the year ahead to uncover more qualified SMEs and strive to meet their capital needs.

5. Expanded Regional RM System

Last year, Pusan Bank greatly increased its corporate banking presence in the industrial complexes near Pusan and throughout Gyeongnam Province. By expanding its lending operations and appointing 20 Relationship Managers (RMs) in charge of extended corporate loans, the Bank has fostered closer ties with the corporate residents of these complexes.



MAJOR DEVELOPMENTS IN 2003

6. Post-Loan Management

The Bank strives to ensure transparency and objectivity in its lending operations through prudent lending policies and effective post-loan management procedures. Major tasks in this area are monitoring and managing individual loan accounts, individual problem loans (default, repayment, amortization), individual loan

quality, bankwide/approved loan status and loan defaults. Through this system, we have fostered a corporate culture conducive to prudent loan decision-making, strengthened employees' loan capabilities, and built a foundation for individual performance evaluation that will have major positive effects on all areas of the Bank's operations.



MAJOR PLANS FOR 2004

1. Computerized Credit Guarantee

Computerized links between Pusan Bank and credit guarantee fund institutions allows the Bank to issue Letters of Credit Guarantee. Carrying out credit guarantee inspection and application processes is an ideal opportunity for the Bank to identify and establish close relationships with highly creditworthy corporate customers. We plan to further promote our credit guarantee services in conjunction with the creation of our corporate Internet Banking platform.

2. Loan Interest Analysis

To ensure an appropriate loan-deposit interest rate margin, a basis for determining loan interest rates has been prepared. Managing weighted average interest rates by branch enables us to maintain rates at an optimum pricing level. Moreover, by managing interest rates according to fund use, credit rating and loan amount, the Bank can also set appropriate loan rates for all categories of borrowers like large companies, SMEs, small business owners, salaried employees, etc.

Deposit Operations

DEPOSIT RESULTS

(In billions of won, %)

		2002	Change YoY	2003		Change YoY	2004	Change YoY (proj.)
				Target	Results			
Banking Account	Balance	11,256.8	7.79%	12,821.0	12,890.0	14.51%	14,770.0	14.58%
	Average balance	10,907.6	9.37%	12,132.0	12,174.4	11.61%	13,900.0	14.17%
Trust Account	Balance	1,766.9	12.92%	1,003.0	1,183.7	-33.01%	930.0	-21.43%
	Average balance	1,806.7	40.90%	1,364.0	1,422.6	-21.26%	1,020.0	-28.30%
Total Deposits	Balance	13,023.7	8.46%	13,824.0	14,073.7	8.06%	15,700.0	11.56%
	Average balance	12,714.3	12.96%	13,496.0	13,597.0	6.94%	14,920.0	9.73%

Re-contracting with Busan Metropolitan Government to handle the city's budgetary and education funds (Jan. 1, 2004 ~ Dec. 31, 2006) and new inducement of the city's administrative funds will help Pusan Bank maximize its NIM.

CUSTOMER SERVICE

1. Service Monitoring System

Twice a month, service monitors make on-site inspections of branches to monitor the level of service that customers are receiving in their face-to-face and telephone interactions with Bank personnel. The results of these inspections are announced and incorporated into the Key Performance Index of each branch. Problems or deficiencies found in customer service operations are addressed in a timely fashion.

2. Customer Satisfaction Index

Pusan Bank enlists the professional services of the well-respected Nice Research & Consulting twice each year for the purpose of conducting our Customer Satisfaction Index (CSI). Through the CSI, we are better able to ascertain customers' needs and demands, and also identify areas that require improvement. These findings are then reflected in management decision-making. As a direct result of the Bank's effective utilization of CSI, we have enjoyed a steady increase in customer loyalty ratings (53.3% in 2H 2002, 54.3% in 1H 2003, and 57.6% in 2H 2003).

3. Customer Response Forecasting

In cultivating a customer service mindset among all Bank employees, we forecast key issues recurring at the same time each year and factors that adversely impact customer satisfaction. The forecasting period is from the 25th to the last day of every month.

4. Excellent Customer Services, Minimal Complaints

In Korea, the Financial Supervisory Service surveys and publicizes customer complaint totals for all financial institutions twice a year. As these reports demonstrate, Pusan Bank is firmly committed to ensuring superior customer satisfaction, enjoying an extremely low instance of customer complaints. The Bank recorded the second fewest complaints in 2H 2001, 1H 2002, and 1H 2003, while registering the lowest number in the entire banking industry in 2H 2002.

5. Top Honors for Customer Satisfaction

Pusan Bank earned top honors for "service innovation" in the Korea Management Association's 11th Customer Satisfaction Management Awards on November 19, 2003. This achievement was all the more significant as it was a first for a regional bank.



FOREIGN EXCHANGE DEALING

The Bank seeks to activate Interbank Dealing operations by strengthening ties with dealers at domestic and overseas banking institutions, conducting market analysis and gathering market trend information, and expanding credit lines with foreign banks. Our Corporate Desk conducts treasury corporate sales through specialist derivatives dealers and performs direct marketing and consulting services for corporate clients. Corporate dealers make four or more on-site visits each year to individual companies in Busan and throughout Gyeongnam Province.

Creating a platform for the full-scale operation of derivative transactions is another key activity of the International Banking Team, which establishes or revises regulations governing all types of derivative products. Systems development for the handling of derivative transactions is also underway in cooperation with the Bank's IT Operation Team, and advertising and marketing efforts are being made to tailor products to specific customer groups.

FX RISK MANAGEMENT SEMINAR

This year Pusan Bank plans to hold its fourth annual FX-seminar in response to our customers' growing needs for advanced exchange rate risk-hedging solutions. Schedule for the second quarter of 2004 at a venue in Busan, the seminar will cover such topics as recent exchange rate trends and exchange rate risk-hedging strategies. The event will also enable the Bank to enhance its image and forge closer relations with corporate customers.

The seminar will feature guest lecturers invited from the Bank of Korea, Korea International Finance Center, etc., as well as experts

from Pusan Bank's own staff. Invitations to attend the seminar will be sent to staff and section managers of the Bank's 50 biggest corporate clients in terms of export/import transactions. We use this seminar as opportunity to publicize our growing lineup of exchange rate-related products, including treasury corporate sales, like FX futures, options, swaps, etc. The Bank's exchange risk staff and corporate dealers provide consultation on exchange rate information to seminar invitees. By providing our clients with proactive solutions to issues and problems related to foreign exchange, the Bank hopes to improve client companies' bottom lines.

CULTIVATION OF OVERSEAS AREA SPECIALISTS

Pusan Bank's experienced area specialists provide a variety of services, including trade transaction dispute settlement and information on in-country financial markets, for customers with overseas operations and customers looking to invest offshore. In gathering information on local financial environments, the Bank also conducts preparations for establishing representative offices

and branches overseas. With many of our customers setting up operations in China and other foreign destinations, the Bank has made a commitment to improve and expand the language skills of employees and their knowledge of local financial environments in various countries.



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MANAGEMENT'S DISCUSSION & ANALYSIS

<i>Key Financial Data</i>			
	(In billions of won, %)		
	2003	2002	2001
Operating Results			
Operating Revenues	1,093.6	1,093.4	1,103.5
Net Interest Income	478.0	435.8	342.8
Operating Income	136.2	200.6	77.2
Net Income	121.3	148.0	52.3
Per Share Data (won)			
Dividend Per Common Share	270	300	0
Earning Per Common Share	827	1187	550
Profitability Ratios			
ROA	0.79	1.09	0.42
ROE	13.01	20.09	12.00
Net Interest Margin	3.22	3.39	2.87
Net Interest Spread	3.86	4.05	3.66
Balance Sheet Data at Year's End			
Total Assets*	17,506.7	16,225.9	14,564.3
Total Credit*	9,296.0	8,014.2	6,496.3
Total Deposits*	14,073.8	13,023.7	12,008.4
Securities*	5,727.5	5,888.3	5,831.2
Shareholders' Equity	936.9	815.8	443.9
Asset Quality Ratios			
Loan Loss Provision/SBLs	89.9	83.7	54.2
SBLs/Total Credit	1.63	2.22	3.73
Capital Ratios at Year's End			
Total Capital Ratio	11.66	11.69	10.26
Tier 1 Capital	9.32	9.21	6.58
Tier 2 Capital	2.39	3.06	4.01

* Includes trust accounts

Overview

The Korean economy in 2003 was characterized by delayed recovery due to slow domestic demand and continued low-interest rates amid sluggish investment. Indeed, exports constituted the only bright spot among the generally depressing figures for the economy as a whole. The economy of Busan and the surrounding region was no exception to the overall slump, which dampened business activities of economic players there. Despite an increase in exports, consumer spending was down sharply owing to persisting household and credit card debt problems, while production in the manufacturing sector declined. However, some sectors did show signs of recovery: investment in construction continued to grow, led by residential construction projects, and the freighting and warehousing business was brisk thanks to increased exports, particularly of containers.

In spite of weak spending and lower interest rates, most of the Bank's business performance indicators showed considerable improvement or at least maintained the levels of 2002. Operating revenue was ₩1,093.6 billion, a slight increase from the previous year despite low interest rates, while lower interest expenses contributed to a ₩42.2 billion gain over 2002 in net interest income, which rose to ₩478.0 billion. However, rising bad debt expenses owing to increased non-performing loans resulted in a moderate decline in net income to ₩121.3 billion. Despite the decrease in net income from the previous year, dividends per share of ₩270 were maintained at levels similar to 2002. Despite an increase in net income before provisions, the decline in net income from higher bad debt expenses led to reductions in ROA and ROE of 0.30%P and 7.08%P to 0.79% and 13.01%, respectively.



MANAGEMENT'S DISCUSSION & ANALYSIS

Net interest margin fell 0.17%P year on year to 3.22%, while net interest spread contracted 0.19%P to 3.86%. Total assets including trust accounts rose ₩1,280.8 billion from 2002 to ₩1,750.7 billion, up 7.9%.

In terms the scale of operations, too, the Bank achieved solid results, with total credit standing at ₩9,296.0 billion, up ₩1,281.8 billion, and total deposits reaching ₩14,073.8 billion, a rise of ₩1,050.1 billion. Meanwhile, loans rated substandard and below (SBLs) have declined dramatically over the past two years. The share of SBLs to total credit shrank 0.59%P year on year, accounting for just 1.63%. Despite recording higher net income, increased operations led to a rise in risk-weighted assets and, as a result, a slight 0.03%P decline in the Bank's BIS capital adequacy ratio to 11.66% as of the end of 2003.

Net Income

Operating revenue for 2003 grew slightly from the previous year to register ₩1,093.6 billion, up ₩0.2 billion, despite a 7.2% hike (₩64.6 billion) in operating expenses to ₩957.4 billion. In line with this, operating income fell ₩64.4 billion compared to the previous year to ₩136.2 billion. As for non-operating income, non-operating revenue rose owing to gains on sales of trading securities, and non-operating expenses recorded a loss of ₩9.9 billion (a year-on-year improvement of ₩42.7 billion) following a sharp decline in impairment loss on trading securities. A ₩5.0 billion income tax expense occurred due to one-time adjustment for accumulated taxable income. As a result, net income for the year was ₩121.3 billion, a decrease of ₩26.7 billion compared to that of the previous year. This contraction in net income, which was recorded despite higher net interest and fee & commission incomes, is attributed to an increase in bad-debt expenses following a surge in credit card and household loan default rates, and an increase in sales, general & administrative expenses including payroll. Also, income from trust accounts declined, affected by lower trust fees following a reduction in trust assets.

Profit & Loss Summary

(In billions of won, %)

	2003	2002	Change YoY	
			Amount	%
Operating Revenues	1,093.6	1,093.4	0.2	0.0
Operating Expenses	957.4	892.8	64.6	7.2
Operating Income	136.2	200.6	-64.4	-32.1
Non-Operating Income	-9.9	-52.6	42.7	-81.2
Ordinary Income	126.3	148.0	-21.7	-14.7
Extraordinary Gains	0.0	0.0	0.0	0.0
Income Tax Expenses	5.0	0.0	5.0	0.0
Net Income	121.3	148.0	-26.7	-18.0

Profit & Loss by Sector

Operating income in 2003 was ₩136.2 billion, showing a marked decrease of 32.1%, or ₩64.4 billion, from 2002. Reviewing profit and loss by sector, interest income rose 9.7%, or ₩42.2 billion, to ₩478.0 billion. Interest revenues rose sharply from the previous year, and interest expenses recorded fell substantially year on year. Net commission & fee income expanded 3.7% or ₩3.6 billion to ₩101.5 billion. The trust sector continued to record positive figures, but revenue from trusts fell dramatically by ₩18.0 billion to ₩14.5 billion amid declining trust fees due to a reduction in trust assets. Other operating income, including gains or losses on marketable securities and derivatives, and various bad debt expenses, was -₩191.7 billion, reflecting ₩67.5 billion in additional losses over 2002. Of this figure, bad debt expenses accounted for a loss of ₩175.6 billion, up 58.6% or ₩64.9 billion from a year earlier. The sharp increase in bad debt expenses is explained by the Bank's effort to write off bad debts and provision against future bad debt due to an increase in credit card and household loan delinquencies. Sales, general and administrative expenses were ₩266.1 billion, up ₩24.7 billion or 10.2% year on year, mostly due to higher personnel expenses including salaries.

Net Interest Income

(In billions of won, %)

	2003	2002	Change YoY	
			Amount	%
Net Interest Income	478.0	435.8	42.2	9.7
Interest Revenues	914.6	906.1	8.5	0.9
Interest Expenses	436.6	470.3	-33.7	-7.2
Net Commission & Fee Income	101.5	97.9	3.6	3.7
Trust Revenues	14.5	32.5	-18.0	-55.4
Trust Fees	14.4	32.5	-18.1	-55.7
Other Operating Income	-191.7	-124.2	-67.5	54.3
Amount Before Loan Loss Provisions	-175.6	-110.7	-64.9	58.6
SG&A	24.7	241.4	266.1	10.2
Operating Income	136.2	200.6	-64.4	-32.1

Net Interest Income

Despite prevailing low market interest rates, interest revenue for 2003 grew 0.9% over the previous year, rising ₩8.5 billion to ₩914.6 billion due to the Bank's efforts to expand the scale of its operations. Interest expenses were down 7.2%, or ₩33.7 billion to ₩436.6 billion. As a result, net interest income rose 9.7% year on year, up ₩42.2 billion to ₩478.0 billion.

By source of interest revenue, interest on loans reached ₩626.6 billion, jumping 8.2% or ₩47.4 billion from the previous year. Interest on securities recorded ₩260.8 billion, a ₩36.1 billion decrease from the previous year. Interest on due from banks amounted to ₩18.7 billion, down ₩0.1 billion from 2002. The declines in interest revenue from marketable securities and bank deposits reflected lower market interest rates. As for interest expenses, interest on deposits fell 5.0% or ₩18.9 billion to ₩356.9 billion, and interest on borrowings and debentures was ₩69.6 billion, down ₩8.2 billion.

Interest Income Structure

(In billions of won, %)

	2003	2002	Change YoY	
			Amount	%
Interest Revenues	914.6	906.1	8.5	0.9
Interest on Loans	626.6	579.2	47.4	8.2
Interest on Securities	260.8	296.9	-36.1	-12.2
Interest on Due from Banks	18.7	18.8	-0.1	-0.5
Other	8.5	8.5	-2.7	-24.1
Interest Expenses	436.6	470.3	-33.7	-7.2
Interest on Deposits	356.9	375.8	-18.9	-5.0
Interest on Borrowings and Debentures	69.6	75.8	-6.2	-8.2
Other	10.1	18.7	-8.6	-46.0
Net Interest Income	478.0	435.8	42.2	9.7



MANAGEMENT'S DISCUSSION & ANALYSIS

Net Interest Spread & Net Interest Margin

Lower market interest rates in 2003 reduced the average rate the Bank earned on loans by 0.62%P to 7.20%. Meanwhile, the average interest charged by the Bank on loans fell by 0.44%P to 3.33%. As a result, the net interest spread declined from 0.19%P to 3.86%.

Interest-earning assets on an average-balance basis increased by ₩1,611.6 billion over 2002 to ₩13,580.8 billion, up 13.5% YoY, while net interest revenue rose by ₩30.7 billion to record ₩437.0 billion. This led to a 0.17%P decline in NIM year on year to 3.22%. Excluding KAMCO repurchase expenses and other extraordinary expense items, NIM was 3.23% for the year.

These minimal declines in net interest spread and net interest margin, despite lower market interest rates in general, are attributed to an expansion in the Bank's low-cost deposits. The Bank's deposits last year totaled ₩12,174.4 billion, an increase of ₩1,266.6 billion or 11.6% over 2002, while low-cost deposit products rose 12.6%, up ₩583.5 billion to ₩5,206.4 billion year on year. This resulted in a 0.38%P increase in the portion of low-cost deposits to 42.76% of total deposits.

Net Interest Margin & Net Interest Spread

(In billions of won, %)

	2003	2002	Change YoY	
			Amount	%
Interest-earning Assets (average balance)	13,580.8	11,969.2	1,611.6	13.5
Interest Revenues*	892.6	885.3	7.3	0.8
Interest Expenses*	455.6	479.0	-23.4	-4.9
(KAMCO Repurchase Expenses)	1.6	7.9	-6.3	-79.7
Net Interest Revenues	437.0	406.3	30.7	7.6
NIM 1	3.22	3.39	-0.17	-5.0
NIM 2**	3.23	3.46	-0.23	-6.6
Won-currency Loans	7.20	7.82	-0.62	-7.9
Household Loans	7.46	8.34	-0.88	-10.6
Corporate Loans	6.79	7.41	-0.62	-8.4
Average Interest on Won-currency Deposits	3.33	3.77	-0.44	-11.7
Net Interest Spread	3.86	4.05	-0.19	-4.7

* Other items have been added to or subtracted from the interest revenue and expenses shown in the Income Statement.

** NIM 2 shows NIM 1 minus the interest expenses related to the repurchase of loans from KAMCO.

Commission & Fee Income

The main contributors to commission & fee revenue are won-currency commissions received and commissions from credit cards. Commissions from credit cards decreased ₩2.9 billion from 2002 to ₩60.7 billion, while won-currency commissions received rose by ₩7.5 billion to record ₩47.9 billion. As a result, commission & fee revenue increased by ₩3.7 billion or 3.2% YoY to ₩120.5 billion. Commission expenses inched up ₩0.1 billion to ₩19.0 billion won. This produced a 3.7% rise in net commission & fee income, up by ₩3.6 billion to ₩101.5 billion for the year. The principal factor behind the growth in net commission & fee income was the increase in won-currency commissions received, which served to offset the smaller decline in commissions on credit cards.

<i>Commission & Fee Income</i>		(In billions of won, %)		
	2003	2002	Change YoY	
			Amount	%
Commission Revenues	120.5	116.8	3.7	3.2
Won-currency Commissions	47.9	40.4	7.5	18.6
Foreign-currency Commissions	9.5	9.6	-0.1	-1.0
Commissions on Credit Cards	60.7	63.6	-2.9	-4.6
Guarantee Fees and Other	2.4	3.2	-0.8	-25.0
Commission Expenses	19.0	18.9	0.1	0.5
Commissions (won & foreign currency)	7.0	7.8	-0.8	-10.3
Commission on Credit Cards	12.0	11.1	0.9	8.1
Net commission & fee income	101.5	97.9	3.6	3.7

Selling & Administrative Expenses

The Bank's total selling & administrative expenses in 2003 were ₩266.1 billion, up 10.2% YoY or ₩24.7 billion over 2002. Salary payments, which made up the bulk of such expenses, rose 14.9% over the previous year, increasing ₩12.1 billion to ₩93.2 billion. Of the remaining expenses, severance payments and depreciation grew by ₩3.6 billion and ₩3.3 billion, respectively, over 2002 to record ₩30.0 billion and ₩26.4 billion.

Selling & administrative expenses are primarily fixed costs like wage payments and administrative costs. Selling & administrative expenses plus net operating income plus provision for loan losses constitute, collectively, "adjusted operating income." By dividing adjusted operating income by selling & administrative expenses gives us "cost income ratio." The Bank's cost income ratio rose 1.78%P from 43.68% in 2002 to 45.46% in 2003. This indicates that the increase in selling & administrative expenses outpaced the increase in operating income last year, which was due to the hike in personnel expenses discussed previously.

Cost Income Ratio

(In billions of won, %)

	2003	2002	Change YoY	
			Amount	%
Net Operating Income (a)	136.2	200.6	-64.4	-32.1
Selling & Administrative Expenses (b)	266.1	241.4	24.7	10.2
Provision for Loan Losses (c)	183.1	110.7	72.4	65.4
Adjusted Operating Income (d=a+b+c)	585.4	552.7	32.7	5.9
Cost Income Ratio (b/d)	45.46	43.68	1.78	4.1

Securities

The Bank's securities portfolios consist of won- and foreign-currency bonds, stocks, beneficiary certificates, and other instruments, and are classified according to objective and period into trading securities, available-for-sale securities, held-to-maturity securities, and equity method securities.

Total securities grew 8.3% (₩355.3 billion) year on year to ₩4,634.2 billion. Investment securities, which account for the bulk of this total, rose 11.8% (₩456.8 billion) in 2003 to ₩4,319.1 billion. Finance debentures, comprising the largest portion of all investment securities, increased ₩723.7 billion to ₩1,899.8 billion, reflecting a hefty 61.5% gain year on year. Government-financed bonds, which had represented the largest share of investment securities in 2002, contracted sharply in 2003 by ₩377.7 billion, or 26.4%, to ₩1,053.0 billion. Meanwhile, government bonds expanded ₩120.8 billion to ₩575.2 billion. Although won-currency bonds posted a sizeable gain, bonds in foreign currency turned in a smaller increase of ₩4.0 billion to ₩43.0 billion, stocks fell ₩26.2 billion to ₩80.7 billion, and beneficiary certificates were down ₩99.5 billion to record ₩166.9 billion.



MANAGEMENT'S DISCUSSION & ANALYSIS

Securities Portfolio - Banking Account

(In billions of won, %)

			Change YoY	
	2003	2002	Amount	%
Investment Securities	4,319.1	3,862.3	456.8	11.8
Government Bonds	575.2	454.4	120.8	26.6
Finance Debentures	1,899.8	1,176.1	723.7	61.5
Local Government Bonds	359.6	425.1	-65.5	-15.4
Government-financed Bonds	1,053.0	1,430.7	-377.7	-26.4
Corporate Bonds	431.5	376.0	55.5	14.8
Bonds in Foreign Currency	43.0	39.0	4.0	10.3
Stocks	80.7	106.9	-26.2	-24.5
Beneficiary Certificates	166.9	266.4	-99.5	-37.3
Bond-type	166.9	207.2	-40.3	-19.4
Stock-type	0.0	59.2	-59.2	-100.0
Other	24.5	4.3	20.2	469.8
Total	4,634.2	4,278.9	355.3	8.3

Income Before Provisions

In 2003, the Bank's income before provisions rose by ₩43.8 billion to ₩330.8 billion, up 15.3% from the previous year. Total provisions registered a ₩65.6 billion increase over 2002 to ₩204.5 billion, of which provisions for loan losses were ₩175.7 billion, up ₩57.9 billion. Although income before provisions was up amid favorable business conditions, aggressive provisioning against bad debts resulted in a ₩26.7 billion contraction in net income to ₩121.3 billion.

Income Before Provisions

(In billions of won, %)

			Change YoY	
	2003	2002	Amount	%
Income Before Provisions	330.8	287.0	43.8	15.3
Total Provisions	204.5	138.9	65.6	47.2
Provisions for Loan Losses	175.7	117.8	57.9	49.2
Income Tax	5.0	0.0	5.0	0.0
Net Income	121.3	148.0	-26.7	-18.0

Asset Portfolio

The Bank's total assets as of the end of 2003 stood at ₩16,354.6 billion, up ₩1,818.0 billion for a 12.5% gain year on year. Compared with 2002, loans and securities posted the largest increases, while cash & due from banks was down slightly. Loans rose 14.7% (₩1,237.2 billion) over 2002 to record ₩9,675.2 billion, while this asset category saw its share of the Bank's total asset portfolio rise 1.1%P to 59.2% in 2003. Securities rose by ₩355.3 billion to register ₩4,634.2 billion, though the 8.3% rate of increase was lower than that for total assets, and securities as a portion of the asset portfolio declined by 1.1%P year on year to 28.3%. Meanwhile, cash & due from banks fell ₩117.9 billion to ₩921.9 billion, with its share of total assets likewise contracting 1.6%P to 5.6% at 2003 year-end.

Asset Portfolio (Bank Account)

(In billions of won, %)

	2003		2002		Change YoY	
	Amount	%	Amount	%	Amount	%
Cash & Due from Banks	921.9	5.6	1,039.8	7.2	-117.9	-11.3
Securities	4,634.2	28.3	4,278.9	29.4	355.3	8.3
Loans	9,675.2	59.2	8,438.0	58.1	1,237.2	14.7
Other Assets	1,123.3	6.9	779.9	5.4	343.4	44.0
Total	16,354.6	100.0	14,536.6	100.0	1,818.0	12.5

Loans

By the end of 2003, won-currency loans had risen by ₩1,245.6 billion to ₩8,566.3 billion, up 17.0% year on year. By category, loans to households and small & medium-sized enterprises (SMEs) showed a significant increase over the previous year, while loans to large corporations posted a smaller gain. Household loans rose ₩496.5 billion to ₩2,619.7 billion for a 23.4% increase. SME loans grew by 15.9% (₩714.9 billion) to ₩5,206.6 billion year on year, a slightly slower increase than that recorded by total loans. As a portion of the Bank's total won-currency loan portfolio, the share of SME loans fell by 0.6%P, while the share of household loans expanded 1.6%P year on year to 30.6%. Meanwhile, loans to large corporations increased a modest 3.6% YoY (₩30.6 billion) to ₩381.5 billion.

Won-currency Loans

(In billions of won, %)

	2003		2002		Change YoY	
	Amount	%	Amount	%	Amount	%
To Households	2,619.7	30.6	2,123.2	29.0	496.5	23.4
To SMEs	5,206.6	60.8	4,491.7	61.4	714.9	15.9
To Large Corporations	381.5	4.5	350.9	4.8	30.6	8.7
Other	358.5	4.2	354.9	4.9	3.6	1.0
Total	8,566.3	100.0	7,320.7	100.0	1,245.6	17.0

Asset Soundness & Provision for Loan Losses

Total loans outstanding at the end of 2003 amounted to ₩9,747.9 billion, up 12.2% (₩1,062.5 billion) year on year. The amount of loans rated substandard or below (SBLs) declined by ₩34.4 billion won to ₩158.6 billion, with the SBL ratio contracting 0.60%P from 2002 to 1.63%. Meanwhile, the Bank's active write-downs of non-performing loans resulted in a ₩13.8 billion reduction in the amount of provisions to ₩142.0 billion. Owing to the sharp decrease in SBLs, the loan loss reserve coverage ratio - total provisions/SBL provisions - increased 6.2%P by 2003 year-end to 89.9%. Greater precautions against loan delinquencies contributed to the decrease in bad loans and improvement in coverage ratio. These included strengthened risk management measures, such as thorough credit evaluation in handling SME loan applications, quarterly loan reviews, and the entrusting of loan decisions to the Loan Committee rather than to individual branches. The Bank also sought to reduce problem loans by reflecting industry forecasts, economic fluctuations and other factors in flexibly assessing credit ratings of potential borrowers.

Classification of Asset Soundness

(In billions of won, %)

	2003	2002	Change YoY	
			Amount	%
Total Loans	9,747.9	8,685.4	1,062.5	12.2
Normal	9,379.1	8,277.4	1,101.7	13.3
Precautionary	210.2	215.0	-4.8	-2.2
Substandard	101.1	140.0	-38.9	-27.8
Doubtful	43.0	35.2	7.8	22.2
Estimated Loss	14.5	17.8	-3.3	-18.5
Substandard & Below	158.6	193.0	-34.4	-17.8
Precautionary & Below	368.8	408.0	-39.2	-9.6
Substandard & Below Ratio	1.63	2.22	-0.60	-26.8
Precautionary & Below Ratio	3.78	4.70	-0.91	-19.5
Provisions	142.0	155.8	-13.8	-8.9
Provisions / Substandard & Below	89.9	83.7	6.21	7.4



MANAGEMENT'S DISCUSSION & ANALYSIS

Liabilities

The Bank's total liabilities as of the end of 2003 were ₩15,417.7 billion, up 12.4% or ₩1,696.9 billion year on year. By far the largest portion of liabilities were deposits, which accounted for 80.1% of the total, reflecting a 0.8%P decrease from 2002. Deposits amounted to ₩12,351.9 billion at year-end 2003, posting a gain of ₩1,249.3 billion, or 11.3%, from the previous year. Borrowings jumped 25.4% year on year, rising ₩386.2 billion to ₩1,905.7 billion. The share of borrowings in total liabilities inched up 1.3%P to 12.4%.

Liabilities

(In billions of won, %)

	2003		2002		Change YoY	
	Amount	%	Amount	%	Amount	%
Deposits	12,351.9	80.1	11,102.6	80.9	1,249.3	11.3
Borrowings	1,905.7	12.4	1,519.5	11.1	386.2	25.4
Debentures Issued	200.0	1.3	200.0	1.5	0.0	0.0
Other	960.1	6.2	898.7	6.6	61.4	6.8
Total	15,417.7	100.0	13,720.8	100.0	1,696.9	12.4

Capital Adequacy

At the end of 2003, the Bank's core capital amounted to ₩876.5 billion, reflecting a 10.5% increase of ₩83.6 billion year on year. Supplementary capital, on the other hand, posted a 14.8% decrease, falling ₩38.9 billion to ₩224.8 billion. As a result of these changes, total equity capital rose 8.9% YoY climbing ₩90.0 billion to ₩1,096.4 billion. Due to the Bank's expanded operations, risk-weighted assets grew ₩796.7 billion to ₩9,406.4 billion, up 9.3% over 2002. The combined effect of the increases in equity capital and risk-weighted assets was to maintain the Bank's BIS capital adequacy ratio at the previous year's level of 11.66%, well above the Financial Supervisory Service's 8% requirement and, once again, the highest in the industry.

BIS Capital Adequacy Ratio

(In billions of won, %)

	2003	2002	Change YoY	
			Amount	%
Core Capital	876.5	792.9	83.6	10.5
Supplementary Capital	224.8	263.7	-38.9	-14.8
Contributions to Unconsolidated Subsidiaries	4.9	50.2	-45.3	-90.2
Total Equity Capital	1,096.4	1,006.4	90.0	8.9
Risk-weighted Assets	9,406.4	8,609.7	796.7	9.3
Tier 1 Capital	9.32	9.21	0.11	1.2
Tier 2 Capital	2.39	3.06	-0.67	-22.0
BIS Capital Ratio	11.66	11.69	-0.03	-0.3



Young Wha Corporation
 7-14th Floors Regent Securities Bldg.
 25-15, Yoido-Dong Youngdeungpo-Ku,
 Seoul, Korea

783-1100
 Fax : 783-5890, 785-6991
 786-6956, 786-6957
 761-5084, 783-4866

Phone : 3787-6600, 3787-6800

The Board of Directors and Stockholders Pusan Bank

We have audited the accompanying balance sheets of Pusan Bank ("the Bank") at December 31, 2003 and 2002, 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, 2003 and 2002, 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 15, 2004

This audit report is effective as of January 15, 2004, 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

December 31, 2003 and 2002

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2003	2002	2003	
ASSETS				
Cash and due from banks (Notes 3, 17, 18 and 19)	₩ 921,938	₩ 1,039,837	\$ 769,693	
Securities (Notes 4, 18 and 19)	4,634,232	4,278,938	3,868,953	
Loans including bills discounted and call loans, less allowance for loan losses and present value discount (Notes 5, 13, 18 and 19)	9,675,193	8,438,031	8,077,470	
Fixed assets, net (Note 6)	334,238	328,464	279,043	
Other assets (Notes 7 and 18)	788,970	451,379	658,683	
Total assets	₩ 16,354,571	₩ 14,536,649	\$ 13,653,841	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits from customers (Notes 8, 18 and 19)	₩ 12,351,886	₩ 11,102,638	\$ 10,312,144	
Borrowings (Notes 9, 18 and 19)	1,905,683	1,519,501	1,590,986	
Debentures issued (Note 10)	200,030	200,030	166,998	
Other liabilities:				
Severance and retirement benefits	5,575	12,769	4,654	
Due to Trust Accounts	511,624	412,488	427,136	
Other liabilities (Notes 11, 18 and 19)	442,870	429,418	369,736	
	960,069	854,675	801,527	
Total liabilities	15,417,668	13,676,844	12,871,655	
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, 2003 and 2002	733,418	733,418	612,304	
Retained earnings:				
Legal reserve	14,803	-	12,358	
Voluntary reserve	52,634	-	43,942	
Unappropriated retained earnings	121,289	114,392	101,260	
Total retained earnings	188,726	114,392	157,561	
Capital adjustment	14,759	11,995	12,322	
Total stockholders' equity	936,903	859,805	782,187	
Total liabilities and stockholders' equity	₩ 16,354,571	₩ 14,536,649	\$ 13,653,841	

See accompanying notes.



STATEMENTS OF INCOME

Years ended December 31, 2003 and 2002

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2003	2002	2003	
I. Operating income:				
1. Interest income (Note 19):				
Due from banks	₩ 18,743	₩ 18,778	\$ 15,648	
Trading securities	1,043	2,806	871	
Available-for-sale securities	87,614	114,842	73,146	
Held-to-maturity securities	172,141	179,252	143,714	
Loans	626,622	579,155	523,144	
Other interest income	8,411	11,253	7,022	
	914,574	906,086	763,545	
2. Fee and commission income	120,629	116,824	100,709	
3. Other operating income:				
Trading and valuation gains on trading securities	2,394	3,821	1,999	
Gains on dealing foreign exchange	20,710	20,370	17,290	
Trust management fees	14,366	32,470	11,994	
Other	20,892	13,842	17,442	
	58,362	70,503	48,724	
Total operating income	1,093,565	1,093,413	912,978	
II. Operating expenses:				
1. Interest expense (Note 19):				
Deposits from customers	356,902	375,774	297,965	
Borrowings	53,351	52,127	44,541	
Debentures issued	16,257	23,723	13,572	
Other interest expense	10,115	18,680	8,445	
	436,625	470,304	364,522	
2. Fee and commission expense	18,977	18,886	15,843	
3. Other operating expenses:				
Trading and valuation losses on trading securities	1,423	7,097	1,188	
Provision for loan losses	175,635	117,835	146,631	
Other	58,615	37,265	48,936	
	235,673	162,197	196,755	
4. General and administrative expenses:				
Personnel expenses	173,060	159,003	144,482	
Depreciation and amortization	30,340	26,741	25,330	
Other	62,718	55,682	52,361	
	266,118	241,426	222,172	
Total operating expenses	957,393	892,813	799,293	
III. Net operating income	136,172	200,600	113,685	
IV. Non-operating income:				
1. Gains on disposal of and valuation on available-for-sale securities	21,576	5,603	18,013	
2. Gains on disposal of loans	6,313	2,197	5,270	
3. Other	14,490	13,804	12,097	
	42,379	21,604	35,381	
V. Non-operating expenses:				
1. Losses on disposal of and impairment on available-for-sale securities	9,221	45,157	7,698	
2. Losses on disposal of loans	4,138	3,421	3,455	
3. Other	38,864	25,602	32,446	
	52,223	74,180	43,599	
VI. Income before income taxes	126,328	148,024	105,467	
VII. Income tax expense (Note 14)	5,040	-	4,208	
VIII. Net income	₩ 121,288	₩ 148,024	\$ 101,259	
Primary ordinary earnings per share (Notes 2 and 15) (Korean won in units)	₩ 827	₩ 1,187	\$ 690	
Primary earnings per share (Notes 2 and 15) (Korean won in units)	₩ 827	₩ 1,187	\$ 690	
Diluted ordinary earnings per share (Notes 2 and 15) (Korean won units)	₩ 827	₩ 1,172	\$ 690	
Diluted earnings per share (Notes 2 and 15) (Korean won units)	₩ 827	₩ 1,172	\$ 690	

See accompanying notes.



STATEMENTS OF APPROPRIATION OF UNAPPROPRIATED RETAINED EARNINGS

Years ended December 31, 2003 and 2002

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2003	2002	2003	
Unappropriated retained earnings (undisposed accumulated deficit)				
carried forward from prior year	₩ 1	₩ (33,632)	\$	1
Net income for the year	121,288	148,024		101,259
Unappropriated retained earnings at end of year before appropriations	121,289	114,392		101,260
Appropriations:				
Legal reserve	12,129	14,803		10,126
Amortization of discount on stock issuance	-	2,949		0
Voluntary reserve	69,555	52,634		58,069
Cash dividends (Note 16)	39,605	44,005		33,065
	121,289	114,391		101,260
Unappropriated retained earnings to be carried forward to next year	₩ -	₩ 1	\$	0

See accompanying notes.



STATEMENTS OF CASH FLOWS

Years ended December 31, 2003 and 2002

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2003	2002	2003	
Cash flows from operating activities:				
Net income	₩ 121,288	₩ 148,024	\$ 101,259	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Provision for loan losses	175,635	117,835	146,631	
Depreciation and amortization	30,340	26,741	25,330	
Provision for severance and retirement benefits	29,965	26,394	25,017	
Payments of severance and retirement benefits	(165,494)	(6,587)	(138,165)	
Loss (gain) on valuation of trading securities - net	(2)	904	(2)	
Loss (gain) on disposal of loans - net	(2,175)	1,224	(1,816)	
Loss on valuation of available-for-sale securities - net	3,103	26,417	2,591	
Loss on disposal of fixed assets - net	1,874	1,782	1,565	
Loss (gain) on disposal of trading securities - net	(969)	2,372	(809)	
Loss (gain) on disposal of available-for-sale securities - net	(15,458)	8,972	(12,905)	
Amortization of present value discount	(1,336)	(3,356)	(1,115)	
Valuation loss on fixed assets held for non-operating purposes	-	2,311	0	
Other	8,465	(4,536)	7,067	
Changes in operating assets and liabilities:				
Decrease (increase) in trading securities	49,401	(27,633)	41,243	
Increase in loans	(1,391,847)	(1,818,354)	(1,162,003)	
Increase in deposits from customers	1,249,249	993,881	1,042,953	
Increase in due to Trust Accounts	99,136	143,951	82,765	
Increase (decrease) in bonds sold under repurchase agreement	372,050	(43,467)	310,611	
Decrease in bills sold	(3,448)	(3,263)	(2,879)	
Decrease in call money	(90)	(21,180)	(75)	
Decrease (increase) in domestic exchange settlement debits	(262,656)	29,098	(219,282)	
Other - net	73,148	(38,299)	61,069	
Total adjustments	248,891	(584,793)	207,790	
Net cash provided by (used in) operating activities	370,179	(436,769)	309,049	
Cash flows from investing activities:				
Proceeds from disposal of securities other than trading securities	2,898,296	2,401,109	2,419,683	
Proceeds from disposal of fixed assets	3,094	10,338	2,583	
Purchase of securities other than trading securities	(3,300,496)	(2,258,994)	(2,755,465)	
Purchase of fixed assets	(39,336)	(41,294)	(32,840)	
Other, net	(5,659)	(3,685)	(4,724)	
Net cash provided by (used in) investing activities	(444,101)	107,474	(370,764)	
Cash flows from financing activities:				
Increase in borrowings	17,670	27,619	14,752	
Decrease in debentures issued	-	(115,245)	0	
Increase in paid-in capital	-	256,846	0	
Payment of cash dividend	(44,005)	-	(36,738)	
Net cash provided by (used in) financing activities	(26,335)	169,220	(21,986)	
Net decrease in cash and cash equivalents	(100,257)	(160,075)	(83,701)	
Cash and cash equivalents at the beginning of the year (Note 2)	1,170,668	1,330,743	977,348	
Cash and cash equivalents at the end of the year (Note 2)	₩ 1,070,411	₩ 1,170,668	\$ 893,648	

See accompanying notes.



NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

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 Stock Exchange in June 1972. The Bank's issued and outstanding common stock as of December 31, 2003 amounted to ₩733,418 million.

The Bank's head office is located in Pusan and the Bank has 209 branches in Korea.

The Bank has been appointed as a manager of Pusan 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 ₩1,197.8 : US\$1, the exchange rate in effect as of December 31, 2003 (₩1,200.4 : US\$1 as of December 31, 2002). 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

Pursuant to a new regulation issued by the FSS, from the third quarter of 2002, 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, 2003 amounted to ₩816 million (₩1,894 million as of December 31, 2002).

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 ₩21,683 million as of December 31, 2003 (₩28,446 million as of December 31, 2002).

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

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2003 and 2002

investee.

Other debt and equity 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 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 a present value discount, 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, 2003 amounted to ₩56,103 million and ₩51,858 million (₩88,682 million and ₩78,556 million as of December 31, 2002), respectively. Out of the present value discount amounting to ₩9,102 million incurred until 2003, ₩4,857 million was amortized and the outstanding balance as of December 31, 2003 amounted to ₩4,245 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:

	Years
Buildings	50
Leasehold improvements	5
Furniture and equipment	5

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

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, 2003 and 2002 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, 2003 and 2002. Funding of this liability is not required by Korean law.

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 ₩32 million as of December 31, 2003 (₩5,229 million as of December 31, 2002) 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 ₩4,683 million at December 31, 2003 (₩127,821 million at December 31, 2002). 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, 2003, those amounts have been offset against the Bank's liability for severance and retirement benefits as of such date.

Cash equivalents

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

	Korean won in millions	
	2003	2002
Cash and due from banks	₩ 921,937	₩ 1,039,837
Bonds purchased under resale agreements	125,000	95,000
Call loans	23,474	35,831
	₩ 1,070,411	₩ 1,170,668

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



NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

to the Trust Accounts (approximately 4.18 % in 2003 and 4.3% in 2002 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.

Even though the Bank has accumulated tax loss carryforwards of ₩157,813 million, including accumulated taxable temporary differences as of December 31, 2002, the Bank did not recognize a deferred income tax asset due to the uncertainty of realizing tax benefits in the future.

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

From 2003, the Bank adopted revised accounting standards in relation to revenue recognition, intangibles, property, plant and equipment, interest capitalization, marketable and investment securities, events and transactions occurring after the balance sheet date and convertible securities. There is no cumulative effect on prior years of the changes in accounting policies. Under the new accounting standards, retained earnings on the balance sheet should be presented as retained earnings before appropriations. As a result, ₩114,392 million as of December 31, 2002 was reclassified to unappropriated retained earnings from appropriated retained earnings resulting in increasing stockholders' equity amounting to ₩44,005 million, which was to be appropriated as a cash dividend, and decreasing liabilities amounting to ₩44,005 million.

Also, 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 inventories, discontinued operations, construction contracts and troubled debt restructuring. Korean companies should apply such revised accounting standards for the first fiscal year starting after December 31, 2003 with the exception of the accounting for discontinued operations which should be applied from the fiscal year starting after December 31, 2004. Early adoption of the revised accounting standards is allowed with the exception of the accounting for discontinued operations. 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, 2003 and 2002 are summarized as follows:

	Korean won in millions	
	2003	2002
Cash on hand	₩ 275,714	₩ 267,992
Foreign currencies	19,718	17,970
Due from banks in Korean won	601,408	730,111
Due from banks in foreign currencies	25,098	23,764
	₩ 921,938	₩ 1,039,837

Due from banks in Korean won as of December 31, 2003 and 2002 are summarized as follows (Korean won in millions):

Type	Interest rate(%)	Depository	Total
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
			₩ 601,408
December 31, 2002			
Checking accounts	-	Bank of Korea	₩ 385,048
CD	5.00-5.15	Korea First Bank, etc.	146,607
Other deposits	0.00-5.40	Korea Investment & Securities Co., Ltd., etc.	198,456
			₩ 730,111

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2003 and 2002

Due from banks denominated in foreign currencies as of December 31, 2003 and 2002 are summarized as follows (Korean won in millions):

Type	Interest rate(%)	Depository	Total
December 31, 2003			
Demand deposits	-	Bank of Korea, etc.	₩ 24,204
Other deposits	-	Bank of America	894
			₩ 25,098
December 31, 2002			
Demand deposits	-	Bank of Korea and others	₩ 23,109
Other deposits	0.00-0.02	Bank of America, etc.	655
			₩ 23,764

Restricted balances in due from banks as of December 31, 2003 and 2002 are summarized as follows (Korean won in millions):

Type	Depository	Total	Restriction
December 31, 2003			
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
		₩ 429,817	

Type	Depository	Total	Restriction
December 31, 2002			
Reserve deposits	Bank of Korea	₩ 385,048	Reserve for payment of deposits
Demand deposits	Bank of Korea	12,467	Reserve for payment of deposits
Other deposits	Pueun Futures Co., Ltd.	540	Key money deposits
		₩ 398,055	

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, 2003 and 2002 are as follows (Korean won in millions):

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
	₩ 601,408	₩ 25,098	₩ 626,506

Maturity	2002		
	Due from banks in Korean won	Due from banks in foreign currencies	Total
Within 3 months	₩ 215,746	₩ -	₩ 215,746
Over 3 months ~ 6 months	127,917	-	127,917
Over 6 months ~ 1 year	1,400	-	1,400
Over 1 year ~ 5 years	-	-	-
Over 5 years	385,048	23,764	408,812
	₩ 730,111	₩ 23,764	₩ 753,875

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

4. Securities

Securities as of December 31, 2003 and 2002 are comprised of the following (Korean won in millions):

Trading securities	2003		2002	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Equity securities		₩ 2,189		₩ 11,061
Government and public bonds		-	5.62	10,119
Finance bonds		-	5.42-7.77	19,452
Corporate bonds		-	4.71	9,966
Beneficiary certificates		2,461		2,483
		₩ 4,650		₩ 53,081
Available-for-sale securities				
Equity securities		₩ 60,593		₩ 33,148
Government and public bonds	2.5-10.73	370,075	3.0-10.99	416,551
Finance bonds	3.92-10.20	866,451	4.37-10.57	166,609
Corporate bonds	2.0-15.0	361,005	2.0-15.0	615,853
Beneficiary certificates		164,377		263,922
Others		20,330		-
Foreign currency denominated securities	2.72-3.46	19,054	3.45-3.75	20,969
		₩ 1,861,885		₩ 1,517,052
Held-to-maturity securities				
Government and public bonds	3.0-11.26	₩ 564,711	3.0-11.26	₩ 452,811
Finance bonds	3.85-9.06	1,033,419	4.37-8.51	990,035
Corporate bonds	4.09-10.15	1,123,538	3.77-13.76	1,180,900
Foreign currency denominated securities	0.0-5.60	23,956	0.0-5.6	18,006
		₩ 2,745,624		₩ 2,641,752
Equity investments in affiliated companies		₩ 22,073		₩ 67,053
		₩ 4,634,232		₩ 4,278,938

Valuation for trading securities as of December 2003 and 2002 is summarized as follows (Korean won in millions):

Account	Face value	Acquisition cost	Amortized cost	Valuation gain (loss)	Carrying value
December 31, 2003					
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
December 31, 2002					
Equity securities	₩ 2,272	₩ 11,947	₩ 11,947	₩ (886)	₩ 11,061
Government and public bonds	10,000	10,119	10,118	1	10,119
Finance bonds	20,000	19,581	19,409	43	19,452
Corporate bonds	10,000	10,000	10,000	(34)	9,966
Other	6,456	6,456	2,511	(28)	2,483
	₩ 48,728	₩ 58,103	₩ 53,985	₩ (904)	₩ 53,081

Valuation for available-for-sale securities as of December 31, 2003 and 2002 is summarized as follows (Korean won in millions):

Carrying Account	Face value	Acquisition cost	Amortized cost	Valuation gain (loss)	Capital adjustment	value
December 31, 2003						
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
	₩ 1,891,728	₩ 1,887,111	₩ 1,861,227	₩ (4,248)	₩ 4,906	₩ 1,861,885
December 31, 2002						
Listed equity securities	₩ 49,470	₩ 44,514	₩ 29,449	₩ (31,180)	₩ 15,135	₩ 13,404
Unlisted equity securities	23,088	21,768	19,268	476	-	19,744
Government and public bonds	414,758	412,283	412,397	-	4,154	416,551
Finance bonds	170,000	166,050	164,566	-	2,043	166,609
Corporate bonds	598,669	601,678	620,622	-	(4,769)	615,853
Others	280,437	280,437	273,412	-	(9,490)	263,922
Foreign currency denominated securities	27,009	20,969	21,114	-	(145)	20,969
	₩ 1,563,431	₩ 1,547,699	₩ 1,540,828	₩ (30,704)	₩ 6,928	₩ 1,517,052

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2003 and 2002

Valuation for held-to-maturity securities as of December 31, 2003 and 2002 is summarized as follows (Korean won in millions):

Account	Face value	Acquisition cost	Amortized cost	Valuation gain (loss)	Carrying value
December 31, 2003					
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
	₩ 2,774,982	₩ 2,755,215	₩ 2,749,444	₩ (3,820)	₩ 2,745,624
December 31, 2002					
Government and public bonds	₩ 458,549	₩ 451,542	₩ 452,811	₩ -	₩ 452,811
Finance bonds	1,019,097	991,443	990,035	-	990,035
Corporate bonds	1,175,240	1,193,265	1,180,900	-	1,180,900
Foreign currency denominated securities	18,006	18,006	18,006	-	18,006
	₩ 2,670,892	₩ 2,654,256	₩ 2,641,752	₩ -	₩ 2,641,752

Equity investments in affiliated companies as of December 31, 2003 and 2002 are summarized as follows (Korean won in millions):

Company	Number of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
December 31, 2003					
Pueun Futures Co., Ltd.	3,000,000	100.00	₩ 15,000	₩ 17,181	₩ 17,181
Pusan 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	-	-
			₩ 23,575	₩ 22,073	₩ 22,073
December 31, 2002					
Pueun Futures Co., Ltd.	3,000,000	100.00	₩ 15,000	₩ 16,831	₩ 16,831
Lotte Capital Co., Ltd.	5,050,000	29.88	38,673	48,715	48,715
Mybi Co., Ltd.	420,000	17.71	2,100	1,507	1,507
Korea Non-Bank Lease Financing Co., Ltd.	695,064	17.38	3,475	-	-
			₩ 59,248	₩ 67,053	₩ 67,053

Information about securities by geography, industry and character as of December 31, 2003 and 2002 is summarized as follows (Korean won in millions):

By Geography	Securities in Korean won	Securities in foreign currencies	Total	Percentage
December 31, 2003				
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
	₩ 4,591,222	₩ 43,010	₩ 4,634,232	100.00
December 31, 2002				
Korea	₩ 4,239,963	₩ 11,455	₩ 4,251,418	99.36
U. S. A	-	15,516	15,516	0.36
France	-	12,004	12,004	0.28
	₩ 4,239,963	₩ 38,975	₩ 4,278,938	100.00

By Industry	Securities in Korean won	Securities in foreign currencies	Total	Percentage
December 31, 2003				
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
Manufacturing	42,253	5,989	48,242	1.04
Other	96,416	-	96,416	2.08
	₩ 4,591,222	₩ 43,010	₩ 4,634,232	100.00



NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

By Industry	Securities in Korean won	Securities in foreign currencies	Total	Percentage
December 31, 2002				
Public	₩ 879,481	₩ -	₩ 879,481	20.55
Financial business	2,633,996	35,397	2,669,393	62.38
Real estate and rental	222,297	-	222,297	5.20
Transportation, warehousing, post and telecommunications	198,926	-	198,926	4.65
Construction	42,733	-	42,733	1.00
Other	262,530	3,578	266,108	6.22
	₩ 4,239,963	₩ 38,975	₩ 4,278,938	100.00

By Character	Securities in Korean won	Securities in foreign currencies	Total	Percentage
December 31, 2003				
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
	₩ 4,591,222	₩ 43,010	₩ 4,634,232	100.00
December 31, 2002				
Stocks	₩ 111,262	₩ -	₩ 111,262	2.60
Fixed rate bonds	3,090,698	-	3,090,698	72.23
Floating rate bonds	771,598	27,013	798,611	18.66
Beneficiary certificates	266,405	11,938	278,343	6.51
Other	-	24	24	0.00
	₩ 4,239,963	₩ 38,975	₩ 4,278,938	100.00

The maturities of securities, except equity securities, as of December 31, 2003 are summarized as follows (Korean won in millions):

Held-to-maturity securities

Maturity	Government and public bonds	Financial bonds	Corporate bonds	Others	Foreign currency denominated securities	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

Available-for-sale securities

Maturity	Government and public bonds	Financial bonds	Corporate bonds	Others	Foreign currency denominated securities	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

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2003 and 2002

Held-to-maturity securities

Maturity	Government and public bonds	Financial bonds	Corporate bonds	Others	Foreign currency denominated securities	Total
Within 3 months	₩ 26,253	₩ 179,944	₩ 239,212	₩ -	₩ -	₩ 445,409
Over 3 months - 6 months	37,456	107,903	29,250	-	-	174,609
Over 6 months - 1 year	49,698	324,600	215,680	-	-	589,978
Over 1 year - 2 years	153,699	345,858	431,490	-	6,002	937,049
Over 2 years - 3 years	71,504	31,394	117,038	-	12,004	231,940
Over 3 years - 4 years	87,879	336	79,585	-	-	167,800
Over 4 years - 5 years	5,184	-	-	-	-	5,184
Over 5 years - 10 years	21,138	-	68,645	-	-	89,783
Over 10 years	-	-	-	-	-	-
	₩ 452,811	₩ 990,035	₩ 1,180,900	₩ -	₩ 18,006	₩ 2,641,752

Available-for-sale securities

Maturity	Government and public bonds	Financial bonds	Corporate bonds	Others	Foreign currency denominated securities	Total
Within 3 months	₩ 59	₩ 86,495	₩ 22,805	₩ 152,005	₩ -	₩ 261,364
Over 3 months - 6 months	-	-	627	8,134	24	8,785
Over 6 months - 1 year	4,745	49,632	329,885	100,227	3,578	488,067
Over 1 year - 2 years	99,901	19,305	101,098	-	11,938	232,242
Over 2 years - 3 years	263,453	-	80,856	-	-	344,309
Over 3 years - 4 years	48,393	-	20,525	-	5,429	74,347
Over 4 years - 5 years	-	11,177	60,057	-	-	71,234
Over 5 years - 10 years	-	-	-	-	-	-
Over 10 years	-	-	-	3,556	-	3,556
	₩ 416,551	₩ 166,609	₩ 615,853	₩ 263,922	₩ 20,969	₩ 1,483,904

As of December 31, 2003 and 2002, securities with face value of ₩821,600 million and ₩654,206 million have been pledged as collateral for certain borrowings and key money deposits, respectively.

5. Loans

Loans as of December 31, 2003 and 2002 consisted of the following:

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



NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

	Interest rate (%)		2002 Korean won in millions
Loans in Korean won:			
Loans to companies	6.50-21.00	₩	4,842,633
Loans to individuals	5.00-19.50		2,029,896
Other	5.74-9.82		448,130
			7,320,659
Loans in foreign currencies	1.20-4.05		230,267
Bills bought in Korean won	DBR + 4.5 or lower		7,562
Bills bought in foreign currencies	Libor + 2.9 or lower		134,643
Advances for customers			10,781
Credit card accounts			541,440
Bonds bought under resale agreements	4.80-5.05		95,000
Privately placed corporate bonds	0.00-16.25		36,735
Call loans			35,831
Domestic import usance bills			167,524
Others			23,555
			8,603,997
Less allowance for loan losses			(155,841)
Less present value discount account			(10,125)
		₩	8,438,031

The maturities of loans (excluding call loans and credit card accounts) as of December 31, 2003 and 2002 are as follows (Korean won in millions):

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 currency	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	-	-	-	-
	₩ 2,469,429	₩ 1,523,683	₩ 2,157,108	₩ 1,247,016

2003

	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 currency	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
	₩ 797,938	₩ 693,110	₩ 462,285	₩ 9,350,569

2002

	Within 3 months	Over 3 months ~ 6 months	Over 6 months ~ 1 year	Over 1 year ~ 2 years
Loans in Korean won	₩ 1,728,151	₩ 1,124,078	₩ 1,650,864	₩ 929,518
Loans in foreign currency	15,078	20,581	53,591	29,883
Domestic import usance bills	109,677	47,670	10,177	-
Bills bought in won	7,562	-	-	-
Advances for customers	9	-	-	-
Bills bought in foreign currencies	105,543	22,415	6,685	-
Privately placed corporate bonds	4,985	-	11,708	3,424
Bonds bought under resale agreements	85,000	10,000	-	-
Other	18,006	-	-	-
	₩ 2,074,011	₩ 1,224,744	₩ 1,733,025	₩ 962,825

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2003 and 2002

2002

	Over 2 years ~ 3 years	Over 3 years ~ 5 years	Over 5 years	Total
Loans in Korean won	₩ 965,073	₩ 449,264	₩ 473,711	₩ 7,320,659
Loans in foreign currency	32,452	52,589	26,093	230,267
Domestic import usance bills	-	-	-	167,524
Bills bought in won	-	-	-	7,562
Advances for customers	-	-	10,772	10,781
Bills bought in foreign currencies	-	-	-	134,643
Privately placed corporate bonds	2,818	13,800	-	36,735
Bonds bought under resale agreements	-	-	-	95,000
Other	-	-	5,549	23,555
	₩ 1,000,343	₩ 515,653	₩ 516,125	₩ 8,026,726

As of December 31, 2003 and 2002, loans (excluding call loans and credit card accounts) by geography, borrower type and industry are summarized as follows (Korean won in millions):

By Geography	Loan in Korean won	Loans in foreign currencies	Others	Total	Percentage
December 31, 2003					
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
	₩ 8,566,272	₩ 309,230	₩ 475,067	₩ 9,350,569	100.00

December 31, 2002					
Korea	₩ 7,317,124	₩ 211,739	₩ 475,800	₩ 8,004,663	99.73
Panama	-	13,966	-	13,966	0.17
Indonesia	-	4,562	-	4,562	0.06
Japan	309	-	-	309	-
Others	3,226	-	-	3,226	0.04
	₩ 7,320,659	₩ 230,267	₩ 475,800	₩ 8,026,726	100.00

By Borrower type	Loan in Korean won	Loans in foreign currencies	Others	Total	Percentage
December 31, 2003					
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
	₩ 8,566,272	₩ 309,230	₩ 475,067	₩ 9,350,569	100.00
December 31, 2002					
Corporate	₩ 4,996,217	₩ 230,267	₩ 474,552	₩ 5,701,036	71.02
Household	2,123,209	-	1,248	2,124,457	26.47
Public and other	201,233	-	-	201,233	2.51
	₩ 7,320,659	₩ 230,267	₩ 475,800	₩ 8,026,726	100.00



NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

By Industry	Loan in Korean won	Loans in foreign currencies	Others	Total	Percentage
December 31, 2003					
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
	₩ 8,566,272	₩ 309,230	₩ 475,067	₩ 9,350,569	100.00
December 31, 2002					
Manufacturing	₩ 2,249,227	₩ 126,697	₩ 241,158	₩ 2,617,082	32.60
Wholesale and retail trade	715,726	27,457	111,491	854,674	10.65
Financial business	271,277	8,641	95,000	374,918	4.67
Real estate and rental	358,513	5,630	-	364,143	4.54
Household	2,123,209	-	1,248	2,124,457	26.47
Others	1,602,707	61,842	26,903	1,691,452	21.07
	₩ 7,320,659	₩ 230,267	₩ 475,800	₩ 8,026,726	100.00

The classification and allowance for loan losses outstanding as of December 31, 2003 and 2002 are summarized as follows (Korean won in millions):

2003

	Normal	Precautionary	Substandard	Doubtful	loss	Total	Allowance percentage
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
Total (*1)	8,938,791	202,044	98,575	42,931	14,521	9,296,862	
(Allowance)	(64,987)	(15,494)	(19,716)	(27,324)	(14,521)	(142,042)	1.53
Allowance Percentage	0.73	7.67	20.00	63.65	100.00	1.53	

(*1) Present value discounts amounting to ₩4,245 million were deducted from loan balances.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2003 and 2002

2002

	Normal	Precautionary	Substandard	Doubtful	loss	Total	Allowance percentage
Loans in Korean won	₩ 6,625,639	₩ 142,070	₩ 115,193	₩ 10,847	₩ 8,520	₩ 6,902,269	
(Allowance)	(50,120)	(10,748)	(25,847)	(17,569)	(8,520)	(112,804)	1.63
Loans in foreign currencies	221,882	-	8,385	-	-	230,267	
(Allowance)	(1,664)	-	(1,677)	-	-	(3,341)	1.45
Advances for customers	5,517	2,036	2,676	223	74	10,526	
(Allowance)	(41)	(102)	(535)	(168)	(74)	(920)	8.74
Bills bought in foreign currencies	134,610	33	-	-	-	134,643	
(Allowance)	(1,112)	(1)	-	-	-	(1,113)	0.83
Credit card accounts	494,296	19,911	663	17,721	8,849	541,440	
(Allowance)	(4,943)	(2,390)	(133)	(10,633)	(8,849)	(26,948)	4.98
Privately placed corporate bonds	19,824	7,729	2,470	2,681	-	32,704	
(Allowance)	(149)	(1,400)	(494)	(2,011)	-	(4,054)	12.40
Domestic import usance bills	149,666	15,621	2,237	-	-	167,524	
(Allowance)	(1,122)	(1,505)	(447)	-	-	(3,074)	1.83
Other	7,636	4,993	772	646	123	14,170	
(Allowance)	(59)	(2,652)	(155)	(598)	(123)	(3,587)	25.31
Total (*1)	7,659,070	192,393	132,396	32,118	17,566	8,033,543	
(Allowance) (*2)	(59,210)	(18,798)	(29,288)	(30,979)	(17,566)	(155,841)	1.94
Allowance Percentage	0.77	9.77	22.12	96.45	100.00	1.94	

(*1) Present value discounts amounting to ₩10,126 million were deducted from total loan balances.

(*2) Allowance for loans sold under repurchase agreements amounting to ₩13,716 million were included in the allowance for loans in Korean won.

Changes in the allowance for possible loan losses during the years ended December 31, 2003 and 2002 are as follows (Korean won in millions):

	2003	2002
Beginning balance	₩ 155,841	₩ 131,851
Collection of loans written off	19,489	9,705
Provision for loan losses	175,635	117,835
Write-off	(188,096)	(81,231)
Other changes	(20,827)	(22,319)
Ending balance	₩ 142,042	₩ 155,841

The amount of loans written off for which the Bank still has legal claims is ₩553,206 million and ₩395,666 million as of December 31, 2003 and 2002, respectively.

6. Fixed assets

Fixed assets as of December 31, 2003 and 2002 consisted of the following:

	Korean won in millions	
	2003	2002
Fixed assets used for operations:		
Land	₩ 169,292	₩ 169,616
Buildings	91,191	88,373
Leasehold improvements	15,825	13,205
Furniture and equipment	160,617	150,402
Construction in progress	20,846	19,295
	457,771	440,891
Less accumulated depreciation	(138,012)	(129,839)
	319,759	311,052
Intangible assets	9,428	10,664
Fixed assets held for non-operating purposes	12,928	15,023
Less reserve for valuation losses	(7,877)	(8,275)
	5,051	6,748
	₩ 334,238	₩ 328,464



NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

At December 31, 2003 and 2002, the value of land, including land held for non-operating purposes, as published by the government for tax administration purposes amounted to ₩135,475 million and ₩132,981 million, respectively.

As of December 31, 2003 and 2002, fixed assets used in operations were insured against losses up to approximately ₩129,801 million and ₩127,494 million, respectively.

7. Other assets

Other assets at December 31, 2003 and 2002 consisted of the following:

	Korean won in millions	
	2003	2002
Lease key money deposits	₩ 91,223	₩ 84,935
Accounts receivable - other	88,003	47,693
Accrued interest income	182,037	165,430
Prepaid income taxes	38,379	44,648
Domestic exchange settlement debits	354,662	92,006
Other	35,087	17,293
	789,391	452,005
Less present value discount	(421)	(626)
	₩ 788,970	₩ 451,379

8. Deposits from customers

Deposits from customers as of December 31, 2003 and 2002 consisted of the following:

	2003	
	Interest rate (%)	Korean won in millions
Deposits in Korean won:		
Demand deposits	0.00-2.00	₩ 1,124,940
Time and saving deposits	0.10-5.20	11,090,475
		12,215,415
Deposits in foreign currencies	0.00-1.11	93,434
Negotiable certificates of deposits	3.05-3.94	43,037
		₩ 12,351,886

	2002	
	Interest rate (%)	Korean won in millions
Deposits in Korean won:		
Demand deposits	0.00-2.00	₩ 1,097,556
Time and saving deposits	0.50-6.80	9,860,752
		10,958,308
Deposits in foreign currencies	0.00-1.62	108,942
Negotiable certificates of deposits	3.69-4.28	35,388
		₩ 11,102,638

The maturity of deposits from customers as of December 31, 2003 and 2002 are as follows (Korean won in millions):

	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
	₩ 12,215,415	₩ 93,434	₩ 43,037	₩ 12,351,886

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2003 and 2002

2002								
	Deposits in Korean won		Deposits in foreign currencies		Negotiable certificates of deposit	Total		
Within 3 months	₩	4,380,266	₩	23,142	₩	30,258	₩	4,433,666
Over 3 months ~ 6 months		1,274,819		4,173		4,646		1,283,638
Over 6 months ~ 1 year		1,572,804		2,407		483		1,575,694
Over 1 year ~ 2 years		257,131		1,693		-		258,824
Over 2 years ~ 3 years		235,107		1,058		-		236,165
Over 3 years ~ 5 years		56,944		-		-		56,944
Over 5 years		3,181,238		76,469		-		3,257,707
	₩	10,958,309	₩	108,942	₩	35,387	₩	11,102,638

9. Borrowings

Borrowings as of December 31, 2003 and 2002 are as follows:

Korean won in millions					
	Interest rate (%)	2003	2002		
Borrowings in Korean won:					
Borrowings from the Bank of Korea	2.5	₩	308,991	₩	389,242
Borrowings from local governments	1.0-5.5		205,894		228,928
Small and medium industry development finance funds	3.58-4.90		229,783		210,585
Borrowings from other banks	3.54-8.55		60,844		65,243
Other	1.5-6.0		81,860		70,396
			887,372		964,394
Borrowings in foreign currencies:					
Borrowings from the Bank of Korea			-		-
Borrowings from other banks	Libor+(0.2-1.95)		586,461		491,768
			586,461		491,768
Drafts and bills sold			6,039		9,487
Call money			196		286
Bonds sold under repurchase agreements			425,615		53,566
		₩	1,905,683	₩	1,519,501

In connection with the above borrowings, 3 promissory notes amounting to ₩16,750 million received from customers of the Bank and securities with face value of ₩817,800 million have been placed with the Bank of Korea and the Bank of Nova Scotia, etc. as security as of December 31, 2003 (₩129,326 million and ₩607,800, respectively as of December 31, 2002).

The repayment schedule of borrowings except call money as of December 31, 2003 and 2002 is as follows (Korean won in millions):

2003										
	Borrowings in Korean won		Borrowings in foreign currencies		Bonds sold under 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

December 31, 2003 and 2002

	2002									
	Borrowings in Korean won		Borrowings in foreign currencies		Bonds sold under repurchase agreements		Drafts and bills sold		Total	
Within 3 months	₩	433,984	₩	205,404	₩	52,853	₩	8,243	₩	700,484
Over 3 months - 6 months		36,698		85,130		713		1,178		123,719
Over 6 months - 1 year		37,525		89,955		-		66		127,546
Over 1 year - 2 years		70,528		49,477		-		-		120,005
Over 2 years - 3 years		73,015		61,037		-		-		134,052
Over 3 years - 5 years		228,843		765		-		-		229,608
Over 5 years		83,801		-		-		-		83,801
	₩	964,394	₩	491,768	₩	53,566	₩	9,487	₩	1,519,215

10. Debentures issued

Notes and debentures issued by the Bank as of December 31, 2003 and 2002 are as follows:

Description	Issue date	date	Due (redeem)			
			2003	2002		
Subordinated debt	6. 15. 2001	1. 15. 2007	₩	100,000	₩	100,000
Subordinated debt	4. 26. 2002	1. 26. 2008		100,000		100,000
Other	9. 26. 1999	9. 26. 2004		30		30
			₩	200,030	₩	200,030

11. Other liabilities

Other liabilities at December 31, 2003 and 2002 consisted of the following:

	Korean won in millions			
	2003	2002		
Accrued interest payable	₩	179,954	₩	185,455
Unremitted agency collections		47,338		17,155
Accounts payable-other		75,669		50,218
Domestic exchange settlement credits		29,029		87,145
Unearned income		17,959		19,244
Account for agency businesses		34,087		28,692
Others		58,834		41,509
	₩	442,870	₩	429,418

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, 2003. The par value of common stock is ₩5,000 and paid-in capital is ₩733,418 million as of December 31, 2003.

In 2002, the Bank issued 51,638,486 shares of common stock at par value to bondholders in connection with exercising stock warrants.

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, 2003 are as follows.

Options granted and outstanding	Grant date	Exercise price	Exercise period
152,281 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
93,369 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
260,000 shares	March 25, 2003	₩ 5,000 per share	March 25, 2005-March 24, 2008

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

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Years ended December 31, 2003 and 2002

period using the straight-line method. The Bank recognized such cost and liability amounting to ₩713 million in 2003 and will additionally recognize ₩358 million through 2006.

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.

Capital adjustment account - At December 31, 2003 and 2002, the capital adjustment account consisted of the following:

	Korean won in millions	
	2003	2002
Discount on stock issuance	₩ -	₩ (2,949)
Gain on valuation of available-for-sale securities	13,170	11,865
Gain on valuation of investments in equity securities	1,589	2,699
Stock options	-	380
	₩ 14,759	₩ 11,995

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, 2003 and 2002 amounted to ₩10,127 million and ₩44,974 million, respectively. The Bank may incur losses from the repurchase of these loans in the future.

The Bank provided a provision amounting to ₩13,716 million for these losses as of December 31, 2002 (nil as of December 31, 2003). In connection with the above agreement, securities amounting to ₩43,406 million have been placed with KAMCO as security as of December 31, 2002 (nil as of December 31, 2003).

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 (2003 amounts are preliminary and 2002 amounts are final based on the Bank's corporate income tax return filed in March 2003):

	Korean won in millions	
	2003	2002(*)
Income before income taxes per the accompanying statements of income	₩ 126,328	₩ 148,024
Permanent differences:		
Entertainment expense	2,975	2,727
Other, net	875	3,437
	3,850	6,164
Temporary differences (net):		
Accrued interest income on securities	₩ (21,637)	₩ (16,834)
Valuation gain on securities, net	1,536	42,809
Severance and retirement benefits	(1,584)	744
Loan restructuring	(19,217)	(6,200)
Other, net	(23,231)	12,440
	(64,133)	32,959
Taxable income before utilization of tax loss carryforward	66,045	187,147
Utilization of tax loss carryforward	(66,045)	(187,147)
Taxable income after utilization of tax loss carryforward	₩ -	₩ -

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, 2003 and 2002 are as follows (Korean won in millions):



NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

2003

Temporary differences	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)
Deferred income tax liability			₩ 5,040

(*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.

2002

Temporary differences	Beginning balances	Net increase (decrease)	Ending balances
Valuation loss on securities, net	₩ 13,930	₩ 42,809	₩ 56,739
Accrued interest on securities	(88,257)	(16,834)	(105,091)
Loan restructuring	32,295	(6,200)	26,095
Allowance for loan losses	17,867	21,543	39,410
Other, net	37,001	(8,359)	28,642
Tax loss carryforward	299,165	(187,147)	112,018
Total	₩ 312,001	₩ (154,188)	₩ 157,813
Deferred income tax asset	-	-	-

The Bank did not recognize a deferred income tax asset arising from accumulated tax losses, net of taxable temporary differences as of December 31, 2002 due to the uncertainty in realizing such accumulated tax losses in the future.

The income tax expense for the years ended December 31, 2003 and 2002 are comprised of the following:

Korean won in millions

	2003	2002
Income tax expense	₩ -	₩ -
Changes in deferred income taxes	5,040	-
Income tax expenses	₩ 5,040	₩ -

15. Per share amounts

The Bank's primary and diluted earnings per share ("EPS") for the years ended December 31, 2003 and 2002 were calculated as follows (Korean won in units):

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 shares	146,683,650 shares
Primary EPS	₩ 827	₩ 827

2002

	Ordinary income	Net income
Income after deducting related income tax expense	₩ 148,024,494,916	₩ 148,024,494,916
Weighted average number of shares of common stock outstanding	124,691,871 shares	124,691,871 shares
Primary EPS	₩ 1,187	₩ 1,187
Effect of dilutive securities:		
Bonds with warrants	(15)	(15)
Diluted EPS	₩ 1,172	₩ 1,172

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2003 and 2002

16. Cash dividends

Cash dividends for the years ended December 31, 2003 and 2002 are as follows:

	Number of shares outstanding	Dividends per share (rate of par value)	Korean won in millions
2003	146,683,850	₩ 270 (5.4%)	₩ 39,605
2002	146,683,850	₩ 300 (6.0%)	₩ 44,005

17. Related party transactions

Transactions in 2003 and 2002 and resulting outstanding balances as of December 31, 2003 and 2002 with Pueun Futures Co., Ltd. ("Pueun"), Mybi Co., Ltd. ("Mybi") and Pusan Credit Information Ltd. ("Pusan"), which are subsidiaries of the Bank as of December 31, 2003, are as follows:

	2003			2002		
	Pueun	Mybi	Pusan	Pueun	Mybi	Pusan
Loans	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
Deposits	16	596	2,473	27	-	1,273
Borrowings	6,850	-	-	-	-	-
Other liabilities	148	-	2	-	-	4
Interest on loans	3	-	-	5	-	-
Interest on deposits	234	28	981	-	-	41

In addition, the Bank has provided a payment guarantee to the extent of ₩909 million on behalf of Pueun as of December 31, 2003 and 2002.

18. Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies at December 31, 2003 and 2002 consisted of the following:

	2003		2002	
	U. S. dollars o equivalent for foreign currencies in thousands	Korean won equivalent in millions	U. S. dollars o equivalent for foreign currencies in thousands	Korean won equivalent in millions
Assets:				
Cash on hand	\$ 16,462	₩ 19,718	\$ 14,970	₩ 17,970
Interest-bearing deposits with banks	20,954	25,098	19,797	23,764
Foreign exchange drafts purchased	111,784	133,896	112,166	134,643
Domestic import usance bills	145,088	173,788	139,558	167,525
Loans	258,163	309,230	191,829	230,267
(Allowance for loan losses)	(2,723)	(3,261)	(2,723)	(3,269)
Securities	35,907	43,010	32,468	38,975
Other assets	43,367	51,944	33,251	39,915
	\$ 629,002	₩ 753,423	\$ 541,316	₩ 649,790
Liabilities:				
Deposits from customers	\$ 78,004	₩ 93,434	\$ 90,755	₩ 108,942
Borrowings	489,612	586,460	409,674	491,768
Other liabilities	45,523	54,528	38,741	46,505
	\$ 613,139	₩ 734,422	\$ 539,170	₩ 647,215

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



NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

19. Interest bearing assets and liabilities

Interest bearing assets and liabilities as of December 31, 2003 and 2002 are as follows (Korean won in millions):

Assets	2003		2002	
	Average amount	Interest revenue	Average amount	Interest revenue
Loans in Korean won	₩ 7,941,857	₩ 551,683	₩ 6,658,046	₩ 506,728
Loans in foreign currencies	260,034	8,335	183,705	5,619
Bills bought in foreign currencies	129,419	5,695	123,707	6,534
Call loans	68,555	2,434	48,355	1,717
Credit card accounts	255,270	50,150	214,611	43,570
Bonds bought under resale agreements	114,833	5,285	205,622	10,710
Other loans	58,964	2,889	85,337	3,466
Due from banks	386,278	18,743	372,644	18,778
Securities	4,417,982	260,799	4,305,706	296,899
Due from Trust Accounts	10,713	440	23,133	976
	₩ 13,643,905	₩ 906,453	₩ 12,220,866	₩ 894,997

Liabilities	2003		2002	
	Average amount	Interest revenue	Average amount	Interest revenue
Deposits from customers	₩ 11,755,719	₩ 356,903	₩ 10,644,236	₩ 375,773
Borrowings	1,864,835	53,350	1,378,749	52,127
Debentures issued	200,030	16,257	297,243	23,723
Due to Trust Accounts	214,535	8,158	186,627	7,467
	₩ 14,035,119	₩ 434,668	₩ 12,506,855	₩ 459,090

20. Commitments and contingent liabilities

Commitments and contingent liabilities as of December 31, 2003 and 2002 consisted of the following:

	Korean won in millions	
	2003	2002
Confirmed acceptances and guarantees	₩ 208,011	₩ 249,283
Contingent acceptances and guarantees	228,955	211,781
Bills endorsed	288	265
Interest rate futures contracts - sold	-	19,063
Currency swap contracts - sold	-	28,183
Currency swap contracts - purchased	-	27,909
Currency forward contracts - sold	192,404	4,611
Currency forward contracts - purchased	190,438	1,801
Currency futures contracts - sold	16,530	-
Currency futures contracts - purchased	-	3,001
Stock option contracts - sold	4,439	-
Stock option contracts - purchased	4,439	-
Disposal of loans under repurchase agreements	10,127	44,974

The Bank is a defendant or plaintiff to various lawsuits arising out of normal bank activities in the amount of ₩15,870 million as of December 31, 2003 (₩6,923 million as of December 31, 2002). 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, 2003 and 2002 are as follows (Korean won in millions):

	2003					
	Allowance Normal percentage	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	-	-	-	-	-	-

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2003 and 2002

2002

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance percentage
Acceptances & guarantees in Korean won (Allowance)	₩ 181,985	₩ 6,604	₩ -	₩ -	₩ 71	₩ 188,660	0.04
Acceptances & guarantees in foreign currencies (Allowance)	48,323	12,296	4	-	-	60,623	-
Total (Allowance)	₩ 230,308	₩ 18,900	₩ 4	₩ -	₩ 71	₩ 249,283	0.03
Allowance percentage	-	-	20	-	100.00	0.03	

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.

At December 31, 2003 and 2002, acceptances and guarantees outstanding by geography and concentration are summarized as follows (Korean won in millions):

By Geography	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2003						
Korea	₩ 208,011	100.00%	₩ 228,955	100.00%	₩ 436,966	100.00%
Other	-	-	-	-	-	-
	₩ 208,011	100.00%	₩ 228,955	100.00%	₩ 436,966	100.00%
December 31, 2002						
Korea	₩ 237,279	95.18%	₩ 211,781	100.00%	₩ 449,060	97.40%
Other	12,004	4.82%	-	-	12,004	2.60%
	₩ 249,283	100.00%	₩ 211,781	100.00%	₩ 461,064	100.00%

By Concentration	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2003						
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%
	₩ 208,011	100.00%	₩ 228,955	100.00%	₩ 436,966	100.00%
December 31, 2002						
Manufacturing	₩ 94,567	37.93%	₩ 127,445	60.18%	₩ 222,012	48.15%
Wholesale and retail	47,846	19.19%	77,073	36.39%	124,919	27.09%
Construction	57,423	23.04%	30	0.01%	57,453	12.46%
Other	49,447	19.84%	7,233	3.42%	56,680	12.30%
	₩ 249,283	100.00%	₩ 211,781	100.00%	₩ 461,064	100.00%

Valuation of derivative contracts

₩7,711 million and ₩51 million of gains and ₩7,420 million and ₩379 million of losses, respectively, on valuation of derivative contracts for trading purposes as of December 31, 2003 and 2002 were recorded in other operating income and expenses as follows (Korean won in millions):

	Valuation gain		Valuation loss		Asset		Liability	
December 31, 2003								
Currency forwards	₩ 2,899	₩ 2,608	₩ 2,899	₩ 2,608	₩ 2,899	₩ 2,608	₩ 2,608	₩ 2,608
Stock index options	4,812	4,812	9,251	9,251	9,251	9,251	9,251	9,251
	₩ 7,711	₩ 7,420	₩ 12,150	₩ 11,859	₩ 12,150	₩ 11,859	₩ 11,859	₩ 11,859
December 31, 2002								
Currency forwards	₩ 51	₩ 379	₩ 51	₩ 379	₩ 51	₩ 379	₩ 379	₩ 379

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 ₩222,408 million and ₩238,557 million as of December 31, 2003 and 2002, respectively.



NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Book value and fair value of Trust Account

Book value and fair value of principal and dividend guaranteed trust accounts as of December 31, 2003 and 2002 are summarized as follows (Korean won in millions):

	Book value	Charge on Bank Fair value	Account
December 31, 2003			
Principal guaranteed trust accounts	₩ 226,986	₩ 225,351	₩ 1,635
Principal and dividend guaranteed trust accounts	11,603	11,603	-
	₩ 238,589	₩ 236,954	₩ 1,635
December 31, 2002			
Principal guaranteed trust accounts	₩ 242,052	₩ 243,138	-
Principal and dividend guaranteed trust accounts	16,150	16,156	-
	₩ 258,202	₩ 259,294	-

21. Operating results for the 4th quarter of 2003 and 2002

During the 4th quarter of 2003, there was no change in accounting estimation policies. Major operating results for the 4th quarter of 2003 and 2002 are as follows:

Korean won in millions

	2003	2002
Operating income	₩ 287,716	₩ 283,612
Net income	33,694	20,300
Earnings per share (Korean Won in units)	230	138

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, 2003 and 2002 are as follows:

Korean won in millions

	2003	2002
Salaries and wages	₩ 93,195	₩ 81,085
Severance and retirement benefits	29,965	26,394
Employee benefits	49,900	51,525
Rent	3,585	3,173
Taxes and dues	11,233	10,993
Depreciation and amortization	30,340	26,741
	₩ 218,218	₩ 199,911

23. The Korean economy

In common with certain other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices including corporate governance. The Bank may be either directly or indirectly affected by these economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Bank. Actual results may differ materially from management's current assessment.



INDEPENDENT AUDITORS' REPORT *(TRUST ACCOUNTS)*



Young Wha Corporation
7-14th Floors Regent Securities Bldg.
25-15, Yoido-Dong Youngdeungpo-Ku,
Seoul, Korea

783-1100
Fax : 783-5890, 785-6991
786-6956, 786-6957
761-5084, 783-4866

Phone : 3787-6600, 3787-6800

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, 2003 and 2002, 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, 2003 and 2002 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.

January 15, 2004

This audit report is effective as of January 15, 2004, 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 *(TRUST ACCOUNTS)*

December 31, 2003 and 2002

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2003	2002	2003	
ASSETS				
Marketable securities (Note 2)	₩ 1,093,219	₩ 1,609,416	\$ 912,689	
Loans and bills discounted, less allowance for loan losses and present value discount (Note 5)	22,964	28,880	19,172	
Other assets:				
Accrued interest receivable	42,028	59,010	35,088	
Accounts receivable - other	1,311	1,779	1,095	
	43,339	60,789	36,182	
Due from Bank Account (Pusan Bank)	96,195	158,065	80,310	
Total assets	₩ 1,255,717	₩ 1,857,150	\$ 1,048,353	
LIABILITIES				
Money Trust Certificates (Note 4)	₩ 1,183,719	₩ 1,766,876	\$ 988,244	
Borrowings (Pusan Bank)	7,387	9,836	6,167	
Other liabilities:				
Due to Bank Account (Pusan Bank) - trust management fees payable	6,328	8,460	5,283	
Undistributed trust income	50,839	64,220	42,444	
Unearned income	2,036	2,226	1,700	
Accounts payable - other	2,122	2,701	1,772	
Special reserve	3,286	2,831	2,743	
	64,611	80,438	53,941	
Total liabilities	₩ 1,255,717	₩ 1,857,150	\$ 1,048,353	

See accompanying notes.

STATEMENTS OF OPERATIONS (TRUST ACCOUNTS)

Years ended December 31, 2003 and 2002

	Korean won in millions		U. S. dollars in thousands (Note 1)	
	2003	2002	2003	
Operating income:				
Interest on deposits	₩ 2	₩ 2	\$ 2	
Interest on marketable securities	85,094	114,348		71,042
Interest on loans and bills discounted	2,307	5,694		1,926
Interest on call loans	939	1,076		784
Interest on bonds purchased under resale agreements	-	237		0
Gain on disposal of marketable securities	7,924	16,048		6,615
Gain on disposal of loans	2,770	611		2,313
Interest on due from Bank Account (Pusan Bank)	3,792	3,942		3,166
Reversal of allowance for loan losses	3,574	2,067		2,984
Other	5,074	22,046		4,236
	111,476	166,071		93,067
Operating expenses:				
Trust management fees to Pusan Bank	12,596	29,392		10,516
Loss on disposal of marketable securities	9,896	8,743		8,262
Loss on valuation of marketable securities	3,729	4,122		3,113
Provision for loan losses	12,180	215		10,169
Other	4,976	19,426		4,154
	43,377	61,898		36,214
Distribution to money trust certificate holders	₩ 68,099	₩ 104,173	\$ 56,853	

See accompanying notes.



STATEMENTS OF CASH FLOWS *(TRUST ACCOUNTS)*

December 31, 2003 and 2002

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2003	2002	2003	
Cash flows from operating activities:				
Items not affecting cash and cash equivalents:				
Loss (gain) on disposal of loans, net	₩ (2,741)	₩ (611)	\$ (2,288)	
Loss (gain) on disposal of marketable securities, net	1,972	(7,305)	1,646	
Provision for loan losses, net of reversal	8,606	(1,852)	7,185	
Valuation loss (gain) on marketable securities, net	2,976	(519)	2,485	
Other, net	264	(2,028)	220	
Changes in operating assets and liabilities:				
Decrease in accrued interest receivable	16,982	11,961	14,178	
Increase (decrease) in undistributed trust income	(13,381)	21,768	(11,171)	
Other, net	(2,433)	6,399	(2,031)	
Total adjustments	12,245	27,813	10,223	
Net cash provided by operating activities	12,245	27,813	10,223	
Cash flows from investing activities:				
Decrease in loans	242	43,037	202	
Decrease (increase) in marketable securities	511,249	(191,725)	426,823	
Net cash provided by (used in) investing activities	511,491	(148,688)	427,025	
Cash flows from financing activities:				
Decrease in borrowings	(2,449)	(36,894)	(2,045)	
Increase (decrease) in Money Trust Certificates	(583,157)	202,032	(486,857)	
Net cash provided by (used in) financing activities	(585,606)	165,138	(488,901)	
Net increase (decrease) in cash and cash equivalents	(61,870)	44,263	(51,653)	
Cash and cash equivalents at the beginning of the year (Note 1)	158,065	113,802	131,963	
Cash and cash equivalents at the end of the year (Note 1)	₩ 96,195	₩ 158,065	\$ 80,310	

See accompanying notes.

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 ("Korean 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, 2003 and 2002. 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 ₩200 million and ₩1,877 million as of December 31, 2003 and 2002, 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 4.18% in 2003 and 4.3% in 2002 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 × Average yield rate

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

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

* Daily profit calculated = Interest revenue ± Realized gain (loss) from securities transactions
- Provision for loan and securities losses - 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:

Standard price = Net assets ÷ 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.

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 2003 and 2002 financial statements of the Trust Account.

The amounts of the securities investment trusts are ₩4,054,685 million and ₩6,314,812 million as of December 31, 2003 and 2002, respectively.

Cash and cash equivalents

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



NOTES TO FINANCIAL STATEMENTS (TRUST ACCOUNTS)

December 31, 2003 and 2002

Korean won in millions

	2003		2002	
Cash and deposits	₩	-	₩	-
Due from Bank Account		96,195		158,065
	₩	96,195	₩	158,065

2. Marketable securities

Securities held by the Trust Account as of December 31, 2003 and 2002 are as follows:

Korean won in millions

	Interest rate (%)	2003		2002	
Equity securities		₩	9,195	₩	33,619
Government and public bonds	3.00-6.36		103,475		159,233
Finance bonds	4.78-4.90		20,032		160,285
Corporate bonds	4.05-13.00		805,211		1,133,522
Other	4.49-18.00		155,306		122,757
		₩	1,093,219	₩	1,609,416

3. Derivatives financial instruments

As of December 31, 2002, the Trust has derivative financial instruments comprised of forward contracts amounting to ₩86,160 million to sell government bonds for hedging purposes.

4. Money Trusts

Money Trusts outstanding at December 31, 2003 and 2002 are as follows:

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)
	₩ 1,183,719	

(*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

NOTES TO FINANCIAL STATEMENTS (TRUST ACCOUNTS)

Years ended December 31, 2003 and 2002

	2002	
	Korean won in millions	Distribution rates per annum (%)
Non-specified Money Trust	₩ 191	1.96-12.02 (*1)
Development Money Trust	10	1.00-2.26 (*1)
Elderly Living Pension Trust	8,828	(*2)
Personal Pension Trust	141,923	(*2)
Installment Trust	20,372 (*3)	(*4)
Household Trust	24,192 (*3)	(*4)
Corporate Trust	2,117 (*3)	(*4)
National Stock Trust	860	(*4)
Household Long-term Trust	118,428	(*4)
Employee Premium Trust	15,716	(*4)
New Installment Trust	100,760	(*4)
Unit Money Trust	39,681	(*4)
Specified Investment Objective Trust	450,310	(*4)
Open Type Money Trust	767,291	(*4)
Retirement Trust	72,557	(*2)
New Personal Pension Trust	795	(*2)
Pension Trust	2,845	(*2)
	₩ 1,766,876	

(*1) For these trusts, 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) ₩4,527 million of Installment Trust, ₩6,345 million of Household Trust and ₩536 million of Corporate Trust are guaranteed against principal balance impairments.

(*4) Based on actual operating results.

5. Disposal of loans

For the past several years, the Trust Account sold its loans to Korea Asset Management Corporation ("KAMCO"). In accordance with the KAMCO contract, the sales price set when the contract was 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 at settlement.

The long-term loans restructured by court receivership, court mediation and workout plans, etc. were sold under repurchase agreements under which the Trust Account should repurchase the sold loans 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 agreement as of December 31, 2003 and 2002 amounted to ₩1,200 million and ₩22,200 million, respectively. The Trust Account may suffer losses from the repurchase of these loans in the future.

The amount of loans written off for which the Trust Account still has legal claims is ₩68,163 million and ₩73,083 million as of December 31, 2003 and 2002, respectively.

6. The Korean economy

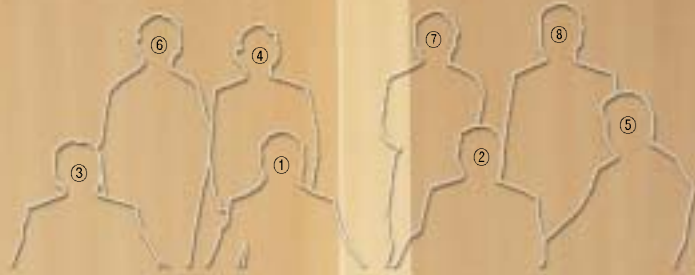
In common with certain other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices including corporate governance. The Trust may be either directly or indirectly affected by these economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Trust. Actual results may differ materially from management's current assessment.



Board of Directors

Executive Directors and Auditor

- 1_ **Shim, Hoon**
Chairman of the Board of Directors & President
- 2_ **Park, Chang-kyu**
Standing Auditor
- 3_ **Lee, Jang-ho**
Deputy President
- 4_ **Kim, Chang-go**
Senior Executive Vice President
- 5_ **Lim, Chai-hyun**
Senior Executive Vice President
- 6_ **Jung, Sung-tae**
Senior Executive Vice President
- 7_ **Bae, Tae-kyun**
Senior Executive Vice President
- 8_ **An, Sung-chel**
Executive Vice President



Non-standing Directors

Ha, Young-chul

General Director / Lotte Confectionery Co., Ltd.

Shin, Pan-kug

President / Korea Steel Shapes Co., Ltd.

Kim, Si-seung

Lawyer / Kim Si-seung Law-office

Shin, Jung-taek

President / Saewoon Steel Co., Ltd.

Eun, Soong-pyo

Professor / Shila University

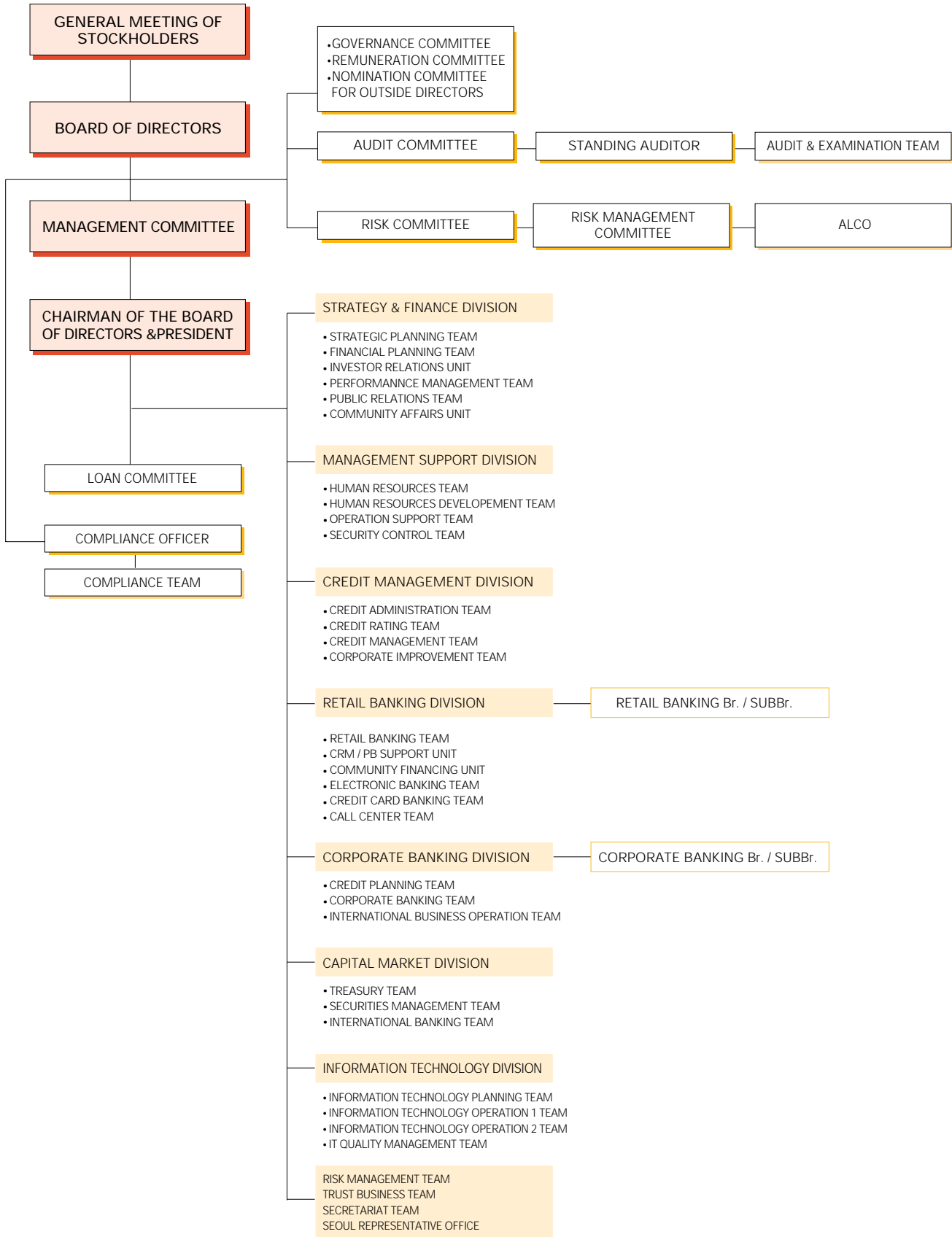
Lee, Chae-woong

Professor / SungKyunkwan University





Organization Chart (as of April. 1, 2004)





History of Pusan Bank

- 1967. 10. 10 Founded with a paid-capital of W300 million
- 1967. 10. 25 Commenced business
- 1968. 2. 1 Commenced foreign exchange business
- 1972. 6. 15 Listed on Korea Stock Exchange
- 1983. 5. 2 Began trust business
- 1985. 6. 1 Began credit card business
- 1990. 1. 3 New corporate identity program(CIP)launched
- 1992. 11. 1 Home-banking service began
- 1993. 12. 1 EDI Service began
- 1994. 12. 5 DDS-styled dealing system adopted
- 1995. 5. 2 Tele-banking service began
- 1997. 9. 18 Integrated on-line system opened
- 1998. 12. 9 Established strategic business tie with Microsoft of the U.S.
- 1999. 3. 31 Selected as a funds settlement bank by Korea Futures Exchange
- 1999. 7. 28 Concluded a comprehensive consulting service pact with Pricewaterhouse Coopers
- 2000. 2. 9 Formed strategic alliances with Microsoft, Korea Telecom Freetel, and KEBT for e-banking business
- 2000. 3. 6 Cyber-banking service began
- 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. 3. 20 New business division system implemented bank-wide
- 2001. 5. 29 Consultancy contract signed with Nemo Parters to build a performance management system
- 2001. 8. 1 Integrated profit management system launched
- 2002. 3. 3 Loans for funding marina product distribution won Maeil Business Newspaper's Silver Award
- 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 Pusan Bank Community Service Corps inaugurates
- 2002. 12. 13 President Sim, Hoon named 'Best CEO of the Year' by the Korea Economic Daily and Towers Perrin
- 2002. 12. 31 Official commendation received for exemplart support given to SMEs
- 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
- 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.)
- 2003. 6. 4 Entered agreement with Korea Export Insurance Corp. and began issuing export credit bank guarantees
- 2003. 6. 10 Set up operations for handling business incorporation, bad loan collection, etc
- 2003. 6. 17 Established wholly owned subsidiary, Pusan Credit Information
- 2003. 7. 1 Selected as 'Superior Public Corporation of 2003' by the Korea Stock Exchange
- 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's outstanding management performance
- 2003. 11. 12 Concluded contract with Deloitte Consulting of the U.S.
- 2003. 12. 5 Concluded joint business agreement with LG Investment & Securities
- 2003. 12. 9 Entered into agreement with Korea Land Corp. to provide real estate development loans
- 2003. 12. 15 Received an upgraded financial strength rating and a "stable" outlook from Moody's Profitability and capital adequacy were deemed "outstanding," with net interest margin and asset soundness receiving the highest scores
- 2003. 12. 18 Provided 9.8 billion won in project financing for Geoga Bridge
- 2004. 1. 13 Joined hands with KTF to offer IC chip-based mobile banking service



International Banking Directory

International Banking team

Address : Kumseki bldg., 4FL.,16, 1-Ga, Ulchi-Ro,Chung-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 Team Manager : Jung, Yon-joo

International Business Operation Team

Address : 25-2, 4-Ga, Chungang-Dong,Ghung-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 Team 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 PNBPU3N NYC New York
- Standard Chartered Bank 3582-040960-001 SCBLUS33 New York
- Union Bank of California 96-107771-1121 BOFCUS33 SFO 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.,
Bumcheon 1-dong, Busanjin-gu, Busan 614-721, Korea
Tel : (82)-(51)-643-4900
Fax : (82)-(51)-643-4939
Paid-in capital : ₩15,000 million
Holding share : 100%

Mybi Co., Ltd.

Address : 12th FL., Woosin Bldg., 830-266 Beomil 2-dong, Dong-gu, Busan
Tel : (82)-(51)-635-1010
Fax : (82)-(51)-637-2727
Paid-in capital : ₩7,260 million
Holding share : 28.93%

Korea Lease Financing Co., Ltd.

Address : 15th FL., Seorin Bldg., 88 Seorin-dong, Jongno-gu, Seoul, Korea
Tel : (82)-(2)-398-4114
Fax : (82)-(2)-398-4119
Paid-in capital : ₩20,000 million
Holding share : 17.38%

Busan Credit Information Co., Ltd.

Address : 387-11, Gaya1-Dong, Jin-Gu, Busan, Korea
Tel : (82)-(51)-895-5103
Fax : (82)-(51)-895-2342
Paid-in capital : ₩30,000 million
Holding share : 100%



Corporate Data

Established

Oct. 25, 1967

Total shareholders' equity

KRW 936.9 billion

Paid-in capital

KRW 733.4 billion

Common stock issued and outstanding

146,683,650

Domestic network

209

Employees

1,955

Major shareholders

1. Lotte Group	14.11%
2. CRMC	10.40%
3. Parkland Co.,Ltd.	4.11%
4. Korea Iron & Steel Co.,Ltd.	2.14%
5. Others	12.78%



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830-38, Bomil-dong, Dong-gu, Busan, Korea
