

CHALLENGE FOR CHANGE

Pusan Bank

2007

annual report

Just
as
constant
dropping
wears
away
a
stone,

Pusan
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creates
greater
values
for
its
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and
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水滴穿石

Just as constant dropping wears away a stone,
Pusan Bank creates greater values for its customers
and the community it serves.



Pusan Bank is headquartered in Busan, the second-largest city in Korea and its main port. Since its establishment in 1967, the bank has been a **premier financial service provider** in the nation's southeastern region. It enjoys strong loyalty and support from its customers, who are often both its business partners and shareholders. It was first listed on the Korea stock exchange in June 1972. At the end of 2007, the bank posted total assets of **KRW 27.3 trillion**, equity capital of **KRW 1.5 trillion**, and a record-high net income of **KRW 270.7 billion**. In addition, its credit rating from Moody's was upgraded to "**A2**," the highest-ever in its history. Its organization includes 2,626 dedicated employees and a nationwide network of 226 branches and offices.

	2007	2006
For the Fiscal Year		
Total Revenues	1,858.9	1,510.5
Total Expenses	1,588.2	1,326.6
Net Income	270.7	183.9
At Year's End		
Total Assets	25,990.9	21,710.8
Total Deposits	16,212.9	14,557.7
Total Loans	17,905.6	14,932.4
Securities	5,028.0	4,918.2
Shareholders' Equity	1,472.7	1,278.9

Years ending December 31

(In billions of Korean Won)

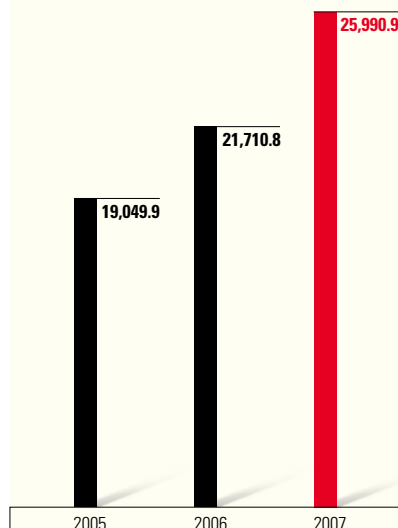
	2007	2006
For the Fiscal Year		
Total Revenues	1,981.3	1,624.9
Total Expenses	1,692.8	1,427.1
Net Income	288.5	197.8
At Year's End		
Total Assets	27,702.9	23,355.0
Total Deposits	17,280.9	15,660.2
Total Loans	19,085.1	16,063.3
Securities	5,359.2	5,290.6
Shareholders' Equity	1,569.7	1,375.7

1) FY2007: ₩938.20, FY2006: ₩929.60 per US\$1.00

(In millions of US \$)

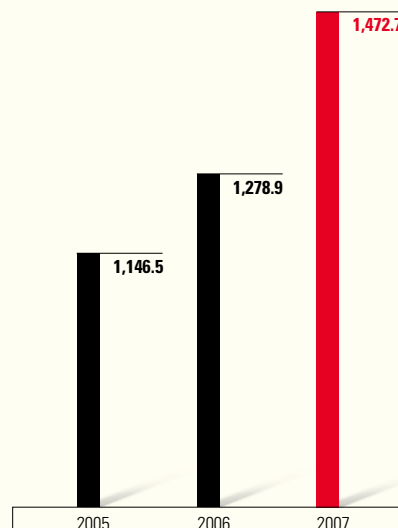
Total Assets

(In billions of Korean Won)



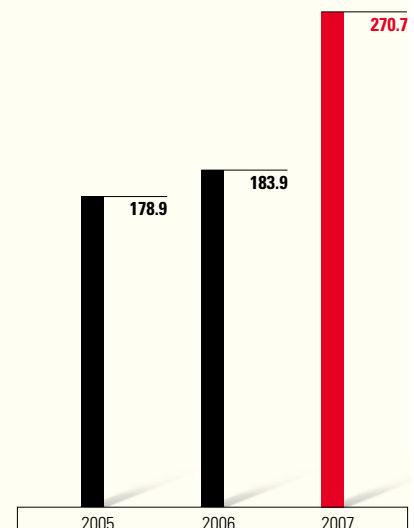
Total Shareholders' Equity

(In billions of Korean Won)



Net Income

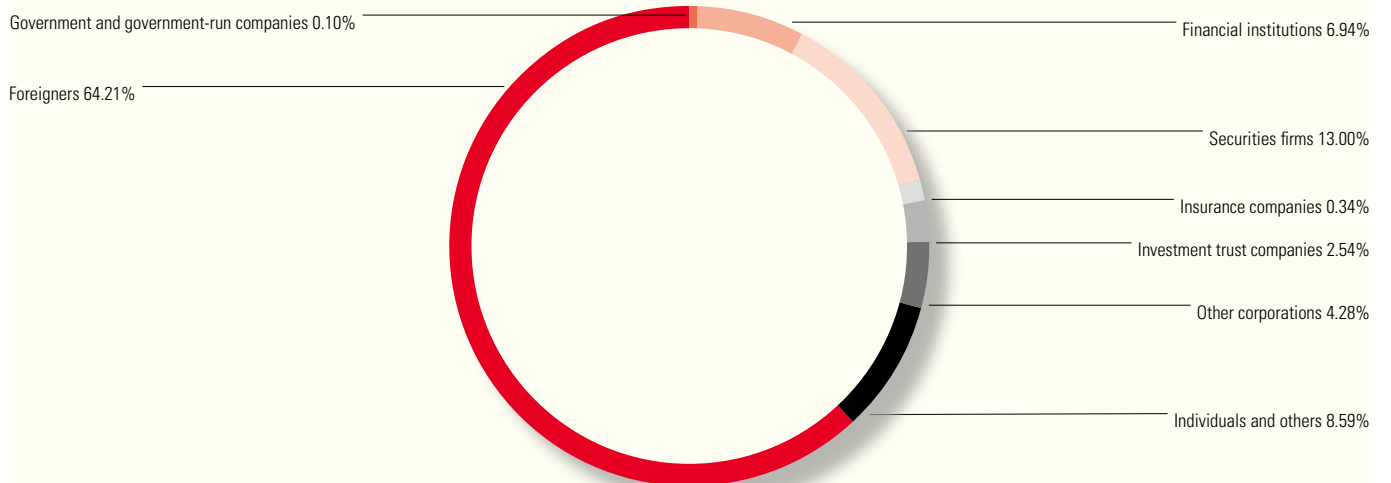
(In billions of Korean Won)



Stock Price



Shareholder Composition (as of Dec. 31, 2007)



Major Shareholders

(as of Dec. 31, 2007)

Shareholder	Percentage (%)
Lotte Confectionery Co., Ltd.	14.11
Small Capital World Fund Inc.	7.99
Park Land Co., Ltd.	4.45
New Economy Fund	3.52
PL-ABDN GL	2.98
National Pension	2.12
MSIL-MS Co., Int'l PLC	1.96
Korea Iron & Steel Co., Ltd.	1.90
MSIL-SR Global FD	1.82
Templeton Global Smaller Companies Fund	1.62



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Pusan Bank aims to become a super-regional financial group in southeastern Korea, creating optimal value for our customers and the community it serves.

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To begin, we would like to thank our customers and shareholders for their continuous support and encouragement.

2007 was a challenging year for all Korean banks. For example, the sub-prime mortgage debacle in the U.S.A. led to concerns about global financial meltdowns. Meanwhile, here at home, the “big money movement” phenomenon forced all domestic financial institutions to tighten their belts.

Despite this unfavorable operating environment, Pusan Bank recorded total assets of 27.3 trillion won, a rise of 19.0% from the previous year. Our profitability was such that we managed to generate a net income of 270.7 billion won and an industry-leading ROE of 19.42%. These accomplishments resulted from our employees’ hard work, our strategy of preemptive risk management, and timely cost controls. To celebrate our 40th anniversary in 2007, we established a mid-to long-term strategy of becoming Korea’s southeastern super-regional financial group. We believe that last year’s superb performance brought us one step closer to that goal.

In addition, our credit rating from Moody’s Investor Services was upgraded by three notches in 2007. It went from “Baa2” to “A2,” which is the same as a “sovereign rating” in Korea. We also came in first among banks in the Financial Supervisory Service’s evaluation of customer claims management. We believe that such successes reaffirmed our reputation as the region’s leading financial institution.

The health and survival of a regional bank is necessarily dependent on the support of its inhabitants, and we have always been very fortunate in that area. In return, Pusan Bank has introduced many programs to support the region’s economy and fulfill its corporate social responsibilities. All our staff members are involved in volunteer activities to help the underprivileged, and we also funded the costs of the “Busan Cultural Activities Scholarship” last year. We are planning many other cultural, artistic, and social welfare activities that will help make Busan a more attractive and livable city.

Although our roots in the Busan-Gyeongnam region go back almost half a century, we are always focused on the future. That is why our goal is to become a super-regional financial group, leading and supporting the region and its citizens.

Thank you again for your support.



Chairman of the Board of Directors & President

Lee, Jang-ho

Pusan Bank enjoyed numerous successes in 2007, despite facing many challenges in its operating environment. Besides adding to our confidence in our potential, these accomplishments encouraged us to design an ambitious management plan, "Vision 2010." Our overall goal is to become a top-tier bank in Korea's southeastern economic zone by doubling our operational volume and financial results by that year. To do so, we must achieve what we have dubbed the "Triple 4": total assets of KRW 40.0 trillion, net income of KRW 400.0 billion, and a 40% market share.

To this end, we will maximize our value by carrying forward the following core strategies. First, we will strengthen our foundations for sustainable growth, augment our earnings structure, and enhance our ability to cope with change. In addition, we will widen our deposit base, develop a profit-centered management culture, and focus on both qualitative and quantitative growth. With these programs and processes in place, we should be able to record our best-ever financial results.

Tasks by strategy

1. Strengthen foundations for sustainable growth

- Extend deposit base
- Develop a high-traffic store network
- Upgrade institutional banking service
- Increase investment banking operations
- Add to retirement pension business

2. Augment earnings structure

- Promote non-interest income
- Highten management efficiency
- Raise asset management capability

3. Enhance ability to cope with change

- Deploy preemptive risk management processes and programs
- Intensify regional marketing operations
- Build new business models
- Streamline IT business processes
- Develop strategies to cope with government's privatization policy

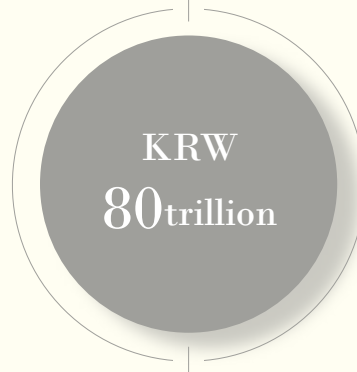
Getting closer to our customers

Pusan Bank has always been the finest regional bank in the area encompassing Busan, Gyeongnam, and Ulsan. As our role to be the representative, for that region's financial institutions, we want to create the highest possible values for the community. This will allow us to contribute to the growth of the region and ensure that all our stakeholders-including customers, shareholders, business partners, and employees-can enjoy a better and more affluent life. In addition, we will make sure that our operations meet the real needs of our customers and are always profit-centered.

Challenge for Change

Pusan Bank will hone its competitive edge and raise its profile as the region's representative financial company by creating the highest possible values for all its stakeholders. To this end, we will reinforce our sales capacity and augment our organizational capabilities to cope with future changes in the industry. In specific terms, this means that we will grow enough to attain our goal of "Triple 4"-total assets of KRW 40.0 trillion, net income of KRW 400.0 billion, and a 40% market share through growth. This, in turn, will help us establish the foundations needed to develop into a first-class super-regional financial institution by 2015.

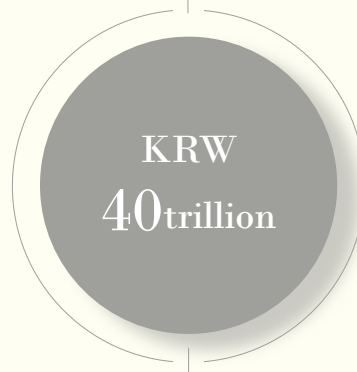
2015
Convert into a comprehensive financial group



Grow into a comprehensive regional financial group with a powerful constitution and strong competitiveness

- Conclude business diversification (successfully convert into a financial group)
- Attain more than 30% of non-interest income to total income
- Complete new construction of a head office approximately by 2012

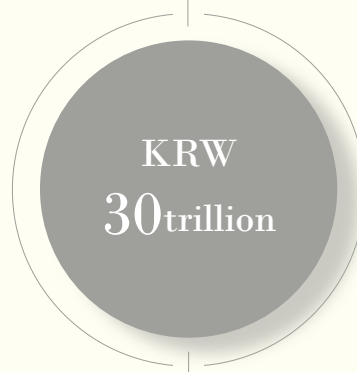
2010
Consolidation of new growth engines



Develop into the leading bank in the southeastern economy

- Ensure 40% market share for deposits and 30% for loans in Busan
- Seek full operational growth in Gyeongnam and Ulsan areas
- Launch overseas operations (China, Vietnam, etc.)

2008
A second thrust for expansion



Successfully take off into a new stage of growth

- Beef up basic operations to expand net income
- Launch overseas offices (China, Vietnam, etc.)
- Build customer-centered corporate ethos
- Design the new head office (2007~2008)

Credit rating upgraded to “A2” by Moody’s, Issued subordinated bond

Moody’s upgraded the credit ratings of Pusan Bank by three notches (to “A2” from “Baa2”), indicating that its financial soundness and future outlook are both very positive. In addition, the bank issued USD 0.45 billion worth of long-term, foreign-currency subordinated bond using the overseas public offering method—a “first” for a Korean regional bank. This will have two advantages: First, it will enable the bank to add to its BIS capital ratio in preparation for the enactment of the Basel II guidelines in early 2008. Secondly, the bank will then have the financial resources needed to repay its existing foreign-currency borrowings. These bond were sold at Investor Relations sessions held in Singapore and Hong Kong, targeting overseas investors. By engaging in these and similar activities, the bank will make a significant contribution to the expansion of the region’s financial services.

Achieved Triple Crown

Pusan Bank achieved a “triple crown” in 2007 by recording extremely positive results in terms of growth potential, profitability, and financial soundness. These successes arose in spite of the American sub-prime mortgage debacle and Korea’s “big money movement” phenomenon. Total assets broke the KRW 27.3 trillion level—a surge of 19.67% from a year earlier—while operating income increased by a healthy 49.09%. The bank focused on both qualitative and quantitative growth, resulting in an improvement of 0.13% in the ratio of substandard and lower loans to total loans and a rise of 1.15% in its BIS capital ratio. Going forward, the bank will retain its commitment to ensuring sustainable growth in terms of both quantity and quality. It will also reinforce its management abilities, strengthen its asset competitiveness, and continue with its corporate social contribution activities.

Received Appreciation Plaque for Labor-Management Harmony from Busan Metropolitan Government

Pusan Bank was awarded an appreciation plaque for labor-management harmony in recognition of its pivotal role in encouraging industrial peace and the stabilization of employment in Busan. The city particularly applauded the bank’s program of converting its contract-basis workers to regular ones, saying that it had set an outstanding example in resolving the situation involving contract-basis workers and helping to create a “win-win” labor-management culture.



Invested KRW 30.0 billion in build-transfer-lease (BTL) regional development funds

Pusan Bank signed an agreement to invest KRW 30.0 billion out of a total KRW 170.0 billion worth of build-transfer-lease (BTL) regional development funds. These projects are aimed at encouraging private sector investment in the construction of residential infrastructures and public facilities and are to be paid back by the government through rental payments. By doing this, the bank is playing a leading role in the region's development while increasing the opportunities for local construction companies to participate in these projects. In the end, these activities will contribute to the region's development and add to its public housing and ancillary facilities.

Signed agreement with Busan Metropolitan Government regarding financial support

This agreement is designed to support Busan-area companies that will lead the region's economy in the future. The bank is committed to participating in similar programs in the future. In addition, it plans to aid such companies on a preferential basis by raising a separate fund worth KRW 300.0 billion. It also intends to support these companies' employees in such ways as freeing them from paying interest on loans. By engaging in these activities, the bank will contribute to the development of the regional economy and support the local government's policy of fostering "Top 10" strategic industry-leading enterprises.

Carried out new social contribution projects worth KRW 10.0 billion

To celebrate its 40th anniversary, Pusan Bank carried out new social contribution (SC) projects worth approximately KRW 10.0 billion. In particular, it officially launched the Pusan Bank Scholarship and Cultural Foundation by contributing KRW 5.0 billion towards its operations. The goal of this organization is to foster the growth of high-quality human resources and support academic, scientific, and technological research and sports activities in the region. The bank also plans to participate in the Mecenat Movement, which encourages the development and performance of creative works by cultural and artistic organizations.







Value Creation

During the past year, Pusan Bank continued with its commitment to delivering value for its customers by developing innovative financial solutions and fostering the growth of high-caliber professionals. We also focused on building stronger business foundations, bolstering our competitiveness, and creating a system-wide integrated risk management structure.

Business Areas

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- 13 Retail Banking
- 15 Investment and Global Banking
- 16 Risk Management
- 17 Management Infrastructure

Corporate Banking



Pusan Bank offers its business customers a wide variety of corporate banking services, including loan products, cash management, business-to-business (B2B) electronic settlements, and corporate funds management. In addition, we practice field-centered management and customer satisfaction management. We often visit our client's companies and hold small-group conferences to listen to their problems and address their concerns.

We held approximately KRW 11.5 trillion in corporate loans at the end of 2007, a rise of 24.1%, or KRW 2.2 trillion, from the preceding year. Loans to small- and medium-sized enterprise (SMEs) amounted to KRW 2.3 trillion, about 70.0% of our total won-currency loan portfolio.

In addition, we developed a variety of loan products. They include "Busan Dynamic Loans" for hard-hit small businesses, "Public Purchasing Loans" for SMEs that have signed supply agreements with public organizations (available in advance of actual production), "SOHO Plus Loans" for SOHOs wanting to tap into niche markets, and "Pusan Bank Franchise Loans" for high-quality franchises. We also assisted in the development of industrial complexes in the Hwajeon and Jangan areas and added to our B2B operations.

In the future, we plan to continue with our store expansion strategy. Our focus will be on corporate branches, helping us to attract many new customers-especially in the Gyeongnam and Ulsan areas, with their high potential for new growth.

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In our role as Korea's southeastern most important financial institution, we are committed to providing our many customers with the finest in corporate banking products and services.
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We also plan to extend emergency support to SMEs that are suffering financial difficulties due to rises in raw material prices and soaring exchange rates. This aid will consist of special management stabilization funds, with a limit of KRW 0.5 billion per company. We will also help to create an environment in which female entrepreneurs receive preferential treatment. To support Korean companies that are located overseas, we intend to open offices in Qingdao (China) and Vietnam, where most Busan-based companies have set up their affiliates. These strategies illustrate our continuing commitment to change and innovation.

Retail Banking

Pusan Bank has focused its retail banking operations on increasing its customer base and retaining its position as the top regional bank. The bank is also committed to meeting the increasingly diverse needs of its customers by offering them the very finest products and services.

Deposits We have developed a wide variety of new deposit products to meet the needs of our customers and keep pace with changes in the financial market. These include three types of “Premium Lady Deposits” for women and “e-Blue Sea Free Installment Savings” for customers who do most of their banking on the Internet. We have also been expanding our number of branches and broadening our deposit base. Total deposits jumped by 15.31% to reach KRW 20.5 trillion at the end of 2007.

Lending We expanded our lending base by focusing on niche markets through the development of specialized, non-secured loan products for professionals. These include the “Doctor Loan,” “Lawyer Loan,” “Medipharm Loan,” “Pro Loan,” and “SOHO Plus Loan” for the self-employed. We also bolstered our sales capacity by offering consultation services to self-employed businesspeople. In addition, we developed a wide range of products to meet the varying needs of our customers. These comprise the “Visiting Loan Service,” targeting customers who access us through the Internet, “Interest-Saving Mortgage Loans,” and “Blue Chip Apartment Home Mortgage Loans.” Finally, we instituted “Bus Company Union Member Preferred Loans” following our selection as a lead bank for the retirement pension trusts of Busan-area bus drivers.



Credit Cards Our number of corporate credit card members and check card members grew by 32.0% and 46.0%, respectively, year-on-year. The total number of credit card users amounted to 1.07 million at the end of 2007—a rise of 23.8% over the year.

We plan to expand our credit card business even more in 2008. To do so, we will boost credit card usage through the “Best 2008 Campaign” to find new credit card holders and the conversion of check card users to credit card users.

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We focus on providing innovative retail banking solutions and ensuring the best practices in the areas of sales capability and the efficiency of our distribution channels.

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We also plan to augment our credit card fees by increasing the number of holders to 1.21 million and the volume of usage to KRW 3.2 trillion. We will also utilize concentrated marketing techniques, such as targeting cards for the payment of unemployment and worker's compensation insurance premiums.

Private Banking Our 52 private banking (PB) branches cater to customers with deposits of KRW 50.0 million or more. We carry out a variety of marketing activities to retain these clients and attract new ones, offering them such services as consultations with specialists in various areas. Some of our other activities include enhancing our capabilities and sales capacity by holding PB seminars and workshops and promoting PB brand awareness.

To augment our competitiveness, we plan to conduct regionally-focused PB operations, analyze our customers' needs and wants, foster specialized PB human resources, reinforce our market targeting financially healthy customers, and improve our infrastructure.

Trust At the end of 2007, we had KRW 1.2 trillion worth of assets under management (AUM) for money trusts and KRW 109.8 billion in AUM for properties in trust. We offered these customers such products as "Deutsche DWS Premier European Equity Investment Trust I" and "Dongyang Separate Taxation-Applied High-Earnings, High-Risk Bond Investment Trust 2Y-1." The former invests in listed stocks in advanced European countries, while the latter is suitable for customers who pay composite income taxes. Deposits and fees in the trust account amounted to KRW 14.5 billion and KRW 11.3 billion, respectively, at the end of 2007, far exceeding our original goals.



Investment and Global Banking



Securities Investments & Trading The bank made dramatic improvements to its Capital Market Division during its reorganization in early 2007. This was done to carry out its comprehensive capital plans and heighten the efficiency of its liquid management activities. We also accelerated our business diversification processes in preparation for the enforcement of the Capital Market Consolidation Act. This included hiring outside specialists in the investment banking (IB) and fund management sectors.

We won the right to offer our customers such premium-quality products as initial public offerings (IPOs), corporate bonds, and principal investments (PI) by concluding strategic cooperation agreements with Daewoo Securities and Hyundai Securities. This also enabled us to enter into cooperative relations for the promotion of domestic and overseas IB operations related to project financing, the issuance of bonds and asset-backed securities (ABS), IPOs, M&As, and equity investments. This has allowed us to create a variety of earnings bases by sharing profits with securities firms.

In 2008, we expect volatility in the global financial market to increase and management conditions to become more problematical. To counter this situation, we will continue strengthening our multi-phased capital-raising policies and add to our profitability.

F/X Trading & Trade Finance In the area of foreign exchange (F/X), Pusan Bank continued its strategy of working with small- and medium-sized import and export companies. This included holding seminars to help them cope with dramatic and continuous changes in foreign exchange rates. As a result, we recorded USD 7.3 billion in export/import financing and USD 2.2 billion in wire transfers and foreign exchange transactions at year-end.

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We are committed to increasing our productivity,
efficiency, and profitability, with an emphasis on
‘customer-first’ management.
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We advertised our foreign exchange and remittance services in such high-traffic locations as the trains on Busan’s subway lines 1, 2 and 3, 24 university towns, and Gimhae Airport’s cargo carts, and strove to interest more corporate customers in undertaking foreign exchange transactions. This helped us to attract new corporate customers and record USD 258.0 million in foreign exchange operations and KRW 225.0 million in foreign exchange-related fees and commissions.

Some of our other services included F/X products and services guidance system, F/X earnings inquiry screens, F/X-oriented sales tips, and an automatic reporting system for receipts and assumptions.

Risk Management



Pusan Bank carried forward a string of projects in preparation for the full-scale operation of the revised Basel Capital Accord in 2007. First, we developed basic infrastructures for the introduction of the new BIS framework. The program was designed to build a comprehensive, risk-weighted asset computation system and satisfy pillars 1-3 of the new BIS agreements. We created credit risk- and market risk-weighted asset computation systems in preparation for pillar 1, internal capital adequacy evaluation systems for pillar 2, and integrated report computation systems for pillar 3. As a result, we are now fully prepared for the new BIS agreements. We also enhanced the efficiency of our analysis through the integration of risk-related data, augmented our systematic capital management activities, and strengthened our crisis analysis functions. In addition, we carried out preliminary risk management operations through the introduction of a bank-wide control self-assessment (CSA) mechanism.

In addition, we began the reconstruction of our asset and liability management (ALM) system. This project is slated for completion and full-scale operation in March and May 2008, respectively. This was done for two reasons. First, we needed to reflect FSS guidelines and Basel II's requirements in our ALM operations. Secondly, we wanted to develop daily interest and liquidity risk management systems by shortening our analysis cycles. Another of our projects was the analysis of industries that are sensitive to economic ebbs and flows. This allowed us to track changes in their external management environment and fluctuations in their movements, thereby contributing to reductions in our volume of non-performing loans (NPLs).

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We have implemented a series of risk management programs to comply with the Basel II Accord and boast extremely healthy capital adequacy ratios.
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From March-November, we were engaged in completing the redevelopment of our “early warning systems.” The goal here was to improve the systems’ “hit rates” on their variables and augment their overall operations. We also carried out year-long educational programs relating to the new BIS agreements, gave out background information on operational risk management to operational risk management system users, offered in-depth training to employees who had already completed cyber risk management courses, and provided risk management briefing materials to the Board of Directors and management.

In 2008, our strategic goals are to proactively cope with changes in the financial environment and create a bank-wide integrated risk management structure. To this end, we will bolster our ALM control and supervision functions, improve on the quality of our portfolios and their management, and ensure that the new BIS agreements are fully adhered to.

Management Infrastructure

Business Process Re-Engineering (BPR) Pusan Bank launched a large-scale business process re-engineering (BPR) program in 2003—a “first” for regional banks in Korea. We expanded it to all our branches in 2005, and expect to reach the break-even point by 2008. The implementation of the BPR program led to a reduction in the number of our tellers by due to the increased use of automated teller machines, automatic transfers, and Internet banking. This was followed by a further decrease of 32 employees as the result of integrating and reconfiguring branches. Although our 20 new branches required an additional 148 staff members (an increase of 69), the overall number of branch employees decreased by 65. As a consequence, the total number of our employees was reduced by 64 as of 2007-end, after deducting a further 70 from call center personnel.

This first-stage BPR application had a number of other advantages. For example, it enabled us to utilize former document and data storage space for marketing activities and establish new branches in small locations. We were also able to better accommodate handicapped employees, hire more physically-challenged people, and reduce personnel expenses by utilizing contract employees for simple and repetitive duties. Two surveys of our branches showed that more than 90% of our employees were satisfied with the BPR system. As a result, we will soon introduce the second-stage—after assessing its necessity and targeting which operations it should be applied to.



e-Biz In the e-Business sector, Pusan Bank encouraged customers who were still using tellers to utilize safer and more convenient electronic financial transactions. As a result, the number of ATM cash cards increased to 2.72 million, while commission income from electronic cash transactions totaled KRW 0.75 billion. The number of e-Biz transactions—including automated transfers, cash management service (CMS) common networks, CMS money collections, school banking, virtual account channels, and affiliations with brokerage houses—increased to more than 64.0 million.

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We strive to create value through enhanced customer effectiveness, augmented cost efficiencies, and cutting-edge systems.

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The number of people using our Internet banking services broke the 1.04 million mark as of 2007-end—a rise of 13.2% from a year earlier. In addition, the number of subscribers to our phone banking service advanced by 3.9% to 1.35 million, while the number of our mobile notice service users ballooned by 45.3% to 0.15 million. As a result, electronic financial transactions now account for about 85% of our total transactions.

In the future, we will increase our mix of service channels to add to the convenience of our electronic banking customers.





Sharing Returns

Pusan Bank is taking the lead in spreading a culture of sharing with and caring for people in need. Our community service efforts include supporting regional art, culture, and sports, participating in environmental preservation, and assisting with scholarships and educational activities.



Social Activities

20 Regional Economic Trends and Forecasts for Busan

22 Social Contribution Activities

Regional Economic Trends and Forecasts for Busan



Trends and Highlights in 2007 The economy in Busan witnessed solid growth in the wake of production increases in the manufacturing sector, rising exports, and a continued recovery in private consumption. Production in the manufacturing area surged by 10.2% year-on-year, compared to a mere 2.7% in 2006. This was led by ship construction, assembled metals, apparels and furs. Private consumption continued its recovery for the second year in a row, due mainly to a 2.7% rise in large-scale retail store sales.

Facility investments were also relatively satisfactory, with the import amount of capital goods maintaining double-digit growth and the business survey index (BSI) remaining at the standardized level of 100. Exports expanded by 25.6% over the year (compared to 19.6% in 2006) due to healthy growth in the global economy and favorable markets for ships, automobiles, and steel. Employment conditions were also slightly better, with the unemployment rate backing off to 3.9% (during January-November) from the previous year's level at 4.2%. Consumer prices edged up by 3.1% from the 2.4% recorded in 2006.

Economic Outlook for 2008 Led by exports, Busan's economy will likely continue to grow in 2008, and private consumption will continue its recovery.

The manufacturing sector will continue growing on the strength of its core businesses including ships and automobiles. The shipbuilding industry should also maintain high growth, reflecting a worldwide expansion in the volume of maritime goods transportation and a rise in demand for new vessels. Automobile and auto parts are also likely to continue their upturns, influenced by a new model from Renault Samsung Motors and additional domestic sales.

Private consumption should continue recovering, since consumer sentiment is expected to rise in the wake of an increase in the number of full-time workers.

Facility investments should also maintain relatively healthy growth, as demand will remain high due to a downturn in the BSI for production facility levels in the manufacturing sector. Construction investments will likely enjoy a gradual recovery, due to a better balance of supply and demand in the housing market and anticipated regional development projects. Exports, centering on ships and automobiles, should also maintain solid growth. However, general machinery (including steel and metals) should contract marginally due to the strong won and reduced demand from advanced countries.

Strategies for the Advancement of Busan's Economy in 2008 Although the Busan, Ulsan, and Gyeongnam region is witnessing ongoing industrial specialization by function, it is also expected to generate considerable synergy effects due to the complementary nature of its industrial structure. Unfortunately, it is failing in its efforts to construct an integrated regional economic bloc. This is mainly due to a lack of individual development strategies by municipal governments and a failure to appreciate the many advantages that can accrue to regional economic entities.

Despite this, we believe that economic integration should progress substantially in 2008. This will result from the advancement of a series of regional development strategies—including the creation of a strategy for joint prosperity in the Gyeongnam region (including Busan and Ulsan), strengthened cooperative systems, and the building of additional integrated infrastructures.

Unfortunately, the region as a whole is characterized by a low level of interdependence due to the number of small, consumption-type businesses in the service industry. To counter this situation, export-type enterprises—including production-oriented ones—should be promoted, with their values being increased by the development of more knowledge-based services. In addition—given the region's current dependence on core manufacturing businesses the government should act to discourage excessive investments in such business sectors as shipbuilding so that the economy will not suffer unduly when demand for their products slackens.

On the plus side, the need for high-quality human resources will increase rapidly in the wake of technology integration in manufacturing and ever-increasing specialization in the service sector. To meet this need, high-quality workers must be trained in such areas as R&D, finance, and distribution.



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Our goals are to contribute to the regional economy
and its social development and become the financial
institution at which people most want to work.
”

Social Contribution Activities



Pusan Bank Community Service Group

The Pusan Bank Community Service Group was inaugurated in December 2002, as part of the bank's ongoing community service efforts. Composed of all the bank's employees, the group carries out a wide variety of community service activities. Boasting 18 district groups and 31 service teams based in such areas as Busan, Ulsan, Gimhae, and Yangsan, its 8,000-odd members engage in a multitude of activities, with the second Saturday of every month being designated as its "Community Service Day."

Each group carefully evaluates the needs of each respective district in order to carry out the most efficient service activities. These include visiting social assistance facilities, helping the underprivileged, participating in "one company-one village" partnerships, tree planting and environmental cleanups, and supporting rural communities. Members are available 24/7 for disaster relief and other emergency needs.

Pusan Bank Scholarship and Cultural Foundation

Pusan Bank officially instituted the Pusan Bank Scholarship and Cultural Foundation in December 2007 by donating KRW 5.0 billion towards its initial expenses. Mainly engaged in supporting scholarships and educational activities, the foundation focuses on charitable works, academic, scientific and technological research, and assisting cultural, artistic, and sports programs.

As part of its goal to create a warm society of sharing and caring people, it assists low-income earners suffering from such diseases as childhood cancer and carries out programs to benefit the underprivileged—including juvenile family heads, one-parent families, undernourished children, single senior citizens, and the differently-abled. Another program provides a total of KRW 0.3 billion to 150 university students in the region. The foundation was also instrumental in the restoration of Geumjeong Sanseong (walled fortress), and presents gold rings to encourage childbirth in the region.

To celebrate its 40th anniversary, Pusan Bank will continue with its SC activities, taking the lead in spreading a culture of sharing with and caring for people in need.

Support for regional culture and arts

Pusan Bank supports the development of regional art and culture through a program called the "Culture Angels Project." This is to help Busan develop into an art and cultural city. Some of its efforts include assisting with creative works and performances by artistic and cultural groups and contributing towards Mecenat activities.



We have a three-pronged strategy in this extremely worthwhile area. First, we help to increase art-experiencing opportunities in linkage with public art and cultural institutions. For example, we support the Busan City Performing Arts Company by purchasing admission tickets in bulk and offering them to people who might not otherwise be able to attend. Some of our other efforts include offering “visiting cultural programs” to citizens and personnel at local military bases.

We also offer assistance to private orchestras, Korean classical music bands, and theatre groups. Finally, we sponsor artistic and cultural festivals held by local colleges. This includes the “Junior Orchestra,” which is tasked with fostering the development of young artists.

Public Service Centers

Organized in 1975, the “Pusan Bank Cosmos Club” uses donations from our employees to help the underprivileged. In recognition of its contribution to the community over the last thirty years, the club received an official commendation from the Minister of Health and Welfare in October 2003. Its main community involvement effort, the “home helper dispatch program,” offers financial support to people who are unemployed or experiencing health problems, single senior citizens, and the handicapped. It also contributes to the Red Cross, raises funds to help children suffering from cancer and leukemia, and is involved in blood donor campaigns.

Other social contribution activities

Environmental Preservation Pusan Bank has been actively involved in environmental management through its “Cultivation of Green Busan” campaign, and has participated in environmental preservation projects in partnership with citizen’s groups by raising public funds through the “Green Citizens Bankbook.”

In addition, we sponsor an annual “Children’s Drawing Contest for the Protection of the Environment” to teach children about the importance of caring for the environment. Some of our other efforts include participating in tree planting events and environment cleanup campaigns in the neighborhood of parks, rivers, and Busan Port passenger terminals.

“
 We participate in a wide range of community
 contribution activities to fulfill our corporate social
 responsibilities.
 ”



Promoting Culture Pusan Bank has been helping Busan grow into an internationally-known cultural city by supporting the Pusan International Film Festival (PIFF) through the creation of the “PIFF Bankbook” and development funds. Other regional cultural activities that we assist include folk concerts, summer evening music concerts, and visiting concerts.

We also donated KRW 0.3 billion towards the restoration of a watchtower at the Geumjeong Sanseong, brought 800 elementary students to see children’s operas, and invited teenagers in the Busan area to the movies.

Scholarship Assistance Pusan Bank has been offering a “Financial Quotient in Busan” program since 2003 to add to the understanding of finance and economics and encourage sound credit management. We also run a reading and economics experience school for children in conjunction with the Busan Metropolitan City Office of Education and Kookje Daily.

In addition, we are carrying forward a “one school-one branch financial education network” project to help adolescents learn about finance and economics, and participate in the “one company-one school” partnership program for future investors. Other activities include financial camps and reading classes for children in finance and economics classes for middle school students.

Support for Society and Sports Pusan Bank participates in emergency service activities and operates a community donation fund. For example, we offer financial assistance to flood victims and assist in disaster-related relief and restoration activities.

In addition, we sponsor many regional sports events. These include the Busan Athletics Meeting, Busan International Tennis Tournament, MBC Busan Golf Tournament, Kookje Daily National Juvenile Soccer Tournament, World Junior Weightlifting Championship, Korea Democracy Foundation Soccer Tournament, Juvenile National Soccer Tournament, and Busan City Fencing Competition.

“
We are getting closer to our customers with passion
for sharing management backed by concerted efforts
by all our employees.
”

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MANAGEMENT'S DISCUSSION & ANALYSIS

Key Financial Data

	2007	2006
Operating results		
Operating revenue	1,847.1	1,499.0
Net interest income	708.2	617.4
Operating income	394.2	264.4
Net income	270.7	183.9
Per share data (Won)		
Dividend per common share	570	420
Earning per common share	1,845.0	1,253.0
Profitability ratios (%)		
ROA	1.17	0.91
ROE	19.42	15.10
Net interest margin	3.07	3.08
Net interest spread	3.94	3.93
Balance sheet data at year end		
Total assets	25,990.9	21,710.8
Total loans	17,905.6	14,932.4
Total deposits	16,212.9	14,557.7
Securities	5,028.0	4,918.2
Shareholder's equity	1,472.7	1,278.8
Asset quality ratios		
Loan loss provisions/Substandard & below loans (SBLs)	180.11	175.84
SBLs/Total credit	0.70	0.83
Capital ratios at year end		
Total capital ratio	12.20	11.05
Tier 1 capital	7.69	8.08
Tier 2 capital	4.52	2.98

(Billions of Korean Won, %)

1. Overview

The Korean economy fared well in 2007, despite such unfavorable conditions as slowdowns in the world economy and constantly rising oil prices. However, the consumer sentiment index remained low, since the economy was led by exports rather than domestic demand, and many people did not benefit from the overall effects of the country's economic growth.

Although the financial market was marked by historically-high share prices, it also experienced its share of uncertainties. On the plus side, the benchmark Korea Stock Price Index (KOSPI) reached 2,000 points, a full 18 years after breaking the 1,000 point level in 1989. This was mainly due to improved corporate earnings and the movement of capital into equity-type funds. On the debit side, interest rates soared as the result of fluctuating exchange rates in the wake of the credit crunch in international financial markets and a concomitant shortage of funds in the domestic capital market.

These uncertainties led to weak domestic spending, even though exports increased. Despite this, Pusan Bank's key performance indices improved in 2007. For example, operating revenues surged by 23.2% (or KRW 348.1 billion) to reach KRW 1.9 trillion. In addition, net interest income grew by KRW 90.8 billion to KRW 708.2 billion, with interest revenues recording higher growth than interest expenses.

Although non-interest income also increased over the year, bad debt write-offs and selling and administrative (S&A) expenses either remained similar to the preceding year's levels or fell slightly. Consequently, net income advanced by 47.2% (or KRW 86.8 billion) to KRW 270.7 billion. Since the bank continued to enjoy relatively high levels of net income, dividends per share amounted to KRW 570.0, compared to KRW 420.0 the preceding year.

The return on assets (ROA) edged up by 0.26% to 1.17%, reflecting the bank's expanded business volume and a significant increase in net income. The return on equity (ROE) climbed by 4.32% to 19.42% in the wake of a rise in net income. Net interest margin reached 3.07%, similar to the previous year's figure, despite difficult market conditions and an expansion in loan assets. The net interest spread edged up by 0.01% to 3.94%.

Total assets, including trust accounts, rose by 19.7% (or KRW 4.5 trillion) to reach KRW 27.3 trillion at year-end. Business volume also grew impressively, with total loans increasing by KRW 2.48 trillion to KRW 17.4 trillion and total deposits ballooning by KRW 2.7 trillion to KRW 20.5 trillion.

Loans classified as standard and below (SBLs) backed off in spite of an increased loan volume. Accordingly, the ratio of SBLs to total loans dipped by 0.113% to stand at 0.70% at year-end. The bank's BIS capital ratio advanced by 1.15% to 12.20%. This was triggered by an expansion in equity capital and despite an increase in risk-weighted assets resulting from the bank's expanded business volume.

2. Net income

Operating revenues amounted to KRW 1.8 trillion, increasing by 23.2% (or KRW 348.1 billion) over the year, while operating expenses climbed by 17.7% (or KRW 218.3 billion) to KRW 1.5 trillion. Operating income advanced by KRW 129.8 billion to reach KRW 394.2 billion. The bank recorded a non-operating loss of KRW 19.7 billion, compared to 7.0 billion the preceding year. This followed from a surge in non-operating expenses (including sharp increases in contributions and other non-operating expenses) while non-operating revenues remained similar to the previous year's level.

Net income before income taxes swelled by 45.5% (or KRW 117.0 billion) to KRW 374.5 billion, following a rise in operating income. Consequently, net income advanced by an impressive 47.2% (or KRW 86.8 billion) to KRW 270.7 billion. This happened because interest income and non-interest income both grew substantially, while S&A expenses and write-offs either decreased marginally or remained similar to the previous year's levels. This growth in operating income in the wake of improved results led to a significant rise in the value of dividends.

Profit and Loss Summary

	2007	2006	YoY Change	
			Amount	Percentage (%)
Operating Revenues	1,847.1	1,499.0	348.1	23.2%
Operating Expenses	1,452.9	1,234.6	218.3	17.7%
Operating Income	394.2	264.4	129.8	49.1%
Non-Operating Income	-19.7	-7.0	-12.8	N/A
Net Income before Income Taxes	374.5	257.4	117.0	45.5%
Income Tax Expenses	103.8	73.6	30.2	41.0%
Net Income	270.7	183.9	86.8	47.2%

(Billions of Korean Won)

3. Profit and Loss By Sector

As was discussed earlier, the bank recorded relatively high growth in operating income, rising by 249.1% (or KRW 129.8 billion) over the year to reach KRW 394.2 billion. Interest income expanded by 14.7% (or KRW 90.8 billion) to KRW 708.2 billion. This resulted from a year-on-year rise in interest revenues, which in turn flowed from the bank's expanded business volume, upturns in market interest rates, and the fact that growth in interest expenses failed to match that of interest revenues.

The growth rate of interest expenses exceeded that of Interest revenues. Commission and fee income broadened by 47.0% (or KRW 30.2 billion) to KRW 94.5 billion, while trust revenues swelled by 35.7% (or KRW 3.0 billion) to KRW 11.4 billion. In terms of other operating indices (including gains or losses on securities and derivatives), the bank registered a decline of KRW 1.8 billion from the previous year's figure to record other operating losses of KRW 7.4 billion. Write-offs stood at KRW 53.2 billion, similar to the previous year's level, while S&A expenses decreased by a slight 1.1% to KRW 359.3 billion.

MANAGEMENT'S DISCUSSION & ANALYSIS

Profit and Loss by Sector

	2007	2006	YoY Change	
			Amount	Percentage (%)
Interest Income	708.2	617.4	90.8	14.7%
Interest Revenues	1437.7	1172.6	265.1	22.6%
Interest Expenses	729.5	555.2	174.3	31.4%
Net Commission & fee Income	94.5	64.3	30.2	47.0%
Trust Revenues	11.4	8.4	3.0	35.7%
Other Operating Income	-7.4	-9.2	1.8	-19.6%
Adjusted Operating Income	806.7	680.9	125.8	18.5%
Loan Loss Provisions	53.2	53.1	0.1	0.2%
S&A Expenses	359.3	363.4	-4.1	-1.1%
Operating Income	394.2	264.4	129.8	49.1%

(Billions of Korean Won)

4. Net Interest Income

Interest revenues surged by 22.6% (or KRW 265.1 billion) to KRW 1.4 trillion. This was due to an increase in interest-bearing assets following a rebound in overall market interest rates and an expansion in loan assets. Interest expenses broadened by 31.4% (or KRW 174.3 billion) to KRW 729.5 billion. Consequently, net interest income swelled by 14.7% (or KRW 90.8 billion) to KRW 708.2 billion.

By segment, interest on loans ballooned by 27.5% (or KRW 255.7 billion) to KRW 1.2 trillion, while interest on securities edged up by 3.0% (or KRW 6.7 billion) to KRW 227.6 billion.

Interest payable from banks and others climbed by 13.0% (or KRW 2.7 billion) to KRW 23.4 billion, and interest on deposits rose by 21.1% (or KRW 78.0 billion) to KRW 448.0 billion. Interest on debentures enjoyed the highest growth rate, surging by 200.0% over the year to reach KRW 93.3 billion. Interest expenses (including borrowings) rose by 22.1% (or KRW 34.1 billion) to KRW 188.2 billion in the wake of an increase in financing.

Composition of Net Interest Income

	2007	2006	YoY Change	
			Amount	Percentage (%)
Interest Revenues	1,437.7	1,172.6	265.1	22.6%
Interest on Loans	1,186.7	931.0	255.7	27.5%
Interest on Securities	227.6	220.9	6.7	3.0%
Interest on Due from Banks, etc	23.4	20.7	2.7	13.0%
Interest Expenses	729.5	555.2	174.3	31.4%
Interest on Deposits	448.0	370.0	78.0	21.1%
Interest on Debentures Issued	93.3	31.1	62.2	200.0%
Interest on Borrowings, Etc.	188.2	154.1	34.1	22.1%
Net interest income	708.2	617.4	90.8	14.7%

(Billions of Korean Won, %)

5. Net Interest Margin and Net Interest Spread

Average interest rates on won-currency loans edged up by 0.35% to 7.24% as the result of upturns in interest rates. Average interest rates on won-currency deposits moved up by 0.34% to 3.30%. Consequently, the bank's overall net interest spread edged up by 0.01% to stand at 3.94%.

The average balance of interest-bearing assets soared by KRW 2.9 trillion to KRW 21.3 trillion, while net interest margin stood at 3.07%, similar to the preceding year's figure.

The bank's net interest spread and net interest margin remained similar to the previous year's levels despite marked volatility in market interest rates. This was attributed to the bank's efforts to increase low-cost deposits and nurture new, high-quality SMEs.

Net Interest Margin & Net Interest Spread

	2007	2006	YoY Change	
			Amount	Percentage (%)
Interest-Bearing Assets (avg. balance)	21,347.2	18,462.4	2,884.8	15.6%
NIM	3.07	3.08	-0.01	-0.3%
Avg. Interest Rate on Won-Currency Loans	7.24	6.89	0.35	5.1%
Household Loans	7.18	6.82	0.36	5.3%
Corporate Loans	6.65	6.18	0.47	7.6%
Avg. Interest Rate on Won-Currency Deposits	3.30	2.96	0.34	11.5%
Net Interest Spread	3.94	3.93	0.01	0.3%

* Based on 4th quarter of each year

(Billions of Korean Won, %, %P)

6. Commission & Fee Income

Commission revenues rose by 38.8% (or KRW 35.4 billion) to KRW 126.7 billion. Commission expenses advanced by 19.3% (or KRW 5.2 billion) to KRW 32.2 billion. Accordingly, net commission & fee income swelled by 47.0% (or KRW 30.2 billion) to KRW 94.5 billion.

This increase in commission revenues was mostly generated by won-currency commissions, which surged by 44.5% (or KRW 31.4 billion) to KRW 101.9 billion. Foreign-currency commissions amounted to KRW 16.6 billion, advancing by 19.4% (or KRW 2.7 billion) from a year earlier. This growth was primarily due to the development of new fee-based services. Commissions on credit cards stood at KRW 3.3 billion (similar to the previous year's level), while guarantee fees and others ballooned by 32.4% to KRW 4.9 billion.

Commission & Fee Income

	2007	2006	YoY Change	
			Amount	Percentage (%)
Commission Revenues	126.7	91.3	35.4	38.8%
Won-Currency Commissions	101.9	70.5	31.4	44.5%
Foreign-Currency Commissions	16.6	13.9	2.7	19.4%
Commission on Credit Cards	3.3	3.2	0.1	3.1%
Guarantee Fees & Others	4.9	3.7	1.2	32.4%
Commissions Paid	32.2	27.0	5.2	19.3%
Won-Currency Commissions Paid	11.0	8.3	2.7	32.5%
Foreign-Currency Commissions Paid	2.7	2.5	0.2	8.0%
Commissions on Credit Cards	18.5	16.2	2.3	14.2%
Net Commission & Fee Income	94.5	64.3	30.2	47.0%

(Billions of Korean Won, %)

7. Selling & Administrative Expenses

Selling & administrative (S&A) expenses edged downwards by 1.1% (or KRW 4.1 billion) to KRW 359.3 billion, mainly due to a decline in voluntary retirement allowances. Personnel expenses increased by 10.6% (or KRW 12.2 billion) to KRW 127.7 billion. Administrative expenses rose by 4.7% (or KRW 7.2 billion) to KRW 161.8 billion. Voluntary retirement allowances amounted to KRW 5.5 billion (compared to KRW 34.4 billion in 2006), while depreciation costs stood at KRW 33.9 billion, similar to the previous year's figure.

S&A expenses are primarily fixed costs, such as salaries and administrative outlays. Along with net operating income and provisions for loan losses, they are referred to as "adjusted operating income." The cost income ratio is calculated by dividing S&A expenses by adjusted operating income.

The bank's cost income ratio was 44.54% in 2007, down 8.83% from 53.57% in 2006. This resulted from a higher increase in operating income than in S&A expenses, due to the aforementioned increases in interest income and not-interest income and a decline in S&A expenses.

MANAGEMENT'S DISCUSSION & ANALYSIS

S&A Expenses

	2007	2006	YoY Change	
			Amount	Percentage (%)
Adjusted operating income ^(a)	806.7	680.9	125.8	18.5
S&A expenses(b)	359.3	363.4	-4.1	-1.1
Cost Income Ratio (b/a)	44.54	53.37	-8.8	-16.5

^(a) Adjusted Operating Income: Calculated by adding write-offs and S&A expenses to operating income

(Billions of Korean Won, %)

8. Bad Debt Expenses

Write-offs amounted to KRW 53.2 billion at year-end, similar to the previous year's level. Write-offs for corporate loans swelled by 30.9% (or KRW 9.7 billion) to KRW 41.1 billion. However, those for household loans and credit card loans decreased by 78.0% (or KRW 12.8 billion) to KRW 3.6 billion and 59.5% (or by KRW 2.5 billion) to KRW 1.7 billion, respectively. There were no write-offs for trust accounts. Happily, our delinquency ratios have been decreasing every year, going from 1.80% in 2003 to 0.35% in 2006 and 0.30% in 2007.

Write-Offs by Segment

	2007	2006	YoY Change	
			Amount	Percentage (%)
Corporate Loans	41.1	31.4	9.7	30.9
Household Loans	3.6	16.4	-12.8	-78.0
Credit Card Loans	1.7	4.2	-2.5	-59.5
Other Provisions	6.8	8.2	-1.4	-17.1
Trust Accounts	0.0	-7.1	7.1	N/A
Total	53.2	53.1	0.1	0.2

(Billions of Korean Won, %)

Bad Debt Ratio

Year	2007	2006
Bad Debt Ratio	0.30	0.35

(Billions of Korean Won, %)

9. Assets

The bank's total assets amounted to KRW 26.0 trillion at year-end, a rise of 19.7% (or KRW 4.3 trillion) over the year. This was primarily due to an increase in loans. Cash and payables from banks and other assets also grew, while securities increased marginally. Loan assets surged by 19.9% (or KRW 3.0 trillion) to KRW 17.9 trillion, representing 68.9% of the bank's total assets (compared to 68.8% in 2006).

Securities edged up by 2.2% (or KRW 109.8 billion) to KRW 5.0 trillion, although their ratio to total assets dipped by 3.3% to 19.4%. Cash & payables from banks totaled KRW 1.3 trillion, accounting for 5.1% of total assets (up 0.4% from the preceding year's percentage). Other assets grew the most, soaring by 108.2% to KRW 1.7 trillion. This was primarily due to an increase in accounts receivables.

Assets (Bank Accounts)

	2007		2006		YoY Change	
	Amount	%	Amount	%	Amount	%
Cash & Due From Banks	1,327.3	5.1	1,029.3	4.7	298.0	29.0
Securities	5,027.9	19.4	4,918.2	22.7	109.8	2.2
Loans	17,905.6	68.9	14,932.4	68.8	2,973.1	19.9
Other Assets	1,730.0	6.7	830.9	3.8	899.2	108.2
Total	25,990.9	100.0	21,710.8	100.0	4,280.1	19.7

(Billions of Korean Won, %)

10. Securities

The bank's securities are mainly comprised of won- and foreign-currency bonds, stocks, and beneficiary certificates. These are classified in terms of objective and period into trading securities, available-for-sale securities, held-to-maturity securities, and equity-method securities.

Total securities amounted to KRW 5.0 trillion, rising by 2.2% (or KRW 109.7 billion) from a year earlier. By investment type, the major contributors to this slight increase were stocks and beneficiary certificates.

Although won-currency bonds made up the largest portion of the bank's securities, their value decreased by KRW 5.3 billion to KRW 4.5 trillion—on a par with the preceding year's level. Financial bonds and corporate bonds were worth KRW 2.5 trillion and KRW 520.8 billion, respectively, increasing by 6.8% (or KRW 160.0 billion) and 15.7% (or KRW 70.5 billion).

The value of government bonds, municipal bonds, and government-invested corporate bonds declined from the year before. Foreign-currency bonds advanced by 14.9% (or KRW 16.6 billion) to KRW 128.0 billion. Stocks soared by 62.0% (or KRW 72.0 billion) to reach KRW 188.1 billion. This happened because the bank increased its direct investments in light of a strengthening stock market. Equity-type beneficiary certificates (BCs) grew by KRW 30.5 billion to stand at KRW 143.8 billion.

Composition of Securities –Bank Accounts

	2007	2006	YoY Change	
			Amount	Percentage (%)
Won-Currency Bonds	4,519.3	4,524.6	-5.3	-0.1
Government Bonds	688.7	869.8	-181.1	-20.8
Financial Bonds	2,526.9	2,366.9	160.0	6.8
Municipal Bonds	134.9	156.2	-21.3	-13.6
Government-Invested Companies	648.0	681.4	-33.4	-4.9
Corporate Bonds	520.8	450.3	70.5	15.7
Foreign-Currency Bonds	128.0	111.4	16.6	14.9
Stocks	188.1	116.1	72.0	62.0
BC's	180.4	153.5	26.9	17.5
Bond-Type	0.0	40.2	-40.2	-100.0
Equity-Type	143.8	113.3	30.5	26.9
MMF	10.4	0.0	10.4	N/A
Other	26.2	0.0	26.2	N/A
Other	12.1	12.6	-0.5	-4.0
Total	5,027.9	4,918.2	109.7	2.2

(Billions of Korean Won, %)

MANAGEMENT'S DISCUSSION & ANALYSIS

11. Loans

The bank's total won-currency loans amounted to KRW 15.9 trillion at the end of 2007, a surge of 17.1% (or KRW 2.3 trillion) from the previous year's figure. By sector, SME loans recorded the largest year-on-year growth in terms of amount, while loans to public organizations and others had the highest growth rate.

Household loans increased by 3.4% (or KRW 125.2 billion) to KRW 3.8 trillion, accounting for 23.9% of won-currency loans (down by 3.1% from a year earlier).

SME loans surged by 26.0% (or KRW 2.3 trillion) to KRW 11.0 trillion. As a consequence, the bank's weighting of SME loans to total won-currency loans rose by 4.9% to 69.3%. Large corporate loans contracted by 40.1% (or KRW 291.7 billion) to KRW 435.9 billion. Accordingly, their ratio to total won-currency loans slipped by 2.7%P to 2.7%.

Won-Currency Loans

	2007		2006		YoY Change	
	Amount	%	Amount	%	Amount	%
Households	3,801.2	23.9	3,676.0	27.0	125.2	3.4
SMEs	11,045.3	69.3	8,763.8	64.4	2,281.5	26.0
Large Corporations	435.9	2.7	727.6	5.4	-291.7	-40.1
Public Organizations & Others	649.7	4.1	441.8	3.3	207.9	47.1
Total	15,932.1	100.0	3,609.2	100.0	2,322.9	17.1

(Billions of Korean Won, %)

12. Asset Soundness & Loan Loss Provisions

Total loans amounted to KRW 17.8 trillion, an increase of 16.3% (or KRW 2.5 trillion) from a year earlier. Loans classified as substandard & below (SBLs) decreased by KRW 3.1 trillion to KRW 124.7 billion. Consequently, the ratio of SBLs to total loans fell by 0.13% to 0.70%. The balance of loan loss provisions remained the same as the previous year's: KRW 34.3 billion. As a consequence, the coverage ratio (referring to the ratio of SBLs to loan loss provisions) expanded by 4.27% to 180.11%.

The decline in bad debts and the improved bad debts ratio were attributable both to the bank's aggressive risk management strategy for preventing the generation of non-performing loans and its insistence on evaluating the quality of companies taking out loans. To this end, the bank set aside what it deemed to be an adequate amount of loan loss provisions while preparing itself for the generation of NPLs following a rise in loan volumes.

In addition, the bank tried to heighten the soundness of its loans by conducting exhaustive credit rating analyses prior to offering loans to SMEs. Also, loan reviews were conducted on either a quarterly or a continuing basis. Finally, the bank's credit screening activities focused on a debtor's ability to repay in light of industry prognostications and fluctuations in business conditions.

Classification of Asset Soundness

	2007	2006	YoY Change	
			Amount	Percentage (%)
Total Loans	17,848.5	15,346.1	2,502.4	16.3%
Normal	17,454.9	14,924.9	2,530.0	17.0%
Precautionary	268.9	293.4	-24.5	-8.4%
Substandard	85.5	73.0	12.5	17.1%
Doubtful	25.4	28.1	-2.7	-9.6%
Estimated Loss	13.8	26.7	-12.9	-48.3%
Substandard & Below	124.7	127.8	-3.1	-2.4%
Precautionary & Below	393.6	421.2	-27.6	-6.6%
SBL Ratio	0.70	0.83	-0.13	-16.1%
Prec. & Below Ratio	2.21	2.74	-0.54	-19.7%
Provisions	224.7	224.7	0.0	0.0%
Provisions/SBLs	180.11	175.84	4.27	2.4%

(Billions of Korean Won, %, %P)

13. Liabilities

The bank's total liabilities amounted to KRW 24.5 trillion as of 2007-end—a rise of 20.0% (or KRW 4.1 trillion) over the year. Deposits accounted for the vast majority (i.e., 66.1%) of liabilities, a dip of 5.2% from the preceding year's ratio. The balance of deposits stood at KRW 16.2 trillion, an increase of 11.4% (or KRW 1.7 trillion) from the previous year.

This decline in the weighting of deposits to liabilities—which occurred despite an increase in deposits—was due to dramatic upturns in borrowings and others.

Borrowings swelled by 27.8% (or KRW 1.4 trillion) to KRW 6.4 trillion, meaning that their ratio to total liabilities also grew (by 1.6%, to 26.2%). Other liabilities soared by 122.2% (or KRW 1.0 trillion) to KRW 1.9 trillion, with the result that their weighting to total liabilities also broadened (by 3.6%, to 7.7%). This mainly resulted from a rise in accrued payable.

Liabilities

	2007		2006		YoY Change	
	Amount	%	Amount	%	Amount	%
Deposits	16,212.9	66.1	14,557.7	71.3	1,655.1	11.4
Borrowings	6,430.4	26.2	5,030.6	24.6	1,399.9	27.8
Others	1,875.0	7.7	843.7	4.1	1,031.3	122.2
Total	24,518.2	100.0	20,432.0	100.0	4,086.3	20.0

(Billions of Korean Won, %, %P)

14. Capital Adequacy

The bank's year-end core capital expanded by 14.2% (or KRW 171.3 billion) to KRW 1.4 trillion following an increase in the amount of net income. Supplementary capital swelled by 81.9% (or KRW 365.3 billion) to KRW 811.2 billion. Accordingly, total equity capital grew by 32.5% (or KRW 536.6 billion) to reach KRW 2.2 trillion. This mainly reflected contributions to unconsolidated subsidiaries.

The value of risk-weighted assets expanded significantly following a rise in loan volumes. Risk-weighted assets grew to KRW 17.9 trillion, up 20.0% (or KRW 3.0 trillion) over the year, causing the bank's BIS capital ratio to edge up by 1.15% to 12.20%. These results, which mirrored the development of a healthier and more stable capital structure, were due to an increase in total equity capital and occurred despite sharp growth in risk-weighted assets (including loans) following the bank's rapid expansion in business volume.

BIS capital ratio

	2007	2006	YoY Change	
			Amount	Percentage (%)
Core Capital	1,379.3	1,208.0	171.3	14.2%
Supplementary Capital	811.2	445.9	365.3	81.9%
Contributions to Unconsolidated Subsidiaries	3.0	3.0	0.0	0.0%
Total Equity Capital	2,187.5	1,650.9	536.6	32.5%
Risk-Weighted Assets	17,936.9	14,946.9	2,990.0	20.0%
Tier1 Capital	7.69	8.08	-0.39	-4.9%
Tier2 Capital	4.52	2.98	1.54	51.6%
BIS Capital Ratio	12.20	11.05	1.15	10.4%

(Billions of Korean Won, %, %P)

INDEPENDENT AUDITORS' REPORT



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To the Shareholders and Board of Directors of Pusan Bank

We have audited the accompanying non-consolidated balance sheets of the bank accounts of Pusan Bank (the "Bank") as of December 31, 2007 and 2006, and the related non-consolidated statements of income, appropriations of retained earnings, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2007 and 2006, and the results of its operations, changes in its retained earnings and its shareholders' equity, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea (See Note 2).

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, changes in shareholders' equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.



January 29, 2008

Notice to Readers This report is effective as of January 29, 2008, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

BALANCE SHEETS

As of December 31, 2007 and 2006

	2007	2006
Assets		
Cash and due from banks (Notes 3, 26, 28 and 29)	₩ 1,327,349	₩ 1,029,316
Securities (Notes 4 and 28)	5,027,950	4,918,168
Loans, net of allowance for possible loan losses (Notes 2, 5, 6, 7, 26, 28 and 29)	17,905,578	14,932,449
Tangible assets, net of accumulated depreciation (Note 8)	362,682	356,372
Other assets (Notes 9, 10, 16, 23 and 28)	1,367,346	474,483
	₩ 25,990,905	₩ 21,710,788
Liabilities And Shareholders' Equity		
Liabilities:		
Deposits (Notes 11, 26, 28 and 29)	₩ 16,212,852	₩ 14,557,714
Borrowings (Notes 12, 26 and 28)	6,430,417	5,030,552
Other liabilities (Notes 13, 14, 15, 16, 17, 19 and 28)	1,874,973	843,687
	24,518,242	20,431,953
Shareholders' Equity (Notes 4 and 18):		
Capital stock	733,418	733,418
Accumulated other comprehensive income (loss)	(11,050)	4,209
Retained earnings	750,295	541,208
	1,472,663	1,278,835
	₩ 25,990,905	₩ 21,710,788

See accompanying notes to non-consolidated financial statements.

(Korean Won, In millions)

STATEMENTS OF INCOME

For the years ended December 31, 2007 and 2006

	2007	2006
Operating Revenue:		
Interest income (Note 20):		
Interest on due from banks	₩ 17,171	₩ 15,015
Interest on securities	227,737	220,912
Interest on loans	1,186,680	931,044
Other interest income	6,107	5,612
	1,437,695	1,172,583
Gain on valuation and disposal of securities (Note 4):		
Gain on disposal of trading securities	1,765	1,652
Gain on disposal of available-for-sale securities	17,156	16,801
Reversal of impairment loss on available-for-sale securities	8,279	-
	27,200	18,453
Gain on valuation and disposal of loans:		
Gain on sale of loans	843	1,848
Foreign exchange trading income	51,044	62,926
Commission income	126,736	91,386
Dividends income:		
Dividends on trading securities	-	132
Dividends on available-for-sale securities	1,952	296
	1,952	428
Other operating income:		
Gain on financial derivatives trading	126,670	116,156
Gain on valuation of financial derivatives (Note 16)	61,846	19,681
Gain on valuation of fair value hedged items	1,713	-
Fees and commissions from trust accounts	11,357	15,518
	201,586	151,355
Total operating revenues	1,847,056	1,498,979
Operating Expenses:		
Interest expenses (Note 20):		
Interest on deposits	447,983	369,963
Interest on borrowings	173,916	146,053
Interest on debentures	93,283	31,141
Other interest expenses	14,287	8,071
	729,469	555,228
Loss on valuation and disposal of securities (Note 4):		
Loss on disposal of trading securities	835	2,624
Loss on valuation of trading securities	18	-
Loss on disposal of available-for-sale securities	8	-
Impairment loss on available-for-sale securities	-	28
Impairment loss on held-to-maturity securities	1,319	-
	2,180	2,652

(Korean Won, In millions except per share amounts)

STATEMENTS OF INCOME (CONTINUED)

For the years ended December 31, 2007 and 2006

	2007	2006
Loss on valuation and disposal of loans:		
Provision for possible loan losses (Note 7)	₩ 44,545	₩ 50,737
Loss on sale of loans	1,274	682
	45,819	51,419
Foreign exchange trading losses	50,013	12,534
Commission expense	32,198	27,026
Selling and administrative expenses (Note 21)	359,252	363,456
Other operating expenses:		
Loss on financial derivatives trading	115,242	129,256
Loss on valuation of financial derivatives (Note 16)	48,215	31,588
Loss on valuation of fair value hedged items	8,189	2,537
Other operating expenses	62,283	58,896
	233,929	222,277
Total operating expenses	1,452,860	1,234,592
Operating Income	394,196	264,387
Non-operating Income (Note 22)	11,824	11,498
Non-operating Expenses (Note 22)	31,567	18,457
Income Before Income Tax	374,453	257,428
Income Tax Expense (Note 23)	103,759	73,572
Net Income	₩ 270,694	₩ 183,856
Net Income Per Share (In Currency Units) (Note 24)	₩ 1,845	₩ 1,253

See accompanying notes to non-consolidated financial statements.

(Korean Won, In millions except per share amounts)

STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

For the years ended December 31, 2007 and 2006

	2007	2006
Retained Earnings Before Appropriations:		
Beginning of the year	₩ -	₩ -
Net income	270,694	183,856
	270,694	183,856
Appropriations:		
Legal reserve (Note 18)	27,070	18,386
Other reserve	160,014	103,863
Cash dividends (Note 25)	83,610	61,607
	270,694	183,856
Unappropriated Retained Earnings To Be Carried Forward To Subsequent Year	₩ -	₩ -

See accompanying notes to non-consolidated financial statements.

(Korean Won, In millions)

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2007 and 2006

	2007		2006	
Cash Flows From Operating Activities:				
Net income	₩	270,694	₩	183,856
Adjustments to reconcile net income to net cash used in operating activities:				
Loss on valuation of trading securities		18		-
Impairment loss on available-for-sale securities		-		28
Reversal of impairment loss on available-for-sale securities		(8,279)		-
Loss (gain) on financial derivatives trading, net		(11,429)		13,100
Loss (gain) on valuation of financial derivatives, net		(13,631)		11,907
Provision for possible loan losses		44,545		50,737
Provision for severance benefits		19,905		15,522
Depreciation and amortization		33,884		34,173
Loss (gain) on disposal of tangible assets, net		421		(565)
Gain on valuation of securities using the equity method, net		(1,008)		(218)
Loss on valuation of fair value hedged items		6,476		2,537
Others, net		15,003		(4,765)
		85,905		122,456
Changes in assets and liabilities resulting from operations:				
Decrease (increase) in trading securities		(10,882)		18,327
Decrease (increase) in available-for-sale securities		(205,654)		78,214
Decrease (increase) in held-to-maturity securities		104,784		(118,752)
Increase in loans		(3,017,272)		(2,796,305)
Decrease (increase) in accrued income		(21,919)		8,399
Decrease (increase) in prepaid expenses		(308)		6,139
Decrease (increase) in deferred income tax assets		3,669		(3,669)
Payment of severance benefits		(2,565)		(6,787)
Increase in severance insurance deposits		(14,598)		(9,234)
Increase in accrued expenses		37,510		64,118
Increase (decrease) in deferred income tax liabilities		7,158		(8,456)
Others, net		19,753		(18,453)
		(3,100,324)		(2,786,459)
Net cash used in operating activities		(2,743,725)		(2,480,147)

(Korean Won, In millions)

STATEMENTS OF CASH FLOWS (CONTINUED)

For the years ended December 31, 2007 and 2006

	2007	2006
Cash Flows From Investing Activities:		
Increase (decrease) in restricted due from banks	₩ (54,648)	₩ 39,897
Disposal of tangible assets	1,015	1,991
Acquisition of tangible assets	(40,961)	(49,555)
Acquisition of intangible assets	(2,803)	(3,141)
Decrease (increase) in guarantee deposits, net	(10,205)	6,631
Increase in other assets, net	(849,538)	(11,276)
Net cash used in investing activities	(957,140)	(15,453)
Cash Flows From Financing Activities:		
Increase in deposits, net	1,655,137	895,253
Increase (decrease) in borrowings, net	(329,541)	1,001,408
Increase in debentures, net	1,716,070	455,308
Dividend	(61,607)	(59,407)
Increase in other liabilities, net	964,190	114,244
Net cash provided by financing activities	3,944,249	2,406,806
Net Increase (Decrease) In Cash And Due From Banks	243,384	(88,794)
Cash And Due From Banks, Beginning Of The Year	672,933	761,727
Cash And Due From Banks, End Of The Year (Note 34)	₩ 916,317	₩ 672,933

See accompanying notes to non-consolidated financial statements.

(Korean Won, In millions)

NOTES TO FINANCIAL STATEMENTS

1. General

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 has been appointed as a manager of Busan City Government's Budgetary Funds (General Account and several Special Accounts) since January 1, 2001. The Bank's head office is located in Busan and the Bank has 225 branches and offices in Korea. The Bank became a publicly traded financial institution upon listing its common shares on the Korean Exchange in June 1972. The Bank's issued and outstanding common stock as of December 31, 2007 amounted to ₩733,418 million.

The major shareholders of the Bank were as follows:

Shareholders	Number of shares	Percentage (%)
Lotte Confectionery Co., Ltd. ^(*)	20,693,162	14.11
Small Capital World Fund Inc.	11,726,500	7.99
Park Land Co., Ltd.	6,524,600	4.45
New Economy Fund	5,160,000	3.52
PL-ABDN GL	4,373,570	2.98
National Pension	3,103,840	2.12
MSIL-MS Co., Int'l PLC	2,875,119	1.96
Korea Iron & Steel Co., Ltd.	2,791,323	1.90
MSIL-SR Global FD	2,676,880	1.82
Templeton Global Smaller Companies Fund	2,372,300	1.62
Others	84,386,356	57.53
	146,683,650	100.00

^(*) Including the related shareholders that a party substantially control

2. Summary of Significant Accounting Policies

Basis of Non-consolidated Financial Statement Presentation

The Bank maintains its official accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles and banking accounting standards generally accepted in the Republic of Korea. Certain accounting principles and banking accounting standards 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 and banking accounting practices 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 (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Bank's financial position, results of operations, changes in shareholders' equity or cash flows, is not presented in the accompanying financial statements.

The significant accounting policies followed by the Bank in preparing the accompanying non-consolidated financial statements are summarized below.

The financial statements of the Bank to be submitted to the general shareholders' meeting were approved by the Board of Directors on January 23, 2008.

Interest Income Recognition

The Bank applies the accrual basis in recognizing interest income related to deposits, loans and securities, except for unsecured uncollectible receivables. Interest on loans, whose principal or interest is past due at the balance sheet date, is generally not accrued, with the exception of interest on certain loans secured by guarantee of governments or government agencies, or collateralized by bank deposits. When a loan is placed on non-accrual status, previously accrued interest is generally reversed and deducted from current interest income and future interest income is recognized on a cash basis in accordance with the banking accounting standards. As of December 31, 2007 and 2006, the principal amount of loans and securities of which the accrued interest income was not recorded in the accompanying financial statements based on the above criteria amounted to ₩505,261 million and ₩417,362 million, respectively, and the related accrued interest income not recognized amounted to ₩11,226 million and ₩10,972 million, respectively.

NOTES TO FINANCIAL STATEMENTS

Classification of Securities

At acquisition, the Bank classifies securities into one of the following categories: trading, available-for-sale, held-to-maturity and securities using the equity method, depending on marketability, purpose of acquisition and ability to hold. Debt and equity securities that are bought and held for the purpose of selling them in the near term and actively traded are classified as trading securities. Debt securities with fixed and determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities. Securities that should be accounted for under the equity method are classified as securities using the equity method. Debt and equity securities not classified as the above are categorized as available-for-sale securities.

If the objective and ability to hold securities of the Bank change, available-for-sale securities can be reclassified to held-to-maturity securities and held-to-maturity securities can be reclassified to available-for-sale securities. Whereas, if the Bank sells held-to-maturity securities or exercises early redemption right of securities to issuer in the current year or the proceeding two years, and if it reclassifies held-to-maturity securities to available-for-sale securities, all debt securities that are owned or purchased cannot be classified as held-to-maturity securities. On the other hand, trading securities cannot be recategorized to available-for-sale securities or held-to-maturity securities and vice versa. Nevertheless, trading securities are reclassified to available-for-sale securities only when the trading securities lose their marketability.

Valuation of Securities

(1) Valuation of Trading Securities Trading equity and debt securities are initially recognized at acquisition cost plus incidental expenses determined by the individual moving average method (the specific identification method for debt securities). When the face value of trading debt securities differs from their acquisition cost, the effective interest rate method is applied to amortize the difference over the remaining term of the securities. After initial recognition, if the fair value of trading securities differs from the book value, trading securities are stated at fair value and the resulting valuation gain or loss is included in current operations.

(2) Valuation of Held-to-maturity Securities Held-to-maturity securities are stated at acquisition cost plus incidental expenses, determined by the specific identification method. When the face value of held-to-maturity securities differs from its acquisition cost, the effective interest rate method is applied to amortize the difference over the remaining term of the securities. If collectible value is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations.

(3) Valuation of Available-for-sale Securities Available-for-sale securities are initially recognized at acquisition cost plus incidental expenses, determined by the individual moving average method (the specific identification method for debt securities). The effective interest rate method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the debt security. After initial recognition, available-for-sale securities are stated at fair value, with the net unrealized gain or loss presented as gain or loss on valuation of available-for-sale securities in accumulated other comprehensive income (loss), which is charged to current operations in a lump sum at the time of disposal or impairment recognition. Non-marketable equity securities are stated at acquisition cost on the financial statements if the fair value of the securities is not reliably determinable.

If the fair value of equity securities (net asset fair value in case of non-marketable equity securities stated at acquisition cost) is below the acquisition cost and the pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations. If the collectible value of debt securities is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations. With respect to impaired securities, any unrealized valuation gain or loss of securities previously included in the accumulated other comprehensive income is reversed.

(4) Valuation of Securities using the Equity Method Equity securities held for investment in companies in which the Bank is able to exercise significant influence over the investees (in accordance with the Banking Act, if the Bank holds 15 percent or more of the issued shares, the Bank is considered being able to exercise significant influence) are accounted for using the equity method. The Bank's share in net income or net loss of investees is included in current operations. Changes in the retained earnings of investee are reflected in the retained earnings. Changes in the capital surplus or other capital accounts of investee are reflected as change in capital on equity securities using the equity method in accumulated other comprehensive income (loss).

(5) Reversal of Loss on Impairment of Available-for-sale Securities and Held-to-maturity Securities If the reasons for impairment losses of available-for-sale securities no longer exist, the recovery is recorded in current operations under non-operating income up to the amount of the previously recognized impairment loss as reversal of loss on impairment of available-for-sale securities and any excess is included in accumulated other comprehensive income as gain on valuation of available-for-sale securities. However, if the increases in the fair value of the impaired securities are not regarded as the recovery of the impairment, the increases in the fair value are recorded as gain on valuation of available-for-sale securities in accumulated other comprehensive income. For non-marketable equity securities, which were impaired based on the net asset fair value, the recovery is recorded up to their acquisition cost.

For held-to-maturity securities, the recovery is recorded in current operations under non-operating income within the amount of amortized cost that would have been recorded according to the original schedule if the impairment losses had not been recognized as reversal of loss on impairment of held-to-maturity securities.

(6) Reclassification of Securities When held-to-maturity securities are reclassified to available-for-sale securities, those securities are accounted for at fair value on the reclassification date and the difference between the fair value and book value is reported in accumulated other comprehensive income (loss) as gain or loss on valuation of available-for-sale securities. When available-for-sale securities are reclassified to held-to-maturity securities, gain or loss on valuation of available-for-sale securities, which had been recorded until the reclassification date, continue to be included in accumulated other comprehensive income (loss) and be amortized using the effective interest rate method and the amortized amount is charged to interest income or expense until maturity. The difference between the fair value at the reclassification date and face value of the reclassified securities to held-to-maturity securities is amortized using the effective interest rate method and the amortized amount is charged to interest income or expense.

Transfer of Securities

When the realization, expiration or sale of the right to obtain the economic benefits arises and the control of securities is lost from the sale of the securities, the unrealized valuation gain or loss of securities included in the accumulated other comprehensive income (loss) is added to or deducted from the gain or loss on disposal of securities. The gain or loss is the difference between the net proceeds receivable or received and its carrying value. When securities are transferred without losing the control, the transaction is recorded as secured borrowing transaction.

Allowance for Possible Losses on Credits

The Supervisory Regulation of the Banking Business (the "Supervisory Regulation") legislated by the Financial Supervisory Commission (FSC) requires the Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers' repayment capability and historical financial transaction records. The Bank provides the minimum rate of loss provision for each category balance using the prescribed minimum percentages as described below.

NOTES TO FINANCIAL STATEMENTS

	Normal	Precautionary	Substandard	Doubtful	Estimated loss
December 31, 2007					
Corporate loans	0.85% ^(*)	7.0%	20.0%	50.0%	100.0%
Consumer loans	1.0%	10.0%	20.0%	55.0%	100.0%
Credit card loans	1.5%	15.0%	20.0%	60.0%	100.0%
December 31, 2006					
Corporate loans	0.7%	7.0%	20.0%	50.0%	100.0%
Consumer loans	1.0%	10.0%	20.0%	55.0%	100.0%
Credit card loans	1.5%	15.0%	20.0%	60.0%	100.0%

(Korean Won, In millions)

^(*) More than 0.9% for construction (F), wholesale and retail (G), food & lodge (H), real estate & rental industry (L) according to statistical standards of the Korea Standard Industrial Classification

The Bank also calculated the estimated loss through objective and reasonable method, such as using the experienced loss rate on individual loans or homogeneous loan group, and the estimated loss has been reflected in the allowance for possible loan losses. Since the Supervisory Regulation required banks to raise the minimum rate of allowance for possible loan losses in 2007 and 2006, the Bank raised the minimum rate of allowance for each type of loans. Due to such change of accounting estimation, allowances for possible loan losses increased by ₩3,977 million and ₩9,341 million, and net income decreased by ₩2,883 million and ₩6,772 million for the years ended December 31, 2007 and 2006, respectively.

Allowance for Possible Losses on Confirmed and Unconfirmed Acceptances and Guarantees

The Bank provided no less than the minimum rate of allowance for possible loan loss on confirmed acceptances and guarantees, notes endorsed and unconfirmed acceptances and guarantees reflecting both the credit classification and credit conversion rate.

In addition, when an allowance for possible losses on confirmed acceptances and guarantees required by the Supervisory Regulation is less than the amount calculated based on the historical loss rate, which is estimated through objective and reasonable method in accordance with the accounting principle in the Republic of Korea, historical loss rate is reflected in the provision for possible losses on confirmed acceptances and guarantees.

With the same explanation in Note 2 - "Allowance for possible losses on credits", the Bank raised the minimum rate of allowance for each type of acceptances and guarantees according to the modified Supervisory Regulation. Due to such change of accounting estimation, allowance for acceptances and guarantees increased by ₩1,085 million and ₩1,094 million, and net income decreased by ₩787 million and ₩793 million for the years ended December 31, 2007 and 2006, respectively.

Allowance for Possible Losses on Unused Limits

The Bank had provided allowance for possible losses on unused limits for certain portions of unused cash advance facility of active credit card accounts with transaction records during the recent one year and for unused credit limit of credit line commitments to households and corporations classified as normal reflecting the credit conversion rate until FY 2005. However, the Bank has provided allowance for possible losses on unused limits for all unused purchase credit limit and unused cash advance facility of credit card accounts and for unused credit limit of all credit line commitments to households and corporations reflecting the credit conversion rate since FY 2006. Such change also satisfies the requirement of the Supervisory Regulation as the Bank provides other allowances more than the minimum allowance rate. Due to this change, allowance for possible losses on unused limits increased by ₩2,625 million and ₩3,329 million, and net income decreased by ₩1,903 million and ₩2,414 million for the years ended December 31, 2007 and 2006, respectively. Since the Bank believed that it was difficult to the change in accounting policy, the effect of the change was recognized prospectively in FY 2006.

Restructuring of Loans

The equity interest in the debtors, real estates or other assets received as full or partial satisfaction of the Bank's loans, collected through reorganization proceedings, court mediation or debt restructuring agreements of parties concerned, is recorded at fair value at the time of the restructuring. In cases where the fair value of the assets received is less than the book value of the loan (book value before allowances), the Bank offsets first the book value against allowances for loans and then recognizes provisions for loans. Impairment losses for loans that were restructured in a troubled debt restructuring involving a modification of terms are computed by the difference between the present value of future cash flows under debt restructuring agreements discounted at effective interest rates at the time when loans are originated and the book value before allowances for loans. If the amount of allowances already established is less than the impairment losses under the workout plans, the Bank provides additional allowances for the difference. Otherwise, the Bank reverses the allowances for loan losses.

Valuation of Receivables and Payables at Present Value

Receivables and payables incurred through long-term installment transactions, long-term borrowing and lending transactions, and other similar transactions are stated at the present value of expected future cash flows, and the gain or loss on valuation of related receivables and payables is reflected in current operations, unless the difference between nominal value and present value is immaterial. Present value discount or premium is amortized using the effective interest rate method and credited or charged to interest income or interest expense.

Tangible Assets and Related Depreciation

Tangible assets are recorded at cost or production cost including the incidental expenses. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or the extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed by using the declining-balance method (straight-line method for buildings and structures) based on the estimated useful lives of the assets as follows:

Tangible assets	Depreciation method	Estimated useful life
Buildings	Straight-line	50 years
Leasehold improvements	Straight-line	5 years
Equipment and vehicles	Declining balance	5 years
Others	Declining balance	5 years

Intangible Assets

Intangible assets included in other assets are recorded at the production cost or purchase cost plus incidental expenses. Expenditures incurred in conjunction with the development of new products or technology and others, in which the elements of costs can be individually identified and future economic benefits expected, are capitalized as development costs under intangible assets. Intangible assets are amortized using the reasonable amortization method over the reasonable useful life less than 20 years for development costs and other intangible assets.

NOTES TO FINANCIAL STATEMENTS

Recognition of Impairment of Assets

When the book value of assets (other than securities and assets valued at present value) exceeds the recoverable value of the assets due to obsolescence, physical damage or a sharp decrease in market value and the difference is material, the book value is adjusted to recoverable value in the balance sheet and the resulting impairment loss is charged to current operations. If the recoverable value of the assets increases in subsequent years, the increase in value is credited to operations as gain until the recoverable value equals the book value of assets that would have been determined had no impairment loss been recognized. The Bank assessed the recoverable value based on expected selling price or appraisal value.

Amortization of Discounts (Premiums) on Debentures

Discounts or premiums on debentures issued are amortized over the period from issuance to maturity using the effective interest rate method. Amortization of discounts or premiums is recognized as interest expense or interest income on the debentures.

Accrued Severance Benefits

Employees and directors with at least one year of service as of December 31, 2007 are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees and directors were to resign are included in other liabilities.

The Bank has purchased severance benefits insurance, which meets the funding requirement for tax purposes, and made deposits with Samsung Life Insurance Co., Ltd. and others. Withdrawal of these deposits is restricted to the payment of severance benefits. These are presented as a deduction from the accrued severance benefits.

Bonds under Resale or Repurchase Agreements

Bonds purchased under resale agreements are recorded as loans and bonds sold under repurchase agreements are recorded as borrowings when the Bank purchases or sells securities under resale or repurchase agreements.

Accounting for Derivative Instruments

The Bank accounts for derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for derivative instruments. Derivative instruments are classified as for trading activities or for hedging activities according to their transaction purposes. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or a liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations.

The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is of a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as accumulated other comprehensive income (loss) and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as accumulated other comprehensive income (loss) is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the related accumulated other comprehensive income is added to or deducted from the asset or the liability.

Accounting for Share-based Payment

In accordance with the Statement of Korea Accounting Standards No. 22 - *Share-based Payment*, compensation expense for stock option and accrued expenses in other liabilities are recorded at fair value at the grant date through an agreement service period from 2007. The other liabilities are assessed at fair value of the closing day or the final settlement day. When the other liabilities are assessed at fair value, option pricing models are used and the conditions of the stock option and the contractual terms of the services provided are reflected in the option pricing model.

Stock options, which were provided no later than December 31, 2006, are valued at fair value pursuant to the Interpretations on Financial Accounting Standards 39-35 on accounting for stock options. The fair value of stock options is charged to operating expense in the statement of income and credited to liability over the contractual term of the services provided.

Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the changes in deferred income taxes. However, deferred income tax assets are recognized only if the future tax benefits from accumulated temporary differences and any tax loss carryforwards are realizable. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities, which will be charged or credited to income tax expense in the period each temporary difference reverses in the future. Deferred income tax assets or liabilities are calculated based on the expected tax rate to be applied at the reversal period of the related assets or liabilities. Tax payable and deferred income tax assets or liabilities with regards to certain items are charged or credited directly to related components of shareholders' equity.

Accounting for Foreign Currency Transactions and Translation

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on the basic rate (₩938.20 and ₩929.60 to US\$ 1.00 at December 31, 2007 and 2006, respectively) announced by Seoul Money Brokerage Service, Ltd. or cross rates for other currencies other than U.S. Dollars at the balance sheet dates. Translation gains and losses are credited or charged to operations.

Accounting for Trust Accounts

The Bank separately maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) from those of the bank accounts in accordance with the Trust Business Act. When surplus funds are generated through the management of trust assets, such funds are deposited with the bank accounts and are recorded as due to trust accounts of the bank accounts. Also, the borrowings from the bank accounts are recorded as due from trust accounts of the bank accounts. The Bank receives fees for operation and management of the trust business and accounts for them as fees and commissions from trust accounts.

With respect to certain trust account products, the Bank guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to the bank accounts and receiving compensating contributions from the bank accounts of the Bank. If the Bank pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as other operating expense of the bank accounts and as other operating income of the trust accounts.

NOTES TO FINANCIAL STATEMENTS

Application of the Statement of Korea Accounting Standards

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued a series of the Statements of Korea Accounting Standards (SKAS) No. 1 through No. 25. The Statements supersede the related articles of existing accounting standards and constitute generally accepted accounting principles of the Republic of Korea. The Bank adopted SKAS No. 1 (Accounting Changes and Error Corrections) through SKAS No. 20 (Related Party Disclosures), excluding SKAS No. 14, as of or before December 31, 2006, and SKAS No. 11 and No. 21 through No. 25 since January 1, 2007.

(1) The adoption of SKAS No. 21 (Preparation and Presentation of Financial Statements) and SKAS No. 24 [Preparation and Presentation of Financial Statements (Financial Industry)]

With the adoption of SKAS No. 21 and No. 24, the Bank included the statement of changes in shareholders' equity in the financial statements and reclassified the components of the balance sheets as follows:

Classification	Before	After
Assets	<ul style="list-style-type: none"> - Cash and due from banks - Securities - Loans - Fixed assets - Other assets 	<ul style="list-style-type: none"> - Cash and due from banks - Securities - Loans - Tangible assets - Other assets (Include intangible assets previously under fixed assets)
Liabilities	<ul style="list-style-type: none"> - Merchant banking account assets - Deposits - Borrowings - Debentures - Other liabilities - Merchant banking account liabilities 	<ul style="list-style-type: none"> - Merchant banking account assets - Deposits - Borrowings - (Note: Included in borrowings) - Other liabilities - Merchant banking account liabilities
Shareholders' Equity	<ul style="list-style-type: none"> - Capital stock - Capital surplus - Retained earnings - Capital adjustments 	<ul style="list-style-type: none"> - Capital stock - Capital surplus - Retained earnings - Capital adjustments - Accumulated other comprehensive income (Previously included in capital adjustments)

In addition, a discontinued operation is separately presented in the income statements and extraordinary items are no longer reported separately. The Bank has reclassified the components of the income statements; such as, gains or losses relating to available-for-sale securities and sale of loans that were presented under non-operating income (expenses) are currently presented under operating income (expenses). The restatement did not affect the previously reported prior period's net income or shareholders' equity. The effect of the restatement on the income statement for the year ended December 31, 2006 was as follows:

Classification	Before	After	Effect
Operating revenue	₩ 1,480,329	₩ 1,498,979	₩ 18,650
Operating expenses	1,199,472	1,234,592	35,120
Operating income	280,857	264,387	(16,470)
Non-operating income	30,148	11,498	(18,650)
Non-operating expenses	53,577	18,457	(35,120)
Income before income tax	257,428	257,428	-
Income tax expense	73,572	73,572	-
Net income	₩ 183,856	₩ 183,856	₩ -
Basic net income per share (In currency units)	₩ 1,253	₩ 1,253	₩ -

(In millions except per share amounts)

The Bank has reclassified the components of the cash flows; such as, changes in available-for-sale securities, held-to-maturity securities and loans that were presented under cash flows from investing activities are currently presented under cash flows from operating activities. The accompanying non-consolidated statement of cash flows for the year ended December 31, 2006 was restated due to the application of new accounting regulations on preparation of cash flow statements. The restatement did not affect the previously reported prior period's cash and due from banks. The effect of the restatement on the statement of cash flows for the year ended December 31, 2006 was as follows:

Classification	Before	After	Effect
Cash flows from operating activities	₩ 359,590	₩ (2,480,147)	₩ (2,839,737)
Cash flows from investing activities	(2,834,329)	(15,453)	2,818,876
Cash flows from financing activities	2,385,945	2,406,806	20,861
Decrease in cash and due from banks	(88,794)	(88,794)	-
Cash and due from banks, beginning of the period	761,727	761,727	-
Cash and due from banks, end of the period	₩ 672,933	₩ 672,933	₩ -

(Won in millions)

(2) Adoption of SKAS No. 22 and No. 23 The prior period financial statements were neither restated nor the earnings per share adjusted to reflect the effect of the application of SKAS No. 22 (Share-based Payment) and No. 23 (Earnings per Share), which is in accordance with the transition provision.

3. Cash and Due from Banks

(1) Cash and due from banks as of December 31, 2007 and 2006 consisted of the following:

	2007	2006
Cash and checks	₩ 334,266	₩ 362,765
Foreign currencies	34,660	23,196
Due from banks in local currency	934,504	624,012
Due from banks in foreign currencies	23,919	19,343
	₩ 1,327,349	₩ 1,029,316

(Won in millions)

(2) Due from banks in local currency and foreign currencies as of December 31, 2007 and 2006 consisted of the following:

	Financial institution	Interest rate (%)	2007	2006
Due from banks in local currency:	The Bank of Korea	-	₩ 395,646	₩ 344,151
	Kwangju Bank and others	4.00-6.22	534,272	215,443
	SC First Bank and others	4.50-5.05	1,400	63,400
	The Korea Exchange and others	-	3,186	1,018
				934,504
Due from banks in foreign currencies:	The Bank of Korea	-	10,532	11,215
	KEB and others	-	6,655	3,671
	BOA and others	-	6,732	4,457
			23,919	19,343
		₩ 958,423	₩ 643,355	

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

(3) Restricted due from banks in local currency and foreign currencies as of December 31, 2007 and 2006 consisted of the following:

	Financial institution	2007	2006	Reason of restriction
Due from banks in local currency:				
Reserve deposits	The Bank of Korea	₩ 395,646	₩ 344,151	The Bank of Korea Act
CD and others	Hana Bank and others	3,400	-	Remuneration for loss from the settlement in the clearing house
Other deposits	The Korea Exchange and others	1,454	1,017	Margin for derivative transaction and other
		400,500	345,168	
Due from banks in foreign currencies:				
Due from banks on demand	The Bank of Korea	10,532	11,215	The Bank of Korea Act
		₩ 411,032	₩ 356,383	

(Won in millions)

4. Securities

(1) Securities as of December 31, 2007 and 2006 consisted of the following:

	2007	2006
Trading securities:		
Stocks	₩ 438	₩ -
Beneficiary certificates	10,427	-
	10,865	-
Available-for-sale securities:		
Stocks	163,855	93,204
Equity securities	11,540	1,960
Government and public bonds	205,576	253,137
Finance debentures	644,659	574,680
Corporate bonds	579,456	520,242
Securities in foreign currencies	84,284	58,892
Others	170,693	164,174
	1,860,063	1,666,289
Held-to-maturity securities:		
Government and public bonds	618,018	772,854
Finance debentures	1,882,164	1,792,161
Corporate bonds	589,313	611,521
Securities in foreign currencies	43,701	52,484
	3,133,196	3,229,020
Securities using the equity method:		
Stocks	23,826	22,859
	₩ 5,027,950	₩ 4,918,168

(Won in millions)

(2) The valuation of securities excluding securities using the equity method as of December 31, 2007 and 2006 consisted of the following:

December 31, 2007	Face value	Acquisition cost	Adjusted by effective interest rate method	Fair value
Trading securities:				
Stocks	₩ 55	₩ 455	₩ 455	₩ 438
Beneficiary certificates	10,427	10,427	10,427	10,427
	10,482	10,882	10,882	10,865
Available-for-sale securities:				
Equity securities	160,151	173,147	173,147	175,395
Government and public bonds	210,000	207,661	208,416	205,576
Finance debentures	650,000	648,753	649,818	644,659
Corporate bonds	590,000	588,188	588,726	579,456
Beneficiary certificates	175,921	175,991	175,991	170,054
Securities in foreign currencies	87,252	87,196	87,565	84,284
Others	2,833	-	-	639
	1,876,157	1,880,936	1,883,663	1,860,063
Held-to-maturity securities:				
Government and public bonds	628,705	602,830	618,018	618,018
Finance debentures	1,894,000	1,876,591	1,882,164	1,882,164
Corporate bonds	590,078	589,481	589,313	589,313
Securities in foreign currencies	45,034	44,996	45,021	43,701
	3,157,817	3,113,898	3,134,516	3,133,196
	₩ 5,044,456	₩ 5,005,716	₩ 5,029,061	₩ 5,004,124

(Won in millions)

December 31, 2006	Face value	Acquisition cost	Adjusted by effective interest rate method	Fair value
Available-for-sale securities:				
Equity securities	₩ 90,481	₩ 97,564	₩ 95,164	₩ 95,164
Government and public bonds	255,000	255,986	254,894	253,137
Finance debentures	580,000	570,573	575,291	574,680
Corporate bonds	520,500	519,442	520,121	520,242
Beneficiary certificates	151,053	151,070	151,070	153,567
Commercial paper	10,000	10,000	10,000	9,989
Securities in foreign currencies	58,565	58,550	58,550	58,892
Others	2,833	618	618	618
	1,668,432	1,663,803	1,665,708	1,666,289
Held-to-maturity securities:				
Government and public bonds	786,170	762,093	772,854	772,854
Finance debentures	1,800,000	1,787,219	1,792,161	1,792,161
Corporate bonds	611,130	611,484	611,521	611,521
Securities in foreign currencies	52,523	52,438	52,484	52,484
	3,249,823	3,213,234	3,229,020	3,229,020
	₩ 4,918,255	₩ 4,877,037	₩ 4,894,728	₩ 4,895,309

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

The fair values of debt securities as of December 31, 2007 and 2006 were assessed by applying the median of base prices per bond announced on a recent trading day by Korea Bond Pricing & KR Co. (KBP) and Korea Investors Services Co., Ltd. (KIS). The purchasing prices of the securities in foreign currencies were translated using the basic exchange rate at December 31, 2007 and 2006, respectively. Also, the book values of trading securities and available-for-sale securities are recorded at fair values and the book values of held-to-maturity securities are recorded at adjusted values by using the effective interest rate method.

(3) Available-for-sale equity securities (equity securities and stocks) as of December 31, 2007 and 2006 consisted of the following:

December 31, 2007	Shares	Percentage of ownership (%)	Acquisition cost	Fair value or net asset value	Book value
Unlisted equity securities:					
Dongah Construction Industrial Co., Ltd.	464	0.00	₩ -	₩ (40)	₩ -
Green Cross Life Insurance Co., Ltd. (Preferred stock)	356,130	10.00	3,454	2,492	3,457
Green Cross Life Insurance Co., Ltd.	159,330	0.99	1,545	1,115	1,567
BC Card.	177,120	4.03	3,042	9,334	8,654
CJ Investment Co., Ltd.	799,481	0.74	3,997	1,190	4,690
Kihyup Technology Co., Ltd.	100,000	1.72	500	636	500
Dongbu Investment Trust Co., Ltd.	400,000	6.67	2,000	1,744	2,216
Korea Housing Guarantee Co., Ltd.	1,167,000	0.18	2,021	5,572	4,680
Shinhan Infrastructure Portfolio Fund	2,727,308	10.76	12,915	13,148	13,159
Korea BTL Fund I	610,641	13.89	6,250	4,547	6,448
Myoungji Bridge Co., Ltd.	1,578,000	8.33	7,890	7,890	8,808
Renaissance Private Equity I, L.P.	180	6.64	1,800	1,548	1,800
Miraeasset Private Security Fund 3	10,000,000	8.18	₩ 50,000	₩ 53,594	₩ 50,000
Miraeasset Private Security Fund 4	1,616,218	3.65	8,081	8,144	8,081
KTB 2007 Private Equity Fund	6,000,000,000	4.35	6,000	6,000	6,000
Busan Air Co., Ltd.	299,000	6.78	1,495	342	1,495
Hae Duk Rudder & R. Stock Co., Ltd.	9,800	3.50	1,764	249	1,675
Balhae Infrastructure Fund	1,123,342	1.68	11,429	11,429	11,616
Lotte Capital Co., Ltd.	2,464,000	7.87	21,126	15,645	15,474
Others			16,298	1,699	13,535
			161,607	146,278	163,855
Equity investments:					
Korea Asset Management Corporation	292,000	0.56	1,460	2,024	1,460
Non-performing Asset Management Fund	8,280,000,000	0.20	8,280	15,857	8,280
Others			1,800	1,935	1,800
			11,540	19,816	11,540
			₩ 173,147	₩ 166,094	₩ 175,395

(Won in millions)

December 31, 2006	Shares	Percentage of ownership (%)	Acquisition cost	Fair value or net asset value	Book value
Listed equity securities:					
Namsun Aluminum Co., Ltd.	39,300	0.55	₩ 369	₩ 99	₩ 99
Unlisted equity securities:					
BC Card.	177,120	4.03	3,042	8,256	7,282
CJ Investment Co., Ltd.	799,481	1.30	3,997	2,623	4,243
Kihyup Technology Co., Ltd.	100,000	1.72	500	616	500
Dongbu Investment Trust Co., Ltd.	400,000	6.67	2,000	1,870	2,353
Korea Housing Guarantee Co., Ltd.	1,167,000	0.18	1,741	3,971	4,812
Miraeasset Private Security Fund 3	10,000,000	8.18	50,000	50,000	50,000
Lotte Capital Co., Ltd.	2,464,000	7.87	21,126	12,165	13,375
Others			12,829	5,661	10,540
			95,604	85,261	93,204
Equity investments:					
Korea Asset Management Corporation	292,000	0.56	1,460	1,043	1,460
Others			500	516	500
			1,960	1,559	1,960
			₩ 97,564	₩ 86,820	₩ 95,164

(Won in millions)

The fair value of the available-for-sale non-marketable equity securities were reliably measured by an independent appraisal institute using reasonable judgment. The fair value was determined based on more than one valuation models such as Discounted Cash Flow (DCF) Model, Imputed Market Value (IMV) Model, Discounted Free Cash Flow to Equity (FCFE) Model, Dividend Discount (DD) Model and Risk Adjusted Discounted Cash Flow (RADCF) Model depending on the equity securities.

(4) The portfolio of securities excluding securities using the equity method, by industry, as of December 31, 2006 and 2007 consisted of the following:

December 31, 2007	2007	2006	Percentage (%)	
			2007	2006
Trading securities:				
Transportation	₩ 438	₩ -	4.03	-
Financial services	10,427	-	95.97	-
	10,865	-	100.00	-
Available-for-sale securities:				
Public service	205,576	253,137	11.05	15.20
Financial services	1,462,294	1,151,711	78.62	69.12
Manufacturing	88,453	111,525	4.75	6.69
Construction	23,056	10,720	1.24	0.64
Restaurant and lodging	-	10,086	-	0.61
Real estate leasing service	9,599	-	0.52	-
Others	71,085	129,110	3.82	7.74
	1,860,063	1,666,289	100.00	100.00
Held-to-maturity securities:				
Public service	618,018	772,854	19.72	23.93
Financial services	2,156,978	2,133,285	68.84	66.07
Manufacturing	9,371	12,521	0.00	0.39
Others	348,829	310,360	11.44	9.61
	3,133,196	3,229,020	100.00	100.00
	₩ 5,004,124	₩ 4,895,309		

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

(5) The portfolio of securities excluding securities using the equity method, by type, as of December 31, 2007 and 2006 consisted of the following:

December 31, 2007	Securities in local currency	Securities in foreign currencies	Total	Percentage (%)
Trading securities:				
Stocks	₩ 438	₩ -	₩ 438	4.03
Beneficiary certificates	10,427	-	10,427	95.97
	10,865	-	10,865	100.00
Available-for-sale securities:				
Equity securities	175,395	-	175,395	9.43
Fixed rate bonds	1,429,691	9,293	1,438,984	77.36
Floating rate bonds	-	74,991	74,991	4.03
Beneficiary certificates	170,054	-	170,054	9.14
Others	639	-	639	0.04
	1,775,779	84,284	1,860,063	100.00
Held-to-maturity securities:				
Fixed rate bonds	2,949,495	-	2,949,495	94.14
Floating rate bonds	140,000	43,701	183,701	5.86
	3,089,495	43,701	3,133,196	100.00
	₩ 4,876,139	₩ 127,985	₩ 5,004,124	

(Won in millions)

December 31, 2006	Securities in local currency	Securities in foreign currencies	Total	Percentage (%)
Available-for-sale securities:				
Equity securities	₩ 95,164	₩ -	₩ 95,164	₩ 5.71
Fixed rate bonds	1,308,074	9,246	1,317,320	79.05
Floating rate bonds	39,985	49,646	89,631	5.38
Commercial papers	9,989	-	9,989	0.60
Beneficiary certificates	153,567	-	153,567	9.22
Others	618	-	618	0.04
	1,607,397	58,892	1,666,289	100.00
Held-to-maturity securities:				
Fixed rate bonds	3,036,536	-	3,036,536	94.04
Floating rate bonds	140,000	52,484	192,484	5.96
	3,176,536	52,484	3,229,020	100.00
	₩ 4,783,933	₩ 111,376	₩ 4,895,309	

(Won in millions)

(6) Equity securities using the equity method as of December 31, 2007 and 2006 were summarized as follows:

December 31, 2007	No. of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
PB Futures Co., Ltd.	3,000,000	100.00	₩ 15,000	₩ 19,631	₩ 19,631
Busan Credit Information Co., Ltd. ^{(*)1}	600,000	100.00	3,000	3,305	3,000
Mybi Co., Ltd. ^{(*)2}	420,000	7.61	2,100	1,195	1,195
Korea Lease Financing Co., Ltd. ^{(*)3}	695,064	17.38	3,475	-	-
			₩ 23,575	₩ 24,131	₩ 23,826

(Won in millions)

December 31, 2006	No. of shares	Owner-ship (%)	Acquisition cost	Net asset value	Book value
PB Futures Co., Ltd.	3,000,000	100.00	₩ 15,000	₩ 18,674	₩ 18,674
Busan Credit Information Co., Ltd. ^{(*)1}	600,000	100.00	3,000	3,143	3,000
Mybi Co., Ltd. ^{(*)2}	420,000	14.17	2,100	1,185	1,185
Korea Lease Financing Co., Ltd. ^{(*)3}	695,064	17.38	3,475	-	-
			₩ 23,575	₩ 23,002	₩ 22,859

(Won in millions)

^{(*)1} Busan Credit Information Co., Ltd., a subsidiary of the Bank, is recorded at acquisition cost because the changes in equity securities using the equity method are not considered significant.

^{(*)2} Mybi is valued using the equity method because the Bank, taking charge of sales on behalf of Mybi, maintains a significant influence on Mybi at the balance sheet date.

^{(*)3} Korea Lease Financing Co., Ltd. is not valued using the equity method because its net asset amounts are below zero as of December 31, 2007.

The fair value and net asset value of the above investees are computed based on their financial statements as of December 31, 2007 and 2006.

(7) The valuations of securities using the equity method as of December 31, 2007 and 2006 were as follows:

December 31, 2007	Acquisition cost	Net asset value	Book value before valuation	Equity gain	Accumulated other comprehensive loss	Book value after valuation
PB Futures Co., Ltd.	₩ 15,000	₩ 19,631	₩ 18,674	₩ 998	₩ (41)	₩ 19,631
Busan Credit Information Co., Ltd.	3,000	3,305	3,000	-	-	3,000
Mybi Co., Ltd.	2,100	1,195	1,185	10	-	1,195
Korea Lease Financing Co., Ltd.	3,475	-	-	-	-	-
	₩ 23,575	₩ 24,131	₩ 22,859	₩ 1,008	₩ (41)	₩ 23,826

(Won in millions)

December 31, 2006	Acquisition cost	Net asset value	Book value before valuation	Equity gain (loss)	Accumulated other comprehensive income	Book value after valuation
PB Futures Co., Ltd.	₩ 15,000	₩ 18,674	₩ 18,154	₩ 480	₩ 40	₩ 18,674
Busan Credit Information Co., Ltd.	3,000	3,143	3,000	-	-	3,000
Mybi Co., Ltd.	2,100	1,185	1,447	(262)	-	1,185
Korea Lease Financing Co., Ltd.	3,475	-	-	-	-	-
	₩ 23,575	₩ 23,002	₩ 22,601	₩ 218	₩ 40	₩ 22,859

(Won in millions)

(8) Significant financial information of companies of which stocks were accounted for using the equity method as of and for the years ended December 31, 2007 and 2006 were as follows:

December 31, 2007	Assets	Liabilities	Sales	Net income
PB Futures Co., Ltd. ^{(*)1}	₩ 49,892	₩ 30,261	₩ 10,131	₩ 998
Busan Credit Information Co., Ltd.	3,477	172	2,115	162
Mybi Co., Ltd.	40,896	32,462	13,937	70

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006	Assets	Liabilities	Sales	Net income (loss)
PB Futures Co., Ltd. ^{(*)2}	₩ 36,497	₩ 17,823	₩ 8,923	₩ 480
Busan Credit Information Co., Ltd.	3,311	168	2,324	104
Mybi Co., Ltd.	26,445	18,081	10,758	(1,848)

^{(*)1} Operating revenue and net income were for the year ended December 31, 2007.

(Won in millions)

^{(*)2} With the adoption of SKAS No. 21, operating revenue was restated for the year ended December 31, 2006.

(9) Changes in the gain (loss) on valuation of available-for-sale securities and securities using the equity method reflected in accumulated other comprehensive income (loss) for the year ended December 31, 2007 were as follows:

	Beginning	Increase	Decrease	Disposal	Ending
Available-for-sale securities:					
Equity securities	₩ 2,147	₩ 4,149	₩ 353	₩ 113	₩ 5,830
Bonds in local currency	(1,636)	507	12,182	(784)	(12,527)
Bonds in foreign currencies	248	15	2,392	16	(2,145)
Beneficiary certificates	1,810	205	4,530	1,789	(4,304)
Others	448	15	-	(8)	471
	₩ 3,017	₩ 4,891	₩ 19,457	₩ 1,126	₩ (12,675)
Securities using the equity method	₩ 1,192	₩ 437	₩ 41	₩ -	₩ 1,588

(Won in millions)

(10) Term structure of securities (except for stocks and equity securities) in available-for-sale and held-to-maturity securities as of December 31, 2007 and 2006 was as follows:

December 31, 2007	Government and public bonds	Finance bonds	Corporate bonds	Beneficiary certificates / others ^(*)	Securities in foreign currencies	Total
Available-for-sale securities:						
Less than 3 months	₩ 49,866	₩ 109,825	₩ 39,947	₩ -	₩ 4,692	₩ 204,330
Less than 6 months	-	49,894	19,906	-	7,495	77,295
Less than 1 year	29,750	89,355	99,316	143,822	9,412	371,655
Less than 2 years	19,574	366,492	274,451	10,137	-	670,654
Less than 3 years	19,760	29,093	116,657	-	18,773	184,283
Less than 4 years	86,626	-	-	-	-	86,626
Less than 5 years	-	-	29,179	-	-	29,179
Less than 10 years	-	-	-	7,615	43,912	51,527
Over 10 years	-	-	-	8,480	-	8,480
	205,576	644,659	579,456	170,054	84,284	1,684,029
Held-to-maturity securities:						
Less than 3 months	199,316	193,761	20,999	-	-	414,076
Less than 6 months	19,825	299,346	68,588	-	12,184	399,943
Less than 1 year	141,999	429,117	262,841	-	-	833,957
Less than 2 years	132,383	550,002	163,863	-	-	846,248
Less than 3 years	52,610	309,938	22,955	-	9,382	394,885
Less than 4 years	48,830	-	20,067	-	9,382	78,279
Less than 5 years	23,055	-	30,000	-	3,371	56,426
Less than 10 years	-	100,000	-	-	9,382	109,382
	618,018	1,882,164	589,313	-	43,701	3,133,196
	₩ 823,594	₩ 2,526,823	₩ 1,168,769	₩ 170,054	₩ 127,985	₩ 4,817,225

^(*) Preemptive right of new share amounting to ₩639 million for Kia Motors Corporation's preferred stock is not included.

(Won in millions)

December 31, 2006	Government and public bonds	Finance bonds	Corporate bonds	Beneficiary certificates / others ⁽¹⁾	Securities in foreign currencies	Total
Available-for-sale securities:						
Less than 3 months	₩ 30,002	₩ 69,842	₩ 64,893	₩ -	₩ -	₩ 164,737
Less than 6 months	10,066	78,808	49,935	61,544	-	200,353
Less than 1 year	119,187	186,846	75,665	100,913	9,333	491,944
Less than 2 years	83,994	239,184	129,937	-	21,410	474,525
Less than 3 years	9,888	-	199,812	-	-	209,700
Less than 5 years	-	-	-	-	-	-
Less than 10 years	-	-	-	-	28,149	28,149
Over 10 years	-	-	-	1,099	-	1,099
	253,137	574,680	520,242	163,556	58,892	1,570,507
Held-to-maturity securities:						
Less than 3 months	30,457	109,917	873	-	-	141,247
Less than 6 months	19,298	229,405	-	-	-	248,703
Less than 1 year	132,862	673,858	79,975	-	7,892	894,587
Less than 2 years	359,421	618,937	325,066	-	12,056	1,315,480
Less than 3 years	131,046	60,044	151,763	-	-	342,853
Less than 4 years	51,656	-	3,760	-	9,296	64,712
Less than 5 years	48,114	-	20,084	-	9,296	77,494
Less than 10 years	-	100,000	30,000	-	13,944	143,944
	772,854	1,792,161	611,521	-	52,484	3,229,020
	₩ 1,025,991	₩ 2,366,841	₩ 1,131,763	₩ 163,556	₩ 111,376	₩ 4,799,527

⁽¹⁾ Preemptive right of new share amounting to ₩618 million for Kia Motors Corporation's preferred stock is not included.

(Won in millions)

(11) The impairment loss and the reversal of impairment loss on available-for-sale securities recognized for the years ended December 31, 2007 and 2006 were as follows:

Accounts	2007		2006	
	Impairment	Reversal	Impairment	Reversal
Available-for-sale securities:				
Equity securities	₩ -	₩ 8,279	₩ 28	₩ -
Held-to-maturity securities:				
Foreign currencies bonds	1,319	-	-	-

⁽¹⁾ Accrued interest receivable related to impairment of foreign currencies bonds is ₩59 million for the year ended December 31, 2007.

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

(12) The portfolio of securities in foreign currencies excluding securities accounted for using the equity method, by country, as of December 31, 2007 and 2006 was as follows:

By country	2007		2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Available-for-sale securities:				
Korea	₩ 44,984	53.37	₩ 35,341	60.01
USA	22,084	26.20	14,141	24.01
France	8,509	10.10	9,410	15.98
Belgium	8,707	10.33	-	-
	84,284	100.00	58,892	100.00
Held-to-maturity securities:				
Korea	₩ 2,812	6.43	₩ 7,427	14.15
USA	18,753	42.91	21,817	41.57
France	9,382	21.47	9,296	17.71
Germany	3,372	7.72	4,648	8.86
Belgium	9,382	21.47	9,296	17.71
	43,701	100.00	52,484	100.00
	₩ 127,985		₩ 111,376	

(Won in millions)

(13) Structured securities as of December 31, 2007 and 2006 were as follows:

	2007	2006
Interest related:		
FRN	₩ 140,000	₩ 179,985
Credit risk related:		
CDO	44,001	28,200
CLN	9,382	9,296
CLO	9,382	9,296
	₩ 202,765	₩ 226,777

(Won in millions)

(14) Securities provided as collateral as of December 31, 2007 and 2006 were as follows:

Provided to	2007	2006	Provided for
Korea Securities Depository	₩ 1,050,000	₩ 1,380,000	Bonds sold under repurchase agreements
The Bank of Korea	160,000	180,000	Overdrafts and settlement
The Bank of Korea	470,000	491,700	Borrowings from the Bank of Korea
The Bank of America	-	30,000	Borrowings from bank
PB Futures Co., Ltd. and others	8,800	4,300	Futures settlement
Pusan District Court	1,070	923	A deposit
	₩ 1,689,870	₩ 2,086,923	

(Won in millions)

(15) Assets of privately placed units included in beneficiary certificates of available-for-sale securities as of December 31, 2007 and 2006 were as follows:

	2007		2006	
Stocks	₩	78,017	₩	52,821
Government and public bonds		-		9,976
Finance bonds		23,840		66,348
Corporate bonds		-		1,498
Call loans		25,421		10,258
Other due from banks		16,544		11,622
Other assets		-		1,736
Total assets		143,822		154,259
Total liabilities		-		692
Net assets	₩	143,822	₩	153,567

(Won in millions)

5. Loans**(1) Loans as of December 31, 2007 and 2006 consisted of the following:**

	2007		2006	
Loans in local currency	₩	15,932,123	₩	13,609,190
Loans in foreign currencies		540,692		525,160
Bills bought in local currency		11,597		3,426
Bills bought in foreign currencies		152,039		153,670
Advances for customers		919		1,536
Credit card accounts		331,808		317,178
Bonds purchased under resale agreements		-		60,000
Privately placed bonds		199,625		193,950
Call loans		592,539		27,237
Domestic import usance bill		363,897		261,653
Factoring receivables		-		166
		18,125,239		15,153,166
Allowance for possible loan losses (see Notes 6 and 7)		(219,661)		(220,717)
	₩	17,905,578	₩	14,932,449

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

(2) Loans in local currency and loans in foreign currencies as of December 31, 2007 and 2006 were as follows:

		2007	2006
Loans in local currency:			
Commercial	Working capital loans:		
	Notes discounted	₩ 511,838	₩ 626,224
	Overdraft accounts	126,913	94,818
	General purpose loans	6,390,947	5,147,650
	Trading notes	255,599	313,297
	Commercial loans	389,754	318,617
	Others	340,410	232,583
		8,015,461	6,733,189
	Facilities loans:		
	General purpose loans	2,526,472	1,695,581
	Others	939,273	823,846
		3,465,745	2,519,427
		11,481,206	9,252,616
Households	General purpose loans	3,779,337	3,650,048
	Others	699	1,056
		3,780,036	3,651,104
Public sector loans	Working capital loans	209,869	260,572
	Facilities loans	172,730	181,215
		382,599	441,787
Other loans	Housing loans	21,160	24,866
	Inter-bank loans	267,122	238,817
		288,282	263,683
		₩ 15,932,123	₩ 13,609,190
Loans in foreign currencies:			
	Domestic loans	₩ 531,029	₩ 514,981
	Offshore loans	9,663	10,179
		₩ 540,692	₩ 525,160

(Won in millions)

(3) Inter-bank loans for restructuring of small and medium-sized enterprises as of December 31, 2007 and 2006 were as follows:

	2007	2006
Industrial Bank of Korea	₩ 168,075	₩ 156,956
Kookmin Bank	16,399	13,464
Woori Bank	31,952	29,800
Korea Exchange Bank	3,191	4,262
Shinhan Bank	16,595	17,732
Kyongnam Bank	20,220	6,569
The Korea Development Bank and others	10,690	10,034
	₩ 267,122	₩ 238,817

(Won in millions)

The loans to financial institutions excluding inter-bank loans above as of December 31, 2007 and 2006 were as follows:

	2007	2006
Korea Lease Financing Co., Ltd.	₩ -	₩ 6,750
Lotte Card Co., Ltd.	10,000	10,000
Lotte Capital Co., Ltd.	20,000	50,000
Samsung Card Co., Ltd.	-	20,000
LG Card Co., Ltd.	-	18,592
Others	72,944	73,830
	₩ 102,944	₩ 179,172

(Won in millions)

(4) Loans in local currency and loans in foreign currencies, classified by borrower type, as of December 31, 2007 were as follows:

	Loans in local currency	Loans in foreign currencies	Total	Percentage (%)
Large corporations	₩ 702,989	₩ 144,097	₩ 847,086	5.14
Small and medium corporations	11,045,339	396,595	11,441,934	69.46
Households	3,801,196	-	3,801,196	23.08
Public sector and other	382,599	-	382,599	2.32
	₩ 15,932,123	₩ 540,692	₩ 16,472,815	100.00

(Won in millions)

Loans in local currency and loans in foreign currencies, classified by borrower type, as of December 31, 2006 were as follows:

	Loans in local currency	Loans in foreign currencies	Total	Percentage (%)
Large corporations	₩ 727,595	₩ 153,029	₩ 880,624	6.23
Small and medium corporations	8,763,838	372,131	9,135,969	64.64
Households	3,675,970	-	3,675,970	26.01
Public sector and other	441,787	-	441,787	3.12
	₩ 13,609,190	₩ 525,160	₩ 14,134,350	100.00

(Won in millions)

(5) Loans in local currency and loans in foreign currencies, classified by industry, as of, December 31, 2007 were as follows:

	Loans in local currency	Loans in foreign currencies	Total	Percentage (%)
Manufacturing	₩ 5,887,851	₩ 336,324	₩ 6,224,175	37.77
Finance and insurance	342,859	27,208	370,067	2.25
Wholesale and retail	1,505,703	30,684	1,536,387	9.33
Real estate and renting	1,443,173	2,714	1,445,887	8.78
Lodgings and foods	329,372	4,806	334,178	2.03
Households	3,801,196	-	3,801,196	23.08
Public sector	382,599	-	382,599	2.32
Others	2,239,370	138,956	2,378,326	14.44
	₩ 15,932,123	₩ 540,692	₩ 16,472,815	100.00

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

Loans in local currency and loans in foreign currencies, classified by industry, as of December 31, 2006 were as follows:

	Loans in local currency	Loans in foreign currencies	Total	Percentage (%)
Manufacturing	₩ 4,570,820	₩ 300,083	₩ 4,870,903	34.46
Finance and insurance	389,241	28,748	417,989	2.96
Wholesale and retail	1,286,280	34,717	1,320,997	9.35
Real estate and renting	990,496	4,847	995,343	7.04
Lodgings and foods	295,187	29,462	324,649	2.30
Households	3,675,970	-	3,675,970	26.01
Public sector	441,787	-	441,787	3.13
Others	1,959,409	127,303	2,086,712	14.75
	₩ 13,609,190	₩ 525,160	₩ 14,134,350	100.00

(Won in millions)

(6) Loans in foreign currencies, classified by borrower's country, as of December 31, 2007 and 2006 were as follows:

By country	2007		2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Korea	₩ 531,029	98.21	₩ 514,184	97.91
China (*)	-	-	797	0.15
Indonesia (*)	9,663	1.79	10,179	1.94
	₩ 540,692	100.00	₩ 525,160	100.00

(*) Loans for local branches of Korean enterprises

(Won in millions)

6. Restructured Loans

(1) Present value discounts for restructured loans as of December 31, 2007 were as follows:

	Discount rates (%)	Loans	Present value discounts			
			Beginning balance	Addition	Deduction	Ending balance
Workout	5.50	₩ 3,160	₩ -	₩ 68	₩ 68	₩ -
Reorganization and court mediation	2.00 ~ 8.75	18,825	1,163	790	459	1,494
		₩ 21,985	₩ 1,163	₩ 858	₩ 527	₩ 1,494

(Won in millions)

(2) Present value discounts for restructured loans as of December 31, 2006 were as follows:

	Discount rates (%)	Loans	Present value discounts			
			Beginning balance	Addition	Deduction	Ending balance
Workout	5.00 ~ 6.75	₩ 3,608	₩ 424	₩ 97	₩ 521	₩ -
Reorganization and court mediation	4.80 ~ 9.75	15,870	1,842	789	1,468	1,163
		₩ 19,478	₩ 2,266	₩ 886	₩ 1,989	₩ 1,163

(Won in millions)

Fixed rate loans are discounted by the originally agreed interest rate, and floating rate loans are discounted by the interest rate at the restructuring of the loans plus the interest rate reflecting debtors' credit at the origination of the loans.

7. Allowance for Possible Loan Losses

(1) The allowance for possible loan losses (excluding present value discounts from restructured loan) as of December 31, 2007 was summarized as follows:

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	₩ 136,340	₩ 19,489	₩ 16,481	₩ 10,501	₩ 10,983	₩ 193,794
Loans in foreign currencies	7,759	94	48	-	-	7,901
Bills bought in local currency	1,428	27	-	-	-	1,455
/ Bills bought in foreign currencies						
Advances for customers	1	1	103	146	10	261
Credit card receivables	6,362	1,409	19	1,790	2,059	11,639
Privately placed bonds	1,751	-	-	-	-	1,751
Others	-	5	55	747	559	1,366
	₩ 153,641	₩ 21,025	₩ 16,706	₩ 13,184	₩ 13,611	₩ 218,167

(Won in millions)

The allowance for possible loan losses (excluding present value discounts from restructured loan) as of December 31, 2006 was summarized as follows:

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	₩ 120,336	₩ 27,081	₩ 17,018	₩ 12,036	₩ 16,048	₩ 192,519
Loans in foreign currencies	5,991	100	340	-	1,140	7,571
Bills bought in local currency	1,046	-	-	-	-	1,046
/ Bills bought in foreign currencies						
Advances for customers	-	101	46	185	321	653
Credit card receivables	7,897	2,506	32	2,388	1,184	14,007
Privately placed bonds	2,771	-	-	-	-	2,771
Others	9	55	156	350	417	987
	₩ 138,050	₩ 29,843	₩ 17,592	₩ 14,959	₩ 19,110	₩ 219,554

(Won in millions)

(2) The allowance for possible loan losses, net of present value discounts to total loans, is summarized as follows:

	Loans	Allowance for possible loan losses	Percentage (%)
December 31, 2005	₩ 11,915,714	₩ 186,242	1.56
December 31, 2006	14,607,149	219,554	1.50
December 31, 2007	17,127,095	218,167	1.27

(Won in millions)

(3) The changes in allowance for possible loan losses (excluding present value discounts from restructured loan) for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Beginning balance	₩ 219,554	₩ 186,242
Present value discounts	(741)	273
Loans written-off	(77,493)	(39,091)
Changes in exchange rates	23	(227)
Collection of previously written-off loans	32,279	21,620
	173,622	168,817
Provision for possible loan losses	44,545	50,737
	₩ 218,167	₩ 219,554

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

8. Tangible Assets

(1) Tangible assets as of December 31, 2007 and 2006 were as follows:

December 31, 2007	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 172,491	₩ -	₩ -	₩ 172,491
Buildings	123,948	18,299	-	105,649
Leasehold improvements	30,511	17,520	-	12,991
Equipment and vehicles	222,532	169,073	1,600	51,859
Construction in progress	19,692	-	-	19,692
	₩ 569,174	₩ 204,892	₩ 1,600	₩ 362,682

(Won in millions)

December 31, 2006	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 172,588	₩ -	₩ -	₩ 172,588
Buildings	119,213	15,876	-	103,337
Leasehold improvements	23,233	14,556	-	8,677
Equipment and vehicles	209,178	157,005	-	52,173
Construction in progress	19,597	-	-	19,597
	₩ 543,809	₩ 187,437	₩ -	₩ 356,372

(Won in millions)

(2) The published value of land as of December 31, 2007 and 2006 were as follows:

	Book value		Published value	
	2007	2006	2007	2006
Land	₩ 172,491	₩ 172,588	₩ 140,147	₩ 136,920

(Won in millions)

(3) Tangible assets, which have been insured as of December 31, 2007, were as follows:

Type of insurance	Insured assets	Book value	Insured amount
Property composite	Buildings	₩ 105,649	₩ 105,649
	Fixtures	12,991	12,991
	Others	50,537	52,138
		₩ 169,177	₩ 170,778

(Won in millions)

Tangible assets, which have been insured as of December 31, 2006, were as follows:

Type of insurance	Insured assets	Book value	Insured amount
Property composite	Buildings	₩ 103,337	₩ 103,337
	Fixtures	8,677	8,677
	Others	51,092	51,092
		₩ 163,106	₩ 163,106

(Won in millions)

(4) The changes in book value of tangible assets for the year ended December 31, 2007 consisted of the following:

	Beginning	Acquisition	Disposal	Replacement	Depreciation	Impairment loss	Ending
Land	₩ 172,588	₩ -	₩ 97	₩ -	₩ -	₩ -	₩ 172,491
Buildings	103,337	-	736	5,499	2,451	-	105,649
Leasehold improvements	8,677	-	121	7,785	3,350	-	12,991
Equipment and vehicles	52,173	27,582	614	-	25,682	1,600	51,859
Construction in progress	19,597	13,379	-	(13,284)	-	-	19,692
	₩ 356,372	₩ 40,961	₩ 1,568	₩ -	₩ 31,483	₩ 1,600	₩ 362,682

(Won in millions)

The changes in book value of tangible assets for the year ended December 31, 2006 consisted of the following:

	Beginning	Acquisition	Disposal	Replacement	Depreciation	Ending
Land	₩ 171,469	₩ 1,831	₩ 712	₩ -	₩ -	₩ 172,588
Buildings	94,309	5,313	594	6,629	2,320	103,337
Leasehold improvements	5,267	-	106	5,999	2,483	8,677
Equipment and vehicles	49,594	29,470	80	-	26,811	52,173
Construction in progress	19,284	12,941	-	(12,628)	-	19,597
	₩ 339,923	₩ 49,555	₩ 1,492	₩ -	₩ 31,614	₩ 356,372

(Won in millions)

9. Other Assets**(1) Other assets as of December 31, 2007 and 2006 consisted of the following:**

	2007	2006
Guarantee deposits	₩ 117,116	₩ 106,910
Accounts receivable	989,255	159,017
Accrued income	134,422	112,503
Prepaid expenses	5,267	4,960
Derivatives assets (see Note 16)	61,809	16,994
Deferred income tax assets (see Note 23)	-	2,088
Domestic exchange settlement debits	36,345	53,678
Intangible assets (see Note 10)	8,433	8,031
Sundry assets	14,699	10,302
	₩ 1,367,346	₩ 474,483

(Won in millions)

(2) Sundry assets as of December 31, 2007 and 2006 consisted of the following:

	2007	2006
Supplies	₩ 863	₩ 774
Deposit money in court	3,093	3,333
Membership rights	3,159	2,144
Unsettled spot exchanges receivable	4,480	678
Suspense receivable	3,004	3,372
Others	100	1
	₩ 14,699	₩ 10,302

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

10. Intangible

Assets

(1) Intangible assets as of December 31, 2007 and 2006 consisted of the following:

December 31, 2007	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Goodwill	₩ 25	₩ 13	₩ -	₩ 12
Software	13,369	6,139	-	7,230
Others	2,054	863	-	1,191
	₩ 15,448	₩ 7,015	₩ -	₩ 8,433

(Won in millions)

December 31, 2006	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Goodwill	₩ 25	₩ 8	₩ -	₩ 17
Software	14,680	7,976	-	6,704
Others	2,055	745	-	1,310
	₩ 16,760	₩ 8,729	₩ -	₩ 8,031

(Won in millions)

(2) The changes in intangible assets for the years ended December 31, 2007 and 2006 were as follows:

December 31, 2007	Beginning	Increase	Amortization	Ending
Goodwill	₩ 17	₩ -	₩ 5	₩ 12
Software	6,704	2,803	2,277	7,230
Others	1,310	-	119	1,191
	₩ 8,031	₩ 2,803	₩ 2,401	₩ 8,433

(Won in millions)

December 31, 2006	Beginning	Increase	Amortization	Ending
Goodwill	₩ 22	₩ -	₩ 5	₩ 17
Software	5,997	3,141	2,434	6,704
Others	1,430	-	120	1,310
	₩ 7,449	₩ 3,141	₩ 2,559	₩ 8,031

(Won in millions)

11. Deposits

(1) Deposits as of December 31, 2007 and 2006 consisted of the following:

	2007	2006
Demand deposits	₩ 6,934,019	₩ 6,591,278
Term deposits	6,439,294	6,701,766
Certificates of deposits	2,839,539	1,264,670
	₩ 16,212,852	₩ 14,557,714

(Won in millions)

(2) Demand deposits as of December 31, 2007 and 2006 consisted of the following:

	Interest rate (%)	2007	2006
Demand deposits in local currency:			
Checking deposits	-	₩ 42,677	₩ 73,764
Household checking deposits	0.10	10,766	16,778
Temporary deposits	0.00 ~ 2.00	494,562	480,257
Passbook deposits	0.10	880,299	833,755
Public fund deposits	1.00	132,843	163,526
National Treasury deposits	0.10	766	202
Savings deposits	0.10 ~ 5.00	2,985,785	3,263,672
Corporate savings deposits	0.00 ~ 5.90	2,259,573	1,622,742
		6,807,271	6,454,696
Demand deposits in foreign currencies:			
Checking deposits	-	3,307	5,658
Passbook deposits	0.90 ~ 1.40	107,505	107,699
Deposit at notice	3.55 ~ 5.44	15,883	23,145
Temporary deposits	-	53	80
		126,748	136,582
		₩ 6,934,019	₩ 6,591,278

(Won in millions)

(3) Term deposits as of December 31, 2007 and 2006 consisted of the following:

	Interest rate (%)	2007	2006
Term deposits in local currency:			
Time deposits	0.10 ~ 6.40	₩ 5,578,941	₩ 5,705,500
Installment savings deposits	1.00 ~ 6.35	553,905	632,220
Long-term housing savings deposits	1.00 ~ 11.50	164,484	139,554
Long-term savings for households	1.00	31	127
Workers' preferential savings deposits	1.00 ~ 6.20	5,900	60,674
Mutual installment deposits	1.00 ~ 6.00	75,479	81,743
Mutual installment for housing	1.00 ~ 4.70	33,839	58,183
		6,412,579	6,678,001
Term deposits in foreign currencies:			
Time deposits	0.56 ~ 5.67	26,715	23,765
		₩ 6,439,294	₩ 6,701,766

(Won in millions)

(4) Deposits with financial institutions as of December 31, 2007 and 2006 were as follows:

Account	Financial institutions	2007	2006
Deposits in local currency	Banks	₩ 161,907	₩ 377,116
	Others	813,460	340,182
		₩ 975,367	₩ 717,298

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

12. Borrowings

(1) Borrowings as of December 31, 2007 and 2006 consisted of the following:

	2007		2006	
Borrowings in local currency	₩	1,281,594	₩	1,190,219
Borrowings in foreign currencies		1,509,966		1,379,060
Bonds sold under repurchase agreement		832,459		1,359,346
Bills sold		170,265		234,302
Debentures in local currency		2,169,961		867,625
Debentures in foreign currencies		427,071		-
Call money		39,101		-
	₩	6,430,417	₩	5,030,552

(Won in millions)

(2) Borrowings in local currency as of December 31, 2007 and 2006 consisted of the following:

Description	Lenders	Annual interest rate (%)	2007		2006	
Borrowings from SME Fund	SME Association	2.00 ~ 5.20	₩	550,840	₩	509,231
Borrowings from the Bank of Korea	The Bank of Korea	3.25		447,618		411,896
Borrowings from Energy Fund	Korea Energy Management Corporation	2.75 ~ 4.50		70,180		54,263
Borrowings from Autonomy Fund	Busan Metropolitan City	4.20 ~ 4.92		14,163		31,563
Borrowings from Gyeongsangnamdo SME Fund	Nonghyup	3.20 ~ 5.08		21,951		28,060
Borrowings from Industrial Infrastructure Fund	Industrial Bank of Korea	3.75 ~ 4.00		8,093		14,625
Other borrowings	Others	0.00 ~ 5.50		168,749		140,581
			₩	1,281,594	₩	1,190,219

(Won in millions)

(3) Borrowings in foreign currencies as of December 31, 2007 and 2006 consisted of the following:

Lenders	Annual interest rate (%)	2007		2006	
Korea Exchange Bank and others	0.91 ~ 5.62	₩	753,987	₩	422,530
SMBC and others	1.29 ~ 5.63		333,791		665,199
SCB and others	0.95 ~ 5.56		422,188		291,331
		₩	1,509,966	₩	1,379,060

(Won in millions)

(4) Bonds sold under repurchase agreements, bills sold and call money as of December 31, 2007 and 2006 consisted of the following:

Account	Financial institution	Annual interest rate (%)	2007	2006
Bonds sold under repurchase agreements	Individuals and Corporations	1.00 ~ 5.91	₩ 832,459	₩ 1,359,346
Bills sold	Individuals and Corporations	3.74 ~ 5.69	170,265	234,302
Call money	Korea Exchange Bank and others	0.75 ~ 5.05	39,101	-
			₩ 1,041,825	₩ 1,593,648

(Won in millions)

(5) Borrowings in local or foreign currencies from financial institutions as of December 31, 2007 and 2006 were as follows:

Financial institutions	2007	2006
Borrowings in local currency:		
The Bank of Korea	₩ 447,618	₩ 411,896
Woori Bank	573	792
Nonghyup	28,937	34,043
Hana Bank	1,076	1,311
Kwangju Bank	2,988	2,720
The Korea Development Bank	3,390	2,112
Industrial Bank of Korea	29,458	31,767
Kyongnam Bank	1,740	2,499
Daegu Bank	9,393	5,180
	525,173	492,320
Borrowings in foreign currencies		
Foreign banks	1,509,966	1,379,060
	₩ 2,035,139	₩ 1,871,380

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

(6) Debentures in local currency as of December 31, 2007 and 2006 consisted of the following:

Description	Issued date	Expiration date	Annual interest rate (%)	2007	2006
Subordinated debentures in local currency:	2001-Jun-15	2007-Jan-15	-	₩ 19	₩ 100,000
	2002-Apr-26	2008-Jan-26	7.30~7.35	100,000	100,000
	2005-Apr-28	2011-Jan-28	5.18~5.20	175,000	175,000
	2006-Dec-12	2012-Dec-12	5.30	100,000	100,000
Unsecured debentures in local currency:	2006-Nov-27	2007-Nov-27	4.60	-	100,000
	2007-Sep-20	2008-Sep-20	5.40	100,000	-
	2007-Oct-30	2008-Oct-30	5.42	80,000	-
	2007-Nov-23	2008-Nov-23	5.58	20,000	-
	2007-Nov-27	2008-Nov-27	5.63	30,000	-
	2006-Oct-30	2008-Oct-30	4.78	200,000	200,000
	2006-Nov-28	2008-May-28	4.87	20,000	20,000
	2006-Dec-13	2008-Dec-13	4.98	80,000	80,000
	2007-Jan-29	2010-Jan-29	5.30	100,000	-
	2007-Jan-29	2009-Jan-29	5.24	70,000	-
	2007-Feb-15	2009-Feb-15	5.11	150,000	-
	2007-Feb-21	2010-Feb-21	5.13	80,000	-
	2007-Mar-21	2009-Mar-21	5.09	100,000	-
	2007-Mar-28	2009-Mar-28	5.09	100,000	-
	2007-Aug-16	2010-Aug-16	5.62	10,000	-
	2007-Aug-17	2010-Aug-17	5.63	50,000	-
	2007-Aug-27	2010-Aug-27	5.75	140,000	-
	2007-Oct-10	2009-Oct-10	5.92	80,000	-
	2007-Oct-10	2010-Oct-10	5.98	50,000	-
	2007-Oct-11	2009-Oct-11	5.92	70,000	-
	2007-Oct-16	2010-Oct-16	6.00	100,000	-
	2007-Oct-24	2009-Oct-24	5.84	100,000	-
	2007-Nov-23	2010-Nov-23	6.30	20,000	-
2007-Dec-12	2009-Dec-12	6.60	40,000	-	
2007-Dec-13	2009-Jun-13	6.60	20,000	-	
Gain on valuation of fair value hedged items				2,185,019 (4,832)	875,000 (3,118)
Discounts on debentures				2,180,187 (10,226)	871,882 (4,257)
				₩ 2,169,961	₩ 867,625

(Won in millions)

(7) Debentures in foreign currencies as of December 31, 2007 and 2006 consisted of the following:

Description	Issued date	Expiration date	Annual interest rate (%)	2007	2006
Subordinated debentures in foreign currencies	2007-Mar-14	2017-Mar-14	5.50	₩ 187,640	₩ -
	2007-Oct-30	2012-Oct-30	6.00	234,550	-
Loss on valuation of fair value hedged items				8,189	-
				430,379	-
Discounts on debentures				(3,308)	-
				₩ 427,071	₩ -

(Won in millions)

13. Other Liabilities**(1) Other liabilities as of December 31, 2007 and 2006 consisted of the following:**

	2007	2006
Accrued severance benefits (see Note 14)	₩ 63,974	₩ 46,634
Less: National pension fund	(17)	(18)
Less: Severance insurance deposits	(54,645)	(40,046)
Allowance for possible losses on acceptances and guarantees (see Note 15)	5,989	4,087
Allowance for possible losses on the unused limits (see Note 17)	23,551	19,630
Other allowance	5,111	3,690
Due to trust accounts	170,803	123,053
Unsettled foreign exchange liabilities	4,796	3,865
Domestic exchange settlement credits	64,758	60,973
Accounts payable (see Note 19)	1,012,627	164,602
Accrued expenses	315,797	278,287
Unearned revenues	27,031	21,981
Guarantees deposits received	18,413	16,955
Withholding taxes	9,459	9,054
Derivatives liabilities (see Note 16)	54,631	34,770
Accounts for agency business	36,672	19,366
Agency	56,838	32,937
Deferred income tax liabilities (see Note 23)	2,364	-
Tax payable	44,317	28,544
Sundry liabilities	12,504	15,323
	₩ 1,874,973	₩ 843,687

(Won in millions)

(2) Sundry liabilities included in other liabilities as of December 31, 2007 and 2006 consisted of the following:

	2007	2006
Borrowings from cash delivery for other banks for securities	₩ 540	₩ 4,495
Subscription deposits	6,405	5,498
Suspense receipts	2,829	2,781
Prepaid card liabilities	2,707	2,488
Debit card liabilities	23	61
	₩ 12,504	₩ 15,323

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

14. Accrued Severance Benefits

The changes in accrued severance benefits for the years ended December 31, 2007 and 2006 were as follows:

	2007		2006	
At the beginning of the year	₩	46,634	₩	37,899
Payment		2,565		6,787
Provision		19,905		15,522
At the end of the year	₩	63,974	₩	46,634

(Won in millions)

15. Acceptances and Guarantees and Allowances for Possible Losses

(1) Acceptances and guarantees as of December 31, 2007 and 2006 were as follows:

Types	2007		2006	
Confirmed acceptances and guarantees in local currency:				
Payment guarantee for loans	₩	76,834	₩	54,455
Others		245,011		199,891
		321,845		254,346
Confirmed acceptances and guarantees in foreign currencies:				
Acceptances on letters of credit		12,485		14,055
Acceptances for letters of guarantee for importers		18,320		18,875
Guarantees on credit derivatives		56,292		37,184
Others		78,799		123,840
		165,896		193,954
		487,741		448,300
Unconfirmed acceptances and guarantees:				
Letters of credit		421,510		316,078
Other		19,654		464
		441,164		316,542
	₩	928,905	₩	764,842

(Won in millions)

(2) Acceptances and guarantees, by industry, as of December 31, 2007 and 2006 were as follows:

	2007		2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Confirmed:				
Manufacturing	₩ 251,743	51.62	₩ 223,935	49.95
Wholesale and retail	96,918	19.87	89,041	19.86
Finance and insurance	57,788	11.85	28,280	6.31
Construction	24,550	5.03	62,854	14.02
Others	56,742	11.63	44,190	9.86
	₩ 487,741	100.00	₩ 448,300	100.00
Unconfirmed:				
Manufacturing	₩ 271,393	61.52	₩ 212,165	67.02
Wholesale and retail	132,275	29.98	92,858	29.34
Finance and insurance	220	0.05	1,086	0.34
Construction	1,750	0.40	10	0.01
Others	35,526	8.05	10,423	3.29
	₩ 441,164	100.00	₩ 316,542	100.00

(Won in millions)

(3) Acceptances and guarantees, by customer, as of December 31, 2007 and 2006 were as follows:

	2007		2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Confirmed:				
Large corporations	₩ 92,681	19.00	₩ 78,669	17.55
Small and medium-sized corporation	385,423	79.02	367,566	81.99
Household sector	9,637	1.98	2,065	0.46
	₩ 487,741	100.00	₩ 448,300	100.00
Unconfirmed:				
Large corporations	₩ 69,102	15.66	₩ 57,970	18.31
Small and medium-sized corporation	372,062	84.34	258,572	81.69
	₩ 441,164	100.00	₩ 316,542	100.00

(Won in millions)

(4) Acceptances and guarantees, by country, as of December 31, 2007 and 2006 were as follows:

	2007		2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Confirmed:				
Korea	₩ 431,449	88.45	₩ 420,412	93.78
France	18,764	3.85	18,592	4.15
USA	18,764	3.85	9,296	2.07
Luxemburg	18,764	3.85	-	-
	₩ 487,741	100.00	₩ 448,300	100.00
Unconfirmed:				
Korea	₩ 441,164	100.00	₩ 316,542	100.00

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

(5) Allowance for possible losses on acceptances and guarantees and endorsed note as of December 31, 2007 and 2006 were as follows:

	2007			2006		
	Outstanding balance	Allowance	Percentage (%)	Outstanding balance	Allowance	Percentage (%)
Confirmed:						
Normal	₩ 484,691	₩ 4,084	0.84	₩ 444,157	₩ 2,852	0.64
Precautionary	2,900	198	6.83	4,093	286	6.99
Substandard	-	-	-	50	10	20.00
Doubtful	-	-	-	-	-	-
Estimated loss	150	150	100.00	-	-	-
	487,741	4,432	0.91	448,300	3,148	0.70
Unconfirmed:						
Normal	439,562	1,495	0.34	315,032	834	0.26
Precautionary	1,602	37	2.31	1,409	39	2.77
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Estimated loss	-	-	-	101	20	19.80
	441,164	1,532	0.35	316,542	893	0.28
Endorsed note:						
Normal	5,491	25	0.46	10,283	36	0.35
Precautionary	-	-	-	296	10	3.38
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Estimated loss	-	-	-	-	-	-
	5,491	25	0.46	10,579	46	0.43
	₩ 934,396	₩ 5,989	0.64	₩ 775,421	₩ 4,087	0.53

(Won in millions)

(6) The percentage of allowance for possible losses on acceptances and guarantees to outstanding balances as of December 31, 2005, 2006 and 2007 were as follows:

	Confirmed			Unconfirmed			Endorsed note		
	Outstanding balance	Allowance	Percentage (%)	Outstanding balance	Allowance	Percentage (%)	Outstanding balance	Allowance	Percentage (%)
2005	₩ 303,936	₩ 2,189	0.72	₩ 231,638	₩ 651	0.28	₩ 371	₩ 2	0.54
2006	448,300	3,148	0.70	316,542	893	0.28	10,579	46	0.43
2007	487,741	4,432	0.91	441,164	1,532	0.35	5,491	25	0.46

(Won in millions)

16. Derivatives Instruments

(1) The notional amounts outstanding for derivative contracts as of December 31, 2007 and 2006 were as follows:

Type	2007			2006		
	Trading	Hedge	Total	Trading	Hedge	Total
Currency:						
Currency forwards ⁽¹⁾	₩ 3,324,064	₩ -	₩ 3,324,064	₩ 1,211,523	₩ -	₩ 1,211,523
Currency futures	69,755	-	69,755	-	-	-
Currency swaps	310,860	46,910	357,770	189,341	-	189,341
Currency options purchased	314,699	-	314,699	180,693	-	180,693
Currency options sold	314,699	-	314,699	180,693	-	180,693
	4,334,077	46,910	4,380,987	1,762,250	-	1,762,250
Interest rate:						
Interest rate swaps ⁽¹⁾	343,478	547,190	890,668	367,699	125,000	492,699
Interest rate options purchased	-	-	-	13,952	-	13,952
Interest rate options sold	₩ -	₩ -	₩ -	₩ 13,952	₩ -	₩ 13,952
	343,478	547,190	890,668	395,603	125,000	520,603
Stock:						
Stock options purchased	61,056	-	61,056	77,447	-	77,447
Stock options sold	75,881	-	75,881	77,447	-	77,447
Stock swaps	14,825	-	14,825	-	-	-
	151,762	-	151,762	154,894	-	154,894
Others:						
Precious metals options purchased	5,891	-	5,891	-	-	-
Precious metals options sold	5,891	-	5,891	-	-	-
Goods forwards	56,869	-	56,869	-	-	-
	68,651	-	68,651	-	-	-
	₩ 4,897,968	₩ 594,100	₩ 5,492,068	₩ 2,312,747	₩ 125,000	₩ 2,437,747

(Won in millions)

⁽¹⁾ For transaction between local currency and foreign currencies, unsettled amount of transaction is presented using the basic foreign exchange rate on the contract amount in foreign currencies. For transaction between one foreign currency and another foreign currency, unsettled amount is presented using the basic foreign exchange rate on the contract amount in a foreign currency purchased.

NOTES TO FINANCIAL STATEMENTS

(2) As of and for the years ended December 31, 2007 and 2006, outstanding contract amount, gain or loss on valuation of derivative instruments in the statements of income, and assets and liabilities for the accumulated gain or loss on valuation of derivative instruments in the balance sheets were as follows:

	2007					
	Gain on valuation		Loss on valuation		Assets	Liabilities
	Trading	Hedge	Trading	Hedge		
Currency:						
Currency forwards	₩ 34,588	₩ -	₩ 23,299	₩ -	₩ 33,890	₩ 24,301
Currency swaps	299	649	1,272	-	2,456	2,730
Currency options purchased	6,441	-	-	-	7,068	-
Currency options sold	-	-	6,200	-	-	7,264
	41,328	649	30,771	-	43,414	34,295
Interest rate:						
Interest rate swaps	3,920	7,687	7,232	1,713	11,683	12,651
	3,920	7,687	7,232	1,713	11,683	12,651
Stock:						
Stock options purchased	1	-	1,897	-	475	-
Stock options sold	1,897	-	691	-	-	1,516
Stock swaps purchased	553	-	99	-	167	99
Stock swaps sold	-	-	-	-	-	-
	2,451	-	2,687	-	642	1,615
Others:						
Precious metals options purchased	87	-	-	-	346	-
Precious metals options sold	-	-	87	-	-	346
Goods forwards purchased	5,724	-	-	-	5,724	-
Goods forwards sold	-	-	5,724	-	-	5,724
	5,811	-	5,811	-	6,070	6,070
	₩ 53,510	₩ 8,336	₩ 46,501	₩ 1,713	₩ 61,809	₩ 54,631

(Won In millions)

	2006					
	Gain on valuation		Loss on valuation		Assets	Liabilities
	Trading	Hedge	Trading	Hedge		
Currency:						
Currency forwards	₩ 6,706	₩ -	₩ 21,931	₩ -	₩ 6,753	₩ 21,932
Currency swaps	2,681	-	2,680	-	2,680	2,680
Currency options purchased	1,573	-	1,198	-	3,093	-
Currency options sold	1,266	-	1,456	-	-	3,093
	12,226	-	27,265	-	12,526	27,705
Interest rate:						
Interest rate swaps	1,017	2,537	422	-	943	3,540
Interest rate options purchased	129	-	1	-	502	201
Interest rate options sold	1	-	129	-	201	502
	1,147	2,537	552	-	1,646	4,243
Stock:						
Stock options purchased	640	-	3,131	-	1,311	1,511
Stock options sold	3,131	-	640	-	1,511	1,311
	3,771	-	3,771	-	2,822	2,822
	₩ 17,144	₩ 2,537	₩ 31,588	₩ -	₩ 16,994	₩ 34,770

(Won In millions)

The hedged items, to which fair value hedge accounting was applied, were debentures in local currency and debentures in foreign currencies, and hedging derivative instruments, such as interest rate swap, were used to cover exposures to changes in fair values of the hedged items resulting from interest rate changes.

In 2007, due to valuation of debentures in foreign currencies, the fair value hedge accounting was applied on the loss of ₩8,189 million on valuation of the hedging derivative instruments and the gain of ₩7,687 million on valuation of derivative instruments are reflected in current operations. The ineffective portion of loss on valuation of fair value hedged items of ₩502 million is recorded in current operations.

Cash flow hedge accounting is applied to borrowings in foreign currencies designated as hedging the exposure to variability in interest rate or exchange rate through the currency swaps contract, as of December 31, 2007. However, the possibility of the exposure to variability in cash flows is expected to last until November 2010.

NOTES TO FINANCIAL STATEMENTS

17. Contingencies and Commitments

(1) **The unused limits of credit card purchase and loan agreement as of December 31, 2007 and 2006 were as follows :**

Types	2007	2006
Unused limit of loan agreement	₩ 3,441,385	₩ 2,978,255
Unused limit of credit cards purchase	1,310,754	1,263,756
	₩ 4,752,139	₩ 4,242,011

(¹) Amounts for allowance for possible losses on the unused limits (see Note 2)

(Won in millions)

The allowance for possible losses on the unused limits amounted to ₩23,551 million and ₩19,630 million as of December 31, 2007 and 2006, respectively.

(2) The Bank manages written-off loans whose time period for legal claim has not lapsed. The balances of such loans were ₩618,953 million and ₩604,601 million as of December 31, 2007 and 2006, respectively.

(3) As of December 31, 2007, the Bank faces 16 pending legal actions involving aggregate damages of ₩13,813 million. On the other hand, the Bank also has filed 19 lawsuits, which are still pending, with aggregate claims of ₩32,014 million. The Bank believes that the result of the litigations does not significantly affect the financial statements.

(4) **Disposal of loans** For past several years, the Bank sold its loans primarily to Korean Asset Management Corporation ("KAMCO"). In accordance with its agreement with KAMCO, the initial sales price was 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 the time of final settlement. In particular, the long-term loans restructured through court receivership, court mediation, workout plans and others were sold under repurchase agreements under which the Bank should repurchase the loans sold even after the final settlement, if the debtor fails to meet the adjusted repayment schedules. The outstanding balance of loans sold under such repurchase agreements as of December 31, 2007 and 2006 amounted to ₩337 million and ₩6,606 million, respectively. The Bank may incur losses from the repurchase of these loans in the future.

18. Shareholders' Equity

(1) **Common stock** As of December 31, 2007 the Bank has 400 million common shares authorized with a par value per share of ₩5,000 and 146,683,650 shares has been issued.

(2) **Retained earnings** Retained earnings as of December 31, 2007 and 2006 were summarized as follows:

	2007	2006
Legal reserve	₩ 76,483	₩ 58,097
Voluntary reserve	403,118	299,255
Retained earnings before appropriations	270,694	183,856
	₩ 750,295	₩ 541,208

(Won in millions)

1) **Legal reserve** The Banking Act requires a bank to appropriate at least 10 percent of net income after income tax to legal reserve each time when a bank pays dividends, until such reserve equals 100 percent of its paid-in capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

(3) **Accumulated other comprehensive income (loss)** Changes in gain (loss) on valuation of available-for-sale securities and securities using the equity method [see Note 4 (9)]

19. Stock Options

(1) The Bank granted stock options to its executives according to the resolution of special meeting of shareholders or the board of directors. The options granted as of December 31, 2007 were as follows:

Grant date	Stock options				Exercise price	Exercise period
	Granted	Exercised	Forfeited	Outstanding		
2003.3.25	290,000	18,356	181,644	90,000	₩ 5,000	2005.3.26 ~ 2008.3.25
2003.3.26	110,000	39,315	10,632	60,053	7,573	2006.3.27 ~ 2009.3.26
2005.3.25	60,000	-	19,918	40,082	8,366	2007.3.26 ~ 2010.3.25
2005.4.19	40,000	-	-	40,000	8,095	2007.4.20 ~ 2010.4.19
2005.5.17	20,000	-	-	20,000	8,029	2007.5.18 ~ 2010.5.17
2006.3.28	130,000	-	-	130,000	12,811	2008.3.29 ~ 2011.3.28
2006.4.18	180,000	-	52,686	127,314	13,762	2008.4.19 ~ 2011.4.18
2007.2.26	120,000	-	-	120,000	12,824	2009.2.27 ~ 2012.2.26
2007.3.20	50,000	-	-	50,000	13,504	2009.3.21 ~ 2012.3.20
	1,000,000	57,671	264,880	677,449		

(Share, Won)

(2) The Bank settles the stock options by paying in cash the difference between the exercise price and the market price at the exercise date. The stock options are valued using intrinsic value method. Accordingly, the stock compensation cost is accounted for as expense (payroll) and liability (accounts payable) over the agreed service period with the straight line method.

The stock options that were granted at the beginning of this year are valued to binomial option pricing model using the exercise price from ₩12,824 to ₩13,504, expiry date of February 26, 2012 to March 20, 2012, the closing price of the presumed stock of ₩15,700, expected dividend rate of 3.21% and variability of stock price of 30.55% or risk-free interest rate of 5.89%.

The stock compensation expenses amounted to ₩1,899 million for the year ended December 31, 2007 and the reversal of stock compensation expenses for the year ended December 31, 2006 amounted to ₩747 million. The stock compensation expenses to be booked after December 31, 2007 amount to ₩446 million.

NOTES TO FINANCIAL STATEMENTS

20. Interest Revenue and Expense

The average balance of the interest bearing assets and liabilities, and the related interest revenue and expenses as of and for the years ended December 31, 2007 and 2006 were as follows:

	2007		2006	
	Average balance	Interest revenue /expense	Average balance	Interest revenue /expense
Assets:				
Due from banks	₩ 357,300	₩ 17,171	₩ 377,766	₩ 15,015
Securities	4,544,704	227,737	4,839,102	220,912
Loans	16,651,546	1,186,680	13,640,416	931,044
Others ^(*)	-	6,107	-	5,612
	₩ 21,553,550	₩ 1,437,695	₩ 18,857,284	₩ 1,172,583
Liabilities:				
Deposits	₩ 14,251,640	₩ 447,983	₩ 13,707,812	₩ 369,963
Borrowings	4,395,697	173,916	3,901,895	146,053
Debentures	1,671,304	93,283	448,776	31,141
Others ^(*)	260,847	14,287	149,481	8,071
	₩ 20,579,488	₩ 729,469	₩ 18,207,964	₩ 555,228

^(*) Interest revenue and expense on others includes the items that don't have average balances.

(Won in millions)

21. Selling and Administrative Expenses

(1) Selling and administrative expenses for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Salaries	₩ 127,673	₩ 115,481
Provision for severance benefits	19,905	15,522
Honorary retirement allowance	5,459	34,410
Other employee benefits	85,076	84,597
Rent	5,936	4,642
Expenditure for business purpose	4,539	3,708
Depreciation and amortization	33,884	34,173
Taxes and dues	13,883	13,085
Other selling and administrative expenses	62,897	57,838
	₩ 359,252	₩ 363,456

(Won in millions)

(2) Other selling and administrative expenses for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Communication	₩ 2,850	₩ 3,270
Electricity and utilities	2,864	2,702
Publication	2,686	2,880
Repairs maintenance	2,889	2,771
Vehicle	1,595	1,223
Travel	1,514	1,108
Supplies	4,199	4,033
Advertising	6,615	3,653
Service charges	31,238	30,474
Others	6,447	5,724
	₩ 62,897	₩ 57,838

(Won in millions)

22. Non-operating Income and Expenses

Non-operating income and expenses for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Non-operating income:		
Gain on disposal of tangible assets	₩ 144	₩ 578
Gain on valuation of securities using the equity method	1,008	480
Rental income	416	315
Others	10,256	10,125
	₩ 11,824	₩ 11,498
Non-operating expenses:		
Loss on disposal of tangible assets	₩ 565	₩ 13
Loss on valuation of securities using the equity method	-	262
Loss on impairment of tangible assets	1,601	-
Contribution	13,362	6,565
Others	16,039	11,617
	₩ 31,567	₩ 18,457

(Won in millions)

23. Income Tax Expense

(1) The differences between pretax accounting income and taxable income pursuant to Korean Corporate Income Tax Law for the years ended December 31, 2007 and 2006 are summarized as follows:

	2007	2006
Income before income tax	₩ 374,453	₩ 257,428
Taxable and non-deductible items:		
Temporary difference	189,197	149,181
Permanent difference	6,280	11,462
	195,477	160,643
Deductible and non-taxable items:		
Temporary difference	(216,140)	(105,949)
Permanent difference	(131)	(194)
	(216,271)	(106,143)
Taxable income	₩ 353,659	₩ 311,928

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

(2) The tax effects on temporary differences and tax loss carry-forwards that gave rise to significant portions of the deferred income tax assets for the year ended December 31, 2007 were as follows:

	Beginning balance	Deduction	Addition	Ending balance
Loss on valuation of securities	₩ 6,610	₩ 701	₩ 1,337	₩ 7,246
Accrued interest of securities	(56,093)	(56,093)	(68,014)	(68,014)
Gain on valuation of securities	(20,100)	-	(2,934)	(23,034)
Revaluation surplus (land)	(6,064)	-	-	(6,064)
Allowance for possible losses on the unused limits	-	-	23,551	23,551
Payment of deposit for the previous year due to the lapse of statute of limitation	-	-	6,637	6,637
Gain (loss) on valuation of securities using the equity method	5,237	-	(1,008)	4,229
Accumulated depreciation	(1,547)	-	-	(1,547)
Other allowance	23,320	23,320	5,111	5,111
Non-operating expenses	6,250	6,250	-	-
Deemed dividends	4	-	-	4
Stock option	1,818	1,013	1,899	2,704
Allowance for possible losses of confirmed acceptances and guarantees	4,087	4,087	5,989	5,989
Loss on valuation of derivatives	31,398	31,398	48,510	48,510
Gain on valuation of derivatives	(13,883)	(13,883)	(57,100)	(57,100)
Honorary retirement allowance	-	-	4,195	4,195
Accumulated depreciation (additional collection)	278	125	-	153
Impairment losses on tangible assets	-	-	1,600	1,600
Miscellaneous Losses	-	-	1,728	1,728
Big chance time deposit	-	-	1,177	1,177
Others	17,802	17,935	15,232	15,099
	(883)	14,853	(12,090)	(27,826)
Less:				
Revaluation surplus (land) ^{(*)1}	6,027	-	-	6,027
Gain (loss) on valuation of securities accounted for using the equity method ^{(*)2}	3,634	-	(7,864)	(4,230)
Add: Valuation of securities ^{(*)3} (Comprehensive income)	₩ (5,750)	₩ -	₩ 23,183	₩ 17,433
	3,028	₩ 14,853	₩ 3,229	(8,596)
Statutory tax rate	27.5%			27.5%
Deferred income tax assets (liabilities) ^{(*)4}	₩ 833			₩ (2,364)

(Won in millions)

^{(*)1} Deferred income tax on the revaluation surplus of land, which is not expected to be disposed in near future, is not recognized.

^{(*)2} Deferred income tax on securities using the equity method of the PB Futures Co., Ltd. is not recognized as the PB Futures Co., Ltd. has decided not to pay out the dividends in the foreseeable future.

^{(*)3} Deferred income tax assets (liabilities) on available-for-sale securities, gain or loss on both valuation of securities using the equity method and valuation of cash flow hedge are recognized.

^{(*)4} ₩4,842 million of temporary differences (₩1,332 million of deferred income tax effect) relating to tax refund, to which an authoritative interpretation related to deferred loan origination fees is newly applied, are deducted from deferred income tax.

₩278 million of depreciation expense (₩77 million of deferred income tax effect) which was determined as non-deductible by tax investigation are added to the amount of deferred income tax.

(3) Income tax expense for the years ended December 31, 2007 and 2006 is summarized as follows:

	2007	2006
Income tax currently payable	₩ 97,235	₩ 85,593
Changes in deferred tax assets (liabilities)	3,197	(9,056)
Changes in deferred income tax reflected directly in shareholders' equity	6,375	(2,965)
Income tax return	(3,048)	-
Income tax expense	₩ 103,759	₩ 73,572

(Won in millions)

(4) The statutory income tax rates applicable to the Bank, including resident tax surcharges, are 27.5 percent for the years ended December 31, 2007 and 2006. However, due to tax adjustments, the effective tax rates for the years ended December 31, 2007 and 2006 are 27.71 percent and 28.58 percent, respectively.

24. Earnings Per Share

Income from continuing operations per share and net income per share were calculated for common stock by dividing income from continuing operations and net income available to common shareholders by the weighted average number of outstanding common stock.

Net income per share for common stock for the year ended December 31, 2007 was computed as follows:

(1) Outstanding capital stock

	Number of shares	Number of days	Cumulative number of shares
Number of common shares: Beginning balance	146,683,650	365	53,539,532,250
	146,683,650		53,539,532,250

Weighted average number of common shares outstanding: $53,539,532,250 \div 365 \text{ days} = 146,683,650 \text{ shares}$

(2) The basic net income per share for the years ended December 31, 2007 and 2006 is as follows.

	2007	2006
Net income (=income from continuing operations, net of tax effect)	₩ 270,693,675,276	₩ 183,856,117,006
Weighted average number of common shares outstanding	146,683,650	146,683,650
Net income per share	₩ 1,845	₩ 1,253

(In won)

(3) **Diluted income from continuing operations per share and diluted net income per share** Diluted income from continuing operations per share and diluted net income per share are computed by dividing the income from continuing operations and net income by the number of common shares outstanding plus dilutive securities outstanding during the period. Diluted income from continuing operations per share and diluted net income per share for the years ended December 31, 2007 and 2006 are not computed because the Bank had no dilutive securities during that period.

NOTES TO FINANCIAL STATEMENTS

25. Dividends

Cash dividends in 2007 and 2006 were as follows:

	2007	2006
Shares issued and outstanding	146,683,650 shares	146,683,650 shares
Par value per share	₩ 5,000	₩ 5,000
Dividend rate	11.4%	8.4%
Cash dividend	₩ 83,610 million	₩ 61,607 million
Net income	₩ 270,694 million	₩ 183,856 million
Payout ratio	30.89%	33.51%
Dividend yield ratio	3.63%	3.62%

26. Term Structures of Assets and Liabilities

The term structures of assets and liabilities as of December 31, 2007 and 2006 were as follows:

December 31, 2007	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Due from banks:						
Local currency	₩ 176,641	₩ 234,240	₩ 124,791	₩ -	₩ 398,832	₩ 934,504
Foreign currencies	-	-	-	-	23,919	23,919
Loans:						
Local currency	3,178,882	2,793,787	3,902,913	2,364,776	3,691,765	15,932,123
Foreign currencies	196,538	63,427	87,011	78,455	105,598	531,029
Offshore loans in foreign currencies	152	152	305	9,054	-	9,663
Domestic import usance bill	221,201	116,034	26,421	-	241	363,897
Bills bought in local currency	11,597	-	-	-	-	11,597
Advance for customers	104	-	-	-	815	919
Bills bought in foreign currencies	108,745	32,648	10,646	-	-	152,039
Credit card receivables	310,865	12,737	6,636	1,403	167	331,808
Privately placed bonds	12,300	36,500	35,365	109,460	6,000	199,625
Deposits:						
Local currency	4,104,319	1,378,373	2,140,342	429,242	5,167,574	13,219,850
Negotiable certificate of deposits	1,448,960	657,316	703,237	30,026	-	2,839,539
Foreign currencies	₩ 40,867	₩ 4,980	₩ 4,281	₩ 825	₩ 102,510	₩ 153,463
Borrowings:						
Local currency	469,078	25,654	59,061	278,336	449,465	1,281,594
Foreign currencies	680,480	260,268	401,873	113,522	20,986	1,477,129
Offshore borrowing in foreign currencies	13,135	-	11,258	8,444	-	32,837
Bonds purchased under repurchased agreements	373,052	236,229	223,178	-	-	832,459
Call money	39,101	-	-	-	-	39,101
Bills sold in foreign currencies	167,810	2,269	186	-	-	170,265
Debentures:						
Local currency	100,019	20,000	499,919	1,279,895	270,128	2,169,961
Foreign currencies	-	-	-	-	427,071	427,071

(Won in millions)

December 31, 2006	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Due from banks:						
Local currency	₩ 81,517	₩ 196,426	₩ 900	₩ -	₩ 345,169	₩ 624,012
Foreign currencies	-	-	-	-	19,343	19,343
Loans:						
Local currency	2,984,224	2,255,625	3,504,566	2,070,666	2,794,109	13,609,190
Foreign currencies	111,026	69,040	113,917	126,898	94,100	514,981
Offshore loans	151	151	302	9,575	-	10,179
in foreign currencies						
Domestic import usance bill	168,117	73,039	20,497	-	-	261,653
Bills bought in local currency	3,426	-	-	-	-	3,426
Advance for customers	192	-	-	-	1,344	1,536
Bills bought	122,128	21,171	10,371	-	-	153,670
in foreign currencies						
Credit card receivables	289,626	15,270	8,403	3,393	486	317,178
Factoring receivables	-	-	-	-	166	166
Bonds sold under	60,000	-	-	-	-	60,000
repurchased agreements						
Privately placed bonds	400	20,000	16,000	157,550	-	193,950
Deposits:						
Local currency	4,059,967	1,513,207	1,953,989	404,039	5,201,495	13,132,697
Negotiable certificate of	481,626	483,681	299,363	-	-	1,264,670
deposits						
Foreign currencies	30,583	4,499	3,480	2,668	119,117	160,347
Borrowings:						
Local currency	431,414	21,904	45,144	274,631	417,126	1,190,219
Foreign currencies	468,053	315,248	305,452	228,682	29,089	1,346,524
Offshore borrowing	3,718	20,451	-	8,367	-	32,536
in foreign currencies						
Bonds purchased under	676,166	306,843	376,337	-	-	1,359,346
repurchased agreements						
Bills sold in foreign currencies	55,134	178,234	934	-	-	234,302
Debentures:						
Local currency	100,000	-	95,822	399,971	271,832	867,625

(Won in millions)

27. Financial Information on Interim Period (Unaudited)

The Bank's operating revenue, operating income and net income for the three months ended December 31, 2007 and 2006 (unaudited) were as follows:

	2007	2006
Operating revenue	₩ 542,976	₩ 390,624
Operating expenses	479,768	356,648
Operating income	63,208	33,976
Non-operating income	5,068	2,840
Non-operating expenses	15,602	4,067
Income before income tax	52,674	32,749
Income tax expense	14,064	9,205
Net income	₩ 38,610	₩ 23,544
Net income per share	₩ 263	₩ 161

(Won in millions except for the amount per share)

NOTES TO FINANCIAL STATEMENTS

28. Assets and Liabilities Denominated in Foreign Currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2007 and 2006 were as follows:

	2007		2006	
	US Dollars (In thousands)	Equivalent to Korean Won (In millions)	US Dollars (In thousands)	Equivalent to Korean Won (In millions)
Assets:				
Foreign currencies	US\$ 36,943	₩ 34,660	US\$ 24,953	₩ 23,196
Due from banks in foreign currencies	25,495	23,919	20,808	19,343
Securities in foreign currencies	136,415	127,985	119,811	111,376
Loans in foreign currencies	576,309	540,693	564,931	525,160
Domestic import usance bill	387,867	363,897	281,468	261,653
Call loans	56,000	52,539	29,300	27,237
Bills bought in foreign currencies	162,054	152,039	165,308	153,670
Others	563,725	528,887	93,014	86,466
	US\$ 1,944,808	₩ 1,824,619	US\$ 1,299,593	₩ 1,208,101
Liabilities:				
Deposits in foreign currencies	US\$ 163,572	₩ 153,463	US\$ 172,490	₩ 160,347
Borrowings in foreign currencies	1,609,429	1,509,966	1,483,498	1,379,060
Call money in foreign currencies	41,677	39,101	-	-
Debentures in foreign currencies	455,202	427,071	-	-
Others	544,576	510,922	128,357	119,321
	US\$ 2,814,456	₩ 2,640,523	US\$ 1,784,345	₩ 1,658,728

(¹) Foreign currencies other than U.S. dollars were translated into U.S. dollars at the appropriate exchange rates at the balance sheet dates.

29. Related Party Transactions

(1) Significant transactions with related parties for the years ended December 31, 2007 and 2006 were as follows:

	2007		2006	
	Revenue	Expenses	Revenue	Expenses
PB Futures Co., Ltd.	₩ 342	₩ 310	₩ 66	₩ 123
Busan Credit Information Co., Ltd.	-	2,228	-	2,408
Korea Lease Financing Co., Ltd.	19	1,658	94	1,736
Mybi Co., Ltd.	640	193	401	182
	₩ 1,001	₩ 4,389	₩ 561	₩ 4,449

(Won in millions)

(2) Significant balances with related parties as of December 31, 2007 and 2006 were as follows:

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
PB Futures Co., Ltd.	₩ 945	₩ 102	₩ 3,130	₩ 1,035
Busan Credit Information Co., Ltd.	-	3,117	-	2,807
Korea Lease Financing Co., Ltd.	-	19,991	6,760	41,111
Mybi Co., Ltd.	-	5,041	-	3,047
	₩ 945	₩ 28,251	₩ 9,890	₩ 48,000

(Won in millions)

(3) The various employee benefits for major directors (registered) for the years ended December 31, 2007 and 2006 were as follows:

Type	2007	2006
Short-term employee benefits	₩ 1,318	₩ 1,147
Stock option ⁽¹⁾	518	(240)
	₩ 1,836	₩ 907

⁽¹⁾ Accumulated stock option expense amounted to ₩543 million and ₩412 million as of December 31, 2007 and 2006, respectively. (Won in millions)

30. Trust Accounts

(1) Balance sheets of trust accounts for which the Bank provided the guarantees for a fixed rate of return and the repayment of principal as of December 31, 2007 and 2006 were as follows:

December 31, 2007	Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal	Trust accounts guaranteeing the repayment of principal	Mixed trust accounts ⁽¹⁾	Performance-based trust accounts	Total
Assets:					
Due from financial institutions	₩ -	₩ -	₩ -	₩ 23,645	₩ 23,645
Securities	1,262	227,686	12,350	605,534	846,832
Loans	2,532	37,112	273	1,553	41,470
Privately placed bonds	370	-	-	-	370
Call loans	-	-	-	280,000	280,000
Office equipment & real-estate	-	-	-	109,845	109,845
Other assets	7	1,838	72	4,925	6,842
Due from bank account	18	42,103	1,932	55,137	99,190
Present value discount	(432)	-	-	-	(432)
Allowance for possible losses	(507)	(354)	(16)	(271)	(1,148)
	₩ 3,250	₩ 308,385	₩ 14,611	₩ 1,080,368	₩ 1,406,614
Liabilities:					
Money trust	₩ 17	₩ 297,975	₩ 13,320	₩ 930,994	₩ 1,242,306
Asset trust	-	-	-	109,845	109,845
Other liabilities	3,233	10,410	1,291	39,529	54,463
	₩ 3,250	₩ 308,385	₩ 14,611	₩ 1,080,368	₩ 1,406,614

(Won in millions)

⁽¹⁾ Mixed trust accounts consisted of trusts that guarantee the repayment of principal and trusts that do not guarantee the repayment of principal.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006	Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal	Trust accounts guaranteeing the repayment of principal	Mixed trust accounts ⁽¹⁾	Performance- based trust accounts	Total
Assets:					
Due from financial institutions	₩ -	₩ -	₩ -	₩ 2,883	₩ 2,883
Securities	288	241,680	15,119	501,908	758,995
Loans	3,036	31,641	343	1,909	36,929
Privately placed bonds	370	-	-	-	370
Call loans	-	-	-	60,000	60,000
Office equipment & real-estate	-	-	-	234,809	234,809
Other assets	15	2,544	119	7,501	10,179
Due from bank account	30	34,638	3,432	45,455	83,555
Present value discount	(515)	-	-	-	(515)
Allowance for possible losses	(1,093)	(683)	(106)	(415)	(1,148)
	₩ 2,131	₩ 309,820	₩ 18,907	₩ 854,050	₩ 1,184,908
Liabilities:					
Money trust	₩ 31	₩ 300,671	₩ 17,259	₩ 579,726	₩ 897,687
Asset trust	-	-	-	234,809	234,809
Other liabilities	2,100	9,149	1,648	39,515	52,412
	₩ 2,131	₩ 309,820	₩ 18,907	₩ 854,050	₩ 1,184,908

(Won in millions)

⁽¹⁾ Mixed trust accounts consisted of trusts that guarantee the repayment of principal and trusts that do not guarantee the repayment of principal.

(2) Trust accounts for which the Bank provided the guarantees for a fixed rate of return and the repayment of principal as of December 31, 2007 and 2006 were as follows:

December 31, 2007:	Book value	Fair value	Charge to bank account
Name of fund			
Trust accounts guaranteeing the repayment of principal:			
Household trust	₩ 2,461	₩ 2,453	₩ 8
Elderly living pension trust	3,773	3,766	7
Installment trust	1,557	1,557	-
Personnel pension trust	186,244	185,340	904
Retirement trust	82,977	82,977	-
New personnel pension trust	2,462	2,462	-
Pension trust	32,930	32,930	-
	312,404	311,485	919
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:			
Unspecified monetary trust	18	18	-
Development trust	3,232	3,230	2
	3,250	3,248	2
	₩ 315,654	₩ 314,733	₩ 921

(Won in millions)

December 31, 2006:			
Name of fund	Book value	Fair value	Charge to bank account
Trust accounts guaranteeing the repayment of principal:			
Household trust	₩ 3,276	₩ 3,276	₩ -
Elderly living pension trust	5,752	5,778	-
Installment trust	2,078	2,076	2
Personnel pension trust	184,502	184,206	296
Retirement trust	93,276	93,276	-
New personnel pension trust	1,969	1,969	-
Pension trust	24,321	24,321	-
	315,174	314,902	298
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:			
Unspecified monetary trust	32	32	-
Development trust	2,099	2,099	-
	2,131	2,131	-
	₩ 317,305	₩ 317,033	₩ 298

(Won in millions)

31. Computation of Added Value

The accounts for computation of value added for the years ended December 31, 2007 and 2006 were summarized as follows:

	2007	2006
Salaries and wages	₩ 127,673	₩ 115,481
Severance and retirement benefits	19,905	15,522
Honorary retirement allowance	5,459	34,410
Employee benefits (see Note 32)	85,076	84,597
Rent	5,936	4,642
Depreciation and amortization	33,884	34,173
Taxes and dues	13,883	13,085
	₩ 291,816	₩ 301,910

(Won in millions)

32. Employee Benefits

Employee benefit expenses for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Meal expense	₩ 5,579	₩ 5,657
Health and medical	395	285
Legal benefits	75	428
Congratulations and condolences	527	487
Health training	44,454	46,099
Others	34,046	31,641
	₩ 85,076	₩ 84,597

(Won in millions)

NOTES TO FINANCIAL STATEMENTS

33. Expert Training Expenses

The Bank incurred ₩1,323 million and ₩774 million for expert training at local and foreign training institutes for the years ended December 31, 2007 and 2006, respectively.

34. Cash Flows

(1) The cash and due from banks in the statements of cash flows for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Cash on hand	₩ 334,266	₩ 362,765
Foreign currencies	34,660	23,196
Due from banks in local currency	934,504	624,012
Due from banks in foreign currencies	23,919	19,343
	1,327,349	1,029,316
Restricted due from banks (see Note 3)	411,032	356,383
	₩ 916,317	₩ 672,933

(Won in millions)

(2) Significant transactions not involving cash inflows and outflows for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Decrease of loans due to write-offs of principal	₩ 77,493	₩ 39,091
Reclassification of construction in progress to tangible assets	13,284	12,628

(Won in millions)

35. Statement of Comprehensive Income

Comprehensive income for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Net income	₩ 270,694	₩ 183,856
Other comprehensive income (loss):	(15,259)	7,857
Gain (loss) on the valuation of available-for-sale securities (Income tax effect of ₩(5,952) million for the year ended December 31, 2007 and ₩2,965 million for the year ended December 31, 2006)	(15,692)	7,816
Gain (loss) on valuation of equity securities accounted for using the equity method (Income tax effect of ₩436 million for the year ended December 31, 2007 and nil for the year ended December 31, 2006)	396	41
Gain on valuation of cash flow hedge (Income tax effect of ₩14 million for the year ended December 31, 2007 and nil for the year ended December 31, 2006)	37	-
Comprehensive income	₩ 255,435	₩ 191,713

(Won in millions)

Independent Accountants' Review Report on Internal Accounting Control System ("IACS")

To the Representative Director of Pusan Bank

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Pusan Bank (the "Bank") as of December 31, 2007. The Management's Report, and the design and operation of IACS are the responsibility of the Bank's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Bank's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2007, the Bank's IACS has been appropriately designed and is operating effectively as of December 31, 2007, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, the objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of the Bank's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

The Bank's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Bank's IACS as of December 31, 2007, and we did not review its IACS subsequent to December 31, 2007. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

Deloitte Amjin LLC

January 29, 2008

Notice to Readers This report is annexed in relation to the audit of the financial statements as of December 31, 2007 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

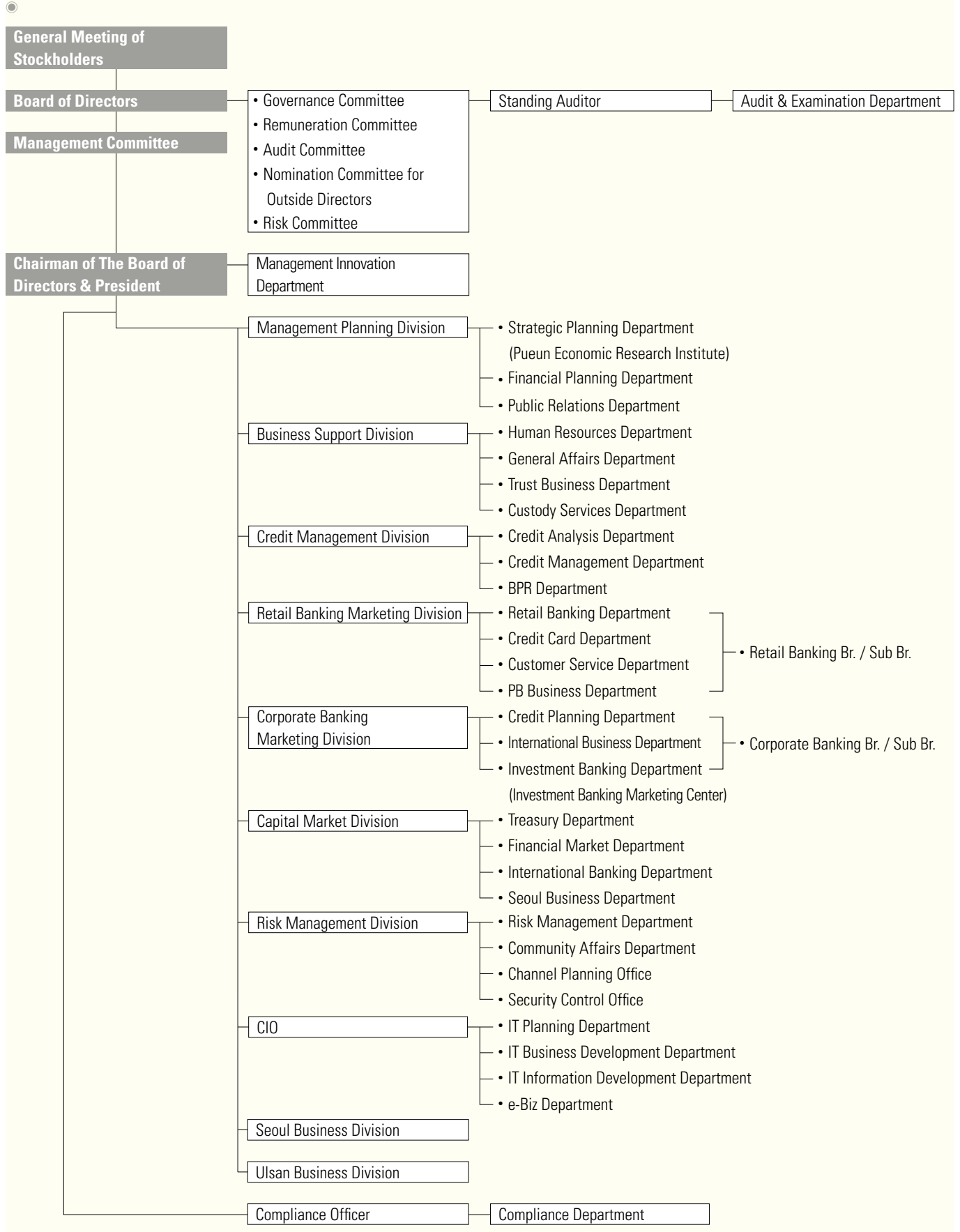
Board of Directors

Lee, Jang-ho Chairman of the Board of Directors & President	Jung, Je-poong Standing Auditor	An, Sung-cheul Chief Deputy President	Park, Gwan-ho Deputy President
Park, Tae-min Deputy President	Lim, Young-rok Deputy President	Sung, Se-hwan Deputy President	Chang, Seung-chul Deputy President
Jeong, Jin-mo Executive Vice President	Kim, Soon-dong Executive Vice President		

Non-standing Directors

Shin, Jung-taek Chairman / Seun Steel Co., Ltd.	Chae, Jyung-byung Vice President / Lotte Group	Kang, Moon-jong Lawyer / Kang, Moon-jong Law-Office
Lee, Jae-ung Emeritus Professor / Sungkyunkwan University	Lee, Soon-chel Chairman / Samtech I&C	

Organization Chart



Pusan Bank Chronology

-
- 1967** 10. 10 • Founded with paid capital of KRW 300 million
- 10. 25 • Commenced business
- 1968** 2. 1 • Began foreign exchange activities
-
- 1972** 6. 15 • Listed on the Korea Stock Exchange (now Korea Exchange)
-
- 1983** 5. 2 • Began trust business
- 1985** 6. 1 • Began credit card business
-
- 1990** 1. 3 • Launched a new corporate identity program (CIP)
- 1992** 11. 1 • Began home banking service
- 1993** 12. 1 • Launched EDI service
- 1994** 12. 5 • Adopted DDS-styled dealing system
- 1995** 5. 2 • Introduced tele-banking service
- 1997** 9. 18 • Opened integrated online system
- 1998** 12. 9 • Established strategic business tie-up with US firm Microsoft
- 1999** 3. 31 • Selected as a funds settlement bank by Korea Futures Exchange
- 1999** 7. 28 • Concluded a comprehensive consulting service pact with US firm Pricewaterhouse Coopers
-
- 2000** 3. 6 • Began cyber banking service
- 3. 24 • Selected to manage Digital Busan Card
- 11. 5 • Selected to manage budgetary funds for Busan
-
- 2001** 2. 21 • Pusan Bank Digital Busan Card wins Advanced Card Award 2001 in the UK
- 5. 29 • Signed consultancy contract with Nemo Partners to build a performance management system
- 8. 1 • Launched integrated profit management system
-
- 2002** 4. 11 • Completed world-class integrated risk management system
- 5. 27 • Launched call center system
- 8. 12 • Introduced Buvix Card
- 8. 21 • Total deposits broke the KRW 13 trillion mark
- 8. 28 • Concluded comprehensive cooperation agreement with Industry and Commerce Bank of China
- 12. 13 • President Shim Hoon named ‘Best CEO of the Year’ by the Korea Economic Daily and Towers Perrin
-
- 2003** 1. 6 • Won Gold Prize at the 12th annual Dasan Awards
- 3. 31 • Concluded alliance for bancassurance with four life insurers (Samsung, Kyobo, Shinhan, AIG Life) and four non-life insurers (Samsung, LG, Dongbu, Oriental Fire & Marine).
- 2003** 5. 19 • Launched stock investment services with Hanwha Securities
- 5. 29 • Concluded project financing agreement for Busan New Harbor construction (Pusan Bank’s participation: KRW 40 billion. • Total financing by four institutions: KRW 245 billion)
- 6. 4 • Entered agreement with Korea Export Insurance Corp. and began issuing export credit bank guarantees
- 6. 10 • Set up operations for handling business incorporation, bad loan collection, etc.
- 6. 17 • Established wholly owned subsidiary, Pusan Credit Information
- 7. 1 • Selected as “Superior Public Corporation of 2003” by the Korea Stock Exchange
- 8. 22 • Received loan of JYP 6 billion (equivalent to USD 50 million) from the Seoul branch of Sumitomo Mitsui Banking Corporation, reflecting global recognition of the bank’s outstanding management performance
- 12. 5 • Concluded joint business agreement with LG Investment & Securities
- 12. 9 • Entered into agreement with Korea Land Corporation to provide real estate development loans
- 12. 15 • Received an upgraded financial strength rating. Given a “stable outlook from Moody Profitability and capital adequacy were deemed outstanding,” with net interest margin and asset soundness receiving the highest scores.
- 12. 18 • Provided KRW 9.8 billion in project financing for Geoga Bridge
-
- 2004** 1. 13 • Joined hands with KTF to offer IC chip-based mobile banking services
- 3. 16 • Implemented credit recovery plan to help small-scale borrowers reestablish a good credit rating
- 4. 23 • Pusan Bank President Shim Hoon named “2004 CEO of the Year” KMA (Korea Management Association)
- 6. 22 • Ranked among the “30 Most Respected Korean Companies” by Dong-A Ilbo and Korea IBM BCS
- 10. 15 • Named winner of the “Social Contribution Corporate Award” in Regional Community Development category by Open Management Research
- 12. 21 • Selected as “Most Respected Company of the Year” by Korea CEO Association
-
- 2005** 3. 31 • Received the highest FSS evaluation among financial companies for fewest customer complaints in the second half of 2004
- 6. 30 • Total deposits exceeded KRW 15 trillion

- 2005**
- 7. 14 • Won Silver Prize at the “Top 30 Most Reputable Companies” Awards sponsored by IBM Korea Business Consulting and Dong-A Ilbo
 - 8. 22 • Became the first Korean bank to offer Chinese Yuan remittance services
 - 12. 22 • Received Gold Prize at the “Dasan” Finance Awards
-
- 2006**
- 3. 31 • Signed an understanding for the Yonghoman (bay) reclamation project financing
 - 4. 17 • Signed an agreement for financial support to businesses in Busan
 - 4. 21 • Received grand prize at the marketing awards (in the social contribution category) from Korea Economic Daily
 - 4. 28 • Selected as a major bank by Busan Lotte Hotel Casino
 - 5. 22 • Selected as a depository for deposits by Busan District Court
 - 8. 23 • Concluded an agency contract for the sale of conventional market gift vouchers
 - 9. 22 • Received Presidential Award at the 12th Reading Culture Awards
 - 10. 30 • Signed an agreement for the favorable treatment of multiple-child families with Busan Metropolitan City Office
 - 11. 22 • Signed a business agreement for land purchasing loans with Busan Metropolitan Corporation, a first in the financial industry
 - 12. 13 • Received Presidential Commendation at the 11th SME financial support awards in the institution category
-
- 2007**
- 1. 2 • Launched “Golden Pig” time deposits
 - 1. 3 • Signed agreement on special financial support for small businesses in Busan
 - 1. 14 • Declared vision for 2007 (new management ideas and visions)
 - 2. 26 • Number of Pusan Bank BC Card members broke 0.9 million
 - 3. 2 • Opened consultation window for the visually impaired at call center
 - 3. 5 • Won special prize at the Maekyung Financial Products awards ceremony for “i-Dream Passbook”
 - 3. 20 • Held 50th general shareholders’ meeting/Selected as top bank for least customer complaints in the second half of 2006
 - 4. 2 • Launched “Autumn Baseball Time” deposits
 - 4. 3 • Began to provide public purchasing loans
 - 4. 19 • Won Korea Service Grand Prix
 - 5. 4 • Credit rating upgraded to “A3” by Moody’s
 - 5. 7 • Launched visiting loan service
 - 5. 10 • Contributed to restoration of watchtower and gatehouse of Geumjeong Sanseong (walled fortress)
- 2007**
- 5. 19 • Held 5th annual “Turtle Marathon Race” to advance cause of labor-management harmony
 - 7. 1 • Converted contract-basis office workers and computerization personnel to full-timers
 - 8. 14 • Number of Pusan Bank credit cards in use broke 1.0 million
 - 8. 24 • Opened Geoje Branch, Gyeongnam
 - 9. 5 • Launched “Pusan Bank 119 Financial Rescue Squad”
 - 9. 18 • Launched “e-blue sea free installment savings”
 - 9. 19 • Opened Jisa Branch
 - 9. 27 • Delivered KRW 0.1 billion in development funds for the 12th PIFF
 - 10. 2 • Held 7th “Hope Day” to help underprivileged children
 - 10. 19 • Inaugurated first-term Pusan Bank university student PR ambassador program
 - 10. 25 • Published “Pusan Bank’s History of 40 Years” to mark 40th anniversary
 - 11. 5 • Opened Pusan Bank Cyber Museum of History
 - 12. 7 • Inaugurated Pusan Bank Scholarship and Cultural Foundation

International Banking Directory**International Banking Department**

Address 100-191, Kumseki Bldg 3th Fl, 16, 1-Ga,
Ulchi-Ro, Jung-Gu, Seoul, Korea
Tel. (82)-(2)-758-6322, 6300
Fax (82)-(2)-758-6399, 6398
Telex K27605 PUSANBK
BIC PUSBKR2PINT
E-mail pusbint@pusanbank.co.kr
General Manager Jung, Dong-eui

International Business Department

Address 25-2, 4-Ga, Jungang-Dong, Jung-Gu,
Busan 600-014 Korea P.O Box 131 Busan
Tel. (82)-(51)-469-0182
Fax (82)-(51)-464-2739
Telex K53392 PUSANBK
BIC PUSBKR2P
E-mail pusbkr@pusanbank.co.kr
General Manager Lee, Gil-beom

Correspondents by Currency

(Bank Name, Account No., SWIFT Code, City)

USD • Bank of America 655-00-94495 BOFAUS3N New York
• HSBC Bank USA 000-03030-9 MRMDUS33 New York
• Wachovia Bank 2000191022429 PNBUS3NNYC New York
• Standard Chartered Bank 3582-040960-001 SCBLUS33 New York
• Bank of New York 890-0067-683 IRVTUS3N New York
• American Express Bank 00120246 AEIBUS33 New York
• Deutsche Bank Trust Company 04-024-763 BKTRUS33 New York
• Sumitomo Mitsui Banking Corp. 100430 SMBCUS33 New York
–

JPY • Standard Chartered Bank 02110371110 SCBLJPJT Tokyo
• Sumitomo Mitsui Banking Corp. 3157 SMBCJPJT Tokyo
• American Express Bank 245-313000409 AEIBJPJT Tokyo
–

GBP • Korea Exchange Bank 1301000061 KOEXGB2L London
• HSBC Bank PLC 35435935 MIDLGB22 London
–

EUR • American Express Bank 018005506 AEIBDEFX Frankfurt
• Standard Chartered Bank 01708607596 SCBLGB2L London
• Dresdner Bank AG 499/08016859/00/888 DRESDEFF Frankfurt
–

CHF • UBS AG 02300000087106050000P UBSWCHZH80A Zurich
–

DKK • Danske Bank 3007536712 DABADKKK Copenhagen
–

SEK • Nordea Bank 39527907721SEK 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
• Toronto Dominion Bank 0360-01-2304648 TDOMCATTOR Toronto
–

NZD • ANZ Bank 835504.00001 ANZBNZ22058 Wellington
–

AUD • National Australia Bank 1803003298500 NATAAU33033 Melbourne
–

THB • Standard Chartered Bank 00100781780 SCBLTHBXXX Bangkok
–

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

Domestic Subsidiaries**PB Futures Co., Ltd.**

Address 10th Fl, Pusan Chamber of Commerce & Industry Bldg,
853-1 Bumcheon 1-Dong, Busanjin-Gu, Busan, Korea
Tel. (82)-(51)-643-4900
Paid-in Capital ₩15,000 million
Holding Share 100%

Busan Credit & Information Co., Ltd.

Address 378-11, Gaya 1-Dong, Busanjin-Gu, Busan, Korea
Tel. (82)-(51)-890-5000
Paid-in Capital ₩3,000 million
Holding Share 100%

Korea Non-Bank Lease Financing Co., Ltd.

Address 6th Fl, Yuwon Bldg, 75-95, Seosomun-Dong,
Jung-Gu, Seoul, Korea
Tel. (82)-(2)-398-4100
Paid-in Capital ₩20,000 million
Holding Share 17.38%

Corporate Data

•

Established	Oct. 25, 1967
Total shareholders' equity	KRW 1,472.7 billion
Paid-in capital	KRW 733.4 billion
Common stock issued and outstanding	146,683,650
Domestic network	226
Employees	2,626

•

Major shareholders

Lotte Confectionery Co., Ltd.	14.11%
Small Capital World Fund Inc.	7.99%
Park Land Co., Ltd.	4.45%
New Economy Fund	3.52%
PL-ABDN GL	2.98%
National Pension	2.12%
MSIL-MS Co., Int'l PLC	1.96%
Korea Iron & Steel Co., Ltd.	1.90%
MSIL-SR Global FD	1.82%
Templeton Global Smaller Companies Fund	1.62%





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