

Annual Report 2005

Growth with BUSAN

Power of **PUSAN BANK**



CONTENTS

- 01 Corporate Profile
- 02 Feature Story
- 06 Financial Highlights / Shareholder Information
- 08 Message from the CEO
- 10 Sustainable Future
- 12 Busan Regional Economic Trends and Forecast
- 14 Vision & Strategies
- 16 Social Activities
- 18 Review of Operations
- 25 Financial Section
- 70 Board of Directors
- 72 Organization Chart
- 73 History of Pusan Bank
- 74 International Banking Directory
- 75 Domestic Subsidiaries
- 76 Corporate Data

Pusan Bank is Korea's premier regional banking institution, providing a full range of advanced financial products and services.

Established in 1967, Pusan Bank has enjoyed nearly four decades of undisputed market leadership in our home base of Busan, Korea's second largest city and one of Asia's busiest ports, and in the regional economy of Korea's Southeast. Our network of 209 domestic branch offices and workforce of 1,987 staff stand ready to serve over 2.6 million customers in our region and around the nation.

Innovation and responsiveness to customers' needs are the hallmarks of Pusan Bank's management philosophy. To better meet these changing needs, we have diversified from traditional banking activities of deposit-taking & lending into such high-growth areas as wealth management, bancassurance and mobile banking.

Times and technologies are forever changing. What remains the same today as it will tomorrow is Pusan Bank's commitment to being a reliable partner and vital contributor to the people, business and economy of Busan and southeastern Korea.



Corporate Profile

33.2%

Shareholders Come First



As a publicly traded enterprise, Pusan Bank is owned by and run for its shareholders. Investor satisfaction is as important to us as customer satisfaction, and we measure our success as much by shareholder value as by net income. To reward investors, Pusan Bank maintains a high payout ratio (33.2% on 405 won/share cash dividends in 2005). To earn their confidence, we uphold the industry's highest standards of transparency, ethics and good corporate governance through cumulative voting, written ballots and other systems that protect the interests of all shareholders large and small.

PUSAN BANK



34.8%

Pursuing Profitable Growth



In the banking world, numbers always speak louder than words. The figures and percentages of Pusan Bank's key financial indicators made 2005 a year for the record books. While maintaining high levels of asset soundness and capital adequacy, we achieved record-breaking net income of 178.9 billion won and raised our profitability by 34.8%. ROA and ROE were 0.99% and 16.34%, respectively, both impressive by international standards.

PUSAN BANK



PUSAN BANK

209 Branches

Smiles All Around



Pusan Bank's approach to customer satisfaction is simple and direct:

We aim to give our customers more of what they want, more conveniently. Broadening our Private Banking personnel and dedicated PB branches. Expanding our branch network in South Kyongsang Province and the city of Ulsan. Increasing our "mobile branch" operations. Streamlining our teller services through BPR-related efficiencies. These are but a few of the steps Pusan Bank is taking to make banking with us a pleasure.

PUSAN BANK



A Friendly Face and a Helping Hand



At Pusan Bank, we take our responsibility to the community very seriously. In addition to our many ongoing welfare, environmental and educational programs, Bank management and employees devoted their time and energy to the 2005 Busan APEC Economic Leaders' Meeting. From PR campaigns and volunteer activities to co-branded APEC credit cards and Global ATMs, Pusan Bank worked hand-in-hand with other sponsors to ensure the city's successful hosting of this high-profile international event.

Financial Highlights

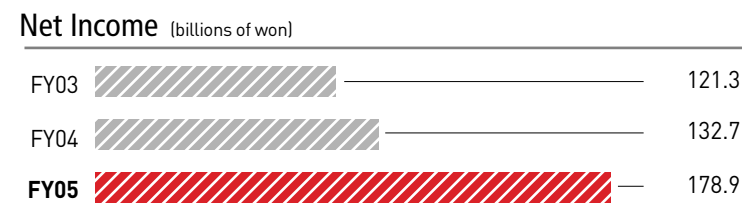
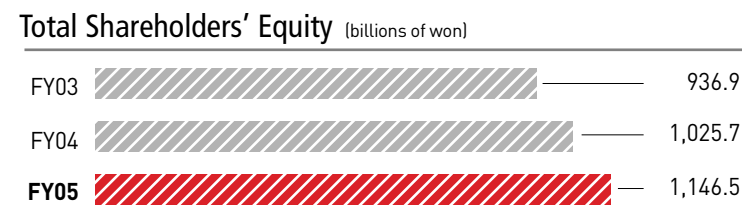
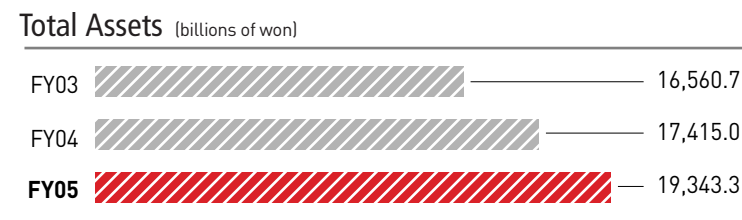
Years ending December 31
(In billions of won)

	2005	2004
For the Fiscal Year		
Total Revenues	₩ 1,352.9	₩ 1,235.2
Total Expenses	1,174.0	1,102.5
Net Income	178.9	132.7
At Year's End		
Total Assets	19,343.3	17,134.3
Total Deposits	13,997.1	12,803.5
Total Loans	12,209.0	11,075.5
Securities	5,090.3	4,059.5
Shareholders' Equity	1,146.5	1,025.7

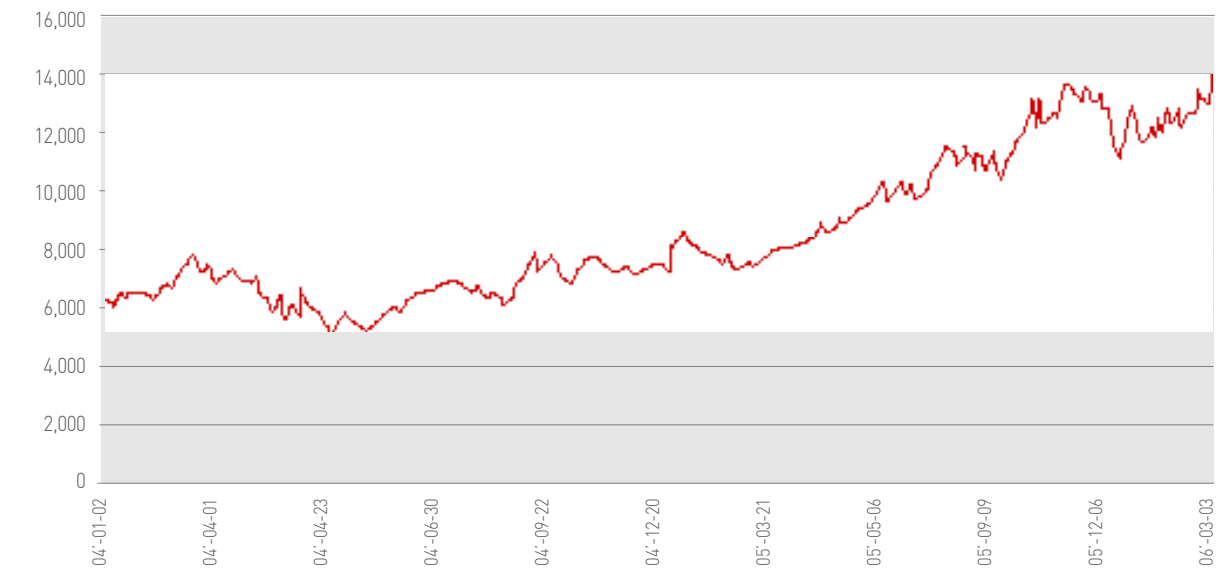
(In millions of US \$)

	2005	2004
For the Fiscal Year		
Total Revenues	\$ 1,335.5	\$ 1,183.3
Total Expenses	1,158.9	1,056.2
Net Income	176.6	127.1
At Year's End		
Total Assets	18,805.3	14,304.8
Total Deposits	13,487.0	12,266.2
Total Loans	12,029.7	10,610.7
Securities	4,808.5	3,889.1
Shareholders' Equity	1,131.7	982.6

1) FY2005 : ₩1,013.00, FY2004 : ₩1,043.80 per US\$ 1.00
 2) Total assets are the sum of bank and including trust account, less intra-account and security investment trust.

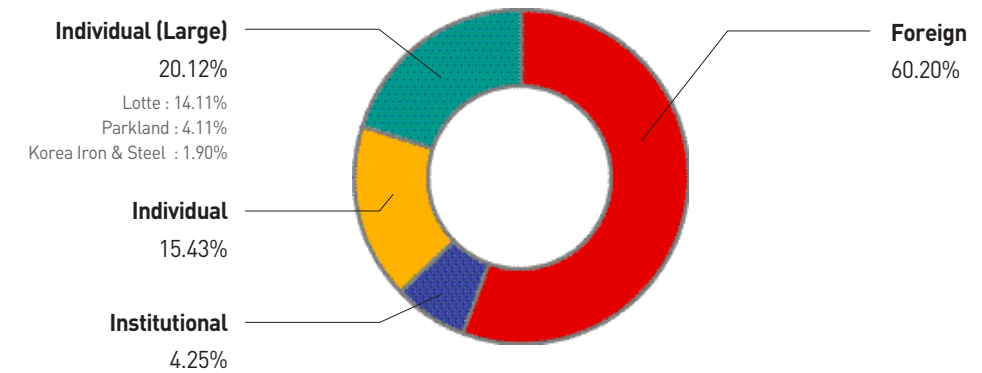


Stock Price



Financial Highlights /
Shareholder Information

Shareholding Structure (as of Dec. 31, 2005)



Major Shareholders (as of December 31, 2005)

Lotte Group (Including Lotte Japan)	14.11 %
Capital Research & Management Company	10.98%
Parkland Co., Ltd.	4.11 %
Korea Iron & Steel Co., Ltd.	1.90 %
PL-ABDN GL	1.63 %

Shareholder Information

Message from the CEO

To the Customers and Shareholders of Pusan Bank:

I would like to begin by thanking you for your unwavering support in 2005, a year of considerable uncertainty and change in Pusan Bank's operating environment.

Korean financial institutions were beset by a number of challenges in 2005. Although the economy began to rebound from the second half and exports were brisk throughout the year, household debt levels and high oil prices depressed consumption and facilities investment. In the financial sector, Korean banks faced ongoing difficulties during the year in supplying and operating funds due to weak demand for financing and low market interest rates.

Rising to these challenges in our business environment, Pusan Bank turned in a stellar performance in 2005. Net income advanced by a solid 34.8% over 2004 to record 178.9 billion won, the highest in the bank's 38-year history. Meanwhile, our return on equity (ROE) rose to 16.34% and our BIS ratio to 12.25%, and our credit classified as "substandard and below" fell to 0.94%. These figures are a testament to Pusan Bank's world-class standards of asset quality and financial soundness.

By business sector, we recorded solid growth in time deposits, combined-premium deposit products, beneficiary certificate sales, and investment products including bancassurance. We attracted new municipal custody business, developed new products including special accounts for public employees, internet-based cyber accounts and equity index-linked financial instruments, and installed additional safe-deposit boxes. Private Banking Rooms were created to improve services for our most valued individual customers. As a result, Pusan Bank recorded a 6.88% year-on-year increase in total deposits to 13,997.1 billion won as of the end of 2005, raising our market share in the region.

On the credit side of operations, total loans grew by 9.99% to 12,209.9 billion won. This was attributable to expanded loans to high-quality small & medium-sized enterprises (SMEs) and households in the region.

In foreign exchange operations, Pusan Bank introduced import credit services, launched F/X remittance via our internet banking platform, and strengthened inducement of superior exporting-importing SMEs in the region, leading to a 19.5% year-on-year increase in total export/import financing to \$4,878 million.

We upgraded customer service quality levels in 2005 by expanding our branch network to 209 offices, installing 152 new cash dispensers and ATMs, and continuing our roll-out of new mobile banking and internet

Pusan Bank improved branch productivity by implementing Business Process Re-engineering and task specialization, while establishing a performance-based corporate culture by strengthening responsible management

banking services. By implementing business process re-engineering and task specialization systems, Pusan Bank improved branch productivity, and by strengthening responsible management systems we established the foundations of a performance-based corporate culture.

Pusan Bank maintained its 2nd-place ranking in the Financial Supervisory Service's management evaluation of domestic banks. Meanwhile, the bank's share price soared 66.7% in 2005, outpacing the KOSPI by a wide margin. We also reinforced our commitment to the advancement and prosperity of our region community. Through "My Hometown Love 21" Program launched in 2001, we carried out a number of projects including various support for the APEC Economic Leaders Meeting in Busan, actively pursued joint projects with local autonomous government entities, and expanded the scope of our community volunteer activities from Busan to Ulsan. In recognition of its exemplary service to society, Pusan Bank was chosen as one of Korea's "30 Most Reputable Companies" of 2005.

For their continued support and confidence, which enabled Pusan Bank to achieve such impressive results in all areas of our operations last year, I wish to reiterate my deepest thanks to our customers and shareholders.

The Korean economy has recently shown stable recovery based on a solid improvement in domestic demand, yet high oil prices and the strong Won currency remain key uncertainties. In the financial market, along with the growing rivalry for the title of "leading bank," competition from investment banking institutions is also expected to heat up with the implementation of the Capital Market Consolidation Act.

Amid these market conditions, we are confidently moving toward our long-term vision of becoming a globally recognized leading regional bank within the shortest time possible. To do so, we have established a series of mid-term management strategies that will guide our progress through the year 2007.

In 2006, Pusan Bank's target is a second year of stable growth through strengthened sales capabilities. Specifically, we will seek increase core deposits, expand corporate loans, stimulate credit card and beneficiary certificate sales, pursue new growth business, and conduct full-time risk and cost management. Concentrating our energies on elevating the bank's competencies in these five key areas, we expect to achieve a net income of over 225.0 billion won. All the employees Pusan Bank are committed to attaining this management goal and to raising the bank's corporate value in the year ahead.

Thank you.



Lee, Jang-ho

Chairman of the Board of Directors
& President

Message from the CEO

08+09

PUSAN BANK Annual Report 2005

Message from the CEO

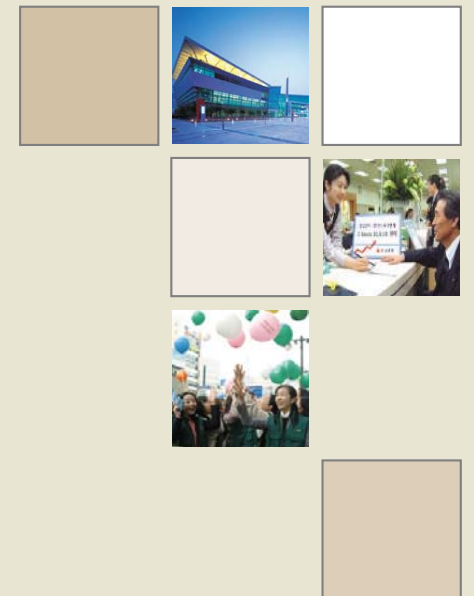
Pusan Bank's "GPS"

(Global Positioning Strategy)

We remain on track to realize our long-term goal of positioning Pusan Bank as a globally recognized leading regional bank by 2010. Strategies for the lead-up to that year are contained in "Vision 2007," a mid-term roadmap for making Pusan Bank the undisputed core financial institution of Korea's southeastern region.



Sustainable Future



Busan Regional Economic Trends and Forecast

Regional exports were subdued in 2005 compared to the previous year, though consumer prices, unemployment, and dishonored bill ratio stabilized. Economic expansion in 2006 should keep pace with national levels as consumer & investor sentiment benefit from rebounding domestic demand.



Highlights & Trends of 2005

For the economy of Busan and the region, 2005 was a momentous and rewarding year. The city played host to the APEC Economic Leaders' Meeting and the APEC Chambers Congress, two major international events that netted the area considerable foreign-exchange earnings. At the same time, the establishment of the Korea Exchange (KRX), expansion of land for industrial use, and preparations for the opening of Busan New Port facilities all contributed to making 2005 a banner year for Busan and the region.

Following unusually robust export growth in 2004, the Busan regional economy's export performance in 2005 was subdued by comparison, though consumer prices, unemployment rate, and dishonored bill ratio showed increased stabilization over the previous year. The manufacturing Industry grew by 4.8% over 2004, as the boom enjoyed by automobile & auto parts and shipbuilding industries lifted the heavy & chemical industry sector, and the contraction in light industries slowed considerably. Containerized cargo volume handled by the Port of Busan in 2005 reached 11.84 million TEU, an increase of 3% from the container throughput handled by the world's fifth largest container port the previous year.

Looking at the consumption picture, total sales reported by large-scale retailers declined 0.9%, and new vehicle registrations inched up only 0.2% for the whole of last year. However, retail sales rose 6.9% in December 2005 over the same month of 2004, and have shown steady growth from December 2005 to February 2006. Meanwhile, automobile registrations surged 29.2% in December 2005 and have increased since then.

Consumer prices rose 2.7%, similar to the national rate and down significantly from the 3.1% posted in 2004, thanks largely to lower housing costs, which declined 1.1% over a year earlier. Unemployment edged downward from 4.4% to 4.3% in 2004. The ratio of dishonored bills contracted from 0.60% to 0.42%, the lowest delinquency rate in 14 year since 1991's 0.24%.

Forecast for 2006

The economy of the Busan region is expected to keep pace with national economic expansion in 2006. Growth in the heavy industry sector, including shipbuilding, automobiles and machinery, should continue to remain healthy as shipbuilders and automakers strive to enhance product competitiveness. Increased recognition of Busan itself following successful hosting of the APEC leaders' summit, rebounding domestic demand and local elections will favorably affect consumer and investor sentiment, while the mood of the stock market in 2006 should also be upbeat. Factors working to limit regional economic growth are likely to include high oil prices, slumping textile and footwear industries, weakened export competitiveness due to the

strong won, and stagnation in the construction sector.

Regional consumption and industrial production are both expected to be brisk this year as consumer psychology recovers nationwide, government pump-priming measures are implemented, local elections are convened, and a bullish sentiment takes hold in the stock market. In the area of facilities and construction investment, recent outlays for plant equipment show an upturn in line with the recovering Business Survey Index (BSI), signaling a modest improvement in regional facilities investment in the coming year. However, anti-speculation policies in the real estate market will probably continue to have a dampening effect on construction investment in general.

Although exports experienced a relative slowdown in 2005 following red-hot expansion in 2004, the region is projected to enjoy a return to higher growth export rates this year aided by continued strong performances at the national level. The consumer price index is likely to trend slightly higher to 2.9% in 2006, influenced by rising oil and raw materials prices, reinvigorated domestic demand, and anticipated hikes in public utility charges. As for unemployment, broad-based growth in the real economy and expected recovery in domestic demand and services will help to expand the job market somewhat.

Busan and the region enjoy a heightened international profile having hosted the 2005 APEC events, which translates into increased foreign exchange inducement. In addition, the planned relocation of 12 public institutions including the Korea Asset Management Corp. (KAMCO) to the Busan area will generate an estimated 7.13 trillion won and 210,000 new jobs for the region.

The first phase of construction of the Busan New Port project, which includes the opening of an initial three new berths, is scheduled to be completed by the end of 2006. Completion of the second and final phase of the project is slated for 2011. The port expansion is central to plans that will reinforce Busan's role as the logistics hub of Northeast Asia and the gateway linking the Asian-Pacific region with the Eurasian continent.

Pusan Bank is participating as a private lender in the project financing of the Busan New Port scheme, investing 35.0 billion won.

The combined cost of this massive undertaking by the end-date of 2011 is projected to be 9.15 trillion won. During the period 2006 to 2013, the local economy is predicted to reap income and job-creation benefits to the tune of 15.4 trillion won and some 167,000 new positions.

In addition, by fostering the auto parts industry and next-generation growth industries like information & technology, the cities of Busan and Ulsan and the province of South Gyeongsang will grow as Korea's "Southeast Industrial Belt" and Northeast Asia's logistics hub.

Busan Regional Economic Trends and Forecast

12 + 13

PUSAN BANK Annual Report 2005

2005 Highlights

March 31, 2005

Received FSS's highest evaluation among financial companies for customer complaints in 2H 2004

April 22, 2005

Achieved sales of 175.0 billion won in subordinated debt

June 30, 2005

Total deposits exceed 15 trillion won

July 14, 2005

Won Silver Prize in "Top 30 Most Reputable Companies" Awards sponsored by IBM Korea Business Consulting and Dong-A Ilbo.

July 18, 2005

Earned "CQM" certification for Call Center service quality from Korea Telemarketing Association

July 20, 2005

"Withus Club" Private Banking brand launched

August 22, 2005

Became first Korean bank to offer Chinese Yuan remittance service

September 15, 2005

Acquired business-model patent for credit loss provisioning

October 25, 2005

Published *Discovering Pusan's History*



Vision & Strategies

Pusan Bank's goal is to become a globally recognized leading regional bank by 2010. Our strategies this year to boost sales competitiveness, expand non-interest income, cut costs and enhance corporate culture will ensure we are core financial institution of Korea's Southeastern economy by 2007.



Mid- and Long-Range Strategies

To strengthen Pusan Bank's position in the region we have established a customer- and investor-centered long-range vision of becoming a globally respected "leading regional bank" by the year 2010. To help us turn this vision into reality, we have devised a mid-term management plan called "Vision 2007," a blueprint for making Pusan Bank the undisputed core financial institution of Korea's southeastern economy.

First, we will strengthen our relationship with our home region by reinforcing Pusan Bank in the eyes of our customers as the region's top bank, top social contributor, and top financial service specialist. We will gear operations to create the most customer-focused bank, offering our customers superior convenience through our various service channels. By developing region-specific products and services, we will seek to further bolster our reputation for professionalism and expertise. From the investor's perspective, we will strive to achieve leading-bank levels of profitability and soundness, and guarantee a strong competitive position through promotion of low-cost deposit products that will ensure a stable income base.

Through these efforts, we will position Pusan Bank as the leading regional bank, a role model for regionally cohesive management, and an indispensable member of our community. To accomplish these goals, we forecasted changes in the competitive environment for domestic banks, established mid- and long-range vision and management targets, and devised management strategies and strategic tasks for the bank.

2006 Management Strategies in Detail

To attain our mid-range goal of becoming the core financial institution of Korea's Southeast by 2007, we have prepared a strategy for 2006 of promoting steady growth by strengthening sales competitiveness. This calls for achieving a minimum of 12% annual growth in both total assets and total deposits, and at least 16% expansion in total loans. We will also strive to increase our card business to maximize sales growth and maintain Net Interest Margin at 3.43% or higher, while generating upwards of 9.0% growth in fee income and keeping asset quality at current levels. By laying a course for efficient growth in these areas, Pusan Bank hopes to achieve such key management targets in 2006 as 1.11% ROA, 18.09% ROE, 0.99% Substandard or Below Credits/Total Credits, and 11.58% BIS capital adequacy.

Our first strategy is to raise our sales competitiveness to the next level and enlarge our share of the market. We intend to do this by concentrating new branch openings in newly developed, redeveloped, wealthy residential and new commercial districts springing up in and around Busan. This includes creating a branch network linking Busan with cities to the north like Ulsan and Yangsan, and also opening new branches in line with development of the Busan-Jinhae Free Economic

Vision & Strategies

14 + 15

PUSAN BANK Annual Report 2005

Zone centering on the Noksan Industrial Complex. In addition, we are introducing a Sales Stimulation Program (SSP) to reinforce our earnings-oriented organization. Product competitiveness will be enhanced to provide more comprehensive services to our corporate clients, and performance management and compensation programs will be improved so that we can respond swiftly and systematically to market changes such as higher interest rates.

Our second strategy is to expand non-interest income. We will expand income from foreign exchange, project financing, derivatives and other non-core businesses, and nurture card and investment fund sales as strategic business lines. To expand trust-related income, we will stake out an early claim in the retirement pension trust market, and we will elevate our abilities in securities operations in response to the growing demand for universal banking services.

Third, we will streamline costs. In conjunction with this strategy, we will be launching strong management innovation steps to reduce expenses, and in response to financial authorities' calls for more stringent loan loss provisioning, we will actively seek to prevent insolvencies as we expand lending to corporate borrowers.

Fourth, Pusan Bank will strive to create a more advanced corporate culture. To build a competitive, future-oriented corporate culture, we will improve work systems, foster a spirit of challenge among management and staff, elevate teamwork and cultivate people of talent from within and outside the bank through our Career Development Program (CDP).

Our fifth strategy is to attain sales-driven growth by increasing core deposits, corporate lending, and card and investment fund sales, while propelling new-growth business lines and actively managing risk and expenses.

We will seek to grow core deposits by developing new products that meet customer needs and amending customer rating systems, focusing on outstanding corporate customers, marketing to targeted industries, expanding our effort to attract company payroll settlement accounts. These steps will enable Pusan Bank to improve the composition of our deposit structure by boosting low-cost deposit accounts and raise our Net Interest Margin.

Pusan Bank expects to see 16.6% growth total loans in 2006. In expanding our corporate loan portfolio, we will reinforce efforts to attract companies of superior standing and creditworthiness, provide differential treatment in the operation of small and medium-sized enterprise (SME) loans, and increase lending to prime SMEs in newly developed districts.

2005 Highlights

November 29, 2005
Initiated "CS HIGH5 Innovation Movement"

November 30, 2005
Chosen as treasury bank for Busan Transportation Corp.

December 1, 2005
Implemented Service Level Agreement (SLA) customer management system

December 13, 2005
Published "Trees Are Our Friends"

December 20, 2005
Received BBB+ long-term and F2 short-term credit ratings from Fitch

December 22, 2005
Received Gold Prize in "Dasan" Finance Awards

December 27, 2005
Became first Korean bank to offer retirement annuities





Social Activities

Regional Development

Pusan Bank's "My Hometown Love 21" program was launched in August 2001 as a means of putting into practice our commitment to supporting the people and the community that have made us the country's premier regional bank. Through the various regional development activities carried out under this program, we aim to demonstrate our social responsibility as a good corporate citizen. The bank lends its active support for 10 strategic regional economic development projects overseen by the Busan Metropolitan Government, which includes assistance in project financing for basic facilities, fostering SMEs, and taking part in city remodeling programs and restoration works.

At Pusan Bank, we take our role as "community banker" seriously and strive to provide citizens with convenience and variety in our financial offerings. To assist lower-income citizens, we provide funding for promotional events at 16 traditional markets around Busan. We have set up branches at all major traffic points at the Busan Exhibition and Convention Center (BEXCO) and other convenient locations, and we also operate mobile branches in areas without easy access to financial services.

We also actively publicize the region via a monthly magazine devoted to news, history, SMEs, movie industry and other features of local interest. Through these and other means, Pusan Bank will continue to carry out our mission of aiding the development and promoting the vibrant image of our region.

Volunteer Work

The staff of Pusan Bank devote one Saturday each month to various community service programs, those involving volunteer work being among the most popular and rewarding of such activities. To better coordinate our volunteer activities, we formed the "Pusan Bank Regional Volunteer Corps" in 2002 and established a network of 15 district units. These units carry out such work as monthly visits to social welfare facilities and clean-up activities at public parks and waterways. Our staff members also contribute their time and energy to permanent and temporary assistance programs, such as typhoon relief & recovery and annual citizens' book exchanges. To burnish our image as the core financial institution of the entire Southeastern region, we created the "Pusan Bank Ulsan Volunteer Corps" in

November 2005, which is planning a series of programs from this year targeting our neighboring city to the north.

Social Welfare

Seeking to share our wealth of spirit and love with all members of the community, Pusan Bank operates volunteer groups specializing in caring for the handicapped, the needy and other less fortunate citizens. Activities in these areas include hiking trips for the disabled, free meals for the poor, events to pay respect to the elderly, donations to build facilities for victims of domestic violence, and contributions to families where children are the sole breadwinners. We are also prepared to respond with relief assistance in case of emergencies that arise due to natural disasters or unexpected calamities not just within our home area, but beyond regional and national borders. In the years ahead, Pusan Bank will continue expand our volunteer organization and level of support, as we strive to raise the quality and enjoyment of life for our fellow citizens living in the shadows of society.

Culture, Arts & Sports

Pusan Bank has been a key contributor to the success of the Pusan International Film Festival (PIFF) since the festival's debut ten years ago. We developed PIFF's convenient ticket sales system, donated to its development fund, and provided technical personnel and computer equipment, helping the event gain international stature and acclaim. Reading is another important goal we support, and Pusan Bank is proud to be part of the Busan Metropolitan Office of Education's "Reading Lifestyle Movement" to provide books to low-income families, as well as co-organizer of the ever-popular "One Book, One Busan" book-exchange campaign for the past three years. Pusan Bank is also an active contributor and official "Supporter" of sports events and the development of sporting culture in our region. Past events include the 2002 Busan Asian Games, the Busan World University Games, the FIFA World Youth Championships, the World Junior Weightlifting Championships and others.

Environmental Preservation

With our roots planted so deeply in our native soil, it is natural that Pusan Bank is firmly committed to protecting and preserving the environment for ourselves and our future generations. This commitment to ensuring a "Green Busan" through joint corporate-citizen custodianship of the environment began long ago, with special deposit products for donations to public environmental funds developed in the mid-1990s, and continues to this day. In addition to our participation in existing environmental programs, we have also launched several initiatives of our own, including trash removal at five public beaches, planting of gardens in front of

Busan City Hall, support for tree-planting activities, clean-up days along rivers, and environmental recovery works following the devastating Typhoon Maemi of late 2003. We sponsor a major environment-themed children's art contest, studies of Busan-area nature trails, tours of the ecosystems of Korea's southern provinces, monitoring of effluent from the Nakdong River, and a "back-to-nature" school.

Educational Outreach

Education is as important to a community as it is to an individual. For this reason, Pusan Bank has long been a steady and active supporter of education and educational outreach work. As a financial institution, we have focused our unique expertise on educating everyone from middle school students to the average adult in the basics of everyday economics and personal finances, with curricula devised for every level. We have devised educational courses for children that combine culture, reading and economics whereby students learn financial rules from actual experience, and we operate immersive courses like "Kids' Finance Camp" to teach the younger generation how manage their money. To cultivate advanced professional talent within the region, Pusan Bank participates in the Ministry of Education's "New University for Regional Innovation" (NURI) program in conjunction with Busan National University, which provides endowment funding and operates an internship program. We are also a major provider of scholarships for children from low-income families, a supporter of lifelong education programs, and a contributor to the School Development Fund.

APEC Support

Pusan Bank was a leading corporate supporter and contributor to the success of the 2005 APEC Economic Leaders' Meeting, the biggest event the city has seen since the opening of the Port of Busan. Serving as co-chair of the APEC Citizens' Support Association and taking direct part in the APEC CEO Summit held on the sidelines of the Leader's Meeting, we played a high-profile role in the proceedings. We continuously publicized APEC-related information to customers via in-branch broadcasting, while providing mobile branch and Global ATM services and conducting video PR campaigns during the event. Pusan Bank branches were festooned with banners and our tellers wore ribbons to publicize the summit, while many other APEC-related programs and special events were held throughout the year.

Social Activities

16 + 17

PUSAN BANK Annual Report 2005



Review of Operations

Growth & Profitability On Target

Pusan Bank met and exceeded annual targets for profitable business expansion in 2005. A net income of 178.9 billion won and a 34.8% gain in profits led overall improvements in key indicators, while BPR implementation brought forth mounting efficiency benefits, and upgraded risk management & IT systems helped ensure future asset and operational soundness.



The bank achieved quantitative expansion and qualitative advancement in its corporate and retail banking operations in 2005, driven by a disciplined approach to stable growth in lending and deposit-taking operations.



In 2005, Pusan Bank recorded a solid 10.75% YoY increase in corporate lending in won, recording 11,202.8 billion won. Of this total, 63.0% or 7,161.1 billion won was in the form of won-denominated loans to corporate borrowers. These results were achieved thanks to improvements in loan interest rates completed in December 2005. The bank resolved problems inherent to the currently applied Market Base Rate and developed a new rate that adequately reflects risk assessments, a move that has enabled us to formulate an improved earnings structure. We have converted to a model that ensures more appropriate pricing and better reflects funding costs at the time of loan determination, maximizing responsiveness to market rate fluctuation while minimizing risk.

From May 2005 we began offering new SME-focused loan products, such as the "Network Loan," in response to government SME support policies. This new loan instrument is a type of pre-financing that makes production & procurement funds available to SMEs when they receive subcontracting orders from large corporations, thereby eliminating the "supply now, payment later" burden that Korean SMEs have long had to endure. In addition to Network Loans, Pusan Bank provides a diverse range of financial products and services tailored to SMEs in conjunction with the Korea Credit Guarantee Fund and the Korea Technology Credit Guarantee Fund, strengthening our relationships with the regional business community and expanding our loan transaction base.

In February last year, Pusan Bank developed and launched online student loan services, bringing the speed and ease of the Internet to this segment of our household loan business. Offering student loans online cuts the amount of paperwork during the registration payment period and means greater customer convenience. Bank personnel enjoy a reduced workload, while customers benefit from lower interest rates, fewer required documents, and faster loan processing.

Lastly, in March 2005 Pusan Bank fundamentally readjusted the composition of its loan portfolio. We did this by focusing on outstanding SMEs of superior creditworthiness, maintaining large corporate borrower levels from the previous year, expanding mortgage loans, and preventing loan overexposure by industry sector. These steps enabled Pusan Bank to set appropriate overall credit levels and enhance profitability in our lending operations.

The economy will likely remain tepid, money will continue moving away from banks and into investment trust companies, and new and more stringent BIS capital adequacy requirements will soon take effect. These represent crucial challenges for the banking community and will exacerbate competition for market share. In responding to these changes in our operating environment, Pusan Bank will strive to forge closer ties with the regional business community through increased lending, while strengthening risk management, maintaining asset quality, and optimizing pricing mechanisms for maximum profitability.

Pusan Bank's strategy for retail banking in 2005 was to continue stably expanding our sales base, while carving out a larger presence in the "universal" banking market with diversified financial products & services. Our ongoing success in meeting customer needs was reflected in our Customer Satisfaction Index (CSI) ratings of 81.1 points and 95.0 points for retail and corporate customers. Our CSI, measured twice annually by credit industry experts Nice Research & Consulting, is an independent rating of the bank's ability to respond to customer needs, as well as identify and rectifying areas requiring improvement. In terms of customer loyalty indicators, Pusan Bank in the second half of 2005 scored 85.7% on overall customer satisfaction, 92.5% on intention to continue banking with us, and 69.2% on intention to recommend others to switch to Pusan Bank. These figures showed percentage-point gains of 3.8, 2.6 and 6.3, respectively, over the first half of the year. In addition, we have ranked 2nd in the Financial Supervisory Service's semiannually compiled list of "Top Customer Service Bank with the Fewest Customer Complaints" since 2001, and took top honors for the first half of 2005.

Deposits

In 2005, Pusan Bank continued to concentrate efforts on expanding low-cost deposit products, those carrying low funding costs and relatively low sensitivity to market interest rates. We managed to increase low-cost deposits on an average annual basis to 5,407.7 billion won, up 0.7% from 2004. This segment represented 36% of total deposits as of the end of FY 2005. The bank achieved growth in time deposits, combined-premium fixed deposits, sales of investment funds, bancassurance products, and other investment-type instruments. Throughout the year we ramped up sales activities focused on

our newly created earnings source, investment-type products. These included 16 different income equity funds, sales of which totaled 710.6 billion won. We worked to firm up our bancassurance operations as a stable earnings base through sales of high-income monthly-payment insurance products, and strengthened staff training in preparation for legislation allowing banks to deal in auto, whole life and critical illness insurance from 2008.

Lending

We registered a 3.3% increase in household lending to 3,544.9 billion won in 2005, as Pusan Bank pursued greater efficiency of funds operation and improved asset soundness. The portion of household loans in total won-denominated lending declined moderately from 33.9% at the end of 2004 to 32% at year-end 2005. In responding to market changes, we sought to shore up asset quality through a branch-by-branch approach, continued to reduce loan delinquencies and concentrated on ensuring quick settlement of overdue loan interest payments. Anticipating a contraction in the new apartment market following government anti-speculation measures, Pusan Bank developed group-loan products in 2004 aimed at select builders and actual users (i.e., buyers of homes for themselves, as opposed to speculators). These loans together with household loans rose to 110.0 billion won in 2005. Notably, the two cities of Gimhae and Yangsan grew from a combined 16.6% of total household lending in 2004 to 32% last year.

Credit Card

Owing in large part to continued economic uncertainty and slower consumption from the highs of previous years, Pusan Bank reported a 1.15 percentage-point decline in the one-day overdue rate on card receivables with re-aged loans during 2005. Moreover,

the ratio of the bank's "substandard or below" card-related credit as a portion of the total continued to decrease sharply, falling 3.6 percentage points to end the year at 0.94%. As a consequence, our asset quality improved and our reserve for doubtful accounts trended downward from 18.5 billion won in 2004 to 16.7 billion won at year-end 2005. These rewarding results were made possible thanks to efforts by our Card Department along three main fronts. We concentrated on making outstanding card customers the bulwark of our portfolio, kept a close watch for signs of potential card default, and strengthened our card asset structure through improved management of card receivables. Second, there are rapid changes taking place in the market that Pusan Bank has anticipated and responded quickly and effectively to with product innovations like IC-integrated cards, etc. Lastly, we reinforced marketing strategies aimed at VIP customers, encouraging them to make us their main bank, and boosted region-related marketing schemes.

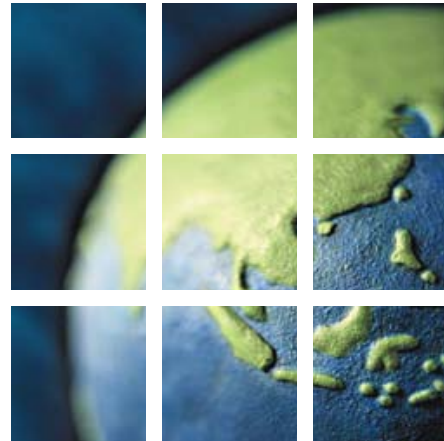
Private Banking

To elevate the brand image of Pusan Bank's private banking (PB) operations, we launched the "Winners' Club" brand and implemented plans to ensure that we achieve steady growth in this key area of our retail banking activities. These included the creation of several new PB branches as well as the development of new customized and customer-driven PB products & services. In 2006, Pusan Bank will expand the number of PB branch facilities by 15 to a total 60, and continue to seek new ways to meet the growing needs of our clients with the region's most comprehensive and innovative private banking services available.

Corporate Banking

Retail Banking

Pusan Bank reinforced internal capabilities and outside alliances in 2005 in order to shore up our investment & global banking competencies, maintain optimal risk levels and bolster F/X services.



Investment and Global Banking

Securities Investment & Trading

In 2005, to bolster the soundness of our won-denominated securities and maximize profitability, Pusan Bank underpinned its ability to adapt and respond to market changes, while maintaining an appropriate invested ratio in our investment portfolio that allows us to react flexibly to rapidly changing situations in the equity markets. We also strengthened our cooperative alliances with asset management companies. Pusan Bank maintained a credit measure within our prescribed range, achieved a 4.82% yield on won-denominated securities, held no speculative-grade investments among our held-to-maturity securities, and of corporate bonds totaling 299.6 billion won, 69.4% or 208.0 billion won was rated "A" or above.

While investing within our prescribed risk limits and taking steps to realize stable growth, we strengthened our capital market risk management functions. During the year we observed market and credit VaR limits, maintained a total risk-weighted asset ratio within BIS capital adequacy ratio, and operated within PVBP and duration limits. The bank concentrated on ensuring the soundness of securities, maintaining the ratio of securities rated substandard & below at 0% during the year and achieving our goal of growth amid stability.

In 2006, Pusan Bank will focus on raising yields of short-term trading securities, buttressing non-operating income from available-for-sale securities, extending the duration on and increasing interest earned from held-to-maturity securities, and investing actively in corporate bonds and other high-interest instruments. We also plan to reinforce risk management controls through stringent credit VaR limit operation, and respond aggressively to the

trend toward financial market integration with combined won and foreign currency products.

F/X Trading & Trade Finance

Our objectives for F/X trading and trade finance operations in 2005 were to raise our bottom-line performance, develop new and upgrade existing systems, enlarge our fee & commission income, and reinforce our online channel for F/X transactions. These goals were successfully met as Pusan Bank recorded increases in both export/import financing and remittance & F/X transactions, which totaled \$4,878 million and \$1,588 million, respectively. In October of last year, we completed development and launched our new Web-based foreign currency exchange portal. This new Internet F/X channel provides users with a whole new level of convenience and such popular services as online F/X conversion, foreign currency remittance, foreign currency deposit instruments, one-click F/X remittance and others. Customers henceforth will appreciate the much greater ease of use, a more varied offering of services and automatic reporting, and more improved interconnectivity with other bank systems than ever before.

In addition, Pusan Bank constantly monitors and flexibly responds to trends in the international and domestic foreign-currency capital markets, ensuring stable funding and minimizing liquidity risk. We are also fortifying our status in the region through activation of the bank's F/X dealing operations, which also increases our fee and commission income from F/X-related transactions. At the same time, we are pursuing income growth by diversifying our range of investment products with the addition of new high-return, low-risk investment options.

Review of Operations

22 + 23

PUSAN BANK Annual Report 2005

Main Activities of 2005

In order to effectively manage risks related to its business operations and ensure financial soundness and stable profitability, Pusan Bank determines acceptable limits for each type of risk (credit risk, market risk, liquidity risk, etc.) seeking to strike an optimal balance between of risk and return.

Basel II Preparations

Prior to the anticipated effectuation of the New Basel Capital Accord (Basel II) in late 2007, Pusan Bank set top priority in 2005 on establishing the relevant basic infrastructure and strengthening risk-related systems and countermeasures. The focus of these preparatory steps included enhancing credit rating, loan management, collection management and credit processing systems, as well as creating systems for calculating risk factors and provisioning (expected loss).

Expanded Risk-adjusted Performance Measures (RAPM)

We also sought to expand application of RAPM to supplement weaknesses in accounting-based profit & loss evaluations and to set appropriate loan pricing policy, thereby improving the bank's financial soundness. As a result, "Recognition of Expected Loss" regarded as cost was extended from 30% in 2004 to 60% in 2005.

Risk Management

Improved Asset-Liability Management (ALM)

To improve accuracy in forecasting and managing the impact of interest rate fluctuations on the bank's assets and liabilities, we established a liquidity management system for unspecified money in trust and took steps to shift ALM analysis from a month-by-month to a full-time basis.

Strengthened Customer Analysis

A system for gauging customer behavior scenarios was created in order to facilitate ALM analysis in liquidity risk management and in interest rate and profit & loss simulations, and to assist the formulation of sales and marketing strategies for the bank's credit-related units. The scenarios include asset-related information such as burn rate, early repayment rate, maturity extension rate, and late repayment rate, as well as liability-related data including early cancellation rate, post-maturity cancellation rate, installment payment rate, etc.

Expanded Risk Management Education

Explanatory programs for Pusan Bank's managers and employees were conducted during the year to bring the entire staff up to speed on the important elements of Basel II and their affect on the bank's business. Also covered were plans for implementing new Basel II standards, key results of the Quantitative Impact Study, and an analysis of risk-adjusted return. In addition, through a program to cultivate risk management specialists, study and lecture materials were developed for the bank's online risk management training, and a "risk management expert" certificate was created.

Strategies for 2006

In 2006, Pusan Bank will be putting into place extensive plans for total risk management systems advancement that are expected to finalize infrastructure work in preparation for Basel II implementation. The following are the main initiatives we will take in this regard.

Basic Infrastructure for Basel II Implementation

Stage-1 projects for introduction of Basel II requirements are expected to be completed by the second quarter of 2006. Stage-2 projects will consist of securing advanced human resources in each business area. This stage also will involve the creation of new systems to measure risk-weighted assets and capital adequacy, and systems dealing with public disclosure, operational risk management and others.

Credit Risk Management Enhancement

To bolster overall credit portfolio management, the bank will devise effective risk management plans focusing specifically on Ulsan and other newly rising business areas, together with reinforced credit risk management procedures according to borrower category (industry, group affiliation, and product). Furthermore, the bank will respond to the introduction of new regulations and strengthen its early warning system on potential loan delinquencies.

Strengthening Market & ALM Risk Management

The profit & loss simulation capabilities of the bank's ALM system will be upgraded. In conjunction with this, monitoring of loan interest rates will be strengthened in line with changing market rates, and the measuring of liquidity risk including outside transactions will be integrated with interest rate risk calculations.

Disseminating Risk Management Concepts

In order to disseminate risk management-related decisions of the Board of Directors, documentation and explanations of topics to be deliberated at upcoming Board meetings will be regularly distributed, and relevant subject matter will be covered in continue education programs including the online risk management course.

Business Process Re-engineering is already producing significant rewards for Pusan Bank in terms of reduced workload for bank branch staff and reduced wait times for our customers.



BPR

In January 2005, Pusan Bank became the first Korean regional bank to develop and implement business process re-engineering (BPR). From the bank's perspective, the BPR system promotes standardization, centralization and automation of work processes, as well as staff professionalization and cost reduction. From our customers' standpoint, BPR reduces teller workload, which in turn means shorter waiting times at the branch. In September 2004, 21.45% of our customers waited an average of 5 minutes, 11 seconds to see a teller. After carrying out our BPR program, these figures had fallen to 18.91% and 5 minutes, respectively, by December 2005. Customer satisfaction levels also increased from 75.10% in September 2004 to 80.06% in June 2005.

In addition, BPR has led to significant cost savings. Reduced manpower saved KRW 4.3 billion, fewer overtime hours reduced KRW 1.8 billion from expenses, lower marketing outlay generated KRW 800 million, reduced investment in movable business property brought KRW 100 million, and another KRW 100 million was saved on other purchases. At the branch level, we have centralized and relocated loan & deposit document processing and storage tasks and streamlined backoffice operations, freeing up branch personnel to concentrate on marketing and sales.

Our BPR initiative has made it easier for Pusan Bank to hire handicapped employees, we have secured intellectual property rights to our BPR business model, and we have reduced risk in credit scoring and appraisal & examination procedures. The benefits we obtain from our BPR system are numerous and varied: reduced transaction and task processes, shorter waiting times, greater customer and employee satisfaction, manpower and cost savings, and improved efficiencies throughout our entire organization.

IT

In the IT area, our internet banking utilization ratio grew 30.3% over 2005, while electronic banking transactions as a whole constituted 82.09% of average monthly transactions. We introduced the eCashPlan service, a comprehensive business asset management system enabling SMEs to forecast and analyze long- and short-term cash flow, and also made various risk management and work process improvements. In line with ongoing product & service diversification, Pusan Bank established new international finance and derivative systems. To help trading companies respond effectively to changes in the internal and external environment, the bank upgraded its electronic F/X (e-Forex) system. We were also the first bank to earn CMMI Level III international software certification for product quality management in the area of software development and maintenance.

Infrastructure for Management

Our Success in Figures and Percentages

The following pages containing the Management's Discussion & Analysis, Consolidated and Non-consolidated Financial Statements, and Independent Auditors' Report provide the reader with a precise and detailed examination of Pusan Bank's performance in 2005 and our progress vis-à-vis the previous fiscal period.

Management Discussion and Analysis	26
Independent Auditors' Report (Consolidated)	33
Non-Consolidated Financial Statements	34
Notes to Financial Statements	39
Internal Accounting Control System Review Report	69

MANAGEMENT'S DISCUSSION & ANALYSIS

(in billions of won, %)

Key Financial Data	2005	2004	2003
Operating results			
Operating revenue	1,309.3	1,194.3	1,093.6
Net interest income	593.1	550.0	478.0
Operating income	234.0	180.1	136.2
Net income	178.9	132.7	121.3
Per share data (won)			
Dividend per common share	405	300	270
Earning per common share	1220	905	827
Profitability ratios			
ROA	0.99	0.81	0.79
ROE	16.34	13.60	13.91
Net interest margin	3.34	3.44	3.22
Net interest spread	4.16	4.16	3.87
Balance sheet data at year end			
Total assets*	19,343.3	17,415.0	16,560.7
Total credit *	12,209.9	11,100.0	9,659.2
Total deposits *	13,997.1	13,095.8	12,580.9
Securities*	5,090.3	4,259.1	4,813.0
Shareholders' equity	1,146.5	1,025.7	936.9
Asset quality ratios			
Loan Loss Provisions/SBLs	162.96	106.79	89.94
SBLs/Total Credit	0.94	1.30	1.63
Capital ratios at year end			
Total capital ratio	12.25	10.84	11.66
Tier 1 capital ratio	9.05	8.99	9.32
Tier 2 capital ratio	3.22	1.88	2.39

* Includes trust accounts

Overview

Despite the plummeting won-dollar exchange rate and rising oil prices, exports managed to post steady growth, domestic demand began to recover, and investor sentiment showed a modest improvement, leading to a rebound in the Korean economy in 2005. Likewise, the economy of Busan began to see a gradual recovery from the latter half of the year, with industrial Business Survey Index (BSI) trending upward following a low point in September and facility investment BSI picking up steam after reaching an annual low in October. The ongoing economic recovery is also expected to revive anemic regional demand in 2006.

Reflecting brisk exports and the turnaround in domestic demand last year, the bank achieved significant improvements or maintained already high levels in all key business indicators in 2005 compared to the figures for 2004. Apart from a in the second half of 2005, the low-rate environment persisted. Nevertheless, operating revenue rose 9.6% YoY, up 115.0 billion won to 1,309.3 billion won, while lower interest expenses helped the bank mark a 43.1 billion won gain in net interest income for a total of 593.1 billion won on the year.

Notably, net income grew by 34.8% YoY, up 46.2 billion won to 178.9 billion won, as shrinking bad debts and non-performing loans led to a reduction in write-offs. The higher net income resulted in a 105 billion won increase in dividends per share to 405 billion won. The growth in net income also led to a 0.18%P gain in ROA to 0.99%. ROE advanced 2.74%P to post a relatively high 16.34% in spite of increased accumulation of retained earnings on higher net income.

Net interest margin edged downward only slightly to 3.34% despite fluctuating market rates, while the bank maintained the same net interest spread of 4.16% from 2004 in 2005. Including trust accounts, total assets as of the end of 2005 stood at 19,343.3 billion won, up 1,928.3 billion won or 11.0% YoY. As a result of the vastly increased scale of business over the previous year, total credit rose by 1,109.9 billion to record 12,209.9 billion won, while total deposits advanced 881.3 billion won to 13,977.1 billion won. Loans classified as Standard or Below (SBLs) decreased sharply, leading to a 0.36%P decrease in the SBL-to-total-credit ratio to 0.94%. The bank's BIS capital ratio climbed 1.41%P

MANAGEMENT'S DISCUSSION & ANALYSIS

to 12.24% on the strong growth in net income strength and expansion in business scale, and in spite of increased risk-weighted assets.

Net Income

Operating revenues at the end of 2005 stood at 1,309.3 billion won for a gain of 115.0 billion won or 9.6% over 2004, with operating expenses rose 61.1 billion won to reach 1,075.3 billion won for a 6.0% YoY increase. Non-operating income soared 61.5% YoY or 5.9 billion won to 15.5 billion won, assisted by a 6.8% gain in non-operating revenue and a 10.2% contraction in non-operating expenses compared to 2004 figures. Due to the higher net income, income tax expenses were up 13.6 billion won to 70.6 billion won last year. Consequently, net income showed a brisk 34.8% upswing, rising 46.2 billion won to 178.9 billion won in 2005. The net income figure represents the summation of an increase in net interest income despite higher selling, general and administrative expenses and retirement allowance payments, along with reduced write-offs on lower credit card and household loan delinquencies, and a steep decrease in losses on disposition of loans.

Profit & Loss Summary

Profit & Loss Summary	2005	2004	Change YoY	
			Amount	%
Operating Revenues	1,309.3	1,194.3	115.0	9.6%
Operating Expenses	1,075.3	1,014.2	61.1	6.0%
Operating Income	234.0	180.1	53.9	29.9%
Non-Operating Income	15.5	9.6	5.9	61.5%
Ordinary Income	249.6	189.7	59.9	31.6%
Income Tax Expenses	70.6	57.0	13.6	23.9%
Net Income	178.9	132.7	46.2	34.8%

Profit & Loss by Sector

Pusan Bank registered a 29.9% YoY gain in operating income which rose 53.9 billion won to 234.0 billion won. By sector, net income grew 43.1 billion won or 7.8% YoY to 593.1 billion won. This was attributable to an upturn in market interest rates lifting interest revenues, coupled with only a slight increase in interest expenses from the previous year thanks to efficient capital funding. Interest revenues posted 5.3% growth rising 50.7 billion won over 2004 to 1,016.0 billion won, while interest expenses inched up 1.8% to 422.9 billion won. Net commission and fee income recorded 54.6 billion won, little changed from the previous year, though trust revenues advanced 3.1 billion won to 16.9 billion won.

Other operating income, representing gain or loss on securities & derivatives, was similar to the previous year with a 1.3 billion won reduction in losses to 16.3 billion won. The amount before loan loss provisions declined 26.1% YoY, contracting 33.0 billion won to 93.4 billion won. This was due to a 42.1 billion won decrease in write-offs as bad debts fell sharply, and a 15.3 billion won increase in gains on recovery of bad debts. Selling, general and administrative expenses registered a 9.0% YoY advance, up 26.4 billion won to 320.9 billion won, primarily driven by higher wage, salary and equipment outlays.

MANAGEMENT'S DISCUSSION & ANALYSIS

Net Interest Income	(in billions of won)			
	2005	2004	Change YoY	
			Amount	%
Interest Income	593.1	550.0	43.1	7.8%
Interest Revenues	1016.0	965.3	50.7	5.3%
Interest Expenses	422.9	415.3	7.6	1.8%
Net Commission & Fee Income	54.6	54.8	-0.2	-0.4%
Trust Revenues	16.9	13.8	3.1	22.5%
Other Operating Income	-16.3	-17.6	1.3	-7.4%
Adjusted Operating Income	648.3	601.0	47.3	7.9%
Amount Before Loan Loss Provisions	93.4	126.4	-33.0	-26.1%
SG&A	320.9	294.5	26.4	9.0%
Operating Income	234.0	180.1	53.9	29.9%

Net Interest Income

In 2005, the bank's interest revenues marked a 50.7 billion won gain to 1,016.0 billion won for a 5.3% increase, aided by an upswing in market interest rates and the bank's expanded business volume. Interest expenses saw a slight 1.8% YoY upturn, growing 7.6 billion won to 422.9 billion won. As a result of the higher increase in interest revenue compared to that of interest expenses, net interest income registered a 7.8% improvement over 2004, climbing 43.1 billion won to 593.1 billion won.

The bank earned 794.7 billion won in interest on loans in 2005, up 59.2 billion won or 8.0% over the year earlier, while interest on securities slipped 10.7% or 23.6 billion won to 197.1 billion won. Interest on due from banks turned in a steep increase, rising 15.1 billion won to 24.2 billion won. On the expense side, interest paid by the bank on deposits fell 8.0% or 27.1 billion won to end the year at 310.1 billion won. Interest on debentures and interest on borrowings posted robust gains of 13.1 billion won and to 21.6 billion won, respectively, to record 30.1 billion won and 82.7 billion won.

Net Interest Income Structure	(in billions of won)			
	2005	2004	Change YoY	
			Amount	%
Interest Revenues	1,016.0	965.3	50.7	5.3%
Interest on Loans	794.7	735.5	59.2	8.0%
Interest on Securities	197.1	220.7	-23.6	-10.7%
Interest on Due from Banks, etc.	24.2	9.1	15.1	165.9%
Interest Expenses	422.9	415.3	7.6	1.8%
Interest on Deposits	310.1	337.2	-27.1	-8.0%
Interest on Debentures	30.1	17.0	13.1	77.1%
Interest on Borrowings, etc.	82.7	61.1	21.6	35.4%
Net interest income	593.1	550.0	43.1	7.8%

Net Interest Spread and Net Interest Spread

Despite the rise in market interest rates from the second half of 2005, the prevailing low interest environment last year led to a 0.32%P contraction in average won-currency loan rates to 6.79%. Average interest rates on won-currency deposits also declined 0.32%P YoY to 2.63%. As a result, the bank's net interest spread was 4.16%. Total interest-earning assets achieved a 1,675.5 billion won increase to 16,593.2 billion won, with net interest mark declining 0.10%P to record 3.34%.

Although low interest rates persisted throughout the year, the bank managed to maintain net interest spread at the previous year's level, while limiting the contraction in net interest margin to a minimum. This was the result of successful efforts to steadily grow its low-cost deposit business, while concentrating on expanding household loans and profitable new loans to high-quality small and medium-size enterprise borrowers.

MANAGEMENT'S DISCUSSION & ANALYSIS

Net Interest Margin & Net Interest Spread	(in billions of won, %, %P)			
	2005	2004	Change YoY	
			Amount	%
Interest-earning Assets (avg. balance basis)	16,593.2	14,917.7	1,675.5	11.2%
NIM	3.34	3.44	-0.10	-2.9%
Won-currency Loans	6.79	7.11	-0.32	-4.5%
Household Loans	6.49	6.83	-0.34	-5.0%
Corporate Loans	6.17	6.40	-0.23	-3.6%
Average Interest on Won-currency Deposits	2.63	2.95	-0.32	-10.8%
Net Interest Spread	4.16	4.16	0.00	0.0%

Commission & Fee Income

Commission revenues in 2005 saw a 7.3% YoY increase of 5.5 billion won to record 81.2 billion won, with commission expenses surging 27.3% to 26.6 billion won, an increase of 5.7 billion won. The result was net commission & fee income of 54.6 billion won, little changed from the previous year. The rise in commission revenues was primarily driven by an 8.0% YoY gain in won-currency commissions, which advanced 4.5 billion won to register 60.8 billion won. Likewise, foreign-currency commissions also posted an 8.0% increase over 2004, up 1.0 billion won to 13.5 billion won. The expanded commissions were mainly due to the development of new fee-based services. Commissions on credit cards, however, declined by 14.0% YoY, falling 0.6 billion won to 3.7 billion won amid a reduction in commission rates.

Commission & Fee Income	(in billions of won, %)			
	2005	2004	Change YoY	
			Amount	%
Commission Revenues	81.2	75.7	5.5	7.3%
Won-currency Commissions	60.8	56.3	4.5	8.0%
Foreign-currency Commissions	13.5	12.5	1.0	8.0%
Commissions on Credit Cards	3.7	4.3	-0.6	-14.0%
Guarantee Fees & Others	3.2	2.6	0.6	23.1%
Commission Expenses	26.6	20.9	5.7	27.3%
Commissions (won & foreign curr.)	11.3	8.4	2.9	34.5%
Commissions on Credit Cards	15.3	12.5	2.8	22.4%
Net Commission & Fee Income	54.6	54.8	-0.2	-0.4%

Selling & Administrative Expenses

The bank reported a 9.0% rise in selling & administrative expenses in 2005 over the year earlier, with a 26.4 billion won increase to 320.9 billion won. Of this total, salary expenses posted a 12.4% gain, rising 12.8 billion won to 115.9 billion won, while other administrative expenses advanced 13.5% or 17.1 billion won to 143.8 billion won. Depreciation costs edged up 1.0 billion won to 34.8 billion won, although allowances for employee retirement benefits decreased 5.1 billion won to 17.8 billion won as the bank ended its progressive pension system and implemented an honorary retirement plan.

Selling & administrative expenses, which are primarily fixed costs such as salaries and administrative outlays, combined with net operating income and provision for loan losses are referred to as "adjusted operating income." The "cost income ratio" is calculated by dividing selling & administrative expenses by adjusted operating income. The bank's cost income ratio in 2005 was 49.50%, up 0.50%P from 2004. This increase reflects the slightly higher increase in selling & administrative expenses than in net operating income, which was due to the aforementioned increases in salary expenses and administrative costs. However, the cost income ratio was maintained at roughly the same low level of the previous year.

MANAGEMENT'S DISCUSSION & ANALYSIS

Cost Income Ratio	(in billions of won, %)			
	2005	2004	Change YoY	
			Amount	%
Adjusted Operating Income* (a)	648.3	601.0	47.3	7.9%
Administrative expenses (b)	320.9	294.5	26.4	9.0%
Cost Income Ratio (b/a)	49.50	49.00	0.50	1.0%

*Adjusted Operating Income: Calculated by adding bad debt expenses and selling & administrative expenses to operating income.

Income Before Provisions

Income before provisions for 2005 achieved a 7.8% YoY gain, up 26.6 billion won to 367.7 billion won. Total provisions marked a 33.2 billion won decrease to 118.2 billion won, as provision for loan losses plunging 40.1 billion won from 2004 to 85.9 billion won. This sharp decline was due to the bank's aggressive provisioning against bad debts in previous years, thereby reducing the loan loss provisioning requirement in 2005. The higher income reported last year resulted in higher income tax being levied, up 13.6 billion won over 2004 to 70.6 billion won. Consequently, net income rose 46.2 billion won to 178.9 billion won, a gain of 34.8% YoY.

Income Before Provisions	(in billions of won, %)			
	2005	2004	Change YoY	
			Amount	%
Income Before Provisions (a+b+c)	367.7	341.1	26.6	7.8%
Total Provisions (a)	118.2	151.4	-33.2	-21.9%
Provisions for Loan Losses	85.9	126.0	-40.1	-31.8%
Income Tax (b)	70.6	57.0	13.6	23.9%
Net Income (c)	178.9	132.7	46.2	34.8%

Asset Portfolio

As of the end of 2005, total assets stood at 19,049.9 billion won, representing an 11.2% increase of 1,915.5 billion won over 2004-end. Loans and securities were primarily responsible for the increase, while other assets marked a decline. Loan assets turned in a 10.4% YoY gain rising 1,118.3 billion won to 11,876.3 billion won, maintaining a dominant 62.3% position among total bank assets, though slightly smaller than in 2004. The weighting of securities assets in total assets expanded 1.9%P to 25.6% amid an 811.5 billion won YoY advance to 4,871.1 billion won. Cash & due from banks, accounting for 6.1% of total assets, rose 117.3 billion won YoY to 1,158.0 billion won.

Asset Portfolio(Bank Account)	(in billions of won, %)					
	2005		2004		Change YoY	
	Amount	% of total	Amount	% of total	Amount	% of total
Cash & Due from Banks	1,158.0	6.1	1,040.7	6.1	117.3	11.3
Securities	4,871.1	25.6	4,059.6	23.7	811.5	20.0
Loans	12,186.1	63.9	11,075.5	64.6	1,110.6	10.0
Other Assets	834.7	4.4	958.6	5.6	-123.9	-12.9
Total	19,049.9	100.0	17,134.4	100.0	1,915.5	11.2

Securities

The bank's portfolio of marketable securities consists of won- and foreign-currency bonds, stocks, beneficiary certificates, and other investment instruments. These are classified by objective and period into trading securities, available-for-sale securities, held-to-maturity securities, and securities under equity method. Total marketable securities rose 811.5 billion won over 2004 to record 4,871.1 billion won for a 20.0% gain. By type of security, government bonds, finance debentures and stock-type beneficiary certificates were the main contributors to growth among won-currency instruments. Won-currency investment securities, representing the bulk of marketable securities, turned in a robust 18.9% advance, up 718.4 billion won to 4,515.7 billion won. Of this amount, government bonds and finance debentures rose 65.5% and 17.9%, respective, up 448.6 billion won and 309.6 billion won to register 1,133.9 billion won and 2,034.9 billion won. Similarly, foreign-

MANAGEMENT'S DISCUSSION & ANALYSIS

currency bonds realized a massive increase in 2005 over the previous year, rising 54.4 billion won to 81.0 billion won. In line with the bullish stock market and the development of new indirect investment products, stock-type beneficiary certificates soared eight-fold in 2005, rising 156.2 billion won to 177.5 billion won.

Securities Portfolio (Bank Account)

	(in billions of won)			
	Securities in local currency	Securities in foreign currencies	Total	Percentage (%)
Trading securities				
Stocks	W 8,477	W -	W 8,477	46.25
Fixed rate bonds	9,850	-	9,850	53.75
	18,327	-	18,327	100.00
Available-for-sale securities				
Equity securities	25,747	-	25,747	1.49
Fixed rate bonds	1,412,139	-	1,412,139	81.67
Floating rate bonds	45,291	28,431	73,722	4.26
Commercial papers	9,989	-	9,989	0.58
Beneficiary certificates	207,524	-	207,524	12.00
Others	-	-	-	-
	1,700,690	28,431	1,729,121	100.00
Held-to-maturity securities				
Fixed rate bonds	3,008,499	-	3,008,499	97.01
Floating rate bonds	40,000	52,592	92,592	2.99
	3,048,499	52,592	3,101,091	100.00
	W 4,767,516	W 81,023	W 4,848,539	

Loans

The bank's total won-currency loans as of the end of 2005 registered 11,202.8 billion won, reflecting an increase of 1,087.6 billion won or 10.8% YoY. In a breakdown of this figure by loan recipient, small and medium-sized enterprises (SMEs) saw the largest increase in loans over the previous year in terms of amount, while loans to large corporate borrowers grew the fastest in percentage terms. Loans to households grew a rose by a modest 3.3% YoY, up 112.6 billion won to 3,544.9 billion won, which coincided in a 2.3%P decrease in won-currency loans among total loans to 31.6%. Borrowings by SMEs advanced 12.2% YoY, up 723.3 billion won to 6,670.2 billion won, maintaining steady expansion from the previous year. The share of SME loans of the bank's total won-currency lending inched up 0.7%P to 59.5%, assisted by increased credit portfolio concentration on high-quality SME borrowers. Large corporate customers received 87.3 billion won more in loans in 2005 to register 490.9 billion won for a 21.6% gain. Consequently, the portion of total won-currency loans going to large corporations rose 0.4%P YoY to 4.4%.

Won-currency Loans

	(in billions of won, %)					
	2005		2004		Change YoY	
	Amount	% of total	Amount	% of total	Amount	%
Cash & Due from Banks	1,158.0	6.1	1,040.7	6.1	117.3	11.3
Households	3,544.9	31.6	3,432.3	33.9	112.6	3.3
SMEs	6,670.2	59.5	5,946.9	58.8	723.3	12.2
Large Corporations	490.9	4.4	403.6	4.0	87.3	21.6
Others	496.8	4.4	332.4	3.3	164.4	49.5
Total	11,202.8	100.0	10,115.2	100.0	1,087.6	10.8

Asset Soundness & Loan Loss Provisions

The bank's total loans at the end of 2005 amounted to 12,463.3 billion won, 11.0% or 1,233.5 billion won above 2004-end. Despite this increase in credit scale, loans classified as standard & below (SBLs) totaled 116.9 billion won, down 29.1 billion won YoY. This led to a 0.36%P reduction in the bank's SBL ratio to 0.94%. Provisions rose 34.6 billion won to 190.4 billion won amid aggressive write-downs of non-performing loans. As a result of the decrease in SBLs and the increase in provisions, the bank's coverage ratio of provisions to SBLs rose 56.17%P YoY to 162.96%. The decline in bad loans and improved non-performing loan ratio is attributed to the bank's strengthened efforts in risk management to prevent delinquencies, attract high-quality corporate customers, increase provisioning, and implement effective countermeasures against loan defaults while expanding total credit. Additionally, the bank applies thorough credit rating procedures when determining SME loans, and conducts quarterly loan reviews examining industry conditions and economic trends to ensure a future-focused, sophisticated approach in lending operations.

MANAGEMENT'S DISCUSSION & ANALYSIS

Classification of Asset Soundness	(in billions of won, %, %P)			
	2005	2004	Change YoY	
			Amount	%
Total Loans	12,463.3	11,229.8	1,233.5	11.0%
Normal	12,098.0	10,811.2	1,286.8	11.9%
Precautionary	248.4	272.6	-24.2	-8.9%
Substandard	77.5	88.2	-10.7	-12.1%
Doubtful	29.2	36.7	-7.5	-20.4%
Estimated Loss	10.2	21.0	-10.8	-51.4%
Substandard & Below	116.9	146.0	-29.1	-19.9%
Precautionary & Below	365.3	418.5	-53.2	-12.7%
SBL Ratio	0.94	1.30	-0.36	-27.9%
Prec. & Below Ratio	2.93	3.73	-0.80	-21.4%
Provisions	190.4	155.8	34.6	22.2%
Provisions /SBLs (coverage ratio)	162.96	106.79	56.17	52.6%

Liabilities

The bank's total liabilities as of the end of 2005 were 17,903.4 billion won, an expansion of 11.1% YoY or 1,794.7 billion won. Deposits, representing the main portion of the bank's liabilities with 76.3% of the total, down 3.2%P from 2004, grew 6.7% YoY or 859.0 billion won to 13,662.5 billion won. While the weighting of deposits in total liabilities decreased, that of borrowings increased substantially on the back of a sharp 52.3% gain of 1,086.0 billion won to end the year at 3,161.5 billion won. Consequently, the portion of borrowings in total liabilities advanced 4.8%P to 17.7%. This expansion was in large part the result of active efforts to increase low-interest policy lending to SMEs in conjunction with the Small Business Administration.

Liabilities	(in billions of won, %, %P)					
	2005		2004		Change YoY	
	Amount	% of total	Amount	% of total	Amount	%
Deposits	13,662.5	76.3	12,803.5	79.5	859.0	6.7
Borrowings	3,161.5	17.7	2,075.5	12.9	1,086.0	52.3
Debentures Issued	408.7	2.3	392.7	2.4	16.0	4.1
Others	670.7	3.8	837.0	5.2	-166.3	-19.9
Total	17,903.4	100.0	16,108.7	100.0	1,794.7	11.1

Capital Adequacy

As of the end of 2005, the bank's core capital was 1,083.0 billion won, up 12.9% YoY or 123.6 billion won as a result of higher net income, while supplementary capital nearly doubled, rising 91.4% for a 183.7 billion won increase to 384.7 billion won. Total equity capital, which also includes contributions to unconsolidated subsidiaries, posted a 26.7% YoY advance, rising 308.3 billion won to 1,464.7 billion won. The bank's expanded business volume led to a sizeable increase in risk-weighted assets, which grew 12.1% or 1,289.2 billion won to 11,961.9 billion won from year-end to year-end. Despite the substantial rise in risk-weighted assets amid the expanding business scale, the marked increase in total equity capital led the BIS capital ratio higher, up 1.41%P to 12.24%, a relatively high level and indicative of the bank's sound capital adequacy.

BIS Capital Adequacy Ratio	(in billions of won, %, %P)			
	2005	2004	Change YoY	
			Amount	%
Core Capital	1,083.0	959.4	123.6	12.9%
Supplementary Capital	384.7	201.0	183.7	91.4%
Contributions to Unconsolidated Subsidiaries	3.0	4.0	-1.0	-25.0%
Total Equity Capital	1,464.7	1,156.4	308.3	26.7%
Risk-weighted Assets	11,950.7	10,672.7	1,289.2	12.1%
Tier1 capital	9.05	8.99	0.06	0.7%
Tier2 capital	3.22	1.88	1.33	70.8%
BIS Capital Ratio	12.25	10.84	1.41	13.0%

Independent Auditors' Report



Deloitte Anjin LLC
14Fl., Hanwha Securities Bldg.,
23-5 Yoido-dong,
Youngdeungpo-gu, Seoul
150-717, Korea

Tel: +82 2 6676 1000, 1114
Fax: +82 2 6674 2114
www.deloitteanjin.co.kr

To the Shareholders and Board of Directors of Pusan Bank:

We have audited the accompanying non-consolidated balance sheet of the bank accounts of Pusan Bank (the "Bank") as of December 31, 2005 and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the year 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 audit. The accompanying non-consolidated financial statements as of and for the year ended December 31, 2004, which are presented for comparative purposes, were audited by Han Young (formerly Young Wha) Accounting Corporation, whose report dated January 14, 2005 stated that these financial statements were presented fairly, in all material respects, in accordance with financial accounting standards in the Republic of Korea.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2005, and the results of its operations, changes in its retained earnings and its cash flows for the year 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 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.

Deloitte Anjin LLC

January 20, 2006

Notice to Readers

This report is effective as of January 20, 2006, 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

(Korea won In millions)

Korean Won

	2005		2004	
ASSETS				
Cash and due from banks (Notes 3, 26, 28 and 29)	₩	1,158,007	₩	1,040,674
Securities (Notes 4 and 28)		4,871,139		4,059,585
Loans (Notes 5, 6, 7, 26 and 28)		12,186,122		11,075,500
Fixed assets (Note 8)		347,372		343,281
Other assets (Notes 9 and 28)		487,244		615,346
	₩	19,049,884	₩	17,134,386
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Deposits (Notes 10, 26, 28 and 29)	₩	13,662,461	₩	12,803,533
Borrowings (Notes 11, 26 and 28)		3,161,520		2,075,524
Debentures (Notes 12 and 26)		408,684		392,666
Other liabilities (Notes 13, 14, 15, 16, 17, 19 and 28)		670,690		836,977
		17,903,355		16,108,700
SHAREHOLDERS' EQUITY (Notes 4, 18 and 25):				
Common stock		733,418		733,418
Retained earnings				
(Net income of ₩178,934 million for the year ended December 31, 2005 and ₩132,709 million for the year ended December 31, 2004)		416,759		281,830
Capital adjustments		(3,648)		10,438
		1,146,529		1,025,686
	₩	19,049,884	₩	17,134,386

See accompanying notes to non-consolidated financial statements.

STATEMENTS OF INCOME

(Korea won In millions)

	2005		2004	
OPERATING REVENUE:				
Interest income:				
Interest on due from banks (Note 20)	₩	17,712	₩	4,732
Interest on securities (Note 20)		197,079		220,713
Interest on loans (Note 20)		794,334		735,115
Other interest income		6,476		4,367
		1,015,601		964,927
Commission income		81,610		76,061
Other operating income:				
Gain on disposal of trading securities		7,277		3,522
Gain on valuation of trading securities (Note 4)		298		38
Dividends on trading securities		5		58
Dividends on available-for-sale securities		270		139
Foreign exchange trading income		36,523		25,131
Gain on financial derivatives trading		121,727		78,369
Gain on valuation of financial derivatives (Note 16)		16,415		30,070
Gain on valuation of fair value hedged items		5,655		-
Fees and commissions from trust accounts		23,902		15,995
		212,072		153,322
Total operating revenues		1,309,283		1,194,310
OPERATING EXPENSES:				
Interest expenses:				
Interest on deposits (Note 20)		310,071		337,233
Interest on borrowings (Note 20)		76,341		54,195
Interest on debentures (Note 20)		30,073		17,041
Other interest expenses		6,380		6,876
		422,865		415,345
Commission expense		26,594		20,865
Other operating expenses:				
Loss on disposal of trading securities		4,179		1,490
Loss on valuation of trading securities (Note 4)		119		4
Provision for acceptance and guarantee losses		2,414		428
Foreign exchange trading losses		14,974		9,205
Loss on financial derivatives trading		121,334		80,676
Loss on valuation of financial derivatives (Note 16)		25,510		26,578
Provision for possible loan losses (Note 7)		85,852		126,022
Other operating expenses		50,529		39,090
		304,911		283,493
Selling and administrative expenses (Note 21)		320,884		294,466
Total operating expenses		1,075,254		1,014,169
OPERATING INCOME	₩	234,029	₩	180,141
NON-OPERATING INCOME (Note 22)		43,657		40,875
NON-OPERATING EXPENSES (Note 22)		28,111		31,288
ORDINARY INCOME		249,575		189,728
EXTRAORDINARY ITEM		-		-
INCOME BEFORE INCOME TAX		249,575		189,728
INCOME TAX EXPENSE (Note 23)		70,641		57,019
NET INCOME	₩	178,934	₩	132,709
ORDINARY INCOME PER SHARE (Note 24)	₩	1,220	₩	905
NET INCOME PER SHARE (Note 24)	₩	1,220	₩	905

See accompanying notes to non-consolidated financial statements.

STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

(Korea won In millions)

	2005		2004	
RETAINED EARNINGS BEFORE APPROPRIATIONS:				
Beginning of the year	₩	-	₩	-
Net income		178,934		132,709
		178,934		132,709
APPROPRIATIONS OF RETAINED EARNINGS:				
Legal reserve		17,894		13,271
Other reserve		101,633		75,433
Cash dividends (Note 25)		59,407		44,005
		178,934		132,709
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	₩	-	₩	-

See accompanying notes to non-consolidated financial statements.

STATEMENTS OF CASH FLOWS

(Korea won In millions)

	2005		2004	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	₩	178,934	₩	132,709
Adjustments to reconcile net income to net cash provided by operating activities:				
Gain on disposal of trading securities, net		(3,098)		(2,032)
Gain on valuation of trading securities, net		(179)		(34)
Gain on disposal of available-for-sale securities, net		(16,240)		(21,633)
Loss on impairment of available-for-sale securities		372		159
Loss (gain) on financial derivatives trading, net		(393)		2,307
Loss (gain) on valuation of financial derivatives, net		9,095		(3,492)
Provision for possible loan losses		85,852		126,022
Provision for severance benefits		17,808		22,825
Depreciation and amortization		34,804		33,852
Gain on disposal of tangible assets, net		(212)		(40)
Loss (gain) on valuation of securities using the equity method, net		(313)		328
Loss on sale of loans, net		115		10,904
Gain on valuation of fair value hedged items		(5,655)		-
Others, net		(325)		(19,675)
		121,631		149,491
Changes in assets and liabilities resulting from operations:				
Decrease (increase) in trading securities		26,074		(34,412)
Decrease in accrued income		20,594		61,968
Decrease (increase) in prepaid expenses		(8,089)		36,116
Payment of severance benefits		(1,658)		(11,366)
Increase in severance insurance deposits		(14,290)		(11,839)
Increase in accrued expenses		14,247		16,001
Increase (decrease) in deferred income tax liabilities		(4,370)		7,786
Others, net		3,281		1,475
		35,789		65,729
Net cash provided by operating activities		336,354		347,929

(Continued)

Financial Section

36 + 37

PUSAN BANK Annual Report 2005

STATEMENTS OF CASH FLOWS(CONTINUED)

(Korea won In millions)

	2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in restricted due from banks, net	₩ 291,594	₩ (258,057)
Decrease in available-for-sale securities	3,318,396	520,313
Decrease in held-to-maturity securities	4,487,572	106,939
Disposal of fixed assets	4,362	5,282
Decrease (increase) in other receivables, net	148,418	(145,566)
Increase in available-for-sale securities	(3,678,805)	-
Increase in held-to-maturity securities	(4,940,252)	-
Increase in loans, net	(1,195,454)	(1,535,541)
Acquisition of fixed assets	(43,346)	(48,349)
Increase in guarantee deposits, net	(1,392)	(7,664)
Decrease in other assets, net	65,064	199,753
Net cash used in investing activities	(1,543,843)	(1,162,890)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits, net	858,928	451,647
Increase in borrowings, net	1,085,995	169,841
Increase in debentures, net	15,000	192,490
Decrease in other liabilities, net	(343,507)	(138,337)
Net cash provided by financing activities	1,616,416	675,641
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	408,927	(139,320)
CASH AND DUE FROM BANKS, BEGINNING OF THE PERIOD	352,800	492,120
CASH AND DUE FROM BANKS, END OF THE PERIOD (Note 34)	₩ 761,727	₩ 352,800

See accompanying notes to non-consolidated financial statements.

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 209 branches 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, 2005 amounted to ₩733,418 million.

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 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. On the other hand, financial statements of the Bank to be submitted to the general shareholders' meeting are subject to approval by the Board of Directors which is tabled at their meeting on January 24, 2006.

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, 2005 and 2004, 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 ₩348,098 million and ₩354,439 million, respectively, and the related accrued interest income not recognized amounted to ₩7,676 million and ₩7,441 million, respectively.

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 reclassified 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

Financial Section

38 + 39

PUSAN BANK Annual Report 2005

NOTES TO FINANCIAL STATEMENTS

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 capital adjustments. Accumulated capital adjustments of securities are 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 capital adjustment account 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 gain or loss on valuation of securities using the equity method in capital adjustments.

(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 capital adjustments 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 capital adjustments. 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 capital adjustment 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 capital adjustments 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 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 capital adjustment account 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 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 Supervisory Regulation also requires the Bank to provide the minimum rate of loss provision for each category balance using the prescribed minimum percentages as described below.

	Normal	Precautionary	Substandard	Doubtful	Estimated loss
Corporate loans	0.7%	5.0%	20.0%	75.0%	100.0%
Consumer loans	0.75%	8.0%	20.0%	55.0%	100.0%
Credit card loans	1.0%	12.0%	20.0%	60.0%	100.0%

Financial Section

40 + 41

PUSAN BANK Annual Report 2005

When allowances for possible loan losses materially differ from the estimated loss, which is calculated through objective and reasonable method, such as using the experienced loss rate on individual loans or homogeneous loan group, the estimated loss has been reflected in the allowance for possible loan losses since this year in accordance with the Supervisory Regulation of Banking Business (the "Supervisory Regulation"). Accordingly, due to the accounting change, allowances for possible loan losses increased by ₩42,540 million and net income decreased by ₩30,842 million, compared to those accounted for using the previous accounting method.

The Bank has prospectively applied this accounting change to the current year because the accumulated effect cannot be reasonably determined at the balance sheet date.

Allowance for Possible Losses on Confirmed and Unconfirmed Acceptances and Guarantees

This year's modified Supervisory Regulation required the Bank to extend the scope of allowance for possible losses to endorsed notes, unconfirmed acceptances and guarantees, and confirmed acceptances and guarantees classified as normal and precautionary. The Bank also provided no less than the minimum rate of loss provision for these accounts, considering both the loan classification and credit conversion rate. In the previous regulation the Bank provided allowances for possible losses only on confirmed acceptances and guarantees classified as substandard, doubtful and estimated loss.

This accounting change increased allowances for possible losses on acceptances and guarantees by ₩2,686 million and decreased net income by ₩2,686 million, compared to those accounted for using the previous method. The Bank has prospectively applied this accounting change to the current year because the accumulated effect cannot be reasonably determined at the balance sheet date.

Allowance for Possible Losses on the Unused Limits

The Bank extended the scope of allowances for possible losses to the unused limits of credit card purchase and loan agreement for households and companies, using the credit conversion rate and the minimum rate of loss provision legislated by Supervisory Regulation. In the previous regulation the Bank provided allowances for possible losses only on the unused limits of cash advances. This accounting change increased other allowances for possible losses by ₩11,157 million and decreased net income by ₩11,157 million. The Bank applied prospectively this accounting change in the current year because the accumulated effect of the change cannot be reasonably estimated at the balance sheet date.

Restructuring of Loans

The equity interest in the debtors, net of real estates and/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 are 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 included in fixed 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 building 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 fixed 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 under 20 years for development costs and other intangible assets.

NOTES TO FINANCIAL STATEMENTS

Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral by foreclosure on the mortgage for loans. If the latest auction price is lower than book value, the difference is provided as a valuation allowance and the valuation loss is charged to current operations. In addition, the difference between the selling price and book value is recorded as a disposition gain or loss.

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 are 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, 2005 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 used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or 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 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 a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment 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 gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Accounting for Stock Options

Stock options 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 capital adjustments as stock option cost 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 regarding 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 (₩1,013.00 and ₩1,043.80 to US\$ 1.00 at December 31, 2005 and 2004, 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 account 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 compensation 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 income of the trust accounts.

Application of the Statement of Korea Accounting Standards

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statements of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable. The Statements supersede the relative articles of existing accounting standards and constitute generally accepted accounting principles of the Republic of Korea. The Bank has implemented SKAS No.1 (Accounting Changes and Correction of Errors) since January 1, 2002 and adopted SKAS from No.2 (Interim Financial Statements) through No.9 (Convertible Securities), since January 1, 2003. Also, the Bank has implemented SKAS No.13 (Troubled Debt Restructurings), since January 1, 2004 and adopted SKAS No.15 (Investment in Associates), No. 16 (Income Taxes) and No. 17 (Provisions, Contingent Liabilities and Contingent Assets), since January 1, 2005.

Reclassification

Certain accounts of the prior period were reclassified to conform to the current period's presentation for comparative purposes; however, reclassifications had no effect on the previously reported prior period net income or shareholders' equity of the Bank.

3. CASH AND DUE FROM BANKS:

(1) Cash and due from banks as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

	2005		2004	
Cash and checks	₩	362,146	₩	265,992
Foreign currencies		16,519		16,232
Due from banks in local currency		742,766		704,385
Due from banks in foreign currencies		36,576		54,065
	₩	1,158,007	₩	1,040,674

(2) Cash and due from banks in local currency and foreign currencies as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

	Financial institution	Interest rate (%)	2005		2004	
			₩		₩	
Due from banks in local currency:	The Bank of Korea	-	₩ 375,330		₩ 651,446	
	Foreign financial institutions	3.58~4.23	304,602		-	
	Domestic banks	3.10~3.70	62,400		52,400	
	Others	-	433		539	
			742,766		704,385	
Due from banks in foreign currencies:	The Bank of Korea	-	34,901		50,390	
	Others	-	1,675		3,675	
			36,576		54,065	
		₩	779,342	₩	758,450	

NOTES TO FINANCIAL STATEMENTS

3) Restricted due from banks in local currency and foreign currencies as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

	Financial institution	2005	2004	Reason of restriction
Due from banks in local currency:				
Reserve deposits	The Bank of Korea	₩ 375,330	₩ 651,446	The Bank of Korea Act
Other deposits	Korea Stock Exchange	368	505	Reserve for compensation for default loss and other
		375,698	651,951	
Due from banks in foreign currencies:				
Due from banks on demand	The Bank of Korea	20,582	35,924	The Bank of Korea Act
		₩ 396,280	₩ 687,875	

4. SECURITIES:

(1) Securities as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

	2005	2004
Trading securities:		
Stocks	₩ 8,477	₩ -
Government and public bonds	9,850	41,124
	18,327	41,124
Available-for-sale securities:		
Stocks	23,771	32,788
Equity securities	1,977	1,300
Government and public bonds	356,495	291,119
Finance debentures	711,224	465,572
Corporate bonds	389,711	387,182
Securities in foreign currencies	28,431	-
Others	217,513	179,905
	1,729,121	1,357,866
Held-to-maturity securities:		
Government and public bonds	954,781	604,361
Finance debentures	1,323,720	1,259,752
Corporate bonds	769,998	748,174
Securities in foreign currencies	52,592	26,563
	3,101,091	2,638,850
Securities using the equity method:		
Stocks	22,601	21,745
	₩ 4,871,140	₩ 4,059,585

(2) The valuation of securities excluding securities using the equity method as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

December 31, 2005	Face value	Acquisition cost	Amortized cost	Fair value
Trading securities:				
Stocks	₩ 966	₩ 8,207	₩ 8,207	₩ 8,477
Government and public bonds	10,000	9,937	9,942	9,850
	10,966	18,144	18,149	18,327
Available-for-sale securities:				
Equity securities	30,970	38,017	38,017	25,747
Government and public bonds	360,000	360,847	360,457	356,495
Finance debentures	720,000	702,405	713,182	711,224
Corporate bonds	391,678	391,125	391,044	389,711
Beneficiary certificates	200,000	200,000	200,000	207,524
Commercial paper	10,000	10,000	10,000	9,989
Securities in foreign currencies	28,364	28,348	28,351	28,431
	1,741,012	1,730,742	1,741,051	1,729,121
Held-to-maturity securities:				
Government and public bonds	969,382	947,011	954,781	954,781
Finance debentures	1,330,346	1,316,676	1,323,720	1,323,720
Corporate bonds	769,181	772,827	769,998	769,998
Securities in foreign currencies	52,676	52,555	52,592	52,592
	3,121,585	3,089,069	3,101,091	3,101,091
	₩ 4,873,563	₩ 4,837,955	₩ 4,860,291	₩ 4,848,539

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

	Face value	Acquisition cost	Amortized cost	Fair value
Trading securities:				
Government and public bonds	₩ 40,000	₩ 41,094	₩ 41,090	₩ 41,124
	40,000	41,094	41,090	41,124
Available-for-sale securities:				
Equity securities	40,324	54,387	54,387	34,088
Government and public bonds	285,000	285,588	285,997	291,119
Finance debentures	470,000	462,279	462,196	465,572
Corporate bonds	384,550	384,571	381,977	387,182
Commercial paper	30,000	28,100	28,100	28,185
Beneficiary certificates	150,295	150,295	150,307	151,720
	1,360,169	1,365,220	1,362,964	1,357,866
Held-to-maturity securities:				
Government and public bonds	615,381	598,296	604,361	604,361
Finance debentures	1,290,724	1,262,137	1,259,752	1,259,752
Corporate bonds	747,813	752,476	748,174	748,174
Securities in foreign currencies	26,617	26,553	26,563	26,563
	2,680,535	2,639,462	2,638,850	2,638,850
	₩ 4,080,704	₩ 4,045,776	₩ 4,042,904	₩ 4,037,840

(3) Available-for-sale equity securities (equity securities and stocks) as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

December 31, 2005	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	₩ 154	₩ 154
			369	154	154
Unlisted equity securities:					
BC Card	177,120	4.03	3,042	7,467	3,296
CJ Investment Co., Ltd.	799,481	1.30	3,997	2,621	2,945
Kihyup Technology Co., Ltd.	100,000	1.72	500	571	500
Dongbu Investment Trust Co., Ltd.	400,000	6.67	2,000	1,836	1,548
Korea Housing Guarantee Co., Ltd.	1,167,000	0.18	1,741	3,132	3,209
Hankook Real Estate Trust Co., Ltd.	241,000	1.14	1,197	(1,207)	-
Lotte Capital Co., Ltd.	2,464,000	7.87	21,126	8,699	11,125
Others			2,068	9,916	993
			35,671	33,035	23,616
Equity Investments:					
Korea Asset Management Corporation	292,000	0.56	1,460	1,043	1,460
Others			517	539	517
			1,977	1,582	1,977
			₩ 38,017	₩ 34,771	₩ 25,747

December 31, 2004

December 31, 2004	Shares	Percentage of ownership (%)	Acquisition cost	Fair value or net asset value	Book value
Listed equity securities:					
Korea Industrial Co., Ltd.	565,600	11.34	₩ 741	₩ 1,298	₩ 1,298
Ssangyong Motor Co., Ltd.	1,285,517	1.06	15,429	7,713	7,713
Daewoo Construction Co., Ltd.	90,000	0.03	432	568	568
Others			948	1,279	1,279
			17,550	10,858	10,858
Unlisted equity securities:					
BC card	177,120	4.03	3,042	6,194	2,977
CJ Investment Co., Ltd.	799,481	1.30	3,997	2,707	2,340
Kihyup Technology Co., Ltd.	100,000	1.72	500	571	500
Dongbu Investment Trust Co., Ltd.	400,000	6.67	2,000	1,883	1,686
Korea Housing Guarantee Co., Ltd.	1,167,000	0.18	1,741	3,132	2,669
KOREIT Co., Ltd.	241,000	1.14	1,197	(1,207)	-
Lotte Capital Co., Ltd.	2,464,000	10.83	21,125	10,332	10,866
Others			1,935	4,339	892
			35,537	27,951	21,930
Equity Investments:					
Korea Asset Management Corporation	140,000	0.50	700	1,043	700
Others			600	622	600
			1,300	1,665	1,300
			₩ 54,387	₩ 40,474	₩ 34,088

NOTES TO FINANCIAL STATEMENTS

4) The portfolio of securities excluding securities using the equity method, by industry, as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

	2005		2004		Composition (%)	
	2005	2004	2005	2004	2005	2004
Trading securities:						
Public service	₩ 9,850	₩ 41,124	53.74	100.00		
Financial services	1,666	-	9.09	-		
Manufacturing	5,091	-	27.78	-		
Construction	321	-	1.76	-		
Wholesale and retail	216	-	1.18	-		
Other	1,183	-	6.45	-		
	18,327	41,124	100.00	100.00		
Available-for-sale securities:						
Public service	356,495	291,119	20.62	21.44		
Financial services	1,154,729	847,846	66.78	62.44		
Manufacturing	57,761	40,084	3.34	2.95		
Construction	11,380	11,839	0.66	0.87		
Wholesale and retail	10,115	10,284	0.58	0.76		
Other	138,641	156,694	8.02	11.53		
	1,729,121	1,357,866	100.00	100.00		
Held-to-maturity securities:						
Public service	954,781	604,361	30.79	22.91		
Financial services	1,773,744	1,666,595	57.20	63.16		
Manufacturing	19,184	50,229	0.62	1.90		
Other	353,382	317,665	11.39	12.03		
	3,101,091	2,638,850	100.00	100.00		
	₩ 4,848,539	₩ 4,037,840				

(5) The portfolio of securities excluding securities using the equity method, by type, as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

December 31, 2005	Securities in		Total	Percentage (%)
	local currency	foreign currencies		
Trading securities				
Stocks	₩ 8,477	₩ -	₩ 8,477	46.25
Fixed rate bonds	9,850	-	9,850	53.75
	18,327	-	18,327	100.00
Available-for-sale securities				
Equity securities	25,747	-	25,747	1.49
Fixed rate bonds	1,412,139	-	1,412,139	81.67
Floating rate bonds	45,291	28,431	73,722	4.26
Commercial papers	9,989	-	9,989	0.58
Beneficiary certificates	207,524	-	207,524	12.00
Others	-	-	-	-
	1,700,690	28,431	1,729,121	100.00
Held-to-maturity securities				
Fixed rate bonds	3,008,499	-	3,008,499	97.01
Floating rate bonds	40,000	52,592	92,592	2.99
	3,048,499	52,592	3,101,091	100.00
	₩ 4,767,516	₩ 81,023	₩ 4,848,539	

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

	Securities in local currency	Securities in foreign currencies	Total	Percentage (%)
Trading securities				
Stocks	-	-	-	-
Fixed rate bonds	41,124	-	41,124	100.00
	41,124	-	41,124	100.00
Available-for-sale securities				
Equity securities	34,088	-	34,088	2.51
Fixed rate bonds	1,005,738	-	1,005,738	74.07
Floating rate bonds	138,135	-	138,135	10.17
Commercial papers	28,185	-	28,185	2.08
Beneficiary certificates	151,720	-	151,720	11.17
Others	-	-	-	-
	1,357,866	-	1,357,866	100.00
Held-to-maturity securities				
Fixed rate bonds	2,506,973	-	2,506,973	95.00
Floating rate bonds	105,314	26,563	131,877	5.00
	2,612,287	26,563	2,638,850	100.00
	4,011,277	26,563	4,037,840	

(6) Equity securities using the equity method as of December 31, 2005 and 2004 are summarized as follows (Unit: Won in millions):

December 31, 2005	No. of shares	Owner-ship (%)	Acquisition cost	Net asset value		Book value
				Value	Percentage	
PB Futures Co., Ltd.	3,000,000	100.00	₩ 15,000	₩ 18,154	100.00	₩ 18,154
Busan Credit Information Co., Ltd.(*1)	600,000	100.00	3,000	3,038	100.00	3,000
Mybi Co., Ltd.	420,000	14.17	2,100	1,447	100.00	1,447
Korea Lease Financing Co., Ltd.	695,064	17.38	3,475	-	100.00	-
			₩ 23,575	₩ 22,639		₩ 22,601

December 31, 2004

December 31, 2004	No. of shares	Owner-ship (%)	Acquisition cost	Net asset value		Book value
				Value	Percentage	
PB Futures Co., Ltd.	3,000,000	100.00	₩ 15,000	₩ 17,735	100.00	₩ 17,735
Busan Credit Information Co., Ltd.(*1)	600,000	100.00	3,000	3,014	100.00	3,000
Mybi Co., Ltd.	420,000	17.71	2,100	1,010	100.00	1,010
Korea Lease Financing Co., Ltd.	695,064	17.38	3,475	-	100.00	-
			₩ 23,575	₩ 21,759		₩ 21,745

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

(*2) The Bank's shares in Mybi Co., Ltd. ("Mybi") decreased because the Bank did not participate in the paid-in capital increase of Mybi on December 16, 2004. However, Mybi is still valued using the equity method because the Bank maintains a significant influence on Mybi at the balance sheet date.

The fair value and net asset value of the above investees are computed based on the fair value information at December 31, 2005 and 2004.

(7) The valuations of securities using the equity method as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

December 31, 2005	Acquisition cost	Net asset value	Book value before valuation	Equity gain (loss)	Book value after valuation	
					Value	Percentage
PB Futures Co., Ltd.	₩ 15,000	₩ 18,154	₩ 17,735	₩ 419	₩ -	₩ 18,154
Busan Credit Information Co., Ltd.(*1)	3,000	3,038	3,000	-	-	3,000
Mybi Co., Ltd.	2,100	1,447	1,010	(106)	543	1,447
Korea Lease Financing Co., Ltd.	3,475	-	-	-	-	-
	₩ 23,575	₩ 22,639	₩ 21,745	₩ 313	₩ 543	₩ 22,601

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

	Acquisition cost	Net asset value	Book value before valuation	Equity gain (loss)	Book value after valuation
PB Futures Co., Ltd.	₩ 15,000	₩ 17,735	₩ 17,181	₩ 554	₩ 17,735
Busan Credit Information Co., Ltd.(*1)	3,000	3,014	3,000	-	3,000
Mybi Co., Ltd.	2,100	1,010	1,892	(882)	1,010
Korea Lease Financing Co., Ltd.	3,475	-	-	-	-
	₩ 23,575	₩ 21,759	₩ 22,073	(328)	₩ 21,745

(8) Major financial information of companies of which stocks were accounted for using the equity method as of and for the years ended December 31, 2005 and 2004 were as follows (Unit: Won in millions):

December 31, 2005	Assets	Liabilities	Sales	Net income (loss)
PB Futures Co., Ltd.(*1)	₩ 53,620	₩ 35,466	₩ 6,692	₩ 463
Busan Credit Information Co., Ltd.	3,215	177	2,548	24
Mybi Co., Ltd.	23,135	12,923	6,658	(598)

December 31, 2004	Assets	Liabilities	Sales	Net income (loss)
PB Futures Co., Ltd.(*1)	₩ 25,989	₩ 8,254	₩ 5,328	₩ 554
Busan Credit Information Co., Ltd.	3,151	137	2,922	10
Mybi Co., Ltd.	18,155	12,454	1,335	(4,979)

(*1) Operating revenue and net income (loss) were for the year ended December 31, 2005.

(9) Changes in the gain (loss) on valuation of available-for-sale securities, and securities accounted for using the equity method reflected in capital adjustments for the years ended December 31, 2005 were as follows (Unit: Won in millions):

	Beginning	Increase	Decrease	Disposal	Deferred income tax	Ending
Available-for-sale securities:						
Equity securities	(6,354)	1,924	(41)	2,570	1,914	(5,045)
Bonds in local currency	13,790	328	19,041	2,342	1,998	(5,267)
Bonds in foreign currencies	-	80	-	-	(22)	58
Beneficiary certificates	1,413	7,524	-	1,413	(2,069)	5,455
	8,849	9,856	19,000	6,325	1,821	(4,799)
Securities using the equity method	1,588	-	-	-	(437)	1,151

(10) Term structure of securities (except for stocks and equity investments) in available-for-sale and held-to-maturity securities as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

December 31, 2005	Government and public bonds	Finance bonds	Corporate bonds	Beneficiary certificates / others	Securities in foreign currencies	Total
Available-for-sale securities:						
Less than 3 months	20,081	219,141	40,065	10,375	-	289,662
Less than 6 months	10,084	88,766	10,056	9,989	-	118,895
Less than 1 year	90,020	323,432	66,295	197,149	-	676,896
Less than 2 years	158,298	79,885	189,536	-	10,194	437,913
Less than 3 years	68,244	-	73,778	-	18,237	160,259
Less than 4 years	9,768	-	9,981	-	-	19,749
	356,495	711,224	389,711	217,513	28,431	1,703,374
Held-to-maturity securities:						
Less than 3 months	62,265	159,530	152,326	-	-	374,121
Less than 6 months	34,266	198,445	25,146	-	5,059	262,916
Less than 1 year	140,085	206,837	111,986	-	4,556	463,464
Less than 2 years	179,803	678,954	79,958	-	23,777	962,492
Less than 3 years	338,160	79,954	295,709	-	9,070	722,893
Less than 4 years	129,739	-	71,179	-	-	200,918
Less than 5 years	50,463	-	3,694	-	10,130	64,287
Less than 10 years	20,000	-	30,000	-	-	50,000
	954,781	1,323,720	769,998	-	52,592	3,101,091
	1,311,276	2,034,944	1,159,709	217,513	81,023	4,804,465

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

	Government and public bonds	Finance bonds	Corporate bonds	Beneficiary certificates / others	Securities in foreign currencies	Total
Available-for-sale securities:						
Less than 3 months	54,000	57,746	50,043	18,116	-	179,905
Less than 6 months	-	40,171	40,318	140,692	-	221,181
Less than 1 year	11,173	97,757	48,425	20,799	-	178,154
Less than 2 years	133,190	258,443	110,940	-	-	502,573
Less than 3 years	62,558	11,455	126,798	-	-	200,811
Less than 4 years	19,738	-	-	-	-	19,738
Less than 5 years	10,460	-	10,658	-	-	21,118
More than 10 years	-	-	-	298	-	298
	291,119	465,572	387,182	179,905	-	1,323,778
Held-to-maturity securities:						
Less than 3 months	20,272	366,027	55,102	-	-	441,401
Less than 6 months	25,704	214,959	65,813	-	10,438	316,914
Less than 1 year	61,740	438,351	117,000	-	-	617,091
Less than 2 years	236,505	230,301	290,412	-	7,300	764,518
Less than 3 years	70,071	10,114	20,196	-	8,825	109,206
Less than 4 years	103,781	-	132,365	-	-	236,146
Less than 5 years	66,288	-	67,286	-	-	133,574
More than 10 years	20,000	-	-	-	-	20,000
	604,361	1,259,752	748,174	-	26,563	2,638,850
	895,480	1,725,324	1,135,356	179,905	26,563	3,962,628

(11) The impairment loss and the reversal of impairment loss on available-for-sale securities recognized for the years ended December 31, 2005 and 2004 were as follows (Unit: Won in millions):

Accounts	2005		2004	
	Impairment	Reversal	Impairment	Reversal
Available-for-sale securities				
Equity securities	₩ 372	₩ -	₩ 158	₩ -
Others	-	-	1	-
	₩ 372	₩ -	₩ 159	₩ -

(12) The portfolio of securities excluding securities accounted for using the equity method, by country, as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

By country	2005		2004	
	Amount	Percentage (%)	Amount	Percentage (%)
Available-for-sale securities:				
Korea	₩ 28,431	100.00	₩ -	-
Held-to-maturity securities:				
Korea	₩ 12,639	24.03	₩ 12,498	47.05
USA	14,628	27.82	3,627	13.65
France	10,130	19.26	10,438	39.30
Germany	5,065	9.63	-	-
United Kingdom	10,130	19.26	-	-
	₩ 52,592	100.00	₩ 26,563	100.00

(13) Securities provided as collateral as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

Provided to	2005	2004	Provided for
The Bank of Korea	₩ 182,000	₩ 195,700	Overdrafts and settlement risk
The Bank of Korea	541,700	271,700	Borrowings from the Bank of Korea
The Bank of Nova Scotia	80,000	80,000	Borrowings from Bank
Sumitomo Mitsui Banking, Seoul	90,000	90,000	Borrowings from Bank
The Bank of America	40,000	100,000	Borrowings from Bank
Kyobo Securities and others	6,200	5,000	Derivative settlement
	₩ 939,900	₩ 742,400	

(14) Assets of private beneficiary certificates included in beneficiary certificates of available-for-sale securities as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005	2004
Stocks	₩ 56,224	₩ 6,230
Government and public bonds	1,728	27,949
Finance bonds	123,786	87,381
Bonds	-	2,571

NOTES TO FINANCIAL STATEMENTS

	2005	2004
Call loans	27,630	17,423
Other due from banks	2,139	9,699
CP	-	154
Stock option	-	132
Other asset	-	327
Assets	211,507	151,866
Liabilities	3,983	146
Net assets	₩ 207,524	₩ 151,720

5. LOANS:

(1) Loans as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

	2005	2004
Loans in local currency	₩ 11,202,846	₩ 10,115,214
Loans in foreign currencies	342,932	308,172
Inter-bank foreign loans	-	10,438
Bills bought in local currency	3,874	3,579
Bills bought in foreign currencies	189,621	154,879
Advances for customers	1,305	8,266
Credit card accounts	309,824	317,559
Bonds purchased under resale agreements	40,000	100,000
Privately placed bonds	23,895	4,380
Call loans	10,130	601
Domestic Import Usance Bill	250,032	208,371
Factoring receivables	170	279
Loans to be swapped to equity	-	2,080
	12,374,629	11,233,818
Allowance for possible loan losses (see Notes 6 and 7)	(188,508)	(158,318)
	₩ 12,186,121	₩ 11,075,500

(2) Loans in local currency and loans in foreign currencies as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005	2004
Loans in local currency:		
Commercial		
Working capital loans:		
Notes discounted	₩ 605,803	₩ 626,148
Overdraft accounts	103,335	100,535
General purpose loans	3,872,419	3,486,510
Trading notes	251,933	246,550
Commercial loans	315,264	305,196
Others	190,907	165,269
	5,339,661	4,930,208
Facilities loans:		
General purpose loans	1,154,498	899,861
Others	666,985	520,407
	1,821,483	1,420,268
Households		
General purpose loans	7,161,144	6,350,476
Others	3,508,313	3,330,018
	1,243	1,525
	3,509,556	3,331,543
Public sector loans		
Working capital loans	206,047	109,339
Facilities loans	87,300	32,090
	293,347	141,429
Other loans		
Housing loans	₩ 35,367	₩ 100,727
Inter-bank loans	203,432	191,039
	238,799	291,766
	₩ 11,202,846	₩ 10,115,214
Loans in foreign currencies:		
Domestic loans	₩ 338,980	₩ 294,611
Offshore loans	3,952	13,561
	₩ 342,932	₩ 308,172
Inter-bank loans in foreign currencies	₩ -	₩ 10,438

(3) Inter-bank loans for restructuring of small and medium sized enterprises as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

NOTES TO FINANCIAL STATEMENTS

	2005	2004
Industrial Bank of Korea	₩ 141,520	₩ 122,425
Kookmin Bank	12,097	19,474
Woori Bank	22,655	19,578
Chohung Bank	10,623	8,433
Korea Exchange Bank	6,475	8,759
Shinhan Bank	4,791	3,929
Kyongnam Bank	1,837	3,585
Others	3,434	4,856
	₩ 203,432	₩ 191,039

The loans to financial institutions excluding inter-bank loans above as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005	2004
Korea Lease Financing Co., Ltd.	₩ 8,703	₩ 12,433
Lotte Card Co., Ltd.	20,000	10,000
Lotte Capital Co., Ltd.	40,000	50,000
Samsung Card Co., Ltd.	40,000	40,000
Kumho Investment Bank	-	10,438
Others	12,821	4,775
	₩ 121,524	₩ 127,646

(4) Loans in local currency and loans in foreign currencies, classified by borrower type, as of December 31, 2005 were as follows (Unit: Won in millions):

	Loans in local currency	Loans in foreign currencies	Total	Percentage (%)
Large corporations	₩ 694,344	₩ 97,534	₩ 791,878	6.86
Small and medium corporations	6,670,232	245,398	6,915,630	59.90
Households	3,544,923	-	3,544,923	30.70
Public sector and other	293,347	-	293,347	2.54
	₩ 11,202,846	₩ 342,932	₩ 11,545,778	100.00

Loans in local currency and loans in foreign currencies, classified by borrower type, as of December 31, 2004 were as follows (Unit: Won in millions):

	Loans in local currency	Loans in foreign currencies	Total	Percentage (%)
Large corporations	₩ 585,739	₩ 61,958	₩ 647,697	6.20
Small and medium corporations	5,955,777	256,652	6,212,429	59.54
Households	3,432,269	-	3,432,269	32.90
Public sector and other	141,429	-	141,429	1.36
	₩ 10,115,214	₩ 318,610	₩ 10,433,824	100.00

(*) Loans in foreign currencies include inter-bank foreign loans

(5) Loans in local currency and loans in foreign currencies, classified by industry, as of December 31, 2005 were as follows (Unit: Won in millions):

	Loans in local currency	Loans in foreign currencies	Total	Percentage (%)
Manufacturing	₩ 3,602,083	₩ 208,531	₩ 3,810,614	33.00
Finance and insurance	313,496	11,460	324,956	2.81
Wholesale and retail	963,218	23,556	986,774	8.55
Real estate and renting	677,356	8,217	685,573	5.94
Services	238,070	2,520	240,590	2.08
Households	3,544,923	-	3,544,923	30.70
Public sector	293,347	-	293,347	2.54
Others	1,570,353	88,648	1,659,001	14.38
	₩ 11,202,846	₩ 342,932	₩ 11,545,778	100.00

Loans in local currency and loans in foreign currencies, classified by industry, as of December 31, 2004 were as follows (Unit: Won in millions):

	Loans in local currency	Loans in foreign currencies	Total	Percentage (%)
Manufacturing	₩ 3,079,717	₩ 189,403	₩ 3,269,120	31.33
Finance and insurance	304,975	13,710	318,685	3.05
Wholesale and retail	896,714	42,099	938,813	9.00
Real estate and renting	630,842	13,083	643,925	6.17
Services	204,973	3,667	208,640	2.00
Households	3,432,269	-	3,432,269	32.90
Public sector	141,429	-	141,429	1.36
Others	1,424,295	56,648	1,480,943	14.19
	₩ 10,115,214	₩ 318,610	₩ 10,433,824	100.00

(*) Loans in foreign currencies include inter-bank foreign loans

NOTES TO FINANCIAL STATEMENTS

(6) Loans in foreign currencies, classified by borrower's country, as December 31, 2005 and 2004 were as follows (Unit: Won in millions):

By country	2005		2004	
	Amount	Percentage(%)	Amount	Percentage(%)
Korea	₩ 333,408	97.22	₩ 301,917	94.76
United Kingdom	2,533	0.74	-	-
China	3,039	0.89	3,131	0.98
Hong Kong	-	-	5,187	1.63
Indonesia	2,634	0.77	3,132	0.98
Panama	1,318	0.38	5,243	1.65
	₩ 342,932	100.00	₩ 318,610	100.00

6. RESTRUCTURED LOANS:

(1) Present value discounts from restructured loans as of December 31, 2005 were as follows (Unit: Won in millions):

	Discount rates (%)	Loans	Beginning balance	Present value discounts		Ending balance
				Addition	Deduction	
Reorganization and court mediation	4.75 ~ 9.75	₩ 5,893	₩ 830	₩ 219	₩ 625	₩ 424
Workout	6.75 ~ 9.75	24,082	2,484	1,550	2,192	1,842
		₩ 29,975	₩ 3,314	₩ 1,769	₩ 2,817	₩ 2,266

(2) Present value discounts from restructured loans as of December 31, 2004 were as follows (Unit: Won in millions):

	Discount rates (%)	Loans	Beginning balance	Present value discounts		Ending balance
				Addition	Deduction	
Reorganization and court mediation	4.75 ~ 9.75	₩ 13,674	₩ 2,336	₩ 481	₩ 1,987	₩ 830
Workout	6.75 ~ 9.75	34,852	1,908	2,900	2,324	2,484
		₩ 48,526	₩ 4,244	₩ 3,381	₩ 4,311	₩ 3,314

Fixed rate loans are discounted by the original 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 as of December 31, 2005 was summarized as follows (Unit: Won in millions):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	99,311	26,737	17,612	12,472	4,478	160,610
Loans in foreign currencies	2,009	173	1,321	1,265	6	4,774
Bills bought in local currency /						
Bills bought in foreign currencies	1,117	8	6	-	-	1,131
Advances for customers	6	22	54	284	8	374
Credit card receivables	8,114	4,532	32	2,876	1,187	16,741
Privately placed bonds	603	203	-	-	-	806
Others	1,411	41	254	71	29	1,806
	112,571	31,716	19,279	16,968	5,708	186,242

(2) The allowance for possible loan losses as of December 31, 2004 was summarized as follows (Unit: Won in millions):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	68,026	11,799	15,647	12,681	14,834	122,987
Loans in foreign currencies	1,973	1,035	426	2,495	103	6,032
Bills bought in local currency /						
Bills bought in foreign currencies	1,099	57	3	227	-	1,386
Advances for customers	23	32	673	600	100	1,428
Credit card receivables	2,709	3,568	70	6,720	5,457	18,524
Privately placed bonds	23	-	93	-	121	237
Others	1,426	248	319	2,339	79	4,411
	75,279	16,739	17,231	25,062	20,694	155,005

NOTES TO FINANCIAL STATEMENTS

(3) The allowance for possible loan losses net of present value discounts to total loans, is summarized as follows (Unit: Won in millions):

	Loans	Allowance for possible loan losses	Percentage (%)
December 31, 2005	11,915,714	186,242	1.56
December 31, 2004	10,805,679	155,005	1.43
December 31, 2003	9,296,862	142,042	1.53

(4) The changes in allowance for possible loan losses for the years ended December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005		2004	
Beginning balance	₩	155,005	₩	142,042
Present value discounts		(2,167)		(2,806)
Loans written-off		(86,837)		(128,893)
Changes in exchange rates		(84)		(419)
Collection of previously written-off loans		34,473		19,149
		100,390		28,983
Provision for possible loan losses		85,852		126,022
	₩	186,242	₩	155,005

8. FIXED ASSETS:

(1) Fixed assets as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005		2004	
Tangible assets	₩	339,923	₩	335,198
Intangible assets		7,449		8,082
	₩	347,372	₩	343,280

(2) Tangible assets as December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	Acquisition cost		Accumulated impairment losses	
	2005	2004	2005	2004
Land	₩ 171,469	₩ 171,408	₩ -	₩ -
Buildings	107,938	98,657	13,629	11,759
Leasehold improvements	18,874	17,319	13,607	12,480
Equipment and vehicles	190,070	181,803	140,476	129,072
Construction in progress	19,284	19,322	-	-
	₩ 507,635	₩ 488,509	₩ 167,712	₩ 153,311

(3) The published value of land as December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	Book value		Published value	
	2005	2004	2005	2004
Land	₩ 171,469	₩ 171,407	₩ 133,322	₩ 134,003

(4) Tangible assets, which have been insured as of December 31, 2005, were as follows (Unit: Won in millions):

Property composite	Insured assets		Book value		Insured amount	
	Buildings	₩	94,309	₩	94,309	
	Fixtures		5,267		5,267	
	Others		49,114		49,114	
		₩	148,690	₩	148,690	

Tangible assets, which have been insured as of December 31, 2004, were as follows (Unit: Won in millions):

Property composite	Insured assets		Book value		Insured amount	
	Buildings	₩	86,898	₩	86,898	
	Fixtures		4,838		4,838	
	Others		52,176		52,176	
		₩	143,912	₩	143,912	

NOTES TO FINANCIAL STATEMENTS

(5) The changes in book value of tangible assets for the year ended December 31, 2005 consisted of the following (Unit: Won in millions):

	Beginning	Acquisition	Disposal	Replacement	Depreciation	Ending
Land	₩ 171,407	₩ 2,735	₩ 2,673	₩ -	₩ -	₩ 171,469
Buildings	86,898	2,972	1,440	7,971	2,092	94,309
Leasehold improve-ments	4,839	-	210	2,484	1,846	5,267
Equipment and vehicles	52,731	24,784	127	-	27,794	49,594
Construction in progress	19,322	10,417	-	(10,455)	-	19,284
	₩ 335,197	₩ 40,908	₩ 4,450	₩ -	₩ 31,732	₩ 339,923

The changes in book value of tangible assets for the year ended December 31, 2004 consisted of the following (Unit: Won in millions):

	Beginning	Acquisition	Disposal	Replacement	Depreciation	Ending
Land	₩ 169,292	₩ 2,232	₩ 116	₩ -	₩ -	₩ 171,408
Buildings	81,400	24	26	7,468	1,968	86,898
Leasehold improve-ments	4,096	-	4	2,858	2,111	4,839
Equipment and vehicles	44,123	35,022	263	-	26,151	52,731
Construction in progress	20,846	8,802	-	(10,326)	-	19,322
	₩ 319,757	₩ 46,080	₩ 409	₩ -	₩ 30,230	₩ 335,197

(6) Intangible assets as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

December 31, 2005

	Beginning	Accumulated amortization	Accumulated impairment loss	Ending
Goodwill	₩ 25	₩ 3	₩ -	₩ 22
Software	21,018	15,021	-	5,997
Others	2,073	643	-	1,430
	₩ 23,116	₩ 15,667	₩ -	₩ 7,449

December 31, 2004

	Beginning	Accumulated amortization	Accumulated impairment loss	Ending
Goodwill	₩ 10	₩ 10	₩ -	₩ -
Software	18,604	12,074	-	6,530
Others	2,073	521	-	1,552
	₩ 20,687	₩ 12,605	₩ -	₩ 8,082

(7) The changes in intangible assets for the years ended December 31, 2005 and 2004 were as follows (Unit: Won in millions):

December 31, 2005

	Beginning	Increase	Amortization	Ending
Goodwill	₩ -	₩ 25	₩ 3	₩ 22
Software	6,530	2,414	2,947	5,997
Others	1,552	-	122	1,430
	₩ 8,082	₩ 2,439	₩ 3,072	₩ 7,449

December 31, 2004

	Beginning	Increase	Amortization	Ending
Goodwill	₩ 2	₩ -	₩ 2	₩ -
Software	7,749	2,271	3,490	6,530
Others	1,676	-	124	1,552
	₩ 9,427	₩ 2,271	₩ 3,616	₩ 8,082

9. OTHER ASSETS:

(1) Other assets as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

	2005	2004
Guarantee deposits	₩ 100,279	₩ 98,887
Accounts receivable	84,314	233,232
Accrued income	120,902	141,496
Prepaid expenses	11,098	3,009
Financial derivative instruments (see Note 16)	24,741	41,296

NOTES TO FINANCIAL STATEMENTS

	2005	2004
Domestic exchange settlements debits	133,953	87,818
Sundry assets	12,097	10,023
	487,384	615,761
Present value discounts	(139)	(416)
	₩ 487,245	₩ 615,345

(2) Sundry assets as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

	2005	2004
Supplies	₩ 588	₩ 618
Deposit money in court	3,373	2,790
Membership rights	2,153	2,163
Unsettled spot exchanges receivable	2,436	348
Suspenses receivable	3,546	4,103
others	1	1
	₩ 12,097	₩ 10,023

10. DEPOSITS:

(1) Deposits as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

	2005	2004
Deposits in local currency	₩ 12,923,076	₩ 12,016,278
Deposits in foreign currencies	142,510	158,078
Certificates of deposits	596,875	629,177
	₩ 13,662,461	₩ 12,803,533

(2) Deposits in local currency as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

	Interest rate (%)	2005	2004
Demand deposits in local currency:			
Checking deposits	-	₩ 76,633	₩ 53,311
Household checking deposits	0.10	17,403	12,806
Temporary deposits	0 ~ 2.0	470,742	371,699
Passbook deposits	0.10	676,616	582,277
Public fund deposits	1.00	173,877	152,187
National Treasury deposits	0.10	155	1,911
		1,415,426	1,174,191
Time deposits and savings deposits in local currency:			
Savings deposits	0.1 ~ 2.90	3,306,579	3,104,962
Corporate savings deposits	0 ~ 2.8	1,282,098	936,626
Time deposits	2.2 ~ 4.1	5,827,855	5,616,403
Installment savings deposits	2.9 ~ 3.8	670,927	658,504
Long-term housing savings deposits	4.3 ~ 4.5	101,392	62,687
Long-term savings for households	11.50	340	773
Workers' preferential savings deposits	6.20	134,637	252,338
		11,323,828	10,632,293
Mutual installment deposits	2.9 ~ 3.7	97,345	103,781
Mutual installment for housing	3.80	86,477	106,013
		₩ 12,923,076	₩ 12,016,278

(3) Deposits in foreign currencies as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions and US dollars in thousands):

	2005		2004	
	In foreign currency(*)	In local currency	In foreign currency(*)	In local currency
Checking deposits	US\$ 3,162	₩ 3,203	US\$ 2,136	₩ 2,229
Passbook deposits	103,755	105,103	93,681	97,784
Notice deposits	8,771	8,885	10,350	10,803
Time deposits	24,860	25,813	45,157	47,135
Temporary deposits	134	136	121	127
	US\$ 140,682	₩ 142,510	US\$ 151,445	₩ 158,078

(*) translated into US dollars equivalent.

Financial Section

54 + 55

PUSAN BANK Annual Report 2005

NOTES TO FINANCIAL STATEMENTS

(4) Deposits with financial institutions as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	Financial institutions		2005		2004	
			₩		₩	
Deposits in local currency	Banks		10,991		74,455	
	Others		284,750		228,521	
			₩ 295,741		₩ 302,976	

11. BORROWINGS:

(1) Borrowings as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

	2005		2004	
	₩		₩	
Borrowings in local currency	1,129,615		925,420	
Borrowings in foreign currencies	1,113,994		676,875	
Bonds sold under repurchase agreement	899,996		465,590	
Bills sold	17,915		6,890	
Call money	-		749	
	₩ 3,161,520		₩ 2,075,524	

(2) Borrowings in local currency as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

Lenders	Annual interest rate (%)	2005		2004	
		₩		₩	
SME Association	2.00 ~ 4.90	423,495		322,295	
The Bank of Korea	2.00	410,781		292,216	
Busan Metropolitan City	4.12 ~ 4.20	58,063		94,263	
Korea Energy Management Corporation	1.75 ~ 4.50	41,839		22,977	
Nonghyup	3.20 ~ 5.10	32,735		35,749	
Industrial Bank of Korea	3.40 ~ 4.00	26,158		35,798	
Others	0.00 ~ 5.50	136,544		122,122	
		₩ 1,129,615		₩ 925,420	

(3) Borrowings in foreign currencies as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

Lenders	Annual interest rate (%)	2005		2004	
		₩		₩	
Korea Exchange Bank	0.00 ~ 7.5	264,826		147,190	
SMBC and others	0.17 ~ 4.97	578,227		292,093	
The Korea Development Bank	2.00	500		1,780	
SCB and others	0.2 ~ 4.96	270,441		235,812	
		₩ 1,113,994		₩ 676,875	

(4) Bonds sold under repurchase agreements, bills sold and call money as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

Account	Financial institution	Annual interest rates (%)	2005		2004	
			₩		₩	
Bonds sold under repurchase agreements	Individuals and Corporations	2.95 ~ 4.20	899,996		465,590	
Bills sold	Individuals and Corporations	3.14 ~ 4.03	17,915		6,890	
Call money	Shinhan Bank and others	3.91	-		749	
			₩ 917,911		₩ 473,229	

(5) Borrowings in local foreign currencies from financial institutions as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

Financial institutions	2005		2004	
	₩		₩	
Borrowings in local currency:				
The Bank of Korea	410,781		292,216	
Woori Bank	927		1,062	
Nonghyup	32,775		35,770	
Hana Bank	1,434		320	
Kwangju Bank	1,040		-	
The Korea Development Bank	2,402		2,872	
Industrial Bank of Korea	42,399		52,778	
Kyongnam Bank	3,466		3,861	
Kookmin Bank	10		50	
Daegu Bank	1,736		70	
	496,970		388,999	

NOTES TO FINANCIAL STATEMENTS

Financial institutions	2005		2004	
	₩		₩	
Borrowings in foreign currencies:				
Foreign banks	1,113,994		676,875	
	₩ 1,610,964		₩ 1,065,874	

12. DEBENTURES:

Debentures in local currency as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

Description	Issued date	Expiration date	Annual interest rate (%)	2005		2004	
				₩		₩	
Subordinated debentures in local currency	Jun-01	Jan-07	8.05	100,000		100,000	
	Apr-02	Jan-08	7.30~7.35	100,000		100,000	
	Apr-05	Jan-11	5.18~5.20	175,000		-	
Unsecured debentures in local currency	Dec-04	Dec-05	3.40	-		160,000	
	Dec-04	Jun-06	3.40	40,000		40,000	
Gain on valuation of fair value hedged items				415,000		400,000	
				(5,655)		-	
				409,345		400,000	
				(661)		(7,334)	
Discounts on debentures				₩ 408,684		₩ 392,666	

13. OTHER LIABILITIES:

(1) Other liabilities as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

	2005		2004	
	₩		₩	
Accrued severance benefits (see Note 15)	37,899		21,749	
Less: National pension fund	(23)		(24)	
Less: Severance insurance deposits	(30,813)		(16,523)	
Allowance for possible losses on acceptances and guarantees(see Note 14)	2,842		428	
Other allowance	15,185		2,938	
Due to trust accounts	136,530		204,434	
Unsettled domestic exchange liabilities	2,094		2,567	
Domestic exchange settlement loans	6,143		20,421	
Accounts payable	81,542		226,747	
Accrued expenses	214,168		199,921	
Unearned revenues	19,079		18,096	
Guarantees deposits received	14,550		19,530	
Withholding taxes	9,435		7,136	
Derivatives liabilities (see Note 16)	33,894		37,804	
Accounts for agency business	18,508		30,194	
Agency	38,739		23,086	
Deferred income tax liabilities (see Note 23)	7,072		12,826	
Sundry liabilities	63,846		25,647	
	₩ 670,690		₩ 836,977	

(2) Sundry liabilities included in other liabilities as of December 31, 2005 and 2004 consisted of the following (Unit: Won in millions):

	2005		2004	
	₩		₩	
Borrowings from cash delivery for other banks for securities	4,652		6,505	
Subscription deposits	4,297		4,645	
Suspense receipts	2,620		2,291	
Prepaid card liabilities	2,211		2,236	
Debit card liabilities	61		46	
Accrued corporation tax	49,405		9,924	
Others	600		-	
	₩ 63,846		₩ 25,647	

NOTES TO FINANCIAL STATEMENTS

14. ACCEPTANCES AND GUARANTEES AND ALLOWANCES FOR POSSIBLE LOSSES:

(1) Acceptances and guarantees as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

Types	2005		2004	
	Amount	Percentage (%)	Amount	Percentage (%)
Confirmed acceptances and guarantees in local currency:				
Payment guarantee for loans	₩ 44,687		₩ 38,490	
Others	186,570		172,870	
	231,257		211,360	
Confirmed acceptances and guarantees in foreign currencies:				
Acceptances on letters of credit	5,434		4,327	
Acceptances for letters of guarantee for importers	12,837		13,111	
Guarantees on credit derivatives	20,260		10,438	
Others	34,148		11,959	
	72,679		39,835	
	303,936		251,195	
Unconfirmed acceptances and guarantees:				
Letters of credit	231,638		258,425	
	₩ 535,574		₩ 509,620	

(2) Acceptances and guarantees, by industry, as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005		2004	
	Amount	Percentage (%)	Amount	Percentage (%)
Confirmed:				
Manufacturing	₩ 176,489	58.07	₩ 128,555	51.18
Wholesale and retail	72,103	23.72	58,250	23.19
Finance and insurance	1,309	0.43	11,450	4.56
Construction	19,677	6.47	32,953	13.12
Public sector and others	2,080	0.69	11,151	4.44
Others	32,278	10.62	8,836	3.51
	₩ 303,936	100.00	₩ 251,195	100.00
Unconfirmed:				
Manufacturing	₩ 146,452	63.22	₩ 172,631	66.80
Wholesale and retail	₩ 82,826	35.76	₩ 83,085	32.15
Finance and insurance	154	0.07	-	-
Construction	408	0.18	1,179	0.46
Public sector and others	1,516	0.65	885	0.34
Others	282	0.12	645	0.25
	₩ 231,638	100.00	₩ 258,425	100.00

(3) Acceptances and guarantees, by customer, as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005		2004	
	Amount	Percentage (%)	Amount	Percentage (%)
Confirmed:				
Large corporations	₩ 51,706	17.01	₩ 24,136	9.61
Small and medium-sized Corporation	249,596	82.12	212,455	84.58
Household sector	554	0.18	3,453	1.37
Public sector and others	2,080	0.69	11,151	4.44
	₩ 303,936	100.00	₩ 251,195	100.00
Unconfirmed:				
Large corporations	₩ 37,048	15.99	₩ 39,570	15.31
Small and medium-sized corporation	193,074	83.35	217,970	84.35
Public sector and others	1,516	0.66	885	0.34
	₩ 231,638	100.00	₩ 258,425	100.00

NOTES TO FINANCIAL STATEMENTS

(4) Acceptances and guarantees, by country, as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005		2004	
	Amount	Percentage (%)	Amount	Percentage (%)
Confirmed:				
Korea	₩ 293,806	96.67	₩ 251,195	100.00
France	10,130	3.33	-	-
	₩ 303,936	100.00	₩ 251,195	100.00
Unconfirmed:				
Korea	₩ 231,638	100.00	₩ 258,425	100.00
	₩ 231,638	100.00	₩ 258,425	100.00

(5) Allowance for possible losses on acceptances and guarantees as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005			2004		
	Outstanding balance	Allowance	Percentage (%)	Outstanding balance	Allowance	Percentage (%)
Confirmed:						
Normal	₩ 299,569	₩ 1,470	0.49	₩ 245,185	₩ -	-
Precautionary	3,591	455	12.67	5,283	-	-
Substandard	775	263	33.94	260	52	20.00
Doubtful	1	1	78.99	183	92	50.15
Estimated loss	-	-	-	284	284	100.00
	303,936	2,189	0.72	251,195	428	0.17
Unconfirmed:						
Normal	229,639	594	0.26	258,425	-	-
Precautionary	1,384	19	1.37	-	-	-
Substandard	615	38	6.18	-	-	-
Doubtful	-	-	-	-	-	-
Estimated loss	-	-	-	-	-	-
	231,638	651	0.28	258,425	-	-
Endorsed note:						
Normal	371	2	0.54	438	-	-
Precautionary	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Estimated loss	-	-	-	-	-	-
	371	2	0.54	438	-	-
	₩ 535,945	₩ 2,842	0.53	₩ 510,058	₩ 428	0.08

(6) The percentage of allowance for possible losses on acceptances and guarantees to outstanding balances as of December 31, 2005, 2004 and 2003 were as follows (Unit: Won in millions):

	Confirmed			Unconfirmed			Endorsed note		
	Outstanding balance	Allowance	Percentage (%)	Outstanding balance	Allowance	Percentage (%)	Outstanding balance	Allowance	Percentage (%)
2005	₩ 303,936	₩ 2,189	0.72	₩ 231,683	₩ 651	0.28	₩ 288	₩ -	-
2004	251,195	42	0.17	258,425	-	-	438	-	-
2003	208,011	-	-	228,955	-	-	371	-	0.54

15. ACCRUED SEVERANCE BENEFITS:

The changes in accrued severance benefits for the years ended December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005		2004	
	Amount	Percentage (%)	Amount	Percentage (%)
At the beginning of the year	₩ 21,749		₩ 10,290	
Payment	1,658		11,366	
Provision	17,808		22,825	
At the end of the year	₩ 37,899		₩ 21,749	

NOTES TO FINANCIAL STATEMENTS

16. DERIVATIVES INSTRUMENTS:

(1) The notional amounts outstanding for derivative contracts as December 3, 2005 and 2004 were as follows (Unit: Won in millions):

Type	2005			2004		
	Trading	Hedge	Total	Trading	Hedge	Total
Currency:						
Currency forwards(*)	₩ 1,619,657	₩ -	₩ 1,619,657	₩ 1,377,441	₩ -	₩ 1,377,441
Currency swaps	15,944	-	15,944	-	-	-
Currency futures	-	-	-	104	-	104
Currency options purchased	125,207	-	125,207	147,176	-	147,176
Currency options sold	125,207	-	125,207	147,176	-	147,176
	1,886,015	-	1,886,015	1,671,897	-	1,671,897
Interest rate:						
Interest rate swaps(*)	162,080	250,000	412,080	-	-	-
Interest rate futures	5,373	-	5,373	45,312	-	45,312
	167,453	250,000	417,453	45,312	-	45,312
Stock:						
Stock options purchased	7,422	-	7,422	6,896	-	6,896
Stock options sold	7,421	-	7,421	6,896	-	6,896
Stock index option	3,547	-	3,547	-	-	-
	18,390	-	18,390	13,792	-	13,792
	₩ 2,071,858	₩ 250,000	₩ 2,321,858	₩ 1,731,001	₩ -	₩ 1,731,001

(*) 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 foreign currencies and foreign currencies, unsettled amount is presented using the basic foreign exchange rate on the contract amount in foreign currencies purchased.

(2) As of and for the years ended December 31, 2005 and 2004, 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 (Unit: Won in millions):

	2005						Assets	Liabilities
	Gain on valuation		Loss on valuation		Assets	Liabilities		
	Trading	Hedge	Trading	Hedge				
Currency:								
Currency forwards	₩ 13,527	₩ -	₩ 17,091	₩ -	₩ 13,527	₩ 17,091		
Currency swaps	110	-	110	-	110	110		
Currency options purchased	279	-	861	-	662	-		
Currency options sold	904	-	264	-	-	662		
	14,820	-	18,326	-	14,299	17,863		
Interest rate:								
Interest rate swaps	67	-	-	5,656	67	5,656		
	67	-	-	5,656	67	5,656		
Stock:								
Stock options purchased	1,528	-	-	-	10,375	-		
Stock options sold	-	-	1,528	-	-	10,375		
	1,528	-	1,528	-	10,375	10,375		
	₩ 16,415	₩ -	₩ 19,854	₩ 5,656	₩ 24,741	₩ 33,894		

	2004						Assets	Liabilities
	Gain on valuation		Loss on valuation		Assets	Liabilities		
	Trading	Hedge	Trading	Hedge				
Currency:								
Currency forwards	₩ 30,449	₩ -	₩ 26,957	₩ -	₩ 30,449	₩ 26,957		
Currency options purchased	3,007	-	-	-	4,257	-		
Currency options sold	-	-	3,007	-	-	4,257		
	33,456	-	29,964	-	34,706	31,214		
Stock:								
Stock options purchased	(3,386)	-	-	-	6,590	-		
Stock options sold	-	-	(3,386)	-	-	6,590		
	(3,386)	-	(3,386)	-	6,590	6,590		
	₩ 30,070	₩ -	₩ 26,578	₩ -	₩ 41,296	₩ 37,804		

The Bank uses various derivative instruments for its trading activities, including interest rate and foreign exchange swaps, futures, forwards and options, to manage the interest rate characteristics of certain assets or liabilities and to economically hedge against the effects of fluctuations in interest rates or foreign exchange rates.

NOTES TO FINANCIAL STATEMENTS

17. CONTINGENCIES AND COMMITMENTS

(1) The Bank has ₩371 million and ₩438 million of outstanding endorsed notes, which have been purchased at a discount, as of December 31, 2005 and 2004, respectively.

(2) The Bank manages written-off loans whose time period for legal claim has not lapsed. The balances of such loans were ₩593,438 million and ₩651,620 million as of December 31, 2005 and 2004, respectively.

(3) As of December 31, 2005, the Bank faces 25 pending legal actions involving aggregate damages of ₩44,428 million. On the other hand, the Bank also has filed 21 lawsuits, which are still pending, with aggregate claims of ₩16,111 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.

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, 2005 and 2004 amounted to ₩6,606 million and ₩9,945 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, 2005, 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, 2005 and 2004 were summarized as follows (Unit: Won in millions):

	2005	2004
Legal reserve	₩ 40,203	₩ 26,932
Voluntary reserve	197,622	122,189
Retained earnings before appropriations	178,934	132,709
	₩ 416,759	₩ 281,830

1) Legal reserve

The Banking Act requires a bank to appropriate at least 10 percent of net income after income tax to legal reserve, 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) Capital adjustments

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 executives according to the resolution of special meeting of shareholders or the board of directors. The options granted as of December 31, 2005 were as follows (unit: Won in millions):

Grant date	Stock options					
	Granted	Exercised	Forfeited	Outstanding	Exercise price	Exercise period
00.03.25	220,000	85,706	67,719	66,575	5,000	03.03.26 ~ 06.03.25
00.07.14	130,000	-	40,137	89,863	5,000	03.07.15 ~ 06.07.14
01.03.10	100,000	53,369	6,631	40,000	5,000	04.03.11 ~ 07.03.10
02.03.15	60,000	9,305	13,151	37,544	5,020	04.03.16 ~ 07.03.15
03.03.25	290,000	-	101,644	188,356	5,000	05.03.26 ~ 08.03.25
04.03.26	110,000	-	-	110,000	7,573	06.03.27 ~ 09.03.26
05.03.25	60,000	-	-	60,000	8,366	07.03.26 ~ 10.03.25
05.04.19	40,000	-	-	40,000	8,095	07.04.20 ~ 10.04.19
05.05.17	20,000	-	-	20,000	8,029	07.05.18 ~ 10.05.17
	1,030,000	148,380	229,282	652,328		

NOTES TO FINANCIAL STATEMENTS

(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 of accounting. Accordingly, the stock compensation cost is accounted for as expense (payroll) and liability (accrued expense) over the agreed service period with the straight line method.

The stock compensation expenses amount to ₩2,915 million and ₩694 million for the years ended December 31, 2005 and 2004, respectively, and the related accrued liability amounts to ₩798 million as of December 31, 2005.

20. INTEREST REVENUE AND EXPENSES:

(1) 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, 2005 and 2004 were as follows (Unit: Won in millions):

Asset	2005		2004	
	Average balance	Interest revenue /expense	Average balance	Interest revenue /expense
Due from banks	₩ 806,895	₩ 17,712	₩ 432,102	₩ 4,732
Securities	4,419,940	197,079	4,412,078	220,714
Loans	11,998,236	793,933	10,688,695	735,270
Others(*)	-	6,876	-	4,211
	₩ 17,225,071	₩ 1,015,600	₩ 15,532,875	₩ 964,927
Liabilities				
Deposits	₩ 13,021,726	₩ 310,071	₩ 12,576,412	₩ 337,233
Borrowings	2,743,223	76,341	2,019,888	54,195
Debentures	510,181	30,073	204,758	17,041
Others(*)	162,992	6,380	165,586	6,876
	₩ 16,438,122	₩ 422,865	₩ 14,966,644	₩ 415,345

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

21. SELLING AND ADMINISTRATIVE EXPENSES:

(1) Selling and administrative expenses for the years ended December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005	2004
Salaries	₩ 115,945	₩ 103,000
Provision for severance benefits	17,808	22,825
Other employee benefits	81,397	68,798
Rent	4,349	3,932
Expenditure for business purpose	3,296	3,191
Depreciation and amortization	34,804	33,852
Taxes and dues	11,845	11,173
Other selling and administrative expenses	51,440	47,695
	₩ 320,884	₩ 294,466

(2) Other selling and administrative expenses for the years ended December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005	2004
Communication	₩ 2,936	₩ 2,900
Electricity and utilities	2,620	2,511
Publication	2,709	2,837
Repairs maintenance	2,058	2,066
Vehicle	1,429	1,315
Travel	1,600	1,540
Supplies	3,638	3,373
Advertising	2,735	2,489
Service charges	26,998	24,066
Others	4,717	4,598
	₩ 51,440	₩ 47,695

22. NON-OPERATING INCOME AND EXPENSES:

Non-operating income and expenses for the years ended December 31, 2005 and 2004 were as follows (Unit: Won in millions):

NOTES TO FINANCIAL STATEMENTS

Financial Section

62 + 63

PUSAN BANK Annual Report 2005

	2005	2004
Non-operating income:		
Gain on disposal of tangible assets	₩ 440	₩ 49
Gain on valuation of securities using the equity method	419	554
Gain on disposal of securities using the equity method	543	-
Rental income	348	328
Gain on disposal of available-for-sale securities	16,476	21,758
Gain on disposal of held-to-maturity securities	-	1,829
Gain on sale of loans	₩ 6,953	₩ 3,290
Others	18,478	13,067
	₩ 43,657	₩ 40,875
Non-operating expenses:		
Loss on disposal of tangible assets\	₩ 228	₩ 9
Loss on valuation of securities using the equity method	106	882
Loss on disposal of available-for-sale securities	237	125
Loss on impairment of available-for-sale securities	372	158
Severance benefits	5,590	2,193
Loss on sale of loans	7,068	14,194
Contribution	6,106	6,600
Others	8,404	7,128
	₩ 28,111	₩ 31,289

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, 2005 and 2004 are summarized as follows (Unit: Won in millions):

	2005	2004
Income before income tax	₩ 249,575	₩ 189,728
Taxable and non-deductible items:		
Temporary difference	173,553	166,245
Permanent difference	11,235	4,024
	184,788	170,269
Deductible and non-taxable items:		
Temporary difference	(160,535)	(191,891)
Permanent difference	(284)	(1,425)
	(160,819)	(193,316)
Taxable income	₩ 273,544	₩ 166,681

(2) The tax effects on temporary differences and tax loss carryforwards that gave rise to significant portions of the deferred income tax assets for the year ended December 31, 2005 were as follows (Unit: Won in millions):

	Beginning balance	Deduction	Addition	Ending balance
Loss on valuation of securities	₩ 19,551	₩ 13,271	₩ 194	₩ 6,474
Accrued interest of securities	(92,323)	(92,323)	(73,470)	(73,470)
Gain on valuation of securities	649	-	(23,982)	(23,333)
Revaluation surplus (land)	-	-	246	246
Unrealized loss on disposal of assets	137	91	-	46
Gain (loss) on valuation of securities using the equity method	6,31	-	(313)	5,998
Accumulated depreciation	(1,590)	(32)	-	(1,558)
Other allowance	2,938	-	12,127	15,065
Non-operating expenses	6,250	-	120	6,370
Deemed dividends	5	1	-	4
Stock option	1,219	311	2,915	3,823
Allowance for possible losses of confirmed acceptances and guarantees	428	-	2,414	2,842
Present value discounts	163	107	-	56
Gain (loss) on valuation of derivatives	(3,491)	(3,491)	9,095	9,095
Gain on disposal of securities using the equity method	-	-	(543)	(543)
Others	13,114	64	2,215	15,265
	(46,639)	(82,001)	(68,982)	(33,620)

NOTES TO FINANCIAL STATEMENTS

	Beginning balance	Deduction	Addition	Ending balance
Less:				
Revaluation surplus (land)	-	-	(283)	(283)
Gain (loss) on valuation of securities accounted for using the equity method	-	-	3,154	3,154
Valuation of securities (Capital adjustments)	-	-	5,032	5,032
	(46,639)	(82,001)	(61,079)	(25,717)
Statutory tax rate	27.5%			27.5%
Deferred income tax liabilities	₩ (12,826)			₩ (7,072)

(3) Income tax expense for the years ended December 31, 2005 and 2004 is summarized as follows (Unit: Won in millions):

	2005	2004
Income tax currently payable	₩ 75,011	₩ 49,233
Changes in deferred tax liabilities	(5,754)	7,786
Retained earnings and other capital surplus adjustments	1,384	-
Income tax expense	₩ 70,641	₩ 57,019

(4) The statutory income tax rates applicable to the Bank, including resident tax surcharges, are 27.5 percent and 29.7 percent for the years ended December 31, 2005 and 2004, respectively. However, due to tax adjustments, the effective tax rates for the years ended December 31, 2005 and 2004 are 28.30 percent and 30.05 percent, respectively.

24. EARNINGS PER SHARE:

Ordinary income per share and net income per share were calculated for common stock by dividing ordinary income 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, 2005 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: $53,539,532,250 \div 365 \text{ days} = 146,683,650$ shares

2) The basic net income per share for the years ended December 31, 2005 and 2004 is as follows (Unit: In won).

	2005	2004
Net income (=ordinary income, net of tax effect)	₩ 178,933,937,184	₩ 132,708,885,595
Weighted average number of common shares outstanding	146,683,650	146,683,650
Net income per share	₩ 1,220	₩ 905
Ordinary income per share	₩ 1,220	₩ 905

The ordinary income for the years ended December 31, 2005 and 2004 equals to net income because there are no extraordinary item.

25. DIVIDENDS:

	2005	2004
Shares issued and outstanding	146,683,650 shares	146,683,650 shares
Par value per share	₩5,000	₩5,000
Dividend rate	8.1%	6.0%
Cash dividend	₩59,407 million	₩44,005 million
Net income	₩178,934 million	₩132,709 million
Payout ratio	33.20%	33.16%
Dividend yield ratio	3.06%	3.77%

26. TERM STRUCTURES OF ASSETS AND LIABILITIES:

The term structures of assets and liabilities as of December 31, 2005 were as follows (Unit: Won in millions):

NOTES TO FINANCIAL STATEMENTS

	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	₩ 317,511	₩ 500	₩ 48,991	₩ -	₩ 375,764	₩ 742,766
Foreign currencies	-	-	-	-	₩ 36,577	₩ 36,577
Loans:						
Local currency	2,634,178	1,808,173	3,118,904	1,788,750	1,852,841	11,202,846
Foreign currencies	19,498	40,682	91,533	106,608	80,659	338,980
Offshore loans in foreign currency	412	290	1,274	1,318	658	3,952
Banker's usance	168,302	77,704	3,729	493	74	250,032
Bills bought in local currency	3,874	-	-	-	-	3,874
Advance for customers	489	-	-	-	816	1,305
Bills bought in foreign currency	124,631	40,017	24,973	-	-	189,621
Credit card receivables	274,524	15,939	9,654	6,173	3,534	309,824
Factoring receivables	2	-	-	-	168	170
Bonds sold under repurchased agreements	40,000	-	-	-	-	40,000
Others	10,400	-	7,895	5,600	-	23,895
Deposits:						
Local currency	₩ 3,615,948	₩ 1,787,512	₩ 2,261,878	₩ 328,457	₩ 4,929,281	₩ 12,923,076
Negotiable certificate of deposits	293,190	286,972	16,563	151	-	596,876
Foreign currencies	22,136	5,226	5,831	875	108,442	142,510
Borrowings:						
Local currency	₩ 431,314	₩ 21,964	₩ 47,362	₩ 243,202	₩ 385,773	₩ 1,129,615
Foreign currencies	394,511	154,158	290,479	226,394	26,166	1,091,708
Offshore borrowing in foreign currencies	-	-	-	22,286	-	22,286
Bonds purchased under repurchased agreements	531,317	171,417	197,262	-	-	899,996
Bills sold in foreign currencies	12,234	5,454	227	-	-	17,915
Debentures:						
Local currency	-	39,339	-	200,000	169,345	408,684

27. FINANCIAL INFORMATION ON INTERIM PERIOD:

The Bank's operating revenue, operating income and net income for the three months ended December 31, 2005 and 2004 were as follows (Unit: Won in millions except for the amount per share):

	2005	2004
Operating revenue	₩ 342,492	₩ 344,998
Operating expenses	332,932	292,833
Operating income	19,560	52,165
Non-operating income	13,504	12,404
Non-operating expenses	6,942	12,670
Income before income tax	26,122	51,899
Income tax expense	8,917	16,381
Net income	17,205	35,518
Net income per share	₩ 117	₩ 242

28. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2005 and 2004 were as follows:

	2005		2004	
	US Dollars (In thousands)	Equivalent to Korean Won (In millions)	US Dollars (In thousands)	Equivalent to Korean Won (In millions)
Assets:				
Foreign currencies	US\$ 16,307	₩ 16,519	US\$ 15,551	₩ 16,232
Due from banks in foreign currencies	36,108	36,577	51,796	54,065
Securities in foreign currencies	79,983	81,023	25,448	26,563
Loans in foreign currencies	338,531	342,932	295,240	308,172
Banker's usance	246,823	250,032	199,627	208,371
Call loans	10,000	10,130	-	-
Bills bought in foreign currencies	187,188	189,621	148,379	154,878
Others	34,809	35,262	133,228	139,063
	US\$ 949,749	₩ 962,096	US\$ 869,269	₩ 907,344

NOTES TO FINANCIAL STATEMENTS

	2005		2004	
	US Dollars (In thousands)	Equivalent to Korean Won (In millions)	US Dollars (In thousands)	Equivalent to Korean Won (In millions)
Liabilities:				
Deposits in foreign currencies	US\$ 140,681	₩ 142,510	US\$ 151,445	₩ 158,078
Borrowings in foreign currencies	1,099,698	1,113,994	648,473	676,876
Call money in foreign currencies	-	-	485	506
Others	49,255	49,895	146,578	152,998
	US\$ 1,289,634	₩ 1,306,399	US\$ 946,981	₩ 988,458

(*) 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, 2005 and 2004 were as follows
(Unit: Won in millions):

	2005		2004	
	Revenue	Expenses	Revenue	Expenses
PB Futures Co., Ltd.	₩ 8	₩ 182	₩ 13	₩ 236
Busan Credit Information Co., Ltd.	59	2,494	38	2,936
Mybi Co., Ltd.	219	209	41	256
	₩ 286	₩ 2,885	₩ 92	₩ 3,428

(2) Significant balances with related parties as of December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005		2004	
	Assets	Liabilities	Assets	Liabilities
PB Futures Co., Ltd.	₩ -	₩ 75	₩ 290	₩ 820
Busan Credit Information Co., Ltd.	-	2,613	-	2,898
Mybi Co., Ltd.	803	4,069	1,218	2,968
	₩ 803	₩ 6,757	₩ 1,508	₩ 6,686

(3) In addition, the Bank has provided a payment guarantee amounting to ₩909 million for PB Futures Co., Ltd. as of December 31, 2005 and 2004.

30. TRUST ACCOUNTS:

(1) Balance sheet 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, 2005 and 2004 were as follows (Unit: Won in millions):

	December 31, 2005		December 31, 2004		Total
	Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal	Trust accounts guaranteeing the repayment of principal	Mixed trust accounts (*)	Performance- based trust accounts	
Assets:					
Securities	₩ 736	₩ 228,401	₩ 12,152	₩ 552,901	₩ 794,190
Loans	3,570	23,102	434	2,922	30,028
Other assets	17	4,261	104	6,523	10,905
Due from bank account	45	25,750	10,460	52,715	88,970
Present value discount	(728)	-	-	-	(728)
Allowance for possible losses	(1,477)	(1,023)	(268)	(696)	(3,464)
	₩ 2,163	₩ 280,491	₩ 22,882	₩ 614,365	₩ 919,901
Liabilities:					
Money trust	₩ 4	₩ 273,99	₩ 21,11	₩ 567,39	₩ 862,548
Other liabilities	2,117	6,49	1,77	46,97	57,353
	₩ 2,163	₩ 280,49	₩ 22,882	₩ 614,365	₩ 919,901

(*) 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, 2005		December 31, 2004		Total
	Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal	Trust accounts guaranteeing the repayment of principal	Mixed trust accounts (*)	Performance- based trust accounts	
Assets:					
Securities	₩ 1,642	₩ 206,751	₩ 21,196	₩ 773,462	₩1,003,050
Loans	4,940	22,205	555	2,185	29,885
Other assets	15	4,774	447	16,322	21,558
Due from bank account	115	16,223	5,608	51,637	73,584
Present value discount	(904)	-	-	-	(904)
Allowance for possible losses	(601)	(1,386)	(548)	(1,332)	(3,867)
	₩ 5,207	₩ 248,567	₩ 27,258	₩ 842,274	₩1,123,306
Liabilities:					
Money trust	₩ 117	₩ 243,110	₩ 25,210	₩ 788,901	₩1,057,338
Other liabilities	5,090	5,457	2,048	53,373	65,968
	₩ 5,207	₩ 248,567	₩ 27,258	₩ 842,274	₩1,123,306

(*) 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, 2005 and 2004 were as follows (Unit: Won in millions):

	December 31, 2005		Charge to bank account
	Book value	Fair value	
Trust accounts guaranteeing the repayment of principal:			
Household trust	₩ 3,839	₩ 3,830	₩ 9
Elderly living pension trust	6,013	6,006	7
Installment trust	2,858	2,850	8
Personnel pension trust	174,101	173,267	834
Retirement trust	82,643	82,643	-
New Personnel pension trust	1,801	1,801	-
Pension trust	15,931	15,934	-
	287,188	286,331	858
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:			
Unspecified monetary trust	47	47	-
Development trust	2,116	2,116	-
	2,163	2,163	-
	₩ 289,351	₩ 288,494	₩ 858

	December 31, 2005		Charge to bank account
	Book value	Fair value	
Trust accounts guaranteeing the repayment of principal:			
Household trust	₩ 4,608	₩ 4,640	₩ -
Elderly living pension trust	6,422	6,501	-
Installment trust	3,490	3,511	-
Personnel pension trust	161,244	162,359	-
Retirement trust	68,885	68,885	-
New Personnel pension trust	1,573	1,573	-
Pension trust	10,444	10,444	-
	256,666	257,913	-
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:			
Unspecified monetary trust	117	117	-
Investment trust	5,090	5,090	-
	5,207	5,207	-
	₩ 261,873	₩ 263,120	₩ -

NOTES TO FINANCIAL STATEMENTS

31. COMPUTATION OF ADDED VALUE:

The accounts for computation of value added are summarized as follows (Unit; Won in millions):

	2005		2004	
Salaries and wages	₩	115,945	₩	103,000
Severance and retirement benefits		17,808		22,825
Employee benefits (see Note 32)		81,397		68,798
Rent		4,349		3,932
Depreciation and amortization		34,80		33,852
Taxes and dues		11,845		11,173
	₩	266,148	₩	243,580

32. EMPLOYEE BENEFITS:

Employee benefit expenses for the years ended December 31, 2005 and 2004 were as follows (Unit: Won in millions):

	2005		2004	
Meal expense	₩	5,308	₩	5,262
Health and medical		288		227
Legal benefits		95		44
Congratulations and condolences		432		442
Health training		45,521		36,579
Others		29,753		26,244
	₩	81,397	₩	68,798

33. EXPERT TRAINING EXPENSES:

The Bank incurred ₩1,254 million and ₩1,184 million for expert training from local and foreign training institutes for the years ended December 31, 2005 and 2004, respectively.

34. CASH FLOWS:

(1) The cash and due from banks in the statements of cash flows for the years ended December 31, 2005 and 2004 were as follows (Unit : Won in millions):

	2005		2004	
Cash on hand	₩	362,146	₩	265,993
Foreign currencies		16,519		16,232
Due from banks in local currency		742,765		704,385
Due from banks in foreign currencies		36,577		54,064
		1,158,007		1,040,674
Restricted due from banks		396,280		687,874
	₩	761,727	₩	352,800

(2) Significant transactions not involving cash inflows and outflows for the years ended December 31, 2005 and 2004 were as follows (Unit : Won in millions):

	2005		2004	
Write-offs of loans and decrease of loans from principal reduction	₩	86,837	₩	128,983
Reclassification of construction to tangible assets		10,455		10,326

Internal Accounting Control System Review Report

English translation of a Report Originally Issued in Korean

Financial Section

To the Shareholders and Board of Directors of
Pusan Bank:

We have reviewed the report of management's assessment of internal accounting control system ("IACS") of Pusan Bank (the "Bank") as of December 31, 2005. In accordance with Article 2-2 of the Act on External Audit for Stock Companies (the "External Audit Law") of the Republic of Korea, the Company's management is responsible for assessing the design and operations of its IACS. Our responsibility is to review management's assessment and issue a report based on our review.

68 + 69

We conducted our review in accordance with Article 2-3 of the External Audit Law. Our review included inquiries of management and employees, inspection of related documents and checking of the operations of the Company's IACS. We did not perform an audit of the Company's IACS and accordingly, we do not express an audit opinion.

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's Assessment of IACS, issued by the Korean Audit Standards Committee on March 29, 2005, it applies only from that date until the date the Final Standard for Management's Assessment of IACS and Final Standard for Auditors' Review and Report on Management Assessment of IACS becomes effective. A review performed based on the final standards may have different results and accordingly, the content of our report may be different.

Based on our review, no material weakness in the design or operations of the Company's IACS under Article 2-2 of the External Audit Law as of December 31, 2005 has come to our attention.

PUSAN BANK Annual Report 2005

This report applies to the Company's IACS in existence as of December 31, 2005. We did not review the Company's IACS subsequent to December 31, 2005. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.




January 20, 2006

Deloitte Anjin LLC

Board of Directors


Lee, Jang-ho
CHAIRMAN OF THE BOARD OF DIRECTORS & PRESIDENT



Park, Chang-kyu
STANDING AUDITOR
AUDIT & EXAMINATION TEAM



Jung, Sung-tae
DEPUTY PRESIDENT




Bae, Tae-Kyun
DEPUTY PRESIDENT



An, Sung-Cheul
DEPUTY PRESIDENT



Jung, Won-Jong
EXECUTIVE VICE PRESIDENT



Board of Directors

70+71

PUSAN BANK Annual Report 2005

Park, Gwan-ho
EXECUTIVE VICE PRESIDENT




Park, Tae-min
EXECUTIVE VICE PRESIDENT
COMPLIANCE OFFICER




Moon, Sup-je
EXECUTIVE VICE PRESIDENT



Lee, Joon-doo
EXECUTIVE VICE PRESIDENT



Lim, Young-rok
EXECUTIVE VICE PRESIDENT



Non-standing Directors

Kim, Si-seung
Lawyer / Kim Si-seung Law-Office

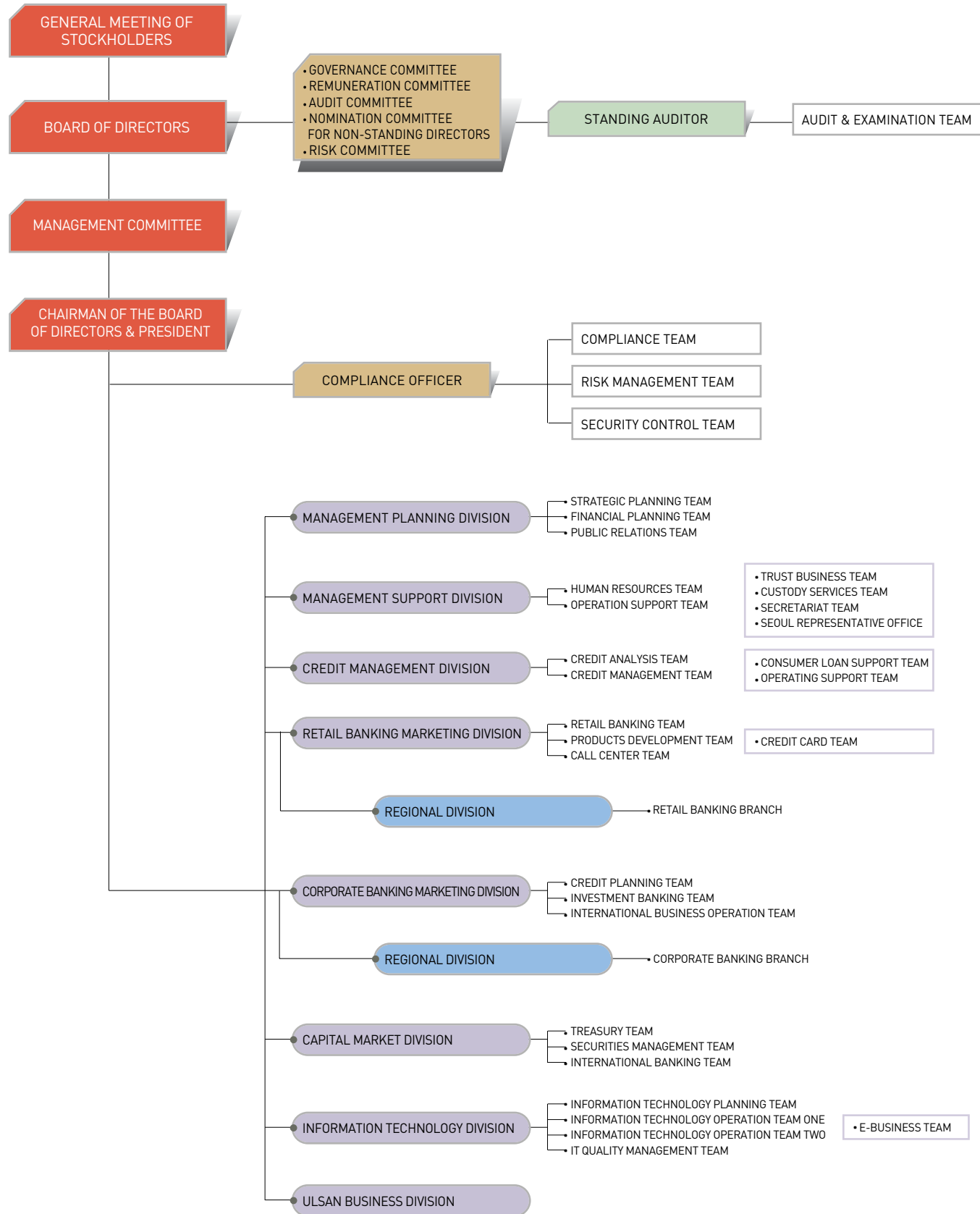
Lee, Chae-woong
Professor / SungKyunkwan University

Shin, Jung- taek
Chairman / Seun Steel Co.,Ltd.

Chae, Jyung-byung
Executive Director / Lotte Hotel

Eun, Soong-pyo
Professor / Silla University

Organization Chart



History of Pusan Bank

Year	Month	Day	Event
1967	10	10	Founded with a paid-capital of 300 million won
1967	10	25	Commenced business
1968	2	1	Commenced foreign exchange business
1972	6	15	Listed on Korea Stock Exchange
1983	5	2	Began trust business
1985	6	1	Began credit card business
1990	1	3	New corporate identity program (CIP) launched
1992	11	1	Home-banking service began
1993	12	1	EDI Service began
1994	12	5	DDS-styled dealing system adopted
1995	5	2	Tele-banking service began
1997	9	18	Integrated on-line system opened
1998	12	9	Established strategic business tie-up with Microsoft of the U.S.
1999	3	31	Selected as a funds settlement bank by Korea Futures Exchange
1999	7	28	Concluded a comprehensive consulting service pact with Pricewaterhouse Coopers
2000	3	6	Cyber-banking service began
2000	3	24	Selected to manage Digital Pusan Card
2000	11	5	Selected to manage budgetary funds for Pusan
2001	2	21	Pusan Bank Digital Pusan Card wins Advanced Card-Award 2001 in the U.K.
2001	5	29	Consultancy contract signed with Nemo Partners to build a performance management system
2001	8	1	Integrated profit management system launched
2002	4	11	World-class integrated risk management system completed
2002	5	27	Call Center system launched
2002	8	12	Buvix Card introduced
2002	8	21	Total deposits break W13 trillion mark
2002	8	28	Comprehensive Cooperation agreement concluded with Industry and Commerce Bank of China
2002	12	13	President Sim, Hoon named 'Best CEO of the Year' by the Korea Economic Daily and Towers Perrin
2003	1	6	Gold Prize won at the 12th annual Dasan Awards
2003	3	31	Concluded an alliance for bancassurance with four life insurers (Samsung, Kyobo, Shinhan, AIG Life) and four nonlife insurers (Samsung, LG, Dongbu, Oriental Fire & Marine).
2003	5	19	Launched stock investment services with Hanwha Securities
2003	5	29	Concluded project financing agreement for Busan New Harbor construction. (Pusan Bank's participation : 40 billion won. Total financing by four institutions: 245 billion won.)
2003	6	4	Entered agreement with Korea Export Insurance Corp. and began issuing export credit bank guarantees
2003	6	10	Set up operations for handling business incorporation, bad loan collection, etc
2003	6	17	Established wholly owned subsidiary, Pusan Credit Information
2003	7	1	Selected as 'Superior Public Corporation of 2003' by the Korea Stock Exchange
2003	8	22	Received loan of 6 billion yen (US\$50 million equivalent) from the Seoul branch of Sumitomo Mitsui Banking Corp. on August 22, reflecting global recognition of Pusan Bank outstanding management performance
2003	12	5	Concluded joint business agreement with LG Investment & Securities
2003	12	9	Entered into agreement with Korea Land Corp. to provide real estate development loans
2003	12	15	Received an upgraded financial strength rating and a table" outlook from Moody Profitability and capital adequacy were deemed outstanding," with net interest margin and asset soundness receiving the highest scores
2003	12	18	Provided 9.8 billion won in project financing for Geoga Bridge
2004	1	13	Joined hands with KTF to offer IC chip-based mobile banking service
2004	3	16	Implements credit recovery plan aimed at small-scale borrowers reestablish their good credit rating
2004	4	23	KMA (Korea Management Association) names President of Pusan Bank Shim Hoon "2004 CEO of the Year"
2004	6	22	Ranked among the "30 Most Respected Korean Companies" jointly by Dong-A Ilbo and Korea IBM BCS.
2004	10	15	Named winner of the "Social Contribution Corporate Award" in the Regional Community Development category by Open Management Research
2004	12	21	Korea CEO Association selects Pusan Bank as "Most Respected Company of the Year" by Korea CEO Association
2005	3	31	Received FSS's highest evaluation among financial companies for fewest customer complaints in 2H 2004
2005	6	30	Total deposits exceed 15 trillion won
2005	7	14	Won Silver Prize in "Top 30 Most Reputable Companies" Awards sponsored by IBM Korea Business Consulting and Dong-A Ilbo.
2005	8	22	Became first Korean bank to offer Chinese Yuan remittance service
2005	12	22	Received Gold Prize in "Dasan" Finance Awards

International Banking Directory

International Banking Team

Address : Kumseki Bldg., 3FL.,16, 1-Ga, Ulchi-Ro,
Jung-Gu, Seoul, Korea
Tel. : (82)-(2)-758-6322, 6300
Fax : (82)-(2)-758-6399, 6398
Telex : K27650 PUSANBANK
BIC : PUBKRPINT
E-mail : pusbint@pusanbank.co.kr
General Manager : J.H.Sohn



International Business Operation Team

Address : 25-2, 4-Ga, Jungang-Dong, Jung-Gu,
Busan 600-014 Korea P.O Box 131 Busan
Tel. : (82)-(51)-469-0181, 0188
Fax : (82)-(51)-464-2739
Telex : K53392 PUSANBK
BIC : PUBKRP2P
E-mail : pusbkr@pusanbank.co.kr
General Manager : Lee, Soon-hee



Standard Settlement Instructions (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 120-246 AEIBUS33 New York
- Deutsche Bank Trust Company 04-024-736 BKTRUS33 New York
- Sumitomo Mitsui Banking Corp 100430 SMBCUS33 New York

■ JPY

- Standard Chartered Bank 2110371110 SCBLJPJT Tokyo
- Sumitomo Mitsui Banking Corp. 3157 SMBCJPJT Tokyo
- Bank of Tokyo-Mitsubishi 653-0409766 BOTKJPJT Tokyo
- American Express Bank 245-313000409 AEIBJPJT Tokyo

■ GBP

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

■ EUR

- American Express Bank 18005506 AEIBDEFX Frankfurt
- Standard Chartered Bank 01708607596 SCBLGB2L London

■ CHF

- UBS AG 0230-87106.05P UBSWCHZH80A Zurich

■ DKK

- Danske Bank 3007536712 DABADKKK Copenhagen

■ SEK

- Nordea Bank, SWD 3952907721 NDEASESS Stockholm

■ HKD

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

■ SGD

- Korea Exchange Bank 1-01778 KOEXSGSG Singapore

■ IDR

- Standard Chartered Bank 0100055486 SCBLIDJX Jakarta

■ CAD

- The Bank of Nova Scotia 0282111 NOSCCATT Toronto
- Toronto Dominion Bank 0360-01-2304648 TDOMCATTTOR Toronto

■ NZD

- ANZ Bank 835504.00001 ANZBNZ22 Wellington

■ AUD

- National Australia Bank SKOR-14 NATAAU33033 Melbourne

■ NOK

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

Domestic Subsidiaries

Pueun Futures Co., Ltd.

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

Busan Credit Information Co., Ltd.

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

Korea Lease Financing Co., Ltd.

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

Corporate Data

Established

Oct. 25, 1967

Total shareholders' equity

1,146.5 billion

Paid-in capital

KRW 733.4 billion

Common stock issued and outstanding

146,683,650

Domestic network

209

Employees

1,987

Major shareholders

Lotte Group(Japan Lotte Inclusive)	14.11 %
Capital Research & Management Company	10.98 %
Parkland Co., Ltd.	4.11 %
Korea Iron & Steel Co., Ltd.	1.90 %
PL-ABDN GL	1.63 %