



“Maximizing value for shareholders  
through strong local presence”

# Profile

Established in 1967, Pusan Bank has been instrumental in the development of the Korean Southeast. This is the only regional bank headquartered in Busan, Korea's second largest city and one of Asia's busiest ports.

As of December 31, 2001, Pusan Bank held the top share of the deposits (29.7%) and loans (21.3%) in Busan. The branch network spanned 205 locations, serving 3.02 million customers.



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

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# Financial Highlights

For the years ended on December 31.

	In billions of KRW		In thousands of US \$ <sup>1</sup>	
	2001	2000	2001	2000
<b>For the Fiscal Year</b>				
Total Revenues	₩ 1,321.0	₩ 1,227.8	\$ 996,154	\$ 974,676
Total Expenses	1,268.7	1,217.6	956,715	966,579
Net Income	52.3	10.2	39,439	8,097
<b>At Year's End</b>				
Total Assets <sup>2</sup>	14,564.3	12,970.6	10,982,807	10,296,578
Total Deposits <sup>3</sup>	12,008.4	10,361.1	9,055,426	8,225,054
Loans & Bills Discounted	6,079.3	5,331.6	4,584,345	4,232,436
Securities	5,831.2	5,034.1	4,397,255	3,996,269
Shareholders' Equity	443.9	406.6	334,741	322,775

1) FY 2001 : ₩1,326.1, FY 2000 : ₩1,259<sup>₩</sup> per US\$1.00

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

3) Including bills sold and bills sold under repurchase agreement.





To deal with the adverse circumstances, all Pusan Bank employees rallied around the common goal of enhanced profitability and a stronger operations base. Thus, the Bank's collective efforts resulted in an unprecedented performance, laying a solid foundation for development into a first-class banking institution.

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

Fiscal year 2001 was a very difficult time for the Korean banking industry. The global economic slowdown caused the Korean economy to contract. In addition, competition in the domestic retail banking market intensified with the advent of bank mergers and financial holding companies. To deal with the adverse circumstances, all Pusan Bank employees rallied around the common goal of enhanced profitability and a stronger operations base. Thus, the Bank's collective efforts resulted in an unprecedented performance, laying a solid foundation for development into a first-class banking institution.

In FY01, the City of Busan entrusted us with all their budgetary funds, a service we have long wanted to provide. This has helped to strengthen our regional operations base. The Bank continues to be restructured to better accommodate employee capabilities and performance, and boost operational efficiency. Net income came to ₩52.3 billion in FY01, surpassing our original target. At the end of the year, BIS capital adequacy ratio stood at 10.26% and problem loan ratio was down to 3.73%. This performance was reflected in our share price, which soared to twice that for Korean bank stocks as a whole.

The Bank's efforts to bolster income management and expand the operational base for each division enabled us to achieve a record net income, despite such adverse conditions as a reduced loan-deposit margin and falling profits from marketable securities. The record profit in FY01 notwithstanding, I regret that we were unable to pay out dividends because losses remaining from the financial crisis had to be cleared up. In the coming year, we expect net income to reach at least ₩130 billion, and I can assure you that you will be receiving dividends at the next general shareholders' meeting.

New deposit-related products include a virtual passbook for online banking customers and preferential service account for public servants, developed to help attract the city funds. We also installed more safety deposit boxes and built Private Banking rooms for our high-net-worth customers, helping to expand our deposit base. As a result, total deposits amounted to ₩12.84 trillion at the end of FY01, up ₩1.65 trillion (15.9%) from the previous year.

# Message from the President

As the sole regional bank serving Busan and South Gyeongsang Province, we are heavily involved in financing local infrastructure projects and in offering favorable loan conditions to support the ten industries designated strategic by the local government. We also have facilitated loan access to 187 small and medium-sized enterprises (SMEs) with exceptional growth potential. Loans to households and small businesses have been expanded as well. As a result, loans at the end of FY01 totaled ₩6.50 trillion, an increase of ₩705.6 billion (12.2%) year on year.

The Bank took its foreign exchange business online, opening import letters of credit and remitting foreign currency via the Internet. This move helped to attract new SMEs involved in import and export. However, the shock of the September 11 terrorist attack in New York prolonged the global economic slump, and the Bank's support for import/export activities dropped by US\$291 million (8.9%) year on year to US\$2.99 billion.

The credit card business has recently emerged as an important revenue source. We strove to attract major BC Card clients over to Pusan Bank and issued corporate cards for the Busan Metropolitan Police, Baptist Hospital and other organizations in the local community. The Bank's efforts resulted in a 44.2% year-on-year increase in cardholders, totaling 434,462 persons (including corporate cards) at the end of FY01. Gross volume came to ₩2.12 trillion, up a whopping 82.4% over the previous year.

Meanwhile, we either merged or closed nine branches that were either redundant or under-performing. Twenty-eight branches were newly opened to better accommodate Busan's changing economic structure. With these changes, the network spanned 205 locations at the end of the year. In addition to it, a new customer-oriented management organization has been built. This framework has been

established to make each business division independently accountable for its respective performance.

Pusan Bank is relatively small in scale compared with the national banks, and the business environment is constantly changing. However, being small has its advantages because we can adjust more quickly to changes. Moreover, we have grown by being rooted in one region. We know the local needs better than anyone else, and the local communities are more loyal to us than they are to the national banks. They expect us to play a greater role in the Korean Southeast.

We have established a three-year master plan for becoming a model regional bank by 2004. This plan calls for the Bank to concentrate its core competencies on strengthening profit-centered operations during FY02. We also aim to have our performance rating by the supervisory authorities raised to Grade 2.

I understand that the support of you, the shareholders, has been instrumental in our achieving a banner year in FY01. On behalf of everyone at Pusan Bank, I want to express my sincere gratitude to you.

All Pusan Bank employees remain firm in their determination to achieve these goals without fail. We will continue to enhance the intrinsic value and the trust we have gained from financial markets. You may rest assured that a dividend payment will be realized, and I ask for your continued support.

May you all have a prosperous and productive 2002.



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



# Strategy for Leading Regional Bank

## Performance Goals for FY02

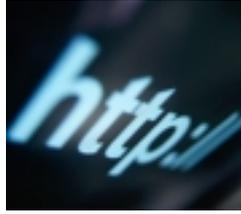
Pusan Bank will focus core competencies on improving the bottom line. Strategies to achieve this goal include: expanding the business base, establishing profitability models, bolstering core competencies, and pursuing policies that will ensure fiscal soundness. As part of efforts to achieve performance goals, the Bank will expand its target markets throughout the Southeast, from the Busan metropolitan area to Ulsan, Yangsan and Changwon. Marketing will be focused on the retail sector as well as small and medium-sized enterprises (SMEs) in the corporate sector. In FY02, fifteen sub-branches will be upgraded to branch status, while four sub-branches and nine branches that are either inefficient or redundant will be closed. On the other hand, four branches and nine sub-branches will be newly opened in the densely populated Busan satellite cities of Gimhae, Yangsan and Jeongwan.

The Bank held 29.7% of the total deposits and granted 21.3% of all the loans in the Busan metropolitan area in FY01. The network restructuring in FY02 is expected to stimulate operations, increasing the Bank's market share to a projected 31.2% for deposits and 22.8% for loans. In addition, Pusan Bank has adopted a customer-oriented organizational structure to provide services aimed at specific targets. Starting in 2002, the Retail Banking and Corporate Banking Teams will be subdivided into Planning and Operation Sections to promote specialization. The credit rating function will be separated from the Credit Planning Team and conducted by the Credit Rating Team. Moreover, a Loan Review Unit and a Collective Loan Task Force will be newly formed, helping to improve the business of providing apartment purchase loans.

The organization will consist of thirty-three teams under six divisions starting in January 2002. Pusan Bank also remains committed to supporting local business and the local economy of Southwestern Korea. The Bank will provide an additional ₩3.6 trillion to SMEs, discount commercial bills worth ₩2.5 trillion and offer household ₩1.5 trillion in new financing during FY02.

## Mid-/Long-term Strategies

Pusan Bank is positioned to withstand recent financial industry trend towards consolidation into large entities. The Bank is ensuring outstanding fiscal soundness and a solid market position to become a model of success for other regional banks in Korea to emulate. In the short term, profitability will be improved to enable the payment of dividends to shareholders. Measures will be taken to protect core business lines, and the advanced



management systems will quickly be made fully operational. Over the mid and long term, the Bank's share of the retail banking market and funding to SMEs will grow steadily, securing a dominant market position.

The performance targets for 2004 are 1.0% ROA, 19.2% ROE and at least ₩180 billion in net income. The BIS capital adequacy ratio will be 11.0% or higher, while the ratio of credit rated substandard and below will be no more than 1.9% of the total. As such, the Bank will rank among the best in terms of profitability and financial integrity.

The Bank will focus on expanding its operational base in the regional market through 2004. By that time, total assets will reach ₩21.6 trillion, about ₩6 trillion more than the figure posted at the end of 2001. Deposits will total ₩17.6 trillion, while loans will amount to ₩11.6 trillion. The Bank will have 800,000 credit card holders, and 2.2 million Mybi Cards will be in circulation.

To stay on this ambitious growth path, Pusan Bank will apply the principle of selective concentration of resources. The strategic positioning of target markets; core business lines; customized products, services and marketing channels; and core competencies will be vastly improved.

### Target Markets

Target markets have been divided into four geographical areas, with unique operation strategies for each. The Bank's strengths-branch network, online banking and close ties to the local community-will be used to the fullest in the city of Busan, where the head office is located. The branches are providing Busan customers with a broad range of information services covering such areas as taxation, real estate and legal issues. These services are also being expanded to other

communities in the Southeast, including Masan, Changwon and Ulsan. A new team of relationship managers was organized to serve large corporate customers in Seoul.

### Core Business Lines

Core business lines have been clearly defined for focused development over the mid- and long term. Existing SMEs financing know-how and information gathering capabilities are being fully utilized to make Pusan Bank the largest source of SMEs funds in the Southeast. At the same time, retail banking is being aggressively developed. The profitability models are being diversified so that balanced growth is achieved in retail and SME financing, changing the Bank's status over time.

Moreover, the Bank will dominate the low-cost deposit market by taking advantage of the speed and convenience of channels closely linked to the region, lowering funding costs as a result. A focused effort will be made to develop Internet banking to secure a comparative advantage, and profitability models will be built quickly for the retail banking market. The Bank will strengthen the close support function for incubating small businesses with high growth potential. This special long-term strategy aims to develop local industry and the Bank together, helping start-up companies grow into successful SMEs.

### Unique Products, Services and Channels

The conventional mass-market approach is being replaced with differentiated products, services and marketing channels for specific customer targets. Investment is particularly focused on Private Banking (PB) units and specialists who target the top 40% of the Bank's retail customers. Relationship marketing capabilities are being enhanced and strategic alliances are being forged with domestic and foreign financial

THE BANK'S ROLE AS A REGIONAL INFORMATION CENTER WILL BE MANAGED AND DEVELOPED TO PROMOTE ELECTRONIC CURRENCY AND E-COMMERCE. THE BANK'S CORPORATE IDENTITY WILL BE MADE OVER TO PROJECT A MORE SOPHISTICATED IMAGE. THIS PROJECT WILL BE LAUNCHED IN 2003 AND COMPLETED THE FOLLOWING YEAR.

institutions to cater to those customers ranked in the top 1% of revenue generation. To this end, a special wealth management system will be in place by 2004.

The relationship marketing organization handling high-growth SMEs is being greatly expanded and specialized. Tie-ups are being made with management consultant firms in order to offer distinctive services. Other customers are being encouraged to use Internet banking as well as cash dispensers and automated teller machines. Their convenience is enhanced while the Bank's administrative costs are lowered.

### Core Competencies

The six core competencies of added value generation, marketing, performance management, essential personnel procurement, risk management and processes have been identified as areas that must be further improved in support of the core business lines cited above. In this regard, thirty tasks will be carried out without fail by 2004, the most important of which are below.

New Customer Relationship Management (CRM) and marketing systems will be in place by 2003 to vastly improve marketing efforts. Private Banking rooms will be installed in around 40 branches to offer the full range of wealth management services. Staff of around 300 PB professionals will be cultivated in stages as part of efforts to attract and retain the most valuable customers.

A trial relationship manager system was launched in at 14 branches in January 2002 to bolster marketing to the corporate banking sector. The full-fledged system will be operated from the second half of 2003. Back office functions such as retail loans and loan management will be centered at the head office from the second half of 2003. Branches will become more specialized and automated for greater efficiency.

To improve cost effectiveness, some 400 additional automated machines will be installed during 2002. Seventy-one percent of the Bank's transactions were carried out through low-cost channels (automated machines, Internet banking and phone banking) as of the end of 2001. That figure is expected to increase to 75% once the new machines are in service.

Authority and responsibility for budgetary and personnel decisions will be transferred in increments to the divisions by 2004. Salaries and other compensation policies will be simplified, and an individualized, performance-based system will be put into practice quickly.

The Bank's role as a regional information center will be managed and developed to promote electronic currency and e-commerce. The Bank's corporate identity will be made over to project a more sophisticated image. This project will be launched in 2003 and completed the following year.

# Busan Economy, Now and Future

## The Current and Future Busan Economy

The world's third-largest container port, behind Hong Kong and Singapore, is located in Busan, and the city has great potential for developing into a major financial and trade center. For example, the stock price index futures business currently in Seoul will be transferred to the Korea Futures Exchange (KOFEX) in Busan in 2004. A designated warehouse for the London Metal Exchange has been confirmed, and the Busan Exhibition & Convention Center (BEXCO) was established in May 2000. A duty-free zone was also designated in December 2001. Busan is at the center of a Southeastern industrial belt that stretches from Pohang to Ulsan, Yangsan, Gimhae, Changwon and Masan. This belt is the largest of its kind in Korea.

In addition, the Noksan National Industrial Complex was established near Busan in 2000, and over 830 companies have already opened operations there or are scheduled to move in. These operations cover metal assembly, precision machinery, fine ceramics, information & communications, textiles & garments, petrochemicals and an industrial complex for SMEs.

In 2001, industrial production rebounded in Busan, although nationally production contracted. The surge in activity resulted from major projects being promoted locally, including the construction of the Noksan Complex, Renault-Samsung automobile plant, and new harbor.

Shipbuilding and machinery have enjoyed sufficient work volumes, while the garment industry has an expanded logistics network. As a result, the performance improvement has been relatively high in these industries. A surge in new construction projects has come from both the public and private sectors. Apartment construction is also up sharply, bringing local construction companies out of a protracted slump.

In the automobile industry, parts suppliers for Daewoo Motors suffered from a major reduction in domestic demand and export orders. On the other hand, automobile exports were up for both Hyundai Motor and Kia Motors, bringing about a recovery in the automotive parts industry as well.

The footwear industry, however, experienced sluggish exports and overall performance was down for the second year in a row. Overall business conditions are expected to improve in 2002, and domestic footwear demand as well as exports is forecast to rebound from the second quarter.

The 2002 FIFA World Cup and Busan Asian Games will both be held in 2002, creating special demand. Moreover, the Korean government's economic stimulus policy and China's entry into the WTO are expected to increase trade volume.

**THE BUSAN METROPOLITAN AREA HAS STRONG GROWTH POTENTIAL IN THE 21ST CENTURY. THE MUNICIPAL GOVERNMENT SELECTED TEN STRATEGIC PROJECTS FOR THE BUSAN ECONOMY IN APRIL 1999, AND NOW SPECIFIC ACTION PLANS ARE BEING PURSUED FOR EACH INDUSTRY.**

### **Strategic Projects in Busan**

The Busan metropolitan area has strong growth potential in the 21st century. The municipal government selected ten strategic projects for the Busan economy in April 1999, and now specific action plans are being pursued for each industry. Port logistics, tourism, finance, software, and movie-making & TV program production are seen as industries with high growth potential for Busan, while automotive parts, shipbuilding materials, footwear, fashion apparel and marine product processing have been targeted for intensive development.

### **Plans and Progress of Strategic Industries**

The local governments in Busan and South Gyeongsang Province are supporting numerous "strategic" projects helping to promote the regional economy. These projects can be categorized as either existing industries targeted for intensive development or new industries with high growth potential.

Twelve projects are underway to develop the automotive parts industry, with a combined investment of ₩479.8 billion planned by 2005. The 2001 International Motor Show was held at BEXCO September 13-23, with 207 companies from 11 countries taking part. The event resulted in US\$209 million in new business deals, while 1,310 new jobs were created. Finally, an industrial complex for SME automotive parts suppliers has been established at the Centum City, and twenty-six companies have already applied for 264,000m<sup>2</sup> of space in the facility.

Shipbuilding is another industry that is being intensively developed through ten projects requiring ₩444.6 billion by 2005. Marine Week was held at BEXCO October 30 through November 3, and 403 companies from 25 countries attended, negotiating US\$334 million in new business. Events such as this are helping to bolster Busan's reputation as a center for the global shipbuilding industry. Meanwhile, the SME Shipbuilding Materials Research Center was established at

Korea Maritime University in December 2001.

A total of seventeen projects are developing the local footwear industry at a cost of ₩410.7 billion by 2003. These include a technopark at the Noksan Complex, where nine of the sixteen local footwear makers are working together. A footwear promotion center is scheduled to be established (bidding was held in December 2001) to assist with new product design and display. Funding support includes ₩20.7 billion for technology development and ₩1.8 billion for worker training.

Fashion apparel is another local industry undergoing intensive development through seven different projects, with a combined investment of ₩109.2 billion by 2006. Feasibility studies are underway into the development of the wool textile business, and the local government is considering a formal request for Central Government support in this regard.

Finance and software are new industries with high growth potential that are slated for local government assistance. The government is contributing ₩1 billion to support the Futures Exchange in Busan, where the average daily transaction volume has increased to 720,000, thirteen times higher than that in 1999.

Meanwhile, a total of ₩118.2 billion will be invested in the software area by 2005. Among the eleven projects in progress, the Multimedia Support Center was opened in June 2001. The goal is to strengthen the local IT industry so that it can survive on its own. An IT project between the cities of Busan and Fukuoka, Japan is currently being negotiated as well.

### **Economic Outlook for Busan in 2002**

#### **Domestic & International Economic Conditions**

Global economic growth, led by economic recovery in the US, is expected to be higher in 2002 than it was in 2001. US consumption



and housing construction were robust in the First Quarter, while investment in inventories was on the rise. Inventory investment is forecast to slow in the Second Quarter, and overall growth is expected to slow somewhat.

Signs of recovery are being seen in Europe and emerging economies as well. The slumping Japanese economy is predicted to pick up somewhat in the Second Half as well.

International oil prices (based on Brent crude) are foreseen to rise sharply after March, fueled by the global economic recovery, continued output cuts by oil producing nations and tension in the Middle East. The changing political situation in the Middle East is expected to have a major impact on future oil prices, which are unlikely to drop very much in consideration of the economic upturn and peak demand for gasoline during the summer months.

### Domestic Economic Outlook

The rate of Korean economic growth will increase from strong domestic demand coupled with recovering exports. GDP growth is forecast to reach 5% by the last part of the Second Quarter and reach 6% early in the Second Half. The GDP growth rate for the year is estimated at 5.7%. The strong domestic private sector consumption and construction investment are seen to continue, and investment in new facilities is also expected to rebound steadily.

Soaring prices for housing and real estate as well as higher income levels from economic recovery are expected to boost household spending 5-6% year on year.

New construction orders and building permits have continued to increase sharply since September 2001. The Korean government is also planning to increase its budget for infrastructure projects (from ₩15.8 trillion in 2001 to ₩17.7 trillion in 2002, when private sector funds are included).

The economic turnaround will also make companies more willing to

invest in new facilities, but major industries are still plagued by surplus capacity. Still, the increase in new facilities investment is forecast to be 9% higher year on year in the Second Half of 2002, reflecting the very low amount spent on new facilities during 2001.

Rapid economic recovery in the US and other positive factors should accelerate the rebound in Korean exports starting from the Second Quarter. Total export volume is forecast to be 8% higher in 2002 than in the previous year.

### Trade Balance

Exports (on a Customs clearance basis) will return to positive growth from the Second Quarter. US economic recovery and higher prices for semiconductors, LCDs and other major items are expected to drive the export growth into double digits in the latter part of the year, with the increase for the entire year estimated at 8.4%.

Exports of mobile phones, semiconductors, computers, and automobiles are expected to go up sharply, while steel and chemical exports are to remain lackluster. The improving domestic economy and high international oil prices will also return import growth to positive territory from the Second Quarter. This growth will accelerate in the Second Half, with total imports expected to be 11.3% higher year on year in 2002.

Exports will return to positive growth, and Korea's hosting of the World Cup will bring an increase in foreign tourists. The balance of trade is expected to be slightly higher in the Second Quarter than it was in the First Quarter of 2002. Economic recovery will drive imports up sharply, narrowing the trade surplus somewhat in the Second Half. Korea's trade surplus is forecast to be US\$5 billion in 2002, down from the US\$8.62 billion figure for 2001.

# Review 2001

## Personal Finance Management Service

Personal Finance Management Service On June 1, Pusan Bank started the online personal finance management service. Dubbed My Finger, the service was developed in cooperation with Finger Inc. Users can download the software free of charge from the homepages of either Pusan Bank ([www.pusanbank.co.kr](http://www.pusanbank.co.kr)) or Finger Inc. ([www.finger.co.kr](http://www.finger.co.kr)). The software, in effect, connects all financial institutions simultaneously, and all the users' financial assets can be checked in real time.

The service lets users transfer funds from their account or by using their credit card. In addition to consolidating financial assets, users will be able to manage their email, travel itinerary, online news reports and other information on a single website.

PFMS integrates an individual's bank account data and provides various simulations to optimize the asset portfolio and offer precise and concrete financial planning. The service can also combine and manage the asset data for a group of people such as a family. The service covers financial data such as banking, securities and credit cards, and tracks actual transactions in real time. The customer-oriented PFMS also enables interactive communication with financial institutions.

## Total Deposits Top ₩12 Trillion

Pusan Bank's total deposits exceeded ₩11 trillion on June 8, 2001. Just over five months later, the figure had increased ₩1 trillion to reach ₩12.13 trillion on November 22. This was up ₩1.65 trillion from the ₩10.36 trillion in total deposits recorded at the end of FY00.

Five months is the shortest time ever that total deposits rose by ₩1 trillion in the Bank's 34-year history. This performance is attributed to the Bank's enhanced credibility chosen to handle all of Busan Metropolitan City's budgetary funds in FY01. The Bank's commitment to the local economy has been another contributing factor.

Total deposits break down as ₩10.51 trillion in bank account and ₩1.52 trillion in trust account. Low-cost deposits amount to ₩4.25 trillion, 40.4% of bank account. This figure is substantially higher than the ₩3.66 trillion (38.8% of bank account) posted at the end of FY00.



### CTI Call Center

After four months of preparation, Pusan Bank opened a CTI Call Center on the third floor of the Bujeon-dong Branch. The center is connected to 680 telephone lines (160 more than were available previously) and has seats for 15 telemarketers, who can view the callers account and transaction data on computer screens. This facility will allow the center to take more of the calls requesting account information and banking advice throughout the branch network. This will free up the other branches to focus on providing faster, more efficient customer services.

The CTI Call Center can perform 82 different tasks, including establishing new accounts, reserving wire transfers, transferring funds, remitting national and local taxes, and paying monthly bills. Abbreviated codes have been developed to speed up the services, which are available to both retail and corporate customers. Receipts will be faxed to customers when requested.

The Bank can handle up to 250,000 tasks a day with the new system in place. This means that some 50 million tasks have been automated each year. Currently, 550,000 people have signed up for the service, and the Bank aims to have one million subscribers by the end of 2002.

Meanwhile, the Call Center Team is developing a Web Call Center, which will automatically connect Internet banking customers who want to talk with a teller. The new service is scheduled to open in September 2002.

### Integrated Profit Management System

Pusan Bank and PricewaterhouseCoopers spent a year in jointly building the new Integrated Profit Management System, which was officially launched on August 1, 2001. This advanced infrastructure analyzes profitability and provides financial data that holds executives and organizational units more accountable for their performance.

The system measures the Bank's funding costs as well as operation costs. Each of these categories can be determined for individual customers, products and branches. The data are key profitability indicators that can ensure sound management practices. In addition, marketing, products and services can be customized to individual customer needs. This enhances both customer satisfaction and professionalism, systematically building a management system that is transparent and sound.

### Improved Products and Customer Satisfaction

Private Banking rooms have been installed in many branches in response to changing markets, offering a total service package free of charge to the Bank's high-net-worth customers. These rooms are staffed by knowledgeable tax, financial, real estate and legal consultants. The VIP customers are also invited to special events as part of efforts to cater to their individual needs and ensure their complete satisfaction.

The virtual passbook was developed in FY00 enabling customers to carry out all their banking online, by phone or at automated machines with a cash card. As such, an actual passbook is no longer needed. Customer convenience is enhanced while the Bank's operational costs are reduced.

The Service Monitoring Index is a way to measure the quality of the services and environment inside individual branches. Surveys are conducted and ratings are analyzed to help improve customer satisfaction. The branches receive reports on the survey results and corrective measures are recommended.

The Customer Satisfaction Index is a survey given to 30 VIP retail customers at each branch to determine customer needs and rate the quality of the services received. The average score was 72.9 in FY00 but was raised significantly to 77.8 in FY01. Moreover, the Bank opened

## THE BANK'S PERFORMANCE WAS BOOSTED BY HIGHER INCOME FROM FEES AND COMMISSIONS AS WELL AS AN INCREASE IN LOW-COST DEPOSITS.

branches that specialize in corporate customers in FY01, and 30 corporate customers were surveyed at each of ten of these branches. The average score came out to be 90.8, showing a high degree of customer satisfaction.

### Improved Profitability

Pusan Bank originally set the FY02 net income target at ₩100 billion and then revised the mark to ₩130 billion. The Bank's performance was boosted by higher income from fees and commissions as well as an increase in low-cost deposits.

Total fee and commission income came to ₩136.3 billion in FY01 more than the ₩108 billion posted in the previous term. Out of this total, credit card fees amounted to ₩76.1 billion in FY00 and grew 31% to reach ₩99.7 billion in FY01.

Starting in FY00, non-interest income (fees & commissions, trusts, other operating income) has represented an increasingly larger portion of overall income. Total income was ₩1.35 trillion in FY00, ₩171.9 billion (16.26%) of which was non-interest income. In FY01, total income amounted to ₩1.17 trillion, and non-interest income was ₩258.8 billion (22.18% of the total).

Fees and commissions were 5.94% of total income in FY99, 7.92% in FY00 and 10.26% in FY01. Trusts showed a loss of ₩7.2 billion in FY00 and were just ₩3 billion in the red in FY01. The Bank expects this category to be profitable in FY02.

A concerted effort has been made to attract low-interest deposits such as demand and savings deposits. As a result, low-interest deposits will rise from 38.54% of the deposits in bank account in FY01 to 40.84% in FY02. The Bank expects its deposits in bank account to break the ₩10 trillion barrier to reach ₩11.26 trillion in FY02. Of this

total, ₩4.60 trillion is projected to be in low-cost deposits.

Pusan Bank aims to have 560,000 credit card holders by the end of 2002. The number of Digital Busan Cards in circulation is expected to rise from 460,000 in FY01 to 1.46 million by the end of FY02.

### International Finance and Foreign Exchange

Pusan Bank signed a joint service agreement with the Bank of China, which operates over 13,000 branches nationwide. Starting on December 12, Pusan Bank has been transferring funds directly to China for trading companies, Chinese residents and visiting Chinese nationals in Pusan and South Gyeongsang Province. The service is fast and convenient. Previously, fund transfers to China were routed through New York, and the process would take 4-5 days to complete. Now, funds can be transferred from Korea to China within 24 hours.

On October 30, 2001, Pusan Bank borrowed US\$50 million from a major international bank at a competitive rate to improve long-term US Dollar liquidity to support import/export activities of SMEs in the Bank's region and to accommodate demand for foreign currency-denominated loans. Part of the funds will also be used to repay high-interest borrowings.

Pusan Bank was involved in import and export transactions totaling almost US\$3 billion in FY01. The Bank began to open import letters of credit via the Internet in August 2000, expanding into outward remittance, foreign exchange dealing, deposit transactions and various inquiry services. Letters of credit made up 19.3% of the overall performance of this sector, while outward remittance contributed 8.9%. Operations were strengthened by efficient human resources utilization.

Second, a strong effort was made to attract SMEs based in the



Southeast and expand the foundation for foreign exchange services. As a result, Pusan Bank held onto its lead in this sector with a 23.1% share of the local market. Three hundred and sixty-nine new corporate customers were signed up in FY01, and the Bank now has a database on over 10,000 trading companies in Busan, Yangsan and Gimhae.

Third, the marketing of foreign exchange and remittance services has been strengthened to secure highly profitable income sources.

Finally, a software program has been developed to prepare and send foreign exchange documentation online. The Bank has also adopted an import finance system and is forming business tie-ups with import/export-related institutions to help lower customer expenses and improve the Bank's support functions.

### Risk Management

Development of a market risk management system was completed in February 2001. The system predicts losses from fluctuations in interest rates, stock prices, exchange rates and so on. Risks related to marketable assets such as stocks, bonds and derivatives are standardized, measured and monitored against risk limits (maximum potential losses).

This highly effective market risk management system complies with international standards and provides the basis for Bank-wide risk management, enhancing the accuracy and timeliness of risk management data. Advanced risk management techniques and know-how are being adopted to measure value-at-risk (VaR) for each product and dealer, laying the groundwork for risk-adjusted performance management (RAPM).

Development of a credit risk management system began in March 2001 and is scheduled for completion in the first quarter of 2002. The

system will measure financial risks for individual clients.

The risk management system has the following applications: It is used as a VaR method for distributing maximum risk and calculating measurement standards. Risks from changes in financial markets are optimized and limits are established on potential future losses, enabling the Bank to respond most appropriately to rapid change.

Various sensitivity indices (duration, beta, gamma, delta) are generated for each invested asset. These indices are used to monitor and predict changes in the Bank's asset value resulting from changing risk factors. Various indices are generated to serve as sophisticated analysis tools in preparing reports with greater accuracy and timeliness. These reports help teams measure their performances and support the decision-making process of senior management.

Contingency plans are established at each credit risk level to support credit risk management. Credit limits are set on individual or borrowers when credit is extended as loans or purchases of securities or derivatives. This prevents credit risk from being overly concentrated and improves portfolio distribution. In addition, when detailed credit limits are set, any extraordinary losses that may occur are reflected to strengthen credit risk management and optimize equity capital. Finally, internal controls have been established for each fund management team to categorize the position of market risk measurement.

The Asset & Liability Management (ALM) system re-establishes interest rates for assets and liabilities each month to maintain optimal margins and strengthen interest rate risk management. The interest rates for assets and liabilities are reclassified on their respective readjusting date to create a monthly interest rate gap. These data are then reported to the Risk Committee and are reflected in the Bank's policy. This has helped the Bank's maintain a margin in the 3% range,

## DEVELOPING THE MARKET RISK MANAGEMENT SYSTEM HAS BOLSTERED OPERATIONAL STABILITY AND ENHANCED PERFORMANCE ASSESSMENT.

even when the market interest rate was in the 5% range.

In addition, the ALM system now produces a monthly gap for managing liquidity. The Financial Supervisory Service has upgraded the Bank's liquidity risk management and liquidity operations to Grade 2. A detailed inspection chart for operation risk has been made, and non-financial risk management guidelines have been developed to cover business management, online systems, office work, legal issues and reputation risk. These guidelines help each organizational unit analyze individual non-financial risk factors and improve related processes.

A method of quantifying risk is available by linking the Integrated Profit Management System with the Performance Management System. Developing the market risk management system has bolstered operational stability and enhanced performance assessment. Once the credit risk management system currently under development is complete, a calculated risk figure (ordinary and extraordinary losses) can be generated for measuring performance. An RAPM-based structure will then be able to proceed smoothly.

### Electronic Financial Services

The Mybi Card (also known as the Digital Pusan Card) is a form of electronic currency that is now accepted throughout the Busan Metropolitan subway system. New cards are issued free of charge at all Pusan Bank branches, where they can be reloaded (up to ₩500,000) for cash or directly from the cardholder's account. The cardholder with a Pusan Bank account can also get his or her card reloaded via the Internet.

Moreover, the Mybi Card can be purchased for ₩5,000 at all ticket windows for Subway Lines 1 and 2, and at some 600 card reload

stations in the city. When cardholders link their cards with their Pusan Bank accounts, the ₩5,000 purchase charge is refunded.

In addition to the subway system, the Mybi Card can be used on city buses as well as at tollbooths. Over 4,200 restaurants, convenience stores and other businesses in the Busan area accept the Mybi Card, and they can be used for purchasing items from vending machines and kiosks or online.

Inje University (with campuses in Busan and Gimhae) has entered into an agreement to use the Mybi Card as a student ID card as well as accept the card for purchases at on-campus stores and restaurants. The bar code on the card allows the holder access to the library and student union building.

### Online Marine Product Purchases

The Fishery Securities Dealers Automated Quotation (FISDAQA) Stock Market and Pusan Bank concluded an agreement to build Korea's first e-commerce system for marine products, one of the ten strategic industries being supported by the City of Busan. The system will enable users to purchase frozen fish and other marine products and remit payment online.

# Financial Statements

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## Selected Financial Data (Bank Account)

(in billions of Won)

	2001	2000	Change YOY
<b>Operating Results</b>			
Operating revenue	1,103.6	1,005.8	97.8
Net interest income	313.0	263.5	49.5
Operating income	77.2	16.6	60.6
Net income	52.3	10.2	42.1
<b>Per share data (Won)</b>			
Earning per common share	550	107	443
<b>Profitability Ratios</b>			
ROA	0.42	0.09	0.33
ROE	12.00	2.47	9.53
Net interest margin	3.22	3.02	0.20
Interest rate margin	3.57	3.14	0.43
<b>Balance Sheet Data at Year's End</b>			
Total assets	13,061.5	11,881.3	1,180.2
Total loans*	6,496.3	5,790.6	705.7
Total deposits*	12,008.4	10,361.1	1,647.3
Securities*	5,831.2	5,034.0	797.2
Shareholders' equity	443.9	406.6	37.3
<b>Asset Quality Ratios</b>			
Provisions to credit substandard or below	54.2	40.3	13.9
Credit substandard or below to total loans	3.73	6.65	-2.92
<b>Capital Ratios at Year's End</b>			
Total capital ratio	10.26	10.53	-0.27
Tier 1 capital	6.58	6.82	-0.24
Tier 2 capital	4.01	4.01	-

\* Figures include trust account.

## Overview

All performance indicators were substantially higher in FY01 than in the previous year. Importantly, net profit came to ₩52.3 billion, more than five-fold annual growth. Operating revenue increased ₩97.8 billion to ₩1,103.6 billion, while net interest income was up ₩49.5 billion to reach ₩313 billion in FY01. As a result, operating income skyrocketed ₩60.6 billion year on year to ₩77.2 billion. The profitability ratios were up as well, as ROA rose 0.33 percentage points to 0.42%, and ROE surged 9.53 percentage points to total 12.00%.

Net interest margin improved 0.20 percentage points year on year to reach 3.22%, while the interest rate margin improved 0.43 percentage points to arrive at 3.57%. Total assets increased 9.9% (more than ₩1.18 trillion) to surpass ₩13 trillion. Total loans grew ₩705.7 billion in FY01 to ₩6,496.3 billion and total deposits were up more than ₩1,647.3 billion to break the ₩12 trillion mark at the end of the year. At the same time, the portion of outstanding credit rated substandard or below dropped 2.92 percentage points to just 3.73%.

## Net Income

Operating revenue increased 9.7% (₩97.8 billion) year on year to exceed ₩1,103.6 billion. This growth drove operating income up ₩60.6 billion to ₩77.2 billion. Net income for 2001 came to ₩52.3 billion, a whopping ₩42.1 billion increase from the year before. Several factors can be cited for this steep growth in net income. However, the most salient contributors were strong gains in operating income across the board (net interest income, non-interest income and so on), while operating expenses, including loss write-offs, increased only modestly in FY01, as opposed to the previous year.

### Net Income Breakdown

(in billions of Won)

	2001	2000	Change YOY
Operating revenue	1,103.6	1,005.8	97.8
Operating expense	1,026.4	989.2	37.2
Operating income	77.2	16.6	60.6
Non-operating income	-24.9	-6.4	-18.5
Ordinary income	52.3	10.2	42.1
Extraordinary income	0.0	0.0	0.0
Net income	52.3	10.2	42.1

## Net Interest Income

Interest revenues reached 907.8 billion in FY01, up ₩45 billion 5.2% from the previous year. On the other hand, interest expenses dipped ₩4.5 billion year on year to ₩464.6 billion. These factors boosted net interest income 18.8% (₩49.5 billion) to ₩313 billion for the year.

Breaking down interest revenues, interest on loans grew ₩59 billion year on year to reach ₩528.5 billion, and interest on securities was also up ₩12 billion to total ₩325.7 billion at the end of FY01. By contrast, interest on due from banks dropped ₩29.2 billion to ₩39.4 billion for the year.

On the other side of the ledger, interest on deposits dropped 2.4% (₩11.2 billion) year on year to ₩464.6 billion in FY01. Interest on borrowings and debentures came to ₩96.9 billion, down ₩5.9 billion from FY00.

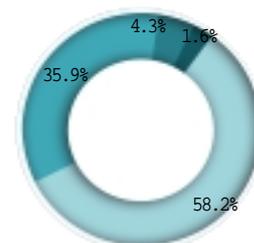
### Net Interest Income

(in billions of Won)

	2001	2000	Change YOY
Interest Revenues	907.8	862.8	45.0
Interest on loans	528.5	469.5	59.0
Interest on securities	325.7	313.7	12.0
Interest on due from banks	39.4	68.6	-29.2
Other	14.2	11.0	3.2
Interest Expenses	594.8	599.3	-4.5
Interest on deposits	464.6	475.8	-11.2
Interest on borrowings and debentures	96.9	102.8	-5.9
Other	33.3	20.7	12.6
Net interest income	313.0	263.5	49.5

## Interest Revenues

(percent)



Interest on loans	58.2%
Interest on securities	35.9%
Interest on due from banks	4.3%
Other	1.6%

## Net Interest Margin and Interest Rate margin

Falling market interest rates brought the average interest on loans received by the Bank down 0.55 percentage points to 8.6% for FY01. Meanwhile, the average deposit interest rate paid by the Bank fell even further, 0.69 percentage point, to 5.03%, nudging the interest rate margin up 0.14 percentage points year on year to 3.57%.

The average balance of interest earning assets increased more than ₩1,725.5 billion to exceed ₩11,427.6 billion at the end of FY01. Net interest revenue, which is adjusted interest revenue minus adjusted interest expense, increased ₩74.4 billion to reach ₩367.6 billion for the year. Therefore, the net interest margin came to 3.22%, up 0.20 percentage points year on year.

The increase in low-cost deposits allowed both net interest margin and interest rate margin to improve in FY01. The deposits in bank account surged 18.2% (more than ₩1,536.2 billion) to reach ₩9,973.4 billion. Importantly, low-cost deposits jumped 23.9% (₩740.7 billion) to amount to ₩3,844.2 billion, bringing the portion of low-deposit deposits up 1.76 percentage points year on year to 38.54% of total deposits.

### Interest Rate Margin

	2001	2000	Change YOY
Average interest on loans	8.6%	9.15%	-0.55%P
Average interest on deposits	5.03%	5.72%	-0.69%P
Interest rate margin	3.57%	3.14%	0.43%P

### Net Interest Margin

(in billions of Won)

	2001	2000	Change YOY
Interest earning assets (average balance)	11,427.6	9,702.1	1,725.5
Interest revenues*	964.6	893.5	71.1
Interest expenses*	597.0	600.3	-3.3
(KAMCO repurchase expense)	20.2	8.5	11.7
Net interest revenues	367.6	293.2	74.4
NIM 1	3.22	3.02	0.20
NIM 2 **	3.39	3.11	0.28

\* Other categories have been adjusted added to or subtracted from the interest revenues and expenses in Income Statement.

\*\* NIM 2 shows NIM1 minus interest expense related to the repurchase of loans from KAMCO.

### Low-cost Deposits

(in billions of Won)

	2001	2000	Change YOY
Total deposits	9,973.4	8,437.2	1,536.2
Low-cost deposits*	3,844.2	3,103.5	740.7
Interest expense on low-cost deposits	38.54	36.78	

\* Include demand deposits, savings deposits and corporate free deposits

### Non-interest Income

Total revenues, which refer to operating and non-operating revenues combined, grew ₩132.1 billion to reach ₩1,166.7 billion in FY01. This growth includes ₩86.9 billion in non-interest revenue and ₩45.2 billion in interest revenue. Thus, the portion of non-interest revenue increased 6.56 percentage points year on year to make up 22.18% of total revenue for FY01.

# Management Discussion and Analysis

## Revenue Breakdown

(in billions of Won)

	2001	2000	Change YOY
Operating revenues	1,103.8	1,005.8	98.0
Non-operating revenues	62.9	28.8	34.1
Total revenues	1,166.7	1,034.6	132.1
Interest revenues	907.9	862.7	45.2
Non-interest revenues	258.8	171.9	86.9
Commission and fee revenue	119.7	81.9	37.8
Trust revenue	19.0	26.6	-7.6
Other operating revenue	57.2	34.6	22.6
Non-operating revenue	62.9	28.8	34.1
Portion of interest revenue	77.82	83.38	-5.6
Portion of non-interest revenue	22.18	16.62	5.6
Commission and fee revenue to total revenue	10.26	7.92	2.3
Commission and fee revenue to operating revenue	10.84	8.14	2.7

## Commission and Fee Income

Non-interest revenues break down into commission and fee, trust, and other operating revenues. Trust revenue dropped ₩7.6 billion year on year, but commission and fee revenue climbed ₩37.8 billion to ₩119.7 billion. As commission and fee expenses rose by ₩4.8 billion to ₩11.7 billion, commission and fee income jumped 44.0% to total ₩108 billion. Most of the growth in commission and fee revenues resulted from commissions on credit card transactions and Won currency commissions received. Commissions on credit cards soared 67.6% (₩30.7 billion) year on year to ₩76.1 billion, while Won currency commissions received were 27% (₩6.7 billion) higher to reach ₩31.5 billion.

## Commission and Fee Income

(in billions of Won)

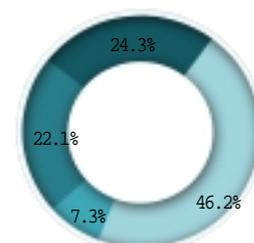
	2001	2000	Change YOY
Commission Revenues	119.7	81.9	37.8
Won currency commissions received	31.5	24.8	6.7
Foreign currency commissions received	8.3	7.1	1.2
Commission on credit cards	76.1	45.4	30.7
Guarantee fees	3.9	4.6	-0.7
Commission Expenses	11.7	6.9	4.8
Won currency commissions paid	3.1	1.8	1.3
Foreign currency commissions paid	1.3	1.0	0.3
Commission on credit cards	7.3	4.1	3.2
Net Commission and Fee Income	108.0	75.0	33.0

## Income before Provisions

Income before provisions totaled ₩202.5 billion in FY01, a 52.7% (₩69.9 billion) surge from the previous year. Provisions rose by ₩27.8 billion to total ₩150.2 billion, and the provision for loan losses made up ₩126.2 billion of this total, ₩25.5 billion more than in FY00. Net income came to ₩52.3 billion, a substantial ₩42.1 billion jump year on year.

## Non-interest revenues

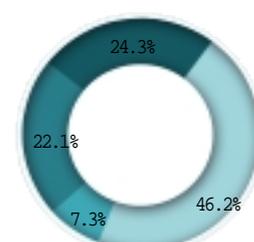
(percent)



Commission and fee revenue	46.3%
Trust revenue	7.3%
Other operating revenue	22.1%
Non-operating revenue	24.3%

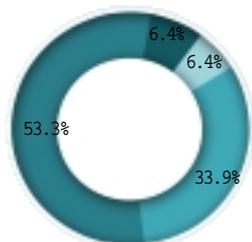
## Commission Revenues

(percent)



Commission and fee revenue	46.3%
Trust revenue	7.3%
Other operating revenue	22.1%
Non-operating revenue	24.3%

Asset Portfolio(Bank Account)  
(percent)



Cash & Due from Banks	6.4%
Securities	33.9%
Loans	53.3%
Other Assets	6.4%

## Income before Provisions

(in billions of Won)

	2001	2000	Change YOY
Income before Provisions	202.5	132.6	69.9
Total Provisions	150.2	122.4	27.8
Provisions for Loan Losses	126.2	100.7	25.5
Income Tax	0.0	0.0	0.0
Net Income	52.3	10.2	42.1

## Asset Portfolio

Total assets at the end of FY01 were 9.9% (more than ₩1,180.2 billion) higher than a year earlier to reach ₩13,061.5 billion. Loans showed the biggest increase (20.6%) of all assets in FY01, rising more than ₩1,187.3 billion to exceed ₩6,960.4 billion, or 53.3% of the asset portfolio, a rise of 4.7 percentage points year on year. During the same period, cash and due from banks dropped ₩269.4 billion to ₩839.5 billion, to make up just 6.4% of total assets, 2.9 percentage points lower than in FY00. While the amount of securities rose by ₩155.2 billion to ₩4,421.3 billion, the share of total assets edged down 2.0 percentage points to 33.9%.

### Asset Portfolio: Bank Account

(in billions of Won, percent)

	End of 2001		End of 2000		Change YOY	
	Amt.	Pct.	Amt.	Pct.	Amt.	Pct.
Cash & Due from Banks	839.5	6.4	1,108.9	9.3	-269.4	-24.3
Securities	4,421.3	33.9	4,266.1	35.9	155.2	3.6
Loans	6,960.4	53.3	5,773.1	48.6	1,187.3	20.6
Other Assets	840.3	6.4	733.2	6.2	107.1	14.6
Total	13,061.5	100.0	11,881.3	100.0	1,180.2	9.9

## Securities

The Bank's securities portfolio consists of stocks, government & public bonds, finance debentures, corporate bonds, and foreign currency-denominated securities. Starting in FY99, the portfolio has been subdivided into trading and investment securities. The former category refers to those held for short-term trading, while the latter are for gains over the mid-/long term.

In FY01, trading securities were virtually sold off with only ₩28.7 billion remaining at year's end against ₩529.2 billion a year earlier. The Bank disposed of all trading stocks and foreign currency-denominated securities, but the portfolio objectives are subject to change. At the end of the year, no balance remained for these two trading securities subcategories.

On the other hand, investment securities rose a hefty 18.5% (₩684.4 billion) to reach ₩4,392.6 billion. In this category, stocks rose only slightly year on year to ₩68.5 billion. Bonds, by contrast, jumped 17.9% (₩634.1 billion) to reach ₩4,182.2 billion at year's end. The overall securities portfolio was up a relatively minor 3.5% (₩155.2 billion) to total ₩4,421.3 billion for the year.

# Management Discussion and Analysis

## Securities Portfolio

(in billions of Won)

	End of 2001	End of 2000	Change YOY
Trading Securities	28.7	557.9	-529.2
Stocks	0.0	6.7	-6.7
Bonds	25.3	482.0	-456.7
Beneficiary certificates	3.4	68.8	-65.4
Foreign currency-denominated securities	0.0	0.4	-0.4
Investment Securities	4,392.6	3,708.2	684.4
Stocks	65.8	63.9	1.9
Bonds	4,182.2	3,548.1	634.1
Beneficiary certificates	98.0	61.4	36.6
Other	46.6	34.8	11.8
Total	4,421.3	4,266.1	155.2

## Loans

The Won-denominated loans balance was up a robust 17.4% (₩867.3 billion) to ₩5,843.0 billion. Household loans soared 52.5% (₩482.3 billion) to top ₩1,401.2 billion, while loans to large corporations dove 40.6% (₩231.3 billion) to ₩337.9 billion at year's end. Loans to small and medium enterprises, meanwhile, rose 13.9% (₩452.8 billion) year on year to reach ₩3,711.9 billion, or 63.5% of the Won-denominated loan portfolio. The growth rate for SME loans was slower than that for all loans, and the SME loan share of the loan portfolio dropped 2 percentage points year on year. By contrast, loans to households represented 24.0% of all the Won-denominated loans at year's end, 5.5 percentage points higher than a year earlier.

## Won-denominated Loans

(in billions of Won)

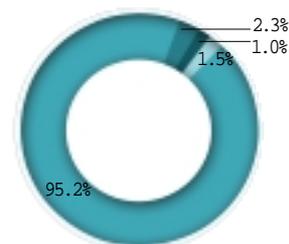
	End of 2001		End of 2000		Change YOY	
	Amt.	Pct.	Amt.	Pct.	Amt.	Pct.
To Households	1,401.2	24.0	918.9	18.5	482.3	52.5
To SMEs	3,711.9	63.5	3,259.1	65.5	452.8	13.9
To Large Corporations	337.9	5.8	569.2	11.4	-231.3	-40.6
Other	392.0	6.7	228.5	4.6	163.5	71.6
Total	5,843.0	100.0	4,975.7	100.0	867.3	17.4

## Asset Soundness & Provisions for loan losses

Total credit was 13.6% (₩843.7 billion) higher year on year to exceed the ₩7 trillion mark at year's end. Importantly, outstanding credit rated substandard or below dropped 2.92 percentage points (₩149.7 billion) to just 3.75% (₩263.1 billion) of total credit. A determined effort to dispose of non-performing loans enabled the Bank to lower loan loss provisions ₩23.8 billion to ₩142.6 billion. At the same time, the sharp reduction in credit substandard or below increased the loan loss reserve coverage to 54.2% of the outstanding credit rated substandard or below.

## Securities Portfolio

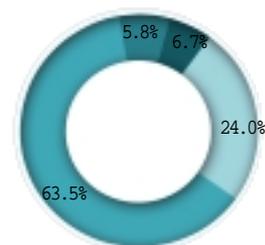
(percent)



Stocks	1.5%
Bonds	95.2%
Beneficiary certificates	2.3%
Other	1.0%

## Won-denominated Loans

(percent)

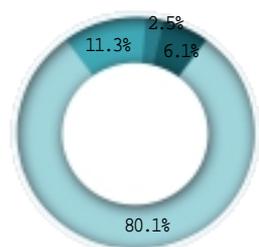


To Households	24.0%
To SMEs	63.5%
To Large Corporations	5.8%
Other	6.7%

## Substandard or Below Credit & Provisions

(in billions of Won)

Liabilities (percent.)	End of 2001		End of 2000		Change YOY	
	Amt	Pct.	Amt.	Pct.	Amt.	Pct.
Total Credit	7,048.1		6,204.4		843.7	
Credit Substandard or Below	263.1		412.8		-149.7	
Substandard	159.6		279.2		-119.6	
Doubtful	83.1		124.1		-41.0	
Estimated loss	20.4		9.5		10.9	
Ratio of Credit Substandard or Below	3.73		6.65		-2.92	
Provisions	142.6		166.4		-23.8	
Provisions to Substandard or Below Credit	54.2		40.3		13.9	



Deposits	80.1%
Borrowings	11.3%
Debentures Issued	2.5%
Other Liabilities	6.1%

## Liabilities Configuration

Total liabilities amounted to ₩12,617.6 billion at the end of FY01, up 10.0% (almost ₩1,142.9 billion) from the year before. Deposits increased 11.5% (more than ₩1,038.7 billion) to reach ₩10,108.8 billion in FY01. This category made up the far greatest share (80.1%) of liabilities at year's end, up 1.1 percentage points year on year. Borrowings also grew 6.6% (₩88.3 billion) to ₩1,419.1 billion, representing about the same portion (11.3%) of the total as a year earlier.

## Capital Adequacy

Core capital increased 13.6% (₩53.1 billion) during FY01 to total ₩442.9 billion at year's end, while supplementary capital surged 17.6% (₩40.3 billion) to ₩269.8 billion. Therefore, total equity capital was 14.7% higher (₩88.6 billion) year on year to reach ₩690.8 billion when contributions to unconsolidated subsidiaries are factored in. However, the expansion in operations also drove risk-weighted assets up 17.8% (more than ₩1,015.8 billion) to reach ₩6,733.0 billion. As a result, the BIS capital adequacy ratio dropped 0.27 percentage points to 10.26%. However, this figure far exceeded the 8% minimum rate mandated by the Financial Supervisory Service.

## BIS Capital Adequacy Ratio

(in billions of Won)

	2001		2000		Change YOY	
	Amt.	Pct.	Amt.	Pct.	Amt.	Pct.
Core capital	442.9		389.8		53.1	13.6
Supplementary capital	269.8		229.5		40.3	17.6
Contributions to unconsolidated subsidiaries	21.9		17.1		4.8	28.1
Total equity capital	690.8		602.2		88.6	14.7
Risk-weighted assets	6,733.0		5,717.2		1,015.8	17.8
Tier 1 Capital	6.58		6.82		-0.24	-3.5
Tier 2 capital	4.01		4.01		-0.01	-0.2
BIS capital adequacy ratio	10.26		10.53		-0.27	-2.6

## Liabilities

(in billions of Won)

	End of 2001		End of 2000		Change YOY	
	Amt.	Pct.	Amt.	Pct.	Amt.	Pct.
Deposits	10,108.8	80.1	9,070.1	79.0	1,038.7	11.5
Borrowings	1,419.1	11.3	1,330.8	11.6	88.3	6.6
Debentures Issued	314.8	2.5	214.2	1.9	100.6	47.0
Other Liabilities	774.9	6.1	859.6	7.5	-84.7	-9.9
Total	12,617.6	100.0	11,474.7	100.0	1,142.9	10.0



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The Board of Directors and Stockholders

Pusan Bank

We have audited the accompanying balance sheets of Pusan Bank ("the Bank") at December 31, 2001 and 2000, and the related statements of income, disposition of undisposed accumulated deficit and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above, expressed in Korean won, present fairly, in all material respects, the financial position of Pusan Bank as of December 31, 2001 and 2000, and the results of its operations, disposition of undisposed accumulated deficit and cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The amounts expressed in United States dollars, provided solely for the convenience of the reader, have been translated on the basis described in Note 2 to the accompanying financial statements.

Without qualifying our opinion, we draw attention to Note 19 of the financial statements which states that the operations of the Bank have been affected, and may continue to be affected for the foreseeable future, by the general unstable economic conditions in the Republic of Korea and in the Asia Pacific region.

The ultimate effect of these uncertainties on the financial position of the Bank as of the balance sheet date cannot presently be determined.

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

Accordingly, this report and the accompanying financial statements are for use by those who are knowledgeable about Korean accounting principles and auditing standards and their application in practice.

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

January 15, 2002

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
<b>ASSETS</b>			
Cash and due from banks (Notes 3 and 17)	₩ 839,510	₩ 1,108,860	\$ 633,067
Trading securities (Notes 4 and 17)	28,724	557,861	21,661
Investment securities (Notes 4 and 17)	4,392,565	3,708,206	3,312,393
Loans including bills discounted and call loans, less allowance for loan losses and present value discount (Notes 5, 13, 16 and 17)	6,960,361	5,773,116	5,248,745
Fixed assets, net (Note 6)	328,702	325,226	247,871
Other assets (Notes 7 and 17)	511,644	408,036	385,826
Total assets	₩ 13,061,506	₩ 11,881,305	\$ 9,849,563
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Deposits from customers (Notes 8, 16 and 17)	₩ 10,108,757	₩ 9,070,048	\$ 7,622,922
Borrowings (Notes 9 and 17)	1,419,118	1,330,831	1,070,144
Debentures issued (Note 10)	314,757	214,197	237,355
Other liabilities:			
Severance and retirement benefits	90,884	103,866	68,535
Due to Trust Accounts	268,537	313,270	202,501
Other liabilities (Notes 11, 16 and 17)	15,522	442,468	313,342
	774,943	859,604	584,378
Total liabilities	12,617,575	11,474,680	9,514,799
Commitments and contingent liabilities (Note 18)			
Stockholders' equity (Note 12):			
Common stock, ₩5,000 par value (Korean won in units);			
Authorized - 400,000,000 shares			
Issued and outstanding - 95,045,164 shares and 95,045,162 shares as of December 31, 2001 and 2000, respectively	475,226	475,226	358,364
Undisposed accumulated deficit	(33,632)	(85,933)	(25,362)
Capital adjustment account	2,337	17,332	1,762
Total stockholders' equity	443,931	406,625	334,764
Total liabilities and stockholders' equity	₩ 13,061,506	₩ 11,881,305	\$ 9,849,563

## STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2001 AND 2000

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
Operating income			
Interest income:			
Due from banks	₩ 9,399	₩ 68,550	\$ 29,711
Marketable securities	14,254	33,304	10,749
Investment securities	311,490	280,402	234,892
Loans (Note 16)	528,471	469,528	398,515
Other interest income	14,224	10,990	10,726
	907,838	862,774	684,593
Fee and commission income	119,971	83,189	90,469
Other operating income:			
Trading and valuation gains on marketable securities	13,943	15,440	10,514
Gains on dealing foreign exchange	18,018	17,047	13,587
Trust management fees	18,811	25,271	14,185
Other	25,015	2,113	18,864
	75,787	59,871	57,150
Total operating income	1,103,596	1,005,834	832,212
Operating expenses			
Interest expense:			
Deposits from customers (Note 16)	464,641	475,776	350,382
Borrowings	75,333	81,489	56,808
Debentures issued	21,554	21,237	16,254
Other interest expense	33,307	20,739	25,116
	594,835	599,241	448,560
Fee and commission expense	11,710	6,787	8,830
Other operating expenses:			
Trading and valuation losses on marketable securities	12,445	26,194	9,385
Provision for loan losses	126,224	100,728	95,184
Other	76,572	55,289	57,742
	215,241	182,211	162,311
General and administrative expenses:			
Personnel expenses	129,776	134,095	97,863
Depreciation and amortization	25,644	22,303	19,338
Other	49,141	44,581	37,057
	204,561	200,979	154,258
Total operating expenses	1,026,347	989,218	773,959
Net operating income	77,249	16,616	58,253
Non-operating income:			
Gains on disposal of and valuation on investment securities	32,589	15,882	24,575
Gains on disposal of loans	7,602	3,804	5,733
Other	22,664	9,150	17,090
	62,855	28,836	47,398
Non-operating expenses:			
Losses on disposal of and impairment on investment securities	11,609	24,941	8,754
Losses on disposal of loans	34,003	2,311	25,642
Other	42,191	7,983	31,816
	87,803	35,235	66,212
Income before income taxes	52,301	10,217	39,439
Income tax expense (Note 14)	-	-	-
Net income	₩ 52,301	₩ 10,217	\$ 39,439
Primary ordinary earnings per share (Notes 2 and 15) (Korean won and U. S. dollars in units)	₩ 550	₩ 107	\$ 0.415
Primary earnings per share (Notes 2 and 15) (Korean won and U. S. dollars in units)	₩ 550	₩ 107	\$ 0.415

STATEMENTS OF DISPOSITION OF UNDISPOSED ACCUMULATED DEFICIT YEARS ENDED DECEMBER 31, 2001 AND 2000

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
Undisposed accumulated deficit carried forward from prior year	₩ (85,933)	₩ (82,220)	\$ (64,801)
Cumulative effect of changes in accounting principles (Note 2)	-	(14,026)	-
Other	-	96	-
Net income for the year	52,301	10,217	39,439
Undisposed accumulated deficit at end of year before disposition	(33,632)	(85,933)	(25,362)
Disposition:	-	-	-
Undisposed accumulated deficit to be carried forward to next year	₩ (33,632)	₩ (85,933)	\$ (25,362)

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2001 AND 2000

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
Cash flows from operating activities:			
Net income	₩ 52,301	₩ 10,217	\$ 39,439
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	126,224	100,728	95,184
Depreciation and amortization	25,644	22,303	19,338
Provision for severance and retirement benefits	16,103	21,431	12,143
Payments of severance and retirement benefits	(30,221)	(4,779)	(22,789)
Provision for payment guarantee losses	-	340	-
Loss on valuation of marketable securities - net	130	7,681	98
Loss (gain) on disposal of loans - net	26,401	(1,493)	19,909
Loss (gain) on valuation of investment securities - net	(4,388)	18,105	(3,309)
Loss (gain) on disposal of fixed assets - net	(816)	2,212	(615)
Loss (gain) on disposal of marketable securities - net	(1,629)	3,073	(1,228)
Gain on disposal of investment securities - net	(16,592)	(9,046)	(12,512)
Amortization of present value discount	(3,159)	(4,465)	(2,382)
Valuation loss on fixed assets held for non-operating purpose	1,228	1,543	926
Other	8,010	251	6,040
Changes in operating assets and liabilities:			
Decrease (increase) in marketable securities	530,636	(128,051)	400,148
Increase in loans	(1,190,004)	(879,683)	(897,371)
Increase in deposits from customers	1,038,709	1,488,131	783,281
Increase (decrease) in due to Trust Accounts	(44,732)	176,883	(33,732)
Increase (decrease) in bonds sold under repurchase agreement	28,016	(26,067)	21,127
Increase (decrease) in bills sold	(75,674)	54,220	(57,065)
Increase (decrease) in call money	(1,733)	2,690	(1,307)
Other - net	(189,530)	8,455	(142,923)
Total adjustments	242,623	54,462	182,961
Net cash provided by operating activities	294,924	864,679	222,400
Cash flows from investing activities:			
Proceeds from disposal of investment securities	7,480,487	2,718,582	5,640,967
Proceeds from disposal of fixed assets	10,342	10,194	7,799
Purchase of investment securities	(8,158,959)	(3,842,311)	(6,152,597)
Purchase of fixed assets	(39,874)	(34,129)	(30,069)
Other, net	3,039	(441)	2,292
Net cash used in investing activities	(704,965)	(1,148,105)	(531,608)
Cash flows from financing activities:			
Increase in borrowings	179,479	79,304	135,343
Increase (decrease) in debentures issued	99,988	(631)	75,400
Other, net	8,588	1,674	6,476
Net cash provided by financing activities	288,055	80,347	217,219
Net decrease in cash and cash equivalents	(121,986)	(203,079)	(91,989)
Cash and cash equivalents at beginning of year (Note 2)	1,452,729	1,655,808	1,095,490
Cash and cash equivalents at the end of year (Note 2)	₩ 1,330,743	₩ 1,452,729	\$ 1,003,501

## 1. Organization and business

Pusan Bank ("the Bank") was incorporated on October 10, 1967 as a regional bank, under the laws of the Republic of Korea, to engage in the commercial banking and trust business. The Bank became a publicly traded financial institution upon listing its common shares on the Korean Stock Exchange in June 1972. The Bank's issued and outstanding common stock as of December 31, 2001 amounted to ₩475,226 million (US\$358,364 thousand).

The Bank's head office is located in Pusan and the Bank has 205 branches in Korea.

The Bank is appointed as a manager of Pusan City Government's Budgetary Funds (General Account and several Special Accounts) starting from January 1, 2001 for 3 years.

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

### Basis of financial statements -

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

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

Certain supplementary information attached to the statutory Korean language financial statements, but not required for a fair presentation, of the Bank's financial position, results of operations and cash flows, is not presented in the accompanying financial statements.

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

### Basis of translating the financial statements -

For the convenience of the reader, the financial statements expressed in Korean won have been translated into United States dollars at ₩1,326.1 : US\$1, the prevailing exchange rate at December 31, 2001. This translation should not be construed as a representation that any or all of the amounts stated in Korean won could have been converted to United States dollars at this or any other rate.

### Translation of foreign currencies -

Assets and liabilities denominated in foreign currencies are translated into Korean won using the exchange rate of ₩1,326.1 : US\$1, the exchange rate in effect as of December 31, 2001 (₩1,259.70 : US\$1 as of December 31, 2000). Foreign currency transactions are accounted for at the exchange rates prevailing on the dates of the transactions. Resulting foreign currency translation gains (losses) are credited (charged) to current operations.

**Allowance for loan losses -**

The Bank provides an allowance for loan losses based on overall consideration of the factors affecting a borrower's ability to repay loans such as the period since default had occurred, the borrower's business, insolvency status, financial status and future cash flows. The Bank applies different credit loss reserve ratios corresponding to the collectibility of loans outstanding at December 31, 2001 and 2000. The reserve percentages range from 0.5% to 100% based on collectibility.

If the Bank has credit exposures in connection with payment guarantees it issued on behalf of its customers, for which a beneficiary of the payment guarantee has not yet claimed payment against the Bank, the Bank estimates the related future losses based on the criteria mentioned above and records the estimated losses as a provision for credit losses on payment guarantees in the statement of income and allowance for credit losses on payment guarantees (a liability account) in the balance sheet.

**Securities -**

Securities held for trading purposes are stated at market value and the unrealized gains (losses) are credited (charged) to current operations. Debt securities held to maturity or securities (both equity and debt) other than trading securities are classified as investment securities and are stated at acquisition cost.

Marketable investment securities, excluding debt securities held to maturity, are marked to market and the unrealized gains (losses) are recorded in the capital adjustment account. If the fair market value or the Bank's share in the underlying net worth of investment securities has declined significantly below the Bank's acquisition cost, and there is no possibility of recovery in the future, the valuation loss is charged to current operations.

Equity investment securities in which the Bank has significant influence on the investee company are stated using the equity method.

**Interest income -**

Interest on loans and securities are recognized on the accrual basis, while interest income on overdue and dishonored loans or securities, except for those secured and guaranteed by other financial institutions, is recognized on a cash basis. Interest income on overdue and dishonored loans or securities, which is not recognized, amounted to ₩36,152 million (US\$27,262 thousand) as of December 31, 2001 (₩59,887 million as of December 31, 2000).

**Restructuring of loans -**

The difference between the face value and the present value of loans which have been restricted through court receivership, court mediation, workout program, etc. is accounted for as present value discount, which is amortized using the effective interest method and recognized as interest income over the revised terms of the loans. The face value of these loans and net present value after 2001 amortization as of December 31, 2001 amounted to ₩150,195 million (US\$113,261 thousand) and ₩133,137 million (US\$100,397 thousand) (₩274,290 million and ₩240,985 million as of December 31, 2000), respectively. Out of the present value discount amounting to ₩21,033 million (US\$15,861 thousand) incurred in 2001, 2000 and 1999, ₩3,975 million (US\$2,998 thousand) was amortized and the outstanding balance as of December 31, 2001 amounted to ₩17,058 million (US\$12,863 thousand).

**Fixed assets used in operations -**

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

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

	Years
Buildings	50
Furniture and equipment	5

Leasehold improvements are recorded at cost and are depreciated using the straight-line method over five years.

**Foreclosed property -**

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

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

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

**Severance and retirement benefits -**

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

In accordance with the Korean National Pension Law, the Company had prepaid a portion of its severance and retirement benefits obligation to the Korean National Pension Corporation at the rate of three percent (two percent through December 31, 1997) of payroll expense. Such prepayments amounting to ₩5,475 million (US\$4,129 thousand) as of December 31, 2001 (₩6,611 million as of December 31, 2000) have been offset against the Company's liability for severance and retirement benefits. In accordance with a revision in the Korean National Pension Law, these prepayments are no longer required effective April 1, 1999.

In order to obtain tax benefits, the Bank has on deposit a portion of its severance and retirement benefits obligation with life insurance companies. Such deposits amounting to ₩84,800 million (US\$63,947 thousand) (₩84,800 million at December 31, 2000) are refundable on demand; however, since refunding the deposits for purposes other than paying benefits would result in a reversal of the tax benefits, the Bank has no intention of seeking such a refund and accordingly, the Bank accounted for the deposits as noncurrent assets.

In 2000, the Bank funded the severance and retirement benefits obligation with Taegu Bank. The fund amounted to ₩20,000 million (US\$15,082 thousand) at December 31, 2001 and 2000. Since the Bank's employees are individually nominated as the vested beneficiaries of the fund in respect of what is due to them as of such dates, this amount has been offset against the Bank's liability for severance and retirement benefits at December 31, 2001 and 2000.

**Cash equivalents -**

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

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
Cash and due from banks	₩ 839,510	₩ 1,108,860	\$ 633,067
Bonds purchased under resale agreements	485,000	342,000	365,734
Call loans	6,233	1,869	4,700
	₩ 1,330,743	₩ 1,452,729	\$ 1,003,501

**Due to Trust Account -**

Certain idle trust funds entrusted to the Bank have been transferred to the Bank Account. The Bank accounts for these as due to Trust Account. The Bank pays interest to the Trust Account (approximately 5% in 2001 and 2000 per annum) based on predetermined interest rates.

**Trust management fees -**

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

**Income taxes -**

The Bank provides for taxes using the liability method, which reflects the tax effect of tax loss carryforwards and temporary differences between the tax basis of assets and liabilities and their reported amounts in the accompanying financial statements.

Even though the Bank has accumulated tax loss carryforwards of ₩308,089 million (US\$232,327 thousand), including accumulated taxable temporary differences as of December 31, 2001 (₩357,893 million as of December 31, 2000), the Bank did not recognize a deferred income tax asset due to the uncertainty of realizing tax benefits in the future.

**Derivative financial instruments -**

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

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

**Per share amounts -**

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

### Cumulative effect of changes in accounting principles -

The 2000 cumulative effect of changes in accounting principles resulted from implementing present value discount accounting in the trust accounts and other changes.

### 3. Due from banks

Deposits with the Bank of Korea for payment reserves amounting to ₩223,534 million (US\$168,565 thousand) as of December 31, 2001 (₩200,858 million as of December 31, 2000), included in due from banks, are restricted as to usage in accordance with the Korean banking law. The Korean banking law requires the Bank to maintain the deposits, based on a certain percentage of total deposits received by the Bank, to meet deposit withdrawals by customers. Due from banks amounting to ₩84,800 million (US\$63,947 thousand) as of December 31, 2001 (₩84,800 million as of December 31, 2000) is restricted to payments of employees' severance and retirement benefits. In addition, due from banks amounting to ₩7,854 million (US\$5,923 thousand) as of December 31, 2001 (₩7,801 million as of December 31, 2000) is restricted in use in connection with related regulations and contracts.

The term structure of amounts due from banks is as follows:

	Korean won in millions		Translation into U. S. dollars
	2001	2000	in thousands (Note 2) 2001
<b>MATURITY</b>			
Within 1 year	₩ 243,214	₩ 541,284	\$ 183,405
Over 1 year within 3 years	6,250	6,250	4,713
Over 3 years	333,051	245,315	251,151
	₩ 582,515	₩ 792,849	\$ 439,269

### 4. Securities

Securities held by the Bank as of December 31, 2001 and 2000 are as follows:

	Interest rate (%)	2001	
		Korean won in millions	Translation into U. S. dollars in thousands (Note 2)
<b>TRADING SECURITIES</b>			
Government and public bonds	5.86	₩ 14,986	\$ 11,301
Finance bonds	7.77	10,304	7,770
Beneficiary certificates	1.40~2.09	3,434	2,590
		₩ 28,724	\$ 21,661
<b>INVESTMENT SECURITIES</b>			
Equity securities		₩ 72,930	\$ 54,996
Government and public bonds	3.00~11.95	817,545	616,503
Finance bonds	4.32~10.57	1,414,671	1,066,791
Corporate bonds	2.00~15.00	1,950,015	1,470,489
Beneficiary certificates	0.00~8.94	97,961	73,871
Foreign currency denominated securities	3.67~7.25	37,305	28,131
Other	4.98	2,138	1,612
		₩ 4,392,565	\$ 3,312,393

	2000	
	Interest rate (%)	Korean won in millions
<b>TRADING SECURITIES</b>		
Equity securities		₩ 6,668
Government and public bonds	6.79~8.20	115,932
Finance bonds	6.65~8.73	296,207
Corporate bonds	6.99	69,910
Beneficiary certificates	8.90	68,777
Foreign currency denominated securities	9.50~18.00	367
		₩ 557,861
<b>INVESTMENT SECURITIES</b>		
Equity securities		₩ 73,658
Government and public bonds	5.00~18.40	517,754
Finance bonds	6.50~12.00	1,513,589
Corporate bonds	8.57~12.50	1,516,763
Beneficiary certificates	8.20~19.80	61,405
Foreign currency denominated securities	7.02~7.98	19,906
Other	5.48	5,131
		₩ 3,708,206

The maturity of securities as of December 2001 and 2000, other than equity securities, are as follows:

	2001			
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
<b>KOREAN WON IN MILLIONS</b>				
Trading securities:				
Won currency securities	₩ 3,434	₩ 25,290	₩ -	₩ 28,724
Investment securities:				
Won currency securities	1,678,833	1,989,696	613,802	4,282,331
Foreign currency denominated securities	13,197	23,932	176	37,305

	2000			
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Trading securities:				
Won currency securities	₩ 370,502	₩ 82,650	₩ 97,674	₩ 550,826
Foreign currency denominated securities	-	--	367	367
Investment securities:				
Won currency securities	1,754,236	1,544,384	316,022	3,614,642
Foreign currency denominated securities	1,260	14,542	4,104	19,906

	2001			
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
<b>TRANSLATION INTO U. S. DOLLARS IN THOUSANDS (NOTE 2)</b>				
Trading securities : Won currency securities	\$ 2,590	\$ 19,071	\$ -	\$ 21,661
Investment securities : Won currency securities	1,265,993	1,500,412	462,862	3,229,267
Foreign currency denominated securities	9,952	18,047	132	28,131

Securities denominated in foreign currencies as of December 31, 2001 and 2000 include securities issued by companies (including Korean companies and subsidiaries of Korean companies), located outside Korea as follows:

ISSUERS' COUNTRY	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
Iran	₩ -	₩ 5,039	₩ -
Indonesia	-	1,942	-
U. S. A.	17,301	-	13,047
	₩ 17,301	₩ 6,981	₩ 13,047

The carrying value of these securities may be affected by instability that could occur in the economies of the above countries and also in international financial markets.

## 5. Loans

Loans as of December 31, 2001 and 2000 consisted of the following:

	2001		
	Interest rate (%)	Korean won in millions	Translation into U. S. dollars in thousands (Note 2)
<b>Won currency loans:</b>			
Loans to companies	4.00~23.00	₩ 4,049,777	\$ 3,053,900
Loans to individuals	5.00~21.00	1,322,435	997,236
Other	4.00~24.00	470,810	355,034
		5,843,022	4,406,170
<b>Loans in foreign currencies</b>			
Bills bought in won	3.03~7.42	155,649	117,374
Bills bought in foreign currencies	7.50~13.86	9,726	7,334
Advances for customers	2.00~10.19	126,117	95,104
Credit card accounts		43,878	33,088
Bonds bought under resale agreements		385,114	290,411
Privately placed corporate bonds	4.50~6.70	485,000	365,734
Call loans	7.50~16.25	30,782	23,212
Others		6,233	4,700
		23,749	17,909
		7,109,270	5,361,036
Less allowance for loan losses		(131,851)	(99,428)
Less present value discount account		(17,058)	(12,863)
		₩ 6,960,361	\$ 5,248,745

The maturities of loans as of December 31, 2001 and 2000 are as follows:

	2000	
	Interest rate (%)	Korean won in millions
Won currency loans:		
Loans to companies	5.00-21.75	₩ 3,828,503
Loans to individuals	5.00-19.50	852,260
Other	4.20-14.75	295,025
		4,975,788
Loans in foreign currencies	5.70-11.10	161,070
Bills bought in won	9.00-13.25	8,437
Bills bought in foreign currencies	2.34-11.44	157,660
Advances for customers	2.34-11.44	46,775
Credit card accounts		209,025
Bonds bought under resale agreements	6.20-8.10	342,000
Privately placed corporate bonds	10.50-12.50	36,098
Call loans	4.85	1,869
Others		5,870
		5,944,592
Less allowance for loan losses		(138,171)
Less present value discount account		(33,305)
		₩ 5,773,116

The maturities of loans as of December 31, 2001 and 2000 are as follows:

	2001			
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Won currency loans	₩ 3,806,225	₩ 1,184,582	₩ 852,215	₩ 5,843,022
Foreign currency loans	48,531	47,227	59,891	155,649
Bills bought in won	9,726	-	-	9,726
Bills bought in foreign currencies	125,852	265	-	126,117
Advances for customers	417	-	43,461	43,878

	2000			
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Won currency loans	₩ 3,434,161	₩ 814,156	₩ 727,471	₩ 4,975,788
Foreign currency loans	45,638	57,784	57,648	161,070
Bills bought in won	8,437	-	-	8,437
Bills bought in foreign currencies	157,156	504	-	157,660
Advances for customers	422	-	46,353	46,775

**Translation into U. S. dollars in thousands (Note 2)**

	2001			
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Won currency loans	\$ 2,870,240	\$ 893,282	\$ 642,648	\$ 4,406,170
Foreign currency loans	36,597	35,614	45,163	117,374
Bills bought in won	7,334	-	-	7,334
Bills bought in foreign currencies	94,904	200	-	95,104
Advances for customers	314	-	32,774	33,088

Loans to foreign companies as of December 31, 2001 and 2000, except subsidiaries of Korean companies, amounting to ₩2,652 million (US\$2,000 thousand) and ₩2,520 million, respectively, are all to Indonesian companies. The collectibility of these loans may be affected by the unstable economy in Indonesia and international financial markets.

The amount of loans written off for which the Bank still has legal claims is ₩333,898 million (US\$251,789 thousand) and ₩269,540 million as of December 31, 2001 and 2000, respectively.

## 6. Fixed assets

Fixed assets as of December 31, 2001 and 2000 consisted of the following:

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
Fixed assets used for operations:			
Land	₩ 178,063	₩ 179,449	\$ 134,276
Buildings	85,102	81,469	64,175
Leasehold improvements	11,220	9,625	8,461
Furniture and equipment	130,648	109,086	98,520
Construction in progress	19,283	19,507	14,541
	424,316	399,136	319,973
Less accumulated depreciation	(115,383)	(96,288)	(87,009)
	308,933	302,848	232,964
Intangible assets	10,296	7,542	7,764
Fixed assets held for non-operating purposes	16,622	22,682	12,534
Less reserve for valuation losses	(7,149)	(7,846)	(5,391)
	9,473	14,836	7,143
	₩ 328,702	₩ 325,226	\$ 247,871

At December 31, 2001 and 2000, the value of land, including land held for non-operating purposes, as published by the government for tax administration purposes amounted to ₩141,369 million (US\$106,605 thousand) and ₩146,804 million, respectively.

As of December 31, 2001 and 2000, fixed assets used in operations were insured against losses up to approximately ₩140,374 million (US\$105,855 thousand) and ₩113,660 million, respectively.

## 7. Other assets

Other assets at December 31, 2001 and 2000 consisted of the following:

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
Lease key money deposits	₩ 78,939	₩ 81,978	\$ 59,527
Accounts receivable - other	38,092	146,957	28,725
Accrued interest income	153,377	164,027	115,660
Domestic exchange settlement debits	121,104	8,727	91,323
Other	121,387	8,830	91,537
	512,899	410,519	386,772
Less present value discount	(1,255)	(2,483)	(946)
	₩ 511,644	₩ 408,036	\$ 385,826

## 8. Deposits from customers

Deposits from customers as of December 31, 2001 and 2000 consisted of the following:

	2001		
	Interest rate (%)	Korean won in millions	Translation into U. S. dollars in thousands (Note 2)
Won currency deposits:			
Demand deposits	0.00~3.00	₩ 1,000,821	\$ 754,710
Time and saving deposits	1.00~6.20	8,985,506	6,775,889
		9,986,327	7,530,599
Deposits in foreign currencies	0.05~3.91	89,787	67,707
Negotiable certificates of deposits	3.89~4.49	32,643	24,616
		₩ 10,108,757	\$ 7,622,922

	2000	
	Interest rate (%)	Korean won in millions
Won currency deposits:		
Demand deposits	0.00~3.00	₩ 847,113
Time and saving deposits	1.00~10.00	8,089,923
		8,937,036
Deposits in foreign currencies	2.00~7.19	89,636
Negotiable certificates of deposits	5.02~7.10	43,376
		₩ 9,070,048

The maturity of deposits from customers as of December 31, 2001 and 2000 are as follows:

	2001			
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
<b>KOREAN WON IN MILLIONS</b>				
Won currency deposits	₩ 6,857,445	₩ 424,475	₩ 2,704,407	₩ 9,986,327
Foreign currency deposits	30,221	-	59,566	89,787
Negotiable certificates of deposit	32,643	-	-	32,643
<b>2000</b>				
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Won currency deposits	₩ 6,012,744	₩ 324,869	₩ 2,599,423	₩ 8,937,036
Foreign currency deposits	38,873	-	50,763	89,636
Negotiable certificates of deposit	43,376	-	-	43,376
<b>2001</b>				
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
<b>TRANSLATION INTO U. S. DOLLARS IN THOUSANDS (NOTE 2)</b>				
Won currency deposits	\$ 5,171,137	\$ 320,093	\$ 2,039,369	\$ 7,530,599
Foreign currency deposits	22,789	-	44,918	67,707
Negotiable certificates of deposits	24,616	-	-	24,616

## 9. Borrowings

Borrowings of the Bank as of December 31, 2001 and 2000 are as follows:

	Interest rate (%)	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
		2001	2000	2001
<b>Won currency borrowings:</b>				
Borrowings from the Bank of Korea	2.5	₩ 339,118	₩ 297,410	\$ 255,726
Borrowings from local governments	1.4~8.0	283,303	187,107	213,636
Small and medium industry development finance funds	4.5~5.75	195,338	163,443	147,303
Borrowing from other banks	4.0~8.55	95,098	121,389	71,712
Subordinated borrowings	5.0~6.0	85,000	85,000	64,098
Other	2.0~6.25	53,622	45,253	40,436
		1,051,479	899,602	792,911
<b>Borrowings in foreign currencies:</b>				
Borrowings from the Bank of Korea	7.93	-	41,802	-
Borrowings from other banks	Libor+(0.43~2.20)	236,391	208,788	178,260
		236,391	250,590	178,260
Drafts and bills sold		12,750	88,424	9,615
Call money		21,466	23,199	16,187
Bonds sold under repurchase agreements		97,032	69,016	73,171
		₩ 1,419,118	₩ 1,330,831	\$ 1,070,144

Subordinated borrowings as of December 31, 2001 and 2000 consisted of the following:

Lender	Date of borrowing	Maturity	Interest rate (%)	Korean won in millions		Translation into U. S. dollars
				2001	2000	in thousands (Note 2)
Shinhan Life Insurance	12. 31. 1996	12. 31. 2002	5.0	₩ 35,000	₩ 35,000	\$ 26,393
Kyobo Life Insurance	6. 26. 1997	6. 26. 2007	6.0	20,000	20,000	15,082
Samsung Life Insurance	11. 29. 1997	11. 29. 2007	6.0	30,000	30,000	22,623
				₩ 85,000	₩ 85,000	\$ 64,098

In connection with the above borrowings, 35 promissory notes amounting to ₩132,470 million (US\$99,894 thousand) received from customers of the Bank and securities amounting to ₩582,800 million (US\$439,484 thousand) have been placed with the Bank of Korea and Sumitomo Bank as security.

The repayment schedule of borrowings as of December 31, 2001 and 2000 are as follows:

	2001			
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
<b>KOREAN WON IN MILLIONS</b>				
Won currency borrowings	₩ 528,610	₩ 148,620	₩ 374,249	₩ 1,051,479
Foreign currency borrowings	144,765	78,955	12,671	236,391

	2000			
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Won currency borrowings	₩ 422,956	₩ 188,717	₩ 287,929	₩ 899,602
Foreign currency borrowings	186,453	62,985	1,152	250,590

	2001			
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
<b>TRANSLATION INTO U. S. DOLLARS IN THOUSANDS (NOTE 2)</b>				
Won currency borrowings	\$ 398,620	\$ 112,073	\$ 282,218	\$ 792,911
Foreign currency borrowings	109,166	59,539	9,555	178,260

## 10. Debentures issued

Notes and debentures issued by the Bank as of December 31, 2001 and 2000 are as follows:

Description	Issuance date	Maturity	Korean won in millions		Translation into
			2001	2000	U. S. dollars in thousands (Note 2)
Subordinated debenture	12. 24.1997	3. 31.2003	₩ 116,000	₩ 116,000	\$ 87,475
Subordinated debenture	12. 29.1999	3. 31.2005	100,000	100,000	75,409
Less present value discount			(1,697)	(2,215)	(1,280)
Other	1998-1999		30	42	23
Subordinated debt	6. 15.2001	1. 15.2007	100,000	-	75,409
Bonds with warrants	1999. 6. 29	2049. 6. 29	300,000	300,000	226,227
Less present value discount			(299,576)	(299,630)	(225,908)
Total debentures in won			₩ 314,757	₩ 214,197	\$ 237,355

The subordinated debentures totaling ₩216,000 million above, bear interest based on a monthly floating rate (7.34% and 8.51% per annum as of December 31, 2001 and 2000, respectively) as determined by the Committee of Public Funds, and interest is payable quarterly in arrears.

The Bank issued bonds with warrants amounting to ₩300,000 million with a present value discount of ₩299,678 million on June 29, 1999. The face value of each bond is denominated into ₩10,000 (US\$7.54) and the issuance value is ₩10 (US\$0.75 cents) per bond. Bonds with warrants are scheduled to be repaid on June 29, 2049 at face value. Face value includes interest calculated at a compound rate of 15% per annum on the issuance value (₩10 per bond). The Bank can redeem early at ₩15 (US\$1.13 cents) per bond on June 30, 2002.

The bond holders have the right to require the Bank to issue two shares of common stock at par value for each bond from September 30, 1999 through June 29, 2002. After issuance of the bonds, the bond holders exercised warrants resulting in the issuance of 5,164 common shares. The remaining balance of bonds with unexercised warrants is ₩299,974 million (US\$226,208 thousand) as of December 31, 2001.

## 11. Other liabilities

Other liabilities at December 31, 2001 and 2000 consisted of the following:

	Korean won in millions		Translation into
	2001	2000	U. S. dollars in thousands (Note 2)
Accrued interest payable	₩ 203,217	₩ 230,908	\$ 153,244
Unremitted agency collections	23,180	25,146	17,480
Domestic exchange settlement credits	50,432	39,916	38,030
Unearned income	18,441	19,576	13,906
Allowance for acceptances and guarantees	7,228	13,595	5,451
Others	113,024	113,327	85,231
	₩ 415,522	₩ 442,468	\$ 313,342

## 12. Stockholders' equity

### Common stock -

The Bank has 400 million shares of authorized common stock of which 95,045,164 shares are issued and outstanding as of December 31, 2001. The par value of common stock is ₩5,000 (US\$3.77) and paid-in capital is ₩475,226 million (US\$358,364 thousand) as of December 31, 2001.

In 2001, the Bank issued 2 shares of common stock at par value to bondholders in connection with exercising stock warrants (30 shares in 2000).

### Capital adjustment account -

At December 31, 2001 and 2000, the capital adjustment account consisted of the following:

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
Discount on stock issuance	₩ (1,603)	₩ (1,603)	\$ (1,209)
Gain on valuation of investment securities	3,768	18,861	2,841
Stock options	172	74	130
	₩ 2,337	₩ 17,332	\$ 1,762

The Bank granted stock options to employees and directors in 2001 and 2000. A total of 359,131 shares of common stock were granted at an exercise price of ₩5,000 (US\$3.77) per share. For the representative director, the number of shares granted will be adjusted according to management performance. The options are exercisable after 3 years from the grant date and expire 6 years from the grant date.

## 13. Disposal of loans

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

The long-term loans restructured through court receivership, court mediation, workout plans, etc. were sold under repurchase agreements under which the Bank should repurchase the loans sold even after the sales price is finally settled, if the debtor fails to meet the adjusted repayment schedules. The outstanding balance of loans sold under such repurchase agreements as of December 31, 2001 and 2000 amounted to ₩92,664 million (US\$69,877 thousand) and ₩181,377 million, respectively. The Bank may incur losses from the repurchase of these loans in the future.

The Bank provided provision amounting to ₩6,478 million (US\$4,885 thousand) for these losses as of December 31, 2001. In connection with the above agreement, securities amounting to ₩59,102 million (US\$44,568 thousand) have been placed with KAMCO as security.

## 14. Income taxes

In 2001 and 2000, the Bank was subject to corporate income taxes, including resident surtax, at the aggregate rates of 17.6% on taxable income up to ₩100,000,000 and 30.8% on taxable income in excess of ₩100,000,000. Effective from 2002, the aggregate tax rates will be reduced to 16.5% on taxable income up to ₩100,000,000 and 29.7% on taxable income in excess of ₩100,000,000.

A reconciliation of income before income taxes for financial reporting purposes and taxable income for corporate income tax reporting purposes is summarized as follows (2001 amounts are preliminary and 2000 amounts are final based on the Bank's corporate income tax return filed in March 2001):

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000*	2001
Income before income taxes per the accompanying income statements	₩ 52,301	₩ 10,217	\$ 39,439
Permanent differences:			
Entertainment	1,113	190	839
Effect of changes in accounting principles	-	(14,026)	-
Other, net	(4,610)	(426)	(3,476)
	(3,497)	(14,262)	(2,637)
Temporary differences (net):			
Accrued interest income on securities	16,079	51,863	12,125
Valuation gain on securities, net	(13,040)	(55,717)	(9,833)
Severance and retirement benefit	23,377	9,864	17,628
Loan restructuring	(21,684)	27,151	(16,352)
Other, net	(12,715)	6,096	(9,588)
	(7,983)	39,257	(6,020)
Taxable income before utilization of tax loss carryforward	40,821	35,212	30,782
Utilization of tax loss carryforward	(40,821)	(35,212)	(30,782)
Taxable income after utilization of tax loss carryforward	₩ -	₩ -	\$ -

\* Remark) The amounts are different from those in the prior year's audit report to reflect the 2000 final tax return filed in March 2001.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes.

Significant changes in cumulative (taxable) temporary differences for the year ended December 31, 2001 are as follows (Korean won in millions):

Temporary differences	Beginning balances (*)	Net increase (decrease)	Ending balances
Valuation loss on securities, net	₩ 27,632	₩ (13,040)	₩ 14,592
Accrued interest on securities	(104,336)	16,079	(88,257)
Loan restructuring	55,767	(21,684)	34,083
Allowance for credit losses on payment guarantees	13,595	(6,367)	7,228
Other, net	29,615	16,029	45,644
	₩ 22,273	₩ (8,983)	₩ 13,290

The Bank has accumulated tax losses of ₩288,475 million (US\$217,536 thousand) at December 31, 2001 which may be carried forward and offset against future taxable income, if any, through the year 2003.

The Bank did not recognize a deferred income tax asset arising from accumulated tax losses, net of taxable temporary differences as of December 31, 2001 due to the uncertainty in realizing such accumulated tax losses in the future.

## 15. Per share amounts

The Bank's primary and diluted earnings per share ("EPS") for the years ended December 31, 2001 and 2000 were calculated as follows (Korean won in units):

	2001	
	Ordinary income	Net income
Income after deducting related income tax expense	₩52,301,128,417	₩52,301,128,417
Weighted average number of shares of common stock outstanding	95,045,163 shares	95,045,163 shares
Primary EPS	₩ 550	₩ 550
Effect of dilutive securities:		
Bonds with warrants	-	-
Diluted EPS	-	-
	2000	
	Ordinary income	Net income
Income after deducting related income tax expense	₩10,216,595,986	₩10,216,595,986
Weighted average number of shares of common stock outstanding	95,045,149 shares	95,045,149 shares
Primary EPS	₩ 107	₩ 107
Effect of dilutive securities:		
Bonds with warrants	-	-
Diluted EPS	-	-

Because the average market price of common stock of the Bank since the issuance of bonds with warrants has been lower than the exercise price of the attached warrants, bonds with warrants were not considered as dilutive shares.

## 16. Related party transactions

Transactions in 2001 and 2000 and resulting outstanding balances as of December 31, 2001 and 2000 with Lotte Capital Ltd. ("Lotte") and Pueun Futures Co., Ltd. are as follows:

	2001			
	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)	
	Lotte	Pueun	Lotte	Pueun
Loans	₩ 20,000	₩ -	₩ 15,082	₩ -
Deposits	5,859	5	4,418	4
Other liabilities	539	-	406	-
Interest on loans	1,218	7	918	5
Interest on deposits	528	-	398	-

	2000	
	Korean won in millions	
	Lotte	Pueun
Loans	₩ 20,000	₩ -
Deposits	2,902	33
Other liabilities	358	-
Interest on loans	1,370	6

In addition, the Bank has provided a payment guarantee to the extent of ₩909 million (US\$685 thousand) on behalf of Pueun as of December 31, 2001.

## 17. Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies at December 31, 2001 and 2000 consisted of the following:

	2001	
	U. S. dollars or equivalent for foreign currencies in thousands	Korean won equivalent in millions
Assets:		
Cash on hand	\$ 7,826	₩ 10,378
Interest-bearing deposits with banks	19,496	25,854
Foreign exchange drafts purchased	94,494	125,308
Loans	117,374	155,649
(Present value discount)	(590)	(783)
(Allowance for loan losses)	(5,555)	(7,367)
Securities	28,131	37,305
Other assets	17,067	22,632
	\$ 278,243	₩ 368,976
Liabilities:		
Deposits from customers	\$ 67,708	₩ 89,787
Borrowings	178,261	236,391
Other liabilities	30,631	40,620
	\$ 276,600	₩ 366,798

	2000	
	U. S. dollars or equivalent for foreign currencies in thousands	Korean won equivalent in millions
Assets:		
Cash on hand	\$ 9,291	₩ 11,704
Interest-bearing deposits with banks	68,774	86,634
Foreign exchange drafts purchased	125,157	157,661
Loans (present value discount)	129,205	162,760
(Allowance for loan losses)	(1,464)	(1,845)
Securities	(8,235)	(10,373)
Other assets	16,093	20,272
	22,948	28,908
	\$ 361,769	₩ 455,721
Liabilities:		
Deposits from customers	\$ 71,156	₩ 89,636
Borrowings	248,929	313,575
Other liabilities	34,359	43,282
	\$ 354,444	₩ 446,493

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

## 18. Commitments and contingent liabilities

Commitments and contingent liabilities as of December 31, 2001 and 2000 consisted of the following:

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
Acceptances and guarantees	372,617	412,228	280,987
Contingent acceptances and guarantees	206,382	226,396	155,631
Bills endorsed	169	263	127
Interest rate swap contracts - sold	13,261	12,021	10,000
Interest rate swap contracts - purchased	12,654	12,020	9,542
Currency swap contracts - sold	23,194	4,839	17,490
Currency swap contracts - purchased	23,320	4,803	17,585
Currency forward contracts - sold	133	1,466	100
Currency forward contracts - purchased	-	712	-
Currency futures contracts - purchased	-	630	-
Disposal of loans under repurchase agreement	92,664	181,377	69,877

The Bank is a defendant or plaintiff to various lawsuits arising out of normal bank activities. In the opinion of the Bank's management, the final resolution of these matters will not have a material effect on the Bank's financial statements.

### Guaranteed trusts -

Certain money trust agreements require the Bank (as Trust manager) to guarantee a minimum trust profit or to reimburse trusts

for the loss from impairment of principal balances of guaranteed trusts. Money trusts under such agreements amounted to ₩208,730 million (US\$157,401 thousand) and ₩195,402 million as of December 31, 2001 and 2000, respectively, and the Bank has received trust management fees amounting to ₩2,245 million (US\$1,693 thousand) and ₩3,029 million from such money trusts for the years ending December 31, 2001 and 2000, respectively.

In connection with guaranteed trusts, the Bank compensated ₩22,009 million (US\$16,597 thousand) and ₩33,815 million to trusts in 2001 and 2000, respectively.

#### **Contract with Busan Metropolitan City -**

The Bank entered into an agreement with Busan City under which the Bank will manage the City Government's Budgetary Funds for 3 years starting from January 1, 2001. In connection with this agreement, the Bank is committed to donate ₩26,000 million (US\$19,606 thousand) to Busan City related organizations and donated ₩10,400 million (US\$7,843 thousand) in 2001.

## **19. The Korean economy**

Beginning in 1997, the Republic of Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

The Korean economy continues to experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking and financial services industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking and financial services industry is currently undergoing consolidation and uncertainty exists with regard to the continued availability of financing. The Bank may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.



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Chief Executive Officer and Trust Beneficiaries of  
Pusan Bank

We have audited the accompanying balance sheets of Pusan Bank's trust accounts ("the Trust") at December 31, 2001 and 2000, and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of Pusan Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above, expressed in Korean won, present fairly, in all material respects, the financial position of the Trust at December 31, 2001 and 2000 and the results of its operations and cash flows for the years then ended in conformity with the Korean Trust Business Act, related regulations and accounting principles generally accepted in the Republic of Korea.

The amounts expressed in United States dollars, provided solely for the convenience of the reader, have been translated on the basis described in Note 1 to the accompanying financial statements.

Without qualifying our opinion, we draw attention to Note 5 of the financial statements which states that the operations of the Trust have been affected, and may continue to be affected for the foreseeable future, by the general unstable economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these uncertainties on the financial position of the Trust as of the balance sheet date cannot presently be determined.

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

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

January 15, 2002

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
<b>ASSETS</b>			
Cash and deposits	₩ 90	₩ 50,000	\$ 68
Marketable securities (Note 2)	1,409,867	767,957	1,063,168
Loans and bills discounted, less allowance for loan losses and present value discount (Note 4)	66,819	171,383	50,387
Bonds purchased under resale agreements	-	37,000	-
Other assets:			
Accrued interest receivable	70,971	58,771	53,519
Accounts receivable - other	1,752	2,594	1,321
	72,723	61,365	54,840
Due from Bank Account (Pusan Bank)	113,712	72,617	85,749
Total assets	₩ 1,663,211	₩ 1,160,322	\$ 1,254,212
<b>LIABILITIES</b>			
Money Trust Certificates (Note 3)	₩ 1,564,844	₩ 1,072,036	\$ 1,180,035
Borrowings (Pusan Bank)	46,730	58,500	35,238
Other liabilities:			
Due to Bank Account (Pusan Bank) - trust management fees payable	1,682	678	1,268
Undistributed trust income	42,452	21,498	32,013
Unearned income	3,029	3,306	2,284
Accounts payable - other	2,249	2,416	1,696
Special reserve	2,225	1,888	1,678
	51,637	29,786	38,939
Total liabilities	₩ 1,663,211	₩ 1,160,322	\$ 1,254,212

STATEMENTS OF OPERATIONS (TRUST ACCOUNTS) YEARS ENDED DECEMBER 31, 2001 AND 2000

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
Operating income:			
Interest on deposits	₩ 3,407	₩ 270	\$ 2,569
Interest on marketable securities	90,659	109,899	68,365
Interest on loans and bills discounted	13,740	28,187	10,361
Interest on call loans	1,532	1,379	1,156
Interest on bonds purchased under resale agreements	812	2,558	612
Gain on disposal of marketable securities	12,548	8,479	9,462
Gain on disposal of loans	4,255	100	3,209
Interest on due from Bank Account (Pusan Bank)	3,012	2,083	2,271
Reversal of allowance for loan losses	333	721	251
Subsidies from Pusan Bank	22,009	33,815	16,597
Other	2,305	5,734	1,738
	154,612	193,225	116,591
Operating expenses:			
Trust management fees to Pusan Bank	15,961	21,979	12,036
Write-off of loan	13,789	14,814	10,398
Loss on disposal of marketable securities	1,565	26,743	1,180
Loss on disposal of loans	10,120	-	7,631
Provision for loan losses	6,928	15,913	5,224
Other	8,641	5,429	6,516
	57,004	84,878	42,985
Distribution to money trust certificate holders	₩ 97,608	₩ 108,347	\$ 73,606

STATEMENTS OF CASH FLOWS (Trust Account) YEARS ENDED DECEMBER 31, 2001 AND 2000

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
Cash flows from operating activities:			
Items not affecting cash and cash equivalents:			
Loss (gain) on disposal of loans, net	₩ 5,865	₩ (100)	\$ 4,423
Loss (gain) on disposal of marketable securities, net	(10,983)	18,263	(8,282)
Provision for loan losses, net of reversal	6,595	15,192	4,973
Valuation loss on marketable securities, net	1,395	323	1,052
Other, net	(1,845)	(2,713)	(1,391)
Changes in operating assets and liabilities:			
Decrease (increase) in accrued interest receivable	(12,199)	61,963	(9,199)
Increase (decrease) in undistributed trust income	20,953	(94,136)	15,800
Other, net	1,403	(657)	1,058
Total adjustments	11,184	(1,865)	8,434
Net cash provided by (used in) operating activities	11,184	(1,865)	8,434
Cash flows from investing activities:			
Decrease in loans	94,285	86,866	71,099
Decrease (increase) in marketable securities	(632,322)	318,220	(476,828)
Net cash provided by (used in) investing activities	(538,037)	405,086	(405,729)
Cash flows from financing activities:			
Increase (decrease) in borrowings	(11,770)	58,500	(8,876)
Increase (decrease) in Money Trust Certificates	492,808	(465,846)	371,622
Net cash provided by (used in) financing activities	481,038	(407,346)	362,746
Net decrease in cash and cash equivalents	(45,815)	(4,125)	(34,549)
Cash and cash equivalents at beginning of year (Note 1)	159,617	163,742	120,366
Cash and cash equivalents at end of year (Note 1)	₩ 113,802	₩ 159,617	\$ 85,817

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

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

### **Basis of financial statements -**

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

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

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

### **Basis of translating the financial statements -**

For the convenience of the reader, the financial statements expressed in Korean won have been translated into United States dollars at ₩1,326.1 : US\$1, the prevailing exchange rate at December 31, 2001. This translation should not be construed as a representation that any or all of the amounts stated in Korean won could have been converted to United States dollars at this or any other rate.

### **Allowance for loan losses -**

The Trust provides an allowance for loan losses based on overall consideration of the factors affecting a borrower's ability to repay loans such as the period since default had occurred, the borrower's business, insolvency status, financial status and future cash flows. The Trust applies different credit loss reserve ratios corresponding to the collectibility of loans outstanding at December 31, 2001 and 2000. The reserve percentages range from 0.5% to 100% based on collectibility.

### **Recognition of interest income -**

Interest income on loans and securities is recognized on an accrual basis, while interest income on overdue and dishonored loans or securities, except for those secured and guaranteed by other financial institutions, is recognized on a cash basis. Interest income on overdue and dishonored loans or securities, which is not recognized, amounted to ₩6,695 million (US\$5,049 thousand) and ₩6,052 million as of December 31, 2001 and 2000, respectively.

### **Securities valuation -**

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

### **Due from Bank Account -**

Certain trust funds which are not invested in loans and securities have been transferred to the Bank. These deposits are accounted for as amounts due from Bank Account and the Trust receives interest (approximately 5% in 2001 and 2000 per

annum) based on predetermined interest rates from the Bank.

#### Subsidies from the Bank -

Certain money trust agreements provide that the Bank guarantees a principal amount of trust deposits or a minimum rate of return.

In relation to such guarantees, the Trust is required to set up a special reserve equal to 25% of trust fees until the total reserve equals 5% of the related money trust balance. If income from trust operations is insufficient to generate the guaranteed rate of return, the deficiency will be recovered from previously established special reserves and then compensated by the Bank if special reserves are insufficient. During the year ended December 31, 2001, ₩22,009 (US\$16,597 thousand, ₩33,815 million as of December 31, 2000) of such deficiencies were compensated by the Bank.

#### Calculation of Trust Profits -

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

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

Trust profits = Trust deposit balance x Average yield rate

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

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

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

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

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

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

#### Trust management fees (net operating income) -

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

#### Securities Investment Trust Certificates -

The Bank acts as a custodian of assets and liabilities of securities investment trusts which are managed by securities investment trust companies. The Bank receives predetermined fees from the securities investment trust companies and does not bear any risk from results of operations of those securities investment trusts. According to the Korean Trust Business Supervisory Regulations, the securities investment trusts are excluded from the 2001 and 2000 financial statements of the Trust Account.

The amounts of the securities investment trusts are ₩6,628,632 million (US\$4,998,591 thousand) and ₩5,922,068 million as of December 31, 2001 and 2000, respectively.

#### Cash and cash equivalents -

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

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2001	2000	2001
Cash and deposits	₩ 90	₩ 50,000	\$ 68
Bonds purchased under resale agreements	-	37,000	-
Due from Bank Account	113,712	72,617	85,749
	₩ 113,802	₩ 159,617	\$ 85,817

## 2. Marketable securities

Securities held by the Trust Account as of December 31, 2001 and 2000 are as follows:

	Interest rate (%)	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
		2001	2000	2001
Equity securities		₩ 15,044	₩ 3,493	\$ 11,345
Government and public bonds	3.00-5.00	220,290	96,653	166,119
Finance bonds	4.37-9.01	82,786	27,687	62,428
Corporate bonds	5.00-13.00	919,989	450,037	693,755
Other	4.70-9.05	171,758	190,087	129,521
		₩ 1,409,867	₩ 767,957	\$ 1,063,168

## 3. Money Trust Certificates

Money Trust Certificates outstanding at December 31, 2001 and 2000 are as follows:

	2001		
	Interest rate (%)	Distribution rates per annum (%)	Translation into U. S. dollars in thousands (Note 1)
Non-specified Money Trust	₩ 189	*4.74~15.37	\$ 143
Development Money Trust	249	*3.91~12.71	188
Elderly Living Pension Trust	10,575	**	7,974
Personal Pension Trust	130,756	**	98,602
Installment Trust	*** 34,252	Based on actual operating results	25,829
Household Trust	*** 30,565	"	23,049
Corporate Trust	2,778	"	2,095
National Stock Trust	922	"	695
Household Long-term Trust	162,879	"	122,826
Employee Premium Trust	25,600	"	19,305
New Installment Trust	162,071	"	122,216
Unit Money Trust	16,671	"	12,571
Specified Investment Objective Trust	439,850	"	331,687
Open type Money Trust	494,651	"	373,012
Retirement Trust	51,210	**	38,617
New Personal Pension Trust	572	**	431
Pension Trust	1,054	**	795
	₩ 1,564,844		\$ 1,180,035

- \* Remark) \* For these trusts, the Bank has guaranteed a minimum trust profit and to reimburse impairment losses.  
 \*\* The Bank has guaranteed to reimburse impairment losses.  
 \*\*\* ₩5,135million (US\$3,872 thousand) of Installment Trust, ₩8,232 million (US\$6,208 thousand) of Household Trust and ₩757 million (US\$571 thousand) of Corporate Trust are guaranteed against principal balance impairments.

	2000	
	Korean won in millions	Translation into U. S. dollars in thousands (Note 2)
Non-specified Money Trust	₩ 179	*8.90~10.90
Development Money Trust	5,857	*7.07~18.47
Elderly Living Pension Trust	11,367	**
Employee Retirement Trust	-	**
Personal Pension Trust	121,645	**
Installment Trust	*** 55,917	Based on actual operating results
Household Trust	*** 41,153	"
Corporate Trust	*** 8,735	"
National Stock Trust	1,310	"
Household Long-term Trust	201,819	"
Employee Premium Trust	31,792	"
New Installment Trust	241,763	"
Unit Money Trust	6,712	"
Specified Investment Objective Trust	231,601	"
Open type Money Trust	75,410	"
Retirement Trust	36,466	**
New Personal Pension Trust	310	**
	₩ 1,072,036	

- \* Remark) \* For these trusts, the Bank has guaranteed a minimum trust profit and to reimburse impairment losses.  
 \*\* The Bank has guaranteed to reimburse impairment losses.  
 \*\*\* ₩8,065 million of Installment Trust, ₩10,644 million of Household Trust and ₩868 million of Corporate Trust are guaranteed against principal balance impairments.

#### 4. Disposal of loans

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

The long-term loans restructured by court receivership, court mediation and workout plans, etc. were sold under repurchase agreements under which the Trust Account should repurchase the sold loans even after the sales price is finally settled if the debtor fails to meet the adjusted repayment schedules. The outstanding balance of loans sold under such repurchase agreement as of December 31, 2001 and 2000 amounted to ₩28,932 million (US\$21,817 thousand) and ₩94,292 million, respectively. The Trust Account may suffer loss from the repurchase of these loans in the future.

The amount of loans written off for which the Trust Account still has legal claims is ₩69,565 million (US\$52,458 thousand) and ₩58,231 million as of December 31, 2001 and 2000, respectively.

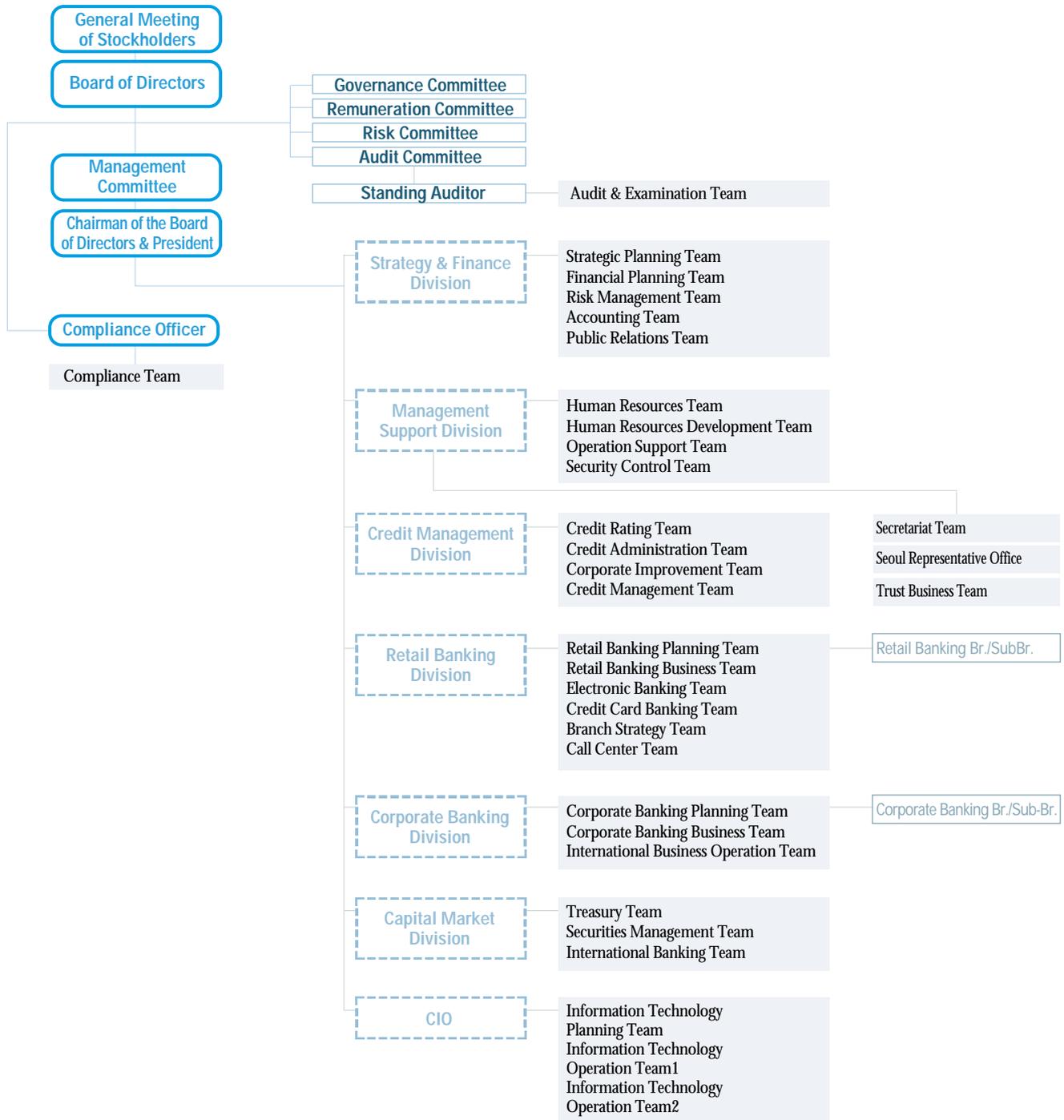
## 5. The Korean economy

Beginning in 1997, the Republic of Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

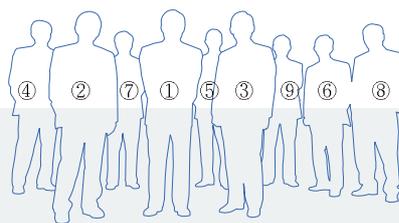
The Korean economy continues to experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking and financial services industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking and financial services industry is currently undergoing consolidation and uncertainty exists with regard to the continued availability of financing. The Trust may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Trust. Actual results may differ materially from management's current assessment.

# Organization Chart



# Board of Directors



## *Executive Directors and Auditor*

- 1\_ **Shim, Hoon**  
Chairman of the Board of Directors & President
- 2\_ **Park, Kie-tae**  
Director & Deputy President
- 3\_ **Kim, Jong-soo**  
Standing Auditor
- 4\_ **Lee, Jang-ho**  
Senior Executive Vice President
- 5\_ **Cho, Bong-jae**  
Senior Executive Vice President
- 6\_ **Kim, Chang-go**  
Senior Executive Vice President
- 7\_ **Lim, Chai-hyun**  
Senior Executive Vice President
- 8\_ **Lee, Gi-ju**  
Executive Vice President
- 9\_ **Jung, Sung-tae**  
Executive Vice President

## *Non-standing Directors*

- Ha, Young-chul**  
General Director / Lotte Confectionery Co.,Ltd.
- Park, Sung-dong**  
President / Parkland Co., Ltd.
- Shin, Pan-kug**  
President / Korea Steel Shapes Co., Ltd.
- Kim, Si-seung**  
Lawyer / Kim Si-seung Law-office
- Shin, Jung-taek**  
President / Saewoon Steel Co., Ltd.
- Lee, Chae-woong**  
Vice President / Sungkyunkwan University

# International Banking Directory

## International Banking Team

Address : 4th FL., Kumseki Bldg., 16, 1-ga,  
Ulchi-ro, Chung-gu, Seoul 100-  
191, Korea P.O. Box 3899 Seoul  
Tel : (82) (2) -758-6322  
Fax : (82) (2) -758-6399  
Telex : K27605 PUSANBK  
BIC : PUBSKR2PINT  
e-mail : intl@pusanbank.co.kr



**Jung, Yon-joo**  
General Team  
Manager



Deputy General Manager  
**Choi, Choong-suk**

Senior Assistant General Manager  
**Lee, Ho-kyung**  
**Joo, Young-uk**  
**Sung, Dong-hwa**  
**Kim, Sung-hwa**  
**Jung, Dong-eui**

Assistant General Manager  
**Choi, Keun-hwan**  
**Lee, Hyung-jin**  
**Song, Tae-hoon**

## International Business Operation Team

Address : 25-2, 4-ga, Chungang-dong,  
Chung-gu, Pusan 600-014,  
Korea P. O. Box 131 Pusan  
Tel : (82) (51) -469-0181 / 8  
Fax : (82) (51) -464-2739  
Telex : K53392 PUSANBK  
BIC : PUBSKR2P  
e-mail : pubskr@pusanbank.co.kr



**Kim, Kyung-ho**  
General Team  
Manager



Deputy General Manager  
**Kim, Won-tae**

Senior Assistant General Manager  
**Cho, Eun-kyu**  
**Youn, Jong-hwan**

Assistant General Manager  
**Song, Chul-ho**  
**Kim, Cheong-ho**  
**Youn, Ga-bum**  
**Chang, Sung-ho**  
**Shin, Gi-hwa**

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

### USD

Bank of America 655-00-94495 BOFAUS3N  
New York  
Bank of New York 890-0067-683 IRVTUS33  
New York  
JP Morgan Chase Bank 001-1-542636 CHASUS33  
New York

### JPY

Sumitomo Mitsui Banking Corp. 3157 SMBCJPJT  
Tokyo  
Standard Chartered Bank 2110371110 SCBLJPJT  
Tokyo

### GBP

HSBC Bank PLC 35435935 MIDLGB22  
London

### EUR

Banca Nazionale del Lavoro 253227 BNLIITRR  
Rome  
American Express Bank 18005506 AEIBDEFX  
Frankfurt

### CHF

UBS AG 0230-87106.05P UBSWCHZH80A  
Zurich

### DKK

Den Danske 3007536712 DABADKKK  
Copenhagen

### SEK

Nord Banken 3952907721 NBBKSESS  
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 SCBLIDIX  
Jakarta

### CAD

The Bank of Nova Scotia 0282111 NOSCCATT  
Toronto

### NZD

ANZ Bank 835504.00001 ANZBNZ22  
Wellington

### AUD

National Australia Bank SKOR-14 NATAAU33033  
Melbourne

# Domestic Subsidiaries

## **Pueun Futures Co., Ltd.**

Address : 10th FL., Pusan Chamber of Commerce &  
Industry Bldg., Pumchun 1-dong, Pusanjin-gu, Pusan 614-721, Korea  
Tel : (82)-(51)-643-4900  
Fax : (82)-(51)-643-4939  
Paid-in capital : ₩15,000 million  
Holding share : 100%

## **Lotte Capital Co., Ltd.**

Address : 14th FL., Sungdam Bldg., 142-35, Samsung-dong, Kangnam-gu, Seoul 135-090, Korea  
Tel : (82)-(2)-566-7600  
Fax : (82)-(2)-566-8433  
Paid-in capital : ₩40,000 million  
Holding share : 38.50%

## **Mybi Co., Ltd.**

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

## **Korea Lease Financing Co., Ltd.**

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

# Chronology

Oct. 10, 1967	Founded with a paid-capital of ₩300 million
Oct. 25, 1967	Commenced business
Feb. 1, 1968	Commenced foreign exchange business
Jun. 15, 1972	Listed on Korea Stock Exchange
May 2, 1983	Began trust business
Jun. 1, 1985	Began credit card business
Apr. 13, 1987	Switched to IBM main frame system
Jan. 3, 1990	New corporate identity program (CIP) launched
Nov. 1, 1992	Home-banking service began
Dec. 1, 1993	EDI service began
Dec. 5, 1994	DDS-styled dealing system adopted
May 2, 1995	Tele-banking service began
Jan. 15, 1996	Debit card business began
Sep. 18, 1997	Integrated on-line system opened
Dec. 9, 1998	Established strategic business tie with Microsoft of the U.S.
Dec. 22, 1998	Equity capital reaches ₩325.2 billion.
Mar. 31, 1999	Selected as a funds settlement bank by Korea Futures Exchange
Jun. 30, 1999	Equity capital reaches ₩475.2 billion.
Jul. 28, 1999	Concluded a comprehensive consulting service pact with Pricewaterhouse Coopers
Feb. 9, 2000	Formed strategic alliances with Microsoft, Korean Telecom Freetel, and KEBT for e-banking business
Mar. 6, 2000	Cyber banking services began
Mar. 24, 2000	Selected to manage Digital Pusan Card
Nov. 5, 2000	Selected to manage budgetary funds for Pusan
Feb. 21, 2001	Pusan Bank Digital Busan Card wins Advanced Card Award 2001 in the UK.
Mar. 20, 2001	New business division system implemented bank-wide.
May 29, 2001	Consultancy contract signed with Nemo Partners to build a performance management system.
Aug. 1, 2001	Integrated profit management system launched.
Nov. 21, 2001	Total deposits break ₩12 trillion mark.

# Corporate Data

## Established

Oct. 25, 1967

## Total shareholders' equity

₩443.9 billion

## Paid-in capital

₩475.2 billion

## Common stock issued and outstanding

95,045,164

## Domestic network

205

## Employees

1,873

## Major shareholders

1. Lotte Confectionery Co.,Ltd.	14.15%
2. Parkland Co.,Ltd.	4.95%
3. Kim, Jin-ki	4.23%
4. Atlantis Korean Smaller	3.58%
5. Korea Iron & Steel Co.,Ltd.	2.24%