



“Beyond its regional presence”

Gwangahn Grand Bridge



Annual Report 2002

Profile

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

As of December 31, 2002, Pusan Bank held the top share of deposits(29.4%) and loans(20.4%) in Busan. The branch network spanned 199 locations, serving 3.2million customers.

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Financial Highlights

For the years ended on December 31.

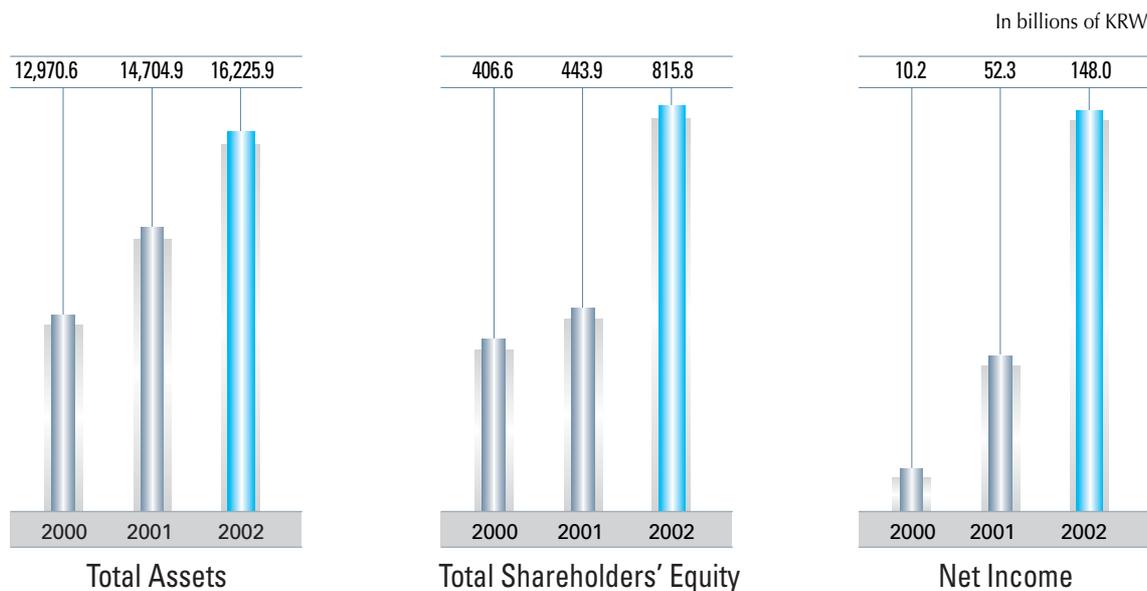
	In billions of KRW		In millions of US \$ ¹⁾	
	2002	2001	2002	2001
For the Fiscal Year				
Total Revenues	₩ 1,281.1	₩ 1,321.0	\$ 1,067.2	\$ 996.2
Total Expenses	1,133.1	1,268.7	943.9	956.7
Net Income	148.0	52.3	123.3	39.4
At Year's End				
Total Assets ²⁾	16,225.9	14,704.9	13,517.1	11,088.8
Total Deposits ³⁾	13,023.7	12,008.4	10,849.5	9,055.4
Loans & Bills Discounted ⁴⁾	7,764.9	6,264.4	6,468.6	4,723.9
Securities	5,888.3	5,831.2	4,905.3	4,397.3
Shareholders' Equity	815.8	443.9	679.6	334.7

1) FY2002 : ₩1200.40, FY2001 : ₩1326.10 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.

4) Prior to 2002, domestic import usance bills were disclosed as an off-balance sheet item, but according to new guidance of the FSS on Dec.2002, these are recorded on balance sheet as loans. Domestic usance bills were 167.5billions of KRW on Dec.2002 and 141.2billions of KRW on Dec.2001.



Message from the President



Shim, Hoon

Chairman of the Board of Directors & President

World economic activity remained sluggish during 2002, yet the Korean economy maintained solid growth. On the other hand, the banking business faced numerous difficulties. Tightened government controls on households loans caused a surge in the number of delinquencies. Moreover, additional bank mergers introduced new mega-banks into the market, intensifying competition in the retail finance sector.

Despite the hardship, all Pusan Bank employees worked as a close-knit team, focusing core competencies on strengthening profitability. As a result, we broke our net income record and are expected to receive a Grade 2 rating from the Financial Supervisory Service. In the process, we have laid the groundwork for sustained growth.

We have continued to pursue business tie-ups with leading banks in the US and Japan. Our marine product finance package, developed to support one of the ten most important industries in the Busan area, received the Maeil Business Newspaper Financial Product Award in the Banking category. We also won the prestigious Dasan Award, co-sponsored by the Ministry of Finance & Economy and the Korea Economic Daily newspaper, for exceptional services and performance in the banking sector. At the same time, innovative new products and services such as the Buvix Card and mobile banking outlets have enhanced customer satisfaction.

These efforts helped us to realize a record ₩148 billion in net income during 2002. Our ROE of 20.09% and BIS capital adequacy ratio of 11.69% were the highest among all Korean banks during 2002. Indeed, we have been cited by one source as a “model case study for a regional bank.”

We worked hard to expand our deposit base in 2002. New products included the Leisure Supporters Passbook account to accommodate a five-day workweek for an ever-greater number of Koreans and Revolving Plus time deposit account. We also installed additional safety deposit boxes and strengthened the VIP Club offerings to our preferred customers. Such measures enabled us to increase total deposits 8.5% (₩1.153 trillion) year on year to reach ₩13.237 trillion, bolstering our position in the regional market.

As the sole regional bank exclusively serving Busan and the Korean Southeast, we offer financing at special rates to help cultivate ten industries designated to be of “strategic” importance to the regional economy. We are also participating in the consortium to build the Myeongji Grand Bridge and financing various other regional

infrastructure projects. We have uncovered and now support 128 promising small and medium-sized enterprises, provide capital needed for marine product distribution, and have offered preferential loans to celebrate our complete exercise of bonds with warrant, after the subscription period expired on July 1, 2002. We also increased our loans to households and self-employed professionals and exempted filing fees for collateral. Total loans at the end of 2002 stood at ₩8.142 trillion, up 23.4% (almost ₩1.518 trillion) from the year before.

In the area of foreign exchange, we are pursuing a strategic alliance with the Industrial & Commercial Bank of China, the largest state-owned bank in that country. During 2002, we also visited Chinese and Vietnamese plants operated by enterprises from Southeastern Korea and strengthened sales activities targeting small and medium-sized import-export companies. As a result, we were involved in import and export transactions totaling US\$3.231 billion, up 7.9% (US\$237 million) year on year despite the sluggish global economy.

Meanwhile, we continued to restructure our network through mergers and closures to improve efficiency. At year's end, we were operating 199 locations, down slightly from the 205 locations the year before. On the other hand, sixteen sub-branches were upgraded to full branch status to bolster operational capabilities. We also began a new mobile branch service and installed an additional 150 cash dispensers and automated teller machines for the added convenience of our valued customers.

Internally, we have completed an integrated risk management system and individual employee performance management system. At the same time, we are now building a customer relationship management system to streamline marketing efforts and bolster sales activities.

We remain dedicated to our role as a regional bank with a tradition of working closely with the local community. We strengthened our "Love My Hometown 21 Program" and organized a regional volunteer service corps. When the government's new five-day workweek mandate goes into effect, Saturday will be designated "Regional Service Day," and volunteer service activities will be conducted in close coordination with local government units.

Our record-breaking profits in 2002 allowed us to pay our first cash dividend to you, the shareholders, since the Korean financial crisis of 1997-98. As CEO, I have stressed the need to offer a dividend to help repay you for your contribution to the increase in shareholders' equity through a capital increase and exercise of bonds with subscription warrant. Thus, we have decided to pay the highest dividend rate based on market price of any Korean bank. This policy is aimed at quickly bringing our share price back to its proper level, as it is so clearly undervalued when compared with our intrinsic value.

We are committed to building a first-rate bank and to rewarding your support with the Korean banking industry's highest payout ratio. In return, I look forward to your continued support.

As I mentioned, we had a very productive year in 2002 and achieved exceptional profitability, providing the foundation for our emergence as a world-class premier regional bank. All Pusan Bank employees join me in thanking you for your cooperation and encouragement shown to us in the pursuit of our endeavors.

The business environment is now changing faster than ever. Our competition does not stop with the newly-merged mega-banks and financial groups built around holding companies. We also must contend with telecommunications operators, who are making inroads into traditional bank functions such as payment settlement.

Faced with these challenges, we will make the most of our strengths as a regional bank. In 2002, we drew up and began to implement a master plan for becoming a premier bank that is the model for other regional banks to emulate. Our goals in the coming year are to reinforce sales capabilities and maintain balance among our risk management competencies. We aim to achieve at least ₩200 billion in net income and to bring our substandard and below loans to under 1.9%. All employees stand united in the determination to raise our intrinsic value further, maintain a high dividend payout ratio and obtain the appropriate share price in the marketplace, in the process repaying you for your generous support.

In closing, I extend my best wishes to you for a healthy and prosperous 2003.



Shim, Hoon
Chairman of the Board of Directors & President

Strategy for Leading Regional Bank



Busan Exhibition Convention Center



The Bank will concentrate on reinforcing core businesses and diversifying into new areas in 2003, while 2004 will be a time for securing dominance in the regional market.



Performance Targets & Strategic Tasks for 2003

Performance Targets

The next two years mark a midway point in the process of achieving the Bank's ultimate goal: to be a "world-class premier regional bank." The focus was on increasing profitability and protecting core businesses in 2002. The Bank will concentrate on reinforcing core businesses and diversifying into new areas in 2003, while 2004 will be a time for securing dominance in the regional market. Entry into this growth stage will be accomplished through constant reinforcement of sales activities aimed at expanding core businesses such as corporate and retail finance.

Major changes are anticipated for the business environment in 2003. Risk factors are increasing at home and abroad, mega-banks continue to be formed through mergers and non-banking institutions are increasingly involved in traditional banking activities. Therefore, Pusan Bank will place strong emphasis on risk management in the coming year. The performance target will be "to maintain a balance between stronger sales and risk management competencies." A stable net interest margin is expected to boost revenues for all Korean banks in 2003, and Pusan Bank has set financial soundness goals of over 1% ROA and more than 20% ROE, which is equal to or better than rates found at major overseas banks. At the same time, the Bank will increase profitable loans, while utilizing a thorough screening process with risk management system to bring the SBL ratio below 2%.

2003 Performance Plan

Total assets	₩ 18.28 trillion
Net income	₩ 200 billion
ROA	1.29%
ROE	21.36%
BIS capital adequacy ratio	11.01%
SBL ratio	1.90%

Strategic Tasks

The bank has identified several tasks to be carried out in 2003: maximize sales effectiveness, establish business models to deal with a changing industry, implement cost-effective processes, and foster a dynamic work culture.

Maximize sales effectiveness	Establish new business models	Implement cost-effective processes	Foster a dynamic work culture
Bolster region-oriented management	Reinforce risk management	Raise productivity by improving work processes	Install a performance-based culture
Customize products, services and channels	Expand strategic alliances	Increase customer use of low-cost channels	Increase HRD investment
Strengthen project financing	Diversify revenue structure for long-term stability		Bolster change management
Complete the CRM system & data warehouse			

Maximize Sales Effectiveness

The Bank has maintained a stable share of the regional deposit market since being selected to handle all the Busan metropolitan government's budgetary funds at the end of 2000. Bank policy stresses preventing household loan defaults and expanding market share by focusing on preferred customers from the middle and upper social classes. The corporate loan market in the Busan metropolitan area has reached saturation, but high growth potential remains in the Southeast Korean economy as a whole. Therefore, the Bank will dispatch Relationship Managers throughout the region.

Pusan Bank will strengthen customer loyalty by enhancing the reputation it enjoys from local citizens, corporations and government agencies. The Bank's extensive human and material networks will also be used as much as possible and the construction of a customer relationship management system will be accelerated to boost region-oriented sales activities.

Establish New Business Models

The Bank has focused on improving risk management and making the most of human resources in the five years since the Korean financial crisis to improve responsiveness to the uncertain business environment. Meanwhile, strategic partnerships have been sought with non-bank financial institutions to create new business opportunities. Thorough preparations are being made for entry into bancassurance, and the Bank plans to extend the scope of partnership beyond the financial sector to include public institutions, retailers, telecommunications operators and other IT companies. In addition, the long-term revenue structure is being diversified in many directions.

Implement Cost-effective Processes

Work processes at the branch level are being improved to take charge of value-added activities such as consulting and marketing. A preferred customer management program has been launched to ensure steady income and customers are being encouraged to make greater use of low-cost, high-efficiency channels such as online banking, automated teller machines and the Call Center.



Foster a Dynamic Work Culture

The past five years have been a time of perseverance, as Pusan Bank works to emerge as an advanced institution. This coming year is recognized as an important time for making future preparations. To this end, investment in human resources development will be increased and a performance-oriented work culture will be promoted. Ethical management will be the cornerstone of Bank operations to enable Pusan Bank to maintain a trustworthy image in the eyes of customers, shareholders and the local community.

Mid-/ Long-term Strategies

Basic Direction

Ultimately, Pusan Bank is aiming for long-term growth and development as the leading bank in its region while maintaining the same independent management it now enjoys. Cost reduction to achieve an internal economy of scale is the basic approach being taken to this end. However, the Bank will not seek a differentiation strategy that simply aims for being the best, as such a goal would be difficult to achieve with the Bank's available resources even if huge expenditures are made. Rather, a specialization strategy will be rigorously pursued. The strength of being close to the local community will be leveraged to target a niche market, with the bank's competencies being focused in Busan and the surrounding region. The strong loyalty of local customers will be an asset in the competitive years ahead.

Vision & Strategic Positioning

Management Vision

The Bank's vision has been described as being a "world-class premier regional bank," raising its level of visibility and achievement while remaining close to the local community.

Strategic Positioning

Pusan Bank is positioning itself as a retail finance specialist centered on the Korean Southeast. A mid-/long-term plan has been established and is now being implemented to supplement the core competencies needed to achieve this goal. Professionalism is being enhanced in the target markets, products, services and channels where the Bank excels, and the necessary support systems are being built.

Pusan Bank is taking maximum advantage of SME financing expertise and information management capabilities to develop into the largest SME financing bank the Korea's Southeast. At the same time, the revenue model is being diversified to include focused development of the retail financing business. The goal is to achieve balanced development in both the retail and SME sectors.

Intra-regional channels that provide speed and convenience are being expanded to maintain a higher percentage of low-cost deposits than competing banks are able to, thereby reducing financing costs. The Bank is also focused on developing e-banking systems, where a competitive advantage is enjoyed. In addition, revenue models for the retail finance market will be implemented as quickly as possible.

The Bank's vision has been described as being a "world-class premier regional bank," raising its level of visibility and achievement while remaining close to the local community.

The target market has been divided into four sub-regions, and a different sales strategy is being pursued for each one. The branch, e-banking and human networks in city of Busan, where the Main Branch is located, are being utilized fully to build a local-based operation that has proven to be a success factor for leading regional banks in the US and Japan. Gimhae, Yangsan and other outlying areas closely connected to Busan are being developed into strongholds for the Bank and forward bases for SME financing. Sales activities will then be expanded to the neighboring communities of Masan/Changwon and Ulsan.

Meanwhile, Relationship Managers and other professionals are being used to approach large corporate customers in the Seoul area. Unit productivity and financial soundness are being pursued simultaneously.

The conventional sales strategy directed at the mass market is being abandoned in favor of segmentation according to product, customer and channel. One-on-one meetings are being promoted with retail customers, who represent about 40% of the Bank's profitability, to increase the number of preferred customers. Greater investment is also being made in the Private Banking organization and wealth managers who serve the top 1% retail customers in terms of revenue generation. Moreover, the Bank is expanding and specializing the relationship management organization for SMEs with high growth potential. Other customers are being encouraged to use the convenient cash dispensers, automated teller machines and online banking network to raise the Bank's overall cost efficiency.

Busan Economy, Now and Future



The city government is committed to a strategy of developing regional economy. It has increased expenditures to further develop the port logistics business with a focus on high technology and innovation.



Centum City

The Current and Busan Economy

Busan is the second largest city in Korea and a gateway to the Pacific rim. It has played a critical role in sea borne transportation for both South Korea and the Northeast Asia region generally.

In the 1970s, the prosperous regional economy was largely based on light industries such as footwear, textiles, etc. Busan exports accounted for approximately 30% of the nation's total.

However, in the early 1980s, the economic power of the city gradually began to shrink as light industry slackened.

It showed only 5.3% annual growth rate of GRDP(Gross Regional Domestic Product) during the 15 years from 1986 to 2001. This figure was lower than the national average. Therefore the area's share of production in the overall Korean economy dropped to 6.1% from earlier 8.1% during that period.

The economic slow down beginning in the mid1980s was a result of a number of factors.

Land prices soared and the profitability of flagship industries such as footwear, textiles, etc. worsened due to price competition from Less Developed Countries including China.

As a result, manufacturing facilities were forced to relocate to low wage, Southeast Asian countries or other peripheral regions. This weakened the foundational manufacturing sector of the region and further resulted in stagnation in construction investment.

High value added businesses such as information technology and communication services began to serve as the growth engine of the economy from 1990s.

However, those industries showed lackluster growth in the region. Consequently, the city failed to foster new business clusters that could lead the regional economy.

In 2001, however, the GRDP of the region rose sharply to 9.0% exceeding the average rate of 4.3% nationwide. This was largely attributable to the rise of the manufacturing sector. Heavy industries such as automobiles, steel manufacturing, and shipbuilding supported the improvement of sluggish manufacturing activities. Construction, transportation and warehousing businesses showed rapid growth and contributed to the growth of GRDP as well.

The upward trend continued in 2002. It appeared that a corner had been turned and new growth seemed promising.

Looking forward, the incoming government has a blueprint for the development of South Korea into a logistics hub by promoting Busan, Kwangyang and Incheon cities as logistics centers of Northeast Asia. This policy makes the future prospects of Busan even more positive.

Busan's port is located at the crossroads of the main trunk routes and is a principal center for shipping activities in Northeast Asia. Last year, it handled 9.33 million TEUs (Twenty Foot Equivalent Units) of container cargo to rank third in the world behind only Hong Kong and Singapore.

The city government is committed to a strategy of developing regional economy. It has increased expenditures to further develop the port logistics business with a focus on high technology and innovation.

It is expected that, through such aggressive measures as a free trade zone program, the overall strategy of the city will be to replace its former perceived identity as the second largest city in Korea with its own distinct identity as an international center for shipping, trade, and logistics and an attractive investment opportunity for global funds in its own right.

The Southeastern Economy & Pending Tasks

Physical Features of the Southeastern Economic Belt

The economic belt in the southeastern corner of the Korean Peninsula encompasses ten metropolitan areas, including Busan, Ulsan/Yangsan, Gimhae and Changwon. The Busan area serves as Korea's gateway to the North Pacific. Busan, the main city in the Southeast, is less than 50 kilometers from the island of Tsushima, making it the

closest Korean economic center to Japan. The Southeastern Economic Belt represents 12.4% of the total area of the Republic of Korea. Busan is 759.87 km² wide (0.76% of the total area), Ulsan is 1,056.29 km², and South Gyeongsang Province measures 10,515.49 km² (10.57% of Korea). The Southeastern Economic Belt is some 600 km² larger than the Greater Seoul Area (11,705.24 km², or 11.8% of Korea).

Current Economic Status of the Southeast

The Southeastern Economic Belt comprises 12.4% of the national area but is home to 16.6% of the Korean population. Primary industries employ 11.8% of the population, while 20.2% work in secondary industries and 15.6% are engaged in tertiary industries. This belt produces 17.8% of Korea's total GDP, but the Southeast represents 22.9% of total production by secondary industries in Korea. Moreover, 24.9% of all Korean-made goods shipped are made in the Southeastern Economic Belt.

The population of the Southeastern Economic Belt is around 8 million, about the same as that of Belgium, Switzerland, Austria or Hong Kong. Total output from this region is about one-third the GDP of Belgium, Switzerland or Austria and around the same as the GDP for Malaysia or Singapore.



Industries within the Southeast

Primary industries make up 3.8% of the Southeastern Economic Belt GRDP, while secondary industries represent 55.0% and tertiary industries comprise 41.2%. Primary and tertiary industries here are lower than the national average, while secondary industries are higher.

The Changing East Asian Economy

East Asia's Economic Emergence

East Asia is now one of the world's three largest economic regions. Competition has intensified within East Asia, but cooperation is also brisk. Cooperative systems between East Asian cities are being strengthened.

China's Strengthened Economic Stature Continued High Growth in China

The Chinese GDP has reached US\$158.8 billion a year, which is sixth in the world. Annual growth here is forecast to remain 7-8% for the next decade or two. China's foreign trade volume is expected to surpass US\$700 billion a year in 2005, and China's purchasing power is predicted to be US\$20 trillion, the world's highest, by 2020.

The Changing Korean Economy

The scope of regional economic activity is broadening in Korea, but the competitive advantage is concentrated in the vicinity of the capital. Increased economic cooperation between North and South Korea is also being studied.

Pending Tasks for the Southeast

The Central Government's 4th Territorial Integration Plan calls for dividing the administrative zones into Busan, Ulsan and South Gyeongsang Province. The following development direction has been put forth:

- Cultivate the international logistics and trade functions.
- Strengthen the centralized function of the Southeast to promote balanced national development.
- Develop the southern coastal area as an international logistics center, tourist attraction and special industrial zone: Cultivate the Busan and Gwangyang Ports; establish a tourism belt on the South Coast, develop Masan, Changwon, Jinju, Sacheon, Suncheon and Mokpo into a special industrial zone.
- Build basic facilities for realigning the Seoul-Busan industrial structure: Redistribute the population and industries to raise regional competitiveness; restructure to focus on those industries that are the most competitive and have the highest added value.

Vision & Development Direction of Each Local Government

	Busan Municipal Government	Ulsan Municipal Government	South Gyeongsang Provincial Government
Vision	International maritime and logistics hub for the Pacific Rim	Center for automobiles and new industries in the 21st century	Leading region for high-tech machinery, culture and tourism
Goals	-Build the base for international finance and maritime/logistics hub.	-Build up the automotive industry and attract new industries for the 21st century	-Develop a center for high-tech machinery by building up technology, knowledge and information infrastructure.
	-Restructure the urban space and transportation systems and ensure a pleasant living environment.	-Establish multi-functional urban structure and encourage balanced development between urban and rural areas.	-Build the foundation for international exchanges.
	-Upgrade the industrial structure and role as leader of the regional economy	-Establish a broad and expand the base for international trade.	-Use the historical, cultural transportation system and ecological resources to establish an eco-tourism industry.
	-Use tourism resources and develop as an international cultural and tourist center.	-Link the mountain and seaside resources and develop the culture and tourism industries.	-Specialize functions among zones to promote balanced regional development.
	-Stimulate advanced IT and movie industries for the new millennium		

Review 2002



“...the Bank is committed to being one with and earning the trust of the local community and returning part of profits in that effort.”

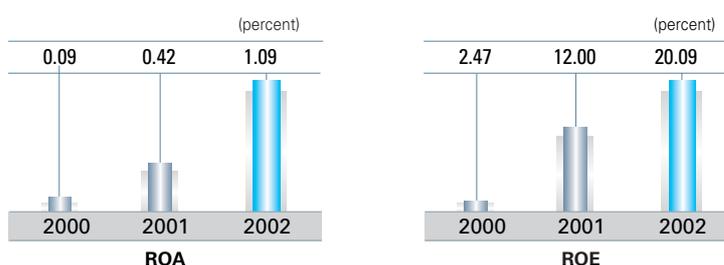


Sinsundae Container Terminal

2002 Financial Highlights

New Record for Net Income

Pusan Bank, which recorded ₩52.3 billion in net income in 2001, achieved ₩148 billion in net income in 2002 for an all-time record. Total deposits reached ₩16.2 trillion, while total deposits exceeded ₩13 trillion. ROA increased 0.67%P year on year to 1.09%, while ROE rose 8.09%P to 20.09%. Net interest margin also improved 0.52%P to 3.39% and net interest spread rose 0.39%P to 4.05%. The vastly improved operational performance enabled the Bank to pay out a 6% cash dividend, amounting to ₩300 per share.



Steadily Improving Profitability

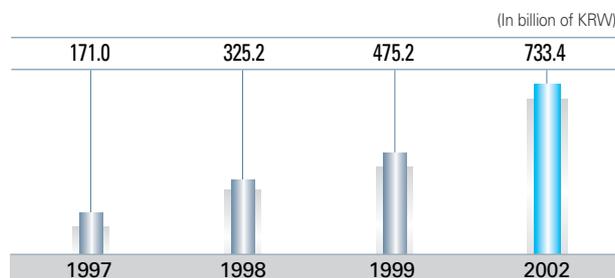
Robust growth in both deposits and loans combined with an increase in operating income. Importantly, interest income increased more than the rate of asset growth, as net interest margin hit a domestic industry high 3.39% (based on the FSS standard). In addition, higher fee & commission revenue contributed significantly to the record-breaking net income performance.

Pusan Bank is committed to remaining in touch with the local community and continues to increase its local market share. Meanwhile, the government's ongoing effort to stimulate regional economies has taken effect. Economic recovery in the Busan area, centered on the heavy industries, is alleviating economic dependency on the Seoul area.

Excellent Capital Adequacy & Asset Soundness

The subscription period for ₩300 billion in bonds with warrant expired at the end of June, increasing the Bank's shareholder equity by ₩258.2 billion (86% of the original BW issuance). As a result, capital stock increased 54% and net worth rose 64% over the end of 2001. In addition, BIS ratio reached 11.69%, the highest level in Korean banking industry.

Capital Injection



At the same time, the loan loss reserve coverage ratio reached 83.7% of the SBLs, which were lowered to 2.2% of total credit outstanding during 2002. The portion of household loans, which have become problematic in Korea recently, was also reduced in the overall portfolio, and the amount of credit card receivables was kept low to prevent a high delinquency ratio. Loans to households represented 29% of total outstanding credit at the end of 2002, which was higher than a year earlier but the lowest level among all listed Korean banks. Finally, 44% of the ₩540 billion in credit card receivables was for cash advances, far lower than the 60% or higher figure found at other banks in Korea.

SBL Ratio

(In billions of Won)

	Dec. 2000	Dec. 2001	Dec. 2002
SBLs			
A. Total amount	412.8	263	193
B. Loan loss reserve	136.1	94.4	81.1
Total Loans			
C. Total amount	6,204.4	7,048.1	8,685.4
D. Loan loss reserve	166.4	142.6	161.6
Net SBL ratio [(A-B)/(C-D)]	4.58%	2.44%	1.31%
SBL ratio (A/C)	6.65%	3.73%	2.22%

Awards Received in 2002

Maeil Business Newspaper Financial Product Awards (March 21)

The annual Financial Product Awards, sponsored by the Maeil Business Newspaper, are presented on the basis of creativity, marketability, contribution to daily life, and effect on financial development. Pusan Bank's loans for funding marine product distribution won the Silver Award in 2002. The loan package was developed to support the fisheries industry, a major force in the Busan economy, and specifically targets individual member companies recommended by the Fishery Securities Dealers Automated Quotation (FISDAQ) stock market. The loan is managed like a stock transaction, and every step is automated, to include repayment of the principle. Borrowers also received FISDAQ trading data in real time.

President Shim Named "Best CEO of the Year" (December 2)

The Korea Economic Daily and Towers Perrin examined the CEOs of more than 200 listed firms, rating them on three major performance indicators—total sales, net income and market capitalization—and recommending the top candidates to the selection committee. Finally, the selection of "Best CEO of the Year" was made based on Towers Perrin's leadership competitiveness assessment index.

Receiving that honor in 2002 was President Shim, Hoon, who was Deputy Governor at the Bank of Korea before coming to Pusan Bank in July 2000. He has been credited with making a new regional bank model by expanding ties to the local community and customers.

Dasan Award in the Banking Category (December 23)

The Dasan Financial Awards, cosponsored by the Ministry of Finance & Economy and the Korea Economic Daily newspaper, are handed out to the banks, life insurers, and property & casualty insurers who have contributed the most to developing the Korean financial industry through operational performance and new product development. Pusan Bank won the prestigious award for achieving the highest net income growth in the Korean banking sector for the past two years and helping stimulate the regional economy of Korea's Southeast. Moody's Investors Service raised the Bank's credit rating three notches to an investment grade "Baa 3" in June 2002.

Global Cooperation

Pusan Bank increased its overseas cooperations in 2002 to exchange information and know-how as well as promote personnel exchanges such as training programs.

A Bank delegation headed by President Shim, Hoon traveled to Japan for discuss business process reengineering with Shizuoka Bank President Matsura Yasuo on June 4. They toured the Japanese bank's operations center, an in-store-branch, phone center, and emergency auto service.

On October 31, the Pusan Bank delegation visited the back office and call center at Wachovia Bank in the US and met with Bank President Ken Thompson and CFO Bob Kelly. The topics of conversation included online banking, private banking, credit risk management, and community service activities.

President Shim also called on Bank of New York Vice Chairman Alan Griffith to discuss cooperation in the international banking sector. After that meeting, the Pusan Bank President talked with officials from the Federal Reserve Bank and State Banking Department as well as Wall Street investors.

Meanwhile, the volume of trade between Korea and China has increased sharply after China's entry into the WTO, prompting Pusan Bank to sign a joint service agreement with the Bank of China in November 2001. This was followed by the signing of a cooperative agreement between Pusan Bank and the Industrial & Commercial Bank of China, the largest state-owned bank in that country, in Beijing on August 28, 2002. Pusan Bank continues to expand cooperation with Chinese financial institutions and strengthen services for companies in Korea's Southeast that invest in or trade with China.

The agreement with the Industrial & Commercial Bank of China enables money transfers between Korea and China by students and companies to be received within 24 hours. In addition, the Industrial & Commercial Bank of China will be designated the advising bank whenever Pusan Bank opens letters of credit involving business transactions with China, thereby accelerating the process. Moreover, the two banks will jointly carry out credit checks and inquiry services, and financial services will soon be offered to the plants in China operated by companies from Pusan and the Korean Southeast.

Pusan Bank is also reinforcing ties with other domestic banks, signing a forfeiting agreement with the Export-Import Bank of Korea to better support importers and exporters. In addition, a computer backup system jointly established with Daegu Bank went online on December 11, 2002.



Tightened Risk Management

Pusan Bank and SunGuard, a US risk management solutions provider, began work on an integrated risk management system in September 2000. The market risk management part was completed in February 2001, followed by the credit risk management part in March 2002. Now, risk management activities can be approached from a bank-wide perspective, potential risk predicted and counter measures quickly established. Risk is also more closely monitored day to day, bolstering the Bank's operational soundness.

The process can measure and manage a unified system of indexes covering all financial risks generated in the course of Bank operations. At the same time, portfolio-specific risks and profitability can be analyzed. In the future, the system will be linked to the existing Asset & Liability Management, Integrated Profit Management and Performance Management systems, allowing assets and capital to be most efficiently distributed to each operational unit and assess overall performance in consideration of various risk factors.

New Disaster Backup System

Joint development of disaster backup system was begun by Pusan Bank and Daegu Bank in May 2002, in cooperation with Korea Telecom and IBM Korea, and the system went online on December 11, 2002. The main computer centers for each bank as well as the joint computer backup system are based in the city of Milyang, South Gyeongsang Province. The computer networks are linked by a fiber optic transmission network using Dense Wavelength Division Multiplexing (DWDM), and accounts are backed up in real time. Should the main computer system of either bank go down, the backup system can replace it within three hours, a task that previously took 24 hours. This, the first joint backup system of its kind in Korea, will save Pusan Bank at least ₩600 million a year in administrative costs.

Enhanced Customer Satisfaction

Pusan Bank is working to improve service quality and customer satisfaction through a variety of channels. A service monitoring index has been adopted and bimonthly checks are now made at each branch to ascertain how well customers are served at the branch and on the phone. The results are collected and corrective measures taken when needed.

In addition, National Information & Credit Evaluation Inc. (NICE) Research & Consulting surveys preferred bank customers twice a year to determine the degree of their satisfaction with the Bank. At the same time, the Bank has implemented a customer feedback program (Voice of the Customer) and an early warning system to predict recurring issues and major customer complaints.

This combined effort has brought tangible results, as the Bank's ranking on the Korean Customer Satisfaction Index compiled by Korea Management Association Consultants between June and September 2002 reached 4th out of the nation's 15 banks, up from 10th place in 2001.

New Marketing Approaches Via CRM System

Pusan Bank started to build a Customer Relationship Management (CRM) system on August 5 2002. A six-member consortium that includes LG Hitachi, Willbe Solution, SAS Korea, Sybase, Penta Systems and Amail is carrying out the project, which is scheduled for completion in August 2003. LG Hitachi is acting as the lead company of the consortium, while Willbe Solution is responsible for strategic consulting.

The new CRM system will strategically analyze customers and work processes to segment the customer base and provide customized services. As a result, the Bank will be able to nurture closer relationships with customers, improving both customer satisfaction and sales effectiveness.

The new system will consist of a data warehouse, online analytical processing, campaign management, sales force automation, email, and mining functions. Once in place, the CRM system will analyze customer-related data from all channels in real time and individualized marketing of customized products and services. The effect of marketing and sales activities will be measured immediately to focus on greater profitability. Use of the CRM, risk management, integrated profit management and other advanced systems will ultimately generate new kinds of customer value.

Private-brand Buvix Card

Pusan Bank began issuing the Buvix Card on August 12 to offer services exclusive to the local region, and registration of the card name and online domain (www.buvix.co.kr) is complete. This, the first private brand credit card issued by a regional Korean bank, targets a wide range of age groups and can be used at all existing member service establishments. To differentiate Buvix from other cards, Pusan Bank sought out a wide range of partners in

Busan and Kyungnam provinces to offer special services, such as interest free installments, price discounts and free entrance to amusement parks. Buvix is tailored for customers in the Busan area, rather than the cards which focus their incentives on residents of Seoul.

Stepped Up Project Financing Activities

Pusan Bank has contributed greatly to large-scale infrastructure and real estate development projects in Busan and South Gyeongsang Province since forming the Project Financing Team. In 2002, ₩160 billion in new project financing contracts were concluded, including investments of ₩90 billion in five projects.

Customer-oriented Foreign Exchange Services

Overseas Shipping Document Tracking

In April 2002 Pusan Bank tied up with DHL Korea to launch new services that track documents on foreign exchange transfers overseas. One service enables users to identify export bill or air shipment invoice numbers to confirm delivery data themselves on the Pusan Bank homepage. Another service informs users by email or mobile phone of a short message service the moment their shipping documents have reached the final destination. Thus exporters can confirm the status of export documents as well as documents delivered directly to their clients. Sellers no longer have to wonder how paperwork is proceeding, and they can use information to expedite payment from buyers.



Center for Exchange Students and Emigrants

Pusan Bank opened Korea's first Center for Overseas Exchange Students & Emigrants on May 17 2002. This specialized resource library is located in the 825 m² Seminar Room on the second floor of the International Cultural Center in Busan's Geogae District. Bank employees are available to offer advices on financial issues. Moreover, emigration consultants and companies specializing in foreign exchange arrangements are also permanently stationed here to provide one-on-one assistance or process required paperwork.

The library has literature on more than 8,000 secondary schools and universities around the world and over 40,000 books on culture and other subjects regarding different countries. These books are organized into eight categories—the US, the UK, Canada, Australia, New Zealand, Japan, China, and Others—and can be read free of charge. Other facilities include a computer room to search for data online, a visitor lounge and seminar room. Thus, local residents can use the Center simply to study or relax. Seminars are held on foreign exchange programs, foreign language programs, or emigration issues.

Electronic Foreign Exchange Transmittal

On August 14, a new service was launched that allows users to request foreign exchange transfers by email, telephone or facsimile, a great convenience for companies that are carrying out frequent international transactions or parents who remit money regularly to their children studying abroad. Customers only have to visit the bank once to fill out the necessary paperwork.

Service users tell the Bank by phone, fax or email the amount to be transferred, name of the overseas bank to receive payment, bank account number, and name of the payee. The Bank confirms the transaction request by phone and then transfers the funds. The transfer receipt is sent by email to the person requesting the overseas funds transfer and the payee.

Pusan Bank began offering online banking services in November 2000. This "e-telefax" foreign exchange transmittal service is the first of its kind in Korea, allowing funds to be transferred outside Korea without physical documents or a personal visit to the Bank.

Improved China Services

Pusan Bank concluded a fund transfer service agreement with the Bank of China in November 2001 and a cooperative agreement with the Industrial & Commercial Bank of China, the country's largest state-run bank, in Beijing on August 28, 2002. This latest agreement enables fund transfers by Korean companies to their China operations or by Chinese companies to their trainees in Korea to be completed within 24 hours.

Notification is rapid when letters of credit are opened between the two banks; credit checks on corporate customers and inquiry services are carried out jointly, and financial services are available to the Chinese operations of companies from Pusan and South Gyeongsang Province. Importantly, the Pusan Bank President and other high-ranking bank officers visited Korean-run plants in both China and Vietnam to get feedback on the services being offered and better reflect corporate customer needs in those services.

Staying Close to the Local Community

In 1995, Pusan Bank began to issue the Green Citizens Passbook to create a fund used to protect the environment in the Korean Southeast. These activities were expanded three years later, when the Bank joined up with the Korea Federation for Environmental Movement.

The Bank also supports social welfare activities, culture & the arts and other community service programs. In 1999, the Love Pusan Savings and Pusan International Film Festival Passbook Accounts were implemented to raise funds for worthy local causes. The Bank donates free books periodically to subway riders and sponsors a drawing contest for children.

In February 2001, Pusan Bank deposited a ₩200 million donation in the Busan Chapter of the Community Chest of Korea to help the needy. Since then, various community service activities have been carried out, including regular donations to the Korea Welfare Foundation and support for the 2002 Busan Asian Games. On July 25, 2002, the Bank contributed funds to the Busan Chapter of the Korean Federation for Environmental Movement and jointly promoted local environmental preservation activities, including the effort to preserve the Nakdong River estuary. The Bank, a regular partner of the Pusan International Film Festival (PIFF), sold advance tickets and supported PIFF PR activities.

The Love My Hometown 21 Program was launched on the occasion of the Bank's 34th anniversary in 2001. This program includes establishing "big brother, big sister" relationships between Bank employees and local teenaged orphans with younger siblings to support and volunteering for community service. The Bank adopted a five-day workweek in the second half of 2002, and one Saturday each month is designated Community Service Day, and all employees are encouraged to get involved. The Pusan Bank Community Service Corps was formed in December 2002 as part of stepped up efforts to support social development in the region.

Pusan Bank aims to become a "world-class premier regional bank." To this end, the Bank is committed to being one with and earning the trust of the local community and returning part of profits in that effort.



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Management Discussion and Analysis

Key Financial Data

(In billions of Won, %)

	2000	2001	2002
Operating Results			
Operating revenue	1,005.8	1,103.6	1,093.4
Net interest income	279.7	342.8	435.8
Operating income	16.6	77.2	200.6
Net income	10.2	52.3	148.0
Per Share Data (Won)			
Dividend per share	0	0	300
Earning per share	107	550	1,187
Profitability Ratios			
ROA	0.09	0.42	1.09
ROE	2.47	12.00	20.09
Net interest margin	2.79	2.87	3.39
Net interest spread	3.08	3.66	4.05
Balance Sheet Data at Year's End			
Total assets*	12,910.5	14,564.3	16,225.9
Total credit*	5,790.5	6,496.3	8,014.2
Total deposits*	10,361.0	12,008.4	13,023.7
Securities*	5,034.0	5,831.2	5,888.3
Shareholders' equity	406.6	443.9	815.8
Asset Quality Ratios			
Loan Loss Provision to SBLs	40.3	54.2	83.7
SBLs to Total Credit	6.65	3.73	2.22
Capital Ratios at Year's End			
Total capital ratio	10.53	10.26	11.69
Tier 1 capital	6.82	6.58	9.21
Tier 2 capital	4.01	4.01	3.06

* Includes trust accounts.

* Prior 2002, domestic import usance bills were disclosed as an off-balance sheet item but according to new guidance of the FSS on Dec 2002, these are recorded on balance sheet as loans. Domestic usance bills on Dec2001 were 141.2billions of KRW.

Overview

The Bank's total assets increased 11.4% (more than ₩1.66 trillion) in 2002 to surpass ₩16.22 trillion. Total credit at year's end exceeded ₩8.01 trillion, up more than ₩1.51 trillion from the previous year, and total deposits were over ₩13.02 trillion, a year-on-year increase of more than ₩1.01 trillion. The Bank completed conversion of ₩258.2 billion worth of bonds with warrant at the end of June 2002, raising the BIS capital adequacy ratio 1.43%P to 11.69%. The Tier 1 ratio, too, was 9.21%, the highest among domestic banks.

Another important indicator of fiscal soundness is the percentage of the loans rated substandard and below (SBLs) in the loan portfolio. The Bank's SBL ratio fell 1.51%P to a very clean 2.22% in 2002.

As a result, the Bank's net income nearly doubled year on year to reach ₩148 billion. Likewise, ROA was up 0.67%P to 1.09% and ROE increased 8.09%P to 20.09%. Net interest margin improved 0.52%P to 3.39%, while net interest spread was 4.05%, which was 0.39%P higher than in 2001.

Management Discussion and Analysis

Net Income

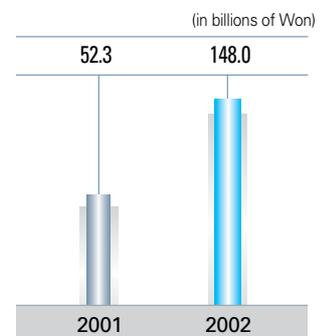
Despite the significant growth in Bank assets, declining interest rates for loans caused operating revenue to decline 0.95% (₩10.2 billion) year on year to just over ₩1.093 trillion in 2002. Interest paid on deposits fell even further than interest received on loans, and operating expenses dropped ₩133.6 billion to ₩892.8 billion, boosting operating income to ₩200.6 billion for the year, a ₩123.4 billion increase over in 2001.

One of the reasons for the growth in revenue was the higher net interest margin achieved from the increase in low-cost deposits. However, the basic cause was the greater portion of total revenue represented by fees & commissions, and credit card commissions in particular. Cleaner assets also enabled the Bank to lower the provision for loan losses 7.6% from 2001, another important reason for the higher revenue performance.

Profit and Loss Summary

	(in billions of Won)		
	2001	2002	Change YoY
Operating revenue	1,103.6	1,093.4	-10.2
Operating expense	1,026.4	892.8	-133.6
Operating income	77.2	200.6	123.4
Non-operating income	-24.9	-52.6	-27.7
Ordinary income	52.3	148.0	95.7
Extraordinary gain	0.0	0.0	0.0
Net income	52.3	148.0	95.7

Net Income



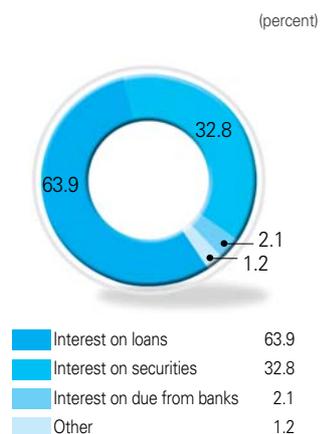
Net interest income

Overall market interest rates dropped 3.4% during 2002, but the Bank's expanded operational scale buoyed up interest revenue, which dipped only ₩31.5 billion year on year to total ₩906.1 billion. On the other hand, interest expenses fell 20.9% (₩124.5 billion) to ₩470.3 billion. As a result, net interest income rose 27.1% (₩93.0 billion) year on year to reach ₩435.8 billion.

Net Interest Income

	(in billions of Won)		
	2001	2002	Change YoY
Interest Revenues	937.6	906.1	-31.5
Interest on loans	558.3	579.2	20.9
Interest on securities	325.7	296.9	-28.8
Interest on due from banks	39.4	18.8	-20.6
Other	14.2	11.2	-3
Interest Expenses	594.8	470.3	-124.5
Interest on deposits	464.6	375.8	-88.8
Interest on borrowings and debentures	96.9	75.8	-21.1
Other	33.3	18.7	-14.6
Net Interest Income	342.8	435.8	93.0

Non-interest revenues



Net Interest Spread and Net Interest Margin

The general drop in market interest rates during 2002 lowered the average loan interest received by the Bank 0.97%P to 7.82%. Meanwhile, the average deposit interest paid by the Bank fell even further, 1.36%P, to 3.77%. As a result, the net interest spread rose 0.39%P to 4.05%.

Management Discussion and Analysis

The reason for the higher net interest spread and net interest margin can be found in the above-mentioned increase in low-cost deposits. The total deposits in bank accounts were up 9.4% (₩934.4 billion) year on year to more than ₩10.907 trillion, while the low-cost deposits were 20.3% (₩778.7 billion) higher to surpass ₩4.622 trillion. Thus, the portion of low-cost deposits in the portfolio rose 3.84%P year on year to 42.38% of the total.

Interest Rate Spread

	2001	2002	Change YoY
			(%)
Average interest on loans	8.79	7.82	-0.97
Average interest on deposits	5.13	3.77	-1.36
Net interest spread	3.66	4.05	0.39

Net Interest Margin

	2001	2002	Change YoY
			(in billions of Won, %, %P)
Interest-earning assets (average balance)	11,142.9	11,969.2	826.3
Interest revenues*	923.3	885.3	-38.0
Interest expenses*	603.0	479.0	-124.0
(KAMCO repurchase expense)	20.3	7.9	-12.4
Net interest revenue	320.3	406.3	86.0
NIM 1	2.87	3.39	0.52
NIM 2**	3.06	3.46	0.40

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

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

Low-cost Deposits

	2001	2002	Change YoY
			(in billions of Won)
Total deposits	9,973.4	10,907.8	934.4
Low-cost deposits*	3,844.2	4,622.9	778.7
Interest expense on low-cost deposits	38.54	42.38	3.84

* Consisting of demand deposits, savings deposits (to include MMDA) and corporate free deposits (to include MMDA)

Non-interest Income

Non-interest income represented 18.74% of the Bank's revenues in 2002, with fee & commission revenue comprising 10.48% of the total.

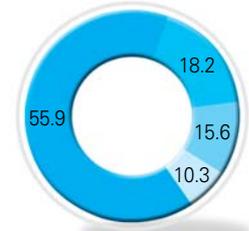
Management Discussion and Analysis

Revenue Breakdown

	(in billions of Won)		
	2001	2002	Change YoY
Operating revenues	1,103.6	1,093.4	-10.2
Non-operating revenues	62.9	21.6	-41.3
Total revenues	1,166.5	1,115.0	-51.5
Interest revenues	937.6	906.1	-31.5
Non-interest revenues	228.9	208.9	-20.0
Commission & fee revenue	90.2	116.8	26.6
Trust revenue	18.8	32.5	13.7
Other operating revenue	57.0	38.0	-19.0
Non-operating revenue	62.9	21.6	-41.3
Portion of interest revenue	80.38	81.26	0.88
Portion of non-interest revenue	19.62	18.74	-0.88
Commission & fee revenue to total revenue	7.71	10.48	2.77
Commission & fee revenue to operating revenue	8.15	10.68	2.53

Non-interest revenues

(percent)



Commission & fee revenue	55.9
Other operating revenue	18.2
Trust revenue	15.6
Non-operating revenue	10.3

Commission & Fee Income

Commission & fee income rose 24.7% (₩19.4 billion) year on year to total ₩97.9 billion in 2002. Commissions received from credit cards rose ₩17.3 billion during 2002 to ₩63.6 billion, and Won-currency commissions were also up ₩8.9 billion to total ₩40.4 billion.

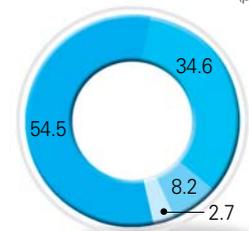
Credit card-related revenue would total ₩107.2 billion if the ₩43.6 billion in cash advance commissions, which are categorized as interest revenue, is factored in. The rise in fee & commission revenue, including credit cards, contributed significantly to the overall growth in the Bank's net income.

Commission & Fee Income

	(In billions of Won, %)		
	2001	2002	Change YoY
Commission revenues	90.2	116.8	26.6
Won-currency commissions received	31.5	40.4	8.9
Foreign-currency commissions received	8.3	9.6	1.3
Commissions on credit cards	46.3	63.6	17.3
Guarantee fees and other	4.1	3.2	-0.9
Commission expenses	11.7	18.9	7.2
Commissions paid (Won & foreign currency)	4.4	7.8	3.4
Commission on credit cards	7.3	11.1	3.8
Net commission & fee Income	78.5	97.9	19.4

Commission Revenues

(percent)



Commission on credit cards	54.5
Won currency commissions received	34.6
Foreign currency commissions received	8.2
Guarantee fees	2.7

Income before Provisions

Income before provisions surged 41.7% (₩84.5 billion) year on year to total ₩287.0 billion for 2002. Total provisions were ₩138.9 billion, a decrease of ₩11.3 billion from 2001. Of this total, the provision for loan losses was ₩117.8 billion, down ₩8.4 billion from the previous year.

Management Discussion and Analysis

Income before Provisions

(in billions of Won)			
	2001	2002	Change YoY
Income before Provisions	202.5	287.0	84.5
Total Provisions	150.2	138.9	-11.3
Provisions for loan losses	126.2	117.8	-8.4
Income Tax	0.0	0.0	0.0
Net Income	52.3	148.0	95.7

Assets and Liabilities

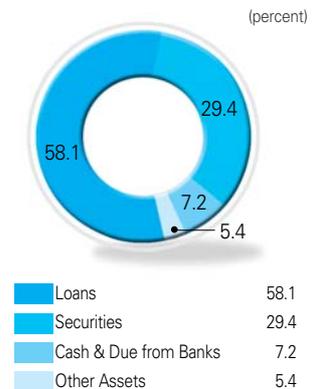
1. Asset Portfolio

Total assets at the end of 2002 were in excess of ₩14.536 trillion, up 10.1% (₩1.334 trillion) from the previous year. Loans increased 18.8% (₩1.337 trillion) to ₩8.438 trillion and represented 58.1% of the asset portfolio, a rise of 4.3%P year on year. Cash & due from banks also grew ₩200.3 billion to more than nearly ₩1.04 trillion, making up 7.2% of total assets, 0.8%P more than in 2001. On the other hand, securities dipped ₩142.3 billion to ₩4.279 trillion, which was 29.4% of the portfolio, 4.1%P lower than a year earlier.

Asset Portfolio (Bank Account)

(In billions of Won, %)						
	2001		2002		Change YoY	
	Amt.	Pct.	Amt.	Pct.	Amt.	Pct.
Cash & due from banks	839.5	6.4	1,039.8	7.2	200.3	23.9
Securities	4,421.3	33.5	4,279.0	29.4	-142.3	-3.2
Loans	7,101.0	53.8	8,438.0	58.1	1,337.0	18.8
Other Assets	840.4	6.4	779.8	5.4	-60.5	-7.2
Total	13,202.2	100.0	14,536.6	100.0	1,334.4	10.1

Commission Revenues (Bank Account)



Securities

Trading securities totaled ₩53.1 billion in 2002, up a modest ₩24.4 billion from the previous year. Among the trading securities, stocks, finance debentures, and corporate bonds all showed positive growth year on year, while government & public bonds declined ₩4.9 billion to ₩10.1 billion.

Investment securities, meanwhile, dropped 3.8% (₩166.7 billion) during 2002 to just under ₩4.226 trillion. Stocks and government & public bonds edged up year on year to ₩100.2 billion and ₩869.4 billion, respectively. Beneficiary certificates showed the greatest positive growth among the Bank's investment securities, rising 169.3% (₩165.9 billion) to ₩263.9 billion. On the other hand, finance debentures fell ₩258.1 billion to under ₩1.157 trillion and corporate bonds dropped ₩153.2 billion to less than ₩1.797 trillion.

The securities portfolio as a whole did not show much change year on year, dipping 3.2% (₩142.3 billion) to ₩4.279 trillion.

Management Discussion and Analysis

Securities Portfolio

(in billions of Won)			
	2001	2002	Change YoY
Trading Securities	28.7	53.1	24.4
Stocks	0.0	11.1	11.1
Government & public bonds	15.0	10.1	-4.9
Finance debentures	10.3	19.4	9.1
Corporate bonds	3.4	10.0	6.6
Beneficiary certificates	0.0	2.5	2.5
Investment Securities	4,392.6	4,225.9	-166.7
Stocks	72.9	100.2	27.3
Government & public bonds	817.6	869.4	51.8
Finance debentures	1,414.7	1,156.6	-258.1
Corporate bonds	1,950.0	1,796.8	-153.2
Beneficiary certificates	98.0	263.9	165.9
Other, excluding foreign-currency securities.	39.4	39.0	-0.4
Total	4,421.3	4,279.0	-142.3

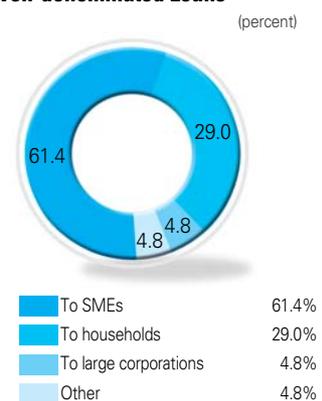
Loans

Won-currency loans increased ₩25.3% (over ₩1.477 trillion) during 2002 to surpass ₩7.32 trillion by year's end. The loan portfolio breaks down as 29.0% to households, 61.4% to small & medium enterprises (SMEs), 4.8% to large corporations and 4.8% to other borrowers. Household loans surged 51.5% (₩722 billion) year on year to over ₩2.123 trillion, and loans to SMEs rose 21.0% (₩779.8 billion) to more than ₩4.491 trillion.

Won-currency Loans

	(In billions of Won, %)					
	2001		2002		Change YoY	
	Amt.	Pct.	Amt.	Pct.	Amt.	Pct.
To households	1,401.2	24.0	2,123.2	29.0	722.0	51.5
To SMEs	3,711.9	63.5	4,491.7	61.4	779.8	21.0
To large corporations	337.9	5.8	350.9	4.8	13.0	3.8
Other	392.0	6.7	354.8	4.8	-37.2	-9.5
Total	5,843.0	100.0	7,320.7	100.0	1,477.7	25.3

Won-denominated Loans



2. Liabilities

Total liabilities surpassed ₩13.72 trillion at the end of 2002, up 7.5% (₩962.5 billion) from the year before. Deposits represent 80.9% of all liabilities, which is 9.8%P higher than at the end of 2001. On the other hand, borrowings declined ₩40.3 billion to under ₩1.52 trillion or 11.1% of total liabilities, down 2.6%P from the previous year.

Management Discussion and Analysis

Liabilities

	(In billions of Won, %, %P)					
	2001		2002		Change YoY	
	Amt.	Pct.	Amt.	Pct.	Amt.	Pct.
Deposits	10,108.8	79.2	11,102.6	80.9	993.8	9.8
Borrowings	1,559.8	12.2	1,519.5	11.1	-40.3	-2.6
Debentures issued	314.8	2.5	200.0	1.5	-114.8	-36.5
Other liabilities	774.9	6.1	898.7	6.5	123.8	16.0
Total	12,758.3	100.0	13,720.8	100.0	962.5	7.5

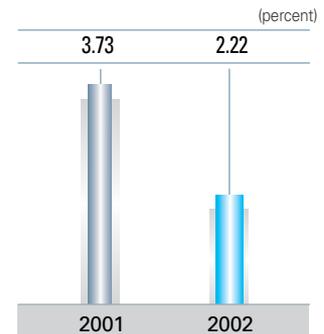
Asset Soundness & Provision for Loan Losses

Total loans outstanding increased 23.2% (over ₩1.637 trillion) during 2002 to surpass ₩8.685 trillion by the end of the year. Despite the rise in total loans, the loans rated substandard or below (SBLs) fell ₩70.1 billion to ₩193 billion, lowering the SBL ratio 1.51%P year on year to 2.22%. The balance of the provision for loan losses was increased ₩19.0 billion to ₩161.6 billion, which is ₩39.4 billion more than the requirement by Financial Supervisory Service. At the same time, the loan loss reserve coverage ratio has reached 83.7% of the SBLs in the credit outstanding, up 29.5%P from 2001.

Substandard or Below Credit & Provisions

	(In billions of Won, %, %P)		
	2001	2002	Change YoY
Total Loans	7,048.1	8,685.4	1,637.3
SBLs	263.1	193.0	-70.1
Substandard	159.6	140.0	-19.6
Doubtful	83.1	35.2	-47.9
Estimated loss	20.4	17.8	-2.6
SBL Ratio	3.73	2.22	-1.51%P
Provisions	142.6	161.6	19.0
Provisions to SBLs	54.2	83.7	29.5%P

SBL Ratio



Capital Adequacy

The Bank completed conversion of ₩258.2 billion in bonds with warrant at the end of June 2002, boosting the BIS capital adequacy ratio to 11.69% and the Tier 1 ratio to 9.21%, the highest figure among all Korean banks. Meanwhile, improved profitability during 2002 enabled the Bank to complete early repayment of ₩301 billion in high-cost subordinated bonds and borrowings.

BIS Capital Ratio

	(In billions of Won, %, %P)			
	2001	2002	Change YoY	
	Amt.	Amt.	Amt.	Pct.
Core capital	442.9	792.9	350.0	79.0
Supplementary capital	269.8	263.7	-6.1	-2.3
Contributions to unconsolidated subsidiaries	21.9	50.2	28.3	129.2
Total equity capital	690.8	1,006.4	315.6	45.7
Risk-weighted assets	6,733.0	8,609.7	1,876.7	27.9
Tier 1 capital	6.58	9.21	2.63	40.0
Tier 2 capital	4.01	3.06	-0.94	-23.6
BIS capital ratio	10.26	11.69	1.43	13.9

INDEPENDENT AUDITORS' REPORT



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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, 2002 and 2001, and the related statements of income, appropriations of unappropriated retained earnings (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, 2002 and 2001, and the results of its operations, appropriations of unappropriated retained earnings (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.

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

January 24, 2003

BALANCE SHEETS DECEMBER 31, 2002 AND 2001

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2002	2001	2002
ASSETS			
Cash and due from banks (Notes 3 and 18)	₩ 1,039,837	₩ 839,510	\$ 866,242
Trading securities (Notes 4 and 18)	53,081	28,724	44,219
Investment securities (Notes 4 and 18)	4,225,857	4,392,565	3,520,374
Loans including bills discounted and call loans, less allowance for loan losses and present value discount (Notes 5, 13, 17 and 18)	8,438,031	7,101,035	7,029,350
Fixed assets, net (Note 6)	328,464	328,702	273,629
Other assets (Notes 7, 17 and 18)	451,379	511,644	376,024
Total assets	₩ 14,536,649	₩ 13,202,180	\$ 12,109,838
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits from customers (Notes 8, 17 and 18)	₩ 11,102,638	₩ 10,108,757	\$ 9,249,115
Borrowings (Notes 9 and 18)	1,519,501	1,559,792	1,265,829
Debentures issued (Note 10)	200,030	314,757	166,636
Other liabilities:			
Severance and retirement benefits	12,769	90,884	10,637
Due to Trust Accounts	412,488	268,537	343,625
Other liabilities (Notes 11, 17 and 18)	473,423	415,522	394,389
	898,680	774,943	748,651
Total liabilities	13,720,849	12,758,249	11,430,231
Commitments and contingent liabilities (Note 19)			
Stockholders' equity (Note 12):			
Common stock, ₩5,000 par value (Korean won in units);			
Authorized - 400,000,000 shares			
Issued and outstanding - 146,683,650 shares and 95,045,164 shares as of December 31, 2002 and 2001, respectively	733,418	475,226	610,978
Retained earnings (Accumulated deficit):			
Legal reserve	14,803	-	12,332
Voluntary reserve	52,634	-	43,847
Unappropriated retained earnings (Undisposed accumulated deficit)	1	(33,632)	1
Total retained earnings (Accumulated deficit):	67,438	(33,632)	56,180
Capital adjustment account	14,944	2,337	12,449
Total stockholders' equity	815,800	443,931	679,607
Total liabilities and stockholders' equity	₩ 14,536,649	₩ 13,202,180	\$ 12,109,838
See accompanying notes.			

STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)	
	2002	2001	2002	
I. Operating income				
1. Interest income:				
Due from banks	₩ 18,778	₩ 39,399	\$ 15,643	
Marketable securities	2,806	14,254	2,338	
Investment securities	294,094	311,490	244,997	
Loans (Note 17)	579,155	558,269	482,468	
Other interest income	11,253	14,224	9,374	
	906,086	937,636	754,820	
2. Fee and commission income	116,824	90,173	97,321	
3. Other operating income:				
Trading and valuation gains on marketable securities	3,821	13,943	3,183	
Gains on dealing foreign exchange	20,370	18,018	16,969	
Trust management fees	32,470	18,811	27,049	
Other	13,842	25,015	11,532	
	70,503	75,787	58,733	
Total operating income	1,093,413	1,103,596	910,874	
II. Operating expenses				
1. Interest expense:				
Deposits from customers (Note 17)	375,774	464,641	313,041	
Borrowings	52,127	75,333	43,425	
Debentures issued	23,723	21,554	19,763	
Other interest expense	18,680	33,307	15,561	
	470,304	594,835	391,790	
2. Fee and commission expense	18,886	11,710	15,733	
3. Other operating expenses:				
Trading and valuation losses on marketable securities	7,097	12,445	5,912	
Provision for loan losses	117,835	126,224	98,163	
Other	37,265	76,572	31,044	
	162,197	215,241	135,119	
4. General and administrative expenses:				
Personnel expenses	159,003	129,776	132,458	
Depreciation and amortization	26,741	25,644	22,277	
Other	55,682	49,141	46,386	
	241,426	204,561	201,121	
Total operating expenses	892,813	1,026,347	743,763	
III. Net operating income	200,600	77,249	167,111	
IV. Non-operating income:				
1. Gains on disposal of and valuation on investment securities	10,769	32,589	8,971	
2. Gains on disposal of loans	2,197	7,602	1,830	
3. Other	8,638	22,664	7,196	
	21,604	62,855	17,997	
V. Non-operating expenses:				
1. Losses on disposal of and impairment on investment securities	46,158	11,609	38,452	
2. Losses on disposal of loans	3,421	34,003	2,850	
3. Other	24,601	42,191	20,494	
	74,180	87,803	61,796	
VI. Income before income taxes	148,024	52,301	123,312	
VII. Income tax expense (Note 14)	-	-	-	
VIII. Net income	₩ 148,024	₩ 52,301	\$ 123,312	
Primary ordinary earnings per share (Notes 2 and 15) (Korean won and U. S. dollars in units)	₩ 1,187	₩ 550	\$ 0.989	
Primary earnings per share (Notes 2 and 15) (Korean won and U. S. dollars in units)	₩ 1,187	₩ 550	\$ 0.989	
Diluted ordinary earnings per share (Notes 2 and 15) (Korean won and U. S. dollars in units)	₩ 1,172	₩ 550	\$ 0.976	
Diluted earnings per share (Notes 2 and 15) (Korean won and U. S. dollars in units)	₩ 1,172	₩ 550	\$ 0.976	
See accompanying notes.				

**STATEMENTS OF APPROPRIATIONS OF UNAPPROPRIATED RETAINED EARNINGS
(DISPOSITION OF UNDISPOSED ACCUMULATED DEFICIT)** YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2002	2001	2002
Undisposed accumulated deficit carried forward from prior year	₩ (33,632)	₩ (85,933)	\$ (28,017)
Net income for the year	148,024	52,301	123,312
Unappropriated retained earnings (undisposed accumulated deficit) at end of year before appropriations (disposition)	114,392	(33,632)	95,295
Appropriations:			
Legal reserve	14,803	-	12,332
Amortization of discounts on stock issuance	2,949	-	2,456
Voluntary reserve	52,634	-	43,847
Cash dividends (Note 16)	44,005	-	36,659
	114,391	-	95,294
Unappropriated retained earnings (Undisposed accumulated deficit) to be carried forward to next year	₩ 1	₩ (33,632)	\$ 1
See accompanying notes.			

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)	
	2002	2001	2002	
Cash flows from operating activities:				
Net income	₩ 148,024	₩ 52,301	\$ 123,312	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Provision for loan losses	117,835	126,224	98,163	
Depreciation and amortization	26,741	25,644	22,277	
Provision for severance and retirement benefits	26,394	16,103	21,988	
Payments of severance and retirement benefits	(6,587)	(30,221)	(5,487)	
Loss on valuation of marketable securities - net	904	130	753	
Loss on disposal of loans - net	1,224	26,401	1,020	
Loss (gain) on valuation of investment securities - net	26,417	(4,388)	22,007	
Loss (gain) on disposal of fixed assets - net	1,782	(816)	1,485	
Loss (gain) on disposal of marketable securities - net	2,372	(1,629)	1,976	
Loss (gain) on disposal of investment securities - net	8,972	(16,592)	7,474	
Amortization of present value discount	(3,356)	(3,159)	(2,796)	
Valuation loss on fixed assets held for non-operating purposes	2,311	1,228	1,925	
Other	(4,536)	8,010	(3,779)	
Changes in operating assets and liabilities:				
Decrease (increase) in marketable securities	(27,633)	530,636	(23,020)	
Increase in loans	(1,818,354)	(1,190,004)	(1,514,790)	
Increase in deposits from customers	993,881	1,038,709	827,958	
Increase (decrease) in due to Trust Accounts	143,951	(44,732)	119,919	
Increase (decrease) in bonds sold under repurchase agreement	(43,467)	28,016	(36,211)	
Decrease in bills sold	(3,263)	(75,674)	(2,718)	
Decrease in call money	(21,180)	(1,733)	(17,644)	
Other - net	(9,201)	(189,530)	(7,665)	
Total adjustments	(584,793)	242,623	(487,165)	
Net cash provided by (used in) operating activities	(436,769)	294,924	(363,853)	
Cash flows from investing activities:				
Proceeds from disposal of investment securities	2,401,109	7,480,487	2,000,257	
Proceeds from disposal of fixed assets	10,338	10,342	8,612	
Purchase of investment securities	(2,258,994)	(8,158,959)	(1,881,867)	
Purchase of fixed assets	(41,294)	(39,874)	(34,400)	
Other, net	(3,685)	11,627	(3,070)	
Net cash provided by (used in) investing activities	107,474	(696,377)	89,532	
Cash flows from financing activities:				
Increase in borrowings	27,619	179,479	23,008	
Increase (decrease) in debentures issued	(115,245)	99,988	(96,005)	
Increase in paid-in capital	256,846	-	213,967	
Net cash provided by financing activities	169,220	279,467	140,970	
Net decrease in cash and cash equivalents	(160,075)	(121,986)	(133,351)	
Cash and cash equivalents at the beginning of year (Note 2)	1,330,743	1,452,729	1,108,583	
Cash and cash equivalents at the end of year (Note 2)	₩ 1,170,668	₩ 1,330,743	\$ 975,232	

See accompanying notes.

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, 2002 amounted to ₩733,418 million (US\$610,978 thousand).

The Bank's head office is located in Pusan and the Bank has 199 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. Certain reclassifications, and changes in statement format and extent of disclosures have also been made to the prior year financial statements and footnotes to conform to the current year's presentation.

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

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 ₩1,200.4 : US\$1, the prevailing exchange rate at December 31, 2002. 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 ₩1,200.4 : US\$1, the exchange rate in effect as of December 31, 2002 (₩1,326.1: US\$1 as of December 31, 2001). 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.

Prior to 2002, The Bank provides an allowance for loan losses of 0.5% or above for loans classified as "normal", 2% or above for "precautionary", 20% or above for "substandard," 50% or above for "doubtful" and 100% for "estimated loss". In 2002, the Financial Supervisory Service ("FSS") increased, on several occasions, minimum loan loss reserve percentages for household and credit card loans. The Bank applied increased loan loss reserve percentages for corporate loans, also.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

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

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

Due to changes in loan loss reserve percentages, the Bank provided an additional loan loss provision of ₩31.1 billion in 2002.

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

Reserve for unused cash advance commitments on credit cards

Pursuant to a new regulation issued by the FSS, from the third quarter of 2002, the Bank records reserves for a certain portion of unused cash advance commitments on credit cards as a liability on the balance sheet. The Bank provides a minimum allowance percentage of 1.0% on a portion of unused cash advance commitments which have been used at least once in the last twelve months. The allowance for unused cash advance commitments on credit cards as of December 31, 2002 amounted to ₩1,894 million (US\$1,578 thousand).

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 ₩28,446 million (US\$23,697 thousand) as of December 31, 2002 (₩36,152 million as of December 31, 2001).

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 a present value discount, which is amortized using the effective interest method and recognized as interest income over the revised terms of the loans. The face value of these loans and net present value after 2002 amortization as of December 31, 2002 amounted to ₩88,682 million (US\$73,877 thousand) and ₩78,556 million (US\$65,442 thousand) (₩150,195 million and ₩133,138 million as of December 31, 2001), respectively. Out of the present value discount amounting to ₩12,888 million (US\$10,736 thousand) incurred until 2002, ₩2,762 million (US\$2,301 thousand) was amortized and the outstanding balance as of December 31, 2002 amounted to ₩10,126 million (US\$8,435 thousand).

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

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 defaults 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 ₩5,229 million (US\$4,356 thousand) as of December 31, 2002 (₩5,475 million as of December 31, 2001) 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 deposited a portion of its severance and retirement benefits obligation with insurance companies as deposits for severance and retirement benefits. Such deposits amounted to ₩127,821 million (US\$ 106,482 thousand) at December 31, 2002 (₩20,000 million at December 31, 2001). Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits in respect of what is due to them as of December 31, 2002, those amounts have been offset against the Bank's liability for severance and retirement benefits as of such date.

Cash equivalents

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

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2002	2001	2002
Cash and due from banks	₩ 1,039,837	₩ 839,510	\$ 866,242
Bonds purchased unde resale agreements	95,000	485,000	79,141
Call loans	35,831	6,233	29,849
	₩ 1,170,668	₩ 1,330,743	\$ 975,232

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 4.3% in 2002 and 5% in 2001 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 ₩157,973 million (US\$ 131,600 thousand), including accumulated taxable temporary differences as of December 31, 2002 (₩312,001 million as of December 31, 2001), 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.

Domestic Import Usance Bills

The Bank has certain confirmed and outstanding domestic import usance bills originated from import L/Cs issued by the Bank. Prior to 2002, these domestic import usance bills were disclosed as an off-balance sheet item (confirmed acceptances and guarantees). According to new guidance of the FSS effective from December 2002, these are recorded on balance sheet as loans (debit) and borrowings (credit) in foreign currencies, respectively, in the amount of ₩167,054 million (US\$ 139,165 thousand) as of December 31, 2002.

To conform to the current year's presentation, this reclassification in the amount of ₩140,674 million was also made to the prior year financial statements.

Korean GAAP Revisions from 2003

In 2002, the Korean Accounting Standards Board issued certain new accounting statements with the intention to revise Korean GAAP and disclosure rules to meet international practices. The revised accounting standards will apply to Korean companies for the first fiscal year starting after December 31, 2002. Early adoption of the revised accounting standards is allowed. The cumulative effect on prior years of the changes in accounting policies will be charged or credited to either opening retained earnings or the capital adjustment account, as required, with disclosures made on the effect of the changes. The revisions include changes in the areas of revenue recognition, intangibles, property, plant and equipment, interest capitalization, marketable and investment securities, events and transactions occurring after the balance sheet date and convertible securities.

The Bank plans to adopt the revised accounting standards from January 1, 2003. The Bank is currently evaluating the impact that adoption of the revised accounting standards will have on its financial position and results of operations.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

3. Due from banks

Deposits with the Bank of Korea for payment reserves amounting to ₩397,515 million (US\$ 331,152 thousand) as of December 31, 2002 (₩223,534 million as of December 31, 2001), 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 as of December 31, 2001 was restricted to payments of employees' severance and retirement benefits. In addition, due from banks amounting to ₩540 million (US\$450 thousand) as of December 31, 2002 (₩7,854 million as of December 31, 2001) is restricted in use in connection with related regulations and contracts.

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

Maturity	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2002	2001	2002
Within 1 year	₩ 345,062	₩ 243,214	\$ 287,456
Over 1 year within 3 years	-	6,250	-
Over 3 years	408,813	333,051	340,564
	₩ 753,875	₩ 582,515	\$ 628,020

4. Securities

Securities held by the Bank as of December 31, 2002 and 2001 are as follows:

	2002		
	Interest rate (%)	Korean won in millions	Translation into U. S. dollars in thousands (Note 2)
TRADING SECURITIES			
Equity securities		₩ 11,061	\$ 9,214
Government and public bonds	5.62	10,119	8,430
Finance bonds	5.42~7.77	19,452	16,205
Corporate bonds	4.71	9,966	8,302
Beneficiary certificates	1.87	2,483	2,068
		₩ 53,081	\$ 44,291
INVESTMENT SECURITIES			
Equity securities		₩ 100,201	\$ 83,473
Government and public bonds	3.0~11.26	869,362	724,227
Finance bonds	4.37~10.57	1,156,644	963,549
Corporate bonds	2.0~15.0	1,796,753	1,496,795
Beneficiary certificates	3.9	263,922	219,862
Foreign currency denominated securities	3.2~3.58	38,975	32,468
		₩ 4,225,857	\$ 3,520,374

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

			2001	
			Interest rate (%)	Korean won in millions
TRADING SECURITIES				
Government and public bonds			5.86	₩ 14,986
Finance bonds			7.77	10,304
Beneficiary certificates			1.40~2.09	3,434
				₩ 28,724
INVESTMENT SECURITIES				
Equity securities				₩ 72,930
Government and public bonds			3.00~11.95	817,545
Finance bonds			4.32~10.57	1,414,671
Corporate bonds			2.00~15.00	1,950,015
Beneficiary certificates			0.00~8.94	97,961
Foreign currency denominated securities			3.67~7.25	37,305
Other			4.98	2,138
				₩ 4,392,565

The maturity of securities as of December 2002 and 2001, other than equity securities, are as follows:

KOREAN WON IN MILLIONS	2002			
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Trading securities:				
Won currency securities	₩ 10,194	₩ 9,258	₩ 22,568	₩ 42,020
Investment securities:				
Won currency securities	₩ 1,968,166	₩ 1,715,596	₩ 402,919	₩ 4,086,681
Foreign currency denominated securities	3,602	35,373	-	38,975
2001				
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

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

TRANSLATION INTO U. S. DOLLARS IN THOUSANDS (NOTE 2)

2002

	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Trading securities:				
Won currency securities	\$ 8,492	\$ 7,713	\$ 18,800	\$ 35,005
Investment securities:				
Won currency securities	1,639,592	1,429,187	335,654	3,404,433
Foreign currency denominated Securities	3,000	29,468	-	32,468

Securities denominated in foreign currencies as of December 31, 2002 and 2001 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)
	2002	2001	2002
France	₩ 12,004	₩ -	\$ 10,000
U. S. A	15,516	17,301	12,926
	₩ 27,520	₩ 17,301	\$ 22,926

5. Loans

Loans as of December 31, 2002 and 2001 consisted of the following:

2002

	Interest rate (%)	Korean won in millions	Translation into U. S. dollars in thousands (Note 2)
Won currency loans:			
Loans to companies	6.50~21.00	₩ 4,842,633	\$ 4,034,183
Loans to individuals	5.00~19.50	2,029,896	1,691,016
Other	5.74~9.82	448,130	373,317
Loans in foreign currencies	1.20~4.05	7,320,659	6,098,516
Bills bought in won	DDR+4.5 or lower	230,267	191,825
Bills bought in foreign currencies	Libor+2.9 or lower	7,562	6,300
Advances for customers		134,643	112,165
Credit card accounts		10,781	8,981
Bonds bought under resale agreements		541,440	451,050
Privately placed corporate bonds	4.80~5.05	95,000	79,140
Call loans	0.00~16.25	36,735	30,602
Domestic import usance bills		35,831	29,849
Others		167,524	139,557
		23,555	19,623
		8,603,997	7,167,608
Less allowance for loan losses		(155,841)	(129,824)
Less present value discount account		(10,125)	(8,434)
		₩ 8,438,031	\$ 7,029,350

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

2001		
	Interest rate (%)	Korean won in millions
Won currency loans :		
Loans to companies	4.00~23.00	₩ 4,049,777
Loans to individuals	5.00~21.00	1,322,435
Other	4.00~24.00	470,810
		5,843,022
Loans in foreign currencies	3.03~7.42	155,649
Bills bought in won	7.50~13.86	9,726
Bills bought in foreign currencies	2.00~10.19	126,117
Advances for customers		43,878
Credit card accounts		385,114
Bonds bought under resale agreements	4.50~6.70	485,000
Privately placed corporate bonds	7.50~16.25	30,782
Call loans		6,233
Domestic import usance bills		141,224
Others		23,199
		7,249,944
Less allowance for loan losses		(131,851)
Less present value discount account		(17,058)
		₩ 7,101,035

The maturities of loans as of December 31, 2002 and 2001 are as follows:

KOREAN WON IN MILLIONS

	2002			
	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Won currency loans	₩ 4,503,092	₩ 1,894,591	₩ 922,976	₩ 7,320,659
Foreign currency loans	89,250	62,335	78,682	230,267
Bills bought in won	7,562	-	-	7,562
Bills bought in foreign currencies	134,643	-	-	134,643
Advances for customers	9	-	10,772	10,781
				2001
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

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

TRANSLATION INTO U. S. DOLLARS IN THOUSANDS (NOTE 2)

2002

	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Won currency loans	\$ 3,751,326	\$ 1,578,300	\$ 768,890	\$ 6,098,516
Foreign currency loans	74,350	51,929	65,546	191,825
Bills bought in won	6,300			6,300
Bills bought in foreign currencies	112,165			112,165
Advances for customers	7		8,974	8,981

Loans to foreign companies as of December 31, 2001, except subsidiaries of Korean companies, amounting to ₩2,652 million, 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 ₩395,666 million (US\$ 329,612 thousand) and ₩333,898 million as of December 31, 2002 and 2001, respectively.

6. Fixed assets

Fixed assets as of December 31, 2002 and 2001 consisted of the following:

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2002	2001	2002
Fixed assets used for operations:			
Land	₩ 169,616	₩ 178,063	\$ 141,300
Buildings	88,373	85,102	73,620
Leasehold improvements	13,205	11,220	11,000
Furniture and equipment	150,402	130,648	125,293
Construction in progress	19,295	19,283	16,074
	440,891	424,316	367,287
Less accumulated depreciation	(129,839)	(115,383)	(108,163)
	311,052	308,933	259,124
Intangible assets	10,664	10,296	8,884
Fixed assets held for non-operating purposes	15,023	16,622	12,515
Less reserve for valuation losses	(8,275)	(7,149)	(6,894)
	6,748	9,473	5,621
	₩ 328,464	₩ 328,702	\$ 273,629

At December 31, 2002 and 2001, the value of land, including land held for non-operating purposes, as published by the government for tax administration purposes amounted to ₩132,981 million (US\$110,781 thousand) and ₩141,369 million, respectively.

As of December 31, 2002 and 2001, fixed assets used in operations were insured against losses up to approximately ₩127,494 million (US\$106,210 thousand) and ₩140,374 million, respectively.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

7. Other assets

Other assets at December 31, 2002 and 2001 consisted of the following:

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2002	2001	2002
Lease key money deposits	₩ 84,935	₩ 78,939	\$ 70,756
Accounts receivable - other	47,693	38,092	39,731
Accrued interest income	165,430	153,377	137,812
Domestic exchange settlement debits	92,006	121,104	76,646
Other	61,941	121,387	51,600
	452,005	512,899	376,545
Less present value discount	(626)	(1,255)	(521)
	₩ 451,379	₩ 511,644	\$ 376,024

8. Deposits from customers

Deposits from customers as of December 31, 2002 and 2001 consisted of the following:

	2002		
	Interest rate (%)	Korean won in millions	Translation into U. S. dollars in thousands (Note 2)
Won currency deposits:			
Demand deposits	0.00~2.00	₩ 1,097,556	\$ 914,325
Time and saving deposits	0.50~6.80	9,860,752	8,214,555
		10,958,308	9,128,880
Deposits in foreign currencies	0.00~1.62	108,942	90,755
Negotiable certificates of deposits	3.69~4.28	35,388	29,480
		₩ 11,102,638	\$ 9,249,115
	2001		
	Interest rate (%)	Korean won in millions	
Won currency deposits:			
Demand deposits	0.00~3.00	₩ 1,000,821	
Time and saving deposits	1.00~6.20	8,985,506	
		9,986,327	
Deposits in foreign currencies	0.05~3.91	89,787	
Negotiable certificates of deposits	3.89~4.49	32,643	
		₩ 10,108,757	

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

The maturity of deposits from customers as of December 31, 2002 and 2001 are as follows:

KOREAN WON IN MILLIONS

2002

	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Won currency deposits	₩ 7,227,887	₩ 492,239	₩ 3,238,182	₩ 10,958,308
Foreign currency deposits	29,722	2,751	76,469	108,942
Negotiable certificates of deposit	35,388	-	-	35,388
2001				
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

2002

TRANSLATION INTO U. S. DOLLARS IN THOUSANDS (NOTE 2)

	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Won currency deposits	\$ 6,021,232	\$ 410,062	\$ 2,697,586	\$ 9,128,880
Foreign currency deposits	24,760	2,292	63,703	90,755
Negotiable certificates of deposits	29,480	-	-	29,480

9. Borrowings

Borrowings of the Bank as of December 31, 2002 and 2001 are as follows:

	Interest rate (%)	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
		2002	2001	2002
Won currency borrowings:				
Borrowings from the Bank of Korea	2.5	₩ 389,242	₩ 339,118	\$ 324,260
Borrowings from local governments	1.0~8.0	228,928	283,303	190,710
Small and medium industry development finance funds	4.90~5.68	210,585	195,338	175,429
Borrowing from other banks	4.20~8.55	65,243	95,098	54,351
Subordinated borrowings	5.0~6.0	-	85,000	-
Other	2.00~6.25	70,396	53,622	58,644
		964,394	1,051,479	803,394
Borrowings in foreign currencies:				
Borrowings from the Bank of Korea		-	-	-
Borrowings from other banks Libor+(0.22~0.47)		491,768	377,065	409,670
		491,768	377,065	409,670
Drafts and bills sold		9,487	12,750	7,903
Call money		286	21,466	238
Bonds sold under repurchase agreements		53,566	97,032	44,624
		₩ 1,519,501	₩ 1,559,792	\$ 1,265,829

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

The subordinated borrowings as of December 31, 2001 consisted of the following(Korean won in millions):

Lender	Issue date	Redeem date	Interest rate (%)	2001
Shinhan Life Insurance	12.31.1996	3. 9.2002	5.0	₩ 35,000
Kyobo Life Insurance	6..26.1997	6.29.2002	6.0	20,000
Samsung Life Insurance	11.29.1997	6.29.2002	6.0	30,000
				₩ 85,000

In connection with the above borrowings, 16 promissory notes amounting to ₩129,326 million (US\$107,736 thousand) received from customers of the Bank and securities of which face value amounting to ₩607,800 million (US\$506,331 thousand) have been placed with the Bank of Korea and the Bank of Nova Scotia, etc. as security.

The repayment schedule of borrowings as of December 31, 2002 and 2001 is as follows:

KOREAN WON IN MILLIONS

2002

	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Won currency borrowings	₩ 508,207	₩ 143,543	₩ 312,644	₩ 964,394
Foreign currency borrowings	380,489	110,514	765	491,768

2001

Won currency borrowings	₩ 528,610	₩ 148,620	₩ 374,249	₩ 1,051,479
Foreign currency borrowings	285,439	78,955	12,671	377,065

TRANSLATION INTO U. S. DOLLARS IN THOUSANDS (NOTE 2)

2002

	Within 1 year	Over 1 year ~ 3 years	Over 3 years	Total
Won currency borrowings	\$ 423,365	\$ 119,579	\$ 260,450	\$ 803,394
Foreign currency borrowings	316,969	92,064	637	409,670

10. Debentures issued

Notes and debentures issued by the Bank as of December 31, 2002 and 2001 are as follows:

Description	Issue date	Due(redeem) date	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
			2002	2001	2002
Subordinated debenture	12. 24. 1997	4. 1. 2002	₩ -	₩ 116,000	\$ -
Subordinated debenture	12. 29. 1999	12 30. 2002	-	100,000	-
Less present value discount			-	(1,697)	-
Other	1998~1999		30	30	24
Subordinated debt	6. 15. 2001	1. 15. 2007	100,000	100,000	83,306
Subordinated debt	4. 26. 2002	1. 26. 2008	100,000	-	83,306
Bonds with warrants	6. 29.1999	7.2.2002	-	300,000	-
Less present value discount			-	(299,576)	-
Total debentures in won			₩ 200,030	₩ 314,757	\$ 166,636

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

The subordinated debentures totaling ₩216,000 million above, bear interest based on a monthly floating rate (7.34% per annum as of December 31, 2001) as determined by the Committee of Public Funds, and interest was payable quarterly in arrears. The above subordinated debentures were redeemed early in 2002.

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\$8.33) and the issuance value is ₩10 (US\$0.83 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). On July 2, 2002, the Bank redeemed all the bonds with warrants by exercising a call option that the Bank can redeem early at ₩15 (US\$1.25 cents) per bond on June 30, 2002.

The bond holders had 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 51,643,650 common shares.

11. Other liabilities

Other liabilities at December 31, 2002 and 2001 consisted of the following:

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2002	2001	2002
Accrued interest payable	₩ 189,098	₩ 203,217	\$ 157,529
Unremitted agency collections	17,155	23,180	14,291
Accounts payable-other	₩ 94,223	₩ 35,887	\$ 78,493
Domestic exchange settlement credits	87,145	50,432	72,597
Unearned income	19,244	18,441	16,032
Allowance for acceptances and guarantees	72	7,228	60
Others	66,486	77,137	55,387
	₩ 473,423	₩ 415,522	\$ 394,389

12. Stockholders' equity

Common stock

The Bank has 400 million shares of authorized common stock of which 146,683,650 shares are issued and outstanding as of December 31, 2002. The par value of common stock is ₩5,000 (US\$4.17) and paid-in capital is ₩733,418 million (US\$610,978 thousand) as of December 31, 2002.

In 2002, the Bank issued 51,638,486 shares of common stock at par value to bondholders in connection with exercising stock warrants (5,164 shares up to 2001).

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

Capital adjustment account

At December 31, 2002 and 2001, the capital adjustment account consisted of the following:

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2002	2001	2002
Discount on stock issuance	₩ -	₩ (1,603)	\$ -
Gain on valuation of investment securities	14,564	3,768	12,133
Stock options	380	172	316
	₩ 14,944	₩ 2,337	\$ 12,449

The Bank has granted stock options which may be settled by the issuance of additional shares or by cash payments equal to the difference between market values and exercise prices. Details of outstanding stock options granted by the Bank as of December 31, 2002 are as follows.

Options granted and outstanding	Grant date	Exercise price	Exercise period
152,281 shares	March 25, 2000	₩ 5,000 per share	March 25, 2003 ~ March 24, 2006
100,000 shares	July 14, 2000	₩ 5,000 per share	July 14, 2003 ~ July 13, 2006
93,369 shares	March 10, 2001	₩ 5,000 per share	March 10, 2004 ~ March 9, 2007
60,000 shares	March 15, 2002	₩ 5,020 per share	March 15, 2004 ~ March 14, 2007

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 accordance with the KAMCO contract, the sales price set when the contract is done is preliminary and subject to final settlement. Accordingly, the gain (loss) on sale of loans will be adjusted based on the final sales value to be determined upon final settlement.

The long-term loans restructured through court receivership, court mediation, workout plans, etc. were sold under repurchase agreements under which the Bank should repurchase the loans sold even after the sales price is finally settled, if the debtor fails to meet the adjusted repayment schedules. The outstanding balance of loans sold under such repurchase agreements as of December 31, 2002 and 2001 amounted to ₩44,974 million (US\$37,466 thousand) and ₩92,664 million, respectively. The Bank may incur losses from the repurchase of these loans in the future.

The Bank provided a provision amounting to ₩13,716 million (US\$11,426 thousand) for these losses as of December 31, 2002. In connection with the above agreement, securities amounting to ₩43,606 million (US\$36,326 thousand) have been placed with KAMCO as security.

14. Income taxes

Up to December 31, 2001, the Bank had been subject to corporate income taxes, including resident surtax, at aggregate rates of 17.6% on taxable income up to ₩100 million and 30.8% on taxable income in excess of 100 million. Starting on January 1, 2002, such tax rates are reduced resulting in revised aggregate rates of 16.5% and 29.7%, respectively

A reconciliation of income before income taxes for financial reporting purposes and taxable income for corporate income tax reporting purposes is summarized as follows (2002 amounts are preliminary and 2001 amounts are final based on the Bank's corporate income tax return filed in March 2002):

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2002	2001	2002
Income before income taxes per the accompanying income statements	₩ 148,024	₩ 52,301	\$ 123,312
Permanent differences:			
Entertainment	2,724	1,113	2,269
Other, net	3,265	(7,523)	2,720
	5,989	(6,410)	4,989
Temporary differences (net):			
Accrued interest income on securities	(16,712)	16,079	(13,922)
Valuation gain on securities, net	46,711	(18,042)	38,913
Severance and retirement benefit	744	(8,011)	620
Loan restructuring	(6,200)	(23,472)	(5,165)
Other, net	8,115	17,686	6,760
	32,658	(15,760)	27,206
Taxable income before utilization of tax loss carryforward	186,671	30,131	155,507
Utilization of tax loss carryforward	(186,671)	(30,131)	(155,507)
Taxable income after utilization of tax loss carryforward	₩ -	₩ -	\$ -

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant changes in cumulative (taxable) temporary differences for the year ended December 31, 2002 are as follows (Korean won in millions):

Temporary differences	Beginning balances (*)	Net increase (decrease)	Ending balances
Valuation loss on securities, net	₩ 9,590	₩ 46,711	₩ 56,301
Accrued interest on securities	(88,257)	(16,712)	(104,969)
Loan restructuring	32,295	(6,200)	26,095
Allowance for loan losses	17,867	21,543	39,410
Other, net	41,341	(12,699)	28,642
	₩ 12,836	₩ 32,643	₩ 45,479

(*) The amounts are different from those in the prior year's audit report to reflect the 2001 final tax return filed in March 2002.

The Bank has accumulated tax losses of ₩112,494 million (US\$93,714 thousand) at December 31, 2002 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, 2002 and 2001 due to the uncertainty in realizing such accumulated tax losses in the future.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

15. Per share amounts

The Bank's primary and diluted earnings per share ("EPS") for the years ended December 31, 2002 and 2001 were calculated as follows (Korean won in units):

2002				
	Ordinary income		Net income	
Income after deducting related income tax expense	₩	148,024,494,916	₩	148,024,494,916
Weighted average number of shares of common stock outstanding		124,691,871 shares		124,691,871 shares
Primary EPS	₩	1,187	₩	1,187
Effect of dilutive securities:				
Bonds with warrants		(15)		(15)
Diluted EPS	₩	1,172	₩	1,172
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	₩	550	₩	550

In 2001, 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. Cash dividends

Cash dividends for 2002 are as follows:

	Dividends			
	Dividends per share (6% of par value)	Korean won in millions	Translation into U. S. dollars in thousands (Note 2)	
Number of shares outstanding				
146,683,850	₩	300	₩	44,005
			\$	36,659

17. Related party transactions

Transactions in 2002 and 2001 and resulting outstanding balances as of December 31, 2002 and 2001 with Lotte Capital Ltd. ("Lotte"), Pueun Futures Co., Ltd. ("Pueun") and Mybi Co., Ltd. ("Mybi"), which are subsidiaries of the Bank, are as follows:

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

2002

	Korean won in millions			Translation into U. S. dollars in thousands (Note 2)		
	Lotte	Pueun	Mybi	Lotte	Pueun	Mybi
	₩	₩	₩	\$	\$	\$
Loans	40,000	-	-	33,322	-	-
Deposits	1,490	27	1,273	1,241	22	1,060
Other assets	28	-	-	23	-	-
Other liabilities	35	-	4	29	-	3
Interest on loans	1,702	5	-	1,418	4	-
Interest on deposits	167	-	41	139	-	34

2001

	Korean won in millions	
	Lotte	Pueun
	₩	₩
Loans	20,000	-
Deposits	5,859	5
Other liabilities	539	-
Interest on loans, etc.	1,218	7
Interest on deposits	528	-

In addition, the Bank has provided a payment guarantee to the extent of ₩909 million (US\$757 thousand) on behalf of Pueun as of December 31, 2002 and 2001.

18. Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies at December 31, 2002 and 2001 consisted of the following:

2002

	U. S. dollars or equivalent for foreign currencies in thousands	Korean won equivalent in millions
Assets:		
Cash on hand	\$ 14,970	₩ 17,970
Interest-bearing deposits with banks	19,797	23,764
Foreign exchange drafts purchased	112,166	134,643
Domestic import usance bills	139,558	167,525
Loans	191,829	230,267
(Allowance for loan losses)	(2,723)	(3,269)
Securities	32,468	38,975
Other assets	33,251	39,915
	\$ 541,316	₩ 649,790

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

2002			
	U. S. dollars or equivalent for foreign currencies in thousands	Korean won equivalent in millions	
Liabilities:			
Deposits from customers	\$ 90,755	₩ 108,942	
Borrowings	409,674	491,768	
Other liabilities	38,741	46,505	
	\$ 539,170	₩ 647,215	
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	
Domestic import usance bills	106,495	141,223	
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	16,653	22,083	
	\$ 384,324	₩ 509,650	
Liabilities:			
Deposits from customers	\$ 67,708	₩ 89,787	
Borrowings	284,341	377,065	
Other liabilities	30,631	40,620	
	\$ 382,680	₩ 507,472	

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

19. Commitments and contingent liabilities

Commitments and contingent liabilities as of December 31, 2002 and 2001 consisted of the following:

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2002	2001	2002
Acceptances and guarantees	₩ 249,283	₩ 231,943	\$ 207,667
Contingent acceptances and guarantees	211,781	206,382	176,425
Bills endorsed	265	169	221
Interest rate futures contracts - sold	19,063	-	15,881
Interest rate swap contracts - sold	-	13,261	-
Interest rate swap contracts - purchased	-	12,654	-
Currency swap contracts - sold	28,183	23,194	23,478
Currency swap contracts - purchased	27,909	23,320	23,250
Currency forward contracts - sold	4,611	133	3,841
Currency forward contracts - purchased	3,001	-	2,500
Currency futures contracts - purchased	1,801	-	1,500
Disposal of loans under repurchase agreement	44,974	92,664	37,466

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 ₩238,557 million (US\$ 198,731 thousand) and ₩208,730 million as of December 31, 2002 and 2001, respectively, and the Bank has received trust management fees amounting to ₩8,540 million (US\$ 7,114 thousand) and ₩2,245 million from such money trusts for the years ending December 31, 2002 and 2001, respectively.

In connection with guaranteed trusts, the Bank compensated ₩22,009 million to trusts in 2001.

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.

20. The Korean economy

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is continuing. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Bank may be either directly or indirectly affected by these general unstable economic conditions and the reform program 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.

INDEPENDENT AUDITORS' REPORT (TRUST ACCOUNTS)



Young Wha Corporation
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786-6956, 786-6957
761-5084, 783-4866

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, 2002 and 2001, 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, 2002 and 2001 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.

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

January 24, 2003

BALANCE SHEETS (TRUST ACCOUNTS) DECEMBER 31, 2002 AND 2001

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2002	2001	2002
ASSETS			
Cash and deposits	₩ -	₩ 90	\$ -
Marketable securities (Note 2)	1,609,416	1,409,867	1,340,733
Loans and bills discounted, less allowance for loan losses and present value discount (Note 5)	28,880	66,819	24,058
Other assets:			
Accrued interest receivable	59,010	70,971	49,159
Accounts receivable - other	1,779	1,752	1,482
	60,789	72,723	50,641
Due from Bank Account (Pusan Bank)	158,065	113,712	131,677
Total assets	₩ 1,857,150	₩ 1,663,211	\$ 1,547,109
LIABILITIES			
Money Trust Certificates (Note 4)	₩ 1,766,876	₩ 1,564,844	\$ 1,471,906
Borrowings (Pusan Bank)	9,836	46,730	8,194
Other liabilities:			
Due to Bank Account (Pusan Bank) - trust management fees payable	8,460	1,682	7,048
Undistributed trust income	64,220	42,452	53,499
Unearned income	2,226	3,029	1,854
Accounts payable - other	2,701	2,249	2,250
Special reserve	2,831	2,225	2,358
	80,438	51,637	67,009
Total liabilities	₩ 1,857,150	₩ 1,663,211	\$ 1,547,109

See accompanying notes.

STATEMENTS OF OPERATIONS (TRUST ACCOUNTS)

YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2002	2001	2002
Operating income:			
Interest on deposits	₩ 2	₩ 3,407	\$ 2
Interest on marketable securities	114,348	90,659	95,258
Interest on loans and bills discounted	5,694	13,740	4,743
Interest on call loans	1,076	1,532	896
Interest on bonds purchased under resale agreements	237	812	197
Gain on disposal of marketable securities	16,048	12,548	13,369
Gain on disposal of loans	611	4,255	509
Interest on due from Bank Account (Pusan Bank)	3,942	3,012	3,284
Reversal of allowance for loan losses	2,067	333	1,722
Subsidies from Pusan Bank	-	22,009	0
Other	22,046	2,305	18,366
	166,071	154,612	138,346
Operating expenses:			
Trust management fees to Pusan Bank	29,392	15,961	24,485
Write-off of loan	-	13,789	-
Loss on disposal of marketable securities	8,743	1,565	7,283
Loss on disposal of loans	-	10,120	-
Provision for loan losses	215	6,928	179
Other	23,548	8,641	19,617
	61,898	57,004	51,564
Distribution to money trust certificate holders	₩ 104,173	₩ 97,608	\$ 86,782

See accompanying notes.

STATEMENTS OF CASH FLOWS (TRUST ACCOUNTS)

YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
	2002	2001	2002
Cash flows from operating activities:			
Items not affecting cash and cash equivalents:			
Loss (gain) on disposal of loans, net	₩ (611)	₩ 5,865	\$ (509)
Gain on disposal of marketable securities, net	(7,305)	(10,983)	(6,085)
Provision for loan losses, net of reversal	(1,852)	6,595	(1,543)
Valuation loss (gain) on marketable securities, net	(519)	1,395	(432)
Other, net	(2,028)	(1,845)	(1,690)
Changes in operating assets and liabilities:			
Decrease (increase) in accrued interest receivable	11,961	(12,199)	9,964
Increase in undistributed trust income	21,768	20,953	18,134
Other, net	6,399	1,403	5,331
Total adjustments	27,813	11,184	23,170
Net cash provided by operating activities	27,813	11,184	23,170
Cash flows from investing activities:			
Decrease in loans	43,037	94,285	35,852
Increase in marketable securities	(191,725)	(632,322)	(159,717)
Net cash used in investing activities	(148,688)	(538,037)	(123,865)
Cash flows from financing activities:			
Decrease in borrowings	(36,894)	(11,770)	(30,735)
Increase in Money Trust Certificates	202,032	492,808	168,304
Net cash provided by financing activities	165,138	481,038	137,569
Net Increase (decrease) in cash and cash equivalents	44,263	(45,815)	36,874
Cash and cash equivalents at the beginning of year (Note 1)	113,802	159,617	94,803
Cash and cash equivalents at the end of year (Note 1)	₩ 158,065	₩ 113,802	\$ 131,677

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS (TRUST ACCOUNTS)

DECEMBER 31, 2002 AND 2001

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 ₩1,200.4 : US\$1, the prevailing exchange rate at December 31, 2002. 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, 2002 and 2001. 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 ₩1,877 million (US\$1,564 thousand) and ₩6,695 million as of December 31, 2002 and 2001, 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 4.3% in 2002 and 5% in 2001 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 of such deficiencies were compensated by the Bank.

NOTES TO FINANCIAL STATEMENTS (TRUST ACCOUNTS)

DECEMBER 31, 2002 AND 2001

Calculation of Trust Profits

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

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

Trust profits = Trust deposit balance × Average yield rate

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

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

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

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

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

Standard price = Net assets ÷ Total number of shares of each trust

Trust management fees (net operating income)

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

Securities Investment Trusts

The Bank acts as a custodian of assets and liabilities of securities investment trusts which are managed by securities investment trust companies. The Bank receives predetermined fees from the securities investment trust companies and does not bear any risk from results of operations of those securities investment trusts. According to the Korean Trust Business Supervisory Regulations, the securities investment trusts are excluded from the 2002 and 2001 financial statements of the Trust Account.

The amounts of the securities investment trusts are ₩6,314,812 million (US\$5,260,590 thousand) and ₩6,628,632 million as of December 31, 2002 and 2001, 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)
	2002	2001	2002
Cash and deposits	₩ -	₩ 90	\$ -
Due from Bank Account	158,065	113,712	131,677
	₩ 158,065	₩ 113,802	\$ 131,677

NOTES TO FINANCIAL STATEMENTS (TRUST ACCOUNTS)

DECEMBER 31, 2002 AND 2001

2. Marketable securities

Securities held by the Trust Account as of December 31, 2002 and 2001 are as follows:

	Interest rate (%)	Korean won in millions		Translation into U. S. dollars in thousands (Note 2)
		2002	2001	2002
Equity securities		₩ 33,619	₩ 15,044	\$ 28,006
Government and public bonds	4.00~6.00	159,233	220,290	132,650
Finance bonds	5.00~9.58	160,285	82,786	133,526
Corporate bonds	4.50~15.00	1,133,522	919,989	944,287
Other	4.93~18.00	122,757	171,758	102,264
		₩ 1,609,416	₩ 1,409,867	\$ 1,340,733

3. Derivative financial instruments

As of December 31, 2002, the Trust has derivative financial instruments comprised of forward contracts amounting to ₩86,160 million (US\$71,776 thousand) to sell government bonds for hedging purposes.

4. Money Trusts

Money Trusts outstanding at December 31, 2002 and 2001 are as follows:

	Korean won in millions	Distribution rates per annum (%)	2002
			Translation into U. S. dollars in thousands (Note 2)
Non-specified Money Trust	₩ 191	1.96~12.02(*1)	\$ 159
Development Money Trust	10	1.00~2.26(*1)	8
Elderly Living Pension Trust	8,828	(*2)	7,354
Personal Pension Trust	141,923	(*2)	118,230
Installment Trust	20,372 (*3)	(*4)	16,971
Household Trust	24,192 (*3)	(*4)	20,153
Corporate Trust	2,117 (*3)	(*4)	1,764
National Stock Trust	860	(*4)	716
Household Long-term Trust	118,428	(*4)	98,657
Employee Premium Trust	15,716	(*4)	13,093
New Installment Trust	100,760	(*4)	83,939
Unit Money Trust	39,681	(*4)	33,057
Specified Investment Objective Trust	450,310	(*4)	375,133
Open type Money Trust	767,291	(*4)	639,196
Retirement Trust	72,557	(*2)	60,444
New Personal Pension Trust	795	(*2)	662
Pension Trust	2,845	(*2)	2,370
	₩ 1,766,876		\$ 1,471,906

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

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

(*3) ₩4,527 million (US\$3,771 thousand) of Installment Trust, ₩6,345 million (US\$5,286 thousand) of Household Trust and ₩536 million (US\$447 thousand) of Corporate Trust are guaranteed against principal balance impairments.

(*4) Based on actual operating results.

NOTES TO FINANCIAL STATEMENTS (TRUST ACCOUNTS)

DECEMBER 31, 2002 AND 2001

	2001	
	Korean won in millions	Distribution rates per annum (%)
Non-specified Money Trust	₩ 189	4.74~15.37(*1)
Development Money Trust	249	3.91~12.71(*1)
Elderly Living Pension Trust	10,575	(*2)
Personal Pension Trust	130,756	(*2)
Installment Trust	34,252 (*3)	(*4)
Household Trust	30,565 (*3)	(*4)
Corporate Trust	2,778 (*3)	(*4)
National Stock Trust	922	(*4)
Household Long-term Trust	162,879	(*4)
Employee Premium Trust	25,600	(*4)
New Installment Trust	162,071	(*4)
Unit Money Trust	16,671	(*4)
Specified Investment Objective Trust	439,850	(*4)
Open type Money Trust	494,651	(*4)
Retirement Trust	51,210	(*2)
New Personal Pension Trust	572	(*2)
Pension Trust	1,054	(*2)
	₩ 1,564,844	

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

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

(*3) ₩5,135 million of Installment Trust, ₩8,232 million of Household Trust and ₩757 million of Corporate Trust are guaranteed against principal balance impairments.

(*4) Based on actual operating results.

5. Disposal of loans

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

The long-term loans restructured by court receivership, court mediation and workout plans, etc. were sold under repurchase agreements under which the Trust Account should repurchase the sold loans even after the sales price is finally settled if the debtor fails to meet the adjusted repayment schedules. The outstanding balance of loans sold under such repurchase agreement as of December 31, 2002 and 2001 amounted to ₩22,200 million (US\$18,494 thousand) and ₩28,982 million, respectively. The Trust Account may suffer losses from the repurchase of these loans in the future.

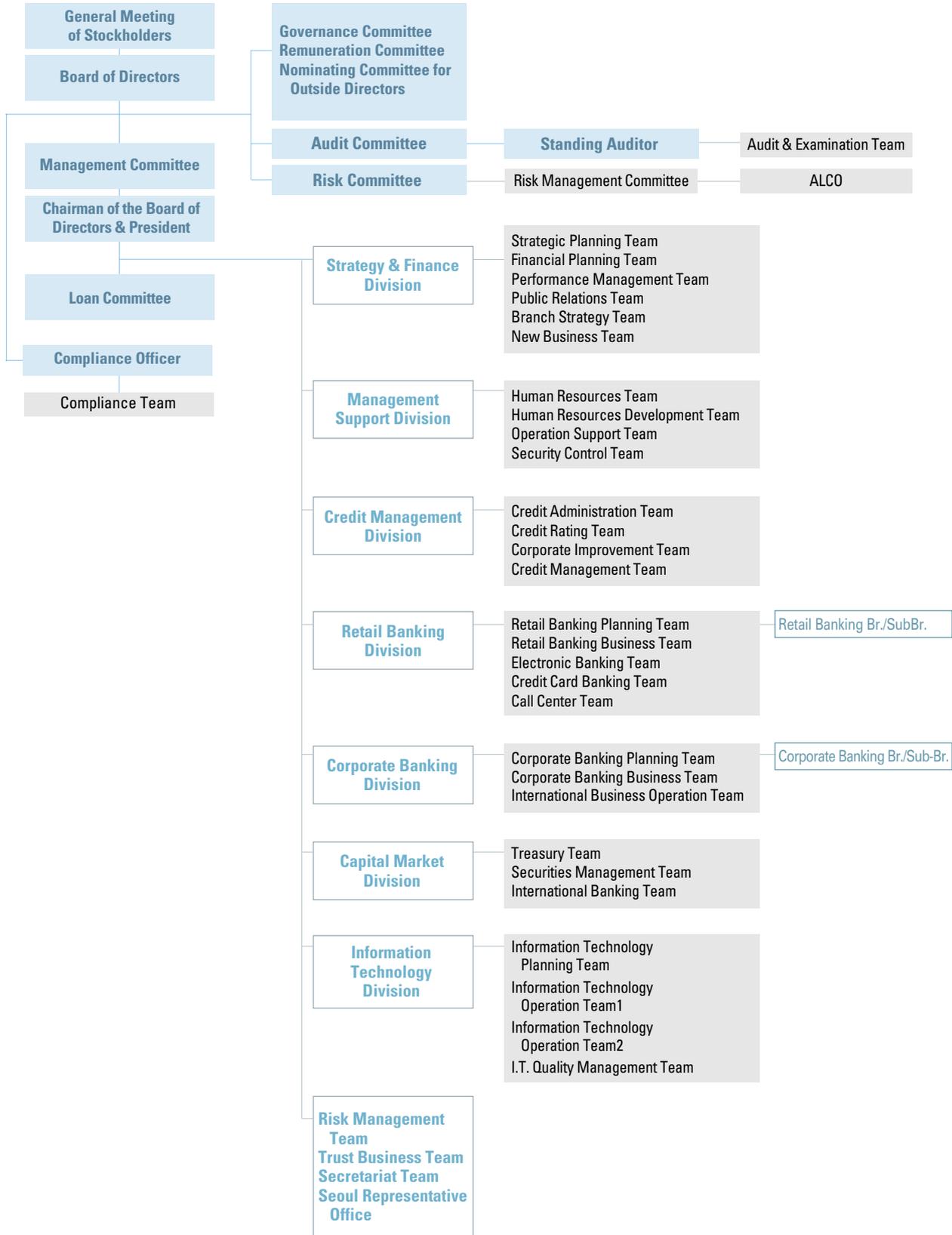
The amount of loans written off for which the Trust Account still has legal claims is ₩73,083 million (US\$60,882 thousand) and ₩69,565 million as of December 31, 2002 and 2001, respectively.

6. The Korean economy

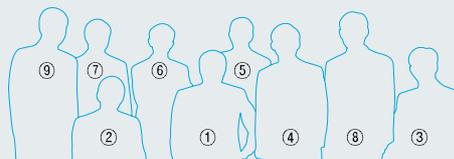
In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is continuing. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Trust may be either directly or indirectly affected by these general unstable economic conditions and the reform program 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_ **Lee, Jang-ho**
Director & Deputy President
- 4_ **Kim, Jong-soo**
Standing Auditor
- 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_ **Jung, Sung-tae**
Senior Executive Vice President
- 9_ **Bae, Tae-kyun**
Executive Vice President

Non-standing Directors

- Ha, Young-chul**
General Director / Lotte Confectionery Co.,Ltd.
- Park, Sung-dong**
President / Parkland Co., Ltd.
- Kim, Si-seung**
Lawyer / Kim Si-seung Law-office
- Shin, Pan-kug**
President / Korea Steel Shapes Co., Ltd.
- Shin, Jung-taek**
President / Saewoon Steel Co., Ltd.
- Eun, Soong-pyo**
Professor / Shila University

International Banking Directory

International Banking Team

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BIC : PUBSKR2PINT
e-mail : nextdoor@pusanbank.co.kr



Jung, Yon-joo
General Team
Manager



Senior Deputy General Manager
Park, Suk-moon

Deputy General Manager
Joo, Young-uk
Sung, Dong-hwa
Jung, Dong-eui

Senior Assistant General Manager
Choi, Keun-hwan
Lee, Hyung-jin
Song, Tae-hoon
Jung, Hee-jung

International Business Operation Team

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Busan

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BIC : PUBSKR2P
e-mail : pusbkr@pusanbank.co.kr



Lee, Soon-hee
General Team
Manager



Senior Deputy General Manager
Kim, Won-tae

Deputy General Manager
Youn, Jong-hwan

Senior Assistant General Manager
Song, Chul-ho
Kim, Cheong-ho
Youn, Ga-bum
Chang, Sung-ho
Shin, Gi-hwa
Moon, Young-sin

Standard Settlement Instructions

(BANK NAME A/C NO. SWIFT PLACE)

USD

Bank of America 655-00-94495 BOFAUS3N New York
HSBC Bank USA 000-03030-9 MRMDUS33 New York
Wachovia Bank 2000191022429 PNBPU3N NYC New York
Standard Chartered Bank 3582-040960-001 SCBLUS33
New York
Union Bank of California 96-107771-1121 BOFCUS33SFO
San Francisco
Bank of New York 890-0067-683 IRVTUS3N New York
JP Morgan Chase Bank 001-1-542636 CHASUS33
New York
American Express Bank 120-246 AEIBUS33 New York
UFJ Bank 1026-1030/1-01 SANWJPJT Tokyo

JPY

American Express Bank 313000409 AEIBJPJT Tokyo
Standard Chartered Bank 2110371110 SCBLJPJT Tokyo
Union Bank of California 16-107771-1121 BOFCJPJT Tokyo
UFJ Bank 1026-1030/1-5 SANWJPJT Tokyo
Sumitomo Mitsui Banking Corp. 3157 SMBCJPJT Tokyo
Bank of Tokyo-Mitsubishi 653-0409766 BOTKJPJT Tokyo

GBP

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

EUR

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

CHF

UBS AG 0230-87106.05P UBSWCHZH80A Zurich

DKK

Danske Bank 3007536712 DABADKKK Copenhagen

SEK

Nordea Bank, SWD 3952907721 NDEASESS Stockholm

HKD

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

SGD

Korea Exchange Bank 1-01778 KOEXSGSG Singapore

IDR

Standard Chartered Bank 0100055486 SCBLIDJX Jakarta

CAD

The Bank of Nova Scotia 0282111 NOSCCATT Toronto

NZD

ANZ Bank 835504.00001 ANZBNZ22 Wellington

AUD

National Australia Bank SKOR-14 NATAAU33033
Melbourne

NOK

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

Domestic Subsidiaries

Pueun Futures Co., Ltd.

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

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.
Mar. 3, 2002	Loans for funding marine product distribution won Maeil Business Newspaper's Silver Award.
Apr. 11, 2002	World-class integrated risk management system completed.
May. 17, 2002	Center for Exchange Students & Emigrants opened.
May. 27, 2002	Call Center system launched.
Jun. 29, 2002	Exercise terminated on ₩258.2 billion in bonds with warrant.
Aug. 12, 2002	Buvix Card introduced.
Aug. 21, 2002	Total deposits break ₩13 trillion mark.
Aug. 28, 2002	Comprehensive cooperation agreement concluded with Industry & Commerce Bank of China.
Dec. 11, 2002	Computer backup system established online in joint project with Daegu Bank.
Dec. 13, 2002	Pusan Bank Community Service Corps inaugurated.
Dec. 17, 2002	President Shim, Hoon named "Best CEO of the Year" by the Korea Economic Daily and Towers Perrin.
Dec. 31, 2002	Official commendation received for exemplary support given to SMEs.
Jan. 6, 2003	Gold Prize won at the 12th annual Dasan Awards.

Corporate Data

Established

Oct. 25, 1967

Total shareholders' equity

₩815.8 billion KRW

Paid-in capital

₩733.4 billion KRW

Common stock issued and outstanding

146,683,650

Domestic network

199

Employees

1,908

Major shareholders

1. Lotte Group	14.11%
2. Small Capital World Fund Inc	3.20%
3. Parkland Co.,Ltd.	2.98%
4. Korea Iron & Steel Co.,Ltd.	2.14%
5. Y.K. Park	1.64%





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