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12M hi/lo 16,050/10,850 won

12M price target 16,700 won

±% potential +7%

Target set on 26 Feb 07

Shares in issue 146.7m

Free float (est.) 54.1%

Market cap US\$2,501m

3M average daily volume

13.4bn won (US\$14.4m)

Major shareholders

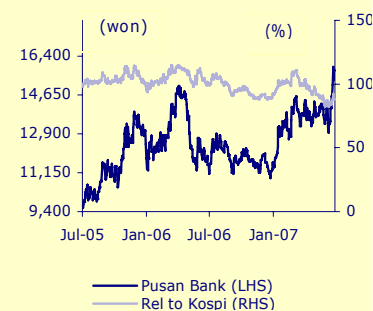
Lotte Group 14.1%

CRMC 12.2%

Foreign s'holding 56.9%

Stock performance (%)

	1M	3M	12M
Absolute	17.2	14.2	36.1
Relative	6.6	(10.2)	(12.4)
Abs (US\$)	18.5	15.6	41.4



Source: Bloomberg

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Strong 2Q - under review

Pusan Bank kicked off 2Q earnings season, up 27% YOY with a 79bn NP, beating our 63bn won estimate and consensus at 60bn won. Asset growth, NIM, fee income and costs all came in better than expectations. NIM has ticked up for three quarters in a row and asset quality is still strong. Our FY07 and FY08 numbers and target are under review. Maintain BUY.

Net interest margin

NIM was up 2bps QOQ to 3.06%, registering a third sequential quarter of improvement since the bottoming in 3Q06. Considering the 8.4% QOQ increase in loans (32% annualized growth), the margin held up impressively, even after adjusting for one-off credit card payments from a public depository organisation and 4bn additional income from PF loan, which is unlikely to be repeated. The company cited 1) continued repricing of asset yields; 2) project financing expansion which gave 8% yields versus 6% for loans during the quarter; 3) some easing of price competition from Gyeongnam Bank, major competitor, as it had received a warning from the FSS against rapid growth.

Growth

Loan growth accelerated at 8.1% QOQ; led by SME (12.9% QOQ) on strong demand from the regional economic momentum. In 1H07, the company had already achieved 99% of its full-year loan growth target. 2H07 is likely to see a more controlled pace to balance NIM considerations, but +4% to +5% per quarter is more likely, which would lead to 20% loan growth for the full year. This is comparable to the last year's pace of growth but without large NIM compression (40 bps in 2006).

Asset quality

Provision expense continues to come in lower than expected at W5.8b +21% QOQ but down 58% for 1H vs a year ago. Overall delinquency and NPL data suggest stable asset quality. Reclassification of a major customer to a higher rating as the customer was able to pick out an outside guarantee shifted precautionary to normal, but we view overall asset quality as largely unchanged. This would mean the full year provisioning guidance and our projection are too high. Coverage is at an even higher level - 180%.

Full year numbers and target price under review

The growth opportunity and pricing discipline are better than our initial estimates. Already achieving 2/3 of full-year net income target, the company is most likely to meet the full-year plan. Earnings risk is on the upside for FY07 and 2008, and our target price is under review.

Financials

Year to 31 Dec	05A	06A	07CL	08CL	09CL
Op income (bn won)	640.77	660.20	725.48	779.16	834.31
Net profit (bn won)	178.93	183.41	225.93	237.55	247.09
NP forecast change (%)			0	0	0
EPS (won)	1,219.9	1,250.4	1,540.3	1,619.5	1,684.5
CL/consensus(24)(EPS%)	-	-	91	87	85
EPS (% YoY)	34.8	2.5	23.1	5.1	4.0
PEX (@15,650 won)	12.8	12.5	10.2	9.7	9.3
Dividend yield (%)	2.6	2.7	3.4	3.6	3.9
Price/book (x)	2.0	1.8	1.6	1.5	1.3
ROAA (%)	0.98	0.89	0.99	0.96	0.92
ROAE (%)	16.40	15.10	16.70	15.80	14.90

Source: CLSA Asia-Pacific Markets

Results

Figure 1

Large earnings surprise

Pusan Bank

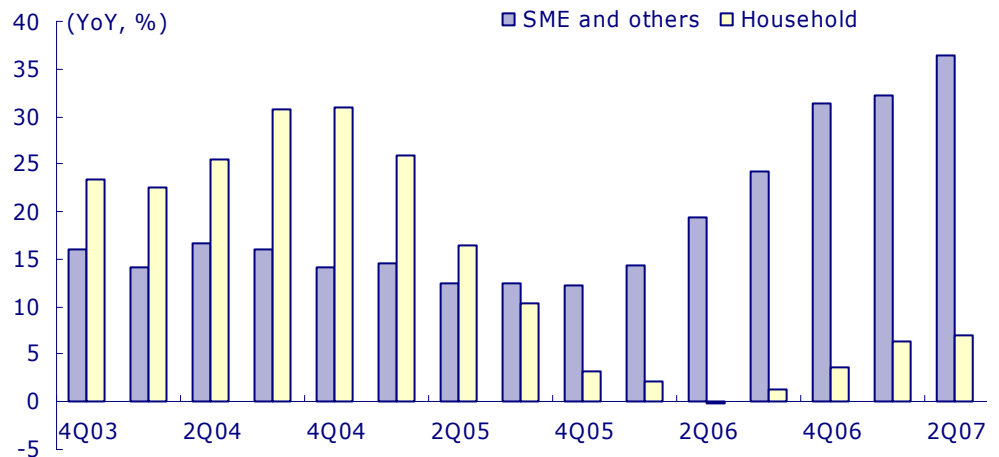
(bn won)	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	% QoQ	% YoY	Difference (bn won)	2Q07CL
General operating income	167	175	167	179	190	198	4.4	12.9	16	182
Net interest income	155	150	151	161	164	173	5.7	15.1	7	166
Net non interest income	11	25	16	19	26	25	(3.5)	(0.4)	9	16
SG&A expenses	(78)	(82)	(71)	(132)	(79)	(80)	1.5	(2.9)	2	(82)
Pre provisioning income	89	93	94	47	111	118	6.5	27.1	18	100
Provision expense	(20)	(10)	(15)	(13)	(5)	(6)	20.8	(42.0)	8	(14)
Operating income	68	83	79	34	106	112	5.8	35.4	26	87
Non operating income	(2)	3	(7)	(1)	(1)	(3)	433.3	(206.7)	(3)	(1)
Income before tax	67	86	72	33	106	109	3.4	27.0	23	86
Tax	(19)	(24)	(22)	(9)	(29)	(30)	3.1	26.3	(7)	(24)
Net income	48	62	51	24	76	79	3.5	27.3	16	63

Source: CLSA Asia-Pacific Markets, billion won

SME still driving loan growth

Figure 2

Loan growth by type

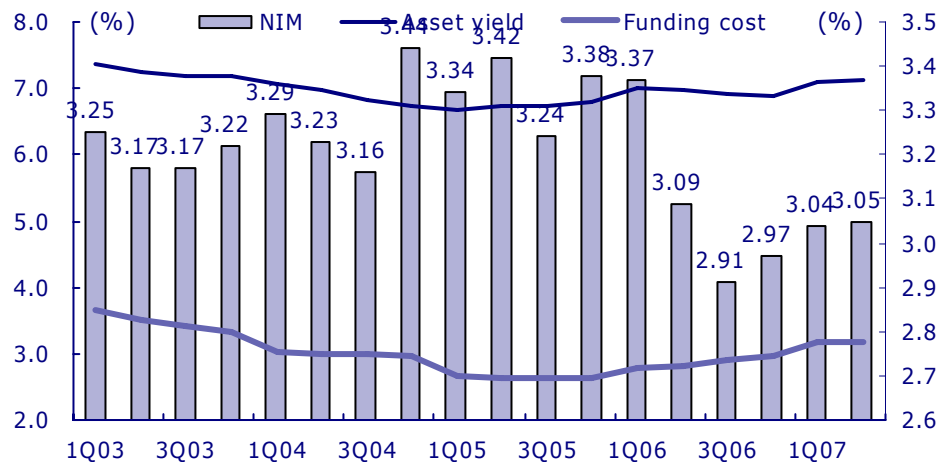


Source: CLSA Asia-Pacific Markets, company data

NIM uptrend in a third consecutive quarters in a row

Figure 3

NIM under pressure in the pursuit of growth



Source: CLSA Asia-Pacific Markets, company data

Stable asset quality and lower than expected provisioning

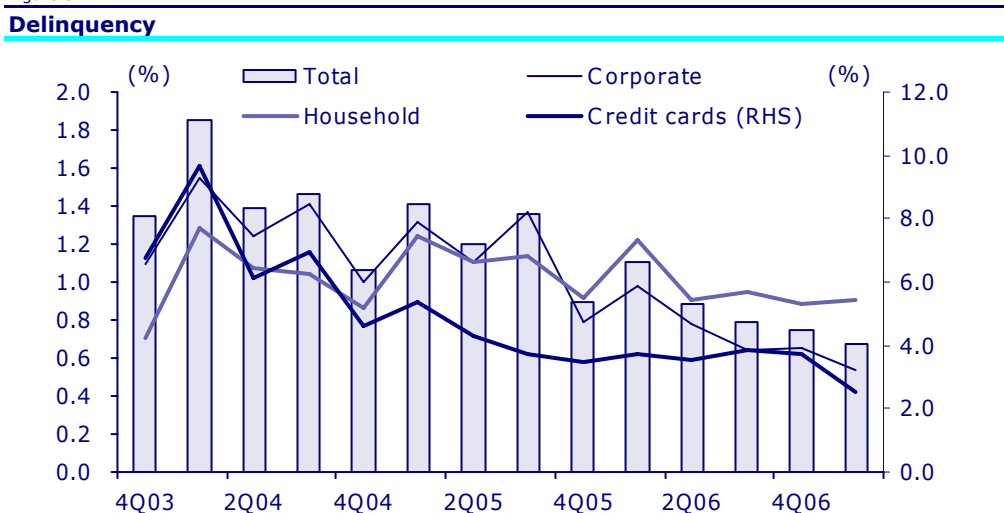
Figure 4

Asset quality								
(Yr-ending Dec 31)	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Normal	11,833	12,098	12,173	13,092	14,137	14,925	15,346	16,750
Precautionary	280	248	289	280	297	293	276	197
Substandard	88	78	102	78	66	73	72	77
Doubtful	33	29	31	28	22	28	25	24
Est. Loss	21	10	13	14	21	27	26	15
Total credits	12,254	12,463	12,607	13,492	14,543	15,346	15,746	17,062
Sub and below	142	117	146	120	109	128	124	116
As % of total	1.16	0.94	1.16	0.89	0.75	0.83	0.79	0.68
Provisioning	160	190	204	207	221	225	215	208
Coverage ratio	113.1	162.9	139.9	172.3	202.9	175.8	173.7	180.3

Source: CLSA Asia-Pacific Markets, company data

Delinquency bottoming

Figure 5



Source: CLSA Asia-Pacific Markets, company data

Recommendation history - Pusan Bank 005280 KS

Date	Rec level	Closing price	Target
26 February 2007	BUY	13,500.00	16,700.00
20 July 2006	BUY	11,250.00	14,400.00
26 June 2006	O-PF	12,200.00	15,300.00
26 April 2006	O-PF	14,600.00	16,600.00
13 March 2006	O-PF	12,500.00	15,400.00
02 February 2006	O-PF	12,600.00	16,400.00
20 November 2005	O-PF	13,150.00	15,000.00
08 August 2005	O-PF	10,100.00	11,800.00

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: BUY = Expected to outperform the local market by >10%; O-PF = Expected to outperform the local market by 0-10%; U-PF = Expected to underperform the local market by 0-10%; SELL = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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Note: In the interests of timeliness, this document has not been edited.

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