



COMPANY UPDATE  
**Pusan Bank (005280.KS)**

Neutral

**Pusan Bank: Good start to the reporting season**

**What's changed**

Pusan Bank started the 2Q earnings season for Korean banks on a positive note, reporting a higher than expected 2Q net profit of W79bn (+27% yoy), vs consensus of W60bn, and our forecast of W51bn, with upside surprise coming from lower than expected provisions, and with strength across all line items. As of the 1H2007 Pusan has now booked W155.1bn, or 65% of their FY07 earnings budget of W237bn, vs the last three years when they booked an average 55% for the full year earnings in the first half.

**Implications**

Given the strength in 1H earnings, we have revised up our earnings estimate for FY07-FY09 by 21-26%, with our FY07 earnings forecast of W275bn, +51% yoy, which puts earnings growth well above the average of the Asian financials for 2007. Our forecast is now 16% above the banks initial budget for the year. Our 2H earnings estimate of W120bn is predicated on a 5bp erosion of margins on tighter funding given the share rise in LDR, as well as an up-tick up in credit costs off a low base.

**Valuation**

We have revised 12-mth GS Camelot price target to W18,800 (1.6X 08BVS) from W16,500 post earnings revisions. Pusan trades at 1.4X 08BVS and 8.0X 08PER for 20% EPS CAGR through FY09 and ROE of 18.2% in FY08.

**Key risks**

Key risks include further interest rate hikes which may slow the domestic economic recovery; further tightening in property market regulations.

**Impact on related securities**

We expect the strength in earnings to be repeated across the banking sector throughout this reporting season, on stable margins, solid credit growth, stable expenses and low provisioning costs. We expect the sector to recover some of its relative underperformance vs the KOSPI on the back of solid earnings, which will likely lead to upward earnings revisions.

**INVESTMENT LIST MEMBERSHIP**

Neutral

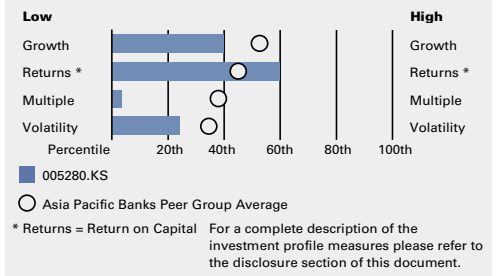
**Coverage View:** Attractive

South Korea:  
 Banks

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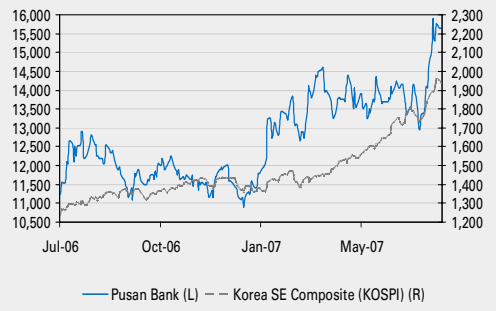
**Investment Profile: Pusan Bank**



Key data	Current
Price (W)	16,650
12 month price target (W)	18,800
Market cap (W bn / US\$ mn)	2,295.6 / 2,500.7
Foreign ownership (%)	59.6

	12/06	12/07E	12/08E	12/09E
<b>EPS (W) New</b>	<b>1,241</b>	<b>1,874</b>	<b>1,963</b>	<b>2,135</b>
EPS revision (%)	0.0	20.6	26.4	20.5
P/B (X)	1.8	1.5	1.4	1.2
P/E (X)	12.6	8.4	8.0	7.3
Dividend yield (%)	2.7	4.2	5.0	6.1
P/PPOP (X)	6.9	5.2	4.6	4.1
PPOP growth (%)	2.3	32.9	14.3	10.6
Preprovision ROA (%)	1.6	1.9	1.9	1.9
Credit cost (%)	0.4	0.3	0.5	0.6
ROA (%)	0.89	1.17	1.09	1.09
ROE (%)	15.0	19.9	18.2	17.6

**Price performance chart**



Share price performance (%)	3 month	6 month	12 month
Absolute	11.4	34.9	41.0
Rel. to Korea SE Composite	(11.5)	(3.3)	(9.9)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 7/18/2007 close.

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# Pusan Bank: Summary financials

Profit model (W bn)	12/06	12/07E	12/08E	12/09E	Balance sheet (W bn)	12/06	12/07E	12/08E	12/09E
Net interest income	618.0	698.7	769.9	837.9	Gross loans	14,327.0	17,877.9	19,874.6	22,115.2
Non-interest income	42.7	99.4	116.2	128.3	NPLs	127.8	138.1	184.3	224.0
Operating revenue	660.7	798.1	886.1	966.2	Loan loss reserves	224.7	227.1	273.8	332.5
Non-interest expense	(330.0)	(358.6)	(383.7)	(410.6)	<b>Total interest earning assets</b>	<b>20,763.0</b>	<b>23,909.6</b>	<b>25,926.4</b>	<b>28,178.2</b>
Provision oper profits	330.7	439.4	502.4	555.6	Other non-interest earning assets	946.0	1,491.8	1,572.5	1,660.0
Total provision charge	(50.7)	(54.9)	(103.6)	(122.0)	<b>Total assets</b>	<b>21,709.0</b>	<b>25,401.3</b>	<b>27,499.0</b>	<b>29,838.2</b>
Associates	(24.0)	(3.7)	0.0	0.0	Customer deposits	14,558.0	15,594.5	16,909.9	18,378.6
Pretax profit	256.0	380.8	398.8	433.6	Total interest-bearing liabilities	19,589.0	22,479.4	24,375.6	26,492.6
Tax	(74.0)	(106.0)	(110.8)	(120.5)	<b>Total equity</b>	<b>1,278.0</b>	<b>1,489.8</b>	<b>1,681.6</b>	<b>1,879.5</b>
Minorities	0.0	0.0	0.0	0.0	<b>CAMEL ratios (%)</b>	<b>12/06</b>	<b>12/07E</b>	<b>12/08E</b>	<b>12/09E</b>
<b>Net profit</b>	<b>182.0</b>	<b>274.8</b>	<b>288.0</b>	<b>313.1</b>	C: Tier 1 capital ratio	8.1	8.5	8.9	9.1
Dividends	(62.0)	(96.2)	(115.2)	(140.9)	C: Equity/loans	8.6	8.4	8.6	8.6
Dividends payout (%)	33.9	35.2	40.2	45.0	C: Equity/assets	5.9	5.9	6.1	6.3
<b>Earnings growth drivers (%)</b>	<b>12/06</b>	<b>12/07E</b>	<b>12/08E</b>	<b>12/09E</b>	A: NPL ratio	0.9	0.8	0.9	1.0
Net interest margin	3.08	3.02	3.00	3.01	A: Loan loss reserves/NPLs	175.8	164.4	148.6	148.4
Provision charge/total loans	0.34	0.31	0.53	0.56	E: Net interest margin	3.08	3.02	3.00	3.01
<b>YoY Growth (%)</b>					E: Non int inc/oper revenues	6.46	12.46	13.11	13.28
Customer deposits	6.6	7.1	8.4	8.7	E: Cost-income ratio	49.9	44.9	43.3	42.5
Loans	22.5	18.2	11.0	11.1	E: ROAA	0.89	1.17	1.09	1.09
Net interest income	4.2	13.1	10.2	8.8	L: Loan/deposit ratio	102.6	113.2	115.9	118.6
Fee income	16.4	56.7	20.9	10.6	<b>Key CAMELOT assumptions</b>	<b>12/06</b>	<b>12/07E</b>	<b>12/08E</b>	<b>12/09E</b>
Non-interest income	(15.1)	132.8	16.9	10.4	GS CAMELOT implied P/B (X)	--	--	1.6	--
Operating revenue	2.7	20.8	11.0	9.0	GS CAMELOT implied P/E (X)	--	--	10.0	--
Operating expenses	(3.1)	(8.7)	(7.0)	(7.0)	Risk-free rate (%)	5.5	5.5	5.5	5.5
<b>Preprovision operating profit</b>	<b>2.3</b>	<b>32.9</b>	<b>14.3</b>	<b>10.6</b>	Equity risk premium (%)	6.5	6.5	6.5	6.5
Provision charges	(42.6)	8.3	88.6	17.8	CAMELOT beta (X)	--	--	1.0	--
Pretax profit	2.0	48.7	4.7	8.7	Risk-adjusted cost of equity (%)	--	--	12.3	--
Net profit	1.1	51.0	4.8	8.7	3-yr adjusted DPS CAGR (%)	--	--	12.0	--
EPS	1.1	51.0	4.8	8.7	Sustainable ROE estimate (%)	--	--	15.5	--
DPS	5.0	57.1	19.7	21.5	LT dividend payout estimate (%)	--	--	50.0	--
<b>Market dimensions</b>	<b>12/06</b>	<b>12/07E</b>	<b>12/08E</b>	<b>12/09E</b>	Ex-growth bond-equivalent P/B (X)	--	--	1.3	--
No of branches	213.0	225.0	237.0	249.0	<b>Loan portfolio (%)</b>	<b>12/06</b>	<b>12/07E</b>	<b>12/08E</b>	<b>12/09E</b>
No of staff (000)	1.9	2.0	2.0	2.0	Commercial & corporate	64.6	63.3	63.8	64.3
Revenues/staff (W)	#####	#####	#####	#####	Mortgages/home loans	9.0	8.3	8.4	8.5
Net profit/staff (W)	94,742,321.7	#####	#####	#####	Consumer	25.5	21.7	21.5	21.2
<b>DuPont analysis (%)</b>	<b>12/06</b>	<b>12/07E</b>	<b>12/08E</b>	<b>12/09E</b>	<b>Valuation (current price)</b>	<b>12/06</b>	<b>12/07E</b>	<b>12/08E</b>	<b>12/09E</b>
ROE	15.0	19.9	18.2	17.6	P/E basic (X)	12.6	8.4	8.0	7.3
x leverage	6.3	6.3	6.4	6.6	P/B (X)	1.80	1.54	1.37	1.22
= ROA	0.89	1.17	1.09	1.09	P/PPOP (X)	6.9	5.2	4.6	4.1
<b>% of assets</b>	<b>12/06</b>	<b>12/07E</b>	<b>12/08E</b>	<b>12/09E</b>	Dividend yield (%)	2.7	4.2	5.0	6.1
Net interest income	3.03	2.97	2.91	2.92	EPS, basic (W)	1,241	1,874	1,963	2,135
Fee income	0.31	0.43	0.46	0.47	EPS, fully-diluted (W)	1,241	1,874	1,963	2,135
Non-interest income	0.21	0.42	0.44	0.45	EPS, basic growth (%)	1.1	51.0	4.8	8.7
Operating revenue	3.24	3.39	3.35	3.37	EPS, fully diluted Growth (%)	1.1	51.0	4.8	8.7
Operating expenses	1.62	1.52	1.45	1.43	BVPS (W)	8,658	10,102	11,410	12,759
Preprovision operating profit	1.62	1.87	1.90	1.94	DPS (W)	420	660	790	960
Loan loss provisions	0.25	0.23	0.39	0.43					
Pretax profits	1.26	1.62	1.51	1.51					
Taxes	0.36	0.45	0.42	0.42					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

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## Investment view: Good start to the reporting season

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### Bottom line

- 2Q2007 earnings: W78.9, +4% qoq, +27% yoy.
- Core pre provisioning profit: W119bn, vs historical run over of W79bn to W105bn over the past 6 quarters.
- Of the W39bn in higher than expected pre tax earnings, W24bn is explained by stronger than expected pre prov income (higher NIM, loan growth, fee income, lower expenses vs expectation) and W15bn from lower than expected provisions.

### Upside surprise

- Solid across all major line items.
- **Margins** (quarterly net interest margin +2bp qoq to 3.06%, vs estimate of 3.00%) benefited from tail winds of (a) steepening yield curve, (b) rising loan spreads, and (c) rising loan/deposit ratio (LDR) offset by tighter funding costs.
- **Loan growth** of 9% qoq surprised to the upside, and whilst this is a run rate that is both faster than expected and faster than the underlying economic growth trends should allow for, YTD loan growth of 12% still appears more reasonable.
- **Asset quality** trends remain benign, with NPL ratio falling to 0.68%, vs 0.79% in 1Q07, and despite the 9% qoq loan growth, absolute level of NPL's at W116bn, or -7% qoq remain well contained. Provisioning coverage remains high at 180% of NPLs.

### Downside surprise

- No major downside surprises.
- **Loan/deposit ratio** reached an all time high for Pusan of 113% (from 110% in 1Q07), as the gap between loan growth (8% qoq) and deposit growth (6% qoq) continued to widen which may continue to pressure funding costs upward.
- **Capital ratios** only very modestly weakened with Tier 1 CAR now 8.1% (vs 8.4% in 1Q07) owing to the fast loan growth

### Outlook

- Bank guidance remains unchanged at W237bn for FY07, although management indicated they would consider revising budgets post the 3Q2007. Note the FY07 is predicated off a NIM of 2.9%, vs year to date margin of 3.05%.
- We have raised earnings forecasts to W275bn, W288bn and W313bn through 2009, for a three year CAGR of 20%.
- Almost all of the upward revisions reflect stronger pre provisioning operating trends, with both net interest income and fee income trends stronger than expected, and with costs well contained. We keep credit cost forecasts relatively stable from original estimates given our assumption that overtime they will normalize upwards towards 60bp.
- We have assumed a modest erosion in margins of 5bp over the next two quarters on tighter funding pressures (3bp of deposit pressures per quarter).
- We have assumed a higher rate of credit costs of 52bp (annualized run rate) per quarter in the next two quarters, coming off an unusually low rate of 14bp in 1H2007.

**Exhibit 1: A very solid set of 2Q results across all line items**

Wbn

	2Q06	1Q07	2Q07	QoQ	YoY	GS est. 2Q07E	Actual vs. GS	GS comments
Operating Income	167	188	198	5%	18%	182	9%	
Net Interest Income	150	164	173	6%	15%	164	5%	Above expectations on solid loan growth, rising NIM
Non-Interest Income	17	24	25	1%	46%	17	42%	
Non-Interest Expense	83	78	80	2%	-4%	89	-10%	Lower than expected expenses, good cost control
Pre-Provision Operating Profit	84	110	118	8%	41%	93	27%	
<b>Core pre provision profit</b>	<b>83</b>	<b>105</b>	<b>119</b>	<b>14%</b>	<b>43%</b>	<b>95</b>	<b>25%</b>	
Provisions	10	4	6	61%	-42%	22	-74%	Prov running sub normal
Operating Profit	74	106	112	6%	52%	71	59%	
Non-Operating Profit	12	(1)	(3)	457%	-126%			
Pre-Tax Profit	86	106	109	3%	27%	71	55%	
<b>Core pre tax</b>	<b>73</b>	<b>101</b>	<b>113</b>	<b>12%</b>	<b>55%</b>	<b>73</b>	<b>56%</b>	
Tax	24	29	30	3%	26%	19	56%	
Net Profit	62	76	79	3%	27%	51	54%	1H =65% of FY07 budget
	2Q06	1Q07	2Q07	QoQ	YoY			
NIM (QTD): Reported	3.09%	3.04%	3.06%	0.02%p	-0.03%p			Improving margins
NIM (YTD): Reported	3.23%	3.04%	3.05%	0.01%p	-0.18%p			
	2Q06	1Q07	2Q07	QoQ	YoY			
Total Assets	20,562	22,150	24,434	10%	19%			Strong loan growth
Cash & Due From Banks	1,243	1,089	1,593	46%	28%			Large corp = -7%qoq
Investment Securities	5,034	4,857	4,789	-1%	-5%			SME = +13%qoq
Loans & Credits Receivable	13,453	15,529	16,962	9%	26%			Mortgage = +7%qoq
Total Liabilities	19,364	20,851	23,061	11%	19%			
Total Stockholders Equity	1,197	1,294	1,370	6%	14%			
	2Q06	1Q07	2Q07					
Equity / Loans	8.9%	8.3%	8.1%					
Equity / Assets	5.8%	5.8%	5.6%					
LLR / Gross Loans (%)	1.5%	1.4%	1.2%					2Q07 NPL ratios: SME (+), household/credit card (+)
NPL Ratio (substandard and below)	0.89%	0.79%	0.68%					SMEs: 0.77% (1Q07) to 0.66% (2Q07)
NPL Coverage	172.3%	173.7%	180.3%					Households: 0.84% (1Q07) to 0.78% (2Q07)
ROAA	1.25%	1.39%	1.35%					Credit cards: 1.89% (1Q07) to 1.44% (2Q07)
ROAE	21.2%	23.7%	23.7%					
Cost-to-Income	49.7%	41.7%	40.3%					Cost-to-income = 40.3%
Fee Income / Oper.Inc.	9.6%	10.3%	12.9%					
Non Interest Income / Oper.Inc.	10.2%	13.0%	12.5%					
Loan / Deposits	97.6%	110.0%	113.2%					
Credit cost	0.31%	0.09%	0.14%					
Tier 1 Ratio	9.2%	8.4%	8.1%					
Tier 2 Ratio	2.5%	3.6%	3.3%					
<b>As % of Assets</b>	<b>2Q06</b>	<b>1Q07</b>	<b>2Q07</b>					
Operating Income	3.37%	3.43%	3.40%					
Net Interest Income	3.02%	2.99%	2.97%					
Non-Interest Income	0.34%	0.45%	0.43%					
Non-Interest Expense	1.67%	1.43%	1.37%					
Pre-Provision Operating Profit	1.69%	2.00%	2.03%					
Loan Provisions	0.20%	0.07%	0.10%					
Operating Profit	1.49%	1.94%	1.93%					
Non Operating Profit	0.24%	-0.01%	-0.05%					
Pretax Profit	1.73%	1.93%	1.88%					
Tax	0.48%	0.54%	0.52%					
Net Profit	1.25%	1.39%	1.35%					

Source: Company data, Goldman Sachs Research estimates.

**Exhibit 2: Pusan earnings revisions**

Wbn

	Prior			Revised			Change		
	2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
Operating Income	741	791	867	798	886	966	7.8%	12.0%	11.5%
Net Interest Income	663	712	778	699	770	838	5.4%	8.2%	7.6%
Non-Interest Income	77	80	89	99	116	128	28.3%	45.9%	45.0%
Non-Interest Expense	353	378	405	359	384	411	1.7%	1.6%	1.5%
Pre-Provision Operating Profit	388	413	462	439	502	556	13.3%	21.5%	20.2%
<b>Core pre provision profit</b>	<b>389</b>	<b>419</b>	<b>468</b>	<b>440</b>	<b>507</b>	<b>561</b>	<b>13.2%</b>	<b>21.1%</b>	<b>19.8%</b>
Provisions	73	99	104	55	104	122	-24.3%	4.4%	17.8%
Operating Profit	315	314	359	385	399	434	21.9%	26.9%	20.9%
Non-Operating Profit	(1)	-	-	(4)	-	-			
Pre-Tax Profit	315	314	359	381	399	434	21.0%	26.9%	20.9%
<b>Core pre tax</b>	<b>316</b>	<b>320</b>	<b>365</b>	<b>385</b>	<b>404</b>	<b>439</b>	<b>21.8%</b>	<b>26.3%</b>	<b>20.4%</b>
Tax	87	86	99	106	111	120	21.9%	28.3%	22.2%
Net Profit	228	228	260	275	288	313	20.6%	26.4%	20.5%
	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>
NIM (QTD): Reported									
NIM (YTD): Reported	3.00%	2.99%	3.02%	3.02%	3.00%	3.01%	0.02%p	0.01%p	-0.01%p
	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>
Total Assets	23,256	25,068	27,074	25,401	27,499	29,838	9.2%	9.7%	10.2%
Cash & Due From Banks	1,122	1,168	1,215	1,625	1,691	1,760	44.8%	44.8%	44.8%
Investment Securities	5,004	5,207	5,419	4,789	4,789	4,789	-4.3%	-8.0%	-11.6%
Loans & Credits Receivable	16,475	18,072	19,852	17,878	19,875	22,115	8.5%	10.0%	11.4%
Total Liabilities	21,810	23,475	25,300	23,912	25,817	27,959	9.6%	10.0%	10.5%
Total Stockholders Equity	1,446	1,594	1,774	1,490	1,682	1,880	3.1%	5.5%	6.0%

Source: Goldman Sachs Research estimates.

## Reg AC

We, Philippa Rogers, CFA and Seung-Woo Song, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

**Growth** is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

## Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

## Disclosures

### Coverage group(s) of stocks by primary analyst(s)

Philippa Rogers, CFA: Asia Pacific Financials. Seung-Woo Song: Asia Pacific Financials.

Asia Pacific Financials: Bangkok Bank, Bank Central Asia, Bank Danamon, Bank Mandiri, Bank of Ayudhya, Bank of China (A), Bank of China (H), Bank of Communications (A), Bank of Communications(H), Bank of East Asia, Bank Rakyat Indonesia, BOC Hong Kong (Holdings), Bursa Malaysia, Cathay Financial, Chang Hwa Commercial Bank, China CITIC Bank (A), China CITIC Bank (H), China Construction Bank, China Life Insurance Company, China Life Insurance Company (A), China Merchants Bank (A), China Merchants Bank (H), Chinatrust Financial Holdings, Chong Hing Bank, CITIC Int'l Financial, Daegu Bank, Dah Sing Banking Group, Dah Sing Financial Holdings, DBS Group Holdings, Fubon Bank (Hong Kong), Fubon Financial Holdings, Fuhwa FHC, Hana Financial Group, Hang Seng Bank, HDFC Bank, Hong Kong Exchanges, Housing Development Finance Corporation, HSBC Holdings, Hua Xia Bank, ICBC (Asia), ICICI Bank, Industrial and Commercial Bank of China (A), Industrial and Commercial Bank of China (H), Industrial Bank Of Korea, Kasikornbank, Kookmin Bank, Korea Exchange Bank, Krung Thai Bank, Mega Financial Holdings, Oversea-Chinese Banking Corp., PICC Property and Casualty, Ping An Insurance Group (H), Ping An Insurance Group (A), Polaris Securities, Pusan Bank, Samsung Fire & Marine, Shanghai Pudong Development Bank, Shenzhen Development Bank, Shin Kong Financial Holdings, Shinhan Financial Group, Siam Commercial Bank, Singapore Exchange, SinoPac Holdings, Standard Chartered Bank, State Bank of India, Taishin Financial Holdings, Thanachart Capital, TISCO Bank, United Overseas Bank, UTI Bank, Wing Hang Bank, Wing Lung Bank, Woori Finance Holdings.

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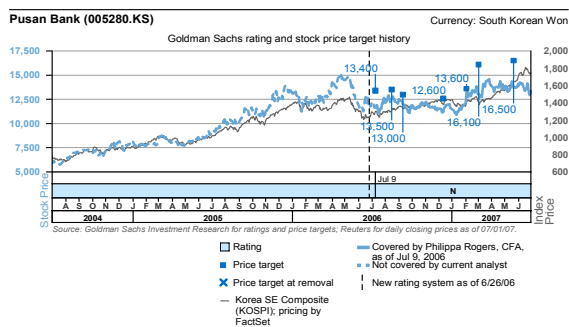
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Goldman Sachs Investment Research global coverage universe

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