

### First look

We are seeing improvement in all key earnings drivers at Pusan Bank (PSB), where 2Q07 net earnings totalled W79bn, well ahead of our estimate of W69bn and consensus of W61bn. PSB again registered a sequential improvement in NIM (+2bps), which supported a 5.7% q-q rise in net interest income. Commission income jumped by 32.6% q-q. Costs remained under control, with the 2Q07 cost-to-income ratio falling to 40.3%.

Earnings vs our forecast	ABOVE	IN LINE	BELOW
Likely impact:			
Earnings estimates	UP	NO CHANGE	DOWN
Dividend estimates	UP	NO CHANGE	DOWN
Recommendation	UPGRADE	NO CHANGE	DOWNGRADE
Fair value	UP	NO CHANGE	DOWN
Long-term view	STRONGER	CONFIRMED	WEAKER

## Core earnings-driven surprise

- PSB had a better-than-expected 2Q07 net interest margin of 3.06% (non-cumulative, up 2bps q-q compared with our forecast for a flat NIM), on favourable loan re-pricing and rising market interest rates. Loan growth was also solid, at 8.1% q-q and 11.0% h-h, led by strong SME lending (up 12.9% q-q). As a result, PSB posted healthy growth in net interest income of 5.7% q-q, versus our estimate of 3.5%. Net commission income rose to W25.6bn (+32.6% q-q), owing to healthy project financing and fund/bancassurance sales.
- PSB kept SG&A expenses well in check — they rose just 1.5% q-q (-2.9% y-y), bringing down the cost-to-income ratio to 40.3%, from 48.2% a year earlier. We attribute the improvement partly to the positive impact of restructuring in 4Q06. Credit costs remained modest, at W6bn in 2Q07.

### Exhibit 1. PSB: 2Q07 results

(Wbn)	Actual	Nomura forecast	Variance
Net interest income	173	169	2.3%
Net profit	79	69	14.5%
Loan growth q-q (%)	8.1	6.0	2.1pp
Net interest margin (%)	3.06	3.04	2bps
NPL ratio (%)	0.68	0.75	-7bps

Source: Company data, Nomura International (Hong Kong) Limited, Seoul Branch

- The NPL ratio improved further, to 0.68% (-11bps q-q), while the NPL coverage ratio rose to 180% (+6.7pp q-q), partly owing to W23bn of write-offs. New NPL formations in 2Q07 (not distorted by NPL disposals) edged up to W14bn, from W11bn in 1Q07; but the new NPL formation ratio was still low, at 0.35%.
- Given better-than-expected earnings drivers and solid earnings streams, our fair value is under review with an upward bias.

## FIRST LOOK

### 2Q07 Results

First Look is the analyst's preliminary interpretation of the results announcement. Our recommendation and earnings estimates are not being changed in this report. Any formal changes to our recommendation or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed in this report.

Closing price on 18 Jul W15,650  
Fair value estimate **W16,000**

### Key financials & valuations

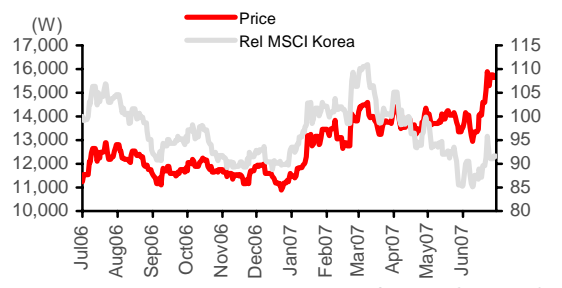
31 Dec (Wbn)	FY05	FY06F	FY07F	FY08F
PPOP	322.1	335.4	411.1	464.1
Reported net profit	178.7	183.9	252.5	281.5
Normalised net profit	178.7	183.9	252.5	281.5
Normalised EPS (W)	1,218	1,254	1,721	1,919
Norm. EPS growth (%)	34.4	2.9	37.3	11.5
Norm. P/E (x)	12.8	12.5	9.1	8.2
Price/adj. book (x)	2.00	1.80	1.67	1.55
Price/book (x)	2.00	1.80	1.67	1.55
Dividend yield (%)	2.6	2.7	3.8	4.3
ROE (%)	16.5	15.2	19.0	19.7
ROA (%)	0.99	0.90	1.11	1.14

### Earnings revisions

Previous norm. net profit	183.9	252.5	281.5
Change from previous (%)	na	na	na
Previous norm. EPS (W)	1,254	1,721	1,919

Source: Company, Nomura estimates

### Share price relative to MSCI Korea



	1m	3m	6m
Absolute (W)	15.5	11.4	34.9
Absolute (US\$)	17.1	12.9	38.0
Relative to Index	8.1	(13.4)	(2.0)
Market cap (US\$m)			2,506
Estimated free float (%)			100.0
52-week range (W)			15,900/10,900
3-mth avg daily turnover (US\$m)			13.79
Major shareholders (%)			
CRMC			11.7
Aberdeen			10.2

Source: Company, Nomura estimates

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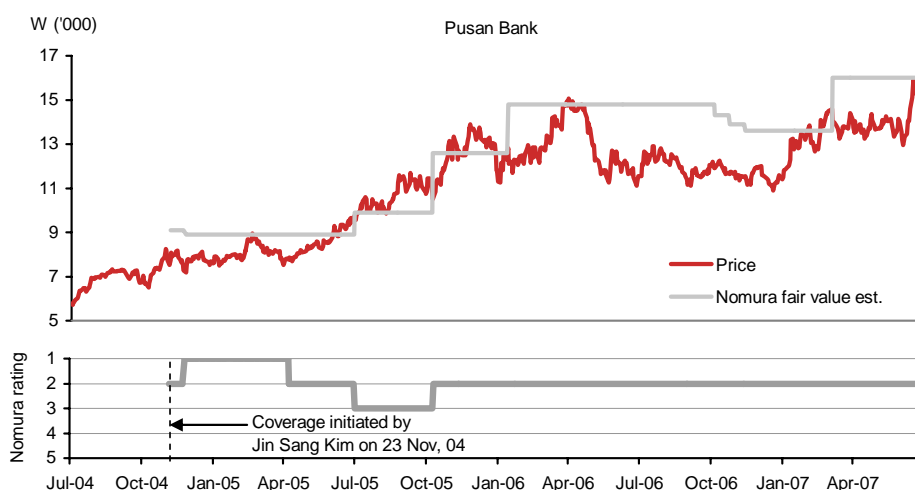
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Issuer	Ticker	Price (as at last close)	Closing Price Date	Rating	Disclosures
Pusan Bank	005280 KS	15650.00 KRW	18 Jul 2007	Buy	

## Previous Ratings

Issuer	Previous Rating	Date of change
Pusan Bank	Neutral	28 Oct 2005

## Three-year stock price and rating history



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		Buy (a)	Neutral/Hold	Sell (b)
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	% for which IB services (c) have been provided	0	0	0
Nomura International plc	% of ratings published during the preceding quarter	47	40	13
	% for which material IB services (d) have been provided	5	0	0
Nomura Securities Co. Ltd.	% of companies under coverage with this rating	39	56	5
	% for which IB services (d) have been provided	8	3	0
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Sources: Nomura Securities International, Inc. and Nomura International plc as of 30 June 2007.

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A "**Bearish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

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#### Stocks:

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A "**Bearish**" stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.

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