

KOOKMIN BANK
Form 20-F
June 17, 2003
[Table of Contents](#)

As filed with the Securities and Exchange Commission on June 17, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 20-F

ANNUAL REPORT PURSUANT TO

SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

Commission file number 1-15258

Kookmin Bank

(Exact name of Registrant as specified in its charter)

Kookmin Bank

(Translation of Registrant's name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

9-1, 2-ga, Namdaemoon-ro, Jung-gu

Seoul 100-703, Korea

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<u>Title of Class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares,	New York Stock Exchange, Inc.
each representing	
one share of Common Stock	
Common Stock, par value	New York Stock Exchange, Inc.*
(Won)5,000 per share	

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

328,258,685 shares of common stock, par value (Won)5,000 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes

☐ No

Indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17

☒ Item 18

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

☐ Yes

☐ No

* Not for trading, but only in connection with the registration of the American Depositary Shares.

Table of Contents**TABLE OF CONTENTS**

<u>Certain Defined Terms</u>		1
<u>Forward-Looking Statements</u>		2
Item 1.	<u>Identity of Directors, Senior Managers and Advisers</u>	4
Item 2.	<u>Offer Statistics and Expected Timetable</u>	4
Item 3.	<u>Key Information</u>	4
	Item 3A. <u>Selected Financial Data</u>	4
	Item 3B. <u>Capitalization and Indebtedness</u>	12
	Item 3C. <u>Reasons for the Offer and Use of Proceeds</u>	12
	Item 3D. <u>Risk Factors</u>	12
Item 4.	<u>Information on the Company</u>	30
	Item 4A. <u>History and Development of the Company</u>	30
	Item 4B. <u>Business Overview</u>	34
	Item 4C. <u>Organizational Structure</u>	108
	Item 4D. <u>Property, Plants and Equipment</u>	109
Item 5.	<u>Operating and Financial Review and Prospects</u>	111
	Item 5A. <u>Operating Results</u>	111
	Item 5B. <u>Liquidity and Capital Resources</u>	141
	Item 5C. <u>Research and Development, Patents and Licenses, etc.</u>	159
	Item 5D. <u>Trend Information</u>	159
Item 6.	<u>Directors, Senior Management and Employees</u>	160
	Item 6A. <u>Directors and Senior Management</u>	160
	Item 6B. <u>Compensation</u>	166
	Item 6C. <u>Board Practices</u>	167
	Item 6D. <u>Employees</u>	169
	Item 6E. <u>Share Ownership</u>	171
Item 7.	<u>Major Stockholders and Related Party Transactions</u>	173
	Item 7A. <u>Major Stockholders</u>	173
	Item 7B. <u>Related Party Transactions</u>	174
	Item 7C. <u>Interest of Experts and Counsel</u>	175
Item 8.	<u>Financial Information</u>	176
	Item 8A. <u>Consolidated Statements and Other Financial Information</u>	176
	Item 8B. <u>Significant Changes</u>	178
Item 9.	<u>The Offer and Listing</u>	179
	Item 9A. <u>Offering and Listing Details</u>	179
	Item 9B. <u>Plan of Distribution</u>	179
	Item 9C. <u>Markets</u>	180
	Item 9D. <u>Selling Shareholders</u>	187
	Item 9E. <u>Dilution</u>	187
	Item 9F. <u>Expenses of the Issuer</u>	187
Item 10.	<u>Additional Information</u>	188
	Item 10A. <u>Share Capital</u>	188
	Item 10B. <u>Memorandum and Articles of Association</u>	188
	Item 10C. <u>Material Contracts</u>	194
	Item 10D. <u>Exchange Controls</u>	194
	Item 10E. <u>Taxation</u>	196
	Item 10F. <u>Dividends and Paying Agents</u>	200
	Item 10G. <u>Statements by Experts</u>	200
	Item 10H. <u>Documents on Display</u>	200
	Item 10I. <u>Subsidiary Information</u>	200
Item 11.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	201
Item 12.	<u>Description of Securities Other than Equity Securities</u>	222
Item 13.	<u>Defaults, Dividend Arrearages and Delinquencies</u>	222

Table of Contents

Item 14.	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	222
Item 15.	<u>Controls and Procedures</u>	223
Item 16A.	<u>Audit Committee Financial Expert</u>	223
Item 16B.	<u>Code of Ethics</u>	223
Item 16C.	<u>Principal Accountant Fees and Services</u>	223
Item 16D.	<u>Exemptions from the Listing Standards for Audit Committees</u>	223
Item 17.	<u>Financial Statements</u>	223
Item 18.	<u>Financial Statements</u>	223
Item 19.	<u>Exhibits</u>	223
<u>SIGNATURES</u>		II-1
<u>Certification of President and Chief Executive Officer</u>		II-2
<u>Certification of Chief Financial Officer</u>		II-3

Table of Contents

CERTAIN DEFINED TERMS

For the years ended December 31, 1999, 2000, 2001 and 2002 and as of December 31, 1999, 2000, 2001 and 2002, we have prepared financial information in accordance with United States generally accepted accounting principles, or U.S. GAAP. Unless indicated otherwise, the financial information in this document as of and for the years ended December 31, 1999, 2000, 2001 and 2002 has been prepared in accordance with U.S. GAAP.

We were formed through a merger between the former Kookmin Bank and H&CB, which merged into a new corporation named Kookmin Bank effective November 1, 2001. Accordingly, financial information in this document as of and for the year ended December 31, 2001 reflects the impact of the merger. Under U.S. GAAP, the former Kookmin Bank is deemed the accounting acquiror of H&CB in the merger, and we have accounted for the acquisition using the purchase method of accounting.

In this document:

references to we, us or Kookmin Bank are to Kookmin Bank and, unless the context otherwise requires, its subsidiaries and, for periods of time prior to the merger, the former Kookmin Bank;

references to Korea or the Republic are to the Republic of Korea;

references to the government are to the government of the Republic of Korea;

references to Won or (Won) are to the currency of Korea; and

references to U.S. dollars, US dollars, \$ or US\$ are to United States dollars.

Discrepancies between totals and the sums of the amounts contained in any table may be as a result of rounding.

For your convenience, this document contains translations of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2002, which was (Won)1,186.3 = US\$1.00.

Table of Contents

FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This annual report contains forward-looking statements, which include statements regarding the period following the merger.

Words and phrases such as will, aim, will likely result, will continue, contemplate, seek to, future, objective, goal, shall, pursue, anticipate, estimate, expect, project, intend, plan, believe and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described. In particular, risks related to our business, including those discussed under Risk Factors, could cause actual results to differ materially. These factors include, but are not limited to:

our ability to successfully implement our strategy;

future levels of non-performing loans;

our growth and expansion;

the adequacy or allowance for credit and investment losses;

technological changes;

investment income;

cash flow projections;

our exposure to market risks;

the failure to realize the anticipated benefits of the merger; and

adverse market and regulatory conditions.

By their nature, certain of the market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on net interest income could materially differ from those that have been estimated.

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In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document could include, but are not limited to:

general economic and political conditions in Korea;

other countries that have an impact on our business activities or investments;

the monetary and interest rate policies of Korea;

inflation or deflation;

unanticipated turbulence in interest rates;

foreign exchange rates;

equity prices or other rates or prices;

the performance of the financial markets in Korea and globally;

changes in domestic and foreign laws, regulations and taxes;

changes in competition and the pricing environments in Korea; and

regional or general changes in asset valuations.

Table of Contents

For further discussion of the factors that could cause actual results to differ, see the discussion under Item 3D. Risk Factors contained in this annual report. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in our entirety by the cautionary statements contained or referred to in this section.

Table of Contents**Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS****Not applicable****Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE****Not applicable****Item 3. KEY INFORMATION****Item 3A. *Selected Financial Data***

The selected consolidated financial and operating data set forth below for the years ended December 31, 1999, 2000, 2001 and 2002 and as of December 31, 1999, 2000, 2001 and 2002 have been derived from our audited consolidated financial statements which have been prepared in accordance with U.S. GAAP and audited by PricewaterhouseCoopers, independent accountants.

You should read the following data together with the more detailed information contained in Item 5. Operating and Financial Review and Prospects and our consolidated financial statements included elsewhere in this document. Historical results do not necessarily predict future results.

Consolidated income statement data

	Year ended December 31,				
	1999	2000	2001 (1)	2002	2002 (2)
	(in billions of Won, except per common share data)				(in millions of US\$, except per common share data)
Interest and dividend income	(Won) 6,342	(Won) 7,263	(Won) 8,895	(Won) 13,450	\$ 11,338
Interest expense	4,307	4,505	5,317	6,734	5,677

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Net interest income	2,035	2,758	3,578	6,716	5,661
Provision for loan losses, guarantees and acceptances	964	67	1,261	3,886	3,275
Non-interest income	1,370	908	1,681	3,098	2,612
Non-interest expense	1,499	1,614	2,354	4,387	3,699
Income tax expense	381	740	621	597	504
Minority interest	6	81	84	(211)	(178)
Net income from discontinued operations after income taxes	(74)	(249)	8	97	82
Extraordinary gain and cumulative effect of accounting change, net of tax		13	45		
Net income	(Won) 481	(Won) 928	(Won) 992	(Won) 1,252	\$ 1,055
Net income per common share (3):					
Net income-basic	(Won) 2,982	(Won) 4,931	(Won) 4,700	(Won) 3,939	\$ 3.32
Net income-diluted (4)	2,506	4,243	4,256	3,831	3.23
Weighted average common shares outstanding-basic (in thousands of common shares)	161,188	188,107	211,037	317,787	317,787
Weighted average common shares outstanding-diluted (in thousands of common shares)	192,765	219,797	234,541	328,107	328,107
Cash dividends paid per common share (3)(5)(6)	(Won) 338	(Won) 84	(Won) 844	(Won) 100	\$ 0.08

Table of Contents

- (1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.
- (2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,186.3 to US\$1.00, the noon buying rate in effect on December 31, 2002 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) As discussed in Notes 1 and 3 to our consolidated financial statements, for the purpose of calculating earnings per share, all historical per share and share amounts have been restated to reflect (a) the exchange of former Kookmin Bank shares, at a ratio of 1.688346:1, in connection with our merger with H&CB and (b) a 6% stock dividend approved on March 22, 2002.
- (4) Diluted earnings per share gives effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common stock were converted into or exercised for common stock for the relevant periods. We have three categories of potentially dilutive common shares: shares issuable on exercise of stock options granted to directors and employees; shares issuable on conversion of convertible debentures; and shares issuable on conversion of preferred shares.
- (5) U.S. GAAP requires that dividends be recorded in the period in which they are declared rather than the period to which they relate unless these are the same.
- (6) On December 15, 2001, our board of directors passed a resolution recommending a 6% stock dividend and a cash dividend of (Won)100 per common share (before dividend tax), representing 2% of the par value of each share, for the fiscal year ended December 31, 2001. This resolution was approved and ratified by our stockholders on March 22, 2002. For this dividend, 17,979,954 common shares were issued and distributed to stockholders who were registered in our stockholder registry on December 31, 2001. No stock dividends were declared for the fiscal years ended December 31, 1999, 2000 or 2002.

Table of Contents**Consolidated balance sheet data**

	As of December 31,				
	1999	2000	2001 (1)	2002	2002 (2)
	(in billions of Won)				(in millions of US\$)
Assets					
Cash and cash equivalents	(Won) 2,161	(Won) 1,701	(Won) 3,041	(Won) 3,328	\$ 2,805
Restricted cash	706	1,540	4,373	1,580	1,332
Interest-bearing deposits in other banks	629	1,587	592	564	476
Call loans and securities purchased under resale agreements	377	2,491	2,012	229	193
Trading assets	3,636	3,104	6,874	6,368	5,368
Investments (3)	16,293	17,702	26,231	24,223	20,419
Loans (net of allowance for loan losses of (Won)2,623 billion in 1999, (Won)2,394 billion in 2000, (Won)3,508 billion in 2001 and (Won)5,195 billion in 2002)	42,351	57,041	117,452	140,756	118,651
Due from customers on acceptances	995	1,916	1,887	881	743
Premises and equipment, net	1,110	1,126	1,846	2,121	1,788
Accrued interest and dividends receivable	1,090	1,107	1,160	1,116	941
Security deposits	687	690	1,244	1,337	1,127
Goodwill and other intangible assets	211	582	743	631	531
Other assets	1,108	204	697	965	814
Total assets	(Won) 71,354	(Won) 90,791	(Won) 168,152	(Won) 184,099	\$ 155,188
Liabilities and Stockholders Equity					
Deposits:					
Interest bearing	(Won) 40,079	(Won) 54,201	(Won) 110,895	(Won) 118,654	\$ 100,020
Non-interest bearing	2,659	1,982	4,141	3,745	3,157
Call money	1,333	581	2,701	306	258
Trading liabilities	298	718	287	625	527
Acceptances outstanding	995	1,916	1,887	881	743
Other borrowed funds	4,816	6,369	10,812	15,856	13,366
Accrued interest payable	2,105	2,311	4,617	4,463	3,762
Secured borrowings	423	1,468	5,501	7,864	6,629
Long-term debt	14,212	14,797	16,626	20,165	16,998
Other liabilities	1,853	2,482	2,742	2,634	2,220
Total liabilities	(Won) 68,773	(Won) 86,825	(Won) 160,209	(Won) 175,193	\$ 147,680
Minority interest	21	221	308	71	60
Common stock	1,498	1,498	1,588	1,641	1,383
Additional paid-in capital	1,141	1,242	4,960	5,146	4,338
Other	(79)	1,005	1,087	2,048	1,727
Stockholders equity	2,560	3,745	7,635	8,835	7,448
Total liabilities, minority interest and stockholders equity	(Won) 71,354	(Won) 90,791	(Won) 168,152	(Won) 184,099	\$ 155,188

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- (1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.
 - (2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,186.3 to US\$1.00, the noon buying rate in effect on December 31, 2002 as quoted by the Federal Reserve Bank of New York in the United States.
 - (3) Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other investments.

Table of Contents**Profitability ratios and other data**

	Year ended December 31,			
	1999	2000	2001	2002
	(percentages)			
Net income as a percentage of:				
Average total assets (1)	0.68%	1.15%	0.92%	0.71%
Average stockholders' equity (1)	23.19	29.42	20.59	13.50
Dividend payout ratio (2)	9.83	1.61	15.06	1.80
Net interest spread (3)	2.68	3.17	3.17	3.71
Net interest margin (4)	3.18	3.68	3.57	4.02
Efficiency ratio (5)	44.03	44.04	44.77	57.44
Cost-to-average assets ratio (6)	2.13	2.01	2.17	4.18
Won loans (gross) as a percentage of Won deposits	97.64	101.53	104.25	115.68
Total loans (gross) as a percentage of total deposits	105.17	105.72	105.09	119.14

(1) Average balances are based on (a) daily balances for our primary banking operations and (b) quarterly balances for subsidiaries.

(2) Represents the ratio of total dividends declared on common stock as a percentage of net income.

(3) Represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.

(4) Represents the ratio of net interest income to average interest earning assets.

(5) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income, net of non-interest expense.

(6) Represents the ratio of non-interest expense to average total assets.

Capital ratios

	As of December 31,			
	1999	2000	2001	2002 (2)
	(percentages)			
Total capital adequacy ratio (1)	11.38%	11.18%	10.23%	10.41%
Tier I capital adequacy ratio (1)	7.26	6.82	7.09	6.62
Tier II capital adequacy ratio (1)	4.12	4.36	3.18	3.79
Average stockholders' equity as a percentage of average total assets	2.95	3.92	4.45	5.26

(1) Our capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Commission. The computation is based on our consolidated financial statements prepared in accordance with Korean GAAP. See Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.

(2) The method of calculating our capital and capital adequacy ratios was changed in 2002. Had we calculated these ratios based on the calculation method in use as of December 31, 2001, our Tier 1 capital ratio would have been 6.66%, our Tier 2 capital ratio would have been 3.86% and our capital adequacy ratio would have been 10.47%.

Credit portfolio ratios and other data

As of December 31,			
1999	2000	2001	2002

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	(in billions of Won, except percentages)			
Total loans	(Won) 44,945	(Won) 59,397	(Won) 120,894	(Won) 145,832
Total non-performing loans (1)	2,134	1,762	3,376	3,912
Other impaired loans not included in non-performing loans	4,399	4,145	3,513	2,680
Total of non-performing loans and other impaired loans	6,533	5,907	6,889	6,592
Total allowance for loan losses	2,623	2,394	3,508	5,195
Non-performing loans as a percentage of total loans	4.74%	2.97%	2.79%	2.68%
Non-performing loans as a percentage of total assets	2.99	1.94	2.01	2.13
Total of non-performing loans and other impaired loans as a percentage of total loans	14.54	9.94	5.70	4.52
Allowance for loan losses as a percentage of total loans	5.84	4.03	2.90	3.56

(1) Non-performing loans are defined as those loans, including corporate, retail and other loans, which are past due more than 90 days.

Table of Contents**Selected Statistical Information****Average Balance Sheets and Related Interest**

The following table shows our average balances and interest rates for the past three years.

	Year ended December 31,														
	2000 (1)				2001 (1)(2)				2002 (1)						
	Average Balance	Interest Income	Average		Average Balance	Interest Income	Average		Average Balance	Interest Income	Average				
	(3)	(4)(5)(6)(7)	Yield		(3)	(4)(5)(6)	Yield		(3)	(4)(5)(6)	Yield				
	(in billions of Won, except percentages)														
Assets															
Cash and interest-earning deposits in other banks	(Won)	2,701	(Won)	197	7.29%	(Won)	949	(Won)	59	6.22%	(Won)	1,734	(Won)	61	3.52%
Call loans and securities purchased under resale agreements		821		55	6.70		2,093		101	4.83		811		34	4.19
Trading securities		2,571		179	6.96		3,490		172	4.93		5,953		112	1.88
Investment securities (7)		17,623		1,652	9.37		21,152		1,540	7.28		25,090		1,419	5.66
Loans:															
Commercial and industrial		27,303		2,246	8.23		32,390		2,664	8.22		38,733		2,744	7.08
Construction loans		1,955		182	9.31		2,503		224	8.95		5,336		384	7.20
Other commercial		1,140		105	9.21		1,339		116	8.66		1,380		80	5.80
Mortgage and home equity		7,081		770	10.87		12,988		1,145	8.82		41,422		3,287	7.94
Other consumer		7,176		811	11.30		12,258		1,194	9.74		25,519		2,130	8.35
Credit cards (6)		5,518		982	17.80		9,938		1,615	16.25		19,840		3,166	15.96
Foreign commercial and industrial		1,087		84	7.73		1,120		65	5.80		1,255		33	2.63
		51,260		5,180	10.11		72,536		7,023	9.68		133,485		11,824	8.86
Total average interest earning assets		74,976		7,263	9.69		100,220		8,895	8.88		167,073		13,450	8.05
Cash and due from banks		2,221					2,804					4,697			
Foreign exchange contracts and derivatives		321					787					863			
Premises and equipment		1,016					1,118					2,033			

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Due from customers on acceptance	1,456			1,202			322			
Loan loss allowance	(2,130)			(2,250)			(4,127)			
Assets of discontinued operations	1,219			909			679			
Other non-interest earning assets	1,401			3,529			4,837			
Total average non-interest earning assets	5,504			8,099			9,304			
Total average assets	(Won) 80,480	(Won) 7,263	9.02%	(Won) 108,319	(Won) 8,895	8.21%	(Won) 176,377	(Won) 13,450	7.63%	

Table of Contents

Year ended December 31,											
2000 (1)				2001 (1)(2)			2002 (1)				
Average Balance (3)	Interest Expense	Average Yield		Average Balance (3)	Interest Expense	Average Yield	Average Balance (3)	Interest Expense	Average Yield		
(in billions of Won, except percentages)											
Liabilities											
Deposits											
Demand deposits	(Won) 345	(Won) 8	2.32%	(Won) 499	(Won) 8	1.60%	(Won) 598	(Won) 4	0.67%		
Certificates of deposit	1,878	129	6.87	2,023	123	6.08	2,120	102	4.81		
Other time deposits	26,660	2,051	7.69	33,231	2,397	7.21	66,454	3,260	4.91		
Savings deposits	15,976	438	2.74	23,665	446	1.88	35,206	413	1.17		
Mutual installment deposits	4,676	410	8.77	7,238	563	7.78	12,235	764	6.24		
Deposits (total)	49,535	3,036	6.13	66,656	3,537	5.31	116,613	4,543	3.90		
Call money	1,214	55	4.53	960	39	4.06	1,803	71	3.94		
Borrowings from the Bank of Korea	892	42	4.71	1,152	38	3.30	1,337	33	2.47		
Other short-term borrowings	3,876	291	7.51	7,717	520	6.74	9,077	488	5.38		
Secured borrowings	795	59	7.42	3,701	297	8.02	5,888	325	5.52		
Long-term debt	12,854	1,022	7.95	12,934	886	6.85	20,260	1,275	6.29		
Total average interest bearing liabilities	69,166	4,505	6.51	93,120	5,317	5.71%	154,978	6,735	4.35		
Demand deposits	1,677			1,871			2,934				
Foreign exchange contracts and derivatives	341			751			752				
Acceptances to customers	1,456			1,202			536				
Liabilities of discontinued operations	1,482			1,197			795				
Other non-interest bearing liabilities	3,205			5,360			7,110				
Total average non-interest bearing liabilities	8,161			10,381			12,127				
Total average liabilities	77,327	4,505	5.83	103,501	5,317	5.14%	167,105	6,735	4.03		
Stockholders equity	3,153			4,818			9,272				

**Total liabilities and
stockholders**

equity	(Won) 80,480	(Won) 4,505	5.60%	(Won) 108,319	(Won) 5,317	4.91%	(Won) 176,377	(Won) 6,735	3.82%
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- (1) Average balances and interest income and expenses for all periods have been restated to exclude the assets, liabilities and results of disposed subsidiaries that qualify for discontinued operations. See Note 4 to our consolidated financial statements.
 - (2) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.
 - (3) Average balances are based on (a) daily balances for our primary banking operations and (b) quarterly balances for subsidiaries.
 - (4) Interest income figures include dividends on securities and cash interest received on non-accruing loans. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Non-Accrual Loans and Past Due Accruing Loans.
 - (5) We do not invest in any tax-exempt securities.
 - (6) Interest income from credit cards includes principally cash advance fees of (Won)777 billion, (Won)1,271 billion and (Won)1,719 billion and interest on credit card loans of (Won)204 billion, (Won)273 billion and (Won)830 billion for the years ended December 31, 2000, 2001 and 2002, respectively.
 - (7) Information related to investment securities classified as available-for-sale has been computed using amortized cost, and therefore does not give effect to changes in fair value that are reflected as a component of stockholders' equity.

Table of Contents

The following table presents our net interest spread, net interest margin, and asset liability ratio for the past three years:

	Year ended December 31,		
	2000	2001	2002
	(percentages)		
Net interest spread (1)	3.17%	3.17%	3.70%
Net interest margin (2)	3.68	3.57	4.02
Average asset liability ratio (3)	108.40	107.62	107.80

(1) The difference between the average rate of interest earned on interest earning assets and the average rate of interest paid on interest bearing liabilities.

(2) The ratio of net interest income to average interest earning assets.

(3) The ratio of average interest earning assets to average interest bearing liabilities.

Analysis of Changes in Net Interest Income Volume and Rate Analysis

The following table provides an analysis of changes in interest income, interest expense and net interest income between changes in volume and changes in rates for 2001 compared to 2000 and 2002 compared to 2001. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to absolute volume and rate change.

	Fiscal 2001 vs. Fiscal 2000						Fiscal 2002 vs. Fiscal 2001					
	Increase/(decrease)						Increase/(decrease)					
	due to change in						due to change in					
	Volume		Rate		Total		Volume		Rate		Total	
	(in billions of Won)											
Interest earning assets												
Cash and interest earning deposits in other banks	(Won)	(112)	(Won)	(26)	(Won)	(138)	(Won)	35	(Won)	(33)	(Won)	2
Call loans and securities purchased under resale agreements		65		(19)		46		(55)		(12)		(67)
Trading securities		54		(61)		(7)		81		(141)		(60)
Investment securities		296		(408)		(112)		258		(379)		(121)
Loans												
Commercial and industrial		418				418		479		(399)		80
Construction loans		49		(7)		42		211		(51)		160
Other commercial		18		(7)		11		3		(39)		(36)
Mortgage and home equity		543		(168)		375		2,267		(125)		2,142
Other consumer		508		(125)		383		1,128		(192)		936
Credit cards		725		(92)		633		1,581		(30)		1,551
		2		(21)		(19)		7		(39)		(32)

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Foreign commercial and industrial						
Total interest income	2,566	(934)	1,632	5,995	(1,440)	4,555
Interest bearing liabilities						
Deposits						
Demand deposits	3	(3)		1	(5)	(4)
Certificates of deposit	10	(16)	(6)	6	(27)	(21)
Time deposits (other than certificates of deposit)	480	(134)	346	1,816	(953)	863
Savings deposits	171	(163)	8	171	(204)	(33)
Mutual installment deposits	204	(51)	153	329	(128)	201
Call money	(11)	(5)	(16)	33	(1)	32
Borrowings from the Bank of Korea	10	(14)	(4)	6	(11)	(5)
Other short-term borrowings	262	(33)	229	83	(115)	(32)
Secured borrowings	233	5	238	140	(112)	28
Long-term debt	6	(142)	(136)	466	(77)	389
Total interest expense	1,368	(556)	812	3,051	(1,633)	1,418
Total net interest income	(Won) 1,198	(Won) (378)	(Won) 820	(Won) 2,944	(Won) 193	(Won) 3,137

Table of Contents**Exchange Rates**

The tables below set forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2002, which was (Won)1,186.3 to US\$1.00. We do not intend to imply that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all. On June 13, 2003, the noon buying rate was (Won)1,192.0 = US\$1.00.

	Won per U.S. dollar (noon buying rate)			Period-
	Low	High	Average (1)	End
1998	1,196.0	1,812.0	1,367.3	1,206.0
1999	1,125.0	1,243.0	1,188.2	1,136.0
2000	1,105.5	1,267.0	1,140.0	1,267.0
2001	1,234.0	1,369.0	1,293.4	1,313.5
2002	1,160.6	1,332.0	1,242.0	1,186.3
December 2002	1,186.3	1,221.0		
2003 (through June 13)	1,164.6	1,262.0	1,204.7	1,192.0
January 2003	1,164.6	1,197.3		
February	1,173.0	1,206.0		
March	1,184.6	1,260.0		
April	1,204.0	1,262.0		
May	1,192.0	1,217.0		
June (through June 13)	1,192.0	1,203.0		

Source: Federal Reserve Bank of New York.

(1) The average of the noon buying rates on the last business day of each month during the relevant period (or portion thereof).

Table of Contents

Item 3B. Capitalization and Indebtedness

Not Applicable

Item 3C. Reasons For The Offer And Use Of Proceeds

Not Applicable

Item 3D. Risk Factors

Risks relating to our retail credit portfolio

As we have been experiencing increases in delinquencies in retail loans, including our mortgage and home equity loan and our credit card portfolios, we may not be able to sustain the rate of growth or credit quality of our retail loans, including, in particular, our mortgage and home equity loans and our credit card-related loans.

In recent years, consumer debt has increased rapidly in Korea. This has also resulted in increased delinquencies. As the leading retail bank in Korea, our portfolio of retail loans, in particular, mortgage and home equity loans, and the aggregate outstanding balance of our credit card accounts (particularly cash advances and credit card loans) have grown from (Won)16,218 billion and (Won)8,321 billion, respectively, as of December 31, 2000 to (Won)74,261 billion and (Won)22,643 billion, respectively, as of December 31, 2002, as a result of both the merger with H&CB effective November 1, 2001 and significant organic growth. As of December 31, 2002, our retail loans and credit card accounts represented 50.9% and 15.5% of our total lending, respectively. The growth of our retail lending and credit card businesses offered higher margins than other lending activities and contributed significantly to the increase in our interest income and our profitability. During the second half of 2002, we were unable to sustain this growth due to increasing market saturation, competition and government regulation in the retail and credit card segments and other factors, and we may not be able to achieve such growth in the future, which may hurt our future performance and prospects.

The growth of our retail loan and credit card portfolios in recent years has been accompanied by increasing delinquencies, which has required us to increase our loan loss provisions and charge-offs and has adversely affected our financial condition and results of operations during and for the year ended December 31, 2002. Our non-performing retail loans (defined as those that are over 90 days past due) increased from (Won)166 billion as of December 31, 2000 to (Won)1,276 billion as of December 31, 2002, as a result of both the merger with H&CB and higher delinquencies, and we expect further increases in 2003. According to the Financial Supervisory Service, on a Korean GAAP basis, non-performing loans at 19 banks in Korea rose approximately 24% to (Won)18.7 trillion in March 2003, up from (Won)15 trillion in December 2002, due mainly to escalating overdue loans in the credit card sector and struggling corporate clients. In our credit card segment, outstanding balances overdue by 30 days or more increased from (Won)227 billion as of December 31, 2000 to (Won)2,440 billion as of December 31, 2002, and our charge-offs, net of recoveries, increased from (Won)7 billion in 2000 to (Won)1,372 billion in 2002. Our delinquency ratio (which represents the ratio of amounts that are overdue by one day or more to total outstanding balances) with respect to our credit card portfolio was 13.7%, 7.8%, and 20.6% as of December 31, 2000, December 31, 2001 and December 31, 2002, respectively. Credit card delinquencies may increase further in the future as a result of, among other things, adverse economic developments in Korea and the inability of

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Korean consumers to manage increased household debt, as reflected in the growing practice among some credit card holders of obtaining multiple credit cards and using cash advances from one card to make payments due on others.

In addition, in line with industry practice, we have restructured a large portion of delinquent credit card account balances (defined as balances overdue for one day or more) as loans. As of December 31, 2002, these loans amounted to (Won)1,286 billion. Because these loans are not treated as being

Table of Contents

delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding loans.

Our increased exposure to consumer debt means that we are more exposed to changes in economic conditions affecting Korean consumers. Accordingly, economic difficulties in Korea that have a significant adverse effect on Korean consumers could result in reduced growth and further deterioration in the credit quality of our retail loan and credit card portfolios. For example, a rise in unemployment or an increase in interest rates in Korea, which have been at historically low levels in recent years, could have an adverse impact on the ability of retail borrowers and credit card holders to make payments and increase the likelihood of potential defaults, while reducing demand for retail loans and credit cards. In addition, there is a risk that our credit card risk evaluation procedures may not identify significant credit quality deterioration on a timely basis.

We face intense competition in the retail lending and credit card businesses.

Competition in the retail lending and credit card segments is intense. Most Korean commercial banks and financial institutions are focusing their business on, and are engaged in aggressive marketing campaigns and making significant investments in, these segments. In particular, we have been experiencing increased competition in the credit card segment with the market entry of additional credit card issuers, including member companies of chaebols, foreign credit card companies and credit card subsidiaries of Korean banks. The growth and profitability of our retail and credit card operations may decline as a result of growing market saturation in the retail lending and credit card segments, increased interest rate competition, pressure to lower the fee rates applicable to our credit cards (particularly merchant fee rates) and higher marketing expenses. These factors could adversely affect the performance and credit quality of these business segments.

Government regulation of our credit card operations has increased significantly.

Due to the rapid increase in consumer debt in Korea in recent years, the Korean government has adopted regulations designed to restrain the rate of growth in cash advances, credit card loans and credit card usage generally, and has instituted enforcement proceedings, including significant proceedings against Kookmin Credit Card, the effect of which has been, and may in the future be, to constrain our credit card operations. In March 2002, the Financial Supervisory Commission of Korea imposed sanctions, ranging from warnings and administrative fines to partial business suspensions, on substantially all Korean credit card issuers as a result of alleged unlawful or unfair practices discovered during its industry-wide inspection. In connection with these sanctions, Kookmin Credit Card was warned against, and fined (Won)50 million for, issuing cards to non-qualified minors and, in a number of instances, for issuing cards to applicants who unlawfully used another person's name in their credit card applications. In April 2002, the Korea Fair Trade Commission ordered four domestic-brand credit card companies to pay administrative fines in the aggregate amount of (Won)23.4 billion in connection with certain collusion and anti-competitive practices in fixing commission fees and credit card interest rates for cash advances, installment purchases and overdue accounts. Kookmin Credit Card was fined (Won)6.96 billion for anti-competitive behavior.

The Korean government has also enacted a number of changes to the laws governing the reporting by credit card issuers and retail lenders of their outstanding lending volumes. In particular, the Financial Supervisory Commission and the Financial Supervisory Service have increased minimum provisioning levels for credit card accounts. The Financial Supervisory Commission and the Financial Supervisory Service have also announced a number of changes to the rules governing the evaluation and reporting of credit card balances, as well as the procedures governing which persons may receive credit cards.

Table of Contents

In addition, the Korean government has revised the calculation formula of the capital adequacy ratios applicable to credit card companies. These ratios are calculated under Korean GAAP. Under the revised regulations, a credit card company must have a minimum capital adequacy ratio of 8%. As of December 31, 2002, Kookmin Credit Card's capital adequacy ratio was 10.23% and its delinquency ratio (calculated by excluding the credit card accounts transferred in asset-backed securitization and as reported to the Financial Supervisory Service) was 11.38%. Furthermore, the Financial Supervisory Service has revised the calculation formula for the delinquency ratio to include assets under management, with effect from April 2003. As of December 31, 2002, using the revised formula, Kookmin Credit Card's delinquency ratio would have been 9.62%. A credit card company may be subject to certain sanctions by the Financial Supervisory Commission if (1) its delinquency ratio is 10% or more for one month or more as of the end of each fiscal quarter and (2) it recorded a net loss during the most recent fiscal year. We cannot assure you that Kookmin Credit Card will satisfy the minimum requirements set forth in the revised regulations.

In light of the deteriorating liquidity position of a number of credit card companies in Korea, in March and April 2003 the Korean government announced several measures intended to support the credit card industry. These included:

the relaxation or delay in the implementation of some of the new regulatory restrictions applicable to credit card issuers, such as restrictions on cash advance fee rates and on the level of cash advance and card loan receivables as a percentage of total receivables; and

a request that lenders extend the maturity of commercial paper of credit card companies due in June without additional terms or conditions.

However, we believe that these relief measures are likely to be temporary, and that the overall effect of the Korean government's recent regulatory initiatives has been, and may continue to be, to constrain the growth and profitability of our credit card operations. The Korean government may also adopt further regulatory changes in the future that affect the credit card industry. For example, the Korean government could decide to discontinue tax incentives that currently apply to credit card purchases. Accordingly, our credit card operations in the future may be adversely affected by further changes in government regulation and policy.

For more details regarding these enacted and proposed changes, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

Our credit card subsidiary, Kookmin Credit Card, may experience liquidity problems, which could hurt our financial condition and results of operations.

Credit card companies, including our subsidiary, Kookmin Credit Card, are among the largest Korean corporate bond issuers. Recently, however, demand for Korean corporate bonds has declined, including as a result of recent accounting scandals involving SK Global and weak conditions in the Korean economy. In addition, demand for bonds issued by credit card companies has declined as a result of concerns regarding their financial health triggered by increasing credit card delinquency levels. According to the Financial Supervisory Service, approximately (Won)51 trillion of Korean credit card companies' bonds and commercial paper, including (Won)2.5 trillion of bonds issued by Kookmin Credit Card, is scheduled to mature in 2003. Kookmin Credit Card may face a liquidity shortage if it is not able

to refinance its maturing debt obligations. If Kookmin Credit Card experiences liquidity problems, it may

have to rely on more expensive funding sources or curtail its business operations, which may adversely affect our overall financial condition and results of operations.

Table of Contents

Government regulation of our retail lending operations has increased significantly.

Due to a rapid increase in retail loans and increased credit risks relating thereto, the Financial Supervisory Commission increased the minimum provisioning requirements for retail loans with effect from the second quarter of 2002. In addition, due to a rapid increase in loans secured by housing, the Financial Supervisory Commission has implemented certain regulations that are designed to reduce the growth of such loans. Furthermore, in November 2002, the Financial Supervisory Commission and the Financial Supervisory Service issued guidelines to enact a number of new policies that will strengthen oversight over provisioning levels and require banks to change certain aspects of their retail lending operations. These regulations and other proposed regulations may adversely affect our current or future financial condition, results of operations and capital adequacy. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Recent Regulations Relating to Retail Household Loans.

We are in the process of integrating our credit card operations, which has resulted in labor unrest and may also result in customer loss.

Following the merger with H&CB, we conduct our credit card business through the BC Card brand, operated by our internal business unit, and the Kookmin Card brand, operated by Kookmin Credit Card. On May 30, 2003, we entered into a merger agreement with Kookmin Credit Card to merge its operations into us and passed a board resolution to approve the merger. We plan to integrate Kookmin Credit Card's business operations with our BC Card business unit. The integrated unit will have operational autonomy with respect to its business and will be integrated based on the platform of Kookmin Credit Card. Future decisions with respect to integration of these operations may adversely affect our credit card business. For example, in May 2003, the employees of Kookmin Credit Card began a strike demanding that the contemplated merger not go forward. We recently reached an agreement with the Kookmin Credit Card employees and they returned to work. However, in the future, there may be further labor disruptions, and our labor unions may oppose our integration plans. In addition, unifying the two brands could result in the loss of overlapping customers who prefer the availability of multiple cards.

Risks relating to our small- and medium-sized enterprise loan portfolio

We have significant exposure to small- and medium-sized enterprises, and any financial difficulties experienced by these customers may result in a deterioration of our asset quality and have an adverse impact on us.

One of our core businesses is lending to small- and medium-sized enterprises (as defined under Item 4B. Business Overview Corporate Banking Small- and Medium-sized Enterprise Banking.) We estimate, based on our internal classifications made for Korean GAAP purposes, that our loans to small- and medium-sized enterprises increased from (Won)30,498 billion as of December 31, 2001 to (Won)38,871 billion as of December 2002. During the period, we estimate that non-performing loans to small- and medium-sized enterprises also increased from (Won)1,108 billion to (Won)1,391 billion, representing a decrease in the non-performing loan ratio from 3.63% as of December 31, 2001 to 3.58% as of December 31, 2002. Financial difficulties experienced by our small- and medium-sized enterprise customers as a result of, among other things, continued weakness in the economy may lead to a deterioration in asset quality of our loans to this customer segment and have an adverse impact on us. Recently, press reports have indicated that the industry-wide delinquency rates for loans and other credits to small- and medium-sized enterprises have been sharply rising, and we expect our delinquency rate for those loans to rise in 2003.

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An integral part of our recent strategy relating to our small- and medium-enterprise lending business is to maintain the growth of our loans to small- and medium-sized enterprises by focusing on

Table of Contents

new small office/home office customers, or SOHOs. Many of these SOHOs represent sole proprietorships, individual business interests or very small corporations and are often dependent on a limited number of suppliers or customers. SOHOs constitute a relatively new customer base within the small- and medium-sized enterprise segment. However, SOHOs tend to be affected to a greater extent than larger corporate borrowers by fluctuations in the Korean economy. In addition, SOHOs often maintain less sophisticated financial records than other corporate borrowers. We do not have a substantial history of experience with SOHOs and are less able to judge the level of risk inherent in these customers. Accordingly, although we intend to manage our exposure to these borrowers closely in order to prevent any deterioration in the asset quality of our loans to this segment, we may not be able to do so.

Risks relating to our strategy

Although increasing our fee income is an important part of our strategy, we may not be able to do so.

We have historically relied on interest income as our primary revenue source. To date, except for fees related to our credit card business, fees related to the National Housing Fund and trust management fees, we have not generated significant fee income. While we intend to develop new sources of fee income as part of our business strategy, our ability to do so will be affected by the extent to which our customers generally accept the concept of fee-based services. The willingness of customers to pay fees in return for value-added services has not been broadly tested in the Korean market and their reluctance to do so will adversely affect the implementation of this aspect of our strategy. In addition, one element of our fee-based strategy relates to our corporate customers. There is a risk that our reduced focus on large corporate lending will hamper our ability to attract fee business from those customers, in particular our ability to compete with other banks and financial institutions offering fee-based services as a part of a broader lending relationship.

We may suffer customer attrition due to our strategy of avoiding price competition.

We currently intend to pursue a strategy of maintaining or enhancing our margins where possible and avoid, to the extent possible, entering into price competition. In order to execute this strategy we will need to maintain relatively low interest rates on our deposit products while charging relatively higher rates on loans. If other banks and financial institutions adopt a strategy of expanding market share through interest rate competition, we may suffer customer attrition due to rate sensitivity, particularly in our core retail segment. In addition, we may in the future decide to compete to a greater extent based on interest rates, which could lead to a decrease in our net interest margins. Any future decline in our customer base or our net interest margins as a result of our future competition strategy could have an adverse effect on our results of operations and financial condition. See Risks relating to competition Intense competition for deposits following the deregulation of interest rate restrictions on demand deposits may lead to a loss of our deposit customers or an increase in our funding costs.

Risks relating to competition

Competition in the Korean banking industry is intense, and we may experience declining margins as a result.

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We compete principally with other financial institutions in Korea, including Korean banks and branches of foreign banks operating in Korea. In the retail and small- and medium-sized enterprise lending business, which has been our traditional core business, competition has increased significantly and is expected to increase further. Most Korean banks have indicated their intention to target retail customers and small- and medium-sized enterprises as they scale back their exposure to large corporate borrowers. The resulting intense and increasing competition has made and continues to

Table of Contents

make it more difficult for us to secure retail, credit card and small- and medium-sized customers with the credit quality and on credit terms necessary to achieve our business objectives in a commercially acceptable manner.

In addition, we believe regulatory reforms and the general modernization of banking practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign financial institutions, either by themselves or in partnership with existing Korean financial institutions, will seek to compete with us in providing financial and related services. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years. We expect that this merger activity will continue. Some of the banks resulting from these other mergers may, by virtue of the increased size, provide significantly greater competition. Our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

We now face full competition with respect to our mortgage business, which may result in a further decrease of our market share and adversely affect our margins.

Until 1997, by law, H&CB was the only financial institution in Korea that could offer a full range of mortgage products. Among other things, it had the exclusive ability to offer mortgages with terms longer than ten years, provide housing-related deposit accounts and offer preferential rights to subscribe for newly built apartments.

In 1997, the laws giving H&CB exclusive rights to offer these mortgage-related products began to be repealed. By March 2000, all commercial banks in Korea could offer a full range of mortgage products, and H&CB began to lose market share. The increased competition in the mortgage sector has also contributed to lower margins from our mortgage lending activities. While we continue to hold the largest share of this market, we may not be able to maintain our market share or margins with respect to mortgage lending in the face of increased competition. Any decrease in such market share or margins may adversely affect our financial condition and results of operations.

Intense competition for deposits following the deregulation of interest rate restrictions on demand deposits may lead to a loss of our deposit customers or an increase in our funding costs.

In January 2003, the Bank of Korea announced that, as one of its proposed monetary policy objectives for 2003, it is contemplating completing the final phase of interest rate deregulation measures. The Bank of Korea has been moving to deregulate this market since 1991. Among other things, the Bank of Korea announced that it would consider removing interest rate restrictions applicable to demand deposits. This would include, for example, lifting the 1% per annum deposit interest rate ceiling applicable to passbook accounts and demand deposits offered by commercial banks, which had been imposed to protect Korean banks from excessive competition. The Bank of Korea has not, however, indicated when the proposed deregulation will be implemented. However, if this limitation is removed, banks competing for our deposit customers would be able to freely increase the interest rates on their deposit products, and we could experience a loss of our deposit customers or an increase in our funding costs.

Table of Contents

Risks relating to our large corporate loan portfolio

We have exposure to the largest Korean commercial conglomerates, known as chaebols, and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us.

Of our 20 largest corporate exposures as of December 31, 2002, 10 are companies that are members of the 30 largest chaebols in Korea. As of that date, the total amount of our exposures to the 30 largest chaebols was (Won)6,675 billion, or 3.73% of our total exposures, of which (Won)290 billion, or 4.34%, were classified as substandard or below. If the quality of the exposures we have extended to chaebols declines, we would require substantial additional loan loss provisions, which would adversely affect our results of operations, financial condition and capital adequacy.

In particular, we have significant exposure to a number of former Hyundai Group, former Daewoo Group companies and SK Group companies, a number of which have been experiencing financial difficulties. For example:

As a result of their deteriorating financial condition, several former Hyundai Group companies, including Hyundai Engineering & Construction, Hyundai Petrochemical and Hyundai Merchant Marine, have required assistance in recent years from their creditor financial institutions, in the form of additional loans, extensions of maturities of various outstanding payment obligations, debt-equity swap transactions, guarantees of overseas borrowings and injections of additional capital. In addition, restructuring procedures under the new Corporate Restructuring Promotion Act were commenced in respect of Hyundai Petrochemical.

In 1999, the principal creditor banks of Daewoo Group commenced formal workout procedures with respect to 12 member companies of Daewoo Group, including Daewoo Corporation, Daewoo Motors, Daewoo Electronics, Daewoo Heavy Industries, Daewoo Telecom and Ssangyong Motors. Many of these companies are currently subject to liquidation proceedings or have been liquidated, are under workouts or reorganization proceedings, have been split up into more than one company or are looking for purchasers.

In March 2003, the principal creditor banks of SK Global, a member company of the SK Group, commenced corporate restructuring procedures against SK Global after the company publicly announced that its financial statements understated its debt by (Won)1.1 trillion and overstated its profits by (Won)1.5 trillion. This admission resulted from a government investigation of several SK Group companies for unlawful stock transactions and accounting fraud, as a result of which 10 directors and officers of SK Group companies were indicted. Subsequent press reports indicate that the actual liabilities of SK Global exceeded its assets by approximately (Won)4.4 trillion as of December 31, 2002 on a non-consolidated basis. These banks, including us, agreed to a temporary rollover of approximately (Won)6.6 trillion of SK Global's debt until June 18, 2003, subject to extension for an additional month. Upon expiration of the rollover period, the creditor banks may decide to put SK Global into corporate restructuring or may decide instead to start bankruptcy proceedings against SK Global. As of May 28, 2003, we had outstanding exposure of (Won)453 billion to SK Global.

Table of Contents

As a result of these various difficulties, we have increased our allowance for loan losses for these loans. With respect to some borrowers, we have already charged off or sold our previous outstanding exposures. The table below summarizes our exposures to these groups and their significant member companies:

As of December 31, 2002					
	Outstanding	% of Total	% of Exposure	Allowance for	Allowance for
	Exposure (1)	Exposure	Classified as	Loan	Loan Losses,
			Substandard	Losses,	Guarantees and
			or Below	Guarantees and	Acceptances as a
				Acceptances	% of Exposure
(in billions of Won, except percentages)					
Former Hyundai Group (Total)	(Won) 1,652	0.92%	16.97%	(Won) 103	6.26%
Hyundai Capital	266	0.15		1	0.38
Hyundai Merchant Marine	259	0.14	40.14	49	18.91
Hyundai Petrochemical	176	0.10	100.00	37	21.15
Kia Motors Corporation	168	0.09		2	1.14
Hyundai Engineering & Construction	126	0.07		9	7.20
SK Group (Total)	647	0.36	28.73	84	12.99
SK Global (2)	186	0.10	100.00	80	42.95
Former Daewoo Group (Total) (3)	259	0.14	24.73	46	17.79
Ssangyong Motor Company	111	0.06		9	7.69
Daewoo Electronics	37	0.02	100.00	37	100.00
Daewoo International	21	0.01	100.00		1.62

(1) Includes loans, debt and equity securities (including collateralized bond obligations) and guarantees and acceptances.

(2) As of May 28, 2003, we had outstanding exposure of (Won)453 billion to SK Global.

(3) Includes our nine largest exposures to former Daewoo Group companies.

We cannot assure you that the allowances we have established against these exposures will be sufficient to cover all future losses arising from these exposures. In addition, with respect to those companies that are in or in the future enter into workout or liquidation proceedings, we may not be able to make any recoveries against such companies. We may, therefore, experience future losses with respect to those loans.

We have exposure to companies that are currently or may in the future be put in restructuring, and we may suffer losses as a result of additional loan loss provisions required and/or the adoption of restructuring plans with which we do not agree.

As of December 31, 2002, our loans and guarantees and acceptances to companies that were in workout, corporate restructuring, composition or corporate reorganization amounted to (Won)1,567 billion or 1.06% of our total loans and guarantees and acceptances, of which (Won)1,141 billion or 72.8% was classified as substandard or below. As of the same date, our allowances for losses on these loans and guarantees and acceptances amounted to (Won)622 billion, or 39.7% of these loans. These allowances may not be sufficient to cover all future losses arising from our exposure to these companies. Furthermore, in the event that any of our borrowers become subject to corporate restructuring procedures, we may be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (and 75% or

more of the total outstanding secured debt, if the restructuring plan includes the restructuring of existing secured debt) of the borrower, or to dispose of our credits to other creditors on unfavorable terms.

Table of Contents

Our current allowances for losses on loans and guarantees to construction companies may not be sufficient to cover all future related losses.

We have established allowances for losses on loans and guarantees to construction companies that we consider to have a greater likelihood of becoming non-performing. As of December 31, 2002, we had loans and guarantees outstanding to construction companies in the amount of (Won)6,442 billion, or 4.3% of our total loans and guarantees, of which (Won)621 billion or 9.64% was classified as substandard or below. As of the same date, our allowance for losses on these loans and guarantees amounted to (Won)424 billion, or 68.3% of the amount classified as substandard or below and 6.6% of the total. Most of our exposure to construction companies consists of loans to small- and medium-sized enterprises. These allowances may not be sufficient to cover all future losses arising from our exposure to construction companies.

The Financial Supervisory Commission may increase minimum reserve requirements for corporate loans, which could require us to increase our provisions under Korean GAAP.

According to a press report in February 2003, the Financial Supervisory Service declared that it would monitor the corporate loan portfolios of Korean banks with respect to large corporate, small- and medium-sized enterprises and SOHOs. Based on the results of that monitoring process, the Financial Supervisory Commission expressed its intent to institute a system in 2003 by which Korean banks would, under Korean GAAP, calculate their loan loss allowances and be required to establish reserves based on these allowances. Although the Financial Supervisory Service has not yet instituted this system, depending on the method by which loan loss allowances are calculated, we may need to provide for additional allowances under Korean GAAP with respect to our corporate loans. Although these requirements should not affect our loan loss allowances under U.S. GAAP, actions that we undertake in connection with these requirements may have an adverse effect on our operations or our financial condition.

Other risks relating to our business

We may not be able to realize all of the benefits we anticipate from the merger between the former Kookmin Bank and H&CB.

We were created through a merger between the former Kookmin Bank and H&CB. The success of the merger depends, in part, on our ability to realize the anticipated synergies, growth opportunities and, to a lesser extent, cost savings from combining those two businesses. The realization of these anticipated benefits may be blocked, delayed or reduced as a result of numerous factors, some of which are outside our control. These factors include:

unforeseen contingent risks or latent liabilities relating to the merger that may become apparent in the future;

difficulties in managing a much larger business;

loss of key personnel; and

labor unrest.

Accordingly, we cannot assure you that we will realize the anticipated benefits of the merger or that the merger will not adversely affect the combined business, financial condition and results of operations of the two predecessor banks.

Our management is implementing a business plan to effectively combine the operations of the former Kookmin Bank and H&CB. The full integration of the operations of the two predecessor banks

Table of Contents

continues to require significant amounts of time, financial resources and management attention. Although the implementation of the operations is nearly complete, we may continue to experience disruptions of our ongoing businesses and information technology, or IT, systems, or inconsistencies in standards, controls, procedures and policies and a reduction in employee morale, each of which may adversely affect our ability to maintain relationships with customers and to retain key personnel.

We do not prepare interim financial information on a U.S. GAAP basis.

Neither we nor our subsidiaries, including Kookmin Credit Card, are required to, and we and our subsidiaries do not, prepare interim financial information on a U.S. GAAP basis. U.S. GAAP differs in significant respects from Korean GAAP, particularly with respect to the establishment of provisions and loan loss allowance. See Item 5B. Liquidity and Capital Resources Selected Financial Information under Korean GAAP and Reconciliation with Korean GAAP. As a result, our provision and allowance levels reflected under Korean GAAP in our results as of the end of and for 1999, 2000, 2001 and 2002 may differ significantly from comparable figures under U.S. GAAP for these and future periods.

A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.

A substantial portion of our loans is secured by real estate. Due to, among other things, intense competition among banks and significantly increasing mortgage loans and other real estate-secured loans in 2002, our loan-to-value ratio, which is a measure of the amount of a secured loan to the assessed value of the collateral securing the loan, has increased. This increase, together with any future downturn in the Korean economy that leads to a decline in real estate values, could result in shortfalls in our collateral values. Any decline in the value of the real estate or other collateral securing our loans may require us to take additional loan loss provisions.

In Korea, foreclosure on collateral generally requires a written petition to a court. An application, when made, may be subject to delays and administrative requirements that may decrease the value of such collateral. We may not be able to realize the full value on our collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of collateral. A failure to recover the expected value of a collateral security could expose us to a potential loss. Any unexpected losses could reduce our stockholders' equity and adversely affect our business.

The secondary market for corporate bonds in Korea is not fully developed, and, as a result, we may not be able to realize the full marked-to-market value of debt securities we hold at the time of any sale of such securities.

As of December 31, 2002, we held debt securities issued by Korean companies and financial institutions (other than those issued by government-owned or -controlled enterprises or financial institutions, which include the Korea Electric Power Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea) with a total book value of (Won)3,996 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates, which may be significant in light of the current low interest environment, or a deterioration in the financial and economic condition of any particular issuer or in Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of these securities as reflected on our balance sheet is determined by references to suggested prices posted by Korean rating agencies. These

valuations, however, may

Table of Contents

differ significantly from the actual value that we may realize in the event we elect to sell these securities. As a result, we may not be able to realize the full marked-to-market value at the time of any such sale of these securities and thus may incur additional losses.

We may be required to make transfers from our general banking operations to cover shortfalls in our guaranteed trust accounts, which could have an adverse effect on our results of operations.

We manage a number of monetary trust accounts. Under Korean law, trust account assets of a bank are required to be segregated from the assets of that bank's general banking operations. Those assets are not available to satisfy the claims of a bank's depositors or other creditors of its general banking operations. For some of the trusts we manage, we have guaranteed the principal amount of the investor's investment and, in certain cases, we have also guaranteed a fixed rate of interest. In January 1999, new legislation prevented commercial banks in Korea from offering new trust accounts for which they guaranteed both the principal amount of the investment and a fixed rate of return. In addition, as a result of recent government announcements discouraging banks from providing trust accounts that provide a principal guarantee, we are phasing out such accounts. However, we will continue to provide guarantees with respect to existing accounts, which contain these guarantee provisions.

If, at any time, the income from our guaranteed trust accounts is not sufficient to pay any guaranteed amount, we will have to cover the shortfall first from the special reserves maintained in these trust accounts, then from our fees from the relevant trust accounts and finally from funds transferred from our general banking operations. As of December 31, 2002, we had (Won)3,697 billion in trust account assets for which we provided guarantees of both the principal and interest or of the principal alone. Substantially all of these guarantees were principal-only guarantees. Transfers from general banking operations to cover deficiencies in guaranteed trust accounts amounted to (Won)269 billion in 2000 and (Won)31 billion in 2001. In 2002, there were no such transfers. We may be required to make additional transfers from our general banking operations to cover shortfalls in our guaranteed trust accounts in the future. Such transfers may adversely impact our results of operations.

Risks relating to liquidity and capital management

An increase in interest rates would decrease the value of our debt securities portfolio and raise our funding costs while reducing loan demand, and may adversely affect us.

Interest rates in Korea have fluctuated significantly in recent years. In 2000 and 2001, interest rates declined significantly to historically low levels as the government sought to stimulate economic growth through active rate-lowering measures. In 2002, interest rates remained steady at these low levels. All else being equal, an increase in interest rates could lead to a decline in the value of the debt securities in our portfolio. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. Fluctuations in interest rates will therefore require us to re-balance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability. In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition and repayment ability of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our credit portfolio.

Our funding is highly dependent on short-term deposits, which dependence may adversely affect our operations.

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We meet a significant amount of our funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2002, approximately 89.6% of our

Table of Contents

deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of our customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In particular, we estimate that, setting aside the effects of the merger, the recent increase in our short-term deposits is significantly attributable to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of the current historically low interest rate environment. Accordingly, a substantial number of our short-term deposit customers may fail to roll over their deposits with the emergence of higher-yield investment opportunities. If a substantial number of depositors were to fail to roll over deposited funds upon maturity or to withdraw their funds, our liquidity position could be adversely affected. We may also be required to seek more expensive deposits or other sources of short-term and long-term funds to finance our operations.

We may be required to raise additional capital to maintain our capital adequacy ratios, which we may not be able to do on favorable terms or at all.

Pursuant to the capital adequacy guidelines of the Financial Supervisory Commission, which are derived from standards established by the Bank for International Settlements, we are required to maintain a minimum combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated Korean GAAP basis. The amount of Tier II capital that can be included in calculating this combined ratio is up to 100% of the amount of Tier I capital included in the calculation. As of December 31, 2002, our Tier I capital adequacy ratio was 6.62%, and our combined Tier I and Tier II capital adequacy ratio was 10.41%. Our capital base and our capital adequacy ratios may decrease in the event that we are not able to adequately deploy the funds that our customers deposit with us because our deposit base increases rapidly or if our results of operations or financial condition deteriorates.

To support our operations in the future, we may be required to obtain additional Tier I or Tier II capital in order to maintain our capital adequacy ratios above the minimum required levels. If we require additional capital in the future, we cannot guarantee that we will be able to obtain such capital on favorable terms, or at all. In addition, our ability to obtain additional capital may be restricted further to the extent commercial banks in Korea or banks from other Asian countries are seeking to raise capital at the same time.

Risks relating to government regulation and policy

The Korean government has designated additional managers to the National Housing Fund and is contemplating other changes, which may cause our fee income from managing the National Housing Fund to be reduced.

The National Housing Fund is a government fund that provides mortgage lending to low-income households and construction loans to fund projects to build small- and medium-sized housing. From 1981 until 2001, H&CB solely managed the operations of the National Housing Fund and received a monthly management fee. We have received that fee since the merger took place. In the first ten months of 2001, H&CB received total management fees of (Won)149 billion from these operations, and we derived (Won)33 billion of management fees from these operations in the last two months of 2001, following the merger. In 2002, we received total management fees of (Won)198 billion.

In January 2000, the relevant law that had specified H&CB as the institution that manages the National Housing Fund was amended to provide that the Ministry of Construction and Transportation is to designate the institution that will perform this function. After the amendment of the law, the Ministry of Construction and Transportation designated H&CB to manage the National Housing

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Fund until additional managers were designated. The ministry announced in September 2001 that it had formulated a plan to improve the overall management of the National Housing Fund. As part of that

Table of Contents

plan, the Ministry of Construction and Transportation completed the process of reviewing with outside consultants the existing management and fee structure for the National Housing Fund. As a result, on November 1, 2002 the ministry designated two other financial institutions as managers, together with us, of the National Housing Fund with a view to diversify its management. We understand that the Ministry of Construction and Transportation is also planning to change the basis of calculating fees related to the National Housing Fund. If the ministry decides to lower existing management fees or to designate additional institutions to manage the National Housing Fund, our fee income from managing it will be reduced compared to current levels, which in turn would have a further adverse effect on our results of operations.

Furthermore, the Ministry of Construction and Transportation also announced that it intends to strengthen existing regulations to provide for liability of managers of the National Housing Fund, where they have clear responsibility for non-performing National Housing Fund loans or where losses result due to their negligent management. As a result, we may in the future be required to reimburse the National Housing Fund for its losses, including those that relate to the deterioration of the credit quality of its loans, to the extent such losses are deemed to have resulted from our negligence in managing the fund.

The Korean government from time to time provides policy loans, which we may choose to accept, and may announce policies involving the participation of financial institutions, including us, in providing financial support for particular sectors.

The Korean government has in the past provided and may continue to provide policy loans, which encourage lending to particular types of borrowers. It has generally done this by identifying sectors of the economy it wishes to promote and making low-interest funding available to financial institutions that may voluntarily choose to lend to these sectors. The government has in this manner provided policy loans intended to promote low-income mortgage lending and lending to small- and medium-sized enterprises. We expect that all loans or credits we choose to make pursuant to these policy loans will be reviewed in accordance with our credit approval procedures. However, the availability of policy loans may influence us to lend to certain sectors or in a manner in which we otherwise would not in the absence of such loans from the government.

In the past, the Korean government has also announced policies under which financial institutions in Korea may voluntarily choose to provide financial support to particular sectors, including remedial programs for troubled corporate borrowers. For example, in light of the financial market instability in Korea resulting from the liquidity problems faced by credit card companies during the first quarter of 2003, the Korean government announced temporary measures in April 2003 intended to provide liquidity support to credit card companies. These measures included, among other things:

a request by the government for credit card companies to effect capital increases in the aggregate amount of (Won)4.6 trillion, as part of their self-rescue efforts;

banks and other financial institutions agreeing with each other to extend the maturity of all debt securities of credit card companies that they hold;

investment trust companies agreeing with each other to extend the maturity of 50% of the aggregate amount of the debt securities of credit card companies that they hold which are scheduled to mature by June 2003; and

with respect to the remaining 50% of such credit card company debt securities, banks and other financial institutions agreeing with each other to contribute an aggregate amount of (Won)5.6 trillion to purchase such debt securities from

investment trust companies.

Pursuant to the above measures, we also agreed to extend the maturities of the (Won)110 billion of credit card company debt securities that we held in April 2003 or that have become due in June 2003, by up to the original length of the maturities of those debt securities, which could be up to three years.

Table of Contents

Of the (Won)5.6 trillion aggregate contribution made by Korean financial institutions to purchase credit card company debt securities held by investment trust companies, the portion allocated for us to purchase was approximately (Won)1.26 trillion. Accordingly, in April 2003, we purchased an aggregate of (Won)714 billion of debt securities of Kookmin Credit Card and Samsung Credit Card held by investment trust companies, and we contributed the remaining (Won)549 billion to a mutual fund established by Korean financial institutions to purchase credit card company debt securities held by investment trust companies. We expect to be reimbursed for the (Won)1.26 trillion that we used to purchase debt securities, either directly or through the mutual fund described above, pursuant to a schedule agreed upon by us and other Korean financial institutions. As of May 31, 2003, we had been reimbursed (Won)1,103.6 billion, and expect to receive the remaining (Won)159.4 billion in June 2003.

Risks relating to Korea

Tensions with North Korea could have an adverse effect on us and the price of our ADSs.

Relations between Korea and North Korea have been tense over most of Korea's history. The level of tension between Korea and North Korea has fluctuated and may increase or change abruptly as a result of current events. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant, evicted inspectors from the United Nations International Atomic Energy Agency and has reportedly resumed activity at its Yongbyon power plant. In January 2003, North Korea announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, demanding that the United States sign a non-aggression pact before North Korea dismantles its nuclear program. In addition, North Korea has recently engaged in increased provocations and rhetoric directed at Korea, the United States and Japan. Any further increase in tension resulting from, for example, a break down in contacts or military hostilities, could have a material adverse effect on our operations and the price of our common stock and ADSs.

Adverse economic and financial developments in Korea since late 1997 had, and future adverse economic developments in Korea would likely have, an adverse effect on us.

We are incorporated in Korea, and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. Beginning in late 1997, Korea experienced a significant financial and economic downturn, from which it is widely believed that the country has recovered to a large extent. The downturn resulted in, among other things, an increase in the number and size of companies filing for corporate reorganization and protection from their creditors. As a result of these corporate failures, commercial banks in Korea, including the former Kookmin Bank and H&CB, experienced a sharp increase in non-performing loans and a deterioration in their capital adequacy ratios.

Although the Korean economy began to experience a recovery in 1999, the pace of the recovery has since slowed and has been volatile. The economic indicators in 2002 and early 2003 have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Events related to terrorist attacks in the United States that took place on September 11, 2001 and recent developments in the Middle East, including the war in Iraq, higher oil prices, the general weakness of the global economy and the outbreak of severe acute respiratory syndrome, or SARS, in Asia and other parts of the world have increased the uncertainty of world economic prospects in general and may thus adversely affect the Korean economy. Any future deterioration of the Korean economy would adversely affect our financial condition and results of operations.

Developments that could hurt Korea's economy in the future include:

further deterioration of the Korean corporate sector, which could in turn result in cooperation between the government and Korean banks with respect to establishing remedial programs to assist the corporate sector that may adversely affect the quality of our asset portfolio;

Table of Contents

financial problems relating to chaebols, or their suppliers, and their potential adverse impact on Korea's financial sector;

failure of restructuring of other large troubled companies;

a slowdown in consumer spending and the overall economy;

volatility in commodity prices (including oil prices), exchange rates (including depreciation of the U.S. dollar or Japanese yen), interest rates and stock markets;

increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;

adverse developments in the economies of countries such as the United States and Japan to which Korea exports, or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;

social and labor unrest and reduced consumer spending resulting from lay-offs, increasing unemployment and lower levels of income;

a decrease in tax revenues and a substantial increase in the Korean government's expenditures for unemployment compensation and other social programs that, together, lead to an increased government budget deficit;

political uncertainty or increasing strife among and within political parties in Korea; and

a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy.

Structural reforms occurring in the Korean economy and financial sector may have a substantial impact on our business.

In response to the financial and economic downturn in Korea in 1997 and 1998, the Korean government announced and implemented a series of comprehensive policy packages to address structural weaknesses in the Korean economy and the financial sector, which included the mergers and restructurings of a number of banks. We expect that these comprehensive policy packages will continue to have a substantial impact on our business. The government has indicated that it may advocate further mergers or restructurings in the Korean financial sector. Such mergers or restructurings may involve us or our competitors and may have an adverse impact on our business, financial condition and results of operations.

Labor unrest in Korea may adversely affect our operations.

The increase in the number of corporate reorganizations and bankruptcies following the economic downturn in Korea in 1997 and 1998 caused layoffs and increasing unemployment in Korea and a similar economic downturn in the future could lead to further layoffs. These factors could lead to social unrest and increase substantially government expenditures for unemployment

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compensation and other costs for social programs. During 1998 and 1999, there were large-scale protests and labor strikes in Korea. We cannot guarantee that labor unrest will not occur again in the future. Increasing unemployment and continuing labor unrest could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of securities on the Korea Stock Exchange and the value of the Won relative to other currencies. Such developments would likely have an adverse effect on our financial condition, results of operations and capital adequacy.

Table of Contents

Financial instability in other countries, particularly emerging market countries in Asia, could adversely impact our business and cause the price of the ADSs to go down.

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. Financial turmoil in Asia, Russia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors' reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. We cannot be certain that financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 will not happen again or will not have an adverse effect on our business or the price of our common stock and ADSs.

Risks relating to our common stock and ADSs

Ownership of our common stock is restricted under Korean law.

Under Korean law, a single stockholder, together with its affiliates, is generally prohibited from owning more than 10.0% of the outstanding shares of voting stock of a nationwide bank such as us, with the exception of certain stockholders that are non-financial group companies, whose applicable limit is 4.0%. The Korean government, the Korea Deposit Insurance Corporation and bank holding companies are exempt from this limit, and qualifying foreign investors that meet the requirements under the Enforcement Decree of the Bank Act of 1950, as amended, may also exceed the 10.0% limit upon filing a report with, or approval by, the Financial Supervisory Commission. To the extent that the total number of shares of our common stock (including those represented by ADSs) that a holder and its affiliates own together exceeds that limit, that holder will not be entitled to exercise the voting rights for the excess shares, and the Financial Supervisory Commission may order that holder to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in an administrative fine of up to 0.03% of the book value of such shares per day until the date of disposal.

A holder of our ADSs may not be able to exercise dissent and appraisal rights unless it has withdrawn the underlying shares of our common stock and become our direct stockholder.

In some limited circumstances, including the transfer of the whole or any significant part of our business and the merger or consolidation of us with another company, dissenting stockholders have the right to require us to purchase their shares under Korean law. However, holders of our ADSs will not be able to exercise such dissent and appraisal rights if the depositary refuses to do so on their behalf. Our deposit agreement does not require the depositary to take any action in respect of exercising dissent and appraisal rights. In such a situation, holders of our ADSs must withdraw our underlying common stock from the ADS facility and become our direct stockholder prior to the record date of the stockholders' meeting at which the relevant transaction is to be approved.

A holder of our ADSs may be limited in its ability to deposit or withdraw common stock.

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Under the terms of our deposit agreement, holders of common stock may deposit such stock with the depositary's custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the depositary and receive common stock. However, to the extent that a deposit of common stock exceeds the difference between:

- (1) the aggregate number of common shares we have deposited or we have consented to allow to be deposited for the issuance of ADSs (including deposits in connection with offerings of ADSs and stock dividends or other distributions relating to ADSs); and

Table of Contents

- (2) the number of shares of common stock on deposit with the custodian for the benefit of the depositary at the time of such proposed deposit,

such common stock will not be accepted for deposit unless

- (A) our consent with respect to such deposit has been obtained; or
- (B) such consent is no longer required under Korean laws and regulations.

Under the terms of the deposit agreement, no consent is required if the shares of common stock are obtained through a dividend, free distribution, rights offering or reclassification of such stock. We have consented, under the terms of the deposit agreement, to any deposit to the extent that, after the deposit, the number of deposited shares does not exceed 115,840,996 shares or any other number of shares we determine from time to time, unless the deposit would be prohibited by applicable laws or violate our articles of incorporation. We might not consent to the deposit of any additional common stock. As a result, if a holder surrenders ADSs and withdraws common stock, it may not be able to deposit the stock again to obtain ADSs.

A holder of our ADSs will not have preemptive rights in some circumstances.

The Korean Commercial Code of 1962, as amended, and our articles of incorporation require us, with some exceptions, to offer stockholders the right to subscribe for new shares of our common stock in proportion to their existing shareholding ratio whenever new shares are issued. If we offer any right to subscribe for additional shares of our common stock or any rights of any other nature, the depositary, after consultation with us, may make the rights available to holders of our ADSs or use reasonable efforts to dispose of the rights on behalf of such holders and make the net proceeds available to such holders. The depositary, however, is not required to make available to holders any rights to purchase any additional shares of our common stock unless it deems that doing so is lawful and feasible and:

a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or

the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

Similarly, holders of our common stock located in the United States may not exercise any such rights they receive absent registration or an exemption from the registration requirements under the Securities Act.

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, a holder of our ADSs may be unable to participate in our rights offerings and may experience dilution in its holdings. If a registration statement is required for a holder of our ADSs to exercise preemptive rights but is not filed by us or is not declared effective, the holder will not be able to exercise its preemptive rights for additional ADSs and it will suffer dilution of its equity interest in us. If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or feasible, it will allow the rights to lapse, in which case the holder will receive no value for these rights.

A holder of our ADSs may be responsible for paying taxes with respect to withdrawal of our common stock.

Under Korean tax law, a securities transaction tax (including an agricultural and fisheries special surtax) is imposed on transfers of shares listed on the Korea Stock Exchange, such as our common

Table of Contents

shares, at the rate of 0.3% of the sales price if traded on the Korea Stock Exchange. Transfers of ADSs are not subject to this tax. In addition, according to a tax ruling issued by the Korean tax authorities, foreign stockholders will not be subject to a securities transaction tax upon the deposit of underlying stock and receipt of depositary shares or upon the surrender of depositary shares and withdrawal of originally deposited underlying stock by the initial holder. However, a subsequent tax ruling indicated that a securities transaction tax would be imposed in the event that depositary shares were surrendered and the underlying stock withdrawn by a subsequent (as opposed to initial) holder of depositary shares. This ruling, however, was silent as to the party responsible for paying the tax as well as the amount of tax that would be due. Accordingly, if a holder of ADSs other than an initial holder surrenders ADSs and withdraws the underlying common stock, that holder may be responsible for paying a securities transaction tax.

Dividend payments and the amount a holder may realize upon a sale of its ADSs will be affected by fluctuations in the exchange rate between the U.S. dollar and the Won.

Our common stock is listed on the Korea Stock Exchange and quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the ADSs will be paid to the depositary in Won and then converted by the depositary into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts a holder will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that a holder would receive upon sale in Korea of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of our common stock.

If the Korean government deems that emergency circumstances are likely to occur, it may restrict holders of our ADSs and the depositary from converting and remitting dividends and other amounts in U.S. dollars.

If the Korean government believes that serious difficulties exist or are expected in relation to international balance of payments or finance or the movement of capital between Korea and abroad pose serious obstacles in carrying out its currency, exchange rate and other macroeconomic policies, it may take measures to require any person who intends to perform capital transactions to obtain permission or to require any person who performs capital transactions to deposit part of the payments received in such transactions at certain Korean government agencies or financial institutions, in each case subject to certain limitations. See Item 9C. Markets.

The market value of an investment in our ADSs may fluctuate due to the volatility of the Korean securities market.

Our common stock is listed on the Korea Stock Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Korea Stock Exchange. The Korea Stock Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Korea Stock Exchange has prescribed a fixed range in which share prices are permitted to move on a daily basis. In the past decade, the Korea Composite Stock Price Index, known as KOSPI, reached a peak of 1138.75 in 1994 and subsequently fell to a low of 280.00 in 1998. On April 17, 2000, the KOSPI experienced a 93.17 point drop, which represented the single largest decrease in its history. On June 13, 2003, the KOSPI closed at 665.24. Like other securities markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

Table of Contents

Item 4. INFORMATION ON THE COMPANY

Item 4A. *History and Development of the Company*

History

History of the former Kookmin Bank

The former Kookmin Bank was established by the Korean government in 1963 under its original name of Citizens National Bank under the Citizens National Bank Act of Korea with majority government ownership. Under this Act, we were limited to providing banking services to the general public and to small-and medium-sized enterprises. (See Item 4B. Business Overview Corporate Banking Small-and Medium-Sized Enterprise Banking for an exact definition of small-and medium-sized enterprises.) In September 1994, we completed our initial public offering in Korea and listed our shares on the Korea Stock Exchange. As of December 31, 2002, the government's shareholding in us had decreased to 9.33% of our outstanding common shares.

In January 1995, the Citizens National Bank Act of Korea was repealed and replaced by the Repeal Act of the Citizens National Bank Act. Our status was changed from a specialized bank to a nationwide commercial bank and in February 1995, we changed our name to Kookmin Bank. The Repeal Act allowed us to engage in lending to large businesses. Following the repeal, however, under our articles of incorporation at that time, only up to 20% of our total Won-currency loans outstanding was allowed to be made to large businesses. Currently, under our articles of incorporation, financial services to individuals and small-and medium-sized enterprises (including mortgage lending) are required to be equal to or more than 60% of the total amount of our loans denominated in Won.

In June 1998, we acquired certain assets, including loans the majority of which were considered performing as of the purchase date, and assumed most of the liabilities of DaeDong Bank, pursuant to a directive from the Financial Supervisory Commission in connection with a government program to support the deteriorating financial sector in Korea. We assumed 519 out of 1,740 employees and 49 out of 108 branches of DaeDong Bank. As of the date of the acquisition, there was a net shortfall of (Won)1,687 billion between the value of the assets we acquired and the value of the liabilities we assumed. We received cash and debt securities issued by the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation in connection with the acquisition.

In December 1998, we merged with the Korea Long Term Credit Bank, which focused on providing large corporate banking services. Through this acquisition, we were able to selectively expand our large corporate business, while continuing to concentrate on the retail sector. This expansion resulted in increased product and service offerings, including wholesale deposits, corporate overdraft facilities, bills and receivables discounting, export/import financing, payment remittances, foreign exchange transactions, standby letters of credit and guarantees and acceptances.

In June 1999, Goldman Sachs Capital Koryo, L.P., a fund managed by The Goldman Sachs Group, Inc., acquired (through its wholly owned subsidiaries Goldman Sachs Capital Chosun, Ltd. and Goldman Sachs Capital Shilla, Ltd.) an interest in the former Kookmin Bank in return for an investment of US\$500 million in new common shares and convertible bonds, consisting of (Won)360

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billion of new common shares (17,768,870 common shares at (Won)20,260 per share, as adjusted for the merger ratio of 1.688346:1) and US\$200 million principal amount of subordinated convertible bonds with an original conversion price of (Won)14,200 per common share. On November 25, 2002 Goldman Sachs Capital Koryo, L.P. converted all of those convertible bonds into common shares and, following that conversion, beneficially owned 5.13% of our outstanding common shares. See Item 7B. Related Party Transactions.

Table of Contents

History of H&CB

H&CB was established by the Korean government in 1967 under the name Korea Housing Finance Corporation. In 1969, Korea Housing Finance Corporation became the Korea Housing Bank pursuant to the Korea Housing Bank Act. H&CB was originally established to provide low and middle income households with long-term, low-interest mortgages in order to help them purchase their own homes, and to promote the increase of housing supply in Korea by providing low-interest housing loans to construction companies. Under the Korea Housing Bank Act, up to 20% of H&CB's lending (excluding lending pursuant to government programs) could be non-mortgage lending. Until 1997 when the Korea Housing Bank Act was repealed, H&CB was the only entity in Korea allowed to provide mortgage loans with a term of longer than ten years. H&CB also had the exclusive ability to offer housing-related deposit accounts offering preferential rights to subscribe for newly-built apartments.

In June 1998, H&CB acquired certain assets, including loans the majority of which were considered performing as of the purchase date, and assumed most of the liabilities of DongNam Bank, pursuant to a directive from the Financial Supervisory Commission in connection with a government program to support the deteriorating financial sector in Korea. H&CB assumed 650 out of 1,661 employees and 49 out of 116 branches of DongNam Bank. As of the date of the DongNam Bank acquisition, there was a net shortfall of (Won)1,453 billion between the value of the assets it acquired and the value of the liabilities it assumed. As in the case of the former Kookmin Bank, H&CB received cash and debt securities issued by the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation in connection with the acquisition. The acquisition of DongNam Bank strengthened H&CB's business presence in the southeastern region of Korea where DongNam Bank was based.

In July 1999, H&CB entered into an investment agreement with certain affiliates of the ING Groep N.V., a leading global financial services group. Through ING Insurance International B.V. and ING International Financial Holdings, ING Groep N.V. invested (Won)332 billion to acquire 9,914,777 new common shares of H&CB representing 9.99999% of H&CB's outstanding common shares. ING Groep N.V. now beneficially owns 3.87% of our outstanding common shares. On December 4, 2002, we entered into a strategic alliance agreement with ING Bank N.V., which replaced the prior investment agreement with H&CB. We have the right to terminate the agreement if ING Groep N.V. and its affiliates do not acquire an additional 6,748,887 of our common shares by May 31, 2003. We also have a right to extend this deadline to June 30, 2003 pursuant to a waiver agreement. We are currently in discussions with ING Groep N.V. regarding its potential purchase of these shares.

For more details regarding our relationship with ING Groep, see Item 4A. History and Development of the Company History History of H&CB, Item 4B. Business Overview Other Businesses Bancassurance, Item 7A. Major Stockholders, Item 7B. Related Party Transactions and Item 10C. Material Contracts.

The Merger

In November 2000, the former Kookmin Bank and H&CB entered into discussions regarding a possible merger. On December 22, 2000, the two banks entered into a memorandum of understanding regarding the merger. The proposed merger was publicly announced in Korea on that date. On April 23, 2001, the two banks executed a merger agreement approved by their respective boards of directors. The merger was structured as a merger of the two banks into a new entity in order to ensure that the transaction was properly understood by the security holders and customers of the two banks, as well as their employees, as a merger of equals rather than an absorption by one bank of the other. Under U.S. GAAP, however, the former Kookmin Bank was deemed the accounting acquiror of H&CB in the merger. We accounted for the acquisition using the purchase method of accounting.

Table of Contents

On September 29, 2001, the merger proposal was approved by the stockholders of both banks at extraordinary general meetings called for that purpose. The merger became effective on November 1, 2001. This merger resulted in Kookmin Bank becoming the largest commercial bank in Korea. Our ADSs were listed on the New York Stock Exchange on November 1, 2001 and our common shares were listed on the Korea Stock Exchange on November 9, 2001. As of October 31, 2001, H&CB's total assets were (Won)67,399 billion, its total deposits were (Won)51,456 billion, its total liabilities were (Won)64,537 billion and it had stockholders equity of (Won)2,849 billion. As required by U.S. GAAP, we recognized H&CB's total assets and liabilities at their estimated fair values of (Won)68,347 billion and (Won)64,858 billion, respectively. These amounts reflect the recognition of (Won)544 billion of negative goodwill, which was allocated to the fixed assets, core deposit intangible assets and credit card relationship intangible assets assumed. See Note 3 to our consolidated financial statements.

At the time of the merger, we issued 179,775,233 shares of our common stock to holders of former Kookmin Bank shares and 119,922,229 shares of our common stock to holders of former H&CB shares. The merger ratio was such that holders of former Kookmin Bank common stock received one of our shares for every 1.688346 shares of former Kookmin Bank they owned, and holders of H&CB common stock received one of our shares for every share of H&CB common stock they owned.

A key goal of the merger between the former Kookmin Bank and H&CB was to combine the strengths of each bank to create a premier world-class financial institution. In furtherance of this goal, we have integrated the operations of the two predecessor banks in order to build a solid base for future growth. As part of the integration process, we have identified a number of separate focus areas that need to be addressed in order to maximize the benefits of the merger:

Cultural Integration. Our goal is to create a corporate culture that facilitates an enhanced banking experience. To achieve this goal, we are focusing on performance-based compensation and merit-based promotion for senior managers and, to the extent agreed to by our unions, other employees who interface with our customers on a day-to-day basis. In order to do this, we have focused on impartial, merit-based selection of managers without regard to their past organizational ties. We are also impressing upon all employees the need to avoid differentiation by their organizational roots.

Human Resources Integration. We believe that creating a human resources system based on merit is the most appropriate mechanism for us to implement. We completed the integration of our human resources system in October 2002, and the introduction of our performance-based ranking system, which may be used to set grade adjustment and salary considerations, is close to completion.

IT Systems Integration. In order to integrate our operations following the merger, we elected to adopt the infrastructure and IT systems of H&CB for the merged bank, based on a recommendation from an outside consulting firm. Our IT systems integration process was completed in September 2002.

Distribution Channels. Following the merger, we had a number of different distribution channels serving the same customer groups. As of December 31, 2002, we had reorganized 86 branches, 53 of which have been closed, 17 of which have been relocated and 16 of which have been converted into branches or sub-branches. We expect to continue to gradually reorganize our branch network to improve the efficiency of our business structure. We also intend to create new branch types, including mini-branches and supermarket branches, and to further develop our Internet systems to cater to particular customer needs. In addition, we have been consolidating certain back-office functions to increase cost efficiencies, both by integrating systems and personnel and by migrating customers to channels that may be easier or more appropriate for them, such as remote or electronic channels.

Table of Contents

Business Process Integration. We have completed the integration of our business systems, with the main goal of maximizing cost savings and generating cross-selling capabilities. This integration was coordinated with the integration of our IT systems. As part of this process, we carefully analyzed our existing legacy systems in order to identify key areas that will ensure the highest quality standards. For example, in the case of our credit system for retail and corporate loans, we chose to adopt the H&CB credit modules to centralize risk assessment and to automate elements of our credit assessment process.

Table of Contents**Item 4B. Business Overview****Business**

We are the largest commercial bank in Korea. As of December 31, 2002, we had total assets of (Won)184,099 billion and total deposits of (Won)122,399 billion. On the asset side, we provide credit and related financial services to individuals and small- and medium-sized enterprises and, to a lesser extent, to large corporate customers. On the deposit side, we provide a full range of deposit products and related services to both individuals and enterprises of all sizes.

By their nature, our core consumer and small- and medium-sized enterprise operations place a high premium on customer access and convenience. Our combined network of 1,190 branches as December 31, 2002, the most extensive in Korea, provides a solid foundation for our business and is a major source of our competitive strength. This network provides us with a large, stable and cost effective funding source, enables us to provide our customers convenient access and gives us the ability to provide the customer attention and service essential to conducting our business, particularly in an increasingly competitive environment. Our branch network is further enhanced by automated banking machines and fixed-line, mobile telephone and Internet banking. As of December 31, 2002, we had a customer base of over 23 million retail customers, which represented approximately one-half of the Korean population. Of the population in Korea between the ages of 20 and 40, approximately two-thirds have accounts with us. As of December 31, 2002, we also had over 166,000 small- and medium-sized enterprise customers.

The following table sets forth the principal components of our lending business as of the dates indicated. As of December 31, 2002, retail loans, credit card loans and credit card receivables accounted for 66.4% of our total loan portfolio.

	As of December 31,					
	2000		2001		2002	
	(in billions of Won, except percentages)					
Retail						
Mortgage and home equity (1)	(Won) 8,068	13.6%	(Won) 37,194	30.8%	(Won) 46,195	31.7%
Other consumer (2)	8,151	13.7	23,312	19.3	28,066	19.2
Total retail	16,219	27.3	60,506	50.1	74,261	50.9
Credit card	8,321	14.0	16,751	13.9	22,643	15.5
Corporate (3)	33,771	56.9	42,491	35.1	47,502	32.6
Capital markets activities and international banking	1,086	1.8	1,146	0.9	1,426	1.0
Total loans	(Won) 59,397	100.0%	(Won) 120,894	100.0%	(Won) 145,832	100.0%

(1) Includes (Won)499 billion, (Won)1,619 billion and (Won)1,160 billion of overdraft loans secured by real estate in connection with home equity loans as of December 31, 2000, 2001 and 2002, respectively.

(2) Includes (Won)2,518 billion, (Won)5,612 billion and (Won)9,211 billion of overdraft loans as of December 31, 2000, 2001 and 2002, respectively.

(3)

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Includes loans to the Korea Deposit Insurance Corporation, which is a government-controlled entity, in the amount of (Won)1,587 billion as of December 31, 2000. There were no such loans as of December 31, 2001 and 2002.

We provide a full range of personal lending products and retail banking services to individual customers, including mortgage loans. We are the largest private sector mortgage lender in Korea and our mortgage loan portfolio in terms of aggregate loan value accounted for a 78% share of the domestic commercial banking market as of December 31, 2002. We are also a manager of the National Housing Fund, a government fund that provides mortgage lending to low income households and loans to construction companies to build small-sized housing for low income households. As of

Table of Contents

December 31, 2002, the National Housing Fund accounted for 48% of the total amount of mortgage loans (not including home equity loans) in Korea.

Lending to small- and medium-sized enterprises is the single largest component of our non-retail credit portfolio and represents a widely diversified exposure to a broad spectrum of the Korean corporate community, both by type of lending and type of customer, with one of the newest categories being collateralized loans to small office/home office, or SOHO, customers that are among the smallest of the small- and medium-sized enterprises.

The volume of our loans to small- and medium-sized enterprises requires a customer-oriented approach that is facilitated by our large and geographically diverse branch network. Our lending to this segment increased substantially during 2002.

In keeping with industry trends, our credit exposure to large corporate customers is declining as a percentage of our total loan portfolio although we continue to maintain and to seek quality relationships and to expand them by providing these customers with an increasing range of fee-related services.

Since the former Kookmin Bank initiated the issuance of domestic credit cards in 1980, we have seen our credit card business grow rapidly, particularly in 2000, 2001 and 2002 as the nationwide trend towards credit card use accelerated. As of December 31, 2002, Kookmin Credit Card had more than 12.8 million cardholders, and there were more than 4.8 million holders of our Kookmin Bank and former H&CB-originated BC Card. Some of our cardholders hold both our BC Card and our Kookmin Card. Our credit card balances (including card loans) have increased from (Won)8,321 billion as of December 31, 2000 to (Won)22,643 billion as of December 31, 2002, as a result of both the merger with H&CB and significant organic growth. The rate of increase in balances relating to our credit card business declined significantly during the second half of 2002 and our loan loss provisioning increased substantially. See Item 3D. Risk Factors Risks relating to our retail credit portfolio.

Our legal and commercial name is Kookmin Bank. Our registered office and principal executive offices are located at 9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul, Korea 100-703. Our telephone number is 822-769-8346. Our agent in the United States, Kookmin Bank, New York Branch, is located at 565 Fifth Avenue, 24th Floor, New York, NY 10017. Its telephone number is (212) 697-6100.

Strategy

Our key strategic focus is to be the leading bank in Korea and a world-class personal financial service provider. We plan to continue to develop our business on the basis of our core strengths in mortgage financing and retail banking. We intend to take advantage of our enhanced market position following the merger and by improving our existing operations, product range and capabilities. We believe our strong market position is an important competitive advantage, which will enable us to compete more effectively based on convenient delivery, product breadth and differentiation, and service quality while focusing on our profitability.

The key elements of our strategy are as follows:

Enhance our leading market position and leverage our core businesses

Our main goal is to enhance our leading market position in our core businesses retail banking (which includes mortgage financing), credit cards and small- and medium-sized enterprise banking. We believe our leading market position allows us to better compete for our core customers and also provides significant new cross-selling opportunities. We intend to accomplish our objective through the following initiatives:

Table of Contents

Leveraging existing retail customer relationships. We will focus on fulfilling a greater share of our retail customers banking needs. Our goal is to ensure that as many of our retail customers as possible borrow from us (for example, to finance housing, to purchase a car or for other household expenses), use our credit cards, deposit their money with us and use our investment and wealth management services. Examples of our initiatives include developing cooperative arrangements with large construction companies for the provision of mortgage financing, developing new credit card-linked products and enhancing affiliations between our credit card operations and other service providers.

Enhancing customer satisfaction with improved service quality and broader product offerings. We believe we can improve customer retention and usage rates by increasing the range of products and services we offer and by developing a differentiated, multi-channel distribution network, including branches, ATMs, call centers, mobile-banking and Internet banking. We believe that our leading market position gives us a competitive advantage in developing and enhancing our distribution capabilities. In addition, our large customer base allows us to target particular products to our different customer segments.

Attracting new retail customers with tailored products and our broad product range. Our leading market position also provides opportunities to attract new customers. For example, we are currently focusing on providing deposit gathering promotions, customized mortgage products and electronic banking promotions, and further enhancing our private banking services for high net worth individuals. We have started to open new branches specializing in banking services to high net worth individuals.

Leveraging small- and medium-sized enterprise customer relationships. We had a network of over 166,000 small- and medium-sized enterprise customers as of December 31, 2002. We intend to leverage these relationships by expanding the range of lending, deposit and money management products we offer to the customers. This will allow us to effectively increase the types and amounts of products and services we offer to small- and medium-sized enterprises as they expand their businesses.

Focus on expanding and improving credit quality in our small- and medium-sized enterprise lending

Our small- and medium-sized enterprise banking business has traditionally been and will remain one of our core businesses. In order to achieve our goal of enhancing our profitability, especially in light of the recent slowdown in retail and credit card lending volume, we have identified the small- and medium-sized enterprise customer segment, including SOHO customers, as one of our sources for growth. Lending to these customers generally carries higher rates of interest. In addition, we believe that, as the economy recovers, the SOHO customer base will expand significantly and provide us with an increasing opportunity to enhance our profitability. To increase our lending to the small- and medium-sized enterprise market, we have:

positioned ourselves based on our accumulated expertise. Based on our experience, we believe we have a better understanding of the credit risks embedded in this market, and we also have an on-line database that allows us to analyze information regarding potential customers. Our relationship management teams regularly visit the corporate customers in their region;

analyzed approximately 50,000 small- and medium-sized enterprises in Korea on the basis of their financial condition and other circumstances using our credit rating system and identified approximately 11,000 small- and medium-sized enterprises as priority target customers. Our marketing efforts are directed toward establishing a relationship with these potential small-and medium-sized enterprise customers;

Table of Contents

begun operating a relationship management system to provide targeted customer service to small- and medium-sized enterprises. As of December 31, 2002, we had 132 corporate banking branches and 44 relationship management teams located at various other retail branches. The corporate banking branches and relationship management teams market our products and review and approve smaller loans that pose less credit risks; and

begun to focus on cross-selling our loan products with other products. For example, when we lend to construction companies building apartment houses, we also market our subscription account products to the future owners of the apartments. Similarly, when we provide loans to companies, we also explore opportunities to cross-sell retail loans or deposit products to the employees of those companies.

Focus on personal financial services

The Korean market for personal financial services, such as consumer lending and investment management, is large and rapidly expanding, but still relatively under-penetrated. This market is highly competitive, however, with a number of banks and financial institutions competing for the same customers. We believe that this market has significant growth potential in light of the high savings rates and the relatively high per capita income in Korea. We intend to capitalize on the opportunities in the personal financial services market in Korea by:

focusing on consumer lending products, which provide higher margins than corporate loans;

focusing on the credit card business, with a specific focus on retaining existing loyal and profitable cardholders and more selectively issuing credit cards to qualified customers, to increase both interest and fee income;

identifying and segmenting customers to focus on higher margin businesses and offering differentiated products to these customers through specialized channels, such as personal financial services centers; and

enhancing our investment and wealth management offerings by a combination of product and service improvements and expanded offerings of new in-house and third-party products.

Develop corporate businesses that generate fee income

We intend to maintain our focus as a bank for retail and small- and medium-sized enterprise customers, while also providing a wide range of services to our important corporate customers. As part of this plan, we intend to increase the volume and the proportion of our fee income from non-lending corporate businesses such as project financing, investment banking, financial advisory services, derivatives transactions, asset management, asset securitization and real estate investment trust management, while selectively re-organizing our corporate lending portfolio. We believe that we can succeed in providing an expanded scope of products and services to quality corporate customers by retraining and instituting responsibility for cross-selling with our relationship managers.

Strengthen and enhance our deposit gathering capability by offering a broad range of deposit products and related services

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As of December 31, 2002, we had the largest number of retail customers and retail deposits among Korean commercial banks. We believe that this is due to our extensive nationwide network of branches, which is the largest among Korean commercial banks, and the merger with H&CB, together with our long history of development and our resulting know-how and expertise. We plan to strengthen and enhance our deposit gathering capability by:

offering a broad range of deposit products, with varying interest rates depending upon average funding costs and the rate of return on our interest earning assets; and

Table of Contents

continuing to develop and expand our priority customer program that categorizes our customers by their average deposit balance for the most recent three-month period, their contribution to our revenue and the amount of their transactions with us. By extending preferential treatment to our priority customers, we believe we can strengthen our customer loyalty.

Complete integration and realization of the anticipated synergies and growth opportunities from the merger

A key goal of the merger between the former Kookmin Bank and H&CB was to combine the strengths of each bank to create a premier world-class financial institution. As part of this goal, we are combining both banks' existing retail and small- and medium-sized enterprise banking businesses in Korea to build a solid base for future growth. We also developed a detailed integration plan that addresses each particular area of the combined bank and sets forth a specific target date to complete integration steps through the following three phases:

Phase one organizational integration and selection of our IT system, which was completed in February 2002.

Phase two IT system integration, which was completed in September 2002.

Phase three brand integration, which was completed in October 2002, and branch integration, which is ongoing.

See Item 4A. History and Development of the Company The Merger.

Strengthen internal risk management capabilities

One of our highest priorities is to improve our asset quality and more effectively price our lending products to take into account inherent credit risk in our portfolio. Our goal is to retain the strength of our credit portfolio, profitability and capital base. To this end, we intend to strengthen our internal risk management capabilities by tightening our underwriting and management policies and improving our internal compliance policies. To accomplish this objective, we have undertaken the following initiatives:

Strengthening underwriting procedures with advanced credit scoring techniques. We are in the process of implementing enhanced credit analysis and scoring techniques, which we believe will enable us to make better-informed decisions about the credit we extend and improve our ability to respond more quickly to incipient credit problems. We are also focusing on enhancing our credit quality early monitoring systems and collection procedures.

Improving our internal compliance policy and ensuring strict application in our daily operations. We are in the process of improving our monitoring capabilities with respect to our internal compliance and providing training and educational programs to our management and employees.

Branch Network

As of December 31, 2002, we had 1,190 branches and sub-branches in Korea, which were the largest number of branches among Korean commercial banks. In Korea, retail transactions are generally conducted in cash, although credit card use is increasing, and conventional checking accounts are not offered or used as widely as in other countries. An extensive branch network is important to attracting and maintaining retail customers, who use branches extensively and value convenience. We believe that our extensive branch network in Korea and retail customer base provide us with a source of stable and relatively low cost funding. Approximately 42% of our branches and sub-

Table of Contents

branches are located in Seoul, and more than 24% of our branches are located in the six next largest cities. The following table presents the geographical distribution of our branch network in Korea as of December 31, 2002.

Area	Number of	
	branches	Percentage
Seoul	501	42%
Six largest cities (other than Seoul)	284	24
Other	405	34
Total	1,190	100%

In addition, we have begun to implement the specialization of branch functions. Since July 2002, we have established over 100 additional branches that exclusively handle corporate transactions, by converting certain existing branches, with a focus on converting overlapping branches resulting from the merger, and constructing certain new branches. Of our branch network, 132 branches handle corporate transactions exclusively and are dedicated to providing comprehensive services to our corporate customers.

In connection with the merger with H&CB, we have been restructuring our branch network through gradual adjustment, relocation and functional conversion of overlapping branches in order to increase revenues and efficiency. We have been concentrating our restructuring efforts in Seoul and the other major cities in Korea. Our objective with respect to reorganizing our overlapping branches has been to increase the profitability of our branches and to minimize any loss of customers. As of December 31, 2002, we had reorganized 86 branches, 53 of which have been closed, 17 of which have been relocated and 16 of which have been converted into branches or sub-branches. We expect to continue to gradually reorganize our branch network to improve the efficiency of our business structure.

In order to support our branch network, we have established an extensive network of automated banking machines, which are located in branches and in unmanned outlets known as Autobanks. These automated banking machines consist of ATMs, cash dispensers and passbook printers. As of December 31, 2002, we had 6,102 ATMs, 2,748 cash dispensers and 896 passbook printers.

We have actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. We believe that use of our automated banking machines has increased in recent years. In 2002, automated banking machine transactions accounted for approximately 80% of our deposit and withdrawal transactions for amounts less than (Won)700,000.

The following table sets forth information, for the periods indicated, regarding the number of transactions and the fee revenue of our ATMs, including those that only dispense cash.

For the year ended December 31,

	2000		2001		2002
	Kookmin	H&CB	Kookmin	H&CB	Kookmin
	Bank	(1)	Bank	(1)	Bank
Number of transactions (millions)	269	215	302	271	816
Fee revenue (in billions of (Won))	(Won) 30	(Won) 21	(Won) 36	(Won) 23	(Won) 81

(1) Reflects historical information of H&CB prior to the merger for 2000, and the first 10 months of 2001 included in the figures for 2001 reflect historical information of H&CB prior to the merger.

Table of Contents**Retail Banking**

Due to our development as a retail bank and the know-how and expertise we have acquired from our activities in that market, retail banking has been and will continue to remain one of our core businesses. Our retail banking activities consist primarily of lending and deposit-taking.

Lending Activities

We offer various loan products that target different segments of the population, with features tailored to each segment's financial profile and other characteristics. The following table sets forth the balances and the percentage of our total lending represented by our retail loans as of the dates indicated.

	As of December 31,					
	2000		2001		2002	
	(in billions of Won, except percentages)					
Retail:						
Mortgage and home equity loans	(Won) 8,068	13.6%	(Won) 37,194	30.8%	(Won) 46,195	31.7%
Other consumer loans (1)	8,151	13.7	23,312	19.3	28,066	19.2
Total	(Won) 16,219	27.3%	(Won) 60,506	50.1%	(Won) 74,261	50.9%

(1) Excludes credit card loans, but includes overdraft loans.

As of December 31, 2002, mortgage and home equity loans and other consumer loans accounted for 62.2% and 37.8%, respectively, of our retail loans. These retail loans consist of:

Mortgage loans, which are loans made to customers to finance home purchases, construction, improvements or rentals; and *home equity loans*, which are loans made to our customers secured by their homes to ensure loan repayment. We also provide overdraft loans in connection with our home equity loans.

Other consumer loans, which are loans made to customers for any purpose (other than mortgage and home equity loans). These include overdraft loans, which are loans extended to customers to cover insufficient funds when they withdraw funds from their demand deposit accounts with us in excess of the amount in such accounts up to a limit established by us.

For secured loans, including mortgage and home equity loans, our policy is to lend up to 100% of the adjusted collateral value minus the value of any lien or other security interest that is prior to our security interest. In calculating the adjusted collateral value for real estate, we use the appraisal value of the collateral multiplied by a factor, generally between 37% to 60%. This factor varies depending upon the location and use of the real estate and is established in part by taking into account court-supervised auction

prices for nearby properties.

A borrower's eligibility for our mortgage loans depends on value of the mortgage property, the appropriateness of the use of proceeds and the borrower's creditworthiness. A borrower's eligibility for home equity loans is determined by the borrower's credit and the value of the property, while the borrower's eligibility for other consumer loans is primarily determined by the borrower's credit. If the borrower's credit deteriorates, it may be difficult for us to recover the loan. As a result, we review the borrower's creditworthiness, collateral value, credit scoring and third party guarantees when evaluating a borrower. In addition, to reduce the interest rate of a loan or to qualify for a loan, a borrower may provide collateral, deposits or guarantees from third parties.

Due to a rapid increase in retail loans and increased credit risks relating thereto, the Financial Supervisory Commission increased the minimum provisioning requirements for retail loans from the

Table of Contents

second quarter of 2002. See Item 3D. Risk Factors Risks relating to our retail credit portfolio and Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

Mortgage and Home Equity Lending

Our mortgage and home equity lending has substantially expanded following the merger. The following table provides certain information regarding our mortgage and home equity loans.

As of December 31,				
	2000		2001 (1)	2002
	Kookmin		Kookmin	Kookmin
	Bank	H&CB	Bank	Bank
	(in billions of Won, except percentages)			
Mortgage and home equity lending	(Won) 8,068	(Won) 25,691	(Won) 37,194	(Won) 46,195
Mortgage and home equity lending as a percentage of total loans	13.6%	55.6%	30.8%	31.7%

(1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.

As of December 31, 2002, our market share of the outstanding Korean private mortgage market was 78% based on our internal statistics. We do not receive any fee income related to the origination of mortgage and home equity loans.

The Housing Finance Market in Korea. The housing finance market in Korea is divided into public sector and private sector lending. In the public sector, two government entities, the National Housing Fund and the National Agricultural Cooperative Federation, are responsible for most of the mortgage lending. In the private sector, a number of financial institutions and installment finance companies, including us, provide mortgage lending. Prior to 1997, government regulations limited the types of mortgage lending products commercial banks in Korea could offer. These restrictions affected both the terms of mortgages that could be offered as well as eligibility of properties to be mortgaged and persons applying for mortgages. Government restrictions on mortgage lending were largely lifted in 1997, leading to a more competitive mortgage lending market. In 1998, the government promulgated new laws to facilitate asset securitization transactions by Korean banks. We believe that the demand for these transactions will increase, which should contribute to the growth of the mortgage lending market by increasing the amount of funding available to lenders and allowing lenders to manage their credit risk.

Mortgage and Home Equity Loan Products. We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans, and we offer interest rates on a commercial basis. The maximum term of mortgage loans is 35 years. Home equity loans have an initial maturity of three years. These loans are typically renewed upon maturity on an annual basis for a maximum of ten years, after which these loans must be repaid. Approximately 70% of our mortgage and home equity loans have an initial maturity of one to three years. Consumers of mortgage and home equity loans prefer loans with a maturity of one to three years because these loans generally have lower

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interest rates than longer-term loans. Any customer is eligible for a mortgage or an individual home equity loan regardless of whether it participates in one of our housing related savings programs and so long as that customer is not barred by regulation from obtaining a loan because of bad credit history. However, customers with whom we frequently transact business and provide us with significant revenue receive preferential interest rates on loans.

As of December 31, 2002, approximately 43% of our mortgage loans were secured by residential property which is the subject of the loan, 27% of our mortgage loans were guaranteed by the Housing Finance Credit Guarantee Fund, a government housing-related entity, and the remaining 30% of our

Table of Contents

mortgage loans, contrary to general practices in the United States, were unsecured (although the use of proceeds from these loans are restricted for the purpose of financing home purchases and some of these loans were guaranteed by a third party). One reason that a relatively high percentage of our mortgage loans are unsecured is that we, along with other Korean banks, provide advance loans to lenders for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage loans become secured by the new housing purchased by these lenders. For the year ended December 31, 2002, the average initial loan-to-value ratio of our mortgage loans, which is a measure of the amount of loan exposure to the appraised value of the security collateralizing the loan, was approximately 63%. There are three reasons that our loan-to-value ratio is relatively lower (as is the case with other Korean banks) compared to similar ratios in other countries, such as the United States. The first reason is that housing prices are high in Korea relative to average income, so most people cannot afford to borrow an amount equal to the entire value of their collateral and make interest payments on such an amount. The second reason relates to the *jeonsae* system, through which people provide a key money deposit while residing in the property prior to its purchase. At the time of purchase, most people use the key money deposit as part of their payment and borrow the remaining amount from Korean banks, which results in a loan that will be for an amount smaller than the appraised value of the property for collateral and assessment purposes. The third reason is that Korean banks discount the appraised value of the borrower's property for collateral and assessment purposes so that a portion of the appraised value is reserved in order to provide recourse to a renter who lives at the borrower's property. This is in the event that the borrower's property is seized by a creditor, and the renter is no longer able to reside at that property. See Item 3D. Risk Factors Other risks relating to our business A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio. As a result of government initiatives, we have also tightened our mortgage loan guidelines.

Pricing. The interest rates on our retail mortgage loans are either a periodic floating rate (which is based on a base rate determined for three-month, six-month or twelve-month periods derived using our Market Opportunity Rate system, which reflects our internal cost of funding, further adjusted to account for our expenses related to lending) or a fixed rate that reflects our cost of funding, as well as our expenses related to lending. Fixed rate loans are currently limited to maturities of three years and offered only on a limited basis. Both types of rates also incorporate a margin based among other things on the type of security, priority with respect to the security, loan-to-value and loan length. We can adjust the price to reflect the borrower's current and/or expected future contribution to us. The applicable interest rate is determined at the time of the loan. If a loan is terminated prior to its maturity, the borrower is obligated to pay us an early termination fee of approximately 0.3% to 1.5% of the loan amount in addition to the accrued interest.

The interest rates on our home equity loans are determined on the same basis as our retail mortgage loans, except that fixed rate loans are not offered.

As of December 31, 2002, our current three-month, six-month and twelve-month base rates were approximately 6.47%, 7.75% and 7.95%, respectively.

As of December 31, 2002, approximately (Won)40,708 billion, or 88.1%, of our outstanding mortgage and home equity loans were priced based on a floating rate and (Won)5,487 billion, or 11.9%, were priced based on a fixed rate.

Other Consumer Loans

Other consumer loans are primarily unsecured. However, such loans may be secured by real estate, deposits or securities. As of December 31, 2002, approximately (Won)13,799 billion, or 49% of our consumer loans (other than mortgage and home equity loans) were unsecured loans (although some

Table of Contents

of these loans were guaranteed by a third party). Overdraft loans are also classified as other consumer loans, are primarily unsecured and typically have a maturity between one and three years. The amount of overdraft loans have been increasing over the past several years and, as of December 31, 2002, was approximately (Won)9,211 billion.

Pricing. The interest rates on our other consumer loans are determined on the same basis as on our home equity loans, except that, for unsecured loans, the borrower's credit score as determined during our loan approval process is also taken into account. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management. For overdraft loans, we also add 50 basis points in determining the interest rate.

As of December 31, 2002, approximately 85% of our other consumer loans had interest rates that were not fixed but were variable in reference to our base rate, which is based on the Market Opportunity Rate.

Deposit-Taking Activities

Due to our extensive nationwide network of branches and the merger, together with our long history of development and our resulting know-how and expertise, as of December 31, 2002, we had the largest number of retail customers and retail deposits among Korean commercial banks. The balance of our deposits from retail customers was (Won)29,440, (Won)83,129 billion and (Won)92,126 billion as of December 31, 2000, 2001 and 2002, respectively, which constituted 68.2%, 72.3% and 75.3%, respectively, of the balance of our total deposits.

We offer many deposit products that target different segments of our retail customer base, with features tailored to each segment's financial profile, characteristics and needs, including:

Demand deposits, which either do not accrue interest or accrue interest at a lower rate than time or savings deposits. Demand deposits allow the customer to deposit and withdraw funds at any time and, if they are interest bearing, accrue interest at a fixed or variable rate depending on the period and amount of deposit. Retail and corporate demand deposits constituted approximately 3.6% of our total deposits as of December 31, 2002 and paid average interest of 0.63% for 2002.

Time deposits, which generally require the customer to maintain a deposit for a fixed term during which the deposit accrues interest at a fixed rate or to deposit specified amounts on an installment basis. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term for time deposits typically range from one month to five years, and the term for installment savings deposits range from six months to ten years. Retail and corporate time deposits constituted approximately 53.6% of our total deposits as of December 31, 2002 and paid average interest of 4.90% for 2002. Most installment savings deposits offer fixed interest rates.

Savings deposits, which allow depositors to deposit and withdraw money at any time and accrue interest at an adjustable interest rate, which is currently below 2.0%. Retail and corporate savings deposits constituted approximately 29.4% of our total deposits as of December 31, 2002 and paid average interest of 1.17% for 2002.

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Certificates of deposit, the maturities of which range from 30 days to 365 days with a required minimum deposit of (Won)5 million. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market rates. Our certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificate of deposit.

Foreign currency deposits, which accrue interest at an adjustable rate and are available to Korean residents, non-residents and overseas immigrants. We offer foreign currency demand and time deposits and checking and passbook accounts in 11 currencies.

Table of Contents

We offer varying interest rates on our deposit products depending upon average funding costs, the rate of return on our interest earning assets and the interest rates offered by other commercial banks.

We also offer deposits that provide the holder with preferential rights to housing subscriptions and eligibility for mortgage loans. These products include:

Housing subscription time deposits, which are special purpose time deposit accounts providing the holder with a preferential right to subscribe for new private apartment units under the Housing Construction Promotion Law. This law is the basic law setting forth various measures supporting the purchase of houses and the supply of such houses by construction companies. These products accrue interest at a fixed rate for one year, and at an adjustable rate after one year. Deposit amounts per account range from (Won)2 million to (Won)15 million depending on the size and location of the dwelling unit. These deposit products target high and middle income households.

Housing subscription installment savings deposits, which are monthly installment savings programs providing the holder with a preferential subscription right for new private apartment units under the Housing Construction Promotion Law. Account holders are also eligible for our mortgage loans. These deposits require monthly installments of (Won)50,000 to (Won)500,000, have maturities of between two and five years and accrue interest at fixed or variable rates depending on the term. These deposit products target low- and middle-income households.

We have a priority customer program that categorizes our customers by their average deposit balance for the most recent three-month period, their contribution to our revenue, and the amount of their transactions with us. A customer may receive preferential treatment in various areas, including interest rates, transaction fees and the types of credit card the customer is eligible for, depending upon how the customer is classified. As of December 31, 2002, we had over 4.6 million priority customers, representing about 19% of our total retail customer base of over 23 million retail customers. In 2002, on an average balance basis, our priority customers held approximately 83% of our total retail customer deposits, and revenues from our priority customers accounted for approximately 69% of our revenues derived from our retail customers.

In the second quarter of 2002, after significant research and planning, we launched the Private Banking Business Unit at our headquarters. Shortly thereafter, we launched a comprehensive strategy with respect to customers with higher net worth, which included staffing appropriate representatives, marketing aggressively, establishing IT systems, selecting appropriate branch locations and readying such branches with the necessary facilities to service such customers. In November and December 2002, we established two private banking centers. As of April 30, 2003, we had established three more centers and plan to gradually increase the number of private banking centers in our branch network. We believe that by offering high quality personal wealth management services to these customers we can increase our share of the priority customer market, which will increase our profitability and our position in the retail banking market.

The Monetary Policy Committee of the Bank of Korea (the Monetary Policy Committee) imposes a reserve requirement on Won currency deposits of commercial banks based generally on the type of deposit instrument. The reserve requirement is currently up to 5%. See Supervision and Regulation Principal Regulations Applicable to Banks Liquidity. The Monetary Policy Committee also regulates the maximum interest rates that can be paid on certain deposits. Under the Korean government's finance reform plan issued in May 1993, controls on deposit interest rates have been gradually reduced. Currently, only maximum interest rates payable on demand deposits are subject to regulation by the Bank of Korea. See Item 3D. Risk Factors Risks relating to competition Intense competition for deposits following the deregulation of interest rate restrictions on demand deposits may lead to a loss of our deposit customers or an increase in our funding costs.

Table of Contents

The Depositor Protection Act provides for a deposit insurance system where the Korea Deposit Insurance Corporation guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of (Won)50 million per depositor per bank. See Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System. We pay a premium rate of 0.1% of our average deposits and we paid (Won)109 billion for 2002.

Credit Cards

Credit cards are another of our core retail products. As a result of the merger with H&CB, we currently have two brands of credit cards:

Kookmin Card, which is operated by our 74.3%-owned subsidiary, Kookmin Credit Card Co., Ltd.; and

BC Card, which we operate directly, but where the cards are issued through an affiliate.

Our two credit card businesses are discussed in more detail below.

Table of Contents

The following table sets forth certain data relating to our credit card operations and those of H&CB as of the dates or for the period indicated. All financial figures appearing below have been prepared in accordance with Korean GAAP, which differs significantly from U.S. GAAP. See Item 5B. Liquidity and Capital Resources Reconciliation with Korean GAAP.

As of and for the year ended December 31,

	2000				2001				2002			
	Kookmin		BC		Kookmin		BC		Kookmin		BC	
	Card		Card (1)		Card		Card (1)		Card		Card	
	(in billions of Won, except number of holders and accounts and percentages)											
Number of credit card holders (at year end) (thousands)												
General accounts	8,123		3,054		10,491		4,018		12,614		4,748	
Corporate accounts	51		17		96		24		154		58	
Total	8,174		3,071		10,587		4,042		12,768		4,806	
Number of merchants (at year end) (thousands)												
	1,231		196		1,675		263		1,569		312	
Active ratio (2)	66%		64%		71%		65%		72%		61%	
Credit card fees												
Merchant fees (3)	(Won)	375	(Won)	108	(Won)	546	(Won)	187	(Won)	745	(Won)	236
Installment and cash advance fees	726		267		926		500		1,106		555	
Annual membership fees	35		6		40		10		39		12	
Other fees	66		7		84		123		158		237	
Total	(Won)	1,202	(Won)	388	(Won)	1,596	(Won)	820	(Won)	2,048	(Won)	1,040
Charge volume (4)												
General purchase	(Won)	9,068	(Won)	2,273	(Won)	14,851	(Won)	3,528	(Won)	18,708	(Won)	4,329
Installment purchase	4,282		1,415		6,188		3,025		11,026		4,362	
Cash advance	24,526		8,850		44,343		15,720		57,166		18,198	
Card loan (5)	922		3,171		2,774		6,221		5,108		8,784	
Total	(Won)	38,798	(Won)	15,709	(Won)	68,156	(Won)	28,494	(Won)	92,008	(Won)	35,673
Outstanding balance (at year end) (6)												
General purchase	(Won)	1,105	(Won)	281	(Won)	1,377	(Won)	453	(Won)	1,199	(Won)	591
Installment purchase	1,891		594		2,632		1,325		2,932		1,747	
Cash advance	3,218		1,542		3,149		1,972		2,370		2,184	
Card loan (5)	969		494		2,247		934		2,739		1,227	
Total (7)	(Won)	7,183	(Won)	2,911	(Won)	9,405	(Won)	4,684	(Won)	9,240	(Won)	5,749

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Average outstanding balances												
General purchase	(Won)	810	(Won)	225	(Won)	1,247	(Won)	420	(Won)	1,557	(Won)	582
Installment purchase		1,262		418		2,306		894		4,062		1,599
Cash advance		2,492		978		4,880		1,913		6,389		2,389
Card loan (5)		1,068		365		1,780		689		4,207		1,150
Delinquency ratios (8)												
Less than 1 month		3.27%		4.10%		1.81%		2.53%		3.08%		2.91%
From 1 month to 3 months		1.31		1.94		1.04		2.14		2.85		5.01
From 3 months to 6 months		0.71		1.15		0.94		1.75		2.19		2.85
Over 6 months		0.69		1.03		0.33		1.63		0.01		0.56
Total		5.98%		8.22%		4.12%		8.05%		8.13%		11.33%
Non-performing loan ratio												
Reported		4.02%		2.20%		2.74%		3.80%		4.70%		5.08%
Managed		3.52%		2.20%		2.18%		3.80%		3.88%		5.08%
Write-offs (gross)	(Won)	204	(Won)	26	(Won)	426	(Won)	147	(Won)	1,017	(Won)	671
Recoveries		40		16		83		22		112		45
Net write-offs	(Won)	164	(Won)	10	(Won)	343	(Won)	125	(Won)	905	(Won)	626
Gross write-off ratio (9)		3.62%		1.31%		4.17%		3.75%		6.27%		11.73%
Net write-off ratio (10)		2.91%		0.50%		3.36%		3.19%		5.58%		10.94%
Asset sales					(Won)	695			(Won)	248		
Asset securitization (11)	(Won)	1,189				2,757				7,463		

Table of Contents

- (1) BC Card-related amounts for 2000 and the first ten months of 2001 included in the figures for 2001 reflect historical information of H&CB prior to the merger.
- (2) For Kookmin Card, represents the ratio of accounts used at least once within the last 12 months to total accounts as of year end. For BC Card, represents the ratio of cards outstanding at year end that have been issued for at least six months and that have been used at least once within the last six months of the year.
- (3) Merchant fees consist of merchant membership and maintenance fees, costs associated with prepayment by us (on behalf of customers) of sales proceeds to merchants, processing fees relating to sales and membership applications, costs relating to the management of delinquencies and recoveries, bad debt expenses, general variable expenses and other fixed costs that are charged to our member merchants. We charge our member merchants fees that range from 1.5% to 4.5%.
- (4) Represents the aggregate cumulative amount charged during the year.
- (5) Card loans consist of loans that are provided on either a secured or unsecured basis to cardholders upon prior agreement. Payment of principal, fees and interest on such a loan can be due either in one payment or in installments after a fixed period.
- (6) Excludes credit card balances transferred to special purpose entities in connection with asset securitization transactions, which transfers are recognized as sales under Korean GAAP but not under U.S. GAAP.
- (7) Total outstanding balances pursuant to U.S. GAAP for Kookmin Card and BC Card, respectively, were (Won)8,321 and (Won)2,881 billion as of December 31, 2000, (Won)12,131 billion and (Won)4,620 billion as of December 31, 2001 and (Won)16,948 billion and (Won)5,695 billion as of December 31, 2002.
- (8) Represents the ratio of delinquencies to outstanding balance. When calculating this ratio, managed assets and card loans are included in the outstanding balance, and delinquencies only pertain to the unpaid or due amount and not the entire balance outstanding. In addition, unused credit is also not included in the delinquent amount. In line with industry practice, we have restructured a large portion of delinquent credit card account balances (defined as balances overdue for one day or more) as loans. As of December 31, 2002, these loans amounted to (Won)1,286.1 billion. Because these loans are not treated as being delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding loans.
- (9) Represents the ratio of gross write-offs for the year to average outstanding balance for the year. Under Korean GAAP, our charge-off policy is to write off balances which are 180 days past due, except for those balance with a reasonable probability of recovery.
- (10) Represents the ratio of net write-offs for the year to average outstanding balances for the year.
- (11) Comprises credit card balances that were transferred in asset securitization transactions. Under U.S. GAAP, these transfers are not recognized as sales and are recorded as secured borrowings.

The use of credit cards in Korea has increased dramatically in recent years as the Korean economy and consumer spending recovered from the recent financial and economic difficulties and, as a result of government initiatives promoting the use of credit cards in Korea. For example, the government requires commercial merchants to accept credit cards as a means of preventing tax evasion by ensuring proper disclosure of transactions and provides tax benefits to businesses that accept credit cards. For consumers, there is also a tax deduction for certain amounts spent using credit cards. However, concerns have been raised regarding the high levels of credit card usage (including cash advances) and the possibility of a deterioration in the asset quality of credit card portfolios of Korean financial institutions. As a result, BC Card has stopped offering new card loan services to new and existing cardholders. Commencing in July 2002, the Financial Supervisory Commission increased regulation of the credit card industry. See Item 3D. Risk Factors Risks relating to our retail credit portfolio and Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

In contrast to the system in the United States and many other countries, where most credit cards are revolving cards that allow outstanding amounts to be rolled over from month to month so long as a required minimum percentage is repaid, credit card holders in Korea are generally required to pay for their purchases within approximately 20 to 60 days of purchase depending on their payment cycle. However, we have also recently begun to offer revolving cards to individuals that allow outstanding amounts to be rolled over to subsequent payment periods. Delinquent accounts (defined as amounts overdue for one day or more) are charged penalty interest and closely monitored. For installment purchases, we charge interest on unpaid installments at rates that vary according to the terms of repayments. See Item 3D. Risk Factors Risks relating to our retail credit portfolio As we have been experiencing increases in delinquencies in retail loans, including our mortgage and home equity loan and our credit card portfolios, we may not be able to sustain the rate of growth or credit quality of our

Table of Contents

retail loans, including, in particular, our mortgage and home equity loans and our credit card-related loans.

We believe that the merger has provided us with an opportunity to further expand our credit card business. In particular, we believe that our extensive branch network, name recognition and overall size will enable us to cross-sell products such as credit cards to our existing and new customers. We also believe that the different merchant networks of Kookmin Credit Card and BC Card will provide us with further opportunities to cross-sell credit cards and other credit card-related products. In addition, recent government initiatives to crack down on the issuance of credit cards through non-bank branch channels will help us given the size of our branch network as compared to those of our competitors. We plan to integrate Kookmin Credit Card's business operations with our BC Card business unit as described in more detail below.

To promote our credit card business, we offer services targeted to various financial profiles and customer requirements and are concentrating on:

offering cards that provide additional benefits such as frequent flyer miles and reward program points that can be redeemed by the customer for complementary services, prizes and cash;

offering gold cards, platinum cards and other preferential members' cards, which have a higher credit limit and provide additional services in return for a higher fee;

acquiring new customers through strategic alliances and cross-marketing with wholesalers and retailers;

encouraging increased use of credit cards by existing customers through special offers for frequent users;

introducing new features, such as revolving credit cards, travel services and insurance;

developing fraud detection and security systems to prevent the misuse of credit cards and to encourage the use of credit cards over the Internet; and

issuing smart cards and preparing for a cardless business environment in which customers can use credit cards to make purchases by phone or over the Internet.

Kookmin Credit Card

In 1980, the former Kookmin Bank became one of the first financial institutions to issue credit cards and provide credit card services in Korea. In order to manage the credit card business more efficiently, we separated the credit card business from our banking activities and established a subsidiary called Kookmin Credit Card in 1987, which was subsequently registered with KOSDAQ on July 4, 2000. We market and distribute credit cards issued by Kookmin Credit Card. As of December 31, 2002, we owned 74.3% of the outstanding shares of Kookmin Credit Card. On May 30, 2003, we entered into a merger agreement with Kookmin Credit Card to merge its operations into us and passed a board resolution to approve the merger. We plan to integrate Kookmin Credit Card's business operations with our BC Card business unit. The integrated unit will have operational autonomy with respect to its business and will be integrated based on the business platform of Kookmin Credit Card. See Item 3D. Risk Factors. Risks

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relating to our retail credit portfolio. We are in the process of integrating our credit card operations, which has resulted in labor unrest and may also result in customer loss.

As of December 31, 2002, Kookmin Credit Card had issued more than 12.8 million credit cards, representing 12.0% of the total credit cards issued in Korea based on its internal statistics. Of the credit

Table of Contents

cards outstanding, approximately 72% were active, meaning that they had been used at least once during the previous twelve months. As of December 31, 2002, the Korean market share for Kookmin Credit Card with respect to outstanding credit card balances was 13.0% according to the Korea Non-Bank Financing Association. Kookmin Credit Card's revenues consist principally of cash advance fees, merchant fees, interest income from credit card loans, cardholders' purchase fees, including interest on late and deferred payments, and annual fees paid by cardholders.

Holders of cards issued by Kookmin Credit Card are required to pay for their purchases within 23 to 53 days after the date of purchase, depending on their payment cycle. Except in the case of installment purchases, accounts, which remain unpaid after this period, are deemed to be delinquent.

Kookmin Credit Card generates other fees through a processing charge on merchants, with the average charge equaling approximately 2.43%.

Under non-exclusive license agreements with MasterCard International Incorporated and Visa International Service Association, Kookmin Credit Card also issues MasterCard and Visa credit cards.

In 2002, our Kookmin Credit Card operations generated (Won)3,157 billion in revenues, compared to (Won)2,340 billion in 2001 and (Won)1,461 billion in 2000, in each case, under Korean GAAP.

We launched our debit card business in February 1996 in response to changing customer needs. We charge merchants an average commission of 1.7% of the amounts purchased using a debit card.

BC Card

BC Card Co., Ltd. was established in 1982 by five nationwide banks and is currently owned by 11 member banks. BC Card issues credit cards under the names of its member banks, substantially all of which are licensed to use MasterCard, Visa or the Japanese Credit Bureau (JCB). We use these brands through a fee-based system and, as a result, our customers are able to use their cards outside of Korea. BC Card provides a number of services for our card operations including issuing cards, providing billing services and managing arrears and delinquencies. We plan to remain in the BC Card consortium in order to take advantage of its brand name and infrastructure, continue to receive information about our customers, capitalize on cross-selling opportunities and reduce our risks in the credit card business. As of December 31, 2002, we owned 4.95% of BC Card.

As of December 31, 2002, BC Card, on our behalf, had issued 4.8% of the total credit cards issued in Korea based on its internal statistics. As of December 31, 2002, BC Card, on our behalf, had more than 4.8 million cardholders. Of the credit cards outstanding as of December 31, 2002, approximately 61% were active, meaning that the cards had been used within the last six months. In determining this activity rate, we do not consider cards that have been issued for less than six months as active. As of December 31, 2002, the Korean market share for BC Card issued on our behalf with respect to credit card transaction volumes was 4.5%. BC Card's revenues consist principally of cash advance fees, merchant fees, interest income from credit card loans, cardholders' purchase fees, including interest on late and deferred payments, and annual fees paid by cardholders.

BC Card holders are required to pay the entire amount of their purchases within 23 to 57 days after the date of purchase depending on their payment cycle. Except in the case of installment purchases and revolving payments, accounts that remain unpaid after this period are deemed to be delinquent. This reflects standards generally present in the Korean credit card industry. See Kookmin Credit Card above.

BC Card generates other fees through a processing charge on the merchants, with the average charge equaling approximately 2.5%.

Table of Contents

In 2002, we generated (Won)1,193 billion in revenues from our credit card operations from BC Card, compared to (Won)816 billion in 2001 (which includes the results of operations for periods when this business was controlled by H&CB) and H&CB-generated revenues of (Won)441 billion in 2000, in each case, under Korean GAAP.

Corporate Banking

We lend to and take deposits from small- and medium-sized enterprises and, to a lesser extent, large corporate customers. As of December 31, 2000, 2001 and 2002, we had 150,544, 168,163 and 166,123 small- and medium-sized enterprise borrowers and 737, 1,129 and 878 large corporate borrowers, respectively. For 2000, 2001 and 2002, we received fee revenue from firm banking services offered to corporate customers, which include inter-account transfers, transfers of funds from various branches and agencies of a company (such as insurance premium payments) to the account of the headquarters of such company and transfers of funds from various customers of a company to the main account of such company, in the amount of (Won)16.4 billion, (Won)22.6 billion and (Won)27.9 billion, respectively. Of our branch network as of December 31, 2002, we had 132 branches dedicated exclusively to corporate banking.

As a result of the merger with H&CB, the overall size and composition of our assets and liabilities as well as our income and expenses have changed. In particular, within our loan portfolio, the proportion of the total outstanding balance as well as the total interest income related to our consumer loans, including credit card balances, has increased substantially relative to the balances of and interest income from our corporate loans.

The following table sets forth the balances and the percentage of our total lending represented by our small- and medium-sized enterprise business loans and our large corporate business loans as of the dates indicated, estimated based on our internal classifications of corporate borrowers under Korean GAAP.

	As of December 31,					
	2000		2001		2002	
	(in billions of Won, except percentages)					
Corporate:						
Small- and medium-sized enterprise loans	(Won) 22,393	37.7%	(Won) 30,498	25.2%	(Won) 38,871	26.7%
Large corporate loans	11,378	19.2	11,993	9.9	8,631	5.9
Total	(Won) 33,771	56.9%	(Won) 42,491	35.1%	(Won) 47,502	32.6%

On the deposit-taking side, we currently offer our corporate customers several types of corporate deposits. Our corporate deposit products can be divided into two general categories: demand deposits that have no restrictions on deposits or withdrawals, but which offer a relatively low interest rate, and deposits from which withdrawals are restricted for a period of time, but offer higher interest rates. We also offer installment savings deposits, certificates of deposit and repurchase instruments. We offer varying interest rates on deposit products depending upon the rate of return on our income-earning assets, average funding costs and interest rates offered by other nationwide commercial banks.

The total amount of deposits from our corporate customers amounted to (Won)29,061 billion as of December 31, 2002, or 23.7% of our total deposits.

Small-and Medium-Sized Enterprise Banking

Our small- and medium-sized enterprise banking business has traditionally been and will remain one of our core businesses because of both our historical development and our accumulated expertise.

Table of Contents

The principal focus of our corporate banking activities is on the small- and medium-sized enterprise market in Korea because lending to these enterprises has rapidly grown in Korea, in part because the Korean government has encouraged capital flows to these enterprises. We believe that we possess the necessary elements to succeed in the small- and medium-sized enterprise market, including our extensive branch network, our credit rating system for credit approval, our marketing capabilities (which we believe have provided us with significant brand loyalty) and our ability to take advantage of economies of scale provided by the merger.

We use the term "small- and medium-sized enterprises" as defined in the Small and Medium Industry Basic Act and related regulations. The general criterion used to define small- and medium-sized enterprises is either the number of full-time employees (less than 300), stockholders' equity (equal to or less than (Won)8 billion) or sales revenues (equal to or less than (Won)30 billion). Criteria differ from industry to industry. In all cases, however, the number of full-time employees may not equal or exceed 1,000.

Lending Activities

Our principal loan products for our small- and medium-sized enterprise customers are working capital loans and facilities loans. Working capital loans are provided to finance working capital requirements and include notes discounted and trade financing. Facilities loans are provided to finance the purchase of equipment and the establishment of manufacturing assembly plants. As of December 31, 2002, working capital loans and facilities loans accounted for 87.0% and 13.0%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2002, we had the largest share among Korean banks in terms of the total amount of Won-denominated loans extended to small- and medium-sized enterprises, with over 166,000 customers and an estimated market share of 19.7%, based on our internal statistics.

Loans to small- and medium-sized enterprises may be secured by real estate or deposits or be unsecured. As of December 31, 2002, secured loans and loans guaranteed by a third party accounted for 52.0% and 29.5%, respectively, of our small- and medium-sized enterprise loans. Among the secured loans, approximately 92.6% were secured by real estate and 7.4% were secured by deposits or securities. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three years. Facilities loans have a maximum maturity of 10 years.

When evaluating the extension of working capital loans, we review the corporate customer's creditworthiness and capability to generate cash. Furthermore, we take personal guarantees and credit guaranty letters from other financial institutions and use time and savings deposits that the borrower has with us as collateral. We receive fees in relation to credit evaluation, collateral appraisal and other services provided in connection with a loan extension.

The value of any collateral is defined using a formula that takes into account the appraised value of the property, any prior liens or other claims against the property and an adjustment factor based on a number of considerations including, with respect to property, the value of any nearby property sold in a court-supervised auction during the previous five years. We revalue any collateral on a periodic basis (generally every five years) or if a trigger event occurs with respect to the loan in question.

We also offer collective housing loans. Our collective housing loans are mortgage loans to home builders or developers who build or sell single- or multi-family housing units, principally apartment buildings. Many of these builders and developers are categorized as small- and medium-sized enterprises. We offer a variety of collective housing loans, including loans to purchase property or finance the construction of housing units, loans to contractors used for working capital purposes, and

Table of Contents

loans to educational establishments, small- and medium-sized enterprises and non-profit entities to finance the construction of dormitories. Collective housing loans subject us to the risk that the housing units will not be sold. As a result, we review the probability of the sale of the housing unit when evaluating the extension of a loan. We also review the borrower's creditworthiness and the adequacy of the intended use of proceeds. Furthermore, we take a lien on the land on which the housing unit is to be constructed as collateral. If the collateral is not sufficient to cover the loan, we also take a guarantee from the Housing Finance Credit Guarantee Fund as security.

One of our newest target lending markets with respect to small- and medium-sized enterprises are small office/home office, or SOHO, customers. SOHOs represent sole proprietorships, individual business interests and very small corporations. We generally diversify SOHOs into two groups. The first group are those who do not typically maintain financial statements. We generally lend to this group on a secured basis. For these SOHOs we apply a strict credit risk evaluation model, which uses not only quantitative analysis related to a customer's accounts and due amounts but also requires our credit officers to perform a qualitative analysis of each potential SOHO customer. The second group are those who maintain a double-entry book keeping system. We usually lend to this group on an unsecured basis. We are able to evaluate the risk of this segment through the corporate credit risk system, which takes into account both financial and non-financial criteria. We have concentrated our efforts on providing professional financial services to these customers.

Pricing

We establish the price for our corporate loan products (other than collective housing loans) based principally on transaction risk, our cost of funding and market considerations. Transaction risk is measured by such factors as the credit rating assigned to a particular borrower and the value and type of collateral. Our loans are priced based on the Market Opportunity Rate system.

Our Market Opportunity Rate system takes into account the current market interest rate and an activity-based cost, and a spread calculated to achieve a target return on asset ratio set for the year. As of December 31, 2002, our Market Opportunity Rate for small-and medium-sized enterprise loans was 4.90% for three months, 5.04% for six months and 5.21% for one year, respectively.

With respect to our Market Opportunity Rate system, depending on the price and other terms set by competing banks for similar borrowers, we may reduce the interest rate we charge to compete more effectively with other banks.

As of December 31, 2002, substantially all of our small- and medium-sized enterprise loans had interest rates that varied with reference to our prime rate or another rate.

The interest rates on our collective housing loans are based on a periodic floating rate, which in turn is based on a base rate determined for three-month, six-month or twelve-month periods derived using our Market Opportunity Rate system. After selecting the appropriate periodic floating rate, our loan analysis system raises or lowers the floating rate based on various factors related to the loan and the borrower. In addition, we take into account the market conditions and our expenses and services to be provided with respect to such loan. The loan amount is calculated utilizing our mortgage valuation system. The repayment schedule differs according to the variable term, repayment method and the particular loan. If a loan is terminated prior to its maturity, the corporate borrower is obligated to pay us an early termination fee in addition to the accrued interest.

Large Corporate Banking

Large corporate customers include all companies that are neither small- and medium-sized enterprise customers nor government corporations. Due to our history of development and limitations

Table of Contents

in our articles of incorporation, large corporate banking was not a core business of the former Kookmin Bank or of H&CB prior to the merger. Our articles of incorporation provide that financial services to large corporate customers must be no more than 40% of the total amount of our Won-denominated loans. Within this constraint, we intend to maintain our large corporate banking activities at least at their current level.

Lending Activities

As in the case of our small- and medium-sized enterprise banking business, our principal loan products for our large corporate customers are working capital loans and facilities loans. As of December 31, 2002, working capital loans and facilities loans accounted for 82.5% and 17.5% of our total large corporate loans. We also offer collective housing loans (as described above under *Small- and Medium-Sized Enterprise Banking Lending Activities*) to large corporate clients.

As of December 31, 2002, secured loans and loans guaranteed by a third party accounted for 25.2% and 15.1%, respectively, of our large corporate loans. Among the secured loans, approximately 94.3% were secured by real estate and approximately 5.7% were secured by deposits or securities. Working capital loans generally have a maturity of one year but are extended on an annual basis for an aggregate term of three years. Facilities loans have a maximum maturity of 10 years.

We evaluate creditworthiness and collateral for our large corporate loans in essentially the same way as we do for small- and medium-sized enterprise loans. See *Small- and Medium-Sized Enterprise Banking Lending Activities* above.

As of December 31, 2002, in terms of our outstanding loan balance, 35.2% of our large corporate loans was extended to borrowers in the manufacturing industry, 11.8% was extended to borrowers in the construction industry, and 7.7% was extended to borrowers in the financial and insurance industry.

Pricing

We determine pricing of our large corporate loans in the same way as we determine the pricing of our small- and medium-sized enterprise loans. See *Small- and Medium-Sized Enterprise Banking Pricing* above. As of December 31, 2002, the Market Opportunity Rate, which is utilized in pricing loans offered by us, was the same for our large corporate loans as for our small- and medium-sized enterprise loans.

Capital Markets Activities and International Banking

Through our capital markets operations, we invest and trade in debt and equity securities and, to a lesser extent, engage in derivatives and asset securitization transactions and make call loans.

Securities Investment and Trading

We invest in and trade securities for our own account in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2000, 2001 and 2002, our investment portfolio, which consists primarily of held-to-maturity securities and available-for-sale securities, and our trading portfolio had a combined total book value of (Won)20,806 billion, (Won)32,738 billion and (Won)29,898 billion and represented 22.9%, 17.8% and 16.2% of our total assets, respectively.

Our trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, local governments or certain government-invested

Table of Contents

enterprises and debt securities issued by financial institutions. As of December 31, 2000, 2001 and 2002, we held debt securities with a total book value of (Won)18,169 billion, (Won)24,311 billion and (Won) 21,941 billion, respectively, of which:

held-to-maturity debt securities accounted for (Won)9,005 billion, (Won)13,225 billion, and (Won)11,134 billion or 49.6%, 54.4% and 50.7%, respectively;

available-for-sale debt securities accounted for (Won)6,718 billion, (Won)8,772 billion and (Won)9,030 billion or 37.0%, 36.1% and 41.2%, respectively; and

trading debt securities accounted for (Won)2,447 billion, (Won)2,314 billion and (Won)1,777 billion or 13.5%, 9.5% and 8.1%, respectively.

Of these amounts, debt securities issued by the Korean government and government agencies as of December 31, 2000, 2001 and 2002 amounted to:

(Won)4,855 billion, (Won)8,915 billion and (Won)8,735 billion, or 53.9%, 67.4% and 78.5%, respectively, of our held-to-maturity debt securities;

(Won)3,536 billion, (Won)3,675 billion and (Won)4,096 billion, or 52.6%, 41.9% and 45.4%, respectively, of our available-for-sale debt securities;

(Won)1,756 billion, (Won)1,229 billion and (Won)840 billion, or 71.8%, 53.1% and 47.3%, respectively, of our trading debt securities.

From time to time we also purchase equity securities for our securities portfolios. Our equity securities consist primarily of marketable beneficiary certificates and equities listed on the Korea Stock Exchange or KOSDAQ. As of December 31, 2000, 2001 and 2002:

equity securities in our available-for-sale portfolio had a book value of (Won)1,563 billion, (Won)3,552 billion and (Won)3,452 billion, or 18.9%, 28.8% and 27.7% of our available-for-sale portfolio, respectively; and

equity securities in our trading portfolio had a book value of (Won)149 billion, (Won)4,193 billion and (Won)3,898 billion, or 5.7%, 64.4% and 68.7% of our debt and equity trading portfolio, respectively.

Our trading portfolio also includes foreign exchange spot contracts and derivative instruments. See Derivatives Trading. Our investment portfolio also includes venture capital activities, non-marketable equity securities and investments under the equity method. As of December 31, 2000, 2001 and 2002, these investments had an aggregate book value of (Won)416 billion, (Won)682 billion and (Won)607 billion, respectively.

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The book value of our trading and investment portfolio has increased, excluding the increase in assets attributable to the merger. This increase has been driven by our increased level of funding resulting from the increase in our deposit taking. Funds which are not used for lending activities have been used to purchase securities.

Table of Contents

The following table shows, as of the dates indicated, the gross unrealized gains and losses on available-for-sale and held-to-maturity securities within our investment securities portfolio and the amortized cost and fair value of the portfolio by type of investment security.

As of December 31, 2000				
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
(in billions of Won)				
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 3,419	(Won) 121	(Won) 4	(Won) 3,536
Corporate (1)	1,266	107	10	1,363
Financial institutions (2)	1,516	38	5	1,549
Foreign governments	26	6		32
Asset-backed securities	154	3		157
Other debt securities	80	1		81
Subtotal	6,461	276	19	6,718
Equity securities	1,530	49	16	1,563
Total available-for-sale securities	(Won) 7,991	(Won) 325	(Won) 35	(Won) 8,281
Held-to-maturity securities:				
Korean Treasury securities and government agencies	(Won) 4,856	(Won) 260		(Won) 5,116
Corporate (3)	529	16	(Won) 1	544
Financial institutions (4)	2,754	12	2	2,764
Foreign governments	99	3	1	101
Asset-backed securities	766	10		776
Other debt securities	1			1
Total held-to-maturity securities	(Won) 9,005	(Won) 301	(Won) 4	(Won) 9,302

Table of Contents

As of December 31, 2001				
	Amortized	Gross	Gross	Fair
	Cost	unrealized	unrealized	value
		gain	loss	
(in billions of Won)				
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 3,615	(Won) 78	(Won) 18	(Won) 3,675
Corporate (1)	2,582	69	31	2,620
Financial institutions (2)	2,150	44	4	2,190
Foreign governments	25	4		29
Asset-backed securities	258	2	2	258
Other debt securities				
Subtotal	8,630	197	55	8,772
Equity securities	3,256	306	10	3,552
Total available-for-sale securities	(Won) 11,886	(Won) 503	(Won) 65	(Won) 12,324
Held-to-maturity securities:				
Korean Treasury securities and government agencies	(Won) 8,915	(Won) 263	(Won) 16	(Won) 9,162
Corporate (3)	655	16		671
Financial institutions (4)	1,712	9	1	1,720
Foreign governments	53	1	2	52
Asset-backed securities	1,890	22	2	1,910
Other debt securities				
Total held-to-maturity securities	(Won) 13,225	(Won) 311	(Won) 21	(Won) 13,515

Table of Contents

As of December 31, 2002				
		Gross	Gross	
	Amortized	unrealized	unrealized	
	cost	gain	loss	Fair value
(in billions of Won)				
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 4,022	(Won) 82	(Won) 8	(Won) 4,096
Corporate (1)	2,041	54	27	2,068
Financial institutions (2)	2,622	33	6	2,649
Foreign governments	17	3		20
Asset-backed securities	155	42		197
Other debt securities				
Subtotal	8,857	214	41	9,030
Equity securities	3,360	97	5	3,452
Total available-for-sale securities	(Won) 12,217	(Won) 311	(Won) 46	(Won) 12,482
Held-to-maturity securities:				
Korean Treasury securities and government agencies	(Won) 8,735	(Won) 294		(Won) 9,029
Corporate (3)	313	30	(Won) 2	341
Financial institutions (4)	933	9		942
Foreign governments	49	1	1	49
Asset-backed securities	1,104	15		1,119
Other debt securities				
Total held-to-maturity securities	(Won) 11,134	(Won) 349	(Won) 3	(Won) 11,480

(1) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)139 billion as of December 31, 2000, (Won)241 billion as of December 31, 2001 and (Won)183 billion as of December 31, 2002.

(2) Includes debt securities issued by the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea in the aggregate amount of (Won)1,002 billion as of December 31, 2000, (Won)1,907 billion as of December 31, 2001 and (Won)2,217 billion as of December 31, 2002. These financial institutions are controlled by the Korean government.

(3) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)157 billion as of December 31, 2000, (Won)156 billion as of December 31, 2001 and (Won)88 billion as of December 31, 2002.

(4) Includes debt securities issued by the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea in the aggregate amount of (Won)1,160 billion as of December 31, 2000, (Won)1,402 billion as of December 31, 2001 and (Won)876 billion as of December 31, 2002. These financial institutions are controlled by the Korean government.

Derivatives Trading

Until the full-scale launch of our derivative operations in mid-1999, we had been engaged in limited volumes of derivatives trading, mostly on behalf of our customers. Since then, our trading volume significantly increased from (Won)13,730 billion in 2000 to (Won)25,487 billion in 2001 to (Won)57,061 billion in 2002. Our net trading revenue from derivatives and foreign exchange spot contracts for the year ended December 31, 2000, 2001 and 2002 was (Won)78 billion, (Won)88 billion and (Won)189 billion, respectively.

We provide and trade a range of derivatives products, including:

Won interest rate swaps, relating to Won interest rate risks;

cross-currency swaps, relating to foreign exchange risks, largely for Won against U.S. dollars; and

foreign exchange forwards, swaps and options, relating to foreign exchange risks.

Table of Contents

To provide more sophisticated and complete treasury risk management services to our clients, we entered into a business alliance with Australia's Macquarie Bank in December 1998. Macquarie Bank, established in 1969, is a leading provider of financial services offering a full range of investment banking, commercial banking and retail financial services in over 20 different countries around the world. Through this alliance, we were able to combine Macquarie Bank's derivatives expertise, risk management systems and methodologies with our established local infrastructure and strong market presence.

Our derivative operations focus on addressing the needs of our corporate clients to hedge their risk exposure and to hedge our risk exposure that results from such client contracts. We also engage in derivative trading activities to hedge the interest rate and foreign currency risk exposure that arise from our own assets and liabilities. The majority of these hedge-purposed derivative contracts, however, do not qualify for hedge accounting under U.S. GAAP and are consequently treated as trading derivatives. In addition, we engage in proprietary trading of derivatives within our regulated open position limits.

The following shows the estimated fair value of derivatives and foreign exchange spot contracts held or issued for trading purposes as of December 31, 2000, 2001 and 2002.

As of December 31,						
	2000		2001		2002	
	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
(in billions of Won)						
Foreign exchange spot contracts	(Won) 2	(Won) 2	(Won) 3	(Won) 4	(Won) 5	(Won) 4
Foreign exchange derivatives	449	654	254	202	512	353
Interest rate derivatives	57	62	83	81	150	247
Equity derivatives			27		26	21
Credit derivatives	1					
Total	(Won) 509	(Won) 718	(Won) 367	(Won) 287	(Won) 693	(Won) 625

The following table shows the unrealized gains and losses of derivatives held or issued for hedging purposes as of December 31, 2000, 2001 and 2002.

As of December 31,					
2000		2001		2002	
Unrealized	Unrealized	Unrealized	Unrealized	Unrealized	Unrealized
Gains	Losses	Gains	Losses	Gains	Losses

We are active in the Korean asset-backed securities market. We have participated in a number of asset securitization transactions in Korea, through our capacities as arranger, trustee and liquidity provider. We have a significant share of the trustee market. We believe that our participation in the asset-backed securities market will provide us with an alternate source of fee income. Including issuances by Kookmin Credit Card, we were involved in asset securitization transactions with an initial aggregate issue amount of (Won)13,104 billion in 2002 and (Won)20,397 billion in 2001. In 2000, the former Kookmin Bank and H&CB were involved in asset securitization transactions with an initial aggregate

Table of Contents

issue amount of (Won)28,166 billion. We believe that most of these securities are sold to institutional investors buying through Korean securities houses.

Call Loans

We make call loans and borrow call money in the short-term money market. Call loans are short-term lending among banks and financial institutions in either Won or foreign currencies, in amounts exceeding (Won)100 million, with maturities of 30 days or less. Typically, call loans have maturities of one day. As of December 31, 2002, we had made call loans of (Won)230 billion and borrowed call money of (Won)306 billion, compared to (Won)1,372 billion and (Won)2,701 billion, respectively, as of December 31, 2001.

Investment Banking

We have focused on selectively expanding our investment banking activities in order to increase our fee income and diversify our revenue base. The main focus of our investment banking operations is project finance and financial advisory services. We provide project finance and financial advisory services in the area of social overhead capital projects such as highway, port, power and water and sewage projects, as well as structured finance, leveraged buy-out financing, equity and venture financing and brokerage of merger and acquisition transactions. In 2002, we generated investment banking revenue of (Won)90 billion, consisting of (Won)71 billion of interest income and (Won)19 billion of fee income, from 38 financing arrangements and 22 advisory projects.

Through the merger with Korea Long Term Credit Bank in December 1998, the then-market leader in the Korean project finance market, we secured a leading position in that market.

International Banking

We engage in various international banking activities, including foreign exchange services and derivatives dealing, import and export-related services, offshore lending, syndicated loans and foreign currency securities investment. These services are provided primarily to our domestic customers and overseas subsidiaries and affiliates of Korean corporations. We also raise foreign currency funds through our international banking operations. Since the Korean financial crisis, which began in late 1997, we have focused on minimizing the risk of our existing foreign currency assets and maximizing the recovery ratio of non-performing assets while selectively providing financing to and making investments in overseas subsidiaries of Korean companies.

The table below sets forth certain information regarding our foreign currency assets and borrowings:

As of December 31,

2001	2002
-------------	-------------

		(in millions of US\$)
Total foreign currency assets	\$ 6,817	\$ 6,035
Foreign currency assets managed by International Banking Business Unit	3,814	4,796
Foreign currency borrowings		
Long-term borrowings	2,082	1,664
Short-term borrowings	1,506	1,316
Total borrowings	\$ 3,588	\$ 2,980

Table of Contents

The table below sets forth our overseas subsidiaries and branches currently in operation as of December 31, 2002.

Business Unit (1)	Location
Subsidiaries	
Kookmin Bank Luxembourg S.A.	Luxembourg
Kookmin Finance Hong Kong Ltd.	Hong Kong
Kookmin Bank International Ltd.	United Kingdom
Branches	
Kookmin Bank, Tokyo Branch	Japan
Kookmin Bank, Auckland Branch	New Zealand
Kookmin Bank, New York Branch	United States

(1) Does not include subsidiaries and branches in liquidation or dissolution.

Our overseas branches and subsidiaries principally provide Korean companies and nationals in overseas markets with trade financing, local currency funding and foreign exchange services, in conjunction with the operations of our headquarters. On a limited basis, they also engage in investment and trading of securities of foreign issuers.

Trustee and Custodian Services Relating to Securities Investment Trusts and other Functions

We act as a trustee for 24 securities investment trust management companies, which are entities established to invest in securities using funds raised by the sale of beneficiary certificates of investment trusts to investors. We also act as custodian, settlement and clearing agent and fund administrator for 44 financial institutions with respect to various securities investments. We receive a fee for acting in these capacities and generally perform the following functions:

holding securities for the benefit of the securities investment trust;

receiving and making payments made in respect of such securities;

executing trades in respect of such securities on behalf of the securities investment trust, based on instructions from the relevant securities investment trust management company;

in certain cases, authenticating beneficiary certificates issued by the securities investment trust and handling settlements in respect of such beneficiary certificates;

clearing and settlement in the domestic and foreign securities markets;

providing foreign exchange services for overseas investment and foreign investors; and

providing fund-related administration and accounting services.

For the year ended December 31, 2002, our fee income from our trustee and custodian services was (Won)20 billion. Approximately 24% of the securities investment trusts for which we provide trustee services are currently managed by KB Investment Trust Management, which is a subsidiary owned 80% by us and 20% by ING Insurance International N.V.

Other Businesses

Trust Account Management Services

Money Trust Management Services

We provide trust account management services for money trusts, which are trusts the assets of which we generally have broad discretion in investing. We receive fees for our trust account management services consisting of (1) basic fees that are based upon a percentage of the net asset

Table of Contents

value of the assets under management and (2) performance fees that are based upon the performance of the trust account operation. In 2002, our basic fees ranged from 0.4% to 2.0% of total assets under management depending on the type of trust account product. We also charge performance fees with respect to certain types of trust account products. We receive penalty payments when customers terminate their trust accounts prior to the original contract maturity.

We currently provide trust account management services for 22 types of money trusts. The money trusts we manage are generally trusts with a fixed life, which allow investors to share in the performance of the investments of the trust in proportion to the amount of their investment in the trust. Certain of our money trusts also make periodic distributions of dividend.

Under Korean law, the assets of our trust accounts are segregated from our banking account assets and are not available to satisfy the claims of any of our potential creditors. We are, however, permitted to deposit surplus funds generated by trust assets into our banking accounts.

As of December 31, 2002, the total balance of our money trusts (under Korean GAAP) was (Won)15,356 billion. Except for specified money trust accounts, we have investment discretion over all money trusts, which are pooled and managed jointly for each type of trust account. Specified money trust accounts are established on behalf of individual customers, typically corporations, which direct our investment of trust assets.

The following table shows the balances of our money trusts by type as of the dates indicated as determined in accordance with Korean GAAP. Under U.S. GAAP, we historically have not consolidated money trust accounts in our financial statements or recognized the acquisition of such accounts in accordance with the purchase method of accounting due to the fact that these are not our assets but customer assets. As more fully discussed in Note 11 to our financial statements, however, it is likely that for future periods we will consolidate money trusts for which we guarantee the principal amount invested (as described below).

	As of December 31,		
	2000 (1)	2001	2002
	(in billions of Won)		
Principal and interest guaranteed trusts	(Won) 77	(Won) 3	(Won) 1
Principal guaranteed trusts	2,258	5,394	3,696
Performance trusts	18,014	14,343	11,659
Total	(Won) 20,349	(Won) 19,740	(Won) 15,356

(1) Amounts have been restated to reflect the consolidation of trust accounts of the former Kookmin Bank and H&CB according to guidelines by the Financial Supervisory Commission.

The balance of our money trusts decreased 22.2% between December 31, 2001 and December 31, 2002. This decrease resulted from a number of factors that made investing in trust accounts less attractive, such as increased competition, continued low yields and increased fluctuations in bond interest rates.

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As of December 31, 2002, the trust assets we managed consisted principally of securities investments and loans from the trust accounts. As of December 31, 2002, under Korean GAAP, our trust accounts had invested in securities in the aggregate amount of (Won)14,826 billion, of which (Won)14,046 billion was debt securities. Securities investments consist of government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities and other securities. Loans made by our trust account operations are similar in type to the loans made by our bank account operations. As of December 31, 2002, under Korean GAAP, our trust accounts had

Table of Contents

made loans in the principal amount of (Won)575 billion (excluding loans from the trust accounts to our banking accounts of (Won)443 billion), which accounted for approximately 3.7% of our money trust assets. Because we act as trustee, loans by money trusts are made at our discretion and are subject to the same credit approval process as loans from our banking accounts. As of December 31, 2002, 95.7% of the amount of loans from our money trust accounts were collateralized or guaranteed.

Our money trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by investment trust companies. On a Korean GAAP basis, as of December 31, 2002, equity securities in our money trust accounts amounted to (Won)780 billion, which accounted for approximately 4.9% of our total money trust assets. Of this amount, (Won)679 billion was from specified money trusts and (Won)101 billion was from money trusts over which we have investment discretion.

For some of the money trusts we manage, we have guaranteed the principal amount of an investor's investment as well as a fixed rate of interest. As a result of changes in the Financial Supervisory Commission regulations on January 1, 1996 and 1999, we can no longer offer new money trusts where we guarantee both the principal amount and a fixed rate of interest. On a Korean GAAP basis, as of December 31, 2002, the balance of the money trusts for which we guaranteed both the principal and interest was (Won)1 billion, most of which had a maturity of one year or less.

We currently continue to offer pension-type money trusts that provide a guarantee of the principal amount of an investor's investment. On a Korean GAAP basis, as of December 31, 2002, the balance of the money trusts for which we guaranteed only the principal was (Won)3,696 billion. In addition, following recent statements by the Korean government, we expect that we may no longer be permitted to offer trust products where we guarantee the principal amount of an investor's investment. Accordingly, we are phasing out these products.

If the income from a money trust for which we provide a guarantee is less than the amount of the payments we have guaranteed, we will need to pay the amount of the shortfall with funds from special reserves maintained with respect to trust accounts followed by basic fees from that money trust and funds from our general banking operations. We net any payments we make as a result of these shortfalls against any gains we receive from other money trusts. In 2000 and 2001, we made payments from our banking accounts to cover shortfalls in our guaranteed return trusts of (Won)236 billion and (Won)31 billion, respectively. In 2002, we made no such payments. On a Korean GAAP basis, after these payments from our banking accounts to guaranteed trust accounts, we derived net trust fees with regard to trust account management services (including those fees related to property trust management services) of (Won)113 billion in 2000, (Won)203 billion in 2001 and (Won)319 billion in 2002.

Property Trust Management Services

We also offer property trust management services, where we manage non-cash assets in return for a fee. Non-cash assets include mostly securities, but can also include movable property such as artwork. Under these arrangements, we render escrow or custodial services for the property in question and collect fee income in return.

In 2002, our property trust fees ranged from 0.005% to 0.1% of total assets under management depending on the type of trust account product. Although the aggregate balance of our money trusts has been declining, the aggregate balance of our property trusts has been increasing. As of December 31, 2002, the aggregate balance of our property trusts increased to (Won)26,853 billion, compared to (Won)12,560 billion in 2001.

The property trusts are not consolidated within our U.S. GAAP financial statements.

Table of Contents

Management of the National Housing Fund

We manage the operations of the National Housing Fund. The National Housing Fund provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small- and medium-sized housing. As of December 31, 2002, the National Housing Fund accounted for 48% of the total amount of housing loans in Korea. The activities of the National Housing Fund are funded by loans from the Korean government, the issuance of national housing bonds, which must be purchased by persons and legal entities wishing to make real estate-related registrations and filings, subscription savings deposits held at the National Housing Fund and the sale of lottery tickets.

In return for managing the operations of the National Housing Fund we receive a monthly fee. This fee consists of a fund raising fee, a loan origination fee and a management fee. The fund raising fee is based on the number of National Housing Fund subscription savings deposit accounts opened, the number of National Housing Fund bonds issued or redeemed and the number of National Housing Fund lottery tickets we sell to raise funds for the National Housing Fund during each month. The loan origination fee is based on the number of new National Housing Fund loans and the number of National Housing Fund mortgage loans to contractors constructing housing units that are assumed by the individual buyers of housing units during each month. The management fee is based on the number of outstanding accounts at the end of each month and the number of overdue loans owed to the National Housing Fund at the end of each month. In 2002, we received total fees of (Won)198 billion for managing the National Housing Fund, which accounted for 14.7% of our fee and commission income in 2002. In November and December 2001, we received total management fees of (Won)33 billion, which accounted for 2.3% of our total fee and commission revenue during 2001. In the ten months ended October 31, 2001, H&CB received total management fees of (Won)149 billion. In 2000, H&CB received total management fees of (Won)158 billion.

In connection with our management of the National Housing Fund, we also manage the National Housing Fund's three lotteries. The lotteries are used to raise funds for the National Housing Fund. There is a weekly drawing lottery, an instant lottery, which uses scratch cards, and a multiple drawing lottery in which the prize money is rolled into the next drawing twice if there is no winner. The lotteries have cash prizes and are self-funded. In 2001, an average of (Won)18 billion worth of lottery tickets were sold each month. For 2002, an average of (Won)25 billion worth of lottery tickets were sold each month. In December 2002, we also combined with several government agencies to manage a new lottery called Lotto 6/45 a portion of the proceeds of which will go to the National Housing Fund.

The financial accounting for the National Housing Fund is entirely separate from our financial accounting, and the non-performing loans and loan losses of the National Housing Fund, in general, do not impact our financial condition except in those instances described below. Regulations and guidelines for managing the National Housing Fund are issued by the Minister of Construction and Transportation pursuant to the Housing Construction Promotion Law.

The Housing Construction Promotion Law was amended in January 2000 so that the Minister of Construction and Transportation could also designate other financial institutions to manage the National Housing Fund. In addition, the Ministry of Construction and Transportation announced in September 2001 that it had formulated a plan to improve the overall management of the National Housing Fund. As part of that plan, the Ministry of Construction and Transportation announced that it intended to strengthen existing regulations to provide for liability of managers of the National Housing Fund, where they have clear responsibility for non-performing National Housing Fund loans or where losses result to the National Housing Fund due to negligent management. The Ministry of Construction and Transportation also completed a process of reviewing with outside consultants the existing management and fee structure for the National Housing Fund. As a result, on November 1, 2002, the

Table of Contents

Ministry of Construction and Transportation designated two other financial institutions as managers, together with us, of the Fund with a view to diversify the management of the Fund. Prior to this designation, we were the sole managers of the Fund. The appointment of the two other financial institutions is for three years and is subject to renewal. The Ministry of Construction and Transportation is also planning to change the basis of calculating fees related to the National Housing Fund.

Bancassurance

On December 4, 2002, we entered an alliance with ING Bank N.V., ING Insurance International N.V. and ING Life Insurance Company, Korea, Ltd., pursuant to which ING Life Insurance Company, Korea, Ltd. would be the exclusive provider of life insurance products for our bancassurance business so long as ING Groep N.V. and its affiliates maintain a minimum shareholding in us as defined in the strategic alliance agreement. This was in anticipation of the revision by the Korean government of relevant regulations to liberalize the bancassurance market and allow non-insurance distribution channels, such as banks and other financial institutions, to offer banking and insurance products from August 2003. The Korean government, however, announced that banks and other financial institutions may not enter into an exclusive relationship with one insurance company for the provision of life insurance products. Moreover, ING Groep and its affiliates have not yet acquired the additional 6,748,887 of our common shares, which they were required to do by May 31, 2003 to maintain their minimum shareholding. We also have a right to extend this deadline to June 30, 2003 pursuant to a waiver agreement. We are currently in discussions with ING Groep N.V. regarding its potential purchase of these shares and to revise the terms of our alliance with ING Groep and ING Life Insurance Company, Korea, Ltd. with respect to the bancassurance business. In addition, in March and May 2003, we reached an understanding with Samsung Life Insurance Co. and Kyobo Life Insurance Co., two of Korea's largest life insurance companies, to provide insurance products for KB's bancassurance business on a non-exclusive basis.

For more details regarding our relationship with ING Groep, see Item 4A. History and Development of the Company History of H&CB, Item 7A. Major Stockholders, Item 7B. Related Party Transactions and Item 10C. Material Contracts.

Other Distribution Channels

The following table sets forth information, for the periods indicated, on the number of users and transactions and the fee revenue of the other services provided to our retail and corporate customers, which are discussed below.

For the year ended December 31,											
2000					2001				2002		
Kookmin					Kookmin				Kookmin		
Bank		H&CB			Bank		H&CB		Bank		
Phone banking:											
Number of users (1)		1,673,141		1,574,198		2,241,987		1,908,576		1,696,587	
Number of transaction (thousands)		128,693		39,007		188,748		59,825		338,616	
(Won)		5.720		(Won)		3.102		(Won)		6.080	
						(Won)		3.468		(Won)	11.817

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Fee revenue (in millions of Won)

Internet banking:

Number of users (2)	1,265,406	494,262	1,667,324	856,658	2,733,802
Number of transactions (thousands)	53,364	12,677	173,099	66,028	271,419
Fee revenue (in millions of Won)	(Won) 1,545	(Won) 493	(Won) 2,685	(Won) 886	(Won) 6,701

Table of Contents

- (1) For 2000 and 2001, users were defined as any person who had ever recorded a transaction using phone banking. For 2002, users were defined as persons who had recorded a transaction within the past six months (excluding overlapping and inactive customers).
- (2) For 2000 and 2001, users were defined as any person who had ever recorded a transaction using Internet banking. For 2002, users were defined as persons who had recorded a transaction within the past 12 months (excluding overlapping and inactive customers).

Phone Banking

We launched our telephone banking services in November 1991, allowing customers to conduct a number of types of transactions by telephone. We offer a variety of services, including inter-account fund transfers, balance and transaction inquiries, credit card transaction inquiries and customer service inquiries. We also have call centers, which we primarily use to:

advise clients with respect to deposits, loans and credit cards and to provide our customers a way to report any emergencies with respect to their accounts;

allow our customers to conduct transactions with respect to their accounts, such as transfers or payments, opening or closing accounts, processing loans through automated systems, conducting credit card transactions and offering lottery-related services;

conduct telemarketing to our customers or potential customers to advertise products or services and to coordinate telemarketing through phone, fax or text messaging; and

provide automated banking services, mobile services or other services relating to affinity programs.

Internet Banking

We began to offer a variety of services over the Internet beginning in July 1999. Our goal is to consolidate our position as a market leader in on-line banking. Our Internet banking services currently include:

Basic Banking Services these include all of the banking services offered through our telephone banking services, including funds transfers, balance and transaction inquiries, credit card transaction inquiries, pre-set automatic transfers and product inquiries;

Processing of Loan Applications we quickly process and approve on-line loan applications;

Electronic Certification we offer an electronic certification service, which permits Internet users to authenticate transactions on a confidential basis through digital signatures;

Mondex e-Cash we offer the Korean banking industry's first electronic cash system which facilitates purchases at affiliated merchants through a smart card that allows credit to be transferred electronically through the Internet, telephone, ATM or other digital transfer systems.

Mobile Banking

Mobile banking services allow customers to use mobile phones or PDAs (Personal Digital Assistants) to make inter-account transfers and balance and other transaction inquiries. There are currently three mobile phone service providers in Korea: SK Telecom, KT Freetel and LG Telecom, and we provide our services in association with all three.

Other Channels

In May 1989, we began providing cash management services, which included automatic transfers, connection services to other financial institutions, real-time firm banking, automatic fund

Table of Contents

concentration and transmittal of trading information. We have continued to develop our firm banking services and, as of December 31, 2002, we provided cash management services to over 3,000 large corporations and small- and medium-sized enterprises.

Competition

We compete principally with other nationwide commercial banks in Korea, but we also face competition from a number of additional sources including regional banks, development banks, specialized banks and branches of foreign banks operating in Korea and installment finance corporations for mortgage loan products. We also compete for customer funds with other types of financial service institutions, including savings institutions (such as mutual savings and finance companies and credit unions and credit cooperatives), investment institutions (such as merchant banking corporations) and life insurance companies. Competition in the domestic banking industry is generally based on the types and quality of the products and services offered, including the size and location of retail networks, the level of automation and interest rates charged and paid.

Competition has increased significantly in our traditional core businesses retail banking, small-and medium-sized enterprise banking and credit card lending as a result of other commercial banks reducing their exposure to large corporations in light of recent financial difficulties that they experienced. As a result, our margins on lending activities may decrease in the future.

In addition, general regulatory reforms in the Korean banking industry, accelerated by Korea's economic difficulties since late 1997 and the Korean government's commitments to the International Monetary Fund, have increased competition among banks and financial institutions in Korea. Among these reforms was the lifting of the regulatory restrictions on mortgage lending and housing deposit taking activities that had prevented the other commercial banks in Korea from competing directly with H&CB in providing mortgage finance products. This means that we now face broad competition in our mortgage lending activities. The increased competition in the mortgage sector has also contributed to lower margins from our mortgage lending activities. As the reform of the financial sector continues, foreign financial institutions, some with greater resources than us, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with us in providing financial and related services.

In addition, the Korean commercial banking sector is undergoing significant consolidation. A number of significant mergers and acquisitions in the industry have taken place in Korea during the last five years, including the establishment of financial holding companies, which have reduced the number of nationwide commercial banks in Korea from 16 as of December 31, 1997, to eight banks and two financial holding companies as of December 31, 2002. Merger and acquisition activity in the Korean commercial banking sector may continue, and we intend to review potential acquisition opportunities as they arise. We cannot guarantee that we will not be involved in any future mergers. In addition, some of the banks resulting from these mergers may, by virtue of the increased size, provide significantly greater competition than what exists at present.

For additional information, you should read the sections entitled Item 3D. Risk Factors Risks relating to competition.

Information Technology

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As a result of the merger between the former Kookmin Bank and H&CB, we completed the integration of our IT operations onto a single platform in September 2002 (based on H&CB's platform but incorporating functionalities of the former Kookmin Bank's platform). This system is fully integrated and provides information to all offices and branches.

Table of Contents

Prior to our IT integration, H&CB's system was backed up on a real time basis at a third party site, and the former Kookmin Bank system was backed up by H&CB's system on a real time basis from June 2002. In September 2002 after completion of our IT integration, we completed the transfer of the H&CB operations to the main center and the transfer of the former Kookmin Bank operations to the back-up center. In addition, through the implementation of Parallel Sysplex, which is a new information system (also known as a multi-host system), we believe we are able to conduct our operations without material interruption in the event of an internal system failure. This system also enables us to process more than 1,000 transactions per second. The integrity of our electronic systems, and their ability to withstand potential catastrophic events (such as natural calamities and internal system failures), is crucial to our continuing operations. In February 2002, we developed a draft plan to create an integrated IT infrastructure and have completed the initial development of this system. We currently intend to test our disaster recovery systems quarterly, with the branch system recovery capability being tested twice a year and the headquarters system tested four times a year. For additional information, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Operational Risk Management.

We believe that a sophisticated IT system is crucial in supporting our operations management and providing high quality customer service. Accordingly, we plan to upgrade and improve our system by taking the following initiatives:

developing the Next Generation Banking System, an advanced IT system designed to enhance the processing speed of our systems and make them more user-friendly by adopting component-based development technology based on Java and J2EE, which is the newest Java platform;

completing the introduction of a bank-wide integrated customer relationship management system including the development of an online Internet-based customer relationship management system, which are designed to provide us with comprehensive customer information, including transaction history, and thereby allow us to identify potential marketing and cross-marketing opportunities;

strengthening our security system by periodically consulting with security experts, centralizing control and management of the security system, researching and developing a public key encryption system and improving our firewall and virus prevention system; and

replacing and upgrading our IT software and equipment, including servers, CPUs, terminals, automated banking machines such as ATMs and cash dispensers and telecommunications devices.

In 2002, we spent approximately (Won)500 billion for our IT systems, which include integrating the two operations onto a single platform, and for subsequent upgrades and improvements to our integrated system. In 2003, we allocated approximately (Won)400 billion in order to continue to upgrade and improve our integrated system to achieve synergies from the merger and to develop the Next Generation Banking System. As of December 31, 2002, we employed a total of approximately 684 employees in connection with our IT operations.

Table of Contents**Assets and Liabilities**

The tables below set out selected financial highlights regarding our banking operations and individual assets and liabilities. Data as of and for the year ended December 31, 2001 reflect the impact of the merger between the former Kookmin Bank and H&CB, effective November 1, 2001. In addition, data in these tables do not include information with respect to operations that we have classified as discontinued operations as of and for the year ended December 31, 2002 under U.S. GAAP.

Loan Portfolio

As of December 31, 2002, our total loan portfolio was (Won)145,832 billion, an increase of 20.6% from (Won)120,894 billion at December 31, 2001. As of December 31, 2002, approximately 96.6% of our total loans were Won-denominated loans. The increase in the portfolio primarily reflects increases in corporate and retail loans, including credit card accounts.

Loan Types

The following table presents loans by type for the periods indicated. Except where we specify otherwise, all loan amounts stated below are before deduction of allowance for loan losses. Total loans reflect our loan portfolio, including past due amounts.

	As of December 31,				
	1998	1999	2000	2001	2002
	(in billions of Won)				
Domestic					
Corporate					
Commercial and industrial (1)	(Won) 23,699	(Won) 24,667	(Won) 29,795	(Won) 36,113	(Won) 40,072
Construction	1,882	1,724	2,168	4,141	6,385
Lease financing	1,327	882	592	568	
Other commercial	985	1,053	1,216	1,669	1,045
Retail					
Mortgage and home equity	4,519	6,034	8,068	37,194	46,195
Other consumer	5,913	6,143	8,151	23,312	28,066
Credit cards	2,525	3,362	8,321	16,751	22,643
Total domestic	40,850	43,865	58,311	119,748	144,406
Foreign					
Corporate					
Commercial and industrial	1,017	1,080	1,086	1,146	1,426
Total foreign	1,017	1,080	1,086	1,146	1,426

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Total gross loans	(Won) 41,867	(Won) 44,945	(Won) 59,397	(Won) 120,894	(Won) 145,832
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- (1) Commercial and industrial loans include (Won)447 billion, (Won)1,832 billion, (Won)334 billion and (Won)165 billion of loans to Korean government and government related agencies (including the Korea Deposit Insurance Corporation) as of December 31, 1999, 2000, 2001 and 2002, respectively.

Loan Concentrations

We limit our exposure to any single borrower to between 1% and 10% of our total Tier I and Tier II capital, depending on their rating under our credit scoring system. We also limit our exposure to any single chaebol to 20.0% of our total Tier I and Tier II capital (less any capital deductions).

Table of Contents*Twenty Largest Exposures by Borrower*

As of December 31, 2002, our twenty largest exposures totaled (Won)14,753 billion and accounted for 8.25% of our total exposures. The following table sets forth, as of December 31, 2002, our total exposures to these top twenty borrowers under Korean GAAP.

Company	Loans		Equity Securities	Debt Securities	Guarantees		Amounts classified as substandard or below (1)
	Foreign	Won			and	Total	
	currency	currency					
(in billions of Won)							
KDIC				(Won) 5,352		(Won) 5,352	
Bank of Korea				3,284		3,284	
KAMCO				1,424		1,424	
Korea Development Bank				566		566	
KEPCO	(Won) 86		(Won) 7	271		364	
Hanjin Shipping	151	(Won) 185			(Won) 1	337	
Woori Bank		239		74		313	
Korean Air Lines	176	117		10		303	
Korean Land Development	43			233		276	
Hana Bank		271	4			275	
Hyundai Capital New Airport Highway	85			181		266	
Hyundai Merchant Marine	265					265	
	104	155				259	(Won) 104
Samsung Card	50			197		247	
SK Corporation	40			33	162	235	
Hyundai Motors	9	32	2	94	73	210	
KT	57	10	9	125	1	202	
KTF	50			133	15	198	
Samsung Capital	90			101		191	
SK Global	2	85		26	73	186	186
Total	(Won) 1,208	(Won) 1,094	(Won) 22	(Won) 12,104	(Won) 325	(Won) 14,753	(Won) 290

(1) Classification is based on the Financial Supervisory Commission's asset classification criteria.

As of December 31, 2002, we had total exposures of (Won)259 billion to Hyundai Merchant Marine, all of which were classified as impaired under U.S. GAAP. Beginning during the Asian financial crisis, Hyundai Merchant Marine has experienced significant financial difficulties. In connection with these difficulties, Hyundai Merchant Marine has been subject to workout and corporate restructuring procedures, under which its creditor financial institutions have provided it with significant financial assistance, including in the form of additional loans, extensions of maturities of various outstanding payment obligations, debt-equity swap transactions, guarantees of overseas borrowings and injections of additional capital.

As of December 31, 2002, we had total exposures of (Won)186 billion to SK Global, all of which were classified as impaired under U.S. GAAP. In addition, in 2002 we took an impairment charge of (Won)26 billion relating to SK Global debt securities we held. In March 2003, the principal creditor banks of SK Global commenced corporate restructuring procedures against SK Global after the company publicly announced that its financial statements had understated its debt by (Won)1.1 trillion and overstated its profits by (Won)1.5 trillion in its financial statements. This admission resulted from a government

Table of Contents

investigation of a number of SK Group companies for unlawful stock transactions and accounting fraud, as a result of which 10 directors and officers of SK Group companies were indicted. Subsequent press reports indicate that the actual liabilities of SK Global exceeded its assets by approximately (Won)4.4 trillion as of December 31, 2002 on a non-consolidated basis. The creditor banks, including us, have agreed to a temporary roll-over of approximately (Won)6.6 trillion of SK Global's debt until June 18, 2003, subject to extension for an additional month. Upon expiration of the rollover period, the creditor banks may decide to put SK Global into corporate restructuring or may decide instead to start bankruptcy proceeding against SK Global. As of December 31, 2002, our allowance against our loans and guarantees to SK Global was (Won)80 billion, or 50% of the aggregate principal amount of our loans and guarantees to SK Global. As of May 28, 2003, we had outstanding exposure of (Won)453 billion to SK Global.

For additional details regarding our exposure to these entities see Item 3D. Risk Factors Risks relating to our large corporate loan portfolio We have exposure to the largest Korean commercial conglomerates, known as chaebols, and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us.

Exposure to Chaebols

As of December 31, 2002, 3.73% of our total exposure was to the thirty largest chaebols in Korea. The following table shows, as of December 31, 2002, our total exposures to the ten chaebol groups to which we have the largest exposure.

Chaebol	Loans						Amounts
	Won currency	Foreign currency	Equity securities	Debt securities	Guarantees		classified as
					and acceptances	Total exposures	substandard or below (1)
(in billions of Won)							
Samsung	(Won) 346	(Won) 84	(Won) 32	(Won) 367	(Won) 239	(Won) 1,068	
HMC	133	167	38	320	310	968	
Hanjin	413	302		10	1	726	
LG	330	113	10	134	106	693	
SK	118	107	31	112	279	647	(Won) 186
KT	116	10	10	258	16	410	
Hyundai	116	155				271	104
Hanwha	221	9	4		27	261	
Lotte	100			60		160	
POSCO	8		14	121	11	154	
Total	(Won) 1,901	(Won) 947	(Won) 139	(Won) 1,382	(Won) 989	(Won) 5,358	(Won) 290

(1) Classification is based on the Financial Supervisory Commission's asset classification criteria.

Table of Contents

The following table shows information relating to our nine largest exposures to former Daewoo Group companies as of December 31, 2002.

Company	Loans					Guarantees and Total Exposures	Amounts
	Won currency	Foreign currency	Equity Securities	Debt Securities	classified as substandard or below (1)		
(in billions of Won)							
Ssangyong Motor Company	(Won) 51	(Won) 19	(Won) 13		(Won) 28	(Won) 111	
Daewoo Electronics Co., Ltd.	37					37	(Won) 37
Daewoo Shipbuilding & Marine Engineering Co. Ltd.			4		26	30	
Daewoo International Corp.			1	(Won) 1	19	21	21
Daewoo Engineering & Construction Co., Ltd.	8		6	4	2	20	
Daewoo Securities Co., Ltd.			14			14	
Daewoo Heavy Industries & Machinery Ltd.	1	4			8	13	
Daewoo Electronics Corp.			7			7	
Daewoo Telecom Ltd.	3			3		6	6
Total	(Won) 100	(Won) 23	(Won) 45	(Won) 8	(Won) 83	(Won) 259	(Won) 64

(1) Classification is based on the Financial Supervisory Commission's asset classification criteria.

In August 1999, the principal creditor banks of the former Daewoo Group commenced formal workout procedures with respect to 12 member companies of the Daewoo Group, including Daewoo Corporation, Daewoo Motors, Daewoo Electronics, Daewoo Heavy Industries and Daewoo Telecom. Currently, these companies are either subject to liquidation proceedings or have been liquidated, under workouts or reorganization proceedings, have been split up into more than one company or are looking for purchasers. As of December 31, 2002, our nine largest exposures to the companies of the former Daewoo Group totaled approximately (Won)259 billion, of which 25% was classified as substandard or below. This exposure consisted of (Won)123 billion in loans outstanding, (Won)8 billion in corporate bonds and (Won)83 billion in guarantees and acceptances. See Item 3D. Risk Factors. Risks relating to our large corporate loan portfolio. We have exposure to the largest Korean commercial conglomerates, known as chaebols, and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us.

Table of Contents

The following table shows information relating to our total exposure to current and certain former Hyundai Group companies as of December 31, 2002. While certain of these companies were disaffiliated from the Hyundai Group in September 2000 following approval from the Korean Fair Trade Commission, for certain internal purposes, we continued to monitor these companies as a unified Hyundai Group as of December 31, 2002.

Company	Loans						Amounts
	Won currency	Foreign currency	Equity Securities	Debt Securities	Guarantees and acceptances	Total Exposures	classified as
							substandard
(in billions of Won)							
Hyundai Capital	(Won) 85			(Won) 181		(Won) 266	
Hyundai Merchant Marine	104	(Won) 155				259	(Won) 104
Hyundai Motors	9	32	(Won) 2	94	(Won) 73	210	
Hyundai Petrochemical Co., Ltd.	141		20		15	176	176
Kia Motors Corporation		94	21	2	51	168	
Hyundai Engineering & Construction Co., Ltd.	33		48	42	3	126	
INI Steel	5	7	14		88	114	
HORC	10	57				67	
Rotem				36	26	62	
BNG Steel	31				30	61	
Other(2)	15	34	1	7	86	143	
Total	(Won) 433	(Won) 379	(Won) 106	(Won) 362	(Won) 372	(Won) 1,652	(Won) 280

(1) Classification is based on the Financial Supervisory Commission's asset classification criteria.

(2) Others include Hyundai Heavy Industries, Hyundai Hysco, Hyundai Mobis, Hyundai Motor India, Hyundai Motor Financing, Kafrico Corp., Hyundai Logistics, Hyundai Motor Japan, Hyundai Elevator, Kia Tigers, Hyundai Daimos and Hyundai Samho Heavy Industries.

In recent years, a number of former Hyundai Group companies, including Hyundai Merchant Marine and Hyundai Petrochemical, have been experiencing financial difficulties as a result of, among other things, their liquidity positions. See Item 3D. Risk Factors. Risks relating to our large corporate loan portfolio. We have exposure to the largest Korean commercial conglomerates, known as chaebols, and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us. In 2002, we charged off or sold all of our remaining exposures to Hynix Semiconductor, and accordingly had no exposure to that company as of December 31, 2002.

Table of Contents

The following table shows information relating to our total exposure to current and certain SK Group companies as of December 31, 2002.

Company	Loans						Amounts
							classified as
	Guarantees						substandard
	Won currency	Foreign Currency	Equity Securities	Debt Securities	and acceptances	Total Exposures	or below (1)
(in billions of Won)							
SK Corporation	(Won) 40			(Won) 33	(Won) 162	(Won) 235	
SK Global Co., Ltd.	2	(Won) 85		26	73	186	(Won) 186
SK Telecom Co.	20		(Won) 10	53		83	
Walker Hill Hotels Limited	10				26	36	
SK Securities Co., Ltd.			21			21	
SK Chemicals Co., Ltd.	20					20	
SK Teletech Co., Ltd.					12	12	
Daehan City Gas Co., Ltd.	12					12	
SK Shipping Co., Ltd.		10				10	
SKC		4			6	10	
Others(2)	14	8				22	
Total	(Won) 118	(Won) 107	(Won) 31	(Won) 112	(Won) 279	(Won) 647	(Won) 186

(1) Classification is based on the Financial Supervisory Commission's asset classification criteria.

(2) Others include SKC America, Iksan Energy, Pohang City Gas, SK Gas, Kumi City Gas, Chonnam City Gas, Chongju City Gas, Choongnam City Gas and SK Life Insurance.

As described above, SK Global has recently been experiencing financial difficulties as a result of the discovery of accounting irregularities. See Item 3D. Risk Factors. Risks relating to our large corporate loan portfolio. We have exposure to the largest Korean commercial conglomerates, known as chaebols, and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us.

Loan Concentration by Industry

The following table shows the aggregate balance of our domestic and foreign corporate loans, by industry concentration, as of December 31, 2002.

<u>Industry</u>	<u>Aggregate loan balance</u>		<u>Percentage of</u>
	<u>(in billions of Won)</u>		<u>total loan balance</u>
Manufacturing	(Won)	17,234	35.2%
Retail and wholesale		8,016	16.4
Hotel, leisure or transportation		5,119	10.5
Government and government agencies		165	0.3
Construction		6,385	13.1
Finance and insurance		2,122	4.3
Other		9,886	20.2
Total	(Won)	48,927	100.0%

Table of Contents*Loan Concentration by Size of Loans*

The following table shows the aggregate balances of our loans, by outstanding loan amount, as of December 31, 2002.

	Aggregate loan balance	Percentage of total loan balance
	(in billions of Won)	
Commercial and industrial loans		
Up to (Won)10 million	(Won) 202	0.14%
Over (Won)10 million to (Won)50 million	3,270	2.24
Over (Won)50 million to (Won)100 million	3,165	2.17
Over (Won)100 million to (Won)500 million	11,920	8.17
Over (Won)500 million to (Won)1 billion	6,075	4.17
Over (Won)1 billion to (Won)5 billion	7,860	5.39
Over (Won)5 billion to (Won)10 billion	1,987	1.36
Over (Won)10 billion to (Won)50 billion	4,242	2.91
Over (Won)50 billion to (Won)100 billion	1,351	0.93
Sub-total	40,072	27.48
Construction loans		
Up to (Won)10 million	10	0.01
Over (Won)10 million to (Won)50 million	185	0.13
Over (Won)50 million to (Won)100 million	280	0.19
Over (Won)100 million to (Won)500 million	1,248	0.85
Over (Won)500 million to (Won)1 billion	676	0.46
Over (Won)1 billion to (Won)5 billion	1,717	1.18
Over (Won)5 billion to (Won)10 billion	579	0.40
Over (Won)10 billion to (Won)50 billion	1,157	0.79
Over (Won)50 billion to (Won)100 billion	85	0.06
Over (Won)100 billion	448	0.31
Sub-total	6,385	4.38
Other corporate loans		
Up to (Won)10 million	11	0.01
Over (Won)10 million to (Won)50 million	118	0.08
Over (Won)50 million to (Won)100 million	114	0.08
Over (Won)100 million to (Won)500 million	319	0.22
Over (Won)500 million to (Won)1 billion	94	0.06
Over (Won)1 billion to (Won)5 billion	210	0.14
Over (Won)5 billion to (Won)10 billion	71	0.05
Over (Won)10 billion to (Won)50 billion	108	0.07
Sub-total	1,045	0.71
Credit cards		
Up to (Won)10 million	15,623	10.71
Over (Won)10 million to (Won)50 million	6,755	4.63
Over (Won)50 million to (Won)100 million	136	0.10

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Over (Won)100 million to (Won)500 million	20	0.01
Over (Won)500 million to (Won)1billion	7	0.01
Over (Won)1 billion to (Won)5 billion	11	0.01
Over (Won)5 billion to (Won)10 billion	91	0.06
Sub-total	22,643	15.53

Table of Contents

	Aggregate loan balance	Percentage of total loan balance
	<u>(in billions of Won)</u>	
Mortgage and home equity loans		
Up to (Won)10 million	2,994	2.05
Over (Won)10 million to (Won)50 million	21,878	15.00
Over (Won)50 million to (Won)100 million	12,977	8.90
Over (Won)100 million to (Won)500 million	8,059	5.53
Over (Won)500 million to (Won)1 billion	271	0.19
Over (Won)1 billion to (Won)5 billion	16	0.01
Sub-total	46,195	31.68
Other consumer loans		
Up to (Won)10 million	10,985	7.53
Over (Won)10 million to (Won)50 million	10,595	7.26
Over (Won)50 million to (Won)100 million	2,060	1.41
Over (Won)100 million to (Won)500 million	3,250	2.23
Over (Won)500 million to (Won)1 billion	875	0.60
Over (Won)1 billion to (Won)5 billion	279	0.19
Over (Won)5 billion to (Won)10 billion	22	0.02
Over (Won)10 billion to (Won)50 billion		
Sub-total	28,066	19.24
Foreign commercial and industrial loans		
Over (Won)50 million to (Won)100 million	74	0.05
Over (Won)100 million to (Won)500 million	14	0.01
Over (Won)500 million to (Won)1 billion	30	0.02
Over (Won)1 billion to (Won)5 billion	461	0.32
Over (Won)5 billion to (Won)10 billion	253	0.17
Over (Won)10 billion to (Won)50 billion	475	0.33
Over (Won)50 billion to (Won)100 billion	119	0.08
Sub-total	1,426	0.98
Total	(Won) 145,832	100.00%

Table of Contents*Maturity Analysis*

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2002. The amounts disclosed are before deduction of allowance for loan losses.

We typically roll over our working capital loans and consumer loans (other than those payable in installments) after we conduct our normal loan review in accordance with our loan review procedures. Working capital loans may be extended on an annual basis for an aggregate term of three years and consumer loans may be extended for another term of up to 12 months for an aggregate term of ten years.

	<u>1 year or less</u>	<u>Over 1 year but not more than 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
(in billions of Won)				
Domestic				
Corporate				
Commercial and industrial	(Won) 30,855	(Won) 7,724	(Won) 1,493	(Won) 40,072
Construction	5,333	801	251	6,385
Other corporate	1,027	18		1,045
Total-corporate	37,215	8,543	1,744	47,502
Retail				
Mortgage and home equity	6,009	34,226	5,960	46,195
Other consumer	16,964	10,548	554	28,066
Total retail	22,973	44,774	6,514	74,261
Credit cards	19,887	2,725	31	22,643
Total domestic	80,075	56,042	8,289	144,406
Foreign				
Corporate				
Commercial and industrial	864	363	199	1,426
Total foreign	864	363	199	1,426
Total gross loans	(Won) 80,939	(Won) 56,405	(Won) 8,488	(Won) 145,832

Interest Rate Sensitivity

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The following table shows, as of December 31, 2002, the total amount of loans, which have fixed interest rates and variable or adjustable interest rates.

	(in billions of Won)
Fixed rate (1)	(Won) 30,123
Variable or adjustable rates (2)	115,709
Total gross loans	(Won) 145,832

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term.

(2) Variable or adjustable rate loans are loans for which the interest rate is not fixed for the entire term.

For additional information regarding our management of interest rate risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Market Risk Management for Non-Trading Activities.

Table of Contents

Credit Exposures to Companies in Workout, Corporate Reorganization and Composition

Workout is a voluntary procedure through which we, together with borrowers and other creditors, restructure a borrower's credit terms. Between 1998 and 2001, we joined with other financial institutions in Korea in establishing and implementing voluntary workout procedures. On July 18, 2001, the National Assembly of Korea adopted the Corporate Restructuring Promotion Act, which became effective in September 2001 and will expire on December 31, 2005. The Corporate Restructuring Promotion Act replaced the previously established workout procedures. The Act applies to more than 420 financial institutions in Korea, which include commercial banks, insurance companies, investment trust companies, securities companies, merchant banks, the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation. Under the Corporate Restructuring Promotion Act, all creditor financial institutions of a financially troubled borrower must participate in a creditors' committee to prepare a restructuring plan. The approval of creditor financial institutions holding not less than 75% of the total debt outstanding of a borrower (as well as 75% of the total outstanding secured debt, if the restructuring plan includes debt restructuring) finalizes the borrower's restructuring plan, including debt restructuring and provision of additional funds. Once approved, the plan is also binding on all the creditor financial institutions of the borrower. Any creditor financial institution that disagrees with the final restructuring plan approved by the creditors' committee has the right to request the creditors' committee to purchase its claims at a mutually agreed price. In the event that the creditors' committee and the dissenting creditor financial institution fail to come to an agreement on the terms of purchase, a coordination committee consisting of seven experts will be set up to resolve the matter. These procedures may require us to participate in a plan that we do not agree with or may require us to sell our claims at prices that we do not believe are adequate.

Korean law also provides for corporate reorganization and composition, which are court-supervised procedures to rehabilitate an insolvent company. Under these procedures, the restructuring plan is adopted at a meeting of interested parties and is subject to approval of a court. In a corporate reorganization, the management power of the company is taken over by a court-appointed receiver. Creditors must report their claims to the court and if they fail to do so, their claims are discharged at the end of the reorganization. Creditors may enforce their claims only in compliance with the reorganization plan. In composition proceedings, the management of the company retains its management power. Unreported claims are not discharged at the end of a composition plan although the creditors are required to report their claims to the court if they want to exercise their votes at the meeting of interested parties. In addition, secured creditors may enforce their security interest outside the composition proceeding unless they waive their security interest and consent to the composition plan.

Currently, all of our workout loans are managed by our corporate restructuring team. Upon approval of the workout plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions.

A portion of loans to and debt securities of corporate customers are currently in workout or restructuring. As of December 31, 2002, (Won)1,605 billion or 0.96% of our total loans and debt securities were in workout or restructuring, including (Won)848 billion of loans to and debt securities of large corporate borrowers and (Won)757 billion of loans to and debt securities of small- and medium-sized enterprises.

Table of Contents

The following table shows, as of December 31, 2002, our ten largest exposures that were in workout, restructuring, composition or under court receivership.

Company	Loans						Amounts classified as substandard or below (1)
	Won currency	Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	
(in billions of Won)							
Hyundai Petrochemical Co., Ltd.	(Won) 141		(Won) 20		(Won) 21	(Won) 182	(Won) 161
KP Chemical Corporation	87		23		24	134	
Hyundai Engineering & Construction Co., Ltd.	33		48	(Won) 42		123	
Ssangyong Motor Company	51	(Won) 19	13		28	111	
Woo Bang Housing & Construction Co., Ltd.	103		8			111	108
Ssangyong Cement Industrial Co., Ltd.	73					73	73
Kabool Ltd.	54		9			63	63
Newcore Co., Ltd.	47					47	47
Daewoo Electronics Co., Ltd.	37					37	37
Samyang Foods Co., Ltd.	20					20	
Total	(Won) 646	(Won) 19	(Won) 121	(Won) 42	(Won) 73	(Won) 901	(Won) 489

(1) Classification is based primarily on the Financial Supervisory Commission's asset classification criteria.

Provisioning Policy

We base our provisioning on the following loan classifications that classify corporate and consumer loans, with the exception of credit card receivables which are classified based on the number of days past due, as required by the Financial Supervisory Commission:

Loan Classification	Loan Characteristics
Normal	Loans made to customers whose financial position, future cash flows and nature of business are deemed financially sound. No problems in recoverability are expected.

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Precautionary	Loans made to customers whose financial position, future cash flows and nature of business show potential weakness, although there is no immediate risk of non-repayment.
Substandard	Loans to customers whose adverse financial position, future cash flows and nature of business have a direct effect on the repayment of the loan.
Doubtful	Loans to customers whose financial position, future cash flows and nature of business are so weak that significant risk exists in the recoverability of the loan to the extent the outstanding amount exceeds any collateral pledged.
Estimated Loss	Loans where write-off is unavoidable.

We consider the following corporate loans to be impaired loans:

loans classified as substandard or below according to the Financial Supervisory Commission's asset classification guidelines;

loans that are over 30 days past due;

Table of Contents

loans to companies that have received a warning from the Korea Federation of Banks indicating that the company has exhibited difficulties in making timely payments of principal and interest; and

loans, which are troubled debt restructurings as defined under U.S. GAAP.

We establish specific loan loss allowances for corporate loans based on whether a particular loan is identified as impaired or not. Specific loan loss allowances are established for impaired loans, in general, by discounting the estimated future cash flow (both principal and interest) we expect to receive on a particular loan. Where the entire impaired loan or a portion of the impaired loan is secured by collateral or a guarantee, the fair value of the collateral or the guarantee payment is considered in establishing the level of the allowance. Alternatively, for impaired loans that are considered collateral dependent, the amount of impairment is determined by reference to the fair value of the collateral. In addition, for certain foreign corporate loans which are considered impaired, the fair value is determined by reference to observable market prices, when available. We also establish allowances for losses for corporate loans that have not been individually identified as impaired. These allowances are based on historical migration and loss information.

The following table sets out, at the dates indicated, the percentage of our loan loss allowances that may be allocated to impaired corporate loans based on their loan classification.

	As of December 31,		
	2000	2001	2002
	(percentages)		
Normal	3.4%	3.4%	3.2%
Precautionary	6.2	14.2	12.7
Substandard	26.6	29.4	27.8
Doubtful	75.3	78.6	69.1
Estimated loss	86.7	93.5	91.8

For consumer loans, we establish loan loss allowances based on historical performance, previous loan loss history and charge-off information. Additional factors that management considers when establishing reserves for homogeneous pools of consumer loans include, but are not limited to, global and local economic events, delinquencies and changes in underwriting and credit monitoring policies.

The actual amount of incurred credit losses may vary from loss estimates due to changing economic conditions or changes in industry or geographic concentrations. We have procedures in place to monitor differences between estimated and actual incurred credit losses, which include detailed periodic assessments by senior management of both individual loans and credit portfolios and the use of models to estimate incurred credit losses in those portfolios.

Management regularly evaluates the adequacy of the overall allowance for credit losses and we believe that the allowance for credit losses reflects management's best estimate of probable credit losses as of each balance sheet date.

Loan Aging Schedule

The following table shows our loan aging schedule (excluding accrued interest) as of the dates indicated.

As of December 31,	Normal		Amount past due 1-3 months		Amount past due 3-6 months		Amount past due more than 6 months		Total	
	Amount	%		%		%		%	Amount	
(in billions of Won, except percentages)										
2000	(Won) 55,992	94.3%	(Won) 1,579	2.7%	(Won) 1,016	1.7%	(Won) 810	1.4%	(Won) 59,397	
2001	113,778	94.1	3,740	3.1	961	0.8	2,415	2.0	120,894	
2002	138,527	95.0	3,392	2.3	1,862	1.3	2,051	1.4	145,832	

Table of Contents*Non-Accrual Loans and Past Due Accruing Loans*

We generally place loans on non-accrual status when payments of interest and/or principal become past due by one day. We no longer recognize interest on these loans from the date the loan is placed on non-accrual status. We reclassify loans as accruing when interest and principal payments are up-to-date and future payments of principal and interest are reasonably assured. We generally do not recognize interest income on non-accrual loans unless collected.

Interest foregone is the interest due on non-accrual loans that has not been accrued in our books of account. For the year ended December 31, 2002, we would have recorded gross interest income of (Won)1,033 billion compared to (Won)1,182 billion for the year ended December 31, 2001 and (Won)549 billion for the year ended December 31, 2000 on loans accounted for on a non-accrual basis throughout the year, or since origination for loans held for part of the year, had we not foregone interest on those loans. The amount of interest income on those loans that was included in our net income for the years ended December 31, 2000, 2001 and 2002 was (Won)296 billion, (Won)525 billion and (Won)532 billion, respectively.

The category *accruing but past due one day* includes loans which are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans that are fully secured by cash on deposit or on which there are financial guarantees from the government, Korea Deposit Insurance Corporation or certain financial institutions.

The following table shows, at the dates indicated, the amount of loans that were placed on a non-accrual basis and accruing loans which were past due one day or more.

	As of December 31,		
	2000	2001	2002
	(in billions of Won)		
Loans accounted for on a non-accrual basis			
Corporate	(Won) 2,414	(Won) 3,976	(Won) 2,578
Consumer	1,734	4,691	9,756
Sub-total	4,148	8,667	12,334
Accruing loans which are contractually past due one day or more as to principal or interest (1)			
Corporate	68	106	268
Consumer		1,471	2,689
Sub-total	68	1,577	2,957
Total	(Won) 4,216	(Won) 10,244	(Won) 15,291

(1)

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Includes accruing loans which are contractually past due 90 days or more in the amount of (Won)10 billion of corporate loans, (Won)27 billion of corporate loans and (Won)82 billion of corporate loans as of December 31, 2000, 2001 and 2002, respectively.

Troubled Debt Restructurings

The following table presents, at the dates indicated, our loans, which are troubled debt restructurings as defined under U.S. GAAP. These loans consist principally of corporate loans that are accruing interest at rates lower than the original contractual terms as a result of a variation of terms upon restructuring.

	As of December 31,		
	2000	2001	2002
	(in billions of Won)		
Loans, which are classified as troubled debt restructurings	(Won) 2,691	(Won) 2,206	(Won) 1,662

Table of Contents

For 2002, interest income that would have been recorded under the original contract terms of restructured loans amounted to (Won)223 billion, out of which (Won)134 billion was reflected as interest income during 2002.

Potential Problem Loans

As of December 31, 2002, we had (Won)1,862 billion of loans which were current as to payment of principal and interest but where there existed serious doubt as to the ability of the borrower to comply with repayment terms in the near future. These amounts were classified as impaired and included as such in our calculation of loan loss allowance under U.S. GAAP.

Other Problematic Interest Earning Assets

We have certain other interest earning assets received in connection with troubled debt restructurings that, if they were loans, would be required to be disclosed as part of the non-accrual, past due or restructuring or potential problem loan disclosures provided above. As of December 31, 2002, we had debt securities with an amortized cost of (Won)79 billion and a market value of (Won)93 billion on which interest was past due.

Non-Performing Loans

Non-performing loans are defined as loans greater than 90 days past due. These loans are generally rated substandard or below. For further information on the classification of non-performing loans under Korean regulatory requirements, see Provisioning Policy above.

The following table shows, as of the dates indicated, certain details of our total non-performing loan portfolio.

	As of December 31,		
	2000	2001	2002
	(in billions of Won, except percentages)		
Total non-performing loans	(Won) 1,762	(Won) 3,376	(Won) 3,912
As a percentage of total loans	3.0%	2.8%	2.7%

The above table does not reflect the amount of loans classified as substandard or below that we or any of our predecessor operations sold to Korea Asset Management Corporation in connection with a government program to assist the Korean banking industry and other parties.

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We have also issued securities backed by non-performing loans and collateralized bond obligations. Some of these transactions involved transfers of loans through securitizations where control of the loans has not been surrendered and, therefore, are not treated as sale transactions. Instead, the assets remain on our balance sheet with the securitization proceeds treated as secured borrowings.

Table of Contents*Analysis of Non-Performing Loans*

The following table sets forth, as of the dates indicated, our total non-performing loans by type of borrower.

	As of December 31,					
	2000		2001		2002	
	Amount	%	Amount	%	Amount	%
(in billions of Won, except percentages)						
Domestic						
Corporate						
Commercial and industrial	(Won) 1,160	65.8%	(Won) 1,487	44.0%	(Won) 1,284	32.8%
Construction	142	8.0	402	11.9	403	10.3
Lease financing	116	6.6	20	0.6		
Other corporate	17	1.0	89	2.6	23	0.6
Total corporate	1,435	81.4	1,998	59.1	1,710	43.7
Retail						
Mortgage and home equity	86	4.9	614	18.2	699	17.9
Other consumer	80	4.5	432	12.8	577	14.8
Total retail	166	9.4	1,046	31.0	1,276	32.7
Credit cards	98	5.6	218	6.5	905	23.1
Total domestic	1,699	96.4	3,262	96.6	3,891	99.5
Foreign						
Corporate						
Commercial and industrial	63	3.6	114	3.4	21	0.5
Total foreign	63	3.6	114	3.4	21	0.5
Total non-performing loan	(Won) 1,762	100.0%	(Won) 3,376	100.0%	(Won) 3,912	100.0%

Table of Contents*Top Twenty Non-Performing Loans*

As of December 31, 2002, our twenty largest non-performing loans accounted for 18.41% of our total non-performing loan portfolio. The following table shows, as of December 31, 2002, certain information regarding our twenty largest non-performing loans.

	Industry	Gross principal outstanding	Allowance for loan losses
		(in billions of Won)	
Borrower A	Retail, wholesale	(Won) 31	
Borrower B	Retail, wholesale	19	(Won) 6
Borrower C	Manufacturing	16	5
Borrower D	Construction	15	15
Borrower E	Construction	14	6
Borrower F	Construction	14	6
Borrower G	Manufacturing	10	4
Borrower H	Other	9	1
Borrower I	Manufacturing	8	
Borrower J	Other	8	1
Borrower K	Construction	7	
Borrower L	Construction	7	1
Borrower M	Construction	7	
Borrower N	Construction	6	2
Borrower O	Hotel, leisure	6	1
Borrower P	Manufacturing	6	2
Borrower Q	Manufacturing	5	1
Borrower R	Finance	5	4
Borrower S	Construction	5	
Borrower T	Manufacturing	5	5
Total		(Won) 203	(Won) 60

Non-Performing Loan Strategy

One of our primary objectives is to prevent our loans from becoming non-performing. Through our corporate credit rating systems, we believe that we have reduced our risks relating to future non-performing loans. Our credit rating systems are designed to prevent our loan officers from extending new loans to borrowers with high credit risks based on the borrower's credit rating. Our early warning system is designed to bring any sudden increase in a borrower's credit risk to the attention of our loan officers, who then closely monitor such loans. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Review and Monitoring.

Notwithstanding the above, if a loan becomes non-performing, an officer at the branch level responsible for monitoring non-performing loans will commence a due diligence review of the borrower's assets, send a notice either demanding payment or stating that we will take legal action and prepare for legal action.

At the same time, we also initiate our non-performing loan management process, which begins with:

identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;

Table of Contents

identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and

on a limited basis, identifying corporate loans subject to normalization efforts based on the cash-flow situation of the borrower.

Once the details of a non-performing loan are identified, we pursue early solutions for recovery. While the overall process is the responsibility of the Business Supporting Business Unit, actual recovery efforts on non-performing loans are handled by the Non-Performing Loan Management Team, the Workout Team or one of our regional non-performing loan management teams.

In addition, we use the services of a loan collection agency called KB Credit Information Co., Ltd. (formerly known as Kookeun Credit Information Co., Ltd.) of which we own 69.3% of the outstanding share capital and whose employees own the remaining share capital. KB Credit Information Co., Ltd. receives payments from recoveries made on charged-off loans and loans that are overdue for over six months (three months in the case of credit card loans). KB Credit Information Co., Ltd. has over 750 employees, including loan recovery experts, legal experts and management employees. The fees that it receives are based on the amounts of non-performing and charged off loans that are recovered. The amount recovered was (Won)154 billion both in 2001 (which included amounts recovered prior to the merger) and 2002.

Methods for resolving non-performing loans include the following:

For loans in arrears for more than three months but less than six months and for loans to bankrupt companies:

non-performing loans are transferred from the operating branch or call center to our regional non-performing loan management centers;

a demand note is dispatched by mail if payment is five months past due;

calls and visits are made by our regional non-performing loan management staff to customers encouraging them to make payments;

borrowers who are past due on payments of interest and principal are registered on the Korea Federation of Banks database of non-performing loans;

preparations are made to use judicial means, including foreclosure and auction of the collateral; and

credit card loans are transferred to KB Credit Information Co. Ltd. for collection.

For loans in arrears for more than six months but less than one year and for loans to bankrupt companies over three months after bankruptcy:

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for mortgage loans other than individual housing loans, foreclosure and auction proceedings are commenced;

for unsecured loans other than credit card loans, the loans are transferred to KB Credit Information Co. Ltd. for collection; and

borrowers who are past due on payments of interest and principal are registered on the Korea Federation of Banks database of non-performing loans.

For loans in arrears for over one year:

for individual housing loans, foreclosure and auction proceeding are commenced;

in the case of unsecured loans, the loans are treated as loan losses; and

Table of Contents

charged off loans are given to KB Credit Information Co., Ltd. for collection, except for loans where the cost of collection exceeds the possible recovery or where the statute of limitations for collection has expired.

In order to promote speedy recovery on loans subject to foreclosures and litigation, our policy is to permit the branch responsible for handling these loans to transfer them to our Non-Performing Loan Management Team, to one of our regional non-performing loan management centers or to KB Credit Information Co., Ltd.

In addition to making efforts to collect on these non-performing loans, we also undertake measures to reduce the level of our non-performing loans, which include:

selling our non-performing loans to third parties including the Korea Asset Management Corporation; and

entering into asset securitization transactions with respect to our non-performing loans.

We generally expect to suffer a partial loss on loans that we sell or securitize, to the extent such sales and securitizations are recognized under U.S. GAAP as sale transactions.

Sales of Substandard or Below Loans to the Korea Asset Management Corporation

The credit quality of our loan portfolio has changed significantly as a result of sales of non-performing loans. In December 1997, in response to the financial difficulties faced by Korean financial institutions as a result of the severe economic downturn in Korea, the Korean government authorized the Korea Asset Management Corporation to purchase certain assets which were primarily classified as substandard or below from Korean financial institutions at discounted prices. The former Kookmin Bank sold primarily substandard or below loans in the net aggregate principal amount (net of related allowances for loan losses) of (Won)183 billion and (Won)708 billion in 1997 and 1998, respectively, to the Korea Asset Management Corporation; Korea Long Term Credit Bank, which merged into the former Kookmin Bank in December 1998, sold an aggregate of (Won)320 billion of substandard or below loans to the Korea Asset Management Corporation in 1997 and 1998; and H&CB sold an aggregate of (Won)341 billion of substandard or below loans to the Korea Asset Management Corporation in three transactions between 1997 and 1999. Pursuant to the terms of the sales, the Korea Asset Management Corporation can require us to repurchase any substandard or below loans we have sold to them in the event that:

the underlying documentation of the loan is incomplete;

there is a flaw in the perfection of any security interest underlying the loan; or

certain litigation regarding the loan is pending.

In addition, we may be required to repurchase any loan relating to a borrower that has applied to a court for reorganization or that is the subject of reorganization proceedings at the time the loan was sold to the Korea Asset Management Corporation if a court

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rejects the application for reorganization, disapproves the reorganization plan or fails to approve the reorganization plan within two years of the sale. We may also be required to repurchase a loan if a court determines that the borrower cannot meet the terms of the repayment schedule developed in the reorganization proceeding. The ability of the Korea Asset Management Corporation to exercise its right to require us to repurchase loans sold is without limit. As of December 31, 2002, the aggregate principal amount of loans sold that are subject to such repurchase rights was (Won)47 billion. At December 31, 2002, we recorded a liability of (Won)22 billion relating to those loans, representing our estimated obligation to make repurchases under the put option.

Table of Contents*Allocation of Allowance for Loan Losses*

The following table presents, as of the dates indicated, the allocation of our loan loss allowance by loan type. The ratio represents the percentage of loans in each category to total loans.

	As of December 31,					
	2000		2001		2002	
	(in billions of Won, except percentages)					
Domestic						
Corporate						
Commercial and industrial	(Won) 1,474	61.5%	(Won) 1,830	52.2%	(Won) 1,525	29.4%
Construction	174	7.3	312	8.9	423	8.1
Lease financing	97	4.1	122	3.5		
Other corporate	108	4.5	169	4.8	34	0.7
Total corporate	1,853	77.4	2,433	69.4	1,982	38.2
Retail						
Mortgage and home equity	86	3.6	93	2.7	63	1.2
Other consumer	146	6.1	236	6.7	483	9.3
Total retail	232	9.7	329	9.4	546	10.5
Credit cards	115	4.8	614	17.5	2,597	50.0
Foreign (1)	194	8.1	132	3.7	70	1.3
Total allowance for loan losses	(Won) 2,394	100.0%	(Won) 3,508	100.0%	(Won) 5,195	100.0%

(1) Consists of loans to corporations.

Our total allowance for loan losses was (Won)2,394 billion as of December 31, 2000. During 2001, the allowance for loan losses increased by (Won)1,114 billion, or 46.5%, to (Won)3,508 billion as of December 31, 2001. During 2002, the allowance for loan losses increased by (Won)1,687 billion, or 48.1%, to (Won)5,195 billion as of December 31, 2002. As of December 31, 2000, 2001 and 2002, 85.5%, 73.1% and 39.5% of our total allowance for loan losses, respectively, were in respect of our corporate loan portfolio (including all foreign loans), which reflects our assessment of the financial difficulties experienced by our corporate borrowers in connection with the economic problems in Korea, which began in mid-1997 and, in 2002, increasing delinquencies in our credit card and consumer loan portfolios.

Table of Contents*Analysis of Allowance for Loan Losses*

The following table analyzes our loan loss experience for each of the years indicated.

	Year ended December 31,		
	2000	2001	2002
	(in billions of Won, except percentages)		
Balance at the beginning of the period	(Won) 2,623	(Won) 2,394	(Won) 3,508
Amounts charged against income	262	1,264	3,909
Allowance relating to loans repurchased from the Korea Asset Management Corporation	26	8	6
Allowance relating to loans acquired in the merger with H&CB		1,279	(164)
Gross charge-offs			
Domestic:			
Corporate			
Commercial and industrial	372	690	486
Construction	39	22	65
Lease financing	82	80	
Other corporate	56	175	16
Retail			
Mortgage and home equity	7	7	29
Other consumer	53	179	209
Credit cards	54	394	1,527
Foreign:	67	98	115
Total gross charge-offs	(730)	(1,645)	(2,447)
Recoveries:			
Domestic:			
Corporate			
Commercial and industrial	117	74	117
Construction	8	4	2
Other corporate	2	3	29
Retail			
Mortgage and home equity	26	16	9
Other consumer	11	26	53
Credit cards	47	81	155
Foreign	2	4	18
Total recoveries	213	208	383
Net charge-offs	(517)	(1,437)	(2,064)
Balance, at the end of the period	(Won) 2,394	(Won) 3,508	(Won) 5,195
Ratio of net charge-offs during the period to average loans outstanding during the period	1.0%	2.0%	1.6%

Loan Charge-Offs

Basic Principles

We attempt to minimize loans to be charged off by adhering to a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans. However, if charge-offs are necessary, we charge off loans subject to our charge-off policy at an

Table of Contents

early stage in order to maximize accounting transparency, to minimize any waste of resources in managing loans which have a low probability of being collected and to reduce our non-performing loan ratio.

Loans To Be Charged Off

Loans are charged off if they are deemed to be uncollectable by falling under any of the following categories:

loans for which collection is not foreseeable due to insolvency, bankruptcy, compulsory execution, disorganization, dissolution or the shutting down of the business of the debtor;

loans for which collection is not foreseeable due to the death or disappearance of the debtor;

loans for which expenses of collection exceed the collectable amount;

loans on which collection is not possible through legal or any other means;

payments in arrears in respect of credit cards which have been overdue for more than six months;

payments in arrears on unsecured consumer loans which have been overdue for more than six months; or

the portion of loans classified as estimated loss, net of any recovery from collateral, which is deemed to be uncollectable.

Procedure for Charge-off Approval

In order to charge off a loan for Korean GAAP purposes, an application for charge-off must be submitted by a branch to our Non-Performing Loan Management Team promptly, and in any event within one month, after the loan is classified as estimated loss. The relevant department or team evaluates and approves the application. Then, we must seek an approval from the Financial Supervisory Service for our charge-offs, which is typically granted. At the same time, we refer the approval of the charge-off by the Non-Performing Loan Management Team to our Audit & Examination Department for their review of compliance with our internal procedures for charge-offs, which include consultations with the branch submitting the charge-off application. Once we receive approval from the Financial Supervisory Service, we must also obtain approval from senior executive management to charge off those loans. For U.S. GAAP purposes with respect to corporate loans, we follow a similar procedure (although we will not seek approval from the Financial Supervisory Service). With respect to unsecured retail loans, however, we follow a different procedure relating to the length of time overdue amounts have been outstanding.

Treatment of Loans Charged Off

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Once loans are charged off, we classify them as charged-off loans and remove them from our balance sheet. These loans are managed based on a different set of procedures. We continue our collection efforts in respect of these loans, including through our subsidiary, KB Credit Information Co., Ltd., although loans may be charged off before we begin collection efforts in some circumstances.

If a collateralized loan is overdue for more than a year, we will petition a court to foreclose and sell the collateral through a court-supervised auction. If a debtor ultimately fails to repay and the court grants its approval for foreclosure, we will sell the collateral, net of expenses incurred from the auction.

Our U.S. GAAP financial statements include as charge-offs all unsecured consumer loans that are overdue for more than six months.

Table of Contents*Credit-Related Commitments*

We have other credit-risk concentrations that are not reflected on our balance sheet, which primarily consist of guarantees, commercial letters of credit and unused line of credit. Guarantees include guarantees for loans, debentures, trade financing arrangements and guarantees for other financings.

The following table sets forth our credit-related commitments as of the dates indicated.

	As of December 31,		
	2000	2001	2002
	(in billions of Won)		
Guarantees (1)	(Won) 979	(Won) 1,128	(Won) 806
Commercial letters of credit	1,017	1,328	1,244
Unused lines of credit:			
Commercial (2)	13,726	23,408	23,732
Credit cards (3)	36,392	73,798	79,140
Consumer	5,350	6,968	3,775

(1) See Note 35 of our consolidated financial statements.

(2) The merger played a major role in an increase of overall credit-related commitments. The increase in commercial unused lines of credit as of December 31, 2001 was primarily due to an increase in unused lines of credit for general loans and liquidity support for asset securitization vehicles. The unused line of credit for general loans was (Won)4,129 billion, (Won)5,596 billion and (Won)1,499 billion as of December 31, 2000, 2001 and 2002, respectively. Liquidity for asset securitization vehicles was (Won)2,667 billion, (Won)7,434 billion and (Won)5,809 billion as of December 31, 2000, 2001 and 2002, respectively. Includes commitments to extend credit with respect to borrowings that have a maturity of more than one year, which amounted to (Won)4,261 billion as of December 31, 2002.

(3) Relates to the unused credit card limits that may be cancelled by us at any time.

Table of Contents

Investment Portfolio

Investment Policy

We invest in and trade Won-denominated and, to a lesser extent, foreign currency-denominated securities for our own account to:

maintain the stability and diversification of our assets;

maintain adequate sources of back-up liquidity to match our funding requirements; and

supplement income from our core lending activities.

The International Banking & Capital Market Group and the Risk Management Department supervise our investment and trading activities. In making securities investments, we take into account a number of factors, including macroeconomic trends, industry analysis and credit evaluation in determining whether to make particular investments in securities.

Our investments in securities are also subject to a number of guidelines, including limitations prescribed under the Bank Act. Under these regulations, we must limit our investments in equity securities and bonds with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and national government bonds) to 60.0% of our total Tier I and Tier II capital amount (less any capital deductions). Generally, we are also prohibited from acquiring more than 15.0% of the shares with voting rights issued by any other corporation subject to certain exceptions. A recent amendment to the Bank Act, which became effective on July 28, 2002, contains a new provision prohibiting a bank and its trust accounts from acquiring the shares of a major shareholder (for the definition of major shareholder, please see Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to Any Individual Customer and Major Stockholders) of that bank in excess of an amount equal to 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions). Further information on the regulatory environment governing our investment activities is set out in Supervision and Regulation Principal Regulations Applicable to Banks Liquidity and Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Shareholdings in Other Companies.

Table of Contents

The following table sets out the definitions of the primary categories of investments we hold:

<u>Investment Category</u>	<u>Definition</u>
Held to maturity securities	Held-to-maturity securities are securities for which we have the positive ability and intent to hold to maturity and are recorded at cost, adjusted for accretion or amortization of discounts and premiums. Declines in the fair value of individual held-to-maturity securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair values. Such write-downs are reflected as realized losses in our income statement.
Available-for-sale securities	Securities are classified as available-for-sale when our management intends to hold the securities for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. Available-for-sale securities are reported at fair value with unrealized gains and losses being recorded in accumulated other comprehensive income within stockholders equity. Other-than-temporary declines in the fair value of available-for-sale securities below cost result in write-downs to their fair value. Such write-downs are reflected as realized losses in our income statement.
Trading securities	Trading assets include securities held in anticipation of short-term market movements. Trading securities are reported at fair value, with unrealized gains and losses being recorded in income.

We also hold limited balances of venture capital securities, non-marketable equity securities and derivative instruments.

Table of Contents*Book Value and Market Value*

The following table sets out the book value and market value of securities in our investment portfolio as of the dates indicated.

	As of December 31,					
	2000		2001		2002	
	Book	Market	Book	Market	Book	Market
	Value	Value	Value	Value	Value	Value
(in billions of Won)						
Available-for-sale securities						
Equity securities	(Won) 1,563	(Won) 1,563	(Won) 3,552	(Won) 3,552	(Won) 3,452	(Won) 3,452
Debt securities						
Korean treasury securities and government agency securities	3,536	3,536	3,675	3,675	4,096	4,096
Debt securities issued by financial institutions	1,549	1,549	2,190	2,190	2,649	2,649
Corporate debt securities	1,363	1,363	2,620	2,620	2,068	2,068
Debt securities issued by foreign governments	32	32	29	29	20	20
Asset-backed securities	157	157	258	258	197	197
Other debt securities	81	81				
Total Available-for-sale	8,281	8,281	12,324	12,324	12,482	12,482
Held-to-maturity securities						
Debt securities						
Korean treasury securities and government agency securities	4,856	5,116	8,915	9,162	8,735	9,029
Debt securities issued by financial institutions	2,754	2,764	1,712	1,720	933	942
Corporate debt securities	530	545	655	671	313	341
Debt securities issued by foreign governments	99	101	53	52	49	49
Asset-backed securities	766	776	1,890	1,910	1,104	1,119
Total Held-to-maturity	9,005	9,302	13,225	13,515	11,134	11,480
Trading securities						
Equity securities	149	149	4,193	4,193	3,898	3,898
Debt securities						
Korean treasury securities and government agency securities	1,755	1,755	1,229	1,229	840	840
Debt securities issued by financial institutions	537	537	910	910	784	784

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Corporate debt securities	155	155	175	175	113	113
Debt securities issued by foreign governments					40	40
Total Trading	2,596	2,596	6,507	6,507	5,675	5,675
Total securities	(Won) 19,882	(Won) 20,179	(Won) 32,056	(Won) 32,346	(Won) 29,291	(Won) 29,637

Table of Contents*Maturity Analysis*

The following table categorizes our debt securities by maturity and weighted average yield as of December 31, 2002.

As of December 31, 2002											
							Securities				
					Over		not due				
	Over 1		Over								
	Weighted	but	Weighted	5 but	Weighted	Over	Weighted	at a	Weighted		Weighted
Within	average	within	average	within	average	10	average	single	average		average
1 year	yield (1)	5 years	yield (1)	10	yield (1)	years	yield (1)	maturity	yield (1)	Total	yield (1)
(in billions of Won, except percentages)											
Available-for-sale securities											
treasury securities											
government agencies	(Won) 1,254	6.93%	(Won) 2,686	4.22%	(Won) 125	2.33%	(Won) 31	0.79%		6.55%	(Won) 4,096
securities issued by financial institutions	1,512	2.71	1,029	3.54	108	10.68					2,649
state debt securities	772	6.51	1,280	5.41	3	6.66	13	6.36			2,068
securities issued by governments	6	10.44	14	14.95							20
backed securities	109	8.18	88	5.96							197
	(Won) 3,653	5.14%	(Won) 5,097	4.44%	(Won) 236	6.20%	(Won) 44	2.42%		6.55%	(Won) 9,030
Available-for-sale securities											
treasury securities											
government agencies	(Won) 3,748	7.89%	(Won) 4,169	5.60%	(Won) 349	5.09%			(Won) 469	8.03%	(Won) 8,735
securities issued by financial institutions	568	4.37	361	3.45	4	11.62					933
state debt securities	120	7.07	181	3.67	10	5.27	(Won) 2	7.22%			313
securities issued by governments	26	4.14	23	4.82							49
backed securities	929	6.82	175	6.38							1,104
	(Won) 5,391	7.30%	(Won) 4,909	5.39%	(Won) 363	5.16%	(Won) 2	7.22%	(Won) 469	8.03%	(Won) 11,134
Available-for-sale securities											
treasury securities											
government agencies			(Won) 736	1.35%					(Won) 104	2.42%	(Won) 840
securities issued by financial institutions	(Won) 48	2.15%	736	1.95							784
state debt securities			113	1.79							113
backed securities			40	1.39							40
	(Won) 48	2.15%	(Won) 1,625	1.65%					(Won) 104	2.42%	(Won) 1,777

(1)

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The weighted average yield for the portfolio represents the yield to maturity for each individual security, weighted using its book value (which is the amortized cost in the case of held-to-maturity securities and the fair value in the case of available-for-sale securities and trading securities).

(2) As of December 31, 2002, available-for-sale securities not due at a single maturity amounted to approximately (Won)4 million.

Table of Contents*Concentrations of Risk*

As of December 31, 2002, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10.0% of our stockholders' equity at such date, which was (Won)8,890 billion.

	Book Value	Market Value
	(in billions of Won)	
Name of issuer:		
Korean government	(Won) 5,297	(Won) 5,402
Korea Deposit Insurance Corporation	5,352	5,503
Bank of Korea	3,284	3,285
Korea Asset Management Corporation	1,424	1,446
Total	(Won) 15,357	(Won) 15,636

Except for the Korean government, all of these issuers are controlled by the government, and the government owns a majority equity interest in the Korea Asset Management Corporation.

Funding

We obtain funding for our lending activities from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits. In addition, we acquire funding through long-term debt, short-term borrowings, including borrowings from the Bank of Korea, and call money.

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits, in particular demand deposits and savings deposits. We also have focused our marketing efforts on higher net worth individuals, who account for a significant portion of the assets in our retail deposit base. Customer deposits accounted for 70.7% of our total funding as of December 31, 2000, 76.3% of our total funding as of December 31, 2001 and 73.5 % of total funding as of December 31, 2002.

In addition, we acquire funding by issuing bonds. Our borrowings consist mainly of borrowings from financial institutions, the Korean government and government-affiliated funds, including the National Housing Fund. Such borrowings are generally long-term borrowings, with maturities ranging from 1 year to 26 years.

Call money, which is available in both Won and foreign currencies, is obtained from the domestic call loan market, a short-term loan market for loans with maturities of less than one month.

Table of Contents*Deposits*

Although the majority of our deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, providing us with a stable source of funding. The following table shows the average balances of our deposits and the average rates paid on our deposits for the periods indicated.

	2000		2001		2002	
	Average balance (1)	Average rate paid	Average balance (1)	Average rate paid	Average balance (1)	Average rate paid
(in billions of Won, except percentages)						
Demand deposits:						
Non-interest bearing	(Won) 1,677		(Won) 1,871		(Won) 2,934	
Interest-bearing	345	2.32%	499	1.60%	598	0.67%
Time deposits:						
Certificates	1,878	6.87	2,023	6.08	2,120	4.81
Other time deposits	26,660	7.69	33,231	7.21	66,454	4.91
Savings deposits	15,976	2.74	23,665	1.88	35,206	1.17
Mutual installment deposits (2)	4,676	8.77	7,238	7.78	12,236	6.24
Average total deposits	(Won) 51,212	5.93%	(Won) 68,527	5.16%	(Won) 119,548	3.90%

(1) Average balances are based on (a) daily balances for our primary banking operations and (b) quarterly balances for subsidiaries.

(2) Mutual installment deposits are interest-bearing deposits offered by us, which enable customers to become eligible for our loans while they maintain an account with us. The customer's account does not have to secure loan amounts once made but is a requirement for loan eligibility. Prior to qualifying for a loan a customer must make required periodic deposits to the mutual installment account for a contracted term of less than five years. A customer is not required to fulfill the deposit term prior to requesting a loan from us, but loan amounts and terms are not as favorable in the event of a loan request prior to completing the deposit contract term.

For a description of our retail deposit products, see Business Retail Banking Lending Activities Mortgage and Home Equity Lending and Business Retail Banking Deposit-Taking Activities.

Certificates of Deposit and Other Time Deposits

The following table presents the remaining maturities of our time deposits, certificates of deposit and mutual installment deposits which had a fixed maturity in excess of (Won)100 million as of December 31, 2002.

Certificates of deposit	Other time deposits	Mutual Installment deposits	Total
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			(in billions of Won)	
Maturing within three months	(Won) 1,387	(Won) 9,728	(Won) 729	(Won) 11,844
After three but within six months	1,449	4,094	228	5,771
After six but within 12 months	25	7,373	342	7,740
After 12 months		1,046	570	1,616
Total	(Won) 2,861	(Won) 22,241	(Won) 1,869	(Won) 26,971

A majority of our other time deposits issued by our overseas branches is in the amount of US\$100,000 or more.

Table of Contents*Long-term debt*

The aggregate amount of contractual maturities of all long-term debt at December 31, 2002 was as follows:

	(in billions of Won)
Due in 2003	(Won) 4,872
Due in 2004	6,075
Due in 2005	2,569
Due in 2006	1,514
Due in 2007	969
Thereafter	4,173
Gross long-term debt	20,172
Less: Discount	(7)
Total long-term debt, net	(Won) 20,165

Short-term borrowings

The following table presents information regarding our short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated.

	As of and for the year ended December 31,					
	2000		2001		2002	
	(in billions of Won, except percentages)					
Call Money						
Year-end balance	(Won)	581	(Won)	2,701	(Won)	306
Average balance (1)		1,214		960		1,803
Maximum balance		879		3,439		2,452
Average interest rate (2)		4.53%		4.06%		3.94%
Year-end interest rate		5.50-6.85%		0.58-5.55%		0.25-5.85%
Borrowings from the Bank of Korea (3)						
Year-end balance	(Won)	860	(Won)	1,397	(Won)	709
Average balance (1)		892		1,152		1,337
Maximum balance		1,122		1,397		1,738
Average interest rate (2)		4.71%		3.30%		2.47%
Year-end interest rate		3.00-8.50%		2.50-8.00%		2.50%
Other short-term borrowings (4)						
Year-end balance	(Won)	5,509	(Won)	9,415	(Won)	15,147
Average balance (1)		3,876		7,717		9,077
Maximum balance		6,740		9,415		15,147
Average interest rate (2)		7.51%		6.74%		5.38%
Year-end interest rate		5.4-9.98%		0.3-17.69%		0.02-17.69%

-
- (1) Average outstanding balances have been calculated using quarterly averages.
 - (2) Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.
 - (3) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.
 - (4) Other short-term borrowings include borrowings from trust accounts, bills sold, borrowings in domestic and foreign currency, short-term secured borrowings and foreign currency debentures. Other short-term borrowings have maturities of 30 days to one year and are unsecured with the exception of borrowings from the Bank of Korea. These short-term borrowings are secured by government securities totaling (Won)2,012 billion as of December 31, 2002.

Table of Contents

Supervision and Regulation

Legal and Regulatory Framework

The banking system in Korea is governed by the Bank Act of 1950, as amended (the Bank Act) and the Bank of Korea Act of 1950, as amended (the Bank of Korea Act). In addition, Korean banks come under the regulations and supervision of the Bank of Korea, the Bank of Korea's Monetary Policy Committee, the Financial Supervisory Commission and its executive body, the Financial Supervisory Service.

The Bank of Korea, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilization through establishing and implementing efficient monetary and credit policies. The Bank of Korea acts under instructions of the Monetary Policy Committee, the supreme policy-making body of the Bank of Korea.

Under the Bank of Korea Act, the Monetary Policy Committee's primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the Bank of Korea.

The Financial Supervisory Commission, established on April 1, 1998, regulates commercial banks pursuant to the Bank Act, including establishing guidelines on capital adequacy of commercial banks, and prepares regulations relating to supervision of banks. Furthermore, pursuant to the Amendment to the Government Organization Act and the Bank Act on May 24, 1999, the Financial Supervisory Commission, instead of the Ministry of Finance and Economy, now regulates market entry into the banking business.

The Financial Supervisory Service was established on January 2, 1999 as a unified body of the former Bank Supervisory Authority (the successor to the Office of Bank Supervision), the Securities Supervisory Board, the Insurance Supervisory Board and the Credit Management Fund. The Financial Supervisory Service is subject to the instructions and directives of the Financial Supervisory Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service sets requirements both for prudent control of liquidity and for capital adequacy and establishes reporting requirements within the authority delegated to it under the Financial Supervisory Commission regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Bank Act, permission to commence a commercial banking business or a long-term financing business must be obtained from the Financial Supervisory Commission. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of deposits for a period not exceeding one year or subject to the limitation established by the Financial Supervisory Commission, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of deposits with maturities of at least one year, or the issuance of bonds or other securities. A bank wishing to enter into any business other than commercial banking and long-term financing businesses, such as the trust business, must obtain permission from the Financial Supervisory Commission. Permission to merge with any other banking institution, to liquidate, to close a banking business or to transfer all or a part of a business must also be obtained from the Financial Supervisory Commission.

Table of Contents

If the Korean government deems our financial condition to be unsound or if we fail to meet the applicable capital adequacy ratio set forth under Korean law, the government may order:

capital increases or reductions;

stock cancellations or consolidations;

transfers of business;

sales of assets;

closures of branch offices;

mergers with other financial institutions;

suspensions of a part or all of business operation; or

assignments of contractual rights and obligations relating to financial transactions.

Principal Regulations Applicable to Banks

Capital Adequacy

The Bank Act provides for a minimum paid-in capital of (Won)100 billion in the case of nationwide banks, such as us, and (Won)25 billion in the case of regional banks.

In addition to minimum capital requirements, all banks including foreign bank branches in Korea are required to maintain a prescribed solvency position. Until March 31, 1999, a bank's outstanding liabilities arising from guarantees and other contingent liabilities (except those specifically excluded under the Bank Act) were not permitted to exceed 20 times its equity capital amount. However, beginning on April 1, 1999, such limitation on guarantees and contingent liabilities was eliminated and, for regulatory purposes, guarantees provided by banks are counted as an extension of credit and will be regulated accordingly. See *Financial Exposure to Any Individual Customer and Major Stockholders* below. Also, in its allocation of the net profit earned in a fiscal term, a bank is required to credit at least 10% of such profit to a legal reserve each time it pays dividends on net profits earned until such time when the reserve equals the amount of its total paid-in capital.

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Under the Bank Act, the capital of a bank is divided into two categories pursuant to Bank for International Settlements standards, which were originally envisaged by the Basel Committee. Tier I capital (core capital) consists of stockholders' equity, capital surplus, retained earnings, minority interest in consolidated subsidiaries (only for capital adequacy ratio purposes), unissued stock dividends and other securities that are eligible for Tier I capital treatment for Korean regulatory purposes. Tier II capital (supplementary capital) consists of revaluation reserves, gain on valuation of investment in securities, allowance for bad debts set aside for loans classified as normal or precautionary, perpetual subordinated debt, cumulative preferred shares and certain other subordinated debt.

All banks must meet standards regarding minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with the Financial Supervisory Commission requirements that have been formulated based on Bank for International Settlements Standards. These standards were adopted by the Monetary Policy Committee and the Office of Bank Supervision (the predecessor of the Financial Supervisory Service) and became effective from the beginning of 1996. All domestic banks and foreign bank branches have to meet the requirement of at least 8% in accordance with the standards regarding minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets.

Table of Contents

The Financial Supervisory Commission amended the Regulation on the Supervision of the Banking Business in November 2002 to include a more conservative risk-weighting system on newly extended home mortgage loans. As a result, with respect to new home mortgage loans extended after November 13, 2002, Korean banks are now required to calculate a risk-weight ratio of 60% (as opposed to normal cases in which a 50% risk-weight ratio is applicable) on certain home mortgage loans if either of the following two conditions are satisfied, and a risk-weight ratio of 70% if both of the following two conditions are satisfied: (1) if the home mortgage loans are overdue for 30 consecutive days or longer as of the date of calculating the bank's BIS capital adequacy ratio, or the total overdue dates for the past one year from the date of calculating the bank's BIS capital adequacy ratio are 30 days or longer; and (2) the borrower's debt ratio (*i.e.*, total borrowed amount, including the borrowed amount provided by other financial institutions, of the borrower against the borrower's annual income) exceeds 250%.

Under Korean GAAP, pursuant to the credit loss allowance guidelines established by the Financial Supervisory Commission, banks are generally required to maintain allowances for credit losses in respect of their outstanding loans and other credits (including confirmed guarantees and acceptances and trust account loans) in an aggregate amount covering not less than 0.5% of normal credits (excluding confirmed guarantees and acceptances), 2% of precautionary credits (excluding confirmed guarantees and acceptances), 20% of substandard credits, 50% of doubtful credits and 100% of estimated loss credits.

In April 2002, the Financial Supervisory Service issued guidelines pursuant to which the minimum ratio of allowances for credit losses in respect of outstanding loans by banks to individuals and households was increased to 0.75% of normal credits, 5% of precautionary credits and 55% of doubtful credits, and the minimum ratio of allowances for credit losses in respect of their outstanding credit card receivables and credit card loans would be increased to 1% of normal credits, 7% of precautionary credits and 60% of doubtful credits. In addition, in October 2002, the Financial Supervisory Service issued new guidelines reflected in the Regulation on Supervision of Banking Business prescribed by the Financial Supervisory Commission in November 2002, pursuant to which the minimum ratio of allowance for credit losses in respect of their outstanding loans to individuals and households was increased to 8% of credits classified as precautionary and the minimum ratio of allowance for credit losses in respect of their outstanding credit card receivables and credit card loans would be increased to 12% of credits classified as precautionary. See Recent Regulations Relating to Retail Household Loans and Credit Card Business below.

Liquidity

All banks are required to match the maturities of their assets and liabilities in accordance with the Bank Act in order to ensure adequate liquidity. Banks may not invest in excess of an amount exceeding 60% of their Tier I and Tier II capital (less any capital deductions) in stocks and other securities with a remaining to maturity of over three years. However, this stipulation does not apply to government bonds or to Monetary Stabilization Bonds issued by the Bank of Korea.

In 1999, the Financial Supervisory Commission adopted a new requirement to ascertain a bank's liquidity. Starting from January 1, 1999, the Financial Supervisory Commission requires each Korean bank to maintain a Won liquidity ratio (defined as Won assets due within three months, including marketable securities, divided by Won liabilities due within three months) of not less than 100% and to make quarterly reports to the Financial Supervisory Service. The Financial Supervisory Commission also requires each Korean bank to (1) maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 80%, (2) maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days, divided by total foreign currency assets of

Table of Contents

not less than 0% and (3) maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign currency assets, of not less than negative 10%. The Financial Supervisory Commission also requires each Korean bank to submit monthly reports with respect to maintenance of these ratios.

The Monetary Policy Committee is empowered to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is 5.0% of average balances for Won currency demand deposits outstanding, 1.0% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding and 2.0% of average balances for Won currency time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding. For foreign currency deposit liabilities, a 2.0% minimum reserve ratio is applied to savings deposits outstanding and a 5% minimum reserve ratio is applied to demand deposits, while a 1.0% minimum reserve ratio is applied for offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Financial Exposure to Any Individual Customer and Major Stockholders

Under the Bank Act, the sum of a bank's large exposures, that is, the total sum of its credits to single individuals, juridical persons or business groups that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions), must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions), subject to certain exceptions. Subject to certain exceptions, no bank is permitted to extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and such other transactions which directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or juridical person, and no bank may grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act.

Pursuant to a recent amendment to the Bank Act, which became effective on July 28, 2002, the restrictions on extending credits to a major shareholder have been amended. The definition of a major shareholder is as follows:

a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Enforcement Decree of the Bank Act) in excess of 10% (or in the case of regional banks, 15%) in the aggregate of the bank's total issued voting shares; or

a shareholder holding (together with persons who have a special relationship with such shareholder) more than 4% in the aggregate of the bank's (excluding regional banks) total issued voting shares (excluding shares relating to the shareholding restrictions on non-financial group companies, which include:

(1) any same shareholder group with the aggregate net assets of all non-financial companies belonging to such group of not less than 25% of the aggregate net assets of all members that are company of such group;

(2) any same shareholder group with aggregate assets of all non-financial companies belonging to such group of not less than (Won)2 trillion; or

(3) any mutual fund in which a same shareholder group identified in (1) or (2) above, owns more than 4% of the total shares issued and outstanding),

where such shareholder is the largest shareholder or is able to actually control the major business affairs of the bank, for example, through appointment and dismissal of the chief executive officer or of the majority of the executives.

Table of Contents

According to such amendment, banks are prohibited from extending credits in the amount greater than the lesser of (1) 25% of the sum of such bank's Tier I and Tier II capital (less any capital deductions) or (2) the relevant major shareholder's shareholding ratio multiplied by the sum of the bank's Tier I and Tier II capital (less any capital deductions) to a major shareholder (together with persons who have a special relationship with such major shareholder). Also, no bank is allowed to grant credit to all of its major shareholders in excess of 25% of its Tier I and Tier II capital (less any capital deductions).

Interest Rates

Korean banks depend on the acceptance of deposits as their primary source of funds. There are no legal controls on interest rates on loans in Korea. Historically, interest rates on deposits and lending rates were regulated by the Monetary Policy Committee of the Bank of Korea. Under the government's Financial Reform Plan issued in May 1993, however, controls on deposit interest rates in Korea have been gradually reduced. Restrictions were removed in stages with respect to interest rates on most time deposits and savings deposits in 1994 and 1995. In July 1997, restrictions on all interest rates, except demand deposits, were removed. As a result of the government's deregulation program, the interest income generated by our loan portfolio and the interest expense resulting from deposits are determined to a greater extent than in the past by market interest rates and the Bank of Korea monetary policy, including deposit reserve requirements. Deregulation of interest rates on deposits has increased competition for deposits based on interest rates offered and therefore may increase our interest expense. In connection with interest rate deregulation for demand deposits, on January 9, 2003, the Bank of Korea announced that, as one of its proposed monetary policy objectives for 2003, it is contemplating completing the final phase of interest rate deregulation measures. The Bank of Korea has been moving to deregulate this market since 1991. Among other things, the Bank of Korea announced that it would consider removing interest rate restrictions applicable to demand deposits. This would include, for example, lifting the 1% per annum deposit interest rate ceiling applicable to passbook accounts and demand deposits offered by commercial banks, which had been imposed to protect banks from excessive competition. The Bank of Korea has not, however, indicated when the proposed deregulation will be implemented. See Item 3D. Risk Factors Risk relating to competition Intense competition for deposits following the deregulation of interest rate restrictions on demand deposits may lead to a loss of our deposit customers or an increase in our funding costs.

Lending to Small- and Medium-Sized Enterprises

In order to obtain funding from the Bank of Korea at concessionary rates for their small- and medium-sized enterprise loans, banks are required to extend to small- and medium-sized enterprises a certain, minimum percentage of any monthly increase in their Won currency lending. Currently, this minimum percentage is 45% in the case of nationwide banks and 60% in the case of regional banks. If a bank does not comply with the foregoing, all or a portion of the Bank of Korea funds provided to that bank in support of loans to small- and medium-sized enterprises may have to be prepaid to the Bank of Korea or the credit limit from the Bank of Korea for that bank may be decreased.

Disclosure of Management Performance

For the purpose of reinforcing mandatory disclosure of management performance so that the general public, especially depositors and stockholders, will be in a better position to monitor banks, the Financial Supervisory Service requires commercial banks to disclose the following matters:

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(1) unprofitable loans (as defined by the Financial Supervisory Service) made to a single business group in an amount exceeding 10% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to

Table of Contents

such borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits) except where the loan exposure to a single business group is not more than (Won)4 billion;

(2) any financial incident involving embezzlement, malfeasance or misappropriation of funds the amount of which exceeds 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) occurs, unless the bank has lost or expects to lose not more than (Won)1 billion as a result thereof, or the Governor of the Financial Supervisory Service has made a public announcement regarding such an occurrence; and

(3) any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month except where the loss is not more than (Won)1 billion.

Restrictions on Lending

According to the Bank Act, commercial banks are prohibited from making any of the following categories of loans:

loans made for the purpose of speculation in commodities or securities;

loans made directly or indirectly on the pledge of a bank's own shares, or on the pledge of shares in excess of 20% of the issued and outstanding shares of any other corporation (subject to certain exceptions with respect to financing for infrastructure projects);

loans made directly or indirectly to enable a natural or juridical person to buy the bank's own shares;

loans made directly or indirectly to finance political campaigns and other activities;

loans made to any of the bank's officers or employees other than petty loans of up to (1) (Won)20 million in the case of a general loan, (2) (Won)50 million in the case of a general loan plus a housing loan, or (3) (Won)60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;

credit (including loans) provided on the pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; and

loans made to any officers or employees of a subsidiary corporation of the bank other than petty loans of up to (Won)20 million in the case of a general loan or (Won)50 million in the aggregate in the case of general and housing loans.

Recent Regulations Relating to Retail Household Loans

The Financial Supervisory Commission has recently implemented or proposed implementing a number of changes to the mechanisms by which we evaluate and report our retail household loan balances. As a result of the rapid increase in retail household loans and increased credit risks relating thereto, the Financial Supervisory Commission increased the minimum provisioning requirements under Korean GAAP for retail household loans in 2002, as set forth in the following table.

Asset Quality Classification	Provisioning Ratio on Retail Loans		
	Before May 1, 2002	After May 1, 2002	After October 14, 2002
Normal	0.5% or above	0.75% or above	0.75% or above
Precautionary	2.0% or above	5.0% or above	8.0% or above
Substandard	20.0% or above	20.0% or above	20.0% or above
Doubtful	50.0% or above	55.0% or above	55.0% or above
Estimated loss	100.0%	100.0%	100.0%

Table of Contents

In addition, due to a rapid increase in loans secured by homes and other forms of housing, the Financial Supervisory Commission and the Financial Supervisory Service have implemented certain regulations that are designed to reduce the increase of such loans. Effective from the third quarter of 2002, minimum provisioning requirements under Korean GAAP for new loans secured by housing located in the areas of wide-spread real property speculation with respect to the portion the new loan that exceeds the loan-to-value ratio of 60% have been raised to 1.0% as compared to 0.75% for normal loans and to 10.0% as compared to 5.0% for precautionary loans. Further, effective from the fourth quarter of 2002, the Financial Supervisory Commission and the Financial Supervisory Service raised the minimum provisioning requirements under Korean GAAP for household loans classified as precautionary from 5.0% to 8.0%.

Subsequently, in an effort to curtail extension of new or refinanced loans secured by housing, the Financial Supervisory Commission and the Financial Supervisory Service:

have reduced the average loan-to-value ratio (the aggregate principal amount of credit over the approval value of collateral) of Korean commercial banks with respect to new loans secured by housing located nationwide to below 60%;

increased risk-weights for loans secured by housing meeting certain criteria in connection with the capital adequacy calculation for commercial banks.

In November 2002, the Financial Supervisory Commission and the Financial Supervisory Service issued guidelines to:

require Korean commercial banks to implement stronger internal control systems and stricter credit review and approval policies with respect to loans secured by housing;

introduce sharing of information on multiple housing loans to a single borrower within the financial industry;

require Korean commercial banks to appoint two to three qualified market value appraisal institutions and to use the lowest of the appraisal valuations; and

suppress the use of incentive-based systems by Korean commercial banks.

See Item 3D. Risk Factors Risks relating to our retail credit portfolio Government regulation of our retail lending operations has increased significantly.

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for the conduct of its business, and the aggregate value of that real estate property must not exceed 60% of the sum of its Tier I and Tier II capital (less any capital deductions). Any property acquired by a bank (1) through the exercise of its rights as a secured party or (2) the acquisition of which is prohibited by the Bank Act must be disposed of within one year, subject to certain exceptions.

Restrictions on Shareholdings in Other Companies

Under the amended Bank Act, which became effective on July 28, 2002, restrictions against banks owning shares in other banking institutions have been abolished. In principle, however, a bank may not own more than 15% of shares outstanding with voting rights of another company, except, among other reasons, (1) where the company issuing such shares is engaged in category of financial businesses set forth by the Financial Supervisory Commission or where the acquisition of shares by the bank is necessary for the corporate restructuring of the issuer and is approved by the Financial Supervisory Commission and (2) where the total investment in companies in which the bank owns

Table of Contents

more than 15% of the outstanding share with voting rights does not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions) or where the acquisition satisfies the requirements determined by the Financial Supervisory Commission.

According to a recent amendment to the Bank Act, which became effective on July 28, 2002, a bank using its bank accounts and its trust accounts is not permitted to acquire the shares issued by a major shareholder of such bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the recent amendment to the Bank Act, which became effective on July 28, 2002, subject to certain exceptions, a single shareholder and persons who stand in a special relationship with that shareholder (as described in the Enforcement Decree to the Bank Act) may acquire beneficial ownership of up to 10% of a nationwide bank's total issued and outstanding shares with voting rights and up to 15% of a regional bank's total issued and outstanding shares with voting rights. However, if a single shareholder and persons who stand in a special relationship with that shareholder acquire more than 4% of the beneficial ownership of a nationwide bank's total issued and outstanding shares with voting rights, they must report their shareholding to the Financial Supervisory Commission. The government, the Korea Deposit Insurance Corporation and bank holding companies qualifying under the Financial Holding Company Act are not subject to such ceilings. However, non-financial group companies (*i.e.*, (1) any same shareholder group with an aggregate net assets of all non-financial companies belonging to such group of not less than 25% of the aggregate net assets of all members that are corporations of such group, (2) any group with aggregate assets of all non-financial companies belonging to such group of not less than (Won)2 trillion or (3) any mutual fund in which a same shareholder group, as described in items (1) and (2) above, owns more than 4% of the total shares issued and outstanding) may not acquire beneficial ownership of shares of a nationwide bank in excess of 4% of such bank's outstanding voting shares, although such a company may acquire beneficial ownership of:

(a) up to 10% of a nationwide bank's outstanding voting shares, with the approval of the Financial Supervisory Commission and under the condition that the non-financial group company will not exercise voting rights in respect of such shares in excess of the 4% limit; and

(b) in the event that a foreigner, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a nationwide bank's outstanding voting shares, up to 10% of such bank's outstanding voting shares without the approval of the Financial Supervisory Commission, and in excess of 10%, 25% or 33% of such bank's outstanding voting shares with the approval of the Financial Supervisory Commission, up to the number of shares owned by such foreigner.

In addition, any person (whether a Korean national or a foreigner), with the exception of non-financial group companies described above, may acquire in excess of 10% of a nationwide bank's total voting shares issued and outstanding, so long as an approval from the Financial Supervisory Commission is obtained in instances where the total holding exceeds 10% (or 15% in the case of regional banks), 25% or 33% of the bank's total voting shares issued and outstanding.

Deposit Insurance System

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The Depositor Protection Act provides insurance for certain deposits (insurable deposits) of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act, including us, are required to pay to the Korea Deposit Insurance Corporation an insurance premium on a quarterly basis at such rate as determined by the Presidential Decree to the Depositor Protection Act, which shall not exceed 0.5% of the bank s insurable deposits in any given year. The current insurance premium, which we are required to pay quarterly, is equal to 0.1% of insurable deposits in any given year. In addition to this amount, from 2003 we are also

Table of Contents

required to pay to the Korea Deposit Insurance Corporation a special contribution on a quarterly basis equal to 0.1% of insurable deposits in any given year. If the Korea Deposit Insurance Corporation pays the insured amount, it will acquire the claims of the depositors within the payment amount. Under current rules, the Korea Deposit Insurance Corporation insures only up to a total of (Won)50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. However, the maximum limit of (Won)50 million is not applicable to interest-free settlement accounts (for example, a checking account) during the period from January 1, 2001 to December 31, 2003.

Restrictions on Foreign Exchange Position

Under the Korean Foreign Exchange Transaction Regulations, a bank's net overbought and oversold positions are each limited to 20% of the stockholders' equity as of the end of the prior month.

Credit Card Business

To enter the credit card business, a bank must register with the Financial Supervisory Commission, and a credit card company must obtain a license from the Financial Supervisory Commission. Credit card businesses are governed by the Specialized Credit Financial Business Act of 1997, as amended. A licensed credit card company or registered bank engaging in the credit card business is regulated by the Financial Supervisory Commission, which has the right to review the operation of those credit card companies and banks and inspect their records to ensure compliance with the provisions of the Specialized Credit Financial Business Act. The Financial Supervisory Commission has the authority to suspend the operation of banks and credit card companies for up to six months and to cancel a license or registration, as the case may be, due to non-compliance with certain regulations under the Korean Specialized Credit Financial Business Act and certain administrative orders.

The Financial Supervisory Commission has recently implemented or proposed implementing a number of changes to the mechanisms by which we evaluate and report our credit card-related loan balances. From January 2003, the Financial Supervisory Commission applied the following minimum provisioning ratios under Korean GAAP to calculate allowance for doubtful credit card accounts as follows:

Asset Classifications	Provisioning Ratio
Normal	1.0% or above
Precautionary	12.0% or above
Substandard	20.0% or above
Doubtful	60.0% or above
Estimated loss	100.0%

Effective from July 1, 2002, the Ministry of Finance and Economy revised the relevant laws applicable to credit card companies by implementing a presidential decree requiring credit card issuers to reduce their lending volumes (including cash advances and credit card loans and, from the first quarter of 2005, including for purposes of the calculation, loan-related receivables sold through asset securitization transactions) to less than 50% of their aggregate quarterly average outstanding credit card balance by the fourth quarter of 2003.

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Effective from July 4, 2002, the Financial Supervisory Commission revised the regulations applicable to credit card issuers that comprise part of a bank, but which are not separate subsidiaries (such as BC Card) for the purpose of requiring such credit card issuers to:

retool their credit scoring system to better address the credit risks of their customers;

lower the interest rate on cash advances to the level of the industry's leading credit card companies;

Table of Contents

improve the member classification system so that cardholders receive more diversified credit grades;

impose new restrictions on credit card issuers in respect of their marketing, card issuance and collection activities;

increase the minimum loan loss reserve requirements applicable to credit card issuers; and

set credit limits for cardholders by taking into account their creditworthiness.

In addition, to further curtail increases in credit card delinquencies and deterioration of credit card asset quality, in January 2003 the Financial Supervisory Commission revised the relevant regulations applicable to credit card companies that fail to meet certain Korean GAAP capital adequacy and delinquency requirements and impose sanctions and remedial orders in three categories as follows, with effect from April 2003:

<u>Categories</u>	<u>If a company:</u>	<u>Then the Financial Supervisory Service may:</u>
Management Improvement Recommendations	(1) has a capital adequacy ratio of between 6% and 8%; (2) has a substandard individual rating of 4 or below for asset soundness or capital adequacy for management performance (even though maintaining a satisfactory overall rating of 1, 2 or 3); or (3) has a delinquency ratio of 10% or more and records a net loss,	order a reorganization of the company's labor force; order the sale or disposition of non-performing assets; restrict expansion into new operations; require capital reduction and new injection of capital; or restrict dividend payments.
Management Improvement Request	(1) has a capital adequacy ratio of between 2% and 6%; (2) has a substandard overall rating of 4 or below for management performance; (3) has a delinquency ratio of 15% or more and records a net loss; or (4) has not performed pursuant to the sanctions and orders promulgated by the Management Improvement Recommendations,	In addition to the foregoing: order a scale-down of organization; restrict new businesses; restrict borrowings; or replace management of the company.

Management Improvement Order

(1) has a capital adequacy ratio of 2% or below; or

(2) has not performed under the sanctions and orders under the Management Improvement Request,

In addition to the foregoing:

order a capital write-off;

suspend duties of the directors and executive officers;

order a forced merger; or

suspend the business of the company.

Table of Contents

The Financial Supervisory Service announced its plan on November 19, 2002 requiring:

restructured credit card loans that were originally delinquent credit card balances to be classified as precautionary or below; and

credit card companies to promptly write-off outstanding credit card balances in excess of (Won)50 million which are delinquent for six months or more and classified as estimated loss.

These measures took effect on January 29, 2003.

The Ministry of Finance and Economy and the Financial Supervisory Commission adopted additional amendments to applicable laws and regulations with effect from January 2003 that increase the minimum loan loss reserve requirements applicable to credit card issuers, including by requiring reserves to be maintained on a portion of the unused cash advance limits of customers.

In March 2003, the Korean government announced a number of measures intended to support the credit card industry in light of the deteriorating liquidity position of a number of credit card companies in Korea. These include the relaxation or delay in the implementation of some of the new regulatory restrictions applicable to credit card issuers, such as restrictions on cash advance fee rates and on the level of cash advance and card loan receivables as a percentage of total receivables. In addition, the Korean government has allowed capital raising from a credit card company's largest shareholder and has loosened regulations relating to debt offerings by credit card companies and has encouraged the sale of non-performing loans by credit card companies. However, the Financial Supervisory Commission recently announced that these relief measures are likely to be temporary.

Furthermore, the Financial Supervisory Service has announced that it will intensify the supervision and monitoring of credit card companies and launch an industry-wide investigation on all 26 credit card companies in Korea (including commercial banks with credit card operations) in 2003 for any regulatory violations and impose sanctions, including business suspensions.

See Item 3D. Risk Factors. Risks relating to our retail credit portfolio. Government regulation of our credit card operations has increased significantly.

Trust Business

A bank wishing to enter into the trust business must obtain the approval of the Financial Supervisory Commission. Trust activities of banks are governed by the Trust Act and Trust Business Act. Banks engaged in the banking business and trust business are subject to certain legal and accounting procedures requirements, including the following:

(a) under the Bank Act, assets accepted in trust by a bank in Korea must be segregated from its other assets in the accounts of such bank; accordingly, banks engaged in the banking and trust businesses must maintain two separate accounts, the banking accounts and the trust accounts, and two separate sets of records which provide details of their banking and trust businesses,

respectively; and

(b) assets comprising the trust accounts are not available to depositors or other general creditors of such bank in the event the bank is liquidated or is wound up.

With respect to each unspecified money trust account for which a bank guarantees the principal amount and a minimum yield on that amount, the bank must make a special reserve of 25% or more of fees and commissions from such trust account until the total reserve for such trust account equals 5% of the trust amount in the trust account. However, effective starting January 1, 1999, Korean banks were prohibited from offering new guaranteed fixed rate trust account products whose principal and interest are guaranteed by the bank.

Table of Contents

In addition, a trustee bank must deposit with a court an amount equal to 0.05% of its paid-in capital each year until the aggregate amount of such court deposits reaches 10% or more of its paid-in capital. In the event that a trustee bank breaches its duty of care as a trustee and causes loss to its customers, the court deposits will be available as compensation for such loss.

Laws and Regulations Governing Other Business Activities

To enter the foreign exchange business, a bank must register with the Ministry of Finance and Economy. The foreign exchange business is governed by the Foreign Exchange Transaction Law. To enter the securities business, a bank must obtain the permission of the Financial Supervisory Commission. The securities business is governed by regulations under the Korean Securities and Exchange Act. Pursuant to the above-mentioned laws, we are permitted to engage in the foreign exchange business, securities repurchase business, governmental/public bond underwriting business and governmental bond dealing business.

Item 4C. Organizational Structure

We are the direct or indirect parent company of a number of subsidiaries. The following table provides summary information for our operating subsidiaries that are consolidated in our consolidated financial statements as of and for 2002, on a Korean GAAP basis including contribution to our total assets, net income, operating income and stockholders' equity.

	Percentage of		Stockholders	Operating	Net
Subsidiary	Ownership	Total Assets	Equity	Income	Income
(in millions of Won)					
Kookmin Credit Card Co., Ltd. (1)	74.78%	(Won) 12,499,881	(Won) 148,642	(Won) (1,020,041)	(Won) (993,557)
Kookmin Data System Corp.	99.98	18,241	14,431	2,673	2,107
Kookmin Futures Co., Ltd.	99.98	38,792	25,117	3,730	2,685
KB Investment Co., Ltd	99.89	123,851	96,634	5,694	(3,481)
Kookmin Bank Luxembourg S.A.	100.00	466,555	(9,304)	1,769	1,718
Kookmin Finance Hong Kong Ltd.	100.00	294,413	58,899	14,187	14,187
Kookmin Bank International Ltd.	100.00	366,697	61,248	2,721	3,002
KB Investment Trust Management Co., Ltd.	80.00	60,844	57,278	23,532	15,177
KB Real Estate Trust Co., Ltd.	99.99	323,486	110,752	25,154	27,018
KB Credit Information Co., Ltd. (2)	75.67	20,700	14,745	4,749	3,868
Joeeun Industrial Co., Ltd.	99.99	292,540	(59,572)	(11,971)	(11,971)

(1) As of December 31, 2002, our ownership in Kookmin Credit Card was reduced to 74.78%, primarily as a result of the sale of Kookmin Leasing to Sun Capital Co. on December 27, 2002.

(2) We held 69.31% directly and Kookmin Credit Card Co., Ltd. held 3.10% and KB Investment Co., Ltd. held 3.26%.

Further information regarding our subsidiaries is provided below.

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Kookmin Credit Card Co., Ltd. was established in September 1987 and conducts credit card operations, consumer installment financing, factoring and provision of payment guarantees. We provide a significant portion of credit card services through our national network.

Kookmin Data System Corp. was established in Korea in September 1991 to provide software services to us and other financial institutions.

Kookmin Futures Co., Ltd. was established in Korea in March 1997 to act as a broker-dealer for domestic and overseas futures transactions.

KB Investment Co., Ltd. was established in Korea in March 1990 to invest in and finance venture companies. KB Investment was merged with Frontier Investment Co., Ltd. and

Table of Contents

Kookmin Venture Capital Co., Ltd. effective as of December 31, 2001 and June 27, 2002, respectively. KB Investment was formerly known as Kookmin Bank Venture Capital Co., Ltd. until May 25, 2002.

Kookmin Bank Luxembourg S.A. was established in Luxembourg in October 1991 to engage in financing activities in the international financial markets.

Kookmin Finance Hong Kong Ltd. was established in July 1995 to provide a broad range of corporate banking services.

Kookmin Bank International Ltd. was established in the United Kingdom in November 1991 to engage in financing activities.

KB Investment Trust Management Co., Ltd. was established in April 1988 as a subsidiary of Citizens Investment Trust Company to provide trust account investment services. KB Investment Trust Management was formerly known as Jooeun Investment Management Co., Ltd. until June 10, 2002.

KB Real Estate Trust Co., Ltd. was established in December 1996 to provide real estate brokerage service and assist small- and medium-sized construction companies by managing trusts related to the real estate industry. KB Real Estate Trust was formerly known as Jooeun Real Estate Trust Co., Ltd. until September 16, 2002.

KB Credit Information Co., Ltd. was established in October 1999 to collect delinquent loans and to check credit history. KB Credit Information was formerly known as Kookeun Credit Information Co., Ltd. (and prior to that was known as Jooeun Credit Information Co, Ltd.) and was merged with KM Credit Information Co., Ltd. on May 2, 2002.

Jooeun Industrial Co., Ltd. was established in March 1993. We commenced liquidation proceedings with respect to Jooeun Industrial on March 19, 2002.

Other Subsidiaries. For the year ended December 31, 2002, we derived revenues of (Won)605 billion and net income of (Won)623 billion from our remaining subsidiaries, which individually do not account for a significant amount of our business.

Item 4D. *Property, Plants and Equipment*

Our registered office and corporate headquarters are located at 9-1, 2-ga, Namdaemoon-ro, Jung-Gu, Seoul 100-703, Korea. Information regarding certain of our properties in Korea is presented in the following table:

Type of Facility/Building	Location	Area (square meters)	Site (if different)
Registered office and Corporate Headquarters	9-1, 2-Ga, Namdaemoon-ro, Jung-Gu, Seoul 100-703	23,084	

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Headquarters building	36-3, Yoido-dong, Youngdeungpo-Gu, Seoul 150-758	39,650	
Headquarters building	Yoido, Seoul	33,616	
Headquarters building	Yoido, Seoul	11,372	
Training Institute	Ilisan	12,223	207,659
Training Institute	Daechon	7,363	4,158
Training Institute	Sokcho	14,029	15,584
Training Institute	Cheonan	39,649	196,649
IT Center	Seoul	17,270	
IT Center	Seoul	14,231	

Table of Contents

As of December 31, 2002, we had a countrywide network of 1,190 branches and sub-branches. Approximately one-third of these facilities are housed in buildings owned by us, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. We also have subsidiaries in Hong Kong, Luxembourg and the United Kingdom and branches in Tokyo in Japan, Auckland in New Zealand and New York in United States. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us at December 31, 2002 was (Won)2,121 billion.

Table of Contents**Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS****Item 5A. *Operating Results*****Overview**

The following discussion is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP, except for (1) the segment analyses, which are prepared based on Korean GAAP and (2) the selected financial information under Korean GAAP, which is based on our consolidated financial statements prepared in accordance with Korean GAAP. The financial information below for 2002 reflects the inclusion of the results of operations of former H&CB for the entire year, while the financial information for 2001 reflects such operations only for the two months from the date of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001.

The Korean Economy

Our financial position and recent results of operations have been and continue to be significantly impacted by financial and economic conditions in Korea. As part of the Korean government's structural reform program, which stemmed from the economic difficulties in 1997 and 1998, there have been certain significant changes in regulations specifically affecting financial institutions, including changes in loan classification and loss provisioning guidelines, Korean GAAP, securities valuation methods and liquidity and minimum capital requirements.

From 2000 to 2002, financial and economic conditions generally improved in Korea. The general level of interest rates decreased, consumer demand for credit cards and other financial products increased, the overall level of non-performing corporate loans decreased and overall profitability increased. Nonetheless, the Korean government's structural reforms in the corporate sector have not been fully implemented and the large corporate sector of the economy is still experiencing significant difficulties. For example, in March 2003 the principal creditor banks (including us) of SK Global, a member company of the SK Group, commenced corporate restructuring procedures against SK Global after the company publicly announced that its financial statements understated its debt by (Won)1 trillion and overstated its profits by (Won)1.5 trillion. Subsequent press reports indicate that the actual liabilities of SK Global exceeded its assets by approximately (Won)4.4 trillion as of December 31, 2002 on a non-consolidated basis. As of May 28, 2003, we had outstanding exposure of (Won)453 billion to SK Global. See Item 3D. Risk Factors Risks relating to our large corporate loan portfolio.

In addition, financial institutions in Korea, including banks, credit card companies and commercial finance companies, have made significant investments and engaged in aggressive marketing in the consumer loan and credit card businesses to increase the volume of such loans, as competition in these areas in Korea has increased significantly in recent years. The rapid growth in consumer lending and credit card balances and loans has been accompanied by increasing delinquencies, loan loss provisions, non-performing loans and charge-offs. As a result of these activities and concerns regarding the high levels of consumer borrowing and credit card usage in Korea and the deterioration in the retail lending and credit card portfolios of Korean financial institutions, in 2002 the Korean government implemented various changes to the regulations governing loan loss provisioning for consumer loans and credit card receivables as well as credit card operations generally. See Item 3D. Risk Factors Risks relating to our retail credit portfolio and Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

As a result of these unfavorable developments, as well as factors such as high oil prices, the general weakness of the global economy, the war in Iraq, heightened tensions with North Korea and the outbreak of severe acute respiratory syndrome (SARS) in Asia and other parts of the world, the economic outlook for Korea in 2003 is uncertain.

Table of Contents***Financial Impact of the Merger***

Under U.S. GAAP, we accounted for the merger under the purchase method of accounting, with the former Kookmin Bank being the acquiring entity for accounting purposes. Our results of operations for the year ended December 31, 2002 include the operations of H&CB for all of 2002, unlike the figures for our results of operations for the year ended December 31, 2001 to which these figures are compared, which include such operations only from November 1, 2001. Furthermore, the results of operations of the former Kookmin Bank for the year ended December 31, 2000 to which these figures are compared herein do not reflect any adjustment for H&CB. In addition, our assets, liabilities and stockholders' equity at December 31, 2001 fully reflect the merger while the comparable figures of the former Kookmin Bank at December 31, 2000 to which they are compared in this annual report have not been adjusted. You should consider the following discussion and analysis with these facts in mind. See Item 4A. History and Development of the Company for additional information regarding the merger.

We recorded the assets and liabilities of H&CB at fair value. The total fair value of the assets we acquired was (Won)68,347 billion, and the total fair value of the liabilities we assumed was (Won)64,858 billion. We also recorded two intangible assets: one related to core deposit relationships and the other related to credit card relationships amounting to (Won)670 billion and (Won)222 billion, respectively, before the allocation of negative goodwill as discussed below. The core deposit intangible asset reflects the value of the acquired base of demand and savings deposit accounts of H&CB which we can expect to maintain for an extended period because of generally stable customer relationships. This intangible asset will be amortized in proportion to the estimated run-off of depositors on an accelerated basis over a weighted average life of approximately eight years. The credit card relationship intangible asset reflects the value of the acquired credit card relationships of H&CB. This intangible asset will be amortized on an accelerated basis over a weighted average life of approximately six years. In addition, we periodically perform an impairment review on these intangible assets when circumstances warrant such an evaluation, and any impaired amounts are written off. We performed an impairment test of the credit card intangible asset in 2002, and there was no impairment as of December 31, 2002.

For accounting purposes, the purchase price for H&CB was (Won)2,945 billion, representing the sum of the market value of our common stock issued to H&CB's stockholders of (Won)2,897 billion (calculated based on the average of the closing prices of the former Kookmin Bank's common stock on the Korea Stock Exchange during the period two days before and after April 23, 2001, the date of the merger agreement) and acquisition expenses of (Won)48 billion. The excess of the fair value of H&CB's net assets amounted to (Won)544 billion and represented negative goodwill, which we allocated on a pro rata basis to premises and equipment and two intangible assets acquired.

The overall size and composition of our assets and liabilities and our income and expenses changed as a result of the merger with H&CB. In particular, within our loan portfolio, the proportion of the total outstanding balance and the total interest income related to our consumer loans, including credit card balances, has increased substantially relative to the balances of and interest income from our corporate loans. For example, consumer loans, including credit card balances, as a percentage of total loans increased from 41.3% as of December 31, 2000 to 63.9% as of December 31, 2001. This increase was in large part attributable to the merger, as a result of which we acquired (prior to deducting allowance for loan losses) (Won)21,768 billion of mortgage loans, (Won)15,100 billion of installment loans to individuals and other consumer loans and (Won)4,222 billion of credit card balances, compared to (Won)6,179 billion of commercial and industrial loans as of the acquisition date. Due to the increase in the amount and relative proportion of our consumer loans, including credit card balances, as well as in the amount of our retail deposits, resulting from the merger, our exposure to economic changes affecting the consumer sector in Korea and the relative importance of that sector to our business, results of operations and financial condition have increased significantly.

Table of Contents***Changes in Securities Values, Exchange Rates and Interest Rates***

Exchange rates, interest rates and stock prices have fluctuated significantly in Korea in recent years. These fluctuations affect, among other things, the demand for our products and services, the value and rate of return on our assets, the availability and cost of funding and the financial condition of our customers. The following table shows for the dates indicated, the stock price index of all equities listed on the Korea Stock Exchange as published in the Korea Composite Stock Price Index (known as KOSPI), the Won to U.S. dollar exchange rates and benchmark Won borrowing interest rates.

	Dec. 31,	June 30,	Dec. 31,	June 30,	Dec. 31,	June 30,	Dec. 31,
	1999	2000	2000	2001	2001	2002	2002
KOSPI	1,028.07	821.22	504.62	595.13	693.70	742.72	627.55
(Won)/US\$ exchange rates (1)	1,136	1,115	1,267	1,303	1,314	1,205	1,186
Corporate bond rates (2)	9.95%	9.37%	8.27%	7.25%	7.04%	6.59%	5.68%
Treasury bond rates (3)	9.03%	8.31%	6.70%	5.93%	5.91%	5.65%	5.10%

(1) Noon buying rate.

(2) Measured by the yield on three-year AA- rated corporate bonds, as rated by the Korean credit rating agencies.

(3) Measured by the yield on three-year treasury bonds.

Critical Accounting Policies

The notes to our consolidated financial statements contain a summary of our significant accounting policies, including a discussion of recently issued accounting pronouncements. Certain of these policies are critical to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. We discuss these critical accounting policies below.

Allowance for Loan Losses

We evaluate our loan portfolio for impairment on an ongoing basis. We have established an allowance for loan losses, which is available to absorb the losses that we estimate we will incur in our loan portfolio as of the balance sheet date. If we believe that additions to the allowance for loan losses are required, then we record provisions for loan losses, which are treated as charges against current income. Credit exposures that we deem to be uncollectable, net of recoveries of previously charged-off amounts, are charged directly against the allowance for loan losses.

We base the level of our allowance for loan losses on an evaluation of the risk characteristics of our loan portfolio. We consider factors such as historical loss experience, the financial condition of our borrowers and current economic conditions. We evaluate corporate loans and consumer loans in different ways, due to their respective characteristics, as follows:

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We generally evaluate impaired corporate loans individually, due to the unique characteristics of the individual corporate borrowers. We establish an allowance for loan losses for each individual impaired corporate loan. As described in more detail in our consolidated financial statements, we consider a loan impaired when, after considering risk characteristics and current information and events, we believe it is probable that we will be unable to collect all amounts owed under the contractual terms of the agreement, including principal and interest. Once we have identified a loan as impaired, we value that loan either based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. If resulting value is less than the carrying value of the loan, we establish a specific allowance for the difference.

We also establish an allowance for loan losses for corporate loans that we do not believe are impaired. This allowance is established for the aggregate pool of these loans based on our historical loss experience for these types of loans.

Table of Contents

We establish an allowance for loan losses related to leases based on historical loss experience.

We generally evaluate consumer loans and certain smaller balance corporate loans, including mortgages and home equity loans and credit card balances, as individual pools for loan loss reserve purposes due to their homogeneous nature, and establish an allowance for loan losses relating to each pool based on historical loss experience.

Factors that we consider when establishing reserves for homogeneous pools of corporate and consumer loans include, but are not limited to, global and local economic events, delinquencies and changes in underwriting and credit monitoring policies.

We believe that the accounting estimate related to our allowance for loan losses is a critical accounting policy because: (1) it is highly susceptible to change from period to period because it requires us to make assumptions about future default rates and losses relating to our loan portfolio; and (2) any significant difference between our estimated loan losses (as reflected in our allowance for loan losses) and actual loan losses could require us to take additional provisions which, if significant, could have a material impact on our net income. Our assumptions about estimated losses require significant judgment because actual losses have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Our consolidated financial statements for the year ended December 31, 2002 included a total loan loss allowance of (Won)5,276 billion as of that date (including allowances with respect to guarantees and acceptances). Our total loan charge-offs, net of recoveries, amounted to (Won)2,064 billion and our provision for losses on loans, guarantees and acceptances amounted to (Won)3,885 billion in 2002.

Valuation of Securities and Financial Instruments

We invest in various financial instruments including debt and equity securities, derivatives and investments in venture capital activities. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value is required to determine the instrument's effect on our consolidated financial statements.

Trading assets and liabilities: Trading assets include securities that are bought and held principally for the purpose of selling them in the near term. Trading liabilities include short positions, which are obligations to deliver securities not yet purchased. Trading positions are carried at fair value and recorded on a trade date basis, with changes in fair value recognized in net trading revenue as they occur. Trading assets and liabilities also include derivatives and foreign exchange contracts used for trading purposes as well as those used for other than trading purposes that do not qualify for hedge accounting all of which are carried at fair value. We recognize changes in the fair value of trading derivatives and foreign exchange contracts in net trading revenue as they occur.

Debt and marketable equity securities: We classify our investments in debt and marketable equity securities as available-for-sale when we intend to hold the securities for an indeterminable period of time or when the securities may be sold from time to time to effectively manage interest rate exposure and liquidity needs. Available-for-sale securities are reported at fair value. Unrealized gains and losses are excluded from earnings and reported in a separate component of stockholders' equity. Any other-than-temporary declines in the fair value of available-for-sale securities results in the recognition of the related loss in earnings. We carry our investments in held-to-maturity debt securities at amortized cost if we intend and have the ability to hold them to maturity. Declines in fair value of individual held-to-maturity securities below their amortized cost that are other-than-temporary result in write-downs of the securities to their fair value.

Table of Contents

Nonmarketable equity securities: Some equity securities do not have readily determinable marketable values. We carry such securities at cost, with any other-than-temporary impairment recorded in earnings. The fair values of nonmarketable equity securities are based on the latest obtainable net asset value of the investees, which often reflect cost or other reference events. Any changes in the information or assumptions used in obtaining the fair values could significantly affect the fair value of these investments.

Investments in venture capital activities: Certain of our subsidiaries engage exclusively in venture capital activities. We carry venture capital investments at fair value with net changes in fair value recognized as noninterest income or expense. The fair values of publicly traded securities these subsidiaries hold are generally based on quoted market prices. Securities that these subsidiaries hold that are not publicly traded are originally recorded at cost, which is deemed to be fair value as of the acquisition date. Subsequent to that date we estimate fair value based on investee transactions with unaffiliated parties or based on our review of the investee's financial results and condition. Any changes to these assumptions could significantly affect the fair values of these investments.

If available, quoted market prices provide the best indication of fair value. We determine the fair value of our securities and financial instruments using quoted market prices when available, including quotes from dealers trading those securities or instruments. If quoted market prices are not available, we determine the fair value based on pricing or valuation models, quoted prices of instruments with similar characteristics or discounted cash flows. The fair values calculated based on pricing and valuation models or the discounted cash flow analyses are subject to various assumptions used which, if changed, could significantly affect the fair values of the investments. These assumptions relate to discount rates, cash flows and certain modeling techniques, among other things.

Factors we consider in determining whether declines in value are other-than-temporary include the length of time and extent to which fair value is less than cost, the financial condition and near-term prospects of the issuer, our intent and ability to hold the related security for a period of time sufficient to allow for any recovery in market value, and (for domestic securities only) the state of the Korean economy. Any changes in these assumptions could significantly affect the valuation and timing of recognition of an other-than-temporary impairment.

We believe that the accounting estimates related to the fair market value of our various securities is a critical accounting policy because: (1) they may be highly susceptible to change from period to period based on factors beyond our control; and (2) any significant difference between our estimated fair value of these securities on any particular date and either their estimated fair value on a different date or the actual proceeds that we receive upon sale of these securities could result in valuation losses or losses on disposal which may have a material impact on our net income. Our assumptions about the fair market value of securities we hold, and in particular whether any decline in the value of our available-for-sale or held-to-maturity securities is temporary, require significant judgment because actual valuations have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Intangible Assets Acquired

We acquired core deposit and credit card relationship intangible assets upon our merger with H&CB. We recorded these intangible assets at their estimated fair values. The core deposit intangible asset reflects the value of the base of demand deposits and savings accounts acquired, which we can expect to maintain for an extended period because of generally stable customer relationships. The fair value of this asset was based principally upon the estimates of (1) the funding benefits that these deposits provide relative to our alternative funding sources and (2) the projected run-off of the related customer accounts. The credit card relationship intangible asset reflects the value of the credit card

Table of Contents

relationships acquired from which we expect to derive future benefits over the estimated life of such relationships. The fair value of this asset was based principally upon the estimates of (1) the profitability of the acquired accounts and (2) the projected run-off of the acquired accounts. We will amortize these intangible assets over their estimated useful lives, which range from approximately six to eight years, on an accelerated basis. Any changes to the assumptions used in determining the fair values or the estimated useful lives of such assets could significantly affect the carrying values of these intangible assets. We periodically perform an impairment review on these intangible assets when circumstances warrant such an evaluation, and any impaired amounts are written off.

We believe that the accounting estimates related to the fair market value of our acquired intangible assets is a critical accounting policy because: (1) they may be highly susceptible to change from period to period because they require assumptions about future run-off rates and profitability; and (2) any significant difference between our estimated run-off rates and profitability and the actual amounts could result in valuation losses which may have a material impact on our net income. Our assumptions about estimated run-off rates and profitability require significant judgment because these are newly acquired intangible assets, the values of which could fluctuate in the future, based on a variety of factors.

Results of Operations

Results of operations for each of the three years presented below do not include results for subsidiaries that we disposed of in 2002, the results of which have been eliminated from each of the prior years. These results have been aggregated as discontinued operations and are discussed separately. We have restated our prior year results for 2001 and 2000 in order to take into account these eliminations.

Table of Contents**Net Interest Income**

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year ended December 31,			Year ended December 31,	
	2000	2001	2002	2000/2001	2001/2002
	(in billions of Won,			(% change)	
	except percentages)				
Interest and dividend income					
Loans, including fees (1)	(Won) 5,180	(Won) 7,023	(Won) 11,824	35.6%	68.4%
Trading assets	179	172	112	(3.9)	(34.9)
Investment securities	1,652	1,540	1,419	(6.8)	(7.9)
Call loans and securities purchased under resale agreements	55	101	34	83.6	(66.3)
Deposits	197	59	61	(70.1)	3.4%
Total interest and dividend income	7,263	8,895	13,450	22.5	51.2
Interest expense					
Deposits	3,036	3,537	4,543	16.5	28.4
Call money	55	39	71	(29.1)	82.1
Other borrowed funds	333	558	521	67.6	(6.6)
Secured borrowings	59	297	325	403.4	9.4
Long-term debt	1,022	886	1,274	(13.3)	43.8
Total interest expense	4,505	5,317	6,734	18.0	26.7
Net interest income	(Won) 2,758	(Won) 3,578	(Won) 6,716	29.7%	87.7%
Net interest margin (2)	3.68%	3.57%	4.02%		

(1) Fees primarily include annual fees on credit cards.

(2) The ratio of net interest income to average interest earning assets. See Item 3A. Selected Financial Data Profitability ratios and other data.

Comparison of 2002 to 2001

Interest and dividend income. Interest and dividend income increased 51.2% from (Won)8,895 billion in 2001 to (Won)13,450 billion in 2002, primarily due to a 68.4% increase in interest and fees on loans. The average balance of our interest earning assets increased 66.7% from (Won)100,220 billion in 2001 to (Won)167,073 billion in 2002, principally as a result of the full-year impact of the merger with H&CB and increased consumer loan and credit card demand as a result of both higher levels of consumer spending and our marketing efforts, which more than offset a decline in average yields from 8.88% in 2001 to 8.05% in 2002.

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The 68.4% increase in interest and fees on loans from (Won)7,023 billion in 2001 to (Won)11,824 billion in 2002 was primarily the result of:

a 219.0% increase in average volume of mortgage and home equity loans from (Won)12,988 billion in 2001 to (Won)41,422 billion in 2002, partially offset by a decline of 88 basis points in average yields on such loans from 8.82% in 2001 to 7.94% in 2002;

a 99.6% increase in average volume of credit card balances, primarily in cash advances and credit card loans, from (Won)9,938 billion in 2001 to (Won)19,840 billion in 2002, partially offset by a decline of 29 basis points in average yields on credit card balances from 16.25% in 2001 to 15.96% in 2002;

Table of Contents

a 108.2% increase in average volume of consumer loans other than mortgage and home equity loans from (Won)12,258 billion in 2001 to (Won)25,519 billion in 2002, partially offset by a decline of 139 basis points in average yields on such loans from 9.74% in 2001 to 8.35% in 2002;

a 113.2% increase in average volume of construction loans from (Won)2,503 billion in 2001 to (Won)5,336 billion in 2002, partially offset by a decline of 175 basis points in average yields on such loans from 8.95% in 2001 to 7.20% in 2002; and

a 19.6% increase in average volume of commercial and industrial loans from (Won)32,390 billion in 2001 to (Won)38,733 billion in 2002, partially offset by a decline of 114 basis points in average yields on such loans from 8.22% in 2001 to 7.08% in 2002.

The average volume of our loans increased principally as a result of the full-year impact of the merger with H&CB, principally for mortgage and home equity and other consumer loans and credit card balances, and increased demand for these retail loan products due to generally higher levels of consumer borrowing in Korea. As a result of the merger, we acquired loans of H&CB (prior to deducting allowance for loan losses) in the aggregate amount of (Won)50,723 billion, including (Won)4,222 billion of credit card balances, (Won)6,179 billion of commercial and industrial loans, (Won)21,768 billion of mortgage loans and (Won)15,100 billion of installment loans to individuals and other consumer loans as of November 1, 2001. These assets were included in the calculation of our average balances and interest rates for all of 2002 but only two months of 2001, and, accordingly, the impact of these loans has been significantly greater on our results for 2002 than on our results for 2001. Our average volume growth in credit card balances, mortgage and home equity loans and other consumer loans also reflected the effects of our increased effort to market these consumer loan products, which effects were offset to some extent by government efforts to control the level of outstanding consumer debt in Korea. Our average yield on loans decreased 82 basis points from 9.68% to 8.86% principally as a result of the decline in the general levels of interest rates in Korea from 2001 to 2002.

Our securities portfolio consists primarily of investment securities, of which 55.8% represented debt securities issued by government-owned or -controlled enterprises or financial institutions (including the Korea Electric Power Corporation, the Korea Deposit Insurance Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea) and debt securities issued by financial institutions and other Korean banks as of December 31, 2002. Interest and dividends on investment securities decreased 7.9% from (Won)1,540 billion in 2001 to (Won)1,419 billion in 2002. This decrease was primarily due to a 162 basis point decline in average yields on investment securities from 7.28% in 2001 to 5.66% in 2002 reflecting increased average balances of non-interest bearing trust beneficiary certificates included in our securities portfolio as a result of the full-year impact of our merger with H&CB, the lower interest rate environment and our increased investments in equity securities, which was partially offset by a 18.6% increase in the average volume of investment securities from (Won)21,152 billion in 2001 to (Won)25,090 billion in 2002 primarily as a result of the full-year impact of the merger with H&CB.

Our securities portfolio also includes trading securities, of which 28.6% represented debt securities issued by government-owned or -controlled enterprises or financial institutions and debt securities issued by financial institutions and other Korean banks as of December 31, 2002. Interest and dividends on trading securities decreased 34.9% from (Won)172 billion in 2001 to (Won)112 billion in 2002. This decrease was primarily due to a 305 basis point decline in average yields on trading securities from 4.93% in 2001 to 1.88% in 2002 reflecting increased average balances of non-interest bearing trust beneficiary certificates included in our securities portfolio as a result of the full-year impact of our merger with H&CB, the lower interest rate environment and increased amortization of premium

Table of Contents

paid in connection with acquiring debt securities which had the effect of decreasing the effective yield on those securities, which was partially offset by a 70.6% increase in the average volume of trading securities from (Won)3,490 billion in 2001 to (Won)5,953 billion in 2002 primarily as a result of the full-year impact of the merger with H&CB.

Interest income from call loans and securities purchased under resale agreements decreased 66.3% from (Won)101 billion in 2001 to (Won)34 billion in 2002. This decrease resulted from a 61.3% decline in the average volume of such loans from (Won)2,093 billion in 2001 to (Won)811 billion in 2002 and a 64 basis point decrease in average yields on such loans and securities from 4.83% in 2001 to 4.19% in 2002. The decline in average volume of such loans and securities resulted primarily from our redeployment of these assets to provide loans to retail customers in response to higher consumer credit demand, and the decline in average yield on such loans and securities resulted from the decline in the general levels of interest rates in Korea from 2001 to 2002.

Interest Expense. Interest expense increased 26.7% from (Won)5,317 billion in 2001 to (Won)6,734 billion in 2002, primarily due to a 28.4% increase in interest expense on deposits and a 43.8% increase in interest expense on long-term debt. The average balance of our interest bearing liabilities increased 66.4% from (Won)93,120 billion in 2001 to (Won)154,978 billion in 2002, principally as a result of the full-year impact of the merger with H&CB and increased deposits and long-term debt, which more than offset a 136 basis point decline in average cost from 5.71% in 2001 to 4.35% in 2002.

The 28.4% increase in interest expense on deposits from (Won)3,537 billion in 2001 to (Won)4,543 billion in 2002 was primarily the result of a 75.0% increase in the average volume of interest bearing deposits from (Won)66,656 billion in 2001 to (Won)116,613 billion in 2002. This increase consisted mostly of:

- a 100.0% increase in average volume of time deposits (other than certificates of deposit) from (Won)33,231 billion in 2001 to (Won)66,454 billion in 2002; and

- a 48.8% increase in average volume of savings deposits from (Won)23,665 billion in 2000 to (Won)35,206 billion in 2001.

These average volume increases were primarily attributable to the full-year impact of the merger with H&CB, our sustained marketing efforts and the tendency of retail customers in Korea to deposit their money in banks perceived as stronger, like us. As a result of the merger, we acquired deposits of H&CB in the aggregate amount of (Won)51,861 billion, including time deposits (other than certificates of deposit) of (Won)32,382 billion, savings deposits of (Won)1,593 billion and mutual installment deposits of (Won)5,753 billion as of November 1, 2001. These deposits were included in the calculation of our average balances and interest rates for all of 2002 but only two months of 2001, and, accordingly, the impact of these liabilities has been significantly greater on our results for 2002 than on our results for 2001. The increase in interest expense as a result of increased average deposits was partially offset by a decrease in the average cost of interest bearing deposits due to the general decline in market interest rates in Korea from 2001 to 2002. The average interest rate paid on our time deposits (other than certificates of deposit), which accounted for 43.0% of our average interest bearing liabilities in 2002, decreased from 7.21% in 2001 to 4.91% in 2002. The average interest rate paid on our savings deposits, which accounted for 22.7% of our average interest bearing liabilities in 2002, decreased from 1.88% in 2001 to 1.17% in 2002. The average interest rate on our mutual installment deposits, which accounted for 7.9% of our average interest bearing liabilities in 2002, decreased from 7.78% in 2001 to 6.24% in 2002.

Interest expense on long-term debt increased 43.8% from (Won)886 billion in 2001 to (Won)1,274 billion in 2002 as a result of an increase in the average volume of such borrowings. The average volume of our long-term debt increased 56.6% from (Won)12,934 billion in 2001 to (Won)20,260 billion in 2002 primarily

Table of Contents

as a result of the full-year impact of the merger with H&CB and our increased use of long-term debt in order to diversify our borrowings and to obtain larger blocks of funding having fixed costs and maturities, despite the higher cost compared to other funding sources. This increase was partially offset by a decrease in the average cost of long-term debt due to the general decline in market interest rates in Korea from 2001 to 2002 and as we replaced maturing long-term debt with lower cost long-term debt. The average interest rate paid on our long-term debt decreased 56 basis points from 6.85% in 2001 to 6.29% in 2002.

The 9.4% increase in interest expense on secured borrowings from (Won)297 billion in 2001 to (Won)325 billion in 2002 was the result of an increase in the average volume of such borrowings. The average volume of secured borrowings increased 59.1% from (Won)3,701 billion in 2001 to (Won)5,888 billion in 2002, principally as a result of the full-year impact of the merger with H&CB, as well as new asset securitization transactions that our subsidiary Kookmin Credit Card entered into in 2002. Under U.S. GAAP, transfers of assets through securitizations where control of the assets has not been surrendered are not treated as sale transactions. Instead, the assets remain on our balance sheet with the securitization proceeds treated as secured borrowings. This increase was partially offset by a decrease in the average cost of secured borrowings due to the general decline in market interest rates in Korea from 2001 to 2002 and our replacement of maturing secured borrowings with lower-cost secured borrowings in securitization transactions. The average interest rate paid on our secured borrowings decreased 250 basis points from 8.02% in 2001 to 5.52% in 2002.

The 6.6% decrease in interest expense on other borrowed funds, which consist primarily of short-term borrowings, borrowings from the Bank of Korea, short-term foreign currency borrowings, short-term debentures and borrowing from our trust accounts, from (Won)558 billion in 2001 to (Won)521 billion in 2002 was due to a decrease in the average interest rate paid with respect to such borrowings, partially offset by an increase in the average volume of such borrowings. The average interest rates paid on short-term borrowings other than borrowings from the Bank of Korea decreased 136 basis points from 6.74% in 2001 to 5.38% in 2002 and the average interest rates paid on borrowings from the Bank of Korea decreased 83 basis points from 3.30% in 2001 to 2.47% in 2002. The decrease in the average cost of other borrowed funds was primarily due to the general decline in market interest rates in Korea from 2001 to 2002. The average volume of short-term borrowings other than borrowings from the Bank of Korea increased 17.6% from (Won)7,717 billion in 2001 to (Won)9,077 billion in 2002 and the volume of borrowings from the Bank of Korea increased 16.1% from (Won)1,152 billion in 2001 to (Won)1,337 billion in 2002. The increase in the average volume of other borrowed funds was primarily due to the full-year impact of the merger with H&CB, the issuance of more short-term Won-denominated debentures as this funding source became more attractive as a result of its lower volatility with respect to duration and cost, coupled with the general decrease in the cost of such borrowings and, with regard to borrowings from the Bank of Korea, increased utilization of this funding source as a result of a decision by the Bank of Korea to allocate more funding to us.

Net interest margin. Net interest margin represents the ratio of net interest income to average interest earning assets. Our overall net interest margin increased from 3.57% in 2001 to 4.02% in 2002. Net interest income increased 87.7% from (Won)3,578 billion in 2001 to (Won)W6,716 billion in 2002. The average volume of our interest earning assets increased 66.7% from (Won)100,220 billion in 2001 to (Won)167,073 billion in 2002. The increase in net interest margin was largely due to the more significant decline in the interest rates we paid on our deposits when compared to the decline in the interest rates we charged on our loans in 2002, in part as a result of our effort to lower deposit rates more quickly than interest rates charged on loans were declining. In addition, compared to 2001, in 2002 we received more payments of interest on credit card loans and fees on cash advances, which were generally at higher rates of interest than many of our other loans.

Table of Contents

Comparison of 2001 to 2000

Interest and dividend income. Interest and dividend income increased 22.5% from (Won)7,263 billion in 2000 to (Won)8,895 billion in 2001, primarily due to a 35.6% increase in interest and fees on loans. The average balance of our interest earning assets increased 33.7% from (Won)74,976 billion in 2000 to (Won)100,220 billion in 2001, principally as a result of the merger with H&CB, which more than offset a decline in average yields from 9.69% in 2000 to 8.88% in 2001.

The 35.6% increase in interest and fees on loans from (Won)5,180 billion in 2000 to (Won)7,023 billion in 2001 was primarily the result of:

- a 80.1% increase in average volume of credit card balances, primarily in cash advances and credit card loans, from (Won)5,518 billion in 2000 to (Won)9,938 billion in 2001, partially offset by a decline of 155 basis points in average yields on credit card balances from 17.80% in 2000 to 16.25% in 2001;

- a 18.6% increase in average volume of commercial and industrial loans from (Won)27,303 billion in 2000 to (Won)32,390 billion in 2001;

- a 70.8% increase in average volume of consumer loans other than mortgage and home equity loans from (Won)7,176 billion in 2000 to (Won)12,258 billion in 2001, partially offset by a decline of 156 basis points in average yields on such loans from 11.30% in 2000 to 9.74% in 2001; and

- a 83.4% increase in average volume of mortgage and home equity loans from (Won)7,081 billion in 2000 to (Won)12,988 billion in 2001, partially offset by a decline of 205 basis points in average yields on such loans from 10.87% in 2000 to 8.82% in 2001.

The average volume of our loans increased principally as a result of the merger with H&CB and increased retail loan and credit card demand as economic conditions, and therefore consumer demand, in Korea improved. As a result of the merger, we acquired loans of H&CB (prior to deducting allowance for loan losses) in the aggregate amount of (Won)50,723 billion as of November 1, 2001 (as described above under Comparison of 2002 to 2001). Our average volume growth in credit card balances, mortgage and home equity loans and other consumer loans also reflected our increased effort to market these consumer loan products and, in the case of credit card balances, government incentives to promote credit card usage. Our average yield on loans decreased 43 basis points from 10.11% to 9.68% principally as a result of the decline in the general levels of interest rates in Korea from 2000 to 2001.

Interest income from our deposits with other financial institutions declined 70.1% from (Won)197 billion in 2000 to (Won)59 billion in 2001. This decline resulted from both a decline in the average volume of such deposits from (Won)2,701 billion in 2000 to (Won)949 billion in 2001, and a 107 basis point decline in average yields on such deposits from 7.29% in 2000 to 6.22% in 2001. The decline in the average volume of such deposits resulted primarily from our redeployment of these assets to provide loans to retail customers in response to higher consumer credit demand.

Our securities portfolio consists primarily of investment securities, of which 64.4% represented debt securities issued by government-owned or -controlled enterprises or financial institutions (including the Korea Electric Power Corporation, the Korea

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Deposit Insurance Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea) and debt securities issued by financial institutions and other Korean banks as of December 31, 2001. Interest and dividends on investment securities decreased 6.8% from (Won)1,652 billion in 2000 to (Won)1,540 billion in 2001. This decrease was primarily due to a 209 basis point decline in average yields on investment securities from 9.37% in 2000 to 7.28% in 2001 reflecting the lower interest rate environment, which was partially offset by a 20.0% increase in the average volume of investment securities from (Won)17,623 billion in 2000 to (Won)21,152 billion in 2001 primarily as a result of the merger with H&CB.

Table of Contents

Interest Expense. Interest expense increased 18.0% from (Won)4,505 billion in 2000 to (Won)5,317 billion in 2001, primarily due to a 16.5% increase in interest expense on deposits, a 403.4% increase in interest expense on secured borrowings and a 67.6% increase in interest expense on other borrowed funds, partially offset by a 13.3% decrease in interest expense on long-term debt. The average balance of our interest bearing liabilities increased 34.6% from (Won)69,166 billion in 2000 to (Won)93,120 billion in 2001, principally as a result of increased deposits and the merger with H&CB, which more than offset a decline in average cost from 6.51% in 2000 to 5.71% in 2001.

The 16.5% increase in interest expense on deposits from (Won)3,036 billion in 2000 to (Won)3,537 billion in 2001 was primarily the result of a 34.6% increase in the average volume of interest bearing deposits from (Won)49,535 billion in 2000 to (Won)66,656 billion in 2001. This increase consisted mostly of:

a 24.6% increase in average volume of time deposits (other than certificates of deposit) from (Won)26,660 billion in 2000 to (Won)33,231 billion in 2001;

a 48.1% increase in average volume of savings deposits from (Won)15,976 billion in 2000 to (Won)23,665 billion in 2001; and

a 54.8% increase in the average volume of mutual installment deposits from (Won)4,676 billion in 2000 to (Won)7,238 billion in 2001.

These average volume increases were primarily attributable to our increased marketing efforts, the tendency of retail customers in Korea to deposit their money in banks perceived as stronger, like us, and the merger with H&CB. As a result of the merger, we acquired deposits of H&CB in the aggregate amount of (Won)51,861 billion as of November 1, 2001 (as described above under Comparison of 2002 to 2001). The increase in interest expense as a result of increased average deposits was partially offset by a decrease in the average cost of interest bearing deposits due to the general decline in market interest rates in Korea from 2000 to 2001. The average interest rate paid on our time deposits (other than certificates of deposit), which accounted for 35.7% of our average interest bearing liabilities in 2001, decreased from 7.69% in 2000 to 7.21% in 2001. The average interest rate paid on our savings deposits, which accounted for 25.4% of our average interest bearing liabilities in 2001, decreased from 2.74% in 2000 to 1.88% in 2001.

The 403.4% increase in interest expense on secured borrowings from (Won)59 billion in 2000 to (Won)297 billion in 2001 was primarily the result of an increase in the average volume of such borrowings. The average volume of secured borrowings increased 365.5% from (Won)795 billion in 2000 to (Won)3,701 billion in 2001, principally as a result of new asset securitization transactions we entered into in 2001, as well as the merger with H&CB.

The 67.6% increase in interest expense on other borrowed funds from (Won)333 billion in 2000 to (Won)558 billion in 2001 was due to an increase in the average volume of such borrowings, partially offset by a decrease in the average interest rate paid with respect to such borrowings. The average volume of short-term borrowings other than borrowings from the Bank of Korea increased 99.1% from (Won)3,876 billion in 2000 to (Won)7,717 billion in 2001 and the volume of borrowings from the Bank of Korea increased 29.1% from (Won)892 billion in 2000 to (Won)1,152 billion in 2001. The average volume of short-term borrowings other than borrowings from the Bank of Korea increased primarily due to a reclassification of one-year debentures (which were classified as long-term debentures until 2000) as short-term debentures and, to a lesser extent, the merger with H&CB. The average volume of borrowings from the Bank of Korea increased primarily due to increased use of this funding source as a result of a decision by the Bank of Korea to allocate more funding to us. The average interest rates paid on short-term borrowings other than borrowings from the Bank of Korea decreased 77 basis points from 7.51% in 2000 to 6.74% in 2001 and the average interest rates paid on borrowings from the Bank of Korea decreased 141 basis points from 4.71% in 2000 to 3.30% in 2001. The average

Table of Contents

interest rates paid on such borrowings decreased due primarily to the general decline in market interest rates in Korea.

Interest expense on long-term debt decreased 13.3% from (Won)1,022 billion in 2000 to (Won)886 billion in 2001 principally as a result of a decrease in the average cost of our long-term debt. The average interest rate paid on our long-term debt decreased from 7.95% in 2000 to 6.85% in 2001 as we replaced maturing long-term debt with lower cost long-term debt. The average volume of our long-term debt increased from (Won)12,854 billion in 2000 to (Won)12,934 billion in 2001 primarily due to the merger with H&CB. The increase in average volume of our long-term debt was partially offset by our replacement of a portion of our maturing long-term debt with funding from other sources such as deposits, as well as by the reclassification of one-year debentures as described above.

Net interest margin. Our overall net interest margin declined from 3.68% for 2000 to 3.57% for 2001. Net interest income increased 29.7% from (Won)2,758 billion in 2000 to (Won)3,578 billion in 2001. The average volume of our interest earning assets increased 33.7% from (Won)74,976 billion in 2000 to (Won)100,220 billion in 2001. Our overall margin decreased as a result of significant declines in the average yield on our rate sensitive investment securities and mortgage and home equity loan portfolios and, to a lesser extent, by average yield declines on our other retail and credit card portfolios, all of which reflected the general decline in market interest rates in Korea from 2000 to 2001, although this was partially offset by the positive effect of the segmental shift in our asset growth during 2001, which occurred largely in the higher margin retail and credit card segments.

Provision for Loan Losses

For a discussion of our loan loss provisioning policy, see Item 4B. Business Overview Assets and Liabilities Loan Portfolio Provisioning Policy.

Comparison of 2002 to 2001

Our provision for loan losses increased from (Won)1,270 billion in 2001 to (Won)3,909 billion in 2002 as a result of higher provisions in respect of our credit card and consumer loan portfolios due to the growth in outstanding credit card balances and consumer loans due to:

the full-year effect of the merger with H&CB, resulting in a larger average balance of such loans during 2002;

continuing increases in delinquencies and non-performing loans in our credit card and consumer loan portfolios; and

the re-aging of outstanding credit card balances, which balances have a higher delinquency rate and a higher degree of risk and are considered separately for purposes of determining loan loss allowances.

This increase was partially offset by the decrease in our provision for loan losses in respect of our corporate loan portfolio due to the improvement in the financial condition of certain corporate borrowers and a decline in the number of new delinquencies in

respect of such loans in 2002 compared to 2001.

Our loan charge-offs, net of recoveries, increased 43.6% from (Won)1,437 billion in 2001 to (Won)2,064 billion in 2002. Of the (Won)627 billion increase, (Won)1,059 billion and (Won)32 billion represented increases in net charge-offs of outstanding credit card balances and retail loans, respectively, which were partially offset by decreases of (Won)464 billion in net charge-offs of outstanding corporate loans.

Even after net charge-offs, significant increases in credit card balances, particularly cash advances and credit card loans, increased overdue balances in our credit card portfolio, which

Table of Contents

increased 259% from (Won)1,298 billion as of December 31, 2001 to (Won)4,657 billion as of December 31, 2002, a slowdown in the Korean economy and rising delinquency rates resulted in higher provisioning for these assets.

Similarly, even after net charge-offs, significant increases in consumer loans other than mortgage loans and home equity loans and increased overdue balances in our consumer loan portfolio, which increased 36% from (Won)5,502 billion as of December 31, 2001 to (Won)7,495 billion as of December 31, 2002, resulted in higher provisioning for these assets.

Comparison of 2001 to 2000

Our provision for loan losses increased from (Won)53 billion in 2000 to (Won)1,270 billion in 2001 as a result of:

higher provisions in respect of our credit card portfolio due to the growth in outstanding credit card balances as well as a deterioration in the quality of our existing credit card portfolio; and

increased provisions in respect of our corporate loan portfolio due in large part to the continued deterioration of previously identified impaired loans.

Our loan charge-offs, net of recoveries, increased 177.9% from (Won)517 billion in 2000 to (Won)1,437 billion in 2001. Of the (Won)920 billion increase, (Won)493 billion and (Won)306 billion represented increases in net charge-offs of corporate loans and outstanding credit card balances, respectively.

Our charge-offs of corporate loans increased due to the further deterioration of the credit quality of our exposures to several large corporate borrowers relating to specific events occurring in 2001. Our most significant charge-offs related to Hynix Semiconductor and former member companies of the Daewoo Group. Even after such higher net charge-offs, impaired corporate loans increased slightly from (Won)5,527 billion as of December 31, 2000 to (Won)5,605 billion as of December 31, 2001, primarily as a result of the merger with H&CB.

Similarly, even after such net charge-offs, significant increases in credit card balances, particularly cash advances and credit card loans, widespread concern regarding the rapid increase of credit card debt in Korea, and increased overdue balances in our credit card portfolio, which increased 13.7% from (Won)1,142 billion as of December 31, 2000 to (Won)1,298 billion as of December 31, 2001, resulted in higher provisioning for these assets.

Allowance for Loan Losses

For information on allowance for loan losses, see Critical Accounting Policies Allowance for Loan Losses and Item 4B. Business Overview Assets and Liabilities Loan Portfolio Allocation of Allowance for Loan Losses.

Corporate Loans. We establish specific loan loss allowances for corporate loans based on whether a particular loan is impaired or not. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Provisioning Policy. We also establish an allowance for loan losses for corporate loans that we do not believe are impaired based on our historical loss experience for those types of loans.

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Smaller balance commercial loans (which are commercial loans of (Won)1 billion or less) are managed on a portfolio basis and evaluated collectively for impairment. The following table shows, for the periods indicated, certain information regarding our impaired corporate loans.

	As of December 31,		
	2000	2001	2002
Impaired loans as a percentage of total corporate loans	15.9%	12.8%	9.3%
Allowance for loan losses as a percentage of total corporate loans	5.9	5.9	4.2
Allowance for loan losses as a percentage of impaired loans	32.7	38.5	34.3

Table of Contents

During 2002, impaired loans as a percentage of total loans, allowance for loan losses as a percentage of total corporate loans and allowance for loan losses as a percentage of impaired loans all decreased due to decreased levels of impaired and non-performing loans primarily as a result of charge-offs in 2002 and the application of stricter credit standards with respect to new corporate loans which improved the quality of our loan portfolio.

During 2001, impaired loans as a percentage of total loans decreased due to the charge-off of corporate loans to several large corporate borrowers, including Hynix Semiconductor and former member companies of the Daewoo Group, as a result of further deterioration in the financial condition of these borrowers relating to specific events occurring in 2001. The level of allowance for loan losses as a percentage of total corporate loans and the level of allowance for loan losses as a percentage of impaired loans both increased as we increased our allowance for existing impaired loans due to our assessment of further deterioration in the financial condition of the relevant borrowers.

Consumer Loans. We establish allowances for loan losses for consumer loans based on historical losses as well as delinquencies and changes in underwriting and credit monitoring policies. We also analyze government economic data when considering consumer bankruptcies and delinquency rates as well as the build-up of consumer debt in Korea. The following table shows, for the periods indicated, certain information regarding our non-performing loans to the consumer sector.

	As of December 31,		
	2000	2001	2002
Non-performing loans as a percentage of total consumer loans	1.1%	1.6%	2.3%
Allowance for loan losses as a percentage of total consumer loans	1.4	1.2	3.2
Allowance for loan losses as a percentage of non-performing consumer loans	36.9	23.9	32.5

During 2002, non-performing consumer loans as a percentage of total consumer loans increased despite higher charge-offs as a result of continuing increases in delinquencies and non-performing loans in our credit card and consumer loan portfolios and the re-aging of outstanding credit card balances as a result of changes to certain terms of these balances, following which these balances were no longer deemed non-performing until additional time had passed. The level of allowance for loan losses as a percentage of total consumer loans and the level of allowance for loan losses as a percentage of non-performing consumer loans both increased as we increased our allowance for existing and new consumer loans as a result of continuing increases in delinquencies and non-performing loans in our credit card and consumer loan portfolios.

During 2001, non-performing consumer loans as a percentage of total consumer loans increased despite higher charge-offs as a result of deterioration in the credit quality of our portfolio, particularly with respect to outstanding credit card balances. The level of allowance for loan losses as a percentage of total consumer loans and the level of allowance for loan losses as a percentage of non-performing consumer loans decreased principally as a result of the merger with H&CB, which increased the percentage of our consumer loans which are mortgage or home equity loans. Due to the historically low level of allowances for loan losses that H&CB deemed adequate based on its default experience, the inclusion of these new loans decreased the overall level of allowance for our consumer loan portfolio.

Table of Contents**Non-Interest Income**

The following table shows, for the periods indicated, the components of our non-interest income.

	Year ended December 31,			Year ended December 31,	
	2000	2001	2002	2000/2001	2001/2002
	(in billions of Won)			(% change)	
Credit card merchant fees	(Won) 451	(Won) 880	(Won) 1,092	95.1%	24.1%
Other fees and commission income (excluding credit card merchant fees)	178	325	867	82.6	166.8
Net trading revenue	77	120	458	55.8	281.7
Trust fees, net	115	211	376	83.5	78.2
Net gain on investments	4	43	130	975.0	202.3
Other non-interest income	83	102	175	22.9	71.6
Total non-interest income	(Won) 908	(Won) 1,681	(Won) 3,098	85.1%	84.3%

Comparison of 2002 to 2001

Non-interest income increased 84.3% from (Won)1,681 billion in 2001 to (Won)3,098 billion in 2002. This increase was attributable primarily to:

a (Won)542 billion increase in other fees and commission income (excluding credit card merchant fees) from (Won)325 billion in 2001 to (Won)867 billion in 2002;

a (Won)338 billion increase in net trading revenue from (Won)120 billion in 2001 to (Won)458 billion in 2002;

a (Won)212 billion increase in credit card merchant fees from (Won)880 billion in 2001 to (Won)1,092 billion in 2002; and

a (Won)165 billion increase in net trust fees from (Won)211 billion in 2001 to (Won)376 billion in 2002.

Other fees and commission income (excluding credit card merchant fees) consist of commissions received on remittances, fund management and letters of credit and other fees and commissions. The 166.8% increase in such income was attributable principally to the full-year impact of the merger with H&CB, which led to an increase in commissions received from our management of the National Housing Fund and an increase in various types of commission fees relating to our banking operations.

Fee and commission income also increased as a result of higher volumes of fees being paid in connection with loan repayments, as more customers made early repayments, and increasing use of our retail services, including our ATMs and our electronic banking, securities and beneficiary certificate businesses.

Net trading revenue represents net realized and unrealized gains on securities and derivatives in our trading portfolio. The 281.7% increase in net trading revenue resulted from a (Won)164 billion increase in net gain on trading-related revenue from disposals and revaluations of equity securities from (Won)2 billion in 2001 to (Won)166 billion in 2002, a (Won)101 billion increase in net gain on trading-related revenue from disposals and revaluations of foreign exchange contracts and derivative instruments from (Won)88 billion in 2001 to (Won)189 billion in 2002 and a (Won)73 billion increase in net gain on trading-related revenue from disposals and revaluations of debt securities from (Won)30 billion in 2001 to (Won)103 billion in 2002. These increases resulted from the full-year effect of the merger with H&CB, the decrease in market interest rates which increased the value of our debt securities and the depreciation of the U.S. dollar against the Korean won which caused us to record gains on foreign exchange transactions based on the terms of the derivatives and currency swaps we held.

Table of Contents

Credit card merchant fees include primarily fees received from member merchants on credit card transactions. The 24.1% increase in credit card merchant fees was attributable principally to the full-year impact of the merger with H&CB, following which we received credit card merchant fees from the BC Card operations and the number and charge volume of our credit cards increased accordingly, and also to increased use of credit cards generally by our customers.

Trust fees consist of fees we receive for managing trust account assets, based on assets under management and the performance of the trusts, and penalty payments we receive when customers terminate their trust accounts prior to the end of the fixed term, net of subsidy payments for trust performance guarantees from our banking accounts to our trust accounts, which are payments from our banking accounts to make up for shortfalls in the guaranteed money trust accounts. The 78.2% increase in net trust fees resulted primarily from an increase in the average volume of our trust account assets due to the full-year effect of the merger with H&CB and the payment from our trust accounts to us of funds previously set aside in those accounts as a reserve against payments required to be made on guarantees due to our reassessment of the performance of our trust account assets. For further information on trust accounts, see Item 4B. Business Overview Other Businesses Trust Account Management Services.

Comparison of 2001 to 2000

Non-interest income increased 85.1% from (Won)908 billion in 2000 to (Won)1,681 billion in 2001. This increase was attributable primarily to:

a (Won)429 billion increase in commissions received on credit card merchant fees from (Won)451 billion in 2000 to (Won)880 billion in 2001;

a (Won)147 billion increase in other fees and commission income (excluding credit card merchant fees) from (Won)178 billion in 2000 to (Won)325 billion in 2001; and

a (Won)96 billion increase in net trust fees from (Won)115 billion in 2000 to (Won)211 billion in 2001.

The 95.1% increase in credit card merchant fees was attributable principally to an increase in the number and charge volume of our credit cards, including as a result of the merger with H&CB.

The 82.6% increase in other fee and commission income (excluding credit card merchant fees) was attributable to an increase in various types of commission fees relating to our banking operations and an increase in commissions received from our management of the National Housing Fund following the merger, which was previously managed by H&CB, as well as in various other fees and commissions principally as a result of the merger.

The 83.5% increase in net trust fees resulted primarily from a decrease in subsidy expense to (Won)31 billion in 2001 compared to (Won)164 billion in 2000.

Non-Interest Expense

The following table shows, for the periods indicated, the components of our non-interest expense.

	Year ended December 31,			Year ended December 31,	
	2000	2001	2002	2000/2001	2001/2002
	(in billions of Won)			(% change)	
Salaries and employee benefits	(Won) 702	(Won) 1,051	(Won) 1,586	49.7%	50.9%
Other administrative expenses	331	409	834	23.6	103.9
Other fees and commissions	223	323	701	44.8	117.0
Depreciation and amortization	109	165	443	51.4	168.5
Credit card fees	142	240	390	69.0	62.5
Other non-interest expenses	107	166	433	55.1	160.8
Total non-interest expense	(Won) 1,614	(Won) 2,354	(Won) 4,387	45.8%	86.4%

Table of Contents

Comparison of 2002 to 2001

Non-interest expense increased 86.4% from (Won)2,354 billion in 2001 in (Won)4,387 billion in 2002. This increase was primarily due to:

a (Won)535 billion increase in salaries and employee benefits from (Won)1,051 billion in 2001 in (Won)1,586 billion in 2002;

a (Won)425 billion increase in other administrative expenses from (Won)409 billion in 2001 to (Won)834 billion in 2002;

a (Won)378 billion increase in other fees and commission expenses from (Won)323 billion in 2001 to (Won)701 billion in 2002;

a (Won)278 billion increase in depreciation and amortization expense from (Won)165 billion in 2001 to (Won)443 billion in 2002;

a (Won)267 billion increase in other non-interest expense from (Won)166 billion in 2001 to (Won)433 billion in 2002; and

a (Won)150 billion increase in credit card fees from (Won)240 billion in 2001 to (Won)390 billion in 2002.

Salaries and employee benefits increased 50.9% from 2001 to 2002 principally as a result of the full-year impact of the merger with H&CB resulting in an increase in the aggregate amount we paid for wages (including annual bonuses) as a result of having more employees, and a periodic increase in wage rates for 2002 which was agreed with our employees in October 2002 that increased wages retroactively to the beginning of 2002.

The 103.9% increase in other administrative expenses (which include other employee benefits, advertising, public relations, sales promotion and data processing expenses) from 2001 to 2002 was primarily attributable to the full-year impact of the merger with H&CB as well as merger-related expenses such as costs relating to the integration of our IT infrastructure and the rebranding of our operations.

Other fees and commission expenses consist primarily of contributions to the Korea Credit Guarantee Fund for loan guarantees, premiums paid to the Korea Deposit Insurance Corporation for deposit insurance, commissions paid to loan collection agents on overdue loans and related fees. The 117.0% increase in other fees and commission expenses from 2001 to 2002 was principally due to increases in these payments as a result of the full-year impact of the merger with H&CB, the growth in the volume of customer deposits and an increase in the fees associated with registering collateral in connection with certain mortgages offered to our customers.

The 168.5% increase in depreciation and amortization from 2001 to 2002 resulted mainly from an increase in depreciation as a result of our acquisition of assets in connection with the merger with H&CB and the amortization of the credit card relationship and

core deposit intangible assets we acquired in that merger.

The 160.8% increase in other non-interest expense (which consists primarily of losses on sales of loans and dispositions of assets and tax expenses other than income tax) from 2001 to 2002 resulted mainly from a (Won)146 billion increase in losses on sales of mostly corporate loans that had been previously transferred to special purpose entity subsidiaries in connection with securitization transactions that have been accounted for as secured borrowings and a (Won)38 billion increase in tax expenses other than income tax relating to education-related taxes.

Credit card fees include fees and commissions paid to our sales agents, expenses related to awarding mileage and bonus points to our credit card customers and fees and commissions paid to our member merchants. The 62.5% increase in credit card fees from 2001 to 2002 resulted mainly from an

Table of Contents

increase in the number and charge volume of our credit cards, which primarily resulted from the full-year impact of the merger with H&CB, and the incurrence of additional expenses in connection with our BC Card operations.

Comparison of 2001 to 2000

Non-interest expense increased 45.8% from (Won)1,614 billion in 2000 to (Won)2,354 billion in 2001. This increase was primarily due to:

a (Won)349 billion increase in salaries and employee benefits from (Won)702 billion in 2000 to (Won)1,051 billion in 2001;

a (Won)100 billion increase in other fees and commission expenses from (Won)223 billion in 2000 to (Won)323 billion in 2001;

a (Won)98 billion increase in credit card fees from (Won)142 billion in 2000 to (Won)240 billion in 2001; and

a (Won)78 billion increase in other administrative expenses from (Won)331 billion in 2000 to (Won)409 billion in 2001.

Salaries and employee benefits increased 49.7% from (Won)702 billion in 2000 to (Won)1,051 billion in 2001. The main reason for this increase was the early retirement and bonus payments that we made during 2001, which totaled approximately (Won)39 billion and (Won)174 billion, respectively. With regard to the bonuses, some of these were paid in connection with a one-time payout relating to changes in the employee severance plans of the former Kookmin Bank. In addition, the rate for regular bonuses for certain employees of the former Kookmin Bank was substantially increased both to achieve parity with their H&CB counterparts and as part of a one-time increase in connection with the merger.

The 44.8% increase in other fees and commission expenses was due to increases in these payments as a result of the merger with H&CB, as well as growth in the volume of customer deposits taken by the former Kookmin Bank.

The 69.0% increase in credit card fees resulted mainly from an increase in the number and charge volume of our credit cards, including as a result of the merger with H&CB.

The 23.6% increase in other administrative expenses from 2000 to 2001 was primarily attributable to the merger with H&CB.

Income Tax Expense

Comparison of 2002 to 2001

Income tax expense decreased 3.9% from (Won)621 billion in 2001 to (Won)597 billion in 2002 as a result of an increase in our deferred income tax assets from 2001 to 2002. The statutory tax rate applicable to us was approximately 30.8% in 2001 and 29.7% in 2002. Our effective tax rates were 37.8% in 2001 and 38.8% in 2002, which were higher than the statutory tax rates as a result of our inability to deduct certain expenses, such as certain types of goodwill, from our taxable income.

Comparison of 2001 to 2000

Income tax expense decreased 16.1% from (Won)740 billion in 2000 to (Won)621 billion in 2001 as a result of a decrease in our taxable income from 2000 to 2001. The statutory tax rate applicable to us was approximately 30.8% in 2000 and 2001. Our effective rate of income tax remained relatively constant at 37.3% in 2000 compared to 37.8% in 2001.

Table of Contents

Minority Interest

Comparison of 2002 to 2001

Minority interest represents the allocation to minority shareholders of their interests in the gain or loss of our non-wholly owned consolidated subsidiaries. Expense attributable to minority interests was (Won)84 billion in 2001 compared to income of (Won)211 billion in 2002. This 2002 income was due primarily to the deduction of the portion of the loss suffered by our Kookmin Card operations in 2002 that was attributable to the interests of minority shareholders.

Comparison of 2001 to 2000

Income from minority interest was relatively constant at (Won)84 billion in 2001 compared to (Won)81 billion in 2000.

Net Income from Discontinued Operations After Tax

Comparison of 2002 to 2001

Net income from discontinued operations after tax represents that portion of our net income derived from the operations of Kookmin Leasing, KB Investment Trust Management and Alpha Capital Corporation (formerly Jooeun Leasing), which are subsidiaries that we have disposed of during 2002. Net income from discontinued operations after tax increased over ten-fold from (Won)8 billion in 2001 to (Won)97 billion in 2002. This increase was primarily attributable to the elimination of debt of Kookmin Leasing through early redemption, forgiveness of loans and swaps of debt for equity or lower interest rate convertible bonds.

Comparison of 2001 to 2000

Net loss from discontinued operations after tax was (Won)249 billion in 2000 compared to net income after tax of (Won)8 billion in 2001. This change was primarily attributable to the elimination of debt of Kookmin Leasing through early redemption, forgiveness of loans and swaps of debt for equity or lower interest rate convertible bonds.

Net Income

As a result of the above, our net income was (Won)1,252 billion in 2002, as compared to (Won)992 billion in 2001 and (Won)928 billion in 2000.

Results by Principal Business Segment under Korean GAAP

We are organized into four major business segments: retail banking, credit card operations, corporate banking and international banking and capital markets. The following discussion is based upon our internal management account information, prepared based on Korean GAAP. The following table shows, for the periods indicated, our results of operation by segment based on this information.

	Net Income (1)			Total Revenue		
	Year ended December 31,			Year ended December 31,		
	2000	2001	2002	2000	2001	2002
	(in billions of Won)					
Retail banking	(Won) 364	(Won) 585	(Won) 878	(Won) 4,966	(Won) 5,889	(Won) 12,595
Credit card operations	301	533	(326)	1,468	2,676	4,525
Corporate banking	60	(171)	166	2,896	3,225	3,430
International banking and capital markets	143	106	282	3,946	4,815	6,600
Other	(140)	286	63	1,474	1,530	1,416
Total	(Won) 728	(Won) 1,339	(Won) 1,063	(Won) 14,750	(Won) 18,135	(Won) 28,566

(1) After deduction of income tax allocated proportionately among each segment.

Table of Contents**Retail Banking**

Our retail banking segment products include mortgage and home equity loans and other consumer loans, deposits and other savings products.

	Year ended December 31,			Year ended December 31,	
	2000	2001	2002	2000/2001	2001/2002
	(in billions of Won)			(% change)	
Income statement data					
Interest income	(Won) 4,733	(Won) 5,723	(Won) 12,387	20.9%	116.4%
Interest expense	3,595	3,783	8,375	5.2	121.4
Provision for loan losses	10	133	654	1,230.0	391.7
Non-interest income	234	166	208	(29.1)	25.3
Non-interest expense including depreciation and amortization	836	1,111	2,296	33.1	106.7
Net income before tax	526	862	1,270	63.9	47.3
Income tax (1)	162	277	392	71.0	41.5
Net income	(Won) 364	(Won) 585	(Won) 878	60.7%	50.1%

(1) Portion of income tax allocated to this segment.

Comparison of 2002 to 2001

Our net income before tax for this segment increased 47.3% from (Won)862 billion in 2001 to (Won)1,270 billion in 2002.

Interest income from our retail banking activities increased 116.4% from (Won)5,723 billion in 2001 to (Won)12,387 billion in 2002, primarily due to the full-year impact of the merger with H&CB which caused an increase in average lending volumes, particularly to individuals and households, as well as greater demand for retail loans. Due to these reasons, the average volume of retail loans increased 174.2% from (Won)24,313 billion in 2001 to (Won)66,660 billion in 2002, with more than half of this increase resulting from an increase in the average volume of mortgage and home equity loans. This increase was partially offset by a decline in average interest rates in respect of such loans. In addition, interest income from inter-segment lending from retail banking to other segments more than doubled in 2002 as a result of an increase in the volume of such lending.

Our largest and most important funding source is deposits from retail customers, which represent approximately three-quarters of our total deposits. In 2002, the average volume of deposits from our retail banking operations increased 82.4% from (Won)48,983 billion as of December 31, 2001 to (Won)89,340 billion as of December 31, 2002, primarily as a result of the full-year impact of the merger with H&CB, growth in demand for our deposit services and an increased use of these funding sources due to their relatively lower cost.

Interest expense increased 121.4% from (Won)3,783 billion in 2001 to (Won)8,375 billion in 2002. The average volume of deposit and savings products increased 75.1% from (Won)67,750 billion in 2001 to (Won)118,645 billion in 2002 due to the full-year impact of the merger with H&CB and our efforts to develop and market various new products, including in particular the Super Kookmin time deposit (launched in September 2001) and our Kangaroo deposits. This increase was partially offset by a decline in average interest rates from 5.31% in 2001 to 3.90% in 2002.

Provision for loan losses on retail loans increased 391.7% from (Won)133 billion in 2001 to (Won)654 billion in 2002 primarily due to increased minimum provisioning ratios required by government

Table of Contents

regulations promulgated by the Financial Supervisory Service in 2002 (as a result of which our provision for loan losses for both existing loans and new loans increased (Won)275 billion), deterioration in the quality of our retail loan portfolio, including increasing delinquencies and non-performing loans, and an increase in retail loan volumes.

Non-interest income increased 25.3% from (Won)166 billion in 2001 to (Won)208 billion in 2002 primarily due to an increase in other income fees and commissions, including wire transfer fees and early repayment commissions, resulting in part from the increased average volume of assets and liabilities of our retail segment. This increase was partially offset by the reclassification of certain fee and commission income relating to ATMs (including cash dispensers) from the retail segment in 2001 to the other segment in 2002.

Non-interest expense, which includes depreciation and amortization, increased 106.7% from (Won)1,111 billion in 2001 to (Won)2,296 billion in 2002 primarily due to an increase in the aggregate amount we paid for wages as a result of the full-year impact of having more employees after the merger with H&CB, an increase in depreciation as a result of the acquisition of additional assets in the merger with H&CB and an increase in payments of fees and commissions, including an increase in the fees associated with registering collateral in connection with certain mortgages offered to our customers. Salaries and wages are charged proportionally to each segment.

Comparison of 2001 to 2000

Our net income before tax for this segment increased 63.9% from (Won)526 billion in 2000 to (Won)862 billion in 2001.

Interest income from our retail banking activities increased 20.9% from (Won)4,733 billion in 2000 to (Won)5,723 billion in 2001, primarily due to an increase in average lending volume to individuals and households. In particular, the average volume of mortgage and home equity loans increased 346% from (Won)1,291 billion in 2000 to (Won)5,757 billion in 2001 primarily due to the merger with H&CB, the largest private sector mortgage lender in Korea. This increase was partially offset by a decline in average interest rates in respect of such loans. Interest income from inter-segment lending from retail banking to other segments also increased as a result of an increase in the volume of such lending.

In 2001, we had an increase of (Won)19,709 billion in deposits, of which we used (Won)10,487 billion for our retail banking operations. We used the remaining (Won)9,222 billion of funds from deposits to fund our operations in other segments.

Interest expense increased 5.2% from (Won)3,595 billion in 2000 to (Won)3,783 billion in 2001. The average volume of deposit and savings products increased in 2001 due to the merger with H&CB and increased marketing efforts that led to increased volumes of customer deposits.

Provision for loan losses on retail loans increased 1,230% from (Won)10 billion in 2000 to (Won)133 billion in 2001 primarily due to an increase in retail loan volumes, including mortgage and home equity loans, due to the merger with H&CB and our increased marketing efforts with respect to retail loans, which led to an increase in the number of outstanding retail loans.

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Non-interest income decreased 29.1% from (Won)234 billion in 2000 to (Won)166 billion in 2001. This was primarily due to a reclassification of the credit card handling and related fees that were received from Kookmin Credit Card into the credit card segment in 2001. These fees were included in the retail banking segment in 2000.

Non-interest expense, which includes depreciation and amortization, increased 33.1% from (Won)836 billion in 2000 to (Won)1,111 billion in 2001. This was due to increases in the salaries and wages paid to our employees, which were charged proportionately to each segment.

Table of Contents**Credit Card Operations**

Our credit card segment handles credit card activities managed by Kookmin Credit Card, which is our largest subsidiary, and the credit card activities relating to our interest in BC Card acquired as a result of the merger with H&CB.

	Year ended December 31,			Year ended December 31,	
	2000	2001	2002	2000/2001	2001/2002
	(in billions of Won)			(% change)	
Income statement data					
Interest income	(Won) 984	(Won) 1,483	(Won) 2,748	50.7%	85.3%
Interest expense	478	629	1,015	31.6	61.4
Provision for loan losses	113	479	2,434	323.9	408.1
Non-interest income	484	1,193	1,778	146.5	49.0
Non-interest expense including depreciation and amortization	441	799	1,432	81.2	79.2
Net income (loss) before tax (1)	436	769	(355)	76.4	N/M
Income tax (1)(2)	135	235	(29)	74.1	N/M
Net income (loss) (1)	(Won) 301	(Won) 534	(Won) (326)	77.4%	N/M

(1) N/M = not meaningful.

(2) Portion of income tax allocated to this segment.

Comparison of 2002 to 2001

Our net income before tax for this segment decreased from a profit of (Won)769 billion in 2001 to a loss of (Won)355 billion in 2002. The loss in 2002 was primarily due to increased provisions for loan losses. For 2002, income tax allocation had a positive effect on the net loss from this segment, which was (Won)326 billion.

Interest income from our credit card operations increased 85.3% from 1,483 billion in 2001 to (Won)2,748 billion in 2002. This increase was primarily due to an increase in average volume of outstanding credit card balances, principally due to growth in our credit card portfolio as well as the full-year impact of the merger with H&CB. The average volume of cash advances and card loans increased 105.7% from (Won)4,933 billion in 2001 (of which (Won)4,347 billion related to Kookmin Credit Card) to (Won)10,147 billion in 2002 (of which (Won)6,611 billion related to Kookmin Credit Card). The increase in average outstanding credit card balances was partially offset by a decline in the average interests rates in respect of such outstanding balances from 17.9% in 2001 to 17.4% in 2002, and by Kookmin Credit Card's sale of (Won)6,673 billion of such balances through securitization transactions in 2002 (compared to (Won)1,688 billion in 2001). Outstanding credit card balances increased 6.2% from (Won)14,089 billion as of December 31, 2001 to (Won)14,968 billion as of December 31, 2002.

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Interest expense increased 61.4% from (Won)629 billion in 2001 to (Won)1,015 billion in 2002 due to increased funding costs as a result of higher average balances of interest bearing liabilities resulting from increased borrowings. Interest expense related to Kookmin Credit Card increased 27.7% from (Won)578 billion in 2001 to (Won)739 billion in 2002. In addition, our credit card segment paid interest expense of (Won)276 billion to other segments as funding costs. The increase in interest expense was partially offset by a decrease in average interest rates paid on borrowings by Kookmin Credit Card from 8.17% in 2001 to 7.18% in 2002 and by BC Card from 5.96% in 2001 to 5.00% in 2002.

Provision for loan losses increased 408.1% from (Won)479 billion in 2001 (of which (Won)428 billion related to Kookmin Credit Card) to (Won)2,434 billion in 2002 (of which (Won)1,548 billion related to Kookmin

Table of Contents

Credit Card) primarily due to an increase in outstanding credit card balances, higher levels of delinquent balances and increased charge-offs of non-performing balances during 2002. In addition, as a result of increased minimum provisioning ratios required by regulations promulgated by the Financial Supervisory Service and the Financial Supervisory Commission, our provision for loan losses for existing credit card balances and new credit card balances together increased (Won)484 billion (of which (Won)397 billion related to Kookmin Credit Card).

Non-interest income increased 49.0% from (Won)1,193 billion in 2001 to (Won)1,778 billion in 2002. This increase principally resulted from an increase in the average volume of credit card transactions, which led to an increase in fees and commissions received from member merchants, who are charged from 1.5% to 4.5% on transaction amounts based on balance of credit and frequency of usage. The increase also resulted from increased fees levied on customers who fail to pay outstanding balances when due.

Non-interest expense, which includes depreciation and amortization, increased 79.2% from (Won)799 billion in 2001 to (Won)1,432 billion in 2002 primarily due to an increase in the aggregate amount we paid for wages as a result of the full-year impact of having more employees after the merger with H&CB, an increase in payments of fees and commissions, including expenses related to awarding mileage and bonus points to our credit card customers via awards programs, increased losses on sales and increased expenses relating to collecting delinquent balances.

Comparison of 2001 to 2000

Our net income before tax for this segment increased 76.4% from (Won)436 billion in 2000 to (Won)769 billion in 2001.

Interest income increased 50.7% from (Won)984 billion in 2000 to (Won)1,483 billion in 2001. This increase was due to an increase in interest income received from cash advances and installment purchases as a result of increased average volume of outstanding credit card balances. The increase in volume was attributable to the merger with H&CB, as well as growth in the portfolio of Kookmin Credit Card, particularly with respect to cash advances, which was partially offset by the sale of outstanding credit card balances through securitization transactions. Our outstanding credit card balances increased 96.1% from (Won)7,183 billion as of December 31, 2000 (relating to Kookmin Credit Card) to (Won)14,089 billion as of December 31, 2001 (of which (Won)9,405 billion related to Kookmin Credit Card).

Interest expense increased 31.6% from (Won)478 billion in 2000 to (Won)629 billion in 2001 due to increased funding costs resulting from higher average balances. This increase was partially offset by a decrease in average interest rates on our borrowings from 10.09% in 2000 to 7.45% in 2001.

Provision for loan losses increased 323.9% from (Won)113 billion in 2000 to (Won)479 billion in 2001 mainly due to increased average volumes of outstanding credit card balances, higher levels of delinquent balances and increased charge-offs of delinquent balances during 2001. As a result of changes in charge-off policies promulgated by the Financial Supervisory Service, which made it easier for us to charge off loans and thereby allowed us to expand the scope of loans we charged off, we charged off more credit card loans in 2001 than in prior years.

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Non-interest income increased 146.5% from (Won)484 billion in 2000 to (Won)1,193 billion in 2001 due principally to an increase in transaction fees received from member merchants.

Non-interest expense increased 81.2% from (Won)441 billion in 2000 to (Won)799 billion in 2001 due to increased marketing expenses and agency fees paid to BC Card as well as individual agents.

Table of Contents**Corporate Banking**

Our corporate banking segment handles our transactions with private and public enterprises. Activities within the segment include loans, overdrafts and other credit facilities, deposits in foreign currencies and foreign currency activities.

	Year ended December 31,			Year ended December 31,	
	2000	2001	2002	2000/2001	2001/2002
	(in billions of Won)			(% change)	
Income statement data					
Interest income	(Won) 2,713	(Won) 2,958	(Won) 3,183	9.0%	7.6%
Interest expense	1,894	2,093	2,296	10.5	9.7
Provision for loan losses	585	742	171	26.8	(77.0)
Non-interest income	183	267	247	45.9	(7.5)
Non-interest expense including depreciation and amortization	330	642	723	94.5	12.6
Net income (loss) before tax (1)	87	(252)	240	N/M	N/M
Income tax (1)(2)	27	(81)	74	N/M	N/M
Net income (1)	(Won) 60	(Won) (171)	(Won) 166	N/M	N/M

(1) N/M = not meaningful.

(2) Portion of income tax allocated to this segment.

Comparison of 2002 to 2001

Our net income before tax for this segment improved from a loss of (Won)252 billion in 2001 to a profit of (Won)240 billion in 2002. For 2001, income tax allocation had a positive effect on net loss from this segment, which was (Won)171 billion.

Interest income from our corporate banking activities increased 7.6% from (Won)2,958 billion in 2001 to (Won)3,183 billion in 2002. This increase was primarily due to a 25.7% increase in average corporate lending volumes from (Won)32,130 billion in 2001 to (Won)40,391 billion in 2002 principally as a result of the full-year impact of the merger with H&CB. This increase was partially offset by the effects of a decrease in average interest rates from 8.63% in 2001 to 7.30% in 2002.

Interest expense represents the internal transfer cost for the use of funds. Interest expense increased 9.7% from (Won)2,093 billion in 2001 to (Won)2,296 billion in 2002. This increase was primarily due to a 12.1% increase in interest expense relating to increased inter-segment borrowing, primarily from our retail banking segment, from (Won)2,025 billion in 2001 to (Won)2,271 billion in 2002 as a result of the increased volume of our corporate loans and the full-year impact of the merger with H&CB. This increase was partially offset by a decline in inter-segment interest rates on such borrowings in line with the general decline in market interest rates.

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Provision for loan losses on commercial loans, guarantees and acceptances decreased 77.0% from (Won)742 billion in 2001 to (Won)171 billion in 2002 primarily due to improvements in our corporate loan portfolio as a result of previous charge-offs of non-performing corporate loans and the smaller number of new loans provided to corporate borrowers.

Non-interest income decreased 7.5% from (Won)267 billion in 2001 to (Won)247 billion in 2002, primarily due to the reclassification of certain fees and commissions from the corporate segment to various other segments. This decrease was partially offset by an increase in commissions received in foreign transactions and gain on sales of loans.

Table of Contents

Non-interest expense, which includes depreciation and amortization, increased 12.6% from (Won)642 billion in 2001 to (Won)723 billion in 2002 primarily due to an increase in general and administrative expenses resulting from an increase in the aggregate amount we paid for wages as a result of the full-year impact of having more employees after the merger with H&CB, and the full-year impact of the merger on other expenses. The increase was partially offset by a decrease in loss on sale of loans, as our corporate segment did not transfer any loans to special purpose entities in 2002.

Comparison of 2001 to 2000

Our net income before tax for this segment decreased from a profit of (Won)87 billion in 2000 to a loss of (Won)252 billion in 2001. The loss in 2001 was primarily due to increased provisions for loan losses and non-interest expenses related to the merger with H&CB.

Interest income increased 9.0% from (Won)2,713 billion in 2000 to (Won)2,958 billion in 2001. This increase was primarily due to a 17.3% increase in average corporate lending volumes from (Won)26,159 billion in 2000 to (Won)31,104 billion in 2001, which was partially offset by the effects of a decrease in average interest rates from 9.25% in 2000 to 8.63% in 2001. We also engaged in an aggressive promotional campaign to attract small- and medium-sized enterprise customers that enabled us to increase interest income by increasing our market share with respect these customers.

The 10.5% increase in interest expense from (Won)1,894 billion in 2000 to (Won)2,093 billion in 2001 was primarily the result of an increase in inter-segment borrowing from our retail banking segment as a result of the increased volume of our commercial loans and the need to use these funds efficiently. This increase was partially offset by a decline in inter-segment interest rates on such borrowings in line with the general decline in market interest rates. Our corporate banking segment paid (Won)2,025 billion of interest expense to our retail banking segment, demonstrating the importance of those operations as a source of funding for our commercial lending.

Provision for losses on commercial loans, guarantees and acceptances increased 26.8% from (Won)585 billion in 2000 to (Won)742 billion in 2001 primarily due to increased charge-offs and a deterioration in the financial condition of certain large corporate borrowers, including primarily Hynix Semiconductor.

Non-interest income increased 45.9% from (Won)183 billion in 2000 to (Won)267 billion in 2001. The primary reason for the increase was the increase in foreign loan valuations resulting from the appreciation of the Won against the U.S. dollar.

Non-interest expense, which includes depreciation and amortization, increased 94.5% from (Won)330 billion in 2000 to (Won)642 billion in 2001 primarily due to an increase in loss on sale of loans, which were transferred to special purpose entities, amounting to (Won)89 billion, and increased administrative expenses resulting from an increase in loan volumes.

International Banking and Capital Markets

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Our international banking and capital markets segment handles our treasury activities and dealing of trading and investment securities as well as raising foreign currency funding through debentures and borrowings in foreign currencies and making loans overseas from our overseas branches and subsidiaries.

Table of Contents

	Year ended December 31,			Year ended December 31,	
	2000	2001	2002	2000/2001	2001/2002
	(in billions of Won)			(% change)	
Income statement data					
Interest income	(Won) 2,055	(Won) 1,871	(Won) 2,830	(9.0)%	51.3%
Interest expense	1,838	1,813	3,089	(1.4)	70.4
Provision for loan losses (1)	55	58	(5)	5.5	N/M
Non-interest income	1,891	2,944	3,769	55.7	28.0
Non-interest expense including depreciation and amortization	1,846	2,788	3,110	51.0	11.5
Net income before tax	207	156	405	(24.6)	159.6
Income tax (2)	64	50	123	(21.9)	146.0
Net income	(Won) 143	(Won) 106	(Won) 282	(25.9)%	166.0%

(1) N/M = not meaningful.

(2) Portion of income tax allocated to this segment.

Comparison of 2002 to 2001

Our net income before tax for this segment increased 159.6% from (Won)156 billion in 2001 to (Won)405 billion in 2002.

Interest income increased 51.3% from (Won)1,871 billion in 2001 to (Won)2,830 billion in 2002. The increase was primarily due to an increase in interest income from inter-segment lending from our international banking operations to our other segments.

Interest expense increased 70.4% from (Won)1,813 billion in 2001 to (Won)3,089 billion in 2002 due primarily to an increase in interest expense as our capital markets operations borrowed more funds from other segments to fund its investment activities. In addition, interest expense relating to Won-denominated debentures increased from 2001 to 2002 as the average outstanding balance of such instruments increased primarily as a result of the full-year effect of the merger with H&CB. We also borrowed funds in foreign currencies and issued foreign currency-denominated debentures.

Provision for loan losses improved from a provision of (Won)58 billion in 2001 to a net recovery of (Won)5 billion in 2002 primarily due to the recalculation of provisioning levels for these loans (including the reversal of some previously made provisions), the recovery of loans that had been previously charged off and a 12.7% decrease in the outstanding loan balance of foreign currency-denominated inter-bank loans and off-shore loans from (Won)2,323 billion in 2001 to (Won)2,086 billion in 2002.

Non-interest income increased 28.0% from (Won)2,944 billion in 2001 to (Won)3,769 billion in 2002 primarily due to a 87.9% increase in revenues on investment securities, derivatives and traded securities from (Won)157 billion in 2001 to (Won)295 billion in 2002 as a result of improved valuations and gains on sales of those assets. This increase was partially offset by decreases in gains on the stock market stabilization fund and the special fund for corporate bonds and a decrease in fees from foreign currency selling.

Non-interest expense, which includes depreciation and amortization, increased 11.5% from (Won)2,788 billion in 2001 to (Won)3,110 billion in 2002 primarily due to an increase in expenses relating to investment securities from W58 billion in 2001 to (Won)472 billion in 2002 as a result of losses relating to sales and valuations of such securities as a result of the decline in their market values. This increase was partially offset by a decrease in expenses relating to trading securities from (Won)126 billion in 2001 to (Won)28 billion in 2002 as a result of improved valuations and decreased losses on the sales of such securities.

Table of Contents*Comparison of 2001 to 2000*

Our net income before tax for this segment decreased 24.6% from (Won)207 billion in 2000 to (Won)156 billion in 2001.

Interest income decreased 9.0% from (Won)2,055 billion in 2000 to (Won)1,871 billion in 2001. The primary reason for the decrease was lower interest income from trading and investment securities as a result of lower interest rates in Korea. In addition, our deposits with other banks and financial institutions have decreased as we have used these funds to provide new loans to retail and commercial borrowers at higher interest rates.

Interest expense decreased 1.4% from (Won)1,838 billion in 2000 to (Won)1,813 billion in 2001 due to a decrease in interest expense paid on borrowings from external funding sources as a result of lower interest rates in Korea, including the repayment of certain debt instruments issued at high interest rates during the financial crisis in Korea commencing in late 1997. Our average interest rate decreased from 11.16% in 2000 to 8.39% in 2001.

Provision for loan losses increased 5.5% from (Won)55 billion in 2000 to (Won)58 billion in 2001 as a result of our enhanced credit review process. The charge-off amount increased by (Won)113 billion from (Won)28 billion in 2000 to (Won)141 billion in 2001.

Non-interest income increased 55.7% from (Won)1,891 billion in 2000 to (Won)2,944 billion in 2001 primarily due to an increase in the volume of our derivatives assets in order to hedge risk attributable to foreign exchange rates. In addition, an increase in gain on trading of those assets resulting from foreign exchange rate fluctuations also contributed to this increase.

Non-interest expense increased 51.0% from (Won)1,846 billion in 2000 to (Won)2,788 billion in 2001 due to an increase in volume of derivatives liabilities to hedge risk attributable to foreign exchange rates and an increase in loss on trading of those liabilities resulting from foreign exchange rate fluctuations.

Other

Other includes our trust account management operations, the operations within our guaranteed money trust accounts, which are included in our consolidated financial statements under Korean GAAP, and the operations of all of our consolidated subsidiaries except Kookmin Credit Card.

Year ended December 31,			Year ended December 31,	
2000	2001	2002	2000/2001	2001/2002
(in billions of Won)			(% change)	

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Income statement data

Interest income	(Won)	424	(Won)	462	(Won)	454	9.0%	(1.7)%
Interest expense		445		542		358	21.8	(33.9)
Provision for loan losses (1)		358		38		(73)	(89.4)	N/M
Non-interest income (2)		1,050		1,068		962	1.7	(9.9)
Non-interest expense including depreciation and amortization		740		584		1,030	(21.1)	76.4
Net income (loss) before tax (1)	(Won)	(69)	(Won)	366	(Won)	101	N/M	(72.4)%
Income tax (3)		71		80		38	12.7	(52.5)
Net income (1)	(Won)	(140)	(Won)	286	(Won)	63	N/M	(78.0)%

(1) N/M = not meaningful.

(2) Including extraordinary income of (Won)175 billion in 2001.

(3) Portion of income tax allocated to this segment.

Table of Contents

Comparison of 2002 to 2001

Our net income before tax for this segment decreased 72.4% from (Won)366 billion in 2001 to (Won)101 billion in 2002.

Interest income decreased 1.7% from (Won)462 billion in 2001 to (Won)454 billion in 2002. The decrease was primarily due to the exclusion of interest income from subsidiaries that we did not consolidate in 2002 because of disposal, liquidation and merger activities involving these subsidiaries, but that were consolidated in 2001. Under Korean GAAP, if a subsidiary is liquidated or sold during a year, then none of that subsidiary's income or expenses are consolidated with the results of the parent company for any period during that year. In particular, interest income from two leasing companies in which we sold our interests in 2002, Kookmin Leasing Co. and Alpha Capital Corporation, was not consolidated in 2002. This decrease was partially offset by an increase in interest income in our guaranteed trust accounts as a result of the full-year impact of the merger with H&CB.

Interest expense decreased 33.9% from (Won)542 billion in 2001 to (Won)358 billion in 2002 primarily due to the exclusion of interest expense from subsidiaries that we did not consolidate in 2002 because of disposal, liquidation and merger activities involving these subsidiaries, but that were consolidated in 2001. In addition, interest expenses paid on subordinated debt decreased during 2002 as a result of the general decline in market interest rates in Korea from 2001 to 2002.

Provision for loan losses improved from a provision of (Won)38 billion in 2001 to a net recovery of (Won)73 billion in 2002 primarily due to the reversal of a previously made allowance in respect of our guaranteed trust accounts assets as a result of the reversal of provisions that had previously been made by H&CB with respect to its assets that were acquired in the merger and the improvement in the performance of trust assets.

Non-interest income decreased 9.9% from (Won)1,068 billion in 2001 to (Won)962 billion in 2002 primarily due to the exclusion of non-interest income from subsidiaries that we did not consolidate in 2002 but that were consolidated in 2001 and non-recurrence of gain in valuation of our subsidiaries based on the equity-method of accounting which occurred in 2001 but did not occur in 2002. The decrease was partially offset by a 43.9% increase in trust fee and commissions received from our guaranteed trust account from (Won)221 billion in 2001 to (Won)318 billion in 2002 and the reclassification of fee and commission income relating to ATMs (including cash dispensers) from the retail segment where that income was included in 2001 to this segment in 2002.

Non-interest expense, which includes depreciation and amortization, increased 76.4% from (Won)584 billion in 2001 to (Won)1,030 billion in 2002 primarily due to a loss on valuation in our 74.78% interest in Kookmin Credit Card (based on the equity method of accounting) resulting from the decrease in value of that interest as a result of the net loss suffered by Kookmin Credit Card in 2002, a loss on the consolidation of our interest in KB Investment Co., Ltd. and the full-year impact of the merger with H&CB. This increase was partially offset by the exclusion of non-interest expense from subsidiaries that we did not consolidate in 2002 but that were consolidated in 2001.

Comparison of 2001 to 2000

This segment recovered from a net loss before tax of (Won)69 billion in 2000 to a net income before tax of (Won)366 billion in 2001.

Interest income increased 9.0% from (Won)424 billion in 2000 to (Won)462 billion in 2001. This was primarily due to the consolidation of additional subsidiaries as a result of the merger with H&CB.

Table of Contents

Interest expense increased 21.8% from (Won)445 billion in 2000 to (Won)542 billion in 2001. This was primarily due to allocation of interest expense of (Won)192 billion paid on subordinated debt into the Other segment in 2001. These expenses were included in the international banking and capital markets segment in 2000.

Provision for loan losses decreased 89.4% from (Won)358 billion in 2000 to (Won)38 billion in 2001 mainly due to a reduction in provisions for Kookmin Leasing's lease financings.

Non-interest income increased 1.7% from (Won)1,050 billion in 2000 to (Won)1,068 billion in 2001.

Non-interest expense decreased 21.1% from (Won)740 billion in 2000 to (Won)584 billion in 2001. The decrease was due to a 79.7% decrease from (Won)158 billion in 2000 to (Won)32 billion in 2001 in subsidies paid on guaranteed trusts from our banking accounts to our trust accounts.

Table of Contents**Item 5B. Liquidity and Capital Resources****Financial Condition****Assets**

The following table sets forth, as of the dates indicated, the principal components of our assets.

	As of December 31,			Year ended	
				December 31,	
	2000	2001	2002	2000/2001	2001/2002
	(in billions of Won)			(% change)	
Cash and cash equivalents	(Won) 1,701	(Won) 3,041	(Won) 3,328	78.8%	9.4%
Restricted cash	1,540	4,373	1,580	184.0	(63.9)
Interest-bearing deposits in other banks	1,587	592	564	(62.7)	(4.7)
Call loans and securities purchased under resale agreements	2,491	2,012	229	(19.2)	(88.6)
Trading assets	3,104	6,874	6,368	121.5	(7.4)
Investments (1)	17,702	26,231	24,223	48.2	(7.7)
Loans:					
Domestic:					
Commercial:					
Commercial and industrial	29,795	36,113	40,072	21.2	11.0
Construction	2,168	4,141	6,385	91.0	54.2
Lease financing	592	568		(4.1)	(100.0)
Other commercial	1,216	1,669	1,045	37.3	(37.4)
Total commercial	33,771	42,491	47,502	25.8	11.8
Consumer:					
Credit cards	8,321	16,751	22,643	101.3	35.2
Mortgages and home equity	8,068	37,194	46,195	361.0	24.2
Other consumer	8,151	23,312	28,066	186.0	20.4
Total consumer	24,540	77,257	96,904	214.8	25.4
Total domestic	58,311	119,748	144,406	105.4	20.6
Foreign:					
Commercial and industrial	1,086	1,146	1,426	5.5	24.4
Total foreign	1,086	1,146	1,426	5.5	24.4
Deferred origination costs	38	66	119	73.7	80.3
Less allowance for loan losses	(2,394)	(3,508)	(5,195)	46.5	48.1
Total loans	57,041	117,452	140,756	105.9	19.8
Due from customers on acceptances	1,916	1,887	881	(1.5)	(53.3)
Premises and equipment, net	1,126	1,846	2,121	63.9	14.9
Accrued interest and dividend receivable	1,107	1,160	1,116	4.8	(3.8)
Security deposits	690	1,244	1,337	80.3	7.5
Goodwill and other intangible assets	582	743	631	27.7	(15.1)
Other assets	204	697	965	241.7	38.5

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Total assets	(Won) 90,791	(Won) 168,152	(Won) 184,099	85.2%	9.5%

(1) Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other investments.

Table of Contents

Comparison of 2002 to 2001

Our assets increased 9.5% from (Won)168,152 billion as of December 31, 2001 to (Won)184,099 billion as of December 31, 2002, primarily due to increases in mortgage and home equity loans, other consumer loans and credit card balances.

Our loans (net of loan loss allowances) increased 19.8% from (Won)117,452 billion as of December 31, 2001 to (Won)140,756 billion as of December 31, 2002, primarily reflecting increases in mortgage and home equity loans, credit card balances, retail loans and loans to small- and medium-sized enterprises, as well as other growth in the loan portfolio due to increased loan demand. Mortgage and home equity loans increased 24.2% from (Won)37,194 billion as of December 31, 2001 to (Won)46,195 billion as of December 31, 2002. Credit card balances increased 35.2% from (Won)16,751 billion as of December 31, 2001 to (Won)22,643 billion as of December 31, 2002. Other consumer loans increased 20.4% from (Won)23,312 billion as of December 31, 2001 to (Won)28,066 billion as of December 31, 2002. Commercial and industrial loans increased 11.0% from (Won)36,113 billion as of December 31, 2001 to (Won)40,072 billion as of December 31, 2002. The growth in our total assets was partially offset by a (Won)2,793 billion decrease in restricted cash from (Won)4,373 billion as of December 31, 2001 to (Won)1,580 billion as of December 31, 2002, a (Won)2,514 billion decrease in trading assets and investments, a (Won)1,783 billion decrease in call loans and securities purchased under resale agreements from (Won)2,012 billion as of December 31, 2001 to (Won)229 billion as of December 31, 2002 and a (Won)1,006 billion decrease in due from customers on acceptances from (Won)1,887 billion as of December 31, 2001 to (Won)881 billion as of December 31, 2002.

Comparison of 2001 to 2000

Our assets increased 85.2% from (Won)90,791 billion as of December 31, 2000 to (Won)168,152 billion as of December 31, 2001 principally due to the merger with H&CB. Excluding the fair market value of the assets acquired from H&CB as of November 1, 2001 of (Won)68,269 billion, our assets increased 10.0% from (Won)90,791 billion as of December 31, 2000 to (Won)99,883 billion as of December 31, 2001, primarily due to increases in consumer loans and credit card balances.

Our loans (net of loan loss allowances) increased 105.9% from (Won)57,041 billion as of December 31, 2000 to (Won)117,452 billion as of December 31, 2001. This increase was attributable principally to the merger with H&CB, as well as growth in the loan portfolio of the former Kookmin Bank due to increased loan demand. Commercial and industrial loans increased 21.2% from (Won)29,795 billion as of December 31, 2000 to (Won)36,113 billion as of December 31, 2001. Credit card balances increased 101.3% from (Won)8,321 billion as of December 31, 2000 to (Won)16,751 billion as of December 31, 2001. Mortgage and home equity loans increased 361.0% from (Won)8,068 billion as of December 31, 2000 to (Won)37,194 billion as of December 31, 2001. Other consumer loans increased 186.0% from (Won)8,151 billion as of December 31, 2000 to (Won)23,312 billion as of December 31, 2001. The growth in our total assets was also partially attributable to a (Won)12,299 billion increase in trading assets and investments and a (Won)2,833 billion increase in restricted cash from (Won)1,540 billion as of December 31, 2000 to (Won)4,373 billion as of December 31, 2001. These increases also resulted principally from the merger with H&CB.

For further information on our assets, see Item 4B. Business Overview Assets and Liabilities.

Table of Contents**Liabilities and Stockholders Equity**

The following table sets forth, as of the dates indicated, the principal components of our liabilities.

	As of December 31,			Year ended December 31,	
	2000	2001	2002	2000/2001	2001/2002
	(in billions of Won)			% change	
Deposits					
Interest bearing	(Won) 54,201	(Won) 110,895	(Won) 118,654	104.6%	7.0%
Non-interest bearing	1,982	4,141	3,745	108.9	(9.6)
Call money	581	2,701	306	364.9	(88.7)
Trading liabilities	718	287	625	(60.0)	117.8
Acceptances outstanding	1,916	1,887	881	(1.5)	(53.3)
Other borrowed funds	6,369	10,812	15,856	69.8	46.7
Accrued interest payable	2,311	4,617	4,463	99.8	(3.3)
Secured borrowings	1,468	5,501	7,864	274.7	43.0
Long-term debt	14,797	16,626	20,165	12.4	21.3
Other liabilities	2,482	2,742	2,634	10.5	(3.9)
Total liabilities	(Won) 86,825	(Won) 160,209	(Won) 175,193	84.5%	9.4%
Minority interest	221	308	71	39.4	(76.9)
Common stock	1,498	1,588	1,641	6.0	3.3
Additional paid-in capital	1,242	4,960	5,146	299.4	3.8
Other	1,005	1,087	2,048	8.2	88.4
Stockholders equity	3,745	7,635	8,835	103.9	15.7
Total liabilities, minority interest and stockholders equity	(Won) 90,791	(Won) 168,152	(Won) 184,099	85.2%	9.5%

Comparison of 2002 to 2001

Our total liabilities increased 9.4% from (Won)160,209 billion as of December 31, 2001 to (Won)175,193 billion as of December 31, 2002, principally due to increases in interest bearing deposits, other borrowed funds and long-term debt.

Our interest bearing deposits increased 7.0% from (Won)110,895 billion as of December 31, 2001 to (Won)118,654 billion as of December 31, 2002, primarily due to increases in savings deposits, certificates of deposit and other time deposits. These increases were primarily attributable to growth in demand for our deposit services and an increased use of these funding sources due to their relatively lower cost.

Other borrowed funds increased 46.7% from (Won)10,812 billion as of December 31, 2001 to (Won)15,856 billion as of December 31, 2002 due primarily to increases in Won-denominated short-term debentures.

Long-term debt increased 21.3% from (Won)16,626 billion as of December 31, 2001 to (Won)20,165 billion as of December 31, 2002 due primarily to increases in long-term Won-denominated finance debentures.

The 43.0% increase in secured borrowings from (Won)5,501 billion as of December 31, 2001 to (Won)7,864 billion as of December 31, 2002 was due primarily to new asset securitization transactions Kookmin Credit Card entered into in 2002.

Our stockholders' equity increased by 15.7% from (Won)7,635 billion as of December 31, 2001 to (Won)8,835 billion as of December 31, 2002. This increase resulted principally from an increase in retained earnings, which was attributable to an increase in voluntary reserves.

Table of Contents

Comparison of 2001 to 2000

Our total liabilities increased 84.5% from (Won)86,825 billion as of December 31, 2000 to (Won)160,209 billion as of December 31, 2001. The increase was primarily due to the merger with H&CB. Excluding the fair market value of liabilities assumed from H&CB as of November 1, 2001 of (Won)64,780 billion, our total liabilities increased 9.9% from (Won)86,825 as of December 31, 2000 to (Won)95,429 billion as of December 31, 2001.

Our interest bearing deposits increased 104.6% from (Won)54,201 billion as of December 31, 2000 to (Won)110,895 billion as of December 31, 2001, primarily due to increases in savings deposits, time deposits other than certificates of deposit and mutual installment deposits. These increases resulted principally from the merger with H&CB.

The 274.7% increase in secured borrowings from (Won)1,468 billion as of December 31, 2000 to (Won)5,501 billion as of December 31, 2001 was due primarily to new asset securitization transactions we entered into in 2001, as well as the merger with H&CB.

Other borrowed funds increased 69.8% from (Won)6,369 billion as of December 31, 2000 to (Won)10,812 billion as of December 31, 2001 due primarily to increases in short-term debentures, borrowings in foreign currencies and borrowings by our subsidiaries from other financial institutions. These increases were attributable principally to the merger with H&CB.

Our stockholders' equity increased by 103.9% from (Won)3,745 billion as of December 31, 2000 to (Won)7,635 billion as of December 31, 2001. This increase resulted principally from an increase in paid in capital, which was attributable to the issuance of our common stock to former stockholders of H&CB in the merger. See **Capital Adequacy** below.

For further information on our sources of funding, see **Item 4B Business Overview Assets and Liabilities Funding**.

Liquidity

Since we are a retail bank, our primary source of funding (which includes deposits, long-term debt, borrowings from the Bank of Korea and other short-term borrowings, secured borrowings and call money) has historically been and continues to be customer deposits. Deposits amounted to (Won)56,183 billion, (Won)115,036 billion and (Won)122,399 billion as of December 31, 2000, 2001 and 2002, which represented approximately 70.8%, 76.3% and 73.5% of our total funding, respectively. We have been able to use increases in customer deposits in recent years to finance our operations generally, including meeting a portion of our liquidity requirements. We also use cash and cash equivalents, payments on loans and sales of short-term securities to meet our liquidity needs. Other sources of liquidity available to us include call money, borrowings from the Bank of Korea and other short-term borrowings which amounted to (Won)6,950 billion, (Won)13,513 billion and (Won)16,162 billion as of December 31, 2000, 2001 and 2002 and represented 8.8%, 9.0% and 9.7% of our total funding, respectively. These types of borrowings have maturities of less than one year.

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The Financial Supervisory Commission of Korea requires each Korean bank to maintain specific Won and foreign currency liquidity ratios. These ratios require us to keep the ratio of liquid assets to liquid liabilities above certain minimum levels. For a description of these requirements, see Item 4B Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Liquidity.

We are exposed to liquidity risk arising from withdrawals of deposits and maturities of our borrowings, as well as the need to fund our lending, trading and investment activities and the

Table of Contents

management of our trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Liquidity Risk Management.

Credit-Related Commitments and Other Off-Balance Sheet Arrangements

We are involved in the following types of off-balance sheet arrangements, including guarantees for loans, debentures, trade financing arrangements and guarantees for other financings. The following table sets forth our other contractual commitments as of the dates indicated.

	As of December 31,		
	2000	2001	2002
	(in billions of Won)		
Guarantees (1)	979	1,128	806
Commercial letters of credit	1,017	1,328	1,244
Unused lines of credit:			
Commercial (2)	13,726	23,408	23,732
Credit Card (3)	36,392	73,798	79,140
Consumer	5,350	6,968	3,775

(1) See Note 35 of our consolidated financial statements.

(2) The merger played a major role in an increase of overall credit-related commitments. The increase in commercial unused lines of credit as of December 31, 2001 was primarily due to an increase in unused lines of credit for general loans and liquidity support for asset securitization vehicles. The unused line of credit for general loans was (Won)4,129 billion, (Won)5,596 billion and (Won)1,499 billion as of December 31, 2000, 2001 and 2002, respectively. Liquidity for asset securitization vehicles was (Won)2,667 billion, (Won)7,434 billion and (Won)5,809 billion as of December 31, 2000, 2001 and 2002, respectively. Includes commitments to extend credit with respect to borrowings that have a maturity of more than one year, which amounted to (Won)4,261 billion as of December 31, 2002.

(3) Relates to the unused credit card limits that may be cancelled by us at any time.

We enter into credit-related financial instruments with off-balance sheet risk in our normal course of business. The primary purpose of those instruments is to ensure that we can make funds available to our customers as required. For additional information regarding these credit-related commitments, see Note 35 to our financial statements.

Capital Adequacy

The following discussion and the figures therein are based on the Korean GAAP statistics we prepared for regulatory reporting purposes in Korea. We are subject to Financial Supervisory Commission capital adequacy requirements, which have been formulated based on, and are consistent in all material respects with, the capital adequacy accord reached by the Basle Committee of Banking Supervision, Bank for International Settlements in 1988. We are required to maintain a minimum ratio of total capital to risk-weighted assets, as determined by a specified formula, of 8.0%. The Bank for International Settlements has recently adopted changes to its capital adequacy standards to take into account market risk from equity securities, foreign exchange and derivative instruments held by banks. These changes became applicable to most Korean banks commencing in 2002. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Capital Adequacy.

As of December 31, 2002, our capital adequacy ratio was 10.41%, compared to 10.23% as of December 31, 2001. This increase resulted from increases in our retained earnings and our total core and supplementary capital and our issuance of subordinated notes.

As of December 31, 2001, our capital adequacy ratio was 10.23%, compared to 11.18% as of December 31, 2000. Our capital increased substantially in 2001 as a result of the merger with H&CB,

Table of Contents

in connection with which we issued 119,922,229 shares of our common stock to former stockholders of H&CB and we acquired a significant amount of subordinated debt from H&CB. However, the increase in our capital was outpaced by the increase in our risk-weighted assets resulting from the merger.

At the time of the merger with H&CB, we issued 179,775,233 shares of our common stock to holders of former Kookmin Bank shares such that they received one of our shares for every 1.688346 shares of former Kookmin Bank they owned. The number of shares of common stock issued and per share information prior to November 1, 2001 discussed below have been restated for the merger ratios.

In November 2002, a subsidiary of Goldman Sachs Capital Koryo exercised its right to convert \$200 million in convertible bonds into shares of our common stock. As a result of this conversion, we issued an additional 10,581,269 shares of our common stock, and our stockholders' equity increased by (Won)234 billion.

The following table sets forth a summary of our capital and capital adequacy ratios as of December 31, 2000, 2001 and 2002.

	As of December 31,		
	2000	2001	2002 (1)
	(in billions of Won, except percentage)		
Tier I capital:	(Won) 3,843	(Won) 8,141	(Won) 9,178
Paid-in capital	1,698	1,498	1,641
Capital reserves	1,470	5,568	5,791
Retained earnings	708	1,516	2,462
Minority interests in consolidated subsidiaries	215	309	252
Others	(248)	(750)	(968)
Tier II capital:	2,455	3,653	5,319
Revaluation reserves	177	177	177
Allowance for loan losses (2)	349	720	1,499
Subordinated debt (3)	1,919	2,715	3,562
Valuation gain on investment securities	10	41	81
Investment in non-consolidated equity investees (4)		(43)	(58)
Total core and supplementary capital	6,298	11,751	14,439
Risk-weighted assets:	56,347	114,849	138,703
On-balance sheet	52,703	108,695	132,946
Off-balance sheet	3,644	6,154	4,929
Market risk			828
Capital adequacy ratio:	11.18%	10.23%	10.41%
Tier I capital	6.82	7.09	6.62
Tier II capital	4.36	3.18	3.79

- (1) The method of calculating our capital and capital adequacy ratios was changed in 2002. Had we calculated these ratios based on the calculation method in use as of December 31, 2001, our Tier 1 capital ratio would have been 6.66%, our Tier 2 capital ratio would have been 3.86% and our capital adequacy ratio would have been 10.47%.
- (2) Reserves for possible loan losses in respect of credits classified as normal or precautionary are used to calculate Tier II capital only to the extent they represent up to 1.25% of risk-weighted assets.
- (3) The subordinated debt representing 50% of Tier I capital is used in the calculation of Tier II capital.

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- (4) Equity investees engaged in banking and financial activities of which we own more than 15% are deducted from total capital, not deducted directly from Tier I and Tier II pursuant to the guidelines of the Financial Supervisory Service.

In January 2000, we repurchased 8,000,000 shares of preferred stock at par and, as a result, 32,000,000 shares were still held by the Korea Deposit Insurance Corporation at December 31, 2000.

Table of Contents

In January 2001, we repurchased an additional 8,000,000 shares of preferred stock at par, which reduced our capital base and our capital adequacy ratios by 0.07% based on our financial condition as of December 31, 2000. We repurchased the remaining 24,000,000 shares of preferred stock at par in 2001, prior to the merger with H&CB.

In connection with our merger with H&CB, we assumed certain assets that H&CB had received from the Korea Asset Management Corporation and Korea Deposit Insurance Corporation in connection with its acquisition of DongNam Bank in June 1998. As compensation for the acquisition, H&CB received payments of:

(Won)10 billion in cash from the Korea Asset Management Corporation and (Won)117 billion of bonds issued by the Korea Asset Management Corporation; and

(Won)681 billion of bonds issued by the Korea Deposit Insurance Corporation.

In addition, to make up for the decrease in H&CB's capital ratio resulting from the acquisition of DongNam Bank, in December 1998, the Korean government, through the Korea Deposit Insurance Corporation, purchased:

59,300,000 shares of H&CB's convertible non-voting preferred stock for an aggregate purchase price of (Won)297 billion, the proceeds from which H&CB used to purchase (Won)297 billion of bonds from the Korea Deposit Insurance Corporation; and

(Won)148 billion of H&CB's subordinated notes due March 2004, for which H&CB received (Won)148 billion of government bonds.

Prior to the merger, H&CB repurchased all of the preferred stock it had previously issued to the Korea Deposit Insurance Corporation.

Recent Accounting Pronouncements

SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections

In April 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 requires gains and losses from extinguishment of debt to be classified as extraordinary items only if they meet the criteria of unusual and infrequent occurrences in Accounting Principles Board Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. Any gain or loss on extinguishment will be recorded in the most appropriate line item to which it relates within net income before extraordinary items. SFAS No. 145 also amends Statement No. 13 requiring sale-leaseback accounting for certain lease modifications. In addition, SFAS No. 145 amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. SFAS No. 145 is effective for fiscal

years beginning after May 15, 2002; however, the provisions relating to sale-leaseback are effective for transactions after May 15, 2002. The adoption of this statement did not have an impact on our financial position or results of operations.

SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires that a liability for costs associated with exit or disposal

Table of Contents

activities be recognized when the liability is incurred. Existing generally accepted accounting principles provide for the recognition of such costs at the date of management's commitment to an exit plan. In addition, SFAS No. 146 requires that the liability be measured at fair value and be adjusted for changes in estimated cash flows. The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002. We do not expect the adoption of this statement to have a significant impact on our financial position or results of operations.

SFAS No. 147, Acquisitions of Certain Financial Institutions

In October 2002, the FASB issued SFAS No. 147, *Acquisitions of Certain Financial Institutions*. SFAS No. 147 provides guidance on the application of the purchase method to acquisitions of financial institutions. In addition, SFAS No. 147 amends SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, to include in its scope long-term customer-relationship intangible assets of financial institutions. The goodwill relating to those intangible assets would no longer be amortized but would be subject to periodic impairment testing. SFAS No. 147 is effective for acquisitions for which the date of acquisition is on or after October 1, 2002. The adoption of this statement did not have a significant impact on our financial position or results of operations.

SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. SFAS No. 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation* to provide two alternative methods of transition for an entity that voluntarily changes its method of accounting for stock-based employee compensation to a fair-value based method. In addition, SFAS No. 148 amends the disclosure provisions of SFAS No. 123 to require prominent disclosures about the effects of using the fair-value method of accounting for stock-based compensation. We expect to continue to account for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and will provide the prominent disclosures required in the footnotes to the financial statements.

SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies the accounting guidance on (1) derivative instruments (including certain derivative instruments embedded in other contracts) and (2) hedging activities that fall within the scope of SFAS No. 133. SFAS No. 149 also amends certain other existing pronouncements, which will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. SFAS No. 149 is effective (1) for contracts entered into or modified after June 30, 2003, with certain exceptions, and (2) for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. We are in the process of evaluating the potential impact of adopting SFAS No. 149 on our results of operations.

SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 changes the accounting for certain financial instruments that, under previous guidance, could be

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classified as equity or mezzanine equity, by now requiring those instruments to be classified as liabilities (or assets in some circumstances) in the statement of financial position. Further, SFAS No. 150 requires disclosure

Table of Contents

regarding the terms of those instruments and settlement alternatives. The guidance in SFAS No. 150 is generally effective for all financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. For private companies, mandatorily redeemable financial instruments are subject to the provisions of SFAS No. 150 for the fiscal period beginning after December 15, 2003. We are currently assessing the potential impact of SFAS No. 150 on our consolidated financial position and results of operations.

FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which addresses the disclosure to be made by a guarantor in its annual financial statements about its obligations under guarantees. FIN No. 45 requires the guarantor to recognize a liability for the non-contingent component of the guarantee, this is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple events. The disclosure requirements are effective for annual financial statements ending after December 15, 2002. The initial recognition and measurement provisions are effective for all guarantees within the scope of FIN No. 45 issued or modified after December 31, 2002. We have adopted the disclosure provisions of FIN No. 45, as required, in accounting for our guarantees and indemnifications. These disclosures are presented in Note 35 of our consolidated financial statements. We do not expect that the adoption of the FIN No. 45 recognition and measurement provisions will have a material impact on our financial position or results of operations.

FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51

In January 2003, the FASB issued FIN No. 46 Consolidation of Variable Interest Entities, which addresses consolidation by business enterprises where equity investors do not bear the residual economic risks and rewards. These entities have been commonly referred to as special purpose entities. The underlying principle behind the FIN No. 46 is that if a business enterprise has the majority financial interest in an entity that is defined in the guidance as a variable interest entity, the assets, liabilities and results of the activities of the variable interest entity should be included in the consolidated financial statements with those of the business enterprise. FIN No. 46 also explains how to identify variable interest entities and how an enterprise should assess its interest in an entity when deciding whether or not it will consolidate that entity. FIN No. 46 is effective immediately for variable interest entities created after January 1, 2003 and effective January 1, 2004 for such entities created prior to February 1, 2003. We are assessing the impact that FIN No. 46 will have on our financial position and results of operations.

Selected Financial Information Under Korean GAAP

The selected consolidated financial and other data shown below have been derived from our consolidated financial statements, prepared in accordance with Korean GAAP.

Under Korean GAAP, consolidated financial statements include the accounts of fully- or majority-owned subsidiaries and substantially controlled affiliates that have assets in excess of (Won)7 billion. Substantial control is deemed to exist when the investor is the largest stockholder and owns more than 30% of the investee's voting shares. Korean GAAP does not require the

consolidation of subsidiaries, or substantially controlled affiliates, where activities are dissimilar from ours.

Table of Contents

Under Korean GAAP, financial statements of our trust accounts on which we guarantee a fixed rate of return and/or the repayment of principal are consolidated, whereby assets and liabilities of third parties held by such trusts are reflected as part of our consolidated assets and liabilities, and revenues and expenses generated from such third-party assets are reflected in our consolidated statement of operations. Activities between trusts and us are eliminated in consolidation.

Until December 31, 1998, our financial statements were prepared in accordance with the financial accounting standards generally accepted in the Republic of Korea issued by the Financial Supervisory Commission, as modified by the accounting and reporting guidelines prescribed by the Office of Banking Supervision. Beginning January 1, 1999, the financial statements are prepared in accordance with financial accounting standards generally accepted for banking institutions issued by the Korean Securities and Futures Commission.

Capital adequacy ratios have been calculated from the consolidated financial statements prepared in accordance with Korean GAAP and using the guidelines issued by the Financial Supervisory Commission.

Because of significant changes in Korean GAAP, which were applied by us in 1999, 2000, 2001 and 2002, the financial information included herein for those years is not directly comparable with previous periods. We have included narrative disclosure in the footnotes to more clearly identify where significant accounting policy changes have taken place, which line items would be affected and how the balances would be affected. The areas where such significant changes have occurred are as follows:

trading and investment securities;

deferred taxation;

guarantees and acceptances (including allowances for losses); and

provision for loan losses.

Table of Contents**Consolidated Income Statement Data under Korean GAAP**

Year ended December 31,

	1998	1999	2000	2001 (1)	2002	2002 (2)
						(in millions of US\$, except per common share data)
	(in billions of Won, except per common share data)					
Interest income	(Won) 6,062	(Won) 6,853	(Won) 6,788	(Won) 8,304	(Won) 13,088	\$ 11,033
Interest expense	4,762	5,029	4,947	5,502	7,008	5,908
Net interest income	1,300	1,824	1,841	2,802	6,080	5,125
Provision for possible loan losses (3)		1,387	916	1,414	3,196	2,694
Net interest income after provision for possible loan losses	1,300	437	925	1,388	2,884	2,431
Non-interest revenue (4)	2,353	2,886	3,753	5,325	5,775	4,868
Non-interest expense (5)	3,754	3,131	3,514	5,177	6,703	5,650
Operating income	(101)	192	1,164	1,536	1,956	1,649
Non-operating loss, net	(344)	(88)	(30)	(180)	(138)	(116)
Net (loss) income before income tax expense	(445)	104	1,134	1,356	1,818	1,533
Income tax expense (6)	1	121	448	560	612	516
Net (loss) income before consolidation adjustments	(446)	(17)	686	796	1,206	1,017
Minority interest in earnings of consolidated subsidiaries	135	(4)	(94)	(121)	65	54
Other (7)	(11)	(7)		162		
Net income	(Won) (322)	(Won) (28)	(Won) 592	(Won) 837	(Won) 1,271	\$ 1,071
Per common share data:						
Earnings per share-basic	(Won) (3,296)	(Won) (184)	(Won) 3,330	(Won) 4,188	(Won) 4,001	\$ 3.37
Earnings per share-diluted (8)	(3,218)	(123)	2,849	4,003	4,001	3.37
Cash dividends per common share (9)	200	50	500	100	1,000	0.84
Stock dividends per common share				300		

(1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.

(2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,186.3 to US\$1.00, the noon buying rate in effect on December 31, 2002 as quoted by the Federal Reserve Bank of New York in the United States.

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- (3) The provision for possible loan losses was included in non-interest expense in 1998. The amount of the provision was (Won)265 billion and (Won)1,274 billion, respectively. The methodology we use to calculate the provision for loan losses was revised in 1999, which resulted in the recognition of a significantly higher provision. The revised guidelines require us to consider not only delinquencies and bankruptcies but also a borrower's future capacity to repay, including the borrower's management, current financial position and future cash flows.
- (4) Non-interest revenue includes fees and commission income, dividends on securities, gains on security valuations and disposals, gains on foreign currency transactions and gains from derivative transactions.
- (5) Non-interest expense is composed of fees and commissions paid or payable, general and administrative expenses, losses on security valuations and disposals, losses on foreign currency transactions and losses from derivative transactions.
- (6) Prior to 1999, there was no requirement to use a deferred method of accounting for income taxes. The cumulative effect of adopting the revised standards as of January 1, 1999 was to debit opening retained earnings by (Won)26 billion, which reflected the net deferred tax liabilities that would have been recognized as of December 31, 1998. We did not restate prior periods. The effect of adopting the revised standards for the year ended December 31, 1999 was to decrease net income by (Won)28 billion and to recognize deferred tax liabilities of (Won)54 billion as of December 31, 1999.

Table of Contents

- (7) Prior to 2000, we recorded changes of equity interest in subsidiaries due to additional share issuance by these companies as consolidation adjustments and amortized the balances over 5 years using the straight-line method. From 2000, in accordance with the revised accounting standards for the consolidated financial statements, such changes of equity interest are recorded in consolidated capital surplus.
- (8) A diluted earnings per share measure was only required to be disclosed from 1999. Prior to this, only a basic earnings per share amount was required to be disclosed.
- (9) Ratios represent the periods to which the dividends relate.

Consolidated Balance Sheet Data under Korean GAAP

As of December 31,

	1998	1999	2000	2001(1)	2002	2002(2)
	(in billions of Won)					(in millions of US\$)
Cash and cash equivalents	(Won) 5,766	(Won) 5,317	(Won) 6,403	(Won) 7,843	(Won) 4,791	\$ 4,039
Foreign exchange (3)	764					
Loans (4)	37,659	45,587	60,462	118,982	138,456	116,712
Less: allowance for doubtful accounts (5)		(2,367)	(2,250)	(2,641)	(3,312)	(2,792)
Call loans (6)	1,021					
Trading securities (7)		4,250	3,806	11,634	9,273	7,817
Investment securities (7)	23,637	14,528	16,839	26,653	27,589	23,256
Customers liabilities on guarantees (8)	2,641					
Premises and equipment, net	2,847	1,621	1,452	3,291	3,360	2,832
Other assets (9)	7,584	4,015	4,386	6,837	6,969	5,875
Consolidation adjustment						
Debit	56	29				
Total assets	81,975	72,980	91,098	172,599	187,126	157,739
Deposits	42,547	44,538	57,979	120,449	126,891	106,964
Borrowings (10)	24,273	10,315	9,649	17,073	15,473	13,043
Call money (11)	466					
Guarantees outstanding (8)	2,641					
Allowance for possible loan losses (12)	3,809					
Debentures		9,313	11,648	13,861	23,450	