

NCI BUILDING SYSTEMS INC

Form 10-Q

March 11, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended January 31, 2010**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 1-14315**

**NCI BUILDING SYSTEMS, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware  
(State or other jurisdiction of  
incorporation or organization)**

**76-0127701  
(I.R.S. Employer  
Identification No.)**

**10943 N. Sam Houston Parkway W.  
Houston, TX  
(Address of principal executive offices)**

**77064  
(Zip Code)**

**(281) 897-7788**

**(Registrant's telephone number, including area code)**

**(Former name, former address and former fiscal year, if changed since last report)**

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting

company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$.01 par value 18,086,160 shares as of March 8, 2010 (after giving effect to the reverse stock split that became effective on March 5, 2010)

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Unaudited Consolidated Financial Statements.**

**NCI BUILDING SYSTEMS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)  
(2009 As Adjusted (Note 2))

	<b>January 31, 2010 (Unaudited)</b>	<b>November 1, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 77,666	\$ 90,419
Restricted cash, current	4,207	5,154
Accounts receivable, net	61,085	82,889
Inventories, net	89,980	71,537
Deferred income taxes	18,989	18,787
Income tax receivable	33,592	27,622
Investments in debt and equity securities, at market	3,529	3,359
Prepaid expenses and other	13,081	14,494
Assets held for sale	3,930	4,963
Total current assets	306,059	319,224
Property, plant and equipment, net	225,933	232,510
Goodwill	5,200	5,200
Intangible assets, net	27,856	28,370
Restricted cash, net of current portion		7,825
Other assets	19,865	21,389
Total assets	\$ 584,913	\$ 614,518
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 14,434	\$ 14,164
Note payable		481
Accounts payable	71,313	73,594
Accrued compensation and benefits	30,592	37,215
Accrued interest	1,844	776
Other accrued expenses	42,492	52,455
Total current liabilities	160,675	178,685
Long-term debt	135,569	136,085
Deferred income taxes	18,891	18,848
Other long-term liabilities	7,785	8,007
Total long-term liabilities	162,245	162,940

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Series B cumulative convertible participating preferred stock	230,949	222,815
Stockholders' equity:		
Common stock, \$.01 par value, 100,000,000 shares authorized; 18,086,390 and 18,082,029 issued and outstanding	908	904
Additional paid-in capital	279,344	288,093
Accumulated deficit	(240,546)	(230,060)
Accumulated other comprehensive loss	(8,662)	(8,859)
Treasury stock, at cost		
Total stockholders' equity	31,044	50,078
Total liabilities and stockholders' equity	\$ 584,913	\$ 614,518

*See accompanying notes to consolidated financial statements.*

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**NCI BUILDING SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(Unaudited)  
(2009 As Adjusted (Note 2))

	<b>Fiscal Three Months Ended</b>	
	<b>January</b>	<b>February 1,</b>
	<b>31, 2010</b>	<b>2009</b>
Sales	\$ 182,887	\$ 260,364
Cost of sales	149,669	213,842
Lower of cost or market adjustment		29,378
Asset impairments	1,029	623
Gross profit	32,189	16,521
Selling, general and administrative expenses	44,408	54,316
Goodwill and other intangible asset impairment		517,628
Restructuring charge	524	2,479
Loss from operations	(12,743)	(557,902)
Interest income	25	195
Interest expense	(4,532)	(6,818)
Debt extinguishment and refinancing costs	(174)	
Other income (expense), net	1,159	(317)
Loss before income taxes	(16,265)	(564,842)
Benefit for income taxes	(5,779)	(34,861)
Net loss	\$ (10,486)	\$ (529,981)
Convertible preferred stock dividends and accretion	8,134	
Convertible preferred stock beneficial conversion feature	187	
Net loss applicable to common shares	\$ (18,807)	\$ (529,981)
Loss per share:		
Basic	\$ (1.04)	\$ (136.32)
Diluted	\$ (1.04)	\$ (136.32)
Weighted average number of common shares outstanding:		
Basic	18,093	3,888
Diluted	18,093	3,888

*See accompanying notes to consolidated financial statements.*

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**NCI BUILDING SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)  
(2009 As Adjusted (Note 2))

	<b>Fiscal Three Months Ended</b>	
	<b>January</b>	<b>February 1,</b>
	<b>31, 2010</b>	<b>2009</b>
Cash flows from operating activities:		
Net loss	\$ (10,486)	\$ (529,981)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,701	8,649
Non-cash interest expense on Convertible Notes		2,099
Share-based compensation expense	801	1,372
Loss on sale of property, plant and equipment	103	11
Lower of cost or market reserve		29,378
Provision for doubtful accounts	(416)	975
Gain on embedded derivative	(919)	
Provision (benefit) for deferred income taxes	45	(17,380)
Asset impairments	1,029	623
Impairment of goodwill and intangible assets		517,628
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	22,231	76,865
Inventories	(18,443)	19,725
Income tax receivable	(4,253)	(1,608)
Prepaid expenses and other	(233)	(376)
Accounts payable	(1,468)	(21,028)
Accrued expenses	(15,836)	(55,778)
Other, net	(32)	(1,002)
Net cash (used in) provided by operating activities:	(19,176)	30,172
Cash flows from investing activities:		
Capital expenditures	(1,287)	(7,016)
Proceeds from sale of property, plant and equipment	52	51
Other, net		67
Net cash used in investing activities:	(1,235)	(6,898)
Cash flows from financing activities:		
Proceeds from stock options exercised		12
Decrease in restricted cash	8,772	
Payments on long-term debt	(190)	(230)
Payments on note payable	(481)	
Payment of convertible notes	(59)	
Proceeds from ABL Facility	3	
Payment of refinancing costs		(18)
Purchase of treasury stock	(379)	(413)



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Net cash (used in) provided by financing activities:	7,666	(649)
Effect of exchange rate changes on cash and cash equivalents	(8)	16
Net (decrease) increase in cash and cash equivalents	(12,753)	22,641
Cash and cash equivalents at beginning of period	90,419	68,201
Cash and cash equivalents at end of period	\$ 77,666	\$ 90,842

*See accompanying notes to consolidated financial statements.*

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**NCI BUILDING SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JANUARY 31, 2010**  
**(Unaudited)**  
**(2009 As Adjusted (Note 2))**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements for NCI Building Systems, Inc. and its subsidiaries (the Company, we, us, and our ) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, which consist of normal recurring entries except as otherwise disclosed, considered necessary for a fair presentation have been made. Operating results for the fiscal three month period ended January 31, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending October 31, 2010. Our sales and earnings are subject to both seasonal and cyclical trends and are influenced by general economic conditions, interest rates, the price of steel relative to other building materials, the level of nonresidential construction activity, roof repair and retrofit demand and the availability and cost of financing for construction projects.

On March 5, 2010 (the Effective Time ), the Company effected a reverse stock split in which each five shares of the Company s common stock, par value \$0.01 (the Common Stock and shares thereof, the Common Shares ) was reclassified and combined into one share of Common Stock (the Reverse Stock Split ). As such, we have retrospectively adjusted basic and diluted earnings per share, Common Stock, stock options, Common Stock equivalents and prices per share information for the Reverse Stock Split in all periods presented. See Note 18 Subsequent Events.

We use a four-four-five week calendar each quarter with year end on the Sunday closest to October 31. The year end for fiscal 2010 is October 31, 2010.

Certain reclassifications have been made to prior period amounts in our consolidated balance sheets and consolidated statements of income to conform to the current presentation.

For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended November 1, 2009 filed with the Securities and Exchange Commission (the SEC ).

**NOTE 2 ACCOUNTING PRONOUNCEMENTS**

***Adopted Accounting Pronouncements***

***Debt with Conversion and Other Options and Earnings per Share Adoption***

On November 2, 2009, we adopted ASC Subtopic 470-20, *Debt with Conversion and Other Options* ( ASC 470-20 ), which clarifies the accounting for convertible debt instruments that may be settled entirely or partially in cash upon conversion. ASC 470-20 has been applied retrospectively to fiscal years 2005 through 2009 as it relates to our now retired 2.125% Convertible Senior Subordinated Notes (the Convertible Notes ). ASC 470-20 changed the accounting for certain convertible debt instruments, including our Convertible Notes. Under the new rules, an entity shall separately account for the liability and equity components of the instrument in a manner that reflects the issuer s economic interest cost or the issuer s nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. This results in the bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense. Once adopted, ASC 470-20 requires retrospective application to the terms of the instrument as it existed for all periods presented.

The effect of ASC 470-20 for our Convertible Notes is that the equity component has been included in the paid-in-capital section of stockholders equity on our consolidated balance sheet and the value of the equity component is treated as an original issue discount for purposes of accounting for the debt component of the Convertible Notes. Higher interest expense is recorded by recognizing the accretion of the discounted carrying value of the Convertible Notes to their face amount as interest expense over the term of the Convertible Notes using an effective interest rate method. Income taxes have been recorded on the foregoing adjustments. While this accounting pronouncement does

not change the economic substance or cash flow requirements for the Convertible Notes, the amount reported as interest expense in our historical consolidated statement of operations increases due to the accretion of the discounted carrying value of the Convertible Notes to their face amount. The impact of adopting ASC 470-20 has resulted in the reported interest expense on our Convertible Notes increasing from 2.125% to 7.5%. See Note 10 Debt and Note Payable.

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We capitalize interest on capital invested in projects in accordance with Financial Accounting Standards Board ( FASB ) guidance codified under ASC Topic 835, *Interest*. As a result of adopting ASC 470-20, capitalized interest for fiscal 2009 increased by \$0.2 million. Upon commencement of operations, capitalized interest, as a component of the total cost of the asset, is amortized over the estimated useful life of the asset.

In October 2009, we completed an exchange offer (the Exchange Offer ) to acquire \$180 million aggregate principal amount of the Convertible Notes in return for cash and shares of our Common Stock. On December 29, 2009, we redeemed the remaining \$58,750 principal amount of the Convertible Notes outstanding after the closing of the Exchange Offer. Therefore, we will not have additional prospective interest expense following the adoption of ASC 470-20.

In June 2008, the FASB issued guidance that has been codified under ASC Subtopic 260-10, *Earnings per Share* ( ASC 260-10 ). This pronouncement provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, should be included in computing earnings per share using the two-class method. We adopted ASC 260-10 on November 2, 2009. All prior period earnings per share data have been adjusted retrospectively to conform to the provisions of this pronouncement. See Note 8 Earnings Per Common Share.

The following table sets forth the effect of the retrospective application of ASC 470-20 and ASC 260-10 on certain previously reported line items (in thousands, except per share data):

Consolidated Statements of Operations:

	February 1, 2009	
	Originally Reported	As Adjusted
Cost of sales	\$ 213,836	\$ 213,842
Gross profit	16,527	16,521
Selling, general and administrative expenses	54,307	54,316
Loss from operations	(557,887)	(557,902)
Interest expense	4,608	6,818
Loss before income taxes	(562,617)	(564,842)
Benefit for income taxes	(34,007)	(34,861)
Net loss	(528,610)	(529,981)
Net loss applicable to common shares	\$(528,610)	\$(529,981)
Loss per share:		
Basic	(135.98)	(136.32)
Diluted	(135.98)	(136.32)
Weighted average number of common shares outstanding:		
Basic	3,888	3,888
Diluted	3,888	3,888

Consolidated Balance Sheets:

	November 1, 2009	
	Originally Reported	As Adjusted
Property, plant and equipment	\$ 231,840	\$ 232,510
Total assets	613,848	614,518

Deferred income tax liability	18,591	18,848
Total long-term liabilities	162,683	162,940
Additional paid-in capital	263,620	288,093
Retained earnings	(206,000)	(230,060)
Total stockholders' equity	49,665	50,078
Total liabilities and stockholders' equity	613,848	614,518

*Fair Value Measurements and Disclosures Adoption*

In September 2006, the FASB issued guidance that has been codified under ASC Subtopic 820-10, *Fair Value Measurements and Disclosures* ( ASC 820-10 ). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. We adopted ASC 820-10 on November 3, 2008 for financial assets and financial liabilities carried at fair value and non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis. The

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adoption of ASC 820-10 did not have a material impact on our consolidated financial statements. See Note 13 Fair Value of Financial Instruments and Fair Value Measurements.

In February 2008, the FASB issued additional guidance codified under ASC 820-10. This additional guidance partially delayed the effective date for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted the additional guidance in ASC 820-10 on November 2, 2009 for nonrecurring, non-financial assets and liabilities that are recognized or disclosed at fair value. The adoption of ASC 820-10 did not have a material impact on our consolidated financial statements. See Note 13 Fair Value of Financial Instruments and Fair Value Measurements.

***Multiple-Deliverable Revenue Arrangements Adoption***

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* ( ASU 2009-13 ), which provides guidance on whether multiple deliverables exist, how the arrangement should be separated and the consideration allocated. ASU 2009-13 requires an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of selling price. ASU 2009-13 is effective for the first annual reporting period beginning on or after June 15, 2010 and may be applied retrospectively for all periods presented or prospectively to arrangements entered into or materially modified after the adoption date. Early adoption is permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. We early adopted ASU 2009-13 on November 2, 2009. The adoption of ASC 820-10 did not have a material impact on our consolidated financial statements.

***Recent Accounting Pronouncements***

In December 2008, the FASB issued guidance that has been codified under ASC Subtopic 715-20, *Defined Benefit Plans - General* ( ASC 715-20 ). ASC 715-20 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by ASC 715-20 are effective for our fiscal year ended 2010 and are not required for earlier periods presented for comparative purposes. We will adopt the disclosure provisions required by ASC 715-20 in our consolidated financial statements as of and for the period ended October 31, 2010.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements* ( ASU 2010-06 ). This ASU amends FASB ASU 820-10-50 to require new disclosures concerning (1) transfers into and out of Levels 1 and 2 of the fair value measurement hierarchy, and (2) activity in Level 3 measurements. In addition, ASU 2010-06 clarifies certain existing disclosure requirements regarding the level of disaggregation and inputs and valuation techniques. Finally, ASU No. 2010-06 makes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for us on May 2, 2010, except for the requirement to separately disclose activity in Level 3 measurements which is effective for our fiscal year ended 2012. We are currently evaluating the impact that the adoption of ASU 2010-06 will have on our consolidated financial statements.

**NOTE 3 PLANT RESTRUCTURING AND ASSET IMPAIRMENT**

As a result of the market downturn which began in fiscal 2008, we implemented a phased process to resize and realign our manufacturing operations. The purpose of these closures is to rationalize our least efficient facilities and to retool certain of these facilities to allow us to better utilize our assets and expand into new markets or better provide products to our customers, such as insulated panel systems.

In November 2008, we approved the Phase I plan to close three of our engineered building systems manufacturing plants. In addition, as part of the Phase I restructuring, we implemented a general employee reduction program. In a continuing effort to rationalize our least efficient facilities, in February 2009, we approved the Phase II plan to close one of our facilities within the engineered building systems segment, and in April 2009, we approved the Phase III plan to close or idle three of our manufacturing facilities within the engineered building systems segment and two facilities within the metal components segment. In addition, manufacturing at one of our metal components facilities was temporarily suspended and the facility currently functions as a distribution and customer service site. As part of the Phase III restructuring, we also added to the general employee reduction program. As a result of actions taken in our restructuring, certain facilities are being actively marketed for sale and in the fourth quarter of fiscal 2009 were

classified as held for sale in the Consolidated Balance Sheet. We plan to sell these facilities by the end of fiscal 2010. During the three months ended January 31, 2010, we recorded an additional \$1.0 million impairment for the Lockeford facility which is classified as held for sale as a result of deteriorating market conditions.

The following table summarizes our restructuring plan costs and charges related to the General, Phase I, Phase II and Phase III restructuring plans during each of the periods presented (in thousands):

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	<b>Fiscal Three Months Ended</b>		<b>Fiscal 2009</b>	<b>Fiscal 2008</b>	<b>Cost Incurred</b>	<b>Remaining To Anticipate</b>	<b>Additional</b>
	<b>January 31, 2010</b>				<b>to Date</b>	<b>Cost</b>	<b>Cost</b>
<b>General</b>							
<b>Balance</b>	\$ 2	\$ 2,987	\$ 87	\$ 3,076	\$ 3	\$ 3	
<b>Construction</b>							
<b>Cash</b>	23	57	80				
<b>Accruals</b>		1,234	1,234				1
<b>General</b>							
<b>Program</b>	25	4,278	87	4,390			4
<b>Proposing</b>							
<b>Phase I</b>							
<b>Balance</b>	\$ 58	\$ 1,016	\$ 106	\$ 1,180	\$ 1	\$ 1	
<b>Construction</b>		303	303				
<b>Cash</b>	122	199	321	135			
<b>Accruals</b>	1,029	1,634	157	2,820			2
<b>Plant</b>							
<b>ing Phase</b>	1,209	3,152	263	4,624	135	4	
<b>Closing</b>							
<b>Phase II</b>							
<b>Balance</b>	\$ 399	\$ 399	\$ 399	\$ 399	\$	\$	
<b>Construction</b>		22	22				
<b>Cash</b>		442	442				
<b>Accruals</b>		30	30				
<b>Plant</b>							
<b>ing Phase</b>		893	893				
<b>Closing</b>							
<b>Phase III</b>							
<b>Balance</b>	\$ 10	\$ 2,349	\$ 219	\$ 2,359	\$ 10	\$ 2	
<b>Construction</b>		219	219		122		
<b>Cash</b>	309	1,060	1,369	802	2		



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Cash									
Plant									
ing Phase									
All									
grams	\$	1,553	\$	15,344	\$	350	\$	17,247	\$ 1,069 \$ 18
Structuring									
gment									
ings		415		7,522		61		7,998	855 8
ponents		109		1,216		106		1,431	214 1
ers				103				103	
orate				211		27		238	
	\$	524	\$	9,052	\$	194	\$	9,770	\$ 1,069 \$ 10
irments									
gment <sup>(1)</sup>									
ings		1,029		4,316		157		5,502	5
ponents				766				766	
ers				1,209				1,209	1
orate			23,469	41,460	1,300	40,160			
r-00	Jong Min Lee	Auditor&Executive Director	19-Mar-03	18-Mar-05	23,469	14,807	14,807	0	
r-00	Se Jong Oh	Non Executive Director	19-Mar-03	18-Mar-05	23,469	2,961	0	2,961	
r-00	In Kie Kim	Non Executive Director	19-Mar-03	18-Mar-05	23,469	2,961	0	2,961	
r-00	Ji Hong Kim	Non Executive Director	19-Mar-03	18-Mar-05	23,469	2,961	2,961	0	
r-00	Jin Ho Hwang	Non Executive Director	19-Mar-03	18-Mar-05	23,469	2,961	0	2,961	
r-00	Hyung Jin Chang	Non Executive Director	19-Mar-03	18-Mar-05	23,469	2,961	2,961	0	
r-00	Ik Rae Kim	Non Executive Director	19-Mar-03	18-Mar-05	23,469	2,961	2,961	0	
r-00	Bong Ho Paick	Non Executive Director	19-Mar-03	18-Mar-05	23,469	2,961	0	2,961	
r-00	Bock Woan Kim	Executive Vice President	19-Mar-03	18-Mar-05	23,469	11,845	0	11,845	
r-00	Yoo Hwan Kim	Executive Vice President	19-Mar-03	18-Mar-05	23,469	11,845	0	11,845	
r-00	Duk Hyun Kim	Executive Vice President	19-Mar-03	18-Mar-05	23,469	11,845	0	11,845	
r-01	Sang Hoon Kim	Chairman&CEO	16-Mar-04	15-Mar-09	28,027	29,614	0	29,614	
r-01	Jong Min Lee	Auditor&Executive Director	16-Mar-04	15-Mar-09	28,027	14,807	0	14,807	
r-01	In Kie Kim	Non Executive Director	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961	
r-01	Hyung Jin Chang	Non Executive Director	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961	

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r-01	Ji Hong Kim	Non Executive Director	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961
r-01	Bong Ho Paick	Non Executive Director	16-Mar-04	15-Mar-09	28,027	1,870	0	1,870
r-01	Ik Rae Kim	Non Executive Director	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961
r-01	Seung Heon Han	Non Executive Director	16-Mar-04	15-Mar-09	28,027	1,870	0	1,870
r-01	Young Seok Kim	Non Executive Director	16-Mar-04	15-Mar-09	28,027	1,870	0	1,870
r-01	Se Woong Lee	Non Executive Director	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961
r-01	Chang Ki Min	Non Executive Director	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961
r-01	Bock Woan Kim	Executive Vice President	16-Mar-04	15-Mar-09	28,027	11,845	0	11,845
r-01	Yoo Hwan Kim	Executive Vice President	16-Mar-04	15-Mar-09	28,027	11,845	0	11,845
r-01	Duk Hyun Kim	Executive Vice President	16-Mar-04	15-Mar-09	28,027	11,845	0	11,845
r-01	Yoon Ok Hyun	Executive Vice President	16-Mar-04	15-Mar-09	28,027	11,845	0	11,845
r-01	Tai Gon Kim	Executive Vice President	16-Mar-04	15-Mar-09	28,027	11,845	0	11,845
r-01	Byung Sang Kim	Executive Vice President	16-Mar-04	15-Mar-09	28,027	11,845	0	11,845
r-01	Byung Jin Kim	Executive Vice President	16-Mar-04	15-Mar-09	28,027	11,845	0	11,845
r-01	Ji Han Koo	Head of Regional Head Office	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961
r-01	Dong Soon Park	Head of Regional Head Office	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961
r-01	Hoo Sang Chang	Head of Regional Head Office	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961
r-01	Sang Hoon Lee	Head of Regional Head Office	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961
r-01	Jae In Suh	Head of Regional Head Office	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961
r-01	Sung Hyun Chung	Head of Regional Head Office	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961
r-01	Jong Hwa Lee	Head of Regional Head Office	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961
r-01	Sang Won Lee	Head of Regional Head Office	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961

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Grant date	Name of the grantee	Position when granted	Exercise period		Exercise price	Number of granted options*	Number of exercised options	Number of exercisable options
			From	To				
15-Mar-01	Joon Sup Chang	Head of Regional Head Office	16-Mar-04	15-Mar-09	28,027	2,961	0	2,961
15-Mar-01	Dong Shin Yang	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Jaek Kyung Lee	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Yeon Kun Chung	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Young No Lee	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Ki Taek Hong	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Soon Do Park	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Joon Ho Park	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Yang Jin Kim	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Kwang Dae Park	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Sung Wan Choi	General Manager	16-Mar-04	15-Mar-09	28,027	370	0	370
15-Mar-01	Jung Haeng Lee	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	An Seok Cho	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Sang Cheol Lee	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Tae Joo Yoon	General Manager	16-Mar-04	15-Mar-09	28,027	10	0	10
15-Mar-01	Young Man Lee	General Manager	16-Mar-04	15-Mar-09	28,027	520	0	520
15-Mar-01	Young Soo Kim	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Jong Young Yoon	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Jaek Hong Yoo	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Chang Hwan Bae	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Si An Heo	General Manager	16-Mar-04	15-Mar-09	28,027	370	0	370
15-Mar-01	Seok Won Choi	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Gil Ho Seo	General Manager	16-Mar-04	15-Mar-09	28,027	370	0	370
15-Mar-01	Young Soo Shin	General Manager	16-Mar-04	15-Mar-09	28,027	370	0	370
15-Mar-01	Joon Bo Cho	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Ki Youl Seo	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Byung Doo Ahn	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Kook Shin Kang	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	In Gyu Choi	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Hyung Young Lee	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Young Rok Han	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Hye Young Kim	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Ki Hyun Kim	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Sung Shin Cho	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Young Mo Lee	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Jong Ik Kim	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Kwang Mook Park	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Yong Seung Lee	General Manager	16-Mar-04	15-Mar-09	28,027	592	0	592
15-Mar-01	Sung Gil Lee	General Manager	16-Mar-04	15-Mar-09	28,027	370	0	370
16-Nov-01	Jung Tae Kim	President&CEO	17-Nov-04	16-Nov-09	X <sup>1</sup>	500,000	0	500,000
16-Nov-01	Jung Tae Kim	President&CEO	17-Nov-04	16-Nov-09		200,000 <sup>2</sup>	0	200,000

1. Exercise price = 51,200 Won x (1 + the increase rate of KOSPI Banking Industry Index x 0.4) / 100. The increase rate of KOSPI Banking Industry Index = (KOSPI Banking Industry Index as of the starting date of exercise period 207.25) / 207.25 x 100.

2. Conditional options up to 200,000: Additional shares shall be granted if the average closing price of Kookmin Bank's stock from August 17, 2004 to November 16, 2004 (or for the three months prior to his resignation, if he resigns earlier than his original tenure) is higher than the stock prices of any other bank listed on the Korea Stock Exchange. The number of options to be granted shall be based on total score, which calculated by the earned total scores of both ROE and market capitalization on November 17, 2004 (or on the date of his resignation, if he resigns earlier than his original tenure). The additional shares will not be exercisable if the CEO works less than 18

months or the earned total score is less than 80 points.

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Grant date	Name of the grantee	Position when granted	Exercise period		Exercise price	Number of granted options*	Number of exercised options	Number of exercisable options
			From	To				
16-Nov-01	Sang Hoon Kim	Chairman	17-Nov-04	16-Nov-09		150,000	0	150,000
22-Mar-02	Choul Ju Lee	Auditor&Executive Director	23-Mar-05	22-Mar-10		9,963	0	9,963
22-Mar-02	Henry Cornell	Non Executive Director	23-Mar-05	22-Mar-10		3,321	0	3,321
22-Mar-02	Keun Shik Oh	Non Executive Director	23-Mar-05	22-Mar-10		3,321	0	3,321
22-Mar-02	Dong Soo Chung	Non Executive Director	23-Mar-05	22-Mar-10		10,000	0	10,000
22-Mar-02	Ji Hong Kim	Non Executive Director	23-Mar-05	22-Mar-10	Y <sup>1</sup>	3,321	0	3,321
22-Mar-02	Timothy Hartman	Non Executive Director	23-Mar-05	22-Mar-10		3,321	0	3,321
22-Mar-02	Sun Jin Kim	Non Executive Director	23-Mar-05	22-Mar-10		3,000	0	3,000
22-Mar-02	Moon Soul Chung	Non Executive Director	23-Mar-05	22-Mar-10		3,000	0	3,000
22-Mar-02	Kyung Hee Yoon	Non Executive Director	23-Mar-05	22-Mar-10		3,000	0	3,000
22-Mar-02	Jong Kyoo Yoon	Executive Vice President	23-Mar-05	22-Mar-10	57,100	30,000	0	30,000
22-Mar-02	Bong Hwan Cho	Executive Vice President	23-Mar-05	22-Mar-10	57,100	9,498	0	9,498
22-Mar-02	Bum Soo Choi	Executive Vice President	23-Mar-05	22-Mar-10	57,100	13,339	0	13,339
22-Mar-02	Bock Woan Kim	Executive Vice President	23-Mar-05	22-Mar-10	57,100	13,339	0	13,339
22-Mar-02	Ki Taek Hong	Executive Vice President	23-Mar-05	22-Mar-10	57,100	19,525	0	19,525
22-Mar-02	Sung Hyun Chung	Executive Vice President	23-Mar-05	22-Mar-10	57,100	19,525	0	19,525
22-Mar-02	Ki Sup Shin	Executive Vice President	23-Mar-05	22-Mar-10	57,100	30,000	0	30,000
22-Mar-02	Seong Kyu Lee	Executive Vice President	23-Mar-05	22-Mar-10	57,100	30,000	0	30,000
22-Mar-02	Byung Sang Kim	Executive Vice President	23-Mar-05	22-Mar-10	57,100	9,498	0	9,498
22-Mar-02	Jong Young Yoon	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	15,000	0	15,000
22-Mar-02	Jae Il Song	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	9,762	0	9,762
22-Mar-02	Hyung Goo Shim	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	15,000	0	15,000
22-Mar-02	Jung Haeng Lee	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	9,762	0	9,762
22-Mar-02	Joon Sup Chang	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	9,762	0	9,762
22-Mar-02	Young No Lee	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	15,000	0	15,000
22-Mar-02	Dong Soon Park	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	5,000	0	5,000
22-Mar-02	Sung Bin Kim	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	9,762	0	9,762
22-Mar-02	Sung Bok Park	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	15,000	0	15,000
22-Mar-02	Yeon Kun Chung	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	15,000	0	15,000
22-Mar-02	Mahn Soo Song	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	9,762	0	9,762
22-Mar-02	Jeong Yeon Kim	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	5,000	0	5,000
22-Mar-02	Hak Yeon Jeong	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	5,000	0	5,000
22-Mar-02	Jong Whan Byun	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	5,000	0	5,000
22-Mar-02	Jae Han Kim	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	2,500	0	2,500

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1. Exercise price = 57,100 Won x (1 + the increase rate of KOSPI Banking Industry Index x 0.4). The increase rate of KOSPI Banking Industry Index = (KOSPI Banking Industry Index as of the starting date of exercise period - KOSPI Banking Industry Index as of the grant date) / KOSPI Banking Industry Index as of the grant date.

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Grant date	Name of the grantee	Position when granted	Exercise period		Exercise price	Number of granted options*	Number of exercised options	Number of exercisable options
			From	To				
22-Mar-02	Jong Ok Na	Head of Regional Head Office	23-Mar-05	22-Mar-10	57,100	2,500	0	2,500
26-Jul-02	Donald H. MacKenzie	Executive Vice President	27-Jul-05	26-Jul-10	58,800	30,000	0	30,000
21-Mar-03	Sung Nam Lee	Auditor & Executive Director	22-Mar-06	21-Mar-11		30,000	0	30,000
21-Mar-03	Moon Soul Chung	Non Executive director	22-Mar-06	21-Mar-11		10,000	0	10,000
21-Mar-03	Sun Jin Kim	Non Executive director	22-Mar-06	21-Mar-11		10,000	0	10,000
21-Mar-03	Richard Elliott Lint	Non Executive director	22-Mar-06	21-Mar-11		10,000	0	10,000
21-Mar-03	Kyung Hee Yoon	Non Executive director	22-Mar-06	21-Mar-11		10,000	0	10,000
21-Mar-03	Seoung Woo Nam	Non Executive director	22-Mar-06	21-Mar-11	Y <sup>1</sup>	10,000	0	10,000
21-Mar-03	Suk Yong Cha	Non Executive director	22-Mar-06	21-Mar-11		10,000	0	10,000
21-Mar-03	Bernard S. Black	Non Executive director	22-Mar-06	21-Mar-11		10,000	0	10,000
21-Mar-03	Ki Hong Kim	Non Executive director	22-Mar-06	21-Mar-11		10,000	0	10,000
21-Mar-03	Eun Joo Park	Non Executive director	22-Mar-06	21-Mar-11		10,000	0	10,000
21-Mar-03	Cheol Soo Ahn	Non Executive director	22-Mar-06	21-Mar-11		10,000	0	10,000
21-Mar-03	Kyung Bae Suh	Non Executive director	22-Mar-06	21-Mar-11		10,000	0	10,000
21-Mar-03	Sung Chul Kim	Executive Vice President	22-Mar-06	21-Mar-11	35,500	9,443	0	9,443
21-Mar-03	Woo Jung Lee	Executive Vice President	22-Mar-06	21-Mar-11	35,500	9,443	0	9,443
21-Mar-03	See Young Lee	Executive Vice President	22-Mar-06	21-Mar-11	35,000	7,024	0	7,024
21-Mar-03	Won Suk Oh	Head of Regional Head Office	22-Mar-06	21-Mar-11	35,500	15,000	0	15,000
21-Mar-03	Sung Dae Min	Head of Regional Head Office	22-Mar-06	21-Mar-11	35,500	15,000	0	15,000
21-Mar-03	Kyung Jae Cheong	Head of Regional Head Office	22-Mar-06	21-Mar-11	35,500	15,000	0	15,000
21-Mar-03	Choul Hee Kim	Head of Regional Head Office	22-Mar-06	21-Mar-11	35,500	15,000	0	15,000
21-Mar-03	In Do Lee	Head of Regional Head Office	22-Mar-06	21-Mar-11	35,000	15,000	0	15,000
21-Mar-03	Maeng Su Yang	Head of Regional Head Office	22-Mar-06	21-Mar-11	35,500	15,000	0	15,000
27-Aug-03	Jin Baek Cheong	Executive Vice President	28-Aug-03	27-Aug-11	40,500	5,091	0	5,091
22-Mar-01	Han Kyoung Lee <sup>3</sup>	Former KCC Officer	23-Mar-04	22-Mar-11	71,538	6,644	0	6,644

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22-Mar-01	Jun Chae Song	Former KCC Officer	23-Mar-04	22-Mar-11	71,538	6,644	0	6,644
22-Mar-01	Cheol Ho Kim	Former KCC Officer	23-Mar-04	22-Mar-11	71,538	4,429	0	4,429
22-Mar-01	Myoung Woo Lee	Former KCC Officer	23-Mar-04	22-Mar-11	71,538	4,429	0	4,429
29-Mar-02	Boung Hak Kim	Former KCC Officer	30-Mar-04	29-Mar-11	Y <sup>2</sup>	3,330	0	3,330
29-Mar-02	Sun Lee	Former KCC Officer	30-Mar-04	29-Mar-11		3,330	0	3,330

1 Exercise price = 35,500Won x (1 + the increase rate of KOSPI Banking Industry Index x 0.4). The increase rate of KOSPI Banking Industry Index = (KOSPI Banking Industry Index as of the starting date of exercise period - KOSPI Banking Industry Index as of the grant date) / KOSPI Banking Industry Index as of the grant date.

2 Exercise price = 129,100 Won x (1 + the increase rate of Comparative Industry Index x 0.4).  
If negative index produced, the factor is not to be considered.

The increase rate of Comparative Industry Index = (B-A)/A

A : KOSPI as of the grant date x 0.5 + KOSPI Banking Industry Index as of the grant date x 0.5

B : KOSPI as of the exercise date x 0.5 + KOSPI Banking Industry Index as of the exercise date x 0.5

3 The 7 people in the above stock option table were granted Kookmin Bank stock option retroactively on the indicated dates. Those were originally granted by Kookmin Credit Card(KCC) when they were in office, and due to the Merger between Kookmin Bank and Kookmin Credit Card, those options were converted into stock options of the Bank.



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Grant date	Name of the grantee	Position when granted	Exercise period		Exercise price	Number of granted options*	Number of exercised options	Number of exercisable options
			From	To				
29-Mar-02	Jang Ok Kim	Former KCC Officer	30-Mar-04	29-Mar-11		3,330	0	3,330
09-Feb-04	Young Il Kim	Senior Executive Vice President	10-Feb-07	09-Feb-12	46,100	10,000	0	10,000
09-Feb-04	Jeung Lak Lee	Senior Executive Vice President	10-Feb-07	09-Feb-12	46,100	10,000	0	10,000
09-Feb-04	Sang Jin Lee	Senior Executive Vice President	10-Feb-07	09-Feb-12	46,100	10,000	0	10,000
09-Feb-04	Yun Keun Jung	Senior Executive Vice President	10-Feb-07	09-Feb-12	46,100	5,000	0	5,000
09-Feb-04	Kuk Shin Kang	Executive Vice President	10-Feb-07	09-Feb-12	46,100	5,000	0	5,000
09-Feb-04	Kyung Soo Kang	Executive Vice President	10-Feb-07	09-Feb-12	46,100	5,000	0	5,000
09-Feb-04	Yang Jin Kim	Executive Vice President	10-Feb-07	09-Feb-12	46,100	5,000	0	5,000
09-Feb-04	Dong Hwan Cho	Executive Vice President	10-Feb-07	09-Feb-12	46,100	5,000	0	5,000
09-Feb-04	Dong Suk Kang	Head of Regional Head Offices	10-Feb-07	09-Feb-12	46,100	5,000	0	5,000
09-Feb-04	Dae Ok Shin	Head of Regional Head Offices	10-Feb-07	09-Feb-12	46,100	5,000	0	5,000
09-Feb-04	Chang Ho Kim	Head of Regional Head Offices	10-Feb-07	09-Feb-12	46,100	5,000	0	5,000
09-Feb-04	Dal Soo Lee	Head of Regional Head Offices	10-Feb-07	09-Feb-12	46,100	5,000	0	5,000
09-Feb-04	Byung Doo Ahn	Head of Regional Head Offices	10-Feb-07	09-Feb-12	46,100	5,000	0	5,000
Total						2,828,806	654,440	2,174,366

**Table of Contents****1.4. Employee Stock Ownership Plan (ESOP)**

	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>	<u>Remarks</u>
Registered common stock		1,000,000		1,000,000	Treasury stocks of Kookmin Bank were transferred to ESOP account on December 26, 2003
Total		1,000,000		1,000,000	

**1.5. Dividend**

The following table shows dividend policy and the related information for the last three years. The Board of Directors of Kookmin Bank made a resolution not to pay dividend for the fiscal year of 2003, and shareholders of Kookmin Bank approved of no dividend payout for the year at the general shareholders meeting held on March 23, 2004

(Units: in millions of Won unless indicated otherwise)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net (loss) income for the period	(753,348)	1,310,291	740,565
Basic (loss) earnings per share (Won)	(2,311)	4,123 <sup>1</sup>	3,706
Maximum amount available for dividend	133,369	1,192,643 <sup>2</sup>	604,984
Total dividend amount		325,232	119,866
Dividend payout ratio (%)		24.82 <sup>3</sup>	16.19
Cash dividend per common share (Won)		1,000	100
Stock dividend per common share (%)			6
Dividend per preferred share (Won)			
Dividend yield ratio (%)		2.38 <sup>4</sup>	0.80
Net asset value per common share (Won)	25,672	30,614 <sup>5</sup>	29,742
Ordinary income per common share (Won)	(2,311)	4,123	3,706

- Earnings per share = net income (1,310,291,195,314 Won) / weighted average number of shares (317,786,872 shares)
- Maximum amount available for dividend = retained earnings before appropriations (1,319,970 millions of Won) + transferred from prior years reserves (5,417 millions of Won) appropriated amount pursuant to the relevant rules and regulations (132,744 millions of Won)
- Dividend payout ratio = total dividend amount for common shares (325,232,596,000 Won) / net income (1,310,291,195,314 Won).
- Dividend yield ratio = dividend per share (1,000 Won) / market closing price of December 31, 2002 (42,000 Won)
- Net asset value per common share = total shareholders equity (10,049,396 millions of Won) / total issued shares as of December 31, 2002 (328,258,685 shares).



**Table of Contents****1.6. Summary of Merger in Year 2003**

As of September 30, 2003, Kookmin Bank merged Kookmin Credit Card, its former subsidiary about 74% shares owned. Followings are summarized information with regard to the Merger.

**1.6.1. Brief Note on Merger Procedures**

May 30, 2003	Completed the merger agreement, and officially submitted Merger Statement to FSS.
July 23, 2003	Approved by the board of directors of Kookmin Bank
September 5, 2003	Approved by shareholders meeting of Kookmin Credit Card
September 30, 2003	Completed the merger and integrated into single card business unit.
October 7, 2003	Submitted Merger Completion Report to FSS

**1.6.2. Merger Method**

Entity	Business	Merger Method
Kookmin Bank (KB)	Banking	KCC is merged into KB
Kookmin Credit Card (KCC)	Credit card	

**1.6.3. Merger Ratio**

	KB	KCC
Stock Price	31,780 Won	14,078 Won
Merger Ratio (Common Stock)	1	0.442983

**1.6.4. Changes in Equity-related factors**

		Before Merger	After Merger
Number of Stocks Authorized	Common stocks	1,000,000,000	1,000,000,000
	Preferred stocks		
Number of Stocks Issued	Common stocks	328,258,685	336,379,116
	Preferred stocks		
Paid-in capital (million Won)		1,641,293	1,681,896

**Table of Contents****2. Business****2.1. Sources and Uses of Fund****2.1.1. Sources of Fund**

(Unit: in millions of Won)

		December 31, 2003		December 31, 2002		December 31, 2001	
		Average balance	Interest rate (%)	Average balance	Interest rate (%)	Average balance	Interest rate (%)
Won currency	Deposits	117,045,837	3.69	113,157,719	4.21	63,743,997	5.53
	Certificate of deposit	4,068,327	4.45	2,119,900	4.82	2,022,414	6.10
	Borrowings	3,625,926	3.89	4,568,873	4.45	3,784,147	4.85
	Call money	1,315,639	3.93	1,039,249	4.02	403,937	4.11
	Other	23,311,299	5.91	14,254,281	6.70	9,112,858	7.57
Subtotal		149,367,028	4.06	135,140,022	4.49	79,067,353	5.74
Foreign currency	Deposits	1,276,952	0.84	1,096,544	1.28	952,701	3.08
	Borrowings	3,462,883	1.01	2,269,774	2.45	2,018,537	5.47
	Call money	150,609	1.07	293,151	1.65	223,156	3.67
	Finance debentures issued	773,840	2.11	1,071,848	3.57	1,430,804	5.68
	Other	26,491		23,087		15,081	
Subtotal		5,690,775	1.12	4,754,404	2.67	4,640,279	5.32
Other	Total Shareholders Equity	12,053,112		14,586,550		7,463,687	
	Allowances	98,422		63,039		353,183	
	Other	9,509,283		3,717,379		4,065,899	
Subtotal		21,660,817		18,366,968		11,882,769	
Total		176,718,620	3.47	158,261,394	3.92	95,590,401	5.00

**Table of Contents****2.1.2. Uses of Fund**

(Unit: in millions of Won)

		December 31, 2003		December 31, 2002		December 31, 2001	
		Average balance	Interest rate (%)	Average balance	Interest rate (%)	Average balance	Interest rate (%)
Won currency	Due from banks	165,358	1.37	1,041,865	4.62	1,339,572	5.60
	Securities	30,069,922	7.26	30,180,305	6.32	23,861,424	6.78
	Loans	121,725,298	7.10	105,188,481	7.79	53,575,082	8.87
	Advances for customers	96,547	5.79	91,583	4.35	127,704	3.84
	Call loan	685,953	3.92	736,571	4.36	1,765,067	4.80
	Private placement corporate bonds	1,287,623	10.26	1,631,524	7.32	2,065,179	10.32
	Credit card accounts	6,698,954	10.44	5,719,359	10.25	912,210	17.63
	Other	298,858		374,718		614,014	
	Allowance for credit losses ( )	1,823,976		1,437,960		1,297,930	
<b>Subtotal</b>	<b>159,204,537</b>	<b>7.41</b>	<b>143,526,446</b>	<b>7.66</b>	<b>82,962,322</b>	<b>8.50</b>	
Foreign currency	Due from banks	612,862	1.33	253,390	1.35	121,994	3.28
	Securities	1,269,538	5.23	1,302,214	7.97	1,079,359	9.13
	Loans	2,785,091	3.11	3,216,042	3.39	3,870,853	5.66
	Call loan	84,803	1.28	188,465	1.98	185,466	4.15
	Bills bought	1,983,368	1.83	835,356	4.71	1,045,331	7.60
	Other	12,391		15,739		116,454	
	Allowance for credit losses ( )	132,105		267,194		266,613	
<b>Subtotal</b>	<b>6,615,948</b>	<b>3.03</b>	<b>5,544,012</b>	<b>4.95</b>	<b>6,152,844</b>	<b>7.11</b>	
Other	Cash	968,815		914,639		530,451	
	Fixed assets held for business	3,210,463		3,126,812		1,462,413	
	Other	6,718,857		5,149,485		4,482,371	
<b>Subtotal</b>	<b>10,898,135</b>		<b>9,190,936</b>		<b>6,475,235</b>		
<b>Total</b>	<b>176,718,620</b>	<b>6.79</b>	<b>158,261,394</b>	<b>7.12</b>	<b>95,590,401</b>	<b>7.83</b>	

**Table of Contents****2.2. Principal Banking Activities****2.2.1. Deposits**

The following table shows the average balances of our deposits for the past three years and ending balances as of the dates indicated.

(Unit: in millions of Won)

		December 31, 2003		December 31, 2002		December 31, 2001	
		Average balance	Ending balance	Average balance	Ending balance	Average balance	Ending balance
Deposits in Won	Demand deposits	12,192,971	14,110,288	10,654,651	12,987,742	4,832,281	10,824,005
	Time & savings deposits	96,668,084	97,616,747	93,347,999	93,630,423	53,496,908	89,080,935
	Mutual installment deposits	6,958,043	7,054,752	8,058,664	7,491,115	6,469,772	8,871,193
	Mutual installment for housing	5,161,535	5,423,853	4,463,601	4,872,637	928,398	4,128,489
	Certificates of deposits	4,068,327	6,499,258	2,119,900	3,044,089	2,022,414	1,154,056
Subtotal		125,048,960	130,704,898	118,644,815	122,026,006	67,749,773	114,058,678
Deposits in foreign currency		1,276,952	1,475,374	1,096,544	1,083,647	952,701	1,102,626
Trust deposits	Money trust	13,064,749	10,278,357	17,214,936	15,356,285	20,375,456	19,739,709
	Property trust	24,512,746	21,453,761	16,783,690	26,852,684	5,409,033	12,559,922
Subtotal		37,577,495	31,732,118	33,998,626	42,208,969	25,784,489	32,299,631
Total		163,903,407	163,912,390	153,739,985	165,318,622	94,486,963	147,460,935

**2.2.2. Average Deposit per Domestic Branch**

The following table shows the average balances of our deposits per domestic branch as of the dates indicated.

(Unit: in millions of Won)

December 31, 2003	December 31, 2002	December 31, 2001
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Deposits	119,593	121,137	133,548
Deposits in Won	118,756	120,336	132,320



**Table of Contents****2.2.3. Average Deposit per Employee**

The following table shows the average balances of our deposits per employee as of the dates indicated.

(Unit: in millions of Won)

	<b>December 31, 2003</b>	<b>December 31, 2002</b>	<b>December 31, 2001</b>
Deposits	7,487	7,256	7,243
Deposits in Won	7,434	7,208	7,176

**2.2.4. Loan Balances**

The following table shows the average balances of our loans for the past three years and ending balances as of the dates indicated.

(Unit: in millions of Won)

	<b>December 31, 2003</b>		<b>December 31, 2002</b>		<b>December 31, 2001</b>	
	<b>Average balance</b>	<b>Ending balance</b>	<b>Average balance</b>	<b>Ending balance</b>	<b>Average balance</b>	<b>Ending balance</b>
Loans in Won	121,705,493	123,715,244	105,117,047	116,472,105	53,498,087	94,698,769
Loans in foreign currency	4,160,185	4,019,929	3,228,857	4,417,176	3,924,562	4,174,237
Advances to customers	107,091	89,665	106,380	52,430	244,158	199,831
Subtotal	125,972,769	127,824,838	108,452,284	120,941,711	57,666,807	99,072,837
Trust account loans	531,500	489,788	789,614	575,412	2,194,851	1,117,817
Total	126,504,269	128,314,626	109,241,898	121,517,123	59,861,658	100,190,654

**2.2.5. Loan Balances as of December 31, 2003 by Remaining Years to Maturities**

(Unit: in millions of Won)

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	<b>Less than 1 year</b>	<b>More than 1 year ~ less than 3 years</b>	<b>More than 3 years ~ less than 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Loans in Won	62,666,569	45,553,041	5,291,143	10,204,491	123,715,244
Loans in foreign currencies	2,461,141	510,478	219,769	828,542	4,019,930

**Table of Contents****2.2.6. Loan Balances by Uses**

The following table shows the banking account balances of our loans in Won by uses as of the dates indicated.

(Unit: in millions of Won)

		December 31, 2003	December 31, 2002	December 31, 2001
Loans to enterprise	Loans for operations	35,351,506	35,369,066	29,286,707
	Loans for facility	6,631,703	5,963,631	4,434,447
Loans to households		42,884,305	40,477,483	34,648,918
Loans to public sector & others	Loans for operations	526,227	738,632	730,598
	Loans for facility	42,473	39,414	57,211
Loans on property formation savings		62,963	95,252	154,069
Loans for housing		38,199,290	33,731,435	25,342,969
Inter-bank loans		12,815	20,941	36,110
Others		3,962	5,449	7,740
<b>Total</b>		<b>123,715,244</b>	<b>116,441,303</b>	<b>94,698,769</b>

**2.2.7. Loan to Deposit Ratio**

The following table shows loan to deposit ratio as of indicated dates.

(Units: in millions of Won, %)

	December 31, 2003	December 31, 2002	December 31, 2001
Loans <sup>1</sup> (A)	121,705,493	105,106,146	53,498,087
Deposits <sup>2</sup> (B)	125,048,960	118,644,815	67,749,773
Loan to deposit ratio (A/B)	97.33	88.59	78.96

**2.2.8. Acceptances and Guarantees**

(Unit: in millions of Won)

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	December 31, 2003	December 31, 2002	December 31, 2001
Determined	800,297	1,031,698	3,521,970
Contingent	1,281,518	1,306,878	1,369,723
<b>Total</b>	<b>2,081,815</b>	<b>2,338,576</b>	<b>4,891,693</b>

1. Average balance of loans in each indicated date
  
2. Average balance of deposits in each indicated date. The balances include certificate of deposits

**Table of Contents****2.2.9. Breakdown of Securities Investment**

The following table shows the average balances of our securities for the past three years and ending balances as of the indicated dates.

(Unit: in millions of Won)

		December 31, 2003		December 31, 2002		December 31, 2001	
		Average balance	Ending balance	Average balance	Ending balance	Average balance	Ending balance
Securities in Won (Banking account)	Monetary stabilization bonds	4,343,978	5,540,598	2,834,534	3,269,269	3,571,137	3,139,925
	Government and public bonds	5,630,422	5,885,595	4,272,946	5,252,321	4,454,446	4,592,251
	Debentures	11,028,217	7,149,089	13,154,258	12,378,717	11,410,904	14,691,304
	Stocks	1,380,254	877,013	2,146,149	1,661,682	1,309,134	2,154,449
	Others	7,687,051	7,299,404	7,809,012	7,162,134	3,115,803	7,547,153
<b>Subtotal</b>		<b>30,069,922</b>	<b>26,751,699</b>	<b>30,216,899</b>	<b>29,724,123</b>	<b>23,861,424</b>	<b>32,125,082</b>
Securities in Won (Trust account)	Monetary stabilization bonds	984,380	878,077	1,309,515	583,379	3,228,021	2,725,071
	Government and public bonds	1,182,165	1,252,419	2,023,503	1,323,195	2,990,549	3,059,777
	Debentures	5,876,064	4,080,362	8,035,960	7,600,794	7,635,765	7,613,829
	Stocks	763,277	592,379	904,921	924,514	672,845	890,151
	Others	3,208,160	2,106,262	3,945,649	3,821,884	4,340,103	3,913,328
<b>Subtotal</b>		<b>12,882,865</b>	<b>9,677,174</b>	<b>77,213,310</b>	<b>74,449,265</b>	<b>18,985,430</b>	<b>18,572,571</b>
Securities in foreign currency (Trust Account)		868,819	767,675	559,964	747,253	118,147	370,415
<b>Subtotal</b>		<b>12,882,865</b>	<b>9,677,174</b>	<b>77,213,310</b>	<b>74,449,265</b>	<b>18,985,430</b>	<b>18,572,571</b>
Securities in foreign currency (Banking account)	Foreign securities	999,806	1,072,483	945,199	960,749	736,084	909,730
	Off-shore foreign securities	269,732	277,663	320,423	255,878	343,275	382,542
<b>Subtotal</b>		<b>1,269,538</b>	<b>1,350,146</b>	<b>1,265,622</b>	<b>1,216,627</b>	<b>1,079,359</b>	<b>1,292,272</b>
<b>Total</b>		<b>44,222,325</b>	<b>37,779,019</b>	<b>48,262,033</b>	<b>45,941,769</b>	<b>43,926,213</b>	<b>51,989,925</b>

**2.2.10. Trust Account**

(Unit: in millions of Won)

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	December 31, 2003		December 31, 2002		December 31, 2001	
	Total amount trusted	Trust fees	Total amount trusted	Trust fees	Total amount trusted	Trust fees
Return-guaranteed trust	559	45,682	1,528	59,530	25,551	-17,147
Performance trust	37,576,936	186,851	33,997,098	241,444	25,758,938	353,890
<b>Total</b>	<b>37,577,495</b>	<b>232,533</b>	<b>33,998,626</b>	<b>300,974</b>	<b>25,784,489</b>	<b>336,743</b>

**Table of Contents****2.2.11. Credit Card****2.2.11.1. BC Card**

(Unit: in millions of Won unless indicated otherwise)

		As of or for the years ended of indicated dates		
		December 31, 2003	December 31, 2002	December 31, 2001
Number of card holders (Person)	Corporate	68,359	58,090	23,811
	Individual	3,664,505	4,748,427	4,017,950
Number of merchants		309,699	262,619	295,668
Profit	Sales <sup>1</sup>	22,326,200	27,216,500	22,272,700
	Fee revenue	1,044,463	1,039,710	819,399

**2.2.11.2. KB Card (former Kookmin Card<sup>2</sup>)**

(Unit: in millions of Won unless indicated otherwise)

		As of or for the years ended of indicated dates		
		December 31, 2003	December 31, 2002	December 31, 2001
Number of card holders (Person)	Corporate	151,998	153,425	105,600
	Individual	10,990,703	11,638,968	9,605,946
Number of merchants		1,528,872	1,675,176	1,569,103
Profit	Sales <sup>1</sup>	70,209,300	83,860,180	65,382,300
	Fee revenue	2,967,554	155,545	142,700

**2.3. Branch Networks**

As of December 31, 2003, we had 1,085 branches and 51 sub-branches in Korea, the largest number of branches among Korean commercial banks. Approximately 41.9% of our branches and sub-branches are located in Seoul.

We also have three overseas branches in Tokyo, New York and Auckland, and 1 overseas office in Guangzhou in China

1. Includes credit card receivables and cash advances.

2 Figures for 2002 and 2001 are results of former Kookmin Credit Card.



**Table of Contents****2.4. Other Information for Investment Decision****2.4.1. BIS Risk-adjusted Capital Ratios**

(Units: in millions of Won, %)

	December 31, 2003	December 31, 2002	December 31, 2001
Risk-adjusted capital (A)	12,739,857	14,439,313	11,750,856
Risk-weighted assets (B)	127,397,339	138,703,021	114,849,227
BIS ratios (A/B)	10.00	10.41	10.23

**2.4.2. Non-Performing Loans<sup>1</sup>**

(Units: in millions of Won unless indicated otherwise)

December 31, 2003		December 31, 2002		Change	
Amount	NPL to total loans	Amount	NPL to total loans	Amount	NPL to total loans
4,202,254	2.99%	2,509,073	1.90%	1,693,181	1.09%P

**2.4.3. Loan Losses Allowances**

The following table shows the balance of our loan losses allowances as of the dates indicated.

(Units: in millions of Won)

	December 31, 2003	December 31, 2002	December 31, 2001
Loan losses allowance			
Loans in Won	2,271,198	1,905,065	1,509,863
Loans in foreign currencies	68,045	103,838	225,172
Credit card	1,187,616	284,491	148,349
Others	163,482	85,302	387,795
Total	3,690,341	2,378,696	2,271,179
Write-offs for the Period	4,509,979	1,527,311	1,090,029

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1. Non-performing loans are defined as those loans that are past due more than 90 days or that are placed non-accrual status according to the Financial Supervisory Service's guidelines.

**Table of Contents****3. Financial Information****3.1. Condensed Financial Statements****3.1.1. Non-Consolidated Financial Statement**

(Units: in millions of Won)

	As of or for the year ended of indicated dates	
	December 31, 2003	December 31, 2002
Cash and due from banks	6,526,345	4,599,356
Securities	28,101,845	30,940,750
Loans	139,920,521	126,730,561
Fixed assets	3,019,556	3,092,616
Other assets	6,484,239	6,135,558
<b>Total assets</b>	<b>184,052,506</b>	<b>171,498,841</b>
Deposits	132,180,272	123,109,653
Borrowings	10,902,800	10,690,754
Debentures	19,192,581	17,539,007
Other liabilities	13,362,339	9,784,798
<b>Total Liabilities</b>	<b>175,637,992</b>	<b>161,124,212</b>
Common stocks	1,681,896	1,641,293
Capital surplus	6,230,738	5,864,752
Retained earnings	1,662,119	2,742,335
Capital adjustments	(1,160,239)	126,249
<b>Total shareholders' equity</b>	<b>8,414,514</b>	<b>10,374,629</b>
<b>Liabilities and Shareholders' Equity</b>	<b>184,052,506</b>	<b>171,498,841</b>
Operating revenue	15,556,986	15,584,501
Operating income	76,084	2,265,765
Continuing (loss) income before income taxes	(1,146,444)	1,893,618
<b>Net (loss) income</b>	<b>(753,348)</b>	<b>1,310,291</b>

**Table of Contents****3.1.2. Consolidated Financial Statement<sup>1</sup>**

(Units: in millions of Won)

	As of or for the year ended of indicated dates	
	December 31, 2003	December 31, 2002
Cash and due from banks	6,560,651	4,790,636
Securities	30,531,067	36,862,306
Loans	139,926,208	135,143,612
Fixed assets	3,024,948	3,360,158
Other assets	6,730,164	6,969,506
<b>Total assets</b>	<b>186,773,038</b>	<b>187,126,218</b>
Deposits	135,373,286	126,890,960
Borrowings	10,750,820	15,473,094
Debentures	19,182,576	23,450,346
Other liabilities	12,978,312	10,631,483
<b>Total Liabilities</b>	<b>178,284,994</b>	<b>176,445,883</b>
Common stocks	1,681,896	1,641,293
Capital surplus	6,237,528	5,968,401
Retained earnings	1,712,664	2,787,469
Capital adjustments	(1,160,814)	30,817
Minority interest	16,770	252,355
<b>Total shareholders' equity</b>	<b>8,488,044</b>	<b>10,680,335</b>
<b>Liabilities and Shareholders' Equity</b>	<b>186,773,038</b>	<b>187,126,218</b>
Operating revenue	18,006,301	18,863,597
Operating income	537,971	1,956,209
Continuing (loss) income before income taxes	(1,019,606)	1,818,432
Minority interest (loss) income	(76,502)	65,260
<b>Net (loss) income</b>	<b>(741,750)</b>	<b>1,271,308</b>

**3.2. Other Financial Information**

See Exhibit 99.1 and 99.2 for full financial statements and relevant notes of both Non-Consolidated and Consolidated Audit Reports

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1 The affiliates subject to consolidation are Kookmin Data System, Kookmin Futures, KB Investment, KB Investment Trust, KB Real Estate Trust, KB Credit Information, Kookmin Finance HK Ltd. and Kookmin Bank International Ltd. (London). Our affiliates subject to equity method of accounting include ING Life Korea, KOMOCO, Jangeun Securities, Joeun Industrial, Kookmin Bank Luxemburg S.A., Kookmin Finance Asia Ltd. (Hong Kong) and Kookmin Singapore Ltd. We have several other companies or business entities such as Sorak Financial Holdings that are also subject to equity method of accounting. For details, please see Exhibit 99.2 2003 Consolidated Audit Report.

**Table of Contents****4. Independent Accountant Fees and Services****4.1. Audit & Review Fees**

Our financial statements for the years ended 2003 and 2002 have been audited by Samil Accounting Corporation, a Korean member firm of PRICEWATERHOUSECOOPERS. And also, each of our financial statements for the first 3 quarters of 2003 was reviewed by the accounting firm. The aggregate contract amount for the audit and review fees for the year 2003 is 980 million Won.

**4.2. Services Other than Audit & Review**

The following is a description of non-audit services rendered by our independent auditor for the last three years.

(Units: in millions of Won unless indicated otherwise)

<b>Year</b>	<b>Service description</b>	<b>Amount of payment</b>
2003	US GAAP conversion for 2002	US\$3,800 thousand
	Due Diligence on Kookmin Credit Card	250
	SEC Filing regarding the proposed merger with Kookmin Credit Card	USD30 thousand
2002	Project for improving the accounting process	690
	Advisory service for the conversion process in US GAAP	1,450
2001	Due diligence on the assets and liabilities in connection with the merger	2,400
	US GAAP conversion for 2000	US\$2,700 thousand
	US GAAP conversion for New York Stock Exchange listing of New Kookmin Bank	US\$7,480 thousand
	Advisory service for tax in connection with the merger	300
	US GAAP conversion	US\$4,950 thousand

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**5. Corporate Governance and Affiliated Companies**

**5.1. Board of Directors & Committees under the Board**

The board of directors holds regular meetings every quarter. The board of directors consists of directors and resolves each following matter:

- n matters relating to business objectives and performance evaluation;
- n matters relating to amendments of the Articles of Incorporation;
- n matters relating to budget and accounting including salaries of directors and employees;
- n matters relating to major organizational changes such as dissolution, business transfer and merger;
- n matters relating to internal control standards; or
- n other matters determined by law and the board of directors regulations.

We currently have six management committees that serve under the board:

- n the Board Steering Committee;
- n the Management Strategy Committee;
- n the Risk Management Committee;
- n the Audit Committee;
- n the Compensation Committee; and
- n the Non Executive Director Nominating Committee.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of stockholders. For list of our directors, see 6. Directors, Senior Management and Employees / 6.1. Executive Directors and 6.2. Non-Executive Directors.

**5.2. Audit Committee**

Audit Committee oversees our financial reporting and approves the appointment of and interaction with our independent auditors, compliance officers, management personnel and other committee advisors. The committee also reviews our financial information, auditor's examinations, key financial statement issues and the administration of our financial affairs by the board of directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors to each general meeting of stockholders. The committee holds regular meetings every quarter and as-needed basis.



**Table of Contents****5.3. Compensation to Directors**

For the year ended December 31, 2003, the aggregate of the remuneration paid by us to 1) the Chairman, President & CEO and our other executive directors and 2) our non-executive directors was 3,050 million Won, 534 million Won, respectively. The following table shows the breakdown of the remuneration.

(Units: in millions of Won)

	<b>The aggregate remuneration paid</b>	<b>Limit for the remuneration resolved by shareholders meeting</b>	<b>Average amount of the payment per person</b>
1) Executive Directors	3,050	8,000	762
2) Non Executive Directors	534		48
<b>Total</b>	<b>3,584</b>	<b>8,000</b>	

As part of remuneration, Kookmin Bank also granted stock options to directors. See 1.3.3 Stock Option.

**5.4. Voting Rights of Shareholders**

Each outstanding share of our common stock is entitled to one vote per share. If the method of written resolution at the general meeting of shareholders is adopted by resolution of the board of directors, at which the convening of the general meeting of shareholders is determined, the shareholders may exercise their voting rights in writing without participating the meeting in person. In this case, the Bank is required to send the documents and references necessary for exercise of voting rights, together with the convening notice. If a shareholder intends to exercise his/her voting rights in writing, the shareholder is required to fill in a certain form and submit it to the Bank one day before the date set for the general meeting of shareholders.

**5.5. Share Ownership**

The following table presents information regarding the selected major ownership of our shares as of December 31, 2003.

(Unit: Shares, %)

<b>Name</b>	<b>Number of Shares of Common Stock</b>	<b>Percentage of Total Issued Shares</b>
-------------	---	--

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Bank of New York <sup>1</sup>	35,000,566	10.41
Kookmin Bank <sup>2</sup>	30,016,623	8.92
ING Bank N.V.	12,716,691	3.78
Euro-Pacific Growth Fund	10,682,290	3.18
Emerging Markets Growth	10,125,055	3.01
National Pension Fund	7,496,146	2.23
Goldman Sachs Capital SH	3,831,151	1.14

1 Depository of ADRs

2 Treasury stocks with no voting right

**Table of Contents****5.6. Affiliated Companies****5.6.1. List of Affiliates**

As of December 31, 2003, we have following affiliates.

- n KB Investment Co., Ltd.
- n KB Investment Trust Management Co., Ltd.
- n KB Real Estate Trust Co., Ltd.
- n KB Credit Information Co., Ltd.
- n Kookmin Data System Corporation
- n Kookmin Futures Co., Ltd.
- n ING Life Korea Ltd.
- n Kookmin Bank Luxemburg. S.A.
- n Kookmin Bank International (London) Ltd.
- n Kookmin Finance Hong Kong Ltd.

**5.6.2. Operating Results of Affiliates<sup>1</sup>**

(Unit: in millions of Won)

Company name	Closing date	Operating results of the latest fiscal year				
		Total Assets	Total Liabilities	Total Equities	Sales	Net Income
KB Investment	December 31, 2003	95,555	18,194	77,361	19,227	5,300
KB Investment Trust Management	March 31, 2003	65,086	17,447	47,639	31,474	13,966

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KB Real Estate Trust	December 31, 2003	257,724	159,595	98,129	56,613	10,402
KB Credit Information	December 31, 2003	25,265	7,383	17,882	43,700	3,931
Kookmin Data System	December 31, 2003	17,894	3,244	14,650	37,389	1,031
Kookmin Futures	March 31, 2003	45,414	20,652	24,762	12,734	2,333
ING Life Korea	March 31, 2003	2,068,192	1,937,761	130,431	1,211,847	78,559
Kookmin Bank Luxemburg	December 31, 2003	286,997	281,048	5,949	19,487	19
Kookmin Bank International (London)	December 31, 2003	225,681	168,925	56,756	12,902	3,264
Kookmin Finance Hong Kong	December 31, 2003	211,944	149,228	62,716	34,543	682

1 The operating results of each domestic affiliates of which fiscal years were ended as of December 31, 2003 are tentative figures.

**Table of Contents****6. Directors, Senior Management and Employees**

As of December 31, 2003, our board of directors, which consists of 4 executive directors and 12 non-executive directors, has the ultimate responsibility for the management of our affairs.

**6.1. Executive Directors**

Our 4 executive directors consist of the chairman, president & CEO, auditor & executive director and one executive director seconded from ING.

The names and positions of our directors with Kookmin Bank's common stocks owned are set forth below.

<b>Name</b>	<b>Date of Birth</b>	<b>Position</b>	<b>Common Stocks Owned</b>
Sang Hoon Kim	03/13/1942	Chairman	1,300
Jung Tae Kim	08/15/1947	President & CEO	126,581
Sung Nam Lee	11/11/1947	Auditor & Executive Director	
Donald H. MacKenzie	12/20/1948	Executive Director & EVP	

**6.2. Non-Executive Directors**

Our non-executive directors are selected based on the candidates' talents and skills in diverse areas, such as law, finance, economy, management and accounting. As of December 31, 2003, 12 non-executive directors are in office.

Our current non-executive directors with Kookmin Bank's shares owned are as follows.

<b>Name</b>	<b>Date of Birth</b>	<b>Position</b>	<b>Common Stocks Owned</b>
Moon Soul Chung	03/07/1938	Non-Executive Director	4,291
Richard Elliott Lint	01/04/1946	Non-Executive Director	570
Sun Jin Kim	06/08/1942	Non-Executive Director	3,725
Dong Soo Chung	09/24/1945	Non-Executive Director	610
Seoung Woo Nam	05/13/1952	Non-Executive Director	821
Kyung Hee Yoon	01/05/1947	Non-Executive Director	
Suk Yong Cha	06/09/1953	Non-Executive Director	730
Bernard S. Black	11/13/1953	Non-Executive Director	570
Ki Hong Kim	01/10/1957	Non-Executive Director	830
Eun Joo Park	06/03/1957	Non-Executive Director	740
Cheol Soo Ahn	01/22/1962	Non-Executive Director	730



**Table of Contents****6.3. Senior Management**

In addition to the executive directors who are also our executive officers, we currently have the following 11 executive officers as of December 31, 2003:

<b>Name</b>	<b>Date of Birth</b>	<b>Position</b>	<b>Common Shares Owned</b>
Jong Kyoo Yoon	10/13/1955	Executive Vice President	3,300
Sung Chul Kim	09/10/1951	Executive Vice President	3,498
Young Il Kim	07/06/1953	Executive Vice President	3,327
Ki Taek Hong	01/16/1948	Executive Vice President	3,931
Sung Hyun Chung	08/10/1947	Executive Vice President	
Ki Sup Shin	10/29/1955	Executive Vice President	280
Seong Kyu Lee	10/25/1959	Executive Vice President	
See Young Lee	12/25/1952	Executive Vice President	2
Woo Jung Lee	07/11/1949	Executive Vice President	
Jin Baek Chung	10/29/1955	Executive Vice President	
Bong Hwan Cho	03/30/1950	Executive Vice President	4,581

**6.4. Compensation to Directors and Senior Management**

The total compensation to both directors and senior management for the year 2003, excluding grant of stock options, is 9,103,289,908 Won, and the average compensation amount per person is 338,899,826 Won. During the first 3 months, we had 11 directors and 13 executive vice presidents, and for the rest of the period in 2003, 14 directors and 11 executive vice presidents were presided.

**6.5. Employees**

The following table shows the breakdown of our employees as of December 31, 2003.

(Unit: in millions of Won)

	<b>Number of Employees</b>			<b>Average Tenure of the Full-time Employees</b>	<b>Total Payment for Year 2003</b>	<b>Average Monthly Payment per Person</b>
	<b>Full-time</b>	<b>Contractual</b>	<b>Total</b>			
Male	13,563	1,244	14,787	15.78	823,121	4.6
Female	5,026	7,697	12,723	12.99	421,191	2.8
<b>Total</b>	<b>18,589</b>	<b>8,921</b>	<b>27,510</b>	<b>15.05</b>	<b>1,244,312</b>	<b>3.8</b>





**Table of Contents****7. Related Party Transaction**

A number of banking transactions are entered into with related parties in the ordinary course of business. Generally, these transactions include loans, deposits, debt securities and other arms-length transactions relating to our banking business. These transactions are carried out on commercial terms and conditions and at market rates.

**7.1. Transactions with the Largest Shareholders and Affiliates****7.1.1. Investments in Affiliates<sup>1</sup>**

(Unit: in millions of Won)

<u>Name</u>	<u>Relation with the Bank</u>	<u>Account</u>	<u>Par Value</u>	<u>Beginning Balance (January 1, 2003)</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance (December 31, 2003)</u>
KB Real Estate Trust	Affiliate	Equity Securities of Affiliate	79,999	79,999			79,999
Kookmin Credit Card <sup>2</sup>	Affiliate	Equity Securities of Affiliate	271,825	271,825		271,825	0
KB Investment	Affiliate	Equity Securities of Affiliate	44,708	44,708			44,708
KB Investment Trust Management	Affiliate	Equity Securities of Affiliate	30,670	30,670			30,670
Kookmin Futures	Affiliate	Equity Securities of Affiliate	19,996	19,996			19,996
Kookmin Data System	Affiliate	Equity Securities of Affiliate	7,998	7,998			7,998
KB Credit Information	Affiliate	Equity Securities of Affiliate	3,918	3,918	236		4,154
ING Life Korea	Affiliate	Equity Securities of Affiliate	14,000	14,000			14,000
KOMOCO	Affiliate	Equity Securities of Affiliate	30,000	30,000			30,000
<b>Total</b>			<b>503,114</b>	<b>503,114</b>	<b>236</b>	<b>271,825</b>	<b>231,525</b>

1 Excluding Jooeun Industry and Jangeun Securities which have been under liquidation procedures

2 Merged into the Bank as of September 30, 2003.

**Table of Contents****7.1.2. Real Estate Transactions with Affiliates**

(Unit: in millions of Won)

Name	Relation with the Bank	Type	Account	The Number of Contracts	Deposits	Rent Fee
KB Credit Information	Affiliate	Building	Rental Income	19	3,805.74	8.13
KB Real Estate Trust	Affiliate	Building	Rental Income	2	1,738	
Kookmin Data System	Affiliate	Building	Rental Income	2	2,484.31	
Kookmin Futures	Affiliate	Building	Rental Income	1	1,363.36	
<b>Total</b>				<b>24</b>	<b>9,391.41</b>	<b>8.13</b>

**7.2. Transactions with Other than the Largest Shareholders & Affiliates****7.2.1. Loans and Guarantees**

(Unit: in millions of Won)

Name	Relation with the Bank	Account	Beginning Balance (January 1, 2003, or on the date of appointment)	Ending Balance (December 31, 2003)	Increase / (Decrease) for the period
Ki Hong Kim	Non executive director	Housing Loan	18	0	(18)
Pulmuone Water Co.	Related party of	General Corporate Loan	2,000	2,000	
	Non executive director,	Corporate Overdraft	1,011	2,992	1,981
Seoung Woo Nam		Loan for Working Capital	1,800	1,800	
		Loan for Purchasing	343	0	(343)
Pulmuone Co.	Related party of	General Corporate Loan	4,000	0	(4,000)
	Non executive director,	Purchase Card Loan	3,778	1,170	(2,608)
	Seoung Woo Nam	Loan for Facility		3,300	3,300
Pulmuone Tech co.	Related party of	Facility Finance Loan	1,600	0	(1,600)
		Note Discount		0	1,400
					(1400)
Food Merce	Non executive director,				
	Seoung Woo Nam	Related party of	Loan for Purchasing	362	0
Pulmuone Healthy Life	Non executive director,				

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Related party of Non  
executive director,  
Seoung Woo Nam

Total	<u>14,912</u>	<u>12,253</u>	<u>(2,659)</u>
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**Table of Contents****7.2.2. Real Estate Transaction**

(Unit: in millions of Won)

Name	Relation with			Deposits	Rent Fee
	Kookmin Bank	Type	Account		
Haitai Confectionary & Foods	Related party of Non executive director, Suk Yong Cha	Building	Rental Deposit	150	
National Pension Corporation	Shareholder	Building	Rental Income	776	9
Pulmuone Life Co.	Related party of Non executive director Seoung Woo Nam	Building	Rental Income	10	0.5
<b>Total</b>				<b>936</b>	<b>9.5</b>

**Table of Contents****8. Exhibits****8.1. Kookmin Bank 2003 Non-Consolidated Audit Report**

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**8.2. Kookmin Bank and Its Subsidiaries 2003 Consolidated Audit Report**

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kookmin Bank

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(Registrant)

Date: March 30, 2004

By: /s/ Ki Sup Shin

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(Signature)

Name: Ki Sup Shin

Title: Senior Executive Vice President & Chief Financial Officer

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**Exhibit 99.1**

**Kookmin Bank**

**Non-Consolidated Financial Statements**

**December 31, 2003 and 2002**

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**Kookmin Bank**

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**December 31, 2003 and 2002**

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**Samil PricewaterhouseCoopers**  
Kukje Center Building  
191 Hankangro 2ga, Yongsanku  
Seoul 140-702, KOREA  
(Yongsan P.O. Box 266, 140-600)

**Report of Independent Auditors**

To the Board of Directors and Shareholders of

Kookmin Bank

We have audited the accompanying non-consolidated balance sheet of Kookmin Bank ( the Bank ) as of December 31, 2003 and 2002, and the related non-consolidated statements of operations, appropriations of retained earnings (dispositions of accumulated deficit) and cash flows for the year then ended, expressed in Korean Won. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kookmin Bank as of December 31, 2003 and 2002, and the results of its operations, the changes in its retained earnings (accumulated deficit), and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Note 33 to the financial statements, on May 30, 2003, the Bank obtained approval from the Board of Directors to enter into a merger agreement with Kookmin Credit Card Co., Ltd. (the Subsidiary ), its majority-owned subsidiary. According to the resolution of the Board of Directors, the Bank merged with the Subsidiary on September 30, 2003. The merger was effected through an exchange of shares with the minority shareholders of the Subsidiary as of July 24, 2003, who received 0.442983 share of the Bank s common stock for each share of the Subsidiary. The total assets and liabilities of the Subsidiary as of September 30, 2003 were (Won)10,595,409 million and (Won)9,391,897 million, respectively.

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As discussed in Note 2 to the financial statements, as of December 2002, the Bank changed the rates for determining the allowances for losses from consumer loans and credit card loans, in anticipation of the increasing risk of loan losses due to the increase in consumer loans and credit card loans, as follows:

<b>Credit Risk Classification</b>	<b>Allowance Rates before Changes</b>	<b>Allowance Rates after Changes</b>	
		<b>Consumer</b>	<b>Credit Cards</b>
Normal	0.50%	0.75%	1.00%
Precautionary	2.00%	8.00%	12.00%
Sub-standard	20.00%	20.00%	20.00%
Doubtful	50.00%	55.00%	60.00%
Estimated loss	100.00%	100.00%	100.00%

As a result of the above change, the Bank's allowances for loan losses as of December 31, 2003 are greater by (Won)336,265 million for consumer loans and (Won)314,701 million for credit card loans compared to the amounts that which would have been recorded under the previous rates.

As discussed in Note 20 to the financial statements, in accordance with the resolution made by the Board of Directors on December 26, 2003, the Bank acquired 27,423,761 of its own shares previously owned by the Korean government at (Won)43,700 per share through public bidding and intends to sell these shares of treasury stock depending on certain market conditions. As a result of the acquisition, the Bank holds 8.92 percent of the total common stock issued as treasury stock.

As discussed in Note 16 to the financial statements, the Bank's total exposure (including debt securities, beneficiary certificates, and loans) related to domestic credit card companies and capital companies amounts to (Won)2,055,663 million as of December 31, 2003. Currently, securities issued by credit card companies and capital companies, which are experiencing liquidity problems, are not widely traded in the bond market. The ultimate effect of these circumstances on the financial position of the Bank as of the balance sheet date cannot be presently determined, and accordingly, no adjustments related to such uncertainties have been recorded in the accompanying financial statements.

As discussed in Note 16 to the financial statements, in accordance with the agreement with the creditors' committee of LG Card Co., Ltd. on November 24, 2003, the Bank provided additional loans of (Won)437.0 billion to LG Card Co., Ltd., which is currently experiencing a liquidity crisis. Also, on January 9, 2004, the Bank has agreed to a debt-equity swap of (Won)312.7 billion, to provide additional loans of (Won)205.9 billion (to be included in the debt-equity swap), and to extend the maturity of loans that will mature in 2004. The ability of LG Card Co., Ltd. to continue as a going concern depends on the effective execution of its restructuring plan and debt restructuring as well as the availability of financial aid from its financial institutional creditors. The ultimate effect of these circumstances on the financial position of the Bank as of the balance sheet date cannot be presently determined, and accordingly, no adjustments related to such uncertainties have been recorded in the accompanying financial statements.

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

Seoul, Korea

March 3, 2004

This report is effective as of March 3, 2004, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**Table of Contents****Kookmin Bank****Non-Consolidated Balance Sheets****December 31, 2003 and December 31, 2002***(in millions of Won)*

	<u>2003</u>	<u>2002</u>
<b>Assets</b>		
Cash and due from banks (Note 3)	(Won) 6,526,345	(Won) 4,599,356
Securities (Note 4)	28,101,845	30,940,750
Loans (Notes 5 and 6)	139,920,521	126,730,561
Fixed assets (Note 7)	3,019,556	3,092,616
Other assets (Note 8)	6,484,239	6,135,558
<b>Total assets</b>	<b>(Won) 184,052,506</b>	<b>(Won) 171,498,841</b>
<b>Liabilities and Shareholders Equity</b>		
Deposits (Note 9)	(Won) 132,180,272	(Won) 123,109,653
Borrowings (Note 10)	10,902,800	10,690,754
Debentures (Note 11)	19,192,581	17,539,007
Other liabilities (Note 13)	13,362,339	9,784,798
<b>Total liabilities</b>	<b>175,637,992</b>	<b>161,124,212</b>
<b>Commitments and contingencies (Notes 14 and 16)</b>		
Common stock (5,000 Won par value per share, authorized 1 billion shares and 336,379,116 shares outstanding in 2003) (Notes 1 and 17)	1,681,896	1,641,293
Capital surplus (Note 18)	6,230,738	5,864,752
Retained earnings (Note 19)	1,662,119	2,742,335
Capital adjustments (Note 20)	(1,160,239)	126,249
<b>Total shareholders equity</b>	<b>8,414,514</b>	<b>10,374,629</b>
<b>Total liabilities and shareholders equity</b>	<b>(Won) 184,052,506</b>	<b>(Won) 171,498,841</b>

The accompanying notes are an integral part of these non-consolidated financial statements.

**Table of Contents****Kookmin Bank****Non-Consolidated Statements of Operations****Years ended December 31, 2003 and 2002***(in millions of Won except per share amounts)*

	<u>2003</u>	<u>2002</u>
<b>Interest income</b>		
Interest on due from banks	(Won) 10,433	(Won) 51,580
Interest on trading securities	116,142	95,576
Interest on available-for-sale securities	958,665	652,423
Interest on held-to-maturity securities	626,552	834,895
Interest on loans	9,814,835	9,251,849
Other interest income	98,923	102,735
	<u>11,625,550</u>	<u>10,989,058</u>
<b>Interest expenses</b>		
Interest on deposits	4,280,290	4,770,967
Interest on borrowings	410,746	415,938
Interest on debentures	1,143,228	830,219
Other interest expenses	68,570	58,068
	<u>5,902,834</u>	<u>6,075,192</u>
Net interest income	5,722,716	4,913,866
Provision for loan losses (Note 6)	4,040,536	1,593,479
Net interest income after provision for loan losses	<u>1,682,180</u>	<u>3,320,387</u>
<b>Non-interest income</b>		
Fees & commission income	1,636,171	1,345,669
Dividends on trading securities	1,633	1,123
Dividends on available-for-sale securities	5,580	12,186
Gain on foreign currency transactions	287,501	202,367
Gain on derivatives transactions (Note 15)	1,131,711	1,760,743
Others (Note 22)	868,840	1,273,355
	<u>3,931,436</u>	<u>4,595,443</u>
<b>Non-interest expenses</b>		
Fees and commission expenses	270,405	330,385
General and administrative expenses (Note 23)	2,704,148	2,551,426
Loss on foreign currency transactions	200,109	245,232
Loss on derivatives transactions (Note 15)	1,053,990	1,594,025
Others (Note 22)	1,308,880	928,997
	<u>5,537,532</u>	<u>5,650,065</u>
Operating income	76,084	2,265,765

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Non-operating expenses, net (Note 24)	(1,222,528)	(372,147)
Net (loss) income before income tax expense	(1,146,444)	1,893,618
Income tax (benefit) expense (Note 25)	(393,096)	583,327
Net (loss) income	(Won) (753,348)	(Won) 1,310,291
Basic (loss) earnings per share (In Korean Won) (Note 26)	(Won) (2,311)	(Won) 4,123

The accompanying notes are an integral part of these non-consolidated financial statements.

**Table of Contents****Kookmin Bank****Non-Consolidated Statements of Appropriations of Retained Earnings****(Dispositions of Accumulated Deficit)**

Years ended December 31, 2003 and 2002

(Date of Disposition : March 23, 2004 for the year ended December 31, 2003)

Date of Appropriation : March 21, 2003 for the year ended December 31, 2002)

*(in millions of Won)*

	<u>2003</u>	<u>2002</u>
<b>Retained earnings (accumulated deficit) before appropriations (dispositions)</b>		
Unappropriated retained earnings carried over from prior year	(Won) 410	(Won) 5,117
Adjustment on investment in associates (Note 19)	(1,917)	4,562
Net income (loss)	(753,348)	1,310,291
	<u>(754,855)</u>	<u>1,319,970</u>
<b>Transferred from prior years reserve (Note 19)</b>		
Reserves for overseas investment losses		5,417
		<u>5,417</u>
<b>Dispositions (appropriations) (Note 19)</b>		
Transfer from (appropriations for) voluntary reserves	754,900	(867,000)
Other reserves		(744)
Legal reserves		(132,000)
Cash dividends (20.0% for common stock in 2002)		(325,233)
	<u>754,900</u>	<u>(1,324,977)</u>
<b>Unappropriated retained earnings carried over to the subsequent year</b>	<u>(Won) 45</u>	<u>(Won) 410</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

**Table of Contents****Kookmin Bank****Non-Consolidated Statements of Cash Flows****Years ended December 31, 2003 and 2002***(in millions of Won)*

	<u>2003</u>	<u>2002</u>
<b>Cash flows from operating activities</b>		
Net (loss) income	(Won) (753,348)	(Won) 1,310,291
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Realized gain on trading securities, net	(71,899)	(87,802)
Unrealized gain on trading securities, net	(70,976)	(167,366)
Provision for loan losses due to merger	1,652,264	
Gain (loss) on foreign currency transactions, net	(87,392)	42,865
Provision for loan losses	4,040,536	1,593,479
Reversal of losses from guarantees and acceptances	(1,209)	(37,436)
Gain on derivatives transactions, net	(77,721)	(166,718)
Loss (gain) on valuation of derivatives, net	18,788	(41,884)
Gain (loss) on fair value hedged items	(10,715)	9,213
Retirement benefits	109,766	100,198
Depreciation and amortization	466,856	389,931
Loss on disposal of fixed assets, net	33,058	6,288
Impairment loss on fixed assets	22,228	
Realized gain on available-for-sale securities, net	(493,993)	(210,112)
Impairment loss on available-for-sale securities, net	133,754	272,393
Realized gain on held-to-maturity securities	(2,771)	(733)
Unrealized gain (loss) on investment in associates, net	(267,870)	273,620
Loss (gain) on sale of loans, net	31,340	(6,475)
Stock compensation expense	12,130	11,333
Others, net	22,755	(33,116)
Changes in assets and liabilities resulting from operations		
Accrued income	118,796	3,238
Prepaid expenses	(255,957)	14,037
Deferred tax assets	(399,310)	(51,181)
Other assets	(166)	5,639
Accrued expenses	(593,967)	(90,475)
Unearned income	(28,019)	(1,070)
Withholding taxes	36,095	(54,343)
Other liabilities	587,179	45,215
Retirement benefits	(18,637)	(19,130)
Accounts payable	(66,349)	(60,268)
Account for agency business		33
Deferred tax liabilities	(35,111)	141,532
<b>Net cash provided by operating activities</b>	<u>4,050,135</u>	<u>3,191,196</u>



**Table of Contents****Kookmin Bank****Non-Consolidated Statements of Cash Flows****Years ended December 31, 2003 and 2002***(in millions of Won)*

	<u>2003</u>	<u>2002</u>
<b>Cash flows from investing activities</b>		
Increase (decrease) in due from banks	(Won) (1,247,467)	(Won) 2,839,245
Decrease in trading securities	1,336,940	992,343
Increase (decrease) in available-for-sale securities	(1,198,423)	1,606,941
Decrease in held-to-maturity securities	5,119,423	
Acquisition of investment in associates	(71,295)	
Dividend from investment in associates	11,392	
Increase in loans granted, net	(12,580,451)	(20,439,846)
Proceeds from disposal of fixed assets	101,599	14,049
Acquisition of fixed assets	(316,890)	(578,828)
Acquisition of intangible assets	(705)	(502)
Proceeds from disposal of foreclosed assets	162	978
Acquisition of foreclosed assets	(166)	
Increase in guarantee deposits	(8,865)	(56,619)
Decrease (increase) in other accounts receivable	166,101	(338,569)
Increase (decrease) in payments in advance	(28,328)	55,723
Decrease in derivative assets, net	145,924	67,591
Collection of domestic exchange receivables	474,995	403,014
Collection of loans to trust accounts	37,882	229,452
	<u>(8,058,172)</u>	<u>(15,205,028)</u>
<b>Cash flows from financing activities</b>		
Increase in deposits, net	9,076,415	7,948,349
Decrease in borrowings, net	(2,248,706)	(2,846,629)
Decrease (increase) in debentures, net	(3,278,588)	8,697,080
Increase (decrease) in borrowings from trust accounts	3,248,649	(931,874)
Decrease in dividend payable	(325,188)	(29,967)
Decrease (increase) in other accounts payable	(273,080)	499,769
Increase (decrease) in advances received from customers	19,325	(57,825)
Decrease in guarantee deposits received	(623)	(41,516)
Decrease in domestic exchange payables	(173,865)	(901,723)
Decrease in liabilities incurred by agency relationships	(171,172)	(219,313)
Stock options exercised	(35)	(26,741)
Acquisition of treasury stock	(1,227,876)	(149,704)
Sale of treasury stock	826	1,928
Increase in stock issuance cost	(212)	(737)
	<u>4,645,870</u>	<u>11,941,097</u>
Net cash provided by financing activities	<u>4,645,870</u>	<u>11,941,097</u>
Net increase (decrease) in cash and cash equivalents	637,833	(72,735)
Increase due to merger	33,343	
<b>Cash and cash equivalents, Beginning of year</b>	<u>3,100,581</u>	<u>3,173,316</u>

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End of year (Note 34)	(Won) 3,771,757	(Won) 3,100,581
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The accompanying notes are an integral part of these non-consolidated financial statements.

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**Kookmin Bank**

**Notes to Non-Consolidated Financial Statements**

**December 31, 2003 and 2002**

**1. The Bank**

Kookmin Bank ( the Bank ) was established in 1963 under the Citizens National Bank Act to provide and administer funds for financing the general public and small businesses. Pursuant to the repeal of the Citizens National Bank Act, effective January 5, 1995, the Bank has conducted its operations in accordance with the provisions of the General Banking Act.

The Bank merged with Korea Long Term Credit Bank ( KLB ) on December 31, 1998 and with Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd. on August 22, 1999. Also, under the decision of the Financial Supervisory Commission in accordance with the Structural Improvement of the Financial Industry Act, the Bank purchased certain assets, including loans classified as normal or precautionary, and assumed most of the liabilities of Daedong Bank as of June 29, 1998. Also, the Bank completed the legal consolidation with H&CB as of October 31, 2001 (Note 32) and merged with Kookmin Credit Card Co., Ltd. (the Subsidiary ), its majority-owned subsidiary, on September 30, 2003 (Note 33).

The Bank had its shares listed on the Korea Stock Exchange since September 1994. As a result of the business combination with H&CB, the former shareholders of the Bank and H&CB received new common shares of the Bank on the basis of a pre-determined ratio. The new common shares of the Bank were relisted on the Korea Stock Exchange as of November 9, 2001. As of December 31, 2003, the Bank's paid-in capital amounts to (Won)1,681,896 million and 35,000,566 shares of the Bank are listed on the New York Stock Exchange as American Depositary Shares ( ADSs ).

The Bank engages in the banking and trust businesses according to the provisions of the General Banking Act and the Trust Business Act, and operates through 1,136 domestic branches and offices (excluding ATMs) and three overseas branches as of December 31, 2003.

**2. Summary of Significant Accounting Policies**

The Bank has adopted Statements of Korean Financial Accounting Standards ( SKFAS ) No. 1 as of January 1, 2001 and No. 2 to No. 9 as of January 1, 2002 to present its financial statements. Except for the adoption of these SKFAS, the same accounting policies are applied for the fiscal years 2002 and 2003. The significant accounting policies followed by the Bank in the preparation of its non-consolidated financial statements are summarized below.

**Basis of Financial Statement Presentation**

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The Bank maintains its accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations, or cash flows, is not presented in the accompanying non-consolidated financial statements.

### **Accounting Estimates**

The preparation of the non-consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Bank may undertake in the future, actual results may be different from those estimates.

### **Application of the Statements of Korean Financial Accounting Standards**

The Bank's non-consolidated financial statements were prepared in accordance with financial accounting standards generally accepted in the Republic of Korea and Statements of Korean Financial Accounting Standards No. 2 through No. 9, in effect for the fiscal periods beginning after December 31, 2002.

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**Kookmin Bank**

**Notes to Non-Consolidated Financial Statements**

**December 31, 2003 and 2002**

**Recognition of Interest Income**

The Bank recognizes interest income on loans and debt securities on an accrual basis. However, interest income on delinquent and dishonoured loans and debt securities, other than those collateralized with security deposits or guaranteed by financial institutions, is recognized on a cash basis. As of December 31, 2003, the Bank has non-accrual loans and securities of (Won)10,677,822 million and (Won)620,929 million, respectively, with related foregone interest of (Won)638,079 million and (Won)150,492 million, respectively.

**Securities**

Securities that are bought and held principally for the purpose of generating profits on short-term differences in price, and which are actively and frequently bought and sold, are classified as trading securities. Debt securities with fixed or determinable payments and fixed maturity, and which the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities. Investments classified as neither trading securities nor held-to-maturity securities are classified as available-for-sale securities.

Securities are recognized initially at their fair value plus transaction costs that are directly attributable to the acquisition and the Bank uses the moving average method and specific identification method for determining the carrying value of equity securities and debt securities, respectively.

Trading and available-for-sale debt securities are carried at fair value using the average of quoted prices provided by bond pricing service institutions. Held-to-maturity debt securities are carried at amortized cost.

Marketable equity securities are carried at market prices and beneficiary certificates are carried at quoted prices provided by the beneficiary certificate dealers. However, non-marketable equity securities are carried at fair value only if the fair value is reasonably measurable and if otherwise, are carried at cost.

Unrealized holding gains or losses on trading securities are charged to current operations and those resulting from available-for-sale securities are recorded as capital adjustments. Premiums and discounts on debt securities are amortized over the maturity period using the effective interest method. Impairment losses are recognized in current operations when there is evidence of impairment and recoverable amounts of available-for-sale securities or held-to-maturity securities are less than the acquisition cost of equity securities or the amortized cost of debt securities. Unrealized holding gains or losses on available-for-sale or held-to-maturity securities that had not been recognized through income are realized when the related securities are disposed.

**Investments in Associates**

Investments in associate, over which the Bank exercises significant control or influence, are accounted for under the equity method. Under the equity method, the Bank records changes in its proportionate ownership of the associate in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investment in associate.

The Bank discontinues the equity method of accounting for investments in associates when the Bank's share of accumulated losses of the associates equals the costs of the investments and until the subsequent cumulative changes in its proportionate net income of the associate equal its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

Differences between the initial purchase price and the Bank's initial proportionate ownership of the net book value of the associate are amortized or accreted using an appropriate method and the resulting amortization is charged to current operations.

Gains and losses recorded by the Bank from inter-company transactions with associates are fully eliminated. Gains and losses recorded by the associates from these transactions are proportionately eliminated, based on the Bank's percentage of ownership.

**Deferred loan origination fees and costs**

The Bank defers loan origination fees associated with originating loans and loan origination costs that have future economic benefits. Loan balances are reported net of these loan origination fees and costs, and the deferred loan origination fees and costs are amortized using the effective interest method with the amortization recognized as adjustments to other interest income.

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****Allowances for Loan Losses**

The Bank applies its internal credit rating system, the Forward Looking Criteria ( FLC ), to corporate loans in order to classify the borrowers and to determine the allowances for loan losses. According to the credit rating criteria, the allowance is determined according to the credit risk of corporate borrowers, which is evaluated based on financial and non-financial risks. The credit rating criteria is categorized into 12 categories (AAA, AA, A, BBB, BB, BB-, B, B-, CCC, CC, C, D) with additional consideration of the loan type, collateral and/or guarantees.

Allowances are determined by applying at minimum the following rates to the outstanding balances under each credit risk classification:

<b>Credit Risk Classification</b>	<b>Credit Ratings</b>	<b>Allowance Rates</b>
Normal	AAA~B	0.5%
Precautionary	B-~CCC	2%
Sub-standard	CC	20%
Doubtful	C	50%
Estimated loss	D	100%

However, the Bank does not apply the FLC to small-sized corporate loans, consumer loans, and credit card loans. Alternatively, the bank classifies such loans by considering the current financial status of borrowers including delinquencies, bankruptcies and collateral value. As of December 2002, the rates used for determining the allowances for losses from corporate loans, consumer loans and credit card loans were changed as follows:

<b>Credit Risk Classification</b>	<b>Allowance Rates before Changes</b>	<b>Allowance Rates after Changes</b>	
		<b>Consumer</b>	<b>Credit Card</b>
Normal	0.50%	0.75%	1.00%
Precautionary	2.00%	8.00%	12.00%
Sub-standard	20.00%	20.00%	20.00%
Doubtful	50.00%	55.00%	60.00%
Estimated loss	100.00%	100.00%	100.00%

As a result of the above change, the Bank's allowances for loan losses as of December 31, 2003 are greater by (Won)336,265 million for consumer loans and (Won)314,701 million for credit card loans compared to the amounts which would have been recorded under the previous rates.

The Bank applies the credit risk classification used for loans to outstanding guarantees and acceptances, and provides allowances for losses of 20 percent, 50 percent and 100 percent of the outstanding guarantees and acceptances classified as sub-standard, doubtful, and estimated loss, respectively. In addition, the Bank provides allowances for losses of 19 percent of certain outstanding guarantees and acceptances classified as precautionary.

#### **Present Value Discounts**

Troubled debt restructuring loans, which are modified as to outstanding principal, interest rate, and/or maturity under programs such as workout, court receivership, court mediation, or debt restructuring agreements of parties concerned, are carried at present value if the difference between the nominal value and the present value of the restructured loan is significant. The present value discounts are recorded by reclassifying allowances for loan losses and if additional allowances need to be provided for, the additional allowances are provided and recognized as provision for loan losses of the current period. The difference between the nominal value and the present value is recorded as present value discount, which is shown as a deduction from the loan nominal value. These present value discounts are amortized using the effective interest method and are recognized as interest income. Allowances for loan losses on the restructured loans are provided for based on the loan balances, net of present value discounts.



**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

Receivables and payables arising from long-term installment transactions, long-term cash loans or borrowings and other similar transactions shall be stated at present value, if the difference between nominal value and present value is material. The difference is accounted for as a present value discount and is deducted from the nominal value of the related receivable or payable. Present value discounts are amortized or reversed using the effective interest method, and the amortization is included in interest income or expense.

**Fixed Assets and Related Depreciation**

Tangible assets are recorded at cost, except for upward revaluation of certain assets in accordance with the Korean Asset Revaluation Law. Depreciation is calculated based on the estimated average useful lives of the assets and is presented as accumulated depreciation, which is a contra account of tangible assets in the financial statements.

The estimated useful lives and depreciation methods of the tangible assets are as follows:

<u>Tangible assets</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and structures	Straight-line method	40 years
Leasehold improvements	Declining balance method	4-5 years
Equipment and vehicles	Declining balance method	4-5 years

Expenditures that enhance the value or extend the useful life of the related assets are capitalized as additions to tangible assets. Routine maintenance and repairs are recognized as expenses when incurred.

Foreclosed assets acquired through, or in lieu of, loan redemption are stated at cost and are not depreciated. A valuation allowance is recorded where the latest bidding price at a public auction is below the book value, and is presented as a contra account of foreclosed assets in the financial statements

Intangible assets are amortized based on the following estimated average useful lives and are presented in the financial statements, net of accumulated amortization:

<u>Intangible assets</u>	<u>Amortization Method</u>	<u>Estimated Useful Life</u>
Goodwill	Straight-line method	9 years

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Development costs	Straight-line method	5 years
Trademarks	Straight-line method	1-10 years
Others	Straight-line method	5-30 years

The Bank estimated the useful life of endowment assets that are beneficial upon usage, classified under other intangible assets, to be 30 years based on the term of the contract. The Bank recorded goodwill as a result of the merger with H&CB for the cost of the merger exceeding the fair value of the net assets acquired.

Development costs directly related to new technology or new products (including costs related to software development) are capitalized as intangible assets to the extent that the estimated future benefits are probable.

The Bank adjusts the book value of a fixed asset to its recoverable amount and recognizes the difference as an impairment loss when the recoverable amount is significantly below the book value due to obsolescence or decline in market value. The subsequent increase in recoverable amount in excess of the impaired book value is recognized, to the extent of the original book value before impairment, as a reversal of fixed asset impairment losses. For the year ended December 31, 2003, the Bank recognized an impairment loss of (Won)22,228 million for the difference between the book value of (Won)48,388 million and net realizable value of (Won)26,160 million of assets related to the expected closures of certain branch offices.

### **Stock Issuance Costs and Debenture Issuance Costs**

Stock issuance costs are deducted from paid-in capital in excess of par value. Debenture issuance costs are recorded as discounts on debentures and amortized over the maturity period of the debentures using the effective interest method.

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**Kookmin Bank**

**Notes to Non-Consolidated Financial Statements**

**December 31, 2003 and 2002**

**Accrued Retirement Benefits**

Employees and directors with more than one year of service and temporary employees with a one-year contract, as of December 31, 2003, are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination.

Additionally, the Bank records the contributions to pension funds, which grant the payment rights to its employees, as contra accounts of accrued retirement benefits.

**Deferred Income Taxes**

The Bank records the future tax effects of temporary differences between the financial and tax bases of assets and liabilities as deferred income tax assets or liabilities. The tax effects of temporary differences arising from the cumulative effects of accounting changes are adjusted in retained earnings.

**Bonds under Repurchase/Resale Agreements**

Securities bought under resale agreements are recorded in loans as bonds purchased under resale agreements. Securities sold under repurchase agreements are recorded in borrowings as bonds sold under repurchase agreements. Interest from bonds purchased under resale agreements and bonds sold under repurchase agreements are recognized as interest income on loans and interest expense on borrowings, respectively.

**Derivative Instruments**

Derivative instruments for trading or hedging purpose are recorded at fair value and resulting unrealized gains and losses are recognized in current operations, except for the effective portion of derivative transactions entered into for the purpose of cash-flow hedges, which is recorded as an adjustment to shareholders' equity.

Fair value hedge accounting is applied to a derivative instrument with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The gain or loss, both on the hedging derivative instrument and

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on the hedged item attributable to the hedged risk, is reflected in current operations

Cash flow hedge accounting is applied to a derivative instrument with the purpose of hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of the gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recognized in current operations. The effective portion of the gain or loss recorded as a capital adjustment is reclassified to current operations in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss recognized as a capital adjustment is added to or deducted from the asset or the liability.

### **Stock Options**

Compensation costs for stock options granted to employees and executives are recognized using the fair value method. Under the fair value method, compensation costs for stock option plans are determined using an option-pricing model and are recognized over the vesting period (Note 21).

### **National Housing Fund**

The Bank, as designated by the Korean Government under the Housing Construction Promotion Law, manages the sources and uses of funds of the National Housing Fund (the NHF ) and records the related NHF account in other liabilities. In addition, the Bank pays interest, which is computed by multiplying the average balance of the NHF account by the passbook deposit interest rate, to the NHF.

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**Kookmin Bank**

**Notes to Non-Consolidated Financial Statements**

**December 31, 2003 and 2002**

**Gains and Losses on Trust Management**

The Bank's trust accounts (the Trust Accounts) recognize as an expense the trust commissions paid to the banking accounts, which is equivalent to the total trust revenue less total trust expenses and trustee benefits (including the guaranteed principal and minimum rate of return). The Bank recognizes these trust commissions as a gain on trust management in other operating income. The trust fees on money trusts consist of base fees of 0.5 ~ 2.0 percent (depending on trust fund types) and special fees applied to the invested capital.

Under the Trust Business Act, reserves for future losses are set up in the trust accounts for losses related to those trust funds with a guarantee of the principal or of a certain minimum rate of return. The reserves are used to provide for the losses on such trust funds and, if the losses incurred are in excess of the reserves for future losses, the excess losses are compensated by the Bank. Accordingly, the banking accounts recognize the compensation paid as a loss on trust management in other operating expenses and the trust accounts recognize the corresponding compensation as compensation from banking accounts. There were no compensations paid for the years ended December 31, 2003 and 2002.

**Foreign Currency Translation**

All assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates in effect at the balance sheet date (2003: (Won)1,197.8:US\$1, 2002: (Won)1,200.4:US\$1), and resulting translation gains and losses are recognized in the current period.

Accounting records of the overseas branches are maintained in the foreign currency prevailing in their respective countries. For the purpose of presentation in the accompanying financial statements, the financial statements of the branches have been translated into Korean Won, using exchange rates published by Seoul Money Brokerage Services, Ltd. as of the balance sheet dates.

**Statement of Cash Flows**

In the preparation of the statement of cash flows, the Bank has presented net amounts of cash inflows and cash outflows for items where the turnover is quick and the amounts are large.

**Application of Korean Financial Accounting Standard No. 6**

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The Bank has adopted Statements of Korean Financial Accounting Standards ( *SKFAS* ) No. 6 Subsequent Events , for the fiscal year 2003 and presented retained earnings (accumulated deficit) as before appropriations (disposition) on the balance sheet. Accordingly, retained earnings as of December 31, 2002 were restated to amounts before appropriations, and the restatement resulted in a decrease in liabilities and an increase in net assets of (Won)325,233 million.

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****3. Cash and Due from Banks**

Cash and due from banks as of December 31, 2003 and 2002 are summarized as follows:

<i>(in millions of Won)</i>		<u>2003</u>	<u>2002</u>
<b>Cash on hand</b>			
Cash in Won		(Won) 2,945,921	(Won) 2,392,346
Cash in foreign currencies		228,153	186,780
		<u>3,174,074</u>	<u>2,579,126</u>
<b>Due from banks in Won</b>			
Bank of Korea	Reserve deposits in the Bank of Korea	2,612,248	1,340,482
Other banks	Time deposits	810	41,192
	Passbook deposits	8,185	392
		<u>8,995</u>	<u>41,584</u>
Other financial institutions	Deposits at Mutual Savings	140,000	140,000
Others	Futures margin accounts	1,560	1,336
	Market participation margin	454	458
	KOSPI futures margin accounts	200	
	Other deposits		8,319
		<u>2,214</u>	<u>10,113</u>
		<u>2,763,457</u>	<u>1,532,179</u>
	Present value discounts <sup>1*</sup>	(12,810)	(21,156)
		<u>2,750,647</u>	<u>1,511,023</u>
<b>Due from banks in foreign currencies</b>			
Bank of Korea	Demand deposits	12,415	25,677
Other banks	Demand deposits	71,879	104,073
	Time deposits		15,193
		<u>71,879</u>	<u>119,266</u>

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Off-shore	Demand deposits	3,354	5,064
Others	Other deposits	513,976	359,200
		601,624	509,207
		(Won) 6,526,345	(Won) 4,599,356

<sup>1\*</sup> Present value discounts are related to the (Won)140,000 million of time deposits (1% interest, five-year maturity at the point of deposit, uncallable for five years) placed with Hansol Mutual Savings & Finance Co., Ltd. (previously, Bukook Mutual Savings & Finance Co., Ltd.).

The maturities of the due from banks as of December 31, 2003 are as follows:

<i>(in millions of Won)</i>	Due from Banks	Due from Banks in Foreign	Total
	in Won	Currencies	
Due in 3 months or less	(Won) 2,622,647	(Won) 523,767	(Won) 3,146,414
Due after 3 months through 6 months		77,857	77,857
Due after 6 months through 1 year	50,154		50,154
Due after 1 year through 2 years	90,000		90,000
Due after 2 years through 3 years			
Due after 5 years	656		656
	(Won) 2,763,457	(Won) 601,624	(Won) 3,365,081



**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

Included in cash and due from banks as of December 31, 2003 and 2002 are the following restricted deposits:

<i>(in millions of Won)</i>	<b>2003</b>	<b>2002</b>	<b>Restrictions</b>
Reserve deposits in the Bank of Korea	(Won) 2,612,248	(Won) 1,340,482	General Banking Act
Deposits at Hansol Mutual Savings & Finance Co., Ltd.	140,000	140,000	Withdrawal at maturity
Due from banks in foreign currency	12,415	37,409	General Banking Act
Other deposits	2,735	2,040	Futures guarantee deposits
	<b>2,767,398</b>	<b>1,519,931</b>	
Present value discounts	(12,810)	(21,156)	
	<b>(Won) 2,754,588</b>	<b>(Won) 1,498,775</b>	

**4. Securities**

Securities as of December 31, 2003 and 2002 are as follows:

<i>(in millions of Won)</i>	<b>2003</b>	<b>2002</b>
Trading	(Won) 4,482,948	(Won) 5,676,973
Available-for-sale	17,088,357	13,173,700
Held-to-maturity	5,979,341	10,986,915
Investment in associates	551,199	1,103,162
	<b>(Won) 28,101,845</b>	<b>(Won) 30,940,750</b>

Trading, available-for-sale, and held-to-maturity securities as of December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<b>Unrealized</b>

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	<u>Gain</u>	<u>Loss</u>	<u>Book Value</u>	<u>Fair value</u>
<b>Trading</b>				
Equity securities	(Won) 12,760	(Won) 767	(Won) 113,171	(Won) 113,171
Beneficiary certificates	69,554	240	1,686,754	1,686,754
Government and municipal bonds	1,164	3,621	1,076,427	1,076,427
Corporate bonds	929	7,953	1,365,060	1,365,060
Asset-backed securities	197	1,047	241,536	241,536
	<u>(Won) 84,604</u>	<u>(Won) 13,628</u>	<u>(Won) 4,482,948</u>	<u>(Won) 4,482,948</u>

(in millions of Won)

	<u>Impairment</u>		<u>Capital Adjustments</u>		<u>Book Value</u>	<u>Fair value<sup>1*</sup></u>
	<u>Reversal of</u>	<u>Loss</u>	<u>Gain</u>	<u>Loss</u>		
<b>Available-for-Sale</b>						
Equity securities	(Won)	(Won) 45,214	(Won) 25,292	(Won) 14,873	(Won) 439,791	(Won) 439,791
Investment in funds		3	3,513		30,872	30,872
Beneficiary certificates	47,730	271,019	67,839	43	5,569,200	5,569,200
Government and municipal bonds			7,532	22,906	2,322,889	2,322,889
Foreign government bonds			2,402		28,153	28,153
Corporate bonds	5,364	42,267	90,629	21,768	8,228,640	8,228,640
Asset-backed securities	22,459	56,006	370		468,669	468,669
Other debt securities					143	143
	<u>(Won) 75,553</u>	<u>(Won) 414,509</u>	<u>(Won) 197,577</u>	<u>(Won) 59,590</u>	<u>(Won) 17,088,357</u>	<u>(Won) 17,088,357</u>

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002***(in millions of Won)*

	Impairment		Unrealized Holding		Book Value	Fair value
	Reversal of	Loss	Gain	Loss		
<b>Held-to-Maturity</b>						
Government and municipal bonds	(Won)	(Won)	(Won) 87,993	(Won) 4,061	(Won) 2,489,998	(Won) 2,573,930
Corporate bonds			76,464	3,510	3,163,020	3,235,974
Asset-backed securities			3,307	90	326,323	329,540
	(Won)	(Won)	(Won) 167,764	(Won) 7,661	(Won) 5,979,341	(Won) 6,139,444

<sup>1</sup>\* Non-marketable equity securities and investment in funds are included at book value.

Due to the merger with Kookmin Credit Card Co., Ltd. on September 30, 2003, the above impairment loss on available-for-sale securities includes (Won)2,178 million of impairment loss recognized before the merger date as part of net unrealized gain on investments in associates, and (Won)203,024 million of impairment loss recognized as provision for loan losses due to merger as of the merger date.

Beneficiary certificates classified as available-for-sale include (Won)2,402 million of beneficiary certificates that have been reclassified from trading securities due to restrictions on redemption. (Won)413 million of unrealized gain on these beneficiary certificates that has been recognized as of the reclassification date is included in the unrealized gain on trading beneficiary certificates.

Trading, available-for-sale, and held-to-maturity securities as of December 31, 2002 are as follows:

*(in millions of Won)*

	Unrealized		Book Value	Fair value
	Gain	Loss		
Equity securities	(Won) 545	(Won) 4,002	(Won) 55,674	(Won) 55,674
Beneficiary certificates	166,078	5,429	3,844,380	3,844,380
Government and municipal bonds	5,600		644,435	644,435
Corporate bonds	5,136	562	1,092,674	1,092,674
Asset-backed securities			39,810	39,810
	(Won) 177,359	(Won) 9,993	(Won) 5,676,973	(Won) 5,676,973

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(in millions of Won)

	Impairment		Capital Adjustments		Book Value	Fair value <sup>1*</sup>
	Reversal of	Loss	Gain	Loss		
<b>Available-for-Sale</b>						
Equity securities	(Won) 15,318	(Won) 222,309	(Won) 20,317	(Won) 34,416	(Won) 646,114	(Won) 646,114
Investment in funds					36,152	36,152
Beneficiary certificates			62,246	5,662	3,231,853	3,231,853
Government and municipal bonds			40,609	184	2,278,144	2,278,144
Foreign government bonds			2,864	374	20,007	20,007
Corporate bonds		68,468	103,710	10,325	6,441,979	6,441,979
Asset-backed securities	12,380	9,314	1,664		519,371	519,371
Other debt securities					80	80
	<u>(Won) 27,698</u>	<u>(Won) 300,091</u>	<u>(Won) 231,410</u>	<u>(Won) 50,961</u>	<u>(Won) 13,173,700</u>	<u>(Won) 13,173,700</u>

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002***(in millions of Won)*

	Impairment		Unrealized Holding		Book Value	Fair value
	Reversal of	Loss	Gain	Loss		
<b>Held-to-Maturity</b>						
Government and municipal bonds	(Won)	(Won)	(Won) 108,236	(Won) 92	(Won) 2,381,372	(Won) 2,489,516
Foreign government bonds					19,143	19,143
Corporate bonds			176,778	2,082	7,461,864	7,636,560
Asset-backed securities			14,693		1,124,536	1,139,229
	(Won)	(Won)	(Won) 299,707	(Won) 2,174	(Won) 10,986,915	(Won) 11,284,448

<sup>1</sup>\* Non-marketable equity securities and investment in funds are included at book value.

As of December 31, 2003 and 2002, investments in associates are as follows:

<i>(in millions of Won)</i>	Owner-ship (%)	Acquisition Cost	Beginning Balance <sup>1</sup> *	Equity Method <sup>2</sup> *			Book Value	
				N/I	R/E	C/A	2003	2002
<b>Domestic Associates</b>								
Kookmin Credit Card <sup>3</sup> *	74.27	(Won) 272,274	(Won) 681,960	(Won) 211,202	(Won)	(Won)	(Won)	(Won) 681,960
KB Investment	99.89	155,311	67,289	5,295	(2,334)	7,023	77,273	67,289
Kookmin Data System	99.98	7,998	13,616	1,031			14,647	14,416
Kookmin Futures	99.98	19,996	24,093	1,428			25,521	25,092
KLB Securities	36.41	10,316						
KB Investment Trust Mgt.	80.00	39,015	36,667	8,336		48	45,051	45,868
Joeun Industrial	99.99	23,994						
KB Real Estate Trust	99.99	76,103	87,727	10,402	(336)	336	98,129	87,727
KB Credit Information	66.34	8,444	9,106	2,746		11	11,863	8,991
ING Life Korea	20.00	21,769	21,613	22,278		(46)	43,845	21,613
Korea Mortgage	26.67	30,629	33,566	2,475	(57)	(196)	35,788	33,566

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		665,849	975,637	265,193	(2,727)	7,176	352,117	986,522
<b>Foreign Associates</b>								
KB Int'l Ltd. (London)	100.00	42,585	52,803	3,264		688	56,755	47,739
KB Luxembourg S.A	100.00	26,295	6,102	(1,275)		1,123	5,950	5,106
Kookmin Singapore Ltd.	100.00	14,096	2,080				2,080	2,084
Kookmin Finance Asia Ltd.	100.00	8,385	279	7			286	279
Kookmin Finance HK Ltd.	100.00	23,956	61,299	681		736	62,716	61,432
Sorak Financial Holdings	25.00	71,295	71,295				71,295	
		186,612	193,858	2,677		2,547	199,082	116,640
		(Won) 852,461	(Won) 1,169,495	(Won) 267,870	(Won) (2,727)	(Won) 9,723	(Won) 551,199	(Won) 1,103,162

<sup>1\*</sup> The beginning balance is the prior year's book value adjusted by dividends, changes in foreign exchange rates, and acquisition during current year.

<sup>2\*</sup> The investment in associates are accounted for under the equity method and changes in net assets of the associates are recognized in net income (N/I), retained earnings (R/E), and/or in capital adjustment (C/A) according to the source of the changes in net assets.

<sup>3\*</sup> As a result of the merger with Kookmin Credit Card Co., Ltd. on September 30, 2003, there is no balance for investments in associates related to Kookmin Credit Card Co., Ltd as of December 31, 2003.

The Bank sold to Sun Capital Inc., 70.46 percent of its 85.43 percent investment in, and (Won)172,024 million of its loans to, Alpha Capital Corp., for (Won)145,000 million on August 30, 2002. The Bank also sold an additional 5.03 percent of its investment in Alpha Capital Corp. to Sun Capital Inc. for (Won)900 million on October 28, 2002. The Bank sold its 87.00 percent investment in Kookmin Investment Trust Management Co., Ltd. to Morgan Stanley Private Equity (the M&A private funds led by Morgan Stanley Global Emerging Markets Inc. and affiliated funds) on May 29, 2002 and sold its 88.66 percent investment in Kookmin Leasing Co., Ltd. to Sun Capital Inc. on December 27, 2002.

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

KB Investment Co., Ltd. merged with Frontier Investment Corp. and Kookmin Investment Co., Ltd., on December 31, 2001 and June 27, 2002, respectively. KB Credit Information Co., Ltd. merged with KM Credit Information Co., Ltd., effective as of May 2, 2002.

KLB Securities Co., Ltd., Joeeun Industrial Co., Ltd., Kookmin Singapore (Merchant Bank), Ltd. and Kookmin Finance Asia, Ltd. (HK) are in the process of liquidation. Consequently, accounting under the equity method is no longer applied to investments in KLB Securities Co., Ltd. and Joeeun Industrial Co., Ltd. due to accumulated deficits resulting to a decrease of the investment value below zero. Accordingly, the total accumulative estimated loss that has not been recognized by the Bank amounts to (Won)43,695 million.

The Bank applies the equity method accounting to a subsidiary based on its adjusted financial statements that are, in turn, based on most recent available audited or reviewed financial statements adjusted for changes in net assets using the unaudited financial statements as of December 31, 2003. In the case of ING Life Korea Co., Ltd., adjustment for income tax expenses of (Won)37,609 million has been additionally made to the adjusted financial statements.

As a means to create a Pan-Asian strategic management, in accordance with the resolution of the Board of Directors on October 24, 2003, the Bank invested (Won)71,295 million for a 25 percent ownership of Sorak Financial Holdings in connection with the acquisition of Bank Internasional Indonesia ( BII ). Sorak Financial Holdings entered into a contract to purchase 51 percent equity interest in BII from Indonesian Bank Restructuring Agency (IBRA). BII's total assets and total liabilities reported under Indonesian GAAP as of September 30, 2003 translated into Korean Won at year-end rates, amounts to (Won)4,910,369 million and (Won)4,439,624 million, respectively.

Due to its determination to maximize efficient asset management, certain assets, comprising mostly of securities and loans, held by overseas subsidiaries with a total book value of (Won)118,720 million were purchased by the Bank for a total acquisition cost of (Won)115,046 million.

The maturities of the available-for-sale and held-to-maturity debt securities except for equity securities and investment in funds as of December 31, 2003 are summarized as follows:

(in millions of Won)

	Available-for-sale		Held-to-maturity	
	Book Value	Fair value	Book Value	Fair value
<b>Maturities</b>				
Due in 1 year or less	(Won) 9,622,944	(Won) 9,622,944	(Won) 1,815,377	(Won) 1,827,931
Due after 1 year through 5 years	6,534,806	6,534,806	3,911,985	4,043,934
Due after 5 years through 10 years	445,043	445,043	251,979	267,579
Thereafter	14,901	14,901		

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(Won) 16,617,694	(Won) 16,617,694	(Won) 5,979,341	(Won) 6,139,444
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Investment securities risk concentrations as of December 31, 2003 and 2002 are as follows:

(in millions of Won)

	2003		2002	
	Book Value	Ratio(%)	Book Value	Ratio(%)
<b>By Country</b>				
Korea	(Won) 27,784,440	98.87	(Won) 30,684,000	99.17
Singapore	79,309	0.28	9,892	0.03
USA	63,920	0.23	66,826	0.22
Philippines	45,921	0.16	63,323	0.20
Germany	29,961	0.11	30,010	0.10
Others	98,294	0.35	86,699	0.28
	(Won) 28,101,845	100.00	(Won) 30,940,750	100.00



**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002***(in millions of Won)*

	2003		2002	
	Book Value	Ratio(%)	Book Value	Ratio(%)
<b>By Type</b>				
Fixed rate bonds	(Won) 16,114,291	57.34	(Won) 15,860,479	51.26
Floating rate bonds	2,397,728	8.53	5,443,478	17.59
Subordinated bonds	767,418	2.73	574,727	1.86
Convertible bonds	422,278	1.51	142,817	0.46
Beneficiary certificates	7,255,954	25.82	7,076,233	22.87
Equity securities	1,104,161	3.93	1,804,950	5.84
Others	40,015	0.14	38,066	0.12
	(Won) 28,101,845	100.00	(Won) 30,940,750	100.00

*(in millions of Won)*

	2003		2002	
	Book Value	Ratio(%)	Book Value	Ratio(%)
<b>By Industry</b>				
Government and municipalities	(Won) 9,870,850	35.13	(Won) 13,582,679	43.90
Financial institutions	16,670,041	59.32	13,465,699	43.52
Manufacturing industries	583,986	2.08	245,255	0.79
Others	976,968	3.47	3,647,117	11.79
	(Won) 28,101,845	100.00	(Won) 30,940,750	100.00

Available-for-sale equity securities of which the fair value cannot reasonably be measured as of December 31, 2003 are as follows:

*(in millions of Won)*

	Acquisition Cost	Net Asset Value <sup>1*</sup>	Book Value
Korea Housing Guarantee Co., Ltd.	(Won) 68,648	(Won) 119,991	(Won) 68,648
Dongbu Electronics Co., Ltd.	30,000	22,059	22,059
Mastercard, Inc.	11,118	6,524	11,118
The Korea Securities Finance Corp.	8,160	11,003	8,160
Asia Credit	11,978	8,014	8,014
Korea Asset Management Corp.	7,827	12,436	7,827
Samsung Life Insurance Co., Ltd.	7,479	9,062	7,479
Daewoo Electronics Corp.	9,862	7,293	7,109

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Korea Highway Corp.	6,248	5,892	6,248
BC Card Co., Ltd.	5,738	7,630	5,738
Daewoo Motor Co., Ltd.	5,633	11,768	5,633
E Mirae Asset Securities Co., Ltd.	5,000	8,302	5,000
Hanwha Investment Trust Management Co., Ltd.	3,487	3,503	3,487
Korea Vilene Co., Ltd.	3,000	3,662	3,000
Hyundai Home Shopping Network Corp.	2,680	915	2,680
National Information & Credit Evaluation, Inc.	2,668	4,209	2,668
Nanjing Kumho Tire Co., Ltd.	2,548	2,678	2,548
Baring Communication	5,588	2,282	2,282
Korea Digital Satellite Broadcasting Co., Ltd.	2,157	550	2,157
Kyobo Investment Trust Management Co., Ltd.	2,100	3,417	2,100
Others	90,866	67,123	38,235
	(Won) 292,785	(Won) 318,313	(Won) 222,190

<sup>1\*</sup> Net asset values are calculated using the unaudited financial statements of the investees as of December 31, 2003 when available, otherwise, the most recent financial information is used.

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

As of December 31, 2003, the following investment securities are pledged at various institutions:

Related Transactions	Restrictions		Restricted securities	
	Placed with	Amount	Book Value	Pledge Value
Bonds sold under REPO agreements	Customers	(Won) 3,623,156	(Won) 4,224,282	(Won) 4,188,660
Leased securities	KCFC		4,626	4,500
Borrowings from the Bank of Korea	Bank of Korea	992,433	1,229,621	1,214,400
Bank of Korea settlements	Bank of Korea	(balance limits)	170,200	170,200
Derivatives transactions	Samsung Futures, etc.	(balance limits)	112,069	120,500
Securities Finance Funds	Korea Securities Finance Corp.		998	1,000
ADB collateral	KDB		1,894	1,900
			(Won) 5,743,690	(Won) 5,701,160

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****5. Loans**

Loans as of December 31, 2003 and 2002 are summarized as follows:

<i>(in millions of Won)</i>		<u>2003</u>	<u>2002</u>
<b>Loans in Won</b>			
Corporate loans	Operation loans		
	General operation loans	(Won) 28,884,554	(Won) 28,904,621
	Notes discounted	1,415,445	1,851,133
	Overdraft accounts	447,992	568,702
	Trading notes	809,921	814,759
	Other operation loans	3,793,594	3,229,851
		<u>35,351,506</u>	<u>35,369,066</u>
	Facility loans		
	General facility loans	5,413,333	4,676,506
	Other facility loans	1,218,370	1,287,125
		<u>6,631,703</u>	<u>5,963,631</u>
		<u>41,983,209</u>	<u>41,332,697</u>
Consumer loans	General consumer loans	41,951,219	39,713,543
	Consumer housing loans	38,199,290	33,731,435
	Remunerations on mutual installment savings	297,868	131,768
	Other consumer loans	635,218	632,172
		<u>81,083,595</u>	<u>74,208,918</u>
Public loans	Public operation loans	526,227	738,632
	Public facility loans	42,473	39,414
		<u>568,700</u>	<u>778,046</u>
Other loans	Property formation loans	62,963	95,252
	Inter-bank loans	12,815	20,941
	Others	3,962	5,449

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		79,740	121,642
		<u>123,715,244</u>	<u>116,441,303</u>
<b>Loans in foreign currencies</b>	Domestic funding loans	1,165,988	1,052,800
	Overseas funding loans	887,018	933,010
	Inter-bank loans	767,884	1,094,119
	Domestic usance bills	1,197,563	1,334,006
	Government funding loans	1,477	3,241
		<u>4,019,930</u>	<u>4,417,176</u>
<b>Call loans</b>	In Won	1,640,000	33,600
	In foreign currencies	5,351	248,857
	Inter-bank reconciliation funds		89,287
		<u>1,645,351</u>	<u>371,744</u>
<b>Privately placed debentures</b>		<u>1,787,131</u>	<u>1,276,080</u>
<b>Other loans</b>		<u>12,457,419</u>	<u>6,633,396</u>
<b>Allowances for loan losses (Note 6)</b>		<u>(3,690,341)</u>	<u>(2,378,696)</u>
<b>Present value discounts</b>		<u>(22,780)</u>	<u>(30,442)</u>
<b>Net deferred loan origination fees and costs</b>		<u>8,567</u>	
		<u>(Won) 139,920,521</u>	<u>(Won) 126,730,561</u>

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

As of December 31, 2003, restructured loans due to workout plans or other similar restructuring programs are as follows:

<i>(in millions of Won)</i>	Period (years)	Balances Before		Equity Conversion	CB Conversion	Restructured Amount	Present Value Discounts
		Restructuring	Exemption				
Workout	1 - 6	(Won) 696,945	(Won)	(Won)	(Won) 581,075	(Won) 115,870	(Won) 6,229
Court receivership	5 - 10	41,426	154		27,009	14,263	3,502
Court mediation	5 - 6	40,750				40,750	2,391
Others <sup>1*</sup>	2 - 7	520,873	326,456	134	3,668	190,615	10,658
		<u>(Won) 1,299,994</u>	<u>(Won) 326,610</u>	<u>(Won) 134</u>	<u>(Won) 611,752</u>	<u>(Won) 361,498</u>	<u>(Won) 22,780</u>

<sup>1\*</sup> The Bank wrote off (Won)237,316 million of loans to SK Networks, (formerly, SK Global) in expectation of a cash buy out restructuring. The resulting SK Networks loan balances as of December 31, 2003 amounts to (Won)88,960 million.

The loans, or portions thereof, that are approved for debt restructuring by issuance or grant of equity are separately classified as loans due for equity conversion as of the agreement date. The loans due for equity conversion are stated at the lower of nominal amount or the fair value of the to-be-converted equity interest. The difference between the nominal amount and the fair value of the equity interest is adjusted in the related allowance for loan losses.

The movements in present value discounts and net deferred loan origination fees and costs for the year ended December 31, 2003 are as follows :

<i>(in millions of Won)</i>	WACC(%)	Beginning	Increase	Decrease	Ending
		Balance			Balance
Present value discounts	6.10 - 17.00	(Won) (30,442)	(Won) (11,767)	(Won) (19,429)	(Won) (22,780)
Deferred loan incidental income			9,161	594	8,567
		<u>(Won) (30,442)</u>	<u>(Won) (2,606)</u>	<u>(Won) (18,835)</u>	<u>(Won) (14,213)</u>

The maturities of loans as of December 31, 2003 are as follows:

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<i>(in millions of Won)</i>	<b>Loans in Won</b>	<b>Loans in Foreign Currencies</b>	<b>Bills Bought</b>	<b>Credit Card</b>	<b>Call Loans</b>	<b>Privately placed Debentures</b>	<b>Others</b>	<b>Total</b>
Due in 3 months or less	(Won) 16,278,866	(Won) 1,123,619	(Won) 496,406	(Won) 6,549,874	(Won) 1,645,351	(Won) 561,682	(Won) 1,600,828	(Won) 28,256,626
Due after 3 months through 6 months	15,567,961	905,409	53,382	1,098,040		166,238	37	17,791,067
Due after 6 months through 1 year	30,819,742	432,113	7,589	1,280,289		295,587	606	32,835,926
Due after 1 year through 2 years	26,540,976	178,374	7,153	615,736		502,979	4,594	27,849,812
Due after 2 years through 3 years	19,012,065	332,104	6,191	334,413		259,995		19,944,768
Due after 3 years through 4 years	2,758,133	116,051		15,051		650	30,802	2,920,687
Due after 4 years through 5 years	2,533,010	103,718		318,037				2,954,765
Thereafter	10,204,491	828,542		38,391				11,071,424
	(Won) 123,715,244	(Won) 4,019,930	(Won) 570,721	(Won) 10,249,831	(Won) 1,645,351	(Won) 1,787,131	(Won) 1,636,867	(Won) 143,625,075

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

Loan risk concentrations by country as of December 31, 2003 are as follows:

<i>(in millions of Won)</i>	Loans in			Total	Percentage(%)
	Loans in Won	Foreign Currencies	Others		
Korea	(Won) 123,715,244	(Won) 2,770,237	(Won) 15,847,217	(Won) 142,332,698	99.10
Southeast Asia		636,560	304	636,864	0.45
Russia		131,758		131,758	0.09
China		29,466	1	29,467	0.02
Japan		278,109	42	278,151	0.19
Others		173,800	42,337	216,137	0.15
	(Won) 123,715,244	(Won) 4,019,930	(Won) 15,889,901	(Won) 143,625,075	100.00

Loan risk concentrations by industry as of December 31, 2003 are as follows:

<i>(in millions of Won)</i>	Loans in			Total	Percentage(%)
	Loans in Won	Foreign Currencies	Others		
<b>Industrial loans</b>					
Financial institutions	(Won) 620,339	(Won) 817,750	(Won) 2,355,417	(Won) 3,793,506	2.64
Manufacturing companies	13,900,021	1,575,108	1,177,859	16,652,988	11.59
Service companies	23,068,546	568,034	557,602	24,194,182	16.85
Others	4,850,951	124,443	1,397,943	6,373,337	4.44
	42,439,857	3,085,335	5,488,821	51,014,013	35.52
<b>Household loans</b>					
	81,150,520	914,545	8,897,467	90,962,532	63.33
<b>Public and other loans</b>					
	124,867	20,050	1,503,613	1,648,530	1.15
	(Won) 123,715,244	(Won) 4,019,930	(Won) 15,889,901	(Won) 143,625,075	100.00

**6. Allowances for Loan Losses**



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As of December 31, 2003 and 2002, allowances for loan losses are as follows:

<i>(in millions of Won)</i>	<b>2003</b>	<b>2002</b>
Loans in Won	(Won) 2,271,198	(Won) 1,905,065
Loans in foreign currencies	68,045	103,838
Bills bought in Won and foreign currencies	16,928	20,213
Payments on guarantees	19,967	18,382
Factoring receivable	16,486	143
Credit card accounts	1,187,616	284,491
Privately placed debentures	87,513	28,210
Loans due for equity conversion		5,373
Suspense receivables	17,186	11,022
Others	5,402	1,959
	(Won) 3,690,341	(Won) 2,378,696

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

As of December 31, 2003, allowances for loan losses by credit risk classification are as follows:

<i>(in millions of Won)</i>		Normal	Pre-cautionary	Substandard	Doubtful	Estimated Loss	Total
Loans in Won	Balance	(Won) 114,948,955	(Won) 5,342,015	(Won) 2,264,071	(Won) 935,330	(Won) 206,411	(Won) 123,696,782
	Allowances	773,958	297,883	491,148	501,798	206,411	2,271,198
	Ratio (%)	0.67	5.58	21.69	53.65	100.00	1.84
Loans in foreign currencies	Balance	3,681,484	263,168	40,037	31,500	803	4,016,992
	Allowances	14,568	17,072	16,252	19,350	803	68,045
	Ratio (%)	0.40	6.49	40.59	61.43	100.00	1.69
Bills bought	Balance	507,729	54,354	1,850	3,030	3,757	570,720
	Allowances	2,539	8,687	430	1,515	3,757	16,928
	Ratio (%)	0.50	15.98	23.24	50.00	100.00	2.97
Payments on guarantees	Balance	42,754	6,347	19,539	10,903	9,896	89,439
	Allowances	214	498	3,908	5,451	9,896	19,967
	Ratio (%)	0.50	7.85	20.00	50.00	100.00	22.32
Credit card accounts	Balance	7,239,554	1,626,508	400	1,158,525	224,844	10,249,831
	Allowances	72,396	195,181	80	695,115	224,844	1,187,616
	Ratio (%)	1.00	12.00	20.00	60.00	100.00	11.59
Bonds purchased under resale agreements	Balance	1,500,000					1,500,000
	Allowances						
	Ratio (%)	0.00	0.00	0.00	0.00	0.00	0.00
Call loans	Balance	1,645,351					1,645,351
	Allowances						

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	Ratio (%)	0.00	0.00	0.00	0.00	0.00	0.00
Privately placed debentures	Balance	1,363,209	409,352	7,555	6,811	168	1,787,095
	Allowances	6,816	75,048	2,064	3,417	168	87,513
	Ratio (%)	0.50	18.33	27.32	50.17	100.00	4.90
Factoring receivables	Balance	29,685			125	16,275	46,085
	Allowances	148			63	16,275	16,486
	Ratio (%)	0.50	0.00	0.00	50.40	100.00	35.77
Total	Balance <sup>1*</sup>	(Won) 130,958,721	(Won) 7,701,744	(Won) 2,333,452	(Won) 2,146,224	(Won) 462,154	(Won) 143,602,295
	Allowances <sup>2*</sup>	870,639	594,369	513,882	1,226,709	462,154	3,667,753
	Ratio (%)	0.66	7.72	22.02	57.16	100.00	2.55

<sup>1\*</sup> The above amounts of loan balances are net of present value discounts.

<sup>2\*</sup> The above amounts of allowances for loan losses do not include the allowances for suspense receivables and other allowances

For the years ended December 31, 2003 and 2002, the movements in allowances for loan losses are as follows:

<i>(in millions of Won)</i>	2003	2002
<b>Beginning balance</b>	(Won) 2,378,696	(Won) 2,271,179
Provision for loan losses	4,040,536	1,593,479
Increase due to merger with Kookmin Credit Card Co., Ltd. (Note 33)	1,388,854	
Collection of written-off loans	767,718	269,533
Repurchase of loans sold	327,921	6,424
Sale of loans	(388,322)	(65,174)
Write-off of loans	(4,509,979)	(1,527,311)
Conversion of loans into equity securities	(43,996)	(136,185)
Exemption of loans	(263,233)	(8,364)
Offset with present value discounts from troubled debt restructuring	(7,482)	(165)
Changes in exchange rates and others	(372)	(24,720)
<b>Ending balance</b>	(Won) 3,690,341	(Won) 2,378,696

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

As of December 31, 2003, 2002 and 2001, the ratios of allowances for loan losses to loans are as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Loans <sup>1*</sup>	(Won) 143,602,295	(Won) 129,109,257	(Won) 109,301,138
Allowances for loan losses <sup>2*</sup>	3,667,753	2,365,715	2,235,801
Ratio (%)	2.55	1.83	2.05

<sup>1\*</sup> The above amounts of loans are net of present value discounts.<sup>2\*</sup> The above amounts of allowances for loan losses do not include the allowances for suspense receivables and other allowances.**7. Fixed Assets**

Fixed assets as of December 31, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Tangible assets	(Won) 2,469,353	(Won) 2,477,147
Intangible assets	549,427	614,457
Foreclosed and other properties	776	1,012
	<u>(Won) 3,019,556</u>	<u>(Won) 3,092,616</u>

Movements in tangible assets for the year ended December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<u>Land</u>	<u>Buildings and structures</u>	<u>Leasehold improvement</u>	<u>Equipment and vehicle</u>	<u>Construction in-progress</u>	<u>Total</u>
<b>Acquisition cost</b>						
Beginning balances	(Won) 1,175,682	(Won) 848,746	(Won) 98,117	(Won) 1,043,969	(Won) 1,195	(Won) 3,167,709

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Acquisition	3,350	8,898	6,898	201,254	97,112	317,512
Transfer		37,466	48,517		(85,983)	
Increase due to merger	55,529	71,024	4,805	263,897		395,255
Disposal	(128,692)	(2,838)	(1,106)	(60,058)		(192,694)
	<u>1,105,869</u>	<u>963,296</u>	<u>157,231</u>	<u>1,449,062</u>	<u>12,324</u>	<u>3,687,782</u>
<b>Accumulated depreciation</b>						
Beginning balances		108,723	48,164	533,675		690,562
Depreciation expense		20,583	40,594	326,248		387,425
Increase due to merger		12,976	2,786	160,380		176,142
Disposal		(179)	(736)	(57,013)		(57,928)
		<u>142,103</u>	<u>90,808</u>	<u>963,290</u>		<u>1,196,201</u>
<b>Impairment</b>		<u>22,228</u>				<u>22,228</u>
<b>Book Value</b>	<u>(Won) 1,105,869</u>	<u>(Won) 798,965</u>	<u>(Won) 66,423</u>	<u>(Won) 485,772</u>	<u>(Won) 12,324</u>	<u>(Won) 2,469,353</u>

Tangible assets covered by insurance policies as of December 31, 2003 are as follows:

<i>(in millions of Won)</i>	Amount	Insurance Company	Type of Insurance
	Insured		
Buildings and structures	(Won) 655,890	Samsung Fire & Marine Insurance Co., Ltd	General property insurance
Leasehold improvement	52,612	Samsung Fire & Marine Insurance Co., Ltd	General property insurance
Equipment and vehicles	274,671	Samsung Fire & Marine Insurance Co., Ltd	General property insurance
Construction in-progress	9,860	Samsung Fire & Marine Insurance Co., Ltd	General property insurance
	<u>(Won) 993,033</u>		

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

Movements in intangible assets for the year ended December 31, 2003 are as follows:

<i>(in millions of Won)</i>	Rights to						Total
	Goodwill	Development Costs	Income on Donated Asset	Store Possessory Right	Trademarks	Others	
Beginning balances	(Won) 613,705	(Won)	(Won) 110	(Won) 161	(Won) 11	(Won) 470	(Won) 614,457
Acquisition					96	609	705
Increase due to merger		13,634			62		13,696
Amortization	78,345	872	8	22	19	165	79,431
Ending balances	(Won) 535,360	(Won) 12,762	(Won) 102	(Won) 139	(Won) 150	(Won) 914	(Won) 549,427

The Bank recorded (Won)106,844 million and (Won)158,895 million of current development costs under general and administrative expenses for the years ended December 31, 2003 and 2002.

The total government-posted prices of land, used for tax imposition and compensation for confiscation, as of December 31, 2003 and 2002 are as follows:

<i>(in millions of Won)</i>	2003		2002	
	Book Value	Appraisal Value	Book Value	Appraisal Value
Lands included in tangible assets	(Won) 1,105,869	(Won) 986,382	(Won) 1,175,681	(Won) 986,885
Lands included in foreclosed assets	1,315	591	1,923	931
	(Won) 1,107,184	(Won) 986,973	(Won) 1,177,604	(Won) 987,816

**8. Other Assets**

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Other assets as of December 31, 2003 and 2002 are as follows:

<i>(in millions of Won)</i>	<b>2003</b>	<b>2002</b>
Guarantee deposits paid	(Won) 1,336,639	(Won) 1,235,362
Accounts receivable	1,715,100	1,877,645
Accrued income	1,080,057	981,141
Payments in advance	92,217	48,390
Prepaid expenses	307,154	12,646
Deferred tax assets (Note 25)	552,133	170,624
Derivative assets (Note 15)	751,252	660,791
Unsettled domestic exchange assets	612,592	1,087,587
Loans to trust accounts		37,882
Others	36,592	23,490
	(Won) 6,483,736	(Won) 6,135,558

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****9. Deposits**

Deposits as of December 31, 2003 and 2002 are as follows:

<i>(in millions of Won)</i>	<b>Annual interest (%)</b>		
	<b>December 31, 2003</b>	<b>2003</b>	<b>2002</b>
<b>Deposits in Won</b>			
Demand deposits			
- Checking deposits		(Won) 125,533	(Won) 134,222
- Household checking deposits	0.10	476,132	469,866
- Passbook deposits	0.10	10,001,043	8,586,219
- Temporary deposits		3,292,770	3,577,243
- Public fund deposits	0.10	190,593	207,695
- Others	0.10	24,218	12,497
		<u>14,110,289</u>	<u>12,987,742</u>
Time deposits and savings deposits			
- Time deposits	2.90 - 4.40	62,247,870	58,187,286
- Installment savings deposits	3.60 - 4.30	1,306,793	1,422,532
- Property formation savings	8.50	1,870	2,221
- Time and savings deposits of non-residents in Won	2.90 - 4.40	340,388	151,124
- General savings deposits	0.10 - 3.30	21,644,066	21,346,223
- Corporate free savings deposits	0.10 - 3.20	7,800,122	6,556,979
- Long-term savings deposits for workers	8.79	69,031	297,272
- Long-term housing savings deposits	5.00	983,684	538,782
- Long-term savings for households	4.89	494,606	2,250,457
- Worker s preferential savings deposits	5.35	2,728,236	2,877,467
- Worker s savings for housing	2.50	81	79
- Mutual installment deposits	3.20 - 4.50	7,054,752	7,491,115
- Mutual installment for housing	2.95 - 4.30	5,423,853	4,872,637
		<u>110,095,352</u>	<u>105,994,174</u>
		<u>124,205,641</u>	<u>118,981,916</u>
<b>Deposits in foreign currencies</b>			
Demand deposits			
- Checking deposits	0.00 - 1.32	40,778	29,629
- Passbook deposits	0.08 - 0.11	787,798	549,646
- Notice deposits	0.00 - 0.22	410	2,725
- Temporary deposits		1,049	3,796



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		830,035	585,796
<b>Time deposits and savings deposits</b>			
- Time deposits	0.16 - 1.57	642,039	496,359
- Others	0.00 - 4.45	3,299	1,493
		645,338	497,852
		1,475,373	1,083,648
<b>Certificates of deposit</b>	3.45 - 3.95	6,499,258	3,044,089
		(Won) 132,180,272	(Won) 123,109,653

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

The maturities of deposits as of December 31, 2003 are as follows:

<i>(in millions of Won)</i>	Deposits in		Certificates of	Total
	Deposits in Won	foreign currencies	deposit	
Due in 3 months or less	(Won) 68,329,205	(Won) 1,241,166	(Won) 4,011,260	(Won) 73,581,631
Due after 3 months through 6 months	13,002,110	123,327	1,634,701	14,760,138
Due after 6 months through 1 year	31,128,277	61,249	853,297	32,042,823
Due after 1 year through 2 years	7,566,819	47,095		7,613,914
Due after 2 years through 3 years	2,832,771	2,463		2,835,234
Due after 3 years through 4 years	483,407	73		483,480
Due after 4 years through 5 years	298,259			298,259
Thereafter	564,793			564,793
	<u>(Won) 124,205,641</u>	<u>(Won) 1,475,373</u>	<u>(Won) 6,499,258</u>	<u>(Won) 132,180,272</u>

**10. Borrowings**

Borrowings as of December 31, 2003 and 2002 are as follows:

<i>(in millions of Won)</i>	Annual Interest (%)	2003	2002
	December 31, 2003		
<b>Borrowings in Won</b>			
Borrowings from the Bank of Korea	2.50	(Won) 992,433	(Won) 671,854
Borrowings from the government	0.00 - 8.00	920,589	1,056,480
Borrowings from banking institutions	3.54 - 8.55	253,822	318,702
Borrowings from National Housing Fund	8.00	8,553	9,192
Borrowings from other financial institutions	2.00 - 5.00	5,688	6,211
Other borrowings	2.00 - 7.00	1,173,284	1,129,305
		<u>3,354,369</u>	<u>3,191,744</u>
<b>Borrowings in foreign currencies</b>			
Due to banks		189,976	528,991
Borrowings from domestic banks	0.09 - 7.40	2,360,652	1,875,119

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Borrowings from other financial institutions	5.13	19,486	23,092
Borrowings from foreign banks		752,803	981,328
		<u>3,322,917</u>	<u>3,408,530</u>
<b>Bonds sold under repurchase agreements</b>			
In Won	2.50 - 4.10	3,613,505	3,050,179
In foreign currencies	1.54	9,651	23,982
		<u>3,623,156</u>	<u>3,074,161</u>
<b>Bills sold</b>	3.40 - 3.85	44,239	72,860
<b>Due to the Bank of Korea in foreign currencies</b>		12,608	37,493
<b>Call money</b>			
In Won	3.25 - 3.40	55,800	829,300
In foreign currencies	0.88 - 5.15	193,700	76,666
Inter-bank borrowings		296,011	
		<u>545,511</u>	<u>905,966</u>
		<u>(Won) 10,902,800</u>	<u>(Won) 10,690,754</u>

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

The maturities of borrowings as of December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<b>Borrowings in</b>			<b>Total</b>
	<b>Borrowings in Won</b>	<b>Foreign Currencies</b>	<b>Others</b>	
Due in 3 months or less	(Won) 1,178,738	(Won) 429,162	(Won) 2,372,717	(Won) 3,980,617
Due after 3 months through 6 months	149,891	1,264,287	762,272	2,176,450
Due after 6 months through 1 year	203,153	861,126	1,080,874	2,145,153
Due after 1 year through 2 years	409,384	417,546	9,651	836,581
Due after 2 years through 3 years	372,400	256,541		628,941
Due after 3 years through 4 years	304,801			304,801
Due after 3 years through 4 years	254,063	50,773		304,836
Thereafter	481,939	43,482		525,421
	<u>(Won) 3,354,369</u>	<u>(Won) 3,322,917</u>	<u>(Won) 4,225,514</u>	<u>(Won) 10,902,800</u>

**11. Debentures**

Debentures as of December 31, 2003 and 2002 are as follows:

<i>(in millions of Won)</i>		<b>Annual Interest (%)</b>		
		<b>December 31, 2003</b>	<b>2003</b>	<b>2002</b>
<b>In Won</b>	Hybrid debentures	6.00 - 7.00	(Won) 903,668	(Won)
	Subordinated fixed rate debentures	6.07 - 15.66	4,896,072	4,753,285
	Fixed rate debentures	2.25 - 8.15	3,970,000	
	Floating rates debentures	3.92 - 8.71	8,609,663	12,269,023
			<u>18,379,403</u>	<u>17,022,308</u>
	Discounts on debentures		(83,443)	(270,924)
			<u>18,295,960</u>	<u>16,751,384</u>

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<b>In foreign currencies</b>	Floating rates debentures	0.60 - 1.99	196,211	350,589
	Fixed rates debentures	1.08 - 4.63	613,549	438,538
		1.82 - 1.92	78,695	
			<u>888,455</u>	<u>789,127</u>
	Premiums on debentures		9,639	
	Discounts on debentures		(1,473)	(1,504)
			<u>896,621</u>	<u>787,623</u>
			<u>(Won) 19,192,581</u>	<u>(Won) 17,539,007</u>

<sup>1\*</sup> The hybrid debenture are perpetual type debts in which the Bank retains the early redemption option after 5 years from issuance date and the term extending option on maturity date. Hybrid debentures are senior to common stock but subordinated to other subordinated debentures.

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

As of December 31, 2003, subordinated debentures and hybrid debentures comprise the following:

*(In hundred millions of Won)*

Type	Issue date	Amount	Annual interest (%)	Maturity
<b>Subordinated fixed rate debentures</b>	97.12.29 - 98.8.27	(Won) 2,653	15.02 - 16.00	03.01.27 - 09.11.15
	2000.03.27	2,000	9.65	2005.03.27
	2000.06.28	2,540	9.04 - 9.10	2006.01.28
	2000.09.27	3,000	8.99	2006.01.27
	2000.09.28	1,500	8.79 - 8.85	2006.01.28
	2000.11.28	1,000	8.65 - 8.71	2006.02.28
	2000.11.28	1,620	9.57 - 9.65	2010.11.28
	2000.12.27	2,000	8.71	2006.01.27
	2001.05.28	2,000	7.60 - 7.65	2007.02.28
	2001.06.27	1,600	7.68	2008.03.27
	2001.06.27	2,175	7.86	2009.03.27
	2001.08.28	1,000	6.69 - 6.73	2007.08.28
	2001.09.28	1,500	6.69 - 6.73	2008.03.28
	2002.03.27	2,417	7.06 - 7.10	2008.01.27
	2002.07.27	3,024	6.96 - 7.00	2008.01.27
	2002.09.27	2,574	6.27 - 6.30	2008.03.27
	2002.09.27	1,500	6.51 - 6.55	2010.03.27
	2002.09.27	926	6.66 - 6.70	2013.03.27
	2002.11.27	4,007	6.07 - 6.10	2008.05.27
	2002.11.27	578	6.27 - 6.30	2010.05.27
	2002.11.27	1,003	6.51 - 6.55	2013.05.27
	2002.12.18	1,100	8.00	2008.01.18
	2002.12.27	304	6.55	2014.12.27
	2002.12.27	100	6.20	2008.06.27
	2002.12.27	900	6.40	2010.06.27
	2002.12.27	500	6.65	2013.06.27
	2003.01.21	500	7.65	2008.02.21
	2003.03.10	450	7.10	2008.04.10
	2003.10.27	3,565	5.18 - 5.20	2009.01.27
	2003.10.27	888	5.33 - 5.35	2011.01.27
	2003.10.27	37	5.58 - 5.60	2014.01.27
		48,961		
<b>Hybrid debentures</b>	2003.06.27	1,051	6.00	2033.06.27
	2003.08.27	5,334	7.00	2033.08.27
	2003.10.27	2,652	6.80	2033.10.27
		9,037		

(Won) 57,998

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

The maturities of debentures as of December 31, 2003 are as follows:

*(in millions of Won)*

	Won	Foreign currencies	Total
	_____	_____	_____
Due in 3 months or less	(Won) 4,441,531	(Won)	(Won) 4,441,531
Due after 3 months through 6 months	1,825,241	85,044	1,910,285
Due after 6 months through 1 year	3,956,555	80,566	4,037,121
Due after 1 year through 2 years	2,078,640	87,627	2,166,267
Due after 2 years through 3 years	1,327,851		1,327,851
Due after 3 years through 4 years	374,712	597,377	972,089
Due after 4 years through 5 years	2,049,213	37,841	2,087,054
Thereafter	2,325,660		2,325,660
	_____	_____	_____
	(Won) 18,379,403	(Won) 888,455	(Won) 19,267,858
	_____	_____	_____

**12. Accrued Retirement Benefits**

The movements in accrued retirement benefits for the year ended December 31, 2003 are as follows:

	Beginning	Amounts	Amounts	Increase Due to	Ending
	Balance	Provided	Paid Out	Merger	Balance
	_____	_____	_____	_____	_____
Accrued retirement benefits	(Won) 42,773	(Won) 43,417	(Won) 18,637	(Won) 3,530	(Won) 71,083
Contributed retirement benefits	88,682	66,349		8,318	163,349
	_____	_____	_____	_____	_____
Total accrued retirement benefits	131,455	109,766	18,637	11,848	234,432
Contribution to pension funds	(88,682)	(66,349)		(8,318)	(163,349)
	_____	_____	_____	_____	_____
	(Won) 42,773	(Won) 43,417	(Won) 18,637	(Won) 3,530	(Won) 71,083
	_____	_____	_____	_____	_____

As of December 31, 2003, approximately 69.68 percent of total accrued retirement benefits are contributed to pension funds, to which the Bank's employees hold the right of payment, placed at two insurance companies, including Korea Life Insurance Co., Ltd.





**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****13. Other Liabilities**

Other liabilities as of December 31, 2003 and 2002 are as follows:

*(in millions of Won)*

Account	2003	2002
Accrued retirement benefits (Note 12)	(Won) 71,083	(Won) 42,773
Allowance for losses on guarantees and acceptances (Note 14)	1,074	2,287
Due to trust accounts	3,983,295	734,646
Accounts payable	1,886,446	1,868,692
Accrued expenses	4,418,940	4,656,225
Advances from customers	109,675	48,745
Unearned income	130,778	147,623
Withholding taxes	123,455	85,841
Guarantee deposits received	120,437	112,732
Derivative liabilities (Note 15)	686,271	522,286
Unsettled domestic exchange liabilities	400,445	541,757
Accounts for agency business	337,624	395,678
Other allowances <sup>1</sup>	647,393	48,876
Liabilities incurred by agency relationship	315,241	486,413
Others	130,182	90,224
	<u>(Won) 13,362,339</u>	<u>(Won) 9,784,798</u>

<sup>1</sup>\* Other allowances are as follows:*(in millions of Won)*

Allowances for	Amounts	Remarks
Suspense receivables	(Won) 7,249	Allowances for frauds/accidents and litigation fee
Loss on branch closure	287	Allowances for closure of the Buenos Aires branch
Uncollected leasehold deposits	8,854	Allowances for uncollected leasehold deposits
Credit card receivables	33,105	Allowances for unused cash advance credit lines
Mileage rewards	37,938	Allowances for mileage on credit cards and currency exchange rates
Claimed assets	27,291	Allowances for credit card claimed assets
Credit commitments to SPC	141,175	Allowances for the credit line commitment to SPC (Note 16)
Securitization allowances	19,284	Allowances for repurchase obligations from asset securitization (Note 16)
KAMCO loans sold	589	Allowances for loans under repurchase agreements to KAMCO (Note 16)
Supplementary payments for income taxes	142,021	Allowances for supplementary payments for income taxes (Note 16)

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Others	<u>229,600</u>
	<u>(Won) 647,393</u>

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Guarantees and acceptances as of December 31, 2003 and 2002 are summarized as follows:

*(in millions of Won)*

	<u>2003</u>	<u>2002</u>
<b>Guarantees and acceptances outstanding in</b>		
Won		
Guarantees on debentures	(Won) 541	(Won) 571
Guarantees on loan collateral	34,112	39,234
Guarantees on commercial bills		646
Others	235,843	248,457
	<u>270,496</u>	<u>288,908</u>
Foreign Currencies		
Acceptances on letters of credit	134,888	190,775
Acceptances for letters of guarantee for importers	88,743	111,016
Guarantees for performance of contracts	16,689	71,577
Guarantees for bids	1,067	1,077
Guarantees for borrowings	37,843	31,055
Guarantees for repayment of advances	10,004	25,707
Others	240,567	311,583
	<u>529,801</u>	<u>742,790</u>
	<u>800,297</u>	<u>1,031,698</u>
<b>Contingent guarantees and acceptances</b>		
Letters of credit	1,200,228	1,243,354
Others	81,290	63,524
	<u>1,281,518</u>	<u>1,306,878</u>
	<u>(Won) 2,081,815</u>	<u>(Won) 2,338,576</u>

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

As of December 31, 2003, the allowances for losses on guarantees and acceptances outstanding according to credit risk classifications are as follows:

*(in millions of Won)*

		<u>Normal</u>	<u>Precautionary</u>	<u>Sub-standard</u>	<u>Doubtful</u>	<u>Estimated loss</u>	<u>Total</u>
<b>Guarantees and Acceptances Outstanding in</b>							
Won	Balance	(Won) 252,130	(Won) 18,106	(Won) 80	(Won)	(Won) 180	(Won) 270,496
	Allowance			16		180	196
	Ratio (%)			20.00		100.00	0.07
Foreign currencies	Balance	462,396	66,333	300	654	118	529,801
	Allowance		314	119	327	118	878
	Ratio (%)		0.47	39.67	50.00	100.00	0.17
Total	Balance	(Won) 714,526	(Won) 84,439	(Won) 380	(Won) 654	(Won) 298	(Won) 800,297
	Allowance		314	135	327	298	1,074
	Ratio (%)		0.37	35.53	50.00	100.00	0.13

For the years ended December 31, 2003 and 2002, the changes in allowances for losses on guarantees and acceptances outstanding are as follows:

*(in millions of Won)*

	<u>2003</u>	<u>2002</u>
Beginning balance	(Won) 2,287	(Won) 43,823
Reversal of losses from guarantees and acceptances	(1,209)	(37,436)
Changes in foreign exchange rates	(4)	(4,100)
Ending balance	(Won) 1,074	(Won) 2,287

The allowance ratios for guarantees and acceptances outstanding as of December 31, 2003, 2002 and 2001 are as follows:

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<i>(in millions of Won)</i>	2003	2002	2001
Guarantees and acceptances outstanding	(Won) 800,297	(Won) 1,031,698	(Won) 3,521,970
Allowance	1,074	2,287	43,823
Ratio (%)	0.13	0.22	1.24

The guarantees and acceptances risk concentration by country as of December 31, 2003 are as follows:

<i>(in millions of Won)</i>	Contingent					
	Guarantees and Acceptances Outstanding		Guarantees and Acceptances		Total	
	Balance	Percentage (%)	Balance	Percentage (%)	Balance	Percentage (%)
Korea	(Won) 739,249	92.37	(Won) 1,280,941	99.95	(Won) 2,020,190	97.04
USA	61,048	7.63	577	0.05	61,625	2.96
	(Won) 800,297	100.00	(Won) 1,281,518	100.00	(Won) 2,081,815	100.00

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

The guarantees and acceptances risk concentration by industry and customer as of December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<b>Guarantees and Acceptances Outstanding</b>		<b>Contingent Guarantees and Acceptances</b>		<b>Total</b>	
	<b>Balance</b>	<b>Percentage (%)</b>	<b>Balance</b>	<b>Percentage (%)</b>	<b>Balance</b>	<b>Percentage (%)</b>
	Manufacturing	(Won) 279,431	34.92	(Won) 726,023	56.65	(Won) 1,005,454
Service	436,908	54.59	477,938	37.29	914,846	43.94
Finance	56,912	7.11	472	0.04	57,384	2.76
Others	27,046	3.38	77,085	6.02	104,131	5.00
	<b>(Won) 800,297</b>	<b>100.00</b>	<b>(Won) 1,281,518</b>	<b>100.00</b>	<b>(Won) 2,081,815</b>	<b>100.00</b>

**15. Derivatives**

The Bank's derivative instruments are divided between hedge derivatives and trading derivatives based on the purpose of the transaction. The Bank enters into hedge transactions mainly for purposes of hedging fair value risks related to its assets and liabilities.

Trading derivatives include future contracts, forward contracts, swaps, and options entered into by the Bank to meet the financing needs of its customers and to gain profit from arbitrage transactions between customers and other banks. The Bank also uses derivative instruments in managing its own trading and asset-liability management exposures to fluctuations in interest rates and foreign exchange risks.

Hedge derivatives mainly comprise of interest rate swaps to hedge the fair value changes of debentures arising from the interest rate fluctuations. Some hedging transactions do not qualify for hedge accounting and are thus accounted for as trading derivatives. These transactions include the hedge relationships where the hedged item is an asset or liability that is re-measured with the changes in fair value attributable to the hedged risk reported in current operations or where the hedged item cannot be specifically identified.

The notional amounts outstanding for derivative contracts as of December 31, 2003 are as follows:

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(in millions of Won)

	2003			2002		
	Trading	Hedge	Total	Trading	Hedge	Total
<b>Interest related</b>						
-Future	(Won) 519,665	(Won)	(Won) 519,665	(Won) 365,513	(Won)	(Won) 365,513
-Swap	26,773,100	598,900	27,372,000	15,944,472	360,120	16,304,592
-Option	2,340,000		2,340,000	310,700		310,700
	29,632,765	598,900	30,231,665	16,620,685	360,120	16,980,805
<b>Currency related</b>						
-Forward	25,870,850		25,870,850	13,186,586		13,186,586
-Future	967,823		967,823	739,386		739,386
-Swap	4,136,776		4,136,776	3,254,755		3,254,755
-Option bought	28,148		28,148	48,616		48,616
-Option sold	81,450		81,450	127,863		127,863
	31,085,047		31,085,047	17,357,206		17,357,206
<b>Stock related</b>						
-Option bought	1,964,870		1,964,870	137,147		137,147
-Option sold	1,954,093		1,954,093	100,000		100,000
	3,918,963		3,918,963	237,147		237,147
	(Won) 64,636,775	(Won) 598,900	(Won) 65,235,675	(Won) 34,215,038	(Won) 360,120	(Won) 34,575,158



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Gains and losses on derivatives as of and for the year ended December 31, 2003 are as follows:

*(in millions of Won)*

	<b>Amount</b>
<b>Gain on derivatives</b>	
Gain on derivatives transactions	(Won) 1,131,711
Gain on valuation of derivatives	400,397
Gain on fair value hedged items	10,715
	<u>(Won) 1,542,823</u>
<b>Loss on derivatives</b>	
Loss on derivatives transactions	(Won) 1,053,990
Loss on valuation of derivatives	419,185
Loss on fair value hedged items	
	<u>(Won) 1,473,175</u>

Gains and losses on derivatives as of and for the year ended December 31, 2003 are as follows:

	<b>Valuation Gains (P/L)</b>			<b>Valuation Losses (P/L)</b>			<b>Fair Value (B/S)</b>	
	<b>Trading</b>	<b>Hedge</b>	<b>Total</b>	<b>Trading</b>	<b>Hedge</b>	<b>Total</b>	<b>Asset</b>	<b>Liability</b>
<b>Interest related</b>								
-Option	(Won) 2,982	(Won)	(Won) 2,982	(Won) 10,178	(Won)	(Won) 10,178	(Won) 6,487	(Won) 13,942
-Swap	97,875		97,875	81,785	10,715	92,500	142,201	228,885
	<u>100,857</u>		<u>100,857</u>	<u>91,963</u>	<u>10,715</u>	<u>102,678</u>	<u>148,688</u>	<u>242,827</u>
<b>Currency related</b>								
-Forward	149,056		149,056	156,773		156,773	152,104	178,064
-Option bought	94		94				94	
-Option sold	358		358	581		581	130	615
-Swap	31,005		31,005	50,423		50,423	258,136	82,827
	<u>180,513</u>		<u>180,513</u>	<u>207,777</u>		<u>207,777</u>	<u>410,464</u>	<u>261,506</u>

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<b>Stock related</b>							
-Option bought	105,536		105,536	15,184		15,184	192,100
-Option sold	13,491		13,491	93,546		93,546	181,938
	119,027		119,027	108,730		108,730	192,100
	(Won) 400,397	(Won)	(Won) 400,397	(Won) 408,470	(Won) 10,715	(Won) 419,185	(Won) 751,252
							(Won) 686,271

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****16. Commitments and Contingencies**

As of December 31, 2003, 235 pending legal actions with an aggregate amount of damages of (Won)138,367 million are charged against the Bank and the Bank had also filed 176 lawsuits, which are still pending with an aggregate amount of claims of (Won)203,760 million. Management believes that the actions against the Bank are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

Details of the material legal actions charged against the Bank are as follows:

	Exposure to possible loss	Results		
		1 <sup>st</sup> trial	2 <sup>nd</sup> trial	3 <sup>rd</sup> trial
<b>Details</b>				
Cancellation of a registered mortgage (3 cases)	(Won) 30,822	in progress		
Claim for return of trust accounts	11,474	in progress		
Confirmation of obligations	7,148	closed <sup>1*</sup>	closed <sup>1*</sup>	in progress
Transfer of Kookmin Mutual Savings & Finance Co., Ltd	5,000	in progress		
Claim related to deposits	4,026	in progress		
Claim for return of unfair gains	3,912	closed <sup>1*</sup>	in progress	
Claim related to loans	2,883	closed <sup>2*</sup>	in progress	

<sup>1\*</sup> The Bank (partially) won the case.

<sup>2\*</sup> The Bank partially lost the case.

The Bank, under the Mutual Savings & Finance Company Act, is liable for the payment of the deposits of Orange Mutual Savings & Finance Co., Ltd. (previously, Kookmin Mutual Savings & Finance Co., Ltd.) and Hansol Mutual Savings & Finance Co., Ltd. (previously, Bukook Mutual Savings & Finance Co., Ltd.), previously the Bank's subsidiaries but were sold during 1999, if they enter into bankruptcy within three years of sale. Orange Mutual Savings & Finance Co., Ltd. is currently undergoing bankruptcy procedures due to the disapproval of its business by the Financial Supervisory Commission. Korea Deposit Insurance Corporation (KDIC) has paid for the deposit money subject to the Depositor Protection Act. As of December 31, 2003, despite the fact that Resolution and Finance Corp. (a subsidiary of KDIC) has filed a lawsuit against the Bank for the recovery of the repayment, such lawsuit is not expected to cause losses that would materially affect the Bank's financial position.

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The Bank has entered into commitments to provide a credit line of (Won)5,628,000 million, and to purchase commercial paper amounting to (Won)1,334,000 million, with asset securitization companies. Under these commitments, the Bank provides money, in case of a temporary fund shortage, for the principal and interest repayment of these companies' senior bonds and subordinated bonds within the contracted term and amounts. Commitments to provide a credit line and to purchase commercial paper with a 1-year term amounted to (Won)123,500 million, (Won)1,000,000 million, respectively.

As of December 31, 2003, loans outstanding under the credit line commitment amounted to (Won)38,898 million, and the balance for commercial papers purchased under the purchase commitment amounted to (Won)10,600 million. The Bank has arranged various methods to compensate for losses on these credit line commitments including payment guarantees, repurchase contracts, surety certificate guarantees, and cash reserves. As of December 31, 2003, the Bank provided (Won)141,175 million in other allowances for its expected losses related to these commitments.

Pursuant to its asset securitization plans, the Bank has an outstanding obligation to repurchase and/or indemnify for losses on the loans sold to Jooeun 2nd-ABS Specialty Co., Ltd. and Kookmin Credit Card 14th-ABS Specialty Co., Ltd. (collectively, the SPEs) with a ceiling of (Won)36,957 million and (Won)20,163 million, respectively. As of December 31, 2003, the Bank provided (Won)19,284 million in other allowances for its expected losses related to these commitments.

As of December 31, 2003, post settlements on the loan sales transaction with Korea Asset Management Corporation (KAMCO) have been completed and the Bank has provided allowances of (Won)589 million for losses from possible future repurchase of loans from KAMCO under the repurchase agreement on loans amounting (Won)3,192 million.

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**Kookmin Bank**

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**December 31, 2003 and 2002**

The Bank has an off-shore loan commitment, limited to USD 23,385 thousand, and the loan balance under the commitment as of December 31, 2003 is USD 12,195 thousand.

Tax investigations of the Bank by the National Tax Administration for the fiscal years 1998, 1999, 2000 and 2001 are in process, but as of March 3, 2004, the results have not been notified. Based on estimations, the Bank provided (Won)142,021 million as allowance for supplementary payments for income taxes.

As of December 31, 2003, the Bank holds the unexpired rights to claim from borrowers or guarantors for loans, in accordance with the relevant law, which have already been written off, amounting to (Won)4,446,110 million. Also, as of December 31, 2003, the Bank holds endorsed bills amounting to (Won)6,385 million.

As of December 31, 2003, the Bank recorded receivables amounting to (Won)1,588,996 million and payables amounting to (Won)1,558,798 million for unsettled foreign currency spot transactions.

The Bank entered into an alliance with Koram Bank, Woori Credit Card, Citibank, The Fisheries Cooperative Union and Nonghyup for the operation of a credit card business. Accordingly, the Bank shares the related revenue from such operation.

As of December 31, 2003, the Bank has provided three blank notes to financial institutions including Korea Securities Finance Corporation as collateral for borrowings and etc.

In accordance with the agreement with the creditors' committee of LG Card Co., Ltd. on November 24, 2003, the Bank provided additional loans of (Won)437.0 billion to LG Card Co., Ltd., which is currently experiencing liquidity crisis. Also, on January 9, 2004, the Bank has agreed to a debt-equity swap of (Won)312.7 billion, to provide additional loans of (Won)205.9 billion (to be included in the debt-equity swap), and to extend the maturity of loans that will mature in 2004. As of December 31, 2003, the Bank's total exposure related to LG Card Co., Ltd. includes loans, debt securities and customer financing amounting to (Won)487.0 billion, (Won)26.8 billion and (Won)75.3 billion, respectively. The ultimate effect of these circumstances on the financial position of the Bank as of the balance sheet date cannot be presently determined, and accordingly, no adjustments related to such uncertainties have been recorded in the accompanying financial statements.

In common with certain other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices including corporate governance. The Bank may be either directly or indirectly affected by these volatile economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Bank. Actual results may differ materially from management's current assessment.

As of December 31, 2003, the Bank's total exposure (including debt securities, beneficiary certificates, and loans) related to domestic credit card companies and capital companies amounts to (Won)2,055,663 million. Currently, securities related to credit card companies and capital companies, which are experiencing liquidity problems, are not widely traded in the bond market. The ultimate effect of these circumstances on the financial position of the Bank as of the balance sheet date cannot be presently determined, and accordingly, no adjustments related to such uncertainties have been recorded in the accompanying financial statements.

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****17. Capital**

As of December 31, 2003, the Bank has 1,000,000,000 common shares (par value per share: (Won)5,000) authorized and 336,379,116 shares issued. ING Insurance International B.V. own 3.78 percent of the total issued shares. As of December 31, 2003, 35,000,566 common shares, equivalent to 10.40 percent of the total issued shares, are listed on the New York Stock Exchange as ADSs and are managed by the Bank of New York, the trustee of the Bank.

As a result of the legal consolidation with H&CB, the shareholders of the Bank and H&CB, listed on the Register of Shareholders at October 31, 2001, received 179,775,233 new shares and 119,922,229 new shares of the Bank, respectively, at the exchange ratio of one new common share of the Bank for 1.688346 old shares of the Bank and 1 share of H&CB, respectively. The new shares of the Bank were relisted on the Korea Stock Exchange as of November 9, 2001. In addition, the Bank issued 8,120,431 shares as a result of the merger with Kookmin Credit Card Co., Ltd.

Under the General Banking Act, if a single entity, other than the government or a foreign investor, owns more than 4 percent of total outstanding voting shares, the entity's voting rights are limited to those of 4 percent shareholders.

The Bank is authorized to issue to non-shareholders convertible bonds and bonds with stock purchase warrants up to total par value amounts of (Won)2,500 billion and (Won)500 billion, respectively.

**18. Capital Surplus**

The movements in capital surplus for the year ended December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<b>Beginning Balance</b>	<b>Changes</b>	<b>Ending Balance</b>
Paid-in capital in excess of par value	(Won) 5,287,708	(Won) 368,132	(Won) 5,655,840
Gain on business combination	397,669		397,669
Revaluation increment	177,229		177,229
Others	2,146	(2,146)	
	(Won) 5,864,752	(Won) 365,986	(Won) 6,230,738

The increase in paid-in capital in excess of par value is the difference between the net asset value of Kookmin Credit Card Co., Ltd. and the total par value of the shares issued by the Bank for the merger with Kookmin Credit Card Co., Ltd.

The gain on business combination is due to the difference between the business combination consideration and the net asset value acquired from the merger with KLB on December 31, 1998, and the current period change in other capital surplus is due to the loss on disposal of treasury stock.

### **19. Retained Earnings**

The General Banking Act requires the Bank to appropriate as a legal reserve a minimum of 10 percent of annual net income until the legal reserve equals paid in capital. This reserve is not available for payment of cash dividends but may be transferred to capital stock by an appropriate resolution by the Bank's Board of Directors or used to reduce accumulated deficit, if any, by an appropriate resolution of the Bank's shareholders.

Under the guidance provided by Financial Supervisory Services, the Company is required to appropriate, as a reserve for improvement of financial structure, a minimum of 10 percent of its annual income less carried over accumulated deficits, until its capital adequacy ratio equals 5.5 percent. As of December 31, 2003, the Bank has no reserve for improvement of financial structure.

Pursuant to the Tax Exemption and Reduction Control Law, the Bank was previously required to appropriate, as a reserve for business rationalization, amounts equal to tax reductions arising from tax exemptions and tax credits up to December 31, 2001. However, as of January 1, 2002, the requirement is no longer effective.



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The Bank, at its own options, also appropriated a portion of retained earnings as other reserves for the operations of overseas branches.

There were no dividends declared for the year ended December 31, 2003, while for the year ended December 31, 2002, cash dividends were declared as follows:

	<b>2002</b>
Shares outstanding	328,258,685
Treasury stock	3,026,089
Shares entitled to dividends	325,232,596
Dividend rate(%)	20.00
Dividend amount (unit:millions of Won)	325,233
Dividend payout ratio(%)	24.82
Dividend profit ratio(%)	2.38

A deduction amounting to (Won)1,917 million has been made from the beginning balance of retained earnings in connection with the accounting for investments under the equity method,

**20. Capital Adjustments**

The movements in capital adjustments for the year ended December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<b>Beginning</b>			<b>Ending</b>
	<b>Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance</b>
Treasury stock	(Won) (148,973)	(Won) (1,227,876)	(Won) (48,537)	(Won) (1,328,312)
Unrealized gain on available-for-sale securities	180,449	87,488	129,950	137,987
Unrealized gain on investment in associates	94,773	9,723	99,872	4,624
Stock options		26,211		26,211
Loss on disposal of treasury stock		(749)		(749)

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<u>(Won) 126,249</u>	<u>(Won) (1,105,203)</u>	<u>(Won) 181,285</u>	<u>(Won) (1,160,239)</u>
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The Bank, with the approval of the Board of Directors on July 26, 2002, established an employee stock option plan for the welfare of the employees and purchased 3,000,000 shares of treasury stock under the plan. During the year ended December 31, 2003, the Bank contributed 1,000,000 shares to the Employee Stock Ownership Association.

In accordance with the resolution made by the Board of Directors on December 26, 2003, the Bank acquired 27,423,761 of its own shares previously owned by the Korean government at (Won)43,700 per share through public bidding and intends to sell these shares depending on certain market conditions. As a result of the acquisition, the Bank holds 8.92 percent of the total common stock issued as treasury stock.

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As of December 31, 2003, the stock options granted to the Bank's executives and chief executive officer are as follows:

Series	Grant Date	Shares Granted	Shares Expired to Date	Shares Exercised	Shares Outstanding	Exercise Price	Exercise Period
Series 1	00.03.18	233,940	121,411	10,183	102,346	(Won) 23,469	03.03.19 - 05.03.18
Series 2	01.03.15	214,975	16,882		198,093	28,027	04.03.16 - 09.03.15
Series 3	98.10.31	400,000		390,000	10,000	5,000	01.11.01 - 04.10.31
Series 4	99.02.27	280,000	59,892	220,108		13,900	02.02.28 - 05.02.27
Series 5	00.02.28	267,000	65,218	11,100	190,682	27,600	03.03.01 - 06.02.28
Series 6	01.03.24	111,000	38,624		72,376	25,100	04.03.25 - 07.03.24
Series 7 <sup>1*2*</sup>	01.11.16	850,000			850,000	51,200	04.11.17 - 09.11.16
Series 8-1 <sup>2*</sup>	02.03.22	132,000	89,753		42,247	57,100	05.03.23 - 10.03.22
Series 8-1 <sup>3*</sup>	02.03.22	490,000	119,326		370,674	57,100	05.03.23 - 10.03.22
Series 9 <sup>3*</sup>	02.07.26	30,000			30,000	58,800	05.07.27 - 10.07.26
Series 10-1 <sup>2*</sup>	03.03.21	140,000			140,000	41,200	06.03.22 - 11.03.21
Series 10-1 <sup>3*</sup>	03.03.21	180,000			180,000	35,500	06.03.22 - 11.03.21
Series 11 <sup>3*</sup>	03.08.27	30,000			30,000	40,500	06.08.28 - 11.08.27
Increase due to merger-1 <sup>4*</sup>	01.03.22	22,146			22,146	71,538	04.03.23 - 11.03.22
Increase due to merger-2 <sup>2*4*</sup>	02.03.29	9,990			9,990	129,100	04.03.30 - 11.03.29

<sup>1\*</sup> The stock options include the 200,000 shares which are to be additionally granted if the three-month weighted average stock price of the Bank prior to the beginning of the exercise date is higher than that of any other listed banks and the Bank achieves total market value and ROE target.

<sup>2\*</sup> The exercise price may be affected by the fluctuations in the stock price index of the banking industry.

<sup>3\*</sup> The number of shares to be granted will be determined by the results of the evaluation of the grantees after 3 years from grant date. Shares granted are calculated under the assumption that the grantees performed well on their evaluation.

<sup>4\*</sup> The Bank took over stock options which Kookmin Credit Card Co., Ltd. granted to its employees in proportion to the share exchange rate.

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

Compensation costs for stock options granted to employees and executives are recognized on the basis of fair value. Assumptions used under the fair value basis method are summarized as follows:

Series	Stock price as of grant date (Won)	Risk free interest rate <sup>1*</sup> (%)	Expected exercise period (years) <sup>2*</sup>	Volatility of underlying stock price <sup>3*</sup> (%)	Expected dividend rate <sup>4*</sup> (%)	Compensation cost (Won)
Series 1	(Won) 21,441	9.32	4.00	71.14	2.25	(Won) 12,638
Series 2	25,156	6.06	5.50	70.30	2.47	15,987
Series 3	5,430	9.74	3.00	59.06	1.14	1,395
Series 4 <sup>5*</sup>	33,750	4.74	0.33	73.30	1.93	19,850
Series 5 <sup>5*</sup>	33,750	4.74	1.33	73.30	1.93	13,320
Series 6 <sup>5*</sup>	33,750	4.74	2.42	73.30	1.93	17,117
Series 7	45,800	4.91	3.00	58.90		18,364
Series 8-1	58,000	6.14	3.00	53.56		24,496
Series 8-2	58,000	6.14	3.00	53.56		24,496
Series 9	53,900	5.73	3.00	43.09		17,333
Series 10-1	36,500	4.74	3.00	48.77		12,204
Series 10-2	36,500	4.74	3.00	48.77		14,073
Series 11	41,100	5.75	3.00	44.48		15,098
Increase due to merger-1	27,200	5.17	3.00	46.02		8,447
Increase due to merger-2	55,900	6.39	2.00	49.24	20	6,536

<sup>1\*</sup> Interest rate of government bond as of grant date.

<sup>2\*</sup> The average of vesting period and exercise period was applied for series 1 and 2. Vesting period was applied for series 3-11 and stock options succeeded from Kookmin Credit Card Co., Ltd.

<sup>3\*</sup> Annualized stock volatility for the past one-year period before the grant date was applied for series 1-2, and the average of stock volatility of banking industries and the Bank were applied for series 3-11 and stock options succeeded from Kookmin Credit Card Co., Ltd

<sup>4\*</sup> Average historical dividend rate for the past period from grant date that equals the expected exercise period, were assumed.

<sup>5\*</sup> Compensation costs were recalculated to reflect the effects of merger with H&CB.

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

The compensation costs to be recognized in the future as of December 31, 2003, are as follows:

Series	Compensation cost recognized			Compensation cost to be recognized				Total compensation cost
	Prior period compensation cost	Current period compensation cost	Accumulated compensation cost	Within 1 year	More than 1 year to 2 years	More than 2 years to 3 years	Total	
Series 1	(Won) 1,184	(Won) 109	(Won) 1,293	(Won)	(Won)	(Won)	(Won)	(Won) 1,293
Series 2	1,847	1,056	2,903	264			264	3,167
Series 3	14		14					14
Series 5	2,399	141	2,540					2,540
Series 6	722	414	1,136	103			103	1,239
Series 7	5,637	5,203	10,840	4,769			4,769	15,609
Series 8-1	2,270	3,027	5,297	3,027	756		3,783	9,080
Series 8-2	259	345	604	345	86		431	1,035
Series 9	72	173	245	174	101		275	520
Series 10-1		633	633	844	844	212	1,900	2,533
Series 10-2		427	427	570	570	142	1,282	1,709
Series 11		50	50	151	151	101	403	453
Increase due to merger-1		172	172	15			15	187
Increase due to merger-2		57	57	8			8	65
	(Won) 14,404	(Won) 11,807	(Won) 26,211	(Won) 10,270	(Won) 2,508	(Won) 455	(Won) 13,233	(Won) 39,444

As of December 31, 2003, the weighted average exercise price per stock option granted is (Won)43,020 and weighted average compensation cost per stock option granted is (Won)16,887.

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****22. Other Non-Interest Income (Expenses)**

Other non-interest income (expenses) for the year ended December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<b>Amount</b>
<b>Other non-interest income</b>	
- Realized gain on trading securities	(Won) 119,168
- Unrealized gain on trading securities	70,976
- Gain on trust management	247,639
- Reversal of losses from guarantees and acceptances	1,209
- Gain on valuation of derivatives	400,397
- Others	29,451
	<b>(Won) 868,840</b>
<b>Other non-interest expenses</b>	
- Realized loss on trading securities	(Won) 47,269
- Contributions to special funds	178,094
- Provision for allowance	
- Loss on valuation of derivatives	419,185
- Loss on fair value hedged items	
- Others	664,332
	<b>(Won) 1,308,880</b>

**23. General and Administrative Expenses**

General and administrative expenses for the year ended December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<b>Amount</b>
Salaries and wages	(Won) 1,149,816
Retirement benefits (Note 12)	109,766
Other employee benefits	317,550
Rent	65,046

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Depreciation	387,425
Amortization	79,431
Taxes and dues	125,717
Advertising	67,317
Ordinary R&D	106,844
Fees and commissions	87,690
Others	207,546
	<hr/>
	(Won) 2,704,148
	<hr/>

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****24. Non-Operating Income (Expenses)**

Non-operating income (expenses) for the year ended December 31, 2003 are as follows:

*(in millions of Won)*

	<b>Amount</b>
<b>Non-operating income</b>	
- Gain on disposal of fixed assets	(Won) 2,229
- Rent income	2,692
- Unrealized gain on investment in associates	267,870
- Realized gain on available-for-sale securities	554,203
- Realized gain on held-to-maturity securities	2,771
- Reversal of impairment loss on available-for-sale securities	75,553
- Gain on sale of loans	60,957
- Others	122,828
	<u>1,089,103</u>
<b>Non-operating expenses</b>	
- Loss on disposal of fixed assets	35,287
- Impairment loss on fixed assets	22,228
- Loss on investment in associates	
- Realized loss on available-for-sale securities	60,210
- Realized loss on held-to-maturity securities	
- Impairment loss on available-for-sale securities	209,307
- Loss on sale of loans	92,297
- Provision for loan losses due to merger	1,652,264
- Others	240,038
	<u>2,311,631</u>
	<u>(Won) (1,222,528)</u>

**25. Income Tax Expense**

Income tax expense for the years ended December 31, 2003 and 2002 is as follows:



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(in millions of Won)

	<u>2003</u>	<u>2002</u>
Income tax payable	(Won) 23	(Won) 652,583
Deferred income taxes from temporary differences	(226,212)	(96,258)
Deferred income taxes from accumulated deficit <sup>1*</sup>	(168,645)	28,929
Deferred tax credit <sup>1*</sup>	(3,951)	
Change in temporary differences due to tax adjustments	3,656	
Retained earnings and other capital surplus adjustments <sup>2*</sup>	2,033	(1,927)
	<u>                    </u>	<u>                    </u>
Income tax (benefit) expense	(Won) (393,096)	(Won) 583,327
	<u>                    </u>	<u>                    </u>

<sup>1\*</sup> The Bank recognized a deferred income tax asset because it has incurred a gain before extraordinary gains/losses and income tax since the merger with H&CB.

<sup>2\*</sup> Income tax effect from the change in retained earnings from the application of equity method on investments and loss on disposal of treasury stock.

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

The statutory income tax rate applicable to the Bank, including resident tax surcharges, is 29.7 percent for the years ended December 31, 2002 and 2003. However, due to tax adjustments, the effective tax rate for the years ended December 31, 2002 and 2003 are 39.12 percent and 30.8 percent, respectively. The statutory income tax rate of 29.7 percent is applied for deferred income tax assets (liabilities) that will be realized before 2005 and statutory income tax rate of 27.5 percent is applied for deferred income tax assets (liabilities) that will be realized after 2005 reflecting the 2percent corporate tax rate cut from 2005. The basis for calculating the effective tax rate is as follows:

*(in millions of Won)*

	<u>2003</u>	<u>2002</u>
Net income (loss) before income taxes	(Won) (1,146,444)	(Won) 1,893,618
Income tax expense based on the effective tax rate	(340,493)	562,405
Tax effects on adjustments		
Adjustments to increase taxable income	97,458	39,625
Adjustments to decrease taxable income	(166,668)	(18,703)
Discount effect	16,607	
Income tax benefit per statements of operations	(Won) (393,096)	(Won) 583,327

The significant changes in accumulated temporary differences and deferred income taxes for the year ended December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<u>Beginning balance</u>	<u>Increase due to merger</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>	<u>Deferred tax asset (liability)</u>
Allowance for loan losses	(Won) 314,081	(Won)	(Won) 221,016	(Won) 236,074	(Won) 299,023	(Won) 87,094
Accrued interest	(350,798)	(60,931)	(349,915)	(412,209)	(349,435)	(96,095)
Unrealized loss on securities	602,646	4,456	(175,092)	(330,256)	762,266	212,255
Unrealized loss on derivatives	(100,086)	(3,530)	(35,045)	(103,616)	(35,045)	(9,637)
Present value discounts	28,001		14,691	27,918	14,774	4,270
Allowance for losses on guarantees and acceptances	5,278		1,074	5,278	1,074	295
Accrued severance benefits			(14,500)	(14,500)		
Stock options	10,116	552	26,211	10,668	26,211	7,208
Loss on fair value hedges			(10,715)	(9,213)	(1,502)	(413)

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Accumulated depreciation	820		16,406	8,913	8,313	2,286
Other allowances	48,876		505,372	48,876	505,372	144,029
Others	15,559	1,209	99,847	12,144	104,471	28,748
Net operating loss carry-forward			567,825		567,825	168,645
	<u>(Won) 574,493</u>	<u>(Won) (58,244)</u>	<u>(Won) 867,175</u>	<u>(Won) (519,923)</u>	<u>(Won) 1,903,347</u>	<u>(Won) 548,685</u>
Deferred tax credit						3,951
						<u>(Won) 552,636</u>

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****26. Earnings (Loss) Per Share**

The weighted average number of common shares outstanding for the years ended December 31, 2003 and 2002 are calculated as follows:

	<u>2003</u>	<u>2002</u>
Number of common shares outstanding-beginning balance	330,327,726	318,750,038
Weighted average number of treasury common shares	(4,327,815)	(963,166)
Weighted average number of common shares outstanding	<u>325,999,911</u>	<u>317,786,872</u>

Details of the computation of the basic earnings (loss) per share ( EPS ) and basic ordinary income (loss) per share for the years ended December 31, 2003, and 2002 are shown below.

	<u>2003</u>	<u>2002</u>
Net income (loss) (in millions of Won)	(Won) (753,348)	(Won) 1,310,291
Weighted average number of common shares outstanding	<u>325,999,911</u>	<u>317,786,872</u>
Basic earnings (loss) per share and basic ordinary income (loss) per share (in Won)	<u>(2,311)</u>	<u>4,123</u>

Since there are no dilutive potential common shares, diluted EPS and diluted basic income per share are the same as basic EPS and basic ordinary income per share.

Potential common shares as of December 31, 2003 are as follows:

	<u>Exercise Period</u>	<u>Shares Outstanding</u>	<u>Exercise Price</u>
Stock options	2001.11.01 - 2011.08.27	2,248,554	(Won) 5,000 (Won)129,100

## 27. Assets and Liabilities Denominated in Foreign Currencies:

Significant assets and liabilities denominated in foreign currencies as of December 31, 2003 comprise the following :

	Total Balances		Major Denomination Currencies		
	Millions of	Thousands of	Thousands of	Thousands of	Thousands of
	Won	US Dollars <sup>1*</sup>	US Dollars	EC Euro	Japanese Yen
<b>Assets</b>					
Cash	(Won) 228,153	\$ 190,476	\$ 76,612	22,070	¥ 7,223,564
Due from banks	601,624	502,275	478,539	3,015	1,798,015
Securities	1,350,145	1,127,187	969,825	3,960	3,674,314
Loans in foreign currencies	4,019,930	3,356,094	2,464,055	37,850	79,081,632
Bills bought	533,294	445,228	415,863	15,003	817,496
Advances to customers	4,593	3,835	3,835		
Call loans	5,351	4,467	4,000		50,000
<b>Liabilities</b>					
Deposits	1,475,373	1,231,736	843,970	14,493	27,863,430
Borrowings	3,322,917	2,774,184	2,138,815	39,595	60,834,504
Due to BOK	12,608	10,526	10,526		
Call money	193,700	161,713	157,600		300,000
Debentures	896,621	748,557	741,129		
Unsettled foreign exchange liabilities	22,600	18,868	11,569	161	89,793

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

Significant assets and liabilities denominated in foreign currencies as of December 31, 2002 comprise the following :

	<b>Total Balances</b>		<b>Major Denomination Currencies</b>		
	<b>Millions of</b>	<b>Thousands of</b>	<b>Thousands of</b>	<b>Thousands of</b>	<b>Thousands of</b>
	<b>Won</b>	<b>US Dollars<sup>1*</sup></b>	<b>US Dollars</b>	<b>EC Euro</b>	<b>Japanese Yen</b>
<b>Assets</b>					
Cash	(Won) 186,780	\$ 155,598	\$ 63,914	15,676	¥ 7,450,032
Due from bank	509,207	424,197	348,007	2,567	6,062,350
Securities	1,216,627	1,013,518	922,604	4,061	4,427,023
Loans in foreign currencies	4,417,176	3,679,753	2,827,489	68,754	65,532,564
Bills bought	756,300	630,040	588,877	25,336	840,286
Advances to customers	2,223	1,852	1,852		
Call loans	248,857	207,312	202,700	4,000	50,000
<b>Liabilities</b>					
Deposits	1,083,648	902,738	654,567	12,012	17,863,339
Borrowings	3,408,530	2,839,494	2,407,624	58,893	46,007,284
Due to BOK	37,493	31,234	31,234		
Call money	76,666	63,867	14,500		5,679,100
Debentures	789,127	657,387	495,962		
Unsettled foreign exchange liabilities	20,895	17,407	12,772	939	138,208

<sup>1\*</sup> Foreign currencies other than US dollars are converted into US dollar amounts using the exchange rates provided by Seoul Money Brokerage Services, Ltd. at the balance sheet date.

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****28. Related Party Transactions**

Significant transactions with related parties for the years ended December 31, 2003 and 2002 are as follows:

*(in millions of Won)*

Account	2003		2002	
	Balances	Transactions	Balances	Transactions
KB Investment Co., Ltd.				4,115
				(1,025)
Kookmin Data System Corp.				(187)
Kookmin Futures Co., Ltd.				5
				(567)
KB Luxembourg S.A.				148
				4,789
				3,131
				(80)
				(922)
KB International Ltd. (London)				70
				3,576
				359
				(308)
				(2,691)
Kookmin Finance H.K. Ltd.				22
				4,721
				(161)
				(232)
Kookmin Investment Trust Mgt.				(802)
KB Real Estate Co., Ltd.				3,005
				(4)
Joeun Industrial Co., Ltd.				

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KB Credit Information Co., Ltd.	Deposits	11,446	(457)	9,496	(444)
	Other liabilities	8,482		5,388	176
	Commissions expenses		(38,481)		(26,894)
	Rent				



**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****29. Transactions with Financial Institutions**

The assets and liabilities related to transactions with financial institutions for the year ended December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<b>Description</b>	<b>Bank of Korea</b>	<b>Other banks</b>	<b>Other financial institutions</b>	<b>Total</b>
Cash and due from banks	In Won	(Won) 2,612,248	(Won) 8,994	(Won) 140,200	(Won) 2,761,442
	In foreign currencies	12,415	585,855	3,355	601,625
		<u>2,624,663</u>	<u>594,849</u>	<u>143,555</u>	<u>3,363,067</u>
Loans	In Won		12,815	607,524	620,339
	In foreign currencies		767,884	49,866	817,750
	Others	1,500,000	1,560,702	794,715	3,855,417
		<u>1,500,000</u>	<u>2,341,401</u>	<u>1,452,105</u>	<u>5,293,506</u>
Deposits	In Won		975,372	4,342,075	5,317,447
	In foreign currencies			2,400,000	2,400,000
			<u>975,372</u>	<u>6,742,075</u>	<u>7,717,447</u>
Borrowings	In Won	992,433	253,822	5,688	1,251,943
	In foreign currencies		2,360,652	19,486	2,380,138
	Others	12,608	499,362	55,800	567,770
		<u>1,005,041</u>	<u>3,113,836</u>	<u>80,974</u>	<u>4,199,851</u>
Debentures	In Won			260,900	260,900
	In foreign currencies		888,455		888,455
			<u>888,455</u>	<u>260,900</u>	<u>1,149,355</u>

**30. Interest Bearing Assets and Liabilities**

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Interest bearing assets and liabilities and related interest income and interest expenses for the year ended December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<u>Average Balance</u>	<u>Interest Income</u>	<u>Average Yield (%)</u>
<b>Assets</b>			
Due from banks	(Won) 799,353	(Won) 10,433	1.31
Securities	29,812,029	1,701,359	5.71
Loans	135,541,332	9,814,835	7.24
	<u>(Won) 166,152,714</u>	<u>(Won) 11,526,627</u>	
<b>Liabilities</b>			
Deposits	(Won) 126,320,535	(Won) 4,280,290	3.39
Borrowings	12,547,750	410,746	3.27
Debentures	18,617,620	1,143,228	6.14
	<u>(Won) 157,485,905</u>	<u>(Won) 5,834,264</u>	

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****31. Operations of the Trust Accounts**

The summarized statement of assets and liabilities of the trust accounts as of December 31, 2003 are categorized into principal or dividend guaranteed money trusts, performance money trusts and property trusts, as follows:

<i>(in millions of Won)</i>	<b>Guaranteed</b>	<b>Performance</b>	<b>Property</b>	<b>Total</b>
	<b>Money Trusts</b>	<b>Money Trusts</b>	<b>Trusts</b>	
Securities	(Won) 2,797,148	(Won) 5,943,898	(Won) 936,128	(Won) 9,677,174
Loans	134,984	354,804		489,788
Receivables			20,228,649	20,228,649
Due from banking accounts	470,647	913,624	183,672	1,567,943
Present value discounts	(771)			(771)
Allowance for loan losses	(69,839)	(69,930)		(139,769)
Other assets	73,048	179,211	262,054	514,313
<b>Total assets</b>	<b>(Won) 3,405,217</b>	<b>(Won) 7,321,607</b>	<b>(Won) 21,610,503</b>	<b>(Won) 32,337,327</b>
Trusts	(Won) 3,190,062	(Won) 7,088,295	(Won) 21,453,761	(Won) 31,732,118
Reserves for future losses	56,128			56,128
Borrowings				
Other liabilities	159,027	233,312	156,742	549,081
<b>Total liabilities</b>	<b>(Won) 3,405,217</b>	<b>(Won) 7,321,607</b>	<b>(Won) 21,610,503</b>	<b>(Won) 32,337,327</b>

The Bank is liable as of December 31, 2003 for the following portion of the difference between the book value and fair value of principal and/or dividend guaranteed money trusts:

<i>(in millions of Won)</i>	<b>Book Value</b>	<b>Fair Value</b>	<b>Liability</b>
Principal guaranteed money trusts	(Won) 3,298,269	(Won) 3,374,990	(Won)
Principal and dividend guaranteed money trusts	106,948	114,835	
	<b>(Won) 3,405,217</b>	<b>(Won) 3,489,825</b>	<b>(Won)</b>

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The key results of operations from transactions between bank accounts and trust accounts (excluding securities investment trust) for the year ended December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<b>Trust Account Related Income</b>	<b>Trust Account Related Expenses</b>
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Gain on trust management	(Won) 232,361	Interest expense on borrowings from trust accounts (Won) 36,970
Early withdrawal penalties	172	Loss on trust management
Interest income on loans to trust accounts	548	
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	<b>(Won) 233,081</b>	<b>(Won) 36,970</b>
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

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**Kookmin Bank**

**Notes to Non-Consolidated Financial Statements**

**December 31, 2003 and 2002**

**32. Business Combination with H&CB**

The Bank entered into a business combination contract ( the Contract ) with H&CB on April 23, 2001 and obtained approval from the shareholders for such combination on September 29, 2001. In accordance with the Contract, the Bank completed the legal consolidation with H&CB as of October 31, 2001. Under the Contract, the shareholders of the Bank and H&CB received 1 new common share of the Bank for 1.688346 old shares of the Bank and 1 share of H&CB, respectively. The new common shares of the Bank were listed on the Korea Stock Exchange on November 9, 2001. Despite the legal form of consolidation, the business combination was accounted for as an acquisition with the Bank as acquirer of H&CB's total assets of (Won)67,742,958 million and liabilities of (Won)64,381,185 million.

The Bank's registration statement with the Securities and Exchange Commission of the United States of America was declared effective on September 10, 2001, and the new shares of the Bank are listed on the New York Stock Exchange as ADSs since November 1, 2001.

**33. Merger with Kookmin Credit Card Co., Ltd.**

The Bank obtained approval from its Board of Directors on May 30, 2003 to merge with Kookmin Credit Card Co., Ltd., (the Subsidiary ) of which the Bank previously owned 74.27 percent, and merged with the Subsidiary on September 30, 2003.

The merger was effected through the issuance of common shares of 8,120,431 by the Bank to the shareholders of Subsidiary as of July 24, 2003, besides the Bank, at a ratio of 0.442983 share of the Bank's common stock for each share of the Subsidiary. The newly issued common share due the transaction constituted 2.4 percent of total out standing shares of the Bank as of September 30, 2003.

The merger was accounted for as a transaction between entities under common control and therefore the Bank recognized the assets and liabilities transferred at their carrying amounts in the accounts of Kookmin Credit Card Co., Ltd. at the date of transfer. In addition, the accounting method for loans and securities of the Subsidiary were conformed to that of the Bank and consequently, a provision for losses due to the merger amounting (Won)1,652,264 million, comprised of a provision for loan losses of (Won)1,437,961 million and loss on valuation of securities of (Won)214,303 million, was recorded in non-operating expenses.

Kookmin Credit Card Co., Ltd. was established on September 25, 1987, separating its operations from the Bank, and has been conducting its operations including credit card operations, factoring, and consumer financing, under the Credit Card Act. Kookmin Credit Card Co., Ltd. had merged with Kookmin Mutual Savings & Finance Co., Ltd. on August 22, 1998 and with Jang-Eun Credit Card Co., Ltd. on December 30, 1998, and had extended its operations to installment financing and rental business. As of September 30, 2003, Kookmin Credit Card has 12.33 million cardholders, 1.55 million merchants and 45 branches. Kookmin Credit Card Co. Ltd. had its shares registered with KOSDAQ since July 4, 2000.

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As of September 30, 2003, the shareholders of Kookmin Credit Card Co. were as follows:

	<u>Number of Shares</u>	<u>Percentage of Ownership</u>
Kookmin Bank	54,365,028	74.27
Others	18,331,248	25.04
	<u>72,696,276</u>	<u>99.31</u>
Treasury stock	503,724	0.69
	<u>73,200,000</u>	<u>100.00</u>

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

The summary balance sheets of the Bank and Kookmin Credit Card Co., Ltd. as of December 31, 2002 and the related statements of operations for the year then ended are as follows:

<i>(in millions of won)</i>	<b>Kookmin Bank</b>	<b>Kookmin Credit Card</b>	<b>Total<sup>1*</sup></b>
Cash and due from banks	(Won) 4,599,356	(Won) 103,505	(Won) 4,702,861
Securities <sup>2*</sup>	30,940,750	3,112,127	34,052,877
Loans	126,730,561	9,256,060	135,986,621
Fixed assets	3,092,616	260,600	3,353,216
Other assets	6,135,558	648,956	6,784,514
<b>Total assets</b>	<b>(Won) 171,498,841</b>	<b>(Won) 13,381,248</b>	<b>(Won) 184,880,089</b>
Deposits	(Won) 123,109,653	(Won)	(Won) 123,109,653
Borrowings	10,690,754	5,629,389	16,320,143
Debentures	17,539,007	5,934,298	23,473,305
Other liabilities	10,110,031	899,334	11,009,365
<b>Total liabilities</b>	<b>161,449,445</b>	<b>12,463,021</b>	<b>173,912,466</b>
Capital stock	1,641,293	366,000	2,007,293
Capital surplus	5,864,752	146,591	6,011,343
Retained earnings	2,417,102	407,596	2,824,698
Capital adjustments	126,249	(1,960)	124,289
<b>Total shareholders equity</b>	<b>10,049,396</b>	<b>918,227</b>	<b>10,967,623</b>
<b>Total liabilities and shareholders equity</b>	<b>(Won) 171,498,841</b>	<b>(Won) 13,381,248</b>	<b>(Won) 184,880,089</b>
	<b>Kookmin Bank</b>	<b>Kookmin Credit Card</b>	<b>Total<sup>1*</sup></b>
Operating income (loss)	(Won) 2,265,765	(306,146)	(Won) 1,959,619
Non-operating income	525,280	67,017	592,297
Non-operating expenses <sup>2*</sup>	(897,427)	(21,759)	(919,186)
Net income (loss) before income tax expense	1,893,618	(260,888)	1,632,730
Income tax expense	(583,327)		(583,327)
<b>Net income (loss)</b>	<b>(Won) 1,310,291</b>	<b>(Won) (260,888)</b>	<b>(Won) 1,049,403</b>





**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

The summary balance sheets of the Bank and Kookmin Credit Card Co., Ltd. as of September 30, 2003, the merger date, and the related statements of operations for the nine-month period then ended are as follows:

<i>( in millions of won )</i>	<b>Kookmin Bank</b>	<b>Kookmin Credit Card<sup>3*</sup></b>	<b>Total<sup>1*</sup></b>
Cash and due from banks	(Won) 7,543,522	(Won) 39,139	(Won) 7,582,661
Securities <sup>2*</sup>	29,062,866	2,969,080	32,031,946
Loans	133,299,297	6,854,723	140,154,020
Fixed assets	2,836,450	325,220	3,161,670
Other assets	8,895,431	407,247	9,302,678
<b>Total assets</b>	<b>(Won) 181,637,566</b>	<b>(Won) 10,595,409</b>	<b>(Won) 192,232,975</b>
Deposits	(Won) 128,106,542	(Won)	(Won) 128,106,542
Borrowings	11,691,597	3,240,752	14,932,349
Debentures	17,181,146	4,951,891	22,133,037
Other liabilities	14,858,438	1,199,254	16,057,692
<b>Total liabilities</b>	<b>171,837,723</b>	<b>9,391,897</b>	<b>181,229,620</b>
Capital stock	1,641,293	366,000	2,007,293
Capital surplus	5,864,679	146,591	6,011,270
Retained earnings	2,033,157	691,969	2,725,126
Capital adjustments	260,714	(1,048)	259,666
<b>Total shareholders equity</b>	<b>9,799,843</b>	<b>1,203,512</b>	<b>11,003,355</b>
<b>Total liabilities and shareholders equity</b>	<b>(Won) 181,637,566</b>	<b>(Won) 10,595,409</b>	<b>(Won) 192,232,975</b>
	<b>Kookmin Bank</b>	<b>Kookmin Credit Card<sup>3*</sup></b>	<b>Total</b>
Operating income (loss)	(Won) 478,392	(Won) 301,213	(Won) 779,605
Non-operating income	670,656	27,656	698,312
Non-operating expenses <sup>2*</sup>	(1,885,784)	(18,646)	(1,904,430)
Net income (loss) before income tax	(736,736)	310,223	(426,513)
Income tax expense	354,627	(25,850)	328,777
<b>Net income (loss)</b>	<b>(Won) (382,109)</b>	<b>(Won) 284,373</b>	<b>(Won) (97,736)</b>

<sup>1\*</sup> Inter-company transactions have not been eliminated in the above summary balance sheets and statements of operations.

<sup>2\*</sup> The amount of investments accounted for under the equity method of accounting of Kookmin Credit Card Co., Ltd has been recognized by the Bank under securities and non-operating expenses.

<sup>3\*</sup> Balance sheet of Kookmin Credit Card Co., Ltd and its statements of operations is unaudited.

### 34. Statement of Cash Flows

Cash and cash equivalents as of December 31, 2003 and 2002 as presented in the statements of cash flows are as follows:

*(in millions of Won)*

	<u>2003</u>	<u>2002</u>
Cash on hand	(Won) 2,945,921	(Won) 2,392,346
Cash in foreign currencies	228,153	186,780
Due from banks in Won	2,763,457	1,532,179
Due from banks in foreign currencies	601,624	509,207
	<u>6,539,155</u>	<u>4,620,512</u>
Restricted deposits	(2,767,398)	(1,519,931)
	<u>(Won) 3,771,757</u>	<u>(Won) 3,100,581</u>

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

Major transactions that do not involve cash inflows and cash outflows for the year ended December 31, 2003, and 2002 are presented as follows:

*(in millions of Won)*

	<u>2003</u>	<u>2002</u>
Change due to the merger with KB Credit Card Co., Ltd.	(Won) 10,595,409	(Won)
Unrealized gains on investment securities	(122,888)	86,164
Capital increase due to debt-equity swap		234,100
Capital increase due to stock dividend		89,900
Change due to accounting under equity method	6,996	4,562
Write-off of loans	4,773,212	1,527,311
Decrease in loan from restructuring	(7,483)	122,043
Decrease in loan loss provision due to sales of non-performing loans	60,401	65,174
Conversion of loans into equity securities	33,415	109,931

**35. Business Segments**

The following table shows the distribution of the Bank's operations by business segment as of and for the year ended December 31, 2003:

*(in millions of Won)*

Account	Retail	Corporate	Capital	Credit Card	Others	Total
	Banking	Banking	Markets Activities	Operations		
Loans	(Won) 79,284,676	(Won) 45,208,573	(Won) 4,823,406	(Won) 9,056,594	(Won) 1,557,803	(Won) 139,931,052
Securities	27,636	4,626	27,380,911		688,672	28,101,845
Fixed assets	1,678,217	498,068	170,695	364,654	307,922	3,019,556
Other assets	1,076,083	271,644	11,286,066	126,565	239,695	13,000,053
<b>Total assets</b>	<b>(Won) 82,066,612</b>	<b>(Won) 45,982,911</b>	<b>(Won) 43,661,078</b>	<b>(Won) 9,547,813</b>	<b>(Won) 2,794,092</b>	<b>(Won) 184,052,506</b>
<b>Operating revenue</b>	<b>(Won) 6,066,594</b>	<b>(Won) 3,314,310</b>	<b>(Won) 3,670,257</b>	<b>(Won) 1,458,464</b>	<b>(Won) 1,047,361</b>	<b>(Won) 15,556,986</b>

The following table shows the distribution of the Bank's operations by geographical market as of and for the year ended December 31, 2003:

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(in millions of Won)

	<u>Domestic</u>	<u>Overseas</u>	<u>Total</u>
Loans	(Won) 139,313,903	(Won) 617,149	(Won) 139,931,052
Securities	28,076,373	25,472	28,101,845
Fixed assets	3,016,549	3,007	3,019,556
Other assets	12,529,873	470,180	13,000,053
	<hr/>	<hr/>	<hr/>
Total assets	(Won) 182,936,698	(Won) 1,115,808	(Won) 184,052,506
	<hr/>	<hr/>	<hr/>
Operating revenue	(Won) 15,494,187	(Won) 62,799	(Won) 15,556,986
	<hr/>	<hr/>	<hr/>

**Table of Contents****Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****36. Final interim period performance**

Final interim performance for the three-month periods ended December 31, 2003 and 2002, are as follows:

*(in millions of Won)*

	<u>2003</u>	<u>2002</u>
Operating income	(Won) 3,100,554	(Won) 3,982,692
Operating expense	3,502,862	3,711,358
Operating (loss) income	(402,308)	271,334
Net loss	(371,239)	(202,577)
Loss per share (in Won)	(1,131)	(635)

**37. Reclassification of Prior Financial Statement Presentation**

Certain accounts of prior period financial statements have been reclassified to conform to the current year presentation. These reclassifications have no effect on previously reported net income or shareholders' equity.

**38. Subsequent Event**

On February 9, 2004, the Board of Directors approved the purchase of the assets and liabilities of Hanil Life Insurance Co. by the Bank through a Purchase and Acquisition ( P&A ) transaction. The terms and conditions of the P&A is to be determined in the future.

**39. Approval of Financial Statements**

The financial statements of the Bank, as of and for the year ended December 31, 2003, were approved by the board of directors on March 3, 2004.

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Exhibit 99.2

**Kookmin Bank and Subsidiaries**

**Consolidated Financial Statements**

**December 31, 2003 and 2002**

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**Kookmin Bank and Subsidiaries**

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**December 31, 2003 and 2002**

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**Report of Independent Auditors**

To the Board of Directors and Shareholders of

Kookmin Bank and subsidiaries

We have audited the accompanying consolidated balance sheets of Kookmin Bank and its subsidiaries ( the Consolidated Company ) as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean Won. These consolidated financial statements are the responsibility of Kookmin Bank's ( the Bank ) management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Kookmin Futures Co., Ltd., and Kookmin Finance HK Ltd., whose statements represent 0.13% of total assets as of December 31, 2003 and 0.15% of total revenues for the year then ended. Also, we did not audit the financial statements of Kookmin Credit Card Co., Ltd., Kookmin Futures Co., Ltd., Kookmin Bank Luxembourg S.A., and Kookmin Finance HK Ltd., whose statements represent 7.44% of total assets as of December 31, 2002 and 16.21% of total revenues for the year then ended. These statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for Kookmin Futures Co., Ltd., Kookmin Bank Luxembourg S.A., Kookmin Finance HK Ltd., and Kookmin Credit Card Co., Ltd., is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kookmin Bank and its subsidiaries as of December 31, 2003 and 2002, and the results of its operations, changes in shareholders' equity, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.



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Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Note 1 and Note 33 to the consolidated financial statements, on May 30, 2003, the Bank obtained approval from the Board of Directors to enter into a merger agreement with Kookmin Credit Card Co., Ltd. (the Subsidiary), its majority-owned subsidiary. According to the resolution of the Board of Directors, the Bank merged with the Subsidiary on September 30, 2003. The merger was effected through an exchange of shares with the minority shareholders of the Subsidiary as of July 24, 2003, who received 0.442983 share of the Bank's common stock for each share of the Subsidiary. The total assets and liabilities of the Subsidiary as of September 30, 2003 were (Won)10,595,409 million and (Won)9,391,897 million, respectively.

As discussed in Note 1 to the consolidated financial statements, K.B. Luxemburg S.A. was excluded from the scope of consolidation since it decided to go into liquidation on February 18, 2004. The liquidation process is expected to be completed before the end of 2004.

As discussed in Note 1 to the consolidated financial statements, the Bank sold to Sun Capital Inc., 65.43 percent of its 85.43 percent investment in, and (Won)172,024 million of its loans to, Alpha Capital Corp. for (Won)145,000 million on August 30, 2002. The Bank also sold an additional 5.03% of its investment in Alpha Capital Corp. to Sun Capital Inc. for (Won)900 million on October 28, 2002.

As discussed in Note 1 to the consolidated financial statements, the Bank sold its 87.00% investment in Kookmin Investment Trust Management Co., Ltd. to Morgan Stanley Private Equity (the M&A private funds led by Morgan Stanley Global Emerging Markets Inc. and affiliated funds) on May 29, 2002 and sold its 88.66% investment in Kookmin Leasing Co., Ltd. to Sun Capital Inc. on December 27, 2002.

As discussed in Note 2 to the consolidated financial statements, as of December 2002, the Consolidated Company changed the rates for determining the allowances for losses from consumer loans and credit card loans, in anticipation of the increasing risk of loan losses due to the increase in consumer loans and credit card loans, as follows:

<u>Credit Risk Classification</u>	<u>Allowance Rates before Changes</u>	<u>Allowance Rates after Changes</u>	
		<u>Consumer</u>	<u>Credit Card</u>
Normal	0.50%	0.75%	1.00%
Precautionary	2.00%	8.00%	12.00%
Sub-standard	20.00%	20.00%	20.00%
Doubtful	50.00%	55.00%	60.00%
Estimated loss	100.00%	100.00%	100.00%

As a result of the above change, the Consolidated Company's allowances for loan losses as of December 31, 2003 are greater by (Won)336,265 million for consumer loans and (Won)314,701 million for credit card loans compared to the amounts which would have been recorded under the previous rates.



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As discussed in Note 20 to the consolidated financial statements, in accordance with the resolution of the Board of Directors on December 26, 2003, the Bank acquired 27,423,761 of its own shares previously owned by the Korean government at (Won)43,700 per share through public bidding and intends to sell these shares of treasury stock depending on certain market conditions. As a result of the acquisition, the Bank holds 8.92% of the total common stock issued as treasury stock.

As discussed in Note 16 to the consolidated financial statements, in accordance with the agreement with the creditors committee of LG Card Co., Ltd. on November 24, 2003, the Bank provided additional loans of (Won)437 billion to LG Card Co., Ltd., which is currently experiencing a liquidity crisis. Also, on January 9, 2004, the Bank agreed to participate in a debt-equity swap of (Won)312.7 billion, to provide additional loans of (Won)205.9 billion (to be included in the debt-equity swap), and to extend the maturity of loans with maturities in 2004. As of December 31, 2003, the balance of loans, corporate bonds and customer financing are (Won)487 billion, (Won)26.8 billion and (Won)75.3 billion, respectively. The ability of LG Card Co. Ltd. to continue as a going concern, depends on the effective execution of its restructuring plan and loan-readjustment as well as the availability of financial aid from its financial institutional creditors, and therefore the actual loss from loans may differ from its estimation.

As discussed in Note 16 to the consolidated financial statements, the Consolidated Company's total exposure (including debt securities, beneficiary certificates, and loans) related to domestic credit card companies and capital companies amounts to (Won)2,371,671 million as of December 31, 2003. Currently, securities issued by credit card companies and capital companies, which are experiencing liquidity problems, are not widely traded in the bond market. The ultimate effect of these circumstances on the financial position of the Consolidated Company as of the balance sheet date cannot be presently determined, and accordingly, no adjustments related to such uncertainties have been recorded in the accompanying consolidated financial statements.

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

Seoul, Korea

March 3, 2004

This report is effective as of March 3, 2004, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be

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revised to reflect the impact of such subsequent events or circumstances, if any.

**Table of Contents****Kookmin Bank and Subsidiaries****Consolidated Balance Sheets****December 31, 2003 and December 31, 2002**

<i>(in millions of Won)</i>	<b>2003</b>	<b>2002</b>
<b>Assets</b>		
Cash and due from banks (Note 3)	(Won) 6,560,651	(Won) 4,790,636
Securities (Note 4)	30,531,067	36,862,306
Loans (Notes 5 and 6)	139,926,208	135,143,612
Fixed assets (Note 7)	3,024,948	3,360,158
Other assets (Note 8)	6,730,164	6,969,506
<b>Total assets</b>	<b>(Won) 186,773,038</b>	<b>(Won) 187,126,218</b>
<b>Liabilities and Shareholders Equity</b>		
Deposits (Note 9)	(Won) 135,373,286	(Won) 126,890,960
Borrowings (Note 10)	10,750,820	15,473,094
Debentures (Note 11)	19,182,576	23,450,346
Other liabilities (Note 13)	12,978,312	10,631,483
<b>Total liabilities</b>	<b>178,284,994</b>	<b>176,445,883</b>
<b>Commitments and contingencies (Notes 14 and 16)</b>		
Common stock ((Won)5,000 par value per share, 1 billion authorized shares and 336,379,116 shares outstanding in 2003) (Notes 1 and 17)	1,681,896	1,641,293
Capital surplus (Note 18)	6,237,528	5,968,401
Retained earnings (Note 19)	1,712,664	2,787,469
Capital adjustments (Note 20)	(1,160,814)	30,817
Minority interest in consolidated subsidiaries (Note 21)	16,770	252,355
<b>Total shareholders equity</b>	<b>8,488,044</b>	<b>10,680,335</b>
<b>Total liabilities and shareholders equity</b>	<b>(Won) 186,773,038</b>	<b>(Won) 187,126,218</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Kookmin Bank and Subsidiaries****Consolidated Statements of Operations****Years ended December 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
<i>(in millions of Won, except per share amounts)</i>		
<b>Interest income</b>		
Interest on due from banks	(Won) 10,997	(Won) 56,412
Interest on trading securities	303,743	369,631
Interest on available-for-sale securities	960,599	653,958
Interest on held-to-maturity securities	1,242,809	1,405,807
Interest on loans	10,443,799	10,472,306
Other interest income	122,955	130,323
	<u>13,084,902</u>	<u>13,088,437</u>
<b>Interest expenses</b>		
Interest on deposits	4,386,806	4,982,936
Interest on borrowings	591,830	735,982
Interest on debentures	1,436,234	1,236,299
Other interest expenses	60,891	52,738
	<u>6,475,761</u>	<u>7,007,955</u>
Net interest income	6,609,141	6,080,482
Provision for loan losses (Note 6)	4,638,051	3,196,161
Net interest income after provision for loan losses	<u>1,971,090</u>	<u>2,884,321</u>
<b>Non-interest income</b>		
Fees & commission income	2,566,553	2,571,278
Dividends on trading securities	79,121	1,234
Dividends on available-for-sale securities	5,986	13,575
Gain on foreign currency transactions	291,542	212,832
Gain on derivatives transactions (Note 15)	1,134,624	1,776,807
Others (Note 23)	843,573	1,199,434
	<u>4,921,399</u>	<u>5,775,160</u>
<b>Non-interest expenses</b>		
Fees and commission expenses	717,604	862,507
General and administrative expenses (Note 24)	3,027,164	2,977,475
Loss on foreign currency transactions	195,212	246,090
Loss on derivatives transactions (Note 15)	1,062,812	1,625,534
Others (Note 23)	1,351,726	991,666
	<u>6,354,518</u>	<u>6,703,272</u>

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Operating income	537,971	1,956,209
Non-operating expenses, net (Note 25)	(1,557,577)	(137,777)
Net (loss) income before income tax expense	(1,019,606)	1,818,432
Income tax (benefit) expense (Note 26)	(354,358)	612,384
Net (loss) income before consolidation adjustment	(665,248)	1,206,048
Minority interest in (earnings) losses of consolidated subsidiaries	(76,502)	65,260
Net (loss) income	(Won) (741,750)	(Won) 1,271,308
Basic (loss) earnings per share (In Korean Won) (Note 27)	(Won) (2,275)	(Won) 4,001
Diluted (loss) earnings per share (In Korean Won) (Note 27)	(Won) (2,275)	(Won) 4,001

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Kookmin Bank and Subsidiaries****Consolidated Statements of Changes in Shareholders' Equity**

Years ended December 31, 2003 and 2002

<i>(in millions of Korean Won)</i>	<b>Capital</b>	<b>Capital Surplus</b>	<b>Retained Earnings</b>	<b>Capital Adjustments</b>	<b>Minority Interest</b>	<b>Total</b>
Balance, January 1, 2002	(Won) 1,498,487	(Won) 5,745,002	(Won) 1,519,064	(Won) 205,274	(Won) 309,129	(Won) 9,276,956
Conversion of overseas bonds to stocks	52,906	181,194				234,100
Net income			1,271,308			1,271,308
Dividend payment					(6,883)	(6,883)
Conversion of stock dividends distributable	89,900			(89,900)		
Loss in excess of minority interest			3,360			3,360
Changes in treasury stock				(147,610)		(147,610)
Unrealized gain on available-for-sale securities, net				87,330	34	87,364
Stock options				(25,624)	395	(25,229)
Loss in minority interest					(65,260)	(65,260)
Changes in minority interest		42,610	(4,294)		14,965	53,281
Others		(405)	(1,969)	1,347	(25)	(1,052)
Balance, December 31, 2002	(Won) 1,641,293	(Won) 5,968,401	(Won) 2,787,469	(Won) 30,817	(Won) 252,355	(Won) 10,680,335
<i>(in millions of Korean Won)</i>	<b>Capital</b>	<b>Capital Surplus</b>	<b>Retained Earnings</b>	<b>Capital Adjustments</b>	<b>Minority Interest</b>	<b>Total</b>
Balance, January 1, 2003	(Won) 1,641,293	(Won) 5,968,401	(Won) 2,787,469	(Won) 30,817	(Won) 252,355	(Won) 10,680,335
Merger with Kookmin Credit Card Co.	40,603	271,274			(236,428)	75,449
Net loss			(741,750)			(741,750)
Dividend payment			(325,233)		(2,474)	(327,707)
Reserve for losses on sale of treasury stock		(2,147)		2,147		
Changes in treasury stock				(1,182,235)		(1,182,235)
Unrealized gain on available-for-sale securities, net				(36,891)	(13)	(36,904)
Unrealized gain on investment in				881		881



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associates, net						
Stock options				25,814		25,814
Unrealized gain on derivatives, net				(1,347)		(1,347)
Changes in minority interest					3,330	3,330
Changes in subsidiaries				(7,656)		(7,656)
Others				(166)		(166)
Balance, December 31, 2003	(Won) 1,681,896	(Won) 6,237,528	(Won) 1,712,664	(Won) (1,160,814)	(Won) 16,770	(Won) 8,488,044

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Kookmin Bank and Subsidiaries****Consolidated Statements of Cash Flows****Year ended December 31, 2003 and 2002**

<i>(in millions of Won)</i>	<u>2003</u>	<u>2002</u>
<b>Cash flows from operating activities</b>		
Net (loss) income	(Won) (741,750)	(Won) 1,271,308
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Realized gain on trading securities, net	(60,783)	(94,540)
Unrealized gain on trading securities, net	(65,798)	(118,486)
(Gain) loss on foreign currency transactions, net	(96,330)	33,258
Provision for loan losses	4,638,051	3,270,025
Allowance for reversal of losses from guarantees and acceptances	(1,209)	(37,436)
Gain on derivatives transactions, net	(71,812)	(151,273)
Loss (gain) on valuation of derivatives, net	18,336	(43,348)
(Gain) loss on fair value hedged items	(10,715)	9,213
Retirement benefits	129,392	114,023
Depreciation and amortization	519,356	445,471
Loss on disposal of fixed assets, net	34,416	6,401
Impairment loss on fixed assets	22,228	
Realized gain on available-for-sale securities, net	(499,815)	(188,226)
Impairment loss on available-for-sale securities, net	126,853	348,697
Realized gain on held-to-maturity securities	3,069	
Unrealized (gain) loss on investment in associates, net	(22,675)	17,484
Loss on sale of loans, net	146,085	97,644
Minority interest in earnings (losses) of consolidated subsidiaries	76,502	(65,260)
Stock compensation expense	12,130	13,722
Others, net	437,428	8,234
Changes in assets and liabilities resulting from operations		
Accrued income	224,155	13,225
Prepaid expenses	(165,084)	(94,532)
Deferred income tax assets	(375,860)	(40,258)
Other assets	3,320	(15,307)
Accrued expenses	(761,806)	(202,531)
Unearned income	(15,988)	(7,436)
Withholding taxes	31,145	(55,480)
Other liabilities	223,923	(2,478)
Account for agency business	49,667	24,828
Payment of retirement benefits	(39,045)	(24,034)
Pension funds	(68,529)	(63,894)
National pension funds	123	69
	<u>4,440,730</u>	<u>3,197,775</u>
Net cash provided by operating activities	<u>3,698,980</u>	<u>4,469,083</u>



**Table of Contents****Kookmin Bank and Subsidiaries****Consolidated Statements of Cash Flows****Years ended December 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
<i>(in millions of Won)</i>		
<b>Cash flows from investing activities</b>		
(Increase) decrease in due from banks	(Won) (1,178,152)	(Won) 2,797,251
Decrease in trading securities	2,221,779	2,507,440
Increase in available-for-sale securities	(3,522,402)	(10,307,680)
Decrease in held-to-maturity securities	8,228,193	9,348,124
Increase in equity securities	(88,380)	
Increase in loans granted, net	(9,680,411)	(21,183,846)
Proceeds from disposal of fixed assets	105,902	17,749
Acquisition of fixed assets	(347,368)	(706,195)
Acquisition of intangible assets	(2,048)	(103,536)
Proceeds from disposal of foreclosed assets	2,830	3,197
Acquisition of foreclosed assets	(165)	
Increase in guarantee deposits	(3,528)	(94,831)
Decrease (increase) in other accounts receivable	170,286	(312,077)
(Increase) decrease in payments in advance	(33,330)	46,528
Decrease in derivative assets, net	130,945	51,339
Collection of domestic exchange receivables	474,995	403,014
Collection of (payments for) loans to trust accounts	26,060	(47,933)
<b>Net cash used in investing activities</b>	<b>(3,494,794)</b>	<b>(17,581,456)</b>
<b>Cash flows from financing activities</b>		
Increase in deposits, net	8,506,356	6,442,197
(Decrease) increase in borrowings, net	(5,172,931)	369,195
(Decrease) increase in debentures, net	(4,267,769)	9,839,721
Securities sold under repurchase agreements	548,995	118,719
Increase (decrease) in borrowings from trust accounts	2,874,589	(832,975)
Increase (decrease) increase in call money	215,589	(2,364,375)
Decrease in borrowings from the Bank of Korea in foreign currency	(24,885)	(89,007)
Decrease in dividend payable	(325,233)	(47,337)
Decrease in bills sold	(28,621)	(6,583)
(Decrease) increase in other accounts payable	(181,195)	654,575
(Decrease) increase in advances received from customers	(142,668)	117,279
Increase (decrease) in guarantee deposits received	2,179	(37,949)
Decrease in domestic exchange payables	(141,312)	(901,723)
Decrease in liabilities incurred by agency relationships	(171,172)	(219,313)
Stock options exercised	(35)	(26,742)
Acquisition of treasury stock	(1,227,876)	(149,704)
Sale of treasury stock	826	1,928
Increase in stock issuance cost	(212)	(737)
Increase in minority interest		1,075
<b>Net cash provided by financing activities</b>	<b>464,625</b>	<b>12,868,244</b>

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The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Kookmin Bank and Subsidiaries****Consolidated Statements of Cash Flows****Years ended December 31, 2003 and 2002**

<i>(in millions of Won)</i>	<u>2003</u>	<u>2002</u>
Decrease in cash due to change in scope of affiliates	(85,284)	(18,143)
Net increase (decrease) in cash and cash equivalents	583,527	(262,272)
Cash and cash equivalents, beginning of the period (Note 34)	3,207,248	3,469,520
Cash and cash equivalents, end of the period (Note 34)	<u>(Won) 3,790,775</u>	<u>(Won) 3,207,248</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

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**Kookmin Bank and Subsidiaries**

**Notes to Consolidated Financial Statements**

**December 31, 2003 and 2002**

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**1. The Consolidated Company**

The accompanying consolidated financial statements have been prepared in accordance with financial accounting standards and the relevant laws and regulations of the Republic of Korea. The accompanying consolidated financial statements include the banking and trust accounts, subject to guaranteed fixed rates of return or principal repayment, of Kookmin Bank and its consolidated subsidiaries. General information on Kookmin Bank and its controlled subsidiaries is described below.

**The Bank**

Kookmin Bank was established in 1963 under the Citizens National Bank Act to provide and administer funds for financing the general public and small businesses. Pursuant to the repeal of the Citizens National Bank Act effective January 5, 1995, the Bank has conducted its operations in accordance with the provisions of the General Banking Act.

The Bank merged with Korea Long Term Credit Bank ( KLB ) on December 31, 1998 and with Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd. on August 22, 1999. Also, under the decision of the Financial Supervisory Commission in accordance with the Act concerning the Structural Improvement of the Financial Industry, the Bank purchased certain assets, including the loans classified as normal or precautionary, and assumed most of the liabilities of Daedong Bank as of June 29, 1998. The Bank completed the legal consolidation with H&CB as of October 31, 2001 (Note 32) and Kookmin Credit Card as of September 30, 2003 (Note 33).

The Bank had its shares listed on the Korea Stock Exchange since September 1994. As a result of the business combination with H&CB, the former shareholders of the Bank and H&CB received new common shares of the Bank on the basis of a pre-determined ratio. The new common shares of the Bank were relisted on the Korea Stock Exchange on November 9, 2001. The Bank's paid-in capital amounts to (Won)1,681,896 million as of December 31, 2003 (Note 17). Also, as of December 31, 2003, 35,000,566 shares of the Bank are listed on the New York Stock Exchange as American Depositary Shares ( ADS ).

The Bank is engaged in the banking and trust business according to the provisions of the General Banking Act and the Trust Business Act and operates through 1,136 domestic branches and offices and three overseas branches as of December 31, 2003.

**Trust Accounts of the Bank**

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According to the accounting and reporting guidelines by the banking regulatory authorities, the accompanying consolidated financial statements include trusts subject to guaranteed fixed rates of return or principal repayment. Total assets of consolidated and non-consolidated trusts of the Consolidated Company as of December 31, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
<i>(in millions of Won)</i>		
Consolidated trusts	(Won) 3,405,217	(Won) 3,960,057
Non-consolidated trusts	28,932,110	38,248,912
	<u>(Won) 32,337,327</u>	<u>(Won) 42,208,969</u>



**Table of Contents****Kookmin Bank and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2003 and 2002****Subsidiaries either consolidated or accounted for under the equity method**

The subsidiaries of the Bank, either consolidated or accounted for under the equity method as of December 31, 2003 and 2002 are as follows:

Companies	Balance Sheet Date	2003		2002	
		Number of shares	Ownership (%)	Number of shares	Ownership (%)
<b>Consolidated subsidiaries</b>					
Kookmin Data System Corp.	December 31	799,800	99.98	799,800	99.98
Kookmin Futures Co., Ltd.	March 31	3,999,200	99.98	3,999,200	99.98
KB Investment Co., Ltd. <sup>1*</sup>	December 31	8,941,587	99.89	8,941,587	99.89
KB Investment Trust Mgt. Co., Ltd. <sup>2*</sup>	March 31	6,134,040	80.00	6,134,040	80.00
KB Real Estate Trust Co., Ltd. <sup>3*</sup>	December 31	15,999,930	99.99	15,999,930	99.99
KB Credit Information Co., Ltd. <sup>4*</sup>	December 31	867,716	69.28	867,716	69.28
Kookmin Finance HK Ltd.	December 31	2,000,000	100.00	2,000,000	100.00
K.B. Int l. Ltd. (London)	December 31	20,000,000	100.00	20,000,000	100.00
<b>Equity method investees</b>					
ING Life Co., Ltd.	March 31	1,400,000	20.00	280,000	20.00
Korea Mortgage Corp.	December 31	6,000,000	26.67	6,000,000	26.67
KLB Securities Co., Ltd.	December 31	4,854,713	36.41	4,854,713	36.41
Jeio Co., Ltd. <sup>5*</sup>	December 31	419,049	21.14	419,049	21.14
Joeeun Industrial Co., Ltd.	December 31	1,999,910	99.99	1,999,910	99.99
K.B. Luxemburg S.A.	December 31	70,000	100.00	70,000	100.00
Kookmin Finance Asia Ltd. (HK)	December 31	2,000,000	100.00	2,000,000	100.00
Kookmin Singapore Ltd.	December 31	30,000,000	100.00	30,000,000	100.00
Sorak Financial Holdings	December 31		25.00		
KIKO No.3 Venture Investment	December 31		11.15		11.15
Pacific IT Investment Partnership <sup>6*</sup>	December 31		10.00		10.00
Kookmin China Fund No.1 <sup>6*</sup>	December 31		50.00		50.00
KITC Kookmin Venture Fund No.1 <sup>6*</sup>	December 31		20.00		20.00
NPC 02-4 Kookmin Venture Fund <sup>6*</sup>	December 31		16.67		16.67
Kookmin Investment Partnership No. 13 <sup>6*</sup>	December 31		33.30		33.30
Millennium Tour Kookmin Investment Partnership No. 15 <sup>6*</sup>	December 31		34.00		34.00
Kookmin Investment Partnership No.16 <sup>6*</sup>	December 31		20.00		20.00
KB03-1 Venture Investment Fund <sup>6*</sup>	December 31		16.67		16.67
Korea Asset Investment Co. Ltd.	December 31	48,000	2.38	1,005,000	49.79

1\* KB Investment Co., Ltd., formerly Kookmin Investment Co., Ltd., merged with Frontier Investment Corp. as of December 31, 2001 and with Kookmin Venture Capital Co., Ltd. as of June 27, 2002.

2\* Joeeun Investment Trust Mgt Co., Ltd. was renamed KB Investment Trust Mgt. Co., Ltd. as of June 10, 2002.

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- 3\* Jooeun Real Estate Trust Co., Ltd. was renamed KB Real Estate Trust Co., Ltd. as of September 16, 2002.
- 4\* Jooeun Credit Information Co., Ltd. merged with KB Credit Information Co., Ltd. as of May 2, 2002 and was renamed KB Credit Information Co., Ltd.
- 5\* Jeio Co., Ltd. was invested by KB Investment Co., Ltd., a subsidiary of the Bank.
- 6\* These investment funds were invested by KB Investment Co., Ltd, a subsidiary of the Bank

### **Scope of Consolidation**

On September 30, 2003, the Bank merged with Kookmin Credit Card Co., Ltd, a subsidiary of the Bank of which the Bank formerly owned 74.27%. Thus, Kookmin Credit Card Co., Ltd was excluded from the scope of consolidation.

On February 18, 2004, K.B. Luxemburg S.A decided to go into liquidation and expected to complete the related process before the end of 2004. Thus, K.B. Luxemburg S.A was excluded from the scope of consolidation.

**Table of Contents****Kookmin Bank and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2003 and 2002**

As of December 31, 2003, KLB Securities Co., Ltd., Kookmin Finance Asia Ltd. (HK) and Kookmin Singapore Ltd. and Joeun Industrial Co., Ltd. are in the process of liquidation and accordingly were excluded from the scope of consolidation.

On August 30, 2002, the Bank sold to Sun Capital Inc., 65.43 percent of its 85.43 percent investment in, and (Won)172,024 million of its loans to, Alpha Capital Corp., for (Won)145,000 million. On October 28, 2002, the Bank also sold an additional 5.03% of its investment in Alpha Capital Corp. to Sun Capital Inc. for (Won)900 million.

On May 29, 2002, the Bank sold its 87.00 percent investment in Kookmin Investment Trust Management Co., Ltd. to Morgan Stanley Private Equity (the M&A private funds led by Morgan Stanley Global Emerging Markets Inc. and affiliated funds) and sold its 88.66 percent investment in Kookmin Leasing Co., Ltd. to Sun Capital Inc on December 27, 2002.

The Consolidated Company sold 957,000 shares of Korea Asset Investment Corp. in the current period and consequently did not apply the equity method to the remaining shares of this investee due to a reduction to 2.38 percent in equity ownership.

**Operations of the subsidiaries either consolidated or accounted for under the equity method****Consolidated Subsidiaries:**

<i>(in millions)</i>	<u>Location</u>	<u>Outstanding Capital</u>		<u>Major Business</u>
Kookmin Data System Corp	Korea	KRW	8,000	Software services for the Bank and other companies
Kookmin Futures Co., Ltd.	Korea		20,000	Dealing and brokerage services for futures transactions
KB Investment Co., Ltd.	Korea		44,759	Investing and financing small and medium-sized enterprises
KB Investment Trust Mgt. Co., Ltd.	Korea		38,338	Providing security investment trust services and investment consulting services
KB Real Estate Trust Co., Ltd.	Korea		80,000	Development, management and brokerage services with regard to real estate and trust
KB Credit Information Co., Ltd.	Korea		6,262	Delinquent loan collecting service and credit checking services
Kookmin Finance HK Ltd.	Hong Kong	USD	20 million	Commercial banking business and foreign exchange operation
Kookmin Bank Int l. Ltd. (London)	U.K.	GBP	20 million	



**Table of Contents****Kookmin Bank and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2003 and 2002****Equity Method Investees:**

<i>(in millions)</i>	<u>Location</u>	<u>Outstanding Capital</u>		<u>Major Business</u>
ING Life Co., Ltd.	Korea	KRW	70,000	Insurance
Korea Mortgage Corp.	Korea		112,484	Purchase, issuance and sales of mortgage-backed securities
KLB Securities Co., Ltd.	Korea		2,095	Securities related business
Jeio Co., Ltd	Korea		66,675	Inspecting materials, manufacturing measuring instruments
Joeun Industrial Co., Ltd.	Korea		10,000	House construction, rent and management service with regard to real estate
K.B. Luxemburg S.A.	Luxemburg	EUR	17.5 million	Commercial banking business and foreign exchange operation
Kookmin Finance Asia Ltd. (HK)	Hong Kong	USD	20 million	Commercial banking business and foreign exchange operation
Kookmin Singapore Ltd.	Singapore	SGD	30 million	Commercial banking business and foreign exchange operation
Sorak Financial Holdings	Singapore	SGD	403 million	Investment
KIKO No.3 Venture Investment Partnership	Korea	KRW	2,600	Investment in venture capital
Pacific IT Investment Partnership	Korea		14,000	Investment in venture capital
Kookmin China Fund No.1	Korea		6,000	Investment in venture capital
KITC Kookmin Venture Fund No.1	Korea		10,000	Investment in venture capital
NPC 02-4 Kookmin Venture Fund	Korea		30,000	Investment in venture capital
Kookmin Investment Partnership No.13	Korea		3,000	Investment in venture capital
Millennium Tour Kookmin Investment Partnership No.15	Korea		5,000	Investment in venture capital
Kookmin Investment Partnership No.16	Korea		2,000	Investment in venture capital
KB 03-1 Venture Investment Fund	Korea		7,500	Investment in venture capital

**Significant Financial Data**

A summary of significant financial data of the Bank and its subsidiaries, included in the accompanying consolidated financial statements is as follows:

<i>(in millions of Won)</i>	<u>Total Assets</u>	<u>Shareholders Equity</u>	<u>Operating Revenue</u>	<u>Net Income (Loss)</u>
Bank accounts	(Won) 184,052,506	(Won) 8,414,513	(Won) 17,754,261	(Won) (753,348)
Trust accounts	3,405,217	52,565	239,449	
Kookmin Data System Corp.	17,895	14,650	38,035	1,031

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Kookmin Futures Co., Ltd.	36,621	25,526	10,009	1,429
KB Investment Co., Ltd.	95,555	77,361	3,983	5,300
KB Investment Trust Mgt. Co., Ltd.	61,533	56,258	25,581	10,433
KB Real Estate Trust Co., Ltd.	257,725	98,129	57,324	10,402
KB Credit Information Co., Ltd.	25,266	17,882	44,321	3,931
Kookmin Finance Hong Kong Ltd.	211,944	62,716	17,676	(1,493)
K.B. Int 1. Ltd. (London)	225,681	56,756	12,873	3,264
Elimination and equity pick-up	(1,616,905)	(388,312)	(197,211)	(22,699)
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	(Won) 186,773,038	(Won) 8,488,044	(Won) 18,006,301	(Won) (741,750)
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

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**Kookmin Bank and Subsidiaries**

**Notes to Consolidated Financial Statements**

**December 31, 2003 and 2002**

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**2. Summary of Significant Accounting Policies**

The Consolidated Company has adopted Statements of Korean Financial Accounting Standards ( SKFAS ) No. 1 as of January 1, 2001 and No. 2 to No. 9 as of January 1, 2002 in the preparation of to present its financial statements. Except for the adoption of these SKFAS, the same accounting policies are applied for the fiscal years 2002 and 2003. The significant accounting policies followed by the Consolidated Company in the preparation of its non-consolidated financial statements are summarized below.

**Basis of Financial Statement Presentation**

The Bank maintains its accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with the accounting standards generally accepted in the Republic of Korea. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Bank's financial position, results of operations, or cash flows, is not presented in the accompanying consolidated financial statements.

**Accounting Estimates**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Consolidated Company may undertake in the future, actual results may be different from those estimates.

**Accounting Policies of Consolidated Entities**

The financial statements of consolidated entities are prepared in conformity with generally accepted accounting principles and the relevant laws and regulations of the Republic of Korea. The relevant laws and regulations that differ from generally accepted accounting principles are as follows:

**Relevant Laws and Regulations**

The Bank and Trust Accounts	Accounting Standards of the Banking Industry, General Banking Act, and Trust Business Act
KB Investment Co., Ltd.	Act on support for foundation of small and medium-sized companies, and Loan Specialization Financial Business Act
KB Investment Trust Mgt. Co., Ltd.	Securities Investment Trust Business Act, and Accounting Standards for Securities Investment Trust Business
Kookmin Futures Co., Ltd.	Supervisory Guidelines on Futures Trading
KB Real Estate Trust Co., Ltd.	Trust Business Act
KB Credit Information Co., Ltd.	Act on the use and protection of credit information

**Principles of Consolidation**

The Consolidated Company records the differences between the acquisition cost of subsidiaries investment accounts and the corresponding shareholder's equity at the time of acquisition as goodwill.



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**Kookmin Bank and Subsidiaries**

**Notes to Consolidated Financial Statements**

**December 31, 2003 and 2002**

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When net losses attributable to minority interests exceed the minority interest in the equity of the subsidiary, the excess is charged to the equity of the Consolidated Company. When the subsidiaries report income, the minority interest portion of such income is allocated to the equity of the Consolidated Company until the minority interest's share of net losses previously charged to the Consolidated Company has been fully recovered.

If the fiscal year-end of subsidiaries is different from that of the Consolidated Company, the financial statements of such subsidiaries are prepared as of December 31 and for the year then ended for consolidation purposes.

All significant inter-company transactions and account balances between the consolidated entities are eliminated in consolidation.

**Recognition of Interest Income**

The Consolidated Company recognizes interest income on loans and debt securities on an accrual basis. However, interest income on delinquent and dishonored loans and debt securities, other than those collateralized with security deposits or guaranteed by financial institutions, is recognized on a cash basis. As of December 31, 2003, the Consolidated Company has non-accrual loans and securities of (Won)10,718,393 million and (Won)620,929 million, respectively, with related foregone interest of (Won)655,845 million and (Won)150,492 million, respectively. However, foregone interest related to securities of trust accounts was not included.

**Deferred loan origination fees and costs**

The Consolidated Company defers loan origination fees associated with originating loans and loan origination costs that have future economic benefits. Loan balances are reported net of these loan origination fees and costs, and the deferred loan origination fees and costs are amortized using the effective interest method with the amortization recognized as adjustments to other interest income.

**Allowance for loan losses**

The Bank applies its internal credit rating system, the Forward Looking Criteria ( FLC ), to corporate loans in order to classify the borrowers and to determine the allowances for loan losses. According to the credit rating criteria, the allowance is determined according to the credit risk of corporate borrowers, which is evaluated based on financial and non-financial risks. The credit rating criteria is categorized into 12 categories (AAA, AA, A, BBB, BB, BB-, B, B-, CCC, CC, C, D) with additional consideration of the loan type, collateral and/or guarantees.

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Allowances are determined by applying at minimum the following rates to the outstanding balances under each credit risk classification:

<u>Credit Risk Classification</u>	<u>Credit Ratings</u>	<u>Allowance Rates</u>
Normal	AAA~B	0.5%
Precautionary	B~CCC	2%
Sub-standard	CC	20%
Doubtful	C	50%
Estimated loss	D	100%

**Table of Contents****Kookmin Bank and Subsidiaries****Notes to Consolidated Financial Statements****December 31, 2003 and 2002**

However, the Bank does not apply the FLC to small-sized corporate loans, consumer loans, and credit card loans. Alternatively, the bank classifies such loans by considering the current financial status of borrowers including delinquencies, bankruptcies and collateral value. As of December 2002, the rates used for determining the allowances for losses from consumer loans and credit card loans were changed as follows:

<u>Credit Risk Classification</u>	<u>Allowance Rates before Changes</u>	<u>Allowance Rates after Changes</u>	
		<u>Consumer</u>	<u>Credit Card</u>
Normal	0.50%	0.75%	1.00%
Precautionary	2.00%	8.00%	12.00%
Sub-standard	20.00%	20.00%	20.00%
Doubtful	50.00%	55.00%	60.00%
Estimated loss	100.00%	100.00%	100.00%

As a result of the above change, the Bank's allowances for loan losses as of December 31, 2003 are greater by (Won)336,265 million for consumer loans and (Won)314,701 million for credit card loans compared to the amounts which would have been recorded under the previous rates.

The Bank applies the credit risk classification used for loans to outstanding guarantees and acceptances, and provides allowances for losses of 20%, 50% and 100% of the outstanding guarantees and acceptances classified as sub-standard, doubtful, and estimated loss, respectively. In addition, the Bank provides an allowance for losses of 19% of certain outstanding guarantees and acceptances classified as precautionary.

**Present Value Discounts**

Troubled debt restructuring loans, which are modified as to outstanding principal, interest rate, and/or maturity under programs such as workout, court receivership, court mediation, or debt restructuring agreements of parties concerned, are carried at present value if the difference between the nominal value and the present value of the restructured loan is significant. The difference between the nominal value and the present value is recorded as present value discount, which is shown as a deduction from the loan nominal value. The present value discounts are recorded by reclassifying allowances for loan losses and if additional allowances need to be provided for, the additional allowances are provided and recognized as provision for loan losses of the current period. Present value discounts are amortized using the effective interest method and are recognized as interest income. Allowances for loan losses on the restructured loans are provided for based on the loan balances, net of present value discounts.

Receivables and payables arising from long-term installment transactions, long-term cash loans or borrowings and other similar transactions shall be stated at present value, if the difference between nominal value and present value is material. The difference is accounted for as a

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present value discount and is deducted from the nominal value of the related receivable or payable. Present value discounts are amortized or reversed using the effective interest method, and the amortization is included in interest income or expense.

### **Securities**

Securities that are bought and held principally for the purpose of generating profits on short-term differences in price, and which are actively and frequently bought and sold, are classified as trading securities. Debt securities with fixed or determinable payments and fixed maturity, and which the Consolidated Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities. Investments classified as neither trading securities nor held-to-maturity securities are classified as available-for-sale securities.

Trading and available-for-sale securities are carried at fair value, except for non-marketable equity securities classified as available-for-sale securities, which are carried at cost. The fair value of debt securities, which do not have a quoted market value, are calculated using the present value of future cash flows, discounted at a reasonable interest rate determined based on the credit ratings provided by independent credit rating institutions.

Unrealized holding gains or losses on trading securities are charged to current operations and those resulting from available-for-sale securities are recorded as capital adjustments, the accumulated amount of which shall be charged to operations when the related securities are sold or when an impairment loss on the securities is recognized.

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Held-to-maturity securities are generally carried at amortized cost. Premiums and discounts on debt securities are amortized over the maturity period of the securities using the effective interest method.

Impairment losses are recognized in current operations when the recoverable amounts are less than the acquisition cost of equity securities or amortized cost of debt securities.

**Investments in Associates**

Investments in associate, over which the Consolidated Company exercises significant control or influence, are accounted for under the equity method. Under the equity method, the Consolidated Company records changes in its proportionate ownership of the associate in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investment in associate.

The Consolidated Company discontinues the equity method of accounting for investments in associates when the Consolidated Company's share of accumulated losses of the associates equals the costs of the investments and until the subsequent cumulative changes in its proportionate net income of the associate equal its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

Differences between the initial purchase price and the Consolidated Company's initial proportionate ownership of the net book value of the associate are amortized or accreted using an appropriate method and the resulting amortization is charged to current operations.

Gains and losses recorded by the Consolidated Company from inter-company transactions with associates are fully eliminated. Gains and losses recorded by the associates from these transactions are proportionately eliminated, based on the Consolidated Company's percentage of ownership.

**Fixed Assets and Related Depreciation**

Tangible assets are recorded at cost, except for upward revaluation of certain assets in accordance with the Korean Asset Revaluation Law. Depreciation is calculated based on the estimated average useful lives of the assets and is presented as accumulated depreciation, which is a contra account of tangible assets in the financial statements.

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The estimated useful lives and depreciation methods of the tangible assets are as follows:

<u>Tangible assets</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and structures	Straight-line method	40 years
Leasehold improvements	Declining balance method	4-5 years
Equipment and vehicles	Declining balance method	4-5 years

Expenditures that enhance the capacity or increase the future economic benefit of the assets involved are capitalized as additions to tangible assets. However, routine maintenance or repairs are expensed as incurred.

Foreclosed assets acquired through, or in lieu of, loan redemption are stated at cost and are not depreciated. A valuation allowance is recorded when the latest bidding price at a public auction is below the book value, and is presented as a contra account of foreclosed assets in the financial statements.

Intangible assets are amortized based on the following estimated average useful lives and are presented in the financial statements, net of accumulated amortization:

<u>Intangible assets</u>	<u>Amortization Method</u>	<u>Estimated Useful Life</u>
Goodwill	Straight-line method	9 years
Development costs	Straight-line method	5 years
Trademarks	Straight-line method	1-10 years
Others	Straight-line method	5-30 years

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The Consolidated Company estimated the useful life of endowment assets that are beneficial upon usage, classified under other intangible assets, to be 30 years based on the term of the contract. The Bank recorded goodwill as a result of the merger with H&CB for the cost of the merger exceeding the fair value of the net assets acquired.

The Consolidated Company recorded negative goodwill as a result of the merger of KB Credit Information Co., Ltd. and KM Credit Information Co., Ltd for the fair value of net assets and liabilities exceeding the cost of merger equal to the purchase price. Negative goodwill is amortized for 5 years which is the average useful life of amortizable non-monetary assets.

Development costs directly related to a new technology or new products (including costs related to software development) are capitalized as intangible assets to the extent that the estimated future benefits are probable.

The Consolidated Company adjusts the book value of a fixed asset to its recoverable amount and recognizes the difference as an impairment loss when the recoverable amount is significantly below the book value due to obsolescence or decline in market value. The subsequent increase in recoverable amount in excess of the impaired book value is recognized, to the extent of the original book value before impairment, as a reversal of fixed asset impairment losses. For the year ended December 31, 2003, the Consolidated Company recognized an impairment loss of (Won)22,228 million for the difference between the book value of (Won)48,388 million and net realizable value of (Won)26,160 million of assets related to the expected closures of certain branch offices.

**Stock Issuance Costs and Debenture Issuance Costs**

Stock issuance costs are deducted from additional paid-in capital. Debenture issuance costs are recorded as discounts on debentures and amortized over the life of the debentures using the effective interest method.

**Accrued Retirement Benefits**

Employees and directors with more than one year of service as of the balance sheet date are entitled to receive a lump-sum payment upon termination of their employment with the Consolidated Company, based on their length of service and rate of pay at the time of termination. Additionally, the Consolidated Company records the contributions to pension funds, which grant the payment rights to its employees, and contributions to the National Pension Fund, as contra accounts of accrued retirement benefits.

**Deferred Income Taxes**

The Consolidated Company records the future tax effects of temporary differences between the financial and tax bases of assets and liabilities as deferred tax income assets or liabilities. The tax effects of temporary differences arising from the cumulative effects of accounting changes are adjusted in retained earnings.

#### **Bonds under Repurchase/Resale Agreements**

Securities bought under resale agreements are recorded in loans as bonds purchased under resale agreements. Securities sold under repurchase agreements are recorded in borrowings as bonds sold under repurchase agreements. Interest from bonds purchased under resale agreements and bonds sold under repurchase agreements are recognized as interest income on loans and interest expense on borrowings, respectively.

#### **Derivative Instruments**

Derivative financial instruments for trading or hedging purposes are valued at estimated market price and resulting unrealized gains or losses are recognized in current operations, except for the effective portion of derivative transactions entered into for the purpose of cash-flow hedges, which is recorded as an adjustment to shareholders' equity.

Fair value hedge accounting is applied to a hedging transaction relationship entered into for hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss, both on the hedging derivative instrument and on the hedged item attributable to the hedged risk, are recognized in current operations.



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Cash flow hedge accounting is applied to a hedging transaction relationship entered into for hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of the gain or loss on the hedging derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of the gain or loss recorded as a capital adjustment is reclassified into current operations in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss recorded in capital adjustment is added to or deducted from the asset or the liability.

**Stock Options**

Compensation costs for stock options granted to employees and executives are recognized using the fair value method. Under the fair value method, compensation costs for stock option plans are determined using an option-pricing model and are recognized over the vesting period (Note 22).

**National Housing Fund**

The Consolidated Company, as designated by the Korean Government under the Housing Construction Promotion Law, manages the sources and uses of funds of the National Housing Fund ( NHF ) and records the related NHF account in other liabilities. In addition, the Consolidated Company pays interest, which is computed by multiplying the average balance of the NHF account by the passbook deposit interest rate, to the NHF.

**Gains and Losses on Trust Management**

The Bank's trust accounts ( the Trust Accounts ) recognize as an expense the trust commissions paid to the banking accounts, which is equivalent to the total trust revenue less total trust expenses and trustee benefits (including the guaranteed principal and minimum rate of return). The Bank recognizes these trust commissions as a gain on trust management in other operating income. The trust fees on money trusts consist of base fees of 0.5 ~ 2.0% (depending on trust fund types) and special fees applied to the invested capital.

Under the Trust Business Act, reserves for future losses are set up in the trust accounts for losses related to those trust funds with a guarantee of the principal or of a certain minimum rate of return. The reserves are used to provide for the losses on such trust funds and, if the losses incurred are in excess of the reserves for future losses, the excess losses are compensated by the Bank. Accordingly, the banking accounts recognize the compensation paid as a loss on trust management in other operating expenses and the trust accounts recognize the corresponding compensation as compensation from banking accounts. There were no compensations paid for the years ended December 31, 2003 and 2002.

### **Foreign Currency Translation**

All assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates in effect at the balance sheet date (USD 1: (Won)1,197.8, GBP 1: (Won)2,129.27, EUR 1: (Won)1,502.58), and resulting translation gains and losses are recognized in the current period.

Accounting records of the overseas branches are maintained in the foreign currency prevailing in their respective countries. For the purpose of presentation in the accompanying financial statements, the financial statements of the branches have been translated into Korean Won, using exchange rates published by Seoul Money Brokerage Services, Ltd. as of the balance sheet dates.

### **Statement of Cash Flows**

In the preparation of the statement of cash flows, the Consolidated Company has presented the net amounts of cash inflows and cash outflows for loans and deposits.

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The accompanying consolidated financial statements reflect certain consolidation adjustments as follows:

	Net Income (Loss)	
	2003	2002
Aggregate balances of each entity	(Won) (719,051)	(Won) 1,069,429
Consolidation adjustments:		
Reversal of the equity method		(893)
Minority interest in earnings or losses, net	(76,502)	65,260
Equity loss (gains) on investments	(244,558)	267,419
Merger of consolidated affiliates	284,373	(81,502)
Sale of consolidated affiliates		(59,077)
Reversal of allowances for loan losses	(541)	(318)
Reversal of gain or losses on derivatives		1,342
Change in exchange rates		(3,286)
Reversal of trust reserves	10,373	10,006
Other consolidation adjustments	4,156	2,928
	(22,699)	201,879
Balances in the consolidated financial statements	(Won) (741,750)	(Won) 1,271,308

**Application of Korean Financial Accounting Standard No. 6**

The Consolidated Company has adopted Statements of Korean Financial Accounting Standards ( *SKFAS* ) No. 6 Subsequent Events , for the fiscal year 2003 and presented retained earnings (accumulated deficit) as before appropriations (disposition) on the balance sheet. Accordingly, retained earnings as of December 31, 2002 were restated to amounts before appropriations, and the restatement resulted in a decrease in liabilities and an increase in net assets of (Won)325,233 million.

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Cash and due from banks as of December 31, 2003 and 2002 are summarized as follows:

	<b>2003</b>	<b>2002</b>
<i>(in millions of Won)</i>		
<b>Cash on hand</b>		
Cash in Won	(Won) 2,945,921	(Won) 2,393,118
Cash in foreign currencies	228,153	186,780
	<u>3,174,074</u>	<u>2,579,898</u>
<b>Due from banks in Won</b>		
Bank of Korea	Reserve deposits in the Bank of Korea	2,612,248
Other banks	Time deposits	23,171
Other financial institutions	Deposits at Hansol Mutual Savings & Finance Co., Ltd.	140,094
Others	Futures margin accounts	17,569
	<u>2,793,082</u>	<u>1,688,995</u>
	Present value discounts <sup>1*</sup>	(12,810)
	<u>2,780,272</u>	<u>1,667,839</u>
<b>Due from banks in foreign currencies</b>		
Bank of Korea	Demand deposits	12,415
Domestic banks	Demand deposits	3,450
Foreign banks	Time deposits	104,970
Other banks	<u>108,420</u>	<u>230,984</u>
Off-shore	Demand deposits	482,115
Others	Other deposits	3,355
	<u>606,305</u>	<u>542,899</u>
	<u>(Won) 6,560,651</u>	<u>(Won) 4,790,636</u>

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1\* Present value discounts are related to the (Won)140,000 million of time deposits (1% interest, five-year maturity at the point of deposit, uncallable for five years) placed with Hansol Mutual Savings & Finance Co., Ltd. (previously, Bukook Mutual Savings & Finance Co., Ltd.).

The maturities of the due from banks as of December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<b>Due from Banks in Won</b>	<b>Due from Banks in Foreign Currencies</b>	<b>Total</b>
Due in 3 months or less	(Won) 2,652,272	(Won) 510,499	(Won) 3,162,771
Due after 3 months through 6 months		95,806	95,806
Due after 6 months through 1 year	50,154		50,154
Due after 1 year through 2 years	90,000		90,000
Due after 2 years through 3 years			
Due after 5 years	656		656
	<b>(Won) 2,793,082</b>	<b>(Won) 606,305</b>	<b>(Won) 3,399,387</b>

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Included in cash and due from banks as of December 31, 2003 and 2002 are the following restricted deposits:

<i>(in millions of Won)</i>	<u>2003</u>	<u>2002</u>	<u>Restrictions</u>
Reserve deposits in the Bank of Korea	(Won) 2,624,663	(Won) 1,377,891	General Banking Act
Deposits at Hansol Mutual Savings & Finance Co., Ltd.	140,000	140,000	Withdrawal at maturity
Other deposits	18,023	86,653	Futures guarantee deposits
	<u>2,782,686</u>	<u>1,604,544</u>	
Present value discounts	(12,810)	(21,156)	
	<u>(Won) 2,769,876</u>	<u>(Won) 1,583,388</u>	

**4. Securities**

Securities as of December 31, 2003 and 2002 are as follows:

<i>(in millions of Won)</i>	<u>2003</u>	<u>2002</u>
Trading	(Won) 7,178,248	(Won) 9,273,445
Available-for-sale	17,189,839	15,217,208
Held-to-maturity	5,991,930	12,313,049
Investment in associates	171,050	58,604
	<u>(Won) 30,531,067</u>	<u>(Won) 36,862,306</u>

Trading, available-for-sale, and held-to-maturity securities as of December 31, 2003 are as follows:

<i>(in millions of Won)</i>	<u>Unrealized</u>		<u>Book Value</u>	<u>Fair value</u>
	<u>Gain</u>	<u>Loss</u>		
<b>Trading</b>				

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Equity securities	(Won) 22,735	(Won) 9,385	(Won) 139,285	(Won) 139,285
Beneficiary certificates	69,553	240	1,689,388	1,689,388
Government and municipal bonds	1,547	4,032	1,610,359	1,610,359
Corporate bonds	1,147	14,514	3,354,929	3,354,929
Asset-backed securities	204	1,217	384,287	384,287
	<u>(Won) 95,186</u>	<u>(Won) 29,388</u>	<u>(Won) 7,178,248</u>	<u>(Won) 7,178,248</u>

<i>(in millions of Won)</i>	Impairment		Capital Adjustments		Book Value	Fair value <sup>1*</sup>
	Reversal of	Loss	Gain	Loss		
<b>Available-for-Sale</b>						
Equity securities	(Won) 2,885	(Won) 46,818	(Won) 26,303	(Won) 15,471	(Won) 491,313	(Won) 491,313
Investment in funds		314	3,513		41,723	41,723
Beneficiary certificates	47,730	271,019	67,839	42	5,569,200	5,569,200
Government and municipal bonds			7,532	22,906	2,323,106	2,323,106
Foreign government bonds			2,493		28,153	28,153
Corporate bonds	17,588	46,382	95,694	23,338	8,267,532	8,267,532
Asset-backed securities	22,459	56,006	370		468,669	468,669
Other debt securities					143	143
	<u>(Won) 90,662</u>	<u>(Won) 420,539</u>	<u>(Won) 203,744</u>	<u>(Won) 61,757</u>	<u>(Won) 17,189,839</u>	<u>(Won) 17,189,839</u>

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<i>(in millions of Won)</i>	<b>Impairment</b>		<b>Unrealized Holding</b>		<b>Book Value</b>	<b>Fair value</b>
	<b>Reversal of</b>	<b>Loss</b>	<b>Gain</b>	<b>Loss</b>		
<b>Held-to-Maturity</b>						
Government and municipal bonds	(Won)	(Won)	(Won) 88,004	(Won) 4,061	(Won) 2,490,063	(Won) 2,574,006
Corporate bonds		5,840	76,823	3,510	3,175,544	3,248,857
Asset-backed securities			3,306	90	326,323	329,539
	(Won)	(Won) 5,840	(Won) 168,133	(Won) 7,661	(Won) 5,991,930	(Won) 6,152,402

1\* Non-marketable equity securities and investment in funds are included at book value.

Due to the merger with Kookmin Credit Card Co., Ltd. on September 30, 2003, the above impairment loss on available-for-sale securities includes (Won)203,024 million of impairment loss recognized as provision for loan losses due to merger as of the merger date.

Beneficiary certificates classified as available-for-sale include (Won)2,402 million of beneficiary certificates that have been reclassified from trading securities due to restrictions on redemption. (Won)413 million of unrealized gain on these beneficiary certificates that has been recognized as of the reclassification date is included in the unrealized gain on trading beneficiary certificates.

Trading, available-for-sale, and held-to-maturity securities as of December 31, 2002 are as follows:

<i>(in millions of Won)</i>	<b>Unrealized</b>		<b>Book Value</b>	<b>Fair value</b>
	<b>Gain</b>	<b>Loss</b>		
Equity securities	(Won) 654	(Won) 39,754	(Won) 95,501	(Won) 95,501
Beneficiary certificates	166,851	5,429	3,862,439	3,862,439
Government and municipal bonds	7,930	13,021	976,166	976,166
Corporate bonds	13,933	12,678	4,299,529	4,299,529
Asset-backed securities			39,810	39,810
	(Won) 189,368	(Won) 70,882	(Won) 9,273,445	(Won) 9,273,445

<i>(in millions of Won)</i>	<b>Impairment</b>		<b>Capital Adjustments</b>		<b>Book Value</b>	<b>Fair value<sup>1*</sup></b>
	<b>Reversal of</b>	<b>Loss</b>	<b>Gain</b>	<b>Loss</b>		
<b>Available-for-Sale</b>						



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Equity securities	(Won) 15,318	(Won) 293,696	(Won) 25,874	(Won) 38,805	(Won) 711,433	(Won) 711,433
Investment in funds		4,187		854	52,247	52,247
Beneficiary certificates			62,246	5,662	5,162,573	5,162,573
Government and municipal bonds			40,609	184	2,278,363	2,278,363
Foreign government bonds			2,864	374	20,007	20,007
Corporate bonds		68,468	103,710	10,325	6,473,136	6,473,136
Asset-backed securities	12,380	10,044	1,664		519,371	519,371
Other debt securities					78	78
	(Won) 27,698	(Won) 376,395	(Won) 236,967	(Won) 56,204	(Won) 15,217,208	(Won) 15,217,208

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<i>(in millions of Won)</i>	<b>Impairment</b>		<b>Unrealized Holding</b>		<b>Book Value</b>	<b>Fair value</b>
	<b>Reversal of</b>	<b>Loss</b>	<b>Gain</b>	<b>Loss</b>		
<b>Held-to-Maturity</b>						
Government and municipal bonds	(Won)	(Won)	(Won) 108,283	(Won) 153	(Won) 2,382,756	(Won) 2,490,886
Foreign government bonds						