KOOKMIN BANK
Form 20-F
June 17, 2003
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As filed with the Securities and Exchange Commission on June 17, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 20-F

ANNUAL REPORT PURSUANT TO

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

For the fiscal year ended December 31, 2002

Commission file number 1-15258

Kookmin Bank

(Exact name of Registrant as specified in its charter)

Kookmin Bank

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

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

Seoul 100-703, Korea

(Address of principal executive offices)

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

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

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

None

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

None

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

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

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

x Yes ¨ No

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

¨ Item 17 x Item 18

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

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

¨ Yes ¨ No

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

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CERTAIN DEFINED TERMS

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

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

In this document:

- references to we, us or Kookmin Bank are to Kookmin Bank and, unless the context otherwise requires, its subsidiaries and, for periods of time prior to the merger, the former Kookmin Bank;
- references to Korea or the Republic are to the Republic of Korea;
- references to the government are to the government of the Republic of Korea;
- references to Won or (Won) are to the currency of Korea; and
- references to U.S. dollars, US dollars, $ or US$ are to United States dollars.

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

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

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FORWARD-LOOKING STATEMENTS

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

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

- our ability to successfully implement our strategy;
- future levels of non-performing loans;
- our growth and expansion;
- the adequacy or allowance for credit and investment losses;
- technological changes;
- investment income;
- cash flow projections;
- our exposure to market risks;
- the failure to realize the anticipated benefits of the merger; and
- adverse market and regulatory conditions.

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

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

- general economic and political conditions in Korea;
- other countries that have an impact on our business activities or investments;
- the monetary and interest rate policies of Korea;
- inflation or deflation;
- unanticipated turbulence in interest rates;
- foreign exchange rates;
- equity prices or other rates or prices;
- the performance of the financial markets in Korea and globally;
- changes in domestic and foreign laws, regulations and taxes;
- changes in competition and the pricing environments in Korea; and
- regional or general changes in asset valuations.

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

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

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Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS

Not applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

Item 3. KEY INFORMATION

Item 3A. *Selected Financial Data*

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

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

Consolidated income statement data

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

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

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

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Consolidated balance sheet data

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

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

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Profitability ratios and other data

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

(1) Average balances are based on (a) daily balances for our primary banking operations and (b) quarterly balances for subsidiaries.
(2) Represents the ratio of total dividends declared on common stock as a percentage of net income.
(3) Represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.
(4) Represents the ratio of net interest income to average interest earning assets.
(5) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income, net of non-interest expense.
(6) Represents the ratio of non-interest expense to average total assets.

Capital ratios

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

(1) Our capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Commission. The computation is based on our consolidated financial statements prepared in accordance with Korean GAAP. See Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.
(2) The method of calculating our capital and capital adequacy ratios was changed in 2002. Had we calculated these ratios based on the calculation method in use as of December 31, 2001, our Tier 1 capital ratio would have been 6.66%, our Tier 2 capital ratio would have been 3.86% and our capital adequacy ratio would have been 10.47%.

Credit portfolio ratios and other data

	As of December 31,			
	1999	2000	2001	2002

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

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

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Selected Statistical Information

Average Balance Sheets and Related Interest

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

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

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

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

Total liabilities and stockholders equity	(Won) 80,480	(Won) 4,505	5.60%	(Won) 108,319	(Won) 5,317	4.91%	(Won) 176,377	(Won) 6,735	3.82%

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

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

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

(1) The difference between the average rate of interest earned on interest earning assets and the average rate of interest paid on interest bearing liabilities.
(2) The ratio of net interest income to average interest earning assets.
(3) The ratio of average interest earning assets to average interest bearing liabilities.

Analysis of Changes in Net Interest Income Volume and Rate Analysis

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

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

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

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Exchange Rates

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

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

Source: Federal Reserve Bank of New York.

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

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Item 3B. *Capitalization and Indebtedness*

Not Applicable

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

Not Applicable

Item 3D. *Risk Factors*

Risks relating to our retail credit portfolio

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

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

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

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

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

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

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

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

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

Government regulation of our credit card operations has increased significantly.

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

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

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

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

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

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

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

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

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

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

to refinance its maturing debt obligations. If Kookmin Credit Card experiences liquidity problems, it may have to rely on more expensive funding sources or curtail its business operations, which may adversely affect our overall financial condition and results of operations.

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Government regulation of our retail lending operations has increased significantly.

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

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

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

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

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

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

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

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

Risks relating to our strategy

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

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

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

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

Risks relating to competition

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

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

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

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

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

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

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

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

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

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Risks relating to our large corporate loan portfolio

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

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

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

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

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

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

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

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

(1) Includes loans, debt and equity securities (including collateralized bond obligations) and guarantees and acceptances.
(2) As of May 28, 2003, we had outstanding exposure of (Won)453 billion to SK Global.
(3) Includes our nine largest exposures to former Daewoo Group companies.

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

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

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

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

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

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

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

Other risks relating to our business

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

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

- unforeseen contingent risks or latent liabilities relating to the merger that may become apparent in the future;
- difficulties in managing a much larger business;
- loss of key personnel; and

labor unrest.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks relating to liquidity and capital management

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

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

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

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

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

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

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

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

Risks relating to government regulation and policy

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

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

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

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

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

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

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

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

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

- a request by the government for credit card companies to effect capital increases in the aggregate amount of (Won)4.6 trillion, as part of their self-rescue efforts;
- banks and other financial institutions agreeing with each other to extend the maturity of all debt securities of credit card companies that they hold;
- investment trust companies agreeing with each other to extend the maturity of 50% of the aggregate amount of the debt securities of credit card companies that they hold which are scheduled to mature by June 2003; and
- with respect to the remaining 50% of such credit card company debt securities, banks and other financial institutions agreeing with each other to contribute an aggregate amount of (Won)5.6 trillion to purchase such debt securities from

investment trust companies.

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

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

Risks relating to Korea

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

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

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

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

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

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

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

- financial problems relating to chaebols, or their suppliers, and their potential adverse impact on Korea s financial sector;
- failure of restructuring of other large troubled companies;
- a slowdown in consumer spending and the overall economy;
- volatility in commodity prices (including oil prices), exchange rates (including depreciation of the U.S. dollar or Japanese yen), interest rates and stock markets;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea s trading partners;
- adverse developments in the economies of countries such as the United States and Japan to which Korea exports, or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- social and labor unrest and reduced consumer spending resulting from lay-offs, increasing unemployment and lower levels of income;
- a decrease in tax revenues and a substantial increase in the Korean government s expenditures for unemployment compensation and other social programs that, together, lead to an increased government budget deficit;
- political uncertainty or increasing strife among and within political parties in Korea; and
- a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy.

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

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

Labor unrest in Korea may adversely affect our operations.

The increase in the number of corporate reorganizations and bankruptcies following the economic downturn in Korea in 1997 and 1998 caused layoffs and increasing unemployment in Korea and a similar economic downturn in the future could lead to further layoffs. These factors could lead to social unrest and increase substantially government expenditures for unemployment compensation and other costs for social programs. During 1998 and 1999, there were large-scale protests and labor strikes in Korea. We cannot guarantee that labor unrest will not occur again in the future. Increasing unemployment and continuing labor unrest could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of securities on the Korea Stock Exchange and the value of the Won relative to other currencies. Such developments would likely have an adverse effect on our financial condition, results of operations and capital adequacy.

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

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

Risks relating to our common stock and ADSs

Ownership of our common stock is restricted under Korean law.

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

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

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

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

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

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

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

such common stock will not be accepted for deposit unless

(A) our consent with respect to such deposit has been obtained; or

(B) such consent is no longer required under Korean laws and regulations.

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

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

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

- a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or
- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

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

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

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

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

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

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

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

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

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

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

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Item 4. INFORMATION ON THE COMPANY

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

History

History of the former Kookmin Bank

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

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

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

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

In June 1999, Goldman Sachs Capital Koryo, L.P., a fund managed by The Goldman Sachs Group, Inc., acquired (through its wholly owned subsidiaries Goldman Sachs Capital Chosun, Ltd. and Goldman Sachs Capital Shilla, Ltd.) an interest in the former Kookmin Bank in return for an investment of US$500 million in new common shares and convertible bonds, consisting of (Won)360 billion of new common shares (17,768,870 common shares at (Won)20, 260 per share, as adjusted for the merger ratio of 1.688346:1) and US$200 million principal amount of subordinated convertible bonds with an original conversion price of (Won)14,200 per common share. On November 25, 2002 Goldman Sachs Capital Koryo, L.P. converted all of those convertible bonds into common shares and, following that conversion, beneficially owned 5.13% of our outstanding common shares. See Item 7B. Related Party Transactions.

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History of H&CB

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

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

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

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

The Merger

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

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

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

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

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

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

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

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

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

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Item 4B. ***Business Overview***

Business

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

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

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

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

(1) Includes (Won)499 billion, (Won)1,619 billion and (Won)1,160 billion of overdraft loans secured by real estate in connection with home equity loans as of December 31, 2000, 2001 and 2002, respectively.
(2) Includes (Won)2,518 billion, (Won)5,612 billion and (Won)9,211 billion of overdraft loans as of December 31, 2000, 2001 and 2002, respectively.
(3)

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

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

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

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

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

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

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

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

Strategy

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

The key elements of our strategy are as follows:

Enhance our leading market position and leverage our core businesses

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

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

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

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

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

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

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

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

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

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

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

Focus on personal financial services

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

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

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

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

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

Develop corporate businesses that generate fee income

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

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

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

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

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

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

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

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

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

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

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

Strengthen internal risk management capabilities

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

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

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

Branch Network

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

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

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

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

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

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

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

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

For the year ended December 31,

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

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

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Retail Banking

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

Lending Activities

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

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

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

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

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

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

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

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

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

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

Mortgage and Home Equity Lending

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

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

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

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

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

Mortgage and Home Equity Loan Products. We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans, and we offer interest rates on a commercial basis. The maximum term of mortgage loans is 35 years. Home equity loans have an initial maturity of three years. These loans are typically renewed upon maturity on an annual basis for a maximum of ten years, after which these loans must be repaid. Approximately 70% of our mortgage and home equity loans have an initial maturity of one to three years. Consumers of mortgage and home equity loans prefer loans with a maturity of one to three years because these loans generally have lower interest rates than longer-term loans. Any customer is eligible for a mortgage or an individual home equity loan regardless of whether it participates in one of our housing related savings programs and so long as that customer is not barred by regulation from obtaining a loan because of bad credit history. However, customers with whom we frequently transact business and provide us with significant revenue receive preferential interest rates on loans.

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

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

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

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

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

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

Other Consumer Loans

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

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

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

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

Deposit-Taking Activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit Cards

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

- Kookmin Card, which is operated by our 74.3%-owned subsidiary, Kookmin Credit Card Co., Ltd.; and
- BC Card, which we operate directly, but where the cards are issued through an affiliate.

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

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

	As of and for the year ended December 31,					
	2000		2001		2002	
	Kookmin Card	BC Card (1)	Kookmin Card	BC Card (1)	Kookmin Card	BC Card
	(in billions of Won, except number of holders and accounts and percentages)					
Number of credit card holders (at year end) (thousands)						
General accounts	8,123	3,054	10,491	4,018	12,614	4,748
Corporate accounts	51	17	96	24	154	58
Total	8,174	3,071	10,587	4,042	12,768	4,806
Number of merchants (at year end) (thousands)	1,231	196	1,675	263	1,569	312
Active ratio (2)	66%	64%	71%	65%	72%	61%
Credit card fees						
Merchant fees (3)	(Won) 375	(Won) 108	(Won) 546	(Won) 187	(Won) 745	(Won) 236
Installment and cash advance fees	726	267	926	500	1,106	555
Annual membership fees	35	6	40	10	39	12
Other fees	66	7	84	123	158	237
Total	(Won) 1,202	(Won) 388	(Won) 1,596	(Won) 820	(Won) 2,048	(Won) 1,040
Charge volume (4)						
General purchase	(Won) 9,068	(Won) 2,273	(Won) 14,851	(Won) 3,528	(Won) 18,708	(Won) 4,329
Installment purchase	4,282	1,415	6,188	3,025	11,026	4,362
Cash advance	24,526	8,850	44,343	15,720	57,166	18,198
Card loan (5)	922	3,171	2,774	6,221	5,108	8,784
Total	(Won) 38,798	(Won) 15,709	(Won) 68,156	(Won) 28,494	(Won) 92,008	(Won) 35,673
Outstanding balance (at year end) (6)					,	
General purchase	(Won) 1,105	(Won) 281	(Won) 1,377	(Won) 453	(Won) 1,199	(Won) 591
Installment purchase	1,891	594	2,632	1,325	2,932	1,747
Cash advance	3,218	1,542	3,149	1,972	2,370	2,184
Card loan (5)	969	494	2,247	934	2,739	1,227
Total (7)	(Won) 7,183	(Won) 2,911	(Won) 9,405	(Won) 4,684	(Won) 9,240	(Won) 5,749

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

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

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

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

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

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

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

- offering cards that provide additional benefits such as frequent flyer miles and reward program points that can be redeemed by the customer for complementary services, prizes and cash;
- offering gold cards, platinum cards and other preferential members cards, which have a higher credit limit and provide additional services in return for a higher fee;
- acquiring new customers through strategic alliances and cross-marketing with wholesalers and retailers;
- encouraging increased use of credit cards by existing customers through special offers for frequent users;
- introducing new features, such as revolving credit cards, travel services and insurance;
- developing fraud detection and security systems to prevent the misuse of credit cards and to encourage the use of credit cards over the Internet; and
- issuing smart cards and preparing for a cardless business environment in which customers can use credit cards to make purchases by phone or over the Internet.

Kookmin Credit Card

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

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

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

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

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

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

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

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

BC Card

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

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

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

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

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

Corporate Banking

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

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

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

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

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

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

Small-and Medium-Sized Enterprise Banking

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

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

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

Lending Activities

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

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

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

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

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

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

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

Pricing

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

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

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

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

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

Large Corporate Banking

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

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

Lending Activities

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

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

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

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

Pricing

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

Capital Markets Activities and International Banking

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

Securities Investment and Trading

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)139 billion as of December 31, 2000, (Won)241 billion as of December 31, 2001 and (Won)183 billion as of December 31, 2002.
(2) Includes debt securities issued by the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea in the aggregate amount of (Won)1,002 billion as of December 31, 2000, (Won)1,907 billion as of December 31, 2001 and (Won)2,217 billion as of December 31, 2002. These financial institutions are controlled by the Korean government.
(3) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)157 billion as of December 31, 2000, (Won)156 billion as of December 31, 2001 and (Won)88 billion as of December 31, 2002.
(4) Includes debt securities issued by the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea in the aggregate amount of (Won)1,160 billion as of December 31, 2000, (Won)1,402 billion as of December 31, 2001 and (Won)876 billion as of December 31, 2002. These financial institutions are controlled by the Korean government.

Derivatives Trading

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

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

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

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

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

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

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

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

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

			(in billions of Won)			
Foreign exchange derivatives						
Interest rate derivatives	(Won) 2	(Won) 51			(Won) 9	(Won) 9
Total	(Won) 2	(Won) 51			(Won) 9	(Won) 9

Asset Securitization Transactions

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

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

Call Loans

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

Investment Banking

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

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

International Banking

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

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

	As of December 31,	
	2001	**2002**

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

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

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

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

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

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

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

- holding securities for the benefit of the securities investment trust;
- receiving and making payments made in respect of such securities;
- executing trades in respect of such securities on behalf of the securities investment trust, based on instructions from the relevant securities investment trust management company;
- in certain cases, authenticating beneficiary certificates issued by the securities investment trust and handling settlements in respect of such beneficiary certificates;
- clearing and settlement in the domestic and foreign securities markets;
- providing foreign exchange services for overseas investment and foreign investors; and

providing fund-related administration and accounting services.

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

Other Businesses

Trust Account Management Services

Money Trust Management Services

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property Trust Management Services

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

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

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

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Management of the National Housing Fund

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

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

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

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

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

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

Bancassurance

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

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

Other Distribution Channels

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

	For the year ended December 31,									
	2000				2001				2002	
	Kookmin Bank		H&CB		Kookmin Bank		H&CB		Kookmin Bank	
Phone banking:										
Number of users (1)		1,673,141		1,574,198		2,241,987		1,908,576		1,696,587
Number of transaction (thousands)		128,693		39,007		188,748		59,825		338,616
	(Won)	5,720	(Won)	3,102	(Won)	6,080	(Won)	3,468	(Won)	11,817

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

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

Phone Banking

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

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

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

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

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

Internet Banking

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

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

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

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

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

Mobile Banking

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

Other Channels

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

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

Competition

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

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

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

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

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

Information Technology

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

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

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

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

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

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

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

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

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Assets and Liabilities

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

Loan Portfolio

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

Loan Types

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

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

Total gross loans	(Won) 41,867	(Won) 44,945	(Won) 59,397	(Won) 120,894	(Won) 145,832

(1) Commercial and industrial loans include (Won)447 billion, (Won)1,832 billion, (Won)334 billion and (Won)165 billion of loans to Korean government and government related agencies (including the Korea Deposit Insurance Corporation) as of December 31, 1999, 2000, 2001 and 2002, respectively.

Loan Concentrations

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

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Twenty Largest Exposures by Borrower

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

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

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

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

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

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

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

Exposure to Chaebols

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

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

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

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

Company	Loans	Equity Securities	Debt Securities	Guarantees and acceptances	Total Exposures